

**CONSOLIDATED FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED MARCH 31, 2021
<IFRS>**

IHI Corporation (IHI) is listed on the First Section of the Tokyo Stock Exchange, Nagoya Stock Exchange, Sapporo Securities Exchange and Fukuoka Stock Exchange with the securities code number 7013.

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Annual General Meeting of Shareholders: June 24, 2021 (planned)
Commencement of Dividend Payments: —
Submission date of Annual Securities Report: June 24, 2021 (planned)

Preparing supplementary material on financial results: Yes
Holding financial results presentation meeting: Yes (for institutional investors, analysts and the media)

This consolidated financial report has been prepared in accordance with International Financial Reporting Standards (hereinafter, “IFRS”).

Figures are in Japanese yen rounded to the nearest millions.

**1. CONSOLIDATED PERFORMANCE FOR THE FISCAL YEAR ENDED MARCH 31, 2021
(APRIL 1, 2020 to MARCH 31, 2021)**

(1) Consolidated Business Results

(Millions of yen, except per share figures; percentage changes show the rate of increase or decrease from the previous fiscal year)

	Revenue	Percentage Change	Operating Profit	Percentage Change	Profit before Tax	Percentage Change	Profit	Percentage Change
Fiscal year ended March 31, 2021	1,112,906	(11.9)%	27,961	(41.6)%	27,617	(5.4)%	16,954	27.9%
Fiscal year ended March 31, 2020	1,263,178	—	47,859	—	29,182	—	13,251	—

	Profit Attributable to Owners of Parent	Percentage Change	Comprehensive Income	Percentage Change	Basic Earnings per Share (Yen)	Diluted Earnings per Share (Yen)	Profit to Equity Attributable to Owners of Parent	Profit before tax to Total Assets	Operating Profit to Revenue
Fiscal year ended March 31, 2021	13,093	59.6%	28,906	721.0%	88.13	88.13	4.5%	1.5%	2.5%
Fiscal year ended March 31, 2020	8,204	—	3,251	—	53.93	53.91	2.8%	1.6%	3.8%

(Reference) Share of profit (loss) of investments accounted for using equity method

Fiscal year ended March 31, 2021: ¥ (1,933) million

Fiscal year ended March 31, 2020: ¥ (12,303) million

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Equity	Equity Attributable to Owners of Parent	Ratio of Equity Attributable to Owners of Parent	Equity Attributable to Owners of Parent per Share (Yen)
As of March 31, 2021	1,832,891	327,727	300,769	16.4%	2,025.18
As of March 31, 2020	1,869,038	306,040	280,178	15.0%	1,885.13

(3) Consolidated Cash Flows

(Millions of yen)

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at the End of Period
Fiscal year ended March 31, 2021	36,380	(40,482)	(23,712)	120,766
Fiscal year ended March 31, 2020	42,484	(85,572)	96,892	145,738

2. DIVIDENDS

(Record Date)	Dividends per Share			Total Amount of Dividend Payment (Millions of yen)	Dividend Payout Ratio (Consolidated)	Ratio of Dividend to Equity Attributable to Owners of Parent (Consolidated)
	Interim (Yen)	Year-end (Yen)	Annual (Yen)			
Fiscal year ended March 31, 2020	30.00	20.00	50.00	7,616	92.7%	2.6%
Fiscal year ended March 31, 2021	0.00	0.00	0.00	–	–	–
Fiscal year ending March 31, 2022 (Forecast)	30.00	30.00	60.00		25.5%	

3. CONSOLIDATED FORECASTS OF RESULTS FOR THE FISCAL YEAR ENDING MARCH 31, 2022 (APRIL 1, 2021 to MARCH 31, 2022)

(Millions of yen, except per share figures; percentages show the rate of changes from the previous fiscal year)

	Revenue	Operating Profit	Profit before Tax	Profit Attributable to Owners of Parent	Basic Earnings per Share (Yen)				
Full-year	1,180,000	6.0%	70,000	150.3%	60,000	117.3%	35,000	167.3%	235.67

(Note) Please refer to “A. Forecasts of consolidated results” of “(2) FUTURE OUTLOOK” in “1. SUMMARY OF BUSINESS RESULTS” on page 9 for the suppositions that form the assumptions for the forecasts above and related matters.

* NOTES

- (1) **Changes in significant subsidiaries during the period**
(Changes in specified subsidiaries accompanying changes in scope of consolidation): Not applicable
- (2) **Changes in accounting policies and changes in accounting estimates**
 (i) Changes in accounting policies required by IFRS: Not applicable
 (ii) Changes in accounting policies due to other reasons: Not applicable
 (iii) Changes in accounting estimates: Not applicable
- (3) **Number of shares issued (Ordinary shares):**
 (i) Number of shares issued at the end of the period (including treasury shares)
 As of March 31, 2021 154,679,954 shares
 As of March 31, 2020 154,679,954 shares
 (ii) Number of treasury shares owned at the end of the period
 As of March 31, 2021 6,165,348 shares
 As of March 31, 2020 6,054,574 shares
 (iii) Average number of shares outstanding during the period
 Fiscal year ended March 31, 2021 148,561,021 shares
 Fiscal year ended March 31, 2020 152,136,569 shares

(REFERENCE) OVERVIEW OF NON-CONSOLIDATED PERFORMANCE

NON-CONSOLIDATED PERFORMANCE FOR THE FISCAL YEAR ENDED MARCH 31, 2021 (APRIL 1, 2020 to MARCH 31, 2021)

(1) Non-Consolidated Business Results

(Millions of yen, except per share figures; percentages show the rate of increase or decrease from the fiscal year)

	Net Sales	Percentage Change	Operating Profit	Percentage Change	Ordinary Profit	Percentage Change	Profit	Percentage Change
Fiscal year ended March 31, 2021	405,845	(34.6)%	(31,632)	–	(1,927)	–	16,012	–
Fiscal year ended March 31, 2020	620,207	(11.5)%	13,612	(59.5)%	28,282	(28.1)%	(5,720)	–

	Basic Earnings per Share (Yen)	Diluted Earnings per Share (Yen)
Fiscal year ended March 31, 2021	107.78	107.78
Fiscal year ended March 31, 2020	(37.60)	–

(2) Non-Consolidated Financial Position

(Millions of yen, except per share figures)

	Total Assets	Net Assets	Equity to Total Assets	Net Assets per Share (Yen)
As of March 31, 2021	1,193,715	250,112	20.9%	1,681.31
As of March 31, 2020	1,201,832	205,266	17.0%	1,377.51

(Reference) Equity at the end of the period (non-consolidated)

As of March 31, 2021: ¥249,699 million

As of March 31, 2020: ¥204,734 million

* The Consolidated Financial Report is outside the scope of external audit.

* Proper use of forecast of results, and other special matters

(Cautionary statements on forward-looking statements)

Earnings estimates made in this report and other statements that are not historical facts are forward-looking

statements about the future performance of the IHI Group. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore readers should not place undue reliance on them. IHI cautions that a number of important factors such as political and general economic conditions and currency exchange rates could cause actual results to differ materially from those discussed in the forward-looking statements, etc.

(How to obtain supplementary material on financial results)

The supplementary material on financial results shall be posted on IHI's website.

(Adoption of International Financial Reporting Standards (IFRS))

The IHI Group has adopted IFRS starting from the fiscal year ended March 31, 2021. Furthermore, the financial figures for the previous fiscal year are also presented in accordance with IFRS.

For details on differences relating to financial figures between IFRS and Japanese GAAP, please refer to "FIRST-TIME ADOPTION OF IFRS" of "(5) NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS" in "3. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO" on page 38.

1. SUMMARY OF BUSINESS RESULTS

(1) SUMMARY OF BUSINESS RESULTS AND FINANCIAL POSITION

The IHI Group has adopted International Financial Reporting Standards (IFRS) from the fiscal year ended March 31, 2021, and the consolidated financial data for the fiscal year ended March 31, 2020 are reclassified based on IFRS and analyzed.

A. Summary of business results for the fiscal year ended March 31, 2021

During the fiscal year ended March 31, 2021, the Japanese economy remains in a difficult situation due to the restrictions on economic activities against the impact of COVID-19. In addition, although the world economy is showing a recovery trend in some regions and industries, the situation has continued to be sluggish as a whole due to the spread of variant of COVID-19.

Regarding the spread of COVID-19, in a situation where signs of its convergence is not visible yet, the IHI Group's main business, the Civil aero engines Business has been greatly affected, with sales of engines and spare parts has been greatly decreasing owing to continuing the drastic decline in demand for aero transportation and the deterioration of business conditions for airlines. The demand for aero transportation on domestic routes is expected to improve after next summer in countries where vaccination is progressing, such as in North America, while for the demand for international routes, immigration restrictions are still not being relaxed, and there is a delay in recovery. It is expected to be after FY2022 when the demand for international routes, in addition to domestic routes, begin to increase between developed countries where vaccination is progressing, and the demand for engine maintenance accordingly increase. It is expected that it will take several years for the Group to recover its business.

On the other hand, in the Vehicular turbochargers Business, the automotive industry turned onto a recovery trend early in China, in addition, production activities have resumed in the U.S. and Europe, where some economic activity restrictions remain, from mid-May. As a whole, the number of delivery is gradually recovering. The Heat treatment and surface engineering Business is also heading toward recovery, driven by the robust Chinese market

Under these circumstances, from the beginning of the fiscal year ended March 31, 2021, the IHI Group took such company-wide countermeasures against the impact of the spread of COVID-19 as temporary freezing and/or reduction in expenditure on capital investments, research and development etc., reducing the total cost/fixed cost and inventories, and shifting human resources to the growth areas and life cycle businesses flexibly.

While carrying forward the basic concepts of "Group Management Policies 2019" medium-term management plan, the IHI Group drew up "Project Change" positioning the period up to FY2022 as a period of preparation and transition towards business reforms to deal with this environmental change and is implementing it. In accordance with "Project Change", the IHI Group will achieve the return to a growth trajectory at an early stage by means of steadily promoting the strengthening of earnings foundations and the expansion of life cycle businesses through shifting to environment change-resistant business structure and executing finance strategies. In addition, the IHI Group will accelerate initiatives for the creation of growth businesses that contribute to materialize sustainable society and promote the transformation of our business portfolio. For that reason, in the fiscal year ended March 31, 2021, the Group sold some investment property to secure investment resources.

In spite of the above measures were implemented, the IHI Group's operating results during the fiscal year ended March 31, 2021 were largely affected by the spread of COVID-19.

Orders received decreased 14.3% from the previous fiscal year to ¥1,097.0 billion. Revenue decreased 11.9% from the previous fiscal year to ¥1,112.9 billion due to the significant decrease in revenue in the Civil aero engines Business.

In terms of profit, operating profit decreased by ¥19.8 billion to ¥27.9 billion due mainly to above significant decrease in sales in the Civil aero engines Business, although there were increased profit due to the expansion of life cycle business, the generally converging deterioration of profitability recorded in the previous fiscal year in the Resources, Energy and Environment, the reduction in the fixed cost, and the sale of investment property. However, Profit before tax decreased by ¥1.5 billion to ¥27.6 billion, saw an up of profit margin than operating profit, due to the improvement in share of profit (loss) of investments accounted for using equity method and improvements in foreign exchange gain / loss. Profit attributable to owners of parent increased by ¥4.8 billion to ¥13.0 billion

The business environments by reportable segment for the fiscal year ended March 31, 2021 are as follows:

Resources, Energy and Environment

With long-term targets having been set in the Paris Agreement in relation to upper limits on increases in average global temperatures and the balance between the volume of greenhouse gases emitted and absorbed, and with legislative amendments receiving cabinet approval in Japan to achieve carbon neutrality by 2050, the world's shift towards carbon-free societies is accelerating. As a consequence of this, although the issues relating to lower environmental impact have become varied depending on regions and customers, there has been an increase in themes that leads to carbon neutrality in the future.

In this business area, the IHI Group will promote provision of high efficiency of existing energy infrastructures and use of carbon neutral/carbon free fuel, and take efforts to achieve carbon neutrality by 2050 through acceleration of the technology development relating to carbon recycling.

Social Infrastructure and Offshore Facilities

In Japan, in response to the progressive deterioration of infrastructure and intensifying natural disasters, the proportion of conservation work involving maintenance, renovation and repair is increasing, while large projects for new infrastructure is on the downturn trend. Following the rapid decrease in the working population, there has been an acceleration of initiatives to improve efficiency and workstyle reforms through the use of ICT on construction sites led by government on the basis of the standardization of works.

Overseas, demand in developed markets for conservation work resulting from the progressive deterioration of infrastructure is expected to continue. On the other hand, in developing countries, although demand for new construction is strong, the project schemes where private companies participate in the operation and maintenance of social infrastructures are increasing, instead of projects organized through ODA.

In this business area, the IHI Group will work on not only construction of infrastructures but also initiatives to roll out and expand life cycle businesses, which include planning, operation, maintenance and conservation, primarily of bridges and tunnels, both in Japan and overseas so as to offer robust and sustainable social infrastructure systems.

Industrial Systems and General-Purpose Machinery

Although market conditions in the automotive industry have entered the recovery stage starting with China, due to the uncertainty regarding the outlook resulting from the spread of COVID-19, capital investments related to industrial systems, with certain exception, is in wait-and-see mode. We assume that it will take until FY2022 for the global industry to recover to levels before the spread of infection.

On the other hand, there have been societal changes accelerating more and more such as the increasing need for lower environmental impact, the decrease in the productive population, the diversification of consumer demand and the advance of digitalization, and this has emerged at our customers in the form of drivers of electrification, labor-saving, and automation. We must work closely with our customers throughout the product and service life cycles, responding promptly and appropriately to the wide range of issues faced by society and customers.

In this business area, while we will minimize the impact of the spread of COVID-19 to our business activities and take efforts to recover rapidly, on the basis of that, we will also contribute to the development of industrial infrastructure by responding to various needs of customers throughout the life cycle through proposal of solutions and sophistication of services using digital technology, in addition to product development.

Aero Engine, Space and Defense

A recovery in demand for aero transportation is expected to take several years, and this has a continuous unavoidable impact on businesses. Amid such an environment, in preparation for establishing a business structure that can overcome these changes in the business environment, we will promote the review of production systems in response to fluctuations in demand and shift of resources to strengthen our cost structure, making this situation an opportunity to generate new growth.

Moreover, our aero engines are mounted on relatively new type aircrafts, and due to their advantage in terms of operating costs, including fuel efficiency, it is expected that operation will be resumed preferentially and earnings in the aftermarket will recover rapidly.

In order to give every possible support to customers resuming operation of aircraft when transportation demand recovers, we will give the highest priority to strengthening our response in the aftermarket field, as well as driving the evolution of our unique technology and Monozukuri (manufacturing) capabilities to contribute to reductions in environmental impact, such as by developing new engines with greater efficiency and improved fuel economy. Furthermore, with an eye on the expected future of electrification and the introduction of sustainable aviation fuels, we will work to develop products and systems that are safe, comfortable, and reduce the burden on the environment.

The results by reportable segment for the fiscal year ended March 31, 2021 amid this business environment are as follows:

(Billions of yen)

Reportable segments	Orders received			Fiscal year ended March 31, 2020		Fiscal year ended March 31, 2021		Changes from the previous fiscal year (%)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Changes from the previous fiscal year (%)	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)
	Resources, Energy and Environment	316.9	274.7	(13.3)	324.8	3.9	317.6	19.1	(2.2)
Social Infrastructure and Offshore Facilities	196.9	166.1	(15.6)	148.7	13.0	157.9	17.1	6.2	31.3
Industrial Systems and General-Purpose Machinery	420.1	365.2	(13.1)	404.5	12.9	374.2	11.4	(7.5)	(11.7)
Aero Engine, Space and Defense	321.5	260.4	(19.0)	369.7	20.8	244.6	(40.4)	(33.8)	–
Total Reportable Segments	1,255.6	1,066.5	(15.1)	1,247.8	50.8	1,094.4	7.2	(12.3)	(85.7)
Others	73.4	78.8	7.4	67.0	6.5	66.8	3.6	(0.2)	(44.7)
Adjustment	(49.0)	(48.3)	–	(51.7)	(9.5)	(48.4)	17.0	–	–
Total	1,280.0	1,097.0	(14.3)	1,263.1	47.8	1,112.9	27.9	(11.9)	(41.6)

B. Profit Distribution

IHI shall follow its basic policy to pay out stable dividends and determine the amount of dividends after taking into account a broad range of factors, including investments for improvement of corporate value and enhancement and reinforcement of equity capital with a target consolidated dividend payout ratio of around 30%.

However, IHI plans to suspend the year-end dividends for the fiscal year ended March 31, 2021, for giving priority to secure investment resources for creating growth businesses to contribute for materializing sustainable society.

C. Summary of financial position for the fiscal year ended March 31, 2021

Assets, liabilities and equity

Total assets at the end of the fiscal year ended March 31, 2021 were ¥1,832.8 billion, down ¥36.1 billion compared with the end of the previous fiscal year. The major item of increase was contract assets, up ¥10.0 billion. The major items of decrease were cash and cash equivalents, down ¥24.9 billion and property, plant and equipment, down ¥12.5 billion.

Total liabilities were ¥1,505.1 billion, down ¥57.8 billion compared with the end of the previous fiscal year. The major item of decrease was trade and other payables, down ¥58.3 billion. The balance on interest-bearing liabilities, including lease liabilities, was ¥605.9 billion, down ¥6.7 billion from the end of the previous fiscal year.

Equity was ¥327.7 billion, up ¥21.6 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥13.0 billion and a decrease by dividends of surplus of ¥2.9 billion. As a result of the above, the ratio of equity attributable to owners of parent increased from 15.0% at the end of the previous fiscal year to 16.4%.

Cash flows

At the end of the current fiscal year, the outstanding balance of cash and cash equivalents (hereinafter, "cash") was ¥120.7 billion, down ¥24.9 billion from the end of the previous fiscal year. This was because the cash, which was secured at the end of the previous fiscal year to prepare for turmoil in the financial markets caused from the spread of COVID-19, was appropriated for working capital expenditures for business activities as the financial markets have become relatively stable.

Net cash provided by operating activities was ¥36.3 billion. This was due mainly to profit excluding the impact of items such as non-cash expenses including depreciation, amortization and impairment losses, in spite of a decrease in trade payables.

Net cash used in investing activities was ¥40.4 billion. This was due mainly to purchase of property, plant and equipment, intangible assets and investment property, while there were proceeds from sale of investment property.

Net cash used in financing activities was ¥23.7 billion. This was due mainly to repayments of lease liabilities.

(2) FUTURE OUTLOOK

A. Forecasts of consolidated results

The IHI Group expect the suppression of economic activities caused by the spread of COVID-19 to gradually dissolve and for the global economy to recover, however, in addition to the spread of variant of COVID-19, political and economic rivalry between the U.S. and China and other geopolitical risks could create obstacles to global economic recovery, and many uncertainties remain with regard to the business outlook. Furthermore, the world's shift towards carbon-free societies is rapidly accelerating all over the world, such as rising international awareness of climate change on a global scale, and the growth in ESG investment that focuses on the sustainability of companies.

To respond to the speed of change in these environment, as mentioned above, in accordance with "Project Change", the IHI Group will achieve the return to a growth trajectory at an early stage by means of further strengthening earnings foundations through the reinforcement of the cost structure by lowering the break-even point etc., and steadily promoting the expansion of life cycle businesses. In addition, the IHI Group will secure sufficient investment resources by the sale of assets, so as to accelerate our initiatives for the creation of growth businesses that contribute to solving social issues such as the materialization of carbon-free and circular economies, and promote the transformation of our business portfolio.

Under these circumstances, with regard to the consolidated forecasts of results for the fiscal year ending March 31, 2022, the IHI Group is forecasting revenue of ¥1,180.0 billion, operating profit of ¥70.0 billion, profit before tax of ¥60.0 billion, and profit attributable to owners of parent of ¥35.0 billion, by advancing above initiatives while the impact of COVID-19 in the Civil aero engines Business.

Foreign exchange rate of ¥105/US\$1 has been assumed in the above forecasts.

B. Profit distribution

IHI plans to pay a dividend of ¥60 per share (interim dividend: ¥30, year-end dividend: ¥30) for the fiscal year ending March 31, 2022.

2. SELECTION OF ACCOUNTING STANDARDS

The IHI Group has adopted the International Financial Reporting Standards (IFRS) from the fiscal year ended March 31, 2021. This change is aimed to facilitate the international comparability of the IHI Group's financial statements in capital markets and to improve the quality of group management through unification of accounting policies.

3. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO

(1) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	145,738	120,766
Trade and other receivables	334,551	344,535
Contract assets	101,823	111,830
Other financial assets	3,411	1,391
Inventories	326,915	326,470
Other current assets	45,247	41,668
Total current assets	957,685	946,660
Non-current assets:		
Property, plant and equipment	265,025	252,510
Right-of-use assets	124,267	117,794
Goodwill	5,463	5,876
Intangible assets	124,983	121,265
Investment property	151,668	144,183
Investments accounted for using equity method	51,098	48,460
Other financial assets	35,830	49,056
Deferred tax assets	75,228	70,455
Other non-current assets	77,791	76,632
Total non-current assets	911,353	886,231
Total assets	1,869,038	1,832,891

(1) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
LIABILITIES		
Current liabilities:		
Trade and other payables	292,754	234,451
Bonds and borrowings	251,968	158,377
Lease liabilities	17,523	17,630
Other financial liabilities	11,036	11,742
Income taxes payable	6,015	5,125
Contract liabilities	148,424	165,818
Provisions	32,060	26,738
Other current liabilities	158,797	144,907
Total current liabilities	916,577	764,788
Non-current liabilities:		
Bonds and borrowings	211,393	304,735
Lease liabilities	131,818	125,193
Other financial liabilities	100,710	103,428
Deferred tax liabilities	4,439	3,132
Retirement benefit liability	176,010	180,720
Provisions	5,839	6,338
Other non-current liabilities	16,212	16,830
Total non-current liabilities	646,421	740,376
Total liabilities	1,562,998	1,505,164
Equity		
Share capital	107,165	107,165
Capital surplus	51,779	51,735
Retained earnings	136,516	148,428
Treasury shares	(15,899)	(15,953)
Other components of equity	617	9,394
Total equity attributable to owners of parent	280,178	300,769
Non-controlling interests	25,862	26,958
Total equity	306,040	327,727
Total liabilities and equity	1,869,038	1,832,891

(2) CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Revenue	1,263,178	1,112,906
Cost of sales	1,030,585	932,932
Gross profit	232,593	179,974
Selling, general and administrative expenses	188,104	164,225
Other income	15,492	29,697
Other expenses	12,122	17,485
Operating profit	47,859	27,961
Finance income	2,065	6,696
Finance costs	8,439	5,107
Share of profit (loss) of investments accounted for using equity method	(12,303)	(1,933)
Profit before tax	29,182	27,617
Income tax expense	15,931	10,663
Profit	13,251	16,954
Profit attributable to:		
Owners of parent	8,204	13,093
Non-controlling interests	5,047	3,861
Profit	13,251	16,954
Earnings per share		
Basic earnings per share (yen)	53.93	88.13
Diluted earnings per share (yen)	53.91	88.13

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit	13,251	16,954
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(3,508)	2,487
Remeasurements of defined benefit plans	(170)	1,886
Share of other comprehensive income of investments accounted for using equity method	134	176
Total of items that will not be reclassified to profit or loss	(3,544)	4,549
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(6,087)	7,004
Cash flow hedges	(75)	49
Share of other comprehensive income of investments accounted for using equity method	(24)	350
Total of items that may be reclassified to profit or loss	(6,186)	7,403
Other comprehensive income, net of tax	(9,730)	11,952
Comprehensive income	3,521	28,906
Comprehensive income attributable to:		
Owners of parent	(474)	24,010
Non-controlling interests	3,995	4,896
Comprehensive income	3,521	28,906

(3) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Fiscal year ended March 31, 2020

(Millions of yen)

	Equity attributable to owners of parent			
	Share capital	Capital surplus	Retained earnings	Treasury shares
Balance as of April 1, 2019	107,165	53,330	141,381	(1,170)
Profit			8,204	
Other comprehensive income				
Total comprehensive income	–	–	8,204	–
Purchase of treasury shares				(14,851)
Disposal of treasury shares		4		122
Dividends			(10,816)	
Share-based remuneration transactions		152		
Changes in equity interest in subsidiaries		(1,706)		
Transfer from other components of equity to retained earnings			(2,219)	
Changes in non-controlling interest due to change in scope of consolidation				
Other		(1)	(34)	
Total transactions with owners	–	(1,551)	(13,069)	(14,729)
Balance as of March 31, 2020	107,165	51,779	136,516	(15,899)

(Millions of yen)

	Equity attributable to owners of parent							Non-controlling interests	Total
	Other components of equity						Total		
	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Share acquisition rights	Total			
Balance as of April 1, 2019	–	(190)	6,743	–	659	7,212	307,918	30,967	338,885
Profit						–	8,204	5,047	13,251
Other comprehensive income	(5,057)	(65)	(3,376)	(180)		(8,678)	(8,678)	(1,052)	(9,730)
Total comprehensive income	(5,057)	(65)	(3,376)	(180)	–	(8,678)	(474)	3,995	3,521
Purchase of treasury shares						–	(14,851)		(14,851)
Disposal of treasury shares					(126)	(126)	–		–
Dividends						–	(10,816)	(2,833)	(13,649)
Share-based remuneration transactions						–	152		152
Changes in equity interest in subsidiaries						–	(1,706)	3,005	1,299
Transfer from other components of equity to retained earnings			2,039	180		2,219	–		–
Changes in non-controlling interest due to change in scope of consolidation						–	–	(9,058)	(9,058)
Other	(10)					(10)	(45)	(214)	(259)
Total transactions with owners	(10)	–	2,039	180	(126)	2,083	(27,266)	(9,100)	(36,366)
Balance as of March 31, 2020	(5,067)	(255)	5,406	–	533	617	280,178	25,862	306,040

Fiscal year ended March 31, 2021

(Millions of yen)

	Equity attributable to owners of parent			
	Share capital	Capital surplus	Retained earnings	Treasury shares
Balance as of April 1, 2020	107,165	51,779	136,516	(15,899)
Profit			13,093	
Other comprehensive income				
Total comprehensive income	–	–	13,093	–
Purchase of treasury shares				(312)
Disposal of treasury shares		(6)		258
Dividends			(2,980)	
Share-based remuneration transactions		(38)		
Changes in equity interest in subsidiaries				
Transfer from other components of equity to retained earnings			2,000	
Other			(201)	
Total transactions with owners	–	(44)	(1,181)	(54)
Balance as of March 31, 2021	107,165	51,735	148,428	(15,953)

(Millions of yen)

	Equity attributable to owners of parent							Non-controlling interests	Total
	Other components of equity						Total		
	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Share acquisition rights	Total			
Balance as of April 1, 2020	(5,067)	(255)	5,406	–	533	617	280,178	25,862	306,040
Profit						–	13,093	3,861	16,954
Other comprehensive income	6,190	194	2,645	1,888		10,917	10,917	1,035	11,952
Total comprehensive income	6,190	194	2,645	1,888	–	10,917	24,010	4,896	28,906
Purchase of treasury shares						–	(312)		(312)
Disposal of treasury shares					(119)	(119)	133		133
Dividends						–	(2,980)	(3,651)	(6,631)
Share-based remuneration transactions						–	(38)		(38)
Changes in equity interest in subsidiaries						–	–	59	59
Transfer from other components of equity to retained earnings			(112)	(1,888)		(2,000)	–		–
Other	(21)					(21)	(222)	(208)	(430)
Total transactions with owners	(21)	–	(112)	(1,888)	(119)	(2,140)	(3,419)	(3,800)	(7,219)
Balance as of March 31, 2021	1,102	(61)	7,939	–	414	9,394	300,769	26,958	327,727

(4) CONSOLIDATED STATEMENT OF CASH FLOWS

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from operating activities		
Profit before tax	29,182	27,617
Depreciation, amortization and impairment losses	77,261	80,172
Finance income and finance costs	3,360	3,442
Share of loss (profit) of investments accounted for using equity method	12,303	1,933
Loss (gain) on sale of property, plant and equipment, intangible assets and investment property	(4,409)	(26,312)
Decrease (increase) in trade receivables	(6,359)	(3,076)
Decrease (increase) in contract assets	(8,711)	(9,178)
Decrease (increase) in inventories and prepayments	(12,685)	4,136
Increase (decrease) in trade payables	(20,389)	(42,277)
Increase (decrease) in contract liabilities	(5,532)	16,641
Other	(3,666)	(1,414)
Subtotal	60,355	51,684
Interest received	709	382
Dividends received	1,403	4,699
Interest paid	(4,709)	(4,004)
Proceeds from insurance income	1,737	–
Income taxes paid	(17,011)	(16,381)
Net cash provided by (used in) operating activities	42,484	36,380
Cash flows from investing activities		
Purchase of property, plant and equipment, intangible assets and investment property	(72,293)	(57,458)
Proceeds from sale of property, plant and equipment, intangible assets and investment property	6,504	33,162
Purchase of investments (including investments accounted for using equity method)	(23,182)	(11,009)
Proceeds from sale and redemption of investments (including investments accounted for using equity method)	8,351	978
Proceeds from sale of equity interest in subsidiaries	7,352	295
Other	(12,304)	(6,450)
Net cash provided by (used in) investing activities	(85,572)	(40,482)

(4) CONSOLIDATED STATEMENT OF CASH FLOWS

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	84,004	(43,633)
Net increase (decrease) in commercial papers	56,000	(56,000)
Proceeds from long-term borrowings	47,864	117,911
Repayments of long-term borrowings	(49,527)	(39,473)
Proceeds from issuance of bonds	30,000	30,000
Redemption of bonds	(20,000)	(10,000)
Repayments of lease liabilities	(18,871)	(19,244)
Decrease (increase) in treasury shares	(14,490)	131
Dividends paid	(10,791)	(2,983)
Capital contribution from non-controlling interests	1,299	59
Dividends paid to non-controlling interests	(3,084)	(3,722)
Increase in other financial liabilities	6,139	3,203
Decrease in other financial liabilities	(11,726)	(674)
Other	75	713
Net cash provided by (used in) financing activities	96,892	(23,712)
Effect of exchange rate change on cash and cash equivalents	(1,111)	3,245
Net increase (decrease) in cash and cash equivalents	52,693	(24,569)
Cash and cash equivalents at beginning of period	92,746	145,738
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	299	-
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	-	(403)
Cash and cash equivalents at end of period	145,738	120,766

(5) NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES ON PREMISE OF GOING CONCERN

Not applicable.

SIGNIFICANT ACCOUNTING POLICIES

1. Basis for consolidation

A. Subsidiaries

A subsidiary refers to an entity controlled by the IHI Group. The IHI Group determines that it controls an investee entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of a subsidiary begins from the acquisition date, which is the date when the IHI Group obtains control of the subsidiary, and ceases on the date when it loses control of the subsidiary.

If any accounting policies applied by a subsidiary differ from those applied by the IHI Group, adjustments are made to the subsidiary's financial statements where needed.

The intra-group balances of receivables and payables and transactions as well as unrealized gains or losses arising from the intra-group transactions are eliminated in preparing the consolidated financial statements.

Comprehensive income of subsidiaries is attributed to owners of parent and non-controlling interests even if this results in a negative balance in non-controlling interests.

When the account closing date of a subsidiary differs from that of IHI, the subsidiary prepares, for consolidation purposes, additional financial information as of the consolidated account closing date.

Any changes in ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The difference between the amount by which non-controlling interests are adjusted and the fair value of the consideration is directly recognized in equity as equity attributable to owners of parent. If the IHI Group loses control of a subsidiary, it recognizes the gain or loss resulting from such loss of control in profit or loss for the fiscal year.

B. Associates and joint ventures

An associate refers to an entity over which the IHI Group has significant influence in respect of the operating and financial policies of the entity, but does not have control over the entity. If the IHI Group holds, directly or indirectly, at least 20% but not more than 50% of the voting rights of an entity, it is presumed that the IHI has significant influence over the entity.

A joint venture refers to a joint arrangement whereby two or more parties, including the IHI Group, that have joint control of the arrangement have rights to the net assets of the arrangement; provided that the joint control is the contractually agreed sharing of control of the arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are measured using the equity method (hereinafter, "entities accounted for using the equity method").

The consolidated financial statements include the reporting company's share of changes in profit or loss and other comprehensive income of entities accounted for using the equity method from the date when the reporting company obtained significant influence over, or joint control of, the entities to the date when it loses such influence or control.

If any accounting policies adopted by entities accounted for using the equity method differ from those adopted by the IHI Group, adjustments are made to the financial statements of entities where needed.

In addition, the consolidated financial statements include investments in entities accounted for using the equity method whose account closing date differs from that of IHI because it is impracticable for those entities to align their account closing date with that of IHI due, for example, to relationships with other shareholders. The account closing date of most of those entities is December 31. Adjustments are made for the effects of any significant transactions or events that occurred between the account closing date of those entities and that of IHI.

Goodwill related to entities accounted for using the equity method is included in the carrying amount of investments, and is not subject to amortization. When there is an indication that an investment in an entity accounted for using the equity method may be impaired, the carrying amount of the entire investment (including goodwill) is tested for impairment as a single asset.

If the IHI Group loses significant influence over, or joint control of, an associate and a joint venture, and ceases to use the equity method, it recognizes gain or loss resulting from the discontinuation of the equity method in profit or loss for the fiscal year.

2. Business combinations

The IHI Group accounts for business combinations by applying the acquisition method. The consideration for acquisition is measured as the sum of the acquisition-date fair value of the assets transferred, liabilities assumed, and equity instruments issued by IHI in exchange for control of an acquiree.

If the aggregate amount of consideration for acquisition, the amount of non-controlling interest, and previously held equity interests exceeds the fair value of identifiable assets and liabilities, such excess is recorded as goodwill in the consolidated statement of financial position. If, conversely, the consideration turns out to be less than the fair value, the difference is immediately recorded as revenue in the consolidated statement of profit or loss. If the initial accounting for a business combination is incomplete by the end of the period in which the combination occurs, the items for which the accounting is incomplete are measured at provisional amounts, and subsequently adjusts the provisional amounts during the measurement period, which is one year from the acquisition date.

Goodwill is presented at cost less any accumulated impairment losses. Goodwill is not subject to amortization, but an impairment test for goodwill is performed in each fiscal year, mainly in the fourth quarter, and impairment losses are recorded when necessary. Impairment losses of goodwill are not reversed.

Acquisition-related costs incurred in connection with business combination are expensed as incurred. Acquisition of additional non-controlling interests after control is obtained is accounted for as an equity transaction and no goodwill arising from such a transaction is recognized.

For a business combination achieved in stages, the IHI Group remeasures its previously held equity interest in the acquiree at fair value as of the date of obtaining control and recognizes the resulting gains or losses in profit or loss, or other comprehensive income.

3. Foreign currency translation

A. Translation of foreign currency transactions

Foreign currency transactions are translated into the functional currencies of the IHI Group and its associates using the spot exchange rate at the dates of the transactions or rates that approximate such rates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currencies at the spot exchange rates at the consolidated account closing date. Exchange differences arising from the translation and settlement are recognized as profit or loss.

B. Translation of foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using the spot exchange rates at the account closing date, whereas revenue and expenses of foreign operations are translated into Japanese yen using the average exchange rate during the period. Exchange differences arising from such translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation are recognized in profit or loss for the period in which the foreign operation is disposed of.

4. Financial instruments

A. Financial assets

a. Initial recognition and measurement

The IHI Group recognizes financial assets on the transaction date when it becomes a party to the contract for the financial assets.

Financial assets are classified into those measured at fair value and those measured at amortized cost.

Financial assets are classified into those measured at amortized cost if they meet both of the following conditions. Financial assets other than the above are classified into those measured at fair value.

- The assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets measured at fair value, except for equity instruments held for trading, which must be measured at fair value through profit or loss, the IHI Group designates, for each financial instrument, whether the instrument is measured at fair value through profit or loss or the instrument is measured at fair value through other comprehensive income, and consistently applies the same designation. The IHI Group decides on such classification at the initial recognition.

All financial assets are measured at fair value plus transaction costs directly attributable to the financial assets unless they are classified into those measured at fair value through profit or loss

b. Subsequent measurement

After the initial recognition, financial assets are measured as follows, depending on respective classifications:

(i) Financial assets measured at amortized cost

They are measured at amortized cost using the effective interest method.

(ii) Financial assets measured at fair value through profit or loss

After the initial recognition, they are measured at fair value, and changes in the fair value are recognized in profit or loss.

(iii) Financial assets measured at fair value through other comprehensive income

Changes in fair value are recognized in other comprehensive income. If such financial assets are derecognized or the fair value decreased significantly, such changes are transferred to retained earnings.

Dividends from such financial assets are recognized in profit or loss for the fiscal year.

c. Impairment losses of financial assets

The IHI Group recognizes allowance for doubtful accounts for expected credit losses on financial assets measured at amortized cost.

The IHI Group determines, at the end of each reporting period, whether credit risk of the assets has increased significantly since the initial recognition. If the credit risk has increased significantly, allowance for doubtful accounts is recognized at an amount equal to lifetime expected credit losses. If no significant increase in the credit risk is identified, allowance for doubtful accounts is recognized at an amount equal to expected credit losses for 12 months.

However, for trade receivables and contract assets, allowance for doubtful accounts is recognized at an amount equal to lifetime expected credit losses, regardless of whether or not the credit risk has increased significantly since the initial recognition.

Objective evidence indicating a significant increase in credit risk includes default or delinquency by a debtor, extension of the due date of receivables on terms that the IHI Group would not otherwise grant, and indications that a debtor or issuer will enter bankruptcy. Provision for, or reversal of, allowance for doubtful accounts for expected credit losses is recognized in profit or loss.

d. Derecognition

The IHI Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the contractual rights to receive the cash flows of the financial asset and also transfers substantially all the risks and rewards incidental to ownership of the financial asset.

B. Financial liabilities

a. Initial recognition and measurement

Financial liabilities, except for financial guarantee contracts, are classified as those measured at amortized cost.

At initial recognition, financial liabilities measured at amortized cost are measured at fair value less transaction costs.

b. Subsequent measurement

After the initial recognition, financial liabilities measured at amortized cost are measured using the effective interest method.

After the initial recognition, financial guarantee contracts are measured at the higher of:

- the best estimate of expenditures required to settle obligations as of the account closing date and
- the amount initially recognized less accumulated amortization.

c. Derecognition

The IHI Group derecognizes a financial liability when it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

d. Revenue-sharing arrangements

In the Civil aero engines Business, IHI has entered into revenue-sharing arrangements mainly with

financial institutions, and classifies these arrangements into financial liabilities measured at amortized cost. Under these arrangements, IHI receives funding to execute certain business projects and makes payments based on future earnings of the projects.

At the initial recognition, IHI measures such financial liabilities measured at amortized cost at the amount of the funds received. After the initial recognition, IHI applies the effective interest method using a discount rate equal to the rate of return estimated upon entering into the arrangement. Furthermore, the number of engines to be delivered in the future etc. are not taken into consideration when measuring at amortized cost.

C. Derivatives and hedge accounting

The IHI Group uses derivatives, including forward exchange contracts and interest rate swap contracts, to hedge foreign currency risk and interest rate risk.

These derivatives are initially recognized at fair value. Even after the initial recognition, they are measured at fair value with subsequent changes in the fair value being recognized in profit or loss unless they are designated as a hedging instrument in a cash flow hedge.

At the inception of the hedge, the IHI Group formally designates and documents the hedging relationship for which the hedge accounting is applied and its risk management objective and strategy for undertaking the hedge. That documentation includes identification of the specific hedging instrument, the hedged item, the nature of the risk being hedged and the method of assessing the hedge effectiveness. In addition, the IHI Group assesses on an ongoing basis whether the hedging relationship is prospectively effective.

Hedges that qualify for the hedge accounting are classified and accounted for as follows:

a. Fair value hedges

A fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment. The IHI Group recognizes, in profit or loss, any changes in fair value of the recognized asset or liability or the unrecognized firm commitment and related derivatives.

b. Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a forecast transaction or a recognized asset or liability. As long as the hedge is highly effective, changes in fair value of the effective portion of the derivative designated as a cash flow hedge are recognized in other comprehensive income, whereas changes in fair value of the ineffective portion thereof are recognized in profit or loss.

D. Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset with the net amount presented in the consolidated statement of financial position when, and only when the IHI Group currently has a legally enforceable right to set off the recognized amounts, and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

5. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with maturities not exceeding three months from the acquisition date, that are readily convertible into cash and subject to an insignificant risk of changes in value.

6. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of conversion include fixed production overheads based on the normal capacity level. In determining the cost of inventories, finished goods and work in process are determined principally by the specific identification method, whereas raw materials and supplies are determined principally by the moving average method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

7. Property, plant and equipment

As the IHI Group uses the cost model to measure property, plant and equipment, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment includes any costs directly attributable to acquiring the item, the borrowing costs eligible for capitalization, the costs of dismantling and removing the item and the restoration costs.

Except for non-depreciable assets such as land, each asset is depreciated on a straight-line basis over its estimated useful life.

The estimated useful life and depreciation method etc. are subject to review at the end of each fiscal year, and any changes to them are prospectively applied as a change in an accounting estimate.

8. Intangible assets

As the IHI Group uses the cost model to measure intangible assets, an intangible asset is carried at its cost less any accumulated amortization and any accumulated impairment losses.

A separately acquired intangible asset is measured initially at cost, which includes borrowing costs that should be capitalized. The cost of intangible assets acquired through business combinations is measured at fair value at the acquisition date. For internally generated intangible assets, all expenditures, except for development expenditure eligible for capitalization, are recorded as expenses for the period in which they are incurred. The cost of an internally generated intangible asset eligible for capitalization is the sum of expenditures incurred from the date when the intangible asset first meets the criteria for capitalization.

Intangible assets with a finite useful life are amortized on a straight-line basis over their estimated useful life and tested for impairment whenever there is an indication of impairment. The estimated useful life and amortization method for intangible assets with a finite useful life are subject to review at the end of each fiscal year, and any changes to them are prospectively applied as a change in an accounting estimate.

Intangible assets with an indefinite useful life and those yet to be available for use are not amortized and are tested for impairment individually or by cash-generating unit in each fiscal year or whenever there is an indication of impairment.

9. Leases

A. Lessee

The IHI Group recognizes a right-of-use asset, which represents its right to use an underlying asset, and a

lease liability, which represents its obligation to pay lease payments. It also recognizes expenses associated with leases as depreciation charge for the right-of-use asset and interest expense on the lease liability. For short-term leases, which are leases with a lease term of 12 months or less, and leases for which the underlying asset is of low value, the IHI Group recognizes the lease payments associated with those leases in profit or loss on a straight-line basis over the lease term.

As the IHI Group uses the cost model to measure a right-of-use asset, a right-of-use asset is carried at cost at the commencement date less any accumulated depreciation and any accumulated impairment losses. The cost of the right-of-use asset is measured at the amount of the initial measurement of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, the costs of dismantling and removing the underlying asset and the restoration costs under the lease contract. Each right-of-use asset is depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Any change in the useful life or the lease term is treated as a change in an accounting estimate and accounted for prospectively.

The lease liability is measured and presented at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate. Interest expense on the lease liability in each period during the lease term is the amount that produces constant periodic rate of interest on the remaining balance of the lease liability. The interest expense is recognized in profit or loss over the lease term and included in "Finance costs."

B. Lessor

The IHI Group classifies a lease of property, plant and equipment as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset to a lessee. Under the finance lease, the lessor derecognizes the underlying asset, but instead recognizes and measures the net investment in the lease at the present value of the total lease payments.

A lease of property, plant and equipment is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee. Under the operating lease, the lessor continues to recognize the underlying asset, and also recognizes the lease income on a straight-line basis over the lease term.

10. Investment property

Investment property is real estate property held to earn rent income, or capital gains, or both. Investment property does not include real estate property for sale in the ordinary course of business, nor does it include real estate property for use in the production or sale of goods or services or for other administrative purposes. As the IHI Group uses the cost model to measure investment property after the initial recognition, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses. The cost of investment property includes any costs directly attributable to acquiring the asset, the borrowing costs eligible for capitalization, the costs of dismantling and removing the asset and the restoration costs.

Investment property is depreciated on a straight-line basis over the estimated useful life of X to 60 years. The estimated useful life and depreciation method etc. are subject to review at the end of each fiscal year, and any changes to them are prospectively applied as a change in an accounting estimate.

11. Impairment of non-financial assets

The IHI Group determines, at the account closing date, whether there is any indication of impairment of non-financial assets excluding inventories and deferred tax assets. If any such indication exists, the IHI Group estimates the recoverable amount of the asset. Goodwill, intangible assets with indefinite useful lives and intangible assets yet to be available for use are tested for impairment in each fiscal year, mainly in the fourth quarter, irrespective of whether there is any indication that they may be impaired. When the recoverable amount of an individual asset cannot be estimated, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.

The recoverable amount of an asset or a cash-generating unit is determined at the higher of its fair value less costs of disposal and its value in use. When the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, an impairment loss is recognized, and the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. In determining the value in use, estimated future cash flows are discounted to the present value using the pre-tax discount rate that reflects current market assessment of the time value of money, the risks specific to the asset, etc. In determining the fair value less costs of disposal, the IHI Group uses an appropriate valuation model supported by available indicators of the fair value.

The IHI Group determines, at the account closing date, whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may have decreased or may no longer exist. Such indications include a change in assumptions used to determine the recoverable amount of the asset. If any such indication exists, the IHI Group estimates the recoverable amount of the asset or cash-generating unit. When the recoverable amount of the asset or cash-generating unit exceeds its carrying amount, the impairment loss is reversed to the extent of the lower of the estimated recoverable amount and the carrying amount less depreciation or amortization that would have been recognized had no impairment losses been recognized in prior periods.

12. Provisions

The IHI Group recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event; it is probable that the IHI Group will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation. In determining the present value, the IHI Group uses a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

13. Employee benefits

A. Post-employment benefit plans

a. Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Defined benefit obligations are separately accounted for each plan. The amount of each obligation is determined by estimating the amount of the future benefit that employees have earned in return for their service in the

current and prior periods, and discounting the estimated amount to the present value using the projected unit credit method. The fair value of any plan assets is deducted from the above-determined present value of the defined benefit obligations.

The discount rate is determined by reference to market yields at the account closing date on high quality corporate bonds with the terms being almost the same as those of the defined benefit obligations of the IHI Group.

The IHI Group recognizes changes in the obligations as a result of the remeasurement of the benefit obligations and plan assets of the defined benefit plans in other comprehensive income, and immediately transfers them to retained earnings.

Past service cost is recognized in profit or loss for the period in which it is incurred.

b. Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an employer pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions. Contribution obligations under the defined contribution plans are recognized as expenses for the period in which employees render the related service.

B. Short-term employee benefits

The IHI Group recognizes undiscounted amounts of short-term employee benefits and paid annual leave as expenses at the time when the related services are rendered.

When the IHI Group has a present legal or constructive obligation to pay bonuses in return for services that the employees have rendered in the past, and can make a reliable estimate of their amount, it recognizes the amount that can be expected to be paid under the relevant bonus plan as a liability.

14. Share-based payment

IHI operates a share-based compensation-type stock option plan and performance-based share remuneration plan for its directors and executive officers as share-based payment plans.

All share-based compensation-type stock options are equity-settled share-based payments.

Of performance-based share remuneration, IHI's shares to be delivered are equity-settled share-based payments, and cash to be paid by reference to the market price of IHI's shares is cash-settled share-based payments.

For equity-settled share-based payment transactions, the IHI Group measures the services that directors and executive officers rendered during the fiscal year in which the right to receive the remuneration was granted to them by reference to the fair value of stock options and shares of IHI to be delivered as of the grant date. The rendering of services determined above is recognized as an expense, and the same amount of the expense is recognized as an increase in equity.

For cash-settled share-based payment transactions, the IHI Group measures the services that directors and executive officers rendered during the term in which the right to receive the remuneration was granted to them by reference to the stock price of IHI's share at the account closing date. The rendering of services determined above is recognized as an expense, and the same amount of the expense is recognized as an increase in a liability. Until the liability is settled, the IHI Group measures any changes in fair value of the liability by reference to changes in IHI's share price at the account closing date, and also recognizes the changes as an expense.

15. Revenue

The IHI Group recognizes revenue at an amount that reflects the consideration to which the IHI Group expects to be entitled in exchange for the transfer of goods or services to customers based on the following five-step approach, except for interest and dividend income, etc. under IFRS 9 *Financial instruments*.

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the separate performance obligations in the contract.

Step 5: Recognize revenue when (or as) the IHI Group satisfies a performance obligation.

The IHI Group identifies the contract based on its substance and may combine two or more contracts. If two or more performance obligations are identified in the contract, the IHI Group allocates the transaction price, which appropriately reflects variable consideration, consideration payable to a customer, etc., to each of the identified performance obligations on a relative stand-alone selling price basis. The transaction price does not include a significant financing component.

The IHI Group recognizes as an asset the incremental costs of obtaining a contract with a customer and the costs directly related to fulfilling a contract to the extent that it expects to recover those costs. The asset recognized above is amortized in a manner that is consistent with the method used to recognize revenue from the products and services to which the asset relates.

Assuming that persuasive evidence supporting a transaction exists, the IHI Group recognizes revenue when it is certain that economic benefits will flow to the IHI Group and those benefits can be measured reliably. Revenues from sale of goods, provision of services, construction contracts, etc. are measured at fair value of consideration received or receivable.

The recognition criteria by major revenue classification are as follows:

A. Sale of goods

For revenue from sale of goods, the IHI Group determines that its performance obligations are satisfied primarily when a customer obtains control of the goods upon delivery. Hence, revenue from sale of goods is usually recognized upon the delivery of goods.

B. Provision of services and construction contracts

For revenue from provision of services and construction contracts, in which performance obligations are satisfied over time, the IHI Group recognizes revenue by measuring progress towards complete satisfaction of the performance obligations. Measurements are based on the ratio of the estimated costs incurred to satisfy the performance obligations against the estimated total costs to fully satisfy the contractual obligations. Revenue is recognized by the cost recovery method when it is not possible to reasonably estimate progress towards satisfaction of performance obligations, but it is probable that the costs incurred will be recovered.

16. Finance income and finance costs

Finance income and finance costs consist of interest income, dividend income, interest expenses, foreign exchange gains or losses, and changes in the fair value of financial instruments measured at fair value

through profit or loss. Interest income and interest expenses are recognized as incurred using the effective interest method. Dividend income is recognized when the IHI Group receives the dividend.

17. Government grants

Government grants are recognized at fair value when there is reasonable assurance that the IHI Group will comply with the conditions attaching to them, and that the grants will be received.

If government grants relate to items of expense, the government grants are recognized as revenue on a systematic basis over the periods in which the IHI Group recognizes the related costs for which the grants are intended to compensate as an expense. Grants related to assets are accounted for by deducting the amount of the grant from the acquisition cost of the asset.

18. Income taxes

Income tax expense in the consolidated statement of profit or loss is presented as the sum of current tax expense and deferred tax expense.

The IHI Group measures current tax expense at the amount expected to be paid to or recovered from taxation authorities. The tax rates and tax laws to be used to determine the amount of taxes are those that have been enacted or substantively enacted by the account closing date. The IHI Group recognizes current tax expense in profit or loss, except for taxes arising from other comprehensive income and those arising from business combinations.

The IHI Group determines deferred tax expense based on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the related amounts for tax purposes at the account closing date, unused tax credits carryforward and unused tax losses carryforward. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference, unused tax credits carryforward, and unused tax losses carryforward can be recovered. Deferred tax liabilities are, in principle, recognized for taxable temporary differences.

The IHI Group does not recognize deferred tax assets or liabilities for the following temporary differences:

- temporary difference arising from the initial recognition of goodwill;
- temporary difference arising from the initial recognition of an asset or liability in a transaction which is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
- deductible temporary difference associated with its investments in subsidiaries and associates, and its interests in joint arrangements if it is probable that the temporary difference will not reverse in the foreseeable future, or if it is not probable that future taxable profits will be available against which the temporary difference can be utilized; and
- taxable temporary difference associated with its investments in subsidiaries and associates, and its interests in joint arrangements if the timing of the reversal of the temporary difference can be controlled, and if it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the account closing date.

For uncertain tax position on income taxes, the IHI Group recognizes a reasonably estimated amount as an

asset or a liability when it is probable that the tax position will be sustained in accordance with the interpretation of tax laws.

IHI and its wholly owned subsidiaries in Japan have adopted the consolidated taxation system.

19. Earnings per share

Basic earnings per share is calculated by dividing profit attributable to owners of parent by the weighted-average number of ordinary shares issued and outstanding, adjusted for the number of treasury shares for the period concerned.

Diluted earnings per share is calculated, adjusted for the effect of all dilutive potential shares.

ADDITIONAL INFORMATION

Impact of the spread of COVID-19

Regarding the impact of the spread of COVID-19, the IHI Group assumes that it will take several years to recover businesses, particularly in the Civil aero engines Business, as described in “A. Summary of business results for the fiscal year ended March 31, 2021” of “(1) SUMMARY OF BUSINESS RESULTS AND FINANCIAL POSITION” in “1. SUMMARY OF BUSINESS RESULTS.”

Given these circumstances, the Group makes accounting estimates and concludes that there is no significant change in judgement on the probability of recovering the deferred tax assets compared to the previous fiscal year at this point.

SEGMENT INFORMATION

1. Overview of reportable segments

The reportable segments are constituent units of the IHI Group for which separate financial information is available. The Board of Directors periodically examines these segments for the purpose of deciding the allocation of management resources and evaluating operating performance.

The IHI Group organizes SBUs by products and services and allocates business areas to control these SBUs. Each business area manages and supervises the SBUs' execution of business strategies, and develops those business activities.

Based on the above, the IHI Group consists of segments by these business areas and sets the business areas of "Resources, Energy and Environment," "Social Infrastructure and Offshore Facilities," "Industrial Systems and General-Purpose Machinery," and "Aero Engine, Space and Defense" as its reportable segments. There are no aggregated business segments when deciding these reportable segments.

Main businesses, products and services belonging to each segment are as follows:

Reportable segments	Main businesses, products and services
Resources, Energy and Environment	Power systems (power systems plants for land use and power systems for ships), boilers, plants (storage facilities, chemical plants and pharmaceutical plants), nuclear energy (components for nuclear power plants)
Social Infrastructure and Offshore Facilities	Bridges and watergates, transport systems, shield systems, concrete construction materials, urban development (real estate sales and rental)
Industrial Systems and General-Purpose Machinery	Vehicular turbochargers, parking, rotating machineries (compressors, separation systems, turbochargers for ships), heat treatment and surface engineering, transport machineries, logistics and industrial systems (logistics systems, industrial machineries)
Aero Engine, Space and Defense	Aero engines, rocket systems and space utilization systems, defense systems

2. Information about reportable segments

The accounting method used for reportable business segments is generally the same as the method stated in “3. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO (5) NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.”

Intersegment revenue and transfers are based on actual market pricing.

Fiscal year ended March 31, 2020

(Millions of yen)

	Reportable Segments				Total	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General- Purpose Machinery	Aero Engine, Space and Defense					
Revenue									
Revenue from external customers	320,979	138,084	392,028	367,691	1,218,782	44,396	1,263,178	–	1,263,178
Intersegment revenue and transfers	3,895	10,625	12,530	2,033	29,083	22,659	51,742	(51,742)	–
Total	324,874	148,709	404,558	369,724	1,247,865	67,055	1,314,920	(51,742)	1,263,178
Segment profit (loss) (Note 3)	3,976	13,047	12,964	20,821	50,808	6,596	57,404	(9,545)	47,859
Segment assets	271,176	298,162	334,951	689,616	1,593,905	168,338	1,762,243	106,795	1,869,038
Others									
Depreciation and amortization	6,233	7,779	14,662	27,441	56,115	3,406	59,521	13,355	72,876
Impairment losses	–	16	2,672	–	2,688	1,697	4,385	–	4,385
Share of profit (loss) of investments accounted for using equity method	30	–	409	2,706	3,145	(15,412)	(12,267)	(36)	(12,303)
Investments accounted for using equity method	198	–	2,647	25,121	27,966	23,132	51,098	–	51,098
Capital expenditures	6,016	12,068	13,118	47,655	78,857	4,675	83,532	6,466	89,998

Notes: 1. The “Others” classification consists of business that is not included in reportable segments. It includes inspection and measurement business, the manufacture and sale of equipment and the like related to such business, and other service operations.

2. The details of adjustment are as follows:

- (1) Adjustment of segment profit represents intersegment transactions of ¥(211) million and unallocated corporate expenses of ¥(9,334) million.
- (2) Adjustment of ¥106,795 million for segment assets includes eliminations of intersegment receivables and payables of ¥(102,842) million and corporate assets unallocated to any reportable segment of ¥209,637 million among cash and cash equivalents, property, plant and equipment, and other financial assets. It mainly consists of IHI’s surplus funds under management, including cash and deposits, and securities.
- (3) Adjustment of depreciation and amortization represents depreciation and amortization not allocated to each reportable segment.
- (4) Adjustment of capital expenditures represents corporate capital expenditures not allocated to each reportable segment.

3. Segment profit is adjusted with operating profit in the consolidated statement of profit or loss.

	Reportable Segments					Total	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General- Purpose Machinery	Aero Engine, Space and Defense						
Revenue										
Revenue from external customers	315,722	148,243	363,314	242,619	1,069,898	43,008	1,112,906	–	1,112,906	
Intersegment revenue and transfers	1,953	9,709	10,946	1,984	24,592	23,885	48,477	(48,477)	–	
Total	317,675	157,952	374,260	244,603	1,094,490	66,893	1,161,383	(48,477)	1,112,906	
Segment profit (loss) (Note 3)	19,181	17,131	11,446	(40,474)	7,284	3,646	10,930	17,031	27,961	
Segment assets	293,473	298,929	335,561	683,526	1,611,489	186,150	1,797,639	35,252	1,832,891	
Others										
Depreciation and amortization	6,323	9,842	13,912	33,072	63,149	3,135	66,284	10,156	76,440	
Impairment losses	495	–	3,127	–	3,622	110	3,732	–	3,732	
Share of profit (loss) of investments accounted for using equity method	45	–	308	583	936	(2,799)	(1,863)	(70)	(1,933)	
Investments accounted for using equity method	197	–	2,872	23,655	26,724	21,736	48,460	–	48,460	
Capital expenditures	3,952	7,329	9,772	19,287	40,340	3,163	43,503	4,855	48,358	

Notes: 1. The “Others” classification consists of business that is not included in reportable segments. It includes inspection and measurement business, the manufacture and sale of equipment and the like related to such business, and other service operations.

2. The details of adjustment are as follows:

- (1) Adjustment of segment profit represents intersegment transactions of ¥169 million and unallocated corporate income of ¥16,862 million.
- (2) Adjustment of ¥35,252 million for segment assets includes eliminations of intersegment receivables and payables of ¥(127,427) million and corporate assets unallocated to any reportable segment of ¥162,679 million among cash and cash equivalents, property, plant and equipment, and other financial assets. It mainly consists of IHI’s surplus funds under management, including cash and deposits, and securities.
- (3) Adjustment of depreciation and amortization represents depreciation and amortization not allocated to each reportable segment.
- (4) Adjustment of capital expenditures represents corporate capital expenditures not allocated to each reportable segment.

3. Segment profit is adjusted with operating profit in the consolidated statement of profit or loss.

EARNINGS PER SHARE

(1) Basis for calculating basic earnings per share

(Millions of yen, unless otherwise stated)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit attributable to owners of parent	8,204	13,093
Profit not attributable to ordinary shareholders of parent	–	–
Profit used for calculating basic earnings per share	8,204	13,093
Weighted-average number of ordinary shares after dilution (Thousands of shares)	152,137	148,561
Basic earnings per share (Yen)	53.93	88.13

(2) Basis for calculating diluted earnings per share

(Millions of yen, unless otherwise stated)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit used for calculating basic earnings per share	8,204	13,093
Adjustment to profit	–	–
Profit used to calculate diluted earnings per share	8,204	13,093
Weighted-average number of ordinary shares (Thousands of shares)	152,137	148,561
Increase in ordinary shares		
Share acquisition rights (Thousands of shares)	34	2
Weighted-average number of ordinary shares after dilution (Thousands of shares)	152,171	148,563
Diluted earnings per share (Yen)	53.91	88.13

Note: Shares of IHI owned by a trust account for the Board Benefit Trust are included in the number of shares issued at the end of the fiscal year and the number of treasury shares excluded for the calculation of the weighted-average number of ordinary shares. For the fiscal year ended March 31, 2021, the weighted-average number of ordinary shares as treasury shares excluded for the calculation of basic earnings per share and diluted earnings per share is 490 thousand shares (314 thousand shares for the fiscal year ended March 31, 2020).

SIGNIFICANT SUBSEQUENT EVENTS

Transfer of non-current assets

As the announcement on April 26, 2021, IHI decided to transfer some non-current assets aiming at securing investment resources for creating growth businesses to contribute for the materialization of sustainable society on the basis of “Project Change” release on November 10, 2020.

1. Transfer of part of the land and buildings of the former Aichi Headquarters Representative’s Office

IHI's former Aichi Headquarters Representative’s Office ceased to function as a production site at the end of November 2018, and IHI has been earnestly considering measures for its effective utilization. IHI received a proposal of business plan utilizing the most of the characteristics of the site, and we have thus reached the decision to transfer the site.

(1) Description of the assets to be transferred

Details and location of assets	Gain on sale	Type of asset
Land and buildings (including incidental non-current assets) 11-1, Kitahama-machi, Chita-city, Aichi, Japan (approximately 393,300 m ²)	Approximately ¥16.0 billion	Idle asset

Note: Due to the request of the transferee, the transfer prices and book values of the assets is not disclosed. In addition, the gains on sale are approximate figures obtained by deducting the book values, transfer-related expenses, etc. from the transfer prices.

(2) Overview of the transferee

Company name	Oono Development Co., Ltd.
Headquarters	184, Kita-Umemoto-machi Kou, Matsuyama-city, Ehime
Name and title of representative	Tsuyoshi Oono, Representative Director
Main business activities	Collection, transportation, intermediate disposal, and final disposal of industrial waste and specially controlled industrial waste; contracting and construction of civil engineering demolition work, etc.
Date of establishment	November 19, 1973
Relationship with IHI	There are no capital, personnel, business relationships, related parties, or other matters that require special mention.

(3) Schedule of transfer

April 28, 2021: Conclusion of sales agreement

May 13, 2021: Transfer of ownership

2. Transfer of land as investment property

IHI decided to transfer the following non-current asset using as real estate for rent.

(1) Description of the assets to be transferred

Details and location of assets	Gain on sale	Type of asset
Land as investment property Showa-machi, Kanazawa-ku, Yokohama-city, Kanagawa, Japan (approximately 26,700 m ²)	Approximately ¥5.5 billion	Rental property

Note: Due to the request of the transferee, the transfer prices and book values of the assets is not disclosed. In addition, the gains on sale are approximate figures obtained by deducting the book values, transfer-related expenses, etc. from the transfer prices.

(2) Overview of the transferee

Although the transferee is a general business company in Japan, detailed information of the transferee is not disclosed according to its request.

In addition, there are no capital, personal or business relationships between the transferee and IHI to be reported, and the transferee is not a related party of IHI. IHI has also confirmed that the transferee does not belong to an anti-social force.

(3) Schedule of transfer (planned)

May 14, 2021: Conclusion of sales agreement and transfer of ownership

3. Impact on consolidated operating results

Due to the above-mentioned transfer of non-current assets, approximately ¥21.5 billion of other income is planned to be recorded for the consolidated operating results for the fiscal year ending March 31, 2022.

IHI's acquisition of 100% ownership of MEISEI ELECTRIC CO., LTD. through simplified share exchange
IHI and MEISEI ELECTRIC CO., LTD. (hereinafter, "MEISEI"), at both companies' respective Board of Directors meetings held today (May 13, 2021), adopted a resolution for a share exchange as a result of which IHI will be the wholly-owning parent company in the share exchange and MEISEI will be the wholly-owned subsidiary in the share exchange, and executed a share exchange agreement between the companies.

For details, please refer to "Notice Regarding IHI Corporation's Acquisition of 100% Ownership of MEISEI ELECTRIC CO., LTD. through Simplified Share Exchange" announced today.

FIRST-TIME ADOPTION OF IFRS

The IHI Group has prepared consolidated financial statements in accordance with IFRS from the fiscal year ended March 31, 2021. The latest consolidated financial statements prepared in accordance with Japanese GAAP are those for the fiscal year ended March 31, 2020, with the date of transition to IFRS being April 1, 2019.

(1) Exemptions under IFRS 1

In principle, IFRS requires that companies adopting IFRS for the first time (hereinafter, “First-time Adopter”) apply the standards required under IFRS retrospectively.

However, for some of the standards required under IFRS, IFRS 1 *First-Time Adoption of International Financial Reporting Standards* (hereinafter, “IFRS 1”) specifies standards for which the exemption is applied mandatorily and those for which the exemption is applied voluntarily.

The exemptions that the IHI Group applies in connection with the transition from Japanese GAAP to IFRS are as follows:

- Business combinations

IFRS 1 permits a First-time Adopter to elect not to apply IFRS 3 *Business Combinations* (hereinafter, “IFRS 3”) retrospectively to business combinations that occurred before the date of transition to IFRS.

The IHI Group elected to apply this exemption and not to apply IFRS 3 retrospectively to the business combinations that occurred before the transition date. Accordingly, goodwill arising in business combinations that occurred before the transition date was recorded at the carrying amount under Japanese GAAP at the transition date.

Goodwill is tested for impairment at the transition date, regardless of whether there is an indication of impairment.

- Exchange differences on translation of foreign operations

IFRS 1 permits a First-time Adopter to elect to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS. The IHI Group elected to deem the cumulative translation differences of all foreign operations to be zero at the transition date.

- Share-based payments

A First-time adopter is encouraged, but not required, to apply IFRS 2 *Share-based Payment* (hereinafter, “IFRS 2”) to equity instruments that were granted after November 7, 2002 and vested before the date of transition to IFRS.

The IHI Group elected not to apply IFRS 2 to share-based payments vested before the transition date.

- Leases

IFRS 1 permits a First-time Adopter to assess whether a contract contains a lease at the date of transition to IFRS.

In addition, IFRS 1 permits a First-time Adopter to measure a lease liability at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of transition to IFRS, and to measure a right-of-use asset, on a lease-by-lease basis, at either: its carrying amount as if IFRS 16 had been applied since the commencement date of the lease, but discounted using the lessee’s incremental borrowing rate at the date of transition to IFRS; or an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of transition to IFRS.

Furthermore, IFRS 1 permits a First-time Adopter, as practical expedients, to recognize a lease for which the lease term ends within 12 months of the date of transition to IFRS or for which the underlying asset is of low value as an expense.

The IHI Group applies these exemptions and practical expedients; and recognize and measure leases.

- Borrowing costs

IFRS 1 permits to begin capitalizing borrowing costs relating to qualifying assets on the date of transition to IFRS. The IHI Group capitalizes borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the transition date.

- Revenue

IFRS 1 permits a First-time Adopter to apply the transition provisions in Paragraph C5 of IFRS 15 *Revenue from Contracts with Customers* (hereinafter, “IFRS 15”).

The IHI Group applies the practical expedient in Paragraph C5(c) of IFRS 15 and reflects the aggregate effect of all of the contract modifications that occur before the transition date.

The IHI Group applies the practical expedient in Paragraph C5(d) of IFRS 15 and does not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the IHI Group expects to recognize that amount as revenue for the fiscal year ended March 31, 2020.

The application of these expedients has no material impact on the consolidated financial statements.

- Assets and liabilities of subsidiary

IFRS 1 provides that if an entity becomes a First-time Adopter later than its subsidiary, the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary at the same carrying amounts as in the financial statements of the subsidiary, after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary.

The IHI Group measures the assets and liabilities of its overseas consolidated subsidiaries that have already adopted IFRS in the past at the same carrying amounts as in the financial statements of those subsidiaries.

- Designation of financial instruments recognized before the transition date

IFRS 1 permits an entity to assess the classification under IFRS 9 *Financial Instruments* (hereinafter, “IFRS 9”) on the basis of the facts and circumstances that exist at the transition date rather than those that exist at initial recognition.

IFRS 1 also permits an entity to designate an equity instruments as financial assets measured at fair value through other comprehensive income on the basis of the facts and circumstances that exist at the transition date.

The IHI Group assesses the classification under IFRS 9 on the basis of the facts and circumstances that exist at the transition date and designates some equity instruments as financial assets measured at fair value through other comprehensive income.

(2) Mandatory exceptions under IFRS 1

IFRS 1 prohibits the retrospective application of IFRS concerning “estimates,” “derecognition of financial assets and financial liabilities,” “hedge accounting,” “non-controlling interests,” “classification and measurement of financial instruments” and others.

The IHI Group prospectively applies these items on or after the transition date.

(3) Reconciliation

The reconciliation required to be disclosed at the first-time adoption of IFRS is as follows.

“Reclassification” column in the reconciliation table below presents items that do not affect retained earnings and comprehensive income and “Recognition and measurement differences” column presents items that affect retained earnings and comprehensive income.

Reconciliations of equity as of April 1, 2019 (the date of transition to IFRS)

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	94,951	(2,343)	138	92,746	1, 12	Cash and cash equivalents
Notes and accounts receivable – trade	377,695	(67,579)	21,214	331,330	2, 3, 5, 13	Trade and other receivables
	–	88,853	4,839	93,692	5, 13	Contract assets
	–	4,108	6	4,114	1, 3, 6	Other financial assets
Finished goods	23,084	(23,084)	–	–	4	
Work in process	276,238	(276,238)	–	–	4	
Raw materials and supplies	142,588	(142,588)	–	–	4	
	–	441,910	(124,715)	317,195	4, 12, 13, 18, 19	Inventories
Other	77,351	(27,082)	(433)	49,836	2, 6, 12, 13	Other current assets
Allowance for doubtful accounts	(4,043)	4,043	–	–	3	
Total current assets	987,864	–	(98,951)	888,913		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	367,394	(137,241)	22,611	252,764	7, 12, 15, 26	Property, plant and equipment
	–	16,036	112,996	129,032	7, 16	Right-of-use assets
Goodwill	10,032	–	(1,362)	8,670	17	Goodwill
Intangible assets	24,052	(74)	124,877	148,855	15, 18	Intangible assets
		121,279	–	121,279	7	Investment property
Investments and other assets						
Investment securities	117,967	(117,967)	–	–	6, 8	
	–	85,766	(4,601)	81,165	8, 12	Investments accounted for using equity method
	–	42,357	1,536	43,893	6, 27	Other financial assets
Net defined benefit asset	31	(31)	–	–		
Deferred tax assets	116,802	–	(40,965)	75,837	14	Deferred tax assets
Other	41,763	(11,501)	40,604	70,866	3, 6, 13	Other non-current assets
Allowance for doubtful accounts	(1,376)	1,376	–	–	3	
Total non-current assets	676,665	–	255,696	932,361		Total non-current assets
Total assets	1,664,529	–	156,745	1,821,274		Total assets

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable – trade	290,043	31,303	(9,657)	311,689	2, 12, 13, 19	Trade and other payables
Short-term loans payable	111,785	(111,785)	–	–	9	
Current portion of bonds	20,000	(20,000)	–	–	9	
	–	131,785	440	132,225	9, 12	Bonds and borrowings
	–	3,184	14,021	17,205	16	Lease liabilities
	–	59	10,209	10,268	19	Other financial liabilities
Income taxes payable	7,384	–	224	7,608		Income taxes payable
Advances received	157,546	–	(2,585)	154,961	5, 13	Contract liabilities
Provision for bonuses	28,089	(28,089)	–	–	11	
Provision for construction warranties	47,968	(47,968)	–	–	10	
Provision for loss on construction contracts	21,212	(21,212)	–	–	10	
Other provisions	1,079	(1,079)	–	–	11	
	–	69,180	(28,727)	40,453	10, 13	Provisions
Accrued expenses	88,520	(88,520)	–	–	11	
Other	49,483	83,142	27,865	160,490	2, 11, 13, 20, 23, 24	Other current liabilities
Total current liabilities	823,109	–	11,790	834,899		Total current liabilities

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
Non-current liabilities						Non-current liabilities
Bonds payable	30,000	(30,000)	–	–	9	
Long-term loans payable	175,813	(175,813)	–	–	9	
	–	205,813	1,966	207,779	9, 12	Bonds and borrowings
Lease obligations	14,307	–	122,091	136,398	16	Lease liabilities
	–	113	105,537	105,650	19, 21, 29	Other financial liabilities
Deferred tax liabilities for land revaluation	4,953	1,501	(2,043)	4,411	14, 26	Deferred tax liabilities
Net defined benefit liability	160,244	–	13,986	174,230	22	Retirement benefit liability
Provision for loss on business of subsidiaries and associates	1,212	(1,212)	–	–	10	
Other provisions	1,132	(1,132)	–	–	11	
	–	1,428	4,014	5,442	10	Provisions
Other	72,067	(698)	(57,789)	13,580	10, 11, 19, 21	Other non-current liabilities
Total non-current liabilities	459,728	–	187,762	647,490		Total non-current liabilities
Total liabilities	1,282,837	–	199,552	1,482,389		Total liabilities
Net assets						Equity
Capital stock	107,165	–	–	107,165		Share capital
Capital surplus	53,410	–	(80)	53,330	24, 26	Capital surplus
Retained earnings	184,092	–	(42,711)	141,381		Retained earnings
Treasury shares	(1,170)	–	–	(1,170)		Treasury shares
Total accumulated other comprehensive income	5,683	659	870	7,212	22, 25, 26, 27	Other components of equity
Subscription rights to shares	659	(659)	–	–		
	–	–	(41,921)	307,918		Total equity attributable to owners of parent
Non-controlling interests	31,853	–	(886)	30,967	12, 29	Non-controlling interests
Total net assets	381,692	–	(42,807)	338,885		Total equity
Total liabilities and net assets	1,664,529	–	156,745	1,821,274		Total liabilities and equity

Reconciliations of equity as of March 31, 2020

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	147,228	(1,744)	254	145,738	1, 12	Cash and cash equivalents
Notes and accounts receivable – trade	403,832	(74,344)	5,063	334,551	2, 3, 5, 13	Trade and other receivables
	–	103,268	(1,445)	101,823	5, 13	Contract assets
Securities	21	3,390	–	3,411	1, 3, 6	Other financial assets
Finished goods	18,417	(18,417)	–	–	4	
Work in process	289,277	(289,277)	–	–	4	
Raw materials and supplies	137,848	(137,848)	–	–	4	
	–	445,542	(118,627)	326,915	4, 12, 13, 18, 19	Inventories
Other	83,410	(34,594)	(3,569)	45,247	2, 6, 12, 13	Other current assets
Allowance for doubtful accounts	(4,024)	4,024	–	–	3	
Total current assets	1,076,009	–	(118,324)	957,685		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	397,495	(177,956)	45,486	265,025	7, 12, 15, 26	Property, plant and equipment
	–	26,355	97,912	124,267	7, 16	Right-of-use assets
Goodwill	7,456	–	(1,993)	5,463	17	Goodwill
Intangible assets	24,706	(67)	100,344	124,983	15, 18	Intangible assets
	–	151,668	–	151,668	7	Investment property
Investments and other assets						
Investment securities	63,514	(63,514)	–	–	6, 8	
	–	56,723	(5,625)	51,098	8, 12, 28	Investments accounted for using equity method
	–	30,004	5,826	35,830	6, 27	Other financial assets
Net defined benefit asset	7	(7)	–	–		
Deferred tax assets	112,440	–	(37,212)	75,228	14	Deferred tax assets
Other	60,410	(24,461)	41,842	77,791	3, 6, 13	Other non-current assets
Allowance for doubtful accounts	(1,255)	1,255	–	–	3	
Total non-current assets	664,773	–	246,580	911,353		Total non-current assets
Total assets	1,740,782	–	128,256	1,869,038		Total assets

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
						Liabilities and equity
Current liabilities						Current liabilities
Notes and accounts payable – trade	262,587	38,968	(8,801)	292,754	2, 12, 13, 19	Trade and other payables
Short-term borrowings	185,600	(185,600)	–	–	9	
Commercial papers	56,000	(56,000)	–	–	9	
Current portion of bonds	10,000	(10,000)	–	–	9	
	–	251,600	368	251,968	9, 12	Bonds and borrowings
	–	5,262	12,261	17,523	16	Lease liabilities
	–	800	10,236	11,036	19	Other financial liabilities
Income taxes payable	6,012	–	3	6,015		Income taxes payable
Advances received	151,790	–	(3,366)	148,424	5, 13	Contract liabilities
Provision for bonuses	26,672	(26,672)	–	–	11	
Provision for construction warranties	42,759	(42,759)	–	–	10	
Provision for loss on construction contracts	19,929	(19,929)	–	–	10	
Other provisions	1,141	(1,141)	–	–	11	
	–	62,688	(30,628)	32,060	10, 13	Provisions
Accrued expenses	88,082	(88,082)	–	–	11	
Other	58,433	70,865	27,499	156,797	2, 11, 13, 20, 23, 24	Other current liabilities
Total current liabilities	909,005	–	7,572	916,577		Total current liabilities

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
Non-current liabilities						Non-current liabilities
Bonds payable	50,000	(50,000)	–	–	9	
Long-term loans payable	159,223	(159,223)	–	–	9	
	–	209,223	2,170	211,393	9, 12	Bonds and borrowings
Lease obligations	22,089	–	109,729	131,818	16	Lease liabilities
	–	298	100,412	100,710	19, 21, 29	Other financial liabilities
Deferred tax liabilities for land revaluation	4,950	1,503	(2,014)	4,439	14, 26	Deferred tax liabilities
Net defined benefit liability	166,193		9,817	176,010	22	Retirement benefit liability
Provision for loss on business of subsidiaries and associates	1,249	(1,249)	–	–	10	
Other provisions	1,068	(1,068)	–	–	11	
	–	5,815	24	5,839	10	Provisions
Other	73,259	(5,299)	(51,748)	16,212	10, 11, 19, 21	Other non-current liabilities
Total non-current liabilities	478,031	–	168,390	646,421		Total non-current liabilities
Total liabilities	1,387,036	–	175,962	1,562,988		Total liabilities
Net assets						Equity
Capital stock	107,165	–	–	107,165		Share capital
Capital surplus	51,780	–	(1)	51,779	24, 26	Capital surplus
Retained earnings	186,170	–	(49,654)	136,516		Retained earnings
Treasury shares	(15,899)	–	–	(15,899)		Treasury shares
Accumulated other comprehensive income	(2,841)	533	2,925	617	22, 25, 26, 27	Other components of equity
Subscription rights to shares	533	(533)	–	–		
	–	–	(46,730)	280,178		Total equity attributable to owners of parent
Non-controlling interests	26,838	–	(976)	25,862	12, 29	Non-controlling interests
Total net assets	353,746	–	(47,706)	306,040		Total equity
Total liabilities and net assets	1,740,782	–	128,256	1,869,038		Total liabilities and equity

Notes on reconciliation of equity

(Reclassification)

Reclassifications consist mainly of the following:

(1) Reclassification of cash and deposits

Time deposits with maturities of more than three months, which were included in “Cash and deposits” under Japanese GAAP, are reclassified to “Other financial assets (current)” under IFRS.

(2) Reclassification of accounts receivable - other and accounts payable - other

Accounts receivable - other, which was included in “Other” in current assets under Japanese GAAP, is reclassified to “Trade and other receivables” under IFRS. Accounts payable - other, which was included in “Other” in current liabilities under Japanese GAAP, is reclassified to “Trade and other payables” under IFRS.

(3) Reclassification of allowance for doubtful accounts

“Allowance for doubtful accounts (current),” which was separately presented under Japanese GAAP, is reclassified to be presented on a net basis by directly deducting the item from “Trade and other receivables” and “Other financial assets (current)” under IFRS. Likewise, “Allowance for doubtful accounts (non-current)” is reclassified to be presented on a net basis by directly deducting the item from “Other non-current assets.”

(4) Reclassification of inventories

“Finished goods,” “Work in process” and “Raw materials and supplies,” which were separately presented under Japanese GAAP, are presented as “Inventories” under IFRS.

(5) Reclassification of contract assets and contract liabilities

Certain accounts receivable - trade, which were included in “Notes and accounts receivable - trade” under Japanese GAAP, are reclassified to “Contract assets” under IFRS. “Advances received,” which were separately presented under Japanese GAAP, are reclassified to “Contract liabilities” under IFRS.

(6) Reclassification of other financial assets

Short-term loans receivable and some other items, which were included in “Other” in current assets under Japanese GAAP, are reclassified to “Other financial assets (current)” under IFRS. Meanwhile, “Investment securities,” which were separately presented in non-current assets under Japanese GAAP, and long-term loans receivable and some other items, which were included in “Other” in non-current assets under Japanese GAAP, are reclassified to “Other financial assets (non-current)” under IFRS.

(7) Reclassification of investment property

In accordance with IFRS presentation rules, “Investment property” is reclassified from “Property, plant and equipment” and “intangible assets.”

(8) Reclassification of the recorded amount of investments accounted for using equity method

“Investments accounted for using equity method,” which was included in “Investment securities” under Japanese GAAP, is separately presented under IFRS.

(9) Reclassification of bonds and borrowings

“Short-term loans payable,” “Commercial papers” and “Current portion of bonds,” which were separately presented in current liabilities under Japanese GAAP, are reclassified to “Bonds and borrowings (current)” after deducting issuance costs under IFRS. Meanwhile, “Bonds payable” and “Long-term loans payable,” which were separately presented in non-current liabilities under Japanese GAAP, are reclassified to “Bonds and borrowings (non-current)” after deducting issuance costs under IFRS.

(10) Reclassification of provisions

“Provision for construction warranties” and “Provision for loss on construction contracts,” which were separately presented in current liabilities under Japanese GAAP, are presented as “Provisions (current)” under IFRS.

Meanwhile, “Provision for loss on business of subsidiaries and associates,” which was separately presented in non-current liabilities under Japanese GAAP, and asset retirement obligations, which were included in “Other” in non-current liabilities under Japanese GAAP, are reclassified to “Provisions (non-current)” under IFRS.

(11) Reclassification of other current liabilities and other non-current liabilities

“Provision for bonuses,” “Other provisions (current)” and “Accrued expenses,” which were separately presented in current liabilities under Japanese GAAP, are reclassified to “Other current liabilities” under IFRS.

Meanwhile, “Other provisions (non-current),” which were separately presented in non-current liabilities under Japanese GAAP, are reclassified to “Other non-current liabilities” under IFRS.

(Recognition and measurement differences)

Recognition and measurement differences consist mainly of the following:

(12) Review of the scope of consolidation

Certain insignificant subsidiaries were not included in the scope of consolidation and accounted for using the equity method under Japanese GAAP. However, these subsidiaries are included in the scope of consolidation under IFRS.

(13) Adjustments to revenue from contracts with customers

Major items to which the revenue recognition criteria are applied have been changed in a manner that complies with IFRS.

- Although revenue from certain sales of goods was previously recognized upon shipment under Japanese GAAP, it is now recognized upon delivery. As a result, adjustments were made to “Trade and other receivables” and “Inventories.”
- Under Japanese GAAP, the percentage of completion method was mainly applied to transactions based on certain forms of contract, such as construction contracts. However, under IFRS, for transactions where the control of goods or services is transferred to customers over a certain period of time, regardless of the legal form of the contract, revenue is recognized over time. Further, for certain long-term maintenance works for which revenue was recognized at the time of obtaining consideration for claims under contracts under Japanese GAAP, revenue is recognized when the performance obligations are satisfied under IFRS.
- Under Japanese GAAP, revenue related to works that were already inspected for acceptance by customers was fully recognized and work costs expected in the future were recoded as operating payables. Under IFRS, for construction works with remaining performance obligations, the corresponding revenue recognition is withheld and the transaction price corresponding to these performance obligations is principally recorded in “Contract liabilities.”
- Under Japanese GAAP, certain rebates and expenses for delayed delivery were presented in “Selling, general and administrative expenses” and “Non-operating expenses,” respectively. Under IFRS, they are presented by being deducted from “Revenue” as payments of consideration to customers. In addition, under IFRS, prepaid consideration to customers are recorded in “Other non-current assets,” and “Revenue” is reduced when the prepaid consideration is reversed.
- Regarding the revenue recognition of the engine programs in which IHI participates, although revenue was recorded based on sales notifications sent by our main partners in the month following the sale at the transition date under Japanese GAAP, the calculation method was changed in March 2020 to record revenue within the same month. On the other hand, under IFRS, revenue has been recorded within the month in which sales were carried out, since the transition date.

(14) Review of recoverability of deferred tax assets

Upon the adoption of IFRS, recoverability of all deferred tax assets has been reviewed.

(15) Adjustments to the recorded amounts of property, plant and equipment and intangible assets

IFRS does not allow the deduction of the amount of source of acquisition funds from the carrying amount of assets unless they are acquired using government grants. Therefore, the IHI Group cancelled the treatment to directly deduct the amount of source of acquisition funds from the carrying amount as allowed under Japanese GAAP in some cases.

In addition, under IFRS, the useful lives of certain intangible assets were reviewed.

(16) Recording of right-of-use assets and lease liabilities

Under Japanese GAAP, leases for which the IHI Group was a lessee were classified into finance and

operating leases, and operating leases were accounted for in the similar manner to ordinary rental transactions.

Under IFRS, however, leases for which the IHI Group is a lessee are not classified into finance and operating leases, but applied a single accounting model. Therefore, the IHI Group record “Right-of-use assets” and “Lease liabilities” for lease transactions.

(17) Adjustments to the recorded amount of goodwill and recognition of impairment losses

Goodwill, which was amortized over a certain period under Japanese GAAP, is not amortized under IFRS. The IHI Group ceased to amortize goodwill from the transition date.

Furthermore, under Japanese GAAP, the IHI Group conducted an impairment assessment for goodwill only when there was an indication of impairment. However, under IFRS, goodwill is tested for impairment in each fiscal year, mainly in the fourth quarter, irrespective of whether there is any indication of impairment.

As a result of an impairment test for groups of cash-generating units conducted based on the business plan as of the date of transition to IFRS, the IHI Group recognized an impairment loss of goodwill of ¥1,363 million for the Industrial Systems and General-Purpose Machinery.

The recoverable amount of goodwill was determined based on value in use by discounting the future cash flows at a discount rate of 18.5%.

(18) Development intangible assets

Under Japanese GAAP, development expenses were expensed as research and development expenses in “Selling, general and administrative expenses” as incurred, and some of the expenses related to the mass production of new products and new models were recorded as “Work in process.”

Under IFRS, only development expenses that satisfy requirements for capitalization under IFRS are recognized in “Intangible assets.”

(19) Government grants classified under contingent settlement provisions

Government grants that were accounted for as a reduction in research and development expenses or inventories at the time of receiving the grants under Japanese GAAP are recorded in “Other financial liabilities” as liabilities classified under contingent settlement provisions until their repayment .

(20) Adjustments to levies

Under Japanese GAAP, expenses were recognized for items qualified as levies such as property tax, in the fiscal year in which the taxes were paid. Under IFRS, they are recognized on the date when an obligation event occurs.

(21) Liabilities in respect of revenue-sharing arrangements

For the arrangements entered into with financial and other institutions in the Civil aero engines Business, under which funds are received to execute the business and repaid from future proceeds, the amount measured at amortized cost based on the amount of funds received is recorded in “Other financial liabilities.”

(22) Adjustments to retirement benefit liability

Under Japanese GAAP, actuarial gains and losses and past service cost were recognized in other comprehensive income as incurred and amortized on a straight-line basis over a certain number of years within the average remaining service period of employees, starting in the following fiscal year of the incurrence.

Under IFRS, actuarial gains and losses are recognized in other comprehensive income as incurred and immediately reclassified to retained earnings, and past service cost is recognized in profit or loss as incurred.

In addition, the IHI Group has partially reviewed the basis on which retirement benefit liability is determined.

(23) Accrued paid absences

Unused paid absences, which were not accounted for under Japanese GAAP, are recoded as liabilities in “Other current liabilities” under IFRS.

(24) Share-based payments

Under IHI’s performance-based share remuneration plan, provisions were recorded at an estimate of amount necessary to be transferred to directors and executive officers under Japanese GAAP. Under IFRS, the expense is recognized based on the fair value, and the corresponding amount is recognized as an increase in

equity for the equity-settled share-based payment and as an increase in liability for the cash-settled share-based payment.

(25) Reclassification of cumulative exchange differences on translation of foreign operations

Upon the first-time adoption of IFRS, the IHI Group elected to apply exemptions provided under IFRS 1 and reclassified all cumulative exchange differences on translation of foreign subsidiaries as of the transition date to retained earnings.

(26) Reclassification of revaluation reserve for land

Under Japanese GAAP, the IHI Group revalued certain land used for business in accordance with the “Act on Revaluation of Land” (Act No. 34 promulgated on March 31, 1998). However, under IFRS, the IHI Group reversed the revaluation reserve for land, “Deferred tax liabilities for land revaluation” and “Capital surplus” and reverted the carrying amount of the land to the carrying amount before the revaluation.

(27) Adjustments to equity instruments

Under Japanese GAAP, gain or loss on sale of equity instruments and impairment loss on such instruments were recognized in profit or loss. Under IFRS, for equity instruments designated as measured at fair value through other comprehensive income, changes in the fair value are recognized in other comprehensive income and reclassified to retained earnings when they are derecognized and when the fair value decreases significantly.

(28) Accounting for residual interest upon the partial transfer of equity interest

For investments in an associate over which IHI lost control due to the partial transfer of its equity interest in the associate in the fiscal year ended March 31, 2020, the residual interest was not remeasured under Japanese GAAP. However, under IFRS, the residual interest is measured at the fair value at the transfer date, and the difference between the fair value and the carrying amount is recognized in profit or loss.

(29) Obligations to purchase non-controlling interests under forward contracts with non-controlling shareholders

With regard to certain non-controlling interests in subsidiaries, if the IHI Group’s obligations to purchase these non-controlling interests at the request of non-controlling shareholders under certain conditions have been set forth, under IFRS, such non-controlling interests are recognized in financial liabilities, and non-controlling interests are decreased.

(30) Adjustment to retained earnings

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020
(12) Review of the scope of consolidation	(249)	(285)
(13) Adjustments to revenue from contracts with customers	52,073	38,871
(14) Review of recoverability of deferred tax assets	(36,975)	(33,223)
(15) Adjustments to the recorded amounts of property, plant and equipment and intangible assets	36,499	35,972
(16) Recording of right-of-use assets and lease liabilities	(4,370)	(3,542)
(17) Adjustments to the recorded amount of goodwill and recognition of impairment losses	(1,363)	(2,122)
(18) Development intangible assets	(3,308)	(2,338)
(19) Government grants classified under contingent settlement provisions	(32,944)	(34,030)
(20) Adjustments to levies	(4,808)	(4,807)
(21) Liabilities in respect of revenue-sharing arrangements	(7,455)	(6,491)
(22) Adjustments to retirement benefit liability	(17,342)	(15,443)
(23) Accrued paid absences	(16,247)	(17,777)
(24) Share-based payments	77	199
(25) Reclassification of cumulative exchange differences on translation of foreign subsidiaries	2,808	2,808
(26) Reclassification of revaluation reserve for land	(1,109)	(1,109)
(27) Adjustments to equity instruments	(5,588)	(1,733)
(28) Accounting for residual interest upon the partial transfer of equity interest	–	(1,633)
(29) Obligations to purchase non-controlling interests under forward contracts with non-controlling shareholders	–	12
Other	(2,410)	(2,983)
Total	(42,711)	(49,654)

Note: “(14) Review of recoverability of deferred tax assets” includes the impact of tax effects related to other items. “Other” includes the impact of non-controlling interests related to other items.

Reconciliations of profit or loss and comprehensive income for the fiscal year ended March 31, 2020

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
Net sales	1,386,503	–	(123,325)	1,263,178	3	Revenue
Cost of sales	1,131,775	–	(101,190)	1,030,585	3, 7	Cost of sales
Gross profit	254,728	–	(22,135)	232,593		Gross profit
Selling, general and administrative expenses	193,931	–	(5,827)	188,104	3, 4, 7	Selling, general and administrative expenses
	–	16,228	(736)	15,492	1, 6	Other income
	–	14,571	(2,449)	12,122	1, 3, 4	Other expenses
Operating profit	60,797	1,657	(14,595)	47,859		Operating profit
Non-operating income	6,545	(6,545)	–	–	1	
Non-operating expenses	35,091	(33,430)	(1,661)	–	1, 3, 5	
Extraordinary income	11,790	(11,554)	(236)	–	1, 5	
Extraordinary losses	5,262	(479)	(4,783)	–	1, 5	
	–	1,871	194	2,065	1, 5	Finance income
	–	6,347	2,092	8,439	1, 5	Finance costs
	–	(12,991)	(688)	(12,303)	1	Share of profit (loss) of investments accounted for using equity method
Profit before income taxes	38,779	–	(9,597)	29,182		Profit before tax
Income taxes – current	14,970	5,759	(4,798)	15,931	2, 8	Income tax expense
Income taxes – deferred	5,759	(5,759)	–	–	2	
Profit	18,050	–	(4,799)	13,251		Profit
Profit attributable to non-controlling interests	5,238	–	(191)	5,047		Profit attributable to non-controlling interests
Profit attributable to owners of parent	12,812	–	(4,608)	8,204		Profit attributable to owners of parent

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
Other comprehensive income						Other comprehensive income
Valuation difference on available-for-sale securities	(1,741)	–	(1,767)	(3,508)	5	Items that will not be reclassified to profit or loss Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans, net of tax	(2,031)	–	1,861	(170)	7	Remeasurements of defined benefit plans
	–	178	(44)	134		Share of other comprehensive income of investments accounted for using equity method
				(3,544)		Total of items that will not be reclassified to profit or loss
Foreign currency translation adjustment	(6,183)	–	96	(6,087)		Items that may be reclassified to profit or loss Exchange differences on translation of foreign operations
Deferred gains or losses on hedges	(75)	–	–	(75)		Cash flow hedges
Share of other comprehensive income of entities accounted for using equity method	590	(178)	(436)	(24)		Share of other comprehensive income of investments accounted for using equity method
				(6,186)		Total of items that may be reclassified to profit or loss
Total other comprehensive income	(9,440)	–	(290)	(9,730)		Other comprehensive income, net of tax
Comprehensive income	8,610	–	(5,089)	3,521		Comprehensive income

Notes on reconciliations of profit or loss and comprehensive income

(Reclassification)

Reclassifications consist mainly of the following:

(1) Adjustments to line items

For items presented as “Non-operating income,” “Non-operating expenses,” “Extraordinary income” and “Extraordinary losses” under Japanese GAAP, finance-related profits or losses are recorded as “Finance income” and “Finance costs,” and other items are presented as “Other income,” “Other expenses” and “Share of profit (loss) of investments accounted for using equity method” under IFRS.

(2) Income tax expense

“Income taxes - current” and “Income taxes - deferred,” which were separately presented under Japanese GAAP, are presented in total as “Income tax expense” under IFRS.

(Recognition and measurement differences)

Recognition and measurement differences consist mainly of the following:

(3) Adjustments to revenue from contracts with customers

Major items to which the revenue recognition criteria are applied have been changed in a manner that complies with IFRS.

- Although revenue from certain sales of goods was previously recognized upon shipment under Japanese GAAP, it is now recognized upon delivery. As a result, adjustments were made to “Trade and other receivables” and “Inventories.”
- Under Japanese GAAP, the percentage of completion method was mainly applied to transactions based on certain forms of contract, such as construction contracts. However, under IFRS, for transactions where the control of goods or services is transferred to customers over a certain period of time, regardless of the legal form of the contract, revenue is recognized over time. Further, for certain long-term maintenance works for which revenue was recognized at the time of obtaining consideration for claims under contracts under Japanese GAAP, revenue is recognized when the performance obligations are satisfied under IFRS.
- Under Japanese GAAP, revenue related to works that were already inspected for acceptance by customers was fully recognized and work costs expected in the future were recorded as operating payables. Under IFRS, for construction works with remaining performance obligations, the corresponding revenue recognition is withheld and the transaction price corresponding to these performance obligations is principally recorded in “Contract liabilities.”
- Under Japanese GAAP, certain rebates and expenses for delayed delivery were presented in “Selling, general and administrative expenses” and “Non-operating expenses,” respectively. Under IFRS, they are presented by being deducted from “Revenue” as payments of consideration to customers. In addition, under IFRS, prepaid consideration to customers are recorded in “Other non-current assets,” and “Revenue” is reduced when the prepaid consideration is reversed.
- Regarding the revenue recognition of the engine programs in which IHI participates, although revenue was recorded based on sales notifications sent by the IHI Group’s main partners in the month following the sale at the transition date under Japanese GAAP, the calculation method was changed in March 2020 to record revenue within the same month. On the other hand, under IFRS, revenue has been recorded within the month in which sales were carried out, since the transition date. Accordingly, for the fiscal year ended March 31, 2020, revenue for 13 months was recorded under Japanese GAAP whereas revenue for 12 months was recorded under IFRS.

(4) Adjustments to the recorded amount of goodwill and recognition of impairment losses

Goodwill, which was amortized over a certain period under Japanese GAAP, is not amortized under IFRS. The IHI Group ceased to amortize goodwill from the transition date.

Furthermore, under Japanese GAAP, the IHI Group conducted an impairment assessment for goodwill only when there was an indication of impairment. However, under IFRS, goodwill is tested for impairment in each fiscal year, mainly in the fourth quarter, irrespective of whether there is any indication of impairment.

(5) Adjustments to equity instruments

Under Japanese GAAP, gain or loss on sale of equity instruments and impairment loss on such instruments were recognized in profit or loss. Under IFRS, for equity instruments designated as measured at fair value

through other comprehensive income, changes in the fair value are recognized in other comprehensive income and reclassified to retained earnings when they are derecognized and when the fair value decreases significantly.

(6) Accounting for residual interest upon the partial transfer of equity interest

For investments in an associate over which IHI lost control due to the partial transfer of its equity interest in the associate in the fiscal year ended March 31, 2020, the residual interest was not remeasured under Japanese GAAP. However, under IFRS, the residual interest is measured at the fair value, and the difference between the fair value and the carrying amount is recognized in profit or loss.

(7) Accounting for retirement benefit liability

Under Japanese GAAP, actuarial gains and losses and past service cost were recognized in other comprehensive income as incurred and amortized on a straight-line basis over a certain number of years within the average remaining service period of employees, starting in the following fiscal year of the incurrence.

Under IFRS, actuarial gains and losses are recognized in other comprehensive income as incurred and immediately reclassified to retained earnings, and past service cost is recognized in profit or loss as incurred.

In addition, the IHI Group has partially reviewed the basis on which retirement benefit liability is determined.

(8) Review of recoverability of deferred tax assets

Upon the adoption of IFRS, recoverability of all deferred tax assets has been reviewed.

Notes on reconciliation of cash flows

The consolidated statement of cash flows for the fiscal year ended March 31, 2020 under IFRS changed compared to those under Japanese GAAP are as follows: net cash provided by operating activities increased by ¥27,974 million, net cash used in investing activities increased by ¥9,676 million and net cash used in financing activities decreased by ¥18,372 million.

Major differences are as follows:

- Expenditures related to development expenses that satisfy requirements for capitalization under IFRS, which were previously included in cash flows from operating activities, are included in cash flows from investing activities.
- Lease payments paid under operating lease transactions, which were previously included in cash flows from operating activities under Japanese GAAP, are included in cash flows from financing activities as “Repayments of lease liabilities.”
- Receipts and payments in connection with government grants classified under contingent settlement provisions, which were previously included in either cash flows from operating activities or cash flows from investing activities, are included in cash flows from financing activities.