

**CONSOLIDATED FINANCIAL REPORT
 FOR THE THREE MONTHS ENDED JUNE 30, 2019
 <Japanese GAAP>**

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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Submission of Quarterly Securities Report: August 13, 2019 (planned)
 Commencement of Dividend Payments: -
 Preparing supplementary material on quarterly financial results: Yes
 Holding quarterly financial results presentation meeting: Yes (for institutional investors, analysts and the media)

This consolidated financial report has been prepared in accordance with Japanese accounting standards and Japanese law. Figures are in Japanese yen rounded to the nearest millions.

**1. CONSOLIDATED PERFORMANCE FOR THE THREE MONTHS ENDED JUNE 30, 2019
 (APRIL 1, 2019 to JUNE 30, 2019)**

(1) Consolidated Business Results

(Millions of yen, except per share figures; percentages show the rate of increase or decrease from the previous corresponding period)

	Net Sales	Percentage Change	Operating Profit	Percentage Change	Ordinary Profit	Percentage Change
Three months ended June 30, 2019	281,164	(16.6)%	957	(92.5)%	(685)	—
Three months ended June 30, 2018	337,156	(16.2)%	12,743	(50.0)%	16,739	(23.3)%

	Profit Attributable to Owners of Parent	Percentage Change	Basic Earnings per Share (Yen)	Diluted Earnings per Share (Yen)
Three months ended June 30, 2019	(2,763)	—	(17.91)	—
Three months ended June 30, 2018	6,142	(47.6)%	39.80	39.77

(Note) Comprehensive income
 Three months ended June 30, 2019: ¥(5,559) million —%
 Three months ended June 30, 2018: ¥7,260 million (50.2)%

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity to Total Assets
As of June 30, 2019	1,645,274	369,081	20.4%
As of March 31, 2019	1,664,529	381,692	21.0%

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

As of June 30, 2019: ¥335,042 million

As of March 31, 2019: ¥349,180 million

2. DIVIDENDS

(Yen)

(Record Date)	Dividends per Share				
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	Year-end	Annual
Fiscal year ended March 31, 2019	—	30.00	—	40.00	70.00
Fiscal year ending March 31, 2020	—	—	—	—	—
Fiscal year ending March 31, 2020 (Forecast)	—	30.00	—	40.00	70.00

(Note) Revisions to the dividend forecasts most recently announced: No

3. CONSOLIDATED FORECASTS OF RESULTS FOR THE YEAR ENDING MARCH 31, 2020

(Millions of yen, except per share figures; percentages show the rate of increase or decrease from the previous corresponding period)

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of Parent		Basic Earnings per Share (Yen)
Full-year	1,400,000	(5.6)%	80,000	(3.0)%	58,000	(11.8)%	35,000	(12.3)%	226.84

(Note) Revisions to the forecasts of results most recently announced: No

* NOTES

- (1) **Changes in significant subsidiaries during the three months under review**
(Changes in specified subsidiaries accompanying changes in scope of consolidation): Not applicable
- (2) **Application of special accounting for preparing quarterly consolidated financial statements:** Yes
(Note) For details, please refer to “(2) APPLICATION OF SPECIAL ACCOUNTING FOR PREPARING QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS” of “2. MATTERS REGARDING SUMMARY INFORMATION (NOTES)” on page 6.
- (3) **Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections**
- (i) Changes in accounting policies due to revisions to accounting standards: Yes
 - (ii) Changes in accounting policies due to other reasons: Not applicable
 - (iii) Changes in accounting estimates: Not applicable
 - (iv) Restatement of prior period financial statements after error corrections: Not applicable
- (Note) For details, please refer to “(3) CHANGES IN ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES, AND RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS AFTER ERROR CORRECTIONS” of “2. MATTERS REGARDING SUMMARY INFORMATION (NOTES)” on page 6.
- (4) **Number of shares issued (Common stock):**
- (i) Number of shares issued at the end of the period (including treasury shares)

As of June 30, 2019	154,679,954 shares
As of March 31, 2019	154,679,954 shares
 - (ii) Number of treasury shares owned at the end of the period

As of June 30, 2019	381,936 shares
As of March 31, 2019	388,346 shares
 - (iii) Average number of shares outstanding during the period (cumulative quarterly period)

Three months ended June 30, 2019	154,293,961 shares
Three months ended June 30, 2018	154,336,252 shares

* The number of treasury shares excluded from the calculation of the “number of treasury shares owned at the end of the period,” and “average number of shares outstanding during the period,” includes shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

* Quarterly financial reports are not required to be subjected to quarterly reviews.

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

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. For preconditions for forecast of results, please refer to “(3) EXPLANATION REGARDING FUTURE PREDICTION INFORMATION SUCH AS CONSOLIDATED FORECASTS OF RESULTS” of “1. QUALITATIVE INFORMATION REGARDING CONSOLIDATED RESULTS” on page 5.

1. QUALITATIVE INFORMATION REGARDING CONSOLIDATED RESULTS

(1) EXPLANATION REGARDING BUSINESS RESULTS

Summary of consolidated performance for the three months ended June 30, 2019

During the three months under review, the Japanese economy remained stable supported by moderate increases in capital investment, robust corporate performance and improvements in situation of employment and income. In the global economy, business conditions in China and Europe are in a slowdown trend, while overall moderate growth continued bolstered by steady growth in the U.S. In addition, in the political side, the unstable situation remained from problems including the trade friction between U.S. and China and the issue of U.K. regarding leaving EU.

Under this business environment, orders received of the IHI Group during the three months under review decreased 9.0% from the previous corresponding period to ¥220.0 billion. Net sales decreased 16.6% from the previous corresponding period to ¥281.1 billion.

In terms of profit, operating profit decreased ¥11.7 billion to ¥0.9 billion due mainly to a temporary downturn of sales in the Civil aero engines Business caused by making its inspection process stricter and to the additional program costs in this business, in addition to the deterioration of profitability for some projects received in the Boilers Business and the Power systems Business and decreased numbers of delivery in Europe and China in the Vehicular turbochargers Business. Ordinary profit decreased ¥17.4 billion to a loss of ¥0.6 billion due to the increase in share of loss of entities accounted for using equity method and the increase in foreign exchange losses. Profit attributable to owners of parent decreased ¥8.9 billion to a loss of ¥2.7 billion.

Results by reportable segment for the three months under review are as follows:

Reportable segment	Orders received			Three months ended June 30, 2018		Three months ended June 30, 2019		Change from the previous corresponding period (%)	
	Three months ended June 30, 2018	Three months ended June 30, 2019	Change from the previous corresponding period (%)	Sales	Operating profit (loss)	Sales	Operating profit (loss)	Sales	Operating profit (loss)
	(Billions of yen)								
Resources, Energy and Environment	55.5	47.2	(15.0)	84.3	(0.1)	64.8	(5.7)	(23.1)	–
Social Infrastructure and Offshore Facility	26.5	34.0	28.3	28.5	0.7	32.8	2.5	14.9	221.7
Industrial System and General-Purpose Machinery	115.3	116.0	0.7	104.8	4.0	86.7	0.2	(17.3)	(93.6)
Aero Engine, Space and Defense	38.6	13.5	(65.1)	117.5	9.0	90.2	5.4	(23.2)	(40.5)
Total Reportable Segment	236.0	210.8	(10.7)	335.2	13.7	274.7	2.4	(18.1)	(81.8)
Others	16.1	19.5	21.4	13.5	(0.3)	15.3	0.1	14.0	–
Adjustment	(10.4)	(10.3)	–	(11.6)	(0.6)	(8.9)	(1.7)	–	–
Total	241.6	220.0	(9.0)	337.1	12.7	281.1	0.9	(16.6)	(92.5)

(2) EXPLANATION REGARDING CONSOLIDATED FINANCIAL POSITION

Assets and liabilities, and net assets

Total assets at the end of the first quarter under review were ¥1,645.2 billion, down ¥19.2 billion compared with the end of the previous fiscal year. The items with the most significant decreases were notes and accounts receivable - trade, down ¥42.6 billion and cash and deposits, down ¥27.7 billion. The item with the most significant increase was inventories including work in process, up ¥43.3 billion.

Total liabilities were ¥1,276.1 billion, down ¥6.6 billion compared with the end of the previous fiscal year. The items with the most significant decreases were provision for bonuses, down ¥12.8 billion and notes and accounts payable - trade, down ¥11.1 billion. The balance on interest-bearing liabilities, including lease obligations, was ¥382.6 billion, up ¥27.5 billion from the end of the previous fiscal year.

Net assets were ¥369.0 billion, down ¥12.6 billion compared with the end of the previous fiscal year. This

decrease of ¥12.6 billion was composed of loss attributable to owners of parent of ¥2.7 billion and a decrease by dividends of surplus of ¥6.1 billion.

As a result of the above, the ratio of equity to total assets fell from 21.0% at the end of the previous fiscal year to 20.4%.

(3) EXPLANATION REGARDING FUTURE PREDICTION INFORMATION SUCH AS CONSOLIDATED FORECASTS OF RESULTS

In the global economy going forward, it seems likely that the tone of moderate expansion will continue, centered on steady economic growth in the U.S. However, as global economic downward risks mainly in China are increasing from intensification of trade friction, plenty of awareness needs to be paid regarding outlook. Also, attention is continuously required to factors including heightened geopolitical risks at the global level.

In the business environment surrounding the IHI Group, as social issues such as climate change on a global scale, large-scale natural disasters, global population increase, and resource depletion become increasingly severe, efforts to realize a sustainable society are accelerating with a long-term outlook. In response to these changes in the environment and social issues, the IHI Group, based on its “Group Management Policies 2019” with fiscal year 2019 as the first year, aims for significant reform from its situation where business and products have been centered on supplying hardware to a direction in which it creates new value by directly tackling the issues faced by society and its customers in order to contribute to realizing a sustainable society in the future.

The IHI Group’s consolidated forecasts of results for the full fiscal year ending March 31, 2020 remain unchanged from previous forecasts announced on May 8, 2019.

Note that foreign exchange rates of ¥105/US\$1 and ¥130/EUR1 have been assumed in the above forecasts in and after the second quarter ending September 30, 2019.

Also concerning dividends, no changes have been made to the previous forecasts.

2. MATTERS REGARDING SUMMARY INFORMATION (NOTES)

(1) CHANGES IN SIGNIFICANT SUBSIDIARIES DURING THE THREE MONTHS UNDER REVIEW

Not applicable

(2) APPLICATION OF SPECIAL ACCOUNTING FOR PREPARING QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

Tax expense calculation

Tax expenses on profit before income taxes for the three months under review are calculated by multiplying profit before income taxes for the three months under review by the reasonably estimated effective tax rate for the fiscal year including the first quarter under review after applying tax effect accounting. Should the estimated effective tax rate be unavailable, however, tax expenses are calculated using the statutory tax rate for profit before income taxes for the three months under review.

The deferred income taxes amount is shown inclusive of income taxes.

(3) CHANGES IN ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES, AND RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS AFTER ERROR CORRECTIONS

Changes in accounting policies

Application of Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements, etc.

IHI has applied the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements” (ASBJ Practical Issues Task Force No. 18, September 14, 2018) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using Equity Method” (ASBJ Practical Issues Task Force No. 24, September 14, 2018) effective from the beginning of the first quarter under review.

The resulting effect on quarterly consolidated financial statements for the three months under review is nothing.

3. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	94,951	67,164
Notes and accounts receivable - trade	377,695	335,000
Finished goods	23,084	23,644
Work in process	276,238	321,634
Raw materials and supplies	142,588	140,029
Other	77,351	87,212
Allowance for doubtful accounts	(4,043)	(3,890)
Total current assets	987,864	970,793
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	137,156	135,824
Other, net	230,238	233,148
Total property, plant and equipment	367,394	368,972
Intangible assets		
Goodwill	10,032	9,262
Other	24,052	23,194
Total intangible assets	34,084	32,456
Investments and other assets		
Investment securities	117,967	113,718
Other	158,596	160,669
Allowance for doubtful accounts	(1,376)	(1,334)
Total investments and other assets	275,187	273,053
Total non-current assets	676,665	674,481
Total assets	1,664,529	1,645,274

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	290,043	278,894
Short-term loans payable	111,785	120,538
Commercial papers	–	30,000
Current portion of bonds	20,000	20,000
Income taxes payable	7,384	3,472
Advances received	157,546	160,977
Provision for bonuses	28,089	15,223
Provision for construction warranties	47,968	45,687
Provision for loss on construction contracts	21,212	22,090
Other provision	1,079	713
Other	138,003	130,738
Total current liabilities	823,109	828,332
Non-current liabilities		
Bonds payable	30,000	20,000
Long-term loans payable	175,813	172,078
Net defined benefit liability	160,244	160,722
Provision for loss on business of subsidiaries and affiliates	1,212	1,212
Other provision	1,132	886
Other	91,327	92,963
Total non-current liabilities	459,728	447,861
Total liabilities	1,282,837	1,276,193
Net assets		
Shareholders' equity		
Capital stock	107,165	107,165
Capital surplus	53,410	51,778
Retained earnings	184,092	175,104
Treasury shares	(1,170)	(1,157)
Total shareholders' equity	343,497	332,890
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,063	33
Deferred gains or losses on hedges	(190)	(485)
Revaluation reserve for land	5,321	5,321
Foreign currency translation adjustment	2,808	365
Remeasurements of defined benefit plans	(3,319)	(3,082)
Total accumulated other comprehensive income	5,683	2,152
Subscription rights to shares	659	644
Non-controlling interests	31,853	33,395
Total net assets	381,692	369,081
Total liabilities and net assets	1,664,529	1,645,274

(2) CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**CONSOLIDATED STATEMENTS OF INCOME (Cumulative)**

(Millions of yen)

	April 1, 2018 to June 30, 2018	April 1, 2019 to June 30, 2019
Net sales	337,156	281,164
Cost of sales	278,562	236,219
Gross profit	58,594	44,945
Selling, general and administrative expenses	45,851	43,988
Operating profit	12,743	957
Non-operating income		
Interest income	269	173
Dividend income	420	481
Share of profit of entities accounted for using equity method	3,883	–
Foreign exchange gains	1,616	–
Gain on reversal of accrued expenses for delayed delivery	–	435
Other income	883	1,005
Total non-operating income	7,071	2,094
Non-operating expenses		
Interest expenses	715	909
Share of loss of entities accounted for using equity method	–	682
Foreign exchange losses	–	1,160
Disposal expenses on non-current assets	781	24
Other expenses	1,579	961
Total non-operating expenses	3,075	3,736
Ordinary profit (loss)	16,739	(685)
Profit (loss) before income taxes	16,739	(685)
Income taxes	5,060	686
Income taxes for prior periods	4,304	–
Profit (loss)	7,375	(1,371)
Profit attributable to non-controlling interests	1,233	1,392
Profit (loss) attributable to owners of parent	6,142	(2,763)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Cumulative)

(Millions of yen)

	April 1, 2018 to June 30, 2018	April 1, 2019 to June 30, 2019
Profit (loss)	7,375	(1,371)
Other comprehensive income		
Valuation difference on available-for-sale securities	(149)	(1,007)
Deferred gains or losses on hedges	(76)	(160)
Revaluation reserve for land	(12)	–
Foreign currency translation adjustment	(192)	(3,196)
Remeasurements of defined benefit plans, net of tax	181	240
Share of other comprehensive income of entities accounted for using equity method	133	(65)
Total other comprehensive income	(115)	(4,188)
Comprehensive income	7,260	(5,559)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,074	(6,211)
Comprehensive income attributable to non-controlling interests	1,186	652

(3) NOTES TO THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

NOTES ON THE PREMISE OF GOING CONCERN

Not applicable

NOTES WHEN THERE IS SIGNIFICANT CHANGES IN AMOUNTS OF EQUITY

Not applicable

SEGMENT INFORMATION

Segment information

I Three months ended June 30, 2018

1. Information about sales and profit or loss by reportable segment

(Millions of yen)

	Reportable Segment					Total	Others (Note 1)	Consolidated	Adjustment (Note 2)	Amount on the consolidated statements of income
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General-Purpose Machinery	Aero Engine, Space and Defense						
Sales:										
(1) Sales to outside customers	82,270	26,670	102,698	116,919	328,557	8,599	337,156	–	337,156	
(2) Intersegment sales and transfers	2,098	1,905	2,145	589	6,737	4,906	11,643	(11,643)	–	
Total	84,368	28,575	104,843	117,508	335,294	13,505	348,799	(11,643)	337,156	
Segment profit (loss)	(161)	799	4,010	9,074	13,722	(347)	13,375	(632)	12,743	
(Operating profit (loss))										

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. Adjustment of segment profit represents intersegment transactions of negative ¥236 million and unallocated corporate expenses of negative ¥396 million.

Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.

2. Information about impairment loss of non-current assets, goodwill and gain on bargain purchase by reportable segment

Material impairment loss of non-current assets

Not applicable

Material change in goodwill amount

Not applicable

Material gain on bargain purchase

Not applicable

II Three months ended June 30, 2019

1. Information about sales and profit or loss by reportable segment

(Millions of yen)

	Reportable Segment					Others (Note 1)	Consolidated	Adjustment (Note 2)	Amount on the consolidated statements of income
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General-Purpose Machinery	Aero Engine, Space and Defense	Total				
Sales:									
(1) Sales to outside customers	64,524	30,804	84,581	89,917	269,826	11,338	281,164	–	281,164
(2) Intersegment sales and transfers	326	2,036	2,166	359	4,887	4,054	8,941	(8,941)	–
Total	64,850	32,840	86,747	90,276	274,713	15,392	290,105	(8,941)	281,164
Segment profit (loss)	(5,734)	2,570	256	5,403	2,495	193	2,688	(1,731)	957
(Operating profit (loss))									

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. Adjustment of segment profit represents intersegment transactions of negative ¥100 million and unallocated corporate expenses of negative ¥1,631 million.

Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.

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

Reportable segment	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 power (components for nuclear power plants)
Social Infrastructure and Offshore Facility	Bridges/water gates, transport systems, shield systems, concrete construction materials, urban development (real estate sales and rental)
Industrial System and General-Purpose Machinery	Vehicular turbochargers, parking, rotating machineries (compressors, separation systems, turbochargers for ships), thermal and surface treatment, transport machineries, logistics/industrial systems (logistics systems, industrial machineries), agricultural machineries, paper-making machineries
Aero Engine, Space and Defense	Aero engines, rocket systems/space utilization systems, defense systems

2. Information about impairment loss of non-current assets, goodwill and gain on bargain purchase by reportable segment

Material impairment loss of non-current assets

Not applicable

Material change in goodwill amount

Not applicable

Material gain on bargain purchase

Not applicable

SIGNIFICANT SUBSEQUENT EVENTS

Not applicable