

(Translation purposes only)

Quarterly Securities Report

(The Third Quarter of 203rd Term)

From April 1, 2019 to December 31, 2019

IHI Corporation

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Cover page

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Filing date	February 13, 2020
Quarterly accounting period	The First Quarter of 203rd term (from April 1, 2019 to December 31, 2019)
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Company name in English	IHI Corporation
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Part 1. Company information

I. Overview of company

1. Summary of business results

Term	202nd term Nine months ended December 31, 2018	203rd term Nine months ended December 31, 2019	202nd term
Accounting period	From April 1, 2018 To December 31, 2018	From April 1, 2019 To December 31, 2019	From April 1, 2018 To March 31, 2019
Net sales (Millions of yen)	1,047,235	922,036	1,483,442
Ordinary profit (loss) (Millions of yen)	57,573	8,651	65,749
Profit (loss) attributable to owners of parent (Millions of yen)	34,175	(1,755)	39,889
Comprehensive income (Millions of yen)	35,239	999	39,597
Net assets (Millions of yen)	376,495	354,865	381,692
Total assets (Millions of yen)	1,717,173	1,703,052	1,664,529
Basic earnings (loss) per share (Yen)	221.49	(11.45)	258.53
Diluted earnings per share (Yen)	221.34	—	258.37
Shareholders' equity ratio (%)	20.17	18.75	20.98

Term	202nd term Third quarter of the fiscal year ended March 31, 2019	203rd term Third quarter of the fiscal year ending March 31, 2020
Accounting period	From October 1, 2018 To December 31, 2018	From October 1, 2019 To December 31, 2019
Basic earnings (loss) per share (Yen)	37.25	20.58

- Notes:
1. Summary of business results of the reporting company are not presented, because IHI prepares quarterly consolidated financial statements.
 2. Net sales do not include consumption taxes.
 3. Diluted earnings per share for the Nine months ended December 31, 2019 of the 203th term is not presented even though IHI has issued potential shares, because the per share data is a net loss per share.
 4. Monetary amounts and ratios less than one unit are rounded off.

(Translation purposes only)

2. Description of business

IHI and its affiliated entities (155 consolidated subsidiaries, a non-consolidated subsidiary accounted for equity method and 26 affiliates accounted for using equity method as of December 31, 2019) operate four main businesses, providing a diverse range of products. The four businesses are: Resources, Energy and Environment; Social Infrastructure and Offshore Facility; Industrial System and General-Purpose Machinery; and Aero Engine, Space and Defense.

In the nine months ended December 31, 2019, there were no significant changes in the contents of the businesses operated by the IHI Group (IHI and its affiliated entities). Changes in principle affiliated companies are as follows.

(Resources, Energy and Environment)

From the first quarter of the fiscal year ending March 31, 2020, IHI SOLID BIOMASS MALAYSIA SDN.BHD. is included in the scope of consolidation because its materiality within the IHI Group has increased, while IHI Plant Engineering Corporation was absorbed into IHI Plant Services Corporation (formerly IHI Plant Construction Co.,Ltd.) From the second quarter of the fiscal year ending March 31, 2020, Diesel United, Ltd. was absorbed into IHI Power Systems Co.,Ltd. (formerly Niigata Power Systems Co., Ltd.)

From the third quarter of the fiscal year ending March 31, 2020, one subsidiary of JURONG ENGINEERING LIMITED was established and is newly included in the scope of consolidation, while IHI Enviro Corporation was absorbed into IHI Corporation.

(Social Infrastructure and Offshore Facility)

From the second quarter of the fiscal year ending March 31, 2020, one subsidiary of Terratec Limited was established and is newly included in the scope of consolidation because its materiality within the IHI Group has increased.

(Others)

From the third quarter of the fiscal year ending March 31, 2020, IHI Americas Inc. and IHI (CANADA) LTD. are newly included in the scope of consolidation because their materiality within the IHI Group have increased.

(Translation purposes only)

II. Overview of business

1. Business risks

There were no new occurrences of business risks in the nine months ended December 31, 2019.

There were no significant changes with respect to the business risks stated in the Annual Securities Report for the previous fiscal year. Regarding the impact of the spread of new pneumonia infection occurred in December, 2019 on the business, the IHI Group will closely monitor developments.

2. Management's Analysis of financial position, operating results and cash flows

Matters regarding the future stated in this document are based on the judgments as of December 31, 2019.

(1) Overview of business results

During the nine months ended December 31, 2019, in the Japanese economy, weakness was observed mainly in export-related industry while the overall economy remained stable supported by moderate increases in capital investment 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 recovery continued mainly in the U.S. In the political side, the unstable situation remained from problems including the trade friction between the U.S. and China and tensions in the Middle East in addition, studies and measures for climate change issues were further accelerated.

Under this business environment, orders received of the IHI Group during the nine months ended December 31, 2019 decreased 6.2% from the previous corresponding period to ¥876.7 billion. Net sales decreased 12.0% from the previous corresponding period to ¥922.0 billion.

In terms of profit, operating profit decreased ¥29.4 billion to ¥27.2 billion due mainly to a 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 downturn of sales in the Boilers Business and decreased numbers of delivery in Europe in the Vehicular turbochargers Business. Ordinary profit decreased ¥48.9 billion to ¥8.6 billion due mainly to the increase in share of loss of entities accounted for using equity method caused by downturn in the operating performance of IHI's affiliate Japan Marine United Corporation. Profit attributable to owners of parent decreased ¥35.9 billion to a loss of ¥1.7 billion.

Results by reportable segment for the nine months ended December 31, 2019 are as follows:

(Billions of yen)

Reportable segment	Orders received			Nine months ended December 31, 2018		Nine months ended December 31, 2019		Change from the previous corresponding period (%)	
	Nine months ended December 31, 2018	Nine months ended December 31, 2019	Change from the previous corresponding period (%)	Sales	Operating Profit (loss)	Sales	Operating Profit (loss)	Sales	Operating Profit (loss)
Resources, Energy and Environment	216.7	243.7	12.4	271.6	4.0	222.4	(1.7)	(18.1)	—
Social Infrastructure and Offshore Facility	83.2	103.4	24.3	94.9	7.6	102.7	8.0	8.2	4.8
Industrial System and General-Purpose Machinery	351.2	328.6	(6.4)	314.1	13.2	288.2	5.1	(8.2)	(61.1)
Aero Engine, Space and Defense	254.9	185.3	(27.3)	349.3	35.8	294.6	20.4	(15.7)	(43.0)
Total Reportable Segment	906.1	861.1	(5.0)	1,030.0	60.8	908.1	31.8	(11.8)	(47.6)
Others	61.6	49.2	(20.1)	47.1	1.1	44.9	1.5	(4.8)	39.0
Adjustment	(33.3)	(33.7)	—	(29.9)	(5.2)	(31.0)	(6.1)	—	—
Total	934.5	876.7	(6.2)	1,047.2	56.6	922.0	27.2	(12.0)	(51.9)

(Translation purposes only)

<Resources, Energy and Environment>

Orders received increased owing to an effect of receiving large-scale project in the Boilers Business, despite the decrease in the Plants Business.

Net sales decreased due to a delay in project progress in the Boilers Business and to a reverse effect of the progress of large-scale projects in the Plants Business in FY2018.

Operating profit declined due to the decrease in sales in the Boilers Business.

<Social Infrastructure and Offshore Facility>

Orders received increased in the Shield systems Business and the Transport systems Business.

Net sales increased in the Bridges/water gates Business.

Operating profit increased in the Bridges/water gates Business and the Transport systems Business.

<Industrial System and General-Purpose Machinery>

Orders received declined due to the decrease in the Vehicular turbochargers Business and the Thermal and surface treatment Business, despite the increase owing to an effect of receiving large-scale project in the Transport machineries Business.

Net sales decreased due to the effect of transfer of the Small power systems Business, in addition to down in the Vehicular turbochargers Business.

Operating profit decreased in the Vehicular turbochargers Business and the Thermal and surface treatment Business.

<Aero Engine, Space and Defense>

Orders received decreased in the aero engines for Japan Ministry of Defense, the Civil aero engines Business and the Rocket systems/space utilization systems Business.

Net sales decreased in the aero engines for Japan Ministry of Defense and the Civil aero engines Business.

Operating profit in the Civil aero engines Business declined due to the decrease in sales caused by making its inspection process stricter in the maintenance business and to the additional program costs.

(2) Analysis of financial position

Total assets at the end of the third quarter ended December 31, 2019 were ¥1,703.0 billion, up ¥38.5 billion compared with the end of the previous fiscal year. The items with the most significant increases were inventories including work in process, up ¥72.6 billion and other current assets including advance payments, up ¥30.2 billion. The item with the most significant decrease was cash and deposits, down ¥36.0 billion and accounts receivable - trade, down ¥ 34.2 billion .

Total liabilities were ¥1,348.1 billion, up ¥65.3 billion compared with the end of the previous fiscal year. The items with the most significant increases were commercial papers, up ¥ 70.0 billion and short-term loans payable, up ¥31.4 billion. The item with the most significant decrease was notes and accounts payable - trade, down ¥30.2 billion and provision for bonuses, down ¥12.3 billion.

Net assets were ¥354.8 billion, down ¥26.8 billion compared with the end of the previous fiscal year. This decrease of ¥26.8 billion was composed of loss attributable to owners of parent of ¥1.7 billion, a decrease by repurchase of treasury shares of ¥14.8 billion and a decrease by dividends of surplus of ¥10.8 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 18.8%.

(3) Analysis of capital resources and funding liquidity

At the third quarter ended December 31, 2019, the balance of interest-bearing liabilities, including lease obligations, was ¥474.0 billion, up ¥118.9 billion from the end of the previous fiscal year.

This primarily reflected an increase in working capital by business activities provided by commercial papers and loans from external parties.

Regarding funding liquidity, in addition to a diverse range of fund procurement methods, including credit line commitments and overdraft facilities with major banks, as well as commercial papers, the outstanding balance of cash and cash equivalents was ¥56.4 billion at the end of the third quarter ended December 31, 2019. This means that the IHI Group has secured sufficient liquidity.

(Translation purposes only)

(4) Research and development activities

In the nine months ended December 31, 2019, the IHI Group spent ¥23.8 billion on R&D. There were no significant changes in the status of R&D activities of the IHI Group in the nine months ended December 31, 2019.

(5) Management Policies, Management strategies, and Issues to be addressed

There were no significant changes with respect to management policies, management strategies, and issues to be addressed in the nine months ended December 31, 2019.

The IHI Group formulated and has implemented its “Group Management Policies 2019,” a three-year medium-term management plan with fiscal year 2019 as the first year.

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 “Group Management Policies 2019”, the IHI Group set a theme of “reform businesses in earnest to tackle social and customer issues” and is accelerating business transformation by propelling three initiatives: “Accelerate aftermarket business development with customers from lifecycle perspectives”, “Create a lean and flexible operational structure” and “Transform our business model to create value” .

Note: In the figures presented, figures in billions of yen are rounded down and other figures are rounded off to the nearest unit.

3. Material contracts for operation

(Licensing-in contracts)

Material contracts that have been renewed by extending the contract period in the third quarter ended December 31, 2019 are as following.

Name of Contracting Company	Name of Counterparty	Country	Licensed Products	Details	Contract Period
IHI Power Systems Co.,Ltd. (Consolidated subsidiary)	MAN Diesel & Turbo France SAS	France	General-purpose medium-speed diesel engine	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From November 14, 1995 to December 31, 2020

Note: In the contract listed above, the original contract period that was to December 31, 2019 was extended to December 31, 2020.

(Translation purposes only)

III. Information about reporting company

1. Information about shares, etc.

(1) Total number of shares, etc.

(i) Total number of shares

Class	Total number of authorized shares (Shares)
Common stock	300,000,000
Total	300,000,000

(ii) Issued shares

Class	Number of issued shares as of the end of the third quarter (Shares) (December 31, 2019)	Number of issued shares as of the filing date (Shares) (February 13, 2020)	Name of stock exchange on which IHI is listed or names of authorized financial instruments firms associations where IHI is registered	Description
Common stock	154,679,954	154,679,954	First Section of Tokyo Stock Exchange and Nagoya Stock Exchange, Fukuoka Stock Exchange, Sapporo Securities Exchange	The number of shares constituting one unit is 100 shares.
Total	154,679,954	154,679,954	–	–

Note: The “Number of issued shares as of the filing date” column does not include the number of shares issued upon exercise of subscription rights to shares between February 1, 2020 and the filing date of this Quarterly Securities Report.

(2) Subscription rights to shares, etc.

(i) Details of stock option plans

Not applicable

(ii) Description of other matters regarding share acquisition rights, etc

Not applicable

(3) Exercises, etc. of moving strike convertible bonds, etc.

Not applicable

(4) Changes in number of issued shares, capital stock, etc.

Period	Changes in number of issued shares (Thousand shares)	Balance of number of issued shares (Thousand shares)	Changes in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Changes in legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
From October 1, 2019 to December 31, 2019	–	154,679	–	107,165	–	54,520

(5) Major shareholders

The major shareholders are not presented because the current quarterly accounting period is the third quarter period.

(Translation purposes only)

(6) Voting rights

Concerning the information on voting rights below, as IHI was unable to confirm the information stated in the shareholder register as of December 31, 2019, the information is stated not from its register; rather it is stated from the shareholder register of the immediately preceding cut-off date (September 30, 2019).

(i) Issued shares

(As of September 30, 2019)

Classification	Number of shares (Shares)	Number of voting rights (Units)	Description
Shares without voting rights	–	–	–
Shares with restricted voting rights (treasury shares, etc.)	–	–	–
Shares with restricted voting rights (others)	–	–	–
Shares with full voting rights (treasury shares, etc.)	(Shares in treasury) Common stock 148,700	–	–
	(Reciprocally held shares) Common stock 15,700	–	
Shares with full voting rights (others)	Common stock 154,294,800	1,542,948	–
Shares less than one unit	Common stock 220,754	–	Shares less than one unit (100 shares)
Number of issued shares	154,679,954	–	–
Total number of voting rights	–	1,542,948	–

- Notes:
1. Common stock in “Shares less than one unit” include 98 shares of treasury shares held by IHI.
 2. Common stock in “Shares with full voting rights (others)” include 700 shares whose ownership has yet not been transferred and which have been registered in the name of Japan Securities Depository Center. These shares constitute seven units of voting rights, which are included in the figure in “Number of voting rights.”
 3. Common stock in “Shares with full voting rights (others)” include 393,900 shares of IHI owned by a trust account for the Board Benefit Trust (BBT).
 4. By the repurchase of treasury shares conducted on November 8, 2019 based on the resolution of the Board of Directors’ meeting held on November 7, 2019, number of treasury shares owned was 5,687,885 shares at the end of the third quarter ended December 31, 2019.

(ii) Treasury shares, etc.

(As of September 30, 2019)

Name of shareholders	Address of shareholders	Number of shares held under own name (Shares)	Number of shares held under the names of others (Shares)	Total shares held (Shares)	Ownership percentage to the total number of issued shares (%)
(Shares in treasury) IHI Corporation	1-1, Toyosu 3-chome, Koto-ku, Tokyo	148,700	–	148,700	0.10
(Reciprocally held shares) Kondo Tekko Co., Ltd.	10-5, Yaesu 2-chome, Chuo-ku, Tokyo	14,200	–	14,200	0.01
MINAGAWA NOUKI SEIZOU Co., Ltd.	20-13, Tajima 2-chome, Sanjyo-shi, Niigata	1,500	–	1,500	0.00
Total	–	164,400	–	164,400	0.11

(Translation purposes only)

- Note:
1. 393,900 shares of IHI owned by a trust account for the Board Benefit Trust (BBT) are not included in shares in treasury above.
 2. By the repurchase of treasury shares conducted on November 8, 2019 based on the resolution of the Board of Directors' meeting held on November 7, 2019, number of treasury shares owned was 5,687,885 shares at the end of the third quarter ended December 31, 2019.

2. Information about directors and auditors

Not applicable

Note: In "III. Information about reporting company," monetary amounts less than one unit are rounded down.

(Translation purposes only)

IV. Financial information

1. Basis of preparation of the consolidated quarterly financial statements

The quarterly consolidated financial statements of IHI are prepared in accordance with the “Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements” (Cabinet Office Ordinance No. 64 of 2007).

2. Audit attestation

The quarterly consolidated financial statements for the third quarter of the fiscal year ending March 31, 2020 (from October 1, 2019 to December 31, 2019) and nine months ended December 31, 2019 (from April 1, 2019 to December 31, 2019) were reviewed by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

(Translation purposes only)

1. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	94,951	58,869
Notes and accounts receivable - trade	*2*3 377,695	*2*3 343,446
Finished goods	23,084	23,331
Work in process	276,238	345,780
Raw materials and supplies	142,588	145,478
Other	77,351	107,628
Allowance for doubtful accounts	(4,043)	(3,936)
Total current assets	987,864	1,020,596
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	137,156	143,163
Other, net	230,238	242,821
Total property, plant and equipment	367,394	385,984
Intangible assets		
Goodwill	10,032	8,067
Other	24,052	23,308
Total intangible assets	34,084	31,375
Investments and other assets		
Investment securities	117,967	101,834
Other	158,596	164,446
Allowance for doubtful accounts	(1,376)	(1,183)
Total investments and other assets	275,187	265,097
Total non-current assets	676,665	682,456
Total assets	1,664,529	1,703,052
Liabilities		
Current liabilities		
Notes and accounts payable - trade	*3 290,043	*3 259,841
Short-term loans payable	111,785	143,216
Commercial papers	—	70,000
Current portion of bonds payable	20,000	10,000
Income taxes payable	7,384	8,825
Advances received	157,546	162,696
Provision for bonuses	28,089	15,718
Provision for construction warranties	47,968	41,450
Provision for loss on construction contracts	21,212	18,572
Other provisions	1,079	921
Other	138,003	131,773
Total current liabilities	823,109	863,012
Non-current liabilities		
Bonds payable	30,000	50,000
Long-term loans payable	175,813	174,685
Retirement benefit liability	160,244	163,166
Provision for loss on business of subsidiaries and affiliates	1,212	1,241
Other provision	1,132	983
Other	91,327	95,100
Total non-current liabilities	459,728	485,175
Total liabilities	1,282,837	1,348,187

(Translation purposes only)

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Net assets		
Shareholders' equity		
Capital stock	107,165	107,165
Capital surplus	53,410	51,776
Retained earnings	184,092	171,487
Treasury shares	(1,170)	(15,969)
Total shareholders' equity	343,497	314,459
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,063	1,176
Deferred gains (losses) on hedges	(190)	(263)
Revaluation reserve for land	5,321	5,321
Foreign currency translation adjustment	2,808	1,484
Remeasurements of defined benefit plans	(3,319)	(2,793)
Total accumulated other comprehensive income	5,683	4,925
Subscription rights to shares	659	608
Non-controlling interests	31,853	34,873
Total net assets	381,692	354,865
Total liabilities and net assets	1,664,529	1,703,052

(Translation purposes only)

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income
 Quarterly consolidated statements of income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Net sales	1,047,235	922,036
Cost of sales	849,691	756,154
Gross profit	197,544	165,882
Selling, general and administrative expenses	140,875	138,621
Operating profit	56,669	27,261
Non-operating income		
Interest income	641	572
Dividend income	1,091	965
Share of profit of entities accounted for using equity method	6,765	—
Foreign exchange gains	132	—
Other income	4,619	2,496
Total non-operating income	13,248	4,033
Non-operating expenses		
Interest expenses	2,362	3,112
Share of loss of entities accounted for using equity method	—	9,223
Foreign exchange losses	—	1,407
Other expenses	9,982	8,901
Total non-operating expenses	12,344	22,643
Ordinary profit	57,573	8,651
Extraordinary income		
Gain on sales of non-current assets	—	*1 4,336
Gain on insurance claims	—	1,108
Gain on sales of shares of subsidiaries and affiliates	*2 4,200	—
Gain on transfer of business	*3 1,108	—
Total extraordinary income	5,308	5,444
Extraordinary losses		
Loss on valuation of investment securities	—	4,679
Impairment loss	*4 1,603	*4 108
Total extraordinary losses	1,603	4,787
Profit before income taxes	61,278	9,308
Income taxes	18,796	7,074
Income taxes for prior periods	*5 4,304	—
Profit	38,178	2,234
Profit attributable to non-controlling interests	4,003	3,989
Profit (loss) attributable to owners of parent	34,175	(1,755)

(Translation purposes only)

Quarterly consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Profit	38,178	2,234
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,289)	15
Deferred gains (losses) on hedges	(118)	(47)
Revaluation reserve for land	(12)	—
Foreign currency translation adjustment	(1,394)	(1,897)
Remeasurements of defined benefit plans, net of tax	40	535
Share of other comprehensive income of entities accounted for using equity method	(166)	159
Total other comprehensive income	(2,939)	(1,235)
Comprehensive income	35,239	999
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	31,692	(2,430)
Comprehensive income attributable to non- controlling interests	3,547	3,429

(Translation purposes only)

Notes to Consolidated financial statements

(Change in scope of consolidation or scope of application of equity method)

(1) Significant change in scope of consolidation

From the first quarter of the fiscal year ending March 31, 2020, IHI SOLID BIOMASS MALAYSIA SDN.BHD. is newly included in the scope of consolidation because its materiality within the IHI Group has increased.

IHI Plant Engineering Corporation was absorbed into IHI Plant Services Corporation (formerly IHI Plant Construction Co.,Ltd.)

From the second quarter of the fiscal year ending March 31, 2020, one subsidiary of Terratec Limited was established and is newly included in the scope of consolidation.

Diesel United, Ltd. was absorbed into IHI Power Systems Co.,Ltd. (formerly Niigata Power Systems Co., Ltd.)

From the third quarter of the fiscal year ending March 31, 2020, one subsidiary of Jurong Engineering Limited was established and is newly included in the scope of consolidation. IHI Americas Inc. and IHI(CANADA)LTD. are newly included in the scope of consolidation because their materiality within the IHI Group has increased.

IHI Enviro Corporation was absorbed into IHI Corporation.

(2) Significant change in scope of application of equity method

From the second quarter of the fiscal year ending March 31, 2020, due to completion of liquidation, Long Xin Enterprise Pte. Ltd. was excluded from affiliates accounted for using equity method.

(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 ended June 30, 2019.

The resulting effect on quarterly consolidated financial statements for the nine months ended December 31, 2019 is nothing.

(Special accounting for preparing quarterly consolidated financial statements)

(Tax expense calculation)

Tax expenses on profit before income taxes for the nine months ended December 31, 2019 are calculated by multiplying profit before income taxes for the nine months ended December 31, 2019 by the reasonably estimated effective tax rate for the fiscal year including the third quarter ended December 31, 2019 after applying tax effect accounting. Should the estimated effective tax rate be unavailable, however, tax expenses are calculated by using the statutory tax rate for profit before income taxes for the nine months ended December 31, 2019.

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

(Translation purposes only)

(Quarterly consolidated balance sheet)

1. Contingent liabilities

(1) Guarantees for debt of others (Note)

Guarantees for loans from financial institutions etc. are as follows:

(Millions of yen)			
As of March 31, 2019		As of December 31, 2019	
Japanese Aero Engines Corporation ("JAEC")	5,905	Japan Marine United Corporation	11,550
ALPHA Automotive Technologies LLC	1,021	JAEC	5,771
Japan Aeroforge, Ltd	413	ALPHA Automotive Technologies LLC	787
Contingent liabilities for employee housing loans	262	Japan Aeroforge, Ltd.	383
Chubu Segment Co., Ltd.	25	Contingent liabilities for employee housing loans	199
		Chubu Segment Co., Ltd.	25
Total	7,626	Total	18,715

(2) Contingent liabilities arising from guarantees in kind for debts (Note)

(Millions of yen)			
As of March 31, 2019		As of December 31, 2019	
Contingent liabilities for employee housing loans	4,864	Contingent liabilities for employee housing loans	4,397
Total	4,864	Total	4,397

Note: In any of the following cases, the amount represents the amounts for which the IHI Group is liable:

- (1) In the case of joint guarantees and guarantees in kind for debts with protection requirements against creditors, where the IHI Group's liabilities are specifically stated and clarified regardless of the debt capacity of other guarantors in the contract.
- (2) In the case of joint and several guarantees in which there are two or more guarantors, where the percentage or amount of the IHI Group's liabilities is specifically stated and clarified such as in agreement among the guarantors and other joint and several guarantors are considered to have sufficient debt capacity.

(3) Other contingent liabilities

The consolidated subsidiary IHI E&C International Corporation received a revised letter of claim for payment of 117 million US dollars from a customer on December 4, 2019, for total expenses for delayed delivery regarding a process plant project currently underway in North America (hereinafter the "Expenses"). The IHI Group has continuously requested an extension of the delivery date since construction delays occurred due to the customer's circumstances, and maintains its assertion that the claim for the Expenses is unacceptable. Therefore, at this point, it is difficult to reasonably estimate the amount of the effect on the financial position and operating results. Therefore the effect of this matter has not been reflected in the consolidated financial statements.

*2. Notes receivable - trade discounted in the ordinary course of business and notes receivable - trade endorsed in the ordinary course of business

(Millions of yen)			
	As of March 31, 2019	As of December 31, 2019	
Notes receivable - trade discounted in the ordinary course of business	51		8
Notes receivable - trade endorsed in the ordinary course of business	1		—

(Translation purposes only)

*3. Notes maturing on balance sheet date

Accounting of notes maturing on the last day of quarter is settled on the clearing date.

Because the last day of the third quarter ended December 31, 2019 fell on a bank holiday, the following such notes that matured on the last day of quarter are included in the balance on the last day of the third quarter ended December 31, 2019.

	(Millions of yen)	
	As of March 31, 2019	As of December 31, 2019
Notes receivable - trade	1,832	1,703
Notes payable - trade	1,836	847

(Translation purposes only)

(Quarterly consolidated statement of income)

*1. Gain on sales of non-current assets

Nine months ended December 31, 2019 (From April 1, 2019 to December 31, 2019)

The Aichi Headquarters Representative's Office has ended its function as a production base, after the completion of projects of F-LNG business for which orders have already been received. Accordingly, IHI recorded a gain on sales of non-current assets mainly due to the transfer part of the land, building, etc. in that area.

Details and location of assets	Gain on sales of non-current assets
Land (approximately 219,000 m ²) and Building (Including accompanying non-current assets)	
11-21, Kitahama-machi, Chita-city, Aichi etc.	¥4,336 million
Others	

*2. Gain on sales of shares of subsidiaries and associates

Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)

IHI decided to transfer the commercial engine-focused small power systems business of IHI's wholly-owned subsidiary IHI Agri-Tech Corporation (hereinafter "IAT") to U.S.-based Caterpillar Inc. Accordingly, the sales of shares and the transfer of equity interests of companies operating the Small power systems Business owned by IAT directly and indirectly were implemented on September 27, 2018. The gains arising from the sales of shares and the transfer of equity interests have been recorded as gain on sales of shares of subsidiaries and associates in extraordinary income.

*3. Gain on transfer of business

Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)

IHI decided to transfer the commercial engine-focused small power systems business of IAT to Caterpillar Inc. Accordingly, the Small power systems Business of IAT was transferred on December 28, 2018 by the means of absorption-type company split to a Japanese company which Caterpillar Inc. newly established. The gains on transfer arising from the execution of absorption-type split have been recorded as gain on transfer of business in extraordinary income.

*4. Impairment loss

Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)

(1) Group of assets for which the IHI Group recognized impairment loss

(Millions of yen)

Use	Location	Type of assets	Amount	Value of assets
Business assets	Matsumoto-city, Nagano, Japan	Land, Building etc.	1,532	Value in use
Assets to be disposed of	Osaka-city, Osaka, Japan	Building etc.	42	Net sales value
Business assets	Chita-city, Aichi, Japan	Building etc.	29	Net sales value

(2) Method for grouping assets

Assets are grouped principally by each business or each place of business, and idle assets are treated, in principle, as one group on an individual basis.

(3) Reasons for recognition of impairment loss

Due to deterioration in profitability according to the decision of the transfer of the business etc., the book value of business assets has been reduced to recoverable amount. And the book value of assets to be disposed of has been reduced to the recoverable amount.

(4) Method for measuring recoverable amounts

The recoverable amounts are the higher of net sales value (amount calculated by reasonably adjusting property tax valuation, etc., assessed sale value) or its value in use (discount rate is mainly 5.8%).

(5) Impairment loss

The impairment loss of ¥1,603 million was recorded as "Impairment loss" under extraordinary losses. The amounts of impairment loss for the nine months ended December 31, 2018 are as follows:

(Millions of yen)

Land	484
Building etc.	1,119
Total	1,603

Nine months ended December 31, 2019 (From April 1, 2019 to December 31, 2019)

(1) Group of assets for which the IHI Group recognized impairment loss

(Millions of yen)

Use	Location	Type of assets	Amount	Value of assets
Business assets	Yokohama-city, Kanagawa, Japan	Leased assets	83	Net sales value
Business assets	Chita-city, Aichi, Japan	Machinery	16	Net sales value
Idle assets	Isesaki-city, Gunma, Japan	Land	9	Net sales value

(Translation purposes only)

(2) Method for grouping assets

Assets are grouped principally by each business or each place of business, and idle assets are treated, in principle, as one group on an individual basis.

(3) Reasons for recognition of impairment loss

Due to deterioration in profitability, the book value of business assets has been reduced to recoverable amount. As there is no prospect of usage, the book value of idle assets has been reduced to recoverable amount.

(4) Method for measuring recoverable amounts

The recoverable amounts are the higher of net sales value (amount calculated by reasonably adjusting property tax valuation, etc., assessed sale value) or its value in use (discount rate is mainly 5.0%).

(5) Impairment loss

The impairment loss of ¥108 million was recorded as “Impairment loss” under extraordinary losses. The amounts of impairment loss for the nine months ended December 31, 2019 are as follows:

	(Millions of yen)
Land	9
Leased assets etc.	99
Total	108

*5. Income taxes for prior periods

Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)

As a result of receiving a tax investigation on transactions with a foreign consolidated subsidiary located in Thailand and of receiving a notice of reassessment of tax payable, based on transfer pricing taxation, IHI recorded penalty taxes, including additional taxes and delinquent taxes as “Income taxes for prior periods.”

(Quarterly consolidated statement of cash flows)

A quarterly consolidated statement of cash flows relating to the nine months ended December 31, 2019, is not prepared. Depreciation (including amortization of intangible assets other than goodwill) and amortization of goodwill are as follows.

	(Millions of yen)	
	Nine months ended December 31, 2018	Nine months ended December 31, 2019
Depreciation	37,091	40,116
Amortization of goodwill	2,323	1,838

(Translation purposes only)

(Shareholders' equity)

I. Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)

1. Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date	Source of dividends
Ordinary General Meeting of Shareholders on June 22, 2018	Common stock	4,633	30	March 31, 2018	June 25, 2018	Retained earnings
Meeting of the Board of Directors on November 1, 2018	Common stock	4,634	30	September 30, 2018	December 7, 2018	Retained earnings

Note: 1. Total dividends determined by a resolution of the Ordinary General Meeting of Shareholders held on June 22, 2018 included ¥3 million, which were dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).
2. Total dividends resolved on meeting of the Board of Directors on November 1, 2018 included ¥7 million which were dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

2. Dividends whose record date was in the nine months ended December 31, 2018 and the effective date of which is after the end of the third quarter of the fiscal year ended March 31, 2019
Not applicable

II. Nine months ended December 31, 2019 (From April 1, 2019 to December 31, 2019)

1. Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date	Source of dividends
Ordinary General Meeting of Shareholders on June 20, 2019	Common stock	6,180	40	March 31, 2019	June 21, 2019	Retained earnings
Meeting of the Board of Directors on November 1, 2019	Common stock	4,636	30	September 30, 2019	December 6, 2019	Retained earnings

Note: 1. Total dividends determined by a resolution of the Ordinary General Meeting of Shareholders held on June 20, 2019 included ¥9 million, which were dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).
2. Total dividends resolved on meeting of the Board of Directors on November 1, 2019 included ¥12 million which were dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

2. Dividends whose record date was in the nine months ended December 31, 2019 and the effective date of which is after the end of the third quarter of the fiscal year ending March 31, 2020
Not applicable

3. Significant changes in shareholders' equity

At the Board of Directors' meeting held on November 7, 2019, IHI resolved the matter regarding repurchase of treasury shares pursuant to the provisions of Article 156 of the Companies Act, applied by replacing the relevant terms pursuant to the provisions of Article 165 Paragraph 3 of the same Act. On November 8, 2019, IHI repurchased 5,542,200 shares of treasury shares.

Consequently, total treasury shares increased ¥14,487 million for the nine months ended December 31, 2019 and were ¥15,969 million at the end of third quarter ended December 31, 2019.

(Translation purposes only)

(Segment information)

Segment information

I. Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)

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 quarterly 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	269,941	89,201	308,591	347,730	1,015,463	31,772	1,047,235	—	1,047,235
(2) Intersegment sales and transfers	1,683	5,733	5,513	1,622	14,551	15,410	29,961	(29,961)	—
Total	271,624	94,934	314,104	349,352	1,030,014	47,182	1,077,196	(29,961)	1,047,235
Segment profit (loss) (Operating profit (loss))	4,069	7,636	13,277	35,860	60,842	1,104	61,946	(5,277)	56,669

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 ¥240 million and unallocated corporate expenses of negative ¥5,037 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)

In the Social Infrastructure and Offshore Facility segment, impairment loss on business assets was recorded. The amount of such impairment loss recorded was ¥71 million for the nine months ended December 31, 2018.

Also, in the Industrial System and General-Purpose Machinery segment, impairment loss on business assets was recorded. The amount of such impairment loss recorded was ¥1,532 million for the nine months ended December 31, 2018.

(Material change in goodwill amount)

Not applicable

(Material gain on bargain purchase)

Not applicable

(Translation purposes only)

II. Nine months ended December 31, 2019 (From April 1, 2019 to December 31, 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 quarterly consolidated statements of income
	Resources, Energy and Environment	Social Infrastructu re and Offshore Facility	Industrial System and General- Purpose Machinery	Aero Engine, Space and Defense	Total				
Sales:									
(1) Sales to outside customers	220,171	97,458	282,731	293,217	893,577	28,459	922,036	—	922,036
(2) Intersegment sales and transfers	2,327	5,254	5,537	1,419	14,537	16,463	31,000	(31,000)	—
Total	222,498	102,712	288,268	294,636	908,114	44,922	953,036	(31,000)	922,036
Segment profit (loss) (Operating income (loss))	(1,776)	8,003	5,168	20,456	31,851	1,535	33,386	(6,125)	27,261

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 ¥37 million and unallocated corporate expenses of negative ¥6,088 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

(Translation purposes only)

(Per share information)

Basic earnings per share and diluted earnings per share as well as fundamentals for calculating these items are as follows:

	Nine months ended December 31, 2018	Nine months ended December 31, 2019
(1) Basic earnings (loss) per share (Yen)	221.49	(11.45)
(Fundamentals)		
Amounts for profit (loss) attributable to owners of parent (Millions of yen)	34,175	(1,755)
Amounts for non-common shareholders (Millions of yen)	—	—
Amounts for profit (loss) attributable to owners of parent regarding common stock (Millions of yen)	34,175	(1,755)
Average number of shares of common stock (Thousands of shares)	154,295	153,314
(2) Diluted earnings per share (Yen)	221.34	—
(Fundamentals)		
Adjustment amount of profit attributable to owners of parent (Millions of yen)	—	—
Increase in number of shares of common stock (Thousands of shares)	107	—
Outline of potential shares which were not included in the calculation of the diluted earnings per share due to no dilutive effects, and which had material changes after the end of the previous fiscal year	—	—

- Notes: 1. Diluted earnings per share for the nine months ended December 31, 2019 is not presented even though IHI has issued potential shares, because the per share data is a net loss per share.
2. Shares of IHI owned by a trust account for the Board Benefit Trust (BBT) are included in the number of treasury shares excluded from the calculation of the number of the average number of shares. The average number of treasury shares excluded from the calculation of basic earnings per share and diluted earnings per share for the nine months ended December 31 of 2018 and 2019 were 164,950 shares and 286,956 shares respectively.

(Significant subsequent events)

Not applicable

2. Others

At the Board of Directors' meeting held on November 1, 2019, the following details concerning the interim dividend were resolved.

Total amount allocated for the interim dividend 4,636 millions of yen

Dividends per share 30 yen

Effective date and payment date December 6, 2019

Note: The interim dividend is paid to shareholders or registered pledgees of shares whose names are written in the shareholder register as of September 30, 2019.

(Translation purposes only)

Part 2. Information about company which provides guarantee to reporting company

Not applicable