

(Translation purposes only)

Quarterly Securities Report

(The Second Quarter of 202nd Term)

From July 1, 2018 to September 30, 2018

IHI Corporation

Table of Contents

	Page
Cover page.....	1
Part 1. Company information	2
I. Overview of company	2
1. Summary of business results.....	2
2. Description of business.....	3
II. Overview of business	4
1. Business risks	4
2. Analysis of financial position, operating results and cash flows from the viewpoint of business managers	4
3. Material contracts for operation.....	6
III. Information about reporting company	7
1. Information about shares, etc.....	7
(1) Total number of shares, etc.....	7
(2) Subscription rights to shares, etc.....	7
(3) Exercises, etc. of moving strike convertible bonds, etc.....	7
(4) Changes in number of issued shares, capital stock, etc.	7
(5) Major shareholders.....	8
(6) Voting rights.....	10
2. Information about directors and auditors	10
IV. Financial information.....	11
1. Quarterly Consolidated financial statements	12
(1) Quarterly consolidated balance sheets.....	12
(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income.....	14
Quarterly consolidated statements of income (cumulative).....	14
Quarterly consolidated statements of comprehensive income (cumulative).....	15
(3) Quarterly consolidated statements of cash flows.....	16
2. Others	25
Part 2. Information about company which provides guarantee to reporting company.....	26

(Translation purposes only)

Cover page

Document title	Quarterly Securities Report
Clause of stipulation	Article 24-4-7, paragraph 1 of the Financial Instruments and Exchange Act
Place of filing	Director-General of the Kanto Local Finance Bureau
Filing date	November 12, 2018
Quarterly accounting period	The Second Quarter of 202nd term (from July 1, 2018 to September 30, 2018)
Company name	株式会社 I H I (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
Title and name of representative	Tsugio Mitsuoka, President and Chief Executive Officer
Address of registered head office	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan
Telephone number	+81-3-6204-7065
Name of contact person	Takashi Koumi, General Manager, Accounting Group, Finance & Accounting Div.
Nearest place of contact	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan
Telephone number	+81-3-6204-7065
Name of contact person	Takashi Koumi, General Manager, Accounting Group, Finance & Accounting Div.
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo) Nagoya Stock Exchange, Inc. (8-20, Sakae 3-chome, Naka-ku, Nagoya-city) Securities Membership Corporation Fukuoka Stock Exchange (14-2, Tenjin 2-chome, Chuo-ku, Fukuoka-city) Securities Membership Corporation Sapporo Securities Exchange (14-1, Minamiichijo-nishi 5-chome, Chuo-ku, Sapporo-city)

(Translation purposes only)

Part 1. Company information

I. Overview of company

1. Summary of business results

Term	201st term Six months ended September 30, 2017	202nd term Six months ended September 30, 2018	201st term
Accounting period	From April 1, 2017 To September 30, 2017	From April 1, 2018 To September 30, 2018	From April 1, 2017 To March 31, 2018
Net sales (Millions of yen)	773,491	699,507	1,590,333
Ordinary profit (Millions of yen)	19,574	49,173	21,425
Profit attributable to owners of parent (Millions of yen)	6,882	28,429	8,291
Comprehensive income (Millions of yen)	12,323	36,250	16,774
Net assets (Millions of yen)	348,127	380,771	350,217
Total assets (Millions of yen)	1,659,987	1,655,514	1,633,488
Basic earnings per share (Yen)	44.57	184.23	53.71
Diluted earnings per share (Yen)	44.54	184.09	53.67
Shareholders' equity ratio (%)	19.75	21.29	19.87
Cash flows from operating activities (Millions of yen)	43,144	(2,721)	99,018
Cash flows from investing activities (Millions of yen)	(4,685)	(39,640)	(47,977)
Cash flows from financing activities (Millions of yen)	(40,145)	31,842	(57,326)
Cash and cash equivalents at end of period (Millions of yen)	114,740	99,867	107,323

Term	201st term Second quarter of the fiscal year ended March 31, 2018	202nd term Second quarter of the fiscal year ending March 31, 2019
Accounting period	From July 1, 2017 To September 30, 2017	From July 1, 2018 To September 30, 2018
Basic earnings (loss) per share (Yen)	(31.33)	144.44

- Notes:
- Summary of business results of the reporting company are not presented, because IHI prepares quarterly consolidated financial statements.
 - Net sales do not include consumption taxes.
 - IHI has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the first quarter ended June 30, 2018. Accordingly, summary of results of the six months ended September 30, 2017 and the previous fiscal year ended March 31, 2018 reflected the retrospective application of the accounting policies.
 - IHI conducted a consolidation of common stock on a 10 for 1 basis on October 1, 2017.
Basic earnings(loss) per share and diluted earnings per share have been calculated under the assumption that this consolidation of common stock was conducted on April 1, 2017.
 - Monetary amounts and ratios less than one unit are rounded off.

(Translation purposes only)

2. Description of business

IHI and its affiliated entities (151 consolidated subsidiaries, a non-consolidated subsidiary accounted for equity method and 28 affiliates accounted for using equity method as of September 30, 2018) 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 six months ended September 30, 2018, 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.

(Social Infrastructure and Offshore Facility)

From the first quarter of the fiscal year ending March 31, 2019, I&H Engineering Co.,Ltd. (Myanmar) is newly included in the scope of consolidation because its materiality within the IHI Group has increased.

(Industrial System and General-Purpose Machinery)

From the first quarter of the fiscal year ending March 31, 2019, IHI DALGAKIRAN MAKİNA SANAYİ VE TİCARET A.Ş. (Turkey) is newly included in the scope of consolidation because its materiality within the IHI Group has increased.

(Aero Engine, Space and Defense)

From the second quarter of the fiscal year ending March 31, 2019, PW1100G-JM Engine Leasing, LLC (U.S.A.) is newly included in affiliates accounted for using equity method because its materiality within the IHI Group has increased.

(Others)

From the first quarter of the fiscal year ending March 31, 2019, Soma I Grid Limited Liability Company is newly included in the scope of consolidation because its materiality within the IHI Group has increased.

(Translation purposes only)

II. Overview of business

1. Business risks

There were no new occurrences of business risks in the six months ended September 30, 2018.

There were no significant changes with respect to the business risks stated in the Annual Securities Report for the previous fiscal year.

2. Analysis of financial position, operating results and cash flows from the viewpoint of business managers

Matters regarding the future stated in this document are based on the judgments as of September 30, 2018.

(1) Overview of business results

During the six months ended September 30, 2018 of the Japanese economy, corporate earnings maintained on a trend of improvement and remained stable, as there continued to be an increase in capital investment and a pick-up in private consumption. The global economy also continued to exhibit moderate growth overall, bolstered by steady growth in the U.S., despite the uncertain outlook regarding U.S. trade problems and policies in Europe.

Under this business environment, orders received of the IHI Group during the six months ended September 30, 2018 decreased 9.2% from the previous corresponding period to ¥649.3 billion. Net sales decreased 9.6% from the previous corresponding period to ¥699.5 billion.

In terms of profit, operating profit increased ¥10.5 billion to ¥45.2 billion. Although profitability in the Civil aero engines Business deteriorated owing to increases in the number of new-model engines sold, there was profitability improvement in the Boilers Business, and the issue regarding deterioration of profitability in large projects under way in North America in the Process plants Business is being brought under control. Ordinary profit, increasing by ¥29.5 billion to ¥49.1 billion, saw an expanding of profit margin gain due mainly to a decrease of non-operating expenses and the positive turn in share of profit of entities accounted for using equity method. Profit attributable to owners of parent was ¥28.4 billion, an increase of ¥21.5 billion.

Also effective from the previous fiscal year, the closing date of the fiscal year of certain overseas consolidated subsidiaries has been changed from December 31 to March 31. As a result, those consolidated subsidiaries had a nine-month accounting period in the six months ended September 30, 2017. The effect of these changes was an increase of ¥57.9 billion in net sales and an increase of ¥1.4 billion in operating profit.

Results by reportable segment for the six months ended September 30, 2018 are as follows:

Reportable segment	Orders received			Six months ended September 30, 2017		Six months ended September 30, 2018		Change from the previous corresponding period (%)	
	Six months ended September 30, 2017	Six months ended September 30, 2018	Change from the previous corresponding period (%)	Sales	Operating profit (loss)	Sales	Operating profit (loss)	Sales	Operating profit (loss)
Resources, Energy and Environment	207.4	141.9	(31.6)	253.9	(5.0)	194.6	11.5	(23.4)	–
Social Infrastructure and Offshore Facility	67.5	54.1	(19.8)	66.6	5.6	60.7	4.0	(8.9)	(28.0)
Industrial System and General-Purpose Machinery	246.3	237.2	(3.7)	227.1	7.4	209.9	8.1	(7.5)	9.6
Aero Engine, Space and Defense	181.1	198.1	9.4	215.4	29.5	224.4	23.9	4.2	(19.0)
Total Reportable Segment	702.4	631.5	(10.1)	763.2	37.5	689.7	47.7	(9.6)	27.2
Others	38.4	39.2	2.2	30.1	(0.2)	30.4	0.4	1.3	–
Adjustment	(25.7)	(21.3)	–	(19.8)	(2.6)	(20.7)	(3.0)	–	–
Total	715.1	649.3	(9.2)	773.4	34.6	699.5	45.2	(9.6)	30.6

(Billions of yen)

(Translation purposes only)

<Resources, Energy and Environment>

Orders received decreased owing to a reverse effect of receiving a large-scale project in the Boilers Business in FY2017.

Net sales decreased owing to a pull back from the progress of large-scale projects in the Process plants Business in FY2017, in addition to the effect of the financial reporting periods unification (hereinafter "FRPU") in FY2017.

Operating profit significantly increased mainly because the issue regarding deterioration of profitability in the Process plants Business in FY2017 is being brought under control and the profitability in the Boilers Business improved.

<Social Infrastructure and Offshore Facility>

Orders received decreased from the previous corresponding period in the Bridges/water gates Business.

Net sales decreased in the F-LNG/Offshore structures Business and the Shield systems Business, while increased in the Bridges/water gates Business.

Operating profit decreased in the F-LNG/Offshore structures Business owing to a pull back from FY2017, and in the Transport systems Business.

<Industrial System and General-Purpose Machinery>

Orders received decreased due to the effect of FRPU in FY2017. Without the effect, the orders received increased in the Logistics/industrial systems Business, the Vehicular turbochargers Business, the Thermal and surface treatment Business and so on.

Net sales decreased due to the effect of FRPU in FY2017. Without the effect, the net sales increased in the Thermal and surface treatment Business, the Vehicular turbochargers Business and so on.

Operating profit increased from the previous corresponding period, due to an increase of net sales in the Thermal and surface treatment Business and the improvement of profitability in the Parking Business and so on, despite the effect of FRPU in FY2017.

<Aero Engine, Space and Defense>

Orders received increased from the previous corresponding period in the aero engines for Japan Ministry of Defense.

Net sales increased in the Civil aero engines Business.

Operating profit decreased mainly due to the effect of sales increase in the new PW1100G engine, despite the decrease of the cost of dealing with defects in the Civil aero engines Business.

(2) Analysis of financial position

Total assets at the end of the second quarter ended September 30, 2018 were ¥1,655.5 billion, up ¥22.0 billion compared with the end of the previous fiscal year. The items with the most significant increases were inventories including work in process, up ¥31.3 billion, other current assets including advance payments - trade, up ¥23.9 billion and investment securities, up ¥18.5 billion. The items with the most significant decreases were notes and accounts receivable - trade, down ¥42.0 billion and cash and deposits, down ¥7.4 billion.

Total liabilities were ¥1,274.7 billion, down of ¥8.5 billion compared with the end of the previous fiscal year. The items with the most significant decreases were notes and accounts payable - trade, down ¥29.2 billion, other current liabilities including accrued expenses, down ¥13.8 billion and provision for loss on construction contracts, down ¥5.8 billion. The item with the most significant increase were short-term loans payable, up ¥30.2 billion and long-term loans payable, up ¥13.5 billion.

Net assets were ¥380.7 billion, up ¥30.5 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥28.4 billion and decrease due to payment of dividends of ¥4.6 billion.

As a result of the above, the ratio of equity to total assets rose from 19.9% at the end of the previous fiscal year to 21.3%.

(3) Cash flows

At the end of the second quarter ended September 30, 2018, the outstanding balance of cash and cash equivalents (hereinafter, "cash") was ¥99.8 billion, down ¥7.4 billion compared with the end of the previous fiscal year.

Key factors influencing each cash flow during the six months ended September 30, 2018 are summarized below.

Cash flows from operating activities

Net cash used in operating activities was ¥2.7 billion (The previous corresponding period: net increase of ¥43.1 billion). This was mainly due to an increase of inventories and a decrease of notes and accounts payable - trade, and a

(Translation purposes only)

payment of income taxes including income taxes for prior periods.

Cash flows from investing activities

Net cash used in investing activities was ¥39.6 billion (The previous corresponding period: net use of ¥4.6 billion). This was mainly due to purchase of property, plant and equipment and intangible assets of ¥28.7 billion and purchase of short-term and long-term investment securities of ¥11.8 billion.

Cash flows from financing activities

Net cash provided by financing activities was ¥31.8 billion (The previous corresponding period: net use of ¥40.1 billion). This was mainly due to an increase of short-term loans payable of ¥45.3 billion.

(4) Analysis of capital resources and funding liquidity

At the end of the second quarter ended September 30, 2018, the balance of interest-bearing debt, including lease obligations, was ¥364.6 billion, up ¥42.3 billion from the end of the previous fiscal year.

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

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 ¥99.8 billion at the end of the second quarter ended September 30, 2018. This balance means that the IHI Group has secured sufficient liquidity.

(5) Research and development activities

In the six months ended September 30, 2018, the IHI Group spent ¥15.3 billion on R&D. There were no significant changes in the status of R&D activities of the IHI Group in the six months ended September 30, 2018.

(6) 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 six months ended September 30, 2018.

In November 2015, the IHI Group established its “Group Management Policies 2016,” a three-year medium-term management plan that became effective from April 2016.

In the “Group Management Policies 2016,” the IHI Group has set a theme of “strengthening earnings foundations” and is propelling three initiatives: “pursuing concentration and selection through new portfolio management approaches,” “bolstering profitability by strengthening project implementation structure” and “transform business model by employing shared Group functions (solutions, advanced information management, and global businesses).”

In the current fiscal year, which is the final year of the “Group Management Policies 2016”, the IHI Group will not only take all business areas across the Group into the black under the slogan “First Year for Change” but also move forward with initiatives to transform business structures and business models, aiming to bring them to fruition in order to build robust earnings foundations, while responding speedily to discontinuous and drastic changes in the management environment and business environment.

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)

A material contract that has been renewed by extending the contract period in the second quarter ended September 30, 2018 is as following.

Name of Contracting Company	Name of Counterparty	Country	Licensed Products	Details	Contract Period
IHI	UNITED TECHNOLOGIES CORPORATION	U.S.A.	F135 turbofan engine	Non-exclusive manufacturing rights of licensed products in Japan	From October 17, 2013 to September 30, 2027

Note: In the contract listed above, the original contract period that was to September 30, 2024 was extended to September 30, 2027.

(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 second quarter (Shares) (September 30, 2018)	Number of issued shares as of the filing date (Shares) (November 12, 2018)	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 Stock 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 November 1, 2018 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)	Ending balance of number of issued shares (Thousand shares)	Changes in capital stock (Millions of yen)	Ending balance of capital stock (Millions of yen)	Changes in legal capital surplus (Millions of yen)	Ending balance of legal capital surplus (Millions of yen)
From July 1, 2018 to September 30, 2018	–	154,679	–	107,165	–	54,520

(Translation purposes only)

(5) Major shareholders

(As of September 30, 2018)

Name	Address	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	9,297	6.01
Japan Trustee Services Bank, Ltd. (Holder in Trust)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	8,743	5.66
Japan Trustee Services Bank, Ltd. (TOSHIBA Corporation Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	5,542	3.58
The Dai-ichi Life Insurance Company, Limited	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo	5,406	3.49
State Street Bank And Trust Company 505001 (standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (15-1, Konan 2-chome, Minato-ku, Tokyo)	5,051	3.27
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	8-12, Harumi 1-chome, Chuo-ku, Tokyo	4,597	2.97
Japan Trustee Services Bank, Ltd. (Holder in Trust 9)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	3,875	2.50
State Street Bank And Trust Company 505223 (standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (15-1, Konan 2-chome, Minato-ku, Tokyo)	3,190	2.06
Japan Trustee Services Bank, Ltd. (Holder in Trust 5)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	2,995	1.93
IHI Customer Stock Ownership Association	1-1, Toyosu 3-chome, Koto-ku, Tokyo	2,553	1.65
Total	—	51,253	33.18

Notes: 1. The figures of “Number of shares held” and “Shareholding ratio (%)” in the above table are rounded down to one unit.

2. From the above, the following owned shares by are held through trusts.

- The Master Trust Bank of Japan, Ltd. (Holder in Trust)
- Japan Trustee Services Bank, Ltd. (Holder in Trust)
- Japan Trustee Services Bank, Ltd. (TOSHIBA Corporation Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)
- Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.
- Japan Trustee Services Bank, Ltd. (Holder in Trust 9)
- Japan Trustee Services Bank, Ltd. (Holder in Trust 5)

3. From the above, in addition to performing custodial management services for shares owned by overseas institutional investors, the following shareholders are the names of the shares owned by the institutional investors in question.

- State Street Bank And Trust Company 505001
- State Street Bank And Trust Company 505223

(Translation purposes only)

4. In the Change Report pertaining to Report of Possession of Large Volume provided by Mizuho Bank, Ltd. for public viewing on October 5, 2018, the following shareholdings are respectively attributed to Mizuho Bank, Ltd. and its four joint holders as of September 28, 2018. However, since IHI is unable to confirm the actual number of shares held as of September 30, 2018, they are not included in major shareholders above.

Name	Number of shares held (Thousand shares)	Shareholding ratio (%)
Mizuho Bank, Ltd.	4,597	2.97
Mizuho Securities Co., Ltd.	324	0.21
Mizuho Trust and Banking Co., Ltd.	218	0.14
Asset Management One Co., Ltd.	6,682	4.32
Asset Management One International Ltd.	228	0.15
Total	12,051	7.79

(Translation purposes only)

(6) Voting rights

(i) Issued shares

(As of September 30, 2018)

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 211,500	–	–
	(Reciprocally held shares) Common stock 15,700	–	–
Shares with full voting rights (others)	Common stock 154,230,300	1,542,303	–
Shares less than one unit	Common stock 222,454	–	Shares less than one unit (100 shares)
Number of issued shares	154,679,954	–	–
Total number of voting rights	–	1,542,303	–

- Notes:
1. Common stock in “Shares less than one unit” include 53 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 218,900 shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

(ii) Treasury shares, etc.

(As of September 30, 2018)

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	211,500	–	211,500	0.14
(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	–	227,200	–	227,200	0.15

Note: 218,900 shares of IHI owned by a trust account for the Board Benefit Trust (BBT) are not included in shares in treasury above.

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 second quarter of the fiscal year ending March 31, 2019 (from July 1, 2018 to September 30, 2018) and the six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018) 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, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	109,028	101,544
Notes and accounts receivable - trade	*2 *3 400,330	*2 *3 358,308
Finished goods	25,647	26,039
Work in process	282,245	301,208
Raw materials and supplies	120,630	132,607
Other	59,758	83,727
Allowance for doubtful accounts	(4,164)	(4,562)
Total current assets	993,474	998,871
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	131,035	132,969
Other, net	218,011	218,103
Total property, plant and equipment	349,046	351,072
Intangible assets		
Goodwill	12,231	10,885
Other	23,789	22,946
Total intangible assets	36,020	33,831
Investments and other assets		
Investment securities	99,284	117,873
Other	157,388	155,824
Allowance for doubtful accounts	(1,724)	(1,957)
Total investments and other assets	254,948	271,740
Total non-current assets	640,014	656,643
Total assets	1,633,488	1,655,514
Liabilities		
Current liabilities		
Notes and accounts payable - trade	*3 304,928	*3 275,650
Short-term loans payable	81,515	111,767
Current portion of bonds	-	10,000
Income taxes payable	8,075	16,556
Advances received	177,819	175,547
Provision for bonuses	26,119	25,379
Provision for construction warranties	53,727	49,594
Provision for loss on construction contracts	27,266	21,416
Other provision	808	551
Other	131,398	117,560
Total current liabilities	811,655	804,020
Non-current liabilities		
Bonds payable	50,000	40,000
Long-term loans payable	172,533	186,055
Net defined benefit liability	154,125	154,018
Provision for loss on business of subsidiaries and affiliates	1,188	1,209
Other provision	1,150	928
Other	92,620	88,513
Total non-current liabilities	471,616	470,723
Total liabilities	1,283,271	1,274,743

(Translation purposes only)

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Net assets		
Shareholders' equity		
Capital stock	107,165	107,165
Capital surplus	53,406	53,400
Retained earnings	153,564	177,190
Treasury shares	(879)	(1,255)
Total shareholders' equity	313,256	336,500
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,034	4,189
Deferred gains or losses on hedges	(286)	(5)
Revaluation reserve for land	5,359	5,321
Foreign currency translation adjustment	3,679	5,641
Remeasurements of defined benefit plans	559	743
Total accumulated other comprehensive income	11,345	15,889
Subscription rights to shares	792	752
Non-controlling interests	24,824	27,630
Total net assets	350,217	380,771
Total liabilities and net assets	1,633,488	1,655,514

(Translation purposes only)

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

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	773,491	699,507
Cost of sales	640,486	560,680
Gross profit	*1 133,005	*1 138,827
Selling, general and administrative expenses	98,383	93,610
Operating profit	34,622	45,217
Non-operating income		
Interest income	825	519
Dividend income	615	624
Share of profit of entities accounted for using equity method	–	5,107
Foreign exchange gains	393	2,470
Other income	1,155	3,817
Total non-operating income	2,988	12,537
Non-operating expenses		
Interest expenses	1,524	1,506
Share of loss of entities accounted for using equity method	11	–
Expenses for delayed delivery	4,707	424
Payments for contract adjustments for civil aero engines	*2 6,488	–
Other expenses	5,306	6,651
Total non-operating expenses	18,036	8,581
Ordinary profit	19,574	49,173
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	–	*3 4,187
Gain on transfer of business	*4 1,586	–
Total extraordinary income	1,586	4,187
Extraordinary losses		
Impairment loss	–	*5 1,560
Settlement-related expenses related to boiler facilities in customer's commercial operation	*6 2,932	–
Total extraordinary losses	2,932	1,560
Profit before income taxes	18,228	51,800
Income taxes	9,390	16,003
Income taxes for prior periods	–	*7 4,304
Profit	8,838	31,493
Profit attributable to non-controlling interests	1,956	3,064
Profit attributable to owners of parent	6,882	28,429

(Translation purposes only)

Quarterly consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Profit	8,838	31,493
Other comprehensive income		
Valuation difference on available-for-sale securities	355	1,929
Deferred gains or losses on hedges	(94)	42
Revaluation reserve for land	–	(12)
Foreign currency translation adjustment	2,754	2,234
Remeasurements of defined benefit plans, net of tax	32	205
Share of other comprehensive income of entities accounted for using equity method	438	359
Total other comprehensive income	3,485	4,757
Comprehensive income	12,323	36,250
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,053	33,131
Comprehensive income attributable to non- controlling interests	2,270	3,119

(Translation purposes only)

(3) Quarterly consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	18,228	51,800
Depreciation	28,173	25,874
Depreciation and amortization on other	2,927	4,176
Impairment loss	–	1,560
Increase (decrease) in allowance for doubtful accounts	44	478
Increase (decrease) in provision for bonuses	844	(808)
Increase (decrease) in provision for construction warranties	6,049	(4,145)
Increase (decrease) in provision for loss on construction contracts	(13,876)	(6,433)
Increase (decrease) in net defined benefit liability	2,998	123
Interest and dividend income	(1,440)	(1,143)
Interest expenses	1,524	1,506
Foreign exchange losses (gains)	(93)	448
Loss (gain) on sales of short-term and long-term investment securities	(5)	(4,199)
Loss (gain) on valuation of short-term and long-term investment securities	–	10
Share of (profit) loss of entities accounted for using equity method	11	(5,107)
Loss (gain) on disposal of property, plant and equipment	576	1,497
Loss (gain) on transfer of business	(1,586)	–
Settlement-related expenses related to boiler facilities in customer's commercial operation	2,932	–
Decrease (increase) in notes and accounts receivable - trade	30,940	43,062
Increase (decrease) in advances received	(11,466)	(3,068)
Decrease (increase) in advance payments	8,688	(4,136)
Decrease (increase) in inventories	(36,323)	(31,736)
Increase (decrease) in notes and accounts payable - trade	4,928	(29,878)
Increase (decrease) in accrued expenses	3,180	(5,464)
Decrease (increase) in other current assets	824	(11,341)
Increase (decrease) in other current liabilities	(2,742)	(5,917)
Decrease (increase) in consumption taxes refund receivable	321	(4,256)
Other, net	(1,155)	(550)
Subtotal	44,501	12,353
Interest and dividend income received	1,585	1,461
Interest expenses paid	(1,466)	(1,517)
Income taxes paid	(1,476)	(15,018)
Net cash provided by (used in) operating activities	43,144	(2,721)

(Translation purposes only)

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from investing activities		
Decrease (increase) in time deposits	897	20
Purchase of short-term and long-term investment securities	(4,447)	(11,842)
Proceeds from sales and redemption of short-term and long-term investment securities	19,311	3,421
Purchase of property, plant and equipment and intangible assets	(24,425)	(28,724)
Gain (loss) on sales or disposal of property, plant and equipment and intangible assets	544	760
Proceeds from transfer of business	2,347	–
Decrease (increase) in short-term loans receivable	(257)	(15)
Payments of long-term loans receivable	(8)	(371)
Collection of long-term loans receivable	10	15
Decrease (increase) in other investments	820	(2,182)
Increase (decrease) in other non-current liabilities	526	(735)
Other, net	(3)	13
Net cash provided by (used in) investing activities	(4,685)	(39,640)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(29,060)	45,348
Net increase (decrease) in commercial papers	(5,000)	–
Proceeds from long-term loans payable	15,964	33,441
Repayments of long-term loans payable	(17,476)	(37,206)
Proceeds from sales and leasebacks	–	893
Repayments of lease obligations	(2,741)	(4,258)
Decrease (increase) in treasury shares	–	(3)
Payments made to trust account for acquisition of treasury shares	(408)	(419)
Cash dividends paid	(8)	(4,620)
Proceeds from share issuance to non-controlling shareholders	688	1,766
Dividends paid to non-controlling interests	(2,104)	(3,099)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(1)
Net cash provided by (used in) financing activities	(40,145)	31,842
Effect of exchange rate change on cash and cash equivalents	543	2,540
Net increase (decrease) in cash and cash equivalents	(1,143)	(7,979)
Cash and cash equivalents at beginning of period	115,911	107,323
Increase in cash and cash equivalents from consolidation of non-consolidated subsidiaries	–	523
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(28)	–
Cash and cash equivalents at end of period	*1 114,740	*1 99,867

(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, 2019, I&H Engineering Co.,Ltd., IHI DALGAKIRAN MAKİNA SANAYİ VE TİCARET A.Ş. and Soma I Grid Limited Liability Company are newly included in the scope of consolidation because their materiality within the IHI Group have increased.

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

From the second quarter of the fiscal year ending March 31, 2019, PW1100G-JM Engine Leasing, LLC is newly included in affiliates accounted for using equity method because its materiality within the IHI Group has increased. On the other hand, Perkins Shibaura Engines LLC and Perkins Shibaura Engines Limited were excluded from affiliates accounted for using equity method because their equity interests were entirely transferred out.

(Changes in accounting policies)

(Change of principal methods for hedge accounting)

Forward foreign exchange rates had been applied for foreign receivables and payables under forward foreign exchange contracts if conditions had been met (the *furiate* method). Also, special treatment had been applied for interest rate swaps if conditions for the special treatment had been met.

As a result of reviewing management methods suitable for global business operation, the IHI Group changed the principal methods for hedge accounting to deferral hedge accounting in order to reflect on its consolidated financial statements more accurately the status of foreign receivables and payables and the status of derivative contracts from the first quarter ended June 30, 2018.

The change in accounting policies are not applied retrospectively, as the effect of this change on past periods was immaterial. Moreover, the effect of this change on operating profit, ordinary profit and profit before income taxes for the six months ended September 30, 2018 was immaterial.

(Special accounting for preparing quarterly consolidated financial statements)

(Tax expense calculation)

Tax expenses on profit before income taxes for the six month ended September 30, 2018 are calculated by multiplying profit before income taxes for the six month ended September 30, 2018 by the reasonably estimated effective tax rate for the fiscal year including the second quarter ended September 30, 2018 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 six month ended September 30, 2018.

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

(Additional information)

(Reassessment of tax payable, based on the transfer pricing taxation, and policy response going forward)

With regard to transactions between IHI and a foreign consolidated subsidiary located in Thailand conducted over the fiscal years ended March 31, 2013 to March 31, 2016, IHI received a reassessment of tax payable, based on the transfer pricing taxation, from the Tokyo Regional Taxation Bureau. In response, IHI recorded penalty taxes, including additional taxes and delinquent taxes, of ¥4,304 million on "Income taxes for prior periods." Note that the penalty taxes were paid in July 2018.

From IHI's perspective, with regard to the taxation system on setting of transaction prices within the corporate group (the so-called transfer pricing taxation), it is our perception that we have complied with the laws and regulations of Japan and other countries, have set appropriate transaction prices and have paid an appropriate amount of tax. In relation to this reassessment of tax payable, we made a request for examination to the Tokyo National Tax Tribunal in September 2018 that this reassessment be canceled in its entirety.

(Application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting" and relevant Guidances)

IHI has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the first quarter ended June 30, 2018.

Accordingly, deferred tax assets were presented under "Investments and other assets" and deferred tax liabilities were presented under "Non-current liabilities."

(Translation purposes only)

(Quarterly consolidated balance sheet)

1. Contingent liabilities

IHI provides guarantees and guarantees in kind for the debts etc. from financial institutions by the following subsidiaries and affiliates.

(1) Guarantees for debt of others (Note)

		(Millions of yen)	
As of March 31, 2018		As of September 30, 2018	
Japanese Aero Engines Corporation ("JAEC")	6,573	JAEC	7,280
ALPHA Automotive Technologies LLC	1,400	ALPHA Automotive Technologies LLC	1,200
IHI group health insurance society	492	Japan Aeroforge, Ltd.	442
Japan Aeroforge, Ltd.	472	Contingent liabilities for employee housing loans	285
Contingent liabilities for employee housing loans	299	Chubu Segment Co., Ltd.	25
Chubu Segment Co., Ltd.	25		
Total	9,261	Total	9,232

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

		(Millions of yen)	
As of March 31, 2018		As of September 30, 2018	
Contingent liabilities for employee housing loans	5,602	Contingent liabilities for employee housing loans	5,199
IHI group health insurance society	540		
Total	6,142	Total	5,199

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 liability

As of March 31, 2018	As of September 30, 2018
IHI is under investigation by the Tokyo Regional Taxation Bureau with regard to transfer pricing taxation on transactions with a foreign consolidated subsidiary located in Thailand. As the investigation is underway at present, it is not possible to reasonably estimate the amount of the effect on the financial position and operating results. Therefore this factor has not been reflected in the consolidated financial statements.	-

(Translation purposes only)

*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, 2018	As of September 30, 2018
Notes receivable - trade discounted in the ordinary course of business	97	51
Notes receivable - trade endorsed in the ordinary course of business	49	16

*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 second quarter ended September 30, 2018 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 second quarter ended September 30, 2018.

	(Millions of yen)	
	As of March 31, 2018	As of September 30, 2018
Notes receivable – trade	1,763	2,026
Notes payable - trade	1,300	1,018

(Quarterly consolidated statement of income)

*1 Major selling general and administrative expense

The major items and amounts in selling general and administrative expense are as follows:

	(Millions of yen)	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Expenses in taking orders received	7,872	7,516
Provision of allowance for doubtful accounts	283	417
Salaries for directors and employees (Note)	37,263	35,136
Traveling and transportation expenses	3,293	3,133
Research and development expenses	14,303	14,254
Business consignment expenses	4,880	5,324
Contribution for expenses common to all business segments	2,083	1,753
Depreciation	5,026	4,437

Note: Salaries for directors and employees include provision for bonuses of ¥6,077 million and retirement benefit expenses of ¥2,220 million for the six months ended September 30, 2017 and provision for bonuses of ¥6,219 million and retirement benefit expenses of ¥2,414 million for the six months ended September 30, 2018.

*2. Payments for contract adjustments for civil aero engines

Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)

IHI faces one-time expenses in connection with contracts with customers relating to engine programs in which IHI participates. These expenses arose from the new requirement to allocate a portion of the engines planned to be delivered to customers for use as spare engines for operational support. Accordingly, IHI expects these program expenses to be ¥6,488 million, and has recorded this amount as non-operating expenses.

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

Six months ended September 30, 2018 (From April 1, 2018 to September 30, 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 gains arising from the sales of shares and the transfer of equity interests of companies operating the Small power systems Business, owned by IAT directly and indirectly, have been recorded as gain on sales of shares of subsidiaries and associates in extraordinary income.

*4. Gain on transfer of business

Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)

IHI transferred its Machinery for ships Business to IKNOW MACHINERY CO., LTD. at May 1, 2017. Also, IHI Shibaura Machinery Corporation (currently IHI Agri-Tech Corporation), a wholly owned subsidiary of IHI, transferred its Fire fighting equipment Business to New Horizon Capital Co., Ltd. at July 1, 2017. The gains arising from these transfers have been recorded as gain on transfer of business in extraordinary income.

(Translation purposes only)

*5. Impairment loss

Six months ended September 30, 2018 (From April 1, 2018 to September 30, 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
Business assets	Chita-city, Aichi, Japan	Building etc.	28	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.

(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 ¥1,560 million was recorded as "Impairment loss" under extraordinary losses. The amounts of impairment loss for the six months ended September 30, 2018 are as follows:

(Millions of yen)

Land	484
Building etc.	1,076
<u>Total</u>	<u>1,560</u>

*6. Settlement-related expenses related to boiler facilities in customer's commercial operation

Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)

Concerning boiler facilities that IHI manufactured and delivered to Malaysia in the past, a lawsuit was filed against IHI and consolidated subsidiaries in 2015, regarding liabilities for accidents involving boilers damage that occurred during customer's commercial operation. IHI determined that the path of reaching an early resolution and reducing legal risks was in IHI's best interest. This case was settled by agreeing to bear a portion of the amount incurred by the accident. As a result, IHI recorded settlement package and lawyer fees, etc. of ¥2,932 million as extraordinary losses.

*7. Income taxes for prior periods

Six months ended September 30, 2018 (From April 1, 2018 to September 30, 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."

(Translation purposes only)

(Quarterly consolidated statement of cash flows)

*1 A reconciliation of cash and cash equivalents to the amounts shown in the quarterly consolidated balance sheet

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash and deposits	116,894	101,544
Time deposits due in more than three months	(2,152)	(1,675)
Collateral deposits	(2)	(2)
Cash and cash equivalents	114,740	99,867

(Shareholders' equity)

I. Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)

1. Dividends paid

Not applicable

2. Dividends which the cutoff date was in the six months ended September 30, 2017 and the effective date of which is after the end of the second quarter of the fiscal year ended March 31, 2018

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Cutoff date	Effective date	Source of dividends
Meeting of the Board of Directors on November 1, 2017	Common stock	4,633	3	September 30, 2017	December 4, 2017	Retained earnings

Notes: 1. Total dividends resolved on meeting of the Board of Directors on November 1, 2017 include ¥3 millions which are dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

2. IHI conducted a consolidation of common stock on a 10 for 1 basis on October 1, 2017. Consequently, dividends per share are calculated without factoring in the consolidation of shares.

II. Six months ended September 30, 2018 (From April 1, 2018 to September 30, 2018)

1. Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Cut off 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

Note: Total dividends determined by a resolution of the Ordinary General Meeting of Shareholders held on June 22, 2018 included ¥3 million, which was the value of dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

2. Dividends which the cutoff date was in the six months ended September 30, 2018 and the effective date of which is after the end of the second quarter of the fiscal year ended March 31, 2019

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Cutoff date	Effective date	Source of dividends
Meeting of the Board of Directors on November 1, 2018	Common stock	4,634	30	September 30, 2018	December 7, 2018	Retained earnings

Notes: Total dividends resolved on meeting of the Board of Directors on November 1, 2018 include ¥7 millions which are dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

(Translation purposes only)

(Segment information)

Segment information

I. Six months ended September 30, 2017 (From April 1, 2017 to September 30, 2017)

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	252,490	63,718	223,584	214,440	754,232	19,259	773,491	–	773,491
(2) Intersegment sales and transfers	1,486	2,938	3,517	1,043	8,984	10,841	19,825	(19,825)	–
Total	253,976	66,656	227,101	215,483	763,216	30,100	793,316	(19,825)	773,491
Segment profit (loss) (Operating profit (loss))	(5,093)	5,663	7,439	29,530	37,539	(291)	37,248	(2,626)	34,622

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 ¥365 million and unallocated corporate expenses of negative ¥2,991 million.

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

2. Matters about change and others in reportable segments

(Changes to the fiscal year for consolidated subsidiaries and others)

Effective from the previous fiscal year, the closing date of the fiscal year for 47 companies including IHI INC. has been changed from December 31 to March 31, and eight companies including Wuxi IHI Turbo Co., Ltd. have been consolidated using March 31 as a provisional closing date.

As a result, for the six months ended September 30, 2017, 55 companies including IHI INC. had a six-month accounting period.

In the period from January 1, 2017 through March 31, 2017 included in the six months ended September 30, 2017, sales for each segment were ¥28,902 million for the Resources, Energy and Environment segment, ¥27,800 million for the Industrial System and General-Purpose Machinery segment, and ¥183 million for the Aero Engine, Space and Defense segment. Operating profit was ¥1,616 million for the Industrial System and General-Purpose Machinery segment, and ¥72 million for the Aero Engine, Space and Defense segment. Operating loss was ¥117 million for Resources, Energy and Environment segment, and ¥1 million for the Social Infrastructure and Offshore Facility segment.

3. 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)

II. Six months ended September 30, 2018 (From April 1, 2018 to September 30, 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	193,474	57,239	206,022	223,372	680,107	19,400	699,507	-	699,507
(2) Intersegment sales and transfers	1,131	3,508	3,951	1,094	9,684	11,093	20,777	(20,777)	-
Total	194,605	60,747	209,973	224,466	689,791	30,493	720,284	(20,777)	699,507
Segment profit (loss) (Operating income (loss))	11,580	4,079	8,155	23,925	47,739	491	48,230	(3,013)	45,217

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 ¥80 million and unallocated corporate expenses of negative ¥2,933 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	Boilers, power systems plants for land use, power systems for land and marine use, large power systems for ships, process plants (storage facilities and chemical plants), nuclear power (components for nuclear power plants), environmental response systems, pharmaceutical plants
Social Infrastructure and Offshore Facility	Bridges/water gates, shield systems, transport systems, concrete construction materials, urban development (real estate sales and rental), F-LNG (floating LNG storage facilities, offshore structures)
Industrial System and General-Purpose Machinery	Logistics/industrial systems (logistics systems, industrial machineries), transport machineries, parking, thermal and surface treatment, vehicular turbochargers, rotating machineries (compressors, separation systems, turbochargers for ships), agricultural machineries/small power systems, steel manufacturing equipment, paper-making machineries
Aero Engine, Space and Defense	Aero engines, rocket systems/space utilization systems (space-related equipment), 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)

In the Social Infrastructure and Offshore Facility segment, impairment loss on business assets was recorded. The amount of such impairment loss recorded was ¥28 million for the six months ended September 30, 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 six months ended September 30, 2018.

(Material change in goodwill amount)

Not applicable

(Material gain on bargain purchase)

Not applicable

(Financial instruments)

There are no significant changes to the amounts recorded in the quarterly consolidated balance sheet and other

(Translation purposes only)

amounts associated with financial instruments, compared with the last day of the previous fiscal year.

(Securities)

There are no significant changes to the amounts recorded in the quarterly consolidated balance sheet and other amounts associated with securities, compared with the last day of the previous fiscal year.

(Derivatives)

There are no significant changes to the notional amount and amounts of other items of derivatives at the end of the quarter under review, compared with the last day of the previous fiscal year.

(Per share information)

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

	Six months ended September 30, 2017	Six months ended September 30, 2018
(1) Basic earnings per share (Yen)	44.57	184.23
(Fundamentals)		
Amounts for profit attributable to owners of parent (Millions of yen)	6,882	28,429
Amounts for non-common shareholders (Millions of yen)	–	–
Amounts for profit attributable to owners of parent regarding common stock (Millions of yen)	6,882	28,429
Average number of shares of common stock (Thousands of shares)	154,398	154,315
(2) Diluted earnings per share (Yen)	44.54	184.09
(Fundamentals)		
Adjustment amount of profit attributable to owners of parent (Millions of yen)	–	–
Increase in number of shares of common stock (Thousands of shares)	123	112
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. IHI conducted a consolidation of common stock on a 10 for 1 basis on October 1, 2017.

Basic earnings per share and diluted earnings per share have been calculated under the assumption that this consolidation of common stock was conducted on April 1, 2017.

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 shares outstanding and the average number of shares. The average number of treasury shares outstanding during the period excluded from the calculation of basic earnings per share and diluted earnings per share at the six months ended September 30 of 2017 and 2018 are 111,000 shares and 137,975 shares respectively.

(Significant subsequent events)

Not applicable

2. Others

At the Board of Directors' meeting held on November 1, 2018, the following details concerning the interim dividend were resolved.

Total amount allocated for the interim dividend	4,634 millions of yen
Dividends per share	30 yen
Effective date and payment date	December 7, 2018

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, 2018.

(Translation purposes only)

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

Not applicable