

(Translation purposes only)

# Quarterly Securities Report

(The Third Quarter of 202nd Term)

From October 1, 2018 to December 31, 2018

IHI Corporation

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Cover page

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Quarterly accounting period	The Third Quarter of 202nd term (from October 1, 2018 to December 31, 2018)
Company name	株式会社 I H I (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
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## Part 1. Company information

### I. Overview of company

#### 1. Summary of business results

Term	201st term Nine months ended December 31, 2017	202nd term Nine months ended December 31, 2018	201st term
Accounting period	From April 1, 2017 To December 31, 2017	From April 1, 2018 To December 31, 2018	From April 1, 2017 To March 31, 2018
Net sales (Millions of yen)	1,131,315	1,047,235	1,590,333
Ordinary profit (Millions of yen)	29,625	57,573	21,425
Profit attributable to owners of parent (Millions of yen)	9,842	34,175	8,291
Comprehensive income (Millions of yen)	18,658	35,239	16,774
Net assets (Millions of yen)	350,411	376,495	350,217
Total assets (Millions of yen)	1,677,032	1,717,173	1,633,488
Basic earnings per share (Yen)	63.75	221.49	53.71
Diluted earnings per share (Yen)	63.70	221.34	53.67
Shareholders' equity ratio (%)	19.55	20.17	19.87

Term	201st term Third quarter of the fiscal year ended March 31, 2018	202nd term Third quarter of the fiscal year ending March 31, 2019
Accounting period	From October 1, 2017 To December 31, 2017	From October 1, 2018 To December 31, 2018
Basic earnings per share (Yen)	19.18	37.25

- 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 nine months ended December 31, 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 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.

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## 2. Description of business

IHI and its affiliated entities (150 consolidated subsidiaries, a non-consolidated subsidiary accounted for equity method and 28 affiliates accounted for using equity method as of December 31, 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 nine months ended December 31, 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.

### (Resources, Energy and Environment)

From the third quarter of the fiscal year ending March 31, 2019, TOSHIBA IHI Power Systems Corporation is excluded from the scope of consolidation because its importance has diminished.

### (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.

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## II. Overview of business

### 1. Business risks

There were no new occurrences of business risks in the nine months ended December 31, 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 December 31, 2018.

#### (1) Overview of business results

During the nine months ended December 31, 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. In the global economy, although overall moderate growth continued, bolstered by steady growth in the U.S., the uncertain outlook regarding U.S. trade problems and policies in Europe has increased further.

Under this business environment, orders received of the IHI Group during the nine months ended December 31, 2018 decreased 4.4% from the previous corresponding period to ¥934.5 billion. Net sales also decreased 7.4% from the previous corresponding period to ¥1,047.2 billion.

In terms of profit, operating profit increased by ¥5.1 billion to ¥56.6 billion. Although profitability in the Civil aero engines Business deteriorated owing to increases in the number of new-model engines sold, the issue regarding deterioration of profitability in large projects under way in North America in the Process plants Business is being brought under control on the whole. Ordinary profit, increasing by ¥27.9 billion to ¥57.5 billion, saw an expanding of profit margin gain due mainly to the positive turn in share of profit of entities accounted for using equity method and a decrease of non-operating expenses. Profit attributable to owners of parent was ¥34.1 billion, an increase of ¥24.3 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 12-month accounting period in the nine months ended December 31, 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 nine months ended December 31, 2018 are as follows:

Reportable segment	Orders received			Nine months ended December 31, 2017		Nine months ended December 31, 2018		Change from the previous corresponding period (%)	
	Nine months ended December 31, 2017	Nine months ended December 31, 2018	Change from the previous corresponding period (%)	Sales	Operating profit (loss)	Sales	Operating profit (loss)	Sales	Operating profit (loss)
Resources, Energy and Environment	265.1	216.7	(18.3)	351.8	(10.7)	271.6	4.0	(22.8)	–
Social Infrastructure and Offshore Facility	104.5	83.2	(20.4)	104.6	8.4	94.9	7.6	(9.3)	(10.0)
Industrial System and General-Purpose Machinery	352.6	351.2	(0.4)	331.4	10.9	314.1	13.2	(5.2)	21.5
Aero Engine, Space and Defense	235.8	254.9	8.1	326.5	46.7	349.3	35.8	7.0	(23.3)
Total Reportable Segment	958.2	906.1	(5.4)	1,114.6	55.4	1,030.0	60.8	(7.6)	9.8
Others	55.4	61.6	11.3	46.3	0.8	47.1	1.1	1.9	24.0
Adjustment	(36.1)	(33.3)	–	(29.6)	(4.7)	(29.9)	(5.2)	–	–
Total	977.5	934.5	(4.4)	1,131.3	51.5	1,047.2	56.6	(7.4)	9.9

(Billions of yen)

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<Resources, Energy and Environment>

Orders received decreased owing to a reverse effect of receiving a large-scale overseas 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 increased mainly because the issue regarding deterioration of profitability in the Process plants Business in FY2017 is being brought under control on the whole and a decrease in selling, general and administrative expenses.

<Social Infrastructure and Offshore Facility>

Orders received decreased owing to a reverse effect of receiving a large-scale overseas project in the Bridges/water gates Business in FY2017.

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 and the Shield systems Business, while increased in the Bridges/water gates 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 Transport machineries Business, the Logistics/industrial systems Business, the Vehicular turbochargers Business.

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.

Operating profit increased from the previous corresponding period, due to the above-mentioned increases in sales and the improvement of profitability in the Thermal and surface treatment Business, the Parking Business, 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 third quarter ended December 31, 2018, were ¥1,717.1 billion, up ¥83.6 billion compared with the end of the previous fiscal year. The items with the most significant increases were inventories including work in process, up ¥67.0 billion, other current assets including advance payments - trade, up ¥36.3 billion and investment securities, up ¥21.6 billion. The items with the most significant decreases were notes and accounts receivable - trade, down ¥31.0 billion and cash and deposits, down ¥22.0 billion.

Total liabilities were ¥1,340.6 billion, up of ¥57.4 billion compared with the end of the previous fiscal year. The items with the most significant increase were commercial papers, up ¥70.0 billion, short-term loans payable, up ¥39.0 billion. The items with the most significant decreases were notes and accounts payable - trade, down ¥26.4 billion, advances received, down ¥16.3 billion. The balance on interest-bearing debt, including lease obligations, was ¥439.1 billion, up ¥116.8 billion from the end of the previous fiscal year.

Net assets were ¥376.4 billion, up ¥26.2 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥34.1 billion and decrease due to payment of dividends of ¥9.2 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 20.2%.

(3) Analysis of capital resources and funding liquidity

At the end of the third quarter ended December 31, 2018, the balance of interest-bearing debt, including lease obligations, was ¥439.1 billion, up ¥116.8 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 ¥85.3 billion at the end of the third quarter ended December 31, 2018. This balance

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means that the IHI Group has secured sufficient liquidity.

(4) Research and development activities

In the nine months ended December 31, 2018, the IHI Group spent ¥23.7 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, 2018.

(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, 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”, regarding initiatives undertaken to “change” business structures and business models, the IHI Group evaluates a certain level of results has been generated by implementing rehabilitation and reorganization on businesses with viability concerns.

Hereafter, in order to enhance profitability, the IHI Group continues to progress the business structural reforms by means of “optimal allocation of business resources” towards priority fields. In view of these situations, the IHI Group is currently drawing up the new medium-term management plan to accelerate the actions against various issues swiftly responding to changes in environments.

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, 2018 are as following.

Name of Contracting Company	Name of Counterparty	Country	Licensed Products	Details	Contract Period
IHI	ROLLS-ROYCE CORPORATION	U.S.A.	T56-A turboprop engine	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From November 7, 2008 to October 31, 2028

Note: In the contract listed above, the original contract period that was to October 31, 2018 was extended to October 31, 2028.

Name of Contracting Company	Name of Counterparty	Country	Licensed Products	Details	Contract Period
Diesel United, 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, 2019

Note: In the contract listed above, the original contract period that was to December 31, 2018 was extended to December 31, 2019.



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### 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, 2018)	Number of issued shares as of the filing date (Shares) (February 13, 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 February 1, 2019 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 October 1, 2018 to December 31, 2018	–	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.

##### (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, 2018, 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, 2018).

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(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.

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#### 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, 2019 (from October 1, 2018 to December 31, 2018) and the nine months ended December 31, 2018 (from April 1, 2018 to December 31, 2018) were reviewed by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

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1. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
<b>Assets</b>		
Current assets		
Cash and deposits	109,028	86,967
Notes and accounts receivable - trade	*2 *3 400,330	*2 *3 369,321
Finished goods	25,647	28,854
Work in process	282,245	330,072
Raw materials and supplies	120,630	136,627
Other	59,758	96,157
Allowance for doubtful accounts	(4,164)	(4,371)
Total current assets	993,474	1,043,627
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	131,035	131,992
Other, net	218,011	230,965
Total property, plant and equipment	349,046	362,957
Intangible assets		
Goodwill	12,231	9,829
Other	23,789	22,433
Total intangible assets	36,020	32,262
Investments and other assets		
Investment securities	99,284	120,926
Other	157,388	159,121
Allowance for doubtful accounts	(1,724)	(1,720)
Total investments and other assets	254,948	278,327
Total non-current assets	640,014	673,546
Total assets	1,633,488	1,717,173
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	*3 304,928	*3 278,458
Short-term loans payable	81,515	120,607
Commercial papers	-	70,000
Current portion of bonds	-	20,000
Income taxes payable	8,075	16,632
Advances received	177,819	161,465
Provision for bonuses	26,119	16,118
Provision for construction warranties	53,727	50,515
Provision for loss on construction contracts	27,266	20,966
Other provision	808	667
Other	131,398	123,743
Total current liabilities	811,655	879,171
Non-current liabilities		
Bonds payable	50,000	30,000
Long-term loans payable	172,533	182,732
Net defined benefit liability	154,125	154,309
Provision for loss on business of subsidiaries and affiliates	1,188	1,215
Other provision	1,150	1,046
Other	92,620	92,205
Total non-current liabilities	471,616	461,507
Total liabilities	1,283,271	1,340,678

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(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Net assets		
Shareholders' equity		
Capital stock	107,165	107,165
Capital surplus	53,406	53,402
Retained earnings	153,564	178,302
Treasury shares	(879)	(1,231)
Total shareholders' equity	313,256	337,638
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,034	569
Deferred gains or losses on hedges	(286)	(215)
Revaluation reserve for land	5,359	5,321
Foreign currency translation adjustment	3,679	2,461
Remeasurements of defined benefit plans	559	568
Total accumulated other comprehensive income	11,345	8,704
Subscription rights to shares	792	729
Non-controlling interests	24,824	29,424
Total net assets	350,217	376,495
Total liabilities and net assets	1,633,488	1,717,173

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(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, 2017	Nine months ended December 31, 2018
Net sales	1,131,315	1,047,235
Cost of sales	932,367	849,691
Gross profit	198,948	197,544
Selling, general and administrative expenses	147,404	140,875
Operating profit	51,544	56,669
Non-operating income		
Interest income	1,085	641
Dividend income	873	1,091
Share of profit of entities accounted for using equity method	–	6,765
Foreign exchange gains	–	132
Other income	1,908	4,619
Total non-operating income	3,866	13,248
Non-operating expenses		
Interest expenses	2,285	2,362
Share of loss of entities accounted for using equity method	11,087	–
Foreign exchange loss	139	–
Expenses for delayed delivery	4,582	245
Payments for contract adjustments for civil aero engines	*1 6,488	–
Other expenses	1,204	9,737
Total non-operating expenses	25,785	12,344
Ordinary profit	29,625	57,573
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	–	*2 4,200
Gain on transfer of business	*3 1,586	*3 1,108
Total extraordinary income	1,586	5,308
Extraordinary losses		
Impairment loss	–	*4 1,603
Settlement-related expenses related to boiler facilities in customer's commercial operation	*5 2,932	–
Total extraordinary losses	2,932	1,603
Profit before income taxes	28,279	61,278
Income taxes	14,982	18,796
Income taxes for prior periods	–	*6 4,304
Profit	13,297	38,178
Profit attributable to non-controlling interests	3,455	4,003
Profit attributable to owners of parent	9,842	34,175

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Quarterly consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Profit	13,297	38,178
Other comprehensive income		
Valuation difference on available-for-sale securities	406	(1,289)
Deferred gains or losses on hedges	(111)	(118)
Revaluation reserve for land	–	(12)
Foreign currency translation adjustment	4,256	(1,394)
Remeasurements of defined benefit plans, net of tax	80	40
Share of other comprehensive income of entities accounted for using equity method	730	(166)
Total other comprehensive income	5,361	(2,939)
Comprehensive income	18,658	35,239
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	14,759	31,692
Comprehensive income attributable to non- controlling interests	3,899	3,547

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## 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.

From the third quarter of the fiscal year ending March 31, 2019,, TOSHIBA IHI Power Systems Corporation is excluded from the scope of consolidation because its importance has diminished.

### (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 nine months ended December 31, 2018 was immaterial.

(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, 2018 are calculated by multiplying profit before income taxes for the nine months ended December 31, 2018 by the reasonably estimated effective tax rate for the fiscal year including the third quarter ended December 31, 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 nine months ended December 31, 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 December 31, 2018	
Japanese Aero Engines Corporation ("JAEC")	6,573	JAEC	6,318
ALPHA Automotive Technologies LLC	1,400	ALPHA Automotive Technologies LLC	1,077
IHI group health insurance society	492	Japan Aeroforge, Ltd.	443
Japan Aeroforge, Ltd.	472	Contingent liabilities for employee housing loans	270
Contingent liabilities for employee housing loans	299	Chubu Segment Co., Ltd.	25
Chubu Segment Co., Ltd.	25		
Total	9,261	Total	8,133

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

(Millions of yen)			
As of March 31, 2018		As of December 31, 2018	
Contingent liabilities for employee housing loans	5,602	Contingent liabilities for employee housing loans	5,018
IHI group health insurance society	540		
Total	6,142	Total	5,018

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 December 31, 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 December 31, 2018
Notes receivable - trade discounted in the ordinary course of business	97	15
Notes receivable - trade endorsed in the ordinary course of business	49	38

\*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, 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 third quarter ended December 31, 2018.

	(Millions of yen)	
	As of March 31, 2018	As of December 31, 2018
Notes receivable - trade	1,763	1,922
Notes payable - trade	1,300	778

(Quarterly consolidated statement of income)

\*1. Payments for contract adjustments for civil aero engines

Nine months ended December 31, 2017 (From April 1, 2017 to December 31, 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.

\*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, 2017 (From April 1, 2017 to December 31, 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 October 1, 2017. The gains arising from these transfers have been recorded as gain on transfer of business in extraordinary income.

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

(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 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
<u>Total</u>	<u>1,603</u>

\*5. Settlement-related expenses related to boiler facilities in customer’s commercial operation

Nine months ended December 31, 2017 (From April 1, 2017 to December 31, 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.

\*6. 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.”

(Translation purposes only)

(Quarterly consolidated statement of cash flows)

A quarterly consolidated statement of cash flows relating to the nine months ended December 31, 2018, 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, 2017	Nine months ended December 31, 2018
Depreciation	38,742	37,091
Amortization of goodwill	3,277	2,323

(Shareholders' equity)

I. Nine months ended December 31, 2017 (From April 1, 2017 to December 31, 2017)

1. Dividends paid

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 million 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.

2. Dividends which the cutoff date was in the nine months ended December 31, 2017 and the effective date of which is after the end of the third quarter of the fiscal year ended March 31, 2018

Not applicable

II. 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)	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
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 was the value of 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 include ¥7 million which are 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 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

(Translation purposes only)

(Segment information)

Segment information

I. Nine months ended December 31, 2017 (From April 1, 2017 to December 31, 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	349,897	100,255	325,711	324,905	1,100,768	30,547	1,131,315	–	1,131,315
(2) Intersegment sales and transfers	1,993	4,437	5,755	1,685	13,870	15,775	29,645	(29,645)	–
Total	351,890	104,692	331,466	326,590	1,114,638	46,322	1,160,960	(29,645)	1,131,315
Segment profit (loss) (Operating profit (loss))	(10,723)	8,480	10,930	46,745	55,432	890	56,322	(4,778)	51,544

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 ¥79 million and unallocated corporate expenses of negative ¥4,857 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 42 companies including IHI INC. has been changed from December 31 to March 31, and 13 companies including Wuxi IHI Turbo Co., Ltd. have been consolidated using March 31 as a provisional closing date.

As a result, for the nine months ended December 31, 2017, 55 companies including IHI INC. had a 12-month accounting period.

In the period from January 1, 2017 through March 31, 2017 included in the nine months ended December 31, 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. 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.

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 ¥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)

(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, 2017	Nine months ended December 31, 2018
(1) Basic earnings per share (Yen)	63.75	221.49
(Fundamentals)		
Amounts for profit attributable to owners of parent (Millions of yen)	9,842	34,175
Amounts for non-common shareholders (Millions of yen)	–	–
Amounts for profit attributable to owners of parent regarding common stock (Millions of yen)	9,842	34,175
Average number of shares of common stock (Thousands of shares)	154,372	154,295
(2) Diluted earnings per share (Yen)	63.70	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)	121	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. 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 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 nine months ended December 31 of 2017 and 2018 are 111,000 shares and 164,950 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