

(Translation purposes only)

# Quarterly Securities Report

(The First Quarter of 205th Term)

From April 1, 2021 to June 30, 2021

IHI Corporation

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Cover page

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Filing date	August 11, 2021
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Company name	株式会社 I H I (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
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Note: In this report, IHI Corporation is hereinafter referred to as “IHI” and together with its consolidated subsidiaries as the “IHI Group”.

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## Part 1. Company information

### I. Overview of company

#### 1. Summary of business results

##### (1) Business results of group (Consolidated)

Term	204th term Three months ended June 30, 2020	205th term Three months ended June 30, 2021	204th term
Accounting period	From April 1, 2020 To June 30, 2020	From April 1, 2021 To June 30, 2021	From April 1, 2020 To March 31, 2021
Revenue (Millions of yen)	217,594	245,262	1,112,906
Operating profit (loss) (Millions of yen)	(7,916)	20,259	27,961
Profit (loss) before tax (Millions of yen)	(6,917)	21,746	27,617
Profit (loss) attributable to owners of parent (Millions of yen)	(6,167)	14,179	13,093
Comprehensive income attributable to owners of parent (Millions of yen)	(4,529)	14,127	24,010
Equity attributable to owners of parent (Millions of yen)	272,586	314,401	300,769
Total assets (Millions of yen)	1,797,950	1,771,849	1,832,891
Basic earnings (loss) per share (Yen)	(41.49)	95.47	88.13
Diluted earnings (loss) per share (Yen)	(41.49)	95.46	88.13
Ratio of equity attributable to owners of parent (%)	15.16	17.74	16.41
Cash flows from operating activities (Millions of yen)	(26,698)	1,624	36,380
Cash flows from investing activities (Millions of yen)	(24,566)	9,151	(40,482)
Cash flows from financing activities (Millions of yen)	(12,880)	(45,850)	(23,712)
Cash and cash equivalents at end of period (Millions of yen)	81,803	85,744	120,766

Notes: 1. Summary of business results of the reporting company are not presented, because IHI prepares condensed quarterly consolidated financial statements.

2. Revenue does not include consumption taxes.

3. Monetary amounts and ratios less than one unit are rounded off.

4. The results above are based on condensed quarterly consolidated financial statements and consolidated financial statements in accordance with International Financial Reporting Standards.

(Translation purposes only)

## 2. Description of business

IHI and its affiliated companies (150 consolidated subsidiaries and 28 associates accounted for using the equity method as of June 30, 2021) operate four main businesses, providing a diverse range of products. The four businesses are: Resources, Energy and Environment; Social Infrastructure and Offshore Facilities; Industrial Systems and General-Purpose Machinery; and Aero Engine, Space and Defense.

In the three months ended June 30, 2021, there were no significant changes in the contents of the businesses operated by the IHI Group (IHI and its affiliated entities). Changes in principle affiliated companies are as follows.

(Resources, Energy and Environment)

From the first quarter of the fiscal year ending March 31, 2022, one subsidiary of JURONG ENGINEERING LIMITED ceased to exist because its liquidation was completed.

(Translation purposes only)

## II. Overview of business

### 1. Business risks

There were no new occurrences of business risks in the three months ended June 30, 2021.

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

We will continue to closely monitor the impact due to the spread of COVID-19 that affect the business of the IHI Group.

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

Note that forward-looking statements are based on the Group's judgments as of the end of the first quarter (June 30, 2021).

#### (1) Overview of operating results

During the three months ended June 30, 2021, in the Japanese economy, the restrictions on economic activities continued against the impact of COVID-19 in some industries while recovery is shown especially in the corporate sector where a recovery in business performance was remarkable. In addition, as a result of progress of vaccination programs and economic policies, the world economy, centered on the U.S. and China, is showing signs of recovery. However, the spread of variant of COVID-19 is hindering full-scale recovery.

Regarding the impact of the spread of COVID-19, in the IHI Group's main business, the Civil aero engines Business, sales of spare parts are gradually recovering along with the recovery of the demand for aero transportation on domestic routes especially in North America where vaccination programs is processing. On the other hand, on international routes, immigration restrictions still continue due to the worldwide spread of highly contagious variant of COVID-19. It is expected to be after FY2022 as previously assumed when the demand for aero transportation on international routes will increase as vaccination is progressing and the demand for Civil aero engines will recover to the level before the spread of COVID-19.

Under this business environment, orders received of the IHI Group during the three months ended June 30, 2021 increased 29.7% from the previous corresponding period to ¥241.5 billion. Revenue increased 12.7% from the previous corresponding period to ¥245.2 billion.

In terms of profit, all the profit items turned into profit. Operating profit increased ¥28.1 billion to ¥20.2 billion due mainly to sale of Property, plant and equipment, etc. in addition to the improvement of profitability in the Carbon solutions Business and increase in the numbers of delivery in the Vehicular turbochargers Business. Profit before tax increased ¥28.6 billion to ¥21.7 billion, profit attributable to owners of parent increased ¥20.3 to ¥14.1 billion.

(Translation purposes only)

Results by reportable segment for the three months ended June 30, 2021 are as follows:

(Billions of yen)

Reportable segment	Orders received			Three months ended June 30, 2020		Three months ended June 30, 2021		Changes from the previous corresponding period (%)	
	Three months ended June 30, 2020	Three months ended June 30, 2021	Changes from the previous corresponding period (%)	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)
Resources, Energy and Environment	458	608	32.9	640	(29)	748	(2)	16.8	–
Social Infrastructure and Offshore Facilities	289	447	54.5	319	17	346	24	8.4	38.1
Industrial Systems and General-Purpose Machinery	740	916	23.6	779	(14)	888	29	14.0	–
Aero Engine, Space and Defense	319	388	21.8	427	(54)	441	(69)	3.4	–
Reportable segment total	1,807	2,361	30.6	2,166	(79)	2,424	(18)	11.9	–
Others	146	144	(1.7)	94	(1)	109	1	16.1	–
Adjustments	(92)	(90)	–	(85)	1	(81)	218	–	–
Total	1,862	2,415	29.7	2,175	(79)	2,452	202	12.7	–

<Resources, Energy and Environment>

Orders received increased in the Power systems Business.

Revenue increased in the Carbon Solutions Business and the Nuclear energy Business.

Operating loss decreased due to increased revenue and improved profitability in the Carbon solutions Business.

<Social Infrastructure and Offshore Facilities>

Orders received increased in the Bridges and water gates Business.

Revenue increased in the Bridges and water gates Business, etc., while decreased due to the decline in real estate sales in the Urban development Business.

Operating income increased due to increased revenue and improved profitability in the Bridges and water gates Business, etc., while decreased due to the decline in revenue in the Urban development Business.

<Industrial Systems and General-Purpose Machinery>

Orders received increased in the Vehicular turbochargers and the Heat treatment and surface engineering Business.

Revenue increased in the Vehicular turbochargers Business and the Heat treatment and surface engineering Business, while decreased in the Transport machineries Business.

Operating profit became profitable due to increased revenue and improved profitability in the Vehicular turbochargers Business and the Heat treatment and surface engineering Business.

<Aero Engine, Space and Defense>

Orders received increased in the Rocket systems and space utilization systems Business.

Revenue increased in the Civil aero engines Business, while decreased in the Rocket systems and space utilization systems Business.

Operating loss increased due to an increase in revenue of newly made engines with heavy burden in early stage, while profit increased due to increased sales of spare parts in the Civil aero engines Business.

(Translation purposes only)

(2) Analysis of financial position

Total assets at the end of the first quarter ended June 30, 2021 were ¥1,771.8 billion, down ¥61.0 billion compared with the end of the previous fiscal year. The major items of increase were inventories, up ¥26.5 billion and contract assets, up ¥10.6 billion. The major items of decrease were trade and other receivables, down ¥68.2 billion and cash and cash equivalents, down ¥35.0 billion.

Total liabilities were ¥1,430.2 billion, down ¥74.8 billion compared with the end of the previous fiscal year. The major items of decrease were bonds and borrowings(current), down ¥41.3 billion and trade and other payables, down ¥26.3 billion.

Equity was ¥341.5 billion, up ¥13.8 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥14.1 billion.

As a result of the above, the ratio of equity attributable to owners of parent increased from 16.4% at the end of the previous fiscal year to 17.7%.

(3) Cash flows

At the end of the first quarter, the outstanding balance of cash and cash equivalents (hereinafter, "cash") was ¥85.7 billion, down ¥35.0 billion from the end of the previous fiscal year.

Key factors influencing each cash flow during the three months ended June 30, 2021 are summarized below.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥1.6 billion (the previous corresponding period: use of ¥26.6 billion). This was due to increases in collection of trade receivables, while there were increases in inventories and prepayments and decreases in trade payables.

(Cash flows from investing activities)

Net cash provided by investing activities was ¥9.1 billion (the previous corresponding period: use of ¥24.5 billion). This was due mainly to proceeds from sale of property, plant and equipment, while there were purchases of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities was ¥45.8 billion (the previous corresponding period: use of ¥12.8 billion). This was due mainly to repayments of borrowings.

(4) Analysis of capital resources and funding liquidity

The IHI Group obtains working capital and funds for capital expenditures by means of loans, bonds, and commercial papers, as well as by using cash on hand. At the end of the first quarter ended June 30, 2021, the balance of interest bearing liabilities, including lease liabilities, was ¥564.8 billion, down ¥41.0 billion from the end of the previous fiscal year. This primarily reflected repayments of external borrowings and redemption of bonds that are due for repayment.

At the end of the first quarter ended June 30, 2021, the outstanding balance of cash and cash equivalents was ¥85.7 billion, down ¥35.0 billion from the end of the previous fiscal year. This primarily reflected repayment of interest bearing liabilities. Regarding funding liquidity, in addition to overdraft facilities with major banks, we have a diverse range of fund procurement methods such as credit line commitments and commercial papers. Together with the cash and cash equivalents mentioned above, IHI Group has secured sufficient liquidity.

(5) Research and development (R&D) activities

In the three months ended June 30, 2021, the IHI Group spent ¥6.1 billion on R&D. There were no significant changes in the status of R&D activities of the IHI Group in the three months ended June 30, 2021.

(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 three months ended June 30, 2021.

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

To respond to the speed of change in these environments, the IHI Group is promoting "Project Change" aimed returning to growth trajectory by further strengthening earnings foundations and expanding the lifecycle businesses, and creating growth businesses that contribute to the realization of a sustainable society. During the three months ended June 30, 2021, IHI started business development to realize a carbon-free society in the field of energy, such as adopting a demonstration project related to ammonia co-firing at a large-scale commercial coal-fired power plant, and entering the Small Modular Reactor (SMR) market by investing in NuScale Power, LLC (NuScale), a U.S.-based developer of SMR technology with a high level of safety.

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



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3. Material contracts for operation  
(Licensing-in contracts)

Material contract that has been renewed by extending the contract period in the first quarter ended June 30, 2021 is as follows.

Name of Contracting Company	Name of Counterparty	Country	Licensed Products	Details	Contract Period
IHI	GEAE TECHNOLOGY, INC.	U.S.A.	F110-129 turbofan engine	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From September 27, 1996 to April 30, 2030

Note: In the contract listed above, the original contract period that was to April 30, 2024 was extended to April 30, 2030.

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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

Type	Total number of authorized shares (Shares)
Ordinary shares	300,000,000
Total	300,000,000

###### (ii) Issued shares

Type	Number of issued shares as of the end of the first quarter (Shares) (June 30, 2021)	Number of issued shares as of the filing date (Shares) (August 11, 2021)	Name of stock exchange on which IHI is listed or names of authorized financial instruments firms associations where IHI is registered	Description
Ordinary shares	154,679,954	154,679,954	First Section of Tokyo Stock Exchange and Nagoya Stock Exchange, Fukuoka Stock Exchange, Sapporo Securities Exchange	The number of shares constituting one unit is 100 shares.
Total	154,679,954	154,679,954	–	–

Note: The “Number of issued shares as of the filing date” column does not include the number of shares issued upon exercise of share acquisition rights between August 1, 2021 and the filing date of this Quarterly Securities Report.

##### (2) Share acquisition rights, etc.

###### (i) Details of stock option plans

Not applicable.

###### (ii) Other matters regarding share acquisition rights, etc.

Not applicable

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

Not applicable

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

Period	Changes in number of issued shares (Thousand shares)	Balance of number of issued shares (Thousand shares)	Changes in share capital (Millions of yen)	Balance of share capital (Millions of yen)	Changes in legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
From April 1, 2021 to June 30, 2021	–	154,679	–	107,165	–	54,520

(5) Major shareholders

The major shareholders are not presented because the current quarterly accounting period is the first 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 June 30, 2021, the information is stated not from its register; rather it is stated from the shareholder register of the immediately preceding cut-off date (March 31, 2021).

(i) Issued shares

(As of March 31, 2021)

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) Ordinary shares 5,612,900	–	–
	(reciprocally held shares) Ordinary shares 20,200	–	
Shares with full voting rights (others)	Ordinary shares 148,828,200	1,488,282	–
Shares less than one unit	Ordinary shares 218,654	–	Shares less than one unit (100 shares)
Number of issued shares	154,679,954	–	–
Total number of voting rights	–	1,488,282	–

- Notes:
1. Ordinary shares in “Shares less than one unit” include 48 shares of treasury shares held by IHI.
  2. Ordinary shares in “Shares with full voting right (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 and included in the figure in “Number of voting rights.”
  3. Ordinary shares in “Shares with full voting rights (others)” include 552,400 shares of IHI owned by a trust account for the Board Benefit Trust.

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(ii) Treasury shares, etc.

(As of March 31, 2021)

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	5,612,900	—	5,612,900	3.62
(Reciprocally held shares)					
Kondo Tekko Co., Ltd.	10-5, Yaesu 2-chome, Chuo-ku, Tokyo	20,200	—	20,200	0.01
Total	—	5,633,100	—	5,633,100	3.63

Note: 552,400 shares of IHI owned by a trust account for the Board Benefit Trust 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 condensed quarterly consolidated financial statements

The condensed quarterly consolidated financial statements of the IHI Group are prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* pursuant to the Article 93 of the Regulation on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Order No.64 of 2007)

2. Audit attestation

The condensed quarterly consolidated financial statements for the first quarter of the fiscal year on March 31, 2022 (from April 1, 2021 to June 30, 2021) and three months ended June 30, 2021 (from April 1, 2021 to June 30, 2021) 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. Condensed quarterly consolidated financial statements

(1) Condensed quarterly consolidated statement of financial position

		(Millions of yen)	
	Notes	As of March 31, 2021	As of June 30, 2021
Assets			
Current assets			
Cash and cash equivalents	10	120,766	85,744
Trade and other receivables	10	344,535	276,295
Contract assets	10	111,830	122,452
Other financial assets	10	1,391	3,216
Inventories		326,470	353,019
Other current assets		41,668	52,098
Total current assets		946,660	892,824
Non-current assets			
Property, plant and equipment		252,510	245,802
Right-of-use assets		117,794	116,515
Goodwill		5,876	5,744
Intangible assets		121,265	120,232
Investment property		144,183	142,716
Investments accounted for using equity method		48,460	54,683
Other financial assets	10	49,056	47,258
Deferred tax assets		70,455	70,094
Other non-current assets		76,632	75,981
Total non-current assets		886,231	879,025
Total assets		1,832,891	1,771,849

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		(Millions of yen)	
	Notes	As of March 31, 2021	As of June 30, 2021
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	10	234,451	208,090
Bonds and borrowings	10	158,377	117,041
Lease liabilities	10	17,630	17,353
Other financial liabilities	10	11,742	11,851
Income taxes payable		5,125	7,972
Contract liabilities		165,818	168,378
Provisions		26,738	24,970
Other current liabilities		144,907	132,231
Total current liabilities		<u>764,788</u>	<u>687,886</u>
Non-current liabilities			
Bonds and borrowings	10	304,735	306,966
Lease liabilities	10	125,193	123,520
Other financial liabilities	10	103,428	103,325
Deferred tax liabilities		3,132	3,198
Retirement benefit liability		180,720	182,043
Provisions		6,338	7,162
Other non-current liabilities		16,830	16,185
Total non-current liabilities		<u>740,376</u>	<u>742,399</u>
Total liabilities		1,505,164	1,430,285
Equity			
Share capital		107,165	107,165
Capital surplus		51,735	51,637
Retained earnings		148,428	161,322
Treasury shares		(15,953)	(15,943)
Other components of equity		9,394	10,220
Total equity attributable to owners of parent		<u>300,769</u>	<u>314,401</u>
Non-controlling interests		26,958	27,163
Total equity		<u>327,727</u>	<u>341,564</u>
Total liabilities and equity		<u><u>1,832,891</u></u>	<u><u>1,771,849</u></u>

(Translation purposes only)

(2) Condensed quarterly consolidated statement of profit or loss and consolidated statement of comprehensive income

Condensed quarterly consolidated statement of profit or loss

(Millions of yen)

	Notes	Three months ended June 30, 2020	Three months ended June 30, 2021
Revenue	5,7	217,594	245,262
Cost of sales		188,445	206,237
Gross profit		29,149	39,025
Selling, general and administrative expenses		37,128	40,418
Other income	8	1,321	22,980
Other expenses		1,258	1,328
Operating profit (loss)	5	(7,916)	20,259
Finance income		665	595
Finance costs		2,006	1,624
Share of profit of investments accounted for using equity method		2,340	2,516
Profit (loss) before tax		(6,917)	21,746
Income tax expense		(1,449)	6,406
Profit (loss)		(5,468)	15,340
Profit (loss) attributable to:			
Owners of parent		(6,167)	14,179
Non-controlling interests		699	1,161
Profit (loss)		(5,468)	15,340
Earnings (loss) per share			
Basic earnings (loss) per share (Yen)	9	(41.49)	95.47
Diluted earnings (loss) per share (Yen)	9	(41.49)	95.46



(Translation purposes only)

Condensed quarterly consolidated statement of comprehensive income

(Millions of yen)

	Notes	Three months ended June 30, 2020	Three months ended June 30, 2021
Profit (loss)		(5,468)	15,340
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	10	331	(193)
Remeasurements of defined benefit plans		183	(176)
Other comprehensive income of investments accounted for using equity method		32	25
Total of items that will not be reclassified to profit or loss		<u>546</u>	<u>(344)</u>
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		1,156	495
Cash flow hedges		26	(102)
Other comprehensive income of investments accounted for using equity method		9	(13)
Total of items that may be reclassified to profit or loss		<u>1,191</u>	<u>380</u>
Other comprehensive income, net of tax		<u>1,737</u>	<u>36</u>
Comprehensive income		<u>(3,731)</u>	<u>15,376</u>
Comprehensive income attributable to:			
Owners of parent		(4,529)	14,127
Non-controlling interests		798	1,249
Comprehensive income		<u>(3,731)</u>	<u>15,376</u>

(Translation purposes only)

(3) Condensed quarterly consolidated statement of changes in equity

Three months ended June 30, 2020

(Millions of yen)

	Notes	Equity attributable to owners of parent						
		Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity		
						Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2020		107,165	51,779	136,516	(15,899)	(5,067)	(255)	5,406
Profit (loss)				(6,167)				
Other comprehensive income						974	120	361
Total comprehensive income		–	–	(6,167)	–	974	120	361
Purchase of treasury shares								
Disposal of treasury shares			3		78			
Dividends	6			(2,980)				
Share-based remuneration transactions			33					
Changes in ownership interest in subsidiaries								
Transfer from other components of equity to retained earnings				183				
Other				(96)		(21)		
Total transactions with owners		–	36	(2,893)	78	(21)	–	–
Balance as of June 30, 2020		107,165	51,815	127,456	(15,821)	(4,114)	(135)	5,767

	Notes	Equity attributable to owners of parent					Non-controlling interests	Total
		Other components of equity			Total	Total		
		Remeasurements of defined benefit plans	Share acquisition rights	Total				
Balance as of April 1, 2020		–	533	617	280,178	25,862	306,040	
Profit (loss)				–	(6,167)	699	(5,468)	
Other comprehensive income		183		1,638	1,638	99	1,737	
Total comprehensive income		183	–	1,638	(4,529)	798	(3,731)	
Purchase of treasury shares				–	–		–	
Disposal of treasury shares			(80)	(80)	1		1	
Dividends	6			–	(2,980)	(654)	(3,634)	
Share-based remuneration transactions				–	33		33	
Changes in ownership interest in subsidiaries				–	–	25	25	
Transfer from other components of equity to retained earnings		(183)		(183)	–		–	
Other				(21)	(117)	(38)	(155)	
Total transactions with owners		(183)	(80)	(284)	(3,063)	(667)	(3,730)	
Balance as of June 30, 2020		–	453	1,971	272,586	25,993	298,579	

(Translation purposes only)

Three months ended June 30, 2021

(Millions of yen)

	Notes	Equity attributable to owners of parent						
		Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity		
						Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2021		107,165	51,735	148,428	(15,953)	1,102	(61)	7,939
Profit (loss)				14,179				
Other comprehensive income						423	(134)	(165)
Total comprehensive income		–	–	14,179	–	423	(134)	(165)
Purchase of treasury shares					(1)			
Disposal of treasury shares			4		11			
Dividends	6							
Share-based remuneration transactions			(102)					
Changes in ownership interest in subsidiaries								
Transfer from other components of equity to retained earnings				(940)				764
Other				(345)			(46)	
Total transactions with owners		–	(98)	(1,285)	10	–	(46)	764
Balance as of June 30, 2021		107,165	51,637	161,322	(15,943)	1,525	(241)	8,538

	Notes	Equity attributable to owners of parent					Non-controlling interests	Total
		Other components of equity			Total	Total		
		Remeasurements of defined benefit plans	Share acquisition rights	Total				
Balance as of April 1, 2021		–	414	9,394	300,769	26,958	327,727	
Profit (loss)				–	14,179	1,161	15,340	
Other comprehensive income		(176)		(52)	(52)	88	36	
Total comprehensive income		(176)	–	(52)	14,127	1,249	15,376	
Purchase of treasury shares				–	(1)		(1)	
Disposal of treasury shares			(16)	(16)	(1)		(1)	
Dividends	6			–	–	(1,066)	(1,066)	
Share-based remuneration transactions				–	(102)		(102)	
Changes in ownership interest in subsidiaries				–	–	24	24	
Transfer from other components of equity to retained earnings		176		940	–		–	
Other				(46)	(391)	(2)	(393)	
Total transactions with owners		176	(16)	878	(495)	(1,044)	(1,539)	
Balance as of June 30, 2021		–	398	10,220	314,401	27,163	341,564	

(Translation purposes only)

(4) Condensed quarterly consolidated statement of cash flows

(Millions of yen)

	Notes	Three months ended Jun 30, 2020	Three months ended Jun 30, 2021
Cash flows from operating activities			
Profit (loss) before tax		(6,917)	21,746
Depreciation, amortization and impairment losses		19,127	18,769
Finance income and finance costs		564	404
Share of loss (profit) of investments accounted for using equity method		(2,340)	(2,516)
Loss (gain) on sale of property, plant and equipment, intangible assets and investment property		(41)	(21,778)
Decrease (increase) in trade receivables		52,837	69,482
Decrease (increase) in contract assets		(4,723)	(10,667)
Decrease (increase) in inventories and prepayments		(45,744)	(27,685)
Increase (decrease) in trade payables		(31,655)	(21,549)
Increase (decrease) in contract liabilities		19,616	2,368
Other		(22,882)	(20,723)
Subtotal		(22,158)	7,851
Interest received		106	94
Dividends received		514	530
Interest paid		(1,158)	(935)
Income taxes paid		(4,002)	(5,916)
Net cash provided by (used in) operating activities		(26,698)	1,624
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets and investment property		(24,978)	(10,382)
Proceeds from sale of property, plant and equipment, intangible assets and investment property	8	36	24,772
Purchase of investments (including investments accounted for using equity method)		(245)	(2,431)
Proceeds from sale of equity interest in subsidiaries		349	-
Other		272	(2,808)
Net cash provided by (used in) investing activities		(24,566)	9,151
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings		(35,906)	(74,270)
Net increase (decrease) in commercial papers		43,000	50,000
Proceeds from long-term borrowings		1,977	2,500
Repayments of long-term borrowings		(3,693)	(7,683)
Redemption of bonds		(10,000)	(10,000)
Repayments of lease liabilities		(4,763)	(5,385)
Dividends paid	6	(2,830)	(3)
Capital contribution from non-controlling interests		25	24
Dividends paid to non-controlling interests		(653)	(1,051)
Decrease in other financial liabilities		(164)	(252)
Other		127	270
Net cash provided by (used in) financing activities		(12,880)	(45,850)
Effect of exchange rate changes on cash and cash equivalents		258	53
Net increase (decrease) in cash and cash equivalents		(63,886)	(35,022)
Cash and cash equivalents at beginning of period		145,738	120,766
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation		(49)	-
Cash and cash equivalents at end of period		81,803	85,744

(Translation purposes only)

## Notes to condensed quarterly consolidated financial statements

### 1. Reporting entity

IHI is a stock company located in Japan and incorporated in accordance with the Companies Act of Japan. IHI's condensed quarterly consolidated financial statements consist of accounts of IHI and its subsidiaries, as well as IHI's interests in its associates.

The IHI Group operates four main businesses, providing a diverse range of products. The four businesses are: Resources, Energy and Environment; Social Infrastructure and Offshore Facilities; Industrial Systems and General-Purpose Machinery; and Aero Engine, Space and Defense.

### 2. Basis of preparation

#### (1) Compliance with IFRS

The condensed quarterly consolidated financial statements of the IHI Group are prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* pursuant to the Article 93 of the Regulation on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Order No.64 of 2007) as it meets the requirements for a "specified company complying with designated international accounting standards" as prescribed in Article 1-2 of said Regulation.

The condensed quarterly consolidated financial statements do not contain all the information required by the annual consolidated financial statements and should be used in conjunction with the consolidated financial statements for the previous fiscal year.

The condensed quarterly consolidated financial statements were approved by Hiroshi Ide, President and Chief Executive Officer, on August 11, 2021.

#### (2) Basis of measurement

The IHI Group's condensed quarterly consolidated financial statements have been prepared on the acquisition cost basis, except for certain financial instruments, etc. that are measured at fair value.

#### (3) Functional currency and presentation currency

The presentation currency of the IHI Group's condensed quarterly consolidated financial statements is Japanese yen, which is also its functional currency, and figures less than one million yen are rounded off to the nearest unit.

### 3. Significant accounting policies

Significant accounting policies applied by the IHI Group in the condensed quarterly consolidated financial statements are the same as those in the consolidated financial statements for the previous fiscal year.

Income taxes for the condensed quarterly consolidated financial statements are calculated based on the estimated annual effective tax rate.

### 4. Significant accounting judgements, estimates and assumptions

In preparing the condensed consolidated financial statements in accordance with IFRS, the management is required to make judgments, estimates, and assumptions that affect the adoption of accounting policies and the amounts of assets, liabilities, revenues, and expenses. The IHI Group uses rational methods to make such judgments and estimates, but estimates are inherently subject to uncertainties, and those uncertainties may influence the IHI Group's operating results and financial position as recognized in future.

The estimates and their underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods.

Significant accounting judgements, estimates and assumptions including the impact of the spread of COVID-19 in the condensed consolidated financial statements are the same as those in the consolidated financial statements for the previous fiscal year.

### 5. Segment information

#### (1) Overview of reportable segments

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

The IHI Group organizes SBUs by products and services and allocates business areas to control these SBUs. Each business area manages and supervises the SBUs' execution of business strategies, and allocates management resources necessary for execution of the SBUs' business strategies. SBUs act consistent business process including sales, development, design, production, construction, service, etc. based on the visions and strategies drawn up by business area. Each SBU is an organization executing business and responsible for ensuring a profit in the SBU.

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

(Translation purposes only)

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

Reportable segments	Main businesses, products and services
Resources, Energy and Environment	Power systems (power systems plants for land use and power systems for ships), Carbon solutions, Nuclear energy (components for nuclear power plants)
Social Infrastructure and Offshore Facilities	Bridges and water gates, Transport systems, Shield systems, Concrete construction materials, Urban development (real estate sales and rental)
Industrial Systems and General-Purpose Machinery	Vehicular turbochargers, Parking, Rotating machineries (compressors, separation systems, turbochargers for ships), Heat treatment and surface engineering, Transport machineries, Logistics and industrial systems (logistics systems, industrial machineries)
Aero Engine, Space and Defense	Aero engines, Rocket systems and space utilization systems, Defense systems

(2) Information about reportable segments

The IHI Group's information about reportable segments are as follows:  
Intersegment revenue and transfers are based on actual market pricing.

Three months ended June 30, 2020

(Millions of yen)

	Reportable Segments				Total	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General- Purpose Machinery	Aero Engine, Space and Defense					
<b>Revenue</b>									
Revenue from external customers	62,462	31,056	75,361	42,293	211,172	6,422	217,594	–	217,594
Intersegment revenue and transfers	1,582	889	2,621	424	5,516	3,030	8,546	(8,546)	–
Total	64,044	31,945	77,982	42,717	216,688	9,452	226,140	(8,546)	217,594
Segment profit (loss) (Note 3)	(2,915)	1,778	(1,421)	(5,417)	(7,975)	(105)	(8,080)	164	(7,916)

- 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 (loss) represents intersegment transactions of ¥339 million and unallocated corporate expenses of negative ¥175 million.
3. Segment profit (loss) is adjusted with operating profit (loss) in the condensed quarterly consolidated financial statement of profit or loss.

(Translation purposes only)

Three months ended June 30, 2021

(Millions of yen)

	Reportable Segments				Total	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General- Purpose Machinery	Aero Engine, Space and Defense					
<b>Revenue</b>									
Revenue from external customers	74,281	33,588	86,861	43,692	238,422	6,840	245,262	–	245,262
Intersegment revenue and transfers	526	1,045	2,029	459	4,059	4,135	8,194	(8,194)	–
Total	74,807	34,633	88,890	44,151	242,481	10,975	253,456	(8,194)	245,262
Segment profit (loss) (Note 3)	(265)	2,456	2,902	(6,914)	(1,821)	194	(1,627)	21,886	20,259

- 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 (loss) represents intersegment transactions of ¥156 million and unallocated corporate income of ¥21,730 million. Unallocated corporate income mainly consists of gain on sale of property, plant and equipment and gain on sale of investment property.
3. Segment profit (loss) is adjusted with operating profit (loss) in the condensed quarterly consolidated financial statement of profit or loss.

(Translation purposes only)

## 5. Dividends

The dividends paid are as follows:

Three months ended June 30, 2020 (From April 1, 2020 to June 30, 2020)

Resolution	Classes of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 25, 2020	Ordinary shares	2,980	20	March 31, 2020	June 26, 2020

Note: Total dividends paid in accordance with the resolution passed at the Ordinary General Meeting of Shareholders held on June 25, 2020 include ¥8 million of dividends for the shares of IHI owned by a trust account for the Board Benefit Trust.

Three months ended June 30, 2021 (From April 1, 2021 to June 30, 2021)

Not applicable

Dividends with effective date after the end of the first quarter of the fiscal year are as follows:

Three months ended June 30, 2020 (From April 1, 2020 to June 30, 2020)

Not applicable

Three months ended June 30, 2021 (From April 1, 2021 to June 30, 2021)

Not applicable



(Translation purposes only)

## 6. Revenue

Disaggregation of revenue recognized from contracts with customers and other sources of revenue, and revenue by major type of goods or services and regional market and the relationships with reportable segments are as follows:

Three months ended June 30, 2020

### (1) Revenue recognized from contracts with customers and other sources of revenue

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Revenue recognized from contracts with customers	62,462	26,762	75,322	42,211	206,757	6,263	213,020
Revenue recognized from other sources of revenue	–	4,294	39	82	4,415	159	4,574
Total	62,462	31,056	75,361	42,293	211,172	6,422	217,594

Revenue recognized from other sources of revenue includes lease income under IFRS 16 *Leases* (hereinafter, “IFRS 16”).

### (2) Breakdown by type of goods or services

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Power systems	18,863				18,863		18,863
Carbon solutions (Note)	33,069				33,069		33,069
Nuclear energy	4,560				4,560		4,560
Bridges and water gates		15,167			15,167		15,167
Shield systems		3,567			3,567		3,567
Urban development		6,685			6,685		6,685
Vehicular turbochargers			28,288		28,288		28,288
Parking			9,328		9,328		9,328
Rotating machineries			10,395		10,395		10,395
Heat treatment and surface engineering			6,730		6,730		6,730
Transport machineries			10,250		10,250		10,250
Civil aero engines				20,723	20,723		20,723
Other	8,535	6,674	13,140	24,547	52,896	9,452	62,348
Intersegment revenue	(2,565)	(1,037)	(2,770)	(2,977)	(9,349)	(3,030)	(12,379)
Revenue from external customers	62,462	31,056	75,361	42,293	211,172	6,422	217,594

Note: The IHI Group revised the type of goods or services in the first quarter ended June 30, 2021.

As a result, the breakdown in the previous corresponding period was reclassified and presented by the revised classification.

(Translation purposes only)

(3) Breakdown by region

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Japan	40,297	25,218	42,691	21,534	129,740	5,757	135,497
North America	4,383	—	2,365	18,145	24,893	106	24,999
Asia	15,901	4,880	23,800	1,056	45,637	39	45,676
Europe	487	953	5,976	1,479	8,895	414	9,309
Central and South America	70	—	460	76	606	—	606
Other	1,324	5	69	3	1,401	106	1,507
Overseas	22,165	5,838	32,670	20,759	81,432	665	82,097
Revenue from external customers	62,462	31,056	75,361	42,293	211,172	6,422	217,594

Three months ended June 30, 2021

(1) Revenue recognized from contracts with customers and other sources of revenue

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Revenue recognized from contracts with customers	74,281	29,338	86,859	43,610	234,088	6,679	240,767
Revenue recognized from other sources of revenue	—	4,250	2	82	4,334	161	4,495
Total	74,281	33,588	86,861	43,692	238,422	6,840	245,262

Revenue recognized from other sources of revenue includes lease income under IFRS 16.

(Translation purposes only)

(2) Breakdown by type of goods or services

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Power systems	18,694				18,694		18,694
Carbon solutions	35,209				35,209		35,209
Nuclear energy	6,094				6,094		6,094
Bridges and water gates		17,831			17,831		17,831
Shield systems		5,892			5,892		5,892
Urban development		4,662			4,662		4,662
Vehicular turbochargers			38,350		38,350		38,350
Parking			9,159		9,159		9,159
Rotating machineries			11,974		11,974		11,974
Heat treatment and surface engineering			8,732		8,732		8,732
Transport machineries			7,385		7,385		7,385
Civil aero engines				25,607	25,607		25,607
Other	16,491	6,304	13,411	21,648	57,854	10,975	68,829
Intersegment revenue	(2,207)	(1,101)	(2,150)	(3,563)	(9,021)	(4,135)	(13,156)
Revenue from external customers	74,281	33,588	86,861	43,692	238,422	6,840	245,262

(3) Breakdown by region

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Japan	35,654	26,180	42,922	18,323	123,079	5,060	128,139
North America	7,716	—	4,006	22,862	34,584	71	34,655
Asia	28,080	5,296	25,433	598	59,407	457	59,864
Europe	964	2,112	11,025	1,909	16,010	1,120	17,130
Central and South America	101	—	3,223	—	3,324	—	3,324
Other	1,766	—	252	—	2,018	132	2,150
Overseas	38,627	7,408	43,939	25,369	115,343	1,780	117,123
Revenue from external customers	74,281	33,588	86,861	43,692	238,422	6,840	245,262

The IHI Group consists of segments by business area and sets the business areas of Resources, Energy and Environment; Social Infrastructure and Offshore Facilities; Industrial Systems and General-Purpose Machinery; and Aero Engine, Space and Defense, and is engaged in the sale of goods, execution of construction and rendering of services in each business area.

The primary method to record revenue for each segment is as follows:

- Resources, Energy and Environment and Social Infrastructure and Offshore Facilities

For revenue from sale of goods, the IHI Group determines that performance obligations have been satisfied when customers obtain control of the goods upon its delivery. Hence, revenue from sale of goods is usually recognized upon the delivery of goods.

With regard to the execution of construction contracts and rendering of services including maintenance services, the IHI Group determines that performance obligations are satisfied over time, and revenue is recognized by measuring the progress towards complete satisfaction of said performance obligations to provide such services to customers.

The progress is measured by specifying the satisfaction of performance obligations. Measurements are estimated based on the ratio of the costs incurred to satisfy the performance obligations against the total expected costs to fully satisfy the contractual obligations.

Revenue is recognized by the cost recovery method when it is not possible to reasonably estimate progress towards satisfaction of performance obligations, but it is probable that the costs incurred will be recovered.

(Translation purposes only)

- Industrial Systems and General-Purpose Machinery and Aero Engine, Space and Defense

In the sale of goods mainly in the Civil aero engines Business and the Vehicular turbochargers Business, the IHI Group determines that performance obligations have been satisfied when customers obtain control of the goods upon its delivery. Hence, revenue from sale of goods is usually recognized upon the delivery of goods.

In the Civil aero engines Business, revenue decreased after estimating the costs to be borne in connection with the civil aero engine programs in which IHI participates, which are deducted revenue as consideration paid to customers.

Furthermore, "Revenue" decreased during reversal as consideration prepaid by customers was recorded in "Other non-current assets".

When certain refund obligations to customers are expected to arise, such as compensation for damages incurred in association with performance of contracts, the IHI Group reduces revenue to the extent of the estimated refund liability.

The consideration of a transaction is generally received based on the progress for each performance obligation satisfied over time, such as a milestone in the case of a construction contract. The consideration for the sale of goods or rendering of services is mostly received within one year after the performance obligation is satisfied.

In either case, the contract does not include a significant financing component.

Further, IHI provides warranties assuring that a product satisfies specifications as provided in the contract. However, IHI does not identify this warranty as a separate performance obligation because it does not provide a distinct service.

## 7. Other income

The breakdown of other income is as follows:

(Millions of yen)

	Three months ended June 30, 2020	Three months ended June 30, 2021
Gain on sale of property, plant and equipment (Note 1)	41	16,183
Gain on sale of investment property (Note 2)	–	5,595
Other	1,280	1,202
Total	1,321	22,980

Notes: 1. Gain on sale of property, plant and equipment

IHI decided to transfer certain non-current assets aiming at securing funds for investment for creating growth businesses to contribute to materialize social sustainability on the basis of "Project Change" announced on November 10, 2020.

Accordingly, IHI has recorded gain on sale of property, plant and equipment in "Other income."

(Millions of yen)

Details and location of assets	Gain on sale of property, plant and equipment
Land and buildings (including incidental non-current assets) 11-1, Kitahama-machi, Chita-city, Aichi, Japan (approximately 393,300 m <sup>2</sup> )	16,179
Other	4

Notes: 2. Gain on sale of investment property

IHI decided to transfer the investment property aiming at securing funds for investment for creating growth businesses to contribute to materialize social sustainability on the basis of "Project Change" announced on November 10, 2020.

Accordingly, IHI has recorded gain on sale of investment property in "Other income."

(Millions of yen)

Details and location of assets	Gain on sale of investment property
Investment property (trust beneficiary right) Showa-machi, Kanazawa-ku, Yokohama-city, Kanagawa, Japan (approximately 26,700 m <sup>2</sup> )	5,595

(Translation purposes only)

## 8. Earnings per share

### (1) Basis for calculating basic earnings per share

(Millions of yen, unless otherwise stated)

	Three months ended June 30, 2020	Three months ended June 30, 2021
Profit (loss) attributable to owners of parent	(6,167)	14,179
Profit not attributable to ordinary shareholders of parent	–	–
Profit (loss) used for calculating basic earnings (loss) per share	(6,167)	14,179
Weighted-average number of ordinary shares (Thousands of shares)	148,644	148,517
Basic earnings (loss) per share (Yen)	(41.49)	95.47

### (2) Basis for calculating diluted earnings per share

(Millions of yen, unless otherwise stated)

	Three months ended June 30, 2020	Three months ended June 30, 2021
Profit (loss) used for calculating basic earnings (loss) per share	(6,167)	14,179
Adjustment to profit (loss)	–	–
Profit (loss) used to calculate diluted earnings (loss) per share	(6,167)	14,179
Weighted-average number of ordinary shares (Thousands of shares)	148,644	148,517
Increase in ordinary shares		
Share acquisition rights (Thousands of shares)	–	18
Weighted-average number of ordinary shares after dilution (Thousands of shares)	148,644	148,535
Diluted earnings (loss) per share (Yen)	(41.49)	95.46

Note: Shares of IHI owned by a trust account for the Board Benefit Trust are included in the number of shares issued at the end of the first quarter ended June 30, 2021 and the number of treasury shares excluded for the calculation of the weighted-average number of ordinary shares. For the three months ended June 30, 2021, the weighted-average number of ordinary shares as treasury shares excluded for the calculation of basic earnings per share and diluted earnings per share is 552 thousand shares (394 thousand shares for the three months ended June 30, 2020).

(Translation purposes only)

## 9. Fair value of financial instruments

The fair value measurements of financial instruments measured at fair value are categorized into the following three levels based on the observability and significance of inputs used to measure such financial instruments.

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2: Fair value, other than Level 1, that is determined by directly or indirectly using the observable price
- Level 3: Fair value determined by using valuation techniques that incorporate unobservable inputs

### (1) Measurement method for fair value

The measurement method for fair value of financial instruments is as follows.

(Cash and cash equivalents, trade and other receivables and trade and other payables)

The fair value of these accounts is assumed to be approximate to their carrying amount due to the short-term maturity. Thus, the carrying amount is used as fair value.

(Bonds and borrowings)

The fair value of bonds is determined based on the market prices or prices provided by financial and other institutions with which the IHI Group does business.

The fair value of borrowings is determined based on the present value of future cash flows discounted at the interest rate to be applied if similar new contracts were entered into.

These liabilities are classified as Level 2.

(Government grants classified under contingent settlement provisions)

The fair value of government grants classified under contingent settlement provisions is determined based on the present value of future cash flows discounted at the interest rate to be applied if similar new contracts were entered into.

These liabilities are classified as Level 2.

(Other financial assets and other financial liabilities)

Derivatives are measured as financial assets or liabilities measured at fair value through profit or loss based on prices provided by the counterparty financial institutions and classified as Level 2.

The fair value of marketable shares and investments in capital are calculated based on the market price at the account closing date and classified as Level 1.

The fair value of non-marketable shares and investments in capital are mainly calculated by the valuation technique using the net asset value, while a portion of shares and investments in capital are calculated by the valuation technique using quoted market prices of comparable companies, and in both cases, they are classified as Level 3.

The significant unobservable inputs are mainly illiquidity discounts, and when illiquidity discounts rise, the fair value falls. The illiquidity discount that is used is 30%.

### (2) Financial instruments measured at amortized cost

The carrying amounts and fair values of financial instruments measured at amortized cost are as follows:

(Translation purposes only)

(Millions of yen)

	As of March 31, 2021		As of June 30, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Borrowings	383,355	383,407	304,235	304,135
Bonds payable	79,757	79,622	69,772	69,624
Government grants classified under contingent settlement provisions	101,865	99,771	102,044	100,115
Total	564,977	562,800	476,051	473,874

(3) Financial instruments measured at fair value

The fair value hierarchy for financial instruments measured at fair value is as follows:

As of March 31, 2021

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Derivatives	–	319	–	319
Other	–	1,157	2,449	3,606
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	10,710	–	21,141	31,851
Total	10,710	1,476	23,590	35,776
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives	–	940	–	940
Total	–	940	–	940

(Translation purposes only)

As of June 30, 2021

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Derivatives	–	184	–	184
Other	–	1,179	2,447	3,626
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	10,595	–	19,449	30,044
Total	10,595	1,363	21,896	33,854
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives	–	791	–	791
Total	–	791	–	791

Transfers between levels of the fair value hierarchy are recognized on the day when the event or change in circumstances that caused the transfer occurred. The IHI Group did not recognize any significant transfers between Level 1 and Level 2 for the previous fiscal year and the three months ended June 30, 2021.

#### (4) Valuation processes

For financial instruments classified as Level 3, the staff determines the valuation method of target financial instruments and measures the fair value in accordance with the valuation policy and procedures set by the IHI Group. The fair value measurement result is approved by the responsible person.

#### (5) Reconciliation of financial instruments classified as Level 3 from the beginning to the end of the first quarter.

Changes in financial instruments classified as Level 3 from the beginning to the end of the first quarter are as follows:

(Millions of yen)

	Three months ended June 30, 2020	Three months ended June 30, 2021
Balance at beginning of period	22,779	23,590
Total gains and losses		
Profit or loss (Note 1)	(20)	(2)
Other comprehensive income (Note 2)	105	937
Purchases	4	4
Sales	–	–
Transfer from Level 3	–	–
Other (Note 3)	(502)	(2,633)
Balance at end of period	22,366	21,896
Changes in unrealized gains or losses recorded in profit or loss on assets held at the end of the reporting period (Note 1)	(20)	(2)

Notes: 1. Included in “Finance income” and “Finance costs” in the condensed quarterly consolidated statement of profit or loss.

2. Included in “Financial assets measured at fair value through other comprehensive income” in the condensed quarterly consolidated statement of comprehensive income.

3. The impact of change in scope of consolidation is included.



(Translation purposes only)

## 11. Contingent liabilities

### (1) Debt guarantees and guarantees in kind

The IHI Group provides debt guarantees and guarantees in kind for borrowings from financial and other institutions taken out by companies such as business counterparties and entities accounted for using the equity method.

There were no significant changes compared to the contents stated in the consolidated financial statements for the previous fiscal year at the end of first quarter ended June 30, 2021.

### (2) Other contingent liabilities

There was a construction delay involving a process plant project in North America that was ordered to the consolidated subsidiary IHI E&C International Corporation (hereinafter, "IHI E&C") in the U.S., in 2016. The process plant has been delivered to a customer, and commercial operation of LNG shipping equipment has started by the customer on August 26, 2020.

The IHI Group recognizes that the delay was caused by the customer's circumstances and has continued negotiations enlisting the perspective that additional costs incurred due to the delay could be charged to the customer based on the contract. In 2019, inter-party discussions were held based on the contract terms with the customer, and in March and October 2020 in accordance with the contract terms as the next step, the IHI Group has sincerely held discussions through mediation including third party. However, since no agreement was reached, the IHI Group determined that the discussions had reached a stage where there was no option left but to refer the dispute resolution to the court proceedings in the local court based on the contract terms. As a result, on December 4, 2020, the IHI Group has filed a lawsuit with the local court seeking to have the customer pay approximately 227 million U.S. dollars (approximately ¥25.1 billion at an exchange rate of 110.56 yen to the U.S. dollar) as a claim for a higher contracted amount primarily on the grounds of breach of contract. Meanwhile, on December 4, 2019, at the stage of aforementioned inter-party discussion, IHI E&C received a letter of claim for payment of 117 million U.S. dollars (approximately ¥12.9 billion at an exchange rate of 110.56 yen to the U.S. dollar) from the customer for liquidated damages contractually stipulated in the case of delayed delivery (hereinafter, the "Invoice amount"). However, at this stage, the specific amount charged to IHI E&C by the customer has yet to be disclosed in the ongoing trial. At this point, because it is difficult to reasonably estimate the amount of the effect on the financial position and operating results, the effect of the matter of the Invoice amount has not been reflected in the condensed quarterly consolidated financial statements.

Moreover, it is not possible to predict the outcome of this lawsuit at this point, and detailed disclosure regarding these matters is not being made as it may have a significant impact on the development of this lawsuit.

## 12. Subsequent events

Not applicable

## 2. Others

Not applicable

(Translation purposes only)

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

Not applicable