IHI

IHI Corporation

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Tokyo 135-8710, Japan
August 11, 2020

CONSOLIDATED FINANCIAL REPORT FOR THE THREE MONTHS ENDED JUNE 30, 2020 <Japanese GAAP>

IHI Corporation (IHI) is listed on the First Section of the Tokyo Stock Exchange, Nagoya Stock Exchange, Sapporo Securities Exchange and Fukuoka Stock Exchange with the securities code number 7013.

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Submission of Quarterly Securities Report: August 12, 2020 (planned)
Commencement of Dividend Payments: -
Preparing supplementary material on quarterly financial results: Yes
Holding quarterly financial results presentation meeting: Yes (for institutional investors, analysts and the media)

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

1. CONSOLIDATED PERFORMANCE FOR THE THREE MONTHS ENDED JUNE 30, 2020 (APRIL 1, 2020 to JUNE 30, 2020)

(1) Consolidated Business Results

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

	Net Sales	Percentage Change	Operating Profit	Percentage Change	Ordinary Profit	Percentage Change
Three months ended June 30, 2020	**218,551**	**(22.3)%**	**(9,228)**	—	**(7,925)**	—
Three months ended June 30, 2019	281,164	(16.6)%	957	(92.5)%	(685)	—

	Profit Attributable to Owners of Parent	Percentage Change	Basic Earnings per Share (Yen)	Diluted Earnings per Share (Yen)
Three months ended June 30, 2020	**(7,658)**	—	**(51.52)**	—
Three months ended June 30, 2019	(2,763)	—	(17.91)	—

(Note) Comprehensive income
Three months ended June 30, 2020: ¥(5,634) million —%
Three months ended June 30, 2019: ¥(5,559) million —%

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity to Total Assets
As of June 30, 2020	**1,674,712**	**372,078**	**20.6%**
As of March 31, 2020	1,740,782	353,746	18.7%

(Reference) Equity at the end of the period (consolidated)
As of June 30, 2020: ¥344,312 million
As of March 31, 2020: ¥326,375 million

2. DIVIDENDS

(Yen)

	Dividends per Share				
(Record Date)	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	Year-end	Annual
Fiscal year ended March 31, 2020	—	30.00	—	20.00	50.00
Fiscal year ending March 31, 2021	—	―――	―――	―――	―――
Fiscal year ending March 31, 2021 (Forecast)	―――	—	—	—	—

(Notes) 1. Revisions to the dividend forecasts most recently announced: No

2. The dividend forecast for the fiscal year ending March 31, 2021 is undetermined, since it is difficult to calculate the forecasts of results at this point.

3. CONSOLIDATED FORECASTS OF RESULTS FOR THE FISCAL YEAR ENDING MARCH 31, 2021

The consolidated forecasts of results for the fiscal year ending March 31, 2021 are undetermined, since it is difficult to calculate a reasonable impact amount from the spread of COVID-19 at this point.

* NOTES

(1) Changes in significant subsidiaries during the three months under review (Changes in specified subsidiaries accompanying changes in scope of consolidation): Not applicable

(2) Application of special accounting for preparing quarterly consolidated financial statements: Yes

(Note) For details, please refer to "(2) APPLICATION OF SPECIAL ACCOUNTING FOR PREPARING QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS" of "2. MATTERS REGARDING SUMMARY INFORMATION (NOTES)" on page 7.

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

(i) Changes in accounting policies due to revisions to accounting standards: Yes
(ii) Changes in accounting policies due to other reasons: Not applicable
(iii) Changes in accounting estimates: Not applicable
(iv) Restatement of prior period financial statements after error corrections: Not applicable

(Note) For details, please refer to "(3) CHANGES IN ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES, AND RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS AFTER ERROR CORRECTIONS" of "2. MATTERS REGARDING SUMMARY INFORMATION (NOTES)" on page 7.

(4) Number of shares issued (Common stock):

(i) Number of shares issued at the end of the period (including treasury shares)

As of June 30, 2020	154,679,954 shares
As of March 31, 2020	154,679,954 shares

(ii) Number of treasury shares owned at the end of the period

As of June 30, 2020	6,024,805 shares
As of March 31, 2020	6,054,574 shares

(iii) Average number of shares outstanding during the period (cumulative quarterly period)

Three months ended June 30, 2020	148,643,949 shares
Three months ended June 30, 2019	154,293,961 shares

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

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

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

Earnings estimates made in this report and other statements that are not historical facts are forward-looking statements about the future performance of the IHI Group. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore readers should not place undue reliance on them. IHI cautions that a number of important factors such as political and general economic conditions and currency exchange rates could cause actual results to differ materially from those discussed in the forward-looking statements, etc.

1. QUALITATIVE INFORMATION REGARDING CONSOLIDATED RESULTS

(1) EXPLANATION REGARDING BUSINESS RESULTS

Summary of consolidated performance for the three months ended June 30, 2020

During the three months under review, the economy of Japan witnessed an extremely serious situation develop due to the spread of COVID-19, which caused temporary shutdowns in industrial activity, and a slump in consumption as a result of the restrictions on the movement of people. The whole of society worked to devise measures to prevent the spread of infection, while beginning a staged restarting of social and economic activity, but the situation does not allow for optimism. In addition, the global economy has experienced a sharp slump in business conditions, similar to that of the Japanese economy, due to the widespread outbreak of infections worldwide. We must continue to pay careful attention to the trend of infection and the impact of fluctuations, etc. in financial and capital markets, in addition to such factors as the prolongation of political and economic rivalry between the U.S. and China.

Under this business environment, the IHI Group's operating results during the three months under review were largely affected by the spread of COVID-19.
Orders received of the IHI Group during the three months under review decreased 23.9% from the previous corresponding period to ¥167.4 billion. Net sales also decreased 22.3% from the previous corresponding period to ¥218.5 billion due to the impact of early application of "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) etc. (the impact was negative ¥10.3 billion in net sales mainly in the Civil aero engines Business), in addition to a significant downturn of sales in the Civil aero engines Business that was affected by the spread of COVID-19 and a decrease in the number of delivery of the Vehicular turbochargers Business.
In terms of profit, operating profit decreased by ¥10.1 billion to a loss of ¥9.2 billion (that of the previous corresponding period was a profit of ¥0.9 billion), because of the significant impact of the above-mentioned downturns in the sales of the Civil aero engines Business and the Vehicular turbochargers Business, although the IHI Group have taken such measures as revision of production system to meet the drastic decline in demand, shift of business resources, and reduction of fixed cost. Ordinary profit was a loss of ¥7.9 billion, saw a recovery of profit margin by recording share of profit of entities accounted for using equity method, etc. Profit attributable to owners of parent was a loss of ¥7.6 billion.

Regarding the impact of the spread of COVID-19, sales of engines and spare parts in the Civil aero engines Business is greatly decreasing owing to the drastic decline in demand for aero transportation and the deterioration of business conditions for airlines. Although demands for aero transportation on domestic routes (mainly medium and short haul routes) are expected to lead the recovery, we foresee that the recovery speed varies by area under the situation where the spread of infection is not converged. With regard to international routes (mainly long haul routes), due to the various restrictions of these routes about immigration, the movements toward recovery are slower than domestic routes and full recovery is expected to take several years. Under such circumstance, since our aero engines are mounted on relatively new type aircrafts and they have superiority in terms of operating costs such as fuel efficiency, it is expected that operations will be resumed preferentially and earnings in the aftermarket will recover rapidly in the period of recovery in demand.
While the number of delivery decreases in the Vehicular turbochargers Business due to the impact of global downturn of demand for automobiles and the suspension of factory production at automotive manufacturing companies, the number of delivery in Chinese market is turning into an increasing phase according to the movement out of the slump in the automotive industry in association with the resumption of economic activity in China. Furthermore, signs of recovery are also seen in the U.S. and Europe as the factory operations of automotive manufacturing companies resumed from mid-May.
Given these circumstances, the Group is working on such countermeasures against the impact of the spread of COVID-19 as temporary freezing and/or reduction in expenditure on capital investments, research and development etc., reduction in the total cost/fixed cost and inventories, and shifting human resources to the growth areas and lifecycle businesses flexibly, and will strengthen these efforts in response to the future business environment and demand recovery. In addition, regarding the funding needs, the Group has secured sufficient liquidity by arrangement of a diverse range of fund procurement methods, including credit line commitments and overdraft facility accounts with major banks and commercial papers, together with the cash and cash equivalents on hand.

Moreover, after July 25, 2020, many people working at Ariake Shipyard of Japan Marine United Corporation, an IHI's affiliate, have been found to be infected with the COVID-19, we apologize for the inconvenience and concern this may cause to all concerned. We will carry forward the business activities while continuing to place the highest priority on the safety and health of our employees, their families and stakeholders and taking thorough measures to prevent the spread of infection.

IHI has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. effective from the beginning of the first quarter under review as changes in accounting policies. For further details, please refer to “2. MATTERS REGARDING SUMMARY INFORMATION (NOTES) - (3) CHANGES IN ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES, AND RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS AFTER ERROR CORRECTIONS”.

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

(Billions of yen)

Reportable segment	Orders received			Three months ended June 30, 2019		Three months ended June 30, 2020		Changes from the previous corresponding period (%)	
	Three months ended June 30, 2019	Three months ended June 30, 2020	Changes from the previous corre-sponding period (%)	Sales	Operating profit (loss)	Sales	Operating profit (loss)	Sales	Operating profit (loss)
Resources, Energy and Environment	47.2	45.8	(3.0)	64.8	(5.7)	64.0	(3.4)	(1.2)	–
Social Infrastructure and Offshore Facility	34.0	28.9	(14.8)	32.8	2.5	31.9	2.1	(2.7)	(16.6)
Industrial System and General-Purpose Machinery	116.0	74.0	(36.2)	86.7	0.2	78.1	(1.7)	(9.9)	–
Aero Engine, Space and Defense	13.5	12.0	(10.9)	90.2	5.4	42.4	(4.7)	(53.0)	–
Total Reportable Segment	210.8	160.9	(23.7)	274.7	2.4	216.5	(7.8)	(21.2)	–
Others	19.5	15.7	(19.4)	15.3	0.1	10.5	(0.5)	(31.6)	–
Adjustment	(10.3)	(9.2)	–	(8.9)	(1.7)	(8.5)	(0.8)	–	–
Total	220.0	167.4	(23.9)	281.1	0.9	218.5	(9.2)	(22.3)	–

(2) EXPLANATION REGARDING CONSOLIDATED FINANCIAL POSITION

Assets and liabilities, and net assets

Total assets at the end of the first quarter under review were ¥1,674.7 billion, down ¥66.0 billion compared with the end of the previous fiscal year. The major items of decrease were cash and deposits, down ¥63.0 billion and notes, accounts receivable – trade and contract assets, down ¥26.6 billion. The major item of increase was inventories including raw materials and supplies, up ¥8.9 billion.
Total liabilities were ¥1,302.6 billion, down ¥84.4 billion compared with the end of the previous fiscal year. The major items of decrease were notes and accounts payable - trade, down ¥32.0 billion and provision for construction warranties, down ¥30.5 billion. The major item of increase was contract liabilities, up ¥16.4 billion. The balance of interest-bearing liabilities, including lease obligations, of ¥487.2 billion was at almost same level as the end of the previous fiscal year, down ¥0.9 billion.
Net assets were ¥372.0 billion, up ¥18.3 billion compared with the end of the previous fiscal year. This change was composed of the increase by retained earnings at the beginning of this fiscal year due to changes in accounting policies of ¥27.4 billion, loss attributable to owners of parent of ¥7.6 billion and a decrease by dividends of surplus of ¥2.9 billion.
As a result of the above, the ratio of equity to total assets increased from 18.7% at the end of the previous fiscal year to 20.6%.

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

Because at this point we do not have a clear view of when COVID-19 will come to an end, it is our forecast that business conditions will require time to recover, and that the global economy will record significant negative growth. We must continue to give attention to the prolonged political and economic rivalry between the U.S. and China, which is expected to lead to instability for the global economy going forward.
Under the “Group Management Policies 2019” three-year medium-term management plan , the first year of which was fiscal 2019, the IHI Group seeks to contribute to realizing a sustainable society from a long-term perspective by addressing such social issues as global climate change, large-scale natural disasters, global population increase, and resource depletion. We move away from businesses with a conventional focus on the supply of hardware, and accelerate initiatives to tackle social and customer issues and initiatives to transform ourselves into a company that creates new value.

In addition, the spread of COVID-19 has caused a transformation in society, the economy and individual values, resulting in significant changes to the environment in which the IHI Group operates. There has been no change in the long-term vision established by the “Group Management Policies 2019,” but by accelerating a bold and flexible shift of resources to growth areas and profitable businesses and steadily executing the required measures to revitalize and reorganize existing businesses for the transformation to a sustainable business structure, we will promote lean and flexible management that has the ability to tolerate the changes in the “post-coronavirus” environment. Furthermore, during the process of moving forward with these considerations, we intend to review our management strategy and targets as necessary.

The consolidated forecasts of results for the year ending March 31, 2021 are undetermined, since it is difficult to calculate a reasonable impact amount from the spread of COVID-19 taking into consideration with the timing of recovery in demand and the effects of our countermeasures as IHI Group at this point, because we still do not have a clear view of when the spread of COVID-19 will come to an end. Hereinafter, once it become possible to determine the forecast, we will announce it promptly.

The dividend forecast for the fiscal year ending March 31, 2021 is undetermined, since it is difficult to calculate the consolidated forecasts of results.

2. MATTERS REGARDING SUMMARY INFORMATION (NOTES)

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

Not applicable

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

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

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

Changes in accounting policies

Application of Accounting Standard for Revenue Recognition, etc.

IHI has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. effective from the beginning of the first quarter under review and it recognizes revenue when (or as) it satisfies a performance obligation by transferring promised goods or services (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. It recognizes as revenue the amount expected to be received upon exchange of goods or services.

As a result of this application, although costs incurred related to the civil aero engine programs in which IHI participates and compensation for damage arising from the performance of a contract were previously recorded as cost of sales or selling, general and administrative expenses or non-operating expenses, the accounting method is changed to be deducted from sales as a variable consideration or consideration payable to a customer reflecting the real nature of transaction. In addition, the percentage of completion method is applied to contracts that are expected to satisfy performance obligations over time, among contracts that were previously accounted for by the completed-contract method. Furthermore, 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.

The application of the Accounting Standard for Revenue Recognition, etc. is subject to the transitional treatment provided for in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter under review was added to or subtracted from the beginning balance of retained earnings of the first quarter under review, and thus the new accounting policy was applied from the beginning balance; provided, however, that the new accounting policy was not retrospectively applied to contracts where recognitions of nearly all the revenue amounts for periods prior to the beginning of the first quarter under review were subject to the previous treatment, by applying the method provided for in Paragraph 86 of the Accounting Standard for Revenue Recognition. Furthermore, with regard to modifications to contracts carried out prior to the beginning of the first quarter under review, accounting processing was carried out based on the contractual terms existing after all contract modifications were reflected and this cumulative effect was added to or subtracted from the beginning balance of retained earnings of the first quarter under review by applying the method set forth in item (1) of the supplementary provisions of Paragraph 86 of the Accounting Standard for Revenue Recognition.

As a result, for the three months under review, net sales decreased by ¥10,310 million, with the cost of sales decreasing by ¥7,955 million, selling, general and administrative expenses decreasing by ¥779 million, operating loss increasing by ¥1,576 million, and ordinary loss and loss before income taxes each decreasing by ¥267 million. In addition, the beginning balance of retained earnings increased by ¥27,442 million.

Due to the application of Accounting Standard for Revenue Recognition, "Notes and accounts receivable - trade" which were included in "Current assets" in the consolidated balance sheets for the previous fiscal year, are included in " Notes, accounts receivable – trade and contract assets" from the first quarter under review. In accordance with the transitional treatment stipulated in Article 89-2 of the Accounting Standard for

Revenue Recognition, figures for the previous fiscal year have not been restated in accordance with the new approach to presentation.

3. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	As of March 31, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	147,228	84,163
Notes and accounts receivable - trade	403,832	–
Notes, accounts receivable - trade and contract assets	–	377,193
Securities	21	22
Finished goods	18,417	20,388
Work in process	289,277	280,219
Raw materials and supplies	137,848	153,860
Other	83,410	67,390
Allowance for doubtful accounts	(4,024)	(4,258)
Total current assets	1,076,009	978,977
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	154,217	152,035
Other, net	243,278	244,054
Total property, plant and equipment	397,495	396,089
Intangible assets		
Goodwill	7,456	7,116
Other	24,706	24,039
Total intangible assets	32,162	31,155
Investments and other assets		
Investment securities	63,514	65,462
Other	172,857	204,280
Allowance for doubtful accounts	(1,255)	(1,251)
Total investments and other assets	235,116	268,491
Total non-current assets	664,773	695,735
Total assets	1,740,782	1,674,712

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	As of March 31, 2020	As of June 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	262,587	230,503
Short-term loans payable	185,600	153,834
Commercial papers	56,000	99,000
Current portion of bonds	10,000	10,000
Income taxes payable	6,012	6,553
Advances received	151,790	–
Contract liabilities	–	168,227
Provision for bonuses	26,672	15,277
Provision for construction warranties	42,759	12,245
Provision for loss on construction contracts	19,929	18,672
Other provision	1,141	985
Other	146,515	121,699
Total current liabilities	909,005	836,995
Non-current liabilities		
Bonds payable	50,000	40,000
Long-term loans payable	159,223	156,331
Net defined benefit liability	166,193	166,845
Provision for loss on business of subsidiaries and affiliates	1,249	1,266
Other provision	1,068	863
Other	100,298	100,334
Total non-current liabilities	478,031	465,639
Total liabilities	1,387,036	1,302,634
Net assets		
Shareholders' equity		
Capital stock	107,165	107,165
Capital surplus	51,780	51,783
Retained earnings	186,170	202,927
Treasury shares	(15,899)	(15,821)
Total shareholders' equity	329,216	346,054
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(679)	(464)
Deferred gains or losses on hedges	(252)	(132)
Revaluation reserve for land	5,321	5,321
Foreign currency translation adjustment	(2,067)	(1,546)
Remeasurements of defined benefit plans	(5,164)	(4,921)
Total accumulated other comprehensive income	(2,841)	(1,742)
Subscription rights to shares	533	453
Non-controlling interests	26,838	27,313
Total net assets	353,746	372,078
Total liabilities and net assets	1,740,782	1,674,712

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

CONSOLIDATED STATEMENTS OF INCOME (Cumulative)

(Millions of yen)

	April 1, 2019 to June 30, 2019	April 1, 2020 to June 30, 2020
Net sales	281,164	218,551
Cost of sales	236,219	190,061
Gross profit	44,945	28,490
Selling, general and administrative expenses	43,988	37,718
Operating profit (loss)	957	(9,228)
Non-operating income		
Interest income	173	104
Dividend income	481	219
Share of profit of entities accounted for using equity method	–	2,228
Gain on reversal of accrued expenses for delayed delivery	435	–
Other income	1,005	1,803
Total non-operating income	2,094	4,354
Non-operating expenses		
Interest expenses	909	694
Share of loss of entities accounted for using equity method	682	–
Foreign exchange losses	1,160	944
Other expenses	985	1,413
Total non-operating expenses	3,736	3,051
Ordinary profit (loss)	(685)	(7,925)
Profit (loss) before income taxes	(685)	(7,925)
Income taxes	686	(1,084)
Profit (loss)	(1,371)	(6,841)
Profit attributable to non-controlling interests	1,392	817
Profit (loss) attributable to owners of parent	(2,763)	(7,658)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Cumulative)

(Millions of yen)

	April 1, 2019 to June 30, 2019	April 1, 2020 to June 30, 2020
Profit (loss)	(1,371)	(6,841)
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,007)	257
Deferred gains or losses on hedges	(160)	26
Foreign currency translation adjustment	(3,196)	752
Remeasurements of defined benefit plans, net of tax	240	325
Share of other comprehensive income of entities accounted for using equity method	(65)	(153)
Total other comprehensive income	(4,188)	1,207
Comprehensive income	(5,559)	(5,634)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(6,211)	(6,489)
Comprehensive income attributable to non-controlling interests	652	855

(3) NOTES TO THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

NOTES ON THE PREMISE OF GOING CONCERN

Not applicable

NOTES WHEN THERE IS SIGNIFICANT CHANGES IN AMOUNTS OF EQUITY

IHI has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. effective from the beginning of the first quarter under review. For further details, please refer to “2. MATTERS REGARDING SUMMARY INFORMATION (NOTES) - (3) CHANGES IN ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES, AND RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS AFTER ERROR CORRECTIONS”.

ADDITIONAL INFORMATION

Impact of the spread of COVID-19

The spread of COVID-19 may have a significant impact to our business. Especially in the Civil aero engines Business, sales of aero engines and spare parts are expected to decrease and it is expected that the recovery of market will take a certain period of time. In the Vehicular turbochargers Business, sales of vehicular turbochargers are expected to decrease caused from world-wide decreases in demand for automobiles. In addition, we may suspend production or experience downturn of operations due to spanning of the supply chain across countries. Other businesses may be affected through the impact on the progress of construction projects and exposure to risks associated with prolonged deterioration in demand. There are no significant changes in these circumstances from the previous fiscal year.

Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system

IHI and some of its domestic subsidiaries calculated the amounts of deferred tax assets and deferred tax liabilities according to tax acts prior to amendment based on the treatment of Paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ Practical Issues Task Force No. 39, March 31, 2020) instead of applying the provision of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16 , 2018), regarding the transition to the group tax sharing system established in “Act for Partial Amendment of the Income Tax Act, etc.”(Act No. 8 of 2020), and regarding items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system.

SEGMENT INFORMATION

Segment information

I Three months ended June 30, 2019

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

(Millions of yen)

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

Notes: 1. The “Others” classification consists of business that is not included in reportable segments. It includes inspection and measurement business, the manufacture and sale of equipment and the like related to such business, and other service operations.

2. Adjustment of segment profit represents intersegment transactions of negative ¥100 million and unallocated corporate expenses of negative ¥1,631 million.
Corporate expenses mainly consist of general and administrative expenses that are not attributable to reportable segments.

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

Material impairment loss of non-current assets
Not applicable

Material change in goodwill amount
Not applicable

Material gain on bargain purchase
Not applicable

II Three months ended June 30, 2020

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

(Millions of yen)

	Reportable Segment					Others (Note 1)	Consolidated	Adjustment (Note 2)	Amount on the consolidated statements of income
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General-Purpose Machinery	Aero Engine, Space and Defense	Total				
Sales:									
(1) Sales to outside customers	62,459	31,056	75,511	42,027	211,053	7,498	218,551	–	218,551
(2) Intersegment sales and transfers	1,582	889	2,621	424	5,516	3,029	8,545	(8,545)	–
Total	64,041	31,945	78,132	42,451	216,569	10,527	227,096	(8,545)	218,551
Segment profit (loss) (Operating profit (loss))	(3,471)	2,143	(1,756)	(4,760)	(7,844)	(577)	(8,421)	(807)	(9,228)

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 ¥339 million and unallocated corporate expenses of negative ¥1,146 million.
Corporate expenses mainly consist of general and administrative expenses that are not attributable to reportable segments.

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

Reportable segment	Main businesses, products and services
Resources, Energy and Environment	Power systems (power systems plants for land use and power systems for ships), boilers, plants (storage facilities, chemical plants and pharmaceutical plants), nuclear power (components for nuclear power plants)
Social Infrastructure and Offshore Facility	Bridges/water gates, transport systems, shield systems, concrete construction materials, urban development (real estate sales and rental)
Industrial System and General-Purpose Machinery	Vehicular turbochargers, parking, rotating machineries (compressors, separation systems, turbochargers for ships), thermal and surface treatment, transport machineries, logistics/industrial systems (logistics systems, industrial machineries)
Aero Engine, Space and Defense	Aero engines, rocket systems/space utilization systems, defense systems

2. Matters about changes of reportable segment, etc.

   Changes in accounting policies

   IHI has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. and changed the way of accounting for revenue recognition from the beginning of the first quarter under review as described in above “Changes in accounting policies”. Therefore, IHI has similarly changed the measuring method of segment profit or loss.

   As a result, the sale of each segment in three months under review decreased by ¥417 million in the Resources, Energy and Environment, increased by ¥1,067 million in the Social Infrastructure and Offshore Facility, increased by ¥4,191 million in the Industrial System and General-Purpose Machinery, decreased by ¥13,966 million in the Aero Engine, Space and Defense compared with the previous method. And segment profit or loss in three months under review increased by ¥132 million in the Industrial System and General-Purpose Machinery, decreased by ¥1,404 million in the Resources, Energy and Environment and by ¥295 million in the Aero Engine, Space and Defense compared with the previous method.

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

SIGNIFICANT SUBSEQUENT EVENTS

Not applicable