

**CONSOLIDATED FINANCIAL REPORT
 FOR THE SIX MONTHS ENDED SEPTEMBER 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 date of Quarterly Securities Report: November 12, 2020 (planned)
 Commencement of Dividend Payments: Not applicable
 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 SIX MONTHS ENDED SEPTEMBER 30, 2020
 (APRIL 1, 2020 to SEPTEMBER 30, 2020)**

(1) Consolidated Business Results

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

	Net Sales	Percentage Change	Operating Profit	Percentage Change	Ordinary Profit	Percentage Change
Six months ended September 30, 2020	482,807	(18.8)%	(6,107)	—	(10,085)	—
Six months ended September 30, 2019	594,916	(15.0)%	10,586	(76.6)%	3,591	(92.7)%

	Profit Attributable to Owners of Parent	Percentage Change	Basic Earnings per Share (Yen)	Diluted Earnings per Share (Yen)
Six months ended September 30, 2020	(9,567)	—	(64.37)	—
Six months ended September 30, 2019	(4,870)	—	(31.56)	—

(Note) Comprehensive income

Six months ended September 30, 2020: ¥(6,961) million —%
 Six months ended September 30, 2019: ¥(7,776) million —%

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity to Total Assets
As of September 30, 2020	1,666,424	370,131	20.5%
As of March 31, 2020	1,740,782	353,746	18.7%

(Reference) Equity at the end of the period (consolidated)
 As of September 30, 2020: ¥341,738 million
 As of March 31, 2020: ¥326,375 million

2. DIVIDENDS

(Yen)

(Record Date)	Dividends per Share				
	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	—	0.00	—	—	—
Fiscal year ending March 31, 2021 (Forecast)	—	—	—	0.00	0.00

(Note) Revisions to the dividend forecasts most recently announced: Yes

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

(Millions of yen, except per share figures; percentages show the rate of changes from the previous fiscal year)

	Revenue	Operating Profit	Profit before Income Taxes	Profit Attributable to Owners of Parent	Basic Earnings per Share (Yen)
Full-year	1,150,000	—	20,000	—	10,000
					1,000
					6.73

(Note) Revisions to the forecasts of results most recently announced: Yes

The figures of consolidated forecasts of results for the fiscal year ending March 31, 2021 is based on International Financial Reporting Standards (IFRS). IHI resolved to adopt IFRS, in place of Japanese Generally Accepted Accounting Principles (Japanese GAAP) for consolidated financial statements starting from the year-end financial results for the fiscal year ending March 31, 2021, whereas IHI will continue to adopt Japanese GAAP for consolidated financial statements until the third quarter ending December 31, 2020. Therefore, the rate of changes from the previous fiscal year are not shown.

(Reference) Consolidated forecasts of results for the fiscal year ending March 31, 2021 based on Japanese GAAP

(Millions of yen)

	Net Sales	Operating Profit	Ordinary Profit	Profit Attributable to Owners of Parent
Full-year	1,150,000	8,000	(5,000)	0

* NOTES

- (1) **Changes in significant subsidiaries during the six 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 8.
- (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 8.
- (4) **Number of shares issued (Common stock):**
- (i) Number of shares issued at the end of the period (including treasury shares)

As of September 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 September 30, 2020	6,182,795 shares
As of March 31, 2020	6,054,574 shares
 - (iii) Average number of shares outstanding during the period (cumulative quarterly period)

Six months ended September 30, 2020	148,616,040 shares
Six months ended September 30, 2019	154,286,780 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.

* 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. For preconditions for forecast of results, please refer to “(3) EXPLANATION REGARDING FUTURE PREDICTION INFORMATION SUCH AS CONSOLIDATED FORECASTS OF RESULTS” of “1. QUALITATIVE INFORMATION REGARDING CONSOLIDATED RESULTS” on page 7.

1. QUALITATIVE INFORMATION REGARDING CONSOLIDATED RESULTS

(1) EXPLANATION REGARDING BUSINESS RESULTS

Impact of the spread of COVID-19

The signs of convergence of the spread of COVID-19 is not visible yet. 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 the demand for aero transportation on domestic routes are on a recovery trend in accordance with the resumption of economic activities in each country, regarding the demand for international routes, we still cannot foresee the movement toward recovery, since they must be accompanied with various restrictions about immigration. According to the demand forecast by International Air Transportation Association (IATA), it takes until 2024 to recover the same demand level as 2019. For the IHI Group, in consideration of information from our business partners etc., although recently there are signs that the number of sales of newly made small and medium sized engines with high fuel efficiency and the number of sales of spare parts have bottomed out, and a gradual recovery trend is seen, the Group expects that it will take several years to recover completely as a whole.

In the Vehicular turbochargers Business, the number of delivery in Chinese market is turning into an increasing phase according to the progress of movement out of the slump in the automotive industry in association with the resumption of economic activity in China. Furthermore, gradual recovery in the number of delivery is seen in the U.S. and Europe as the factory operations of automotive manufacturing companies resumed from mid-May, while there are concerns about the impact of city-wide lockdown accompanied with the re-spread of infection.

In the Thermal and surface treatment Business, mainly due to delays in the recovery of automobile related demand in Europe, sales of processing services on automotive parts etc. are declining.

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 we are considering the sale of assets held.

Under the “Group Management Policies 2019” three-year medium-term management plan, the first year of which was FY2019, the IHI Group has tackled social and customer issues and promoted the transformation to a company that creates new value. The spread of COVID-19 has accelerated changes in society, the economy and individual values, and the environment in which the IHI Group operates is also changing rapidly. In order to respond to the speed of this environmental change, while carrying forward the basic concepts of “Group Management Policies 2019,” the IHI Group starts “Project Change” positioning the period up to FY 2022 as a period of preparation and transition towards business reforms to deal with this environmental change.

In “Project Change”, the IHI Group will define businesses from the perspective of social issues, create new core businesses that contribute to provide enhanced value to its customers and society, and promote the transformation to a sustainable business portfolio. Through it, the IHI Group aim for sustainable growth and corporate value by transforming itself into a corporate group that continues to generate innovation in response to any kind of environmental change. Specifically, the IHI Group will steadily implement the following initiatives.

- (i) Return to growth trajectory
 - Further strengthening earnings foundations
 - Expansion of lifecycle businesses
- (ii) Reform aimed at creating resilient businesses capable of excelling under any environment
 - Flexible and optimal placement of human resources suited to the business portfolio
 - Creation of environment enabling diversity rich personnel to play active roles
 - New working styles with a mix of telework and going into the office
- (iii) Financial strategies
 - Strengthen cash flow generation

- Optimal allocation of funds to accelerate changes to the business portfolio
 - Securing financial soundness
- (iv) Creation of growth businesses
- Redefine of growth businesses
- (Aero transportation systems, carbon solutions, maintenance, disaster prevention and disaster mitigation)

Summary of consolidated performance for the six months ended September 30, 2020

During the six months under review, the economy of Japan is showing signs of recovery, centered on production and exports, as social and economic activities are gradually resumed while taking measures to prevent the spread of COVID-19 throughout society. However corporate profits continue to decline significantly and are still in a very difficult situation. The global economy is showing signs of recovery not only in China but also in the U.S. and Europe, but it is necessary to continue to pay careful attention to the impacts of future trends in COVID-19, the fluctuations in the financial and capital markets, the results of the U.S. presidential election, and the prolongation of political and economic rivalry between the U.S. and China, in addition to the geopolitical risks.

Under this business environment, the IHI Group's operating results during the six months under review were largely affected by the spread of COVID-19.

Orders received of the IHI Group during the six months under review decreased 30.7% from the previous corresponding period to ¥426.8 billion. Net sales also decreased 18.8% from the previous corresponding period to ¥482.8 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 ¥22.5 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.

In terms of profit, operating profit in the Resources, Energy and Environment segment became profitable as the decline in profitability in the same period of the previous fiscal year almost converged, in addition, the IHI Group has taken such measures as revision of production system and shift of business resources to meet the drastic decline in demand due to the spread of COVID-19, and reduction of fixed cost. However, operating profit decreased by ¥16.6 billion to a loss of ¥6.1 billion (that of the previous corresponding period was a profit of ¥10.5 billion), because of the significant impact of the above-mentioned downturns in the sales of the Civil aero engines Business. Ordinary profit was a loss of ¥10.0 billion, saw a deterioration of profit margin by recording foreign exchange losses etc. Profit attributable to owners of parent was a loss of ¥9.5 billion.

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 ended June 30, 2020 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".

Furthermore, as announced on October 26, 2020, the IHI Group resolved to adopt the International Financial Reporting Standards (IFRS) for consolidated financial statements starting from the year-end financial results for the fiscal year ending March 31, 2021. This change is aimed to facilitate the international comparability of the Company's financial statements in capital markets and to improve the quality of group management through unification of accounting policies.

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

(Billions of yen)

Reportable segment	Orders received			Six months ended September 30, 2019		Six months ended September 30, 2020		Changes from the previous corresponding period (%)	
	Six months ended September 30, 2019	Six months ended September 30, 2020	Changes from the previous corresponding period (%)						
				Sales	Operating profit (loss)	Sales	Operating profit (loss)	Sales	Operating profit (loss)
Resources, Energy and Environment	164.2	100.5	(38.8)	140.2	(7.2)	142.4	4.1	1.6	–
Social Infrastructure and Offshore Facility	61.1	65.6	7.4	68.1	5.1	65.4	4.8	(3.9)	(5.0)
Industrial System and General-Purpose Machinery	226.6	159.3	(29.7)	185.7	2.1	172.7	2.0	(7.0)	(5.2)
Aero Engine, Space and Defense	146.7	86.5	(41.0)	187.6	13.3	96.8	(15.5)	(48.3)	–
Total Reportable Segment	598.9	412.2	(31.2)	581.7	13.3	477.6	(4.4)	(17.9)	–
Others	38.6	37.7	(2.3)	33.7	0.8	24.8	0.2	(26.6)	(72.0)
Adjustment	(21.5)	(23.1)	–	(20.6)	(3.6)	(19.6)	(1.8)	–	–
Total	616.0	426.8	(30.7)	594.9	10.5	482.8	(6.1)	(18.8)	–

(2) EXPLANATION REGARDING CONSOLIDATED FINANCIAL POSITION

A. Assets and liabilities, and net assets

Total assets at the end of the second quarter under review were ¥1,666.4 billion, down ¥74.3 billion compared with the end of the previous fiscal year. The major items of decrease were cash and deposits, down ¥60.9 billion and notes, accounts receivable – trade and contract assets, down ¥29.6 billion. The major item of increase was raw materials and supplies, up ¥14.0 billion.

Total liabilities were ¥1,296.2 billion, down ¥90.7 billion compared with the end of the previous fiscal year. The major items of decrease were short-term loans payable, down ¥63.8 billion, and notes and accounts payable - trade, down ¥49.2 billion. The major item of increase was long-term loans payable, up ¥47.2 billion. The balance of interest-bearing liabilities, including lease obligations, was ¥521.7 billion, up ¥33.5 billion compared with the end of the previous fiscal year.

Net assets were ¥370.1 billion, up ¥16.3 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 ¥9.5 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 20.5%.

B. Cash flows

At the end of the second quarter under review, the outstanding balance of cash and cash equivalents (hereinafter, “cash”) was ¥84.8 billion, down ¥60.6 billion compared with the end of the previous fiscal year. This was because the cash, which was secured at the end of the previous fiscal year to prepare for turmoil in the financial markets caused from the spread of COVID-19, was appropriated for working capital expenditures for business activities as the financial markets have become relatively stable.

Net cash used in operating activities was ¥55.7 billion. This was mainly due to loss before income taxes of ¥8.4 billion and an increase of working capital such as an increase of inventories of ¥44.0 billion.

Net cash used in investing activities was ¥26.9 billion. This was mainly due to purchase of property, plant and equipment and intangible assets of ¥32.8 billion, which included expenditure from a decrease of accounts payable for construction of facilities (such as payments for the construction of factory building of Tsurugashima Works completed in the previous fiscal year) of ¥16.6 billion.

Net cash provided by financing activities was ¥20.9 billion. This was mainly due to proceeds from long-term loans payable of ¥62.9 billion, proceeds from issuance of bonds of ¥30.0 billion and a decrease of short-term loans payable of ¥59.9 billion.

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

Although the economy is showing signs of recovery, it is expected that it will take some time for the spread of COVID-19 to converge and a full-scale recovery. 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.

Regarding the full-year consolidated forecasts of results, IHI announced the forecasts of results, under certain assumptions, based on the information available at this point, in "Notice Regarding Revisions to the Forecast of Full-Year Consolidated Results and Dividend Forecasts for the Fiscal Year Ending March 31, 2021" released today. Revenue and profit in the Civil aero engines Business are expected to decrease sharply due to the impact of the spread of COVID-19. In addition, the Company is considering the sale of assets held in order to secure funds for investment in the business portfolio transformation based on "Project Change", with its expected effect factored into the forecast as gain on sales of non-current assets. As a result, IHI is forecasting consolidated revenue of ¥1,150.0 billion, operating profit of ¥20.0 billion, profit before income taxes of ¥10.0 billion, and profit attributable to owners of parent of ¥1.0 billion for the fiscal year ending March 31, 2021.

Please note that the full-year consolidated forecasts of results are calculated based on IFRS.

(Reference) Consolidated forecasts of results for the fiscal year ending March 31, 2021 based on Japanese GAAP

Net sales: ¥1,150.0 billion, Operating profit: ¥8.0 billion, Ordinary profit: negative ¥5.0 billion,

Profit attributable to owners of parent: ¥0.0 billion

Foreign exchange rates of ¥105/US\$1 and ¥120/EUR1 have been assumed in the above forecasts in and after the third quarter ending December 31, 2020.

IHI shall follow its basic policy to pay out stable dividends and determine the amount of dividends after taking into account a broad range of factors, including investments for improvement of corporate value and enhancement and reinforcement of equity capital with a target consolidated dividend payout ratio of around 30%..

After considering the level of profit of the forecasts of results for the current fiscal year, the forecast for year-end dividends of surplus for the fiscal year ending March 31, 2021 has been regrettably decided to be zero yen in addition to the interim dividend payment.

2. MATTERS REGARDING SUMMARY INFORMATION (NOTES)

(1) CHANGES IN SIGNIFICANT SUBSIDIARIES DURING THE SIX 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 six months under review are calculated by multiplying profit before income taxes for the six months under review by the reasonably estimated effective tax rate for the fiscal year including the second 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 six 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 ended June 30, 2020 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 ended June 30, 2020 was added to or subtracted from the beginning balance of retained earnings of the first quarter ended June 30, 2020, 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 ended June 30, 2020 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 ended June 30, 2020, 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 ended June 30, 2020 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 six months under review, net sales decreased by ¥22,506 million, with the cost of sales decreasing by ¥19,789 million, selling, general and administrative expenses decreasing by ¥1,533 million, operating loss increasing by ¥1,184 million, and ordinary loss and loss before income taxes each decreasing by ¥741 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 ended June 30, 2020. 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 September 30, 2020
Assets		
Current assets		
Cash and deposits	147,228	86,253
Notes and accounts receivable - trade	403,832	—
Notes, accounts receivable - trade and contract assets	—	374,206
Securities	21	—
Finished goods	18,417	20,572
Work in process	289,277	283,094
Raw materials and supplies	137,848	151,853
Other	83,410	69,788
Allowance for doubtful accounts	(4,024)	(4,100)
Total current assets	1,076,009	981,666
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	154,217	151,068
Other, net	243,278	236,055
Total property, plant and equipment	397,495	387,123
Intangible assets		
Goodwill	7,456	6,511
Other	24,706	23,729
Total intangible assets	32,162	30,240
Investments and other assets		
Investment securities	63,514	62,904
Other	172,857	205,839
Allowance for doubtful accounts	(1,255)	(1,348)
Total investments and other assets	235,116	267,395
Total non-current assets	664,773	684,758
Total assets	1,740,782	1,666,424

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

As of March 31, 2020 As of September 30, 2020

	As of March 31, 2020	As of September 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable – trade	262,587	213,312
Short-term loans payable	185,600	121,722
Commercial papers	56,000	83,000
Current portion of bonds	10,000	10,000
Income taxes payable	6,012	4,952
Advances received	151,790	–
Contract liabilities	–	162,805
Provision for bonuses	26,672	26,483
Provision for construction warranties	42,759	12,036
Provision for loss on construction contracts	19,929	15,298
Other provision	1,141	931
Other	146,515	93,655
Total current liabilities	909,005	744,194
Non-current liabilities		
Bonds payable	50,000	70,000
Long-term loans payable	159,223	206,467
Net defined benefit liability	166,193	167,901
Provision for loss on business of subsidiaries and affiliates	1,249	1,267
Other provision	1,068	901
Other	100,298	105,563
Total non-current liabilities	478,031	552,099
Total liabilities	1,387,036	1,296,293
Net assets		
Shareholders' equity		
Capital stock	107,165	107,165
Capital surplus	51,780	51,784
Retained earnings	186,170	201,494
Treasury shares	(15,899)	(15,999)
Total shareholders' equity	329,216	344,444
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(679)	(557)
Deferred gains or losses on hedges	(252)	(201)
Revaluation reserve for land	5,321	4,845
Foreign currency translation adjustment	(2,067)	(2,146)
Remeasurements of defined benefit plans	(5,164)	(4,647)
Total accumulated other comprehensive income	(2,841)	(2,706)
Subscription rights to shares	533	449
Non-controlling interests	26,838	27,944
Total net assets	353,746	370,131
Total liabilities and net assets	1,740,782	1,666,424

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

CONSOLIDATED STATEMENTS OF INCOME (Cumulative)

(Millions of yen)

	April 1, 2019 to September 30, 2019	April 1, 2020 to September 30, 2020
Net sales	594,916	482,807
Cost of sales	492,970	410,914
Gross profit	101,946	71,893
Selling, general and administrative expenses	91,360	78,000
Operating profit (loss)	10,586	(6,107)
Non-operating income		
Interest income	398	180
Dividend income	638	419
Share of profit of entities accounted for using equity method	—	467
Other income	2,048	2,411
Total non-operating income	3,084	3,477
Non-operating expenses		
Interest expenses	2,111	1,422
Share of loss of entities accounted for using equity method	2,419	—
Foreign exchange losses	1,043	2,063
Other expenses	4,506	3,970
Total non-operating expenses	10,079	7,455
Ordinary profit (loss)	3,591	(10,085)
Extraordinary income		
Gain on sales of non-current assets	4,588	1,650
Gain on insurance claims	1,108	—
Total extraordinary income	5,696	1,650
Extraordinary losses		
Impairment loss	108	59
Loss on valuation of investment securities	5,523	—
Total extraordinary losses	5,631	59
Profit (loss) before income taxes	3,656	(8,494)
Income taxes	6,092	(822)
Loss	(2,436)	(7,672)
Profit attributable to non-controlling interests	2,434	1,895
Loss attributable to owners of parent	(4,870)	(9,567)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Cumulative)

(Millions of yen)

	April 1, 2019 to September 30, 2019	April 1, 2020 to September 30, 2020
Loss	(2,436)	(7,672)
Other comprehensive income		
Valuation difference on available-for-sale securities	(333)	160
Deferred gains or losses on hedges	(170)	(32)
Foreign currency translation adjustment	(5,076)	356
Remeasurements of defined benefit plans, net of tax	369	561
Share of other comprehensive income of entities accounted for using equity method	(130)	(334)
Total other comprehensive income	(5,340)	711
Comprehensive income	(7,776)	(6,961)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(9,164)	(8,886)
Comprehensive income attributable to non-controlling interests	1,388	1,925

(3) CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	April 1, 2019 to September 30, 2019	April 1, 2020 to September 30, 2020
Cash flows from operating activities		
Profit (loss) before income taxes	3,656	(8,494)
Depreciation	27,417	30,227
Depreciation and amortization on other	3,304	794
Impairment loss	108	59
Increase (decrease) in allowance for doubtful accounts	(257)	168
Increase (decrease) in provision for bonuses	(154)	(209)
Increase (decrease) in provision for construction warranties	(3,675)	(349)
Increase (decrease) in provision for loss on construction contracts	(641)	(4,251)
Increase (decrease) in net defined benefit liability	1,778	1,799
Interest and dividend income	(1,036)	(599)
Interest expenses	2,111	1,422
Foreign exchange losses (gains)	(426)	(576)
Loss (gain) on sales of short-term and long-term investment securities	(19)	21
Loss (gain) on valuation of short-term and long-term investment securities	5,921	74
Share of loss (profit) of entities accounted for using equity method	2,419	(467)
Loss (gain) on sales or disposal of property, plant and equipment and intangible assets	(4,196)	(1,177)
Gain on insurance claims	(1,108)	–
Decrease (increase) in notes and accounts receivable – trade	54,795	–
Decrease (increase) in notes and accounts receivable – trade and contract assets	–	49,498
Increase (decrease) in advances received	11,006	–
Increase (decrease) in contract liabilities	–	12,001
Decrease (increase) in advance payments	(5,616)	(14)
Decrease (increase) in inventories	(53,584)	(44,029)
Increase (decrease) in notes and accounts payable - trade	(39,384)	(46,770)
Increase (decrease) in accrued expenses	(12,552)	(7,611)
Decrease (increase) in other current assets	(6,079)	(1,385)
Increase (decrease) in other current liabilities	(6,598)	(27,681)
Decrease (increase) in consumption taxes refund receivable	(1,123)	(1,771)
Other, net	427	3,444
Subtotal	<u>(23,506)</u>	<u>(45,876)</u>
Interest and dividend income received	1,273	994
Interest expenses paid	(2,137)	(1,466)
Proceeds from insurance income	1,737	–
Income taxes paid	<u>(10,243)</u>	<u>(9,393)</u>
Net cash provided by (used in) operating activities	<u>(32,876)</u>	<u>(55,741)</u>

(3) CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	April 1, 2019 to September 30, 2019	April 1, 2020 to September 30, 2020
Cash flows from investing activities		
Decrease (increase) in time deposits	366	337
Purchase of short-term and long-term investment securities	(4,080)	(572)
Proceeds from sales and redemption of short-term and long-term investment securities	548	206
Purchase of property, plant and equipment and intangible assets	(37,450)	(32,849)
Proceeds from (payments for) sales or disposal of property, plant and equipment and intangible assets	5,733	7,031
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	–	310
Decrease (increase) in short-term loans receivable	(11)	(60)
Payments of long-term loans receivable	(5)	(11)
Collection of long-term loans receivable	175	137
Decrease (increase) in other investments	(4,489)	(1,250)
Increase (decrease) in other non-current liabilities	(408)	(200)
Other, net	1	(42)
Net cash provided by (used in) investing activities	(39,620)	(26,963)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,111	(59,916)
Net increase (decrease) in commercial papers	70,000	27,000
Proceeds from long-term loans payable	10,521	62,921
Repayments of long-term loans payable	(22,381)	(21,558)
Proceeds from issuance of bonds	–	30,000
Redemption of bonds	(10,000)	(10,000)
Proceeds from sales and leasebacks	21	10
Repayments of lease obligations	(2,300)	(3,209)
Decrease (increase) in treasury shares	–	131
Payments made to trust account for acquisition of treasury shares	(363)	(311)
Cash dividends paid	(6,163)	(2,975)
Proceeds from share issuance to non-controlling shareholders	673	36
Dividends paid to non-controlling interests	(1,421)	(1,143)
Net cash provided by (used in) financing activities	41,698	20,986
Effect of exchange rate change on cash and cash equivalents	(2,348)	898
Net increase (decrease) in cash and cash equivalents	(33,146)	(60,820)
Cash and cash equivalents at beginning of period	92,608	145,484
Increase in cash and cash equivalents from consolidation of non-consolidated subsidiaries	261	192
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	–	(10)
Cash and cash equivalents at end of period	59,723	84,846

(4) 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 ended June 30, 2020. 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

Regarding the impact of the spread of COVID-19, the IHI Group assumes in particular that it will take several years to recover completely as a whole in the Civil aero engines Business, as described in “(1) EXPLANATION REGARDING BUSINESS RESULTS - Impact of the spread of COVID-19” of “1. QUALITATIVE INFORMATION REGARDING CONSOLIDATED RESULTS”.

Given these circumstances, the Group makes accounting estimates and concludes that there is no significant change in judgement on the probability of recovering the deferred tax assets compared to the previous fiscal year at this point.

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 Six months ended September 30, 2019

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

(Millions of yen)

	Reportable Segment				Total	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					
Sales:									
(1) Sales to outside customers	138,584	64,789	181,743	186,805	571,921	22,995	594,916	—	594,916
(2) Intersegment sales and transfers	1,631	3,334	4,044	795	9,804	10,799	20,603	(20,603)	—
Total	140,215	68,123	185,787	187,600	581,725	33,794	615,519	(20,603)	594,916
Segment profit (loss) (Operating profit (loss))	(7,267)	5,111	2,172	13,330	13,346	853	14,199	(3,613)	10,586

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

2. Adjustment of segment profit represents intersegment transactions of ¥79 million and unallocated corporate expenses of negative ¥3,692 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 Six months ended September 30, 2020

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

(Millions of yen)

	Reportable Segment					Total	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						
Sales:										
(1) Sales to outside customers	141,623	63,148	166,305	96,062	467,138	15,669	482,807	—	482,807	
(2) Intersegment sales and transfers	872	2,327	6,440	836	10,475	9,139	19,614	(19,614)	—	
Total	142,495	65,475	172,745	96,868	477,613	24,808	502,421	(19,614)	482,807	
Segment profit (loss)	4,172	4,856	2,059	(15,571)	(4,484)	239	(4,245)	(1,862)	(6,107)	
(Operating profit (loss))										

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 ¥464 million and unallocated corporate expenses of negative ¥2,326 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 ended June 30, 2020 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 six months under review increased by ¥4,205 million in the Resources, Energy and Environment, increased by ¥3,258 million in the Social Infrastructure and Offshore Facility, increased by ¥5,872 million in the Industrial System and General-Purpose Machinery, decreased by ¥33,806 million in the Aero Engine, Space and Defense compared with the previous method. Segment profit or loss in six months under review increased by ¥209 million in the Social Infrastructure and Offshore Facility and by ¥956 million in the Industrial System and General-Purpose Machinery, decreased by ¥896 million in the Resources, Energy and Environment and by ¥1,429 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