

II. Changes in Accounting Policies which are Difficult to Distinguish from Changes in Accounting Estimates and Changes in Accounting Estimates

(Changes in Method of Depreciation and Residual Value)

Up until now, the Company has been using the declining-balance method (however, the straight-line method has been used for lend-lease properties, buildings acquired on or after April 1, 1998 [not including facilities attached to buildings], and both facilities attached to buildings and structures acquired on or after April 1, 2016) as the depreciation method for property, plant and equipment. However, the Company and the consolidated subsidiaries have changed the depreciation method for property, plant and equipment to the straight-line method from the fiscal year under review.

The Company, in line with the “Group Management Policies 2016,” a three-year medium-term management plan with fiscal 2016 as the first year, is working to secure sources of earnings by concentrating investment in growth fields in order to strengthen its earnings foundations and improve production efficiency through reform of quality systems and operational systems aimed at strengthening manufacturing capabilities and enhancement of shared Group functions.

As part of this, in addition to expansion of production capabilities targeting the launch of mass production of new aero-engine models, in all business areas there has been progress on the establishment of platforms that will enable more efficient production by utilizing ICT. Under these circumstances, based on the fact that long-term, stable operation of domestic production facilities, etc. is expected, in order to appropriately allocate costs the IHI Group has decided that it is more appropriate to use the straight-line method as the depreciation method.

And, in conjunction with the change in the depreciation method, for certain property, plant and equipment, the residual value has been changed to the scrap value based on consideration of the value at the time the asset is retired.

As a result, operating profit for the fiscal year under review increased by 673 million yen, ordinary profit and profit before income taxes for the fiscal year under review increased respectively by 653 million yen.

III. Changes in Presentation

(Non-Consolidated Statement of Income)

“Payments for contract adjustments for civil aero engines,” which was included in “Other” under “Non-operating expenses” in the previous fiscal year, has been separately presented in the fiscal year under review due to its increased materiality of the amount.

IV. Notes to the Non-Consolidated Balance Sheet

1. Assets Pledged as Collateral and Secured Liabilities

Assets pledged as collateral

Investment securities	646 million yen (Note 1)
Investments in capital of subsidiaries and affiliates	2,793 million yen (Note 2)

(Notes)

1. Kagoshima Mega Solar Power Corporation and seven shareholder companies of the said company entered into a revolving pledge agreement with financial institutions in order to secure all and any liabilities of the said company under the limited loan agreement concluded between Kagoshima Mega Solar Power Corporation and the financial institutions.
2. Nanatsujima Biomass Power Limited Liability Company, its nine shareholder companies and certain financial institutions have entered into an employee equity interest pledge agreement in order to guarantee all and any liabilities incurred by affiliate Nanatsujima Biomass Power Limited Liability Company, under the limited loan agreement concluded between the said company and financial institutions.

2. Accumulated Depreciation of Property, Plant and Equipment

345,926 million yen

3. Contingent Liabilities

(1) *Liabilities on guarantee (Note)*

(Millions of yen)

Guaranteed entity	Amount	Details of liability on guarantee
IHI Investment for Aero Engine Leasing LLC	8,171	Loans from financial institutions
Japanese Aero Engines Corporation	6,572	Guarantee of loan obligations for purchase of fuselages, guarantee for lease obligations and guarantee of fuselage asset value
ALPHA Automotive Technologies LLC	1,400	Guarantee for lease obligations and loans from financial institutions
IHI Charging Systems International GmbH	739	Loans from financial institutions
IHI Southwest Technologies, Inc.	626	Loans from financial institutions
IHI Group Health Insurance Association	492	Loans from financial institutions
Japan Aeroforge, Ltd.	472	Loans from financial institutions
Toshiba IHI Power Systems Corporation	35	Loans from financial institutions
Total	18,510	

(2) Quasi-guarantee (Note)

(Millions of yen)

Guaranteed entity	Amount	Description
Employees of the Company	5,597	Housing loans and others
IHI Charging Systems International GmbH	2,357	Commitment to guarantees for the obligation to return VAT refund
IHI Group Health Insurance Association	540	Loans from financial institutions
Total	8,495	

(Note)

The amounts shown above are the amounts the Company would pay to creditors in any of the following cases:

- (1) In the case of a perfected joint guarantee agreement, etc., if the amount guaranteed by the Company is clearly expressed and specified irrespective of other guarantors' capacities to guarantee.
- (2) In the case of a joint and several guarantee agreement with multiple guarantors, if the percentage or the amount guaranteed by the Company is clearly expressed in accordance with an arrangement among guarantors and other joint and several guarantors' capacities to guarantee are deemed adequate.
- (3) *Other*

The Company is subject to investigations by the Tokyo Regional Taxation Bureau in relation to the transfer pricing taxation system concerning transactions between the Company and a consolidated subsidiary incorporated in Thailand. This investigation is currently ongoing. At this point in time, as it is difficult to rationally estimate the effect on the Company's financial position or business results, the impact from the said matter is not reflected in the Company's non-consolidated financial statements for the fiscal year under review.

4. Monetary Claims and Liabilities to Subsidiaries and Affiliates

Short-term monetary claims	69,480 million yen
Long-term monetary claims	8,549 million yen
Short-term monetary liabilities	134,093 million yen
Long-term monetary liabilities	728 million yen

5. Notes Maturing on Balance Sheet Date

Accounting of notes maturing on the last day of fiscal year is settled on the clearing date. Because the last day of the fiscal year under review fell on a bank holiday, the following such notes that matured on the last day of the fiscal year are included in the balance on the last day of the fiscal year under review.

Notes receivable - trade	20 million yen
Notes payable - trade	155 million yen

V. Notes to the Non-Consolidated Statement of Income

Amounts of Transactions with Subsidiaries and Affiliates

(1) Operating transactions

Sales to subsidiaries and affiliates	38,630 million yen
Purchases from subsidiaries and affiliates	179,713 million yen

(2) *Non-operating transactions*

21,912 million yen

VI. Notes to the Non-Consolidated Statement of Changes in Equity

Class and Number of Treasury Shares at the End of the Fiscal Year

Common stock	344,435 shares
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(Notes)

1. The Company conducted a consolidation of common shares on a 10 for 1 basis (ratio of 1 new share for every 10 old shares) on October 1, 2017.
2. A trust account for the Board Benefit Trust (BBT) acquired 1,110,000 shares of the Company during the fiscal year under review. Due to the consolidation of shares, the said shares decreased by 999,000 shares, and 111,000 shares are included in the number of treasury shares (common shares) as of the end of the fiscal year under review.

VII. Tax Effect Accounting

(Primary causes for the occurrence of deferred tax assets and liabilities)

Deferred tax assets are mainly in association with provision for retirement benefits, and deferred tax liabilities are mainly in association with reserve for advanced depreciation of non-current assets.

VIII. Non-current Assets Used Through Leases

In addition to the non-current assets on the non-consolidated balance sheet, some buildings of Headquarters Representative's Offices are used through non-ownership transfer finance leases.

IX. Related Party Transactions

1. Subsidiaries, Affiliates and Other Related Parties

(Millions of yen)

Type	Name	Location	Capital or Contribution	Nature of Business	Voting Rights Holding or Held	Relation with the Party
Subsidiary	IHI Turbo Co., Ltd.	Koto-ku, Tokyo	1,000	Manufacture	Holding directly 100%	Production subsidiary
Subsidiary	IHI Plant Construction Co., Ltd.	Koto-ku, Tokyo	500	Construction	Holding directly 100%	Company sharing business function
Subsidiary	IHI INC.	New York, U.S.A.	92,407 thousand US dollars	Sales, solicitation of orders	Holding directly 100%	Regional Headquarter for the Americas
Subsidiary	IHI E&C International Corporation	Texas, U.S.A.	21,257 thousand US dollars	Design, procurement, construction	Holding indirectly 100%	Company sharing business function
Affiliate	IHI Finance Support Corporation	Chuo-ku, Tokyo	200	Lease, factoring, etc.	Holding directly 33.5%	Factoring

(Millions of yen)

Name	Transactions	Transaction Amount (Note 1)	Account Title	Balance as of March 31, 2018 (Note 1)
IHI Turbo Co., Ltd.	- Purchases of vehicular turbochargers, etc.	(Note 2) 42,084	Accounts payable - trade	12,270
IHI Plant Construction Co., Ltd.	- Ordering of field work, etc. for plant construction business	(Note 2) 28,738	Accounts payable - trade Accounts payable - other	12,862 1
IHI INC.	- Subscription to capital increase	(Note 3) 31,656	-	-
IHI E&C International Corporation	- Fund borrowing	(Note 4) 21,100	Short-term loans payable Accrued interest expenses	21,248 2
IHI Finance Support Corporation	- Factoring	(Note 5) 59,288	Accounts payable - trade Accounts payable - other	13,880 2,242

2. Directors/Audit & Supervisory Board Members and Major Individual Shareholders

(Millions of yen)

Type	Name	Location	Capital or Contribution	Nature of Business or Occupation	Voting Rights Holding or Held	Relation with the Party
Director/audit & supervisory board member	Toshinori Sekido	-	-	Japanese Aero Engines Corporation (Representative Director)	Held directly 0%	Executive Vice President of the Company

(Millions of yen)

Name	Transactions	Transaction Amount (Note 1)	Account Title	Balance as of March 31, 2018 (Note 1)
Toshinori Sekido	Operating transactions with Japanese Aero Engines Corporation (JAEC) (Note 6)			
	-Subcontract of work from JAEC related to R&D of jet engines	7,550	-	-
	-Payment of a portion of funding related to the above	2,926	-	- (Note 7)
	-Acceptance of subsidies related to the above	6,256	Accounts payable - other	6,086
			Long-term accounts payable - other	54,490
	-Manufacture of jet engine components and delivery thereof to JAEC	161,246	Accounts receivable - trade	17,980
		Advances received	10,070	
	-Payment of a portion of expenses related to the above	81,566	-	-

(Notes)

1. Amounts of transactions do not include consumption taxes and balances as of March 31, 2018 do. The transaction amount does not include foreign exchange gains or losses, and the ending balance includes foreign exchange gains or losses.
2. Amounts of transactions and trading prices were based on conditions for general transactions, and took into account market prices.
3. The Company subscribed to the capital increase through IHI INC.'s allotment of new shares to shareholders.
4. The interest rates on fund borrowing are decided taking market interest rates into consideration.
5. With regard to factorings, the Company, any customer and IHI Finance Support Corporation enter into a basic agreement concerning the Company's liabilities and settle the amount.
6. The Company conducted these transactions as a representative of third parties, and amounts of transactions and trading prices were based on conditions for general transactions.
7. Consumption tax, etc. are not included in Accounts payable - other or Long-term accounts payable - other for which Japanese Aero Engines Corporation is the counterparty.

X. Per Share Information

1. Net Assets per Share	1,471.23 yen
2. Basic Earnings per Share	155.33 yen

(Notes)

1. The basis for calculating basic earnings per share is as follows.

Profit	23,978 million yen
Amounts for non-common shareholders	–
Profit regarding common stock	23,978 million yen
Average number of shares of common stock	154,361 thousand shares

2. The Company conducted a consolidation of common shares on a 10 for 1 basis (ratio of 1 new share for every 10 old shares) on October 1, 2017. Net assets per share and basic earnings per share have been calculated under the assumption that this consolidation of common shares was conducted on April 1, 2017.
3. The number of shares issued at the end of the period, and the number of treasury shares excluded for the calculation of the average number of shares outstanding during the period, include shares owned by a trust account for the Board Benefit Trust (BBT). The number of treasury shares at the end of the period excluded for the calculation of net assets per share and the average number of treasury shares outstanding during the period excluded for the calculation of basic earnings per share are both 111,000 shares.

XI. Significant Subsequent Events

No applicable item.

Exercise of Voting Rights by Electronic Measures

You can exercise your voting rights only through a designated special website specifically for such purpose (<https://www.web54.net>). Provider fees and communication fees (telephone charges) to access the Voting Right Exercising Website shall be borne by the shareholder. There is no site tailored for access by mobile phone. When you use it, please read and follow the following rules and instructions:

■ Electronic voting

1. Votes for which rights are exercised by 5:30 p.m. (JST) on the day prior to the General Meeting of Shareholders (Thursday, June 21, 2018) (JST) shall be effective. Please vote as early as possible to allow us sufficient time to tabulate votes.
2. If any voting rights are exercised via the Internet, etc. more than once, the votes cast last shall be considered to be valid.
3. If any voting rights are exercised redundantly both by the voting form and via the Internet, etc., the votes which reach us last shall be considered to be valid. If both the votes by the voting form and the votes via the Internet, etc. reach us on the same day, the votes cast via the Internet, etc. shall be considered to be valid.

■ Password

1. A password is required to verify a shareholder's identity. Please take appropriate measures to ensure the security of your password.
2. Passwords supplied by us and those created by you will only apply to matters related to this General Meeting of Shareholders.
3. Your password will become invalid if you enter the wrong password multiple times. Should you need a password to be reissued, please follow the directions on the screen.

■ If you are unclear about the operation

Please contact as below if you are unclear about the operation of Exercise of Voting Rights by Electronic Measures:

<p style="text-align: center;">Sumitomo Mitsui Trust Bank Securities Agency Web Support [Toll Free] 0120 (652) 031 (9:00 – 21:00) (JST)</p>

For other inquiries please refer to the following:

- 1) Shareholders with an account at a brokerage firm
Please contact the brokerage firm that you trade with
- 2) Shareholders without an account at a brokerage firm (shareholders with a special account)
Sumitomo Mitsui Trust Bank Securities Administration Center
Tel: 0120 (782) 031 [Toll Free]
Hours: Weekdays 9:00 – 17:00 (JST)

To Institutional investors

You can exercise your voting rights by electronic measures as above and also can use the electronic platform to exercise voting rights which is operated by ICJ Inc.