

(Translation purposes only)

Quarterly Securities Report

(The First Quarter of 202nd Term)

From April 1, 2018 to June 30, 2018

IHI Corporation

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Cover page

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Company name in English	IHI Corporation
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Part 1. Company information

I. Overview of company

1. Summary of business results

Term	201st term Three months ended June 30, 2017	202nd term Three months ended June 30, 2018	201st term
Accounting period	From April 1, 2017 To June 30, 2017	From April 1, 2018 To June 30, 2018	From April 1, 2017 To March 31, 2018
Net sales (Millions of yen)	402,405	337,156	1,590,333
Ordinary profit (Millions of yen)	21,831	16,739	21,425
Profit attributable to owners of parent (Millions of yen)	11,718	6,142	8,291
Comprehensive income (Millions of yen)	14,564	8,612	16,774
Net assets (Millions of yen)	350,706	352,889	350,217
Total assets (Millions of yen)	1,667,940	1,628,847	1,633,488
Basic earnings per share (Yen)	75.88	39.80	53.71
Diluted earnings per share (Yen)	75.82	39.77	53.67
Shareholders' equity ratio (%)	19.85	20.08	19.87

- Notes:
1. Summary of business results of the reporting company are not presented, because IHI prepares quarterly consolidated financial statements.
 2. Net sales do not include consumption taxes.
 3. IHI has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the first quarter ended June 30, 2018. Accordingly, summary of results of the three months ended June 30, 2017 and the previous fiscal year ended March 31, 2018 reflected the retrospective application of the accounting policies.
 4. IHI conducted a consolidation of common stock on a 10 for 1 basis on October 1, 2017.
Basic earnings per share and diluted earnings per share have been calculated under the assumption that this consolidation of common stock was conducted on April 1, 2017.
 5. Monetary amounts and ratios less than one unit are rounded off.

(Translation purposes only)

2. Description of business

IHI and its affiliated entities (151 consolidated subsidiaries, a non-consolidated subsidiary accounted for equity method and 29 affiliates accounted for using equity method as of June 30, 2018) operate four main businesses, providing a diverse range of products. The four businesses are: Resources, Energy and Environment; Social Infrastructure and Offshore Facility; Industrial System and General-Purpose Machinery; and Aero Engine, Space and Defense.

In the three months ended June 30, 2018, there were no significant changes in the contents of the businesses operated by the IHI Group (IHI and its affiliated entities). Changes in principle affiliated companies are as follows.

(Social Infrastructure and Offshore Facility)

From the first quarter of the fiscal year ending March 31, 2019, I&H Engineering Co.,Ltd. is newly included in the scope of consolidation because its materiality within the IHI Group has increased.

(Industrial System and General-Purpose Machinery)

From the first quarter of the fiscal year ending March 31, 2019, IHI DALGAKIRAN MAKİNA SANAYİ VE TİCARET A.Ş. is newly included in the scope of consolidation because its materiality within the IHI Group has increased.

(Others)

From the first quarter of the fiscal year ending March 31, 2019, Soma I Grid Limited Liability Company is newly included in the scope of consolidation because its materiality within the IHI Group has increased.

(Translation purposes only)

II. Overview of business

1. Business risks

There were no new occurrences of business risks in the three months ended June 30, 2018.

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

2. Analysis of financial position, operating results and cash flows from the viewpoint of business managers

Matters regarding the future stated in this document are based on the judgment as of June 30, 2018.

(1) Overview of business results

During the three months ended June 30, 2018 of the Japanese economy, corporate earnings maintained on a trend of improvement and remained stable, as there continued to be a mild increase in capital investment and a pick-up in private consumption. The global economy also continued to exhibit moderate growth overall, bolstered by steady growth in the U.S., despite the uncertain outlook regarding U.S. trade problems and policies in Europe.

Under this business environment, orders received of the IHI Group during the three months decreased 16.8% from the previous corresponding period to ¥241.6 billion. Net sales decreased 16.2% from the previous corresponding period to ¥337.1 billion.

In terms of profit, operating profit decreased ¥12.7 billion to ¥12.7 billion due mainly to the deterioration of profitability owing to increases in the number of new-model engines sold in the Civil aero engines business.

Ordinary profit decreased ¥5.0 billion to ¥16.7 billion, which the amounts of decrease in profit diminished due to the positive turn in share of profit of entities accounted for using equity method and the decrease in expenses for delayed delivery.

Profit attributable to owners of parent was ¥6.1 billion, a decrease of ¥5.5 billion, as a result of recording of income taxes for prior periods etc.

Also effective from the previous fiscal year, the closing date of the fiscal year of certain overseas consolidated subsidiaries has been changed from December 31 to March 31. As a result, those consolidated subsidiaries had a six-month accounting period in the three months ended June 30, 2017. The effect of these changes was an increase of ¥57.9 billion in net sales and an increase of ¥1.4 billion in operating profit.

Results by reportable segment for the three months ended June 30, 2018 are as follows:

(Billions of yen)

Reportable segment	Orders received			Three months ended June 30, 2017		Three months ended June 30, 2018		Change from the previous corresponding period (%)	
	Three months ended June 30, 2017	Three months ended June 30, 2018	Change from the previous corresponding period (%)	Sales	Operating Profit (loss)	Sales	Operating Profit (loss)	Sales	Operating Profit (loss)
Resources, Energy and Environment	73.5	55.5	(24.5)	135.8	(0.7)	84.3	(0.1)	(37.9)	–
Social Infrastructure and Offshore Facility	32.7	26.5	(18.9)	29.9	3.3	28.5	0.7	(4.5)	(76.1)
Industrial System and General-Purpose Machinery	130.6	115.3	(11.7)	121.1	4.4	104.8	4.0	(13.4)	(9.8)
Aero Engine, Space and Defense	46.9	38.6	(17.7)	111.7	18.6	117.5	9.0	5.2	(51.4)
Total Reportable Segment	283.8	236.0	(16.9)	398.6	25.6	335.2	13.7	(15.9)	(46.5)
Others	18.4	16.1	(12.6)	12.9	(0.4)	13.5	(0.3)	4.6	–
Adjustment	(12.0)	(10.4)	–	(9.1)	0.2	(11.6)	(0.6)	–	–
Total	290.3	241.6	(16.8)	402.4	25.4	337.1	12.7	(16.2)	(50.0)

(Translation purposes only)

<Resources, Energy and Environment>

Orders received decreased from the previous corresponding period mainly in the Process plants Business.

Net sales decreased owing to a pull back from the progress of large-scale projects in the Process plants Business in the previous fiscal year, decreased sales in the Power systems plants for land use Business and the Power systems for land and marine use Business, and partly from the effect of the financial reporting periods unification (hereinafter “FRPU”) in the previous fiscal year.

Operating loss was at the same level as the previous corresponding period, mainly due to improved profitability for the Power systems for land and marine use Business and the Nuclear power Business, and a decrease in selling, general and administrative expenses, despite the above-mentioned decreases of net sales.

<Social Infrastructure and Offshore Facility>

Orders received decreased from the previous corresponding period in the Bridges/water gates Business.

Net sales decreased in the Shield systems Business and the F-LNG/Offshore structures Business, while increased in the Bridges/water gates Business.

Operating profit decreased in the Shield systems Business and the Transport systems Business.

<Industrial System and General-Purpose Machinery>

Orders received decreased from the previous corresponding period in the Vehicular turbochargers Business and the Thermal and surface treatment Business.

Net sales decreased for the segment over all, while the net sales increased in the Vehicular turbochargers Business, the Thermal and surface treatment Business and so on excluding the effect of FRPU in the previous fiscal year.

Operating profit was at the same level as the previous corresponding period, mainly due to the effect of FRPU in the previous fiscal year and an increase in selling, general and administrative expenses, despite the impact of an increase of net sales in the Thermal and surface treatment Business and so on.

<Aero Engine, Space and Defense>

Orders received decreased from the previous corresponding period in the aero engines for Japan Ministry of Defense.

Net sales increased in the Civil aero engines Business.

Operating profit decreased mainly due to the effect of sales increase in the new PW1100G engine and expenses increase of maintenance programs.

(2) Analysis of financial position

Total assets at the end of the first quarter ended June 30, 2018 were ¥1,628.8 billion, down ¥4.6 billion compared with the end of the previous fiscal year. The items with the most significant decreases were notes and accounts receivable - trade, down ¥22.7 billion and cash and deposits, down ¥15.0 billion. The items with the most significant increases were inventories including work in process, up ¥15.6 billion and investment securities, up ¥11.4 billion.

Total liabilities were ¥1,275.9 billion, down of ¥7.3 billion compared with the end of the previous fiscal year. The items with the most significant decreases were provision for bonuses, down ¥11.7 billion and notes and accounts payable - trade, down ¥9.9 billion. The item with the most significant increase was short-term loans payable, up ¥17.0 billion. The balance on interest-bearing debt, including lease obligations, was ¥339.5 billion, up ¥17.2 billion from the end of the previous fiscal year.

Net assets were ¥352.8 billion, up ¥2.6 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥6.1 billion and decrease due to payment of dividends of ¥4.6 billion.

As a result of the above, the ratio of equity to total assets rose from 19.9% at the end of the previous fiscal year to 20.1%.

(3) Analysis of capital resources and funding liquidity

At the first quarter ended June 30, 2018, the balance of interest-bearing debt, including lease obligations, was ¥339.5 billion, up ¥17.2 billion from the end of the previous fiscal year.

This primarily reflected an increase in working capital by business activities and an increase in investment capital provided by loans from external parties and others.

Regarding funding liquidity, in addition to a diverse range of fund procurement methods, including credit line commitments and overdraft facilities with major banks, as well as commercial papers, the outstanding balance of cash and cash equivalents was ¥92.2 billion at the end of the first quarter ended June 30, 2018. This balance means that the IHI Group has secured sufficient liquidity.

(Translation purposes only)

(4) Research and development activities

In the three months ended June 30, 2018, the IHI Group spent ¥7.0 billion on R&D. There were no significant changes in the status of R&D activities of the IHI Group in the three months ended June 30, 2018.

(5) Management Policies, Management strategies, and Issues to be addressed

There were no significant changes with respect to management policies, management strategies, and issues to be addressed in the three months ended June 30, 2018.

In November 2015, the IHI Group established its “Group Management Policies 2016,” a three-year medium-term management plan that became effective from April 2016.

In the “Group Management Policies 2016,” the IHI Group has set a theme of “strengthening earnings foundations” and is propelling three initiatives: “pursuing concentration and selection through new portfolio management approaches,” “bolstering profitability by strengthening project implementation structure” and “transform business model by employing shared Group functions (solutions, advanced information management, and global businesses).”

In the current fiscal year, which is the final year of the “Group Management Policies 2016”, the IHI Group will not only take all business areas across the Group into the black under the slogan “First Year for Change” but also move forward with initiatives to transform business structures and business models, aiming to bring them to fruition in order to build robust earnings foundations, while responding speedily to discontinuous and drastic changes in the management environment and business environment.

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

3. Material contracts for operation

No important operational contracts were decided or entered into during the first quarter ended June 30, 2018.

(Translation purposes only)

III. Information about reporting company

1. Information about shares, etc.

(1) Total number of shares, etc.

(i) Total number of shares

Class	Total number of authorized shares (Shares)
Common shares	300,000,000
Total	300,000,000

(ii) Issued shares

Class	Number of issued shares as of the end of the first quarter (Shares) (June 30, 2018)	Number of issued shares as of the filing date (Shares) (August 10, 2018)	Name of stock exchange on which IHI is listed or names of authorized financial instruments firms associations where IHI is registered	Description
Common shares	154,679,954	154,679,954	First Section of Tokyo Stock Exchange and Nagoya Stock Exchange, Fukuoka Stock Exchange, Sapporo Stock Exchange	Shares with full voting rights, in which shareholders have unlimited standard rights. The number of shares constituting one unit is 100 shares.
Total	154,679,954	154,679,954	–	–

Note: The “Number of issued shares as of the filing date” column does not include the number of shares issued upon exercise of subscription rights to shares between August 1, 2018 and the filing date of this Quarterly Securities Report.

(2) Subscription rights to shares, etc.

(i) Details of stock option plans

Not applicable

(ii) Description of other matters regarding share acquisition rights, etc

Not applicable

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

Not applicable

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

Period	Changes in number of issued shares (Thousand shares)	Ending balance of number of issued shares (Thousand shares)	Changes in capital stock (Millions of yen)	Ending balance of capital stock (Millions of yen)	Changes in legal capital surplus (Millions of yen)	Ending balance of legal capital surplus (Millions of yen)
From April 1, 2018 to June 30, 2018	–	154,679	–	107,165	–	54,520

(5) Major shareholders

The major shareholders are not presented because the current quarterly accounting period is the first quarter period.

(Translation purposes only)

(6) Voting rights

Concerning the information on voting rights below, as IHI was unable to confirm the information stated in the shareholder register as of June 30, 2018, the information is stated not from its register; rather it is stated from the shareholder register of the immediately preceding cut-off date (March 31, 2018).

(i) Issued shares

(As of June 30, 2018)

Classification	Number of shares (Shares)	Number of voting rights (Units)	Description
Shares without voting rights	–	–	–
Shares with restricted voting rights (treasury shares, etc.)	–	–	–
Shares with restricted voting rights (others)	–	–	–
Shares with full voting rights (treasury shares, etc.)	(Shares in treasury) Common shares 233,400	–	This is IHI's standard shares whose holders have unlimited rights.
	(Reciprocally held shares) Common shares 15,700	–	Same as above
Shares with full voting rights (others)	Common shares 154,201,500	1,542,015	Same as above
Shares less than one unit	Common shares 229,354	–	Shares less than one unit (100 shares)
Number of issued shares	154,679,954	–	–
Total number of voting rights	–	1,542,015	–

- Notes:
1. Common stock in “Shares less than one unit” include 35 shares of treasury shares held by IHI.
 2. Common stock in “Shares with full voting rights (others)” include 700 shares whose ownership has yet not been transferred and which have been registered in the name of Japan Securities Depository Center. These shares constitute seven units of voting rights, which are included in the figure in “Number of voting rights.”
 3. Common stock in “Shares with full voting rights (others)” include 111,000 shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

(ii) Treasury shares, etc.

(As of June 30, 2018)

Name of shareholders	Address of shareholders	Number of shares held under own name (Shares)	Number of shares held under the names of others (Shares)	Total shares held (Shares)	Ownership percentage to the total number of issued shares (%)
(Shares in treasury) IHI Corporation	1-1, Toyosu 3-chome, Koto-ku, Tokyo	233,400	–	233,400	0.15
(Reciprocally held shares) Kondo Tekko Co., Ltd.	10-5, Yaesu 2-chome, Chuo-ku, Tokyo	14,200	–	14,200	0.01
MINAGAWA NOUKI SEIZOU Co., Ltd.	20-13, Tajima 2-chome, Sanjyo-shi, Niigata	1,500	–	1,500	0.00
Total	–	249,100	–	249,100	0.16

Note: 111,000 shares of IHI owned by a trust account for the Board Benefit Trust (BBT) are not included in shares in treasury above.

(Translation purposes only)

2. Information about directors and auditors

Not applicable

Note: In "III. Information about reporting company," monetary amounts less than one unit are rounded down.

(Translation purposes only)

IV. Financial information

1. Basis of preparation of the consolidated quarterly financial statements

The quarterly consolidated financial statements of IHI are prepared in accordance with the “Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements” (Cabinet Office Ordinance No. 64 of 2007).

2. Audit attestation

The quarterly consolidated financial statements for the first quarter of the fiscal year ending March 31, 2019 (from April 1, 2018 to June 30, 2018) and three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018) were reviewed by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

(Translation purposes only)

1. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

(Millions of yen)

	March 31, 2018	June 30, 2018
Assets		
Current assets		
Cash and deposits	109,028	93,931
Notes and accounts receivable - trade	*2 *3 400,330	*2 *3 377,564
Finished goods	25,647	27,579
Work in process	282,245	292,217
Raw materials and supplies	120,630	124,402
Other	59,758	71,454
Allowance for doubtful accounts	(4,164)	(4,357)
Total current assets	993,474	982,790
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	131,035	130,748
Other, net	218,011	218,637
Total property, plant and equipment	349,046	349,385
Intangible assets		
Goodwill	12,231	11,376
Other	23,789	22,904
Total intangible assets	36,020	34,280
Investments and other assets		
Investment securities	99,284	110,770
Other	157,388	153,400
Allowance for doubtful accounts	(1,724)	(1,778)
Total investments and other assets	254,948	262,392
Total non-current assets	640,014	646,057
Total assets	1,633,488	1,628,847
Liabilities		
Current liabilities		
Notes and accounts payable - trade	*3 304,928	*3 294,977
Short-term loans payable	81,515	98,556
Current portion of bonds	-	10,000
Income taxes payable	8,075	10,203
Advances received	177,819	179,935
Provision for bonuses	26,119	14,411
Provision for construction warranties	53,727	52,307
Provision for loss on construction contracts	27,266	24,002
Other provision	808	432
Other	131,398	129,495
Total current liabilities	811,655	814,318
Non-current liabilities		
Bonds payable	50,000	40,000
Long-term loans payable	172,533	173,112
Net defined benefit liability	154,125	154,378
Provision for loss on business of subsidiaries and affiliates	1,188	1,188
Other provision	1,150	895
Other	92,620	92,067
Total non-current liabilities	471,616	461,640
Total liabilities	1,283,271	1,275,958

(Translation purposes only)

(Millions of yen)

	March 31, 2018	June 30, 2018
Net assets		
Shareholders' equity		
Capital stock	107,165	107,165
Capital surplus	53,406	53,406
Retained earnings	153,564	154,871
Treasury shares	(879)	(871)
Total shareholders' equity	313,256	314,571
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,034	3,413
Deferred gains or losses on hedges	(286)	(203)
Revaluation reserve for land	5,359	5,353
Foreign currency translation adjustment	3,679	3,209
Remeasurements of defined benefit plans	559	731
Total accumulated other comprehensive income	11,345	12,503
Subscription rights to shares	792	783
Non-controlling interests	24,824	25,032
Total net assets	350,217	352,889
Total liabilities and net assets	1,633,488	1,628,847

(Translation purposes only)

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income
 Quarterly consolidated statements of income (cumulative)

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Net sales	402,405	337,156
Cost of sales	326,965	278,562
Gross profit	75,440	58,594
Selling, general and administrative expenses	49,977	45,851
Operating profit	25,463	12,743
Non-operating income		
Interest income	465	269
Dividend income	382	420
Share of profit of entities accounted for using equity method	489	3,883
Foreign exchange gains	411	1,616
Other income	566	883
Total non-operating income	2,313	7,071
Non-operating expenses		
Interest expenses	827	715
Disposal expenses on noncurrent assets	20	781
Expenses for delayed delivery	3,394	-
Other expenses	1,704	1,579
Total non-operating expenses	5,945	3,075
Ordinary profit	21,831	16,739
Extraordinary losses		
Settlement-related expenses related to boiler facilities in customer's commercial operation	*1 2,932	-
Total extraordinary losses	2,932	-
Profit before income taxes	18,899	16,739
Income taxes	5,742	5,060
Income taxes for prior periods	-	*2 4,304
Profit	13,157	7,375
Profit attributable to non-controlling interests	1,439	1,233
Profit attributable to owners of parent	11,718	6,142

(Translation purposes only)

Quarterly consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Profit	13,157	7,375
Other comprehensive income		
Valuation difference on available-for-sale securities	378	1,203
Deferred gains or losses on hedges	9	(76)
Revaluation reserve for land	-	(12)
Foreign currency translation adjustment	1,053	(192)
Remeasurements of defined benefit plans, net of tax	(80)	181
Share of other comprehensive income of entities accounted for using equity method	47	133
Total other comprehensive income	1,407	1,237
Comprehensive income	14,564	8,612
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	12,994	7,426
Comprehensive income attributable to non- controlling interests	1,570	1,186

(Translation purposes only)

Notes to Consolidated financial statements

(Change in scope of consolidation or scope of application of equity method)

(1) Significant change in scope of consolidation

From the first quarter of the fiscal year ending March 31, 2019, I&H Engineering Co.,Ltd., IHI DALGAKIRAN MAKİNA SANAYİ VE TİCARET A.Ş. and Soma I Grid Limited Liability Company are newly included in the scope of consolidation because their materiality within the IHI Group have increased.

(2) Significant change in scope of application of equity method

Not applicable

(Changes in accounting policies)

(Change of principal methods for hedge accounting)

Forward foreign exchange rates had been applied for foreign receivables and payables under forward foreign exchange contracts if conditions had been met (the *furiate* method). Also, special treatment had been applied for interest rate swaps if conditions for the special treatment had been met.

As a result of reviewing management methods suitable for global business operation, the IHI Group changed the principal methods for hedge accounting to deferral hedge accounting in order to reflect on its consolidated financial statements more accurately the status of foreign receivables and payables and the status of derivative contracts from the first quarter ended June 30, 2018.

The change in accounting policies are not applied retrospectively, as the effect of this change on past periods was immaterial. Moreover, the effect of this change on operating profit, ordinary profit and profit before income taxes for the three months ended June 30, 2018 was immaterial.

(Special accounting for preparing quarterly consolidated financial statements)

(Tax expense calculation)

Tax expenses on profit before income taxes for the three month ended June 30, 2018 are calculated by multiplying profit before income taxes for the three month ended June 30, 2018 by the reasonably estimated effective tax rate for the fiscal year including the first quarter ended June 30, 2018 after applying tax effect accounting. Should the estimated effective tax rate be unavailable, however, tax expenses are calculated using the statutory tax rate for profit before income taxes for the three month ended June 30, 2018.

The deferred income taxes amount is shown inclusive of income taxes.

(Additional information)

(Reassessment of tax payable, based on the transfer pricing taxation, and policy response going forward)

With regard to transactions between IHI and a foreign consolidated subsidiary located in Thailand conducted over the fiscal years ended March 31, 2013 to March 31, 2016, IHI received a reassessment of tax payable, based on the transfer pricing taxation, from the Tokyo Regional Taxation Bureau. In response, IHI recorded penalty taxes, including additional taxes and delinquent taxes, of ¥4,304 million on "Income taxes for prior periods." Note that the penalty taxes were paid in July 2018.

From IHI's perspective, with regard to the taxation system on setting of transaction prices within the corporate group (the so-called transfer pricing taxation), it is our perception that we have complied with the laws and regulations of Japan and other countries, have set appropriate transaction prices and have paid an appropriate amount of tax. In relation to this reassessment of tax payable, we plan to take necessary measures, in accordance with laws and regulations, to request that this reassessment be canceled in its entirety.

(Application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting" and relevant Guidances)

IHI has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the first quarter ended June 30, 2018. Accordingly, deferred tax assets were presented under "Investments and other assets" and deferred tax liabilities were presented under "Non-current liabilities."

(Translation purposes only)

(Quarterly consolidated balance sheet)

1. Contingent liabilities

IHI provides guarantees and guarantees in kind for the debts etc. from financial institutions by the following subsidiaries and affiliates.

(1) Guarantees for debt of others (Note)

				(Millions of yen)
March 31, 2018		June 30, 2018		
Japanese Aero Engines Corporation ("JAEC")	6,573	JAEC		7,187
ALPHA Automotive Technologies LLC	1,400	ALPHA Automotive Technologies LLC		1,293
IHI group health insurance society	492	Japan Aeroforge, Ltd.		472
Japan Aeroforge, Ltd.	472	Contingent liabilities for employee housing loans		308
Contingent liabilities for employee housing loans	299	Chubu Segment Co., Ltd.		25
Chubu Segment Co., Ltd.	25			
Total	9,261	Total		9,285

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

				(Millions of yen)
March 31, 2018		June 30, 2018		
Contingent liabilities for employee housing loans	5,602	Contingent liabilities for employee housing loans		5,445
IHI group health insurance society	540			
Total	6,142	Total		5,445

Note:

In any of the following cases, the amount represents the amounts for which the IHI Group is liable:

- (1) In the case of joint guarantees and guarantees in kind for debts with protection requirements against creditors, where the IHI Group's liabilities are specifically stated and clarified regardless of the debt capacity of other guarantors in the contract.
- (2) In the case of joint and several guarantees in which there are two or more guarantors, where the percentage or amount of the IHI Group's liabilities is specifically stated and clarified such as in agreement among the guarantors and other joint and several guarantors are considered to have sufficient debt capacity.

(3) Other contingent liability

March 31, 2018	June 30, 2018
IHI is under investigation by the Tokyo Regional Taxation Bureau with regard to transfer pricing taxation on transactions with a foreign consolidated subsidiary located in Thailand. As the investigation is underway at present, it is not possible to reasonably estimate the amount of the effect on the financial position and operating results. Therefore this factor has not been reflected in the consolidated financial statements.	-

(Translation purposes only)

*2. Notes receivable - trade discounted in the ordinary course of business and notes receivable - trade endorsed in the ordinary course of business

	(Millions of yen)	
	March 31, 2018	June 30, 2018
Notes receivable - trade discounted in the ordinary course of business	97	4
Notes receivable - trade endorsed in the ordinary course of business	49	25

*3. Notes maturing on balance sheet date

Accounting of notes maturing on the last day of quarter is settled on the clearing date.

Because the last day of the first quarter ended June 30, 2018 fell on a bank holiday, the following such notes that matured on the last day of quarter are included in the balance on the last day of the first quarter ended June 30, 2018.

	(Millions of yen)	
	March 31, 2018	June 30, 2018
Notes receivable – trade	1,763	1,646
Notes payable - trade	1,300	1,579

(Quarterly consolidated statement of income)

*1. Settlement-related expenses related to boiler facilities in customer's commercial operation

(Three months ended June 30, 2017 (From April 1, 2017 to June 30, 2017))

Concerning boiler facilities that IHI manufactured and delivered to Malaysia in the past, a lawsuit was filed against IHI and consolidated subsidiaries in 2015, regarding liabilities for accidents involving boilers damage that occurred during customer's commercial operation. IHI determined that the path of reaching an early resolution and reducing legal risks was in IHI's best interest. This case is now expected to be settled by agreeing to bear a portion of the amount incurred by the accident. As a result, IHI recorded the expected settlement package and lawyer fees, etc. of ¥2,932 million as extraordinary losses.

*2. Income taxes for prior periods

(Three months ended June 30, 2018 (From April 1, 2018 to June 30, 2018))

As a result of receiving a tax investigation on transactions with a foreign consolidated subsidiary located in Thailand and of receiving a notice of reassessment of tax payable, based on transfer pricing taxation, IHI recorded penalty taxes, including additional taxes and delinquent taxes as "Income taxes for prior periods."

(Quarterly consolidated statement of cash flows)

A quarterly consolidated statement of cash flows relating to the three months ended June 30, 2018, is not prepared. Depreciation (including amortization of intangible assets other than goodwill) and amortization of goodwill are as follows.

	(Millions of yen)	
	Three months ended June 30, 2017	Three months ended June 30, 2018
Depreciation	15,028	12,023
Amortization of goodwill	1,496	774

(Shareholders' equity)

I. Three months ended June 30, 2017 (From April 1, 2017 to June 30, 2017)

1. Dividends paid

Not applicable

2. Dividends which the cutoff date was in the three months ended June 30, 2017 and the effective date of which is after the end of the first quarter of the fiscal year ended March 31, 2018

Not applicable

(Translation purposes only)

II. Three months ended June 30, 2018 (From April 1, 2018 to June 30, 2018)

1. Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Cut off date	Effective date	Source of dividends
Ordinary General Meeting of Shareholders on June 22, 2018	Common stock	4,633	30	March 31, 2018	June 25, 2018	Retained earnings

Note: Total dividends determined by a resolution of the Ordinary General Meeting of Shareholders held on June 22, 2018 included ¥3 million, which was the value of dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

2. Dividends which the cutoff date was in the three months ended June 30, 2017 and the effective date of which is after the end of the first quarter of the fiscal year ended March 31, 2018

Not applicable

(Translation purposes only)

(Segment information)

Segment information

I. Three months ended June 30, 2017 (From April 1, 2017 to June 30, 2017)

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

(Millions of yen)

	Reportable Segment					Others (Note 1)	Consolidated	Adjustment (Note 2)	Amount on the quarterly consolidated statements of income
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General- Purpose Machinery	Aero Engine, Space and Defense	Total				
Sales:									
(1) Sales to outside customers	134,875	28,461	119,544	111,207	394,087	8,318	402,405	–	402,405
(2) Intersegment sales and transfers	1,007	1,448	1,579	501	4,535	4,598	9,133	(9,133)	–
Total	135,882	29,909	121,123	111,708	398,622	12,916	411,538	(9,133)	402,405
Segment profit (loss) (Operating profit (loss))	(794)	3,337	4,445	18,671	25,659	(467)	25,192	271	25,463

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 ¥213 million and unallocated corporate expenses of ¥58 million.

Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.

2. Matters about change and others in reportable segments

(Changes to the fiscal year for consolidated subsidiaries and others)

Effective from the previous fiscal year, the closing date of the fiscal year for 47 companies including IHI INC. has been changed from December 31 to March 31, and eight companies including Wuxi IHI Turbo Co., Ltd. have been consolidated using March 31 as a provisional closing date.

As a result, for the three months ended June 30, 2017, 55 companies including IHI INC. had a six-month accounting period.

In the period from January 1, 2017 through March 31, 2017 included in the three months ended June 30, 2017, sales for each segment were ¥28,902 million for the Resources, Energy and Environment segment, ¥27,800 million for the Industrial System and General-Purpose Machinery segment, and ¥183 million for the Aero Engine, Space and Defense segment. Operating profit was ¥1,616 million for the Industrial System and General-Purpose Machinery segment, and ¥72 million for the Aero Engine, Space and Defense segment. Operating loss was ¥117 million for Resources, Energy and Environment segment, and ¥1 million for the Social Infrastructure and Offshore Facility segment.

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

(Material impairment loss of non-current assets)

Not applicable

(Material change in goodwill amount)

Not applicable

(Material gain on bargain purchase)

Not applicable

(Translation purposes only)

II. Three months ended June 30, 2017 (From April 1, 2017 to June 30, 2017)

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

(Millions of yen)

	Reportable Segment					Others (Note 1)	Consolidated	Adjustment (Note 2)	Amount on the quarterly consolidated statements of income
	Resources, Energy and Environment	Social Infrastructu re and Offshore Facility	Industrial System and General- Purpose Machinery	Aero Engine, Space and Defense	Total				
Sales:									
(1) Sales to outside customers	82,270	26,670	102,698	116,919	328,557	8,599	337,156	–	337,156
(2) Intersegment sales and transfers	2,098	1,905	2,145	589	6,737	4,906	11,643	(11,643)	–
Total	84,368	28,575	104,843	117,508	335,294	13,505	348,799	(11,643)	337,156
Segment profit (loss) (Operating income (loss))	(161)	799	4,010	9,074	13,722	(347)	13,375	(632)	12,743

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 ¥236 million and unallocated corporate expenses of negative ¥396 million.

Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.

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

Reportable segment	Main businesses, products and services
Resources, Energy and Environment	Boilers, power systems plants for land use, power systems for land and marine use, large power systems for ships, process plants (storage facilities and chemical plants), nuclear power (components for nuclear power plants), environmental response systems, pharmaceutical plants
Social Infrastructure and Offshore Facility	Bridges/water gates, shield systems, transport systems, concrete construction materials, urban development (real estate sales and rental), F-LNG (floating LNG storage facilities, offshore structures)
Industrial System and General-Purpose Machinery	Logistics/industrial systems (logistics systems, industrial machineries), transport machineries, parking, thermal and surface treatment, vehicular turbochargers, rotating machineries (compressors, separation systems, turbochargers for ships), agricultural machineries/small power systems, steel manufacturing equipment, paper-making machineries
Aero Engine, Space and Defense	Aero engines, rocket systems/space utilization systems (space-related equipment), defense systems

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

(Material impairment loss of non-current assets)

Not applicable

(Material change in goodwill amount)

Not applicable

(Material gain on bargain purchase)

Not applicable

(Translation purposes only)

(Per share information)

Basic earnings per share and diluted earnings per share as well as fundamentals for calculating these items are as follows:

	Three months ended June 30, 2017	Three months ended June 30, 2018
(1) Basic earnings per share (Yen)	75.88	39.80
(Fundamentals)		
Amounts for profit attributable to owners of parent (Millions of yen)	11,718	6,142
Amounts for non-common shareholders (Millions of yen)	–	–
Amounts for profit attributable to owners of parent regarding common stock (Millions of yen)	11,718	6,142
Average number of shares of common stock (Thousands of shares)	154,425	154,336
(2) Diluted earnings per share (Yen)	75.82	39.77
(Fundamentals)		
Adjustment amount of profit attributable to owners of parent (Millions of yen)	–	–
Increase in number of shares of common stock (Thousands of shares)	127	113
Outline of potential shares which were not included in the calculation of the diluted earnings per share due to no dilutive effects, and which had material changes after the end of the previous fiscal year	–	–

Notes: 1. IHI conducted a consolidation of common stock on a 10 for 1 basis on October 1, 2017.

Basic earnings per share and diluted earnings per share have been calculated under the assumption that this consolidation of common stock was conducted on April 1, 2017.

2. Shares of IHI owned by a trust account for the Board Benefit Trust (BBT) are included in the number of treasury shares excluded from the calculation of the number of shares outstanding and the average number of shares. The average number of treasury shares outstanding during the period excluded from the calculation of basic earnings per share and diluted earnings per share at ended June 30, 2018 is 111,000 shares.

(Significant subsequent events)

Not applicable

2. Others

Not applicable

(Translation purposes only)

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

Not applicable