

(Translation purposes only)

# Quarterly Securities Report

(The First Quarter of 200th Term)

From April 1, 2016 to June 30, 2016

IHI Corporation

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Document title	Quarterly Securities Report
Clause of stipulation	Article 24-4-7, paragraph 1 of the Financial Instruments and Exchange Act
Place of filing	Director-General of the Kanto Local Finance Bureau
Filing date	August 12, 2016
Quarterly accounting period	The First Quarter of 200th term (from April 1, 2016 to June 30, 2016)
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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	199th term Three months ended June 30, 2015	200th term Three months ended June 30, 2016	199th term
Accounting period	From April 1, 2015 To June 30, 2015	From April 1, 2016 To June 30, 2016	From April 1, 2015 To March 31, 2016
Net sales (Millions of yen)	340,762	341,403	1,539,388
Ordinary income (loss) (Millions of yen)	(428)	4,587	9,716
Profit (loss) attributable to owners of parent (Millions of yen)	(48)	846	1,529
Comprehensive income (Millions of yen)	87	(10,168)	(15,228)
Net assets (Millions of yen)	354,634	321,705	333,359
Total assets (Millions of yen)	1,702,297	1,675,674	1,715,056
Basic earnings (loss) per share (Yen)	(0.03)	0.55	0.99
Diluted earnings per share (Yen)	—	0.55	0.99
Equity ratio (%)	20.01	18.42	18.56

- 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. Diluted earnings per share for the three months ended June 30, 2015 of the 199th term is not noted even though IHI has issued potential shares, because the per share data is a net loss per share.
  4. Monetary amounts and ratios less than one unit are rounded off.

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## 2. Description of business

IHI and its affiliated entities (154 consolidated subsidiaries and 31 affiliates accounted for using equity method as of June 30, 2016) 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, 2016, there were no significant changes in the contents of the businesses operated by the IHI Group (IHI and its affiliated entities). Changes in principle affiliated companies are as follows.

### (Resources, Energy and Environment)

From the first quarter of the fiscal year ending March 31, 2017, IHI Power System (Thailand)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, 2017, Jiangsu IHI Fengdong Vacuum Technology Co.,Ltd and IHI Transport Machinery Taiwan Corporation are newly included in the scope of consolidation because their materiality within the IHI Group has increased. In addition, one subsidiary of Indigo TopCo Limited and one subsidiary of IHI Hauzer Techno Coating B.V. were newly established and are newly included in the scope of consolidation.

### (Others)

From the first quarter of the fiscal year ending March 31, 2017, IHI Shibaura Technical Service Corporation was excluded from the scope of consolidation because it was merged into IHI Business Support Corporation and ceased to exist.

In addition, Algae Systems,LLC. was excluded from the scope of consolidation because its whole equity interests were transferred.

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## II. Overview of business

### 1. Business risks

There were no new occurrences of business risks in the three months ended June 30, 2016.

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

### 2. Material contracts for operation

(Licensing-in contracts)

A material contract that has been renewed by extending the contract period in the three months ended June 30, 2016 is as follows.

Name of Contracting Company	Name of Counterparty	Country	Licensed Products	Details	Contract Period
IHI AEROSPACE CO., LTD. (consolidated subsidiary)	LOCKHEED MARTIN CORP.	U.S.A.	Multiple Launch Rocket System	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From January 20,1993 to August 31,2023

Note: In the contract listed above, the original contract period that was to August 31, 2016 was extended to August 31, 2023.

### 3. Analysis of financial position, business results, and cash flows

Matters regarding the future stated in this document are based on the judgment of the IHI Group (IHI and its consolidated subsidiaries) as of June 30, 2016.

#### (1) Overview of business results

During the three months under review, in the Japanese economy, there have been appreciating yen and weakening private consumption and corporate earnings, which have broadened the scope of uncertainty. In the global economy outside of Japan, although the U.S. economy performed firmly, in addition to a noticeable sentiment of economic slowdown present in China and the Asian emerging countries, there was observed turmoil from factors including rising geopolitical risks and the result of the UK deciding to leave the EU. Such events have had an effect on the U.S. dollar-yen exchange rate, which was at the ¥112 level at end of the previous fiscal year, with the U.S. dollar dropping into the ¥102 level at the end of the three-month period.

Under this business environment, orders received of the IHI Group during the three months decreased 14.0% from the previous corresponding period to ¥258.8 billion. Net sales were at the same level as the previous corresponding period at ¥341.4 billion. Operating income was ¥10.6 billion, an improvement from the previous corresponding period owing mainly to the pullback from the impact of deterioration of profitability of some projects received in the Social Infrastructure and Offshore Facility in the previous corresponding period. Ordinary income improved from the previous corresponding period but it came to ¥4.5 billion primarily due to the effect of the recording of foreign exchange losses caused by yen appreciation, and despite a revaluation, based on the exchange rate on June 30, 2016, of expenses for delayed delivery denominated in foreign currencies, which had been estimated in the previous fiscal year, and profit attributable to owners of parent improved from the previous corresponding period, ending at ¥0.8billion.

Effective from the fiscal year under review, the closing date of the fiscal year of certain overseas consolidated subsidiaries has been changed from December 31 to March 31( The Financial Reporting Periods Unification , hereinafter “FRPU”). As a result, for the three months ended June 30, 2016, those overseas consolidated subsidiaries have a six-month accounting period. The impact of these changes was an increase of ¥25.2 billion in net sales and an increase of ¥2.7 billion in operating income.

Results by reportable segment for the three months ended June 30, 2016 are as follows:

(Translation purposes only)

(Billions of yen)

Reportable segment	Orders received			Three months ended June 30, 2015		Three months ended June 30, 2016		Change from the previous corresponding period (%)	
	Three months ended June 30, 2015	Three months ended June 30, 2016	Change from the previous corre- sponding period (%)	Sales	Operating income (loss)	Sales	Operating income (loss)	Sales	Operating income (loss)
Resources, Energy and Environment	146.1	86.7	(40.6)	101.1	(0.9)	96.3	(2.3)	(4.8)	–
Social Infrastructure and Offshore Facility	23.3	27.0	15.7	33.8	(13.0)	33.8	(6.5)	0.0	–
Industrial System and General- Purpose Machinery	101.4	109.4	7.9	93.1	0.6	101.5	3.2	9.0	366.1
Aero Engine, Space and Defense	27.9	32.8	17.4	111.1	17.3	103.7	16.9	(6.7)	(2.7)
Total Reportable Segment	298.8	256.1	(14.3)	339.2	4.1	335.4	11.2	(1.1)	171.4
Others	15.8	14.4	(9.3)	10.5	(0.5)	14.6	(0.3)	39.4	–
Adjustment	(13.7)	(11.6)	–	(9.0)	(3.5)	(8.7)	(0.1)	–	–
Total	301.0	258.8	(14.0)	340.7	0.0	341.4	10.6	0.2	–

<Resources, Energy and Environment>

Orders received significantly decreased from the previous corresponding period, reflecting a pullback from large orders secured in the previous corresponding period for Boiler Business.

Sales decreased from the previous corresponding period, reflecting decreases in Process plants Business and Power systems for land and marine use Business, partially offset by the effect of FRPU as well as increased revenues from sales from large maintenance construction projects and construction progress in Boiler Business.

In terms of operating income/loss, it resulted in a deficit, owing mainly to the effects of the decreases in revenues from Process plants Business and Power systems for land and marine use Business, partially offset by increased revenue and income in Boiler Business.

<Social Infrastructure and Offshore Facility>

Orders received increased from the previous corresponding period, reflecting an increase in Bridge/water gate Business, partially offset by decreases in Shield tunneling machine Business and Transport system Business.

Sales were at the same level as the corresponding previous period, owing to decreases in Bridge/water gate Business and Urban development Business, offset by an increase in F-LNG Business owing to construction progress.

In terms of operating income/loss, there was a reduced deficit, reflecting a pullback due to recorded losses related to F-LNG Business and the Izmit Bay Crossing Bridge construction project in Turkey in the corresponding previous period, despite the recording of additional costs in F-LNG Business including additional costs accompanying the increase in the quantities of electrical wiring for drill ships for Singapore, additional costs at the shipbuilding project for FPSO (Floating Production Storage and Offloading Unit) for Norway resulting from the increase in outsourcing expenses at the Singapore Yard due to a review of the volume of construction work, and the increase of on-site supervisors, in addition to additional costs resulting from a decrease in assembly efficiency for aluminum SPB tanks.

<Industrial System and General-Purpose Machinery>

Orders received increased from the previous corresponding period, owing to increases in Logistics/industrial system Business and Vehicular turbocharger Business, partially offset by decreases in Transport machinery Business and Construction machinery Business.

Sales increased from the previous corresponding period, owing to increases in Vehicular turbocharger Business, Logistics/industrial system Business and Transport machinery Business which were caused partly by the effect of FRPU.

Operating income rose from the previous corresponding period, due to the above-mentioned increases in sales and the improvement in profitability in Rotating machinery Business and Parking Business, partially offset by increased

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selling, general and administrative expenses which were caused by the effect of FRPU.

<Aero Engine, Space and Defense>

Orders received increased from the previous corresponding period due to increases in Aero engines Business and Defense systems Business.

Sales decreased from the previous corresponding period, owing to a decrease in civil aero engines mainly as a result of the effect of yen appreciation and a pullback from delivery of gas turbines for naval vessels in Defense systems Business in the previous corresponding period.

Operating income decreased from the previous corresponding period, owing to the above-mentioned sales decrease, partially offset by a decrease in selling, general and administrative expenses such as R&D expenses.

(2) Analysis of financial position

Total assets at the end of the first quarter under review were ¥1,675.6 billion, down ¥39.3 billion compared with the end of the previous fiscal year. The item with the most significant decrease was notes and accounts receivable - trade, down ¥62.2 billion, and the item with the most significant increase was work in process, up ¥34.3 billion.

Total liabilities were ¥1,353.9 billion, a decrease of ¥27.7 billion compared with the end of the previous fiscal year. The items with the most significant decreases were notes and accounts payable - trade, down ¥15.8 billion, provision for bonuses, down ¥10.0 billion, short-term loans payable, down ¥9.9 billion and provision for loss on construction contracts, down ¥8.4 billion. The item with the most significant increase was advances received, up ¥39.7 billion. Net assets were ¥321.7 billion, down ¥11.6 billion compared with the end of the previous fiscal year. This includes a decrease of ¥6.8 billion in foreign currency translation adjustment and a decrease of ¥3.1 billion in valuation difference on available-for-sale securities.

As a result of the above, the ratio of equity to total assets dropped from 18.6% at the end of the previous fiscal year to 18.4%.

(3) Analysis of capital resources and funding liquidity

The IHI Group obtains working capital and funds for capital expenditures by means of loans, bonds, as well as by using internal funding. At the end of the first quarter ended June 30, 2016, the balance of interest bearing liabilities, including lease obligations, was ¥362.5 billion, down ¥11.9 billion from the end of the previous fiscal year. This primarily reflected an increase in advances received and collected accounts receivable provided by business activities.

At the end of the first quarter ended June 30, 2016, the outstanding balance of cash and cash equivalents was ¥104.8 billion. This balance, in combination with a diverse range of fund procurement methods, including credit line commitments and overdraft facilities with major banks, as well as commercial papers, means that the IHI Group has secured sufficient liquidity.

(4) Research and development activities

In the three months ended June 30, 2016, the IHI Group spent ¥6.9 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, 2016.

(5) Current status and outlook of management strategies

The IHI Group has started "Group Management Policies 2016," a three-year medium-term management plan with fiscal year 2016 as the first year. The policies establish "strengthen earnings foundations" as the main theme, and concrete initiatives are being steadily implemented in line with the following four guidelines: 1) strengthen Monozukuri (Manufacturing) capabilities, including product quality, 2) strengthen business strategy implementation, 3) create a system to ensure consistent construction profitability, 4) provide solutions focused on creating customer value and offer more sophisticated products and services.

Furthermore, regarding the production disruption at IHI Aichi Works which occurred in the previous fiscal year, measures led by corporate headquarters have been put in place in the form of such initiatives as the dispatching of engineers and experts from various fields and the strengthening of monitoring, thereby working to resolve the production disruption and minimize losses.

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



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### 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	3,300,000,000
Total	3,300,000,000

###### (ii) Issued shares

Class	Number of issued shares as of the end of the first quarter (Shares) (June 30, 2016)	Number of issued shares as of the filing date (Shares) (August 12, 2016)	Name of stock exchange on which IHI is listed or names of authorized financial instruments firms associations where IHI is registered	Description
Common shares	1,546,799,542	1,546,799,542	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 1,000 shares.
Total	1,546,799,542	1,546,799,542	–	–

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, 2016 and the filing date of this Quarterly Securities Report.

##### (2) Subscription rights to shares, etc.

Not applicable

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

Not applicable

##### (4) Description of rights plan

Not applicable

##### (5) 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, 2016 to June 30, 2016	–	1,546,799	–	107,165	–	54,520

##### (6) Major shareholders

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

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(7) 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, 2016, 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, 2016).

(i) Issued shares

(As of June 30, 2016)

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 2,825,000	–	This is IHI's standard shares whose holders have unlimited rights.
	(Reciprocally held shares) Common shares 157,000	–	Same as above
Shares with full voting rights (others)	Common shares 1,541,286,000	1,541,286	Same as above
Shares less than one unit	Common shares 2,531,542	–	Shares less than one unit (1,000 shares)
Number of issued shares	1,546,799,542	–	–
Total number of voting rights	–	1,541,286	–

- Notes: 1. Common shares in “Shares less than one unit” include 606 shares of treasury shares held by IHI.  
2. Common shares in “Shares with full voting rights (others)” include 7,000 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.”

(ii) Treasury shares, etc.

(As of June 30, 2016)

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	2,825,000	–	2,825,000	0.18
(Reciprocally held shares) Kondo Tekko Co., Ltd.	10-5, Yaesu 2-chome, Chuo-ku, Tokyo	142,000	–	142,000	0.01
MINAGAWA NOUKI SEIZOU Co., Ltd.	20-13, Tajima 2-chome, Sanjyo-shi, Niigata	15,000	–	15,000	0.00
Total	–	2,982,000	–	2,982,000	0.19

2. Information about directors and auditors

Not applicable

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

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#### IV. Financial information

1. Basis of preparation of the 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, 2017 (from April 1, 2016 to June 30, 2016) and three months ended June 30, 2016 (from April 1, 2016 to June 30, 2016) were reviewed by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

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1. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

(Millions of yen)

	March 31, 2016	June 30, 2016
<b>Assets</b>		
Current assets		
Cash and deposits	106,536	107,755
Notes and accounts receivable - trade	※2 444,838	※2 382,558
Securities	1,403	3
Finished goods	23,537	26,298
Work in process	254,907	289,235
Raw materials and supplies	131,865	133,821
Other	148,468	140,449
Allowance for doubtful accounts	(11,048)	(4,471)
Total current assets	1,100,506	1,075,648
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	142,597	140,686
Other, net	207,139	203,913
Total property, plant and equipment	349,736	344,599
Intangible assets		
Goodwill	22,043	19,797
Other	27,562	26,250
Total intangible assets	49,605	46,047
Investments and other assets		
Investment securities	139,463	131,949
Other	77,729	79,383
Allowance for doubtful accounts	(1,983)	(1,952)
Total investments and other assets	215,209	209,380
Total non-current assets	614,550	600,026
Total assets	1,715,056	1,675,674
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	297,499	281,619
Short-term loans payable	94,550	84,634
Commercial papers	5,000	—
Current portion of bonds	10,000	10,000
Income taxes payable	8,222	4,160
Advances received	180,352	220,127
Provision for bonuses	24,610	14,595
Provision for construction warranties	44,337	42,399
Provision for loss on construction contracts	53,223	44,748
Other provision	379	112
Other	164,597	150,744
Total current liabilities	882,769	853,138
Non-current liabilities		
Bonds payable	60,000	60,000
Long-term loans payable	187,085	191,023
Net defined benefit liability	154,968	156,876
Provision for loss on business of subsidiaries and affiliates	2,805	2,955
Other provision	1,377	1,096
Other	92,693	88,881
Total non-current liabilities	498,928	500,831
Total liabilities	1,381,697	1,353,969

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(Millions of yen)

	March 31, 2016	June 30, 2016
Net assets		
Shareholders' equity		
Capital stock	107,165	107,165
Capital surplus	54,431	54,371
Retained earnings	144,789	145,505
Treasury shares	(565)	(533)
Total shareholders' equity	305,820	306,508
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,580	(1,551)
Deferred gains or losses on hedges	(377)	(662)
Revaluation reserve for land	5,423	5,404
Foreign currency translation adjustment	9,954	3,093
Remeasurements of defined benefit plans	(4,090)	(4,172)
Total accumulated other comprehensive income	12,490	2,112
Subscription rights to shares	758	729
Non-controlling interests	14,291	12,356
Total net assets	333,359	321,705
Total liabilities and net assets	1,715,056	1,675,674

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(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, 2015	Three months ended June 30, 2016
Net sales	340,762	341,403
Cost of sales	294,790	285,023
Gross profit	45,972	56,380
Selling, general and administrative expenses	45,952	45,735
Operating income	20	10,645
Non-operating income		
Interest income	211	298
Dividend income	746	585
Share of profit of entities accounted for using equity method	1,113	—
Foreign exchange gains	972	—
Reversal of accrued expenses for delayed delivery	—	3,907
Other income	409	1,633
Total non-operating income	3,451	6,423
Non-operating expenses		
Interest expenses	1,012	837
Share of loss of entities accounted for using equity method	—	353
Foreign exchange losses	—	8,993
Other expenses	2,887	2,298
Total non-operating expenses	3,899	12,481
Ordinary income (loss)	(428)	4,587
Profit (loss) before income taxes	(428)	4,587
Income taxes	(802)	3,142
Profit	374	1,445
Profit attributable to non-controlling interests	422	599
Profit (loss) attributable to owners of parent	(48)	846

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Quarterly consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Profit	374	1,445
Other comprehensive income		
Valuation difference on available-for-sale securities	3,004	(3,061)
Deferred gains or losses on hedges	155	(93)
Revaluation reserve for land	6	—
Foreign currency translation adjustment	(3,615)	(7,938)
Remeasurements of defined benefit plans, net of tax	246	(145)
Share of other comprehensive income of entities accounted for using equity method	(83)	(376)
Total other comprehensive income	(287)	(11,613)
Comprehensive income	87	(10,168)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(503)	(9,429)
Comprehensive income attributable to non- controlling interests	590	(739)

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## 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, 2017, IHI Power System (Thailand)Co.,Ltd., Jiangsu IHI Fengdong Vacuum Technology Co.,Ltd and IHI Transport Machinery Taiwan Corporation are newly included in the scope of consolidation because their materiality within the IHI Group has increased. In addition, one subsidiary of Indigo TopCo Limited and one subsidiary of IHI Hauzer Techno Coating B.V. were newly established and are newly included in the scope of consolidation.

On the other hand, IHI Shibaura Technical Service Corporation was excluded from the scope of consolidation because it was merged into IHI Business Support Corporation and ceased to exist. In addition, Algae Systems,LLC. was excluded from the scope of consolidation because its whole equity interests were transferred.

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

From the first quarter of the fiscal year ending March 31, 2017, Nanatsujima Biomass Power Limited Liability Company was newly established and is newly included in the scope of application of equity method.

### (3) Changes to the fiscal year for consolidated subsidiaries

Effective from the fiscal year under review, the closing date of the fiscal year for 31 companies including JURONG ENGINEERING LIMITED has been changed from December 31 to March 31, and six companies including Changchun FAWER-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, 2016, 37 companies including JURONG ENGINEERING LIMITED have a six-month accounting period.

In the period from January 1, 2016 through March 31, 2016 included in the three months ended June 30, 2016, net sales were ¥25,227 million, operating income was ¥2,798 million, ordinary income was ¥2,327 million, and profit before income taxes was ¥2,332 million.

(Changes in accounting policies)

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)

Following the revision to the Corporation Tax Act, IHI has applied the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) from the first quarter under review, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

As a result, the impact of this change on operating income, ordinary income and profit before income taxes for the three months ended June 30, 2016 was immaterial.

(Special accounting for preparing quarterly consolidated financial statements)

(Tax expense calculation)

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

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

(Additional information)

(Application of ASBJ Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter under review, IHI has applied the Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).



(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: 1)

(Millions of yen)			
March 31, 2016		June 30, 2016	
UNIGEN Inc.	10,600	UNIGEN Inc.	11,000
Japanese Aero Engines Corporation ("JAEC")	6,406	Japanese Aero Engines Corporation ("JAEC")	5,718
ALPHA Automotive Technologies LLC	1,812	ALPHA Automotive Technologies LLC	1,706
IHI group health insurance society	689	IHI group health insurance society	689
Japan Aeroforge, Ltd.	590	Japan Aeroforge, Ltd.	590
Rio Bravo Fresno (Note: 2)	395	Rio Bravo Fresno (Note: 2)	360
Rio Bravo Rocklin (Note: 2)	382	Rio Bravo Rocklin (Note: 2)	350
Contingent liabilities for employee housing loans	70	Contingent liabilities for employee housing loans	69
Contingent liabilities for lease contracts with customers of construction machineries	50	Contingent liabilities for lease contracts with customers of construction machineries	46
Chubu Segment Co., Ltd.	25	Chubu Segment Co., Ltd.	25
Total	21,019	Total	20,553

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

(Millions of yen)			
March 31, 2016		June 30, 2016	
Contingent liabilities for employee housing loans	7,294	Contingent liabilities for employee housing loans	7,072
IHI group health insurance society	741	IHI group health insurance society	741
Total	8,035	Total	7,813

Notes: 1. In any of the following cases, the amount represents the amounts for which the IHI Group is liable:

- (i) 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.
  - (ii) 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.
2. The contracts are revolving guarantees in which guarantees are provided within certain limits set to guarantee debts on continuous transactions, and the amount represents guarantee facilities.

(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, 2016	June 30, 2016
Notes receivable - trade discounted in the ordinary course of business	264	50
Notes receivable - trade endorsed in the ordinary course of business	141	133

(Quarterly consolidated statement of income)

Not applicable

(Quarterly consolidated statement of cash flows)

A quarterly consolidated statement of cash flows relating to the three months ended June 30, 2016, has not been 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, 2015	Three months ended June 30, 2016
Depreciation	12,471	13,132
Amortization of goodwill	925	841

(Shareholders' equity)

I. Three months ended June 30, 2015 (From April 1, 2015 to June 30, 2015)

Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Cut off date	Effective date	Source of dividends
Annual general meeting of the shareholders on June 25, 2015	Common stock	4,631	3	March 31, 2015	June 26, 2015	Retained earnings

II. Three months ended June 30, 2016 (From April 1, 2016 to June 30, 2016)

Dividends paid

Not applicable

(Translation purposes only)

(Segment information)

Segment information

I. Three months ended June 30, 2015 (From April 1, 2015 to June 30, 2015)

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	99,936	33,503	90,511	110,611	334,561	6,201	340,762	–	340,762
(2) Intersegment sales and transfers	1,207	337	2,634	551	4,729	4,341	9,070	(9,070)	–
Total	101,143	33,840	93,145	111,162	339,290	10,542	349,832	(9,070)	340,762
Segment profit (loss) (Operating income (loss))	(911)	(13,040)	690	17,393	4,132	(549)	3,583	(3,563)	20

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 ¥628 million and unallocated corporate expenses of negative ¥2,935 million. Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.

2. Information about impairment loss of non-current assets, goodwill and negative goodwill by reportable segment  
(Material impairment loss of non-current assets)  
Not applicable

(Material change in goodwill amount)  
Not applicable

(Material gain on negative goodwill)  
Not applicable

(Translation purposes only)

II. Three months ended June 30, 2016 (From April 1, 2016 to June 30, 2016)

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	95,592	32,678	99,608	103,814	331,692	9,711	341,403	–	341,403
(2) Intersegment sales and transfers	713	1,150	1,930	(65)	3,728	4,982	8,710	(8,710)	–
Total	96,305	33,828	101,538	103,749	335,420	14,693	350,113	(8,710)	341,403
Segment profit (loss) (Operating income (loss))	(2,351)	(6,571)	3,216	16,919	11,213	(393)	10,820	(175)	10,645

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 ¥171 million and unallocated corporate expenses of negative ¥4 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	Boiler, power systems plants, 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	Bridge/water gate, shield tunneling machines, transport system, urban development (real estate sales and rental), F-LNG (floating LNG storage facilities, offshore structures)
Industrial System and General-Purpose Machinery	Machinery for ships, logistics/industrial system (logistics system, industrial machinery, steel manufacturing equipment, paper-making machinery), transport machinery, parking, thermal and surface treatment, vehicular turbocharger, rotating machinery (compressor, separation system, turbocharger for ships), construction machinery, agricultural machinery/small power systems
Aero Engine, Space and Defense	Aero engines, rocket systems/space utilization systems (space-related equipment), defense systems

2. Matters about change and others in reportable segments

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

Effective from the fiscal year under review, the closing date of the fiscal year for 31 companies including JURONG ENGINEERING LIMITED has been changed from December 31 to March 31, and six companies including Changchun FAWER-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, 2016, 37 companies including JURONG ENGINEERING LIMITED have a six-month accounting period.

In the period from January 1, 2016 through March 31, 2016 included in the three months ended June 30, 2016, sales for each segment were ¥10,982 million for the Resources, Energy and Environment segment, ¥371 million for the Social Infrastructure and Offshore Facility segment, and ¥11,781 million for the Industrial System and General-Purpose Machinery segment. Operating income was ¥615 million for the Resources, Energy and Environment segment, ¥17 million for the Social Infrastructure and Offshore Facility segment, and ¥2,050 million for the Industrial System and General-Purpose Machinery segment.

(Translation purposes only)

3. Information about impairment loss of non-current assets, goodwill and negative goodwill by reportable segment

(Material impairment loss of non-current assets)

Not applicable

(Material change in goodwill amount)

Not applicable

(Material gain on negative goodwill)

Not applicable

(Translation purposes only)

(Per share information)

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

	Three months ended June 30, 2015	Three months ended June 30, 2016
(1) Basic earnings (loss) per share (Yen)	(0.03)	0.55
(Fundamentals)		
Amounts for profit (loss) attributable to owners of parent (Millions of yen)	(48)	846
Amounts for non-common shareholders (Millions of yen)	—	—
Amounts for profit (loss) attributable to owners of parent regarding common stock (Millions of yen)	(48)	846
Average number of shares of common stock (Thousands of shares)	1,543,508	1,544,071
(2) Diluted earnings per share (Yen)	—	0.55
(Fundamentals)		
Adjustment amount of profit (loss) attributable to owners of parent (Millions of yen)	—	—
Increase in number of shares of common stock (Thousands of shares)	—	748
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 no material changes after the end of the previous fiscal year	—	—

Note: Diluted earnings per share for the three months ended June 30, 2015 is not noted even though IHI has issued potential shares, because the per share data is a net loss per share.

(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