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Quarterly Securities Report

(The First Quarter of 201st Term)

From April 1, 2017 to June 30, 2017

IHI Corporation

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Company name	株式会社ＩＨＩ (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
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Part 1. Company information

I. Overview of company

1. Summary of business results

Term	200th term Three months ended June 30, 2016	201st term Three months ended June 30, 2017	200th term
Accounting period	From April 1, 2016 To June 30, 2016	From April 1, 2017 To June 30, 2017	From April 1, 2016 To March 31, 2017
Net sales (Millions of yen)	341,403	402,405	1,486,332
Ordinary profit (Millions of yen)	4,587	21,831	22,011
Profit (loss) attributable to owners of parent (Millions of yen)	846	11,718	5,247
Comprehensive income (Millions of yen)	(10,168)	14,564	4,628
Net assets (Millions of yen)	321,705	350,706	337,630
Total assets (Millions of yen)	1,675,674	1,668,147	1,692,831
Basic earnings (loss) per share (Yen)	0.55	7.59	3.40
Diluted earnings per share (Yen)	0.55	7.58	3.40
Equity ratio (%)	18.42	19.85	18.79

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. Monetary amounts and ratios less than one unit are rounded off.

2. Description of business

IHI and its affiliated entities (149 consolidated subsidiaries and 30 affiliates accounted for using equity method as of June 30, 2017) 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, 2017, 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.

(Industrial System and General-Purpose Machinery)

From the first quarter of the fiscal year ending March 31, 2018, one subsidiary of IHI Hauzer Techno Coating B.V. and New Metal Engineering, LLC were excluded from the scope of consolidation because their dissolution and liquidation.

(Others)

From the first quarter of the fiscal year ending March 31, 2018, IHI New Energy Inc. was excluded from the scope of consolidation because its dissolution and liquidation.

II. Overview of business

1. Business risks

There were no new occurrences of business risks in the three months ended June 30, 2017.
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

No important operational contracts were decided or entered into during the first quarter ended June 30, 2017.

3. Analysis of financial position, business results

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, 2017.

(1) Overview of business results

During the three months under review, the Japanese economy was on a modest recovery track, as there were pick-ups in both capital investment and private consumption, among other factors. The global economy also continued to grow overall, particularly in the U.S. and Europe, despite rising uncertainties from the trend of U.S. policies and geopolitical risks such as those in East Asia.

Under this business environment, orders received of the IHI Group during the three months increased 12.2% from the previous corresponding period to ¥290.3 billion. Net sales increased 17.9% from the previous corresponding period to ¥402.4 billion. In terms of profit, operating profit increased ¥14.8 billion to ¥25.4 billion due mainly to the increase in sales of each reportable segment and solving of the issue of the deterioration of profitability related to F-LNG Business in the previous corresponding period. Ordinary profit increased ¥17.2 billion to ¥21.8 billion due to the positive turn in foreign exchange gains/losses and other factors, despite the recording of expenses for delayed delivery.
Profit attributable to owners of parent was ¥11.7 billion, an increase of ¥10.8 billion, as a result of the reduced increase in the profit caused by the impact of recording the settlement-related expenses related to boiler facilities in customer's commercial operation as extraordinary loss.
This extraordinary loss was related to a lawsuit filed against IHI and consolidated subsidiaries in 2015, regarding liabilities for accidents involving damage to boiler facilities that IHI manufactured and delivered to Malaysia in the past and that were in 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. as settlement-related expenses.

Also 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. As a result, those consolidated subsidiaries have a six-month accounting period. The impact of these changes was an increase of ¥57.9 billion in net sales and an increase of ¥1.4 billion in operating profit (an increase of ¥25.2 billion in net sales and an increase of ¥2.7 billion in operating profit in previous fiscal year).

Results by reportable segment for the three months ended June 30, 2017 are as follows:

(Billions of yen)

Reportable segment	Orders received			Three months ended June 30, 2016		Three months ended June 30, 2017		Change from the previous corresponding period (%)	
	Three months ended June 30, 2016	Three months ended June 30, 2017	Change from the previous corresponding period (%)	Sales	Operating Profit (loss)	Sales	Operating Profit (loss)	Sales	Operating Profit (loss)
Resources, Energy and Environment	86.7	73.5	(15.2)	96.3	(2.3)	135.8	(7)	41.1	–
Social Infrastructure and Offshore Facility	27.0	32.7	21.0	33.8	(6.5)	29.9	3.3	(11.6)	–
Industrial System and General-Purpose Machinery	109.4	130.6	19.3	101.5	3.2	121.1	4.4	19.3	38.2
Aero Engine, Space and Defense	32.8	46.9	43.1	103.7	16.9	111.7	18.6	7.7	10.4
Total Reportable Segment	256.1	283.8	10.8	335.4	11.2	398.6	25.6	18.8	128.8
Others	14.4	18.4	27.7	14.6	(0.3)	12.9	(0.4)	(12.1)	–
Adjustment	(11.6)	(12.0)	–	(8.7)	(0.1)	(9.1)	0.2	–	–
Total	258.8	290.3	12.2	341.4	10.6	402.4	25.4	17.9	139.2

<Resources, Energy and Environment>

Orders received declined from the previous corresponding period in the Environmental response systems Business and the Process plants Business.

Sales increased owing to the progress of large-scale projects in the Process plants Business, and increased sales in the Nuclear power 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 terms of operating profit/loss, there was a reduced deficit reflecting mainly the increased sales in the Nuclear power Business and the Power systems for land and marine use Business.

<Social Infrastructure and Offshore Facility>

Orders received increased from the previous corresponding period in the Bridge/water gate Business.

Sales decreased from the previous corresponding period in the F-LNG Business and the Bridge/water gate Business, despite an increase in sales owing to construction progress in the Shield systems Business.

Regarding operating profit, the F-LNG Business improved compared to the previous corresponding period in which additional costs were recorded. In addition, operating profit was in the black partly due to profit improvements in the Bridge/water gate Business and the Shield systems Business.

<Industrial System and General-Purpose Machinery>

Regarding orders received, increases in the Vehicular turbocharger Business and the Thermal and surface treatment Business were partially offset by the decrease in sales in the Logistics/industrial system Business and the impact from a transfer of the Construction machinery Business.

Sales increased owing to increases in the number of units sold in China for the Vehicular turbocharger Business, and the effect of FRPU, and so on.

Operating profit rose due to the above-mentioned increases in sales, and profitability improvement in the Vehicular turbocharger Business.

<Aero Engine, Space and Defense>

Orders received increased from the previous corresponding period in the Aero engines Business and the Rocket systems/space utilization systems Business.

Net sales increased from the previous corresponding period in the Aero engines Business for the Japan Ministry of Defense and the Rocket systems/space utilization systems Business.

Operating profit increased owing to increased sales in the Rocket systems/space utilization systems Business and improved profitability for civil aero engines and delay in the recognition of expenses, despite an increase in selling, general and administrative expenses.

(2) Analysis of financial position

Total assets at the end of the first quarter under review were ¥1,668.1 billion, down ¥24.6 billion compared with the end of the previous fiscal year. The items with the most significant decreases were notes and accounts receivable - trade, down ¥19.7 billion, investment securities, down ¥17.0 billion, and cash and deposits, down ¥6.6 billion. The item with the most significant increase was work in process, up ¥24.9 billion.
Total liabilities were ¥1,317.4 billion, a decrease of ¥37.7 billion compared with the end of the previous fiscal year. The items with the most significant decreases were accrued expenses(“other” under current liabilities), down ¥15.5 billion, short-term loans payable, down ¥10.8 billion, provision for bonuses, down ¥9.7 billion, and provision for loss on construction contracts, down ¥6.0 billion. The item with the most significant increase was notes and accounts payable - trade, up ¥12.3 billion.
Net assets were ¥350.7 billion, up ¥13.0 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥11.7 billion.
As a result of the above, the ratio of equity to total assets rose from 18.8% at the end of the previous fiscal year to 19.9%.

(3) Analysis of capital resources and funding liquidity

The IHI Group obtains working capital and funds for capital expenditures by means of loans, bonds, and commercial papers, as well as by using internal funding. At the end of the first quarter ended June 30, 2017, the balance of interest bearing liabilities, including lease obligations, was ¥352.1 billion, down ¥19.7 billion from the end of the previous fiscal year. This primarily reflected collected investments by selling investment securities.
At the end of the first quarter ended June 30, 2017, the outstanding balance of cash and cash equivalents was ¥109.6

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, 2017, 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, 2017.

(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, 2017.

The IHI Group has started “Group Management Policies 2016,” a three-year medium-term management plan with fiscal year 2016 as the first year. In order to realize “strengthen earnings foundations” indicated in the Policies, a variety of initiatives are being 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.
For the fiscal year under review, working to the slogan “restore trust and drive change,” the IHI Group is striving for the certain achievement of full-year results forecasts and management targets for fiscal 2018 set forth in “Group Management Policies 2016.” While setting up precautions against downside risk in operational performance through thorough risk management, the IHI Group will take measures based on the four policies mentioned above and seek to strengthen earnings foundations. In addition, the IHI Group will promote working style reforms aimed at improving labor productivity and so on.

Regarding IHI Group’s nuclear power business, IHI is engaged in the manufacture of equipment for two nuclear power plants located in the United States for major U.S. nuclear power company Westinghouse Electric Company LLC, which is undertaking the construction. However on July 31, 2017, it was announced that construction has been halted at one of those nuclear power plants, located in the state of South Carolina. Valuation of the relevant receivables and inventories was appropriately factored in past financial statements and there are no additional losses in the first three months ended June 30, 2017. Also, following this halt of construction at the aforementioned nuclear plant, IHI will accordingly take appropriate measures against impacts on workload of the Nuclear power business’s works.

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

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

Note: At the 200th Ordinary General Meeting of Shareholders held on June 23, 2017, the agenda item regarding the consolidation of shares of IHI was duly approved. As a result, the total number of authorized shares will be 300,000,000 shares as of October 1, 2017.

(ii) Issued shares

Class	Number of issued shares as of the end of the first quarter (Shares) (June 30, 2017)	Number of issued shares as of the filing date (Shares) (August 10, 2017)	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	–	–

Notes: 1. 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, 2017 and the filing date of this Quarterly Securities Report.

2. IHI resolved at a meeting of the Board of Directors held on May 19, 2017 that it would change the number of shares constituting one unit from 1,000 shares to 100 shares effective as of October 1, 2017.

3. At the 200th Ordinary General Meeting of Shareholders held on June 23, 2017, the agenda item regarding the consolidation of shares of IHI was duly approved. As a result, IHI will consolidate its 10 of its shares into 1 share effective as of October 1, 2017.

(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, 2017 to June 30, 2017	–	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.

(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, 2017, 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, 2017).

(i) Issued shares

(As of June 30, 2017)

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 2,562,000	–	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 1,541,641,000	1,541,641	Same as above
Shares less than one unit	Common shares 2,439,542	–	Shares less than one unit (1,000 shares)
Number of issued shares	1,546,799,542	–	–
Total number of voting rights	–	1,541,641	–

Notes: 1. Common shares in "Shares less than one unit" include 679 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, 2017)

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	2,562,000	–	2,562,000	0.17
(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	–	2,719,000	–	2,719,000	0.18

2. Information about directors and auditors

Not applicable

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

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, 2018 (from April 1, 2017 to June 30, 2017) and three months ended June 30, 2017 (from April 1, 2017 to June 30, 2017) 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, 2017	June 30, 2017
Assets		
Current assets		
Cash and deposits	118,909	112,283
Notes and accounts receivable - trade	*2 403,094	*2 383,372
Finished goods	20,719	22,607
Work in process	272,823	297,733
Raw materials and supplies	123,726	122,876
Other	140,016	139,199
Allowance for doubtful accounts	(5,445)	(5,472)
Total current assets	1,073,842	1,072,598
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	136,801	134,870
Other, net	205,607	205,644
Total property, plant and equipment	342,408	340,514
Intangible assets		
Goodwill	16,166	14,864
Other	24,990	24,153
Total intangible assets	41,156	39,017
Investments and other assets		
Investment securities	134,676	117,582
Other	102,433	100,106
Allowance for doubtful accounts	(1,684)	(1,670)
Total investments and other assets	235,425	216,018
Total non-current assets	618,989	595,549
Total assets	1,692,831	1,668,147
Liabilities		
Current liabilities		
Notes and accounts payable - trade	285,937	298,311
Short-term loans payable	104,111	93,224
Commercial papers	5,000	—
Current portion of bonds	10,000	10,000
Income taxes payable	5,674	9,632
Advances received	208,907	203,587
Provision for bonuses	23,714	13,941
Provision for construction warranties	47,939	48,220
Provision for loss on construction contracts	37,324	31,230
Other provision	248	159
Other	147,394	131,405
Total current liabilities	876,248	839,709
Non-current liabilities		
Bonds payable	50,000	50,000
Long-term loans payable	182,495	179,689
Net defined benefit liability	150,920	152,692
Provision for loss on business of subsidiaries and affiliates	1,149	1,159
Other provision	1,308	924
Other	93,081	93,268
Total non-current liabilities	478,953	477,732
Total liabilities	1,355,201	1,317,441

(Translation purposes only)

(Millions of yen)

	March 31, 2017	June 30, 2017
Net assets		
Shareholders' equity		
Capital stock	107,165	107,165
Capital surplus	53,510	53,509
Retained earnings	149,832	161,550
Treasury shares	(513)	(510)
Total shareholders' equity	309,994	321,714
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,892	3,148
Deferred gains or losses on hedges	(277)	(61)
Revaluation reserve for land	5,427	5,427
Foreign currency translation adjustment	1,298	2,144
Remeasurements of defined benefit plans	(1,171)	(1,213)
Total accumulated other comprehensive income	8,169	9,445
Subscription rights to shares	843	840
Non-controlling interests	18,624	18,707
Total net assets	337,630	350,706
Total liabilities and net assets	1,692,831	1,668,147

(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, 2016	Three months ended June 30, 2017
Net sales	341,403	402,405
Cost of sales	285,023	326,965
Gross profit	56,380	75,440
Selling, general and administrative expenses	45,735	49,977
Operating profit	10,645	25,463
Non-operating income		
Interest income	298	465
Dividend income	585	382
Share of profit of entities accounted for using equity method	—	489
Foreign exchange gains	—	411
Reversal of accrued expenses for delayed delivery	3,907	—
Other income	1,633	566
Total non-operating income	6,423	2,313
Non-operating expenses		
Interest expenses	837	827
Share of loss of entities accounted for using equity method	353	—
Foreign exchange losses	8,993	—
Expenses for delayed delivery	—	3,394
Other expenses	2,298	1,724
Total non-operating expenses	12,481	5,945
Ordinary profit	4,587	21,831
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	4,587	18,899
Income taxes	3,142	5,742
Profit	1,445	13,157
Profit attributable to non-controlling interests	599	1,439
Profit attributable to owners of parent	846	11,718

(Translation purposes only)

Quarterly consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Profit	1,445	13,157
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,061)	378
Deferred gains or losses on hedges	(93)	9
Foreign currency translation adjustment	(7,938)	1,053
Remeasurements of defined benefit plans, net of tax	(145)	(80)
Share of other comprehensive income of entities accounted for using equity method	(376)	47
Total other comprehensive income	(11,613)	1,407
Comprehensive income	(10,168)	14,564
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(9,429)	12,994
Comprehensive income attributable to non-controlling interests	(739)	1,570

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, 2018, one subsidiary of IHI Hauzer Techno Coating B.V., New Metal Engineering, LLC and IHI New Energy Inc. were excluded from the scope of consolidation because their dissolution and liquidation.

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

Not applicable

(3) Changes to the fiscal year for consolidated subsidiaries

Effective from the fiscal year under review, 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. have 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, net sales were ¥57,966 million, operating profit was ¥1,430 million, ordinary profit was ¥1,392 million, and profit before income taxes was ¥1,387 million.

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates and changes in accounting estimates)

(Change in method of depreciation and residual value)

Up until now, IHI and some of its consolidated subsidiaries in Japan have 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, IHI and the consolidated subsidiaries have changed the depreciation method for property, plant and equipment to the straight-line method from the first quarter under review.

The IHI Group, 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. Furthermore, 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.

The resulting effect on operating profit, ordinary profit and profit before income taxes for the three months under review is 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.

(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, 2017		June 30, 2017	
Japanese Aero Engines Corporation (“JAEC”)	6,766	Japanese Aero Engines Corporation (“JAEC”)	7,032
ALPHA Automotive Technologies LLC	1,543	ALPHA Automotive Technologies LLC	1,435
IHI group health insurance society	590	IHI group health insurance society	590
Japan Aeroforge, Ltd.	531	Japan Aeroforge, Ltd.	531
Contingent liabilities for employee housing loans	67	Contingent liabilities for employee housing loans	66
Chubu Segment Co., Ltd.	25	Chubu Segment Co., Ltd.	25
Total	9,522	Total	9,679

(2) Contingent liabilities arising from guarantees in kind for debts (Note: 1)

(Millions of yen)

March 31, 2017		June 30, 2017	
Contingent liabilities for employee housing loans	6,515	Contingent liabilities for employee housing loans	6,463
IHI group health insurance society	641	IHI group health insurance society	641
Turbo Systems United Co., Ltd.	80		
Total	7,236	Total	7,104

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. 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, 2017	June 30, 2017
Notes receivable - trade discounted in the ordinary course of business	377	4
Notes receivable - trade endorsed in the ordinary course of business	10	9

(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.

(Quarterly consolidated statement of cash flows)

A quarterly consolidated statement of cash flows relating to the three months ended June 30, 2017, 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, 2016	Three months ended June 30, 2017
Depreciation	13,132	15,028
Amortization of goodwill	841	1,496

(Shareholders' equity)

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

1. Dividends paid

Not applicable

2. Dividends which the cutoff date was in the three months ended June 30, 2016 and the effective date of which is after the end of the first quarter of the fiscal year ended March 31, 2017

Not applicable

II. 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

(Segment information)
Segment information

I. 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.

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.

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 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 income (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.

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 systems, transport system, 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 system (logistics system, industrial machinery), transport machinery, parking, thermal and surface treatment, vehicular turbocharger, rotating machinery (compressor, separation system, turbocharger for ships), agricultural machinery/small power systems, steel manufacturing equipment, paper-making machinery
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 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. have 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.

(Change in adjustment method of intersegment transactions associated with organizational change)
In April 2017, the previous business management structure consisting of one business division and eight sectors was abolished and operations were organized into the four business areas of “Resources, Energy and Environment,” “Social Infrastructure and Offshore Facility,” “Industrial System and General-Purpose Machinery” and “Aero Engine, Space and Defense.” As a result of the above, the IHI Group has made these four business areas its reportable segments.
As a result of reviewing the adjustment method for intersegment transactions in order to more appropriately evaluate the earnings of each business area, intersegment sales and transfers for each segment in the three months ended June 30, 2017 decreased by ¥993 million for the Resources, Energy and Environment segment, ¥328 million for the Industrial System and General-Purpose Machinery segment, and increased by ¥1,321 million for adjustment. The impact on operating profit/loss was immaterial.

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

(Per share information)

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

	Three months ended June 30, 2016	Three months ended June 30, 2017
(1) Basic loss per share (Yen)	0.55	7.59
(Fundamentals)		
Amounts for loss attributable to owners of parent (Millions of yen)	846	11,718
Amounts for non-common shareholders (Millions of yen)	–	–
Amounts for loss attributable to owners of parent regarding common stock (Millions of yen)	846	11,718
Average number of shares of common stock (Thousands of shares)	1,544,071	1,544,246
(2) Diluted earnings per share (Yen)	0.55	7.58
(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	1,265
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	–	–

(Significant subsequent events)

Not applicable

2. Others

Not applicable

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

Not applicable