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Quarterly Securities Report

(The First Quarter of 204th Term)

From April 1, 2020 to June 30, 2020

IHI Corporation

Table of Contents

	Page
Cover page.....	1
Part 1. Company information	2
I. Overview of company	2
1. Summary of business results.....	2
2. Description of business.....	2
II. Overview of business	3
1. Business risks	3
2. Management's analysis of financial position, operating results and cash flows	3
3. Material contracts for operation.....	7
III. Information about reporting company	8
1. Information about shares, etc.	8
(1) Total number of shares, etc.....	8
(2) Subscription rights to shares, etc.	8
(3) Exercises, etc. of moving strike convertible bonds, etc.....	8
(4) Changes in number of issued shares, capital stock, etc.	8
(5) Major shareholders.....	8
(6) Voting rights	9
2. Information about directors and auditors	9
IV. Financial information	11
1. Quarterly Consolidated financial statements	12
(1) Quarterly consolidated balance sheets.....	12
(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income	14
Quarterly consolidated statements of income (cumulative).....	14
Quarterly consolidated statements of comprehensive income (cumulative).....	15
2. Others	26
Part 2. Information about company which provides guarantee to reporting company	27

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Cover page

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Quarterly accounting period	The First Quarter of 204th term (from April 1, 2020 to June 30, 2020)
Company name	株式会社 I H I (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	203rd term Three months ended June 30, 2019	204th term Three months ended June 30, 2020	203rd term
Accounting period	From April 1, 2019 To June 30, 2019	From April 1, 2020 To June 30, 2020	From April 1, 2019 To March 31, 2020
Net sales (Millions of yen)	281,164	218,551	1,386,503
Ordinary profit (loss) (Millions of yen)	(685)	(7,925)	32,251
Profit (loss) attributable to owners of parent (Millions of yen)	(2,763)	(7,658)	12,812
Comprehensive income (Millions of yen)	(5,559)	(5,634)	8,610
Net assets (Millions of yen)	369,081	372,078	353,746
Total assets (Millions of yen)	1,645,274	1,674,712	1,740,782
Basic earnings (loss) per share (Yen)	(17.91)	(51.52)	84.21
Diluted earnings per share (Yen)	—	—	84.19
Shareholders' equity ratio (%)	20.36	20.56	18.75

- 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 first quarter of 203rd term and 204th term are not presented even though IHI has issued potential shares, because the per share data is a net loss per share respectively.
4. Monetary amounts and ratios less than one unit are rounded off.

2. Description of business

IHI and its affiliated entities (153 consolidated subsidiaries and 26 affiliates accounted for using the equity method as of June 30, 2020) 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, 2020, 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, 2021, IHI Southwest Technologies, Inc. was excluded from the scope of consolidation because of the transfer of its shares to the third party. NitroCision, LLC was excluded from the scope of consolidation because its materiality has decreased.

(Others)

From the first quarter of the fiscal year ending March 31, 2021, ALPHA Automotive Technologies LLC was changed from a non-consolidated subsidiary accounted for using the equity method to a consolidated subsidiary because its materiality within the IHI Group has increased, while a subsidiary of MEISEI ELECTRIC CO., LTD. was excluded from the scope of consolidation because the liquidation of the company has been completed.

II. Overview of business

1. Business risks

There were no new occurrences of business risks in the three months ended June 30, 2020.

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

We will continue to closely monitor the impact due to the spread of COVID-19 that affect the business of IHI Group.

2. Management's Analysis of financial position, operating results and cash flows

Matters regarding the future stated in this document are based on the judgments as of June 30, 2020.

(1) Overview of business results

During the three months ended June 30, 2020, the economy of Japan witnessed an extremely serious situation develop due to the spread of COVID-19, which caused temporary shutdowns in industrial activity, and a slump in consumption as a result of the restrictions on the movement of people. The whole of society worked to devise measures to prevent the spread of infection, while beginning a staged restarting of social and economic activity, but the situation does not allow for optimism. In addition, the global economy has experienced a sharp slump in business conditions, similar to that of the Japanese economy, due to the widespread outbreak of infections worldwide. We must continue to pay careful attention to the trend of infection and the impact of fluctuations, etc. in financial and capital markets, in addition to such factors as the prolongation of political and economic rivalry between the U.S. and China.

Under this business environment, the IHI Group's operating results during the three months ended June 30, 2020 were largely affected by the spread of COVID-19.

Orders received of the IHI Group during the three months ended June 30, 2020 decreased 23.9% from the previous corresponding period to ¥167.4 billion. Net sales also decreased 22.3% from the previous corresponding period to ¥218.5 billion due to the impact of early application of "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) etc. (the impact was negative ¥10.3 billion in net sales mainly in the Civil aero engines Business), in addition to a significant downturn of sales in the Civil aero engines Business that was affected by the spread of COVID-19 and a decrease in the number of delivery of the Vehicular turbochargers Business.

In terms of profit, operating profit decreased by ¥10.1 billion to a loss of ¥9.2 billion (that of the previous corresponding period was a profit of ¥0.9 billion), because of the significant impact of the above-mentioned downturns in the sales of the Civil aero engines Business and the Vehicular turbochargers Business, although the IHI Group have taken such measures as revision of production system to meet the drastic decline in demand, shift of business resources, and reduction of fixed cost. Ordinary profit was a loss of ¥7.9 billion, saw a recovery of profit margin by recording share of profit of entities accounted for using equity method, etc. Profit attributable to owners of parent was a loss of ¥7.6 billion.

Regarding the impact of the spread of COVID-19, sales of engines and spare parts in the Civil aero engines Business is greatly decreasing owing to the drastic decline in demand for aero transportation and the deterioration of business conditions for airlines. Although demands for aero transportation on domestic routes (mainly medium and short haul routes) are expected to lead the recovery, we foresee that the recovery speed varies by area under the situation where the spread of infection is not converged. With regard to international routes (mainly long haul routes), due to the various restrictions of these routes about immigration, the movements toward recovery are slower than domestic routes and full recovery is expected to take several years. Under such circumstance, since our aero engines are mounted on relatively new type aircrafts and they have superiority in terms of operating costs such as fuel efficiency, it is expected that operations will be resumed preferentially and earnings in the aftermarket will recover rapidly in the period of recovery in demand.

While the number of delivery decreases in the Vehicular turbochargers Business due to the impact of global downturn of demand for automobiles and the suspension of factory production at automotive manufacturing companies, the number of delivery in Chinese market is turning into an increasing phase according to the movement out of the slump in the automotive industry in association with the resumption of economic activity in China. Furthermore, signs of recovery are also seen in the U.S. and Europe as the factory operations of automotive manufacturing companies resumed from mid-May.

Given these circumstances, the Group is working on such countermeasures against the impact of the spread of COVID-19 as temporary freezing and/or reduction in expenditure on capital investments, research and development etc., reduction in the total cost/fixed cost and inventories, and shifting human resources to the growth areas and lifecycle businesses flexibility, and will strengthen these efforts in response to the future business environment and demand recovery. In addition, regarding the funding needs, the Group has secured sufficient liquidity by arrangement of a diverse range of fund procurement methods, including credit line commitments and overdraft facility accounts with major banks and commercial papers, together with the cash and cash equivalents on hand.

Moreover, after July 25, 2020, many people working at Ariake Shipyard of Japan Marine United Corporation, an

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IHI's affiliate, have been found to be infected with the COVID-19, we apologize for the inconvenience and concern this may cause to all concerned. We will carry forward the business activities while continuing to place the highest priority on the safety and health of our employees, their families and stakeholders and taking thorough measures to prevent the spread of infection.

IHI has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. effective from the beginning of the first quarter ended June 30, 2020 as changes in accounting policies. For further details, please refer to "IV. Financial information 1. Quarterly consolidated financial statements Notes (Changes in accounting policies)".

Results by reportable segment for the three months ended June 30, 2020 are as follows:

(Billions of yen)

Reportable segment	Orders received			Three months ended June 30, 2019		Three months ended June 30, 2020		Changes from the previous corresponding period (%)	
	Three months ended June 30, 2019	Three months ended June 30, 2020	Changes from the previous corresponding period (%)	Sales	Operating Profit (loss)	Sales	Operating Profit (loss)	Sales	Operating Profit (loss)
Resources, Energy and Environment	47.2	45.8	(3.0)	64.8	(5.7)	64.0	(3.4)	(1.2)	–
Social Infrastructure and Offshore Facility	34.0	28.9	(14.8)	32.8	2.5	31.9	2.1	(2.7)	(16.6)
Industrial System and General-Purpose Machinery	116.0	74.0	(36.2)	86.7	0.2	78.1	(1.7)	(9.9)	–
Aero Engine, Space and Defense	13.5	12.0	(10.9)	90.2	5.4	42.4	(4.7)	(53.0)	–
Total Reportable Segment	210.8	160.9	(23.7)	274.7	2.4	216.5	(7.8)	(21.2)	–
Others	19.5	15.7	(19.4)	15.3	0.1	10.5	(0.5)	(31.6)	–
Adjustment	(10.3)	(9.2)	–	(8.9)	(1.7)	(8.5)	(0.8)	–	–
Total	220.0	167.4	(23.9)	281.1	0.9	218.5	(9.2)	(22.3)	–

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<Resources, Energy and Environment>

Orders received were at the same level as in the previous corresponding period, although there was a slightly decreased.

Net sales were at the same level as in the previous corresponding period due to the increases in the Boilers Business despite the decreases in the Plants Business.

Operating loss improved due to the effect of deterioration of profitability for some projects received in the Boilers Business and the Power systems Business in the previous corresponding period.

<Social Infrastructure and Offshore Facility>

Orders received decreased in the Transport systems Business.

Net sales were at the same level as in the previous corresponding period due to the increases in the Urban development Business despite the decreases in the Bridges/water gates Business.

Operating profit worsened overall due to the decreases in the Bridges/water gates Business, etc. despite the increases in the Urban development Business

<Industrial System and General-Purpose Machinery>

Orders received decreased in the Vehicular turbochargers Business due to the spread of COVID-19 in addition to Transport machineries and Logistics/industrial systems Business that received large-scale project in the previous corresponding period.

Net sales decreased due to the decreases in the Vehicular turbochargers Business and the Thermal and surface treatment Businesses despite the increases in the Transport machineries Business.

Operating loss worsened due to the effect of the decreases in the Vehicular turbochargers Business and the Thermal and surface treatment Businesses.

<Aero Engine, Space and Defense>

Orders received were at the same level as in the previous corresponding period, although there was a slightly decreased.

Net sales decreased due to the effect of a decline in air traffic demand with the impact of the spread of COVID-19 in the Civil aero engines Business in addition to the application of the Accounting Standard for Revenue Recognition.

Operating loss worsened due to the effect of the decreases in the Civil aero engines Business.

(2) Analysis of financial position

Total assets at the end of the first quarter ended June 30, 2020 were ¥1,674.7 billion, down ¥66.0 billion compared with the end of the previous fiscal year. The major items of decrease were cash and deposits, down ¥63.0 billion and notes, accounts receivable – trade and contract assets, down ¥26.6 billion. The major item of increase was inventories including raw materials and supplies, up ¥8.9 billion.

Total liabilities were ¥1,302.6 billion, down ¥84.4 billion compared with the end of the previous fiscal year. The major items of decrease were notes and accounts payable - trade, down ¥32.0 billion and provision for construction warranties, down ¥30.5 billion. The major item of increase was contract liabilities, up ¥16.4 billion.

Net assets were ¥372.0 billion, up ¥18.3 billion compared with the end of the previous fiscal year. This change was composed of the increase by retained earnings at the beginning of this fiscal year due to changes in accounting policies of ¥27.4 billion, loss attributable to owners of parent of ¥7.6 billion and a decrease by dividends of surplus of ¥2.9 billion.

As a result of the above, the ratio of equity to total assets increased from 18.7% at the end of the previous fiscal year to 20.6%.

(3) Analysis of capital resources and funding liquidity

At the first quarter ended June 30, 2020, the balance of interest-bearing liabilities, including lease obligations, of ¥487.2 billion was at almost same level as the end of the previous fiscal year, down ¥0.9 billion.

The outstanding balance of cash and cash equivalents at the end of the first quarter ended June 30, 2020 was ¥81.8 billion, down ¥63.6 billion compared with the end of the previous fiscal year, mainly due to the appropriation of funds, which were secured at the end of the previous fiscal year to prepare for turmoil in the financial markets caused from the spread of COVID-19, for working capital expenditures for business activities as the financial markets have become relatively stable.

Regarding funding liquidity, in addition to increasing overdraft facilities with major banks, we have a diverse range of fund procurement methods such as credit line commitments and commercial papers. Together with the cash and

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cash equivalents mentioned above, IHI Group has secured sufficient liquidity.

(4) Research and development activities

In the three months ended June 30, 2020, the IHI Group spent ¥5.3 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, 2020.

(5) Results of production, orders received and sales

a. Production

Production volume by segment in the three months ended June 30, 2020 is as follows:

Segment name	Amount (Millions of yen)	Changes from the previous corresponding period (%)
Resources, Energy and Environment	72,698	(5.1)
Social Infrastructure and Offshore Facility	35,424	6.1
Industrial System and General-Purpose Machinery	74,140	(21.9)
Aero Engine, Space and Defense	54,769	(23.6)
Reportable segment total	237,031	(14.3)
Others	10,609	(7.1)
Total	247,640	(14.0)

- Notes:
1. The amounts are represented by selling prices and inter-segment transactions have been eliminated.
 2. The amounts stated above do not include consumption taxes.
 3. Monetary amounts and ratios less than one unit are rounded off.

b. Orders received

Orders received by segment in the three months ended June 30, 2020 are as follows:

Segment name	Orders received (Millions of yen)	Changes from the previous corresponding period (%)	Order backlog at the end of the period (Millions of yen)	Changes from the end of the previous fiscal year
Resources, Energy and Environment	45,800	(3.0)	499,732	(4.1)
Social Infrastructure and Offshore Facility	28,998	(14.8)	225,942	(1.6)
Industrial System and General-Purpose Machinery	74,091	(36.2)	174,881	(8.3)
Aero Engine, Space and Defense	12,038	(10.9)	450,403	(8.8)
Reportable segment total	160,927	(23.7)	1,350,958	(5.9)
Others	15,756	(19.4)	30,225	13.6
Adjustments	(9,209)	—	—	—
Total	167,474	(23.9)	1,381,183	(5.5)

- Notes:
1. Orders received amounts in each segment include intersegment transactions, and the total amount of intersegment transactions has been eliminated with adjustments amounts.
 2. Intersegment transactions have been eliminated in calculating order backlogs for each segment.
 3. The amounts stated above do not include consumption taxes.
 4. Monetary amounts and ratios less than one unit are rounded off.

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c. Sales

Sales revenue by segment in the three months ended June 30, 2020 is as follows:

Segment name	Amount (Millions of yen)	Changes from the previous corresponding period (%)
Resources, Energy and Environment	64,041	(1.2)
Social Infrastructure and Offshore Facility	31,945	(2.7)
Industrial System and General-Purpose Machinery	78,132	(9.9)
Aero Engine, Space and Defense	42,451	(53.0)
Reportable segment total	216,569	(21.2)
Others	10,257	(31.6)
Adjustments	(8,545)	—
Total	218,551	(22.3)

- Notes:
1. Sales revenue amounts shown represent net sales.
 2. Segment sales amounts in each segment include intersegment transactions, and the total amount of intersegment transactions has been eliminated with the adjustments amounts.
 3. The amounts stated above do not include consumption taxes.
 4. Monetary amounts and ratios less than one unit are rounded off.

(6) 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, 2020.

Under the “Group Management Policies 2019” three-year medium-term management plan, the first year of which was fiscal 2019, the IHI Group seeks to contribute to realizing a sustainable society from a long-term perspective by addressing such social issues as global climate change, large-scale natural disasters, global population increase, and resource depletion. We move away from businesses with a conventional focus on the supply of hardware, and accelerate initiatives to tackle social and customer issues and initiatives to transform ourselves into a company that creates new value.

In addition, the spread of COVID-19 has caused a transformation in society, the economy and individual values, resulting in significant changes to the environment in which the IHI Group operates. There has been no change in the long-term vision established by the “Group Management Policies 2019,” but by accelerating a bold and flexible shift of resources to growth areas and profitable businesses and steadily executing the required measures to revitalize and reorganize existing businesses for the transformation to a sustainable business structure, we will promote lean and flexible management that has the ability to tolerate the changes in the “post-coronavirus” environment. Furthermore, during the process of moving forward with these considerations, we intend to review our management strategy and targets as necessary.

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, 2020.

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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 stock	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, 2020)	Number of issued shares as of the filing date (Shares) (August 12, 2020)	Name of stock exchange on which IHI is listed or names of authorized financial instruments firms associations where IHI is registered	Description
Common stock	154,679,954	154,679,954	First Section of Tokyo Stock Exchange and Nagoya Stock Exchange, Fukuoka Stock Exchange, Sapporo Securities Exchange	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, 2020 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)	Balance of number of issued shares (Thousand shares)	Changes in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Changes in legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
From April 1, 2020 to June 30, 2020	–	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.

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(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, 2020, 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, 2020).

(i) Issued shares

(As of March 31, 2020)

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 stock 5,660,600	–	–
	(Reciprocally held shares) Common stock 20,200	–	
Shares with full voting rights (others)	Common stock 148,773,100	1,487,731	–
Shares less than one unit	Common stock 226,054	–	Shares less than one unit (100 shares)
Number of issued shares	154,679,954	–	–
Total number of voting rights	–	1,487,731	–

- Notes:
1. Common stock in “Shares less than one unit” include 74 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 393,900 shares of IHI owned by a trust account for the Board Benefit Trust .

(ii) Treasury shares, etc.

(As of March 31, 2020)

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	5,660,600	–	5,660,600	3.66
(Reciprocally held shares) Kondo Tekko Co., Ltd.	10-5, Yaesu 2-chome, Chuo-ku, Tokyo	20,200	–	20,200	0.01
Total	–	5,680,800	–	5,680,800	3.67

Note: 393,900 shares of IHI owned by a trust account for the Board Benefit Trust are not included in shares in treasury above.

2. Information about directors and auditors

Not applicable

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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 on March 31, 2021 (from April 1, 2020 to June 30, 2020) and three months ended June 30, 2020 (from April 1, 2020 to June 30, 2020) 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)

	As of March 31, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	147,228	84,163
Notes and accounts receivable – trade	*2 403,832	–
Notes, accounts receivable – trade and contract assets	–	*2 377,193
Securities	21	22
Finished goods	18,417	20,388
Work in process	289,277	280,219
Raw materials and supplies	137,848	153,860
Other	83,410	67,390
Allowance for doubtful accounts	(4,024)	(4,258)
Total current assets	1,076,009	978,977
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	154,217	152,035
Other, net	243,278	244,054
Total property, plant and equipment	397,495	396,089
Intangible assets		
Goodwill	7,456	7,116
Other	24,706	24,039
Total intangible assets	32,162	31,155
Investments and other assets		
Investment securities	63,514	65,462
Other	172,857	204,280
Allowance for doubtful accounts	(1,255)	(1,251)
Total investments and other assets	235,116	268,491
Total non-current assets	664,773	695,735
Total assets	1,740,782	1,674,712
Liabilities		
Current liabilities		
Notes and accounts payable - trade	262,587	230,503
Short-term loans payable	185,600	153,834
Commercial papers	56,000	99,000
Current portion of bonds	10,000	10,000
Income taxes payable	6,012	6,553
Advances received	151,790	–
Contract liabilities	–	168,227
Provision for bonuses	26,672	15,277
Provision for construction warranties	42,759	12,245
Provision for loss on construction contracts	19,929	18,672
Other provision	1,141	985
Other	146,515	121,699
Total current liabilities	909,005	836,995
Non-current liabilities		
Bonds payable	50,000	40,000
Long-term loans payable	159,223	156,331
Net defined benefit liability	166,193	166,845
Provision for loss on business of subsidiaries and affiliates	1,249	1,266
Other provision	1,068	863
Other	100,298	100,334
Total non-current liabilities	478,031	465,639
Total liabilities	1,387,036	1,302,634

(Translation purposes only)

(Millions of yen)

	As of March 31, 2020	As of June 30, 2020
Net assets		
Shareholders' equity		
Capital stock	107,165	107,165
Capital surplus	51,780	51,783
Retained earnings	186,170	202,927
Treasury shares	(15,899)	(15,821)
Total shareholders' equity	329,216	346,054
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(679)	(464)
Deferred gains or losses on hedges	(252)	(132)
Revaluation reserve for land	5,321	5,321
Foreign currency translation adjustment	(2,067)	(1,546)
Remeasurements of defined benefit plans	(5,164)	(4,921)
Total accumulated other comprehensive income	(2,841)	(1,742)
Subscription rights to shares	533	453
Non-controlling interests	26,838	27,313
Total net assets	353,746	372,078
Total liabilities and net assets	1,740,782	1,674,712

(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, 2019	Three months ended June 30, 2020
Net sales	281,164	218,551
Cost of sales	236,219	190,061
Gross profit	44,945	28,490
Selling, general and administrative expenses	43,988	37,718
Operating profit (loss)	957	(9,228)
Non-operating income		
Interest income	173	104
Dividend income	481	219
Share of profit of entities accounted for using equity method	–	2,228
Gain on reversal of accrued expenses for delayed delivery	435	–
Other income	1,005	1,803
Total non-operating income	2,094	4,354
Non-operating expenses		
Interest expenses	909	694
Share of loss of entities accounted for using equity method	682	–
Foreign exchange losses	1,160	944
Other expenses	985	1,413
Total non-operating expenses	3,736	3,051
Ordinary profit (loss)	(685)	(7,925)
Profit (loss) before income taxes	(685)	(7,925)
Income taxes	686	(1,084)
Profit (loss)	(1,371)	(6,841)
Profit attributable to non-controlling interests	1,392	817
Profit (loss) attributable to owners of parent	(2,763)	(7,658)

(Translation purposes only)

Quarterly consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Three months ended June 30, 2019	Three months ended June 30, 2020
Profit (loss)	(1,371)	(6,841)
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,007)	257
Deferred gains or losses on hedges	(160)	26
Foreign currency translation adjustment	(3,196)	752
Remeasurements of defined benefit plans, net of tax	240	325
Share of other comprehensive income of entities accounted for using equity method	(65)	(153)
Total other comprehensive income	(4,188)	1,207
Comprehensive income	(5,559)	(5,634)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(6,211)	(6,489)
Comprehensive income attributable to non- controlling interests	652	855

(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, 2021, ALPHA Automotive Technologies LLC was changed from a non-consolidated subsidiary accounted for using the equity method to a consolidated subsidiary because its materiality within the IHI Group has increased.

IHI Southwest Technologies, Inc. was excluded from the scope of consolidation because of the transfer of its shares to the third party. NitroCision, LLC was excluded because its importance has diminished. A subsidiary of MEISEI ELECTRIC CO., LTD. was excluded from the scope of consolidation because the liquidation of the company has been completed.

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

From the first quarter of the fiscal year ending March 31, 2021, Qingdao IHI-HT Mechanical Parking System Co., Ltd. was newly included in affiliates accounted for using the equity method because its materiality has increased.

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

IHI has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. effective from the beginning of the first quarter ended June 30, 2020 and it recognizes revenue when (or as) it satisfies a performance obligation by transferring promised goods or services (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. It recognizes as revenue the amount expected to be received upon exchange of goods or services.

As a result of this application, although costs incurred related to the civil aero engine programs in which IHI participates and compensation for damage arising from the performance of a contract were previously recorded as cost of sales or selling, general and administrative expenses or non-operating expenses, the accounting method is changed to be deducted from sales as a variable consideration or consideration payable to a customer reflecting the real nature of transaction.

In addition, the percentage of completion method is applied to contracts that are expected to satisfy performance obligations over time, among contracts that were previously accounted for by the completed-contract method. Furthermore, revenue is recognized by the cost recovery method when it is not possible to reasonably estimate progress towards satisfaction of performance obligations, but it is probable that the costs incurred will be recovered.

The application of the Accounting Standard for Revenue Recognition, etc. is subject to the transitional treatment provided for in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter ended June 30, 2020 was added to or subtracted from the beginning balance of retained earnings of the first quarter ended June 30, 2020, and thus the new accounting policy was applied from the beginning balance; provided, however, that the new accounting policy was not retrospectively applied to contracts where recognitions of nearly all the revenue amounts for periods prior to the start of the first quarter ended June 30, 2020 were subject to the previous treatment, by applying the method provided for in Paragraph 86 of the Accounting Standard for Revenue Recognition. Furthermore, with regard to modifications to contracts carried out prior to the start of the first quarter ended June 30, 2020, accounting processing was carried out based on the contractual terms existing after all contract modifications were reflected and this cumulative effect was added to or subtracted from the beginning balance of retained earnings of the first quarter ended June 30, 2020 by applying the method set forth in item (1) of the supplementary provisions of Paragraph 86 of the Accounting Standard for Revenue Recognition.

As a result, for the three months ended June 30, 2020, net sales decreased by ¥10,310 million, with the cost of sales decreasing by ¥7,955 million, selling, general and administrative expenses decreasing by ¥779 million, operating loss increasing by ¥1,576 million, and ordinary loss and loss before income taxes each decreasing by ¥267 million. In addition, the beginning balance of retained earnings increased by ¥27,442 million.

Due to the application of Accounting Standard for Revenue Recognition, "Notes and accounts receivable - trade" which were included in "Current assets" in the consolidated balance sheets for the previous fiscal year, are included in "Notes, accounts receivable – trade and contract assets" from the first quarter ended June 30, 2020. In accordance with the transitional treatment stipulated in Article 89-2 of the Accounting Standard for Revenue Recognition, figures for the previous fiscal year have not been restated in accordance with the new approach to presentation.

In addition, in accordance with the transitional treatment stipulated in Article 28-15 of "Accounting Standards for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), the information about the disaggregation of revenue from contracts with customers for three months ended June 30, 2019 is not stated.

(Translation purposes only)

(Special accounting for preparing quarterly consolidated financial statements)

(Tax expense calculation)

Tax expenses on profit before income taxes for the three months ended June 30, 2020 are calculated by multiplying profit before income taxes for the three months ended June 30, 2020 by the reasonably estimated effective tax rate for the fiscal year including the first quarter ended June 30, 2020 after applying tax effect accounting. Should the estimated effective tax rate be unavailable, however, tax expenses are calculated by using the statutory tax rate for profit before income taxes for the three months ended June 30, 2020.

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

(Quarterly consolidated balance sheet)

1. Contingent liabilities

(1) Guarantees for debt of others (Note)

Guarantees for loans from financial institutions etc. are as follows:

(Millions of yen)			
As of March 31, 2020		As of June 30, 2020	
IHI Investment for Aero Engine Leasing LLC	14,961	IHI Investment for Aero Engine Leasing LLC	10,254
Japanese Aero Engines Corporation (“JAEC”)	5,659	JAEC	5,618
ALPHA Automotive Technologies LLC	603	Japan Aeroforge, Ltd.	354
Japan Aeroforge, Ltd.	354	Contingent liabilities for employee housing loans	190
Contingent liabilities for employee housing loans	194	Chubu Segment Co., Ltd.	25
Chubu Segment Co., Ltd.	25		
Total	21,796	Total	16,441

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

Guarantees in kind for loans from financial institutions etc. are as follows:

(Millions of yen)			
As of March 31, 2020		As of June 30, 2020	
Contingent liabilities for employee housing loans	4,255	Contingent liabilities for employee housing loans	4,160
Total	4,255	Total	4,160

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 liabilities

The consolidated subsidiary IHI E&C International Corporation received a revised letter of claim for payment of 117 million US dollars from a customer on December 4, 2019, for total expenses for delayed delivery regarding a process plant project currently underway in North America (hereinafter the “Expenses”). The IHI Group has continuously requested an extension of the delivery date since construction delays occurred due to the customer's circumstances, and maintains its assertion that the claim for the Expenses is unacceptable. Therefore, at this point, it is difficult to reasonably estimate the amount of the effect on the financial position and operating results. Therefore the effect of this matter has not been reflected in the consolidated financial statements.

(Translation purposes only)

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

(Millions of yen)

	As of March 31, 2020	As of June 30, 2020
Notes receivable - trade discounted in the ordinary course of business	103	10

(Translation purposes only)

(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, 2020, 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, 2019	Three months ended June 30, 2020
Depreciation	12,628	14,367
Amortization of goodwill	619	644

(Shareholders' equity)

I. Three months ended June 30, 2019 (From April 1, 2019 to June 30, 2019)

1. Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date	Source of dividends
Ordinary General Meeting of Shareholders on June 20, 2019	Common stock	6,180	40	March 31, 2019	June 21, 2019	Retained earnings

Note: Total dividends determined by a resolution of the Ordinary General Meeting of Shareholders held on June 20, 2019 included ¥9 million, which was the value of dividends for shares of IHI owned by a trust account for the Board Benefit Trust.

2. Dividends whose record date was in the three months ended June 30, 2019 and the effective date of which is after the end of the first quarter of the fiscal year ended March 31, 2020

Not applicable

(Translation purposes only)

II. Three months ended June 30, 2020 (From April 1, 2020 to June 30, 2020)

1. Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date	Source of dividends
Ordinary General Meeting of Shareholders on June 25, 2020	Common stock	2,980	20	March 31, 2020	June 26, 2020	Retained earnings

Note: Total dividends determined by a resolution of the Ordinary General Meeting of Shareholders held on June 25, 2020 included ¥8 million, which was the value of dividends for shares of IHI owned by a trust account for the Board Benefit Trust.

2. Dividends whose record date was in the three months ended June 30, 2020 and the effective date of which is after the end of the first quarter of the fiscal year ending March 31, 2021

Not applicable

3. Significant changes in amounts of equity

IHI has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc. effective from the beginning of the first quarter ended June 30, 2020.

For further details, please refer to “IV. Financial information 1. Quarterly consolidated financial statements Notes (Changes in accounting policies)”.

(Additional Information)

(Impact of the spread of COVID-19)

The spread of COVID-19 may have a significant impact to our business. Especially in the Civil aero engines Business, sales of aero engines and spare parts are expected to decrease and it is expected that the recovery of market will take a certain period of time. In the Vehicular turbochargers Business, sales of vehicular turbochargers are expected to decrease caused from world-wide decreases in demand for automobiles. In addition, we may suspend production or experience downturn of operations due to spanning of the supply chain across countries. Other businesses may be affected through the impact on the progress of construction projects and exposure to risks associated with prolonged deterioration in demand. There are no significant changes in these circumstances from the previous fiscal year.

(Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system)

IHI and some of its domestic subsidiaries calculated the amounts of deferred tax assets and deferred tax liabilities according to tax acts prior to amendment based on the treatment of Paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ Practical Issues Task Force No. 39, March 31, 2020) instead of applying the provision of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018), regarding the transition to the group tax sharing system established in “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 8 of 2020), and regarding items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system.

(Translation purposes only)

(Segment information)

Segment information

I. Three months ended June 30, 2019 (From April 1, 2019 to June 30, 2019)

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	64,524	30,804	84,581	89,917	269,826	11,338	281,164	–	281,164
(2) Intersegment sales and transfers	326	2,036	2,166	359	4,887	4,054	8,941	(8,941)	–
Total	64,850	32,840	86,747	90,276	274,713	15,392	290,105	(8,941)	281,164
Segment profit (loss) (Operating profit (loss))	(5,734)	2,570	256	5,403	2,495	193	2,688	(1,731)	957

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 ¥100 million and unallocated corporate expenses of negative ¥1,631 million.

Corporate expenses mainly consist of general and administrative expenses that are not attributable to reportable segments.

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

(Material impairment loss of non-current assets)

Not applicable

(Material change in goodwill amount)

Not applicable

(Material gain on bargain purchase)

Not applicable

(Translation purposes only)

II. Three months ended June 30, 2020 (From April 1, 2020 to June 30, 2020)

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	62,459	31,056	75,511	42,027	211,053	7,498	218,551	–	218,551
(2) Intersegment sales and transfers	1,582	889	2,621	424	5,516	3,029	8,545	(8,545)	–
Total	64,041	31,945	78,132	42,451	216,569	10,527	227,096	(8,545)	218,551
Segment profit (loss) (Operating income (loss))	(3,471)	2,143	(1,756)	(4,760)	(7,844)	(577)	(8,421)	(807)	(9,228)

- 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 ¥339 million and unallocated corporate expenses of negative ¥1,146 million. Corporate expenses mainly consist of general and administrative expenses that are not attributable to reportable segments.

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

Reportable segment	Main businesses, products and services
Resources, Energy and Environment	Power systems (power systems plants for land use and power systems for ships), boilers, plants (storage facilities, chemical plants and pharmaceutical plants), nuclear power (components for nuclear power plants)
Social Infrastructure and Offshore Facility	Bridges/water gates, transport systems, shield systems, concrete construction materials, urban development (real estate sales and rental)
Industrial System and General-Purpose Machinery	Vehicular turbochargers, parking, rotating machineries (compressors, separation systems, turbochargers for ships), thermal and surface treatment, transport machineries, logistics/industrial systems (logistics systems, industrial machineries)
Aero Engine, Space and Defense	Aero engines, rocket systems/space utilization systems, defense systems

2. Matters about changes of reportable segment, etc.

(Changes in accounting policies)

IHI has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. and changed the way of accounting for revenue recognition from the beginning of the fiscal year ending March 31, 2021 as described in above “Changes in accounting policies”. Therefore, IHI has similarly changed the measuring method of segment profit or loss.

As a result, the sale of each segment in three months ended June 30, 2020 decreased by ¥417 million in the Resources, Energy and Environment, increased by ¥1,067 million in the Social Infrastructure and Offshore Facility, increased by ¥4,191 million in the Industrial System and General-Purpose Machinery, decreased by ¥13,966 million in the Aero Engine, Space and Defense compared with the previous method. And segment profit or loss in three months ended June 30, 2020 increased by ¥132 million in the Industrial System and General-Purpose Machinery, decreased by ¥1,404 million in the Resources, Energy and Environment and by ¥295 million in the Aero Engine, Space and Defense compared with the previous method.

(Translation purposes only)

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)

(Revenue recognition)

Sales of the Group are mainly revenue recognized from contracts with customers and the breakdowns of reportable segment by type of goods and services and by region are as follows:

Three months ended June 30, 2020 (From April 1, 2020 to June 30, 2020)

(1) Sales breakdown by type of goods and services

(Millions of yen)

	Reportable Segment					Others	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General- Purpose Machinery	Aero Engine, Space and Defense	Total		
Power Systems	18,863				18,863		18,863
Boilers	20,012				20,012		20,012
Plants	9,536				9,536		9,536
Nuclear power	5,251				5,251		5,251
Bridges/water gates		15,167			15,167		15,167
Shield systems		3,567			3,567		3,567
Urban development		6,685			6,685		6,685
Vehicular turbochargers			28,288		28,288		28,288
Parking			9,451		9,451		9,451
Rotating machineries			10,392		10,392		10,392
Thermal and surface treatment			6,717		6,717		6,717
Transport machineries			10,250		10,250		10,250
Civil aero engines				20,458	20,458		20,458
Other	12,062	6,674	13,183	24,546	56,465	10,527	66,992
Internal sales	(3,265)	(1,037)	(2,770)	(2,977)	(10,049)	(3,029)	(13,078)
Sales to outside customers	62,459	31,056	75,511	42,027	211,053	7,498	218,551

(Translation purposes only)

(2) Sales breakdown by region

	Reportable Segment					Others	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General- Purpose Machinery	Aero Engine, Space and Defense	Total		
Japan	40,294	25,218	42,841	21,534	129,887	5,759	135,646
North America	4,383	—	2,365	18,014	24,762	106	24,868
Asia	15,901	4,880	23,800	921	45,502	39	45,541
Europe	487	953	5,976	1,479	8,895	1,488	10,383
Central and South America	70	—	460	76	606	—	606
Others	1,324	5	69	3	1,401	106	1,507
Overseas	22,165	5,838	32,670	20,493	81,166	1,739	82,905
Sales to outside customers	62,459	31,056	75,511	42,027	211,053	7,498	218,551

Main businesses, products and services belonging to each segment are stated in note “Segment information”.

(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, 2019	Three months ended June 30, 2020
(1) Basic earnings (loss) per share (Yen)	(17.91)	(51.52)
(Fundamentals)		
Amounts for profit (loss) attributable to owners of parent (Millions of yen)	(2,763)	(7,658)
Amounts for non-common shareholders (Millions of yen)	–	–
Amounts for profit (loss) attributable to owners of parent regarding common stock (Millions of yen)	(2,763)	(7,658)
Average number of shares of common stock (Thousands of shares)	154,294	148,644
(2) Diluted earnings per share (Yen)	–	–
(Fundamentals)		
Adjustment amount of profit attributable to owners of parent (Millions of yen)	–	–
Increase in number of shares of common stock (Thousands of shares)	–	–
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. Diluted earnings per share for the three months ended June 30, 2019 and June 30, 2020 are not presented even though IHI has issued potential shares, because the per share data is a net loss per share respectively.
2. Shares of IHI owned by a trust account for the Board Benefit Trust are included in the number of treasury shares excluded from the calculation of the number of the average number of shares. The average number of treasury shares excluded from the calculation of basic earnings per share and diluted earnings per share for the three months ended June 30 of 2019 and 2020 were 218,900 shares and 393,900 shares respectively.

(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