

(Translation purposes only)

Quarterly Securities Report

(The Second Quarter of 205th Term)

From July 1, 2021 to September 30, 2021

IHI Corporation

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Clause of stipulation	Article 24-4-7, Paragraph 1 of the Financial Instruments and Exchange Act
Place of filing	Director-General of the Kanto Local Finance Bureau
Filing date	November 11, 2021
Fiscal year	The Second quarter of 205th term (from July 1, 2021 to September 30, 2021)
Company name	株式会社 I H I (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
Title and name of representative	Hiroshi Ide, President and Chief Executive Officer
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Telephone number	+81-3-6204-7065
Name of contact person	Shin Shimizu, Head of Accounting Group, Finance & Accounting Division
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo) Nagoya Stock Exchange, Inc. (8-20, Sakae 3-chome, Naka-ku, Nagoya-city) Securities Membership Corporation Fukuoka Stock Exchange (14-2, Tenjin 2-chome, Chuo-ku, Fukuoka-city) Securities Membership Corporation Sapporo Securities Exchange (14-1, Minamiichijo-nishi 5-chome, Chuo-ku, Sapporo-city)

Note: In this report, IHI Corporation is hereinafter referred to as “IHI” and together with its consolidated subsidiaries as the “IHI Group”.

(Translation purposes only)

Part 1. Company information

I. Overview of company

1. Summary of business results

(1) Business results of group (Consolidated)

Term	204th term Six months ended September 30, 2020	205th term Six months ended September 30, 2021	204th term
Accounting period	From April 1, 2020 to September 30, 2020	From April 1, 2021 to September 30, 2021	From April 1, 2020 to March 31, 2021
Revenue (Millions of yen) [the second quarter]	481,706 [264,112]	516,548 [271,286]	1,112,906
Operating profit (loss) (Millions of yen)	(6,101)	26,376	27,961
Profit (loss) before tax (Millions of yen)	(8,802)	26,613	27,617
Profit (loss) attributable to owners of parent (Millions of yen) [the second quarter]	(9,779) [(3,612)]	15,171 [992]	13,093
Comprehensive income attributable to owners of parent (Millions of yen)	(8,484)	15,606	24,010
Equity attributable to owners of parent (Millions of yen)	268,312	318,221	300,769
Total assets (Millions of yen)	1,784,402	1,774,304	1,832,891
Basic earnings (loss) per share (Yen) [the second quarter]	(65.80) [(24.31)]	101.68 [6.62]	88.13
Diluted earnings (loss) per share (Yen)	(65.80)	101.67	88.13
Ratio of equity attributable to owners of parent (%)	15.04	17.93	16.41
Cash flows from operating activities (Millions of yen)	(48,112)	187	36,380
Cash flows from investing activities (Millions of yen)	(29,243)	2,715	(40,482)
Cash flows from financing activities (Millions of yen)	15,520	(43,874)	(23,712)
Cash and cash equivalents at end of period (Millions of yen)	84,846	79,855	120,766

- Notes:
- Summary of business results of the reporting company are not presented, because IHI prepares condensed quarterly consolidated financial statements.
 - Monetary amounts and ratios less than one unit are rounded off.
 - The results above are based on condensed quarterly consolidated financial statements and consolidated financial statements in accordance with International Financial Reporting Standards.

(Translation purposes only)

2. Description of business

IHI and its affiliated companies (148 consolidated subsidiaries and 28 associates accounted for using the equity method as of September 30, 2021) operate four main businesses, providing a diverse range of products. The four businesses are: Resources, Energy and Environment; Social Infrastructure and Offshore Facilities; Industrial Systems and General-Purpose Machinery; and Aero Engine, Space and Defense.

In the six months ended September 30, 2021, there were no significant changes in the contents of the businesses operated by the IHI Group (IHI and its affiliated companies). Changes in principle affiliated companies are as follows.

(Resources, Energy and Environment)

From the first quarter of the fiscal year ending March 31, 2022, one subsidiary of JURONG ENGINEERING LIMITED ceased to exist because its liquidation was completed.

From the second quarter of the fiscal year ending March 31, 2022, one subsidiary of JURONG ENGINEERING LIMITED was no longer an affiliated company of IHI because of the transfer of its shares to the third party.

(Social Infrastructure and Offshore Facilities)

From the second quarter of the fiscal year ending March 31, 2022, Livecon Engineering Co.,Ltd was merged into IHI CONSTRUCTION MATERIALS Co.,Ltd. and ceased to exist.

(Translation purposes only)

II. Overview of business

1. Business risks

There were no new occurrences of business risks in the six months ended September 30, 2021.

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 of COVID-19 that affects the business of the IHI Group.

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

Note that forward-looking statements are based on the Group's judgments as of the end of the second quarter (September 30, 2021).

(1) Overview of operating results

During the six months ended September 30, 2021 the Japanese economy showed a steady recovery especially in the export from manufacturing industry, but the business sentiment has been stagnant in some industries such as the service industry, and the recovery was delayed, especially in personal consumption, due to the issuance of a state of emergency. Furthermore, recovery of export from manufacturing industry which has supported the economic recovery until now are slowing down since August, especially in the automobile industry, due to global shortage of semiconductors and supply chain disruption. The world economy, centered on the U.S. and China, was showing signs of recovery due to the progress of vaccination programs and economic policies, but there is delay in recovery in Southeast Asia region. In addition, shortage of semiconductors, and soaring prices of raw materials and transportation costs are beginning to affect corporate performance.

In the IHI Group's main business, the Civil aero engines Business which is greatly affected by COVID-19, the demand for aero transportation on domestic routes and short-distance international routes is recovering especially in North America and Europe where vaccination programs are progressing. On the other hand, on long-distance international routes, immigration restrictions in each country have not been loosened due to the worldwide spread of the highly contagious variant of COVID-19, and the demand for aero transportation remains stagnant. Although the sales of spare parts are gradually recovering since it bottomed out in the first quarter of the previous fiscal year, the recovery trend is different for each model, and it is expected to take some time for the demand for aero transportation to recover to the level before the spread of COVID-19. Furthermore, in the Vehicular turbochargers Business the number of delivery has been steadily recovering, however, the number of delivery is sluggish because of the shortage of semiconductors in the automobile industry and the production adjustment due to supply chain disruption caused by the restrictions on economic activities with the spread of COVID-19.

Under this business environment, orders received of the IHI Group during the six months ended September 30, 2021 increased 19.3% from the previous corresponding period to ¥508.3 billion. Revenue increased 7.2% from the previous corresponding period to ¥516.5 billion.

In terms of profitability, all the profit items turned profitable. Operating profit increased ¥32.4 billion to ¥26.3 billion due mainly to sale of Property, plant and equipment in addition to the convergence of unprofitable projects in the Carbon solutions Business, increased revenue and strengthening of the cost structure in the Vehicular turbochargers Business and the Heat treatment and surface engineering Business, and increased sales of spare parts in the Civil aero engine Business. Profit before tax increased ¥35.4 billion to ¥26.6 billion, an increase in profit margin due to factors such as improvements in foreign exchange gain / loss. Profit attributable to owners of parent increased ¥24.9 billion to ¥15.1 billion.

(Translation purposes only)

Results by reportable segment for the six months ended September 30, 2021 are as follows:

(Billions of yen)

Reportable segment	Orders received			Six months ended September 30, 2020		Six months ended September 30, 2021		Changes from the previous corresponding period (%)	
	Six months ended September 30, 2020	Six months ended September 30, 2021	Changes from the previous corre- sponding period (%)						
				Revenue	Operating profit (loss)	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)
Resources, Energy and Environment	100.5	147.1	46.3	142.4	4.1	159.7	8.0	12.1	93.8
Social Infrastructure and Offshore Facilities	65.6	87.7	33.7	65.4	5.6	69.9	4.0	6.9	(28.4)
Industrial Systems and General-Purpose Machinery	159.3	179.5	12.6	172.4	0.1	175.9	5.5	2.0	–
Aero Engine, Space and Defense	90.6	86.8	(4.2)	99.2	(16.8)	108.2	(12.3)	9.1	–
Reportable segment total	416.2	501.2	20.4	479.6	(6.9)	513.8	5.2	7.1	–
Others	33.2	24.8	(25.3)	22.0	0.8	24.5	1.4	11.5	79.3
Adjustments	(23.4)	(17.6)	–	(19.9)	0.0	(21.9)	19.6	–	–
Total	426.0	508.3	19.3	481.7	(6.1)	516.5	26.3	7.2	–

<Resources, Energy and Environment>

Orders received increased in the Carbon solutions Business, the Nuclear energy Business and the Power systems Business..

Revenue increased in the Nuclear energy Business.

Operating profit increased due to the effect that mostly unprofitable projects in the Carbon solutions Business have mostly hit the bottom, in addition to the increased revenue in the Nuclear energy Business.

<Social Infrastructure and Offshore Facilities>

Orders received increased in the Bridges and water gates Business.

Although revenue decreased due to the decline in real estate sales in the Urban development Business, revenue increased in the Shield systems Business and the Concrete construction materials Business.

Despite an increase in revenue, operating profit decreased due to the soaring steel prices and marine transportation costs in the Bridges and water gates Business, in addition to the effect of gain on sales of investment property recorded in the corresponding period of the previous fiscal year.

<Industrial Systems and General-Purpose Machinery>

Orders received increased in the Heat treatment and surface engineering Business and the Vehicular turbochargers Business.

Although revenue decreased in the Transport machineries Business, revenue increased in the Heat treatment and surface engineering Business and the Vehicular turbochargers Business

In addition to the effect of the restructuring cost recorded in the corresponding period of the previous fiscal year, operating profit increased due to increased revenue and strengthening the cost structure in the Heat treatment and surface engineering Business and the Vehicular turbochargers Business.

<Aero Engine, Space and Defense>

Orders received decreased in the Defense systems Business.

In addition to increased sales of engines and spare parts in the Civil aero engines Business, revenue increased in the Rocket systems and space utilization systems Business.

There are factors that reduce profits due to an increase in sales of newly made engines with heavy burden in early stage in the Civil aero engines Business. On the other hand, the loss narrowed due to the depreciation of the yen compared to the corresponding period of the previous fiscal year, in addition to increased sales of spare parts and the improvement in profitability by strengthening the cost structure.

(Translation purposes only)

(2) Analysis of financial position

Total assets at the end of the second quarter ended September 30, 2021 were ¥1,774.3 billion, down ¥58.5 billion compared with the end of the previous fiscal year. This was due to decreases in trade and other receivables, down ¥60.6 billion and cash and cash equivalents, down ¥40.9 billion, while there were increases in inventories, up ¥31.8 billion and contract assets, up ¥12.6 billion.

Total liabilities were ¥1,432.8 billion, down ¥72.3 billion compared with the end of the previous fiscal year. This was due to decreases in trade and other payables, down ¥30.7 billion and bonds and borrowings(current), down ¥21.8 billion.

Equity was ¥341.5 billion, up ¥13.7 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥15.1 billion.

As a result of the above, the ratio of equity attributable to owners of parent increased from 16.4% at the end of the previous fiscal year to 17.9%.

(3) Cash flows

At the end of the second quarter, the outstanding balance of cash and cash equivalents (hereinafter, “cash”) was ¥79.8 billion, down ¥40.9 billion from the end of the previous fiscal year.

Key factors influencing each cash flow during the six months ended September 30, 2021 are summarized below.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥0.1 billion (the previous corresponding period: use of ¥48.1 billion). This was due to increases in collection of trade receivables, while there were increases in inventories and prepayments and decreases in trade payables.

(Cash flows from investing activities)

Net cash provided by investing activities was ¥2.7 billion (the previous corresponding period: use of ¥29.2 billion). This was due mainly to proceeds from sale of the site of the former Aichi Headquarters Representative’s Office, etc., while there were purchases of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities was ¥43.8 billion (the previous corresponding period: gain of ¥15.5 billion). This was due mainly to repayments of borrowings.

(4) 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 cash on hand. At the end of the second quarter ended September 30, 2021, the balance of interest-bearing liabilities, including lease liabilities, was ¥570.4 billion, down ¥35.4 billion from the end of the previous fiscal year. This primarily reflected repayments of external borrowings and redemption of bonds that are due for repayment.

At the end of the second quarter ended September 30, 2021, the outstanding balance of cash and cash equivalents was ¥79.8 billion, down ¥40.9 billion from the end of the previous fiscal year. This primarily reflected expenditures of working capital for business activities and repayment of interest-bearing liabilities, etc.

Regarding funding liquidity, in addition to 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 cash equivalents mentioned above, IHI Group has secured sufficient liquidity.

(5) Research and development (R&D) activities

In the six months ended September 30, 2021, the IHI Group spent ¥12.5 billion on R&D. There were no significant changes in the status of R&D activities of the IHI Group in the six months ended September 30, 2021.

(Translation purposes only)

(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 six months ended September 30, 2021.

The IHI Group expects the suppression of economic activities caused by the spread of COVID-19 to gradually dissolve and for the global economy to recover, however, in addition to the shortage of semiconductors, soaring prices of raw materials and transportation costs, and the spread of variant of COVID-19, political and economic rivalry between the U.S. and China and other geopolitical risks could create obstacles to global economic recovery, and many uncertainties remain with regard to the business outlook. Furthermore, the shift that focuses on sustainability is rapidly accelerating all over the world, such as rising international awareness of climate change on a global scale, and the growth in ESG investment in response to investors' expectations.

In order to respond to the speed of change in these environments, the IHI Group is promoting "Project Change" aimed returning to growth trajectory by further strengthening earnings foundations and expanding the lifecycle businesses, and creating growth businesses that contribute to the realization of a sustainable society. During the six months, we are accelerating our efforts to realize a carbon-free society and a circular economy with the aim of establishment of an ammonia supply chain, such as demonstration project related to ammonia co-firing at a large-scale commercial coal-fired power plant, development of a large-scale ammonia receiving terminal, etc.

The IHI Group announced our ESG initiatives, which are at the heart of "Project Change", as "IHI Group's ESG Management" on November 9. The IHI Group's management philosophies are "Contribute to the development of society through technology" and "Human resources are our single most valuable asset". Based on these philosophies, we are committed to solving climate change issues through our business activities and realizing a sustainable world in which nature and technology work in unity, while upholding human rights and creating a corporate culture in which diverse and inclusive workforce are built. In terms of tackling climate change, IHI Group has the ambition to make its entire value chain carbon-neutral by 2050. To achieve this, we will mobilize the collective strength of the IHI Group.

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

(Licensing-in contracts)

Material contract that has been expired in the second quarter ended September 30, 2021 is as follows.

Name of Contracting Company	Name of Counterparty	Country	Licensed Products	Details	Contract Period
IHI	GEAE TECHNOLOGY, INC.	U.S.A.	J79 turbo jet engine	Acquisition of nonexclusive rights for the manufacture and sale of licensed products	From March 18, 2002 to August 27, 2021

Note: In the contract listed above, the original contract period that was to December 31, 2022 was expired on August 27, 2021 due to the termination of the business of licensed products.

(Translation purposes only)

III. Information about reporting company

1. Information about shares, etc.

(1) Total number of shares, etc.

(i) Total number of shares

Type	Total number of authorized shares (Shares)
Ordinary shares	300,000,000
Total	300,000,000

(ii) Issued shares

Type	Number of issued shares as of the end of the second quarter (Shares) (September 30, 2021)	Number of issued shares as of the filing date (Shares) (November 11, 2021)	Name of stock exchange on which IHI is listed or names of authorized financial instruments firms associations where IHI is registered	Description
Ordinary shares	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 share acquisition rights between November 1, 2021 and the filing date of this Quarterly Securities Report.

(2) Share acquisition rights, etc.

(i) Details of stock option plans

Not applicable

(ii) 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, share capital, etc.

Period	Changes in number of issued shares (Thousand shares)	Balance of number of issued shares (Thousand shares)	Changes in share capital (Millions of yen)	Balance of share capital (Millions of yen)	Changes in legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
From July 1, 2021 to September 30, 2021	—	154,679	—	107,165	—	54,520

(Translation purposes only)

(5) Major shareholders

(As of September 30, 2021)

Name	Address	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan (Holder in Trust)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	21,916	14.43
Custody Bank of Japan, Ltd. (Holder in Trust)	8-12, Harumi 1-chome, Chuo-ku, Tokyo	15,509	10.21
The Dai-ichi Life Insurance Company, Limited	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo	5,406	3.56
Custody Bank of Japan, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	8-12, Harumi 1-chome, Chuo-ku, Tokyo	4,597	3.02
IHI Supplier Stock Ownership Association	1-1, Toyosu 3-chome, Koto-ku, Tokyo	2,741	1.80
IHI Employee Stock Ownership Association	1-1, Toyosu 3-chome, Koto-ku, Tokyo	2,498	1.64
Sumitomo Life Insurance Company	18-24, Tsukiji 7-chome, Chuo-ku, Tokyo	2,284	1.50
Custody Bank of Japan, Ltd. (Holder in Trust 9)	8-12, Harumi 1-chome, Chuo-ku, Tokyo	1,784	1.17
JPMBL RE UBS AG LONDON BRANCH COLL EQUITY (standing proxy: MUFG Bank, Ltd.)	Bahnhofstrasse 45 Zurich Switzerland (7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo)	1,749	1.15
SSBTC CLIENT OMNIBUS ACCOUNT (standing proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch Custodian Service Division)	One Lincoln Street, Boston MA USA (11-1, Nihonbashi 3-chome, Chuo-ku, Tokyo)	1,650	1.08
Total	—	60,139	39.56

- Notes:
- The figures of “Number of shares held” and “Shareholding ratio (%)” in the above table are rounded down to one unit.
 - Although IHI holds its own treasury shares by 2,839 thousand shares, it is excluded from major shareholders above.
 - In the above table, the following owned shares are held through trust.
 - The Master Trust Bank of Japan (Holder in Trust)
 - Custody Bank of Japan, Ltd. (Holder in Trust)
 - Custody Bank of Japan, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.
 - Custody Bank of Japan, Ltd. (Holder in Trust 9)
 - In the Change Report pertaining to Report of Possession of Large Volume provided by Nomura Securities Co., Ltd. for public viewing on September 24, 2021, the following shareholdings are respectively attributed to Nomura Securities Co., Ltd. and its two joint holders as of September 15, 2021. However, since IHI is unable to confirm the actual number of shares held as of September 30, 2021, they are not included in major shareholders above.

Name	Number of shares held (Thousand shares)	Shareholding ratio (%)
Nomura Securities Co., Ltd	7	0.01
Nomura International PLC	215	0.14
Nomura Asset Management Co., Ltd.	9,137	5.91
Total	9,360	6.05

(Translation purposes only)

(6) Voting rights
(i) Issued shares

(As of September 30, 2021)

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) Ordinary shares 2,839,300	–	–
	(Reciprocally held shares) Ordinary shares 20,200	–	
Shares with full voting rights (others)	Ordinary shares 151,422,200	1,514,222	–
Shares less than one unit	Ordinary shares 398,254	–	Shares less than one unit (100 shares)
Number of issued shares	154,679,954	–	–
Total number of voting rights	–	1,514,222	–

- Notes:
1. Ordinary shares in “Shares less than one unit” include 88 shares of treasury shares held by IHI, 36 shares whose ownership has yet not been transferred and which have been registered in the name of Japan Securities Depository Center.
 2. Ordinary shares in “Shares with full voting right (others)” include 800 shares whose ownership has yet not been transferred and which have been registered in the name of Japan Securities Depository Center. These shares constitute eight units of voting rights and included in the figure in “Number of voting rights.”
 3. Ordinary shares in “Shares with full voting rights (others)” include 592,300 shares of IHI owned by a trust account for the Board Benefit Trust.

(ii) Treasury shares, etc.

(As of September 30, 2021)

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	2,839,300	–	2,839,300	1.83
(Reciprocally held shares) Kondo Tekko Co., Ltd.	10-5, Yaesu 2-chome, Chuo-ku, Tokyo	20,200	–	20,200	0.01
Total	–	2,859,500	–	2,859,500	1.84

- Notes:
1. 592,300 shares of IHI owned by a trust account for the Board Benefit Trust are not included in shares in treasury above.
 2. With August 1, 2021 as the effective date, IHI conducted a share exchange with IHI as the wholly owning parent company in the share exchange and MEISEI ELECTRIC CO., LTD (“MEISEI”) as the wholly owned subsidiary in the share exchange. IHI’s ordinary shares were allotted and delivered at a ratio of 0.42 shares of IHI’s ordinary shares for each ordinary share of MEISEI in this share exchange. The number of shares delivered by IHI is 2,729,748 shares.

(Translation purposes only)

2. Information about directors and auditors

After the date of submission of the Annual Securities Report for the previous fiscal year, there have been no changes in directors and auditors in the six months ended September 30, 2021.

The change in executive officer is as follows.

(1) New executive officer

Position and responsibilities	Name	Date of change
Managing Executive Officer; General Manager of MEISEI PMI Office	Masataka Ikeyama	August 1, 2021

(2) Number of executive officers and percentage of women among executive officers after the change

Men: 19 Woman: 1 (Percentage of women among executive officers: 5%)

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

(Translation purposes only)

IV. Financial information

1. Basis of preparation of the condensed quarterly consolidated financial statements

The condensed quarterly consolidated financial statements of the IHI Group are prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* pursuant to the Article 93 of the Regulation on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Order No.64 of 2007)

2. Audit attestation

The condensed quarterly consolidated financial statements for the three months ended September 30, 2021 (from July 1, 2021 to September 30, 2021) and the six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021) 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. Condensed quarterly consolidated financial statements

(1) Condensed quarterly consolidated statement of financial position

		(Millions of yen)	
	Notes	As of March 31, 2021	As of September 30, 2021
Assets			
Current assets			
Cash and cash equivalents	10	120,766	79,855
Trade and other receivables	10	344,535	283,874
Contract assets		111,830	124,517
Other financial assets	10	1,391	1,774
Inventories		326,470	358,317
Other current assets		41,668	58,298
Total current assets		946,660	906,635
Non-current assets			
Property, plant and equipment		252,510	241,882
Right-of-use assets		117,794	113,465
Goodwill		5,876	5,726
Intangible assets		121,265	118,719
Investment property		144,183	142,022
Investments accounted for using equity method		48,460	53,584
Other financial assets	10	49,056	47,339
Deferred tax assets		70,455	70,128
Other non-current assets		76,632	74,804
Total non-current assets		886,231	867,669
Total assets		1,832,891	1,774,304

(Translation purposes only)

		(Millions of yen)	
	Notes	As of March 31, 2021	As of September 30, 2021
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	10	234,451	203,665
Bonds and borrowings	10	158,377	136,507
Lease liabilities		17,630	17,128
Other financial liabilities	10	11,742	8,805
Income taxes payable		5,125	10,329
Contract liabilities		165,818	171,474
Provisions		26,738	24,516
Other current liabilities		144,907	127,144
Total current liabilities		764,788	699,568
Non-current liabilities			
Bonds and borrowings	10	304,735	296,315
Lease liabilities		125,193	120,492
Other financial liabilities	10	103,428	107,192
Deferred tax liabilities		3,132	3,146
Retirement benefit liability		180,720	182,720
Provisions		6,338	7,181
Other non-current liabilities		16,830	16,186
Total non-current liabilities		740,376	733,232
Total liabilities		1,505,164	1,432,800
Equity			
Share capital		107,165	107,165
Capital surplus		51,735	46,982
Retained earnings		148,428	162,382
Treasury shares		(15,953)	(8,847)
Other components of equity		9,394	10,539
Total equity attributable to owners of parent		300,769	318,221
Non-controlling interests		26,958	23,283
Total equity		327,727	341,504
Total liabilities and equity		1,832,891	1,774,304

(Translation purposes only)

(2) Condensed quarterly consolidated statement of profit or loss and consolidated statement of comprehensive income

Condensed quarterly consolidated statement of profit or loss

Six months ended September 30, 2020 and 2021

(Millions of yen)

	Notes	Six months ended September 30, 2020	Six months ended September 30, 2021
Revenue	5,7	481,706	516,548
Cost of sales		407,918	428,724
Gross profit		73,788	87,824
Selling, general and administrative expenses		77,023	82,226
Other income	8	3,590	23,522
Other expenses		6,456	2,744
Operating profit (loss)	5	(6,101)	26,376
Finance income		924	1,798
Finance costs		4,354	2,426
Share of profit of investments accounted for using equity method		729	865
Profit (loss) before tax		(8,802)	26,613
Income tax expense		(795)	9,468
Profit (loss)		<u>(8,007)</u>	<u>17,145</u>
Profit (loss) attributable to:			
Owners of parent		(9,779)	15,171
Non-controlling interests		1,772	1,974
Profit (loss)		<u>(8,007)</u>	<u>17,145</u>
Earnings (loss) per share			
Basic earnings (loss) per share (Yen)	9	(65.80)	101.68
Diluted earnings (loss) per share (Yen)	9	(65.80)	101.67

(Translation purposes only)

Three months ended September 30, 2020 and 2021

(Millions of yen)

	Notes	Three months ended September 30, 2020	Three months ended September 30, 2021
Revenue		264,112	271,286
Cost of sales		219,473	222,487
Gross profit		44,639	48,799
Selling, general and administrative expenses		39,895	41,808
Other income		2,269	542
Other expenses		5,198	1,416
Operating profit		1,815	6,117
Finance income		259	1,657
Finance costs		2,348	1,256
Share of profit of investments accounted for using equity method		(1,611)	(1,651)
Profit (loss) before tax		(1,885)	4,867
Income tax expense		654	3,062
Profit (loss)		(2,539)	1,805
Profit (loss) attributable to:			
Owners of parent		(3,612)	992
Non-controlling interests		1,073	813
Profit (loss)		(2,539)	1,805
Earnings (loss) per share			
Basic earnings (loss) per share (Yen)	9	(24.31)	6.62
Diluted earnings (loss) per share (Yen)	9	(24.31)	6.62

(Translation purposes only)

Condensed quarterly consolidated statement of comprehensive income

Six months ended September 30, 2020 and 2021

(Millions of yen)

	Notes	Six months ended September 30, 2020	Six months ended September 30, 2021
Profit (loss)		(8,007)	17,145
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	10	649	(6)
Remeasurements of defined benefit plans		183	(118)
Other comprehensive income of investments accounted for using equity method		39	139
Total of items that will not be reclassified to profit or loss		<u>871</u>	<u>15</u>
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		759	438
Cash flow hedges		(32)	(68)
Other comprehensive income of investments accounted for using equity method		(217)	179
Total of items that may be reclassified to profit or loss		<u>510</u>	<u>549</u>
Other comprehensive income, net of tax		<u>1,381</u>	<u>564</u>
Comprehensive income		<u>(6,626)</u>	<u>17,709</u>
Comprehensive income attributable to:			
Owners of parent		(8,484)	15,606
Non-controlling interests		<u>1,858</u>	<u>2,103</u>
Comprehensive income		<u>(6,626)</u>	<u>17,709</u>

(Translation purposes only)

Three months ended September 30, 2020 and 2021

(Millions of yen)

	Notes	Three months ended September 30, 2020	Three months ended September 30, 2021
Profit (loss)		(2,539)	1,805
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	10	318	187
Remeasurements of defined benefit plans		—	58
Other comprehensive income of investments accounted for using equity method		7	114
Total of items that will not be reclassified to profit or loss		<u>325</u>	<u>359</u>
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(397)	(57)
Cash flow hedges		(58)	34
Other comprehensive income of investments accounted for using equity method		(226)	192
Total of items that may be reclassified to profit or loss		<u>(681)</u>	<u>169</u>
Other comprehensive income, net of tax		<u>(356)</u>	<u>528</u>
Comprehensive income		<u>(2,895)</u>	<u>2,333</u>
Comprehensive income attributable to:			
Owners of parent		(3,955)	1,479
Non-controlling interests		1,060	854
Comprehensive income		<u>(2,895)</u>	<u>2,333</u>

(Translation purposes only)

(3) Condensed quarterly consolidated statement of changes in equity

Six months ended September 30, 2020

(Millions of yen)

	Notes	Equity attributable to owners of parent						
		Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity		
						Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2020		107,165	51,779	136,516	(15,899)	(5,067)	(255)	5,406
Profit (loss)				(9,779)				
Other comprehensive income						378	51	683
Total comprehensive income		–	–	(9,779)	–	378	51	683
Purchase of treasury shares					(312)			
Disposal of treasury shares			4		212			
Dividends	6			(2,980)				
Share-based remuneration transactions			(105)					
Changes in ownership interest in subsidiaries								
Transfer from other components of equity to retained earnings				196				(13)
Other				(96)		(21)		
Total transactions with owners		–	(101)	(2,880)	(100)	(21)	–	(13)
Balance as of September 30, 2020		107,165	51,678	123,857	(15,999)	(4,710)	(204)	6,076

	Notes	Equity attributable to owners of parent					Non-controlling interests	Total
		Other components of equity			Total	Total		
		Remeasurements of defined benefit plans	Share acquisition rights	Total				
Balance as of April 1, 2020		–	533	617	280,178	25,862	306,040	
Profit (loss)				–	(9,779)	1,772	(8,007)	
Other comprehensive income		183		1,295	1,295	86	1,381	
Total comprehensive income		183	–	1,295	(8,484)	1,858	(6,626)	
Purchase of treasury shares				–	(312)		(312)	
Disposal of treasury shares			(84)	(84)	132		132	
Dividends	6			–	(2,980)	(1,069)	(4,049)	
Share-based remuneration transactions				–	(105)		(105)	
Changes in ownership interest in subsidiaries				–	–	36	36	
Transfer from other components of equity to retained earnings		(183)		(196)	–		–	
Other				(21)	(117)	(73)	(190)	
Total transactions with owners		(183)	(84)	(301)	(3,382)	(1,106)	(4,488)	
Balance as of September 30, 2020		–	449	1,611	268,312	26,614	294,926	

(Translation purposes only)

Six months ended September 30, 2021

(Millions of yen)

	Notes	Equity attributable to owners of parent					Other components of equity	
		Share capital	Capital surplus	Retained earnings	Treasury shares	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2021		107,165	51,735	148,428	(15,953)	1,102	(61)	7,939
Profit (loss)				15,171				
Other comprehensive income						472	(47)	128
Total comprehensive income		–	–	15,171	–	472	(47)	128
Purchase of treasury shares					(104)			
Disposal of treasury shares					117			
Dividends	6							
Share-based remuneration transactions			(70)					
Changes in ownership interest in subsidiaries			(4,683)		7,093			
Transfer from other components of equity to retained earnings				(873)				755
Other				(344)			(46)	
Total transactions with owners		–	(4,753)	(1,217)	7,106	–	(46)	755
Balance as of September 30, 2021		107,165	46,982	162,382	(8,847)	1,574	(154)	8,822

	Notes	Equity attributable to owners of parent			Total	Non-controlling interests	Total
		Other components of equity		Total			
		Remeasurements of defined benefit plans	Share acquisition rights	Total			
Balance as of April 1, 2021		–	414	9,394	300,769	26,958	327,727
Profit (loss)				–	15,171	1,974	17,145
Other comprehensive income		(118)		435	435	129	564
Total comprehensive income		(118)	–	435	15,606	2,103	17,709
Purchase of treasury shares				–	(104)		(104)
Disposal of treasury shares			(117)	(117)	–		–
Dividends	6			–	–	(3,410)	(3,410)
Share-based remuneration transactions				–	(70)		(70)
Changes in ownership interest in subsidiaries				–	2,410	(2,366)	44
Transfer from other components of equity to retained earnings		118		873	–		–
Other				(46)	(390)	(2)	(392)
Total transactions with owners		118	(117)	710	1,846	(5,778)	(3,932)
Balance as of September 30, 2021		–	297	10,539	318,221	23,283	341,504

(Translation purposes only)

(4) Condensed quarterly consolidated statement of cash flows

		(Millions of yen)	
	Notes	Six months ended September 30, 2020	Six months ended September 30, 2021
Cash flows from operating activities			
Profit (loss) before tax		(8,802)	26,613
Depreciation, amortization and impairment losses		41,030	36,914
Finance income and finance costs		972	1,118
Share of loss (profit) of investments accounted for using equity method		(729)	(865)
Loss (gain) on sale of property, plant and equipment, intangible assets and investment property		(1,650)	(21,871)
Decrease (increase) in trade receivables		70,986	55,963
Decrease (increase) in contract assets		(20,598)	(12,440)
Decrease (increase) in inventories and prepayments		(43,339)	(36,434)
Increase (decrease) in trade payables		(48,939)	(26,081)
Increase (decrease) in contract liabilities		14,306	5,598
Other		(40,690)	(25,852)
Subtotal		(37,453)	2,663
Interest received		179	194
Dividends received		814	880
Interest paid		(2,493)	(1,837)
Income taxes paid		(9,159)	(1,713)
Net cash provided by (used in) operating activities		(48,112)	187
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets and investment property		(33,083)	(19,098)
Proceeds from sale of property, plant and equipment, intangible assets and investment property	8	7,232	24,952
Purchase of investments (including investments accounted for using equity method)		(572)	(2,694)
Proceeds from sale and redemption of investments (including investments accounted for using equity method)		206	13
Proceeds from sale of equity interest in subsidiaries		310	144
Other		(3,336)	(602)
Net cash provided by (used in) investing activities		(29,243)	2,715
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings		(59,916)	(5,576)
Net increase (decrease) in commercial papers		27,000	—
Proceeds from long-term borrowings		61,501	4,347
Repayments of long-term borrowings		(19,688)	(19,516)
Proceeds from issuance of bonds		30,000	—
Redemption of bonds		(10,000)	(10,000)
Repayments of lease liabilities		(9,359)	(9,867)
Decrease (increase) in treasury shares		131	(3)
Dividends paid	6	(2,975)	(5)
Capital contribution from non-controlling interests		36	45
Dividends paid to non-controlling interests		(1,143)	(3,409)
Increase in other financial liabilities		543	508
Decrease in other financial liabilities		(431)	(535)
Other		(179)	137
Net cash provided by (used in) financing activities		15,520	(43,874)
Effect of exchange rate changes on cash and cash equivalents		953	61
Net increase (decrease) in cash and cash equivalents		(60,882)	(40,911)
Cash and cash equivalents at beginning of period		145,738	120,766
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation		(10)	—
Cash and cash equivalents at end of period		84,846	79,855

(Translation purposes only)

Notes to condensed quarterly consolidated financial statements

1. Reporting entity

IHI is a stock company located in Japan and incorporated in accordance with the Companies Act of Japan. IHI's condensed quarterly consolidated financial statements consist of accounts of IHI and its subsidiaries, as well as IHI's interests in its associates.

The IHI Group operates four main businesses, providing a diverse range of products. The four businesses are: Resources, Energy and Environment; Social Infrastructure and Offshore Facilities; Industrial Systems and General-Purpose Machinery; and Aero Engine, Space and Defense.

2. Basis of preparation

(1) Compliance with IFRS

The condensed quarterly consolidated financial statements of the IHI Group are prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* pursuant to the Article 93 of the Regulation on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Order No.64 of 2007) as it meets the requirements for a "specified company complying with designated international accounting standards" as prescribed in Article 1-2 of said Regulation.

The condensed quarterly consolidated financial statements do not contain all the information required by the annual consolidated financial statements and should be used in conjunction with the consolidated financial statements for the previous fiscal year.

The condensed quarterly consolidated financial statements were approved by Hiroshi Ide, President and Chief Executive Officer, on November 11, 2021.

(2) Basis of measurement

The IHI Group's condensed quarterly consolidated financial statements have been prepared on the acquisition cost basis, except for certain financial instruments, etc. that are measured at fair value.

(3) Functional currency and presentation currency

The presentation currency of the IHI Group's condensed quarterly consolidated financial statements is Japanese yen, which is also its functional currency, and figures less than one million yen are rounded off to the nearest unit.

3. Significant accounting policies

Significant accounting policies applied by the IHI Group in the condensed quarterly consolidated financial statements are the same as those in the consolidated financial statements for the previous fiscal year.

Income taxes for the condensed quarterly consolidated financial statements are calculated based on the estimated annual effective tax rate.

4. Significant accounting judgements, estimates and assumptions

In preparing the condensed consolidated financial statements in accordance with IFRS, the management is required to make judgments, estimates, and assumptions that affect the adoption of accounting policies and the amounts of assets, liabilities, revenues, and expenses. The IHI Group uses rational methods to make such judgments and estimates, but estimates are inherently subject to uncertainties, and those uncertainties may influence the IHI Group's operating results and financial position as recognized in future.

The estimates and their underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods.

Significant accounting judgements, estimates and assumptions including the impact of the spread of COVID-19 in the condensed consolidated financial statements are the same as those in the consolidated financial statements for the previous fiscal year.

5. Segment information

(1) Overview of reportable segments

The business segments are constituent units of the IHI Group for which separate financial information is available. The Board of Directors periodically examines these segments for the purpose of deciding the allocation of management resources and evaluating operating performance.

The IHI Group organizes SBUs by products and services and allocates business areas to control these SBUs. Each business area manages and supervises the SBUs' execution of business strategies and allocates management resources necessary for execution of the SBUs' business strategies. SBUs act consistent business process including sales, development, design, production, construction, service, etc. based on the visions and strategies drawn up by business area. Each SBU is an organization executing business and responsible for ensuring a profit in the SBU.

Based on the above, the IHI Group consists of segments by these business areas and sets the business areas of "Resources, Energy and Environment," "Social Infrastructure and Offshore Facilities," "Industrial Systems and General-Purpose Machinery," and "Aero Engine, Space and Defense" as its reportable segments. There are no aggregated business segments when deciding these reportable segments.

(Translation purposes only)

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

Reportable segments	Main businesses, products and services
Resources, Energy and Environment	Power systems (power systems plants for land use and power systems for ships), Carbon solutions, Nuclear energy (components for nuclear power plants)
Social Infrastructure and Offshore Facilities	Bridges and water gates, Transport systems, Shield systems, Concrete construction materials, Urban development (real estate sales and rental)
Industrial Systems and General-Purpose Machinery	Vehicular turbochargers, Parking, Rotating machineries (compressors, separation systems, turbochargers for ships), Heat treatment and surface engineering, Transport machineries, Logistics and industrial systems (logistics systems, industrial machineries)
Aero Engine, Space and Defense	Aero engines, Rocket systems and space utilization systems, Defense systems

(2) Information about reportable segments

The IHI Group's information about reportable segments are as follows:
Intersegment revenue and transfers are based on actual market pricing.

Six months ended September 30, 2020

(Millions of yen)

	Reportable Segments				Total	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General- Purpose Machinery	Aero Engine, Space and Defense					
Revenue									
Revenue from external customers	141,622	63,125	166,005	98,118	468,870	12,836	481,706	–	481,706
Intersegment revenue and transfers	872	2,327	6,440	1,131	10,770	9,179	19,949	(19,949)	–
Total	142,494	65,452	172,445	99,249	479,640	22,015	501,655	(19,949)	481,706
Segment profit (loss) (Note 3)	4,162	5,604	120	(16,860)	(6,974)	816	(6,158)	57	(6,101)

- 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 (loss) represents intersegment transactions of ¥464 million and unallocated corporate expenses of ¥ (407) million.
3. Segment profit (loss) is adjusted with operating profit (loss) in the condensed quarterly consolidated financial statement of profit or loss.

(Translation purposes only)

Six months ended September 30, 2021

(Millions of yen)

	Reportable Segments				Total	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General- Purpose Machinery	Aero Engine, Space and Defense					
Revenue									
Revenue from external customers	158,687	65,960	170,534	106,736	501,917	14,631	516,548	–	516,548
Intersegment revenue and transfers	1,028	3,980	5,437	1,533	11,978	9,925	21,903	(21,903)	–
Total	159,715	69,940	175,971	108,269	513,895	24,556	538,451	(21,903)	516,548
Segment profit (loss) (Note 3)	8,064	4,011	5,542	(12,324)	5,293	1,463	6,756	19,620	26,376

- 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 (loss) represents intersegment transactions of ¥ (100) million and unallocated corporate income of ¥19,720 million. Unallocated corporate income mainly consists of gain on sale of property, plant and equipment and gain on sale of investment property.
3. Segment profit (loss) is adjusted with operating profit (loss) in the condensed quarterly consolidated financial statement of profit or loss.

(Translation purposes only)

6. Dividends

The dividends paid are as follows:

Six months ended September 30, 2020 (From April 1, 2020 to September 30, 2020)

Resolution	Classes of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 25, 2020	Ordinary shares	2,980	20	March 31, 2020	June 26, 2020

Note: Total dividends paid in accordance with the resolution passed at the Ordinary General Meeting of Shareholders held on June 25, 2020 include ¥8 million of dividends for the shares of IHI owned by a trust account for the Board Benefit Trust.

Six months ended September 30, 2021 (From April 1, 2021 to September 30, 2021)

Not applicable

Dividends with effective date after the end of the second quarter of the fiscal year are as follows:

Six months ended September 30, 2020 (From April 1, 2020 to September 30, 2020)

Not applicable

Six months ended September 30, 2021 (From April 1, 2021 to September 30, 2021)

Resolution	Classes of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Meeting of the Board of Directors held on November 9, 2021	Ordinary shares	4,555	30	September 30, 2021	December 10, 2021

Note: Total dividends paid in accordance with the resolution passed at the Meeting of the Board of Directors held on November 9, 2021 include ¥18 million of dividends for the shares of IHI owned by a trust account for the Board Benefit Trust.

(Translation purposes only)

7. Revenue

Disaggregation of revenue recognized from contracts with customers and other sources of revenue, and revenue by major type of goods or services and regional market and the relationships with reportable segments are as follows:

Six months ended September 30, 2020

(1) Revenue recognized from contracts with customers and other sources of revenue

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Revenue recognized from contracts with customers	141,622	54,381	165,952	97,946	459,901	12,525	472,426
Revenue recognized from other sources of revenue	–	8,744	53	172	8,969	311	9,280
Total	141,622	63,125	166,005	98,118	468,870	12,836	481,706

Revenue recognized from other sources of revenue includes lease income under IFRS 16 *Leases* (hereinafter, “IFRS 16”).

(2) Breakdown by type of goods or services

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Power systems	38,380				38,380		38,380
Carbon solutions (Note)	78,740				78,740		78,740
Nuclear energy	10,029				10,029		10,029
Bridges and water gates		31,218			31,218		31,218
Shield systems		9,132			9,132		9,132
Urban development		11,442			11,442		11,442
Vehicular turbochargers			66,035		66,035		66,035
Parking			20,598		20,598		20,598
Rotating machineries			23,081		23,081		23,081
Heat treatment and surface engineering			13,736		13,736		13,736
Transport machineries			19,782		19,782		19,782
Civil aero engines				45,131	45,131		45,131
Other	17,549	13,968	29,860	59,157	120,534	22,015	142,549
Intersegment revenue	(3,076)	(2,635)	(7,087)	(6,170)	(18,968)	(9,179)	(28,147)
Revenue from external customers	141,622	63,125	166,005	98,118	468,870	12,836	481,706

Note: The IHI Group rearranged the type of goods or services in the first quarter ended June 30, 2021. As a result, the items in the previous corresponding period were reclassified and presented.

(Translation purposes only)

(3) Breakdown by region

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Japan	92,079	49,283	90,208	52,708	284,278	10,828	295,106
North America	11,249	—	6,510	39,886	57,645	134	57,779
Asia	33,516	11,711	52,746	3,014	100,987	260	101,247
Europe	1,156	2,123	14,102	2,238	19,619	1,418	21,037
Central and South America	389	—	2,251	246	2,886	—	2,886
Other	3,233	8	188	26	3,455	196	3,651
Overseas	49,543	13,842	75,797	45,410	184,592	2,008	186,600
Revenue from external customers	141,622	63,125	166,005	98,118	468,870	12,836	481,706

Six months ended September 30, 2021

(1) Revenue recognized from contracts with customers and other sources of revenue

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Revenue recognized from contracts with customers	158,687	57,419	170,531	106,563	493,200	14,319	507,519
Revenue recognized from other sources of revenue	—	8,541	3	173	8,717	312	9,029
Total	158,687	65,960	170,534	106,736	501,917	14,631	516,548

Revenue recognized from other sources of revenue includes lease income under IFRS 16.

(2) Breakdown by type of goods or services

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Power systems	38,416				38,416		38,416
Carbon solutions	76,403				76,403		76,403
Nuclear energy	16,343				16,343		16,343
Bridges and water gates		33,637			33,637		33,637
Shield systems		12,080			12,080		12,080
Urban development		9,606			9,606		9,606
Vehicular turbochargers			70,299		70,299		70,299
Parking			19,609		19,609		19,609
Rotating machineries			23,718		23,718		23,718
Heat treatment and surface engineering			18,689		18,689		18,689
Transport machineries			16,428		16,428		16,428
Civil aero engines				54,094	54,094		54,094
Other	32,146	14,748	27,738	61,360	135,992	24,556	160,548
Intersegment revenue	(4,621)	(4,111)	(5,947)	(8,718)	(23,397)	(9,925)	(33,322)
Revenue from external customers	158,687	65,960	170,534	106,736	501,917	14,631	516,548

(Translation purposes only)

(3) Breakdown by region

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Japan	85,150	50,348	88,400	54,003	277,901	11,087	288,988
North America	13,458	—	7,991	47,952	69,401	(135)	69,266
Asia	54,127	11,964	47,952	999	115,042	1,003	116,045
Europe	2,093	3,648	19,499	3,905	29,145	2,502	31,647
Central and South America	198	—	6,349	(129)	6,418	2	6,420
Other	3,661	—	343	6	4,010	172	4,182
Overseas	73,537	15,612	82,134	52,733	224,016	3,544	227,560
Revenue from external customers	158,687	65,960	170,534	106,736	501,917	14,631	516,548

The IHI Group consists of segments by business area and sets the business areas of Resources, Energy and Environment; Social Infrastructure and Offshore Facilities; Industrial Systems and General-Purpose Machinery; and Aero Engine, Space and Defense, and is engaged in the sale of goods, execution of construction and rendering of services in each business area.

The primary method to record revenue for each segment is as follows:

- Resources, Energy and Environment and Social Infrastructure and Offshore Facilities

For revenue from sale of goods, the IHI Group determines that performance obligations have been satisfied when customers obtain control of the goods upon its delivery. Hence, revenue from sale of goods is usually recognized upon the delivery of goods.

With regard to the execution of construction contracts and rendering of services including maintenance services, the IHI Group determines that performance obligations are satisfied over time, and revenue is recognized by measuring the progress towards complete satisfaction of said performance obligations to provide such services to customers.

The progress is measured by specifying the satisfaction of performance obligations. Measurements are estimated based on the ratio of the costs incurred to satisfy the performance obligations against the total expected costs to fully satisfy the contractual obligations.

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.

- Industrial Systems and General-Purpose Machinery and Aero Engine, Space and Defense

In the sale of goods mainly in the Civil aero engines Business and the Vehicular turbochargers Business, the IHI Group determines that performance obligations have been satisfied when customers obtain control of the goods upon its delivery. Hence, revenue from sale of goods is usually recognized upon the delivery of goods.

In the Civil aero engines Business, revenue decreased after estimating the costs to be borne in connection with the civil aero engine programs in which IHI participates, which are deducted revenue as consideration paid to customers.

Furthermore, "Revenue" decreased during reversal as consideration prepaid by customers was recorded in "Other non-current assets".

When certain refund obligations to customers are expected to arise, such as compensation for damages incurred in association with performance of contracts, the IHI Group reduces revenue to the extent of the estimated refund liability.

The consideration of a transaction is generally received based on the progress for each performance obligation satisfied over time, such as a milestone in the case of a construction contract. The consideration for the sale of goods or rendering of services is mostly received within one year after the performance obligation is satisfied.

In either case, the contract does not include a significant financing component.

Further, IHI provides warranties assuring that a product satisfies specifications as provided in the contract. However, IHI does not identify this warranty as a separate performance obligation because it does not provide a distinct service.

(Translation purposes only)

8. Other income

The breakdown of other income is as follows:

(Millions of yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Gain on sale of property, plant and equipment	1,650	(Note 1) 16,276
Gain on sale of investment property	–	(Note 2) 5,595
Other	1,940	1,651
Total	3,590	23,522

Notes: 1. Gain on sale of property, plant and equipment

IHI decided to transfer certain non-current assets aiming at securing funds for investment for creating growth businesses to contribute to materialize social sustainability on the basis of “Project Change” announced on November 10, 2020.

Accordingly, IHI has recorded gain on sale of property, plant and equipment in “Other income.”

(Millions of yen)

Details and location of assets	Gain on sale of property, plant and equipment
Land and buildings (including incidental non-current assets) 11-1, Kitahama-machi, Chita-city, Aichi, Japan (approximately 393,300 m ²)	16,179
Other	97

Notes: 2. Gain on sale of investment property

IHI decided to transfer the investment property aiming at securing funds for investment for creating growth businesses to contribute to materialize social sustainability on the basis of “Project Change” announced on November 10, 2020.

Accordingly, IHI has recorded gain on sale of investment property in “Other income.”

(Millions of yen)

Details and location of assets	Gain on sale of investment property
Investment property (trust beneficiary right) Showa-machi, Kanazawa-ku, Yokohama-city, Kanagawa, Japan (approximately 26,700 m ²)	5,595

(Translation purposes only)

9. Earnings per share

(1) Basis for calculating basic earnings per share

(Millions of yen, unless otherwise stated)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Profit (loss) attributable to owners of parent	(9,779)	15,171
Profit not attributable to ordinary shareholders of parent	–	–
Profit (loss) used for calculating basic earnings (loss) per share	(9,779)	15,171
Weighted-average number of ordinary shares (Thousands of shares)	148,616	149,199
Basic earnings (loss) per share (Yen)	(65.80)	101.68

	Three months ended September 30, 2020	Three months ended September 30, 2021
Profit (loss) attributable to owners of parent	(3,612)	992
Profit not attributable to ordinary shareholders of parent	–	–
Profit (loss) used for calculating basic earnings (loss) per share	(3,612)	992
Weighted-average number of ordinary shares (Thousands of shares)	148,588	149,881
Basic earnings (loss) per share (Yen)	(24.31)	6.62

(2) Basis for calculating diluted earnings per share

(Millions of yen, unless otherwise stated)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Profit (loss) used for calculating basic earnings (loss) per share	(9,779)	15,171
Adjustment to profit (loss)	–	–
Profit (loss) used to calculate diluted earnings (loss) per share	(9,779)	15,171
Weighted-average number of ordinary shares (Thousands of shares)	148,616	149,199
Increase in ordinary shares		
Share acquisition rights (Thousands of shares)	–	15
Weighted-average number of ordinary shares after dilution (Thousands of shares)	148,616	149,214
Diluted earnings (loss) per share (Yen)	(65.80)	101.67

	Three months ended September 30, 2020	Three months ended September 30, 2021
Profit (loss) used for calculating basic earnings (loss) per share	(3,612)	992
Adjustment to profit (loss)	–	–
Profit (loss) used to calculate diluted earnings (loss) per share	(3,612)	992
Weighted-average number of ordinary shares (Thousands of shares)	148,588	149,881
Increase in ordinary shares		
Share acquisition rights (Thousands of shares)	–	16
Weighted-average number of ordinary shares after dilution (Thousands of shares)	148,588	149,896
Diluted earnings (loss) per share (Yen)	(24.31)	6.62

Note: Shares of IHI owned by a trust account for the Board Benefit Trust are included in the number of shares issued at the end of the second quarter ended September 30, 2021 and the number of treasury shares excluded for the calculation of the weighted-average number of ordinary shares.

The weighted-average number of ordinary shares as treasury shares excluded for the calculation of basic earnings per share and diluted earnings per share is 569 thousand shares for the six months ended September 30, 2021, (428 thousand shares for the six months ended September 30, 2020), 586 thousand shares for the three months ended September 30, 2021, (461 thousand shares for the three months ended September 30, 2020).

(Translation purposes only)

10. Fair value of financial instruments

The fair value measurements of financial instruments measured at fair value are categorized into the following three levels based on the observability and significance of inputs used to measure such financial instruments.

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets
- Level 2: Fair value, other than Level 1, that is determined by directly or indirectly using the observable price
- Level 3: Fair value determined by using valuation techniques that incorporate unobservable inputs

(1) Measurement method for fair value

The measurement method for fair value of financial instruments is as follows.

(Cash and cash equivalents, trade and other receivables and trade and other payables)

The fair value of these accounts is assumed to be approximate to their carrying amount due to the short-term maturity. Thus, the carrying amount is used as fair value.

(Bonds and borrowings)

The fair value of bonds is determined based on the market prices or prices provided by financial and other institutions with which the IHI Group does business.

The fair value of borrowings is determined based on the present value of future cash flows discounted at the interest rate to be applied if similar new contracts were entered into.

These liabilities are classified as Level 2.

(Government grants classified under contingent settlement provisions)

The fair value of government grants classified under contingent settlement provisions is determined based on the present value of future cash flows discounted at the interest rate to be applied if similar new contracts were entered into.

These liabilities are classified as Level 2.

(Other financial assets and other financial liabilities)

Derivatives are measured as financial assets or liabilities measured at fair value through profit or loss based on prices provided by the counterparty financial institutions and classified as Level 2.

The fair value of marketable shares and investments in capital are calculated based on the market price at the account closing date and classified as Level 1.

The fair value of non-marketable shares and investments in capital are mainly calculated by the valuation technique using the net asset value, while a portion of shares and investments in capital are calculated by the valuation technique using quoted market prices of comparable companies, and in both cases, they are classified as Level 3.

The significant unobservable inputs are mainly illiquidity discounts, and when illiquidity discounts rise, the fair value falls. The illiquidity discount that is used is 30%.

(Translation purposes only)

(2) Financial instruments measured at amortized cost

The carrying amounts and fair values of financial instruments measured at amortized cost are as follows:

(Millions of yen)

	As of March 31, 2021		As of September 30, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Borrowings	383,355	383,407	363,036	362,831
Bonds payable	79,757	79,622	69,786	69,566
Government grants classified under contingent settlement provisions	101,865	99,771	102,590	100,523
Total	564,977	562,800	535,412	532,920

(3) Financial instruments measured at fair value

The fair value hierarchy for financial instruments measured at fair value is as follows:

As of March 31, 2021

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Derivatives	–	319	–	319
Other	–	1,157	2,449	3,606
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	10,710	–	21,141	31,851
Total	10,710	1,476	23,590	35,776
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives	–	940	–	940
Total	–	940	–	940

(Translation purposes only)

As of September 30, 2021

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Derivatives	–	155	–	155
Other	–	1,198	2,522	3,720
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	11,436	–	18,861	30,297
Total	11,436	1,353	21,383	34,172
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives	–	984	–	984
Total	–	984	–	984

Transfers between levels of the fair value hierarchy are recognized on the day when the event or change in circumstances that caused the transfer occurred. The IHI Group did not recognize any significant transfers between Level 1 and Level 2 for the previous fiscal year and the six months ended September 30, 2021.

(4) Valuation processes

For financial instruments classified as Level 3, the staff determines the valuation method of target financial instruments and measures the fair value in accordance with the valuation policy and procedures set by the IHI Group. The fair value measurement result is approved by the responsible person.

(5) Reconciliation of financial instruments classified as Level 3 from the beginning to the end of the second quarter.

Changes in financial instruments classified as Level 3 from the beginning to the end of the second quarter are as follows:

(Millions of yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Balance at beginning of period	22,779	23,590
Total gains and losses		
Profit or loss (Note 1)	(104)	85
Other comprehensive income (Note 2)	574	439
Purchases	225	60
Sales	(196)	(157)
Transfer from Level 3	–	–
Other (Note 3)	(512)	(2,634)
Balance at end of period	22,766	21,383
Changes in unrealized gains or losses recorded in profit or loss on assets held at the end of the reporting period (Note 1)	(104)	85

- Notes:
1. Included in “Finance income” and “Finance costs” in the condensed quarterly consolidated statement of profit or loss.
 2. Included in “Financial assets measured at fair value through other comprehensive income” in the condensed quarterly consolidated statement of comprehensive income.
 3. The impact of change in scope of consolidation is included.

(Translation purposes only)

11. Contingent liabilities

(1) Debt guarantees and guarantees in kind

The IHI Group provides debt guarantees and guarantees in kind for borrowings from financial and other institutions taken out by companies such as business counterparties and entities accounted for using the equity method.

There were no significant changes compared to the contents stated in the consolidated financial statements for the previous fiscal year at the end of second quarter ended September 30, 2021.

(2) Other contingent liabilities

There was a construction delay involving a process plant project in North America that was ordered to the consolidated subsidiary IHI E&C International Corporation (hereinafter, "IHI E&C") in the U.S., in 2016. The process plant has been delivered to a customer, and commercial operation of LNG shipping equipment has started by the customer on August 26, 2020.

The IHI Group recognizes that the delay was caused by the customer's circumstances and has continued negotiations enlisting the perspective that additional costs incurred due to the delay could be charged to the customer based on the contract. In 2019, inter-party discussions were held based on the contract terms with the customer, and in March and October 2020 in accordance with the contract terms as the next step, the IHI Group has sincerely held discussions through mediation including third party. However, since no agreement was reached, the IHI Group determined that the discussions had reached a stage where there was no option left but to refer the dispute resolution to the court proceedings in the local court based on the contract terms. As a result, on December 4, 2020, the IHI Group has filed a lawsuit with the local court seeking to have the customer pay approximately 227 million U.S. dollars (approximately ¥25.4 billion at an exchange rate of 111.92 yen to the U.S. dollar) as a claim for a higher contracted amount primarily on the grounds of breach of contract. Meanwhile, on December 4, 2019, at the stage of aforementioned inter-party discussion, IHI E&C received a letter of claim for payment of 117 million U.S. dollars (approximately ¥13.1 billion at an exchange rate of 111.92 yen to the U.S. dollar) from the customer for liquidated damages contractually stipulated in the case of delayed delivery (hereinafter, the "Invoice amount"). However, at this stage, the specific amount charged to IHI E&C by the customer has yet to be disclosed in the ongoing trial. At this point, because it is difficult to reasonably estimate the amount of the effect on the financial position and operating results, the effect of the matter of the Invoice amount has not been reflected in the condensed quarterly consolidated financial statements.

Moreover, it is not possible to predict the outcome of this lawsuit at this point, and detailed disclosure regarding these matters is not being made as it may have a significant impact on the development of this lawsuit.

12. Subsequent events

Not applicable

2. Others

At the Board of Directors' meeting held on November 9, 2021, the following details concerning the interim dividend were resolved.

Total amount allocated for the interim dividend	4,555 millions of yen
Dividends per share	30 yen
Effective date and payment date	December 10, 2021

Note: The interim dividend is paid to shareholders or registered pledgees of shares whose names are written in the shareholder register as of September 30, 2021.

(Translation purposes only)

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

Not applicable