

Quarterly Securities Report

(The First Quarter of 207th Term)

From April 1, 2023 to June 30, 2023

IHI Corporation

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Fiscal year	The First quarter of 207th term (from April 1, 2023 to June 30, 2023)
Company name	株式会社IHI (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
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Name of contact person	Naohiko Kubota, Head of Accounting Group, Finance & Accounting Division
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo, Japan)

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

Part 1. Company information

I. Overview of company

1. Summary of business results

(1) Business results of group (Consolidated)

Term	206th term Three months ended June 30, 2022	207th term Three months ended June 30, 2023	206th term
Accounting period	From April 1, 2022 To June 30, 2022	From April 1, 2023 To June 30, 2023	From April 1, 2022 To March 31, 2023
Revenue (Millions of yen)	264,290	298,457	1,352,940
Operating profit (loss) (Millions of yen)	7,553	8,929	81,985
Profit (loss) before tax (Millions of yen)	16,902	12,731	64,865
Profit (loss) attributable to owners of parent (Millions of yen)	8,494	5,606	44,545
Comprehensive income attributable to owners of parent (Millions of yen)	17,015	17,980	61,670
Equity attributable to owners of parent (Millions of yen)	392,956	441,512	431,245
Total assets (Millions of yen)	1,865,869	1,988,868	1,941,964
Basic earnings (loss) per share (Yen)	56.15	36.96	294.48
Diluted earnings (loss) per share (Yen)	56.15	36.96	294.44
Ratio of equity attributable to owners of parent (%)	21.06	22.20	22.21
Cash flows from operating activities (Millions of yen)	(5,336)	(59,541)	54,116
Cash flows from investing activities (Millions of yen)	(10,653)	(13,884)	(52,347)
Cash flows from financing activities (Millions of yen)	(30,596)	55,438	(24,043)
Cash and cash equivalents at end of period (Millions of yen)	100,845	108,648	124,743

- 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.

2. Description of business

IHI and its affiliated companies (144 consolidated subsidiaries and 28 associates accounted for using the equity method as of June 30, 2023) operate four main businesses, providing a diverse range of products. The four businesses are: Resources, Energy and Environment; Social Infrastructure; Industrial Systems and General-Purpose Machinery; and Aero Engine, Space and Defense. In the three months ended June 30, 2023, 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, 2024, one subsidiary of IHI Power Systems Co.,Ltd. Institution became no longer an affiliated company of IHI because of the transfer of its shares to the third party.

II. Overview of business

1. Business risks

There were no new occurrences of business risks in the three months ended June 30, 2023.

Although there were no significant changes with respect to the business risks stated in the Annual Securities Report for the previous fiscal year, heightened global geopolitical risks, including the protracted invasion of Ukraine by the Russian Federation and the political feud between the United States and China, global inflation including soaring resource and material prices and transportation costs, sudden fluctuations in exchange rates due to monetary policies of each country, concerns about a global economic recession, We will continue to pay close attention to changes in the business environment and their impact due to changes in social values including ESG.

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

Note that forward-looking statements are based on the Group's judgements as of the end of the first quarter (June 30, 2023).

(1) Overview of operating results

During the three months ended June 30, 2023, the global economy has shown increasing signs of stagnation due to global inflation, monetary tightening and other factors. In addition, the recovery of the Chinese economy following the lifting of the zero-Covid policy is losing momentum. In the Japanese economy, amid an improving employment and income environment, the economy has been recovering gradually, although it is still affected by global inflation.

In the IHI Group's main business, the Civil aero engines Business, sales of spare parts remained steady along with the recovery in demand for aero transportation. The aviation industry continues to experience labor shortages as demand for aero transportation recovers and supply chain instability, and it is expected to take a little more time for the industry to fully recover. However, efforts are being made to secure parts inventories in preparation for future production increases.

While the continuing impact of the soaring prices of raw materials and equipment has been reflected in selling prices to a certain extent, the IHI Group will also accelerate efforts to strengthen the cost structure to respond flexibly to change in the environment.

R&D for aero engines as a growth business and the ammonia value chain business, etc. as a development business are progressing steadily, and efforts are underway to achieve results.

Under this business environment, orders received of the IHI Group during the three months increased 32.4% from the previous corresponding period to ¥315.4 billion. Revenue increased 12.9% from the previous corresponding period to ¥298.4 billion. In terms of profit, operating profit increased ¥1.3 billion to ¥8.9 billion due to increases in sales of spare parts for civil aero engines and vehicular turbochargers, in addition to the effect of yen depreciation, despite decreased due to lower sales of nuclear energy related equipment and higher R&D and personnel costs. Profit before tax decreased ¥4.1 billion to ¥12.7 billion mainly due to the reduced impact of yen depreciation compared to the previous quarter, profit attributable to owners of parent decreased ¥2.8 billion to ¥5.6 billion.

Results by reportable segment for the three months ended June 30, 2023 are as follows:

(Billions of yen)

Reportable segment	Orders received			Three months ended June 30, 2022		Three months ended June 30, 2023		Changes from the previous corresponding period (%)	
	Three months ended June 30, 2022	Three months ended June 30, 2023	Changes from the previous corresponding period (%)	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)
Resources, Energy and Environment	49.0	91.7	87.1	77.2	3.5	85.1	0.1	10.1	(96.6)
Social Infrastructure	21.6	33.0	52.4	35.1	2.1	34.0	(1.2)	(3.2)	—
Industrial Systems and General-Purpose Machinery	106.6	114.0	6.9	92.7	2.2	100.2	2.5	8.0	10.6
Aero Engine, Space and Defense	59.2	74.3	25.6	57.4	1.7	78.2	9.3	36.3	451.1
Reportable segment total	236.5	313.1	32.4	262.5	9.7	297.5	10.8	13.3	11.1
Others	12.9	14.6	12.9	9.9	(0.1)	9.7	0.0	(1.3)	—
Adjustments	(11.2)	(12.3)	—	(8.1)	(1.9)	(8.8)	(1.9)	—	—
Total	238.2	315.4	32.4	264.2	7.5	298.4	8.9	12.9	18.2

Note: Monetary amounts less than first decimal are rounded down, and ratios less than one unit are rounded off.

<Resources, Energy and Environment>

Orders received increased due to orders for large-scale power plant projects in Southeast Asia and increased in the Carbon solutions Business, while decreased in the Nuclear energy Business.

Revenue increased due to large-scale power plant projects in Southeast Asia, while decreased in the Nuclear energy Business. Operating profit decreased due to lower construction volume in the Nuclear energy Business.

<Social Infrastructure>

Orders received increased in the Bridges and water gates Business and the Shield systems Business.

Revenue decreased in the Shield systems Business.

Operating profit decreased due to the impact of recording the necessary costs in advance in the Bridges and water gates Business and lower sales in the Shield systems Business.

<Industrial Systems and General-Purpose Machinery>

Orders received increased in the Vehicular turbochargers Business and the Parking Business, while decreased in the Heat treatment and surface engineering Business and the Transport machineries Business.

Revenue increased in the the Vehicular turbochargers Business and the Rotating machineries Business.

Operating profit increased due to higher sales in the Vehicular turbochargers Business and the improvement of profitability in the Transport machineries Business.

<Aero Engine, Space and Defense>

Orders received increased in the Civil aero engines Business, etc.

Revenue increased due to higher sales of spare parts and yen depreciation in the Civil aero engines Business.

Operating profit increased due to higher sales of spare parts and the improvement of profitability in the Civil aero engines Business, in addition to yen depreciation, despite higher SG&A including research expenses.

(2) Analysis of financial position

Total assets at the end of the first quarter ended June 30, 2023 were ¥1,988.8 billion, up ¥46.9 billion compared with the end of the previous fiscal year. The major items of increase were inventories, up ¥51.2 billion and contract assets, up ¥7.3 billion. The major items of decrease were cash and cash equivalents, down ¥16.0 billion and trade and other receivables, down ¥11.5 billion. Total liabilities were ¥1,522.0 billion, up ¥36.2 billion compared with the end of the previous fiscal year. The major item of increase was bonds and borrowings(current), up ¥69.4 billion. The major item of decrease was trade and other payables, down ¥29.0 billion.

Equity was ¥466.8 billion, up ¥10.6 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥5.6 billion.

As a result of the above, the ratio of equity attributable to owners of parent unchanged from 22.2% at the end of the previous fiscal year.

(3) Cash flows

At the end of the first quarter, the outstanding balance of cash and cash equivalents was ¥108.6 billion, down ¥16.0 billion from the end of the previous fiscal year.

Key factors influencing each cash flow during the three months ended June 30, 2023 are summarized below.

(Cash flows from operating activities)

Net cash flows from operating activities were ¥59.5 billion in excess of expenditures (the previous corresponding period: ¥5.3 billion in excess of expenditures). This was due to increases in inventories and prepayments. Working capital has increased due to efforts to increase production for civil aero engines.

(Cash flows from investing activities)

Net cash flows from investing activities were ¥13.8 billion in excess of expenditures (the previous corresponding period: ¥10.6 billion in excess of expenditures). This was due to acquisitions of property, plant and equipment.

(Cash flows from financing activities)

Net cash flows from financing activities were ¥55.4 billion in excess of incomes (the previous corresponding period: ¥30.5 billion in excess of expenditures). This was due to proceeds from issuances of commercial papers.

(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 first quarter ended June 30, 2023, the balance of interest-bearing liabilities, including lease liabilities, was ¥588.7 billion, up ¥69.2 billion from the end of the previous fiscal year. This was mainly due to external borrowings and the issuance of commercial papers to cover the increase in working capital for business activities.

At the end of the first quarter ended June 30, 2023, the outstanding balance of cash and cash equivalents was ¥108.6 billion, down ¥16.0 billion from the end of the previous fiscal year. This primarily reflected expenditures of working capital for business activities 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.

In terms of diversification of financing, IHI Group is promoting the use of sustainable finance. We will promote management based on ESG values from a financial perspective, and will conduct appropriate fund procurement and business development in order to realize a sustainable society.

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

In the three months ended June 30, 2023, the IHI Group spent ¥7.0 billion on R&D. There were no significant changes in the status of R&D activities of the IHI Group in the period.

(6) Results of production, orders received and sales

a. Production

Production volume by segment in the three months ended June 30, 2023 is as follows:

Segment name	Amount (Millions of yen)	Changes from the previous corresponding period (%)
Resources, Energy and Environment	99,120	15.3
Social Infrastructure	38,059	0.8
Industrial System and General-Purpose Machinery	102,092	6.8
Aero Engine, Space and Defense	102,200	60.2
Reportable segment total	341,471	20.6
Others	5,537	(35.1)
Total	347,008	19.0

- Notes : 1. The amounts are represented by selling prices and inter-segment transactions have been eliminated.
2. 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, 2023 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	91,702	87.1	575,970	1.8
Social Infrastructure	33,030	52.4	216,179	(1.0)
Industrial System and General-Purpose Machinery	114,029	6.9	213,540	6.2
Aero Engine, Space and Defense	74,398	25.6	289,917	(1.2)
Reportable segment total	313,159	32.4	1,295,606	1.3
Others	14,638	12.9	23,705	13.5
Adjustments	(12,313)	—	—	—
Total	315,484	32.4	1,319,311	1.5

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

c. Sales

Sales revenue by segment in the three months ended June 30, 2023 is as follows:

Segment name	Amount (Millions of yen)	Changes from the previous corresponding period (%)
Resources, Energy and Environment	85,124	10.1
Social Infrastructure	34,003	(3.2)
Industrial System and General-Purpose Machinery	100,213	8.0
Aero Engine, Space and Defense	78,227	36.3
Reportable segment total	297,567	13.3
Others	9,779	(1.3)
Adjustments	(8,889)	—
Total	298,457	12.9

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

(7) 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, 2023.

Global inflation and monetary tightening have raised fears of a global economic downturn, mainly centered around Europe and the U.S. Although the sharp rises in resource and materials prices and transportation costs have subsided, the pace of disinflation is slow, and continued vigilance is required regarding risk of a downturn due to persistently high interest rates. Expectations that the Chinese economy will grow in the same manner that it has thus far are also waning. The Japanese economy is expected to recover gradually as the employment and income environment improves.

The IHI Group is promoting initiatives based on “Group Management Policies 2023”, a three-year medium-term management plan that begins in fiscal 2023. In order to respond to drastic changes in the business environment and to transform its business into one that achieves sustainable high growth, the IHI Group will boldly shift its management resources and investments to growth businesses in the aero engines and rocket fields, which are driving its growth, and to development businesses in the clean energy field, which is expected to become future business pillars. In its core businesses of Resources, Energy and Environment, Social Infrastructure, and Industrial Systems and General-Purpose Machinery, the IHI Group will continue to create a continuous growth scenario through the transformation of its business portfolio and generate cash necessary for investments. In addition, the IHI Group will develop and acquire the human resources necessary for change, advance the sophistication of our digital infrastructure, and promote the transformation of its corporate culture and structure.

In the PW1100G-JM engines program, in which IHI participates in the Civil aero engines Business, additional inspections are required for some parts of engines that have already been shipped to customers. IHI will work in collaboration with partner companies to address this issue appropriately and make every effort to minimize the impact of future occurrences. Along with resolving this issue, IHI will provide maximum support to ensure that its customers’ operations are not affected.

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 ended during the first quarter ended June 30, 2023 is as follows:

Name of Contracting Company	Name of Counterparty	Country	Licensed Products	Details	Contract Period
IHI Power Systems Co., Ltd. (Consolidated subsidiary)	Winterthur Gas & Diesel Ltd.	Switzerland	General-purpose low-speed diesel engine	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From January 1, 2009 to April 1, 2023

Note: The above contract whose expiry date was December 31, 2024 was terminated on April 1, 2023 because of the business transfer of the licensed products.

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 first quarter (Shares) (June 30, 2023)	Number of issued shares as of the filing date (Shares) (August 10, 2023)	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	Prime Market of Tokyo Stock 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 August 1, 2023 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 April 1, 2023 to June 30, 2023	—	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.

(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, 2023, 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, 2023).

(i) Issued shares

(As of March 31, 2023)

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.)	Ordinary shares 2,799,300	—	—
Shares with full voting rights (others)	Ordinary shares 151,497,200	1,514,972	—
Shares less than one unit	Ordinary shares 383,454	—	Shares less than one unit (100 shares)
Number of issued shares	154,679,954	—	—
Total number of voting rights	—	1,514,972	—

- Notes:
1. Ordinary shares in “Shares less than one unit” include 7 shares of treasury shares held by IHI and 36 shares whose ownership has not yet 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 not yet been transferred and which have been registered in the name of Japan Securities Depository Center. These shares constitute eight units of voting rights, which are 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 March 31, 2023)

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 (%)
IHI Corporation	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan	2,799,300	—	2,799,300	1.80
Total	—	2,799,300	—	2,799,300	1.80

Note: 592,300 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

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

IV. Financial information

1. Basis of preparation of the 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 first quarter of the fiscal year on March 31, 2024 (from April 1, 2023 to June 30, 2023) and three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023) were reviewed by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

1. Condensed quarterly consolidated financial statements

(1) Condensed quarterly consolidated statement of financial position

(Millions of yen)

	Notes	As of March 31, 2023	As of June 30, 2023
Assets			
Current assets			
Cash and cash equivalents	10	124,749	108,655
Trade and other receivables	10	378,446	366,884
Contract assets		144,740	152,077
Other financial assets	10	4,368	4,697
Inventories		374,523	425,787
Other current assets		58,918	69,271
Total current assets		1,085,744	1,127,371
Non-current assets			
Property, plant and equipment		225,032	230,006
Right-of-use assets		102,432	102,068
Goodwill		6,486	6,947
Intangible assets		123,736	122,745
Investment property		142,550	140,884
Investments accounted for using equity method		56,578	60,168
Other financial assets	10	43,042	44,611
Deferred tax assets		82,280	81,137
Other non-current assets		74,084	72,931
Total non-current assets		856,220	861,497
Total assets		1,941,964	1,988,868

(Millions of yen)

	Notes	As of March 31, 2023	As of June 30, 2023
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	10	247,086	218,024
Bonds and borrowings	6,10	140,370	209,839
Lease liabilities		16,726	16,441
Other financial liabilities	10	14,551	23,308
Income taxes payable		9,685	8,525
Contract liabilities		201,883	201,325
Provisions		22,942	23,651
Other current liabilities		178,358	166,852
Total current liabilities		831,601	867,965
Non-current liabilities			
Bonds and borrowings	6,10	253,291	254,242
Lease liabilities		109,101	108,187
Other financial liabilities	10	95,479	95,559
Deferred tax liabilities		4,470	3,876
Retirement benefit liability		167,595	168,210
Provisions		7,948	8,247
Other non-current liabilities		16,228	15,718
Total non-current liabilities		654,112	654,039
Total liabilities		1,485,713	1,522,004
Equity			
Share capital		107,165	107,165
Capital surplus		46,741	46,626
Retained earnings		251,915	250,327
Treasury shares		(8,746)	(8,731)
Other components of equity		34,170	46,125
Total equity attributable to owners of parent		431,245	441,512
Non-controlling interests		25,006	25,352
Total equity		456,251	466,864
Total liabilities and equity		1,941,964	1,988,868

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

Condensed quarterly consolidated statement of profit or loss

(Millions of yen)

	Notes	Three months ended June 30, 2022	Three months ended June 30, 2023
Revenue	5,8	264,290	298,457
Cost of sales		215,334	240,219
Gross profit (loss)		48,956	58,238
Selling, general and administrative expenses		42,998	48,852
Other income		2,610	1,299
Other expenses		1,015	1,756
Operating profit (loss)	5	7,553	8,929
Finance income		10,707	7,863
Finance costs		2,104	4,933
Share of profit (loss) of investments accounted for using equity method		746	872
Profit (loss) before tax		16,902	12,731
Income tax expense		7,343	5,960
Profit (loss)		9,559	6,771
Profit (loss) attributable to:			
Owners of parent		8,494	5,606
Non-controlling interests		1,065	1,165
Profit (loss)		9,559	6,771
Earnings (loss) per share			
Basic earnings (loss) per share (Yen)	9	56.15	36.96
Diluted earnings (loss) per share (Yen)	9	56.15	36.96

Condensed quarterly consolidated statement of comprehensive income

(Millions of yen)

	Notes	Three months ended June 30, 2022	Three months ended June 30, 2023
Profit (loss)		9,559	6,771
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	10	2,170	1,223
Remeasurements of defined benefit plans		105	(8)
Other comprehensive income of investments accounted for using equity method		(57)	129
Total of items that will not be reclassified to profit or loss		2,218	1,344
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		7,445	11,451
Cash flow hedges		(1,393)	(34)
Other comprehensive income of investments accounted for using equity method		883	199
Total of items that may be reclassified to profit or loss		6,935	11,616
Other comprehensive income, net of tax		9,153	12,960
Comprehensive income		18,712	19,731
Comprehensive income attributable to:			
Owners of parent		17,015	17,980
Non-controlling interests		1,697	1,751
Comprehensive income		18,712	19,731

(3) Condensed quarterly consolidated statement of changes in equity

Three months ended June 30, 2022

(Millions of yen)

	Equity attributable to owners of parent							
	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, 2022		107,165	47,052	213,026	(8,815)	12,831	(313)	10,933
Profit (loss)				8,494				
Other comprehensive income						8,361	(2,064)	2,119
Total comprehensive income		—	—	8,494	—	8,361	(2,064)	2,119
Purchase of treasury shares					(5)			
Disposal of treasury shares			0		3			
Dividends	7			(6,074)				
Share-based remuneration transactions			(114)					
Changes in ownership interest in subsidiaries								
Transfer from other components of equity to retained earnings				652				(547)
Other								
Total transactions with owners		—	(114)	(5,422)	(2)	—	—	(547)
Balance as of June 30, 2022		107,165	46,938	216,098	(8,817)	21,192	(2,377)	12,505

	Equity attributable to owners of parent						
	Notes	Other components of equity			Total	Non-controlling interests	Total
		Remeasurements of defined benefit plans	Share acquisition rights	Total			
Balance as of April 1, 2022		—	255	23,706	382,134	24,905	407,039
Profit (loss)				—	8,494	1,065	9,559
Other comprehensive income		105		8,521	8,521	632	9,153
Total comprehensive income		105	—	8,521	17,015	1,697	18,712
Purchase of treasury shares				—	(5)		(5)
Disposal of treasury shares			(3)	(3)	—		—
Dividends	7			—	(6,074)	(886)	(6,960)
Share-based remuneration transactions				—	(114)		(114)
Changes in ownership interest in subsidiaries				—	—	20	20
Transfer from other components of equity to retained earnings		(105)		(652)	—		—
Other				—	—		—
Total transactions with owners		(105)	(3)	(655)	(6,193)	(866)	(7,059)
Balance as of June 30, 2022		—	252	31,572	392,956	25,736	418,692

Three months ended June 30, 2023

(Millions of yen)

	Equity attributable to owners of parent							
	Notes	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, 2023		107,165	46,741	251,915	(8,746)	20,390	548	13,063
Profit (loss)				5,606				
Other comprehensive income						10,871	162	1,349
Total comprehensive income		—	—	5,606	—	10,871	162	1,349
Purchase of treasury shares					(1)			
Disposal of treasury shares			3		16			
Dividends	7			(7,594)				
Share-based remuneration transactions			(93)					
Changes in ownership interest in subsidiaries			(25)					
Transfer from other components of equity to retained earnings				400				(408)
Other								
Total transactions with owners		—	(115)	(7,194)	15	—	—	(408)
Balance as of June 30, 2023		107,165	46,626	250,327	(8,731)	31,261	710	14,004

	Equity attributable to owners of parent						Non-controlling interests	Total
	Notes	Other components of equity			Total	Total		
		Remeasurements of defined benefit plans	Share acquisition rights	Total				
Balance as of April 1, 2023		—	169	34,170	431,245	25,006	456,251	
Profit (loss)				—	5,606	1,165	6,771	
Other comprehensive income		(8)		12,374	12,374	586	12,960	
Total comprehensive income		(8)	—	12,374	17,980	1,751	19,731	
Purchase of treasury shares				—	(1)		(1)	
Disposal of treasury shares			(19)	(19)	—		—	
Dividends	7			—	(7,594)	(755)	(8,349)	
Share-based remuneration transactions				—	(93)		(93)	
Changes in ownership interest in subsidiaries				—	(25)	(664)	(689)	
Transfer from other components of equity to retained earnings		8		(400)	—		—	
Other				—	—	14	14	
Total transactions with owners		8	(19)	(419)	(7,713)	(1,405)	(9,118)	
Balance as of June 30, 2023		—	150	46,125	441,512	25,352	466,864	

(4) Condensed quarterly consolidated statement of cash flows

(Millions of yen)

	Notes	Three months ended Jun 30, 2022	Three months ended Jun 30, 2023
Cash flows from operating activities			
Profit (loss) before tax		16,902	12,731
Depreciation, amortization and impairment losses		17,026	16,944
Finance income and finance costs		535	297
Share of loss (profit) of investments accounted for using equity method		(746)	(872)
Loss (gain) on sale of property, plant and equipment, intangible assets and investment property		(80)	(17)
Decrease (increase) in trade receivables		33,879	10,832
Decrease (increase) in contract assets		(5,621)	(5,757)
Decrease (increase) in inventories and prepayments		(27,629)	(44,305)
Increase (decrease) in trade payables		(15,267)	(22,581)
Increase (decrease) in contract liabilities		7,390	562
Other		(10,302)	(16,139)
Subtotal		16,087	(48,305)
Interest received		110	386
Dividends received		573	662
Interest paid		(890)	(1,081)
Income taxes paid		(21,216)	(11,203)
Net cash provided by (used in) operating activities		(5,336)	(59,541)
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets and investment property		(9,792)	(14,571)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		149	21
Purchase of investments (including investments accounted for using equity method)		(222)	(1,006)
Proceeds from sale and redemption of investments (including investments accounted for using equity method)		74	2,203
Purchase of equity interest in subsidiaries		(64)	—
Proceeds from sale of equity interest in subsidiaries		426	—
Other		(1,224)	(531)
Net cash provided by (used in) investing activities		(10,653)	(13,884)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings		(38,582)	6,443
Net increase (decrease) in commercial papers		—	70,000
Proceeds from long-term borrowings		358	5,300
Repayments of long-term borrowings		(386)	(12,643)
Proceeds from issuance of bonds	6	20,000	—
Repayments of lease liabilities		(4,923)	(4,589)
Dividends paid	7	(6,076)	(7,597)
Capital contribution from non-controlling interests		20	—
Dividends paid to non-controlling interests		(886)	(755)
Increase in other financial liabilities		185	328
Decrease in other financial liabilities		(300)	(359)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation		—	(689)
Other		(6)	(1)
Net cash provided by (used in) financing activities		(30,596)	55,438
Effect of exchange rate changes on cash and cash equivalents		1,941	1,892
Net increase (decrease) in cash and cash equivalents		(44,644)	(16,095)
Cash and cash equivalents at beginning of period		145,489	124,743
Cash and cash equivalents at end of period		100,845	108,648

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; 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, Representative Director and President, on August 10, 2023.

(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. Material accounting policies

Material 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 judgements, 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 judgements 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 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 segment

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 shall be the units possessing complete business processes including sales, developments, designs, productions, constructions, services, etc. based on the visions and strategies drawn up by Business Areas. 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," "Industrial Systems and General-Purpose Machinery," and "Aero Engine, Space and Defense" as its reportable segment. There are no aggregated business segments when deciding the reportable segment. From the first quarter ended June 30, 2023, the name of the previous reportable segment of "Social Infrastructure and Offshore Facilities" has been changed to "Social Infrastructure".

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), Carbon solutions, Nuclear energy (components for nuclear power plants)
Social Infrastructure	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 segment

The IHI Group's information about reportable segment are as follows:

Intersegment revenue and transfers are based on actual market pricing.

Three months ended June 30, 2022

(Millions of yen)

	Reportable segment					Total	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated
	Resources, Energy and Environment	Social Infrastructure	Industrial Systems and General- Purpose Machinery	Aero Engine, Space and Defense	Total					
Revenue										
Revenue from external customers	76,943	34,328	90,868	56,696	258,835	5,455	264,290	—	264,290	
Intersegment revenue and transfers	351	803	1,882	707	3,743	4,449	8,192	(8,192)	—	
Total	77,294	35,131	92,750	57,403	262,578	9,904	272,482	(8,192)	264,290	
Segment profit (loss) (Note 3)	3,551	2,183	2,290	1,704	9,728	(199)	9,529	(1,976)	7,553	

- Notes:
1. The "Others" classification consists of business that is not included in reportable segment. 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 ¥110 million and unallocated corporate expenses of ¥(2,086) million. Unallocated corporate expenses mainly consist of general and administrative expenses that are not attributable to reportable segment.
 3. Segment profit (loss) is adjusted with operating profit (loss) in the condensed quarterly consolidated financial statement of profit or loss.

Three months ended June 30, 2023

(Millions of yen)

	Reportable segment					Total	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated
	Resources, Energy and Environment	Social Infrastructure	Industrial Systems and General- Purpose Machinery	Aero Engine, Space and Defense	Total					
Revenue										
Revenue from external customers	84,666	33,607	98,093	77,302	293,668	4,789	298,457	—	298,457	
Intersegment revenue and transfers	458	396	2,120	925	3,899	4,990	8,889	(8,889)	—	
Total	85,124	34,003	100,213	78,227	297,567	9,779	307,346	(8,889)	298,457	
Segment profit (loss) (Note 3)	122	(1,237)	2,533	9,391	10,809	35	10,844	(1,915)	8,929	

- Notes:
1. The "Others" classification consists of business that is not included in reportable segment. 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 ¥(314) million and unallocated corporate expenses of ¥(1,601) million. Unallocated corporate expenses mainly consist of general and administrative expenses that are not attributable to reportable segment.
 3. Segment profit (loss) is adjusted with operating profit (loss) in the condensed quarterly consolidated financial statement of profit or loss.

6. Bonds

Three months ended June 30, 2022 (From April 1, 2022 to June 30, 2022)

Bonds issued are as follows:

(Millions of yen)

Company	Description	Date of issuance	Amount o issuance	Interest rate (%)	Maturity
IHI	49th Unsecured Bonds	June 6, 2022	11,000	0.390	June 4, 2027
IHI	50th Unsecured Bonds	June 6, 2022	9,000	0.620	June 4, 2032

Three months ended June 30, 2023 (From April 1, 2023 to June 30, 2023)

No bonds were issued or redeemed during the three months ended June 30, 2023.

7. Dividends

The dividends paid are as follows:

Three months ended June 30, 2022 (From April 1, 2022 to June 30, 2022)

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 23, 2022	Ordinary shares	6,074	40	March 31, 2022	June 24, 2022

Note: Total dividends paid in accordance with the resolution passed at the Ordinary General Meeting of Shareholders held on June 23, 2022 include ¥24 million of dividends for the shares of IHI owned by a trust account for the Board Benefit Trust.

Three months ended June 30, 2023 (From April 1, 2023 to June 30, 2023)

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 23, 2023	Ordinary shares	7,594	50	March 31, 2023	June 26, 2023

Note: Total dividends paid in accordance with the resolution passed at the Ordinary General Meeting of Shareholders held on June 23, 2023 include ¥29 million of dividends for the shares of IHI owned by a trust account for the Board Benefit Trust.

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

Three months ended June 30, 2022 (From April 1, 2022 to June 30, 2022)

Not applicable

Three months ended June 30, 2023 (From April 1, 2023 to June 30, 2023)

Not applicable

8. 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 segment are as follows:

Three months ended June 30, 2022

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

(Millions of yen)

	Reportable segment					Other	Total
	Resources, Energy and Environment	Social Infrastructure	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Revenue recognized from contracts with customers	76,943	30,319	90,867	56,690	254,819	5,210	260,029
Revenue recognized from other sources of revenue	—	4,009	1	6	4,016	245	4,261
Total	76,943	34,328	90,868	56,696	258,835	5,455	264,290

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 segment					Other	Total
	Resources, Energy and Environment	Social Infrastructure	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Power systems	15,717	—	—	—	15,717	—	15,717
Carbon solutions	32,357	—	—	—	32,357	—	32,357
Nuclear energy	15,964	—	—	—	15,964	—	15,964
Bridges and water gates	—	20,258	—	—	20,258	—	20,258
Shield systems	—	5,173	—	—	5,173	—	5,173
Urban development	—	4,199	—	—	4,199	—	4,199
Vehicular turbochargers	—	—	39,919	—	39,919	—	39,919
Parking	—	—	9,494	—	9,494	—	9,494
Rotating machineries	—	—	11,757	—	11,757	—	11,757
Heat treatment and surface engineering	—	—	10,165	—	10,165	—	10,165
Transport machineries	—	—	8,996	—	8,996	—	8,996
Logistics and industrial systems	—	—	6,629	—	6,629	—	6,629
Civil aero engines	—	—	—	37,624	37,624	—	37,624
Other	17,519	5,503	6,051	24,912	53,985	9,904	63,889
Intersegment revenue	(4,614)	(805)	(2,143)	(5,840)	(13,402)	(4,449)	(17,851)
Revenue from external customers	76,943	34,328	90,868	56,696	258,835	5,455	264,290

(3) Breakdown by region

(Millions of yen)

	Reportable segment					Other	Total
	Resources, Energy and Environment	Social Infrastructure	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Japan	39,115	23,745	42,723	18,490	124,073	4,656	128,729
North America	4,816	—	6,385	34,269	45,470	168	45,638
Asia	30,445	7,549	26,801	562	65,357	157	65,514
Europe	460	3,022	10,726	3,374	17,582	55	17,637
Central and South America	108	12	4,123	—	4,243	—	4,243
Other	1,999	—	110	1	2,110	419	2,529
Overseas	37,828	10,583	48,145	38,206	134,762	799	135,561
Revenue from external customers	76,943	34,328	90,868	56,696	258,835	5,455	264,290

Three months ended June 30, 2023

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

(Millions of yen)

	Reportable segment					Other	Total
	Resources, Energy and Environment	Social Infrastructure	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Revenue recognized from contracts with customers	84,666	29,603	98,093	77,297	289,659	4,548	294,207
Revenue recognized from other sources of revenue	—	4,004	—	5	4,009	241	4,250
Total	84,666	33,607	98,093	77,302	293,668	4,789	298,457

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 segment					Other	Total
	Resources, Energy and Environment	Social Infrastructure	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Power systems	14,758	—	—	—	14,758	—	14,758
Carbon solutions	32,808	—	—	—	32,808	—	32,808
Nuclear energy	12,681	—	—	—	12,681	—	12,681
Bridges and water gates	—	20,284	—	—	20,284	—	20,284
Shield systems	—	3,672	—	—	3,672	—	3,672
Urban development	—	4,151	—	—	4,151	—	4,151
Vehicular turbochargers	—	—	46,963	—	46,963	—	46,963
Parking	—	—	10,894	—	10,894	—	10,894
Rotating machineries	—	—	13,992	—	13,992	—	13,992
Heat treatment and surface engineering	—	—	10,460	—	10,460	—	10,460
Transport machineries	—	—	6,225	—	6,225	—	6,225
Logistics and industrial systems	—	—	6,045	—	6,045	—	6,045
Civil aero engines	—	—	—	51,137	51,137	—	51,137
Other	27,995	5,896	5,784	33,721	73,396	9,779	83,175
Intersegment revenue	(3,576)	(396)	(2,270)	(7,556)	(13,798)	(4,990)	(18,788)
Revenue from external customers	84,666	33,607	98,093	77,302	293,668	4,789	298,457

(3) Breakdown by region

(Millions of yen)

	Reportable segment					Other	Total
	Resources, Energy and Environment	Social Infrastructure	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Japan	36,307	23,039	42,194	25,715	127,255	4,142	131,397
North America	5,426	—	11,082	46,305	62,813	7	62,820
Asia	39,639	7,672	30,522	729	78,562	155	78,717
Europe	1,790	2,888	11,642	4,547	20,867	187	21,054
Central and South America	84	8	2,451	—	2,543	—	2,543
Other	1,420	—	202	6	1,628	298	1,926
Overseas	48,359	10,568	55,899	51,587	166,413	647	167,060
Revenue from external customers	84,666	33,607	98,093	77,302	293,668	4,789	298,457

The IHI Group consists of segments by Business Area and sets the Business Areas of Resources, Energy and Environment; Social Infrastructure; 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

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 as progress towards satisfaction of the provision of performance obligations to customers is measured.

The progress is measured in a way that reflects the satisfaction of performance obligations, and 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 performance 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.

9. Earnings per share

(1) Basis for calculating basic earnings per share

(Millions of yen, unless otherwise stated)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Profit (loss) attributable to owners of parent	8,494	5,606
Profit (loss) not attributable to ordinary shareholders of parent	—	—
Profit (loss) used for calculating basic earnings (loss) per share	8,494	5,606
Weighted-average number of ordinary shares (Thousands of shares)	151,261	151,682
Basic earnings (loss) per share (Yen)	56.15	36.96

(2) Basis for calculating diluted earnings per share

(Millions of yen, unless otherwise stated)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Profit (loss) used for calculating basic earnings (loss) per share	8,494	5,606
Adjustment to profit (loss)	—	—
Profit (loss) used to calculate diluted earnings (loss) per share	8,494	5,606
Weighted-average number of ordinary shares (Thousands of shares)	151,261	151,682
Increase in ordinary shares		
Share acquisition rights (Thousands of shares)	20	12
Weighted-average number of ordinary shares after dilution (Thousands of shares)	151,281	151,694
Diluted earnings (loss) per share (Yen)	56.15	36.96

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 first quarter ended June 30, 2023 and the number of treasury shares excluded for the calculation of the weighted-average number of ordinary shares. For the three months ended June 30, 2023, 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 197 thousand shares (592 thousand shares for the three months ended June 30, 2022).

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, commercial papers)

As the fair value of these accounts is assumed to be approximate to their carrying amount due to the short-term maturity, no further information is given.

(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 is 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 is calculated by the valuation technique using the net asset value, the valuation technique using quoted market prices of comparable companies, and in both cases, they are classified as Level 3.

(2) Financial instruments measured at amortized cost

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

Financial instruments whose carrying amount is a reasonable approximation of the fair value are not included in the following table.

(Millions of yen)

	As of March 31, 2023		As of June 30, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Borrowings	313,887	313,200	314,290	314,007
Bonds payable	79,774	78,818	79,791	79,091
Government grants classified under contingent settlement provisions	96,223	94,072	96,576	94,620
Total	489,884	486,090	490,657	487,718

(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, 2023

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Derivatives	—	1,063	—	1,063
Other	—	1,459	4,637	6,096
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	10,262	—	14,051	24,313
Total	10,262	2,522	18,688	31,472
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives	—	606	—	606
Total	—	606	—	606

As of June 30, 2023

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Derivatives	—	1,124	—	1,124
Other	—	1,199	3,723	4,922
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	12,675	—	14,139	26,814
Total	12,675	2,323	17,862	32,860
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives	—	8,405	—	8,405
Total	—	8,405	—	8,405

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 three months ended June 30, 2023.

(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 first quarter.

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

(Millions of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Balance at beginning of period	17,160	18,688
Total gains and losses		
Profit or loss (Note 1)	355	(868)
Other comprehensive income (Note 2)	610	407
Purchases	25	38
Sales	(76)	(451)
Transfer from Level 3	—	—
Other (Note 3)	(13)	48
Balance at end of period	18,061	17,862
Changes in unrealized gains or losses recorded in profit or loss on assets held at the end of the reporting period (Note 1)	355	297

- 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.

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 first quarter ended June 30, 2023.

(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 ¥32.9 billion at an exchange rate of 144.86 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 ¥16.9 billion at an exchange rate of 144.86 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

Not applicable

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

Not applicable