IHI

IHI Corporation

Toyosu IHI Bldg.
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Tokyo 135-8710, Japan
**February 4, 2013**

# CONSOLIDATED FINANCIAL REPORT FOR THE NINE MONTHS ENDED DECEMBER 31, 2012 <Japanese GAAP>

IHI Corporation (IHI) is listed on the First Section of the Tokyo Stock Exchange, Osaka Securities Exchange, Nagoya Stock Exchange, Sapporo Securities Exchange and Fukuoka Stock Exchange with the securities code number 7013.

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Submission of Quarterly Securities Report: February 13, 2013 (planned)
Preparing supplementary material on quarterly financial results: Yes
Holding quarterly financial results presentation meeting: None

This consolidated financial report has been prepared in accordance with Japanese accounting standards and Japanese law. Figures are in Japanese yen rounded to the nearest millions.

## 1. PERFORMANCE

### (1) Business Results

(Millions of yen, except per share figures; percentages show the rate of increase or decrease from the previous corresponding period)

| | Net Sales | Percentage Change | Operating Income | Percentage Change | Ordinary Income | Percentage Change |
|---|---|---|---|---|---|---|
| **Nine months ended December 31, 2012** | **868,142** | **4.3%** | **24,499** | **(10.7)%** | **24,232** | **3.2%** |
| Nine months ended December 31, 2011 | 832,330 | (0.7)% | 27,420 | (38.2)% | 23,485 | (38.2)% |

| | Net Income | Percentage Change | Net Income per Share (Yen) | Diluted Net Income per Share (Yen) |
|---|---|---|---|---|
| **Nine months ended December 31, 2012** | **17,992** | **7.2%** | **12.29** | **11.62** |
| Nine months ended December 31, 2011 | 16,781 | (11.6)% | 11.45 | 10.82 |

(Note) Comprehensive income
Nine months ended December 31, 2012: ¥20,020 million 187.0%
Nine months ended December 31, 2011: ¥6,975 million (56.4)%

### (2) Financial Position

(Millions of yen)

| | Total Assets | Net Assets | Shareholders' Equity to Total Assets |
|---|---|---|---|
| **December 31, 2012** | **1,401,978** | **275,252** | **18.9%** |
| March 31, 2012 | 1,338,131 | 258,475 | 18.7% |

(Reference) Shareholders' equity at the end of the period (consolidated)
December 31, 2012: ¥264,473 million
March 31, 2012: ¥250,139 million

## 2. DIVIDENDS

(Yen)

| (Record Date) | Dividends per Share<br>End of 1st Quarter | End of 2nd Quarter | End of 3rd Quarter | Year-end | Annual |
|---|---|---|---|---|---|
| Fiscal year ended March 31, 2012 | — | 0.00 | — | 4.00 | 4.00 |
| Fiscal year ending March 31, 2013 | — | 0.00 | — | ―― | ―― |
| Fiscal year ending March 31, 2013 (Forecast) | ―― | ―― | ―― | 4.00 | 4.00 |

(Note) Revisions to the dividend forecasts most recently announced: None

## 3. FORECAST OF RESULTS FOR THE YEAR ENDING MARCH 31, 2013

(Millions of yen, except per share figures; percentages show the rate of increase or decrease from the previous corresponding period)

| | Net Sales | | Operating Income | | Ordinary Income | | Net Income | | Net Income per Share (Yen) |
|---|---|---|---|---|---|---|---|---|---|
| Full-year | 1,250,000 | 2.3% | 35,000 | (19.2)% | 28,000 | (32.9)% | 23,000 | (3.5)% | 15.72 |

(Note) Revisions to the forecast of results most recently announced: Yes

## 4. NOTES

**(1) Changes in significant subsidiaries during the nine months under review (Changes in specified subsidiaries accompanying changes in scope of consolidation):** None

**(2) Application of special accounting for preparing quarterly consolidated financial statements:** Yes

**(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections**

(i) Changes in accounting policies due to revisions to accounting standards: Yes
(ii) Changes in accounting policies due to other reasons: None
(iii) Changes in accounting estimates: Yes
(iv) Restatement of prior period financial statements after error corrections: None

**(4) Number of shares issued (Common stock):**

(i) Number of shares issued at the end of the period (including treasury stock)

| | |
|---|---|
| As of December 31, 2012 | 1,467,058,482 shares |
| As of March 31, 2012 | 1,467,058,482 shares |

(ii) Number of shares of treasury stock owned at the end of the period

| | |
|---|---|
| As of December 31, 2012 | 3,742,070 shares |
| As of March 31, 2012 | 2,853,236 shares |

(iii) Average number of shares outstanding during the period (cumulative quarterly period)

| | |
|---|---|
| Nine months ended December 31, 2012 | 1,463,430,245 shares |
| Nine months ended December 31, 2011 | 1,465,699,414 shares |

* Indication regarding execution of quarterly review procedures

This quarterly financial report is exempt from the quarterly review procedures in accordance with the Financial Instruments and Exchange Act. At the time of disclosure of this quarterly financial report, the quarterly review procedures in accordance with the Financial Instruments and Exchange Act are in progress.

* Proper use of forecast of results, and other special matters

Earnings estimates made in this report and other statements that are not historical facts are forward-looking statements about the future performance of IHI. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore readers should not place undue reliance on them. IHI cautions that a number of important factors such as political and general economic conditions and currency exchange rates could cause actual results to differ materially from those discussed in the forward-looking statements, etc.

## QUALITATIVE INFORMATION REGARDING CONSOLIDATED RESULTS

During the nine months under review, growth in the Japanese economy continued to be weak due to long-standing economic slowdown overseas as well as sluggishness in exports amid the continued strength of the yen and deterioration in relations between Japan and China. However, expectations that new Prime Minister Shinzo Abe's administration, which came to power in December, may implement adequate economic measures have begun to bring about an adjustment in the excessively appreciated yen and a rebound in stock prices. Consequently, in the near-term a relatively bright outlook has returned.

On the other hand, the overseas economy continued to stagnate because of several considerable challenges it faces, including the prolongation of the debt problem in Europe and balance sheet adjustments in the U.S. Emerging countries experienced slower economic growth primarily due to a decline in exports to developed countries, reducing their hitherto strong capacity to drive global growth.

Amid these conditions, through the three-year medium-term management plan, Group Management Policies 2010, for which the final year is fiscal year 2012, the IHI Group worked to achieve three paradigm shifts: towards a business model geared to entire life cycle, a product strategy geared to market needs, and global business management. As a result, the Group achieved a certain degree of stability in its business base, including recording a profit in all reported segments for three consecutive years, and in all business segments for the nine months under review. As part of these efforts, the following key measures are being implemented.

In the field of industrial systems, 100% of the shares of Swiss coating provider Ionbond were acquired in order to supplement the Group's existing capability to provide heat and coating equipment with the capability to provide Ionbond's coating process capability, thereby constructing a global structure capable of meeting the diverse needs of customers.

Furthermore, as part of the global development of the jet engine maintenance business aimed at boosting profitability in jet engine operations, a joint venture for repairing the main components of V2500 engines in the U.S. was established with a U.S. company, International Component Repair, LLC, which is a specialist in the repair of aircraft components. Consecutively, the Group is seeking further business expansion, mainly by improving profitability through enhancement and expansion of the product lineup and strengthening of the maintenance structure.

In addition to the above, the following measures have been put in place for the purpose of survival in the intense competitive environment in Japan and overseas.

In the field of energy & resource, the Group is focusing on initiatives in renewable energy fields including algae biofuel development and biomass power generation while also stepping up overseas business development of high-efficiency ultra-supercritical pressure boilers. In the natural gas field, because demand is expected to continue growing, the Group intends to build on the achievement of completing two of India's largest LNG storage tanks in November 2012 by expanding orders in Energy & Resources Operations. This is to be achieved mainly through the recent acquisition of EPC Center Houston of major U.S. engineering company Kvaerner Americas and development of an aluminum SPB tank production facility. As for Nuclear Power Business, the Group is building business strategy based on movement of energy policy.

The Group will speed up its growth strategy for turbochargers, having indications that the major auto manufacturers in the world rapidly expand to install turbocharged engine into their brand-new models, by worldwide strengthening of regulation at exhaust gas and fuel efficiency, and the market is on the process to rapid expansion. Specifically, in Europe the Group will accelerate decision making and appeal to a wide range of customers, thus realizing further business expansion, through the acquisition of the remaining share of IHI Charging Systems International GmbH, a joint venture in Germany, from its partner in the venture. The Group is also tackling with the improvement of efficiency and quality at turbocharger business.

As part of its initiatives to accelerate the global management of its operations, the Group will promote expansion of its business in the key Southeast Asia region through the Asia and Oceania regional headquarters, while also promoting global procurement.

The IHI Group formulated a new corporate message, "Realize your dreams," and put it into effect from October 1, 2012. The message expresses the Group's intention to help the people of the world realize their dreams and goals and its strong determination to fulfill its social responsibilities as a corporation.
The IHI Group announced its new three-year medium-term management plan, Group Management Policies 2013, for which the final year is fiscal year 2015, after considering how to achieve future growth based on the internal management system it has constructed so far. These Group Management Policies demonstrate the

Group’s initiatives, as a corporate group that contributes to the development of society, to contribute to the development of society through the creation of value for customers based on tireless efforts to improve quality and productivity by focusing on the “three actuals” principle (actual place, actual thing, and actual situation), thereby growing into a corporate group that is a global leader. Management targets including consolidated net sales of ¥1,400 billion and consolidated operating income of ¥70 billion have been set for the new Group Management Policies.

The management integration of IHI Marine United Inc. and Universal Shipbuilding Corporation, for which a merger agreement was concluded on August 27, 2012, was completed and Japan Marine United Corporation was established on January 1, 2013, after three month postpone of the effective date.

Orders received during the nine months under review decreased 4.3% from the same period of the previous fiscal year to ¥824.2 billion owing to a large decline in Social Infrastructure Operations. Net sales increased 4.3% from the same period of the previous fiscal year to ¥868.1 billion as a result of increases in Logistics Systems & Industrial Machinery Operations and Aero Engine & Space Operations, despite sales decreases in Ships & Offshore Facilities Operations and Social Infrastructure Operations. In terms of profit, despite increases in Aero Engine & Space Operations and Logistics Systems & Industrial Machinery Operations, there were declines in Rotating Equipment & Mass-Production Machinery Operations and Social Infrastructure Operations. As a result, operating income decreased 10.7% from the same period of the previous fiscal year to ¥24.4 billion. Ordinary income increased 3.2% to ¥24.2 billion due to an improvement in non-operating income/expenses. Net income increased 7.2% from the same period of the previous fiscal year to ¥17.9 billion, mainly because of the recording of ¥13.5 billion from the sale of a co-ownership interest in land at Toyosu 3-chome under extraordinary income.

## MATTERS REGARDING SUMMARY INFORMATION (NOTES)

1. **Changes in significant subsidiaries during the nine months under review**

   None

2. **Application of special accounting for preparing quarterly consolidated financial statements**

   *Tax expense calculation*
   Tax expenses on income before income taxes and minority interests for the nine months under review are calculated by multiplying income before income taxes and minority interests for the nine months under review by the reasonably estimated effective tax rate for the fiscal year including the nine months under review after applying tax effect accounting. Should the estimated effective tax rate be unavailable, however, tax expenses are calculated using the statutory tax rate for income before income taxes and minority interests for the nine months under review.
   The deferred income taxes amount is shown inclusive of income taxes.

3. **Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections**

   *Change in accounting policy that is difficult to distinguish from change in accounting estimate*
   In the first quarter ended June 30, 2012, IHI and its major domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment acquired on or after April 1, 2012 in line with the revision of the Corporate Tax Act. The effect of this change on financial statements for the nine months under review is minimal.

## QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

### 1. CONSOLIDATED BALANCE SHEETS

(Millions of yen)

| | December 31, 2012 | March 31, 2012 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 76,383 | 63,914 |
| Notes and accounts receivable-trade | 321,365 | 348,671 |
| Short-term investment securities | 505 | 2,736 |
| Finished goods | 23,050 | 23,320 |
| Work in process | 267,109 | 218,224 |
| Raw materials and supplies | 106,662 | 109,500 |
| Other | 97,188 | 84,281 |
| Allowance for doubtful accounts | (6,674) | (6,282) |
| Total current assets | 885,588 | 844,364 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 149,253 | 153,596 |
| Other, net | 193,243 | 181,149 |
| Total property, plant and equipment | 342,496 | 334,745 |
| Intangible assets | | |
| Goodwill | 9,063 | 5,073 |
| Other | 17,083 | 18,539 |
| Total intangible assets | 26,146 | 23,612 |
| Investments and other assets | | |
| Other | 151,638 | 141,557 |
| Allowance for doubtful accounts | (3,890) | (6,147) |
| Total investments and other assets | 147,748 | 135,410 |
| Total noncurrent assets | 516,390 | 493,767 |
| Total assets | 1,401,978 | 1,338,131 |

## 1. CONSOLIDATED BALANCE SHEETS

(Millions of yen)

| | December 31, 2012 | March 31, 2012 |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 270,597 | 293,493 |
| Short-term loans payable | 180,727 | 124,194 |
| Commercial papers | 15,000 | – |
| Current portion of bonds payable | – | 10,000 |
| Income taxes payable | 12,703 | 13,208 |
| Advances received | 118,560 | 104,393 |
| Provision for bonuses | 13,893 | 24,700 |
| Provision for construction warranties | 17,846 | 15,526 |
| Provision for loss on construction contracts | 25,314 | 29,189 |
| Other provision | 577 | 868 |
| Other | 78,438 | 74,122 |
| Total current liabilities | 733,655 | 689,693 |
| Noncurrent liabilities | | |
| Bonds payable | 63,364 | 53,450 |
| Long-term loans payable | 131,257 | 141,967 |
| Provision for retirement benefits | 129,523 | 129,037 |
| Other provision | 3,883 | 4,392 |
| Other | 65,044 | 61,117 |
| Total noncurrent liabilities | 393,071 | 389,963 |
| Total liabilities | 1,126,726 | 1,079,656 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 95,762 | 95,762 |
| Capital surplus | 43,047 | 43,044 |
| Retained earnings | 129,565 | 116,083 |
| Treasury stock | (734) | (547) |
| Total shareholders' equity | 267,640 | 254,342 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,234 | (361) |
| Deferred gains or losses on hedges | (423) | (55) |
| Revaluation reserve for land | 4,665 | 4,665 |
| Foreign currency translation adjustment | (8,643) | (8,452) |
| Total accumulated other comprehensive income | (3,167) | (4,203) |
| Subscription rights to shares | 563 | 462 |
| Minority interests | 10,216 | 7,874 |
| Total net assets | 275,252 | 258,475 |
| Total liabilities and net assets | 1,401,978 | 1,338,131 |

## 2. CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

### CONSOLIDATED STATEMENTS OF INCOME (Cumulative)

(Millions of yen)

| | Apr. 1, 2012 to Dec. 31, 2012 | Apr. 1, 2011 to Dec. 31, 2011 |
|---|---|---|
| Net sales | 868,142 | 832,330 |
| Cost of sales | 730,470 | 695,870 |
| Gross profit | 137,672 | 136,460 |
| Selling, general and administrative expenses | 113,173 | 109,040 |
| Operating income | 24,499 | 27,420 |
| Non-operating income | | |
| Interest income | 422 | 568 |
| Dividends income | 1,496 | 2,107 |
| Equity in earnings of affiliates | 907 | 409 |
| Foreign exchange gains | 2,758 | – |
| Contribution to research and development costs | – | 2,295 |
| Other | 3,375 | 4,253 |
| Total non-operating income | 8,958 | 9,632 |
| Non-operating expenses | | |
| Interest expenses | 3,379 | 3,952 |
| Foreign exchange losses | – | 2,566 |
| Other | 5,846 | 7,049 |
| Total non-operating expenses | 9,225 | 13,567 |
| Ordinary income | 24,232 | 23,485 |
| Extraordinary income | | |
| Gain on sales of noncurrent assets | 13,904 | 3,134 |
| Gain on sales of investment securities | – | 14,104 |
| Proceeds from accident insurance | – | 2,000 |
| Gain on sale of affiliate stock | – | 987 |
| Total extraordinary income | 13,904 | 20,225 |
| Extraordinary loss | | |
| Loss on valuation of investment securities | 3,001 | 3,679 |
| Provision for loss on subsidiaries and affiliates | 663 | 54 |
| Impairment loss | 362 | 430 |
| Total extraordinary losses | 4,026 | 4,163 |
| Income before income taxes and minority interests | 34,110 | 39,547 |
| Income taxes | 15,075 | 22,019 |
| Income before minority interests | 19,035 | 17,528 |
| Minority interests | 1,043 | 747 |
| Net income | 17,992 | 16,781 |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Cumulative)

(Millions of yen)

| | Apr. 1, 2012 to Dec. 31, 2012 | Apr. 1, 2011 to Dec. 31, 2011 |
|---|---|---|
| Income before minority interests | 19,035 | 17,528 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,600 | (9,646) |
| Deferred gains or losses on hedges | (377) | 151 |
| Revaluation reserve for land | – | 825 |
| Foreign currency translation adjustment | (207) | (1,822) |
| Share of other comprehensive income of associates accounted for using equity method | (31) | (61) |
| Total other comprehensive income | 985 | (10,553) |
| Comprehensive income | 20,020 | 6,975 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of the parent | 18,941 | 6,375 |
| Comprehensive income attributable to minority interests | 1,079 | 600 |

## SEGMENT INFORMATION

### I Nine months ended December 31, 2011

1. Information about sales and profit or loss by reportable segment

(Millions of yen)

| | Reportable Segment | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Energy & Resources | Ships & Offshore Facilities | Social Infrastructure | Logistics Systems & Industrial Machinery | Rotating Equipment & Mass-Production Machinery | Aero Engine & Space | Others | Total | Adjustment (Note) | Consolidated |
| **Sales:** | | | | | | | | | | |
| (1) Sales to outside customers | 190,228 | 127,730 | 69,475 | 86,105 | 112,110 | 193,725 | 52,957 | 832,330 | – | 832,330 |
| (2) Intersegment sales and transfers | 21,871 | 1,184 | 5,922 | 3,786 | 9,164 | 3,917 | 22,132 | 67,976 | (67,976) | – |
| Total | 212,099 | 128,914 | 75,397 | 89,891 | 121,274 | 197,642 | 75,089 | 900,306 | (67,976) | 832,330 |
| Segment profit (Operating income) | 3,940 | 9,236 | 5,895 | 874 | 8,321 | 2,738 | 1,553 | 32,557 | (5,137) | 27,420 |

Note: Adjustment of segment profit represents intersegment transactions of ¥50 million and unallocated corporate expenses of negative ¥5,187 million.
Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.

2. Information about impairment loss of noncurrent assets, goodwill and negative goodwill by reportable segment

*Material impairment loss of noncurrent assets*

In Social Infrastructure Operations, impairment losses of assets for rent were recognized in the amount of ¥406 million for the nine months ended December 31, 2011.

In the Others segment, impairment losses of assets for business were recognized in the amount of ¥24 million for the nine months ended December 31, 2011.

*Material change in goodwill amount*
None

*Material gain on negative goodwill*
None

### II Nine months ended December 31, 2012

1. Information about sales and profit or loss by reportable segment

(Millions of yen)

| | Reportable Segment | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Energy & Resources | Ships & Offshore Facilities | Social Infrastructure | Logistics Systems & Industrial Machinery | Rotating Equipment & Mass-Production Machinery | Aero Engine & Space | Others | Total | Adjustment (Note) | Consolidated |
| **Sales:** | | | | | | | | | | |
| (1) Sales to outside customers | 184,282 | 115,177 | 59,676 | 123,035 | 116,836 | 213,252 | 55,884 | 868,142 | – | 868,142 |
| (2) Intersegment sales and transfers | 25,369 | 2,181 | 3,899 | 1,694 | 6,829 | 8,666 | 17,665 | 66,303 | (66,303) | – |
| Total | 209,651 | 117,358 | 63,575 | 124,729 | 123,665 | 221,918 | 73,549 | 934,445 | (66,303) | 868,142 |
| Segment profit (Operating income) | 4,244 | 6,535 | 2,787 | 4,601 | 3,033 | 9,794 | 1,208 | 32,202 | (7,703) | 24,499 |

Note: Adjustment of segment profit represents intersegment transactions of negative ¥174 million and unallocated corporate expenses of negative ¥7,529 million.
Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.

Main products and services belonging to each segment

(1) Energy & Resources
Boilers, gas turbines, components for nuclear power plants, storage facilities, process plants, power systems and floating LNG storage facilities

(2) Ships & Offshore Facilities
Shipbuilding, ship repairs and offshore structures

(3) Social Infrastructure
Bridges, construction materials and real estate sales and rental

(4) Logistics Systems & Industrial Machinery
Material handling systems, physical distribution and factory automation systems, parking systems, traffic systems, steel manufacturing equipment, paper production machines and environmental control systems

(5) Rotating Equipment & Mass-Production Machinery
Compressors and vehicular turbochargers

(6) Aero Engine & Space
Jet engines, space-related equipment and defense machinery

(7) Others
Diesel engines, agricultural machinery, construction machinery and other services

2. Information about impairment loss of noncurrent assets, goodwill and negative goodwill by reportable segment

*Material impairment loss of noncurrent assets*
None

*Material change in goodwill amount*
In the Others segment, Meisei Electric Co., Ltd. was made IHI's subsidiary through a tender offer for stock. ¥3,703 million of gain on goodwill was recognized by this event in the nine months ended December 31, 2012.
In Energy & Resources Operations, EPC Center Houston of Kvaerner Americas was acquired, establishing IHI E&C International Corporation. ¥1,072 million of gain on goodwill was recognized by this event in the nine months ended December 31, 2012.

*Material gain on negative goodwill*
None