

**CONSOLIDATED FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED MARCH 31, 2017
<Japanese GAAP>**

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

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Annual General Meeting of Shareholders: June 23, 2017 (planned)
 Commencement of Dividend Payments: –
 Submission of Annual Securities Report: June 23, 2017 (planned)

Preparing supplementary material on financial results: Yes
 Holding financial results presentation meeting: Yes (for institutional investors and analysts)

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. CONSOLIDATED PERFORMANCE FOR THE YEAR ENDED MARCH 31, 2017
(APRIL 1, 2016 to MARCH 31, 2017)**

(1) Consolidated Business Results

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

| | Net Sales | Percentage Change | Operating Profit | Percentage Change | Ordinary Profit | Percentage Change |
|---|------------------|-------------------|------------------|-------------------|-----------------|-------------------|
| Fiscal year ended March 31, 2017 | 1,486,332 | (3.4)% | 47,389 | 114.9% | 22,011 | 126.5% |
| Fiscal year ended March 31, 2016 | 1,539,388 | 5.7% | 22,048 | (65.1)% | 9,716 | (82.8)% |

| | Profit Attributable to Owners of Parent | Percentage Change | Basic Earnings per Share (Yen) | Diluted Earnings per Share (Yen) | Return on Equity | Ordinary Profit to Total Assets | Operating Profit to Net Sales |
|---|---|-------------------|--------------------------------|----------------------------------|------------------|---------------------------------|-------------------------------|
| Fiscal year ended March 31, 2017 | 5,247 | 243.2% | 3.40 | 3.40 | 1.6% | 1.3% | 3.2% |
| Fiscal year ended March 31, 2016 | 1,529 | (83.2)% | 0.99 | 0.99 | 0.5% | 0.6% | 1.4% |

(Note) Comprehensive income
 Fiscal year ended March 31, 2017: ¥4,628 million –%
 Fiscal year ended March 31, 2016: ¥ (15,228) million –%

(Reference) Share of profit (loss) of entities accounted for using equity method
 Fiscal year ended March 31, 2017: ¥ (3,538) million
 Fiscal year ended March 31, 2016: ¥1,167 million

(2) Consolidated Financial Position

(Millions of yen, except per share figures)

| | Total Assets | Net Assets | Equity to Total Assets | Net Assets per Share of Common Stock (Yen) |
|-----------------------|------------------|----------------|------------------------|--|
| March 31, 2017 | 1,692,831 | 337,630 | 18.8% | 206.03 |
| March 31, 2016 | 1,715,056 | 333,359 | 18.6% | 206.16 |

(Reference) Equity at the end of the period (consolidated)

March 31, 2017: ¥318,163 million

March 31, 2016: ¥318,310 million

(3) Consolidated Cash Flows

(Millions of yen)

| | Operating Activities | Investing Activities | Financing Activities | Cash and Cash Equivalents at the End of Period |
|---|----------------------|----------------------|----------------------|--|
| Fiscal year ended March 31, 2017 | 65,373 | (28,961) | (21,941) | 115,911 |
| Fiscal year ended March 31, 2016 | 95,338 | (35,513) | (47,530) | 103,611 |

2. DIVIDENDS

| (Record Date) | Dividends per Share | | | Total Amount of Dividend Payment (Millions of yen) | Dividend Payout Ratio (Consolidated) | Dividend to Net Assets Ratio (Consolidated) |
|--|---------------------|----------------|--------------|--|--------------------------------------|---|
| | Interim (Yen) | Year-end (Yen) | Annual (Yen) | | | |
| Fiscal year ended March 31, 2017 | 0.00 | 0.00 | 0.00 | – | – | – |
| Fiscal year ended March 31, 2016 | 3.00 | 0.00 | 3.00 | 4,632 | 303.0% | 0.3% |
| Fiscal year ending March 31, 2018 (Forecast) | 3.00 | 3.00 | 6.00 | | 40.3% | |

3. CONSOLIDATED FORECASTS OF RESULTS FOR THE YEAR ENDING MARCH 31, 2018

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

| | Net Sales | Operating Profit | Ordinary Profit | Profit Attributable to Owners of Parent | Basic Earnings per Share (Yen) | | | | |
|-----------|-----------|------------------|-----------------|---|--------------------------------|--------|--------|--------|-------|
| Full-year | 1,550,000 | 4.3% | 65,000 | 37.2% | 57,000 | 159.0% | 23,000 | 338.3% | 14.89 |

(Note) Please refer to page 8 of the attached materials to this report for the suppositions that form the assumptions for the forecasts above and related matters.

* NOTES

- (1) **Changes in significant subsidiaries during the period under review**
(Changes in specified subsidiaries accompanying changes in scope of consolidation): Not applicable
- (2) **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: Not applicable
 - (iii) Changes in accounting estimates: Not applicable
 - (iv) Restatement of prior period financial statements after error corrections: Not applicable
- (Note) For details, please refer to “(5) NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS,” “CHANGES IN ACCOUNTING POLICIES” on page 25.
- (3) **Number of shares issued (Common stock):**
- (i) Number of shares issued at the end of the period (including treasury shares)
 - As of March 31, 2017 1,546,799,542 shares
 - As of March 31, 2016 1,546,799,542 shares
 - (ii) Number of shares of treasury shares owned at the end of the period
 - As of March 31, 2017 2,562,679 shares
 - As of March 31, 2016 2,825,606 shares
 - (iii) Average number of shares outstanding during the period
 - Fiscal year ended March 31, 2017 1,544,143,682 shares
 - Fiscal year ended March 31, 2016 1,543,681,970 shares

(REFERENCE) OVERVIEW OF NON-CONSOLIDATED PERFORMANCE

NON-CONSOLIDATED PERFORMANCE FOR THE YEAR ENDED MARCH 31, 2017

(APRIL 1, 2016 to MARCH 31, 2017)

(1) Non-Consolidated Business Results

(Millions of yen, except per share figures; percentages show the rate of increase or decrease from the fiscal year)

| | Net Sales | Percentage Change | Operating Profit | Percentage Change | Ordinary Profit | Percentage Change | Profit | Percentage Change |
|---|----------------|-------------------|------------------|-------------------|-----------------|-------------------|----------------|-------------------|
| Fiscal year ended March 31, 2017 | 719,889 | (2.0)% | 14,079 | – | 15,752 | 57.7% | (6,246) | – |
| Fiscal year ended March 31, 2016 | 734,807 | 6.6% | (12,375) | – | 9,987 | (72.6)% | 31,698 | – |

| | Basic Earnings per Share (Yen) | Diluted Earnings per Share (Yen) |
|---|--------------------------------|----------------------------------|
| Fiscal year ended March 31, 2017 | (4.04) | – |
| Fiscal year ended March 31, 2016 | 20.53 | 20.51 |

(2) Non-Consolidated Financial Position

(Millions of yen, except per share figures)

| | Total Assets | Net Assets | Equity to Total Assets | Net Assets per Share of Common Stock (Yen) |
|-----------------------|------------------|----------------|------------------------|--|
| March 31, 2017 | 1,138,039 | 209,864 | 18.4% | 135.35 |
| March 31, 2016 | 1,179,799 | 214,783 | 18.1% | 138.62 |

(Reference) Equity at the end of the period (non-consolidated)

| | |
|-----------------|------------------|
| March 31, 2017: | ¥209,021 million |
| March 31, 2016: | ¥214,025 million |

* Indication regarding execution of audit procedures

Financial reports are not required to be audited.

* 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 the IHI Group. 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.

(How to obtain supplementary material on financial results)

The supplementary material on financial results shall be posted on IHI's website.

1. SUMMARY OF BUSINESS RESULTS

(1) SUMMARY OF BUSINESS RESULTS AND FINANCIAL POSITION

A. Summary of business results for the fiscal year under review

During the fiscal year under review, the Japanese economy experienced a pickup in exports and production thanks to the support of steady external demand, but was limited to a modest overall recovery by the dramatic movement in foreign exchange rates and soft private consumption. In the global economy as well, although it continued to expand mainly in Europe and the US, uncertainty has continued due to effect of political trends such as the issue of the UK leaving the EU and the policies of the new U.S. president.

Under this economic environment, the IHI Group moved forward with initiatives based on its “Group Management Policies 2016,” a three-year medium-term management plan, which was launched in April 2016.

In the fiscal year under review, orders received decreased 13.4% from the previous fiscal year to ¥1,389.8 billion, while net sales decreased 3.4% to ¥1,486.3 billion.

In terms of profit, operating profit increased 114.9% from the previous fiscal year to ¥47.3 billion, owing to such factors as the disappearance of repair costs of noncompliant welding posted in the previous fiscal year in relation to boiler projects, as well as the reducing deficit in the Social Infrastructure and Offshore Facility segment, despite deterioration of profitability in large projects underway in North America in Process plants Business.

In non-operating income and expenses, while the recording of reversal of accrued expense for delayed delivery of ¥2.2 billion among others as non-operating income, non-operating expenses included a share of loss of entities accounted for using equity method of ¥3.5 billion (a decrease of ¥4.7 billion year on year), foreign exchange losses of ¥6.7 billion (a decrease of ¥1.5 billion year on year), and other non-operating expenses including compensation for damage of ¥20.6 billion (a decrease of ¥7.9 billion year on year).

As a result, ordinary profit increased 126.5% from the previous fiscal year to ¥22.0 billion.

In extraordinary income and losses, extraordinary income posted included ¥23.5 billion for the gain on sales of non-current assets such as the sale of land of a building in Toyosu, Koto-ku, which was announced on February 27, 2017, and ¥3.4 billion for the gain on contribution of securities to retirement benefit trust. On the other hand, extraordinary losses posted included ¥9.9 billion for business structural reform expenses related to the F-LNG/Offshore structure Business, which were announced on April 25, 2017, ¥6.9 billion for settlement-related expenses related to delivered boiler facilities, and ¥9.8 billion for a loss on transfer related to the transfer of shares in UNIGEN Inc., which was until January 2017 an affiliate of IHI.

As a result, profit attributable to owners of parent increased 243.2% from the previous fiscal year to ¥5.2 billion.

Starting from the fiscal year under review, the end of fiscal year for certain overseas consolidated subsidiaries has been changed from December 31 to March 31, with the result that the fiscal year ended March 31, 2017 consists of the 15 months from January 1, 2016 to March 31, 2017.

The business environments by reportable segment for the fiscal year under review are as follows:

Resources, Energy and Environment

In Power systems for land and marine use Business and Process plants Business, due partly to falling oil prices there has been a slowing of investment in the oil and gas industry leading to projects being postponed or cancelled, and demand is on a declining trend. In Boiler Business, in Japan, amid delays in the restarting of nuclear power plants, there has been strong demand for remodeling work aimed at continued operation of existing facilities, while overseas, primarily in emerging countries, there is firm demand for high-efficiency and environment-friendly facilities.

In this Business Segment, as well as working to expand and enhance energy resource usage technologies, we moved ahead with initiatives to deal with diversified power source needs (decentralization and stabilization) and to enhance and rapidly commercialize technologies to reduce environmental burden.

Social Infrastructure and Offshore Facility

In Bridge/water gate Business and Concrete construction materials Business, in addition to anticipating an increase in maintenance demand aimed at enhancing safety in major domestic cities, we also expect an expansion in repair-related demand for decrepit bridges overseas, and from urbanization-related demand in emerging countries. In Shield tunneling machine Business in Japan, we expect strong demand for large-scale infrastructure works, primarily in the Tokyo area.

Also, in F-LNG/Offshore structure Business, the IHI Group is doing its utmost to complete the projects that are currently under construction. With regard to the Aichi Works, where the production facilities of this Business are located, we stopped accepting new orders and explored into transforming the business structure to focus on aluminum SPB tanks, but given the prospects for the offshore market, we judged that it would be difficult to ensure profitability by continuous input of new orders. Accordingly, after the completion of projects for which orders have already been received, we have decided to end the Aichi Works' function as a production base. In this Business Segment, in order to continuously offer products, systems and services that help the development of society and of the national land, as well as achieve safety and security, we are promoting initiatives such as those aimed at upgrading infrastructure while making it more robust and disaster-proof.

Industrial System and General-Purpose Machinery

In Vehicular turbocharger Business and Thermal and surface treatment Business, demand is strong amid rising global demand for automobiles, the strengthening of environmental regulations in countries worldwide and the shift towards improved fuel economy. In Logistics/industrial system Business, due to the trend in Japan towards recovery in capital investment and the expansion of labor-saving measures, caused by insufficient labor, such as the introduction of robots, we expect growth in demand going forward.

For this Business Segment, by pushing ahead with continuous business structural reform and leveraging ICT and robots, we are accelerating initiatives aimed at creating value for the customer through enhancing products and services, and working to improve profitability by expanding and optimizing the global network.

Aero Engine, Space and Defense

Demand for civil aero engines continues to grow steadily against a background of strong airline results driven by robust tourist demand and lower oil prices.

In this Business Segment, we have made steady progress in dealing with rising demand for spare parts for aero engines and in measures to reduce costs for the new PW1100G engine, which at this early stage of volume production has low profitability, and we are pursuing initiatives to hold to a minimum the effect of deterioration in profitability caused by the increase in shipment volumes.

The results by reportable segment for the fiscal year under review amid this environment are as follows:

| Reportable segment | Orders received | | | Fiscal year ended March 31, 2016 | | Fiscal year ended March 31, 2017 | | Changes from the previous fiscal year (%) | |
|---|----------------------------------|----------------------------------|---|----------------------------------|-------------------------|----------------------------------|-------------------------|---|-------------------------|
| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2017 | Changes from the previous fiscal year (%) | Sales | Operating profit (loss) | Sales | Operating profit (loss) | Sales | Operating profit (loss) |
| | | | | | | | | | |
| Resources, Energy and Environment | 532.7 | 352.8 | (33.8) | 452.4 | (2.2) | 427.3 | (10.6) | (5.6) | – |
| Social Infrastructure and Offshore Facility | 128.5 | 150.1 | 16.8 | 168.1 | (48.9) | 157.7 | (12.0) | (6.2) | – |
| Industrial System and General-Purpose Machinery | 421.8 | 420.5 | (0.3) | 404.7 | 12.6 | 411.6 | 17.5 | 1.7 | 38.1 |
| Aero Engine, Space and Defense | 515.6 | 451.5 | (12.4) | 500.2 | 58.4 | 471.9 | 53.0 | (5.6) | (9.3) |
| Total Reportable Segment | 1,598.7 | 1,375.0 | (14.0) | 1,525.5 | 19.8 | 1,468.7 | 47.8 | (3.7) | 140.7 |
| Others | 65.7 | 68.3 | 4.0 | 69.8 | 2.1 | 75.1 | 2.5 | 7.6 | 22.1 |
| Adjustment | (59.1) | (53.5) | – | (56.0) | 0.0 | (57.5) | (3.0) | – | – |
| Total | 1,605.3 | 1,389.8 | (13.4) | 1,539.3 | 22.0 | 1,486.3 | 47.3 | (3.4) | 114.9 |

B. Profit Distribution

After taking into consideration a broad range of factors, including business results and retained earnings, the IHI Group plans to suspend the year-end dividend payment for the fiscal year ended March 31, 2017.

C. Summary of financial position for the fiscal year under review

Assets and liabilities, and net assets

Total assets at the end of the fiscal year under review were ¥1,692.8 billion, down ¥22.2 billion from the end of the previous fiscal year. The main items with significant increase were work in process, up ¥17.9 billion, and cash and deposits, up ¥12.3 billion. The main items with significant decrease were notes and accounts receivable - trade, down ¥41.7 billion, and raw materials and supplies, down ¥8.1 billion.

Total liabilities were ¥1,355.2 billion, a decrease of ¥26.4 billion compared with the end of the previous fiscal year. The main item with significant increase was advances received, up ¥28.5 billion. The main items with significant decrease were accrued expenses, down ¥22.7 billion, provision for loss on construction contracts, down ¥15.8 billion and notes and accounts payable - trade, down ¥11.5 billion.

Net assets were ¥337.6 billion, up ¥4.2 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥5.2 billion.

As a result of the above, the ratio of equity to total assets slightly increased from 18.6% at the end of the previous fiscal year to 18.8%.

The balance of interest bearing liabilities, including lease obligations, was ¥371.9 billion, down ¥2.6 billion from the end of the previous fiscal year.

Cash flows

At the end of the fiscal year under review, the outstanding balance of cash and cash equivalents (hereinafter, "cash") was ¥115.9 billion, an increase of ¥12.3 billion from the end of the previous fiscal year.

Net cash provided by operating activities was ¥65.3 billion. The main factors of increase were recognition of depreciation of ¥57.8 billion, a decrease in notes and accounts receivable - trade of ¥41.5 billion, an increase in advances received of ¥30.3 billion, while the main factors of decrease were a decrease in accrued expenses of ¥27.0 billion, an increase in inventories of ¥17.1 billion, a decrease in provision for loss on construction contracts of ¥16.1 billion and payments for guarantee of obligations of ¥10.2 billion.

Net cash used in investing activities was ¥28.9 billion. This was due mainly to purchase of property, plant and equipment and intangible assets of ¥54.2 billion and proceeds from sales of property, plant and equipment ¥28.8 billion.

Net cash used in financing activities was ¥21.9 billion. This was due mainly to proceeds from long-term loans payable of ¥49.6 billion, repayments of long-term loans payable of ¥57.4 billion and redemption of bonds of ¥10.0 billion.

(Reference) Trends in cash flow indicators

| | Fiscal year ended March 31, 2013 | Fiscal year ended March 31, 2014 | Fiscal year ended March 31, 2015 | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2017 |
|---------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Equity to total assets | 21.1% | 23.1% | 20.5% | 18.6% | 18.8% |
| Market value equity ratio | 30.7% | 44.8% | 51.4% | 21.4% | 32.0% |
| Debt redemption period | 4.8 years | 9.1 years | 6.5 years | 3.9 years | 5.7 years |
| Interest coverage ratio | 16.4 | 9.5 | 15.6 | 23.1 | 21.0 |

Notes 1. The calculation method for each indicator is shown below:

- Equity to total assets: $\text{Equity} / \text{Total assets}$
- Market value equity ratio: $\text{Market capitalization} / \text{Total assets}$
- Debt redemption period: $\text{Interest-bearing liabilities} / \text{Operating cash flow}$
- Interest coverage ratio: $\text{Operating cash flow} / \text{Interest payments}$

2. All indicators are calculated using financial figures on a consolidated basis.

Major management indicators

The IHI Group will move forward with initiatives based on its “Group Management Policies 2016,” a three-year medium-term management plan with fiscal year 2016 as the first year and seek to strengthen the earnings foundations. In terms of specific numerical targets, the IHI Group is aiming for a consolidated operating margin of 7%, ROIC (return on invested capital) of 10% and a D/E ratio of 0.7 times or less in fiscal 2018. The major management indicators over time are as follows:

| | Fiscal year ended March 31, 2014 | Fiscal year ended March 31, 2015 | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2017 | Fiscal year ending March 31, 2019 (Targets) |
|----------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|---|
| Consolidated operating margin | 4.1% | 4.3% | 1.4% | 3.2% | 7.0% |
| ROIC | 5.3% | 5.8% | 2.3% | 5.0% | 10.0% |
| D/E ratio | 0.99 times | 1.14 times | 1.12 times | 1.10 times | 0.7 times or less |

Note: The calculation method for each indicator is shown below:

- ROIC: (Operating profit + Interest income and dividend income) after tax / (Equity + Interest bearing liabilities)
- D/E ratio: Interest bearing liabilities / Net assets

(2) FUTURE OUTLOOK

A. Forecasts of consolidated results

Going forward, the IHI Group forecasts that the overall Japanese economy will remain in a recovery trend due to increased exports and capital investment. The IHI Group expects the global economy will be supported by the economies of the developed countries, and that it will continue firmly as well. However, the IHI Group believes suitable caution will need to be exercised as there are numerous downside risks, such as expanding geopolitical risks and a rising global trend toward protectionism.

For the fiscal year ending March 31, 2018, the IHI Group is forecasting consolidated net sales of ¥1,550.0 billion. In terms of profits, the IHI Group forecasts consolidated operating profit of ¥65.0 billion, consolidated ordinary profit of ¥57.0 billion, and profit attributable to owners of parent of ¥23.0 billion. The above forecasts assume exchange rates of ¥105/US\$1 and ¥115/EUR1.

From the fiscal year ended March 31, 2017, the IHI Group rolled out a change to the end of fiscal year of overseas consolidated subsidiaries from December 31 to March 31. As a result, for the fiscal year ending March 31, 2018, certain consolidated subsidiaries will have a fiscal year of 15 months from January 1, 2017 until March 31, 2018.

Also, from the fiscal year ending March 31, 2018, the depreciation method for property, plant and equipment such as machinery is scheduled to change from the previous declining-balance method to the straight-line method.

B. Profit distribution

The IHI Group considers it important to provide stable dividends to shareholders and accordingly plans to pay a dividend of ¥6 per share (interim dividend: ¥3, year-end dividend: ¥3) for the fiscal year ending March 31, 2018.

2. OVERVIEW OF THE CORPORATE GROUP

| | ○Production | □Sale | ●Engineering | ▲Installation | ■Service |
|--|---|-------|---|---------------------------------------|--|
| Resources, Energy & Environment | IHI Corporation | | | | |
| | IHI PACKAGED BOILER CO., LTD./ Kotobuki Iron Works Co., Ltd./ Niigata Power Systems Co., Ltd./ IHI Enviro Corporation | | | | |
| | NICO Precision Co., Inc./ PT Cilegon Fabricators/ TOSHIBA IHI Power Systems Corporation | | IHI Plant Engineering Corporation/ Aomori Plant Co., Ltd.(○) and other 1 company | | |
| | NIGATA POWER SYSTEMS (SINGAPORE) PTE. LTD. (■) | | IHI Plant Construction Co.,Ltd./ ISHI POWER SDN.BHD./ Steinmüller Engineering GmbH/ JURONG ENGINEERING LIMITED and its 21 subsidiaries/ IHI E&C International Corporation and its 2 subsidiaries | | Kanamachi Purification Plant Energy Service Co., Ltd./ Toyosu Energy Service Co., Ltd./ IHI POWER SYSTEM MALAYSIA SDN.BHD./ IHI South east Technologies, Inc. and its 1 subsidiary |
| | Diesel United, Ltd.(■) | | | IHI Power System (Thailand) Co., Ltd. | |
| Social Infrastructure & Offshore Facilities | IHI Infrastructure Systems Co., Ltd./ IHI Construction Service Co., Ltd./ IHI INFRASTRUCTURE ASIA CO., LTD./ JIM Technology Corporation | | | | |
| | Niigata Transys Co., Ltd.(■) | | | | |
| | IHI CONSTRUCTION MATERIALS Co., Ltd. | | | | Chiba Warehouse Co., Ltd./ San-Etsu Co., Ltd./ Japan Tunnel Systems Corporation |
| | Livecon Engineering Co., Ltd.(■) | | | IHI California Inc. | |
| Industrial Systems & General - Purpose Machinery | IHI Transport Machinery Co., Ltd./ IHI Machinery and Furnace Co., Ltd./ IHI Hauzer Techno Coating B.V. and its 5 subsidiaries/ Jiangsu IHI Fengdong Vacuum Technology Co., Ltd./ IHI Compressor and Machinery Co., Ltd./ IHI-Sullair Compression Technology (Suzhou) Co., Ltd./ IHI Logistics & Machinery Corporation/CENTRAL CONVEYOR COMPANY, LTD./ Voith IHI Paper Technology Co., Ltd | | | | |
| | IHI Turbo Co., Ltd. | | | | |
| | IHI Fuso Engineering Co., Ltd. | | | | |
| | IHI Shibaura Machinery Corporation(■)/ IHI STAR Machinery Corporation(■)/ Clover Turbo Co., Ltd.(■)/ IHI Turbo America Co./ IHI Charging Systems International GmbH and its 2 subsidiaries/ SHANGHAI STAR MODERN AGRICULTURE EQUIPMENT CO., LTD.(■) | | | | IHI Press Technology America, Inc. / Indigo TopCo Ltd. and its 24 subsidiaries/ New Metal Engineering, LLC/ IUK (HK) LIMITED/ IHI Technical Training Institution/ ISM America Inc./ IHI VTN GmbH and its 3 subsidiaries |
| | IHI TURBO (THAILAND) CO., LTD./ Changchun FAWER-IHI Turbo Co., Ltd./ Wuxi IHI Turbo Co., Ltd./ IHI Transport Machinery Taiwan Corporation(■) | | Nishi-nihon Sekkei Engineering Co., Ltd. | | |
| Aero Engine, Space & Defense | IHI CASTINGS CO., LTD./ IHI MASTER METAL Co., Ltd./ IHI Aero Manufacturing Co., Ltd. | | IHI Jet Service Co., Ltd./ INC Engineering Co., Ltd. | | |
| | | | IHI AEROSPACE ENGINEERING CO., LTD. | | IHI - ICR, LLC./ IHI Aero Engines US Co., Ltd./ IHI Investment for Aero Engine Leasing LLC |
| | IHI AEROSPACE CO., LTD. | | | | |
| Others | IHI Trading, Inc./ IHI Europe Ltd./ IHI do Brasil Representações Ltda. | | | | |
| | IHI INC.(■)/ IHI (Shanghai) Management Co., Ltd.(■)/ IHI ASIA PACIFIC PTE. LTD.(■)/ IHI ASIA PACIFIC (Thailand) CO., LTD.(■) | | | | |
| | IHI ENGINEERING AUSTRALIA PTY. LTD. | | | | |
| | Meisei Electric Co., Ltd.(★) and its 1 subsidiary/Takashima Giken Co., Ltd. | | | | |
| | IHI Inspection & Instrumentation Co., Ltd. | | | | |

*The consolidated subsidiaries comprising the segments are shown in the above table. The functions fulfilled by each consolidated subsidiary in the segments are divided into the five categories of Production, Sale, Engineering, Installation, and Service and shown above.

*For subsidiaries that fulfill multiple functions, the following marks are shown to the right of the company name for those companies for which the functions cannot be listed: ○, □, ●, ▲, and ■.

*The consolidated subsidiaries in the above table are current as of March 31, 2017, and subsidiaries listed on the Tokyo Stock Exchange Second Section are noted with the “★” mark.

3. BASIC RATIONALE FOR SELECTING THE ACCOUNTING STANDARD

The IHI Group's consolidated financial statements adopt the generally accepted accounting standards in Japan (Japanese GAAP).

With respect to IFRS, the IHI Group is conducting an investigation into the impact on the IHI Group from the point of view of improving the quality of the Group's corporate management and strengthening the Group's corporate governance. The IHI Group will make a response after giving consideration to business expansion overseas and circumstances of adoption in Japan.

IHI is proceeding with an initiative to unify financial reporting periods of its overseas consolidated subsidiaries. Starting from the fiscal year ended March 31, 2017, financial reporting period of its consolidated subsidiaries is being changed.

4. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

| | March 31, 2016 | March 31, 2017 |
|--|------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and deposits | 106,536 | 118,909 |
| Notes and accounts receivable - trade | 444,838 | 403,094 |
| Securities | 1,403 | – |
| Finished goods | 23,537 | 20,719 |
| Work in process | 254,907 | 272,823 |
| Raw materials and supplies | 131,865 | 123,726 |
| Deferred tax assets | 61,956 | 44,783 |
| Other | 86,512 | 95,233 |
| Allowance for doubtful accounts | (11,048) | (5,445) |
| Total current assets | 1,100,506 | 1,073,842 |
| Non-current assets: | | |
| Property, plant and equipment: | | |
| Buildings and structures, net | 142,597 | 136,801 |
| Machinery, equipment and vehicles, net | 72,648 | 69,648 |
| Land | 90,936 | 92,284 |
| Leased assets, net | 16,412 | 14,285 |
| Construction in progress | 8,927 | 11,623 |
| Other, net | 18,216 | 17,767 |
| Total property, plant and equipment | 349,736 | 342,408 |
| Intangible assets: | | |
| Goodwill | 22,043 | 16,166 |
| Software | 14,449 | 14,454 |
| Other | 13,113 | 10,536 |
| Total intangible assets | 49,605 | 41,156 |
| Investments and other assets: | | |
| Investment securities | 139,463 | 134,676 |
| Deferred tax assets | 47,338 | 65,697 |
| Net defined benefit asset | 11 | 21 |
| Other | 30,380 | 36,715 |
| Allowance for doubtful accounts | (1,983) | (1,684) |
| Total investments and other assets | 215,209 | 235,425 |
| Total non-current assets | 614,550 | 618,989 |
| Total assets | 1,715,056 | 1,692,831 |

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

| | March 31, 2016 | March 31, 2017 |
|---|----------------|----------------|
| LIABILITIES | | |
| Current liabilities: | | |
| Notes and accounts payable - trade | 297,499 | 285,937 |
| Short-term loans payable | 94,550 | 104,111 |
| Commercial papers | 5,000 | 5,000 |
| Current portion of bonds | 10,000 | 10,000 |
| Accrued expenses | 118,932 | 96,213 |
| Income taxes payable | 8,222 | 5,674 |
| Advances received | 180,352 | 208,907 |
| Provision for bonuses | 24,610 | 23,714 |
| Provision for construction warranties | 44,337 | 47,939 |
| Provision for loss on construction contracts | 53,223 | 37,324 |
| Other provision | 379 | 248 |
| Other | 45,665 | 51,181 |
| Total current liabilities | 882,769 | 876,248 |
| Non-current liabilities: | | |
| Bonds payable | 60,000 | 50,000 |
| Long-term loans payable | 187,085 | 182,495 |
| Lease obligations | 12,968 | 13,782 |
| Deferred tax liabilities for land revaluation | 5,158 | 4,884 |
| Net defined benefit liability | 154,968 | 150,920 |
| Provision for loss on business of subsidiaries and affiliates | 2,805 | 1,149 |
| Other provision | 1,377 | 1,308 |
| Other | 74,567 | 74,415 |
| Total non-current liabilities | 498,928 | 478,953 |
| Total liabilities | 1,381,697 | 1,355,201 |
| NET ASSETS | | |
| Shareholders' equity: | | |
| Capital stock | 107,165 | 107,165 |
| Capital surplus | 54,431 | 53,510 |
| Retained earnings | 144,789 | 149,832 |
| Treasury shares | (565) | (513) |
| Total shareholders' equity | 305,820 | 309,994 |
| Accumulated other comprehensive income: | | |
| Valuation difference on available-for-sale securities | 1,580 | 2,892 |
| Deferred gains or losses on hedges | (377) | (277) |
| Revaluation reserve for land | 5,423 | 5,427 |
| Foreign currency translation adjustment | 9,954 | 1,298 |
| Remeasurements of defined benefit plans | (4,090) | (1,171) |
| Total accumulated other comprehensive income | 12,490 | 8,169 |
| Subscription rights to shares | 758 | 843 |
| Non-controlling interests | 14,291 | 18,624 |
| Total net assets | 333,359 | 337,630 |
| Total liabilities and net assets | 1,715,056 | 1,692,831 |

(2) CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

| | April 1, 2015 to March 31, 2016 | April 1, 2016 to March 31, 2017 |
|--|------------------------------------|------------------------------------|
| Net sales | 1,539,388 | 1,486,332 |
| Cost of sales | 1,320,376 | 1,244,033 |
| Gross profit | 219,012 | 242,299 |
| Selling, general and administrative expenses | 196,964 | 194,910 |
| Operating profit | 22,048 | 47,389 |
| Non-operating income | | |
| Interest income | 920 | 870 |
| Dividend income | 1,997 | 1,701 |
| Share of profit of entities accounted for using equity method | 1,167 | – |
| Reversal of accrued expenses for delayed delivery | – | 2,232 |
| Other income | 5,277 | 3,800 |
| Total non-operating income | 9,361 | 8,603 |
| Non-operating expenses | | |
| Interest expenses | 3,922 | 3,131 |
| Share of loss of entities accounted for using equity method | – | 3,538 |
| Foreign exchange losses | 5,122 | 6,700 |
| Other expenses | 12,649 | 20,612 |
| Total non-operating expenses | 21,693 | 33,981 |
| Ordinary profit | 9,716 | 22,011 |
| Extraordinary income | | |
| Gain on sales of non-current assets | 28,648 | 23,533 |
| Gain on contribution of securities to retirement benefit trust | 6,358 | 3,481 |
| Reversal of provision for loss on business of subsidiaries and affiliates | – | 1,656 |
| Gain on bargain purchase | – | 1,079 |
| Gain on transfer of shares of subsidiaries and affiliates | – | 798 |
| Gain on sales of investment securities | 1,804 | – |
| Total extraordinary income | 36,810 | 30,547 |
| Extraordinary losses | | |
| Business structural reform expenses related to the F-LNG/Offshore structure Business | – | 9,914 |
| Loss on transfer of receivables | – | 9,834 |
| Settlement-related expenses related to delivered boiler facilities | – | 6,988 |
| Impairment loss | 81 | 3,461 |
| Compensation for change of construction contracts | – | 2,248 |
| Dismantlement costs of an underpass in Toyosu | – | 2,035 |
| Expenses for delayed delivery | 44,628 | – |
| Loss on valuation of shares of subsidiaries and affiliates | 1,756 | – |
| Provision for loss on business of subsidiaries and affiliates | 1,700 | – |
| Total extraordinary losses | 48,165 | 34,480 |

CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

| | April 1, 2015 to March 31, 2016 | April 1, 2016 to March 31, 2017 |
|--|------------------------------------|------------------------------------|
| Profit (loss) before income taxes | (1,639) | 18,078 |
| Income taxes - current | 18,889 | 10,872 |
| Income taxes - deferred | (25,660) | (2,479) |
| Total income taxes | (6,771) | 8,393 |
| Profit | 5,132 | 9,685 |
| Profit attributable to non-controlling interests | 3,603 | 4,438 |
| Profit attributable to owners of parent | 1,529 | 5,247 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of yen)

| | April 1, 2015 to March 31, 2016 | April 1, 2016 to March 31, 2017 |
|--|------------------------------------|------------------------------------|
| Profit | 5,132 | 9,685 |
| Other comprehensive income: | | |
| Valuation difference on available-for-sale securities | (14,353) | 1,096 |
| Deferred gains or losses on hedges | 376 | 332 |
| Revaluation reserve for land | 284 | 7 |
| Foreign currency translation adjustment | (5,364) | (8,945) |
| Remeasurements of defined benefit plans, net of tax | (705) | 2,480 |
| Share of other comprehensive income of entities accounted for using equity method | (598) | (27) |
| Total other comprehensive income | (20,360) | (5,057) |
| Comprehensive income | (15,228) | 4,628 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | (18,338) | 1,076 |
| Comprehensive income attributable to non-controlling interests | 3,110 | 3,552 |

(3) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

April 1, 2015 to March 31, 2016

(Millions of yen)

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 107,165 | 54,438 | 152,563 | (655) | 313,511 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | (9,262) | | (9,262) |
| Profit attributable to owners of parent | | | 1,529 | | 1,529 |
| Purchase of treasury shares | | | | (6) | (6) |
| Disposal of treasury shares | | (6) | | 96 | 90 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | (1) | | | (1) |
| Net decrease from newly consolidated subsidiaries | | | (19) | | (19) |
| Net decrease from merger with non-consolidated subsidiaries | | | (22) | | (22) |
| Net changes of items other than shareholders' equity | | | | | – |
| Total changes of items during period | – | (7) | (7,774) | 90 | (7,691) |
| Balance at end of current period | 107,165 | 54,431 | 144,789 | (565) | 305,820 |

(Millions of yen)

| | Accumulated other comprehensive income | | | | | | Subscription rights to shares | Non-controlling interests | Total net assets |
|---|---|------------------------------------|------------------------------|---|---|--|-------------------------------|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Revaluation reserve for land | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | | |
| Balance at beginning of current period | 16,622 | (743) | 5,166 | 14,783 | (3,545) | 32,283 | 747 | 13,054 | 359,595 |
| Changes of items during period | | | | | | | | | |
| Dividends of surplus | | | | | | – | | | (9,262) |
| Profit attributable to owners of parent | | | | | | – | | | 1,529 |
| Purchase of treasury shares | | | | | | – | | | (6) |
| Disposal of treasury shares | | | | | | – | | | 90 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | – | | | (1) |
| Net decrease from newly consolidated subsidiaries | | | | | | – | | | (19) |
| Net decrease from merger with non-consolidated subsidiaries | | | | | | – | | | (22) |
| Net changes of items other than shareholders' equity | (15,042) | 366 | 257 | (4,829) | (545) | (19,793) | 11 | 1,237 | (18,545) |
| Total changes of items during period | (15,042) | 366 | 257 | (4,829) | (545) | (19,793) | 11 | 1,237 | (26,236) |
| Balance at end of current period | 1,580 | (377) | 5,423 | 9,954 | (4,090) | 12,490 | 758 | 14,291 | 333,359 |

April 1, 2016 to March 31, 2017

(Millions of yen)

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period | 107,165 | 54,431 | 144,789 | (565) | 305,820 |
| Changes of items during period | | | | | |
| Dividends of surplus | | | | | – |
| Profit attributable to owners of parent | | | 5,247 | | 5,247 |
| Purchase of treasury shares | | | | (2) | (2) |
| Disposal of treasury shares | | (3) | | 54 | 51 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | (918) | | | (918) |
| Net decrease from newly consolidated subsidiaries | | | (204) | | (204) |
| Net decrease from merger with non-consolidated subsidiaries | | | | | – |
| Net changes of items other than shareholders' equity | | | | | – |
| Total changes of items during period | – | (921) | 5,043 | 52 | 4,174 |
| Balance at end of current period | 107,165 | 53,510 | 149,832 | (513) | 309,994 |

(Millions of yen)

| | Accumulated other comprehensive income | | | | | | Subscription rights to shares | Non-controlling interests | Total net assets |
|---|---|------------------------------------|------------------------------|---|---|--|-------------------------------|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Revaluation reserve for land | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | | |
| Balance at beginning of current period | 1,580 | (377) | 5,423 | 9,954 | (4,090) | 12,490 | 758 | 14,291 | 333,359 |
| Changes of items during period | | | | | | | | | |
| Dividends of surplus | | | | | | – | | | – |
| Profit attributable to owners of parent | | | | | | – | | | 5,247 |
| Purchase of treasury shares | | | | | | – | | | (2) |
| Disposal of treasury shares | | | | | | – | | | 51 |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | – | | | (918) |
| Net decrease from newly consolidated subsidiaries | | | | | | – | | | (204) |
| Net decrease from merger with non-consolidated subsidiaries | | | | | | – | | | – |
| Net changes of items other than shareholders' equity | 1,312 | 100 | 4 | (8,656) | 2,919 | (4,321) | 85 | 4,333 | 97 |
| Total changes of items during period | 1,312 | 100 | 4 | (8,656) | 2,919 | (4,321) | 85 | 4,333 | 4,271 |
| Balance at end of current period | 2,892 | (277) | 5,427 | 1,298 | (1,171) | 8,169 | 843 | 18,624 | 337,630 |

(4) CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

| | April 1, 2015 to March 31, 2016 | April 1, 2016 to March 31, 2017 |
|--|------------------------------------|------------------------------------|
| Cash flows from operating activities | | |
| Profit (loss) before income taxes | (1,639) | 18,078 |
| Depreciation | 58,229 | 57,880 |
| Depreciation and amortization on other | 4,874 | 5,537 |
| Gain on bargain purchase | – | (1,079) |
| Impairment loss | 81 | 3,461 |
| Increase (decrease) in allowance for doubtful accounts | (568) | 416 |
| Increase (decrease) in provision for bonuses | (1,986) | (493) |
| Increase (decrease) in provision for construction warranties | 7,718 | 3,993 |
| Increase (decrease) in provision for loss on construction contracts | 24,689 | (16,106) |
| Increase (decrease) in net defined benefit liability | 6,209 | 5,040 |
| Interest and dividend income | (2,917) | (2,571) |
| Interest expenses | 3,922 | 3,131 |
| Foreign exchange losses (gains) | (1,071) | 1,801 |
| Loss (gain) on sales of short-term and long-term investment securities | (1,914) | 430 |
| Loss (gain) on valuation of short-term and long-term investment securities | 3,542 | 890 |
| Share of (profit) loss of entities accounted for using equity method | (1,167) | 3,538 |
| Loss (gain) on disposal of property, plant and equipment | (27,606) | (21,884) |
| Gain on contribution of securities to retirement benefit trust | (6,358) | (3,481) |
| Reversal of provision for loss on business of subsidiaries and affiliates | – | (1,656) |
| Gain on transfer of shares of subsidiaries and affiliates | – | (798) |
| Business structural reform expenses related to the F-LNG/Offshore structure Business | – | 9,914 |
| Loss on transfer of receivables | – | 9,834 |
| Settlement-related expenses related to delivered boiler facilities | – | 6,988 |
| Compensation for change of construction contracts | – | 2,248 |
| Dismantlement costs of an underpass in Toyosu | – | 2,035 |
| Decrease (increase) in notes and accounts receivable - trade | (10,396) | 41,501 |
| Increase (decrease) in advances received | 56,568 | 30,394 |
| Decrease (increase) in advance payments | (12,912) | (1,613) |
| Decrease (increase) in inventories | (12,179) | (17,175) |
| Increase (decrease) in notes and accounts payable - trade | 80 | (7,250) |
| Increase (decrease) in accrued expenses | 37,376 | (27,098) |
| Decrease (increase) in other current assets | (1,191) | (10,579) |
| Increase (decrease) in other current liabilities | (4,169) | (115) |
| Decrease (increase) in consumption taxes refund receivable | 13,124 | 2,540 |
| Other, net | (2,956) | (5,130) |
| Subtotal | 127,383 | 92,621 |
| Interest and dividend income received | 4,789 | 4,235 |
| Interest expenses paid | (4,124) | (3,110) |
| Payments for guarantee of obligations | – | (10,271) |
| Income taxes paid | (32,710) | (18,102) |
| Net cash provided by (used in) operating activities | 95,338 | 65,373 |

(4) CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

| | April 1, 2015 to March 31, 2016 | April 1, 2016 to March 31, 2017 |
|---|------------------------------------|------------------------------------|
| Cash flows from investing activities | | |
| Decrease (increase) in time deposits | (927) | (460) |
| Purchase of short-term and long-term investment securities | (5,852) | (8,681) |
| Proceeds from sales and redemption of short-term and long-term investment securities | 5,131 | 4,429 |
| Purchase of property, plant and equipment and intangible assets | (52,804) | (54,262) |
| Gain (loss) on sales or disposal of property, plant and equipment and intangible assets | 33,576 | 28,831 |
| Payments for transfer of business | – | (328) |
| Purchase of shares and investments of subsidiaries resulting in change in scope of consolidation | (5,051) | – |
| Payments for sales of shares of subsidiaries resulting in change in scope of consolidation | – | (82) |
| Decrease (increase) in short-term loans receivable | 1,656 | 8,592 |
| Payments of long-term loans receivable | (53) | (413) |
| Collection of long-term loans receivable | 60 | 34 |
| Decrease (increase) in other investments | (19,702) | (10,015) |
| (Decrease) increase in other fixed liabilities | 8,568 | 3,294 |
| Other, net | (115) | 100 |
| Net cash provided by (used in) investing activities | (35,513) | (28,961) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans payable | (38,982) | 2,916 |
| Net increase (decrease) in commercial papers | (12,000) | – |
| Proceeds from long-term loans payable | 50,896 | 49,689 |
| Repayments of long-term loans payable | (33,528) | (57,446) |
| Redemption of bonds | – | (10,000) |
| Proceeds from sales and leasebacks | 612 | 273 |
| Repayments of lease obligations | (3,916) | (6,739) |
| Decrease (increase) in treasury shares | (5) | (3) |
| Purchase of treasury shares of subsidiaries | (1) | (1) |
| Cash dividends paid | (9,241) | (16) |
| Proceeds from share issuance to non-controlling shareholders | 1,188 | 1,570 |
| Dividends paid to non-controlling interests | (2,553) | (1,811) |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | – | (373) |
| Net cash provided by (used in) financing activities | (47,530) | (21,941) |
| Effect of exchange rate change on cash and cash equivalents | (1,836) | (3,463) |
| Net increase (decrease) in cash and cash equivalents | 10,459 | 11,008 |
| Cash and cash equivalents at beginning of period | 92,527 | 103,611 |
| Increase in cash and cash equivalents from consolidation of non-consolidated subsidiaries | 272 | 1,357 |
| Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation | (4) | (65) |
| Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries | 357 | – |
| Cash and cash equivalents at end of period | 103,611 | 115,911 |

(5) NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES ON PREMISE OF GOING CONCERN

Not applicable.

BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Scope of Consolidation

Number and names of major consolidated subsidiaries

Number of consolidated subsidiaries: 152

Names of major consolidated subsidiaries: IHI Aerospace Co., Ltd. and others

In the fiscal year under review, changes to consolidated subsidiaries were as follows. Four companies were added by new establishment, three companies were added due to their increased materiality, one subsidiary was removed due to transfer of shares, one subsidiary was removed due to liquidation, two subsidiaries were removed due to merger and two subsidiaries were removed due to their decreased materiality.

2. Application of the Equity Method

Number and names of major affiliates accounted for by the equity method

Number of affiliates accounted for by the equity method: 30

Names of major equity method affiliates: Japan Marine United Corporation and others

In the fiscal year under review, one company was added by new establishment, and one equity method affiliate was removed due to changes in ownership interest.

3. Fiscal Year, etc. for Consolidated Subsidiaries

Effective from the fiscal year under review, the closing date of the fiscal year for 31 companies including JURONG ENGINEERING LIMITED has been changed from December 31 to March 31, and six companies including Changchun FAWER-IHI Turbo Co., Ltd. have been consolidated using March 31 as a provisional closing date.

As a result, for the fiscal year ended March 31, 2017, 37 companies including JURONG ENGINEERING LIMITED have a fifteen-month accounting period.

In the period from January 1, 2016 through March 31, 2016 included in the fiscal year under review, net sales were ¥25,227 million, operating profit was ¥2,798 million, ordinary profit was ¥2,327 million, and profit before income taxes was ¥2,332 million.

4. Significant Accounting Policies

(1) Securities

Securities to be held until maturity are stated at amortized cost (by the straight-line method). Other securities with market prices available are stated at fair market value as of the balance sheet date. The related valuation differences are directly included into net assets and the sale price is computed by the moving-average method. Other securities without market prices available are stated at cost by the moving-average method.

(2) Derivatives

Derivatives are stated at fair market value.

(3) Inventories

Raw materials and supplies are stated at cost by the moving-average method, and finished goods and work in process are stated principally at identified cost. (For figures shown on balance sheet, the book value write-down method based on decreased profitability is used.)

(4) Depreciation and amortization

- Property, plant and equipment (except for leased assets)
These assets are depreciated by the declining-balance method. However, depreciation of lend-lease properties, assets of certain consolidated subsidiaries and buildings (excluding building fixtures) acquired on and after April 1, 1998 and building fixtures and structures acquired on or after April 1, 2016 are computed by the straight-line method.
- Intangible assets (except for leased assets)
These assets are amortized by the straight-line method. Software used internally is amortized using the straight-line method over the useful life of the assets, estimated by IHI (within five years).
- Leased assets
Leased assets related to ownership transfer finance lease transactions are depreciated using the same method as that applied to property, plant and equipment.

Leased assets related to non-ownership transfer finance leases are depreciated over the lease period as useful period using the straight-line method with no residual value. IHI uses the method for ordinary rental transactions for non-ownership transfer finance leases for which lease agreements were concluded on and before March 31, 2008.

(5) Significant allowances and provisions

- Allowance for doubtful accounts
To provide for losses on bad debts, the allowance for doubtful accounts is provided based on historical default rates for general receivables, plus individually estimated amounts for specific uncollectible receivables.
- Provision for bonuses
For payment of employee bonuses, the provision for bonuses is provided for in the amount that is expected to be paid.
- Provision for directors' bonuses
For payment of directors' bonuses, the provision for directors' bonuses is provided for in the amount that is expected to be paid.
- Provision for construction warranties
To provide for guaranteed project expenses, the provision for construction warranties is recorded as an estimate of future expenditures based on historical experience.
- Provision for loss on construction contracts
Provision for loss on construction contracts is provided for in the amount of estimated losses for undelivered projects at the end of the fiscal year.
- Provision for directors' retirement benefits
For payment of retirement benefits to directors and corporate auditors, the provision for directors' retirement benefits is provided for at consolidated subsidiaries in Japan in the amount that would be required to pay, based on the internal policy, if all eligible directors and corporate auditors retired at the end of the fiscal year.

- Provision for loss on business of subsidiaries and affiliates
Provision for loss on business of subsidiaries and affiliates is provided for in the amount of estimated loss in consideration of the contents of assets of subsidiaries and affiliates.

(6) *Accounting method for retirement benefits*

To prepare for employees' retirement benefits, net defined benefit liability is recognized based on the estimated amounts of retirement benefit obligations and pension fund assets at the end of the fiscal year under review. Some consolidated subsidiaries adopt the conventional method to determine net defined benefit liability.

In the calculation of retirement benefit obligations, the method used to attribute projected benefit obligations in the period up to the fiscal year under review is benefit formula basis.

Past service cost is amortized using the straight-line method over a certain number of years within the average remaining service period of employees at the time of accrual.

Actuarial gain or loss is amortized starting in the fiscal year following the fiscal year in which it occurs using the straight-line method over a certain number of years within the average remaining service period of employees.

(7) *Amortization method and period of goodwill*

Goodwill is equally amortized through the estimated effective period of the investment, with the exception that when the amount of goodwill is immaterial, it is charged to expenses as incurred.

(8) *Application of the consolidated taxation system*

The consolidated taxation system has been applied.

CHANGES IN ACCOUNTING POLICIES

Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016

Following the revision to the Corporation Tax Act, IHI has applied the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) from the fiscal year under review, and changed the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.

As a result, operating profit, ordinary profit and profit before income taxes for the fiscal year under review increased respectively by ¥174 million.

ADDITIONAL INFORMATION

Gain on sales of non-current assets

In order to strengthen IHI’s financial position and to secure funds to cover business structural reform expenses, IHI recorded a gain on sales of non-current assets mainly due to the transfer part of the land in the Toyosu area, etc. owned by IHI.

| Details and location of assets | Gain on sales of non-current assets |
|--|-------------------------------------|
| Land (11,540 m ²) 9-15, Toyosu 3-chome, Koto-ku, Tokyo | ¥17,883 million |
| Land (18,185 m ²) 1-1, Toyosu 3-chome, Koto-ku, Tokyo Land (87,478 m ²) 2-1 & 2-2, Ohama-nishimachi, Sakai-ku, Sakai-shi, Osaka Others | ¥5,650 million |

Business structural reform expenses related to the F-LNG/Offshore structure Business

IHI has decided that Aichi Works, which has held F-LNG production facilities, shall end its function as a base for such production after the completion of all projects of orders received.

In light of this resolution, IHI carried out a reevaluation of the asset values of F-LNG production facilities (business assets), and an examination into the recoverability of these assets in accordance with the “Accounting Standards for Impairment of Non-current Assets.” As a result, in addition to performing impairment accounting on the estimated unrecoverable amount, IHI has rationally estimated the dismantlement costs upon the completion of the facility’s production role for a portion of the assets, and decided to record business structural reform expenses of ¥9,914 million as extraordinary losses.

Loss on transfer of receivables

On January 31, 2017, IHI transferred all of the shares of UNIGEN Inc. (hereinafter “UNIGEN”) to API Co., Ltd. IHI had held the right to claim compensation from UNIGEN arising from the performance of debt guarantees corresponding to guarantee of obligations relating to UNIGEN. However, with this transfer, IHI has transferred to API Co., Ltd. the aforesaid right to claim compensation and in relation to this also recorded a loss on transfer of receivables of ¥9,834 million as extraordinary losses.

Settlement-related expenses related to delivered boiler facilities

Concerning boiler facilities that IHI manufactured and delivered in the past, a lawsuit was filed against IHI in 2015 claiming that IHI was liable for an accident involving boiler damage that occurred while performing a trial operation by the customer. Judging that the path of reaching an early resolution and reducing legal risks was in IHI’s best interest, IHI has settled the case by agreeing to bear a portion of the amount incurred by the accident. As a result, IHI recorded settlement package and lawyer fees, etc. of ¥6,988 million as extraordinary losses.

Application of ASBJ Guidance on Recoverability of Deferred Tax Assets

Effective from the first quarter of the fiscal year under review, IHI has applied the “Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

SEGMENT INFORMATION

[Segment information]

1. Overview of reportable segments

The reportable 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.

IHI organizes operation divisions by products and services and the operation divisions deploy business activities formulating both domestic and overseas strategies for each product and service comprehensively. The IHI Group therefore categorizes segments based on the grouping together of operation divisions classified by markets and other similarities of products and services. The four reportable segments are as follows: Resources, Energy and Environment, Social Infrastructure and Offshore Facility, Industrial System and General-Purpose Machinery, and Aero Engine, Space and Defense.

Main businesses, products and services belonging to each segment

| Reportable segment | Main businesses, products and services |
|---|--|
| Resources, Energy and Environment | Boiler, power systems plants, power systems for land and marine use, large power systems for ships, process plants (storage facilities and chemical plants), nuclear power (components for nuclear power plants), environmental response systems, pharmaceutical plants |
| Social Infrastructure and Offshore Facility | Bridge/water gate, shield tunneling machines, transport system, urban development (real estate sales and rental), F-LNG (floating LNG storage facilities, offshore structures) |
| Industrial System and General-Purpose Machinery | Machinery for ships, logistics/industrial system (logistics system, industrial machinery), transport machinery, parking, thermal and surface treatment, vehicular turbocharger, rotating machinery (compressor, separation system, turbocharger for ships), construction machinery*, agricultural machinery/small power systems, steel manufacturing equipment, paper-making machinery |
| Aero Engine, Space and Defense | Aero engines, rocket systems/space utilization systems (space-related equipment), defense system |

*All the shares of Construction machinery Business were transferred to Kato Works Co., Ltd on November, 2016.

2. Calculation method used for sales, profit or loss, assets and liabilities, and other items by reportable segment

The accounting method used for reportable business segments is generally the same as the method stated in “BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS.” Profits from reportable segments are figures based on operating profit.

Intersegment sales and transfers are based on actual market pricing.

Changes to the fiscal year, etc. for consolidated subsidiaries

As stated in “BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS.”, effective from the fiscal year under review, the closing date of the fiscal year for 31 companies including JURONG ENGINEERING LIMITED has been changed from December 31 to March 31, and six companies including Changchun FAWER-IHI Turbo Co., Ltd. have been consolidated using March 31 as a provisional closing date.

As a result, for the fiscal year ended March 31, 2017, 37 companies including JURONG ENGINEERING LIMITED have a fifteen-month accounting period.

In the period from January 1, 2016 through March 31, 2016 included in the fiscal year ended March 31, 2017, sales for each segment were ¥10,982 million for the Resources, Energy and Environment segment, ¥371 million for the Social Infrastructure and Offshore Facility segment, and ¥11,781 million for the Industrial System and General-Purpose Machinery segment. Operating income was ¥615 million for the Resources, Energy and Environment segment, ¥17 million for the Social Infrastructure and Offshore Facility segment, and ¥2,050 million for the Industrial System and General-Purpose Machinery segment.

Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016

As stated in “CHANGES IN ACCOUNTING POLICIES”, IHI has applied the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) from the fiscal year under review, and changed the depreciation method for facilities attached to buildings and structures

acquired on or after April 1, 2016 from the declining-balance method to the straight-line method. As a result, for the fiscal year ended March 31, 2017, segment profit for each segment increased by ¥21 million for the Resources, Energy and Environment segment, ¥30 million for the Social Infrastructure and Offshore Facility segment, ¥28 million for the Industrial System and General-Purpose Machinery segment, and ¥76 million for Aero Engine, Space and Defense segment.

3. Information about sales, profit or loss, assets and liabilities, and other items by reportable segment

Fiscal year ended March 31, 2016

(Millions of yen)

| | Reportable Segment | | | | | Others (Note 1) | Total | Adjustment (Note 2) | Consolidated |
|---|---|--|--|--------------------------------------|-----------|--------------------|-----------|------------------------|--------------|
| | Resources, Energy and Environment | Social Infrastructure and Offshore Facility | Industrial System and General- Purpose Machinery | Aero Engine, Space and Defense | Total | | | | |
| Sales: | | | | | | | | | |
| (1) Sales to outside customers | 443,304 | 161,106 | 393,258 | 497,208 | 1,494,876 | 44,512 | 1,539,388 | – | 1,539,388 |
| (2) Intersegment sales and transfers | 9,172 | 7,033 | 11,509 | 3,000 | 30,714 | 25,341 | 56,055 | (56,055) | – |
| Total | 452,476 | 168,139 | 404,767 | 500,208 | 1,525,590 | 69,853 | 1,595,443 | (56,055) | 1,539,388 |
| Segment profit (Operating profit or loss) | (2,273) | (48,996) | 12,693 | 58,444 | 19,868 | 2,115 | 21,983 | 65 | 22,048 |
| Segment assets | 370,147 | 259,789 | 337,602 | 482,042 | 1,449,580 | 132,160 | 1,581,740 | 133,316 | 1,715,056 |
| Others: | | | | | | | | | |
| Depreciation (Note 3) | 6,626 | 6,373 | 11,888 | 15,839 | 40,726 | 1,066 | 41,792 | 4,948 | 46,740 |
| Share of profit (loss) of entities accounted for using equity method | (214) | – | 971 | (362) | 395 | 1,040 | 1,435 | (268) | 1,167 |
| Increase in property, plant and equipment (Note 4) | 7,504 | 5,909 | 13,878 | 18,547 | 45,838 | 1,539 | 47,377 | 3,451 | 50,828 |

- Notes: 1. The “Others” classification consists of business that is not included in reportable segments. It includes inspection and measurement business, the manufacture and sale of equipment and the like related to such business, and other service operations.
2. Adjustment of segment profit represents intersegment transactions of negative ¥724 million and unallocated corporate expenses of ¥789 million. Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments. Adjustment of ¥133,316 million for segment assets includes corporate assets unallocated to any reportable segment of ¥260,743 million among cash and deposits, buildings and structures, investment securities and other assets, and eliminations of intersegment receivables and payables of negative ¥108,041 million.
3. Depreciation represents depreciation of property, plant and equipment. Adjustment of depreciation represents unallocated depreciation in property, plant and equipment.
4. Adjustment of increase in property, plant and equipment represents unallocated increase in property, plant and equipment.

| | Reportable Segment | | | | | Total | Others (Note 1) | Total | Adjustment (Note 2) | Consolidated |
|---|---|--|--|--------------------------------------|-----------|---------|--------------------|----------|------------------------|--------------|
| | Resources, Energy and Environment | Social Infrastructure and Offshore Facility | Industrial System and General- Purpose Machinery | Aero Engine, Space and Defense | | | | | | |
| Sales: | | | | | | | | | | |
| (1) Sales to outside customers | 417,844 | 147,979 | 401,074 | 469,488 | 1,436,385 | 49,947 | 1,486,332 | – | 1,486,332 | |
| (2) Intersegment sales and transfers | 9,496 | 9,818 | 10,533 | 2,502 | 32,349 | 25,190 | 57,539 | (57,539) | – | |
| Total | 427,340 | 157,797 | 411,607 | 471,990 | 1,468,734 | 75,137 | 1,543,871 | (57,539) | 1,486,332 | |
| Segment profit (Operating profit or loss) | (10,657) | (12,083) | 17,534 | 53,033 | 47,827 | 2,582 | 50,409 | (3,020) | 47,389 | |
| Segment assets | 406,193 | 241,327 | 318,927 | 493,690 | 1,460,137 | 107,716 | 1,567,853 | 124,978 | 1,692,831 | |
| Others: | | | | | | | | | | |
| Depreciation (Note 3) | 6,635 | 6,305 | 11,817 | 16,295 | 41,052 | 929 | 41,981 | 4,667 | 46,648 | |
| Share of profit (loss) of entities accounted for using equity method | (119) | (61) | 636 | (412) | 44 | (3,436) | (3,392) | (146) | (3,538) | |
| Increase in property, plant and equipment (Note 4) | 6,166 | 6,265 | 13,649 | 22,641 | 48,721 | 950 | 49,671 | 3,035 | 52,706 | |

- Notes: 1. The “Others” classification consists of business that is not included in reportable segments. It includes inspection and measurement business, the manufacture and sale of equipment and the like related to such business, and other service operations.
2. Adjustment of segment profit represents intersegment transactions of negative ¥387 million and unallocated corporate expenses of negative ¥2,633 million.
Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments. Adjustment of ¥124,978 million for segment assets includes corporate assets unallocated to any reportable segment of ¥234,603 million among cash and deposits, buildings and structures, investment securities and other assets, and eliminations of intersegment receivables and payables of negative ¥101,884 million.
3. Depreciation represents depreciation of property, plant and equipment. Adjustment of depreciation represents unallocated depreciation in property, plant and equipment.
4. Adjustment of increase in property, plant and equipment represents unallocated increase in property, plant and equipment.

[Related information]

Fiscal year ended March 31, 2016

1. Product and service information

Information has been omitted, as classification is the same as for reportable segments.

2. Information by geographical area

(1) Net sales

| (Millions of yen) | | | | | | |
|-------------------|---------|---------|------------------------------|---------|--------|-----------|
| Japan | U.S.A. | Asia | Central and South America | Europe | Others | Total |
| 742,465 | 336,173 | 258,875 | 23,102 | 139,937 | 38,836 | 1,539,388 |

Note: Sales are classified by country or region based on the location of customers.

(2) Property, plant and equipment

| (Millions of yen) | | | | | | |
|-------------------|---------------|--------|------------------------------|--------|--------|---------|
| Japan | North America | Asia | Central and South America | Europe | Others | Total |
| 304,299 | 5,031 | 18,987 | 20 | 21,337 | 62 | 349,736 |

3. Information by major customer

(Millions of yen)

| Name of customer or individual | Net sales | Related business segment |
|-----------------------------------|-----------|--------------------------------|
| Japanese Aero Engines Corporation | 175,853 | Aero Engine, Space and Defense |

Fiscal year ended March 31, 2017

1. Product and service information

Information has been omitted, as classification is the same as for reportable segments.

2. Information by geographical area

(1) Net sales

| (Millions of yen) | | | | | | |
|-------------------|---------|---------|------------------------------|---------|--------|-----------|
| Japan | U.S.A. | Asia | Central and South America | Europe | Others | Total |
| 728,919 | 319,877 | 260,370 | 26,435 | 116,198 | 34,533 | 1,486,332 |

Note: Sales are classified by country or region based on the location of customers.

(2) Property, plant and equipment

| (Millions of yen) | | | | | | |
|-------------------|---------------|--------|------------------------------|--------|--------|---------|
| Japan | North America | Asia | Central and South America | Europe | Others | Total |
| 299,116 | 4,819 | 19,923 | 147 | 18,358 | 45 | 342,408 |

3. Information by major customer

(Millions of yen)

| Name of customer or individual | Net sales | Related business segment |
|-----------------------------------|-----------|--------------------------------|
| Japanese Aero Engines Corporation | 179,512 | Aero Engine, Space and Defense |

[Information about impairment loss on non-current assets by reportable segment]

Fiscal year ended March 31, 2016

(Millions of yen)

| | Reportable Segment | | | | Total | Others (Note 1) | Total | Adjustment | Consolidated |
|-----------------|---|--|--|--------------------------------------|-------|--------------------|-------|------------|--------------|
| | Resources, Energy and Environment | Social Infrastructure and Offshore Facility | Industrial System and General- Purpose Machinery | Aero Engine, Space and Defense | | | | | |
| Impairment loss | – | 24 | 56 | – | 80 | 1 | 81 | – | 81 |

Note: 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.

Fiscal year ended March 31, 2017

(Millions of yen)

| | Reportable Segment | | | | Total | Others (Note 1) | Total | Adjustment | Consolidated |
|-----------------|---|--|--|--------------------------------------|--------|--------------------|--------|------------|--------------|
| | Resources, Energy and Environment | Social Infrastructure and Offshore Facility | Industrial System and General- Purpose Machinery | Aero Engine, Space and Defense | | | | | |
| Impairment loss | 2,186 | 7,297 | 822 | – | 10,305 | 370 | 10,675 | – | 10,675 |

Note: 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.

[Information about goodwill amortization amount and year-end balance by reportable segment]

Fiscal year ended March 31, 2016

(Millions of yen)

| | Reportable Segment | | | | Total | Others (Note 1) | Total | Adjustment (Note 2) | Consolidated |
|--|---|--|--|--------------------------------------|--------|--------------------|--------|------------------------|--------------|
| | Resources, Energy and Environment | Social Infrastructure and Offshore Facility | Industrial System and General- Purpose Machinery | Aero Engine, Space and Defense | | | | | |
| Amount for the fiscal year under review | 616 | – | 2,672 | – | 3,288 | 402 | 3,690 | 14 | 3,704 |
| Balance at the end of the fiscal year under review | 3,421 | – | 16,080 | – | 19,501 | 2,530 | 22,031 | 12 | 22,043 |

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 represents unallocated goodwill amortization and year-end balance.

Fiscal year ended March 31, 2017

(Millions of yen)

| | Reportable Segment | | | | Total | Others (Note 1) | Total | Adjustment (Note 2) | Consolidated |
|--|---|--|--|--------------------------------------|--------|--------------------|--------|------------------------|--------------|
| | Resources, Energy and Environment | Social Infrastructure and Offshore Facility | Industrial System and General- Purpose Machinery | Aero Engine, Space and Defense | | | | | |
| Amount for the fiscal year under review | 369 | – | 2,797 | – | 3,166 | 402 | 3,568 | 12 | 3,580 |
| Balance at the end of the fiscal year under review | 1,613 | – | 12,609 | – | 14,222 | 1,944 | 16,166 | – | 16,166 |

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 represents unallocated goodwill amortization and year-end balance.

[Information about gain on bargain purchase by reportable segment]

Fiscal year ended March 31, 2016

Not applicable

Fiscal year ended March 31, 2017

The integration of Shield tunneling machine Business was completed on October 1, 2016 in the Social Infrastructure and Offshore Facility segment. Gain on bargain purchase resulting from this event is ¥1,079 million.

PER SHARE INFORMATION

| Item | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2017 |
|----------------------------|----------------------------------|----------------------------------|
| Net assets per share | ¥206.16 | ¥206.03 |
| Basic earnings per share | ¥0.99 | ¥3.40 |
| Diluted earnings per share | ¥0.99 | ¥3.40 |

Note: The basis for calculating basic earnings per share and diluted earnings per share are as follows.

| | Fiscal year ended March 31, 2016 | Fiscal year ended March 31, 2017 |
|---|---|---|
| Basic earnings per share | | |
| Profit attributable to owners of parent (Millions of yen) | 1,529 | 5,247 |
| Amounts for non-common shareholders (Millions of yen) | – | – |
| Profit attributable to owners of parent regarding common stock (Millions of yen) | 1,529 | 5,247 |
| Average number of shares of common stock (Thousands of shares) | 1,543,682 | 1,544,144 |
| Diluted earnings per share | | |
| Adjustment amount of profit attributable to owners of parent (Millions of yen) | – | – |
| Increase in number of shares of common stock (Thousands of shares) | 1,468 | 944 |
| (Subscription rights to shares of the above) (Thousands of shares) | 1,468 | 944 |
| Potential shares not included in calculation of diluted earnings per share due to being non-dilutive | Subscription rights to shares type 3 (Total number of subscription rights to shares: 621 units) Type of shares underlying subscription rights to shares: common stock Total number of shares underlying subscription rights to shares: 621,000 shares | Subscription rights to shares type 4 (Total number of subscription rights to shares: 922 units) Type of shares underlying subscription rights to shares: common stock Total number of shares underlying subscription rights to shares: 922,000 shares |

SIGNIFICANT SUBSEQUENT EVENTS

Not applicable