IHI

IHI Corporation

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1-1, Toyosu 3-chome, Koto-ku
Tokyo 135-8710, Japan

May 9, 2018

CONSOLIDATED FINANCIAL REPORT FOR THE FISCAL YEAR ENDED MARCH 31, 2018 <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.

Representative: President and Chief Executive Officer, Tsugio Mitsuoka
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Annual General Meeting of Shareholders: June 22, 2018 (planned)
Commencement of Dividend Payments: June 25, 2018 (planned)
Submission of Annual Securities Report: June 22, 2018 (planned)

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

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, 2018 (APRIL 1, 2017 to MARCH 31, 2018)

(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, 2018	**1,590,333**	**7.0%**	**72,267**	**52.5%**	**21,425**	**(2.7)%**
Fiscal year ended March 31, 2017	1,486,332	(3.4)%	47,389	114.9%	22,011	126.5%

	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, 2018	**8,291**	**58.0%**	**53.71**	**53.67**	**2.6%**	**1.3%**	**4.5%**
Fiscal year ended March 31, 2017	5,247	243.2%	33.98	33.96	1.6%	1.3%	3.2%

(Note) Comprehensive income
Fiscal year ended March 31, 2018: ¥16,774 million 262.4%
Fiscal year ended March 31, 2017: ¥4,628 million –%

(Reference) Share of profit (loss) of entities accounted for using equity method
Fiscal year ended March 31, 2018: ¥ (33,088) million
Fiscal year ended March 31, 2017: ¥ (3,538) million

* IHI conducted a consolidation of common shares on a 10 for 1 basis (ratio of 1 new share for every 10 old shares) on October 1, 2017. Basic earnings per share and diluted earnings per share have been calculated under the assumption that this consolidation of common shares was conducted on April 1, 2016.

(2) Consolidated Financial Position

(Millions of yen, except per share figures)

	Total Assets	Net Assets	Equity to Total Assets	Net Assets per Share (Yen)
March 31, 2018	**1,632,662**	**350,217**	**19.9%**	**2,103.22**
March 31, 2017	1,692,831	337,630	18.8%	2,060.33

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

March 31, 2018: ¥ 324,601 million

March 31, 2017: ¥318,163 million

* IHI conducted a consolidation of common shares on a 10 for 1 basis (ratio of 1 new share for every 10 old shares) on October 1, 2017. Net assets per share have been calculated under the assumption that this consolidation of common shares was conducted on April 1, 2016.

(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, 2018	**99,018**	**(47,977)**	**(57,326)**	**107,323**
Fiscal year ended March 31, 2017	65,373	(28,961)	(21,941)	115,911

2. DIVIDENDS

	Dividends per Share			Total Amount of Dividend Payment (Millions of yen)	Dividend Payout Ratio (Consolidated)	Dividend to Net Assets Ratio (Consolidated)
(Record Date)	Interim (Yen)	Year-end (Yen)	Annual (Yen)			
Fiscal year ended March 31, 2018	**3.00**	**30.00**	–	9,266	111.7%	2.9%
Fiscal year ended March 31, 2017	0.00	0.00	0.00	–	–	–
Fiscal year ending March 31, 2019 (Forecast)	30.00	30.00	60.00		28.9%	

* IHI conducted a consolidation of common shares on a 10 for 1 basis (ratio of 1 new share for every 10 old shares) on October 1, 2017. Consequently, the impact of this consolidation of shares is factored into the forecast for year-end dividends per share for the fiscal year ended March 31, 2018 and a dash is presented for the annual dividends per share. The annual dividends per share for the fiscal year ended March 31, 2018 on a basis after the consolidation of shares would be ¥60.00.
* Total amount of dividend payment includes dividends for IHI's shares owned by a trust account for the Board Benefit Trust (BBT).

3. CONSOLIDATED FORECASTS OF RESULTS FOR THE YEAR ENDING MARCH 31, 2019

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

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of Parent		Basic Earnings per Share (Yen)
Full-year	1,500,000	(5.7)%	85,000	17.6%	65,000	203.4%	32,000	286.0%	207.34

(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: Not applicable
(ii) Changes in accounting policies due to other reasons: Yes
(iii) Changes in accounting estimates: Yes
(iv) Restatement of prior period financial statements after error corrections: Not applicable

(Note) From the fiscal year under review, IHI and some of its consolidated subsidiaries in Japan have changed the depreciation method and residual value for property, plant and equipment. These changes of the depreciation method correspond to changes in accounting policies which are difficult to distinguish from changes in accounting estimates. For details, please refer to "CHANGES IN ACCOUNTING POLICIES WHICH ARE DIFFICULT TO DISTINGUISH FROM CHANGES IN ACCOUNTING ESTIMATES, AND CHANGES IN ACCOUNTING ESTIMATES" 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, 2018	154,679,954 shares
As of March 31, 2017	154,679,954 shares

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

As of March 31, 2018	344,435 shares
As of March 31, 2017	256,268 shares

(iii) Average number of shares outstanding during the period

Fiscal year ended March 31, 2018	154,361,684 shares
Fiscal year ended March 31, 2017	154,414,368 shares

* IHI conducted a consolidation of common shares on a 10 for 1 basis (ratio of 1 new share for every 10 old shares) on October 1, 2017. The number of shares issued at the end of the period, number of treasury shares owned at the end of the period and average number of shares outstanding during the period have been calculated under the assumption that this consolidation of common shares was conducted on April 1, 2016.
* The number of treasury shares owned at the end of the period, and the number of treasury shares excluded for the calculation of "average number of shares outstanding during the period," include 111,000 shares of IHI (the number of shares after share consolidation) owned by a trust account for the Board Benefit Trust (BBT).

(REFERENCE) OVERVIEW OF NON-CONSOLIDATED PERFORMANCE

NON-CONSOLIDATED PERFORMANCE FOR THE YEAR ENDED MARCH 31, 2018
(APRIL 1, 2017 to MARCH 31, 2018)

(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, 2018	**721,739**	**0.3%**	**47,858**	**239.9%**	**50,076**	**217.9%**	**23,978**	**–**
Fiscal year ended March 31, 2017	719,889	(2.0)%	14,079	–	15,752	57.7%	(6,246)	–

	Basic Earnings per Share (Yen)	Diluted Earnings per Share (Yen)
Fiscal year ended March 31, 2018	**155.33**	**155.22**
Fiscal year ended March 31, 2017	(40.45)	–

* IHI conducted a consolidation of common shares on a 10 for 1 basis (ratio of 1 new share for every 10 old shares) on October 1, 2017. Basic earnings per share and diluted earnings per share have been calculated under the assumption that this consolidation of common shares was conducted on April 1, 2016.

(2) Non-Consolidated Financial Position

(Millions of yen, except per share figures)

	Total Assets	Net Assets	Equity to Total Assets	Net Assets per Share (Yen)
March 31, 2018	**1,117,334**	**227,855**	**20.3%**	**1,471.23**
March 31, 2017	1,138,039	209,864	18.4%	1,353.55

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

March 31, 2018: ¥227,063 million

March 31, 2017: ¥209,021 million

* IHI conducted a consolidation of common shares on a 10 for 1 basis (ratio of 1 new share for every 10 old shares) on October 1, 2017. Net assets per share have been calculated under the assumption that this consolidation of common shares was conducted on April 1, 2016.

* Financial reports are not required to be audited by certified public accountants or an audit corporation.

* 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.

(Dividends forecast and consolidated forecasts after the consolidation of shares)

IHI obtained approval at the 200th Ordinary General Meeting of Shareholders held on June 23, 2017 to conduct a consolidation of shares with the effective date of October 1, 2017, and it conducted a consolidation of common shares on a 10 for 1 basis (ratio of 1 new share for every 10 old shares).

(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 progressed stably thanks to the support of strong results from companies as a result of a modest growth in exports and an upswing in household income. The overall moderate expansionary trend of the global economy also continued as a result of such factors as the steady growth in the U.S. and the pickup in China, which had structural problems. Meanwhile, on the political front, instability continued due to such matters as the issue of the rising geopolitical risks in the Middle East and elsewhere, and the turnabout in U.S. trade policies.

Under this business environment, orders received of the IHI Group in the fiscal year under review increased 8.3% from the previous fiscal year to ¥1,505.0 billion. Net sales increased 7.0% from the previous fiscal year to ¥1,590.3 billion.
In terms of profit, operating profit increased ¥24.8 billion to ¥72.2 billion, due to the disappearance of the deterioration of profitability related to the F-LNG/Offshore structure Business and Boiler Business in the previous fiscal year, the improved profitability in the Civil aero engines Business, higher profit due to the increase in sales in the Boiler Business and Vehicular turbocharger Business, and other factors, despite the deterioration in profitability in the Process plants Business. Ordinary profit was generally flat year on year at ¥21.4 billion mainly due to a deterioration of share of loss of entities accounted for using equity method. Profit attributable to owners of parent was ¥8.2 billion, an increase of ¥3.0 billion from the previous fiscal year.

In regard to the deterioration of the share of loss of entities accounted for using equity method, on account of the process delays in the third quarter ended December 31, 2017, relating to thermal insulation, and so on relating to LNG vessels that IHI's affiliate Japan Marine United Corporation is building, a review of the construction processes and costs was carried out at that company. In addition, as announced on April 23, 2018, the extent of deterioration has expanded in the fourth quarter ended March 31, 2018, with fluctuations in foreign exchange rates causing a worsening in the profitability of foreign-currency denominated contracts and with the reversal of deferred tax assets, and the Company posted a loss on investment in the affiliate for the full fiscal year of ¥32.0 billion.

Also effective from the fiscal year under review, the closing date of the fiscal year of certain overseas consolidated subsidiaries has been changed from December 31 to March 31. As a result, those consolidated subsidiaries have a 15-month accounting period. The impact of these changes was an increase of ¥57.9 billion in net sales and an increase of ¥1.4 billion in operating profit (an increase of ¥25.2 billion in net sales and an increase of ¥2.7 billion in operating profit in previous fiscal year).

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

Resources, Energy and Environment
In the Boiler Business in both Japan and overseas, the strengthening of environmentally aware regulation is expected to lead to, on one hand, a decline in demand for coal-fired power generation but, on the other hand, an increase in demand for high-efficiency and environment-friendly facilities. In the Process plants Business (LNG-related storage facilities), strong demand is expected over the medium to long term due to a global increase in interest in responding to environmental regulations. In the short-term, however, the price competition continues to be fierce.
In this business area, in addition to promoting the productive use of unused energy resources, the Company will work on system proposal initiatives for renewable energy and societies advocating lower carbon use.

Social Infrastructure and Offshore Facility
In Japan, in the Bridge/water gate Business, new contracts related to roads and tunnels will decline over the long term, but it is forecast that there will be rising demand for updates, repairs and maintenance work etc. as part of measures to deal with deterioration of bridges. In the Shield systems Business and Concrete construction materials Business, demand for major contracts is forecast due to orders from such projects as the Tokyo Gaikan Expressway and the Linear Chuo Shinkansen. Overseas, infrastructure investment is increasingly active, primarily in Southeast Asia, and demand is expected to grow.
In this business area, in addition to addressing growing demand in overseas markets, the Company will utilize IoT in initiatives for labor-saving in facilities maintenance and management services, and tackle demand for preventative maintenance aimed at prolonging the life of infrastructure.

Industrial System and General-Purpose Machinery

In the Vehicular turbocharger Business, in response to global strengthening of environmental regulations, the switch to electric vehicles is an accelerating trend in the automobile industry, and the Group's response to this trend is also intensifying. However, at present, the market is still going strong against the background of the constant pursuit of fuel efficiency. The Thermal and surface treatment Business is expected to deliver stable growth as a result of the increase in global vehicle production volume. In the Logistics/industrial system Business, capital investment is on a rising trend both in Japan and overseas aimed at the need for labor-saving and demand is expected to grow.

In this business area, the Company will enhance profitability by swiftly responding to changes in customer environments while providing sophisticated products and services that utilize IoT to realize improvements in production facilities and build more efficient distribution networks.

Aero Engine, Space and Defense

In the Civil aero engines Business, air transportation demand is continuing to grow strongly, and the future for high efficiency, fuel efficient new-model engines is looking increasingly bright. Also, the aftermarket is expected to grow steadily as a result of the increase in the number of aircraft in operation.

In this business area, in addition to systematically reducing the initial cost of the PW1100G engine that will begin mass production in the near future, the Company will differentiate itself through establishing unique technology and promoting the development of new materials and innovative new production techniques.

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

(Billions of yen)

Reportable segment	Orders received			Fiscal year ended March 31, 2017		Fiscal year ended March 31, 2018		Changes from the previous fiscal year (%)	
	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Changes from the previous fiscal year (%)	Sales	Operating profit (loss)	Sales	Operating profit (loss)	Sales	Operating profit (loss)
Resources, Energy and Environment	352.8	378.0	7.1	427.3	(10.6)	490.4	(14.8)	14.8	–
Social Infrastructure and Offshore Facility	150.1	163.9	9.2	157.7	(12.0)	154.5	13.9	(2.1)	–
Industrial System and General-Purpose Machinery	420.5	474.0	12.7	411.6	17.5	459.0	18.9	11.5	7.8
Aero Engine, Space and Defense	451.5	463.8	2.7	471.9	53.0	463.7	60.1	(1.8)	13.4
Total Reportable Segment	1,375.0	1,479.9	7.6	1,468.7	47.8	1,567.7	78.1	6.7	63.4
Others	68.3	74.1	8.4	75.1	2.5	73.5	2.7	(2.1)	6.7
Adjustment	(53.5)	(49.0)	–	(57.5)	(3.0)	(50.9)	(8.6)	–	–
Total	1,389.8	1,505.0	8.3	1,486.3	47.3	1,590.3	72.2	7.0	52.5

B. Profit Distribution

After taking into consideration a broad range of factors, including trends in business results and retained earnings, the IHI Group plans to pay a dividend of ¥60 per share* (interim dividend already paid: ¥30*, year-end dividend: ¥30) for the fiscal year ended March 31, 2018.

* The amount has been calculated on a basis after the consolidation of common shares (ratio of 1 new share for every 10 old shares) was conducted by IHI on October 1, 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 ¥1,633.6 billion, down ¥59.1 billion from the end of the previous fiscal year. The main items with significant decrease were "other" under current assets such as advance payments, down ¥35.4 billion, and investment securities, down ¥35.3 billion.

Total liabilities were ¥1,283.4 billion, a decrease of ¥71.7 billion compared with the end of the previous fiscal year. The main item with significant increase was notes and accounts payable - trade, up ¥18.9 billion. The main items with significant decrease were advances received, down ¥31.0 billion and provision for loss on construction contracts, down ¥10.0 billion. The balance of interest bearing liabilities, including lease obligations, was ¥322.2 billion, down ¥49.6 billion from the end of the previous fiscal year.

Net assets were ¥350.2 billion, up ¥12.5 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥8.2 billion, a decrease in dividends of surplus of ¥4.6 billion, and an increase in non-controlling interests of ¥6.2 billion.

As a result of the above, the ratio of equity to total assets increased from 18.8% at the end of the previous fiscal year to 19.9%.

Cash flows

At the end of the fiscal year under review, the outstanding balance of cash and cash equivalents (hereinafter, "cash") was ¥107.3 billion, a decrease of ¥8.5 billion from the end of the previous fiscal year.

Net cash provided by operating activities was ¥99.0 billion. This was due mainly to profit excluding the impact of items such as non-cash expenses including depreciation and share of loss of entities accounted for using equity method.

Net cash used in investing activities was ¥47.9 billion. This was due mainly to purchase of property, plant and equipment and intangible assets of ¥59.4 billion.

Net cash used in financing activities was ¥57.3 billion. This was due mainly to repayments of interest bearing liabilities and payment of dividends.

(Reference) Trends in cash flow indicators

	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 ended March 31, 2018
Equity to total assets	23.1%	20.5%	18.6%	18.8%	19.9%
Market value equity ratio	44.8%	51.4%	21.4%	32.0%	31.2%
Debt redemption period	9.1 years	6.5 years	3.9 years	5.7 years	3.3 years
Interest coverage ratio	9.5	15.6	23.1	21.0	31.7

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

- Equity to total assets: Equity / Total assets
- Market value equity ratio: Market capitalization / Total assets
- Debt redemption period: Interest-bearing liabilities / Operating cash flow
- Interest coverage ratio: Operating cash flow / 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.

As the IHI Group expects that the target for the fiscal year ending March 31, 2019 will not be achieved based on the assumption that the current exchange rates will prevail, further measures will be examined and implemented to achieve the targets.

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ending March 31, 2019 (Forecasts)
Consolidated operating margin	4.3%	1.4%	3.2%	4.5%	5.7%
ROIC	5.8%	2.3%	5.0%	7.7%	9.0%
D/E ratio	1.14 times	1.12 times	1.10 times	0.92 times	0.89 times
ROE	2.6%	0.5%	1.6%	2.6%	9.5%

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
- ROE: Profit attributable to owners of parent / Equity

(2) FUTURE OUTLOOK

A. Forecasts of consolidated results

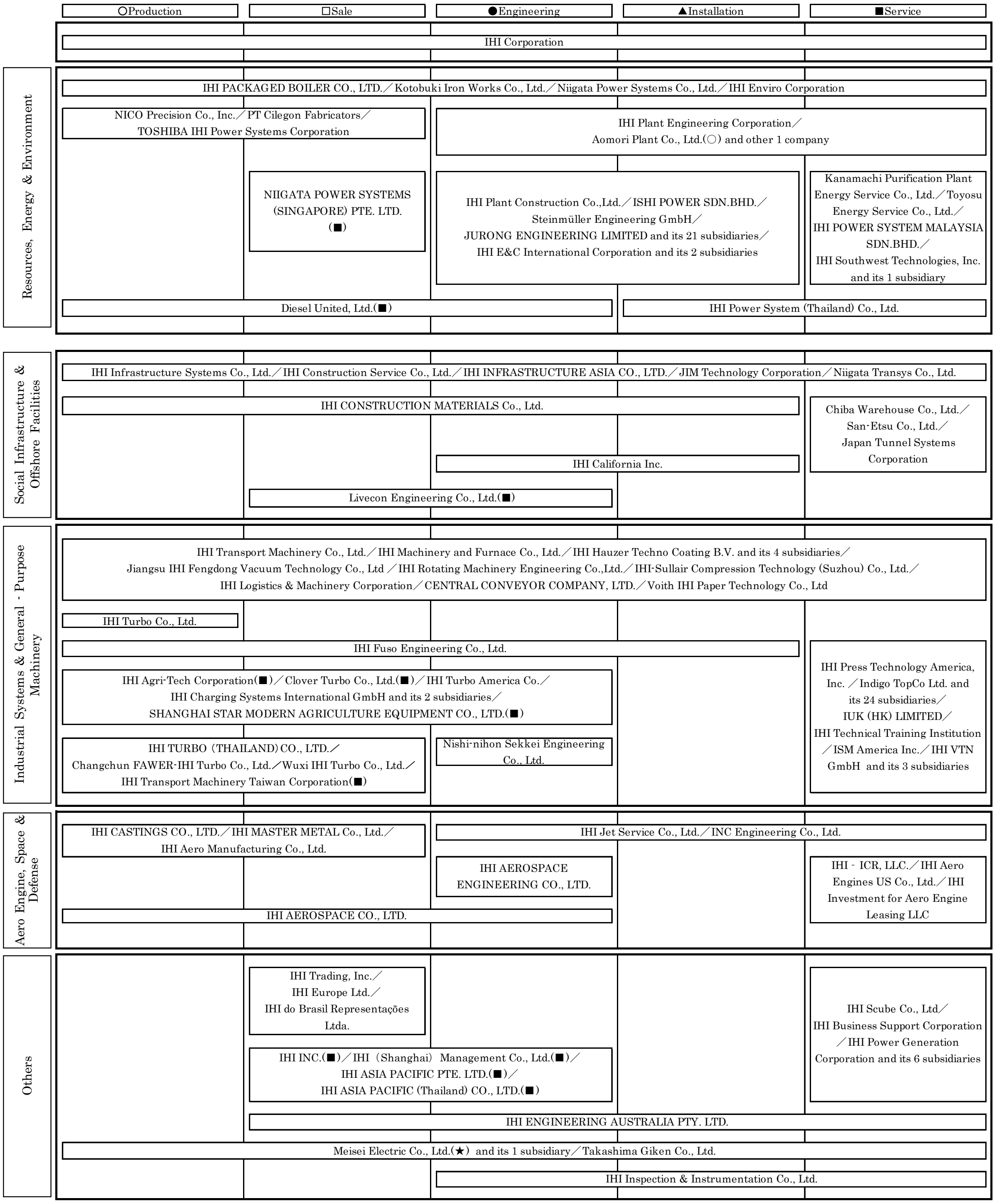
Going forward, it is likely that the Japanese economy will maintain a stable trajectory amid a recovery in exports and continued improvements in the income environment. The global economy is also expected to continue following a pattern of moderate expansion, centered around steady economic growth in the U.S. However, the Company sees numerous downside risks to the economy, such as the trend of U.S. trade policies, the future direction of the economies of emerging Asian countries etc. that will be affected by such policies, and the escalation of global geopolitical risk, all of which require suitable caution.

For the fiscal year ending March 31, 2019, the IHI Group is forecasting consolidated net sales of ¥1,500.0 billion. In terms of profits, the IHI Group forecasts consolidated operating profit of ¥85.0 billion, consolidated ordinary profit of ¥65.0 billion, and profit attributable to owners of parent of ¥32.0 billion.
The above forecasts assume exchange rates of ¥105/US$1 and ¥130/EUR1.

B. Profit distribution

The IHI Group considers that it is important to provide stable dividends to shareholders and accordingly plans to pay a dividend of ¥60 per share (interim dividend: ¥30, year-end dividend: ¥30) for the fiscal year ending March 31, 2019.

2. OVERVIEW OF THE CORPORATE GROUP



*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, 2018, 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 prepares its consolidated financial statements in accordance with the accounting principles generally accepted accounting standards in Japan (Japanese GAAP). The IHI Group is continuing to carry out an investigation into the impact on the IHI Group through the adoption of international financial reporting standards (IFRS) from the point of view of improving the quality of the Group’s corporate management and strengthening the Group’s corporate governance, as well as an investigation to grasp the differences between IFRS and Japanese GAAP.
As of the fiscal year ended March 31, 2018, the IHI Group has mostly completed unification of financial reporting periods of its overseas consolidated subsidiaries.

4. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2017	March 31, 2018
ASSETS		
Current assets:		
Cash and deposits	118,909	109,028
Notes and accounts receivable - trade	403,094	400,330
Finished goods	20,719	25,647
Work in process	272,823	282,245
Raw materials and supplies	123,726	120,630
Deferred tax assets	44,783	44,719
Other	95,233	59,758
Allowance for doubtful accounts	(5,445)	(4,164)
Total current assets	1,073,842	1,038,193
Non-current assets:		
Property, plant and equipment:		
Buildings and structures, net	136,801	131,035
Machinery, equipment and vehicles, net	69,648	75,249
Land	92,284	92,506
Leased assets, net	14,285	14,736
Construction in progress	11,623	11,828
Other, net	17,767	23,692
Total property, plant and equipment	342,408	349,046
Intangible assets:		
Goodwill	16,166	12,231
Software	14,454	15,483
Other	10,536	8,306
Total intangible assets	41,156	36,020
Investments and other assets:		
Investment securities	134,676	99,284
Deferred tax assets	65,697	73,568
Net defined benefit asset	21	24
Other	36,715	39,251
Allowance for doubtful accounts	(1,684)	(1,724)
Total investments and other assets	235,425	210,403
Total non-current assets	618,989	595,469
Total assets	1,692,831	1,633,662

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2017	March 31, 2018
LIABILITIES		
Current liabilities:		
Notes and accounts payable - trade	285,937	304,928
Short-term loans payable	104,111	81,515
Commercial papers	5,000	–
Current portion of bonds	10,000	–
Accrued expenses	96,213	88,252
Income taxes payable	5,674	8,075
Advances received	208,907	177,819
Provision for bonuses	23,714	26,119
Provision for construction warranties	47,939	53,727
Provision for loss on construction contracts	37,324	27,266
Other provision	248	808
Other	51,181	43,149
Total current liabilities	876,248	811,658
Non-current liabilities:		
Bonds payable	50,000	50,000
Long-term loans payable	182,495	172,533
Lease obligations	13,782	13,214
Deferred tax liabilities for land revaluation	4,884	4,941
Net defined benefit liability	150,920	154,125
Provision for loss on business of subsidiaries and affiliates	1,149	1,188
Other provision	1,308	1,150
Other	74,415	74,636
Total non-current liabilities	478,953	471,787
Total liabilities	1,355,201	1,283,445
NET ASSETS		
Shareholders' equity:		
Capital stock	107,165	107,165
Capital surplus	53,510	53,406
Retained earnings	149,832	153,564
Treasury shares	(513)	(879)
Total shareholders' equity	309,994	313,256
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	2,892	2,034
Deferred gains or losses on hedges	(277)	(286)
Revaluation reserve for land	5,427	5,359
Foreign currency translation adjustment	1,298	3,679
Remeasurements of defined benefit plans	(1,171)	559
Total accumulated other comprehensive income	8,169	11,345
Share acquisition rights	843	792
Non-controlling interests	18,624	24,824
Total net assets	337,630	350,217
Total liabilities and net assets	1,692,831	1,633,662

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

CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

	April 1, 2016 to March 31, 2017	April 1, 2017 to March 31, 2018
Net sales	1,486,332	1,590,333
Cost of sales	1,244,033	1,316,915
Gross profit	242,299	273,418
Selling, general and administrative expenses	194,910	201,151
Operating profit	47,389	72,267
Non-operating income		
Interest income	870	1,433
Dividend income	1,701	1,071
Reversal of accrued expenses for environmental conservation measures	76	1,072
Reversal of accrued expenses for delayed delivery	2,232	–
Other income	3,724	3,600
Total non-operating income	8,603	7,176
Non-operating expenses		
Interest expenses	3,131	3,007
Share of loss of entities accounted for using equity method	3,538	33,088
Foreign exchange losses	6,700	3,813
Payments for contract adjustments for civil aero engines	1,828	6,488
Expenses for delayed delivery	–	4,489
Other expenses	18,784	7,133
Total non-operating expenses	33,981	58,018
Ordinary profit	22,011	21,425
Extraordinary income		
Gain on transfer of business	–	1,586
Gain on sales of non-current assets	23,533	–
Gain on contribution of securities to retirement benefit trust	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	–
Total extraordinary income	30,547	1,586
Extraordinary losses		
Settlement-related expenses related to boiler facilities in customer’s commercial operation	–	2,932
Impairment loss	3,461	1,095
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	–
Total extraordinary losses	34,480	4,027

CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

	April 1, 2016 to March 31, 2017	April 1, 2017 to March 31, 2018
Profit before income taxes	18,078	18,984
Income taxes - current	10,872	12,924
Income taxes - deferred	(2,479)	(7,357)
Total income taxes	8,393	5,567
Profit	9,685	13,417
Profit attributable to non-controlling interests	4,438	5,126
Profit attributable to owners of parent	5,247	8,291

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of yen)

	April 1, 2016 to March 31, 2017	April 1, 2017 to March 31, 2018
Profit	9,685	13,417
Other comprehensive income:		
Valuation difference on available-for-sale securities	1,096	(786)
Deferred gains or losses on hedges	332	(106)
Revaluation reserve for land	7	12
Foreign currency translation adjustment	(8,945)	2,353
Remeasurements of defined benefit plans, net of tax	2,480	1,406
Share of other comprehensive income of entities accounted for using equity method	(27)	478
Total other comprehensive income	(5,057)	3,357
Comprehensive income	4,628	16,774
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,076	11,541
Comprehensive income attributable to non-controlling interests	3,552	5,233

(3) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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)
Reversal of revaluation reserve for land					–
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						Share acquisition rights	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	Remeasure-ments of defined benefit plans	Total accumulated other compre-hensive 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)
Reversal of revaluation reserve for land									–
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

April 1, 2017 to March 31, 2018

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	107,165	53,510	149,832	(513)	309,994
Changes of items during period					
Dividends of surplus			(4,633)		(4,633)
Profit attributable to owners of parent			8,291		8,291
Purchase of treasury shares				(419)	(419)
Disposal of treasury shares		(1)		53	52
Change in ownership interest of parent due to transactions with non-controlling interests		(103)			(103)
Net decrease from newly consolidated subsidiaries					–
Reversal of revaluation reserve for land			74		74
Net changes of items other than shareholders' equity					
Total changes of items during period	–	(104)	3,732	(366)	3,262
Balance at end of current period	107,165	53,406	153,564	(879)	313,256

(Millions of yen)

	Accumulated other comprehensive income								
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other compre-hensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at beginning of current period	2,892	(277)	5,427	1,298	(1,171)	8,169	843	18,624	337,630
Changes of items during period									
Dividends of surplus									(4,633)
Profit attributable to owners of parent									8,291
Purchase of treasury shares									(419)
Disposal of treasury shares									52
Change in ownership interest of parent due to transactions with non-controlling interests									(103)
Net decrease from newly consolidated subsidiaries									–
Reversal of revaluation reserve for land									74
Net changes of items other than shareholders’ equity	(858)	(9)	(68)	2,381	1,730	3,176	(51)	6,200	9,325
Total changes of items during period	(858)	(9)	(68)	2,381	1,730	3,176	(51)	6,200	12,587
Balance at end of current period	2,034	(286)	5,359	3,679	559	11,345	792	24,824	350,217

(4) CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	April 1, 2016 to March 31, 2017	April 1, 2017 to March 31, 2018
Cash flows from operating activities		
Profit before income taxes	18,078	18,984
Depreciation	57,880	56,522
Depreciation and amortization on other	5,537	6,722
Gain on bargain purchase	(1,079)	–
Impairment loss	3,461	1,095
Increase (decrease) in allowance for doubtful accounts	416	(1,119)
Increase (decrease) in provision for bonuses	(493)	2,414
Increase (decrease) in provision for construction warranties	3,993	5,645
Increase (decrease) in provision for loss on construction contracts	(16,106)	(9,364)
Increase (decrease) in net defined benefit liability	5,040	5,568
Interest and dividend income	(2,571)	(2,504)
Interest expenses	3,131	3,007
Foreign exchange losses (gains)	1,801	698
Loss (gain) on sales of short-term and long-term investment securities	430	(646)
Loss (gain) on valuation of short-term and long-term investment securities	890	687
Share of loss (profit) of entities accounted for using equity method	3,538	33,088
Loss (gain) on disposal of property, plant and equipment	(21,884)	2,487
Gain on contribution of securities to retirement benefit trust	(3,481)	–
Loss (gain) on transfer of business	–	(1,586)
Reversal of provision for loss on business of subsidiaries and affiliates	(1,656)	–
Gain on transfer of shares of subsidiaries and affiliates	(798)	–
Settlement-related expenses related to boiler facilities in customer’s commercial operation	–	2,932
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	41,501	2,608
Increase (decrease) in advances received	30,394	(29,278)
Decrease (increase) in advance payments	(1,613)	14,296
Decrease (increase) in inventories	(17,175)	(15,779)
Increase (decrease) in notes and accounts payable - trade	(7,250)	18,549
Increase (decrease) in accrued expenses	(27,098)	(7,342)
Decrease (increase) in other current assets	(10,579)	4,992
Increase (decrease) in other current liabilities	(115)	(13,607)
Decrease (increase) in consumption taxes refund receivable	2,540	4,590
Other, net	(5,130)	(1,520)
Subtotal	92,621	102,139
Interest and dividend income received	4,235	3,336
Interest expenses paid	(3,110)	(3,125)
Payments for guarantee of obligations	(10,271)	–
Income taxes paid	(18,102)	(3,332)
Net cash provided by (used in) operating activities	65,373	99,018

(4) CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	April 1, 2016 to March 31, 2017	April 1, 2017 to March 31, 2018
Cash flows from investing activities		
Decrease (increase) in time deposits	(460)	1,377
Purchase of short-term and long-term investment securities	(8,681)	(20,328)
Proceeds from sales and redemption of short-term and long-term investment securities	4,429	21,212
Purchase of property, plant and equipment and intangible assets	(54,262)	(59,406)
Gain (loss) on sales or disposal of property, plant and equipment and intangible assets	28,831	1,800
Payments for transfer of business	(328)	–
Proceeds from transfer of business	–	2,347
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(82)	–
Decrease (increase) in short-term loans receivable	8,592	1,581
Payments of long-term loans receivable	(413)	(13)
Collection of long-term loans receivable	34	22
Decrease (increase) in other investments	(10,015)	(3,080)
(Decrease) increase in other fixed liabilities	3,294	6,527
Other, net	100	(16)
Net cash provided by (used in) investing activities	(28,961)	(47,977)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	2,916	(26,734)
Net increase (decrease) in commercial papers	–	(5,000)
Proceeds from long-term loans payable	49,689	64,709
Repayments of long-term loans payable	(57,446)	(70,510)
Redemption of bonds	(10,000)	(10,000)
Proceeds from sales and leasebacks	273	93
Repayments of lease obligations	(6,739)	(5,719)
Decrease (increase) in treasury shares	(3)	(13)
Payments made to trust account for acquisition of treasury shares	–	(406)
Purchase of treasury shares of subsidiaries	(1)	–
Cash dividends paid	(16)	(4,620)
Proceeds from share issuance to non-controlling shareholders	1,570	3,180
Dividends paid to non-controlling interests	(1,811)	(2,306)
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	(21,941)	(57,326)
Effect of exchange rate change on cash and cash equivalents	(3,463)	(2,275)
Net increase (decrease) in cash and cash equivalents	11,008	(8,560)
Cash and cash equivalents at beginning of period	103,611	115,911
Increase in cash and cash equivalents from consolidation of non-consolidated subsidiaries	1,357	–
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(65)	(28)
Cash and cash equivalents at end of period	115,911	107,323

(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: 148

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

In the fiscal year under review, changes to consolidated subsidiaries were as follows. Two subsidiaries were removed due to liquidation, one subsidiary was removed due to merger and one subsidiary was removed due to its decreased materiality.

2. Application of the Equity Method

Number and names of major non-consolidated subsidiaries and affiliates accounted for by the equity method

Number of non-consolidated subsidiaries and affiliates accounted for by the equity method: 30

Names of companies: (Non-consolidated subsidiaries) ALPHA Automotive Technologies LLC

(Affiliates) Japan Marine United Corporation and others

With regard to equity method affiliates during the fiscal year under review, due to changes in ownership interest, ALPHA Automotive Technologies LLC has been changed into a subsidiary from an affiliate. However, it has been made a non-consolidated subsidiary, and the equity method will continue to be applied.

3. Fiscal Year, etc. for Consolidated Subsidiaries

Effective from the fiscal year under review, the closing date of the fiscal year for 42 companies including IHI INC. has been changed from December 31 to March 31, and 13 companies including Wuxi 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, 2018, 55 companies including IHI INC. have a fifteen-month accounting period.

In the period from January 1, 2017 through March 31, 2017 included in the fiscal year under review, net sales were ¥57,966 million, operating profit was ¥1,430 million, ordinary profit was ¥1,392 million, and profit before income taxes was ¥1,387 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 available market prices 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 available market prices are stated at cost by the moving-average method.

(2) Derivatives

Derivatives are stated at fair market value.

(3) Inventories

Finished goods and work in process are stated principally at identified cost, and raw materials and supplies are stated at cost by the moving-average method. (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 principally 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
  To prepare for the transfer of money and shares to the directors, etc., an amount is recognized based on the estimated amount of the liability for transfer of money and shares at the end of the fiscal year under review.
- 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 asset/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 WHICH ARE DIFFICULT TO DISTINGUISH FROM CHANGES IN ACCOUNTING ESTIMATES, AND CHANGES IN ACCOUNTING ESTIMATES

Change in method of depreciation and residual value

Up until now, IHI and some of its consolidated subsidiaries in Japan have been using the declining-balance method (however, the straight-line method has been used for lend-lease properties, buildings acquired on or after April 1, 1998 [not including facilities attached to buildings], and both facilities attached to buildings and structures acquired on or after April 1, 2016) as the depreciation method for property, plant and equipment. However, IHI and the consolidated subsidiaries have changed the depreciation method for property, plant and equipment to the straight-line method from the fiscal year under review.

The IHI Group, in line with the “Group Management Policies 2016,” a three-year medium-term management plan with fiscal 2016 as the first year, is working to secure sources of earnings by concentrating investment in growth fields in order to strengthen its earnings foundations and improve production efficiency through reform of quality systems and operational systems aimed at strengthening manufacturing capabilities and enhancement of shared Group functions.

As part of this, in addition to expansion of production capabilities targeting the launch of mass production of new aero-engine models, in all business areas there has been progress on the establishment of platforms that will enable more efficient production by utilizing ICT. Under these circumstances, based on the fact that long-term, stable operation of domestic production facilities, etc. is expected, in order to appropriately allocate costs the IHI Group has decided that it is more appropriate to use the straight-line method as the depreciation method.

And, in conjunction with the change in the depreciation method, for certain property, plant and equipment, the residual value has been changed to the scrap value based on consideration of the value at the time the asset is retired.

As a result, operating profit for the fiscal year under review increased by ¥1,072 million, ordinary profit and profit before income taxes for the fiscal year under review increased by ¥1,036 million respectively.

CHANGES IN PRESENTATION

Consolidated statements of income

“Reversal of accrued expenses for environmental conservation measures,” which was included in “Other income” under “Non-operating income” in the previous fiscal year, has been separately presented in the fiscal year under review due to its increased materiality of the amount. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result of the change, ¥3,800 million presented as “Other income” under “Non-operating income” in the consolidated statements of income of the previous fiscal year has been reclassified into ¥76 million of “Reversal of accrued expenses for environmental conservation measures” and ¥3,724 million of “Other income.”

“Payments for contract adjustments for civil aero engines,” which was included in “Other expenses” under “Non-operating expenses” in the previous fiscal year, has been separately presented in the fiscal year under review due to its increased materiality of the amount. The consolidated financial statements of the previous fiscal year have been reclassified to reflect this change in presentation.

As a result of the change, ¥20,612 million presented as “Other expenses” under “Non-operating expenses” in the consolidated statements of income of the previous fiscal year has been reclassified into ¥1,828 million of “Payments for contract adjustments for civil aero engines” and ¥18,784 million of “Other expenses.”

ADDITIONAL INFORMATION

Performance-based share remuneration plan

Through resolutions passed at the 200th Ordinary General Meeting of Shareholders, held on June 23, 2017, and at the Board of Directors meeting held on the same day, IHI has introduced a performance-based share remuneration plan (“Board Benefit Trust” or “BBT”) for directors (excluding outside directors). The purpose of the plan is to strengthen the linkage between a portion of directors’ remuneration and IHI’s medium- to long-term performance, and further incentivize directors to contribute to boosting IHI Group’s corporate value over the medium to long term. Also, based on a resolution passed at the same Board of Directors meeting, IHI has adopted a plan with the same purport of the aforementioned plan for the executive officers of IHI (hereinafter, the aforementioned plan for directors and this plan for the executive officers will be collectively referred to as the “Plan”).

Concerning the accounting treatment of the Board Benefit Trust, the gross method has been applied in accordance with the “Practical Solution on Transactions of Delivering the Company’s Own Stock to

Employees etc. through Trusts" (ASBJ PITF No. 30, March 26, 2015).

1) Overview of the transaction
The Plan is a system by which directors and executive officers satisfying certain requirements will have IHI's shares and money equivalent to the market value of IHI's shares (hereinafter collectively with IHI's shares, the "IHI's shares, etc.") transferred to them in accordance with the rules for transfer of shares prescribed in advance by IHI. Each year, IHI will award points, which will be the basis for transferring the IHI's shares, etc., to directors and executive officers. After the end of three consecutive fiscal years of which the initial year is the fiscal year to which the date of the award belongs, awarded points will be adjusted based on the degree of achievement of designated performance indicators determined by IHI's Board of Directors, and IHI's shares, etc. equivalent to the number of adjusted points will be transferred to directors and executive officers. In order to transfer IHI's shares, etc. to directors and executive officers, IHI has established a trust in advance with funds contributed by IHI, and this trust acquires IHI's shares and manages them separately.

2) Shares remaining in the trust
In conjunction with the adoption of the Plan, Trust & Custody Services Bank, Ltd. acquired 1,110,000 of IHI's shares in August, 2017.
IHI has recorded the IHI shares remaining in the trust as treasury shares in net assets at the book value (excluding the amount of associated expenses) of the trust. At the end of the end of the fiscal year under review, there were 111,000 treasury shares with a book value of ¥406 million.
In addition, IHI conducted a consolidation of common shares on a 10 for 1 basis (ratio of 1 new share for every 10 old shares) with an effective date of October 1, 2017.

Measures to address the problems relating to part of PW1100G-JM engines

The IHI Group has been participating in the programs of PW1100G-JM engines (to be installed on the Airbus A320neo aircraft). In mid-2017, engineering changes were made to part of the engines to improve its durability. Engines that incorporated this engineering change were delivered to Airbus in and after December 2017. In late January and early February of this year, four of these modified engines did not perform as anticipated. The engines affected have already been identified and undergone corrective maintenance, etc. Moreover, in April this year, deliveries to customers have been resumed for aircrafts on which PW1100G-JM engines are installed.
The effect that the cost of the corrective maintenance, etc. carried out in relation to the aforementioned part problem had on financial results of the IHI Group is immaterial.

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 SBUs by products and services and allocates business areas to control these SBUs. Each business area manages and supervises the SBUs' execution of business strategies, and develops those business activities. Based on the above, the IHI Group makes the four business areas of "Resources, Energy and Environment," "Social Infrastructure and Offshore Facility," "Industrial System and General-Purpose Machinery," and "Aero Engine, Space and Defense" its reportable segments.

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

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 systems, transport system, concrete construction materials, urban development (real estate sales and rental), F-LNG (floating LNG storage facilities, offshore structures)
Industrial System and General-Purpose Machinery	Logistics/industrial system (logistics system, industrial machinery), transport machinery, parking, thermal and surface treatment, vehicular turbocharger, rotating machinery (compressor, separation system, turbocharger for ships), 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

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 42 companies including IHI INC. has been changed from December 31 to March 31, and 13 companies including Wuxi 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, 2018, 55 companies including IHI INC. have a fifteen-month accounting period.
In the period from January 1, 2017 through March 31, 2017 included in the fiscal year ended March 31, 2017, sales for each segment were ¥28,902 million for the Resources, Energy and Environment segment, ¥27,800 million for the Industrial System and General-Purpose Machinery segment, and ¥183 million for the Aero Engine, Space and Defense segment. In regards to profit for each segment, profits increased by ¥1,616 million for the Industrial System and General-Purpose Machinery segment, ¥72 million for the Aero Engine, Space and Defense segment, and decreased by ¥117 million for Resources, Energy and Environment segment, and ¥1 million for the Social Infrastructure and Offshore Facility segment.

Change in depreciation method of property, plant and equipment
As stated in "CHANGES IN ACCOUNTING POLICIES WHICH ARE DIFFICULT TO DISTINGUISH FROM CHANGES IN ACCOUNTING ESTIMATES, AND CHANGES IN ACCOUNTING ESTIMATES," up until now, IHI and some of its consolidated subsidiaries in Japan have been using the declining-balance method (however, the straight-line method has been used for lend-lease properties, buildings acquired on or after April 1, 1998 [not including facilities attached to buildings], and both facilities attached to buildings and structures

acquired on or after April 1, 2016) as the depreciation method for property, plant and equipment. However, IHI and the consolidated subsidiaries have changed the depreciation method for property, plant and equipment to the straight-line method from the fiscal year under review.
Furthermore, in conjunction with the change in the depreciation method, for certain property, plant and equipment, the residual value has been changed to the scrap value based on consideration of the value at the time the asset is retired.
As a result, in regards to profit for each segment in the fiscal year under review, profits increased by ¥122 million for the Resources, Energy and Environment segment, ¥1,431 million for the Aero Engine, Space and Defense segment, and decreased by ¥341 million for the Social Infrastructure and Offshore Facility segment, and ¥238 million for the Industrial System and General-Purpose Machinery segment.

Change in adjustment method of intersegment transactions associated with organizational change
In April 2017, the previous business management structure consisting of one business division and eight sectors was abolished and operations were organized into the four business areas of "Resources, Energy and Environment," "Social Infrastructure and Offshore Facility," "Industrial System and General-Purpose Machinery" and "Aero Engine, Space and Defense."
As a result of reviewing the adjustment method for intersegment transactions in order to more appropriately evaluate the earnings of each business area, intersegment sales and transfers for each segment for the fiscal year under review decreased by ¥5,014 million for the Resources, Energy and Environment segment, ¥1,013 million for the Industrial System and General-Purpose Machinery segment, and increased by ¥6,027 million for adjustment. The impact on segment profit was immaterial.

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

Fiscal year ended March 31, 2017 (Millions of yen)

	Reportable Segment								
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General-Purpose Machinery	Aero Engine, Space and Defense	Total	Others (Note 1)	Total	Adjustment	Consolidated
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 (loss) (Operating profit (loss)) (Note 2)	(10,657)	(12,083)	17,534	53,033	47,827	2,582	50,409	(3,020)	47,389
Segment assets (Note 3)	406,193	241,327	318,927	493,690	1,460,137	107,716	1,567,853	124,978	1,692,831
Others:									
Depreciation (Note 4)	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)
Investments in equity method companies	1,598	2,732	3,380	9,487	17,197	42,165	59,362	–	59,362
Increase in property, plant and equipment (Note 5)	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.
3. 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.

4. Depreciation represents depreciation of property, plant and equipment. Adjustment of depreciation represents unallocated depreciation in property, plant and equipment.
5. Adjustment of increase in property, plant and equipment represents unallocated increase in property, plant and equipment.
6. Segment liabilities are omitted because which is not subject to determine allocation of management resources and assess performance.

Fiscal year ended March 31, 2018 (Millions of yen)

	Reportable Segment								
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General-Purpose Machinery	Aero Engine, Space and Defense	Total	Others (Note 1)	Total	Adjustment	Consolidated
Sales:									
(1) Sales to outside customers	487,683	144,653	448,367	461,434	1,542,137	48,196	1,590,333	–	1,590,333
(2) Intersegment sales and transfers	2,799	9,890	10,645	2,295	25,629	25,326	50,955	(50,955)	–
Total	490,482	154,543	459,012	463,729	1,567,766	73,522	1,641,288	(50,955)	1,590,333
Segment profit (loss) (Operating profit (loss)) (Note 2)	(14,810)	13,934	18,903	60,129	78,156	2,756	80,912	(8,645)	72,267
Segment assets (Note 3)	338,674	231,638	343,972	518,694	1,432,978	81,120	1,514,098	119,564	1,633,662
Others:									
Depreciation (Note 4)	5,095	6,044	12,835	16,034	40,008	1,377	41,385	3,439	44,824
Share of profit (loss) of entities accounted for using equity method	(1,433)	(85)	722	(473)	(1,269)	(31,782)	(33,051)	(37)	(33,088)
Investments in equity method companies	243	2,041	4,006	12,318	18,608	13,357	31,965	–	31,965
Increase in property, plant and equipment (Note 5)	4,678	7,774	9,962	31,760	54,174	833	55,007	4,193	59,200

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 ¥236 million and unallocated corporate expenses of negative ¥8,881 million. Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.
3. Adjustment of ¥119,564 million for segment assets includes corporate assets unallocated to any reportable segment of ¥240,468 million among cash and deposits, buildings and structures, investment securities and other assets, and eliminations of intersegment receivables and payables of negative ¥118,503 million.
4. Depreciation represents depreciation of property, plant and equipment. Adjustment of depreciation represents unallocated depreciation in property, plant and equipment.
5. Adjustment of increase in property, plant and equipment represents unallocated increase in property, plant and equipment.
6. Segment liabilities are omitted because which is not subject to determine allocation of management resources and assess performance.

[Related information]

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

Fiscal year ended March 31, 2018

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
782,311	350,708	270,242	22,862	132,633	31,577	1,590,333

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
307,077	4,690	18,830	171	18,247	31	349,046

3. Information by major customer

(Millions of yen)

Name of customer or individual	Net sales	Related business segment
Japanese Aero Engines Corporation	161,258	Aero Engine, Space and Defense

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

Fiscal year ended March 31, 2017 (Millions of yen)

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

Note: 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, 2018 (Millions of yen)

	Reportable Segment								
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General-Purpose Machinery	Aero Engine, Space and Defense	Total	Others (Note)	Total	Adjustment	Consolidated
Impairment loss	960	129	–	–	1,089	6	1,095	–	1,095

Note: 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, 2017 (Millions of yen)

	Reportable Segment								
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General-Purpose Machinery	Aero Engine, Space and Defense	Total	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated
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.

Fiscal year ended March 31, 2018 (Millions of yen)

	Reportable Segment								
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General-Purpose Machinery	Aero Engine, Space and Defense	Total	Others (Note)	Total	Adjustment	Consolidated
Amount for the fiscal year under review	257	–	3,440	–	3,697	370	4,067	–	4,067
Balance at the end of the fiscal year under review	1,351	–	9,306	–	10,657	1,574	12,231	–	12,231

Notes: 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 gain on bargain purchase by reportable segment]

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.

Fiscal year ended March 31, 2018

Not applicable

PER SHARE INFORMATION

Item	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net assets per share	¥2,060.33	¥2,103.22
Basic earnings per share	¥33.98	¥53.71
Diluted earnings per share	¥33.96	¥53.67

Notes: 1. IHI conducted a consolidation of common shares on a 10 for 1 basis (ratio of 1 new share for every 10 old shares) on October 1, 2017. Net assets per share, basic earnings per share and diluted earnings per share have been calculated under the assumption that this consolidation of common shares was conducted on April 1, 2016.

2. The number of shares issued at the end of the period, and the number of treasury shares excluded for the calculation of the average number of shares outstanding during the period, include shares owned by a trust account for the Board Benefit Trust (BBT). For the fiscal year ended March 31, 2018, the number of treasury shares at the end of the period excluded for the calculation of net assets per share and the average number of treasury shares outstanding during the period excluded for the calculation of basic earnings per share and diluted earnings per share are both 111,000 shares.

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

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Basic earnings per share		
Profit attributable to owners of parent (Millions of yen)	5,247	8,291
Amounts for non-common shareholders (Millions of yen)	–	–
Profit attributable to owners of parent regarding common stock (Millions of yen)	5,247	8,291
Average number of shares of common stock (Thousands of shares)	154,414	154,362
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)	94	118
(Share acquisition rights of the above) (Thousands of shares)	94	118
Potential shares not included in calculation of diluted earnings per share due to being non-dilutive	Share acquisition rights type 4 (Total number of share acquisition rights: 922 units) Type of shares underlying share acquisition rights: common stock Total number of shares underlying share acquisition rights: 92,200 shares	Share acquisition rights type 4 (Total number of share acquisition rights: 895 units) Type of shares underlying share acquisition rights: common stock Total number of shares underlying share acquisition rights: 89,500 shares

SIGNIFICANT SUBSEQUENT EVENTS

Not applicable