(Translation purposes only)

Quarterly Securities Report

(The Third Quarter of 200th Term)

From October 1, 2016 to December 31, 2016

IHI Corporation

(Translation purposes only)

Table of Contents

(Translation purposes only)

Cover page

Document title	Quarterly Securities Report
Clause of stipulation	Article 24-4-7, paragraph 1 of the Financial Instruments and Exchange Act
Place of filing	Director-General of the Kanto Local Finance Bureau
Filing date	February 13, 2017
Quarterly accounting period	The Third Quarter of 200th term (from October 1, 2016 to December 31, 2016)
Company name	株式会社ＩＨＩ (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
Title and name of representative	Tsugio Mitsuoka, President and Chief Operating Officer
Address of registered head office	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan
Telephone number	+81-3-6204-7065
Name of contact person	Yasuaki Fukumoto, Manager, Accounting Group, Finance & Accounting Div.
Nearest place of contact	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan
Telephone number	+81-3-6204-7065
Name of contact person	Yasuaki Fukumoto, Manager, Accounting Group, Finance & Accounting Div.
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo) Nagoya Stock Exchange, Inc. (8-20, Sakae 3-chome, Naka-ku, Nagoya-city) Securities Membership Corporation Fukuoka Stock Exchange (14-2, Tenjin 2-chome, Chuo-ku, Fukuoka-city) Securities Membership Corporation Sapporo Securities Exchange (14-1, Minamiichijo-nishi 5-chome, Chuo-ku, Sapporo-city)

(Translation purposes only)

Part 1. Company information

I. Overview of company

1. Summary of business results

Term	199th term Nine months ended December 31, 2015	200th term Nine months ended December 31, 2016	199th term
Accounting period	From April 1, 2015 To December 31, 2015	From April 1, 2016 To December 31, 2016	From April 1, 2015 To March 31, 2016
Net sales (Millions of yen)	1,058,195	1,038,221	1,539,388
Ordinary income (loss) (Millions of yen)	1,951	8,722	9,716
Profit (loss) attributable to owners of parent (Millions of yen)	(34,285)	(9,172)	1,529
Comprehensive income (Millions of yen)	(39,640)	(13,830)	(15,228)
Net assets (Millions of yen)	309,947	319,018	333,359
Total assets (Millions of yen)	1,785,961	1,717,894	1,715,056
Basic earnings (loss) per share (Yen)	(22.21)	(5.94)	0.99
Diluted earnings per share (Yen)	—	—	0.99
Equity ratio (%)	16.56	17.52	18.56

Term	199th term Third quarter of the fiscal year ended March 31, 2016	200th term Third quarter of the fiscal year ending March 31, 2017
Accounting period	From October 1, 2015 To December 31, 2015	From October 1, 2016 To December 31, 2016
Basic earnings (loss) per share (Yen)	(19.68)	(2.54)

Notes:
1. Summary of business results of the reporting company are not presented, because IHI prepares quarterly consolidated financial statements.
2. Net sales do not include consumption taxes.
3. Diluted earnings per share for the nine months ended December 31,2015 of the 199th term and the nine months ended December 31, 2016 of the 200th term is not noted even though IHI has issued potential shares, because the per share data is a net loss per share.
4. Monetary amounts and ratios less than one unit are rounded off.

2. Description of business

IHI and its affiliated entities (155 consolidated subsidiaries and 31 affiliates accounted for using equity method as of December 31, 2016) operate four main businesses, providing a diverse range of products. The four businesses are: Resources, Energy and Environment; Social Infrastructure and Offshore Facility; Industrial System and General-Purpose Machinery; and Aero Engine, Space and Defense.

In the nine months ended December 31, 2016, there were no significant changes in the contents of the businesses operated by the IHI Group (IHI and its affiliated entities). Changes in principle affiliated companies are as follows.

(Resources, Energy and Environment)

From the first quarter of the fiscal year ending March 31, 2017, IHI Power System (Thailand) Co.,Ltd. is newly included in the scope of consolidation because its materiality within the IHI Group has increased.

(Social Infrastructure and Offshore Facility)

From the third quarter of the fiscal year ending March 31, 2017, following the completion of the integration of Shield tunneling machine Business, JIM Technology Corporation is newly included in the scope of consolidation because it was newly established and started the business.

(Industrial System and General-Purpose Machinery)

From the first quarter of the fiscal year ending March 31, 2017, Jiangsu IHI Fengdong Vacuum Technology Co.,Ltd and IHI Transport Machinery Taiwan Corporation are newly included in the scope of consolidation because their materiality within the IHI Group has increased. In addition, one subsidiary of Indigo TopCo Limited and one subsidiary of IHI Hauzer Techno Coating B.V. were newly established and are newly included in the scope of consolidation.
From the third quarter of the fiscal year ending March 31, 2017, IHI Construction Machinery Limited is excluded from the scope of consolidation because its whole shares were transferred.

(Aero Engine, Space and Defense)

From the second quarter of the fiscal year ending March 31, 2017, IHI Investment for Aero Engine Leasing LLC was newly established and is newly included in the scope of consolidation.

(Others)

From the first quarter of the fiscal year ending March 31, 2017, IHI Shibaura Technical Service Corporation is excluded from the scope of consolidation because it was merged into IHI Business Support Corporation and ceased to exist. In addition, Algae Systems,LLC. is excluded from the scope of consolidation because its whole equity interests were transferred.

II. Overview of business

1. Business risks

There were no significant changes with respect to the business risks stated in the Annual Securities Report for the previous fiscal year in the nine months ended December 31, 2016.

The IHI Group recorded a loss on valuation of shares of subsidiaries and affiliates related to an overseas consolidated subsidiary in non-consolidated financial results and a provision for loss on guarantees related to a domestic affiliates in the third quarter of the fiscal year ending March 31, 2017.
Concerning large-scale projects underway in North America which are the factor of recording a loss on valuation of shares of subsidiaries and affiliates related to an overseas consolidated subsidiary IHI INC., the IHI group recorded costs which were required to keep a current delivery schedule corresponding to the delays in the installation construction stages. It has put in place a system that appropriately monitors the status of construction process and implements effective measures in a timely fashion. In addition, the provision for loss on guarantees corresponds to guarantee obligations of ¥11.0 billion relating to UNIGEN Inc., an affiliate of IHI, whose main business is the manufacture of drug substances for influenza vaccine. It was recorded taking into account the estimated possibility of the execution of the guarantee obligations and the deduction of recoverable value, reflecting the withdrawal of the application for manufacturing and marketing approval of recombinant influenza HA vaccine by Astellas Pharma Inc. Its whole shares were transferred to API Co., Ltd on January 31, 2017.

2. Material contracts for operation

(1) Licensing-in contracts

A material contract that has been renewed by extending the contract period in the nine months ended December 31, 2016 is as following.

Name of Contracting Company	Name of Counterparty	Country	Licensed Products	Details	Contract Period
Diesel United, Ltd. (Consolidated subsidiary)	MAN Diesel & Turbo France SAS	France	General-purpose medium-speed diesel engine	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From January 1, 2011 to December 31, 2017

Note: In the contract listed above, the original contract period that was to January 1, 2017 was extended to December 31, 2017.

(2) Licensing-out contracts

A following contract was excluded from Material contracts for operation because IHI Construction Machinery Limited was excluded from the scope of consolidation.

Name of Contracting Company	Name of Counterparty	Country	Licensed Products	Details	Contract Period
IHI Construction Machinery Limited (Consolidated subsidiary)	IHIMER S.p.A	Italy	Mini excavator	Licensing of exclusive rights for manufacture and sale of licensed products	August 31, 2002 to March 31, 2017

3. Analysis of financial position, business results, and cash flows

Matters regarding the future stated in this document are based on the judgment of the IHI Group (IHI and its consolidated subsidiaries) as of December 31, 2016.

(1) Overview of business results

During the nine months under review, despite the recovery in exports and production, the Japanese economic situation remained uncertain due to factors including the dramatic movement in foreign exchange rates and the halt in the improvement in corporate earnings. Meanwhile, although the global economy has been recovering modestly overall, there is an increasing level of uncertainty about future prospects due to a multitude of factors, including the political disarray in Europe mainly in relation to the issue of the UK leaving the EU, the policy direction of the new U.S. president, as well as economic slowing in China and Asian emerging countries.
Under this business environment, orders received of the IHI Group during the nine months decreased 5.8% from the previous corresponding period to ¥928.7 billion. Net sales declined 1.9% from the previous corresponding period to ¥1,038.2 billion. Operating income increased ¥13.9 billion from the previous corresponding period to ¥19.4 billion, owing to the impact of the recording of repair costs of welded portions for some boiler projects in the previous corresponding period and the reducing deficit in the Social Infrastructure and Offshore Facility segment, despite deterioration of profitability in large projects underway in North America. Ordinary income stayed at only ¥8.7 billion, an increase of ¥6.7 billion from the previous corresponding period, partly because of the effect of the deterioration in foreign exchange losses, and an increase in other non-operating expenses.
Loss attributable to owners of parent was ¥9.1 billion, reducing the deficit by ¥25.1 billion from the previous corresponding period, as a result of the impact of recording the expenses for delayed delivery in the previous corresponding period, despite provision for loss on guarantees was posted as extraordinary losses in the current period.
The provision for loss on guarantees corresponding to guarantee obligations is the amount after the estimated recoverable value was deducted, considering that all shares of UNIGEN Inc. were transferred to API Co., Ltd on January 31, 2017.

Results by reportable segment for the nine months ended December 31, 2016 are as follows:

(Billions of yen)

Reportable segment	Orders received			Nine months ended December 31, 2015		Nine months ended December 31, 2016		Change from the previous corresponding period (%)	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016	Change from the previous corre-sponding period (%)	Sales	Operating income (loss)	Sales	Operating income (loss)	Sales	Operating income (loss)
Resources, Energy and Environment	332.0	269.8	(18.7)	312.6	(7.4)	297.3	(15.8)	(4.9)	–
Social Infrastructure and Offshore Facility	104.5	91.1	(12.9)	111.7	(35.7)	107.5	(16.7)	(3.8)	–
Industrial System and General-Purpose Machinery	317.2	318.6	0.4	289.4	7.2	298.5	11.2	3.1	56.4
Aero Engine, Space and Defense	224.9	234.1	4.1	334.6	43.4	322.6	41.6	(3.6)	(4.3)
Total Reportable Segment	978.8	913.7	(6.6)	1,048.5	7.4	1,026.1	20.3	(2.1)	173.2
Others	47.8	50.0	4.6	41.5	0.5	48.7	1.0	17.4	97.5
Adjustment	(40.6)	(35.0)	–	(31.8)	(2.4)	(36.7)	(1.8)	–	–
Total	986.0	928.7	(5.8)	1,058.1	5.5	1,038.2	19.4	(1.9)	251.1

<Resources, Energy and Environment>

Orders received declined from the previous corresponding period, reflecting a pullback from large orders secured in the previous corresponding period for Boiler Business, and decreases in orders secured for Power systems for land and marine use Business, affected by the low crude oil prices.

Sales decreased from the previous corresponding period, reflecting decreased revenues in Process plants Business and decreased sales in Power systems for land and marine use Business, partially offset by increased revenues from the progress of major construction projects in Boiler Business.

In terms of operating loss, the deficit expanded from the previous corresponding period, mainly owing to the expansion of decreased revenues in Power systems for land and marine use Business, as well as the deterioration of profitability in large projects underway in North America in Process plants Business.

<Social Infrastructure and Offshore Facility>

Orders received decreased from the previous corresponding period, owing to decreases in Concrete construction materials Business and Bridge/water gate Business.

Sales decreased from the previous corresponding period, partly owing to the impact of the decreased revenues in the Bridge/water gate Business from the completion of the Izmit Bay Crossing Bridge construction project in Turkey, partially offset by increased revenues in Shield tunneling machine Business, which carried out business integration.

In terms of operating loss, there was a reduced deficit from the previous corresponding period due to the improved profitability in Bridge/water gate Business and reflecting a pullback from the drastic deterioration of profitability related to F-LNG Business in the previous corresponding period.

<Industrial System and General-Purpose Machinery>

Orders received were at the same level as the previous corresponding period, owing to increases in Vehicular turbocharger Business, Paper-making machinery Business, and Thermal and surface treatment Business, offsetting the impact from a transfer of Construction machinery Business.

Sales increased from the previous corresponding period, owing to increases in Vehicular turbocharger Business, Rotating machinery Business and Logistics/industrial system Business, partially offset by the impact from a transfer of Construction machinery Business and decreased revenues in Agricultural machinery/small power systems Business.

Operating income rose from the previous corresponding period, owing to the aforementioned increased sales, as well as the improvement in profitability in Parking Business, Logistics/industrial system Business and Rotating machinery Business.

<Aero Engine, Space and Defense>

Orders received increased from the previous corresponding period due to increases in Rocket systems/space utilization systems Business and Aero engines Business.

Sales decreased owing to a decrease in civil aero engines mainly as a result of the effect of yen appreciation and delivery of gas turbines for naval vessels in Defense systems Business in the previous corresponding period.

Operating income decreased from the previous corresponding period, owing to the impact of decreased revenue in Aero engines Business due to the yen appreciation, partially offset by a decrease in R&D expenses related to the “GE9X” aero engine for the next-generation wide-body jets being promoted to the preparatory stage for mass production.

(2) Analysis of financial position

Total assets at the end of the third quarter under review were ¥1,717.8 billion, up ¥2.8 billion compared with the end of the previous fiscal year. The items with the most significant increases were work in process, up ¥55.4 billion, and cash and deposits, up ¥4.6 billion. The item with the most significant decrease was notes and accounts receivable - trade, down ¥63.8 billion.

Total liabilities were ¥1,398.8 billion, an increase of ¥17.1 billion compared with the end of the previous fiscal year. The items with the most significant increases were interest bearing liabilities, up ¥49.4 billion, advances received, up ¥28.0 billion and provision for loss on guarantees, up ¥9.8 billion. The items with the most significant decreases were notes and accounts payable - trade, down ¥18.1 billion, and provision for loss on construction contracts, down ¥11.2 billion.

Net assets were ¥319.0 billion, down ¥14.3 billion compared with the end of the previous fiscal year. This includes loss attributable to owners of parent of ¥9.1 billion and a decrease of ¥11.3 billion in foreign currency translation adjustment.

As a result of the above, the ratio of equity to total assets dropped from 18.6% at the end of the previous fiscal year to 17.5%.

(3) Analysis of capital resources and funding liquidity

The IHI Group obtains working capital and funds for capital expenditures by means of loans, bonds, and commercial papers, as well as by using internal funding. At the end of the third quarter ended December 31, 2016, the balance of interest bearing liabilities, including lease obligations, was ¥423.9 billion, up ¥49.4 billion from the end of the previous fiscal year. This primarily reflected an increase in working capital by business activities and an increase in investment capital provided by loans from external parties and others.
At the end of the third quarter ended December 31, 2016, the outstanding balance of cash and cash equivalents was ¥108.0 billion. This balance, in combination with a diverse range of fund procurement methods, including credit line commitments and overdraft facilities with major banks, as well as commercial papers, means that the IHI Group has secured sufficient liquidity.

(4) Research and development activities

In the nine months ended December 31, 2016, the IHI Group spent ¥22.8 billion on R&D. There were no significant changes in the status of R&D activities of the IHI Group in the nine months ended December 31, 2016.

(5) Current status and outlook of management strategies

The IHI Group has started "Group Management Policies 2016," a three-year medium-term management plan with fiscal year 2016 as the first year. In order to realize "strengthen earnings foundations" indicated as the main theme in the Policies, a variety of initiatives are being implemented in line with the following four guidelines: 1) strengthen Monozukuri (Manufacturing) capabilities, including product quality, 2) strengthen business strategy implementation, 3) create a system to ensure consistent construction profitability, 4) provide solutions focused on creating customer value and offer more sophisticated products and services. By steadily developing efforts for realization of management goals, the IHI Group will continue to place emphasis on "recovering trust" from all stakeholders.

Concerning large-scale projects underway in North America, although the IHI Group does not expect the completion delivery date to be impacted, delays have occurred while in the installation construction stage, and extra personnel was required to catch up with construction schedule. Also taking into account the effect of a higher man-hour price in the recalculated estimate for costs until construction completion, a deterioration in profitability has resulted. It has already put in place a system that appropriately monitors the status of construction process and implements effective measures in a timely fashion.

With regard to the drill ship construction for Singapore, one of the three F-LNG Business projects that have been a main factor in the downward revisions to the IHI Group's results forecasts since last fiscal year, the details of the agreement with the ordering party were revised and delivery was completed in December 2016. Concerning the remaining two projects, in the shipbuilding project for FPSO (Floating Production Storage and Offloading Unit) for Norway, the IHI Group has dispatched a team of about 30 managers and engineers to the contracted shipyards in Singapore to enhance progress control and quality control. In the construction of SPB tanks for Japanese LNG carriers (four tanks × four ships), the installation of four tanks on the first ship has been completed, and the IHI Group is carrying out finishing operations aiming for a delivery in mid-February. For the second ship onwards, personnel from the completed drill ship construction are being relocated so that the resources of Aichi Works can be used intensively until delivery.

Note: In the figures presented, figures in billions of yen are rounded down and other figures are rounded off to the nearest unit.

(Translation purposes only)

III. Information about reporting company

1. Information about shares, etc.

(1) Total number of shares, etc.

(i) Total number of shares

Class	Total number of authorized shares (Shares)
Common shares	3,300,000,000
Total	3,300,000,000

(ii) Issued shares

Class	Number of issued shares as of the end of the third quarter (Shares) (December 31, 2016)	Number of issued shares as of the filing date (Shares) (February 13, 2017)	Name of stock exchange on which IHI is listed or names of authorized financial instruments firms associations where IHI is registered	Description
Common shares	1,546,799,542	1,546,799,542	First Section of Tokyo Stock Exchange and Nagoya Stock Exchange, Fukuoka Stock Exchange, Sapporo Stock Exchange	Shares with full voting rights, in which shareholders have unlimited standard rights. The number of shares constituting one unit is 1,000 shares.
Total	1,546,799,542	1,546,799,542	–	–

Note: The “Number of issued shares as of the filing date” column does not include the number of shares issued upon exercise of subscription rights to shares between February 1, 2017 and the filing date of this Quarterly Securities Report.

(2) Subscription rights to shares, etc.

Not applicable

(3) Exercises, etc. of moving strike convertible bonds, etc.

Not applicable

(4) Description of rights plan

Not applicable

(5) Changes in number of issued shares, capital stock, etc.

Period	Changes in number of issued shares (Thousand shares)	Ending balance of number of issued shares (Thousand shares)	Changes in capital stock (Millions of yen)	Ending balance of capital stock (Millions of yen)	Changes in legal capital surplus (Millions of yen)	Ending balance of legal capital surplus (Millions of yen)
From October 1, 2016 to December 31, 2016	–	1,546,799	–	107,165	–	54,520

(6) Major shareholders

The major shareholders are not presented because the current quarterly accounting period is the third quarter period.

(7) Voting rights

Concerning the information on voting rights below, as IHI was unable to confirm the information stated in the shareholder register as of December 31, 2016, the information is stated not from its register; rather it is stated from the shareholder register of the immediately preceding cut-off date (September 30, 2016).

(i) Issued shares

(As of December 31, 2016)

Classification	Number of shares (Shares)	Number of voting rights (Units)	Description
Shares without voting rights	–	–	–
Shares with restricted voting rights (treasury shares, etc.)	–	–	–
Shares with restricted voting rights (others)	–	–	–
Shares with full voting rights (treasury shares, etc.)	(Shares in treasury) Common shares 2,661,000	–	This is IHI's standard shares whose holders have unlimited rights.
	(Reciprocally held shares) Common shares 157,000	–	Same as above
Shares with full voting rights (others)	Common shares 1,541,482,000	1,541,482	Same as above
Shares less than one unit	Common shares 2,499,542	–	Shares less than one unit (1,000 shares)
Number of issued shares	1,546,799,542	–	–
Total number of voting rights	–	1,541,482	–

Notes:
1. Common shares in "Shares less than one unit" include 805 shares of treasury shares held by IHI.
2. Common shares in "Shares with full voting rights (others)" include 7,000 shares whose ownership has yet not been transferred and which have been registered in the name of Japan Securities Depository Center. These shares constitute seven units of voting rights, which are included in the figure in "Number of voting rights."

(ii) Treasury shares, etc.

(As of December 31, 2016)

Name of shareholders	Address of shareholders	Number of shares held under own name (Shares)	Number of shares held under the names of others (Shares)	Total shares held (Shares)	Ownership percentage to the total number of issued shares (%)
(Shares in treasury)					
IHI Corporation	1-1, Toyosu 3-chome, Koto-ku, Tokyo	2,661,000	–	2,661,000	0.17
(Reciprocally held shares)					
Kondo Tekko Co., Ltd.	10-5, Yaesu 2-chome, Chuo-ku, Tokyo	142,000	–	142,000	0.01
MINAGAWA NOUKI SEIZOU Co., Ltd.	20-13, Tajima 2-chome, Sanjyo-shi, Niigata	15,000	–	15,000	0.00
Total	–	2,818,000	–	2,818,000	0.18

2. Information about directors and auditors

(Directors and auditors)

Not applicable

(Executive officers)

Changes in executive officers during the nine months under review occurring after the filing date of the Annual Securities Report for the previous fiscal year are as follows

(1) Retired executive officers

Position	Name	Main areas of responsibility	Date of retirement
Executive Officer	Masahiko Sugitani	Vice President of Energy & Plant Operations; Deputy General Manager of Solution & Engineering Headquarters	December 31, 2016

(2) Numbers of men and women and percentage of women among executive officers after change

Men: 23 Women: 1 (Percentage of women among executive officers: 4.1%)

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

IV. Financial information

1. Basis of preparation of the consolidated quarterly financial statements

The quarterly consolidated financial statements of IHI are prepared in accordance with the “Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements” (Cabinet Office Ordinance No. 64 of 2007).

2. Audit attestation

The quarterly consolidated financial statements for the third quarter of the fiscal year ending March 31, 2017 (from October 1, 2016 to December 31, 2016) and nine months ended December 31, 2016 (from April 1, 2016 to December 31, 2016) were reviewed by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

(Translation purposes only)

1. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

(Millions of yen)

		March 31, 2016		December 31, 2016
Assets				
Current assets				
Cash and deposits		106,536		111,234
Notes and accounts receivable - trade	*2	444,838	*2 ,*3	381,001
Securities		1,403		3
Finished goods		23,537		22,870
Work in process		254,907		310,396
Raw materials and supplies		131,865		135,637
Other		148,468		151,063
Allowance for doubtful accounts		(11,048)		(4,587)
Total current assets		1,100,506		1,107,617
Non-current assets				
Property, plant and equipment				
Buildings and structures, net		142,597		140,806
Other, net		207,139		211,292
Total property, plant and equipment		349,736		352,098
Intangible assets				
Goodwill		22,043		16,649
Other		27,562		24,304
Total intangible assets		49,605		40,953
Investments and other assets				
Investment securities		139,463		142,633
Other		77,729		75,913
Allowance for doubtful accounts		(1,983)		(1,320)
Total investments and other assets		215,209		217,226
Total non-current assets		614,550		610,277
Total assets		1,715,056		1,717,894
Liabilities				
Current liabilities				
Notes and accounts payable - trade		297,499	*3	279,334
Short-term loans payable		94,550		115,462
Commercial papers		5,000		25,000
Current portion of bonds		10,000		20,000
Income taxes payable		8,222		3,263
Advances received		180,352		208,441
Provision for bonuses		24,610		15,024
Provision for construction warranties		44,337		46,025
Provision for loss on construction contracts		53,223		41,996
Provision for loss on guarantees		－		9,800
Other provision		379		175
Other		164,597		138,510
Total current liabilities		882,769		903,030
Non-current liabilities				
Bonds payable		60,000		50,000
Long-term loans payable		187,085		192,880
Net defined benefit liability		154,968		158,544
Provision for loss on business of subsidiaries and affiliates		2,805		1,161
Other provision		1,377		1,208
Other		92,693		92,053
Total non-current liabilities		498,928		495,846
Total liabilities		1,381,697		1,398,876

(Translation purposes only)

(Millions of yen)

	March 31, 2016	December 31, 2016
Net assets		
Shareholders' equity		
Capital stock	107,165	107,165
Capital surplus	54,431	53,512
Retained earnings	144,789	135,491
Treasury shares	(565)	(526)
Total shareholders' equity	305,820	295,642
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,580	5,351
Deferred gains or losses on hedges	(377)	(482)
Revaluation reserve for land	5,423	5,422
Foreign currency translation adjustment	9,954	(1,356)
Remeasurements of defined benefit plans	(4,090)	(3,613)
Total accumulated other comprehensive income	12,490	5,322
Subscription rights to shares	758	855
Non-controlling interests	14,291	17,199
Total net assets	333,359	319,018
Total liabilities and net assets	1,715,056	1,717,894

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income
Quarterly consolidated statements of income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net sales	1,058,195	1,038,221
Cost of sales	910,373	879,247
Gross profit	147,822	158,974
Selling, general and administrative expenses	142,272	139,487
Operating income	5,550	19,487
Non-operating income		
Interest income	703	662
Dividend income	1,869	1,537
Share of profit of entities accounted for using equity method	2,157	295
Reversal of accrued expenses for delayed delivery	–	3,188
Other income	3,641	2,498
Total non-operating income	8,370	8,180
Non-operating expenses		
Interest expenses	3,072	2,366
Foreign exchange losses	2,320	3,963
Other expenses	6,577	12,616
Total non-operating expenses	11,969	18,945
Ordinary income	1,951	8,722
Extraordinary income		
Reversal of provision for loss on business of subsidiaries and affiliates	–	1,644
Gain on bargain purchase	–	*1 1,079
Gain on transfer of shares of subsidiaries and affiliates	–	*2 798
Total extraordinary income	–	3,521
Extraordinary losses		
Provision for loss on guarantees	–	*3 9,800
Compensation for change of construction contracts	–	*4 2,248
Loss on valuation of investment securities	–	1,114
Expenses for delayed delivery	*5 47,264	–
Total extraordinary losses	47,264	13,162
Loss before income taxes	45,313	919
Income taxes	(12,401)	5,132
Loss	32,912	6,051
Profit attributable to non-controlling interests	1,373	3,121
Loss attributable to owners of parent	34,285	9,172

(Translation purposes only)

Quarterly consolidated statements of comprehensive income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Loss	32,912	6,051
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,752)	3,661
Deferred gains or losses on hedges	503	411
Revaluation reserve for land	6	―
Foreign currency translation adjustment	(5,023)	(11,333)
Remeasurements of defined benefit plans, net of tax	791	289
Share of other comprehensive income of entities accounted for using equity method	(253)	(807)
Total other comprehensive income	(6,728)	(7,779)
Comprehensive income	(39,640)	(13,830)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(40,890)	(16,251)
Comprehensive income attributable to non-controlling interests	1,250	2,421

(Translation purposes only)

Notes to Consolidated financial statements

(Change in scope of consolidation or scope of application of equity method)

(1) Significant change in scope of consolidation

From the first quarter of the fiscal year ending March 31, 2017, IHI Power System (Thailand)Co.,Ltd., Jiangsu IHI Fengdong Vacuum Technology Co.,Ltd and IHI Transport Machinery Taiwan Corporation are newly included in the scope of consolidation because their materiality within the IHI Group has increased. In addition, one subsidiary of Indigo TopCo Limited and one subsidiary of IHI Hauzer Techno Coating B.V. were newly established and are newly included in the scope of consolidation.

On the other hand, IHI Shibaura Technical Service Corporation was excluded from the scope of consolidation because it was merged into IHI Business Support Corporation and ceased to exist. In addition, Algae Systems,LLC. was excluded from the scope of consolidation because its whole equity interests were transferred.

From the second quarter of the fiscal year ending March 31, 2017, IHI Investment for Aero Engine Leasing LLC was newly established and is newly included in the scope of consolidation.

From the third quarter of the fiscal year ending March 31, 2017, following the completion of the integration of Shield tunneling machine Business, JIM Technology Corporation is newly included in the scope of consolidation because it was newly established and started the business.

On the other hand, IHI Construction Machinery Limited was excluded from the scope of consolidation because its whole shares were transferred.

(2) Significant change in scope of application of equity method

From the first quarter of the fiscal year ending March 31, 2017, Nanatsujima Biomass Power Limited Liability Company was newly established and is newly included in the scope of application of equity method.

(3) Changes to the fiscal year 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 nine months ended December 31, 2016, 37 companies including JURONG ENGINEERING LIMITED have a twelve-month accounting period.

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

(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 first quarter ended June 30, 2016, 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, the impact of this change on operating income, ordinary income and profit before income taxes for the nine months ended December 31, 2016 was immaterial.

(Special accounting for preparing quarterly consolidated financial statements)

(Tax expense calculation)

Tax expenses on profit before income taxes for the nine months under review are calculated by multiplying profit before income taxes for the nine months under review by the reasonably estimated effective tax rate for the fiscal year including the third quarter under review after applying tax effect accounting. Should the estimated effective tax rate be unavailable, however, tax expenses are calculated using the statutory tax rate for profit before income taxes for the nine months under review.

The deferred income taxes amount is shown inclusive of income taxes.

(Additional information)

(Application of ASBJ Guidance on Recoverability of Deferred Tax Assets)

Effective from the first quarter ended June 30, 2016, IHI has applied the Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016).

(Quarterly consolidated balance sheet)

1. Contingent liabilities

IHI provides guarantees and guarantees in kind for the debts etc. from financial institutions by the following subsidiaries and affiliates.

(1) Guarantees for debt of others (Note: 1)

(Millions of yen)

March 31, 2016		December 31, 2016	
UNIGEN Inc.	10,600	Japanese Aero Engines Corporation (“JAEC”)	6,079
Japanese Aero Engines Corporation (“JAEC”)	6,406	ALPHA Automotive Technologies LLC	1,613
ALPHA Automotive Technologies LLC	1,812	IHI group health insurance society	689
IHI group health insurance society	689	Japan Aeroforge, Ltd.	560
Japan Aeroforge, Ltd.	590	Contingent liabilities for employee housing loans	44
Rio Bravo Fresno (Note: 2)	395	Chubu Segment Co., Ltd.	25
Rio Bravo Rocklin (Note: 2)	382		
Contingent liabilities for employee housing loans	70		
Contingent liabilities for lease contracts with customers of construction machineries	50		
Chubu Segment Co., Ltd.	25		
Total	21,019	Total	9,010

(2) Contingent liabilities arising from guarantees in kind for debts

(Millions of yen)

March 31, 2016		December 31, 2016	
Contingent liabilities for employee housing loans	7,294	Contingent liabilities for employee housing loans	6,658
IHI group health insurance society	741	IHI group health insurance society	741
Total	8,035	Total	7,399

Notes: 1. In any of the following cases, the amount represents the amounts for which the IHI Group is liable:
(i) In the case of joint guarantees and guarantees in kind for debts with protection requirements against creditors, where the IHI Group’s liabilities are specifically stated and clarified regardless of the debt capacity of other guarantors in the contract.
(ii) In the case of joint and several guarantees in which there are two or more guarantors, where the percentage or amount of the IHI Group’s liabilities is specifically stated and clarified such as in agreement among the guarantors and other joint and several guarantors are considered to have sufficient debt capacity.

2. The contracts are revolving guarantees in which guarantees are provided within certain limits set to guarantee debts on continuous transactions, and the amount represents guarantee facilities.

*2. Notes receivable - trade discounted in the ordinary course of business and notes receivable - trade endorsed in the ordinary course of business

(Millions of yen)

	March 31, 2016	December 31, 2016
Notes receivable - trade discounted in the ordinary course of business	264	205
Notes receivable - trade endorsed in the ordinary course of business	141	18

*3. Notes maturing on balance sheet date
Accounting of notes maturing on the last day of quarter is settled on the clearing date.
Because the last day of the third quarter ended December 31, 2016 fell on a bank holiday, the following such notes that matured on the last day of quarter are included in the balance on the last day of the third quarter ended December 31, 2016.

(Millions of yen)

	March 31, 2016	December 31, 2016
Notes receivable - trade	–	1,144
Notes payable - trade	–	1,371

(Quarterly consolidated statement of income)
*1. Gain on bargain purchase
Nine months ended December 31, 2016 (From April 1, 2016 to December 31, 2016)
Gain on bargain purchase occurred in relation to the completion of the integration of Shield tunneling machine Business.

*2. Gain on transfer of shares of subsidiaries and affiliates
Nine months ended December 31, 2016 (From April 1, 2016 to December 31, 2016)
Gain on transfer of shares of subsidiaries and affiliates occurred, owing to the transfer of all the shares of IHI Construction Machinery Limited, which was a consolidated subsidiary of IHI, to Kato Works Co., Ltd on November 25, 2016.

*3. Provision for loss on guarantees
Nine months ended December 31, 2016 (From April 1, 2016 to December 31, 2016)
The provision for loss on guarantees corresponds to guarantee obligations of ¥11.0 billion relating to UNIGEN Inc., an affiliate of IHI, whose main business is the manufacture of drug substances for influenza vaccine. The above provision for loss recorded under extraordinary losses is the amount after the estimated recoverable value was deducted, considering that all shares were transferred to API Co., Ltd.
Because the amount of estimated losses was posted as a provision for loss on guarantees, it has not been presented under “(Quarterly consolidated balance sheet) 1. Contingent liabilities (1) Guarantees for debt of others” in the Notes to Consolidated financial statements.

*4. Compensation for change of construction contracts
Nine months ended December 31, 2016 (From April 1, 2016 to December 31, 2016)
With regard to the drillship construction for Singapore in F-LNG/Offshore Business, alteration of the delivery condition was agreed with the ordering party and delivery was accelerated to December, 2016 from March, 2017 which was originally planned. Amendment of the contract due to the alteration of the delivery condition includes the compensation to the ordering party for risks of additional costs aside from the deduction in contract revenue for the alteration of scope of work under the contract. The compensation for risks of additional costs was recorded as extraordinary losses.

*5. Expenses for delayed delivery
Nine months ended December 31, 2015 (From April 1, 2015 to December 31, 2015)
The possibility that the IHI Group will not be able to meet the contractual delivery schedule in some projects has arisen, due in part to construction project delays caused by welding noncompliant (use of welding materials different from those specified in the design drawings) in some boiler construction projects.
With regard to the Izmit Bay Crossing Bridge construction project in Turkey, the IHI Group finds itself in circumstances that will make it difficult to fulfill the contractual delivery schedule of February 2016 despite earnest efforts to advance the construction project and catch up from the process delays following the completion of the restorative construction related to an accident involving a falling catwalk that occurred in March 2015.
Although the IHI Group continues to press ahead with operations aimed at completing construction projects safely and surely at the earliest possible time, in light of the possibility that the IHI Group companies are to be claimed for

expenses for delayed delivery that are stipulated in the contract, it recorded the forecast of relevant loss under extraordinary losses.

(Quarterly consolidated statement of cash flows)
A quarterly consolidated statement of cash flows relating to the nine months ended December 31, 2016, has not been prepared. Depreciation (including amortization of intangible assets other than goodwill) and amortization of goodwill are as follows.

(Millions of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Depreciation	39,423	40,010
Amortization of goodwill	2,792	2,663

(Shareholders' equity)

I. Nine months ended December 31, 2015 (From April 1, 2015 to December 31, 2015)

1. Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Cutoff date	Effective date	Source of dividends
Ordinary General Meeting of Shareholders on June 25, 2015	Common stock	4,631	3	March 31, 2015	June 26, 2015	Retained earnings
Meeting of the Board of Directors on November 4, 2015	Common stock	4,631	3	September 30, 2015	December 4, 2015	Retained earnings

2. Dividends which the cutoff date was in the nine months ended December 31, 2015 and the effective date of which is after the end of the third quarter of the fiscal year ended March 31, 2016

Not applicable

II. Nine months ended December 31, 2016 (From April 1, 2016 to December 31, 2016)

Dividends paid

Not applicable

(Translation purposes only)

(Segment information)
Segment information

I. Nine months ended December 31, 2015 (From April 1, 2015 to December 31, 2015)
1. Information about sales and profit or loss by reportable segment

(Millions of yen)

	Reportable Segment					Others (Note 1)	Consolidated	Adjustment (Note 2)	Amount on the quarterly consolidated statements of income
	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	308,517	109,093	281,897	332,830	1,032,337	25,858	1,058,195	–	1,058,195
(2) Intersegment sales and transfers	4,143	2,671	7,564	1,807	16,185	15,691	31,876	(31,876)	–
Total	312,660	111,764	289,461	334,637	1,048,522	41,549	1,090,071	(31,876)	1,058,195
Segment profit (loss) (Operating income (loss))	(7,487)	(35,754)	7,219	43,465	7,443	517	7,960	(2,410)	5,550

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 ¥641 million and unallocated corporate expenses of negative ¥1,769 million.
Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.

2. Information about impairment loss of non-current assets, goodwill and gain on bargain purchase by reportable segment

(Material impairment loss of non-current assets)
Not applicable

(Material change in goodwill amount)
Not applicable

(Material gain on bargain purchase)
Not applicable

(Translation purposes only)

II. Nine months ended December 31, 2016 (From April 1, 2016 to December 31, 2016)

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

(Millions of yen)

	Reportable Segment					Others (Note 1)	Consolidated	Adjustment (Note 2)	Amount on the quarterly consolidated statements of income
	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	293,019	102,113	290,224	320,882	1,006,238	31,983	1,038,221	–	1,038,221
(2) Intersegment sales and transfers	4,380	5,452	8,279	1,797	19,908	16,803	36,711	(36,711)	–
Total	297,399	107,565	298,503	322,679	1,026,146	48,786	1,074,932	(36,711)	1,038,221
Segment profit (loss) (Operating income (loss))	(15,847)	(16,717)	11,294	41,604	20,334	1,021	21,355	(1,868)	19,487

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 ¥237 million and unallocated corporate expenses of negative ¥1,631 million.
Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.

Main businesses, products and services belonging to each 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 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 systems

2. Matters about change and others in reportable segments

(Changes to the fiscal year for consolidated subsidiaries and others)
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 nine months ended December 31, 2016, 37 companies including JURONG ENGINEERING LIMITED have a twelve-month accounting period.
In the period from January 1, 2016 through March 31, 2016 included in the nine months ended December 31, 2016, 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.

3. Information about impairment loss of non-current assets, goodwill and gain on bargain purchase by reportable segment

(Material impairment loss of non-current assets)
Not applicable

(Material change in goodwill amount)
Not applicable

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

(Per share information)

Basic loss per share and diluted earnings per share as well as fundamentals for calculating these items are as follows:

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
(1) Basic loss per share (Yen)	(22.21)	(5.94)
(Fundamentals)		
Amounts for loss attributable to owners of parent (Millions of yen)	(34,285)	(9,172)
Amounts for non-common shareholders (Millions of yen)	–	–
Amounts for loss attributable to owners of parent regarding common stock (Millions of yen)	(34,285)	(9,172)
Average number of shares of common stock (Thousands of shares)	1,543,619	1,544,125
(2) Diluted earnings per share (Yen)	–	–
(Fundamentals)		
Adjustment amount of profit (loss) attributable to owners of parent (Millions of yen)	–	–
Increase in number of shares of common stock (Thousands of shares)	–	–
Outline of potential shares which were not included in the calculation of the diluted earnings per share due to no dilutive effects, and which had material changes after the end of the previous fiscal year	–	–

Note: Diluted earnings per share for the nine months end December 31, 2015 and the nine months ended December 31, 2016 is not noted even though IHI has issued potential shares, because the per share data is a net loss per share.

(Significant subsequent events)

Not applicable

2. Others

Not applicable

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

Not applicable