IHI

IHI Corporation

Toyosu IHI Bldg.
1-1, Toyosu 3-chome, Koto-ku
Tokyo 135-8710, Japan
February 1, 2017

CONSOLIDATED FINANCIAL REPORT FOR THE NINE MONTHS ENDED DECEMBER 31, 2016 <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 Operating Officer, Tsugio Mitsuoka
For further information contact: Director and Managing Executive Officer, Mikio Mochizuki, Finance & Accounting Division
Tel: +81-3-6204-7065
URL: http://www.ihi.co.jp

Submission of Quarterly Securities Report: February 13, 2017 (planned)
Preparing supplementary material on quarterly financial results: Yes
Holding quarterly financial results presentation meeting: Yes (for institutional investors and analysts)

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

1. CONSOLIDATED PERFORMANCE FOR THE NINE MONTHS ENDED DECEMBER 31, 2016 (APRIL 1, 2016 to DECEMBER 31, 2016)

(1) Consolidated Business Results

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

	Net Sales	Percentage Change	Operating Income	Percentage Change	Ordinary Income	Percentage Change
Nine months ended December 31, 2016	**1,038,221**	**(1.9)**	**19,487**	**251.1**	**8,722**	**347.1**
Nine months ended December 31, 2015	1,058,195	8.6	5,550	(87.8)	1,951	(95.7)

	Profit Attributable to Owners of Parent	Percentage Change	Basic Earnings per Share (Yen)	Diluted Earnings per Share (Yen)
Nine months ended December 31, 2016	**(9,172)**	**–**	**(5.94)**	**–**
Nine months ended December 31, 2015	(34,285)	–	(22.21)	–

(Note) Comprehensive income

Nine months ended December 31, 2016: ¥(13,830) million —%
Nine months ended December 31, 2015: ¥(39,640) million —%

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity to Total Assets
December 31, 2016	**1,717,894**	**319,018**	**17.5%**
March 31, 2016	1,715,056	333,359	18.6%

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

December 31, 2016: ¥300,964 million
March 31, 2016: ¥318,310 million

2. DIVIDENDS

(Yen)

	Dividends per Share				
(Record Date)	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	Year-end	Annual
Fiscal year ended March 31, 2016	—	3.00	—	0.00	3.00
Fiscal year ending March 31, 2017	—	0.00	—	———	———
Fiscal year ending March 31, 2017 (Forecast)	———	———	———	0.00	0.00

(Note) Revisions to the dividend forecasts most recently announced: No

3. CONSOLIDATED FORECASTS OF RESULTS FOR THE YEAR ENDING MARCH 31, 2017

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

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Basic Earnings per Share (Yen)
Full-year	1,500,000	(2.6%)	38,000	72.4%	18,000	85.3%	0	(100.0%)	0.00

(Note) Revisions to the forecasts of results most recently announced: No

* NOTES

(1) Changes in significant subsidiaries during the nine months under review (Changes in specified subsidiaries accompanying changes in scope of consolidation): Not applicable

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

(Note) For details, please refer to "(2) APPLICATION OF SPECIAL ACCOUNTING FOR PREPARING QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS" of "2. MATTERS REGARDING SUMMARY INFORMATION (NOTES)" on page 7.

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

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

(Note) For details, please refer to "(3) CHANGES IN ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES, AND RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS AFTER ERROR CORRECTIONS" of "2. MATTERS REGARDING SUMMARY INFORMATION (NOTES)" on page 7.

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

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

As of December 31, 2016	1,546,799,542 shares
As of March 31, 2016	1,546,799,542 shares

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

As of December 31, 2016	2,630,611 shares
As of March 31, 2016	2,825,606 shares

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

Nine months ended December 31, 2016	1,544,124,775 shares
Nine months ended December 31, 2015	1,543,619,399 shares

* Indication regarding execution of quarterly review procedures

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

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

Earnings estimates made in this report and other statements that are not historical facts are forward-looking statements about the future performance of 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. For preconditions for forecast of results, please refer to “(3) EXPLANATION REGARDING FUTURE PREDICTION INFORMATION SUCH AS CONSOLIDATED FORECASTS OF RESULTS” of “1. QUALITATIVE INFORMATION REGARDING CONSOLIDATED RESULTS” on page 6.

1. QUALITATIVE INFORMATION REGARDING CONSOLIDATED RESULTS

(1) EXPLANATION REGARDING BUSINESS RESULTS

A. Summary of consolidated performance for the nine months ended December 31, 2016

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 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. As stated in “Notice of Transfer of IHI-Held Shares of UNIGEN Inc. ” announced on January 31, 2017 (yesterday), the above provision for loss is the amount after the estimated recoverable value was deducted, considering that all shares were transferred to API Co., Ltd.

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.

B. 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 will be 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 for Singapore are being relocated so that the resources of Aichi Works can be used intensively until the project is completed.
The IHI Group will further accelerate measures based on the four aforementioned guidelines, and will work to prevent such issues from recurring as well as aim to further increase profits.

(2) EXPLANATION REGARDING CONSOLIDATED FINANCIAL POSITION

Assets and liabilities, and net assets

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. The balance on interest bearing liabilities, including lease obligations, was ¥423.9 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) EXPLANATION REGARDING FUTURE PREDICTION INFORMATION SUCH AS CONSOLIDATED FORECASTS OF RESULTS

Considering the full-year forecast of the consolidated results for the fiscal year ending March 31, 2017, the IHI Group has made no changes to the forecasts for net sales, operating income and ordinary income previously announced on October 24, 2016, which was decided after factoring in the deterioration in the profitability of large-scale projects underway in North America and taking into consideration the improvement in the Aero engines Business, among others.

No changes have been made to profit attributable to owners of parent, either, after taking into consideration expected gains from the sale of assets, despite the provision for loss on guarantees related to UNIGEN inc., which was recorded as extraordinary loss.
Note that foreign exchange rates of ¥110/US$1 and ¥120/EUR1 have been assumed in the above forecasts in the fourth quarter ending March 31, 2017.

For certain overseas consolidated subsidiaries, the end of the fiscal year has been changed from December 31 to March 31, and the results for the consolidated subsidiaries in question for the fiscal year under review use forecast figures for the 15 months from January 1, 2016 through March 31, 2017.

2. MATTERS REGARDING SUMMARY INFORMATION (NOTES)

(1) CHANGES IN SIGNIFICANT SUBSIDIARIES DURING THE NINE MONTHS UNDER REVIEW

Not applicable

(2) APPLICATION OF 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.

(3) CHANGES IN ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES, AND RESTATEMENT OF PRIOR PERIOD FINANCIAL STATEMENTS AFTER ERROR CORRECTIONS

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.

(4) 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).

Changes to the fiscal year, etc. for consolidated subsidiaries

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

As a result, for the 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.

3. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

(1) 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	444,838	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

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2016	December 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	297,499	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
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) CONSOLIDATED STATEMENTS OF INCOME AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENTS OF INCOME (Cumulative)

(Millions of yen)

	Apr. 1, 2015 to Dec. 31, 2015	Apr. 1, 2016 to Dec. 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	–	1,079
Gain on transfer of shares of subsidiaries and affiliates	–	798
Total extraordinary income	–	3,521
Extraordinary losses		
Provision for loss on guarantees	–	9,800
Compensation for change of construction contracts	–	2,248
Loss on valuation of investment securities	–	1,114
Expenses for delayed delivery	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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Cumulative)

(Millions of yen)

	Apr. 1, 2015 to Dec. 31, 2015	Apr. 1, 2016 to Dec. 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

(3) NOTES TO THE QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

NOTES ON THE PREMISE OF GOING CONCERN

Not applicable

NOTES WHEN THERE IS SIGNIFICANT CHANGES IN AMOUNTS OF EQUITY

Not applicable

SEGMENT INFORMATION

Segment information

I Nine months ended 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 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

II Nine months ended 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 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 in reportable segments, etc.

Changes to the fiscal year, etc. for consolidated subsidiaries

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

As a result, for the 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.

SIGNIFICANT SUBSEQUENT EVENTS

Not applicable

4. SUPPLEMENTARY INFORMATION

(1) ORDERS RECEIVED BY REPORTABLE SEGMENT

(Millions of yen)

Reportable segment	Nine months ended December 31, 2015		Nine months ended December 31, 2016		Change from the previous corresponding period		Fiscal year ended March 31, 2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Resources, Energy and Environment	332,097	34	269,837	29	(62,260)	(18.7)	532,733	33
Social Infrastructure and Offshore Facility	104,563	10	91,110	10	(13,453)	(12.9)	128,571	8
Industrial System and General-Purpose Machinery	317,247	32	318,659	35	1,412	0.4	421,836	26
Aero Engine, Space and Defense	224,940	23	234,159	25	9,219	4.1	515,611	32
Total Reportable Segment	978,847	99	913,765	99	(65,082)	(6.6)	1,598,751	99
Others	47,806	5	50,004	5	2,198	4.6	65,748	4
Adjustment	(40,652)	(4)	(35,051)	(4)	5,601	–	(59,176)	(3)
Total	986,001	100	928,718	100	(57,283)	(5.8)	1,605,323	100
Overseas orders received	432,567	44	403,803	43	(28,764)	(6.6)	726,352	45

(2) NET SALES BY REPORTABLE SEGMENT

(Millions of yen)

Reportable segment	Nine months ended December 31, 2015		Nine months ended December 31, 2016		Change from the previous corresponding period		Fiscal year ended March 31, 2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Resources, Energy and Environment	312,660	29	297,399	29	(15,261)	(4.9)	452,476	29
Social Infrastructure and Offshore Facility	111,764	11	107,565	10	(4,199)	(3.8)	168,139	11
Industrial System and General-Purpose Machinery	289,461	27	298,503	29	9,042	3.1	404,767	26
Aero Engine, Space and Defense	334,637	32	322,679	31	(11,958)	(3.6)	500,208	33
Total Reportable Segment	1,048,522	99	1,026,146	99	(22,376)	(2.1)	1,525,590	99
Others	41,549	4	48,786	5	7,237	17.4	69,853	5
Adjustment	(31,876)	(3)	(36,711)	(4)	(4,835)	–	(56,055)	(4)
Total	1,058,195	100	1,038,221	100	(19,974)	(1.9)	1,539,388	100
Overseas sales	602,155	57	558,813	54	(43,342)	(7.2)	796,923	52

(3) ORDER BACKLOG BY REPORTABLE SEGMENT

(Millions of yen)

Reportable segment	As of March 31, 2016		As of December 31, 2016		Change from the end of the previous fiscal year		As of December 31, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%
Resources, Energy and Environment	843,469	49	775,278	49	(68,191)	(8.1)	785,210	49
Social Infrastructure and Offshore Facility	194,306	11	190,756	12	(3,550)	(1.8)	222,642	14
Industrial System and General-Purpose Machinery	138,036	8	159,030	10	20,994	15.2	147,883	9
Aero Engine, Space and Defense	541,067	31	435,621	28	(105,446)	(19.5)	414,426	26
Total Reportable Segment	1,716,878	99	1,560,685	99	(156,193)	(9.1)	1,570,161	98
Others	24,774	1	23,429	1	(1,345)	(5.4)	33,018	2
Total	1,741,652	100	1,584,114	100	(157,538)	(9.0)	1,603,179	100
Overseas order backlog	757,926	44	549,811	35	(208,115)	(27.5)	658,636	41