

**CONSOLIDATED FINANCIAL REPORT
 FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2017
 <Japanese GAAP>**

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

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Submission of Quarterly Securities Report: November 14, 2017 (planned)
 Commencement of dividend payments: December 4, 2017
 Preparing supplementary material on quarterly financial results: Yes
 Holding quarterly 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 SIX MONTHS ENDED SEPTEMBER 30, 2017
 (APRIL 1, 2017 to SEPTEMBER 30, 2017)**

(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 Profit	Percentage Change	Ordinary Profit	Percentage Change
Six months ended September 30, 2017	773,491	11.8%	34,622	189.6%	19,574	283.9%
Six months ended September 30, 2016	691,799	0.5%	11,956	–	5,099	–

	Profit Attributable to Owners of Parent	Percentage Change	Basic Earnings per Share (Yen)	Diluted Earnings per Share (Yen)
Six months ended September 30, 2017	6,882	–	44.57	44.54
Six months ended September 30, 2016	(5,256)	–	(34.04)	–

(Note) Comprehensive income

Six months ended September 30, 2017: ¥12,323 million –%
 Six months ended September 30, 2016: ¥(20,342) 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)

	Total Assets	Net Assets	Equity to Total Assets
September 30, 2017	1,660,148	348,127	19.7%
March 31, 2017	1,692,831	337,630	18.8%

(Reference) Equity at the end of the period (consolidated)
September 30, 2017: ¥327,817 million
March 31, 2017: ¥318,163 million

2. DIVIDENDS

(Record Date)	Dividends per Share					(Yen)
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	Year-end	Annual	
Fiscal year ended March 31, 2017	—	0.00	—	0.00	0.00	
Fiscal year ending March 31, 2018	—	3.00	—	—	—	
Fiscal year ending March 31, 2018 (Forecast)	—	—	—	30.00	—	

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

* 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 ending March 31, and a dash is presented for the annual dividends per share. The forecast for the year-end dividends per share for the fiscal year ending March 31, 2018 without the consolidation of shares factored in would be ¥3.00, and the annual dividends per share would be ¥6.00. For details, please see “Proper use of forecast of results, and other special matters” below.

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

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

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of Parent		Basic Earnings per Share (Yen)
Full-year	1,550,000	4.3%	65,000	37.2%	57,000	159.0%	23,000	338.3%	148.97

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

* 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 full-year consolidated forecasts for basic earnings per share for the fiscal year ending March 31, 2018. For details, please see “Proper use of forecast of results, and other special matters” below.

* NOTES

(1) Changes in significant subsidiaries during the six 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 6.

(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: 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 first quarter ended June 30, 2017, 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 “(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 6.

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

(i) Number of shares issued at the end of the period (including treasury shares)	
As of September 30, 2017	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 September 30, 2017	362,164 shares
As of March 31, 2017	256,268 shares
(iii) Average number of shares outstanding during the period (cumulative quarterly period)	
Six months ended September 30, 2017	154,398,103 shares
Six months ended September 30, 2016	154,410,473 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 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 excluded from the calculation of the “number of treasury shares owned at the end of the period,” and “average number of shares outstanding during the period,” includes 111,000 shares of IHI (the number of shares following share consolidation) owned by a trust account for the Board Benefit Trust (BBT).

* Quarterly financial reports are not required to be subjected to quarterly reviews.

* 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 5.

(Dividends forecast and consolidated forecasts following 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). Dividend forecasts and consolidated forecasts for the fiscal year ending March 31, 2018 calculated without factoring in the consolidation of shares are as follows:

1. Dividend forecasts for fiscal year ending March 31, 2018
Dividends per share Record date of year-end: ¥3.00 Annual: ¥6.00
2. Consolidated forecasts for fiscal year ending March 31, 2018
Basic earnings per share Full-year: ¥14.90

1. QUALITATIVE INFORMATION REGARDING CONSOLIDATED RESULTS

(1) EXPLANATION REGARDING BUSINESS RESULTS

Summary of consolidated performance for the six months ended September 30, 2017

During the six months under review, the Japanese economy continued to be on a modest recovery track, as there were pick-ups in both capital investment and private consumption, among other factors. The global economy also continued to grow overall, particularly in the U.S. and Europe, despite rising uncertainties from the trend of U.S. policies and geopolitical risks such as those in East Asia.

Under this business environment, orders received of the IHI Group during the six months increased 11.7% from the previous corresponding period to ¥715.1 billion. Net sales increased 11.8% from the previous corresponding period to ¥773.4 billion. In terms of profit, operating profit increased ¥22.6 billion to ¥34.6 billion, as although there was a deterioration of profitability caused by delayed process schedule in large projects underway in North America in the Process plants Business, the issue of the deterioration of profitability related to the F-LNG Business and Boiler Business in the previous corresponding period was resolved. Ordinary profit increased ¥14.4 billion to ¥19.5 billion. The reduced increase in ordinary profit was due to factors including the recording of expenses for delayed delivery as well as the posting of payments for contract adjustments for civil aero engines, despite the positive turn in foreign exchange gains/losses. Profit attributable to owners of parent was ¥6.8 billion, an increase of ¥12.1 billion from the previous corresponding period.

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 nine-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).

Results by reportable segment for the six months ended September 30, 2017 are as follows:

Reportable segment	Orders received			Six months ended September 30, 2016		Six months ended September 30, 2017		Change from the previous corresponding period (%)	
	Six months ended September 30, 2016	Six months ended September 30, 2017	Change from the previous corresponding period (%)	Sales	Operating profit (loss)	Sales	Operating profit (loss)	Sales	Operating profit (loss)
	(Billions of yen)								
Resources, Energy and Environment	176.3	207.4	17.7	208.5	(6.8)	253.9	(5.0)	21.8	–
Social Infrastructure and Offshore Facility	73.6	67.5	(8.3)	66.6	(19.9)	66.6	5.6	0.1	–
Industrial System and General-Purpose Machinery	211.4	246.3	16.5	202.9	7.9	227.1	7.4	11.9	(6.1)
Aero Engine, Space and Defense	167.1	181.1	8.4	205.9	31.5	215.4	29.5	4.6	(6.3)
Total Reportable Segment	628.5	702.4	11.8	684.1	12.6	763.2	37.5	11.6	196.6
Others	34.2	38.4	12.2	32.2	0.4	30.1	(0.2)	(6.6)	–
Adjustment	(22.5)	(25.7)	–	(24.5)	(1.1)	(19.8)	(2.6)	–	–
Total	640.2	715.1	11.7	691.7	11.9	773.4	34.6	11.8	189.6

(2) EXPLANATION REGARDING CONSOLIDATED FINANCIAL POSITION

A. Assets and liabilities, and net assets

Total assets at the end of the second quarter under review were ¥1,660.1 billion, down ¥32.6 billion compared with the end of the previous fiscal year. The items with the most significant decreases were notes and accounts receivable - trade, down ¥29.4 billion, other current assets, down ¥15.1 billion, and investment securities, down ¥13.5 billion. The item with the most significant increase was work in process, up ¥30.4 billion.

Total liabilities were ¥1,312.0 billion, a decrease of ¥43.1 billion compared with the end of the previous fiscal

year. The items with the most significant decreases were long-term loans payable, down ¥19.7 billion, provision for loss on construction contracts, down ¥13.9 billion, advances received, down ¥11.3 billion, and short-term loans payable, down ¥9.7 billion. The items with the most significant increases were notes and accounts payable - trade, up ¥6.5 billion, and provision for construction warranties, up ¥6.2 billion. The balance on interest bearing liabilities, including lease obligations, was ¥335.6 billion, down ¥36.2 billion from the end of the previous fiscal year.

Net assets were ¥348.1 billion, up ¥10.4 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥6.8 billion.

As a result of the above, the ratio of equity to total assets rose from 18.8% at the end of the previous fiscal year to 19.7%.

B. Cash flows

At the end of the second quarter under review, the outstanding balance of cash and cash equivalents (hereinafter, “cash”) was ¥114.7 billion, a decrease of ¥1.1 billion from the end of the previous fiscal year.

Net cash provided by operating activities was ¥43.1 billion. The main factors of increase were recognition of profit before income taxes of ¥18.2 billion, and depreciation of ¥28.1 billion, a decrease in notes and accounts receivable - trade of ¥30.9 billion and so on, while the main factors of decrease were an increase in inventories of ¥36.3 billion.

Net cash used in investing activities was ¥4.6 billion. This was mainly due to purchase of property, plant and equipment and intangible assets of ¥24.4 billion, proceeds from sales and redemption of short-term and long-term investment securities of ¥19.3 billion, and so on.

Net cash used in financing activities was ¥40.1 billion. This was mainly due to repayments of short-term loans payable of ¥29.0 billion, repayments of long-term loans payable of ¥17.4 billion, and so on.

(3) EXPLANATION REGARDING FUTURE PREDICTION INFORMATION SUCH AS CONSOLIDATED FORECASTS OF RESULTS

Going forward, the Japanese economy is expected to continue recovering moderately by benefiting from the improvements in the employment and income environments, and so on. Meanwhile, the global economy is expected to keep a modest recovery trend. However, in addition to there being many risks of economic fluctuation, such as the impact of the normalization of U.S. monetary policy and concerns about the future prospects for the economies of emerging Asian countries, there is heightened uncertainty, including political developments in the U.K. and the U.S., as well as geopolitical risks in the Middle East and East Asia. Consequently, close attention must be paid to future developments.

Under these circumstances, as announced in “Notice of Recording of Loss on Valuation of Shares of Subsidiaries and Affiliates, etc. (non-consolidated) and Non-Operating Losses” released today, IHI Group has incorporated the deterioration of profitability in the process plant project underway in North America and the payments for contract adjustments for civil aero engines into the consolidated financial results for the six months ended September 30, 2017. However, IHI Group has left its full-year consolidated forecasts for the fiscal year ending March 31, 2018 unchanged from the previous forecasts announced on August 8, 2017, because the IHI Group is expecting increased profits in each reportable segment except the Resources, Energy and Environment segment.

Note that foreign exchange rates of ¥105/US\$1 and ¥120/EUR1 have been assumed in the above forecasts in and after the third quarter ending December 31, 2017.

Furthermore, in the fiscal year ending March 31, 2018 as well, for certain overseas consolidated subsidiaries, the closing date of the fiscal year has been changed from December 31 to March 31, and the forecast amounts for the consolidated subsidiaries in question in the consolidated forecasts use forecast figures for the 15 months from January 1, 2017 through March 31, 2018.

Concerning dividends, IHI resolved at a meeting of the Board of Directors held today that the interim dividend (¥3 per share prior to share consolidation) would be paid. No changes have been made to the year-end dividend forecast (¥30 per share following share consolidation).

2. MATTERS REGARDING SUMMARY INFORMATION (NOTES)

(1) CHANGES IN SIGNIFICANT SUBSIDIARIES DURING THE SIX 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 six months under review are calculated by multiplying profit before income taxes for the six months under review by the reasonably estimated effective tax rate for the fiscal year including the second 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 six 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 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 first quarter ended June 30, 2017. 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. 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.

The resulting effect on operating profit, ordinary profit and profit before income taxes for the six months under review is immaterial.

(4) ADDITIONAL INFORMATION

Changes to the fiscal year, etc. for consolidated subsidiaries

Effective from the fiscal year under review, the closing date of the fiscal year for 47 companies including IHI INC. has been changed from December 31 to March 31, and eight companies including Wuxi IHI Turbo Co., Ltd. have been consolidated using March 31 as a provisional closing date. As a result, for the six months under review, 55 companies including IHI INC. have a nine-month accounting period.

In the period from January 1, 2017 through March 31, 2017 included in the six months 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.

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 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 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, during the second quarter under review, Trust & Custody Services Bank, Ltd. acquired 1,110,000 of IHI’s shares.

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 second quarter under review, there were 1,110,000 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. The number of IHI shares in the trust following the share consolidation is 111,000.

3. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2017	September 30, 2017
Assets		
Current assets		
Cash and deposits	118,909	116,894
Notes and accounts receivable - trade	403,094	373,665
Finished goods	20,719	24,696
Work in process	272,823	303,267
Raw materials and supplies	123,726	125,239
Other	140,016	124,850
Allowance for doubtful accounts	(5,445)	(5,528)
Total current assets	1,073,842	1,063,083
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	136,801	133,548
Other, net	205,607	206,926
Total property, plant and equipment	342,408	340,474
Intangible assets		
Goodwill	16,166	14,133
Other	24,990	23,885
Total intangible assets	41,156	38,018
Investments and other assets		
Investment securities	134,676	121,169
Other	102,433	99,076
Allowance for doubtful accounts	(1,684)	(1,672)
Total investments and other assets	235,425	218,573
Total non-current assets	618,989	597,065
Total assets	1,692,831	1,660,148

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2017	September 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	285,937	292,474
Short-term loans payable	104,111	94,376
Commercial papers	5,000	–
Current portion of bonds	10,000	10,000
Income taxes payable	5,674	12,130
Advances received	208,907	197,586
Provision for bonuses	23,714	24,624
Provision for construction warranties	47,939	54,195
Provision for loss on construction contracts	37,324	23,337
Other provision	248	247
Other	147,394	143,779
Total current liabilities	876,248	852,748
Non-current liabilities		
Bonds payable	50,000	50,000
Long-term loans payable	182,495	162,760
Net defined benefit liability	150,920	153,595
Provision for loss on business of subsidiaries and affiliates	1,149	1,192
Other provision	1,308	951
Other	93,081	90,775
Total non-current liabilities	478,953	459,273
Total liabilities	1,355,201	1,312,021
Net assets		
Shareholders' equity		
Capital stock	107,165	107,165
Capital surplus	53,510	53,508
Retained earnings	149,832	156,714
Treasury shares	(513)	(910)
Total shareholders' equity	309,994	316,477
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,892	3,250
Deferred gains or losses on hedges	(277)	(89)
Revaluation reserve for land	5,427	5,427
Foreign currency translation adjustment	1,298	3,818
Remeasurements of defined benefit plans	(1,171)	(1,066)
Total accumulated other comprehensive income	8,169	11,340
Subscription rights to shares	843	834
Non-controlling interests	18,624	19,476
Total net assets	337,630	348,127
Total liabilities and net assets	1,692,831	1,660,148

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

(Millions of yen)

	April 1, 2016 to September 30, 2016	April 1, 2017 to September 30, 2017
Net sales	691,799	773,491
Cost of sales	586,987	640,486
Gross profit	104,812	133,005
Selling, general and administrative expenses	92,856	98,383
Operating profit	11,956	34,622
Non-operating income		
Interest income	472	825
Dividend income	856	615
Foreign exchange gains	–	393
Reversal of accrued expenses for delayed delivery	4,014	–
Other income	2,230	1,155
Total non-operating income	7,572	2,988
Non-operating expenses		
Interest expenses	1,637	1,524
Share of loss of entities accounted for using equity method	410	11
Foreign exchange losses	6,481	–
Payments for contract adjustments for civil aero engines	–	6,488
Expenses for delayed delivery	–	4,707
Other expenses	5,901	5,306
Total non-operating expenses	14,429	18,036
Ordinary profit	5,099	19,574
Extraordinary income		
Gain on transfer of business	–	1,586
Total extraordinary income	–	1,586
Extraordinary losses		
Settlement-related expenses related to boiler facilities in customer's commercial operation	–	2,932
Total extraordinary losses	–	2,932
Profit before income taxes	5,099	18,228
Income taxes	9,164	9,390
Profit (loss)	(4,065)	8,838
Profit attributable to non-controlling interests	1,191	1,956
Profit (loss) attributable to owners of parent	(5,256)	6,882

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Cumulative)

(Millions of yen)

	April 1, 2016 to September 30, 2016	April 1, 2017 to September 30, 2017
Profit (loss)	(4,065)	8,838
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,727)	355
Deferred gains or losses on hedges	(237)	(94)
Foreign currency translation adjustment	(13,870)	2,754
Remeasurements of defined benefit plans, net of tax	63	32
Share of other comprehensive income of entities accounted for using equity method	(506)	438
Total other comprehensive income	(16,277)	3,485
Comprehensive income	(20,342)	12,323
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(20,008)	10,053
Comprehensive income attributable to non-controlling interests	(334)	2,270

(3) CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	April 1, 2016 to September 30, 2016	April 1, 2017 to September 30, 2017
Cash flows from operating activities		
Profit before income taxes	5,099	18,228
Depreciation	28,057	28,173
Depreciation and amortization on other	2,698	2,927
Increase (decrease) in allowance for doubtful accounts	(1,226)	44
Increase (decrease) in provision for bonuses	(154)	844
Increase (decrease) in provision for construction warranties	(1,685)	6,049
Increase (decrease) in provision for loss on construction contracts	(4,798)	(13,876)
Increase (decrease) in net defined benefit liability	2,842	2,998
Interest and dividend income	(1,328)	(1,440)
Interest expenses	1,637	1,524
Foreign exchange losses (gains)	841	(93)
Loss (gain) on sales of short-term and long-term investment securities	–	(5)
Loss (gain) on valuation of short-term and long-term investment securities	838	–
Share of (profit) loss of entities accounted for using equity method	410	11
Loss (gain) on disposal of property, plant and equipment	98	576
Loss (gain) on transfer of business	–	(1,586)
Decrease (increase) in notes and accounts receivable - trade	98,004	30,940
Increase (decrease) in advances received	23,442	(11,466)
Decrease (increase) in advance payments	5,137	8,688
Decrease (increase) in inventories	(45,323)	(36,323)
Increase (decrease) in notes and accounts payable - trade	(19,029)	4,928
Increase (decrease) in accrued expenses	(39,382)	3,180
Decrease (increase) in other current assets	1,814	824
Increase (decrease) in other current liabilities	(5,722)	(2,742)
Decrease (increase) in consumption taxes refund receivable	(1,975)	321
Other, net	523	1,777
Subtotal	50,818	44,501
Interest and dividend income received	2,112	1,585
Interest expenses paid	(1,466)	(1,466)
Income taxes paid	(9,155)	(1,476)
Net cash provided by (used in) operating activities	42,309	43,144

(3) CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	April 1, 2016 to September 30, 2016	April 1, 2017 to September 30, 2017
Cash flows from investing activities		
Decrease (increase) in time deposits	(647)	897
Purchase of short-term and long-term investment securities	(2,972)	(4,447)
Proceeds from sales and redemption of short-term and long-term investment securities	1,412	19,311
Purchase of property, plant and equipment and intangible assets	(23,920)	(24,425)
Gain (loss) on sales or disposal of property, plant and equipment and intangible assets	247	544
Payments for transfer of business	(80)	–
Proceeds from transfer of business	–	2,347
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(1)	–
Decrease (increase) in short-term loans receivable	252	(257)
Payments of long-term loans receivable	(19)	(8)
Collection of long-term loans receivable	16	10
Decrease (increase) in other investments	(5,133)	820
Increase (decrease) in other non-current liabilities	284	526
Other, net	145	(3)
Net cash provided by (used in) investing activities	(30,416)	(4,685)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(9,608)	(29,060)
Net increase (decrease) in commercial papers	(5,000)	(5,000)
Proceeds from long-term loans payable	25,737	15,964
Repayments of long-term loans payable	(38,508)	(17,476)
Proceeds from sales and leasebacks	62	–
Repayments of lease obligations	(1,927)	(2,741)
Payments made to trust account for acquisition of treasury shares	–	(408)
Cash dividends paid	(11)	(8)
Proceeds from share issuance to non-controlling shareholders	840	688
Dividends paid to non-controlling interests	(1,620)	(2,104)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(356)	–
Net cash provided by (used in) financing activities	(30,391)	(40,145)
Effect of exchange rate change on cash and cash equivalents	(8,598)	543
Net increase (decrease) in cash and cash equivalents	(27,096)	(1,143)
Cash and cash equivalents at beginning of period	103,611	115,911
Increase in cash and cash equivalents from consolidation of non-consolidated subsidiaries	761	–
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	–	(28)
Cash and cash equivalents at end of period	77,276	114,740

(4) 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 Six months ended September 30, 2016

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

(Millions of yen)

	Reportable Segment				Total	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					
Sales:									
(1) Sales to outside customers	205,890	63,120	197,811	204,424	671,245	20,554	691,799	–	691,799
(2) Intersegment sales and transfers	2,682	3,495	5,153	1,539	12,869	11,665	24,534	(24,534)	–
Total	208,572	66,615	202,964	205,963	684,114	32,219	716,333	(24,534)	691,799
Segment profit (loss)	(6,853)	(19,926)	7,921	31,514	12,656	411	13,067	(1,111)	11,956
(Operating profit (loss))									

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 ¥67 million and unallocated corporate expenses of negative ¥1,044 million.

Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.

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 six months ended September 30, 2016, 37 companies including JURONG ENGINEERING LIMITED have a nine-month accounting period.

In the period from January 1, 2016 through March 31, 2016 included in the six months ended September 30, 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 profit 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

Not applicable

II Six months ended September 30, 2017

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	252,490	63,718	223,584	214,440	754,232	19,259	773,491	–	773,491
(2) Intersegment sales and transfers	1,486	2,938	3,517	1,043	8,984	10,841	19,825	(19,825)	–
Total	253,976	66,656	227,101	215,483	763,216	30,100	793,316	(19,825)	773,491
Segment profit (loss)	(5,093)	5,663	7,439	29,530	37,539	(291)	37,248	(2,626)	34,622
(Operating profit (loss))									

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 ¥365 million and unallocated corporate expenses of negative ¥2,991 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 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 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 47 companies including IHI INC. has been changed from December 31 to March 31, and eight companies including Wuxi IHI Turbo Co., Ltd. have been consolidated using March 31 as a provisional closing date.

As a result, for the six months ended September 30, 2017, 55 companies including IHI INC. have a nine-month accounting period.

In the period from January 1, 2017 through March 31, 2017 included in the six months ended September 30, 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. Operating profit was ¥1,616 million for the Industrial System and General-Purpose Machinery segment, and ¥72 million for the Aero Engine, Space and Defense segment. Operating loss was ¥117 million for Resources, Energy and Environment segment, and ¥1 million for the Social Infrastructure and Offshore Facility 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 the above, the IHI Group has made these four business areas its reportable segments.

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 in the six months ended September 30, 2017 decreased by ¥1,775 million for the Resources, Energy and Environment segment, ¥597 million for the Industrial System and General-Purpose Machinery segment, and increased by ¥2,372 million for adjustment. The impact on operating profit/loss was immaterial.

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

Not applicable

SIGNIFICANT SUBSEQUENT EVENTS

Not applicable