IHI Corporation

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November 1, 2016

CONSOLIDATED FINANCIAL REPORT FOR THE SIX MONTHS ENDED SEPTEMBER 30, 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.

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Submission of Quarterly Securities Report: November 11, 2016 (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 SIX MONTHS ENDED SEPTEMBER 30, 2016 (APRIL 1, 2016 to SEPTEMBER 30, 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
Six months ended September 30, 2016	**691,799**	**0.5**	**11,956**	**–**	**5,099**	**–**
Six months ended September 30, 2015	688,271	11.7	269	(99.1)	(4,030)	–

	Profit Attributable to Owners of Parent	Percentage Change	Basic Earnings per Share (Yen)	Diluted Earnings per Share (Yen)
Six months ended September 30, 2016	**(5,256)**	**–**	**(3.40)**	**–**
Six months ended September 30, 2015	(3,907)	–	(2.53)	–

(Note) Comprehensive income
Six months ended September 30, 2016: ¥(20,342) million —%
Six months ended September 30, 2015: ¥(5,399) million —%

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity to Total Assets
September 30, 2016	**1,593,796**	**312,075**	**18.7%**
March 31, 2016	1,715,056	333,359	18.6%

(Reference) Equity at the end of the period (consolidated)
September 30, 2016: ¥298,035 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 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 8.

(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 8.

(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, 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 September 30, 2016	2,661,805 shares
As of March 31, 2016	2,825,606 shares

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

Six months ended September 30, 2016	1,544,104,736 shares
Six months ended September 30, 2015	1,543,542,585 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 7.

1. QUALITATIVE INFORMATION REGARDING CONSOLIDATED RESULTS

(1) EXPLANATION REGARDING BUSINESS RESULTS

A. Summary of consolidated performance for the six months ended September 30, 2016

During the six months under review, in the Japanese economy the yen appreciation and weakening capital investment and corporate earnings led to an expanded scope of uncertainty. In the global economy outside of Japan, although the U.S. economy performed strongly, in addition to palpable sentiment of economic slowdown present in China and the emerging countries of Asia, uncertainty is rising from factors including growing geopolitical risks and the results of the UK decision to leave the EU.

Under this business environment, orders received of the IHI Group during the six months decreased 9.5% from the previous corresponding period to ¥640.2 billion. Net sales rose 0.5% to ¥691.7 billion. Operating income increased ¥11.6 billion to ¥11.9 billion, owing to the effect of significant deterioration of profitability that occurred in the Social Infrastructure and Offshore Facility segment in the previous corresponding period. Ordinary income stayed at just ¥5.0 billion, a ¥9.1 billion increase from the previous corresponding period, partly because of deterioration in foreign exchange losses. Loss attributable to owners of parent was ¥5.2 billion, a fall in profit of ¥1.3 billion compared with the previous corresponding period, due to the impact of increased tax expenses caused partly by the revision of the recoverability of deferred tax assets.

Results by reportable segment for the six months ended September 30, 2016 are as follows:

(Billions of yen)

Reportable segment	Orders received			Six months ended September 30, 2015		Six months ended September 30, 2016		Change from the previous corresponding period (%)	
	Six months ended September 30, 2015	Six months ended September 30, 2016	Change from the previous corre-sponding period (%)	Sales	Operating income (loss)	Sales	Operating income (loss)	Sales	Operating income (loss)
Resources, Energy and Environment	221.7	176.3	(20.5)	209.9	5.2	208.5	(6.8)	(0.7)	–
Social Infrastructure and Offshore Facility	74.7	73.6	(1.5)	66.4	(34.5)	66.6	(19.9)	0.2	–
Industrial System and General-Purpose Machinery	220.3	211.4	(4.0)	190.2	3.9	202.9	7.9	6.7	101.1
Aero Engine, Space and Defense	182.2	167.1	(8.3)	216.5	31.0	205.9	31.5	(4.9)	1.6
Total Reportable Segment	699.1	628.5	(10.1)	683.3	5.6	684.1	12.6	0.1	124.8
Others	32.6	34.2	4.7	25.7	(0.1)	32.2	0.4	25.2	–
Adjustment	(24.1)	(22.5)	–	(20.7)	(5.2)	(24.5)	(1.1)	–	–
Total	707.7	640.2	(9.5)	688.2	0.2	691.7	11.9	0.5	–

Resources, Energy and Environment
Orders received declined, 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 because of the impact of large construction projects of LNG storage facilities in Japan and Asia that were ongoing in the previous corresponding period having now reached the final phase of construction in Process plants Business, and decreased sales in Power systems for land and marine use Business, partially offset by increased revenues owing to progress in major construction projects in Boiler Business.
An operating loss was recorded mainly due to the impact of a decrease in revenues as per the above, and deterioration in profitability from some boiler projects.

Social Infrastructure and Offshore Facility
Orders received were at the same level as the previous corresponding period, owing to decreases in Transport

system Business and Shield tunneling machine Business, offset by an increase in Bridge/water gate Business. Sales were at the same level as the previous corresponding period, owing to increased revenues from construction progress of F-LNG Business (floating LNG storage facilities, offshore structures), offset by a decrease in Bridge/water gate Business, due to the decline in sales from the Izmit Bay Crossing Bridge construction project in Turkey, for which an opening ceremony was held on June 30, 2016.
In terms of operating loss, there was a reduced deficit, due to the improved profitability in Bridge/water gate Business and the impact of drastic deterioration of profitability related to F-LNG Business in the previous corresponding period. However, as announced on October 24, 2016, there was further profit deterioration* in the second quarter under review.

Industrial System and General-Purpose Machinery
Orders received decreased from the previous corresponding period, owing to decreases in Transport machinery Business and Construction machinery Business, partially offset by increases in Vehicular turbocharger Business and Parking Business.
Sales increased from the previous corresponding period, owing to progress in large construction in Logistics/industrial system Business and increases in Vehicular turbocharger Business and Rotating machinery Business.
Operating income rose from the previous corresponding period, owing to the effect of the aforementioned revenue increases and improvement in profitability in Logistics/industrial system Business, Rotating machinery Business and Parking Business.

Aero Engine, Space and Defense
Orders received decreased from the previous corresponding period due to a decrease in civil aero engines.
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 was at the same level as the previous corresponding period, owing to 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, offset by the impact of yen appreciation.

* Concerning profit deterioration in the F-LNG Business in the six months under review
As announced on October 24, 2016, further setbacks in the profitability of the following three F-LNG Business projects occurred:
1) Drill ship construction for Singapore
2) FPSO (Floating Production Storage and Offloading Unit) shipbuilding project for Norway
3) Construction of SPB tanks for Japanese LNG carriers (four tanks × four ships)

These projects were principal factors in downward revisions to consolidated results forecasts since the previous fiscal year. The IHI Group undertook concerted efforts to deploy support systems and drive forward with work. After having announced the forecasts of results in July, however, new matters, which are described below according to project, arose and came to the attention of management, regretfully causing management to project additional costs.

1) Drill ship construction for Singapore
   Construction status:
   Having finished hull assembly IHI transferred the vessels in April this year from the Aichi Works dock to the quay, where it is installing electrical cables (electrical work) and equipment (outfitting work) in vessels in the final phase of construction.
   New issues:
   Electrical cable installation work in vessels progressed and entered the customers' inspection phase commencing July this year. During that process, there was an increase in the issues identified by the customer with relation to the quality of electrical engineering work. After reviewing the engineering, IHI needed to re-lay cables and add or re-install cable trays, which management projected would significantly delay electrical work. Such delays in electrical work led to falling behind with painting, commissioning and other later stages, necessitating further deployment of resources to get back on track. Management had to post massive additional costs due to the delivery, originally planned to be within this year, unavoidably being extended to March 2017 under the above-mentioned situation.
   IHI jointly assessed concerns with the customer and confirmed that there should be no further expenses or issues that affect the project.

2) FPSO (Floating Production Storage and Offloading Unit) shipbuilding project for Norway
   Construction status:
   IHI transported hull blocks manufactured at the Aichi Works and other facilities in Japan and abroad to a subcontractor shipyard in Singapore that completed hull assembly in August this year. Outfitting and

electrical work is proceeding on the vessel in that shipyard's quay.
New issues:
Revisions to yard plan drawings were finished in September this year. In the final confirmation stage, IHI reviewed the engineering to prevent interference between piping. It thereby became evident that there would be significantly more piping and cabling materials required for the process of outfitting and electrical cable installation work and that backtracking work would also be necessary. After recalibrating future work volumes with the shipyard, IHI pushed back the projected delivery by two months to July 2017, resulting in significantly higher costs.
In addition, IHI incurred expenses to post and extend the stays of engineers required to manage engineering, construction, and quality control and to more rigorously manage project progress at the subcontractor shipyard in Singapore.

3) Construction of SPB tanks for Japanese LNG carriers (four tanks × four ships)
Construction status:
Of the total of 16 tanks (four tanks × four ships), IHI fitted two tanks for the first vessel in August and October this year. It plans to fit the remaining two tanks for that vessel to complete delivery for it by December this year.
New issues:
The task of fitting the tanks entails assembling giant upper and lower blocks and joining them on board vessels, and these later construction stages are very challenging for aluminum SPB tanks in terms of precision control and welding quality.
Despite the suitably intensive deployment of skilled workers, the process was more difficult than envisaged. Frequent backtracking work made it impossible to attain planned work efficiency levels, and it became clear that there were no beneficial effects from improved proficiencies normally obtainable from continuous production. With work falling significantly behind, measures to regain lost ground became necessary.
Under such situation, to catch up, management therefore decided to expand the area for assembling final blocks. Management also reviewed work volumes for constructing subsequent tanks based on results with the first two tanks fitted, as it concluded that proficiency gains were unlikely to materialize. Estimated costs thus soared, with the projected completion being pushed back one or two months. IHI now expects to hand over the fourth ship in December 2017.
Management will pursue a range of improvement measures, including the implementation of an optimization plan for deploying welders.

The IHI Group is doing its utmost to complete these three projects.

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 place emphasis on "recovering trust" from all stakeholders.

In addition, as effort for concentration and selection by new portfolio management, in the Shield tunneling machine Business, IHI's consolidated subsidiary Japan Tunnel Systems Corporation and Mitsubishi Heavy Industries Mechatronics Systems, Ltd. integrated their respective shield tunneling machine businesses, which resulted in the establishment of a new company called JIM Technology Corporation on October 1, 2016. Furthermore, in the Construction machinery Business, IHI executed a share transfer agreement to transfer all of the shares of IHI's consolidated subsidiary IHI Construction Machinery Limited, which is engaged in manufacturing and sales of construction machinery such as mini excavators, cranes and crawler carriers, with Kato Works Co., Ltd. on October 25, 2016.

Concerning the F-LNG Business, which includes the three projects that have been the primary factors for the downward revision of the results forecasts of the IHI Group since the previous fiscal year, as stated in previous disclosure materials, IHI has already stopped accepting new orders in view of their profitability deteriorating significantly from the previous fiscal year. Management looked into transforming the business structure to focus on aluminum SPB tanks, and will also explore the need for drastic countermeasures in light of prospects for the offshore market, reaching a decision by the end of this fiscal year.

(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 ¥1,593.7 billion, down ¥121.2 billion compared with the end of the previous fiscal year. The items with the most significant decreases were notes and accounts receivable - trade, down ¥107.5 billion, and cash and deposits, down ¥26.1 billion, and the item with the most significant increase was work in process, up ¥36.0 billion.
Total liabilities were ¥1,281.7 billion, a decrease of ¥99.9 billion compared with the end of the previous fiscal year. The items with the most significant decreases were accrued expenses, down ¥42.1 billion, short-term loans payable, down ¥33.9 billion and notes and accounts payable - trade, down ¥24.7 billion. The item with the most significant increase was advances received, up ¥17.3 billion. The balance on interest bearing liabilities, including lease obligations, was ¥342.4 billion, down ¥32.1 billion compared with the end of the previous fiscal year.
Net assets were ¥312.0 billion, down ¥21.2 billion compared with the end of the previous fiscal year. This includes the recording of loss attributable to owners of parent of ¥5.2 billion and a decrease of ¥12.9 billion in foreign currency translation adjustment.
As a result of the above, although equity decreased, the ratio of equity to total assets rose from 18.6% at the end of the previous fiscal year to 18.7%, due to a considerable reduction in total assets.

B. Cash flows

At the end of the second quarter under review, the outstanding balance of cash and cash equivalents (hereinafter, "cash") was ¥77.2 billion, a decrease of ¥26.3 billion from the end of the previous fiscal year.
Net cash provided by operating activities was ¥42.3 billion. The main factors of increase were a decrease in notes and accounts receivable - trade of ¥98.0 billion, recognition of depreciation of ¥28.0 billion and an increase in advances received of ¥23.4 billion, while the main factors of decrease were an increase in inventories of ¥45.3 billion, a decrease in accrued expenses of ¥39.3 billion and a decrease in notes and accounts payable - trade of ¥19.0 billion.
Net cash used in investing activities was ¥30.4 billion. This was due mainly to purchase of property, plant and equipment and intangible assets of ¥23.9 billion.
Net cash used in financing activities was ¥30.3 billion. This was due mainly to repayments of long-term loans payable of ¥38.5 billion.

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

As announced on October 24, 2016, after taking into account the change in exchange rate assumptions, the deterioration in profitability primarily in three projects of F-LNG Business in the current quarter and the impact of increased tax expenses, the IHI Group forecasts for the fiscal year ending March 31, 2017, net sales of ¥1,500.0 billion, operating income of ¥38.0 billion, ordinary income of ¥18.0 billion, and profit attributable to owners of parent of ¥0.0 billion.
Note that foreign exchange rates of ¥100/US$1 and ¥110/EUR1 have been assumed in the above forecasts in and after the third quarter ending December 31, 2016.
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.

IHI sets as its basic policy for profit distribution that it is important to provide stable dividend to shareholders and to increase retained earnings for strengthening the business base for enabling stable dividend payment. However, in view of results forecasts for the fiscal year ending March 31, 2017, we regretfully plan on not paying an interim dividend and setting a zero dividend forecast for the year-end dividend.

In recognizing the seriousness of setting a zero annual dividend forecast, officers are planning to voluntarily pay back a portion of their remuneration .

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

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 six months ended September 30, 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 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, 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	September 30, 2016
Assets		
Current assets		
Cash and deposits	106,536	80,355
Notes and accounts receivable - trade	444,838	337,257
Securities	1,403	3
Finished goods	23,537	26,558
Work in process	254,907	290,950
Raw materials and supplies	131,865	134,965
Other	148,468	130,658
Allowance for doubtful accounts	(11,048)	(4,209)
Total current assets	1,100,506	996,537
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	142,597	140,571
Other, net	207,139	204,765
Total property, plant and equipment	349,736	345,336
Intangible assets		
Goodwill	22,043	17,516
Other	27,562	25,164
Total intangible assets	49,605	42,680
Investments and other assets		
Investment securities	139,463	134,540
Other	77,729	76,648
Allowance for doubtful accounts	(1,983)	(1,945)
Total investments and other assets	215,209	209,243
Total non-current assets	614,550	597,259
Total assets	1,715,056	1,593,796

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2016	September 30, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	297,499	272,707
Short-term loans payable	94,550	60,611
Commercial papers	5,000	–
Current portion of bonds	10,000	10,000
Income taxes payable	8,222	6,184
Advances received	180,352	197,746
Provision for bonuses	24,610	24,094
Provision for construction warranties	44,337	42,199
Provision for loss on construction contracts	53,223	48,425
Other provision	379	138
Other	164,597	115,286
Total current liabilities	882,769	777,390
Non-current liabilities		
Bonds payable	60,000	60,000
Long-term loans payable	187,085	195,176
Net defined benefit liability	154,968	157,421
Provision for loss on business of subsidiaries and affiliates	2,805	3,681
Other provision	1,377	1,133
Other	92,693	86,920
Total non-current liabilities	498,928	504,331
Total liabilities	1,381,697	1,281,721
Net assets		
Shareholders’ equity		
Capital stock	107,165	107,165
Capital surplus	54,431	54,346
Retained earnings	144,789	139,407
Treasury shares	(565)	(532)
Total shareholders’ equity	305,820	300,386
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,580	(175)
Deferred gains or losses on hedges	(377)	(668)
Revaluation reserve for land	5,423	5,422
Foreign currency translation adjustment	9,954	(3,029)
Remeasurements of defined benefit plans	(4,090)	(3,901)
Total accumulated other comprehensive income	12,490	(2,351)
Subscription rights to shares	758	863
Non-controlling interests	14,291	13,177
Total net assets	333,359	312,075
Total liabilities and net assets	1,715,056	1,593,796

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

CONSOLIDATED STATEMENTS OF INCOME (Cumulative)

(Millions of yen)

	Apr. 1, 2015 to Sep. 30, 2015	Apr. 1, 2016 to Sep. 30, 2016
Net sales	688,271	691,799
Cost of sales	594,085	586,987
Gross profit	94,186	104,812
Selling, general and administrative expenses	93,917	92,856
Operating income	269	11,956
Non-operating income		
Interest income	435	472
Dividend income	809	856
Share of profit of entities accounted for using equity method	1,207	–
Reversal of accrued expense for delayed delivery	–	4,014
Other income	2,170	2,230
Total non-operating income	4,621	7,572
Non-operating expenses		
Interest expenses	2,095	1,637
Share of loss of entities accounted for using equity method	–	410
Foreign exchange losses	2,023	6,481
Other expenses	4,802	5,901
Total non-operating expenses	8,920	14,429
Ordinary income (loss)	(4,030)	5,099
Profit (loss) before income taxes	(4,030)	5,099
Income taxes	(887)	9,164
Loss	(3,143)	(4,065)
Profit attributable to non-controlling interests	764	1,191
Loss attributable to owners of parent	(3,907)	(5,256)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Cumulative)

(Millions of yen)

	Apr. 1, 2015 to Sep. 30, 2015	Apr. 1, 2016 to Sep. 30, 2016
Loss	(3,143)	(4,065)
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,043)	(1,727)
Deferred gains or losses on hedges	449	(237)
Revaluation reserve for land	6	–
Foreign currency translation adjustment	182	(13,870)
Remeasurements of defined benefit plans, net of tax	522	63
Share of other comprehensive income of entities accounted for using equity method	(372)	(506)
Total other comprehensive income	(2,256)	(16,277)
Comprehensive income	(5,399)	(20,342)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(6,565)	(20,008)
Comprehensive income attributable to non-controlling interests	1,166	(334)

(3) CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	Apr. 1, 2015 to Sep. 30, 2015	Apr. 1, 2016 to Sep. 30, 2016
Cash flows from operating activities		
Profit (loss) before income taxes	(4,030)	5,099
Depreciation	26,970	28,057
Depreciation and amortization on other	2,131	2,698
Increase (decrease) in allowance for doubtful accounts	(447)	(1,226)
Increase (decrease) in provision for bonuses	(333)	(154)
Increase (decrease) in provision for construction warranties	3,571	(1,685)
Increase (decrease) in provision for loss on construction contracts	19,606	(4,798)
Increase (decrease) in net defined benefit liability	3,255	2,842
Interest and dividend income	(1,244)	(1,328)
Interest expenses	2,095	1,637
Foreign exchange losses (gains)	(564)	841
Loss (gain) on sales of short-term and long-term investment securities	(111)	—
Loss (gain) on valuation of short-term and long-term investment securities	17	838
Share of (profit) loss of entities accounted for using equity method	(1,207)	410
Loss (gain) on disposal of property, plant and equipment	341	98
Decrease (increase) in notes and accounts receivable - trade	18,977	98,004
Increase (decrease) in advances received	32,350	23,442
Decrease (increase) in advance payments	(8,033)	5,137
Decrease (increase) in inventories	(58,802)	(45,323)
Increase (decrease) in notes and accounts payable - trade	(38,593)	(19,029)
Increase (decrease) in accrued expenses	1,545	(39,382)
Decrease (increase) in other current assets	(11,996)	1,814
Increase (decrease) in other current liabilities	(1,993)	(5,722)
Decrease (increase) in consumption taxes refund receivable	8,847	(1,975)
Other, net	(909)	523
Subtotal	(8,557)	50,818
Interest and dividend income received	2,810	2,112
Interest expenses paid	(2,117)	(1,466)
Income taxes paid	(16,166)	(9,155)
Net cash provided by (used in) operating activities	(24,030)	42,309

(3) CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	Apr. 1, 2015 to Sep. 30, 2015	Apr. 1, 2016 to Sep. 30, 2016
Cash flows from investing activities		
Decrease (increase) in time deposits	(1,908)	(647)
Purchase of short-term and long-term investment securities	(3,247)	(2,972)
Proceeds from sales and redemption of short-term and long-term investment securities	500	1,412
Purchase of property, plant and equipment and intangible assets	(25,456)	(23,920)
Gain (loss) on sales or disposal of property, plant and equipment and intangible assets	228	247
Payments for transfer of business	—	(80)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(1)
Decrease (increase) in short-term loans receivable	1,540	252
Payments of long-term loans receivable	(34)	(19)
Collection of long-term loans receivable	26	16
Decrease (increase) in other investments	(613)	(5,133)
Increase (decrease) in other non-current liabilities	587	284
Other, net	17	145
Net cash provided by (used in) investing activities	(28,360)	(30,416)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	32,386	(9,608)
Net increase (decrease) in commercial papers	28,000	(5,000)
Proceeds from long-term loans payable	12,261	25,737
Repayments of long-term loans payable	(19,636)	(38,508)
Proceeds from sales and leasebacks	612	62
Repayments of lease obligations	(1,906)	(1,927)
Decrease (increase) in treasury shares	(4)	—
Cash dividends paid	(4,621)	(11)
Proceeds from share issuance to non-controlling shareholders	1,061	840
Dividends paid to non-controlling interests	(2,087)	(1,620)
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	46,066	(30,391)
Effect of exchange rate change on cash and cash equivalents	454	(8,598)
Net increase (decrease) in cash and cash equivalents	(5,870)	(27,096)
Cash and cash equivalents at beginning of period	92,527	103,611
Increase in cash and cash equivalents from consolidation of non-consolidated subsidiaries	272	761
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	357	—
Cash and cash equivalents at end of period	87,286	77,276

(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, 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	207,593	65,278	185,229	214,943	673,043	15,228	688,271	–	688,271
(2) Intersegment sales and transfers	2,372	1,217	5,060	1,635	10,284	10,497	20,781	(20,781)	–
Total	209,965	66,495	190,289	216,578	683,327	25,725	709,052	(20,781)	688,271
Segment profit (loss) (Operating income (loss))	5,230	(34,562)	3,938	31,023	5,629	(157)	5,472	(5,203)	269

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 ¥615 million and unallocated corporate expenses of negative ¥4,588 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 negative goodwill by reportable segment

Material impairment loss of non-current assets
Not applicable

Material change in goodwill amount
Not applicable

Material gain on negative goodwill
Not applicable

II Six months ended September 30, 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	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) (Operating income (loss))	(6,853)	(19,926)	7,921	31,514	12,656	411	13,067	(1,111)	11,956

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.

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, steel manufacturing equipment, paper-making 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
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 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 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 negative goodwill by reportable segment

   Material impairment loss of non-current assets
   Not applicable

   Material change in goodwill amount
   Not applicable

   Material gain on negative goodwill
   Not applicable

SIGNIFICANT SUBSEQUENT EVENTS

Not applicable

4. SUPPLEMENTARY INFORMATION

(1) ORDERS RECEIVED BY REPORTABLE SEGMENT

(Millions of yen)

Reportable segment	Six months ended September 30, 2015		Six months ended September 30, 2016		Change from the previous corresponding period		Fiscal year ended March 31, 2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Resources, Energy and Environment	221,778	31	176,301	28	(45,477)	(20.5)	532,733	33
Social Infrastructure and Offshore Facility	74,780	11	73,667	12	(1,113)	(1.5)	128,571	8
Industrial System and General-Purpose Machinery	220,370	31	211,482	33	(8,888)	(4.0)	421,836	26
Aero Engine, Space and Defense	182,217	26	167,145	26	(15,072)	(8.3)	515,611	32
Total Reportable Segment	699,145	99	628,595	99	(70,550)	(10.1)	1,598,751	99
Others	32,687	5	34,228	5	1,541	4.7	65,748	4
Adjustment	(24,127)	(4)	(22,567)	(4)	1,560	–	(59,176)	(3)
Total	707,705	100	640,256	100	(67,449)	(9.5)	1,605,323	100
Overseas orders received	322,431	46	299,737	47	(22,694)	(7.0)	726,352	45

(2) NET SALES BY REPORTABLE SEGMENT

(Millions of yen)

Reportable segment	Six months ended September 30, 2015		Six months ended September 30, 2016		Change from the previous corresponding period		Fiscal year ended March 31, 2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Resources, Energy and Environment	209,965	30	208,572	30	(1,393)	(0.7)	452,476	29
Social Infrastructure and Offshore Facility	66,495	10	66,615	10	120	0.2	168,139	11
Industrial System and General-Purpose Machinery	190,289	28	202,964	29	12,675	6.7	404,767	26
Aero Engine, Space and Defense	216,578	31	205,963	30	(10,615)	(4.9)	500,208	33
Total Reportable Segment	683,327	99	684,114	99	787	0.1	1,525,590	99
Others	25,725	4	32,219	5	6,494	25.2	69,853	5
Adjustment	(20,781)	(3)	(24,534)	(4)	(3,753)	–	(56,055)	(4)
Total	688,271	100	691,799	100	3,528	0.5	1,539,388	100
Overseas sales	399,799	58	384,283	56	(15,516)	(3.9)	796,923	52

(3) ORDER BACKLOG BY REPORTABLE SEGMENT

(Millions of yen)

Reportable segment	As of March 31, 2016		As of September 30, 2016		Change from the end of the previous fiscal year		As of September 30, 2015	
	Amount	%	Amount	%	Amount	%	Amount	%
Resources, Energy and Environment	843,469	49	766,788	48	(76,681)	(9.1)	783,731	46
Social Infrastructure and Offshore Facility	194,306	11	200,084	12	5,778	3.0	240,711	14
Industrial System and General-Purpose Machinery	138,036	8	146,029	9	7,993	5.8	150,759	9
Aero Engine, Space and Defense	541,067	31	475,509	29	(65,558)	(12.1)	486,564	29
Total Reportable Segment	1,716,878	99	1,588,410	98	(128,468)	(7.5)	1,661,765	98
Others	24,774	1	24,482	2	(292)	(1.2)	36,340	2
Total	1,741,652	100	1,612,892	100	(128,760)	(7.4)	1,698,105	100
Overseas order backlog	757,926	44	596,435	37	(161,491)	(21.3)	754,574	44