IHI

IHI Corporation

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Tokyo 135-8710, Japan
February 6, 2018

CONSOLIDATED FINANCIAL REPORT FOR THE NINE MONTHS ENDED DECEMBER 31, 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: February 14, 2018 (planned)
Commencement of dividend payments: –
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 NINE MONTHS ENDED DECEMBER 31, 2017 (APRIL 1, 2017 to DECEMBER 31, 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
Nine months ended December 31, 2017	**1,131,315**	**9.0%**	**51,544**	**164.5%**	**29,625**	**239.7%**
Nine months ended December 31, 2016	1,038,221	(1.9)%	19,487	251.1%	8,722	347.1%

	Profit Attributable to Owners of Parent	Percentage Change	Basic Earnings per Share (Yen)	Diluted Earnings per Share (Yen)
Nine months ended December 31, 2017	**9,842**	**–**	**63.75**	**63.70**
Nine months ended December 31, 2016	(9,172)	–	(59.40)	–

(Note) Comprehensive income
Nine months ended December 31, 2017: ¥18,658 million –%
Nine months ended December 31, 2016: ¥(13,830) 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
December 31, 2017	**1,677,178**	**350,411**	**19.6%**
March 31, 2017	1,692,831	337,630	18.8%

(Reference) Equity at the end of the period (consolidated)
December 31, 2017: ¥327,907 million
March 31, 2017: ¥318,163 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, 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, 2018, 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	1,600,000	7.6%	71,000	49.8%	39,000	77.2%	11,000	109.6%	71.26

(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 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 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 December 31, 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 December 31, 2017	353,684 shares
As of March 31, 2017	256,268 shares

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

Nine months ended December 31, 2017	154,372,321 shares
Nine months ended December 31, 2016	154,412,477 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: ¥7.13

1. QUALITATIVE INFORMATION REGARDING CONSOLIDATED RESULTS

(1) EXPLANATION REGARDING BUSINESS RESULTS

Summary of consolidated performance for the nine months ended December 31, 2017

During the nine months under review, the Japanese economy continued to be on a modest recovery track, as there were an increase in capital investment and a pick-up in 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 nine months increased 5.3% from the previous corresponding period to ¥977.5 billion. Net sales increased 9.0% from the previous corresponding period to ¥1,131.3 billion.
In terms of profit, operating profit increased ¥32.0 billion to ¥51.5 billion, due to the resolution of the deterioration of profitability related to the F-LNG/Offshore structure Business and Boiler Business in the previous corresponding period, higher profit due to the increase in sales in each reportable segment, the improved profitability in the Civil aero engines Business, and other factors, despite the deterioration in profitability in the Process plants Business. Ordinary profit increased by a smaller amount of ¥20.9 billion to ¥29.6 billion. The smaller increase was due mainly to a deterioration in share of profit/loss of entities accounted for using equity method. Profit attributable to owners of parent was ¥9.8 billion, an increase of ¥19.0 billion from the previous corresponding period.
The deterioration of the share of profit/loss of entities accounted for using equity method, as announced on February 1, 2018, is the result of the fact that the construction schedule and costs relating to LNG vessels that IHI's affiliate Japan Marine United Corporation is currently building have been revised due to process delays relating to thermal insulation work and so on.

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 12-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 nine months ended December 31, 2017 are as follows:

(Billions of yen)

Reportable segment	Orders received			Nine months ended December 31, 2016		Nine months ended December 31, 2017		Change from the previous corresponding period (%)	
	Nine months ended December 31, 2016	Nine months ended December 31, 2017	Change from the previous corre-sponding period (%)	Sales	Operating profit (loss)	Sales	Operating profit (loss)	Sales	Operating profit (loss)
Resources, Energy and Environment	269.8	265.1	(1.7)	297.3	(15.8)	351.8	(10.7)	18.3	–
Social Infrastructure and Offshore Facility	91.1	104.5	14.7	107.5	(16.7)	104.6	8.4	(2.7)	–
Industrial System and General-Purpose Machinery	318.6	352.6	10.7	298.5	11.2	331.4	10.9	11.0	(3.2)
Aero Engine, Space and Defense	234.1	235.8	0.7	322.6	41.6	326.5	46.7	1.2	12.4
Total Reportable Segment	913.7	958.2	4.9	1,026.1	20.3	1,114.6	55.4	8.6	172.6
Others	50.0	55.4	10.9	48.7	1.0	46.3	0.8	(5.1)	(12.8)
Adjustment	(35.0)	(36.1)	–	(36.7)	(1.8)	(29.6)	(4.7)	–	–
Total	928.7	977.5	5.3	1,038.2	19.4	1,131.3	51.5	9.0	164.5

(2) EXPLANATION REGARDING CONSOLIDATED FINANCIAL POSITION

Assets and liabilities, and net assets

Total assets at the end of the third quarter under review were ¥1,677.1 billion, down ¥15.6 billion compared with the end of the previous fiscal year. The items with the most significant decreases were notes and accounts receivable - trade, down ¥42.4 billion, investment securities, down ¥20.6 billion, and other current assets, down ¥10.3 billion. The item with the most significant increase was work in process, up ¥56.8 billion.
Total liabilities were ¥1,326.7 billion, a decrease of ¥28.4 billion compared with the end of the previous fiscal year. The items with the most significant decreases were other current liabilities, down ¥27.6 billion, long-term loans payable, down ¥24.7 billion, provision for loss on construction contracts, down ¥14.0 billion, and advances received, down ¥11.5 billion. The items with the most significant increases were commercial papers, up ¥25.0 billion, income taxes payable, up ¥12.8 billion, and notes and accounts payable - trade, up ¥11.5 billion. The balance on interest bearing liabilities, including lease obligations, was ¥362.7 billion, down ¥9.1 billion from the end of the previous fiscal year.
Net assets were ¥350.4 billion, up ¥12.7 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥9.8 billion, an increase of ¥3.9 billion in foreign currency translation adjustment, and a decline of ¥4.6 billion due to dividends of surplus.
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 19.6%.

(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 on February 1, 2018, IHI Group is forecasting consolidated net sales of ¥1,600.0 billion, operating profit of ¥71.0 billion, ordinary profit of ¥39.0 billion, and profit attributable to owners of parent of ¥11.0 billion for the fiscal year ending March 31, 2018. These forecasts take into consideration the fact that although improved profitability in the Civil aero engines Business and other factors are expected, share of loss of entities accounted for using equity method has deteriorated.

Note that foreign exchange rates of ¥105/US$1 and ¥120/EUR1 have been assumed in the above forecasts in the fourth quarter ending March 31, 2018.

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.

There is no revision on the year-end dividend forecast for the fiscal year ending March 31, 2018 (¥30 per share following share consolidation).

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 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 nine 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 42 companies including IHI INC. has been changed from December 31 to March 31, and 13 companies including Wuxi IHI Turbo Co., Ltd. have been consolidated using March 31 as a provisional closing date. As a result, for the nine months under review, 55 companies including IHI INC. have a 12-month accounting period.
In the period from January 1, 2017 through March 31, 2017 included in the nine 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 has introduced a performance-based share

remuneration plan ("Board Benefit Trust" or "BBT") for directors (excluding outside directors). The purpose of the plan is to strengthen the linkage between a portion of directors' remuneration and IHI's medium- to long-term performance, and further incentivize directors to contribute to boosting IHI Group's corporate value over the medium to long term. Also, based on a resolution passed at the same Board of Directors meeting, IHI has adopted a plan with the same purport of the aforementioned plan for the executive officers of IHI (hereinafter, the aforementioned plan for directors and this plan for the executive officers will be collectively referred to as the "Plan").
Concerning the accounting treatment of the Board Benefit Trust, the gross method has been applied in accordance with the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ PITF No. 30, March 26, 2015).

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

2) Shares remaining in the trust
   In conjunction with the adoption of the Plan, during the second quarter ended September 30, 2017, 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 third quarter under review, there were 111,000 treasury shares with a book value of ¥406 million.
   In addition, IHI conducted a consolidation of common shares on a 10 for 1 basis (ratio of 1 new share for every 10 old shares) with an effective date of October 1, 2017.

3. QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2017	December 31, 2017
Assets		
Current assets		
Cash and deposits	118,909	110,307
Notes and accounts receivable - trade	403,094	360,688
Finished goods	20,719	29,166
Work in process	272,823	329,628
Raw materials and supplies	123,726	126,593
Other	140,016	129,620
Allowance for doubtful accounts	(5,445)	(5,813)
Total current assets	1,073,842	1,080,189
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	136,801	132,350
Other, net	205,607	211,460
Total property, plant and equipment	342,408	343,810
Intangible assets		
Goodwill	16,166	13,315
Other	24,990	23,133
Total intangible assets	41,156	36,448
Investments and other assets		
Investment securities	134,676	114,066
Other	102,433	104,125
Allowance for doubtful accounts	(1,684)	(1,460)
Total investments and other assets	235,425	216,731
Total non-current assets	618,989	596,989
Total assets	1,692,831	1,677,178

(1) CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2017	December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	285,937	297,471
Short-term loans payable	104,111	106,285
Commercial papers	5,000	30,000
Current portion of bonds	10,000	–
Income taxes payable	5,674	18,502
Advances received	208,907	197,319
Provision for bonuses	23,714	15,316
Provision for construction warranties	47,939	57,722
Provision for loss on construction contracts	37,324	23,313
Other provision	248	376
Other	147,394	119,784
Total current liabilities	876,248	866,088
Non-current liabilities		
Bonds payable	50,000	50,000
Long-term loans payable	182,495	157,739
Net defined benefit liability	150,920	156,679
Provision for loss on business of subsidiaries and affiliates	1,149	1,199
Other provision	1,308	1,049
Other	93,081	94,013
Total non-current liabilities	478,953	460,679
Total liabilities	1,355,201	1,326,767
Net assets		
Shareholders’ equity		
Capital stock	107,165	107,165
Capital surplus	53,510	53,512
Retained earnings	149,832	155,041
Treasury shares	(513)	(897)
Total shareholders’ equity	309,994	314,821
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,892	3,463
Deferred gains or losses on hedges	(277)	(92)
Revaluation reserve for land	5,427	5,427
Foreign currency translation adjustment	1,298	5,271
Remeasurements of defined benefit plans	(1,171)	(983)
Total accumulated other comprehensive income	8,169	13,086
Subscription rights to shares	843	809
Non-controlling interests	18,624	21,695
Total net assets	337,630	350,411
Total liabilities and net assets	1,692,831	1,677,178

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

CONSOLIDATED STATEMENTS OF INCOME (Cumulative)

(Millions of yen)

	April 1, 2016 to December 31, 2016	April 1, 2017 to December 31, 2017
Net sales	1,038,221	1,131,315
Cost of sales	879,247	932,367
Gross profit	158,974	198,948
Selling, general and administrative expenses	139,487	147,404
Operating profit	19,487	51,544
Non-operating income		
Interest income	662	1,085
Dividend income	1,537	873
Share of profit of entities accounted for using equity method	295	–
Reversal of accrued expenses for delayed delivery	3,188	–
Other income	2,498	1,908
Total non-operating income	8,180	3,866
Non-operating expenses		
Interest expenses	2,366	2,285
Share of loss of entities accounted for using equity method	–	11,087
Foreign exchange losses	3,963	139
Payments for contract adjustments for civil aero engines	1,828	6,488
Expenses for delayed delivery	–	4,582
Other expenses	10,788	1,204
Total non-operating expenses	18,945	25,785
Ordinary profit	8,722	29,625
Extraordinary income		
Gain on transfer of business	–	1,586
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	1,586
Extraordinary losses		
Settlement-related expenses related to boiler facilities in customer’s commercial operation	–	2,932
Provision for loss on guarantees	9,800	–
Compensation for change of construction contracts	2,248	–
Loss on valuation of investment securities	1,114	–
Total extraordinary losses	13,162	2,932
Profit (loss) before income taxes	(919)	28,279
Income taxes	5,132	14,982
Profit (loss)	(6,051)	13,297
Profit attributable to non-controlling interests	3,121	3,455
Profit (loss) attributable to owners of parent	(9,172)	9,842

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Cumulative)

(Millions of yen)

	April 1, 2016 to December 31, 2016	April 1, 2017 to December 31, 2017
Profit (loss)	(6,051)	13,297
Other comprehensive income		
Valuation difference on available-for-sale securities	3,661	406
Deferred gains or losses on hedges	411	(111)
Foreign currency translation adjustment	(11,333)	4,256
Remeasurements of defined benefit plans, net of tax	289	80
Share of other comprehensive income of entities accounted for using equity method	(807)	730
Total other comprehensive income	(7,779)	5,361
Comprehensive income	(13,830)	18,658
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(16,251)	14,759
Comprehensive income attributable to non-controlling interests	2,421	3,899

(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, 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 profit (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.

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 12-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 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

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

II Nine months ended December 31, 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	349,897	100,255	325,711	324,905	1,100,768	30,547	1,131,315	–	1,131,315
(2) Intersegment sales and transfers	1,993	4,437	5,755	1,685	13,870	15,775	29,645	(29,645)	–
Total	351,890	104,692	331,466	326,590	1,114,638	46,322	1,160,960	(29,645)	1,131,315
Segment profit (loss) (Operating profit (loss))	(10,723)	8,480	10,930	46,745	55,432	890	56,322	(4,778)	51,544

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 ¥79 million and unallocated corporate expenses of negative ¥4,857 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 42 companies including IHI INC. has been changed from December 31 to March 31, and 13 companies including Wuxi IHI Turbo Co., Ltd. have been consolidated using March 31 as a provisional closing date.

As a result, for the nine months ended December 31, 2017, 55 companies including IHI INC. have a 12-month accounting period.

In the period from January 1, 2017 through March 31, 2017 included in the nine months ended December 31, 2017, sales for each segment were ¥28,902 million for the Resources, Energy and Environment segment, ¥27,800 million for the Industrial System and General-Purpose Machinery segment, and ¥183 million for the Aero Engine, Space and Defense segment. 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 nine months ended December 31, 2017 decreased by ¥2,358 million for the Resources, Energy and Environment segment, ¥734 million for the Industrial System and General-Purpose Machinery segment, and increased by ¥3,092 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