IHI Corporation

# ANNUAL REPORT 2012

For The Year Ended March 31, 2012

IHI

# Profile

## IHI Group Vision

**The IHI Group seeks to solve the various environmental, industrial, social, and energy related problems of the 21st century, through using engineeringexpertise to focus on "Monozukuri" technology. In striving towardsthese goals, IHI is becoming a global enterprise offering the safety and security for the benefit of both the environment and humanity.**

"Monozukuri" Technology means the technology used to improve the competitiveness of products and services offered, by strengthening the capabilities required in development, design, supply, manufacture and construction.


## Contents



### Cautionary Statements with Respect to Forward-Looking Statements

Statements made in this annual report with respect to IHI's current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of IHI. 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 general economic conditions and exchange rates, could cause actual results to differ materially from those discussed in the forward-looking statements.

# Financial Highlights

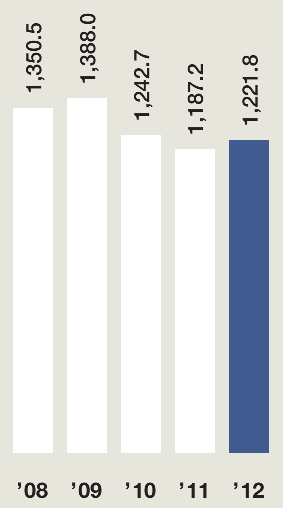
Years ended March 31 of respective years
IHI Corporation and Consolidated Subsidiaries

| | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2012 |
| Net sales | ¥1,350,567 | ¥1,388,042 | ¥1,242,700 | ¥1,187,292 | ¥1,221,869 | $14,866,395 |
| Operating income | (16,807) | 25,679 | 47,145 | 61,390 | 43,333 | 527,230 |
| Net income (loss) | 25,195 | (7,407) | 17,378 | 29,764 | 23,823 | 289,853 |
| Total assets | 1,542,295 | 1,489,342 | 1,412,421 | 1,361,441 | 1,338,131 | 16,280,947 |
| Net assets | 234,406 | 205,950 | 227,065 | 253,640 | 258,475 | 3,144,847 |

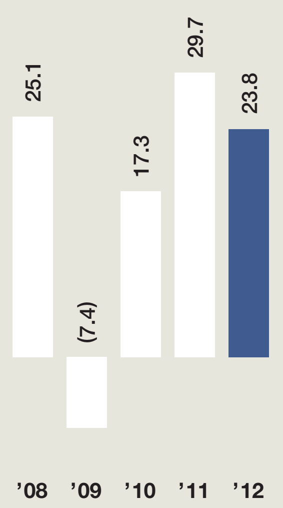
| | yen | | | | | U.S. dollars |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2012 |
| Amounts per share: | | | | | | |
| Net income (loss) | ¥ 17.18 | ¥ (5.05) | ¥ 11.85 | ¥ 20.29 | ¥ 16.26 | $ 0.198 |
| Cash dividends | ¥ 4.00 | ¥ – | ¥ 2.00 | ¥ 3.00 | ¥ 4.00 | $ 0.049 |

Note: For convenience only, U.S. dollar amounts in this report have been converted from yen at the rate of ¥82.19=US$1, the approximate rate of exchange prevailing on March 31, 2012.

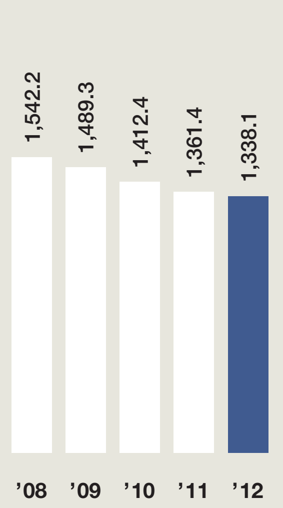
**Net sales**
(Billions of yen)




**Net income (loss)**
(Billions of yen)




**Total assets**
(Billions of yen)



# To Our Shareholders

**Kazuaki Kama**
Chairman of the Board

**Tamotsu Saito**
President and Chief Executive Officer

# Turning IHI Group into a highly profitable corporate group with growth potential

## Establishment of new management team

IHI Corporation appointed new senior management team on April 1, 2012. Kazuaki Kama became Chairman of the Board and Tamotsu Saito was newly assigned to President and Chief Executive Officer. In the fiscal year ended March 31, 2013, the final year of IHI Group's three-year medium-term management plan "Group Management Policies 2010", our main objective will be to establish the basis for the Group's future growth supported by a stable operating foundation, in order to turn IHI Group into a highly profitable corporate group with growth potential.

## Review of the fiscal year ended March 31, 2012

During the fiscal year ended March 31, 2012, the outlook for the global economy remained unclear due to the sluggish economic recovery in the United States, amid weak housing and employment market, a slowdown in Chinese economy, and impact of the European sovereign debt crisis on the real economy. In Japan, the recovery in corporate earnings was only moderate, particularly in export-oriented sectors, which were affected by historically strong yen.

In this business environment, IHI Group focused its efforts on achieving the three strategic changes ("Paradigm Shifts") targeted under "Group Management Policies 2010": business model focused on product lifecycles, product strategy focused on market requirements, and global management approach. Also, the Group reinforced internal management systems in order to build an operating base capable of sustaining high profits. IHI also provided support to the reconstruction from the Great East Japan Earthquake by fully drawing on its technology and provided services in the social infrastructure field.

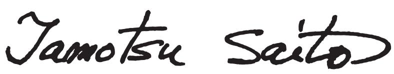
Compared to the year before, sales rose but profits declined in the fiscal year ended March 31, 2012. Despite this decline in profits, we believe we have made great progress toward building an operating base that will support the long-term development of the IHI Group.

## Toward the next phase of growth

The fiscal year ended March 31, 2013 will be a crucial year for the IHI Group to prove that it can deliver stable growth. In order to win the trust and be admired from the society, we will further enhance our businesses and operating structure to make the Group more responsive to changes in the business environment, and continue to challenge to more advanced R&D and business fields.

I hope for your continued understanding and support.

**Kazuaki Kama**
Chairman of the Board



**Tamotsu Saito**
President, Chief Executive Officer

# President's Interview

IHI AR2012

## We are implementing three "Paradigm Shifts" in order to secure future growth of the IHI Group supported by a stable operating foundation.

### Q1 What are your goals as the new President of IHI?

**A1** I took over as the President of IHI on April 1, 2012, from Kazuaki Kama, who has become Chairman of the Board. I take my responsibility as the leader of the Group, and fully commit myself to turning IHI Group into a highly profitable corporate group.

We have completed upgrading internal management systems in general, such as stricter criteria when deciding to apply for a bid, and tighter control over project progress and costs. As a result, we have established the foundations to support sustainable growth. We will strive further to ensure these internal management systems operate consistently and efficiently in order to retain trust of our stakeholders.

### Q2 Sales rose but profits declined in the fiscal year ended March 31, 2012. Please give us an overview of results, including the reasons for this decline.

**A2** This fiscal year started only a few weeks after the Great East Japan Earthquake. IHI Corporation incurred significant damage from the disaster, particularly at Soma Works in Fukushima Prefecture. Later in the year, operations were affected by the serious flooding in Thailand and the yen being exchanged at historically high levels. Overall, conditions remained challenging throughout the year.

Despite these conditions, we reported operating income of ¥43.3 billion. Although this was lower than the fiscal year ended March 31, 2011, we exceeded our initial estimate of ¥43 billion (May 2011). Profits were supported by sales growth and project profitability improvement, which offset negative factors such as exchange rate fluctuations.

There were a number of reasons behind this difference from our initial estimate. Exchange rate fluctuations weighed on operating income by ¥8.2 billion, and an increase in selling, general and administrative expenses had a negative impact of ¥1.5 billion. However, these factors were outweighed by a number of positives. Due to strong sales in the Energy & Resources, the Logistics Systems & Industrial Machinery and the Aero Engine & Space, operating income increased by ¥8.1 billion. In addition, ¥1.9 billion was contributed to operating income from the Aero Engine & Space, which benefitted from the resumption of operations at our Soma Works and improved margins on spare parts, as well as improved project profitability in the Logistics Systems & Industrial Machinery.

Also, interest-bearing debt at the end of the fiscal year was ¥345.2 billion, below the ¥400 billion target in Group Management Policies 2010 for two consecutive years.

## Q3 The fiscal year ended March 31, 2012 was the second year of Group Management Policies 2010. What do you regard as the most important points in the three "Paradigm Shifts," on the Policies?

**A3** First, as part of our focus on product lifecycles, we are identifying new needs through long-term relationships with customers over the course of product lifecycles. This is helping us create new products and services. We are therefore putting renewed focus on cooperation across all stages of the product lifecycle—from development, design, and production, through to marketing and services.

Second, in order to adopt product strategies focused on market requirements, we first need to understand our customer needs. Identifying market needs and then developing products and services tailored to those needs is an important prerequisite for securing new orders in this difficult environment. Customer needs naturally change depending on the time and place. If a product is a long-seller, rather than rely on its past success, it is crucial to improve it further through innovation and provide new value to meet customers' needs head on.

Third, in order to realize a global management approach, we are taking further steps to establish and enhance our overseas network of affiliates and business sites. However, we still need more efforts to secure orders, build supply chains, and generate profits. We will continue to work steadily on creating a Group-wide organization that is more capable of responding to globalization.

(Please refer to page 8 for "Progress with Group Management Policies 2010.")

## Q4 Over one year has passed since the Great East Japan Earthquake. What role do the IHI Group play in the reconstruction from the damage caused by the earthquake?

**A4** As a corporate group involved in social infrastructure, we deeply recognize that IHI Group has responsibility to take part in the reconstruction from the damage caused by the earthquake. We are using all the resources the Group possesses to help restore infrastructures damaged or destroyed by the disaster. Through these reconstruction efforts, we are working to help create safer, more livable environments for people affected by the disaster.

(For more details, please refer to "Action for Restoration and Reconstruction Following the Great East Japan Earthquake" on page 9.)

## Q5 What key issues do you plan to tackle in the final year of Group Management Policies 2010?

**A5** The key issues for the current fiscal year are: (1) Enhance our global business management, (2) increase orders, (3) boost competitiveness, and (4) establish growth strategies.

In order to enhance our global business management, we will invest necessary resources to ensure achievement of our target, 50% growth in sales at overseas consolidated subsidiaries compared with the fiscal year ended March 31, 2010. In May 2012, we established a regional headquarter in the Asia-Pacific region in Singapore to expand our business and enhance our procurement network, particularly in Southeast Asia.

To increase orders, we will strengthen joint marketing efforts across departments to secure new orders, including orders for rebuilding projects from the Great East Japan Earthquake. Also, in April 2012, we established a new business section named Energy Operations by merging the section responsible for thermal power plant boilers with the section that handles gas turbines and other power generation machinery. To increase sales worldwide and carry out EPC projects accordingly, we are working to create more responsive business structure.

In order to boost competitiveness, we will target customer needs and work to develop competitive, distinctive technologies and business models, forming partnerships with other companies where necessary. We will expand global procurement using our branch in Singapore and accelerate efforts in upstream divisions by standardizing design procedures and taking other steps. We will also improve productivity by raising accuracy of process management skills, sharing risk case studies across divisions, and improving and developing the productivity.

For the establishment of growth strategies, we will continue to invest in additional turbocharger production and participate in development projects for new aircraft engines to expand our business and boost earnings. In the energy and resources field, we will develop and rapidly implement a new business plan covering investment budgets and business models for areas such as renewable energy, along with our current products.

## Q6 In that context, what is the background to integration of the shipbuilding business?

**A6** Our domestic shipbuilding business faces a difficult environment due to decline in marine transport volume amid the downturn in economy, and intensifying competition from shipyards in China and South Korea. To overcome these conditions, IHI plans to merge its consolidated subsidiary IHI Marine United Inc. with Universal Shipbuilding Corporation on October 1, 2012 in order to create a more competitive and profitable global operating framework. The new company, named Japan Marine United Corporation, aims to be the world’s leading shipbuilder.

Shipbuilding is IHI's founding business and is also closely linked with other businesses of IHI. We will ensure the new company gets off to a smooth start, and pursue synergies with IHI Group.

## Q7 What steps have you taken to create new businesses that will support your growth strategy?

**A7** We have consistently taken on new challenges and tackled social issues to this day. This approach has realized our growth, and in the same way, we will aggressively develop

new businesses to build growth drivers for the future.

Also, in order to launch businesses quickly and seize emerging needs, we will actively use M&A to reduce the time needed to develop businesses and secure human resources.

(For more details, please refer to “New Business Development” on page 10.)

## Q8 What is IHI Group’s dividend policy?

**A8** IHI’s fundamental policy on the distribution of profits emphasizes the stable payment of dividends while taking into account the need to retain sufficient internal reserves to reinforce the operating base, which makes the payment of those dividends possible. Based on this policy, IHI paid a dividend of ¥4.0 per share for the year ended March 31, 2012, an increase of ¥1.0 per share from the previous fiscal year. Although the economic outlook is uncertain, we plan to pay a dividend of ¥4.0 per share for the fiscal year ended March 31, 2013.

## Q9 Finally, please tell us about IHI’s strategic direction.

**A9** By reinforcing internal management systems, we have built an operating structure capable of generating a steady level of profits.

However, the target of ¥60 billion in ordinary income (Approx. ¥70 billion in operating income) in Group Management Policies 2010 set in autumn 2009 looks extremely challenging, since the operating environment has changed due to the appreciation of the yen, the stagnation of the global economy, and replanning of our nuclear power business after the Great East Japan Earthquake.

Nevertheless, I still firmly believe that the IHI Group has the potential to achieve this target in the near future. We will actively roll out initiatives to get there.

For further growth and expansion, and to drive profits higher, we need to create technology which leads the world by refocusing on the core principle of IHI’s corporate philosophy—Contributing to the development of society through technology.

I hope for your continued support in our endeavors.

# Progress with Group Management Policies 2010

**Group Management Policies 2010 are underpinned by three "Paradigm Shifts" in the way we do business: focusing on product lifecycles, strategies emphasizing market requirements, and adopting a global management approach.**

## Progress in the second year

### Focusing on product lifecycles

- Stably received orders in after-sales services, including orders for urgent projects after the earthquake and Thai floods
- Established marine vessel servicing center in Istanbul

### Emphasizing market requirements

- Responded to post-earthquake rebuilding demand
- Started joint development of household-use wireless charging systems for electric vehicles

### Global management approach

- Established a Regional Headquarters for China in Shanghai
- Received an order to construct the Izmit Bay Bridge in Turkey

## Key issues for the third and final year

### Step up our global management approach

- Establish a Regional Headquarters for Asia-Pacific in Singapore to expand our business in Southeast Asia

### Increase orders

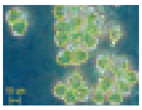
- Promote comprehensive operating activity across multiple business divisions
- Target stable orders in the after-sales service field to underpin the Group
- Restructure organizations responsible for project engineering, procurement and construction (EPC) and focus on securing large-scale orders

### Boost competitiveness

- Step up initiatives in engineering and other upstream divisions in order to expand global procurement
- Boost productivity by improving and developing manufacturing processes

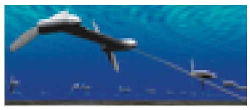
### Realize our growth strategy

- Expand the vehicle turbocharger and aero engine businesses and increase profits
- Develop a growth strategy for new energy and resources fields



Manufacturing biodiesel through mass cultivation of algae

Offshore wind power generating units



Ocean tidal power generation

### Shipbuilding business integration

- IHI Marine United Inc. and Universal Shipbuilding Corporation are scheduled to be integrated in October 2012. The new company will be called Japan Marine United Corporation (estimated sales: ¥400 billion).
- Aims to be the world's leading shipbuilder in terms of technology, quality and cost
- Planning to generate synergies between the new company and Group businesses

IHI Marine United Inc.

Universal Shipbuilding Corporation

New company

JMU

Japan Marine United Corporation

# Topics

## Action for Restoration and Reconstruction Following Great East Japan Earthquake

### IHI's proposals on restoration and reconstruction

- Debris incineration and biomass gasification generation using wood-based fuel
- Tsunami sludge disposal using construction machinery and batcher plant
- Response to customer requests for in-house power generation, emergency power, etc.
- Development and manufacture of storage containers for low-level radioactive waste
- Tsunami countermeasures through coastal levees and movable bulwarks

### Specific initiatives for reconstruction projects

- Selection of Turf Stripper system for stripping away contaminated soil by Ministry of the Environment as government grant-supported experimental decontamination technology project
- Co-development of "SARRY-Aqua™" transportable radiation-contaminated water treatment system with Toshiba
- Sale of radioactive waste storage containers
- Establishment of "Reconstruction Implementation Group" at Tohoku branch to complement activities of organizations devoted to post-earthquake reconstruction
- Receipt of orders for hybrid caissons for ports and harbors
- Receipt of orders for debris incineration

Turf Stripper

SARRY-Aqua™

Radioactive waste storage container

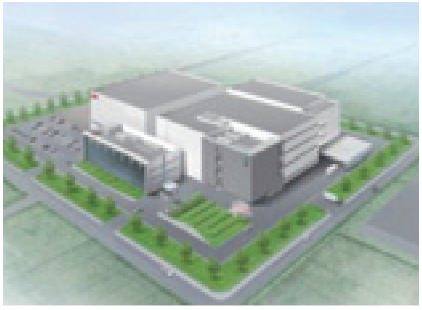
# Topics

# New Business Development (examples of main current initiatives)

## Influenza vaccine pharmaceutical ingredient

### Expected sales in FY2016: ¥7.5 billion (vaccine sales)

- Tie-up with UMN Pharma, which has cell culture technology (vaccine manufacturing period is one third of previous method)
- Manufacture of influenza vaccine pharmaceutical ingredient using cell culture technology



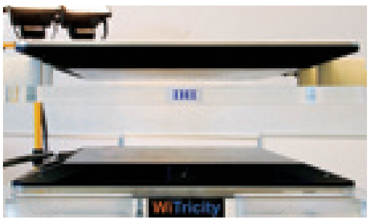
Conceptual diagram of UNIGEN Gifu plant

### Results and future initiatives

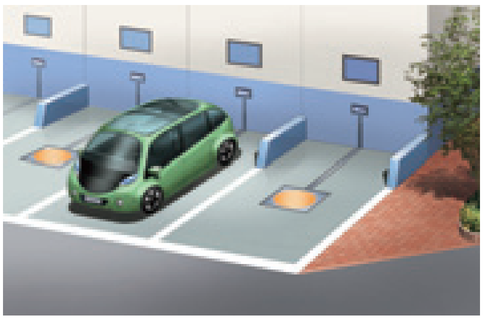
- Completion of Akita Plant of UNIGEN, a joint venture company that manufactures pharmaceutical ingredients established with UMN Pharma, and start of operations as research facility for production techniques
- Start of construction by UNIGEN of world-class biopharmaceutical manufacturing plant in Gifu Prefecture as an actual production facility for influenza vaccine pharmaceutical ingredients to aim for vaccine approval

## Wireless Charging System

- Joint development with WiTricity Corporation, the inventor of the technology based on magnetic resonance. Electric power can be transmitted without cables
- Development towards wireless charging equipment for electric vehicles
- The technology is also applicable to various types of industrial machinery



Wireless charging equipment



An example of wireless charging equipment installed in an outdoor parking lot

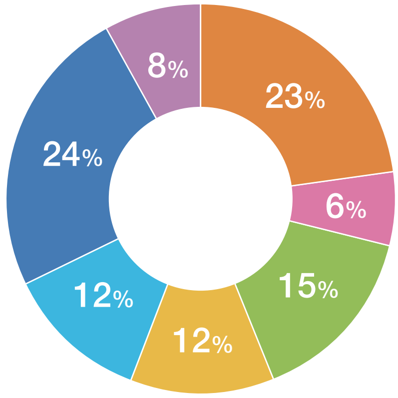
## Biofuel from algae

- Establishment of IHI NeoG Algae with Gene & Gene Technology and Neo-Morgan Laboratory, aiming to manufacture and sell biofuel through mass cultivation of enomoto algae, the algae type with the highest fuel production capability

# Review of Operations

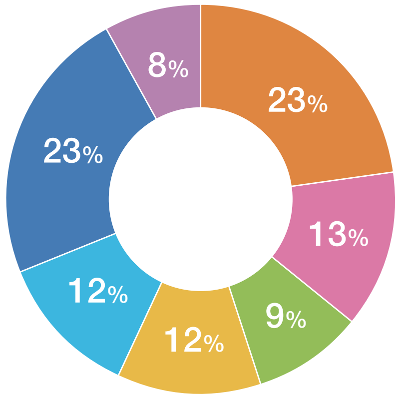
## Orders received

| (billion of yen, Consolidated) | |
|---|---|
| Energy & Resources | 312.8 |
| Ships & Offshore Facilities | 76.7 |
| Social Infrastructure | 199.5 |
| Logistics Systems & Industrial Machinery | 165.5 |
| Rotating Equipment & Mass-Production Machinery | 161.5 |
| Aero Engine & Space | 331.1 |
| Others | 105.2 |
| Adjustment | (82.9) |
| Total | 1,269.6 |



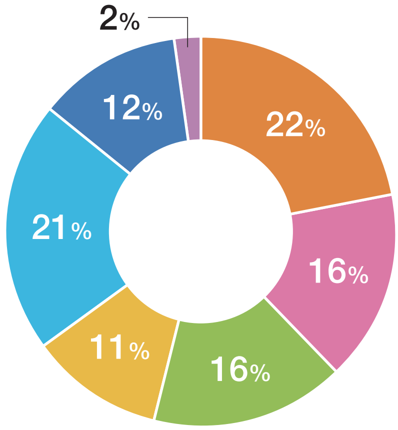

## Net sales

| (billion of yen, Consolidated) | |
|---|---|
| Energy & Resources | 312.3 |
| Ships & Offshore Facilities | 176.2 |
| Social Infrastructure | 114.7 |
| Logistics Systems & Industrial Machinery | 152.9 |
| Rotating Equipment & Mass-Production Machinery | 165.8 |
| Aero Engine & Space | 299.4 |
| Others | 107.3 |
| Adjustment | (107.0) |
| Total | 1,221.8 |



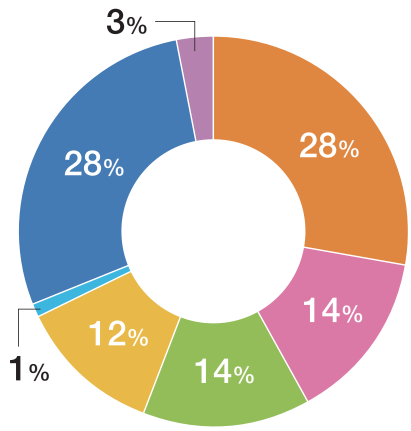

## Operating income

| (billion of yen, Consolidated) | |
|---|---|
| Energy & Resources | 10.9 |
| Ships & Offshore Facilities | 7.9 |
| Social Infrastructure | 8.2 |
| Logistics Systems & Industrial Machinery | 5.6 |
| Rotating Equipment & Mass-Production Machinery | 10.4 |
| Aero Engine & Space | 6.0 |
| Others | 1.1 |
| Adjustment | (7.1) |
| Total | 43.3 |




## Backlog of orders

| (billion of yen, Consolidated) | |
|---|---|
| Energy & Resources | 368.4 |
| Ships & Offshore Facilities | 188.8 |
| Social Infrastructure | 190.1 |
| Logistics Systems & Industrial Machinery | 158.3 |
| Rotating Equipment & Mass-Production Machinery | 17.8 |
| Aero Engine & Space | 368.8 |
| Others | 259 |
| Total | 1,318.6 |



# Energy & Resources

▲ Steam generator for thermal power plant

**Main products**

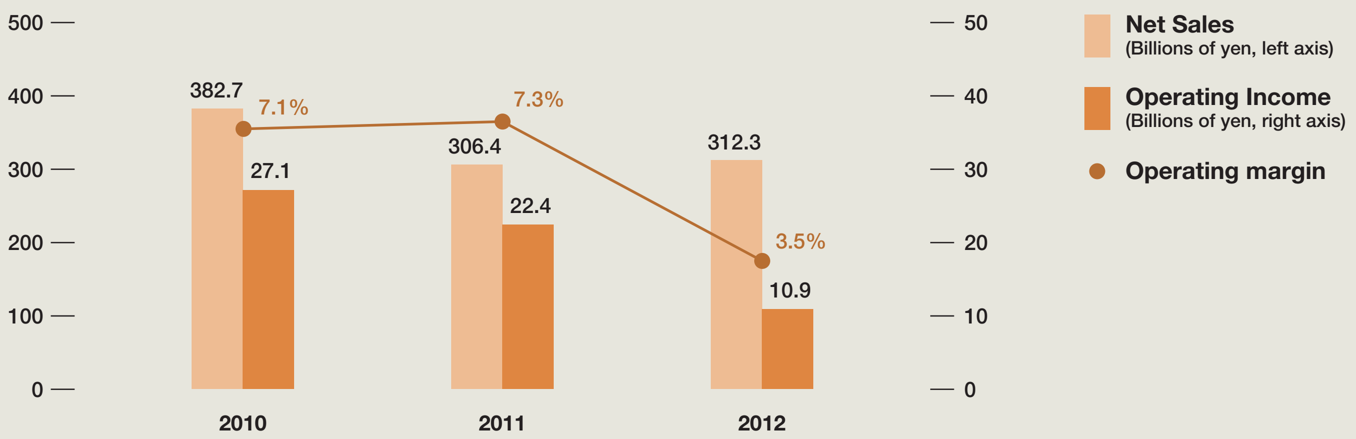
Boilers, gas turbines, components for nuclear power plants, storage facilities, process plants, power systems and floating LNG storage facilities

## Highlights

Net Sales **¥312.3** Billion

Operating Income **¥10.9** Billion

Orders **¥312.8** Billion




## IHI Group Companies

•IHI Inspection & Instrumentation •Takashima Giken •IHI PACKAGED BOILER •IHI Plant construction •Japan Jurong Engineering •Kotobuki Iron works •Toyosu Energy Service •TOSHIBA IHI Power Systems •Aomori Plant •IHI Plant Engineering •Kanamachi Purification Plant Energy Service •NIIGATA POWER SYSTEMS •NICO Precision •JURONG ENGINEERING LIMITED •IHI Oxyfuel Australia Pty. Ltd. •IHI Power System Germany GmbH •IHI POWER SYSTEM MALAYSIA SDN.BHD. •PT Cilegon Fabricators •IHI Southwest Technologies, Inc. •IHI PHILIPPINES,INC.

## Measures with Group Management Policies 2010

### Expansion of orders received in accordance with energy demand from customers

- Receipt of orders for 1 million kilowatt large supercritical coal-fired thermal power boilers for US market
- Receipt of order for gas turbine power generation facility for Niigata factory of Hokuetsu Kishu Paper Co., Ltd.

### Action for restoration and reconstruction following Great East Japan Earthquake

- Completion of co-development of “SARRY-Aqua” transportable radiation-contaminated water treatment system with Toshiba
- Steadfast execution of emergency construction work at Fukushima Daiichi Nuclear Power Plant. Construction for earthquake resistance and tsunami countermeasures at nuclear power plants now underway

### Development of life cycle business

- Provision of motor preventive maintenance service (T3PM) to customers in Australia. Plan to expand to customers in Thailand and other countries in future

## Successful Handover of one of the Largest LNG Receiving Terminal in the United States

In September 2011, IHI, together with a US Engineering company Kvaerner Americas Inc., successfully completed and handed over Gulf LNG (Liquefied Natural Gas) Receiving Terminal to Gulf LNG Energy, LLC.

The said facility located in the state of Mississippi, with 2 LNG storage tanks with the largest capacity in the United States at 160,000kl each, will supply natural gas throughout the United States.

IHI, using its broad experience in LNG solutions, will continue to give the international LNG field the total LNG value chain solutions.

Gulf LNG Energy LLC’s LNG receiving terminal

## Transportable System to Treat Water Contaminated with Radiation Jointly Developed with Toshiba

IHI and Toshiba Corporation jointly developed a transportable system to treat water contaminated with radiation. Known as SARRY-Aqua™, the system was developed by reducing the size of the simplified active water retrieval and recovery (SARRY™) polluted water treatment system that has been in operation at the Fukushima Daiichi Nuclear Power Plant since August 2011. The system can process one ton of contaminated water per hour, lowering the density of radioactive cesium in the water to 10 becquerels per kilogram or less.

Installing the system in a small container with dimensions conforming to international standards facilitates transportation for example by truck and enables the treatment of contaminated water and other substances that occur in a variety of locations.

SARRY-Aqua™

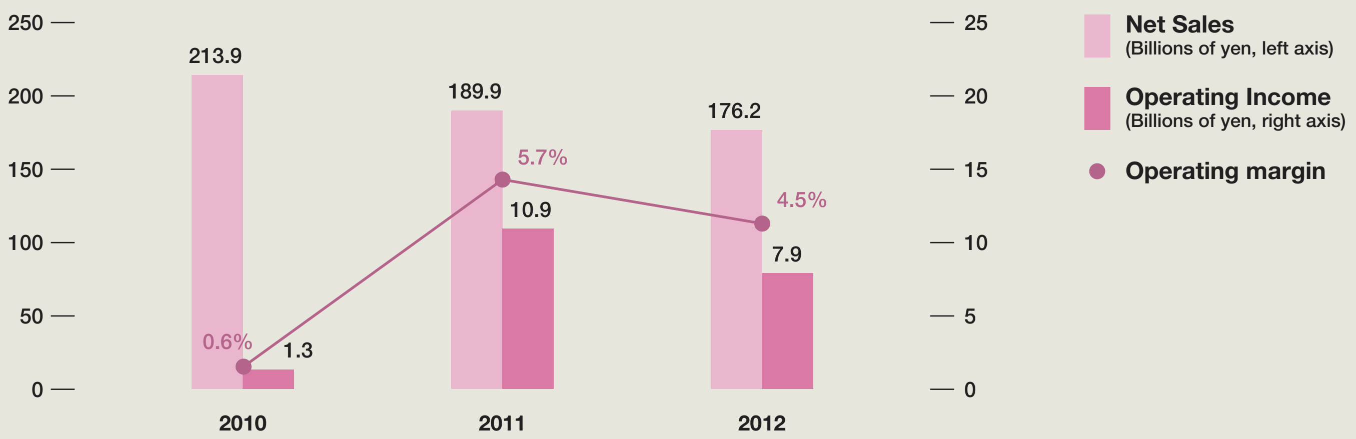
# Ships & Offshore Facilities


▲ Future-56 bulk carrier

**Main products** Shipbuilding, ship repairs and offshore structures

## Highlights

Net Sales ¥176.2 Billion
Operating Income ¥7.9 Billion
Orders ¥76.7 Billion




## IHI Group Companies

•IHI Marine United •IHI Engineering Marine •IHI AMTEC •IHI MARINE

## Measures with Group Management Policies 2010

### Conclusion of MOU on management integration (merger) of Universal Shipbuilding Corporation and IHI Marine United

- Agreement on management integration (merger) in Jan 2012, and establishment of Japan Marine United Corporation planned for Oct 2012
- Aiming to gain top collective strength in industry and realize strategy for further growth, work for balanced strengthening of competitive edge and earning capacity of businesses including merchant ship business, naval ship business, engineering business and life cycle business

### Initiatives in offshore wind power generation business

- Obtainment of AIP (Approval In Principle) for turbines and floatation for Japan's first floating offshore power generation facility
- Selection of consortium including IHI Marine United for floating offshore wind farm off Fukushima Prefecture coast as experimental research project

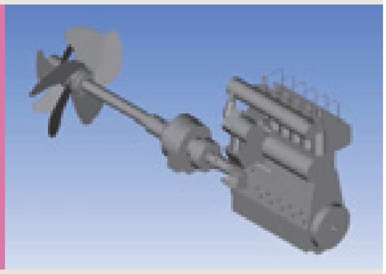
## Order for Environmentally Friendly Coal Bulk Carriers Received

IHI Marine United Inc. (IHIMU) recently received an order for three 97,000 MTDW coal bulk carriers from Daiichi Chuo Kisen Kaisha.

Meeting the demands of ship owners for maximizing logistic efficiency and minimizing energy consumption, the three high-value-added ships will adopt major technological elements that IHIMU has incorporated into its *eFuture* ship series.

Thanks to IHIMU's proprietary energy-saving technologies utilizing contra-rotating propellers for the propulsion system, the ships will realize a significant saving of more than 15% in terms of fuel economy compared with conventional vessels. To be constructed at IHIMU's Kure shipyard, the ships are planned for completion and delivery in 2013.

The company is undertaking the development of high-value-added ships.



Contra-rotating propellers

## Marine-Use LNG Fuel System with Significantly Reduced Environmental Impact Developed

IHI Marine United Inc. (IHIMU) has developed an environmentally friendly liquefied natural gas (LNG) fuel system. Using LNG as a propulsion fuel, the system conforms to the Tier III NOx and SOx emission control levels that the International Maritime Organization (IMO) plans to implement from 2016. IHIMU has completed the conceptual design of a 10,000 TEU large container carrier as an example of the system's application.

The vessel will pass the regulatory requirements for navigation with LNG as fuel within the sea Emission Control Areas (ECAs) that have been declared for the application of Tier III controls from the time of their implementation in 2016. This move can ensure the operational economic efficiency of navigating using conventional Bunker C heavy fuel oil outside of the ECAs. The system limits the range under LNG fuel to 2,000 nautical miles and serves to minimize the reduction in the number of containers carried by the installation of a tank containing approximately 2,000m$^3$ of LNG fuel.

IHIMU will continue to develop and build vessels that leverage its energy-saving technologies and contribute to global environment protection.


IHIMU LNG Fuel 10000TEU

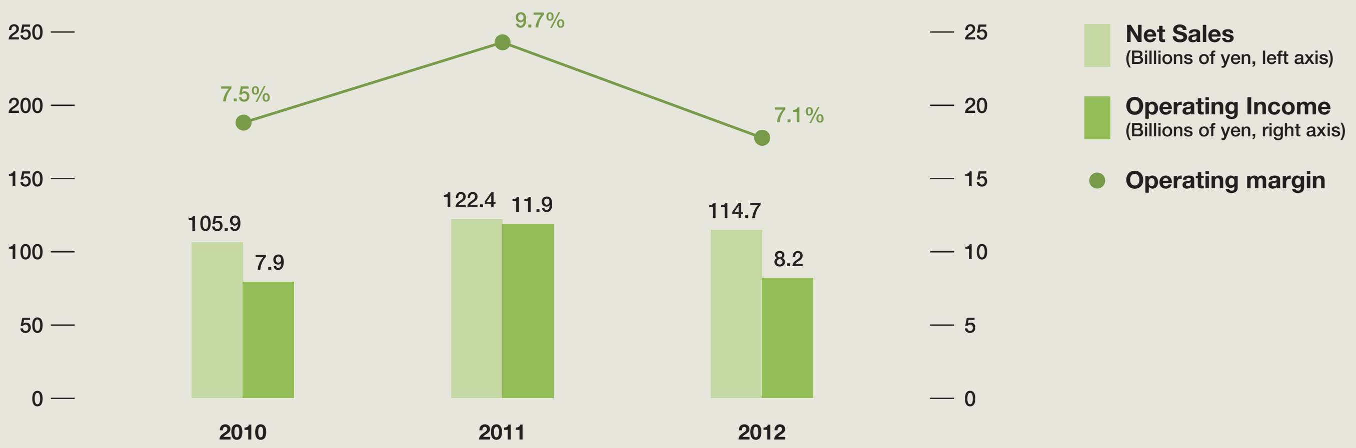
# Social Infrastructure

▲ Arch bridge

**Main products** Bridges, construction materials and real estate sales and rental

## Highlights

Net Sales **¥114.7** Billion Operating Income **¥8.2** Billion Orders **¥199.5** Billion




## IHI Group Companies

•IHI Infrastructure Systems •ISHIKAWAJIMA CONSTRUCTION MATERIALS •Japan Tunnel Systems •IHI INFRASTRUCTURE ASIA CO., LTD.
•IHI Construction Service •Livecon Engineering

## Measures with Group Management Policies 2010

### Development of measures to improve domestic profitability of bridge and water gate businesses

- Integration of three subsidiaries to strengthen maintenance business in bridge and water gate fields. Provision of maintenance for structures made of either steel or concrete
- Expansion of IHI Infrastructure Systems' Sakai Works to improve production efficiency

### Implementation of takeover bids for listed subsidiaries

- Implementation of tender offer for shares of Ishikawajima Construction Materials for effective use of IHI's group-wide management resources. Conversion into a wholly owned subsidiary

### Participation in Kagoshima Mega Solar Power Plant

- Participation in Japan's largest mega solar power plant for effective use of the Company's land in Kagoshima. In addition, examination of use of plant to pilot and test renewable energy

## EPC Construction Contract for Turkey's Izmit Bay Suspension Bridge Signed

In September 2011, IHI Infrastructure Systems Co., Ltd. (IIS) signed an engineering, procurement, and construction (EPC) contract for the construction of the Izmit Bay Bridge with NOMAYG JV, a consortium consisting of six companies, including leading Turkish general contractor Nurol Insaat ve Ticaret A.S., other Turkish construction companies, and Italy's Astaldi S.p.A. With a contract value of approximately US$1.1 billion, the bridge is planned for completion in 2015.

Following the order received in 2009 for the continuous five-span, cable-stayed Naht Tan Bridge in Vietnam, IHI and IIS won the Izmit Bay Bridge contract, which has given the IHI Group the opportunity to once again demonstrate to the world its accomplishments and its advanced technological capabilities.

IIS policy calls for the active development of activities to win orders for bridges in Japan and overseas on an ongoing basis.

Izmit Bay Suspension Bridge
(an architect's conception)

## Japan's Largest River Barrage Completed

In January 2012, IHI Infrastructure Systems Co., Ltd. (IIS) delivered the Ohkouzu River movable barrage, a large floodgate built at Ohkouzu-Bunsui in the city of Tsubame, Niigata Prefecture that had been ordered by the Ministry of Land, Infrastructure, Transport and Tourism's Hokuriku Regional Development Bureau. The largest in Japan in terms of span, this radial river gate is activated by the largest hydraulic cylinders in the country.

IHI and IIS have been involved in numerous floodgate projects both in Japan and overseas and can boast a track record of more than 8,000 such deliveries. IHI will continue to contribute to infrastructure development throughout the world and develop proactive sales activities by utilizing its high technological capabilities.

The new movable barrage at Ohkouzu

# Logistics Systems & Industrial Machinery

▲ Automated storage retrieval system ▲ Blust furnace

**Main products**

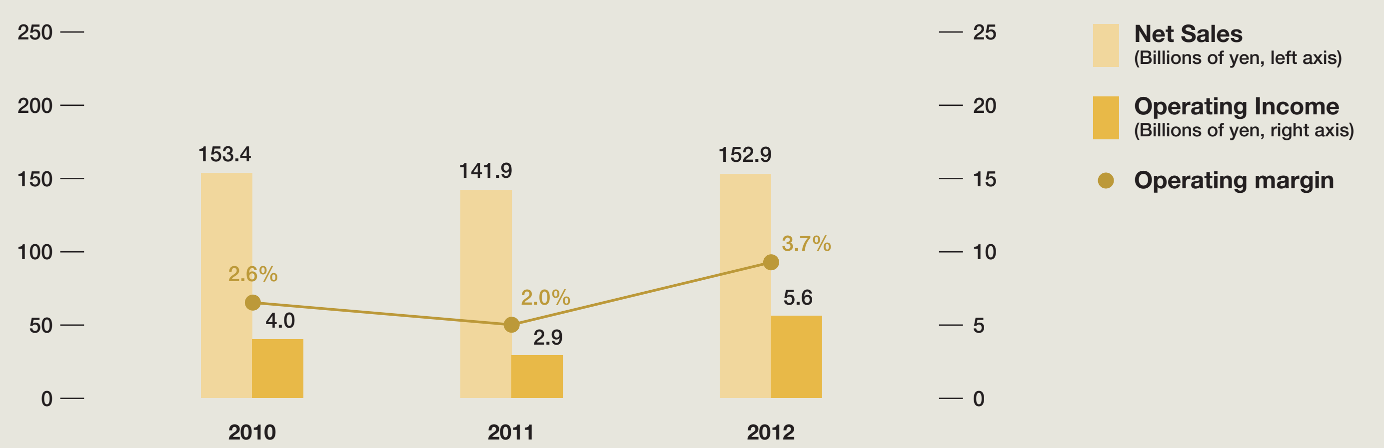
Material handling systems, physical distribution and factory automation systems, parking systems, traffic systems, steel manufacturing equipment, paper production machines and enviromental control systems

## Highlights

Net Sales **¥152.9** Billion

Operating Income **¥5.6** Billion

Orders **¥165.5** Billion




## IHI Group Companies

•IHI Transport Machinery •IHI Fuso Engineering •IHI Kankyo Engineering •Nishi-Nihon Sekkei Engineering •IHI Machinery and Furnace •Voith IHI Paper Technology •IHI METALTECH •IHI Logistic Technology •IMEC •Giken Technology •SAN-ETSU •CENTRAL CONVEYOR •NIIGATA TRANSYS •Hauzer Techno Coating •IHI Logistics System Technology Shanghai

## Measures with Group Management Policies 2010

### Implementation of takeover bids for listed subsidiaries

- Implementation of tender offer for shares of IHI Transport Machinery for further global development through effective use of IHI's group-wide management resources. Conversion into a wholly owned subsidiary

### Development of in-line heat treatment furnace and start of sales

- Development of in-line heat treatment furnace, a next-generation vacuum heat treatment system that can be incorporated in the processing line for heat treatment of metal parts, and start of full-scale sales

### Development of measures to heighten competitive edge of domestic parking business

- Acquisition of shares of Fuso Engineering Co., Ltd. as well as enhancement of product lineup and strengthening of maintenance business
- Expansion of types of electric cars that can be recharged at multistory car parks and development of new ways of increasing energy efficiency and cost reductions

## Japan's Largest Pneumatic Unloader Delivered

IHI Transport Machinery Co., Ltd. (IUK) recently delivered a pneumatic unloader to Chiba Kyodo Silo Co., Ltd. The unit loads and unloads at a maximum of 400 tons per hour (wheat equivalent), the highest handling capacity in Japan.

Drawing on its advanced technological capabilities, which range from manufacturing to after-sale maintenance and repair, IUK will continue to supply bulk handling equipment that is optimized to customer needs.

The new pneumatic unloader at Chiba Kyodo Silo Co., Ltd.

## Order to Build New APM Transit System for Hong Kong International Airport Received

In cooperation with NIIGATA TRANSYS CO., LTD. (NTS), IHI recently received an order to build an automated people mover (APM) transit system from the Hong Kong Airport Authority, which operates Hong Kong International Airport. The system is scheduled to be operational in 2015.

As its policy calls for the ramping up of activities designed to win orders in the new transit system field, IHI is actively developing more competitive APM transit systems and proposing them for airports and urban transportation in countries across the world, including those in Asia.

Automated People Mover transit system at Hong Kong International Airport

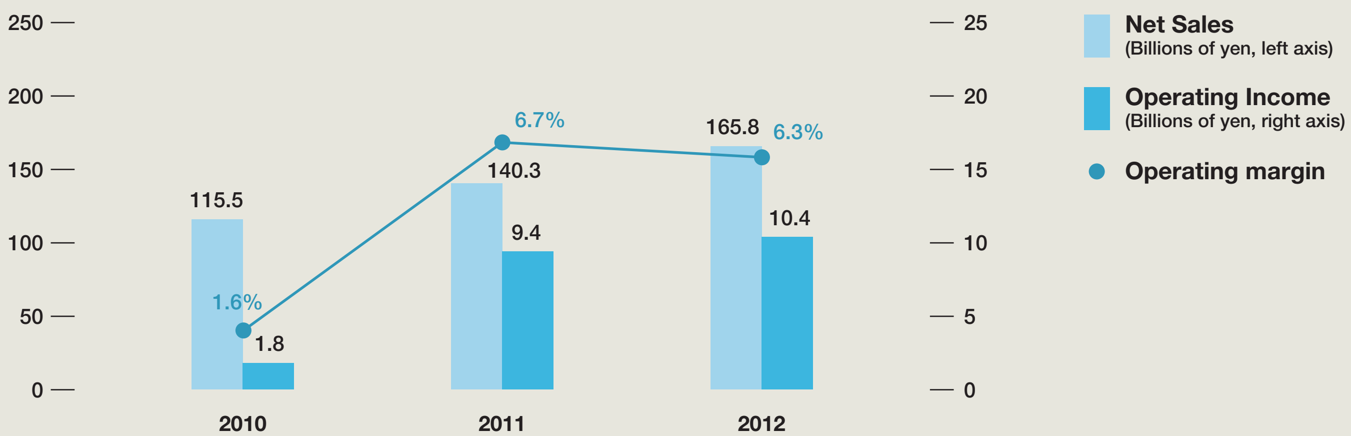
# Rotating Equipment & Mass-Production Machinery

▲LNG BOG Reciprocating Compressor

**Main products** Vehicular turbochargers, compressors

## Highlights

Net Sales **¥165.8** Billion | Operating Income **¥10.4** Billion | Orders **¥161.5** Billion




## IHI Group Companies

•IHI Compressor and Machinery •IHI Turbo •IHI Sullair Compression Technology (Suzhou) •IHI System Technology Taiwan

## Measures with Group Management Policies 2010

### Further acceleration of development of global turbocharger operations

- Continuation of investment into production bases in China, Germany and Thailand
- Aim for sales of ¥130.0 billion in FY2013 and ¥150.0 billion in FY2015.

### Expansion of compressor business

- Sales of compressors to Chinese market are strong. Planning to strengthen production capability of bases in China and strengthening maintenance structure from FY2012
- Investment in processing center for high-speed precision gears for compressors to establish global key parts supply structure

## Cumulative Production Volume at IHI Turbo Co., Ltd. Surpasses 20 Million Units

The cumulative production volume of vehicular turbochargers at IHI Turbo Co., Ltd. (ITJ) passed the 20-million unit mark in November 2011.

ITJ commenced turbocharger production in 1970, when the production rate was 13,900 units a year; today it is a million units a year. The cumulative production milestone of the 10 millionth unit was passed in 2001, and thus it has taken around only another 10 years since then to reach 20 million.

Demand for turbochargers has rapidly grown in recent years, particularly in Europe, where there are stringent environmental controls. The IHI Group that includes ITJ is working to expand its turbocharger business.

Vehicular turbocharger

## IHI received Order for LNG BOG Compressor from Guangdong Dapeng LNG Company Ltd., China

On the year of 2011, IHI received an order for a Boil-Off Gas (BOG) Reciprocating Compressor destined for LNG receiving terminal of Guangdong Dapeng LNG Company Ltd. in China. IHI continuously received the order for LNG BOG Reciprocating Compressor from Chinese market since 2004.

At this supply record, IHI reached to 200 units upon the cumulative total orders for LNG BOG Reciprocating Compressors for LNG receiving terminals in the world.

IHI occupies around 60% share of the world market on such LNG BOG Reciprocating Compressors. Moreover, as the top share company, IHI is planning to expand its share for the market such as European and Asian market share.

LNG BOG Reciprocating Compressor

# Aero Engine & Space

▲GEnx turbofan engine

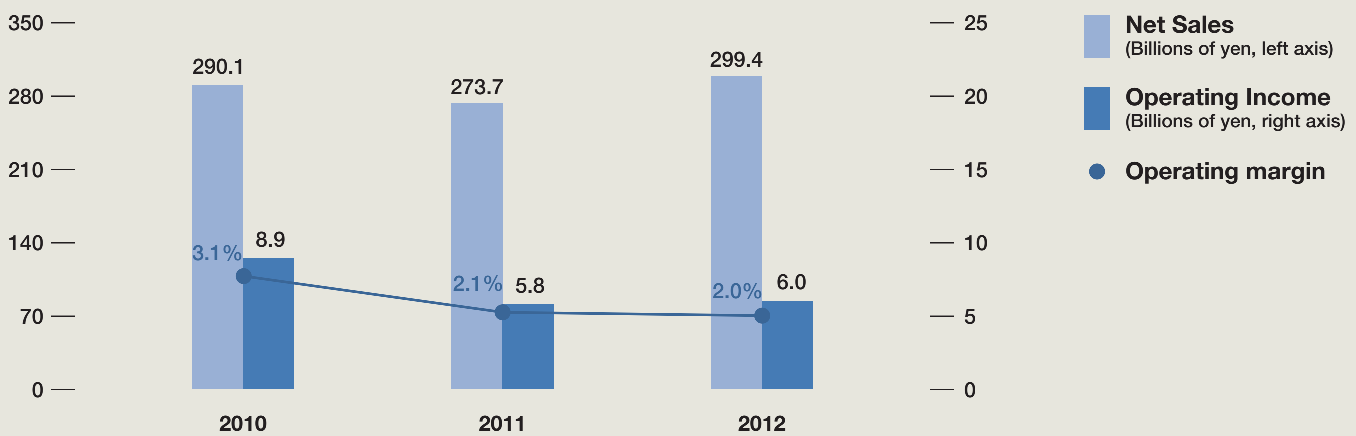
**Main products** Jet engines, space-related equipment and defense machinery

## Highlights

Net Sales **¥299.4** Billion

Operating Income **¥6.0** Billion

Orders **¥331.1** Billion




## IHI Group Companies

•INC Engineering •IHI AEROSPACE •IHI AEROSPACE ENGINEERING •IHI Aero Manufacturing •IHI CASTINGS •IHI Jet Service •IHI MASTER METAL

## Measures with Group Management Policies 2010

### Favorable progress in delivery and development of civil engines

- Total deliveries of V2500 components made by IHI reached 5000. Start of sales of GEnx
- Participation in development program for PW1100G-JM engine for Airbus' A320neo (successor of V2500)

### Selection as procurement counterparty for next-generation fighter planes' engines

- Selected as procurement counterparty for F135 engine for next-generation F-35 fighter plane
- Working with Japan Ministry of Defense in approaching US side to improve ratio made in Japan

### Focusing efforts on rocket system development and business expansion through public-private partnership

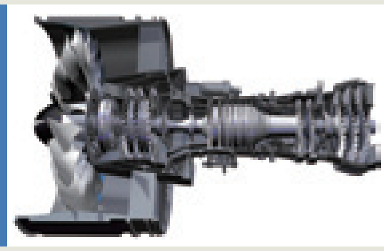
- Development of small solid-fuel rocket (Epsilon rocket) roughly on track for planned launch in FY2013
- Export and launch of satellites and public-private partnerships to meet space needs of emerging countries (overseas infrastructure development in packaged form)

## Participation in Development and Production of PW1100G-JM Engine for Airbus A320neo

As a constituent member of the Japanese Aero Engines Corporation (JAEC), IHI has agreed in principle to participate in the joint international development of the PW1100G-JM engine for the Airbus A320neo with Pratt & Whitney of the United States, JAEC, and Germany's MTU Aero Engines Holding AG.

The advanced gear system adopted for the PW1100G-JM engine enables the fan to turn at a slower speed than the low-pressure turbine and the compressor, thereby achieving a higher propulsive efficiency. Also combining leading composite material technologies and elemental technologies, the geared turbofan engine has resulted in two-digit improvements in fuel consumption, exhaust gas emissions, and noise levels.

Shipments of PW1100G-JM engines are forecast to peak at more than 400 units a year. The engine is expected to become the new linchpin of IHI's Aero Engine & Space segment.



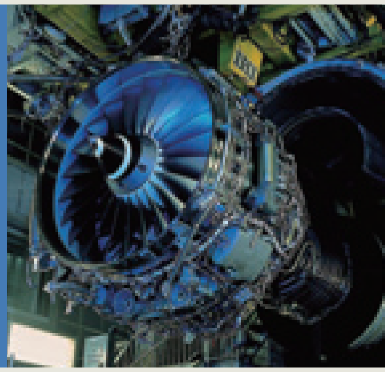
PW1100G-JM (cutaway view), (Excerpt from Japanese Aero Engine Corporation website)

## Cumulative Deliveries of IHI Components for Internationally Developed V2500 Civil Aero Engine Reaches 5,000 Units

IHI has delivered its 5,000th fan module for the V2500 aero engine that powers aircraft such as the Airbus A320. This achievement ranks third in the history of aero engines.

IHI took a 14% share in the development and manufacture of the V2500.

Participation in the joint international development of the V2500's successor, the PW1100G-JM, will lead to ongoing expansion of the Company's civil aero-engine business.



V2500 turbofan engine

# Others

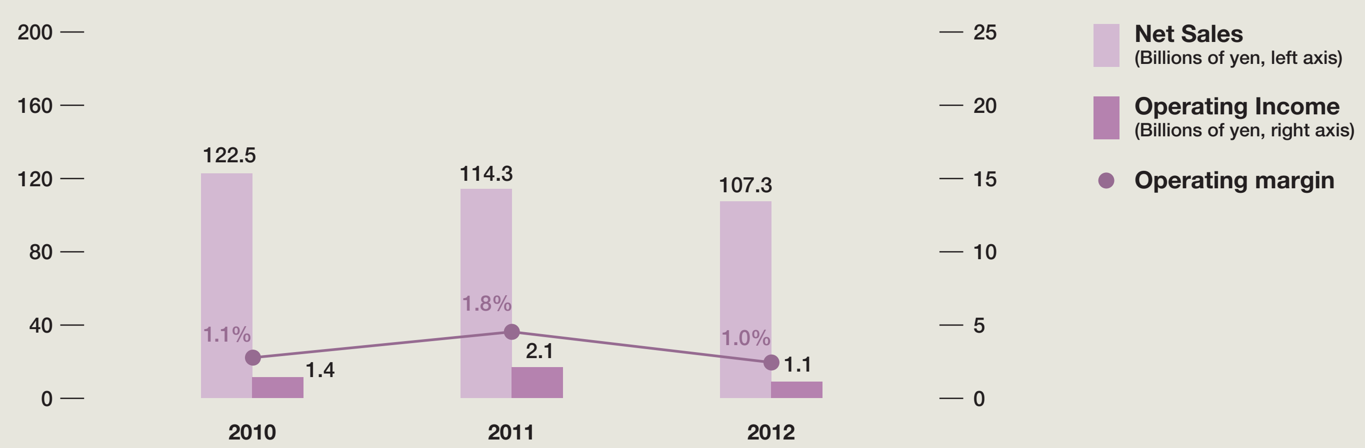
▲Crawler crane

▲Reel fairway mower

**Main products** Diesel engines, agricultural machinery, construction machinery, and other services

## Highlights

Net Sales **¥107.3** Billion   Operating Income **¥1.1** Billion   Orders **¥105.2** Billion




## IHI Group Companies

•IHI Technical Training Institution •IHI Construction Machinery •Kinki Ishiko •Diesel United •IHI Business Support •Seiban Development •IHI Scube •IHI NeoG Algae •IHI Trading •IHI Shibaura Machinery •IHI Shibaura Technical Service •IHI STAR Machinery

## Measures with Group Management Policies 2010

### Agricultural machinery and small motors, and construction machinery Deployment of product strategy focused onmarket needs

- Start of delivery of sample Tier IV engines (small motors) for next-generation environmental regulations
- Launch of GPS Naviliner simple GPS guidance system for agricultural machinery
- Development of wireless-controlled debris removal machine (construction machinery)
- Delivery of ozone sterilizing lockers to Animal Quarantine Services in airports in response to revision of Act on Domestic Animal Infectious Diseases Control

## IHI Shibaura Establishes Engine Component Manufacturing Company in China

IHI Group company IHI Shibaura Machinery Corporation (ISM) established Ishikawajima Shibaura Machinery Changsyu Co., Ltd. in China's Jiangsu province to manufacture components for industrial diesel engines. Production commenced in July 2011.

Established in Changshu's Southeast Economic Development Zone, the company's new factory enhances cost competitiveness, avoids the risk of exchange rate fluctuations, and aims to respond to the burgeoning Chinese market.

The products manufactured at the new factory are being supplied to a factory making industrial diesel engines in Wuxi, which was set up as a joint venture.

The new factory in Jiangsu province, China

## Nine Ozone Disinfection Boxes Delivered to Airport Animal Quarantine Stations

IHI has delivered nine ozone disinfection boxes to eight airport animal quarantine stations in Japan, including that at Haneda Airport, to disinfect the clothes and other personal belongings of people coming into Japan.

This resulted from tenders for the selection of equipment that would enable disinfection and sterilization using ozone gas. Possessing a proven track record in high-performance ozone disinfection boxes, IHI received an order for a batch of nine boxes and delivered them to each location.

This marked the first time for Japanese animal quarantine stations to utilize the ozone disinfection method.

Animal quarantine officers at the quarantine stations ask people entering Japan questions. In cases where they deem disinfection necessary to prevent the spread of disease, a person's clothes and personal effects are disinfected in one of the newly introduced IHI disinfection boxes.

This disinfection system has been jointly developed by IHI and its group company IHI Shibaura Machinery Corporation (ISM). More than 50 units have been installed, primarily in hospitals and pharmaceutical firms.

IHI and ISM are putting together and delivering to a variety of facilities large numbers of these units in response to a range of applications. These include large-scale vacuum type linen disinfection cabinets (capable of handling everything from futons to bed mats) for hospitals and clinics, and sterilization equipment for research laboratories.

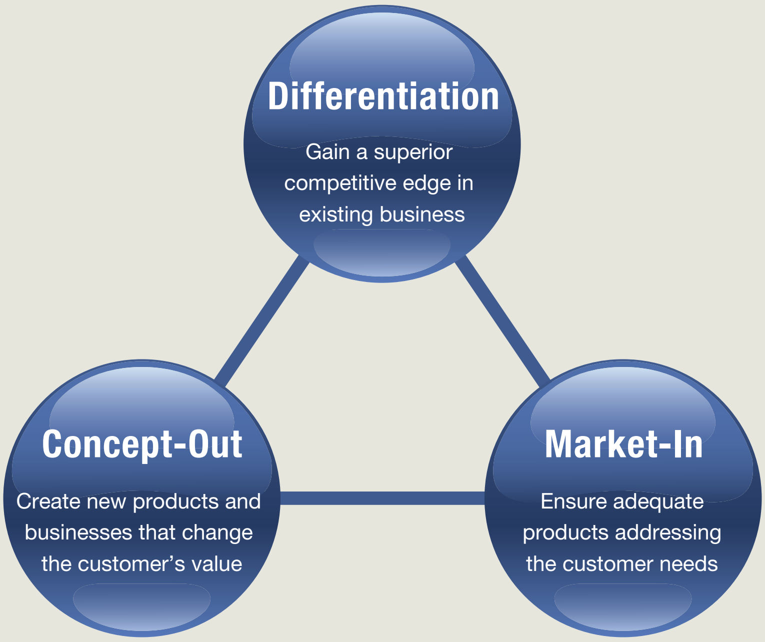
Responding to these varied needs, IHI and ISM will develop activities designed to attract orders for ozone-related products.

Ozone Disinfection Box for Japanese animal quarantine stations

# Research and Development Highlights

## IHI Group Technology Strategy

Research and development is the essential starting point for the IHI Group, as a technology leader.

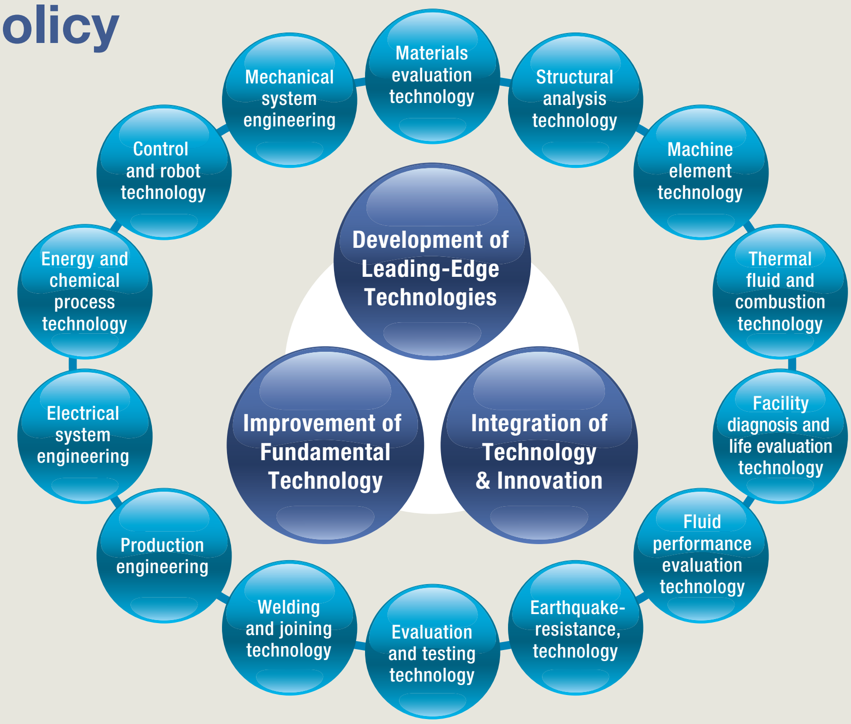



The IHI Group has developed its technology strategy based on the basic policy, shown right, to gain differentiation and superior competitive edge in mainstay products, services and related production processes in the medium and long-term.






# R&D Policy




IHI conducts research and development with three basic goals:
“to pioneer new fields of leading-edge technologies,” “to advance common fundamental technologies,” and “to integrate technologies to develop new types of products.”
By making constant efforts to increase efficiency, reliability and durability, while reducing the burden on the environment, we have achieved steady results that are leading to greater contributions to society through new technologies.
Research and development: the foundation of IHI.

## Topics

### System for Recovering Valuable Resources from Algae

At a time of extensive development of biomass application technologies as one way to curb global warming, microalgae are attracting attention, as they contain large amounts of lipids and hydrocarbon oil and display high productivity per unit area. Microalgae are small particles—about 1/100th of a millimeter—that live in water. Fossil fuel is said to have been formed from microalgae sediment.

IHI is currently developing culture technologies using a laboratory-scale photobioreactor and techniques for separating oil from microalgae. Using the photobioreactor means that microalgae can now be grown quickly and in high concentrations both indoors and outdoors. The contained oil with a high calorific value can also be collected in large quantities.

With a view to putting this technology to practical use, IHI is building a culture process that utilizes carbon dioxide, such as that emitted from thermal power stations, and sunlight. The oil thus produced will be used as an alternative fuel, for example for jet engines.

Photobioreactor

# Topics

## Ocean Current Power Generation System Commenced

Power generated from the vast energy of ocean currents—such as the Kuroshio that flows along the coast of Japan throughout the year—is expected to be a domestic source of clean, stable electric power. Collaborating with Toshiba Corporation, Mitsui Global Strategic Studies Institute, and the University of Tokyo, IHI has been selected as a subcontractor in the development of subsea floating ocean current power generation as part of R&D into next-generation ocean energy power generation technology under the auspices of Japan's public R&D entity, the New Energy and Industrial Technology Development Organization (NEDO).

Next-generation ocean current power generation technology will have the following salient features:

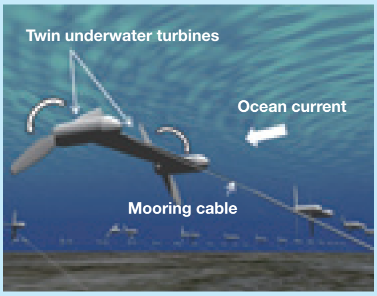
(1) Large amounts of stable power will be generated by using ocean currents, which have very little variation in current speed or direction.

(2) Anchoring the power generation equipment on the seabed and having it float underwater will negate the need for large-scale facilities and enable power to be generated at a depth free from the effects of waves and with no effect on maritime operations.

(3) The adoption of twin counter-rotating underwater turbines will cancel out the torque caused by turbine rotation and help to maintain a stable position in the sea.

(4) Maintenance or repair will be made easy by raising the turbines to the sea surface.

To use ocean current energy effectively and economically, IHI will develop the elemental technologies of the ocean current power generation system and aim to commercialize those technologies in ocean current power generation.



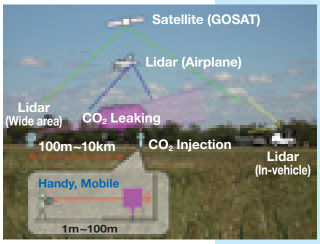

Conceptual diagram of a power generation farm using the subsea floating ocean current power generation system

## Laser-Based Wide-Area $CO_2$ Monitoring Technology

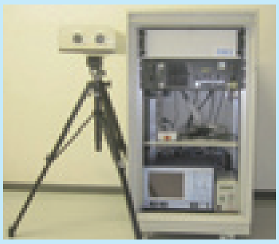
IHI is working on the R&D of a variety of measurement and monitoring techniques that utilize laser and optical technologies. This section describes a laser-based $CO_2$ monitoring system that is used as leak monitoring technology for carbon capture and storage (CCS), one of the $CO_2$ reduction technologies designed to counter the effects of global warming. Fig. 1 provides an outline of the CCS leak monitoring system. The system performs continuous remote, non-contact, unmanned monitoring of any leaks into the soil of $CO_2$ isolated in the ground.

Last fiscal year, building on the fruits of the basic research carried out thus far, IHI produced a prototype (Fig. 2) to verify the functions of each element. According to an outdoor measurement test, the equipment detected $CO_2$ in the air (at a distance of 300m).

In addition to extending the equipment's measuring distance, IHI will conduct field verification tests as the next step toward commercialization.




Example of $CO_2$ leak monitoring in CCS



Photograph of the test system

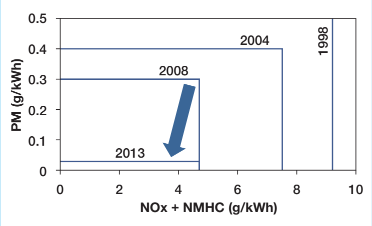
## Direct-Injection Industrial Diesel Engine To Meet Next-Phase Emission Legislation

To comply with strict emission legislation on industrial diesel engines, IHI has achieved the lowest figures in the industry for fuel consumption and emissions. These figures were achieved by optimizing the combustion chamber shape and the turbocharger, based on existing diesel engines that have good track records in the market, incorporating the latest technologies, such as ultrahigh-pressure fuel injection systems, and taking combustion improvements to the limit.

The resulting engine renders unnecessary the conventional diesel particulate filter (DPF), which collects and removes the soot in exhaust gases and was previously considered essential. In addition to achieving an overall downsizing of the engine systems, IHI has eliminated the need for the regular DPF maintenance process. Combined with the resulting decrease in fuel consumption and improved reliability, these advances are expected to help to significantly reduce the burden on operators.

Utilizing simulation technologies for the structure, heat transfer, fluid, and combustion served to shorten the engine's development period.

IHI is planning further improvements in reciprocating engine technologies, including diesel engines that are capable of reducing environmental impact.




Changes in regulatory values for industrial diesel engine emissions
(US Environmental Protection Agency, output 37kW or more, less than 56kW)

External view of the new engine (N4LDI-TA)

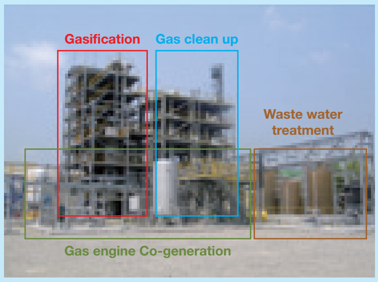
## Twin IHI Gasifier Biomass Cogeneration System

IHI has developed a system that drives a gas engine and generates power while using as fuel the combustible gas converted from biomass by gasification, a form of renewable energy.

The gasification technology draws on IHI's proprietary Twin IHI Gasifier (TIGAR) technology, which realizes stable gasification of biomass by taking advantage of the wealth of knowledge IHI has gained in the development of coal gasification.

The combustible gas obtained by gasification was introduced into a gas engine via a gas cleanup process. This system performs gasification by steam and obtains combustible gas with a higher calorific value than gasification in air or oxygen. As a result, stable combustion and power generation by gas engine is possible.

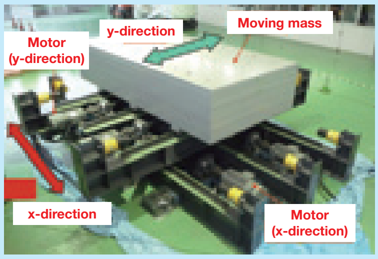
IHI will make further advances in development as it aims to explore themes related to long-term operation, expand the suitable source materials and establish new gas cleanup processes.




Panoramic view of the Twin IHI Gasifier pilot plant

## Fully Active Mass Damper System for High-Rise Buildings

A new mass damper system has been developed for use with high-rise buildings. This compact, lightweight system controls, by means of a motor, the movement of a mass mounted on its guide rails, and has been realized without any need to employ passive mechanisms such as a large suspended structure or coil springs. To control the system and for undisrupted operation even during a major earthquake, algorithms were applied that change in real time the level of control in response to the shaking of the building. The system's advantages were demonstrated during the Great East Japan Earthquake. As a new challenge, a mass damper was developed that utilizes linear motors in the actuators. Since linear motors do not require mechanical drive mechanisms, such as ball screws or gears, of the kind normally found in rotary-drive motors to convert translational motion, they can be expected to yield weight savings and higher performance. Furthermore, electric power is regenerated when in operation. Were technical development of the system's potential for energy regeneration to be undertaken, the prospective saving would be up to around 25% on electric source energy supply.



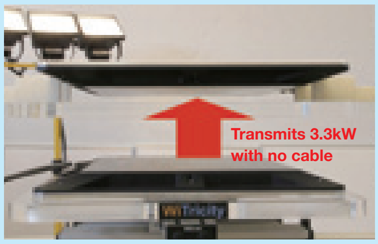

Fully active mass damper system

## Wireless Charging Equipment for EVs

Wireless charging is a technology that provides electric power without a cable. People can stop an electric vehicle (EV) at a parking area and the battery will be automatically charged, without hassle of connecting cables.

Having introduced the new magnetic resonance type wireless technology from WiTricity Corporation in the United States, IHI develops equipment for EV recharging and also aims to apply the technology to industrial fields. The technology is capable of efficiently providing 3.3kW of power over distance of more than 15cm. IHI is aiming for product commercialization in middle of 2010s'.

IHI puts much effort in demonstrating the wireless charging of EV as a system, apart from developing the equipment. IHI built an experimental EV equipped with wireless charging, and tests battery charging performances. IHI cooperates with automakers and house construction companies to realize easy-to-use wireless charging, which will be easily installed in automobiles and in house garages.

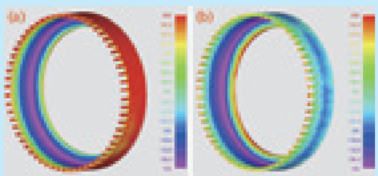



Wireless charging evaluation rig


Wireless charged experimental EV

## Plating Process Made Highly Efficient by Numerical Simulation

A highly efficient plating process for complicated objects such as jet engine components has been made possible using numerical simulation. This uses the Finite Element Method to simulate the current distribution inside the plating tank to change anode arrangements and operating condition. In the case shown here, a gear-shaped test piece is used in an experiment to optimize the anode arrangements and current distribution by simulation. This shows (1) ensured plating quality, (2) uniform thickness distribution that saves 30% on the amount of metal used, and (3) a 50% reduction in lead time. The use of numerical simulation has enabled operating condition, including anode arrangements and the manufacture of tools, to be established conceptually and quickly, whereas these traditionally relied on the experience of manufacturers and engineers. The Company will promote the development of this technique and its application at manufacturing plants within and outside the IHI Group, including for aerospace-related products such as jet engine components.




Comparison of thickness distribution (a) before and (b) after changing the anode arrangements in numerical simulation (Changing the anode arrangements reduces the thickness of the side piece and regulates the overall thickness distribution.)

# Topics

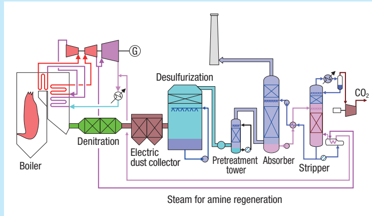
## $CO_2$ Capture Technologies based on Chemical Absorption

To prevent global warming and achieve stable power supply, it has become necessary to capture $CO_2$ from large volumes of $CO_2$ emissions such as coal-fired power plants and to store $CO_2$ in the ground (Carbon Capture and Storage: CCS).

IHI is developing $CO_2$ capture technologies based on chemical absorption. IHI is engaged in comprehensive technology developments including chemical solvents, absorber and stripper towers, packing elements, and materials, as well as the operational and evaluational techniques. Using numerical simulations and experimental techniques, IHI has developed the chemical solvents which can reduce heat energy for regeneration of solvents as well as the packing elements in absorber towers which achieve the low gas pressure loss and high absorption performance.

Based on these technology advances, IHI has constructed the chemical absorption pilot plant at its Aioi Works (capture amount: 20 tons of $CO_2$/day; capture rate: 90%; $CO_2$ purity: more than 98%). This pilot plant can be operated in combination with the co-located coal combustion test facility, which makes it possible to carry out operational evaluations using actual flue gas from coal-fired boiler.

Sequential test operations were started at the pilot plant from June of this year. These tests can verify and evaluate scale-up effects as well as influences on the performance of $CO_2$ capture system by a variety of flue gas treatments and different types of coal fuel.




$CO_2$ capture power generation system

Chemical absorption method pilot plant

## Innovative Welding Technique for High-Quality Steel

Arising from its participation in a five-year (fiscal 2007 to fiscal 2011) New Energy and Industrial Technology Development Organization (NEDO) project, we have developed a new technique for welding high-strength steel in the 780–980MPa class without pre- and post-weld heating.

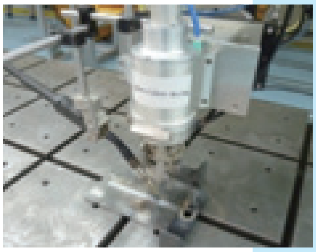
New developed welding methods are laser-arc hybrid and clean metal inert gas (MIG) welding, and by precision welding mainly by laser-arc hybrid welding at thicknesses of less than 20mm and highly efficient clean MIG welds at greater thicknesses.

The use of laser-arc hybrid welding, which is a method that combines high-power fiber laser welding with arc welding, enables thicknesses of 12mm to be welded from one direction in a single pass by low heat input.

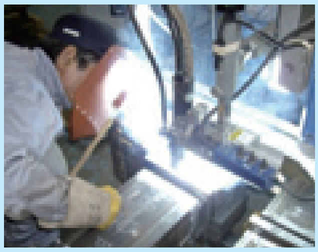
Clean MIG welding is a method that improves the performance of the welded section due to the high purity of the weld metal from feeding pure argon as a shielding gas. However, to stabilize the arc, which had previously not been thought possible, we developed two types of methods: a process that uses coaxial hybrid solid wire, and a plasma MIG process that the MIG arc is stabilized by superimposed plasma.

Previously, weld joints of high-strength steels had not been able to exercise their full potential. This was because the weld joint of high-strength steel had been assumed to require greater safety factors in comparison with conventional steel, and allowable stress and fatigue stress had thus been set at lower levels. In this regard, IHI gathered test data on the strength characteristics of static joints, fatigue strength, and failsafe characteristics. Through this data, IHI engineers were able to verify factors that would achieve an improvement of 1.5 times the design stress and an improvement of one rank against the levels of fatigue set out by the Japanese Society of Steel Construction.

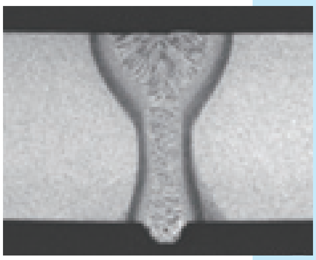
Mockups of bridge structure were built to test both processes. As these have enabled IHI to verify the feasibility and stability of the processes, we are planning to apply the processes to high-strength steel for a variety of large-scale structures as a key technology and to utilize the technology as a way of setting itself apart from its competitors.



Laser-arc hybrid welding head



MIG welding using coaxial hybrid solid wire



HT780 steel (12mm thick)
Cross-sectional photo of a hybrid weld joint

Mock-up test specimen for clean MIG welding of bridge structure

# Intellectual Property

As of March 31, 2012

## Basic Policy on Intellectual Property

Based on the Group's Management Policies 2010, IHI Group has established the following basic policy concerning intellectual property (IP).

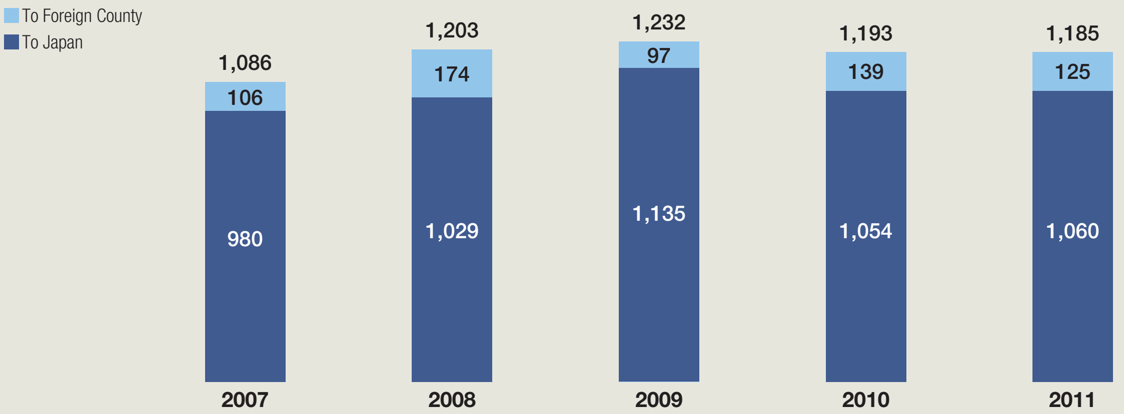
(1) Promote IP activities with integrated business and R&D strategies
(2) Carry out thorough IP risk management
(3) Invigorate IP activities in each business operation and improve internal organizational structures

## Patent Application Filing Activities

According to the basic policy on intellectual property, IHI filed patent applications linked with business area and R&D subject. IHI filed some patent applications related on the subjects picked up on R&D topics, for example, non-contact power supply system, power generation by ocean current and Twin IHI Gasifier.

Recent years, the total number of the patent application of each year has been around 1,200.

### Number of patent applications for Japan and Foreign County




## IHI Brand Protection from an IP Perspective

The IHI trademark is certified by the Japan Patent Office as an established trademark. In addition, IHI filed its trademark overseas and as a result it has been registered in 93 countries at the present day.

In July 2007, the Company name was changed to IHI, with some affiliated companies also adopting the IHI name and trademark. To improve IHI brand value, the IHI Group will continue to promote its brand by filing trademark applications for requisite products and services.

# Corporate Governance

## Basic Policy on Corporate Governance

IHI defines corporate governance as a system designed to maximize corporate value by increasing efficiency of management to leverage the company's capabilities to the fullest extent possible. Given this definition, recognizing that decision making within industry must follow the law and appropriate procedures and the importance of systems to monitor operational execution, we are enhancing our corporate governance framework.

## Corporate Governance System

Classified as a "company with auditors," IHI has five corporate auditors, three of whom are outside corporate auditors. Twenty-three members of the top management are selected to act as executive officers to concentrate purely on operational execution, and seven of them also serve as members of the Board of Directors (as of July 1, 2012).

We have established a Management Committee, composed of persons appointed by the chief executive officer (CEO) and charged with supporting the CEO in decision making and operational execution.

Two outside directors are appointed to offer advice and recommendations, from the viewpoint of business managers with a wealth of experience, to ensure the validity and proper decision making of the Board of Directors.

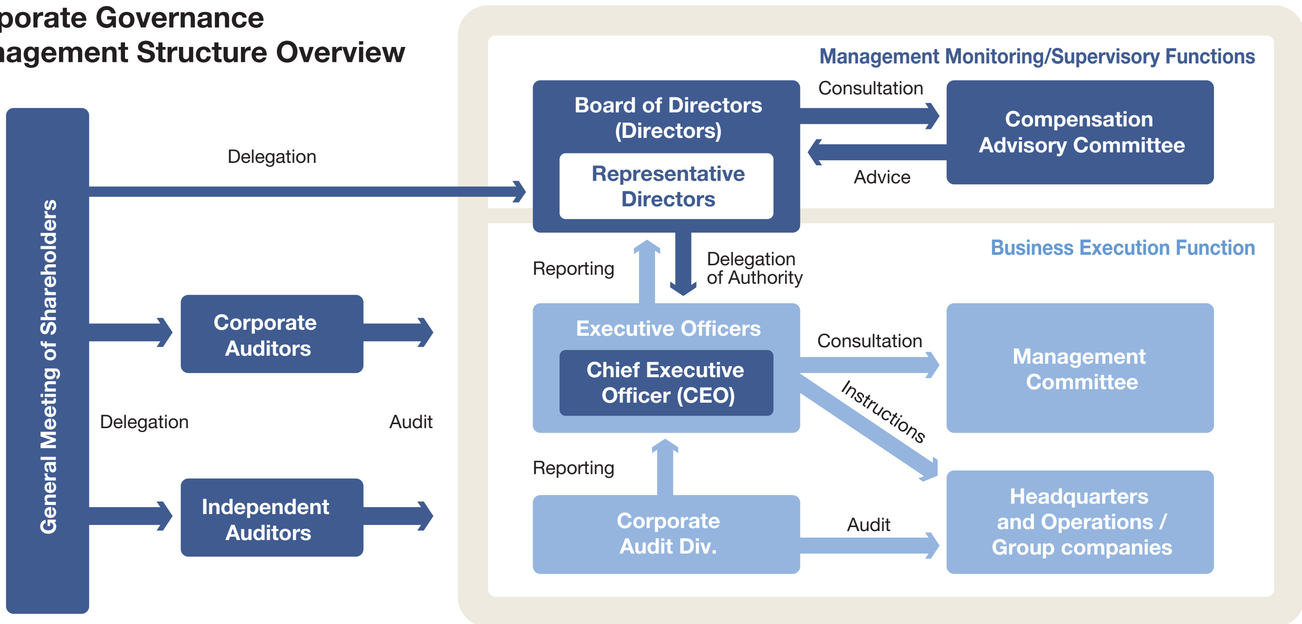
### Support System for Outside Directors and Outside Corporate Auditors

At IHI, support for the outside directors and outside corporate auditors is provided by the Administrative Division and the Auditors' Office, respectively. The Administrative Division supports the outside directors by explaining the agendas for Board of Directors' meetings and assisting them in the performance of their duties in other ways. In the Auditors' Office, IHI employees support the outside corporate auditors not only by assisting them in the perform of their duties, but also by providing reports from the standing corporate auditors on the day-to-day status of the Company and by sharing other information with them.

### Compensation for Directors and Corporate Auditors

Compensation for directors takes into account their performance, position, and achievement of goals in their areas of responsibility, and the amount is determined within the framework approved at the General Meeting of Shareholders. We established a Compensation Advisory Committee with the objective of guaranteeing the appropriateness of executive compensation. This organization consists of four members: an outside director, who acts as committee chair; one outside corporate auditor; the board member in charge of human resources; and the board member in charge of finances. In FY2011 (ended March 31, 2012), total annual compensation for the Board of Directors was ¥693 million, while total annual compensation for the corporate auditors was ¥87 million.

### Corporate Governance Management Structure Overview




- Number of Directors: 15 (including two outside directors)
- Number of Corporate Auditors: 5 (including three outside corporate auditors)
- Number of Executive Officers Regarded as Top Management: 23 (including seven concurrently appointed as directors)

* As of July 1, 2012

# Internal Control System

At IHI, the fundamental policies underpinning the establishment of an internal control system are designed to raise the effectiveness of corporate governance and increase corporate value. These fundamental policies guided us in establishing the framework to achieve sound compliance and enhanced risk management. At IHI, we realize that establishing a dependable internal control system represents essential infrastructure in our efforts to expand the Group's businesses globally and we are working to maintain and operate management systems that are shared with Group companies.

In response to cases of window dressing and other accounting improprieties, Japan instituted an internal control reporting system (J-SOX) based on the Financial Instruments and Exchange Act. The J-SOX system mandates the implementation and operation of internal controls for the preparation and disclosure of proper financial statements, as well as the submission of a report evaluating the effectiveness of such controls. An evaluation of IHI's internal controls for FY2011 found no flaws that would have warranted disclosure.

With regard to the monitoring functions of the internal control system, the Internal Auditors' Office where independent monitoring functions are centralized is charged with contributing to efforts to strengthen and optimize the internal management systems of the executive division. From the monitoring standpoint, the Internal Auditors' Office raises the competitiveness of Group companies and underpins improvements in corporate value.

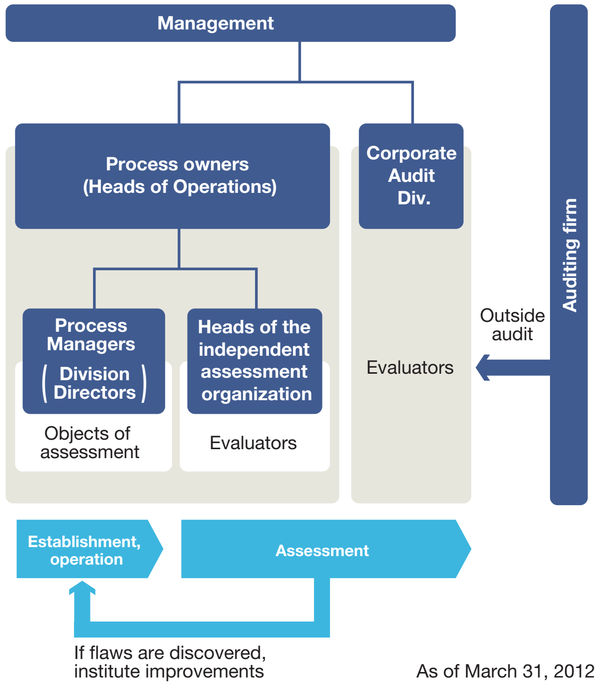
## Project Control System

We established a Project Audit Division for the purpose of assessing whether construction of large-scale projects (for example, construction projects subject to the percentage of completion method*) have been properly evaluated at the implementation stage with regard to the management status of construction and risk assessment, and whether a project's estimated profitability has been properly and transparently calculated.

In the course of FY2011, a total of 70 Group construction projects was audited. For the sake of adequacy and timely rectification, we will continue to implement audits of the management status and risk assessments of works, including local assessments, and enhance audit quality. We will give prior notification of the items to be audited to promote each department's independent evaluation and continue to implement activities that will enhance the feedback of audit result, such as by the lateral communication of audit results and making public information on case studies.

* Construction projects subject to the percentage of completion method: construction of large-scale projects, where sales and profits are not booked after construction is completed but per year in line with the progress of work on the project.

## IHI Group Internal Control System




As of March 31, 2012

# Compliance

## Basic Policy on Compliance

Compliance provides the foundation for a company to conduct its activities in society. The IHI Group's policy on compliance is based on the following:

•The importance of adhering to rules, such as laws and internal regulations

•Taking fair and responsible action as a corporate entity

This means not only remaining in compliance with laws and regulations, but also meeting the demands of society at large.

In FY2011, collaboration within the IHI Group was enhanced in response to rapid changes in the social environment. At the same time, efforts were made to find thoroughgoing resolutions to avoid business risk in the execution of business activities.

## Compliance System

### Compliance Board Meetings

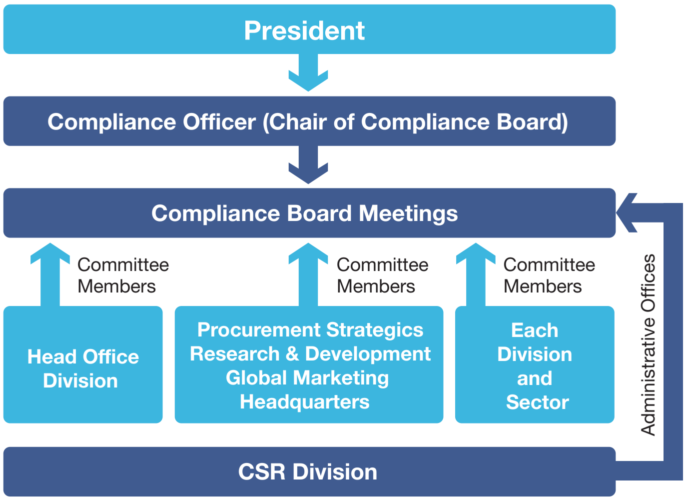
The Compliance Board meets four times a year with the executive officer in charge of compliance as its chair. The Compliance Board itself undertakes compliance activities depending on the form of the business division and identifies common activities and tasks at its meetings. Utilizing the plan-do-check-act (PDCA) cycle, the Compliance Board makes steady progress with initiatives throughout the IHI Group.

### Compliance Hotline

The IHI Group has established a Compliance Hotline (hereinafter, the Hotline) in order to prevent illegal or improper actions in the course of operations or to discover them in their early stages and correct them in a timely manner. An expert outside organization, the Corporate Ethics Hotline, serves as the contact point.

During FY2011, 103 incidents were reported to the Hotline. Most of the incidents had to do with the callers' interpersonal relations in the workplace, and sincere efforts were made to rapidly solve each incident.

### Compliance Organization Chart




## Compliance Initiatives in Business Activities

### Activities to Remain in Compliance with Japan's Antimonopoly Act and Other Countries' Anti-Corruption Laws

The IHI Group focuses its compliance activities on Japan's Antimonopoly Act and other countries' anti-corruption laws such as the Foreign Corrupt Practices Act (FCPA) in the United States.

In addition to extending training throughout the Group to remain in compliance with Japan's Antimonopoly Act, IHI is working to make the bidding process for public works projects more transparent as well as improving and strengthening activities to ensure that no violations occur.

With regard to other countries' anti-corruption laws, awareness and training activities are carried out on the regulations banning the bribery of overseas civil servants under the FCPA, the UK's Bribery Act of 2010, and Japan's Unfair Competition Prevention Act. In addition, violation risk monitoring activities at both domestic and overseas sales offices are conducted throughout the IHI Group.

### Safe Export Control Activities

In international society secure trade control is gaining in importance against a backdrop of such factors as an upsurge in terrorist activities and the issue of the nuclear black market. To contribute to the maintenance of international peace and security, the IHI Group has established rules and regulations with the aim of remaining in compliance with foreign exchange laws and appropriate export controls. IHI has established an Export Control Committee, which is headed by IHI's executive vice-president, and put into place management and control systems.

# Risk Management

## Basic Policy

Risk management is a top priority task for the IHI Group and we handle it on a global basis.

The IHI Group takes risk management as an activity in accord with the Basic Code of Conduct of the IHI Group. The CEO is charged with risk management's structure, organization and operation. The CEO holds a meeting of the Risk Management Committee annually. The Committee identifies and analyzes the risks integral to the entire IHI Group and sets out those that should be managed on a priority basis as Priority Risk Management Policies of a year.

In line with the priority policies, IHI's business units and affiliated companies, including those overseas, determine their risk management plans in conjunction with their respective annual business plans, in order to carry out risk management tasks effectively.

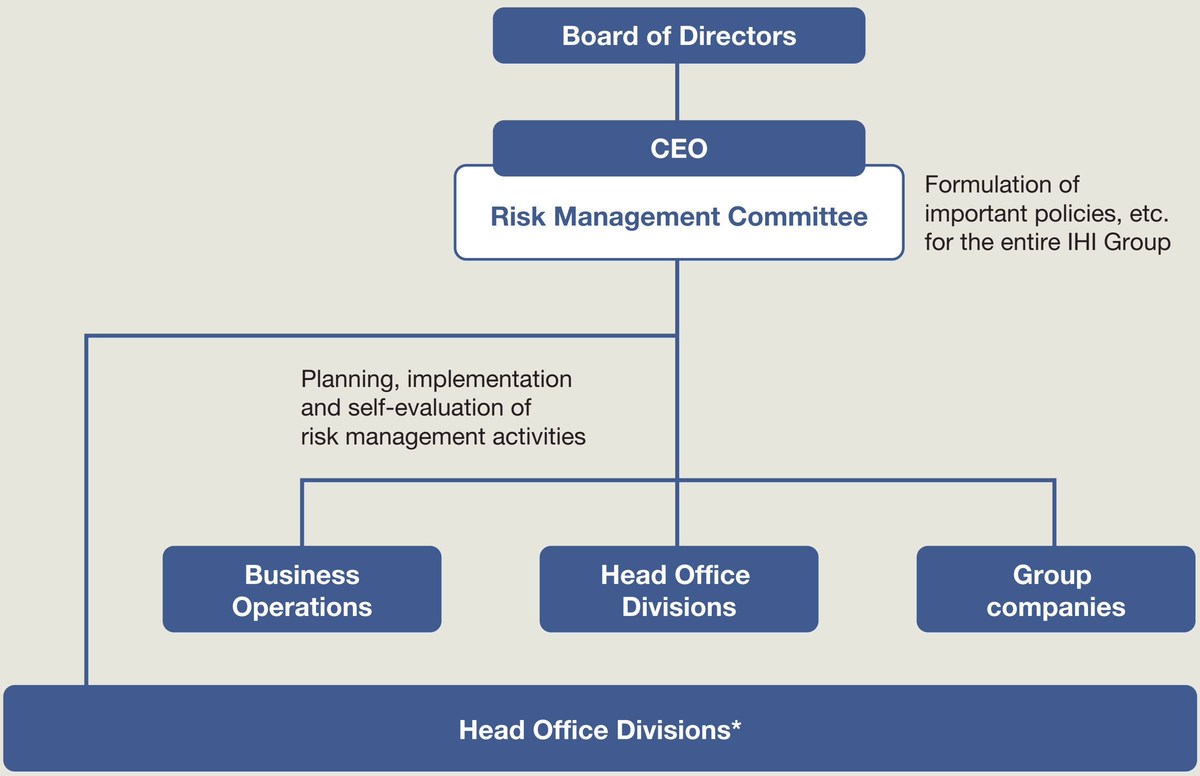
FY2011 Priority Risk Management Policies listed the following points as needing serious consideration: broadening scope and diversity of risks due to globalization of business, change in competitive environment due to industry reorganization, optimization of integrated management of IHI with affiliated companies, and others.

Further, with regard to risks common to the entire Group, IHI's Head Office uses its competencies to provide information and training. With this setup, the Head Office assists in risk management tasks of divisions and affiliated companies, monitors the status of activities, and advances risk management of the entire Group in a unified and effective way.

Moreover, the Internal Auditors' Office performs internal audits of every division and affiliated company, based their respective management plans, both efficiently and effectively.

By reviewing our policies and plans with consideration of the results from the above efforts, we will continuously improve and enhance our risk management each year.

### Risk Management System




* Head Office Divisions include management divisions, such as Personnel, Finance, and Legal Affairs. Use their competencies to provide information and training as well as monitoring with regard to risks common to the entire IHI Group.

# Information Security and Protecting Intellectual Property

## Information Security

IHI is working to maintain and improve the appropriate management of information and information security to ensure protection of customer and end user confidential information as well as Company management and technical information.

### Information Security Measures

IHI is taking measures against information security risks, such as system failure and information leaks, from three aspects: rules, tools, and education. For the former, we have established an Information Security Policy, Information Security Provision Criteria, and Information System User Regulations. To cover the tools aspect, we have introduced a variety of security tools, such as antivirus software, which we update to the latest versions as appropriate. In order to enhance security outside the Company, we installed security software for e-mail, USB memory and other external memory media throughout the IHI Group. Aiming to maintain and raise the employees' awareness of security, we hold annual e-learning sessions in order to give IHI Group employees a deeper understanding of these rules and tools.

With regard to the computer virus infections caused by targeted e-mail attacks in 2011, the IHI Group had beforehand collaborated with government agencies and specialist companies to institute a raft of measures. By April 2012, no damage from leaked information had been identified.

### Organized and Planned Security Measures and Improvements

An Information Security Committee composed of representatives from IHI's major Divisions and Group companies meets four times a year and implements plans, operations, and inspections on a yearly cycle.

Every year since FY2005, the IHI Group has conducted an internal audit of the status of its information security measures and made efforts to improve. A primary survey (written survey) of all Group companies (58 companies) was conducted in FY2011, followed by a secondary survey (in-person interviews) of a selected smaller group of four companies. The result of the audit was that no major flaws in security measures were found.

### Obtaining International Certification (ISO 27001)

The IHI Group Divisions and companies that perform important work for the national government undergo a review by outside expert organizations every year. They have obtained and renewed their ISO 27001 certification, an international certification of information security, and strive to maintain a high level of information security.

## Protecting Intellectual Property

### Basic Concepts

The IHI Group is enhancing its intellectual activities on the basis of business strategies and R&D strategies and constructing a Group-wide intellectual property management system. It is IHI's basic principle to rigorously protect its intellectual property while giving respect to the intellectual property rights of third parties.

### Respecting the Intellectual Property Rights of Third Parties

In FY2006, the number of patent applications filed by the IHI Group in Japan stood at 511, but in protecting the IHI Group's IP the number has increased to around 1,000 applications annually in recent years.

Introducing a Group-wide system capable of searching for patents and monitoring other companies' patents has reduced business risks with respect to third-party IP rights by facilitating the infrastructure environment necessary for avoiding business risk.

### Education about Intellectual Property

The IHI Group employs a five-step e-learning program over the five years from when an employee first joins the Company, offers training courses on IP, and conducts a range of educational programs exercises related to IP in general, such as copyrights, including patents, brands, and trade secrets.

At an IHI Forum attended by relevant IHI Group personnel in September 2011, a lecture was given on the risk of technology leaks and training conducted in measures designed to minimize technology risk

# Corporate Social Responsibility

## Materials Balance of Business Activities

### Use of resources

**Energy consumed**

Total energy consumption: 2,770 TJ

**Water consumption**

General water supply: 899,000 m³

Industrial water: 566,000 m³

Ground water: 193,000 m³

### Business activities


### Environmental impact

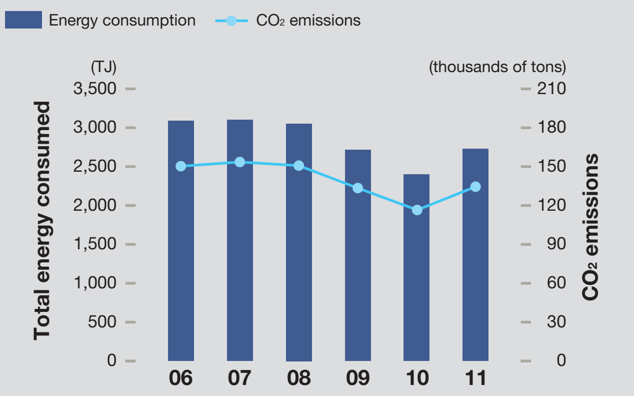
**$CO_2$ Emissions**

Emissions from production & Emissions from distribution: 133,416 t

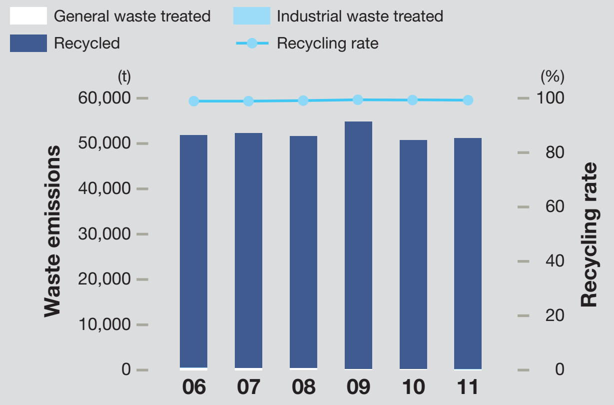
**Waste**: 51,829 t

Recycled: 51,654 t

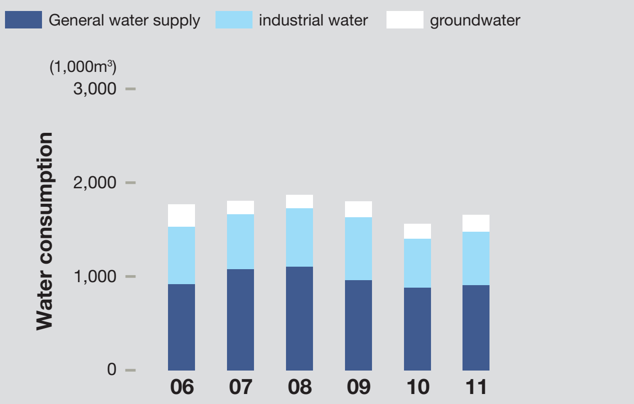
### Changes in energy consumption (production activities) and $CO_2$ emissions




### Changes in waste emissions and recycling rates




### Changes in water consumption




- The data were collected from IHI regions and worksites, and IHI Marine United Inc.
- $CO_2$ conversion coefficient (electricity): 0.418 kg/kWh
- Amount of waste generated is the sum of the amount of general and industrial waste treated, and the amount recycled includes marketable metal scrap.

* Data as of May 2012.

# Global Warming Measures

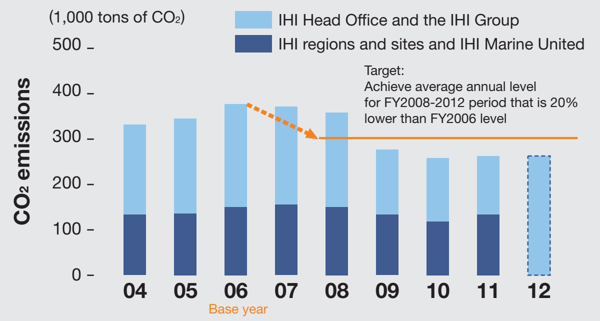
## Changes in $CO_2$ Emissions in Production Activities

The IHI Group's target is “to reduce $CO_2$ emissions by 20% of the FY2006 level based on the average annual level for the FY2008–FY2012 period.” As a result, we are working on cutting $CO_2$ emissions in our production activities.

All regions and sites of the IHI Group have long been reducing $CO_2$ emissions by implementing various energy saving programs.

In FY2011, $CO_2$ emissions were 263,728 tons. They are expected to be below the target for the second consecutive year. In order to reach our emissions target by FY2012, we will be strengthening our energy-saving efforts, including by the installation of new equipment.

### Changes in IHI Group’s (domestic) $CO_2$ emissions and reduction target




•The FY2010 data for the IHI Group and its domestic group companies is currently being surveyed and includes a 10% allowance for error.
•In the future, a reassessment of the aggregate range may cause a change in the numerical values.
•We use a $CO_2$ conversion coefficient (electrical power) of 0.418kg-$CO_2$/kWh.

## Improvement of Energy Control Standards

In order to move forward with energy saving in our operations, we revised our control standards (equipment operation manuals that put stress on energy saving) in FY2009, and are now focusing on equipment replacement.

In FY2011, we continued our one-by-one visits to affiliated companies’ facilities and almost completed the maintenance work at designated energy management plants. These visits will be extended to include comparatively small offices and office buildings, as we move ahead with our energy-saving efforts across the entire Group.

## Improving Specific Energy Consumption Involved in Transportation

IHI conducts activities to “reduce the specific energy consumption involved in shipping products by an annual average of more than 1% over the medium to long term and from the standpoint of the shipper.” As the products manufactured at each of its plants are different, the most appropriate mode of transportation (ship, rail transportation) is selected, while taking into consideration such factors as the size, weight, transportation limitations and conditions with respect to each product manufactured. At that time, all types of transportation data are gathered and calculated, including the means of transportation, weights, and distances. These data are required as the basis for the amount of energy used and specific energy consumption unit, which is visualized on a monthly basis. Twice a year, an analysis of energy usage amount as well as fluctuations and trends in basic units is conducted with respect to each plant and product, and a review of activities is carried out (such as increasing loading efficiency and promotion of the modal shift from road to rail transportation) with a view to making improvements in specific energy consumption. IHI also shares information on measures by which an energy-saving effect is obtained.

Meeting on data management and transportation efficiency improvement

# Measures against Environmental Harmful Substances

## Management of Chemical Substances in Products

Discussion about chemical substance management

The IHI Group set the goal of building a framework to know and manage all chemical substances used in its businesses in the three years up to FY2012

The Group is thus organizing customers' individual requirements and is working to create the mechanisms compatible with the chemical substances in its products. In FY2011, the CSR Promotion Office held talks with an outside specialist, Mizuho Information & Research Institute, Inc., and made headway with activities at IHI Star Machinery Corporation, which manufactures agricultural machinery. Specifically, the mechanisms for information management and transfer were put in place, a review conducted utilizing content in line with the work flow of the internal departments concerned—including from sales to design, material procurement, manufacture, and delivery (quality assurance)—and a framework put in place for a business model capable of responding rapidly to requirements from customers. This case will be extended horizontally as progress is made with preparations for a Group-wide management system.

## Building Up a Picture of Soil Contamination Risk

General view of a survey investigating land-use history

As part of the three-year plan, the IHI Group have carried out an investigation into the history of certain hazardous substances*, oils, and fats that had or have been used at its production facilities. As of March 31, 2012, the end of the second of the three years, the investigation had covered 80% of the Group's production facilities.

The plan is to have completed the investigation of the remaining production facilities in FY2012. The information provided by this investigation will be utilized to prevent any risk from arising, such as changes in the characteristics of land.

* The 25 substances listed in Section 2 of the Soil Contamination Countermeasures Act (including lead, hexavalent chromium, and mercury)

## Efforts to Strengthen Waste Management

Waste storage management

In all areas and at all plants, we have been promoting the 3Rs (Reduce, Reuse, Recycle) as the basis for proper waste management. Since FY2010, to further strengthen management we have (1) introduced an electronics manifesto, and (2) through an outside specialist, AMITA Institute for Sustainable Economies, Co., Ltd., held waste management risk assessments and seminars designed to raise the skill levels of our waste management supervisors.

At the time of writing, the introduction of the electronics manifesto has been completed at six of the IHI areas and plants. In FY2011, a skill level-raising seminar and waste management risk assessment were held at the Aichi Works, with 29 people in attendance. The seminar interspersed classroom tuition with practical exercises, including interpretation of law revisions, points to look out for in consignment agreements, and techniques for checking out local waste disposal businesses. The risk assessment verified documents, such as contracts and management procedures, as well as the storage conditions at disposal sites, and identified potential management risks.

In addition to improvements, for example, from reviews of operational management procedures, this assessment resulted in horizontal development of waste management matters to other IHI areas and plants, which will be linked to the strengthening of waste management on a Group-wide basis.

## Management and Disposal of Devices That Use PCBs

Removal of devices containing PCBs

Electrical devices containing PCBs (polychlorinated biphenyls) are handled properly at all Group companies. We have been stripping the harmful substances from those devices with high concentrations of PCBs since FY2009 and have currently completed about 11% of the disposal. At the same time, we completed the drawing up of a list of electrical devices that contain minute amounts of PCBs and are now proceeding to replace them with non-PCB devices.

# Corporate Officers

As of June 22, 2012

## Chairman

Kazuaki Kama

## President

Tamotsu Saito
Chief Executive Officer

## Executive Vice Presidents

Fusayoshi Nakamura

Kazuo Tsukahara

Sadao Degawa

## Board Directors

Makoto Serizawa

Joji Sakamoto

Ichiro Terai
Managing Executive Officer

Tatsumi Kawaratani
Managing Executive Officer

Izumi Imoto
Managing Executive Officer

Toshinori Sekido
Managing Executive Officer

Hiroshi Iwamoto
Managing Executive Officer

Hiromitsu Hamamura
Exective Officer

Tomokazu Hamaguchi
Outside Director

Tadashi Okamura
Outside Director

## Corporate Auditors

Masakazu Maruyama

Hideo Ootaka

Takeo Inokuchi
Outside Auditor

Nobuo Gohara
Outside Auditor

Hisatsugu Nonaka
Outside Auditor

## Executive Officers

### Managing Executive Officer

Eiichi Yoshida
Naruto Takata
Osamu Abiko

### Executive Officer

Akira Inoue
Ichiro Murai
Yutaka Yoshida
Hiroshi Asakura
Tsugio Mitsuoka
Hiroyuki Otani
Mikio Mochizuki
Kazuyoshi Matsui
Junichi Sakaki
Akira Tateno
Naoya Domoto
Hiromu Furukawa
Akinori Abe

# Organization

As of July 1, 2012

- Board of Directors
  - Chairman of the Board
    - Corporate Auditors
    - President and Chief Executive Officer
      - Monozukuri Innovation Initiative
      - Lithium-ion Battery Div.
      - Corporate Business Development Div.
      - Project Audit Div.
      - Information Systems Div.
      - Finance & Accounting Div.
      - Human Resources Div.
      - Administration Div.
      - Corporate Social Responsibility Div.
      - Legal Div.
      - Public Relations
      - Corporate Planning Div.
      - Secretariat Div.
      - Corporate Audit Div.
      - Procurement Strategics
      - Corporate Research & Development
        - Research Laboratory
        - Production Engineering Center
        - Products Development Center
        - New Products Incubation Center
        - R&D Technology Center
      - Global Marketing Headquarters
        - Regional Headquarter for the America
        - Regional Headquarter for Asia Pacific
        - Chief Regional Office in China
        - Corporate Sales & Marketing Dept.
        - Global Strategic Planning Dept.
        - Russia Project Dept.
        - Brazil Project Dept.
        - Domestic Branch Offices
        - Overseas Branch & Representative Offices
      - Defense Project Collaboration Div.
      - Agricultural Machinery Business Administration
      - Headquarters Representative's Offices
      - Infrastructure Operations
      - Offshore Project & Steel Structures Operations
      - Rotating Machinery Operations
      - Vehicular Turbocharger Operations
      - Energy Operations
      - Nuclear Power Operations
      - Machinery, Environmental & Logistics Systems Operations
      - Plant Engineering Operations
      - Aero-Engine & Space Operations
      - Urban Development Operations

# Directory


## Head Office ··· ○

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

## Offices

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El Biar, Alger ALGERIE

**❸MOSCOW**
Office E02-312, 2nd floor, 8, 4th Dobryninskiy Pereulok,
Moscow 119049, RUSSIA

**❹BAHRAIN**
Manama Centre, Entrance 1, 2nd Floor, Suite No. 208,
Government Road, P.O. Box 5837, Manama,
KINGDOM OF BAHRAIN

**❺NEW DELHI**
15th Floor, Dr. Gopal Das Bhawan, 28 Barakhamba
Road, New Delhi-110001, INDIA

**❻BANGKOK**
11th Floor, Ramaland Building, 952 Rama IV Road,
Suriyawongse, Bangrak, Bangkok 10500, THAILAND

**❼KUALA LUMPUR**
27th Floor, UBN Tower, 10 Jln.
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**⓫SHANGHAI**
24th Floor, Hang Seng Bank Tower, 1000, Lujiazui Ring
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Room 1202, Chia Hsin Building, No. 96 Section 2,
Chung Shan North Road, Taipei, TAIWAN

**⓭SEOUL**
23rd Floor, Seoul Finance Center B/D, 84, 1-Ka,
Taepyung-ro, Chung-ku, Seoul 100-768, KOREA

## Branch

**SINGAPORE**
**❶IHI Corporation Singapore Branch**
77 Robinson Road, #14-03 Robinson 77, Singapore 068896

## Main Overseas Subsidiaries

**U.K.**
**①IHI Europe Ltd.**
2nd Floor, America House, 2 America Square,
London EC3N 2LU, U.K.

**NETHERLANDS**
**②Hauzer Techno Coating BV**
Van Heemskerckweg 22, 5928 LL Venlo,
THE NETHERLANDS

**GERMANY**
**③IHI Charging Systems International GmbH**
Haberstrasse 24, 69126 Heidelberg, GERMANY

**④IHI Charging Systems International Germany GmbH**
Wolff-Knippenberg-Strasse 2, D-99334, Ichtershausen,
GERMANY

**⑤IHI Power System Germany GmbH**
Waltherstraße 51, 51069 Köln, GERMANY

**ITALY**
**⑥IHI Charging Systems International S.P.A.**
Via Regina 25 23870 Cernusco Lombardone (LC) ITALY

**THAILAND**
**⑦IHI TURBO (Thailand) Co., Ltd.**
Amata Nakorn Industrial Estate, 700/487 Moo. 2,
Tumbol Bankao Amphure Phanthong, Chonburi 20160,
THAILAND


### MALAYSIA

**⑧IHI POWER SYSTEM MALAYSIA SDN. BHD.**
Letter Box No.52, 27th Floor, UBN Tower, 10 Jln. P.Ramlee, 50250 Kuala Lumpur MALAYSIA

### SINGAPORE

**⑨Jurong Engineering Ltd.**
25 Tanjong Kling Road, Jurong Town, SINGAPORE 628050

**⑩IHI ASIA PACIFIC PTE. LTD**
77 Robinson Road, #14-03 Robinson 77, Singapore 068896

### VIETNAM

**⑪IHI INFRASTRUCTURE ASIA CO., LTD**
9th Floor, Hoang Huy Building, 116 Nguyen Duc Canh, Cat Dai, Le Chan, Hai Phong, VIETNAM

### INDONESIA

**⑫PT Cilegon Fabricators**
Jl.Raya Bojonegara Salira Desa Argawana Kecamatan Pulo Ampel Kabupatan Serang Banten 42454, INDONESIA

### HONG KONG

**⑬IHI (HK) Ltd.**
Room 2203, 22/F., Causeway Bay Plaza 2, 463-483 Lockhart Road, Causeway Bay, HONG KONG

### CHINA

**⑭IHI-Sullair Compression Technology (Suzhou) Co., Ltd.**
No. 262, Changyang Street, Suzhou Industrial Park, Suzhou, Jiang Su 215024, CHINA

**⑮JIANG SU ISHI TURBO Co., Ltd.**
Meiyu Road 110, Wuxi National Hi-Tech Industrial Development Zone, Jiangsu.p.r. 214028, CHINA

**⑯Changchun FAWER-IHI Turbo Co., Ltd.**
No.3377, Yangpu Street, Economy Tech Exploit zone Changchun P.C:130033, CHINA

**⑰WUXI IHI TURBO CO., LTD**
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**⑱IHI Logistics System Technology Shanghai Co., Ltd.**
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**⑲IHI (Shanghai) Management Co., Ltd**
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### TAIWAN

**⑳IHI Technical Consulting Co., Ltd.**
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### PHILIPPINES

**㉑IHI PHILIPPINES, INC.**
Room 1104, West Tower, PSE Center, Exchange Road, Ortigas Center, Pasig City, REPUBLIC OF THE PHILIPPINES

### AUSTRALIA

**㉒IHI Engineering Australia Pty. Ltd.**
Suite 2201, Level 22, 111 Pacific Highway, North Sydney NSW 2060 AUSTRALIA

**㉓IHI Oxyfuel Australia Pty. Ltd.**
Suite 2201, Level 22, 111 Pacific Highway, North Sydney NSW 2060 AUSTRALIA

### U.S.A.

**㉔IHI Southwest Technologies Inc.**
6766 Culebra Road, San Antonio, Texas 78238-4700, U.S.A.

**㉕IHI Turbo America Co.**
Route 16 West, R R 3, Box 36, Shelbyville, IL 62565-0580, U.S.A.

**㉖IHI INC.**
150 East 52nd Street, 24th Floor, New York, NY 10022, U.S.A.

### BRAZIL

**㉗ISHIKAWAJIMA-HARIMA SUL-AMERICA LTDA.**
Av. Presidente Antonio Carlos, 607-sobreloja-Centro-Rio de Janeiro-RJ-BRASIL

**㉘IHI do Brasil Representações Ltda.**
Rua da Quitanda, 59, 5° Andar, Centro Rio de Janeiro-RJ-BRASIL

# The History of IHI Group

| | | |
|---|---|---|
| 1800s | 1853 | Established Ishikawajima Shipyard |
| | 76 | Established Ishikawajima Hirano Shipyard |
| | 89 | Established Ishikawajima Shipbuilding & Engineering Co., Ltd., Tokyo (Ishikawajima S&E) |
| 1900s | 1907 | Established Harima Dock Co., Ltd.; later renamed to Harima Shipbuilding & Engineering (Harima S&E) and merged with the Company |
| | 39 | Established Shibaura United Engineering Co., Ltd. (SUECO), to produce rolling mills, through a joint venture with Toshiba and United Engineering & Foundry in the U.S.; later merged with the Company |
| | 41 | Established Nagoya Shipbuilding Co., Ltd. (Nagoya Shipbuilding); later merged with the Company |
| | 45 | Changed Company name to Ishikawajima Heavy Industries Co., Ltd. (Ishikawajima Heavy Ind.) |
| | 54 | Established Kure Shipbuilding & Engineering Co., Ltd. (Kure S&E); later merged with the Company |
| 1960s | 1960 | Merged Ishikawajima Heavy Ind. and Harima S&E; inaugurated Ishikawajima-Harima Heavy Industries Co., Ltd. (IHI) |
| | 63 | Established Jurong Shipyard Ltd. (JSL) in Singapore |
| | 64 | Merged Nagoya Heavy Ind. and Nagoya Shipbuilding |
| | 67 | Merged with Shibaura United Engineering |
| | 68 | Merged with Kure S&E |
| 1970s | 1971 | Established IHI Engineering Australia Pty. Ltd. (IEA) |
| | 72 | Established Ishikawajima Europe BV (IE) in the United Kingdom |
| | 77 | Established IHI Marine Engineering Singapore Private Ltd. |
| | 77 | Established IHI INC. in the U.S. |
| 1980s | 1982 | Established PT Cilegon Fabricators |
| | 88 | Established Diesel United, Ltd. in a joint venture with Sumitomo Heavy Industries Ltd. (SHI) |
| 1990s | 1992 | Established IHI Europe Ltd. (IEL) in the United Kingdom |
| | 95 | Established IHI Technical Consulting Co., Ltd. (ITCC) in Taiwan |
| | 95 | Established Marine United Inc. (MU), which performs engineering for ships and naval vessels with SHI |
| | 97 | Established Jiang Su Ishi Turbo Company Ltd. (JIT) in China |
| | 98 | Established the Environmental Technical Center |
| | 98 | Established IHI Turbo Germany GmbH., in Germany |
| | 98 | Established IHI Turbo America |
| | 98 | Established IHI Turbo Italy |
| 2000s | 2000 | Purchased Nissan Motor's Aerospace and Defense Divisions and established IHI Aerospace Co., Ltd. |
| | 00 | Integrated three construction companies into Ishikawajima Plant Construction Co., Ltd. |
| | 00 | Established SEC-IHI Desulfurization Engineering Co., Ltd. in China |
| | 01 | Established joint venture Voith IHI Paper Technology Co., Ltd. in Japan |
| | 01 | Established joint venture IHI Charging Systems International GmbH |
| | 02 | Established joint venture IHI TURBO (THAILAND), for manufacturing & selling turbochargers. |
| | 02 | Project formulated for redevelopment of land at site of former plant in Toyosu district of Tokyo |
| | 02 | Shipbuilding & Offshore Operations spun off as a separate company, IHI Marine United Inc. |
| | 03 | Established NIIGATA POWER SYSTEMS Co., Ltd. and Niigata Transys Co., Ltd. to take over and carry on a portion of the business of Niigata Engineering Co., Ltd. |
| | 03 | Aerospace development operations integrated with IHI Aerospace Co., Ltd. |
| | 04 | Established Changchun FAWER-IHI Turbo Co., Ltd. |
| | 04 | Established IHI-Sullair Compression Technology (Suzhou) Co., Ltd. |
| | 05 | Established IHI Metaltech Co., Ltd. |
| | 07 | Changed name to IHI Corporation. |
| | 08 | Hauzer Techno Coating B.V. became a subsidiary company of IHI |
| | 08 | Established IHI Oxyfuel Australia Pty. Ltd. |
| | 08 | Established Wuxi IHI Turbo co., Ltd. |
| | 08 | Central Conveyor became a subsidiary of IHI |
| | 09 | Integrate Bridge and Water Gate business with Kurimoto and Matuso Bridge and established IHI Infrastructure Systems |
| | 09 | Integrate of Shield Tunneling Machine business with JFE Engineering and established Japan Tunnel Systems |
| | 10 | Established a local subsidiary in Brazil |
| | 11 | Established TOSHIBA IHI Power Systems Corporation, a joint venture to manufacture steam turbine parts for nuclear power plants |

# Financial Section

Years ended March 31
IHI Corporation and Consolidated Subsidiaries

## Consolidated Six-Year Summary

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| **For the year:** | | | | | | |
| Net sales | ¥1,221,869 | ¥1,187,292 | ¥1,242,700 | ¥1,388,042 | ¥1,350,567 | ¥1,221,016 |
| Cost of sales | 1,025,884 | 976,846 | 1,048,875 | 1,221,612 | 1,235,111 | 1,098,412 |
| Gross profit | 195,985 | 210,446 | 193,825 | 166,430 | 115,456 | 122,604 |
| Operating (loss) income | 43,333 | 61,390 | 47,145 | 25,679 | (16,807) | (5,626) |
| Income (loss) before income taxes and minority interests | 54,315 | 47,463 | 22,816 | 8,533 | 46,794 | 15,059 |
| Net income (loss) | 23,823 | 29,764 | 17,378 | (7,407) | 25,195 | (4,593) |
| **At year-end:** | | | | | | |
| Total assets | ¥1,338,131 | ¥1,361,441 | ¥1,412,421 | ¥1,489,342 | ¥1,542,295 | ¥1,536,078 |
| Current assets | 844,364 | 853,405 | 941,742 | 1,036,428 | 1,082,624 | 1,044,642 |
| Net property, plant and equipment | 334,745 | 328,739 | 290,909 | 273,964 | 261,761 | 257,838 |
| Current liabilities | 689,693 | 691,131 | 758,164 | 898,181 | 898,682 | 893,276 |
| Long-term liabilities | 389,963 | 416,670 | 427,192 | 385,211 | 409,207 | 415,755 |
| Total net assets* | 258,475 | 253,640 | 227,065 | 205,950 | 234,406 | 227,047 |
| **Amounts per share (yen):** | | | | | | |
| Net income (loss) | ¥ 16.26 | ¥ 20.29 | ¥ 11.85 | ¥ (5.05) | ¥ 17.18 | ¥ (3.46) |
| Cash dividends | 4.00 | 3.00 | 2.00 | — | 4.00 | 4.00 |
| Shareholders' equity | 170.84 | 162.33 | 144.66 | 130.96 | 149.96 | 144.70 |
| **Other data:** | | | | | | |
| Number of employees | 26,915 | 26,035 | 24,890 | 24,348 | 23,722 | 23,190 |
| Number of shares issued (millions) | 1,467 | 1,467 | 1,467 | 1,467 | 1,467 | 1,467 |
| **Ratios:** | | | | | | |
| Return on average assets (%) | 1.77 | 2.15 | 1.20 | (0.49) | 1.64 | (0.31) |
| Return on average equity (%) | 9.76 | 13.22 | 8.60 | (3.60) | 11.66 | (2.41) |
| Total shareholders' equity ratio (%) | 18.69 | 17.49 | 15.02 | 12.89 | 14.26 | 13.82 |

*The data previously presented as "Total shareholders' equity" are shown as "Total net assets" based on an accounting standard adopted from the year ended March 31, 2007.

## Contents

# Financial Review

## Operating Results

In the fiscal year ended March 31, 2012, orders received rose 5.7% year on year to ¥1,269.6 billion due to a significant increase in Social Infrastructure Operations, offsetting a decline mainly in Ships & Offshore Facilities Operations.

Although sales in Ships & Offshore Facilities Operations declined, net sales increased 2.9% year on year to ¥1,221.8 billion, due mainly to robust sales in Aero Engine & Space Operations and Rotating Equipment & Mass-Production Machinery Operations.

Domestic sales rose 3.8% year on year to ¥700.8 billion and overseas sales increased 1.8% year on year to ¥521.0 billion.

Operating income decreased 29. 4% year on year to ¥43.3 billion, while ordinary income also decreased, down 19.0% to ¥41.7 billion. The decreases reflected declines in profitability in Energy & Resources Operations, Social Infrastructure Operations and Ships & Offshore Facilities Operations, among other factors.

Although the Company booked a ¥14.1 billion gain on sale of stock of Tachihi Enterprise Co., Ltd. and New Tachikawa Aircraft Co., Ltd. under extraordinary income, net income decreased 20.0% year on year to ¥23.8 billion, owing to reversal of deferred tax assets as a result of tax reform.

## Business Operation by Segment

From the fiscal year under review, in accordance with an entity conversion by the Company, among its 6 business segments, Physical Distribution Systems & Social Infrastructure, and Rotating & Industrial Machinery, were changed to three business segments: Social Infrastructure, Logistics Systems & Industrial Machinery, and Rotating Equipment & Mass-Production Machinery. As a result, the Company comprises 7 segments in all.

In Energy & Resources Operations, segment sales increased 1.9% year on year to ¥312.3 billion due to increases in boilers, storage facilities and power systems sales, despite decreases in process plants and components for nuclear power plants. Operating income dropped 51.2% year on year to ¥10.9 billion, because of decreases in sales of process plants and components for nuclear power plants and worsening in profitability in the businesses of boilers.

In Ships & Offshore Facilities Operations, segment sales declined 7.2% year on year to ¥176.2 billion because shipbuilding and ship repairs both decreased. Operating income declined 27.9% year on year to ¥7.9 billion, owing to the decrease in sales and the strength of the yen.

In Social Infrastructure Operations, segment sales declined 6.3% year on year to ¥114.7 billion because of decreases in steel bridges and water gates, despite an increase in real estate rental. Operating income declined 30.4 % year on year to ¥8.2 billion because of the decreases in sales of steel bridges and water gates.

In Logistics Systems & Industrial Machinery Operations, segment sales increased 7.8% year on year to ¥152.9 billion because of increase in sales of rolling mills and material handling systems. The rise in sales of material handling systems and improved profitability in physical distribution and factory automation systems contributed to an increase in operating income of 93.5% year on year to ¥5.6 billion.

In Rotating Equipment & Mass-Production Machinery Operations, segment sales increased 18.1% year on year to ¥165.8 billion, owing to an increase in sales of the vehicular turbocharger business because of the recovery in the automobile market. Operating income improved 9.6% year on year to ¥10.4 billion, reflecting the increased sales, despite an increase in fixed costs as a result of capital expenditure.

In Aero Engine & Space Operations, segment sales increased 9.4% year on year to ¥299.4 billion, reflecting increases in both of the Japan Ministry of Defense and civil jet engine sales. Operating income rose 4.0% year on year to ¥6.0 billion, mainly because of increased sales and an improvement in profitability, despite the impact of the yen appreciation.

In Other Operations, segment sales declined 6.2% year on year to ¥107.3 billion because of decreases in sales of diesel engines for ships and agricultural machinery. Operating income declined 46.2% year on year to ¥1.1 billion.

## Consolidated Profit/Loss Situation

Although net sales increased 2.9% year on year, the cost of sales ratio decreased from 82.3% to 84.0% due to decreases in sales of process plants, which enjoyed benefit from a large-scale construction work with high profitability, and components for nuclear power plants as well as worsening in profitability in the businesses of boilers.

Selling, general and administrative expenses (SG&A) has not changed from the previous fiscal year's level, while operating income fell 29.4% year on year to ¥43.3 billion.

Net non-operating expense improved ¥8.2 billion to ¥1.6 billion from ¥9.9 billion in the previous fiscal year.

This is mainly due to an elimination of ¥4.3 billion losses on foreign exchange in the previous fiscal year, and a record of ¥2.2 billion of contribution to research and development costs under non-operating income. As a result, ordinary income decreased 19.0 % year on year to ¥41.7 billion.

Net extraordinary income or loss stood at ¥12.6 billion of net income, an improvement of ¥16.6 billion from ¥4.0 billion of net loss in the previous fiscal year. This is mainly due to an record of extraordinary income including gain on sales of investment securities, gain on sales of noncurrent assets and proceeds from accident insurance, of ¥14.1 billion, ¥3.4 billion and ¥2.0 billion respectively, while the Company booked ¥10.5 billion for loss on disaster and ¥9.2 billion for loss on project taken over from the consortium partner in liquidation in the previous fiscal year.

As a result of the above, income before income taxes and minority interests (pre-tax profit) improved compared with the previous fiscal year. However, net income decreased by ¥5.9 billion to ¥23.8 billion from ¥29.7 billion in the previous fiscal year, owing to factors such as a decrease in deferred tax assets in line with the revisions of tax rates.

This resulted in net income per share of ¥16.26, versus net income per share of ¥20.29 in the previous fiscal year.

## Financial Position

As of March 31, 2012, total assets stood at ¥1,338.1 billion, a decrease of ¥23.3 billion from the end of the previous fiscal year.

Current assets declined ¥9.0 billion compared with the end of the previous fiscal year to ¥844.3 billion, primarily reflecting an increase of ¥57.6 billion in trade receivables and declines of ¥52.5 billion in cash and time deposits and ¥13.3 billion in work in process.

Fixed assets declined ¥14.2 billion compared with the end of the previous fiscal year to ¥493.7 billion, mainly reflecting a decrease of ¥15.9 billion in investment securities.

Total liabilities as of March 31, 2012 were ¥1,079.6 billion, down ¥28.1 billion compared with the end of the previous fiscal year. This mainly reflected an increase of ¥24.0 billion in notes and accounts payable-trade and declines of ¥10.6 billion in short-term loans and current portion of long-term loans, ¥19.2 billion in advances from customers and ¥20.1 billion of long-term loans.

Interest-bearing debt totaled ¥345.2 billion, down ¥28.1 billion compared with the end of the previous fiscal year.

As of March 31, 2012, net assets totaled ¥258.4 billion, an increase of ¥4.8 billion compared with the end of the previous fiscal year, reflecting the booking of net income of ¥23.8 billion, cash dividends of ¥4.3 billion, a decrease in unrealized holding gain on other securities of ¥6.8 billion and a decrease in minority interests of ¥7.2 billion.

As a result, net assets per share increased by ¥8.51 compared with the end of the previous fiscal year to ¥170.84, and the ratio of equity to total assets improved from 17.5% at the end of the previous fiscal year to 18.7%.

## Cash Flows

In the fiscal year under review, the Company generated negative free cash flow of ¥13.0 billion, comprising net cash provided by operating activities of ¥24.7 billion and net cash used in investing activities of ¥37.7 billion.

Net cash used in financing activities was ¥38.5 billion, as a result of which cash and cash equivalents at the end of the fiscal year under review totaled ¥63.4 billion, down ¥51.5 billion compared with the end of the previous fiscal year.

The main factors affecting cash flows during the fiscal year under review were as follows:

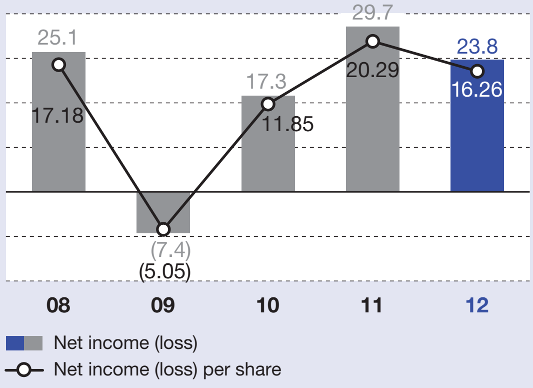
Net cash provided by operating activities amounted to ¥24.7 billion, a decrease of ¥70.8 billion compared with the previous fiscal year. Cash increased mainly by income before income taxes and minority interests of ¥54.3 billion, an increase of notes and accounts payable-trade of ¥21.1 billion and a decrease in inventories of ¥11.1 billion, while cash decreased mainly by an increase in notes and accounts receivable-trade of ¥54.9 billion and a decrease in advances from customers of ¥18.1 billion.

Net cash used in investing activities amounted to ¥37.7 billion, a decrease of ¥40.0 billion compared with the previous fiscal year. Cash was mainly used in purchases of property, plant and equipment and intangible assets of ¥51.3 billion and purchase of investments in subsidiaries, etc. of ¥13.9 billion, and provided by proceeds from sales and redemption of marketable and investment securities of ¥21.3 billion.

Net cash used in financing activities amounted to ¥38.5 billion, an increase of ¥12.6 billion compared with the previous fiscal year. This mainly reflected a drop in interest-bearing debt.

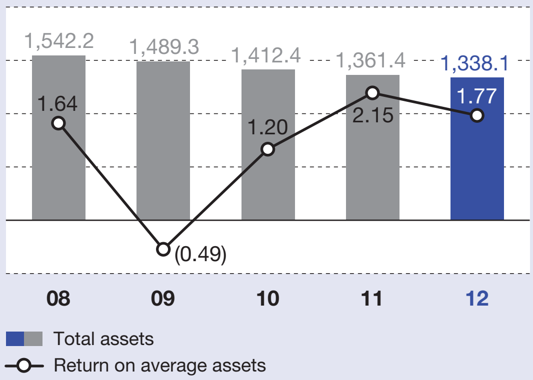
### Net Income (Loss) and Net Income (Loss) per Share

[Billions of yen/Yen]



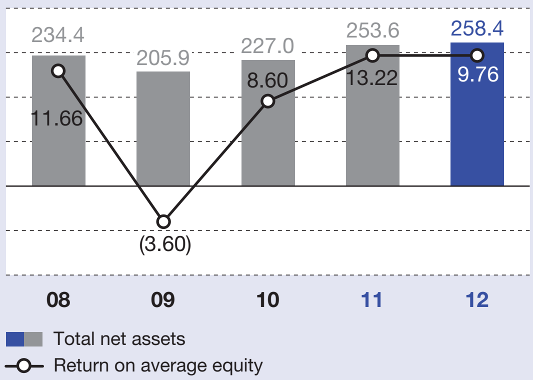

### Total Assets and Return on Average Assets

[Billions of yen/%]




### Total Net Assets and Return on Average Equity

[Billions of yen/%]



# Consolidated Balance Sheets

March 31, 2012 and 2011
IHI Corporation and Consolidated Subsidiaries

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and time deposits (Notes 4 and 14) | ¥ 63,914 | ¥ 116,422 | $ 777,637 |
| Notes and accounts receivable - trade (Notes 3, 4, 6 and 14) | 348,671 | 291,033 | 4,242,256 |
| Marketable securities (Notes 14 and 15) | 2,736 | 1,183 | 33,289 |
| Finished goods (Note 8) | 23,320 | 20,733 | 283,733 |
| Work in process (Note 8) | 218,224 | 231,560 | 2,655,116 |
| Raw materials and supplies (Note 4) | 109,500 | 110,806 | 1,332,279 |
| Deferred income taxes (Note 19) | 29,597 | 35,177 | 360,105 |
| Other (Note 4) | 54,684 | 54,921 | 665,336 |
| Less allowance for doubtful receivables (Note 14) | (6,282) | (8,430) | (76,433) |
| Total current assets | 844,364 | 853,405 | 10,273,318 |
| **Property, plant and equipment** (Notes 4, 7, 9, 12, 21 and 24)**:** | | | |
| Buildings and structures, net | 153,596 | 154,851 | 1,868,792 |
| Machinery, equipment and vehicles, net | 59,214 | 52,900 | 720,452 |
| Land | 88,792 | 88,275 | 1,080,326 |
| Lease assets, net | 14,034 | 11,606 | 170,751 |
| Construction in progress | 5,914 | 8,945 | 71,955 |
| Other, net | 13,195 | 12,162 | 160,543 |
| Net property, plant and equipment | 334,745 | 328,739 | 4,072,819 |
| **Intangible assets:** | | | |
| Goodwill | 5,073 | 3,933 | 61,723 |
| Software | 14,784 | 14,237 | 179,876 |
| Other | 3,755 | 2,886 | 45,687 |
| Net intangible assets | 23,612 | 21,056 | 287,286 |
| **Investments and other assets:** | | | |
| Investment securities (Notes 5, 14 ,15 and 24) | 68,568 | 84,519 | 834,262 |
| Deferred income taxes (Note 19) | 42,946 | 46,073 | 522,521 |
| Other (Notes 4 and 5) | 30,043 | 38,067 | 365,531 |
| Less allowance for doubtful receivables | (6,147) | (10,418) | (74,790) |
| Total investments and other assets | 135,410 | 158,241 | 1,647,524 |
| **Total assets** | ¥1,338,131 | ¥1,361,441 | $16,280,947 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **LIABILITIES AND NET ASSETS** | | | |
| **Current liabilities:** | | | |
| Notes and accounts payable - trade (Notes 3 and 14) | ¥ 293,493 | ¥ 269,445 | $ 3,570,909 |
| Short-term loans and current portion of long-term loans (Notes 4, 14 and 28) | 124,194 | 134,885 | 1,511,060 |
| Current portion of long-term debentures (Notes 14 and 28) | 10,000 | 10,000 | 121,669 |
| Accrued expenses | 40,737 | 35,959 | 495,644 |
| Accrued income taxes | 13,208 | 10,273 | 160,701 |
| Advances from customers | 104,393 | 123,603 | 1,270,142 |
| Allowance for employees' bonuses | 24,700 | 25,073 | 300,523 |
| Reserve for guaranteed contracts | 15,526 | 16,037 | 188,904 |
| Reserve for losses on sales contracts (Note 8) | 29,189 | 31,240 | 355,141 |
| Provision for losses on disaster | 386 | 4,864 | 4,697 |
| Other provision | 482 | 540 | 5,864 |
| Other (Notes 4 and 28) | 33,385 | 29,212 | 406,193 |
| Total current liabilities | 689,693 | 691,131 | 8,391,447 |
| **Long-term liabilities:** | | | |
| Long-term debentures (Notes 14 and 28) | 53,450 | 53,565 | 650,323 |
| Long-term loans (Notes 4, 14 and 28) | 141,967 | 162,151 | 1,727,303 |
| Deferred tax liabilities from revaluation of land (Note 7) | 5,811 | 6,660 | 70,702 |
| Allowance for employees' retirement benefits (Note 17) | 129,037 | 132,347 | 1,569,984 |
| Other provision | 4,392 | 4,469 | 53,437 |
| Other (Notes 4 and 28) | 55,306 | 57,478 | 672,904 |
| Total long-term liabilities | 389,963 | 416,670 | 4,744,653 |
| **Total liabilities** | 1,079,656 | 1,107,801 | 13,136,099 |
| **Net assets** (Note 25)**:** | | | |
| **Shareholders' equity:** | | | |
| Common stock | | | |
| Authorized: 3,300,000,000 shares | | | |
| Issued: 1,467,058,482 shares | 95,762 | 95,762 | 1,165,130 |
| Capital surplus | 43,044 | 43,037 | 523,713 |
| Retained earnings | 116,083 | 95,973 | 1,412,374 |
| Less treasury stock, at cost | (547) | (88) | (6,656) |
| Total shareholders' equity | 254,342 | 234,684 | 3,094,561 |
| **Accumulated other comprehensive income:** | | | |
| Unrealized holding gains or losses on other securities | (361) | 6,508 | (4,393) |
| Deferred gains or losses on hedges | (55) | (75) | (669) |
| Revaluation reserve for land (Note 7) | 4,665 | 3,872 | 56,759 |
| Foreign exchange translation adjustments | (8,452) | (6,903) | (102,835) |
| **Total accumulated other comprehensive income** | (4,203) | 3,402 | (51,138) |
| **Equity warrant** (Note 18) | 462 | 388 | 5,621 |
| **Minority interests in consolidated subsidiaries** | 7,874 | 15,166 | 95,803 |
| **Total net assets** | 258,475 | 253,640 | 3,144,847 |
| **Total liabilities and net assets** | ¥1,338,131 | ¥1,361,441 | $16,280,947 |

# Consolidated Statements of Income

ears ended March 31, 2012 and 2011
IHI Corporation and Consolidated Subsidiaries

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Net sales** | ¥1,221,869 | ¥1,187,292 | $14,866,395 |
| **Cost of sales** (Notes 8 and 10) | 1,025,884 | 976,846 | 12,481,859 |
| Gross profit | 195,985 | 210,446 | 2,384,536 |
| **Selling, general and administrative expenses** (Note 10) | 152,652 | 149,056 | 1,857,306 |
| Operating income | 43,333 | 61,390 | 527,230 |
| **Other income (expense):** | | | |
| Interest and dividend income | 3,396 | 3,995 | 41,319 |
| Interest expense | (5,258) | (6,013) | (63,974) |
| Other, net (Note 11) | 12,844 | (11,909) | 156,272 |
| Income before income taxes and minority interests | 54,315 | 47,463 | 660,847 |
| **Income taxes:** | | | |
| Current | (16,003) | (12,716) | (194,708) |
| Deferred | (13,144) | (4,156) | (159,922) |
| Income before minority interests | 25,168 | 30,591 | 306,217 |
| **Minority interests** | (1,345) | (827) | (16,364) |
| Net income | ¥ 23,823 | ¥ 29,764 | $ 289,853 |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| **Amounts per share** (Note 26)**:** | | | |
| Net income | ¥16.26 | ¥20.29 | $0.198 |
| Cash dividends | 4.00 | 3.00 | 0.049 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

# Consolidated Statements of Comprehensive Income

Years ended March 31, 2012 and 2011
IHI Corporation and Consolidated Subsidiaries

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Income before minority interests** | ¥25,168 | ¥30,591 | $306,217 |
| **Other comprehensive income:** | | | |
| Unrealized holding gains or losses on other securities | (6,847) | (2,955) | (83,307) |
| Deferred gains or losses on hedges | (12) | 50 | (146) |
| Revaluation reserve for land | 837 | — | 10,184 |
| Foreign exchange translation adjustments | (1,532) | (918) | (18,640) |
| Share of other comprehensive income of associates accounted for using equity method | (49) | (404) | (596) |
| Total other comprehensive income | (7,603) | (4,227) | (92,505) |
| **Comprehensive income** | 17,565 | 26,364 | 213,712 |
| **Comprehensive income attributable to:** | | | |
| Comprehensive income attributable to equity holders of the parent | ¥16,280 | ¥25,619 | $198,078 |
| Comprehensive income attributable to non-controlling interest | 1,285 | 745 | 15,634 |

Notes:
Reclassification adjustments and tax effects relating to other comprehensive income are as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| | 2012 | 2012 |
| **Unrealized holding gains or losses on other securities:** | | |
| Amount arising during the year | ¥ 783 | $ 9,527 |
| Reclassification adjustments: | (12,693) | (154,435) |
| Before tax effects | (11,910) | (144,908) |
| Tax effects relating to other comprehensive income | 5,063 | 61,601 |
| Unrealized holding gains or losses on other securities | ¥ (6,847) | $ (83,307) |
| **Deferred gains or losses on hedges:** | | |
| Amount arising during the year | 31 | 377 |
| Tax effects relating to other comprehensive income | (43) | (523) |
| Deferred gains or losses on hedges | ¥ (12) | $ (146) |
| **Revaluation reserve for land:** | | |
| Tax effects relating to other comprehensive income | ¥ 837 | $ 10,184 |
| **Foreign exchange translation adjustments:** | | |
| Amount arising during the year | ¥ (1,532) | $ (18,640) |
| **Share of other comprehensive income of associates accounted for using equity method:** | | |
| Amount arising during the year | (56) | (681) |
| Reclassification adjustments | 7 | 85 |
| Share of other comprehensive income of associates accounted for using equity method | ¥ (49) | $ (596) |
| **Total other comprehensive income** | ¥ (7,603) | $ (92,505) |

# Consolidated Statements of Changes in Net Assets

Years ended March 31, 2012 and 2011
IHI Corporation and Consolidated Subsidiaries

| | Thousands | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Unrealized holding gain on other securities | Deferred gains or losses on hedges | Revaluation reserve for land | Foreign exchange translation adjustments | Equity warrant | Minority interests in consolidated subsidiaries |
| Balance at April 1, 2010 | 1,467,058 | ¥95,762 | ¥43,028 | ¥ 65,933 | ¥(105) | ¥9,462 | ¥ 38 | ¥3,844 | ¥(5,802) | ¥302 | ¥14,603 |
| Net income for the year | — | — | — | 29,764 | — | — | — | — | — | — | — |
| Reversal of revaluation reserve for land | — | — | — | (28) | — | — | — | — | — | — | — |
| Increase resulting from inclusion of subsidiaries in consolidation | — | — | — | 304 | — | — | — | — | — | — | — |
| Cash dividends | — | — | — | — | — | — | — | — | — | — | — |
| Change for the year | — | — | — | — | — | (2,954) | (113) | 28 | (1,101) | 86 | 563 |
| Purchase of treasury stock | — | — | — | — | (5) | — | — | — | — | — | — |
| Sales of treasury stock | — | — | 9 | — | 22 | — | — | — | — | — | — |
| Balance at March 31, 2011 | 1,467,058 | 95,762 | 43,037 | 95,973 | (88) | 6,508 | (75) | 3,872 | (6,903) | 388 | 15,166 |
| Balance at April 1, 2011 | 1,467,058 | 95,762 | 43,037 | 95,973 | (88) | 6,508 | (75) | 3,872 | (6,903) | 388 | 15,166 |
| Net income for the year | — | — | — | 23,823 | — | — | — | — | — | — | — |
| Reversal of revaluation reserve for land | — | — | — | 14 | — | — | — | — | — | — | — |
| Increase resulting from inclusion of subsidiaries in consolidation | — | — | — | 673 | — | — | — | — | — | — | — |
| Cash dividends | — | — | — | (4,400) | — | — | — | — | — | — | — |
| Change for the year | — | — | — | — | — | (6,869) | 20 | 793 | (1,549) | 74 | (7,292) |
| Purchase of treasury stock | — | — | — | — | (484) | — | — | — | — | — | — |
| Sales of treasury stock | — | — | 7 | — | 25 | — | — | — | — | — | — |
| Balance at March 31, 2012 | 1,467,058 | ¥95,762 | ¥43,044 | ¥116,083 | ¥(547) | ¥ (361) | ¥ (55) | ¥4,665 | ¥(8,452) | ¥462 | ¥ 7,874 |

| | | Thousands of U.S. dollars (Note 1) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at April 1, 2011 | | $1,165,130 | $ 523,628 | $1,167,697 | $(1,071) | $ 79,182 | $(913) | $47,110 | $ (83,988) | $4,721 | $ 184,524 |
| Net income for the year | | — | — | 289,853 | — | — | — | — | — | — | — |
| Reversal of revaluation reserve for land | | — | — | 170 | — | — | — | — | — | — | — |
| Increase resulting from inclusion of subsidiaries in consolidation | | — | — | 8,188 | — | — | — | — | — | — | — |
| Cash dividends | | — | — | (53,534) | — | — | — | — | — | — | — |
| Change for the year | | — | — | — | — | (83,575) | 244 | 9,649 | (18,847) | 900 | (88,721) |
| Purchase of treasury stock | | — | — | — | (5,889) | — | — | — | — | — | — |
| Sales of treasury stock | | — | 85 | — | 304 | — | — | — | — | — | — |
| Balance at March 31, 2012 | | $1,165,130 | $ 523,713 | $1,412,374 | $(6,656) | $ (4,393) | $(669) | $56,759 | $(102,835) | $5,621 | $ 95,803 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

# Consolidated Statements of Cash Flows

Years ended March 31, 2012 and 2011
IHI Corporation and Consolidated Subsidiaries

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Operating Activities:** | | | |
| Income before income taxes and minority interests | ¥ 54,315 | ¥ 47,463 | $ 660,847 |
| Depreciation and amortization | 46,213 | 44,875 | 562,270 |
| Amortization of long-term prepaid expenses | 4,560 | 5,785 | 55,481 |
| Losses on impairment of fixed assets | 2,182 | 1,782 | 26,548 |
| Losses on adjustment for changes of accounting standard for asset retirement obligation | — | 295 | — |
| Losses on a project taken over from the consortium partner to be liquidated | — | 9,270 | — |
| Distribution from undisclosed association | — | (19,842) | — |
| Losses on disaster | — | 10,590 | — |
| Losses on business restructuring | — | 395 | — |
| Cost of environment conservation measures | 4,157 | — | 50,578 |
| Decrease in allowance for doubtful receivables | (2,139) | (605) | (26,025) |
| Increase (decrease) in allowance for employees' bonuses | (476) | 2,462 | (5,791) |
| Decrease in reserve for guaranteed contracts | (502) | (2,603) | (6,108) |
| Increase (decrease) in reserve for losses on sales contracts | (2,005) | 4,997 | (24,395) |
| Decrease in allowance for employees' retirement benefits | (3,627) | (2,835) | (44,129) |
| Decrease in provision for losses on disaster | (4,478) | — | (54,484) |
| Interest and dividends income | (3,396) | (3,995) | (41,319) |
| Interest expense | 5,258 | 6,013 | 63,974 |
| Losses (gains) on foreign exchange | (39) | 489 | (475) |
| Gains on sale of marketable and investment securities | (15,204) | (1,170) | (184,986) |
| Losses on valuation of marketable and investment securities | 3,256 | 2,602 | 39,616 |
| Equity loss from affiliates | (614) | (389) | (7,470) |
| Losses (gains) on disposal of property, plant and equipment | (1,262) | 1,851 | (15,355) |
| Changes in operating assets and liabilities: | | | |
| Notes and accounts receivable - trade | (54,972) | 27,287 | (668,840) |
| Advances from customers | (18,169) | (44,251) | (221,061) |
| Advance payments | (4,242) | (2,335) | (51,612) |
| Inventories | 11,110 | 38,895 | 135,175 |
| Notes and accounts payable - trade | 21,179 | (4,473) | 257,683 |
| Accrued expenses | 638 | 1,114 | 7,763 |
| Other current assets | 1,461 | 1,736 | 17,776 |
| Other current liabilities | (4,559) | (9,535) | (55,469) |
| Accrued consumption taxes | (3,251) | (6,483) | (39,555) |
| Others | (412) | 1,731 | (5,013) |
| **Subtotal** | 34,982 | 111,116 | 425,624 |
| Interest and dividends received | 4,186 | 3,845 | 50,930 |
| Interest paid | (5,134) | (6,150) | (62,465) |
| Income taxes paid | (9,291) | (13,246) | (113,043) |
| **Net cash provided by operating activities** | 24,743 | 95,565 | 301,046 |
| **Investing Activities:** | | | |
| Net decrease (increase) in time deposits due in more than three months | ¥ 997 | ¥ (998) | $ 12,130 |
| Purchases of marketable and investment securities | (3,656) | (3,950) | (44,482) |
| Purchases of investments in subsidiaries | (7,320) | (25) | (89,062) |
| Proceeds from sale and redemption of marketable and investment securities | 21,348 | 3,963 | 259,740 |
| Purchases of property, plant and equipment and intangible assets | (51,356) | (51,398) | (624,845) |
| Proceeds from sale of property, plant and equipment and intangible assets | 7,089 | 1,319 | 86,251 |
| Payments for disposal of property, plant and equipment | (780) | (623) | (9,490) |
| Purchase of newly consolidated subsidiaries | (2,954) | — | (35,941) |
| Sale of consolidated subsidiaries | — | 1,544 | — |
| Purchase of trust beneficiary right | — | (40,755) | — |
| Income by dividends according to termination of agreement for undisclosed association | — | 15,874 | — |
| Net decrease (increase) in short-term loan receivables | 335 | (222) | 4,076 |
| Increase in long-term loan receivables | (22) | (101) | (268) |
| Decrease in long-term loan receivables | 156 | 164 | 1,898 |
| Increase in other investments | (534) | (1,072) | (6,497) |
| Decrease in other long-term liabilities | (512) | (1,469) | (6,229) |
| Others | (513) | (49) | (6,242) |
| **Net cash used in investing activities** | (37,722) | (77,798) | (458,961) |

# Consolidated Statements of Cash Flows

Years ended March 31, 2012 and 2011 IHI Corporation and Consolidated Subsidiaries

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Financing Activities:** | | | |
| Net decrease in short-term loans | ¥ (28,361) | ¥ (18,266) | $ (345,066) |
| Proceeds from issuance of long-term loans | 51,280 | 35,912 | 623,920 |
| Repayment of long-term loans | (53,263) | (40,187) | (648,047) |
| Proceeds from issuance of debentures | 10,000 | 23,000 | 121,669 |
| Expenditures for redemption of debentures | (10,000) | (20,500) | (121,669) |
| Repayments of lease obligations | (2,838) | (2,685) | (34,530) |
| Proceeds from stock issuance to minority shareholders | — | 154 | — |
| Increase in treasury stock | (484) | (5) | (5,889) |
| Cash dividends paid | (4,377) | (2,910) | (53,255) |
| Dividends paid to minority interests | (499) | (527) | (6,071) |
| Others | — | 107 | — |
| **Net cash used in financing activities** | (38,542) | (25,907) | (468,938) |
| **Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents** | (1,279) | (2,025) | (15,562) |
| **Net decrease in Cash and Cash Equivalents** | (52,800) | (10,165) | (642,414) |
| **Cash and Cash Equivalents, Beginning of Year** | 115,025 | 124,870 | 1,399,501 |
| **Increase in Cash and Cash Equivalents due to Newly Consolidated Subsidiaries** | 1,273 | 129 | 15,489 |
| **Increase in Cash and Cash Equivalents from Merger of Nonconsolidated Subsidiary** | — | 191 | — |
| **Cash and Cash Equivalents, End of Year** | ¥ 63,498 | ¥115,025 | $ 772,576 |

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Notes:
(i) A reconciliation of cash and cash equivalents to the amounts shown in the consolidated balance sheets is as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Cash and Cash Equivalents, End of Year** | | | |
| Cash and time deposits | ¥63,914 | ¥116,422 | $777,637 |
| Time deposits due in more than three months | (282) | (1,279) | (3,431) |
| Collateral deposits | (139) | (123) | (1,691) |
| Investment trust included in marketable securities | 5 | 5 | 61 |
| **Cash and Cash Equivalents** | ¥63,498 | ¥115,025 | $772,576 |

(ii) Summary of assets and liabilities excluded from consolidation because of sales of stock in subsidiaries during the year ended March 31, 2012 and 2011, is as follows:

Fiscal year ended March 31, 2012
Not applicable.

Fiscal year ended March 31, 2011

| IHI Finance Support Corporation, as of June, 30, 2010: | Millions of yen |
|---|---|
| | 2011 |
| Current assets | ¥79,446 |
| Fixed assets | 204 |
| Total assets | 79,650 |
| Current liabilities | 66,738 |
| Long-term liabilities | 11,866 |
| Total liabilities | ¥78,604 |

# Notes to the Consolidated Financial Statements

## 1. Basis of financial statements

The accompanying consolidated financial statements of IHI Corporation (the "Company") and consolidated subsidiaries (together the "Companies") have been prepared from the financial statements filed with the Prime Minister as required by the Japanese Financial Instruments and Exchange Law in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. Certain reclassifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan. The U.S. dollar amounts are included solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of U.S. $1=¥82.19, the rate of exchange prevailing on March 31, 2012. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate.

## 2. Significant accounting policies

### (1) Scope of consolidation

The consolidated financial statements for the years ended March 31, 2012 and 2011 include the accounts of the Company and 99 and 95 subsidiaries, respectively. For the years ended March 31, 2012 and 2011, 43 and 42 subsidiaries, respectively, were excluded from the scope of the consolidation. The exclusion of these subsidiaries has not had a material effect on the consolidated financial statements.

### (2) Special purpose companies ("SPCs") subject to disclosure

The outline of SPCs subject to disclosure and summary of transactions using such companies and the amounts of transaction with such companies are disclosed in Note 24. "Special purpose companies subject to disclosure."

### (3) Application of the equity method of accounting

The consolidated financial statements for the years ended March 31, 2012 and 2011, included 16 and 17 affiliates, respectively, in the scope of the application of the equity method of accounting. For the years ended March 31, 2012 and 2011, investments in 43 and 42 unconsolidated subsidiaries, respectively, and 27 and 29 affiliates, respectively, for the two years were stated at cost because they did not have a material effect on the consolidated financial statements.

### (4) Consolidated subsidiaries having different fiscal year-ends

Several overseas subsidiaries close their books of account on December 31. The total number of those subsidiaries included in the consolidated financial statements for the years ended March 31, 2012 and 2011 were 49 and 46, respectively.

But no particular financial reports are prepared for consolidation to match the parent company's fiscal year. However, certain adjustments are made for the significant transactions that occurred from their fiscal year ends to March 31.

### (5) Securities

Held-to-maturity securities are either amortized or accumulated to face value by the straight-line method.

Other securities with market prices available are carried at market value as of the balance sheet date, with the cost of sales computed by the moving-average method. The difference between the acquisition cost and the carrying value of other securities, including unrealized gains and losses, is recognized as a component of the net assets under "Unrealized holding gains or losses on other securities."

Other securities without market prices available are stated at cost as determined by the moving-average method.

### (6) Derivatives and hedge accounting

The Companies do not hold derivative financial instruments for trading purposes. Derivative financial instruments held by the Companies are composed principally of foreign exchange contracts to hedge currency risk, interest rate swaps to hedge interest rate risk and commodity swaps to hedge risk of material price fluctuation.

Japanese GAAP provides for two general accounting methods for hedging financial instruments. One method is to recognize the changes in fair value of a hedging instrument in earnings in the period of the change as a gain or loss together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The other method is to defer the gain or loss over the period of the hedging contract together with the offsetting loss or gain deferral of the hedged items. The Companies have adopted the latter accounting method, if applicable.

With respect to forward foreign exchange contracts, however, the Companies recognize changes in fair value of a hedging instrument in earnings in the period of the change as a gain or loss together with the offsetting loss or gain on the hedged item attributable to the risk being hedged.

The amounts of interest income or expense under the swap agreements are accrued and recognized as interest related to the assets and liabilities over the contract period.

The Companies use the above-defined method consistently throughout the hedge period, to assess at inception of the hedge and on an ongoing basis whether the ineffective part of the hedge is expected.

### (7) Inventories

Finished goods and work in process are stated principally at identified cost, and raw materials and supplies are stated at cost being determined by the moving-average method. (For amounts shown on balance sheet, the book value write-down method based on decreased profitability is used.)

### (8) Property, plant and equipment and intangible assets

Depreciation of plant and equipment is principally computed by the declining-balance method.

However, depreciation of lend-lease property, certain assets of consolidated subsidiaries and buildings (excluding building fixtures) acquired after April 1, 1998, are computed by the straight-line method.

Amortization of intangible assets is computed by the straight-line method. Software for internal use is amortized using the straight-line method over a useful life of five years.

### (9) Leases

Lease assets related to finance lease transactions that do not transfer ownership are depreciated over the lease period using the straight-line method with no residual value. The Companies use the operating lease accounting method for finance lease transactions that do not transfer ownership contracted on and before March 31, 2008.

Lease assets related to finance lease transactions that transfer ownership are depreciated using the declining-balance method which is the same method as owned property, plant and equipment and intangible assets are depreciated.

### (10) Allowance for doubtful receivables

The allowance for doubtful receivables is provided based on historical default rates for general receivables, plus individually estimated uncollectible amounts for specific receivables such as doubtful receivables.

### (11) Allowance for employees' bonuses

For payment of employees' bonuses, the allowance for employees' bonuses is provided for in the amount that is expected to be paid.

### (12) Allowance for directors' bonuses

For payment of directors' bonuses and bonuses to directors of consolidated subsidiaries in Japan, an allowance is provided for in the amount that is expected to be paid.

### (13) Reserve for guaranteed contracts

To provide for guaranteed project expenses, the reserve for guaranteed contract is recorded as an estimate of future expenditures based on historical experience.

### (14) Reserve for losses on sales contracts

Among sales orders on hand at the balance sheet date, for projects in which the estimated cost is expected to exceed the amount of the sales order by a wide margin, the reserve for losses on sales contracts is recognized at the estimated aggregate amount of such losses.

### (15) Provision for losses on disaster

To provide for expenses for the disposal of assets damaged by disaster and expenses for related recovery work, the reserve for losses on disaster is recorded in the estimated aggregate amount of such expenses.

### (16) Allowance for employees' retirement benefits

An allowance for employees' retirement benefits is provided for based on the projected retirement benefit obligation and the pension fund assets.

Actuarial losses (gains) are amortized (accumulated) from the following year using the straight-line method over a certain number of years within the average remaining work period of employees.

Past service costs are amortized using the straight-line method over a certain number of years within the average remaining work period of employees.

### (17) Reserve for directors' retirement allowance

Consolidated subsidiaries in Japan provide for the retirement allowance for directors and corporate auditors in an amount determined by those companies' internal guidelines.

### (18) Provision for losses on businesses of subsidiaries and affiliates

To provide for losses related to the businesses of subsidiaries and affiliates, the reserve for losses on businesses of subsidiaries and affiliates is recorded in the amount of estimated losses to be borne by the Company by taking into consideration the contents of assets of subsidiaries and affiliates.

### (19) Foreign exchange translations

The assets and liabilities of overseas subsidiaries are translated into Japanese yen at the exchange rates prevailing at the balance sheet date while the income and expenses of the same are translated at the average exchange rates during the period. Translation differences are included in components of foreign exchange translation adjustments and minority interests in consolidated subsidiaries under net assets.

### (20) Revenue recognition

Basis of recording revenues and costs of construction contracts:

Construction projects whose outcome of the progress by the end of the fiscal year deemed definite are recorded on the percentage-of-completion method (the percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost).

All other projects are accounted for on the completed construction method.

### (21) Amortization of goodwill

Goodwill including negative goodwill is amortized through the estimated effective period of the investment, with the exception that when the amount of goodwill is immaterial, it is charged or credited to income as incurred.

### (22) Scope of cash on the consolidated statements of cash flows

Cash (cash and cash equivalents) in the consolidated statements of cash flows consists of cash on hands, at-call deposits with banks, and short-term investments having maturities within three months from acquisition which are readily convertible to cash and involve only an insignificant risk in their value.

### (23) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

### (24) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws, announced by the year-end.

### (25) Reclassifications

Certain prior-year amounts have been reclassified to conform to the presentation of the consolidated financial statements for the year ended March 31, 2012.

## 3. Additional information

### (1) Application of the "Accounting Standard for Accounting Changes and Error Corrections"

"Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24 issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24 issued on December 4, 2009) are applied to accounting changes and past error corrections which are made beginning in the fiscal year.

### (2) Sale of property owned by the Company

There is no material change as of the end of the year ended March 31, 2012 in the information about the sale of property owned by the Company based on the resolution at a meeting of the Board of Directors held on May 23, 2011, which was stated in the section of significant subsequent events in the year ended March 31,2011.

The summary is as follows:

(i) Name and location of assets to be sold:
A portion of land at 1-54, Toyosu 3-chome, Koto-ku, Tokyo (Approx. 10,879 sq. meters)
(ii) Book value:
Approx. ¥600 million
(iii) Planned sales price:
Approx. ¥14,100 million
(iv) Purchaser:
Mitsubishi Estate Co., Ltd. or an SPC established by Mitsubishi Estate Co., Ltd.
(v) Time of conclusion of sales contract:
In the first half of fiscal year 2012 (planned)
(vi) Time for the transfer of equity:
In the first half of fiscal year 2012 (planned)

However, the subjective land and its sales price may be changed before the conclusion of the sales contract.

### (3) Management integration of IHI Marine United Inc. and Universal Shipbuilding Corporation

On January 30, 2012, a Memorandum of Understanding ("MOU") was concluded among the Company, IHI Marine United Inc. ("IHI Marine United"), JFE Holdings, Inc. ("JFE Holdings"), Universal Shipbuilding Corporation ("Universal Shipbuilding") and Hitachi Zosen Corporation ("Hitachi Zosen"), which is a shareholder of Universal Shipbuilding, regarding management integration of IHI Marine United, a consolidated subsidiary of the Company, and Universal Shipbuilding, a group company of JFE Holdings (the "Management Integration").

1. Purpose of the Management Integration

Amid a difficult business environment resulting from a worldwide supply-demand imbalance caused by the remarkable expansion of the scale of shipbuilding in China and by the sharp decline in new shipbuilding demand, and from the yen appreciation to US$1 = ¥70, MOU has been concluded among the five companies to carry out the Management Integration in order to survive in the fierce competition with overseas shipyards, particularly in South Korea and China, and ensure the continuation of the shipbuilding industry in Japan.

By enhancing development capabilities by gathering the respective design capabilities of IHI Marine United and Universal Shipbuilding and pursuing an optimized production system that takes maximum advantage of shipyard characteristics, the new company founded by the Management Integration (the "Integrated New Company") aims to achieve both of competitiveness and profitability in areas such as the shipbuilding industry, particularly new shipbuilding, and engineering and lifecycle industry, and realize strategies for further growth as an established industry leader with cross-industry capabilities.

The Integrated New Company is expected to realize synergistic effects by enhancing the product lineup through merging the two company's vessel types, boosting productivity by consolidating vessel types at every shipyard, speeding up new product development by gathering energy-saving and environmentally friendly technologies, enhancing response capabilities for lot orders by expanding the scale of production, improving buying power for materials procurement, and achieving greater efficiency by integrating management departments.

By realizing the maximum potential of these synergistic effects, the Integrated New Company aims to establish a firm business base, high competition and further enhance its capacity to respond to customer needs. Moreover, it shall work to achieve business continuity and to growth amid fierce global competition by meeting the demand for energy-saving and environmentally friendly vessels, which is continually rising as a result of the soaring price of global bunker oil and the introduction of environmental regulations by the International Maritime Organization, as well as the demand for LNG-related vessels and offshore facilities, etc.

# Notes to the Consolidated Financial Statements

2. Consolidated subsidiary and partner company in Management Integration (as of March 31, 2011)

A. Consolidated subsidiary

| | | |
|---|---|---|
| (1) | Company name | IHI Marine United Inc. |
| (2) | Location | 22-23, Kaigan 3-chome, Minato-ku, Tokyo |
| (3) | Representative | Shigemi Kurahara, President & Chief Executive Officer |

B. Partner company in Management Integration

| | | | |
|---|---|---|---|
| (1) | Company Name | Universal Shipbuilding Corporation | |
| (2) | Location | 1310, Omiya-cho, Saiwai-ku, Kawasaki, Kanagawa | |
| (3) | Representative | Shinjiro Mishima, President and Chief Executive Officer | |
| (4) | Business Description | • Design, manufacture, sale and repair of vessels<br>• Design, manufacture, sale and repair of steel structures such as floating oil storage facilities and mega floats, etc.<br>• Design, manufacture, sale and repair of maritime machinery, industrial robots and defense equipment.<br>• Design, supervision and contracting of civil engineering and construction projects.<br>• Sale of technology of any of the above items.<br>• All business relating to or peripheral to any of the above items. | |
| (5) | Capital | ¥25,000 million | |
| (6) | Year of establishment | October 1, 2002 | |
| (7) | Total number of the issued shares | 750 shares | |
| (8) | Fiscal year end | March 31 | |
| (9) | The number of employees | 3,659 persons (Consolidated) | |
| (10) | Major clients | Ministry of Defense, Nippon Yusen Kabushiki Kaisha,<br>Mitsui O.S.K. Lines, Ltd. Kawasaki Kisen Kaisha, Ltd., etc. | |
| (11) | Major banks | Development Bank of Japan Inc. | |
| (12) | Major shareholders and ratioof shareholding | JFE Holdings, Inc. 84.93%<br>Hitachi Zosen Corporation 15.07% | |
| (13) | Relationship, etc., betweenthe two companies | Capital ties (As of September 30, 2011) | None |
| | | Personal ties | None |
| | | Trade relations | None |
| | | Relevant status with related parties | None |

C. Financial results of past three years of partner company of Management Integration

Millions of yen

| | 2011 | 2010 | 2009 |
|---|---|---|---|
| Net Assets | ¥ 66,941 | ¥ 56,058 | ¥ 40,555 |
| Total Assets | 175,189 | 175,847 | 230,481 |
| Net Assets per Share of Common Stock (Yen/USD) | 89,255,082 | 74,744,548 | 54,073,455 |
| Net Sales | 205,521 | 283,136 | 181,413 |
| Operating Income (Loss) | 20,200 | 24,291 | (11,788) |
| Ordinary Income (Loss) | 20,116 | 24,849 | (11,482) |
| Net Income (Loss) | 11,178 | 14,816 | (6,887) |
| Net Income (Loss) per Share (Yen/USD) | 14,905,166 | 19,754,720 | (9,182,797) |
| Dividends per Share (Yen/USD) | — | — | — |

3. Method of the Management Integration and conditions including ratio of shareholding in connection with the Management Integration

1) Schedule of the Management Integration

| | |
|---|---|
| Date of Board of Directors meeting to approve basic agreement for business integration | January 30, 2012 |
| Execution of basic agreement for business integration | January 30, 2012 |
| Execution of final agreement | By August 31, 2012 (planned) |
| General meetings of shareholders of the companies involved in the Management Integration | By September 30, 2012 (planned) |
| Effective date of the Management Integration | October 1, 2012 (planned) |

2) Method of the Management Integration

Management integration through merger whereby Universal Shipbuilding will become the surviving company

3) Conditions including ratio of shareholding in connection with the Management Integration

IHI Marine United and Universal Shipbuilding shall carry out the Management Integration on an equal footing. However, conditions including the ratio of shareholding in connection with the Management Integration will be decided by executing the final agreement.

4. Status of the Integrated New Company created by the Management Integration

1) Trade name of the Integrated New Company

Japan Marine United Corporation

2) Location of head office, capital and fiscal year end

These details are not yet decided, and will be determined by the date of execution of final agreement on the Management Integration, upon consultation among the related parties.

3) Chairman and President of the Integrated New Company

Chairman: Shigemi Kurahara (present President & Chief Executive Officer of IHI Marine United)

President: Shinjiro Mishima (present President and Chief Executive Officer of Universal Shipbuilding)

4) Major shareholders and ratio of shareholding

The following shareholders and shareholding ratios are expected. As each figure is rounded off to two decimal places, the total figure exceeds 100%.

| | |
|---|---|
| IHI | 45.93% |
| JFE Holdings | 45.93% |
| Hitachi Zosen | 8.15% |

5) Places of business and plants

Places of business and plants of the Integrated New Company shall be all the places of business and plants held by IHI Marine United and Universal Shipbuilding.

6) Employees

The Integrated New Company shall succeed all the employees of IHI Marine United and Universal Shipbuilding as of the effective date of the Management Integration.

The Management Integration is conditional on permission from the competent authorities and the approval of the respective general meetings of shareholders of both companies.

### (4) Accounting of notes with maturity date at the end of the fiscal year

Accounting of notes with maturity date at the end of the fiscal year is settled on the date of bank clearing, because the last day of the year ended March 31, 2012 was a bank holiday, ¥1,504 million ($18,299 thousand) notes receivables - trade and ¥2,763 million ($33,617 thousand) notes payables that matured at the end of the fiscal year are included in the balance at the end of the fiscal year.

## 4. Assets pledged as collateral

The following assets were pledged as collateral at March 31, 2012 and 2011:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Cash and time deposits | ¥ 144 | ¥ 123 | $ 1,752 |
| Notes and accounts receivables - trade | 96 | 88 | 1,168 |
| Raw materials and supplies | 5 | 5 | 61 |
| Other current assets | 2,744 | 3,251 | 33,386 |
| Buildings and structures | 2,784 | 5,161 | 33,873 |
| Machinery, equipment and vehicles | 323 | 402 | 3,930 |
| Land | 11,055 | 26,822 | 134,505 |
| Other property, plant and equipment | 20 | 18 | 243 |
| Other investments | 6 | 10 | 73 |
| Total | ¥17,177 | ¥35,880 | $ 208,991 |
| Property, plant and equipment pledged as factory foundation mortgage included in the above assets: | | | |
| Buildings and structures | ¥ 284 | ¥ 1,494 | $ 3,456 |
| Machinery, equipment and vehicles | 115 | 151 | 1,399 |
| Land | 2,613 | 5,979 | 31,792 |
| Other property, plant and equipment | 20 | 18 | 243 |
| Total | ¥ 3,032 | ¥ 7,642 | $ 36,890 |

The obligations collateralized by the above assets at March 31, 2012 and 2011, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Short-term loans | ¥ 5,586 | ¥ 7,548 | $ 67,964 |
| Other current liabilities | 504 | 689 | 6,132 |
| Long-term loans | 3,257 | 5,058 | 39,628 |
| Other long-term liabilities | 4,200 | 4,704 | 51,101 |
| Total | ¥13,547 | ¥17,999 | $164,825 |
| Factory foundation mortgage included in the above liabilities: | | | |
| Short-term loans | ¥ 2,475 | ¥ 3,935 | $ 30,113 |
| Long-term loans | — | 500 | — |
| Total | ¥ 2,475 | ¥ 4,435 | $ 30,113 |

## 5. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates at March 31, 2012 and 2011, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Investment securities | ¥ 9,338 | ¥10,292 | $ 113,615 |
| Other investments | 2,561 | 3,790 | 31,159 |
| Total | ¥11,899 | ¥14,082 | $ 144,774 |

## 6. Contingent liabilities

Contingent liabilities for notes receivable - trade discounted in the ordinary course of business amounted to ¥2,018 million ($24,553 thousand) and ¥1,317 million at March 31, 2012 and 2011, respectively.

Contingent liabilities for notes receivable - trade endorsed in the ordinary course of business amounted to ¥0 million ($0 thousand) and ¥158 million at March 31, 2012 and 2011, respectively.

Contingent liabilities for guarantees for debts of unconsolidated subsidiaries and others amounted to ¥13,633 million ($165,872 thousand) and ¥8,439 million at March 31, 2012 and 2011, respectively.

Contingent liabilities arising from guarantees in kind for debts amounted to ¥13,013 million ($158,328 thousand) and ¥14,465 million at March 31, 2012 and 2011, respectively, of which ¥11,837 million ($144,020 thousand) and ¥13,111 million at March 31, 2012 and 2011, respectively, were for employee housing loans which were secured by life insurance and loan insurance, and therefore, the Companies were at low risk. The amount of joint guarantees and guarantees in kind for debts at March 31, 2012 and 2011 represented the amounts the Companies are liable for, in case the Companies' liabilities are specifically stated and clarified in contract.

## 7. Revaluation of land

In accordance with the "Law Concerning Revaluation of Land" enacted on March 31, 1998, lands used for business owned by two of the consolidated subsidiaries have been revalued.

The Companies recorded the effect of the revaluation, after deducting deferred tax liabilities on land which were recorded as long-term liabilities, and minority interests which were included in minority interests in consolidated subsidiaries.

The difference between the fair value of land at the end of the year that was revalued in the previous year and book value after revaluation was ¥5,100 million ($62,051 thousand) and ¥4,786 million at March 31, 2012 and 2011, respectively.

## 8. Reserve for losses on sales contracts

Provision of reserve for losses on sales contracts, amounting to ¥29,189 million ($355,141 thousand) and ¥21,970 million, are included in cost of sales for the year ended March 31, 2012 and 2011, respectively.

Inventories related to sales contracts for construction for which losses are expected and relevant reserve for losses on sales contracts are presented separately without netting. Of inventories related to sales contracts for construction for which losses are expected, the amounts corresponding to the reserve for losses on sales contracts are ¥5,452 million ($66,334 thousand) comprising of ¥5,032 million ($61,224 thousand) of work in process and ¥420 million ($5,110 thousand) of finished goods, and ¥5,866 million comprising of ¥5,494 million of work in process and ¥372 million of finished goods on March 31, 2012 and 2011, respectively.

## 9. Accumulated depreciation of property, plant and equipment

Accumulated depreciation of property, plant and equipment amounted to ¥533,947 million ($6,496,496 thousand) and ¥521,492 million on March 31, 2012 and 2011, respectively.

## 10. Cost of sales and selling, general and administrative expenses

Cost of sales and selling, general and administrative expenses consists of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| **Year ended March 31** | **2012** | **2011** | **2012** |
| Cost of sales (Notes: i) | ¥1,025,884 | ¥976,846 | $12,481,859 |
| Selling, general and administrative expenses: | | | |
| Expenses in taking orders received | ¥ 15,191 | ¥ 15,649 | $ 184,828 |
| Provision of allowance for doubtful accounts | (1,766) | 215 | (21,487) |
| Salaries for directors and employees (Notes: ii) | 58,418 | 56,072 | 710,768 |
| Traveling and transportation expenses | 5,728 | 5,345 | 69,692 |
| Research and development expenses (Notes: iii) | 27,239 | 24,643 | 331,415 |
| Business consignment expenses | 6,485 | 6,046 | 78,902 |
| Contribution for expenses common to all business segments | 4,093 | 4,050 | 49,799 |
| Depreciation | 4,708 | 4,781 | 57,282 |
| Other | 32,556 | 32,255 | 396,107 |
| Total of selling, general and administrative expenses | ¥ 152,652 | ¥149,056 | $ 1,857,306 |

Notes:

i. The amount of inventories as of March 31, 2012 and 2011 are the value after a write-down based on decreased profitability of assets. The losses on valuation of inventories which is included in cost of sales are ¥1,066 million ($12,970 thousand) and ¥1,859 million for the years ended March 31, 2012 and 2011, respectively.

ii. Salaries for directors and employees include ¥9,200 million ($111,936 thousand) and ¥9,000 million of allowance for employees' bonuses and ¥5,600 million ($68,135 thousand) and ¥5,400 million of allowance for employees' retirement benefits for years ended March 31, 2012 and 2011, respectively.
iii. Research and development expenses, included in product cost, and selling, general and administrative expenses, are ¥30,053 million ($365,653 thousand) and ¥29,260 million for the years ended March 31, 2012 and 2011, respectively.

## 11. Other income (expenses) —other, net

Other income (expenses)—other, net, consists of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| **Year ended March 31** | **2012** | **2011** | **2012** |
| Equity income of affiliates | ¥ 614 | ¥ 389 | $ 7,471 |
| Gain on negative goodwill | 1,416 | — | 17,228 |
| Gains (losses) on foreign exchange | 55 | (4,285) | 669 |
| Distribution from anonymous association (Notes: ii) | — | 19,842 | — |
| Gain on sales of subsidiary and affiliates stocks (Notes: iii) | 1,103 | 898 | 13,420 |
| Gains on sales of property, plant, land and equipment (Notes: iv) | 3,468 | — | 42,195 |
| Gains on sales of investment securities (Notes: iii) | 14,104 | — | 171,602 |
| Charge of research and development expenses to third parties | 2,295 | — | 27,923 |
| Insurance received due from disaster (Notes: v) | 2,000 | — | 24,334 |
| Losses on disaster (Notes: vi) | — | (10,590) | — |
| Losses on a project taken over from the consortium partner to be liquidated (Notes: vii) | — | (9,270) | — |
| Provision for losses on business of subsidiaries and affiliates | (1,288) | (2,180) | (15,671) |
| Losses on impairment of fixed assets | (2,182) | (1,782) | (26,548) |
| Losses on business restructuring | — | (395) | — |
| Losses on adjustment for implementation of accounting standard for asset retirement obligations | — | (295) | — |
| Losses on valuation of investment securities | (1,864) | (247) | (22,679) |
| Cost of environment conservation measures | (4,157) | — | (50,578) |
| Other, net (Notes: i) | (2,720) | (3,994) | (33,094) |
| Total | ¥12,844 | ¥(11,909) | $156,272 |

Notes:

i. "Expenses for delayed delivery," which had been separately presented from other expense until the year ended March 31,2011, amounted to 10% or less of total other expense, and is therefore included in "Other, net" for the year ended March 31, 2012. "Expenses for delayed delivery," included in "Other, net" from other expense totaled ¥2,874 million for the year ended March 31, 2011.
ii. The Company recognized ¥19,842 million of distribution from anonymous association for the year ended March 31, 2011. This distribution was paid by a special purpose company (SPC) in which the Company is the investor under the anonymous association contract. The source of distribution came from buying back the trust beneficiary rights of the Toyosu Center Building (located at Koto-ku, Tokyo), which had been sold to the SPC by securitization by the Company on March 16, 2004, the SPC sold the trust beneficiary rights to the Company.
iii. Gains on sales of investment securities and gains on sale of subsidiary and affiliates stocks for the year ended March 31, 2012 mainly relate to sales of shares, owned by the Company, of Tachihi Enterprise Co., Ltd, New Tachikawa Aircraft Co., Ltd. and Tachihi Kaihatsu Co., Ltd., an equity-method affiliate of the Company. Gains on sale of subsidiary stock for the year ended March 31, 2011 mainly relate to partial transfer of shares of IHI Finance Support Corporation
iv. Gains on sales of property, plant, land and equipment mainly relates to sales of land.
v. Insurance received due from disaster were through application of earthquake insurance in connection with the Great East Japan Earthquake.
vi. Losses on disaster amounting to ¥10,590 million indicate the losses caused by the Great East Japan Earthquake which occurred on March 11, 2011. The components are as follows:

| | |
|---|---|
| (1) Loss on damage and repair expenses of inventories: | ¥ 6,304 million |
| (2) Loss on damage and repair expenses of property, plant and equipment: | ¥ 2,929 million |
| (3) Other: | ¥ 1,357 million |
| Total: | ¥10,590 million |

vii. In association with the construction work of boilers for power generation in Germany, the consortium partner, which was in charge of local procurement and construction work, collapsed in the year ended March 31, 2011 and it was decided that the Company would assume the duties of the construction work of said partner based on the contract with the customer. The Company recognized the possibility loss of ¥9,270 million as a result of a close examination of assets, liabilities and various contracts to be succeeded by the Company.

## 12. Losses on impairment of fixed assets

### (a) Groups of assets for which the Companies recognized impairment losses for the year ended March 31, 2012 and 2011 are as follows:

**2012**

| Use | Location | Type of assets | Method to calculate | Millions of yen | Thousands of U.S. dollars |
|---|---|---|---|---|---|
| Assets for business | Yokohama-city, Kanagawa | Land and Building etc. | Value in use | ¥704 | $8,566 |
| Others | Nukata-gun, Aichi | Goodwill | Revalued enterprise value | 498 | 6,059 |
| Idle assets | Kagoshima-city, Kagoshima | Land and Building etc. | Net sales value | 485 | 5,901 |
| Assets for Rent | Kagoshima-city, Kagoshima | Land and Building etc. | Net sales value | 232 | 2,823 |
| Assets for Rent | Hiroshima-city, Hiroshima | Land and Building etc. | Net sales value | 173 | 2,105 |
| Others | Aioi-city, Hyogo etc. | Land and Building etc. | Net sales value and Value in use | 90 | 1,095 |

**2011**

| Use | Location | Type of assets | Method to calculate | Millions of yen |
|---|---|---|---|---|
| Idle assets | Kagoshima-city, Kagoshima | Land and Building etc. | Net sales value | ¥1,404 |
| Assets for business | Sakura-city, Tochigi | Land | Net sales value | 271 |
| Assets for business | Futaba-gun, Fukushima | Land | Net sales value | 102 |
| Idle assets | Chitose-city, Hokkaido | Land | Net sales value | 5 |

### (b) Method for grouping the assets

Assets are grouped principally by each business, and each renting or idle asset is treated as one group respectively.

### (c) Reasons why impairment losses were recognized

Due to deterioration in profitability or significant decrease in market prices, the book value of certain assets has been reduced to recoverable amount. For goodwill, the book value has been reduced to recoverable amount since income originally envisaged in the business plan that was formulated when the shares were acquired can no longer be expected.

### (d) Method for calculating the recoverable amounts

The recoverable amounts are the higher of its net sales value and its value in use (discount rate is mainly 5.0%). For goodwill, the recoverable amount is measured by revalued Enterprise value.

### (e) Impairment losses

The amounts of impairment losses for the year ended March 31, 2012 and 2011 are ¥2,182 million ($26,548 thousand) and ¥1,782 million, respectively and consisted of the following.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Land | ¥ 719 | ¥ 1,511 | $ 8,748 |
| Buildings etc. | 965 | 271 | 11,741 |
| Goodwill | 498 | — | 6,059 |
| Total | ¥ 2,182 | ¥ 1,782 | $ 26,548 |

## 13. Leases

### (a) Finance leases (Lessee)

Finance leases which transfer ownership

These leases are mainly plants and equipments of nuclear power plants' components (machinery, equipment and vehicles) for Energy & resources Operations.

Leases are depreciated using the declining-balance method which is the same method as owned property, plant and equipment and intangible assets are depreciated.

### (b) Finance leases (Lessee)

Finance leases which do not transfer ownership

These leases are mainly plants and equipments (machinery, equipment and vehicles) for Shipbuilding Operations.

Leases are depreciated over the lease period using the straight-line method with no residual value.

The Companies use the operating lease accounting method for the finance leases which do not transfer ownership contracted on and before March 31, 2008.

The following proforma amounts represent the acquisition costs, accumulated depreciation, accumulated impairment loss and net book value of the leased property as of March 31, 2012 and 2011, which would have been reflected in the balance sheets, if the finance lease accounting method had been applied to the finance leases currently accounted for by the operating lease accounting method.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Acquisition costs: | | | |
| Buildings and structures | ¥ 2,023 | ¥ 2,065 | $ 24,614 |
| Machinery, equipment and vehicles | 10,912 | 12,160 | 132,765 |
| Software | 411 | 600 | 5,001 |
| Other (Tools, furniture, fixture and other) | 1,286 | 2,796 | 15,647 |
| Total | ¥14,632 | ¥17,621 | $ 178,027 |
| Accumulated depreciation: | | | |
| Buildings and structures | ¥ 657 | ¥ 593 | $ 7,994 |
| Machinery, equipment and vehicles | 7,934 | 8,564 | 96,532 |
| Software | 341 | 467 | 4,149 |
| Other (Tools, furniture, fixture and other) | 1,112 | 2,371 | 13,530 |
| Total | ¥10,044 | ¥11,995 | $ 122,205 |
| Accumulated impairment loss: | | | |
| Buildings and structures | ¥ — | ¥ — | $ — |
| Machinery, equipment and vehicles | — | 2 | — |
| Software | — | 3 | — |
| Other (Tools, furniture, fixture and other) | — | 3 | — |
| Total | ¥ — | ¥8 | $ — |
| Net book value: | | | |
| Buildings and structures | ¥ 1,366 | ¥ 1,472 | $ 16,620 |
| Machinery, equipment and vehicles | 2,978 | 3,594 | 36,233 |
| Software | 70 | 130 | 852 |
| Other (Tools, furniture, fixture and other) | 174 | 422 | 2,117 |
| Total | ¥ 4,588 | ¥ 5,618 | $ 55,822 |

Concerning the above finance lease transactions, the lease payments, reversal of allowance for impairment losses on leased property, estimated depreciation cost which is mainly calculated as ten-ninths of the amount computed by the declining-balance method over the respective lease terms and assuming a 10% scrap value, estimated interest expenses and losses on impairment of leased property for the years ended March 31, 2012 and 2011, are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Lease payments | ¥2,353 | ¥2,709 | $28,629 |
| Reversal of allowance for impairment losses on leased property | 1 | 2 | 12 |
| Estimated depreciation cost | 1,461 | 1,764 | 17,776 |
| Estimated interest expense | 492 | 500 | 5,986 |

The total estimated interest expense is calculated as the amount of total lease payments less estimated acquisition costs. Allocation of the estimated interest expense to each accounting period is based on the interest method.

Future minimum lease payments subsequent to March 31, 2012 and 2011, for finance leases accounted for as operating leases are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Within one year | ¥ 1,964 | ¥ 2,004 | $23,896 |
| Over one year | 5,257 | 7,264 | 63,961 |
| Total | ¥ 7,221 | ¥ 9,268 | $87,857 |
| Lease assets of impairment losses outstandings | ¥ — | ¥ 1 | $ — |

### (c) Operating leases (Lessee)

Future minimum lease payments subsequent to March 31, 2012 and 2011, for non-cancelable operating leases are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Within one year | ¥ 4,199 | ¥ 4,150 | $ 51,089 |
| Over one year | 17,595 | 21,407 | 214,077 |
| Total | ¥21,794 | ¥25,557 | $ 265,166 |

### (d) Finance leases (Lessor)

Finance leases which do not transfer ownership (Lessor)

The Companies use the operating lease accounting method for the finance leases which do not transfer ownership contracted on and before March 31, 2008.

The following proforma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as of March 31, 2012 and 2011, which would have been reflected in the balance sheets, if the finance lease accounting method had been applied to those finance leases currently accounted for by the operating lease accounting method.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Acquisition costs: | | | |
| Buildings and structures | ¥ 2,109 | ¥ 2,109 | $25,660 |
| Machinery, equipment and vehicles | 1,048 | 1,238 | 12,751 |
| Other (Tools, furniture, fixture and other) | 6 | 6 | 73 |
| Total | ¥ 3,163 | ¥ 3,353 | $38,484 |
| Accumulated depreciation: | | | |
| Buildings and structures | ¥ 956 | ¥ 877 | $11,632 |
| Machinery, equipment and vehicles | 739 | 848 | 8,991 |
| Other (Tools, furniture, fixture and other) | 6 | 6 | 73 |
| Total | ¥ 1,701 | ¥ 1,731 | $20,696 |
| Net book value: | | | |
| Buildings and structures | ¥ 1,153 | ¥ 1,232 | $14,028 |
| Machinery, equipment and vehicles | 309 | 390 | 3,760 |
| Other (Tools, furniture, fixture and other) | 0 | 0 | 0 |
| Total | ¥ 1,462 | ¥ 1,622 | $17,788 |

Lease income, depreciation and estimated interest income for the years ended March 31, 2012 and 2011, for finance lease transactions accounted for by the operating lease accounting method are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Lease income | ¥426 | ¥426 | $5,183 |
| Depreciation | 160 | 166 | 1,947 |
| Estimated interest income, assuming that the finance lease accounting had been adopted | 227 | 244 | 2,762 |

The total estimated interest income is calculated as the gross amount of total lease payments and estimated residual value less purchase prices. Allocation of the estimated interest income to each accounting period is based on the interest method.

Future minimum lease income subsequent to March 31, 2012 and 2011, for finance lease transactions accounted for by the operating lease accounting method are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Within one year | ¥ 179 | ¥ 199 | $ 2,178 |
| Over one year | 1,983 | 2,162 | 24,127 |
| Total | ¥ 2,162 | ¥ 2,361 | $26,305 |

### (e) Operating leases (Lessor)

Future minimum lease income subsequent to March 31, 2012 and 2011, for non-cancelable operating leases are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Within one year | ¥ 566 | ¥ 571 | $ 6,887 |
| Over one year | 4,106 | 4,702 | 49,957 |
| Total | ¥ 4,672 | ¥ 5,273 | $56,844 |

### (f) Transfer lease transaction

The disclosure is omitted because of its insignificance.

## 14. Financial instruments

### (a) Status of financial instruments

i. Policy on financial instruments

As a Group policy, the Companies manage funds only in short-term and highly safe financial assets such as bank deposits and finance mainly through bank borrowings and debenture issuance. Derivatives are utilized to hedge the fluctuation risks of foreign exchanges, interests and commodity prices, and the Companies do not enter into derivative contracts for speculative or trading purposes.

ii. Details of financial instruments and risks thereof

Notes and accounts receivable - trade, which are operating receivables, are exposed to the customer credit risks. Operating receivables denominated in foreign currencies related to construction in abroad or the like are exposed to the fluctuation risks of foreign exchanges, which is, in principle, hedged by derivatives using forward foreign exchange contracts and foreign currency options for the position after netting operating payables denominated in foreign currencies. Marketable securities and investment securities mainly consist of held-to-maturity securities and equity securities associated with business-ties or capital-ties with companies to maintain business relationships and are exposed to the fluctuation risks of market price.

Notes and accounts payable - trade, which are operating payables, are mostly settled within one year. Some of them are related to goods procured from overseas and denominated in foreign currencies, therefore they are exposed to the fluctuation risks of foreign exchanges. However, the amount is constantly, in general, less than the balance of notes and accounts receivable - trade denominated in the same foreign currency. Loans and debentures are made for the purpose of obtaining operating capital and funds for capital expenditures, and the redemption dates arrive within eleven years after the balance sheet date. Although some of loans are exposed to the fluctuation risks of interest rate and foreign exchanges, they are hedged by derivatives using interest rate swaps and foreign currency swaps.

Derivatives the Companies use are forward foreign exchange contracts and foreign currency options to hedge the fluctuation risks of foreign exchanges pertaining to operating receivables and payables denominated in foreign currencies, and interest rate swaps to hedge the fluctuation risks of interest rate regarding loans payable. For details of hedge accounting, refer to Derivatives to which hedge accounting is applied in “16. Derivatives” and “2. Significant accounting policies (6) Derivatives and hedge accounting”.

iii. Risk management structure regarding financial instruments

a. Management of the credit risks (risks pertaining to customer’s non-performing of contracts)

To manage the credit risks for operating receivables, pursuant to the internal regulations related to receivable management, the department of the Companies in charge of collections in each business department periodically monitors the condition of major customers, manages the collectability and balances by customer or by project ordered, and thus seeks for an early identification and mitigation of collectability concern caused by deterioration in financial status.

The credit risks for held-to-maturity securities is minor because the Companies hold only securities with high ratings.

In derivative transactions, the Companies enter into contracts only with financial institutions with high ratings to reduce the counterparty risks.

The maximum credit risk amount as of the consolidated balance sheet date equals to the consolidated balance sheet amount of financial assets exposed to the credit risks.

b. Management of the market risks (the fluctuation risks of foreign exchanges or interest rate)

To manage the fluctuation risks of foreign exchanges for operating receivables and payables denominated in foreign currencies, the Companies hedge the fluctuation risks monthly identified by currency by utilizing forward foreign exchange contracts and foreign currency options. Hedge results are reported monthly to the executive in charge of the Finance & Accounting Division, and quarterly to the Management Meeting.

To reduce the fluctuation risks of interest rate and foreign exchanges regarding long-term loans payable, the Company and certain consolidated subsidiaries use interest rate swaps and foreign currency swaps.

As for marketable securities and investment securities, their market prices and the financial condition of issuers (companies with which the Companies do business) are periodically monitored. Also, the Companies’ holding status of those other than held-to-maturity securities are continuously reviewed by taking into account the relationships with the companies with which the Companies do business.

As for derivatives, transactions are recorded and the balance is checked up between the Companies and the contract partner. Moreover, derivative balances and valuation gains or losses as of the month-end are reported to the executive in charge of the Finance & Accounting Division on a monthly basis.

c. Management of the liquidity risks pertaining to fund procurement (risks of non-performing of payments on due dates)

The Companies manage the liquidity risks by measures of timely forming and updating the cash flow plan.

iv. Supplementary explanation to fair values of financial instruments

While the fair value of financial instruments is based on the market price, such value may be estimated reasonably if the market price is not available. Because variable factors are counted in the estimation, the estimated value may differ if a different assumption is employed. Please note that notional amounts of derivatives in the note “16. Derivatives” do not, in themselves, indicate the market risks pertaining to derivatives.

## (b) Fair values of financial instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheet and their fair values as of March 31, 2012 and 2011, respectively.

Financial instruments whose fair values are deemed to be extremely difficult to figure out are not included.

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | | 2012 | | |
| | Amount recorded in the balance sheet | Fair value | Difference | Amount recorded in the balance sheet | Fair value | Difference | Amount recorded in the balance sheet | Fair value | Difference |
| Cash and time deposits | ¥ 63,914 | ¥ 63,914 | ¥ — | ¥116,422 | ¥116,422 | ¥ — | $ 777,637 | $ 777,637 | $ — |
| Notes and accounts receivable - trade | 348,671 | | | 291,033 | | | 4,242,256 | | |
| Less allowance for doubtful receivables (Note: i) | (3,958) | | | (4,744) | | | (48,157) | | |
| | ¥344,713 | ¥344,480 | ¥ (233) | ¥286,289 | ¥285,835 | ¥ (454) | $4,194,099 | $4,191,264 | $ (2,835) |
| Marketable securities and investment securities | ¥ 36,354 | ¥ 36,354 | ¥0 | ¥49,356 | ¥ 49,361 | ¥5 | $ 442,317 | $ 442,317 | $0 |
| Held-to-maturity securities | 2,100 | 2,100 | 0 | 2,801 | 2,806 | 5 | 25,551 | 25,551 | 0 |
| Other securities | 34,254 | 34,254 | — | 46,555 | 46,555 | — | 416,766 | 416,766 | — |
| Total assets | ¥444,981 | ¥444,748 | ¥ (233) | ¥452,067 | ¥451,618 | ¥ (449) | $5,414,053 | $5,411,218 | $ (2,835) |
| Notes and accounts payable - trade | ¥293,493 | ¥293,493 | ¥ — | ¥269,445 | ¥269,445 | ¥ — | $3,570,909 | $3,570,909 | $ — |
| Short-term loans | 124,194 | 124,194 | — | 134,885 | 134,885 | — | 1,511,060 | 1,511,060 | — |
| Debentures | 63,450 | 64,776 | 1,326 | 63,565 | 65,135 | 1,570 | 771,992 | 788,125 | 16,133 |
| Long-term loans | 141,967 | 143,059 | 1,092 | 162,151 | 163,939 | 1,788 | 1,727,303 | 1,740,589 | 13,286 |
| Total liabilities | ¥623,104 | ¥625,522 | ¥ 2,418 | ¥630,046 | ¥633,404 | ¥ 3,358 | $7,581,263 | $7,610,683 | $ 29,420 |
| Derivatives (Note: ii) | | | | | | | | | |
| Derivatives to which hedge accounting is not applied | ¥ (991) | ¥ (991) | ¥ — | ¥20 | ¥ 20 | ¥ — | $ (12,057) | $ (12,057) | $ — |
| Derivatives to which hedge accounting is applied | (77) | (77) | — | (99) | (99) | — | (937) | (937) | — |
| Total derivatives | ¥ (1,068) | ¥ (1,068) | ¥ — | ¥ (79) | ¥ (79) | ¥ — | $ (12,994) | $ (12,994) | $ — |

Notes:

(i) The amount of allowance for doubtful receivables, which is recorded individually for notes and accounts receivable - trade, is excluded.

(ii) Assets and liabilities arising out from derivative transactions are stated on the net basis. The figures in parentheses indicate net liabilities.

(iii) Method of measuring fair value are as follows:

(1) Cash and time deposits

The fair values of cash and time deposits are assumed to approximate to their book value due to the short-term maturity.

(2) Notes and accounts receivable - trade

The fair values are measured based on the present values calculated by discounting receivable amounts at a rate determined based on time to maturity and credit risk.

The fair values of receivables with special concern are measured by the present values of estimated cash flows discounted at the similar discount rates.

(3) Marketable securities and investment securities

The fair values of equity securities are based on the market prices at the exchange.

The fair values of debt securities are based on the market prices at the exchange or the prices provided by the financial institutions with which the Companies do business.

For information on securities classified by holding purpose, please refer to Note "15. Marketable securities and investment securities".

(4) Notes and accounts payable - trade and Short-term loans

The fair values of these accounts are assumed to approximate to their book value due to the short-term maturity.

(5) Debentures

As for the fair value of debentures issued by the Company, marketable debentures are measured based on the market price and non-marketable debentures are measured based on the present value calculated by discounting the total amount of principles and interests at a rate determined based on time to maturity and the credit risk.

(6) Long-term loans

The fair values of long-term loans are measured by discounting the total amount of principles and interests (*1) at an assumed interest rate for similar new borrowings.

(*1) Long-term loans associated with either designated hedge accounting of forward exchange contracts, etc., or interest rate swaps that qualify for the exceptional treatment are measured depending on the conditions of cases where they are accounted for together with its derivatives.

(7) Derivatives

Refer to the note "16. Derivatives."

## (c) Unlisted stocks whose fair values are deemed to be extremely difficult to figure out amounted to ¥25,612 million ($311,619 thousand) and ¥26,054 million in the balance at March 31, 2012 and 2011, respectively.

### (d) Redemption schedules after consolidated balance sheet dates for monetary receivables and securities by maturity date

| | Millions of yen | | | | | | | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2011 | | | | 2012 | | | |
| Classification | Within 1 year | After 1 year and within 5 years | After 5 years and within 10 years | After 10 years | Within 1 year | After 1 year and within 5 years | After 5 years and within 10 years | After 10 years | Within 1 year | After 1 year and within 5 years | After 5 years and within 10 years | After 10 years |
| Cash and time deposits | ¥ 63,914 | ¥ — | ¥ — | ¥— | ¥116,422 | ¥ — | ¥ — | ¥— | $ 777,637 | $ — | $ — | $— |
| Notes and accounts receivable - trade | 343,176 | 5,081 | 414 | — | 281,816 | 8,566 | 648 | 3 | 4,175,399 | 61,820 | 5,037 | — |
| Marketable securities and investment securities | | | | | | | | | | | | |
| Held-to-maturity securities | | | | | | | | | | | | |
| Government bonds and local government bonds | 1,800 | 300 | — | — | 1,000 | 1,801 | — | — | 21,900 | 3,650 | — | — |
| Total | ¥408,890 | ¥5,381 | ¥414 | ¥— | ¥399,238 | ¥10,367 | ¥648 | ¥ 3 | $4,974,936 | $65,470 | $5,037 | $— |

### (e) The redemption schedule for long-term loans and debentures are disclosed in Note 28.

## 15. Marketable securities and investment securities

### (a) A summary of trading securities at March 31, 2012 and 2011 is as follows:

No trading securities were held at March 31, 2012 and 2011.

### (b) A summary of held-to-maturity securities with fair values at March 31, 2012 and 2011 is as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | | 2012 | | |
| | Fair value | Amount recorded in the balance sheet | Difference | Fair value | Amount recorded in the balance sheet | Difference | Fair value | Amount recorded in the balance sheet | Difference |
| Held-to-maturity securities whose fair values exceed their amounts recorded in the balance sheet | | | | | | | | | |
| National and local government bonds | ¥1,800 | ¥1,800 | ¥0 | ¥1,005 | ¥1,000 | ¥5 | $21,901 | $21,901 | $ 0 |
| Held-to-maturity securities whose fair values do not exceed their amounts recorded in the balance sheet | | | | | | | | | |
| National and local government bonds | 300 | 300 | (0) | 1,801 | 1,801 | 0 | 3,650 | 3,650 | (0) |
| Total | ¥2,100 | ¥2,100 | ¥0 | ¥2,806 | ¥2,801 | ¥5 | $25,551 | $25,551 | $0 |

### (c) A summary of other securities with stated market prices at March 31, 2012 and 2011 is as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | | 2012 | | |
| | Acquisition cost | Amount recorded in the balance sheet | Difference | Acquisition cost | Amount recorded in the balance sheet | Difference | Acquisition cost | Amount recorded in the balance sheet | Difference |
| Other securities whose amounts recorded in the balance sheet exceed their acquisition cost | | | | | | | | | |
| Equity securities | ¥12,148 | ¥25,402 | ¥13,254 | ¥13,082 | ¥37,840 | ¥24,758 | $147,804 | $309,064 | $161,260 |
| Subtotal | ¥12,148 | ¥25,402 | ¥13,254 | ¥13,082 | ¥37,840 | ¥24,758 | $147,804 | $309,064 | $161,260 |
| Other securities whose amounts recorded in the balance sheet do not exceed their acquisition cost | | | | | | | | | |
| Equity securities | ¥14,636 | ¥ 8,812 | ¥ (5,824) | ¥12,584 | ¥ 8,532 | ¥ (4,052) | $178,075 | $107,215 | $ (70,860) |
| Other | 40 | 40 | | 193 | 183 | (10) | 487 | 487 | |
| Subtotal | ¥14,676 | ¥ 8,852 | ¥ (5,824) | ¥12,777 | ¥ 8,715 | ¥ (4,062) | $178,562 | $107,702 | $ (70,860) |
| Total | ¥26,824 | ¥34,254 | ¥ 7,430 | ¥25,859 | ¥46,555 | ¥20,696 | $326,366 | $416,766 | $ 90,400 |

Note: Unlisted stocks are not included in the above table because there were no quoted market prices available and they are extremely difficult to determine the fair value. The amounts of unlisted stocks in the balance sheet are disclosed in Note 14.

### (d) A summary of held-to-maturity securities which were sold in the years ended March 31, 2012 and 2011 is as follows:

No proceeds from the sale of held-to-maturity securities were recognized in the years ended March 31, 2012 and 2011.

### (e) A summary of other securities which were sold in the years ended March 31, 2012 and 2011 is as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | | 2012 | | |
| | Selling prices | Amount of gain on sales | Amount of loss on sales | Selling prices | Amount of gain on sales | Amount of loss on sales | Selling prices | Amount of gain on sales | Amount of loss on sales |
| Other securities | ¥15,325 | ¥14,100 | — | ¥210 | ¥152 | ¥(10) | $186,458 | $171,554 | — |

Note: The sales amounts of unlisted stocks are not included.

### (f) Impairment losses of other securities

For the year ended March 31, 2011, the disclosure is omitted because of its insignificance.

In the year ended March 31, 2012, an impairment loss of ¥1,567 million ($19,066 thousand) in other securities was recorded. If market value as of the end of the fiscal year dropped by more than 50% compared to its acquisition value, all of a impairment loss is recognized and dropped around 30~50% to its acquisition value, impairment loss is recognized for the amount deemed necessary taking into account recoverability of those securities.

## 16. Derivatives

In the normal course of business, the Companies employ derivative financial instruments, including forward foreign exchange contracts, foreign currency options, interest rate swaps, foreign currency swaps and commodity swaps to manage their exposures to fluctuation risks of foreign currency exchange rates, interest rates and material prices.

The Companies do not use derivatives for speculative or trading purposes.

The fair value information of derivatives as of March 31, 2012 and 2011 are as follows:

### (a) Derivatives to which hedge accounting is not applied

(i) Foreign currency (transactions other than market transactions)

| | Millions of yen | | | | | | | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2011 | | | | 2012 | | | |
| | Notional amount | Over 1 year | Fair value | Valuation gain (loss) | Notional amount | Over 1 year | Fair value | Valuation gain (loss) | Notional amount | Over 1 year | Fair value | Valuation gain (loss) |
| Forward foreign exchange contracts | | | | | | | | | | | | |
| Sell: | | | | | | | | | | | | |
| U.S. dollar | ¥ 2,894 | ¥380 | ¥(126) | ¥(126) | ¥ 4,881 | ¥ — | ¥131 | ¥131 | $ 35,211 | $4,623 | $ (1,533) | $ (1,533) |
| Buy: | | | | | | | | | | | | |
| U.S. dollar | 1,650 | — | (10) | (10) | 2,614 | — | (9) | (9) | 20,075 | — | (122) | (122) |
| Korean won | 351 | 13 | 1 | 1 | 426 | 426 | 9 | 9 | 4,271 | 158 | 12 | 12 |
| Japanese yen | 1,484 | — | 81 | 81 | 2,507 | — | 80 | 80 | 18,056 | — | 986 | 986 |
| Foreign currency options | | | | | | | | | | | | |
| Sell: | | | | | | | | | | | | |
| Call U.S. dollar | 37,192 | — | | | 36,987 | — | | | 452,512 | — | | |
| | (—) | (—) | (752) | (752) | (—) | (—) | (41) | (41) | (—) | (—) | (9,149) | (9,149) |
| Singapore dollar | — | — | | | 2,498 | — | | | — | — | | |
| | (—) | (—) | — | — | (—) | (—) | (16) | (16) | (—) | (—) | — | — |
| Put U.S. dollar | 114 | — | | | 237 | — | | | 1,387 | — | | |
| | (—) | (—) | 1 | 1 | (—) | (—) | 1 | 1 | (—) | (—) | 12 | 12 |
| Buy: | | | | | | | | | | | | |
| Call U.S. dollar | — | — | | | 117 | — | | | — | — | | |
| | (—) | (—) | — | — | (—) | (—) | 1 | 1 | (—) | (—) | — | — |
| Put U.S. dollar | 22,391 | — | | | 23,214 | — | | | 272,430 | — | | |
| | (—) | (—) | (186) | (186) | (—) | (—) | (116) | (116) | (—) | (—) | (2,263) | (2,263) |
| Singapore dollar | — | — | | | 1,158 | — | | | — | — | | |
| | (—) | (—) | — | — | (—) | (—) | (7) | (7) | (—) | (—) | — | — |
| Total | ¥ — | ¥ — | ¥(991) | ¥(991) | ¥ — | ¥ — | ¥ 33 | ¥ 33 | $ — | $ — | $(12,057) | $(12,057) |

Notes:

i. Method of measuring fair values

(1) The fair values of forward foreign exchange contracts are calculated using the forward foreign exchange rates.

(2) The fair values of foreign currency options are calculated based on the prices provided by financial institutions with which the Companies do business.

ii. The option premium is stated for the amounts in parentheses in the rows of "Notional amount" and "Over 1 year," but the foreign currency option is a so-called zero-cost option and no premium is received or paid.

(ii) Interest rate (transactions other than market transactions)

| | Millions of yen | | | | | | | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2011 | | | | 2012 | | | |
| | Notional amount | Over 1 year | Fair value | Valuation gain (loss) | Notional amount | Over 1 year | Fair value | Valuation gain (loss) | Notional amount | Over 1 year | Fair value | Valuation gain (loss) |
| Interest rate swaps | | | | | | | | | | | | |
| Payments fixed receipts floating | ¥ — | ¥ — | ¥ — | ¥ — | ¥ 405 | ¥ 135 | ¥ (13) | ¥ (13) | $ — | $ — | $ — | $ — |
| Total | ¥ — | ¥ — | ¥ — | ¥ — | ¥ 405 | ¥ 135 | ¥ (13) | ¥ (13) | $ — | $ — | $ — | $ — |

Note: The fair values are calculated based on the prices provided by financial institutions with which the Companies do business.

### (b) Derivatives to which hedge accounting is applied

(i) Foreign currency

| | | | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2012 | | | 2011 | | | 2012 | | |
| Hedge accounting | Hedging instrument | Hedged item | Notional amount | Over 1 year | Fair value | Notional amount | Over 1 year | Fair value | Notional amount | Over 1 year | Fair value |
| Deferral hedge accounting | Forward foreign exchange contracts | | | | | | | | | | |
| | Sell: | Accounts receivable – trade | | | | | | | | | |
| | U.S. dollar | | ¥9,878 | ¥1,158 | ¥(233) | ¥2,886 | ¥2,456 | ¥ 15 | $120,185 | $14,089 | $(2,835) |
| | Euro | | 4,214 | — | (61) | 487 | — | (47) | 51,271 | — | (742) |
| | Hong Kong dollar | | — | — | — | 8 | — | 0 | — | — | — |
| | Singapore dollar | | 1,764 | — | 2 | — | — | — | 21,462 | — | 24 |
| | Buy: | Accounts payable – trade | | | | | | | | | |
| | U.S. dollar | | 4,407 | 355 | 115 | 3,656 | 111 | (105) | 53,620 | 4,319 | 1,399 |
| | Euro | | 1,839 | 119 | 102 | 1,428 | — | 60 | 22,375 | 1,448 | 1,241 |
| | British pound | | — | — | — | 475 | — | (40) | — | — | — |
| | Hong Kong dollar | | 70 | — | 4 | 6 | — | (0) | 852 | — | 49 |
| | Korean won | | 167 | — | 9 | 445 | — | 22 | 2,032 | — | 110 |
| Allocation treatment (*1) | Foreign currency swaps contracts: | | | | | | | | | | |
| | U.S. dollar-Japanese yen | Long-term loans | 2,510 | 2,510 | — | — | — | — | 30,539 | 30,539 | — |
| | Forward foreign exchange contracts | | | | | | | | | | |
| | Sell: | Accounts receivable – trade | | | | | | | | | |
| | U.S. dollar | | 16,144 | 235 | — | 2,742 | — | — | 196,423 | 2,859 | — |
| | Euro | | 3,063 | 322 | — | 455 | — | — | 37,267 | 3,918 | — |
| | Hong Kong dollar | | — | — | — | 98 | — | — | — | — | — |
| | Buy: | Accounts payable - trade | | | | | | | | | |
| | U.S. dollar | | 1,421 | — | — | 1,375 | — | — | 17,289 | — | — |
| | Euro | | — | — | — | 163 | — | — | — | — | — |
| | Thai baht | | 15 | — | — | 102 | — | — | 183 | — | — |
| Total | | | ¥ — | ¥ — | ¥ (62) | ¥ — | ¥ — | ¥ (95) | $ — | $ — | $ (754) |

(*1) The difference between the amount translated at contracted rate and that translated at the current rate of exchange on the date of the forward contract shall be allocated over the life of the forward contract.

Notes:

i. Method of measuring fair values

The fair values of forward foreign exchange contracts are calculated using the forward foreign exchange rates.

ii. Fair values of transactions using the method such as forward foreign exchange contracts where transactions are recorded by translation at the contracted rate are included in the fair values of hedged items, either of long-term loans, accounts receivable - trade or accounts payable - trade, as these derivatives are accounted for together with the long-term loans, accounts receivable - trade or accounts payable - trade.

(ii) Interest rate

| Hedge accounting | Hedging instrument | Hedged item | Millions of yen 2012 Notional amount | Over 1 year | Fair value | 2011 Notional amount | Over 1 year | Fair value | Thousands of U.S. dollars 2012 Notional amount | Over 1 year | Fair value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Deferral hedge accounting of interest rate swaps | Interest rate swaps Payments fixed receipts floating | Long-term loans | ¥ 3,000 | ¥ 3,000 | ¥(15) | ¥ 3,000 | ¥ 3,000 | ¥ (4) | $ 36,501 | $ 36,501 | $(183) |
| Exceptional treatment of interest rate swaps | Interest rate swaps Payments fixed receipts floating | Long-term loans | ¥60,043 | ¥48,421 | ¥ — | ¥56,885 | ¥47,263 | ¥ — | $730,539 | $589,135 | $ — |
| Total | | | ¥ — | ¥ — | ¥(15) | ¥ — | ¥ — | ¥ (4) | $ — | $ — | $(183) |

Notes:

i. Method of measuring fair values
The fair values are calculated based on the prices provided by financial institutions with which the Companies do business.

ii. Fair values of transactions by the exceptional treatment of interest rate swaps are included in the fair values of long-term loans, as these derivatives are accounted for together with the long-term loans.

## 17. Retirement benefits

The Companies have defined benefit pension plans, and lump-sum retirement payment plans.

In addition, an employee, if eligible, may receive additional payments upon retirement under certain situation.

The following information is a summary of the plans:

Retirement benefit obligation:

| March 31 | Millions of yen 2012 | 2011 | Thousands of U.S. dollars 2012 |
|---|---|---|---|
| Projected benefit obligation | ¥(146,440) | ¥(152,823) | $(1,781,725) |
| Fair value of plan assets | 189 | 1,045 | 2,299 |
| Unfunded retirement benefit obligation | (146,251) | (151,778) | (1,779,426) |
| Unrecognized actuarial losses | 15,827 | 17,645 | 192,566 |
| Unrecognized past service cost | 1,387 | 1,786 | 16,876 |
| Allowance for employees' retirement benefits | ¥(129,037) | ¥(132,347) | $(1,569,984) |

Components of net periodic pension cost:

| Year ended March 31 | Millions of yen 2012 | 2011 | Thousands of U.S. dollars 2012 |
|---|---|---|---|
| Service cost during the year (Notes: i) | ¥ 8,229 | ¥ 8,718 | $100,122 |
| Interest cost on projected benefit obligation | 2,950 | 3,055 | 35,892 |
| Expected return on assets | (2) | (8) | (24) |
| Amortization of actuarial losses | 3,487 | 3,311 | 42,426 |
| Amortization of past service cost | 446 | 295 | 5,426 |
| Additional payments | 160 | 187 | 1,947 |
| Net periodic pension cost | ¥15,270 | ¥15,558 | $185,789 |
| Net loss on transfer of retirement benefit plans (Notes: ii) | 45 | 95 | 548 |
| Cost for defined contribution plan | 169 | 161 | 2,056 |
| Total | ¥15,484 | ¥15,814 | $188,393 |

Notes:

i. In computing the projected benefit obligation, small companies are permitted to adopt certain simplified methods and certain consolidated subsidiaries have done so. The periodic pension cost for the consolidated subsidiaries to adopt such simplified methods has been included in "Service cost during the year."

ii. Certain consolidated subsidiaries have transferred their retirement benefit plans and recognized a net loss for the years ended March 31, 2012 and 2011.

| | 2012 | 2011 |
|---|---|---|
| Assumptions used in the actuarial calculation were: | | |
| Actuarial cost method: | Projected unit credit method | Projected unit credit method |
| Discount rate: | 2.0% | 2.0% |
| Expected rate of return: | 1.5% | 1.5% |
| Amortization period for past service cost (within the employees' average remaining years of service): | 13 years | 13 years |
| Amortization period for actuarial losses (within the employees' average remaining years of service): | 13 years | 13 years |

## 18. Stock options

### (a) The stock options outstanding at March 31, 2012 are as follows:

| | 2012 Stock option | 2011 Stock option | 2010 Stock option | 2009 Stock option | 2008 Stock option |
|---|---|---|---|---|---|
| Persons granted | Directors of the Company: 13 Executive officers of the Company: 14 | Directors of the Company: 13 Executive officers of the Company: 13 | Directors of the Company: 13 Executive officers of the Company: 14 | Directors of the Company: 13 Executive officers of the Company: 11 | Directors of the Company: 13 Executive officers of the Company: 13 |
| Class and number of shares | Common stock 593,000 shares | Common stock 759,000 shares | Common stock 647,000 shares | Common stock 511,000 shares | Common stock 274,000 shares |
| Grant date | August 17, 2011 | August 9, 2010 | August 5, 2009 | August 18, 2008 | August 9, 2007 |
| Vesting conditions | In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers. | In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers. | In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers. | In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers. | In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers. |
| Service period | No provisions since vesting day is not readily determinable. | No provisions since vesting day is not readily determinable. | No provisions since vesting day is not readily determinable. | No provisions since vesting day is not readily determinable. | No provisions since vesting day is not readily determinable. |
| Exercise period | From August 18, 2011 to August 17, 2041 | From August 10, 2010 to August 9, 2040 | From August 6, 2009 to August 5, 2039 | From August 19, 2008 to August 18, 2038 | From August 10, 2007 to August 9, 2037 |

Stock option expense included in "Selling, general and administrative expenses" for the years ended March 31, 2012 and 2011 amounted to ¥106 million ($1,290 thousand) and ¥117 million, respectively.

### (b) The number of and changes in stock options during the years ended March 31, 2012 are as follows:

| | 2012 Stock option | 2011 Stock option | 2010 Stock option | 2009 Stock option | 2008 Stock option |
|---|---|---|---|---|---|
| Non-vested: | | | | | |
| Outstanding at the year ended March 31, 2011 | — | 759,000 | 647,000 | 434,000 | 146,000 |
| Granted | 593,000 | — | — | — | — |
| Forfeited | — | — | — | — | — |
| Vested | — | — | 98,000 | 83,000 | 40,000 |
| Outstanding of non-vested at the year ended March 31, 2012 | 593,000 | 759,000 | 549,000 | 351,000 | 106,000 |
| Vested: | | | | | |
| Outstanding at the year ended March 31, 2011 | — | — | — | 23,000 | 26,000 |
| Vested | — | — | 98,000 | 83,000 | 40,000 |
| Exercised | — | — | 46,000 | 39,000 | 36,000 |
| Forfeited | — | — | — | — | — |
| Outstanding of non-exercised at the year ended March 31, 2012 | — | — | 52,000 | 67,000 | 30,000 |
| Exercise price - yen (U.S. dollars) | ¥1($0.012) | ¥1($0.012) | ¥1($0.012) | ¥1($0.012) | ¥1($0.012) |
| Average share price at exercise - yen(U.S. dollars) | — | — | ¥207($2.519) | ¥207($2.519) | ¥206($2.506) |
| Fair value price at grant date - yen(U.S. dollars) | ¥178($2.166) | ¥154($1.874) | ¥165($2.008) | ¥185($2.251) | ¥462($5.621) |

Because it is difficult to reasonably estimate the number of options that will forfeit in the future, the number of forfeited options are based on the actual data.

### (c) The number of and changes in stock options during the years ended March 31, 2011 are as follows:

| | 2011 Stock option | 2010 Stock option | 2009 Stock option | 2008 Stock option |
|---|---|---|---|---|
| Non-vested: | | | | |
| Outstanding at the year ended March 31, 2010 | — | 647,000 | 511,000 | 185,000 |
| Granted | 759,000 | — | — | — |
| Forfeited | — | — | — | — |
| Vested | — | — | 77,000 | 39,000 |
| Outstanding of non-vested at the year ended March 31, 2011 | 759,000 | 647,000 | 434,000 | 146,000 |
| Vested: | | | | |
| Outstanding at the year ended March 31, 2010 | — | — | — | 34,000 |
| Vested | — | — | 77,000 | 39,000 |
| Exercised | — | — | 54,000 | 47,000 |
| Forfeited | — | — | — | — |
| Outstanding of non-exercised at the year ended March 31, 2011 | — | — | 23,000 | 26,000 |
| Exercise price - yen | ¥ 1 | ¥ 1 | ¥ 1 | ¥ 1 |
| Average share price at exercise – yen | — | — | 146 | 147 |
| Fair value price at grant date - yen | ¥ 154 | ¥ 165 | ¥ 185 | ¥ 462 |

**(d) Estimation method for stock options issued during the years ended March 31, 2012 and 2011 are as follows:**

The fair value of stock options granted is estimated by using Black-Scholes option pricing model with the following assumptions:

| | 2012 Stock option | 2011 Stock option |
|---|---|---|
| Volatility of stock price (Note: i) | 46% | 50% |
| Estimated remaining outstanding period (Note: ii) | 3.5 years | 3.5 years |
| Estimated dividend (Note: iii) | ¥3 per share | ¥2 per share |
| Interest rate with risk free (Note: iv) | 0.25% | 0.21% |

(i) Annual volatility rate estimated based on daily stock prices in the past 3.5 years (closing prices on each day from February 18, 2008 to August 17, 2011) for 2012 and (closing prices on each day from February 10, 2007 to August 9, 2010) for 2011, respectively.
(ii) Expected average period from grant date to exercise date
(iii) Based on actual year-end dividend for the preceding year
(iv) Annual rate, the yield on government bonds with remaining life of 3.5 years (the yield on August 17, 2011) for 2012 and (the yield on August 9, 2010) for 2011, respectively.

## 19. Deferred tax assets and liabilities

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2012 and 2011 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Deferred tax assets: | | | |
| Losses on valuation of inventories | ¥ 3,733 | ¥ 3,689 | $ 45,419 |
| Losses on impairment of fixed assets | 5,242 | 6,628 | 63,779 |
| Allowance for employees' bonuses | 8,495 | 9,103 | 103,358 |
| Reserve for guaranteed contracts | 5,803 | 6,499 | 70,605 |
| Reserve for losses on sales contracts | 10,974 | 12,309 | 133,520 |
| Denial of accrued expense | 3,536 | 3,094 | 43,022 |
| Valuation losses on investment securities | 2,048 | 2,221 | 24,918 |
| Allowance for employees' retirement benefits | 45,978 | 52,635 | 559,411 |
| Allowance for doubtful receivables | 990 | 3,625 | 12,045 |
| Net loss carried forward | 23,044 | 24,789 | 280,375 |
| Adjustment for taxable income on percentage-of-completion method | 59 | 2,242 | 718 |
| Unrealized gain | 2,788 | 3,574 | 33,921 |
| Other | 10,370 | 12,985 | 126,171 |
| Valuation allowance | (41,947) | (47,382) | (510,366) |
| Total | ¥ 81,113 | ¥96,011 | $ 986,896 |
| | | | |
| Deferred tax liabilities: | | | |
| Unrealized holding gain on other securities | ¥ 3,226 | ¥ 8,291 | $ 39,251 |
| Deferred gains on sales of property, plant and equipment | 6,624 | 7,920 | 80,594 |
| Other | 2,495 | 2,902 | 30,356 |
| Total | 12,345 | 19,113 | 150,201 |
| Net deferred tax assets | ¥68,768 | ¥76,898 | $836,695 |

The reconciliations between the statutory tax rates and the effective income tax rates after applying deferred tax accounting for the years ended March 31, 2012 and 2011 are as follows:

| | 2012 | 2011 |
|---|---|---|
| Statutory tax rates in Japan | 40.6% | 40.6% |
| Adjustments: | | |
| Reduction of deferred tax asset due to change in corporate tax rate of Japan (Note) | 11.9 | — |
| Change in valuation allowance | 0.8 | (5.3) |
| Expenses not deductible permanently (e.g. entertainment expenses) | 1.5 | 1.7 |
| Other | (1.2) | (1.5) |
| Effective income tax rates after applying deferred tax accounting | 53.6% | 35.5% |

Note:
Following the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011), corporation tax rates will be reduced, and the special reconstruction corporation tax, a surtax for reconstruction funding after the Great East Japan Earthquake, will be imposed, for the fiscal years beginning on or after April 1, 2012.

As a result of this change, deferred tax assets (net of deferred tax liabilities) decreased by ¥5,224 million ($63,560 thousand). Moreover, deferred income taxes increased by ¥6,473 million ($78,757 thousand).

## 20. Business combinations

**Transactions under common control**

**(a) Tender offer for stock of IHI Transport Machinery Co., Ltd.**

1. Names and business content of combined company, legal form of business combination, company name after business combination, and overview of transaction including transaction objectives
   (1) Name and business content of combined company
   a. Name
   IHI Transport Machinery Co., Ltd. (hereinafter "IUK"), a consolidated subsidiary of the Company
   b. Business content
   Design, manufacture, sales, installation, maintenance and repair of parking systems, transportation machinery and equipment, and logistics and distribution plants
   (2) Legal form of the business combination
   Tender offer for stock
   (3) Name of company after combination
   No change in name
   (4) Overview of transaction including transaction objectives
   Amid a rapidly changing business environment for transportation machinery and parking systems, IUK continues to hold a position as a leading company in terms of market share in Japan. In addition, business can be actively developed in overseas markets, it was decided that the Company and IUK should deepen their business alliance and pursue synergistic effects in all areas of the business. At the meeting of the Company's Board of Directors held on February 3, 2012, a resolution was passed to execute a tender offer for stock with the objective of making IUK a wholly owned subsidiary.
   As a result of the tender offer for stock that was conducted from February 6, 2012 to March 16, 2012, the Company acquired 30.2% of the issued stock. After the acquisition, the Company has owned 97.2% of voting rights in IUK.
   In the following fiscal year or later, the Company plans to acquire all the issued shares in IUK through a series of processes carried out in accordance with the Companies Act of Japan.

2. Overview of accounting process
   The transaction was accounted for as a transaction under common control in accordance with the provisions of the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, final revision issued on December 26, 2008).

3. Matters on acquisition of additional shares in subsidiaries
   (1) Acquisition cost and the breakdown

| | | |
|---|---|---|
| Consideration for acquisition: Common stock in IUK | ¥5,691 million | ($69,242 thousand) |
| Expenditures directly required for acquisition: Advisory costs, etc. | ¥ 55 million | ($ 669 thousand) |
| Acquisition cost | ¥5,746 million | ($69,911 thousand) |

(2) Amount of negative goodwill recognized, basis for recognition, and method and period of amortization
a. Amount of negative goodwill recognized:
¥510 million ($6,205 thousand)
b. Basis for recognition:
Negative goodwill was recognized because interests acquired from minority exceeded the acquisition cost.
c. Method and period of amortization:
One-time amortization

**(b) Tender offer for stock of Ishikawajima Construction Materials Co., Ltd.**

1. Names and business content of combined company, legal form of business combination, company name after business combination, and overview of transaction including transaction objectives

(1) Name and business content of combined company
a. Name:
Ishikawajima Construction Materials Co., Ltd. (hereinafter "IKK"), a consolidated subsidiary of the Company
b. Business content
Design, manufacture, sales, installation, and repair of concrete products, and civil engineering and construction materials

(2) Legal form of business combination
Tender offer for stock

(3) Name of company after combination
No change in name

(4) Overview of transaction including transaction objectives
Operating in a difficult business environment, IKK is working to improve its earnings base while expanding business in promising growth markets in Southeast Asian countries. In the process of establishing growth strategies for the medium term, which involve alliances with social infrastructure businesses such as the bridge building business, which is a strongpoint of the Company, it was decided that the optimal solution would be to enhance synergistic effects by making IKK a wholly owned subsidiary of the Company. At the Board of Directors' Meeting of the Company held on February 3, 2012, a resolution was passed to execute a tender offer for stock with the objective of making IKK a wholly owned subsidiary.

As a result of the tender offer for stock that was conducted from February 6 to March 16, 2012, the Company acquired 38.9% of the issued stock, which resulted in the Company possessing 93.2% of voting rights in IKK after the acquisition.

In the following fiscal year or later, the Company plans to acquire all the issued shares in IKK through a series of processes carried out in accordance with the Companies Act of Japan.

2. Overview of accounting process

The transaction was accounted for as a transaction under common control in accordance with the provisions of the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, final revision issued on December 26, 2008).

3. Matters on acquisition of additional shares in subsidiaries

(1) Acquisition cost and the breakdown

| | | |
|---|---|---|
| Consideration for acquisition: Common stock in IKK | ¥1,419 million | ($17,265 thousand) |
| Expenditures directly required for acquisition: Advisory costs, etc. | ¥ 43 million | ($ 523 thousand) |
| Acquisition cost | ¥1,462 million | ($17,788 thousand) |

(2) Amount of negative goodwill recognized, basis for recognition, and method and period of amortization
a. Amount of negative goodwill recognized:
¥906 million ($11,023 thousand)
b. Basis for recognition:
Negative goodwill was recognized because interests acquired from minority exceeded the acquisition cost.
c. Method and period of amortization:
One-time amortization

## 21. Investment and rental properties

The Company and certain consolidated subsidiaries own rental office buildings (including land), parking lots and commercial facilities in Tokyo and other areas.

### (a) The amounts recorded in the consolidated balance sheet and the fair values of these investment and rental properties at March 31, 2012 and 2011 are as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | | 2012 | | |
| Category of use | Fair value | Amount recorded in the balance sheet | Net change | Fair value | Amount recorded in the balance sheet | Net change | Fair value | Amount recorded in the balance sheet | Net change |
| Office buildings | ¥124,722 | ¥70,641 | ¥ (1,591) | ¥126,025 | ¥72,232 | ¥50,273 | $1,517,484 | $ 859,484 | $ (19,358) |
| Parking lots | 30,191 | 1,970 | (707) | 33,772 | 2,677 | 68 | 367,332 | 23,969 | (8,602) |
| Commercial facilities | 35,458 | 1,499 | 283 | 34,553 | 1,216 | (1) | 431,415 | 18,238 | 3,443 |
| Other | 66,869 | 22,329 | (1,303) | 69,716 | 23,632 | (1,430) | 813,590 | 271,676 | (15,853) |
| Total | ¥257,240 | ¥96,439 | ¥ (3,318) | ¥264,066 | ¥99,757 | ¥48,910 | $3,129,821 | $1,173,367 | $ (40,370) |

Notes:

i. The amount in consolidated balance sheet is calculated by subtracting accumulated depreciation and impairment losses from acquisition cost.

ii. The fair value is based on the values mainly in the appraisal report prepared by external real estate appraisers.

iii. Major increases and decreases to form the amounts of net change for the year ended March 31, 2011 are as follows:

(1) Office buildings — Increase in association with the buying back of trust beneficiary rights of the Toyosu Center Building for ¥40,772 million and Increase due to new buildings for ¥10,914 million.

(2) Others — Decrease due to impairment losses for ¥1,404 million.

### (b) Income and expenses concerning investment and rental properties during the years ended March 31, 2012 and 2011 are as follows:

| | Millions of yen | | | | | | | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2011 | | | | 2012 | | | |
| Category of use | Rental income | Rental expenses | Net rental income | Other income | Rental income | Rental expenses | Net rental income | Other income | Rental income | Rental expenses | Net rental income | Other income |
| Office buildings | ¥ 8,585 | ¥4,824 | ¥3,761 | ¥ — | ¥ 4,482 | ¥ 2,223 | ¥ 2,259 | ¥ — | $104,453 | $ 58,693 | $ 45,760 | $ — |
| Parking lots | 781 | 326 | 455 | 2,900 | 866 | 270 | 596 | — | 9,503 | 3,967 | 5,536 | 35,284 |
| Commercial facilities | 754 | 281 | 473 | — | 532 | 245 | 287 | — | 9,174 | 3,419 | 5,755 | — |
| Other | 2,572 | 1,194 | 1,378 | (890) | 2,560 | 1,216 | 1,344 | (1,404) | 31,293 | 14,527 | 16,766 | (10,828) |
| Total | ¥12,692 | ¥6,625 | ¥6,067 | ¥2,010 | ¥ 8,440 | ¥ 3,954 | ¥ 4,486 | ¥(1,404) | $154,423 | $ 80,606 | $ 73,817 | $ 24,456 |

Notes:

i. Major rental income is included in “Net sales,” while major rental expenses are included in “Cost of sales.”

ii. For the fiscal year ended March 31, 2012, other income is composed of impairment loss and Gains on sales of property, plant, land and equipment, and included in extraordinary loss on consolidated statements of income. For the fiscal year ended March 31, 2011, other income is composed of impairment loss and included in extraordinary loss on consolidated statements of income.

## 22. Segment information

### (a) Segment information

1. Overview of reportable segments

The reportable segments are constituent units of the IHI Group for which separate financial information is available. The Board of Directors periodically examines these segments for the purpose of deciding the allocation of management resources and evaluating operating performance.

IHI organizes operation divisions by products and services and the operation divisions deploy business activities formulating both domestic and overseas strategies for each product and service comprehensively.

The IHI Group therefore categorizes segments based on the grouping together of operation divisions classified by markets and other similarities of products and services. The seven reportable segments are as follows: Energy & Resources, Ships & Offshore Facilities, Social Infrastructure, Logistics Systems & Industrial Machinery, Rotating Equipment & Mass-Production Machinery, Aero Engine & Space, and Others.

Main products and services belonging to each segment

(i) Energy & Resources
Boilers, gas turbines, components for nuclear power plants, storage facilities, process plants, power systems and floating LNG storage facilities

(ii) Ships & Offshore Facilities
Shipbuilding, ship repairs and offshore structures

(iii) Social Infrastructure
Bridges, construction materials and real estate sales and rental

(iv) Logistics Systems & Industrial Machinery
Material handling systems, physical distribution and factory automation systems, parking systems, traffic systems, steel manufacturing equipment, paper production machines and environmental control systems

(v) Rotating Equipment & Mass-Production Machinery
Compressors and vehicular turbochargers

(vi) Aero Engine & Space
Jet engines, space-related equipment and defense machinery

(vii) Others
Diesel engines, agricultural machinery, construction machinery and other services

Effective from the fiscal year ended March 31, 2012, in accordance with an entity conversion by the IHI Group, two of its reportable segments, Physical Distribution Systems & Social Infrastructure, and Rotating & Industrial Machinery, have been changed to three reportable segments: Social Infrastructure, Logistics Systems & Industrial Machinery, and Rotating Equipment & Mass-Production Machinery. After being restated to reflect this entity conversion, the information about sales, profit or loss, assets and liabilities, and other items by reportable segment for the fiscal year ended March 31, 2012 and 2011 are as follows:

Fiscal year ended March 31, 2012

Millions of yen

| Year ended or as of March 31, 2012 | Energy & resources | Ships & Offshore Facilities | Social Infrastructure | Logistics Systems & Industrial Machinery | Rotating Equipment & Mass-Production Machinery | Aero Engine & Space | Others | Total | Eliminations and Corporate (Notes: i) | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales and operating income: | | | | | | | | | | |
| Sales to outside customers | ¥273,763 | ¥169,613 | ¥106,541 | ¥148,030 | ¥154,107 | ¥294,325 | ¥ 75,490 | ¥1,221,869 | ¥ — | ¥1,221,869 |
| Intersegment sales and transfers | 38,593 | 6,639 | 8,222 | 4,907 | 11,721 | 5,137 | 31,820 | 107,039 | (107,039) | — |
| Total | 312,356 | 176,252 | 114,763 | 152,937 | 165,828 | 299,462 | 107,310 | 1,328,908 | (107,039) | 1,221,869 |
| Segment profit(Operating income) | ¥ 10,968 | ¥ 7,932 | ¥ 8,291 | ¥ 5,635 | ¥ 10,405 | ¥6,057 | ¥ 1,162 | ¥50,450 | ¥ (7,117) | ¥ 43,333 |
| Other: | | | | | | | | | | |
| Depreciation (Notes: iii, v) | ¥ 6,165 | ¥ 4,242 | ¥ 5,063 | ¥ 1,561 | ¥ 5,612 | ¥ 14,033 | ¥ 2,292 | ¥ 38,968 | ¥ 2,187 | ¥ 41,155 |
| Equity income from affiliates | 206 | — | — | 126 | 79 | — | 132 | 543 | 71 | 614 |
| Increase in property, plant and equipment (Notes: iv, v) | 9,346 | 5,694 | 4,375 | 1,021 | 8,814 | 17,563 | 2,662 | 49,475 | 4,048 | 53,523 |

Thousands of U.S. dollars

| Year ended or as of March 31, 2012 | Energy & resources | Ships & Offshore Facilities | Social Infrastructure | Logistics Systems & Industrial Machinery | Rotating Equipment & Mass-Production Machinery | Aero Engine & Space | Others | Total | Eliminations and Corporate (Notes: i) | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales and operating income: | | | | | | | | | | |
| Sales to outside customers | $3,330,855 | $2,063,670 | $1,296,277 | $1,801,071 | $1,875,009 | $3,581,032 | $ 918,481 | $14,866,395 | $ — | $14,866,395 |
| Intersegment sales and transfers | 469,558 | 80,776 | 100,037 | 59,703 | 142,609 | 62,502 | 387,152 | 1,302,336 | (1,302,336) | — |
| Total | 3,800,414 | 2,144,446 | 1,396,313 | 1,860,774 | 2,017,618 | 3,643,533 | 1,305,633 | 16,168,731 | (1,302,336) | 14,866,395 |
| Segment profit(Operating income) | $ 133,447 | $ 96,508 | $ 100,876 | $ 68,561 | $ 126,597 | $ 73,695 | $ 14,138 | $ 613,822 | $ (86,592) | $ 527,230 |
| Other: | | | | | | | | | | |
| Depreciation | $ 75,009 | $ 51,612 | $ 61,601 | $ 18,993 | $ 68,281 | $ 170,739 | $ 27,887 | $ 474,121 | $ 26,609 | $ 500,730 |
| Equity income from affiliates | 2,506 | — | — | 1,533 | 961 | — | 1,606 | 6,607 | 864 | 7,470 |
| Increase in property, plant and equipment | 113,712 | 69,279 | 53,230 | 12,422 | 107,239 | 213,688 | 32,388 | 601,959 | 49,252 | 651,211 |

Notes:

i. Adjustment of segment profit represents intersegment transactions of ¥143 million ($1,740 thousand) and unallocated corporate expenses of ¥-7,260 million ($-88,332 thousand).
Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.

ii. Reportable segment assets and liabilities have not been disclosed, as they are not used as the basis for deciding the allocation of management resources or evaluating operating performance.

iii. Depreciation represents depreciation of property, plant and equipment. Adjustment of depreciation represents unallocated depreciation in property, plant and equipment.

iv. Adjustment of increase in property, plant and equipment represents unallocated increase in property, plant and equipment.

v. Although the figures for depreciation and increase in property, plant and equipment did not include the figures related to lease assets in the year ended March 31,2011, they have been changed to include lease assets since such figures are used as the basis for deciding the allocation of management resources or evaluating operating performance starting with the year ended March 31, 2012. Consequently, segment information figures have also been changed to include lease assets.

Fiscal year ended March 31, 2011

Millions of yen

| Year ended or as of March 31, 2011 | Energy & resources | Ships & Offshore Facilities | Social Infrastructure | Logistics Systems & Industrial Machinery | Rotating Equipment & Mass-Production Machinery | Aero Engine & Space | Others | Total | Eliminations and Corporate (Notes: i) | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales and operating income: | | | | | | | | | | |
| Sales to outside customers | ¥274,336 | ¥185,919 | ¥114,385 | ¥136,358 | ¥128,663 | ¥269,134 | ¥ 78,497 | ¥1,187,292 | ¥ — | ¥1,187,292 |
| Intersegment sales and transfers | 32,098 | 3,991 | 8,059 | 5,562 | 11,695 | 4,622 | 35,881 | 101,908 | (101,908) | — |
| Total | 306,434 | 189,910 | 122,444 | 141,920 | 140,358 | 273,756 | 114,378 | 1,289,200 | (101,908) | 1,187,292 |
| Segment profit(Operating income) | ¥ 22,482 | ¥ 10,996 | ¥ 11,920 | ¥ 2,912 | ¥ 9,491 | ¥ 5,826 | ¥ 2,160 | ¥ 65,787 | ¥ (4,397) | ¥ 61,390 |
| Other: | | | | | | | | | | |
| Depreciation (Notes: iii) | ¥ 5,675 | ¥ 3,686 | ¥ 3,123 | ¥ 1,699 | ¥ 4,940 | ¥ 12,906 | ¥ 2,262 | ¥ 34,291 | ¥ 1,805 | ¥ 36,096 |
| Equity income (loss) from affiliates | 295 | — | — | 50 | 124 | — | (65) | 404 | (15) | 389 |
| Increase in property, plant and equipment (Notes: iv) | 7,685 | 5,888 | 51,139 | 1,011 | 6,274 | 9,584 | 2,647 | 84,228 | 2,141 | 86,369 |

Notes:

i. Adjustment of segment profit represents intersegment transactions of ¥42 million and unallocated corporate expenses of ¥-4,439 million.
Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.

ii. Reportable segment assets and liabilities have not been disclosed, as they are not used as the basis for deciding the allocation of management resources or evaluating operating performance.

iii. Depreciation represents depreciation of property, plant and equipment excluding lease assets. Adjustment of depreciation represents unallocated depreciation in property, plant and equipment.

iv. Increase in property, plant and equipment does not include increase in lease assets. Adjustment of increase in property, plant and equipment represents unallocated increase in property, plant and equipment.

2. Calculation method used for sales, profit or loss, assets and liabilities and other items by reportable segment
The accounting method used for reportable business segments is the same as the method stated in “Significant accounting policies.” Profits from reportable segments are figures based on operating income. Intersegment income and transfers are based on actual market pricing.

3. Information about sales, profit or loss, assets and liabilities, and other items by reportable segment
Fiscal year ended March 31, 2011
As represented in “ 1. Overview of reportable segments ”

### (b) Related information

I. Fiscal year ended March 31, 2012

1. Product and service information

Product and service information is omitted, as classification is the same as for reportable segments.

2. Information by geographical area

(1) Net sales

| Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Year ended March 31, 2012** | Japan | Europe | Asia | U.S.A | Central and South America | Other | Total |
| Sales | ¥700,859 | ¥99,406 | ¥188,307 | ¥125,738 | ¥81,750 | ¥25,809 | ¥1,221,869 |

| Thousands of U.S. dollars | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Year ended March 31, 2012** | Japan | Europe | Asia | U.S.A | Central and South America | Other | Total |
| Sales | $8,527,303 | $1,209,466 | $2,291,118 | $1,529,845 | $994,647 | $314,016 | $14,866,395 |

Note:

Sales are classified by country or region based on the location of customers.

(2) Property, plant and equipment

Information with regard to property, plant and equipment is omitted, as the value of property, plant and equipment located in Japan exceeds 90% of the value of property, plant and equipment recorded on the consolidated balance sheets as of March 31, 2012.

3. Information by major customer

Ministry of Defense of Japan is the major customer to be disclosed. The sales to the customer for the year ended March 31, 2012 amounted to ¥128,323 million ($1,561,297 thousand), which are included in industry segments of “Aero Engine and Space Operation” and “Ships and Offshore Facilities Operation”.

II. Fiscal year ended March 31, 2011

1. Product and service information

Product and service information is omitted, as classification is the same as for reportable segments.

2. Information by geographical area

(1) Net sales

| Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Year ended March 31, 2011** | Japan | Europe | Asia | U.S.A | Central and South America | Other | Total |
| Sales | ¥675,251 | ¥90,834 | ¥138,945 | ¥125,956 | ¥92,427 | ¥63,879 | ¥1,187,292 |

Note:

Sales are classified by country or region based on the location of customers.

(2) Property, plant and equipment

Information with regard to property, plant and equipment is omitted, as the value of property, plant and equipment located in Japan exceeds 90% of the value of property, plant and equipment recorded on the consolidated balance sheets as of March 31, 2011.

3. Information by major customer

Ministry of Defense of Japan is the major customer to be disclosed. The sales to the customer for the year ended March 31, 2011 amounted to ¥124,038 million, which are included in industry segments of “Aero Engine and Space Operation” and “Ships and Offshore Facilities Operation”.

### (c) Information about impairment loss on fixed assets by reportable segment

Effective the year ended March 31, 2012 IHI Group has changed its segmentation. Therefore, impairment loss for the year ended March 31, 2011 has been presented based on the current reportable segments.

| Millions of yen | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended or as of March 31, 2012** | Energy & resources | Ships & Offshore Facilities | Social Infrastructure | Logistics Systems & Industrial Machinery | Rotating Equipment & Mass-Production Machinery | Aero Engine & Space | Others | Total | Eliminations and Corporate (Notes: i) | Consolidated |
| Losses on impairment of fixed assets | ¥29 | ¥ — | ¥893 | ¥498 | ¥ — | ¥ — | ¥762 | ¥2,182 | ¥ — | ¥2,182 |

| | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended or as of March 31, 2011** | Energy & resources | Ships & Offshore Facilities | Social Infrastructure | Logistics Systems & Industrial Machinery | Rotating Equipment & Mass-Production Machinery | Aero Engine & Space | Others | Total | Eliminations and Corporate (Notes: i) | Consolidated |
| Losses on impairment of fixed assets | ¥373 | ¥— | ¥1,404 | ¥— | ¥— | ¥— | ¥5 | ¥1,782 | ¥— | ¥1,782 |

| | Thousands of U.S. dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended or as of March 31, 2012** | Energy & resources | Ships & Offshore Facilities | Social Infrastructure | Logistics Systems & Industrial Machinery | Rotating Equipment & Mass-Production Machinery | Aero Engine & Space | Others | Total | Eliminations and Corporate (Notes: i) | Consolidated |
| Losses on impairment of fixed assets | $353 | $— | $10,865 | $6,059 | $— | $— | $9,271 | $26,548 | $— | $26,548 |

Note:
The figure for Logistics Systems & Industrial Machinery mainly represents impairment loss on goodwill.

### (d) Information about goodwill amortization amount and year-end balance by reportable segment

Effective the year ended March 31, 2012 IHI Group has changed its segmentation. Therefore, goodwill amortization amount and year-end balance for the fiscal year ended March 31, 2011 have been presented based on the current reportable segments.

| | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended or as of March 31, 2012** | Energy & resources | Ships & Offshore Facilities | Social Infrastructure | Logistics Systems & Industrial Machinery | Rotating Equipment & Mass-Production Machinery | Aero Engine & Space | Others | Total | Eliminations and Corporate (Notes: i) | Consolidated |
| Amortization amount of goodwill | ¥ 40 | ¥141 | ¥ 49 | ¥ 551 | ¥106 | ¥ — | ¥ — | ¥ 887 | ¥ — | ¥ 887 |
| Balance of goodwill | 101 | — | 72 | 4,900 | — | — | — | 5,073 | — | 5,073 |

| | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended or as of March 31, 2011** | Energy & resources | Ships & Offshore Facilities | Social Infrastructure | Logistics Systems & Industrial Machinery | Rotating Equipment & Mass-Production Machinery | Aero Engine & Space | Others | Total | Eliminations and Corporate (Notes: i) | Consolidated |
| Amortization amount of goodwill | ¥ 38 | ¥232 | ¥ 4 | ¥ 560 | ¥ 64 | ¥ — | ¥ — | ¥ 898 | ¥ — | ¥ 898 |
| Balance of goodwill | 133 | 141 | — | 3,723 | 37 | — | — | 4,034 | — | 4,034 |

| | Thousands of U.S. dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended or as of March 31, 2012** | Energy & resources | Ships & Offshore Facilities | Social Infrastructure | Logistics Systems & Industrial Machinery | Rotating Equipment & Mass-Production Machinery | Aero Engine & Space | Others | Total | Eliminations and Corporate (Notes: i) | Consolidated |
| Amortization amount of goodwill | $ 487 | $1,716 | $596 | $6,703 | $1,290 | $ — | $ — | $10,792 | $ — | $10,792 |
| Balance of goodwill | 1,229 | — | 876 | 59,618 | — | — | — | 61,723 | — | 61,723 |

Disclosure of amortization amount and year-end balance of negative goodwill that was recognized through business combination before April 1, 2010, is omitted since they were not material for the years ended March 31, 2012 and 2011.

### (e) Information about gain on negative goodwill by reportable segment

Fiscal year ended March 31, 2012

¥1,416 million ($17,228 thousand) of gain on negative goodwill was recognized in the fiscal year ended March 31, 2012. This is the total of ¥906 million ($11,023 thousand) of gain on negative goodwill recognized in the Social Infrastructure segment through the tender offer of common shares in IKK and ¥510 million ($6,205 thousand) of gain on negative goodwill recognized in the Logistics Systems & Industrial Machinery segment through the tender offer of common shares in IUK.

Fiscal year ended March 31, 2011

Information about gain on negative goodwill by reportable segment is omitted since it was not material for the year ended March 31, 2011.

## 23. Information about related parties

### (a) Information about related parties for the year ended March 31, 2012 is as follows:

1. Related party transactions

(1) Transactions between the Company and related parties

(i) Unconsolidated subsidiaries, affiliates and other related parties of the Company

**2012**

| Type | Name | Location | Capital or contributions | | Nature of business or occupation | Voting rights holding or held | Relationship | Transaction | Transaction amount (Note: i) | | Account title | Balance as of March 31 (Note: i) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Millions of yen | Thousands of U.S. dollars | | | | | Millions of yen | Thousands of U.S. dollars | | Millions of yen | Thousands of U.S. dollars |
| Affiliate | IHI Finance Support Corporation | Chuo-ku, Tokyo | ¥200 | $2,433 | Lease, factoring, etc. | Holding directly 33.5% | Factoring | Factoring (Notes: ii) | ¥59,729 | $726,719 | Notes and accounts payable - trade | ¥23,573 | $286,811 |
| | | | | | | | | | | | Other current liabilities | 1,468 | 17,861 |

(ii) Directors/corporate auditors, major shareholders and other related parties of the Company

**2012**

| Type | Name | Location | Capital or contributions | | Nature of business or occupation | Voting rights holding or held | Relationship | Transaction | Transaction amount (Note: i) | | Account title | Balance as of March 31 (Note: i) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Millions of yen | Thousands of U.S. dollars | | | | | Millions of yen | Thousands of U.S. dollars | | Millions of yen | Thousands of U.S. dollars |
| Director | Yasuyuki Watanabe | — | ¥ — | $ — | Japanese Aero Engines Corporation (“JAEC”) (Chairman) | Holding directly 0.0% | Advisor of the Company | Operating transactions with JAEC (Notes: iii, iv) | | | | | |
| | | | | | | | | -Subcontract of work from JAEC related to R&D of jet engines | ¥ 258 | $ 3,139 | — | ¥ — | $ — |
| | | | | | | | | -Payment of a portion of funding related to the above | 223 | 2,713 | — | — | — |
| | | | | | | | | -Reception of subsidies related to the above | 254 | 3,090 | — | — | — |
| | | | | | | | | -Manufacture of jet engine components and delivery thereof to JAEC | 18,668 | 227,132 | — | — | — |
| | | | | | | | | -Payment of a portion of expenses related to the above | 9,645 | 117,350 | — | — | — |
| Director | Kazuaki Kama | — | ¥ — | $ — | Japanese Aero Engines Corporation (“JAEC”) (Chairman) | Holding directly 0.0% | Representative director and president of the company | Operating transactions with JAEC (Notes: iii, v) | | | | | |
| | | | | | | | | -Subcontract of work from JAEC related to R&D of jet engines | ¥ 2,775 | $ 33,763 | — | ¥ — | $ — |
| | | | | | | | | -Payment of a portion of funding related to the above | 1,372 | 16,693 | — | — | — |
| | | | | | | | | -Repayment of subsidies related to the above | 292 | 3,553 | Other current liabilities | 2,918 | 35,503 |
| | | | | | | | | | | | Other long-term liabilities | 20,833 | 253,474 |
| | | | | | | | | -Manufacture of jet engine components and delivery thereof to JAEC | 59,588 | 725,003 | Notes and accounts receivable - trade | 10,963 | 133,386 |
| | | | | | | | | | | | Advances from customers | 2,949 | 35,880 |
| | | | | | | | | -Payment of a portion of expenses related to the above | 25,900 | 315,123 | — | — | — |

Notes:

i. In the tables (i) and (ii) above, transaction amount does not include consumption taxes and balance as of March 31 includes them.

ii. With regard to factorings, the Company, any customer and IHI Finance Support Corporation entered into a basic agreement concerning the Company's liabilities and settled the amount.

iii. The person conducted these transactions as a representative of a third party, and the transaction amounts and prices are subject to terms and conditions of general transactions.

iv. Yasuyuki Watanabe retired from the Chairman of Japanese Aero Engines Corporation on June 30, 2011. Transaction amounts above are pertaining to his tenure in the fiscal year ended March 31, 2012.

v. Kazuaki Kama became the Chairman of Japanese Aero Engines Corporation on July 1, 2011. Transaction amounts above are pertaining to his tenure in the fiscal year ended March 31, 2012.

(2) Transactions between consolidated subsidiaries and related parties of the Company

Unconsolidated subsidiaries, affiliates and other related parties of the Company

**2012**

| Type | Name | Location | Capital or contributions | | Nature of business or occupation | Voting rights holding or held | Relationship | Transaction | Transaction amount (Note: i) | | Account title | Balance as of March 31 (Note: i) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Millions of yen | Thousands of U.S. dollars | | | | | Millions of yen | Thousands of U.S. dollars | | Millions of yen | Thousands of U.S. dollars |
| Affiliate | IHI Finance Support Corporation | Chuo-ku, Tokyo | ¥200 | $2,433 | Lease, factoring, etc. | Holding directly 33.5% | Factoring | Factoring (Notes: ii) | ¥150,982 | $1,836,987 | Notes and accounts payable - trade | ¥54,621 | $664,570 |
| | | | | | | | | | | | Other current liabilities | 301 | 3,662 |

Notes:

i. Transaction amount does not include consumption taxes and balance as of March 31 includes them.

ii. With regard to factorings, a consolidated subsidiary, any customer and IHI Finance Support Corporation entered into a basic agreement concerning the consolidated subsidiary's liabilities and settled the amount.

2. Notes on parent company or significant affiliates

(1) Information about parent company: Not applicable

(2) Condensed financial information of significant affiliates: Not applicable

### (b) Information about related parties for the year ended March 31, 2011 is as follows:

1. Related party transactions

(1) Transactions between the Company and related parties

(i) Unconsolidated subsidiaries, affiliates and other related parties of the Company

**2011**

| Type | Name | Location | Capital or contributions | Nature of business or occupation | Voting rights holding or held | Relationship | Transaction | Transaction amount (Note: i) | Account title | Balance as of March 31 (Note: i) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Millions of yen | | | | | Millions of yen | | Millions of yen |
| Affiliate | IHI Finance Support Corporation | Chuo-ku, Tokyo | ¥200 | Lease, factoring, etc. | Holding directly 33.5% | Factoring | Factoring (Notes: ii) | ¥36,363 (Notes: iii) | Accounts payable - trade | ¥17,768 |
| | | | | | | | | | Other current liabilities | 824 |

(ii) Directors/corporate auditors, major shareholders and other related parties of the Company

**2011**

| Type | Name | Location | Capital or contributions<br>Millions of yen | Nature of business or occupation | Voting rights holding or held | Relationship | Transaction | Transaction amount (Note: i)<br>Millions of yen | Account title | Balance as of March 31 (Note: i)<br>Millions of yen |
|---|---|---|---|---|---|---|---|---|---|---|
| Director | Yasuyuki Watanabe | — | ¥ — | Japanese Aero Engines Corporation ("JAEC") (Chairman) | Holding directly 0.0% | Representative director and executive vice president of the Company | Operating transactions with JAEC (Notes: iv) | | | |
| | | | | | | | -Subcontract of work from JAEC related to R&D of jet engines | ¥ 2,659 | — | ¥ — |
| | | | | | | | -Payment of a portion of funding related to the above | 697 | — | — |
| | | | | | | | -Repayment of subsidies related to the above | 1,779 | Accounts payable - other | 2,818 |
| | | | | | | | | | Long-term accounts payable - other | 23,220 |
| | | | | | | | -Manufacture of jet engine components and delivery thereof to JAEC | 76,500 | Accounts receivable - trade | 10,567 |
| | | | | | | | | | Advances from customers | 2,864 |
| | | | | | | | -Payment of a portion of expenses related to the above | 34,772 | — | — |

Notes:

i. In the tables (i) and (ii) above, transaction amount does not include consumption taxes and balance as of March 31 includes them.

ii. With regard to factorings, the Company, any customer and IHI Finance Support Corporation entered into a basic agreement concerning the Company's liabilities and settled the amount.

iii. This amount indicates the transaction amounts since July 1, 2010 on which IHI Finance Support Corporation became an affiliate of the Company.

iv. The person conducted these transactions as a representative of a third party, and the transaction amounts and prices are subject to terms and conditions of general transactions.

(2) Transactions between consolidated subsidiaries and related parties of the Company
Unconsolidated subsidiaries, affiliates and other related parties of the Company

**2011**

| Type | Name | Location | Capital or contributions<br>Millions of yen | Nature of business or occupation | Voting rights holding or held | Relationship | Transaction | Transaction amount (Note: i)<br>Millions of yen | Account title | Balance as of March 31 (Note: i)<br>Millions of yen |
|---|---|---|---|---|---|---|---|---|---|---|
| Affiliate | IHI Finance Support Corporation | Chuo-ku, Tokyo | ¥200 | Lease, factoring, etc. | Holding directly 33.5% | Factoring | Factoring (Notes: ii) | ¥98,521 (Notes: iii) | Accounts payable - trade | ¥46,938 |
| | | | | | | | | | Other current liabilities | 576 |

Notes:

i. Transaction amount does not include consumption taxes and balance as of March 31 includes them.

ii. With regard to factorings, a consolidated subsidiary, any customer and IHI Finance Support Corporation entered into a basic agreement concerning the consolidated subsidiary's liabilities and settled the amount.

iii. This amount indicates the transaction amounts since July 1, 2010 on which IHI Finance Support Corporation became an affiliate of the Company.

2. Notes on parent company or significant affiliates

(1) Information about parent company: Not applicable

(2) Condensed financial information of significant affiliates: Not applicable

## 24. Special purpose companies subject to disclosure

### (a) Outline of special purpose companies subject to disclosure and summary of transactions using such companies

The Company executed the securitization of real estate properties in March 2005 in order to obtain stable funding, and uses one special purpose company (SPC) which is classified as a special limited liability company in connection with this securitization. The SPC are engaged in the business of the acquisition, the possession, the management and the sale of beneficiary rights of real estate in trust. In addition, the Company provides the SPC with property management contract services.

For this securitization, the Company enters into an anonymous association contract with the SPC and holds investments in capital in accordance with the contract. The Company plans to collect all the investments in the anonymous association, and as of the end of the year ended March 31, 2012, considers that no future loss will be assumed.

Total assets and total liabilities of this SPC, at its most recent closing date at March 31, 2012, are ¥5,564 million ($67,697 thousand) and ¥5,050 million ($61,443 thousand), and at its most recent closing date at March 31, 2011, are ¥29,933 million and ¥29,459 million, respectively. The Company has neither investments in capital with voting rights nor dispatching of executives and employees to this SPC.

The Company used another SPC for a securitization of real estate property executed in March 2004. However, the Company bought back the beneficiary rights of real estate in trust from said SPC in March 2011, and it was dissolved in June 2011. As a result, the Company received reimbursements with regard to investments in capital under the anonymous association contract during the year ended March 31, 2012.

### (b) Amounts of transaction with SPCs during the year ended March 31, 2012 and 2011 are as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2012 | | 2011 | | 2012 | |
| | Balance as of March 31, 2012 | Amount of major income or loss | Balance as of March 31, 2011 | Amount of major income or loss | Balance as of March 31, 2012 | Amount of major income |
| Investments in capital (Notes: i, ii) | ¥ 308 | ¥207 | ¥ 1,794 | ¥ 1,379 | $ 3,747 | $2,518 |
| Property management contract services | — | 3 | — | 3 | — | 37 |
| Rent | — | — | — | 198 | — | — |
| Acquisition of beneficiary rights of real estate in trust (Notes: iii, iv) | — | — | 40,773 | 19,842 | — | — |
| Reimbursement of investment in capital (Notes: v) | 1,486 | — | — | — | 18,080 | — |
| Total | ¥1,794 | ¥210 | ¥42,567 | ¥21,422 | $21,827 | $2,555 |

Notes:

i. Investments in capital refers to investments in anonymous associations. However, as it is treated as deemed securities, the amount is included in other securities

ii. Distribution from anonymous association is included in other income.

iii. The acquired beneficiary rights of real estate in trust are included in buildings and structures as trust assets on the consolidated balance sheet.

iv. Refer to Note11 (Notes: ii).

v. Reimbursement of investment in capital represents investments in capital under the anonymous association contract, which was recorded as other securities.

## 25. Net assets

Under the Companies Act of Japan, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of capital surplus reserve and legal earnings reserve must be set aside as capital surplus reserve or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

## 26. Amounts per share

| | Yen | | U.S. dollars |
|---|---|---|---|
| Year ended March 31 | 2012 | 2011 | 2012 |
| Net income per share | ¥ 16.26 | ¥ 20.29 | $ 0.198 |
| Net income per share fully diluted | 15.37 | 20.28 | 0.187 |
| Cash dividends | 4.00 | 3.00 | 0.049 |
| Shareholders' equity | 170.84 | 162.33 | 2.079 |

Note: Fundamentals for calculating net income per share and net income per share fully diluted are as follows:

Net income per share of common stock is computed by dividing net income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding during each period. Amounts per share of shareholders' equity are computed based on the number of shares of common stock outstanding at each balance sheet date. Cash dividends per share shown for each period in the consolidated statements of income represent the dividends applicable to the respective year.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Net income per share | | | |
| Net income | ¥23,823 | ¥29,764 | $289,853 |
| Amounts for non-common stock holders | — | — | — |
| Net income regarding common stock | 23,823 | 29,764 | 289,853 |
| Average number of shares of common stock | 1,465,316 stocks | 1,466,635 stocks | 1,465,316 stocks |
| | | | |
| Net income per share fully diluted | | | |
| Adjustment amount of net income | (68) | (6) | (827) |
| (Interest income of the above) | (68) | (6) | (827) |
| Increase number of common stock | 80,401 stocks | 952 stocks | 80,401 stocks |
| (Convertible bonds of the above) | 80,139 | 878 | 80,139 |
| (Stock options of the above) | 261 | 74 | 261 |

## 27. Significant subsequent events

Not applicable.

## 28. Short-term loans, long-term loans, debentures, lease obligations, and asset retirement obligations

Short-term loans; current portion of long-term loans, debentures and lease obligations at the beginning and the end of the year ended March 31, 2012 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars | |
|---|---|---|---|---|
| | 2012 | | 2012 | |
| | Balance as of March 31, 2012 | Balance as of April 1, 2011 | Balance as of March 31, 2012 | Balance as of April 1, 2011 |
| Short-term bank loans with the weighted-average interest rate of 1.01% at March 31, 2012 | ¥ 53,390 | ¥ 82,188 | $ 649,593 | $ 999,976 |
| Current portion of long-term loans with the weighted-average interest rate of 1.75% at March 31, 2012 | 70,804 | 52,697 | 861,467 | 641,161 |
| Current portion of debentures with the weighted-average interest rate of 1.89% at March 31, 2012 | 10,000 | 10,000 | 121,669 | 121,669 |
| Current portion of lease obligations | 3,225 | 2,427 | 39,238 | 29,529 |
| Total | ¥137,419 | ¥147,312 | $1,671,967 | $ 1,792,335 |

Long-term loans, debentures and lease obligations at the beginning and the end of the year ended March 31, 2012, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars | |
|---|---|---|---|---|
| | 2012 | | 2012 | |
| | Balance as of March 31, 2012 | Balance as of April 1, 2011 | Balance as of March 31, 2012 | Balance as of April 1, 2011 |
| Current portion of Long-term loan with the weighted-average interest rate of 1.75% at March 31, 2012 | ¥ 70,804 | ¥ 52,697 | $ 861,467 | $ 641,161 |
| Non-current portion of Long-term loan with the weighted-average interest rate of 1.42% at March 31, 2012 | 141,967 | 162,151 | 1,727,303 | 1,972,879 |
| Debentures, bearing interest rates from 1.00% to 2.13% | 63,450 | 63,565 | 771,992 | 773,391 |
| Lease obligations | 15,632 | 12,788 | 190,193 | 155,591 |
| Less current portion | (84,029) | (65,124) | (1,022,375) | (792,359) |
| Total | ¥207,824 | ¥226,077 | $2,528,580 | $2,750,663 |

The aggregate amounts of long-term loans, debentures and lease obligations by maturity at March 31, 2012, are summarized as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| Year ending March 31 | 2013 | 2014 | 2015 | 2016 | Thereafter | Total |
| Long-term loans | ¥70,804 | ¥49,701 | ¥42,011 | ¥19,416 | ¥30,839 | ¥212,771 |
| Debentures | 10,000 | — | 20,000 | 23,000 | 10,000 | 63,000 |
| Lease obligations | 3,225 | 2,872 | 2,434 | 2,629 | 4,472 | 15,632 |
| Total | ¥84,029 | ¥52,573 | ¥64,445 | ¥45,045 | ¥45,311 | ¥291,403 |

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| Year ending March 31 | 2013 | 2014 | 2015 | 2016 | Thereafter | Total |
| Long-term loans | $ 861,467 | $604,709 | $511,145 | $236,233 | $375,216 | $2,588,770 |
| Debentures | 121,669 | — | 243,339 | 279,839 | 121,669 | 766,517 |
| Lease obligations | 39,238 | 34,943 | 29,614 | 31,987 | 54,411 | 190,193 |
| Total | $1,022,374 | $639,652 | $784,098 | $548,059 | $551,296 | $3,545,480 |

The amounts of asset retirement obligations as of April 1, 2011 and March 31, 2012 were less than 1% of total liabilities and net assets as of April 1, 2011 and March 31, 2012, respectively. As a result, the schedule of asset retirement obligations is not required to be disclosed in accordance with accounting principles generally accepted in Japan.

## 29. Quarterly results

A summary of cumulative quarterly results for fiscal years 2011-2012 is as follows:

| | Millions of yen (Yen per share amounts) | | | | Thousands of U.S. dollars (U.S. dollars per share amounts) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011-2012 | | | | 2011-2012 | | | |
| Quarters ended | Jun. 30 | Sep. 30 | Dec. 31 | Mar. 31 | Jun. 30 | Sep. 30 | Dec. 31 | Mar. 31 |
| Net sales | ¥251,320 | ¥525,905 | ¥832,330 | ¥1,221,869 | $3,057,793 | $6,398,649 | $10,126,901 | $14,866,395 |
| Income before income taxes and minority interests | 10,705 | 9,578 | 39,547 | 54,315 | 130,247 | 116,535 | 481,166 | 660,847 |
| Net income | 5,148 | 5,028 | 16,781 | 23,823 | 62,635 | 61,175 | 204,173 | 289,853 |
| Net income per share | 3.51 | 3.43 | 11.45 | 16.26 | 0.043 | 0.042 | 0.139 | 0.198 |

# Report of Independent Auditors

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho
Chiyoda-ku, Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197

## Independent Auditor's Report

The Board of Directors
IHI Corporation

We have audited the accompanying consolidated financial statements of IHI Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of IHI Corporation and consolidated subsidiaries at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

*Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 22, 2012

Tokyo, Japan

# Corporate Data

As of March 31, 2012

**Head Office**

IHI Corporation
Toyosu IHI Building, 1-1, Toyosu 3-chome,
Koto-ku, Tokyo 135-8710, JAPAN
Tel: +81-3-6204-7800 Fax: +81-3-6204-8800
URL: http://www.ihi.co.jp/en/index.html

**Founded** 1853

**Incorporated** 1889

**Number of Employees** 7,944 (consolidated: 26,915)

**Transfer Agent** The Chuo Mitsui Trust and Banking Company, Ltd.

**Consolidated Subsidiaries** 99

**Non-Consolidated Subsidiaries** 43

**Affiliates** 46
(Includes 16 affiliates applying the equity method of accounting)

**Stock Exchange Listings** Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

**Shares Outstanding** 1,467,058,482

**Number of Shareholders** 104,699

**Independent Auditors** Ernst & Young ShinNihon

## Major Shareholders

| | | |
|---|---|---|
| 1 | Japan Trustee Services Bank, Ltd. (Holder in Trust) | 4.82% |
| 2 | Japan Trustee Services Bank, Ltd. (TOSHIBA Corporation Retirement Benefit Trust Account reentrusted by Chuo Mitsui Asset Trust and Banking Company, Limited) | 3.78% |
| 3 | The Dai-ichi Life Insurance Company, Limited | 3.69% |
| 4 | The Master Trust Bank of Japan, Ltd. (Holder in Trust) | 3.31% |
| 5 | Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd. | 2.98% |
| 6 | IHI Customer Stock Ownership Association | 1.83% |
| 7 | Nippon Life Insurance Company | 1.63% |
| 8 | Mitsui Sumitomo Insurance Co., Ltd. | 1.52% |
| 9 | Sumitomo Life Insurance Company | 1.47% |
| 10 | Mizuho Corporate Bank, Ltd. | 1.42% |

(Notes) 1. Voting rights for 55,422,000 shares held by "Japan Trustee Services Bank, Ltd. (TOSHIBA Corporation Retirement Benefit Trust Account re-entrusted by Chuo Mitsui Asset Trust and Banking Company, Limited)" are exercised in accordance with the instructions of TOSHIBA Corporation because TOSHIBA is a consigner of the shares.
2. Voting rights for 43,680,000 shares held by "Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account reentrusted by Mizuho Trust and Banking Co., Ltd." are exercised in accordance with the instructions of Mizuho Bank Limited because Mizuho Bank is a consigner of the shares.
3. Shareholding ratios are calculated without including total number of treasury stock shares (2,853,236 shares).

**Investor Relations**
If you have any questions or would like copies of any of our reports, please contact:
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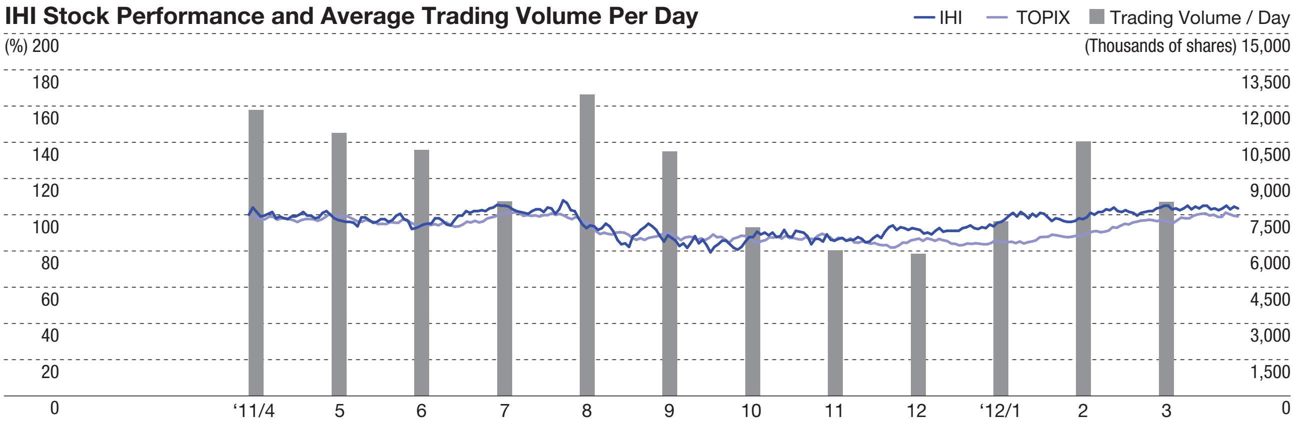
Tel: +81-3-6204-7030
Fax: +81-3-6204-8613

**IHI Stock Performance and Average Trading Volume Per Day**




| | '11/4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | '12/1 | 2 | 3 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Opening Price | 203 | 208 | 202 | 207 | 213 | 194 | 168 | 180 | 180 | 189 | 198 | 206 |
| High | 214 | 208 | 209 | 214 | 222 | 195 | 187 | 182 | 191 | 206 | 212 | 216 |
| Low | 195 | 188 | 184 | 200 | 165 | 160 | 162 | 167 | 178 | 185 | 191 | 199 |
| Closing Price | 204 | 201 | 207 | 208 | 192 | 173 | 182 | 176 | 187 | 200 | 206 | 209 |
| Trading Volume / Day (Thousands of shares) | 11,840 | 10,893 | 10,193 | 8,055 | 12,484 | 10,116 | 6,980 | 6,019 | 5,876 | 7,222 | 10,531 | 8,035 |

Share price on the first trading day of April 2011 (April 1, 2011): ¥202 = 100%

IHI Corporation

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