



**IHI Corporation**

Toyosu IHI Bldg.

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Tokyo 135-8710

Japan

**December 28, 2007**

## **CONSOLIDATED FINANCIAL REPORT FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2007**

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

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Semi-annual report submission date: December 27, 2007

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

### **PERFORMANCE**

#### **(1) Business Results**

	Net Sales	Percentage Change	Operating Income	Percentage Change	Ordinary Income	Percentage Change
<b>Six months ended September 30, 2007</b>	<b>¥ 546,401</b>	<b>5.6%</b>	<b>¥(54,419)</b>	<b>(-)%</b>	<b>¥(59,743)</b>	<b>(-)%</b>
Six months ended September 30, 2006	517,531	12.7	(8,762)	(-)	(10,315)	(-)
Fiscal year ended March 31, 2007	1,221,016		(5,626)		(8,732)	

	Net Income	Percentage Change	Net Income per Share	Diluted Net Income per Share
<b>Six months ended September 30, 2007</b>	<b>¥ (37,257)</b>	<b>(-)%</b>	<b>¥ (25.4)</b>	—
Six months ended September 30, 2006	(10,095)	(-)	(7.78)	—
Fiscal year ended March 31, 2007	(4,593)		(3.46)	—

Notes:

1. Equity in earnings of non-consolidated subsidiaries and affiliates

Six-month period ended Sept. 30, 2007:	¥ (364)
Six-month period ended Sept. 30, 2006:	¥ 358
Fiscal year ended March 31, 2007:	¥ 1,340

**(2) Financial Position**

(Millions of yen, except per share figures)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share of Common Stock (Yen)
Sept. 30, 2007	1,535,308	191,993	11.5	120.54
Sept. 30, 2006	1,471,072	169,886	10.4	118.38
Mar. 31, 2007	1,536,078	227,047	13.8	144.70

Note: Shareholders' Equity

September 30, 2007:	¥176,784 million
September 30, 2006:	¥153,685 million
March 31, 2007:	¥212,230 million

**(3) Cash Flows**

(Millions of yen)

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents, End of Period
<b>Six months ended September 30, 2007</b>	<b>¥ (20,203)</b>	<b>¥(13,587)</b>	<b>¥ (2,513)</b>	<b>¥ 95,241</b>
Six months ended September 30, 2006	2,619	(45,476)	2,781	97,645
Fiscal year ended March 31, 2007	36,086	(57,374)	13,030	129,939

**DIVIDENDS**

<u>(Record Date)</u>	Interim (Yen)	Year-end (Yen)	Annual (Yen)
Year ended March 31, 2007	—	¥ 4.00	¥ 4.00
Year ending March 31, 2008	—	—	¥ 4.00
Year ending March 31, 2008 (Forecast)	—	¥ 4.00	¥ 4.00

**FORECAST OF RESULTS FOR THE FISCAL YEAR ENDING MARCH 31, 2008**

(Millions of yen, except per share figures)

	Net Sales	Percentage Change	Operating Income	Percentage Change	Ordinary Income	Percentage Change
Fiscal year ending March 31, 2008	¥1,320,000	8.1%	¥ (15,000)	(-)%	¥ (25,000)	(-)%

	Net Income	Percentage Change	Net Income per Share
Fiscal year ending March 31, 2008	¥ 26,000	(-)%	¥ 17.73

Note: The aforementioned forecasts are based on management's assumptions and beliefs in light of the information currently available to it. Readers are therefore advised not to place undue reliance on the forecasts provided. IHI cautions that a number of important factors such as changes in general economic conditions and exchange rates could cause actual results to differ materially from those disclosed in the forecasts.

## OTHER

(1) Important subsidiary changes during the period (changes in designated subsidiary resulting from changes in scope of consolidation) None

(2) Changes in account settlement rules, procedures, labeling methods, etc. pertaining to the preparation of interim consolidated financial statements (changes in significant matters concerning the preparation of the consolidated financial report)

① Changes resulting from revisions to accounting standards, etc. Yes

② Other changes No

Note: Please see notes for "Significant Matters Concerning the Preparation of Consolidated Financial Reports" for details.

(3) Number of shares outstanding (common shares)

① Number of shares outstanding at fiscal year-end (including treasury stock)

Six months ended September 30, 2007 1,467,058,482 shares

Six months ended September 30, 2006 1,298,495,152 shares

Fiscal year ended March 31, 2007 1,467,058,482 shares

② Number of treasury stock at year-end

Six months ended September 30, 2007 428,904 shares

Six months ended September 30, 2006 308,075 shares

Fiscal year ended March 31, 2007 355,273 shares

# CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

	Apr. 1, 2006 to Sept. 30, 2006	Apr. 1, 2007 to Sept. 30, 2007	Increase (Decrease)	Apr. 1, 2006 to Mar. 31, 2007
Net sales	517,531	546,401	28,870	1,221,016
Cost of sales	465,651	539,237	73,586	1,098,412
Selling, general and administrative expenses	60,642	61,583	941	128,230
Operating income (loss)	(8,762)	(54,419)	(45,657)	(5,626)
<b>Non-operating income:</b>				
Interest and dividend income	1,473	1,843	370	3,955
Equity in earnings of affiliates	358	—	(358)	1,340
Other income	2,258	2,301	43	6,334
<b>Non-operating expenses:</b>				
Interest expenses	2,736	2,994	258	5,724
Loss in earnings of affiliates	—	364	364	—
Other expenses	2,906	6,110	3,204	9,011
Ordinary (loss) income	(10,315)	(59,743)	(49,428)	(8,732)
<b>Extraordinary income:</b>				
Gain on sale of property, plant and equipment	—	2,465	2,465	31,241
Gain on sale of investment securities	5,867	732	(5,135)	18,524
<b>Extraordinary expenses:</b>				
Loss on disposal of property, plant and equipment	968	1,342	374	2,197
Retirement benefits for directors in past fiscal years	—	954	954	—
Loss on evaluation of equity in affiliated companies	—	540	540	—
Loss on impairment of fixed assets	—	59	59	3,128
Amicable settlement	1,034	—	(1,034)	3,470
Loss on evaluation of equity in affiliated companies	978	—	(978)	1,268
Loss relating to violation of antitrust laws	862	—	(862)	1,625
Loss on evaluation of space business-related assets	—	—	—	14,286
Income (loss) before income taxes, minority interests and other	(8,290)	(59,441)	(51,151)	15,059
Corporation, inhabitants' and enterprise taxes	3,817	4,823	1,006	14,448
Adjustments to corporation taxes	(574)	(26,980)	(26,406)	7,064
Minority interests in consolidated subsidiaries	(1,438)	(27)	1,411	(1,860)
Net (loss) income	(10,095)	(37,257)	(27,162)	(4,593)

# CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2007	September 30, 2007	Increase (Decrease)	Sept. 30, 2006
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and time deposits	85,462	54,497	(30,965)	66,468
Trade receivables	357,514	299,437	(58,077)	307,572
Marketable securities	28,094	20,098	(7,996)	25,999
Inventories	437,864	510,681	72,817	470,353
Deferred income taxes	25,240	60,426	35,186	24,784
Other current assets	115,020	117,674	2,654	92,559
Less allowance for doubtful receivables	(4,552)	(4,364)	188	(4,800)
<b>Total current assets</b>	<b>1,044,642</b>	<b>1,058,449</b>	<b>13,807</b>	<b>982,935</b>
<b>Fixed assets:</b>				
<b>Property, plant and equipment:</b>				
Buildings and structures	99,717	100,071	354	98,709
Machinery and equipment	58,727	59,019	292	54,543
Land	77,299	78,093	794	80,065
Construction in progress	4,492	5,968	1,476	6,262
Other tangible fixed assets	17,603	19,008	1,405	17,653
<b>Total property, plant and equipment</b>	<b>257,838</b>	<b>262,159</b>	<b>4,321</b>	<b>257,232</b>
<b>Intangible assets:</b>				
Software	14,416	14,239	(177)	13,626
Consolidated adjustment account	1,459	632	(827)	529
Royalties and other intangible assets	5,494	5,681	187	7,057
<b>Total intangible assets</b>	<b>21,369</b>	<b>20,552</b>	<b>(817)</b>	<b>21,212</b>
<b>Investments and other assets:</b>				
Investment securities	131,692	120,595	(11,097)	124,240
Deferred income taxes	35,756	28,210	(7,546)	40,568
Other	54,195	54,953	758	54,359
Less allowance for doubtful receivables	(9,414)	(9,610)	(196)	(9,474)
<b>Total investments and other assets</b>	<b>212,229</b>	<b>194,148</b>	<b>(18,081)</b>	<b>209,693</b>
<b>Total fixed assets</b>	<b>491,436</b>	<b>476,859</b>	<b>(14,577)</b>	<b>488,137</b>
<b>Total assets</b>	<b>1,536,078</b>	<b>1,535,308</b>	<b>(770)</b>	<b>1,471,072</b>

# CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2007	September 30, 2007	Increase (Decrease)	Sept. 30, 2006
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Trade payables	322,681	312,630	(10,051)	284,960
Short-term loans and current portion of long-term loans	175,951	167,082	(8,869)	157,377
Commercial paper	—	—	—	8,000
Current portion of debentures	20,000	15,000	(5,000)	20,000
Accrued expenses	50,826	43,910	(6,916)	40,292
Accrued income taxes	8,480	5,608	(2,872)	5,384
Advances from customers	200,182	250,453	50,271	196,599
Allowance for employees' bonuses	20,353	20,294	(59)	18,526
Reserve for guaranteed contracts	12,526	14,338	1,812	12,606
Reserve for losses on sales contracts	27,089	43,572	16,483	24,945
Other current liabilities	55,188	39,165	(16,023)	53,418
<b>Total current liabilities</b>	<b>893,276</b>	<b>912,052</b>	<b>18,776</b>	<b>822,107</b>
<b>Long-term liabilities:</b>				
Debentures	83,000	98,000	15,000	83,000
Long-term loans	122,296	128,212	5,916	184,196
Deferred tax liabilities from revaluation of land	3,226	3,226	—	3,694
Allowance for employees' retirement benefits	144,234	142,438	(1,796)	148,990
Other long-term liabilities	62,999	59,387	(3,612)	59,199
<b>Total long-term liabilities</b>	<b>415,755</b>	<b>431,263</b>	<b>15,508</b>	<b>479,079</b>
<b>Total liabilities</b>	<b>1,309,031</b>	<b>1,343,315</b>	<b>34,284</b>	<b>1,301,186</b>
<b>Net assets:</b>				
Common stock	95,762	95,762	—	64,925
Capital surplus	43,034	43,037	3	10,200
Retained earnings	35,124	(1,833)	(36,957)	34,719
Treasury stock	(74)	(109)	(35)	(54)
<b>Total shareholders' equity</b>	<b>173,846</b>	<b>136,857</b>	<b>(36,989)</b>	<b>109,790</b>
<b>Valuation and conversions:</b>				
Unrealized holding gain on other securities	35,654	36,006	352	41,177
Loss on deferred hedges	(483)	(22)	461	(712)
Revaluation excess	3,912	3,912	—	4,591
Foreign exchange translation adjustments	(699)	31	730	(1,161)

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Total valuation and conversions	38,384	39,927	1,543	43,895
<b>Equity warrant</b>	—	127	127	—
<b>Minority interests</b>	14,817	15,082	265	16,201
Total net assets	227,047	191,993	(35,054)	169,886
Total liabilities and net assets	1,536,078	1,535,308	(770)	1,471,072

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## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance as of March 31, 2006	64,925	10,200	44,814	(48)	119,891
Increase (decrease) during the six months ended September 30, 2006					
Net loss			(10,095)		(10,095)
Acquisition of treasury stock				(6)	(6)
Disposal of treasury stock		0		0	0
Net changes in items excluding shareholders' equity during the period					
Total increase (decrease) during the six months ended September 30, 2006	—	—	(10,095)	(6)	(10,101)
Balance as of September 30, 2006	64,925	10,200	34,719	(54)	109,790

	Valuation and Conversions					Equity Warrants	Minority Interests	Total Net Assets
	Unrealized Holding Gain on Other Securities	Loss on Deferred Hedges	Revaluation Excess	Foreign Exchange Translation Adjustment	Total Valuation and Conversions			
Balance as of March 31, 2006	46,220	—	4,591	(1,465)	49,346	—	20,160	189,397
Increase (decrease) during the six months ended September 30, 2006								
Net loss								(10,095)
Acquisition of treasury stock								(6)
Disposal of treasury stock								0
Net changes in items excluding shareholders' equity during the period	(5,043)	(712)	—	304	(5,451)	—	(3,959)	(9,410)
Total increase (decrease) during the six months ended September 30, 2006	(5,043)	(712)	—	304	(5,451)	—	(3,959)	(19,511)
Balance as of September 30, 2006	41,177	(712)	4,591	(1,161)	43,895	—	16,201	169,886



(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance as of March 31, 2007	95,762	43,034	35,124	(74)	173,846
Increase (decrease) during the six months ended September 30, 2007					
Net loss			(37,257)		(37,257)
Acquisition of treasury stock				(38)	(38)
Disposal of treasury stock		3		3	6
Net increase from newly consolidated subsidiaries			743		743
Net decrease from newly equity-method affiliates			(183)		(183)
Net decrease from merger of non-consolidated subsidiaries			(260)		(260)
Net changes in items excluding shareholders' equity during the period					—
Total increase (decrease) during the six months ended September 30, 2007	—	3	(36,957)	(35)	(36,989)
Balance as of September 30, 2007	95,762	43,037	(1,833)	(109)	136,857

	Valuation and Conversions					Equity Warrants	Minority Interests	Total Net Assets
	Unrealized Holding Gain on Other Securities	Loss on Deferred Hedges	Revaluation Excess	Foreign Exchange Translation Adjustment	Total Valuation and Conversions			
Balance as of March 31, 2007	35,654	(483)	3,912	(699)	38,384	—	14,817	227,047
Increase (decrease) during the six months ended September 30, 2007								
Net loss								(37,257)
Acquisition of treasury stock								(38)
Disposal of treasury stock								6
Net increase from newly consolidated subsidiaries								743
Net decrease from new equity-method affiliates								(183)
Net decrease from merger of nonconsolidated subsidiaries								(260)
Net changes in items excluding shareholders' equity during the period	352	461	—	730	1,543	127	265	1,935
Total increase (decrease) during the six months ended September 30, 2007	352	461	—	730	1,543	127	265	(35,054)
Balance as of September 30, 2007	36,006	(22)	3,912	31	39,927	127	15,082	191,993

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance as of March 31, 2006	64,925	10,200	44,814	(48)	119,891
Increase (decrease) during the six months ended September 30, 2006					
Issuance of new shares	30,837	30,837			61,674
Cash dividends			(5,867)		(5,867)
Net loss			(4,593)		(4,593)
Acquisition of treasury stock				(27)	(27)
Disposition of treasury stock		99		25	124
Net increase from share exchange		1,898		(24)	1,874
Net increase from newly consolidated subsidiaries			91		91
Net increase from reversal of revaluation excess			679		679
Net changes in items excluding shareholders' equity during the period					
Total increase (decrease) during the six months ended September 30, 2006	30,837	32,834	(9,690)	(26)	53,955
Balance as of March 31, 2007	95,762	43,034	35,124	(74)	173,846

	Valuation and Conversions					Equity Warrants	Minority Interests	Total Net Assets
	Unrealized Holding Gain on Other Securities	Loss on Deferred Hedges	Revaluation Excess	Foreign Exchange Translation Adjustment	Total Valuation and Conversions			
Balance as of March 31, 2006	46,220	—	4,591	(1,465)	49,346	—	20,160	189,397
Increase (decrease) during the six months ended September 30, 2006								
Issuance of new shares								61,674
Cash dividends								(5,867)
Net loss								(4,593)
Acquisition of treasury stock								(27)
Disposition of treasury stock								124
Net increase from share exchange								1,874
Net increase from newly consolidated subsidiaries								91
Net increase from reversal of revaluation excess								679
Net changes in items excluding shareholders' equity during the period	(10,566)	(483)	(679)	766	(10,962)	—	(5,343)	(16,305)
Total increase (decrease) during the six months ended September 30, 2007	(10,566)	(483)	(679)	766	(10,962)	—	(5,343)	37,650
Balance as of September 30, 2007	35,654	(483)	3,912	(699)	38,384	—	14,817	227,047

# CONSOLIDATED STATEMENT OF CASH FLOWS

(Millions of yen)

	April 1, 2006 to Sept. 30, 2006	April 1, 2007 to Sept. 30, 2007	April 1, 2006 to March 31, 2007
<b>Operating activities:</b>			
Net income (loss) before income taxes	(8,290)	(59,441)	15,059
Depreciation and amortization	14,455	16,830	32,997
Amortization of long-term prepaid expenses	1,876	2,533	4,158
Increase in allowance for doubtful receivable	367	3	59
(Decrease) increase in allowance for employees' bonuses	(90)	(304)	1,541
Increase in reserve for guaranteed contracts	483	1,812	403
Increase in accrued losses on sales contracts	2,729	16,483	4,873
Decrease in accrued employees' retirement allowances	(1,346)	(1,850)	(6,102)
Interest and dividend income	(1,473)	(1,843)	(3,955)
Interest expense	2,736	2,994	5,724
Gain on foreign exchange	(5)	(56)	(10)
Loss (gain) on disposal of property, plant and equipment	910	(1,123)	(29,044)
Loss on impairment of fixed assets	—	59	3,128
Gain on sale of marketable and investment securities	(5,867)	(732)	(18,524)
Loss on valuation of marketable and investment securities and Memberships	1,160	554	1,572
Loss on devaluation of space business-related assets	—	—	14,285
Equity in earnings of affiliates	(358)	364	(1,340)
Gain on sale of businesses	(100)	—	(140)
Decrease (increase) in trade receivables	35,688	53,878	(9,307)
Increase in advances received	45,532	50,038	49,115
Increase in inventories	(60,365)	(72,603)	(33,756)
Decrease in advance payments	(3,120)	(2,000)	(11,888)
(Decrease) increase in trade payables	(10,066)	(10,043)	27,641
(Decrease) increase in accrued expenses	64	(6,835)	9,746
Decrease (increase) in reserve for guaranteed contracts	1,563	(2,815)	1,250
Increase in other current assets	(3,848)	(3,922)	(3,977)
Decrease (increase) in other current liabilities	605	(2,227)	7,024
Increase (decrease) in accrued consumption taxes	(1,119)	8,909	(5,919)
Directors' and corporate auditors' bonuses	(194)	—	(193)
<b>Subtotal</b>	<b>11,927</b>	<b>(11,337)</b>	<b>54,420</b>
Interest and dividends received	2,445	1,800	3,856
Interest paid	(2,643)	(2,936)	(5,649)
Income taxes paid	(9,110)	(7,730)	(16,541)

<b>Net cash provided by (used in) operating activities</b>	2,619	(20,203)	36,086
<b>Investing activities:</b>			
Net decrease in time deposits due in more than three months	31	35	260
Purchases of marketable and investment securities	(5,950)	(14,443)	(27,402)
Proceeds from sale of marketable and investment securities	8,842	21,353	26,557
Purchases of property, plant and equipment and intangible fixed assets	(41,818)	(22,195)	(68,174)
Proceeds from sale of property, plant and equipment	157	4,167	34,195
Expenditure for disposal of property, plant and equipment	(1,131)	(144)	(2,245)
Expenditure for the acquisition of businesses	(700)	—	(700)
Proceeds from the sale of businesses	100	—	100
Net increase in short-term loans	332	31	10
Decrease in long-term loans	(10)	(80)	(270)
Increase in long-term loans	27	182	210
Increase in other fixed assets	(5,563)	(3,235)	(11,892)
Increase in other fixed liabilities	207	841	4,977
Other	—	(99)	(13,000)
<b>Net cash (used in) provided by investing activities</b>	<b>(45,476)</b>	<b>(13,587)</b>	<b>(57,374)</b>
<b>Financing activities:</b>			
Net decrease (increase) in short-term loans	16,129	(3,955)	(24,058)
Net increase in commercial paper	8,000	—	—
Net increase in long-term loans	16,795	15,261	29,679
Repayment of long-term loans	(12,659)	(17,973)	(28,682)
Proceeds from issuance of debentures	—	30,000	—
Expenditures for redemption of debentures	(20,000)	(20,000)	(20,000)
Proceeds from payments from minority shareholders	714	—	714
Proceeds from issuance of stock	—	—	61,674
Purchases of stock from minority shareholders	(3,491)	—	(3,491)
Purchases of treasury stock	(6)	(32)	(26)
Dividends paid	(2,596)	(5,778)	(2,596)
Dividends paid to minority interests	(105)	(36)	(299)
Other	—	—	115
<b>Net cash provided by (used in) financing activities</b>	<b>2,781</b>	<b>(2,513)</b>	<b>13,030</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>339</b>	<b>970</b>	<b>896</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(39,737)</b>	<b>(35,333)</b>	<b>(7,362)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>137,382</b>	<b>129,939</b>	<b>137,382</b>
<b>Increase in cash and cash equivalents from consolidation of non-consolidated subsidiaries</b>	<b>—</b>	<b>605</b>	<b>41</b>
<b>Increase in cash and cash equivalents from the merger of consolidated subsidiaries with nonconsolidated subsidiaries</b>	<b>—</b>	<b>30</b>	<b>—</b>

<b>Decrease in cash and cash equivalents from removed subsidiaries</b>	—	—	122
<b>Cash and cash equivalents, end of year</b>	97,645	95,241	129,939

Note: A reconciliation of cash and cash equivalents to the amounts shown in the consolidated balance sheets is as follows:

(Millions of yen)

	Sept. 30, 2006	Sept. 30, 2007	Mar. 31, 2007
Cash and time deposits	66,468	54,497	85,462
Time deposits due in more than three months	(822)	(508)	(593)
Savings pledged as collateral	—	(216)	—
Negotiable deposits included in marketable securities	1,000	6,000	7,100
Commercial paper included in marketable securities	24,999	10,997	17,991
Trust beneficiary interests included in marketable securities	—	—	3,000
Trust beneficiary interests included in other current assets	—	—	5,000
Sales under agreement to repurchase included in short-term loans	6,000	24,471	11,979
Cash and cash equivalents	97,645	95,241	129,939

## SEGMENT INFORMATION

### (1) Performance by business segment Six Months ended September 30, 2006

(Millions of yen)

	Logistics							Eliminations	
	Systems and	Industrial	Energy and	Aero-Engine	Shipbuilding				
	Structures	Machinery	Plant	and Space	and Offshore	Other		and	
	Operations	Operations	Operations	Operations	Operations	Operations	Total	Corporate	Consolidated
<b>Sales and operating income:</b>									
Sales to outside customers	¥65,637	¥74,681	¥135,492	¥117,027	¥58,720	¥65,974	¥517,531	¥ —	¥517,531
Intersegment sales and transfers	6,104	7,291	8,558	2,487	487	11,579	36,506	(36,506)	—
Total	71,741	81,972	144,050	119,514	59,207	77,553	555,037	(36,506)	517,531
Operating expenses	77,651	76,874	167,239	109,772	55,956	75,219	562,711	(36,418)	526,293
Operating income (loss)	¥ (5,910)	¥ 5,098	¥ (23,189)	¥ 9,742	¥ 3,251	¥ 2,334	¥ (8,674)	¥ (88)	¥ (8,762)

### Six months ended September 30, 2007

(Millions of yen)

	Logistics							Eliminations	
	Systems and	Industrial	Energy and	Aero-Engine	Shipbuilding				
	Structures	Machinery	Plant	and Space	and Offshore	Other		and	
	Operations	Operations	Operations	Operations	Operations	Operations	Total	Corporate	Consolidated
<b>Sales and operating income:</b>									
Sales to outside customers	¥63,919	¥83,988	¥124,988	¥127,007	¥76,530	¥69,969	¥546,401	¥ —	¥546,401
Intersegment sales and transfers	5,715	5,755	12,345	1,806	498	17,249	43,368	(43,368)	—
Total	69,634	89,743	137,333	128,813	77,028	87,218	589,769	(43,368)	546,401
Operating expenses	72,629	82,992	211,753	116,752	77,136	83,085	644,347	(43,527)	600,820
Operating income (loss)	¥ (2,995)	¥ 6,751	¥ (74,420)	¥ 12,061	¥ (108)	¥ 4,133	¥ (54,578)	¥ 159	¥ (54,419)

Fiscal year ended March 31, 2007

(Millions of yen)

	Logistics							Eliminations	
	Systems and Structures Operations	Industrial Machinery Operations	Energy and Plant Operations	Aero-Engine and Space Operations	Shipbuilding and Offshore Operations	Other Operations	Total	and Corporate	Consolidated
<b>Sales and operating income:</b>									
Sales to outside customers	¥169,746	¥159,453	¥333,883	¥292,845	¥131,522	¥133,567	¥1,221,016	¥ —	¥1,221,016
Intersegment sales and transfers	13,522	16,456	22,988	5,091	1,147	28,060	87,264	(87,264)	—
Total	183,268	175,909	356,871	297,936	132,669	161,627	1,308,280	(87,264)	1,221,016
Operating expenses	189,546	164,418	389,903	281,599	131,079	157,310	1,313,873	(87,231)	1,226,642
Operating income (loss)	¥ (6,296)	¥ 11,491	¥ (33,032)	¥ 16,337	¥1,590	¥ 4,317	¥ (5,593)	¥ (33)	¥ (5,626)

Notes:

1. Business segments are based on current classifications.
2. Main products and machinery included in each segment:
  - (1) Logistics Systems and Structures Operations  
Material handling systems, logistics and factory automation systems, parking systems, bridges and construction material products
  - (2) Industrial Machinery Operations  
Iron and steel manufacturing equipment, vehicular turbochargers, mass-produced machinery and others
  - (3) Energy and Plant Operations  
Boilers, gas turbines, components for nuclear power plants, environmental control systems, storage facilities and others
  - (4) Aero-Engine and Space Operations  
Jet engines, space-related equipment and others
  - (5) Shipbuilding and Offshore Operations  
Shipbuilding, ship repairs, offshore structures and others
  - (6) Other Operations  
Diesel engines, agricultural machinery, construction machinery, financing and service industry and others
3. Operating expenses are entirely allocated to each business segment.

(2) Segment information by region

Six months ended September 30, 2006

Japan accounted for more than 90% of the total net sales of all segments. Consequently, disclosure of segment information of areas other than Japan is not required in accordance with generally accepted standards for the presentation of consolidated financial statements.

Six months ended September 30, 2007

Japan accounted for more than 90% of the total net sales of all segments. Consequently, disclosure of segment information of areas other than Japan is not required in accordance with generally accepted standards for the presentation of consolidated financial statements.

Fiscal year ended March 31, 2007

Japan accounted for more than 90% of the total net sales of all segments and the total amount of segment assets. Consequently, disclosure of segment information of areas other than Japan is not



required in accordance with generally accepted standards for the presentation of consolidated financial statements.

(3) Overseas sales

(Millions of yen, %)

Six months ended September 30, 2006	Central and					Total
	Asia	North America	South America	Europe	Others	
Overseas sales	¥67,319	¥65,918	¥20,934	¥27,671	¥29,699	¥211,541
Consolidated net sales						¥517,531
Overseas sales as a percentage of consolidated net sales	13.0%	12.7%	4.1%	5.3%	5.8%	40.9%

(Millions of yen, %)

Six months ended September 30, 2007	Central and					Total
	Asia	North America	South America	Europe	Others	
Overseas sales	¥63,609	¥82,365	¥24,872	¥36,134	¥40,509	¥247,489
Consolidated net sales						¥546,401
Overseas sales as a percentage of consolidated net sales	11.6%	15.1%	4.6%	6.6%	7.4%	45.3%

(Millions of yen, %)

Fiscal year ended March 31, 2007	Central and					Total
	Asia	North America	South America	Europe	Others	
Overseas sales	¥147,473	¥140,056	¥60,957	¥62,247	¥58,107	¥468,840
Consolidated net sales						¥1,221,016
Overseas sales as a percentage of consolidated net sales	12.1%	11.5%	5.0%	5.1%	4.7%	38.4%

## Notes:

1. Countries and regions are classified according to geographical proximity.
2. The countries included in each segment are as follows:
  - (1) Asia: China, Taiwan, Korea, Hong Kong, Thailand, Vietnam, Singapore, Malaysia, Indonesia, Philippines, India, Sri Lanka, etc.
  - (2) North America: U.S.A., Canada
  - (3) Central and South America: Brazil, Panama, etc.
  - (4) Europe: U.K., Germany, France, Italy, Ireland, Greece, Bulgaria, etc.
3. Overseas sales represents sales amounts for IHI and its consolidated subsidiaries in countries or regions outside of Japan.

## Significant Matters Concerning the Preparation of Consolidated Financial Reports

### Summary of Significant Accounting Policies

#### (1) *Securities*

Securities to be held until maturity are stated at cost with discounts or premiums amortized throughout the holding periods. Other securities with market prices available are stated at fair market value as of the interim balance sheet date, with the sale price computed by the moving-average method. Other securities without market prices available are stated at cost by the moving-average method.

#### (2) *Derivatives*

Derivatives are stated at fair market value.

#### (3) *Inventories*

Raw materials and supplies are stated principally at the lower of cost or market by the moving-average method, and finished goods, work in process and contracts in process are stated principally at identified cost.

#### (4) *Depreciation*

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

However, depreciation of lend-lease properties, 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.

(Change in accounting policy)

In line with the revision of corporate tax law, IHI and its subsidiaries changed depreciation methods for tangible fixed assets acquired after April 1, 2007. As a result, operating loss, ordinary loss and net loss before income taxes and minority interests grew by 427 million yen, respectively.

(Additional information)

In line with the revision of corporate tax law, IHI and its subsidiaries depreciated the difference between 5% of the acquisition price and memorandum value of tangible fixed assets acquired prior to March 31, 2007 equally over five year and recorded them as depreciation expenses. As a result, operating loss, ordinary loss and net loss before income taxes and minority interests grew by 921 million yen, respectively.

#### (5) *Basis for recording significant allowances*

##### a. Allowance for doubtful receivables

To provide for losses on doubtful receivables, the allowance for doubtful receivables

is provided based on historical default rates, plus additional estimated amounts to cover specific uncollectible receivables.

b. Allowance for employees' bonuses

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

c. Reserve for guaranteed contracts

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

d. Accrued losses on sales contracts

Accrued losses on sales contracts are provided for in the amount of estimated losses for work in progress at the interim balance sheet date.

e. Employees' retirement allowances

Employees' retirement allowances are provided for based on estimated severance liabilities and pension fund assets at the end of the consolidated fiscal year, as of the consolidated interim balance sheet date.

In addition, some of our consolidated subsidiaries use the simplified method.

Past service costs are disposed of as expenses using the straight-line method over a certain number of years within the average remaining work period of employees at the time of accrual. Actuarial differences are disposed of as expenses from the next fiscal year using the straight-line method over a certain number of years within the average remaining work period of employees, calculated for the fiscal year during which the difference accrues.

f. Allowance for directors' bonuses

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

The disclosure of items other than those contained in the aforementioned "1. Summary of Significant Accounting Policies" have been omitted because there have been no significant changes from those contained in the most recent semi-annual report (submitted on December 15, 2006).