Explore the Engineering Edge

IHI

Annual Report

2007

For the Year Ended March 31, 2007

Restatement

IHI Corporation

Profile

Explore the Engineering Edge

The IHI Group explores unknown territory by consolidating the strengths of individuals who love manufacturing, and continues to create a prosperous future for humanity and the earth with its fresh, unrestricted thinking and highly crafted technological capabilities.

On July 1, 2007, our corporate Group took a new step toward renewed forward-looking development. We changed our corporate name from Ishikawajima-Harima Heavy Industries Co., Ltd. to IHI Corporation and integrate the brand to include the Group as a whole. Our aim is to join forces as a Group to achieve further growth as well as to promote IHI's further evolution as a global company into the future.

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Based on our management philosophy of "Using technology for the benefit of society," IHI Group combines its dynamism, which extends from the land and sea to sky and space, to provide the total solutions that society and the world have come to expect of it.

1. V2500 jet engine at the Mizuho Aero-Engine Works
2. Research and development activities regarding flywheel uninterruptible power supply
3. LNG tank in Spain
4. Low floor light rail transit vehicle for Toyama Light Rail "PORTRAM"

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

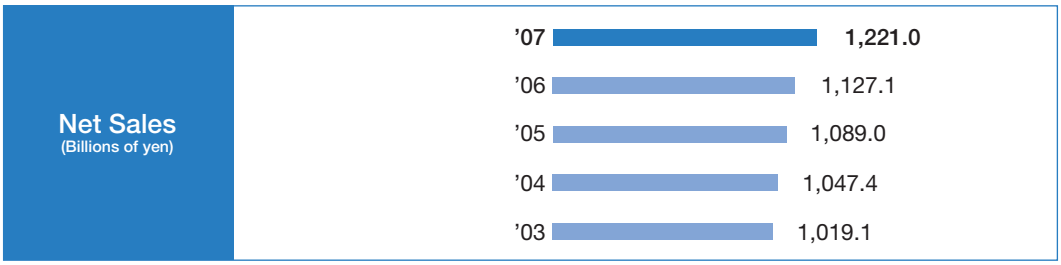
Years ended March 31, 2007, 2006 and 2005
Ishikawajima-Harima Heavy Industries Co., Ltd. (Now IHI Corporation) and Consolidated Subsidiaries

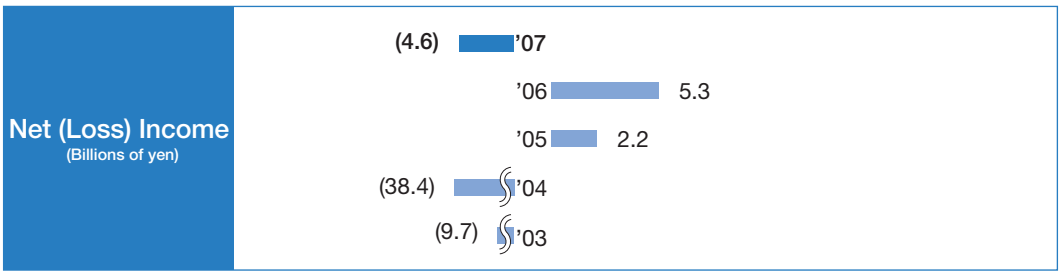
	Millions of yen				Thousands of U.S. dollars	
	2007(*)	2007	2006	2005	2007	2007
Net sales	¥1,221,016	~~¥1,234,851~~	¥1,127,075	¥1,089,047	$ 10,343,211	~~$ 10,460,407~~
Operating income	(5,626)	~~24,617~~	21,771	10,619	(47,658)	~~208,530~~
Net income	(4,593)	~~15,825~~	5,283	2,180	(38,907)	~~134,053~~
Total assets	1,536,078	~~1,535,441~~	1,461,796	1,387,838	13,012,097	~~13,006,701~~
Total net assets (**)	227,047	~~247,465~~	169,237	153,716	1,923,312	~~2,096,273~~

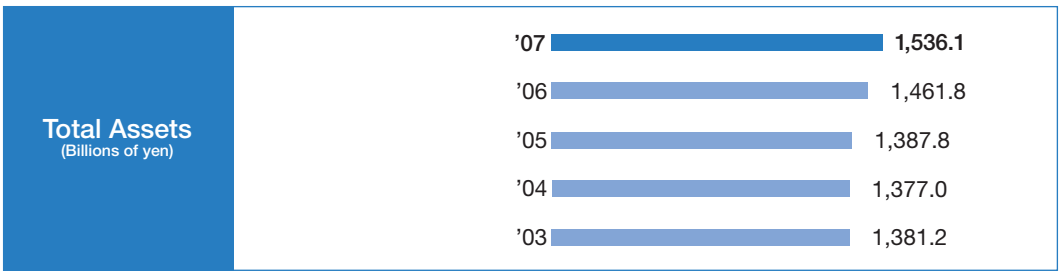
Note: (*) These figures were revised as of December 27, 2007.
(**) The data previously presented as "Total shareholders' equity" are shown as "Total net assets" based on new accounting standard from this fiscal year. See Note 2 to the consolidated financial statements.

	Yen				U.S. dollars	
Amounts per share:						
Net income	¥ (3.46)	~~¥ 11.93~~	¥ 3.93	¥ 1.56	$ (0.03)	~~$ 0.10~~
Cash dividends		¥ 4.00	¥ 2.00	¥ 0.00		$ 0.03

Note: For convenience only, U.S. dollar amounts in this report have been converted from yen at the rate of ¥118.05=US$1, the approximate rate of exchange prevailing on March 31, 2007.







Figures are for respective years ended March 31.

To Our Shareholders

In September 2007, IHI Corporation announced the potential revisions to the operating performance forecast for the fiscal year ending March 31, 2008 due to significant losses in its Energy and Plants Operations. As subsequent investigation showed, operating performance in the said Operations had significantly declined; a portion of the shortfall, which was found to have been reflected in the fiscal year ended March 31, 2007, has been retrospectively applied to accounts settlement for the said fiscal year.

The causes of the decline in operating performance are set out below. IHI Corporation is taking the situation extremely seriously and countermeasures are in process to prevent a recurrence. IHI Corporation sincerely apologizes to all of its shareholders and many other stakeholders for the great inconvenience and anxiety that this situation has caused.

Cause of the Decline in the Operating Performance

At the stage of the investigation in September 2007, an Internal Investigation Committee was set up to look into the extent of the decline and detailed factors which caused it, and to establish countermeasures. In addition, an External Investigation Committee made up of lawyers and a certified public accountant was established for the purpose of verifying the investigation items and results conducted by the former. Both of the Committees commenced their investigations respectively, and publicly announced the findings, which are set out below, in December 2007.

(1) Initially, the total extent of the financial deterioration which occurred in the Energy and Plants Operations was ¥ 89 billion, made up of the following:

- Decline of profitability in the overseas cement plant business: approx. ¥ 13 billion
- Decline of profitability in overseas projects (excl. cement plants): approx. ¥ 7 billion
- Disruptions of domestic boiler projects and the production of chemical engineering machines (reactors): approx. ¥ 23 billion
- Prolonged negotiation over the increase of the contract price: approx ¥ 18 billion
- Failure to achieve the cost reduction effects reflected in the cost forecast for projects subject to the percentage of completion method: approx. ¥ 28 billion

(2) Direct causes of the significant decline in the operating performance were as follows:

- The concentration of construction projects placed strain on final work processes, with problems resulting in cost increases through project schedule disruptions. Furthermore, the schedule disruptions caused inevitable delay in identification of the excess costs over total budget.
- As a result of the commercial practice of negotiating contract fees for additional work when entering the final stages of the work, results fell far below forecasts due to; failure to collect and organize sufficient materials for price negotiation, protracted negotiations, and/or reduction in the proposed increase of contract prices.
- The application of the percentage of completion method to large-scale projects-in cases when the expected profits of ongoing projects significantly declined, -inherently amplified losses for the fiscal year when such decline was found.

(3) The following problems inherent in Energy and Plants Operations exist in the background of the above direct causes: Operations faced the following inherent problems:

- An organizational structure where the sales and operational divisions were not capable to have sufficient communications for the planning of operation, thus the orders exceeded the capacity.

- Cost reductions were built into budgets to ensure a certain level of profit; however, these reductions were not realized for a variety of factors, including the project schedule disruptions.
- In order to recover fixed cost, it was emphasized to achieve profit targets by an increase of net sales and orders received. Under such circumstances, management capabilities were overstretched and project profitability deteriorated as processes suffered disruption.

In addition, there existed the following problems within the internal control system:

- Shortcomings in risk management, which resulted in an inability to appropriately assess risk.
- Shortcomings of interactive communication between upper management level (Operations / Divisions) and lower executing level (Departments / individual groups), as well as insufficient control activities (in Operations) and monitoring system (in Head Office).

Correction of Financial Results for Previous Fiscal Year

In correcting the financial results for the previous fiscal year, the focus was on a portion of decline that was determined attributable to cost reduction that had been without impartial consideration or inappropriately included in accounts settlement for the fiscal year ended March 31, 2007; as well as being attributable to cost increases that were not reflected in the said fiscal year. It resulted in a reduction of a total of ¥ 30.2 billion*. Furthermore, according to the Committees' findings, this revision was caused by the following reasons:

- In Operational and Divisional departments, profit was given the highest priority. This attitude caused the calculation of forecasts of total costs incurred on projects subject to the percentage of completion method to be based on imprudent or optimistic interpretations.
- There were problems in information transmission under the internal control system wherein information on projects was not conveyed from the relevant departments to administration departments in a timely manner.
- With regard to cost management, responsible departments within Energy and Plants Operations were unable to fulfill their roles as they were short-staffed and lacked experience.

With regard to these issues, the External Investigation Committee has verified that there is in fact no indication that losses were intentionally hidden and their disclosure purposely delayed, and other than in the Energy and Plants Operations, no inconsistencies were found in the financial accounting process.

Ongoing and Future Measures

In order to prevent any recurrence of similar problems, the following measures are to be taken:

- Structuring a J-SOX compliant internal control system has already been commenced and the Company is working on the construction of an objective, transparent and effective internal control system.
- In order to create an atmosphere in which it is possible to have liberal and open-minded discussion with all levels, regardless of rank, a morale survey looking into such factors as the corporate culture is to be conducted on an external consultation basis. The results of this survey will be fed back to each division so as to prompt improvements in those workplaces where problems exist.

Furthermore, in response to due respect to be paid on risk assessment in Energy and Plants Operations, there are plans in place to enhance the head office's function to review major projects prior to order acceptance, and establish a new organization to enhance audits of intermediate cost and risk management, thus the enhancement of project audit functions from January 2008. To improve monitoring, Cost Accounting and Control Groups in the said Operations are to be transferred to the Finance and Accounting Division.

Promotion of reforms to the organizational structure and corporate culture as well as training will be implemented in consultation with the human resource and related divisions.

Taking the gravity of the current situation as a warning, and, recognizing that all senior management involved should shoulder responsibility, severe measures have been carried out.

In Conclusion

The current situation is recognized as the gravest in the over 150-year corporate history for IHI Corporation. We will endeavor to accomplish the management reforms being in process for these few years, in order to ensure that this situation does not occur again, thus achieving the targets of the new medium-term management plan that commenced in 2007. We would seek for your support and understanding.

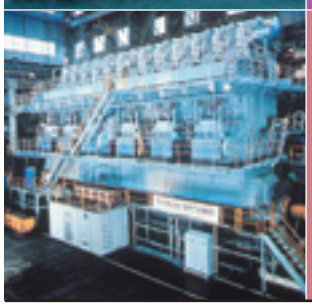
*Revisions to Previous Fiscal Year's Energy and Plants Operational Results (before and after revision)

(Unit: Billions of yen)

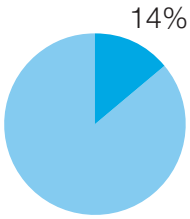
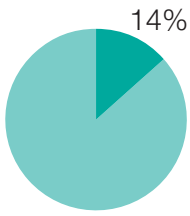
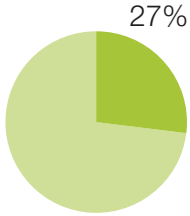
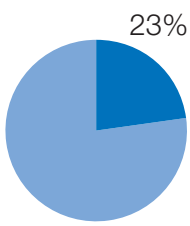
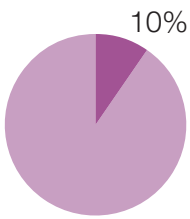
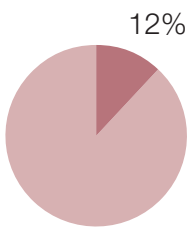
	Net sales	Operating income	Orders received
Fiscal year ended March 31, 2007 (before revision)	370.7	(2.8)	349.8
Fiscal year ended March 31, 2007 (after revision)	356.9	(33.0)	351.3

Kazuaki Kama
President and Chief Executive Officer

IHI at a Glance

	Net Sales	Operating Income
 **Logistics Systems and Structures Operations**	(Billions of yen) '07 **183.3** '06 185.5 '05 188.2 '04 202.8 '03 216.9	(Billions of yen) (6.3) '07 (2.8) '06 (3.2) '05 '04 2.3 '03 4.0
 **Industrial Machinery Operations**	(Billions of yen) '07 **175.9** '06 162.4 '05 144.0 '04 129.7 '03 105.5	(Billions of yen) '07 **11.5** '06 7.5 '05 2.1 (3.8) '04 (1.3) '03
 **Energy and Plant Operations**	(Billions of yen) '07 **356.9** '06 311.1 '05 314.9 '04 268.9 '03 273.7	(Billions of yen) (33.0) '07 '06 7.0 '05 6.8 (19.7) '04 '03 2.2
 **Aero-Engine and Space Operations**	(Billions of yen) '07 **297.9** '06 269.5 '05 238.4 '04 241.4 '03 243.9	(Billions of yen) '07 **16.3** '06 16.5 '05 13.0 '04 9.3 '03 10.2
 **Shipbuilding and Offshore Operations**	(Billions of yen) '07 **132.7** '06 116.2 '05 122.1 '04 118.0 '03 113.3	(Billions of yen) '07 **1.6** (8.6) '06 (13.6) '05 (20.7) '04 '03 4.7
 **Other Operations**	(Billions of yen) '07 **161.6** '06 163.2 '05 162.1 '04 173.1 '03 161.4	(Billions of yen) '07 **4.3** '06 1.7 '05 4.9 '04 8.8 '03 5.2

Notes: Net sales and operating income for each segment include inter-segment transactions.
Figures for 2007 in Energy and Plant Operations were revised as of December 27, 2007.

Orders	'07 Net Sales by Segment	Group Companies	Main Products
(Billions of yen) **'07 174.3** '06 158.5 '05 185.5 '04 183.8 '03 172.6		Ishikawajima Transport Machinery Ishikawajima Construction Materials Ishikawajima Ship & Chemical Plant ★Kansai Segment Kanto Segment IHI SA Technology Niigata Transys PC Bridge IHI Logistics Technology ISMIC Nishi-Nihon Sekkei Engineering	●Material handling systems ●Physical distribution and factory automation systems ●Parking systems ●Bridges ●Construction materials and others
(Billions of yen) **'07 205.5** '06 140.4 '05 129.4 '04 121.1 '03 99.1		Voith IHI Paper Technology Ishikawajima Iwakuni Seisakusho(*1) Ishikawajima Industrial Machinery(*1) Ishikawajima Seiki(*5) ★Kondo Iron Works ★Turbo Systems United ● JH Corporation IHI Metaltech Ishikawajima Machinery Engineering Ishikawajima Mass-Produced Machinery(*2)(*3) IHI Charging Systems International GmbH IHI Charging Systems International S.p.A. IHI Turbo America IHI Turbo (Thailand) Ishikawajima Hanyoki Service(*3) Ishikawajima Compressor Service(*3)	●Iron and steel manufacturing equipment ●Turbochargers ●Mass-produced machinery and others
(Billions of yen) **'07 351.3** '06 310.6 '05 331.8 '04 324.9 '03 209.6		IHI Packaged Boiler Kotobuki Iron Works Niigata Power Systems PT Cilegon Fabricators NICO Precision Kanamachi Purification Plant Energy Service Nagoya Plastic Handling ☆IHI Logistics Ishikawajima Kankyo Engineering Ishikawajima Inspection & Instrumentation Ishikawajima Plant Engineering & Construction Ishikawajima Plant Construction ★FELGUERA-IHI S.A. ☆IHI ENGINEERING AUSTRALIA JURONG ENGINEERING ISHI POWER SDN. BHD. Jurong Engineering (Philippines) Inc.	●Boilers ●Gas turbines ●Components for nuclear power plants ●Environmental control systems ●Storage facilities and others
(Billions of yen) **'07 257.3** '06 246.8 '05 234.0 '04 220.6 '03 219.4		IHI Aerospace Ishikawajima Precision Castings IHI Master Metal Galaxy Express INC Engineering IHI Aerospace Engineering Ishikawajima Jet Service	●Jet engines ●Space-related equipment and others
(Billions of yen) **'07 184.7** '06 218.0 '05 143.3 '04 142.0 '03 118.1		IHI Marine United IHI Amtec IHI Kure Marine Construction IHI Marine	●Shipbuilding ●Ship repairs ●Offshore structures and others
(Billions of yen) **'07 188.1** '06 151.3 '05 135.2 '04 146.7 '03 141.6		IHI Scube Ishikawajima Kougyo ★Kaisho Shipping ● ★Tachihi Kaihatsu ● Chiba Warehouse TFI Corporation Tokyo-Wan Tochi Ishikawajima Technical Training Institution IHI Construction Machinery Ishikawajima Shibaura Machinery(*4) ☆San-Etsu ★New Tachikawa Aircraft Star Farm Machinery Manufacturing Diesel United IHI Trading Ishikawajima Construction Machinery Sales IHI EUROPE Limited ISHIKAWAJIMA EUROPE B.V. IHI INC.	●Diesel engines ●Agricultural machinery ●Construction machinery ●Financing and service and others

Notes: Unmarked companies are consolidated subsidiaries
☆: Non-consolidated subsidiary
★: Affiliated company (● : companies accounted for by the equity method)

Companies with asterisks changed their names to the following on July 1, 2007.
New names: (*1) IHI Machinery and Furnace (*2) IHI Turbo (*3) IHI Compressor and Machinery (*4) IHI Shibaura Machinery
Ishikawajima Seiki changed its name to IHI SEIKI on October 1, 2007. (*5)

Logistics Systems and Structures Operations

Logistics Systems and Structures saw the first signs of a market recovery as Japan pulled out of a temporary downward spiral in public spending, and the trend in private-sector investment in plant and equipment was generally favorable. This situation benefited sales of logistics systems and deck cranes while the concentration of resources and selectivity in the acceptance of new orders began to have a positive effect in the material handling and parking systems businesses, and signs of a recovery began to emerge.

As a direct result of these conditions and an aggressive sales development program, orders for the segment increased 10% compared with the previous fiscal year to ¥174.2 billion. The main construction order received was for a continuous ship unloader for Taiwan. Sales edged down year on year to ¥183.2 billion, the main success being a bridge over the Kizu River for the Ministry of Land, Infrastructure and Transport.

An operating loss of ¥6.2 billion was attributable to such factors as a decline in bridge sales.

Deck Crane Cumulative Production Volume Reaches 5,000 Units

In July 2006, Aichi Works safely conducted and completed factory trial operations of a deck crane that marked an unprecedented milestone in Japan: the 5,000th unit built since the start of production at IHI in 1963.

Deck cranes, which are mounted on the decks of bulk carriers, container vessels and refrigerated cargo carriers, are indispensable deck machinery in regions that lack port cargo handling infrastructure.

The No. 1 manufacturer of deck cranes for marine use, IHI currently maintains the largest share of this market.

IHI supplies its deck cranes not only to IHI Marine United Inc., but also to shipyards all over Japan, especially those in the Chugoku and Shikoku regions.

IHI's 5,000th deck crane

Order Received for One of World's Largest Iron Ore/Coal Continuous Ship Unloaders

Ishikawajima Transport Machinery Co., Ltd.(IUK) received an order from Dragon Steel Corporation (Taiwan) for two pier-mounted, bucket elevator-type continuous ship unloaders for discharging iron ore and coal from bulk carriers.

These continuous ship unloaders are to be used for discharging iron ore and coal at a newly constructed steel mill. At 3,000 tons of iron ore or 2,000 tons of coal per hour, each unloader possesses one of the largest discharging capacities in the world. Deliveries are scheduled to commence in September 2008.

In the years ahead, IUK will continue to take steps, both in Japan and overseas, to expand sales of bulk handling equipment and undertake focused and aggressive sales action. IUK's goal is to win two to three orders for continuous ship unloaders per year, especially in Asia, where prospects for growth in demand remain high.

Iron ore / coal continuous ship unloaders

Sales of New Parking System Has Begun

In October 2006, Ishikawajima Transport Machinery Co., Ltd. (IUK) began distributing IHI Fork Parking, a new elevator-type mechanical parking system that enables quieter action and speedier entry and exit.

IHI Fork Parking has fork-shaped lifting and lowering equipment (the cage) that transports the vehicle and tray on which the vehicle is parked, so that when the two of them are crossed a vehicle can be transferred. Not having to handle pallets to store the vehicles like conventional pallet-type elevator parking systems shortens entry and exit times. The exit time can be shortened by 30% in comparison, thus reducing the waiting time during peak hours and increasing user satisfaction. Furthermore, the adoption of rope-based lifting and lowering equipment has reduced noise and vibration.

IUK will add IHI Fork Parking to its lineup of existing models and implement an aggressive marketing campaign.

Fork parking system diagram

Industrial Machinery Operations

As a result of favorable market conditions and vigorous capital spending, Industrial Machinery Operations performed well across its range of products, with both industrial machinery and vehicular turbochargers continuing to enjoy buoyant demand.

Benefiting from thorough market development efforts, orders showed significant gains on the previous fiscal year, rising to ¥205.4 billion. The principal new construction project was a blast furnace ordered for the Wakayama Steel Works of Sumitomo Metal Industries, Ltd.

Sales in this segment rose 8% year on year to ¥175.9 billion. Sales consisted primarily of turbochargers for automakers and repair work carried out on the No. 3 Furnace at the Kashima Steel Works of Sumitomo Metal Industries, Ltd.

Operating income showed a significant increase over the previous fiscal year, rising to ¥11.4 billion.

Order for New Blast Furnace from Sumitomo Metal Industries, Ltd.

IHI received an order for a new blast furnace for Sumitomo Metal Industries' Wakayama Steel Works. The scope of IHI work for this new order will encompass everything from the design to fabrication, installation and trial operation of the main blast furnace unit, the furnace top charging unit, raw material transport equipment and ancillary equipment.

This marks the third straight order from Sumitomo Metal Industries for large blast furnace construction, following construction work performed on the new No. 1 Blast Furnace at Kashima Steel Works in 2004 and repair work on the No. 3 Blast Furnace at the same works.

The new blast furnace is the replacement for the No. 4 Blast Furnace that is currently in operation at Wakayama Steel Works. The capacity of the new furnace will be 3,700 cubic meters compared with the existing furnace's 2,700 cubic meters. As a result, the annual production of raw steel by Wakayama Steel Works will jump from 400 tons to 450 tons.

No.1 Blast Furnace at Sumitomo Metal Industries' Kashima Steel Works

Production Plant for Key Turbocharger Components and Test Center Completed

In August 2006, Ishikawajima Mass-Produced Machinery Co., Ltd. (IHK), the manufacturer of IHI turbochargers, started production of key turbocharger components at its Shinmachi Works. Completion of the Shinmachi Works will result in a 50% increase in the production volume of such components

IHI set up a technical center within its Yokohama Works to conduct turbocharger performance and engine matching tests. IHI can now perform tests at higher temperatures, pressure levels and revolutions than ever. Combining these abilities with the technical center and IHK's Kiso Works will enable IHI to develop turbochargers that are better able to respond to customer needs.

The completion of these two facilities will strengthen both the production and development capabilities of the entire IHI Group, allowing it to expand its global production volume from the current 2 million units to 4 million units.

*1 Ishikawajima Mass-Produced Machinery Co., Ltd. (IHK) Shinmachi Works changed its name to IHI Compressor and Machinery Co., Ltd. Shinmachi Works from July 1st, 2007.

*2 Ishikawajima Mass-Produced Machinery Co., Ltd. (IHK) Kiso Works changed its name to IHI Turbo Co., Ltd. Kiso Works from July 1st , 2007.

Front view of IHK Shinmachi Works

Development of Innovative “V-presto” Tunnel-Type Continuous Vacuum Carburizing Furnace Offers Superior Productivity

JH Corporation, a wholly owned IHI subsidiary, has developed and begun full-scale marketing of the V-presto tunnel-type continuous vacuum carburizing furnace, which is capable of performing high-quality hardening of metal component surfaces, such as automobile transmissions, by impregnating them with carbon molecules. The unit is based on an entirely new concept capable of replacing conventional continuous gas carburizing equipment, providing superior productivity and substantially reducing processing costs.

The furnace, which is equipped with multiple (up to a maximum of three) carburizing chambers within a single tunnel-shaped chamber, employs only a heat-insulating door rather than a vacuum-sealed door as the carburizing chambers' dividing structure (patented in Japan). Dispensing with vacuum-sealed doors, the primary factor behind the higher manufacturing cost of conventional batch furnaces, reduced initial costs by 20%. Moreover, the furnace can be installed in a space less than two-thirds the length of a conventional furnace. As the furnace features an energy-saving design that reduces heat loss and is capable of maintaining a uniformly high carburizing chamber temperature, running costs can be improved by as much as 50%.

“V-presto” tunnel-type continuous vacuum carburizing furnace

Energy and Plant Operations

In Energy and Plant Operations, challenging conditions persisted for energy- and nuclear power-related equipment in the Japanese market. In contrast, there was a significant upward trend in overseas market demand for coal-fired boilers as orders increased from the United States and Europe in response to skyrocketing crude oil prices. Plant-related equipment, in which a rise in large-scale capital investment was particularly pronounced overseas, fared well compared with the previous fiscal year.

Under these operating conditions and as a result of intense marketing efforts, the value of orders rose 13.1% compared with the previous fiscal year to ¥351.3 billion. Major orders included a coal-fired boiler for the U.S. market. Year-on-year segment sales climbed 14.7% to ¥356.8 billion, the main construction project being an LNG plant for Qatar.

In spite of these developments, an operating loss was ¥33.0 billion due to such factors as the declining profitability of overseas construction projects.

IHI to Supply U.S. Power Project with Large Coal-Fired Steam Generator

IHI has been awarded a contract for a large coal-fired steam generator to be supplied to Plum Point Energy Station in Osceola, Arkansas. Dynegy Inc. is the majority stakeholder in this power project, which will have a power generation capacity of 720MW.

Plum Point Power Partners (PPPP), a joint venture consisting of a major U.S. engineering company Black & Veatch and two major general construction companies, Gilbert Southern Corp. and Zachry Construction Corporation, entered into an engineering, procurement and construction (EPC) contract for this project. IHI's contract with PPPP is for the supply of the steam generator unit and technical assistance during the installation, commissioning, and testing periods of the power plant. Initial operation is scheduled for July 2010.

Artist's impression of Plum Point Energy Station

IHI to Supply LNG Receiving Terminals to China

In August 2006, the consortium in which IHI is a leader has received an engineering, procurement and construction (EPC) contract for an LNG receiving terminal planned by the Shanghai LNG Company Ltd. The planned LNG terminal will have three storage tanks, again each with a storage capacity of 165,000 cubic meters, and be capable of receiving 3 million tons of LNG per year. IHI has constructed numerous LNG terminals in Japan and overseas orders—from India, Mexico, Taiwan, and the United States—have been on the increase since 2000.

LNG receiving Terminal

IHI to Participate in Pressurized Light-Water Reactor (PWR) Project

IHI has decided to invest in the new company, which is established in both the U.S. and the U.K. for acquiring Westinghouse Electric Corporation (BNFL USA Group Inc., owned by BNFL, a British nuclear power company, and Westinghouse Electric UK Limited, collectively Westinghouse), and IHI will participate in a PWR project being undertaken by Westinghouse, a subsidiary of this new company, as a manufacturer of key PWR equipment.

From the electric power supply stability and global warming prevention standpoints, the business outlook for the global nuclear power industry calls for steady medium- to long-term growth. Based on its own growth strategy, IHI is placing particular emphasis on the energy and environmental fields and sees nuclear power as one of its core businesses. IHI has decided to make an investment as it believes that participation in both PWR and boiling light-water reactor (BWR) projects will lead to an increasing number of orders in the global market and greater business stability.

Artist's impression of pressurized light-water reactor nuclear power station AP1000

Aero-Engine and Space Operations

In Aero-Engine and Space Operations, the harsh conditions in the defense sector continued under the adverse impact of budget reductions for front-line defense equipment. In the civil aviation sector, the market for aero-engines and engine overhauls was buoyant, spurred by continued active spending on more economical aircraft and regional jets. Steady progress was made with the development of the GEnx jet engine, which is currently at the flight test stage and destined for the Boeing Company's next-generation, mid-sized civil aircraft project. There was a steady expansion in engine orders to keep pace with aircraft sales, which remained favorable, with further growth expected.

Under these circumstances and as a result of concerted sales efforts, IHI gained orders for F110 engines and F100 engine components for the Japan Defense Agency (now the Ministry of Defense), civil sector orders for V2500, CF34, GE90 and GEnx engines and components, as well as for V2500 overhauls. Adding orders for related equipment, total orders amounted to ¥257.3 billion, an increase of 4% compared with the previous fiscal year. Sales of ¥297.9 billion represented a healthy year-on-year gain of 11%.

Operating income remained at about the same level as the previous fiscal year, at ¥16.3 billion.

Expansion of Soma Aero-Engine Works Completed

In May 2006, IHI completed the expansion of its Soma Aero-Engine Works (Onodai, Soma City, Fukushima Prefecture), which produces jet engine parts for aircraft.

The plant expansion represents both a response to increasing civil jet engine production as well as a reorganization of our aircraft engine production system.

The expanded Soma facility will have a 1,000 - strong workforce.

Demand, especially for civil jet engines, is on the rise, and production — of the CF34 engine for regional aircraft; the GE90, the world's largest jet engine, for the Boeing 777; and the GEnx engine for Boeing's state-of-the-art 787, which is scheduled to enter service in 2008 — is expanding.

Soma Aero-Engine Works

Final M-V Rocket Successfully Launched

In September 2006, the Japan Aerospace Exploration Agency (JAXA) launched M-V rocket No. 7, for which IHI Aerospace (IA) had taken a leading role in the development and manufacture of a majority of components, and safely released the solar observation satellite "SOLAR-B" into sun-synchronous polar orbit.

The launch marked the last in the M-V series, which began with the launch of the first rocket in 1997. The M-V rocket was designed for space science missions and has been used to launch a number of observation and exploration satellites.

IHI's strategy is to initiate research into the next solid rocket to succeed the M-V, as it anticipates having a role to play in the IA , Japan's only solid rocket project.

M-V Rocket No. 7

Brisk Jet Engine Orders for Next-Generation Passenger Aircraft

IHI is involved in the joint development of the latest commercial jet engine, the GEnx. Orders for the GEnx have been robust, and over 800 orders have been already received.

IHI is participating in the design, development and manufacture of the GEnx engine as a revenue sharing partner (RSP) with an approximately 13% share of the development project's work. Its design and development responsibilities cover the low-pressure turbine portion of the engine and the latter stages of the high-pressure compressor.

Incorporating state-of-the-art technology, the GEnx engine is scheduled to receive type certificate approval in 2007 and be installed on Boeing's next-generation B787 aircraft due to enter service in 2008.

Artist's impression of GEnx engine

Shipbuilding and Offshore Operations

Shipbuilding and Offshore Operations enjoyed favorable demand for new-build ships owing to a resurgence in sea-borne trade worldwide. Nevertheless, an unrelenting upward trend in procurement prices for steel and other raw materials along with the global move toward the strengthening of legal standards including those governing common ship structures has created an environment where companies must exercise caution when pursuing new business.

Under these circumstances, IHI received orders for 23 new ships, comprising three large-scale tankers, 17 large-scale container ships, two coastal trade vessels and one naval vessel, totaling 1,860,000 deadweight tons. Adding orders for ship repair and maintenance, total orders came to ¥184.6 million, a 15% decrease compared with the previous fiscal year. Sales increased 14% to ¥132.6 million with the completion of a total of 15 ships amounting to 1,700,000 deadweight tons, including two large-scale tankers, four container ships, eight large-scale container ships and one coastal trade vessel.

Operating income amounted to ¥1.5 billion.

IHI Delivers One of World's Largest Container Ships

In October 2006, IHI Marine United Inc. (IHIMU) delivered the Humber Bridge, a large container ship with an 8,000-container carrying capacity built at Kure Shipyard, to Kawasaki Kisen.

"Humber Bridge", the first of a series of eight vessels ordered by Kawasaki Kisen, which has the largest container loading capacity of any ships ever built in Japan. The vessel is to be deployed mainly on Far Eastern and European services.

Container ship "Humber Bridge"

Japan's first Electric-Driven CRP-Equipped Cargo Ship Completed — Reduces Fuel Consumption by Over 10% —

IHI Marine United, Inc. (IHIMU) has delivered the "Shinei Maru", a 492GT general cargo/oil tanker equipped with the contra-rotating propeller (CRP) unit driven by electric motors, to co-owners, Niijima Bussan Co., Ltd. (a coastal forwarder in Japan) and the Japan Railway Construction, Transport and Technology Agency (JRTT), at Sanuki Shipbuilding & Ironworks Co., Ltd. in Kagawa Prefecture.

Although IHIMU had previously constructed ocean-going vessels with CRP units, this represents the first use of an electric motor driven unit in Japan. During the ship's sea trials, the combined use of a highly efficient electric power system, the CRP and an energy-saving hull shape reduced fuel consumption by more than 10% compared with conventional diesel-propelled vessels of the same class serving the route the "Shinei Maru" will be plying.

The ship has also demonstrated superior performance thanks to its advanced propulsion system, achieving low noise and vibration levels as well as low emissions: 10% less CO_2 and SOx than a conventional ship and about 40% less NOx. Fuel consumption reductions and the design's adaptability to the coastal environment will be further evaluated during actual operations.

Electric-driven CRP-equipped cargo ship "Shinei Maru"

IHI AMTEC Produces 400th Bulbous Bow

IHI AMTEC Co., Ltd. has achieved a cumulative production volume of 400 bulbous bow units since it first began building them in 1991. This milestone has propelled IHI AMTEC into the ranks of the world's largest suppliers of these bows.

The curved surface of a bulbous bow is formed through a process called line heating, in which a steel plate is curved by effectively manipulating the shrinkage deformation that arise when its surface is selectively heated by a burner moving over it at an appropriate speed and then rapidly cooling the surrounding areas of the heated surface with water. Our bending technology is world-class, and it is only through the cumulative experience of skilled craftsmen that expertise in this technology can be acquired.

IHI AMTEC began marketing the bulbous bow in 1995 and also manufactures them for Very Large Crude Carriers (VLCCs) and large container ships. Holding more than a 30% share of the domestic market for bulbous bows for ocean-going vessels, IHI AMTEC is Japan's largest manufacturer and will continue to make every effort to achieve greater market growth.

IHI AMTEC's bulbous bow

Other Operations

In Other Operations, despite difficult market conditions for agricultural machinery, favorable demand for construction machinery carried over from the previous fiscal year and real estate business increased.

Given these conditions, and as a result of proactive marketing, orders in this segment increased 24% compared with the previous fiscal year to ¥188.0 billion. Sales edged down slightly to ¥161.6 billion.

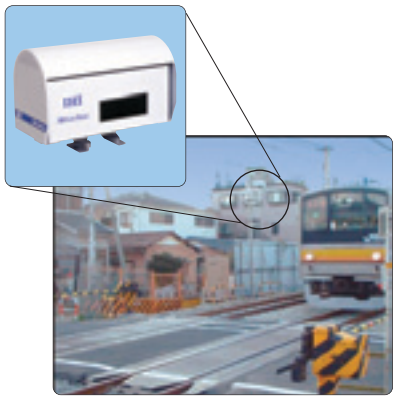
As a result of an upturn in profit from diesel engines, operating income increased significantly year on year to ¥4.3 billion.

Development and Distribution of 3D Laser Radar Obstacle Detection System — First 3D Laser Radar System for Crossing Use —

IHI has initiated sales of a 3D Laser Radar Obstacle Detection System for crossing use co-developed by IHI and the East Japan Railway Company (JR East), which is designed to prevent accidents at railroad crossings.

This is the first system to use 3D laser radar to detect obstacles such as automobiles in a preset area within railroad crossings. The system alerts train crews of the presence or absence of obstacles within crossings by means of a secure device. The detector's main features are: 1) ease of installation and maintenance thanks to its trackside location, 2) its ability to detect objects under low light levels as well as at night, 3) detection unaffected by sunlight and weather, and 4) its ability to monitor an entire crossing and determine the size of objects and direction of any movement.

IHI is targeting the system not only at new crossing installations and upgrade demand for conventional systems, but also at road traffic applications, including intersections and highways, and other fields such as security. IHI intends to grow this business.



3D laser radar obstacle detection system

Business Alliance Formed with Mitsubishi Heavy Industries for Marine Diesel Engines

IHI subsidiary Diesel United (DU) has agreed to the forming of a business alliance with Mitsubishi Heavy Industries, Ltd. for low-speed marine diesel engines.

The scope of the business alliance covers reciprocal OEM production of engines for export to overseas shipyards and the sharing and exchange of management information on common spare parts.

The business alliance is intended to achieve rational use of both companies' production facilities; provide a higher rate of customer satisfaction in after-sales service (thereby expanding the market share of low-speed diesel engines manufactured by both companies); and increase profits and business stability.

In the areas of production and after-sales service, the business alliance will produce greater synergistic effects and a stronger competitive position in the area of low-speed diesel engines.

Marine diesel engine

Over 1,000 Ozone Water Endoscope Reprocessors Delivered

The innovative ozone water endoscope reprocester model “ONW-10”, a product jointly developed by IHI and Ishikawajima-Shibaura Machinery Co., Ltd., has achieved sales of over 1,000 units. The first in the industry to use ozone water, the “ONW-10” was first launched in 2002 through Shin-ei Industries, Inc., a manufacturer and distributor of medical instruments and nursing supplies.

The ONW-10 using ozone water instead of conventional chemicals features not only enhanced disinfecting performance and a short washing cycle time but also zero residual toxicity and low running costs the unit provides environment friendliness and economy. Increased demand is foreseen, so IHI will make every effort to achieve sales of 2,000 units.

* Ishikawajima Shibaura Machine Co., Ltd. renamed to IHI Shibaura Corporation from July 1st , 2007.

Endoscope reprocessor “ONW-10”

R&D Policy

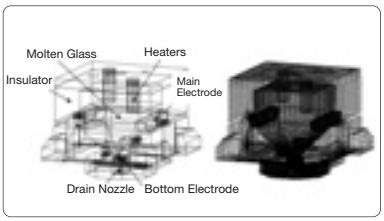
IHI conducts research and development with three basic goals: “to pioneer new fields of leading-edge technologies,” “to advance common fundamental technologies,” and “to integrate technologies to develop new types of products.” By making constant efforts to increase efficiency, reliability and durability, 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 is the foundation of IHI.

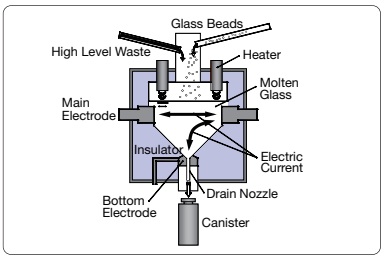
Topics

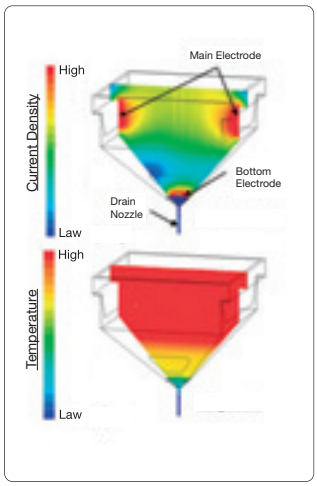
Computational Fluid Dynamics for Glass Melters

IHI plans to take spent nuclear fuel from power plants and reuse it for power generation through reprocessing. Radioactive liquid waste that is generated through this process and cannot be reused will be immobilized with glass and stored in sealed airtight metal containers. IHI has developed a glass melter that mixes glass melted at high temperature with liquid waste and then seals it in containers. Possessing technology capable of understanding in detail such factors as glass flow and heat transfer within the melter was essential to improving melter performance.

Therefore, through the application of computational fluid dynamics, IHI developed a new technology that provides a simultaneous computer simulation of everything from glass flow, heat transfer, and electrical flow within the melter, to the movement of metal particles precipitating within the glass. As a result, IHI can now predict how these phenomena will affect each other and what impact operating conditions will have on the melter. IHI plans to have this technology operational in existing melters and has already begun using it in the development of next-generation melters.





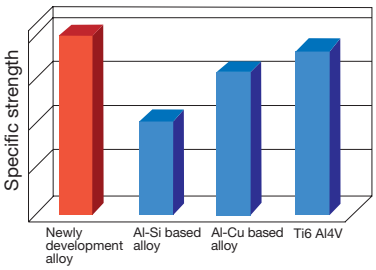


(Left, Above) Outer-view of glass melter
(Left, Below) Concept of glass melter
(Right) Result of analysis

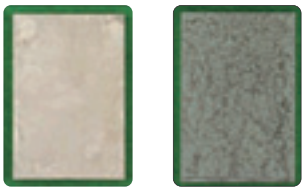
Development of High-Strength Magnesium Alloy

At one-quarter the density of iron and two-thirds that of aluminum, magnesium alloy is the lightest of the alloys in practical use. Consequently, magnesium alloy holds promise for transport aircraft applications, where the goals are to reduce the weight of components and lower emissions. However, their range of applications is limited, because of insufficient mechanical and corrosion properties. The goal of our research has been to expand the range of magnesium alloy applications. We are making progress in a project with the Ministry of Economy, Trade and Industry to develop a new, high-strength and highly corrosion-resistance.

In the development of the new alloy, our focus has been on alloys such as gadolinium, to which rare earth elements and zinc compounds have been added. Heat-treating alloys that contain these added elements results in the formation of a microscopic 100nm structure and increases strength, while readily forming a stable protective surface coating that reduces corrosion. As a result of our studies into element compound ratios and other factors, we succeeded in developing one of the world's strongest alloys, which possesses the same corrosion-resistance characteristics as aluminum alloy.



Comparison of newly developed alloy's specific strength with that of other metallic materials
**specific strength=strength/density*

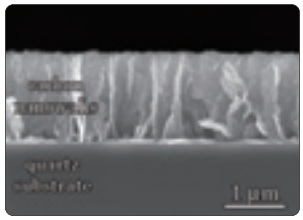


(a) Newly developed alloy
(b) Aluminum alloy (Al-Cu based alloy)
Comparison of surfaces conditions after corrosion test

High-Speed, Large-Area Synthesis of Carbon-Based Material

Carbon nanomaterials, including carbon nanotubes, hold great promise for future applications such as inside electronic devices or as novel electrode materials. Accordingly, a great deal of research is being conducted worldwide in order to improve nanomaterial synthesis as well as to further understand their physical properties. IHI has developed a method for efficiently synthesizing large quantities of carbon nanowalls (CNW), a type of carbon nanomaterial, using plasma-enhanced chemical vapor deposition (CVD) equipment. Our method utilizes a DC discharge which permits uniform synthesis on 10cm x 10cm substrates at a growth rate of 5 μm/h, a full order of magnitude faster than any other known method.

CNWs grown on silicon substrates are made up of numerous overlapping sheets several μm high and several nm thick. After meticulous analysis, we have found that each single sheet consists of a collection of microscopic crystals several nm in size, implying that nanowalls possess a greater surface area than other nanocarbon material. As a consequence, CNWs are considered a highly promising material due to their expected gas absorption and charge retention properties. We are forging ahead to further assess and improve upon these properties in a collaborative research project with Yokohama City University.

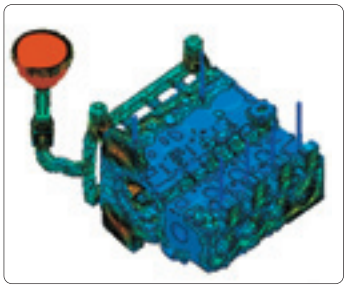


*Side view of nanowalls taken with SEM (*SEM···Scanning Electron Microscope)*

Casting Simulation

IHI castings have applications in a wide variety of product fields, ranging, for instance, from jet engines and automotive superchargers, to components for marine and agricultural machinery engines.

Casting simulation is used to improve the quality and reduce the cost of these castings. The trial manufacture of castings is, in fact, an expensive and highly time-consuming process. However, using computer simulation to produce virtual castings in advance to optimize the casting design dramatically reduces the cost of trial and error. By combining quality engineering with simulation, it is possible to determine the conditions required for a robust casting manufacturing process. Conventional casting technology requires craftsmanship, but to improve the technology to the next level and produce the world's best castings, the merging of craftsmanship with casting simulation is necessary.



Casting simulation for 4-cylinder engine block

Development of Laser-Arc Hybrid Welding Process for Large-Scale Structures

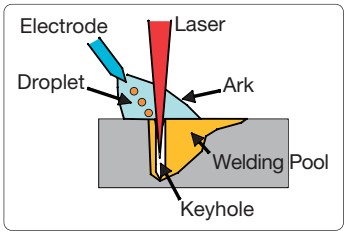
At IHI, laser welding has been put to practical use in several process systems. These have included the welding of jet engines, the maintenance and repair of nuclear power plants, and automotive sheet steel welding systems.

Laser oscillator performance has improved significantly in recent years. As this has brought about advances such as higher power, beam quality and efficiency, IHI is conducting R&D into new areas of application in the welding of large-scale structures such as ships and bridges.

IHI research is focused on the development of laser-arc hybrid welding, state-of-the-art technology that enables the application of laser welding to large-scale structures.

Laser-arc hybrid welding can improve the fit-up gap tolerance, which is the main disadvantage of laser welding, by combining laser and arc energy. Therefore, this is the welding process that is most suited for large-scale structures.

By concentrating its technological resources IHI has installed the brand-new high-power fiber laser system, accelerated developments in low-distortion welding procedures as well as in the evaluation of joint performance, and made improvements to structural designs suited for laser weld joints. IHI is committed to commercializing laser-welded structures in the near term, ahead of its competitors.



(Above) Laser-arc hybrid welding
(Below) Concept of laser-arc hybrid welding

Tailored Blank Laser Welding System

To improve safety, reduce the weight of vehicles and reduce material costs, the automotive industry is increasingly using components made of tailored blanks-multiple steel plates of differing thicknesses and tensile strengths that are welded together. This has resulted in a growing demand for laser welding equipment capable of producing tailored blanks. IHI has developed a tailored blank laser welding system and has already delivered equipment for the mass production of tailored blanks to automobile component manufacturers.

IHI's system displays innovative features. No welding jig tooling changes are required when changing from the production of one component to another as this is swiftly performed by a servo-axis positioning device, thus offering high operational availability. IHI is also developing an inspection device that incorporates a laser weld quality control function for use with a welding monitor system (iL-Viewer). When attached, the device will be capable of "visualize" the melt pool and surrounding areas during welding and automatically distinguish defective from non-defective welds, thereby increasing product yield.

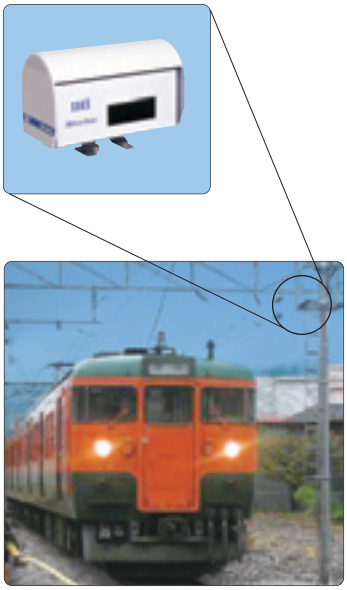
Tailored blank laser welding system

Railroad Crossing Obstacle Detection System

Railroad crossing obstacle detection system that detect vehicles stuck on crossings are deployed at railroad crossings as accident prevention safety equipment. However, with demand for safety increasing, railway companies are under pressure to install such devices or upgrade conventional systems. In response to demand, IHI has developed a 3-D laser radar obstacle detection system in partnership with East Japan Railway Company (Fig. 2).

The system, unaffected by sunlight and weather, calculates the position of objects within crossings rapidly and with high precision, thus enabling the reliable detection of obstacles. In addition, because a single device can monitor the entire crossing (Fig.1), installation is much easier than conventional systems.

IHI commenced sales of these systems to railway companies in fiscal 2006 and has already delivered approximately 110 systems, primarily to the East Japan Railway Company. In fiscal 2007, IHI plans to carry out an aggressive sales campaign to a large number of railway companies.



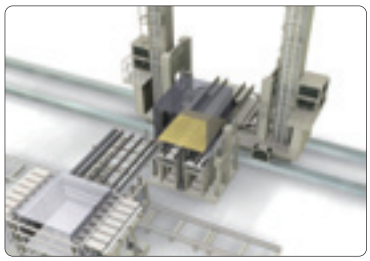
(Above) Obstacle detection system (Fig.1)
(Below) 3D laser rader obstacle detection system installed in a railroad crossing (Fig.2)

Large Glass Substrates Distribution System

As the size of flat-screen TVs rapidly increases, so does the size of the glass substrates passing down TV production lines, the most advanced of which are now able to accommodate glass substrates over 2 meters in length. Multiple plates are stacked in a single storage case for transportation between production equipment. However, as substrate sizes have increased so have transport distances and space requirements, causing major problems. IHI has developed and initiated sales of a high-speed, space-saving glass plate distribution system that utilizes proprietary air float-type, contact-free transport technology and a Random Access Buffer™.

The Random Access Buffer™ is a temporary glass plate storage device that uses a thin air floating-unit as a "hand" to randomly withdraw glass plates from the case in which they are tightly stacked. In the past, the glass plates had to be sequentially accessed from the bottom of the case, but this system overcomes the limitation of having to insert and withdraw the glass plates in sequential order.

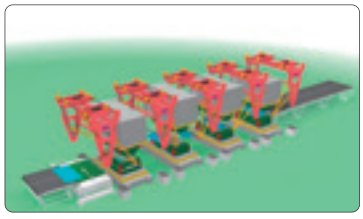
The system, which transports the glass nearly four times faster than past systems, is used to sort the glass plates stacked in the case at each stage of the process. At the same time, the system handles the glass plates more efficiently and takes up only half the space required by conventional systems.



Large glass substrates distribution system

New Tandem Press Line

In response to recent demand from automobile manufacturing plants, IHI has developed a new tandem press line that combines the high speed of a transfer press with the flexibility of a conventional tandem press. The new high-speed tandem press line utilizes an innovative, lightweight and highly rigid V-type mechanism in its transport unit. In addition, an advanced control system that coordinates the synchronous operation of all the instruments eliminates production delays and maintains the same maximum output speed of 15 sheets per minute of a transfer press. At the same time, the press and transport units can be operated independently in the manner of a tandem press but offer flexibility by sharing few of a conventional system's restrictions on die configurations.



Artist's impression of new tandem press line

IHI Intellectual Property

(As of March 31, 2007)

Basic Policy on Intellectual Property

To generate greater corporate value, IHI has established the following basic policy concerning intellectual property (IP).

(1) Promote IP activities with integrated business and R&D strategies

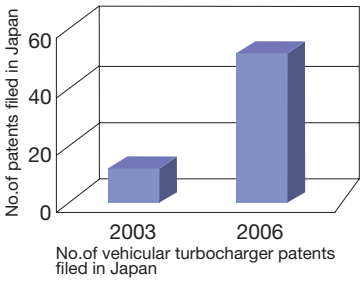
(2) Carry out thorough IP risk management

(3) Invigorate IP activities in each business operation and improve internal organizational structures

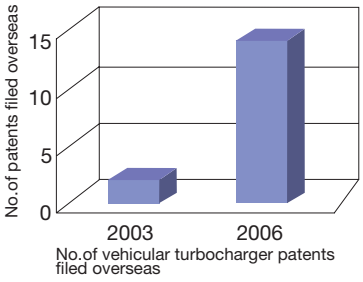
Outcome of Focus on Selected Businesses

The focus on selected businesses was stated in the Management Policy 2004. The measures taken over the three years since the Management Policy 2004 was announced brought about the following substantive, concrete results in each business.

- **Businesses that have improved profitability through intensive distribution of management resources**
  Clean logistics systems, vehicular turbochargers, LNG receiving terminals, jet engines
- **Businesses reorganized through transfer to affiliates**
  Material handling equipment
  →Transfer of business to Ishikawajima Transport Machinery Co., Ltd. (IUK)
  Parking systems
  →Transfer of business to IUK and Ishikawajima Construction Materials Co., Ltd. (IKK)
- **Business alliances**
  Rolling mills
  →General agreement concluded with Voest Alpine Industrie AG (VAI) of Austria
- **Businesses scaled down or liquidated**
  Pumps
  →Sold to Ebara Corporation



No.of vehicular turbocharger patents filed in Japan



No.of vehicular turbocharger patents filed overseas

Since three factors—business, R&D and intellectual property activities—were coordinated, the focus on selected businesses led to a focus on selected intellectual properties, with the same results.

To give an example, IHI has aggressively filed patents for vehicular turbochargers, a business in which earnings have improved. As a result, if we compare the total number of patents filed as of April 1, 2003, published in the Management Policy 2004, with the number files on April 1, 2006, we see that there has been a dramatic increase in the number of domestic patents, from 11 to 51, and in the number of overseas patents, from two to 15.

New Business Types

A fifth category has been added to the four listed in the Management Policy 2004. Within this fifth category are included technologies that fall into the future new business category and common-basis technologies, such as welding, that cross over between some business units. A case in point is the following 3D Laser Radar Obstacle Detection System.

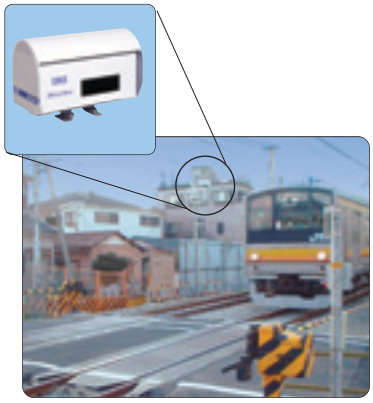
3D Laser Radar Obstacle Detection System

Having begun the development of 3D laser radar for a number of different applications during the 1990s, IHI has successfully commercialized and commenced the marketing of an obstacle detection system for the prevention of accidents at railroad crossings.

The system, co-developed by IHI and the East Japan Railway Company (JR East), detects obstacles such as automobiles within railroad crossings and alerts train crews by means of a secure device.

The system, consisting of a laser radar head and a controller, was developed by combining IHI's mechatronic, optoelectronic, and control technologies, and offers the following features.

1. Ease of installation and maintenance thanks to its trackside location
2. Ability to detect objects under low light levels as well as at night
3. Detection unaffected by sunlight and weather
4. Ability to monitor an entire crossing and determine the size of objects and direction of any movement.



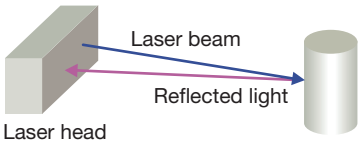
First 3D laser rader obstacle detection system (JR East, Nanbu line)

IHI has filed over 50 patents for the 3D laser radar head, controller, and the applied technology, and 10 of them have already been registered. IHI has obtained approval not only for patents, but for the design and trademark, which, along with its proprietary know-how, it protects through industrial property rights.

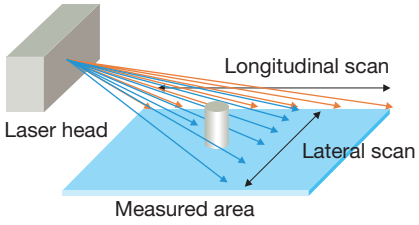
Besides railroad crossings, IHI is targeting the system at road traffic applications, including intersections and highways, and fields such as security, with the intention of growing this business to ¥1 billion in revenue.

3D Laser Radar System

1. Measures the deviation between the time that it takes a laser beam to reach an object and the time that it takes for it to be reflected back.



2. Emitting a laser beam along alternate longitudinal and lateral directions measures the special orientation of an object.



Combining the two measurements above, the system measures an object's position and three-dimensional shape.

IHI Brand Protection from an IP Perspective

The IHI trademark was filed and registered in Japan in 1961 for products the Company was selling at that time and is certified by the Japan Patent Office as an established trademark. Accordingly, it is virtually impossible for a third party to acquire the Company's trademark rights, including the rights for "IHI," in Japan. In addition, IHI has been registering its trademark overseas since 1961 and as a result it is now registered in 26 countries.

In July 2007, the Company name will be changed to IHI, but concern exists over the potential damage that an increase in counterfeiting or the malicious use of the IHI trademark by third parties could bring about as the brand's value rises. To prevent this, the Company is taking action on a daily basis to protect the IHI trademark through a range of measures that include adding designated products and registering the trademark in 70 countries.

IHI

Trademark

Note: The famous trademark means that the Japan Patent Office has determined that there is a chance that consumers could mistake products and services not actually manufactured and sold by the trademark owner (IHI) for the trademark owner's products.

IHI Group's Intellectual Property

As stated in Group Management Policies 2007, we are restructuring the business under a coherent business strategy for the entire Group, and promoting balanced growth in terms of profitability, scale, reliability and speed. Consequently, an IP-related strategy is needed for the whole Group.

A comparison between the fiscal year ended March 31, 2006, with the fiscal year ended March 31, 2007, reveals that the number of patents filed by the IHI Group rose from 575 to 667, while the number of patents held by IHI increased from 3,494 to 3,692. This shows that overall Group strength in the area of IP is improving. Nevertheless, we have established the 2007 IHI Group Basic Policy on Intellectual Property and gained a comparative business advantage for IHI and its affiliates and will continue to strengthen our IP activities based on an integration of business and R&D strategies.

Risk Management

IHI is not currently a party to any IP-related litigation.

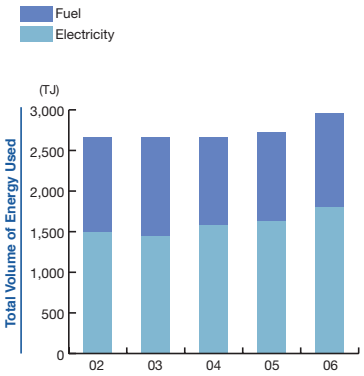
Topics

IHI makes concerted efforts to reduce waste volume and to improve recycling as part of its environment management system.

Through measures targeting zero waste, IHI achieved zero emissions in its Yokohama district plant operations in March 2004, as well as at three aero-engine works (Mizuho, Tanashi and Soma) that are part of the Aero-Engine and Space Operations in September 2004. IHI completed the process by recycling 100% of the waste at all of its manufacturing sites in March 2006 when plant operations in Yokohama, at three aero-engine works (Mizuho, Soma No. 1 and 2), in Aichi, Aioi and Kure achieved zero emissions with regard to waste headed to final disposal.

IHI's Approach to Reducing Environmental Impact and Protecting the Environment Through Production Activities

Volume of Electricity and Fuel Consumption

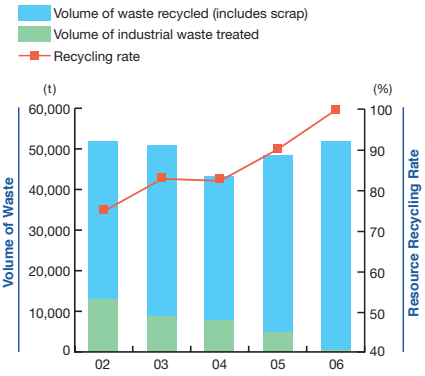


Trends in Total Volume of Energy Used

During the fiscal year ended March 31, 2007, IHI's total energy consumption, in terms of electricity and fuel used, rose 8.5% compared with the previous fiscal year due to an increase in operations. IHI is working to achieve targets for reducing energy consumption within the framework of its environmental management system.

Note: Total energy consumption is the sum of purchased electricity (excluding private electric generation) and fuels consumed. Fuel consumption volume includes fuels for private electric generators.

Volume of Waste Generation, Treatment and Recycling

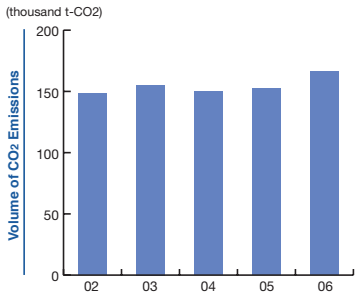


Results in Processing and Recycling Waste

The volume of waste generated by IHI's works and offices increased 18.6% year on year. As a result of the zero emission activities, the recycling ratio increased 9.5 percentage points compared with the previous fiscal year, to 99.4%.

Note: The volume of waste generated is the total volume of general waste and industrial waste. Scrap sold with a market value is also included.

Volume of CO_2 Emissions



Trends in Volume of CO_2 Emissions

In the fiscal year ended March 31, 2007, fuel consumption volume was largely unchanged from the previous fiscal year, but CO_2 emissions for the period under review increased 9.3% year on year, to 165,600 tons (45,200 tons using carbon conversion), reflecting the slight increase in the amount of purchased electricity.

Note: Figures are for respective years ended March 31.

Management of Chemical Substances

In the fiscal year ended March 31, 2007, most of the chemical substances emitted mainly into the atmosphere comprised xylene, toluene and ethylbenzene, which are used as paint solvents for ships and bridges.

To reduce emissions of these chemical equipment substances, IHI focused efforts on installing catalytic combustion equipment in paint facilities, using water-soluble paint that does not include solvents, using airless paint guns and reducing the volume of paint waste.

IHI Group Product Lineup

Logistics Systems and Structures Operations


Container cranes


Continuous unloaders


Automated warehousing systems


Parking systems


Bridges


Gates


Shield machines


Automated people movers

Material handling systems

Container cranes
Unloaders
Stackers
Reclaimers
Coal handling systems
All-weather material handling systems
Electric overhead traveling cranes
Level luffing cranes
Jib climbing cranes
Floating cranes
Deck cranes
Electric hoists

Physical distribution and factory automation systems

Automated warehousing systems
Storage systems
Conveyor transfer systems
Sorting systems
Equipment for physical distribution systems
Handling & storage system for clean rooms

Parking systems and products for civil use

Parking systems
Moving walkways

Bridges and steel structures

Bridges
Pedestrian bridges
Gates for river and sea coast
Immersed tunnels
Hybrid caissons
Aircraft maintenance facilities
Boarding bridges
Floating breakwaters
Steel structures for buildings

Tunneling machinery

Shield machines
Automatic segment assembling systems

Construction materials

Reinforced concrete segments

Transportation systems

Automated people mover
Light rail transit/light rail vehicle
Rolling stock
Snow plows

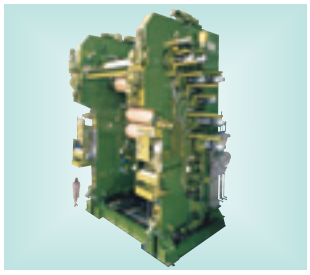
Disaster prevention systems

Seismic isolation floor systems
Mass damper systems

Industrial Machinery Operations


Blast furnace plants

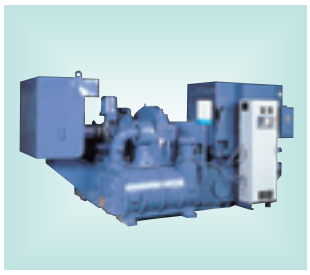

Vacuum heat treatment furnaces


Calender line for rubber & plastic


Transfer feed presses


LNG reciprocating compressors


Automotive turbochargers


Turbo compressors


Screw decanter centrifuges

Industrial machinery

Blast furnace plants
Rolling mills
Industrial furnaces
Pulp and paper production plants
Presses
Rubber/plastic processing machines
Advanced materials processing equipment
Vacuum heat treatment facilities
Compressors

Mass-produced machinery

Turbochargers
Superchargers
Centrifuges
Multi-piled disc dehydrators
Filters
Dewatering equipment
Compressors
Lubricating systems
High-temperature heating systems

Energy and Plant Operations


Boilers for power plants


Industrial boilers

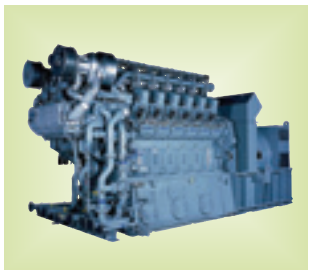

Reactor pressure vessel


Air pollution prevention systems


LNG receiving terminals


LPG plants


Ion implanter system (ISDR)


Gas engines

Energy

Boilers for power plants
Industrial boilers
Fluidized-bed combustion boilers
Waste-heat recovery boilers
Coal gasification combined cycle power facilities
Diesel power generation systems
Cogeneration systems
Fuel cells

Components for nuclear power plants

Components for nuclear power plants
Radioactive waste management systems
Primary containment vessels
Reactor pressure vessels

Environmental control and disaster prevention systems

Solid waste treatment systems
Critical water and hydrothermal reaction equipment
Air pollution prevention systems
Wastewater treatment systems

Storage systems and process plants

LNG receiving terminals
Oil and gas processing plants
Chemical plants
Pharmaceutical plants
Cement plants
Ultrafine grinding mills
Chemical plant equipment
Cooling towers
Desalination plants

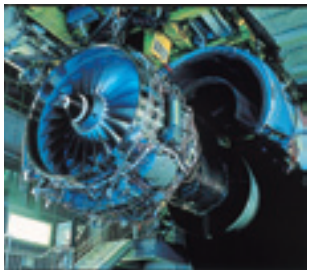
Semiconductor, LCD panel equipment and R&D facilities

Semiconductor and LCD panel equipment
X-ray inspection equipment
Electron sterilization systems
Robots
Simulators
Preventative maintenance systems
Optical and beam technology equipment
R&D facilities
Experiment facilities

Power systems and others

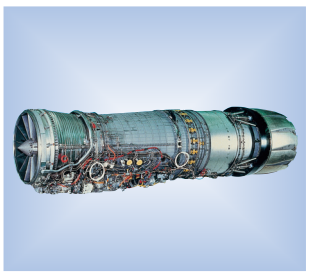
Diesel engines
Gas engines
Gas turbines
Generating sets
Steerable propellers

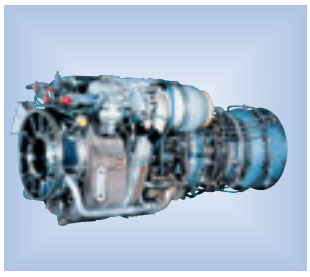
Aero-Engine and Space Operations


V2500 turbofan engines


CF34 turbofan engines


GE90 turbofan engines


F110 turbofan engines


T700 turboshaft engines


Gas turbine power plants


GX launch vehicle (image)


International space station KIBO (©JAXA/NASA)

Jet engines

Turbofan engines
Turboshaft engines
Turbojet engines
Turboprop engines
Jet engine maintenance
Jet engine test cells
Jet engine parts

Gas turbine power generation systems

Gas turbine power generation systems

Space development

Rockets
Rocket propulsion systems
Rocket control systems
Satellite propulsion systems
Satellite control systems
Equipment for utilization of space environments
Space station-related equipment
Ground test facilities
Ground support facilities

Others

Noise reduction systems

Shipbuilding and Offshore Operations


Very large crude oil carriers


SPB-type LNG carriers


Container ships


Bulk carriers


Passenger car ferries


Naval vessels


Side drag suction hopper dredgers with spilt oil recovery devices


Floating LPG production, storage, and offloading facility

Ships (Shipbuilding)

Oil tankers
LNG/LPG carriers
Container ships
Bulk carriers
Passenger ships and ferries
Naval vessels
Coast guard ships
Research vessels
Work vessels
Dredgers
Oil recovery ships
Pollution prevention ships

Ship repairs

Offshore structures

Offshore development equipment
LPG/LNG FPSO units
LPG FSO units

Other Operations


Diesel engines


Agricultural machines

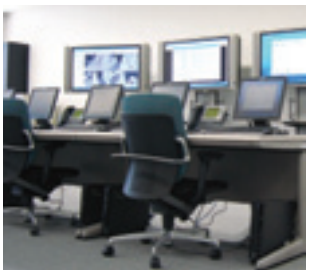

Refuse compactors


Mini excavators


Crawler cranes


Lawn management machines


Ozone deodorizers


Computer systems

Engines

Diesel engines
Gasoline engines

Agricultural machinery

Tractors
Tractor implements
Lawn maintenance machinery
Refuse compactors

Construction machinery

Excavators
Crawler
Concrete pumps

Equipment for civil use

Ozone deodorizers
Dishwashers
Fire Fighting equipment
Water-purifying equipment

Financing and service industry

Information and control technology

Others

IHI Group Facilities

(As of July 1st, 2007)

Parent Company

Soma No.1 Aero-Engine Works
Products & services: Parts of jet engines, gas turbines and space development equipment
Certificates: JIS Q 9100 (including JIS Q 9001/ISO 9001), JIS Q 14001(including ISO 14001), FAA Repair Station and Nadcap

Soma No.2 Aero-Engine Works
Products & services: Parts of jet engines, gas turbines and space development equipment
Certificates: JIS Q 9100 (including JIS Q 9001/ISO 9001), JIS Q 14001(including ISO 14001) and Nadcap

Mizuho Aero-Engine Works
Products & services: Assembly and overhauling of jet engines, gas turbines, space development equipment and defense systems
Certificates: JIS Q 9100 (including JIS Q 9001/ISO 9001), FAA Repair Station, Approval Certificate (Maintenance Organization) (EASA), ISO 14001, ISMS and Nadcap

Sunamachi Works
Products & services: Bridges, gates, steel structures, offshore structures and airport facilities
Certificate: JIS Q 9001 (ISO 9001)

Yokohama Nuclear & Chemical Components Works
Products & services: Reactor pressure vessels, containment vessels, heat exchangers for nuclear power plants, reactors and towers for chemical plants
Certificates: ISO 9001, ISO 14001 and ASME (N, NPT, U, U2, NA, NS, N3, S)

Yokohama Machinery Works
Products & services: Rolling mills, presses, paper and plastic machinery and compressors
Certificates: ISO 9001 and ISO 14001

Aichi Works
Products & services: Bridges, shield tunneling machines, deck machinery and steel structures
Certificates: ISO 9001, ISO 14001, AISC (Cbr, F, P1) and Deck Cranes Manufacturers (NK)

Aioi Works
Products & services: Boilers, pressure vessels for chemical plants and prefabricated piping systems
Certificates: ISO 9001, ISO 14001 and ASME(S, U, U2)

Aioi Workshop
Products & services: Steel structures and offshore structures
Certificates: ISO 9001 and ISO14001

Aioi Casting Workshop
Products & services: Casting products for machinery
Certificates: ISO 14001 and Approval of Manufacturer

Kure Aero-Engine & Turbo Machinery Works
Products & services: Parts of gas turbine power plants, jet engines and gas turbines
Certificates: JIS Q 9100 (including JIS Q 9001/ISO 9001), ISO 14001, FAA Repair Station and Nadcap

Kure Shingu Works
Products & services: Bridges, gates, steel structures and material handling equipment
Certificates: ISO 9001 and ISO 14001

Affiliates

IHI Marine United
Yokohama Shipyard
Products & services: Naval vessels, cruise ships, special cargo vessels and repairing
Certificates: ISO 9001 (JIS Q 9001) and ISO 14001 (JIS Q 14001)

IHI Marine United
Kure Shipyard
Products & services: Shipbuilding, conversion and repairing
Certificates: ISO 9001 (JIS Q 9001), ISO 14001 (JIS Q 14001) and NK

IHI Aerospace
Tomioka Plant
Products & services: Launch vehicles, other space equipment systems and defense rocket systems
Certificates: JIS Q 9100 (including JIS Q 9001/ISO 9001), ISO 14001 and JIS Q 27001(ISO/IEC27001)

IHI Shibaura Machinery
Matsumoto Factory
Products & services: Compact tractors and engines
Certificates: ISO 9001 (JIS Q 9001) and ISO 14001(JIS Q 14001)

IHI Turbo
Kiso Works
Products & services: Automotive turbochargers
Certificates: ISO/TS 16949, ISO 14001, NK and JG

IHI Compressor and Machinery
Tatsuno Works
Products & services: Compressors, hydraulic motors, aircraft parts and turbochargers.
Certificates: JIS Q 9100 (including ISO 9001/JIS Q 9001), ISO 14001, DNV, LR, ABS, BV, KR, CCS and ISO/TS 16949

Niigata Power Systems
Ohta Plant
Products & services: Diesel engines, gas engines, dual-fuel engines and Z-peller propulsion systems
Certificates: ISO 9001 and ISO 14001

Niigata Transys
Niigata Works
Products & services: Rolling stocks, automated people movers, light-rail vehicles and snow plows
Certificate: ISO 9001 (JIS Q 9001)

IHI Construction Machinery
Yokohama Plant
Products & services: Mini excavators, hydraulic shovels, crawler cranes, truck mounted concrete pump and others
Certificates: ISO 9001 (JIS Q 9001) and ISO 14001 (JIS Q 14001)

Star Farm Machinery Manufacturing
Chitose Works
Products & services: Hay and grass harvesting equipment

IHI Machinery and Furnace
Iwakuni Manufacturing Center
Products & services: Blast furnace shells and tops, vacuum furnaces, new material producing furnaces and electric arc furnaces
Certificate: ISO 9001

PT Cilegon Fabricators (INDONESIA)
Products & services: Boilers, steel structures, container cranes and pressure vessels
Certificates: ISO 9001 and ASME (S, U, PP)

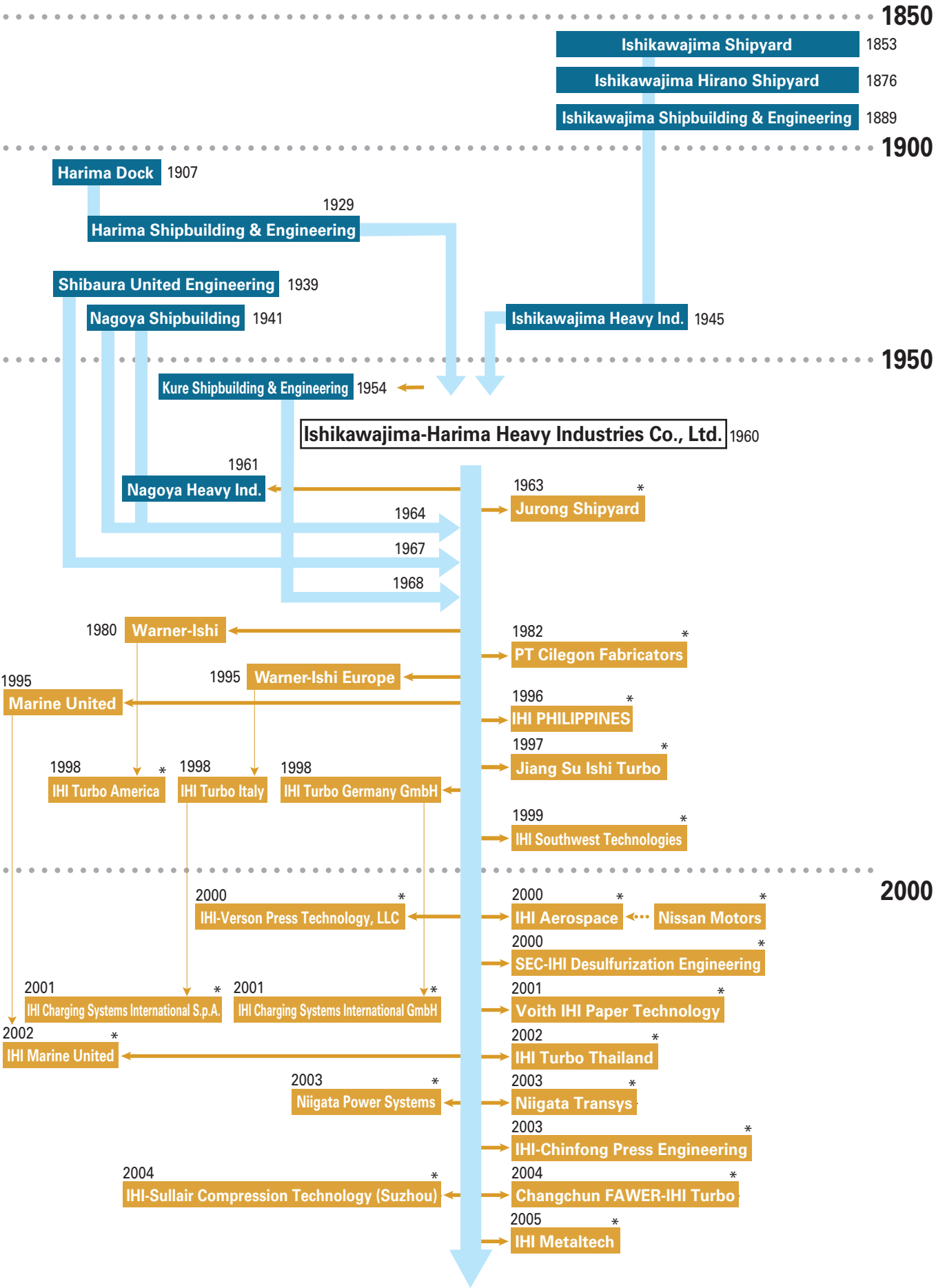
IHI Turbo America (U.S.A.)
Products & services: Automotive turbochargers and superchargers
Certificates: ISO 9001 and QS 9000

IHI Turbo (Thailand) (THAILAND)
Products & services: Automotive turbochargers
Certificates: ISO 14001 and QS 9000

IHI Charging Systems International (ITALY)
Products & services: Automotive turbochargers
Certificates: ISO/TS 16949

JIANG SU ISHI TURBO (CHINA)
Products & services: Automotive turbochargers
Certificates: ISO 9002 and ISO/TS 16949

History of IHI



*Existing to the present

IHI 2007 IHI Corporation

Timeline of IHI

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 United States; 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.)

1950s

1954 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)
61 Established Nagoya Heavy Ind.
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
74 Established IHI Marine BV (IMBV) in the Netherlands
75 Established Felguera-IHI SA (FI) in Spain
77 Established IHI Marine Engineering Singapore Private Ltd.
77 Established IHI INC. in the United States

1980s

1980 Established Warner-Ishi Corp. (WI) in a joint venture with Borg-Warner Automotive Inc. in the United States
82 Established IHI (HK) Limited (IHL) in Hong Kong
82 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
95 Established Warner-Ishi Europe S.p.A. (WIE) in Italy
96 Established IHI PHILIPPINES, INC. (IPI) in the Philippines
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, as a successor of Warner Ishi
98 Established IHI Turbo Italy, as a successor of Warner Ishi Europe
99 Established IHI Southwest Technologies, Inc. in the United States to undertake nondestructive inspections
99 Established two subsidiaries to engage in industrial waste processing business

2000s

2000 Established joint venture with The Broken Hill Proprietary Company Limited (BHP) of Australia and Nucor Corporation of the United States to license strip-casting technology
00 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 IHI-Verson Press Technology, LLC, in the United States
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, as a successor of IHI Turbo Germany
01 Established Beijing Municipal Ishikawajima Shield Engineering Limited Company; joint venture for manufacturing & selling shield tunneling machines
01 IHI Turbo Italy became a subsidiary company of IHI Charging Systems International GmbH, and renamed to IHI Charging Systems International S.p.A.
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.
03 Established IHI-Chinfong Press Engineering 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.

Corporate Governance and Compliance

(As of June 27, 2007)

Basic Philosophy on Corporate Governance

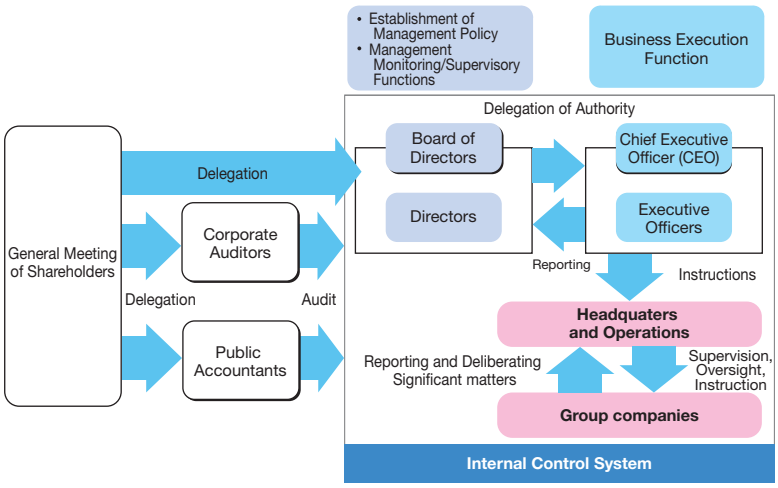
IHI defines corporate governance as a system designed to maximize corporate value by increasing the efficiency of management to leverage the Company's capabilities as much as possible.

To establish and strengthen a system of excellent corporate governance, IHI aims to enhance its compliance structure based on the necessity for a system to observe internal decision-making and business execution that is made in accordance with laws, regulations and acceptable procedures.

Corporate Governance Measures

1. Management Organization (As of June 27, 2007)

- IHI has 14 directors, one of which is an outside director.
- IHI has five auditors, three of which are outside auditors.
- There are no conflicts of interest between IHI and its outside director or outside auditors.
- IHI has 25 executive officers, 11 of which also serve as directors, who form the core management in charge of business execution.
- The Management Committee supports the decision-making and business execution of the Chief Executive Officer (CEO), who designates members of the committee.



Management Structure Overview

2. Internal Controls and Risk Management

- IHI has strengthened its auditing structure for evaluating contractual and technological risks prior to accepting an order through the establishment of the Contract Legal Department and the Technology Evaluation Committee.
- To prevent a worsening in profitability after accepting an order, IHI is concentrating efforts on enhancing its project management structure for processes, costs and quality in its business divisions and departments to eradicate unprofitable projects.
- In addition to reorganizing the dedicated compliance unit as an independent Compliance Control Division and broadening the responsibilities of the in-house Compliance Committee, measures will be vigorously pushed forward to upgrade and expand in-house staff training in order to improve the internal dissemination of information and to ensure that audits are rigorously conducted in line with the Antimonopoly Law.
- Having received a judgment on appeal from the Japan Fair Trade Commission with regard to bridge sales activities that violated the Antimonopoly Law, the Group places the highest management priority on thorough compliance and establishing an effective compliance structure.
- Basic guidelines have been established with the aim of contributing to the improvement of corporate values and increasing the effectiveness of corporate governance.
- An Internal Control Planning and Promotion Division has been established as an independent organization to drive forward the creation of an internal control system for all business divisions and Group companies.

3. Audits

- Within the Internal Auditing Department, IHI has established the Internal Audit Division with 11 auditors as an organization under the direct control of the president. This division conducts routine audits of all business activities in each corporate department and at subsidiary companies and, in conjunction with audits conducted autonomously by each department, works to improve IHI's internal auditing function.
- Auditors attend meetings of the Board of Directors and the Management Committee in accordance with auditing policies set by the Board of Auditors. Auditors also oversee how directors conduct business by interviewing directors with regard to business execution; reviewing important decision-making documents; and examining each department within the Company, important subsidiary business, as well as corporate assets. IHI has established an Corporate Auditors Office as the organization with its own staff of four that supports the work of these auditors.

- Auditors receive reports and exchange information with the Internal Audit Division on the status of audits as needed.
- Auditors cooperate closely with the independent auditors, regularly exchanging information and opinions with them and receive reports on auditing results.

4. Director's Bonuses

The bonuses paid to directors and auditors in the year under review are set out in the chart (right).

Category	Number	Compensation
Directors	13	¥323 million
Auditors	5	¥47 million
Total (Figures in parentheses apply to outside directors, included in total)	18(4)	¥371 million (¥14 million)

5. Company Auditors

IHI employs Ernst & Young ShinNihon as its independent auditor. The names of the Certified Public Accountants (CPAs) affiliated with the independent auditor and the number of continuous years they have audited IHI are as follows:

Fumio Takahashi (two years)
Hidetoshi Watanabe (one year)
Hideyuki Inoue (one year)

Total compensation paid for work as set forth in Article 2-1 of the Certified Public Accountant Law (Law No.103 of 1948)	¥67 million
Compensation paid for work other than the above	¥5 million

Notes: The amounts listed above have been rounded off the nearest base unit.

In addition, IHI has 14 CPAs, 9 accounting assistants and 2 other support staff involved in accounting audits.
In the fiscal year under review, compensation paid to auditors at Ernst & Young ShinNihon was in the chart above.

6. Other

- Limitation of Liability Agreement
  The Company, outside directors and outside auditors have concluded an agreement that limits their liability for damages per Article 423-1 of the Corporate Law of Japan based on provisions contained in Article 427-1 of said Law. The financial limit of liability based on the aforementioned agreement is as stipulated under law.

- Standard Number of Directors
  The number of IHI directors shall be 15 or fewer.

- Requirements for Resolving Director Selections
  > In accordance with IHI's articles of association, directors are to be elected pursuant to a resolution adopted by a majority of the voting rights of the shareholders who attend the General Meeting of Shareholders at which shareholders having one-third or more of the total voting rights of all shareholders entitled to exercise the voting rights must be in attendance.
  > Cumulative voting shall not be used for a resolution to elect IHI directors.

- Stock Repurchase
  By a resolution of the board of directors and as stipulated in the Company's Articles of Association, the Company may repurchase its stock based on provisions contained in Article 165-2 of the Corporate Law of Japan for the purpose of implementing flexible capital policies.

- Requirements for Extraordinary Resolutions of the General Meeting of Shareholders
  Extraordinary resolutions of the General Meeting of Shareholders, as provided for in Article 309-2 of the Corporate Law of Japan, may be made by two-thirds or more of the voting rights of the shareholders who attend a meeting at which shareholders having one-third or more of the total voting rights of all shareholders entitled to exercise the voting rights must be in attendance. The serves to ensure the smooth running of General Meetings of Shareholders by alleviating the need for a quorum to be present for an extraordinary resolution taken at a General Meeting of Shareholders.

Corporate Officers

(As of January 1, 2008)

President

Kazuaki Kama
(Chief Executive Officer)

Executive Vice Presidents

Teiichi Tamaki
(Senior Executive Officer)

Yukiya Nakagawa

Toshiro Takei
(Senior Executive Officer)

Board Directors

Yasuhiro Inagawa
(Managing Executive Officer)

Yasuyuki Watanabe
(Managing Executive Officer)

Jun'ichi Sato
(Managing Executive Officer)

Yuji Hiruma
(Managing Executive Officer)

Yoshiaki Shimojo
(Managing Executive Officer)

Kimiaki Gotoh
(Managing Executive Officer)

Makoto Serizawa
(Executive Officer)

Fumio Sato

Corporate Auditors

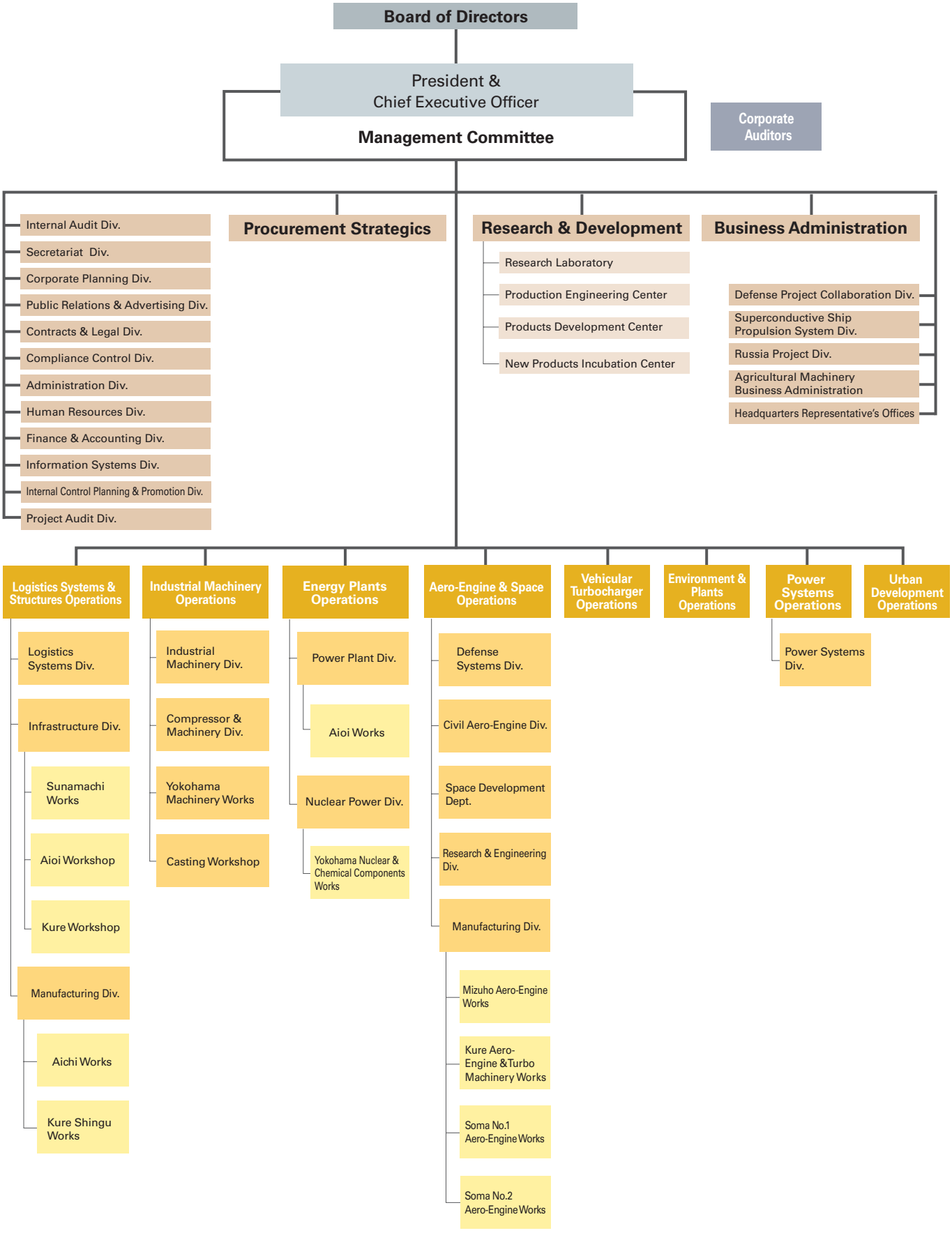
Teruo Naruoka	Sakae Ando	Takeo Inokuchi	Kiyoaki Shimagami	Nobuo Ohashi

Executive Officers

Kazuaki Kama				
Teiichi Tamaki	Toshiro Takei			
Yasuhiro Inagawa	Yasuyuki Watanabe	Jun'ichi Sato	Yuji Hiruma	Yoshiaki Shimojo
Kimiaki Gotoh	Ichiro Hashimoto			
Mutsumi Maruyama	Kuniaki Hongo	Toshihiko Ohsumi	Mitsukatsu Asaoka	Masaki Hatagawa
Kazuo Tsukahara	Teruo Shimizu	Makoto Serizawa	Tamotsu Saito	Fusayoshi Nakamura
Kiyoshi Ishii	Tatsumi Kawaratani	Toshinori Sekido		

Organization

(As of January 1, 2008)



Directory

(As of November 1, 2007)

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HEIDELBERG
IHI Charging Systems International GmbH
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Financial Section

Years ended March 31
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

Consolidated Six-Year Summary

Millions of yen

	2007	2006	2005	2004	2003	2002
For the year:						
Net sales	**¥1,221,016**	¥1,127,075	¥1,089,047	¥1,047,441	¥1,019,061	¥1,082,402
Cost of sales	**1,098,412**	986,666	962,127	950,136	878,260	932,415
Gross profit	**122,604**	140,409	126,920	97,305	140,801	149,987
Operating (loss) income	**(5,626)**	21,771	10,619	(23,230)	24,640	27,233
Income (loss) before income taxes and minority interests	**15,059**	22,165	15,112	(39,001)	(6,521)	11,487
Net (loss) income	**(4,593)**	5,283	2,180	(38,354)	(9,672)	5,539
At year-end:						
Total assets	**¥1,536,078**	¥1,461,796	¥1,387,838	¥1,377,021	¥1,381,240	¥1,422,110
Current assets	**1,044,642**	1,005,974	937,250	905,325	875,264	886,738
Net property, plant and equipment	**257,838**	226,071	234,887	246,406	287,096	307,677
Current liabilities	**893,276**	774,037	752,951	744,218	741,404	791,496
Long-term liabilities	**415,755**	498,362	460,960	461,574	447,870	427,087
Total net asset*	**227,047**	169,237	153,716	151,550	171,323	187,589
Amounts per share (yen):						
Net (loss) income	**¥ (3.46)**	¥ 3.93	¥ 1.56	¥ (29.67)	¥ (7.57)	¥ 4.27
Cash dividends	**4.00**	2.00	—	—	1.50	3.00
Shareholders' equity	**144.70**	130.36	118.40	116.73	131.96	144.47
Other data:						
Number of employees	**23,190**	23,364	21,847	22,768	23,575	22,980
Number of shares issued (millions)	**1,467**	1,298	1,298	1,298	1,298	1,298
Ratios:						
Return on average assets (%)	**(0.30)**	0.37	0.16	(2.78)	(0.69)	0.38
Return on average equity (%)	**(2.32)**	3.27	1.43	(23.76)	(5.39)	2.85
Total shareholders' equity ratio (%)	**14.78**	11.58	11.08	11.01	12.40	13.19

**The data previously presented as "Total shareholders' equity" are shown as "Total net assets" based on new accounting standard from this fiscal year. See Note 2 to the consolidated financial statements.*

Contents

Operating Results

During the fiscal year under review, IHI's consolidated net sales increased 8.3% to ¥1,221.0 billion. There was an operating loss amounting to ¥5.6 billion, net income before income taxes and minority interests of ¥15.0 billion, and a net loss of ¥4.6 billion. Shipbuilding and offshore operations achieved a turnaround from the previous fiscal year, recording net sales growth of 14.5%. Aero-engine and space operations and industrial machinery operations continued to enjoy year-on-year sales increases of 10.7% and 9.8%, respectively. Although logistics systems and structures operations and other operations recorded slight sales declines, both experienced substantial order increases. Overseas sales jumped 23.5% to ¥468.8 billion, representing 38.4% of consolidated net sales. Domestic sales increased 0.6% to ¥752.1 billion, accounting for 61.6% of consolidated net sales, compared with ¥747.5 during the previous year.

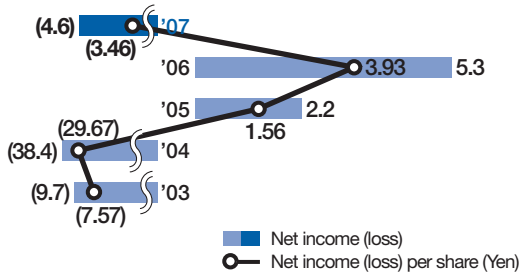
Thanks to higher sales, cost of sales came to ¥1,098.4 billion, an increase of ¥111.7 billion, compared with ¥986.6 billion in the previous period. Cost of sales as a percentage of net sales increased from 87.5% to 90.0% due to sharply rising material costs for steel and other products and declining profitability from overseas construction projects.

An operating loss of ¥5.6 billion was recorded due to a ¥27.3 billion decline in operating income from last year's operating income of ¥21.7. This was primarily attributable to a dramatic decline in profitability and higher sales, general and administrative expenses in energy and plant operations, despite a reduction in losses in shipbuilding and offshore operations and increased profits in industrial machinery operations. From an industry segment performance standpoint, sales of logistics systems and structures operations totaled ¥169.7 billion, representing 13.9% of net sales. This segment posted an operating loss of ¥6.3 billion. In industrial machinery operations, sales amounted to ¥159.5 billion, representing 13.1% of net sales. Operating income for the segment was ¥11.5 billion. In energy and plant operations, sales were ¥333.9 billion, or 27.3% of net sales. There was an operating loss in this segment of ¥33.0 billion. Aero-engine and space operations recorded sales of ¥292.8 billion, accounting for 24.0% of net sales. Operating income for the segment was ¥16.3 billion. Sales in the shipbuilding and offshore operations segment were ¥131.5 billion, or 10.8% of net sales. Operating income totaled ¥1.6 billion. Other operations turned in sales of ¥133.6 billion, accounting for 10.9% of net sales. Operating income in this segment was ¥4.3 billion.

Interest expenses outpaced interest and dividend income by ¥1.8 billion, compared with an excess of ¥0.4 billion in the previous fiscal year. Other, net, income was ¥22.5 billion compared with other, net, income of ¥0.8 billion in the previous year. The Company recorded income before income taxes and minority interests of ¥15.0 billion.

As a result of the above, IHI posted a net loss of ¥4.6 billion, compared with ¥5.3 billion in net income in the previous period, a decline of ¥9.8 billion. Consequently, there was a net loss per share of ¥3.46, compared to net income per share of ¥3.93 in the previous period.

Net [Loss] Income and Net [Loss] Income per Share
[billions of yen/%]



Cash Flows

Net cash provided by operating activities was ¥36.1 billion, compared with net cash provided by operating activities of ¥3.5 billion in the previous fiscal year. This was principally due to net income before income taxes and minority interests of ¥15.1 billion (compared to ¥22.2 billion in the previous period), depreciation and amortization of ¥33.0 billion (¥29.8 billion) and advances received of ¥49.1 billion (¥6.1 billion), despite a ¥33.8 billion increase in inventories (compared to ¥23.2 billion in the previous period) and a ¥9.3 billion (¥25.6 billion) increase in notes and accounts receivable.

Net cash used in investing activities was ¥57.4 billion, compared with net cash provided by investing activities of ¥3.4 billion in the previous year. The largest sources of cash were proceeds from sale of property, plant and equipment of ¥34.2 billion and proceeds from sale of marketable and investment securities of ¥26.6 billion, and the largest use of cash was purchases of property, plant and equipment and intangible fixed assets of ¥68.2 billion.

Net cash provided by financing activities totaled ¥13.0 billion, compared with net cash used in financing activities of ¥12.7 billion in the previous year. The principal uses of cash were repayment of long-term loans of ¥28.7 billion and net decrease in short-term loans of ¥24.1 billion. The most significant sources of cash were proceeds from issuance of stock of ¥61.7 billion and proceeds from net increase in long-term loans of ¥29.7 billion.

As a result of the factors outlined above, cash and cash equivalents, end of year, totaled ¥129.9 billion, marking a decline from the ¥137.4 billion posted in the previous year.

Financial Position

Total assets increased ¥74.3 billion to ¥1,536.1 billion compared with ¥1,461.8 billion in the previous year, mainly due to a ¥28.8 billion increase in inventories for Industry Machinery Operations.

Net property, plant and equipment rose ¥35.6 billion to ¥257.8 billion due to a ¥31.7 billion increase in the acquisition of buildings for leasing and the transfer of factories.

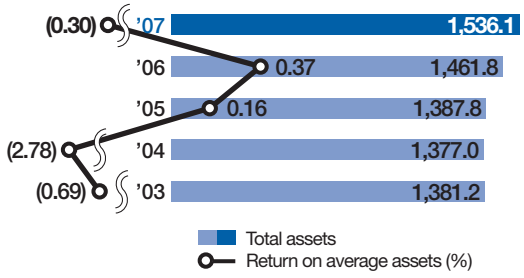
Total liabilities increased ¥36.6 billion to ¥1,309.0 billion. This was because of increases in advances received of ¥49.1 billion, accounts payable of ¥27.7 billion and accrued expenses of ¥10.1 billion.

Net assets increased ¥37.7 billion, compared with total shareholders' equity and minority interests, to ¥227.0 billion, due to an increase in capital for new stock issues.

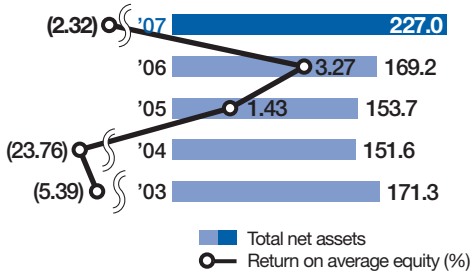
As a result, net assets per share increased ¥14.34 to ¥144.70 and total equity to assets ratio increased to 13.8%.

Note: Figures in the Financial Review are in billions of yen, rounded to the nearest first decimal place and exclude intersegment sales and transfers.

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, 2007 and 2006
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
ASSETS			
Current assets:			
Cash and time deposits (Note 7)	**¥ 85,462**	¥ 105,243	**$ 723,947**
Trade receivables (Note 7)	**357,514**	356,469	**3,028,496**
Marketable securities (Note 3)	**28,094**	20,995	**237,984**
Less allowance for doubtful receivables	**(4,552)**	(4,840)	**(38,560)**
Inventories (Notes 4 and 7)	**437,864**	409,020	**3,709,140**
Deferred income taxes (Note 8)	**25,240**	26,202	**213,808**
Other	**115,020**	92,885	**974,334**
Total current assets	**1,044,642**	1,005,974	**8,849,149**
Property, plant and equipment (Notes 5 and 7)**:**			
Buildings and structures	**263,420**	231,429	**2,231,427**
Machinery and equipment	**380,363**	374,234	**3,222,050**
Land (Note 12)	**77,299**	79,769	**654,799**
Construction in progress	**4,492**	3,821	**38,052**
Less accumulated depreciation	**(467,736)**	(463,182)	**(3,962,186)**
Net property, plant and equipment	**257,838**	226,071	**2,184,142**
Intangible assets:			
Software	**14,416**	14,237	**122,118**
Goodwill	**1,459**	310	**12,359**
Other	**5,494**	6,793	**46,540**
Total intangible assets	**21,369**	21,340	**181,017**
Investments:			
Investment securities (Notes 3 and 7)	**131,692**	130,356	**1,115,561**
Deferred income taxes (Note 8)	**35,756**	36,391	**302,888**
Other	**54,195**	50,731	**459,086**
Less allowance for doubtful receivables	**(9,414)**	(9,067)	**(79,746)**
Total investments	**212,229**	208,411	**1,797,789**
Total assets	**¥1,536,078**	¥1,461,796	**$13,012,097**

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)
	2007	2006	2007
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade payables	¥ 322,681	¥ 295,026	$ 2,733,426
Short-term loans (Notes 6 and 7)	85,469	109,528	724,007
Current portion of long-term loans and debentures (Notes 6 and 7)	110,482	52,998	935,892
Accrued expenses	50,826	40,768	430,546
Advances from customers	200,182	151,067	1,695,739
Accrued income taxes	8,480	10,595	71,834
Allowance for employees' bonuses	20,353	18,812	172,410
Reserve for guaranteed contracts	12,526	12,123	106,108
Reserve for losses on sales contracts	27,089	22,216	229,470
Other	55,188	60,904	467,497
Total current liabilities	893,276	774,037	7,566,929
Long-term liabilities:			
Long-term loans and debentures (Notes 6 and 7)	205,296	281,782	1,739,060
Allowance for employees' retirement benefits (Note 15)	144,234	150,336	1,221,804
Deferred tax liabilities from revaluation of land (Note 12)	3,226	3,694	27,327
Other (Notes 6 and 7)	62,999	62,550	533,664
Total long-term liabilities	415,755	498,362	3,521,855
Contingent liabilities (Note 10)			
Net assets:			
Shareholders' equity:			
Common stock			
Authorized: 3,300,000,000 shares			
Issued: 1,467,058,482 shares	95,762	64,925	811,199
Capital surplus	43,034	10,200	364,540
Retained earnings	35,124	44,814	297,536
Less treasury stock, at cost	(74)	(48)	(627)
Total shareholders' equity	173,846	119,891	1,472,648
Valuation and translation adjustments:			
Unrealized holding gain on other securities	35,654	46,220	302,025
Loss on deferred hedges	(483)	—	(4,092)
Revaluation reserve for land (Note 12)	3,912	4,591	33,138
Foreign exchange translation adjustments	(699)	(1,465)	(5,921)
Total valuation and translation adjustments	38,384	49,346	325,150
Minority interests in consolidated subsidiaries	14,817	20,160	125,515
Total net assets	227,047	189,397	1,923,313
Total liabilities and net assets	¥1,536,078	¥1,461,796	$13,012,097

Consolidated Statements of Operations

Years ended March 31, 2007 and 2006
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
Net sales	**¥1,221,016**	¥1,127,075	**$10,343,211**
Cost of sales (Note 9)	**1,098,412**	986,666	**9,304,634**
Gross profit	**122,604**	140,409	**1,038,577**
Selling, general and administrative expenses (Note 9)	**128,230**	118,638	**1,086,235**
Operating (loss) income	**(5,626)**	21,771	**(47,658)**
Other income (expense):			
Interest and dividend income	**3,955**	4,392	**33,503**
Interest expense	**(5,724)**	(4,775)	**(48,488)**
Other, net (Note 11)	**22,454**	777	**190,208**
Income before income taxes and minority interests	**15,059**	22,165	**127,565**
Income taxes:			
Current	**(14,448)**	(14,273)	**(122,389)**
Deferred	**(7,064)**	(2,809)	**(59,839)**
(Loss) Income before minority interests	**(6,453)**	5,083	**(54,663)**
Minority interests in income of consolidated subsidiaries	**1,860**	200	**15,756**
Net (loss) income	**¥ (4,593)**	¥ 5,283	**$ (38,907)**

	Yen		U.S. dollars (Note 1)
Amounts per share (Note 17)**:**			
Net (loss) income	**¥ (3.46)**	¥ 3.93	**$ (0.029)**
Cash dividends	**4.00**	2.00	**0.034**

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

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2007 and 2006
Ishikawajima-Harima Heavy Industries Co., Ltd., 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	Loss on Deferred Hedges	Revaluation reserve for land	Foreign exchange translation adjustments	Minority interests in consolidated subsidiaries
Balance at March 31, 2005	1,298,495	¥64,925	¥10,200	¥41,596	¥ (36)	¥34,301	—	¥ 5,487	¥ (2,757)	¥20,211
Net income for the year	—	—	—	5,283	—	—	—	—	—	—
Reversal of revaluation reserve for land	—	—	—	743	—	—	—	(896)	—	—
Decrease resulting from inclusion of subsidiaries in consolidation	—	—	—	(24)	—	—	—	—	—	—
Decrease resulting from removed subsidiaries	—	—	—	(2)	—	—	—	—	—	—
Cash dividends	—	—	—	(2,596)	—	—	—	—	—	—
Change for the year	—	—	—	—	—	11,919	—	—	1,292	(51)
Purchase of treasury stock	—	—	—	—	(12)	—	—	—	—	—
Sales of treasury stock	—	—	—	—	—	—	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(186)	—	—	—	—	—	—
Balance at March 31, 2006	1,298,495	64,925	10,200	44,814	(48)	46,220	—	4,591	(1,465)	20,160
Net loss for the year	—	—	—	(4,593)	—	—	—	—	—	—
Issuance of stock for capital increase	168,563	30,837	30,837	—	—	—	—	—	—	—
Reversal of revaluation reserve for land	—	—	—	679	—	—	—	—	—	—
Increase resulting from inclusion of subsidiaries in consolidation	—	—	—	91	—	—	—	—	—	—
Exchange of shares	—	—	1,898	—	(24)	—	—	—	—	—
Cash dividends	—	—	—	(5,867)	—	—	—	—	—	—
Change for the year	—	—	—	—	—	(10,566)	¥ (483)	(679)	766	(5,343)
Purchase of treasury stock	—	—	—	—	(27)	—	—	—	—	—
Sales of treasury stock	—	—	99	—	25	—	—	—	—	—
Balance at March 31, 2007	**1,467,058**	**¥95,762**	**¥43,034**	**¥35,124**	**¥ (74)**	**¥35,654**	**¥ (483)**	**¥ 3,912**	**¥ (699)**	**¥14,817**

	(Thousands of U.S. dollars) (Note 1)								
Balance at March 31, 2006	$549,979	$ 86,404	$379,619	$ (407)	$391,529	—	$ 38,889	$ (12,410)	$170,775
Net loss for the year	—	—	(38,908)	—	—	—	—	—	—
Issuance of stock for capital increase	261,220	261,220	—	—	—	—	—	—	—
Reversal of revaluation reserve for land	—	—	5,752	—	—	—	—	—	—
Increase resulting from inclusion of subsidiaries in consolidation	—	—	771	—	—	—	—	—	—
Exchange of shares	—	16,078	—	(203)	—	—	—	—	—
Cash dividends	—	—	(49,699)	—	—	—	—	—	—
Change for the year	—	—	—	—	(89,504)	$ (4,092)	(5,751)	6,489	(45,260)
Purchase of treasury stock	—	—	—	(229)	—	—	—	—	—
Sales of treasury stock	—	838	—	212	—	—	—	—	—
Balance at March 31, 2007	**$811,199**	**$364,540**	**$297,535**	**$ (627)**	**$302,025**	**$ (4,092)**	**$ 33,138**	**$ (5,921)**	**$125,515**

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

Consolidated Statements of Cash Flows

Years ended March 31, 2007 and 2006
Ishikawajima-Harima Heavy Industries Co., Ltd., and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Operating Activities:			
Income before income taxes and minority interests	¥ 15,059	¥ 22,165	$ 127,565
Depreciation and amortization	32,997	29,797	279,517
Amortization of long-term prepaid expenses	4,158	3,321	35,222
Increase in allowance for doubtful receivables	59	901	500
Increase in allowance for employees' bonuses	1,541	653	13,054
Increase in reserve for guaranteed contracts	403	2,764	3,414
(Decrease) increase in accrued losses on sales contracts	4,873	1,589	41,279
Decrease in accrued employees' retirement allowances	(6,102)	(53)	(51,690)
Interest and dividends income	(3,955)	(4,392)	(33,503)
Interest expense	5,724	4,775	48,488
Gain on foreign exchange	(10)	(7)	(85)
Gains on disposal of property, plant and equipment	(29,044)	(12,490)	(246,031)
Losses on impairment of fixed assets	3,128	13,269	26,497
Gains on sale of marketable and investment securities	(18,524)	(18,509)	(156,916)
Losses on valuation of marketable and investment securities and golf club memberships	1,572	814	13,316
Losses on valuation of assets related to aerospace development operations	14,286	—	121,017
Equity in gains of affiliates	(1,340)	(1,441)	(11,351)
Gain on sale of businesses	(140)	—	(1,186)
Changes in operating assets and liabilities:			
Notes and accounts receivable	(9,307)	(25,645)	(78,840)
Advances received	49,115	6,076	416,052
Inventories	(33,756)	(23,196)	(285,947)
Advance payments	(11,888)	(11,315)	(100,703)
Notes and accounts payable	27,641	1,804	234,147
Accrued expenses	9,746	9,229	82,558
Deposits from tenants	1,250	973	10,589
Other current assets	(3,978)	2,673	(33,697)
Other current liabilities	7,024	12,163	59,500
Accrued consumption taxes	(5,919)	(5,752)	(50,140)
Directors' and corporate auditors' bonuses	(193)	(200)	(1,635)
Subtotal	54,420	9,966	460,991
Interest and dividends received	3,856	4,460	32,664
Interest paid	(5,649)	(4,650)	(47,853)
Income taxes paid	(16,541)	(6,278)	(140,118)
Net cash provided by operating activities	36,086	3,498	305,684
Investing Activities:			
Net Increase in time deposits due in more than three months	260	658	2,203
Purchases of marketable and investment securities	(27,402)	(542)	(232,122)
Proceeds from sale of marketable and investment securities	26,557	21,692	224,964
Repayment of money received for marketable and investment securities lent	(13,000)	—	(110,123)
Purchases of property, plant and equipment and intangible fixed assets	(68,174)	(30,306)	(577,501)
Proceeds from sale of property, plant and equipment	34,195	25,580	289,665
Payments for disposal of property, plant and equipment	(2,245)	(2,768)	(19,017)
Expenditure for acquisition of business	(700)	(1,592)	(5,930)
Increase in acquisition of business	100	—	847
Net increase (decrease) in short-term loan receivables	10	(65)	85
Increase in long-term loan receivables	(270)	(727)	(2,287)
Decrease in long-term loan receivables	210	113	1,779
Increase in other non-current assets	(11,892)	(8,557)	(100,737)
Increase (decrease) in other fixed liabilities	4,977	(100)	42,160
Net cash provided by (used in) investing activities	(57,374)	3,386	(486,014)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Financing Activities:			
Net decrease in short-term debt	¥ (24,058)	¥ (21,290)	$ (203,795)
Proceeds from issuance of long-term debt	29,679	44,500	251,411
Repayment of long-term debt	(28,682)	(45,574)	(242,965)
Proceeds from issuance of debentures	—	35,000	—
Expenditures for redemption of debentures	(20,000)	(25,000)	(169,420)
Increase in treasury stock	(26)	(12)	(220)
Proceeds from minority interest payments	714	—	6,048
Payments for acquisition of subsidiary stock from minority shareholders	(3,491)	—	(29,572)
Net proceeds from issuance of common stock	61,674	—	522,440
Gain on sale of parent company stock held by subsidiaries	115	—	974
Increase in treasury stock of subsidiaries in consolidation	—	(5)	—
Cash dividends paid	(2,596)	—	(21,991)
Dividends paid to minority interests	(299)	(362)	(2,533)
Net cash provided (used in) by financing activities	13,030	(12,743)	110,377
Effect of Exchange Rate Changes on Cash and Cash Equivalents	896	376	7,590
Net decrease in Cash and Cash Equivalents	(7,362)	(5,483)	(62,363)
Cash and Cash Equivalents, Beginning of Year	137,382	139,684	1,163,761
Increase in Cash and Cash Equivalents due to Newly Consolidated Subsidiaries	41	3,212	347
Decrease in Cash and Cash Equivalents due to Exclusion from Scope of Consolidation	(122)	(31)	(1,033)
Cash and Cash Equivalents, End of Year	¥129,939	¥137,382	$1,100,712

The accompanying notes to the consolidated financial statements are an integral part of these statements.
Note:A reconciliation of cash and cash equivalents to the amounts shown in the consolidated balance sheets is as follows:

	Millions of yen	
	2007	2006
Cash and Cash Equivalents, Beginning of Year:		
Cash and time deposits	¥105,243	¥121,588
Time deposits due in more than three months	(853)	(1,511)
Convertible time deposits included in marketable securities	5,000	5,000
Commercial paper included in marketable securities	15,994	6,608
Investment trust included in other current assets	5,999	—
Investment trust included in marketable securities	—	1
Sales under agreement to repurchase included in other current assets (short-term loans)	5,999	7,998
Cash and Cash Equivalents	¥137,382	¥139,684

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash and Cash Equivalents, End of Year:			
Cash and time deposits	¥ 85,462	¥105,243	$ 723,947
Time deposits due in more than three months	(593)	(853)	(5,023)
Convertible time deposits included in marketable securities	7,100	5,000	60,144
Commercial paper included in marketable securities	17,991	15,994	152,402
Investment trust included in other current assets	3,000	5,999	25,413
Investment trust included in marketable securities	5,000	—	42,355
Sales under agreement to repurchase included in other current assets (short-term loans)	11,979	5,999	101,474
Cash and Cash Equivalents	¥129,939	¥137,382	$1,100,712

1. Basis of financial statements

The accompanying consolidated financial statements of Ishikawajima-Harima Heavy Industries Co., Ltd. (*: Note) (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 Securities 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.

*Note: As of July 1, 2007 Ishikawajima-Harima Heavy Industries Co., Ltd. changed its name to IHI Corporation.

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=¥118.05, the rate of exchange prevailing on March 31, 2007. 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.

As a result of certain oversights, including the omission of certain cost components and insufficient time allocated to review project cost efficiency, revealed by the Company's Internal Investigation Committee regarding the increased estimated costs of long-term, large-scale projects calculated on a percentage of completion basis within the Company's Energy and Plant Operations, the Company conducted a reassessment of its consolidated financial statements.

The resultant effect on the consolidated statements of operations for the year ended March 31, 2007 included a ¥13,835 million decrease in net sales, a ¥16,408 million increase in cost of sales, a ¥30,243 million decline in gross profit, a ¥30,243 million decrease to operating income of ¥24,617 million resulting in an operating loss of ¥5,626 million, a ¥30,243 million decline in income before income taxes, and a ¥20,418 million decline to net income of ¥15,825 million resulting in a net loss of ¥4,593 million. Significant effects on the consolidated balance sheets as of March 31, 2007 included a ¥6,648 million reduction in current assets, a ¥7,285 million increase in fixed assets, a ¥21,055 million increase in current liabilities, and a ¥20,418 million decrease in total net assets.

In addition, the Company has prepared a revised 2007 annual report in order to account for necessary corrections made to portions of its consolidated financial statements for the year ended March 31, 2007.

2. Significant accounting policies

(a) Scope of consolidation

The consolidated financial statements for the years ended March 31, 2007 and 2006 include the accounts of the Company and 84 and 85 subsidiaries, respectively.

For the years ended March 31, 2007 and 2006, 51 and 49 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.

(b) Application of the equity method of accounting

The consolidated financial statements for the year ended March 31, 2007 and 2006, included 25 and 25 affiliates, respectively, in the scope of the application of the equity method of accounting.

For the years ended March 31, 2007 and 2006, investments in 51 and 49 unconsolidated subsidiaries, respectively, and 31 and 36 affiliates, respectively, for both years were stated at cost because they did not have a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries having different fiscal year-ends

As Star Farm Machinery Mfg. Co., Ltd. closes its books of account annually on September 30, it prepares its interim financial statements for consolidation as of March 31.

IHI Inc. and its 4 subsidiaries, IHI Turbo America Co., IHI Turbo (Thailand) Co., Ltd., IHI Charging System International Gmbh, IHI Charging System International S.p.A, ISHIKAWAJIMA EUROPE B.V., JURONG ENGINEERING LIMITED and its 17subsidiaries, PT Cilegon Fabricators,Oxyhem JV and IHI Europe Limited close their books of account on December 31. 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 settlement day to March 31.

(d) Sales recognition

Net sales of projects with construction lasting more than two years and revenue of more than ¥3 billion have been recorded using the percentage-of-completion method.

(e) Allowance for doubtful receivables

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

(f) Inventories

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

(g) Securities

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

Investment securities in unconsolidated subsidiaries and affiliates are stated at cost as determined by the moving-average method.

Other securities with market prices available are carried at

market value as of the balance-sheet date, with the cost of sale 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 gain on other securities."

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

(h) 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.

(i) Leases
Non-cancelable lease transactions of the Companies are accounted for by the operating lease accounting method regardless of whether such leases are classified as operating or finance leases, except that lease agreements which stipulate the transfer of ownership of the leased property to the lessee are accounted for as finance leases.

(j) Financial instruments
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 and interest rate swaps to hedge interest rate risk.

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 Company and its consolidated subsidiaries 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 have entered into primarily interest-rate swap agreement and forward foreign exchange contracts, in order to hedge interest rate and foreign exchange risks.

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.

(k) 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.

(l) Allowance for directors' bonuses
For payment of director bonuses and bonuses to directors of consolidated subsidiaries in Japan, an allowance is provided for the amount that is expected to be paid. From the year ended March 31, 2007, the Companies have adopted Accounting Standard No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005. As a result, operating loss, ordinary loss and income before income taxes, minority interests and other each increased by ¥237 million ($2,008 thousand).

(m) 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.

(n) Employees' retirement benefits
Allowance for employees' retirement benefits are provided for based on the projected retirement benefits 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.

(o) Foreign currency translations
The assets, liabilities, income and expenses of overseas subsidiaries are translated at the exchange rates prevailing at the balance-sheet date. Translation differences are included as minority interests in consolidated subsidiaries and a component of foreign exchange translation adjustments in net assets.

(p) Accrued 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, accrued losses on sales contracts are recognized at the estimated aggregate amount of such losses.

(q) 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.

(r) Elimination of intercompany investments and relevant shareholders' equity
At the date of acquisition, the cost of the Companies' investment in a subsidiary is allocated to the subsidiary's individual identifiable assets and liabilities on the basis of their fair value. Any difference between the cost of the Companies' investment and the Companies' share in the amount allocated to individual identifiable assets and liabilities is amortized through the estimated effective period of the investment, with the exception

that when the amount of the resulting difference is immaterial, it is charged or credited to income as incurred.

(s) Appropriations of retained earnings
Appropriations of retained earnings with respect to each year ended March 31 are retroactively reflected in the consolidated financial statements for each applicable period on the assumption that the shareholders' approval relating to such appropriations is retroactively effective at each year end.

(t) Cash and cash equivalents
The Companies substantially consider all highly liquid low-risk investments purchased with original maturities of three months or less to be cash equivalents.

(u) Amounts per share
Net income per share of common stock is computed by dividing net (loss) income available to common stockholders by the weighted average number of shares of common stock outstanding during each period. Amounts per share of shareholders' equity is 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 operations represent the dividends applicable to the respective year.

(v) Accounting for business combinations and business divestitures
From the fiscal year under review, the Companies have adopted Accounting Standard "Accounting Standard for Business Combinations" issued by the Accounting Standards Board of Japan on October 31, 2003 and Accounting Standard Board of Japan No. 7 "Accounting Standard for Business Divestitures" issued on December 27, 2005 and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures No. 10 last revised on December 22, 2006.

(w) Accounting for presentation of net assets
From the period ended March 31, 2007, the Companies adopted accounting standards for presentation of net assets on the balance sheet outlined in "Accounting Standard for Presentation of Net Assets on the Balance Sheet No. 5," issued by the Accounting Standards Board of Japan on December 9, 2005, and "Guidance on the Accounting Standard for Presentation of Net Assets on the Balance Sheet No. 8," issued by the Accounting Standards Board of Japan on December 9, 2005. Under the previous standard, the total of shareholders' equity is ¥212,713 million ($1,801,889 thousand).

(x) Change in the accounting classification of amortization of patent utilization rights and long-term prepaid expenses
Previously, the Companies had recorded amortization of certain patent utilization rights and long-term prepaid expenses (project participation expenses) in the non-operating expenses section of the consolidated statements of operations. From the fiscal year under review, however, these line items have been recorded to selling, general and administrative expenses. This change in accounting classification is attributed to the increase in payments in recent years and the growing importance of each item. As these payments have contributed to securing operating revenues, it was determined by the Companies that each line item should more appropriately be recorded against operating expenses. As a result of this change and in comparison with the previous accounting method, operating loss increases by ¥4,101 million ($34,740 thousand). There is no impact on ordinary loss and income before income taxes, minority interests and other.

3. Marketable securities and investment securities

A summary of other securities with stated market prices at March 31, 2006, is as follows:

	Millions of yen		
	2006		
	Acquisition cost	Amount recorded in the balance sheet	Difference
Other securities whose market prices exceed their acquisition cost recorded in the balance sheet:			
Equity securities	¥22,962	¥101,032	¥78,070
Debt securities	—	—	—
Other	—	—	—
Subtotal	¥22,962	¥101,032	¥78,070
Other securities whose market prices do not exceed their acquisition cost recorded in the balance sheet:			
Equity securities	¥ 1,207	¥ 932	¥ (275)
Debt securities	—	—	—
Other	—	—	—
Subtotal	¥ 1,207	¥ 932	¥ (275)
Total	¥24,169	¥101,964	¥77,795

A summary of other securities with stated market prices at March 31, 2007, is as follows:

	Millions of yen			Thousands of U.S. dollars		
	2007			2007		
	Acquisition cost	Amount recorded in the balance sheet	Difference	Acquisition cost	Amount recorded in the balance sheet	Difference
Other securities whose market prices exceed their acquisition cost recorded in the balance sheet:						
Equity securities	¥19,150	¥78,267	¥59,117	$162,220	$662,999	$500,779
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	¥19,150	¥78,267	¥59,117	$162,220	$662,999	$500,779
Other securities whose market prices do not exceed their acquisition cost recorded in the balance sheet:						
Equity securities	¥ 1,856	¥ 1,708	¥ (148)	$ 15,722	$ 14,468	$ (1,254)
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	¥ 1,856	¥ 1,708	¥ (148)	$ 15,722	$ 14,468	$ (1,254)
Total	¥21,006	¥79,975	¥58,969	$177,942	$677,467	$499,525

A summary of other securities which were sold in the years ended March 31, 2007 and 2006, is as follows:

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			2007		
	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	¥25,934	¥18,482	—	¥21,692	¥18,524	¥2	$219,687	$156,561	—

A summary of securities without stated market prices at March 31, 2007 and 2006, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
	Amount recorded in the balance sheet	Amount recorded in the balance sheet	Amount recorded in the balance sheet
Held-to-maturity securities:			
Government bonds or Local government bonds	¥ 5,652	¥ —	$ 47,878
Commercial paper	17,991	15,994	152,402
Other securities:			
Negotiable certificates of deposit	7,100	5,000	60,144
Bond investment trusts	3,000	1	25,413
Unlisted equity securities except for those traded on the over-the-counter market	34,655	18,454	293,562

The contractual maturities of held-to-maturity and other securities as of March 31, 2007, are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			2007		
	Due within one year	Due after one year through five years	Due after five years through ten years	Due within one year	Due after one year through five years	Due after five years through ten years	Due within one year	Due after one year through five years	Due after five years through ten years
Debt securities:									
Public bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	$ —	$ —	$ —
Government bonds or local government bonds	—	5,652	—	—	—	—	—	47,878	—
Corporate bonds	—	—	—	—	—	—	—	—	—
Commercial paper	17,991	—	—	15,994	—	—	152,402	—	—
Other	—	—	—	—	—	—	—	—	—
Other:	—	—	—	—	—	—	—	—	—
Negotiable certificates of deposit	7,100	—	—	5,000	—	—	60,144	—	—
Other	—	—	—	—	—	—	—	—	—
Debt securities:	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Total	¥25,091	¥5,652	¥ —	¥20,994	¥ —	¥ —	$212,546	$47,878	$ —

4. Inventories

Inventories at March 31, 2007 and 2006, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished goods	¥ 19,963	¥ 19,714	$ 169,106
Contracts in process	35,789	44,306	303,168
Work in process	302,214	61,906	2,560,051
Raw materials and supplies	79,898	283,094	676,815
Total	¥437,864	¥409,020	$3,709,140

5. Losses on impairment of fixed assets

(a) The groups of assets for which the Companies recognized impairment losses for the year ended March 31, 2007 are as follows.

Use	Location	Type of assets	Millions of yen	The method to calculate
Assets for business	Minato-ku, Tokyo and others	Land and building, etc	¥2,879	use value
Assets for rent	Takasago-city, Hyogo and others	Land and building, etc	18	use value or net sales value
Idle assets	Takahagi-city, Ibaraki and others	Land and building, etc	231	net sales value

(b) The method to group the assets

Assets are grouped mainly by each works, and each asset for rent or idle asset is treated as one of groups.

(c) The circumstances in that impairment loss was recognized

Some of the assets groups, its business profit had gone down or its market price had come down.

(d) The method to calculate the recoverable amounts

The recoverable amounts were calculated with either the net sales value of these assets which was adjusted reasonably, such as the price of expert opinion, assessment for fixed asset tax and etc, or use value (discount rate which is mainly 5.0%).

(e) Impairment losses

The amount of impairment losses for the year ended March 31, 2007 was ¥3,128 million ($26,497 thousand) and consisted of the following.

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Land	¥1,233	$10,445
Buildings etc	1,895	16,052
Total	¥3,128	$26,497

6. Short-term bank loans, long-term loans, debentures and commercial paper

The weighted interest rates on short-term bank loans were 1.44 percent at March 31, 2007, and 0.87 percent at March 31, 2006.

Long-term loans and debentures at March 31, 2007 and 2006, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Banks and insurance companies, bearing interest rates from 0.1 percent to 4.9 percent	¥182,165	¥179,351	$1,543,117
Government-owned banks, bearing interest rates from 0.7 percent to 5.4 percent	20,068	21,819	169,996
National and local government agencies, bearing interest rates at 0.3 percent	297	351	2,516
Debentures, bearing interest rates from 0.6 percent to 1.8 percent	103,000	123,000	872,512
Others, bearing interest rates from 0.8 percent to 4.6 percent	10,246	10,259	86,794
Less current portion	(90,481)	(52,998)	(766,464)
Net long-term loans and debentures	¥225,295	¥281,782	$1,908,471

The aggregate annual maturities of long-term loans and debentures at March 31, 2007, are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2008	¥110,482	$ 935,892
2009	54,322	460,161
2010	68,318	578,721
2011	50,715	429,606
2012 and after	31,941	270,571
Total	¥315,778	$2,674,951

7. Assets pledged as collateral

The following assets were pledged as collateral at March 31, 2007 and 2006:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash and time deposits	¥ 307	¥ 550	$ 2,601
Trade receivables	658	651	5,574
Inventories	5	4	42
Buildings and structures	4,110	4,017	34,816
Machinery and equipment	3,275	3,575	27,742

Land	**20,639**	21,677	**174,833**
Investment securities	**3,000**	6,168	**25,413**
Total	**¥31,994**	¥36,642	**$271,021**
Property, plant and equipment pledged as industrial factory foundation included in the above assets:			
Buildings and structures	**¥ 1,858**	¥ 1,912	**$ 15,739**
Machinery and equipment	**2,811**	3,077	**23,812**
Land	**9,270**	10,651	**78,526**
Total	**¥13,939**	¥15,640	**$118,077**

The obligations collateralized by the above assets at March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Short-term loans	**¥ 7,949**	¥ 7,828	**$ 67,336**
Long-term loans	**11,386**	11,822	**96,451**
Other long-term liabilities	**15,406**	15,544	**130,504**
	¥34,741	¥35,194	**$294,291**

8. Deferred tax assets and liabilities

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Allowances for employees' bonuses	**¥ 7,930**	¥ 6,930	**$ 67,175**
Reserve for losses on sales contracts	**8,421**	8,720	**71,334**
Reserve for guaranteed contracts	**5,042**	4,752	**42,710**
Allowances for employees' retirement benefits	**58,072**	59,480	**491,927**
Allowances for doubtful receivables	**2,804**	3,171	**23,753**
Losses on valuation of advance payments	**3,359**	—	**28,454**
Adjustment for taxable income on percentage-of-completion basis	**—**	2,243	**—**
Elimination of unrealized profits	**3,814**	3,851	**32,308**
Net loss carried forward	**19,202**	8,155	**162,660**
Losses on impairment of fixed assets	**6,609**	5,722	**55,985**
Losses on valuation of inventories	**5,191**	—	**43,973**
Losses on valuation of investment securities	**—**	4,976	**—**
Other	**16,954**	19,274	**143,617**
Valuation allowance	**(42,002)**	(35,457)	**(355,799)**
	95,396	91,817	**808,097**
Deferred tax liabilities:			
Deferred gains on sales of property, plant and equipment	**9,428**	339	**79,865**
Unrealized holding gain on other securities	**23,647**	31,718	**200,313**
Other	**2,810**	696	**23,804**
	35,885	32,753	**303,982**
Net deferred tax assets	**¥ 59,511**	¥ 59,064	**$ 504,117**

9. Research and development expenses

Research and development expenses, included in product cost, and selling, general and administrative expenses, were ¥23,426 million ($198,441 thousand) and ¥21,603 million for the years ended March 31, 2007 and 2006, respectively.

10. Contingent liabilities

Contingent liabilities for trade notes receivable discounted and endorsed in the ordinary course of business amounted to ¥6,576 million ($55,705 thousand) and ¥6,723 million at March 31, 2007 and 2006, respectively.

Contingent liabilities for guarantees of debts of unconsolidated subsidiaries and others amounted to ¥6,841 million ($57,950 thousand) and ¥6,611 million at March 31, 2007 and 2006, respectively.

Contingent liabilities arising from similar guarantees of debts amounted to ¥20,702 million ($175,366 thousand) and ¥21,681 million at March 31, 2007 and 2006, of which ¥18,204 million ($154,206 thousand) and ¥18,871 million at March 31, 2007 and 2006, respectively, were for employee housing loans which were secured by life insurance and loan insurance, and therefore, the Companies were at low risk.

Contingent liabilities arising from obligation to repurchase receivables sold by the companies amounted to ¥131 million ($1,110 thousand) at March 31, 2007.

11. Other income (expense)-other, net

Other income (expense)-other, net consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Gains on sales of securities	**¥ 18,524**	¥ 18,509	**$ 156,917**
Gain on foreign exchange	**—**	1,113	**—**
Idle-assets administrative expenses	**(1,168)**	(1,162)	**(9,894)**
Losses on disposal of property, plant and equipment	**(2,197)**	(8,513)	**(18,611)**
Equity in gains of unconsolidated subsidiaries and affiliates	**1,340**	1,441	**11,351**
Losses on impairment of fixed assets	**(3,128)**	(13,269)	**(26,497)**
Losses on valuation of stock of affiliated company	**(1,268)**	(675)	**(10,741)**
Losses on valuation of assets related to aerospace development operations	**(14,286)**	—	**(121,017)**
Reversal profit from allowance for doubtful receivables	**—**	973	**—**
Gains on sale of property, plant, land and equipment	**31,241**	19,988	**264,642**
Settlement Payment	**(3,470)**	—	**(29,394)**
Losses relating to violation of antitrust laws	**(1,625)**	(1,870)	**(13,765)**
Counterinsurgency expenses at overseas construction sites	**—**	(1,500)	**—**
Restructuring-related losses	**—**	(7,386)	**—**
Other, net	**(1,509)**	(6,872)	**(12,783)**
Total	**¥ 22,454**	¥ 777	**$ 190,208**

12. Revaluation of land

In accordance with the “Law Concerning Revaluation of Land” enacted on March 31, 1998, land used for business owned by two of the consolidated subsidiaries has been revalued.

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

Book value of land before revaluation	¥2,532 million
Book value of land after revaluation	¥12,567 million
Dates of revaluation	March 31, 2000 and September 30, 2000

The difference between the market value of land at the end of the year that was revalued in the previous year and book value after revaluation was ¥3,863 million ($32,723 thousand) and ¥4,857 million at March 31, 2007 and 2006, respectively.

13. Leases

(a) Finance leases (Lessee)

The following pro forma amounts represent the acquisition costs, accumulated depreciation ,accumulated impairment loss and net book value of the leased property as of March 31, 2007 and 2006, which would have been reflected in the balance sheets value of if finance lease accounting had been applied to the finance leases currently accounted for by the operating lease accounting method:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Acquisition costs:			
Buildings and structures	**¥ 2,112**	¥ 180	**$ 17,890**
Machinery and equipment	**25,360**	19,986	**214,824**
Software	**784**	898	**6,642**
Total	**¥28,256**	¥21,064	**$239,356**
Accumulated depreciation:			
Buildings and structures	**¥ 213**	¥ 119	**$ 1,804**
Machinery and equipment	**15,730**	11,556	**133,249**
Software	**541**	503	**4,583**
Total	**¥16,484**	¥12,178	**$139,636**
Accumulated impairment loss:			
Buildings and structures	**¥ —**	¥ —	**$ —**
Machinery and equipment	**17**	5	**144**
Software	**6**	—	**51**
Total	**¥ 23**	¥ 5	**$ 195**
Net book value:			
Buildings and structures	**¥ 1,899**	¥ 61	**$ 16,086**
Machinery and equipment	**9,613**	8,425	**81,432**
Software	**237**	395	**2,008**
Total	**¥11,749**	¥ 8,881	**$ 99,526**

Concerning the above finance lease transactions,the lease payments, reversal of allowance for impairment losses on leased property, which is estimated depreciation cost, 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 expense and losses on impairment of leased property for the years ended March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Lease payments	**¥4,552**	¥3,443	**$38,560**
Reversal of allowance for impairment losses on leased property	**6**	11	**51**
Estimated depreciation cost	**3,475**	2,953	**29,437**
Estimated interest expense	**584**	378	**4,947**
Losses on impairment of leased property	**23**	13	**195**

Future minimum lease payments subsequent to March 31, 2007 and 2006, for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Within one year	¥ 3,784	¥ 3,077	$ 32,054
Thereafter	11,292	9,053	95,655
Total	¥15,076	¥12,130	$127,709
Lease assets of impairment losses outstandings	19	2	161
Total	¥ 19	¥ 2	$ 161

(b) Operating leases (Lessee)

Future minimum lease payments subsequent to March 31, 2007 and 2006, for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Within one year	¥ 3,498	¥ 2,942	$ 29,631
Thereafter	31,554	26,670	267,294
Total	¥35,052	¥29,612	$296,925

(c) Finance leases (Lessor)

The following amounts are the acquisition costs, accumulated depreciation and net book value of property leased to others under finance leases at March 31, 2007 and 2006, to which the Companies have adopted the operating lease accounting method:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Acquisition costs:			
Buildings and structures	¥ 2,041	¥2,041	$ 17,289
Machinery and equipment	11,155	3,420	94,494
Software	115	—	974
Total	¥13,311	¥5,461	$112,757
Accumulated depreciation:			
Buildings and structures	¥ 507	¥ 423	$ 4,295
Machinery and equipment	6,467	674	54,782
Software	22	—	186
Total	¥ 6,996	¥1,097	$ 59,263
Net book value:			
Buildings and structures	¥ 1,534	¥1,618	$ 12,994
Machinery and equipment	4,688	2,746	39,712
Software	93	—	788
Total	¥ 6,315	¥4,364	$ 53,494

Concerning the above finance leases, the lease payments, depreciation cost and estimated interest income for the years ended March 31, 2007 and 2006, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Recorded lease payments	**¥2,119**	¥733	**$17,950**
Recorded depreciation cost	**1,704**	589	**14,435**
Estimated interest income, assuming that the finance lease accounting had been adopted	**542**	333	**4,591**

Future minimum lease payments subsequent to March 31, 2007 and 2006, for finance lease transactions accounted for by the operating lease accounting method are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Within one year	**¥1,606**	¥ 521	**$13,604**
Thereafter	**5,552**	4,187	**47,031**
Total	**¥7,158**	¥4,708	**$60,635**

(d) Operating leases (Lessor)

Future minimum lease payments subsequent to March 31, 2007 and 2006, for non-cancelable operating leases were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Within one year	**¥ 564**	¥ 37	**$ 4,777**
Thereafter	**7,004**	402	**59,331**
Total	**¥7,568**	¥ 439	**$64,108**

14. Derivatives

(a) Foreign currency

The Companies had no outstanding forward foreign exchange contracts in the years ended March 31, 2007 and 2006, as hedge accounting was applied to all derivative transactions.

(b) Interest rate

As of March 31, 2007, notional amounts, market prices and valuation gains/losses for derivative transactions were as follows:

	Millions of yen				Thousands of U.S.dollars			
	Notional amount	Over one year	Market prices	Valuation loss	Notional amount	Over one year	Market prices	Valuation loss
Interest-rate swaps								
Receipts floating payments fixed	¥18,898	¥18,898	¥(126)	¥126	$160,085	$160,085	$(1,067)	$(3,473)
Payments floating receipts fixed	18,898	18,898	(69)	69	160,085	160,085	(584)	1,423
Total	¥37,796	¥37,796	¥(195)	¥195	$320,170	$320,170	$(1,651)	$(2,050)

15. Retirement benefits

The Company and domestic subsidiaries have defined benefit pension plans, and certain overseas subsidiaries have lump-sum retirement payment plans. In addition, an employee, if eligible, may receive additional payments under the plans.

The following information is a summary of the plans:

	Millions of yen		Thousands of U.S. dollars
March 31	**2007**	2006	**2007**
Projected benefit obligation	**¥(171,376)**	¥(178,761)	**$(1,451,723)**
Fair value of plan assets	**3,408**	3,509	**28,869**
Funded status	**(167,968)**	(175,252)	**(1,422,854)**
Unrecognized actuarial losses	**21,725**	23,316	**184,032**
Unrecognized past service costs	**2,009**	1,600	**17,018**
Obligation recognized in the consolidated balance sheet	**¥(144,234)**	¥(150,336)	**$(1,221,804)**
Allowance for employees' retirement benefits	**¥(144,234)**	¥(150,336)	**$(1,221,804)**

Components of net periodic pension cost:

	Millions of yen		Thousands of U.S. dollars
Year ended March 31	**2007**	2006	**2007**
Service cost benefits earned during the year	**¥ 8,607**	¥ 9,549	**$ 72,910**
Interest cost on projected benefit obligation	**3,434**	3,649	**29,089**
Expected return on assets	**(31)**	(29)	**(263)**
Amortization of transition obligation	**55**	—	**466**
Amortization of actuarial losses	**2,811**	3,714	**23,812**
Amortization of past service costs	**237**	155	**2,008**
Additional payments	**598**	1,030	**5,066**
Net periodic pension cost	**¥15,711**	¥18,068	**$133,088**

	2007	2006
Assumptions used in the actuarial calculation were:		
Actuarial cost method:	**Projected unit credit method**	Projected unit credit method
Discount rate:	**2.00%**	2.00%
Expected rate of return:	**1.50%**	1.50%
Amortization period for past service costs (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
Amortization period for transition obligation:	**—**	—

16. Segment information

(a) Industry segments

Industry segment information of the Companies for the years ended or as of March 31, 2007 and 2006, is shown below:

Millions of yen

Year ended or as of March 31, 2007	(1)	(2)	(3)	(4)	(5)	(6)	Total	Eliminations and Corporate	Consolidated
Sales and operating income:									
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	189,564	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)
Assets, depreciation expense and capital expenditures:									
Assets	¥ 181,150	¥ 155,463	¥ 337,396	¥ 365,485	¥ 161,440	¥ 493,559	¥1,694,493	¥(158,415)	¥1,536,078
Depreciation expense	2,275	3,688	3,235	13,887	2,820	5,472	31,377	1,620	32,997
Capital expenditures	2,376	6,155	3,787	23,709	4,464	29,069	69,560	2,462	72,022

Millions of yen

Year ended or as of March 31, 2006	(1)	(2)	(3)	(4)	(5)	(6)	Total	Eliminations and Corporate	Consolidated
Sales and operating income:									
Sales to outside customers	¥ 169,714	¥ 145,188	¥ 297,625	¥ 264,452	¥ 114,869	¥ 135,227	¥1,127,075	¥ —	¥1,127,075
Intersegment sales and transfers	15,783	17,167	13,490	4,999	1,352	27,999	80,790	(80,790)	—
Total	185,497	162,355	311,115	269,451	116,221	163,226	1,207,865	(80,790)	1,127,075
Operating expenses	188,259	154,818	304,070	252,997	124,869	161,510	1,186,523	(81,219)	1,105,304
Operating income (loss)	¥ (2,762)	¥ 7,537	¥ 7,045	¥ 16,454	¥ (8,648)	¥ 1,716	¥ 21,342	¥ 429	¥ 21,771
Assets, depreciation expense and capital expenditures:									
Assets	¥ 165,838	¥ 122,689	¥ 303,159	¥ 332,112	¥ 141,506	¥ 243,187	¥1,308,491	¥ 153,305	¥1,461,796
Depreciation expense	1,227	3,082	4,699	11,452	2,818	3,119	26,397	3,446	29,843
Capital expenditures	2,281	4,798	3,259	10,865	1,760	7,130	30,093	3,568	33,661

Thousands of U.S. dollars

Year ended or as of March 31, 2007	(1)	(2)	(3)	(4)	(5)	(6)	Total	Eliminations and Corporate	Consolidated
Sales and operating income:									
Sales to outside customers	$ 1,437,916	$ 1,350,724	$ 2,828,319	$ 2,480,686	$ 1,114,121	$ 1,131,444	$10,343,211	$ —	$10,343,211
Intersegment sales and transfers	114,545	139,399	194,731	43,126	9,716	237,696	739,212	(739,212)	—
Total	1,552,461	1,490,123	3,023,050	2,523,812	1,123,837	1,369,140	11,082,423	(739,212)	10,343,211
Operating expenses	1,605,794	1,392,783	3,302,865	2,385,421	1,110,368	1,332,571	11,129,802	(738,933)	10,390,869
Operating income (loss)	$ (53,333)	$ 97,340	$ (279,815)	$ 138,391	$ 13,469	$ 36,569	$ (47,379)	$ (279)	$ (47,658)
Assets, depreciation expense and capital expenditures:									
Assets	$ 1,534,519	$ 1,316,925	$ 2,858,077	$ 3,096,019	$ 1,367,556	$ 4,180,932	$14,354,028	$(1,341,931)	$13,012,097
Depreciation expense	19,271	31,241	27,404	117,637	23,888	46,353	265,794	13,723	279,517
Capital expenditures	20,127	52,139	32,080	200,839	37,814	246,243	589,242	20,856	610,097

Notes: i The Companies operate in six industry segments as follows:

(1) Logistics Systems and Structures Operations
Material handling systems, physical distribution and factory automation systems, parking systems, bridges construction materials, and others

(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 services, marine transport and others

ii Operating expenses were entirely allocated to each industry segment.

iii Corporate assets, which amounted to ¥23,799 million ($201,601 thousand) and ¥294,484 million as of March 31, 2007 and 2006, respectively, mainly consisted of cash, time deposits, marketable securities and insurance premiums paid of the Company and deferred income taxes.

iv Consolidated operating expenses represent cost of sales and selling, general and administrative expenses shown in the accompanying consolidated statements.

(b) Overseas sales

	Millions of yen					
Year ended March 31, 2007	Europe	Asia	North America	Central and South Americas	Others	Total
Overseas sales	**¥62,247**	**¥147,473**	**¥140,056**	**¥60,957**	**¥58,107**	**¥468,840**
Overseas sales as a percentage of consolidated net sales	**5.1%**	**12.1%**	**11.5%**	**5.0%**	**4.7%**	**38.4%**

	Millions of yen					
Year ended March 31, 2006	Europe	Asia	North America	Central and South Americas	Others	Total
Overseas sales	¥52,596	¥127,613	¥120,440	¥10,650	¥68,294	¥379,593
Overseas sales as a percentage of consolidated net sales	4.7%	11.3%	10.7%	0.9%	6.1%	33.7%

	Thousands of U.S. dollars					
Year ended March 31, 2007	Europe	Asia	North America	Central and South Americas	Others	Total
Overseas sales	**$527,293**	**$1,249,242**	**$1,186,412**	**$516,366**	**$492,224**	**$3,971,537**

Note: The countries included in each segment are as follows:
(1) Europe .....U.K., Germany, France, Italy, Ireland, Greece, Bulgaria, etc.
(2) Asia .....China, Taiwan, Korea, Hong Kong, Thailand, Vietnam, Singapore, Malaysia, Indonesia, Philippines, India, Sri Lanka, etc.
(3) North America .....U.S.A., Canada
(4) Central and South Americas .....Brazil, Panama, etc.

17. Amounts per share

	Yen		U.S. dollars
Year ended March 31	**2007**	2006	**2007**
Net income (loss)	**¥ (3.46)**	¥ 3.93	**$(0.029)**
Cash dividends	**4.00**	2.00	**—**
Shareholders' equity	**144.70**	130.36	**1.23**

18. Subsequent event

May 28, 2007 - IHI announced that the Board of Directors had approved the issuance of unsecured warrant bonds for repayment of existing bonds and circulating fund.

Unsecured Straight Bonds (34th Series)

(1) Total amount of issue	¥20,000 million
(2) Value per bond	¥100 per face value of ¥100
(3) Bond rate of interest	2.13% per annum
(4) Date of issuance	June 18, 2007
(5) Duration	7 years
(6) Maturity date	June 18, 2014
(7) Purpose of funds	Debenture redemption and circulating fund
(8) Way of subscription	Public offering

Unsecured Straight Bonds (35th Series)

(1) Total amount of issue	¥10,000 million
(2) Value per bond	¥100 per face value of ¥100
(3) Bond rate of interest	1.89% per annum
(4) Date of issuance	June 18, 2007
(5) Duration	5 years
(6) Maturity date	June 18, 2012
(7) Purpose of funds	Debenture redemption and circulating fund
(8) Way of subscription	Public offering

Report of Independent Auditors

Certified Public Accountants
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The Board of Directors
IHI Corporation (formerly Ishikawajima-Harima Heavy Industries Co., Ltd.)

We have audited the accompanying consolidated balance sheets of IHI Corporation and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of IHI Corporation and consolidated subsidiaries at March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

(Supplemental Information)
As discussed in Note 1, IHI Corporation and consolidated subsidiaries restated their consolidated financial statements for the year ended March 31, 2007.

As discussed in Note 2(x), effective the year ended March 31, 2007, IHI Corporation and consolidated subsidiaries changed their classification of amortization of certain patent utilization rights and long-term prepaid expenses (project participation expenses) from non-operating expenses to selling, general and administrative expenses.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon

December 27, 2007

Corporate Data

(As of March 31, 2007)

Head Office

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Tel: +81-3-6204-7800
Fax: +81-3-6204-8800
Internet home page: http://www.ihi.co.jp/index-e.html

Founded

1853

Incorporated

1889

Number of Employees

6,864 (consolidated: 23,190)

Transfer Agent

The Chuo Mitsui Trust and Banking Company, Ltd.

Consolidated Subsidiaries

84

Non-Consolidated Subsidiaries

51

Affiliates

56 (Includes 25 affiliates applying the equity method of accounting)

Stock Exchange Listings

Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

Shares Outstanding

1,467,058,482

Number of Shareholders

125,819

Independent Auditors

Ernst & Young ShinNihon

*Note: As of July 1, 2007, Ishikawajima-Harima Heavy Industries Co., Ltd. changed its name to IHI Corporation.

Major Shareholders

The Master Trust Bank of Japan, Ltd. (Holder in Trust)	5.41%
Japan Trustee Services Bank, Ltd. (Holder in Trust)	5.29%
Japan Trustee Services Bank, Ltd. (Standing proxy: Toshiba Corporation)*1	3.77%
The Daiichi Mutual Life Insurance Company	3.68%
Mizuho Trust Bank, Limited (Standing proxy: Mizuho Bank, Ltd.)*2	2.97%
Nippon Life Insurance Company	2.32%
Mitsui Sumitomo Insurance Co., Ltd.	1.51%
Sumitomo Life Insurance Company	1.47%
Mizuho Corporate Bank, Ltd.	1.41%
IHI Customer Stock Ownership Association	1.41%

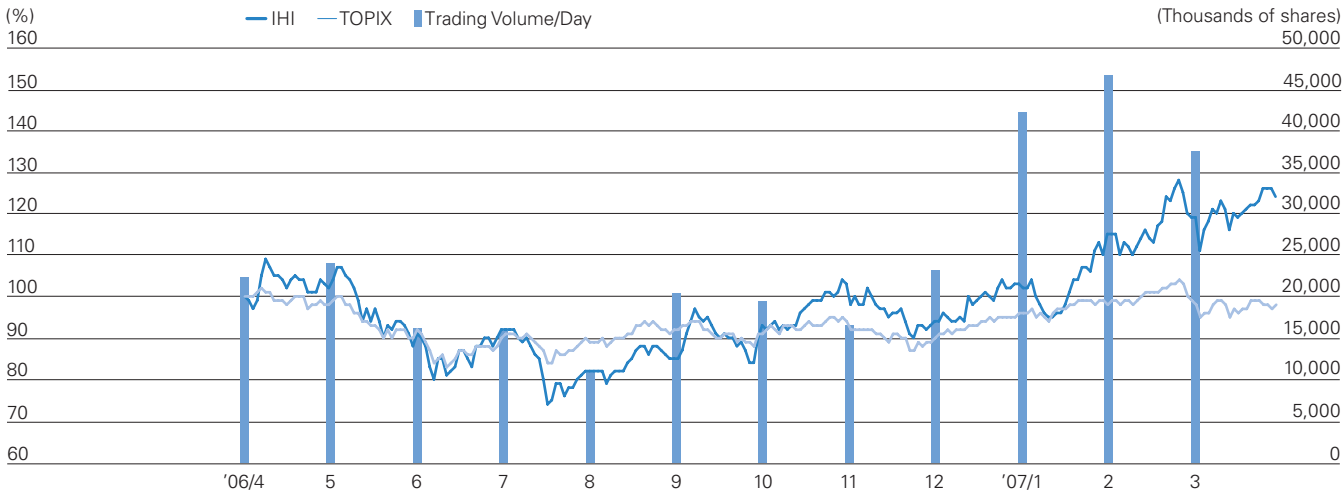
*1 The shares of Ishikawajima-Harima Heavy Industries Co., Ltd. (*Note) stock held by Toshiba Corporation are part of that company's retirement benefit trust and are deposited as trust assets at Mitsui Asset Trust and Banking Co., Ltd. Retirement Benefit Trust (for Toshiba Corporation). Voting rights for the shares are exercised in accordance with Toshiba Corporation instructions.

*2 The shares of Ishikawajima-Harima Heavy Industries Co., Ltd. (*Note) stock held by Mizuho Bank, Ltd. are part of that company's retirement benefit trust and are deposited as trust assets at Mizuho Trust & Banking Co., Ltd. Retirement Benefit Trust (for Mizuho Bank, Ltd.). Voting rights for the shares are exercised in accordance with Mizuho Bank., Ltd. instructions.

Investor Relations

If you have any questions or would like copies of any of our reports, please contact:
Investor Relations Division
IHI Corporation
Toyosu IHI Building, 1-1, Toyosu 3-chome,
Koto-ku, Tokyo 135-8710, JAPAN
Tel: +81-3-6204-7030
Fax: +81-3-6204-8613

IHI Stock Performance and Average Trading Volume Per Day



	'06/4	5	6	7	8	9	10	11	12	'07/1	2	3
Opening Price	374	406	360	364	320	341	364	387	370	411	452	477
High	428	429	364	369	350	386	413	404	416	453	514	505
Low	374	351	307	287	305	330	359	352	365	371	429	434
Closing Price	406	357	362	323	342	361	394	372	403	453	474	490
Trading Volume/Day (Thousands of shares)	22,381	24,086	16,293	15,859	11,091	20,181	19,551	16,615	23,280	42,397	46,815	37,639

Share price on April 1, 2006: ¥394 = 100%

IHI Corporation

Head Office
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