



May 14, 2007

CONSOLIDATED FINANCIAL REPORT FOR THE FISCAL YEAR ENDED MARCH 31, 2007

Ishikawajima-Harima Heavy Industries Co., Ltd. (IHI) is listed on the First Section of the Tokyo Stock Exchange, Osaka Securities Exchange, Nagoya Stock Exchange, Fukuoka Securities Exchange and Sapporo Stock Exchange with the securities code number 7013.

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Annual Board of Directors Meeting: May 14, 2007
 U.S. GAAP: Not applied

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

PERFORMANCE

(1) Business Results

(Millions of yen)						
Years ended March 31	Net Sales	Percentage Change	Operating Income	Percentage Change	Ordinary Income	Percentage Change
2007	¥ 1,234,851	9.6%	¥ 24,617	13.1%	¥ 21,511	35.2%
2006	1,127,075	3.5	21,771	105.0	15,908	272.3

(Millions of yen)							
Years ended March 31	Net Income	Percentage Change	Net Income per Share (Yen)	Diluted Net Income per Share (Yen)	Return on Equity	Ordinary Income to Total Assets	Operating Income to Net Sales
2007	¥ 15,825	199.5%	¥ 11.93	—	7.9%	1.4%	2.0%
2006	5,283	142.3	3.93	—	3.3	1.1	1.9

Notes:

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

Year ended March 31, 2007: ¥ 1,340 million

Year ended March 31, 2006: ¥ 1,441 million

2. Average number of shares outstanding (consolidated)

Year ended March 31, 2007: 1,326,402,881 shares

Year ended March 31, 2006: 1,298,228,663 shares

3. Percentages shown for net sales, operating income, ordinary income and net income are the rates of increase and decrease from the corresponding period of the previous year.

(2) Financial Position

(Millions of yen, except per share figures)

March 31	Total Assets	Net Assets	Shareholders' Equity to Total Assets	Net Assets per Share of Common Stock (Yen)
2007	¥ 1,535,441	¥ 247,465	15.2%	¥ 158.62
2006	1,461,796	169,237	11.6	130.36

Note: Shareholders' equity at the end of the period (consolidated)

March 31, 2007: ¥ 232,648 million

March 31, 2006: —

(3) Cash Flows

(Millions of yen)

Years ended March 31	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents at the End of Period
2007	¥ 36,086	¥ (57,374)	¥ 13,030	¥ 129,939
2006	3,498	3,386	(12,743)	137,382

DIVIDENDS

(Record Date)	Dividends per Share			Total Amount of Dividend Payment (Millions of Yen)	Dividend Payout Ratio (Consolidated)	Dividend to Net Assets Ratio (Consolidated)
	Interim (Yen)	Year-end (Yen)	Annual (Yen)			
Year ended March 31, 2007	—	¥ 4.00	¥ 4.00	¥ 5,866	33.5%	2.8%
Year ended March 31, 2006	—	2.00	2.00	2,596	50.9	1.6
Year ending March 31, 2008 (Forecast)	—	4.00	¥ 4.00		36.7	

FORECAST OF RESULTS FOR THE YEAR ENDING MARCH 31, 2008

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (Yen)
Interim	¥ 520,000	¥ (7,000)	¥ (12,000)	¥ (8,000)	¥ (5.45)
Full-Year	1,230,000	40,000	30,000	16,000	10.91

Note: Earnings estimates made in this report 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 political and general economic conditions and currency exchange rates could cause actual results to differ materially from those discussed in the forward-looking statements, etc.

OTHER IMPORTANT INFORMATION

Number of Shares Outstanding (Common Stock)

Number of shares outstanding

As of March 31, 2007:

1,467,058,482 shares

As of March 31, 2006:

1,298,495,152 shares

Number of treasury stock owned

As of March 31, 2007:

355,273 shares

As of March 31, 2006:

292,949 shares

CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

	Apr. 1, 2006 to Mar. 31, 2007	Apr. 1, 2005 to Mar. 31, 2006	Increase (Decrease)
Net sales	1,234,851	1,127,075	107,776
Cost of sales	1,082,004	986,666	95,338
Gross profit	152,847	140,409	12,438
Selling, general and administrative expenses	128,230	118,638	9,592
Operating income	24,617	21,771	2,846
Non-operating income:			
Interest and dividend income	3,955	4,392	(437)
Equity in earnings of affiliates	1,340	1,441	(101)
Other income	6,334	4,667	1,667
Non-operating expenses:			
Interest expenses	5,724	4,775	949
Other expenses	9,011	11,588	(2,577)
Ordinary income	21,511	15,908	5,603
Extraordinary income:			
Gain on sales of property, plant and equipment	31,241	19,988	11,253
Gain on sales of investment securities	18,524	18,509	15
Reversal of allowance for doubtful receivables	—	973	(973)
Extraordinary expenses:			
Loss on devaluation of space business-related assets	14,286	—	14,286
Amicable settlement	3,470	—	3,470
Loss on impairment of fixed assets	3,128	13,269	(10,141)
Loss on disposal of property, plant and equipment	2,197	8,513	(6,316)
Loss relating to violation of antitrust laws	1,625	1,870	(245)
Loss on devaluation of equity in affiliated companies	1,268	675	593
Restructuring-related losses	—	7,386	(7,386)
Counterinsurgency expenses at overseas construction sites	—	1,500	(1,500)
Income before income taxes, minority interests and other	45,302	22,165	23,137
Corporation, inhabitants' and enterprise taxes	14,448	14,273	175
Adjustments to corporation taxes	16,889	2,809	14,080
Minority interests in consolidated subsidiaries	(1,860)	(200)	(1,660)
Net income	15,825	5,283	10,542

CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2007	March 31, 2006	Increase (Decrease)
ASSETS			
Current assets:			
Cash and time deposits	85,462	105,243	(19,781)
Trade receivables	366,568	356,469	10,099
Marketable securities	28,094	20,995	7,099
Inventories	437,998	409,020	28,978
Deferred income taxes	22,700	26,202	(3,502)
Other current assets	115,020	92,885	22,135
Less allowance for doubtful receivables	(4,552)	(4,840)	288
Total current assets	1,051,290	1,005,974	45,316
Fixed assets:			
Property, plant and equipment:			
Buildings and structures	99,717	71,944	27,773
Machinery and equipment	58,727	53,841	4,886
Land	77,299	79,769	(2,470)
Construction in progress	4,492	3,821	671
Other tangible fixed assets	17,603	16,696	907
Total property, plant and equipment	257,838	226,071	31,767
Intangible assets:			
Software	14,416	14,237	179
Consolidated adjustment account	—	310	(310)
Goodwill	1,459	—	1,459
Royalties and other intangible assets	5,494	6,793	(1,299)
Total intangible assets	21,369	21,340	29
Investments and other assets:			
Investment securities	131,692	130,356	1,336
Deferred income taxes	28,471	36,391	(7,920)
Other	54,195	50,731	3,464
Less allowance for doubtful receivables	(9,414)	(9,067)	(347)
Total investments and other assets	204,944	208,411	(3,467)
Total fixed assets	484,151	455,822	28,329
Total assets	1,535,441	1,461,796	73,645

CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2007	March 31, 2006	Increase (Decrease)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables	318,686	295,026	23,660
Short-term loans and current portion of long-term loans	175,951	142,526	33,425
Current portion of debentures	20,000	20,000	—
Accrued expenses	50,826	40,768	10,058
Accrued income taxes	8,480	10,595	(2,115)
Advances from customers	195,401	151,067	44,334
Allowance for employees' bonuses	20,353	18,812	1,541
Reserve for guaranteed contracts	12,682	12,123	559
Reserve for losses on sales contracts	14,654	22,216	(7,562)
Other current liabilities	55,188	60,904	(5,716)
Total current liabilities	872,221	774,037	98,184
Long-term liabilities:			
Debentures	83,000	103,000	(20,000)
Long-term loans	122,296	178,782	(56,486)
Deferred tax liabilities from revaluation of land	3,226	3,694	(468)
Allowance for employees' retirement benefits	144,234	150,336	(6,102)
Other long-term liabilities	62,999	62,550	449
Total long-term liabilities	415,755	498,362	(82,607)
Total liabilities	1,287,976	1,272,399	15,577
Net assets:			
Common stock	95,762	—	—
Capital surplus	43,034	—	—
Retained earnings	55,542	—	—
Treasury stock	(74)	—	—
Total shareholders' equity	194,264	—	—
Valuation and conversions:			
Unrealized holding gain on other securities	35,654	—	—
Loss on deferred hedges	(483)	—	—
Revaluation excess	3,912	—	—
Foreign currency translation adjustments	(699)	—	—
Total valuation and conversions	38,384	—	—
Minority interests	14,817	—	—

Total net assets	247,465	—	—
Total liabilities and net assets	1,535,441	—	—
Minority interests:			
Minority interests in consolidated subsidiaries	—	20,160	—
Shareholders' equity:			
Common stock	—	64,925	—
Capital surplus	—	10,200	—
Retained earnings	—	44,814	—
Revaluation excess	—	4,591	—
Unrealized holding gain on other securities	—	46,220	—
Foreign currency translation adjustments	—	(1,465)	—
Less treasury stock, at cost	—	(48)	—
Total shareholders' equity	—	169,237	—
Total liabilities, minority interests and shareholders' equity	—	1,461,796	—

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Millions of yen)

	Shareholders' Equity				Total Shareholders' Equity
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	
Balance as of March 31, 2006	64,925	10,200	44,814	(48)	119,891
Increase (decrease) during the year ended March 31, 2007					
Issuance of new shares	30,837	30,837			61,674
Cash dividends			(5,867)		(5,867)
Net income			15,825		15,825
Acquisition of treasury stock				(27)	(27)
Disposition of treasury stock		99		25	124
Net increase from share exchange		1,898		(24)	1,874
Net increase from newly consolidated subsidiaries			91		91
Net increase from reversal of revaluation excess			679		679
Net changes in items excluding shareholders' equity during the period					—
Total increase (decrease) during the year ended March 31, 2007	30,837	32,834	10,728	(26)	74,373
Balance as of March 31, 2007	95,762	43,034	55,542	(74)	194,264

	Valuation and Conversions					Minority Interests	Total Net Assets
	Unrealized Holding Gain on Other Securities	Loss on Deferred Hedges	Revaluation Excess	Foreign Currency Translation Adjustments	Total Valuation and Conversions		
Balance as of March 31, 2006	46,220	—	4,591	(1,465)	49,346	20,160	189,397
Increase (decrease) during the year ended March 31, 2007							
Issuance of new shares							61,674
Cash dividends							(5,867)
Net income							15,825
Acquisition of treasury stock							(27)
Disposition of treasury stock							124
Net increase from share exchange							1,874
Net increase from newly consolidated subsidiaries							91
Net increase from reversal of revaluation excess							679
Net changes in items excluding shareholders' equity during the period	(10,566)	(483)	(679)	766	(10,962)	(5,343)	(16,305)
Total increase (decrease) during the year ended March 31, 2007	(10,566)	(483)	(679)	766	(10,962)	(5,343)	58,068
Balance as of March 31, 2007	35,654	(483)	3,912	(699)	38,384	14,817	247,465

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Millions of yen)

April 1, 2005 to March 31, 2006

CAPITAL SURPLUS

Capital surplus, beginning of the year 10,200

Capital surplus, end of the year 10,200

RETAINED EARNINGS

Retained earnings, beginning of the year 41,596

Increase in retained earnings:

Net income 5,283

Net increase from reversal of revaluation excess 743

Net increase from new consolidated subsidiaries —

Decrease in retained earnings:

Net decrease from newly consolidated subsidiaries 24

Net decrease from removed subsidiaries 2

Dividends paid 2,596

Directors' bonuses 186

Retained earnings, end of the year 44,814

CONSOLIDATED STATEMENT OF CASH FLOWS

(Millions of yen)

	April 1, 2006 to March 31, 2007	April 1, 2005 to March 31, 2006
Operating activities:		
Net income before income taxes	45,302	22,165
Depreciation and amortization	32,997	29,797
Amortization of long-term prepaid expenses	4,158	3,321
Increase in allowance for doubtful receivable	59	901
Increase in allowance for employees' bonuses	1,541	653
Increase in reserve for guaranteed contracts	559	2,764
(Decrease) increase in accrued losses on sales contracts	(7,562)	1,589
Decrease in accrued employees' retirement allowances	(6,102)	(53)
Interest and dividend income	(3,955)	(4,392)
Interest expense	5,724	4,775
Gain on foreign exchange	(10)	(7)
Loss on disposal of property, plant and equipment	(29,044)	(12,490)
Loss on impairment of fixed assets	3,128	13,269
Gain on sale of marketable and investment securities	(18,524)	(18,509)
Loss on valuation of marketable and investment securities and memberships	1,572	814
Loss on devaluation of space business-related assets	14,285	—
Equity in earnings of affiliates	(1,340)	(1,441)
Gain on sale of businesses	(140)	—
Decrease in trade receivables	(18,361)	(25,645)
Increase in advances received	44,334	6,076
Decrease in inventories	(33,890)	(23,196)
Decrease in advance payments	(11,888)	(11,315)
Increase in trade payables	23,646	1,804
Increase in accrued expenses	9,746	9,229
Increase in reserve for guaranteed contracts	1,250	973
(Decrease) increase in other current assets	(3,977)	2,673
Increase in other current liabilities	7,024	12,163
Decrease in accrued consumption taxes	(5,919)	(5,752)
Directors' and corporate auditors' bonuses	(193)	(200)
Subtotal	54,420	9,966
Interest and dividends received	3,856	4,460
Interest paid	(5,649)	(4,650)
Income taxes paid	(16,541)	(6,278)
Net cash provided by (used in) operating activities	36,086	3,498

Investing activities:

Net increase in time deposits due in more than three months	260	658
Purchases of marketable and investment securities	(27,402)	(542)
Proceeds from sale of marketable and investment securities	26,557	21,692
Net increase from marketable and investment securities returned	(13,000)	—
Purchases of property, plant and equipment and intangible fixed assets	(68,174)	(30,306)
Proceeds from sale of property, plant and equipment	34,195	25,580
Expenditure for disposal of property, plant and equipment	(2,245)	(2,768)
Expenditure for the acquisition of businesses	(700)	(1,592)
Proceeds from the sale of businesses	100	—
Net decrease (increase) in short-term loans	10	(65)
Increase in long-term loans	(270)	(727)
Decrease in long-term loans	210	113
Increase in other fixed assets	(11,892)	(8,557)
Increase (decrease) in other fixed liabilities	4,977	(100)
Net cash (used in) provided by investing activities	(57,374)	3,386

Financing activities:

Net decrease in short-term loans	(24,058)	(21,290)
Net increase in long-term loans	29,679	44,500
Repayment of long-term loans	(28,682)	(45,574)
Proceeds from issuance of debentures	—	35,000
Expenditures for redemption of debentures	(20,000)	(25,000)
Proceeds from payments from minority shareholders	714	—
Purchases of stock from minority shareholders	(3,491)	—
Proceeds from issuance of stock	61,674	—
Purchases of treasury stock	(26)	(12)
Proceeds from sale of parent company's stock by subsidiary	115	—
Purchases of treasury stock of subsidiaries in consolidation	—	(5)
Dividends paid	(2,596)	—
Dividends paid to minority interests	(299)	(362)
Net cash provided by (used in) financing activities	13,030	(12,743)

Effect of exchange rate changes on cash and cash equivalents

	896	376
Net decrease in cash and cash equivalents	(7,362)	(5,483)
Cash and cash equivalents, beginning of the year	137,382	139,684
Increase in cash and cash equivalents from consolidation of non-consolidated subsidiaries	41	3,212
Increase in cash and cash equivalents due to exclusion from the scope of consolidation	(122)	(31)
Cash and cash equivalents, end of the year	129,939	137,382

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

(Millions of yen)

	March 31, 2007	March 31, 2006
Cash and time deposits	85,462	105,243
Time deposits due in more than three months	(593)	(853)
Negotiable deposits included in marketable securities	7,100	5,000
Commercial paper included in marketable securities	17,991	15,994
Investment trust included in marketable securities	3,000	—
Trust beneficiary interests included in other current assets	5,000	5,999
Sales under agreement to repurchase included in short-term loans	11,979	5,999
Cash and cash equivalents	129,939	137,382

SEGMENT INFORMATION

(1) Performance by business segment Year ended March 31, 2007

(Millions of yen)

	Logistics							Eliminations	
	Systems and Structures Operations	Industrial Machinery Operations	Energy and Plant Operations	Aero-Engine and Space Operations	Shipbuilding and Offshore Operations	Other Operations	Total	and Corporate	Consolidated
Sales and operating income:									
Sales to outside customers	¥169,746	¥159,453	¥347,718	¥292,845	¥131,522	¥133,567	¥1,234,851	¥—	¥1,234,851
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	370,706	297,936	132,669	161,627	1,322,115	(87,264)	1,234,851
Operating expenses	189,564	164,418	373,495	281,599	131,079	157,310	1,297,465	(87,231)	1,210,234
Operating income (loss)	¥(6,296)	¥11,491	¥(2,789)	¥16,337	¥1,590	¥4,317	¥24,650	¥(33)	¥24,617
Assets, depreciation expense and capital expenditure:									
Assets	¥181,150	¥155,463	¥346,584	¥365,485	¥161,440	¥493,559	¥1,703,681	¥(168,240)	1,535,441
Depreciation expense	2,275	3,688	3,235	13,887	2,820	5,472	31,377	1,620	32,997
Capital expenditure	2,376	6,155	3,787	23,709	4,464	29,069	69,560	2,462	72,022

Year ended March 31, 2006

(Millions of yen)

	Logistics							Eliminations	
	Systems and Structures Operations	Industrial Machinery Operations	Energy and Plant Operations	Aero-Engine and Space Operations	Shipbuilding and Offshore Operations	Other Operations	Total	and Corporate	Consolidated
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 expenditure:									
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	3,400	29,797
Capital expenditure	2,281	4,798	3,259	10,865	1,760	7,130	30,093	3,568	33,661

Notes:

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

(2) Segment information by region

Year ended March 31, 2007

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

Year ended March 31, 2006

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

(3) Overseas sales

(Millions of yen, %)

Year ended March 31, 2007	Central and					Total
	Asia	North America	South America	Europe	Others	
Overseas sales	¥150,047	¥140,355	¥60,957	¥62,247	¥66,064	¥479,670
Consolidated net sales						¥1,234,851
Overseas sales as a percentage of consolidated net sales	12.2%	11.4%	4.9%	5.0%	5.3%	38.8%

(Millions of yen, %)

Year ended March 31, 2006	Central and					Total
	Asia	North America	South America	Europe	Others	
Overseas sales	¥127,613	¥120,440	¥10,650	¥52,596	¥68,294	¥379,593

Consolidated net sales						¥1,127,075
Overseas sales as a percentage of consolidated net sales	11.3%	10.7%	0.9%	4.7%	6.1%	33.7%

Notes:

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

Notes to the Consolidated Financial Report

A. Significant Matters Concerning the Preparation of the Consolidated Financial Report

1. Scope of Consolidation

(1) Number and names of major consolidated subsidiaries

The consolidated accounts reflect the results of 84 consolidated subsidiaries. Major companies include IHI Aerospace Co., Ltd., IHI Marine United Inc., Ishikawajima Transport Machinery Co., Ltd., IHI Construction Machinery Co., Ltd., Ishikawajima Construction Materials Co., Ltd., Ishikawajima Shibaura Machinery Co., Ltd., Ishikawajima Ship & Chemical Plant Co., Ltd., Ishikawajima Mass-Produced Machinery Co., Ltd., Ishikawajima Hanyoki Service Co., Ltd., Ishikawajima Plant Construction Co., Ltd., Star Farm Machinery Manufacturing Co., Ltd., Niigata Power Systems Co., Ltd., Niigata Transys Co., Ltd., PC Bridge Co., Ltd., IHI Inc. and IHI Turbo America Co., Jurong Engineering Limited.

In the fiscal year under review, one subsidiary of the Jurong Engineering Limited group was removed from that group's scope of consolidation following its liquidation. As a result, the number of consolidated subsidiaries of the IHI Group fell by one.

(2) Names of major non-consolidated subsidiaries

Major companies include IHI Logistics, Co., Ltd. and Toyosu Energy Service Co., Ltd.

Each company is excluded from the scope of consolidation due to its relatively small size and limited impact on consolidated financial statements.

2. Application of the Equity Method of Accounting

(1) Number and names of major affiliated companies accounted for by the equity method

There are 25 affiliated companies accounted for by the equity method. Major companies include Turbo Systems United Co., Ltd., Kaisho Shipping Co., Ltd., Taichihi Enterprise Co., Ltd.

(2) Name of affiliated company not accounted for by the equity method

There is one affiliated company not accounted for by the equity method, namely Aioi Natural Resources Development Co., Ltd.

Aioi Natural Resources Development Co., Ltd. is not accounted for by the equity method due to its relatively small size and limited impact on consolidated financial statements.

3. Consolidated Subsidiaries Having Different Interim Period-Ends

As Star Farm Machinery Manufacturing Co., Ltd. closes its books of account for the fiscal period ended September 30, provisional financial statements are used for the purpose of consolidation. IHI Inc. and other overseas subsidiaries (excluding Ishi Power Sdn. Bhd.) close their accounts on December 31. As the difference between these periods does not exceed three months, financial statements as of that date are

used. However, significant transactions that occur between these closing dates are adjusted as necessary on the consolidated financial statements.

4. Summary of Significant Accounting Policies

(1) Securities

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

(2) Derivatives

Derivatives are stated at fair market value.

(3) Inventories

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

(4) Depreciation

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

However, depreciation of leasehold properties, certain assets of consolidated subsidiaries and buildings (excluding building fixtures) acquired after April 1, 1998, is computed by the straight-line method. Amortization of intangible assets is computed by the straight-line method. Software used internally is amortized using the straight-line method over the useful life of the assets, estimated by the Company (within five years).

(5) Basis for recording significant allowances

a. Allowance for doubtful receivables

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

b. Allowance for employees' bonuses

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

c. Reserve for guaranteed contracts

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

d. Accrued losses on sales contracts

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

e. Employees' retirement allowances

Employees' retirement allowances are provided for based on estimated severance liabilities and pension fund assets at the end of the consolidated fiscal year, as of the consolidated balance sheet date. Past service costs are disposed of as expenses using the straight-line method over a certain

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

f. Allowance for directors' bonuses

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

(6) *Important items basic to the preparation of other financial statements*

Recognition of revenues and related costs: Net sales from contracts are recognized at the time the projects are completed, except for the net sales of projects with construction lasting more than two years and revenue of more than ¥3 billion, which are recorded using the percentage-of-completion method. Other construction projects are treated on a completion basis.

Treatment of deferred assets: New share delivery costs are charged in full as expenses at the time of issue.

Treatment of lease transactions: Financial leases are accounted for by the operating lease accounting method, except lease agreements that stipulate the transfer of ownership of the leased property to the lessee.

Treatment of hedge accounting: Gains or losses and evaluation differences related to hedging transactions accounted for at fair market value are deferred as assets or liabilities until recognized. Evaluation gains or losses on foreign exchange contracts are allocated to settlement periods throughout the period of the contract. Interest rate swaps are treated as special exceptions.

Accounting treatment of consumption tax: Consumption taxes are accounted for using the net-of-tax method.

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

The assets and liabilities of consolidated subsidiaries are stated as a whole at fair market value.

6. Appropriation of Retained Earnings

Appropriations with respect to each balance sheet date are retroactively reflected in the consolidated financial statements for each applicable period.

7. Changes in Accounting Methods

Accounting for business combinations and business divestitures

From the fiscal year under review, the Companies have adopted Accounting Standard No. 10 "Accounting Standard for Business Combinations" issued by the Accounting Standards Board of Japan on October 31, 2003 and Accounting Standard 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.

Accounting for directors' and statutory auditors' bonuses:

From the period under review, the Companies have adopted Accounting Standard No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005. As a result, operating income, ordinary

income and income (loss) before income taxes, minority interests and other each declined by ¥237 million.

Accounting for the presentation of net assets:

From the period ended March 31, 2007, the Companies adopted accounting standards for the presentation of net assets on the balance sheet outlined in “Accounting Standard for the 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 the 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 ¥233,131 million.

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 income. 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 income decreases by ¥4,101 million. There is no impact on ordinary income and income before income taxes, minority interests and other.

B. Notes to consolidated balance sheet

(Millions of yen unless otherwise stated)

1. Accumulated depreciation of property, plant and equipment		467,736
2. Assets pledged as collateral and guarantee obligations		
(1) Assets pledged as collateral	Cash and time deposits	307
	Trade receivables	658
	Inventories	5
	Buildings and structures	4,110
	Machinery and equipment	3,275
	Land	20,639
	Investment securities	3,000
	Floating mortgage over the following assets pledged as collateral included in the aforementioned:	
	Buildings and structures	1,858
	Machinery and equipment	2,811
	land	9,270
(2) Assets pledged as collateral for the following liabilities:	Short-term loans	7,905
	Long-term loans	11,012
	Other long-term liabilities	15,406

(Debt obligations of non-consolidated subsidiaries and other related parties are included in the aforementioned.)

Obligations relating to floating mortgage included in the aforementioned:

Short-term loans	2,995
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3. Contingent liabilities

(1) Guarantees

(Millions of yen unless otherwise stated)

Indemnitee	Amount	Details of Guarantee Obligation
Japanese Aero Engines Corporation	4,160	Guarantees for lease obligations and asset values
Giken Technology Co., Ltd.	406	Debt from financial institutions
PT Truba Jurong Engineering	358	Standby letter of credit
Employees	202	Guarantees for housing and education loans
SPIC-JEL Engineering Construction Ltd.	119	Standby letter of credit
Other (21)	1,596	
Total	6,841	—

(2) Quasi-guarantees (Note 1)

(Millions of yen unless otherwise stated)

Indemnitee	Amount	Details of Guarantee Obligation
Guarantee for employee housing loans (Note 2)	18,204	Guarantee for housing loans and guarantee for debt financing from financial institutions

Aioi Natural Resources Development Co., Ltd.	2,030	Debt financing from financial institutions
Turbo Systems United Co., Ltd.	468	Debt financing from financial institutions
Total	20,702	—

Amount of repurchase obligation in line with the liquidation of receivables 131 million

Notes:

1. Quasi-guarantees include joint guarantees provided with other companies. The obligation of other companies totals ¥460 million, which is included in the aforementioned data.
2. The Company is obligated to provide guarantees for housing loans of employees and employees of certain consolidated subsidiaries. Arrangement have been made for loan insurance.

4. Notes receivable discounted ¥6,566 million

5. Notes receivable endorsed ¥10 million

C. Calculation Statement Relating to Changes in Consolidated Shareholders' Equity

1. Number of shares issued and outstanding

Matters relating to the type and number of shares issued and outstanding

(Shares)

	Number of Shares As of March 31, 2006	Increase	Decrease	Number of Shares As of March 31, 2007
Common shares	1,298,495,152	168,563,330	—	1,467,058,482

Note: The increase in common stock reflects the issue of 4,113,330 new shares in connection with an exchange of shares, 143,000,000 new shares issued as a result of additional public offering and 21,450,000 new shares due to third-party allocation

Matter relating to the type and number of treasury stock

Type and number of treasury stock

(Shares)

	Number of Shares As of March 31, 2006	Increase	Decrease	Number of Shares As of March 31, 2007
Common shares	292,949	362,338	300,014	355,273

Note:

The increase in treasury stock reflects the purchase of common stock less than one trading unit, and share exchange. The decrease in treasury stock reflects the sale of common stock less than one trading unit of stock, and share exchange.

2. Matters Relating to Dividends

(1) Dividend payment amount

(Thousands of yen unless otherwise stated)

	Type of Shares	Total Cash Dividend Paid	Cash Dividend per Common Share (Yen)	Base Date	Effective Date
Annual General Meeting of Shareholders held on June 28, 2006	Common shares	2,596,404	2	Mar. 31, 2006	Jun. 29, 2006

(2) Dividends for which the effective date falls in the fiscal year ending March 31, 2008 included in dividends for which the base date falls within the fiscal year ending March 31, 2007 are scheduled for ratification at the Annual General Meeting of Shareholders on June 27, 2007

(Millions of yen unless otherwise stated)

	Type of Shares	Total Cash Dividend Paid	Cash Dividend per Common Share (Yen)	Base Date	Effective Date
Annual General Meeting of Shareholders held on June 27, 2007	Common shares	5,866,812	4	Mar. 31, 2007	Jun. 28, 2007

D. Per Share Information

1. Net assets per share	¥158.62
2. Earnings per share	¥11.93
3. Number of shares that form the basis for calculating earnings per share	1,326,402,881 shares

Information note disclosed:

The Company has determined certain information to be of nominal significance. Accordingly, data concerning the following items has been omitted.

Lease transactions

Transactions with related parties

Tax-effect accounting

Securities
Derivative transactions
Retirement benefits