

CONSOLIDATED FINANCIAL REPORT FOR THE FISCAL YEAR ENDED MARCH 31, 2008

IHI Corporation (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 General Meeting of Shareholders: June 27, 2008 (planned)
 Submission of Financial Statements June 27, 2008 (planned)
 Commencement of Dividend Payments June 30, 2008 (planned)
 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
2008	¥ 1,350,567	10.6%	¥ (16,807)	—	¥ (30,812)	—
2007	1,221,016	8.3%	(5,626)	—	(8,732)	—

(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
2008	¥ 25,195	—	¥ 17.18	—	11.7%	(2.0)%	(1.2)%
2007	(4,593)	—	(3.46)	—	(2.4)	(0.6)	(0.5)

Notes:

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

Year ended March 31, 2008: ¥ 154 million

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

2. Average number of shares outstanding (consolidated)

Year ended March 31, 2008: 1,466,623,898 shares

Year ended March 31, 2007: 1,326,402,881 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)
2008	¥ 1,542,295	¥ 234,406	14.3%	¥ 149.96
2007	1,536,078	227,047	13.8	144.70

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

March 31, 2008: ¥ 219,917 million

March 31, 2007: 212,230 million

(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
2008	¥ 3,339	¥ 46,789	¥ (48,786)	¥ 130,428
2007	36,086	(57,374)	13,030	129,939

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, 2008	—	¥ 4.00	¥ 4.00	¥ 5,866	23.3%	2.7%
Year ended March 31, 2007	—	4.00	4.00	5,866	—	2.9
Year ending March 31, 2009 (Forecast)	—	4.00	4.00	—	53.3	—

FORECAST OF RESULTS FOR THE YEAR ENDING MARCH 31, 2009

(Millions of yen; percentages show rates of increase and decrease from the corresponding period of the previous year)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share (Yen)
Interim	¥ 630,000	15.3%	¥ 1,000	—%	¥ (5,000)	—%	¥ (4,000)	—%	¥ (2.73)
Full-Year	1,450,000	7.4%	37,000	—%	23,000	—%	11,000 (56.3%)		7.50

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, 2008:

1,467,058,482 shares

As of March 31, 2007:

1,467,058,482 shares

Number of treasury stock owned

As of March 31, 2008:

536,481 shares

As of March 31, 2007:

355,273 shares

CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

	Apr. 1, 2007 to Mar. 31, 2008	Apr. 1, 2006 to Mar. 31, 2007	Increase (Decrease)
Net sales	¥ 1,350,567	¥ 1,221,016	129,551
Cost of sales	1,235,111	1,098,412	136,699
Gross profit	115,456	122,604	(7,148)
Selling, general and administrative expenses	132,263	128,230	4,033
Operating income	(16,807)	(5,626)	(11,181)
Non-operating income:			
Interest and dividend income	4,429	3,955	474
Equity in earnings of affiliates	154	1,340	(1,186)
Other income	3,983	6,334	(2,351)
Non-operating expenses:			
Interest expenses	5,927	5,724	203
Other expenses	16,644	9,011	7,633
Ordinary income	(30,812)	(8,732)	(22,080)
Extraordinary income:			
Gain on sales of property, plant and equipment	87,374	31,241	56,133
Gain on sales of investment securities	3,400	18,524	(15,124)
Extraordinary expenses:			
Loss on devaluation of space business-related assets	6,304	14,286	(7,982)
Loss on disposal of property, plant and equipment	3,292	2,197	1,095
Cost of environment conservation measures	1,234	—	1,234
Retirement benefits for directors in past fiscal years	954	—	954
Loss on valuation of equity in affiliated companies	592	—	592
Loss relating to violation of antitrust laws	414	1,625	(1,211)
Loss on impairment of fixed assets	378	3,128	(2,750)
Amicable settlement	—	3,470	(3,470)
Loss on devaluation of equity in affiliated companies	—	1,268	(1,268)
Income before income taxes, minority interests and other	46,794	15,059	31,735
Corporation, inhabitants' and enterprise taxes	21,357	14,448	6,909
Adjustments to corporation taxes	304	7,064	(6,760)
Minority interests in consolidated subsidiaries	(62)	(1,860)	1,798
Net income	¥ 25,195	¥ (4,593)	29,788

CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2008	March 31, 2007	Increase (Decrease)
ASSETS			
Current assets:			
Cash and time deposits	¥ 72,080	¥ 85,462	(13,382)
Trade receivables	358,945	357,514	1,431
Marketable securities	46,455	28,094	18,361
Inventories	455,885	437,864	18,021
Deferred income taxes	33,887	25,240	8,647
Other current assets	119,438	115,020	4,418
Less allowance for doubtful receivables	(4,066)	(4,552)	486
Total current assets	1,082,624	1,044,642	37,982
Fixed assets:			
Property, plant and equipment:			
Buildings and structures	101,222	99,717	1,505
Machinery and equipment	58,445	58,727	(282)
Land	77,761	77,299	462
Construction in progress	5,330	4,492	838
Other tangible fixed assets	19,003	17,603	1,400
Total property, plant and equipment	261,761	257,838	3,923
Intangible assets:			
Software	14,354	14,416	(62)
Goodwill	1,450	1,459	(9)
Royalties and other intangible assets	5,141	5,494	(353)
Total intangible assets	20,945	21,369	(424)
Investments and other assets:			
Investment securities	96,955	131,692	(34,737)
Deferred income taxes	34,965	35,756	(791)
Other	54,520	54,195	325
Less allowance for doubtful receivables	(9,475)	(9,414)	(61)
Total investments and other assets	176,965	212,229	(35,264)
Total fixed assets	459,726	491,436	(31,765)
Total assets	¥ 1,542,295	¥ 1,536,078	6,217

CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2008	March 31, 2007	Increase (Decrease)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables	¥ 315,008	¥ 322,681	(7,673)
Short-term loans and current portion of long-term loans	131,706	175,951	(44,245)
Current portion of debentures	28,000	20,000	8,000
Accrued expenses	63,088	50,826	12,262
Accrued income taxes	16,188	8,480	7,708
Advances from customers	226,838	200,182	26,656
Allowance for employees' bonuses	21,420	20,353	1,067
Reserve for guaranteed contracts	19,122	12,526	6,596
Reserve for losses on sales contracts	32,690	27,089	5,601
Other current liabilities	44,622	55,188	(10,566)
Total current liabilities	898,682	893,276	5,406
Long-term liabilities:			
Debentures	85,000	83,000	2,000
Long-term loans	123,216	122,296	920
Deferred tax liabilities from revaluation of land	3,131	3,226	(95)
Allowance for employees' retirement benefits	140,409	144,234	(3,825)
Other long-term liabilities	57,451	62,999	(5,548)
Total long-term liabilities	409,207	415,755	(6,548)
Total liabilities	1,307,889	1,309,031	(1,142)
Net assets:			
Common stock	95,762	95,762	—
Capital surplus	43,037	43,034	3
Retained earnings	56,012	35,124	20,888
Treasury stock	(135)	(74)	(61)
Total shareholders' equity	194,676	173,846	20,830
Valuation and conversions:			
Unrealized holding gain on other securities	22,104	35,654	(13,550)
Loss on deferred hedges	1,518	(483)	2,001
Revaluation excess	3,787	3,912	(125)
Foreign currency translation adjustments	(2,168)	(699)	(1,469)
Total valuation and conversions	25,241	38,384	(13,143)
Equity warrant	114	—	114
Minority interests	14,375	14,817	(442)
Total net assets	234,406	227,047	7,359
Total liabilities and net assets	¥ 1,542,295	¥ 1,536,078	6,217

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance as of March 31, 2007	¥ 95,762	¥ 43,034	¥ 35,124	¥ (74)	¥ 173,846
Increase (decrease) during the year ended March 31, 2008					
Net income			25,195		25,195
Cash dividends			(5,866)		(5,866)
Acquisition of treasury stock				(66)	(66)
Disposition of treasury stock		3		5	8
Net increase from newly consolidated subsidiaries			743		743
Net increase in equity-method companies			951		951
Loss from incorporating nonconsolidated subsidiary			(260)		(260)
Net increase from reversal of revaluation excess			125		125
Net changes in items excluding shareholders' equity during the period					—
Total increase (decrease) during the year ended March 31, 2008	—	3	20,888	(61)	20,830
Balance as of March 31, 2008	¥ 95,762	¥ 43,037	¥ 56,012	¥ (135)	¥ 194,676

	Valuation and Conversions					Equity warrant	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, 2007	¥ 35,654	¥ (483)	¥ 3,912	¥ (699)	¥ 38,384	—	¥ 14,817	¥ 227,047
Increase (decrease) during the year ended March 31, 2008								
Net income								25,195
Cash dividends								(5,866)
Acquisition of treasury stock								(66)
Disposition of treasury stock								8
Net increase from newly consolidated subsidiaries								743
Net increase in equity-method companies								951
Loss from incorporating nonconsolidated subsidiary								(260)
Net increase from reversal of revaluation excess								125
Net changes in items excluding shareholders' equity during the period	(13,550)	2,001	(125)	(1,469)	(13,143)	¥ 114	(442)	(13,471)
Total increase (decrease) during the year ended March 31, 2008	(13,550)	2,001	(125)	(1,469)	(13,143)	114	(442)	7,359
Balance as of March 31, 2008	¥ 22,104	¥ 1,518	¥ 3,787	¥ (2,168)	¥ 25,241	¥ 114	¥ 14,375	¥ 234,406

CONSOLIDATED STATEMENT OF CASH FLOWS

(Millions of yen)

	April 1, 2007 to March 31, 2008	April 1, 2006 to March 31, 2007
Operating activities:		
Net income before income taxes	¥ 46,794	¥ 15,059
Depreciation and amortization	38,521	32,997
Amortization of long-term prepaid expenses	5,161	4,158
(Decrease) increase in allowance for doubtful receivables	(430)	59
Increase in allowance for employees' bonuses	822	1,541
Increase in reserve for guaranteed contracts	6,596	403
Increase in accrued losses on sales contracts	5,601	4,873
Decrease in accrued employees' retirement allowances	(3,879)	(6,102)
Interest and dividend income	(4,429)	(3,955)
Interest expense	5,927	5,724
Gain on foreign exchange	152	(10)
Loss on disposal of property, plant and equipment	(84,082)	(29,044)
Loss on impairment of fixed assets	378	3,128
Gain on sale of marketable and investment securities	(3,400)	(18,524)
Loss on valuation of marketable and investment securities and memberships	711	1,572
Loss on devaluation of space business-related assets	6,304	14,285
Equity in earnings of affiliates	(154)	(1,340)
Gain on sale of businesses	—	(140)
Decrease in trade receivables	(13,477)	(9,307)
Increase in advances received	26,423	49,115
Decrease in inventories	(17,364)	(33,756)
Decrease in advance payments	(968)	(11,888)
(Decrease)increase in trade payables	(2,122)	27,641
Increase in accrued expenses	7,980	9,746
(Decrease)increase in reserve for guaranteed contracts	(5,592)	1,250
Decrease in other current assets	(1,060)	(3,977)
(Decrease) increase in other current liabilities	(1,039)	7,024
(Increase) decrease in accrued consumption taxes	3,818	(5,919)
Directors' and corporate auditors' bonuses	—	(193)
Other	1,648	—
Subtotal	18,840	54,420
Interest and dividends received	4,333	3,856
Interest paid	(6,041)	(5,649)
Income taxes paid	(13,793)	(16,541)
Net cash provided by operating activities	3,339	36,086

Investing activities:

Net increase in time deposits due in more than three months	¥ 43	¥ 260
Purchases of marketable and investment securities	(1,463)	(27,402)
Proceeds from sale of marketable and investment securities	11,588	26,557
Purchases of property, plant and equipment and intangible fixed assets	(46,143)	(68,174)
Proceeds from sale of property, plant and equipment	90,224	34,195
Expenditure for disposal of property, plant and equipment	(312)	(2,245)
Expenditure for the acquisition of businesses	—	(700)
Proceeds from the sale of businesses	—	100
Net decrease in short-term loans	167	10
Increase in long-term loans	(747)	(270)
Decrease in long-term loans	552	210
Decrease in other fixed assets	(6,614)	(11,892)
(Decrease) increase in other fixed liabilities	(503)	4,977
Other	(3)	(13,000)
Net cash provided by (used in) investing activities	46,789	(57,374)

Financing activities:

Net decrease in short-term loans	10,231	(24,058)
Net increase in long-term loans	32,684	29,679
Repayment of long-term loans	(95,195)	(28,682)
Proceeds from issuance of debentures	30,000	—
Expenditures for redemption of debentures	(20,000)	(20,000)
Proceeds from payments from minority shareholders	—	714
Proceeds from issuance of stock	—	61,674
Purchases of stock from minority shareholders	—	(3,491)
Purchases of treasury stock	(58)	(26)
Dividends paid	(5,794)	(2,596)
Dividends paid to minority interests	(654)	(299)
Other	—	115
Net cash (used in) provided by financing activities	(48,786)	13,030

Effect of exchange rate changes on cash and cash equivalents	(1,488)	896
Net decrease in cash and cash equivalents	(146)	(7,362)
Cash and cash equivalents, beginning of the year	129,939	137,382
Increase in cash and cash equivalents from consolidation of non-consolidated subsidiaries	605	41
Increase in cash and cash equivalents from merger of consolidated subsidiary's nonconsolidated subsidiary	30	—
Increase in cash and cash equivalents due to exclusion from the scope of consolidation	—	(122)
Cash and cash equivalents, end of the year	¥ 130,428	¥ 129,939

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

	(Millions of yen)	
	March 31, 2008	March 31, 2007
Cash and time deposits	¥ 72,080	¥ 85,462
Time deposits due in more than three months	(500)	(593)
Collateral deposits	(120)	—
Negotiable deposits included in marketable securities	15,000	7,100
Commercial paper included in marketable securities	26,981	17,991
Investment trust included in marketable securities	—	3,000
Trust beneficiary interests included in other current assets	—	5,000
Sales under agreement to repurchase included in short-term loans	16,987	11,979
Cash and cash equivalents	¥ 130,428	¥ 129,939

SEGMENT INFORMATION

(1) Performance by business segment

Year ended March 31, 2008

(Millions of yen)

	Logistics								
	Systems and	Industrial	Energy and	Aero-Engine	Shipbuilding	Real			Eliminations
	Structures	Machinery	Plant	and Space	and Offshore	Estate	Other		and
	Operations	Operations	Operations	Operations	Operations	Operations	Operations	Total	Corporate
Sales and operating income:									
Sales to outside customers	¥169,936	¥173,633	¥371,517	¥308,227	¥159,569	¥40,443	¥127,242	¥1,350,567	¥—
Intersegment sales and transfers	14,370	19,757	24,132	5,179	1,260	310	39,762	104,770	(104,770)
Total	184,306	193,390	395,649	313,406	160,829	40,753	167,004	1,455,337	(104,770)
Operating expenses	186,286	177,735	469,728	289,744	158,418	28,432	161,822	1,472,165	(104,791)
Operating income (loss)	¥(1,980)	¥15,655	¥(74,079)	¥23,662	¥2,411	¥12,321	¥5,182	¥(16,828)	¥21
Assets, depreciation expense and capital expenditure:									
Assets	¥166,385	¥160,370	¥340,619	¥359,939	¥160,954	¥71,303	¥186,479	¥1,446,049	¥96,246
Depreciation expense	3,195	5,484	3,825	15,984	3,179	824	5,605	38,096	425
Capital expenditure	3,396	9,041	4,553	16,839	2,680	158	6,316	42,983	1,962
Consolidated									
Sales and operating income:									
Sales to outside customers	¥1,350,567								
Intersegment sales and transfers	—								
Total	1,350,567								
Operating expenses	1,367,374								
Operating income (loss)	¥(16,807)								
Assets, depreciation expense and capital expenditure:									
Assets	¥1,542,295								
Depreciation expense	38,521								
Capital expenditure	44,945								

	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	¥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 expenditure:									
Assets	¥178,609	¥150,883	¥325,173	¥373,028	¥157,464	¥217,669	¥1,402,826	¥133,252	¥1,536,078
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

Notes:

- Business segments are based on current classifications.
- Main products and machinery included in each segment:
 - Logistics Systems and Structures Operations
Material handling systems, logistics and factory automation systems, parking systems, bridges and construction material products
 - Industrial Machinery Operations
Iron and steel manufacturing equipment, vehicular turbochargers, mass-produced machinery and others
 - Energy and Plant Operations
Boilers, gas turbines, components for nuclear power plants, environmental control systems, storage facilities and others
 - Aero-Engine and Space Operations
Jet engines, space-related equipment and others
 - Shipbuilding and Offshore Operations
Shipbuilding, ship repairs, offshore structures and others
 - Real Estate Operations
Real estate sales and rental
 - Other Operations
Diesel engines, agricultural machinery, construction machinery, financing and service industry and others
- Operating expenses are entirely allocated to each business segment.
- Changes to business segment classification and expense allocation method
With reference to the Japanese Standard Industry Classification, IHI Corporation's business segments were divided into six segments based on the operations in which they are engaged: Logistics Systems and Structures, Industrial Machinery, Energy and Plant, Aero-Engine and Space, Shipbuilding and Offshore, and Other. As the real estate business has had a greater material impact on operating losses and income in the fiscal year under review, the classification has been changed by the addition of a seventh (Real Estate Operations) segment. This change has been made to clarify the disclosed segment information.

The previous year's segment information represented using the current classification method is given in the following table.

Year ended March 31, 2007

	Logistics								Eliminations
	Systems and Structures Operations	Industrial Machinery Operations	Energy and Plant Operations	Aero-Engine and Space Operations	Shipbuilding and Offshore Operations	Real Estate Operations	Other Operations	Total	and Corporate
Sales and operating income:									
Sales to outside customers	¥169,746	¥159,453	¥333,883	¥292,845	¥131,522	¥5,466	¥128,101	¥1,221,016	¥—
Intersegment sales and transfers	13,522	16,456	22,988	5,091	1,147	44	28,033	87,281	(87,281)
Total	183,268	175,909	356,871	297,936	132,669	5,510	156,134	1,308,297	(87,281)
Operating expenses	189,564	164,418	389,903	281,599	131,079	4,199	153,128	1,313,890	(87,248)
Operating income (loss)	¥(6,296)	¥11,491	¥(33,032)	¥16,337	¥1,590	¥1,311	¥3,006	¥(5,593)	¥(33)
Assets, depreciation expense and capital expenditure:									
Assets	¥178,509	¥150,814	¥325,921	¥371,954	¥157,464	¥57,077	¥164,496	¥1,406,235	¥129,843
Depreciation expense	2,270	3,684	3,227	13,878	2,820	870	4,626	31,375	1,622
Capital expenditure	2,374	6,153	3,781	23,703	4,464	24,042	5,043	69,560	2,462

Consolidated

Sales and operating income:	
Sales to outside customers	¥1,221,016
Intersegment sales and transfers	—
Total	1,221,016
Operating expenses	1,226,642
Operating income (loss)	¥(5,626)
Assets, depreciation expense and capital expenditure:	
Assets	¥1,536,078
Depreciation expense	32,997
Capital expenditure	72,022

(2) Segment information by region

Year ended March 31, 2008

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, 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.

(3) Overseas sales

(Millions of yen, %)

Year ended March 31, 2008	Central and					Total
	Asia	North America	South America	Europe	Others	
Overseas sales	¥146,997	¥173,145	¥73,980	¥78,431	¥104,873	¥577,426
Consolidated net sales						¥1,350,567
Overseas sales as a percentage of consolidated net sales	10.9%	12.8%	5.5%	5.8%	7.8%	42.8%

(Millions of yen, %)

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

Notes:

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

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 88 consolidated subsidiaries. Major companies include IHI Construction Machinery Limited, IHI Shibaura Machinery Corporation, Ishikawajima Ship and Chemical Plant Co., Ltd., IHI Aerospace Co., Ltd., IHI Marine United Inc., Ishikawajima Transport Machinery Co., Ltd., IHI Compressor and Machinery Co., Ltd., Ishikawajima Plant Construction Co., Ltd., IHI Star Machinery 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.

From the fiscal year under review the number of consolidated subsidiaries increased by five and 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 increased by four.

(2) Names of major non-consolidated subsidiaries

Major companies include 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 15 affiliated companies accounted for by the equity method. Major companies include Turbo Systems United Co., Ltd., Kaisho Shipping Co., Ltd., Tachihi Kaihatsu Co., Ltd.

From the fiscal year under review the number of affiliated companies accounted for by the equity method increased by three. The Jurong Engineering Limited group disposed of 13 companies as part of measures implemented to increase business efficiency. As a result, the number of equity-method affiliates decreased by 10.

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

(Change of accounting method)

In accordance with the Corporate Tax Law, IHI Corporation and its affiliated companies in Japan have changed to the depreciation method for property, plant and equipment acquired on or after April 1, 2007 based on the revised Corporate Tax Law. As a result, operating income, ordinary income and income before income taxes for the period under review all decreased by ¥1,154million.

(Additional information)

In accordance with the revised Corporate Tax Law, IHI Corporation and its affiliated companies in Japan have depreciated and charged to income as depreciation expense 5% of the acquisition cost of property, plant and equipment acquired on or before March 31, 2007, within the five years after these assets had depreciated to 5% of the acquisition cost. As a result, operating income, ordinary income and income before income taxes for the period under review all decreased by ¥1,487million.

Amortization of intangible assets is computed using 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 bonuses to directors of consolidated subsidiaries in Japan, an allowance is provided for in the amount that is expected to be paid.

g. Reserve for retirement benefits for directors and corporate auditors

Domestic affiliated companies record a consolidated fiscal year-end payment amount based on internal regulations to provide for officer retirement allowance expenditures.

(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: Should certain conditions be met, 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.

4. Valuation of Assets and Liabilities of Consolidated Subsidiaries

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

5. Appropriation of Retained Earnings

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