Explore the Engineering Edge

IHI

Annual Report 2008

For the Year Ended March 31, 2008

IHI Corporation

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.

Contents

Cautionary Statements with Respect to Forward-Looking Statements

Statements made in this annual report with respect to IHI's current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of IHI. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore readers should not place undue reliance on them. IHI cautions that a number of important factors, such as general economic conditions and exchange rates, could cause actual results to differ materially from those discussed in the forward-looking statements.

Financial Highlights

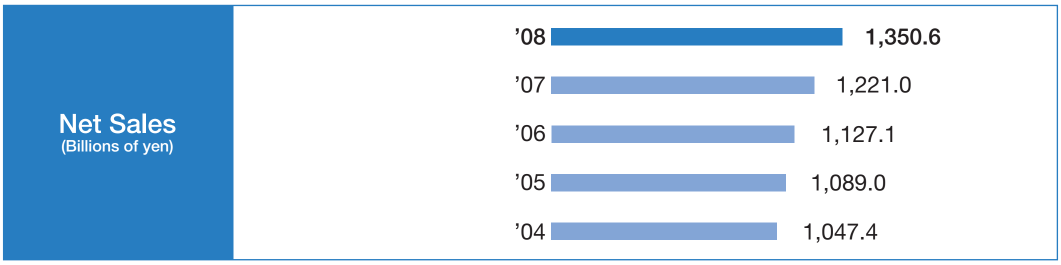
Years ended March 31, 2008, 2007 and 2006
IHI Corporation and Consolidated Subsidiaries

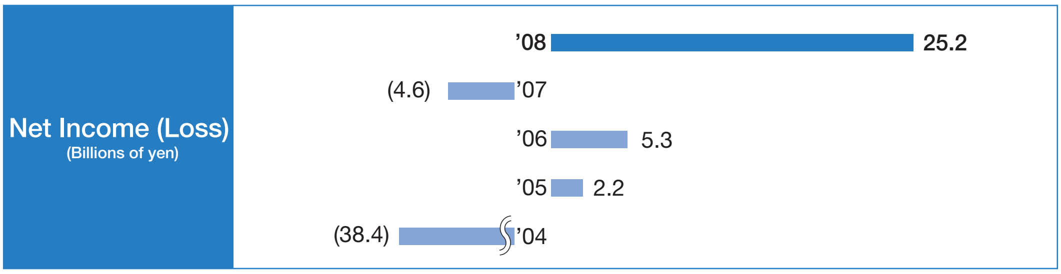
	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Net sales	¥1,350,567	¥1,221,016	¥1,127,075	$ 13,480,058
Operating income	(16,807)	(5,626)	21,771	(167,751)
Net income	25,195	(4,593)	5,283	251,472
Total assets	1,542,295	1,536,078	1,461,796	15,393,702
Total net assets (*)	234,406	227,047	169,237	2,339,615

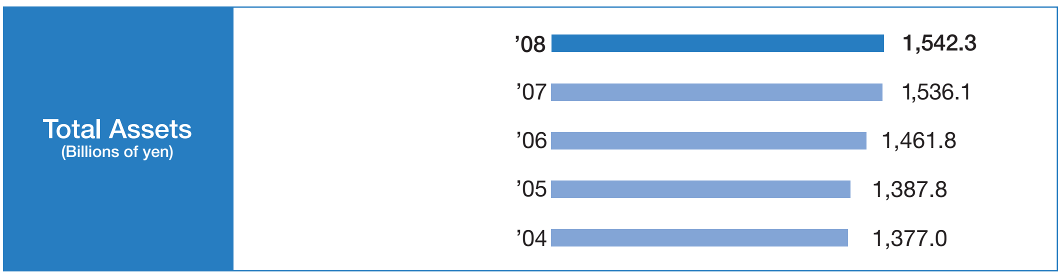
Note:(*) The data previously presented as "Total shareholders' equity" are shown as "Total net assets" based on an accounting standard adopted from the year ended March 31, 2007.

	Yen						U.S. dollars	
Amounts per share:								
Net income	¥	17.18	¥	(3.46)	¥	3.93	$	0.17
Cash dividends	¥	4.00	¥	4.00	¥	2.00	$	0.04

Note: For convenience only, U.S. dollar amounts in this report have been converted from yen at the rate of ¥100.19=US$1, the approximate rate of exchange prevailing on March 31, 2008.







Figures are for respective years ended March 31.

To Our Stakeholders

IHI is a "total engineering company" working in the most advanced fields of technology and exploring the limits of that technology.

"Contributing to the development of society through technology"
"Human Resources is the only and the largest asset of the Company"

These philosophies resonate among our employees worldwide, who assure compliance and safety while utilizing their individual strengths and abilities to the fullest.

We at the IHI Group are aiming to maximize shareholder value by knowing what customers need and satisfactorily meeting those needs worldwide.

To this end, we are striving to strengthen our internal business control systems and are steadily working to attain our year-end and other targets as we move toward our goal of ensuring that the IHI Group will be highly profitable in the fiscal year ending March 2010.

The Year in Review

In the fiscal year ended March 31, 2008, rising crude oil and raw material prices and the yen's appreciation against the dollar were seen as factors in a second-half slowdown in corporate profits in Japan. At the same time, the steady growth of the global economy as a whole continued, supported by strong export growth and private capital investment, primarily in Europe, Asia and oil-producing countries. Although there were concerns in the United States that the real economy would be affected by the subprime loan crisis, a sharp downturn did not materialize and overall economic trends were favorable. The Chinese economy recorded continuous high growth supported by an expansion of investment in fixed assets and consumer spending while steady expansionary trends continued in the European economy. Reflecting these conditions, the worldwide economic expansionary trend was maintained.

Under these economic conditions, the IHI Group strove to tackle the major issues addressed by its Group Management Policies 2007, namely, "strengthening profitability" and "business structural reforms."

Overall, during the year under review, the IHI Group recorded orders amounting to ¥1,556.5 billion, representing an increase of 14.4% compared with the previous fiscal year. Net sales and orders outstanding were both up, increasing 10.6% to ¥1,350.5 billion and 6.7%

to ¥1,819.3 billion, respectively, meeting planned targets. However, from the profit and loss standpoint, results fell far short of those targeted. In the final analysis, an operating loss of ¥16.8 billion was posted as a consequence of a significant decline in earnings performance in Energy and Plant Operations, although this was somewhat countered by the sale of fixed assets, resulting in net income of ¥25.1 billion. The details for each segment are explained later.

In the current fiscal year, ending March 31, 2009, we at the IHI Group shall make a great effort to steadily improve profit by strengthening management systems and internal business control systems.

Outlook for the Year Ending March 31, 2009

There are mounting fears that the global economy will be negatively affected as the U.S. subprime loan crisis triggers turmoil in the financial markets, increasing the likelihood of slowdowns in consumer spending and capital investment. However, this negative impact on other regions of the world is expected to be limited due to continued expanding internal demand in the Chinese economy, along with the vibrant economic conditions in Europe supported by exports to oil-producing and newly emerging nations. At the same time, uncertainties and the crucial situation surrounding the Japanese economy will continue due to the ongoing rises in crude oil and raw material prices (which started in the second half of the year under review) and the rapid appreciation in the value of the yen.

Based on this outlook, the IHI Group is targeting consolidated net sales of ¥1,450.0 billion, operating income of ¥37.0 billion and net income of ¥11.0 billion for the year ending March 31, 2009.

On a non-consolidated basis, we are targeting net sales of ¥780.0 billion, operating income of ¥16.0 billion and net income of ¥6.0 billion. (Based on an assumed exchange rate of U.S.$1=¥105)

Management Policies

(1) Basic Management Policies

With a commitment to upholding social norms and ensuring safety, the policies of the IHI Group have been to use and cultivate skills to provide customer satisfaction and contribute to the development of society through technology. In line with these policies, the IHI Group is striving to become highly profitable and to expand globally with an emphasis on four strategic business areas: Energy and Environment; Logistics; Transportation and Engines; and Security.

(2) Profit Distribution and Dividend Policy

While placing high priority on securing stable dividends, our basic policy is to distribute profits to our shareholders with due consideration given to maintaining retained earnings at the level necessary to strengthen our business foundations. This strength, in turn, enables us to make the stable distribution of dividends.

As ensuring a profit for the first half of the year, ended September 30, 2007, proved difficult, as in the previous interim period, we decided to forego interim dividend payments.

In view of our shareholder's constant support after we regrettably posted a significant operating loss, the proposed year-end cash dividend for the year ended March 31, 2008, is ¥4.0 per share. Taking into full consideration the above-mentioned dividend policy and the outlook for the current period, we are planning to continue the same year-end cash dividends of ¥4.0 per share.

(3) Medium- to Long-Term Management Strategies

Based on the IHI Group Management Policies 2007 formulated in November 2006, the IHI Group is bolstering competitiveness in the global market by moving ahead with a focus on core competencies. All IHI Group companies are working in unison on building a framework to improve profitability.

- Energy and Environment

  In its LNG storage receiving terminals, boilers for thermal power plants, nuclear power-related equipment businesses and gas turbine/gas engine power plants, the IHI Group is giving the highest priority to recovering profitability by concentrating on business models capable of displaying technological superiority, thoroughly screening projects prior to accepting orders and enhancing risk management.

- Logistics

  The IHI Group is working on developing system engineering and on turning key technology into products so that it can propose next-generation production and logistics systems. In addition, the IHI Group will continue to globally expand its operations to include bridges, ship building and offshore facilities while focusing on core competencies.

- Transportation and Engines

  The IHI Group is enhancing its technological and production capabilities to establish its position as a leading manufacturer in the growing aero-engine market. The IHI Group is also stepping up operations related to automotive turbochargers, large-scale engines for power plants and marine engines, for which there is high demand in the environmental sector as well as in the global market.

• Security
The IHI Group is expanding resources and strategically developing operations in areas ranging from national security systems—including national self-defense systems, robotics and high-level maintenance—to personal security systems.

• Foundational Business Areas
The IHI Group enjoys stable earnings in the fields of industrial furnaces, compressors, agricultural equipment and small engines, where stable demand is expected, and is reinvesting a portion of its profits in the above-mentioned strategic business areas.

• Real Estate
The IHI Group is cultivating urban development as a highly profitable business that will lead to the stabilization of the Group's financial base. Cultivating the potential value of the assets it currently holds, the IHI Group is planning a review of real estate portfolio. In addition, the IHI Group will prioritize the development of Toyosu within central Tokyo and redevelop real estate with key transportation links, including rental office space, condominium apartment buildings and rental storage space as a new mainstay revenue business.

(4) Issues to Be Addressed
Having revised its accounts settlement for the year ended March 31, 2007, IHI received assessments from four domestic securities exchanges. These deemed it necessary for IHI to improve its internal business control systems, and IHI stock was moved to the "securities on alert" designation. And IHI must submit reports detailing improvements made in those areas. Also, on July 9, 2008, the Financial Services Agency ordered IHI to pay a penalty surcharge of about ¥1.6 billion for false reporting in its financial statements, etc. Considering these assessments with extreme gravity, the IHI Group will put maximum effort into regaining the trust of all its stakeholders. Consequently, in 2008, we will be taking immediate action to strengthen our profit/cost management system and internal business control in an effort to address the issues and enhance our corporate governance in order to prevent any recurrence of similar problems. We are striving to strengthen our internal business control systems and are steadily working to attain our year-end and other targets as we move toward our goal of ensuring that the IHI Group will be highly profitable in the fiscal year ending March 31, 2010.

In Conclusion

In the fiscal year ending March 31, 2009, I shall focus on restoring IHI to the type of company its stakeholders expect so that we recover reliability of all our stakeholders and so that all employees can continue to take pride in carrying out their duties. We sincerely ask for you to count upon and give your continued support to the IHI Group, a globally competitive enterprise.

June 27, 2008

Kazuaki Kama
President and Chief Executive Officer

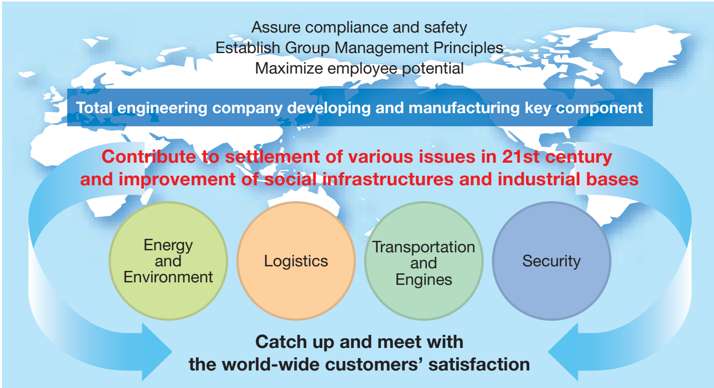
Notes: 1. The amounts shown in this review section have been rounded down to the nearest base unit.
2. Statements made in this annual report with respect to current plans, estimates, strategies and beliefs and other statements that are not historical facts are forward-looking statements about the future performance of the IHI Group. 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. We caution 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.

Group Management Policies

—Aiming to Be a Highly Profitable Corporate Group of Companies—

1.IHI Group Management Policies

As a "total engineering company with key component development and production capabilities," we consider our social mission to be raising the level of customer satisfaction. This can be realized through by contributing to solutions to various issues that the world is facing in the 21st century and helping to improve the foundations of society and industry, based on the corporate philosophy of "Contributing to the development of society through technology" and "Human Resources is the only and largest asset of the Company."



On that basis, we formulated our "Group Management Policies 2007" in November 2006, which have the following four key concepts:

- To reallocate management resources to strengthen businesses that are flagship areas of profit and create new businesses to transform the IHI Group into a highly profitable group of companies
- To design consistent business strategies for each IHI division and Group company and invest in human resources and operating processes
- To accelerate the expansion of global business, with a focus on the United States and Asia as well as Brazil, Russia, India and China (BRICs)
- To promote cooperation among IHI and Group companies

The stated aim is for each IHI division and Group company to build a structure to improve profitability by moving ahead, concentrating on core competencies across the Group and bolstering competitiveness in global markets.

In accordance with these policies, as part of business related to social and industrial infrastructure equipment, the IHI Group aims to focus deeply on advanced fields of technologies and make significant contributions to society through operations in the following four strategic business areas: (1) Energy and Environment; (2) Logistics; (3) Transportation and Engines; and (4) Security.

Within these areas, the IHI Group has further nominated specific businesses to be strengthened, and has undertaken a variety of measures and reforms to their business structures.

Group Management Policies 2007 (Outline)

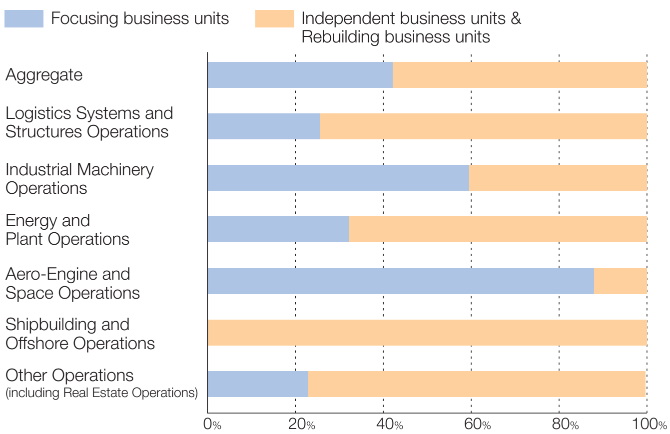
Establish strategic business areas and concentrate resources in Focusing business units

Segment \ Business Area	Strategic Business Areas				Foundational Businesses Areas
	Energy and Enviroment	Logistics	Transportation and Engines	Security	
Logistics Systems and Structures		Logistics Systems	Traffic Systems	Traffic Security	
Industrial Machinery			Automotive Turbochargers		Compressors, Industrial Furnaces
Energy and Plant	LNG Storage Facility Engines/ Turbine Power Plants		Diesel/Gas Engines Marine Engines		
Aero-Engine and Space			Aero-Engines	Defense Equipment and Systems	
Shipbuilding and Offshore				Self-Defense Forces Naval Vessels	
Other					Agricultural Equipment and Small Engines

IHI Medium-term Profitability Targets

Consolidated net sales	¥1,300 billion
Consolidated operating income	¥75 billion

Business Strengthening: Fiscal 2007, ended March 31, 2008, Performance



2. Status of Group Management Policies 2007

Actions to Improve Profitability

Strategic Business Areas

Resources are being concentrated on strengthening the businesses that are to be flagship areas of profit

Business Area	Business	Measures
Energy and Environment	LNG storage facilities	• Won orders for LNG terminals and storage tanks in the United States, India, the Middle East • Set up partnerships with local construction companies
Logistics	Logistics systems	• Strengthen cleanroom logistics business for flat panel display industries in Asia • Expand logistics systems to be introduced into production systems in plants, including automobile press machines and associated equipment
Transportation and Engines	Traffic systems	• Working on development of new rail-car bodies for new traffic systems
	Automotive turbochargers	• Establish new production bases in Germany and China. Strengthen production system
	Aero-engines	• Expand production facilities at Soma Works and Kure Works • Enhance turbine material production capabilities at IHI MASTER METAL Co., Ltd. (IMM) and IHI Castings Co., Ltd. (ICC) • Enhance responsiveness to overhaul business by expanding engine test cell facilities (Mizuho)
	Engine/turbine power plants	• Expand marine engine (Z-peller) production base (Yokohama)
Security	Traffic security	• Develop and market 3D laser radar for level crossings

Foundational Business Areas

The IHI Group will improve the profitability of the following foundational businesses and use resulting resources to strengthen the above businesses

Business	Measures
Industrial furnaces	• Obtain surface film technology by acquiring Dutch company, Hauzer Techno Coating B.V. • JH Corp. will construct new plants to expand business opportunities for vacuum furnaces
Compressors	• Complete a full range lineup of oil-free compressors • Strengthen production system for cryogenic LNG compressors • Develop overseas exports of key components
Agricultural equipment and small engines	• Expand lawn management machinery business in North America • Start construction of small engine production base in China

Other Businesses

The IHI Group has also reviewed other businesses from the viewpoint of concentrating on core competencies and has carried out the following measure

Business	Measures
Cement plants	• Transfer business to Kawasaki Plant Systems, Ltd.
Boilers for thermal power plants	• Suspend overseas business as a main contractor for projects including constructions and focus on component supply business • Participate in joint ventures to demonstrate feasibility of oxygen firing technology, and pursue carbon capture and storage (CCS) business efforts
LPG storage facilities	• Prioritize allocation of resources to Algeria project
Nuclear power plants	• Promote design standardization for reactor equipment • Focus on nuclear equipment maintenance business • Participate in PWR nuclear power plant business with Toshiba-Westinghouse Group
Bridges	• Pursue overseas business development by taking advantage of strengths in technologies corresponding to large-scale bridges and complex bridges (United States) • Strengthen repair and maintenance business
Shipbuilding	• Improve productivity by investing in facilities (Yokohama, Kure) • Expand production system (Kure, Kure-Shingu) • Alliance with overseas ship builders supplying bulk carrier designs • Establish engineering subsidiary (Vietnam) • Review alliances with other companies

Global Business Development

With regard to the global development mentioned in the IHI Group Management Policies 2007, in addition to overseas business development in each segment, we established regional management headquarters in the United States in July 2008. Through this development, the IHI Group will expand its sales base while strengthening its risk management and auditing functions, optimizing its business structure in this region and developing new business models, for example, in the maintenance field, with the aim of regional decentralization that includes the transfer of a part of head office functions away from the Tokyo headquarters.

In addition, by taking such measures as appointing a regional general manager in Asia, we will make progress with globalization and enhance the risk management system by ensuring the same level of consistency across all operations.

Development of Group Reorganization

Four focusing business units has been separated from other operations. In each business unit, initiatives to improve profitability, the flexible allocation of resources and the strengthening of profit/cost management systems have all been achieved by integrating IHI and the IHI Group.

In addition, as part of Group reorganization:

- Domestic affiliates in Steel Structures Operations and Industrial Machinery Operations are being reorganized to facilitate comprehensive improvements in production efficiency.
- Integrate affiliate companies' operations, outsourcing business services such as real estate management, insurance agents, and human resources management.
- Make the most of proper employees in affiliate companies and shift IHI managers to such companies to cultivate their leadership.

As a result of the above actions, progress is being made in the optimal integration of management throughout the IHI Group.

Furthermore, the inclusion of the initials IHI in the names of affiliate companies has strengthened the corporate brand.

Strengthening Next-Generation Product Development Capabilities, Focusing on Core Competencies in R&D

Each business unit is focusing on core competencies. In parallel with this, technical R&D operations and production sites are making progress with the following selection and focus of investment to R&D and manufacturing technologies (i.e. craftsmanship). This includes the production processes of focused products and investment in R&D geared to key equipment and facilities.

Production, manufacturing	Handing down of manufacturing technologies to the next generation	• "Takumi Dojo" (Skilled Craftsman Training Course) • "Takumi" (Skilled Craftsman) certification system
	Production process development	• Production rationalization through CAD/CAM/CAE engineering • Setting up of value engineering (VE) trainer system • IT visual representation of production process
R&D	Investment in key equipment and facilities	• Flow analysis technology using computational fluid dynamics (CFD) • Micro Spark Coating (MSC), surface film technology • Next-generation robot and factory automation (FA) technology utilizing control technologies

3. Fiscal 2008, Ending March 31, 2009, Policies

Fiscal year 2008, ending March 31, 2009, is the second fiscal year that the Group Management Policies 2007 have been in force.

This fiscal year, we shall continue to adhere to the Group Management Policies 2007, keep to our goals and, in addition to pressing ahead with prompt corporate structural reforms, place particular emphasis on strengthening internal business control. With improvement at the forefront, IHI will become the type of company its stakeholders expect.

Corporate Governance and Compliance

(As of June 27, 2008)

Basic Philosophy on Corporate Governance

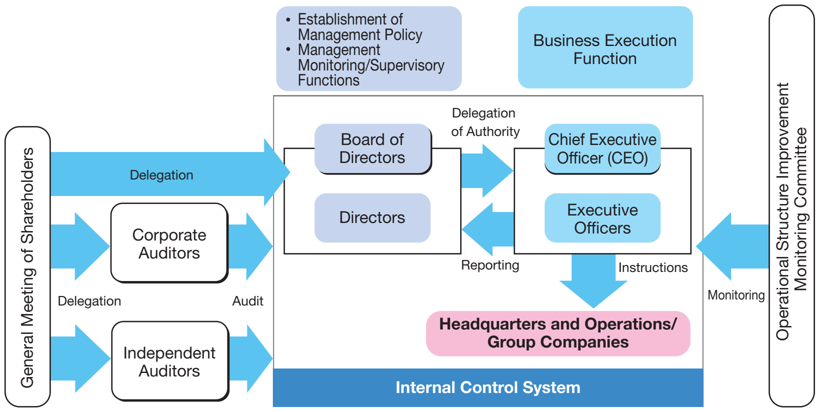
IHI defines corporate governance as a system designed to maximize corporate value by increasing the efficiency of management to leverage the Company's capabilities as much as possible.

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.

Implementation of Corporate Governance Measures

1. Management Organization (as of June 27, 2008)

- The Board of Directors, which is made up of 15 directors (two of whom are outside directors), supervises the business execution of directors and makes decisions on important matters concerning or related to the Group's management. To flexibly return profits to its shareholders, the Company's Articles of Incorporation stipulate that an interim dividend with a base date of September 30 every year can be paid following a Board of Directors' decision, in accordance with Article 454-5 of the Corporation Law of Japan.
- To audit the correctness of directors in the execution of their duties, IHI has appointed five auditors (three of whom are outside auditors).



Management Structure Overview

- To strengthen the Board of Directors' decision making and supervisory functions, as well as to improve the efficiency of business execution, IHI has 25 executive officers (12 of whom also serve as directors). Executive officers, who are appointed by a Board of Directors' decision, execute the duties for which they are responsible under the guidance and supervision of the representative director.
- The Management Committee supports the decision making and business execution of the Chief Executive Officer (CEO), who designates members of the committee.
- There are no conflicts of interest between IHI and its outside directors and outside auditors.
- An Operational Structure Improvement Monitoring Committee, made up of lawyers and certified public accountants (CPAs) and acting as the Board of Directors' voluntary consultative body, has been established to advise and make recommendations to management from the specialist legal and accountancy viewpoints as well as to monitor and supervise improvements to IHI's operational structure.

2. Internal Control 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 Contracts & Legal Division 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 operations and divisions to eradicate unprofitable projects.
- The dedicated compliance unit has been reorganized as an independent Compliance Control Division and the responsibilities of the in-house Compliance Committee broadened. In addition, in conjunction with enhanced audits, measures are being vigorously pushed forward to improve internal communications as well as upgrade and expand in-house staff training 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 steel bridge construction sales activities that violated the Antimonopoly Law, IHI 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.
- Internal control as stipulated in the Financial Instrument and Exchange Law necessitates an organization that assesses internal control for management and demands that this assessor organization be totally independent. This led to the establishment of an Internal Control Assessment Division to orchestrate overall assessment planning and execution, to review the validity of assessment findings and to determine the effectiveness of the internal control system covering consolidated Group companies. In conjunction with this, Internal Control Assessment Groups have been set up within the Finance & Accounting Division and eight operations.
- Energy and Plant Operations will conduct rigorous evaluations of the volume, risk and economic viability of orders by, for example, strengthening controls, formulating and standardizing interim costing procedures. Cost Accounting and Control Groups of these business operations will be placed under Finance & Accounting Division control; for information gathering regular liaison meetings will be set up between the Finance & Accounting Division and senior executives from Energy and Plant Operations; and professional organizations will carry out audits of business operations to cover interim costing and risk management, including financial contract negotiations.
- Organizational reforms have been carried out to strengthen the project execution system. In addition, personnel are being rotated among business operations and head office divisions to broaden perspectives, enhance information sharing and Finance & Accounting Division personnel, and improve audit functions.

3. Internal Audits and Corporate Auditors

- Within the Internal Audit Division, 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 control function.
- Corporate auditors attend meetings of the Board of Directors and Management Committee in accordance with auditing policies set by the Board of Auditors. Corporate auditors also oversee how directors conduct business by interviewing directors with regard to business execution; reviewing important documents that assist in decision making; and examining each department within the Company, important subsidiary business, as well as corporate assets. IHI has established a Corporate Auditors Office as an organization with its own staff of four that supports the work of these auditors.
- Corporate auditors receive reports and exchange information with the Internal Audit Division on the status of audits as needed.
- Corporate auditors, who cooperate closely and regularly exchange information and opinions with the independent auditors, receive reports on auditing results.

4. Directors' Bonuses

- The bonuses paid to directors and corporate auditors in the year under review are set out in the table at right.

Category	Number	Compensation
Directors	14	¥523 million
Corporate Auditors	5	¥68 million
Total (Figures in parentheses apply to outside directors, included in total)	19(4)	¥592 million (¥27 million)

Notes: 1. The amount of compensation paid for the fiscal period under review does not include employee salaries paid to employees concurrently holding executive posts.
2. The amount of compensation paid includes the amount (¥70 million) granted in the form of new stock acquisition rights during the fiscal period under review.

5. Independent Auditors

- IHI employs Ernst & Young ShinNihon as its independent auditor. The names of the CPAs affiliated with the independent auditor and the number of continuous years they have audited IHI are as follows:
  Fumio Takahashi (three years)
  Hidetoshi Watanabe (two years)
  Hideyuki Inoue (two years)
  In addition, IHI has 12 CPAs, 13 accounting assistants and six other support staff involved in accounting audits.
- The compensation paid to auditors at Ernst & Young ShinNihon during the fiscal year under review is as shown in the table.

Total compensation paid for work as set forth in Article 2-1 of the Certified Public Accountant Law (Law No.103 of 1948)	¥143 million
Compensation paid for work other than the above	¥5 million

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

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 Corporation 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, in accordance with IHI's Articles of Association.

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 of the voting rights of all shareholders entitled to exercise their 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 Corporation Law of Japan for the purpose of implementing flexible capital policies.

Articles of Incorporation Stipulation May Exempt Directors and Auditors from Liability by Board of Directors' Resolution

Should directors and auditors have sufficiently fulfilled the duties expected of them in good faith and without serious negligence, the Company may, by resolution of its Board of Directors and in accordance with the provisions of Article 426-1 of the Corporation Law of Japan, exempt them from liability.

Requirements for Extraordinary Resolutions at the General Meeting of Shareholders

Extraordinary resolutions of the General Meeting of Shareholders, as provided for in Article 309-2 of the Corporation Law of Japan, may be made by two-thirds or more 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 of the voting rights of all shareholders entitled to exercise their voting rights must be in attendance. This 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.

Internal Control

IHI Internal Control Guidelines

The Corporation Law of Japan dictates that systems be put in place to ensure that the execution of directors' duties conforms with the law and the Company's Articles of Association, and that these systems serve to ensure that other business operations are conducted in an appropriate manner. The systems, the content of which the Company has decided at Board of Directors' meetings, are as follows:

1. Put in place a system to ensure that executives and employees perform their duties in compliance with the law and the Company's Articles of Association.
- Provision of rules and regulations
- System of compliance activities
- System to confirm and amend activity status

2. Put in place a system for the storage and archiving of information.

3. For a system covering risk management, stress the importance of risk assessment, identification and monitoring, as itemized below, put in place an appropriate risk management system as well as systems to manage and assess that risk management system.
- Contracts
- Design, manufacture, technology
- Laws, rules and regulations
- Information systems
- Health and safety, the environment
- Incidents, information system failures
- Financing activities
- Financial reporting

4. Put in place a system to ensure that duties are being performed effectively.

5. Put in place a system to ensure that operations throughout the IHI Group are being performed in an appropriate manner.

6. Put in place a system to ensure that the corporate auditors perform appropriate audits.
- Items concerning employees who assist in corporate auditors' duties
- Items concerning corporate auditors' audits
- Items concerning the supply of reports to corporate auditors

The Financial Instruments and Exchange Law makes it necessary for an assessor organization to assess internal control for management and for that organization to be completely independent from the organization being assessed. An Internal Control Assessment Division has been established to orchestrate the overall planning of the assessment, the assessment work itself, to review the validity of an assessment's findings and to evaluate the efficiency of internal control systems across the entire IHI Group. In conjunction with this initiative, Internal Control Assessment Groups have been set up within the Finance & Accounting Division and eight operations.

Response to the "Improvement Report" Submitted to the Tokyo Stock Exchange

In December 2007, IHI Corporation revised its financial statements for the previous fiscal year. Due to shortcomings in the internal management system and the reasons for such shortcomings, IHI Corporation stock was moved to the "securities on alert" designation in February 2008. In addition to treating this situation with the utmost gravity, it was with deep regret that the remedial actions listed below had to be implemented to strengthen internal control not only in Energy and Plant Operations but throughout the Company and to improve the organizational climate.

1. Remedial Actions Directly Linked to the Causes of the Revisions

The revisions to the previous fiscal year's financial statements stemmed from shortcomings in internal control and internal checks and balances with regard to "monitoring" and "information and communication" for business processes applying the percentage of completion method, which covers actions from decision making with regard to orders through the completion of work, as well as for the business systems, structures, and methods applied to manage the performance of such work.

Thus, the following measures are being implemented to strengthen the monitoring functions and enhance the processes required to enable essential information to be comprehended in a timely manner.

- Strengthening monitoring functions
  - > A Project Judging Group has been newly established within the Contracts & Legal Division to improve and strengthen large-scale project screening systems by rigorous examination and clarification of order screening methods.
  - > A Project Audit Division has been newly established as an independent organization of the headquarter divisions to check the transparency and adequacy of profit and loss forecast calculation procedures when applying the percentage of completion method.

> IHI's system of checks and balances has been strengthened by transferring the Cost Accounting and Control Groups from the Energy and Plant operations and placing them under Finance & Accounting Division control.

> In addition to working toward precise performance management by conducting direct monthly interviews at business divisions to obtain detailed performance forecasts and to ascertain the status of individual projects, the Finance & Accounting Division will draw up a plan of the Group's financial staff members and strengthen its lineup by means of mid-career recruitment and personnel transfers.

- Process enhancements to enable essential information to be comprehended in a timely manner

  > Energy Plants Operations as well as Environment & Plants Operations are planning to strengthen project monitoring and management systems by the following means: standardizing monthly project reports that monitor progress of projects involving the percentage of completion method; integrating key aspects of management at progress meetings; training and increasing the numbers of project managers responsible for monitoring projects; making each operating division's procurement department responsible for procurement costs within its operating division; creating a system that assesses fairly the effectiveness of cost savings; and putting in place a projected operational crisis management system.

  > By building systems that assist project management, the Information Systems Division will assist in undertaking the timely, appropriate and efficient passing and understanding of information on Energy and Plant Operations project management.

  > To assist operating divisions in reviewing procurement cost savings and optimal procurement, Procurement Strategics will not only research and increase awareness of optimal cost construction approaches but also create a Cost Engineering Group to provide operating division procurement divisions with direct support, plan functional strengthening and provide precise procurement information.

  > The Finance & Accounting Division and Internal Control Assessment Division will formulate Companywide management standards for procedures to calculate the total cost of construction work.

2. Companywide Remedial Actions Relating to the Background Causes of the Revisions

It is with deep regret that the underlying problems that led to the current situation were allegedly found to include a "disregard of rules," "the fact is that IHI is an organization that does not take inconvenient facts seriously," "overreliance on superiors," "partial (divisional) optimization" and "shortcomings in communication" in IHI's organizational climate. In addition to earnestly promoting organizational climate reform and strengthening corporate governance by bringing in views from an external perspective, the following measures were taken for the remedial actions to have material results.

- Promotion of Organizational Climate Reform

  > In order for all employees to have a common understanding of the causes that brought about this situation and for them to recognize their responsibilities in implementing the countermeasures, explanatory meetings were held at every place of business and at every level.

  > Placing a priority on compliance, awareness of the rules, customer-oriented Companywide optimization, honesty and efficiency, and demanding ongoing business improvements and communication between executives and relevant divisions. These are listed among the IHI Business Principles and all employees are to familiarize themselves with them.

  In addition it is required that those who hold management positions redouble their efforts to enforce the guidelines for managing subordinates and operations in appropriate manners.

  > Strengthening the Companywide deployment of "Team IHI Campaign," a Companywide awareness campaign that has at its themes "creating workplace environments that enable free exchanges of views at all levels," "all-employee participation," "collaboration within the Group and between divisions" and "customer orientation."

  > Upgrading rules and regulations; providing training on financial matters, internal control and compliance; and operating a Compliance Hotline.

- Strengthening Corporate Governance

  > To appoint and increase the numbers of independent outside directors and auditors.

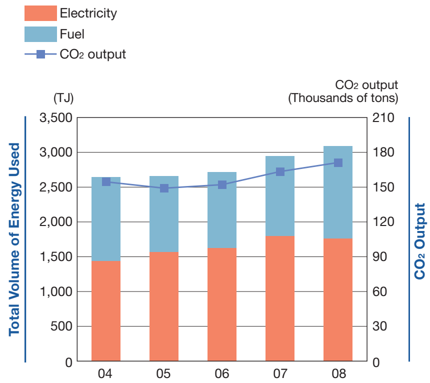
  > To set up a Operational Structure Improvement Monitoring Committee to act as a confirmation and monitoring system for the implementation of remedial actions from an external perspective.

Environmental Efforts

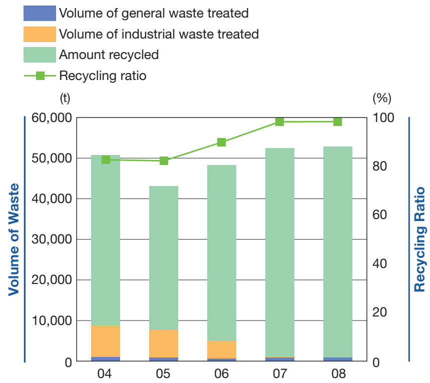
Through its business operations, IHI supplies a wide range of products—from plants, machinery and facilities to transportation and traffic systems—in support of industry and society. Based on observations of the amounts of electricity, fuel and water used in its production operations as well as its release of CO_2 and output of waste material, the Company works to minimize its environmental impact.

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

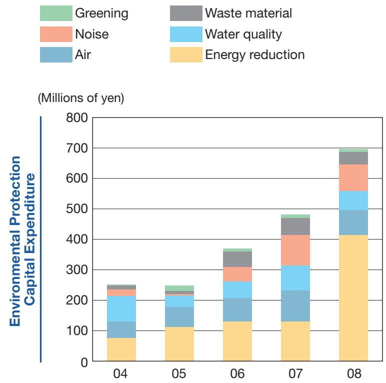
Energy Consumption (Production Operations) and CO_2 Output Trends



Waste Material Output and Recycling Ratio Trends



Environmental Protection Capital Expenditure Trends



Note: Figures are for respective years ended March 31.

Management of Chemical Substances

In the fiscal year ended March 31, 2008, 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.

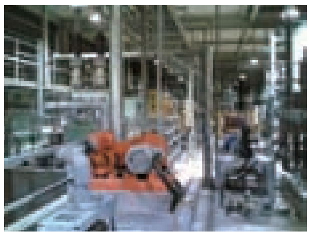
Activity Case Study at Regional/Business Location

Prior to the commencement of operations at the Soma No. 2 Aero-Engine Works in May 2007, we concentrated the plant design costs at the early stage of the project. Examples of the wide-ranging activities that were implemented to minimize environmental impact are given below.

(1) Building a wastewater treatment facility 10 years ahead of its time

Waste soluble cutting water and wastewater represented 60% of the amount of industrial waste disposed of per annum by the Tanashi Works, the Soma No. 2 Aero-Engine Works predecessor, which closed down in March 2007. Consequently, when the Soma No. 2 Aero-Engine Works commenced operations, a lot of measures was taken to minimize its environmental impact, including efforts to reduce the amount of waste disposed of and to comprehensively rethink the water treatment system.

These measures resulted in a 20% reduction in industrial waste disposed of and the building of an environment-friendly plant wastewater treatment system that uses half the volume of chemicals used thanks to the application of such methods as the compartmentalization of the wastewater treatment line and optimization of the volume of chemicals added.



Wastewater treatment system at Soma No. 2 Aero-Engine Works

(2) Saving energy by reviewing finishing machinery

The energy required by operations was halved following a review to determine the optimum machinery size in relation to desired function during the finishing process.

Human Resource Matters

In the area of corporate social responsibility, IHI's activities center on ensuring thorough compliance and engaging in proactive activities that tackle environmental issues as well as on encouraging interaction that respects the local communities' culture and customs. In addition, in line with the management philosophy statement that "Human resources is the only and the largest asset of the Company," IHI employs a diverse workforce and energetically engages in the creation of harmonious working environments.

Personnel System

Education and training at IHI comprises the following:
(1) Position-specific induction training, primarily conducted by the Human Resources Division, for newly recruited employees and those newly appointed to management positions
(2) A variety of training courses conducted at the operational, divisional and departmental levels
(3) IHI open lecture courses, such as technical courses for individual professional development, language study and computer training courses
(4) Selective induction training that covers management theory and strategies, business strategies and marketing
(5) Specialized training, for example, for those assigned to external organizations and for employees sent to universities and graduate schools

In addition, complementing staff development through management action, we have set up an open internal recruitment system and an in-company free agent (FA) system. These systems help develop and nurture the potential of each and every employee by offering clear career paths for employees.

Work-Life Balance Initiatives

To help its employees strike a better balance between their working and family lives, IHI maintains systems that enable them to take days off or use vacation periods to care for children as well as short-term contract options, a flextime system and a half-day paid leave scheme. For example, it is possible for an employee to take days off to care for children while waiting for a place to open up at a nursery until the child is three years of age; up to 20 days' paid special childcare vacation per child are possible for parents until the time the child enters elementary school; and an employee may opt for a short-term contract in order to be free for childrearing until the child graduates from elementary school.

Employee Health Management

So that each and every member of the workforce at IHI can demonstrate his or her potential to the maximum, everyone is comprehensively provided with health management support. In line with health management guidelines that are formulated every year, the production line and human resource departments work with primarily industrial physicians and health nurses. Having emphasized mental health in recent years, they have provided the following support:
(1) Conducted position-specific training for management and supervisory staff
(2) Arranged interviews with industrial physicians and health nurses depending on periodic stress check results and fatigue levels
(3) Appointed specialist counselors throughout the IHI Group

Furthermore, as one approach to countering lifestyle diseases, efforts have been made to deal with the latest health talking point, metabolic syndrome, with those employees who have been diagnosed being issued with specific health guidance. As a "Group that maximizes the potential of their employees," which is reflected in the management philosophy that states that "Human Resources is the only and the largest asset of the Company," IHI undertakes activities on a daily basis to encourage its employees to stay healthy.

"KidZania Tokyo": Kid's Town where Kids are Stars

Toyosu, where IHI's head office is located, is a bay front area that has come into prominence since the local government and a town-building conference joined forces to undertake its redevelopment. KidZania Tokyo, Japan's first child-oriented "town", where children can experience work, opened inside the Urban Dock LaLaport Toyosu development in October 2006.

Targeted at children between the ages of two and 15, KidZania is a facility that allows them to have fun while experiencing a variety of occupations. The facility gives children the chance to experience more than 80 occupations amid its streets. Children can try their hands at business by using KidZania's own unique currency, the "kizzo," for shopping and receiving services.

As a pavilion sponsor, IHI is responsible for the highly cooperative "police station" and "courthouse." At the police station, children can investigate incidents as policemen from "KidZania Police Station," experiencing what it's like to maintain law and order on the streets as they solve cases. In contrast, at the courthouse the children are divided up into "KidZania's Courthouse" judges, citizen judges, prosecuting and defense attorneys, witnesses and defendants and conduct a court case using role play. Understanding the role and purpose of the Kidzania courthouse will also help children learn about the jury system that is to be introduced in Japan in fiscal 2009.

By offering this kind of employment experience and providing a place where they can enjoy and at the same time learn about "the meaning of work" and "the organization of society," IHI is supporting the children that will bear the next generation.

KidZania Police Station

IHI at a Glance

Logistics Systems and Structures Operations

(Billions of yen)

Year	Net Sales	Operating Income	Orders
'08	**184.3**	**(2.0)**	**191.0**
'07	183.3	(6.3)	174.3
'06	185.5	(2.8)	158.5
'05	188.2	(3.2)	185.5
'04	202.8	2.3	183.8

Industrial Machinery Operations

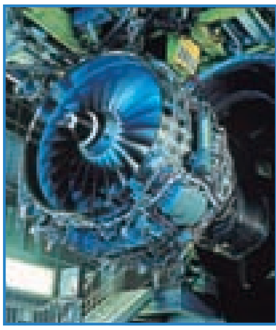
(Billions of yen)

Year	Net Sales	Operating Income	Orders
'08	**193.4**	**15.7**	**171.0**
'07	175.9	11.5	205.5
'06	162.4	7.5	140.4
'05	144.0	2.1	129.4
'04	129.7	(3.8)	121.1

Energy and Plant Operations

(Billions of yen)

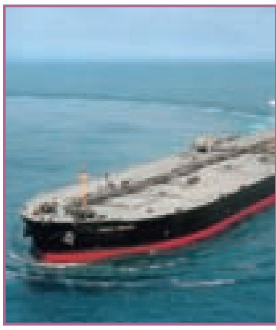
Year	Net Sales	Operating Income	Orders
'08	**395.6**	**(74.1)**	**431.7**
'07	356.9	(33.0)	351.3
'06	311.1	7.0	310.6
'05	314.9	6.8	331.8
'04	268.9	(19.7)	324.9



Aero-Engine and Space Operations

(Billions of yen)

Year	Net Sales	Operating Income	Orders
'08	**313.4**	**23.7**	**323.3**
'07	297.9	16.3	257.3
'06	269.5	16.5	246.8
'05	238.4	13.0	234.0
'04	241.4	9.3	220.6



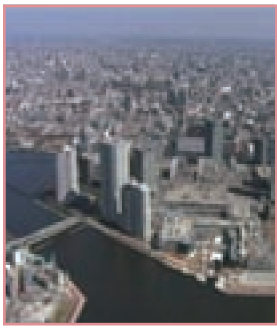
Shipbuilding and Offshore Operations

(Billions of yen)

Year	Net Sales	Operating Income	Orders
'08	**160.8**	**2.4**	**279.1**
'07	132.7	1.6	184.7
'06	116.2	(8.6)	218.0
'05	122.1	(13.6)	143.3
'04	118.0	(20.7)	142.0

Notes: Net sales and operating income for each segment include inter-segment transactions.
Up to and including fiscal year ended March 31, 2006, Real Estate Operations come under Other Operations.

		Net Sales	Operating Income	Orders



Real Estate Operations

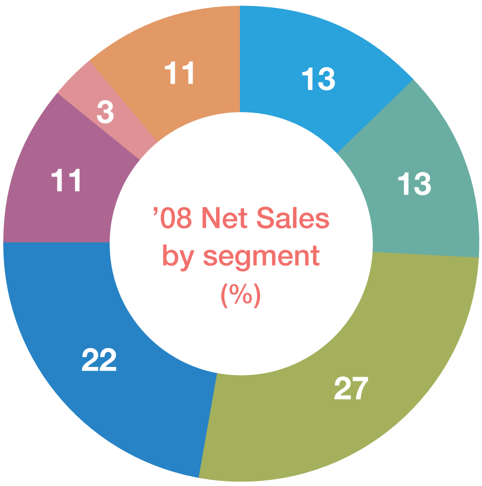
(Billions of yen)

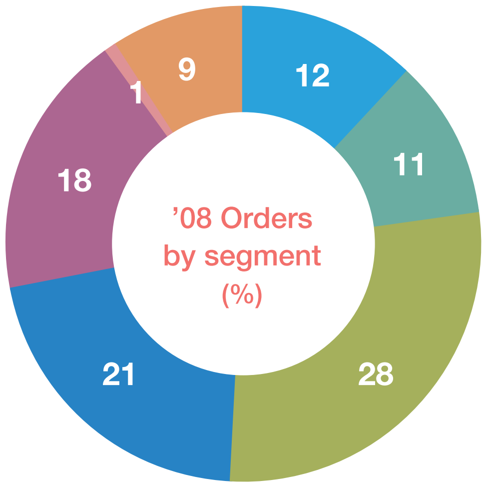
	Net Sales	Operating Income	Orders
'08	40.8	12.3	9.9
'07	5.5	1.3	43.4

Other Operations

(Billions of yen)

	Net Sales	Operating Income	Orders
'08	167.0	5.2	150.6
'07	156.1	3.0	144.7
'06	163.2	1.7	151.3
'05	162.1	4.9	135.2
'04	173.1	8.8	146.7





	Net Sales	Orders
Logistics Systems and Structures Operations	13%	12%
Industrial Machinery Operations	13%	11%
Energy and Plant Operations	27%	28%
Aero-Engine and Space Operations	22%	21%
Shipbuilding and Offshore Operations	11%	18%
Real Estate Operations	3%	1%
Other Operations	11%	9%

Logistics Systems and Structures Operations

In Logistics Systems and Structures Operations, the market for such public investment-related projects as bridges and steel structures continued to trend downward, with ongoing intense competition for steel or concrete bridge contracts. As the shield tunneling machine and segment operations experienced a reduction in the number of such large-scale projects as subways and road tunnels, competition to win public civil work contracts intensified and the overall market environment tightened. In contrast, private-sector investment, which had started to show partial signs of declining, picked up, supported by comparatively strong injections of capital for the installation of deck cranes, transportation equipment and parking facilities.

As a direct result of these conditions and aggressive sales development activities, orders for the segment increased 9.6% compared with the previous fiscal year to ¥190.9 billion. Sales edged up 0.6% year on year to ¥184.3 billion.

Consequently, the value of orders outstanding at the end of the period under review amounted to ¥188.0 billion, representing a 5.8% drop compared with the corresponding figure for the previous fiscal year.

An operating loss of ¥1.9 billion was attributable to such factors as the stagnant market for bridges and steel structures.

Huey P. Long Bridge Order Received

IHI subsidiary IHI INC., having formed a joint venture with U.S.-based medium-sized general contractors Massman Construction Co. and Trailer Brothers, received an order from the Louisiana Transportation Authority for deck roadway-widening construction work on the Huey P. Long highway and rail bridge. Planned to commence in March 2008, construction is scheduled for completion in spring 2012. As the bridge, which was built in suburban New Orleans around 70 years ago, is showing signs of aging, the construction will involve the reinforcement and widening of the current two-lane roadways to three lanes in both directions. This marks IHI's 24th U.S. bridge project since 1970.

IHI will continue to develop proactive bridge marketing activities at home and abroad.

Huey P. Long Bridge (image)

Container Crane Completed for Indonesia Port Corporation III, Semarang, Indonesia

In April 2007, IHI subsidiary Ishikawajima Transport Machinery Co., Ltd. (IUK), working with local Indonesian subsidiary PT Cilegon Fabricators (PTCF), completed and delivered a 2005 order for two container cranes. The order was received from Indonesia Port Corporation III for the port of Semarang, located in central Java.

Having delivered two of the same type of container cranes to Semarang port in 1998, followed by another in 2003, this latest order brought the total to five. Looking ahead, IHI will seek to expand not only Japanese domestic sales but also overseas sales of container cranes, primarily to Asia's hub ports, where growth in demand is expected.

Container cranes

One of Japan's Largest Distribution Centers Completed

In November 2007, IHI completed construction of Hiroshima Kyowa Bussan, Inc.'s Kyushu Distribution Center (Hisayama Town, Kasuya-gun, Fukuoka Prefecture), which was ordered in May 2006.

The distribution center, Japan's largest, which features all types of distribution streamlining equipment, including palletized automated storage capable of shipping and receiving about 24 million cardboard cases, covers a total floor area of 22,780 m^2. Orders are sorted by destination so that shipments can be consolidated, realizing shorter delivery lead-times and labor savings from order receipt through dispatch.

IHI is planning proactive sales development by endeavoring to expand sales of distribution systems that maintain customer product quality and that contribute to improved storage and shipment consolidation efficiencies within distribution centers.

Distribution center

Industrial Machinery Operations

As a result of the ongoing investment enthusiasm within its major customer industries—the automotive, iron and steel, and paper industries—Industrial Machinery Operations recorded robust sales across its range of industrial machinery models. Reflecting Japanese automakers' stepped-up exports and shift to overseas production as well as more stringent environmental regulations, automotive turbochargers also continued to enjoy ongoing buoyant demand.

Despite these positive factors and our concerted efforts, orders fell 16.8% compared with the previous fiscal year to ¥170.9 billion. Sales in the segment rose 9.9% year on year to ¥193.3 billion.

As a result, the value of orders outstanding at the end of the period under review amounted to ¥114.1 billion, representing a 12.8% drop compared with the corresponding figure for the previous fiscal year.

Operating income showed a significant 36.2% increase over the previous fiscal year, rising to ¥15.6 billion.

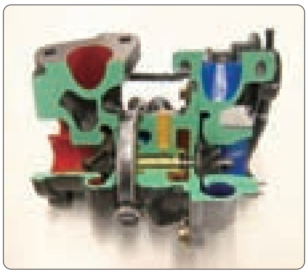
World's Smallest Automotive Turbocharger Developed

Having developed the RHF25 turbocharger—which is 20% smaller than existing products, making it the world's smallest—IHI has commenced deliveries to Daihatsu Motor Co., Ltd. (one of the top Japanese makers of compact cars) and plans to ship 100,000 units a year.

The RHF25, which was developed to be lightweight, compact and high performance, also features significantly fewer parts when compared with existing products. By applying its particular flair for aerodynamics, IHI was able to bring about improvements in responsiveness, a major problem with turbochargers, while realizing performance on par with larger existing products.

At present, turbochargers are becoming essential features on automobiles in response to tightening fuel efficiency and emission control regulations. The need for low-priced automobiles is gaining momentum throughout the world and thus demand for small turbochargers is expected to increase.

The technological innovation demonstrated by IHI in reducing the RHF25's weight won plaudits from Daihatsu Motor Co., Ltd.



Cutaway model of the RHF25 turbocharger

Order Received for New Type of Energy- and Cost-Reducing Steel Sheet Production Machine

IHI, which succeeded in becoming the first to commercialize "Castrip," a new type of thin steel sheet production machine (Strip Caster), has received an order for the No. 2 machine from U.S.-based NUCOR Corporation, the world's largest electric furnace steel producer.

"Castrip" was jointly developed with NUCOR and the Australian company BlueScope Steel Limited (formerly BHP Steel). Conventional thin steel sheet production requires a continuous-casting process of molten steel into 300mm-thick slabs that are further processed through multiple rolling machines. The revolutionary "Castrip" machine is capable of producing thin steel sheets less than 2mm thick directly from molten metal through twin cooling rolls.

Compared with the thick slab production process used in blast furnaces at conventional integrated steelworks, "Castrip" is capable of significantly reducing environmental impact. Its carbon dioxide emissions per ton of steel generated are 0.04 ton, approximately one fifth of those of the thick slab production process, and energy use per ton of steel is 0.2GJ, roughly one ninth. At a mere 60 meters long, a "Castrip" facility is approximately one tenth the length of that for thick slab production.

The No. 1 "Castrip," delivered to the U.S. company, NUCOR.

Oji Paper Orders Japan's Largest Paper Coater

Engaged in the paper manufacturing machine business, Voith IHI Paper Technology Co., Ltd. (VPIT), a joint venture between IHI and Voith Paper, received an order from Oji Paper Co., Ltd. for Japan's largest on-machine coater, for paper 9.6 meters wide, to be installed at Oji's Tomioka Mill.

The on-machine equipment that Oji has ordered features a built-in coater positioned above the paper manufacturing machine line, thereby integrating the entire process—from paper production to coating—and significantly increasing production efficiency compared with conventional coaters, which are positioned away from the line. Furthermore, the equipment that sprays the coating onto the paper can easily be adjusted with regard to distance from and angle to the paper, enabling flexibility with regard to the type and speed of coating required as well as the grade of paper.

Responding to the growing size and greater speed of paper manufacturing machinery, VPIT's coating equipment improves production efficiency and greatly helps reduce costs. Indicative of the heavy investment that has recently characterized the Japanese paper manufacturing industry, Oji Paper represents VPIT's fourth successive paper coater order, following those made by Daio Paper, Nippon Paper and Hokuetsu Paper Mills.

On-Machine Coater

Energy and Plant Operations

In spite of strong domestic and overseas demand, price competition caused exacting market conditions for overall Energy and Plant Operations.

Under these operating conditions, orders were carefully chosen in accordance with potential profitability. As a result of this policy, we won several large-scale projects in Algeria, which helped push up the value of orders 22.9% compared with the previous fiscal year to ¥431.7 billion. Year-on-year segment sales climbed 10.9% to ¥395.6 billion.

The value of orders outstanding at the end of the period under review amounted to ¥547.2 billion, representing a 5.7% increase compared with the corresponding figure for the previous fiscal year.

Nevertheless, an operating loss of ¥74.0 billion was recorded due to the deteriorating profitability of IHI's overseas constraction works and disrupted production at its boiler plants in Japan.

LPG Plant Order Received from Algeria

In April 2007, IHI signed a contract with an Algerian company, SONATRACH, for the expansion of a liquefied petroleum gas (LPG) plant.

This engineering, procurement and construction (EPC) full-turnkey contract, which includes commissioning, is valued at approximately ¥120 billion. Completion of the project is scheduled for August 2010.

The expansion involves the construction of new separation and liquefaction facilities capable of producing 3 million tons of LPG annually, as well as an LPG storage facility.

SONATRACH owns the world's largest LPG plant, located in the Arzew industrial zone in the west of the country. When the expansion has been completed, this megaplant will produce 9 million tons annually.

With an extensive construction track record in Algeria, IHI has completed in recent years the construction of the country's first desalination and electricity generating plant as well as the construction of four LNG plant boilers.

IHI will continue to conduct the proactive marketing efforts in Algeria that have contributed to its success in the region.

Existing Algerian LPG plant

LNG Tank Order from India

IHI won an order for two liquefied natural gas (LNG) storage tanks from the Indian company Petronet LNG Ltd. in March 2008.

These large-scale LNG storage tanks, each with a capacity of 155,000 cubic meters, are to be built at a new LNG receiving terminal (annual receiving capacity: 2.5 million tons) in Kochi, Kerala state, southwestern India. Project completion is scheduled for March 2012.

IHI had previously obtained orders from Petronet LNG for three projects in connection with the first LNG receiving terminal in India, at Dahej in the state of Gujarat, in the west of the country. India has increased LNG imports to meet burgeoning domestic energy demands. Therefore IHI places great importance on India's LNG industry and is making use of its wide-ranging expertise to develop proactive marketing activities.

LNG tank

Bulk Shipment of Four Large-Scale Chemical Plant Reactors to Iran and Saudi Arabia

In November 2007, four tubular reactors—two 900-ton ethylene oxide (EO) reactors fabricated for Iran and two 1,100-ton EO reactors for Saudi Arabia—were shipped simultaneously from the quayside at IHI's Yokohama Nuclear & Chemical Components Works. For this shipment, instead of using a conventional roll-on/roll-off vessel at the Yokohama Nuclear & Chemical Components Works quay, a barge was moored between the quayside and a heavy derrick crane-equipped vessel that was then able to load the reactors directly onto its deck. The ability of large ships to dock at IHI's private quay at the reactor works is an advantage among large-scale plants that Yokohama Nuclear & Chemical Components Works alone possesses.

The two reactors delivered to Iran are to be installed at an ethylene glycol (EG) production plant (annual production 500,000 tons) that is located at an Iranian industrial complex. The other two reactors in the shipment are the core reactors of an EO/EG plant (annual production 700,000 tons) that is located in Al-Jubail, Saudi Arabia.

There have recently been several plans to construct large-scale petrochemical production plants to cope with a surge in demand for petrochemical products in the Middle East, China, Southeast Asia and South America. As the main reactors for these plants are in the 1,000-ton class and increasing in size, the Yokohama Nuclear & Chemical Components Works is responding by introducing the latest machine for drilling holes in tubular sheet, shortening delivery periods and highlighting its unique advantages to ward off competitors.

Bulk shipment of reactors

Aero-Engine and Space Operations

In Aero-Engine and Space Operations, conditions in the defense sector continued to be harsh due to the adverse impact of budget reductions on front-line equipment purchasing. Amid buoyant air transport demand forecasts in the civil aviation sector, jet fuel price hikes brought about by escalating crude oil prices and intensifying price competition among airlines prompted further calls for more economical aircraft as well as for regional jets with greater operational flexibility. And the markets for civil engines and overhauls are favorable. IHI made good progress with the GEnx engine for Boeing's next-generation, mid-sized civil aircraft, acquiring type certificate approval in March 2008.

Making concerted sales efforts under these market conditions, IHI won orders for F110 engines and F100 engine components from the Japan Ministry of Defense and civil sector orders for V2500, CF34, GE90 and GEnx engines and components, as well as orders for V2500 and CF34 engine overhauls. With the inclusion of orders for space equipment, total orders amounted to ¥323.3 billion, a healthy increase of 25.7% compared with the previous fiscal year. Sales of ¥313.4 billion represented a year-on-year gain of 5.2%.

As a result, the value of orders outstanding at the end of the period under review amounted to ¥326.5 billion, representing a 6.6% increase compared with the corresponding figure for the previous fiscal year.

Operating income showed a significant 44.8% increase over the previous fiscal year, rising to ¥23.6 billion.

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, with over 1,200 orders already received.

IHI is participating in the design, development and manufacture of the GEnx engine as a revenue sharing partner (RSP) with an approximately 15% 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.

A new engine incorporating state-of-the-art technologies, the GEnx has been selected to power Boeing's next-generation 787 (B787) and the stretched version of its 747 aircraft (B747-8), both of which are currently under development.

The GEnx engine to be installed on the B787, designated the GEnx-1B, received type certificate approval from the U.S. Federal Aviation Administration in March 2008 and is due to commence commercial services in 2009.

GEnx jet engine

Jet Engine Test Cell Facility Established

Responsible for the supply of major components, the IHI Group recently established an indoor engine testing facility (test cell) at its Mizuho Works for verifying the performance of jet engines.

In addition to engine thrust, the test cell facility is capable of measuring jet engine revs, temperatures, pressures and vibration levels under all operating conditions. Drawing in from outside the large volume of air necessary to run a jet engine, the test cell has a rectification function capable of evaluating performance, including engine thrust. At the same time the test cell makes possible designs that reduce noise levels so that they conform to environmental standards for jet engines.

Targeting the jet engines of airlines all over the world, IHI undertakes repairs and overhauls and will be utilizing the test cell to expand its overhaul work on the mid-sized V2500 and CFM56 engines that are used mainly on 150-seat passenger aircraft.

No.6 Test cell at Mizuho Works

Construction of New Fabrication Building at Soma Works Commenced

IHI commenced construction of a new fabrication building at its Soma Aero-Engine Works, which produces jet engine parts for aircraft, in December 2007. This expansion, which will become Building No. 4 at the Soma Works, is planned for completion in July 2008.

Undertaken in response to increased civil jet engine production, the plant expansion involves a new fabrication building where the discs forming the core components of the GEnx engine's low-pressure turbine for Boeing's next-generation 787 aircraft (B787) will be produced. After completion, a comprehensive production system will be established that will be able to handle the production of components for approximately 300 engines a year.

Until now, large-sized components, such as discs, have been produced at the Kure Aero-Engine and Turbo Machinery Works; however, due to an increase in orders, particularly for GEnx low-pressure turbine discs, such components will also be produced at the Soma Works.

Thanks to this expansion, IHI will be positioning its Soma Works as an advanced, internationally competitive plant—from the product quality, delivery time, cost and production volume perspectives—and undertaking business development in a proactive manner.

Soma Aero-Engine Works

Shipbuilding and Offshore Operations

Shipbuilding and Offshore Operations enjoyed favorable demand for new-build ships owing to lively sea trade brought about by economic growth, particularly in BRICs nations. Nevertheless, ship values remained hard to estimate correctly due to a number of high cost factors, including recent increases in steel prices resulting from escalating prices for raw materials, the application of common structural rules and the International Maritime Organization's new Performance Standard for Protective Coatings. Simultaneously, the strengthening of the yen has necessitated taking prudent measures in connection with gaining future project orders.

Against this backdrop, IHI received orders for 30 new ships, comprising 10 large-scale container ships and 20 bulk carriers totaling 1,910,000 deadweight tons. Including orders for ship repair and maintenance, total orders came to ¥279.0 billion, a 51.1% increase compared with the previous fiscal year. Sales increased 21.2% to ¥160.8 billion with the completion of a total of 15 ships amounting to 1,390,000 deadweight tons, comprising two large-scale tankers, six large-scale container ships, four bulk carriers, two coastal trade vessels and one coast guard ship.

As a result, the value of orders outstanding at the end of the period under review amounted to ¥586.9 billion—comprising 73 ships, totaling 7,360,000 deadweights tons—representing a 26.2% increase compared with the corresponding figure for the previous fiscal year.

Operating income amounted to ¥2.4 billion, a year-on-year increase of 51.6%.

Naming and Launching Ceremony for Destroyer "Hyuga"

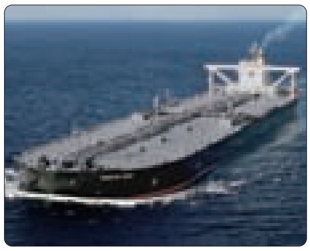
The naming and launching ceremonies for a helicopter-carrying destroyer (DDH), which was ordered by the Ministry of Defense under the fiscal year 2004 (year ended March 31, 2005) budget plan, was held at the Yokohama Shipyard of IHI subsidiary, IHI Marine United Inc. (IHIMU), in August 2007. The ship, named "Hyuga," is scheduled to be delivered in March 2009. With a standard displacement of 13,500 tons, "Hyuga" will be the largest destroyer in Japan Maritime Self-Defense Force and have the capability to operate three helicopters at the same time.

IHIMU continually builds high value-added ships, including destroyers requiring highly advanced technologies.

The launch of DDH "Hyuga"

300,000 MTDW Crude Oil Carrier Delivered

At its Kure Shipyard in November 2007, IHI subsidiary IHIMU delivered the 300,000 MTDW crude oil carrier "Idemitsu Maru" to Panama-based Aquamarine Ocean S.A. This vessel is the tenth 300,000 MTDW very large crude carrier (VLCC) to be built at the Kure Shipyard since 2003. Incorporating such features as double-hull fuel oil tanks and a Vapor Emission Control System (VECS), the ship's design displays a heightened concern for the environment. After delivery, the ship will be engaged in transporting crude oil, primarily between Japan and the Middle East.



VLCC "Idemitsu Maru"

AMTEC Receives Order for Ocean Environment Survey Vessel

IHI subsidiary IHI AMTEC Co., Ltd. (AMTEC) received an order for an ocean environment survey vessel from the Ministry of Land, Infrastructure, Transport and Tourism's Chubu Regional Bureau in January 2008. Construction will be undertaken at AMTEC's Aioi Shipyard, with delivery scheduled for the end of February 2009. Being built as a replacement for the "Hakuryu," which is currently in service in Ise Bay and Mikawa Bay, the tasks of the ocean environment survey vessel will be to collect drifting garbage and oil as well as to conduct water quality surveys in these areas. AMTEC develops and builds high-performance environment survey vessels that meet customer needs thanks to its advanced technological prowess, backed up by a wealth of accumulated experience.

Ocean environment survey vessel (same model)

Real Estate Operations

In the period under review, Real Estate Operations recorded orders of ¥9.9 billion and sales of ¥40.7 billion arising from the sale of condominium lots in the Toyosu district of Tokyo.

As a result, the value of orders outstanding at the end of the period under review amounted to ¥7.9 billion.

Operating income totaled ¥12.3 billion.

Condominium Complex “Urban Dock Park City TOYOSU” Handed Over

In the Toyosu area of Tokyo, where IHI is taking a leading role in development, three years of construction on the large-scale “Urban Dock Park City TOYOSU” condominium complex—a project that IHI has promoted in partnership with Mitsui Fudosan Residential Co., Ltd.—came to an end in March 2008. The units are now all sold and being sequentially handed over to customers.

Tokyo’s most prestigious condominium complex, 1,481-unit “Urban Dock Park City TOYOSU” stands 180 meters, or 52 stories, high and is a key part of the Toyosu Redevelopment Project. Situated on the seafront three kilometers from Tokyo’s Ginza district, the condominiums are blessed with an ideal location and commanding views.

Furthermore, in addition to boasting a design produced by a consortium of world-renowned designers who focused on the details of every facade, aspect of landscaping and interior appointment, Urban Dock Park City TOYOSU is receiving high acclaim from customers for its enhanced livability, thanks to such features as a clinic mall—a medical facility complex in which multiple medical offices rent space—and a children’s day-care center.

“Urban Dock Park City TOYOSU”

Rental Office Business Construction Commences in Toyosu

As a Mitsubishi Estate Co., Ltd. business partner, IHI is moving ahead with plans for a rental office business on a 13,700-square meter site in the Toyosu Redevelopment area’s business district. Continuing in the vein of the Toyosu Center Building and the Toyosu Center Building Annex, the rental office premises will be a large-scale office building in the manner of the area’s business malls. Plans call for its completion target fall 2010.

The rental office building (15 stories above ground and two stories below ground, for a total floor area of 96,000m^2) will boast the largest floor space per story in Tokyo. Not only a superior office building in which to conduct business, it is planned to provide a direct link to Toyosu subway station and offer superior levels of user friendliness.

With such features as double-skinned exterior walls and a high degree of greenification, the office building will also be environment-friendly.

Construction is due to commence in November 2008 and upon the development’s completion, we are looking to it to become a source of real estate operations revenue.

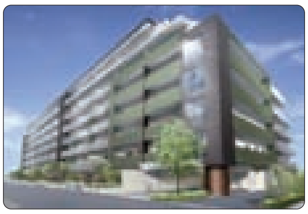
Office Building in the Toyosu 3-1 Block (image)

Construction of Condominium “Gracia Terrace Higashi-Totsuka” Commences

One part of the Corporate Real Estate (CRE) strategy utilizes 4,132.42m^2 of land that IHI owns in Yokohama, that was previously used for corporate housing. Progress is being made with plans to build a seven-story 90-unit condominium, “Gracia Terrace Higashi-Totsuka.”

Construction on the condominium has already started along with sequential sales of the units in partnership with Sotetsu Real Estate Co., Ltd.

With the intensification of demand for the dormitory and corporate housing, IHI fully intends to make effective use of its idle assets.



Condominium “Gracia Terrace Higashi-Totsuka” (image)

Other Operations

Amid generally favorable market conditions for agricultural machinery and diesel engines, Other Operations received orders worth ¥150.5 billion, a year-on-year increase of 4.1%, and posted sales of ¥167.0 billion, an increase of 7.0%.

As a result, the value of orders outstanding at the end of the period under review amounted to ¥48.4 billion, a year-on-year increase of 3.8%.

Operating income showed a significant year-on-year increase of 72.4% to ¥5.1 billion.

OR-V Series Ozone Linen Disinfector Developed, Sales Commenced

Ozone gas is to be used as method for disinfecting bedding, which could pose an infection risk, in accordance with addition to law revision.

IHI and IHI Shibaura Machinery Corporation (ISM) have developed and commenced sales of the large-model OR-V Series of ozone disinfectors. The use of such units to disinfect used bed linen in hospitals and clinics is legally required.

Previously, ozone gas was not approved as a method for disinfecting the bed linen used in hospitals and clinics; however, this requirement added the new Ozone Gas Disinfection Method via a law revision on April 1, 2007. Developed to conform with the law revision affecting large-scale disinfectors, which allows sterilization contractors to process large volumes of bedding at one time, the special features of the OR-V Series include: (1) enabling the ozone to penetrate right into the center of the bedding to ensure thorough disinfection, (2) fully automated functions that record all disinfection operations, and (3) inspecting the density of resolved ozone gas in the disinfectors and to ensure there is no residue.

A strong oxidizer, ozone offers a safe, powerful disinfection method with low running costs. As the method leaves no residual toxicity and does not require the appointment of an administrator, there is high demand for ozone-related equipment. As the law revision is expected to increase demand for facilities with these machines, IHI and ISM are aiming for annual sales of 10 to 20 units.

OR-V series ozone linen disinfector

DU Achieves 100th Electronically Controlled Diesel Engine Order

IHI affiliate, Diesel United, Ltd. (DU) recorded a cumulative total of 100 orders for DU-Wärtsilä electronically controlled diesel engines (flex engines) in October 2007. Orders have been mounting since DU completed the development of the first flex engine, the 6RT-flex58T-B, in March 2003 and began specializing in environmentally friendly next-generation flex engines, covering the range from small to large bore models. Thus far, 30 units have entered service and are recording excellent operational performance.

The common-rail technology incorporated into these engines displays high flexibility, reduces the emission of such harmful substances as nitrous oxide (NOx) and exhaust particulates, and reduces the fuel oil consumption at lower load. Flex engines, which have made marine diesel engines with superior environmental performance a reality, are expected to become the mainstream diesel engine installed on new ships.

Flex engine

Sales of 90-Ton, Hoist-Type CCH900 Hydraulic Crawler Crane Commenced

IHI affiliate, IHI Construction Machinery Limited (IK) commenced sales of the latest addition to its CCH series of crawler cranes, the 90-ton, hoist-type CCH900.

Possessing top-class stability and strength, this crane ensures stable braking performance and reduced maintenance thanks to the wet-type multidisc brakes fitted to the winch. In addition, the wider winch drum and increased wire rope roll capacity are designed to extend the rope's service life.

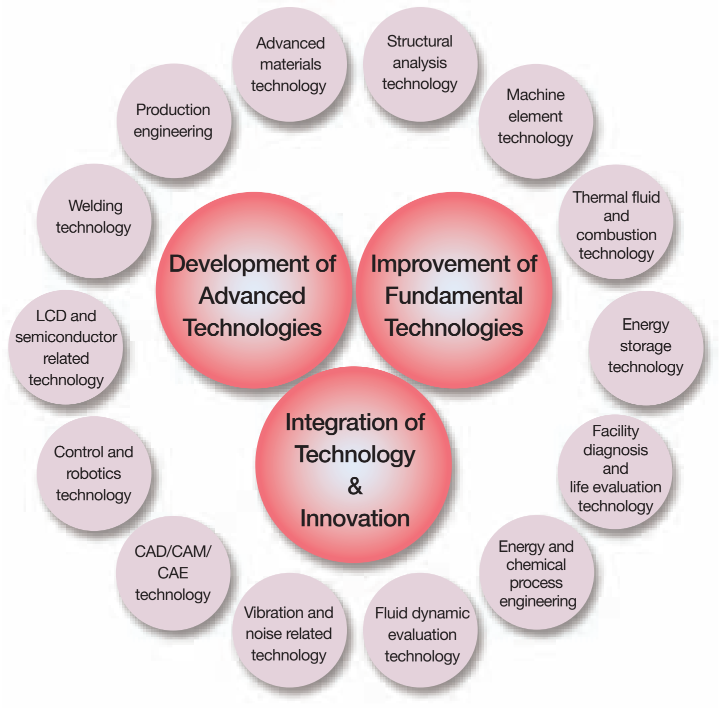
When reduced in size, the CCH900's crawler becomes 3,340mm wide, the narrowest in its class, which increases ease of transport. Consideration has also been given to simplifying assembly and disassembly. Moreover, a great deal of thought was devoted to realizing a design that maximizes the crane's response to on-site needs from a user-oriented perspective. For example, we improved the comfort of the driver's cab as well as ease of operation. The design also reflects our concern for safety and the environment in terms of noise levels and exhaust emissions. There are plans to sell 20 CCH900 units per year in the domestic and overseas markets.

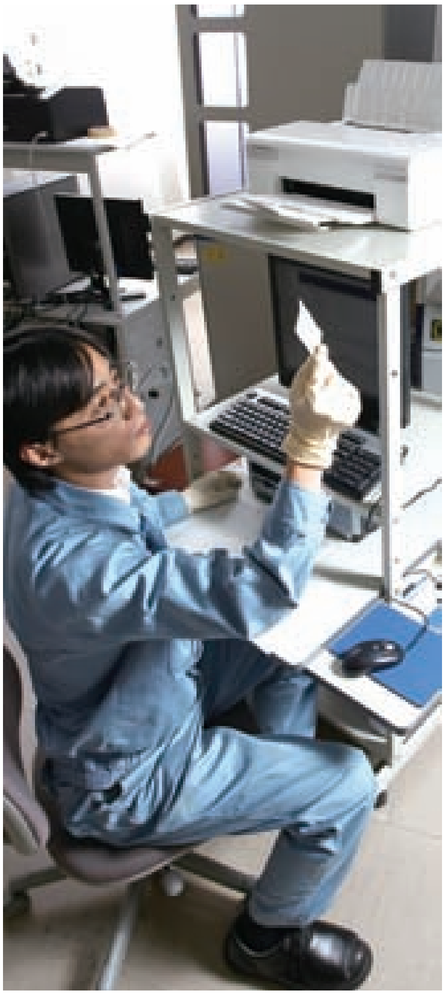
CCH900 Hydraulic Crawler Crane

Research and Development Highlights

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

Mechanical Secondary Battery (Flywheel Rechargeable Battery)

IHI has recently developed a mechanical secondary battery fitted with a flywheel for use with an uninterruptible power supply (UPS). A UPS delivers emergency power to important machinery, such as semiconductor manufacturing equipment, in the event of a sudden drop in voltage or blackout. However, the disposal of the lead in the batteries that are predominantly used to store power in a conventional UPS poses a major environmental impact problem when the batteries are periodically replaced.

Using a flywheel to store energy in the form of rotational energy, the IHI-developed, lead-free mechanical secondary battery exerts a lighter impact on the environment.

Moreover the flywheel acts as a maintenance-free secondary battery without bearings that will wear out or need replacing because it is suspended magnetically.

IHI is planning to create mechanical secondary batteries customized by application and to conduct endurance testing with a view to product commercialization.

Flywheel rechargeable battery

Microcombustor Technology Approaching Commercial Viability

IHI has developed a microcombustor technology that promises to make combustors more compact and efficient.

Existing technologies dictate that the more compact a combustor is, the greater the heat loss from the flame, the more toxic carbon monoxide produced and the more difficult it is to maintain flame stability. In its microcombustor technology, however, IHI has achieved extremely compact combustors with diameters ranging from 20.0mm (JPY1 coin size) to 26.5mm (JPY500 coin size).

IHI has applied this technology to develop a compact combustor that can be used in water, for example, as a heat source in kitchen appliances. This combustor has achieved high thermal efficiency with very low carbon monoxide emissions. In addition, because the combustor's compactness enables a movable structure, maintenance is just as easy as with other electrical kitchen appliances.

The exhibition of the prototype at the HOTERES JAPAN 2008 was a great success (as a sample of future kitchen technology at the Tokyo Gas booth).

Prototype kitchen appliance

Development of Organic-Based Magnetic Compound

Working in collaboration with Professor Yoshihiro Ishikawa of Yokohama City University's School of Medicine, IHI has succeeded in synthesizing an organic-based magnetic compound for an anti-cancer drug.

In pharmacological experiments this anti-cancer drug—composed of carbon, hydrogen and oxygen elements with a low environmental impact and displaying ferromagnetic qualities at room temperature—revealed its suitability for application in drug delivery systems (Fig. 1) due to its magnetic field and also as an effective contrast media for such diagnostic imaging as MRI (Fig. 2).

In the development of materials that display special qualities, such as electroconductive organic materials and separation membrane materials that let only hydrogen through, many repetitions of structural prediction, actual synthesis and material functionality tests are required. These processes can be very time-consuming and costly. On this occasion, however, by successfully developing an effective material using computer calculation at the design stage, IHI was able to make this process more efficient.

IHI will continue to explore functional materials and work on technologies that effectively bring about improvements.

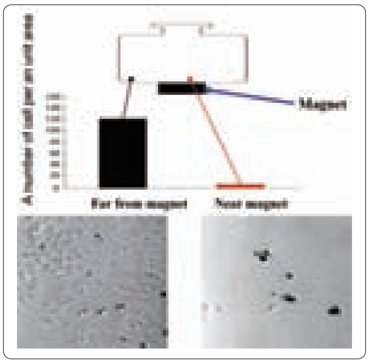


Fig.1 Magnetic targeted drug delivery system (In vitro)

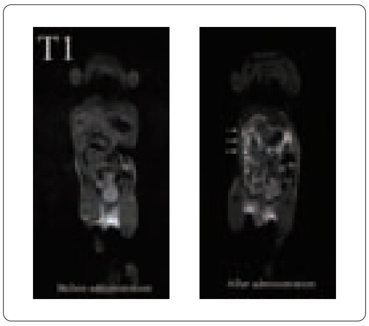
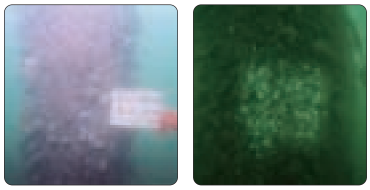


Fig.2 MRI experiment (mouse)

IECOS Method Enables Ultralong-Term Corrosion Protection of Marine Steel Structures

In recent years, there has been strong demand for effective maintenance, management and repair methods for infrastructure facilities that take into account lifecycle costs. Against this backdrop, IHI developed a revolutionary anticorrosion method, the IHI Electrocoating System (IECOS), designed expressly for such marine steel structures as port facilities, steel bridge caissons and oil drilling rigs. Preventing rust by forming an anticorrosive film on the surface of marine steel structures through an electrochemical reaction between magnesium and calcium ions in seawater, IECOS offers the following benefits: if can be applied to all steel structures in seawater; coating work can be carried out under harsh conditions, including in strong currents and at great depths; IECOS is environment-friendly as its anticorrosive film is derived from elements already present in seawater; and it enables ultralong-term corrosion protection planning in excess of 100 years.



Steel pipe pile before (left) and 40 months after (right) ICEOS anticorrosion treatment

Development of Intelligent Robot Technologies

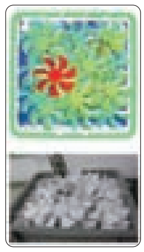
Multiproduct variable production responsive to detailed customer needs is difficult to automate because of the complexity of the tasks involved.

IHI has been developing intelligent robot technologies that enable robots to take the place of workers in a wide range of complex tasks.

For example, by integrating IHI's 3D object recognition technologies (which are responsive to multiple complex objects) into industrial robots, IHI has developed a system that can perform bin-picking (picking out individual objects from disorderly piles) and sorting tasks, the automation of which had previously been beset with difficulties. This system received plaudits when demonstrated at International Robot Exhibition at the end of 2007.

Moreover, a robot system is currently under development for assembly applications for which automation has not yet become widely used because of the variety and difficulty of the work. This system, which uses two manipulators, can steadily complete a series of assembly tasks that include such actions as carrying and assembling parts and fastening nuts. Moreover, it can almost match the time taken by a skilled worker. In addition, it can precisely fit parts into gaps of less than several micrometers by precisely controlling the amount of force used during assembly.

Bin picking robot



Results of 3D recognition

Assembly robot system

Handling Robot Technology for Medium-Weight Objects

Factory Automation has hardly increased in the moving of medium-weight (50kg–200kg) objects. Such items are currently carried by workers operating cranes and/or conveyors. Robot automation of this kind of work, which enhances safety and improves productivity, has resulted in broader expectations of technological development throughout the manufacturing industries. Integrating image processing technology, robot control technology and mechatronics technology, IHI has developed a robot system that enables productivity improvement.

The handling robot system automatically moves the medium-weight objects, such as engine cylinder blocks weighing around 60kg, from/onto pallets as required and can also carry them through inspection processes. By integrating proprietary IHI technologies—such as 3D Object Recognition, which targets objects using a camera, and Magnetic Parts Handling and Robot Control Technology that handles and tracks objects—IHI has brought to fruition a "system that carries medium-weight things safely and efficiently for people."

Robot system handling medium-weight objects

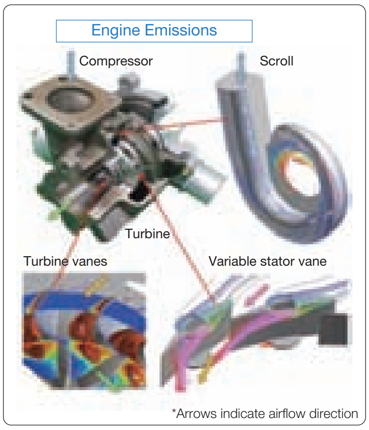
Design and Development of Automotive Turbocharger Using CFD

Turbochargers, which consist of turbines linked to compressors, supply compressed air to engines. The turbine, driven by the energy from exhaust gases, rotates the compressor, which, in turn, forces compressed air into the engine. As this is highly energy efficient, there is widespread demand for turbocharged diesel engines, particularly in Europe.

In response to market demand for higher-performance compressors and turbines and for more rapid development, IHI is applying computational fluid dynamic (CFD) technologies to turbocharger design. Using a computer to solve an equation that expresses the airflow, CFD is a technique that provides a visual representation of the airflow that would be invisible to the naked eye.

The graphic illustrates the airflow inside an automotive supercharger turbine generated on a computer.

The application of CFD makes it possible to predict turbocharger performance and to study airflow in detail. Moreover, it allows the more efficient design and development of high-performance turbochargers.



Internal flows in a turbine of automotive turbocharger

Double-Arm Forklift for G8 FPD Stacker Developed

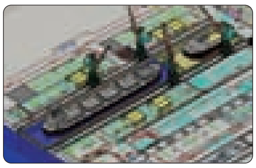
Arm-type transfer equipment has been developed for use in automated clean storage warehouses that handle bulk quantities of large, eighth-generation (G8) glass substrates for flat-screen TVs. Utilizing proprietary features, we have achieved weight reductions while ensuring structural strength. As a result, automated warehousing systems that have this equipment installed are the fastest operations in the industry. The glass substrates used in the production of flat-screen TVs are increasing in size with each passing year. Against the backdrop of growing demand for increased productivity, compactness and higher quality, higher levels of cleanliness on glass substrate production lines are being demanded. This development will fully satisfy these market demands.

Double-arm forklift for G8 FPD stacker

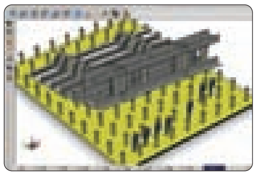
Latest IT-Driven Breakthroughs in *Monozukuri* and 3D Model Applications

As design, production, procurement and construction all become globalized, the rapid provision of high-quality products and services is becoming increasingly important. Against this background, IHI is promoting the visual representation of progress and problems in remote and dispersed locales as well as of different portions of extensive sites by fully utilizing the latest technologies, including remote TV cameras, wireless LAN, IC tags, 3D model viewers and process schedulers.

Originally, 3D models were used mainly for design. IHI, however, is currently facilitating Groupwide efforts to realize epoch-making *monozukuri* that permeates all of its operations by expanding the use of 3D models into the marketing, manufacturing and construction sectors. For example, in its shipbuilding operations IHI is promoting the introduction of easier-to-understand instructions by means of visual representation technologies by virtual factories and 3D models.



Virtual factory: shipyard



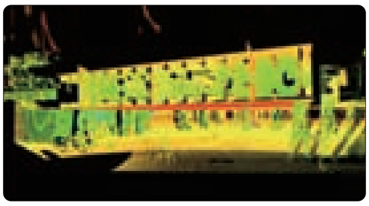
Instruction using a 3D model

Development of 3D Evaluation Technology for Large Structures

To supply products that give even higher levels of customer satisfaction, IHI has conducted activities to dramatically enhance quality, cost and delivery at its plants. For example, such cutting-edge technologies as vision metrology and laser scanning are fully utilized to propel the development of systems that can assist in the 3D measurement of complex, large-scale structures such as bridges and ships.

Measuring systems that we have under development simplify 3D measurements at the manufacturing front line and automatically evaluate 3D models of manufacturing results, comparing them with the design. The evaluation will be then applied to block in shape modifications and assembly processes.

The systems make available the effective evaluation of a structure's 3D form along with a feedback process for measurement results depending on the product; therefore, they can be a powerful tool that maximizes plant capabilities by improving quality and shortening process times.



Measurement of ships using laser scanning

IHI Intellectual Property

(As of March 31, 2008)

Basic Policies on Intellectual Property

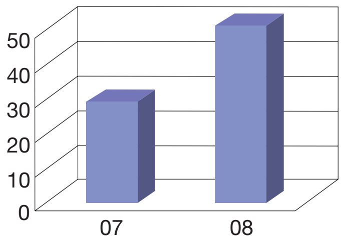
Based on the Group's Management Policies 2007, IHI Group has established the following basic policies concerning intellectual property (IP):

(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

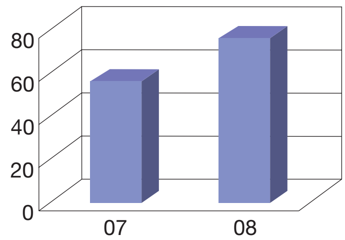
Outcome of Invigorated Patent Application Activities

Many patent applications have been aggressively filed in the strategic business areas identified in the Group's Management Policies 2007. In addition, we have worked to build awareness of patent networks in those businesses that were slated to become profit drivers and the focus of resources: logistics systems, automotive turbochargers, aero-engines and so forth.

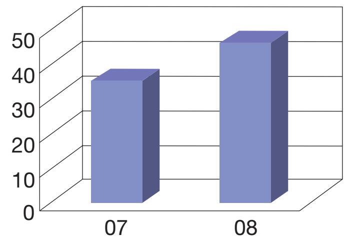
As a result, compared with the year ended March 2007 the number of patent applications has significantly increased, as shown in the graphs. Moreover, the total number of IHI Group applications in the year ended March 2008 expanded approximately 1.6 times year on year. To maintain its business advantages, IHI will continue to pursue IP activities that integrate its business and R&D strategies.



No. of patent applications for logistics systems filed in Japan



No. of patent applications for automotive turbochargers filed in Japan



No. of patent applications for aero-engines filed in Japan

Note: Figures are for respective years ended March 31.

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 filed its trademark overseas and, as a result, currently has it registered in 66 countries.

In July 2007, the Company name was changed to IHI, with some affiliated companies also adopting the IHI name and trademark. However, some concern exists over the potential damage that an increase of counterfeit products or the malicious use of the IHI trademark by a third party could bring about as the brand's value rises. To prevent such potential damage, the Company is strategically continuing to file trademark applications for brand protection as necessary.

IHI Group's IP

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

A comparison between the years ended March 2007 and 2008 reveals that the number of patents filed by the IHI Group rose from 667 to 990, while the number of patents held by the IHI Group increased from 3,692 to 3,974. This shows that overall Group strength in the area of IP is improving. Moreover, we have established the 2008 IHI Group Basic Policy on IP that, in addition to "ensuring that IHI and its affiliate companies maintain their business advantages and strengthening IP activities with integrated business and R&D strategies," innovatively declares "the establishment of an intellectual management system that integrates IHI with its business affiliates" and promotes IP activities across the entire IHI Group.

Risk Management

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

IHI Group Product Lineup

IHI manufactures an enormous range of products. From a wide variety of plants, machinery and facilities that support industry and society, to simpler facilities closer to our dairy lives, IHI is continuing to broaden this product lineup in all areas of human activity, from the earth to outer space.

Logistics Systems and Structures Operations

Bridges

Continuous ship unloaders

Automated warehousing systems

Parking systems

Presses

Gates

Shield machines

Automated people movers

Material handling systems

Container cranes
Bucket chain type continuous ship unloaders
Grab bucket type ship 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 cranes

Physical distribution and factory automation systems

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

Parking systems and products for civil use

Parking systems
Moving walkways

Bridges and steel structures

Bridges
Pedestrian bridges
Gate equipments for rivers and dams
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 stocks
Snow plows

Disaster prevention systems

Seismic isolation floor systems
Mass damper systems

Industrial Machinery Operations


Blast furnace plants

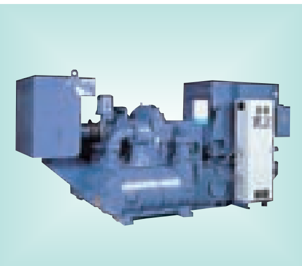

Vacuum heat treatment furnaces

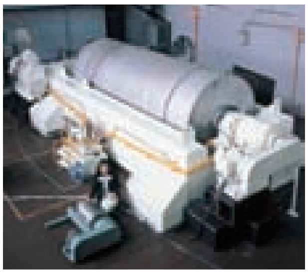

Calender line for rubber and plastic


Ion implanter system (ISDR)


LNG reciprocating compressors


Automotive turbochargers


Turbo compressors


Screw decanter centrifuges

Industrial machinery

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

Semiconductor, LCD panel equipment and R&D facilities

Semiconductor and LCD panel equipment
Optical and beam technology equipment

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

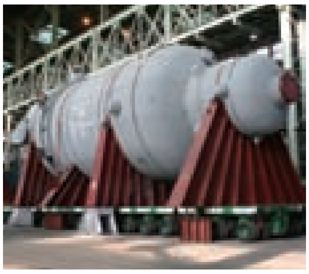

Industrial boilers

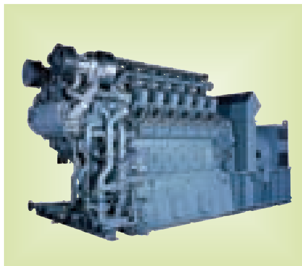

Reactor pressure vessel


Air pollution prevention systems


LNG receiving terminals


LPG plants


Ethylene oxide reactor


Gas engines

Energy

Boilers for power plants
Industrial boilers
Circulating fluidized bed combustion boilers
Waste-heat recovery boilers
Bubbling fluidized bed combustion boilers
Diesel power generation systems
Cogeneration systems

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

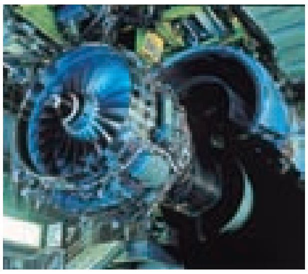
Storage systems and process plants

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

Power systems and others

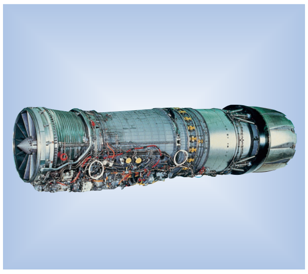
Diesel engines
Gas engines
Gas turbines
Generating sets
Steerable propellers
X-ray inspection equipment
Electron sterilization systems

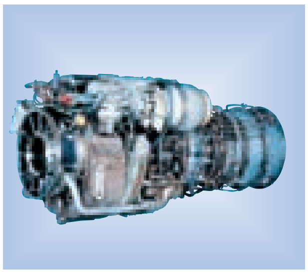
Aero-Engine and Space Operations


V2500 turbofan engines


CF34 turbofan engines

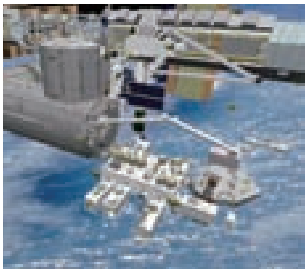

GE90 turbofan engines


F110 turbofan engines


T700 turboshaft engines


GX launch vehicle (image)


LM6000 gas turbine combined cycle power plant


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

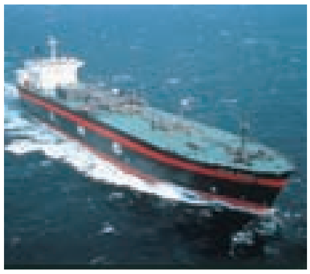
Gas turbine power generation systems
LM6000series
LM2500series
IM400series
IM270series

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

Real Estate Operations


Condominium complex


Condominium (image)


Rental office (image)


Marina

Real Estate Sales and Rental

Others

Other Operations


Diesel engines


Baler wrapper

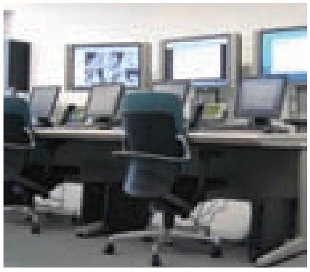

Fertilizer spreader


Mini excavators


Crawler cranes


Lawn management machines


Ozone deodorizers


Computer systems

Engines

Diesel engines
Gasoline engines

Agricultural machinery

Tractors
Tractor implements
Lawn maintenance machinery

Construction machinery

Excavators
Crawler cranes
Crawler carriers
Compact track loaders
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, 2008)

Parent Company

Soma No.1 Aero-Engine Works
Products & services: Parts of jet engines, gas turbines and space development equipment
Certificates: JIS Q 9100 (JIS Q 9001/ISO 9001), JIS Q 14001(including ISO 14001), JIS Q 27001 (including ISO/IEC 27001), 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 (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 (JIS Q 9001/ISO 9001), FAA Repair Station, JCAB 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: Steel structures, offshore structures, bridges, deck machinery and shield tunneling machines
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)

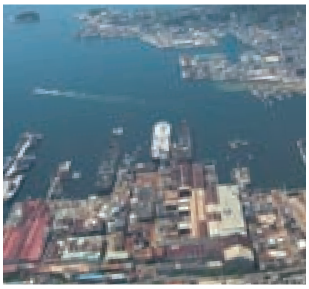
Aioi Workshop
Products & services: Steel structures and offshore structures
Certificates: ISO 9001 and ISO14001

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 (JIS Q 9001/ISO 9001), ISO 14001, FAA Repair Station and Nadcap

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 and steel structures
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 (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 (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, maintenance cars 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)

IHI STAR Machinery
Chitose Works
Products & services: Hay and grass harvesting equipment

IHI Machinery and Furnace
Motomiya Manufacturing Center
Products & services: Paper machinery, rubber and plastics calenders and others
Certificate: ISO 9001 (JIS Q 9001)

PT Cilegon Fabricators (INDONESIA)
Products & services: Boilers, steel structures, container cranes, pipings 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

IHI Group Companies

(As of July 1, 2008)

Major business fields that IHI and IHI group companies are specialized in are: logistics systems and structures, industrial machinery, energy and plant, aero-engine and space, shipbuilding and offshore, real estate, and others.

By effectively using group dynamics, IHI provides not only products but also services fully covering engineering, operation, inspection, maintenance, safety, and consulting.

IHI GROUP

Logistics Systems and Structures Operations

Sales, Manufacturing

- Ishikawajima Transport Machinery
- Ishikawajima Construction Materials
- IHI SHIP & CHEMICAL PLANT
- Kanto Segment
- Niigata Transys
- PC Bridge

Sales, Construction, Maintenance Services

- IHI Press Technology America

Maintenance Services

- IHI Logistics Technology
- ISMIC

Engineering

- Nishi-Nihon Sekkei Engineering

Energy and Plant Operations

Sales, Manufacturing

- IHI PACKAGED BOILER
- Kotobuki Iron Works
- NIIGATA POWER SYSTEMS
- PT Cilegon Fabricators
- NICO Precision

Services

- Nagoya Plastic Handling
- Kanamachi Purification Plant Energy Service
- IHI Logistics

Construction, Engineering

- IHI Kankyo Engineering
- IHI Inspection & Instrumentation
- IHI Plant Engineering
- IHI Plant Construction
- Jurong Engineering Limited
- Ishi Power Sdn. Bhd.

Real Estate Operations

Services

- Chiba Warehouse
- Tokyo-wan Tochi

Other Operations

Services

- IHI Scube
- IHI Business Support
- IHI Technical Training Institution
- IHI Shibaura Technical Service
- TFI Corporation

Sales, Manufacturing

- IHI Shibaura Machinery
- IHI Construction Machinery
- IHI STAR Machinery
- Diesel United

Sales

- IHI Trading
- IHI Construction Machinery Sales
- IHI INC.
- IHI Europe Limited

Industrial Machinery Operations

Sales, Manufacturing

- Voith IHI Paper Technology
- IHI Machinery and Furnace
- JH Corporation
- IHI SEIKI

Engineering

- IHI METALTECH
- Ishikawajima Machinery Engineering
- IHI Charging Systems International GmbH

Manufacturing

- IHI Turbo
- IHI Charging Systems International S.p.A.
- IHI Turbo America Co.
- IHI TURBO (THAILAND)

Manufacturing, Maintenance Services

- IHI Compressor and Machinery

Aero-Engine and Space Operations

Sales, Manufacturing

- IHI AEROSPACE
- IHI Castings
- IHI MASTER METAL
- Galaxy Express

Engineering

- IHI AEROSPACE ENGINEERING
- INC Engineering

Maintenance Services

- IHI Jet Service

Shipbuilding and Offshore Operations

Sales, Manufacturing

- IHI Marine United
- IHI Amtec
- IHI Kure Marine Construction

Maintenance Services

- IHI Marine

Engineering

- IHI Engineering Marine

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. 08 Hauzer Techno Coating B.V. became a subsidiary company of IHI 08 Established IHI Oxyfuel Australia Pty. Ltd. 08 Established Wuxi IHI Turbo co., Ltd.

Corporate Officers

(As of June 27, 2008)

President

Kazuaki Kama

Executive Vice Presidents

Yasuyuki Watanabe

Toshiro Takei

Board Directors

Yukiya Nakagawa

Yasuhiro Inagawa

Yuji Hiruma

Yoshiaki Shimojo

Kimiaki Gotoh

Makoto Serizawa

Ichiro Hashimoto

Kazuo Tsukahara

Tamotsu Saito

Fusayoshi Nakamura

Fumio Sato

Tomokazu Hamaguchi

Corporate Auditors

Teruo Naruoka
Teruo Shimizu
Takeo Inokuchi
Nobuo Ohashi
Nobuo Gohara

Executive Officers

Chief Executive Officer

Kazuaki Kama

Senior Executive Officer

Yasuyuki Watanabe
Toshiro Takei

Managing Executive Officer

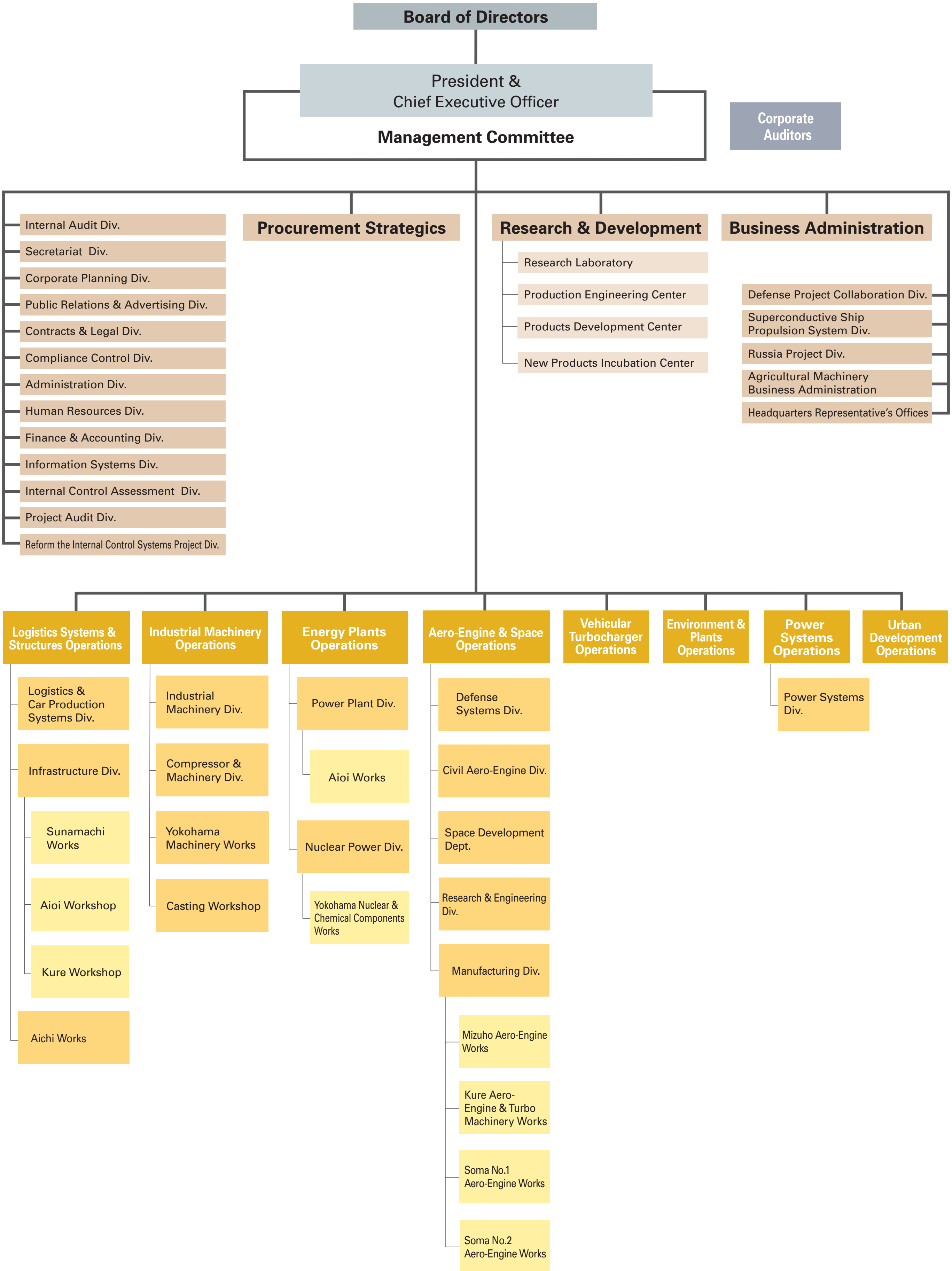
Yasuhiro Inagawa
Yuji Hiruma
Yoshiaki Shimojo
Kimiaki Gotoh
Ichiro Hashimoto
Toshihiko Ohsumi
Mitsukatsu Asaoka
Kazuo Tsukahara

Executive Officer

Mutsumi Maruyama
Makoto Serizawa
Tamotsu Saito
Fusayoshi Nakamura
Kiyoshi Ishii
Tatsumi Kawaratani
Toshinori Sekido
Hiroshi Iwamoto
Izumi Imoto
Sadao Degawa
Junichi Saikawa
Joji Sakamoto
Eiichi Yoshida
Naruto Takata

Organization

(As of July 1, 2008)



Directory

(As of July 1, 2008)

Offices

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22, Rue Ali-Bedjaoui, El-Biar, Alger, ALGERIA
(Mailing address) IHI B.P.102,
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FAX: +213-21-92-14-36

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Manama Centre, Entrance 1, 2nd Floor,
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FAX: +82-2-755-4772

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2 America Square,
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FAX: +44-20-7481-4955

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Hauzer Techno Coating BV
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TEL: +31-77-355-9777
FAX: +31-77-396-9798

GERMANY
IHI Charging Systems International GmbH
Haberstrasse 24, 69126 Heidelberg, GERMANY
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FAX: +49-6221-3096-123

THAILAND
IHI TURBO (THAILAND) Co., Ltd.
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20160, THAILAND
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FAX: +66-38-4540-57

MALAYSIA
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PT Cilegon Fabricators
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Room 1904, 19th Floor, World Trade Centre, 280
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FAX: +86-512-8518-8510

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FAX: +86-510-86221406

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Financial Section

Years ended March 31
IHI Corporation and Consolidated Subsidiaries

Consolidated Six-Year Summary

	Millions of yen					
	2008	2007	2006	2005	2004	2003
For the year:						
Net sales	¥1,350,567	¥1,221,016	¥1,127,075	¥1,089,047	¥1,047,441	¥1,019,061
Cost of sales	1,235,111	1,098,412	986,666	962,127	950,136	878,260
Gross profit	115,456	122,604	140,409	126,920	97,305	140,801
Operating (loss) income	(16,807)	(5,626)	21,771	10,619	(23,230)	24,640
Income (loss) before income taxes and minority interests	46,794	15,059	22,165	15,112	(39,001)	(6,521)
Net income (loss)	25,195	(4,593)	5,283	2,180	(38,354)	(9,672)
At year-end:						
Total assets	¥1,542,295	¥1,536,078	¥1,461,796	¥1,387,838	¥1,377,021	¥1,381,240
Current assets	1,082,624	1,044,642	1,005,974	937,250	905,325	875,264
Net property, plant and equipment	261,761	257,838	226,071	234,887	246,406	287,096
Current liabilities	898,682	893,276	774,037	752,951	744,218	741,404
Long-term liabilities	409,207	415,755	498,362	460,960	461,574	447,870
Total net assets*	234,406	227,047	169,237	153,716	151,550	171,323
Amounts per share (yen):						
Net income (loss)	¥ 17.18	¥ (3.46)	¥ 3.93	¥ 1.56	¥ (29.67)	¥ (7.57)
Cash dividends	4.00	4.00	2.00	—	—	1.50
Shareholders' equity	149.96	144.70	130.36	118.40	116.73	131.96
Other data:						
Number of employees	23,722	23,190	23,364	21,847	22,768	23,575
Number of shares issued (millions)	1,467	1,467	1,298	1,298	1,298	1,298
Ratios:						
Return on average assets (%)	1.64	(0.30)	0.37	0.16	(2.78)	(0.69)
Return on average equity (%)	11.66	(2.41)	3.27	1.43	(23.76)	(5.39)
Total shareholders' equity ratio (%)	14.26	13.82	11.58	11.08	11.01	12.40

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

Contents

Operating Results

During the fiscal year under review, IHI's consolidated net sales increased 10.6% to ¥1,350.6 billion; however, the Company recorded an operating loss of ¥16.8 billion due primarily to an increase in the loss recorded by in Energy and Plant Operations. Owing to gains on sale of land and certain other properties, income before income taxes and minority interests grew to ¥46.8 billion. Net income was ¥25.2 billion, a reverse from the previous year's ¥4.6 billion net loss.

With regard to sales, all business segments except Other Operations recorded growth from the previous fiscal year, with Shipbuilding and Offshore Operations and Energy and Plant Operations leading the way. (Based on Other Operations' results for the previous fiscal year, adjusted to reflect the splitting off of Real Estate Operations, see Note 2.) Overseas sales jumped 23.2% to ¥577.4 billion, representing 42.8% of consolidated net sales, compared with ¥468.8 billion in the previous fiscal year. Domestic sales increased 2.8% to ¥773.1 billion, accounting for 57.2% of consolidated net sales, compared with ¥752.2 billion a year ago.

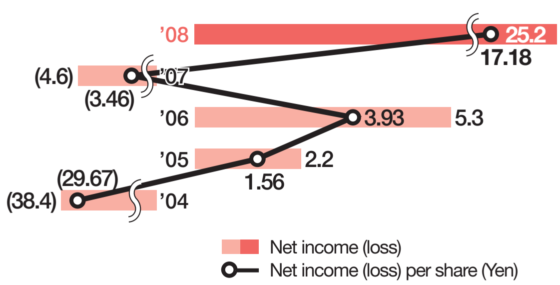
Cost of sales for the year rose 12.4% to ¥1,235.1 billion, due mainly to higher material and energy costs and intensified competition, and its ratio to net sales moved up from 90.0% to 91.5%. Gross profit, accordingly, decreased 5.8% to ¥115.5 billion. Selling, general and administrative expenses increased 3.1% to ¥132.3 billion and represented 9.8% of net sales, down from 10.5% in the previous year.

Operating results by business segment are as follows:

Logistics Systems and Structures Operations' sales edged up 0.1% to ¥169.9 billion, representing 12.6% of total consolidated net sales to outside customers (hereinafter, "net sales"). This segment posted an operating loss of ¥2.0 billion. In Industrial Machinery Operations, sales rose 8.9% to ¥173.6 billion, representing 12.9% of net sales, reflecting the robust capital investment seen in such customer industries as the automotive, iron and steel, and paper industries. Operating income for the segment increased a significant 36.2% year-on-year to ¥15.7 billion. In Energy and Plant Operations, sales were up 11.3% to ¥371.5 billion, or 27.5% of net sales, and the segment recorded an operating loss of ¥74.1 billion, attributable mainly to the deteriorating profitability of overseas construction work and domestic boiler operations. Aero-Engine and Space Operations recorded sales of ¥308.2 billion, up 5.3% due to the success of jet engine promotional activities, and accounted for 22.8% of net sales. Operating income for this segment was ¥23.7 billion, a significant rise of 44.8%. Sales in the Shipbuilding and Offshore Operations segment rose 21.3% to ¥159.6 billion in the wake of increased new ship deliveries, representing 11.8% of net sales. Segment operating income totaled ¥2.4 billion, up 51.6%. The reclassified Other Operations saw sales edge down 0.7% to ¥127.2 billion, accounting for 9.4% of net sales. Operating income in this segment was ¥5.2 billion. Previously recorded under Other Operations, Real Estate Operations recorded sales and operating income of ¥40.4 billion and ¥12.3 billion, respectively.

In other income and expense, interest expense continued to outpace interest and dividend income, for a net expense of ¥1.5 billion, but showed some improvement compared with a net expense of ¥1.8 billion in the previous fiscal year. Net other income amounted to ¥65.1 billion compared with ¥22.5 billion in the previous year, attributable primarily to the aforementioned gains on sale of land and certain other properties. As a

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



result of the foregoing, income before income taxes and minority interests showed a ¥31.7 billion year-on-year improvement to ¥46.8 billion.

After subtracting income taxes and minority interests from the pretax income, IHI posted net income of ¥25.2 billion, compared with a net loss of ¥4.6 billion in the previous year. Consequently, net income per share of common stock was ¥17.18, compared with a net loss per share of ¥3.46 in the previous period.

Cash Flows

Net cash provided by operating activities was ¥3.3 billion, compared with ¥36.1 billion in the previous fiscal year. This decrease was attributable mainly to an increase in notes and accounts receivable and a decrease in notes and accounts payable.

Net cash provided by investing activities was ¥46.8 billion, compared with net cash used in investing activities of ¥57.4 billion in the previous year. This was caused mainly by proceeds from sale of land in the Toyosu complex in Tokyo, along with decreases in purchases of property, plant and equipment and intangible fixed assets as well as purchases of marketable and investment securities.

Net cash used in financing activities totaled ¥48.8 billion, compared with net cash provided by financing activities of ¥13.0 billion in the previous year. This was attributable mainly to a continued increase in the repayment of long-term debt.

As a result of the factors outlined above, cash and cash equivalents at the end of the year totaled ¥130.4 billion, marking a slight increase from the ¥129.9 billion a year ago.

Financial Position

Total assets as of March 31, 2008 were up ¥6.2 billion to ¥1,542.3 billion, compared with ¥1,536.1 billion at the previous year-end. Current assets increased ¥38.0 billion to ¥1,082.6 billion, due to such factors as an increase in inventories. Property, plant and equipment edged up ¥3.9 billion to ¥261.8 billion, while investments assets dropped ¥35.3 billion to ¥177.0 billion, due primarily to a decrease in investment securities.

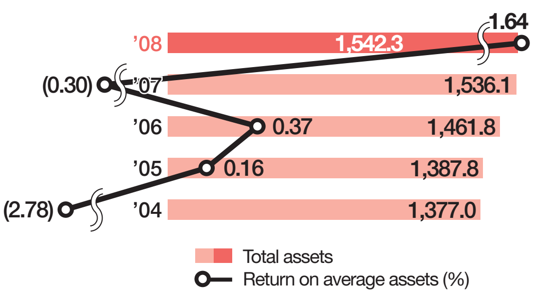
Total liabilities edged down ¥1.1 billion to ¥1,307.9 billion, compared with ¥1,309.0 billion at the previous fiscal year-end. Current liabilities increased ¥5.4 billion to ¥898.7 billion, while long-term liabilities slipped ¥6.5 billion to ¥409.2 billion, owing mainly to a decrease in allowance for employees' retirement benefits. Total interest-bearing debt at the year-end was down ¥36.6 billion from a year ago, at ¥367.9 billion.

Total net assets were up ¥7.4 billion to ¥234.4 billion, due primarily to a ¥20.9 billion gain in retained earnings. As a result, net assets per share increased ¥5.26 to ¥149.96, and the ratio of equity to total assets at the year-end improved to 14.3%, from 13.8% a year ago.

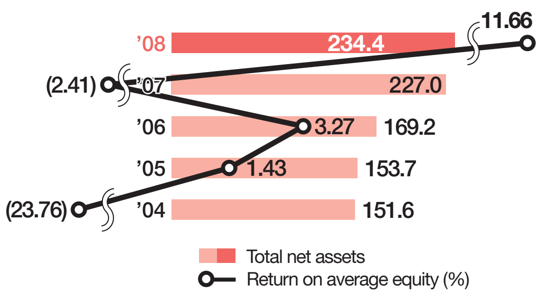
Note: 1. Figures in this Financial Review are in billions of yen, rounded to the first decimal place.

2. In the explanation of "Operating Results" on page 40, sales amounts of respective business segments represent sales to outside customers that exclude inter-segment 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, 2008 and 2007
IHI Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
ASSETS			
Current assets:			
Cash and time deposits (Note 7)	¥ 72,080	¥ 85,462	$ 719,433
Trade receivables (Note 7)	358,945	357,514	3,582,643
Marketable securities (Note 3)	46,455	28,094	463,669
Less allowance for doubtful receivables	(4,066)	(4,552)	(40,583)
Inventories (Notes 4 and 7)	455,885	437,864	4,550,205
Deferred income taxes (Note 8)	33,887	25,240	338,227
Other (Note 7)	119,438	115,020	1,192,115
Total current assets	1,082,624	1,044,642	10,805,709
Property, plant and equipment (Notes 5 and 7)**:**			
Buildings and structures	265,960	263,420	2,654,557
Machinery and equipment	386,410	380,363	3,856,772
Land (Note 12)	77,761	77,299	776,135
Construction in progress	5,330	4,492	53,199
Less accumulated depreciation	(473,700)	(467,736)	(4,728,017)
Net property, plant and equipment	261,761	257,838	2,612,646
Intangible assets:			
Software	14,354	14,416	143,268
Goodwill	1,450	1,459	14,473
Other	5,141	5,494	51,312
Total intangible assets	20,945	21,369	209,053
Investments:			
Investment securities (Notes 3 and 7)	96,955	131,692	967,711
Deferred income taxes (Note 8)	34,965	35,756	348,987
Other	54,520	54,195	544,166
Less allowance for doubtful receivables	(9,475)	(9,414)	(94,570)
Total investments	176,965	212,229	1,766,294
Total assets	¥1,542,295	¥1,536,078	$15,393,702

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)
	2008	2007	2008
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade payables	¥ 315,008	¥ 322,681	$ 3,144,106
Short-term loans (Notes 6 and 7)	104,236	85,469	1,040,383
Current portion of long-term loans and debentures (Notes 6 and 7)	55,470	110,482	553,648
Accrued expenses	63,088	50,826	629,684
Advances from customers	226,838	200,182	2,264,078
Accrued income taxes	16,188	8,480	161,573
Allowance for employees' bonuses	21,420	20,353	213,794
Reserve for guaranteed contracts	19,122	12,526	190,857
Reserve for losses on sales contracts	32,690	27,089	326,280
Other	44,622	55,188	445,374
Total current liabilities	898,682	893,276	8,969,777
Long-term liabilities:			
Long-term loans and debentures (Notes 6 and 7)	208,216	205,296	2,078,211
Allowance for employees' retirement benefits (Note 15)	140,409	144,234	1,401,427
Deferred tax liabilities from revaluation of land (Note 12)	3,131	3,226	31,251
Other (Notes 6 and 7)	57,451	62,999	573,421
Total long-term liabilities	409,207	415,755	4,084,310
Contingent liabilities (Note 10)			
Net assets:			
Shareholders' equity:			
Common stock			
Authorized: 3,300,000,000 shares			
Issued: 1,467,058,482 shares	95,762	95,762	955,804
Capital surplus	43,037	43,034	429,554
Retained earnings	56,012	35,124	559,057
Less treasury stock, at cost	(135)	(74)	(1,347)
Total shareholders' equity	194,676	173,846	1,943,068
Valuation and translation adjustments:			
Unrealized holding gain on other securities	22,104	35,654	220,621
Loss on deferred hedges	1,518	(483)	15,151
Revaluation reserve for land (Note 12)	3,787	3,912	37,798
Foreign exchange translation adjustments	(2,168)	(699)	(21,639)
Equity warrant	114	—	1,138
Total valuation and translation adjustments	25,355	38,384	253,069
Minority interests in consolidated subsidiaries	14,375	14,817	143,478
Total net assets	234,406	227,047	2,339,615
Total liabilities and net assets	¥1,542,295	¥1,536,078	$15,393,702

Consolidated Statements of Income

Years ended March 31, 2008 and 2007
IHI Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Net sales	¥1,350,567	¥1,221,016	$13,480,058
Cost of sales (Note 9)	1,235,111	1,098,412	12,327,688
Gross profit	115,456	122,604	1,152,370
Selling, general and administrative expenses (Note 9)	132,263	128,230	1,320,121
Operating loss	(16,807)	(5,626)	(167,751)
Other income (expense):			
Interest and dividend income	4,429	3,955	44,206
Interest expense	(5,927)	(5,724)	(59,158)
Other, net (Note 11)	65,099	22,454	649,756
Income before income taxes and minority interests and other	46,794	15,059	467,053
Income taxes:			
Current	(21,357)	(14,448)	(213,165)
Deferred	(304)	(7,064)	(3,035)
Income (loss) before minority interests	25,133	(6,453)	250,853
Minority interests in income of consolidated subsidiaries	62	1,860	619
Net income (loss)	¥ 25,195	¥ (4,593)	$ 251,472

	Yen		U.S. dollars (Note 1)
Amounts per share (Note 17)**:**			
Net income (loss)	¥ 17.18	¥ (3.46)	$ 0.171
Cash dividends	4.00	4.00	0.040

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, 2008 and 2007
IHI Corporation and Consolidated Subsidiaries

	(Thousands)	(Millions of yen)									
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on other securities	Loss on deferred hedges	Revaluation reserve for land	Foreign exchange translation adjustments	Equity warrant	Minority interests in consolidated subsidiaries
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
Net income for the year	–	–	–	25,195	–	–	–	–	–	–	–
Reversal of revaluation reserve for land	–	–	–	125	–	–	–	–	–	–	–
Increase resulting from inclusion of subsidiaries in consolidation	–	–	–	743	–	–	–	–	–	–	–
Net increase in equity-method companies	–	–	–	951	–	–	–	–	–	–	–
Loss from incorporating nonconsolidated subsidiary	–	–	–	(260)	–	–	–	–	–	–	–
Cash dividends	–	–	–	(5,866)	–	–	–	–	–	–	–
Change for the year	–	–	–	–	–	(13,550)	2,001	(125)	(1,469)	114	(442)
Purchase of treasury stock	–	–	–	–	(66)	–	–	–	–	–	–
Sales of treasury stock	–	–	3	–	5	–	–	–	–	–	–
Balance at March 31, 2008	**1,467,058**	**¥95,762**	**¥43,037**	**¥56,012**	**¥(135)**	**¥22,104**	**¥1,518**	**¥3,787**	**¥(2,168)**	**¥114**	**¥14,375**

		(Thousands of U.S. dollars) (Note 1)									
Balance at March 31, 2007		$955,804	$429,524	$350,574	$(738)	$355,864	$(4,821)	$39,046	$(6,977)	$ –	$147,889
Net income for the year		–	–	251,472	–	–	–	–	–	–	–
Reversal of revaluation reserve for land		–	–	1,248	–	–	–	–	–	–	–
Increase resulting from inclusion of subsidiaries in consolidation		–	–	7,416	–	–	–	–	–	–	–
Net increase in equity-method companies		–	–	9,492	–	–	–	–	–	–	–
Loss from incorporating nonconsolidated subsidiary		–	–	(2,595)	–	–	–	–	–	–	–
Cash dividends		–	–	(58,549)	–	–	–	–	–	–	–
Change for the year		–	–	–	–	(135,243)	19,972	(1,248)	(14,662)	1,138	(4,412)
Purchase of treasury stock		–	–	–	(659)	–	–	–	–	–	–
Sales of treasury stock		–	30	–	50	–	–	–	–	–	–
Balance at March 31, 2008		**$955,804**	**$429,554**	**$559,058**	**$(1,347)**	**$220,621**	**$15,151**	**$37,798**	**$(21,639)**	**$1,138**	**$143,477**

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

Consolidated Statements of Cash Flows

Years ended March 31, 2008 and 2007
IHI Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Operating Activities:			
Income before income taxes and minority interests	¥ 46,794	¥ 15,059	$ 467,053
Depreciation and amortization	38,521	32,997	384,479
Amortization of long-term prepaid expenses	5,161	4,158	51,512
(Decrease) increase in allowance for doubtful receivables	(430)	59	(4,292)
Increase in allowance for employees' bonuses	822	1,541	8,204
Increase in reserve for guaranteed contracts	6,596	403	65,835
Increase in accrued losses on sales contracts	5,601	4,873	55,904
Decrease in accrued employees' retirement allowances	(3,879)	(6,102)	(38,716)
Interest and dividend income	(4,429)	(3,955)	(44,206)
Interest expense	5,927	5,724	59,158
Loss (gain) on foreign exchange	152	(10)	1,517
Gains on disposal of property, plant and equipment	(84,082)	(29,044)	(839,226)
Losses on impairment of fixed assets	378	3,128	3,773
Gains on sale of marketable and investment securities	(3,400)	(18,524)	(33,936)
Losses on valuation of marketable and investment securities and golf club memberships	711	1,572	7,097
Losses on valuation of assets related to aerospace development operations	6,304	14,286	62,920
Equity in gains of affiliates	(154)	(1,340)	(1,537)
Gain on sale of businesses	—	(140)	—
Changes in operating assets and liabilities:			
Notes and accounts receivable	(13,477)	(9,307)	(134,514)
Advances received	26,423	49,115	263,729
Inventories	(17,364)	(33,756)	(173,311)
Advance payments	(968)	(11,888)	(9,662)
Notes and accounts payable	(2,122)	27,641	(21,180)
Accrued expenses	7,980	9,746	79,649
Deposits from tenants	(5,592)	1,250	(55,814)
Other current assets	(1,060)	(3,978)	(10,580)
Other current liabilities	(1,039)	7,024	(10,370)
Accrued consumption taxes	3,818	(5,919)	38,108
Directors' and corporate auditors' bonuses	—	(193)	—
Others	1,648	—	16,449
Subtotal	18,840	54,420	188,043
Interest and dividends received	4,333	3,856	43,248
Interest paid	(6,041)	(5,649)	(60,296)
Income taxes paid	(13,793)	(16,541)	(137,668)
Net cash provided by operating activities	3,339	36,086	33,327
Investing Activities:			
Net Increase in time deposits due in more than three months	43	260	429
Purchases of marketable and investment securities	(1,463)	(27,402)	(14,602)
Proceeds from sale of marketable and investment securities	11,588	26,557	115,660
Repayment of money received for marketable and investment securities lent	—	(13,000)	—
Purchases of property, plant and equipment and intangible fixed assets	(46,143)	(68,174)	(460,555)
Proceeds from sale of property, plant and equipment	90,224	34,195	900,529
Payments for disposal of property, plant and equipment	(312)	(2,245)	(3,114)
Expenditure for acquisition of business	—	(700)	—
Increase in acquisition of business	—	100	—
Net increase in short-term loan receivables	167	10	1,667
Increase in long-term loan receivables	(747)	(270)	(7,456)
Decrease in long-term loan receivables	552	210	5,510
Increase in other non-current assets	(6,614)	(11,892)	(66,015)
(Decrease) increase in other fixed liabilities	(503)	4,977	(5,020)
Others	(3)	—	(30)
Net cash provided by (used in) investing activities	46,789	(57,374)	467,003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Financing Activities:			
Net increase (decrease) in short-term debt	¥ 10,231	¥ (24,058)	$ 102,116
Proceeds from issuance of long-term debt	32,684	29,679	326,220
Repayment of long-term debt	(95,195)	(28,682)	(950,145)
Proceeds from issuance of debentures	30,000	—	299,431
Expenditures for redemption of debentures	(20,000)	(20,000)	(199,621)
Increase in treasury stock	(58)	(26)	(579)
Proceeds from minority interest payments	—	714	—
Payments for acquisition of subsidiary stock from minority shareholders	—	(3,491)	—
Net proceeds from issuance of common stock	—	61,674	—
Gain on sale of parent company stock held by subsidiary	—	115	—
Cash dividends paid	(5,794)	(2,596)	(57,830)
Dividends paid to minority interests	(654)	(299)	(6,527)
Net cash (used in) provided by financing activities	(48,786)	13,030	(486,935)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1,488)	896	(14,852)
Net decrease in Cash and Cash Equivalents	(146)	(7,362)	(1,457)
Cash and Cash Equivalents, Beginning of Year	129,939	137,382	1,296,926
Increase in Cash and Cash Equivalents due to Newly Consolidated Subsidiaries	605	41	6,039
Increase in Cash and Cash Equivalents from Merger of Consolidated Subsidiary's Nonconsolidated Subsidiary	30	—	299
Decrease in Cash and Cash Equivalents due to Exclusion from the Scope of Consolidation	—	(122)	—
Cash and Cash Equivalents, End of Year	¥130,428	¥129,939	$1,301,807

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	
	2008	2007
Cash and Cash Equivalents, Beginning of Year		
Cash and time deposits	¥ 85,462	¥105,243
Time deposits due in more than three months	(593)	(853)
Convertible time deposits included in marketable securities	7,100	5,000
Commercial paper included in marketable securities	17,991	15,994
Investment trust included in other current assets	5,000	5,999
Investment trust included in marketable securities	3,000	—
Sales under agreement to repurchase included in other current assets (short-term loans)	11,979	5,999
Cash and Cash Equivalents	¥129,939	¥137,382

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash and Cash Equivalents, End of Year			
Cash and time deposits	¥ 72,080	¥ 85,462	$ 719,433
Time deposits due in more than three months	(500)	(593)	(4,990)
Collateral deposits	(120)	—	(1,198)
Negotiable deposits included in marketable securities	15,000	7,100	149,716
Commercial paper included in marketable securities	26,981	17,991	269,298
Investment trust included in other current assets	—	3,000	—
Investment trust included in marketable securities	—	5,000	—
Sales under agreement to repurchase included in other current assets (short-term loans)	16,987	11,979	169,548
Cash and Cash Equivalents	¥130,428	¥129,939	$1,301,807

1. Basis of financial statements

The accompanying consolidated financial statements of IHI Corporation (the "Company") and consolidated subsidiaries (together the "Companies") have been prepared from the financial statements filed with the Prime Minister as required by the Japanese Financial Instruments and Exchange Law in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. Certain reclassifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan.

The U.S. dollar amounts are included solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of U.S.$1=¥100.19, the rate of exchange prevailing on March 31, 2008. These translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate.

2. Significant accounting policies

(a) Scope of consolidation

The consolidated financial statements for the years ended March 31, 2008 and 2007 include the accounts of the Company and 88 and 84 subsidiaries, respectively.

For the years ended March 31, 2008 and 2007, 46 and 51 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, 2008 and 2007, included 15 and 25 affiliates, respectively, in the scope of the application of the equity method of accounting.

For the years ended March 31, 2008 and 2007, investments in 46 and 51 unconsolidated subsidiaries, respectively, and 28 and 31 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 5 subsidiaries, IHI Turbo America Co., IHI TURBO (THAILAND) Co., LTD., IHI Charging Systems International GmbH, IHI Charging Systems International S.p.A, ISHIKAWAJIMA EUROPE B.V., JURONG ENGINEERING LIMITED and its 17 subsidiaries, PT Cilegon Fabricators, ISM America, Inc., ISHI POWER SDN. BHD. 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 sales computed by the moving-average method. The difference between the acquisition cost and the carrying value of other securities, including unrealized gains and losses, is recognized as a component of the net assets under "Unrealized holding 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.

<Change in accounting method for depreciation of property, plant and equipment>

In line with the revision of Japanese Corporation Tax Law and its regulation, the Company and its domestic consolidated subsidiaries changed the depreciation method for the property, plant and equipment acquired on or after April 1, 2007. As a result of this change, the operating loss increased by ¥1,154 million and income before income taxes and minority interests decreased by ¥1,154 million.

<Additional information>

In line with the revision of Japanese Corporation Tax Law and its regulation, the Company and its domestic consolidated subsidiaries now depreciate property, plant and equipment acquired on or before March 31, 2007 by equal installments over five years commencing from the fiscal year following that in which depreciation to the maximum depreciable amount was completed. As a result of this change, the operating loss increased by ¥1,487 million and income before income taxes and minority interests decreased by ¥1,487 million.

(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.

(m) Reserve for directors' retirement allowance

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

(n) 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.

(o) Employees' retirement benefits

Allowance for employees' retirement benefits are provided for based on the projected retirement benefit obligation and the pension fund assets.

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

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

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) Amounts per share

Net income per share of common stock is computed by dividing net income (loss) 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.

3. Marketable securities and investment securities

A summary of other securities with stated market prices at March 31, 2008, is as follows:

	Millions of yen			Thousands of U.S. dollars		
	2008			2008		
	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	¥17,961	¥53,825	¥35,864	$179,269	$537,229	$357,960
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	¥17,961	¥53,825	¥35,864	$179,269	$537,229	$357,960
Other securities whose market prices do not exceed their acquisition cost recorded in the balance sheet:						
Equity securities	¥ 2,557	¥ 2,117	¥ (440)	$ 25,522	$ 21,130	$ (4,392)
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	¥ 2,557	¥ 2,117	¥ (440)	$ 25,522	$ 21,130	$ (4,392)
Total	¥20,518	¥55,942	¥35,424	$204,791	$558,359	$353,568

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

	Millions of yen		
	2007		
	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
Debt securities	—	—	—
Other	—	—	—
Subtotal	¥19,150	¥ 78,267	¥59,117
Other securities whose market prices do not exceed their acquisition cost recorded in the balance sheet:			
Equity securities	¥ 1,856	¥ 1,708	¥ (148)
Debt securities	—	—	—
Other	—	—	—
Subtotal	¥ 1,856	¥ 1,708	¥ (148)
Total	¥21,006	¥ 79,975	¥58,969

A summary of held-to-maturity securities which were sold in the years ended March 31, 2008 and 2007, is as follows:
Proceeds from the sale of held-to-maturity securities with available fair market values in the year ended March 31, 2008 amounted to ¥598 million ($5,969 thousand) of which the sales cost amounted to ¥597 million ($5,959 thousand) and the related gain amounted to ¥1 million ($10 thousand).

The consolidated subsidiaries sold held-to-maturity securities, based on the results of the reexamination of assets.

A summary of other securities which were sold in the years ended March 31, 2008 and 2007, is as follows:

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			2008		
	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	¥8,250	¥2,665	—	¥25,934	¥18,482	—	$82,344	$26,599	—

A summary of securities without stated market prices at March 31,2008 and 2007, is as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
	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	¥ 473	¥ —	$ 4,721
Commercial paper	14,987	17,991	149,586
Other securities:			
Negotiable certificates of deposit	15,000	7,100	149,716
Bond investment trusts	—	3,000	—
Commercial paper	11,994	—	119,712
Unlisted equity securities except for those traded on the over-the-counter market	31,210	34,655	311,508

The contractual maturities of held-to-maturity and other securities as of March 31, 2008 and 2007, are as follows:

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			2008		
	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	4,474	1,052	—	—	5,652	—	44,655	10,500	—
Corporate bonds	—	—	—	—	—	—	—	—	—
Commercial paper	14,987	—	—	17,991	—	—	149,586	—	—
Other	—	—	—	—	—	—	—	—	—
Other:	—	—	—	—	—	—	—	—	—
Negotiable certificates of deposit	15,000	—	—	7,100	—	—	149,716	—	—
Other	11,994	—	—	—	—	—	119,712	—	—
Debt securities:	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	—
Total	¥46,455	¥1,052	¥ —	¥25,091	¥5,652	¥ —	$463,669	$10,500	$ —

4. Inventories

Inventories at March 31, 2008 and 2007, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished goods	¥ 20,102	¥ 19,963	$ 200,639
Contracts in process	289,788	302,214	2,892,385
Work in process	43,799	35,789	437,159
Raw materials and supplies	102,196	79,898	1,020,022
Total	¥455,885	¥437,864	$4,550,205

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, 2008 are as follows.

Use	Location	Type of assets	Millions of yen	The method to calculate
Assets for business	Inashiki-city, Ibaraki and others	Land and building, etc	¥ 93	Net sales value
Assets for rent	Tsuchiura-city, Ibaraki and others	Land and building, etc	62	Net sales value
Idle assets	Matsumoto-city, Nagano and others	Land and building, etc	223	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, 2008 was ¥378 million ($3,772 thousand) and consisted of the following.

	Millions of yen	Thousands of U.S. dollars
	2008	2008
Land	¥ 39	$ 389
Buildings etc	339	3,384
Total	¥ 378	$ 3,773

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

The weighted average interest rates on short-term bank loans were 1.65 percent at March 31, 2008, and 1.44 percent at March 31, 2007.

Long-term loans and debentures at March 31, 2008 and 2007, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Banks and insurance companies, bearing interest rates from 0.8 percent to 5.8 percent	¥132,476	¥182,165	$1,322,248
Government-owned banks, bearing interest rates from 1.2 percent to 4.3 percent	17,967	20,068	179,329
National and local government agencies, bearing interest rates at 0.3 percent	243	297	2,425
Debentures, bearing interest rates from 0.5 percent to 2.2 percent	113,000	103,000	1,127,857
Others, bearing interest rates from 0.8 percent to 4.6 percent	—	10,246	—
Less current portion	(55,470)	(110,482)	(553,648)
Net long-term loans and debentures	¥208,216	¥205,294	$2,078,211

The aggregate annual maturities of long-term loans and debentures at March 31, 2008, are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2009	¥ 55,470	$ 553,648
2010	77,351	772,043
2011	58,631	585,198
2012	22,194	221,519
2013 and after	50,040	499,451
Total	¥263,686	$2,631,859

7. Assets pledged as collateral

The following assets were pledged as collateral at March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and time deposits	¥ 331	¥ 307	$ 3,304
Trade receivables	657	658	6,558
Inventories	4	5	40
Miscellaneous current assets	3,488	—	34,814
Buildings and structures	2,639	4,110	26,340
Machinery and equipment	406	3,275	4,052
Land	11,216	20,639	111,947
Investment securities	3,000	3,000	29,943
Total	¥21,741	¥31,994	$216,998
Property, plant and equipment pledged as industrial factory foundation included in the above assets:			
Buildings and structures	¥ 207	¥ 1,858	$ 2,066
Machinery and equipment	120	2,811	1,198
Land	2,639	9,270	26,340
Total	¥ 2,966	¥13,939	$ 29,604

The obligations collateralized by the above assets at March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Short-term loans	¥ 6,107	¥ 7,949	$ 60,954
Long-term loans	9,357	11,386	93,393
Other long-term liabilities	9,977	15,406	99,581
	¥25,441	¥34,741	$253,928

8. Deferred tax assets and liabilities

Significant components of the Companies' deferred tax assets and liabilities at March 31, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Allowances for employees' bonuses	¥ 8,310	¥ 7,930	$ 82,942
Reserve for losses on sales contracts	13,170	8,421	131,450
Reserve for guaranteed contracts	7,779	5,042	77,642
Allowances for employees' retirement benefits	56,721	58,072	566,134
Allowances for doubtful receivables	2,423	2,804	24,184
Losses on valuation of advance payments	5,924	3,359	59,128
Elimination of unrealized profits	3,559	3,814	35,523
Net loss carried forward	13,971	19,202	139,445
Losses on impairment of fixed assets	6,547	6,609	65,346
Losses on valuation of inventories	5,873	5,191	58,619
Other	15,204	16,954	151,752
Valuation allowance	(45,344)	(42,002)	(452,580)
	94,137	95,396	939,585
Deferred tax liabilities:			
Deferred gains on sales of property, plant and equipment	8,990	9,428	89,730
Unrealized holding gain on other securities	14,276	23,647	142,489
Other	3,625	2,810	36,181
	26,891	35,885	268,400
Net deferred tax assets	¥ 67,246	¥ 59,511	$ 671,185

9. Research and development expenses

Research and development expenses, included in product cost, and selling, general and administrative expenses, were ¥24,120 million ($240,743 thousand) and ¥23,426 million for the years ended March 31, 2008 and 2007, respectively.

10. Contingent liabilities

Contingent liabilities for trade notes receivable discounted and endorsed in the ordinary course of business amounted to ¥6,910 million ($68,969 thousand) and ¥6,576 million at March 31, 2008 and 2007, respectively.

Contingent liabilities for guarantees of debts of unconsolidated subsidiaries and others amounted to ¥5,643 million ($56,323 thousand) and ¥6,841 million at March 31, 2008 and 2007, respectively.

Contingent liabilities arising from similar guarantees of debts amounted to ¥18,873 million ($188,372 thousand) and ¥20,702 million at March 31, 2008 and 2007, of which ¥17,181 million ($171,484 thousand) and ¥18,204 million at March 31, 2008 and 2007, respectively, were for employee housing loans which were secured by life insurance and loan insurance, and therefore, the Companies were at low risk.

11. Other income (expense)—other, net

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Gains on sales of securities	¥ 3,400	¥ 18,524	$ 33,936
Gain on foreign exchange	(6,515)	—	(65,026)
Idle-assets administrative expenses	(1,002)	(1,168)	(10,001)
Losses on disposal of property, plant and equipment	(3,292)	(2,197)	(32,858)
Equity in gains of unconsolidated subsidiaries and affiliates	154	1,340	1,537
Losses on impairment of fixed assets	(378)	(3,128)	(3,773)
Losses on valuation of stock of affiliated company	(592)	(1,268)	(5,909)
Losses on valuation of assets related to aerospace development operations	(6,304)	(14,286)	(62,920)
Gains on sale of property, plant, land and equipment	87,374	31,241	872,083
Settlement payment	—	(3,470)	—
Losses relating to violation of antitrust laws	(414)	(1,625)	(4,132)
Cost of environment conservation measures	(1,234)	—	(12,317)
Retirement benefits for directors in past fiscal years	(954)	—	(9,522)
Other, net	(5,144)	(1,509)	(51,343)
Total	¥ 65,099	¥ 22,454	$ 649,755

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 ¥4,185 million ($41,771 thousand) and ¥3,863 million at March 31,2008 and 2007, respectively.

13. Leases

(a) Finance leases (Lessee)

The following proforma amounts represent the acquisition costs, accumulated depreciation, accumulated impairment loss and net book value of the leased property as of March 31, 2008 and 2007, which would have been reflected in the balance sheets 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
	2008	2007	2008
Acquisition costs:			
Buildings and structures	¥ 2,213	¥ 2,112	$ 22,088
Machinery and equipment	24,254	25,360	242,080
Software	338	784	3,374
Total	¥26,805	¥28,256	$267,542
Accumulated depreciation:			
Buildings and structures	¥ 330	¥ 213	$ 3,294
Machinery and equipment	14,144	15,730	141,172
Software	205	541	2,046
Total	¥14,679	¥16,484	$146,512
Accumulated impairment loss:			
Buildings and structures	¥ —	¥ —	$ —
Machinery and equipment	15	17	150
Software	6	6	60
Total	¥ 21	¥ 23	$ 210
Net book value:			
Buildings and structures	¥ 1,883	¥ 1,899	$ 18,794
Machinery and equipment	10,095	9,613	100,758
Software	127	237	1,268
Total	¥12,105	¥11,749	$120,820

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, 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Lease payments	¥4,747	¥4,552	$47,380
Reversal of allowance for impairment losses on leased property	7	6	70
Estimated depreciation cost	3,635	3,475	36,281
Estimated interest expense	784	584	7,825
Losses on impairment of leased property	—	23	—

Future minimum lease payments subsequent to March 31, 2008 and 2007, for finance leases accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Within one year	¥ 3,430	¥ 3,784	$ 34,235
Thereafter	11,683	11,292	116,608
Total	¥15,113	¥15,076	$150,843
Lease assets of impairment losses outstandings	¥ 11	¥ 19	$ 110
Total	¥ 11	¥ 19	$ 110

(b) Operating leases (Lessee)

Future minimum lease payments subsequent to March 31, 2008 and 2007, for non-cancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Within one year	¥ 3,814	¥ 3,498	$ 38,068
Thereafter	31,000	31,554	309,412
Total	¥34,814	¥35,052	$347,480

(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, 2008 and 2007, to which the Companies have adopted the operating lease accounting method:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Acquisition costs:			
Buildings and structures	¥ 2,065	¥ 2,041	$ 20,611
Machinery and equipment	10,794	11,155	107,735
Software	3	115	30
Total	¥12,862	¥13,311	$128,376
Accumulated depreciation:			
Buildings and structures	¥ 592	¥ 507	$ 5,909
Machinery and equipment	6,863	6,467	68,500
Software	1	22	10
Total	¥ 7,456	¥ 6,996	$ 74,419
Net book value:			
Buildings and structures	¥ 1,473	¥ 1,534	$ 14,702
Machinery and equipment	3,931	4,688	39,235
Software	2	93	20
Total	¥ 5,406	¥ 6,315	$ 53,957

Concerning the above finance leases, the lease payments, depreciation cost and estimated interest income for the years ended March 31, 2008 and 2007, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Recorded lease payments	¥2,422	¥2,119	$24,174
Recorded depreciation cost	1,937	1,704	19,333
Estimated interest income, assuming that the finance lease accounting had been adopted	494	542	4,931

Future minimum lease payments subsequent to March 31, 2008 and 2007, for finance lease transactions accounted for by the operating lease accounting method are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Within one year	¥1,525	¥1,606	$15,221
Thereafter	5,007	5,552	49,975
Total	¥6,532	¥7,158	$65,196

(d) Operating leases (Lessor)

Future minimum lease payments subsequent to March 31, 2008 and 2007, for non-cancelable operating leases were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Within one year	¥ 547	¥ 564	$ 5,459
Thereafter	6,292	7,004	62,801
Total	¥6,839	¥7,568	$68,260

14. Derivatives

In the normal course of business, the Company and consolidated subsidiaries employ derivative financial instruments, including foreign exchange forward contracts, foreign currency options, interest rate swaps and commodity swaps, to manage their exposures to fluctuations in foreign currency exchange rates and interest rates and to hedge against purchase price of materials. The Company and consolidated subsidiaries do not use derivatives for speculative or trading purposes.

The fair value information of derivative financial instruments as of March 31, 2008 and 2007 was as follows:

(a) Foreign currency

	Millions of yen			Thousands of U.S.dollars		
	2008			2008		
	Notional amount	Market prices	Valuation gain (loss)	Notional amount	Market prices	Valuation gain (loss)
Forward foreign exchange contracts						
Sell:						
U.S. dollar	¥3,860	¥3,656	¥204	$38,526	$36,491	$2,035
Euro	192	119	73	1,917	1,188	729
Buy:						
U.S. dollar	1,613	1,532	(81)	16,099	15,291	(808)
Euro	1,714	1,715	1	17,107	17,117	10
Foreign currency options						
Sell:						
Put U.S. dollar	189	13	—	1,886	130	—
	*6	—	(6)	*60	—	(60)
Buy:						
Call U.S. dollar	95	—	—	948	—	—
	*5	1	(5)	*50	10	(50)
Total	—	—	¥186	—	—	$1,856

Notes: i Method of calculating market value
(1) The market value of exchange contracts is calculated using the forward exchange rate.
(2) The market value of options is calculated based on the prices provided by client financial institutions.
ii Derivative transactions which were accounted for by the hedge accounting were excluded.
iii The option premium is stated for the amounts marked with "*," but the currency option is a so-called zero-cost option and no premium is received or paid.

(b) Interest rate

	Millions of yen				Thousands of U.S.dollars			
	Notional amount	Over one year	Market prices	Valuation gain (loss)	Notional amount	Over one year	Market prices	Valuation gain (loss)
Interest-rate swaps								
Receipts floating payments fixed	¥18,898	¥18,898	¥ 86	¥ 86	$188,621	$188,621	$ 858	$858
Payments floating receipts fixed	18,898	18,898	(233)	(233)	188,622	188,622	(2,325)	(2,325)
Total	¥37,796	¥37,796	¥(147)	¥(147)	$377,243	$377,243	$(1,467)	$(1,467)

Notes: i The market value of derivative transactions is calculated using the forward exchange rate.
ii Derivative transactions which were accounted for by the hedge accounting were excluded.

(c) Commodity

	Millions of yen			Thousands of U.S.dollars		
	Notional amount	Market prices	Valuation gain (loss)	Notional amount	Market prices	Valuation gain (loss)
Commodity swaps						
Receipts floating payments fixed	¥571	¥(135)	¥(135)	$5,699	$(1,347)	$(1,347)
Total	¥571	¥(135)	¥(135)	$5,699	$(1,347)	$(1,347)

Notes: i The market value of derivative transactions is calculated using the forward exchange rate.
ii Derivative transactions which were accounted for by the hedge accounting were excluded.

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	2008	2007	2008
Projected benefit obligation	¥(165,435)	¥(171,376)	$(1,651,213)
Fair value of plan assets	2,822	3,408	28,167
Funded status	(162,613)	(167,968)	(1,623,046)
Unrecognized actuarial losses	19,700	21,725	196,626
Unrecognized past service costs	2,504	2,009	24,993
Obligation recognized in the consolidated balance sheet	¥(140,409)	¥(144,234)	$(1,401,427)
Allowance for employees' retirement benefits	¥(140,409)	¥(144,234)	$(1,401,427)

Components of net periodic pension cost:

	Millions of yen		Thousands of U.S. dollars
Year ended March 31	2008	2007	2008
Service cost benefits earned during the year	¥ 8,202	¥ 8,607	$ 81,864
Interest cost on projected benefit obligation	3,254	3,434	32,478
Expected return on assets	(30)	(31)	(299)
Amortization of actuarial losses	2,988	2,811	29,823
Amortization of past service costs	214	237	2,136
Additional payments	237	598	2,366
Net periodic pension cost	¥14,865	¥15,656	$148,368

	2008	2007
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, 2008 and 2007, is shown below:

	Millions of yen									
Year ended or as of March 31, 2008	(1)	(2)	(3)	(4)	(5)	(6)	(7)	Total	Eliminations and Corporate	Consolidated
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	¥ —	¥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)	1,350,567
Operating expenses	186,286	177,735	469,728	289,744	158,418	28,432	161,822	1,472,165	(104,791)	1,367,374
Operating income (loss)	¥ (1,980)	¥ 15,655	¥ (74,079)	¥ 23,662	¥ 2,411	¥ 12,321	¥ 5,182	¥ (16,828)	¥ 21	¥ (16,807)
Assets, depreciation expense and capital expenditures:										
Assets	¥166,385	¥160,370	¥340,619	¥359,939	¥160,954	¥ 71,303	¥186,479	¥1,446,049	¥ 96,246	¥1,542,295
Depreciation expense	3,195	5,484	3,825	15,984	3,179	824	5,605	38,096	425	38,521
Capital expenditures	3,396	9,041	4,553	16,839	2,680	158	6,316	42,983	1,962	44,945

	Millions of yen									
Year ended or as of March 31, 2007	(1)	(2)	(3)	(4)	(5)	(6)	(7)	Total	Eliminations and Corporate	Consolidated
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	¥ —	¥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)	1,221,016
Operating expenses	189,564	164,418	389,903	281,599	131,079	4,199	153,128	1,313,890	(87,248)	1,226,642
Operating income (loss)	¥ (6,296)	¥ 11,491	¥ (33,032)	¥ 16,337	¥ 1,590	¥ 1,311	¥ 3,006	¥ (5,593)	¥ (33)	¥ (5,626)
Assets, depreciation expense and capital expenditures:										
Assets	¥178,509	¥150,814	¥325,921	¥371,954	¥157,464	¥ 57,077	¥164,496	¥1,406,235	¥ 129,843	¥1,536,078
Depreciation expense	2,270	3,684	3,227	13,878	2,820	870	4,626	31,375	1,622	32,997
Capital expenditures	2,374	6,153	3,781	23,703	4,464	24,042	5,043	69,560	2,462	72,022

	Thousands of U.S. dollars									
Year ended or as of March 31, 2008	(1)	(2)	(3)	(4)	(5)	(6)	(7)	Total	Eliminations and Corporate	Consolidated
Sales and operating income:										
Sales to outside customers	$1,696,137	$1,733,037	$3,708,125	$3,076,425	$1,592,664	$ 403,663	$1,270,007	$13,480,058	$ —	$13,480,058
Intersegment sales and transfers	143,428	197,195	240,862	51,692	12,576	3,094	396,866	1,045,713	(1,045,713)	—
Total	1,839,565	1,930,232	3,948,987	3,128,117	1,605,240	406,757	1,666,873	14,525,771	(1,045,713)	13,480,058
Operating expenses	1,859,327	1,773,979	4,688,372	2,891,946	1,581,176	283,781	1,615,151	14,693,732	(1,045,923)	13,647,809
Operating income (loss)	$ (19,762)	$ 156,253	$ (739,385)	$ 236,171	$ 24,064	$ 122,976	$ 51,722	$ (167,961)	$ 210	$ (167,751)

Assets, depreciation expense and capital expenditures:										
Assets	$ 1,660,695	$ 1,600,659	$ 3,399,731	$ 3,592,563	$ 1,606,488	$ 711,678	$ 1,861,253	$14,433,067	$ 960,635	$15,393,702
Depreciation expense	31,889	54,736	38,177	159,538	31,730	8,224	55,944	380,238	4,241	384,479
Capital expenditures	33,896	90,239	45,444	168,070	26,749	1,577	63,040	429,015	19,583	448,598

Notes: i The Companies operate in seven 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) Real Estate Operations
Real estate sales and rental
(7) 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 ¥308,644 million ($3,080,586 thousand) and ¥23,799 million as of March 31, 2008 and 2007, 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.
v Effective April 1, 2007, the Companies have changed the categorization of industry segments due to the importance of the influence on the operating profit of the real estate business increased. The previous six segments of Logistics Systems and Structures Operations; Industrial Machinery Operations; Energy and Plant Operations; Aero-Engine and Space Operations; Shipbuilding and Offshore Operations; and Other Operations have been changed into the seven segments of Logistics Systems and Structures Operations; Industrial Machinery Operations; Energy and Plant Operations; Aero-Engine and Space Operations; Shipbuilding and Offshore Operations; Real Estate Operations; and Other Operations.
This change was made to reflect more adequately the actual business of the Companies. The information by industry segments for the year ended March 31, 2007, has been restated by the same categories as those presented for the year ended March 31, 2008.

(b) Overseas sales

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

	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%

	Thousands of U.S. dollars					
Year ended March 31, 2008	Europe	Asia	North America	Central and South Americas	Others	Total
Overseas sales	$782,823	$1,467,182	$1,728,167	$738,397	$1,046,741	$5,763,310

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 or as of March 31	2008	2007	2008
Net income (loss)	¥ 17.18	¥ (3.46)	$ 0.171
Cash dividends	4.00	4.00	0.040
Shareholders' equity	149.96	144.70	1.50

18. Subsequent event

On June 19, 2008, the Securities and Exchange Surveillance Commission recommended the Prime Minister and the Secretary of the Financial Services Agency to impose an administrative fine on the Company for false reporting in its financial statements reports, etc.

The administrative fine in this recommendation was ¥1,594,579,999.

ERNST & YOUNG SHINNIHON

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Report of Independent Auditors

The Board of Directors
IHI Corporation

We have audited the accompanying consolidated balance sheets of IHI Corporation and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, 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, 2008 and 2007, 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 18 to the consolidated financial statements, the Securities and Exchange Surveillance Commission recommended to impose an administrative fine on the Company.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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

June 27, 2008

Corporate Data

(As of March 31, 2008)

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

Founded
1853

Incorporated
1889

Number of Employees
7,171 (consolidated: 23,722)

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

Consolidated Subsidiaries
88

Non-Consolidated Subsidiaries
46

Affiliates
43 (Includes 15 affiliates applying the equity method of accounting)

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

Shares Outstanding
1,467,058,482

Number of Shareholders
120,280

Independent Auditors
Ernst & Young ShinNihon

Major Shareholders

UBS AG London A/C IPB Segregated Client Account	4.74%
Japan Trustee Services Bank, Ltd. (Standing Proxy: Toshiba Corporation)*[1]	3.77%
The Daiichi Mutual Life Insurance Company	3.68%
Morgan Stanley & Co. Inc	3.37%
Mizuho Trust & Banking, Limited (Standing Proxy: Mizuho Bank, Ltd.)*[2]	2.97%
Goldman Sacks International	2.95%
Nippon Life Insurance Company	2.32%
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	1.91%
Japan Trustee Services Bank, Ltd. (Holder in Trust)	1.82%
Mitsui Sumitomo Insurance Co., Ltd	1.51%

*[1] The shares of IHI Corporation stock held by Toshiba Corporation are part of that company's retirement benefit trust and are deposited as trust assets at Chuo 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 IHI Corporation 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
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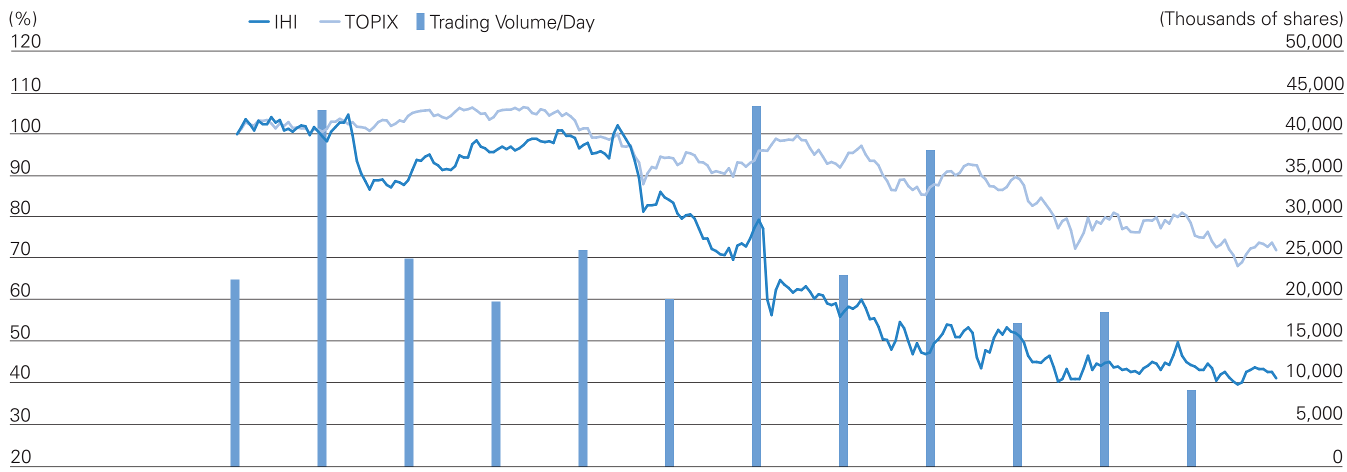
IHI Stock Performance and Average Trading Volume Per Day



	'07/4	5	6	7	8	9	10	11	12	'08/1	2	3
Opening Price	490	473	418	451	455	378	281	275	260	217	210	205
High	492	500	465	475	482	382	312	283	261	231	240	210
Low	465	398	416	443	366	324	252	206	194	181	197	182
Closing Price	470	415	450	457	376	361	274	253	233	210	208	193
Trading Volume/Day (Thousands of shares)	22,501	42,883	25,076	19,887	26,087	20,185	43,421	23,092	38,097	17,282	18,632	9,246

Share price on the first trading day of April 2007 (April 2, 2007): ¥467 = 100%

I H I Corporation

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