

CONSOLIDATED FINANCIAL REPORT FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2009

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

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Submission of Quarterly Securities Report: November 12, 2009 (planned)

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

1. PERFORMANCE

(1) Business Results

(Millions of yen, except per share figures; percentages show the rate of increase or decrease from the previous corresponding period)

	Net Sales	Percentage Change	Operating Income	Percentage Change	Ordinary Income	Percentage Change
Six months ended September 30, 2009	546,344	(10.5)%	16,313	56.8%	7,665	4.4%
Six months ended September 30, 2008	610,494	– %	10,401	– %	7,344	– %

	Net Income	Percentage Change	Net Income per Share (Yen)	Diluted Net Income per Share (Yen)
Six months ended September 30, 2009	4,007	(0.4)%	2.73	–
Six months ended September 30, 2008	4,022	– %	2.74	–

(2) Financial Position

(Millions of yen, except per share figures)

	Total Assets	Net Assets	Shareholders' Equity to Total Assets	Net Assets per Share of Common Stock (Yen)
September 30, 2009	1,474,855	208,629	13.2%	132.92
March 31, 2009	1,489,342	205,950	12.9%	130.96

Note: Shareholders' equity at:

September 30, 2009:	¥194,911 million
March 31, 2009:	¥192,043 million

2. DIVIDENDS

(Yen)					
(Record Date)	Dividends per Share				
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	Year-end	Annual
Fiscal year ended March 31, 2009	—	0.00	—	0.00	0.00
Fiscal year ending March 31, 2010	—	0.00	—	—	—
Fiscal year ending March 31, 2010 (Forecast)	—	—	—	—	—

3. CONSOLIDATED RESULTS FORECAST FOR THE YEAR ENDING MARCH 31, 2010

(Millions of yen, except per share figures; percentages show the rate of increase or decrease from the previous year)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (Yen)
Full Fiscal Year	1,290,000 (7.1)%	29,000 12.9%	13,000 (3.9)%	7,000 –	4.77

4. OTHER IMPORTANT INFORMATION

(1) **Changes in significant subsidiaries during the period (Changes in specified subsidiaries resulting in the change in scope of consolidation):** None

(2) **Application of simplified accounting and special accounting for preparing quarterly consolidated financial statements:** Yes

For more details see “Notes to the Consolidated Financial Report” under Qualitative Information and Notes, on page 3.

(3) **Changes in accounting policies, procedures, and methods of presentation for preparing quarterly consolidated financial statements:**

(i) Changes due to revisions to accounting standards: Yes

(ii) Changes due to other reasons: None

For more details see “Notes to the Consolidated Financial Report” under Qualitative Information and Notes, on page 3.

(4) **Number of shares issued (common stock):**

(i) Number of shares issued at end of period (including treasury stock)

As of September 30, 2009: 1,467,058,482 shares

As of March 31, 2009: 1,467,058,482 shares

(ii) Number of shares of treasury stock owned at end of period

As of September 30, 2009: 683,528 shares

As of March 31, 2009: 677,385 shares

(iii) Average number of shares outstanding during period (cumulative consolidated quarterly period)

Six months ended September 30, 2009: 1,466,369,946 shares

Six months ended September 30, 2008: 1,466,465,248 shares

1. Qualitative Information Regarding Consolidated Business Results

In the six months under review in Japan, in addition to a trend towards stabilization in the financial environment, there were signs that the economy was beginning to come out of its downward slide and move towards recovery. There was an increase in public investment as a result of government economic measures and signs of a recovery in personal consumption. Additionally, exports and production continued to increase on the back of inventory adjustment progress in Japan and overseas, and recoveries in overseas economies especially in the emerging countries in Asia. On the other hand, because production activity remained at an extremely low level, capital investment continued to decline overall and the employment condition deteriorated to a higher level of severity.

Looking forward, although the severe circumstances are expected to remain in the immediate term while the current perception of redundancy in facilities and human resources continues, looking further ahead, Japan's economic recovery is expected to hinge on improvements in the external economic environment such as the recovery of the emerging countries. However, there is still uncertainty regarding the strength of any sustained recovery of final demand in the private sector and the strength of such demand after the effect of the respective economic measures in the various countries end; moreover, concerns about the final aftermath of the global financial crisis and fears of a weaker economy than anticipated in the US and Europe are examples of ongoing risks that could dampen the economy.

In response to these harsh conditions, the IHI Group proceeded to subject businesses to concentration and selection. At the same time, it made group-wide efforts to boost earnings such as by cutting costs and expenses, accepting maintenance, repair and short deadline projects, strengthening foreign exchange risk management, using strong yen effects in the procurement of equipment and materials, and fortifying pre-order acceptance screening and post-order acceptance management.

As a result of the above, orders received during the six months under review fell 30.6% from the same period of the previous fiscal year to ¥419.5 billion due to the economic recession and other factors. Net sales were down 10.5% from the same period of the previous fiscal year to ¥546.3 billion due to lower sales in Industrial Machinery Operations, Energy and Plants Operations and other segments despite a strong performance in Logistics Systems and Structures Operations and Shipbuilding and Offshore Operations. In terms of profit, Logistics Systems and Structures Operations and Energy and Plants Operations improved resulting in ¥16.3 billion in operating income, ¥7.6 billion in ordinary income and ¥4.0 billion in net income.

2. Notes to the Consolidated Financial Report

- (1) Changes in significant subsidiaries during the period (Changes in specified subsidiaries resulting in the change in scope of consolidation)

None

- (2) Application of simplified accounting procedures and special accounting procedures for preparing quarterly consolidated financial statements

- (i) Simplified accounting procedures

Calculation method for depreciation and amortization of fixed assets

With regard to the fixed assets to which the Company and its consolidated subsidiaries apply the declining balance method, annual depreciation and amortization are prorated into the periods, while some consolidated subsidiaries use an annual forecast based on a fixed asset budget for annual depreciation and amortization to be prorated.

Method for calculating deferred tax assets and deferred tax liabilities

In determining the recoverability of deferred tax assets, operating performance forecasts and tax planning used for the previous fiscal year were applied to the period under review along with significant changes in the operating environment, temporary differences or other conditions recognized in the period.

- (ii) Special accounting procedures for preparing quarterly consolidated financial statements

Tax expense calculation

Tax expenses on income before income taxes for the period under review are calculated by multiplying income before income taxes for the period under review by the estimated effective tax rate for the current fiscal year applying tax effect accounting. Should the estimated effective tax rate be unavailable, however, tax expenses are calculated using the statutory tax rate for income before income taxes for the period under review.

The deferred income tax amount is shown inclusive of income taxes.

(3) Changes in accounting policies, procedures, and methods of presentation for preparing the quarterly consolidated financial statements

(i) Change in accounting policies

(Changes in accounting policies for recording construction revenue and cost of construction)

Previously, revenue from construction contracts was recognized on the percentage-of-completion basis for long-term, large-scale projects (lasting two years or more and revenue of ¥3.0 billion or more). Other projects were treated on the completed contract basis. Beginning from the first quarter of the current fiscal year, the “Accounting Standard for Construction Contracts” (ASBJ Statement No. 15, December 27, 2007) and the “Guidance on Accounting Standard for Construction Contracts” (ASBJ Guidance No. 18, December 27, 2007), are adopted, therefore construction contracts which started during the first six months of the current fiscal year and the outcome of which deemed certain are recorded on the percentage-of-completion basis (rate of progress estimated by the cost-ratio method), while all other projects on the completed construction basis.

As a result of the above, net sales increased ¥9,886 million, while operating income, ordinary income and income before income taxes and minority interests for the period under review increased ¥394 million, respectively. The impact on each segment is described in the section of “Segment Information.”

(ii) Change in method of presentation

(Consolidated balance sheets)

Effective from the first quarter of the current fiscal year, due to standardization of account classification, the amount of “Work in process” includes the amount of “Partly-finished goods” that was presented as a separate item until the previous fiscal year.

CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	September 30, 2009	March 31, 2009 (Summary)
Assets		
Current assets		
Cash and deposits	58,882	87,547
Notes and accounts receivable-trade	251,812	352,840
Short-term investment securities	63,694	13,650
Finished goods	21,662	22,937
Work in process	387,293	336,455
Raw materials and supplies	110,812	111,772
Other	128,836	118,104
Allowance for doubtful accounts	(6,105)	(6,877)
Total current assets	1,016,886	1,036,428
Noncurrent assets		
Property, plant and equipment	273,666	273,964
Intangible assets		
Goodwill	5,201	5,451
Other	17,743	18,890
Total intangible assets	22,944	24,341
Investments and other assets		
Other	183,588	176,714
Allowance for doubtful accounts	(22,229)	(22,105)
Total investments and other assets	161,359	154,609
Total noncurrent assets	457,969	452,914
Total assets	1,474,855	1,489,342
Liabilities		
Current liabilities		
Notes and accounts payable-trade	231,454	294,871
Short-term loans payable	225,415	199,084
Current portion of bonds payable	10,000	25,000
Commercial papers	3,000	5,000
Income taxes payable	7,594	10,130
Advances received	232,274	212,362
Provision for bonuses	19,897	20,520
Provision for loss on construction contracts	23,743	29,891
Provision for construction warranties	20,928	20,020
Other provision	186	252
Other	75,666	81,051
Total current liabilities	850,157	898,181
Noncurrent liabilities		
Bonds payable	60,000	60,000
Long-term loans payable	162,849	128,626
Provision for retirement benefits	135,811	137,796
Other provision	1,671	1,915
Other	55,738	56,874
Total noncurrent liabilities	416,069	385,211
Total liabilities	1,266,226	1,283,392

CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	September, 2009	March 31, 2009 (Summary)
Net assets		
Shareholders' equity		
Capital stock	95,762	95,762
Capital surplus	43,031	43,032
Retained earnings	52,430	48,423
Treasury stock	(156)	(155)
Total shareholders' equity	191,067	187,062
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	4,833	4,679
Deferred gains or losses on hedges	60	908
Revaluation reserve for land	3,785	3,785
Foreign currency translation adjustment	(4,834)	(4,391)
Total valuation and translation adjustments	3,844	4,981
Subscription rights to shares	313	206
Minority interests	13,405	13,701
Total net assets	208,629	205,950
Total liabilities and net assets	1,474,855	1,489,342

CONSOLIDATED STATEMENTS OF INCOME (Cumulative)

(Millions of yen)

	Apr. 1, 2009 to Sep. 30, 2009	Apr. 1, 2008 to Sep. 30, 2008
Net sales	546,344	610,494
Cost of sales	465,427	534,021
Gross profit	80,917	76,473
Selling, general and administrative expenses	64,604	66,072
Operating income	16,313	10,401
Non-operating income		
Interest income	236	884
Dividends income	1,204	1,196
Equity in earnings of affiliates	590	757
Gain on valuation of derivatives	1,865	-
Foreign exchange gains	-	1,833
Other	2,272	2,190
Total non-operating income	6,167	6,860
Non-operating expenses		
Interest expenses	3,222	2,929
Other	11,593	6,988
Total non-operating expenses	14,815	9,917
Ordinary income	7,665	7,344
Extraordinary income		
Gain on sales of noncurrent assets	-	3,732
Gain on transfer of business	-	281
Gain on liquidation of subsidiaries and affiliates	-	148
Total extraordinary income	-	4,161
Extraordinary loss		
Charges under Financial Securities and Exchange Law	-	1,594
Restructuring loss	-	710
Loss on valuation of investment securities	-	247
Impairment loss	-	58
Other	-	84
Total extraordinary losses	-	2,693
Income before income taxes and minority interests	7,665	8,812
Income taxes	4,053	5,019
Minority interests	(395)	(229)
Net income	4,007	4,022

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	Apr. 1, 2009 to Sep. 30, 2009	Apr. 1, 2008 to Sep. 30, 2008
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	7,665	8,812
Depreciation and amortization	21,119	21,003
Depreciation and amortization on other	3,090	2,615
Impairment loss	-	58
Increase (decrease) in allowance for doubtful accounts	(685)	263
Increase (decrease) in provision for bonuses	(642)	(22)
Increase (decrease) in provision for construction warranties	888	2,100
Increase (decrease) in provision for loss on construction contracts	(6,190)	(928)
Increase (decrease) in provision for retirement benefits	(2,013)	(975)
Interest and dividends income	(1,440)	(2,080)
Interest expenses	3,222	2,929
Foreign exchange losses (gains)	5	(81)
Loss (gain) on sales of short-term and long term investment securities	(9)	(5)
Loss (gain) on valuation of short-term and long term investment securities	122	142
Equity in (earnings) losses of affiliates	(590)	(757)
Loss (gain) on sales and retirement of noncurrent assets	1,067	(2,193)
Gain on transfer of business	-	(281)
Decrease (increase) in notes and accounts receivable-trade	102,713	62,755
Increase (decrease) in advances received	18,058	43,411
Decrease (increase) in advance payments	4,516	1,288
Decrease (increase) in inventories	(48,617)	(87,711)
Increase (decrease) in notes and accounts payable-trade	(61,562)	(16,253)
Increase (decrease) in accrued expenses	(2,971)	(17,546)
Increase (decrease) in lease and guarantee deposits received	(8)	50
Other, net	8,633	(13,338)
Subtotal	46,371	3,256
Interest and dividends income received	1,499	2,169
Interest expenses paid	(3,150)	(2,879)
Income taxes paid	(6,875)	(14,508)
Net cash provided by (used in) operating activities	37,845	(11,962)
Net cash provided by (used in) investing activities		
Decrease (increase) in time deposits	135	(307)
Purchase of short-term and long term investment securities	(8,691)	(6,997)
Proceeds from sales and redemption of short-term and long term investment securities	2,016	3,584
Purchase of property, plant and equipment and intangible assets	(19,980)	(17,246)
Proceeds from sales of property, plant and equipment	770	4,347
Payments for retirement of property, plant and equipment	(231)	(668)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	(5,772)
Decrease (increase) in short-term loans receivable	(3,330)	184
Payments of long-term loans receivable	(34)	(546)
Collection of long-term loans receivable	217	73
Proceeds from termination of long-term investment	-	10,161
Other, net	(9,050)	(5,529)
Net cash provided by (used in) investing activities	(38,178)	(18,716)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	Apr. 1, 2009 to Sep. 30, 2009	Apr. 1, 2008 to Sep. 30, 2008
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	17,272	16,923
Net increase (decrease) in commercial papers	(2,000)	-
Proceeds from long-term loans payable	55,500	28,690
Repayment of long-term loans payable	(12,716)	(9,903)
Redemption of bonds	(15,000)	(15,000)
Repayments of lease obligations	(2,074)	-
Decrease (increase) in treasury stock	(1)	(20)
Cash dividends paid	(8)	(5,806)
Proceeds from stock issuance to minority shareholders	-	824
Cash dividends paid to minority shareholders	(400)	(359)
Other, net	(142)	(123)
Net cash provided by (used in) financing activities	40,431	15,226
Effect of exchange rate change on cash and cash equivalents	1,296	(1,209)
Net increase (decrease) in cash and cash equivalents	41,394	(16,661)
Cash and cash equivalents at beginning of period	107,720	130,428
Increase in cash and cash equivalents from newly consolidated subsidiary	266	-
Increase in cash and cash equivalents from merger of non-consolidated subsidiary	11	-
Cash and cash equivalents at end of period	149,391	113,767

SEGMENT INFORMATION

a. Performance by business segment

(Millions of yen)

Six months ended September 30, 2009	Logistics Systems and Structures Operations	Industrial Machinery Operations	Energy and Plants Operations	Aero-Engine and Space Operations	Shipbuilding and Offshore Operations	Real Estate Operations	Other Operations	Total
Sales and operating income:								
Sales to outside customers	71,707	70,602	158,936	128,998	74,490	3,909	37,702	546,344
Intersegment sales and transfers	8,611	8,486	12,709	2,018	1,071	210	17,750	50,855
Total	80,318	79,088	171,645	131,016	75,561	4,119	55,452	597,199
Operating expenses	81,283	77,348	161,336	126,470	77,165	2,502	54,379	580,483
Operating income (loss)	(965)	1,740	10,309	4,546	(1,604)	1,617	1,073	16,716

	Eliminations and Corporate	Consolidated
Sales and operating income:		
Sales to outside customers	-	546,344
Intersegment sales and transfers	(50,855)	-
Total	(50,855)	546,344
Operating expenses	(50,452)	530,031
Operating income (loss)	(403)	16,313

(Millions of yen)

Six months ended September 30, 2008	Logistics Systems and Structures Operations	Industrial Machinery Operations	Energy and Plants Operations	Aero-Engine and Space Operations	Shipbuilding and Offshore Operations	Real Estate Operations	Other Operations	Total
Sales and operating income:								
Sales to outside customers	66,425	97,139	178,359	131,037	69,003	10,311	58,220	610,494
Intersegment sales and transfers	4,267	5,919	11,076	4,006	1,494	28	18,124	44,914
Total	70,692	103,058	189,435	135,043	70,497	10,339	76,344	655,408
Operating expenses	74,957	96,373	195,001	129,291	67,015	7,228	74,665	644,530
Operating income (loss)	(4,265)	6,685	(5,566)	5,752	3,482	3,111	1,679	10,878

	Eliminations and Corporate	Consolidated
Sales and operating income:		
Sales to outside customers	-	610,494
Intersegment sales and transfers	(44,914)	-
Total	(44,914)	610,494
Operating expenses	(44,437)	600,093
Operating income (loss)	(477)	10,401

Notes:

1. Business segments are based on current classifications.
2. Main products and machinery included in each segment:
 - (1) Logistics Systems and Structures Operations
Material handling systems, logistics and factory automation systems, parking systems, bridges and construction material products
 - (2) Industrial Machinery Operations
Iron and steel manufacturing equipment, vehicular turbochargers, mass-produced machinery and others
 - (3) Energy and Plants 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 service industry and others
3. Operating expenses are entirely allocated to each business segment.
4. Changes in accounting procedures
(Changes in accounting policies for recording construction revenue and cost of construction)
As mentioned under 2. (3) (i) of Qualitative Information and Notes, the “Accounting Standard for Construction Contracts” (ASBJ Statement No. 15, December 27, 2007) and the “Guidance on Accounting Standard for Construction Contracts” (ASBJ Guidance No. 18, December 27, 2007) are adopted beginning from the first quarter of the current fiscal year.
As a result of this change, net sales increased ¥1,124 million in Logistics Systems and Structures Operations, ¥135 million in Industrial Machinery Operations, ¥146 million in Energy and Plants Operations and ¥8,481 million in Shipbuilding and Offshore Operations. Operating income increased ¥5 million and ¥3 million in Industrial Machinery Operations and Energy and Plants Operations, respectively, and operating losses decreased ¥59 million and ¥327 million in Logistics Systems and Structures Operations, and Shipbuilding and Offshore Operations, respectively.
Please note that these amounts of increase or decrease by segment as the impact of changes in accounting procedures do not include intersegment transactions because the impact is immaterial.

b. Segment information by geographic area

Six months ended September 30, 2009 and six months ended September 30, 2008

Japan accounted for more than 90% of the total net sales of all segments. Consequently, disclosure of segment information by geographic area has been omitted.

c. Overseas sales

(Millions of yen)

Six months ended September 30, 2009	Asia	North America	Central and South America	Europe	Others	Total
Overseas sales	53,110	69,104	42,481	34,856	47,472	247,023
Consolidated net sales						546,344
Overseas sales as a percentage of consolidated net sales	9.7%	12.6%	7.8%	6.4%	8.7%	45.2%

(Millions of yen)

Six months ended September 30, 2008	Asia	North America	Central and South America	Europe	Others	Total
Overseas sales	66,056	84,426	25,996	43,991	61,946	282,415
Consolidated net sales						610,494
Overseas sales as a percentage of consolidated net sales	10.8%	13.8%	4.3%	7.2%	10.2%	46.3%

Notes:

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