

CONSOLIDATED FINANCIAL REPORT
FOR THE THREE MONTHS ENDED JUNE 30, 2010
<Japanese GAAP>

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

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Submission of Quarterly Securities Report: August 12, 2010 (planned)
 Preparing supplementary material on quarterly financial results: Yes
 Holding quarterly financial results presentation meeting (for institutional investors and analysts): No

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
Three months ended June 30, 2010	268,647	9.9%	14,932	65.0%	12,603	64.4%
Three months ended June 30, 2009	244,536	(14.8)%	9,047	175.6%	7,668	48.6%

	Net Income	Percentage Change	Net Income per Share (Yen)	Diluted Net Income per Share (Yen)
Three months ended June 30, 2010	7,861	122.9%	5.36	–
Three months ended June 30, 2009	3,527	4.7%	2.41	–

(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)
June 30, 2010	1,335,583	230,283	16.1%	146.91
March 31, 2010	1,412,421	227,065	15.0%	144.66

(Reference) Shareholders' equity at the end of the period (consolidated)

June 30, 2010:	¥215,448 million
March 31, 2010:	¥212,160 million

2. DIVIDENDS

(Record Date)	Dividends per Share					(Yen)
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	Year-end	Annual	
Fiscal year ended March 31, 2010	—	0.00	—	2.00	2.00	
Fiscal year ending March 31, 2011	—	—	—	—	—	
Fiscal year ending March 31, 2011 (Forecast)	—	—	—	—	—	

(Note) Revisions to the dividend forecasts in the current quarter: None
At present, the dividend forecasts are undecided.

3. FORECAST OF RESULTS FOR THE YEAR ENDING MARCH 31, 2011

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

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share (Yen)
First Half of the Fiscal Year	570,000	4.3%	17,000	4.2%	12,000	56.6%	8,000	99.7 %	5.45
Full-Year	1,180,000	(5.0)%	35,000	(25.8)%	24,000	(27.3)%	15,000	(13.7)%	10.23

(Note) Revisions to the forecast of results in the current quarter: Yes

4. OTHERS

(1) Changes in significant subsidiaries during the current quarter (Changes in specified subsidiaries accompanying change in scope of consolidation) : None

(Note) For details, please refer to "1.Summary of changes in significant subsidiaries" of "NOTES TO THE CONSOLIDATED FINANCIAL REPORT" on pages 4-5.

(2) Application of simplified accounting and special accounting: Yes

(Note) For details, please refer to "2.Summary of simplified accounting and special accounting" of "NOTES TO THE CONSOLIDATED FINANCIAL REPORT" on pages 4-5.

(3) Changes in accounting policies and procedures, and methods of presentation: Yes

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

(ii) Changes due to other reasons: Yes

(Note) For details, please refer to "3.Summary of changes in accounting policies and procedures, and methods of presentation" of "NOTES TO THE CONSOLIDATED FINANCIAL REPORT" on pages 4-5.

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

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

As of June 30, 2010

1,467,058,482 shares

As of March 31, 2010

1,467,058,482 shares

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

As of June 30, 2010

485,295 shares

As of March 31, 2010

479,306 shares

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

Three months ended June 30, 2010

1,466,576,136 shares

Three months ended June 30, 2009

1,466,372,260 shares

* Indication regarding execution of quarterly review procedures

This quarterly financial report is not subject to the quarterly review procedures in accordance with the Financial Instruments and Exchange Act. At the time of disclosure of this quarterly financial report, the quarterly review procedures in accordance with the Financial Instruments and Exchange Act are in progress.

* Proper use of forecast of results, and other special matters

1. Earnings estimates made in this report and other statements that are not historical facts are forward-looking statements about the future performance of IHI. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore readers should not place undue reliance on them. IHI cautions that a number of important factors such as political and general economic conditions and currency

exchange rates could cause actual results to differ materially from those discussed in the forward-looking statements, etc.

2. No dividend forecast for the year ending March 31, 2011 is provided because of uncertainties concerning the future trends in the economic environment such as those related to the economy, exchange rates and raw and other material prices. After considering the operational trends from this point forward, the Company will act swiftly to disclose the dividend forecast amount as soon as it is possible to do so.

QUALITATIVE INFORMATION REGARDING CONSOLIDATED RESULTS

In the three months under review in Japan, the economy maintained a gradual trend of recovery that is being driven by improvement in overseas economies. Exports and production are continuing on a line of growth and there are signs that private-sector capital investment is picking up against a backdrop of recovering corporate earnings and improving business sentiment. Although the employment and income environment remains in a difficult situation, this situation is somewhat improving and personal consumption is beginning to pick up, particularly in the area of consumer durables. Looking at the overseas economies, although recovery in the economies of developed countries has been restrained to a gradual pace, the economies of the emerging countries and the resource-rich countries continue to grow strongly. In these circumstances, rising tension in the financial and capital markets is also being observed as a result of concerns for the financial position and financial system of certain European countries, particularly Greece.

The IHI Group believes the Japanese economy is basically heading on a track of recovery. We expect exports and production will continue to grow on the back of continuing improvement in overseas economies. Moreover, we believe domestic private-sector demand will continue to lift. However, we are wary about the overseas economies, particularly with respect to the European and North American countries, whose high unemployment levels and restrictive credit availability pose the downside risk to the economy.

In response to these conditions, the IHI Group is conducting business activities according to the Group Management Policies 2010 that was announced in November last year. Group Management Policies 2010 is a three-year mid-term management plan that commenced in the current fiscal year. The plan marks a paradigm shift in the business structure “from a focus on equipment sales to being geared to lifecycles,” “from a domestic focus to global development,” and “from a focus on technological seeds to being geared to market needs.” The concrete management benchmarks of the plan include consolidated net sales of ¥1,400 billion and consolidated ordinary income of ¥60 billion.

Orders received during the three months under review rose 25.3% from the same period of the previous fiscal year to ¥185.8 billion. Net sales were up 9.9% from the same period of the previous fiscal year to ¥268.6 billion due to considerable growth in sales from Ships & Offshore Facilities Operations, despite lower sales from Aero Engine & Space Operations, and Energy & Resources Operations. In terms of profit, the improved profits from Ships & Offshore Facilities Operations contributed to lifting operating income, ordinary income and net income to ¥14.9 billion, ¥12.6 billion and ¥7.8 billion, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL REPORT

1. Summary of changes in significant subsidiaries

None

2. Summary of simplified accounting and special accounting

(1) Simplified accounting method

Calculation method for depreciation and amortization of noncurrent assets

With regard to the noncurrent 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 estimated an annual depreciation and amortization based on a noncurrent asset budget and prorate them into the periods.

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 are applied to the period under review along with any significant changes in the operating environment, temporary differences or other conditions recognized in the period.

(2) Special accounting for preparing quarterly consolidated financial statements

Tax expense calculation

Tax expenses on income before income taxes for the three months under review are calculated by multiplying income before income taxes and minority interests for the three months under review by the reasonably estimated effective tax rate for the fiscal year after 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 and minority interests for the three months under review.

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

3. Summary of changes in accounting policies and procedures, and methods of presentation

Change in accounting standards

Adoption of the “Accounting Standard for Equity Method of Accounting for Investments” and the “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method”

Effective from the first quarter under review, the “Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, March 10, 2008) and the “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (ASBJ PITF No. 24, March 10, 2008) are adopted.

As a result of this change, there is minor impact on ordinary income and income before income taxes and minority interests.

Adoption of the “Accounting Standard for Asset Retirement Obligations”

Effective from the first quarter under review, the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008) are adopted.

As a result of this change, income before income taxes and minority interests decreased by ¥303 million. The change in asset retirement obligations due to the adoption of this accounting standard and guidance amounted to ¥380 million.

There is minor impact on operating income and ordinary income.

Change in translation method of income and expenses of foreign subsidiaries into Japanese yen

Previously, income and expenses of foreign subsidiaries were translated into Japanese yen at the spot rate prevailing as of the balance sheet date. However, to reflect the performance of foreign subsidiaries more accurately, the Company has changed into the new method where they are translated at the average rate during the period effective from the first quarter under review.

As a result of this change, there is minor impact on the quarterly consolidated financial statements.

QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

1. CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	June 30, 2010	March 31, 2010 (Summary)
Assets		
Current assets		
Cash and deposits	84,009	76,641
Notes and accounts receivable-trade	271,755	320,227
Short-term investment securities	29,794	30,894
Finished goods	21,011	20,823
Work in process	270,062	277,797
Raw materials and supplies	107,919	105,835
Other	94,155	118,070
Allowance for doubtful accounts	(7,826)	(8,545)
Total current assets	870,879	941,742
Noncurrent assets		
Property, plant and equipment	287,667	290,909
Intangible assets		
Goodwill	4,536	4,741
Other	17,703	18,375
Total intangible assets	22,239	23,116
Investments and other assets		
Other	179,289	181,253
Allowance for doubtful accounts	(24,491)	(24,599)
Total investments and other assets	154,798	156,654
Total noncurrent assets	464,704	470,679
Total assets	1,335,583	1,412,421

1. CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	June 30, 2010	March 31, 2010 (Summary)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	212,017	241,185
Short-term loans payable	144,749	173,527
Current portion of bonds payable	20,500	20,500
Income taxes payable	7,803	11,250
Advances received	174,000	171,071
Provision for bonuses	12,627	22,640
Provision for construction warranties	18,156	18,703
Provision for loss on construction contracts	16,531	17,074
Other provision	108	228
Other	73,504	81,986
Total current liabilities	679,995	758,164
Noncurrent liabilities		
Bonds payable	40,000	40,000
Long-term loans payable	184,431	184,190
Provision for retirement benefits	134,038	135,217
Other provision	1,448	1,831
Other	65,388	65,954
Total noncurrent liabilities	425,305	427,192
Total liabilities	1,105,300	1,185,356
Net assets		
Shareholders' equity		
Capital stock	95,762	95,762
Capital surplus	43,028	43,028
Retained earnings	73,926	65,933
Treasury stock	(106)	(105)
Total shareholders' equity	212,610	204,618
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	4,089	9,462
Deferred gains or losses on hedges	321	38
Revaluation reserve for land	3,844	3,844
Foreign currency translation adjustment	(5,416)	(5,802)
Total valuation and translation adjustments	2,838	7,542
Subscription rights to shares	302	302
Minority interests	14,533	14,603
Total net assets	230,283	227,065
Total liabilities and net assets	1,335,583	1,412,421

2. CONSOLIDATED STATEMENTS OF INCOME (Cumulative)

(Millions of yen)

	Apr. 1, 2010 to June 30, 2010	Apr. 1, 2009 to June 30, 2009
Net sales	268,647	244,536
Cost of sales	219,133	203,426
Gross profit	49,514	41,110
Selling, general and administrative expenses	34,582	32,063
Operating income	14,932	9,047
Non-operating income		
Interest income	155	130
Dividends income	1,242	1,004
Equity in earnings of affiliates	30	261
Gain on valuation of derivatives	–	1,717
Other	3,165	958
Total non-operating income	4,592	4,070
Non-operating expenses		
Interest expenses	1,556	1,594
Foreign exchange losses	4,105	–
Other	1,260	3,855
Total non-operating expenses	6,921	5,449
Ordinary income	12,603	7,668
Extraordinary loss		
Impairment loss	953	–
Loss on adjustment for changes of accounting standard for asset retirement obligations	295	–
Total extraordinary losses	1,248	–
Income before income taxes and minority interests	11,355	7,668
Income taxes	3,507	4,228
Income before minority interests	7,848	–
Minority interests	(13)	(87)
Net income	7,861	3,527

3. CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	Apr. 1, 2010 to June 30, 2010	Apr. 1, 2009 to June 30, 2009
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	11,355	7,668
Depreciation and amortization	10,701	10,000
Depreciation and amortization on other	1,436	1,443
Impairment loss	953	–
Loss on adjustment for changes of accounting standard for asset retirement obligations	295	–
Increase (decrease) in allowance for doubtful accounts	(823)	183
Increase (decrease) in provision for bonuses	(10,047)	(8,878)
Increase (decrease) in provision for construction warranties	(532)	(617)
Increase (decrease) in provision for loss on construction contracts	(559)	(5,919)
Increase (decrease) in provision for retirement benefits	(1,192)	(801)
Interest and dividends income	(1,397)	(1,134)
Interest expenses	1,556	1,594
Foreign exchange losses (gains)	33	(102)
Loss (gain) on sales of short-term and long term investment securities	(38)	7
Loss (gain) on valuation of short-term and long term investment securities	25	19
Equity in (earnings) losses of affiliates	(30)	(261)
Loss (gain) on sales and retirement of noncurrent assets	123	354
Decrease (increase) in notes and accounts receivable-trade	48,639	68,096
Increase (decrease) in advances received	2,603	13,937
Decrease (increase) in advance payments	2,799	3,420
Decrease (increase) in inventories	5,579	(46,671)
Increase (decrease) in notes and accounts payable-trade	(29,310)	(42,064)
Increase (decrease) in accrued expenses	(2,400)	(1,602)
Increase (decrease) in lease and guarantee deposits received	–	(55)
Other, net	1,004	13,486
Subtotal	40,773	12,103
Interest and dividends income received	1,419	1,212
Interest expenses paid	(1,542)	(1,611)
Income taxes paid	(7,860)	(8,895)
Net cash provided by (used in) operating activities	32,790	2,809
Net cash provided by (used in) investing activities		
Decrease (increase) in time deposits	23	125
Purchase of short-term and long term investment securities	(2,217)	(5,353)
Proceeds from sales and redemption of short-term and long term investment securities	3,027	2,003
Purchase of property, plant and equipment and intangible assets	(9,261)	(12,446)
Proceeds from sales of property, plant and equipment	252	546
Payments for retirement of property, plant and equipment	(38)	(211)
Decrease (increase) in short-term loans receivable	(101)	(2,917)
Payments of long-term loans receivable	(40)	(19)
Collection of long-term loans receivable	41	50
Other, net	(3,827)	(4,191)
Net cash provided by (used in) investing activities	(12,141)	(22,413)

3. CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	Apr. 1, 2010 to June 30, 2010	Apr. 1, 2009 to June 30, 2009
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(22,915)	6,491
Net increase (decrease) in commercial papers	–	2,000
Proceeds from long-term loans payable	6,500	35,100
Repayment of long-term loans payable	(11,915)	(6,099)
Redemption of bonds	–	(15,000)
Repayments of lease obligations	(1,068)	(684)
Decrease (increase) in treasury stock	(1)	(3)
Cash dividends paid	(2,746)	(5)
Cash dividends paid to minority shareholders	(458)	(400)
Net cash provided by (used in) financing activities	(32,603)	21,400
Effect of exchange rate change on cash and cash equivalents	415	1,088
Net increase (decrease) in cash and cash equivalents	(11,539)	2,884
Cash and cash equivalents at beginning of period	124,870	107,720
Increase in cash and cash equivalents from newly consolidated subsidiary	129	266
Increase in cash and cash equivalents from merger of non-consolidated subsidiary	116	11
Cash and cash equivalents at end of period	113,576	110,881

SEGMENT INFORMATION

(1) Overview of reportable segments

The reportable segments are constituent units of the IHI Group for which separate financial information is available. The Board of Directors periodically examines these segments for the purpose of deciding the allocation of management resources and evaluating operating performance.

The Company deploys business activities formulating strategies that comprehensively include both domestic and overseas operations for each product and service category.

The IHI Group therefore categorizes segments of products and services. The six reportable segments are as follows: Energy & Resources, Ship & Offshore Facilities, Physical Distribution Systems & Social Infrastructure, Rotating & Industrial Machinery, Aero Engine & Space, and Others.

Main products and services belonging to each segment

(i) Energy & Resources

Boilers, gas turbines, components for nuclear power plants, storage facilities, process plants and power systems

(ii) Ships & Offshore Facilities

Shipbuilding, ship repairs and offshore structures

(iii) Physical Distribution Systems & Social Infrastructure

Material handling systems, physical distribution and factory automation systems, parking systems, bridges, construction materials, traffic systems and real estate sales and rental

(iv) Rotating & Industrial Machinery

Steel manufacturing equipment, paper production machines, compressors, vehicular turbochargers and environmental control systems

(v) Aero Engine & Space

Jet engines, space-related equipment and defense machinery

(vi) Others

Diesel engines, agricultural machinery, construction machinery and financing and services

(2) Information about sales and profit or loss by reportable segments

Three months ended June 30, 2010

(Millions of yen)

	Reportable Segment						Total	Adjustment (Note)	Consolidated
	Energy & Resources	Ships & Offshore Facilities	Physical Distribution Systems & Social Infrastructure	Rotating & Industrial Machinery	Aero Engine & Space	Others			
Sales:									
Sales to outside customers	63,978	55,903	36,782	35,048	59,362	17,574	268,647	–	268,647
Intersegment sales and transfers	7,168	267	2,650	3,120	875	9,767	23,847	(23,847)	–
Total	71,146	56,170	39,432	38,168	60,237	27,341	292,494	(23,847)	268,647
Segment profit (Operating income)	8,199	4,027	607	1,078	2,188	508	16,607	(1,675)	14,932

Note: Adjustment of segment profit represents intersegment transactions of ¥166 million and unallocated corporate expenses of negative ¥1,841 million.

Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.

(3) Information about impairment loss of noncurrent assets, goodwill and negative goodwill by reportable segment

Material impairment loss of noncurrent assets

In the segment of “Physical Distribution Systems & Social Infrastructure,” impairment losses of idle land were recognized in the amount of ¥953 million for the three months under review.

Material change in goodwill amount

None

Material negative goodwill arisen

None

Additional information

Effective from the first quarter under review, the “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Statement No. 17, March 27, 2009) and the “Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20, March 21, 2008) are adopted.

Reference information

Three months ended June 30, 2009

Under the new segmentation, the reclassified segment information for the three months ended June 30, 2009 is shown below.

(Millions of yen)

	Reportable Segment						Total	Adjustment (Note)	Consolidated
	Energy & Resources	Ships & Offshore Facilities	Physical Distribution Systems & Social Infrastructure	Rotating & Industrial Machinery	Aero Engine & Space	Others			
Sales:									
Sales to outside customers	69,016	24,026	33,870	29,470	68,499	19,655	244,536	–	244,536
Intersegment sales and transfers	8,270	492	2,996	4,733	1,790	8,001	26,282	(26,282)	–
Total	77,286	24,518	36,866	34,203	70,289	27,656	270,818	(26,282)	244,536
Segment profit or loss									
(Operating income or loss)	6,361	(1,854)	713	(480)	4,866	1,072	10,678	(1,631)	9,047

Note: Adjustment of segment profit represents intersegment transactions of negative ¥304 million and unallocated corporate expenses of negative ¥1,327 million.

Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.