IHI

IHI Corporation

Toyosu IHI Bldg.
1-1, Toyosu 3-chome, Koto-ku
Tokyo 135-8710, Japan

February 4, 2011

CONSOLIDATED FINANCIAL REPORT FOR THE NINE MONTHS ENDED DECEMBER 31, 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.

Representative: President and Chief Executive Officer, Kazuaki Kama
For further information contact: Board Director and Executive Officer, Ichiro Terai,
Finance & Accounting Division
Tel: +81-3-6204-7065
URL: http://www.ihi.co.jp

Submission of Quarterly Securities Report: February 14, 2011 (planned)
Preparing supplementary material on quarterly financial results: Yes
Holding quarterly financial results presentation meeting: None

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
Nine months ended December 31, 2010	**837,919**	**1.0%**	**44,355**	**95.3%**	**38,014**	**155.1%**
Nine months ended December 31, 2009	829,365	(11.1)%	22,714	–	14,902	–

	Net Income	Percentage Change	Net Income per Share (Yen)	Diluted Net Income per Share (Yen)
Nine months ended December 31, 2010	**18,978**	–	**12.94**	**12.94**
Nine months ended December 31, 2009	52	–	0.04	0.04

(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)
December 31, 2010	**1,328,816**	**243,271**	**17.1%**	**155.38**
March 31, 2010	1,412,421	227,065	15.0%	144.66

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

December 31, 2010: ¥227,890 million

March 31, 2010: ¥212,160 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, 2010	—	0.00	—	2.00	2.00
Fiscal year ending March 31, 2011	—	0.00	—	――	――
Fiscal year ending March 31, 2011 (Forecast)	――	――	――	—	—

(Notes) 1. Revisions to the dividend forecasts in the current quarter: None
2. 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)
Full-Year	1,200,000	(3.4)	50,000	6.1	40,000	21.1	20,000	15.1	13.64

(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 page 4.

(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 page 4.

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

(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 page 4.

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

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

As of December 31, 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 the end of the period

As of December 31, 2010	402,508 shares
As of March 31, 2010	479,306 shares

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

Nine months ended December 31, 2010	1,466,629,171 shares
Nine months ended December 31, 2009	1,466,370,056 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 fiscal 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 Japan during the nine months under review, economic recovery had clearly stalled on account of factors such as exports, which weakened against a backdrop of inventory adjustment of IT related assets and a slowdown in the overseas economy, a correction in relation to the end of the effect from economic stimulus measures for consumer durables, and the continuation of the strengthening of the yen. Concerning domestic private-sector demand, ignoring the variation from the correction following the effect from the aforementioned measures, there was no progress regarding any real recovery in personal consumption because the employment and income environment is being slow to improve. Although private capital investment began to recover amid improvements in corporate earnings and business sentiment of companies, there remains a sense that facilities are in oversupply, which is keeping recovery at a gentle pace. Overseas, however, there was the continuation of two distinctly different trends: the emerging countries continue to experience relatively high growth while the developed countries remain in a gradual recovery. With respect to this, the easing of financial measures in the developed countries not only provided a stimulus effect on the emerging economies through the transfer of capital, it also applied upward pressure on asset prices and resource and energy prices.

The IHI Group believes that although the Japanese economy will continue in this current state of stagnation for a while, it will then begin to recover gradually. Specifically, due to the likelihood that the overseas economy, propelled by the emerging countries, will continue to improve, the pace of demand from overseas will continue to increase, albeit mildly. Domestic private-sector demand is expected to also pick up gradually as the financial environment eases. However, there are many risk factors to remain cautious of: the continuation of the strengthening yen, swings in the economy from the effect and correction of economic stimulus measures, concerns of economic downturn in Europe and North America from continued high unemployment rates and the continuation of the credit crunch, concerns toward the possibility of continuation of the financial situation and the re-ignition of financial system jitters, and the rise of resource and energy prices.

In response to these conditions, the IHI Group is making steady progress in the business activities being conducted according to the Group Management Policies 2010. Group Management Polices 2010 is a three-year mid-term management plan that commenced in the current fiscal year. The plan sets forth three paradigm shifts 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. Although the two business challenges that the IHI Group immediately faces are the securing of orders and a response to the strong yen’s impact on foreign exchange transactions, both these challenges are expected to be overcome by quickly pursuing the above paradigm shifts.

Orders received during the nine months under review improved in all business segments, rising 23.4% from the same period of the previous fiscal year to ¥730.1 billion. Overall net sales were up 1.0% from the same period of the previous fiscal year to ¥837.9 billion due to considerable growth in sales from Rotating & Industrial Machinery Operations, despite lower sales from Energy & Resources Operations and Aero Engine & Space Operations. In terms of profit, the IHI Group achieved considerable increases in all three income items. The return to the black by Ships & Offshore Facilities Operations and the considerable improvement by Rotating & Industrial Machinery Operations lifted operating income to ¥44.3 billion and ordinary income to ¥38.0 billion, and, although ¥9.2 billion in loss on project taken over from the consortium partner in liquidation was recognized as extraordinary loss, net income was ¥18.9 billion.
The aforementioned extraordinary loss was related to boiler construction for electric power generation that was to be constructed in Germany. During the third quarter under review, the consortium partner in charge of site procurement and construction work suffered business collapse and that company’s obligations to fulfill construction was transferred to the Company based on customer contracts. After a detailed audit of the assets and liabilities, and contracts that were inherited, the possibility of incurring loss of ¥9.2 billion was recognized.

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 nine months under review are calculated by multiplying income before income taxes and minority interests for the nine 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 nine 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, 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, 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, in the nine months under review, operating income and ordinary income decreased by ¥108 million, while income before income taxes and minority interests decreased by ¥403 million. The change in asset retirement obligations due to the adoption of this accounting standard and guidance amounted to ¥380 million.

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.
As a result of this change, in the nine months under review, net sales and operating income increased by ¥1,809 million and ¥23 million respectively, while ordinary income and income before income taxes and minority interests increased by ¥100 million.

QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

1. CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	December 31, 2010	March 31, 2010 (Summary)
Assets		
Current assets		
Cash and deposits	75,025	76,641
Notes and accounts receivable-trade	294,995	320,227
Short-term investment securities	10,479	30,894
Finished goods	21,748	20,823
Work in process	264,870	277,797
Raw materials and supplies	115,172	105,835
Other	93,419	118,070
Allowance for doubtful accounts	(8,403)	(8,545)
Total current assets	867,305	941,742
Noncurrent assets		
Property, plant and equipment	287,077	290,909
Intangible assets		
Goodwill	4,110	4,741
Other	16,450	18,375
Total intangible assets	20,560	23,116
Investments and other assets		
Other	164,232	181,253
Allowance for doubtful accounts	(10,358)	(24,599)
Total investments and other assets	153,874	156,654
Total noncurrent assets	461,511	470,679
Total assets	1,328,816	1,412,421

1. CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	December 31, 2010	March 31, 2010 (Summary)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	257,389	241,185
Short-term loans payable	159,346	173,527
Current portion of bonds payable	500	20,500
Income taxes payable	7,372	11,250
Advances received	143,639	171,071
Provision for bonuses	12,941	22,640
Provision for loss on construction contracts	28,484	17,074
Provision for construction warranties	17,481	18,703
Other provision	173	228
Other	64,842	81,986
Total current liabilities	692,167	758,164
Noncurrent liabilities		
Bonds payable	40,000	40,000
Long-term loans payable	154,640	184,190
Provision for retirement benefits	133,699	135,217
Other provision	1,605	1,831
Other	63,434	65,954
Total noncurrent liabilities	393,378	427,192
Total liabilities	1,085,545	1,185,356
Net assets		
Shareholders' equity		
Capital stock	95,762	95,762
Capital surplus	43,037	43,028
Retained earnings	85,184	65,933
Treasury stock	(87)	(105)
Total shareholders' equity	223,896	204,618
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	6,990	9,462
Deferred gains or losses on hedges	(173)	38
Revaluation reserve for land	3,875	3,844
Foreign currency translation adjustment	(6,698)	(5,802)
Total valuation and translation adjustments	3,994	7,542
Subscription rights to shares	388	302
Minority interests	14,993	14,603
Total net assets	243,271	227,065
Total liabilities and net assets	1,328,816	1,412,421

2. CONSOLIDATED STATEMENTS OF INCOME (Cumulative)

(Millions of yen)

	Apr. 1, 2010 to Dec. 31, 2010	Apr. 1, 2009 to Dec. 31, 2009
Net sales	837,919	829,365
Cost of sales	685,149	703,050
Gross profit	152,770	126,315
Selling, general and administrative expenses	108,415	103,601
Operating income	44,355	22,714
Non-operating income		
Interest income	438	332
Dividends income	2,029	1,926
Equity in earnings of affiliates	312	851
Amortization of negative goodwill	–	2,797
Other	6,041	4,072
Total non-operating income	8,820	9,978
Non-operating expenses		
Interest expenses	4,525	4,896
Foreign exchange losses	6,128	–
Expenses for delayed delivery	–	4,010
Other	4,508	8,884
Total non-operating expenses	15,161	17,790
Ordinary income	38,014	14,902
Extraordinary income		
Gain on sale of subsidiary stock	898	–
Total extraordinary income	898	–
Extraordinary loss		
Loss on project taken over from the consortium partner in liquidation	9,270	–
Loss on valuation of investment securities	1,388	1,661
Impairment loss	953	–
Loss on adjustment for changes of accounting standard for asset retirement obligations	295	–
Loss on discontinuation of GX project	–	11,300
Total extraordinary losses	11,906	12,961
Income before income taxes and minority interests	27,006	1,941
Income taxes	7,351	2,084
Income before minority interests	19,655	–
Minority interests	677	(195)
Net income	18,978	52

3. CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	Apr. 1, 2010 to Dec. 31, 2010	Apr. 1, 2009 to Dec. 31, 2009
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	27,006	1,941
Depreciation and amortization	32,833	29,708
Depreciation and amortization on other	4,333	4,632
Impairment loss	953	5
Loss on discontinuation of GX project	–	11,300
Loss on adjustment for changes of accounting standard for asset retirement obligations	295	–
Loss on project taken over from the consortium partner in liquidation	9,270	–
Increase (decrease) in allowance for doubtful accounts	(522)	2,183
Increase (decrease) in provision for bonuses	(9,680)	(8,562)
Increase (decrease) in provision for construction warranties	(1,178)	(1,208)
Increase (decrease) in provision for loss on construction contracts	2,219	(12,632)
Increase (decrease) in provision for retirement benefits	(1,493)	(2,567)
Interest and dividends income	(2,467)	(2,258)
Interest expenses	4,525	4,896
Foreign exchange losses (gains)	620	2
Loss (gain) on sales of short-term and long term investment securities	(1,002)	(16)
Loss (gain) on valuation of short-term and long term investment securities	1,483	1,638
Equity in (earnings) losses of affiliates	(312)	(851)
Loss (gain) on sales and retirement of noncurrent assets	728	1,247
Decrease (increase) in notes and accounts receivable-trade	23,541	74,827
Increase (decrease) in advances received	(24,924)	12,774
Decrease (increase) in advance payments	3	4,582
Decrease (increase) in inventories	5,139	(48,529)
Increase (decrease) in notes and accounts payable-trade	(16,909)	(64,551)
Increase (decrease) in accrued expenses	(5,734)	472
Increase (decrease) in lease and guarantee deposits received	1,191	–
Other, net	(8,700)	2,248
Subtotal	41,218	11,281
Interest and dividends income received	3,350	2,351
Interest expenses paid	(4,410)	(4,598)
Income taxes paid	(9,606)	(7,874)
Net cash provided by (used in) operating activities	30,552	1,160

3. CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	Apr. 1, 2010 to Dec. 31, 2010	Apr. 1, 2009 to Dec. 31, 2009
Net cash provided by (used in) investing activities		
Decrease (increase) in time deposits	14	126
Purchase of short-term and long term investment securities	(2,929)	(2,555)
Proceeds from sales and redemption of short-term and long-term investment securities	3,698	2,063
Purchase of property, plant and equipment and intangible assets	(37,569)	(36,371)
Proceeds from sales of property, plant and equipment	1,250	1,645
Payments for retirement of property, plant and equipment	(330)	(206)
Purchase of newly consolidated subsidiaries	–	(6,812)
Sale of consolidated subsidiary	1,544	–
Decrease (increase) in short-term loans receivable	(533)	(3,415)
Payments of long-term loans receivable	(99)	(33)
Collection of long-term loans receivable	147	247
Other, net	(3,613)	(6,129)
Net cash provided by (used in) investing activities	(38,420)	(51,440)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(1,251)	8,588
Net increase (decrease) in commercial papers	–	(2,500)
Proceeds from long-term loans payable	21,730	79,998
Repayment of long-term loans payable	(26,697)	(24,981)
Redemption of bonds	(20,000)	(15,000)
Repayments of lease obligations	(2,069)	(1,885)
Decrease (increase) in treasury stock	27	(13)
Cash dividends paid	(2,906)	(10)
Proceeds from stock issuance to minority shareholders	–	24
Cash dividends paid to minority shareholders	(420)	(494)
Other, net	–	(142)
Net cash provided by (used in) financing activities	(31,586)	43,585
Effect of exchange rate change on cash and cash equivalents	(1,842)	(89)
Net increase (decrease) in cash and cash equivalents	(41,296)	(6,784)
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	191	11
Cash and cash equivalents at end of period	83,894	101,213

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 organizes operation divisions by products and services and the operation divisions deploy business activities formulating both domestic and overseas strategies for each product and service comprehensively.
The IHI Group therefore categorizes segments based on the grouping together of operation divisions classified by markets and other similarities of products and services. The six reportable segments are as follows: Energy & Resources, Ships & 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, power systems and floating LNG storage facilities

(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
Vehicular turbochargers, compressors, steel manufacturing equipment, paper production machines 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 other services

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

Nine months ended December 31, 2010

(Millions of yen)

	Reportable Segment								
	Energy & Resources	Ships & Offshore Facilities	Physical Distribution Systems & Social Infrastructure	Rotating & Industrial Machinery	Aero Engine & Space	Others	Total	Adjustment (Note)	Consolidated
Sales:									
Sales to outside customers	198,662	143,000	129,822	121,444	188,065	56,926	837,919	−	837,919
Intersegment sales and transfers	23,467	1,275	8,048	10,653	3,260	35,997	82,700	(82,700)	−
Total	222,129	144,275	137,870	132,097	191,325	92,923	920,619	(82,700)	837,919
Segment profit (Operating income)	17,551	8,974	7,198	7,649	5,285	2,027	48,684	(4,329)	44,355

Note: Adjustment of segment profit represents intersegment transactions of ¥132 million and unallocated corporate expenses of negative ¥4,461 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 nine months under review.

Material change in goodwill amount
None

Material negative goodwill arisen
None

Additional information

Effective from the first quarter, 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

Nine months ended December 31, 2009

Under the new segmentation, the reclassified segment information for the nine months ended December 31, 2009 is shown below.

(Millions of yen)

	Reportable Segment								
	Energy & Resources	Ships & Offshore Facilities	Physical Distribution Systems & Social Infrastructure	Rotating & Industrial Machinery	Aero Engine & Space	Others	Total	Adjustment (Note)	Consolidated
Sales:									
Sales to outside customers	229,632	129,322	126,421	100,461	194,120	49,409	829,365	–	829,365
Intersegment sales and transfers	23,814	1,426	9,117	12,385	4,078	30,609	81,429	(81,429)	–
Total	253,446	130,748	135,538	112,846	198,198	80,018	910,794	(81,429)	829,365
Segment profit or loss (Operating income or loss)	16,843	(2,675)	4,634	604	6,417	783	26,606	(3,892)	22,714

Note: Adjustment of segment profit represents intersegment transactions of negative ¥157 million and unallocated corporate expenses of negative ¥3,735 million.
Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.