

## **Notice of Potential Revisions to Previously Announced Fiscal Year's Results**

September 28, 2007

IHI Corporation ("IHI") issued a release entitled "Notice of Revisions to Operating Performance Forecasts." The release discloses that IHI incur an additional operating loss of up to 28.0 Billion Yen, as described below.

### **1. Background**

IHI review its annual business plan performance between July and September each year. A management meeting held on September 10 last month included in part this review process. It was reported to that management meeting that a substantial loss was then expected for the fiscal year ending March 31, 2008, caused mainly by losses in the Energy and Plant Operations. Acknowledging the significant potential impact of this change in projections, IHI management decided to form an internal Investigation Committee to investigate the background and costs in those Energy and Plant Operations that had led to this expected significant downward impact on operating profits for the fiscal year ending on March 31, 2008.

During that investigation process, it became evident to the Committee that the potential positive effects of certain cost reduction measures that had been implemented for achieving significant cost reductions in a number of long-term large-scale projects had not been properly evaluated in light of the low likelihood for achieving those intended cost reduction effects, affecting previously expected cost reductions amounting to approximately 28 Billion Yen. Therefore IHI management confirmed its decision to revise its publicly announced operating profit forecasts for the fiscal year ending March 31, 2008. Moreover, as a result of these revised internal cost impact evaluations, IHI management has determined it may possibly be necessary as well to revise and partially restate retroactively the results for the fiscal year ended March 31, 2007.

### **2. Regarding the Reporting of Effects of Cost Reduction Plans**

IHI reports net sales and profit and loss results for long term, large-scale projects in the Energy and Plant Operations by the percentage completion method. Under this method the percentage of project completion is based on the projected overall project cost, and

against that base a percentage of the total project contract revenues are recorded each year by the percentage of costs incurred in that year against the total projected overall project cost. The projected overall project costs calculations include ongoing cost reduction plan effects such as design improvements that should decrease the amount of actual project cost, such as reduced materials and equipment costs, as against the original projected project costs, and consequently lower the projected overall project cost figures used in this calculation method. Therefore depending on the actual effects of such cost reduction measures, the overall projected project costs can increase or decrease and as a direct result the term profit to be recorded for such project in each fiscal year can be directly impacted. As a result, IHI evaluates the effectiveness of cost reductions measures for such projects each year in reviewing the overall project costs at the time of closing its financial accounts and reflects those evaluations in the financial reporting.

### 3. Calculation of Losses and Potential Impact on the Prior Fiscal Year Results

In September 2007 the Investigation Committee re-examined the impact of the cost reduction measures that had been incorporated into the results of the March 2007 review and the March 31, 2007 fiscal year end results, based on the actual experience since the March 2007 evaluations. The Committee determined in this re-evaluation, when re-examining a number of documents used in the March 2007 evaluations, that a number of estimates utilized in the March 2007 review calculations had been overly optimistic in light of the likely low rate of cost reduction realization in the subsequent six month period, with the impact that approximately 28 Billion Yen in increased costs should be recorded. In respect to a portion of those overly optimistic calculations producing this 28 Billion Yen figure, the possibility exists that some portion of that amount may have reflected into the fiscal year March 2007 results.

### 4. Amount of Impact

IHI is focused on confirming the level of impact of these overly optimistic presumptions on the financial results of the fiscal year ended March 31, 2007. IHI is in the process of confirming the actual effects of the cost reduction measures for the fiscal year ending March 31, 2007. If it is determined to be necessary, IHI will revise downward the March 31, 2007 fiscal year results to reflect the impact of such revised cost evaluations by the portion of such 28 Billion Yen impact that is attributable to that fiscal year period, and the

remaining balance of that amount would then be applied to reduce the project operating profit forecasts for the current March 31, 2008 fiscal year period.

#### 5. Reporting to Accounting Auditors

IHI is reporting fully on these developments to its accounting auditors in relation to its ongoing internal investigations of these matters. IHI expects to have the accounting auditors audit the impacts described in paragraph 4 above. IHI will promptly disclose the specific details of the financial impact as soon as they have been confirmed through such consultations with our accounting auditors.