

Dec.28, 2007
IHI Corporation
Finance & Accounting Division
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**<Correction>Concerning partial correction of
the released interim financial summaries for the FY Ending in March 2007**

IHI Corporation submitted the adjusted financial statement of the semi-annual securities report (for the period of between April 1, 2006 and September 30, 2006) of the 190th FY to the Kanto Local Finance Bureau yesterday.

In relation to this, as for the descriptions contained in “Consolidated financial report for the six months ended September 30, 2006” released dated November 6, 2006, we made some corrections as shown in the attachment. We hereby inform you of this. Please note that corrected portions are underlined.



December 28, 2007

CONSOLIDATED FINANCIAL REPORT FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2006

Ishikawajima-Harima Heavy Industries Co., Ltd. (IHI) is listed on the First Sections of the Tokyo Stock Exchange, Osaka Securities Exchange, Nagoya Stock Exchange, Fukuoka Securities Exchange and Sapporo Stock Exchange with the securities code number 7013.

Representative: President and Chief Executive Officer Mototsugu Ito
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Semi-Annual Board of Directors Meeting: November 6, 2006

U.S. GAAP: Not applied

This consolidated financial report has been prepared in accordance with Japanese accounting standards and Japanese law. Figures have been rounded off to eliminate amounts less than one million yen.

PERFORMANCE

(1) Business Results

(Millions of yen)						
	Net Sales	Percentage Change	Operating Income	Percentage Change	Ordinary Income	Percentage Change
Six months ended September 30, 2006	¥ 517,531	12.7%	¥ (8,762)	(—)%	¥ (10,315)	(—)%
Six months ended September 30, 2005	459,303	(0.9)	(7,089)	(—)	(11,681)	(—)
Fiscal year ended March 31, 2006	1,127,075		21,771		15,908	

(Millions of yen)				
	Net Income	Percentage Change	Net Income per Share	Diluted Net Income per Share
Six months ended September 30, 2006	¥ (10,095)	(—)%	¥ (7.78)	—
Six months ended September 30, 2005	(17,857)	(—)	(13.75)	—
Fiscal year ended March 31, 2006	5,283		3.93	—

Notes:

1. Equity in earnings of non-consolidated subsidiaries and affiliates

Six-month period ended Sept. 30, 2006:	¥ 358
Six-month period ended Sept. 30, 2005:	¥ 1,087
Fiscal year ended March 31, 2006:	¥ 1,441

2. Average number of shares outstanding (consolidated)

Six-month period ended Sept. 30, 2006:	1,298,193,962 shares
Six-month period ended Sept. 30, 2005:	1,298,241,974 shares
Fiscal year ended March 31, 2006:	1,298,228,663 shares

3. Changes in accounting policies: Yes

4. Percentages shown for net sales, operating income, ordinary income and net income are the rates of increase and decrease from the corresponding period of the previous fiscal year.

(2) Financial Position

(Millions of yen, except per share figures)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share of Common Stock (Yen)
Sept. 30, 2006	<u>1,471,072</u>	<u>169,886</u>	<u>10.4</u>	<u>118.38</u>
Sept. 30, 2005	1,357,784	143,257	10.6	110.35
Mar. 31, 2006	1,461,796	169,237	11.6	130.36

Note: Number of shares outstanding at the end of the period (consolidated)

September 30, 2006:	1,298,187,077 shares
September 30, 2005:	1,298,229,947 shares
March 31, 2006:	1,298,202,203 shares

(3) Cash Flows

(Millions of yen)

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents, End of Period
Six months ended September 30, 2006	¥ 2,619	¥(45,476)	¥ 2,781	¥ 97,645
Six months ended September 30, 2005	(27,851)	(7,699)	(19,096)	86,446
Fiscal year ended March 31, 2006	3,498	3,386	(12,743)	137,382

(4) Consolidated Subsidiaries and Application of the Equity Method

Number of consolidated subsidiaries:	84
Number of non-consolidated subsidiaries accounted for by the equity method:	—
Number of affiliated companies accounted for by the equity method:	25

(5) Changes in the Scope of Consolidation and Application of the Equity Method

New consolidated companies:	—	Consolidated companies removed:	1
New companies accounted for by the equity method:	—	Companies accounted for by the equity method removed:	—

FORECAST OF RESULTS FOR THE FISCAL YEAR ENDING MARCH 31, 2007

(Millions of yen)

	Net Sales	Ordinary Income	Net Income
Fiscal year ending March 31, 2007	¥1,200,000	¥25,000	¥15,000

Reference: Estimated net income per share for the full fiscal year: Consolidated: ¥11.55

Note: The aforementioned forecasts are based on management's assumptions and beliefs in light of the information currently available to it. Readers are therefore advised not to place undue reliance on the forecasts provided. IHI cautions that a number of important factors such as changes in general economic conditions and exchange rates could cause actual results to differ materially from those disclosed in the forecasts.

CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

	Apr. 1, 2006 to Sept. 30, 2006	Apr. 1, 2005 to Sept. 30, 2005	Increase (Decrease)	Apr. 1, 2005 to Mar. 31, 2006
Net sales	<u>517,531</u>	459,303	<u>58,228</u>	1,127,075
Cost of sales	<u>465,651</u>	411,380	<u>54,271</u>	986,666
Selling, general and administrative expenses	60,642	55,012	5,630	118,638
Operating income (loss)	<u>(8,762)</u>	(7,089)	<u>(1,673)</u>	21,771
Non-operating income:				
Interest and dividend income	1,473	1,645	(172)	4,392
Equity in earnings of affiliates	358	1,087	(729)	1,441
Other income	2,258	1,433	825	4,667
Non-operating expenses:				
Interest expenses	2,736	2,430	306	4,775
Other expenses	2,906	6,327	(3,421)	11,588
Ordinary (loss) income	<u>(10,315)</u>	(11,681)	<u>1,366</u>	15,908
Extraordinary income:				
Gain on sale of investment securities	5,867	6,682	(815)	18,509
Gain on sale of property, plant and equipment	—	—	—	19,988
Reversal of allowance for doubtful receivables	—	—	—	973
Extraordinary expenses:				
Litigation settlement	1,034	—	1,034	—
Loss on devaluation of equity in affiliated companies	978	193	785	675
Loss on disposal of property, plant and equipment	968	793	175	8,513
Loss relating to violation of antitrust laws	862	—	862	1,870
Loss on impairment of fixed assets	—	13,025	(13,025)	13,269
Restructuring-related losses	—	—	—	7,386
Counterinsurgency expenses at overseas construction sites	—	—	—	1,500
Income (loss) before income taxes, minority interests and other	<u>(8,290)</u>	(19,010)	<u>10,720</u>	22,165
Corporation, inhabitants' and enterprise taxes	3,817	4,035	(218)	14,273
Adjustments to corporation taxes	<u>(574)</u>	(4,903)	<u>4,329</u>	2,809

Minority interests in consolidated subsidiaries	(1,438)	(285)	(1,153)	(200)
Net (loss) income	<u>(10,095)</u>	(17,857)	<u>7,762</u>	5,283

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance as of March 31, 2006	64,925	10,200	44,814	(48)	119,891
Increase (decrease) during the six months ended September 30, 2006					
Issuance of new shares					—
Cash dividends					—
Directors' bonuses					—
Net loss			(10,095)		(10,095)
Acquisition of treasury stock				(6)	(6)
Net changes in items excluding shareholders' equity during the period					—
Total increase (decrease) during the six months ended September 30, 2006	—	—	(10,095)	(6)	(10,101)
Balance as of September 30, 2006	64,925	10,200	34,719	(54)	109,790

	Valuation and Conversions					Minority Interests	Total Net Assets
	Unrealized Holding Gain on Other Securities	Loss on Deferred Hedges	Revaluation Excess	Foreign Exchange Translation Adjustment	Total Valuation and Conversions		
Balance as of March 31, 2006	46,220	—	4,591	(1,465)	49,346	20,160	189,397
Increase (decrease) during the six months ended September 30, 2006							
Issuance of new shares					—		—
Cash dividends					—		—
Directors' bonuses					—		—
Net loss					—		(10,095)
Acquisition of treasury stock					—		(6)
Net changes in items excluding shareholders' equity during the period	(5,043)	(712)	—	304	(5,451)	(3,959)	(9,410)
Total increase (decrease) during the six months ended September 30, 2006	(5,043)	(712)	—	304	(5,451)	(3,959)	(19,511)
Balance as of September 30, 2006	41,177	(712)	4,591	(1,161)	43,895	16,201	169,886

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Millions of yen)

	Apr. 1, 2005 to Sept. 30, 2005	Apr. 1, 2005 to Mar. 31, 2006
CAPITAL SURPLUS		
Capital surplus, beginning of year	10,200	10,200
Capital surplus, end of year	10,200	10,200
RETAINED EARNINGS		
Retained earnings, beginning of year	41,596	41,596
Net income	—	5,283
Net increase from revaluation of revaluation excess	736	743
Net increase from new consolidated subsidiaries	86	—
Decrease in retained earnings:		
Net loss	17,857	—
Net decrease from new consolidated subsidiaries	—	24
Net decrease from removed subsidiaries	2	2
Dividends paid	—	2,596
Directors' bonuses	—	186
Retained earnings, end of year	24,559	44,814

CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	Sept. 30, 2006	March 31, 2006	Increase (Decrease)	Sept. 30, 2005
ASSETS				
Current assets:				
Cash and time deposits	66,468	105,243	(38,775)	75,581
Trade receivables	<u>307,572</u>	356,469	<u>(48,897)</u>	286,436
Marketable securities	25,999	20,995	5,004	10,301
Inventories	470,353	409,020	61,333	423,263
Deferred income taxes	<u>24,784</u>	26,202	<u>(1,418)</u>	36,396
Other current assets	92,559	92,885	(326)	89,318
Less allowance for doubtful receivables	(4,800)	(4,480)	40	(4,074)
Total current assets	<u>982,935</u>	1,005,974	<u>(23,039)</u>	917,221
Fixed assets:				
Property, plant and equipment:				
Buildings and structures	98,709	71,944	26,765	73,603
Machinery and equipment	54,543	53,841	702	52,002
Land	80,065	79,769	296	77,942
Construction in progress	6,262	3,821	2,441	4,059
Other tangible fixed assets	17,653	16,696	957	15,521
Total property, plant and equipment	257,232	226,071	31,161	223,127
Intangible assets:				
Software	13,626	14,237	(611)	13,317
Consolidated adjustment account	529	310	219	376
Royalties and other intangible assets	7,057	6,793	264	5,274
Total intangible assets	21,212	21,340	(128)	18,967
Investments and other assets:				
Investment securities	124,240	130,356	(6,116)	125,313
Deferred income taxes	<u>40,568</u>	36,391	<u>4,177</u>	37,481
Other	54,359	50,731	3,628	45,329
Less allowance for doubtful receivables	(9,474)	(9,067)	(407)	(9,654)
Total investments and other assets	<u>209,693</u>	208,411	<u>1,282</u>	198,469
Total fixed assets	<u>488,137</u>	455,822	<u>32,315</u>	440,563
Total assets	<u>1,471,072</u>	1,461,796	<u>9,276</u>	1,357,784

CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	Sept. 30, 2006	March 31, 2006	Increase (Decrease)	Sept. 30, 2005
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Trade payables	<u>284,960</u>	295,026	<u>(10,066)</u>	248,727
Short-term loans and current portion of long-term loans	157,377	142,526	14,851	156,640
Commercial paper	8,000	—	8,000	10,000
Current portion of debentures	20,000	20,000	—	35,000
Accrued expenses	40,292	40,768	(476)	23,531
Accrued income taxes	5,384	10,595	(5,211)	4,446
Advances from customers	<u>196,599</u>	151,067	<u>45,532</u>	179,951
Allowance for employees' bonuses	18,526	18,812	(286)	17,821
Reserve for guaranteed contracts	<u>12,606</u>	12,123	<u>483</u>	8,964
Reserve for losses on sales contracts	<u>24,945</u>	22,216	<u>2,729</u>	24,398
Other current liabilities	53,418	60,904	(7,486)	36,992
Total current liabilities	<u>822,107</u>	774,037	<u>48,070</u>	746,470
Long-term liabilities:				
Debentures	83,000	103,000	(20,000)	68,000
Long-term loans	184,196	178,782	5,414	167,397
Deferred tax liabilities from revaluation of land	3,694	3,694	—	3,534
Allowance for employees' retirement benefits	148,990	150,336	(1,346)	150,291
Other long-term liabilities	59,119	62,550	(3,351)	59,308
Total long-term liabilities	479,079	498,362	(19,283)	448,530
Total liabilities	<u>1,301,186</u>	1,272,399	<u>28,787</u>	1,195,000
Net assets:				
Common stock	64,925	—	—	—
Capital surplus	10,200	—	—	—
Retained earnings	<u>34,719</u>	—	—	—
Treasury stock	(54)	—	—	—
Total shareholders' equity	<u>109,790</u>	—	—	—
Valuation and conversions:				
Unrealized holding gain on other securities	41,177	—	—	—
Loss on deferred hedges	(712)	—	—	—
Revaluation excess	4,591	—	—	—

Foreign exchange translation adjustments	(1,161)	—	—	—
Total valuation and conversions	43,895	—	—	—
Minority interests	16,201	—	—	—
Total net assets	<u>169,886</u>	—	—	—
Total liabilities and net assets	<u>1,471,072</u>	—	—	—
Minority interests:				
Minority interests in consolidated subsidiaries	—	20,160	—	19,527
Shareholders' equity:				
Common stock	—	64,925	—	64,925
Capital surplus	—	10,200	—	10,200
Retained earnings	—	44,814	—	24,559
Revaluation excess	—	4,591	—	4,751
Unrealized holding gain on other securities	—	46,220	—	41,414
Foreign exchange translation adjustments	—	(1,465)	—	(2,553)
Less treasury stock, at cost	—	(48)	—	(39)
Total shareholders' equity	—	169,237	—	143,257
Total liabilities, minority interests and shareholders' equity	—	1,461,796	—	1,357,784

CONSOLIDATED STATEMENT OF CASH FLOWS

(Millions of yen)

	Fiscal year 2007; first half April 1, 2006 to Sept. 30, 2006	Fiscal year 2006; first half April 1, 2005 to Sept. 30, 2005	Fiscal year 2006 April 1, 2005 to March 31, 2006
Operating activities:			
Net income (loss) before income taxes	<u>(8,290)</u>	(19,010)	22,165
Depreciation and amortization	14,455	14,132	29,797
Amortization of long-term prepaid expenses	1,876	1,863	3,321
Increase (decrease) in allowance for doubtful receivable	367	(107)	901
(Decrease) increase in allowance for employees' bonuses	(90)	(338)	653
Increase (decrease) in reserve for guaranteed contracts	<u>483</u>	(395)	2,764
(Decrease) increase in accrued losses on sales contracts	<u>2,729</u>	3,771	1,589
Decrease in accrued employees' retirement allowances	(1,346)	(14)	(53)
Interest and dividend income	(1,473)	(1,645)	(4,392)
Interest expense	2,736	2,430	4,775
Gain on foreign exchange	(5)	(66)	(7)
Gain (loss) on disposal of property, plant and equipment	910	716	(12,490)
Loss on impairment of fixed assets	—	13,025	13,269
Gain on sale of marketable and investment securities	(5,867)	(6,682)	(18,509)
Loss on valuation of marketable and investment securities and memberships	1,160	231	814
Equity in earnings of affiliates	(358)	(1,087)	(1,441)
Gain on sale of businesses	(100)	—	—
Decrease (increase) in trade receivables	<u>35,688</u>	40,387	(25,645)
Increase in advances received	<u>45,532</u>	36,293	6,076
Increase in inventories	(60,365)	(41,276)	(23,196)
Decrease in advance payments	(3,120)	(14,637)	(11,315)
(Decrease) increase in trade payables	<u>(10,066)</u>	(40,832)	1,804
Increase in accrued expenses	64	—	9,229
Increase in reserve for guaranteed contracts	1,563	784	973
(Increase) decrease in other current assets	(3,848)	(1,633)	2,673
Increase (decrease) in other current liabilities	605	(5,329)	12,163
Decrease in accrued consumption taxes	(1,119)	(6,486)	(5,752)
Directors' and corporate auditors' bonuses	(194)	(145)	(200)
Subtotal	11,927	(26,050)	9,966
Interest and dividends received	2,445	2,805	4,460
Interest paid	(2,643)	(2,378)	(4,650)

Income taxes paid	(9,110)	(2,228)	(6,278)
Net cash provided by (used in) operating activities	2,619	(27,851)	3,498
Investing activities:			
Net decrease in time deposits due in more than three months	31	76	658
Purchases of marketable and investment securities	(5,950)	(590)	(542)
Proceeds from sale of marketable and investment securities	8,842	7,618	21,692
Purchases of property, plant and equipment and intangible fixed assets	(41,818)	(14,190)	(30,306)
Proceeds from sale of property, plant and equipment	157	2,535	25,580
Expenditure for disposal of property, plant and equipment	(1,131)	(370)	(2,768)
Expenditure for the acquisition of businesses	(700)	—	(1,592)
Proceeds from the sale of businesses	100	—	—
Net decrease (increase) in short-term loans	332	317	(65)
Increase in long-term loans	(10)	(326)	(727)
Decrease in long-term loans	27	100	113
Increase in other fixed assets	(5,563)	(2,778)	(8,557)
Increase (decrease) in other fixed liabilities	207	(91)	(100)
Net cash (used in) provided by investing activities	(45,476)	(7,699)	3,386
Financing activities:			
Net increase (decrease) in short-term loans	16,129	(15,742)	(21,290)
Net increase in commercial paper	8,000	10,000	—
Net increase in long-term loans	16,795	9,298	44,500
Repayment of long-term loans	(12,659)	(12,399)	(45,574)
Proceeds from issuance of debentures	—	—	35,000
Expenditures for redemption of debentures	(20,000)	(10,000)	(25,000)
Proceeds from payments from minority shareholders	714	—	—
Purchases of stock from minority shareholders	(3,491)	—	—
Purchases of treasury stock	(6)	(3)	(12)
Purchases of treasury stock of subsidiaries in consolidation	—	(2)	(5)
Dividends paid	(2,596)	—	—
Dividends paid to minority interests	(105)	(248)	(362)
Net cash provided by (used in) financing activities	2,781	(19,096)	(12,743)
Effect of exchange rate changes on cash and cash equivalents	339	200	376
Net decrease in cash and cash equivalents	(39,737)	(54,446)	(5,483)
Cash and cash equivalents, beginning of year	137,382	139,684	139,684
Increase in cash and cash equivalents from consolidation of non-consolidated subsidiaries	—	1,239	3,212
Increase in cash and cash equivalents due to exclusion from the scope of consolidation	—	(31)	(31)

Cash and cash equivalents, end of year	97,645	86,446	137,382
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Note: A reconciliation of cash and cash equivalents to the amounts shown in the consolidated balance sheets is as follows:

	(Millions of yen)		
	Sept. 30, 2006	Sept. 30, 2005	Mar. 31, 2006
Cash and time deposits	66,468	75,581	105,243
Time deposits due in more than three months	(822)	(1,435)	(853)
Negotiable deposits included in marketable securities	1,000	—	5,000
Commercial paper included in marketable securities	24,999	10,300	15,994
Trust beneficiary interests included in marketable securities	—	1	—
Trust beneficiary interests included in other current assets	—	—	5,999
Sales under agreement to repurchase included in short-term loans	6,000	1,999	5,999
Cash and cash equivalents	97,645	86,446	137,382

1. Scope of Consolidation

Consolidated subsidiaries:

The consolidated accounts reflect the results of 84 consolidated subsidiaries. Major companies include IHI Aerospace Co., Ltd., IHI Marine United Inc., Ishikawajima Transport Machinery Co., Ltd., IHI Construction Machinery Co., Ltd., Ishikawajima Construction Materials Co., Ltd., Ishikawajima Shibaura Machinery Co., Ltd., Ishikawajima Ship & Chemical Plant Co., Ltd., Ishikawajima Mass-Produced Machinery Co., Ltd., Ishikawajima Hanyoki Service Co., Ltd., Ishikawajima Plant Construction Co., Ltd., Star Farm Machinery Manufacturing Co., Ltd., Niigata Power Systems Co., Ltd., Niigata Transys Co., Ltd., PC Bridge Co., Ltd., IHI Inc. and IHI Turbo America Co.

Other subsidiaries are not included in consolidation as their effect on consolidated results would not be material.

Hua ju Engineering (Shenzhen) Ltd. was removed from the scope of consolidation in the first half of fiscal 2006 due to completion of its liquidation.

2. Application of the Equity Method of Accounting

Companies accounted for by the equity method comprise Turbo Systems United Co., Ltd. and 24 other companies.

3. Consolidated Subsidiaries Having Different Interim Period-Ends

As Star Farm Machinery Manufacturing Co., Ltd. closes its books of account for the interim period on March 31, provisional interim financial statements are used for the purpose of consolidation. IHI Inc. and other overseas subsidiaries (excluding Ishi Power Sdn. Bhd.) close their interim accounts on June 30. As the difference between these periods does not exceed three months, interim financial statements as of that date are used. However, significant transactions that occur between these closing dates are adjusted as necessary on the consolidated financial statements.

4. Summary of Significant Accounting Policies

(1) Securities

Securities to be held until maturity are stated at cost with discounts or premiums amortized throughout the holding periods. Other securities with market prices available are stated at fair market value as of the interim balance sheet date, with the sale price computed by the moving-average method. Other securities without market prices available are stated at cost by the moving-average method.

(2) Derivatives

Derivatives are stated at fair market value.

(3) Inventories

Raw materials and supplies are stated principally at the lower of cost or market by the moving-average method, and finished goods, work in process and contracts in process are stated principally at identified cost.

(4) Depreciation

Depreciation of plant and equipment is principally computed by the declining-balance method. However, depreciation of lend-lease properties, 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.

(5) *Basis for recording significant allowances*

a. Allowance for doubtful receivables

To provide for losses on doubtful receivables, the allowance for doubtful receivables is provided based on historical default rates, plus additional estimated amounts to cover specific uncollectible receivables.

b. Allowance for employees' bonuses

For payment of employee bonuses, the allowance for employees' bonuses is provided for in the amount that is expected to be paid.

c. Reserve for guaranteed contracts

To provide for guaranteed project expenses, the allowance for guaranteed contracts is recorded as an estimate of future expenditures based on historical experience.

d. Accrued losses on sales contracts

Accrued losses on sales contracts are provided for in the amount of estimated losses for work in progress at the interim balance sheet date.

e. Employees' retirement allowances

Employees' retirement allowances are provided for based on estimated severance liabilities and pension fund assets at the end of the consolidated fiscal year, as of the consolidated interim balance sheet date. Past service costs are disposed of as expenses using the straight-line method over a certain number of years within the average remaining work period of employees at the time of accrual. Actuarial differences are disposed of as expenses from the next fiscal year using the straight-line method over a certain number of years within the average remaining work period of employees, calculated for the fiscal year during which the difference accrues.

(6) *Recognition of revenues and related costs*

Net sales from contracts are recognized at the time the projects are completed, except for the net sales of projects with construction lasting more than two years and revenue of more than ¥3 billion, which are recorded using the percentage-of-completion method. Other construction projects are treated on a completion basis.

(7) *Leases*

Financial leases are accounted for by the operating lease accounting method, except lease agreements that stipulate the transfer of ownership of the leased property to the lessee.

(8) *Hedging transactions*

Gains or losses and evaluation differences related to hedging transactions accounted for at fair market value are deferred as assets or liabilities until recognized. Evaluation gains or losses on foreign exchange contracts are allocated to settlement periods throughout the period of the contract. Interest rate swaps are treated as special exceptions.

(9) *Consumption tax*

Consumption taxes are accounted for using the net-of-tax method.

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

The assets and liabilities of consolidated subsidiaries are stated as a whole at fair market value.

6. Depreciation of Consolidated Adjustment Account

Depreciation of consolidated adjustment account is calculated using the straight-line method based on the estimated period of investment return. However, immaterial amounts are depreciated with a one-time charge in the period in which they occur.

7. Appropriation of Retained Earnings

Appropriations with respect to each balance sheet date are retroactively reflected in the consolidated financial statements for each applicable period.

8. Cash and Cash Equivalents

Cash and cash equivalents include deposits that can be easily withdrawn and converted to cash and short-term investments with a maturity within three months of their acquisition that are not subject to significant price risk.

9. Changes in Accounting Methods

Accounting for directors' and statutory auditors' bonuses:

From the interim period under review, the Companies have adopted Accounting Standard No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005. As a result, operating income, ordinary income and income (loss) before income taxes, minority interests and other each declined by ¥196 million. The impact on each business segment is reported separately in the Segment Information section of this report.

Accounting for the presentation of net assets:

From the six-month period ended September 30, 2006, the Companies adopted accounting standards for the presentation of net assets on the balance sheet outlined in "Accounting Standard for the Presentation of Net Assets on the Balance Sheet No. 5," issued by the Accounting Standards Board of Japan on December 9, 2005, and "Guidance on the Accounting Standard for the Presentation of Net Assets on the Balance Sheet No. 8," issued by the Accounting Standards Board of Japan on December 9, 2005. Under the previous standard, the total of shareholders' equity is ¥154,397 million. The balance sheet for the interim period ended September 30, 2006 has been prepared to include a section for net assets composed of items consistent with revisions to regulations relating to the preparation of financial statements.

SEGMENT INFORMATION

(1) Performance by business segment Six Months ended September 30, 2006

(Millions of yen)

	Logistics							Eliminations	
	Systems and	Industrial	Energy and	Aero-Engine	Shipbuilding				
	Structures	Machinery	Plant	and Space	and Offshore	Other		and	
	Operations	Operations	Operations	Operations	Operations	Operations	Total	Corporate	Consolidated
Sales and operating income:									
Sales to outside customers	¥65,637	¥74,681	¥135,492	¥117,027	¥58,720	¥65,974	¥517,531	¥ —	¥17,531
Intersegment sales and transfers	6,104	7,291	8,558	2,487	487	11,579	36,506	(36,506)	—
Total	71,741	81,972	144,050	119,514	59,207	77,553	554,037	(36,506)	517,531
Operating expenses	77,651	76,874	167,239	109,772	55,956	75,219	562,711	(36,418)	526,293
Operating income (loss)	¥ (5,910)	¥ 5,098	¥ (23,189)	¥ 9,742	¥ 3,251	¥ 2,334	¥ (8,674)	¥ (88)	¥ (8,762)

Six months ended September 30, 2005

(Millions of yen)

	Logistics							Eliminations	
	Systems and	Industrial	Energy and	Aero-Engine	Shipbuilding				
	Structures	Machinery	Plant	and Space	and Offshore	Other		and	
	Operations	Operations	Operations	Operations	Operations	Operations	Total	Corporate	Consolidated
Sales and operating income:									
Sales to outside customers	¥62,979	¥61,108	¥112,335	¥101,261	¥59,514	¥62,106	¥459,303	¥ —	¥459,303
Intersegment sales and transfers	6,662	6,556	3,809	2,144	684	11,329	31,184	(31,184)	—
Total	69,641	67,664	116,144	103,405	60,198	73,435	490,487	(31,184)	459,303
Operating expenses	76,011	65,599	123,778	95,244	66,050	71,477	498,159	(31,767)	466,392
Operating income (loss)	¥ (6,370)	¥ 2,065	¥ (7,634)	¥ 8,161	¥ (5,852)	¥ 1,958	¥ (7,672)	¥ 583	¥ (7,089)

Fiscal year ended March 31, 2006

(Millions of yen)

	Logistics							Eliminations	
	Systems and	Industrial	Energy and	Aero-Engine	Shipbuilding				
	Structures	Machinery	Plant	and Space	and Offshore	Other		and	
	Operations	Operations	Operations	Operations	Operations	Operations	Total	Corporate	Consolidated
Sales and operating income:									
Sales to outside customers	¥169,714	¥145,188	¥297,625	¥264,452	¥114,869	¥135,227	¥1,127,075	¥ —	¥1,127,075
Intersegment sales and transfers	15,783	17,167	13,490	4,999	1,352	27,999	80,790	(80,790)	—
Total	185,497	162,355	311,115	269,451	116,221	163,226	1,207,865	(80,790)	1,127,075
Operating expenses	188,259	154,818	304,070	252,997	124,869	161,510	1,186,523	(81,219)	1,105,304
Operating income (loss)	¥ (2,762)	¥ 7,537	¥ 7,045	¥ 16,454	¥(8,648)	¥ 1,716	¥ 21,342	¥ 429	¥ 21,771
Assets and depreciation:									
Assets	¥165,838	¥122,689	¥303,159	¥332,112	¥141,506	¥243,187	¥1,308,491	¥153,305	¥1,461,796
Depreciation	1,227	3,082	4,699	11,452	2,818	3,119	26,397	3,400	29,797
Capital expenditures	2,281	4,798	3,259	10,865	1,760	7,130	30,093	3,568	33,661

Notes:

- Business segments are based on current classifications.
- Main products and machinery included in each segment:
 - Logistics Systems and Structures Operations
Material handling systems, logistics and factory automation systems, parking systems, bridges and construction material products
 - Industrial Machinery Operations
Iron and steel manufacturing equipment, vehicular turbochargers, mass-produced machinery and others
 - Energy and Plant Operations
Boilers, gas turbines, components for nuclear power plants, environmental control systems, storage facilities and others
 - Aero-Engine and Space Operations
Jet engines, space-related equipment and others
 - Shipbuilding and Offshore Operations
Shipbuilding, ship repairs, offshore structures and others
 - Other Operations
Diesel engines, agricultural machinery, construction machinery, financing and service industry and others
- Operating expenses are entirely allocated to each business segment.
- Changes in accounting policies: As stated in Changes in Accounting Methods "Accounting for directors' and statutory auditors' bonuses," the Company adopted Accounting Standard No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005 from the six-month period ended September 30, 2006. Comparing this new standard with the standard previously applied, the operating loss in the Logistics Systems and Structures Operations segment increased by ¥16 million, operating income in the Industrial Machinery Operations segment declined by ¥26 million, operating loss in the Energy and Plant Operations segment climbed by ¥39 million, operating income in the Aero-Engine and Space Operations segment fell by ¥50 million, operating income in the Shipbuilding and Offshore

Operations segment decreased by ¥15 million and operating income in the Other Operations segment declined by 50 million.

(2) Segment information by region

Six months ended September 30, 2006

Japan accounted for more than 90% of the total net sales of all segments. Consequently, disclosure of segment information of areas other than Japan is not required in accordance with generally accepted standards for the presentation of consolidated financial statements.

Six months ended September 30, 2005

Japan accounted for more than 90% of the total net sales of all segments. Consequently, disclosure of segment information of areas other than Japan is not required in accordance with generally accepted standards for the presentation of consolidated financial statements.

Fiscal year ended March 31, 2006

Japan accounted for more than 90% of the total net sales of all segments and the total amount of segment assets. Consequently, disclosure of segment information of areas other than Japan is not required in accordance with generally accepted standards for the presentation of consolidated financial statements.

(3) Overseas sales

(Millions of yen, %)

Six months ended September 30, 2006	Central and					Total
	Asia	North America	South America	Europe	Others	
Overseas sales	<u>¥67,319</u>	¥65,918	¥20,934	¥27,671	¥29,699	<u>¥211,541</u>
Consolidated net sales						<u>¥517,531</u>
Overseas sales as a percentage of consolidated net sales	<u>13.0%</u>	12.7%	<u>4.1%</u>	5.3%	5.8%	40.9%

(Millions of yen, %)

Six months ended September 30, 2005	Central and					Total
	Asia	North America	South America	Europe	Others	
Overseas sales	¥51,249	¥50,258	¥6,053	¥19,292	¥36,087	¥162,939
Consolidated net sales						¥459,303
Overseas sales as a percentage of consolidated net sales	11.2%	10.9%	1.3%	4.2%	7.9%	35.5%

Fiscal year ended March 31, 2006	Central and					Total
	Asia	North America	South America	Europe	Others	
Overseas sales	¥127,613	¥120,440	¥10,650	¥52,596	¥68,294	¥379,593
Consolidated net sales						¥1,127,075
Overseas sales as a percentage of consolidated net sales	11.3%	10.7%	0.9%	4.7%	6.1%	33.7%

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, Mexico, Panama, etc.
 - (4) Europe: U.K., Germany, France, Italy, Ireland, Greece, Bulgaria, etc.
3. Overseas sales represents sales amounts for IHI and its consolidated subsidiaries in countries or regions outside of Japan.