

[Translation]

Improvement Status Report

September 8, 2008

To: Mr. Atsushi Saito, President & CEO  
Tokyo Stock Exchange Group, Inc.

Kazuaki Kama, President & CEO  
IHI Corporation

In reference to the Improvement Report submitted on February 25, 2008, we hereby submit, pursuant to the provisions of Article 503, Paragraph 1 of the Security Listing Regulations, an Improvement Status Report describing the status of implementation and operation of the improvement measures.

I. Circumstances Leading to the Submission of the Improvement Report

1. Discovery of the present issue

(1) Beginning

During the period from July to September each year, IHI Corporation conducts a “full check of the profit plan”, in which the progress of the profit plan for the year is examined. At the meeting of its management committee held on September 10, 2007, the “full check of the FY 2007 profit plan” was discussed and large amounts of estimated losses were reported for Energy Plants Operations and Environment and Plants Operations. In response to this report, on the same day, the Company, in light of the sudden and considerable decline in the profit/loss figures reported which was likely to have a serious impact on the Company’s operations, established an Internal Investigation Committee consisting of the Chief Executive Officer (Kazuaki Kama, hereinafter the “CEO”), who served as chairman, and eight other members and one advisor, in order to investigate the details and cause of the significant revisions to the FY 2007 operating performance forecast for the aforementioned Operations and to discuss countermeasures to be taken. The committee immediately started an investigation on the revisions to the operating performance forecast.

(2) Investigation by the Internal Investigation Committee

An overview of the Internal Investigation Committee is given below.

Purpose of the Internal Investigation Committee:

The purpose of the Internal Investigation Committee is to work on the following tasks related to revisions to the operating performance forecast for the energy and plants business and to report the results to the Board of Directors:

- Fact-finding on the revisions to the operating performance forecast
- Elucidating the cause of the revisions to the operating performance forecast
- Understanding any problems in internal control relating to the revisions to the operating performance forecast
- Recommending countermeasures

In the course of investigation of the revisions to the operating performance forecast, the Internal Investigation Committee learned that the situation involved issues which potentially required revision of the financial results for the previous fiscal year, in addition to factors contributing to cost increases, such as disruption of construction schedules, and factors which occurred during FY 2007 in relation to

construction sites or clients and contributed to the deterioration of financial conditions, such as failure to reach agreements on contract price increases after negotiation. Measures required to deal with these issues involved assessment of the appropriateness of estimated profit and loss for projects and were not covered by the expected aim of the Internal Investigation Committee. However, as such assessment was inseparable from the issue of potential revision of the operating performance forecast, the Committee continued the investigation and, as a result, reassessed the cost reduction as of the end of September 2007, which seemed to reflect the cost reduction measures for projects subject to the percentage of completion method reflected in the financial results for the fiscal year that ended March 31, 2007. When those measures which were unlikely to be achieved were calculated as losses, the total of such losses was estimated to amount to approximately 28 billion yen.

The projects so assessed also included those whose cost reduction measures were unlikely to be achieved as of the end of March 2007. Therefore, the Committee concluded that due to these cases, revision of the financial results for the previous fiscal year might be required.

Note: For the purpose of this Improvement Status Report, “cost reduction measures” refer to activities which are intended to examine and achieve measures for cost reduction and which are conducted, by each department responsible for costs incurred, at various stages of the construction project from designing to site work; and “cost reduction effects” refer to the cost reduction achieved as a result of these activities (these definitions apply hereinafter).

At the extraordinary meeting of the Board of Directors held on September 28, 2007, the Internal Investigation Committee presented a report on the progress of its investigation as to the details of the revisions to the operating performance forecast that had been found to be required and potential revision of the financial results for the previous fiscal year. In response to this, on the same day, the Company disclosed these facts in the “Notice of Revisions to Operating Performance Forecast” and the “Notice of Potential Revisions to Previously Announced Fiscal Year’s Results”.

Following this disclosure, the Internal Investigation Committee proceeded to investigate whether or not and, if so, to what extent, the financial results for previous fiscal year would be affected, in addition to investigating and discussing the cause of, and potential measures to be taken to deal with, the significant deterioration of the operating performance forecast. The results were compiled into an investigation report.

At the extraordinary meeting of the Board of Directors held on December 12, 2007, the Internal Investigation Committee reported the investigation results, which were approved by the Board. In response to this, on the same day, the Company released the “Report on Results of Investigation on Revisions to Operating Performance Forecast and Correction of Financial Results for Previous Fiscal Year, and Our Policy for Response Measures” as well as the “Outline of the Investigation Report of the Internal Investigation Committee”.

## 2. Investigation by the External Investigation Committee

In order to ensure the objectivity of the internal investigation conducted by the Internal Investigation Committee, on October 9, 2007, the Company established an External Investigation Committee consisting of a total of four experts: three lawyers and one certified public accountant, all of whom were independent third parties who had no interest in the Company. The Company requested the

Committee to review the methods, content and results of the investigation described in the internal investigation report prepared by the Internal Investigation Committee and to check whether the internal investigation report accurately reflected the facts on which the revisions to the operating performance forecast were based and the causes of these revisions.

The External Investigation Committee was established with the aim of:

- objectively reviewing the contents and results of the internal investigation report;
- verifying the appropriateness of the recurrence prevention measures;
- pointing out any matters requiring further investigation into their causes; and
- recommending measures to improve business operations.

The results of the investigation by the External Investigation Committee were disclosed on December 12, 2007, in the “Outline of the Investigation Report of the External Investigation Committee”.

### 3. Audit by accounting auditors

With respect to changes in the financial results for the previous fiscal year resulting from the revisions, the Company determined the amounts of change, followed by approval of the Board of Directors and then by a revision of the financial summaries on December 14, 2007. Upon receipt of an audit report from the accounting auditors on December 27, 2007, on the same day, the Company submitted a reissued report on the financial statements for the fiscal year that ended March 31, 2007, and the interim report for the six months that ended September 30, 2006.

4. Investigation results

(1) Changes to the figures in the financial results for the previous fiscal year resulting from the revisions

The revisions to the relevant financial results based on the results of the aforementioned investigations by the Internal Investigation Committee and the External Investigation Committee resulted in the following changes to the consolidated and non-consolidated financial results for the fiscal year that ended March 31, 2007, and those for the six months that ended September 30, 2006.

(i) Revisions to the consolidated financial results

(in millions of yen)

		Before revisions	After revisions	Change
The 190 <sup>th</sup> term: The fiscal year ending March 31, 2007	Net sales	1,234,851	1,221,016	-13,835
	Operating income	24,617	-5,626	-30,243
	Ordinary income	21,511	-8,732	-30,243
	Net income	15,825	-4,593	-20,418
The 190 <sup>th</sup> term: The 6 months ending September 30, 2006	Net sales	518,936	517,531	-1,405
	Operating income	1,061	-8,762	-9,823
	Ordinary income	-492	-10,315	-9,823
	Interim net income	-2,817	-10,095	-7,278

(ii) Revisions to non-consolidated financial results

(in millions of yen)

		Before revisions	After revisions	Change
The 190 <sup>th</sup> term: The fiscal year ending March 31, 2007	Net sales	659,910	642,490	-17,420
	Operating income	7,109	-17,589	-24,699
	Ordinary income	12,741	-11,958	-24,699
	Net income	6,134	-15,038	-21,172
The 190 <sup>th</sup> term: The 6 months ending September 30, 2006	Net sales	266,804	261,853	-4,950
	Operating income	-5,201	-15,280	-10,078
	Ordinary income	-3,234	-13,312	-10,078
	Interim net income	-6,088	-13,517	-7,429

(2) Facts found as a result of the investigation

The Internal Investigation Committee reviewed deterioration in financial results attributable to the failure to achieve cost reduction measures for projects subject to the percentage of completion method that had been reflected in the operating performance forecast in question for the energy and plants business. The review revealed several projects for which it did not seem appropriate to reflect the expected cost reduction effects in the financial statements for the 6-month period that ended September 30, 2006, and those for the fiscal year that ended March 31, 2007. It was also revealed in the process of review that apart from the failure to achieve cost reduction measures, some costs had been omitted.

The facts discovered by the Internal Investigation Committee's investigation are as follows.

(i) Cost reduction without impartial consideration

As a result of a series of preliminary discussions held during March 2007

and of intense instructions from the General Manager of the Planning and Control Department of the former Energy and Plants Operations, the Planning and Control Department and the Power Plant Division of said Operations increased profitability in terms of production cost to 25% in two of the projects in the power plant business (hereinafter, the "Two Projects"). On April 5, 2007, the President of Energy Plants Operations (the former general manager of the Planning and Control Department of Energy and Plants Operations) assembled the general manager of the Planning and Control Department of Energy and Plants Operations, the general manager of the Power Plant Division, the general manager of the Planning and Control Department of the Power Plant Division, and others involved, and demanded that a renewed estimate of total costs incurred be entered in the percentage of completion method system with the aim of achieving a 30% profitability in terms of production cost which, according to the President of Energy Plants Operations, was achievable if they focused on cost reduction by such means as reflecting expected results of the VE (Value Engineering, which refers to management activities for producing good products with minimum cost without compromising the design, quality, functions, etc. of the products) activities in progress to cost reduction efforts, since the due dates of the Two Projects were still quite a while away.

The Power Plant Division eventually accepted the intense instructions of the President of Energy Plants Operations. However, the instruction to set an estimate of total costs incurred that would increase profitability was given without impartial consideration in that it only involved a suggestion of examples of potential cost reduction measures and no discussion about how to realize these cost reduction measures. Considering this, the Internal Investigation Committee concluded that these cost reduction measures ultimately had a low probability of being achieved.

Considering the above, the estimate of total costs incurred was increased, which resulted in reduced progress on the projects which, in turn, resulted in reduced sales. In addition, contracted project loss allowance was added to the costs of projects with a deficit.

(ii) Appropriateness of the timing of revision of the assessment of cost reduction effects

In the Power Plant Division, specific cost reduction measures, including VE, were developed and assigned to each department. Due to the increasing difficulty in achieving cost reduction because of the pressure of dealing with project schedule disruptions and other issues, regarding several of the projects, the Internal Investigation Committee concluded that the assessment of cost reduction effects should have been revised at the end of September 2006 and at the end of FY 2006.

At the end of FY 2006, there was one project in which cost reduction effects were revised because the contracted manufacturer of pressure containing parts of boilers was changed from a domestic factory to an overseas subsidiary for cost reduction purposes but was then changed back to a domestic factory after the start of FY 2007 due to the operation stacks (the amount of work allotted to a factory) of the subsidiary. However, it was found that the operation stacks of the subsidiary were already high at the end of FY 2006 compared to the factory's production capacity and that the appropriateness of the cost reduction plan to subcontract the manufacture to the subsidiary was questionable.

The Environment and Plants Division (now called Environment and Plants Operations) had conducted cost reduction activities called the "Should Plan" (a plan to achieve a level of cost that should be appropriate) through VE activities on LNG tanks. These activities included reduction in the cost of steel expected from reduced tank weight. Although weight reduction had been achieved to some extent, a rise in steel prices resulted in increased costs which more than cancelled out the

reduced cost at the end of FY 2006.

However, the rise in steel prices started in FY 2006. When steel prices determined by placing orders up to March 2007 were used, in three projects it was found that the expected cost reduction effects should have been assessed as unachievable.

Considering the above, the estimate of total costs incurred was increased, which resulted in reduced progress on the projects which, in turn, resulted in reduced sales. In addition, contracted project loss allowance was added to the costs of projects with a deficit.

(iii) Failure to include cost increase factors due to mistake

In the process of examining the timeliness of inclusion of the cost increasing factors for FY 2007, it was found that the Power Plant Division had two projects in which cost increases from the operating budget had been found at the time of ordering steel and the estimate of total costs incurred should have been increased (i.e., the profitability should have been lowered) accordingly, but the cost increase was not reflected in the estimate.

Note: With respect to the Company, "operating budget" refers to the budget for a project formed after accepting the order, by allocating costs of the project to expense items and basing the budget on estimates reasonably considered feasible (this definition applies hereinafter).

Considering the above, the estimate of total costs incurred was increased, which resulted in reduced progress on the projects which, in turn, resulted in reduced sales. In addition, contracted project loss allowance was added to the costs of projects with a deficit.

(iv) Failure to reflect in the forecast factors identified in or before the last month of the fiscal year due to mistake

The Power Plant Division was conducting a project which involved exporting boilers in which a deviation from the operating budget involved in the placement of an order for BOP equipment (including boiler auxiliary equipment, coal conveying equipment, and ash treatment facilities) was recognized as cost increase at the time of order placement in April 2007, but that informal notification of which was found to have been given to the contractor no later than March 2007 in the process of confirmation of the vouchers involved in the order placement.

In another project in which the client was in Japan, an order form was received from the client for an extension of the scope of delivery (additional construction work) in March 2007 but failed to be reflected, together with the contract price and corresponding cost, in the project's profit and loss forecast by mistake at the time of account settlement.

In three other projects, the order forms were issued by March 2007 and the order placements involved cost increase factors, some of which were later found to have failed to be reflected in the estimates of total costs incurred.

In the Nuclear Power Division, three projects were found in which the construction work ordered from the client was almost completed by March 2007 but the cost increase factors involved failed to be reflected in the estimate of total costs incurred.

Considering the above, the estimate of total costs incurred was increased, which resulted in reduced progress on the projects which, in turn, resulted in reduced sales. In addition, contracted project loss allowance was added to the costs of projects with a deficit. Furthermore, cost allowance was included in the cost of projects in which the delivery had already taken place.

(v) Handling of compensation claimed by contractors

In two Environment and Plants Operations cement projects, the contractors' failures in construction work resulted in a necessity for repair work, and the contractors claimed expenses for the repairs. In one project involving LNG tank construction, the contractor claimed additional expenses due to the increased price of steel and additional construction work.

These claims were not reflected in the estimate of total costs incurred adopted in the financial statements for the fiscal year that ended March 31, 2007, because the terms and conditions of contracts with these contractors provided that the contract price was fixed and no additional payments would be made in principle.

In and after the second half of FY 2006, however, it became likely that if the Company refused to make payment to these contractors, the deadlines for the projects might not be met. Operations thus changed its policy after the beginning of FY 2007 and decided to make part of the requested payment with the intention of encouraging the contractors to execute the work, in order to avoid claims for large amounts of damages that might have been made by the clients if the deadlines were not met. In these projects, the delays in the construction schedules that had occurred by the end of March 2007 were such that it would have been impossible to catch up with the schedules by the end of FY 2007. The Internal Investigation Committee concluded that, if considered impartially at this point in time, it was likely that payment would be made to the contractors and that the financial results for the previous fiscal year should be revised accordingly.

Considering the above, the estimate of total costs incurred was increased, which resulted in reduced progress on the projects which, in turn, resulted in reduced sales. In addition, contracted project loss allowance was added to the costs of projects with a deficit.

(vi) Handling of cost increase items discovered between April and September 2007

For five projects in which cost increase events occurred during FY 2006 but cost calculation was delayed until the period from April to September 2007, the committee concluded that these cost increase items should be reflected in the financial statements for FY 2006, based on a conservative view that it is desirable to reflect these items in the estimate of total costs incurred adopted at the end of FY 2006 using a reasonable basis for calculation.

Considering the above, the estimate of total costs incurred was increased, which resulted in reduced progress on the projects which, in turn, resulted in reduced sales. In addition, contracted project loss allowance was added to the costs of projects with a deficit. Furthermore, cost allowance was included in the cost of projects in which the delivery had already taken place.

The table below shows a summary of the effects on the operating income of the revisions to the financial results for the previous fiscal year made based on the facts described in (i) through (vi) above, in terms of amount of money (in millions of yen) and number of projects by Divisions/Operations (note that a single project may be counted as more than one factor).

(in millions of yen)

Factor	Fiscal year ending March 31, 2007			
	Power Plant Div.	Nuclear Power Div.	Environment & Plants Op.	Total
(i) Cost reduction without impartial consideration	2 projects 1,428			2 projects 1,428
(ii) Appropriateness of the timing of revision of the assessment of cost reduction effects	5 projects 4,961		3 projects 1,951	8 projects 6,912
(iii) Failure to include cost increase factors due to mistake	2 projects 3,446			2 projects 3,446
(iv) Failure to reflect in the forecast factors identified in or before the last month of the fiscal year due to mistake	5 projects 1,168	2 projects 4,127		7 projects 5,295
(v) Handling of compensation claimed by contractors			3 projects 5,055	3 projects 5,055
(vi) Handling of cost increase items discovered between April and September 2007	4 projects 7,559		1 project 705	5 projects 8,264
Total	18 projects 18,562	2 projects 4,127	7 projects 7,711	27 projects 30,400
(Reversal of guaranteed project loss allowance)				-157
Grand total				30,243

Factors	6 months ending September 30, 2006			
	Power Plant Div.	Nuclear Power Div.	Environment & Plants Op.	Total
(i) Cost reduction without impartial consideration				N/A
(ii) Appropriateness of the timing of revision of the assessment of cost reduction effects	4 projects 2,066			4 projects 2,066
(iii) Failure to include cost increase factors due to mistake	2 projects 3,159			2 projects 3,159
(iv) Failure to reflect in the forecast factors identified in or before the last month of the fiscal year due to mistake		2 projects 4,021		2 projects 4,021
(v) Handling of compensation claimed by contractors				N/A
(vi) Handling of cost increase items discovered in April-September 2007			1 project 602	1 project 602
	6 projects	2 projects	1 project	9 projects

Total	5,225	4,021	602	9,848
(Reversal of guaranteed project loss allowance)	N/A	N/A	N/A	-25
Grand total	N/A	N/A	N/A	9,823

[For Your Information]

1. The Company's organizational structure

The Company employs a system in which different Operations are responsible for different business fields or different products. Under each of the Operations, Divisions have been established which are responsible for different subdivisions of products. The Divisions of the head office control the entire company, with some Divisions having the functions of monitoring/supervising the non-head office Operations and Divisions and others having the function of supporting the management of the non-head office Operations and Divisions.

In FY 2006, the Energy and Plants Operations controlled and operated the Company's energy and plants business and consisted of three divisions: the Power Plant Division, the Nuclear Power Division, and the Environment and Plants Division. From FY 2007, in line with the company-wide policy to establish independent Operations to manage businesses of focus, the Environment and Plants Division, which had been in charge of the LNG business (including construction of bases for acceptance/delivery of LNG) as a business of focus designated by the Company, was made independent as Environment and Plants Operations, with Energy and Plants Operations supervising the two other Divisions being renamed Energy Plants Operations.

2. The mechanism of the percentage of completion method

Currently, a Japanese company has a choice between the percentage of completion method and the completed contract method in calculating revenue from long-term contract projects. The Company calculates revenue according to the percentage of completion method in projects whose contract price is 3 billion yen or more and whose construction period is 2 years or longer.

The percentage of completion method is an accounting procedure in which:

- (i) the contract price, total costs incurred, and progress of work as of the date of account settlement are reasonably estimated for the contract of each project; and
- (ii) the revenue and cost of the projects conducted during the fiscal term is calculated by multiplying the contract price and the estimate of total costs incurred, respectively, by the progress of work. The Company calculates revenue using the following formulae as of the date of account settlement.

(Formulae)

- Progress of work = total actual production costs for the current term/estimate of total costs incurred
- Percentage of completion sales = contract price x progress of work - total percentage of completion sales for the previous term
- Percentage of completion sales cost = total actual production costs for the current term - total actual production costs for the previous term
- Percentage of completion gross profit = percentage of completion sales - percentage of completion sales cost

As described above, the percentage of completion method involves use of an estimate of total costs incurred, which is an undetermined estimate of costs. Because of this, a key factor in the appropriate calculation of revenue and expenses is how to make an accurate estimate of total costs incurred.

As seen in the above formulae, the percentage of completion sales/sales cost for the current term is calculated by subtracting the total percentage of completion sales/sales cost up to the previous term from the total percentage of completion sales/sales cost. Therefore, any change in the estimate of total costs incurred for the current term results in

a modification, to be made during the same period, of the profit/loss calculated before the previous term. As such, a change in the estimate of total costs incurred may have a great impact on the profit and loss for the current term. This makes an accurate calculation of the estimate of total costs incurred important, as described above.

5. Background and causes of the revisions to the financial results for the previous fiscal year

The Company has concluded that the background and causes of the revisions to the financial results for the previous fiscal year comprised the following.

(1) Circumstances leading up to the revisions to the financial results for the previous fiscal year

(i) Problems in the Operations' and Divisions' approaches towards the achievement of profit goals

In the management of the former Energy and Plants Operations, the highest priority seems to have been given to achieving numerical profit goals promised by the Operations to the head office. It is inferred that, with respect to the problems of "Cost reduction without impartial consideration", "Appropriateness of the timing of revision of the assessment of cost reduction effects", "Failure include cost increase factors due to mistake", and "Handling of compensation claimed by contractors" described above in Chapter I, 4. (2) (i), (ii), (iii) and (v), respectively, the above approach caused the Planning and Control Department of the Operations to give coercive instructions based on imprudent or optimistic interpretations in the calculation of estimates of total costs incurred in projects subject to the percentage of completion method, despite the delicate nature of this calculation in terms of accounting.

(ii) Role of the cost management departments of the energy and plants business

Each of the Operations of the Company had its own cost management department, which was expected to conduct cost management and deal with audit/investigation as an independent department. However, the cost management group for the energy and plants business (i.e., Energy Plants Operations and Environment and Plants Operations) was not entirely sufficient in terms of the number and experience of the staff and there is concern that the team might have been unable to fulfill its expected role.

In addition, since the cost management department is a subordinate organization to the President of the relevant Operations, it was difficult for the cost management department to oppose the management of the Operations unless the section chief of the cost management department involved had a very strong will. Even so, if the management of the Operations had no intention to respect the opinions of the personnel in charge of cost management, the control environment might lead to problems.

It is inferred from the results of the Internal Investigation Committee's interviews with persons involved that under the circumstances in question, the cost management group for the energy and plants business was not involved in various decision-making opportunities and failed to perform its checking function.

Another possible cause of the present situation is that the cost management group was unable to fully fulfill its expected role because of its insufficient capacity and remote relationship with the hub of the Operations.

(2) Causes of the revisions to the financial results for the previous year

In light of the above-described background of the revisions to the financial results for the previous year, the Company has concluded that the main causes of the revisions to the financial results for the previous year are the following two factors.

(i) The head office's defective system for monitoring information on Operations and Divisions

The Company has concluded that one cause of the revisions to the financial results for the previous year is the head office's potentially defective system for monitoring information on Operations and Divisions or the head office's potential failure to fully fulfill its monitoring function.

- (ii) Insufficient function of the process to collect necessary information in calculating and checking the estimate of total costs incurred in projects subject to the percentage of completion method

The Company has concluded that the issues pointed out above in Chapter I, 4. (2) (iv) and (vi), "Failure to reflect in the forecast factors identified in or before the last month of the fiscal year due to mistake" and "Handling of cost increase items discovered between April and September 2007", respectively, ultimately affect the financial results for the previous fiscal year. The cause of these issues seems to be defective procedures for conveying and receiving information between divisions and departments involved in a project, such as between the line departments and the planning and control department, or between the relevant related company and the planning and control department. It is also inferred that delays in the transmission of information between departments and in the assessment process of administration departments were further affected by disruptions in the administration departments stemming from process disruptions and similar disruptions arising in related companies executing construction work.

The Company has thus concluded that the process of collection of necessary information may have failed to function sufficiently, such as failure to convey, in a timely and accountable manner, information necessary to calculate and check the estimate of total costs incurred in projects subject to the percentage of completion methods.

## II. Improvement Measures and Implementation and Operation Thereof

The Company concluded that the revisions to the financial results for the previous fiscal year were caused by defective internal control/checking of “monitoring” and “information and its conveyance” in the following, which brought about the circumstances that led to the revisions, or prevented early detection and handling of relevant problems: the business process of the energy and plants business from the decision to accept orders for projects subject to the percentage of completion method to execution and completion of the construction work; the structure and system to monitor performance; and the manner of operation of this process, structure and system. The Company outlined the measures to be taken to deal with this issue in the “Improvement Report”, which had been requested by the relevant securities exchanges, and on February 25, 2008, submitted the report to the securities exchanges as well as disclosing it.

The Company regards the situation that has required revisions to the previous financial results as an extremely serious event and deeply regrets it. Since the disclosure of the Improvement Report, the Company has worked on the implementation of the improvement measures. In addition, the Company has designated the Internal Control Assessment Division, which is in charge of promoting internal control of the Company, as the office in charge of monitoring the progress of the improvement measures, through which the Company has monitored and followed up on the progress of these measures.

Provided below is a summary of these improvement measures excerpted from the Improvement Report and descriptions of the status of implementation and operation of the improvement measures. Please also refer to the “Schedule for Implementation of Improvement Measures [Appendix 1]”, which compares the “Improvement Measures Implementation Schedule” attached to the Improvement Report as Appendix 1 with the present situation.

### 1. Improvement measures to directly deal with the cause of the revisions in question

#### (1) Enhancement of monitoring functions

##### (i) Improvement and enhancement of the major project review system

Before accepting an order for a major project, the Company used to assess potential risks involved in terms of cost, contract, technology, etc. at a meeting of the Major Projects Review Committee. However, the time allowed for assessment at preliminary review meetings, which preceded the formal Committee meeting, was often insufficient which might have resulted in insufficient assessment. In addition, the functions, powers and other aspects of the Committee had not been well-defined as a formal system of the Company. To deal with these issues, the Company decided to implement the following measures.

##### (a) Enhancement of the structure of the Contracts and Legal Division

On January 1, 2008, a “Project Judging Group” will be established in the Contracts and Legal Division and will be in charge of: developing of a system/process for reviewing acceptance/rejection of orders for major projects; and reviewing acceptance of orders. The Group will have six members by April (four members as of February 25, 2008).

[Status of implementation and operation]

On January 1, 2008, a “Project Judging Group” was established in the

Contracts and Legal Division of the head office, in accordance with Article 11 of the Organizational Rules. The Group started with four members, followed by the addition of two more members at the end of May 2008, resulting in a six-member group. The Project Judging Group developed: the “Major Projects Review Committee Operational Procedures”, which provide for the operation of the “Major Projects Review Committee” (formerly the Major Project Review Committee) and the “Review Subcommittee” (the institutionalized form of the former preliminary review meetings); and the “Basic Rules for Preliminary Review of Major Projects”, which provide for the procedures for internal review of individual orders before their acceptance by each of the Operations or subsidiaries. Coming into force on April 1, 2008, these rules defined the preliminary review process as internal procedures. In addition, the position of the Review Subcommittee as the preliminary review body was clarified by obligating the chairman of the Review Subcommittee to report the results of review by the subcommittee to the Major Projects Review Committee.

(b) Enhanced strictness and clarification of the project review process

The Project Judging Group will, by monitoring the progress of negotiation over the project in question from the initial stage (receipt of an inquiry from the client) up to the stage of judging whether or not to accept the order for the project and by monitoring the status of assessment within the relevant Operations: independently identify potential risks involved if the order is accepted; assess the appropriateness of the potential terms and conditions, including the cost estimate, contingency costs, and price proposed by the client; and collect information which will enable a more strict review of whether the order should be accepted.

The results of these activities will be reported to the Major Projects Review Committee (tentative name), which will consist of the CEO, the Executive Vice Presidents, the general manager of the Finance and Accounting Division, the officer in charge of the Corporate Planning Division, and other executive officers designated by the CEO. The Major Projects Review Committee will review the project based on the information so provided.

The functions, powers, review criteria and other aspects of the Major Projects Review Committee will be organized and clarified.

If a project is accepted, the criteria will be defined for subjecting the project to reexamination if any change to the contractual terms based on which the decision to accept the project was made, occurs in the process of confirming the status of submission of estimates and results of bids submitted or in the process of negotiation with the client following the review. The progress of negotiation up to the execution of contracts will be continuously monitored in order to ensure that the conditions based on which the decision to accept the project was made remain the same. (To be started from March 2008.)

Each of the Operations (Divisions) will review the project review process within the Operations (Division) and formulate it into rules concurrently with the implementation of the above-described measures by the head office. (To be started from April 2008.)

[Status of implementation and operation]

On April 1, 2008, the Company established the Major Projects Review Committee, which corresponds to the former Major Project Review Committee, at the head office, and the Review Subcommittee as a subordinate organization of the Major Projects Review Committee with the intention of increasing the efficiency and speed of review by the Major Projects Review Committee and of enhancing the board’s function of checking business practices. Since then the Company has conducted preliminary reviews before accepting projects. A project will be subject to preliminary review if: (i) its estimated contract price is 5 billion yen or greater; (ii)

its estimated deficit with respect to the operational cost (which is a concept of cost used in the Company for administrative purposes and refers to the total of the cost of construction work, distribution cost, general administration cost, non-operating expense, taxes, dividends and other allocated expenses) is 100 million yen or more; (iii) it is within the jurisdiction of Energy Plants Operations or Environment and Plants Operations and its estimated contract price is 3 billion yen or more and less than 5 billion yen; or (iv) the general manager of the relevant Operations or the general manager of the Contracts and Legal Division determines that it requires preliminary review.

The Review Subcommittee consists of members appointed by the general managers of the divisions listed below from technical viewpoints to conduct assessments of various risks to be reflected in information used to estimate costs of the project in question. The main items of assessment to be conducted by the respective departments are as listed below. In addition, information on cost items and operations collected and assessed by the Contracts Review Group, which is the secretarial office of the Review Subcommittee, is put together, based on which the subcommittee reviews comprehensively the appropriateness of the cost estimate, the appropriateness of the design, factory and the operation of the on-site works and other relevant aspects of the project.

- Corporate Planning Division: Management risk, consistency with management policy
- Contracts and Legal Division: Contract risk
- Finance and Accounting Division: Financial risk, issues involved in accounting and tax affairs
- Project Audit Division: Project implementation risk (including the appropriateness of the implementation system)
- Procurement Strategies: Procurement risk
- Research and Development: Technological risk
- Business Administration: Country risk

The Improvement Report states that the Project Judging Group will, by monitoring the progress of negotiation over the project in question from the initial stage (receipt of an inquiry from the client) up to the stage of judging whether or not to accept the order for the project and by monitoring the status of assessment within the relevant Operations, independently identify potential risks involved if the order is accepted; and assess the appropriateness of the potential terms and conditions, including the cost estimate, contingency costs, and price proposed by the client. For the time being, the functions of the Project Judging Group are represented by the process described below.

Firstly, upon request by any Division or Operations for review, the Project Judging Group, as the secretarial office of the Review Subcommittee, investigates the activities conducted for the project by the relevant Operations, Divisions and subsidiaries and convenes a meeting of the Review Subcommittee. The group puts together the results of the review conducted by the members of the subcommittee from technical viewpoints and, if any problem is discovered in the process of this preliminary review, makes written requests for a response on countermeasures from the relevant Operations, Divisions and subsidiaries. Based on this preliminary review, a decision is made as to whether or not it is possible for the Company to bid for the project, at a meeting of the Review Subcommittee which must in principle be held at least one week before the meeting of the Major Projects Review Committee. The results of this review are summarized in a "Summary/Report of Review of Major Project", which is submitted or reported by the chairman of the Review Subcommittee to the Major Projects Review Committee.

The Major Projects Review Committee is presided by the Chief Executive Officer and consists of the Executive Vice Presidents and Senior Executive Officers, the executive officer in charge of the Contracts and Legal Division, the general manager of Research and Development, the general manager of the Corporate Planning Division, the general manager of the Finance and Accounting Division, and other persons appointed by the chairman. Based on the results of the review by the Review Subcommittee, the board analyzes the potential effects of the project on the Company's management, in such respects as the appropriateness of the estimated profit and loss, the appropriateness of the countermeasures against risks, and the project promotion system. In light of the results of review, the board provides the president of the relevant Operations, who is authorized to decide whether to accept the project, with an outline of policy on assessing and deciding whether or not to submit a final tender and estimate for the project at the stage before making a decision regarding whether or not to accept the project. Specifically, the Major Projects Review Committee and the Review Subcommittee conduct a thorough review of each project. On the other hand, the president of the relevant Operations decides whether or not to submit a final tender and estimate based on the outline of policy provided by the board. The president of the Operations also assists the head office with its checking function as a result of the imposition on the president of the obligation to report to the chairman, members and secretarial office of the Major Projects Review Committee, before submitting a tender, measures to deal with matters pointed out at the meeting(s) of the board. The review is conducted, in principle, at least one week before the proposed submission of a tender. All problems discovered in the process of review must be solved by the Operations before submitting a tender. On April 1, 2008, the general manager of Research and Development became a new member of the Major Projects Review Committee in place of the vice president in charge of Research and Development, as the person in charge of technical review.

[Performance and meetings of the Major Projects Review Committee (number of projects reviewed and number of meetings held in and after April 2008)] (as of August 31, 2008)

Logistics Systems and Structures Operations:	3 projects, 8 meetings
Energy Plants Operations:	7 projects, 7 meetings
Environment and Plants Operations:	2 projects, 3 meetings
IHI Marine United Inc.:	2 projects, 2 meetings

These review procedures to be followed by the Review Subcommittee and the Major Projects Review Committee have been codified by the Contracts and Legal Division into the "Major Projects Review Committee Operational Procedures".

In the event of any change to the contractual terms or contract price after the submission of a tender and estimate, the relevant Operations report the details of the change to the secretarial office (the Project Judging Group). Unless obviously favorable to the Company, any such change to the terms is, in principle, subject to reexamination by the Major Projects Review Committee or the Review Subcommittee, if there is found to be: (i) any change to the scope or terms of the contract; (ii) any change to the technical requirements or project schedule or desired delivery date; (iii) any change to the main suppliers or main manufacturing plants; (iv) any change in the profitability; or (v) any change of 5% or greater in the expected contract price. In addition, even if an analysis of the details of the change results in a decision not to subject the project to reexamination, the secretarial office must report the details of the change and the reason for not subjecting the project to reexamination to the chairman and members of the Major Projects Review Committee and the members of the Review Subcommittee. Since the enforcement

of the Rules, there has been no project that required reexamination.

In response to the codification of the criteria for reexamination, the directors in charge of the various Operations and subsidiaries have notified the respective Operations and subsidiaries that a request for reexamination must be made whenever applicable. In response to this, the Project Judging Group has followed up activities after a project has been reviewed, by such means as checking that the submission of estimates, acceptance of (or failure to accept) an order, or other circumstances arising after the review agree with the terms submitted for approval, or by checking the details of any project resubmitted after the initial review with any change to the scope or amounts of the estimates or other terms from those submitted for approval and by determining whether or not reexamination is necessary for the resubmitted project.

With respect to revision and compilation into rules of the project review process within the Operations and Divisions, the Power Plant Division and Environment and Plants Operations takes a “tollgate approach” to the project review process within the Division and the Operations. The “tollgate approach” is a system in which each of the major milestones from “estimation to delivery” of each project is designated as a stage, at each of which the main deliverables prepared by the proposal manager (the person responsible for making estimates) or the project manager or their equivalent are reviewed by the president of the Operations or his equivalent. The tollgate approach applies to the process from estimation to delivery in Environment and Plants Operations and to the process from estimation to acceptance of an order in the Power Plant Division. Under the tollgate approach, the project is not allowed to proceed to the next stage unless it passes the tollgate set up for each stage.

Under this tollgate approach, the Major Projects Review Committee is defined as one of these tollgates, with the items to be checked before submitting the project to the board and the reviewer and approver at each stage being designated. The purpose of this approach before acceptance of an order is to quantify the rationality of accepting the project, the appropriateness of the costs, and expected risks, to analyze potential measures to avoid risks, and to conduct other activities required during the process from receipt of an inquiry to acceptance of an order, all in an efficient and exhaustive manner. The approach is also expected to rationalize the estimation activities because: review records are retained without fail since the reviewer and approver for each stage are previously designated; there is a smaller chance of incomplete or unnecessary checking; and the project is not allowed to proceed to the next stage if it fails to pass any stage.

In the Power Plants Division and Environment and Plants Operations, the tollgate meetings for the stages before acceptance of an order are joined by members of the Project Judging Group to ensure information sharing and increased efficiency of the review before acceptance of an order.

The Nuclear Power Division had planned to implement the tollgate approach from April 2008. However, since it took more time than expected to consider the approach, in August 2008 the Division revised its rules, the “Operational Rules for Design Estimate and Cost Estimate Accounting” in order to develop a review system equivalent to the tollgate approach. In practice, the Division started estimation activities based on this system from early August.

In addition to the Nuclear Power Division’s rules described above, rules on the tollgate approach at the Division/Operations level have been established in the Power Plant Division’s “Front-loading Implementation Rules” and Environment and Plants Operations’ “Tollgate Review Rules”.

The tollgate approach was introduced as a means to control interactions

between Operations and Divisions with respect to a project. As a result of the incorporation of the stages up to acceptance of an order into the review process as described above, this approach has produced an organic and rational combination of activity flows of the Operations/Divisions and monitoring by the head office. We believe that this has created an efficient, effective project review system as a whole.

- (ii) Ensuring the appropriateness of estimated profit and loss for projects subject to the percentage of completion method by establishing the Project Audit Division

The Company's Operations and Divisions are responsible for calculating and managing profits and costs up to the level of production cost/profit of a project. Some of the projects recently investigated included apparently inappropriate accounting procedures in the calculation of the total project cost (note: what is referred to as the "estimate of total costs incurred" in the Improvement Report will hereinafter be referred to as the "total project cost"; therefore, in and after Chapter II of this Improvement Status Report what is referred to as the "estimate of total costs incurred" in Chapter I will be referred to as the "total project cost"), which resulted in the revisions to the previous financial results. As this seems to have resulted from the head office's insufficient system for monitoring Operations/Divisions, the following measures were planned to deal with this issue.

On January 1, 2008, the "Project Audit Division" will be established at the head office with the aim of auditing the appropriateness and transparency of the calculation of the estimated profit and loss of projects subject to the percentage of completion method at Energy Plants Operations and Environment and Plants Operations. The Division will consist of approximately eight members. (Scheduled for April.)

The members of the Project Audit Division will include not only current employees of the Company but also two former employees of the Company who are experienced in accounting and performance management and one expert who served as a project manager at an engineering company, as an effort to make use of external human resources.

The main duties of the Project Audit Division will include: to investigate, after acceptance of an order for a project subject to the percentage of completion method, the appropriateness of the project implementation system, the status of management of intermediate cost in accordance with the progress of the project, the progress of the procedures for increasing contract price, and the status of reflection of these relevant factors in the estimated profit and loss of the project; to assess the appropriateness of the investigation results; and to report the assessment results and, if any problem is found, any matters to be pointed out and proposed improvement measures to the CEO through the Management Committee, on a monthly basis in principle or in a timely manner. (To be started from March 2008.)

Of the above factors, the status of management of intermediate cost will be inspected from the following viewpoints with a possibility of an on-the-spot inspection of the construction site: whether any increase or decrease in the costs incurred is correctly reflected in the intermediate cost in accordance with the progress of the project; whether any cost reduction effects that have not been achieved are reflected; whether any risks arisen are appropriately reflected in the intermediate cost; and whether there is any failure to reflect cost increase factors in the cost accounting as a result of any defect in the management of the project. (During or after April 2008.)

Note: "Intermediate cost" refers to the estimated final cost at completion of the

project calculated at an intermediate stage of the project by adding together the expenses that have actually arisen and the expenses that are expected to arise in the future (this definition applies hereinafter).

[Status of implementation and operation]

On January 1, 2008, the "Project Audit Division" was established at the head office with the aim of auditing the appropriateness and transparency of the calculation of the estimated profit and loss of projects subject to the percentage of completion method at Energy Plants Operations and Environment and Plants Operations. Considering the auditing workload of the Project Audit Division experienced by February 2008, a seven-member system has been established for the Division to perform its duties. The Division consists of a total of six full-time members experienced in accounting and performance management, including two former employees of the Company, and one project management expert invited on a part-time basis (working approximately two days a week) who has served as a project manager at a leading engineering company. If additional manpower is required due to increase in the auditing workload in the future, the Company will consider inviting additional members not only from internal but also from external human resources. For the time being, the Company plans to consider inviting another member some time during the second half of FY 2008.

The Project Audit Division started substantial activities from February 2008. It initially audited projects subject to the percentage of completion method at Energy Plants Operations and Environment and Plants Operations in terms of the status of management of the projects, including checking whether intermediate costs are being managed in accordance with the accounting procedures for intermediate costs, by interviewing employees at the planning and control departments as well as project managers and by requesting relevant documents such as relevant Division/Operations rules. In order to investigate the progress of the procedures for increasing contract prices, the Division also interviewed employees at the planning and control departments and sales departments regarding the status of negotiations with clients.

The investigation into the appropriateness of the project implementation system started in June 2008. The investigation has continued, with seven projects being subject to audit by the end of August. For two of these projects, a summary of the investigation results was reported at the meeting of the Management Committee held on August 25, 2008. For the remaining five projects, the investigation results will be reported at the meeting of the Management Committee scheduled for September. Points to be checked in determining the appropriateness of the project implementation system included: overall planning, such as whether the project manager's project implementation policy, the organization and responsibilities for implementation, and the scope of the project have been defined; whether there are any management problems, such as whether the system allows management of risks, modifications, budget, cost and schedule (project progress management); and whether or not each of the Operations has a project implementation plan and, if so, whether it is appropriate. The investigation focuses on interviews with the project managers.

In the compliance audit regarding the procedures for calculating intermediate cost and total project cost affecting the financial results for the fiscal year that ended March 31, 2008, during the approximately one-month period immediately prior to the settlement date, the Project Audit Division collected documents, prepared in accordance with the forms prepared by the Division, showing whether there had been any events that might have affected the cost and, if so, the changes to the cost caused by such events. These documents were related to whether any

increase or decrease in the cost incurred had been correctly reflected in the intermediate cost in accordance with the progress of the project, whether any cost reduction effects that had not been achieved were not reflected, and whether risks that had arisen had been appropriately reflected in the intermediate cost. The Project Audit Division conducted on-the-spot inspections and other activities, including personal interviews with the heads of the relevant departments in charge of cost accounting and with other persons involved and visits to the departments concerned to directly obtain management documents, in order to check whether the responses given in the above documents collected are appropriately reflected in the estimated remaining cost. The Project Audit Division audited the appropriateness of the status of management, the appropriateness of the method of calculating intermediate cost, and the appropriateness of the resulting total project cost, and reported the results to the Finance and Accounting Division as well as summarizing them in the document titled the "Investigation of the Appropriateness of the Method of Calculating the Estimated Total Costs Incurred for the Financial Results for the Fiscal Year that Ended March 31, 2008" and reporting the summary to the Company's accounting auditors on May 9, 2008.

This audit is supposed to be conducted on a quarterly basis in order to ensure the appropriateness of the figures in the financial results. For the first quarter of FY 2008, the audit was conducted during the period from June to early July and the results were reported to the Finance and Accounting Division, with a copy of the report being submitted to the accounting auditors.

[Performance of the Project Audit Division's compliance audit regarding the procedures for calculating intermediate cost and total project cost (at the end of FY 2007 and the first quarter of FY 2008)]

Energy Plants Operations: 24 projects  
Environment and Plants Operations: 17 projects

Future plans include on-the-spot inspections of the construction sites, including those overseas, in about 6 projects out of the 7 projects specifically designated for investigation which, in turn, are among the 36 projects subject to the percentage of completion method at Energy Plants Operations and Environment and Plants Operations.

Performance and schedule of inspections of construction sites:

Up to August 2008: 1 domestic and 1 overseas project (completed)  
Second half of FY 2008: 2 domestic and 2 overseas projects (scheduled)

If any problem is found in the management systems of any of the Divisions/Operations as a result of the activities of the Project Audit Division described above, matters to be pointed out and proposed improvement measures are reported to the CEO at the Management Committee meeting on a monthly basis in principle.

(iii) Enhancement by the Finance and Accounting Division of the cost accounting departments of the energy and plants business

The departments in charge of cost accounting of Energy Plants Operations and Environment and Plants Operations had functions of monitoring cost management conducted by the Operations and providing guidance to ensure appropriate cost management. However, these functions had not been completely performed for such reasons as insufficient numbers of persons experienced in finance. The following measures were planned to deal with this issue.

On February 1, 2008, the cost accounting departments which had belonged
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to Energy Plants Operations and Environment and Plants Operations were incorporated into the Finance and Accounting Division, and one additional general manager was assigned to the new organization on a full-time basis. This organizational change and the personnel changes associated with it is intended to improve the accuracy of cost estimates of the relevant business and to ensure the appropriateness of sales and cost of sales by enhancing the corporate checking function and by creating and developing an environment to control the management of Energy Plants Operations and Environment and Plants Operations. In addition, the Finance and Accounting Division will strive to enhance its cost management function by continuously providing training to personnel in charge of cost accounting.

[Status of implementation and operation]

On February 1, 2008, the cost accounting departments of Energy Plants Operations and Environment and Plants Operations were incorporated into the Finance and Accounting Division as the “Energy & Plant Group”, to which a general manager was assigned. The group started with six full-time members, followed by the addition of three full-time members in April. After May 1, 2008, the group consisted of nine full-time and two part-time members. The Energy & Plant Group puts its members in charge of each of the Power Plants Division, the Nuclear Power Division and Environment and Plants Operations and sends them to progress report meetings held by the Division or the Operations of which they are in charge to check their progress on projects. This is a mechanism which gives the group an enhanced function of monitoring the Divisions and Operations. In addition, the group strives to perform its function of checking the Operations by sending its general manager to performance discussion meetings held by Energy Plants Operations and its Divisions and to those held by Environment and Plants Operations.

In the preparation of financial results for the fiscal year that ended March 31, 2008, and those for the first quarter of FY 2008, the Energy & Plant Group strived to ensure the appropriateness of sales and cost of sales by working with the Project Audit Division to confirm the total project cost and total project profit of the projects subject to the percentage of completion method.

For continuous training of personnel in charge of cost accounting, the following nine programs have been provided since the establishment of the Energy & Plant Group on February 1, 2008.

[Continuous training programs provided by the Finance and Accounting Division]

No.	Date	Content
1	March 5, 2008	On-the-spot inspection of a thermal power plant and exchange of opinions on power plant construction projects
2	March 5, 2008	Seminar on new accounting standards (lease accounting, valuation of inventory, percentage-of-completion accounting, quarterly reporting system, and modifications to useful life of fixed assets)
3	May 19, 2008	Investigation of overseas situation by attending “Presentations of Research Findings on Overseas Machine Industry” sponsored by an external organization
4	June 10, 2008	Investigation of circumstances surrounding natural resources by attending “Presentations of Research Findings on Major Resources” sponsored by an external

		organization
5	July 8, 2008	Preparation for a European project by attending the external seminar, "Seminar on European value added taxes and duties"
6	August 7-8, 2008	Exchange of information on accounting and taxation at a discussion meeting on accounting held jointly with finance departments of other companies
7	August 20, 2008	Attending a training session on corporate tax sponsored by an external organization
8	August 25, 2008	Study meeting on the percentage of completion method with a lecturer from the Finance and Accounting Division
9	August 28, 2008	Briefing session within the group on the "discussion meeting on accounting"

Future plans are as follows.

No.	Date	Content
10	September 2008	Briefing session within the group on an external seminar on tax inspections
11	September 2008	Study meeting on accounting treatment of bonds
12	October 2008	Study meeting on the shelf registration system and continuous disclosure
13	December 2008	Study meeting on lease accounting
14	January 2009	Study meeting on points of fixed assets management
15	February 2009	Study meeting on group finance
16	March 2009	Study meeting on accounting standards for asset retirement obligations

(iv) Enhancement of functions and composition of the Finance and Accounting Division

The Finance and Accounting Division had monitored the account settlement procedures followed by the Divisions and Operations and the results of these procedures. However, the Finance and Accounting Division was unable to directly monitor the situations within the Divisions and Operations because financial information was obtained from these Divisions and Operations mainly through the planning and control departments of the relevant Operations. As a result, it seems that the Finance and Accounting Division's function of monitoring these Divisions and Operations was not fulfilled satisfactorily. In addition, with increasing workload and increasing complexity of the responsibilities of the Finance and Accounting Division, there was an undeniable lack of manpower, particularly of persons experienced in finance. The following measures were planned to deal with this issue.

The Finance and Accounting Division will enhance its function of monitoring the accounting procedures followed by the two Divisions of Energy Plants Operations and by Environment and Plants Operations and monitoring information on their performance by obtaining information on their progress on projects and related matters directly and in a timely manner through monthly meetings with these Divisions and Operations. In terms of means of monitoring, the Finance and Accounting Division (the general manager of the division, the general manager of the Accounts Group, and the general manager of the Finance Group will directly interview officers of the divisions in charge of construction work regarding the progress of work, particularly any events that may result in a change of the cost

estimate (e.g., delays in construction schedules, complaints, risks) and will check that information so collected is reflected in accounting information in a timely and appropriate manner.

The aforementioned regular meetings will be attended by the general manager of the Project Audit Division, in addition to the general managers of the relevant divisions and those of the Planning and Control Departments. (To be started from February 2008.)

In addition, with the help of the Human Resources Division a map showing the distribution of persons with financial backgrounds will be made for the entire group and the staffing of the Finance and Accounting Division will be increased and strengthened by recruiting mid-career workers or transferring employees from other departments to the Finance and Accounting Division. (To be started from April 2008.)

[Status of implementation and operation]

Since February 2008, the Finance and Accounting Division (“FAD”) has held monthly liaison meetings with the Power Plant Division, the Nuclear Power Division and Environment and Plants Operations (“FAD/Divisions liaison meetings”), at which the FAD checks directly with these divisions their progress on projects, focusing on any change in the total project cost of individual projects from the preceding month.

These liaison meetings are attended by: the general manager of the FAD, the general managers of the Accounts Group and the Finance Group, and the general manager of the Project Administration Division, all of whom represent the head office; and the presidents of the Operations, the general managers of the divisions and the planning and control departments, and chiefs or their equivalents of said divisions and departments, all of whom represent the Divisions and Operations.

At each such liaison meeting, the FAD receives from the Divisions and Operations reports on their progress on projects subject to the percentage of completion method. In this process, the FAD asks if any event has occurred that may affect the total project cost/profit. The FAD checks for any inconsistency between information collected at the meeting and the total project cost/profit used in the percentage of completion accounting and ensures that accounting information relating to progress on projects is reflected in financial results accurately and in a timely manner.

[Liaison meetings of Divisions and Operations held]

Liaison meetings for the January through July terms (held from February through August) of 2008

Date	Division/Operations monitored	Agenda
February 22	- Power Plant/Nuclear Power Divisions - Environment & Plants Operations	- General overview of the Division(s)/Operations - Report of the progress on individual projects, and any problems and issues - Any change in the estimated total project cost or other forecasts - Other matters warranting special mention
March 22	Same as above	
April 23	Same as above	
May 23	- Power Plant Division	
May 27	- Nuclear Power Division - Environment & Plants Operations	
June 20	- Power Plant Division	
June 25	- Nuclear Power Division	
June 26	- Environment & Plants Operations	
July 18	- Power Plant/Nuclear Power Divisions	

	- Environment & Plants Operations	
August 22	- Power Plant Division - Environment & Plants Operations	
August 27	- Nuclear Power Division	

To deal with the lack of manpower in the FAD, mid-career workers have been recruited, priority has been given to the FAD in assigning new employees, and new members have been transferred from other departments. As of August 1, 2008, the FAD's manpower had increased from the January 1, 2008, level as follows:

January 1, 2008:	88 persons
Transferred to FAD from the Energy & Plant Group:	5 persons
Recruitment of mid-career workers experienced in finance:	4 persons
Recruitment of new employees:	8 persons
Other (transferred to or from FAD):	1 person
August 1, 2008:	106 persons

The above 18 additional members have been assigned to the FAD groups as follows:

Accounts Group:	8 persons
Energy & Plant Group:	9 persons
Other:	1 person

As part of its effort to strengthen its staffing, the FAD has made a financial staffing map showing the distribution of age and titles of, and official qualifications (such as bookkeeping and construction accounting clerk) obtained by its members, based on personal data of individual employees at the FAD, including the number of years with the FAD. This map has been utilized as reference materials for providing a system to encourage IHI Group financial staff to acquire qualifications and a training system for them and for recruiting additional personnel, including mid-career workers (short-term measures). The map will also be utilized to ensure optimal staffing and smooth generational changes to deal with aging of financial personnel at each IHI Group company as well as to help workers develop skills by working in different settings (long-term measures).

- (2) Enhancement of the function of the process of collection of necessary information in a timely manner
  - (i) Enhancement of the work execution system and management system at Energy Plants Operations and Environment and Plants Operations  
In these Operations, there was no satisfactory system for long-term, large-scale projects, including those subject to the percentage of completion method, to collect on-site information in a timely, appropriate manner at each stage of progress of the project from designing to on-site construction work and to appropriately reflect information so collected in the total project cost of the project subject to the percentage of completion method. This was one cause of the situation that led to the revisions of the previous financial results. To deal with this problem, these Operations decided to take the following measures and the head office intended to support these measures.
    - (a) Standardization of monthly project reports and enhancement of the functions of progress report meetings

The Company will develop an environment in which collection, in a timely manner, of sufficient but not excessive information that is necessary to modify the estimated total costs incurred in projects subject to the percentage of completion method, such as delays in construction schedules, problems, complaints and similar events or risks, by standardizing the contents and style of monthly project reports prepared by the project managers for each large project. The Operations will also increase the reliability of information providing a basis for profit-loss management and intermediate cost accounting for each project by coordinating the views on project management of the project managers and members participating in monthly division meetings which are held to check and discuss the progress of the project (the cost accounting group to be transferred to the Finance and Accounting Division will be required to participate in these meetings). (To be started from April 2008.)

In addition, by “visualizing” process management, construction schedule management and distribution management during each process of the project from design to construction, the Operations will ensure prevention of disruption of construction schedules as well as increasing the accuracy of monitoring of changes in costs incurred in the project that may occur as it proceeds.

[Status of implementation and operation]

The Power Plant Division and Environment and Plants Operations had prepared monthly project reports which contained monthly records of new problems and measures to be taken to deal with them for each project. With a smaller number of projects, the Nuclear Power Division had only prepared weekly project reports which contained brief summaries of events that had occurred in the projects, but has decided to prepare “monthly project reports” starting from the end of May 2008 (report for the April term). This means that all divisions of the energy and plants business will conduct project management through monthly reports.

With respect to the contents of monthly reports, the Power Plant Division has made efforts to enrich the contents of monthly reports since October 2007. Environment and Plants Operations has prepared its reports in accordance with its rules on the preparation of monthly project reports. The Nuclear Power Division, which has recently started preparing reports on a monthly basis, has prepared them in a manner similar to the Power Plant Division. Monthly reports must contain information regarding progress on projects and regarding any events that may affect intermediate costs. The improvement of the content and style of monthly reports has made it easier to check any events occurring while projects progress and whether these events have been reflected in intermediate costs. The Finance and Accounting Division and the Project Audit Division have emphasized to the Operations the extreme importance of information contained in monthly reports and the transparency of such information as materials providing a basis for the assessment of total project profits and costs used in the calculation of financial results. In response to this, all divisions have improved the contents of their monthly reports in comparison with earlier reports.

In addition, the Power Plant Division, the Nuclear Power Division and Environment and Plants Operations each hold monthly meetings (the Power Plant Division – e.g., performance discussion meetings for each project; the Nuclear Power Division – e.g., major project promotion meetings; Environment and Plants Operations – e.g., project report meetings), at which the progress on each project, problems to be solved before achieving goals, foreseeable risks, factors affecting costs and other issues are reported by project managers and the head of the cost accounting department to the general manager of the Division or the president of the Operations or other officers of the Division or the Operations. At these

meetings, measures to deal with the problems are discussed, and the results of the discussions are systematically reflected in intermediate costs calculated based on cost estimates for the future calculated by taking into account the actual costs that have arisen and the differences between the budget and actual results. The Power Plant Division and Environment and Plants Operations previously had similar discussion bodies. By better defining the role of the cost accounting department at these meetings and by emphasizing the importance of monthly reports as assessments of the progress and intermediate costs of projects, the officers of the Divisions and Operations have become able to appropriately collect on-site information.

In the Nuclear Power Division, non-monthly meetings have been changed to monthly meetings starting from May 2008 in line with the issuance of its monthly reports.

(b) Capacity building and training of project managers

The Company will systematically secure a sufficient number of project managers who will be key in the successful execution and management of projects and will provide them with training necessary to fulfill their role. First, the Divisions will prepare training plans in which project manager training is incorporated in the career path programs and will prepare a schedule for developing training infrastructure.

In revising the training programs, the Human Resources Division will support the Operations' activities, such as selecting external consultants. This will deepen their understanding of risk management in executing projects and of measures to deal with risks, and will create an environment in which risk information may be conveyed to departments requiring such information.

(Continuing measures; the training plans will run up to June.)

[Status of implementation and operation]

At the end of May 2008, Environment and Plants Operations developed, with the aim of improving the quality and increasing the number of project managers (PMs), the "PM Career Specifications" describing the training system within Environment and Plants Operations, as a result of the combined efforts of the Human Resources Division, external consultants and PMs. In accordance with the spirit of these PM Career Specifications, PM training programs are to be developed and on-the-job training (OJT) programs for each project implemented, and training programs have already been started. OJT programs are provided to virtually all engineers of Environment and Plants Operations in order to improve the overall quality of the workers. As for PM training, practical training programs focusing on PM candidates have been planned, some of which have already started.

In June 2008, technical supervisors of Environment and Plants Operations and external consultants provided the Energy Plant Division with a briefing on the PM Career Specifications. In the future, Energy Plants Operations plans to develop training programs for capacity building and training of PMs for each of the Power Plant Division and the Nuclear Power Division by the end of September, based on the PM Career Specifications and the training plans developed by Environment and Plants Operations, and plans to start the training programs in October.

(c) Role of the head of the procurement department of a division in the calculation of cost estimates and intermediate costs

In order to reflect estimated costs of procurement from external sources, which account for a majority of the project costs, in cost estimates and intermediate

costs, in a timely manner, the head of the procurement department of the Division or Operations will participate in the calculation of these costs. In particular, in the Power Plant Division the responsibility for cost accounting for procured goods will shift from the Boiler Engineering & Technical Advisory Group [the designing department) to the division's Procurement Department which actually places orders, in order to make it easier to reflect information held by the procurement department in cost estimates and intermediate costs. (To be started from February 2008.)

[Status of implementation and operation]

Since February 2008, the Power Plant Division has made it clear in its internal management that the head of its procurement department is responsible for cost accounting and should participate in the calculation of cost estimates and intermediate costs of procured goods. Discussions have been held to make this clear in terms of department rules, and in August it was codified by a revision of the Cost Accounting Department Table. The Nuclear Power Division has made it clear in its "Nuclear Power Division Management Rules for Intermediate Cost Accounting" that the procurement department is responsible for cost accounting. In both Divisions, their respective procurement departments have conducted budget and performance management and intermediate cost accounting acting as the cost accounting department.

On April 1, 2008, Environment and Plants Operations provided in its "Intermediate Cost Accounting Standards" that the "Engineering Department" and "Procurement Department" is responsible for cost accounting. The head of the procurement department has participated in the calculation of cost estimates and intermediate costs and has strived to ensure the sharing of information on vendors and procurement in each project.

(d) Development of a system to assess cost reduction effects

By developing a full-time system for VE promotion within the Divisions and Operations, the Company will promote cost reduction through VE and will develop a system to correctly assess the feasibility of cost reduction effects. In the Power Plant Division and the Nuclear Power Division, a "VE Group" was established on October 1, 2007. In Environment and Plants Operations, a "VE Promotion Group" was established in the Management Department on February 15, 2008. (February 2008)

[Status of implementation and operation]

On October 1, 2007, a VE Group was established in the Power Plant Division and the Nuclear Power Division in accordance with the spirit of the improvement measures described above. At the company-level liaison meeting of VE promoters in May 2008, a report was presented which declared that a VE Promotion Group will assess the feasibility of cost reduction effects and which defined the role of the group.

On February 15, 2008, Environment and Plants Operations established a VE Promotion Group in the Management Department of the Operations and put the group in charge of management of the progress of VE/cost reduction activities and information feedback. During FY 2008, Environment and Plants Operations plans to focus on "cost reduction activities for domestic PC LNG tanks". As the secretarial office of these activities, the VE Promotion Group has analyzed problems that caused any delay in VE/cost reduction activities (whether there were any problems in the nature of the activities or in the level or in the members, etc.) and has conducted VE/cost reduction activities as an active member. These activities have been conducted regularly on a weekly basis since May 2008. With a full-time

cost reduction team having been set up in July, the activities are under development. In Environment and Plants Operations, the members of the VE Promotion Group have been switched to full-time assignment to VE promotion activities, and the group has engaged in management of the progress of VE/cost reduction activities and information feedback, including provision of reports to the cost accounting department.

As described above, Energy Plants Operations and Environment and Plants Operations have set up new organizations and plan to proceed with cost reduction measures through VE and their assessment. These activities and issues involved were reported at the liaison meeting of VE promoters held in May 2008 with the aim of promoting VE activities throughout the company.

(e) Development of risk management system

Energy Plants Operations and Environment and Plants Operations will each develop a risk management system and response plans, including plans for immediate, optimal distribution of personnel and materials and mechanical equipment in the event of crisis in business operations, such as the recently experienced disruption of construction schedules. In particular, Energy Plants Operations will, as the supervising body for the two subordinate divisions, form a "Management Team" (tentative name) consisting of the president and the vice presidents of the Operations and the general managers and the vice general managers of the Divisions and the general manager of the Planning and Control Department, thereby allocating management resources from the Operations to deal with operational issues in the Divisions. The head office divisions involved will support the implementation of risk management and response plans whenever necessary. Through these measures, the Company will create a management environment which will prevent critical situations from arising in business operations and will, should one arise, make possible the appropriate collection of information. (April 2008)

[Status of implementation and operation]

In February 2008, a "Management Team" was started within Energy Plants Operations with the intention of allocating management resources from the Operations to deal with operational issues in its Divisions. In addition to having the intention to allocate management resources, the team is currently positioned as a discussion body to prioritize and deal with urgent operational issues recognized by the Operations as the supervising body for its two Divisions and has held meetings on a monthly basis in principle in which executive members of the Operations and its Divisions participate. If any event occurs that a meeting of this team concludes cannot be dealt with solely by the Operations, consultation will be sought from the head office about potential measures to be taken. The head office will deal with any such event using its company-wide coordinating function that it intrinsically has as its organizational function.

(ii) Support by the Information Systems Division of the operation of energy and plants business

The management departments of Divisions often failed to collect accounting information on overseas construction projects in a timely manner, because this type of information was processed manually and was not exchanged in the form of electronic data. To deal with this issue, the head office planned to take the following measures.

By constructing systems that will contribute to project management and

related matters, the Information Systems Division will help Energy Plants Operations and Environment and Plants Operations ensure appropriate and efficient collection and conveyance of information in their project management. (Ongoing)

As part of these efforts, an “Overseas Project Accounting Management System”, which will be used at overseas construction sites, and an “Overseas Project Costs System”, which will put all overseas project costs together in Japan, will be developed in order to expedite the collection of accounting information on overseas construction projects and increase the efficiency of management of such information. (May 2008)

[Status of implementation and operation]

Since April 2008, an “EPC Project Management System” (i.e., a procurement and transport management table and a materials control system) adapted to overseas large plants has been being developed by Environment and Plants Operations joined by persons in charge of this matter from the Information Systems Division of the head office, with the aim of ensuring appropriate and efficient collection and conveyance of information in project management. This system is being constructed with the goal of applying it to construction sites in December 2008.

As for Energy Plants Operations, with the aim of enabling it to monitor the management of remaining parts of a project in a more appropriate and efficient manner from the second half of FY 2008, the Project Audit Division and the Power Plant Division plan to discuss a methodology for cost management at each stage of progress on a project based on the concept of Work Breakdown Structure (WBS) and to investigate the possibility of developing the methodology into a system.

With respect to cost management in overseas construction projects, an “Overseas Project Accounting Management System” and an “Overseas Project Costs System” were developed as part of the support to the Power Plant Division and Environment and Plants Operations which execute overseas construction projects, with the aim of: (i) expediting cost accounting in overseas construction projects; (ii) simplifying and standardizing the preparation of accounting reports and related activities by the overseas local offices; and (iii) reducing the time spent by the Planning and Control Departments of the Operations and the Finance and Accounting Division to tabulate data on overseas project costs. These systems were developed in accordance with the following schedule:

- April-June 2008: Coordination between the planning and control department and the overseas office, and preparation of application of pilot projects
- July 2008: Integrated testing of the Power Plant Division’s pilot project at overseas construction sites, and start of preparation of accounting reports
- August 2008: Integrated testing of Environment and Plants Operations’ pilot project at overseas construction sites, and start of preparation of accounting reports

As a result, at the end of May 2008 the system development was completed and the application of the “Overseas Project Accounting Management System” to the pilot project was started. July saw the start of the operation of the system for the preparation of accounting reports. The aim of the above system development is planned to be achieved in October 2008, by connecting the aforementioned system to the “Overseas Project Costs System” set up in Japan (including receipt of electronic data in Japan).

Future plans include: analysis of the results of the operation of the pilot projects; application of the systems to other projects at the Power Plant Division and Environment and Plants Operations; and gradual expansion of the application of the systems to other Operations which conduct overseas construction projects (to be carried out step-by-step from the second half of FY 2008).

- (iii) Enhancement of the procurement departments' functions, and provision of information by these departments

In Energy Plants Operations and Environment and Plants Operations, costs of procurement from external sources account for a considerable part of the total project costs. While these Operations have their own respective procurement departments, some of their functions, such as planning costs of procured goods, were not satisfactory, resulting in increased procurement costs and disputes with suppliers. To deal with this issue, the head office planned to take the following measures.

In order to help the Operations with reviewing cost reduction measures and achieving optimal procurement, the Procurement Strategics will study optimal cost accounting methods and promote the Operations' awareness of such methods and will also ensure the sharing of procurement information by setting up a team to directly support the activities of the Operations and Divisions and by providing accurate procurement information through such team. (April 2008)

[Status of implementation and operation]

In April 2008, a "Cost Engineering Group" was established in Procurement Strategic of the head office in order to help Operations with reviewing cost reduction measures and achieving optimal procurement. "Cost planning" refers to a series of management activities to: set goals for the total costs to be incurred in the process from product design to production, operation and maintenance; and to achieve the goals by efforts of the entire company, including suppliers, up to the development, designing and early production stages. The Company plans to calculate accurate, reliable costs and achieve them by promoting awareness of this concept of cost planning and by promoting associated techniques.

The Cost Engineering Group is responsible for promoting cost planning and VE activities in the IHI Group and for helping the Operations with these activities. As part of its activities, on August 11, 2008, the Cost Engineering Group provided a briefing to the management on cost planning for optimal cost accounting. With this as a start, the Group will provide a series of briefings to the Operations.

In April 2008, a "Procurement Support Group" was established in Procurement Strategic with the aim of providing accurate procurement information and sharing procurement information. The Group will support the procurement activities (including contracted procurement) of the Operations and affiliated companies through the following measures.

- 1) Maintenance and sharing of data on materials prices forming a basis for cost planning
  - (a) Establishment of price data maintenance methods using observed data analysis, constructive cost analysis and market correlation analysis, and distributing these methods to the Operations
  - (b) Establishment of a process for sharing price data which will directly lead to improved accuracy of costs
- 2) Maintenance of supplier information and sharing of information on advantageous procurement within the IHI Group

3) Support of procurement functions (including supply of human resources) in procurement-related activities and projects at Operations

(iv) Establishment of company-wide operating standards for intermediate cost calculation procedures

Energy Plants Operations and Environment and Plants Operations had their own respective rules on intermediate cost calculation. However, it does not seem that intermediate costs were always calculated in a timely and appropriate manner and this was inarguably caused by defects in the Operations' rules. To deal with this issue, the head office planned to take the following measures.

The Finance and Accounting Division and the Internal Control Planning and Promotion Division will establish (stipulate) effective, uniform operating standards for reflecting information collected by project managers and Divisions in intermediate costs, in order to ensure objectiveness and transparency of the intermediate cost accounting procedures established independently by different Divisions. (April 2008)

The Operations and Divisions will revise their intermediate cost accounting procedures in accordance with these uniform standards. (May 2008)

In order to ensure transparency and reliability of the procedures, the Information Systems Division will construct a database that will allow sharing of information on intermediate costs by Operations/Divisions requiring such information. (September 2008)

[Status of implementation and operation]

In collaboration with the Internal Control Assessment Division (the former Internal Control Planning and Promotion Division), on April 1, 2008, the Finance and Accounting Division established the "Procedures for the Calculation of Operating Budget and Intermediate Cost" and the "Rules for the Calculation of Total Project Cost and Total Project Profit" in order to ensure objectiveness and transparency of the intermediate cost accounting procedures.

The main provisions of these procedures and rules include the following:

(a) Procedures for the Calculation of Operating Budget and Intermediate Cost:

- 1) establish Operations' rules in accordance with the business management system of each of the Operations;
- 2) clarify the procedures for giving approvals in the calculation of operating budget and intermediate cost; and
- 3) establish rules for reflecting uncertain factors in operating budgets.

(b) Rules for the Calculation of Total Project Cost and Total Project Profit: stipulate specific procedures for reflecting any of the following events, which may affect the total project profit/cost, in such profit/cost in a timely and appropriate manner.

- Contingencies  
Each of the Operations is required to establish its rules for reflecting contingencies in cost and withdrawing funds from reserve funds.
- Complaints from subcontractors or suppliers  
Each of the Operations is required to show objective or reasonable reasons for the amounts reflected in cost.
- Complaints from clients  
Each of the Operations is required to show objective or reasonable reasons for the amounts reflected in cost.

- Delays in construction schedules  
Each of the Operations is required to reflect any delay in construction schedules in cost as soon as the countermeasures have been established and to develop an information collection system.
- Activities for claiming compensation  
Each of the Operations is required to reflect these activities only on reasonable grounds and to recognize any collected proceeds as profit based only on written agreement.
- Costs incurred and increase in contract price due to additional work or change in specifications instructed by client  
Each of the Operations is required to reflect such costs in cost only on reasonable grounds and to recognize any increase in contract price as profit based only on written agreement.
- Negotiation for increase in contract price without additional work or change of specifications  
Each of the Operations is required to recognize any such increase in contract price based only on written agreement.
- Improvement of profit as a result of cost reduction  
Such improvement may be recognized as profit only if cost reduction is achieved or if systematic cost reduction activities meeting strict requirements are proven objectively.

In accordance with the “Procedures for the Calculation of Operating Budget and Intermediate Cost” and the “Rules for the Calculation of Total Project Cost and Total Project Profit”, the Operations reviewed their rules by June 2008 so that intermediate costs would be monitored in a timely and appropriate manner. In addition, in order to assess whether the rules for each Division had been properly developed and were being operated in the context of the intermediate cost accounting procedures, an assessment of the status of development and that of the status of operation was conducted ending July 2008 (the latter assessment was limited to major projects), in association with the measures taken for the internal control reporting system under the Financial Instruments and Exchange Law. For each of the improvement measures, the Internal Control Assessment Division has checked the progress to ensure that the relevant business process had been effectively developed and operated, by requesting the Operations implementing the improvement measures to provide evidence and by conducting interviews with staff members of the Operations. Future plans include assessments of the operation of other projects in the context of the assessment of the operation of the internal control reporting system.

With respect to the construction of a database for intermediate costs as proposed in the Improvement Report, in April 2008 the Information Systems Division started, in conjunction with the Finance and Accounting Division and the relevant Operations, the construction of an intermediate cost database for information on intermediate costs, in order to ensure transparency and reliability of the intermediate cost accounting procedures. During the period from March to May 2008, the Information Systems Division conducted interviews with staff members of the relevant Operations about the present status of activities related to intermediate costs, and formulated a development plan. From May 2008, the Division started system design and production and the development of a policy on operating rules. The Division plans to complete system development by September 2008 in accordance with the following schedule.

- May-August 2008: System design and production

- September 2008: Comprehensive testing
- October 2008: Start of application to Energy Plants Operations and Environment and Plants Operations

2. Company-wide improvement measures taken with respect to the background and causes that led to the revisions in question

(1) Promotion of reform of corporate culture

The Company suspects that part of the circumstances that led to the cause of the present situation might have been a problem with its corporate culture, which might have prevented free and open-minded exchanges of views and respect for others' views. To deal with this issue, the Company planned to take the following measures.

(i) Sharing the understanding of the cause and promoting awareness of measures

No later than the end of March 2008, an extraordinary all general managers meeting (scheduled for February) will be held, to which all officers and managers of the company at or above the line manager level and the presidents of affiliated companies will be invited, and briefings (scheduled for February and March) will be provided by officers of the head office to all other managers who do not attend the all general managers meeting and chiefs of the production sites of the factories. These meetings are intended to develop common understanding of the cause of the problem in question among all employees and to ensure that they will internalize and carry out the relevant measures to be taken.

The house journal, which is distributed to all employees, has been another means to promote employees' awareness of the present issue. In the January 2008 issue, a summary of the results of the investigation by the Internal Investigation Committee was published. The February 2008 issue contained an article on the importance of the total costs incurred in projects subject to the percentage of completion method.

[Status of implementation and operation]

On February 8, 2008, an extraordinary all general managers meeting was held at the head office, attended by management personnel at or above the division general manager level and the presidents or officers of subsidiaries. At the meeting, the details of the downward correction of the operating performance for the previous fiscal year and the revisions to the previous financial results were reviewed and an explanation was provided regarding the idea behind and the details pertaining to the "measures to restore and establish stable management and to regain the community's trust" towards the prevention of recurrence. Further explanation was provided at the meeting by the Presidents of Energy Plants Operations and Environment and Plants Operations on future business management. With this all general managers meeting as a start, the Company launched company-wide efforts to prevent recurrence by explaining the "measures to restore and establish stable management and to regain the community's trust".

In response to the above, during the period from February to March 2008 officers of the head office travelled to 34 different offices of the Company in and outside Japan to provide briefings on the "measures to restore and establish stable management and to regain the community's trust" and to ensure sharing of the cause of the revisions to the previous financial results and to promote awareness of these measures. Participants included key personnel and branch office employees and totaled 898 persons.

In addition, the January and February 2008 issues of the house journal, which is distributed to all employees, published the results of the investigation of the revisions to the previous financial results in question and an explanation of the percentage of completion accounting method, respectively.

(ii) Development and promotion of awareness of action guidelines

The Company will create, and promote all employees' awareness of, slogans (service guidelines) calling for: "compliance first; knowledge of rules; customer-oriented, best overall condition; integrity; efficiency; promotion of communication between supervisors and related departments; and continuous improvement of business operations". In addition, the Company will further promote managerial personnel's awareness of the action guidelines for appropriate management of their subordinates and duties. (April 2008)

[Status of implementation and operation]

The Company has established the "Five Operational Principles" as guidelines to approach daily business, so that its employees are able to confirm every day the approach to restoring stable management and regaining the community's trust.

**Five Operational Principles**

1. Act with respect for norms of the community.
2. Work together to gain customers' trust.
3. Face up to the actual spot, actual thing and reality.
4. Be responsible for your work as a professional.
5. Think for yourself and promptly carry out and improve your idea.

In his speech at the spring all general managers meeting held in May 2008, the CEO called for thorough compliance with the above Five Operational Principles. Since that same month, the IHI Group has made efforts to spread these principles throughout the group, by publishing them in the house journal, posting them on the group's webpage for employees, and distributing to the head office and other regional offices and affiliate companies pocket cards on which the service principles are printed.

(iii) Enhancement of the company-wide awareness reform campaign "Team IHI Campaign"

From April 2004, the Company carried out the "Nobushi (lordless samurai) operations", which were a company-wide awareness reform campaign intended to create a work environment which would allow free and open-minded exchanges of views both between colleagues and between supervisors and subordinates. In April 2007 this campaign was taken over by the "Team IHI Campaign", which has been carried out since then. The Company has concluded, however, that the fact that the present situation did come about inarguably means that these campaigns have unfortunately failed to bear fruit in the Operations engaging in the energy and plants business.

For this reason, Energy Plants Operations and Environment and Plants Operations will conduct a work climate analysis based on a moral survey and will develop a work climate improvement plan based on results of the analysis (in March 2008) and will carry out the plan (from April 2008).

In addition, the President of the Company and the deputy presidents (vice presidents) of the Operations in charge of the IHI Group awareness reform campaign will visit workplaces more often and for more fruitful results in order to

activate direct communication between the top management and employees and to promote a work climate reform that would allow free and open-minded exchanges of views. (From March 2008)

[Status of implementation and operation]

From January 2008, the secretarial office of the IHI Group awareness reform campaign conducted a questionnaire survey of employees of Energy Plants Operations and Environment and Plants Operations. An analysis of the survey was reported to the top management in March 2008.

In March 2008, Energy Plants Operations provided a corporate culture revitalization training program to all line managers as well as to key personnel representing departments. Similarly, in the same month, Environment and Plants Operations provided its officers and younger employees (deputy section chiefs) with a training program to discuss how to remedy problems in work climate. In each of these training programs, an analysis was conducted of factors preventing revitalization and measures to deal with each factor were drafted and were reflected in the "Team IHI Campaign" as action policy at the Operations level for FY 2008.

In March 2008, the CEO of the Company visited the regions of Yokohama, Musashi, Tomioka, Soma, Aichi, Aioi and Kure. During the period from June to July 2008, the Executive Vice Presidents visited the regions of Yokohama, Musashi, Soma, Kure, Aioi and Aichi. In August the CEO paid second regional visits for this year. These regional visits of the top management were intended to directly convey the top management's philosophy to employees and to directly collect local input.

In addition to the improvement measures described in the Improvement Report, the Corporate Planning Division, which is the secretarial office of the Team IHI Campaign, has promoted the development of the campaign both at the head office and other Operations by receiving quarterly reports of the planning and progress of the Team IHI Campaign from the head office and other Operations and has announced the reported results within the Company through the intranet. Furthermore, in March and June 2008 lecture meetings on corporate culture reform were held by inviting external speakers, with the aim of reforming employees' awareness. These meetings were attended by a total of 898 participants.

(iv) Other measures

(a) The Company will establish a new office solely in charge of assessment for the internal control reporting system under the Financial Instrument and Exchange Law.

(b) The Company will establish administrative authority rules and other internal rules and will make these rules thoroughly known to all employees.

(c) By improving training on finance, internal control and compliance, the Company will ensure that correct knowledge in these fields is thoroughly known to all employees.

(d) The Company will improve systems to receive various opinions and demands from both inside and outside of the company, by continuing the operation of the "Compliance Hot Line" (an internal reporting system operated by a third party to allow employees of the IHI Group companies to report to the relevant compliance office any situation where compliance is or may be violated in the performance of their duties) and by establishing "External Consultation Service" available by telephone or online.

[Status of implementation and operation]

(a) On April 1, 2008, an internal control assessment group was established as an independent assessment office at each of the Operations. At the same time, the Internal Control Assessment Division was reorganized and was put solely in charge

of assessment. The predecessor of the Internal Control Assessment Division was launched under the name of "Internal Control Planning and Promotion Division" before the formal start of the internal control reporting system and was put mainly in charge of both promotion and assessment of the internal control system for financial reports. At the start of FY 2008 as the year of formal introduction of the internal control reporting system, the Company made it clear, by introducing a process owner system, that the main promoter of the construction of the internal control system is each relevant Operations which operates the business process and that each of the Operations is responsible for promoting relevant measures. At the same time, the Internal Control Assessment Division was reorganized into an independent office solely in charge of assessment in order to ensure objectivity of the Company's effectiveness assessment, by clarifying the independence of this organ as the office in charge of putting together effectiveness assessments of internal control of the entire Group.

Since July 2008, the Internal Control Assessment Division has conducted an effectiveness assessment of internal control of the entire Group for the year of formal introduction in accordance with the above intention.

(b) The Information Systems Division, which is responsible for managing rules of the entire company, has worked on revisions of administrative authority rules proposed as an improvement measure and on improvement of other rules found throughout the company. Specifically, the Division has: (i) made a "Table of Titles and Associated Duties and Authorities" related to the administrative authority rules; (ii) released a table of comparison between new and former provisions upon each revision of rules; and (iii) made additions and modifications to the table of contents of the company rules on the internal webpage. Measures for the revision of the administrative authority rules have been completed by the announcement of rules on procurement in June 2008.

(c) Training programs in the fields of finance, internal control and compliance have been assigned to and provided by the Finance and Accounting Division, the Internal Control Assessment Division and the Compliance Control Division, respectively. The training programs provided by these Divisions are as follows.

[Finance and Accounting Division]

A. During the period from March to July 2008, lectures on accounting systems and procedures were provided to managerial personnel, middle management and working-level leaders of all Operations of the Company and the head office's divisions involved in project management. Participants were assigned to lectures depending on which of the Operations and the head office Divisions they were affiliated with, with each lecture lasting approximately two hours.

- Lectures held on March 13, 14, 17 and 18 of 2008: 291 participants

[Provided to:]

Logistics Systems & Structures Operations, Energy Plants Operations, Environment & Plants Operations, Power Systems Operations, and head office divisions including the Energy & Plant Group of the Finance and Accounting Division.

- Lectures held on June 19 and July 1 of 2008: 179 participants

[Provided to:]

Industrial Machinery Operations, Aero-Engine & Space Operations, Vehicular Turbocharger Operations, the head office divisions including the Reform the Internal Control Systems Division and the Project Audit

Division.

B. During the new key personnel orientation and the new deputy section chiefs orientation provided in April 2008, an explanation was provided on: the details and cause of the revisions to the financial results for FY 2006 and of the revisions to the FY 2007 operating performance forecast; the percentage of completion method; the Rules for the Calculation of Total Project Cost and Total Project Profit; and financial issues such as internal control of financial reports.

- New key personnel orientation: April 24; 189 participants
- New deputy section chiefs orientation: April 25; 168 participants

C. Revisions were made to the textbooks used in financial management seminars (in which four subjects [cost management, financial settlement, performance management and fund management] are taught in two days; offered four times a year; available on a voluntary basis), which represent one of the company-wide training programs. In particular, descriptions about the percentage of completion method were revised to include specific examples and easy-to-understand explanations.

- FY 2008 1<sup>st</sup> seminar: June 25 and 26; a total of 192 participants in four subjects.
- FY 2008 2<sup>nd</sup> seminar: Scheduled for September 24 and 25.
- FY 2008 3<sup>rd</sup> seminar: Scheduled for December 15 and 16.
- FY 2008 4<sup>th</sup> seminar: Scheduled for March 12 and 13, 2009.

[Internal Control Assessment Division]

In line with the formal introduction of the internal control reporting system in April 2008, since March 2008 the Internal Control Assessment Division has provided all employees and temporary workers with an e-Learning program (individualized training program using the Web; this applies hereinafter) to disperse basic knowledge of the aforementioned system. The Division plans to distribute the program to major subsidiaries and further to affiliated companies.

[Compliance Control Division]

A. e-Learning

Based on the circumstances that led to the revisions to the previous financial results, the Compliance Control Division developed an e-Learning program on the issue and countermeasures against it and provided the program to all officers and employees in August 2008. An additional program is planned to be provided to all officers and employees in February 2009. The e-Learning program provided in August went over: (i) company-wide rules; and (ii) points to note in communication at workplace.

B. Collective training

In all collective training programs to which the Compliance Control Division has assigned lecturers, the present issue of the downward correction of the operating performance has been addressed.

Date	Name of training	Designated participants	Contents
April 11	New general managers training	115 new general managers appointed	Background of downward correction of operating

		in FY 2008	performance and posing of questions to the management
May 12	New key personnel training	200 new key personnel appointed in FY 2008	Background of downward correction of operating performance and points to remember in management
April 25	New deputy section chiefs training	200 new deputy section chiefs appointed in FY 2008	Background of downward correction of operating performance and points to remember in performance of duties
May 28	3 <sup>rd</sup> year engineers training	Approx. 80 3 <sup>rd</sup> year engineers (1 <sup>st</sup> of three rounds)	Background of downward correction of operating performance and an outline of issues
July 2	3 <sup>rd</sup> year engineers training (2 <sup>nd</sup> round)	Approx. 60 3 <sup>rd</sup> year engineers	Background of downward correction of operating performance and an outline of issues
August 6	3 <sup>rd</sup> year engineers training (3 <sup>rd</sup> round)	Approx. 80 3 <sup>rd</sup> year engineers	Background of downward correction of operating performance and an outline of issues
September 11 (scheduled)	Middle-level employees training (1 <sup>st</sup> round)	Approx. 80 4 <sup>th</sup> year employees	Background of downward correction of operating performance and an outline of issues
September 18 (scheduled)	Middle-level employees training (2 <sup>nd</sup> round)	Approx. 60 4 <sup>th</sup> year employees	Background of downward correction of operating performance and an outline of issues
September 22 (scheduled)	Executive training	All directors and executive officers	Compliance and work climate reform
December (scheduled)	New employees final training	220 new employees recruited in FY 2008	Background of downward correction of operating performance and an outline of issues

The framework of these company-wide compliance education and training programs will continue into FY 2009 and later, with the e-Learning programs targeting all officers and employees and the collective training programs being provided separately to different levels of officers and employees. Topics addressed next year will be selected after assessing and reviewing the results of the previous year.

D. Over the past two years since the establishment of the “Compliance Hot Line” (an internal reporting system operated by a third party to allow employees of the IHI Group companies to report to the relevant compliance office any situation where compliance is or may be violated in the performance of their duties), various issues in the Company have been reported. In order to promote use of the hot line by employees, the Compliance Control Division distributed cards with the hot line’s

details that fit in staff ID card holders. The Division has also provided an explanation of the purpose of the hot line during various internal training programs. Issues reported through the hot line are disclosed to all employees on the webpage for employees on an anonymous basis and with full consideration given to the protection of personal information, together with measures to be taken to deal with the issues. These issues are also reported to the company-wide Compliance Committee on a regular basis.

In addition, on June 20, 2008, the “External Consultation Service” (“Toll-free Dial for Opinions and Requests”) was established with the aim of improving the systems to receive various opinions and demands from both inside and outside of the company as part of the promotion of the corporate culture reform. Details of this service have been posted on the Company’s webpage. This has resulted in the Company’s receipt of inquiries and various opinions and recommendations. These inquiries and opinions have all been reported to officers in charge and specific inquiries have been answered by the Company’s departments in charge. The Company intends to continue to value various opinions and recommendations from the community.

(2) Enhancement of corporate governance

(i) Increase in the number of external officers

The Company intends to improve its management monitoring/supervisory functions and auditing functions and to further improve corporate governance, by appointing and increasing the number of independent external directors and external corporate auditors.

The Company has decided to invite Mr. Tomokazu Hamaguchi (currently a Director and Senior Advisor of NTT Data Corporation) as an external director, with the expectation that Mr. Hamaguchi, as part of the top management of a leading-edge IT company that has supported customers’ reforms as well as working on reforms of his company, will reflect in the management of the Company his extensive knowledge from the viewpoint as a member of the management with these experiences. His appointment as an external director will be voted at an extraordinary general meeting of shareholders of the Company scheduled for mid-April 2008.

The Company has also decided to invite Mr. Nobuo Gohara (currently a lawyer and a professor at Toin University of Yokohama’s Faculty of Law School and the Head of Toin University of Yokohama’s Compliance Research Center) as an external corporate auditor, with the expectation that Mr. Gohara will work toward enhancement of the Company’s corporate governance using his experience in research and awareness promotion activities on “full-set compliance”, i.e., “a company’s satisfaction of social demands”, and his profound knowledge of the Companies Act and the Financial Instruments and Exchange Law. His appointment as an external corporate auditor will be voted on at the 191<sup>st</sup> general meeting of shareholders of the Company scheduled for late June 2008.

[Status of implementation and operation]

On April 18, 2008, an extraordinary general meeting of shareholders was held, at which Mr. Tomokazu Hamaguchi (currently a Director and Senior Advisor of NTT Data Corporation) was appointed as an external director. On June 27, 2008, the 191<sup>st</sup> ordinary general meeting of shareholders was held, at which Mr. Nobuo Gohara (currently a lawyer and a professor at Toin University of Yokohama’s Faculty of Law and the Head of Toin University of Yokohama’s Compliance Research Center) was appointed as an external corporate auditor.

(ii) Establishment of the “Operating System Improvement Monitoring Committee”

As listed above in the improvement measures items, the Company plans to carry out measures to improve the internal control systems. In so carrying out the improvement measures, the Company intends to control itself by introducing a checking and monitoring system by which the Company’s performance of these measures are checked and monitored strictly from external experts’ viewpoints. For this reason, the Company decided to establish an “Operating System Improvement Monitoring Committee” as a voluntary advisory body to the Board of Directors, in order to have the members of the External Investigation Committee, who checked the results of the internal investigation of the present situation and made recommendations for the prevention of recurrence, continue to monitor and supervise the Company’s efforts to improve its operating system and to provide recommendations and advice on the Company’s management from the viewpoint of legal and accounting experts.

[Status of implementation and operation]

In March 2008, an Operating System Improvement Monitoring Committee was established in accordance with the relevant description in the Improvement Report. The term of the Committee is scheduled to continue until June 2011. The Committee has in principle met on a monthly basis. In addition, the Committee is required to express its opinions on the status of improvement of the operating system at a meeting of the Board of Directors on a quarterly basis.

The Internal Control Assessment Division is to serve as the secretarial office of the Committee. The Division follows up the progress of the improvement measures described in the Improvement Report.

The dates of meetings held and the agenda items discussed at the meetings of the Operating System Improvement Monitoring Committee are as follows.

[Performance of the Operating System Improvement Monitoring Committee]

No.	Date	Major agenda items
1	March 6, 2008	(i) Circumstances leading up to submission of the Improvement Report, and explanation of outline (ii) Appointment of chairman and deputy chairman (iii) Committee operating policy
2	April 7, 2008	(i) Enhanced strictness and clarification the project review process (ii) Operating policy for the Project Audit Division
3	May 8, 2008	(i) Procedures for the Calculation of Operating Budget and Intermediate Cost (ii) Status of measures towards J-SOX
4	May 23, 2008	(i) Inspection of the Yokohama Nuclear & Chemical Components Works of the Nuclear Power Division (ii) Inspection of a boiler construction site in Japan
5	June 5, 2008	(i) Report on activities of the Reform the Internal Control Systems Division (ii) Procedures for the Calculation of Operating Budget and Intermediate Cost (2 <sup>nd</sup> round) (iii) Monthly report on the implementation of improvement measures
6	July 7, 2008	(i) Report of the ordinary general meeting of shareholders (ii) Policy for preparation of an improvement status report (iii) Monthly report on the implementation of improvement measures

7	August 18, 2008	(i) Status of project review (ii) Risk management rules (iii) Monthly report on the implementation of improvement measures (iv) Exchange of views with the President of Energy Plants Operations (v) Financial results for the first quarter
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At each of the above meetings of the Committee, members asked questions and offered opinions in response to each report or explanation provided by the Company. The feedback from the members has been reflected in the development and implementation of the improvement measures. In addition, at the meeting of the Board of Directors held on June 23, 2008, the Operating System Improvement Monitoring Committee provided a report on the progress to the effect that the “improvement measures have generally progressed as planned.”

### III. Assessment of the Status of Implementation and Operation, and Conclusion

As described above, the Company has implemented the improvement measures described in the Improvement Report and has reflected them in its business activities. Of these improvement measures, those described in Chapter II, 1 (1), i.e., improvement measures to deal with defects in the head office's system for monitoring information pertaining to the Operations and Divisions, have been assessed as follows in terms of their implementation and operation.

With respect to "(i) Improvement and enhancement of the major project review system", our assessment is that the clarification of the project review system by the new provisions of the rules and the significant extension of the time allowed for preliminary review contributes to improvement of the accuracy of cost estimates. In addition, the clarification of the review criteria by new provisions resulted in a stricter review system. However, since many of the projects have deadlines that are years away, the expected effects of these improvement measures are likely to show up over the next several years. Therefore, we intend to continue to follow up on these projects and to check and assess whether the present system continues to function properly.

With respect to "(ii) Ensuring the appropriateness of estimated profit and loss for projects subject to the percentage of completion method by establishing the Project Audit Division", during the initial period after its establishment there was trial and error in the operation of the Division in terms of details of its audit and investigation since it was a new division that was assigned an unprecedented role. After the start of FY 2008, specific details of its activities were defined for the most part. The Division's investigation policy is to collect information regarding progress on projects, costs incurred and potential risks by directly interviewing personnel from the Operations closely involved in the construction sites and by investigating documents, etc. Our assessment is that this has not only resulted in stricter monitoring by the head office but has also enabled the head office to directly provide Operations closer to the construction sites with guidance on, and distribute to these Operations, the approach to appropriate calculation of total project cost, including: the importance of cost management in remaining parts of a project; and the approach taken by the relevant rules in reflecting complaints from suppliers, compensation claimed from suppliers, and cost reduction effects. The Project Audit Division will, in conjunction with the Finance and Accounting Division as well as with the Planning and Control Departments of the Operations and other Divisions, continue to strive to ensure the appropriateness of profit/loss estimates in accordance with the procedures for the calculation of intermediate cost enforced on April 1, 2008 (see Chapter II, 1 (2) (iv)).

In "(iii) Enhancement by the Finance and Accounting Division of the cost accounting departments of the energy and plants business" and "(iv) Enhancement of the functions and composition of the Finance and Accounting Division", the Finance and Accounting Division has been given many opportunities to have direct contact with the relevant Divisions and Operations, as a result of: the transfer of the cost accounting department of Energy Plants Operations to the Finance and Accounting Division in order to enhance the head office's monitoring function; participation of members of the cost accounting department in meetings of the Operations; and the holding of liaison meetings of officers of the Finance and Accounting Division and those of the relevant Operations and Divisions. As a result, the Finance and Accounting Division has become able to obtain more objective, specific information pertaining to the Operations in a timely manner and

to check the Operations and provide guidance to them as part of the head office.

With respect to the enhancement of the composition of the Finance and Accounting Division, the staffing of the Division has been strengthened and maintained in terms of number and quality. In light of the increasingly complicated environment surrounding accounting systems, the Company intends to continue to enhance the composition of the Division.

Next, described below are assessments of the implementation and operation of the improvement measures to deal with the problem described in Chapter II, 1 (2), i.e., the failure of the process for collecting necessary information to work satisfactorily in the calculation and confirmation of total project costs of projects subject to the percentage of completion method.

The measures described in “(i) Enhancement of the work execution system and management system at Energy Plants Operations and Environment and Plants Operations” are intended to enable the Operations to collect on-site information in a timely and appropriate manner and to reflect it in the total project cost at each stage of a project. As described in Chapter II, 1 (2) (i), our assessment is that, while different Operations have different characteristics in these measures, the relevant systems have for the most part been put in place. In particular, the idea that the contents of monthly project reports should be improved and valued in order to collect information on projects in a timely and appropriate manner, is spreading to the Operations. Since monthly project reports are regarded as important in investigations and audits conducted by the Energy & Plant Group of the Finance and Accounting Division or by the Project Audit Division, items of information contained in monthly reports have been enriched in the Operations at levels from project managers to the cost accounting departments. Future tasks include further improving the contents of monthly reports of the Nuclear Power Division and discussing common information items to be contained in monthly reports of all Divisions. These tasks are scheduled to be completed by the end of December 2008.

With respect to training of project managers, a training plan based on the PM Career Specifications has been drawn up. The Company now plans to follow up on implementation of the plan during the second half of FY 2008.

As for the involvement of the head of the procurement department of a Division or an Operations in the calculation of cost estimates or intermediate costs, the Company’s assessment is that the Operations rules clarifying that the procurement department is responsible for cost accounting have clarified the locus of responsibility, resulting in improvement of cost management.

With respect to the establishment of a system to promote VE activities, discussions on cost reduction by VE activities have been under way. In addition, a system for assessing the progress of achievement of cost reduction has been put in place. The Company intends to further promote cost reduction in order to enhance the profitability of the energy and plants business.

As for “(ii) Support by the Information Systems Division of the operation of energy and plants business” and “(iii) Enhancement of the procurement departments’ functions, and provision of information by these departments”, there were some delays, compared to the original schedule, in the application to the energy and plants business of the system for overseas projects being developed by the Information Systems Division. At present, the application is expected to be completed during the second half of FY 2008. The Company’s assessment is that this new system will support the Operations’ collection of information in a timely and appropriate manner. In addition, the Company intends to obtain successful

results from future development of the activities for promoting awareness of the optimal cost accounting methods conducted by the Cost Engineering Group of Procurement Strategics. The Company believes that this and other forms of support to procurement will together ensure enhanced functions of the procurement departments as well as the sharing of procurement information with the head office. The above two points will be reassessed at the end of December 2008.

With respect to “(iv) Establishment of company-wide operating standards for intermediate cost calculation procedures”, the relevant standards have already been established as described above and have provided a basis for the calculation of intermediate costs by the Operations as well as for investigations and audits conducted by the Energy & Plant Group of the Finance and Accounting Division or by the Project Audit Division. As for the development of a database of information on intermediate costs, the Company believes that this will not only ensure the transparency of information but will also enhance the Operations’ impetus to ensure the appropriateness of such information because the development of such database will make intermediate cost data available at any time to the Finance and Accounting Division, the Project Audit Division, the Internal Audit Division and other divisions of the head office requiring such information.

Next, described below are assessments of the implementation and operation of the company-wide improvement measures taken with respect to the background and cause of the revisions in question described in Chapter II, 2.

With respect to the improvement measures for promoting corporate culture reform and those for enhancing corporate governance, the Company believes that, as described above in Chapter II, 2, the relevant systems have been put in place and the operation of the improvement measures have been started, with the measures functioning satisfactorily. With respect to the corporate culture reform, however, since it is impossible to achieve this overnight, the Company intends to persistently continue the measures currently being taken.

The Company’s assessments of the implementation and operation of the relevant improvement measures are as described above. In overall summary, the improvement measures described in the Improvement Report have generally been implemented and operated as detailed in the report. As for additional improvement measures that have been taken in addition to those described in the Improvement Report, the Company believes that those additional measures have been appropriately reflected in business activities and have dealt with the present issue effectively.

The Company intends to continue the operation of those improvement measures that have already been implemented and to monitor their effects. If any revision of these improvement measures is required as a result of any change in their implementation or the environment, the Company will make such revision while carefully avoiding compromising their effects. As for those improvement measures that have not been completed at present, the Company will strive to complete them by the due dates set forth in this report.

Currently, the Company is doing its best to enhance internal control and to implement the proposed corporate culture reform, in order to restore stable management and to restore the trust of the community, including shareholders and

investors. The Company intends to further improve the relevant systems and to strive to disclose information appropriately.

Disclaimer

Please note that this translation may contain mistranslation. In case of a disagreement between the translation and the original Japanese version of this Report, the original Japanese version will prevail.