

(Translation)

Corporate Governance

IHI Corporation

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IHI Corporation

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Securities code: 7013

<http://www.ihico.jp>

The corporate governance of IHI Corporation (the “Company”) is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information

1. Basic Views

The Company defines corporate governance as a system that assures sustainable growth and maximization of corporate value by enhancing management efficiency so that the Company can leverage its innate capabilities to the fullest extent possible. To achieve this, the Company targets efficient and appropriate internal decision-making by clearly separating management monitoring and supervisory functions from functions related to their execution of duties. Furthermore, by establishing the relevant internal rules and building a system to administer them, the Company ensures appropriate operations across the entire Group.

The Company promotes constant improvement of its corporate governance, aiming to earn the trust and support of its shareholders and other stakeholders over the long term.

The Company will work to enhance its corporate governance in line with the following basic policies:

- (1) Respect shareholders’ rights and ensure equal treatment
- (2) Strive to cooperate appropriately with shareholders and other stakeholders
- (3) Fulfill our responsibility to be accountable to stakeholders and ensure transparency by appropriately and proactively disclosing information relating to the Company
- (4) Clarify the roles and responsibilities of the Board of Directors, the audit & supervisory board members and the Audit & Supervisory Board to enable them to adequately fulfill their management monitoring and supervisory functions
- (5) Conduct constructive dialogue with shareholders who have investment policies according with the medium- to long-term interests of shareholders

[Reasons for Non-compliance with the Principles of Japan’s Corporate Governance Code]

The Company complies with every principle of Japan’s Corporate Governance Code.

[Disclosure Based on the Principles of Japan’s Corporate Governance Code] **Updated**

[Principle 1.4 Cross-Shareholdings]

Objective of cross-shareholdings

The Company holds shares in business partners that are important as strategic partners for business alliances, joint research and development, or other forms of collaboration. Its objective in doing so is to strengthen its relationship of trust with such key business partners to pursue medium- to long-term growth and increased corporate value for the Company.

Management of cross-shareholdings

To manage the Company’s cross-shareholdings appropriately, the Board of Directors confirms the medium- to long-term purpose of shareholdings and verifies the economic rationale for major cross-shareholdings on an annual basis.

Standards for exercising voting rights

When exercising its voting rights with regard to cross-shareholdings, the Company considers each agenda item, confirming whether it will lead to an increase in corporate value over the medium- to long-term for the company in question, and checking that it will not impair the Company's own corporate value. If any doubt arises, the Company uses means such as dialogue with the company in question to determine whether it is for or against each agenda item. If the Company determines that it cannot approve an agenda item, it may consider selling its shareholding in the company in question.

[Principle 1.7 Related Party Transactions]

With regard to related party transactions within the scope specified by the Companies Act and the accounting standards, important transactions over a certain value are reported to the Board of Directors and disclosed in the Annual Securities Report and notes to financial statements. Approval by the Board of Directors is required for directors or executive officers to enter into transactions involving conflicts of interest.

[Principle 3.1 Full Disclosure]

(1) Management philosophy, business strategies and business plans

The Company formulated the IHI Group Vision and the Group Management Policies based on the Group's management philosophy of "Contributing to the development of society through technology" and "Human resources are our single most valuable asset." For further details, please refer to the Company's website. (<https://www.ihico.jp/en/company/policy/>)

(2) Basic views and policies on corporate governance

For further details regarding the Company's basic views and policies on corporate governance, please refer to the section of this report entitled "1. Basic Views" within "I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information."

(3) Policies and procedures in determining the remuneration of officers

In May 2017, the Board of Directors of the Company revised the policy for determining the remuneration, etc. of officers as follows.

a. Basic policy on determining remuneration of directors (excluding outside directors) and executive officers

- (a) Remuneration shall be aimed at fully encouraging directors and executive officers to perform their duties in line with management philosophy, Group vision, and Group Management Policies, and strongly motivating them toward the achievement of specific management goals to bring the Company's and the IHI Group's sustainable growth and improve the medium- and long-term corporate value.
- (b) Remuneration shall be structured with the appropriate allocation of an annual incentive (performance-based bonuses), which is linked to the operating performance of each fiscal year, and a medium- and long-term incentive (performance-based share remuneration), which is linked to medium- and long-term operating performance and corporate value aimed at broadly sharing a sense of value with stakeholders, and thereby shall contribute to performing with a sound entrepreneurial spirit.
- (c) Under the management philosophy, "Human resources are our single most valuable asset," appropriate treatment shall be provided to officers of the Company in consideration of the Company's management environment, the social roles and accountabilities the Company undertakes, among other factors.

b. Remuneration level and allocated ratios of remuneration

- (a) The Company shall regularly survey objective market data on remuneration researched by an external specialized institution, and set an appropriate remuneration level.
- (b) In consideration of the Company's business characteristics, effectiveness of incentive remuneration, etc., the total amount of remuneration shall be allocated at approximate proportions of 60%, 20%, and 20% to (i) a fixed base amount, (ii) an annual incentive (performance-based bonuses) to be provided upon the achievement of the targeted performance, and (iii) a medium- and long-term incentive (performance-based share remuneration) to be delivered upon the achievement of the targeted performance respectively.

c. Framework of incentive remuneration

- (a) The monetary amount of an annual incentive to be provided every fiscal year shall vary, depending on the achievement level, within an approximate range of from 0 to 200 under the assumption of providing the amount of 100 upon the achievement of the targeted performance. Performance evaluation indicators shall be those such as consolidated profit attributable to owners of parent, which is aimed at sharing the interests with shareholders, profitability which is emphasized in Group Management Policies 2016 (consolidated operating profit margin and operating profit margin of responsible business areas), and individual evaluation indicators corresponding to tasks assigned to each officer, and be reviewed as necessary upon changes in management environment, officers' duties, etc.
- (b) The number of shares to be delivered every fiscal year as a medium- and long-term incentive shall vary, depending on the achievement level, within an approximate range of from 0 to 150 under the assumption of delivering 100 shares upon the achievement of the targeted performance. The performance evaluation period shall be three fiscal coming years, and performance goals for the final fiscal year of the performance evaluation period shall be established in the initial fiscal year of the performance evaluation period. The performance evaluation indicator shall be consolidated ROIC (return on invested capital), as emphasized in Group Management Policies 2016, and changes in the indicator, if necessary, shall be taken into consideration when reviewing the Group management policies.

d. Procedures for determining remuneration

To ensure appropriateness and objectivity in determining the remuneration of directors and executive officers, the Company has an optional body, the Remuneration Advisory Committee which is organized by six members of three outside directors, one outside audit & supervisory board member, one director in charge of human resources, and one director in charge of finance and accounting under the chair of an outside director. The Committee shall examine and report remuneration related to directors and executive officers, and the Board of Directors shall make decisions.

e. Remuneration of outside directors and audit & supervisory board members

Remuneration of outside directors shall consist only of a base amount in the light of their duties.

Remuneration of audit & supervisory board members shall consist only of a base amount, as compensation for responsibilities for auditing the execution of business throughout the IHI Group. The amount shall be determined through discussions among the audit & supervisory board members.

Members of the Remuneration Advisory Committee (From June 23, 2017)

Chair: Taketsugu Fujiwara, Outside Director

Members: Hiroshi Kimura, Outside Director
Kazuhiko Ishimura, Outside Director
Takayuki Hashimoto, Outside Audit & Supervisory Board Member
Toshinori Sekido, Executive Vice President (Director in charge of human resources)
Takeshi Yamada, Director (Director in charge of finance and accounting)

(4) Policies and procedures relating to appointment of officers

The Company's Board of Directors sets the basic policy of appointing the most appropriate officers according to the ideal attributes for officers and the independence standards for outside directors and outside audit & supervisory board members, as separately described, with the aim of ensuring sustainable growth and increased corporate value for the IHI Group over the medium to long term.

The Company's Board of Directors has established a Nomination Advisory Committee (in this section (4), the "Committee") comprised of all the independent outside directors, the President and Representative Director and the Chief Executive Officer. The Committee acts as an optional advisory body to the Board of Directors in order to enhance the Board of Directors' independence, objectivity, and accountability, as well as to proactively obtain the involvement, advice, and supervision of the outside directors. It supervises appointment-related procedures to ensure that they are applied appropriately, and offers related advice.

The Committee is consulted by the Board of Directors relating to proposals for appointment of senior management (the Chief Executive Officer and representative directors) and proposals for nomination of candidates for the positions of director and audit & supervisory board member. In addition, it receives

reports in advance detailing the reasons for appointment of each individual, participates in deliberations, offers advice, and reports the results of its deliberations to the Board of Directors.

The Committee receives reports on proposals for appointment of executive officers before their submission to the Board of Directors, and confirms the suitability of the selections made.

The Board of Directors passes resolutions on these agenda items relating to appointment of officers after receiving the recommendations back from the Committee. If the Board of Directors comes to a decision that differs from the Committee's own recommendations, the Committee can request the Board of Directors to explain the reason.

The Board of Directors consulted the Committee with regard to the basic policies and procedures for appointment of officers stated above (including the ideal attributes for officers and the independence standards for outside directors and outside audit & supervisory board members), and the Committee deliberated on their appropriateness before making recommendations to the Board of Directors. If any revisions are made to the content of the policies and procedures in future, the same process will be followed.

Members of the Nomination Advisory Committee (From June 23, 2017)

Chair: Tsugio Mitsuoka, President and Chief Executive Officer

Members: Taketsugu Fujiwara, Outside Director
Hiroshi Kimura, Outside Director
Kazuhiko Ishimura, Outside Director
Yayoi Tanaka, Outside Director

Ideal Attributes for Officers

The Company appoints officers who are healthy in mind and body and have all the following attributes:

- Deep understanding of, and sympathy with, the IHI Group's management philosophy and vision
- The ability to contribute to sustainable growth and medium- to long-term increase in corporate value at the IHI Group by addressing societal issues in accordance with the IHI Group's vision
- Outstanding foresight, penetrating discernment and ability to make appropriate decisions with regard to the management of the IHI Group
- Good character with a strong sense of ethics
- Ample experience as a corporate manager, or a high degree of specialist knowledge, combined with a broad, global perspective and insight

(5) Individual explanations regarding appointment of officers

For further details regarding the reasons for nomination of candidates for the positions of outside director and outside audit & supervisory board member, please refer to the information under [Directors] and [Audit & Supervisory Board Members] in the section of this report entitled "1. Organizational Composition and Operation" within "II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management." Reasons for nomination as non-outside directors and non-outside audit & supervisory board members are being disclosed from the Ordinary General Meeting of Shareholders held in 2016.

[Supplementary Principle 4.1.1] (Summary of the scope of matters delegated to the management by the Board of Directors)

The Company has set out in the Regulations of the Board of Directors the following matters on which the Board of Directors itself will pass resolutions:

- (1) Matters relating to shareholders and general meetings of shareholders
Convocation of the general meeting of shareholders and purposes of convocation, etc.
- (2) Matters relating to shares
Issuance of shares for subscription, acquisition of own shares, issuance of bonds for subscription, etc.
- (3) Matters relating to settlement of accounts and financial affairs
Approval of financial statements, business reports, and their supplementary schedules; disposal or acceptance of transfer of important assets; borrowings in a significant amount, etc.

- (4) Matters relating to directors, executive officers, organization, etc.

Appointment of representative directors; appointment and dismissal of executive officers; establishment, changes or abolition of important structures including branch offices; appointment or dismissal of important employees including managers; transactions involving conflicts of interest conducted by directors or executive officers, etc.

- (5) Matters relating to management policies, business restructuring, etc.

Policies relating to business management; key business alliances or dissolution of business alliances; business transfers or acceptance of business transfers; establishment of subsidiaries, etc.

Important matters relating to business execution other than those subject to resolution by the Board of Directors are deliberated adequately at meetings of the Management Committee, an advisory body to the Chief Executive Officer (CEO).

[Principle 4.9 Independence Standards and Qualification for Independent Outside Directors]

In addition to the requirements for independent directors/auditors stipulated by the Tokyo Stock Exchange, the Company uses the standards below to determine independence.

- (1) Major shareholders

The director should not be a major shareholder with 10% or more of the voting rights in the Company, or serve as a director, audit & supervisory board member, executive officer at a company with committees, executive officer or employee, of a corporation that is a major shareholder.

- (2) Major clients, suppliers, etc.

The director should not currently serve as a director, audit & supervisory board member, executive officer at a company with committees, executive officer or employee, of any of the Company's major clients, suppliers, etc. detailed below, nor should he/she have served as an executive director, executive officer at a company with committees, or executive officer, of such major clients, suppliers, etc. in the past.

- Major clients of the IHI Group (with transactions valued at 2% or more of the Company's consolidated net sales in the most recent fiscal year)
- Major suppliers to the IHI Group (with transactions valued at 2% or more of the supplier's consolidated net sales in the most recent fiscal year)
- Major lenders to the Company (as listed in the business report for the most recent fiscal year)

- (3) Providers of specialist services (attorneys at law, certified public accountants, or consultants, etc.)

The director should not be an attorney at law, certified public accountant, or consultant, etc. who receives ¥10 million or more of monetary consideration or other property from the Company annually besides compensation as an officer.

- (4) Accounting auditor

The director should not be a representative partner or partner of the Company's accounting auditor.

- (5) Mutual exchange of officers, etc. with the Company

The director should not be assigned to a corporation with which the Company has a relationship of mutually exchanging directors or audit & supervisory board members.

- (6) Close relatives

The director should not be the spouse or first- to second-degree relative of a director, audit & supervisory board member, executive officer or equivalent executive-level employee of the IHI Group.

In addition, the director should not be the spouse or first- to second-degree relative of any person* referred to in (1) through (4) above.

* If a major shareholder or a major client, supplier, etc. is a corporation, this applies only to directors, audit & supervisory board members, executive officers at companies with committees, executive officers, or equivalent executive-level employees of the corporation in question.

In addition to the above, the Company also considers age, concurrent positions, period in office, and related matters when nominating candidates as outside directors.

[Supplementary Principle 4.11.1] (View on the appropriate balance, diversity and size of the Board of Directors)

In addition to making important decisions relating to business execution, the Board of Directors is required to perform the monitoring and supervisory function with regard to the overall management of the Company. To enable the Board of Directors to fulfill that function adequately, the number of directors is set at 15 or fewer. Currently there are 14 Directors appointed to the Board. Of these, four are outside directors, and they perform their monitoring and supervisory functions rigorously, primarily through debate at Board of Directors meetings.

When appointing directors, the Company also considers the diversity and balance of knowledge, experience, and skills within the Board of Directors as a whole. It specifies in its ideal attributes for officers* that any candidate should have ample experience as a corporate manager, or a high degree of specialist knowledge, combined with a broad, global perspective and insight.

* For further information regarding the ideal attributes for officers, please refer to item (4) in the section of this report entitled [Principle 3.1 Full Disclosure].

[Supplementary Principle 4.11.2] (Concurrent positions of directors and audit & supervisory board members)

For further information regarding concurrent positions of directors and audit & supervisory board members, please refer to the Reference Material and the section entitled Company Officers in the Business Report within the Notice of Convocation of the 200th Ordinary General Meeting of Shareholders on the Company's website. (<http://www.ihico.jp/en/ir/stock/meeting/index.html>)

[Supplementary Principle 4.11.3] (Summary of the results of analysis and evaluation of the effectiveness of the Board of Directors as a whole)

The Company has been annually carrying out evaluation of the Board of Directors since fiscal 2015 as an initiative to raise the effectiveness of the Board of Directors, and it plans to implement evaluation with the same content as below in fiscal 2017 as well.

The evaluation is performed as follows:

- An external consulting company administers an anonymous questionnaire to all directors and audit & supervisory board members. Items covered by the questionnaire include the composition and operation of the Board of Directors, risk management, and culture of the Board of Directors.
- The external consulting company collects and analyzes the questionnaire responses.
- All relevant officers are interviewed regarding the questionnaire and the analyzed responses. Furthermore, a panel comprising mainly outside officers exchanges views.
- The results of the above process are brought together in the form of a self-evaluation by the Board of Directors, and proposed points for improvement are identified.

Response to evaluation results for fiscal 2015

The evaluation in fiscal 2015 recognized issues including the need to discuss risk more thoroughly and to increase the time available for deliberating key agenda items at Board of Directors meetings.

As a response to this, in addition to working to enhance the reporting on the status of execution of business, in October 2016, the Company revised the items to be resolved/reported at the Board of Directors meetings, and organized agenda items that required discussion at such meetings.

Evaluation results for fiscal 2016 and the policy for response measures

The aspects recognized as strongpoints in the evaluation for fiscal 2015, such as transparency in the way the Board of Directors is operated and in its discussions, as well as adherence to compliance-related requirements, were recognized again in this year's evaluation to have maintained their high evaluation level. In addition, the effectiveness of the Board of Directors was evaluated as having been adequately secured with respect to the above-mentioned recognized issues of fiscal 2015, such as those targeted for specific improvements.

On the other hand, renewed recognition has been given to the need to further enhance discussions at the Board of Directors through securing time for discussion on important measures and cleverly using written proposals and explanatory materials, etc.

The Company's Board of Directors will continue its efforts to further enhance its own effectiveness by implementing measures to resolve these issues.

[Supplementary Principle 4.14.2] (Training policy for directors and audit & supervisory board members)

The Company provides opportunities for directors, audit & supervisory board members and executive officers to acquire the knowledge, etc. necessary to fulfill their roles and responsibilities, and bears the associated costs.

In addition, the Company bears the costs of training requested by individual officers, including holding seminars by experts or specialists, or participation in external seminars, as necessary.

[Principle 5.1 Policy for Constructive Dialogue with Shareholders]

Basic views

The Company is well aware that timely, appropriate disclosure of corporate information to investors forms the foundation of a sound financial instruments market. Based on the basic principle of promoting highly transparent management throughout the Company, its basic policy with regard to disclosure of information is to disclose important information relating to the Company's management or operations to participants in capital markets promptly, accurately, continuously, and fairly, always from the investor's perspective. The basic policy also calls on the Company to show good faith in being accountable for its management course and key business operations.

Dialogue with shareholders

Guided by this basic policy, the Company pursues IR (investor relations) and SR (shareholder relations) activities, working to enhance its range of disclosure documents and holding financial results presentation meetings, as well as presentations by business division. Through such means as making these available online, the Company strives to provide proactive and fair disclosure.

The Company also engages in debate on important management policies, corporate governance, and other topics with major shareholders who have investment policies according with the medium- to long-term interests of shareholders. Dialogues with investors are handled by the Public Relations Division, while dialogues with shareholders are handled by the Administration Division, and depending on who has applied to attend, and the purpose and content of the dialogue, directors or executive officers in charge may also attend. Important dialogue content is reported to the Board of Directors.

System for promoting dialogue

The director in charge of the Public Relations Division oversees IR activities, while the director in charge of the Administration Division oversees SR activities. In addition, the Company shares information about every aspect of IR activities, including the collection, sharing, disclosure and storage of material information, by holding meetings led by the director in charge of public relations and investor relations, attended by the Public Relations Division, the Administration Division, the Corporate Planning Division, and the Finance & Accounting Division.

Management of insider information

The Company addresses the management of insider information by setting out its systems for managing and disclosing material information in its internal Regulations on Disclosure of Information.

2. Capital Structure

Foreign shareholding ratio	Updated	30% or more
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[Status of Major Shareholders] Updated

Name	Number of shares	Percentage (%)
Japan Trustee Services Bank, Ltd. (TOSHIBA Corporation Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	55,422,000	3.58
The Dai-ichi Life Insurance Company, Limited	54,060,700	3.49
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	50,665,000	3.27
Japan Trustee Services Bank, Ltd. (Holder in Trust)	48,573,000	3.14
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	45,979,000	2.97
State Street Bank And Trust Company 505001	43,454,226	2.80
State Street Bank And Trust Company 505223	40,350,404	2.60
Japan Trustee Services Bank, Ltd. (Holder in Trust 9)	29,286,000	1.89
Japan Trustee Services Bank, Ltd. (Holder in Trust 5)	28,232,000	1.82
IHI Customer Stock Ownership Association	25,572,000	1.65

Controlling shareholder (except for parent company)	—
Parent company	None

Supplementary Explanation Updated

In the Report of Possession of Large Volume provided for public viewing on June 6, 2016, certain shareholdings are reported to be respectively attributed to BlackRock Japan Co., Ltd. and its seven joint holders as of May 31, 2016. However, since the Company is unable to confirm the actual number of shares held as of March 31, 2017, they are not included in major shareholders above.

In the Change Report pertaining to Report of Possession of Large Volume provided for public viewing on October 21, 2016, certain shareholdings are reported to be respectively attributed to Mizuho Bank, Ltd. and its joint holder as of October 14, 2016. However, since the Company is unable to confirm the actual number of shares held as of March 31, 2017, they are not included in major shareholders above.

In the Change Report pertaining to Report of Possession of Large Volume provided for public viewing on December 22, 2016, certain shareholdings are reported to be respectively attributed to Mizuho Bank, Ltd. and its joint holder as of December 15, 2016. However, since the Company is unable to confirm the actual number of shares held as of March 31, 2017, they are not included in major shareholders above.

3. Corporate Attributes

Listed stock market and market section	First Section of Tokyo Stock Exchange First Section of Nagoya Stock Exchange Main Market of Sapporo Securities Exchange Main Market of Fukuoka Stock Exchange
Fiscal year-end	March
Type of business	Machinery
Number of employees (consolidated) as of the end of the previous fiscal year	1,000 or more
Net sales (consolidated basis) for the previous fiscal year	¥1 trillion or more
Number of consolidated subsidiaries as of the end of the previous fiscal year	From 100 to less than 300

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

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5. Special Circumstances Which May Have Material Impact on Corporate Governance

The Company holds a majority of the voting rights in MEISEI ELECTRIC CO., LTD., which is listed on the Second Section of the Tokyo Stock Exchange. The Company intends to continue taking the independence of Meisei Electric's business base into consideration as it strives to enhance synergies for the Group and increase corporate value.

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization form	Company with Audit & Supervisory Board
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[Directors]

Maximum number of directors stipulated in Articles of Incorporation	15
Term of office stipulated in Articles of Incorporation	1 year
Chair of the Board	Chairman of the Board (excluding the case where the person concurrently serves as President)
Number of directors Updated	14
Appointment of outside directors	Appointed
Number of outside directors Updated	4
Number of independent directors designated from among outside directors Updated	4

Outside Directors' Relationship with the Company (1) Updated
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Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Taketsugu Fujiwara	From another company								△			
Hiroshi Kimura	From another company								△			
Kazuhiko Ishimura	From another company								○			
Yayoi Tanaka	Other											

* Categories for "Relationship with the Company"

* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

- a. Executive (meaning a person who executes business; hereinafter, the same) of the Company or its subsidiaries
- b. Executive or non-executive director of a parent company of the Company
- c. Executive of a fellow subsidiary of the Company
- d. A party whose major client or supplier is the Company or an executive thereof
- e. Major client or supplier of the Company or an executive thereof
- f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as a director/audit & supervisory board member
- g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a corporation)
- h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)
- i. Executive of a company, between which and the Company outside directors/audit & supervisory board members are mutually appointed (the director himself/herself only)
- j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
- k. Others

Outside Directors' Relationship with the Company (2) Updated

Name	Designation as independent director	Supplementary explanation of the relationship	Reasons for appointment
Taketsugu Fujiwara	○	<p>Mr. Taketsugu Fujiwara served as President and Representative Director, and Presidential Executive Officer of Asahi Kasei Corporation until March 2014. He serves currently as Standing Counsellor of the said company.</p> <p>The Group has a business relationship involving the sale and purchase of industrial machinery with Asahi Kasei Corporation, where Mr. Taketsugu Fujiwara previously served as a business executive. However, the said relationship generates less than 0.01% of the Company's consolidated net sales (for the fiscal year ended March 31, 2017). Therefore, this has no impact on his independence.</p>	<p>Mr. Taketsugu Fujiwara gained extensive experience and broad insight at the helm of a general chemicals manufacturer, where he has implemented diversified management. Aiming for these qualities to be reflected in the management of the Company, and acknowledging his proven ability to perform management monitoring and supervisory functions from an independent perspective. Therefore, the Company has elected him as an outside director.</p> <p>Mr. Taketsugu Fujiwara does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interest with general shareholders. The Company has therefore elected him as an independent director.</p>
Hiroshi Kimura	○	<p>Mr. Hiroshi Kimura served as President and CEO of Japan Tobacco Inc., and then its Chairman of the Board until June 2014. He serves currently as Corporate Advisor of the said company.</p> <p>One of the Company's subsidiaries has a business relationship involving sales of products related to industrial machinery, etc. with Japan Tobacco Inc., where Mr. Hiroshi Kimura previously served as a business executive. However, the said relationship generates less than 0.01% of the Company's consolidated net sales (for the fiscal year ended March 31, 2017). Therefore, this has no impact on his independence.</p>	<p>Mr. Hiroshi Kimura gained extensive experience and broad insight as a business manager who has led aggressive globalization in response to changes in business environment. Aiming for these qualities to be reflected in the management of the Company, and acknowledging his proven ability to perform management monitoring and supervisory functions from an independent perspective. Therefore, the Company has elected him as an outside director.</p> <p>Mr. Hiroshi Kimura does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interest with general shareholders. The Company has therefore elected him as an independent director.</p>
Kazuhiko Ishimura	○	<p>Mr. Kazuhiko Ishimura serves as Chairman of Asahi Glass Co., Ltd.</p> <p>The Company has a business relationship involving the sale and maintenance of industrial machinery, etc. with Asahi Glass Co., Ltd., where Mr. Kazuhiko Ishimura serves as a business executive. However, the said relationship generates less than 0.01% of the Company's consolidated net sales (for the fiscal year ended March 31, 2017). Therefore, this has no impact on his independence.</p>	<p>Mr. Kazuhiko Ishimura gained extensive experience and broad insight at the helm of a comprehensive materials manufacturer. Aiming to reflect these qualities in the management of the Company, and expecting he can carry out management monitoring and supervisory functions from an independent perspective, the Company has elected him as an outside director.</p> <p>Mr. Kazuhiko Ishimura does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interest with general shareholders. The Company has therefore elected him as an independent director.</p>

Name	Designation as independent director	Supplementary explanation of the relationship	Reasons for appointment
Yayoi Tanaka	○	No items to report.	<p>Ms. Yayoi Tanaka has developed a high degree of specialist knowledge and diverse experience through her evaluation and research of non-profit organizations and through her work on various governmental committees. Aiming to reflect these qualities in the management of the Company, and expecting she can carry out management monitoring and supervisory functions from an independent perspective, the Company has elected her as an outside director.</p> <p>Ms. Yayoi Tanaka does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interest with general shareholders. The Company has therefore elected her as an independent director.</p>

Voluntary establishment of committee(s) equivalent to Nominating Committee or Compensation Committee	Established
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Committee's Name, Composition, and Chair's Attributes	Updated
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	Committee's name	All committee members	Full-time members	Inside directors	Outside directors	Outside experts	Other	Chair
Committee equivalent to Nominating Committee	Nomination Advisory Committee	5	0	1	4	0	0	Inside director
Committee equivalent to Compensation Committee	Remuneration Advisory Committee	6	0	2	3	0	1	Outside director

Supplementary Explanation	Updated
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The details of Nomination Advisory Committee are noted in item (4) of [Principle 3.1 Full Disclosure] under “[Disclosure Based on the Principles of Japan’s Corporate Governance Code]” within “I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information.”

The details of Remuneration Advisory Committee are noted in item (3) of [Principle 3.1 Full Disclosure] under “[Disclosure Based on the Principles of Japan’s Corporate Governance Code]” within “I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information.”

[Audit & Supervisory Board Members]

Establishment of Audit & Supervisory Board	Established
Maximum number of audit & supervisory board members stipulated in Articles of Incorporation	5
Number of audit & supervisory board members	5

Cooperation among Audit & Supervisory Board Members, Accounting Auditor and Internal Audit Departments

Audit & supervisory board members work closely with the accounting auditor, regularly exchanging information and opinions with them, and receiving reports on the results of audits.

Audit & supervisory board members also receive reports on the implementation of internal audits from the internal audit departments as necessary, and exchange information with those departments.

Appointment of outside audit & supervisory board members	Appointed
Number of outside audit & supervisory board members	3
Number of independent auditors designated from among outside audit & supervisory board members	3

Outside Audit & Supervisory Board Members' Relationship with the Company (1) Updated

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Takayuki Hashimoto	From another company										△			
Yoko Hatta	Other													
Tomomi Yatsu	Other													

* Categories for "Relationship with the Company"

* "○" when the audit & supervisory board member presently falls or has recently fallen under the category;
 "△" when the audit & supervisory board member fell under the category in the past

* "●" when a close relative of the audit & supervisory board member presently falls or has recently fallen under the category;

"▲" when a close relative of the audit & supervisory board member fell under the category in the past

- a. Executive (meaning a person who executes business; hereinafter, the same) of the Company or its subsidiary
- b. Non-executive director or accounting advisor of the Company or its subsidiaries
- c. Executive or non-executive director of a parent company of the Company
- d. Audit & supervisory board member of a parent company of the Company
- e. Executive of a fellow subsidiary of the Company
- f. A party whose major client or supplier is the Company or an executive thereof
- g. Major client or supplier of the Company or an executive thereof
- h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as a director/audit & supervisory board member
- i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a corporation)
- j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the audit & supervisory board member himself/herself only)
- k. Executive of a company, between which and the Company outside directors/audit & supervisory board members are mutually appointed (the audit & supervisory board member himself/herself only)
- l. Executive of a company or organization that receives a donation from the Company (the audit & supervisory board member himself/herself only)
- m. Others

Outside Audit & Supervisory Board Members' Relationship with the Company (2) Updated

Name	Designation as independent auditor	Supplementary explanation of the relationship	Reasons for appointment
Takayuki Hashimoto	○	<p>Mr. Takayuki Hashimoto served as General Manager of IBM Japan, Ltd., and then as its Chairman until March 2014. He serves currently as Honorary Advisor of the said company.</p> <p>The Company has a business relationship involving the sale and purchase and leasing of IT-related equipment with IBM Japan, Ltd., where Mr. Takayuki Hashimoto previously served as a business executive. However, the said relationship generates less than 0.01% of the Company's consolidated net sales (for the fiscal year ended March 31, 2017). Therefore, this has no impact on his independence.</p>	<p>Mr. Takayuki Hashimoto gained extensive experience and knowledge of global companies gained at the helm of a state-of-the-art IT company. Acknowledging his proven ability to reflect these qualities in the auditing of the Company's management from an independent perspective, the Company has elected him as an outside audit & supervisory board member. Mr. Takayuki Hashimoto does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interest with general shareholders. The Company has therefore elected him as an independent auditor.</p>
Yoko Hatta	○	No items to report.	<p>Ms. Yoko Hatta gained extensive experience and insight in global business operations, notably international taxation. Acknowledging her proven ability to reflect these qualities in the auditing of the Company's management from an independent perspective, the Company has elected her as an outside audit & supervisory board member. Ms. Yoko Hatta does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interest with general shareholders. The Company has therefore elected her as an independent auditor.</p>
Tomomi Yatsu	○	No items to report.	<p>Ms. Tomomi Yatsu gained extensive experience and insight by responding to various corporate issues as an attorney at law and certified public accountant and is expected these qualities and her independent perspective to be reflected in the management auditing operations of the Company. Therefore, the Company believes that she is well-qualified to be an outside audit & supervisory board member. Ms. Tomomi Yatsu does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interest with general shareholders. The Company has therefore elected her as an independent auditor.</p>

[Independent Directors/Independent Auditors]

Number of independent directors/independent auditors Updated	7
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Matters relating to Independent Directors/Independent Auditors

The Company designates all outside directors and outside audit & supervisory board members qualified to be independent directors and independent auditors as such.

[Incentives]

Implementation of measures to provide incentives to directors	Performance-based remuneration
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Supplementary Explanation **Updated**

The Company's policy for determining the remuneration, etc. of officers is noted in item (3) of [Principle 3.1 Full Disclosure] under "[Disclosure Based on the Principles of Japan's Corporate Governance Code]" within "I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information."

At the 200th Ordinary General Meeting of Shareholders held on June 23, 2017, a resolution was passed to abolish a share-based compensation-type stock option plan and adopt a performance-based share remuneration plan for directors (excluding outside directors).

Recipients of stock options	
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Supplementary Explanation

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[Director Remuneration]

Disclosure of individual directors' remuneration	No individual disclosure
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Supplementary Explanation **Updated**

The total amount of remuneration, etc. paid to directors and audit & supervisory board members and the number of recipients for the fiscal year ended March 31, 2017 are as follows:

- Directors (excluding outside directors) among 15 directors in total were paid a total of ¥510 million (comprising a base amount of ¥443 million and share-based compensation-type stock option of ¥66 million). No performance-based bonuses were paid for the fiscal year ended March 31, 2017.
- 3 audit & supervisory board members (excluding outside audit & supervisory board members) were paid a base amount of ¥72 million.
- 8 outside officers were paid a base amount of ¥72 million.

(Notes)

1. Remuneration of directors does not include salaries as employees paid to directors who are also employees.
2. The numbers of directors and audit & supervisory board members as of March 31, 2017 are respectively 13 (including 3 outside directors) and 5 (including 3 outside audit & supervisory board members). The number of directors stated above includes 6 directors and 2 audit & supervisory board members who retired at the conclusion of the 199th Ordinary General Meeting of Shareholders held on June 24, 2016.

Policy on determining remuneration amounts and calculation methods	Established
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Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

The respective maximum total remunerations of directors and audit & supervisory board members are both resolved at a General Meeting of Shareholders.

Maximum total amount of directors' remuneration is set at ¥1,090 million or below (excluding employee salaries) per year as resolved at the 200th Ordinary General Meeting of Shareholders held on June 23, 2017, and maximum total amount of audit & supervisory board members' remuneration is set at ¥120 million or below per year as resolved at the 197th Ordinary General Meeting of Shareholders held on June 27, 2014.

Policies and procedures in determining the remuneration of officers are noted in item (3) of [Principle 3.1 Full Disclosure] under "[Disclosure Based on the Principles of Japan's Corporate Governance Code]" within "I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information."

[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]

The Administration Division assists outside directors in performing their duties, for example by providing explanation in advance of agenda items for Board of Directors meetings. Outside audit & supervisory board members are assisted in performing their duties by an audit office staffed by the Company's employees, while the standing audit & supervisory board members provide outside audit & supervisory board members with reports on the day-to-day status of audits and share information.

2. Matters on Functions of Business Execution, Auditing, Oversight, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System) Updated

The Company's corporate governance system is shown in the attached chart entitled Corporate Governance Management Structure, the key details of which are as follows.

2.1. Overview of corporate governance system

The Company has an Audit & Supervisory Board, which comprises 5 audit & supervisory board members (3 from outside) who audit the duties executed by directors.

The Board of Directors, which consists of 14 directors (4 from outside), makes decisions related to all important matters concerning the management of the Company and the Group, in addition to supervising directors in their business execution.

The Company has an executive officer system to facilitate and strengthen the decision-making and supervisory functions of the Board of Directors, as well as to improve the efficiency of business operations. Appointed by resolution of the Board of Directors, there are 25 executive officers, 8 of whom concurrently serve as directors. The Chief Executive Officer manages the duties of the executive officers, giving directions and supervision. The executive officers follow the Chief Executive Officer's directions to execute their assigned duties.

The Management Committee, which consists of members appointed by the CEO, supports the CEO's decision-making and business execution.

The Company established the Remuneration Advisory Committee and the Nomination Advisory Committee as the optional committees.

The details of these Committees are noted in items (3) and (4) of [Principle 3.1 Full Disclosure] under "[Disclosure Based on the Principles of Japan's Corporate Governance Code]" within "I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information."

2.2. Internal and audit & supervisory board member audits

The Internal Audit Division shall be established as an internal audit department that reports directly to the President. The body audits all business divisions of the Company and its subsidiaries and affiliates on an ongoing basis to enhance internal control, in addition to inspection and guidance at the Company's headquarters' divisions and internal audits carried out by the internal audit departments of subsidiaries and affiliates.

The internal audit department works closely with audit & supervisory board members and the accounting auditor to report on the implementation and results of audits and to hold regular meetings, exchanging information and opinions with them.

Audit & supervisory board members, in accordance with policies formulated by the Audit & Supervisory Board, attend Board of Directors meetings and other important meetings. They also audit the execution of duties by directors through reviews of reports received from the directors and employees, and they investigate the Company operations and finances. The audit office assists the audit & supervisory board members in the performance of their duties.

Audit & supervisory board members receive reports on the implementation and results of audits from the accounting auditor and the internal audit departments. Also, the two sides hold regular meetings, exchanging information and opinions with each other.

2.3. Status of accounting audit

The Company commissions its accounting audit to Ernst & Young ShinNihon LLC. The names of the

certified public accountants belonging to Ernst & Young ShinNihon LLC who executed the accounting audit of the Company, as well as the consecutive number of years they have audited the Company, are shown below.

Hideyuki Inoue (2 years)

Ichiro Tajima (7 years)

Yoichi Takanashi (1 year)

3. Reasons for Adoption of Current Corporate Governance System

The Company adopted the corporate governance management structure described in the preceding section because it believes the current system has the functions that enable adequate fulfillment of the auditing and overseeing of every aspect of corporate management while also ensuring management efficiency.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Meetings of Shareholders and Smooth Exercise of Voting Rights

	Supplementary explanations
Early notification of General Meeting of Shareholders	Sent out 3 weeks before date of General Meeting of Shareholders
Allowing electronic exercise of voting rights	The Company offers general investors the option of exercising their voting rights via the website of the administrator of shareholders' register.
Participation in electronic voting platform	The Company offers institutional investors the option of exercising their voting rights via the Tokyo Stock Exchange's platform.
Providing convocation notice in English	The Company prepares and distributes a full English-language version of the convocation notice.
Other	The Company strives to offer information as early as possible by posting details of the agenda items on its website before sending out the convocation notice.

2. IR Activities **Updated**

	Supplementary explanations	Explanation given by representative
Regular investor briefings for analysts and institutional investors	The Company holds a telephone conference for the financial results for the first and third quarters and a presentation meeting for the financial results for the second quarter and fiscal year.	Yes
Regular investor briefings for overseas investors	The Company organizes visits to overseas investors.	Yes
Posting of IR materials on website	In addition to financial information, the Company posts its management policies and other management-related information.	
Establishment of division and/or manager in charge of IR	A manager and staff members dedicated to IR are assigned to Public Relations Division.	
Other	The Company organizes individual visits to institutional investors as necessary to explain its business conditions.	

3. Measures to Ensure Due Respect for Stakeholders **Updated**

	Supplementary explanations
Internal regulations, etc. stipulated for respecting the position of stakeholders	Rules are stipulated in the Basic Code of Conduct for the IHI Group.
Implementation of environmental activities, CSR activities, etc.	All domestic production bases have obtained ISO 14001 certification. In addition, the Company formed the CSR Committee, the Environment Committee, the Compliance Committee and other company-wide committees to take action, and their activities are reported in the Sustainability Report and the Integrated Report.
Formulation of policies on information provision to stakeholders	Based on the Basic Code of Conduct for the IHI Group, the Company has set out its basic policy regarding information provision in its Regulations on Disclosure of Information, while specific procedures are set out in the Procedures Relating to Disclosure of Information.

	Supplementary explanations
Other	<p>Guided by its management philosophy “Human resources are our single most valuable asset,” in 2013 the Company instituted its Group Human Resource Management Policy, advocating “diversity” as a key word.</p> <p>The objective in doing so is to cultivate an organizational culture that engenders creativity and innovation as a result of linking various approaches by creating workplaces where individuals with a diverse range of personalities and sets of values can participate actively. An organizational culture that engenders creativity and innovation is an essential element in achieving the Company’s other management philosophy of “Contributing to the development of society through technology.” It is also the reason why the Company works to enhance diversity not only as a means of fulfilling its corporate responsibility to society, but also as part of its management strategy.</p> <p>To enhance diversity the Company set up a dedicated organizational unit that is taking action to further improve its system to provide capable personnel with opportunities for proactive appointment, training, and promotion, regardless of their gender, nationality, or age, as well as to support employees in achieving results as they combine work life and family life. The Company is focusing its efforts particularly on promoting active participation among four key groups: women, non-Japanese personnel, people with disabilities, and senior citizens.</p> <p>As part of efforts on promoting active participation among women, in addition to aiming to achieve a ratio of women in management positions (rank equivalence of section manager and higher) of 3.5% by fiscal 2020 (currently 2.6% as of April 1, 2017) to take a positive approach to appointing women, the Company is providing a range of well-designed educational opportunities for female employees.</p> <p>For specific details regarding the Company’s diversity-related measures, please refer to the Company’s website.</p> <p>https://www.ihl.co.jp/ihl/company/policy/diversity/</p>

IV. Matters Related to the Internal Control System

1. Basic Views on Internal Control System and the Progress of System Development **Updated**

To enhance the efficacy of the IHI Group's corporate governance, thereby contributing to enhanced corporate value, the Company set out a basic policy for related systems prescribed in the Companies Act. The Companies Act prescribes systems to ensure that the performance of duties by directors complies with the laws and regulations and the articles of incorporation as well as other systems necessary to ensure the properness of operations of a stock company and operations of corporate group consisting of the stock company and its subsidiaries. Specific details of these systems are as follows.

1.1. System for ensuring compliance of performance of duties by directors and employees with laws and regulations and articles of incorporation

Directors of the Company shall establish rules to ensure that the performance of their duties is compliant with laws and regulations and articles of incorporation, and directors and employees shall observe such rules. Directors of the Company shall establish systems to ensure the appropriateness of operation activities throughout the Company, at each department, and at each subsidiary and affiliate company, and to audit such activities are properly pursued.

(1) Preparation of rules and regulations

Directors shall prepare group-wide, company-wide and departmental rules and procedures such as the "Basic Code of Conduct for the IHI Group" that all directors and employees of the Company must follow to perform their duties. Departments in charge of each operation must be specified clearly in each rule and regulation. A mechanism to update such rules and regulations in the event of amendment of applicable laws and regulations shall also be defined.

(2) Compliance activities

With respect to compliance activities, the "Compliance Committee" chaired by an officer in charge of compliance for the entire Company shall establish a company-wide compliance policy. The company-wide policy shall be applied to the plan for each department, and each department shall create its own rules and activity plans. In addition to the company-wide training organized and administered by the Corporate Social Responsibility Division, training for each level (such as managerial staff, mid-level staff, and new employees) and training for each competency (such as human resources, finance, and procurement) shall be conducted to ensure compliance by all employees.

(3) System to ensure and correct activities

An internal audit mechanism shall be created to monitor, inspect, and assess operation activities at each department to ensure the appropriateness of such activities. "Internal Audit Division," shall be established as an internal audit department that is a department independent of all other departments. The Internal Audit Division shall report the results of audits to the Board of Directors as needed. A "Compliance Hotline" shall be established as an internal reporting system and separate from the organizational hierarchy, the Corporate Social Responsibility Division shall be made a point of contact to provide consultations and receive reporting to effectively act as a self-correcting function and prevent noncompliance before it occurs.

1.2. System for storing and managing information

Directors of the Company shall preserve information related to Directors' exercise of their duties as a written document or in an electromagnetic form. Directors shall establish a basic policy for storing and managing documents and electromagnetic records, and shall manage information thereof. Amendment of such basic policy shall be subject to approval of the Board of Directors.

1.3. System for managing risks

Directors of the Company shall continuously assess, identify, and monitor business risks at each division of IHI group companies. Directors shall recognize the importance of assessing, identifying, and monitoring any of the following risks as various risks relevant to the execution of business of IHI group companies, and shall establish an appropriate system to manage such risks as well as a system to apply and evaluate it.

(1) Contracts/agreements

Operational risks relating to contracts/agreements such as competition, alliance/M&A with other companies, business integration, overseas operations, material procurement, and debt guarantee.

(2) Design, manufacturing, and technologies

Risks that manufacturing sites, quality assurance, technology agreements, and research and development perform below expectations.

(3) Laws and regulations

Risks of losses or loss of credibility due to violation of law.

(4) Information systems

Risks of leakage, theft, and loss of information assets, and damage thereto.

(5) Safety, health, and environment

Risks of problems with health and safety assurance and environmental conservation at offices and construction sites.

(6) Disaster and system failure

Risks of interruption of business activities due to disaster, accidents, and information system failures.

(7) Financial activities

Risks regarding financial activities such as exchange rate and interest rate trends.

(8) Financial reporting

Risks of fictitious financial reporting (whether due to fraud or negligence).

Directors of the Company shall continuously assess, identify, and monitor business risks at each division of IHI group companies and promptly appoint personnel to deal with risks in the event new risks arise, and shall report to the Board of Directors of the Company regarding such risks that may affect IHI group performance, financial condition, and share price.

1.4. System for ensuring that Directors exercise their duties efficiently

Directors of the Company shall clearly separate the function of management supervision from that of performance to ensure efficient performance of duties, and shall delegate most authorities to perform duties to executive officers for efficiency. To make appropriate decisions through multi-dimensional considerations, the Chief Executive Officer shall organize the Management Committee as an advisory body to discuss important matters of IHI group companies. Directors shall prepare profit plans including target profitability of each Business Area / SBU at the beginning of every financial period, verify the respective results each month, and perform management of the execution status of duties.

1.5. System for ensuring properness of operations within the corporate group

Directors of the Company shall establish a system to ensure governance that is accountable for the entire scope of the IHI Group's business operations including those of the group companies by setting rules to manage group companies and appointing responsible departments to manage, control, and direct such companies. As for group company matters with high levels of importance, directors shall submit/report to the Board of Directors and the Management Committee of the Company. Directors of the Company shall monitor the business conditions of group companies on a routine basis by deploying part-time audit & supervisory board members to group companies or assigning other employees in charge of such operations for the respective company. If necessary, responsible department or related department shall provide support to secure the appropriateness of business operations. Directors also establish a group business management section within the Corporate Planning Division to create and develop a group-wide management mechanism and to supervise overall group company businesses.

1.6. Employees to assist audit & supervisory board members

Audit & supervisory board members of the Company shall establish an audit office to assist them in the performance of their duties. The audit office shall consist of several employees, including managerial staff, of the Company, and personnel matters regarding such employees shall be decided based on mutual consultation between audit & supervisory board members and related directors. The audit office employees shall follow the instructions of the audit & supervisory board members, and directors shall pay attention to

maintaining independence of the audit office employees from the persons who execute business and to ensuring the effectiveness of instructions by the audit & supervisory board members to the audit office employees.

1.7. Audit by audit & supervisory board members

Audit & supervisory board members of the Company, in accordance with the audit policies defined at the Audit & Supervisory Board, shall attend important meetings including Board of Directors meetings and management meetings, and audit the performance of duties by directors through interviews with directors, reviews of documents related to important resolutions, and investigations of operations and financial situations of each department and major subsidiaries. The Company shall bear any expenses required for the performance of duties by audit & supervisory board members.

1.8. System related to reporting to audit & supervisory board members

Directors and employees of the Company shall, without delay, report to audit & supervisory board members and the Audit & Supervisory Board on matters provided for in laws and regulations, results of internal audits, results of internal reporting system, and other important matters that have an impact on the IHI Group. No individual shall be treated unfavorably for making such a report.

2. Basic Views on Eliminating Anti-Social Forces and the Progress of System Development

2.1. Basic views on eliminating anti-social forces

Anti-social forces are groups that threaten the order and safety of society, and the Company believes that it must work in unison with local governments, citizens and others to confront such groups resolutely.

2.2. Progress of system development for eliminating anti-social forces

The Company made provision for eliminating anti-social forces by formulating its Declaration on Eliminating Organized Crime Groups and Other Anti-Social Forces based on the Basic Code of Conduct for the IHI Group, which was notified to all employees. The Company's ongoing measures for dealing with anti-social forces are as follows:

(1) Anti-social forces response division and person responsible for handling unreasonable demands

The Company is tackling anti-social forces, having appointed an employee in charge of the issue in the Administration Division.

(2) Links with external specialist organizations

The Company is a participating member of the Council for the Prevention of Specific Violations and it exchanges information with the Metropolitan Citizens' Center for Promoting Banishment of Organized Crime Groups and the Federation for the Prevention of Specific Violations of the Metropolitan Police Department.

(3) Collection and management of information relating to anti-social forces

The Company participates in meetings held by the above entities and gathers relevant materials continually, collecting information by obtaining these entities' periodicals.

(4) Preparation of response manual

The Administration Division, which is the Company's anti-social forces response division, has prepared and updated a response manual.

(5) Status of provision of training

The Company conducts regular training sessions for the Company itself and for the Group as a whole.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of anti-takeover measures	Not adopted
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Supplementary Explanation

The Company is aware of the risk to its management posed by the possibility of a so-called hostile buyer acquiring a large number of its shares, and it pursues countermeasures including efforts to enhance corporate value, but at the present time the Company has not given specific consideration to adopting anti-takeover measures.

2. Other Matters Concerning Corporate Governance System **Updated**

The attached chart entitled Information Disclosure System shows the Company's system for timely disclosure, the key details of which are as follows.

2.1. Basic policy

The Company is well aware that timely, appropriate disclosure of corporate information to investors forms the foundation of a sound financial instruments market. Based on the basic principle of promoting highly transparent management throughout the Company, the Company strives to disclose important information relating to the Company's management or operations to participants in capital markets promptly, accurately, continuously, and fairly, always from the investor's perspective. The Company also strives to show good faith in being accountable for its management course and key business operations.

2.2. Internal systems

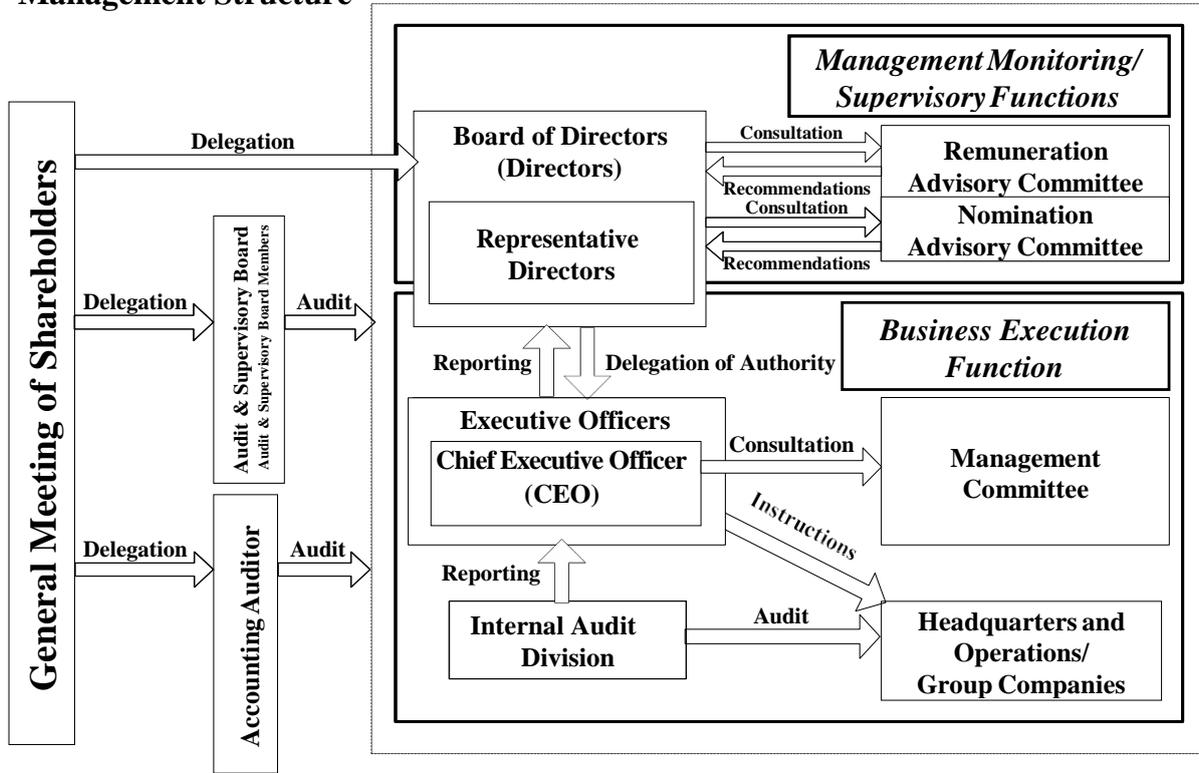
(1) System for managing information requiring timely disclosure

The Company appoints information management supervisors as the individuals responsible for the overall management of information requiring timely disclosure in each department. The position is filled by the director or executive officer in charge of each department. The information management supervisors appoint material information managers in order to ensure that material information is always managed appropriately.

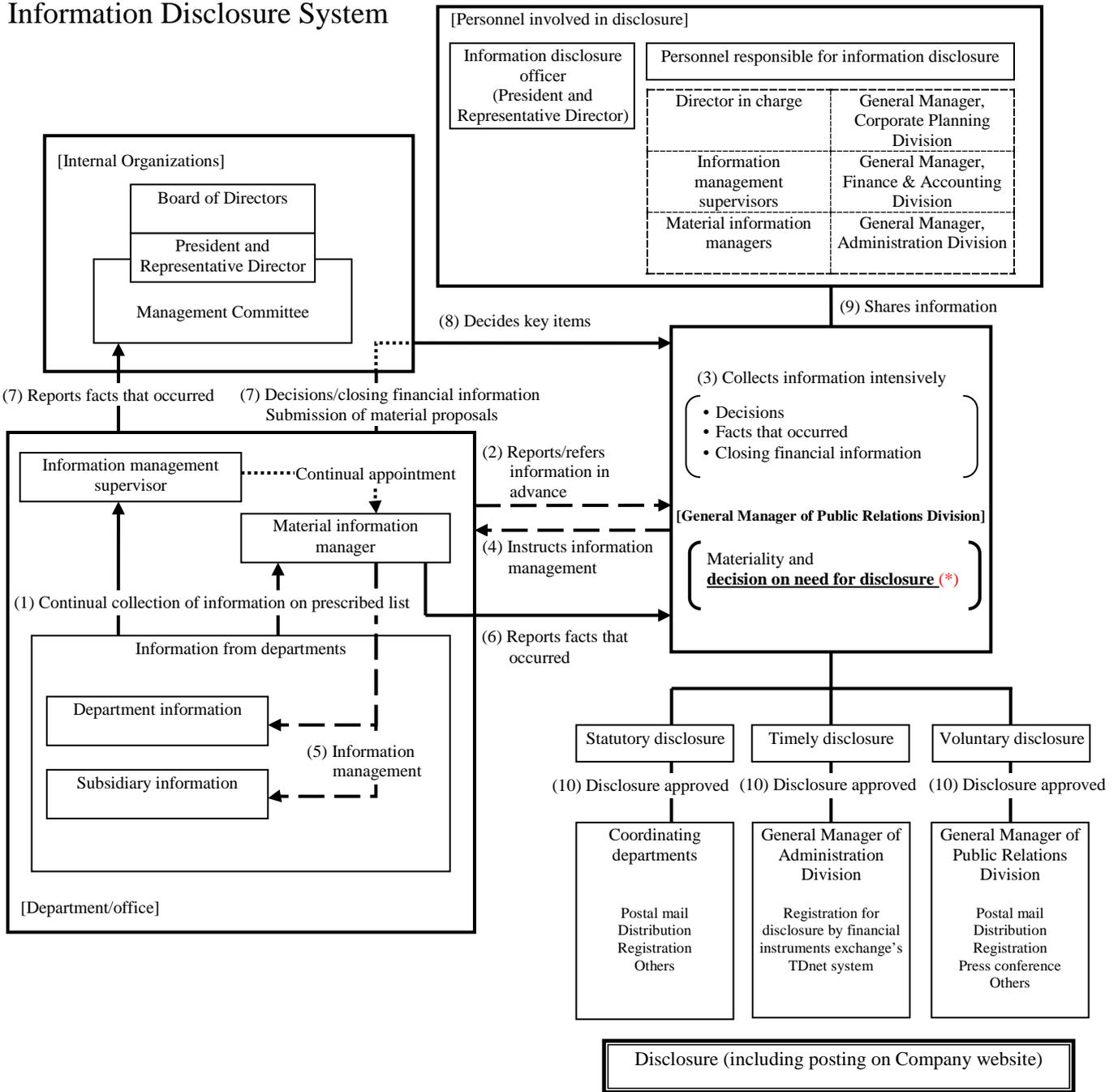
(2) Disclosure system

- a. Through its internal Regulations on Disclosure of Information the Company makes all employees aware of the types of information that could require timely disclosure, and information management supervisors and material information managers continually collect such information (including information relating to subsidiaries) within each department.
- b. The information collected within each department is submitted or reported to the Management Committee and the Board of Directors as necessary, according to the standards for submission of proposals set out in the rules for the Management Committee and the Board of Directors.
- c. Decisions resolved or decided by the Management Committee or the Board of Directors, closing financial information, and material facts that occurred as a result of external factors are all collected intensively by the General Manager of Public Relations Division, who decides whether timely disclosure is necessary or not.
- d. When information requiring timely disclosure is decided upon or occurs, the General Manager of Public Relations Division consults with the relevant department to set a specific timing for disclosure, and promptly initiates the procedure for disclosure. In addition, the General Manager of Public Relations Division instructs the information management supervisor and material information manager responsible for the information in question to manage the information appropriately.
- e. The President and Representative Director serves as the Company's information disclosure officer, and in principle, timely disclosure of information is conducted by the information disclosure officer, the information management supervisor responsible for the information in question, or the General Manager of Public Relations Division. If, however, it appears that within the stock market certain information requiring timely disclosure may have been leaked, or other information has occurred unexpectedly before the time designated for disclosure, the Company takes measures such as disclosing the relevant information without delay, regardless of the designated timing for disclosure.

**Corporate Governance
Management Structure**



Information Disclosure System



Decision on need for disclosure (*)

