

203rd term (from April 1, 2019 to March 31, 2020)

Annual Securities Report

1. This is an English translation of the Annual Securities Report (“Yukashoken Hokokusho”) pursuant to Article 24, paragraph 1 of the Financial Instruments and Exchange Act filed on June 25, 2020, via the Electronic Disclosure for Investors’ Network (“EDINET”) system as set forth in Article 27-30-2 of the same Act. The translation includes a table of contents and pagination that are not included in the electronic filing.
2. This report does not contain the attachments to the Annual Securities Report (“Yukashoken Hokokusho”) submitted via the above method, however English translations of the Independent Auditor’s Report, Confirmation Letter and Management’s Report on Internal Control Over Financial Reporting for the consolidated financial statements have been appended to the back of this report.

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(Translation purposes only)

Cover page

Document title	Annual Securities Report
Clause of stipulation	Article 24, paragraph 1 of the Financial Instruments and Exchange Act
Place of filing	Director-General of the Kanto Local Finance Bureau
Filing date	June 25, 2020
Fiscal year	203rd term (from April 1, 2019 to March 31, 2020)
Company name	株式会社 I H I (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
Title and name of representative	Hiroshi Ide, President and Chief Operating Officer
Address of registered head office	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan
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Name of contact person	Yasuaki Fukumoto, General Manager, Accounting Group, Finance & Accounting Div.
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo) Nagoya Stock Exchange, Inc. (8-20, Sakae 3-chome, Naka-ku, Nagoya-city) Securities Membership Corporation Fukuoka Stock Exchange (14-2, Tenjin 2-chome, Chuo-ku, Fukuoka-city) Securities Membership Corporation Sapporo Securities Exchange (14-1, Minamiichijo-nishi 5-chome, Chuo-ku, Sapporo-city)

(Translation purposes only)

Part 1. Company information

I. Overview of company

1. Summary of business results

(1) Business results of group (Consolidated)

Term	199th term	200th term	201st term	202nd term	203rd term
Fiscal year ended	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020
Net sales (Millions of yen)	1,539,388	1,486,332	1,590,333	1,483,442	1,386,503
Ordinary profit (Millions of yen)	9,716	22,011	21,425	65,749	32,251
Profit attributable to owners of parent (Millions of yen)	1,529	5,247	8,291	39,889	12,812
Comprehensive income (Millions of yen)	(15,228)	4,628	16,774	39,597	8,610
Net assets (Millions of yen)	333,359	337,630	350,217	381,692	353,746
Total assets (Millions of yen)	1,715,056	1,692,831	1,633,488	1,664,529	1,740,782
Net assets per share (Yen)	2,061.63	2,060.33	2,103.22	2,263.12	2,195.96
Basic earnings per share (Yen)	9.90	33.98	53.71	258.53	84.21
Diluted earnings per share (Yen)	9.90	33.96	53.67	258.37	84.19
Shareholders' equity ratio (%)	18.56	18.79	19.87	20.98	18.75
Return on equity (ROE) (%)	0.46	1.65	2.58	11.84	3.79
Price earnings ratio (PER) (Times)	240.40	103.24	61.53	10.29	14.99
Cash flows from operating activities (Millions of yen)	95,338	65,373	99,018	46,402	14,510
Cash flows from investing activities (Millions of yen)	(35,513)	(28,961)	(47,977)	(79,280)	(75,896)
Cash flows from financing activities (Millions of yen)	(47,530)	(21,941)	(57,326)	16,463	115,264
Cash and cash equivalents at end of period (Millions of yen)	103,611	115,911	107,323	92,608	145,484
Number of employees (Persons)	29,494	29,659	29,706	29,286	28,964

Notes: 1. Net sales do not include consumption taxes.

2. Due to the fact that the number of temporary employees is less than 10% the total number of employees, the average number of temporary employees are not shown.

3. Monetary amounts and ratios less than one unit are rounded off.

4. IHI conducted a consolidation of common stock on a 10 for 1 basis on October 1, 2017.

Net assets per share, basic earnings per share and diluted earnings per share have been calculated under the assumption that this consolidation of common stock was conducted on the beginning of the 199th term.

5. IHI has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) and relevant Guidance effective from the beginning of the 202nd term and the summary of business results for the 201st term are those after retrospective application of the relevant accounting standards.

(Translation purposes only)

(2) Business results of reporting company

Term	199th term	200th term	201st term	202nd term	203rd term
Fiscal year ended	March 31, 2016	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020
Net sales (Millions of yen)	734,807	719,889	721,739	700,497	620,207
Ordinary profit (Millions of yen)	9,987	15,752	50,076	39,355	28,282
Profit (loss) (Millions of yen)	31,698	(6,246)	23,978	20,558	(5,720)
Capital stock (Millions of yen)	107,165	107,165	107,165	107,165	107,165
Total number of issued shares (Thousands of shares)	1,546,799	1,546,799	154,679	154,679	154,679
Net assets (Millions of yen)	214,783	209,864	227,855	238,305	205,266
Total assets (Millions of yen)	1,179,799	1,138,039	1,117,334	1,113,379	1,201,832
Net assets per share (Yen)	1,386.20	1,353.55	1,471.23	1,540.24	1,377.51
Dividends per share [Interim dividends per share] (Yen)	3.00 [3.00]	— [—]	60.00 [30.00]	70.00 [30.00]	50.00 [30.00]
Basic earnings (loss) per share (Yen)	205.34	(40.45)	155.33	133.24	(37.60)
Diluted earnings (loss) per share (Yen)	205.14	—	155.22	133.16	—
Shareholders' equity ratio (%)	18.14	18.37	20.32	21.34	17.04
Return on equity (ROE) (%)	15.11	(2.95)	11.00	8.85	(2.59)
Price earnings ratio (PER) (Times)	11.59	—	21.28	19.96	—
Payout ratio (%)	14.61	—	38.63	52.54	—
Number of employees (Persons)	8,571	8,630	8,256	8,011	7,741
Total shareholder return (%) (Reference index : TOPIX including dividends) (%)	42.81 [89.18]	62.88 [102.28]	60.30 [118.51]	50.07 [112.54]	26.15 [101.85]
Highest stock price (Yen)	610	362	4,145 (436)	4,565	2,890
Lowest stock price (Yen)	154	191	3,155 (332)	2,580	1,093

Notes: 1. Net sales do not include consumption taxes.

2. Due to the fact that the number of temporary employees is less than 10% the total number of employees, the average number of temporary employees is not shown.

3. Monetary amounts and number of shares less than one unit are rounded down and ratios less than one unit are rounded off.

4. Diluted earnings per share for the 200th term and the 203rd term are not shown even though IHI has issued potential shares, because the per share figures are net losses.

(Translation purposes only)

5. Price earnings ratio (PER) for the 200th term and the 203rd term, and payout ratio for the 203rd term are not shown, because the per share figures are net losses.
6. IHI conducted a consolidation of common stock on a 10 for 1 basis on October 1, 2017.
Net assets per share, basic earnings (loss) per share and diluted earnings per share have been calculated under the assumption that this consolidation of common stock was conducted on the beginning of the 199th term.
Dividends per share have been calculated under the assumption that this consolidation of common stock was conducted on the beginning of the 201st term.
7. IHI has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) and relevant Guidance effective from the beginning of the 202nd term and the summary of business results of the 201st term are those after retrospective application of the relevant accounting standards.
8. The highest and lowest stock prices are in the first section of the Tokyo Stock Exchange. For the stock price in the 201st term, the stated highest and lowest stock prices are after the consolidation of common stock, and the highest and lowest stock prices before the consolidation of common stock are stated in parentheses.

2. Company history

Month / Year	Major Event
January 1889	IHI was founded in Ishikawajima at the mouth of the Sumida River by order of the government in 1853 in response to the arrival of Commodore Perry. In 1876, the shipyard came under the private management of Tomiji Hirano, was renamed the Ishikawajima Hirano Shipyard and embarked as a civil shipyard. In 1889 the Shipyard was reorganized to incorporate Ishikawajima Shipbuilding & Engineering Co., Ltd.
September 1893	Changed IHI name to Tokyo Ishikawa Shipbuilding Co., Ltd. with the enforcement of Commercial Code.
February 1939	Established Tokyo No. 1 Works to expand the Shipbuilding Division, and started operations related to shipbuilding and boiler manufacturing.
September 1943	Established Tokyo No. 2 Works to meet growing demand for marine and land-based machinery, and started marine machinery and casting operations.
June 1945	Changed IHI name to Ishikawajima Heavy Industries Co., Ltd.
May 1949	Listed on Tokyo Stock Exchange and Nagoya Stock Exchange. From that time through May 1958, listed on Osaka Securities Exchange (Osaka Securities Exchange integrated its cash-equity market with Tokyo Stock Exchange in July 2013), Kyoto Stock Exchange (absorbed by Osaka Securities Exchange in March 2001), Fukuoka Stock Exchange, Niigata Stock Exchange (absorbed by Tokyo Stock Exchange in March 2000), Sapporo Securities Exchange and Hiroshima Stock Exchange (absorbed by Tokyo Stock Exchange in March 2000).
March 1957	Established Tanashi Aero-Engine Plant to manufacture jet engines for aircraft.
January 1959	Jointly established Ishikawajima do Brasil Estaleiros in Rio de Janeiro with Brazilian government.
December 1960	Merged with Harima Shipbuilding & Engineering Co., Ltd. and changed IHI name to Ishikawajima-Harima Heavy Industries Co., Ltd.
November 1962	Merged with Ishikawajima-Shibaura Seiki Co., Ltd. and Shibaura Sewing Machine Co., Ltd.
April 1963	Jointly established Jurong Shipyard Ltd. with Singapore Economic Development Board to build and repair ships.
February 1964	Established Yokohama No. 2 Works as a heavy machinery plant.
May 1964	Merged with Nagoya Shipbuilding Co., Ltd. and Nagoya Heavy Industries Co., Ltd.
July 1964	Established Yokohama Repair Works to cope with increasing size of ships.
October 1967	Merged with Shibaura United Engineering Co., Ltd.
March 1968	Merged with Kure Shipbuilding & Engineering Co., Ltd.
April 1969	Established Yokohama No. 1 Works as a heavy container plant.
October 1970	Established Mizuho Aero-Engine Works as a plant for jet engines for aircraft.
May 1973	Established Aichi Works to manufacture large-scale ships.
March 1988	ISHIKAWAJIMA CONSTRUCTION MATERIALS Co., Ltd. (currently IHI CONSTRUCTION MATERIALS Co., Ltd.) listed on the Second Section of Tokyo Stock Exchange.
November 1995	Registered shares of Ishikawajima Hanyoki Service Co., Ltd. (currently IHI Rotating Machinery Engineering Co., Ltd.) as an over-the-counter issue registered with the Japan Securities Dealers Association.
November 1996	Ishikawajima Transport Machinery Co., Ltd. (currently IHI Transport Machinery Co., Ltd.) listed on the Second Section of Tokyo Stock Exchange.
November 1998	Established Soma Aero-Engine Plant as a plant for jet engines for aircraft.
July 2000	Acquired Nissan Motor's Aerospace and Defense Divisions and commenced operations as IHI Aerospace Co., Ltd. (currently IHI AEROSPACE CO., LTD.)
October 2002	Spun off Shipbuilding & Offshore Operations as a separate company and commenced operations as IHI Marine United Inc. (currently Japan Marine United Corporation).
February 2003	Took over the engines and turbines business and transportation system and vehicle business of Niigata Engineering Co., Ltd. and commenced operations as Niigata Power Systems Co., Ltd. (currently IHI Power Systems Co., Ltd.) (engines and turbines business) and Niigata Transys Co., Ltd. (transportation system and vehicle business).
June 2003	Conducted management structure reforms, primarily to reform the Board of Directors and introduce the executive officer system.
February 2006	Completed construction of the new head office building, Toyosu IHI Building, in Toyosu 3-chome, Koto-ku, Tokyo. Registered the relocation of head office.
October 2006	Made Ishikawajima Hanyoki Service Co., Ltd. (currently IHI Rotating Machinery Engineering Co., Ltd.) a wholly owned subsidiary through a share exchange.
July 2007	Changed IHI name from Ishikawajima-Harima Heavy Industries Co., Ltd. to IHI Corporation.
March 2008	Acquired the shares of Hauzer Techno Coating B.V. (currently IHI Hauzer Techno Coating B.V.) in the Netherlands to expand and develop the industrial furnace-related business.
August 2009	Acquired the shares of Kurimoto Bridge, Ltd. and made it a wholly owned subsidiary.

(Translation purposes only)

Month / Year	Major Event
October 2009	Acquired the shares of Matsuo Bridge Co., Ltd. (currently IHI Infrastructure Systems Co., Ltd.) and made it a wholly owned subsidiary.
November 2009	Transferred the bridge, water gate, and other steel structures business to Matsuo Bridge Co., Ltd. and merged Kurimoto Bridge Co., Ltd. with Matsuo Bridge Co., Ltd. by an absorption-type merger. At the same time, changed the name of Matsuo Bridge Co., Ltd. to IHI Infrastructure Systems Co., Ltd.
January 2010	IHI Infrastructure Systems Co., Ltd. took over the water gate business from Kurimoto, Ltd.
January 2010	Transferred the shield machine and other tunneling machine businesses to Japan Tunnel Systems Corporation (established jointly as a subsidiary with JFE Engineering Corporation in November 2009) by an absorption-type company split.
January 2012	Acquired the shares of Fuso Engineering Co., Ltd. (currently IHI Fuso Engineering Co., Ltd.) and made it a wholly owned subsidiary.
June 2012	Conducted a tender offer for the shares of MEISEI ELECTRIC CO., LTD., which has a business base in fields including environmental measurement, disaster prevention systems, space-related and control systems, and made it a subsidiary.
July 2012	Established IHI E&C International Corporation and acquired the on-shore EPC operation of Kvaerner Americas in order to participate in the North American oil and gas related plant business.
August 2012	Made IHI Transport Machinery Co., Ltd. and ISHIKAWAJIMA CONSTRUCTION MATERIALS Co., Ltd. (currently IHI CONSTRUCTION MATERIALS Co., Ltd.) wholly owned subsidiaries (conducted a tender offer in March 2012).
November 2012	Established a joint corporation for steel making machines, Paul Wurth IHI Co., Ltd., with Paul Wurth S.A. of Luxembourg to enhance competitiveness and improve added value in the business.
December 2012	Acquired entire shares of the Ionbond Group (Switzerland), which conducts the wear protection coating business for metallic and non-metallic materials, and made Indigo TopCo Ltd. and its subsidiaries group companies.
January 2013	Conducted management integration by merging IHI Marine United Inc., a specified subsidiary, with Universal Shipbuilding Corporation and established Japan Marine United Corporation (JMU) to enhance competitiveness and earning capabilities in the shipbuilding business.
June 2013	Jointly established JAPAN EAS INVESTIMENTOS E PARTICIPAÇÕES LTDA (hereafter JEI) with JGC CORPORATION (currently JGC HOLDINGS CORPORATION) and Japan Marine United Corporation, and made an equity investment in Brazilian shipbuilder Estaleiro Atlântico Sul S.A. through JEI in August 2013.
August 2013	Established IHI Aero Engines US Co., Ltd. to expand the aero engines business and made an equity investment in GE Passport, LLC.
October 2013	Transferred rolling mill business and related operations of IHI Metaltech Co., Ltd. to Mitsubishi-Hitachi Metals Machinery, Inc.
June 2014	Acquired Steinmüller Engineering GmbH (German) and made it a wholly owned subsidiary in order to enter the lignite-fired boilers market at an early date.
December 2015	Acquired VTN Beteiligungsgesellschaft GmbH (currently IHI VTN GmbH), a Germany general heat treatment job service company, and made it a wholly owned subsidiary.
February 2016	JEI agreed to transfer its whole equity interest in EAS to the Camargo Corrêa Group and the Queiroz Galvão Group, which are shareholders of EAS. (Transferred in April 2016)
October 2016	Conducted management integration by merging with Mitsubishi Heavy Industries Mechatronics Systems, Ltd. and commenced operations as JIM Technology Corporation to enhance competitiveness and earning capabilities in Shield tunneling machine Business.
November 2016	Transferred all the shares of IHI Construction Machinery Limited to Kato Works Co., Ltd.
May 2017	Transferred machinery for ships business to IKNOW MACHINERY CO., LTD.
October 2017	IHI Shibaura Machinery Corporation absorbed IHI STAR Machinery Corporation and changed its company name to IHI Agri-Tech Corporation.
October 2017	Transferred the rotating machinery business to IHI Compressor and Machinery Co., Ltd. by means of a corporate split, and IHI Compressor and Machinery Co., Ltd. changed its company name to IHI Rotating Machinery Engineering Co., Ltd.
November 2018	Ended the Aichi Works' function as a production base of the F-LNG business.
December 2018	Transferred the small power systems business of IHI Agri-Tech Corporation to U.S.-based Caterpillar Inc.
April 2019	Transferred the plants business to IHI Plant Construction Co., Ltd. by means of a corporate split, as well as IHI Plant Construction Co., Ltd. conducted an absorption-type merger of IHI Plant Engineering Corporation. At the same time, IHI Plant Construction Co., Ltd. changed its company name to IHI Plant Services Corporation.
July 2019	Transferred the power systems business to Niigata Power Systems Co., Ltd. by means of a corporate split, as well as Niigata Power Systems Co., Ltd. conducted an absorption-type merger of Diesel United, Ltd. At the same time, Niigata Power Systems Co., Ltd. changed its company name to IHI Power Systems Co., Ltd.

(Translation purposes only)

3. Description of business

IHI and its affiliated companies (155 consolidated subsidiaries, a non-consolidated subsidiary accounted for the equity method and 25 affiliates accounted for using the equity method as of March 31, 2020) operate four main businesses, providing a diverse range of products. The four businesses are: Resources, Energy and Environment; Social Infrastructure and Offshore Facility; Industrial System and General-Purpose Machinery; and Aero Engine, Space and Defense. Descriptions of the main activities within each business and the roles assigned to individual group companies are as follows.

The four businesses below are the same as the segment categories described in “Notes to Consolidated Financial Statements” in the “Financial information” section of this Annual Securities Report.

(Resources, Energy and Environment)

Activities within this business include manufacturing, sales, and provision of services relating to power systems (power systems plants for land use and power systems for ships), boilers, plants (storage facilities, chemical plants and pharmaceutical plants), and nuclear power (components for nuclear power plants).

[Major Subsidiaries and Affiliates]

IHI Plant Services Corporation (Note (i)), Kanamachi Purification Plant Energy Service Co., Ltd., Kotobuki Iron Works Co., Ltd., IHI Power Systems Co., Ltd. (Note (ii)), NICO Precision Co., Inc., Aomori Plant Co., Ltd., JURONG ENGINEERING LIMITED and its 22 subsidiaries (Note (iii)), ISHI POWER SDN. BHD., PT Cilegon Fabricators, NIIGATA POWER SYSTEMS (SINGAPORE) PTE. LTD., IHI E&C International Corporation and its two subsidiaries, IHI POWER SYSTEM MALAYSIA SDN.BHD., Steinmüller Engineering GmbH and its one subsidiary (Note (iv)), IHI Southwest Technologies, Inc., IHI Power System (Thailand) Co., Ltd., NitroCision, LLC, IHI Power Generation Corporation and its six subsidiaries, IHI SOLID BIOMASS MALAYSIA SDN. BHD. (Note (v)), IHI Terrasun Solutions Inc. (Note (vi)) and other one company. (Note (vii))

(Social Infrastructure and Offshore Facility)

Activities within this business include manufacturing, sales, and provision of services relating to bridges/water gates, transport systems, shield systems, concrete construction materials, and urban development (real estate sales and rental).

[Major Subsidiaries and Affiliates]

IHI Infrastructure Systems Co., Ltd., IHI Construction Service Co., Ltd., IHI CONSTRUCTION MATERIALS Co., Ltd., Japan Tunnel Systems Corporation, Chiba Warehouse Co., Ltd., San-Etsu Co., Ltd., Niigata Transys Co., Ltd., Livecon Engineering Co., Ltd, JIM Technology Corporation, IHI INFRASTRUCTURE ASIA CO., LTD., IHI California Inc. I&H Engineering Co., Ltd., Terratec Limited and other four companies (Note (viii)).

(Industrial System and General-Purpose Machinery)

Activities within this business include manufacturing, sales, and provision of services relating to vehicular turbochargers, parking, rotating machineries (compressors, separation systems, turbochargers for ships), thermal and surface treatment, transport machineries, logistics/industrial systems (logistics systems, industrial machineries), agricultural machineries, and paper-making machineries.

[Major Subsidiaries and Affiliates]

IHI Transport Machinery Co., Ltd., IHI Fuso Engineering Co., Ltd., Nishi-nihon Sekkei Engineering Co., Ltd., IHI Machinery and Furnace Co., Ltd., Voith IHI Paper Technology Co., Ltd., IHI Logistics & Machinery Corporation, CENTRAL CONVEYOR COMPANY, LTD., IHI Rotating Machinery Engineering Co., Ltd., IHI Turbo Co., Ltd., IHI Technical Training Institution, IHI Agri-Tech Corporation, Clover Turbo Co., Ltd., IHI PACKAGED BOILER CO., LTD., IHI Hauzer Techno Coating B.V. and its five subsidiaries, IHI Press Technology America, Inc., Indigo TopCo Ltd. and its 23 subsidiaries, IHI Charging Systems International GmbH and its two subsidiaries IHI-Sullair Compression Technology (Suzhou) Co., Ltd., Changchun FAWER-IHI Turbo Co., Ltd. and its one subsidiary, IHI Turbo America Co., IHI TURBO (THAILAND) CO., LTD., Shanghai Star Modern Agriculture Equipment Co., Ltd., IHI VTN GmbH and its three subsidiaries, IHI Transport Machinery Taiwan Corporation, Jiangsu IHI Fengdong Vacuum Technology Co., Ltd., IHI DALGAKIRAN MAKİNA SANAYİ VE TİCARET A.Ş., IHI ASIA PACIFIC(Thailand)CO.,LTD. (Note (ix))

(Aero Engine, Space and Defense)

Activities within this business include manufacturing, sales, and provision of services relating to aero engines, rocket systems/space utilization systems, and defense systems.

[Major Subsidiaries and Affiliates]

(Translation purposes only)

IHI AEROSPACE CO., LTD., IHI AEROSPACE ENGINEERING CO., LTD., IHI Aero Manufacturing Co., Ltd., IHI CASTINGS CO., LTD., IHI Jet Service Co., Ltd., IHI MASTER METAL Co., Ltd., INC Engineering Co., Ltd., IHI-ICR, LLC., and IHI Aero Engines US Co., Ltd. (Note (x))

(Others)

Activities within these businesses include manufacturing, sales, and provision of services relating to communication, electronic, electric measuring, information processing machines and other instruments and equipment, in addition to offering other services.

[Major Subsidiaries and Affiliates]

IHI Scube Co., Ltd., IHI Trading, Inc., IHI Business Support Corporation, MEISEI ELECTRIC CO., LTD. and its one subsidiary, IHI Inspection & Instrumentation Co., Ltd., Takashima Giken Co., LTD., Toyosu Energy Service Co., Ltd., Soma I Grid Limited Liability Company,

IHI do Brasil Representações Ltda., IHI ENGINEERING AUSTRALIA PTY. LTD., IHI Europe Ltd., IHI INC.,

IHI (Shanghai) Management Co., Ltd., IHI ASIA PACIFIC PTE. LTD., IHI Americas Inc. (Note (vi)), and IHI (CANADA) LTD. (Note (v)).

- Notes: (i) IHI Plant Engineering Corporation (Resources, Energy and Environment) was merged into IHI Plant Construction Co., Ltd. (Resources, Energy and Environment) and ceased to exist; IHI Plant Construction Co., Ltd. changed its company name to IHI Plant Services Corporation.
- (ii) Diesel United, Ltd. (Resources, Energy and Environment) was merged into Niigata Power Systems Co., Ltd. (Resources, Energy and Environment) and ceased to exist; Niigata Power Systems Co., Ltd. changed its company name to IHI Power Systems Co., Ltd.
- (iii) Of the subsidiaries of JURONG ENGINEERING LIMITED (Resources, Energy and Environment), one subsidiary was newly established and is newly included in the scope of consolidation.
- (iv) One subsidiary was newly included in the scope of consolidation due to acquisition by Steinmüller Engineering GmbH (Resources, Energy and Environment).
- (v) Newly included in the scope of consolidation to reflect increasing importance within the IHI Group.
- (vi) Newly included in the scope of consolidation due to its new establishment.
- (vii) IHI Enviro Corporation (Resources, Energy and Environment) was merged into IHI and ceased to exist.
- (viii) Of the subsidiaries of Terratec Limited (Social Infrastructure and Offshore Facility), one subsidiary was newly established and is newly included in the scope of consolidation.
- (ix) IUK (HK) LIMITED (Industrial System and General-Purpose Machinery) is already proceeding with its liquidation process, and as its importance has diminished, it was excluded from the scope of consolidation.
- (x) IHI Investment for Aero Engine Leasing LLC (Aero Engine, Space and Defense), which had been a specified subsidiary of IHI, was excluded from the consolidated subsidiaries and included in the affiliates accounted for by the equity method due to the partial transfer of IHI's equity interest in it.

(Translation purposes only)

[Overview of the corporate group]

The roles of IHI and its main affiliated companies within each business are as follows.

	○Production	□Sale	●Engineering	▲Installation	■Service
	IHI Corporation				
Resources, Energy & Environment	Kotobuki Iron Works Co., Ltd./ IHI Power Systems Co., Ltd./ IHI Plant Services Corporation				
	NICO Precision Co., Inc./ PT Cilegon Fabricators/ IHI SOLID BIOMASS MALAYSIA SDN.BHD.		Aomori Plant Co., Ltd.(○) and other 1 company		
	NIIGATA POWER SYSTEMS (SINGAPORE) PTE. LTD. (■)		ISHI POWER SDN.BHD./ Steinmüller Engineering GmbH and its 1 subsidiary/ JURONG ENGINEERING LIMITED and its 22 subsidiaries/ IHI E&C International Corporation and its 2 subsidiaries		Kanamachi Purification Plant Energy Service Co., Ltd./ IHI POWER SYSTEM MALAYSIA SDN.BHD./ IHI Southwest Technologies, Inc. / NitroCision, LLC/ IHI Terrasun Solutions Inc./ IHI Power Generation Corporation and its 6 subsidiaries
	IHI Power System (Thailand) Co., Ltd.				
Social Infrastructure & Offshore Facilities	IHI Infrastructure Systems Co., Ltd./ IHI Construction Service Co., Ltd./ IHI INFRASTRUCTURE ASIA CO., LTD./ JIM Technology Corporation/ I&H Engineering Co., Ltd./ Terratec Limited and its 4 subsidiaries				
	Niigata Transys Co., Ltd.(■)			Chiba Warehouse Co., Ltd./ San-Etsu Co., Ltd./ Japan Tunnel Systems Corporation	
	IHI CONSTRUCTION MATERIALS Co., Ltd.				
	Livecon Engineering Co., Ltd.(■)			IHI California Inc.	
Industrial Systems & General Purpose Machinery	IHI Transport Machinery Co., Ltd./ IHI Machinery and Furnace Co., Ltd./ IHI Hauzer Techno Coating B.V. and its 5 subsidiaries/ Jiangsu IHI Fengdong Vacuum Technology Co., Ltd / IHI Rotating Machinery Engineering Co., Ltd./ IHI-Sullair Compression Technology (Suzhou) Co., Ltd./ IHI Logistics & Machinery Corporation/ CENTRAL CONVEYOR COMPANY, LTD./ Voith IHI Paper Technology Co., Ltd./ IHI DALGAKIRAN MAKINA SANAYI VE TICARET A.Ş./ IHI PACKAGED BOILER CO., LTD.				
	IHI Turbo Co., Ltd.		IHI ASIA PACIFIC (Thailand) Co., Ltd.		
	IHI Fuso Engineering Co., Ltd.				
	IHI Agri-Tech Corporation(■)/ Clover Turbo Co., Ltd.(■)/ IHI Turbo America Co./ IHI Charging Systems International GmbH and its 2 subsidiaries/ SHANGHAI STAR MODERN AGRICULTURE EQUIPMENT CO., LTD.(■)			IHI Press Technology America, Inc. / Indigo TopCo Ltd. and its 23 subsidiaries/ IHI Technical Training Institution / IHI VTN GmbH and its 3 subsidiaries	
	IHI TURBO (THAILAND) CO., LTD./ Changchun FAWER-IHI Turbo Co., Ltd. and its 1 subsidiary/ IHI Transport Machinery Taiwan Corporation(■)		Nishi-nihon Sekkei Engineering Co., Ltd.		
Aero Engine, Space & Defense	IHI CASTINGS CO., LTD./ IHI MASTER METAL Co., Ltd./ IHI Aero Manufacturing Co., Ltd.		IHI Jet Service Co., Ltd./ INC Engineering Co., Ltd.		
	IHI AEROSPACE CO., LTD.			IHI AEROSPACE ENGINEERING CO., LTD.	
	IHI - ICR, LLC./ IHI Aero Engines US Co., Ltd.				
Others	IHI Trading, Inc./ IHI Europe Ltd./ IHI do Brasil Representações Ltda./ Soma I Grid Limited Liability Company(■)/ IHI (CANADA) LTD.		IHI Scube Co., Ltd/ IHI Business Support Corporation / Toyosu Energy Service Co., Ltd.		
	IHI INC.(■)/ IHI (Shanghai) Management Co., Ltd.(■)/ IHI ASIA PACIFIC PTE. LTD.(■)/ IHI Americas Inc. (■)				
	IHI ENGINEERING AUSTRALIA PTY. LTD.				
	Meisei Electric Co., Ltd.(★) and its 1 subsidiary/ Takashima Giken Co., Ltd.				
	IHI Inspection & Instrumentation Co., Ltd.				

*The consolidated subsidiaries comprising the segments are shown in the above table. The functions fulfilled by each consolidated subsidiary in the segments are divided into the five categories of Production, Sale, Engineering, Installation, and Service and shown above.

*For subsidiaries that fulfill multiple functions, the following marks are shown to the right of IHI name for those companies for which the functions cannot be listed: ○, □, ●, ▲, and ■.

*The consolidated subsidiaries in the above table are current as of March 31, 2020, and subsidiaries listed on the Tokyo Stock Exchange Second Section are noted with the “★” mark.

(Translation purposes only)

4. Overview of affiliated companies

Name	Address	Capital (Millions of yen)	Main business	Voting rights holding [or held] (%)	Nature of relationship
(Consolidated subsidiaries)					
IHI AEROSPACE CO., LTD.	Koto-ku, Tokyo	5,000	Aero Engine, Space and Defense	100.0	Conducts manufacture, sale, and repair of space development equipment and rocket vehicles. Interlocking officers, etc.: Yes
IHI Power Systems Co., Ltd. (Note 4)	Chiyoda-ku, Tokyo	3,000	Resources, Energy and Environment	100.0	Conducts manufacture and sale of internal combustion engines, gas turbine engines and marine equipment. Interlocking officers, etc.: Yes
MEISEI ELECTRIC CO., LTD. (Note 5)	Isesaki-city, Gunma	2,996	Others	51.0	Conducts manufacture and sale of communication, electronic, electric measuring, information processing machines and other instruments and equipment, in addition to construction design and construction work and other incidental services. Interlocking officers, etc.: Yes
IHI Transport Machinery Co., Ltd.	Chuo-ku, Tokyo	2,647	Industrial System and General-Purpose Machinery	100.0	Conducts design, manufacture, sale, installation, maintenance, and repair of parking systems, materials handling equipment, and transport and distribution plants. Interlocking officers, etc.: Yes
IHI Agri-Tech Corporation	Chitose-city, Hokkaido	1,111	Industrial System and General-Purpose Machinery	100.0	Conducts development, manufacture and sale of agricultural machinery, turf-grass · lawn maintenance equipment, disinfecting/deodorizing equipment, forged/cast materials, and electronic control units Interlocking officers, etc.: Yes
IHI Rotating Machinery Engineering Co., Ltd.	Koto-ku, Tokyo	1,033	Industrial System and General-Purpose Machinery	100.0	Conducts design, manufacture, sale, installation, maintenance and repair of compressors, separators and superchargers for ships etc. Interlocking officers, etc.: Yes
IHI Infrastructure Systems Co., Ltd.	Sakai-city, Osaka	1,000	Social Infrastructure and Offshore Facility	100.0	Conducts design, manufacture, sale, maintenance and repair of bridges and water gates etc. Interlocking officers, etc.: Yes
Niigata Transys Co., Ltd.	Chiyoda-ku, Tokyo	1,000	Social Infrastructure and Offshore Facility	100.0	Conducts manufacture and sale of rolling stock, industrial vehicles and machines for snow removal. Interlocking officers, etc.: Yes
IHI Turbo Co., Ltd.	Koto-ku, Tokyo	1,000	Industrial System and General-Purpose Machinery	100.0	Conducts manufacture of vehicular turbochargers Interlocking officers, etc.: Yes
IHI Logistics & Machinery Corporation	Koto-ku, Tokyo	1,000	Industrial System and General-Purpose Machinery	100.0	Conducts sale, design, manufacture, procurement, construction, installation, conversion and repair related to logistics equipment, FA equipment and industrial equipment, in addition to repair and maintenance services for parts and equipment Interlocking officers, etc.: Yes
IHI Plant Services Corporation (Note 6)	Koto-ku, Tokyo	500	Resources, Energy and Environment	100.0	Conducts design, installation and repair of boiler facilities, nuclear power facilities, environmental and storage plant facilities, industrial machinery facilities, and photovoltaic/renewable energy facilities. Interlocking officers, etc.: Yes
IHI INC.	New York, U.S.A.	Thousands of US\$ 92,407	Others	100.0	Conducts maintenance of gas turbines, etc., sale of various type of industrial machineries and purchase and sale agent . Interlocking officers, etc.: Yes
IHI Power Generation Corporation	New York, U.S.A.	Thousands of US\$ 38,250	Resources, Energy and Environment	100.0 (100.0)	Conducts investment in biomass power generation business, etc. The indirectly owned portion is held by IHI Americas Inc. Interlocking officers, etc.: Yes
JURONG ENGINEERING LIMITED	Singapore	Thousands of SGD 51,788	Resources, Energy and Environment	95.6 (15.0)	Conducts installation of various types of plants and facilities/equipment, engineering and consulting of architectural work and civil engineering and plants. The indirectly owned portion is held by IHI Plant Services Corporation. Interlocking officers, etc.: Yes

(Translation purposes only)

Name	Address	Capital (Millions of yen)	Main business	Voting rights holding [or held] (%)	Nature of relationship
IHI INFRASTRUCTURE ASIA CO., LTD.	Haiphong, Vietnam	Millions of VND 542,638	Social Infrastructure and Offshore Facility	100.0	Conducts manufacture, installation, and maintenance of steel structures and concrete structures, and manufacture and installation of construction and industrial machinery. Interlocking officers, etc.: Yes
IHI E&C International Corporation	Texas, U.S.A.	Thousands of US\$ 21,257	Resources, Energy and Environment	100.0 (100.0)	Conducts FS (feasibility study)/FEED (front end engineering design) and EPC (engineering, procurement and construction) business in oil and gas field. The indirectly owned portion is held by IHI INC. Interlocking officers, etc.: Yes
Changchun FAWER-IHI Turbo Co., Ltd. (Note 7)	Jilin, China	Thousands of RMB 158,300	Industrial System and General-Purpose Machinery	57.2 (7.8)	Conducts manufacture and sale of vehicular turbochargers. The indirectly owned portion is held by IHI Turbo Co., Ltd. Interlocking officers, etc.: Yes
IHI Charging Systems International GmbH	Ichtershausen, Germany (Note 8)	Thousands of EUR 15,000	Industrial System and General-Purpose Machinery	100.0	Conducts design, development, manufacture and sale of vehicular turbochargers. Interlocking officers, etc.: Yes
IHI ASIA PACIFIC PTE. LTD.	Singapore	Thousands of SGD 22,459	Others	100.0	Conducts order procurement, business support, purchase and sale agent (regional headquarters). Interlocking officers, etc.: Yes
I&H Engineering Co.,Ltd.	Yangon Myanmar	Thousands of US\$ 12,238	Social Infrastructure and Offshore Facility	60.0 (60.0)	Conducts design, engineering, manufacture, construction services of concrete products. The indirectly owned portion is held by IHI ASIA PACIFIC PTE. LTD. Interlocking officers, etc.: Yes
IHI DALGAKIRAN MAKİNA SANAYİ VE TİCARET A.Ş.	KOCAELİ Turkey	Thousands of TRY 33,155	Industrial System and General-Purpose Machinery	51.0 (51.0)	Conducts development, design, manufacture, sales and service of general-purpose turbo compressors. The indirectly owned portion is held by IHI Rotating Machinery Engineering Co., Ltd. Interlocking officers, etc.: Yes
IHI Transport Machinery Taiwan Corporation	Taipei, Taiwan	Thousands of TWD 250,000	Industrial System and General-Purpose Machinery	100.0 (100.0)	Conducts manufacture, sale, and maintenance of large-scale transport machineries. The indirectly owned portion is held by IHI Transport Machinery Co., Ltd. Interlocking officers, etc.: Yes
IHI Turbo America Co.	Illinois, U.S.A.	Thousands of US\$ 7,700	Industrial System and General-Purpose Machinery	100.0 (100.0)	Conducts manufacture and sale of vehicular turbochargers. The indirectly owned portion is held by IHI Americas Inc. Interlocking officers, etc.: Yes
IHI TURBO (THAILAND) CO., LTD.	Chonburi, Thailand	Thousands of THB 260,000	Industrial System and General-Purpose Machinery	90.0 (10.0)	Conducts manufacture and sale of vehicular turbochargers. The indirectly owned portion is held by IHI Turbo Co., Ltd. Interlocking officers, etc.: Yes
IHI-Sullair Compression Technology (Suzhou) Co., Ltd.	Jiangsu, China	Thousands of RMB 55,465	Industrial System and General-Purpose Machinery	51.0 (51.0)	Conducts manufacture, sale and service of general-purpose turbo compressors. The indirectly owned portion is held by IHI Rotating Machinery Engineering Co., Ltd. Interlocking officers, etc.: Yes
IHI Southwest Technologies, Inc. (Note 9)	Texas, U.S.A.	Thousands of US\$ 5,800	Resources, Energy and Environment	100.0	Conducts nondestructive testing services for nuclear power plants, petrochemical plants, and thermal power plants, etc. Interlocking officers, etc.: Yes
IHI Europe Ltd.	London, U.K.	Thousands of STG 2,500	Others	100.0	Conducts sale and mediation of various types of plants, machineries, ships/vessels and aero engines. Interlocking officers, etc.: Yes
Jiangsu IHI Fengdong Vacuum Technology Co., Ltd	Jiangsu, China	Thousands of RMB 30,000	Industrial System and General-Purpose Machinery	50.0 (50.0)	Conducts design, manufacture, sale, and after-sales support of vacuum heat treatment furnace. The indirectly owned portion is held by IHI Machinery and Furnace Co., Ltd. Interlocking officers, etc.: Yes
IHI Americas Inc.	New York, U.S.A.	Thousands of US\$ 2,000	Others	100.0	Conducts compliance and risk management within the region and provision of consulting services and shared services (regional headquarters). Interlocking officers, etc.: Yes

(Translation purposes only)

Name	Address	Capital (Millions of yen)	Main business	Voting rights holding [or held] (%)	Nature of relationship
IHI (Shanghai) Management Co., Ltd.	Shanghai, China	Thousands of US\$ 2,100	Others	100.0	Conducts sale, order procurement and purchase of various industrial equipment, technical support including maintenance and engineering, provision of shared services (regional headquarters). Interlocking officers, etc.: Yes
IHI Aero Engines US Co., Ltd.	New York, U.S.A.	Thousands of US\$ 0	Aero Engine, Space and Defense	100.0	Conducts investment in civil aero engines program. Interlocking officers, etc.: Yes
Other 124 companies					
Total of 155 companies					
(Entities accounted for using the equity method)					
Japan Marine United Corporation	Yokohama - city, Kanagawa	40,000 (Note 10)	Others	49.4	Conducts design, manufacture, and sale of ships/vessels, warships, offshore and floating structures, etc. Interlocking officers, etc.: Yes
GE Passport, LLC	Ohio, U.S.A.	Thousands of US\$ 539,762 (Note 10)	Aero Engine, Space and Defense	30.0 (30.0)	Conducts manufacture and sale of the GE Passport20 engine, and provides maintenance, parts supply and other services. The indirectly owned portion is held by IHI Aero Engines US Co., Ltd. Interlocking officers, etc.: Yes
IHI Investment for Aero Engine Leasing LLC	New York, U.S.A.	Thousands of US\$ 191,300 (Note 10)	Aero Engine, Space and Defense	45.0	Conducts investment in specialist leasing company of PW1100G-JM engine. Interlocking officers, etc.: Yes
Other 23 companies					
Total of 26 companies					

- Notes:
1. The segment names are shown in the main business column.
 2. The figures in parentheses in the voting rights holding column indicate indirectly owned portions included in the figures outside the parentheses.
 3. The monetary amounts of capital less than one unit are rounded down, and ratios of voting rights holding less than one unit are rounded off.
 4. On July 1, 2019, IHI transferred the power systems business to Niigata Power Systems Co., Ltd. by means of a corporate split, as well as Niigata Power Systems Co., Ltd. conducted an absorption-type merger of Diesel United, Ltd. and changed its company name to IHI Power Systems Co., Ltd.
 5. This company files Annual Securities Report.
 6. On April 1, 2019, IHI transferred the plants business to IHI Plant Construction Co., Ltd. by means of a corporate split, as well as IHI Plant Construction Co., Ltd. conducted an absorption-type merger of IHI Plant Engineering Corporation and changed its company name to IHI Construction Services Corporation.
 7. Wuxi IHI Turbo Co., Ltd. became a subsidiary of Changchun FAWER-IHI Turbo Co., Ltd. and was excluded from the table.
 8. This company has changed the address.
 9. IHI sold all shares of IHI Southwest Technologies, Inc. on April 24, 2020.
 10. This company has changed the amount of its capital.

(Translation purposes only)

5. Information about employees

(1) Information about the IHI Group

As of March 31, 2020

Segment name	Number of employees (Persons)
Resources, Energy and Environment	6,812
Social Infrastructure and Offshore Facility	2,399
Industrial System and General-Purpose Machinery	10,079
Aero Engine, Space and Defense	6,684
Reportable segment total	25,974
Others	2,014
Corporate (company-wide)	976
Total	28,964

Note: The number of employees is the number of persons actually at work (excludes persons seconded from the IHI Group to companies outside the IHI Group, and includes persons seconded from outside the IHI Group to companies within the IHI Group). The average number of temporary employees is not shown due to the fact that the number of temporary employees is less than 10% the number of employees.

(2) Information about reporting company

As of March 31, 2020

Number of employees (Persons)	Average age (Years old)	Average length of service (Years)	Average annual salary (Yen)
7,741	40.2	15.8	7,990,617

Segment name	Number of employees (Persons)
Resources, Energy and Environment	1,907
Social Infrastructure and Offshore Facility	79
Industrial System and General-Purpose Machinery	575
Aero Engine, Space and Defense	4,204
Reportable segment total	6,765
Others	—
Corporate (company-wide)	976
Total	7,741

- Notes:
1. The number of employees is the number of persons actually at work (excludes persons seconded from IHI to companies outside IHI, and includes persons seconded from companies outside IHI to IHI). The average number of temporary employees is not shown due to the fact that the number of temporary employees is less than 10% the number of employees.
 2. Average annual salary includes bonuses and extra wages.

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(3) Relationship with labor unions

IHI's labor union is called the IHI Labor Union, which forms the IHI Labor Union Federation with the labor unions of six consolidated subsidiaries. The labor unions have their branches in eight regions in Japan. The IHI Labor Union Federation is a member of the Japanese Trade Union Confederation through its umbrella organization, the Japan Federation of Basic Industry Worker's Unions.

As of March 31, 2020, there were 10,269 members (7,714 members of the IHI Labor Unions (including seconded employees to other companies) and 2,555 members of the labor unions of six consolidated subsidiaries) in the IHI Labor Union Federation. IHI has concluded a labor agreement with the labor unions based on a relationship of trust rooted in mutual understanding. In addition to this labor agreement, there is a Health and Safety Committee, a Management Council, and a Production Council, where both sides engage in frank discussions, thereby improving the workplace environment and establishing stable labor-management relations.

There are labor unions at 11 of the 46 domestic consolidated subsidiaries (4,772 members, excluding the six consolidated subsidiaries which belong to the IHI Labor Union Federation discussed above) and six non-consolidated subsidiaries (404 members), and its umbrella organization is the Japan Federation of Basic Industry Worker's Unions.

In addition, the IHI Group Labor Union Federation (15,445 members) is made up of 17 labor unions by the IHI Labor Union and each of the consolidated subsidiaries' labor unions.

II. Overview of business

1. Management Policies, Business environment and Issues to be addressed

(1) IHI's basic policy for management

The IHI Group positions being a good corporate citizen who develops together with society as our primary objective. And, through the below visions based on our management philosophies of “Contribute to the development of society through technology” and “Human resources are our single most valuable asset,” the IHI Group aims to be the global enterprise group which solves the various environmental, energy, industrial and social infrastructure problems of the 21st century, through using engineering expertise to focus on “Monozukuri” technology, and offering the safety and security for the benefit of both the environment and humanity.

To realize these management policies, IHI Group employees are being encouraged to work as distinguished professionals, striving to excel as a global company in “Monozukuri” and engineering technologies with world-renowned product quality. And the IHI Group will aim to become a trusted corporate group by increasing profitability through the provision of more advanced products and services that contribute to the development of society, realizing a level of capital efficiency and shareholders' returns expected by the capital markets and creating sustainable corporate value.

(2) Medium-to-long term management strategy and management indicators

In the fiscal year 2019 the IHI Group launched “Group Management Policies 2019”, medium-term management plan aimed at realizing a sustainable society from a long-term perspective. However, the impact of COVID-19 has been enormous, and the business environment in which the IHI Group currently operates has changed significantly. In the situation where societies and economies in future are expected to undergo a drastic transformation, we will consider the ideal way of being as a sustainable company that responds to the new normal situation of “after corona”, and work to identify the direction of the business and promote structural reform and portfolio management, while grasping and foreseeing changes in the behavior and values of societies and citizens, and market trends. Moreover, the medium-term management plan also will be revised, if it is necessary to revise the management strategy and management indicators in the course of consideration.

Regarding the current “Group Management Policies 2019” with which the IHI Group is struggling, it is as follows.

i. Long-term approach under “Group Management Policies 2019”

The IHI Group needs to aim for significant reform from its situation where business and products have been centered on supplying hardware to a direction in which it creates new value by directly tackling the issues faced by society and its customers with a long term perspective in order to contribute to realizing a sustainable society in the future.

In order to realize this target, the IHI Group undertakes initiatives to resolve social issues with customers and raise the IHI Group's corporate value, as well to achieve sustainable growth for society, customers, and the IHI Group alike.

ii. Initiatives under three years of “Group Management Policies 2019”

In order to realize the long-term approach, the theme of “Group Management Policies 2019” has been set as “reform businesses in earnest to tackle social and customer issues.”

The three years of “Group Management Policies 2019” are being positioned as a period for responding to environmental change and demands of society by flexibly and accurately reorganizing businesses in keeping with the earnings foundations put in place under “Group Management Policies 2016,” building new value for society and customers, and accelerating reform into a company that can enhance its own value in earnest. And the IHI Group undertakes initiatives to reform centering the following three pillars over the three years of “Group Management Policies 2019.”

- Accelerate aftermarket business development with customers from lifecycle perspectives

From a perspective of the overall lifecycle of business activities, the IHI Group strengthens business foundations by further pursuing and evolving the strengths it has cultivated by supplying hardware and steadily accelerating development of aftermarket business that fully takes into account customer operations.

- Create a lean and flexible operational structure

The IHI Group builds a robust operating structure by earnestly carrying out the optimal allocation of resources into priority areas, such as business model transformation aimed at developing aftermarket business and creating value.

- Transform our business model to create value

The IHI Group accelerates the promotion of business model transformation as preparations for tomorrow with the aim of creating value that contributes to the long-term approach of realizing a sustainable society.

The most robust foundation in order to steadily implement these three initiatives and realize reform should be “safety and quality” and “risk management.” “Safety and quality” continues to be thoroughly implemented to ensure it remains an unchangeable top priority and “risk management” continues to be thoroughly implemented to guarantee profitability and business stability.

Additionally, investment in developing human resources is made in an appropriate and timely manner to promote the cultivation

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of human resources as change drivers in order to respond flexibly and swiftly to changes in the environment.

iii. IHI Group business area direction

The long-term directions for each IHI Group business area along with utilizing the technology and know-how cultivated by supplying hardware, which are based on the IHI Group approach, are set out below, and each business area is striving to create new value needed for a sustainable society.

• Resource, Energy and Environment Business

“The IHI Group will contribute to carbon-free and recycling societies by providing optimal integrated solutions for each region and customer.”

In this business area, the IHI Group is undertaking initiatives to put in place the social infrastructure required for stable supply of necessary energy, and to provide optimized and integrated solutions by region and by customer through the promotion of the effective use of exhaustible resources, of the use of renewable and distributed energy, and the utilization of renewable resources in preparation for the shift to carbon-free, recycling societies.

• Social Infrastructure and Offshore Facility Business Area

“The IHI Group will contribute globally and across life cycles to materialize safe and secure social infrastructures, centered on bridges and tunnels.”

In this business area, the IHI Group is working on initiatives to roll out and expand life-cycle businesses, which include planning, operation, maintenance and conservation, primarily of bridges and tunnels, both in Japan and overseas so as to offer robust and sustainable social infrastructure systems.

• Industrial System and General-Purpose Machinery Business Area

“The IHI Group will contribute to industrial infrastructure progress by thoroughly optimizing operational lifecycles with customers.”

In this business area, we are realizing the development of sophisticated industrial infrastructure by pursuing, together with the customers, optimized operations throughout the life cycle. Combining the IHI Group’s knowledge and track record, we use business processes flexible to the changes for the foundation from which to address issues in customer businesses, including reducing lead times, labor shortages, and declines in know-how and technical capabilities, by working on automation and electric motorization etc. leveraged digital transformation, and reduction of environmental burdens.

• Aero Engine, Space and Defense Business Area

“The IHI Group will leverage advanced technology to open new vistas for air transportation, defense systems, and space utilization, and help materialize social affluence and safety.”

In this business area, through providing aero engines that enable safe, environmentally friendly and economical aero transportation, and by driving the space development business forward in accordance with the needs of society, the IHI Group unceasingly takes on the challenge of technological innovation and work to advance its proprietary technology and Monozukuri (manufacturing) capabilities further, in order to contribute to achieving a society in which the conservation of the global environment and the prosperous, safe and secure human lifestyles are able to coexist.

iv. Management targets

The target for 10 years hence is to “generate ¥2 trillion in net sales and an operating margin that consistently exceeds 10%,” and to realize this, the following management targets have been set for the fiscal year 2021. In order to further enhance return on invested capital (ROIC), the IHI Group are aiming at further improvement of profitability (operating profit margin) and cash generation capabilities (CCC).

Note that it is possible to amend the following management targets, if the medium-term management plan is revised due to the spread of COVID-19 as described in above (2).

Financial targets	FY2021
ROIC(After-tax)	10% or more
Operating profit margin	8%
CCC	80 days

(Note) The calculation method for each indicator is shown below.

- ROIC: $(1 - \text{“Effective statutory tax rate”}) \times (\text{“Operating profit”} + \text{“Interest income”} + \text{“Dividend income”}) \div (\text{“Total shareholders’ equity”} + \text{“Total accumulated other comprehensive income”} + \text{Amount of interest-bearing liabilities})$
- CCC: $(\text{“Notes and accounts receivable – trade”} + \text{“Inventories”} - \text{“Notes and account payable – trade”}) \div \text{“Net sales”} \times 365 \text{ days}$

(Reference) Net sales: ¥1,500 billion, Investments over three years: ¥420 billion

(Translation purposes only)

(3) Business environment and Issues to be addressed

i. Impacts of the spread of COVID-19

The impacts of COVID-19 have continued to worsen since the end of the current fiscal year, and prudent measures to prevent infection are still required, while the path toward a global economic recovery continues to remain elusive at the moment. While the IHI Group continues to carry out its business activities with due attention given to preventing the virus' spread as it fulfills its responsibility to supply products and services, it expects that its operations in fiscal 2020 and onward could be impacted in the ways described below.

● Civil aero engines business

As airline companies have suspended operations or reduced flights due to a sharp decline in global air traffic demand, aircraft and engine manufacturers have taken corresponding measures, such as adjusting operations and cutting back investments. Our sales of civil aero engines and spare parts are expected to decrease due to the impact of such situation, and we are reviewing production system to meet the changes of demand and implementing other measures. On the other hand, it is expected that operation of aircrafts mounted our aero engines will be resumed preferentially, due to their superiority in operating costs such as fuel efficiency. We will give top priority to strengthening responses to the aftermarket field in order to support the resumption of aircraft operations by customers in the recovery period of demand for aero transportation.

● Vehicular turbochargers business

The global impact on the automotive industry, which began in China, has affected the Vehicular turbochargers Business for the current fiscal year. In a situation where world-wide decreases in demand for automobiles is supposed, we are working to minimize the impact on our automotive related businesses, ultimately making preparations to facilitate a rapid restart when the recovery period of demand for automobiles begins.

● Other businesses

Although our performance may be impacted by a drop in orders due to a declining appetite for investing in new equipment, we expect demand for after-sales services, designed to prolong the life of existing equipment and improve its efficiency, to grow and will work quickly to shift our human resources to these growth areas with the aim of expanding the lifecycle businesses.

ii. Other initiatives

● The IHI Group has made organization-wide efforts to implement recurrence prevention measures in response to inadequate inspections of the civil aero engines maintenance business that were carried out at Mizuho Aero-Engine Works last year. The Group continues to focus on ensuring quality and compliance as we build a stronger corporate culture that is devoted to uncompromising quality assurance and compliance.

● The efforts to prevent a further decline in large-scale projects have paid off as a result of carefully screening project estimates and ensuring project monitoring, which put the brakes on the downturn. On the downside, the IHI Group has seen downturns in some small to medium-scale projects, so it is continuing the efforts regardless of project size.

● Japan Marine United Corporation (JMU), an affiliate accounted for using the equity method of IHI, reached an agreement with Imabari Shipbuilding Co., Ltd. on the end of March 2020 to form a capital alliance and establish a joint venture. Through this business alliance, JMU will leverage Imabari Shipbuilding's super eco-friendly technologies to lead the market and help the joint venture implement drastic reforms aimed at improving production efficiency and building optimal production systems in order to facilitate its independent corporate operations.

iii. Key initiatives for the fiscal year 2020

Anticipating that COVID-19 will have prolonged and extensive impacts on its operations, IHI has scaled back remuneration for directors and executive officers and will quickly implement all possible measures to deal with the situation, including cutting back capital expenditures, reducing research and development expenses, and adjusting production levels.

Rather than temporarily conducting emergency measures, these will be ongoing efforts that the IHI Group will ramp up with the aim of restoring and restructuring existing businesses that need to be addressed. The Group will act boldly and swiftly to shift resources to growth areas and profitable businesses to transform our management culture into one that is strong, flexible, and able to help us realize a new business structure in "after corona".

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2. Business risks

(1) Basic policies for risk management

The IHI Group recognizes that risk management is one of the top business priorities for the Group, and strives to reinforce its overall capabilities in that regard. The basic objectives of risk management are ensuring business continuity, ensuring the safety of executives, employees and their families, protecting management resources, and maintaining public trust in the Group. Also, The Group formulated following action guidelines and performs risk management in accordance with them.

- 1 Ensure the continuity of the IHI Group's business operations
- 2 Improve the public reputation of the IHI Group
- 3 Protect the IHI Group's management resources
- 4 Avoid jeopardizing stakeholders' interests
- 5 Achieve recovery from damage as soon as possible
- 6 Take responsible action when an issue arises
- 7 Meet public requirements regarding risks

(2) Risk management system

IHI established the Risk Management Conference under the leadership of the CEO. The Conference assesses key general risk management matters, and considers policies, annual plans, corrective measures, and other important matters.

IHI formulated "IHI Group Key Risk Management Policies" as for the risks to be treated on a priority basis, and all parent units and Group companies in Japan and abroad independently pursue risk management in keeping with those policies.

Regarding commonly existing risks in the IHI Group, the Group Risk Management Units, which mainly comprise IHI's corporate divisions, provide information and education by leveraging their specialties and support risk management activity at each division. And, the Internal Audit Division audits maintenance status and operation status of the Group's risk management system and take effort to ensure their propriety.

In response to the inadequate quality assurance practices occurred in civil aero engine maintenance business, IHI strengthens its compliance/quality assurance systems and risk management of business operations, and promotes initiatives for recurrence prevention from the current fiscal year. And in order to manage risks thoroughly by multiple deference line, after clarifying roles and responsibilities of corporate, business areas, and business divisions including affiliated companies in risk management, IHI has set a three step risk management system. As the first step, business division including affiliated companies identify risks and respond to them directory. As the second step, business areas monitor and instruct in the risk management activities of the first step and detect new risk signs. And as the third step, the corporate divisions evaluate and advise on the risk management activities of the first and second step, issue alerts toward unrecognized risks, detect new risk signs and roll out measures against occurred risk items.

(3) Risk management activities for the fiscal year 2020

In terms of major themes on "IHI Group Key Risk Management Policies" for the fiscal year 2020, the IHI Group will focus on the following matters

- i. Conduct in-depth compliance initiatives
- ii. Ensure quality assurance system takes root
- iii. Enhance ability to address key business risks

With regard to compliance and quality assurance system, as well as working to build a working environment where past lessons would not be weathered by the activities for embedding and penetrating the "IHI Group Code of Conduct" and "IHI Group Quality Declaration" that were formulated in the fiscal year 2019, the IHI Group is also moving forward with initiatives such as strengthening the operation of the whistleblower system. As for key business risks, we are prioritizing the management of risks that impair the ability of the four business areas to execute their respective strategies, while keenly grasping the drastic changes in the business environment surrounding the Group including the response to the impact of the spread of COVID-19.

In order to systematically check the latent risks in the business plan, we are also constantly assessing and confirming the response plans and implementation progress for more than 100 business-related risks and, if needed, executing revision to the response plans including risk assessment.

(4) Business risks

With regard to matters included in the "Overview of business," "Information about facilities," and "Financial information" sections of this Annual Securities Report, the items below are some of the main risks that could potentially impact on the operating results, share price, or financial position of the IHI Group. Note that forward-looking statements are based on the Group's judgments as of the end of the current fiscal year (March 31, 2020). In light of the risks described below, the Group has put in place the necessary risk management system, making every possible effort to avoid the occurrence of risks and to minimize the impact when risks do occur.

In addition, after January 2020, the global spread of COVID-19 caused temporary shutdowns of manufacturing activity and slumps of consumption by restrictions on the movement of people. As a result, the economies among Japan and the globe have

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been in a rapid downturn and an extremely severe condition. In particular, regarding the global demand for aero transportation, International Air Transportation Association (IATA) announces its forecast as the demand for the year 2020 will decrease by around 50% compared with the year 2019, and the rapid downturn in demand is affecting severely the aviation industry. Also, regarding the demand for automobiles, some private research companies forecast the number of global automotive sales in the year 2020 will decrease by about 10% to 20% from compared with in the year 2019. Therefore, there is possibility of a significant impact on the main line of our businesses such as the Civil aero engines Business and the Vehicular turbochargers Business. Moreover, it is possible that the other businesses also will be affected by customers' revision to judgement for capital investment and to business plans, as well by downturn in demands. In a situation where the impact is expected to be prolonged, the Group takes counter measures such as temporary freezing and/or reduction in expenditure on capital investments, research and development etc., reduction in the total cost/fixed cost and inventories, and shifting human resources to the growth areas and lifecycle businesses.

i. Competitive environment and business strategy

During the current fiscal year, the Japanese economy was generally remained stable, supported by moderate increases in capital investment and improvements in situation of employment and income until latter half of the fiscal year. In the global economy, while overall moderate growth continued, business conditions in China and Europe were in a slowdown trend and, in the political side, the unstable situation remained from problems including the trade friction between the U.S. and China, the issue of the U.K. regarding leaving EU, and heightened geopolitical risks.

Under this business environment, the IHI Group is taking steps to concentrate and select its businesses and to focus its investment of management resources, as well as to expedite the establishment of global business operations. However, risks include a slowdown in the global economy's growth, or sudden changes in the competitive environment as a result of industry consolidation and drastic changes in business environment. If such risks materialize, and the Group's products and services become unable to have adequate competitive advantages compared with competitors in terms of performance, quality, or price, the Group's operating results and financial position could be adversely affected.

The IHI Group's perception is that the importance of this item is rising, because, as drastic changes in the business environment surrounding the Group, moves to deal with climate change and the trend of the shift to carbon-free societies accelerating are more quickly than expected, and the uncertainty regarding the outlook for the global economy caused by COVID-19 increased.

In addition, Japan Marine United Corporation (JMU), which is an affiliate accounted for using the equity method of IHI and posted massive losses owing to such issues as construction process turmoil stemming from technical problems, is trying to end it early and normalize the quality and delivery time, etc. by means of concentration of business resources upon the shipyards where the process turmoil has occurred. In a situation where a severe market condition for shipbuilding continues, in order to maximize the effects of capital and business alliance with Imabari Shipbuilding Co., Ltd., JMU is undertaking initiatives such as responses to environmental regulations leveraging its technical superiority, drastic reforms aimed at improving production efficiency and consolidation of business resources. The IHI Group provides support so that JMU can accelerate its efforts.

ii. Partnerships, M&A, and business integration

The IHI Group conducts joint business activities with numerous other companies in the form of joint ventures and cooperation in marketing, technology, and production. The Group also makes effective use of M&A in order to expedite business expansion into growth markets, supplement its underlying technologies, and generate synergies, among other purposes. However, such activities may not deliver the benefits originally expected due to changes in the economic environment, legal regulations, unforeseen cost increases, or other factors. Moreover, if the Group judges that the benefits originally expected cannot be obtained, it may decide to suspend or terminate business integration based on a partnership with another company. The Group's operating results and financial position could be adversely affected as a result.

iii. Country risk

The IHI Group conducts its activities including procurement, production, export, sales, and construction on a global basis, including in the Americas, Europe, and the Asia Pacific region. Each country and region presents country risks that include political or economic turmoil and a resulting freeze on currency exchange transactions, or debt defaults, or seizure of investment assets, and also the occurrence of unforeseen acts of terrorism or labor disputes. Moreover, the continuation of business activities or the operation of business sites could become difficult as a result of political instability, defaults, or other factors. Against these risks, the Group endeavors to ensure that it is fully covered by trade insurance, and strives to gather information regarding country risks and to raise awareness among Group employees. However, if such risks materialize, the Group's operating results and financial position could be adversely affected.

Although it is not able to foresee the impact on the Group's operating results etc. at this point, the IHI Group's perception is that the importance of this item is rising, because the spread of COVID-19 is affecting countries in various ways.

iv. Procurement of materials

(Translation purposes only)

Whilst the IHI Group endeavors to manufacture key components within the Group, it also takes delivery of raw materials, components, and services from multiple external suppliers. The Group strives to ensure reliable procurement by working to constantly gather information on market trends for its key raw materials and components. In addition, the Group takes steps to reduce risk, such as rigorously monitoring suppliers' product quality and delivery dates, and diversifying procurement sources to avoid excessive concentration or dependency on particular suppliers. However, in case of occurrence of such problems as sudden changes in the prices for crude oil or material and equipment, or in the demand and supply balance of special steel and others, as well as in the international situation, in addition to disruption of our supply chain caused by the spread of COVID-19, they may cause problems including increased costs, quality control issues, or delayed deliveries. These problems could lead to deterioration in the Group's operating results.

The IHI Group's perception is that the importance of this item is rising, because the necessity of maintaining and rebuilding an appropriate supply chain is higher than ever.

v. Loan guarantees

The IHI Group issues guarantees and takes other appropriate measures with regard to loans it has confirmed as necessary and rational in order to conduct its business activities. However, if the debtor's financial position deteriorates as a result of a prolonged downturn in the economic environment or a business failure, the creditors may demand that the Group fulfill these guarantees. Information regarding loan guarantees and related measures is included in Notes of "consolidated balance sheets" under "Financial information" in this Annual Securities Report.

vi. Order contracts

The IHI Group often manufactures its products after executing individual order contracts with its customers, and for construction work involving large contract amounts, the Group conducts internal reviews from multiple perspectives before executing contracts. However, such factors as unanticipated changes in the economic environment, inadequate prior investigation, unexpected complications, or a business downturn at a joint venture partner or other partner may cause construction work that exceeds the original estimate, payment of penalties if the Group is unable to achieve the level of performance or delivery date required by the customer, or additional costs or other financial liabilities, leading to deterioration in the Group's operating results. In addition, the Group makes every possible effort to avoid risks associated with cancellation of an order contract at the request of a customer, including insertion of a penalty clause in the terms of its order contracts, but it may not always be possible to fully recover costs disbursed.

With regard to project monitoring, the IHI Group is working on maintaining and strengthening monitoring at a group-wide level, and reinforcing the use of risk reviews by experts. As a result, although there were some downturns among small to medium-scale projects, we have managed to put the brakes on downturns among larger projects. The Group will continue to reinforce thorough project management also onto small to medium-scale projects.

In addition, information regarding the payment of penalties for delayed delivery on the IHI Group's process plant project underway in North America is included in Notes of "consolidated balance sheets" under "Financial information" in this Annual Securities Report.

vii. Technology license contracts

The IHI Group handles a broad range of equipment types and technological fields both in Japan and overseas, and it therefore often executes contracts relating to technology licensing out to or in from other companies. Before executing such contracts, the Group endeavors to conduct full internal reviews to check whether any of the contract terms are disadvantageous, or impossible to perform, as well as to ensure that no necessary terms have been omitted, among other matters. However, inadequate prior investigation, inadequate understanding of the contract terms, or other omissions may result in the Group incurring liability for guarantees, compensation, or penalties beyond the plan, or becoming subject to operational or other restrictions. Such eventualities could lead to deterioration in the Group's operating results.

viii. Production and manufacturing

As described in "2. Major facilities" under "III. Information about facilities" in this Annual Securities Report, the IHI Group owns production sites in a variety of locations. A natural disaster affecting the Group's production facilities, production delays/suspension and supply chain disruption caused from infections including COVID-19, a power outage, an inability to obtain materials or equipment resulting in an unavoidable slowdown in production activities, or a power restriction could occur on a greater scale than anticipated in their business continuity plans (BCPs). Moreover, adjustment of production capacity may not be able to keep pace if production volume were to fluctuate more suddenly than anticipated. Such eventualities could lead to deterioration in the Group's operating results.

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The IHI Group's perception is that the importance of this item is rising, because the necessity of rebuilding appropriate BCPs including maintaining supply chains is higher than ever.

ix. Quality assurance

The IHI Group endeavors to ensure the quality of its products including preventing procurement items from incurring quality defect or other defects, and in order that customers can use them safely, the Group is taking steps to ensure the safety of both products and machinery by conducting rigorous risk assessment at the design stage and increasing its provision of warnings and information to customers. Moreover, as the Group's products are subject to restrictions under a variety of legal regulations relating to quality and safety, the Group endeavors to comply with these regulations, and also takes out product liability insurance, among other measures. However, the occurrence of a major incident or complaint, or a product defect that could require payment of product liability compensation might be expected to lead to sizable costs, as well as seriously affecting the Group's reputation within society. Such eventualities may adversely affect the Group's operating results and financial position.

x. Intellectual property

The IHI Group endeavors to appropriately safeguard its intellectual property (by obtaining patents, utility models, or rights of prior use). However, the equipment types and technological fields handled by the Group are broad-ranging, and it can sometimes prove difficult to completely prevent attempts by third parties to surpass the Group technologically by means such as imitating or analyzing the Group's products or technologies.

Moreover, the products and technologies the Group is developing for the future could potentially infringe on the intellectual property rights of other companies and organizations, or the Group could fail to handle an employee's invention appropriately, resulting in a claim for compensation or other redress being made against the Group. Such eventualities could adversely affect the Group's operating results.

xi. Research and development

Information relating to the IHI Group's research and development activities is included in "5. Research and development activities" under "II. Overview of business" in this Annual Securities Report. Due to the nature of the Group's business, these research and development activities are characterized by the fact that they require large financial investments and long development periods. Research and development could therefore fail to lead to satisfactory outcomes because opportunities for practical application are lost, timings are inconsistent with the Group's business strategies or market trends, or for other reasons. Such eventualities could adversely affect the Group's operating results.

xii. Laws and regulations

In the course of conducting its businesses on a global basis, the IHI Group is subject to restrictions it endeavors to comply with under a variety of laws and regulations, governmental permits and licenses, and regulatory restrictions, not only in Japan, but in each country and region of operation. However, the Group could be judged to have violated such laws or regulations if, for instance, it fails to understand them adequately or is unable to respond appropriately to unforeseen legislative changes. This could result in financial losses due to fines or surcharges, or administrative disposition such as mandatory business suspension that could lead to the Group suffering loss of opportunities or consequent deterioration of its reputation within society. Such eventualities could adversely affect the Group's operating results and financial position.

Of the legal proceedings under way, there is no case recognized that has the potential to exert a significant adverse effect on the operation of the Group. However, unanticipated legal proceedings of which the Group is currently unaware could arise. If this risk materializes, the Group's operating results and financial position could be adversely affected.

xiii. Computer systems

The IHI Group makes large financial investments in the processing of technological and administrative data. When operating, installing, or updating the relevant computer systems, the Group takes every possible measure to avoid system malfunctions or leakage of data outside the Group. However, circumstances such as system failure and suspension of business, or leakage of data outside the Group, could occur as a result of a variety of causes, including infection by a computer virus or hacking originating externally; failure, loss, or theft of host computers, servers, or network devices; or software defects. Such eventualities could adversely affect the Group's operating results.

The IHI Group's perception is that the importance of this item is rising, because threats including the leakage of information are increasing owing to sudden expansion of working from home incurred by the spread of COVID-19 in a situation where ingenuity of cyber attacks has been increasing in recent years.

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xiv. Health and safety

The IHI Group takes all possible measures to manage health and safety at its business offices and construction sites. However, in the unlikely event of an unexpected accident, disaster, or other incident, production activities could be impeded, leading to an adverse effect on the Group's operating results and financial position. The Group takes out a range of property and casualty insurance policies, among other measures, but if a major accident or disaster were to occur, the Group may not be able to make insurance claims to cover all its losses.

In addition, the IHI Group's perception is that the importance of this item is rising, because it is necessary to prepare for the spread of COVID-19 after the second wave.

xv. Environmental conservation

Within its manufacturing process, the IHI Group has business offices, subsidiaries, and other entities using substances that could cause adverse effects including pollution of the atmosphere, water, or soil. The Group takes the utmost care in managing these substances, and even in the unlikely event of substances leaking outside the Group's facilities, the Group has measures in place to minimize their spread. However, an unanticipated situation could arise, leading to deterioration in the Group's reputation within society, as well as liability for damages. If this risk materializes, the Group's operating results and financial position could be adversely affected.

xvi. Disasters and computer system failures

Situations that could prevent the execution of business operations include the worldwide spread of an infectious disease or epidemic (a pandemic), a major disaster such as an earthquake or flood, a criminal act such as terrorism, or a computer system failure. The IHI Group has taken measures to minimize any impact even if such an event should occur by putting in place business continuity plans (BCPs) and conducting drills and other training to prepare for any emergency situation. However, a disaster or system failure on an unanticipated scale could make it impossible to execute business operations appropriately. Such eventualities could adversely affect the Group's operating results and financial position.

The IHI Group's perception is that the importance of this item is rising due to numerous instances of natural disasters, such as typhoons, that even inflicted damage on the Group's sites, and because of the increasing impact of COVID-19 on the execution of business.

xvii. Currency movements

Currency movements have impacts on the IHI Group's operating results. For example, when the yen appreciates against foreign currencies, the Group's income from construction work for export denominated in foreign currencies decreases in value after conversion into yen, and when the yen depreciates it leads to increases in the yen values of expenditures for overseas procurement denominated in local currencies. The Group therefore endeavors to hedge against the risk of imbalance in its position with regard to assets and liabilities denominated in foreign currencies by ensuring full use of forward exchange contracts, and marry and netting, based on a set policy. However, exchange rates may fluctuate more than anticipated, and if this risk materializes, the Group's operating results and financial position could be adversely affected.

xviii. Interest rate movements

If interest rates rise, the IHI Group's interest expenses increase and its financial balance deteriorates. Moreover, the Group may be subject to less favorable financing terms when taking out loans or issuing bonds, adversely affecting its fund procurement. As a consequence, therefore, the Group's operating results and financial position could also be adversely affected.

xix. Fund procurement and credit ratings

The IHI Group's loans include syndicated loans with associated financial covenants relating to shareholders' equity and profits. If the Group were to violate these covenants as a result of deterioration in business performance or any other cause, the terms of the loan in question could be revised, or an obligation to repay the loan before the due date could arise, leading to an adverse effect on the Group's operating results and financial position.

Moreover, if a credit rating agency downgrades the Group's credit rating, the Group could be forced to execute its financing transactions under disadvantageous terms, or it could become unable to execute certain transactions, adversely affecting its fund procurement. As a consequence, therefore, the Group's operating results and financial position could also be adversely affected.

In addition, due to the stagnation of global business activities caused from the spread of COVID-19, there is a possibility that the Group's financing will be severer, so the Group's perception is that the importance of this item is rising. Against this risk, the

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Group is taking efforts to secure sufficient liquidity by issuing corporate bonds etc. and borrowing additionally, as well to temporarily freeze and/or reduce the current expenditures such as capital investments, research and development.

xx. Taxation

To calculate its deferred tax assets, the IHI Group books or reverses individual assets, including forecasts and assumptions regarding future taxable income. However, if forecasts and assumptions regarding future taxable income change and the Group judges that part or all of the deferred tax assets cannot be recovered, the Group's deferred tax assets could be decreased. The Group's operating results and financial position could be adversely affected as a result.

Furthermore, when transaction prices are determined between group companies across national borders, the IHI Group makes every effort to comply with the transfer pricing taxation system that is applicable. However, in the event that the IHI Group receives a statement from a tax authority pointing out that a transaction price is inappropriate, the penalty tax or double taxation that arises could adversely affect the Group's operating results and financial position.

xxi. Management of credit exposure

The IHI Group supplies products and services to customers worldwide, and most of its sales transactions employ credit or promissory notes. With regard to these transactions, the Group as a whole endeavors to bolster its system for management of credit exposure and to ensure rigorous protection of receivables. Despite such measures, however, a key customer could fall into bankruptcy, making it impossible to recover receivables from that customer. If this risk materializes, the Group's operating results and financial position could be adversely affected.

xxii. Human resource training

The IHI Group's growth prospects and internal transmission of skills are largely dependent on the ability of employees, and one of the business challenges facing the Group is how to secure employees with strong technical capabilities and skills and transmit their skills to others. However, it could prove impossible to secure or train personnel capable of playing such key roles. If this risk materializes, the Group's growth prospects, operating results, and financial position could be adversely affected. Taking into account the enforcement of the Revised Act on the Comprehensive Promotion of Labour Policies and the Employment Security and the Productive Working Lives of Workers, the Group will maintain and strengthen educational training and monitoring, cultivating an attitude among employees and building a workplace where harassment problems are not permitted to occur. Moreover, in addition to acceleration of its reforms of existing business operation styles mainly to usage of working from home in response to the spread of COVID-19, the Group will also consider about methods of human resource development under such situation.

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The risk items, which are related to implementation of the management strategy in the “Group Management Policies 2019” described in “1. Management Policies, Business environment and Issues to be addressed” under “II. Overview of business”, are as follows. (The related items are displayed with “○”.)

And, of above-mentioned 22 risk items, the items whose importance including the impact of the spread of COVID-19 are increasing from the previous fiscal year are also displayed in the following table.

Risk item	Items related to implementation of the management strategy			Items of increasing importance
	Accelerate aftermarket business development with customers from lifecycle perspectives	Create a lean and flexible operational structure	Transform our business model to create value	
i. Competitive environment and business strategy	○	○	○	○
ii. Partnerships, M&A, and business integration	○	○	○	
iii. Country risk	○		○	○
iv. Procurement of materials	○	○		○
v. Loan guarantees		○		
vi. Order contracts	○		○	
vii. Technology license contracts		○		
viii. Production and manufacturing		○		○
ix. Quality assurance		○		
x. Intellectual property		○	○	
xi. Research and development	○	○	○	
xii. Laws and regulations		○		
xiii. Computer systems	○	○		○
xiv. Health and safety		○		○
xv. Environmental conservation	○	○	○	
xvi. Disasters and computer system failures		○		○
xvii. Currency movements		○		
xviii. Interest rate movements		○		
xix. Fund procurement and credit ratings		○		○
xx. Taxation		○		
xxi. Management of credit exposure		○		
xxii. Human resource training	○	○	○	

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3. Management's analysis of financial position, operating results and cash flows

(1) Overview of operating results, etc.

i. Financial position and operating results

a. Operating results

During the current fiscal year, the Japanese economy was generally remained stable, supported by moderate increases in capital investment and improvements in situation of employment and income until latter half of the fiscal year. In the global economy, while overall moderate growth continued, business conditions in China and Europe were in a slowdown trend and, in the political side, the unstable situation remained from problems including the trade friction between the U.S. and China, the issue of the U.K. regarding leaving EU, and heightened geopolitical risks.

After January 2020, the global spread of COVID-19 caused temporary shutdowns of manufacturing activity and slumps of consumption by restrictions on the movement of people. As a result, the economies among Japan and the globe have been in a rapid downturn and an extremely severe condition.

Under this business environment, orders received of the IHI Group in the current fiscal year decreased 1.8% from the previous fiscal year to ¥1,373.9 billion. Net sales decreased 6.5% from the previous fiscal year to ¥1,386.5 billion.

In terms of profit, operating profit decreased by ¥21.6 billion to ¥60.7 billion due mainly to decreased numbers of delivery in Europe in the Vehicular turbochargers Business, in addition to a downturn of sales in the Boilers Business and the Power systems Business, also a downturn of sales caused by making its inspection process stricter in the Civil aero engines Business and additional program costs in this business. Ordinary profit decreased by ¥33.4 billion to ¥32.2 billion, saw a further down of profit margin than operating profit, due mainly to share of loss of entities accounted for using the equity method caused by downturn in the operating performance of IHI's affiliate Japan Marine United Corporation. Profit attributable to owners of parent was ¥12.8 billion, a decrease of ¥27.0 billion.

In a situation where the convergence of the spread of COVID-19 cannot be predicted, the IHI Group, while giving top priority to the safety and health of employees, their families and all stakeholders, continues to carry out its business activities with taking measures to prevent the spread of infection, such as thorough implementation of working from home. On the other hand, under such severe circumstance, the Civil aero engines Business will be affected by the drastic decline in demand for aero transportation and the deterioration of airlines and the Vehicular turbochargers Business is expected to be affected by the downturn of demand for automobiles and the suspension of factory production at automotive manufacturing companies. Furthermore, related to other businesses, the Group has also a concern to occur delays in construction phase of ongoing projects caused by the impact from prolongation of measures to prevent the spread of infection such as refraining from going out. In order to minimize the impact of the spread of COVID-19, the Group will implement flexible measures to cope with changes of business environment, such as reinforcement of risk management and innovative change in business structure.

Results by reportable segment for the current fiscal year are as follows:

(Billions of yen)

Reportable segment	Orders received			Fiscal year ended March 31, 2019		Fiscal year ended March 31, 2020		Changes from the previous fiscal year (%)	
	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Changes from the previous fiscal year (%)	Sales	Operating profit (loss)	Sales	Operating profit (loss)	Sales	Operating profit (loss)
Resources, Energy and Environment	285.5	316.9	11.0	377.0	3.3	327.7	4.7	(13.1)	41.3
Social Infrastructure and Offshore Facility	124.4	196.9	58.2	143.1	14.2	152.8	13.4	6.7	(5.2)
Industrial System and General-Purpose Machinery	458.9	420.1	(8.5)	441.0	23.1	406.4	11.4	(7.8)	(50.5)
Aero Engine, Space and Defense	494.3	420.1	(15.0)	492.2	46.4	480.8	40.3	(2.3)	(13.1)
Total Reportable Segment	1,363.2	1,354.1	(0.7)	1,453.5	87.1	1,367.9	70.0	(5.9)	(19.7)
Others	81.4	68.8	(15.5)	79.3	2.3	70.3	3.5	(11.3)	50.7
Adjustments	(45.4)	(49.0)	–	(49.4)	(7.0)	(51.7)	(12.7)	–	–
Total	1,399.2	1,373.9	(1.8)	1,483.4	82.4	1,386.5	60.7	(6.5)	(26.3)

<Resources, Energy and Environment>

With long-term targets having been set in the Paris Agreement in relation to upper limits on increases in average global temperatures, and the balance between the volume of greenhouse gases emitted and absorbed, the movement to respond to climate change and the world's shift toward carbon-free societies are accelerating more quickly than expected. In accordance with this, the issues facing societies and our customers are becoming more diversified based on the region and the current level of development, and the diffusion of renewable energy and distributed power sources, as well as the movement toward energy management as a means of achieving stable energy supplies, is gaining speed.

Under this business environment, orders received increased owing to an effect of obtaining an order for a large-scale overseas project with technologies for reducing environmental burdens in the Boilers Business, despite the decrease in the Plants Business. Net sales decreased due to a delay in project progress in the Boilers Business and to a reverse effect of the progress of large-scale projects in the Plants Business in the previous fiscal year.

Operating profit increased due to the convergence of deterioration of profitability of the previous fiscal year in the Plants Business, despite the effect of a decrease of sales in the Boilers Business and the deterioration of profitability in the Power Systems Business.

<Social Infrastructure and Offshore Facility>

In Japan, new demand is expected to be generated by orders related to themes such as regions that are not yet served by expressways, and the Chuo Shinkansen. Whereas, as a result of the recent intensification in disasters and the progressive deterioration of infrastructure, demand for measures to make infrastructure more robust and to extend its life is rising sharply, and the trend toward a maintenance business is accelerating. In addition, regulatory reforms are moving forward as a means of responding to shortages of managers and engineers, and there is a need to improve efficiency and reduce labor requirements in all businesses through the utilization of ICT/IoT. Overseas, in Europe, the U.S., Asia, and the Middle East, from the twin perspectives of environmental considerations and improved efficiency of investment in infrastructure, concession businesses that take a comprehensive approach to everything from design and construction to operation and maintenance are becoming more common, and projects for road and bridge construction, which includes bridges and tunnels, are moving ahead.

Under this business environment, orders received increased owing to an effect of receiving large-scale overseas projects in the Bridges/water gates Business.

Net sales increased in the Bridges/water gates Business, despite the decrease in the Shield systems Business.

Operating profit decreased due to the decreases in sales in the Shield systems Business, despite the increase in the Transport systems Business.

<Industrial System and General-Purpose Machinery>

The significant changes that affect industrial systems in general, such as advances in automation resulting from the growth of digital technology, and the globalization of supply chains, are increasing every year. On the other hand, for the automotive industry, the global slowdown in markets that began in China, and the associated slump in related components industries have resulted in a slowdown in demand for the Vehicular turbochargers Business and the Thermal and surface treatment Business, which are our mainstay field. In addition, due to the prolonged stagnation of economic activity incurred by the spread of COVID-19, there is a concern that our automotive related businesses will also be affected significantly, in a situation where world-wide decreases in demand for automobiles is supposed. The IHI Group is working to minimize the impact and making preparations to facilitate a rapid restart when the recovery phase begins.

Under this business environment, orders received declined due to the decrease in the Vehicular turbochargers Business and the Thermal and surface treatment Business, despite the increase owing to an effect of receiving large-scale projects in the Transport machineries Business.

Net sales decreased due to the downturn in the Vehicular turbochargers Business and the Thermal and surface treatment Business, plus the effect of transfer of the Small power systems Business in the previous fiscal year.

Operating profit decreased due to a decrease of sales in the Vehicular turbochargers Business and the Thermal and surface treatment Business.

<Aero Engine, Space and Defense>

The Civil aero engines Business has previously been trying to expand its business scale, responding world-wide growth of demand for aircraft, by advancing its proprietary technology and Monozukuri (manufacturing) capabilities further through participating in development and mass production of wide range of aero engines classes from small size to large sizes. Also, in the civil aero engine maintenance business where inadequate practices occurred, we are thoroughly going forward the recurrence preventive measures and reorganizing robust quality assurance system. On the other hand, the current global spread of COVID-19 evokes the drastic decline in demand for international aero transportation and the deterioration of operating performance and financial position of airlines, and it is supposed that the recovery of the market will take a certain amount of time. In the situation where sales of aero engines and spare parts are expected to decrease and our business will inevitably be affected by the situation significantly, we are reviewing production system to meet the changes of demand and shifting resources. Moreover, our aero engines are mounted on relatively new type aircrafts, and due to their superiority in operating costs such as fuel efficiency, it is expected that operation will be resumed preferentially and earnings in the aftermarket will recover rapidly. Therefore, we will give top priority to strengthening responses to the aftermarket field in order to fully support the resumption of aircraft operations by customers in the recovery period of demand for aero transportation. In addition, as a member in aviation industry, we will contribute for the efforts for reduction of environmental burden through the development of new type engines with high efficiency and low fuel consumption, while preparing for the return to a growth path of the market.

Under this business environment, orders received decreased in the aero engines for Japan Ministry of Defense, the Civil aero engines Business and the Rocket systems/space utilization systems Business.

Net sales decreased in the aero engines for Japan Ministry of Defense.

Operating profit in the Civil aero engines Business declined due to the effect of making its inspection process stricter in the maintenance business and to the additional program costs and so on, while results of initiatives to cut costs for the new engine are appearing .

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Note that forward-looking statements are based on the Group's judgments as of the end of the current fiscal year (March 31, 2020).

b. Assets and liabilities, and net assets

Total assets at the end of the current fiscal year were ¥1,740.7 billion, up ¥76.2 billion from the end of the previous fiscal year. The items with the most significant increases were cash and deposits, up ¥52.2 billion, notes and accounts receivable - trade, up ¥26.1 billion and investments and other assets including investments in capital, up ¥18.6 billion. The item with the most significant decrease was investment securities, down ¥54.4 billion.

Total liabilities were ¥1,387.0 billion, up ¥104.1 billion from the end of the previous fiscal year. The items with the most significant increases were short-term loans payable, up ¥73.8 billion and commercial papers, ¥56.0 billion. The item with the most significant decreases was notes and accounts payable - trade, down ¥27.4 billion. The balance on interest-bearing liabilities, including lease obligations, was ¥488.1 billion, up ¥133.0 billion from the end of the previous fiscal year.

Net assets were ¥353.7 billion, down ¥27.9 billion compared with the end of the previous fiscal year. This decrease of ¥27.9 billion included decreases by repurchase of treasury shares of ¥14.8 billion and dividends of surplus of ¥10.8 billion, also of profit attributable to owners of parent of ¥12.8 billion.

As a result of the above, the ratio of equity to total assets decreased from 21.0% at the end of the previous fiscal year to 18.7%.

ii. Cash flows

At the end of the current fiscal year, the outstanding balance of cash and cash equivalents (hereinafter, "cash") was ¥145.4 billion, up ¥52.8 billion from the end of the previous fiscal year. This was mainly due to securing sufficient liquidity in order to cope with the impact of the spread of COVID-19.

Key factors influencing each cash flow during the current fiscal year are summarized below.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥14.5 billion (the previous fiscal year: gain of ¥46.4 billion). This was due mainly to profit excluding the impact of items such as non-cash expenses including depreciation and share of loss of entities accounted for using the equity method, in spite of an increase in notes and accounts receivable - trade and a decrease of notes and accounts payable - trade.

(Cash flows from investing activities)

Net cash used in investing activities was ¥75.8 billion (the previous fiscal year: use of ¥79.2 billion). This was due mainly to purchase of property, plant and equipment and intangible assets of ¥66.3 billion and purchase of short-term and long-term investment securities of ¥23.1 billion.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥115.2 billion (the previous fiscal year: gain of ¥16.4 billion). This was due mainly to increases in short-term loans payable of ¥84.0 billion and commercial papers of ¥56.0 billion, which were prepared for the deterioration of the business environment caused by the spread of COVID-19.

Note: In this section, monetary amounts less than one unit are rounded down, and ratios less than one unit are rounded off.

(Translation purposes only)

iii. Results of production, orders received and sales

a. Production

Production volume by segment for the current fiscal year is as follows:

Segment name	Amount (Millions of yen)	Year-on-year change (%)
Resources, Energy and Environment	367,795	(2.0)
Social Infrastructure and Offshore Facility	147,414	9.1
Industrial System and General-Purpose Machinery	406,296	(8.0)
Aero Engine, Space and Defense	344,510	(19.2)
Reportable segment total	1,266,015	(8.2)
Others	42,576	(29.0)
Total	1,308,591	(9.0)

- Notes:
1. The amounts are represented by selling prices and inter-segment transactions have been eliminated.
 2. The amounts stated above do not include consumption taxes.
 3. Monetary amounts and ratios less than one unit are rounded off.

b. Orders received

Orders received by segment for the current fiscal year are as follows:

Segment name	Orders received (Millions of yen)	Year-on-year change (%)	Order backlog at the end of the period (Millions of yen)	Change from the end of the previous fiscal year
Resources, Energy and Environment	316,970	11.0	521,293	(0.4)
Social Infrastructure and Offshore Facility	196,925	58.2	229,644	19.8
Industrial System and General-Purpose Machinery	420,153	(8.5)	190,806	5.8
Aero Engine, Space and Defense	420,111	(15.0)	493,668	(12.3)
Reportable segment total	1,354,159	(0.7)	1,435,411	(1.5)
Others	68,844	(15.5)	26,605	30.1
Adjustments	(49,008)	—	—	—
Total	1,373,995	(1.8)	1,462,016	(1.1)

- Notes:
1. Orders received in each segment includes intersegment transactions, and the total amount of intersegment transactions has been eliminated with adjustments amounts.
 2. Intersegment transactions have been eliminated in calculating order backlogs for each segment.
 3. The amounts stated above do not include consumption taxes.
 4. Monetary amounts and ratios less than one unit are rounded off.

(Translation purposes only)

c. Sales

Sales revenue by segment for the current fiscal year is as follows:

Segment name	Amount (Millions of yen)	Year-on-year change (%)
Resources, Energy and Environment	327,751	(13.1)
Social Infrastructure and Offshore Facility	152,815	6.7
Industrial System and General-Purpose Machinery	406,470	(7.8)
Aero Engine, Space and Defense	480,875	(2.3)
Reportable segment total	1,367,911	(5.9)
Others	70,354	(11.3)
Adjustments	(51,762)	—
Total	1,386,503	(6.5)

- Notes:
1. Sales revenue amounts shown represent net sales.
 2. Segment sales include intersegment transactions, and the total amount of intersegment transactions has been eliminated with the adjustments amounts.
 3. Sales revenue to key customers and the corresponding percentage of overall sales are shown below.

Counterparty	The previous fiscal year		The current fiscal year	
	Amount (Millions of yen)	Ratio (%)	Amount (Millions of yen)	Ratio (%)
Japanese Aero Engines Corporation	205,100	13.8	258,058	18.6

4. The amounts stated above do not include consumption taxes.
5. Monetary amounts and ratios less than one unit are rounded off.

(2) Management's analysis of financial position, operating results and cash flows

i. Significant accounting policies and estimates

The IHI Group's consolidated financial statements are prepared according to the accounting principles generally accepted in Japan (Japanese GAAP). When preparing its consolidated financial statements, the Group is required to make judgments and estimates that affect the amounts recorded for assets and liabilities on the consolidated balance sheet and for income and expenses on the consolidated statement of income. Among the Group's significant accounting policies, those that frequently require judgments or estimates include the recording of allowances and provisions such as the allowance for doubtful accounts and the provision for loss on construction contracts, estimate of the net defined benefit liability, as well as judgments relating to the probability of recovering the deferred tax assets. The Group uses rational methods to make its judgments and estimates, but estimates are inherently subject to uncertainties, and those uncertainties may influence the Group's operating results and financial position as recognized in future. Significant uncertainties affecting the Group are detailed under "2. Business risks" in the "II. Overview of business" section of this Annual Securities Report.

The spread of COVID-19 may have a significant impact to our business. Especially in the Civil aero engines Business, sales of aero engines and spare parts are expected to decrease and it is expected that the recovery of market will take a certain of time. Also, in the Vehicular turbochargers Business, sales of vehicular turbochargers are expected to decrease caused from world-wide decreases in demand for automobile. In addition, we may suspend production or experience downturn of operations due to spanning of the supply chain across countries. Other businesses may be affected through the impact on the progress of construction projects and exposure to risks associated with prolonged deterioration in demand.

Deferred tax assets as of March 31, 2020 were calculated based on our estimate of the taxable income for the fiscal year ending March 31, 2021, taking into consideration the impact of the spread of COVID-19.

ii. Details of recognition, analysis and examination of operating results, etc.

The IHI Group's operating results and results by segment are as presented in "i. Financial position and operating results" of "(1) Overview of operating results, etc."

For achieving of the management targets in the final fiscal year of the "Group Management Policies 2019", the IHI Group has executed measures by setting performance targets for the fiscal year 2019, which is the first fiscal year of the "Group Management Policies 2019".

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In the fiscal year 2019, with regard to the aftermarket business development from life-cycle perspectives, the IHI Group moved ahead with initiatives to improve productivity by better understanding customer operations and to propose solutions by O&M, and these initiatives achieved certain results. The Group will continue to accelerate the initiatives of three reforms in the “Group Management Policies 2019”.

On the subject of activities to prevent downturns in projects, by maintaining and strengthening monitoring at a group-wide level, and reinforcing the use of risk reviews by experts, the Group has managed to put the brakes on large-scale downturns, while on the other hand, the causes of cost increases in multiple small to medium-scale projects were discovered. Furthermore, the economic slowdown and the introduction of new exhaust emissions regulations in China affected the Vehicular turbochargers Business, leading to decreased numbers of delivery.

As a result, the fiscal year 2019 results failed to achieve performance targets, with a ROIC of 5.7%, an operating margin of 4.4%, and a CCC of 120 days. In particular, CCC was significantly worse, and the Group faces the issues of curbing capital investment and lending to an appropriate level that will contribute to ROIC, and improving cash flows through more efficient use of working capital.

In addition, due to the spread of COVID-19, values previously held are likely to change, resulting in a transformation of society and the behavior of citizens and an expecting further acceleration in trends such as the rebuilding of the business foundations of companies, and the advance of digitalization. Regarding the vision set in the "Group Management Policies 2019", we will reconfirm the ideal way of being as a sustainable company that responds to the new normal situation of "after corona", and work to identify the direction of the business and promote structural reform and portfolio management.

	Performance targets for the fiscal year ended March 31, 2020	Results for the fiscal year ended March 31, 2020	“Group Management Policies 2019” Management Targets for the fiscal year ending 31, 2022
ROIC	8.0%	5.7%	10% or more
Operating profit margin	5.7%	4.4%	8%
CCC	97 days	120 days	80 days

(Note) The calculation method for each indicator is shown below.

- ROIC: $(1 - \text{“Effective statutory tax rate”}) \times (\text{“Operating profit”} + \text{“Interest income”} + \text{“Dividend income”}) \div (\text{“Total shareholders’ equity”} + \text{“Total accumulated other comprehensive income”} + \text{Amount of interest-bearing liabilities})$
- CCC: $(\text{“Notes and accounts receivable – trade”} + \text{“Inventories”} - \text{“Notes and account payable – trade”}) \div \text{“Net sales”} \times 365 \text{ days}$

Progress made in achieving the performance targets (operating profit and its margin) by segment and challenges going forward are as follows.

Reportable segment	Fiscal year ended March 31, 2020 (Fiscal year 2019)			
	Performance targets		Results	
	Operating profit (Billions of yen)	Operating profit margin (%)	Operating profit (Billions of yen)	Operating profit margin (%)
Resources, Energy and Environment	18.0	5.5	4.7	1.4
Social Infrastructure and Offshore Facility	15.0	8.8	13.4	8.8
Industrial System and General-Purpose Machinery	25.0	5.6	11.4	2.8
Aero Engine, Space and Defense	33.0	7.2	40.3	8.4

<Resources, Energy and Environment>

The performance targets results for this business area were failed to achieve significantly due to occurrence of downturns in profit of small to medium-scale projects, while additional costs posted in the process plant project underway in North America were being brought under control.

In this business area, the IHI Group will not only continue to apply thoroughgoing project management to large-scale projects, but also strengthen its application in small to medium-scale projects to prevent downturns, while at the same time accelerating reform of business processes in order to improve cash flows, and the shift in resources to profitable businesses (including upgrade and replacement, parts sales and O&M business). Also, in preparation for a fully optimized energy mix, the Group will develop

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proposal of a variety of technologies both in Japan and overseas, including new technologies such as ammonia and CCUS*.

*Carbon dioxide Capture, Utilization and Storage: the technology for separation, capture, recovery and effective use of CO₂, or its storage underground

<Social Infrastructure and Offshore Facility>

In the Bridges/water gates Business, due to progress made in shortening production lead times at factories and on site, and the effects of cost reductions derived from joint procurement, the operating profit margin achieved the performance target.

In this business area, the IHI Group will continue rolling out the production process reforms that are beginning to bear fruit across all operations, while also globally strengthening life-cycle businesses in social infrastructure that include comprehensive post-construction maintenance and preventive maintenance through promoting initiatives aiming at significant improvement of construction lead times and improvement of productivity by leveraging latest ICT technologies and sophistication technologies etc.

<Industrial System and General Purpose Machinery>

The performance targets results for this business area were failed to achieve significantly due mainly to decreases in sales to China of the Vehicular turbochargers Business and the Heat treatment and surface engineering Business and the impact of the spread of COVID-19.

In this business area, the IHI Group will advance investigations into gaining a deeper understanding of customer operations and optimizing the operations by using rapidly accelerating digital technology, the extensive delivery track record and close relationships with customers, and strive reforms to life-cycle businesses by providing services that involve proposing customer-centric value and also by more swiftly entering overseas markets. In addition, the Group is working to minimize the impact on our automotive related business activities and making preparations to facilitate a rapid restart when the recovery phase begins, while expecting world-wide decreases in demand for automobiles.

<Aero Engine, Space and Defense>

Despite the impact of lower operating levels caused by taking a more stringent approach to inspection processes in the civil aero engine maintenance business, due to a decline in sales of new engines with high initial burdens, and an increase in sales of spare parts as a result of obtaining sales information at an earlier stage, the performance targets results for this business area were achieved. In this business area, the IHI Group will persist with efforts geared to steadily enhancing its competitive strengths, giving top priority to the task of addressing quality issues. Moreover, under world-wide rapid decreases in demands for aero transportations due to the spread of COVID-19, the Group will give top priority to strengthening responses to the aftermarket field in order to fully support the resumption of aircraft operations by customers in the recovery period of demands. In addition, the Group is accelerating the preparation for sophistication of a maintenance business through the use of advanced IoT and ICT, as well as for expansion of the materials forming business in order to deliver outstanding value across the entire value chain.

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iii. Analysis and consideration details of cash flows, and information on capital resources and funding liquidity

a. Basic policy for financial strategy

The IHI Group sets its basic policy for financial strategy as promoting investments for business reforms while balancing the strengthening financial bases and reward to shareholders, of which the funding source should be cash on hand that is brought through the initiatives of reinforcement of business foundation and improvement of cash generation capabilities.

In the “Group Management Policies 2019”, the Group has set its policy to promote investments of a total ¥ 420 billion centering on investment to reform businesses for three years from the fiscal year 2019 through achieving the management targets of more than 10% of ROIC and within 80 days of CCC, as well as the Group formulated a new dividend policy of which the target consolidated dividend payout ratio was set as around 30%.

In the fiscal year 2019, while the cash in flows from operating activities stayed at low level as ¥14.5 billion due to increases of working capital, the cash out flows from investing activities of ¥ 75.8 billion centering on investment to reform businesses were much more than the cash in flows from operating activities, therefore improvement of cash flows was highlighted as an issue.

Moreover, in addition to the concern about the deterioration in cash flows from operating activities in the fiscal year 2020 owing to the spread of COVID-19, it has also become necessary to re-examine the business direction defined in the “Group Management Policies 2019” under the new normal situation of “after corona”.

In this situation, the Group plans to manage to raise capital for the investment to growth areas with a perspective toward the “after corona” situation, in addition to securing robust financial bases and sufficient liquidity on hand, through thorough improvement of cash flows and implementation of asset management including the temporary freezing and/or reduction.

b. Analysis of demand for funds

In the current fiscal year, interest-bearing liabilities, which primarily consisted of loans payable, allotted for maintaining sufficient liquidity on hand against the spread of COVID-19 and funding needs mainly for an increase in expenditure on capital investments according to the start-up of a new factory of the Civil aero engines Business. As a result, at the end of the current fiscal year, the balance of interest-bearing liabilities, including lease obligations, was ¥488.1 billion, up ¥133.0 billion from the end of the previous fiscal year.

c. Fundraising policy and analysis of liquidity

While the IHI Group sets its principle as net cash provided by cash flows from operating activities allots for the necessary funds such as working capital and investments, if needed, the Group procures the short-term funds by bank loans, commercial papers etc., and the long-term funds for capital investments, lending etc. by long-term loans payable, corporate bonds and others, taking into consideration a broad range of factors including trends of financial market, existing loans payable and redemption schedule of issued corporate bonds.

Regarding the fundraising from outside, the Group sets its basic fundraising policy as that it realizes a procurement to minimize capital costs by control properly related risks.

Also within the Group, in order to improve group governance and capital efficiency, reduce capital costs and contribute improvement of the corporate value, the Group is taking efforts to secure liquidity and improve capital efficiency by means of group-wide fundraising and cash balance management such as financing through cash management system among IHI and domestic subsidiaries, and among foreign subsidiaries in a partial area.

At the end of the current fiscal year, the outstanding balance of cash and cash equivalents was ¥145.5 billion, up ¥52.9 billion from the end of the previous fiscal year. Regarding the liquidity on hand, the Group will continue to secure sufficient level in combination with a diverse range of fund procurement methods, including credit line commitments and overdraft facility accounts with major banks and commercial papers, in addition to cash and cash equivalent on hand.

Note: In this section, monetary amounts less than one unit are rounded down.

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4. Material contracts for operation

Licensing-in contracts

Name of Contracting Company	Name of Counterparty	Country	Licensed Products	Details	Contract Period
IHI	GEAE TECHNOLOGY, INC.	U.S.A.	T700-401C, T700-701C turboshaft engine	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From September 26, 1989 to April 30, 2023
IHI	GEAE TECHNOLOGY, INC.	U.S.A.	F110-129 turbofan engine	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From September 27, 1996 to April 30, 2024
IHI	GEAE TECHNOLOGY, INC.	U.S.A.	J79 turbo jet engine	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From March 18, 2002 to December 31, 2022
IHI	ROLLS-ROYCE CORPORATION	U.S.A.	T56-A turboprop engine	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From November 7, 2008 to October 31, 2028
IHI	ROLLS-ROYCE CORPORATION	U.S.A.	T56-A-427A turboprop engine	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From September 16, 2019 to September 30, 2029
IHI	UNITED TECHNOLOGIES CORPORATION	U.S.A.	F100 turbofan engine	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From June 27, 1978 to September 30, 2025
IHI	UNITED TECHNOLOGIES CORPORATION	U.S.A.	F135 turbofan engine	Non-exclusive manufacturing rights in Japan	From October 17, 2013 to September 30, 2027
IHI Power Systems Co., Ltd. (Consolidated subsidiary)	MAN Diesel & Turbo France SAS	France	General-purpose medium-speed diesel engine	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From November 14, 1995 to December 31, 2020
IHI Power Systems Co., Ltd. (Consolidated subsidiary)	Winterthur Gas & Diesel Ltd.	Switzerland	General-purpose low-speed diesel engine	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From January 1, 2009 to December 31, 2024
IHI AEROSPACE CO., LTD. (Consolidated subsidiary)	LOCKHEED MARTIN CORP.	U.S.A.	Multiple launch rocket system	Acquisition of non-exclusive rights for the manufacture and sale of licensed products	From January 20, 1993 to August 31, 2023
IHI Rotating Machinery Engineering Co., Ltd. (Consolidated subsidiary)	ABB TURBO SYSTEMS LTD.	Switzerland	Turbocharger	Exclusive manufacturing rights in Japan	From September 24, 1998 until date that JV ends

5. Research and development activities

The IHI Group (IHI and its consolidated subsidiaries) established the group technology strategy based on "Group Management Policies 2019" and pursues research and development with an emphasis on technologies related to solving the issues of society and customers. The IHI Group tirelessly pursues basic and commercialization research aimed at bolstering product competitiveness, future growth and innovation in each business segment. The business areas and head office divisions work closely with Corporate Research & Development. In addition, the IHI Group pursues joint research through industry-academia partnerships with Japanese and overseas universities and research institutions.

In the current fiscal year, the IHI Group spent ¥38.1 billion on R&D.

The research and development achievements and R&D expenses by each segment are as follows.

(1) Resources, Energy and Environment

Resources, Energy and Environment Business Area and Corporate Research & Development are engaged in research and development related to boilers, power systems, and other fields.

In this segment, the IHI Group has promoted the development of technologies for creating and utilizing renewable energy, aiming for "a carbon-free, recycling-based society" that will maintain a healthy global environment. Key achievements in the current fiscal year included commercialized Japan's first pulverized coal-fired boiler used exclusively for the combustion of wood biomass, developed technology for converting it to methane to separate and capture CO₂ efficiently. In addition, the IHI Group promoted initiatives aimed at expanding the life-cycle business by utilizing ICT.

R&D expenses in this segment totaled ¥5.5 billion.

(2) Social Infrastructure and Offshore Facility

Social Infrastructure and Offshore Facility Business Area and Corporate Research & Development are engaged in research and development related to bridges/water gates, and other fields.

In this segment, the IHI Group has promoted the research and development to realize optimal and efficient maintenance of social infrastructure. Key achievements in the current fiscal year included practical application of technologies and products that enable to improve safety and shorten the construction period.

R&D expenses in this segment totaled ¥1.0 billion.

(3) Industrial System and General-Purpose Machinery

Industrial System and General-Purpose Machinery Business Area and Corporate Research & Development are engaged in research and development related to vehicular turbochargers, transport machineries, parking, and other fields.

In this segment, the IHI Group has promoted the research and development centered on "intelligence of machinery and equipment" in which products and services fulfill their functions without human intervention in order to make our lives and corporate activities safe and secure. Key achievements in the current fiscal year included development of a picking robot utilizing deep learning, realization of continuous unloader automated driving technology that makes use of 3D measuring technology, established technology for improving the safety of automated driving for use within enclosed spaces where GPS signals cannot reach. In addition, in the area of ozone equipment which we have been developing for many years, we developed a small automatic washing and disinfecting machine which is also effective against COVID-19.

R&D expenses in this segment totaled ¥8.6 billion.

(4) Aero Engine, Space and Defense

Aero Engine, Space and Defense Business Area and Corporate Research & Development are engaged in research and development of aero engines, rocket and space-utilization systems, and other fields.

In this segment, the IHI Group sets the realization of aviation safety and reduction of environmental load as the most important issues to be solved, and on that basis, the IHI Group has promoted the research and development to realize space-utilization as a new frontier. Key achievements in the current fiscal year included moved forward with research into electric architecture for aircraft/engines, which seeks to reduce CO₂ emissions and optimize energy management of the entire system for achieving those reductions, developed the world's first electric motor with built in jet engine. In addition, we continue to strengthen the international competitiveness of the Epsilon Rocket, in which we are involved as a primary manufacturer in both development and manufacture, and we are pushing ahead with initiatives to expand these to the H3 rocket.

R&D expenses in this segment totaled ¥10.1 billion.

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(5) Others

Head office divisions and Corporate Research & Development are in charge of new technologies and new business fields and medium- to long-term research and development for the future of each segment, and at the same time engaged in research and development of a new technology platform. In addition, in the current fiscal year, we opened the “IHI Group Yokohama Labs” at the Yokohama Office, and we are concentrating our R&D resources and establishing an environment for our interaction with customers and promoting open innovation, and we are also working on the practical application of swift and efficient technology to solve customer problems and create new businesses.

Other key achievements in the current fiscal year included inaugurated a joint research course related to AI technology with Yokohama National University, with the aim of nurturing people who can use AI, and of applying AI technology, implemented enhancements to ILIPS, IHI Group’s IoT platform, conducted testing of an ammonia/natural co-fired gas turbine.

R&D expenses in this segment totaled ¥12.7 billion.

(Note: In this section, monetary amounts are rounded down.)

(Translation purposes only)

III. Information about facilities

1. Overview of capital expenditures, etc.

The IHI Group (IHI and its consolidated subsidiaries) invested a total of ¥80.6 billion during the current fiscal year. These investments were focused on the increase of production capacity, improvements to production systems, as well as the streamlining of production and other measures to enhance competitiveness. Investments by segment were follows:

In Resources, Energy and Environment, ¥5.8 billion was invested to maintain and upgrade existing facilities.

In Social Infrastructure and Offshore Facility, ¥11.7 billion was invested to increase production capacity, as well to add, maintain and upgrade assets for lease.

In Industrial System and General-Purpose Machinery, ¥12.1 billion was invested to increase production capacity.

In Aero Engine, Space and Defense, ¥42.7 billion was invested to increase production capacity, improve production systems, as well to maintain and upgrade existing facilities.

In others, ¥8.1 billion was invested to streamline and save labor of production.

The sources of funds for the investments were primarily cash on hand and borrowings.

- Notes: 1. In this section, monetary amounts less than one unit are rounded down.
2. The amount of capital expenditures includes investments in software in addition to those in property, plant and equipment from the current fiscal year.

2. Major facilities

The IHI Group's (IHI and its consolidated subsidiaries) major facilities as of the end of the current fiscal year are shown below:

Note: In the below table, monetary amounts less than one unit have been rounded off.

And, intangible leased assets and software are included into the facilities to be reported from the current fiscal year.

(1) Reporting company

Office/works (Location)	Segment name	Facilities	Book value (Millions of yen)					Number of employees (Persons)	
			Buildings and structures	Machinery, equipment and vehicles	Land (Area; Thousands of m ²)	Leased assets	Others (Note 1)		Total
Aioi Works (Aioi-city, Hyogo)	Resources, Energy and Environment	Production facilities for boilers and storage facilities	1,084	1,720	208 (245)	8	992	4,012	434
Yokohama Works (Yokohama-city, Kanagawa)	Resources, Energy and Environment	Production facilities for components for nuclear power plants	2,164	1,579	1,106 (227)	433	575	5,857	248
Mizuho Aero-Engine Works (Nishitama-gun, Tokyo)	Aero Engine, Space and Defense	Production facilities for aero engines and space-related equipment	5,170	5,293	2,224 (200)	2,569	3,050	18,306	1,740
Soma Aero-Engine Works (Soma-city, Fukushima)	Aero Engine, Space and Defense	Production facilities for aero engines and space-related equipment	7,180	11,862	3,398 (374)	3,956	19,661	46,057	947
Kure Aero-Engine & Turbo Machinery Works (Kure-city, Hiroshima)	Aero Engine, Space and Defense	Production facilities for aero engines	1,638	2,487	57 (48)	97	280	4,559	450
Tsurugashima Works (Tsurugashima-city, Saitama) (Note 2)	Aero Engine, Space and Defense	Maintenance facilities for aero engines	8,904	2,185	7,105 (136)	1,039	1,622	20,855	–
Head Office (Koto-ku, Tokyo, etc.) (Notes 3, 4)	Others	Other facilities	86,319	8,003	36,344 (133,215)	837	13,632	145,135	3,922

- Notes: 1. The “Book value - Others” column represents the total amount of tools, furniture and fixtures, software, as well as construction in progress.
2. Tsurugashima Works has started the preparation for factory operation.
3. The book value of the Head Office land includes land located in Chita-city of Aichi, land located in Kagoshima-city, land owned in Brazil, and other land.
4. The book value includes book value of ¥92,272 million of assets (mainly assets for lease) belonging to the Social Infrastructure and Offshore Facility segment.

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(2) Domestic subsidiaries

Company name	Office or works (Location)	Segment name	Facilities	Book value (Millions of yen)						Number of employees (Persons)
				Buildings and structures	Machinery, equipment and vehicles	Land (Area; Thousands of m ²)	Leased assets	Others (Note)	Total	
IHI Power Systems Co., Ltd.	Ota Works (Ota-city, Gunma)	Resources, Energy and Environment	Production facilities	996	618	2,152 (152)	62	156	3,984	321
	Niigata engine Works (Niigata-city, Niigata)	Resources, Energy and Environment	Production facilities	1,036	740	1,050 (55)	1	92	2,919	226
IHI Infrastructure Systems Co., Ltd.	Sakai Works (Sakai-city, Osaka)	Social Infrastructure and Offshore Facility	Production facilities	2,748	2,591	5,686 (83)	159	297	11,481	492
IHI Turbo Co., Ltd.	Kiso Works (Kiso-gun, Nagano)	Industrial System and General-Purpose Machinery	Production facilities	798	1,013	94 (65)	435	848	3,188	336
	Shinmachi Works (Kamiina-gun, Nagano)	Industrial System and General-Purpose Machinery	Production facilities	1,501	1,823	194 (25)	345	193	4,056	119
IHI Rotating Machinery Engineering Co., Ltd.	Tatsuno Works (Kamiina-gun, Nagano)	Industrial System and General-Purpose Machinery	Production facilities	715	672	352 (89)	50	373	2,162	346
IHI Transport Machinery Co., Ltd.	Numazu Works (Numazu-city, Shizuoka)	Industrial System and General-Purpose Machinery	Production facilities	1,255	224	2,100 (118)	94	37	3,710	131
IHI AEROSPACE CO., LTD.	Tomioka Works (Tomioka-city, Gunma)	Aero Engine, Space and Defense	Production facilities	5,022	4,342	2,388 (490)	310	2,853	14,915	923

Note: The “Book value - Others” column represents the total amount of tools, furniture and fixtures, software, as well as construction in progress.

(3) Foreign subsidiaries

Company name	Office or works (Location)	Segment name	Facilities	Book value (Millions of yen)						Number of employees (Persons)
				Buildings and structures	Machinery, equipment and vehicles	Land (Area; Thousands of m ²)	Leased assets	Others (Note 1)	Total	
Indigo TopCo Ltd. (Note 2)	Switzerland, etc.	Industrial System and General-Purpose Machinery	Production facilities	1,126	6,216	403 (35)	2,519	1,426	11,690	974
IHI Charging Systems International GmbH (Note 2)	Germany and Italy	Industrial System and General-Purpose Machinery	Production facilities	1,154	3,891	211 (12)	2,499	1,021	8,776	838
IHI Turbo America Co.	U.S.A	Industrial System and General-Purpose Machinery	Production facilities	1,160	1,111	11 (65)	—	2,402	4,684	135
IHI TURBO (THAILAND) CO., LTD.	Thailand	Industrial System and General-Purpose Machinery	Production facilities	930	1,416	337 (54)	483	369	3,535	818
Changchun FAWER-IHI Turbo Co., Ltd. (Note 2)	China	Industrial System and General-Purpose Machinery	Production facilities	1,157	4,283	—	214	327	5,981	580

- Notes: 1. The “Book value - Others” column represents the total amount of tools, furniture and fixtures, software, as well as construction in progress.
2. For Indigo TopCo Ltd., IHI Charging Systems International GmbH and Changchun FAWER-IHI Turbo Co., Ltd., figures shown represent the values upon the consolidation of each company’s subsidiaries.

(Translation purposes only)

3. Planned additions, retirements, etc. of facilities

The capital investment plans of the IHI Group (IHI and its consolidated subsidiaries) during the one-year period following the end of the current fiscal year are undetermined, since it is difficult to identify the impact upon its business caused from the spread of COVID-19 and accordingly capital investments are supposed to be temporarily frozen and/or reduced.

(1) Additions and repairs

Those plans are undetermined.

(2) Sale and scrap

There is no plan to sell or scrap any of the IHI Group's important facilities.

With regard to the Aichi Headquarters Representative's Office, in addition to the gradual implementation of the sale and scrap of its facilities formerly used for F-LNG/Offshore structure production, in the current fiscal year, IHI sold a part of land and buildings which had been subjected to the basic agreement on sale. The IHI Group is also continuing to examine ways to utilize the other land and buildings associated with this area.

(Translation purposes only)

IV. Information about reporting company

1. Information about shares, etc.

(1) Total number of shares, etc.

(i) Total number of shares

Type	Total number of authorized shares (Shares)
Common stock	300,000,000
Total	300,000,000

(ii) Issued shares

Type	Number of issued shares as of the end of the fiscal year (Shares) (March 31, 2020)	Number of issued shares as of the filing date (Shares) (June 25, 2020)	Name of stock exchange on which IHI is listed or names of authorized financial instruments firms associations where IHI is registered	Description
Common stock	154,679,954	154,679,954	First Section of Tokyo Stock Exchange and Nagoya Stock Exchange, Fukuoka Stock Exchange, Sapporo Securities Exchange	The number of shares constituting one unit is 100 shares.
Total	154,679,954	154,679,954	–	–

Note: The “Number of issued shares as of the filing date” column does not include the number of shares issued upon exercise of subscription rights to shares between June 1, 2020 and the filing date of this Annual Securities Report.

(Translation purposes only)

(2) Subscription rights to shares, etc.

(i) Details of stock option plans

IHI issues subscription rights to shares in accordance with the Companies Act.

IHI has changed the number of shares constituting one unit from 1,000 shares to 100 shares and conducted a consolidation of common stock on a 10 for 1 basis with an effective date of October 1, 2017. As a result, “number of shares underlying share acquisition rights” and “share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of share acquisition rights to share” have been adjusted.

(a) Resolution made at the Board of Directors’ meeting held on July 23, 2007
(1st Subscription Rights to Shares)

	As of the end of the fiscal year (March 31, 2020)	As of the end of the month previous to the filing month (May 31, 2020)
Category and number of grantees	13 directors and 13 executive officers of IHI	Same as left
Number of subscription rights to shares (Units)	16	16
Type and detail of shares underlying subscription rights to shares	Common stock Number of shares per unit: 100 shares	Same as left
Number of shares underlying subscription rights to shares (Shares)	1,600	1,600
Amount to be paid in to exercise subscription rights to shares (Yen)	1	Same as left
Period for exercising subscription rights to shares	From August 10, 2007 to August 9, 2037	Same as left
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of subscription rights to shares (Yen)	Issue price: 4,621 Additional paid-in capital per share: 2,311	Same as left
Conditions for exercising subscription rights to shares	(Note 1)	Same as left
Matters relating to transfer of subscription rights to shares	Acquisition of the subscription rights to shares by transfer shall be subject to approval of IHI’s Board of Directors.	Same as left
Matters relating to granting of subscription rights to shares in association with acts of organizational restructuring	(Note 2)	Same as left

(Translation purposes only)

(b) Resolution made at the Board of Directors' meeting held on July 22, 2008
(2nd Subscription Rights to Shares)

	As of the end of the fiscal year (March 31, 2020)	As of the end of the month previous to the filing month (May 31, 2020)
Category and number of grantees	13 directors and 11 executive officers of IHI	Same as left
Number of subscription rights to shares (Units)	66	66
Type and detail of shares underlying subscription rights to shares	Common stock Number of shares per unit: 100 shares	Same as left
Number of shares underlying subscription rights to shares (Shares)	6,600	6,600
Amount to be paid in to exercise subscription rights to shares (Yen)	1	Same as left
Period for exercising subscription rights to shares	From August 19, 2008 to August 18, 2038	Same as left
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of subscription rights to shares (Yen)	Issue price: 1,851 Additional paid-in capital per share: 926	Same as left
Conditions for exercising subscription rights to shares	(Note 1)	Same as left
Matters relating to transfer of subscription rights to shares	Acquisition of the subscription rights to shares by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of subscription rights to shares in association with acts of organizational restructuring	(Note 2)	Same as left

(c) Resolution made at the Board of Directors' meeting held on July 21, 2009
(3rd Subscription Rights to Shares)

	As of the end of the fiscal year (March 31, 2020)	As of the end of the month previous to the filing month (May 31, 2020)
Category and number of grantees	13 directors and 14 executive officers of IHI	Same as left
Number of subscription rights to shares (Units)	88	88
Type and detail of shares underlying subscription rights to shares	Common stock Number of shares per unit: 100 shares	Same as left
Number of shares underlying subscription rights to shares (Shares)	8,800	8,800
Amount to be paid in to exercise subscription rights to shares (Yen)	1	Same as left
Period for exercising subscription rights to shares	From August 6, 2009 to August 5, 2039	Same as left
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of subscription rights to shares (Yen)	Issue price: 1,651 Additional paid-in capital per share: 826	Same as left
Conditions for exercising subscription rights to shares	(Note 1)	Same as left
Matters relating to transfer of subscription rights to shares	Acquisition of the subscription rights to shares by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of subscription rights to shares in association with acts of organizational restructuring	(Note 2)	Same as left

(Translation purposes only)

(d) Resolution made at the Board of Directors' meeting held on July 23, 2010
(4th Subscription Rights to Shares)

	As of the end of the fiscal year (March 31, 2020)	As of the end of the month previous to the filing month (May 31, 2020)
Category and number of grantees	13 directors and 13 executive officers of IHI	Same as left
Number of subscription rights to shares (Units)	179	179
Type and detail of shares underlying subscription rights to shares	Common stock Number of shares per unit: 100 shares	Same as left
Number of shares underlying subscription rights to shares (Shares)	17,900	17,900
Amount to be paid in to exercise subscription rights to shares (Yen)	1	Same as left
Period for exercising subscription rights to shares	From August 10, 2010 to August 9, 2040	Same as left
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of subscription rights to shares (Yen)	Issue price: 1,541 Additional paid-in capital per share: 771	Same as left
Conditions for exercising subscription rights to shares	(Note 1)	Same as left
Matters relating to transfer of subscription rights to shares	Acquisition of the subscription rights to shares by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of subscription rights to shares in association with acts of organizational restructuring	(Note 2)	Same as left

(e) Resolution made at the Board of Directors' meeting held on July 25, 2011
(5th Subscription Rights to Shares)

	As of the end of the fiscal year (March 31, 2020)	As of the end of the month previous to the filing month (May 31, 2020)
Category and number of grantees	13 directors and 14 executive officers of IHI	Same as left
Number of subscription rights to shares (Units)	181	164
Type and detail of shares underlying subscription rights to shares	Common stock Number of shares per unit: 100 shares	Same as left
Number of shares underlying subscription rights to shares (Shares)	18,100	16,400
Amount to be paid in to exercise subscription rights to shares (Yen)	1	Same as left
Period for exercising subscription rights to shares	From August 18, 2011 to August 17, 2041	Same as left
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of subscription rights to shares (Yen)	Issue price: 1,781 Additional paid-in capital per share: 891	Same as left
Conditions for exercising subscription rights to shares	(Note 1)	Same as left
Matters relating to transfer of subscription rights to shares	Acquisition of the subscription rights to shares by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of subscription rights to shares in association with acts of organizational restructuring	(Note 2)	Same as left

(Translation purposes only)

(f) Resolution made at the Board of Directors' meeting held on July 23, 2012
(6th Subscription Rights to Shares)

	As of the end of the fiscal year (March 31, 2020)	As of the end of the month previous to the filing month (May 31, 2020)
Category and number of grantees	13 directors and 15 executive officers of IHI	Same as left
Number of subscription rights to shares (Units)	341	239
Type and detail of shares underlying subscription rights to shares	Common stock Number of shares per unit: 100 shares	Same as left
Number of shares underlying subscription rights to shares (Shares)	34,100	23,900
Amount to be paid in to exercise subscription rights to shares (Yen)	1	Same as left
Period for exercising subscription rights to shares	From August 17, 2012 to August 16, 2042	Same as left
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of subscription rights to shares (Yen)	Issue price: 1,591 Additional paid-in capital per share: 796	Same as left
Conditions for exercising subscription rights to shares	(Note 1)	Same as left
Matters relating to transfer of subscription rights to shares	Acquisition of the subscription rights to shares by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of subscription rights to shares in association with acts of organizational restructuring	(Note 2)	Same as left

(g) Resolution made at the Board of Directors' meeting held on July 22, 2013
(7th Subscription Rights to Shares)

	As of the end of the fiscal year (March 31, 2020)	As of the end of the month previous to the filing month (May 31, 2020)
Category and number of grantees	13 directors and 14 executive officers of IHI	Same as left
Number of subscription rights to shares (Units)	209	159
Type and detail of shares underlying subscription rights to shares	Common stock Number of shares per unit: 100 shares	Same as left
Number of shares underlying subscription rights to shares (Shares)	20,900	15,900
Amount to be paid in to exercise subscription rights to shares (Yen)	1	Same as left
Period for exercising subscription rights to shares	From August 22, 2013 to August 21, 2043	Same as left
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of subscription rights to shares (Yen)	Issue price: 3,761 Additional paid-in capital per share: 1,881	Same as left
Conditions for exercising subscription rights to shares	(Note 1)	Same as left
Matters relating to transfer of subscription rights to shares	Acquisition of the subscription rights to shares by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of subscription rights to shares in association with acts of organizational restructuring	(Note 2)	Same as left

(Translation purposes only)

(h) Resolution made at the Board of Directors' meeting held on July 22, 2014
(8th Subscription Rights to Shares)

	As of the end of the fiscal year (March 31, 2020)	As of the end of the month previous to the filing month (May 31, 2020)
Category and number of grantees	13 directors and 17 executive officers of IHI	Same as left
Number of subscription rights to shares (Units)	244	215
Type and detail of shares underlying subscription rights to shares	Common stock Number of shares per unit: 100 shares	Same as left
Number of shares underlying subscription rights to shares (Shares)	24,400	21,500
Amount to be paid in to exercise subscription rights to shares (Yen)	1	Same as left
Period for exercising subscription rights to shares	From August 12, 2014 to August 11, 2044	Same as left
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of subscription rights to shares (Yen)	Issue price: 4,401 Additional paid-in capital per share: 2,201	Same as left
Conditions for exercising subscription rights to shares	(Note 1)	Same as left
Matters relating to transfer of subscription rights to shares	Acquisition of the subscription rights to shares by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of subscription rights to shares in association with acts of organizational restructuring	(Note 2)	Same as left

(i) Resolution made at the Board of Directors' meeting held on July 21, 2015
(9th Subscription Rights to Shares)

	As of the end of the fiscal year (March 31, 2020)	As of the end of the month previous to the filing month (May 31, 2020)
Category and number of grantees	12 directors and 18 executive officers of IHI	Same as left
Number of subscription rights to shares (Units)	168	168
Type and detail of shares underlying subscription rights to shares	Common stock Number of shares per unit: 100 shares	Same as left
Number of shares underlying subscription rights to shares (Shares)	16,800	16,800
Amount to be paid in to exercise subscription rights to shares (Yen)	1	Same as left
Period for exercising subscription rights to shares	From August 11, 2015 to August 10, 2045	Same as left
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of subscription rights to shares (Yen)	Issue price: 4,131 Additional paid-in capital per share: 2,066	Same as left
Conditions for exercising subscription rights to shares	(Note 1)	Same as left
Matters relating to transfer of subscription rights to shares	Acquisition of the subscription rights to shares by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of subscription rights to shares in association with acts of organizational restructuring	(Note 2)	Same as left

(Translation purposes only)

(j) Resolution made at the Board of Directors' meeting held on July 25, 2016
(10th Subscription Rights to Shares)

	As of the end of the fiscal year (March 31, 2020)	As of the end of the month previous to the filing month (May 31, 2020)
Category and number of grantees	10 directors and 18 executive officers of IHI	Same as left
Number of subscription rights to shares (Units)	465	465
Type and detail of shares underlying subscription rights to shares	Common stock Number of shares per unit: 100 shares	Same as left
Number of shares underlying subscription rights to shares (Shares)	46,500	46,500
Amount to be paid in to exercise subscription rights to shares (Yen)	1	Same as left
Period for exercising subscription rights to shares	From August 10, 2016 to August 9, 2046	Same as left
Share issue price and additional paid-in capital per share in the event of issuance of shares upon exercise of subscription rights to shares (Yen)	Issue price: 2,781 Additional paid-in capital per share: 1,391	Same as left
Conditions for exercising subscription rights to shares	(Note 1)	Same as left
Matters relating to transfer of subscription rights to shares	Acquisition of the subscription rights to shares by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of subscription rights to shares in association with acts of organizational restructuring	(Note 2)	Same as left

Notes: 1. Conditions for exercising subscription rights to shares

- (1) Subscription rights to shares shall be exercisable for five (5) years from the date one (1) year after a director or an executive officer lost its position (in the event that such individual assumes the position of audit & supervisory board members within one (1) year after he/she resigns a director or an executive officer, the date he/she lost its position as audit & supervisory board members) ("Exercise Start Date").
- (2) Notwithstanding the above (1), in the event of the following (a) or (b), subscription rights to shares shall be exercisable for the period stipulated below. (However, (b) does not apply to subscription rights to shares issued by a reorganized company.)
 - (a) In the event that the Exercise Start Date does not become effective by the dates indicated below for each of the subscription rights to shares (the "Due Date"):

Round	Due Date	Exercise period of subscription rights to shares
1st Subscription Rights to Shares	August 9, 2036	From August 10, 2036 to August 9, 2037
2nd Subscription Rights to Shares	August 18, 2037	From August 19, 2037 to August 18, 2038
3rd Subscription Rights to Shares	August 5, 2038	From August 6, 2038 to August 5, 2039
4th Subscription Rights to Shares	August 9, 2039	From August 10, 2039 to August 9, 2040
5th Subscription Rights to Shares	August 17, 2040	From August 18, 2040 to August 17, 2041
6th Subscription Rights to Shares	August 16, 2041	From August 17, 2041 to August 16, 2042
7th Subscription Rights to Shares	August 21, 2042	From August 22, 2042 to August 21, 2043
8th Subscription Rights to Shares	August 11, 2043	From August 12, 2043 to August 11, 2044
9th Subscription Rights to Shares	August 10, 2044	From August 11, 2044 to August 10, 2045
10th Subscription Rights to Shares	August 9, 2045	From August 10, 2045 to August 9, 2046

(Translation purposes only)

- (b) In the event that a merger agreement (under which IHI becomes an absorbed company) or an equity-swap agreement and/or an equity transfer plan (under which IHI becomes a wholly-owned subsidiary of another company) is approved at a General Meeting of Shareholders of IHI (or at a Board of Directors' meeting or by the Chief Executive Officer if a decision at a shareholders' meeting is not necessary):
Fifteen (15) days from the following day of such decision
- (3) A holder of subscription rights to shares who relinquishes his/her subscription rights to shares shall not be able to exercise such rights.

(Translation purposes only)

2. Matters relating to granting subscription rights to shares in association with acts of organizational restructuring

In cases where IHI merges (limited to cases where IHI is to be extinguished as a result of the merger), splits and absorbs or splits and incorporates (limited to cases where IHI becomes the split company in either case), or equity swaps or transfers (limited to cases where IHI becomes a wholly-owned subsidiary in either case) (collectively, hereinafter, “Reorganization”), IHI shall, in each case, grant subscription rights to shares of the companies as listed in Article 236, paragraph 1, item (viii), sub-items (a) to (e) of the Companies Act (hereinafter, the “Company Subject to Reorganization”) to holders of subscription rights to shares that have subscription rights to shares existing immediately before the effective date of the Reorganization, which is either the effective date of absorption-type merger when it is an absorption-type merger, the consolidation date of a company as a result of the consolidated-type merger when it is a consolidated-type merger, the effective date of absorption-type company split when it is an absorption-type company split, the incorporation date of a company as a result of the incorporation-type company split when it is an incorporation-type company split, the effective date of equity swap when it is an equity swap, or the incorporation date of a wholly-owning parent company as a result of the equity transfer when it is an equity transfer (hereinafter, “Remaining Subscription Rights to Shares”). In this event, the Remaining Subscription Rights to Shares shall be become null and void, and the Company Subject to Reorganization shall newly issue subscription rights to shares. However, it is subject to a condition that the provision that the subscription rights to shares of the Company Subject to Reorganization shall be delivered pursuant to the provisions of the items below is specified in the absorption-type merger contract, consolidated-type merger contract, absorption-type company split contract, incorporation-type company split plan, equity swap contract or equity transfer plan.

(1) Number of subscription rights to shares of the Company Subject to Reorganization to be granted

The same number of subscription rights to shares as that of Remaining Subscription Rights to Shares held by a holder of subscription rights to shares

(2) Type of shares of the Company Subject to Reorganization underlying subscription rights to shares

Common stock of the Company Subject to Reorganization

(3) Number of shares of the Company Subject to Reorganization underlying subscription rights to shares

To be determined in the same manner as the matters set forth in the number of Remaining Subscription Rights to Shares, taking into consideration the terms and conditions of Reorganization.

(4) Value of property to be contributed when subscription rights to shares are exercised

The value of the property to be contributed when each subscription right to shares to be granted is exercised shall be the amount obtained by multiplying the paid-in amount after Reorganization as specified below by the number of shares of the Company Subject to Reorganization underlying each subscription right to shares, which is decided pursuant to (3) above. The paid-in amount after Reorganization shall be ¥1 per share of the shares of the Company Subject to Reorganization that would be granted by exercising the granted subscription rights to shares.

(5) Period during which subscription rights to shares can be exercised

From the latter of the start date of the period during which subscription rights to shares can be exercised as specified in the above table and the effective date of Reorganization, until the expiry date of the period during which such subscription rights to shares can be exercised as specified in the above table.

(6) Matters relating to capital stock and legal capital surplus that will be increased in the event of issuance of shares upon exercise of subscription rights to shares

To be determined in accordance with the matters set forth for the Remaining Subscription Rights to Shares.

(7) Restrictions on transferring of subscription rights to shares

Transfer and acquisition of subscription rights to shares shall require the approval by resolution of the Board of Directors of the Company Subject to Reorganization.

(8) Provisions for acquiring subscription rights to shares

To be determined in accordance with the matters set forth for the Remaining Subscription Rights to Shares.

(9) Other conditions for exercising subscription rights to shares

To be determined in the same manner as Note 1. above.

(ii) Description of rights plan

Not applicable

(iii) Other matters regarding share acquisition rights, etc.

Not applicable

(Translation purposes only)

(3) Exercises, etc. of moving strike convertible bonds, etc.

Not applicable

(4) Changes in number of issued shares, capital stock, etc.

Date	Changes in number of issued shares (Thousand shares)	Balance of number of issued shares (Thousand shares)	Changes in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Changes in legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
October 1, 2017 (Note 1)	(1,392,119)	154,679	–	107,165	–	54,520

- Notes: 1. By resolutions of the 200th Ordinary General Meeting of Shareholders held on June 23, 2017, IHI conducted a consolidation of common stock (ratio of 1 new share for every 10 old shares) on October 1, 2017. As a result, the total number of issued shares is 154,679,954 shares, down 1,392,119,588 shares from 1,546,799,542 shares.
2. There were no changes in capital stock between April 1, 2020, and the filing date of this Annual Securities Report (June 25, 2020).

(5) Shareholding by shareholder category

(As of March 31, 2020)

Classification	Status of shares (one unit = 100shares)								Shares less than one unit (Shares)
	National and local governments	Financial institutions	Securities companies	Other corporations	Foreign shareholders		Individuals and other	Total	
					Foreign shareholders other than individuals	Individuals			
Number of shareholders (Persons)	–	82	50	831	526	65	71,817	73,371	–
Number of shares held (Units)	–	616,898	54,085	55,420	408,660	665	408,811	1,544,539	226,054
Ratio (%)	–	39.94	3.50	3.59	26.46	0.04	26.47	100	–

- Notes: 1. 5,660,674 shares of treasury shares held by IHI are included in “Individuals and other” and “Share less than one unit” in the above table. These amounts are 56,606 units and 74 shares, respectively.
2. The shares registered in the name of the Japan Securities Depository Center are included in “Other corporations” in the above table. The amount is 7 units.

(Translation purposes only)

(6) Major shareholders

(As of March 31, 2020)

Name	Address	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	12,330	8.27
Japan Trustee Services Bank, Ltd. (Holder in Trust)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	10,770	7.22
The Dai-ichi Life Insurance Company, Limited	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo	5,406	3.62
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	8-12, Harumi 1-chome, Chuo-ku, Tokyo	4,597	3.08
Japan Trustee Services Bank, Ltd. (Holder in Trust 5)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	2,937	1.97
State Street Bank And Trust Company 505001 (standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (15-1, Konan 2-chome, Minato-ku, Tokyo)	2,882	1.93
IHI Supplier Stock Ownership Association	1-1, Toyosu 3-chome, Koto-ku, Tokyo	2,677	1.79
Sumitomo Life Insurance Company	18-24, Tsukiji 7-chome, Chuo-ku, Tokyo	2,262	1.51
Japan Trustee Services Bank, Ltd. (Holder in Trust 9)	8-11, Harumi 1-chome, Chuo-ku, Tokyo	2,233	1.49
IHI Employee Stock Ownership Association	1-1, Toyosu 3-chome, Koto-ku, Tokyo	2,214	1.48
Total	—	48,311	32.41

- Notes:
- The figures of “Number of shares held” and “Shareholding ratio (%)” in the above table are rounded down to one unit.
 - Number of shares held by the reporting company is 5,660 thousand shares.
 - From the above, the following owned shares are held through trusts.
 - The Master Trust Bank of Japan, Ltd. (Holder in Trust)
 - Japan Trustee Services Bank, Ltd. (Holder in Trust)
 - Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account re-entrusted by - Mizuho Trust and Banking Co., Ltd.
 - Japan Trustee Services Bank, Ltd. (Holder in Trust 5)
 - Japan Trustee Services Bank, Ltd. (Holder in Trust 9)
 - From the above, the following shareholders are performing custodial management services for shares owned by foreign institutional investors and the names of the shares owned by the institutional investors in question.
 - State Street Bank And Trust Company 505001
 - In the Change Report pertaining to Report of Possession of Large Volume provided by Mizuho Bank, Ltd. for public viewing on February 21, 2020, the following shareholdings are respectively attributed to Mizuho Bank, Ltd. and its three joint holders as of February 14, 2020. However, since IHI is unable to confirm the actual number of shares held as of March 31, 2020, they are not included in major shareholders above.

Name	Number of shares held (Thousand shares)	Shareholding ratio (%)
Mizuho Bank, Ltd.	4,597	2.97
Mizuho Securities Co., Ltd.	243	0.16
Mizuho Trust and Banking Co., Ltd.	393	0.25
Asset Management One Co., Ltd.	6,853	4.43
Total	12,089	7.82

(Translation purposes only)

6. In the Change Report pertaining to Report of Possession of Large Volume provided by Nomura Securities Co., Ltd. for public viewing on April 7, 2020, the following shareholdings are respectively attributed to Nomura Securities Co., Ltd. and its two joint holders as of March 31, 2020. However, since IHI is unable to confirm the actual number of shares held as of March 31, 2020, they are not included in major shareholders above.

Name	Number of shares held (Thousand shares)	Shareholding ratio (%)
Nomura Securities Co., Ltd.	419	0.27
Nomura International PLC	659	0.43
Nomura Asset Management Co., Ltd.	10,847	7.01
Total	11,926	7.71

(7) Voting rights

(i) Issued shares

(As of March 31, 2020)

Classification	Number of shares (Shares)	Number of voting rights (Units)	Description
Shares without voting rights	–	–	–
Shares with restricted voting rights (treasury shares, etc.)	–	–	–
Shares with restricted voting rights (others)	–	–	–
Shares with full voting rights (treasury shares, etc.)	(Shares in treasury) Common stock 5,660,600	–	–
	(reciprocally held shares) Common stock 20,200	–	
Shares with full voting rights (others)	Common stock 148,773,100	1,487,731	
Shares less than one unit	Common stock 226,054	–	Shares less than one unit (100 shares)
Number of issued shares	154,679,954	–	–
Total number of voting rights	–	1,487,731	–

- Notes:
1. Common stock in “Shares less than one unit” include 74 shares of treasury shares held by IHI.
 2. Common stock in “Shares with full voting right (others)” include 700 shares whose ownership has yet not been transferred and which have been registered in the name of Japan Securities Depository Center. These shares constitute seven units of voting rights and included in the figure in “Number of voting rights.”
 3. Common stock in “Shares with full voting rights (others)” include 393,900 shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

(Translation purposes only)

(ii) Treasury shares, etc.

(As of March 31, 2020)

Name of shareholders	Address of shareholders	Number of shares held under own name (Shares)	Number of shares held under the names of others (Shares)	Total shares held (Shares)	Ownership percentage to the total number of issued shares (%)
(Shares in treasury)					
IHI Corporation	1-1, Toyosu 3-chome, Koto-ku, Tokyo	5,660,600	–	5,660,600	3.65
(Reciprocally held shares)					
Kondo Tekko Co., Ltd.	10-5, Yaesu 2-chome, Chuo-ku, Tokyo	20,200	–	20,200	0.01
Total	–	5,680,800	–	5,680,800	3.67

Note: 393,900 shares of IHI owned by a trust account for the Board Benefit Trust (BBT) are not included in shares in treasury above.

(8) Director and Employee share ownership program

IHI introduced a performance-based share remuneration plan [Board Benefit Trust (BBT)] for directors (excluding outside directors) of IHI (hereinafter, the “Plan” in this section) by resolutions at the 200th Ordinary General Meeting of Shareholders, held on June 23, 2017, and at the Board of Directors meeting held on the same day. Also at the same Board of Directors meeting, IHI resolved to adopt the same system as the Plan for the executive officers of IHI.

(i) Overview of the Plan

The Plan is a system by which the directors and the executive officers (hereinafter “Directors, etc.” in this section) will have shares of IHI’s common stock (hereinafter the “IHI’s shares” in this section) and money equivalent to the market value of IHI’s shares (hereinafter collectively with IHI’s shares, the “IHI’s shares, etc.” in this section) transferred to them through a trust set up by IHI (hereinafter the trust to be established based on the Plan shall be referred to as the “Trust” in this section).

(a) Acquisition of IHI’s shares by the Trust

The Trust will acquire IHI’s shares with money contributed by IHI as funds to transfer IHI’s shares, etc. to Directors, etc.

(b) Awarding of points to Directors, etc.

IHI will award Directors, etc. points, which will become the base for transferring IHI’s shares, etc. in accordance with the rules for transfer of shares prescribed by IHI.

(c) Adjustment of points

After the end of the three consecutive fiscal years of which the initial fiscal year will be the year when points will be awarded, such awarded points will be adjusted based on the degree of achievement of performance indicators (consolidated ROIC [return on invested capital]) predetermined by the Board of Directors of IHI.

(d) Transfer of IHI’s shares, etc. to Directors, etc.

The Trust will transfer IHI’s shares, etc. equivalent to the number of such adjusted points to Directors, etc. (including those who were eligible for receiving points as stated in above (b) but who retired from IHI in subsequent years).

(ii) Number of IHI’s shares to be acquired by the Trust and method of acquisition

In the fiscal year ending March 31, 2021, IHI will award a total of 91,639 points to directors and a total of 78,696 points to executive officers, and it is planned that the Trust will acquire a number of shares equivalent to the number of these points multiplied by 150% (1 point will be calculated as 1 share). However, as of the filing date of this Annual Securities Report, the details such as when the Trust will be established, when the shares will be acquired, and the total amount of the shares to be acquired have not been determined.

(iii) Scope of persons eligible to receive beneficiary rights for the Trust and other rights

Such persons shall be those with the status of director of IHI (excluding outside director) or the status of executive officer of IHI during any fiscal year corresponding to a date on which points are awarded as referred to in (i) (b) above.

(Translation purposes only)

2. Acquisitions, etc. of treasury shares

Type of shares, etc.

Acquisition of common stock which falls under Article 155, item (iii) of the Companies Act, and acquisition of common stock which falls under Article 155, item (vii) of the Companies Act.

(1) Acquisitions by a resolution of the General Meeting of Shareholders

Not applicable

(2) Acquisitions by a resolution of the Board of Directors

Acquisition pursuant to the provisions of Article 156 of the Companies Act, applied by replacing the relevant terms pursuant to the provisions of Article 165 Paragraph 3 of the same Act.

Classification	Number of shares (Shares)	Total amount (Yen)
Resolution of the Board of Directors(November 7, 2019) (Date of acquisition : November 8, 2019)	5,542,200	14,487,310,800
Treasury shares acquired before the current fiscal year	–	–
Treasury shares acquired during the current fiscal year	5,542,200	14,487,310,800
Total number and amount of residual resolved shares	–	–
Non-exercised percentage as of the end of the current fiscal year (%)	–	–
Treasury shares acquired during the current period	–	–
Non-exercised percentage as of the filing date of this Annual Securities Report(%)	–	–

Note: Purchase price per share is the closing stock price for IHI (¥2,614) in the Tokyo Stock Exchange on November 7, 2019, which is the day before the acquisition date..

(3) Acquisitions not based on a resolution of the General Meeting of Shareholders or the Board of Directors

Acquisition of common stock by demand for purchase of shares less than one unit, which falls under Article 155, item (vii) of the Companies Act

Classification	Number of shares (Shares)	Total amount (Yen)
Treasury shares acquired during the current fiscal year	1,003	2,466,109
Treasury shares acquired during the current period	40	47,334

Note: Treasury shares acquired during the current period does not include shares acquired by purchase of shares less than one unit during the period from June 1, 2020 to the filing date of this Annual Securities Report.

(Translation purposes only)

(4) Disposals or holding of acquired treasury shares

Classification	During the current fiscal year		During the current period	
	Number of shares (Shares)	Total disposal amount (Yen)	Number of shares (Shares)	Total disposal amount (Yen)
Acquired treasury shares that was offered to subscribers for subscription	–	–	–	–
Acquired treasury shares that was canceled	–	–	–	–
Acquired treasury shares that was transferred due to merger, equity swap, or corporate split	–	–	–	–
Acquired treasury shares that was disposed in other ways (the exercise of subscription rights to shares, the sale due to the request for sale of shares less than one unit) (Note)	51,975	122,476,811	21,100	54,840,153
Number of treasury shares held	5,660,674	–	5,639,614	–

Notes: The line of Acquired treasury shares that was disposed in other ways in the current period does not include shares due to the exercise of subscription rights to shares or sale of shares less than one unit during the period from June 1, 2020 to the filing date of this Annual Securities Report. Breakdown for the current fiscal year is the disposal due to the exercise of subscription rights to shares (51,900 shares, total disposal amount of ¥122,323,998), the sale of shares less than one unit (75 shares, total disposal amount of ¥152,813). Breakdown for the current period is the disposal due to the exercise of subscription rights to shares (21,100 shares, total disposal amount of ¥54,840,153).

(Translation purposes only)

3. Dividend policy

IHI sets its management policy as it contributes to realize the sustainable society through aiming at improvement of corporate value by taking initiatives with customers to resolve various social issues.

Under this management policy, IHI aims sustainable increment of dividends according to the growth of the IHI Group, in addition to continuous provision of dividends to shareholders

Also, IHI sets its target consolidated dividend payout ratio as around 30%, taking into consideration a broad range of factors, including investments for improvement of corporate value, enhancement and reinforcement of equity capital.

It is a fundamental policy of IHI to pay an interim dividend and year-end dividend annually, with the former determined by the Board of Directors and the latter by the Ordinary General Meeting of Shareholders. IHI's Articles of Incorporation stipulate that "IHI may, upon resolution of the Board of Directors, pay interim dividends on the basis of September 30 each year as the record date."

The annual dividend for the current fiscal year in consideration of the year's operating results, future business development, and other aspects is interim dividend of ¥30 per share and year-end dividends of ¥20 per share to shareholders. IHI strives to effectively use retained earnings to further bolster and enhance the business base and for future business development, as part of an overall effort to increase shareholder profits over the long term.

Dividends for the current fiscal year are as follows:

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
November 1, 2019 Resolution of the Board of Directors	4,635	30
June 25, 2020 Resolution of the Ordinary General Meeting of Shareholders	2,980	20

Note: Monetary amounts less than one unit are rounded down.

(Translation purposes only)

4. Corporate governance, etc.

(1) Outline about corporate governance

(i) Corporate governance system

(a) Basic Views on Corporate Governance

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

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

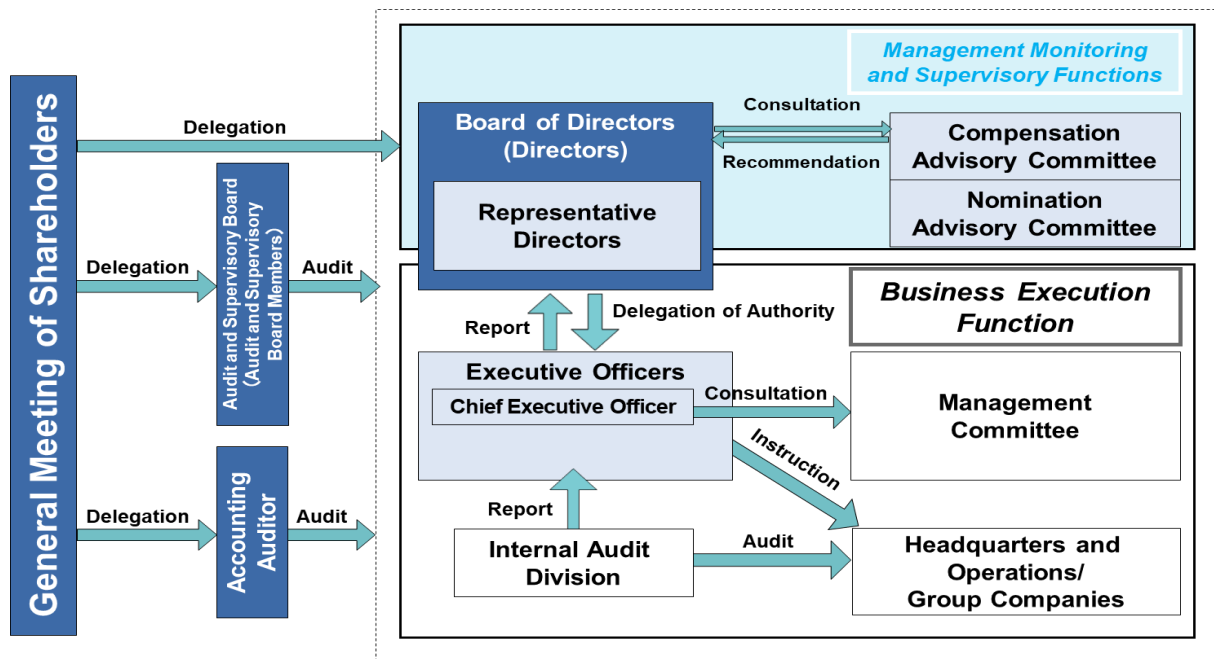
IHI works to enhance its corporate governance in line with the following basic policies.

- Respect shareholders' rights and ensure equal treatment
- Strive to cooperate appropriately with shareholders and other stakeholders
- Fulfill our responsibility to be accountable to stakeholders and ensure transparency by appropriately and proactively disclosing information relating to IHI
- 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
- Conduct constructive dialogues with shareholders who have investment policies according with the medium-to long-term interests of shareholders

(b) Overview

- IHI has an Audit & Supervisory Board, which comprises five audit & supervisory board members (including three independent outside members) who audit the duties executed by directors. The chairperson of Audit & Supervisory Board is Taizo Suga who is a standing audit & supervisory board member. Name of each audit & supervisory board member is stated in “(2) Information about directors and audit & supervisory board members.”
- The Board of Directors, which consists of 12 directors (including four independent outside directors), makes decisions related to all important matters concerning the management of the IHI Group, in addition to supervising directors in their business execution. The independent outside directors, who are elected from among individuals with extensive experience and broad insight as management, or with a high degree of specialist knowledge and diverse experience, participate in the Board of Directors' decision-making process, offer advice and make recommendations independently of internal directors who have been delegated the authority to business execution. The chairperson of the Board of Directors is Tsugio Mitsuoka who is the chairman of the Board of IHI. Name of each director is stated in “(2) Information about directors and audit & supervisory board members.”
- IHI 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. The executive officers are appointed by resolution of the Board of Directors. (There are 20 executive officers, eight of which concurrently serve as directors.) The Chief Operating Officer (COO) manages the duties of the executive officers, giving directions and supervision under the Chief Executive Officer (CEO). The executive officers follow the CEO's directions to execute their assigned duties. Name of each executive officer are stated in “(2) Information about directors and audit & supervisory board members.”
- The Management Committee, which consists of members appointed by the CEO, supports the CEO's decision-making and business execution.
- IHI has established the Compensation Advisory Committee, which is an optional committee for ensuring the validity of director's remuneration, and comprises six members: three independent outside directors (Taketsugu Fujiwara, Kazuhiko Ishimura, Yoshiyuki Nakanishi) and one independent outside audit & supervisory board member (Toshio Iwamoto), the director in charge of human resources (Masafumi Nagano), and the director in charge of finance and accounting (Takeshi Yamada), with an independent outside director (Taketsugu Fujiwara) serving as the committee chairperson.
- IHI has established the Nomination Advisory Committee, which is an optional committee for providing supervision and advice on nomination of directors and audit & supervisory board members by the representative director, and comprises six members: the president, CEO, and four independent outside directors (Taketsugu Fujiwara, Kazuhiko Ishimura, Yoshiyuki Nakanishi, Chieko Matsuda), with the president serving as the committee chairperson.
- The corporate governance management structure shown below is a visual representation of IHI's corporate governance system.

(Translation purposes only)



(c) Reason for adoption of corporate governance system

- IHI adopted the corporate governance management structure shown above to optimize the auditing and overseeing of every aspect of corporate management while also ensuring management efficiency.

(d) Internal controls and risk management

- The Compliance Group in Legal Division is tasked with advancing compliance activities and the Compliance Committee sets and carries out Group-wide action plans for each fiscal year. In addition, the IHI compliance system promotes whistleblowing and training aimed at deepening the understanding of and compliance with all relevant laws and regulations.

A “Compliance Hotline” is established as a whistleblower system where the Legal Division be set as a point of contact to provide consultations and receive reporting in order to effectively act as a self-correcting function and prevent noncompliance before it occurs.

The Financial Instruments and Exchange Act require companies to have an internal control system that includes a body that has complete independence to evaluate organizational units within IHI. IHI’s Internal Audit Division, which reports directly to the President, is an independent body tasked with overall planning, organizing and studying of evaluations, and determining the effectiveness of internal controls for the entire Group. In addition, internal-control evaluation units are in the Finance & Accounting Division and the four business areas, the primary subjects of evaluations. Intelligent Information Management Headquarters has an IT-controls evaluation unit.

- The IHI Group is constantly working to improve its risk management system, including mechanisms for managing and evaluating this system. The Risk Management Conference chaired by the CEO meets regularly to ascertain risks and consider key initiatives, as well as prevent risks and minimize the impact of any risk that occurs. In addition, the IHI Group is executing the activities of risk management activities according to each clarified role and responsibility upon risk management of corporate divisions, business area and divisions based on the “Basic Regulations of Risk Management” which stipulates the Group’s risk management, and quarterly reporting on the implementation status to the Board of Director.
- The Basic Regulations of Crisis Management stipulate how to handle any crisis that has the potential to significantly impact the IHI Group. The crisis management system includes placing an executive officer in charge of crisis management, establishing a crisis management secretariat and formulating measures to handle any crisis. In addition, each division prepares a business continuity plan to prepare for possible emergencies.
- IHI has established the Project Risk Management Division as screening and monitoring functions for large-scale project orders and large-scale investment projects. This division works in concert with the individual business areas, seeking to understand risks and respond promptly to them by means of communication that puts a high priority on information from on site.
- IHI reviews large-scale project orders and large-scale investment projects that could have a significant impact on the IHI Group performance as follows.

(Large-scale Project Orders)

The IHI Group has established the Important Project Review Meeting and the Review Subcommittee to examine the required technology, resources and contractual conditions at the project examination stage, thereby enhancing our system for reviewing various risks that must be reflected in the cost estimations, such as technical risks including contracts and prototype elements before receiving orders. To maintain the profitability of projects, each business areas strives to enhance

(Translation purposes only)

project management in terms of work processes, costs and quality, and then accurately assess profitability by implementing reviews by experts at each stage, including design, procurement and construction, etc.

(Large-scale Investment Projects)

The Investment Review Meeting and the Investment Review Subcommittee review the significance of the investment, the soundness of related plans, investment efficiency, maximum potential loss and the establishment of tollgates. Once an investment has been initiated, the monitoring begins, which entails confirmation that the tollgate criteria have been met for advancing to the next phase, and tracking to confirm what degree the results deviate from the investment plan.

- For each business, order volume is stringently controlled and risks and profitability are rigorously evaluated through regular meetings of the Finance & Accounting Division and managers of each Business Areas /SBU. In addition, cost operations are consolidated in the Finance & Accounting Division for enhanced control, and intermediate cost procedures are stipulated and standardized.

(e) Limited liability contract

- In accordance with Article 427, paragraph 1 of the Companies Act, outside directors and audit & supervisory board members enter into contracts with IHI to limit their liability for damages stipulated in Article 423, paragraph 1 of the same act. The amount of the limitation of their liability for damages under the said contract shall be the amount stipulated by laws and regulations.

(ii) Number of directors

The Articles of Incorporation stipulates that IHI shall have not more than 15 directors.

(iii) Resolutions requirements for the election of directors

The Articles of Incorporation stipulates that resolution for election of directors shall be adopted by a majority vote of the shareholders present, whose voting rights shall represent one-third or more of the voting rights of all shareholders entitled to vote.

The Articles of Incorporation also stipulates that cumulative voting shall not be used in resolutions for the election of directors.

(iv) Interim dividends

The Articles of Incorporation stipulates that IHI may, under Article 454, paragraph 5 of the Companies Act, pay interim dividends on the basis of September 30 each year as the record date by resolution of the Board of Directors.

(v) Acquisition of treasury shares

The Articles of Incorporation stipulates that IHI may, under Article 165, paragraph 2 of the Companies Act, acquire its treasury shares by resolution of the Board of Directors. This measure is aimed at carrying out a flexible capital policy.

(vi) Stipulations in the Articles of Incorporation that enable IHI to exempt directors and audit & supervisory board members from liabilities based on resolution of the Board of Directors

The Articles of Incorporation stipulates that IHI may, by resolution of the Board of Directors, in accordance with Article 426, paragraph 1 of the Companies Act, in the case that the director or audit & supervisory board member is acting in good faith and there is no critical negligence involved, exempt directors and audit & supervisory board members from liabilities, so as to ensure that directors and audit & supervisory board members sufficiently perform the roles expected of them in executing their duties.

(vii) Special resolutions requirements for the general meeting of shareholders

The Articles of Incorporation stipulates that the special resolutions requirements for the general meeting of shareholders provided in Article 309, paragraph 2 of the Companies Act shall be adopted by two-thirds or more of the votes of the shareholders present, whose voting rights shall represent one-third or more of the voting rights of all shareholders entitled to vote. This provision aims to ensure the smooth operation of the general meeting of shareholders by easing the quorum for special resolutions at the general meeting of shareholders.

(Translation purposes only)

(2) Information about directors and audit & supervisory board members

(i) List of directors and audit & supervisory board members

Men: 14 Women: 3 (Percentage of women among directors and audit & supervisory board members: 17.65%)

Position and responsibilities	Name	Date of Birth	Brief Personal History		Term of Office	No. of IHI's shares owned (Shares)
Chairman of the Board, Chief Executive Officer	Tsugio Mitsuoka	October 13, 1954	Apr. 1980	Joined IHI	(Note 6)	10,400
			Apr. 2010	Executive Officer; Vice President of Aero-Engine & Space Operations, IHI		
			Apr. 2013	Managing Executive Officer; President of Aero-Engine & Space Operations and Deputy General Manager of Intelligent Information Management Headquarters, IHI		
			Jun. 2014	Director; Managing Executive Officer; President of Aero-Engine & Space Operations and Deputy General Manager of Intelligent Information Management Headquarters, IHI		
			Apr. 2016	President; Chief Operating Officer, IHI		
			Apr. 2017	President; Chief Executive Officer, IHI		
			Apr. 2020	Chairman of the Board and President; Chief Executive Officer, IHI		
			Jun. 2020	Chairman of the Board; Chief Executive Officer, IHI (incumbent)		
President, Chief Operating Officer	Hiroshi Ide	February 16, 1961	Apr. 1983	Joined IHI	(Note 6)	1,300
			Apr. 2010	General Manager of Corporate Sales Planning Group, Global Marketing Headquarters, IHI		
			Apr. 2012	General Manager of Global Strategic Planning Department, Global Marketing Headquarters, IHI		
			Apr. 2013	President, Jurong Engineering Limited		
			Apr. 2017	Executive Officer; Vice President of Resources, Energy and Environment Business Area, IHI		
			Apr. 2019	Managing Executive Officer; President of Resources, Energy and Environment Business Area, IHI		
			Apr. 2020	Chief Operating Officer and President of Resources, Energy and Environment Business Area, IHI		
			Jun. 2020	President; Chief Operating Officer and President of Resources, Energy and Environment Business Area, IHI (incumbent)		
Executive Vice President, Senior Executive Officer	Takeshi Yamada	July 14, 1958	Apr. 1981	Joined IHI	(Note 6)	1,600
			Jul. 2011	Manager of Planning Group, Corporate Planning Division, IHI		
			Apr. 2014	Executive Officer; Deputy General Manager of Finance & Accounting Division, IHI		
			Apr. 2017	Executive Officer; General Manager of Finance & Accounting Division, IHI		
			Jun. 2017	Director; Executive Officer; General Manager of Finance & Accounting Division, IHI		
			Apr. 2018	Director; Managing Executive Officer; General Manager of Finance & Accounting Division, IHI		
			Apr. 2019	Executive Vice President; Senior Executive Officer, IHI (incumbent)		
			Feb. 2020	Director, Japan Marine United Corporation (incumbent)		

(Translation purposes only)

Executive Vice President, Senior Executive Officer	Tomoharu Shikina	February 4, 1958	May 1980	Joined IHI	(Note 6)	4,700
			Apr. 2011	Vice President of Aero-Engine & Space Operations, IHI		
			Apr. 2013	Executive Officer; Vice President of Aero-Engine & Space Operations and Division Director of Civil Aero-Engine Division, IHI		
			Apr. 2016	Managing Executive Officer; President of Aero-Engine & Space Operations and Deputy General Manager of Intelligent Information Management Headquarters, IHI		
			Jun. 2016	Director; Managing Executive Officer; President of Aero-Engine & Space Operations and Deputy General Manager of Intelligent Information Management Headquarters, IHI		
			Apr. 2017	Director; Managing Executive Officer; President of Aero Engine, Space and Defense Business Area, IHI		
			Apr. 2020	Executive Vice President; Senior Executive Officer, and President of Aero Engine, Space and Defense Business Area, IHI (incumbent)		
Director, Managing Executive Officer	Masafumi Nagano	November 27, 1958	Apr. 1982	Joined IHI	(Note 6)	4,100
			Mar. 2006	Manager of Labor & Safety Planning Group, Human Resources Division, IHI		
			Apr. 2009	General Manager of Kyushu Branch, Sales Headquarters, IHI		
			Apr. 2012	General Manager of Human Resources Division, IHI		
			Apr. 2014	Executive Officer; General Manager of Human Resources Division, IHI		
			Apr. 2016	Executive Officer; General Manager of Corporate Planning Division, IHI		
			Apr. 2018	Managing Executive Officer; President of Industrial Systems and General-Purpose Machinery Business Area, IHI		
			Jun. 2018	Director; Managing Executive Officer; President of Industrial Systems and General-Purpose Machinery Business Area, IHI		
Apr. 2020	Director; Managing Executive Officer, IHI (incumbent)					
Director, Managing Executive Officer	Kouichi Murakami	January 19, 1960	Apr. 1985	Joined IHI	(Note 6)	4,600
			Apr. 2013	Deputy General Manager of Corporate Research & Development and General Manager of Research Laboratory, Corporate Research & Development, IHI		
			Apr. 2015	Vice President of Rotating Machinery Operations and Assistant General Manager of Corporate Research & Development, IHI		
			Apr. 2016	Executive Officer; General Manager of Rotating Machinery Operations, IHI.		
			Apr. 2017	Executive Officer; General Manager of Corporate Research & Development, IHI		
			Apr. 2018	Managing Executive Officer; General Manager of Corporate Research & Development, IHI		
			Jun. 2018	Director; Managing Executive Officer; General Manager of Corporate Research & Development, IHI (incumbent)		

(Translation purposes only)

Director, Managing Executive Officer	Takeshi Kawakami	February 23, 1964	Apr. 1989	Joined IHI	(Note 6)	1,400
			Apr. 2009	General Manager of Bridge and Road Engineering Department, Infrastructure Operations, IHI		
			Nov. 2009	General Manager of Project Department, Engineering Division, IHI Infrastructure Systems Co., Ltd.		
			Apr. 2011	General Manager of IZMIT Project, Overseas Project Department, IHI Infrastructure Systems Co., Ltd.		
			Jun. 2012	Director, General Manager of IZMIT Project, Overseas Project Department, IHI Infrastructure Systems Co., Ltd.		
			Apr. 2017	President, IHI Infrastructure Systems Co., Ltd.		
			Apr. 2018	Executive Officer; Vice President of Social Infrastructure and Offshore Facility Business Area, IHI President, IHI Infrastructure Systems Co., Ltd.		
			Apr. 2019	Executive Officer; President of Social Infrastructure and Offshore Facility Business Area, IHI		
			Apr. 2020	Managing Executive Officer; President of Social Infrastructure and Offshore Facility Business Area, IHI		
			Jun. 2020	Director; Managing Executive Officer; President of Social Infrastructure and Offshore Facility Business Area, IHI (incumbent)		
Director, Managing Executive Officer	Yasuhiro Shigegaki	March 15, 1964	Apr. 1988	Joined IHI	(Note 6)	1,400
			Apr. 2012	General Manager of New Products Incubation Center, Corporate Research & Development and Manager of Products Development Department, IHI		
			Apr. 2013	Member of the Board, IHI Ionbond AG		
			Jul. 2016	Chairman of the Board, IHI Ionbond AG		
			Apr. 2018	Chairman of the Board, IHI Ionbond AG General Manager of Heat Treatment and Surface Engineering Business Unit in Industrial Systems and General-Purpose Machinery Business Area, IHI		
			Apr. 2019	Executive Officer; Vice President of Industrial Systems and General-Purpose Machinery Business Area and General Manager of Heat Treatment and Surface Engineering Business Unit, IHI		
			Apr. 2020	Managing Executive Officer; President of Industrial Systems and General-Purpose Machinery Business Area, IHI		
			Jun. 2020	Director; Managing Executive Officer; President of Industrial Systems and General-Purpose Machinery Business Area, IHI (incumbent)		

(Translation purposes only)

Director	Taketsugu Fujiwara	February 19, 1947	<p>Apr. 1969 Jun. 2000 Jun. 2003 Oct. 2003 Apr. 2009 Jun. 2009 Apr. 2010 Apr. 2014 Jun. 2014 Jun. 2015 Jun. 2018</p>	<p>Joined Asahi Chemical Industry Co., Ltd. (currently Asahi Kasei Corporation) Director, Asahi Kasei Corporation Senior Executive Officer, Asahi Kasei Corporation Presidential Executive Officer, Asahi Kasei Chemicals Corporation Vice-Presidential Executive Officer, Asahi Kasei Corporation Director, Vice-Presidential Executive Officer, Asahi Kasei Corporation President and Representative Director, Presidential Executive Officer, Asahi Kasei Corporation Vice Chairman and Director, Asahi Kasei Corporation Vice Chairman, Asahi Kasei Corporation Director, IHI (incumbent) Standing Counsellor, Asahi Kasei Corporation Counsellor, Asahi Kasei Corporation (incumbent)</p>	(Note 6)	—
Director	Kazuhiko Ishimura	September 18, 1954	<p>Apr. 1979 Jan. 2006 Jan. 2007 Mar. 2008 Jan. 2010 Jan. 2015 Jun. 2017 Jan. 2018 Mar. 2020 Apr. 2020</p>	<p>Joined Asahi Glass Co., Ltd (currently AGC Inc.) Executive Officer; General Manager of Kansai Plant, Asahi Glass Co., Ltd Senior Executive Officer and General Manager of Electronics & Energy General Division, Asahi Glass Co., Ltd Representative Director and President & COO, Asahi Glass Co., Ltd. Representative Director and President & CEO, Asahi Glass Co., Ltd. Representative Director and Chairman, Asahi Glass Co., Ltd. Director, IHI (incumbent) Director and Chairman, AGC Inc. Director, AGC Inc. (incumbent) President, National Institute of Advanced Industrial Science and Technology</p>	(Note 6)	1,200
Director	Yoshiyuki Nakanishi	November 3, 1954	<p>Apr. 1978 Apr. 2010 Jun. 2011 Apr. 2012 Jan. 2018 Jun. 2020</p>	<p>Joined Dainippon Ink and Chemicals, Incorporated (currently DIC Corporation) Executive Officer, In Charge Kawamura Memorial Museum of Art, Corporate Strategy Division, DIC Corporation Director; Executive Officer, In Charge of Kawamura Memorial Museum of Art, Corporate Strategy Division, DIC Corporation President, Representative Director, DIC Corporation Chairman of the Board, DIC Corporation (incumbent) Director, IHI (incumbent)</p>	(Note 6)	—

(Translation purposes only)

Director	Chieko Matsuda	November 18, 1964	<p>Apr. 1987</p> <p>Oct. 1998</p> <p>Sep. 2001</p> <p>May. 2006</p> <p>Oct. 2006</p> <p>Apr. 2011</p> <p>Jun. 2020</p>	<p>Joined The Long-Term Credit Bank of Japan, Limited</p> <p>Joined Moody's Japan K.K.</p> <p>Partner, Corporate Directions, Inc.</p> <p>Representative Director, Matrix, Inc.</p> <p>Vice President (Partner), Booz & Company, Inc.</p> <p>Professor, Faculty of Urban Liberal Arts (now Faculty of Economics and Business Administration), Tokyo Metropolitan University (incumbent)</p> <p>Professor, Graduate School of Social Science (now Economics and Business Administration), Tokyo Metropolitan University (incumbent)</p> <p>Director, IHI (incumbent)</p>	(Note 6)	—
Standing audit & supervisory board member	Taizo Suga	June 23, 1955	<p>Apr. 1978</p> <p>Jul. 2004</p> <p>Apr. 2007</p> <p>Apr. 2010</p> <p>Apr. 2012</p> <p>Apr. 2013</p> <p>Apr. 2014</p> <p>Apr. 2017</p> <p>Jun. 2017</p>	<p>Joined IHI</p> <p>Manager of Finance Group, Finance & Accounting Division, IHI</p> <p>Manager of Group Business Management Section, Corporate Planning Division, IHI</p> <p>General Manager of Corporate Business Development Division, IHI</p> <p>General Manager of Corporate Business Development Division and Lithium-Ion Battery Business Development, IHI</p> <p>Executive Officer; President of Urban Development Operations and General Manager of Intelligent Information Management Headquarters, IHI</p> <p>Executive Officer, IHI; President and Chief Executive Officer, IHI ASIA PACIFIC PTE. LTD.</p> <p>General Advisor, IHI</p> <p>Standing audit & supervisory board member, IHI (incumbent)</p>	(Note 7)	1,300
Standing audit & supervisory board member	Takashi Niimura	August 6, 1960	<p>Apr. 1983</p> <p>Apr. 2010</p> <p>Apr. 2012</p> <p>Apr. 2013</p> <p>Apr. 2016</p> <p>Apr. 2017</p> <p>Apr. 2018</p> <p>Apr. 2019</p> <p>Apr. 2020</p> <p>Jun. 2020</p>	<p>Joined IHI</p> <p>General Manager of Administration Department, Global Marketing Headquarters, IHI</p> <p>General Manager of Corporate Sales & Marketing Department, Global Marketing Headquarters, IHI</p> <p>General Manager of Chubu Branch, Sales Headquarters, IHI</p> <p>Executive Officer; Deputy General Manager of Sales Headquarters and General Manager of Corporate Sales & Marketing Department, IHI</p> <p>Executive Officer; Vice President of Industrial Systems and General-Purpose Machinery Business Area and Deputy General Manager of Sales Headquarters, IHI</p> <p>Executive Officer; Vice President of Industrial Systems and General-Purpose Machinery Business Area and Deputy General Manager of Global Marketing & Sales Headquarters, IHI</p> <p>Executive Officer; General Manager of Global Marketing & Sales Headquarters, IHI</p> <p>General Advisor, IHI</p> <p>Standing audit & supervisory board member, IHI (incumbent)</p>	(Note 9)	1,900

(Translation purposes only)

Audit & supervisory board member	Tomomi Yatsu	May 30, 1960	Apr. 1983	Joined Tokyo Electron Limited	(Note 7)	—
			Oct. 1986	Joined Sanwa Tohmatsu Aoki & Co (currently Deloitte Touche Tohmatsu LLC)		
			Sep. 1990	Registered as Certified Public Accountant		
			Oct. 2001	Registered as Attorney at Law Joined New Tokyo international Law Office (subsequently consolidated with Bingham, Sakai, Mimura & Aizawa Law Office (foreign law joint enterprise))		
			Apr. 2015	Partner, TMI Associates (incumbent)		
			Jun. 2017	Audit & supervisory board member, IHI (incumbent)		
Audit & supervisory board member	Toshio Iwamoto	January 5, 1953	Apr. 1976	Joined NIPPON TELEGRAPH AND TELEPHONE PUBLIC CORPORATION (now NIPPON TELEGRAPH AND TELEPHONE CORPORATION)	(Note 8)	500
			Jun. 2004	Director; Senior Executive Manager of Payment Solutions Sector, NTT DATA Corporation		
			Jun. 2007	Director; Executive Vice President; Senior Executive Manager of financial business sector, NTT DATA Corporation		
			Jun. 2008	Director; Executive Vice President; In charge of financial sector, NTT DATA Corporation		
			Jun. 2009	Representative Director; Senior Executive Vice President, NTT DATA Corporation		
			Jul. 2009	Representative Director; Senior Executive Vice President; Company President of Public & Financial IT Services Company, NTT DATA Corporation		
			Jun. 2011	Representative Director; Senior Executive Vice President; In charge of sales management; In charge of technology management, NTT DATA Corporation		
			Jun. 2012	President and CEO, NTT DATA Corporation		
			Jun. 2018	Principal Executive Advisor, NTT DATA Corporation (incumbent)		
Jun. 2019	Audit & supervisory board member, IHI (incumbent)					
Audit & supervisory board member	Aiko Sekine	May 13, 1958	Apr. 1981	Joined Citibank, N.A., Tokyo Branch	(Note 9)	—
			Oct. 1985	Joined Aoyama Audit Corporation		
			Mar. 1989	Registered as Certified Public Accountant		
			Sep. 2006	Partner, PricewaterhouseCoopers Aarata, LLC		
			Jul. 2007	Executive Board Member, Japanese Institute of CPAs (JICPA)		
			Jan. 2008	Board Member, International Ethics Standards Board for Accountants (IESBA), International Federation of Accountants		
			Jul. 2010	Deputy President, JICPA		
			Jul. 2016	Chairman and President, JICPA		
			Jan. 2019	Member of the Nominating Committee, International Federation of Accountants (incumbent)		
			Jul. 2019	Advisor, JICPA (incumbent)		
Jun. 2020	Audit & supervisory board member, IHI (incumbent)					
Total						34,400

Notes: 1. Chief Executive Officer, Chief Operating Officer, Senior Executive Officer and Managing Executive Officer are executive officer ranks.

(Translation purposes only)

2. Outside directors are four members, Taketsugu Fujiwara, Kazuhiko Ishimura, Yoshiyuki Nakanishi and Chieko Matsuda. IHI has registered directors Taketsugu Fujiwara, Kazuhiko Ishimura, Yoshiyuki Nakanishi and Chieko Matsuda with domestic financial instrument exchanges (where IHI is listed) as independent directors respectively.
3. Outside audit & supervisory board members are three members, Tomomi Yatsu, Toshio Iwamoto and Aiko Sekine. IHI has registered audit & supervisory board members Tomomi Yatsu, Toshio Iwamoto and Aiko Sekine with domestic financial instrument exchanges (where IHI is listed) as independent audit & supervisory board members, respectively.
4. Number of IHI's shares owned less than one unit are rounded down.
5. IHI has instituted an executive officer system for the purpose of establishing a clear delineation between the management monitoring and oversight system and the business execution system, and to enhance both the governance and management functions in the management system. The executive officers in office as of the filing date of this Annual Securities Report are shown in the table below.
6. The term of office shall expire at the end of the ordinary general meeting of shareholders for the last business term ending within one year after the election in the ordinary general meeting of shareholders held on June 25, 2020.
7. The term of office shall expire at the end of the ordinary general meeting of shareholders for the last business term ending within four years after the election in the ordinary general meeting of shareholders held on June 23, 2017.
8. The term of office shall expire at the end of the ordinary general meeting of shareholders for the last business term ending within four years after the election in the ordinary general meeting of shareholders held on June 20, 2019.
9. The term of office shall expire at the end of the ordinary general meeting of shareholders for the last business term ending within four years after the election in the ordinary general meeting of shareholders held on June 25, 2020.

(Translation purposes only)

Executive Officers as of the filing date of this Annual Securities Report

Men: 19 Women: 1 (Percentage of women among Executive Officers : 5.0%)

	Position	Name	Main Areas of Responsibility
*	Chief Executive Officer	Tsugio Mitsuoka	In Charge of Business Relating to Internal Audit In Charge of Risk Management
*	Chief Operating Officer	Hiroshi Ide	President of Resources, Energy and Environment Business Area
*	Senior Executive Officer	Takeshi Yamada	Assistance to the President In Charge of Group Finance & Accounting
*	Senior Executive Officer	Tomoharu Shikina	Assistance to the President In Charge of Business Relating to Public Relations and Investor Relations, Procurement, and Information Management In Charge of Group Business Process Platform President of Aero Engine, Space and Defense Business Area
*	Managing Executive Officer	Masafumi Nagano	In Charge of Business Relating to Corporate Planning, Human Resources and Labor In Charge of Group Safety and Health
*	Managing Executive Officer	Kouichi Murakami	In Charge of Group Engineering and Business Relating to New Corporate Businesses General Manager of Corporate Research & Development
	Managing Executive Officer	Kazuki Awai	In Charge of Business Relating to Administration, Legal and CSR In Charge of Group Compliance
	Managing Executive Officer	Yoshinori Kawasaki	Vice President of Industrial System and General-Purpose Machinery Business Area
	Managing Executive Officer	Yutaka Kunisada	General Manager of Solution & Engineering and New Corporate Business Headquarters
*	Managing Executive Officer	Takeshi Kawakami	President of Social Infrastructure and Offshore Facility Business Area In Charge of <i>Monozukuri</i> System Strategy and Group Quality Assurance
	Managing Executive Officer	Yoshinori Komiya	General Manager of Intelligent Information Management Headquarters
*	Managing Executive Officer	Yasuhiro Shigegaki	President of Industrial System and General-Purpose Machinery Business Area
	Executive Officer	Syunichi Takayanagi	Vice President of Social Infrastructure and Offshore Facility Business Area
	Executive Officer	Mitsutoyo Yoshida	General Manager of Project Risk Management Division
	Executive Officer	Masato Shida	General Manager of Human Resources Division
	Executive Officer	Hideo Morita	Vice President of Aero Engine, Space and Defense Business Area
	Executive Officer	Kouji Takeda	Vice President of Resources, Energy and Environment Business Area President of IHI Plant Services Corporation
	Executive Officer	Tetsuji Fujimura	Vice President of Aero Engine, Space and Defense Business Area
	Executive Officer	Kiyoshi Nihei	General Manager of Global Marketing & Sales Headquarters and Vice President of Industrial System and General-Purpose Machinery Business Area In Charge of Group Operations
	Executive Officer	Noriko Morioka	Deputy General Manager of Solution & Engineering and New Corporate Businesses Headquarters

Note: * means director.

(Translation purposes only)

(ii) Outside directors and audit & supervisory board members

- Four outside directors and three outside audit & supervisory board members provide IHI with objective advice about its business and help to ensure effective auditing and oversight.
- IHI sets up independence standards for outside directors and outside audit & supervisory board members. These standards are based on the requirements for independent directors/ audit & supervisory board members stipulated by the Tokyo Stock Exchange and their emphasis is to assure that outside directors and outside audit & supervisory board members are genuinely independent.
- The outside directors and outside audit & supervisory board members are required to adhere to these same standards, including having no conflict of interest with any general shareholder. They are reported as independent directors/audit & supervisory board members to any stock exchange where IHI is listed.
- Attributes of independent directors/audit & supervisory board members of outside directors and outside audit & supervisory board members, as well as the reasons for their election, are noted below.

Name	Attributes of independent directors/audit & supervisory board members	Reason for Election
Taketsugu Fujiwara	<p>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 company mentioned above.</p> <p>The IHI's subsidiaries have business relationships involving the sale and purchase of defense business with Asahi Kasei Corporation, where Taketsugu Fujiwara previously served as a business executive. However, the relationship mentioned above is as insignificant as it generates less than 0.01% of IHI's consolidated net sales and less than 0.04% of the consolidated net sales of Asahi Kasei Corporation (for the fiscal year ended March 31, 2020). Therefore, this has no impact on his independence.</p>	<p>Taketsugu Fujiwara reflects in the management of IHI his extensive experience and broad insight gained at the helm of a general chemicals manufacturer, where he has implemented diversified management. In addition, he carries out management oversight and monitoring functions from an independent perspective. Therefore, IHI has elected him as an outside director.</p> <p>Taketsugu Fujiwara does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interests with general shareholders. IHI has therefore elected him as an independent director.</p>
Kazuhiko Ishimura	<p>Kazuhiko Ishimura served as Representative Director and Chairman of Asahi Glass Co., Ltd (currently AGC Inc.) until December 2017. He serves currently as Director of the company mentioned above. And he serves as President of National Institute of Advanced Industrial Science and Technology from April 2020.</p> <p>The IHI Group has a business relationship involving the sale, purchase and maintenance of industrial machinery with AGC Inc., where Kazuhiko Ishimura served as a business executive. However, the relationship mentioned above is as insignificant as it generates less than 0.2% of IHI's consolidated net sales and less than 0.01% of the consolidated net sales of AGC Inc. (for the fiscal year ended March 31, 2020). Therefore, this has no impact on his independence.</p> <p>The IHI Group has a business relationship involving the purchase and maintenance of industrial machinery with National Institute of Advanced Industrial Science and Technology, where Kazuhiko Ishimura served as a business executive. However, the relationship mentioned above is as insignificant as it generates less than 0.01% of IHI's consolidated net sales and there is no result of order etc. (for the fiscal year ended March 31, 2020). Therefore, this has no impact on his independence.</p>	<p>Kazuhiko Ishimura reflects in the management of IHI his extensive experience and broad insight at the helm of a comprehensive materials manufacturer. In addition, he carries out management oversight and monitoring functions from an independent perspective. Therefore, IHI has elected him as an outside director.</p> <p>Kazuhiko Ishimura does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interests with general shareholders. IHI has therefore elected him as an independent director.</p>

(Translation purposes only)

Name	Attributes of independent directors/audit & supervisory board members	Reason for Election
Yoshiyuki Nakanishi	<p>The IHI's subsidiaries have a business relationship involving the maintenance and sale of industrial machinery, etc. with DIC Corporation, where Yoshiyuki Nakanishi previously served as a business executive. However, the relationship mentioned above is as insignificant as it generates less than 0.01% of IHI's consolidated net sales and there is no result of order etc. (for the fiscal year ended March 31, 2020). Therefore, this has no impact on his independence.</p>	<p>Yoshiyuki Nakanishi has gained extensive experience and broad insight as the corporate manager of a global chemical manufacture by implementing various measures to respond to changes in the business environment. Aiming to reflect these qualities in the management of IHI, and expecting he can carry out management oversight and monitoring functions from an independent perspective. Therefore, IHI has elected him as an outside director.</p> <p>Yoshiyuki Nakanishi does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interests with general shareholders. IHI has therefore elected him as an independent director.</p>
Chieko Matsuda	Not applicable	<p>Chieko Matsuda has gained abundant knowledge in business strategy and finance strategy through her research and studies, and broad insight through her experience as an outside director of several companies. Aiming to reflect those qualities in the management of IHI, and expecting she can carry out management oversight and monitoring functions from an independent perspective. Therefore, IHI has elected her as an outside director.</p> <p>Chieko Matsuda does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interests with general shareholders. IHI has therefore elected her as an independent director.</p>
Tomomi Yatsu	<p>Tomomi Yatsu serves currently as a partner of TMI Associates.</p> <p>IHI has a business relationship involving commission of legal research etc. with TMI Associates, where Tomomi Yatsu serves as a business executive. However, the relationship mentioned above is insignificant as compared with total fee in TMI Associates and there is no result of sales etc. (for the fiscal year ended March 31, 2020). Therefore, this has no impact on his independence.</p>	<p>Tomomi Yatsu reflects in the management auditing operations of IHI her extensive experience and insight by responding to various corporate issues as an attorney at law and certified public accountant from an independent perspective. Therefore, IHI has elected her as an outside audit & supervisory board member.</p> <p>Tomomi Yatsu does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interests with general shareholders. IHI has therefore elected her as an independent audit & supervisory board member.</p>
Toshio Iwamoto	<p>Toshio Iwamoto served as president and CEO of NTT DATA Corporation until June 2018. He serves currently as Principal Executive Advisor, NTT DATA Corporation.</p> <p>The IHI Group has a business relationship involving consignment of system introduction support, etc. with NTT DATA Corporation, where Toshio Iwamoto previously served as a business executive. However, the relationship mentioned above is as insignificant as it generates less than 0.01% of the consolidated net sales of NTT DATA Corporation and there is no result of sales etc. (for the fiscal year ended March 31, 2020). Therefore, this has no impact on his independence.</p>	<p>Toshio Iwamoto reflects in the management auditing operations of IHI his extensive experience and broad insight of business manager in a leading IT company from an independent perspective. Therefore, IHI has elected him as an outside audit & supervisory board member.</p> <p>Toshio Iwamoto does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interests with general shareholders. IHI has therefore elected him as an independent audit & supervisory board member.</p>

(Translation purposes only)

Name	Attributes of independent directors/audit & supervisory board members	Reason for Election
Aiko Sekine	Not applicable	<p>Aiko Sekine has accumulated abundant experience and insight of Partner of PricewaterhouseCoopers Aarata, Japan, and Chairman and President of JICPA. Expecting these qualities and her independent perspective to be reflected in the management auditing operations of IHI. Therefore, IHI has elected her as an outside audit & supervisory board member.</p> <p>Aiko Sekine does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interests with general shareholders. IHI has therefore elected her as an independent audit & supervisory board member.</p>

(iii) Mutual cooperation between supervision or internal audit by outside directors and outside audit & supervisory board members and internal audit, audit & supervisory board members audit and accounting audit, and relationship with internal control division

- IHI provides outside directors and outside audit & supervisory board members with as-needed reports on internal audit implementation from the Internal Audit Divisions as reported to the Board of Directors and Audit & Supervisory Board, and also gives them briefings in advance and shares information on a continual basis.
- Outside audit & supervisory board members work closely with the accounting auditor, including regularly sharing information and opinions and receiving reports on audit results in the Audit & Supervisory Board.

(Translation purposes only)

(3) Information about audit

(i) Audit & supervisory board members audit

(a) Structure and personnel

IHI has an Audit & Supervisory Board, which comprises five audit & supervisory board members (three from outside) who audit the duties executed by directors. And “Audit & Supervisory Board Division” (four full-time staffers) assists the audit & supervisory board members in the execution of their duties.

Taizo Suga, the standing audit & supervisory board member, possesses considerable knowledge of financial and accounting matters based on his years of experience working in the Finance & Accounting Division.

Tomomi Yatsu, the outside audit & supervisory board member, is qualifications as a certified public accountant and possesses considerable knowledge of financial and accounting matters.

Aiko Sekine, the outside audit & supervisory board member, is qualifications as a certified public accountant and possesses considerable knowledge of financial and accounting matters.

(b) Activities of audit & supervisory board members and the Audit & Supervisory Board

During the current fiscal year, the Company held meetings of the Audit & Supervisory Board a total of 13 times, with the attendance records of the individual audit & supervisory board members being as follows.

Classification	Name	Attendance at meetings of the Audit & Supervisory Board
Standing	Shigeru Uesugi	13 of 13(100%)
Standing	Taizo Suga	13 of 13(100%)
Outside	Yoko Hatta	13 of 13(100%)
Outside	Tomomi Yatsu	13 of 13(100%)
Outside	Toshio Iwamoto	10 of 10(100%)

Note: The totals in the table are different because the starting dates when the members assumed office are different.

During the current fiscal year, the main matters considered by the Audit & Supervisory Board as priority audit items, were 1) the establishment and operational status of the internal control system, 2) the status of risk management, 3) the promotion of structural reforms and execution status of business strategies, 4) the status of initiatives aimed at promoting reform of working practices and diversity, and 5) the status of initiatives aimed at reforming the corporate culture.

The activities of the audit & supervisory board members consist of implementing audits in accordance with the audit standards for audit & supervisory board members and the audit plan prescribed by the Audit & Supervisory Board, the main elements of which were the following.

- 1) Attending important meetings, such as those of the Board of Directors, and Committees, auditing the management of proceedings and the content of resolutions, etc. and expressing opinions when necessary
- 2) Audits of business units and domestic/overseas subsidiaries, and the exchanging of opinions with directors and audit & supervisory board members of subsidiaries
- 3) Audits related to the internal control system, auditing of transactions with competitors and transactions involving conflicts of interest, taking steps to prevent infringements of laws and regulations, or the occurrence of scandals
- 4) Audit of business report and supplementary schedules, and audit of consolidated financial statements and non-consolidated financial statements and their supplementary schedules
- 5) Auditing the appropriateness of duties performed by the accounting auditor

During the current fiscal year, the activities of the Audit & Supervisory Board were focused primarily on the above-mentioned priority audit items, in addition to which two meetings were held with the CEO for the exchange of opinions, and quarterly checks were made with the accounting auditor regarding the status of the accounting audit. In addition, the standing audit & supervisory board members perform everyday auditing activities, summaries of which are reported on an as needed basis by the standing audit & supervisory board members to outside audit & supervisory board members at meetings of the Audit & Supervisory Board, so that information related to the status of audits is shared by all members of the Audit & Supervisory Board.

(Translation purposes only)

(ii) Internal audit

The Internal Audit Division (29 members) is an internal audit division that report directly to the President. It carries out audits of the business execution at all business divisions of IHI and its affiliates on an ongoing basis and while providing inspection and guidance at IHI's headquarters' divisions, it works to enhance internal control functions in conjunction with the internal audits of affiliates carried out by the affiliates' internal audit divisions.

The internal audit divisions work closely with audit & supervisory board members and the accounting auditor to report on the implementation and results of audits and to hold regular meetings.

(iii) Accounting audit

(a) Name of accounting auditor

Ernst & Young ShinNihon LLC

(b) Duration of audit

55 years

(c) The certified public accountants belonging to who executed the accounting audit

Hideyuki Inoue (five years)

Hironori Oya (three years)

Yoichi Takanashi (four years)

(d) Assistants for the accounting audit

Certified Public Accountants: 28 persons

Others: 52 persons

Note: Others include people who have passed the Certified Public Accountants Examination, persons in charge of systems audits, and others.

(e) Policy and reason for selection of accounting auditor

At the Audit & Supervisory Board held on May 20, 2015, IHI resolved on the policies for decisions on dismiss or non-reappointment of accounting auditors. The policies are as follows:

- In the case where it is deemed that the accounting auditor has fallen under any of the reasons for dismissal prescribed in Article 340, Paragraph 1 of the Companies Act, the Audit & Supervisory Board shall dismiss the accounting auditor based on the consent of all audit & supervisory board members.
- In cases where the accounting auditor is deemed to have difficulty in conducting audit operations appropriately, based on the resolution of the Audit & Supervisory Board, the dismissal or non-reappointment of the accounting auditor shall be decided.

On the basis of the above policy, the judgment of reappointment of accounting auditor is made every period.

As a result of discussing the reappointment of the accounting auditor, Ernst & Young ShinNihon LLC, at the Audit & Supervisory Board meetings in the current fiscal year, there is no reason of non-reappointment and dismissal from the auditor and they are reappointed.

(f) Evaluation on accounting auditor by Audit & Supervisory Board

The accounting auditor is evaluated regularly by the Audit & Supervisory Board of IHI. The evaluation is conducted on various aspects with items such as the accounting auditor's quality management, the audit team, the audit remuneration, etc., communication with the audit & supervisory board members and others, relationships with business managers and others, the audit for IHI's consolidated subsidiaries, fraud risks and so on. There are no reasons for non-reappointment or dismissal in any of the items.

(g) Changes of accounting auditor

Not applicable

(Translation purposes only)

(iv) Details of audit remuneration, etc.

(a) Details of remuneration to Certified Public Accountants, etc.

Classification	Fiscal year ended March 31, 2019		Fiscal year ended March 31, 2020	
	Remuneration for audit or attestation services (millions of yen)	Remuneration for non-audit services (millions of yen)	Remuneration for audit or attestation services (millions of yen)	Remuneration for non-audit services (millions of yen)
Reporting company	196	25	206	76
Consolidated subsidiaries	182	13	194	16
Total	378	38	400	92

The non-audit services IHI entrusts the accounting auditor are advisory etc. for preparations of adopting IFRSs (International Financial Reporting Standards) and guidance on accounting for subsidiaries and affiliates.

The non-audit services consolidated subsidiaries entrust the accounting auditor are consultation and guidance on accounting.

(b) Details of remuneration to organization which belongs to the same network as IHI's Certified Public Accountants, etc. (Ernst & Young Group) (excluding (a))

Classification	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
	Remuneration for audit or attestation services (millions of yen)	Remuneration for audit or attestation services (millions of yen)
Reporting company	–	–
Consolidated subsidiaries	109	114
Total	109	114

The remuneration for non-audit services is omitted since it is not material.

(c) Other material remuneration for audit or attestation services

The fiscal year ended March 31, 2019 and 2020

Not applicable

(d) Policy on determining audit remuneration

There is no particular policy on determining audit remuneration. The remuneration is decided with the consent of the Audit & Supervisory Board, taking into consideration factors such as the number of days of the audit and the remuneration unit price.

(e) Reasons for which the Audit & Supervisory Board agreed to the accounting auditor's remuneration, etc.

For the remuneration for accounting auditor proposed by directors, the Audit & Supervisory Board of IHI confirmed the adequacy and appropriateness of the audit plan submitted by the accounting auditor and examined the calculation basis the calculation details such as audit time and remuneration unit price. As a result, since the remuneration was confirmed to be appropriate, they agreed in accordance with Article 399, Paragraph 1 of the Companies Act.

(4) Remuneration, etc. of directors and audit & supervisory board members

(i) Information about the policy on determining the amount and calculation method of remuneration, etc. of directors and audit & supervisory board members

(a) Date of resolution and resolution details about the remuneration of directors and audit & supervisory board members

The date of resolution at Ordinary General Meeting of Shareholders about the remuneration of IHI's directors was on June 23, 2017, and maximum total amount of that was resolved as ¥1,090 million or below (excluding salaries for working as employees) per year. Also, the date of resolution at Ordinary General Meeting of Shareholders about the remuneration of IHI's audit & supervisory members was on June 27, 2014, and maximum total amount of that was resolved as ¥120 million or below.

Regarding the performance-based share remuneration, it was resolved at the Ordinary General Meeting of Shareholders held

(Translation purposes only)

on June 23, 2017 to contribute up to ¥450 million as a separate frame from the total remuneration of directors, for the purpose of providing directors with shares of IHI and money equivalent to the market value of them through the trust set up by IHI.

(b) Basic policy on determining remuneration of directors (excluding outside directors)

1. Basic policy on determining remuneration of directors (excluding outside directors)

- (1) 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 policy, and strongly motivating them toward the achievement of specific management goals to bring IHI's and IHI Group's sustainable growth and improve the medium- and long-term corporate value.
- (2) 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.
- (3) Under the management philosophy, "Human resources are our single most valuable asset," appropriate treatment shall be provided to officers of IHI in consideration of IHI's management environment, and social roles and liabilities IHI undertakes.

2. Remuneration level and allocated ratios of remuneration

- (1) IHI shall regularly survey objective market data on remuneration researched by an external specialized institution and set an appropriate remuneration level.
- (2) In consideration of IHI's business characteristics, effectiveness of incentive remuneration, etc., total amount of remuneration shall be allocated at approximate proportions of 60%: 20%: 20% respectively 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) provided upon the achievement of the targeted performance.

3. Framework of incentive remuneration

- (1) 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 profit attributable to owners of parent (hereinafter, "consolidated profit" in (4) Remuneration, etc. of directors and audit & supervisory board members), which is aimed at sharing the interests of shareholders, profitability which is emphasized in the "Group Management Policies 2019" ("consolidated operating profit margin" and "consolidated operating profit margin of business areas in charge"), and individuals evaluation indicators corresponding to tasks assigned to each executive, and be reviewed as necessary upon changes in management environment, executives' roles, etc. In addition, the cash flows ("consolidated cash flows" and "consolidated cash flows of business areas in charge") will be added one of the performance evaluation indicators from the fiscal year 2020 for the purpose of securing future investment funds and building a solid financial base. And, the consolidated cash flows are the sum of the cash flows from operating activities and investing activities.
- (2) 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 providing 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, as emphasized in "Group Management Policies 2019", and changes in the indicator, if necessary, shall be taken into consideration when reviewing the Group management policies.

4. Procedures for determining remuneration

To ensure appropriateness and objectivity in determining the remuneration of directors and executive officers, IHI has an optional body, the Remuneration Advisory Committee which is comprised by six members of three independent outside

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directors, one independent 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.

(c) Basic policy on determining 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 responsibilities.

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

(d) Details of activities of the Board of Directors and committees, etc. in the process of determining the amount of remuneration for the current fiscal year

In the process of determining the amount of remuneration, etc. of directors and executive officers of IHI in the current fiscal year, the Remuneration Advisory Committee was held five times a year, and the progress and results of that discussion were reported back to the Board of Directors.

(e) Calculation method of money, etc. to be provided as performance-based remuneration for the fiscal year ending March 31, 2021

1. Calculation method for the monetary amount to be provided as performance-based bonuses

At a meeting of the Board of Directors of IHI held on June 25, 2020, it was resolved that a sum of money determined in accordance with objective calculation methods based on indicators showing the profit situation (hereinafter in this section, “profit indicators”) for the fiscal year ending March 31, 2021 (hereinafter, “fiscal year 2020”) would be provided to all of those directors of IHI present on June 25, 2020 (excluding outside directors), in consideration for their execution of duties in the fiscal year 2020.

[a] The details of the calculation method are as below

The monetary amount to be provided*	=	Standard payment	×	Performance	+	Payments based on individuals' performance evaluations
		amount corresponding to titles and positions and type of profit indicators used for reference		evaluation payout rates proportionate to the profit indicators		

[b] Profit indicators corresponding to titles and positions and weight of profit indicators are as below.

- For representative directors, the consolidated profit, the consolidated operating profit margin and the consolidated cash flows are 50%, 25% and 25%, respectively.
- For directors excluding representative directors in charge of headquarters' divisions, the consolidated profit, the consolidated operating profit margin, the consolidated cash flows and the individuals' performance evaluation are 30%, 20%, 20% and 30%, respectively.
- For directors excluding representative directors in charge of business areas, the consolidated profit, the consolidated operating profit margin of the business area in charge, the consolidated cash flows and the individuals' performance evaluation are 30%, 20%, 20% and 30%, respectively.
- In addition, the weight of the individuals' performance evaluation for directors excluding representative directors is lifted from the current 20% to 30% from the fiscal year 2020, for the purpose of further enhancement of medium- to long-term initiatives for changes to sustainable business portfolio.

[c] Performance evaluation payout rates proportionate to the profit indicators are as below.

- Performance evaluation payout rate of consolidated profit is 100% when the target of consolidated profit is achieved. The performance evaluation payment rate fluctuates according to the degree of achievement of the target, and the upper limit is 200% (when consolidated profit increases by ¥ 15.0 billion or more from the target) and the lower limit is 25% (when consolidated profit decreases by ¥ 15.0 billion from the target), and when it falls below the target by more than ¥ 15 billion, it will be 0%. (Calculation method for the performance evaluation payment rate of consolidated profit for the fiscal year ending March 31, 2020 is as described in [a] of “(f) Calculation method of money, etc. provided as performance-based remuneration for the fiscal year ended March 31, 2020 and result”.)

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- Performance evaluation payout rate of consolidated operating profit margin is 100% when the target of consolidated operating profit margin is achieved. The performance evaluation payment rate fluctuates according to the degree of achievement of the target, and the upper limit is 200% (when consolidated profit increases by 2.0% or more from the target), and the lower limit is 25% (when consolidated profit decreases by 2.0% from the target), and when it falls below the target by more than 2.0%, it will be 0%. (Calculation method for the performance evaluation payment rate of consolidated operating profit margin for the fiscal year ending March 31, 2020 is as described in [a] of “(f) Calculation method of money, etc. provided as performance-based remuneration for the fiscal year ended March 31, 2020 and result”.)
 - For the consolidated operating profit margin of the business area in charge, the upper and lower are set by each business area in charge and converted to performance evaluation payout rates, on the basis of the same concept as the case of referring to above-mentioned consolidated operating profit margin.
 - For the consolidated cash flows fluctuates according to the excess amount of the target of the consolidated cash flows, and it increases between 0% with 150%. In cases where the excess amount of the target is ¥ 40.0 billion, the performance evaluation payout rate is 100%.
 - For the consolidated cash flows of the business area in charge increases between 0% with 150% on the basis of the same concept as the case of referring to above-mentioned consolidated cash flows. And, the target is has been set by each business area in charge, in cases where the excess amount of the target is ¥ 10.0 billion, the performance evaluation payout rate is 100%.
 - The Remuneration Advisory Committee shall examine and report changes of details of the target. The Board of Directors shall make decisions.
- [d] Payments based on individuals’ performance evaluations are decided by the President mainly based on the evaluations for execution of duties related to medium- and long-term measures. The performance evaluation payout rate fluctuates and the upper and lower limit is 150% and 0%, respectively.
- [e] In addition, regardless of the calculation results, if no dividend is paid, the performance-based bonuses are not paid to directors and executive officers.
- [f] In the case that loss attributable to owners of parent for the current fiscal year or unanticipated major change for management in politics, economics, social circumstances and the initial plan (including scandal to damage the corporate value) occur, the Remuneration Advisory Committee shall examine and report changes of details of performance-based share remuneration. The Board of Directors shall make decisions.

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2. Calculation method for the number of IHI’s shares to be provided as performance-based share remuneration

At a meeting of the Board of Directors of IHI held on June 25, 2020, it was resolved that a number of shares (hereinafter, “the Shares”) determined in accordance with objective calculation methods based on indicators showing the profit situation (hereinafter in this section, “profit indicators”) for the fiscal year ending March 31, 2023 (hereinafter, “fiscal year 2022”) would be provided to all of those directors of IHI present on June 25, 2020 (excluding outside directors), in consideration for their execution of duties in the fiscal year 2020.

The details of the calculation method are as given below, the Remuneration Advisory Committee whose majority is independent outside directors and audit & supervisory board member shall report (The all of the members who are 3 independent outside directors and 1 independent outside audit & supervisory board member agree with the report.) about the method. The Board of Directors shall make decisions. These shares are scheduled to be provided within two months of the day following the day on which is held the Ordinary General Meeting of Shareholders pertaining to the fiscal year 2022, for which the profit indicators will be finalized.

$$\text{IHI's shares to be provided} = \text{Base points corresponding to titles and positions} \times \text{Performance evaluation payout rates} \times \frac{\text{The ratio obtained by dividing the months of service in the fiscal year 2020 by the directors of IHI by 12}}{50\%}$$

[a] Base points corresponding to titles and positions are as below.

Titles and positions	Base points
Chairman of the Board	19,137
President	13,342
Executive Vice President	11,320
Directors excluding above *	8,086

* Base points corresponding to each new director (excluding President) who has been elected in the Ordinary General Meeting of Shareholders held on June 25, 2020 is 6,064.

[b] Performance evaluation payout rates shall be determined by the consolidated ROIC in the fiscal year 2022 as below. (Figures below a decimal point shall be omitted.)

March 31, 2023 year-end Consolidated ROIC * (%)	Performance evaluation payout rates (%)
Less than 5	0
Equal or more than 5 but less than 8	25
Equal or more than 8 but less than 10	$=25 + 12.5 \times (\text{Consolidated ROIC} - 8)$
10	50
More than 10 but less than 12	$=50 + 25 \times (\text{Consolidated ROIC} - 10)$
12	100
More than 12 but less than 15	$=100 + \frac{50}{3} \times (\text{Consolidated ROIC} - 12)$
Equal or more than 15	150

* : Consolidated ROIC shall be calculated as the ratio calculated by $(1 - \text{“Effective statutory tax rate”}) \times (\text{“Operating profit”} + \text{“Interest income”} + \text{“Dividend income”}) \div (\text{“Total shareholders’ equity”} + \text{“Total accumulated other comprehensive income”} + \text{Amount of interest-bearing liabilities})$. (However, this shall be the ratio after rounding off to one decimal place.) Hereinafter the same shall apply.

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- * : “Effective statutory tax rate” shall be the ratio shown in the notes to the consolidated financial statements of IHI.
 - * : “Operating Profit”, “Interest income” and “Dividend income” shall be amounts shown in the Consolidated statement of income of IHI. (They shall be rounded off to the nearest million yen.)
 - * : “Total shareholders’ equity” and “Total accumulated other comprehensive income” shall be the average of the amounts shown on IHI’s consolidated balance sheets for the previous fiscal year, and for the current fiscal year (they shall be rounded off to the nearest million yen.)
 - * : The amount of interest-bearing liabilities shall be the average of the sum of the amounts shown in the breakdown of bonds and the breakdown of loans etc. in IHI’s consolidated supplementary schedule at the beginning of the fiscal year and of the same figure at the end of the current fiscal year. (However, this shall be rounded off to the nearest million yen.)
- [c] For newly elected directors, the “ratio obtained by dividing the months of service in the fiscal year 2020 by the directors of IHI by 9” shall be used for calculation. In addition, the “months of service in the fiscal year 2020 by the directors of IHI” shall be calculated according to the calendar, with any fractions of less than one month that arise rounded up to one month. However, the period of service between June 25, 2020 and June 30, 2020 shall be discarded for calculation purposes.
- [d] In the event of fractions of less than one unit of shares occurring in the number obtained from (a) to (c) above (with fractions of less than one point discarded; hereinafter “number of finalized points”), said fraction shall be discarded, after which the number shall be multiplied by 50% to calculate the number of shares to be provided.

As a result of the above, the maximum number of shares to be provided to directors of IHI shall be limited to the number calculated and finalized in cases where the months of service is 12 (or in cases where the months of service is 9 for newly elected directors) and when based on the highest performance evaluation payout rate.

- Notes : 1. The number of IHI’s shares to be provided as performance-based share remuneration shall be calculated based on the titles and positions determined at the meeting of the Board of Directors of IHI held on June 25, 2020. Moreover, shares shall not be provided to directors who died before the end of June 2023 (if the end of June is not a business day, then the directly preceding business day).
2. Regarding directors of IHI, the number of finalized points of the director shall be zero, if the following reasons arise before the date when the number of finalized points are calculated (hereinafter “calculation date of number of finalized points”).
- (1) If a director (or an audit & supervisory board member when the director assume the position of an audit & supervisory board member) agrees to take office as an officer or employee with a company whose main business contains such business as in the business categories of the IHI Group, within three years after resigning the position.
 - (2) If a director violate laws or regulations.
 - (3) If a director (or an audit & supervisory board member when a director assume the position of an audit & supervisory board member) violate his/her own duty of obligation for fiduciary duty or fidelity.
3. At the 200th Ordinary General Meeting of Shareholders held on June 23, 2017, IHI received approval to contribute to the trust set up by IHI (hereinafter “the Trust”) for the purpose of providing performance-based share remuneration, up to a maximum of ¥450 million every fiscal year. However, in cases where the total number of finalized points of each director is greater than the number of shares of IHI bought and held by the Trust (hereinafter “number of shares held in trust”) under the upper limit, the number of shares held in trust shall be divided proportionately according to the number of finalized points owned by each director, and the obtained number shall be deemed the number of finalized points of each director, and then the number of shares to be provided to each director shall be calculated.
4. In the event of IHI’s shares undergoing an event such as a share split, gratis allotment of shares, or consolidation of shares, etc., the number of shares to be provided shall be adjusted to reasonable levels, corresponding to the level of the ratio, etc. used in such events.
5. Directors of IHI who receive performance-based share remuneration shall be “executive officers” as defined by

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Article 34 paragraph 1, item 3 of the Corporation Tax Act.

6. The “indicators on profits” of Article 34 paragraph 1, item 3(a) of the Corporation Tax Act shall be the consolidated ROIC. The amounts of this shall be listed in the annual securities report of IHI for the fiscal year 2022.
7. During the period from the calculation date of number of finalized points to the end of June 2024, in the case that a fact (including the occurrence of errors in performance indicators and of such reasons as described in Note 2) is found out that the number of the finalized points (hereinafter “the modified number of the finalized points”) should be calculated smaller than the number of finalized points calculated on the calculation date of number of finalized points (hereinafter “calculated number of finalized points”), the IHI Group will put it into practice as below.
 - (1) If the transfer of shares (hereinafter “the transfer”) has not yet been implemented at the point the above fact is found out, IHI will implement the transfer with the modified number of the finalized points.
 - (2) If the transfer has already been implemented at the point the above fact is found out or is implemented with the calculated number of finalized points since it could not be stopped, the receiver of the transfer will return the difference between the money and/or shares that are transferred by the transfer with the modified number of the finalized points and with the calculated number of the finalized points back to IHI.
8. In the event of fractions of less than one unit of shares occurring in the number of shares to be provided, said fractions shall be discarded.

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3. Calculation method for the monetary amount to be provided as performance-based share remuneration

At a meeting of the Board of Directors of IHI held on June 25, 2020, it was resolved that a sum of money determined in accordance with objective calculation methods based on indicators showing the profit situation (hereinafter in this section, “profit indicators”) for the fiscal year 2022 would be provided to all of those directors of IHI present on June 25, 2020 (excluding outside directors), in consideration for their execution of duties in the fiscal year 2020.

The details of the calculation method are as given below, the Remuneration Advisory Committee whose majority is independent outside directors and audit & supervisory board members shall report (The all of the members who are 3 independent outside directors and 1 independent outside audit & supervisory board member agree with the report.) about the method. The Board of Directors shall make decisions. These monies are scheduled to be provided along with the Shares that have the same applicable period for the execution of duties, within two months of the day following the day on which is held the Ordinary General Meeting of Shareholders pertaining to the fiscal year 2021, for which the profit indicators will be finalized.

$$\begin{array}{l} \text{The monetary} \\ \text{amount to be} \\ \text{provided} \end{array} = \begin{array}{l} \text{(Number of finalized points -} \\ \text{Number of the Shares to be provided)} \end{array} \times \begin{array}{l} \text{The market price of IHI's shares on the} \\ \text{last day of June 2023 (or if that day is} \\ \text{not a business day, the business day} \\ \text{directly before that)} \end{array}$$

The market price of IHI's shares shall be the closing price or quote at the Tokyo Stock Exchange on the day needed to calculate the market price of IHI's shares, and in situations where there is no closing price or quote published on that day, the closing price or quote on the most recent day for which a closing price or quote can be obtained shall be used.

The maximum monetary amount to be provided to the directors of IHI shall be finalized corresponding to titles and positions as below.

Titles and positions	The maximum monetary amount (thousands of yen)
Chairman of the Board	144,050
President	100,130
Executive Vice President	85,800
Directors excluding above *	61,290

*: For newly elected directors (excluding President)), the maximum amount is ¥ 45,690 thousand.

- Notes : 1. The content of notes 1, 2, 3, 4, 5, 6 and 7 to “2. Calculation method for the number of the IHI's shares to be provided as performance-based share remuneration” apply equally to “3. Calculation method for the monetary amount to be provided as performance-based share remuneration”.
2. In the event that fractions of less than ¥1 occur in the monetary amount to be provided, fractions shall be discarded.

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- (f) The target about the performance evaluation indicators of performance-based remuneration for the fiscal year ended March 31, 2020 and result, etc.

1. Performance-based bonuses to be evaluated for the fiscal year ended March 31, 2020

- [a] The target of the performance evaluation indicators for representative directors and result, etc. about performance-based bonuses provided as their business execution for the fiscal year ended March 31, 2020 (hereinafter, “fiscal year 2019”)

Performance evaluation indicators	Weight	Fluctuation range of performance evaluation payout rates	Target	Result	Performance evaluation payout rates
Consolidated profit	50%	0~200%	Upper : ¥ 60.2 billion Target : ¥ 45.2 billion Lower : ¥ 30.2 billion	¥ 12.8 billion	0%
Consolidated operating profit margin	50%	0~200%	Upper : 8.0% Target : 6.0% Lower : 4.0%	3.6%	0%

- [b] For the directors in charge of headquarters' divisions (excluding outside directors) are provided bonuses based on the consolidated profit, the consolidated operating profit margin and individuals' performance evaluations.

Performance evaluation indicators	Weight	Fluctuation range of performance evaluation payout rates	Target and result	Performance evaluation payout rates
Consolidated profit	30%	0~200%	Same as (f) 1. [a]	0%
Consolidated operating profit margin	50%	0~200%	Same as (f) 1. [a]	0%
Individuals' performance evaluations	20%	0~150%	Set individually and evaluated by the President	Upper : 75% Lower : 0%

- [c] For the directors in charge of business areas (excluding outside directors) are provided bonuses based on the consolidated profit, the consolidated operating profit margin of the business area in charge and individuals' performance evaluations.

Performance evaluation indicators	Weight	Fluctuation range of performance evaluation payout rates	Target and result	Performance evaluation payout rates
Consolidated profit	30%	0~200%	Same as (f) 1. [a]	0%
Consolidated operating profit margin of the business area in charge	50%	0~200%	Set the upper and lower are set by each business area in charge	Upper : 105% Lower : 0%
Individuals' performance evaluations	20%	0~150%	Set individually and evaluated by the President	Upper : 75% Lower : 0%

Notes : Result of the consolidated profit and the consolidated operating profit margin of the business area in charge are adjusted for example adjustment based on the level of planned foreign exchange, etc.

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2. Performance-based share remuneration which set the fiscal year 2019 as the end of the evaluation period

The target of the performance evaluation indicators and result, etc. about performance-based share remuneration which set the fiscal year-ended March 31, 2018 as the start of the evaluation period and the fiscal year ending March 31, 2020 as the end of the evaluation period

Performance evaluation indicators	Fluctuation range of share payout rates	Target	Result	Performance evaluation payout rates
Consolidated ROIC	0~150%	Upper : 13% Target : 10% Lower : 3.5%	5.7%	50%

Notes : The payment period of shares, etc. to the subject directors is scheduled to take place in July 2020.

(ii) Remuneration, etc. of directors and audit & supervisory board members and number of recipients

Position of directors and audit & supervisory board members	Total Amount Paid (Millions of yen)	Breakdown (Millions of yen)			Number of recipients
		Base amount	Performance-based share remuneration	Performance-based bonus	
Directors (excluding outside directors)	526	395	117	12	8
Audit & supervisory board members(excluding outside audit & supervisory board members)	72	72	0	0	2
Outside directors and outside audit & supervisory board members	75	75	0	0	8

- Notes:
1. Remuneration of directors does not include salaries as employees of directors who are also employees.
 2. Maximum total amount of directors' remuneration is set at ¥1,090 million or below (excluding salaries for working as employees) 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 as resolved at the 197th Ordinary General Meeting of Shareholders held on June 27, 2014.
 3. Since IHI has introduced performance-based share remuneration plan [Board Benefit Trust (BBT)], the total amount of performance-based share remuneration is the amount of the provision that was recorded in the current fiscal year for acquisition of IHI's shares corresponding to the point awarded in the period and it may be different from the total amount that is actually paid.
 4. The total amount of performance based bonus is the amount of the provision that was recorded for the current fiscal year, and it may be different from the total amount that is actually paid
 5. The numbers of directors and audit & supervisory board members as of March 31, 2020 are respectively 11 (including three outside directors) and five (including three outside audit & supervisory board members). The reason for the discrepancy from the above is that figures in the chart include one director and one audit & supervisory board member who retired at the conclusion of the 202nd Ordinary General Meeting of Shareholders held on June 20, 2019.

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(iii) Remuneration paid, etc. of directors and audit & supervisory board members, whose total amount paid to each position of directors and audit & supervisory board members, equaled or exceeded ¥100 million

Name	Position of directors and audit & supervisory board members	Company classification	Total amount paid (Millions of yen)	Breakdown (Millions of yen)		
				Base remuneration	Performance-based share remuneration	Performance-based bonuses
Tamotsu Saito	Director	Reporting company	101	79	22	0

Note: The total amount of performance-based share remuneration and performance-based bonus is the amount of the provision that was recorded for the current fiscal year, and it may be different from the total amount that is actually paid.

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(5) Shareholdings

(a) Standard and concept of classification of Investment shares

Regarding investment shares held for pure investment and investment shares held for purpose other than pure investment, shares that aim to gain profits solely from fluctuations in the value of the shares or dividends on shares are classified into share held for pure investment, and shares which contribute to the growth and corporate value of the IHI over the medium to long term in addition to the aim are classified into shares held for purpose other than pure investment.

(b) Investment shares held for purpose other than pure investment

[a] Method of examining holding policy and rationality and details of examination in the Board of Directors concerning the propriety of holding individual shares.

In principle, IHI seeks to reduce the number of cross-shareholdings after conducting a sufficient discussion with the held company. However, IHI may hold shares of strategic partners such as business alliances and joint research and development for the purpose of improving medium- and long-term growth and corporate value.

Moreover, the propriety of holding individual shares is assessed in the Board of Directors by confirming the mid - and long - term significance based on the holding policy and examining the rationality from the perspective whether the benefits and risks from each holding cover the cost of capital.

[b] Number of stock names and total amount on the balance sheet

	Number of stock names	Total amount on the balance sheet (Millions of yen)
Unlisted stocks	90	9,026
Stocks other than unlisted stocks	25	6,945

(Stock increased for the current fiscal year)

	Number of stock names	Total amount of acquisition cost for increase of stocks (Millions of yen)	Reason of stock increase (Millions of yen)
Unlisted stocks	3	15	Increase due to Absorption-Type Merger of affiliated companies, etc.
Stocks other than unlisted stocks	—	—	—

(Stock decreased for the current fiscal year)

	Number of stock names	Total amount of selling prices for decrease of stocks (Millions of yen)
Unlisted stocks	10	139
Stocks other than unlisted stocks	6	4,785

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[c] Information about number of shares, amount on the balance sheet for each stock name of Specified investment shares and deemed share holdings

Specified investment shares

Stock name	The current fiscal year	The previous fiscal year	Holding purpose, quantitative effects from holdings and reason of share increase	IHI's shares held by the company
	Number of shares (Shares)	Number of shares (Shares)		
	Amount on the balance sheet (Millions of yen)	Amount on the balance sheet (Millions of yen)		
Mizuho Financial Group, Inc.	23,332,777	23,332,777	Crucial to facilitate smooth financial transactions such as financing and to collect domestic and overseas information	Yes
	2,883	3,996		
China Steel Structure Co., Ltd	11,061,690	11,061,690	Crucial to establish the brand of IHI in Taiwan	No
	757	1,048		
Mitsui Fudosan Co., Ltd.	402,000	402,000	Crucial to a strategy for growth in the urban development business, etc.	Yes
	751	1,118		
The Kansai Electric Power Company, Incorporated	520,300	520,300	Crucial to a strategy for growth in the boilers business, etc.	No
	626	849		
Electric Power Development Co., Ltd.	217,500	217,500	Crucial to a strategy for growth in the boilers business, etc.	No
	473	586		
The Chugoku Electric Power Co., Inc.	309,000	309,000	Intend to reduce	No
	465	426		
Sumitomo Mitsui Financial Group, Inc.	73,200	73,200	Crucial to facilitate smooth financial transactions such as financing and to collect domestic and overseas information	Yes
	192	283		
DAIO PAPER CORPORATION	119,000	119,000	Crucial to a strategy for growth in the paper-making machineries business, etc.	No
	172	161		
The Hachijuni Bank, Ltd.	294,000	294,000	Crucial to facilitate smooth financial transactions such as financing and to collect local information	Yes
	114	134		
The 77 Bank, Ltd.	79,050	79,050	Crucial to facilitate smooth financial transactions such as financing and to collect local information	Yes
	110	122		
Tokyo Electric Power Company Holdings, Incorporated	275,139	275,139	Crucial to a strategy for growth in the boilers business, etc.	No
	103	192		
Hokkaido Electric Power Co., Inc.	96,611	96,611	Crucial to a strategy for growth in the boilers business, etc.	No
	45	61		
Tokuyama Corporation	21,600	21,600	Crucial to a strategy for growth in the boilers business, etc.	No
	45	56		
EF-ON INC.	96,000	96,000	Crucial to a strategy for growth in the power system business, etc.	No
	44	73		

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Mitsui Chemicals, Inc.	19,600	19,600	Crucial to a strategy for growth in the boilers business, etc.	No
	40	52		
Nishi-Nippon Financial Holdings, Inc.	50,200	50,200	Crucial to facilitate smooth financial transactions such as financing and to collect domestic and overseas information	Yes
	30	47		
Nippon Paper Industries Co., Ltd.	18,600	18,600	Crucial to a strategy for growth in the paper-making machinery, etc.	No
	28	42		
Penta-Ocean Construction Co., Ltd.	33,275	33,275	Crucial to a strategy for growth in the social infrastructures and cargo-handling machineries business, etc.	No
	18	17		
Sumitomo Mitsui Construction Co., Ltd.	27,720	27,720	Crucial to a strategy for growth in the bridges business	No
	13	21		
Hokuriku Electric Power Company	17,069	17,069	Crucial to a strategy for growth in the boilers business, etc.	No
	12	14		
Rinko Corporation	3,000	3,000	Crucial to implement business strategies in Niigata Prefecture	No
	6	6		
Mitsubishi Paper Mills Limited	15,600	15,600	Crucial to a strategy for growth in the paper-making machineries business, etc.	No
	5	8		
Chubu Electric Power Co., Inc.	100	100	Crucial to a strategy for growth in the boilers business, etc.	No
	0	0		
Tohoku Electric Power Co., Inc.	100	100	Crucial to a strategy for growth in the boilers business, etc.	No
	0	0		
Kyushu Electric Power Co., Inc.	100	100	Crucial to a strategy for growth in the boilers business, etc.	No
	0	0		
TOSHIBA CORPORATION	—	875,100	—	No
	—	3,084		
NIPPON STEEL CORPORATION	—	540,886	—	No
	—	1,056		
NISHISHIBA ELECTRIC CO., LTD.	—	2,741,860	—	No
	—	359		
NACHI-FUJIKOSHI CORP.	—	43,700	—	Yes
	—	194		
SAIBUGAS Co., Ltd.	—	29,900	—	No
	—	71		
Nippon Telegraph and Telephone Corporation	—	4,000	—	No
	—	18		

(Translation purposes only)

- Notes:
1. “—” indicates that IHI does not own the relevant shares.
 2. Though description of quantitative effects from holding for each stock name is difficult, annually in the Board of Directors, the mid - and long - term significance is confirmed and the rationality is examined from the perspective whether the benefit and risk associated with holding is worth capital cost.

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Deemed share holdings

Stock name	The current fiscal year	The previous fiscal year	Holding purpose, quantitative effects from holdings and reason of share increase	IHI's shares held by the company
	Number of shares (Shares)	Number of shares (Shares)		
	Amount on the balance sheet (Millions of yen)	Amount on the balance sheet (Millions of yen)		
MITSUI & CO., LTD.	1,709,255	1,709,255	Has authority to direct the exercise of voting rights	Yes
	2,569	2,937		
The Shizuoka Bank, Ltd.	2,364,500	2,364,500	Has authority to direct the exercise of voting rights	Yes
	1,553	1,993		
Sumitomo Mitsui Trust Holdings, Inc.	404,474	404,474	Has authority to direct the exercise of voting rights	Yes
	1,263	1,608		
Toho Gas Co., Ltd.	177,050	177,050	Has authority to direct the exercise of voting rights	Yes
	867	879		
Tosoh Corporation	578,000	578,000	Has authority to direct the exercise of voting rights	Yes
	710	994		
Mitsubishi UFJ Financial Group, Inc.	1,374,780	1,374,780	Has authority to direct the exercise of voting rights	No
	554	756		
KYOKUTO BOEKI KAISHA, LTD.	385,580	385,580	Has authority to direct the exercise of voting rights	Yes
	499	620		
Dai-ichi Life Holdings, Inc.	324,400	324,400	Has authority to direct the exercise of voting rights	Yes
	420	498		
Tokyo Gas Co., Ltd.	159,750	159,750	Has authority to direct the exercise of voting rights	No
	408	478		
The Chugoku Bank, LTD.	400,000	800,000	Has authority to direct the exercise of voting rights	No
	385	831		
Yamaguchi Financial Group, Inc.	537,000	537,000	Has authority to direct the exercise of voting rights	Yes
	328	503		
The Iyo Bank, Ltd.	539,782	539,782	Has authority to direct the exercise of voting rights	Yes
	295	316		
Kajima Corporation	257,132	257,132	Has authority to direct the exercise of voting rights	Yes
	285	420		
Mizuho Leasing Company, Limited	120,000	240,000	Has authority to direct the exercise of voting rights	No
	252	627		
The Gunma Bank, Ltd.	742,000	742,000	Has authority to direct the exercise of voting rights	Yes
	243	310		

(Translation purposes only)

SHIMIZU CORPORATION	250,000	250,000	Has authority to direct the exercise of voting rights	Yes
	211	240		
OBAYASHI CORPORATION	220,000	220,000	Has authority to direct the exercise of voting rights	Yes
	203	245		
SHIZUOKA GAS Co., Ltd.	200,000	200,000	Has authority to direct the exercise of voting rights	Yes
	175	168		
ANA HOLDINGS INC.	64,242	64,242	Has authority to direct the exercise of voting rights	No
	169	260		
JGC HOLDINGS CORPORATION	194,000	194,000	Has authority to direct the exercise of voting rights	Yes
	168	285		
The Shibusawa Warehouse Co., Ltd.	80,000	80,000	Has authority to direct the exercise of voting rights	Yes
	162	134		
Taisei Corporation	42,000	42,000	Has authority to direct the exercise of voting rights	Yes
	138	215		
THE SAN-IN GODO BANK, LTD.	241,000	241,000	Has authority to direct the exercise of voting rights	Yes
	131	191		
Osaka Gas Co., Ltd.	61,300	61,300	Has authority to direct the exercise of voting rights	No
	124	133		
Mitsubishi Estate Co., Ltd.	64,723	64,723	Has authority to direct the exercise of voting rights	No
	103	129		
Fujikura Ltd.	—	250,000	—	No
	—	104		

Note: 1. The number of shares subject to the authority to exercise voting rights is stated.

2. The amount is calculated by multiplying the fair value at the end of the fiscal year of the deemed shareholdings by the number of shares subject to the authority to exercise voting rights.

3. Holding purpose indicates the content of the authority had by IHI.

4. When determining share holdings with the highest values in the amounts recorded on the balance sheet, specified investment shares and deemed share holdings are not combined.

(c) Investment shares held for purposes of pure investment

Not applicable

Note: The amounts of capital less than one unit are rounded down in “IV. Information about reporting company” excluding “3. Dividend policy” and “(iv) Details of audit remuneration, etc.” of “(3) Information about audit” in “4. Corporate governance, etc.”

(Translation purposes only)

V. Overview of operational procedures for stock

Fiscal year	From April 1 to March 31
Ordinary General Meeting of Shareholders	June
Record date	March 31
Record date for dividends of surplus	September 30 March 31
Number of shares constituting one voting unit	100 shares
Purchase and sales of shares less than one unit	
Location of office	(Special account) 1-4-1, Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Business Planning Department
Administrator of Shareholders' Register	(Special account) 1-4-1, Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Forwarding office	—
Purchase and sales fee	Free of charge
Method of public notice	IHI shall give its public notice via an electronic method. However, in case of an accident or an unavoidable reason that prevents use of the electronic method, public notice shall be given in the Nihon Keizai Shimbun, which is published in Tokyo. URL for public notice is following http://www.ihico.jp/ihico/elec/index.html
Special benefits for shareholders	Not applicable

- Notes:
1. IHI may, upon resolution of the Board of Directors, pay interim dividends on the basis of September 30 each year as the record date.
 2. Shareholders of IHI may not exercise any rights other than those stipulated below regarding shares less than one unit.
 - (1) Rights listed in Article 189, paragraph 2 of the Companies Act;
 - (2) Rights to make demands pursuant to Article 166, paragraph 1 of the Companies Act;
 - (3) Rights to receive allotment of shares and share purchase warrants in proportion to the number of shares owned by them; and
 - (4) Rights to request to sell such number of shares as will make one unit with the shares less than one unit owned by them.

(Translation purposes only)

VI. Reference information of reporting company

1. Information about parent company, etc. of reporting company

There is no company that falls under the category of “parent company, etc.” of IHI.

2. Other reference information

From the beginning of the current fiscal year until the filing date of this Annual Securities Report, IHI has filed the following documents.

(1)	Annual Securities Report and Documents Attached, and Confirmation Letter	Fiscal year (202th)	From April 1, 2018 To March 31, 2019	Filed with Director-General of the Kanto Local Finance Bureau on June 20, 2019
(2)	Amendment Report for Annual Securities Report and Confirmation Letter	Fiscal year (202th)	From April 1, 2018 To March 31, 2019	Filed with Director-General of the Kanto Local Finance Bureau on August 13, 2019
(3)	Management’s Report on Internal Control Over Financial Reporting for the consolidated financial statements and Documents Attached			Filed with Director-General of the Kanto Local Finance Bureau on June 20, 2019
(4)	Shelf Registration Supplements (Bonds Payable) and Documents Attached			Filed with Director-General of the Kanto Local Finance Bureau on October 10, 2019
(5)	Amended Shelf Registration Statements			Filed with Director-General of the Kanto Local Finance Bureau on June 21, 2019
				Filed with Director-General of the Kanto Local Finance Bureau on August 13, 2019
				Filed with Director-General of the Kanto Local Finance Bureau on February 6, 2020
				Filed with Director-General of the Kanto Local Finance Bureau on February 25, 2020
				Filed with Director-General of the Kanto Local Finance Bureau on March 23, 2020
(6)	Quarterly Reports and Confirmation Letters	(203th First Quarter)	From April 1, 2019 To June 30, 2019	Filed with Director-General of the Kanto Local Finance Bureau on August 13, 2019
		(203th Second Quarter)	From July 1, 2019 To September 30, 2019	Filed with Director-General of the Kanto Local Finance Bureau on November 13, 2019
		(203th Third Quarter)	From October 1, 2019 To December 31, 2019	Filed with Director-General of the Kanto Local Finance Bureau on February 13, 2020
(7)	Extraordinary Reports			
	Extraordinary Report based on Article 19, paragraph 2, item ix-2 (results of exercise of voting rights at a General Meeting of Shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.			Filed with Director-General of the Kanto Local Finance Bureau on June 21, 2019
	Extraordinary Report based on Article 19, paragraph 2, item xii (where an event has occurred which may have a serious effect on the financial position, operating results and cash flows) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.			Filed with Director-General of the Kanto Local Finance Bureau on February 6, 2020
	Extraordinary Report based on Article 19, paragraph 2, item ix (a change in the representative director) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.			Filed with Director-General of the Kanto Local Finance Bureau on February 25, 2020
	Extraordinary Report based on Article 19, paragraph 2, item iii (a change in the specified subsidiary) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc.			Filed with Director-General of the Kanto Local Finance Bureau on March 23, 2020
(8)	Share Buyback Report	Reporting Period	From November 1, 2019 To November 30, 2019	Filed with Director-General of the Kanto Local Finance Bureau on December 11, 2019

(Translation purposes only)

Part 2. Information about company which provides guarantee to reporting company

Not applicable

Consolidated financial statements

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Financial information

1. Basis of preparation of the consolidated financial statements and the non-consolidated financial statements

- (1) The consolidated financial statements of IHI are prepared in accordance with the “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance No. 28 of 1976).
- (2) The non-consolidated financial statements of IHI are prepared in accordance with the “Ordinance on Terminology, Forms and Preparation Methods of Financial Statements, etc.” (Ordinance of the Ministry of Finance No. 59 of 1963, hereinafter referred to as “Ordinance on Financial Statements”).

As IHI falls under the category of a company allowed to file specified financial statements, the non-consolidated financial statements of IHI are prepared in accordance with Article 127 of the Ordinance on Financial Statements.

2. Audit attestation

The consolidated and the non-consolidated financial statements for the fiscal year ended March 31, 2020 (from April 1, 2019 to March 31, 2020) were audited by Ernst & Young ShinNihon LLC, in accordance with Article 193-2, paragraph 1 of the Financial Instruments and Exchange Act.

3. Special efforts to ensure the appropriateness of the consolidated financial statements, etc.

IHI makes special efforts to ensure the appropriateness of the consolidated financial statements, etc. Specifically, IHI is a member of the Financial Accounting Standards Foundation to establish an internal system that enables the proper understanding of the contents of accounting standards, etc. and the timely disclosure of accurate and fair corporation information.

1. Consolidated financial statements

(1) Consolidated financial statements

i) Consolidated balance sheet

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	*1 94,951	*1 147,228
Notes and accounts receivable - trade	*4,*9 377,695	*4 403,832
Securities	—	21
Finished goods	*7 23,084	*7 18,417
Work in process	*7 276,238	*7 289,277
Raw materials and supplies	142,588	137,848
Other	77,351	83,410
Allowance for doubtful accounts	(4,043)	(4,024)
Total current assets	987,864	1,076,009
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	*1,*5,*8 137,156	*5,*8 154,217
Machinery, equipment and vehicles, net	*5,*8 76,697	*5,*8 76,183
Land	*1,*5,*6 99,217	*1,*5,*6 96,579
Leased assets, net	*8 15,962	*8 26,288
Construction in progress	10,100	11,706
Other, net	*8 28,262	*5,*8 32,522
Total property, plant and equipment	367,394	397,495
Intangible assets		
Goodwill	10,032	7,456
Software	18,060	19,837
Other	5,992	4,869
Total intangible assets	34,084	32,162
Investments and other assets		
Investment securities	*1,*2 117,967	*1,*2 63,514
Deferred tax assets	116,802	112,440
Net defined benefit asset	31	7
Other	*1,*2 41,763	*1,*2 60,410
Allowance for doubtful accounts	(1,376)	(1,255)
Total investments and other assets	275,187	235,116
Total non-current assets	676,665	664,773
Total assets	1,664,529	1,740,782

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	*9 290,043	262,587
Short-term loans payable	*1 111,785	*1 185,600
Commercial papers	—	56,000
Current portion of bonds	20,000	10,000
Accrued expenses	88,520	88,082
Income taxes payable	7,384	6,012
Advances received	157,546	151,790
Provision for bonuses	28,089	26,672
Provision for construction warranties	47,968	42,759
Provision for loss on construction contracts	*7 21,212	*7 19,929
Other provision	1,079	1,141
Other	49,483	58,433
Total current liabilities	823,109	909,005
Non-current liabilities		
Bonds payable	30,000	50,000
Long-term loans payable	175,813	159,223
Lease obligations	14,307	22,089
Deferred tax liabilities for land revaluation	*6 4,953	*6 4,950
Net defined benefit liability	160,244	166,193
Provision for loss on business of subsidiaries and affiliates	1,212	1,249
Other provision	1,132	1,068
Other	72,067	73,259
Total non-current liabilities	459,728	478,031
Total liabilities	1,282,837	1,387,036
Net assets		
Shareholders' equity		
Capital stock	107,165	107,165
Capital surplus	53,410	51,780
Retained earnings	184,092	186,170
Treasury shares	(1,170)	(15,899)
Total shareholders' equity	343,497	329,216
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,063	(679)
Deferred gains or losses on hedges	(190)	(252)
Revaluation reserve for land	*6 5,321	*6 5,321
Foreign currency translation adjustment	2,808	(2,067)
Remeasurements of defined benefit plans	(3,319)	(5,164)
Total accumulated other comprehensive income	5,683	(2,841)
Subscription rights to shares	659	533
Non-controlling interests	*6 31,853	*6 26,838
Total net assets	381,692	353,746
Total liabilities and net assets	1,664,529	1,740,782

ii) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net sales	1,483,442	1,386,503
Cost of sales	*1,*2,*3 1,205,713	*1,*2,*3 1,131,775
Gross profit	277,729	254,728
Selling, general and administrative expenses	*1,*4 195,241	*1,*4 193,931
Operating profit	82,488	60,797
Non-operating income		
Interest income	913	703
Dividend income	1,133	1,168
Share of profit of entities accounted for using equity method	4,108	—
Foreign exchange gains	5	—
Reversal of accrued expenses for compensation for damage	—	1,340
Other income	5,199	3,334
Total non-operating income	11,358	6,545
Non-operating expenses		
Interest expenses	3,227	3,963
Share of loss of entities accounted for using equity method	—	12,991
Foreign exchange losses	—	2,083
Burden share of losses for delayed construction of SPB tanks	*5 6,679	—
Other expenses	18,191	16,054
Total non-operating expenses	28,097	35,091
Ordinary profit	65,749	32,251
Extraordinary income		
Gain on sales of non-current assets	—	*6 4,409
Gain on transfer of intellectual property rights	—	*7 3,837
Gain on transfer of equity interest of subsidiaries and associates	—	*8 2,200
Gain on insurance claims	—	1,108
Gain on sales of shares of subsidiaries and associates	*9 4,199	236
Gain on transfer of business	*10 1,108	—
Total extraordinary income	5,307	11,790
Extraordinary losses		
Loss on valuation of investment securities	—	4,836
Impairment loss	*11 1,610	*11 426
Total extraordinary losses	1,610	5,262
Profit before income taxes	69,446	38,779
Income taxes - current	16,925	14,970
Income taxes for prior periods	*12 4,304	—
Income taxes - deferred	2,977	5,759
Total income taxes	24,206	20,729
Profit	45,240	18,050
Profit attributable to non-controlling interests	5,351	5,238
Profit attributable to owners of parent	39,889	12,812

Consolidated statement of comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit	45,240	18,050
Other comprehensive income		
Valuation difference on available-for-sale securities	(808)	(1,741)
Deferred gains or losses on hedges	(163)	(75)
Revaluation reserve for land	(12)	—
Foreign currency translation adjustment	(605)	(6,183)
Remeasurements of defined benefit plans, net of tax	(3,612)	(2,031)
Share of other comprehensive income of entities accounted for using equity method	(443)	590
Total other comprehensive income	*1 (5,643)	*1 (9,440)
Comprehensive income	39,597	8,610
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	34,405	4,487
Comprehensive income attributable to non- controlling interests	5,192	4,123

iii) Consolidated statement of changes in equity

Fiscal year ended March 31, 2019

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	107,165	53,406	153,564	(879)	313,256
Changes of items during period					
Dividends of surplus			(9,267)		(9,267)
Profit attributable to owners of parent			39,889		39,889
Purchase of treasury shares				(424)	(424)
Disposal of treasury shares				133	133
Change in ownership interest of parent due to transactions with non-controlling interests		4			4
Net decrease from newly consolidated subsidiaries			(126)		(126)
Reversal of revaluation reserve for land			32		32
Net changes of items other than shareholders' equity					
Total changes of items during period	–	4	30,528	(291)	30,241
Balance at end of current period	107,165	53,410	184,092	(1,170)	343,497

(Millions of yen)

	Accumulated other comprehensive income						Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	2,034	(286)	5,359	3,679	559	11,345	792	24,824	350,217
Changes of items during period									
Dividends of surplus									(9,267)
Profit attributable to owners of parent									39,889
Purchase of treasury shares									(424)
Disposal of treasury shares									133
Change in ownership interest of parent due to transactions with non-controlling interests									4
Net decrease from newly consolidated subsidiaries									(126)
Reversal of revaluation reserve for land									32
Net changes of items other than shareholders' equity	(971)	96	(38)	(871)	(3,878)	(5,662)	(133)	7,029	1,234
Total changes of items during period	(971)	96	(38)	(871)	(3,878)	(5,662)	(133)	7,029	31,475
Balance at end of current period	1,063	(190)	5,321	2,808	(3,319)	5,683	659	31,853	381,692

Fiscal year ended March 31, 2020

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	107,165	53,410	184,092	(1,170)	343,497
Changes of items during period					
Dividends of surplus			(10,816)		(10,816)
Profit attributable to owners of parent			12,812		12,812
Purchase of treasury shares				(14,851)	(14,851)
Disposal of treasury shares		4		122	126
Change in ownership interest of parent due to transactions with non-controlling interests		(1,634)			(1,634)
Net increase from newly consolidated subsidiaries			82		82
Reversal of revaluation reserve for land					—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	(1,630)	2,078	(14,729)	(14,281)
Balance at end of current period	107,165	51,780	186,170	(15,899)	329,216

(Millions of yen)

	Accumulated other comprehensive income						Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	1,063	(190)	5,321	2,808	(3,319)	5,683	659	31,853	381,692
Changes of items during period									
Dividends of surplus									(10,816)
Profit attributable to owners of parent									12,812
Purchase of treasury shares									(14,851)
Disposal of treasury shares									126
Change in ownership interest of parent due to transactions with non-controlling interests									(1,634)
Net increase from newly consolidated subsidiaries									82
Reversal of revaluation reserve for land									—
Net changes of items other than shareholders' equity	(1,742)	(62)	—	(4,875)	(1,845)	(8,524)	(126)	(5,015)	(13,665)
Total changes of items during period	(1,742)	(62)	—	(4,875)	(1,845)	(8,524)	(126)	(5,015)	(27,946)
Balance at end of current period	(679)	(252)	5,321	(2,067)	(5,164)	(2,841)	533	26,838	353,746

iv) Consolidated statement of cash flows

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from operating activities		
Profit before income taxes	69,446	38,779
Depreciation	53,200	57,659
Depreciation and amortization on other	8,413	7,497
Impairment loss	1,610	426
Increase (decrease) in allowance for doubtful accounts	(587)	(102)
Increase (decrease) in provision for bonuses	2,161	(1,265)
Increase (decrease) in provision for construction warranties	(5,505)	(4,913)
Increase (decrease) in provision for loss on construction contracts	(6,517)	(1,162)
Increase (decrease) in net defined benefit liability	909	2,447
Interest and dividend income	(2,046)	(1,871)
Interest expenses	3,227	3,963
Foreign exchange losses (gains)	21	(244)
Loss (gain) on sales of short-term and long-term investment securities	(37)	722
Loss (gain) on valuation of short-term and long-term investment securities	540	5,544
Share of loss (profit) of entities accounted for using equity method	(4,108)	12,991
Loss (gain) on sales or disposal of non-current assets	3,728	(2,734)
Loss (gain) on transfer of intellectual property rights	—	(3,837)
Loss (gain) on transfer of business	(664)	—
Loss (gain) on sales of shares of subsidiaries and associates	(4,199)	(236)
Loss (gain) on transfer of equity interest of subsidiaries and associates	—	(2,200)
Gain on insurance claims	—	(1,108)
Decrease (increase) in notes and accounts receivable - trade	25,842	(31,439)
Increase (decrease) in advances received	(19,507)	(4,845)
Decrease (increase) in advance payments	(7,611)	2,139
Decrease (increase) in inventories	(14,794)	(8,704)
Increase (decrease) in notes and accounts payable - trade	(15,813)	(23,024)
Increase (decrease) in accrued expenses	178	35
Decrease (increase) in other current assets	(8,715)	(10,418)
Increase (decrease) in other current liabilities	(5,374)	(7,042)
Decrease (increase) in consumption taxes refund receivable	(3,309)	1,058
Other, net	(1,243)	3,253
Subtotal	69,246	31,369
Interest and dividend income received	2,520	2,107
Interest expenses paid	(3,179)	(3,826)
Proceeds from insurance income	—	1,737
Income taxes paid	(22,185)	(16,877)
Net cash provided by (used in) operating activities	46,402	14,510

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from investing activities		
Decrease (increase) in time deposits	(652)	529
Purchase of short-term and long-term investment securities	(18,272)	(23,182)
Proceeds from sales and redemption of short-term and long-term investment securities	7,081	6,469
Purchase of property, plant and equipment and intangible assets	(64,195)	(66,351)
Proceeds from (payments for) sales or disposal of property, plant and equipment and intangible assets	(393)	6,614
Proceeds from transfer of intellectual property rights	—	1,898
Proceeds from transfer of business	2,834	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,003)	—
Proceeds from transfer of equity interest of subsidiaries resulting in change in scope of consolidation	—	7,352
Decrease (increase) in short-term loans receivable	188	(38)
Payments of long-term loans receivable	(1,147)	(22)
Collection of long-term loans receivable	37	248
Decrease (increase) in other investments	(9,739)	(11,707)
(Decrease)increase in other non-current liabilities	5,968	2,303
Other, net	13	(9)
Net cash provided by (used in) investing activities	(79,280)	(75,896)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	36,733	84,004
Net increase (decrease) in commercial papers	—	56,000
Proceeds from long-term loans payable	52,614	47,055
Repayments of long-term loans payable	(58,186)	(49,527)
Proceeds from issuance of bonds	—	30,000
Redemption of bonds	—	(20,000)
Proceeds from sales and leasebacks	1,459	436
Repayments of lease obligations	(6,709)	(5,276)
Decrease (increase) in treasury shares	(5)	(14,490)
Payments made to trust account for acquisition of treasury shares	(419)	(361)
Purchase of treasury shares of subsidiaries	(1)	(1)
Cash dividends paid	(9,241)	(10,791)
Proceeds from share issuance to non-controlling shareholders	3,855	1,299
Dividends paid to non-controlling interests	(3,623)	(3,084)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(14)	—
Net cash provided by (used in) financing activities	16,463	115,264
Effect of exchange rate change on cash and cash equivalents	1,743	(1,301)
Net increase (decrease) in cash and cash equivalents	(14,672)	52,577
Cash and cash equivalents at beginning of period	107,323	92,608
Increase in cash and cash equivalents from consolidation of non-consolidated subsidiaries	523	299
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(566)	—
Cash and cash equivalents at end of period	*1 92,608	*1 145,484

Notes to consolidated financial statements

(Basis of preparation of the consolidated financial statements)

1. Scope of consolidation

(1) Consolidated subsidiaries

The number of consolidated subsidiaries is 155 (the previous fiscal year: 153). The names of principal consolidated subsidiaries are omitted here because they are provided in “4. Overview of affiliated companies” under “I. Overview of company.”

There were changes in consolidated subsidiaries in the current fiscal year. The reason for the change and the status are provided in “3. Description of business” under “I. Overview of company.”

(2) Non-consolidated subsidiaries

The name of the principal non-consolidated subsidiary is ALPHA Automotive Technologies LLC. Since each non-consolidated subsidiary is small in size and the sum of total assets, total net sales, total share of basic earnings, total share of retained earnings, etc. of all the non-consolidated subsidiaries is insignificant in comparison with the sum of those items of consolidated companies, the non-consolidated subsidiaries do not have a significant impact on the consolidated financial statements.

2. Equity method

(1) Application of the equity method of accounting

The number of affiliates accounted for using the equity method is 26 (the previous fiscal year: 28). The names of these affiliates are as follows:

(Foreign non-consolidated subsidiary)

ALPHA Automotive Technologies LLC

(Domestic affiliates)

Toshiba Inspection Solutions Co., Ltd., Paul Wurth IHI Co., Ltd., Turbo Systems United Co., Ltd., Japan Marine United Corporation, JMU AMTEC Co., Ltd., IMC Co., Ltd., JMU Defense Systems Co., Ltd., Kaisho Shipping Co., Ltd., IHI Finance Support Corporation, and Nanatsujima Biomass Power Limited Liability Company

(Foreign affiliates)

Rio Bravo Fresno and 5 other companies, HVM Plasma, spol sro, IHI Investment for Aero Engine Leasing LLC, GE Passport, LLC, KAISHO MARINE S.A., SOUTH-POINT MARINE S.A., SUNNY RIVER LINE S.A., GREAT RIVER LINE S.A., LUNAR RIVER LINE S.A., and GLORIOUS RIVER LINE S.A.

(Changes in affiliates accounted for using the equity method)

Due to the partial transfer of IHI's equity interest in IHI Investment for Aero Engine Leasing LLC (hereafter, IHI-IAEL), IHI-IAEL was changed from a consolidated subsidiary to an affiliate accounted for using the equity method, and PW1100G-JM Engine Leasing, LLC, which is an affiliate accounted for using the equity method of IHI-IAEL, was excluded.

In addition, due to the completion of liquidation, Long Xin Enterprise Pte. Ltd. was excluded from affiliates accounted for using the equity method.

Moreover, following the termination of the capital relationship with FELGUERA-I.H.I., S.A., FELGUERA-I.H.I.,S.A. was excluded from affiliates accounted for using the equity method.

(2) Companies not accounted for using the equity method

The names of principal non-consolidated subsidiaries and affiliates that are not accounted for using the equity method are as follows:

(Non-consolidated subsidiaries)

IHI Taiwan Corporation

(Affiliates)

Kondo Tekko Co., Ltd., Ta Chang Tsuo Industrials Co., Ltd.

From the viewpoint of these companies' accounts such as profit or loss (amount corresponding to IHI's equity interest), and retained earnings (amount corresponding to IHI's equity interest), exclusion of these companies from the scope of the equity method companies has an immaterial effect on the consolidated financial statements and their effect as a whole thereon is also immaterial.

3. Accounting period of consolidated subsidiaries

Because the difference between the balance sheet date of the following foreign subsidiary and the consolidated balance sheet date is not more than three months, financial statements as of its balance sheet date are used in preparation of the consolidated financial statements. However, adjustments necessary for consolidation are made to significant intercompany transactions recorded in the period between its balance sheet date and the consolidated balance sheet date.

(Foreign subsidiary whose balance sheet date is December 31)

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4. Significant accounting policies

(1) Valuation bases and methods for significant assets

(i) Securities

- (a) Securities to be held until maturity are stated at amortized cost (by the straight-line method).
- (b) Other securities with readily available market prices are stated at fair market value as of the balance sheet date. The related valuation differences are directly included into net assets and the sale price is computed by the moving-average method. Other securities without market prices available are stated at cost by the moving-average method.

(ii) Derivatives

Derivatives are stated at fair market value.

(iii) Inventories

- (a) Finished goods and work in process are stated principally at identified cost. (For amounts shown on balance sheet, the book value write-down method based on decreased profitability is used.)
- (b) Raw materials and supplies are stated at cost determined by the moving-average method. (For amounts shown on balance sheet, the book value write-down method based on decreased profitability is used.)

(2) Depreciation and amortization of significant depreciable and amortizable assets

(i) Property, plant and equipment (except for leased assets)

These assets are depreciated principally by the straight-line method.

(ii) Intangible assets (except for leased assets)

These assets are amortized using the straight-line method. Software used internally is amortized using the straight-line method over the assets' useful lives, estimated by IHI (five years).

(iii) Leased assets

- (a) Leased assets related to finance lease transactions that transfer ownership are depreciated using the same method as that applied to property, plant and equipment.
- (b) Leased assets related to finance lease transactions that do not transfer the ownership are depreciated over the lease period as useful period using the straight-line method with no residual value. IHI uses the operating lease accounting method for finance lease transactions that do not transfer ownership contracted on or before March 31, 2008.

(3) Basis for significant reserves

(i) Allowance for doubtful accounts

To provide for losses on bad debts, estimated uncollectible amounts are recorded based on historical default rates for normal receivables, as well as considering the collectability of specific uncollectible receivables on an individual basis.

(ii) Provision for bonuses

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

(iii) Provision for directors' bonuses

To prepare for the transfer of money and shares to the directors, etc., an amount is recognized based on the estimated amount of the liability for transfer of money and shares at the end of the current fiscal year.

(iv) Provision for construction warranties

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

(v) Provision for loss on construction contracts

Provision for loss on construction contracts is provided for in the amount of estimated losses for undelivered projects at the end of the fiscal year.

(vi) Provision for directors' retirement benefits

The domestic consolidated subsidiaries provided the provision for directors' retirement benefits for the amount required to be

paid at the end of the current fiscal year in accordance with the internal policy.

(vii) Provision for loss on business of subsidiaries and affiliates

Provision for loss on business of subsidiaries and affiliates is provided for in the amount of estimated loss to be borne by IHI in consideration of the contents of assets of subsidiaries and affiliates.

(4) Accounting for retirement benefits

To prepare for employees' retirement benefits, net defined benefit asset and liability are recognized based on estimated amounts of retirement benefit obligations and plan assets at the end of the current fiscal year. Certain consolidated subsidiaries adopt the simplified method to determine net defined benefit liability.

In the calculation of retirement benefit obligations, the method used to attribute projected benefit obligations in the period up to the current fiscal year is the benefit formula basis.

Past service costs are amortized using the straight-line method over a certain number of years within the average remaining service period of employees at the time they are incurred.

Actuarial gains and losses are amortized from the year following the fiscal year in which they occur using the straight-line method over a certain number of years within the average remaining service periods of employees at the time they occur.

(5) Foreign currency translations

The assets and liabilities of foreign subsidiaries are translated into Japanese yen at the exchange rates prevailing at the balance sheet date while the income and expenses of those subsidiaries are translated at the average exchange rates during the period. Translation differences are included in components of foreign currency translation adjustments and non-controlling interests in consolidated subsidiaries under net assets

(6) Revenue and costs recognition

Basis of recording revenues and costs of construction contracts

- (i) Construction projects whose outcome of the progress by the end of the fiscal year deemed definite are recorded using the percentage-of-completion method (the percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost).
- (ii) All other projects are accounted for using the completed construction method.

(7) Principal methods for hedge accounting

- (i) Hedge accounting methods
Deferral hedge accounting is applied.
- (ii) Hedging instruments and hedged items
Interest rate swaps are utilized to hedge interest volatility risks of loans payable, and forward foreign exchange contracts, etc. are used to hedge exchange fluctuation risks of monetary receivables and payables denominated in foreign currencies.
- (iii) Hedging policy
Necessary hedging instruments are selected by risk category.
- (iv) Method for assessing hedge effectiveness
In a period from the inception of a hedge to the time of assessment of the effectiveness, the effectiveness is assessed based mainly on the amounts of changes in the hedged item and the hedging instrument, comparing market fluctuations or cumulative changes in cash flows of the hedged item with market fluctuations or cumulative changes in cash flows of the hedging instrument.

(8) Amortization method and period of goodwill

Goodwill is amortized through the estimated effective period of the investment, with the exception that when the amount of goodwill is immaterial, it is charged to expenses immediately.

(9) Scope of cash on consolidated statement of cash flows

Cash (cash and cash equivalents) in the consolidated statement of cash flows consists of cash on hands, at-call deposits with banks, and short-term investments having maturities within three months from acquisition which are readily convertible to cash and involve only an insignificant risk in their value.

(10) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(11) Application of consolidated taxation system

The consolidated taxation system is applied.

(12) Application of tax effect accounting for transition from consolidated taxation system to group tax sharing system

IHI and some of its domestic subsidiaries calculated the amounts of deferred tax assets and deferred tax liabilities according to tax acts prior to amendment based on the treatment of Paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force No. 39, March 31, 2020) instead of applying the provision of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018), regarding the transition to the group tax sharing system established in “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 8 of 2020), and regarding items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system.

(Changes in accounting policies)

(Application of Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements, etc.)

IHI has applied the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements” (ASBJ Practical Issues Task Force No. 18, September 14, 2018) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (ASBJ Practical Issues Task Force No. 24, September 14, 2018) effective from the beginning of the current fiscal year.

The above applications have no effect on the consolidated financial statements for the current fiscal year.

(New accounting standards not yet applied)

(Accounting standards for revenue recognition, etc.)

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)
- “Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 31, 2020)
- “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) jointly developed comprehensive revenue recognition standards and issued “Revenue from Contracts with Customers” in May 2014 (IASB: IFRS 15, FASB: Topic 606). Considering that IFRS 15 will apply to fiscal years beginning on or after January 1, 2018, and Topic 606 will apply to fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard on revenue recognition and thus issued the accounting standard together with the implementation guidance.

The ASBJ established the accounting standard on revenue recognition by adhering a basic policy in developing it. This basic policy was to first, incorporate the core principles of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; and second, add alternative treatments, to the extent that they do not impair comparability, where consideration should be given to conventional practices in Japan.

(2) Scheduled date of application

These accounting standards, etc. will be applied from the beginning of the fiscal year ending March 31, 2021.

As for “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19), the proviso of Paragraph 4 (1) of the guidelines revised on March 31, 2020 will be applied from the beginning of the fiscal year ending March 31, 2021, and the guidelines revised on July 4, 2019 will be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Effect of application of the accounting standard, etc.

The effect of the application of the Accounting Standard for Revenue Recognition on the consolidated financial statements is currently under evaluation.

(Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections)

- “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, March 31, 2020)

(1) Overview

Having been presented with a proposal that consideration should be given to enriching the information in the explanatory notes on “the principles and procedures for accounting treatments adopted in cases where the provisions of relevant accounting standards and regulations are not clear,” the ASBJ performed the necessary revisions to the Standard, and issued the revised Standard as the “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections”.

In addition, when seeking to enrich the information in the explanatory notes on “the principles and procedures for accounting treatments adopted in cases where the provisions of relevant accounting standards and regulations are not clear,” in order to avoid affecting business that has been conducted under conditions where the provisions of relevant accounting standards and regulations are clear, it is assumed to inherit the provisions of the Annotations on the Corporate Accounting Principles (Annotation No. 1-2).

(2) Scheduled date of application

This accounting standard will be applied at the end of the fiscal year ending March 31, 2021.

(Accounting Standard for Disclosure of Accounting Estimates)

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

With regard to the disclosure of “Sources of estimation uncertainty” required by paragraph 125 of International Accounting Standards (IAS) 1 “Presentation of Financial Statements” (hereinafter, “IAS 1”) issued in 2003 by the International Accounting Standards Board (IASB), because this information is of value to users of the financial statements, there were requests to consider disclosing this under Japanese GAAP as information included in explanatory notes, and the ASBJ developed and issued the “Accounting Standard for Disclosure of Accounting Estimates” (hereinafter, the “Standard”).

The basic approach taken by the ASBJ in the development of the Standard was, rather than to expand individual notes, to state the

general principle (disclosure objectives), and then to allow the company to make a decision on specific content to be disclosed in light of the disclosure objectives. In the development, the ASBJ also made it its policy to make reference to the provisions of paragraph 125 of IAS 1.

(2) Scheduled date of application

This accounting standard will be applied at the end of the fiscal year ending March 31, 2021.

(Changes in presentation)

(Consolidated statement of income)

“Expenses for delayed delivery”, which was presented separately under “Non-operating expenses” in the previous fiscal year, was included in “Other expenses” under “Non-operating expenses” in the current fiscal year due to a decrease in materiality.

As a result, ¥838 million presented as “Expenses for delayed delivery” under “Non-operating expenses” in the previous fiscal year was reclassified as “Other expenses” under “Non-operating expenses.”

(Additional information)

(Recognition of revenue for engine programs)

Regarding the engine programs in which IHI participates, we recorded the revenue calculated based on our main partners’ revenue proportionate to our participation ratio. Although net sales were previously recorded based on sales notifications sent by the main partners in the month following the sale, we changed the calculation method in March 2020 to record net sales within the same month, because it became possible to obtain the sales information earlier.

As a result, net sales for the thirteen-month period including March 2020 were recorded in the fiscal year ended March 31, 2020 and net sales increased by ¥29,300 million.

(Impact of the spread of COVID-19)

The spread of COVID-19 may have a significant impact to our business. Especially in the Civil aero engines Business, sales of aero engines and spare parts are expected to decrease and it is expected that the recovery of market will take a certain of time. Also, in the Vehicular turbochargers Business, sales of vehicular turbochargers are expected to decrease caused from world-wide decreases in demand for automobiles. In addition, we may suspend production or experience downturn of operations due to spanning of the supply chain across countries. Other businesses may be affected through the impact on the progress of construction projects and exposure to risks associated with prolonged deterioration in demand.

Deferred tax assets as of March 31, 2020 were calculated based on our estimate of the taxable income for the fiscal year ending March 31, 2021, taking into consideration the impact of the spread of COVID-19.

(Consolidated balance sheet)

*1. Assets pledged as collateral

The following assets are pledged as collateral:

	(Millions of yen)	
	As of March 31, 2019	As of March 31, 2020
Cash and deposits	2	92
Buildings and structures	66	-
Land	475	280
Investment securities	646 (Note: 1)	646 (Note: 1)
Other investments and other assets	2,793 (Note: 2)	4,663 (Note: 2,3)
Total	3,982	5,681

- Notes: 1. Kagoshima Mega Solar Power Corporation and seven shareholder companies of the said company entered into a stock revolving pledge agreement with financial institutions in order to secure all and any liabilities of the said company under the limited loan agreement concluded between Kagoshima Mega Solar Power Corporation and the financial institutions.
2. Nanatsujima Biomass Power Limited Liability Company, its nine member companies and certain financial institutions have entered into a membership interest revolving pledge agreement in order to guarantee all and any liabilities incurred by affiliate Nanatsujima Biomass Power Limited Liability Company, under the limited loan agreement concluded between the said company and financial institutions. The amount of assets pledged as collateral is ¥ 2,793 million.
3. Onahama Higashikou Bulk Terminal Limited Liability Company, its six member companies and certain financial institutions have entered into a membership interest revolving pledge agreement in order to guarantee all and any liabilities incurred by affiliate Onahama Higashikou Bulk Terminal Limited Liability Company, under the limited loan agreement concluded between the said company and financial institutions. The amount of assets pledged as collateral is ¥ 1,870 million.

Of the above assets, assets pledged as collateral for factory foundation mortgage are as follows:

	(Millions of yen)	
	As of March 31, 2019	As of March 31, 2020
Land	475	-
Total	475	-

The obligations collateralized by the above assets are as follows:

	(Millions of yen)	
	As of March 31, 2019	As of March 31, 2020
Short-term loans payable	2,000	1,000
Total	2,000	1,000

Of the above loans, obligations corresponding factory foundation mortgage are as follows:

	(Millions of yen)	
	As of March 31, 2019	As of March 31, 2020
Short-term loans payable	2,000	-

*2. Investments securities and investments in capital in non-consolidated subsidiaries and affiliates

Investments securities and investments in capital in non-consolidated subsidiaries and affiliates are as follows:

	(Millions of yen)	
	As of March 31, 2019	As of March 31, 2020
Investment securities (Common stock)	84,498	42,929
Other investments and other assets (Investments in capital)	5,600	18,760

*3. Contingent liabilities

(1) Guarantees for debt of others (Note)

Guarantees for loans from financial institutions etc. are as follows:

		(Millions of yen)	
As of March 31, 2019		As of March 31, 2020	
Japanese Aero Engines Corporation (“JAEC”)	5,905	IHI Investment for Aero Engine Leasing LLC	14,961
ALPHA Automotive Technologies LLC	1,021	JAEC	5,659
Japan Aeroforge, Ltd.	413	ALPHA Automotive Technologies LLC	603
Contingent liabilities for employee housing loans	262	Japan Aeroforge, Ltd.	354
Chubu Segment Co., Ltd.	25	Contingent liabilities for employee housing loans	194
		Chubu Segment Co., Ltd.	25
Total	7,626	Total	21,796

(2) Contingent liabilities arising from guarantees in kind for debts (Note)

Guarantees in kind for loans from financial institutions etc. are as follows:

		(Millions of yen)	
As of March 31, 2019		As of March 31, 2020	
Contingent liabilities for employee housing loans	4,864	Contingent liabilities for employee housing loans	4,255
Total	4,864	Total	4,255

Note: In any of the following cases, the amount represents the amounts for which the IHI Group is liable:

- (1) In the case of joint guarantees and guarantees in kind for debts with protection requirements against creditors, where the IHI Group’s liabilities are specifically stated and clarified regardless of the debt capacity of other guarantors in the contract.
- (2) In the case of joint and several guarantees in which there are two or more guarantors, where the percentage or amount of the IHI Group’s liabilities is specifically stated and clarified such as in agreement among the guarantors and other joint and several guarantors are considered to have sufficient debt capacity.

(3) Other contingent liability

The consolidated subsidiary IHI E&C International Corporation received a revised letter of claim for payment of 117 million US dollars from a customer on December 4, 2019, for total expenses for delayed delivery regarding a process plant project currently underway in North America (hereinafter the “Expenses”). The IHI Group has continuously requested an extension of the delivery date since construction delays occurred due to the customer’s circumstances, and maintains its assertion that the claim for the Expenses is unacceptable. Therefore, at this point, it is difficult to reasonably estimate the amount of the effect on the financial position and operating results. Therefore the effect of this matter has not been reflected in the consolidated financial statements.

*4. Notes receivable - trade discounted in the ordinary course of business and notes receivable - trade endorsed in the ordinary course of business

		(Millions of yen)	
		As of March 31, 2019	As of March 31, 2020
Notes receivable - trade discounted in the ordinary course of business		51	103
Notes receivable - trade endorsed in the ordinary course of business		1	-

*5. Reduction of book value for subsidies

Amounts of subsidies received principally from government and directly deducted from non-current assets are as follows:

	(Millions of yen)	
	As of March 31, 2019	As of March 31, 2020
Buildings and structures	171	322
Machinery, equipment and vehicles	644	650
Other property, plant and equipment	—	24
Total	815	996

The amount deducted directly from property, plant and equipment due to land expropriation is as follows:

	(Millions of yen)	
	As of March 31, 2019	As of March 31, 2020
Land	56	67
Total	56	67

*6. Revaluation reserve for land

In accordance with the “Act on Revaluation of Land” (Act No. 34 promulgated on March 31, 1998), one consolidated subsidiary has revalued its land used for business. This company recorded the effect of the revaluation as “Revaluation reserve for land” under net assets, after deducting deferred tax liabilities for land revaluation which were recorded as non-current liabilities.

- Revaluation method: Revaluation is calculated based on posted prices and roadside land prices stipulated in Article 2, items 1 and 4 of the “Order for Enforcement of the Act on Revaluation of Land” (Cabinet Order No. 119 promulgated on March 31, 1998).
- Revaluation dates: March 31, 2000 and September 30, 2000

	(Millions of yen)	
	As of March 31, 2019	As of March 31, 2020
The difference between the fair value of land at the end of the fiscal year that was revalued in the previous years and book value after revaluation	(5,586)	(5,573)

*7. Presentation of inventories and provision for loss on construction contracts

Inventories related to sales contracts for construction for which losses are expected and relevant provision for loss on construction contracts are presented separately without netting. Of inventories related to sales contracts for construction for which losses are expected, the amounts corresponding to the provision for loss on construction contracts are as follows:

	(Millions of yen)	
	As of March 31, 2019	As of March 31, 2020
Finished goods	165	228
Work in process	1,785	3,577
Total	1,950	3,805

*8. Accumulated depreciation of property, plant and equipment

	(Millions of yen)	
	As of March 31, 2019	As of March 31, 2020
	624,833	642,955

*9. Notes maturing on balance sheet date

Accounting for notes maturing on the last day of the fiscal year uses the clearing date as the settlement date.

Because the last day of the fiscal year ended March 31, 2019 fell on a bank holiday, the following such notes that matured on the last day of the previous fiscal year are included in the balance on the last day of the fiscal year ended March 31, 2019.

	(Millions of yen)	
	As of March 31, 2019	As of March 31, 2020
Notes receivable – trade	1,832	—
Notes payable - trade	1,836	—

(Consolidated statement of income)

*1. Total research and development costs

Research and development expenses included in general and administrative expenses and production cost for the period are as follows:
(Millions of yen)

Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
36,532	38,155

*2. Losses on valuation of inventories

The amount of inventories as of March 31, 2019 and 2020 are the value after a write-down based on decreased profitability of assets. Loss on valuation in the fiscal year was partially offset by gain on reversal of loss on valuation of the previous fiscal year, and the following net loss on valuation is included in cost of sales for the years ended March 31, 2019 and 2020.

(Millions of yen)

Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
994	1,577

*3. Provision for loss on construction contracts

Provision for loss on construction contracts included in cost of sales is as follows:

(Millions of yen)

Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
21,212	19,929

*4. Major selling general and administrative expense

The major items and amounts in selling general and administrative expense are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Expenses in taking orders received	14,560	13,739
Provision of allowance for doubtful accounts	(6)	(115)
Salaries for directors and employees (Note)	71,447	70,799
Traveling and transportation expenses	6,477	5,939
Research and development expenses	34,342	35,688
Business consignment expenses	11,544	13,757
Contribution for expenses common to all business segments	3,673	2,425
Depreciation	8,870	9,232

Note: Salaries for directors and employees include provision for bonuses of ¥9,937 million and retirement benefit expenses of ¥4,821 million for the previous fiscal year ended March 31, 2019, and provision for bonuses of ¥10,344 million and retirement benefit expenses of ¥5,488 million for the current fiscal year ended March 31, 2020.

*5. Burden share of losses for delayed construction of SPB tanks

The previous fiscal year ended March 31, 2019

IHI and Japan Marine United Corporation (hereinafter, "JMU"), an affiliate of IHI accounted for using the equity method, decided the burden share of the losses that JMU had recorded in its financial results for the fiscal year ended March 31, 2018 due to the delayed delivery of the construction project for SPB type LNG vessels.

Accordingly, IHI recorded the burden share of losses for delayed construction of SPB tanks as non-operating expenses. Also, JMU recorded an extraordinary income for the corresponding amount in its financial results for the fiscal year ended March 31, 2019.

Note: SPB stands for "Self-supporting Prismatic Shape IMO type B."

*6. Gain on sales of non-current assets

The current fiscal year ended March 31, 2020

The Aichi Headquarters Representative's Office has ended its function as a production base, after the completion of projects by the F-LNG business for which orders have already been received. Accordingly, IHI sold a part of the land, building and other assets of the Aichi Headquarters Representative's Office and recorded a gain on sales of non-current assets.

Details and location of assets	Gain on sales of non-current assets
Land (approximately 219,000 m ²) and Building (Including accompanying non-current assets) 11-21, Kitahama-machi, Chita-city, Aichi etc. Others	¥4,409 million

*7. Gain on transfer of intellectual property rights

The current fiscal year ended March 31, 2020

IHI transferred the intellectual property rights related to the small power systems business of IHI's wholly-owned subsidiary, IHI Agri-Tech Corporation (hereinafter "IAT"). The gains arising from the transfer have been recorded as "Gain on transfer of intellectual property rights" in extraordinary income.

*8. Gain on transfer of equity interest of subsidiaries and associates

The current fiscal year ended March 31, 2020

IHI transferred a portion of equity interest in IHI's specified subsidiary IHI Investment for Aero Engine Leasing LLC. The gains arising from the transfer have been recorded as "Gain on transfer of equity interest of subsidiaries and associates" in extraordinary income.

*9. Gain on sales of shares of subsidiaries and associates

The previous fiscal year ended March 31, 2019

IHI transferred the commercial engine-focused small power systems business of IAT, to U.S.-based Caterpillar Inc. Accordingly, shares and equity interests owned by IAT both directly and indirectly in companies operating the Small power systems Business were sold and transferred on September 27, 2018. The gains arising from the sales of shares and the transfer of equity interests have been recorded as "Gain on sales of shares of subsidiaries and associates" in extraordinary income.

*10. Gain on transfer of business

The previous fiscal year ended March 31, 2019

IHI transferred the commercial engine-focused small power systems business of IAT to Caterpillar Inc. Accordingly, the Small power systems Business of IAT was transferred on December 28, 2018 by means of an absorption-type company split to a Japanese company which Caterpillar Inc. newly established. The gains on transfer arising from the execution of the absorption-type split have been recorded as "Gain on transfer of business" in extraordinary income.

*11. Impairment loss

The previous fiscal year ended March 31, 2019

(1) Group of assets for which the IHI Group recognized impairment loss

(Millions of yen)

Use	Location	Type of assets	Amount	Value of assets
Business assets	Matsumoto-city, Nagano, Japan, etc.	Land, Building etc.	1,532	Value in use
Assets to be disposed of	Osaka-city, Osaka, Japan	Building etc.	42	Net realizable value
Business assets	Chita-city, Aichi, Japan	Building etc.	35	Net realizable value
Assets to be disposed of	Higashimorokata-gun, Miyazaki, Japan	Building	1	Net realizable value

(2) Method for grouping assets

Assets are grouped principally by each business or each place of business.

(3) Reasons for recognition of impairment loss

Due mainly to deterioration in profitability following the decision to carry out a business transfer, the book value of business assets has been reduced to recoverable amount. The book value of assets to be disposed of has also been reduced to recoverable amount.

(4) Method for measuring recoverable amounts

The recoverable amounts are the higher of net realizable value (amount calculated by reasonably adjusting property tax valuation, etc., assessed sale value) or its value in use (discount rate is mainly 5.8%).

(5) Impairment loss

The impairment loss of ¥1,610 million is recorded as "Impairment loss" under the extraordinary losses. The amounts of impairment loss for the year ended March 31, 2019 are as follows:

(Millions of yen)

Land	484
Building etc.	1,126
Total	1,610

The current fiscal year ended March 31, 2020

(1) Group of assets for which the IHI Group recognized impairment loss

(Millions of yen)

Use	Location	Type of assets	Amount	Value of assets
Business assets	Taipei-city, Taiwan	Structures etc.	318	Value in use
Business assets	Yokohama-city, Japan	Leased assets	83	Net realizable value
Business assets	Chita-city, Aichi, Japan	Machinery	16	Net realizable value
Idle assets	Isesaki-city, Gunma, Japan	Land	9	Net realizable value

(2) Method for grouping assets

Assets are grouped principally by each business or each place of business.

(3) Reasons for recognition of impairment loss

Due mainly to deterioration in profitability following the decision to carry out a business transfer, the book value of business assets has been reduced to the recoverable amount. The book value of assets to be disposed of has also been reduced to recoverable amount.

(4) Method for measuring recoverable amounts

The recoverable amounts are the higher of net realizable value (amount calculated by reasonably adjusting property tax valuation, etc., assessed sale value) or its value in use (discount rate is mainly 3.4%).

(5) Impairment loss

The impairment loss of ¥426 million is recorded as “Impairment loss” under the extraordinary losses. The amounts of impairment loss for the year ended March 31, 2020 are as follows:

	(Millions of yen)
Land	9
Structures etc.	417
<u>Total</u>	<u>426</u>

*12. Income taxes for prior periods

The previous fiscal year ended March 31, 2019

As a result of undergoing a tax investigation related to transactions with a foreign consolidated subsidiary located in Thailand and receiving a notice of reassessment of tax payable, based on transfer pricing taxation, IHI recorded penalty taxes, including additional taxes and delinquent taxes as “Income taxes for prior periods.”

(Consolidated statement of comprehensive income)

*1. Reclassification adjustments and tax effects relating to other comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Valuation difference on available-for-sale securities:		
Amount arising during the fiscal year	(314)	(2,339)
Reclassification adjustments	(468)	332
Before tax effects	(782)	(2,007)
Tax effects relating to other comprehensive income	(26)	266
Valuation difference on available-for-sale securities	(808)	(1,741)
Deferred gains or losses on hedges:		
Amount arising during the fiscal year	169	266
Reclassification adjustments	(394)	(354)
Before tax effects	(225)	(88)
Tax effects relating to other comprehensive income	62	13
Deferred gains or losses on hedges	(163)	(75)
Revaluation reserve for land:		
Amount arising during the fiscal year	—	—
Tax effects relating to other comprehensive income	(12)	—
Revaluation reserve for land	(12)	—
Foreign currency translation adjustment:		
Amount arising during the fiscal year	(602)	(6,245)
Reclassification adjustments	(3)	79
Before tax effects	(605)	(6,166)
Tax effects relating to other comprehensive income	—	(17)
Foreign currency translation adjustment	(605)	(6,183)
Remeasurements of defined benefit plans, net of tax:		
Amount arising during the fiscal year	(5,410)	(4,173)
Reclassification adjustments	197	1,228
Before tax effects	(5,213)	(2,945)
Tax effects relating to other comprehensive income	1,601	914
Remeasurements of defined benefit plans, net of tax	(3,612)	(2,031)
Share of other comprehensive income of entities accounted for using the equity method:		
Amount arising during the fiscal year	(1,157)	187
Reclassification adjustments	714	403
Share of other comprehensive income of entities accounted for using the equity method	(443)	590
Total other comprehensive income	(5,643)	(9,440)

(Consolidated statement of changes in equity)
The previous fiscal year ended March 31, 2019

1. Class and total number of shares issued and class and number of treasury shares

(Thousands of shares)

	At the beginning of the fiscal year	Increase	Decrease	At the end of the fiscal year
Shares issued				
Common stock	154,679	–	–	154,679
Total	154,679	–	–	154,679
Treasury shares				
Common stock (Notes 1, 2,3)	344	109	65	388
Total	344	109	65	388

Notes: 1. The number of treasury shares includes shares of IHI owned by a trust account for the Board Benefit Trust (BBT): 111 thousand shares as of April 1, 2018 and 218 thousand shares as of March 31, 2019.

2. The increase of 109 thousand shares in the number of common stock in treasury shares consists of an increase of 1 thousand shares through purchases of shares of less than one unit and acquisitions of 108 thousand shares by the Board Benefit Trust (BBT).

3. The decrease of 65 thousand shares in the number of common stock in treasury shares consists of a decrease of 65 thousand shares resulting from exercise of subscription rights to shares.

2. Subscription rights to shares

Company	Description	Type of shares to be issued	Number of shares to be issued				Balance at the end of the fiscal year (Millions of yen)
			At the beginning of the fiscal year	Increase	Decrease	At the end of fiscal year	
Parent company	Subscription rights as stock option	–	–	–	–	–	659
Total		–	–	–	–	–	659

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on June 22, 2018	Common stock	4,633	30	March 31, 2018	June 25, 2018
Meeting of the Board of Directors on November 1, 2018	Common stock	4,634	30	September 30, 2018	December 7, 2018

Notes: 1. Total dividends determined by a resolution of the Ordinary General Meeting of Shareholders held on June 22, 2018 include ¥3 million, which is the value of dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

2. Total dividends determined by a resolution of the meeting of the Board of Directors on November 1, 2018 include ¥7 million which are dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

(2) Dividends whose record date was in the fiscal year ended March 31, 2019, and the effective date of which is in the fiscal year ended March 31, 2020

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on June 20, 2019	Common stock	6,180	40	March 31, 2019	June 21, 2019

Note: Total dividends determined by a resolution of the Ordinary General Meeting of Shareholders held on June 20, 2019 include ¥9 million, which is the value of dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

The current fiscal year ended March 31, 2020

1. Class and total number of shares issued and class and number of treasury shares

(Thousands of shares)

	At the beginning of the fiscal year	Increase	Decrease	At the end of the fiscal year
Shares issued				
Common stock	154,679	–	–	154,679
Total	154,679	–	–	154,679
Treasury shares				
Common stock (Notes 1, 2,3)	388	5,718	51	6,054
Total	388	5,718	51	6,054

Notes: 1. The number of treasury shares includes shares of IHI owned by a trust account for the Board Benefit Trust (BBT): 218 thousand shares as of April 1, 2019 and 393 thousand shares as of March 31, 2020.

2. The increase of 5,718 thousand shares in the number of common stock in treasury shares consists of a purchase of 5,542 thousand shares based on Article 156 of the Companies Act, an increase of 1 thousand shares through purchases of shares of less than one unit and acquisitions of 175 thousand shares by the Board Benefit Trust (BBT).

3. The decrease of 51 thousand shares in the number of common stock in treasury shares consists of a decrease of 51 thousand shares resulting from exercise of subscription rights to shares.

2. Subscription rights to shares

Company	Description	Type of shares to be issued	Number of shares to be issued				Balance at the end of the fiscal year (Millions of yen)
			At the beginning of the fiscal year	Increase	Decrease	At the end of fiscal year	
Parent company	Subscription rights as stock option	–	–	–	–	–	533
	Total	–	–	–	–	–	533

3. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on June 20, 2019	Common stock	6,180	40	March 31, 2019	June 21, 2019
Meeting of the Board of Directors on November 1, 2019	Common stock	4,636	30	September 30, 2019	December 6, 2019

Notes: 1. Total dividends determined by a resolution of the Ordinary General Meeting of Shareholders held on June 20, 2019 include ¥9 million, which is the value of dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

2. Total dividends determined by a resolution of the meeting of the Board of Directors on November 1, 2019 include ¥12 million which are dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

(2) Dividends whose record date was in the fiscal year ended March 31, 2020, and the effective date of which is in the fiscal year ending March 31, 2021

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders on June 25, 2020	Common stock	2,980	20	March 31, 2020	June 26, 2020

Note: Total dividends determined by a resolution of the Ordinary General Meeting of Shareholders held on June 25, 2020 include ¥8 million, which is the value of dividends for shares of IHI owned by a trust account for the Board Benefit Trust (BBT).

(Consolidated statement of cash flows)

*1. A reconciliation of cash and cash equivalents to the amounts shown in the consolidated balance sheet

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash and deposits	94,951	147,228
Time deposits due in more than three months	(2,341)	(1,743)
Collateral deposits	(2)	(1)
Cash and cash equivalents	92,608	145,484

(Leases)

1. Finance leases (Lessee)

Finance leases which transfer ownership

(i) Leased Assets

These leases are mainly production facilities for concrete construction material (buildings and structures) for Social Infrastructure and Offshore Facility.

(ii) Depreciation method for leased assets

Refer to "4 Significant accounting policies (2) Depreciation and amortization of significant depreciable and amortizable assets."

Finance leases which do not transfer ownership

(i) Leased Assets

These leases are mainly production facilities for aero engines (machinery, equipment and vehicles) for Aero Engine, Space and Defense.

(ii) Depreciation method for leased assets

Refer to "4 Significant accounting policies (2) Depreciation and amortization of significant depreciable and amortizable assets."

The IHI Group uses the operating lease accounting method for the finance leases which do not transfer ownership contracted on or before March 31, 2008.

(1) Acquisition costs, accumulated depreciation, accumulated impairment loss and net book value of the leased property

(Millions of yen)

	As of March 31, 2019			
	Acquisition costs	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings and structures	1,824	1,148	–	676
Machinery, equipment and vehicles	–	–	–	–
Other (Tools, furniture, fixtures and other)	–	–	–	–
Software	–	–	–	–
Total	1,824	1,148	–	676

(Millions of yen)

	As of March 31, 2020			
	Acquisition costs	Accumulated depreciation	Accumulated impairment loss	Net book value
Buildings and structures	1,824	1,239	–	585
Machinery, equipment and vehicles	–	–	–	–
Other (Tools, furniture, fixtures and other)	–	–	–	–
Software	–	–	–	–
Total	1,824	1,239	–	585

(2) Future minimum lease payments

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Minimum lease payments		
Within 1 year	100	117
Over 1 year	1,207	1,090
Total	1,307	1,207
Balance of impairment losses on leased assets	–	–

(3) Lease payments, reversal of allowance for impairment losses on leased property, estimated depreciation cost, estimated interest expenses and losses on impairment of leased property

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Lease payments	295	295
Reversal of allowance for impairment losses on leased property	–	–
Estimated depreciation cost	91	91
Estimated interest expenses	209	195
Losses on impairment	–	–

(4) Calculation method of estimated depreciation cost

Estimated depreciation cost is calculated over the lease period as the useful period using the straight-line method with no residual value.

(5) Calculation method of estimated interest expenses

Estimated interest expenses are calculated as the amount of total lease payments less estimated acquisition costs. Allocation of the estimated interest expenses to each accounting period is based on the interest method.

2. Operating leases (Lessee)

Future minimum lease payments for non-cancelable operating leases

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Within 1 year	3,231	1,782
Over 1 year	15,012	10,433
Total	18,243	12,215

3. Finance leases (Lessor)

The IHI Group uses the operating lease accounting method for the finance leases which do not transfer ownership contracted on or before March 31, 2008.

(1) Acquisition costs, accumulated depreciation and net book value of the leased property

(Millions of yen)

	As of March 31, 2019		
	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	2,043	1,327	716
Machinery, equipment and vehicles	776	705	71
Other (Tools, furniture, fixtures and others)	6	6	0
Total	2,825	2,038	787

(Millions of yen)

	As of March 31, 2020		
	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	1,838	1,383	455
Machinery, equipment and vehicles	492	445	47
Other (Tools, furniture, fixtures and others)	6	6	0
Total	2,336	1,834	502

(2) Future minimum lease income

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Within 1 year	273	144
Over 1 year	307	15
Total	580	159

(3) Lease income, depreciation and estimated interest income

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Lease income	338	229
Depreciation	78	65
Estimated interest income	72	34

(4) Calculation method of estimated interest income

Estimated interest income is calculated as the amount of total lease income and the balance of estimated residual value less estimated acquisition costs. Allocation of the estimated interest income to each accounting period is based on the interest method.

(Impairment loss)

No impairment loss was allocated to leased assets.

4. Operating leases (Lessor)

Future minimum lease income for non-cancelable operating leases

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Within 1 year	499	416
Over 1 year	416	-
Total	915	416

5. Sublease transactions

Disclosure is omitted since it is not material.

(Financial Instruments)

1. Status of financial instruments

(1) Policy on financial instruments

As a Group policy, the IHI Group manages funds only in short-term and highly safe financial assets such as bank deposits and finance mainly through bank borrowings and bond issuance. Derivatives are utilized to hedge the fluctuation risks of foreign exchanges, interests and commodity prices, and the IHI Group does not enter into derivative contracts for speculative or trading purposes.

(2) Details of financial instruments and risks thereof

Notes and accounts receivable - trade, which are operating receivables, are exposed to the customer credit risks. Operating receivables denominated in foreign currencies related to construction in abroad or the like are exposed to the fluctuation risks of foreign exchanges, which is, in principle, hedged by derivatives using forward foreign exchange contracts and foreign currency options for the position after netting operating payables denominated in foreign currencies. Securities and investment securities mainly consist of held-to-maturity securities and equity securities associated with business-ties or capital-ties with companies to maintain business relationships and are exposed to the fluctuation risks of market price.

Notes and accounts payable - trade, which are operating payables, are mostly settled within one year. Some of them are related to goods procured from overseas and denominated in foreign currencies, therefore they are exposed to the fluctuation risks of foreign exchanges. However, the amount is constantly, in general, less than the balance of notes and accounts receivable - trade denominated in the same foreign currency. Loans, commercial papers and bonds are made for the purpose of obtaining operating capital and funds for capital expenditures, and the redemption dates arrive within 9 years after the balance sheet date. Although some of loans are exposed to the fluctuation risks of interest rate and foreign exchanges, they are hedged by derivatives using interest rate swaps and foreign currency swaps.

Derivatives the IHI Group uses are forward foreign exchange contracts and foreign currency options to hedge the fluctuation risks of foreign exchanges pertaining to operating receivables and payables denominated in foreign currencies, and interest rate swaps to hedge the fluctuation risks of interest rate regarding loans payable. For details of hedge accounting, refer to "4 Significant accounting policies (7) Principal methods for hedge accounting."

(3) Risk management structure regarding financial instruments

(i) Management of the credit risks (risks pertaining to customer's non-performing of contracts)

To manage the credit risks for operating receivables, pursuant to the internal regulations related to receivable management, the department of the IHI Group in charge of collections in each business department periodically monitors the condition of major customers, manages the collectability and balances by customer or by project ordered, and thus seeks for an early identification and mitigation of collectability concern caused by deterioration in financial status.

The credit risk for held-to-maturity securities is minor because the IHI Group holds only securities with high ratings.

In derivative transactions, the IHI Group enters into contracts only with financial institutions with high ratings to reduce the counterparty risks.

The maximum credit risk amount as of the consolidated balance sheet date equals to the consolidated balance sheet amount of financial assets exposed to the credit risks.

(ii) Management of market risks (the fluctuation risks of foreign exchanges or interest rate)

To manage the fluctuation risks of foreign exchanges for operating receivables and payables denominated in foreign currencies, the IHI Group hedges the fluctuation risks monthly identified by currency by utilizing forward foreign exchange contracts and foreign currency options. Hedge results are reported monthly to the executive in charge of the Finance & Accounting Division, and quarterly to the Management Committee.

To reduce the fluctuation risks of interest rate and foreign exchanges regarding long-term loans payable, IHI and certain consolidated subsidiaries use interest rate swaps and foreign currency swaps.

As for securities and investment securities, their market prices and the financial condition of issuers (companies with which the IHI Group does business) are periodically monitored. Also, the IHI Group's holding status of those other than held-to-maturity securities is continuously reviewed by taking into account the relationships with the companies with which the IHI Group does business.

As for derivatives, transactions are recorded and the balance is checked up between the IHI Group and the contract partner. Moreover, derivative balances and valuation gains or losses as of the month-end are reported to the executive in charge of the Finance & Accounting Division on a monthly basis.

(iii) Management of liquidity risks pertaining to fund procurement (risks of non-performing of payments on due dates)

The IHI Group manages liquidity risks by measures such as timely forming and updating the cash flow plan.

(4) Supplementary explanation to fair value of financial instruments

While the fair value of financial instruments is based on the market price, estimated value calculated by using a method which is deemed reasonable may be used, if the market price is not readily available. Because variable factors are used in the estimation, the estimated value may differ if different assumptions are used. Please note that notional amounts of derivatives in the Note "Derivatives" do not, in themselves, indicate the market risks pertaining to derivatives.

2. Fair value of financial instruments

The amount recorded in the consolidated balance sheet, fair value and difference between them are as follows.
Financial instruments whose fair value is deemed to be extremely difficult to measure are not included. (Note: 2)

The previous fiscal year as of March 31, 2019

(Millions of yen)

	Amount recorded in the balance sheet	Fair value	Difference
(1) Cash and deposits	94,951	94,951	–
(2) Notes and accounts receivable - trade	377,695		
Less allowance for doubtful accounts (*1)	(3,806)		
	373,889	373,625	(264)
(3) Securities and investment securities	16,155	16,164	9
Held-to-maturity securities	105	114	9
Other securities	16,050	16,050	–
Total assets	484,995	484,740	(255)
(4) Notes and accounts payable - trade	290,043	290,043	–
(5) Short-term loans payable	111,785	111,785	–
(6) Commercial papers	–	–	–
(7) Bonds payable	50,000	50,037	37
(8) Long-term loans payable	175,813	181,673	5,860
Total liabilities	627,641	633,538	5,897
(9) Derivatives (*2)			
(i) Derivatives to which hedge accounting is not applied	102	102	–
(ii) Derivatives to which hedge accounting is applied	(47)	(47)	–
Total derivatives	55	55	–

*1. The amount of allowance for doubtful accounts that is recorded individually for notes and accounts receivable - trade, is excluded.

*2. Assets and liabilities arising from derivative transactions are stated on a net basis. The figures in parentheses indicate net liabilities.

The current fiscal year as of March 31, 2020

(Millions of yen)

	Amount recorded in the balance sheet	Fair value	Difference
(1) Cash and deposits	147,228	147,228	–
(2) Notes and accounts receivable - trade	403,832		
Less allowance for doubtful accounts (*1)	(3,715)		
	400,117	400,041	(76)
(3) Securities and investment securities	8,891	8,897	6
Held-to-maturity securities	154	160	6
Other securities	8,737	8,737	–
Total assets	556,236	556,166	(70)
(4) Notes and accounts payable - trade	262,587	262,587	–
(5) Short-term loans payable	185,600	185,600	–
(6) Commercial papers	56,000	56,000	–
(7) Bonds payable	60,000	59,833	(167)
(8) Long-term loans payable	159,223	159,478	255
Total liabilities	723,410	723,498	88
(9) Derivatives (*2)			
(i) Derivatives to which hedge accounting is not applied	(780)	(780)	–
(ii) Derivatives to which hedge accounting is applied	(135)	(135)	–
Total derivatives	(915)	(915)	–

*1. The amount of allowance for doubtful accounts that is recorded individually for notes and accounts receivable - trade, is excluded.

*2. Assets and liabilities arising from derivative transactions are stated on a net basis. The figures in parentheses indicate net liabilities.

Notes: 1. Methods of measuring fair value of financial instruments, and notes to securities and derivative transactions

(1) Cash and deposits

The book value of cash and deposits is assumed to approximate their fair value due to the short-term maturity.

(2) Notes and accounts receivable - trade

The fair value is measured based on the present values calculated by discounting receivable amounts at a rate determined based on time to maturity and credit risk. The fair value of receivables with special concern is measured by the present values of estimated cash flows discounted at the similar discount rates.

(3) Securities and investment securities

The fair value of equity securities are based on the market prices at the exchange. The fair value of debt securities are based on the market prices at the exchange or the prices provided by the financial institutions with which the IHI Group does business. For information on securities classified by holding purpose, please refer to the Note "Securities."

(4) Notes and accounts payable – trade, (5) Short-term loans payable and (6) Commercial papers

The fair value of these accounts is assumed to be approximate to their book value due to the short-term maturity.

(7) Bonds payable

As for the fair value of bonds issued by IHI, marketable bonds are measured based on the market price and non-marketable bonds are measured based on the present value calculated by discounting the total amount of principles and interests at a rate determined based on time to maturity and the credit risk.

(8) Long-term loans payable

The fair value of long-term loans payable is measured by discounting the total amount of principles and interests at an assumed interest rate for similar new borrowings.

(9) Derivatives

Please refer to the Note "Derivatives."

2. Amounts recorded in the balance sheet of financial instruments whose fair value is deemed to be extremely difficult to figure out

(Millions of yen)

Classification	As of March 31, 2019	As of March 31, 2020
Unlisted stocks	17,314	11,715
Shares of subsidiaries and affiliates	84,498	42,929
Total	101,812	54,644

The above financial instruments are not included in “(3) Securities and investment securities” because determining their fair value was deemed to be extremely difficult, due to the fact that they do not have market prices and their future cash flow cannot be estimated.

3. Redemption schedules after consolidated balance sheet dates for monetary receivables and held-to-maturity securities
The previous fiscal year as of March 31, 2019

(Millions of yen)

Classification	Within 1 year	After 1 year and within 5 years	After 5 years and within 10 years	After 10 years
Cash and deposits	94,951	–	–	–
Notes and accounts receivable - trade	362,000	15,695	–	–
Securities and investment securities				
Held-to-maturity securities				
(1) National and local government bonds	–	–	–	–
(2) Company debentures	–	–	105	–
Total	456,951	15,695	105	–

The current fiscal year as of March 31, 2020

(Millions of yen)

Classification	Within 1 year	After 1 year and within 5 years	After 5 years and within 10 years	After 10 years
Cash and deposits	147,228	–	–	–
Notes and accounts receivable – trade	390,699	12,406	727	–
Securities and investment securities				
Held-to-maturity securities				
(1) National and local government bonds	–	–	–	–
(2) Company debentures	21	29	104	–
Total	537,948	12,435	831	–

4. Repayment schedules after consolidated balance sheet dates for bonds payable, long-term loans payable and other interest bearing liabilities

The previous fiscal year as of March 31, 2019

(Millions of yen)

	Within 1 year	After 1 year and within 2 years	After 2 years and within 3 years	After 3 years and within 4 years	After 4 years and within 5 years	After 5 years
Bonds payable	20,000	10,000	20,000	–	–	–
Long-term loans payable	–	46,619	33,130	37,802	42,996	15,266

The current fiscal year as of March 31, 2020

(Millions of yen)

	Within 1 year	After 1 year and within 2 years	After 2 years and within 3 years	After 3 years and within 4 years	After 4 years and within 5 years	After 5 years
Bonds payable	10,000	20,000	–	–	10,000	20,000
Long-term loans payable	–	39,929	35,765	40,649	42,265	615

(Securities)

1. A summary of trading securities

No trading securities were held at March 31, 2019 and 2020.

2. A summary of held-to-maturity securities with fair value

The previous fiscal year as of March 31, 2019

(Millions of yen)

	Type	Amount recorded in the balance sheet	Fair value	Difference
Held-to-maturity securities whose fair value exceed their amounts recorded in the balance sheet	(1) National and local government bonds	–	–	–
	(2) Company debentures	105	114	9
	Subtotal	105	114	9
Held-to-maturity securities whose fair value do not exceed their amounts recorded in the balance sheet	(1) National and local government bonds	–	–	–
	(2) Company debentures	–	–	–
	Subtotal	–	–	–
Total		105	114	9

The current fiscal year as of March 31, 2020

(Millions of yen)

	Type	Amount recorded in the balance sheet	Fair value	Difference
Held-to-maturity securities whose fair value exceed their amounts recorded in the balance sheet	(1) National and local government bonds	–	–	–
	(2) Company debentures	104	110	6
	Subtotal	104	110	6
Held-to-maturity securities whose fair value do not exceed their amounts recorded in the balance sheet	(1) National and local government bonds	–	–	–
	(2) Company debentures	50	50	0
	Subtotal	50	50	0
Total		154	160	6

3. A summary of other securities with stated market prices

The previous fiscal year as of March 31, 2019

(Millions of yen)

	Type	Amount recorded in the balance sheet	Acquisition cost	Difference
Other securities whose amounts recorded in the balance sheet exceed their acquisition cost	Equity securities	9,410	6,794	2,616
Other securities whose amounts recorded in the balance sheet do not exceed their acquisition cost	Equity securities	6,640	8,632	(1,992)
Total		16,050	15,426	624

Note: Unlisted stocks (amount reported on balance sheet: ¥17,314 million) are not included in the above table because there were no quoted market prices available and their fair value is deemed to be extremely difficult to determine.

The current fiscal year as of March 31, 2020

(Millions of yen)

	Type	Amount recorded in the balance sheet	Acquisition cost	Difference
Other securities whose amounts recorded in the balance sheet exceed their acquisition cost	Equity securities	3,969	2,458	1,511
Other securities whose amounts recorded in the balance sheet do not exceed their acquisition cost	Equity securities	4,768	7,611	(2,843)
Total		8,737	10,069	(1,332)

Note: Unlisted stocks (amount reported on balance sheet: ¥11,715 million) are not included in the above table because there were no quoted market prices available and their fair value is deemed to be extremely difficult to determine.

4. Summary of held-to-maturity securities which were sold

There was no sale of held-to-maturity securities in the fiscal years ended March 31, 2019 and 2020.

5. Summary of other securities which were sold

The previous fiscal year ended March 31, 2019

(Millions of yen)

Type	Selling prices	Amount of gain on sales	Amount of loss on sales
Equity securities	882	37	0

The current fiscal year ended March 31, 2020

(Millions of yen)

Type	Selling prices	Amount of gain on sales	Amount of loss on sales
Equity securities	6,123	701	(860)

6. Securities subject to the recognition of impairment losses

The previous fiscal year ended March 31, 2019

The disclosure for other securities is omitted since the amount of impairment losses for such securities is not material.

If the market value at the end of the fiscal year has dropped by 50% or more compared with the acquisition value, an impairment loss is recognized for the full amount, and if it has dropped from approximately 30 to 50% compared with the acquisition value, an impairment loss is recognized for necessary amounts taking into account the probability of recoverability.

The current fiscal year ended March 31, 2020

Impairment losses of ¥ 4,836 million for other securities were recognized and recorded as loss on valuation of investment securities under the extraordinary losses.

If the market value at the end of the fiscal year has dropped by 50% or more compared to the acquisition value, an impairment loss is recognized for the full amount, and if it has dropped from approximately 30 to 50% compared with the acquisition value, an impairment loss is recognized for necessary amounts taking into account the probability of recoverability.

(Derivatives)

1. Derivatives to which hedge accounting is not applied

(1) Foreign currency

The previous fiscal year as of March 31, 2019

(Millions of yen)

Classification	Transaction Type	Notional amount	Over 1 year	Fair value	Valuation gain (loss)
Transactions other than market transactions	Forward foreign exchange contracts				
	Sell:				
	U.S. dollar	23,060	–	74	74
	Euro	22	–	0	0
	Hong Kong dollar	245	–	1	1
	Thai baht	249	–	(2)	(2)
	Buy:				
	U.S. dollar	765	173	9	9
	Sterling pound	42	–	(1)	(1)
	Hong Kong dollar	5	–	0	0
Thai baht	175	–	(1)	(1)	
	Foreign currency swap contracts				
	U.S. dollar – Japanese yen	9,090	6,149	22	22
	Total	–	–	102	102

Note: Method of measuring fair value

The fair values of forward foreign exchange contracts are measured using the forward foreign exchange rates.

The fair values of foreign currency swap contracts are measured based on the prices provided by financial institutions with which these contracts are made.

The current fiscal year as of March 31, 2020

(Millions of yen)

Classification	Transaction Type	Notional amount	Over 1 year	Fair value	Valuation gain (loss)
Transactions other than market transactions	Forward foreign exchange contracts				
	Sell:				
	U.S. dollar	39,635	164	(628)	(628)
	Euro	74	56	1	1
	Hong Kong dollar	5	–	0	0
	Buy:				
	U.S. dollar	673	–	10	10
	Euro	81	–	(1)	(1)
	Hong Kong dollar	14	–	1	1
	Chinese yuan	56	–	0	0
Thai baht	169	–	(3)	(3)	
	Foreign currency swap contracts				
	U.S. dollar – Japanese yen	6,029	6,029	(160)	(160)
	Total	–	–	(780)	(780)

Note: Method of measuring fair value

The fair values of forward foreign exchange contracts are measured using the forward foreign exchange rates.

The fair values of foreign currency swap contracts are measured based on the prices provided by financial institutions with which these contracts are made.

(2) Interest rate

The previous fiscal year as of March 31, 2019
Not applicable

The current fiscal year as of March 31, 2020
Not applicable

(3) Commodity

The previous fiscal year as of March 31, 2019
Not applicable

The current fiscal year as of March 31, 2020
Not applicable

2. Derivatives to which hedge accounting is applied

(1) Foreign currency

The previous fiscal year as of March 31, 2019

(Millions of yen)

Hedge accounting	Hedging instrument	Hedged item	Notional amount	Over 1 year	Fair value	
Deferral hedge accounting	Forward foreign exchange contracts					
	Sell:		Accounts receivable - trade			
	U.S. dollar			2,493	–	6
	Euro			175	–	9
	Hong Kong dollar			96	5	(1)
	Thai baht			87	–	(3)
	Buy:		Accounts payable - trade			
	U.S. dollar			5,649	2,114	72
	Euro			1,903	972	(48)
	Swedish krona			1	–	0
	Hong Kong dollar			111	–	(1)
	Chinese yuan			121	–	3
New Taiwan dollar			253	8	(9)	
Total			–	–	28	

Notes: Method of measuring fair value

The fair value of forward foreign exchange contracts is calculated using forward foreign exchange rates.

The current fiscal year as of March 31, 2020

(Millions of yen)

Hedge accounting	Hedging instrument	Hedged item	Notional amount	Over 1 year	Fair value
Deferral hedge accounting	Forward foreign exchange contracts				
	Sell:				
	U.S. dollar	Accounts receivable - trade	9,683	868	(18)
	Euro		393	298	4
	Buy:				
	U.S. dollar	Accounts payable - trade	4,084	2,206	87
	Euro		1,935	372	(66)
	Sterling pound		2	–	0
Chinese yuan		1,827	586	84	
New Taiwan dollar		100	–	3	
Total			–	–	94

Note: Method of measuring fair value

The fair value of forward foreign exchange contracts is calculated using forward foreign exchange rates.

(2) Interest rate

The previous fiscal year as of March 31, 2019

(Millions of yen)

Hedge accounting	Hedging instrument	Hedged item	Notional amount	Over 1 year	Fair value
Deferral hedge accounting of interest rate swaps	Interest rate swaps Payments fixed receipts floating	Long-term loans payable	48,758	27,393	(51)
	Interest rate swaps Payments fixed receipts fixed	Bonds payable	20,000	20,000	(24)
Total			–	–	(75)

Notes: Method of measuring fair value

The fair value is measured based on the prices provided by financial institutions with which these contracts are made.

The current fiscal year as of March 31, 2020

(Millions of yen)

Hedge accounting	Hedging instrument	Hedged item	Notional amount	Over 1 year	Fair value
Deferral hedge accounting of interest rate swaps	Interest rate swaps Payments fixed receipts floating	Long-term loans payable	38,439	27,663	(213)
	Interest rate swaps Payments fixed receipts fixed	Bonds payable	20,000	20,000	(16)
Total			–	–	(229)

Note: Method of measuring fair value

The fair value is measured based on the prices provided by financial institutions with which these contracts are made.

(Retirement benefits)

1. Outline of Retirement benefits plan

The IHI Group has defined benefit pension plans, lump-sum retirement payment plans and defined contribution plans. In addition, an employee, if eligible, may receive additional payments upon retirement under certain situation. Certain consolidated subsidiaries in Japan adopt the simplified methods to calculate net defined benefit liabilities and retirement benefit expenses for their lump-sum retirement payment plans and defined benefit pension plans.

Also, certain overseas consolidated subsidiaries adopt the International Financial Reporting Standards (IFRS) and have applied IAS 19 Employee Benefits (revised June 16, 2011) effective from the fiscal year ended March 31, 2014.

Furthermore, IHI has set up a retirement benefit trust for the lump-sum retirement payment plan.

2. Defined-benefit pension plan

(1) Reconciliations of the opening and closing balances of retirement benefit obligations

	(Millions of yen)	
	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Retirement benefit obligations at the beginning of the fiscal year	176,654	181,399
Service costs	9,963	9,952
Interest costs	1,614	1,686
Actuarial gains and losses incurred	3,857	2,498
Payments of retirement benefits	(12,753)	(10,051)
Past service costs incurred	29	234
Foreign currency translation adjustments	7	(220)
Increase due to employee transfers	2,005	-
Increase due to change in measurement of retirement benefit obligations from the simplified method to the standard method	126	-
Other	(103)	85
Retirement benefit obligations at the end of the fiscal year	181,399	185,583

(2) Reconciliations of the opening and closing balances of plan assets

	(Millions of yen)	
	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Plan assets at the beginning of the fiscal year	22,553	21,186
Expected return on assets	30	25
Interest income on plan assets at overseas consolidated subsidiaries	18	11
Actual return on plan assets under the simplified method	4	(11)
Actuarial gains and losses incurred	(2,034)	(2,165)
Contributions by IHI and its subsidiaries	354	529
Payments of retirement benefits	(287)	(213)
Foreign currency translation adjustments	6	(54)
Increase due to employee transfers	472	-
Other	70	89
Plan assets at the end of the fiscal year	21,186	19,397

(3) Reconciliations of the closing balances of retirement benefit obligations and plan assets, and net liability and asset amounts recorded in the consolidated balance sheet

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Retirement benefit obligations for funded plans	129,279	129,657
Plan assets	(21,186)	(19,397)
	108,093	110,260
Retirement benefit obligations for unfunded plans	52,120	55,926
Net amount of liability and asset recorded in the consolidated balance sheet	160,213	166,186
Net defined benefit liabilities	160,244	166,193
Net defined benefit assets	31	7
Net amount of liability and asset recorded in the consolidated balance sheet	160,213	166,186

(4) Amounts of net periodic pension cost and its components

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Service costs	9,959	9,963
Interest costs	1,589	1,669
Net interest costs (income) at overseas consolidated subsidiaries	7	6
Expected return on plan assets	(30)	(25)
Amortization of actuarial gains and losses	1,010	2,086
Amortization of past service costs	(302)	(134)
Amortization of cost incurred due to the change from simplified method to the standard method	126	–
Other	777	18
Total	13,136	13,583

Note: The periodic pension cost for the consolidated subsidiaries to adopt such simplified method has been included in “Service costs”.

(5) Remeasurements of defined benefit plans, net of tax

Components of items (before tax effect) recorded in remeasurements of defined benefit plans, net of tax are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Past service costs	(331)	(368)
Actuarial gains and losses	(4,882)	(2,577)
Total	(5,213)	(2,945)

(6) Remeasurements of defined benefit plans

Components of items (before tax effect) recorded in remeasurements of defined benefit plans are as follows:

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Unrecognized past service costs	2,408	2,040
Unrecognized actuarial gains and losses	(7,382)	(9,959)
Total	(4,974)	(7,919)

(7) Plan assets

(i) Major components of plan assets

The proportion of major categories to total plan assets is as follows:

	As of March 31, 2019	As of March 31, 2020
Bond	7%	8%
Stock	77	67
Cash and deposits	9	17
General account	1	1
Real estate	4	4
Other	2	3
Total	100	100

Note: The retirement benefit trust, which was set up for the lump-sum retirement payment plan, accounts for 82% and 78% of total plan assets during the year ended March 31, 2019 and 2020, respectively.

(ii) Method of setting the long-term expected rate of return

In determining the long-term expected rate of return on plan assets, the current and projected allocations of plan assets and the current and projected long-term investment returns on various assets constituting plan assets are taken into consideration.

(8) Bases for actuarial calculations

Major bases for actuarial calculation

	As of March 31, 2019	As of March 31, 2020
Discount rate	Mainly 1.0%	Mainly 1.0%
Long-term expected rate of return	Mainly 0.0%	Mainly 0.0%

3. Defined contribution plan

The required contribution amount to the defined contribution plan of IHI and its consolidated subsidiaries during the year ended March 31, 2019 and 2020 was ¥2,067 million and ¥2,520 million, respectively.

(Stock options)

1. Expenses for stock options and account titles
Not applicable.

2. Description of stock options, changes in the size of stock options

(1) Description of stock options

	FY2007 Stock option	FY2008 Stock option	FY2009 Stock option	FY2010 Stock option
Persons granted	Directors of IHI: 13 Executive officers of IHI: 13	Directors of IHI: 13 Executive officers of IHI: 11	Directors of IHI: 13 Executive officers of IHI: 14	Directors of IHI: 13 Executive officers of IHI: 13
Class and number of shares (Note)	Common stock 27,400 shares	Common stock 51,100 shares	Common stock 64,700 shares	Common stock 75,900 shares
Grant date	August 9, 2007	August 18, 2008	August 5, 2009	August 9, 2010
Vesting conditions	In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers.	In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers.	In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers.	In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers.
Service period	No provisions since vesting date is not readily determinable.	No provisions since vesting date is not readily determinable.	No provisions since vesting date is not readily determinable.	No provisions since vesting date is not readily determinable.
Exercise period	From August 10, 2007 to August 9, 2037	From August 19, 2008 to August 18, 2038	From August 6, 2009 to August 5, 2039	From August 10, 2010 to August 9, 2040

	FY2011 Stock option	FY2012 Stock option	FY2013 Stock option	FY2014 Stock option
Persons granted	Directors of IHI: 13 Executive officers of IHI: 14	Directors of IHI: 13 Executive officers of IHI: 15	Directors of IHI: 13 Executive officers of IHI: 14	Directors of IHI: 13 Executive officers of IHI: 17
Class and number of shares (Note)	Common stock 59,300 shares	Common stock 79,800 shares	Common stock 35,000 shares	Common stock 32,500 shares
Grant date	August 17, 2011	August 16, 2012	August 21, 2013	August 11, 2014
Vesting conditions	In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers.	In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers.	In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers.	In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers.
Service period	No provisions since vesting date is not readily determinable.	No provisions since vesting date is not readily determinable.	No provisions since vesting date is not readily determinable.	No provisions since vesting date is not readily determinable.
Exercise period	From August 18, 2011 to August 17, 2041	From August 17, 2012 to August 16, 2042	From August 22, 2013 to August 21, 2043	From August 12, 2014 to August 11, 2044

	FY2015 Stock option	FY2016 Stock option
Persons granted	Directors of IHI: 12 Executive officers of IHI: 18	Directors of IHI: 10 Executive officers of IHI: 18
Class and number of shares (Note)	Common stock 24,200 shares	Common stock 49,100 shares
Grant date	August 10, 2015	August 9, 2016
Vesting conditions	In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers.	In principle, stock option rights are vested on the day which one year has elapsed after losing their positions as directors or executive officers.
Service period	No provisions since vesting date is not readily determinable.	No provisions since vesting date is not readily determinable.
Exercise period	From August 11, 2015 to August 10, 2045	From August 10, 2016 to August 9, 2046

Note: The number of stock options is translated into the number of shares. In addition, it is translated into the number of shares after the consolidation of common stock (ratio of 1 new share for every 10 old shares) on October 1, 2017.

(2) The number of and changes in stock options

The following describes changes in the number of stock options that existed during the year ended March 31, 2020. The number of stock options is translated into the number of shares.

(i) Number of stock options

	FY2007 Stock option	FY2008 Stock option	FY2009 Stock option	FY2010 Stock option	FY2011 Stock option
Non-vested: (share)					
Outstanding at March 31, 2019	1,600	3,400	6,700	10,800	10,600
Granted	–	–	–	–	–
Forfeited	–	–	–	–	–
Vested	800	1,600	4,000	5,400	4,100
Outstanding of non-vested at March 31, 2020	800	1,800	2,700	5,400	6,500
Vested: (share)					
Outstanding at March 31, 2019	–	4,800	4,000	10,200	19,100
Vested	800	1,600	4,000	5,400	4,100
Exercised	–	1,600	1,900	3,100	11,600
Forfeited	–	–	–	–	–
Outstanding of non-exercised at March 31, 2020	800	4,800	6,100	12,500	11,600

	FY2012 Stock option	FY2013 Stock option	FY2014 Stock option	FY2015 Stock option	FY2016 Stock option
Non-vested: (share)					
Outstanding at March 31, 2019	18,200	10,100	15,300	12,000	37,500
Granted	–	–	–	–	–
Forfeited	–	–	–	–	–
Vested	7,900	3,500	6,000	5,000	11,100
Outstanding of non-vested at March 31, 2020	10,300	6,600	9,300	7,000	26,400
Vested: (share)					
Outstanding at March 31, 2019	31,600	16,500	14,000	9,600	11,600
Vested	7,900	3,500	6,000	5,000	11,100
Exercised	15,700	5,700	4,900	4,800	2,600
Forfeited	–	–	–	–	–
Outstanding of non-exercised at March 31, 2020	23,800	14,300	15,100	9,800	20,100

Note: The number of stock options is translated into the number of shares after the consolidation of common stock (ratio of 1 new share for every 10 old shares) on October 1, 2017.

(ii) Per amount information

	FY2007 Stock option	FY2008 Stock option	FY2009 Stock option	FY2010 Stock option	FY2011 Stock option
Exercise price - yen	1	1	1	1	1
Average share price at exercise – yen	–	2,466	2,789	2,683	2,261
Fair value price at grant date - yen	4,620	1,850	1,650	1,540	1,780

	FY2012 Stock option	FY2013 Stock option	FY2014 Stock option	FY2015 Stock option	FY2016 Stock option
Exercise price - yen	1	1	1	1	1
Average share price at exercise – yen	2,140	1,923	1,847	2,164	2,318
Fair value price at grant date - yen	1,590	3,760	4,400	4,130	2,780

Note: The prices above are translated into the prices of shares after the consolidation of common stock (ratio of 1 new share for every 10 old shares) on October 1, 2017.

3. Estimation of the number of stock options vested
Because it is difficult to reasonably estimate the number of options that will forfeit in the future, only the number of actual forfeited options is reflected.

(Tax effect accounting)

1. Significant components of the IHI Group's deferred tax assets and liabilities

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Deferred tax assets:		
Losses on valuation of inventories	3,221	5,681
Over depreciation	7,990	9,007
Impairment loss	5,921	3,580
Provision for bonuses	7,143	6,901
Provision for construction warranties	13,721	12,726
Provision for loss on construction contracts	6,260	6,040
Denial of accrued expenses	11,932	11,606
Valuation losses on investment securities	2,084	1,507
Net defined benefit liability	52,674	53,777
Asset retirement obligation	21	1,353
Net tax loss carried forward (Note 2)	21,255	22,624
Unrealized gain	3,012	2,807
Other	35,711	37,976
Subtotal deferred tax assets	170,945	175,585
Valuation allowance related to net tax loss carried forward	(15,047)	(21,555)
Valuation allowance related to the total of future deductible amount, etc.	(27,390)	(30,531)
Valuation allowance (Note 1)	(42,437)	(52,086)
Total	128,508	123,499
Deferred tax liabilities:		
Gain on transfer from business divestitures	(2,512)	(1,085)
Valuation difference on available-for-sale securities	(627)	(361)
Reserve for advanced depreciation of non-current assets	(4,091)	(4,268)
Gain on contribution of securities to retirement benefit trust	(2,967)	(2,746)
Expenses correspond to asset retirement obligation	–	(1,037)
Other	(3,010)	(3,065)
Total	(13,207)	(12,562)
Net deferred tax assets	115,301	110,937

(Changes in presentation)

“Asset retirement obligation” which was included in “Other” under “Deferred tax assets” in the previous fiscal year, has been separately presented in the current fiscal year due to its increased materiality. The above table for the previous fiscal year has been reclassified to reflect this change in presentation.

As a result of the change, ¥35,732 million presented as “Other” as of the end of the previous fiscal year has been reclassified as “Asset retirement obligation” of ¥21 million and “Other” of ¥35,711 million.

Note 1 The main reason for the changes in valuation allowance is an increase in valuation allowance resulting from the impact of the spread of COVID-19 reflected in the estimated taxable income for the fiscal year ending March 31, 2021.

Note 2 The amount of the net tax loss carried forward and amounts of deferred tax assets thereof by carry forward period.

As of March 31, 2019

(Millions of yen)

	Within 1 year	After 1 year and within 2 years	After 2 years and within 3 years	After 3 years and within 4 years	After 4 years and within 5 years	After 5 years	Total
Net tax loss carried forward (*1)	0	31	0	25	18	21,181	21,255
Valuation allowance	–	(31)	–	–	–	(15,016)	(15,047)
Deferred tax assets	0	0	0	25	18	6,165	6,208

(*1) The net tax loss carried forward is an amount multiplied by the statutory tax rate.

As of March 31, 2020

(Millions of yen)

	Within 1 year	After 1 year and within 2 years	After 2 years and within 3 years	After 3 years and within 4 years	After 4 years and within 5 years	After 5 years	Total
Net tax loss carried forward (*2)	89	46	19	34	149	22,287	22,624
Valuation allowance	(89)	(44)	(19)	(34)	(34)	(21,335)	(21,555)
Deferred tax assets	0	2	0	0	115	952	(*3)1,069

(*2) The net tax loss carried forward is an amount multiplied by the statutory tax rate.

(*3) For the net tax loss carried forward of ¥22,624 million (amount measured using the statutory tax rate), related deferred tax assets of ¥1,069 million were recorded.

The deferred tax assets of ¥1,069 million were recognized mainly on a portion of the net tax loss carried forward of IHI. This due to a loss before income taxes recognized in the fiscal year ended March 31, 2017 and loss on valuation of shares of subsidiaries and affiliates in the previous fiscal years was also included as deductible expenses for tax purpose arising from the transfer of shares, etc.

Regarding deferred tax assets related to the net tax loss carried forward, a valuation allowance was not recognized for the portion deemed to be recoverable based on estimates of future taxable income.

2. The reconciliation between the statutory tax rate and the effective income tax rate after applying tax effect accounting

	As of March 31, 2019	As of March 31, 2020
Statutory tax rate in Japan	30.6%	30.6%
Adjustments:		
Change in valuation allowance	3.5	15.3
Share of loss of entities accounted for using the equity method	0.0	13.3
Foreign income taxes included in deductible expenses	1.0	2.2
Expenses not deductible permanently (e.g. entertainment expenses)	1.1	1.4
Income taxes for prior periods	6.1	0.2
Different tax rates on overseas earnings	(1.4)	(1.5)
Tax exemption for research and development expenses, etc.	(2.3)	(7.7)
Others	(3.7)	(0.3)
Effective income tax rate after applying tax effect accounting	34.9	53.5

(Business combination)

Disclosure is omitted since it is not material

(Asset retirement obligations)

Disclosure is omitted since it is not material

(Investment and Rental Property)

The previous fiscal year ended March 31, 2019

IHI and certain consolidated subsidiaries own rental office buildings (including land) and commercial facilities in Tokyo and other areas. The amounts recorded in the consolidated balance sheet, changes during the previous fiscal year and the fair value of these investment and rental properties at March 31, 2019 are as follows:

(Millions of yen)

Category of use	Amount in consolidated balance sheet			Fair value as of March 31, 2019
	Balance as of April 1, 2018	Net change	Balance as of March 31, 2019	
Office buildings	56,463	(2,655)	53,808	125,111
Commercial facilities	3,871	(13)	3,858	34,669
Others	36,750	2,000	38,750	126,058
Total	97,083	(668)	96,415	285,838

- Notes: 1. The amount recorded in the consolidated balance sheet is calculated by subtracting accumulated depreciation and impairment losses from acquisition cost.
2. The fair value at fiscal year-end is based on values mainly in the appraisal report prepared by external real estate appraisers.

Income and expenses concerning investment and rental properties are as follows:

(Millions of yen)

Category of use	Amount in consolidated statement of income			
	Rental income	Rental expenses	Net rental income	Others
Office buildings	8,899	6,681	2,218	(1)
Commercial facilities	1,024	275	750	–
Others	4,333	2,146	2,187	(1)
Total	14,257	9,102	5,155	(2)

- Notes: 1. Major rental income is included in “Net sales,” while major rental expenses are included in “Cost of sales.”
2. For the fiscal year ended March 31, 2019, “Others” in the above table is composed of gains on sales of non-current assets, and losses on disposal of non-current assets, and included in non-operating income and non-operating expenses on the consolidated statement of income.

The current fiscal year ended March 31, 2020

IHI and certain consolidated subsidiaries own rental office buildings (including land) and commercial facilities in Tokyo and other areas. The amounts recorded in the consolidated balance sheet, changes during the current fiscal year and the fair value of these investment and rental properties at March 31, 2020 are as follows:

(Millions of yen)

Category of use	Amount in consolidated balance sheet			Fair value as of March 31, 2020
	Balance as of April 1, 2019	Net change	Balance as of March 31, 2020	
Office buildings	53,808	2,516	56,324	175,902
Commercial facilities	3,858	67	3,925	37,513
Others	38,750	3,727	42,477	98,915
Total	96,415	6,311	102,726	312,331

- Notes: 1. The amount recorded in the consolidated balance sheet is calculated by subtracting accumulated depreciation and impairment losses from acquisition cost.
2. The fair value at fiscal year-end is based on values mainly in the appraisal report prepared by external real estate appraisers.

Income and expenses concerning investment and rental properties are as follows:

(Millions of yen)

Category of use	Amount in consolidated statement of income			
	Rental income	Rental expenses	Net rental income	Others
Office buildings	9,024	7,069	1,955	–
Commercial facilities	1,042	290	752	–
Others	4,538	2,026	2,512	0
Total	14,603	9,384	5,219	0

- Notes: 1. Major rental income is included in “Net sales,” while major rental expenses are included in “Cost of sales.”
2. For the fiscal year ended March 31, 2020, “Others” in the above table is composed of losses on disposal of non-current assets, and included in non-operating expenses on the consolidated statement of income.

(Segment information)

Segment information

1. Overview of reportable segments

The reportable segments are constituent units of the IHI Group for which separate financial information is available. The Board of Directors periodically examines these segments for the purpose of deciding the allocation of management resources and evaluating operating performance.

IHI organizes SBUs by products and services and allocates business areas to control these SBUs. Each business area manages and supervises the SBUs' execution of business strategies, and develops those business activities.

Based on the above, the IHI Group consists of segments by these business areas and sets the business areas of "Resources, Energy and Environment," "Social Infrastructure and Offshore Facility," "Industrial System and General-Purpose Machinery," and "Aero Engine, Space and Defense" as its reportable segments.

Main businesses, products and services belonging to each reportable segment are as follows:

Reportable segments	Main businesses, products and services
Resources, Energy and Environment	Power systems (power systems plants for land use and power systems for ships), boilers, plants (storage facilities, chemical plants and pharmaceutical plants), nuclear power (components for nuclear power plants)
Social Infrastructure and Offshore Facility	Bridges/water gates, transport systems, shield systems, concrete construction materials, urban development (real estate sales and rental)
Industrial System and General-Purpose Machinery	Vehicular turbochargers, parking, rotating machineries (compressors, separation systems, turbochargers for ships), thermal and surface treatment, transport machineries, logistics/industrial systems (logistics systems, industrial machineries), agricultural machineries, paper-making machineries
Aero Engine, Space and Defense	Aero engines, rocket systems/space utilization systems, defense systems

2. Calculation method used for sales, profit or loss, assets and liabilities, and other items by reportable segments

The accounting method used for reportable business segments is generally the same as the method stated in "Basis of preparation of the consolidated financial statements." Profits from reportable segments are figures based on operating profit. Intersegment sales and transfers are based on actual market pricing.

(Recognition of revenue for engine programs)

Regarding the engine programs in which IHI participates, we record the revenue calculated based on our main partners' revenue proportionate to our participation ratio. Although net sales were previously recorded based on sales notifications sent by the main partners in the month following the sale, we changed the calculation method in March 2020 to record net sales within the same month, because it became possible to obtain the sales information earlier.

As a result, net sales for the thirteen-month period including March 2020 were recorded in the fiscal year ended March 31, 2020 and net sales by segment for the fiscal year ended March 31, 2020 increased by ¥62 million for the Resources, Energy and Environment segment and by ¥29,238 million for the Aero Engine, Space and Defense segment.

3. Information about sales, profit or loss, assets and liabilities, and other items by reportable segments
The previous fiscal year ended March 31, 2019

(Millions of yen)

	Reportable Segments					Others (Note 1)	Total	Adjustment	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General- Purpose Machinery	Aero Engine, Space and Defense	Total				
Sales:									
(1) Sales to outside customers	374,780	132,761	431,433	490,176	1,429,150	54,292	1,483,442	–	1,483,442
(2) Intersegment sales and transfers	2,291	10,396	9,649	2,070	24,406	25,015	49,421	(49,421)	–
Total	377,071	143,157	441,082	492,246	1,453,556	79,307	1,532,863	(49,421)	1,483,442
Segment profit (Operating profit (loss)) (Note 2)	3,337	14,236	23,113	46,447	87,133	2,374	89,507	(7,019)	82,488
Segment assets (Note 3)	292,636	231,373	355,630	569,583	1,449,222	101,723	1,550,945	113,584	1,664,529
Others:									
Depreciation (Note 4)	4,039	5,917	10,805	17,542	38,303	1,054	39,357	3,555	42,912
Share of profit (loss) of entities accounted for using the equity method	57	–	478	2,123	2,658	1,902	4,560	(452)	4,108
Investments in the equity method companies	222	–	2,513	54,842	57,577	15,925	73,502	–	73,502
Increase in property, plant and equipment (Note 5)	5,212	3,853	13,467	35,049	57,581	986	58,567	8,743	67,310

- Notes:
1. The “Others” classification consists of business that is not included in reportable segments. It includes inspection and measurement business, the manufacture and sale of equipment and the like related to such business, and other service operations.
 2. Adjustment of segment profit represents intersegment transactions of negative ¥118 million and unallocated corporate expenses of negative ¥6,901 million. Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.
 3. Adjustment of ¥113,584 million for segment assets includes corporate assets unallocated to any reportable segment of ¥236,688 million among cash and deposits, buildings and structures, investment securities and other assets, and eliminations of intersegment receivables and payables of negative ¥99,256 million.
 4. Depreciation represents depreciation of property, plant and equipment. Adjustment of depreciation represents depreciation of property, plant and equipment not allocated to reportable segments.
 5. Adjustment of increase in property, plant and equipment represents increases in property, plant and equipment not allocated to reportable segments.
 6. Segment liabilities are omitted because they are not considered in determining allocation of management resources and assessing performance.

The current fiscal year ended March 31, 2020

(Millions of yen)

	Reportable Segments					Others (Note 1)	Total	Adjustment	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General- Purpose Machinery	Aero Engine, Space and Defense	Total				
Sales:									
(1) Sales to outside customers	323,855	142,376	396,009	478,842	1,341,082	45,421	1,386,503	–	1,386,503
(2) Intersegment sales and transfers	3,896	10,439	10,461	2,033	26,829	24,933	51,762	(51,762)	–
Total	327,751	152,815	406,470	480,875	1,367,911	70,354	1,438,265	(51,762)	1,386,503
Segment profit (Operating profit (loss)) (Note 2)	4,716	13,497	11,448	40,345	70,006	3,577	73,583	(12,786)	60,797
Segment assets (Note 3)	291,830	237,675	341,733	621,043	1,492,281	105,166	1,597,447	143,335	1,740,782
Others:									
Depreciation (Note 4)	5,216	6,868	12,468	22,038	46,590	1,508	48,098	5,735	53,833
Share of profit (loss) of entities accounted for using the equity method	30	–	403	2,706	3,139	(16,085)	(12,946)	(45)	(12,991)
Investments in the equity method companies	198	–	2,617	26,578	29,393	27,330	56,723	–	56,723
Increase in property, plant and equipment and intangible assets (Note 5)	5,815	11,760	12,142	42,771	72,488	2,187	74,675	5,974	80,649

- Notes:
1. The “Others” classification consists of business that is not included in reportable segments. It includes inspection and measurement business, the manufacture and sale of equipment and the like related to such business, and other service operations.
 2. Adjustment of segment profit represents intersegment transactions of negative ¥211 million and unallocated corporate expenses of negative ¥12,575 million. Corporate expenses mainly consist of general and administrative expenses that are unattributable to reportable segments.
 3. Adjustment of ¥143,335 million for segment assets includes corporate assets unallocated to any reportable segment of ¥276,260 million among cash and deposits, buildings and structures, investment securities and other assets, and eliminations of intersegment receivables and payables of negative ¥106,571 million.
 4. Depreciation represents depreciation of property, plant and equipment and software. Adjustment of depreciation represents depreciation of property, plant and equipment and software not allocated to reportable segments.
 5. Increases in intangible assets represent increases in software. Adjustment of increase in property, plant and equipment and intangible assets represents increases in property, plant and equipment and intangible assets not allocated to reportable segments.
 6. Segment liabilities are omitted because they are not considered in determining allocation of management resources and assessing performance.

Related information

The previous fiscal year ended March 31, 2019

1. Product and service information

The information is omitted, as classification is the same as for reportable segments.

2. Information by geographical area

(1) Net sales

(Millions of yen)

Japan	U.S.A.	Asia	Central and South America	Europe	Others	Total
769,848	326,497	260,168	12,118	102,249	12,562	1,483,442

Note: Sales are classified by country or region based on the location of customers.

(2) Property, plant and equipment

(Millions of yen)

Japan	North America	Asia	Central and South America	Europe	Others	Total
323,932	5,874	20,275	154	17,120	39	367,394

3. Information by major customer

(Millions of yen)

Name of customer or individual	Net sales	Related business segment
Japanese Aero Engines Corporation	205,100	Aero Engine, Space and Defense

The current fiscal year ended March 31, 2020

1. Product and service information

The information is omitted, as classification is the same as for reportable segments.

2. Information by geographical area

(1) Net sales

(Millions of yen)

Japan	U.S.A.	Asia	Central and South America	Europe	Others	Total
723,492	363,914	214,415	9,002	68,601	7,079	1,386,503

Note: Sales are classified by country or region based on the location of customers.

(2) Property, plant and equipment

(Millions of yen)

Japan	North America	Asia	Central and South America	Europe	Others	Total
348,981	7,933	20,635	268	19,550	128	397,495

3. Information by major customer

(Millions of yen)

Name of customer or individual	Net sales	Related business segment
Japanese Aero Engines Corporation	258,058	Aero Engine, Space and Defense

Information about impairment loss on non-current assets by reportable segment

The previous fiscal year ended March 31, 2019

(Millions of yen)

	Reportable Segments					Others (Note)	Total	Adjustments	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General- Purpose Machinery	Aero Engine, Space and Defense	Total				
Impairment loss	–	77	1,533	–	1,610	–	1,610	–	1,610

The current fiscal year ended March 31, 2020

(Millions of yen)

	Reportable Segments					Others	Total	Adjustments	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General- Purpose Machinery	Aero Engine, Space and Defense	Total				
Impairment loss	–	16	401	–	417	9	426	–	426

Note: The “Others” classification consists of business that is not included in reportable segments. It includes inspection and measurement business, the manufacture and sale of equipment and the like related to such business, and other service operations.

Information about goodwill amortization amount and year-end balance by reportable segment

The previous fiscal year ended March 31, 2019

(Millions of yen)

	Reportable Segments					Others (Note)	Total	Adjustments	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General- Purpose Machinery	Aero Engine, Space and Defense	Total				
Amortization for the fiscal year ended March 31, 2019	256	–	2,294	–	2,550	371	2,921	–	2,921
Balance as of March 31, 2019	1,048	866	6,915	–	8,829	1,203	10,032	–	10,032

Note: The “Others” classification consists of business that is not included in reportable segments. It includes inspection and measurement business, the manufacture and sale of equipment and the like related to such business, and other service operations.

The current fiscal year ended March 31, 2020

(Millions of yen)

	Reportable Segments					Others (Note)	Total	Adjustments	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facility	Industrial System and General- Purpose Machinery	Aero Engine, Space and Defense	Total				
Amount for the current fiscal year	249	95	1,734	–	2,078	370	2,448	–	2,448
Balance at the end of the current fiscal year	880	755	4,988	–	6,623	833	7,456	–	7,456

Note: The “Others” classification consists of business that is not included in reportable segments. It includes inspection and measurement business, the manufacture and sale of equipment and the like related to such business, and other service operations.

Information about gain on bargain purchase by reportable segment

The previous fiscal year ended March 31, 2019

Not applicable.

The current fiscal year ended March 31, 2020

Not applicable.

Related party information

1. Related party transactions

(1) Transactions between IHI and related parties

(i) Non-consolidated subsidiaries, affiliates and other related parties of IHI

The previous fiscal year ended March 31, 2019

Type	Name	Location	Capital or contributions (Millions of yen)	Nature of business or occupation	Voting rights holding or held	Relationship	Transaction	Transaction amount (Note 1) (Millions of yen)	Account title	Balance as of March 31 (Note 1) (Millions of yen)
Affiliate	IHI Finance Support Corporation ("IFS")	Chiyoda-ku, Tokyo, Japan	200	Lease, factoring, etc.	Holding directly 33.5%	Factoring	Factoring (Note 2)	55,871	Notes and accounts payable - trade Other current liabilities	14,423 1,513
	Japan Marine United Corporation ("JMU")	Yokohama-city, Kanagawa, Japan	25,000	Shipbuilding	Holding directly 45.93%	Orderer of SPB tanks construction project	Burden share of losses for delayed construction of SPB tanks (Note 3)	6,679	—	—

Notes: 1. Consumption taxes are not included in the transaction amount, but included in the balance as of March 31, 2019.

2. With regard to factorings, IHI, customers and IFS have entered into a basic agreement concerning IHI's liabilities and have settled the amount.

3. Burden share of losses for delayed construction of SPB tanks was borne by IHI as a result of discussions with JMU.

The current fiscal year ended March 31, 2020

Type	Name	Location	Capital or contributions (Millions of yen)	Nature of business or occupation	Voting rights holding or held	Relationship	Transaction	Transaction amount (Note 1) (Millions of yen)	Account title	Balance as of March 31 (Note 1) (Millions of yen)
Affiliate	IFS	Chiyoda-ku, Tokyo, Japan	200	Lease, factoring, etc.	Holding directly 33.5%	Factoring	Factoring (Note 2)	41,552	Notes and accounts payable - trade Other current liabilities	5,639 1,021
	JMU	Yokohama-city, Kanagawa, Japan	40,000	Shipbuilding	Holding directly 49.42%	Financial assistance Interlocking officers	Underwriting of additional investment (Note 3)	15,000	—	—

Notes: 1. Consumption taxes are not included in the transaction amount, but included in the balance as of March 31, 2020.

2. With regard to factorings, IHI, customers and IFS have entered into a basic agreement concerning IHI's liabilities and have settled the amount.

3. With regard to underwriting of additional investment, IHI underwrote the shareholder allotment by JMU.

(ii) Directors/audit & supervisory board members, major shareholders and other related parties of IHI
The previous fiscal year ended March 31, 2019

Type	Name	Location	Capital or contributions (Millions of yen)	Nature of business or occupation	Voting rights holding or held	Relation-ship	Transaction	Transaction amount (Note 1) (Millions of yen)	Account title	Balance as of March 31 (Note 1) (Millions of yen)
General advisor	Toshinori Sekido	-	-	JAEC (Chairman)	Held directly 0.0%	General advisor of IHI	Operating transactions with JAEC (Note 2)			
							-Subcontract of work from JAEC related to R&D of jet engines	2,628	-	-
							-Payment of a portion of funding related to the above	3,592	-	-
							-Reception of subsidies related to the above	5,436	Other current liabilities	6,809
							-Manufacture of jet engine components and delivery thereof to JAEC	205,072	Other non-current liabilities	54,021
-Payment of a portion of expenses related to the above	71,873	Notes and accounts receivable – trade	18,893							
								Advances received	13,303	

- Notes: 1. Consumption taxes are not included in the transaction amount, but included in the balance as of March 31, 2019.
2. The person conducted these transactions as a representative of a third party, and the transaction amounts and prices are subject to terms and conditions of general transactions.

The current fiscal year ended March 31, 2020

Type	Name	Location	Capital or contributions (Millions of yen)	Nature of business or occupation	Voting rights holding or held	Relation-ship	Transaction	Transaction amount (Note 1) (Millions of yen)	Account title	Balance as of March 31 (Note 1) (Millions of yen)
General advisor	Toshinori Sekido	-	-	JAEC (Chairman)	Held directly 0.0%	General advisor of IHI	Operating transactions with JAEC (Note 2)			
							-Subcontract of work from JAEC related to R&D of jet engines	1,345	-	-
							-Payment of a portion of funding related to the above	3,264	-	-
							-Reception of subsidies related to the above	1,116	Other current liabilities	8,172
							-Manufacture of jet engine components and delivery thereof to JAEC	258,033	Other non-current liabilities	48,473
-Payment of a portion of expenses related to the above	166,740	Notes and accounts receivable – trade	62,183							
								Advances received	13,406	

- Notes: 1. Consumption taxes are not included in the transaction amount, but included in the balance as of March 31, 2020.
2. The person conducted these transactions as a representative of a third party, and the transaction amounts and prices are subject to terms and conditions of general transactions.

(2) Transactions between consolidated subsidiaries and related parties of IHI

i) Non-consolidated subsidiaries, affiliates and other related parties of IHI

The previous fiscal year ended March 31, 2019

Type	Name	Location	Capital or contributions (Millions of yen)	Nature of business or occupation	Voting rights holding or held	Relationship	Transaction	Transaction amount (Note 1) (Millions of yen)	Account title	Balance as of March 31 (Note 1) (Millions of yen)
Affiliate	IFS	Chuo-ku, Tokyo, Japan	200	Lease, factoring, etc.	Holding directly 33.5%	Factoring	Factoring (Note 2)	192,238	Notes and accounts payable - trade Other current liabilities	69,701 380

- Notes: 1. Consumption taxes are not included in the transaction amount, but included in the balance as of March 31, 2019.
2. With regard to factorings, a consolidated subsidiary, customers and IFS have entered into a basic agreement concerning the consolidated subsidiary's liabilities and have settled the amount.

The current fiscal year ended March 31, 2020

Type	Name	Location	Capital or contributions (Millions of yen)	Nature of business or occupation	Voting rights holding or held	Relationship	Transaction	Transaction amount (Note 1) (Millions of yen)	Account title	Balance as of March 31 (Note 1) (Millions of yen)
Affiliate	IFS	Chiyoda-ku, Tokyo, Japan	200	Lease, factoring, etc.	Holding directly 33.5%	Factoring	Factoring (Note 2)	199,350	Notes and accounts payable - trade Other current liabilities	70,202 223
Affiliate	PW1100G-JM Engine Leasing, LLC (Note 3)	Connecticut U.S.A	Thousands of US\$ 0	Engine leasing	-	Underwriting of additional investment	Underwriting of additional investment (Note 4)	48,625 (Note 5)	-	-

- Notes: 1. Consumption taxes are not included in the transaction amount, but included in the balance as of March 31, 2020.
2. With regard to factorings, a consolidated subsidiary, customers and IFS have entered into a basic agreement concerning the consolidated subsidiary's liabilities and have settled the amount.
3. Although the percentage of voting rights held is less than 20%, it has been an affiliate due to substantial influence on it.
4. With regard to underwriting of additional investment, IHI Investment for Aero Engine Leasing LLC underwrote the shareholder allotment by PW1100G-JM Engine Leasing, LLC.
5. Since PW1100G-JM Engine Leasing, LLC was excluded from the scope of affiliates accounted for using the equity method, the transaction amount reflects the amount before the exclusion date.

2. Notes on parent company or significant affiliates

(1) Information about parent company

Not applicable

(2) Condensed financial information of significant affiliates

JMU is a significant affiliate for the current fiscal year ended March 31, 2020. The condensed financial information of JMU for the fiscal years ended March 31, 2019 and 2020 is as follows:

(Millions of yen)

	JMU	
	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Current assets	135,793	126,996
Non-current assets	142,745	130,063
Current liabilities	145,364	141,893
Non-current liabilities	65,741	63,250
Net assets	67,433	57,916
Net sales	254,145	236,140
Profit (loss) before income taxes	103	(36,800)
Profit (loss)	1,222	(39,524)

(Amounts per share)

(Yen)

Category	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net assets per share	2,263.12	2,195.96
Basic earnings per share	258.53	84.21
Diluted earnings per share	258.37	84.19

Notes: 1. Shares of IHI owned by a trust account for the Board Benefit Trust (BBT) are included in the number of shares issued at the end of the period, and the number of treasury shares excluded for the calculation of the average number of shares outstanding during the period. For the fiscal year ended March 31, 2020, the number of treasury shares at the end of the period excluded for the calculation of net assets per share was 393,900 shares (218,900 shares for the fiscal year ended March 31, 2019) and the average number of treasury shares outstanding during the period excluded for the calculation of basic earnings per share and diluted earnings per share was 313,692 shares (178,438 shares for the fiscal year ended March 31, 2019.)

2. The basis for calculating basic earnings per share and basic earnings per share fully diluted is as follows:

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Basic earnings per share		
Profit attributable to owners of parent (Millions of yen)	39,889	12,812
Amounts for non-common shareholders (Millions of yen)	–	–
Profit attributable to owners of parent regarding common stock (Millions of yen)	39,889	12,812
Average number of shares of common stock (Thousands of shares)	154,290	152,137
Basic earnings per share fully diluted		
Adjusted profit attributable to owners of parent (Millions of yen)	–	–
Increase in number of shares of common stock (Thousands of shares)	98	34
(Subscription rights to shares of the above) (Thousands of shares)	98	34
Potential shares not included in calculation of Basic earnings per share fully diluted due to being non-dilutive	4 types of subscription rights to shares (Total number of subscription rights to shares: 791 units) For an overview of the subscription rights to shares, refer to “IV. Information about reporting company, 1. Information about shares, etc., (2) Subscription rights to shares, etc., (i) Details of stock option plans (a)Resolution made at the Board of Directors’ meeting held on July 23, 2007, (g) Resolution made at the Board of Directors’ meeting held on July 22, 2013, (h) Resolution made at the Board of Directors’ meeting held on July 22, 2014, (i) Resolution made at the Board of Directors’ meeting held on July 21, 2015.”	5 types of subscription rights to shares (Total number of subscription rights to shares: 1,102 units) For an overview of the subscription rights to shares, refer to “IV. Information about reporting company, 1. Information about shares, etc., (2) Subscription rights to shares, etc., (i) Details of stock option plans (a)Resolution made at the Board of Directors’ meeting held on July 23, 2007, (g) Resolution made at the Board of Directors’ meeting held on July 22, 2013, (h) Resolution made at the Board of Directors’ meeting held on July 22, 2014, (i) Resolution made at the Board of Directors’ meeting held on July 21, 2015, (j) Resolution made at the Board of Directors’ meeting held on July 25, 2016.”

(Significant subsequent events)

Not applicable

v) Annexed consolidated detailed schedules

Annexed consolidated detailed schedule of corporate bonds

Company	Description	Date of Issuance	Balance at the beginning of current fiscal year (Millions of yen)	Balance at the end of current fiscal year (Millions of yen)	Interest rate (%)	Collateral	Maturity	Remarks
IHI	38th unsecured bonds	June 14, 2013	10,000	10,000 (10,000)	1.110	None	June 12, 2020	Funds for redemption of commercial papers
IHI	39th unsecured bonds	June 17, 2014	10,000 (10,000)	–	0.389	None	June 17, 2019	Funds for bond redemption
IHI	40th unsecured bonds	June 17, 2014	10,000	10,000	0.592	None	June 17, 2021	Funds for bond redemption
IHI	41st unsecured bonds	December 10, 2014	10,000 (10,000)	–	0.287	None	December 10, 2019	Funds for redemption of commercial papers
IHI	42nd unsecured bonds	December 10, 2014	10,000	10,000	0.490	None	December 10, 2021	Funds for redemption of commercial papers
IHI	43rd unsecured bonds	October 17, 2019	–	10,000	0.200	None	October 17, 2024	Funds for redemption of bond and commercial papers
IHI	44th unsecured bonds	October 17, 2019	–	10,000	0.260	None	October 16, 2026	Funds for redemption of bond and commercial papers
IHI	45th unsecured bonds	October 17, 2019	–	10,000	0.340	None	October 17, 2029	Funds for redemption of bond and commercial papers
Total		–	50,000 (20,000)	60,000 (10,000)	–	–	–	–

Notes: 1. The figures in parentheses indicate the redemption schedule within 1 year.

2. The redemption schedule within 5 years after the consolidated balance sheet date is as follows:

(Millions of yen)

Within 1 year	After 1 year and within 2 years	After 2 years and within 3 years	After 3 years and within 4 years	After 4 years and within 5 years
10,000	20,000	–	–	10,000

Annexed consolidated detailed schedule of borrowings

(Millions of yen)

Category	Balance as of April 1, 2019	Balance as of March 31, 2020	The weighted-average interest rate (%)	Payment due
Short-term loans payable	62,544	146,054	0.30	–
Current portion of long-term loans payable	49,241	39,546	0.87	–
Current portion of lease obligations	3,184	5,262	–	–
Long-term loan payable (excluding current portion)	175,813	159,223	0.62	April 2021 to January 2029
Lease obligations (excluding current portion)	14,307	22,089	–	April 2021 to November 2035
Current portion of commercial papers and other interest-bearing liabilities	–	56,000	0.03	–
Total	305,089	428,174	–	–

- Notes: 1. The average interest rates relative to loans show weighted average interest rates with respect to loan closing balances.
2. The average interest rates relative to lease obligations are not noted because the interest-equivalent component included in lease payments is allocated on consolidated yearly basis using the straight-line method.
3. Repayment of long-term loans payable and lease obligations (excluding current portion) above scheduled within 5 years after the closing date are as follows:

(Millions of yen)

	After 1 year and within 2 years	After 2 years and within 3 years	After 3 years and within 4 years	After 4 years and within 5 years
Long-term loans payable	39,929	35,765	40,649	42,265
Lease obligations	7,564	3,265	3,109	2,123

Annexed consolidated detailed schedule of asset retirement obligations

The amounts of asset retirement obligations on April 1, 2019 and March 31, 2020 were less than 1% of total liabilities and net assets on April 1, 2019 and March 31, 2020, respectively. As a result, the schedule of asset retirement obligations is not required to be disclosed in accordance with Article 92-2 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.

(2) Others

Quarterly results for the fiscal year ended March 31, 2020

(YTD period)	First quarter	Second quarter	Third quarter	Full year
Net sales (Millions of yen)	281,164	594,916	922,036	1,386,503
Profit (loss) before income taxes (Millions of yen)	(685)	3,656	9,308	38,779
Profit (loss) attributable to owners of parent (Millions of yen)	(2,763)	(4,870)	(1,755)	12,812
Basic earnings (loss) per share (Yen)	(17.91)	(31.56)	(11.45)	84.21

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings (loss) per share (Yen)	(17.91)	(13.66)	20.58	98.02

Note: The amounts shown in “Consolidated financial statements” under “Financial information” were rounded to the nearest million yen.

Independent Auditor's Report

The Board of Directors
IHI Corporation

Opinion

We have audited the accompanying consolidated financial statements of IHI Corporation and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statement of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

We have no interest in the Group which should be disclosed in accordance with the Certified Public Accountants Act.

Ernst & Young ShinNihon LLC

Tokyo, Japan
June 25, 2020

/s/ Hideyuki Inoue
Designated Engagement Partner
Certified Public Accountant

/s/ Hironori Oya
Designated Engagement Partner
Certified Public Accountant

/s/ Yoichi Takanashi
Designated Engagement Partner
Certified Public Accountant

Independent Auditor's Report

June 25, 2020

The Board of Directors
IHI Corporation

Ernst & Young ShinNihon LLC

Designated and Engagement Partner
Certified Public Accountant
Designated and Engagement Partner
Certified Public Accountant
Designated and Engagement Partner
Certified Public Accountant

Hideyuki Inoue

Hironori Oya

Yoichi Takanashi

<Financial statements audit>

Opinion

Pursuant to Article 193-2, paragraph 1 of the Financial Instruments and Exchange Law of Japan, we have audited the accompanying consolidated financial statements of IHI Corporation and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statement of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

(Translation purposes only)

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

(Translation purposes only)

<Internal control audit>

Opinion

Pursuant to Article 193-2, paragraph 2, of the Financial Instruments and Exchange Law of Japan, we also have audited the accompanying Management's Report on Internal Control Over Financial Reporting for the consolidated financial statements as at March 31, 2020 of the Group (the Management's Report).

In our opinion, the Management's Report referred to above, which represents that the internal control over financial reporting as at March 31, 2020 of IHI Corporation is effective, present fairly, in all material respects, the result of management's assessment on internal control over financial reporting in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards for assessment of internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Management's Report section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Audit & Supervisory Board Members and the Audit & Supervisory Board for the Management's Report

Management is responsible for designing and operating internal control over financial reporting, and for the preparation and fair presentation of the Management's Report in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan.

The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing and verifying the Group's status of designing and operating internal control over financial reporting.

Internal control over financial reporting may not prevent or detect misstatements.

Auditor's Responsibilities for the Audit of the Management's Report

Our objectives are to obtain reasonable assurance about whether the Management's Report is free from material misstatement and to issue an auditor's report that includes our opinion.

As part of an audit in accordance with auditing standards for assessment of internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures to obtain audit evidence about conclusions of management's assessment of internal control over financial reporting in the Management's Report. The procedures are selected depend on the auditor's judgment, including the materiality of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the Management's Report, including disclosures on scope, procedures and conclusions of the management's assessment of internal control over financial reporting.
- Obtain sufficient appropriate audit evidence regarding conclusions of management's assessment of internal control over financial reporting in the Management's Report. We are responsible for the direction, supervision and performance of the internal control audit. We remain solely responsible for our audit opinion.

We communicate with the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the internal control audit and the results of the internal control audit and any material weakness in internal control that we identify as a result of the audit and its remediation conclusions.

(Translation purposes only)

We also provide the Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

We have no interest in the Group which should be disclosed in accordance with the Certified Public Accountants Act.

Notes:

1. The above is a digitization of the text contained in the original copy of the Independent Auditor's Report on Financial Statements and Internal Controls, which is in the custody of IHI—the submitter of this Securities Report.
2. The XBRL data is not included in the range of Audit.
3. The above is an English translation of the Independent Auditor's Report filed under the Financial Instruments and Exchange Act. This report is presented merely as supplemental information.

(Translation purposes only)

Cover page

Document title	Confirmation Letter
Clause of stipulation	Article 24-4-2, paragraph 1 of the Financial Instruments and Exchange Act
Place of filing	Director-General of the Kanto Local Finance Bureau
Filing date	June 25, 2020
Company name	株式会社 I H I (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
Title and name of representative	Hiroshi Ide, President and Chief Operating Officer
Title and name of chief financial officer	Not applicable
Address of registered head office	1-1, Toyosu 3-chome, Koto-ku, Tokyo
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo) Nagoya Stock Exchange, Inc. (8-20, Sakae 3-chome, Naka-ku, Nagoya-city) Securities Membership Corporation Fukuoka Stock Exchange (14-2, Tenjin 2-chome, Chuo-ku, Fukuoka-city) Securities Membership Corporation Sapporo Securities Exchange (14-1, Minamiichijo-nishi 5-chome, Chuo-ku, Sapporo-city)

(Translation purposes only)

1. Appropriateness of the content of statements in this Annual Securities Report

Hiroshi Ide, President and Chief Operating Officer of IHI Corporation (“IHI”), has confirmed that this Annual Securities Report of the 203rd fiscal term (April 1, 2019 through March 31, 2020) is reasonably and fairly stated in accordance with the Financial Instruments and Exchange Act and related regulations.

2. Other information for special attention

There are no noteworthy matters that are pertinent to this Annual Securities Report.

(Translation purposes only)

Cover page

Document title	Management's Report on Internal Control Over Financial Reporting for the consolidated financial statements
Clause of stipulation	Article 24-4-4, paragraph 1 of the Financial Instruments and Exchange Act
Place of filing	Director-General of the Kanto Local Finance Bureau
Filing date	June 25, 2020
Company name	株式会社 I H I (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
Title and name of representative	Hiroshi Ide, President and Chief Operating Officer
Title and name of chief financial officer	Not applicable
Address of registered head office	1-1, Toyosu 3-chome, Koto-ku, Tokyo
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo) Nagoya Stock Exchange, Inc. (8-20, Sakae 3-chome, Naka-ku, Nagoya-city) Securities Membership Corporation Fukuoka Stock Exchange (14-2, Tenjin 2-chome, Chuo-ku, Fukuoka-city) Securities Membership Corporation Sapporo Securities Exchange (14-1, Minamiichijo-nishi 5-chome, Chuo-ku, Sapporo-city)

(Translation purposes only)

1. Basic framework of internal control related to financial reporting

Hiroshi Ide, President and Chief Operating Officer of IHI Corporation (“IHI”), has the responsibility for the design and operation of internal control over financial reporting of IHI and manages the design and operation of such internal control in accordance with the basic framework set forth in the document “On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)” published by the Business Accounting Council.

Internal control aims at achieving its objectives to a reasonable extent given that all individual components of internal control are integrated, and function as a whole. Thus, it is possible that internal control over financial reporting may not be able to completely prevent or detect false statements in financial reporting.

2. Scope, date and procedures for evaluation

Assessment of internal control over financial reporting was performed as of March 31, 2020 (i.e., the closing date of the current fiscal year) in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In this assessment, evaluation was first made of company-level control which would have a material impact on the reliability of financial reporting on a consolidated basis, and based on such result, business processes to be assessed were selected. In the business process-level control assessment, the effectiveness of internal control was assessed by analyzing the business processes in scope, identifying key controls that would have a material impact on the reliability of the financial reporting, and evaluating the designs and operations of these key controls.

The scope of internal control assessment over financial reporting was determined by selecting IHI, consolidated subsidiaries and affiliates accounted for using the equity method based on the materiality of their impacts on the reliability of financial reporting. The materiality of the impacts on the reliability of financial reporting was determined in consideration of both quantitative and qualitative aspects, and the scope of the business processes for which internal controls were to be assessed was determined rationally based on the outcome of IHI-level internal control assessment performed for IHI, 76 consolidated subsidiaries, and one affiliate accounted for using the equity method. 79 consolidated subsidiaries and 25 affiliates accounted for using the equity method were excluded from the scope of this company-level control assessment as their quantitative and qualitative impacts were deemed insignificant.

In determining the scope of business process-level control assessment, the nine business sites/offices where the accumulated sales (after eliminating intra-group company transactions) for the previous fiscal year of each business site/office reached to roughly two-thirds of the consolidated net sales in the previous fiscal year were determined to be the “Significant Businesses.” Moreover, for affiliates accounted for using the equity method, the scope of evaluation was determined by considering the materiality of effect on consolidated financial statements, and one business site/office was made a “Significant Business.” In such Significant Businesses, all business processes related to the accounts that are closely associated with IHI’s business objectives, such as sales, accounts receivable, and inventory were included in the scope of assessment. Furthermore, regardless of the selected Significant Businesses, certain other important business processes with a high possibility of critical misstatements and which are related to significant accounting items involving estimates and forecasts, or related to businesses or operations dealing with high-risk transactions were added to the scope of assessment as business processes with material impacts on financial reporting.

3. Result of evaluation

Based on the above mentioned assessment, it was concluded that the internal control over financial reporting at the end of the current fiscal year was effective.

4. Supplementary information

There are no noteworthy matters that are pertinent to this Management’s Report on Internal Control Over Financial Reporting for the consolidated financial statements.

5. Other information for special attention

There are no noteworthy matters that are pertinent to this Management’s Report on Internal Control Over Financial Reporting for the consolidated financial statements.