(Translation purposes only)

204th term (from April 1, 2020 to March 31, 2021)

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 24, 2021, 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.

IHI Corporation

Table of Contents

Page

204th term Annual Securities Report

Cover page........1
Part 1. Company information........2
I. Overview of company........2
1. Summary of business results........2
2. Company history........6
3. Description of business........9
4. Overview of affiliated companies........12
5. Information about employees........15
II. Overview of business........17
1. Management policies, business environment and issues to be addressed........17
2. Business risks........19
3. Management’s analysis of financial position, operating results and cash flows........24
4. Material contracts for operation........35
5. Research and development activities........36
III. Information about facilities........38
1. Overview of capital expenditures, etc.........38
2. Major facilities........38
3. Planned additions, retirements, etc. of facilities........40
IV. Information about reporting company........41
1. Information about shares, etc. 41
2. Acquisitions, etc. of treasury shares........52
3. Dividend policy........53
4. Corporate governance, etc........54
V. Overview of operational procedures for stock........87
VI. Reference information of reporting company........88
1. Information about parent company, etc. of reporting company........88
2. Other reference information........88
Part 2. Information about company which provides guarantee to reporting company........89
[Consolidated financial statements]........F-1
Consolidated financial statements of IHI Corporation and subsidiaries. F-3
Independent Auditor's Report........F-109
[Confirmation Letter (Translation)]........A-1
[Management’s Report on Internal Control Over Financial Reporting for the consolidated financial statements (Translation)]........A-3

(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 24, 2021
Fiscal year	204th term (from April 1, 2020 to March 31, 2021)
Company name	株式会社ＩＨＩ (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
Title and name of representative	Hiroshi Ide, President and Chief Executive Officer
Address of registered head office	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan
Telephone number	+81-3-6204-7065
Name of contact person	Shin Shimizu, Head of Accounting Group, Finance & Accounting Division
Nearest place of contact	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan
Telephone number	+81-3-6204-7065
Name of contact person	Shin Shimizu, Head of Accounting Group, Finance & Accounting Division
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	IFRS		
	Transition date	203rd term	204th term
Fiscal year ended	As of April 1, 2019	March 31, 2020	March 31, 2021
Revenue (Millions of yen)	–	1,263,178	1,112,906
Operating profit (Millions of yen)	–	47,859	27,961
Profit before tax (Millions of yen)	–	29,182	27,617
Profit attributable to owners of parent (Millions of yen)	–	8,204	13,093
Comprehensive income (Millions of yen)	–	3,521	28,906
Comprehensive income attributable to owners of parent (Millions of yen)	–	(474)	24,010
Equity attributable to owners of parent (Millions of yen)	307,918	280,178	300,769
Total assets (Millions of yen)	1,821,274	1,869,038	1,832,891
Equity attributable to owners of parent per share (Yen)	1,995.69	1,885.13	2,025.18
Basic earnings per share (Yen)	–	53.93	88.13
Diluted earnings per share (Yen)	–	53.91	88.13
Ratio of equity attributable to owners of parent (%)	16.91	14.99	16.41
Return on equity (ROE) (%)	–	2.79	4.51
Price earnings ratio (PER) (Times)	–	23.40	25.47
Cash flows from operating activities (Millions of yen)	–	42,484	36,380
Cash flows from investing activities (Millions of yen)	–	(85,572)	(40,482)
Cash flows from financing activities (Millions of yen)	–	96,892	(23,712)
Cash and cash equivalents at end of period (Millions of yen)	92,746	145,738	120,766
Number of employees (Persons)	29,669	29,328	29,149

Notes: 1. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS") from the 204th term.

2. Revenue does not include consumption taxes.

3. 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.

4. Consolidated payout ratio for the 203rd term is 92.7%. No dividends were paid for the 204th term.

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

(Translation purposes only)

Term	Japanese GAAP				
	200th term	201st term	202nd term	203rd term	204th term
Fiscal year ended	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021
Net sales (Millions of yen)	1,486,332	1,590,333	1,483,442	1,386,503	1,115,077
Ordinary profit (Millions of yen)	22,011	21,425	65,749	32,251	5,078
Profit attributable to owners of parent (Millions of yen)	5,247	8,291	39,889	12,812	2,922
Comprehensive income (Millions of yen)	4,628	16,774	39,597	8,610	13,360
Net assets (Millions of yen)	337,630	350,217	381,692	353,746	387,670
Total assets (Millions of yen)	1,692,831	1,633,488	1,664,529	1,740,782	1,704,525
Net assets per share (Yen)	2,060.33	2,103.22	2,263.12	2,195.96	2,417.16
Basic earnings per share (Yen)	33.98	53.71	258.53	84.21	19.67
Diluted earnings per share (Yen)	33.96	53.67	258.37	84.19	19.67
Shareholders' equity ratio (%)	18.79	19.87	20.98	18.75	21.06
Return on equity (ROE) (%)	1.65	2.58	11.84	3.79	0.85
Price earnings ratio (PER) (Times)	103.24	61.53	10.29	14.99	114.13
Cash flows from operating activities (Millions of yen)	65,373	99,018	46,402	14,510	22,841
Cash flows from investing activities (Millions of yen)	(28,961)	(47,977)	(79,280)	(75,896)	(37,197)
Cash flows from financing activities (Millions of yen)	(21,941)	(57,326)	16,463	115,264	(13,730)
Cash and cash equivalents at end of period	115,911	107,323	92,608	145,484	120,766
Number of employees (Persons)	29,659	29,706	29,286	28,964	29,149

Notes: 1. The consolidated financial statements for the 204th term are not audited pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

2. Net sales do not include consumption taxes.

3. 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.

4. IHI conducted a 1-for-10 consolidation of the ordinary shares 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 the ordinary shares was conducted on the beginning of the 200th term.

5. 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.

6. The consolidated payout ratios for the 201st term and the 202nd term and the 203rd term are 111.7%, 27.1%, and 59.4%, respectively

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

(2) Business results of reporting company

Term	200th term	201st term	202nd term	203rd term	204th term
Fiscal year ended	March 31, 2017	March 31, 2018	March 31, 2019	March 31, 2020	March 31, 2021
Net sales (Millions of yen)	719,889	721,739	700,497	620,207	405,845
Ordinary profit (loss) (Millions of yen)	15,752	50,076	39,355	28,282	(1,927)
Profit (loss) (Millions of yen)	(6,246)	23,978	20,558	(5,720)	16,012
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	154,679	154,679	154,679	154,679
Net assets (Millions of yen)	209,864	227,855	238,305	205,266	250,112
Total assets (Millions of yen)	1,138,039	1,117,334	1,113,379	1,201,832	1,193,715
Net assets per share (Yen)	1,353.55	1,471.23	1,540.24	1,377.51	1,681.31
Dividends per share [Interim dividends per share] (Yen)	– [–]	60.00 [30.00]	70.00 [30.00]	50.00 [30.00]	– [–]
Basic earnings (loss) per share (Yen)	(40.45)	155.33	133.24	(37.60)	107.78
Diluted earnings (loss) per share (Yen)	–	155.22	133.16	–	107.78
Shareholders' equity ratio (%)	18.37	20.32	21.34	17.04	20.92
Return on equity (ROE) (%)	(2.95)	11.00	8.85	(2.59)	7.05
Price earnings ratio (PER) (Times)	–	21.28	19.96	–	20.83
Payout ratio (%)	–	38.63	52.54	–	–
Number of employees (Persons)	8,630	8,256	8,011	7,741	7,796
Total shareholder return (%) (Reference index : TOPIX including dividends) (%)	147.48 [114.69]	141.39 [132.89]	117.18 [126.20]	60.59 [114.20]	101.89 [162.32]
Highest stock price (Yen)	362	4,145 (436)	4,565	2,890	2,385
Lowest stock price (Yen)	191	3,155 (332)	2,580	1,093	1,051

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

2. 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.

3. IHI conducted a 1-for-10 consolidation of the ordinary shares 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 the ordinary shares was conducted on the beginning of the 200th term.

Dividends per share have been calculated under the assumption that this consolidation of the ordinary shares was conducted on the beginning of the 201st term.

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.
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. Payout ratio for the 200th term and the 203rd term are not shown, because no dividends were paid.
6. 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.7. 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 the ordinary shares, and the highest and lowest stock prices before the consolidation of the ordinary shares are stated in parentheses.8. Monetary amounts and number of shares less than one unit are rounded down and ratios less than one unit are rounded off.

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 Works 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.

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.
November 2020	In order to respond to the rapid changes in the business environment caused by the spread of COVID-19, the IHI Group announced "Project Change" with the aim of returning to a growth trajectory and creating growth businesses.

(Translation purposes only)

Month / Year	Major Event
June 2021	Started operations of Tsurugashima Works as a maintenance plant for jet engines for aircraft.

3. Description of business

IHI and its affiliated companies (151 consolidated subsidiaries and 26 associates accounted for using the equity method as of March 31, 2021) operate four main businesses, providing a diverse range of products. The four businesses are: Resources, Energy and Environment; Social Infrastructure and Offshore Facilities; Industrial Systems 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 reportable segment categories described in Note "6. Segment information" under "Notes to Consolidated Financial Statements" of the "Financial information" section in 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 energy (components for nuclear power plants).

[Major affiliated companies]

IHI Plant Services Corporation, , Kotobuki Iron Works Co., Ltd., IHI Power Systems Co., Ltd.,
NICO Precision Co., Inc., Aomori Plant Co., Ltd.,
JURONG ENGINEERING LIMITED and its 21 subsidiaries (Note (i)), ISHI POWER SDN. BHD., PT Cilegon Fabricators,
NIIGATA POWER SYSTEMS (SINGAPORE) PTE. LTD., IHI E&C International Corporation and its 2 subsidiaries,
IHI POWER SYSTEM MALAYSIA SDN.BHD., Steinmüller Engineering GmbH and its 1 subsidiary (Note (ii)),
IHI Power System (Thailand) Co., Ltd., IHI Power Generation Corporation and its 6 subsidiaries,
IHI SOLID BIOMASS MALAYSIA SDN. BHD. , IHI Terrasun Solutions Inc. and other 1 company. (Note (iii)) (Note (iv)) (Note (v))

(Social Infrastructure and Offshore Facilities)

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

[Major affiliated companies]

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 its 4 subsidiaries.

(Industrial Systems 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), heat treatment and surface engineering, transport machineries, logistics and industrial systems (logistics systems, industrial machineries).

[Major affiliated companies]

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 5 subsidiaries, IHI Press Technology America, Inc.,
Indigo TopCo Ltd. and its 23 subsidiaries, IHI Charging Systems International GmbH and its 2 subsidiaries
IHI-Sullair Compression Technology (Suzhou) Co., Ltd., Changchun FAWER-IHI Turbo Co., Ltd. and its 1 subsidiary,
IHI Turbo America Co., IHI TURBO (THAILAND) CO., LTD., Shanghai Star Modern Agriculture Equipment Co., Ltd.,
IHI VTN GmbH and its 3 subsidiaries, IHI Transport Machinery Taiwan Corporation,
Jiangsu IHI Fengdong Vacuum Technology Co., Ltd., IHI DALGAKIRAN MAKİNA SANAYİ VE TİCARET A.Ş.,
and IHI ASIA PACIFIC(Thailand)CO.,LTD.

(Aero Engine, Space and Defense)

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

[Major affiliated companies]

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.

(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 affiliated companies]

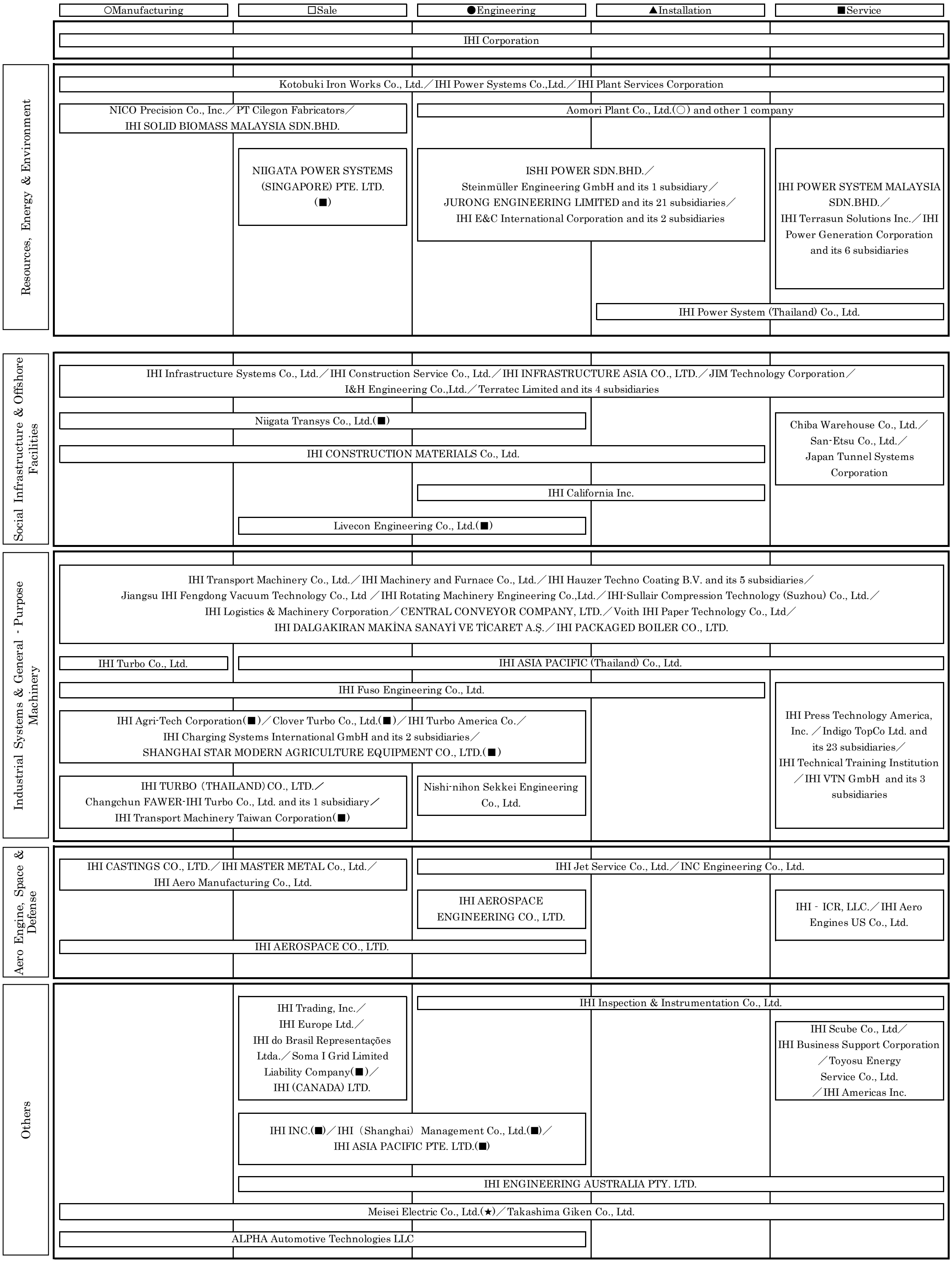
IHI Scube Co., Ltd., IHI Trading, Inc., IHI Business Support Corporation,
MEISEI ELECTRIC CO., LTD.(Note (vi)), IHI Inspection & Instrumentation Co., Ltd., Takashima Giken Co., LTD.,
Toyosu Energy Service Co., Ltd., Soma I Grid Limited Liability Company,
IHI do Brasil Representações Ltda., IHI ENGINEERING AUSTRALIA PTY. LTD., IHI Europe Ltd., IHI INC.,
IHI (Shanghai) Management Co., Ltd., IHI ASIA PACIFIC PTE. LTD., IHI Americas Inc., IHI (CANADA) LTD.,
and ALPHA Automotive Technologies LLC.

Notes:
(i) One subsidiary of JURONG ENGINEERING LIMITED (Resources, Energy and Environment) ceased to exist because its liquidation was completed.
(ii) Of the subsidiaries of Steinmüller Engineering GmbH (Resources, Energy and Environment), one subsidiary was newly established and newly included in the scope of consolidation, and another subsidiary was merged and ceased to exist.
(iii) Kanamachi Purfication Plant Energy Service Co.,Ltd. (Resources, Energy and Environment) is already proceeding with its liquidation process, and as its importance has diminished, it was excluded from the scope of consolidation.
(iv) IHI Southwest Technologies, Inc. (Resources, Energy and Environment) became no longer an affiliate of IHI because of the transfer of its shares to the third party.
(v) NitroCision,LLC (Resources, Energy and Environment) is already proceeding with its liquidation process, and as its importance has diminished, it was excluded from the scope of consolidation.
(vi) One subsidiary of MEISEI ELECTRIC CO.,LTD.(Others) ceased to exist because its liquidation was completed.

(Translation purposes only)

[Overview of the corporate group]

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



*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, 2021, and subsidiaries listed on the Tokyo Stock Exchange Second Section are noted with the “★” mark.

4. Overview of affiliated companies

Name	Address	Share 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 vehicles. Interlocking officers, etc.: Yes
IHI Power Systems Co., Ltd.	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 4)	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 Systems 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 Systems 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 Systems 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 Facilities	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 Facilities	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 Systems 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 Systems 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	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	Share capital (Millions of yen)	Main business	Voting rights holding [or held] (%)	Nature of relationship
ALPHA Automotive Technologies LLC	Moscow, Russia	Thousands of RUB 1,558,653	Others	83.1	Conducts manufacture and sale of automotive panels. Interlocking officers, etc.: Yes
IHI INFRASTRUCTURE ASIA CO., LTD.	Haiphong, Vietnam	Millions of VND 542,638	Social Infrastructure and Offshore Facilities	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.	Jilin, China	Thousands of RMB 158,300	Industrial Systems 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	Thousands of EUR 15,000	Industrial Systems 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 Facilities	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 Systems 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 Systems 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 Systems 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 Systems 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 Systems 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 SOLID BIOMASS MALAYSIA SDN.BHD.	Kuala Lumpur, Malaysia	Thousands of US$ 22,600	Resources, Energy and Environment	100.0	Conducts manufacture, sale, and export of fuel in Malaysia. 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 Systems 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	Share 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 119 companies					
Total of 151 companies					
(Entities accounted for using the equity method) Japan Marine United Corporation	Yokohama - city, Kanagawa	67,500 (Note 5)	Others	35.0 (Note 6)	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$ 557,762 (Note 5)	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$ 194,415 (Note 5)	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 reportable 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. This company files Annual Securities Report and is planned to be a wholly owned subsidiary through a simplified share exchange on August 1, 2021.
5. This company has changed the amount of its capital.
6. The indirectly owned portion of voting rights has become 35% due to execution of third-party allotment of shares.

5. Information about employees

(1) Information about the IHI Group

As of March 31, 2021

Segment name	Number of employees (Persons)
Resources, Energy and Environment	6,595
Social Infrastructure and Offshore Facilities	2,469
Industrial Systems and General-Purpose Machinery	10,028
Aero Engine, Space and Defense	6,765
Reportable segment total	25,857
Others	2,320
Corporate (company-wide)	972
Total	29,149

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, 2021

Number of employees (Persons)	Average age (Years old)	Average length of service (Years)	Average annual salary (Yen)
7,796	39.4	15.1	7,658,177

Segment name	Number of employees (Persons)
Resources, Energy and Environment	1,887
Social Infrastructure and Offshore Facilities	109
Industrial Systems and General-Purpose Machinery	616
Aero Engine, Space and Defense	4,212
Reportable segment total	6,824
Others	–
Corporate (company-wide)	972
Total	7,796

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.

(3) Relationship with labor unions

IHI's labor union is called the IHI Labor Union, which forms the IHI Labor Union Federation with the 7 labor unions by each of the consolidated subsidiaries' labor unions. The labor unions have their branches in 8 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, 2021, there were 10,199 members (7,624 members of the IHI Labor Unions (including seconded employees to other companies) and 2,575 members of the labor unions of consolidated subsidiaries (7 labor unions)) 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 11 labor unions of the 44 domestic consolidated subsidiaries (4,789 members, excluding the 7 labor unions which belong to the IHI Labor Union Federation discussed above) and 6 labor unions of non-consolidated subsidiaries (389 members), and its umbrella organization is the Japan Federation of Basic Industry Worker's Unions.

In addition, the IHI Group Labor Union Federation (15,377 members) is made up of 17 labor unions by the IHI Labor Union and each of the consolidated subsidiaries' labor unions.

(Translation purposes only)

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 its primary objective. And, through the below visions based on its 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 (Manufacturing)" technology, and offering the safety and security for the benefit of both the environment and humanity.

To realize these management policies, employees of the IHI Group are being encouraged to work as distinguished professionals, striving to excel as a global company in "Monozukuri (Manufacturing)" 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

The IHI Group operates in a fast-changing operating environment in which the spread of COVID-19 has quickened the pace of the transformation of society, economy, and values, digital transformation initiatives have reshaped business models and work practices, international interest in global climate change is increasing, the environmental, social and governance investments (ESG investment) with its priority on the corporate sustainability is expanding and so on.

In order to deal with these drastic changes in operating environment, while carrying forward the basic concepts of "Group Management Policies 2019" medium-term management plan, the IHI Group formulated and is implementing "Project Change" in November 2020 positioning the period up to FY 2022 as a period of preparation and transition towards business reforms in response to environmental changes.

i. Purposes of "Project Change" Initiatives

・Return to growth trajectory

Despite a fast-changing operating environment, the IHI Group aims to achieve management targets set in "Project Change" by means of recovering the profitability of businesses and the cash generation capabilities impaired due to the impact of the spread of COVID-19 at an early stage, while securing funds for creating growth businesses.

・Create growth businesses

In the drive to attain Sustainable Development Goals (SDGs), the IHI Group aims at helping to create "Economies in which nature and technology are in harmony." Therefore the Group recognized that "Becoming carbon-free," "Disaster prevention and disaster mitigation" and "Fulfilling lifestyles" are the social issues to which the Group needs to face, and redefined 3 growth businesses as "Carbon solutions", "Maintenance, disaster prevention and disaster mitigation" and "Air transportation systems" that resolve these social issues and drive the growth of the Group. With concentrating efforts of the entire Group, the Group will accelerate initiatives in creating growth businesses and transforming businesses portfolios.

ii. "Project Change" initiatives

・Implement performance recovery drivers

The IHI Group will strengthen earnings foundations by means of thoroughly cutting costs across value chain and boosting productivity, reinforcing cost structure through building systems impervious to fluctuations in demand, propelling reformation of business structures in line with changes in the operating environment. In addition, the Group steadily promotes the expansion of life cycle businesses and will return to the growth trajectory at an early stage by delivering comprehensive services across lifecycles to optimize customer value while boldly shifting resources and leveraging digital transformation (DX).

・Shift to operating environment change-resistant business structure

The IHI Group will incubate new ideas and value by preparing a working environment that emphasizes diversity, enables employees to work proactively and vigorously and to tackle new challenges spontaneously, and materializes flexible work practices as well as careers to be designed autonomously. In addition, the Group will attract professionals and transform itself to a robust business structure that constantly pursue new growth opportunities amid all business situation changes and realizes sustainable growth.

・Financial strategies

In order to maintain sound financial position and secure investment funds to create new growth businesses, the IHI Group puts reinforcement of cash generation capabilities as a top priority. The Group is pushing the reformation deep into even such areas as business models and processes to maximize cash generation. Furthermore, the Group will allocate funds optimally to accelerate efforts to create growth businesses.

iii. Management targets

The management targets set forth in "Group Management Policies 2019" have not changed in "Project Change", and the duration to reach the targets is extended to FY 2022. In order to further enhance return on invested capital (ROIC), the IHI Group is aiming at further improvement of profitability (operating profit margin) and cash generation capabilities (Cash conversion cycle, or CCC).

Financial targets	FY 2022
ROIC(After-tax)	10% or more
Operating profit margin	8% or more
CCC	80 days

Note: The calculation method for each indicator is shown below.

・ROIC: (1 - Effective statutory tax rate) × (Operating profit + Interest income + Dividend income)
÷ (Equity attributable to owners of parent + Amount of interest-bearing liabilities).

・CCC: Working capital ÷ Revenue × 365 days

・Working capital: Trade receivables + Contract assets + Inventories + Prepayments - Contract liabilities
- Trade payables - Refund liabilities

(Reference) Revenue: ¥1,400.0 billion, Investments over three years: ¥380.0 billion

(3) Business environment and issues to be addressed

i. Reinforcement of cash generation capabilities

The IHI Group recognizes reinforcement of cash generation capabilities is the issue to be put as a top priority. Under "Project Change", activities for reduction of working capital surplus such as inventory reduction, shortening lead time and stricter management in cash in/out flows and other efforts have been developed throughout the Group. Aiming to achieve the management target of CCC 80 days in FY 2022, the Group will continue to carrying out the reformation that go deep into even such areas as business models and processes, and transform its business operation to one that thoroughly pursue the cash generation.

ii. Materialization of "Creation of growth businesses" and speedy implementation

The spread of COVID-19 has had a significant impact on the Civil aero engine Business of the IHI Group. While it is expected to take several years for the demand for aero transportation to recover, the Group recognizes that it is a pressing issue to create new business pillars alongside this business. Under "Project Change", the Group has been considering scenarios of growth businesses from a long-term perspective so far and percepts that it is the top prior issue to establish a concrete growth business model and its goal, and routes and initiatives to achieve the goal promptly and to implement them speedily. Therefore, in April 2021, "Corporate Strategy Headquarters" has been established, which oversees the strategic technologies of the entire Group and reports directly to the president and plays a central role in "Creation of growth businesses." Furthermore, as a first step in creating growth businesses, IHI made MEISEI ELECTRIC CO., LTD (hereinafter, "MEISEI), a subsidiary of IHI, a wholly-owned subsidiary of IHI. Among the growth businesses, particularly in "Maintenance, disaster prevention and disaster mitigation", by utilizing MEISEI's human resources specializing in sensing, electric and control technologies and its "earth-sensing technology", in addition to the meteorology and seismology business which MEISEI has dealt with so far, the Group will not only create further synergy effects, but also work on creating new business in the field of utilization of space environment and others.

By removing business boundaries and concentrating resources for the entire Group, the IHI Group will accelerate efforts to create new growth businesses and quickly create new pillars of revenue.

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 order to manage risks thoroughly by multiple defense line, after clarifying roles and responsibilities of corporate divisions, 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 directly. 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 FY 2021

In terms of major themes on "IHI Group Key Risk Management Policies" for FY 2021, the IHI Group will focus on the following matters

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

With regard to compliance and quality assurance system, under the "IHI Group Code of Conduct" and "IHI Group Quality Declaration" that were formulated in FY 2019, the IHI Group working to build a working environment where past lessons would not be forgotten with initiatives such as establishing "Compliance Day" (May 10 every year) on which the entire IHI Group pledge to ensure thorough compliance and creating workplaces where everyone has a voice. As for key business risks, the Group is 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 in 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, 2021). 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.

i. Competitive environment and business strategy

During the current fiscal year, the Japanese economy deteriorated rapidly due to the restrictions on economic activities against the impact of COVID-19. In the latter half of the fiscal year, through balancing countermeasures to prevent the spread of

COVID-19 in society as a whole with economic activity, the Japanese economy showed signs of a continued recovery, but the situation remains difficult. In the global economy, while China is showing an economic upturn, overall the situation remains stagnant.

Under this business environment, in accordance with “Project Change”, the IHI Group will achieve the return to a growth trajectory at an early stage by means of steadily promoting the strengthening of earnings foundations and the expansion of life cycle businesses. In addition, the IHI Group will accelerate initiatives for the creation of growth businesses that contribute to materialize sustainable society and promote the transformation of our business portfolio.

However, if risks such as slowdown in the global economy’s growth due to delays in convergence of the spread of COVID-19, or sudden changes in positioning as a result of industry consolidation and drastic changes in business environment materialize, the Group’s operating results and financial position could be adversely affected through the demand for the Group’s products and services decreasing and becoming unable to have adequate competitive advantages compared with competitors in terms of performance, quality, or price.

Under this fast-changing business environment surrounding the Group, the Group foresee that there will be risks that are different from what the Group have dealt with so far in effort to return to the growth trajectory and creating new businesses. For offensive risk management, the Group regards addressing these risks as an issue for the entire Group. Specifically, the Group will not only accordingly identify risks, determine and analyze significant risks, manage and address flexibly, but also will work to transform risks into opportunities leading to further growth. Furthermore, as for defensive risk management, in addition to compliance and quality, the Group prioritize and continue to work on significant risk items to be addressed in business operation for each business area, setting it as priority theme for risk management for FY 2021.

The IHI Group’s perception is that the importance of this item is rising, because changes in the business environment surround the Group is drastic due to slow recovery in demand for aero transportation and the accelerating trend of carbon-free and electrification, as well as the item is closely related to “Project Change”.

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. 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, strives to gather information regarding country risks and to raise awareness among Group employees, and strengthens structure such as preparation and review of business continuity plan (BCPs). However, if such risks materialize, 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, due to increasing uncertainty such as the impact of political changes and economic security issues in Myanmar etc.

iv. Procurement of materials

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.

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 fulfills these guarantees. Information regarding loan guarantees and related measures is included in Note "40. Contingent liabilities" under "Notes to consolidated financial statements" of "Financial Information" section 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. The Group will continue to reinforce thorough project managements.

In addition, information regarding the reception of invoice for penalties for delayed delivery on the IHI Group's process plant project underway in North America is included in Note "40. Contingent liabilities" under "Notes to consolidated financial statements" of "Financial Information" section 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 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.

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, strengthens computer security in consideration that ingenuity of cyber attacks has been increasing and expansion of working from home the Group, and offers thorough computer security training to employees.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.

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.

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 revising policies and place 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.

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.

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.

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

(1) Overview of operating results, etc.

The IHI Group has adopted International Financial Reporting Standards (IFRS) from the fiscal year ended March 31, 2021, and the consolidated financial data for the fiscal year ended March 31, 2020 are reclassified based on IFRS and analyzed.

i. Financial position and operating results

a. Operating results

During the fiscal year ended March 31, 2021, the Japanese economy remains in a difficult situation due to the restrictions on economic activities against the impact of COVID-19. In addition, although the world economy is showing a recovery trend in some regions and industries, the situation has continued to be sluggish as a whole due to the spread of variant of COVID-19.

Regarding the spread of COVID-19, in a situation where signs of its convergence is not visible yet, the IHI Group's main business, the Civil aero engines Business has been greatly affected, with sales of engines and spare parts has been greatly decreasing owing to continuing the drastic decline in demand for aero transportation and the deterioration of business conditions for airlines. The demand for aero transportation on domestic routes is expected to improve after next summer in countries where vaccination is progressing, such as in North America, while for the demand for international routes, immigration restrictions are still not being relaxed, and there is a delay in recovery. It is expected to be after FY2022 when the demand for international routes, in addition to domestic routes, begin to increase between developed countries where vaccination is progressing, and the demand for engine maintenance accordingly increase. It is expected that it will take several years for the Group to recover its business.
On the other hand, in the Vehicular turbochargers Business, the automotive industry turned onto a recovery trend early in China, in addition, production activities have resumed in the U.S. and Europe, where some economic activity restrictions remain, from mid-May. As a whole, the number of delivery is gradually recovering. The Heat treatment and surface engineering Business is also heading toward recovery, driven by the robust Chinese market
Under these circumstances, from the beginning of the fiscal year ended March 31, 2021, the IHI Group took such company-wide countermeasures against the impact of the spread of COVID-19 as temporary freezing and/or reduction in expenditure on capital investments, research and development etc., reducing the total cost/fixed cost and inventories, and shifting human resources to the growth areas and life cycle businesses flexibly.

In accordance with the above-mentioned "Project Change", the IHI Group will achieve the return to a growth trajectory at an early stage by means of steadily promoting the strengthening of earnings foundations and the expansion of life cycle businesses through shifting to environment change- resistant business structure and executing finance strategies. In addition, the IHI Group will accelerate initiatives for the creation of growth businesses that contribute to materialize sustainable society and promote the transformation of our business portfolio. For that reason, in the fiscal year ended March 31, 2021, the Group sold some investment property to secure investment resources.

In spite of the above measures were implemented, the IHI Group's operating results during the fiscal year ended March 31, 2021 were largely affected by the spread of COVID-19.
Orders received decreased 14.3% from the previous fiscal year to ¥1,097.0 billion. Revenue decreased 11.9% from the previous fiscal year to ¥1,112.9 billion due to the significant decrease in revenue in the Civil aero engines Business.
In terms of profit, operating profit decreased by ¥19.8 billion to ¥27.9 billion due mainly to above significant decrease in sales in the Civil aero engines Business, although there were increased profit due to the expansion of life cycle business, the generally converging deterioration of profitability recorded in the previous fiscal year in Resources, Energy and Environment, the reduction in the fixed cost, and the sale of investment property. However, Profit before tax decreased by ¥1.5 billion to ¥27.6 billion, saw an up of profit margin than operating profit, due to the improvement in share of profit (loss) of investments accounted for using equity method and improvements in foreign exchange gain / loss. Profit attributable to owners of parent increased by ¥4.8 billion to ¥13.0 billion.

Results by reportable segment for the fiscal year ended March 31, 2021 are as follows:

(Translation purposes only)

(Billions of yen)

Reportable segment	Orders received			Fiscal year ended March 31, 2020		Fiscal year ended March 31, 2021		Changes from the previous fiscal year (%)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Changes from the previous fiscal year (%)	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)
Resources, Energy and Environment	316.9	274.7	(13.3)	324.8	3.9	317.6	19.1	(2.2)	382.4
Social Infrastructure and Offshore Facilities	196.9	166.1	(15.6)	148.7	13.0	157.9	17.1	6.2	31.3
Industrial Systems and General-Purpose Machinery	420.1	365.2	(13.1)	404.5	12.9	374.2	11.4	(7.5)	(11.7)
Aero Engine, Space and Defense	321.5	260.4	(19.0)	369.7	20.8	244.6	(40.4)	(33.8)	–
Reportable segment total	1,255.6	1,066.5	(15.1)	1,247.8	50.8	1,094.4	7.2	(12.3)	(85.7)
Others	73.4	78.8	7.4	67.0	6.5	66.8	3.6	(0.2)	(44.7)
Adjustments	(49.0)	(48.3)	–	(51.7)	(9.5)	(48.4)	(17.0)	–	–
Total	1,280.0	1,097.0	(14.3)	1,263.1	47.8	1,112.9	27.9	(11.9)	(41.6)

<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, and with legislative amendments receiving cabinet approval in Japan to achieve carbon neutrality by 2050, the world's shift towards carbon-free societies is accelerating. As a consequence of this, although the issues relating to lower environmental impact have become varied depending on regions and customers, there has been an increase in themes that leads to carbon neutrality in the future.
Under this business environment, orders received decreased in the Boilers Business due to the reverse effect of the large-scale project received of the Boilers Business in the previous fiscal year.
Revenue decreased in the Plants Business, while increased in the Boilers Business.
Operating profit increased due to increased revenue of life cycle business of the Boilers Business, in addition to convergence deterioration of profitability in the Power systems and Plants Businesses in the previous fiscal year.

<Social Infrastructure and Offshore Facilities>
In Japan, in response to the progressive deterioration of infrastructure and intensifying natural disasters, the proportion of conservation work involving maintenance, renovation and repair is increasing, while large projects for new infrastructure is on the downturn trend. Following the rapid decrease in the working population, there has been an acceleration of initiatives to improve efficiency and workstyle reforms through the use of ICT on construction sites led by government on the basis of the standardization of works.
Overseas, demand in developed markets for conservation work resulting from the progressive deterioration of infrastructure is expected to continue. On the other hand, in developing countries, although demand for new construction is strong, the project schemes where private companies participate in the operation and maintenance of social infrastructures are increasing, instead of projects organized through ODA.
Under this business environment, orders received decreased due to the reverse effect of the overseas large-scale project in the Bridges and water gates Business received in the previous fiscal year.
Revenue in the Urban development Business owing to sales of real estate for sale and in the Shield systems Business, while decreased in the Bridges and water gates Business due to the reverse effect of delivery of large-scale projects in the previous fiscal year.
Operating profit increased due to increased revenue in the Urban development and Shield systems Businesses, and the improvement of profitability in the Bridges and water gates Business.

<Industrial Systems and General-Purpose Machinery>
Although market conditions in the automotive industry have entered the recovery stage starting with China, due to the uncertainty regarding the outlook resulting from the spread of COVID-19, capital investments related to industrial systems, with certain exception, is in wait-and-see mode. We assume that it will take until FY2022 for the global industry to recover to levels before the spread of infection.
On the other hand, there have been societal changes accelerating more and more such as the increasing need for lower environmental impact, the decrease in the productive population, the diversification of consumer demand and the advance of digitalization, and this has emerged at our customers in the form of drivers of electrification, labor-saving, and automation. We must work closely with our customers throughout the product and service life cycles, responding promptly and appropriately to the

wide range of issues faced by society and customers.
Under this business environment, orders received decreased in the Vehicular turbochargers and Rotating machineries Businesses, in addition to the Transport machineries Business which had received large-scale projects in the previous fiscal year.
Revenue decreased in the Vehicular turbochargers and Heat treatment and surface engineering Businesses, despite increased in revenue in the Transport machineries Business.
Operating profit decreased due to recording the restructuring cost in the Agricultural machineries Business, while increased owing to increased revenue in the Transport machineries Business and reduction of fixed costs in the Vehicular turbochargers Business etc.

<Aero Engine, Space and Defense>
A recovery in demand for aero transportation is expected to take several years, and this has a continuous unavoidable impact on businesses. Amid such an environment, in preparation for establishing a business structure that can overcome these changes in the business environment, we will promote the review of production systems in response to fluctuations in demand and shift of resources to strengthen our cost structure, making this situation an opportunity to generate new growth.
Moreover, our aero engines are mounted on relatively new type aircrafts, and due to their advantage in terms of operating costs, including fuel efficiency, it is expected that operation will be resumed preferentially and earnings in the aftermarket will recover rapidly.
Under this business environment, orders received decreased in the Civil aero engines Business.
Revenue significantly decreased in the Civil aero engines Business due to the downturns in demand for aero transportation caused from the impact of the spread of COVID-19.
Recorded operating loss due to the downturns in the delivery of highly profitable spare parts in the Civil aero engines Business despite the effect of reduction of fixed costs beginning to be visible.

Note that forward-looking statements are based on the Group's judgments as of the end of the current fiscal year (March 31, 2021).

b. Assets and liabilities, and equity
Total assets at the end of the fiscal year ended March 31, 2021 were ¥1,832.8 billion, down ¥36.1 billion compared with the end of the previous fiscal year. The major item of increase was contract assets, up ¥10.0 billion. The major items of decrease were cash and cash equivalents, down ¥24.9 billion and property, plant and equipment, down ¥12.5 billion.
Total liabilities were ¥1,505.1 billion, down ¥57.8 billion compared with the end of the previous fiscal year. The major item of decrease was trade and other payables, down ¥58.3 billion. The balance on interest-bearing liabilities, including lease liabilities, was ¥605.9 billion, down ¥6.7 billion from the end of the previous fiscal year.
Equity was ¥327.7 billion, up ¥21.6 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥13.0 billion and a decrease by dividends of surplus of ¥2.9 billion.
As a result of the above, the ratio of equity attributable to owners of parent increased from 15.0% at the end of the previous fiscal year to 16.4%.

ii. Cash flows

At the end of the current fiscal year, the outstanding balance of cash and cash equivalents (hereinafter, "cash") was ¥120.7 billion, down ¥24.9 billion from the end of the previous fiscal year. This was because the cash, which was secured at the end of the previous fiscal year to prepare for turmoil in the financial markets caused from the spread of COVID-19, was appropriated for working capital expenditures for business activities as the financial markets have become relatively stable.
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 ¥36.3 billion (the previous fiscal year: gain of ¥42.4 billion). This was due mainly to profit excluding the impact of items such as non-cash expenses including depreciation, amortization and impairment losses, in spite of a decrease in trade payables.

(Cash flows from investing activities)
Net cash used in investing activities was ¥40.4 billion (the previous fiscal year: use of ¥85.5 billion). This was due mainly to purchase of property, plant and equipment, intangible assets and investment property, while there were proceeds from sale of investment property.

(Cash flows from financing activities)
Net cash used in financing activities was ¥23.7 billion (the previous fiscal year: gain of ¥96.8 billion). This was due mainly to repayments of lease liabilities.

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

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	311,669	(15.3)
Social Infrastructure and Offshore Facilities	165,405	12.2
Industrial Systems and General-Purpose Machinery	366,285	(9.8)
Aero Engine, Space and Defense	264,081	(23.3)
Reportable segment total	1,107,440	(12.5)
Others	44,044	3.4
Total	1,151,484	(12.0)

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	274,715	(13.3)	482,310	(6.7)
Social Infrastructure and Offshore Facilities	166,108	(15.6)	226,449	(1.3)
Industrial Systems and General-Purpose Machinery	365,213	(13.1)	175,312	(7.6)
Aero Engine, Space and Defense	260,491	(19.0)	243,499	(50.5)
Reportable segment total	1,066,527	(15.1)	1,127,570	(21.0)
Others	78,842	7.4	37,471	75.5
Adjustments	(48,357)	–	–	–
Total	1,097,012	(14.3)	1,165,041	(19.6)

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.
5. In the segment of Aero Engine, Space and Defense, we have changed the calculation method of orders received and order backlog in the Civil aero engines Business to another recognition method better to represent remaining performance obligations. Applying the changed method, the order backlog amount of ¥491,747 million as the beginning of the current fiscal year is amended to be ¥222,712 million. Therefore, the change from this amended amount of ¥222,712 million to the order backlog amount of ¥243,499 million as of March 31, 2021 become an up of 9.3%.

c. Sales

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

Segment name	Amount (Millions of yen)	Year-on-year change (%)
Resources, Energy and Environment	317,675	(2.2)
Social Infrastructure and Offshore Facilities	157,952	6.2
Industrial Systems and General-Purpose Machinery	374,260	(7.5)
Aero Engine, Space and Defense	244,603	(33.8)
Reportable segment total	1,094,490	(12.3)
Others	66,893	(0.2)
Adjustments	(48,477)	–
Total	1,112,906	(11.9)

Notes:
1. Sales amounts shown represent revenue in the consolidated statement of profit or loss.
2. The amounts by segment include intersegment transactions, and the total amount of intersegment transactions has been eliminated with the adjustments amounts.
3. Sales amounts to key customers and the corresponding percentage of overall sales are shown below.

Counterparty	Fiscal year ended March 31, 2020		Fiscal year ended March 31, 2021	
	Amount (Millions of yen)	Ratio (%)	Amount (Millions of yen)	Ratio (%)
Japanese Aero Engines Corporation	168,418	13.3	73,315	6.6

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 report are prepared in accordance with International Financial Reporting Standards (IFRS). When preparing its consolidated financial statements, for matters that require an estimate the Group uses rational methods to make its estimates.

Details are given in Note "3. Significant accounting policies" and Note "4. Significant accounting judgements, estimates and assumption" under "Notes to consolidated financial statements" of "Financial Information" section in this Annual Securities Report.

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."

Considering the impact of the spread of COVID-19 on the IHI Group's businesses, the Group set performance targets for FY 2020 (forecast announced in November 2020) and executed measures for achieving them.

In FY 2020, while profits in the Civil aero engines Business declined significantly due to the spread of COVID-19, the IHI Group steadily executed sharing and shifting of resources across its businesses, resulting increases in revenue of life cycle businesses in such as the Boilers Business. In addition, the Group has made steady progress in strengthening the cost structure of the Vehicular turbochargers Business, such as improving productivity and rationalizing business processes. Furthermore, in order to achieve the results early, the Group has sold investment properties to secure investment resources for creating growth businesses that contribute to solving social issues.

As a result, the operating profit margin and ROIC for FY 2020 exceeded the performance targets. On the other hand, CCC was 124 days. CCC was significantly worse than 92 days in the previous fiscal year, therefore cash generation capabilities is an key issue the Group needs to face. The Group will continue to evolve business operations thoroughly focusing on cash generation.

In order to achieve the management targets set in "Project Change", on the premise of recovery of demands for aero transportation due to the convergence of the spread of COIVD-19, the IHI Group will strongly promote performance recovery drivers, that is, strengthening earnings foundations by the reinforcement of cost structure and the reformation of business structures, and accelerating efforts to expand life cycle businesses. Through this initiative, the Group aims to return to a growth trajectory, with operating profit of ¥70 billion (operating profit margin of 5.9%) , ROIC of 5.5%, and CCC of 110 days, which are the performance targets for the fiscal year ending March 31, 2022 (forecasts announced in May 2021), and achieve the management targets in FY 2022 which is the final fiscal year of "Project Change."

	Performance targets for the fiscal year ended March 31, 2021	Results for the fiscal year ended March 31, 2021	Performance targets for the fiscal year ending March 31, 2022	“Project Change” Management Targets for the fiscal year ending 31, 2023
ROIC	1.8%	2.2%	5.5%	10% or more
Operating profit margin	1.7%	2.5%	5.9%	8% or more
CCC	—	124 days	110 days	80 days

Note: The calculation method for each indicator is shown below.

・ROIC: (1 - Effective statutory tax rate) × (Operating profit + Interest income + Dividend income) ÷ (Equity attributable to owners of parent + Amount of interest-bearing liabilities).

・CCC: Working capital ÷ Revenue × 365 days

・Working capital: Trade receivables + Contract assets + Inventories + Prepayments - Contract liabilities - Trade payables - Refund liabilities

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, 2021 (Fiscal year 2020)			
	Performance targets		Results	
	Operating profit (Billions of yen)	Operating profit margin (%)	Operating profit (Billions of yen)	Operating profit margin (%)
Resources, Energy and Environment	16.0	4.6	19.1	6.0
Social Infrastructure and Offshore Facilities	15.0	10.0	17.1	10.8
Industrial Systems and General-Purpose Machinery	12.0	3.2	11.4	3.0
Aero Engine, Space and Defense	(34.0)	(13.6)	(40.4)	(16.5)

<Resources, Energy and Environment>

The performance targets results for this business area exceeded the performance targets due to the expansion of life cycle business and reduction of selling, general and administrative expenses in the Boilers business and the Nuclear energy business.

The operating environment for this business area is as stated in “i. Financial position and operating results” under the section “(1) Overview of operating results, etc.”. In this business area, the IHI Group will promote provision of high efficiency of existing energy infrastructures and use of carbon neutral/carbon free fuel, and take efforts to achieve carbon neutrality by 2050 through acceleration of the technology development relating to carbon recycling.

<Social Infrastructure and Offshore Facilities>

The performance targets results for this business area exceeded the performance targets due to the expansion of the scope of work and the improvement in profitability in the Bridges and water gates Business, and reduction of selling, general and administrative expenses.

The operating environment for this business area is as stated in “i. Financial position and operating results” under the section “(1) Overview of operating results, etc.”. In this business area, the IHI Group will work on not only construction of infrastructures but also 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 Systems and General Purpose Machinery>

While sales of the Vehicular turbochargers Business increased, life cycle business of the Rotating machinery increased, and selling, general and administrative expenses were reduced, the performance targets results were slightly below the performance targets due to the structural reform costs recorded in the Agricultural machinery Business.

The operating environment for this business area is as stated in “i. Financial position and operating results” under the section “(1) Overview of operating results, etc.”. In this business area, while the HII Group will minimize the impact of the spread of COVID-19 to its business activities and take efforts to recover rapidly, on the basis of that, the Group will also contribute to the development of industrial infrastructure by responding to various needs of customers throughout the life cycle through proposal of solutions and sophistication of services using digital technology, in addition to product development.

<Aero Engine, Space and Defense>

The performance target results for this business area were failed to achieve significantly due to the re-spread of COVID-19 slowing down the recovery of demands for aero transportation after last November, and the impact of decreased sales of spare parts of the Civil aero engines Business.

In order to give every possible support to customers resuming operation of aircraft when transportation demand recovers, the IHI Group will give the highest priority to strengthening our response in the aftermarket field, as well as driving the evolution of its unique technology and Monozukuri (manufacturing) capabilities to contribute to reductions in environmental impact, such as by developing new engines with greater efficiency and improved fuel economy. Furthermore, with an eye on the expected future of electrification and the introduction of sustainable aviation fuels, the Group will work to develop products and systems that are safe, comfortable, and reduce the burden on the environment.

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 fiscal year 2020, cash in flows from operating activities was ¥36.3 billion, while cash out flows from investing activities was ¥40.4 billion. The cash out flows from investing activities exceeded the cash in flows from operating activities, despite temporary freezing and/or reduction on investment and the sale of investment properties. The cash out flows from investing activities has exceeded cash in flows from operating activities for three consecutive terms and improving cash flow is a top priority for the IHI Group.

Under these circumstances, the IHI Group will implement management measures that emphasize profitability and cash generation capabilities as set forth in "Project Change," and allocate funds optimally for sustainable improvement of the corporate value.

b. Fundraising policy

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.

c. Analysis of demand for funds and liquidity

The main demand for funds for the current fiscal year was working capital required for business activities and payments related to facilities of the new factory of the Civil aero engines Business completed in the previous fiscal year. In the previous fiscal year, the IHI Group secured funds in preparation for the risk of financial market turmoil due to the spread of COVID-19. However, since the financial markets are relatively stable, the IHI Group appropriated the secured funds for the these demands for funds. As a result, at the end of the current fiscal year, the balance of interest-bearing liabilities, including lease obligations, was ¥605.9 billion, a decrease of ¥ ¥6.7 billion from the end of the previous fiscal year.

At the end of the current fiscal year, the outstanding balance of cash and cash equivalents was ¥120.7 billion, a decrease of ¥24.9 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.

iv. Parallel disclosure information

The condensed financial statements prepared pursuant to the Regulation on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Regulation of the Ministry of Finance No. 28 of 1976, except for Chapter 7 and 8, hereinafter “Japanese GAAP”) are as follows.

The condensed financial statements prepared in accordance with Japanese GAAP are not audit pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

a. Condensed consolidated balance sheet (Japanese GAAP)

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Assets		
Current assets	1,076,009	1,031,211
Non-current assts		
Property, plant and equipment	397,495	376,212
Intangible assets	32,162	27,441
Investments and other assets	235,116	269,661
Total non-current assets	664,773	673,314
Total assets	1,740,782	1,704,525
Liabilities		
Current liabilities	909,005	728,283
Non-current liabilities	478,031	588,572
Total liabilities	1,387,036	1,316,855
Net assets		
Shareholders' equity	329,216	361,302
Accumulated other comprehensive income	(2,841)	(2,318)
Subscription rights to shares	533	414
Non-controlling interests	26,838	28,272
Total net assets	353,746	387,670
Total liabilities and net assets	1,740,782	1,704,525

b. Condensed consolidated statement of income and consolidated statement of comprehensive income (Japanese GAAP)

Condensed consolidated statement of income

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net sales	1,386,503	1,115,077
Cost of sales	1,131,775	935,521
Gross profit	254,728	179,556
Selling, general and administrative expenses	193,931	168,371
Operating profit	60,797	11,185
Non-operating income	6,545	9,633
Non-operating expenses	35,091	15,740
Ordinary profit	32,251	5,078
Extraordinary income	11,790	26,313
Extraordinary losses	5,262	14,305
Profit before income taxes	38,779	17,086
Income taxes	20,729	10,236
Profit	18,050	6,850
Profit attributable to non-controlling interests	5,238	3,928
Profit attributable to owners of parents	12,812	2,922

Condensed consolidated statement of comprehensive income

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit	18,050	6,850
Total other comprehensive income	(9,440)	6,510
Comprehensive income	8,610	13,360
Comprehensive income attributable to:		
Owners of parent	4,487	8,401
Non-controlling interests	4,123	4,959

(Translation purposes only)

c. Condensed consolidated statement of changes in equity (Japanese GAAP)

Fiscal year ended March 31, 2020

(Millions of yen)

	Shareholders' equity	Accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of period	343,497	5,683	659	31,853	381,692
Changes of items during period	(14,281)	(8,524)	(126)	(5,015)	(27,946)
Balance at end of period	329,216	(2,841)	533	26,838	353,746

Fiscal year ended March 31, 2021

(Millions of yen)

	Shareholders' equity	Accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at beginning of period	329,216	(2,841)	533	26,838	353,746
Cumulative effects of changes in accounting policies	27,442	—	—	—	27,442
Restated balance	356,658	(2,841)	533	26,838	381,188
Changes of items during period	4,644	523	(119)	1,434	6,482
Balance at end of period	361,302	(2,318)	414	28,272	387,670

d. Condensed statement of cash flows (Japanese GAAP)

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from operating activities	14,510	22,841
Cash flows from investing activities	(75,896)	(37,197)
Cash flows from financing activities	115,264	(13,730)
Effect of exchange rate change on cash and cash equivalents	(1,301)	3,579
Net increase (decrease) in cash and cash equivalents	52,577	(24,507)
Cash and cash equivalents at beginning of period	92,608	145,484
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	299	192
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	–	(403)
Cash and cash equivalents at end of period	145,484	120,766

v. Significant changes relating to the basis of preparation of the consolidated financial statements (Japanese GAAP)
Fiscal year ended March 31, 2021

(Application of Accounting Standard for Revenue Recognition, etc.)
IHI has applied the “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan Statement No. 29, March 31, 2020), etc. effective from the beginning of the fiscal year ended March 31, 2021 and it recognizes revenue when (or as) it satisfies a performance obligation by transferring promised goods or services (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset. It recognizes as revenue the amount expected to be received upon exchange of goods or services.
As a result of this application, although costs incurred related to the civil aero engine programs in which IHI participates and compensation for damage arising from the performance of a contract were previously recorded as cost of sales or selling, general and administrative expenses or non-operating expenses, the accounting method is changed to be deducted from sales as a variable consideration or consideration payable to a customer reflecting the real nature of transaction. In addition, the percentage of completion method is applied to contracts that are expected to satisfy performance obligations over time, among contracts that were previously accounted for by the completed-contract method. Furthermore, revenue is recognized by the cost recovery method when it is not possible to reasonably estimate progress towards satisfaction of performance obligations, but it is probable that the costs incurred will be recovered.
The application of the Accounting Standard for Revenue Recognition, etc. is subject to the transitional treatment provided for in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the fiscal year ended March 31, 2021 was added to or subtracted from the beginning balance of retained earnings of the fiscal year ended March 31, 2021, and thus the new accounting policy was applied from the beginning balance; provided, however, that the new accounting policy was not retrospectively applied to contracts where recognitions of nearly all the revenue amounts for periods prior to the start of the fiscal year ended March 31, 2021 were subject to the previous treatment, by applying the method provided for in Paragraph 86 of the Accounting Standard for Revenue Recognition. Furthermore, with regard to modifications to contracts carried out prior to the start of the fiscal year ended March 31, 2021, accounting processing was carried out based on the contractual terms existing after all contract modifications were reflected and this cumulative effect was added to or subtracted from the beginning balance of retained earnings of the fiscal year ended March 31, 2021 by applying the method set forth in item (1) of the supplementary provisions of Paragraph 86 of the Accounting Standard for Revenue Recognition.
As a result, for the fiscal year ended March 31, 2021, net sales decreased by ¥85,114 million, with the cost of sales decreasing by ¥84,653 million, selling, general and administrative expenses decreasing by ¥2,605 million, operating profit increasing by ¥2,144 million, and ordinary profit and profit before income taxes each increasing by ¥7,044 million. In addition, the beginning balance of retained earnings increased by ¥27,442 million.

vi. Differences of major items relating to overview of operating results, etc.
Differences between the major items of consolidated financial statements prepared in accordance with IFRS and the items corresponding to those in case of preparing the consolidated statements in accordance with Japanese GAAP are as follows:

Fiscal year ended March 31, 2020
The differences are as stated in Note “42. First-time adoption of IFRS” under "Notes to consolidated financial statements” of "Financial Information” section in this Annual Securities Report.

Fiscal year ended March 31, 2021
(Adjustments to the recorded amount of goodwill and recognition of impairment losses)
Goodwill, which was amortized over a certain period under Japanese GAAP, is not amortized under IFRS. The IHI Group ceased to amortize goodwill from the transition date. Furthermore, under Japanese GAAP, the IHI Group conducted an impairment test for goodwill only when there was an indication of impairment. However, under IFRS, goodwill is tested for impairment in each fiscal year, mainly in the fourth quarter, irrespective of whether there is any indication of impairment.

As a result, in the consolidated statement of profit and loss based on IFRS, “Selling, general and administrative expenses” decreased by ¥4,225 million compared to Japanese GAAP. In addition, impairment losses for goodwill of ¥13 million were recognized was and is included as “Other expenses”.

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, 2025
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, 2021
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 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
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

5. Research and development activities

Having established the group technology strategy based on “Group Management Policies 2019,” the IHI Group (IHI and its consolidated subsidiaries) has been pursuing research and development with an emphasis on technologies related to solving the issues of society and customers. The IHI Group enlists close coordination and cooperation among its business areas, head office divisions, and Corporate Research & Development with respect to tirelessly pursuing basic and commercialization research aimed at bolstering product competitiveness, future growth and innovation in each of the business segments encompassing Resources, Energy and Environment; Social Infrastructure and Offshore Facilities; Industrial Systems and General-Purpose Machinery; and Aero Engine, Space and Defense segments. In addition, the IHI Group pursues joint research through industry-academia partnerships with Japanese and overseas universities and research institutions.
Meanwhile under “Project Change,” released in November 2020, the IHI Group redefined its growth businesses into the three groupings "Carbon solutions", "Maintenance, disaster prevention and disaster mitigation", and "Air transportation systems." In April 2021, Corporate Strategy Headquarters has been established. The Corporate Strategy Headquarters oversees the corporate strategic planning of the entire group and reports directly to the president and plays a central role in creating growth businesses.

In the current fiscal year, the IHI Group spent ¥26.8 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 energy and carbon solutions.

In this segment, the IHI Group promotes various forms of technological development aiming for “a carbon-free, recycling-based society” that will maintain a healthy global environment. Key achievements in the current fiscal year included attaining the world’s first 70% liquid ammonia co-firing ratio on a 2,000kW-class gas turbine, and developing a water electrolysis energy management system that simultaneously manages multiple renewable energy sources in the Hibiki-Nada district of Kitakyushu City, and promoting initiatives to bring about a carbon-free, recycling-based society using carbon recycling technologies.

R&D expenses in this segment totaled ¥3.7billion.

(2) Social Infrastructure and Offshore Facilities

Social Infrastructure and Offshore Facilities Business Area and Corporate Research & Development are engaged in research and development related to bridges and 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. Moreover, this segment has also embarked on initiatives with respect to maintenance, disaster prevention and disaster mitigation.

R&D expenses in this segment totaled ¥0.7 billion.

(3) Industrial Systems and General-Purpose Machinery

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

In this segment, the IHI Group has promoted research and development in order to realize enriched lifestyles using environmentally-sound and economical industrial machinery and to make our lives and corporate activities secure and safe. Key achievements in the current fiscal year included development of high-efficiency turbochargers and picking systems for logistics, realization of mechanical parking systems equipped with contactless entry and exit capabilities and achievement of convenient parking using AI and 3D sensors. In addition, to address needs for dealing with COVID-19, we developed negative-pressure isolation rooms (simplified negative-pressure isolation tents) and ozone gas sterilized water using fine-bubble technology.
R&D expenses in this segment totaled ¥7.4 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 research and development of high-performance materials for highly efficient and low-cost jet engines, and one of the topics is the success in developing the world’s first air-cooling system for aircraft onboard 100kW-class power electronics. In addition, we are pushing ahead with initiatives to develop a propulsion system for the Martian Moons eXploration (MMX) probe.

R&D expenses in this segment totaled ¥7.1 billion.

(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 “Soma Lab” hydrogen research building with renewable energy in Soma-city, Fukushima, and we are promoting research into the utilization of carbon-free hydrogen. Moreover, we have been promoting innovation activities involving co-creation of new business ideas in conjunction with our customers.

R&D expenses in this segment totaled ¥7.7 billion.

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

III. Information about facilities

1. Overview of capital expenditures, etc.

The IHI Group (IHI and its consolidated subsidiaries) temporarily froze and/or reduced its capital investment as a countermeasure against the effect of the spread of COVID-19. Among this situation, the IHI Group has made investments focusing on the highly necessary items such as increases of production capacity and improvement of production systems, as well as maintenance and upgrade of existing facilities in order to enhance competitiveness, and the total investment amount was ¥48.3 billion during the current fiscal year. Investments by segment were follows:

In Resources, Energy and Environment, ¥3.9 billion was invested to maintain and upgrade existing facilities.

In Social Infrastructure and Offshore Facilities, ¥7.3 billion was invested to increase production capacity, as well to maintain and upgrade investment property.

In Industrial Systems and General-Purpose Machinery, ¥9.7 billion was invested to increase production capacity as well to improve production systems.

In Aero Engine, Space and Defense, ¥19.2 billion was invested to improve production systems, increase production capacity, as well to maintain and upgrade existing facilities.

In others, ¥8.0 billion was invested to streamline and save labor of production as well to maintain and upgrade existing facilities.

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

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

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.

(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)	Right-of-use assets	Others (Note 1)	Total	
Aioi Works (Aioi-city, Hyogo)	Resources, Energy and Environment	Production facilities for boilers and storage facilities	1,024	1,996	194 (229)	21	370	3,605	426
Yokohama Works (Yokohama-city, Kanagawa)	Resources, Energy and Environment	Production facilities for components for nuclear power plants and aero engines	2,683	1,538	1,106 (227)	272	581	6,180	250
Mizuho Aero-Engine Works (Nishitama-gun, Tokyo)	Aero Engine, Space and Defense	Production facilities for aero engines and space-related equipment	4,845	4,018	2,316 (200)	4,279	4,321	19,779	1,768
Soma Aero-Engine Works (Soma-city, Fukushima)	Aero Engine, Space and Defense	Production facilities for aero engines and space-related equipment	6,002	9,468	3,597 (374)	18,205	14,700	51,972	924
Kure Aero-Engine & Turbo Machinery Works (Kure-city, Hiroshima)	Aero Engine, Space and Defense	Production facilities for aero engines	1,651	2,004	57 (48)	1,139	282	5,133	434
Tsurugashima Works (Tsurugashima-city, Saitama) (Note 2)	Aero Engine, Space and Defense	Maintenance facilities for aero engines	8,672	2,400	7,105 (136)	1,645	1,635	21,457	–
Head Office (Koto-ku, Tokyo, etc.) (Notes 3, 4)	Others	Other facilities	19,772	8,211	13,357 (130,730)	51,851	152,189	245,380	3,234

Notes:
1. The "Book value - Others" column represents the total amount of investment property, tools, furniture and fixtures, software, as well as construction in progress.
2. Tsurugashima Works has started its operations from June 18, 2021.
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 ¥140,847 million of assets (mainly investment property) belonging to the Social Infrastructure and Offshore Facilities segment.

(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)	Right-of-use assets	Others (Note)	Total	
IHI Power Systems Co., Ltd.	Ota Works (Ota-city, Gunma)	Resources, Energy and Environment	Production facilities	1,055	527	2,152 (152)	53	145	3,932	322
	Niigata engine Works (Niigata-city, Niigata)	Resources, Energy and Environment	Production facilities	1,007	625	1,050 (55)	362	41	3,085	231
IHI Infrastructure Systems Co., Ltd.	Sakai Works (Sakai-city, Osaka)	Social Infrastructure and Offshore Facilities	Production facilities	2,941	2,762	5,686 (83)	8,460	915	20,764	458
IHI Turbo Co., Ltd.	Shinmachi Works (Kamiina-gun, Nagano)	Industrial Systems and General-Purpose Machinery	Production facilities	1,412	1,696	194 (25)	268	135	3,705	119
	Kiso Works (Kiso-gun, Nagano)	Industrial Systems and General-Purpose Machinery	Production facilities	732	898	94 (65)	646	472	2,842	325
IHI Transport Machinery Co., Ltd.	Numazu Works (Numazu-city, Shizuoka)	Industrial Systems and General-Purpose Machinery	Production facilities	1,218	210	2,270 (138)	58	49	3,805	139
IHI AEROSPACE CO., LTD.	Tomioka Works (Tomioka-city, Gunma)	Aero Engine, Space and Defense	Production facilities	5,211	5,088	2,388 (490)	1,087	3,331	17,105	934

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)	Right-of-use assets	Others (Note 1)	Total	
IHI Charging Systems International GmbH (Note 2)	Germany and Italy	Industrial Systems and General-Purpose Machinery	Production facilities	1,126	3,373	229 (12)	2,417	1,052	8,197	804
Changchun FAWER-IHI Turbo Co., Ltd. (Note 2)	China	Industrial Systems and General-Purpose Machinery	Production facilities	1,184	3,748	–	228	702	5,862	609
IHI Turbo America Co.	U.S.A	Industrial Systems and General-Purpose Machinery	Production facilities	1,203	1,873	12 (65)	17	2,285	5,390	152
IHI TURBO (THAILAND) CO., LTD.	Thailand	Industrial Systems and General-Purpose Machinery	Production facilities	875	1,080	362 (54)	369	681	3,367	796
Indigo TopCo Ltd. (Note 2)	Switzerland, etc.	Industrial Systems and General-Purpose Machinery	Production facilities	1,159	6,506	431 (35)	2,628	1,653	12,377	1,001

Notes: 1. The “Book value - Others” column represents the total amount of tools, furniture and fixtures, software, as well as construction in progress.

2. IHI Charging Systems International GmbH, Changchun FAWER-IHI Turbo Co., Ltd., and For Indigo TopCo Ltd. figures shown represent the values upon the consolidation of each company’s subsidiaries.

3. Planned additions, retirements, etc. of facilities

The IHI Group (IHI and its consolidated subsidiaries) plans to invest ¥64.0 billion in initiatives aiming at increasing production capacity, improving production systems, making production more streamlined and less labor intensive, and maintaining and upgrade existing facilities during the one-year period following the end of the current fiscal year. The breakdown of capital expenditure by segment is shown below.

(1) Additions and repairs

Segment name	Expected amount for FY 2021 (Millions of yen)	Facilities
Resources, Energy and Environment	6,800	Production facilities for power systems and carbon solutions-related, etc.
Social Infrastructure and Offshore Facilities	12,800	Production facilities for bridges and water gates, upgrades to investment property, etc.
Industrial Systems and General-Purpose Machinery	14,800	Production facilities for vehicular turbochargers, parking, and rotating machineries and processing facilities for heat treatment and surface engineering, etc.
Aero Engine, Space and Defense	20,900	Production facilities and facilities for the maintenance business of aero engines such as PW1100G, production facilities for space utilization systems-related, etc.
Reportable segment total	55,300	
Others (Note 3)	8,700	
Total	64,000	

Notes: 1. The amounts stated above do not include consumption taxes.
2. The IHI Group plans to primarily allot its own capital to pay for the investment plans.
3. Others include the amount of company-wide capital expenditure not belonging to any of the reportable segments.

(2) Sale and scrap

IHI sold part of land and buildings of the former Aichi Headquarters Representative’s Office and land as investment property in Showa-machi, Kanazawa-ku, Yokohama-city on May,2021 as described in Note “41. Subsequent events” under "Notes to consolidated financial statements” of "Financial Information” section in this Annual Securities Report.
The Group is also continuing to consider selling other assets aiming at securing investment resources for creating growth businesses.

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)
Ordinary shares	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, 2021)	Number of issued shares as of the filing date (Shares) (June 24, 2021)	Name of stock exchange on which IHI is listed or names of authorized financial instruments firms associations where IHI is registered	Description
Ordinary shares	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 share acquisition rights between June 1, 2021 and the filing date of this Annual Securities Report.

(2) Share acquisition rights, etc.

(i) Details of stock option plans

IHI issues share acquisition rights 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 1-for-10 consolidation of the ordinary shares 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” have been adjusted.

(a) Resolution made at the Board of Directors’ meeting held on July 23, 2007
(1st share acquisition rights)

	As of the end of the fiscal year (March 31, 2021)	As of the end of the month previous to the filing month (May 31, 2021)
Category and number of grantees	13 directors and 13 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	8	8
Type and detail of shares underlying share acquisition rights	Ordinary shares Number of shares per unit: 100 shares	Same as left
Number of shares underlying share acquisition rights (Shares)	800	800
Amount to be paid in to exercise share acquisition rights (Yen)	1	Same as left
Period for exercising share acquisition rights	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 share acquisition rights (Yen)	Issue price: 4,621 Additional paid-in capital per share: 2,311	Same as left
Conditions for exercising share acquisition rights	(Note 1)	Same as left
Matters relating to transfer of share acquisition rights	Acquisition of the share acquisition rights by transfer shall be subject to approval of IHI’s Board of Directors.	Same as left
Matters relating to granting of share acquisition rights in association with acts of organizational restructuring	(Note 2)	Same as left

(b) Resolution made at the Board of Directors' meeting held on July 22, 2008
(2nd share acquisition rights)

	As of the end of the fiscal year (March 31, 2021)	As of the end of the month previous to the filing month (May 31, 2021)
Category and number of grantees	13 directors and 11 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	34	34
Type and detail of shares underlying share acquisition rights	Ordinary shares Number of shares per unit: 100 shares	Same as left
Number of shares underlying share acquisition rights (Shares)	3,400	3,400
Amount to be paid in to exercise share acquisition rights (Yen)	1	Same as left
Period for exercising share acquisition rights	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 share acquisition rights (Yen)	Issue price: 1,851 Additional paid-in capital per share: 926	Same as left
Conditions for exercising share acquisition rights	(Note 1)	Same as left
Matters relating to transfer of share acquisition rights	Acquisition of the share acquisition rights by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of share acquisition rights 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 share acquisition rights)

	As of the end of the fiscal year (March 31, 2021)	As of the end of the month previous to the filing month (May 31, 2021)
Category and number of grantees	13 directors and 14 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	48	48
Type and detail of shares underlying share acquisition rights	Ordinary shares Number of shares per unit: 100 shares	Same as left
Number of shares underlying share acquisition rights (Shares)	4,800	4,800
Amount to be paid in to exercise share acquisition rights (Yen)	1	Same as left
Period for exercising share acquisition rights	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 share acquisition rights (Yen)	Issue price: 1,651 Additional paid-in capital per share: 826	Same as left
Conditions for exercising share acquisition rights	(Note 1)	Same as left
Matters relating to transfer of share acquisition rights	Acquisition of the share acquisition rights by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of share acquisition rights in association with acts of organizational restructuring	(Note 2)	Same as left

(d) Resolution made at the Board of Directors' meeting held on July 23, 2010
(4th share acquisition rights)

	As of the end of the fiscal year (March 31, 2021)	As of the end of the month previous to the filing month (May 31, 2021)
Category and number of grantees	13 directors and 13 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	131	131
Type and detail of shares underlying share acquisition rights	Ordinary shares Number of shares per unit: 100 shares	Same as left
Number of shares underlying share acquisition rights (Shares)	13,100	13,100
Amount to be paid in to exercise share acquisition rights (Yen)	1	Same as left
Period for exercising share acquisition rights	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 share acquisition rights (Yen)	Issue price: 1,541 Additional paid-in capital per share: 771	Same as left
Conditions for exercising share acquisition rights	(Note 1)	Same as left
Matters relating to transfer of share acquisition rights	Acquisition of the share acquisition rights by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of share acquisition rights 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 share acquisition rights)

	As of the end of the fiscal year (March 31, 2021)	As of the end of the month previous to the filing month (May 31, 2021)
Category and number of grantees	13 directors and 14 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	141	141
Type and detail of shares underlying share acquisition rights	Ordinary shares Number of shares per unit: 100 shares	Same as left
Number of shares underlying share acquisition rights (Shares)	14,100	14,100
Amount to be paid in to exercise share acquisition rights (Yen)	1	Same as left
Period for exercising share acquisition rights	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 share acquisition rights (Yen)	Issue price: 1,781 Additional paid-in capital per share: 891	Same as left
Conditions for exercising share acquisition rights	(Note 1)	Same as left
Matters relating to transfer of share acquisition rights	Acquisition of the share acquisition rights by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of share acquisition rights in association with acts of organizational restructuring	(Note 2)	Same as left

(f) Resolution made at the Board of Directors' meeting held on July 23, 2012
(6th share acquisition rights)

	As of the end of the fiscal year (March 31, 2021)	As of the end of the month previous to the filing month (May 31, 2021)
Category and number of grantees	13 directors and 15 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	190	190
Type and detail of shares underlying share acquisition rights	Ordinary shares Number of shares per unit: 100 shares	Same as left
Number of shares underlying share acquisition rights (Shares)	19,000	19,000
Amount to be paid in to exercise share acquisition rights (Yen)	1	Same as left
Period for exercising share acquisition rights	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 share acquisition rights (Yen)	Issue price: 1,591 Additional paid-in capital per share: 796	Same as left
Conditions for exercising share acquisition rights	(Note 1)	Same as left
Matters relating to transfer of share acquisition rights	Acquisition of the share acquisition rights by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of share acquisition rights 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 share acquisition rights)

	As of the end of the fiscal year (March 31, 2021)	As of the end of the month previous to the filing month (May 31, 2021)
Category and number of grantees	13 directors and 14 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	156	141
Type and detail of shares underlying share acquisition rights	Ordinary shares Number of shares per unit: 100 shares	Same as left
Number of shares underlying share acquisition rights (Shares)	15,600	14,100
Amount to be paid in to exercise share acquisition rights (Yen)	1	Same as left
Period for exercising share acquisition rights	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 share acquisition rights (Yen)	Issue price: 3,761 Additional paid-in capital per share: 1,881	Same as left
Conditions for exercising share acquisition rights	(Note 1)	Same as left
Matters relating to transfer of share acquisition rights	Acquisition of the share acquisition rights by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of share acquisition rights in association with acts of organizational restructuring	(Note 2)	Same as left

(h) Resolution made at the Board of Directors' meeting held on July 22, 2014
(8th share acquisition rights)

	As of the end of the fiscal year (March 31, 2021)	As of the end of the month previous to the filing month (May 31, 2021)
Category and number of grantees	13 directors and 17 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	182	167
Type and detail of shares underlying share acquisition rights	Ordinary shares Number of shares per unit: 100 shares	Same as left
Number of shares underlying share acquisition rights (Shares)	18,200	16,700
Amount to be paid in to exercise share acquisition rights (Yen)	1	Same as left
Period for exercising share acquisition rights	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 share acquisition rights (Yen)	Issue price: 4,401 Additional paid-in capital per share: 2,201	Same as left
Conditions for exercising share acquisition rights	(Note 1)	Same as left
Matters relating to transfer of share acquisition rights	Acquisition of the share acquisition rights by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of share acquisition rights 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 share acquisition rights)

	As of the end of the fiscal year (March 31, 2021)	As of the end of the month previous to the filing month (May 31, 2021)
Category and number of grantees	12 directors and 18 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	144	144
Type and detail of shares underlying share acquisition rights	Ordinary shares Number of shares per unit: 100 shares	Same as left
Number of shares underlying share acquisition rights (Shares)	14,400	14,400
Amount to be paid in to exercise share acquisition rights (Yen)	1	Same as left
Period for exercising share acquisition rights	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 share acquisition rights (Yen)	Issue price: 4,131 Additional paid-in capital per share: 2,066	Same as left
Conditions for exercising share acquisition rights	(Note 1)	Same as left
Matters relating to transfer of share acquisition rights	Acquisition of the share acquisition rights by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of share acquisition rights in association with acts of organizational restructuring	(Note 2)	Same as left

(j) Resolution made at the Board of Directors' meeting held on July 25, 2016
(10th share acquisition rights)

	As of the end of the fiscal year (March 31, 2021)	As of the end of the month previous to the filing month (May 31, 2021)
Category and number of grantees	10 directors and 18 executive officers of IHI	Same as left

Number of share acquisition rights (Units)	439	426
Type and detail of shares underlying share acquisition rights	Ordinary shares Number of shares per unit: 100 shares	Same as left
Number of shares underlying share acquisition rights (Shares)	43,900	42,600
Amount to be paid in to exercise share acquisition rights (Yen)	1	Same as left
Period for exercising share acquisition rights	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 share acquisition rights (Yen)	Issue price: 2,781 Additional paid-in capital per share: 1,391	Same as left
Conditions for exercising share acquisition rights	(Note 1)	Same as left
Matters relating to transfer of share acquisition rights	Acquisition of the share acquisition rights by transfer shall be subject to approval of IHI's Board of Directors.	Same as left
Matters relating to granting of share acquisition rights in association with acts of organizational restructuring	(Note 2)	Same as left

Notes: 1. Conditions for exercising share acquisition rights

(1) Share acquisition rights 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), share acquisition rights shall be exercisable for the period stipulated below. (However, (b) does not apply to share acquisition rights 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 share acquisition rights (the "Due Date"):

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

(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 share acquisition rights who relinquishes his/her share acquisition rights shall not be able to exercise such rights.

2. Matters relating to granting share acquisition rights 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 share acquisition rights 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 share acquisition rights that have share acquisition rights 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 share acquisition rights"). In this event, the Remaining share acquisition rights shall be become null and void, and the Company Subject to Reorganization shall newly issue share acquisition rights. However, it is subject to a condition that the provision that the share acquisition rights 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 share acquisition rights of the Company Subject to Reorganization to be granted

The same number of share acquisition rights as that of Remaining share acquisition rights held by a holder of share acquisition rights

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

Ordinary shares of the Company Subject to Reorganization

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

To be determined in the same manner as the matters set forth in the number of Remaining share acquisition rights, taking into consideration the terms and conditions of Reorganization.

(4) Value of property to be contributed when share acquisition rights are exercised

The value of the property to be contributed when each share acquisition right 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 share acquisition right, 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 share acquisition rights.

(5) Period during which share acquisition rights can be exercised

From the latter of the start date of the period during which share acquisition rights 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 share acquisition rights 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 share acquisition rights

To be determined in accordance with the matters set forth for the Remaining share acquisition rights.

(7) Restrictions on transferring of share acquisition rights

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

(8) Provisions for acquiring share acquisition rights

To be determined in accordance with the matters set forth for the Remaining share acquisition rights.

(9) Other conditions for exercising share acquisition rights

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

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

Not applicable

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

Date	Changes in number of issued shares (Thousand shares)	Balance of number of issued shares (Thousand shares)	Changes in share capital (Millions of yen)	Balance of share capital (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 the ordinary shares (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 share capital between April 1, 2021, and the filing date of this Annual Securities Report (June 24, 2021).

(5) Shareholding by shareholder category

(As of March 31, 2021)

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)	1	69	51	858	327	114	74,007	75,427	–
Number of shares held (Units)	1	637,193	22,229	58,612	394.220	1,109	431,249	1,544,613	218,654
Ratio (%)	0.00	41.25	1.43	3.79	25.52	0.07	27.91	100	–

Notes: 1. 5,612,948 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 56,129 units and 48 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, 2021)

Name	Address	Number of shares held (Thousand shares)	Shareholding ratio (%)
Custody Bank of Japan, Ltd. (Holder in Trust)	8-12, Harumi 1-chome, Chuo-ku, Tokyo	13,201	8.85
The Master Trust Bank of Japan (Holder in Trust)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo	13,188	8.84
The Dai-ichi Life Insurance Company, Limited	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo	5,406	3.62
Custody Bank of Japan, 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
Custody Bank of Japan, Ltd. (Holder in Trust 9)	8-12, Harumi 1-chome, Chuo-ku, Tokyo	3,141	2.10
IHI Supplier Stock Ownership Association	1-1, Toyosu 3-chome, Koto-ku, Tokyo	2,755	1.84
IHI Employee Stock Ownership Association	1-1, Toyosu 3-chome, Koto-ku, Tokyo	2,480	1.66
JP MORGAN CHASE BANK 380634 (standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	25 Bank Street, Canary Wharf, London, E14 5JP, United Kingdom (15-1, Konan 2-chome, Minato-ku, Tokyo)	2,415	1.62
Sumitomo Life Insurance Company	18-24, Tsukiji 7-chome, Chuo-ku, Tokyo	2,262	1.51
Custody Bank of Japan, Ltd. (Holder in Trust 5)	8-12, Harumi 1-chome, Chuo-ku, Tokyo	2,061	1.38
Total	–	51,510	34.55

Notes:
1. The figures of “Number of shares held” and “Shareholding ratio (%)” in the above table are rounded down to one unit.
2. Number of shares held by the reporting company is 5,612 thousand shares.
3. From the above, the following owned shares are held through trusts.
   - Custody Bank of Japan, Ltd. (Holder in Trust)
   - The Master Trust Bank of Japan (Holder in Trust)
   - Custody Bank of Japan, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.
   - Custody Bank of Japan, Ltd. (Holder in Trust 9)
   - Custody Bank of Japan, Ltd. (Holder in Trust 5)
4. 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.
   - JP MORGAN CHASE BANK 380634
5. In the Change Report pertaining to Report of Possession of Large Volume provided by Mizuho Bank, Ltd. for public viewing on April 22, 2020, the following shareholdings are respectively attributed to Mizuho Bank, Ltd. and its three joint holders as of April 15, 2020. However, since IHI is unable to confirm the actual number of shares held as of March 31, 2021, 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.	189	0.12
Mizuho Trust and Banking Co., Ltd.	393	0.25
Asset Management One Co., Ltd.	5,297	3.42
Total	10,478	6.77

6. In the Change Report pertaining to Report of Possession of Large Volume provided by Nomura Securities Co., Ltd. for public viewing on July 21, 2020, the following shareholdings are respectively attributed to Nomura Securities Co., Ltd. and its two joint holders as of July 15, 2020. However, since IHI is unable to confirm the actual number of shares held as of March 31, 2021, they are not included in major shareholders above.

Name	Number of shares held (Thousand shares)	Shareholding ratio (%)
Nomura Securities Co., Ltd.	416	0.27
Nomura International PLC	141	0.09
Nomura Asset Management Co., Ltd.	12,220	7.90
Total	12,778	8.26

7. In the Change Report pertaining to Report of Possession of Large Volume provided by Sumitomo Mitsui Trust Bank, Limited for public viewing on February 4, 2021, the following shareholdings are respectively attributed to Sumitomo Mitsui Trust Bank, Limited and its two joint holders as of January 29, 2021. However, since IHI is unable to confirm the actual number of shares held as of March 31, 2021, they are not included in major shareholders above.

Name	Number of shares held (Thousand shares)	Shareholding ratio (%)
Sumitomo Mitsui Trust Bank, Limited	695	0.45
Sumitomo Mitsui Trust Asset Management Co., Ltd.	4,720	3.05
Nikko Asset management Co., Ltd.	4,505	2.91
Total	9,922	6.41

(7) Voting rights

(i) Issued shares

(As of March 31, 2021)

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) Ordinary shares 5,612,900	–	–
	(reciprocally held shares) Ordinary shares 20,200	–	
Shares with full voting rights (others)	Ordinary shares 148,828,200	1,488,282	–
Shares less than one unit	Ordinary shares 218,654	–	Shares less than one unit (100 shares)
Number of issued shares	154,679,954	–	–
Total number of voting rights	–	1,488,282	–

Notes:
1. Ordinary shares in “Shares less than one unit” include 48 shares of treasury shares held by IHI.
2. Ordinary shares 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. Ordinary shares in “Shares with full voting rights (others)” include 552,400 shares of IHI owned by a trust account for the Board Benefit Trust.

(ii) Treasury shares, etc.

(As of March 31, 2021)

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	5,612,900	–	5,612,900	3.62
(Reciprocally held shares)					
Kondo Tekko Co., Ltd.	10-5, Yaesu 2-chome, Chuo-ku, Tokyo	20,200	–	20,200	0.01
Total	–	5,633,100	–	5,633,100	3.63

Note: 552,400 shares of IHI owned by a trust account for the Board Benefit Trust are not included in shares in treasury above.

(8) Director and Employee share ownership program

IHI introduced a performance-based share remuneration plan 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 ordinary shares (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, 2022, IHI will award a total of 55,033 points to directors and a total of 47,189 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.

2. Acquisitions, etc. of treasury shares

Type of shares, etc.

Acquisition of ordinary shares 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

Not applicable

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

Acquisition of ordinary shares 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	699	1,145,921
Treasury shares acquired during the current period	242	545,658

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, 2021 to the filing date of this Annual Securities Report.

(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, issuance of shares, or corporate split	–	–	–	–
Acquired treasury shares that was disposed in other ways (the exercise of share acquisition rights, the sale due to the request for sale of shares less than one unit) (Note)	48,425	125,857,381	4,301	11,178,011
Number of treasury shares held	5,612,948	–	5,608,889	–

Note: 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 share acquisition rights or sale of shares less than one unit during the period from June 1, 2021 to the filing date of this Annual Securities Report. Breakdown for the current fiscal year is the disposal due to the exercise of share acquisition rights (48,400 shares, total disposal amount of ¥125,792,405), the sale of shares less than one unit (25 shares, total disposal amount of ¥64,976). Breakdown for the current period is the disposal due to the exercise of share acquisition rights (4,300 shares, total disposal amount of ¥11,175,412), the sale of shares less than one unit (1 share, total disposal amount of ¥2,599).

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."
After comprehensive consideration of securing investment resources for creating growth businesses to contribute for the realization of sustainable society, IHI has decided to forgo paying an interim dividend and year-end dividend. 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.

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 Takashi Nimura 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 19 executive officers, seven of which concurrently serve as directors.) The Chief Executive Officer (CEO) manages the duties of the executive officers, giving directions and supervision. 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."

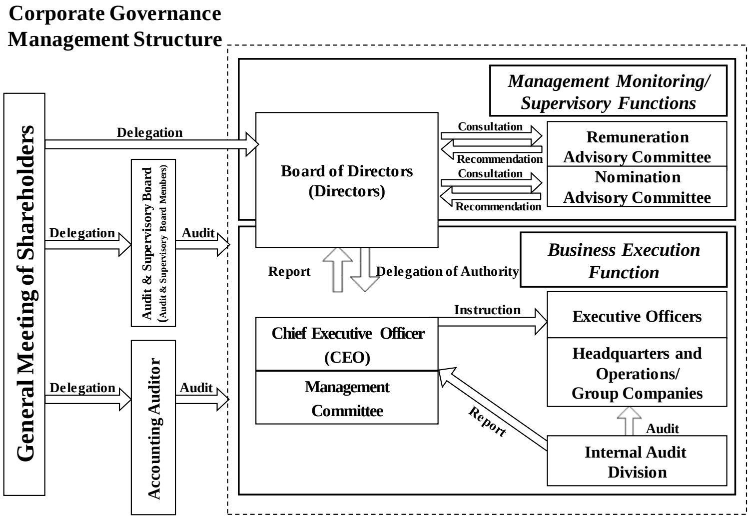
・The Management Committee, which consists of members appointed by the CEO, supports the CEO's decision-making and business execution.

・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 (Kazuhiko Ishimura, Yoshiyuki Nakanishi, Minoru Usui) and one independent outside audit & supervisory board member (Toshio Iwamoto), the director in charge of human resources (Tomoharu Shikina), and the director in charge of finance and accounting (Takeshi Yamada), with one independent outside director (Kazuhiko Ishimura) 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 five members: the president and four independent outside directors (Kazuhiko Ishimura, Yoshiyuki Nakanishi, Chieko Matsuda, Minoru Usui), 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, which is subcommittee of the Risk management Conference 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 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.

(f) Information regarding directors and officers Liability Insurance

・IHI has entered into a directors and officers liability insurance (“D&O insurance”) policy, with all directors and audit & supervisory board members, as provided for in Article 430-3, Paragraph 1 of the Companies Act. The insurance policy covers losses that may arise from the insured’s assumption of liability incurred in the course of the performance of duties as an officer or a person at a certain position, or receipt of the pursuit of such liability. However, there are certain reasons for coverage exclusion, such as cover not being extended to liability originating in behavior that was performed with the awareness that it was in violation of laws or regulations. Furthermore, the insurance premiums, including those for special clauses, are fully borne by IHI, and there are no insurance premiums borne by the insureds.

(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 director

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.

(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	Tsugio Mitsuoka	October 13, 1954	Apr. 1980	Joined IHI	(Note 6)	14,700
			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		
			Apr. 2021	Chairman of the Board (incumbent)		
President, Chief Executive Officer	Hiroshi Ide	February 16, 1961	Apr. 1983	Joined IHI	(Note 6)	2,500
			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		
			Apr. 2021	President; Chief Executive Officer and General manager of Corporate Strategy Headquarters, IHI (incumbent)		
Executive Vice President, Senior Executive Officer	Takeshi Yamada	July 14, 1958	Apr. 1981	Joined IHI	(Note 6)	2,400
			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)		

Executive Vice President, Senior Executive Officer	Tomoharu Shikina	February 4, 1958	May 1980	Joined IHI	(Note 6)	6,400
			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		
			Apr. 2021	Executive Vice President; Senior Executive Officer, IHI (incumbent)		
Director, Managing Executive Office	Kazuki Awai	September 12, 1959	Apr. 1983	Joined IHI	(Note 6)	4,300
			Jul. 2004	Operations Manager of Sales Headquarters, IHI		
			Apr. 2008	General Manager of Planning Group, Corporate Planning Division, IHI		
			Jul. 2011	General Manager of Administration Division, IHI		
			Apr. 2016	Executive Officer; General Manager of Administration Division, IHI		
			Jun. 2017	Director; Executive Officer; General Manager of Administration Division, IHI		
			Apr. 2018	Director; Managing Executive Officer; General Manager of Administration Division, IHI		
			Jun. 2018	Managing Executive Officer; General Manager of Administration Division, IHI		
			Apr. 2020	Managing Executive Officer, IHI		
			Jun. 2021	Director; Managing Executive Officer, IHI (incumbent)		

Director, Managing Executive Officer	Takeshi Kawakami	February 23, 1964	Apr. 1989 Apr. 2009 Nov. 2009 Apr. 2011 Jun. 2012 Apr. 2017 Apr. 2018 Apr. 2019 Apr. 2020 Jun. 2020	Joined IHI General Manager of Bridge and Road Engineering Department, Infrastructure Operations, IHI General Manager of Project Department, Engineering Division, IHI Infrastructure Systems Co., Ltd. General Manager of IZMIT Project, Overseas Project Department, IHI Infrastructure Systems Co., Ltd. Director, General Manager of IZMIT Project, Overseas Project Department, IHI Infrastructure Systems Co., Ltd. President, IHI Infrastructure Systems Co., Ltd. Executive Officer; Vise President of Social Infrastructure and Offshore Facilities Business Area, IHI President, IHI Infrastructure Systems Co., Ltd. Executive Officer; President of Social Infrastructure and Offshore Facilities Business Area, IHI Managing Executive Officer; President of Social Infrastructure and Offshore Facilities Business Area, IHI Director; Managing Executive Officer; President of Social Infrastructure and Offshore Facilities Business Area, IHI (incumbent)	(Note 6)	1,800
Director, Managing Executive Officer	Yasuhiro Shigegaki	March 15, 1964	Apr. 1988 Apr. 2012 Apr. 2013 Jul. 2016 Apr. 2018 Apr. 2019 Apr. 2020 Jun. 2020	Joined IHI General Manager of New Products Incubation Center, Corporate Research & Development and Manager of Products Development Department, IHI Member of the Board, IHI Ionbond AG Chairman of the Board, IHI Ionbond AG 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 Executive Officer; Vise President of Industrial Systems and General-Purpose Machinery Business Area and General Manager of Heat Treatment and Surface Engineering Business Unit, IHI Managing Executive Officer; President of Industrial Systems and General-Purpose Machinery Business Area, IHI Director; Managing Executive Officer; President of Industrial Systems and General-Purpose Machinery Business Area, IHI (incumbent)	(Note 6)	2,100

Director, Managing Executive Office	Hideo Morita	October 20, 1961	Apr. 1986 Apr. 2015 Apr. 2016 Apr. 2017 Apr. 2018 Apr. 2021 Jun. 2021	Joined IHI General Manager of Civil Engine Engineering Department, Civil Aero-Engine Division, Aero-Engine & Space Operations, IHI Deputy Division Director of Civil Aero-Engine Division, Aero-Engine & Space Operations, IHI Division Director of Civil Aero Engine Division, Aero-Engine, Space & Defense Business Area, IHI Executive Officer; Vice President of Aero Engine, Space & Defense Business Area, IHI Managing Executive Officer; President of Aero Engine, Space & Defense Business Area, IHI Director; Managing Executive Officer; President of Aero Engine, Space & Defense Business Area, IHI (incumbent)	(Note 6)	2,700
Director	Kazuhiko Ishimura	September 18, 1954	Apr. 1979 Jan. 2006 Jan. 2007 Mar. 2008 Jan. 2010 Jan. 2015 Jun. 2017 Jan. 2018 Mar. 2020 Apr. 2020 Apr. 2021	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 President and Chief Operating Officer, National Institute of Advanced Industrial Science and Technology (incumbent)	(Note 6)	1,900
Director	Yoshiyuki Nakanishi	November 3, 1954	Apr. 1978 Apr. 2010 Jun. 2011 Apr. 2012 Jan. 2018 Jun. 2020 Jan. 2021 Mar. 2021	Joined Dainippon Ink and Chemicals, Incorporated (currently DIC Corporation) Executive Officer; In Charge of Corporate Strategy Division and Kawamura Memorial Museum of Art, DIC Corporation Director; Executive Officer; In Charge of Corporate Strategy Division and Kawamura Memorial DIC Museum of Art, DIC Corporation President, Representative Director, DIC Corporation Chairman of the Board, DIC Corporation (incumbent) Director, IHI (incumbent) Director, DIC Corporation Executive Advisor, DIC Corporation (incumbent)	(Note 6)	—

Director	Chieko Matsuda	November 18, 1964	Apr. 1987 Oct. 1998 Sep. 2001 May. 2006 Oct. 2006 Apr. 2011 Jun. 2020	Joined The Long-Term Credit Bank of Japan, Limited Joined Moody's Japan K.K. Partner, Corporate Directions, Inc. Representative Director, Matrix, Inc. Vice President (Partner), Booz & Company, Inc. Professor, Faculty of Urban Liberal Arts (currently Faculty of Economics and Business Administration), Tokyo Metropolitan University (incumbent) Professor, Graduate School of Social Science (now Economics and Business Administration), Tokyo Metropolitan University (incumbent) Director, IHI (incumbent)	(Note 6)	—
Director	Minoru Usui	April 22, 1955	Nov. 1979 Jun. 2002 Nov. 2004 Nov. 2005 Jul. 2007 Oct. 2007 Jun. 2008 Apr. 2020 Jun. 2021	Joined Shinshu Seiki Co., Ltd. (currently Seiko Epson Corporation) Director; Deputy Chief Operating Officer, Imaging & Information Products Operations Division, Seiko Epson Corporation Director; Deputy General Administrative Manager, Corporate Research & Development Division, and Deputy Chief Operating Officer, Imaging & Information Products Operations Division, Seiko Epson Corporation Director; General Administrative Manager, Production Engineering & Development Division, Seiko Epson Corporation Director; General Administrative Manager, Corporate Research & Development Division, and General Administrative Manager, Production Engineering & Development Division, Seiko Epson Corporation Managing Director; General Administrative Manager, Corporate Research & Development Division, and General Administrative Manager, Production Engineering & Development Division, Seiko Epson Corporation President and Representative Director; Chief Executive Officer, Seiko Epson Corporation Chairman and Director, Seiko Epson Corporation (incumbent) Director, IHI (incumbent)	(Note 6)	—

Standing audit & supervisory board member	Takashi Niimura	August 6, 1960	Apr. 1983	Joined IHI	(Note 8)	2,800
			Apr. 2010	General Manager of Administration Department, Global Marketing Headquarters, IHI		
			Apr. 2012	General Manager of Corporate Sales & Marketing Department, Global Marketing Headquarters, IHI		
			Apr. 2013	General Manager of Chubu Branch, Sales Headquarters, IHI		
			Apr. 2016	Executive Officer; Deputy General Manager of Sales Headquarters and General Manager of Corporate Sales & Marketing Department, IHI		
			Apr. 2017	Executive Officer; Vice President of Industrial Systems and General-Purpose Machinery Business Area and Deputy General Manager of Sales Headquarters, IHI		
			Apr. 2018	Executive Officer; Vice President of Industrial Systems and General-Purpose Machinery Business Area and Deputy General Manager of Global Marketing & Sales Headquarters, IHI		
			Apr. 2019	Executive Officer; General Manager of Global Marketing & Sales Headquarters, IHI		
			Apr. 2020	General Advisor, IHI		
			Jun. 2020	Standing audit & supervisory board member, IHI (incumbent)		

Standing audit & supervisory board member	Seiji Maruyama	August 4, 1962	Apr. 1985	Joined IHI	(Note 9)	–
			Dec. 2008	General Manager of Internal Control Assessment Division, IHI		
			Apr. 2010	General Manager of Corporate Audit Division, IHI		
			Apr. 2012	General Manager of Administration Department, Rotating Machinery Operations, IHI		
			Apr. 2014	General Manager of Tax Accounting & Overseas Project Group, Finance & Accounting Division, IHI		
			Apr. 2018	Deputy General Manager of Finance & Accounting Division, IHI		
			Apr. 2019	General Manager of Finance & Accounting Division, IHI		
			Apr. 2021	Fellow of Finance & Accounting Division, IHI		
			Jun. 2021	Standing audit & supervisory board member, IHI (incumbent)		
Audit & supervisory board member	Toshio Iwamoto	January 5, 1953	Apr. 1976	Joined NIPPON TELEGRAPH AND TELEPHONE PUBLIC CORPORATION (currently NIPPON TELEGRAPH AND TELEPHONE CORPORATION)	(Note 7)	1,200
			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 8)	–
			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)		

Audit & supervisory board member	Yumiko Waseda	January 29, 1960	Apr. 1985	Registered as Attorney at Law Joined Max Law Offices (currently Mori Hamada & Matsumoto)	(Note 9)	—
			Apr. 2004	Vice President, Daini Tokyo Bar Association		
			Apr. 2005	Executive Director Governor, Japan Federation of Bar Associations		
			Apr. 2013	Partner, Tokyo Roppongi Law & Patent Offices (incumbent)		
			Apr. 2016	President, Daini Tokyo Bar Association		
			Apr. 2016	Vice President, Japan Federation of Bar Associations		
			Aug. 2020	Executive Director, Japan Law Foundation (incumbent)		
			Jun. 2021	Audit & supervisory board member, IHI (incumbent)		
Total						42,800

Notes:
1. Chief Executive Officer, Senior Executive Officer and Managing Executive Officer are executive officer ranks.
2. Outside directors are four members, Kazuhiko Ishimura, Yoshiyuki Nakanishi and Chieko Matsuda, Minoru Usui. IHI has registered directors Kazuhiko Ishimura, Yoshiyuki Nakanishi and Chieko Matsuda, Minoru Usui with domestic financial instrument exchanges (where IHI is listed) as independent directors respectively.
3. Outside audit & supervisory board members are three members, Toshio Iwamoto , Aiko Sekine and Yumiko Waseda. IHI has registered audit & supervisory board members Toshio Iwamoto , Aiko Sekine and Yumiko Waseda 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 24, 2021.
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 20, 2019.
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 25, 2020.
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 24, 2021.

(Translation purposes only)

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

Men: 18 Woman:1 (Percentage of women among Executive Officers : 5.2%)

	Position	Name	Main Areas of Responsibility
*	Chief Executive Officer	Hiroshi Ide	In Charge of Business Relating to Internal Audit In Charge of Risk Management General Manager of Corporate Strategy Headquarters
*	Senior Executive Officer	Takeshi Yamada	Assistant to the President In Charge of Group Finance & Accounting, In Charge of Business Relating to Corporate Planning, and Corporate Communication
*	Senior Executive Officer	Tomoharu Shikina	Assistant to the President In Charge of Group Quality Assurance In Charge of Business Relating to Procurement, Information Management, Human Resources and Labor In Charge of Group Safety and Health
*	Managing Executive Officer	Kazuki Awai	In Charge of Business Relating to Administration, Legal and CSR In Charge of Group Compliance
*	Managing Executive Officer	Takeshi Kawakami	In Charge of Monozukuri System Strategy President of Social Infrastructure & Offshore Facilities Business Area
	Managing Executive Officer	Yoshinori Komiya	General Manager of Intelligent Information Management Headquarters
*	Managing Executive Officer	Yasuhiro Shigegaki	In Charge of Production Base Strategy President of Industrial Systems & General-Purpose Machinery Business Area
*	Managing Executive Officer	Hideo Morita	President of Aero Engine, Space & Defense Business Area
	Executive Officer	Masato Shida	General Manager of Human Resources Division
	Executive Officer	Koji Takeda	President of Resources, Energy and Environment Business Area
	Executive Officer	Tetsuji Fujimura	Vice President of Aero Engine, Space & Defense Business Area
	Executive Officer	Kiyoshi Nihei	General Manager of Global Marketing & Sales Headquarters In Charge of Group Operations
	Executive Officer	Noriko Morioka	Deputy General Manager of Corporate Strategy Headquarters In Charge of New Corporate Businesses Headquarters
	Executive Officer	Akihiro Seo	General Manager of Corporate Planning Division
	Executive Officer	Jun Kobayashi	General Manager of Solution & Business Development Headquarters
	Executive Officer	Kazuhiro Onitsuka	Vice President of Industrial Systems & General-Purpose Machinery Business Area
	Executive Officer	Yukihisa Ozawa	Vice President of Resources, Energy and Environment Business Area
	Executive Officer	Nobuhiko Kubota	General Manager of Technology & Intelligence Integration In Charge of Group Engineering
	Executive Officer	Tsuyoshi Tsuchida	Vice President of Industrial Systems & General-Purpose Machinery Business Area

Note: * means director.

(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
Kazuhiko Ishimura	The IHI Group has a business relationship involving the sale, purchase and maintenance of industrial machinery with AGC Inc., where Kazuhiko Ishimura previously served as a business executive. However, the relationship mentioned above is as insignificant as it generates less than 0.02% of IHI's consolidated revenue and less than 0.01% of the consolidated net sales of AGC Inc. (for the fiscal year ended December 31, 2020).Therefore, this has no impact on his independence. In addition, the IHI Group has a business relationship involving maintenance and inspection etc. of industrial machinery with National Institute of Advanced Industrial Science and Technology, where Kazuhiko Ishimura serves as a business executive. However, the relationship mentioned above is as insignificant as it generates less than 0.01% of IHI's consolidated revenue and compared with the ordinary profit scale of the Institute. Therefore, this has no impact on his independence.	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. 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.
Yoshiyuki Nakanishi	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 revenue and there is no result of order etc. (for the fiscal year ended March 31, 2021). Therefore, this has no impact on his independence.	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. 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.

Name	Attributes of independent directors/audit & supervisory board members	Reason for Election
Chieko Matsuda	Not applicable	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. 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.
Minoru Usui	Some of IHI's subsidiaries have business relationships involving real estate leasing etc. with Seiko Epson Corporation, where Mr. Minoru Usui previously served as a business executive. However, the transaction amount that business relationship mentioned above is as insignificant as it generates less than 0.01% of IHI's consolidated revenue, and IHI also has no history of purchases from Seiko Epson Corporation (for the fiscal year ended March 31, 2021). Therefore, this has no impact on his independence.	Minoru Usui, after being in charge of technology development in an electronic equipment manufacturer that operates business globally, has gained abundant experience, accomplishments, and extensive insight at the helm of the manufacturer, where he implemented various measures to respond to changes in the business environment. Aiming to reflect those 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. Minoru Usui 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.
Toshio Iwamoto	Toshio Iwamoto served as president and CEO of NTT DATA Corporation until June 2018. He serves currently as Principal Executive Advisor, NTT DATA Corporation. 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 0.05% of the consolidated net sales of NTT DATA Corporation and there is no result of sales etc. (for the fiscal year ended March 31, 2021). Therefore, this has no impact on his independence.	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. 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.
Aiko Sekine	Not applicable	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. 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.

Name	Attributes of independent directors/audit & supervisory board members	Reason for Election
Yumiko Waseda	Not applicable	Yumiko Waseda has abundant experience and insight as an attorney at law, with an extremely high level of expertise in intellectual property law, as well as extensive experience as an outside audit & supervisory board member. 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. Yumiko Waseda 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.

(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.

(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.

Seiji Maruyama, 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.

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 14 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	Taizo Suga	14 of 14(100%)
Standing	Takashi Nimura	11 of 11(100%)
Outside	Tomomi Yatsu	14 of 14(100%)
Outside	Toshio Iwamoto	14 of 14(100%)
Outside	Aiko Sekine	11 of 11(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 status of COVID-19 measures, 2) the establishment and operational status of the internal control system and the status of compliance with important laws and ordinances, 3) the status of risk management, 4) the promotion of structural reforms and execution status of business strategies,5) the eradication of occupational accidents and the status of initiatives aimed at promoting reform of working practices and diversity, and 6) 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.

(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 associates 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 associates carried out by the associates' 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

56 years

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

Yoshiyuki Sakuma (one year)

Hironori Oya (four years)

Yoichi Takanashi (five years)

(d) Assistants for the accounting audit

Certified Public Accountants: 41 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

(iv) Details of audit remuneration, etc.

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

Classification	Fiscal year ended March 31, 2020		Fiscal year ended March 31, 2021	
	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	206	76	320	0
Consolidated subsidiaries	194	16	204	11
Total	400	92	524	11

The non-audit services IHI entrusts the accounting auditor are guidance on accounting.

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, 2020		Fiscal year ended March 31, 2021	
	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	—	41	—	32
Consolidated subsidiaries	114	51	109	47
Total	114	92	109	79

The non-audit services IHI entrusts the Ernst & Young Group members excluding the accounting auditor are advisory for tax.

The non-audit services consolidated subsidiaries entrust the Ernst & Young Group members excluding the accounting auditor are advisory for tax.

(c) Other material remuneration for audit or attestation services

The fiscal year ended March 31, 2020 and 2021

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 (outside directors include up to ¥60 million, excluding salaries for working as employees)) per year. There were 14 directors (including four outside directors) upon conclusion of said Ordinary General Meeting of Shareholders. 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. There were five audit & supervisory board members upon conclusion of said Ordinary General Meeting of Shareholders.

Regarding the performance-based share remuneration, it was resolved at the Ordinary General Meeting of Shareholders held on June 23, 2017 to contribute up to ¥450 million and to furthermore set a maximum of 150,000 points to be granted (equivalent to 150,000 shares of IHI's ordinary shares) as a separate frame from the total remuneration of directors related to the execution of duties during the period from the start to the end of each fiscal year, 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. There were 10 directors (excluding outside directors) upon conclusion of said Ordinary General Meeting of Shareholders.

(b) Policy and method of determining remuneration, etc. of directors and audit & supervisory board members.

At its Board of Directors' meeting held on May 13, 2021, IHI resolved to revise its policy on determination of remuneration for officers, as follows. Content of the policy was referred for consultation to the Remuneration Advisory Committee, which accordingly deliberation on and reported findings thereof on a preliminary basis, prior to having been resolved by the Board of Directors (an outside director serves as the chairperson of the Remuneration Advisory Committee, which consists of six members, including three outside directors, one outside audit & supervisory board member, the director in charge of human resources, and the director in charge of finance and accounting).

1. Remuneration of directors (excluding outside directors)

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

- 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.
- Remuneration shall be structured with the appropriate allocation of a fixed base amount, 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.
- 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

- IHI shall appropriately establish remuneration levels and allocated ratios of remuneration upon having considered factors that include IHI's business characteristics, effectiveness of incentive remuneration, and professional duties. Moreover, IHI shall perform verification by regularly surveying objective market data on remuneration researched by an external specialized institution.
- In the case of standard business performance, total amount of remuneration shall be allocated at approximate proportions of 50%: 30%: 20%for the President, and the Chairman of the Board ,and at approximate proportions of 55%:25%:20% for other directors, 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

- The monetary amount of an annual incentive to be provided every fiscal year consists of the standard payment amount corresponding to titles and positions and type of profit indicators used for reference multiplied by the performance evaluation payout rates proportionate to the achievement level of the profit indicators, and the payments based on individuals' performance evaluations. The monetary amount shall vary, depending on the achievement level, within an approximate range 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 in (4) Remuneration, etc. of directors and audit & supervisory board members, "Consolidated profit"), which is aimed at sharing values with shareholders, and the "Cash flows from operating activities" (hereinafter in (4) Remuneration, etc. of directors and audit & supervisory board members, "Consolidated operating cash flows") for the purpose of securing cash generation capabilities, "Individuals evaluation indicators corresponding to tasks assigned to each executive". The performance evaluation indicators shall be reviewed as necessary upon changes in management environment, executives' roles, etc. Furthermore, "Consolidated cash flows" in (4) Remuneration, etc. of directors and audit & supervisory board members is the sum of cash flows from operating activities and cash flows from investing activities.

- The number of shares to be delivered every fiscal year as a medium- and long-term incentive (a certain part of this incentive is delivered with money by the amount corresponding to the market price) consists of the standard number of shares to be delivered corresponding to titles and positions multiplied by the coefficient proportionate to the achievement level of "ROIC" (hereinafter (4) Remuneration, etc. of directors and audit & supervisory board members, "Consolidated ROIC"). The number 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 is "Consolidated ROIC", which is emphasized in Group management policies with aims at business operation with awareness of investment efficiency, and sustainable growth, as well as improvement of the corporate value. The 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 directors, one independent outside audit & supervisory board member, the director in charge of human resources, and the 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.

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

Remuneration of outside directors shall consist only of a base amount in the light of their duties. Remuneration of audit & supervisory board members shall consist only of a base amount, as compensation for responsibilities for auditing the execution of business throughout the IHI Group. The amount shall be determined through discussions among the audit & supervisory board members. The base amount for outside directors and audit & supervisory board members shall be set at an appropriate level upon having considered factors that include roles and responsibilities assumed by the respective officers. Moreover, the company shall perform verification by regularly surveying objective market data on remuneration researched by an external specialized institution.

(c) 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 ten times a year, and the progress and results of that discussion were reported back to the Board of Directors.

(d) Calculation method of money, etc. to be provided as performance-based remuneration for the fiscal year ending March 31, 2022

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 24, 2021, 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, 2022 (hereinafter, "fiscal year 2021") would be provided to all of those directors of IHI present on June 24, 2021 (excluding outside directors), in consideration for their execution of duties in the fiscal year 2021.

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

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

indicators used for
reference

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

- For representative directors, the Consolidated profit, the Consolidated cash flows are 50%, 50%, respectively.
- For directors excluding representative directors, the Consolidated profit, the Consolidated cash flows and the individuals' performance evaluation are 40%, 40% and 20%, respectively.

[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 payout rate fluctuates according to the degree of achievement of the target, and the upper limit is 200% (when Consolidated profit increases by ¥ 21.0 billion or more from the target) and the lower limit is 40% (when Consolidated profit decreases by ¥ 21.0 billion from the target), and when it falls below the target by more than ¥ 21.0 billion from the target, it will be 0%. Furthermore, if Consolidated profit is less than ¥ 15.0 billion, the performance evaluation payout rate will be 0%.
- Performance evaluation payout rate of Consolidated operating cash flows is 100% when the target of Consolidated operating cash flows is achieved. The performance evaluation payout rate fluctuates according to the degree of achievement of the target, and the upper limit is 200% (when Consolidated operating cash flows increases by ¥ 50.0 billion or more from the target), and the lower limit is 40% (when Consolidated operating cash flows profit decreases by ¥50.0 billion from the target), and when it falls below the target by more than ¥50.0 billion, it will be 0%. In cases when Consolidated cash flows falls below the target by more than ¥60.0 billion, it will be 0%.
- The Remuneration Advisory Committee shall examine and report the target. The Board of Directors shall make decisions.
- Calculation method for the performance evaluation payout rate of Consolidated profit, consolidated operating profit margin and Consolidated cash flows improvement for the fiscal year ending March 31,2021 is as described in [a] of "(f) Calculation method of money provided as performance, based remuneration for the fiscal year ended March 31,2021 and result"

[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] IHI has adopted a mechanism to appropriately adjust the amount of remuneration paid and fixed in the event of certain reasons such as revision of business performance or serious scandal, which is the basis of remuneration calculation. 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.

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 24, 2021, 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, 2024 (hereinafter, "fiscal year 2023") would be provided to all of those directors of IHI present on June 24, 2021 (excluding outside directors), in consideration for their execution of duties in the fiscal year 2021.

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 three independent outside directors and one 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 2023, for which the profit indicators will be finalized.

IHI's shares to be provided	=	Base points corresponding to titles and positions	×	Performance evaluation payout rates	×	The ratio obtained by dividing the months of service in the fiscal year 2021 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	10,526
President	11,483
Executive Vice President	6,779
Directors excluding above *	4,867

* Base points corresponding to each new director who has been elected in the Ordinary General Meeting of Shareholders held on June 24, 2021 is 3,650.

[b] Performance evaluation payout rates shall be determined by the Consolidated ROIC in the fiscal year 2023 as below. (Figures below a decimal point shall be omitted.)

March 31, 2024 year-end Consolidated ROIC * (%)	Performance evaluation payout rates (%)
Less than 5	0
Equal or more than 5 but less than 10	$= 25 + 15 \times (Consolodated\ ROIC - 5)$
10	100
More than 10 but less than 13	$= 100 + \frac{50}{3} \times (Consolodated\ ROIC - 10)$
Equal or more than 13	150

* : Consolidated ROIC shall be calculated as the ratio calculated by (1 - "Effective statutory tax rate") × ("Operating profit" + "Interest income" + "Dividend income") ÷ ("Total equity attributable to owners of parent" + (Amount of interest-bearing liabilities). (However, this shall be the ratio after rounding off to one decimal place.)

* : "Effective statutory tax rate" shall be the ratio shown in the adjustment of the effective tax rate in the corporate income taxes section of the notes relating to the consolidated financial statements of IHI.

* : “Operating Profit” shall be amounts shown in the Consolidated statement of profit or loss of IHI. (They shall be rounded off to the nearest million yen.) If "Operating profit" includes gain on sale of real estate, the amount will be deducted. Gain on sale of real estate in "Operating profit" is defined as the sum of "Gain on sale of investment property" (rounded to the nearest million yen) and " Gain on sale of property, plant and equipment "(rounded to the nearest million yen) shown in the notes relating to other income and expenses in the consolidated financial statements of IHI.

* : “Interest income” and “dividend income” are the respective amounts (rounded to the nearest million yen) shall be amounts shown in the notes relating to finance income and finance costs in the consolidated financial statements of IHI.

* :“Total equity attributable to owners of the parent company” shall be the average of the amounts shown on IHI’s consolidated statement of financial position 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 total outstanding amounts of bonds and borrowings as of the beginning and the end of the fiscal year (respectively rounded to the nearest million yen.), which are shown in the notes relating to bonds and borrowings in the consolidated financial statements of IHI (rounded to the nearest million yen.)

[c] For newly elected directors, the “ratio obtained by dividing the months of service in the fiscal year 2021 by the directors of IHI by 9” shall be used for calculation. In addition, the “months of service in the fiscal year 2021 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 24, 2021 and June 30, 2021 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 24, 2021. Moreover, shares shall not be provided to directors who died before the end of June 2024 (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 Article 34 Paragraph 1, item 3 of the Corporation Tax Act.
6. The “indicators on profits” of Article 34 Paragraph 1, item 3(b) 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 2023.
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 been 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.

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 24, 2021, it was resolved that a sum of money (hereinafter in this section, "the 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 2023 would be provided to all of those directors of IHI present on June 24, 2021 (excluding outside directors), in consideration for their execution of duties in the fiscal year 2021. The money is treated as a part of performance-based share remuneration that is same as the provision of the shares mentioned above 2., and the shares and money will be provided by the amount equivalent to 50% of the fixed points granted under the performance-based share remuneration plan, respectively.
   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 three independent outside directors and one 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 2023, for which the profit indicators will be finalized.

The monetary amount to be provided	=	(Number of finalized points - Number of the Shares to be provided)	×	The market price of IHI's shares on the last day of June 2024 (or if that day is not a business day, the business day directly before that)

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	79,890
President	86,240
Executive Vice President	51,680
Directors excluding above *	37,000

*: For newly elected directors (excluding President)), the maximum amount is ¥ 27,750 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.

(e) The target about the performance evaluation indicators of performance-based remuneration for the fiscal year ended March 31, 2021 and result, etc.

1. Performance-based bonuses to be evaluated for the fiscal year ended March 31, 2021

[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, 2021. The bonuses will not be paid because there were no dividends in the current fiscal year.

Performance evaluation indicators	Weight	Fluctuation range of performance evaluation payout rates	Target	Result	Performance evaluation payout rates
Consolidated profit	50%	0～200%	Upper : ¥ 38.4 billion Target : ¥ 23.4 billion Lower : ¥ 8.4 billion	¥ (3.8) billion	0%
Consolidated operating profit margin	25%	0～200%	Upper : 5.3% Target : 3.3% Lower : 1.3%	0.7%	0%
Consolidated cash flows improvement	25%	0～150%	Upper : ¥ 60.0 billion Target : ¥ 40.0 billion Lower : ¥ 20.0 billion	¥ 24.5 billion	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 the Consolidated operating cash flow improvement and individuals' performance evaluations. The bonuses will not be paid because there were no dividends in the current fiscal year.

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 (e) 1. [a]	0%
Consolidated operating profit margin	20%	0～200%	Same as (e) 1. [a]	0%
Consolidated cash flows improvement	20%	0～150%	Same as (e) 1. [a]	0%
Individuals' performance evaluations	30%	0～150%	Set individually and evaluated by the President and decided at the board of directors.	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 the consolidated operating cash flow improvement of the business area in charge and individuals' performance evaluations. The bonuses will not be paid because there were no dividends in the current fiscal year.

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 (e) 1. [a]	0%
Consolidated operating profit margin of the business area in	20%	0～200%	Set the upper and lower are set by each business area in charge	0%

charge				
Consolidated cash flows improvement of the business area in charge	20%	0～150%	Set the upper and lower are set by each business area in charge	0%
Individuals' performance evaluations	30%	0～150%	Set individually and evaluated by the President and decided at the board of directors.	0%

Note: 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 planed foreign exchange, etc.

2. Performance-based share remuneration which set the fiscal year 2020 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, 2019 as the start of the evaluation period and the fiscal year ending March 31, 2021 as the end of the evaluation period. In the current fiscal year, the result of the performance evaluation indicators did not achieve the target value, so the shares and money will not be paid.

Performance evaluation indicators	Fluctuation range of share payout rates	Target	Result	Performance evaluation payout rates
Consolidated ROIC	0～150%	Upper : 15% Target : 12% Lower : 3.5%	2.2%	0%

(ii) Remuneration, etc. for the current fiscal year

(a) 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)	520	320	199	0	11
Audit & supervisory board members(excluding outside audit & supervisory board members)	66	66	0	0	3
Outside directors and outside audit & supervisory board members	81	81	0	0	9

Notes: 1. Remuneration of directors does not include salaries as employees of directors who are also employees.

2. IHI has introduced a performance-based share remuneration plan [Board Benefit Trust], which pays shares and money after a certain period of time has elapsed. The total amount of performance-based share remuneration is the amount of the provision for share acquisition costs related to the granted points recorded by reporting company in the fiscal year , which is different from the actual total payment amount.

3. 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.

4. The numbers of directors and audit & supervisory board members as of March 31, 2021 are respectively 12 (including four 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 four directors and two audit & supervisory board members who retired at the conclusion of the 203rd Ordinary General Meeting of Shareholders held on June 25, 2020.

(b) 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
Tsugio Mitsuoka	Director	Reporting company	100	59	41	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.

(c) Reason for determining remuneration, etc. for individual directors is in line with company policy

In determining matters involving remuneration of the respective directors for the fiscal year , the Remuneration Advisory Committee, primarily consisting of independent outside directors, took a multifaceted approach in reviewing matters that included alignment with the Company’s policies for determining remuneration, considering objective and specialized information required for deliberations. The Board of Directors respects the findings of the Remuneration Advisory Committee and accordingly deems them to be in alignment with policy for determining matters involving remuneration for the respective directors.

(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	88	9,004
Stocks other than unlisted stocks	24	8,757

(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	—	—	—
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	3	251
Stocks other than unlisted stocks	2	523

[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 Number of shares (Shares) Amount on the balance sheet (Millions of yen)	The previous fiscal year Number of shares (Shares) Amount on the balance sheet (Millions of yen)	Holding purpose, quantitative effects from holdings and reason of share increase	IHI's shares held by the company
Mizuho Financial Group, Inc.	2,333,277	23,332,777	Crucial to facilitate smooth financial transactions such as financing and to collect domestic and overseas information	Yes
	3,730	2,883		
China Steel Structure Co., Ltd	11,061,690	11,061,690	Crucial to establish the brand of IHI in Taiwan	No
	1,797	757		
Mitsui Fudosan Co., Ltd.	402,000	402,000	Crucial to a strategy for growth in the urban development business, etc.	Yes
	1,010	751		
The Kansai Electric Power Company, Incorporated	520,300	520,300	Crucial to a strategy for growth in the carbon solutions business, etc.	No
	623	626		
Electric Power Development Co., Ltd.	217,500	217,500	Crucial to a strategy for growth in the carbon solutions business, etc.	No
	420	473		
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
	293	192		
DAIO PAPER CORPORATION	119,000	119,000	Crucial to a strategy for growth in the paper-making machineries business, etc.	No
	225	172		
The 77 Bank, Ltd	79,050	79,050	Crucial to facilitate smooth financial transactions such as financing and to collect local information	Yes
	123	110		
The Hachijuni Bank, Ltd.	294,000	294,000	Crucial to facilitate smooth financial transactions such as financing and to collect local information	Yes
	118	114		
Tokyo Electric Power Company Holdings,	275,139	275,139	Crucial to a strategy for growth in the carbon solutions business, etc.	No
	101	103		
Mitsui Chemicals, Inc.	19,600	19,600	Crucial to a strategy for growth in the carbon solutions business, etc.	No
	68	40		
Tokuyama Corporation	21,600	21,600	Crucial to a strategy for growth in the carbon solutions business, etc.	No
	60	45		
Hokkaido Electric Power Co., Inc.	96,611	96,611	Crucial to a strategy for growth in the carbon solutions business, etc.	No
	48	45		
Nishi-Nippon Financial Holdings, Inc.	50,200	50,200	Crucial to facilitate smooth financial transactions such as financing and to collect local information	Yes
	39	30		

Penta-Ocean Construction Co., Ltd.	33,275 28	33,275 18	Crucial to a strategy for growth in the social infrastructures and cargo-handling machineries business, etc.	No
Nippon Paper Industries Co., Ltd.	18,600 24	18,600 28	Crucial to a strategy for growth in the paper-making machinery, etc.	No
Sumitomo Mitsui Construction Co., Ltd.	27,720 13	27,720 13	Crucial to a strategy for growth in the bridges business	No
Hokuriku Electric Power Company	17,069 12	17,069 12	Crucial to a strategy for growth in the carbon solutions business, etc.	No
Rinko Corporation.	3,000 7	3,000 6	Crucial to implement business strategies in Niigata Prefecture	No
Mitsubishi Paper Mills Limited	15,600 5	15,600 5	Crucial to a strategy for growth in the paper-making machineries business, etc.	No
The Chugoku Electric Power Co., Inc.	100 0	309,000 465	Crucial to a strategy for growth in the carbon solutions business, etc.	No
Chubu Electric Power Co., Inc.	100 0	100 0	Crucial to a strategy for growth in the carbon solutions business, etc.	No
Tohoku Electric Power Co., Inc.	100 0	100 0	Crucial to a strategy for growth in the carbon solutions business, etc.	No
Kyushu Electric Power Co., Inc.	100 0	100 0	Crucial to a strategy for growth in the carbon solutions business, etc.	No
EF-ON INC.	— —	96,000 44	—	No

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.

(Translation purposes only)

Deemed share holdings

Stock name	The current fiscal year Number of shares (Shares) Amount on the balance sheet (Millions of yen)	The previous fiscal year Number of shares (Shares) Amount on the balance sheet (Millions of yen)	Holding purpose, quantitative effects from holdings and reason of share increase	IHI's shares held by the company
MITSUI & CO., LTD.	1,709,255 3,934	1,709,255 2,569	Has authority to direct the exercise of voting rights	Yes
Tosoh Corporation	578,000 1,224	578,000 710	Has authority to direct the exercise of voting rights	Yes
TOHO GAS CO., LTD.	177,050 1,209	177,050 867	Has authority to direct the exercise of voting rights	Yes
Sumitomo Mitsui Trust Holdings, Inc.	284,474 1,097	404,474 1,263	Has authority to direct the exercise of voting rights	Yes
Dai-ichi Life Holdings, Inc.	324,400 617	324,400 420	Has authority to direct the exercise of voting rights	Yes
KYOKUTO BOEKI KAISHA, LTD.	385,580 577	385,580 499	Has authority to direct the exercise of voting rights	Yes
Kajima Corporation	257,132 403	257,132 285	Has authority to direct the exercise of voting rights	Yes
Yamaguchi Financial Group, Inc.	537,000 395	537,000 328	Has authority to direct the exercise of voting rights	Yes
Tokyo Gas Co., Ltd.	159,750 393	159,750 408	Has authority to direct the exercise of voting rights	No
The Iyo Bank, Ltd.	539,782 358	539,782 295	Has authority to direct the exercise of voting rights	Yes
JGC HOLDINGS CORPORATION	194,000 263	194,000 168	Has authority to direct the exercise of voting rights	Yes
SHIMIZU CORPORATION	250,000 224	250,000 211	Has authority to direct the exercise of voting rights	Yes
OBAYASHI CORPORATION	220,000 223	220,000 203	Has authority to direct the exercise of voting rights	Yes
SHIZUOKA GAS Co., Ltd.	200,000 199	200,000 175	Has authority to direct the exercise of voting rights	Yes
The Shibusawa Warehouse Co., Ltd.	80,000 181	80,000 162	Has authority to direct the exercise of voting rights	Yes

Taisei Corporation	42,000 179	42,000 138	Has authority to direct the exercise of voting rights	Yes
ANA HOLDINGS INC.	64,242 165	64,242 169	Has authority to direct the exercise of voting rights	No
The Gunma Bank, LTD	371,000 147	742,000 243	Has authority to direct the exercise of voting rights	Yes
Osaka Gas Co., Ltd.	61,300 132	61,300 124	Has authority to direct the exercise of voting rights	No
Mitsubishi Estate Co., Ltd.	64,723 125	64,723 103	Has authority to direct the exercise of voting rights	No
The Shizuoka Bank, Ltd.	– –	2,364,500 1,553	–	Yes
Mitsubishi UFJ Financial Group, Inc.	– –	1,374,780 554	–	No
The Chugoku Bank, LTD.	– –	400,000 385	–	No
Mizuho Leasing Company, Limited	– –	120,000 252	–	No
THE SAN-IN GODO BANK, LTD.	– –	241,000 131	–	Yes

Notes: 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.”

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) 2-8-4, Izumi, Suginami-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 https://www.ihi.co.jp/ihi/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.

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 (203rd)	From April 1, 2019 To March 31, 2020	Filed with Director-General of the Kanto Local Finance Bureau on June 25, 2020
(2)	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 25, 2020
(3)	Shelf Registration Statements (Bonds Payable) and Documents Attached			Filed with Director-General of the Kanto Local Finance Bureau on December 3, 2020
(4)	Amended Shelf Registration Statements			Filed with Director-General of the Kanto Local Finance Bureau on February 22, 2021
				Filed with Director-General of the Kanto Local Finance Bureau on April 26, 2021
(5)	Quarterly Reports and Confirmation Letters	(204th First Quarter)	From April 1, 2020 To June 30, 2020	Filed with Director-General of the Kanto Local Finance Bureau on August 12, 2020
		(204th Second Quarter)	From July 1, 2020 To September 30, 2020	Filed with Director-General of the Kanto Local Finance Bureau on November 12, 2020
		(204th Third Quarter)	From October 1, 2020 To December 31, 2020	Filed with Director-General of the Kanto Local Finance Bureau on February 12, 2021
(6)	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 26, 2020
	Extraordinary Report based on Article 19, Paragraph 2, item xii and xix (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 22, 2021
	Extraordinary Report based on Article 19, Paragraph 2, item xii and xix (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 April 26, 2021
(7)	Amended Extraordinary Reports			
	Amended Extraordinary Reports of Extraordinary Reports filed on June 26, 2020			Filed with Director-General of the Kanto Local Finance Bureau on October 6, 2020

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

Not applicable

Consolidated financial statements

	Page Number
Consolidated financial statements of IHI Corporation and subsidiaries:	
Consolidated statement of financial position	F-3
Consolidated statement of profit or loss	F-5
Consolidated statement of comprehensive income	F-6
Consolidated statement of changes in equity	F-7
Consolidated statement of cash flows	F-9
Notes to consolidated financial statements	F-10
Independent Auditor's Report	F-109

Financial information

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

   (1) The consolidated financial statements of the IHI Group are prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS") pursuant to Article 93 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Order of the Ministry of Finance No. 28 of 1976, hereinafter, the "Regulation on Consolidated Financial Statements").

   (2) The non-consolidated financial statements of IHI are prepared in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements, etc. (Order of the Ministry of Finance No. 59 of 1963, hereinafter, the "Regulation on Financial Statements").

   Moreover, the non-consolidated financial statements of IHI for the fiscal year ended March 31, 2021 are prepared in accordance with the amended Regulation on Financial Statements pursuant to the proviso of Article 3, Paragraph 1 of the Supplementary Provisions of the Order on the Partial Amendment of Terminology, Forms, and Preparation Methods of Financial Statements, etc. (Cabinet Office Order No. 46 of June 12, 2020.)

   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 Regulation on Financial Statements.

2. Audit attestation

   The consolidated and the non-consolidated financial statements for the fiscal year ended March 31, 2021 (from April 1, 2020 to March 31, 2021) 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. and development of a system for the appropriate preparation of the consolidated financial statements, etc. in accordance with IFRS

   IHI makes special efforts to ensure the appropriateness of the consolidated financial statements, etc. and develops a system for the appropriate preparation of the consolidated financial statements, etc. in accordance with IFRS. The specific measures are as follows:

   (1) IHI has joined the Financial Accounting Standards Foundation to develop a system that enables the proper understanding of the contents of accounting standards, etc. or the appropriate responses to any changes in accounting standards, etc. IHI also participates in seminars, etc. hosted by the foundation, audit firms and other relevant organizations.

   (2) For the adoption of IFRS, IHI keeps up with the latest accounting standards by obtaining from time to time press releases and standards issued by the International Accounting Standards Board. To ensure the appropriate preparation of the consolidated financial statements, etc. under IFRS, IHI has developed group-wide accounting policies and accounting guidance in accordance with IFRS, and performs accounting procedures based on these policies and guidance.

1. Consolidated financial statements

(1) Consolidated financial statements

i) Consolidated statement of financial position

(Millions of yen)

	Notes	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Assets				
Current assets				
Cash and cash equivalents	8,36	92,746	145,738	120,766
Trade and other receivables	9,28,36	331,330	334,551	344,535
Contract assets	28,36	93,692	101,823	111,830
Other financial assets	10,19,36	4,114	3,411	1,391
Inventories	11	317,195	326,915	326,470
Other current assets	12	49,836	45,247	41,668
Total current assets		888,913	957,685	946,660
Non-current assets				
Property, plant and equipment	13,19	252,764	265,025	252,510
Right-of-use assets	20	129,032	124,267	117,794
Goodwill	14,16	8,670	5,463	5,876
Intangible assets	14	148,855	124,983	121,265
Investment property	15	121,279	151,668	144,183
Investments accounted for using equity method	6,17	81,165	51,098	48,460
Other financial assets	10,19,36	43,893	35,830	49,056
Deferred tax assets	18	75,837	75,228	70,455
Other non-current assets	12	70,866	77,791	76,632
Total non-current assets		932,361	911,353	886,231
Total assets	6	1,821,274	1,869,038	1,832,891

(Millions of yen)

	Notes	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other payables	22,36	311,689	292,754	234,451
Bonds and borrowings	19,36	132,225	251,968	158,377
Lease liabilities	20,36	17,205	17,523	17,630
Other financial liabilities	21,36	10,268	11,036	11,742
Income taxes payable		7,608	6,015	5,125
Contract liabilities	28	154,961	148,424	165,818
Provisions	24	40,453	32,060	26,738
Other current liabilities	25	160,490	156,797	144,907
Total current liabilities		834,899	916,577	764,788
Non-current liabilities				
Bonds and borrowings	19,36	207,779	211,393	304,735
Lease liabilities	20,36	136,398	131,818	125,193
Other financial liabilities	21,36	105,650	100,710	103,428
Deferred tax liabilities	18	4,411	4,439	3,132
Retirement benefit liability	23	174,230	176,010	180,720
Provisions	24	5,442	5,839	6,338
Other non-current liabilities	25	13,580	16,212	16,830
Total non-current liabilities		647,490	646,421	740,376
Total liabilities		1,482,389	1,562,998	1,505,164
Equity				
Share capital	26	107,165	107,165	107,165
Capital surplus	26	53,330	51,779	51,735
Retained earnings	26	141,381	136,516	148,428
Treasury shares	26	(1,170)	(15,899)	(15,953)
Other components of equity		7,212	617	9,394
Total equity attributable to owners of parent		307,918	280,178	300,769
Non-controlling interests		30,967	25,862	26,958
Total equity		338,885	306,040	327,727
Total liabilities and equity		1,821,274	1,869,038	1,832,891

ii) Consolidated statement of profit or loss and consolidated statement of comprehensive income

Consolidated statement of profit or loss

(Millions of yen)

	Notes	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Revenue	6,28	1,263,178	1,112,906
Cost of sales		1,030,585	932,932
Gross profit		232,593	179,974
Selling, general and administrative expenses	29	188,104	164,225
Other income	30	15,492	29,697
Other expenses	16,30	12,122	17,485
Operating profit	6	47,859	27,961
Finance income	31	2,065	6,696
Finance costs	31	8,439	5,107
Share of profit (loss) of investments accounted for using equity method	6,17	(12,303)	(1,933)
Profit before tax		29,182	27,617
Income tax expense	18	15,931	10,663
Profit		13,251	16,954
Profit attributable to:			
Owners of parent		8,204	13,093
Non-controlling interests		5,047	3,861
Profit		13,251	16,954
Earnings per share			
Basic earnings per share (Yen)	33	53.93	88.13
Diluted earnings per share (Yen)	33	53.91	88.13

Consolidated statement of comprehensive income

(Millions of yen)

	Notes	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit		13,251	16,954
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	10,32,36	(3,508)	2,487
Remeasurements of defined benefit plans	23,32	(170)	1,886
Other comprehensive income of investments accounted for using equity method	17,32	134	176
Total of items that will not be reclassified to profit or loss		(3,544)	4,549
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	32	(6,087)	7,004
Cash flow hedges	32,36	(75)	49
Other comprehensive income of investments accounted for using equity method	17,32	(24)	350
Total of items that may be reclassified to profit or loss		(6,186)	7,403
Other comprehensive income, net of tax		(9,730)	11,952
Comprehensive income		3,521	28,906
Comprehensive income attributable to:			
Owners of parent		(474)	24,010
Non-controlling interests		3,995	4,896
Comprehensive income		3,521	28,906

iii) Consolidated statement of changes in equity
Fiscal year ended March 31, 2020

(Millions of yen)

	Notes	Equity attributable to owners of parent						
						Other components of equity		
		Share capital	Capital surplus	Retained earnings	Treasury shares	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2019		107,165	53,330	141,381	(1,170)	–	(190)	6,743
Profit				8,204				
Other comprehensive income						(5,057)	(65)	(3,376)
Total comprehensive income		–	–	8,204	–	(5,057)	(65)	(3,376)
Purchase of treasury shares					(14,851)			
Disposal of treasury shares			4		122			
Dividends	27			(10,816)				
Share-based remuneration transactions	35		152					
Changes in ownership interest in subsidiaries			(1,706)					
Transfer from other components of equity to retained earnings				(2,219)				2,039
Changes in non-controlling interest due to change in scope of consolidation								
Other			(1)	(34)		(10)		
Total transactions with owners		–	(1,551)	(13,069)	(14,729)	(10)	–	2,039
Balance as of March 31, 2020		107,165	51,779	136,516	(15,899)	(5,067)	(255)	5,406

	Notes	Equity attributable to owners of parent				Non-controlling interests	Total
		Other components of equity					
		Remeasurements of defined benefit plans	Share acquisition rights	Total	Total		
Balance as of April 1, 2019		–	659	7,212	307,918	30,967	338,885
Profit				–	8,204	5,047	13,251
Other comprehensive income		(180)		(8,678)	(8,678)	(1,052)	(9,730)
Total comprehensive income		(180)	–	(8,678)	(474)	3,995	3,521
Purchase of treasury shares				–	(14,851)		(14,851)
Disposal of treasury shares			(126)	(126)	–		–
Dividends	27			–	(10,816)	(2,833)	(13,649)
Share-based remuneration transactions	35			–	152		152
Changes in ownership interest in subsidiaries				–	(1,706)	3,005	1,299
Transfer from other components of equity to retained earnings		180		2,219	–		–
Changes in non-controlling interest due to change in scope of consolidation				–	–	(9,058)	(9,058)
Other				(10)	(45)	(214)	(259)
Total transactions with owners		180	(126)	2,083	(27,266)	(9,100)	(36,366)
Balance as of March 31, 2020		–	533	617	280,178	25,862	306,040

Fiscal year ended March 31, 2021

(Millions of yen)

	Notes	Equity attributable to owners of parent						
						Other components of equity		
		Share capital	Capital surplus	Retained earnings	Treasury shares	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2020		107,165	51,779	136,516	(15,899)	(5,067)	(255)	5,406
Profit				13,093				
Other comprehensive income						6,190	194	2,645
Total comprehensive income		–	–	13,093	–	6,190	194	2,645
Purchase of treasury shares					(312)			
Disposal of treasury shares			(6)		258			
Dividends	27			(2,980)				
Share-based remuneration transactions	35		(38)					
Changes in ownership interest in subsidiaries								
Transfer from other components of equity to retained earnings				2,000				(112)
Other				(201)		(21)		
Total transactions with owners		–	(44)	(1,181)	(54)	(21)	–	(112)
Balance as of March 31, 2021		107,165	51,735	148,428	(15,953)	1,102	(61)	7,939

	Notes	Equity attributable to owners of parent				Non-controlling interests	Total
		Other components of equity					
		Remeasurements of defined benefit plans	Share acquisition rights	Total	Total		
Balance as of April 1, 2020		–	533	617	280,178	25,862	306,040
Profit				–	13,093	3,861	16,954
Other comprehensive income		1,888		10,917	10,917	1,035	11,952
Total comprehensive income		1,888	–	10,917	24,010	4,896	28,906
Purchase of treasury shares				–	(312)		(312)
Disposal of treasury shares			(119)	(119)	133		133
Dividends	27			–	(2,980)	(3,651)	(6,631)
Share-based remuneration transactions	35			–	(38)		(38)
Changes in ownership interest in subsidiaries				–	–	59	59
Transfer from other components of equity to retained earnings		(1,888)		(2,000)	–		–
Other				(21)	(222)	(208)	(430)
Total transactions with owners		(1,888)	(119)	(2,140)	(3,419)	(3,800)	(7,219)
Balance as of March 31, 2021		–	414	9,394	300,769	26,958	327,727

iv) Consolidated statement of cash flows

(Millions of yen)

	Notes	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from operating activities			
Profit before tax		29,182	27,617
Depreciation, amortization and impairment losses		77,261	80,185
Finance income and finance costs		3,360	3,442
Share of loss (profit) of investments accounted for using equity method		12,303	1,933
Loss (gain) on sale of property, plant and equipment, intangible assets and investment property		(4,409)	(26,312)
Decrease (increase) in trade receivables		(6,359)	(3,076)
Decrease (increase) in contract assets		(8,711)	(9,178)
Decrease (increase) in inventories and prepayments		(12,685)	4,136
Increase (decrease) in trade payables		(20,389)	(42,277)
Increase (decrease) in contract liabilities		(5,532)	16,641
Other		(3,666)	(1,427)
Subtotal		60,355	51,684
Interest received		709	382
Dividends received		1,403	4,699
Interest paid		(4,709)	(4,004)
Proceeds from insurance income		1,737	-
Income taxes paid		(17,011)	(16,381)
Net cash provided by (used in) operating activities		42,484	36,380
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets and investment property		(72,293)	(57,458)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		6,504	33,162
Purchase of investments (including investments accounted for using equity method)		(23,182)	(11,009)
Proceeds from sale and redemption of investments (including investments accounted for using equity method)		8,351	978
Proceeds from sale of equity interest in subsidiaries		7,352	295
Other		(12,304)	(6,450)
Net cash provided by (used in) investing activities		(85,572)	(40,482)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	19,34	84,004	(43,633)
Net increase (decrease) in commercial papers	19,34	56,000	(56,000)
Proceeds from long-term borrowings	19,34	47,864	117,911
Repayments of long-term borrowings	19,34	(49,527)	(39,473)
Proceeds from issuance of bonds	19,34	30,000	30,000
Redemption of bonds	19,34	(20,000)	(10,000)
Repayments of lease liabilities	34	(18,871)	(19,244)
Decrease (increase) in treasury shares		(14,490)	131
Dividends paid	27	(10,791)	(2,983)
Capital contribution from non-controlling interests		1,299	59
Dividends paid to non-controlling interests		(3,084)	(3,722)
Increase in other financial liabilities	34	6,139	3,203
Decrease in other financial liabilities	34	(11,726)	(674)
Other		75	713
Net cash provided by (used in) financing activities		96,892	(23,712)
Effect of exchange rate changes on cash and cash equivalents		(1,111)	3,245
Net increase (decrease) in cash and cash equivalents		52,693	(24,569)
Cash and cash equivalents at beginning of period	8	92,746	145,738
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation		299	-
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation		-	(403)
Cash and cash equivalents at end of period	8	145,738	120,766

Notes to consolidated financial statements

1. Reporting entity

IHI Corporation (hereinafter, "IHI") is a stock company located in Japan and incorporated in accordance with the Companies Act of Japan. IHI's consolidated financial statements consist of accounts of IHI and its subsidiaries (hereinafter, the "IHI Group"), as well as IHI's interests in its associates.

The IHI Group operates four main businesses, providing a diverse range of products. The four businesses are: Resources, Energy and Environment; Social Infrastructure and Offshore Facilities; Industrial Systems and General-Purpose Machinery; and Aero Engine, Space and Defense.

2. Basis of preparation

(1) Compliance with IFRS and first-time adoption

The consolidated financial statements of the IHI Group are prepared in accordance with IFRS as issued by the International Accounting Standards Board. IHI adopted the provisions of Article 93 of the Regulation on Consolidated Financial Statements as it meets the requirements for a "specified company complying with designated international accounting standards" as prescribed in Article 1-2 of said Regulation.

The consolidated financial statements were approved by Hiroshi Ide, President and Chief Executive Officer, on June 24, 2021.

The IHI Group adopted IFRS for the first time in the fiscal year ended March 31, 2021, with the date of transition to IFRS (hereinafter, the "transition date") being April 1, 2019. Effects of the transition to IFRS on the IHI Group's consolidated financial position, operating results, and cash flows on the transition date and in the comparative years are stated in Note "42. First-time adoption of IFRS."

The accounting policies of the IHI Group are in compliance with IFRS effective as of March 31, 2021, except for the requirements of IFRS standards that have not been early adopted by the IHI Group and exemptions permitted under IFRS 1 *First-Time Adoption of International Financial Reporting Standards*.

The exemptions adopted by the IHI Group are stated in Note "42. First-time adoption of IFRS."

(2) Basis of measurement

As described in Note "3. Significant accounting policies," the IHI Group's consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, etc. that are measured at fair value.

(3) Functional currency and presentation currency

The presentation currency of the IHI Group's consolidated financial statements is Japanese yen, which is also its functional currency, and figures less than one million yen are rounded off to the nearest million yen.

3. Significant accounting policies

(1) Basis for consolidation

A. Subsidiaries

A subsidiary refers to an entity controlled by the IHI Group. The IHI Group determines that it controls an investee entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of a subsidiary begins from the acquisition date, which is the date when the IHI Group obtains control of the subsidiary, and ceases on the date when it loses control of the subsidiary.

If any accounting policies applied by a subsidiary differ from those applied by the IHI Group, adjustments are made to the subsidiary's financial statements where needed.

The intra-group balances of receivables and payables and transactions as well as unrealized gains or losses arising from the intra-group transactions are eliminated in preparing the consolidated financial statements.

Comprehensive income of subsidiaries is attributed to owners of parent and non-controlling interests even if this results in a negative balance in non-controlling interests.

When the account closing date of a subsidiary differs from that of IHI, the subsidiary prepares, for consolidation purposes, additional financial information as of the consolidated account closing date.

Any changes in ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The difference between the amount by which non-controlling interests are adjusted and the fair value of the consideration is directly recognized in equity as equity attributable to owners of parent. If the IHI Group loses control of a subsidiary, it recognizes the gain or loss resulting from such loss of control in profit or loss for the fiscal year.

B. Associates and joint ventures

An associate refers to an entity over which the IHI Group has significant influence in respect of the operating and financial policies of the entity, but does not have control over the entity. If the IHI Group holds, directly or indirectly, at least 20% but not more than 50% of the voting rights of an entity, it is presumed that the IHI has significant influence over the entity.

A joint venture refers to a joint arrangement whereby two or more parties, including the IHI Group, that have joint control of the arrangement have rights to the net assets of the arrangement; provided that the joint control is the contractually agreed sharing of control of the arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are measured using the equity method (hereinafter, “entities accounted for using the equity method”).

The consolidated financial statements include the reporting company’s share of changes in profit or loss and other comprehensive income of entities accounted for using the equity method from the date when the reporting company obtained significant influence over, or joint control of, the entities to the date when it loses such influence or control.

If any accounting policies adopted by entities accounted for using the equity method differ from those adopted by the IHI Group, adjustments are made to the financial statements of entities where needed.

In addition, the consolidated financial statements include investments in entities accounted for using the equity method whose account closing date differs from that of IHI because it is impracticable for those entities to align their account closing date with that of IHI due, for example, to relationships with other shareholders. The account closing date of most of those entities is December 31. Adjustments are made for the effects of any significant transactions or events that occurred between the account closing date of those entities and that of IHI.

Goodwill related to entities accounted for using the equity method is included in the carrying amount of investments, and is not subject to amortization. When there is an indication that an investment in an entity accounted for using the equity method may be impaired, the carrying amount of the entire investment (including goodwill) is tested for impairment as a single asset.

If the IHI Group loses significant influence over, or joint control of, an associate and a joint venture, and ceases to use the equity method, it recognizes gain or loss resulting from the discontinuation of the equity method in profit or loss for the fiscal year.

(2) Business combinations

The IHI Group accounts for business combinations by applying the acquisition method. The consideration for acquisition is measured as the sum of the acquisition-date fair value of the assets transferred, liabilities assumed, and equity instruments issued by IHI in exchange for control of an acquiree.

If the aggregate amount of consideration for acquisition, the amount of non-controlling interest, and previously held equity interests exceeds the fair value of identifiable assets and liabilities, such excess is recorded as goodwill in the consolidated statement of financial position. If, conversely, the consideration turns out to be less than the fair value, the difference is immediately recorded as bargain purchase gain in the consolidated statement of profit or loss. If the initial accounting for a business combination is incomplete by the end of the period in which the combination occurs, the items for which the accounting is incomplete are measured at provisional amounts, and subsequently adjusts the provisional amounts during the measurement period, which is one year from the acquisition date.

Goodwill is presented at cost less any accumulated impairment losses. Goodwill is not subject to amortization, but an impairment test for goodwill is performed in each fiscal year, mainly in the fourth quarter, and impairment losses are recorded when necessary. Impairment losses of goodwill are not reversed.

Acquisition-related costs incurred in connection with business combination are expensed as incurred. Acquisition of additional non-controlling interests after control is obtained is accounted for as an equity transaction and no goodwill arising from such a transaction is recognized.

For a business combination achieved in stages, the IHI Group remeasures its previously held equity interest in the acquiree at fair value as of the date of obtaining control and recognizes the resulting gains or losses in profit or loss, or other comprehensive income.

(3) Foreign currency translation

A. Translation of transactions denominated in foreign currency

Transactions denominated in foreign currency are translated into the functional currencies of the IHI Group and its associates using the spot exchange rate at the dates of the transactions or rates that approximate such rates. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currencies at the spot exchange rates at the consolidated account closing date. Exchange differences arising from the translation and settlement are recognized as profit or loss.

B. Translation of the financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using the spot exchange rates at the account closing date, whereas revenue and expenses of foreign operations are translated into Japanese yen using the average exchange rate during the period. Exchange differences arising from such translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation are recognized in profit or loss for the period in which the foreign operation is disposed of.

(4) Financial instruments

A. Financial assets

a. Initial recognition and measurement

The IHI Group recognizes financial assets on the transaction date when it becomes a party to the contract for the financial assets.

Financial assets are classified into those measured at fair value and those measured at amortized cost.

Financial assets are classified into those measured at amortized cost if they meet both of the following conditions. Financial assets other than the above are classified into those measured at fair value.

- The assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets measured at fair value, except for equity instruments held for trading, which must be measured at fair value through profit or loss, the IHI Group designates, for each financial instrument, whether the instrument is measured at fair value through profit or loss or the instrument is measured at fair value through other comprehensive income, and consistently applies the same designation. The IHI Group decides on such classification at the initial recognition.

All financial assets are measured at fair value plus transaction costs directly attributable to the financial assets unless they are classified into those measured at fair value through profit or loss.

b. Subsequent measurement

After the initial recognition, financial assets are measured as follows, depending on respective classifications:

(i) Financial assets measured at amortized cost

They are measured at amortized cost using the effective interest method.

(ii) Financial assets measured at fair value through profit or loss

After the initial recognition, they are measured at fair value, and changes in the fair value are recognized in profit or loss.

(iii) Financial assets measured at fair value through other comprehensive income

Changes in fair value are recognized in other comprehensive income. If such financial assets are derecognized or the fair value decreased significantly, such changes are transferred to retained earnings. Dividends from such financial assets are recognized in profit or loss for the fiscal year.

c. Impairment losses of financial assets

The IHI Group recognizes allowance for doubtful accounts for expected credit losses on financial assets measured at amortized cost.

The IHI Group determines, at the end of each reporting period, whether credit risk of the assets has increased significantly since the initial recognition. If the credit risk has increased significantly, allowance for doubtful accounts is recognized at an amount equal to lifetime expected credit losses. If no significant increase in the credit risk is identified, allowance for doubtful accounts is recognized at an amount equal to expected credit losses for 12 months.

However, for trade receivables and contract assets, allowance for doubtful accounts is recognized at an amount equal to lifetime expected credit losses, regardless of whether or not the credit risk has increased significantly since the initial recognition.

Objective evidence indicating a significant increase in credit risk includes default or delinquency by a debtor, extension of the due date of receivables on terms that the IHI Group would not otherwise grant, and indications that a debtor or issuer will enter bankruptcy. Provision for, or reversal of, allowance for doubtful accounts for expected credit losses is recognized in profit or loss.

d. Derecognition

The IHI Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the contractual rights to receive the cash flows of the financial asset and also transfers substantially all the risks and rewards incidental to ownership of the financial asset.

B. Financial liabilities

a. Initial recognition and measurement

Financial liabilities, except for financial guarantee contracts, are classified as those measured at amortized cost.

At initial recognition, financial liabilities measured at amortized cost are measured at fair value less transaction costs.

b. Subsequent measurement

After the initial recognition, financial liabilities measured at amortized cost are measured using the effective interest method.

After the initial recognition, financial guarantee contracts are measured at the higher of:

- the best estimate of expenditures required to settle obligations as of the account closing date and
- the amount initially recognized less accumulated amortization.

c. Derecognition

The IHI Group derecognizes a financial liability when it is extinguished—i.e. when the obligation specified in the contract is discharged, cancelled or expires.

d. Revenue-sharing arrangements

In the Civil aero engines Business, IHI has entered into revenue-sharing arrangements mainly with financial institutions, and classifies these arrangements into financial liabilities measured at amortized cost. Under these arrangements, IHI receives funding to execute certain business projects and makes payments based on future earnings of the projects.

At the initial recognition, IHI measures such financial liabilities measured at amortized cost at the amount of the funds received. After the initial recognition, IHI applies the effective interest method using a discount rate equal to the rate of return estimated upon entering into the arrangement. Furthermore, the number of engines to be delivered in the future etc. are not taken into consideration when measuring at amortized cost.

C. Derivatives and hedge accounting

The IHI Group uses derivatives, including forward exchange contracts and interest rate swap contracts, to hedge foreign currency risk and interest rate risk.

These derivatives are initially recognized at fair value. Even after the initial recognition, they are measured at fair value with subsequent changes in the fair value being recognized in profit or loss unless they are designated as a hedging instrument in a cash flow hedge.

At the inception of the hedge, the IHI Group formally designates and documents the hedging relationship for which the hedge accounting is applied and its risk management objective and strategy for undertaking the hedge. That documentation includes identification of the specific hedging instrument, the hedged item, the nature of the risk being hedged and the method of assessing the hedge effectiveness. In addition, the IHI Group assesses on an ongoing basis whether the hedging relationship is prospectively effective.

Hedges that qualify for the hedge accounting are classified and accounted for as follows:

a. Fair value hedges

A fair value hedge is a hedge of the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment. The IHI Group recognizes, in profit or loss, any changes in fair value of the recognized asset or liability or the unrecognized firm commitment and related derivatives.

b. Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a forecast transaction or a recognized asset or liability. As long as the hedge is highly effective, changes in fair value of the effective portion of the derivative designated as a cash flow hedge are recognized in other comprehensive income, whereas changes in fair value of the ineffective portion thereof are recognized in profit or loss.

D. Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset with the net amount presented in the consolidated statement of financial position when, and only when the IHI Group currently has a legally enforceable right to set off the recognized amounts, and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with maturities not exceeding three months from the acquisition date, that are readily convertible into cash and subject to an insignificant risk of changes in value.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The costs of conversion include fixed production overheads based on the normal capacity level. In determining the cost of inventories, finished goods and work in process are determined principally by the specific identification method, whereas raw materials and supplies are determined principally by the moving average method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(7) Property, plant and equipment

As the IHI Group uses the cost model to measure property, plant and equipment, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment includes any costs directly attributable to acquiring the item, the borrowing costs eligible for capitalization, the costs of dismantling and removing the item and the restoration costs.

Except for non-depreciable assets such as land, each asset is depreciated on a straight-line basis over its estimated useful life. The estimated useful lives of major items of property, plant and equipment are as follows:

- Buildings and structures: 2 to 75 years
- Machinery and vehicles: 2 to 17 years
- Tools, furniture and fixtures: 2 to 20 years

The estimated useful life and depreciation method etc. are subject to review at the end of each fiscal year, and any changes to them are prospectively applied as a change in an accounting estimate.

(8) Intangible assets

As the IHI Group uses the cost model to measure intangible assets, an intangible asset is carried at its cost less any accumulated amortization and any accumulated impairment losses.

A separately acquired intangible asset is measured initially at cost, which includes borrowing costs that should be capitalized. The cost of intangible assets acquired through business combinations is measured at fair value at the acquisition date. For internally generated intangible assets, all expenditures, except for development expenditure eligible for capitalization, are recorded as expenses for the period in which they are incurred. The cost of an internally generated intangible asset eligible for capitalization is the sum of expenditures incurred from the date when the intangible asset first meets the criteria for capitalization.

Intangible assets with a finite useful life are amortized on a straight-line basis over their estimated useful life and tested for impairment whenever there is an indication of impairment. The estimated useful life and amortization method for intangible assets with a finite useful life are subject to review at the end of each fiscal year, and any changes to them are prospectively applied as a change in an accounting estimate.

The estimated useful lives of major intangible assets with a finite useful life are as follows:

- Software: 5 years
- Capitalized development costs: Life cycle of product models under development (25 years)

- Patents: Contract period or 8 years

Intangible assets with an indefinite useful life and those yet to be available for use are not amortized and are tested for impairment individually or by cash-generating unit in each fiscal year or whenever there is an indication of impairment.

(9) Leases

A. Lessee

The IHI Group recognizes a right-of-use asset, which represents its right to use an underlying asset, and a lease liability, which represents its obligation to pay lease payments. It also recognizes expenses associated with leases as depreciation charge for the right-of-use asset and interest expense on the lease liability. For short-term leases, which are leases with a lease term of 12 months or less, and leases for which the underlying asset is of low value, the IHI Group recognizes the lease payments associated with those leases in profit or loss on a straight-line basis over the lease term.

As the IHI Group uses the cost model to measure a right-of-use asset, a right-of-use asset is carried at cost at the commencement date less any accumulated depreciation and any accumulated impairment losses. The cost of the right-of-use asset is measured at the amount of the initial measurement of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, the costs of dismantling and removing the underlying asset and the restoration costs under the lease contract. Each right-of-use asset is depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. Any change in the useful life or the lease term is treated as a change in an accounting estimate and accounted for prospectively.

The lease liability is measured and presented at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate. Interest expense on the lease liability in each period during the lease term is the amount that produces constant periodic rate of interest on the remaining balance of the lease liability. The interest expense is recognized in profit or loss over the lease term and included in "Finance costs."

B. Lessor

The IHI Group classifies a lease of property, plant and equipment as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset to a lessee. Under the finance lease, the lessor derecognizes the underlying asset, but instead recognizes and measures the net investment in the lease at the present value of the total lease payments.

A lease of property, plant and equipment is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee. Under the operating lease, the lessor continues to recognize the underlying asset, and also recognizes the lease income on a straight-line basis over the lease term.

(10) Investment property

Investment property is real estate property held to earn rent income, or capital gains, or both. Investment property does not include real estate property for sale in the ordinary course of business, nor does it include real estate property for use in the production or sale of goods or services or for other administrative purposes.

As the IHI Group uses the cost model to measure investment property after the initial recognition, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses. The cost of investment property includes any costs directly attributable to acquiring the asset, the borrowing costs eligible for capitalization, the costs of dismantling and removing the asset and the restoration costs.

Investment property is depreciated on a straight-line basis over the estimated useful life of 2 to 50 years. The estimated useful life and depreciation method etc. are subject to review at the end of each fiscal year, and any changes to them are prospectively applied as a change in an accounting estimate.

(11) Impairment of non-financial assets

The IHI Group determines, at the account closing date, whether there is any indication of impairment of non-financial assets excluding inventories and deferred tax assets. If any such indication exists, the IHI Group estimates the recoverable amount of the asset. Goodwill, intangible assets with indefinite useful lives and intangible assets yet to be available for use are tested for impairment in each fiscal year, mainly in the fourth quarter, irrespective of whether there is any indication that they may be impaired. When the recoverable amount of an individual asset cannot be estimated, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.

The recoverable amount of an asset or a cash-generating unit is determined at the higher of its fair value less costs of disposal and its value in use. When the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, an impairment loss is recognized, and the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. In determining the value in use, estimated future cash flows are discounted to the present value using the pre-tax discount rate that reflects current market assessment of the time value of money, the risks specific to the asset, etc. In determining the fair value less costs of disposal, the IHI Group uses an appropriate valuation model supported by available indicators of the fair value.

The IHI Group determines, at the account closing date, whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may have decreased or may no longer exist. Such indications include a change in assumptions used to determine the recoverable amount of the asset. If any such indication exists, the IHI Group estimates the recoverable amount of the asset or cash-generating unit. When the recoverable amount of the asset or cash-generating unit exceeds its carrying amount, the impairment loss is reversed to the extent of the lower of the estimated recoverable amount and the carrying amount less depreciation or amortization that would have been recognized had no impairment losses been recognized in prior periods.

(12) Provisions

The IHI Group recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event; it is probable that the IHI Group will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation. In determining the present value, the IHI Group uses a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(13) Employee benefits

A. Post-employment benefit plans

a. Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Defined benefit obligations are separately accounted for each plan. The amount of each obligation is determined by estimating the amount of the future benefit that employees have earned in return for their service in the current and prior periods, and discounting the estimated amount to the present value using the projected unit credit method. The fair value of any plan assets is deducted from the above-determined present value of the defined benefit obligations.

The discount rate is determined by reference to market yields at the account closing date on high quality corporate bonds with the terms being almost the same as those of the defined benefit obligations of the IHI Group.

The IHI Group recognizes changes in the obligations as a result of the remeasurement of the benefit obligations and plan assets of the defined benefit plans in other comprehensive income, and immediately transfers them to retained earnings.

Past service cost is recognized in profit or loss for the period in which it is incurred.

b. Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an employer pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions. Contribution obligations under the defined contribution plans are recognized as expenses for the period in which employees render the related service.

B. Short-term employee benefits

The IHI Group recognizes undiscounted amounts of short-term employee benefits and paid annual leave as expenses at the time when the related services are rendered.

When the IHI Group has a present legal or constructive obligation to pay bonuses in return for services that the employees have rendered in the past, and can make a reliable estimate of their amount, it recognizes the amount that can be expected to be paid under the relevant bonus plan as a liability.

(14) Share-based payment

IHI operates a share-based compensation-type stock option plan and performance-based share remuneration plan for its directors and executive officers as share-based payment plans.

All share-based compensation-type stock options are equity-settled share-based payments.

Of performance-based share remuneration, IHI's shares to be delivered are equity-settled share-based payments, and cash to be paid by reference to the market price of IHI's shares is cash-settled share-based payments.

For equity-settled share-based payment transactions, the IHI Group measures the services that directors and executive officers rendered during the fiscal year in which the right to receive the remuneration was granted to them by reference to the fair value of stock options and shares of IHI to be delivered as of the grant date. The rendering of services determined above is recognized as an expense, and the same amount of the expense is recognized as an increase inequity.

For cash-settled share-based payment transactions, the IHI Group measures the services that directors and executive officers rendered during the term in which the right to receive the remuneration was granted to them by reference to the stock price of IHI's share at the account closing date. The rendering of services determined above is recognized as an expense, and the same amount of the expense is recognized as an increase in a liability. Until the liability is settled, the IHI Group measures any changes in fair value of the liability by reference to changes in IHI's share price at the account closing date, and also recognizes the changes as an expense.

(15) Revenue

The IHI Group recognizes revenue at an amount that reflects the consideration to which the IHI Group expects to be entitled in exchange for the transfer of goods or services to customers based on the following five-step approach, except for interest and dividend income, etc. under IFRS 9 *Financial instruments*.

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the separate performance obligations in the contract.

Step 5: Recognize revenue when (or as) the IHI Group satisfies a performance obligation.

The IHI Group identifies the contract based on its substance and may combine two or more contracts. If two or more performance obligations are identified in the contract, the IHI Group allocate the transaction price, which appropriately reflects variable consideration, consideration payable to a customer, etc., to each of the identified performance obligations on a relative stand-alone selling price basis. The transaction price does not include a significant financing component.

The IHI Group recognizes as an asset the incremental costs of obtaining a contract with a customer and the costs directly related to fulfilling a contract to the extent that it expects to recover those costs.

The asset recognized above is amortized in a manner that is consistent with the method used to recognize revenue from the products and services to which the asset relates.

Assuming that persuasive evidence supporting a transaction exists, the IHI Group recognizes revenue when it is certain that economic benefits will flow to the IHI Group and those benefits can be measured reliably. Revenues from sale of goods, provision of services, construction contracts, etc. are measured at fair value of consideration received or receivable.

The recognition criteria by major revenue classification are as follows:

A. Sale of goods

For revenue from sale of goods, the IHI Group determines that its performance obligations are satisfied primarily when a customer obtains control of the goods upon delivery. Hence, revenue from sale of goods is usually recognized upon the delivery of goods.

B. Provision of services and construction contracts

For revenue from provision of services and construction contracts, in which performance obligations are satisfied over time, the IHI Group recognizes revenue by measuring progress towards complete satisfaction of the performance obligations. Measurements are based on the ratio of the costs incurred to satisfy the performance obligations against the total expected costs to fully satisfy the contractual obligations. Revenue is recognized by the cost recovery method when it is not possible to reasonably estimate progress towards satisfaction of performance obligations, but it is probable that the costs incurred will be recovered.

(16) Finance income and finance costs

Finance income and finance costs consist of interest income, dividend income, interest expenses, foreign exchange gains or losses, and changes in the fair value of financial instruments measured at fair value through profit or loss. Interest income and interest expenses are recognized as incurred using the effective interest method. Dividend income is recognized when the IHI Group receives the dividend.

(17) Government grants

Government grants are recognized at fair value when there is reasonable assurance that the IHI Group will comply with the conditions attaching to them, and that the grants will be received.

If government grants relate to items of expense, the government grants are recognized as revenue on a systematic basis over the periods in which the IHI Group recognizes the related costs for which the grants are intended to compensate as an expense. Grants related to assets are accounted for by deducting the amount of the grant from the acquisition cost of the asset.

(18) Income taxes

"Income tax expense" in the consolidated statement of profit or loss is presented as the sum of current tax expense and deferred tax expense.

The IHI Group measures current tax expense at the amount expected to be paid to or recovered from taxation authorities. The tax rates and tax laws to be used to determine the amount of taxes are those that have been enacted or substantively enacted by the account closing date. The IHI Group recognizes current tax expense in profit or loss, except for taxes arising from other comprehensive income and those arising from business combinations.

The IHI Group determines deferred tax expense based on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the related amounts for tax purposes at the account closing date, unused tax credits carryforward and unused tax losses carryforward. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference, unused tax credits carryforward, and unused tax losses carryforward can be recovered. Deferred tax liabilities are, in principle, recognized for taxable temporary differences.

The IHI Group does not recognize deferred tax assets or liabilities for the following temporary differences:

- temporary difference arising from the initial recognition of goodwill;
- temporary difference arising from the initial recognition of an asset or liability in a transaction which is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss);
- deductible temporary difference associated with its investments in subsidiaries and associates, and its interests in joint arrangements if it is probable that the temporary difference will not reverse in the foreseeable future, or if it is not probable that future taxable profits will be available against which the temporary difference can be utilized; and
- taxable temporary difference associated with its investments in subsidiaries and associates, and its interests in joint arrangements if the timing of the reversal of the temporary difference can be controlled, and if it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the account closing date.

For uncertain tax position on income taxes, the IHI Group recognizes a reasonably estimated amount as an asset or a liability when it is probable that the tax position will be sustained in accordance with the interpretation of tax laws.

IHI and its wholly owned subsidiaries in Japan have adopted the consolidated taxation system.

(19) Earnings per share

Basic earnings per share is calculated by dividing profit attributable to owners of parent by the weighted-average number of ordinary shares issued and outstanding, adjusted for the number of treasury shares for the period concerned.

Diluted earnings per share is calculated, adjusted for the effect of all dilutive potential shares.

4. Significant accounting judgements, estimates and assumptions

In preparing the consolidated financial statements in accordance with IFRS, the management is required to make judgments, estimates, and assumptions that affect the adoption of accounting policies and the amounts of assets, liabilities, revenues, and expenses. The IHI Group uses rational methods to make such judgments and estimates, but estimates are inherently subject to uncertainties, and those uncertainties may influence the IHI Group's operating results and financial position as recognized in future.

The estimates and their underlying assumptions are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized in the period in which the estimate is revised and in future periods.

Judgements used in the process of applying the IHI Group's accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements are as follows:

- Items concerning financial instruments (Note "3. Significant accounting policies, (4) Financial instruments," Note "10. Other financial assets," Note "21. Other financial liabilities," and Note "36. Financial instruments")
- Recognition of revenue (Note "3. Significant accounting policies, (15) Revenue" and Note "28. Revenue")

Assumptions and estimates that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are as follows:

- Impairment of non-financial assets (Note "3. Significant accounting policies, (11) Impairment of non-financial assets" and Note "16. Impairment of non-financial assets")

Regarding property, plant, and equipment, right-of-use assets, intangible assets and other non-current assets for aero engines, which were impacted by the spread of COVID-19, the IHI Group performed impairment tests, confirmed that the recoverable amount, which is the present value of future cash flows generated by those assets, is expected to adequately exceed the carrying amount of those assets, and accordingly deemed that there was no requirement to recognize a impairment loss for the fiscal year ended March 31, 2021.

In preparing estimates of the recoverable amount for the impairment test, the IHI Group applied the following assumptions. For demand recovery, the IHI Group has considered data obtained from business partners as well as data obtained from the International Air Transportation Association (IATA), and is assuming that recovery to the 2019 level, i.e. before the impact of the spread of COVID-19, would be achieved in 2024. Moreover, for the speed of recovery, the IHI Group has considered that the level of recovery for the fiscal year ending March 31, 2022 will be at a level similar to the slight recovery that has been observed from the fiscal year ended March 31, 2021, that the establishment of herd immunity brought about by widespread vaccination, and the gradual easing of restrictions on the movement of people accompanying this, will lead to a steady acceleration of the recovery. As such recovery of demand occurs, the IHI Group is assuming that it will be able to record revenue and adequate operating profit.

Impairment losses for the fiscal year ended March 31, 2021	¥– million
Property, plant and equipment	¥70,751 million
Right-of-use assets	¥25,179 million
Intangible assets	¥104,716 million
Other non-current assets	¥62,452 million

- Measurement of provisions (Note “3. Significant accounting policies, (12) Provisions” and Note “24. Provisions”)

The IHI Group measures provisions based on best estimates of expenditures required to settle obligations in the future at the account closing date. The amount of expenditures required to settle obligations in the future is calculated comprehensively taking into account future possible outcomes.

Among these provisions, provision for loss on construction contracts is provided for the estimated losses on undelivered construction contracts at the end of the fiscal year ended March 31, 2021. Regarding the assumptions for these measurements, it is possible that unexpected events may arise that affect fulfillment of contracts, which may change the balance of the provision for loss on construction contracts.

Provision for loss on construction contracts	¥13,829 million

- Recoverability of deferred tax assets (Note “3. Significant accounting policies, (18) Income taxes” and Note “18. Income taxes”)

The IHI Group recognizes deferred tax assets to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. In determining the probability that taxable profit will be available, the IHI Group estimates the timing and the amount of the taxable profit based on the business plan.

In the fiscal year ended March 31, 2021, the IHI Group has made estimates for taxable income for the fiscal year ending March 31, 2022, and subsequent fiscal years by considering the assumptions regarding the timing and speed of the demand recovery, particularly in the civil aero engines business in relation to the impact of the spread of COVID-19, and the gain on sale of assets held for securing resources for creating growth businesses as outlined in “Project Change.”

Although these estimates are management’s best estimates, the actual results may differ as a result of changes in uncertain future economic environment, and may affect the estimate on future taxable income and judgement on the recoverability, etc. of deferred tax assets.

Deferred tax assets	¥70,455 million

- Contingencies (Note “40. Contingent liabilities”)

The IHI Group discloses contingent liabilities whenever any item exists that may have significant impacts on future businesses, financial position, operating results and cash flows after all evidence available on the reporting date is examined and the probability and impact in terms of the amount are taken into consideration.

5. Newly issued standards not yet adopted

None of new or amended standards and interpretations that have already been issued by the approval date of the consolidated financial statements have a material impact on the consolidated financial statements of the IHI Group.

6. 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.

The IHI Group 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 Facilities," "Industrial Systems and General-Purpose Machinery," and "Aero Engine, Space and Defense" as its reportable segments. No operating segments have been aggregated to form these reportable segments.

Main businesses, products and services belonging to each 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 energy (components for nuclear power plants)
Social Infrastructure and Offshore Facilities	Bridges and water gates, transport systems, shield systems, concrete construction materials, urban development (real estate sales and rental)
Industrial Systems and General-Purpose Machinery	Vehicular turbochargers, parking, rotating machineries (compressors, separation systems, turbochargers for ships), heat treatment and surface engineering, transport machineries, logistics and industrial systems (logistics systems, industrial machineries)
Aero Engine, Space and Defense	Aero engines, rocket systems and space utilization systems, defense systems

(2) Information about reportable segments

The accounting method used for reportable segments is generally the same as the method stated in Note "3. Significant accounting policies."

Intersegment revenue and transfers are based on actual market pricing.

Fiscal year ended March 31, 2020

(Millions of yen)

	Reportable Segments					Others (Note 1)	Total	Adjustment (Note 2)	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total				
Revenue									
Revenue from external customers	320,979	138,084	392,028	367,691	1,218,782	44,396	1,263,178	–	1,263,178
Intersegment revenue and transfers	3,895	10,625	12,530	2,033	29,083	22,659	51,742	(51,742)	–
Total	324,874	148,709	404,558	369,724	1,247,865	67,055	1,314,920	(51,742)	1,263,178
Segment profit (loss) (Note 3)	3,976	13,047	12,964	20,821	50,808	6,596	57,404	(9,545)	47,859
Segment assets	271,176	298,162	334, 951	689,616	1,593,905	168,338	1,762,243	106,795	1,869,038
Others									
Depreciation and amortization	6,233	7,779	14,662	27,441	56,115	3,406	59,521	13,355	72,876
Impairment losses	693	16	2,672	–	3,381	1,004	4,385	–	4,385
Share of profit (loss) of investments accounted for using equity method	30	–	409	2,706	3,145	(15,412)	(12,267)	(36)	(12,303)
Investments accounted for using equity method	198	–	2,647	25,121	27,966	23,132	51,098	–	51,098
Capital expenditures	6,016	12,068	13,118	47,655	78,857	4,675	83,532	6,466	89,998

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. The details of adjustment are as follows:
   (1) Adjustment of segment profit represents intersegment transactions of ¥(211) million and unallocated corporate expenses of ¥(9,334) million.
   (2) Adjustment of ¥106,795 million for segment assets includes eliminations of intersegment receivables and payables of ¥(102,842) million and corporate assets unallocated to any reportable segment of ¥209,637 million among cash and cash equivalents property, plant and equipment, and other financial assets. It mainly consists of IHI's surplus funds under management, including cash and deposits, and securities.
   (3) Adjustment of depreciation and amortization represents depreciation and amortization not allocated to each reportable segment.
   (4) Adjustment of capital expenditures represents corporate capital expenditures not allocated to each reportable segment.
3. Segment profit is adjusted with operating profit in the consolidated statement of profit or loss.

Fiscal year ended March 31, 2021

(Millions of yen)

	Reportable Segments					Others (Note 1)	Total	Adjustment (Note 2)	Consolidated
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total				
Revenue									
Revenue from external customers	315,722	148,243	363,314	242,619	1,069,898	43,008	1,112,906	–	1,112,906
Intersegment revenue and transfers	1,953	9,709	10,946	1,984	24,592	23,885	48,477	(48,477)	–
Total	317,675	157,952	374,260	244,603	1,094,490	66,893	1,161,383	(48,477)	1,112,906
Segment profit (loss) (Note 3)	19,181	17,131	11,446	(40,474)	7,284	3,646	10,930	17,031	27,961
Segment assets	293,473	298,929	335,561	683,526	1,611,489	186,150	1,797,639	35,252	1,832,891
Others									
Depreciation and amortization	6,323	9,842	13,912	33,072	63,149	3,135	66,284	10,156	76,440
Impairment losses	605	–	3,140	–	3,745	–	3,745	–	3,745
Share of profit (loss) of investments accounted for using equity method	45	–	308	583	936	(2,799)	(1,863)	(70)	(1,933)
Investments accounted for using equity method	197	–	2,872	23,655	26,724	21,736	48,460	–	48,460
Capital expenditures	3,952	7,329	9,772	19,287	40,340	3,163	43,503	4,855	48,358

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. The details of adjustment are as follows:
   (1) Adjustment of segment profit represents intersegment transactions of ¥169 million and unallocated corporate income of ¥16,862 million.
   (2) Adjustment of ¥35,252 million for segment assets includes eliminations of intersegment receivables and payables of ¥(127,427) million and corporate assets unallocated to any reportable segment of ¥162,679 million among cash and cash equivalents, property, plant and equipment, and other financial assets. It mainly consists of IHI’s surplus funds under management, including cash and deposits, and securities.
   (3) Adjustment of depreciation and amortization represents depreciation and amortization not allocated to each reportable segment.
   (4) Adjustment of capital expenditures represents corporate capital expenditures not allocated to each reportable segment.
3. Segment profit is adjusted with operating profit in the consolidated statement of profit or loss.

(3) Information about products and services

As classification is the same as for reportable segments, no further information is given.

(4) Information by geographical area

The breakdown of revenue from external customers and non-current assets by geographical area is as follows:

Revenue from external customers

The breakdown of revenue from external customers by geographical area is as stated in Note "28. Revenue."

Non-current assets

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Japan	592,895	610,713	577,495
North America	8,667	10,425	10,832
Asia	22,611	19,019	21,996
Europe	36,241	30,853	30,662
Other	186	396	643
Total	660,600	671,406	641,628

Note: Non-current assets are classified by country or region based on the location of assets. They do not include financial instruments, deferred tax assets, or retirement benefit assets.

(5) Information about major customers

The revenue from major customers is as follows:

(Millions of yen)

Name of customer or individual	Related major reportable segment	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Japanese Aero Engines Corporation	Aero Engine, Space and Defense	168,418	73,315

7. Business combinations

Fiscal year ended March 31, 2020

As it is immaterial, no further information is given.

Fiscal year ended March 31, 2021

As it is immaterial, no further information is given.

8. Cash and cash equivalents

The breakdown of cash and cash equivalents is as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Cash and deposits	91,582	144,064	118,169
Short-term investments	1,164	1,674	2,597
Total	92,746	145,738	120,766

9. Trade and other receivables

The breakdown of trade and other receivables is as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Notes and accounts receivable – trade	321,912	323,180	330,075
Other	9,418	11,371	14,460
Total	331,330	334,551	344,535

Trade and other receivables are classified as financial assets measured at amortized cost.

The above amounts include those of trade and other receivables to be collected over 12 months, which are ¥2,779 million, ¥1,488 million, and ¥3,036 million as of the transition date (April 1, 2019), March 31, 2020, and March 31, 2021, respectively.

10. Other financial assets

(1) Breakdown of other financial assets

The breakdown of other financial assets is as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Financial assets measured at amortized cost			
Time deposits	2,361	1,769	333
Other	4,916	4,709	14,338
Financial assets measured at fair value through profit or loss			
Derivative assets (Note)	248	184	319
Other	2,519	3,006	3,606
Financial assets measured at fair value through other comprehensive income			
Stocks and investments in capital	37,963	29,573	31,851
Total	48,007	39,241	50,447
Current assets	4,114	3,411	1,391
Non-current assets	43,893	35,830	49,056
Total	48,007	39,241	50,447

Note: Derivative assets include those designated as hedging instruments. The effective portion of any change in fair value of derivative assets is measured through other comprehensive income.

(2) Financial assets measured at fair value through other comprehensive income

Names and fair values, etc. of major stocks that are classified as financial assets measured at fair value through other comprehensive income are as follows:

(Millions of yen)

Stock name	Transition date (As of April 1, 2019)
Mizuho Financial Group, Inc.	4,007
Toshiba Corporation	3,085
Primetals Technologies Japan, Ltd.	2,435
Yokohama Sky Building Co., Ltd.	1,629
Tokyo Gas Co., Ltd.	1,197

(Millions of yen)

Stock name	As of March 31, 2020
Mizuho Financial Group, Inc.	2,891
Onahama Higashikou Bulk Terminal Limited Liability Company	1,870
Primetals Technologies Japan, Ltd.	1,774
Yokohama Sky Building Co., Ltd.	1,758
Mitsubishi Heavy Industries Aero Engines, Ltd.	1,084

(Millions of yen)

Stock name	As of March 31, 2021
Mizuho Financial Group, Inc.	3,740
Primetals Technologies Japan, Ltd.	3,128
Yokohama Sky Building Co., Ltd.	1,885
Onahama Higashikou Bulk Terminal Limited Liability Company	1,870
China Steel Corporation	1,798

The IHI Group holds stocks and other investments in capital for the primary purpose of improving medium- to long-term growth and corporate value. Hence, it classifies them into financial assets measured at fair value through other comprehensive income.

(3) Derecognition of financial assets measured at fair value through other comprehensive income

The IHI Group derecognizes certain of its financial assets measured at fair value through other comprehensive income when selling part of them for the purposes of increasing the efficiency of asset management, the review of business relationships, or for other purposes.

The fair value of such assets upon sale and accumulated gains or losses that have been recognized in other comprehensive income for each fiscal year are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Fair value	5,389	789
Accumulated gains (losses) that have been recognized in other comprehensive income	(528)	342

Accumulated gains and losses that have been recognized in other comprehensive income are transferred from other components of equity to retained earnings when the fair value of such assets decreases significantly or when they are derecognized.

Accumulated gains or losses transferred to retained earnings (net of tax) for the fiscal years ended March 31, 2020 and 2021 are ¥(2,039) million and ¥112 million, respectively.

The breakdown of recognized dividend income from equity instruments is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Dividend income from investments derecognized during period	57	24
Dividend income from investments held as of the end of reporting period	1,111	607
Total	1,168	631

11. Inventories

The breakdown of inventories is as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Finished goods	21,536	18,971	18,846
Work in process	161,156	168,857	163,553
Raw materials and supplies	134,503	139,087	144,071
Total	317,195	326,915	326,470

A large portion of cost of sales is the amount of inventories recognized as expenses during the fiscal year.

The amounts of write-downs or reversals of write-downs of inventories recognized as expenses for the fiscal years ended March 31, 2020 and 2021 are ¥1,577 million and ¥(1,427) million, respectively.

12. Other assets

The breakdown of other assets is as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Prepaid expenses	7,108	7,780	6,991
Prepayments	25,195	22,347	20,568
Consumption taxes receivable	11,104	9,556	7,569
Consideration paid to customers (Note)	56,815	62,345	63,060
Other	20,480	21,010	20,112
Total	120,702	123,038	118,300
Current assets	49,836	45,247	41,668
Non-current assets	70,866	77,791	76,632
Total	120,702	123,038	118,300

Note: Consideration paid to customers is consideration for which a reduction of revenue was required when the related goods or services are transferred to customers.

13. Property, plant and equipment

Changes in carrying amount, acquisition cost, accumulated depreciation and accumulated impairment losses of property, plant and equipment are as follows:

(1) Carrying amount

Fiscal year ended March 31, 2020

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
As of April 1, 2019	76,011	76,605	28,196	62,463	9,489	252,764
Acquisition	395	1,643	700	–	61,578	64,316
Depreciation (Note 1)	(6,298)	(16,721)	(15,103)	–	–	(38,122)
Impairment losses (Note 2)	(242)	(151)	–	(9)	–	(402)
Sale or disposal	(275)	(1,715)	(164)	(1,302)	–	(3,456)
Transfer of accounts	16,327	17,440	18,394	71	(52,232)	–
Exchange differences on translation of foreign operations	(451)	(1,086)	(128)	(128)	(510)	(2,303)
Other	(374)	(66)	291	(1,073)	(6,550)	(7,772)
As of March 31, 2020	85,093	75,949	32,186	60,022	11,775	265,025

Notes: 1. Depreciation is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

2. Details of impairment losses are disclosed in Note “16. Impairment of non-financial assets.”

Fiscal year ended March 31, 2021

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
As of April 1, 2020	85,093	75,949	32,186	60,022	11,775	265,025
Acquisition	218	1,534	615	–	30,765	33,132
Depreciation (Note 1)	(6,348)	(16,830)	(16,633)	–	–	(39,811)
Impairment losses (Note 2)	(1,026)	(795)	(270)	(85)	(191)	(2,367)
Sale or disposal	(223)	(884)	(88)	(1,452)	–	(2,647)
Transfer of accounts	4,363	9,503	9,187	50	(23,103)	–
Exchange differences on translation of foreign operations	480	1,505	192	164	346	2,687
Other	999	509	228	634	(5,879)	(3,509)
As of March 31, 2021	83,556	70,491	25,417	59,333	13,713	252,510

Notes: 1. Depreciation is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

2. Details of impairment losses are disclosed in Note "16. Impairment of non-financial assets."

(2) Acquisition cost

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Transition date (as of April 1, 2019)	233,887	364,537	162,393	70,583	9,489	840,889
As of March 31, 2020	239,991	365,820	177,421	65,795	11,775	860,802
As of March 31, 2021	244,671	368,882	184,828	65,208	13,909	877,498

(3) Accumulated depreciation and accumulated impairment losses

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Transition date (as of April 1, 2019)	157,876	287,932	134,197	8,120	–	588,125
As of March 31, 2020	154,898	289,871	145,235	5,773	–	595,777
As of March 31, 2021	161,115	298,391	159,411	5,875	196	624,988

14. Goodwill and intangible assets

Changes in carrying amount, acquisition cost, accumulated amortization and accumulated impairment losses of goodwill and intangible assets are as follows:

(1) Carrying amount

Fiscal year ended March 31, 2020

(Millions of yen)

	Goodwill	Intangible assets				
		Software	Capitalized development costs	Patents	Other (Note 3)	Total
As of April 1, 2019	8,670	18,077	90,080	8,719	31,979	148,855
Acquisition	–	6,924	4,909	402	164	12,399
Amortization (Note 1)	–	(5,746)	(2,993)	(1,254)	(337)	(10,330)
Impairment losses (Note 2)	(3,207)	–	–	–	–	–
Acquisition through business combinations	131	–	–	–	236	236
Sale or disposal	–	(91)	(13)	–	(191)	(295)
Exchange differences on translation of foreign operations	(131)	(17)	(5)	(9)	(112)	(143)
Other	–	691	513	4	(26,947)	(25,739)
As of March 31, 2020	5,463	19,838	92,491	7,862	4,792	124,983

Notes:
1. Amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.
2. Details of impairment losses are disclosed in Note "16. Impairment of non-financial assets."
3. Reason for an increase or decrease in other intangible assets: "Other" consists primarily of ¥26,975 million of the transfer of the rights to acquire a building of a commercial facility, which was under construction at the beginning of the fiscal year ended March 31, 2020, the land on which the building is situated, and other, after the facility construction is completed, which had been recorded as "Intangible assets." The transfer was carried out, in line with the acquisition of the building and land, etc. upon completion of the facility in March 2020. As the building and land meet the definition of investment property, they are recognized as "Investment property" in the consolidated statement of financial position.

   Previously, the IHI Group recorded the rights described above as intangible assets because IHI had the rights to acquire the building, the land on which the building is situated, and other, in exchange for certain land owned by IHI, and economic benefits were expected.

Fiscal year ended March 31, 2021

(Millions of yen)

	Goodwill	Intangible assets				
		Software	Capitalized development costs	Patents	Other	Total
As of April 1, 2020	5,463	19,838	92,491	7,862	4,792	124,983
Acquisition	–	4,924	2,604	739	75	8,342
Amortization (Note 1)	–	(6,055)	(2,987)	(1,382)	(335)	(10,759)
Impairment losses (Note 2)	(13)	(380)	–	–	(6)	(386)
Acquisition through business combinations	–	–	–	–	–	–
Sale or disposal	–	(102)	–	(1)	(8)	(111)
Exchange differences on translation of foreign operations	237	25	27	9	214	275
Other	189	243	–	(2)	(1,320)	(1,079)
As of March 31, 2021	5,876	18,493	92,135	7,225	3,412	121,265

Notes:
1. Amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.
2. Details of impairment losses are disclosed in Note "16. Impairment of non-financial assets."

(2) Acquisition cost

(Millions of yen)

	Goodwill	Intangible assets				
		Software	Capitalized development costs	Patents	Other	Total
Transition date (As of April 1, 2019)	10,395	72,130	101,617	25,444	35,373	234,564
As of March 31, 2020	10,320	77,649	106,973	25,729	8,511	218,862
As of March 31, 2021	10,968	80,778	109,654	26,518	7,723	224,673

(3) Accumulated amortization and accumulated impairment losses

(Millions of yen)

	Goodwill	Intangible assets				
		Software	Capitalized development costs	Patents	Other	Total
Transition date (As of April 1, 2019)	1,725	54,053	11,537	16,725	3,394	85,709
As of March 31, 2020	4,857	57,811	14,482	17,867	3,719	93,879
As of March 31, 2021	5,092	62,285	17,519	19,293	4,311	103,408

(4) Research and development expenses

The IHI Group's research and development expenses recognized as expenses for the fiscal years ended March 31, 2020 and 2021 are ¥40,083 million and ¥26,884 million, respectively, and they are included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

15. Investment property

(1) Changes

Changes in the carrying amount of investment property are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Balance at beginning of period	121,279	151,668
Acquisition	37,824	5,373
Depreciation	(5,245)	(6,520)
Sale or disposal	(2,748)	(4,934)
Transfer of accounts	558	(1,338)
Other	–	(66)
Balance at end of period	151,668	144,183
Balance at beginning of period		
Acquisition cost	175,646	204,687
Accumulated depreciation and accumulated impairment losses	(54,367)	(53,019)
Balance at end of period		
Acquisition cost	204,687	200,514
Accumulated depreciation and accumulated impairment losses	(53,019)	(56,331)

(2) Carrying amount and fair value

The carrying amount and fair value of investment property are as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)		As of March 31, 2020		As of March 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Investment property	121,279	308,406	151,668	334,563	144,183	331,542

The fair value of investment property is based on an appraisal performed by an external real estate appraiser and other valuations. The appraisal is based on market evidence that reflects the transaction prices of comparable assets in accordance with the appraisal criteria of the country in which the real estate property is located.

The fair value of investment property is classified as Level 3 under the fair value hierarchy because it is determined using a valuation technique that uses unobservable inputs.

The fair value hierarchy is stated in Note “36. Financial instruments.”

(3) Income and expenses arising from investment property

Rent income generated and direct operating expenses arising from investment property are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Rent income	14,603	18,283
Direct operating expenses	9,638	11,421

16. Impairment of non-financial assets

(1) Impairment losses

In determining impairment losses, the IHI Group groups assets based on the smallest identifiable group of assets that generates largely independent cash inflows.

The breakdown of impairment losses by class of assets is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Buildings and structures	242	1,026
Machinery and vehicles	151	795
Tools, furniture and fixtures	–	270
Construction in progress	–	191
Land	9	85
Right-of-use assets	776	944
Goodwill	3,207	13
Software	–	380
Other	–	41
Total	4,385	3,745

The impairment losses recognized for the fiscal year ended March 31,2020 were primarily the reductions in the carrying amounts of goodwill in Industrial Systems and General-Purpose machinery to their recoverable amounts as the profitability of the assets decreased. Such recoverable amounts were based on value in use. Value in use was calculated by discounting the estimated cash flows reflecting past experience and external information, and was based on the business plan and growth rate for the next three fiscal years approved by the management to present value using the discount rate of 12.6% based on the pre-tax weighted average cost of capital of the cash-generating units or groups of cash-generating units. For the term beyond the periods subject to the business plans, a perpetual terminal is used to measures value in use. The growth rate of 0% is applied.

The impairment losses recognized for the fiscal year ended March 31, 2021 are primarily the reductions in the carrying amounts of the buildings and structures in Industrial Systems and General-Purpose Machinery to their recoverable amounts as the profitability of the assets decreased. Such recoverable amounts were based on the fair value less costs of disposal, whose fair value was calculated based on the appraisal value. The said fair value is classified as Level 3 under the fair value hierarchy.

Please refer to Note “6. Segment information” for the breakdown of impairment losses by segment.

(2) Impairment test for goodwill

The total amounts of goodwill of the IHI Group are ¥8,670 million, ¥5,463 million, and ¥5,876 million as of the transition date (April 1, 2019), March 31, 2020, and March 31, 2021, respectively.

Goodwill arising in a business combination was allocated to the cash-generating units expected to benefit from the business combination at the acquisition date. The breakdown of the carrying amounts of major goodwill by cash-generating unit is as follows:

Breakdown of the carrying amounts of major goodwill by cash-generating unit

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Heat treatment and surface engineering	4,713	2,427	2,563
Boilers	1,048	1,126	1,402
Shield systems	866	849	863
Parking	840	840	840

The IHI Group performs a test for impairment of goodwill in each fiscal year, mainly in the fourth quarter. The recoverable amount in impairment test is determined based on value in use.

Value in use is calculated by discounting the estimated cash flows reflecting past experience and external information and based on the business plan and growth rate for the next three fiscal years approved by the management to the present value using the discount rate of 7.1 to 15.6% (4.6 to 18.5% as of the transition date (April 1, 2019), and 3.9 to 16.9% as of March 31, 2020) based on the pre-tax weighted average cost of capital of the cash-generating units or groups of cash-generating units. For the terms beyond the periods subject to the business plans, the going concern value is used as the value in use. The growth rate of 0% is applied to both the fiscal years ended March 31, 2020 and 2021.

The amount of impairment losses of goodwill recognized as a result of an impairment test performed during the fiscal year ended March 31, 2021 is included in “Other expenses” in the consolidated statement of profit or loss. The impairment losses are recognized in Industrial Systems and General-Purpose Machinery due to the deterioration in profitability.

The main assumptions used for the impairment test are the discount rate and the growth rate. If changes occur to the main assumptions used for the impairment test, there is a risk that impairment may occur. However, the recoverable amount adequately exceeded the carrying amount, therefore, even if the main assumptions used for the impairment test change to the extent that is reasonably foreseeable, it is deemed that the recoverable amount is unlikely to be less than the carrying amount.

17. Investments accounted for using equity method

(1) Investments in associates

A. Material associates

The associate that is material to the IHI Group is as follows:

Name	Description of major business	Location	Percentage of ownership interest		
			Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Japan Marine United Corporation (Note)	Shipbuilding	Yokohama-city, Kanagawa	45.93%	49.42%	35.00%

Note: Investments in Japan Marine United Corporation are measured using the equity method.
As the associate is an unlisted company, no market price is available for investments in the associate.

Reconciliations between the condensed financial statements of Japan Marine United Corporation and the carrying amount of interests in the associate are as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Current assets	147,231	138,351	145,036
Non-current assets	104,451	96,846	94,605
Total assets	251,682	235,197	239,641
Current liabilities	155,398	150,854	138,570
Non-current liabilities	64,483	60,142	70,993
Total liabilities	219,881	210,996	209,563
Total equity	31,801	24,201	30,078
IHI Group's interests in total equity	14,606	11,960	10,527
Goodwill and consolidation adjustment	–	642	519
Carrying amount of the IHI Group's interests	14,606	12,602	11,046

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Revenue	253,014	236,714
Profit	(38,329)	(11,039)
Other comprehensive income	729	1,916
Total comprehensive income	(37,600)	(9,123)
Dividends received by the IHI Group	–	–
Interests of the IHI Group:		
Profit	(17,543)	(3,895)
Other comprehensive income	335	717

B. Individually immaterial associates

The carrying amount of investments in associates individually immaterial to the IHI Group is as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Total carrying amount	66,559	38,496	37,414

The aggregate amounts of the equity share in comprehensive income of individually immaterial associates are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Equity share in profit	5,240	1,962
Equity share in other comprehensive income	(225)	(191)
Equity share in comprehensive income	5,015	1,771

18. Income taxes

(1) Deferred tax assets and liabilities

A. Significant components of the IHI Group's deferred tax assets and liabilities and changes therein

Fiscal year ended March 31, 2020

(Millions of yen)

	As of April 1, 2019	Recognized through profit or loss	Recognized in other comprehensive income	Other	As of March 31, 2020
Deferred tax assets					
Losses on valuation of inventories	1,782	773	–	–	2,555
Excess depreciation for tax purposes	7,990	1,537	–	–	9,527
Impairment losses	2,211	(1,157)	–	–	1,054
Refund liabilities	4,637	178			4,815
Provision for bonuses	3,595	(344)	–	–	3,251
Provision for construction warranties	2,721	(499)	–	–	2,222
Provision for loss on construction contracts	2,318	961	–	–	3,279
Accrued expenses, etc.	5,756	(690)	–	–	5,066
Retirement benefit liability	56,978	(113)	(3)	–	56,862
Lease liabilities	41,305	(3,511)	–	–	37,794
Financial liabilities	6,660	215	–	–	6,875
Net tax loss carried forward	6,208	(5,139)	–	–	1,069
Other	13,615	2,599	167	–	16,381
Total	155,776	(5,190)	164	–	150,750
Deferred tax liabilities					
Gain on transfer from business divestitures	2,512	(1,427)	–	–	1,085
Financial assets measured at fair value through other comprehensive income	3,026	6	(231)	–	2,801
Property, plant and equipment	16,128	174	–	–	16,302
Intangible assets and other non-current assets	14,852	192	–	–	15,044
Right-of-use assets	40,073	(4,068)	–	–	36,005
Gain on contribution of securities to retirement benefit trust	2,967	(221)	–	–	2,746
Other	4,792	1,201	(89)	74	5,978
Total	84,350	(4,143)	(320)	74	79,961

Fiscal year ended March 31, 2021

(Millions of yen)

	As of April 1, 2020	Recognized through profit or loss	Recognized in other comprehensive income	Other	As of March 31, 2021
Deferred tax assets					
Losses on valuation of inventories	2,555	(449)	–	–	2,106
Excess depreciation for tax purposes	9,527	(1,041)	–	–	8,486
Impairment losses	1,054	(101)	–	–	953
Refund liabilities	4,815	(936)	–	–	3,879
Provision for bonuses	3,251	0	–	–	3,251
Provision for construction warranties	2,222	(311)	–	–	1,911
Provision for loss on construction contracts	3,279	(697)	–	–	2,582
Accrued expenses, etc.	5,066	189	–	–	5,255
Retirement benefit liability	56,862	80	(685)	–	56,257
Lease liabilities	37,794	(1,757)	–	–	36,037
Financial liabilities	6,875	56	–	–	6,931
Net tax loss carried forward	1,069	669	–	–	1,738
Other	16,381	(1,313)	(15)	–	15,053
Total	150,750	(5,611)	(700)	–	144,439
Deferred tax liabilities					
Gain on transfer from business divestitures	1,085	–	–	–	1,085
Financial assets measured at fair value through other comprehensive income	2,801	–	777	–	3,578
Property, plant and equipment	16,302	(2,135)	–	–	14,167
Intangible assets and other non-current assets	15,044	(929)	–	–	14,115
Right-of-use assets	36,005	(1,365)	–	–	34,640
Gain on contribution of securities to retirement benefit trust	2,746	(575)	–	–	2,171
Other	5,978	1,374	8	–	7,360
Total	79,961	(3,630)	785	–	77,116

B. Net tax loss carried forward and deductible temporary differences for unrecognized deferred tax assets

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Net tax loss carried forward	89,390	110,943	156,975
Deductible temporary differences	285,756	322,684	259,692
Total	375,146	433,627	416,667

C. Expiration year of unused tax losses carryforward for which deferred tax assets are not recognized

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Year 1	–	181	168
Year 2	93	163	175
Year 3	–	74	332
Year 4	–	137	241
Year 5 or later	89,297	110,388	156,059
Total	89,390	110,943	156,975

D. Aggregated amount of taxable temporary differences associated with investments in subsidiaries, etc. for which deferred tax liabilities are not recognized

The aggregated amounts of taxable temporary differences associated with investments in subsidiaries, etc. for which deferred tax liabilities are not recognized as of the transition date (April 1, 2019), March 31, 2020, and March 31, 2021 were ¥20,420 million, ¥24,242 million, and ¥26,696 million, respectively. The deferred tax liabilities are not recognized because the IHI Group can control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse within the foreseeable period.

(2) Income tax expense

The breakdown of income tax expense is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Current tax expense	14,884	8,682
Deferred tax expense	1,047	1,981
Total	15,931	10,663

(3) Reconciliation of effective tax rate

Reconciliation between the statutory tax rate and the average effective tax rate is as follows:

(%)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Statutory tax rate	30.6	30.6
Share of profit (loss) of investments accounted for using equity method	14.3	5.3
Withholding tax related to dividends from overseas subsidiaries	1.4	2.7
Income taxes for prior periods	0.3	1.8
Non-deductible expenses for tax purposes	1.8	1.7
Changes in unrecognized deferred tax assets	21.5	(1.4)
Foreign tax rate differences	0.5	(3.2)
Non-taxable income excluded from gross revenue	(0.4)	(4.2)
Tax credit for experimentation and research expenses, etc.	(10.2)	–
Other	(5.2)	5.3
Average effective tax rate	54.6	38.6

The IHI Group is subject to corporation tax, inhabitant tax, and business tax. The IHI Group's statutory effective tax rates calculated based on these taxes for the fiscal years ended March 31, 2020 and 2021 are both 30.6%. Overseas consolidated subsidiaries, however, are subject to local corporate and other taxes.

19. Bonds and borrowings

(1) Breakdown of financial liabilities

The breakdown of "Bonds and borrowings" and other interest-bearing liabilities (Note 1) is as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021	Average interest rate (Note 2) (%)	Payment due
Short-term borrowings (Note 3)	62,544	146,054	102,892	0.44	–
Current portion of long-term borrowings (Note 3)	49,690	39,916	35,491	0.70	–
Current portion of bonds payable (Note 4)	19,991	9,998	19,994	–	
Long-term borrowings (Note 3)	177,821	161,548	244,972	0.53	April 2022 to January 2029
Bonds payable (Note 4)	29,958	49,845	59,763	–	September 2023 to September 2030
Short-term lease liabilities	17,205	17,523	17,630	0.75	
Long-term lease liabilities	136,398	131,818	125,193	1.11	April 2022 to January 2067
Other interest-bearing liabilities					
Commercial papers (current portion)	–	56,000	–	–	
Total	493,607	612,702	605,935	–	–
Current liabilities	149,430	269,491	176,007	–	–
Non-current liabilities	344,177	343,211	429,928	–	–
Total	493,607	612,702	605,935	–	–

Notes:
1. "Bonds and borrowings" and other interest-bearing liabilities are classified as financial liabilities measured at amortized cost.
2. The average interest rate shows the weighted-average interest rate on the balance at end of period.
3. Borrowings for which the hedge accounting is applied to interest rate swaps are presented by applying the fixed interest rates after the swaps.

4. The terms of issue of bonds payable are summarized as follows:

(Millions of yen)

Company	Description	Date of issuance	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021	Interest rate (%)	Maturity
IHI	38th Unsecured Bonds	June 14, 2013	9,991	9,998 (9,998)	–	1.110	June 12, 2020
IHI	39th Unsecured Bonds	June 17, 2014	9,998 (9,998)	–	–	0.389	June 17, 2019
IHI	40th Unsecured Bonds	June 17, 2014	9,985	9,992	9,999 (9,999)	0.592	June 17, 2021
IHI	41st Unsecured Bonds	December 10, 2014	9,993 (9,993)	–	–	0.287	December 10, 2019
IHI	42nd Unsecured Bonds	December 10, 2014	9,982	9,989	9,995 (9,995)	0.490	December 10, 2021
IHI	43rd Unsecured Bonds	October 17, 2019	–	9,957	9,966	0.200	October 17, 2024
IHI	44th Unsecured Bonds	October 17, 2019	–	9,957	9,963	0.260	October 16, 2026
IHI	45th Unsecured Bonds	October 17, 2019	–	9,950	9,955	0.340	October 17, 2029
IHI	46th Unsecured Bonds	September 3, 2020	–	–	9,967	0.220	September 1, 2023
IHI	47th Unsecured Bonds	September 3, 2020	–	–	9,960	0.350	September 3, 2025
IHI	48th Unsecured Bonds	September 3, 2020	–	–	9,952	0.490	September 3, 2030
Total			49,949 (19,991)	59,843 (9,998)	79,757 (19,994)	–	–

Note: The figures in parentheses indicate the redemption schedule within one year.

(2) Assets pledged as collateral

The following assets are pledged as collateral for borrowings:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Other financial assets (current)	2	–	–
Property, plant and equipment	541	280	–
Investments accounted for using equity method	(Note 1) 2,793	(Note 1) 2,793	(Note 1) 2,793
Other financial assets (non-current)	(Note 2) 646	(Notes 2 and 3) 2,608	(Notes 2 and 3) 2,613
Total	3,982	5,681	5,406

Notes:
1. Nanatsujima Biomass Power Limited Liability Company, an affiliate of IHI, its nine fellow membership holders and certain financial institutions have entered into a membership interest revolving pledge agreement in order to secure all and any liabilities incurred by 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.
2. Kagoshima Mega Solar Power Corporation and its seven fellow shareholders entered into a stock revolving pledge agreement with financial institutions in order to secure all and any liabilities incurred by Kagoshima Mega Solar Power Corporation, under the limited loan agreement concluded between Kagoshima Mega Solar Power Corporation and the financial institutions. The amount of assets pledged as collateral is ¥646 million.
3. Onahama Higashikou Bulk Terminal Limited Liability Company, an affiliate of IHI, its six fellow membership holders and certain financial institutions have entered into a membership interest revolving pledge agreement in order to secure all and any liabilities incurred by 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.

Obligations corresponding to the above are as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Short-term borrowings	2,000	1,000	–

20. Leases

Information on leases for which the IHI Group is a lessee is presented below.

The IHI Group has been leasing assets including buildings, mainly office buildings, and land where offices are located and machinery used in production facilities for business purposes under the lease contracts.

Many of the IHI Group's real estate leases include extension and termination options in their contract terms and conditions to respond to the risk of price fluctuations. The IHI Group determines whether it is reasonably certain to exercise extension and termination options by comprehensively taking into account various factors, such as specifications of the leased property and business strategies.

(1) Right-of-use assets

The carrying amounts, depreciation, and an amount of increase of right-of-use assets by class of underlying assets are as follows:

Fiscal year ended March 31, 2020

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Other (Note)	Total
Carrying amount at beginning of period	69,795	20,065	3,585	35,470	117	129,032
Carrying amount at end of period	61,913	22,707	5,187	34,360	100	124,267
Depreciation	10,242	5,044	1,393	514	74	17,267
Amount of increase of right-of-use assets	3,255	8,234	3,087	153	4	14,733

Note: Among the classes of underlying assets subject to right-of-use assets, the "Other" category includes right-of-use assets relating to leases of intangible assets such as software.

Fiscal year ended March 31, 2021

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Other (Note)	Total
Carrying amount at beginning of period	61,913	22,707	5,187	34,360	100	124,267
Carrying amount at end of period	53,888	21,111	5,095	37,513	187	117,794
Depreciation	9,258	5,733	1,775	634	73	17,473
Amount of increase of right-of-use assets	3,954	5,264	1,767	784	130	11,899

Note: Among the classes of underlying assets subject to right-of-use assets, the "Other" category includes right-of-use assets relating to leases of intangible assets such as software.

(2) Lease liabilities

For details of the repayment schedule for lease liabilities, refer to Note "36. Financial instruments (4) Liquidity risk management."

(3) Amounts recognized in profit or loss

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Interest expense on lease liabilities	1,672	1,566
Expense relating to short-term leases	3,001	1,947
Expense relating to leases of low-value assets	2,381	3,270

Note: Rental income from subleasing right-of-use assets and expense relating to variable lease payments not included in the measurement of lease liabilities are immaterial.

(4) Cash outflow for leases

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Total cash outflow for leases	26,601	26,805

(5) Sale and leaseback

As it is immaterial, no further information on sale and leaseback is given.

Information about leases for which the IHI Group is a lessor is presented below.

(6) Finance leases

As it is immaterial, no further information on finance leases is given.

(7) Operating leases

The IHI Group mainly leases real estate, such as office buildings (including land) and commercial facilities.

The IHI Group collects security deposits as a risk management strategy for these leases to ensure the recovery of lease payments and any expenses incurred to restore leased properties.

Lease income for the fiscal years ended March 31, 2020 and 2021 are ¥18,230 million and ¥20,379 million, respectively.

The maturity analysis of lease payments (undiscounted) 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	After 5 years	Total
Transition date (As of April 1, 2019)	19,061	20,559	19,602	18,654	18,562	29,384	125,822
As of March 31, 2020	22,009	19,536	19,102	18,670	18,481	72,090	169,888
As of March 31, 2021	20,494	18,974	18,505	18,401	18,374	36,088	130,836

21. Other financial liabilities

The breakdown of other financial liabilities is as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Financial liabilities measured at amortized cost			
Government grants classified under contingent settlement provisions (Note 1)	102,702	98,595	101,865
Liabilities in respect of revenue-sharing arrangements (Note 2)	12,242	11,302	11,561
Other	801	751	804
Financial liabilities measured at fair value through profit or loss			
Derivative liabilities	173	1,098	940
Total	115,918	111,746	115,170
Current liabilities	10,268	11,036	11,742
Non-current liabilities	105,650	100,710	103,428
Total	115,918	111,746	115,170

Notes: 1. The government grants for the Civil aero engines Business are recorded as liabilities classified under contingent settlement provisions until their repayment.

2. In the Civil aero engines Business, IHI has entered into revenue-sharing arrangements mainly with financial institutions. Under these arrangements, IHI receives funding to execute certain business projects and makes payments based on future earnings of the projects. At the initial recognition, IHI measures the financial liabilities at the amount of the funds received. After the initial recognition, IHI applies the effective interest method using a discount rate equal to the rate of return estimated upon entering into the arrangement.

22. Trade and other payables

The breakdown of trade and other payables is as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Notes and accounts payable – trade	286,893	261,944	222,542
Other	24,796	30,810	11,909
Total	311,689	292,754	234,451

Trade and other payables are classified as financial liabilities measured at amortized cost.

23. Employee benefits

To provide retirement benefits to employees, the IHI Group has lump-sum retirement payment plans, defined benefit pension plans and defined contribution plans.

The lump-sum retirement payment plans provide a lump-sum payment to retirees, and IHI and certain subsidiaries have an obligation to pay benefits directly to retirees.

Each company funds the defined benefit pension plans by periodically making contributions to entrusted financial institutions. The entrusted financial institutions provide pension benefits from the reserve funds when qualified employees retire.

The defined contribution plans require employees who elect to participate in the plans and companies that are employers of such employees to make contributions over a participation period, and plan participants themselves are responsible for the management of plan assets. Benefits are paid by the trustee.

As the defined benefit obligations are measured based on actuarial assumptions, they are exposed to the risk of fluctuating assumptions, such as discount rates.

Plan assets are composed primarily of marketable shares and cash, which are exposed to the risk of fluctuating stock prices. However, the IHI Group considers that the risk is immaterial.

(1) Defined benefit plans

A. Breakdown of liabilities recognized in the consolidated statement of financial position

Defined benefit obligations, plan assets, as well as net defined benefit liability and asset, recorded in the consolidated statement of financial position, are as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Present value of defined benefit obligations	195,402	195,400	197,703
Fair value of plan assets	21,186	19,397	17,012
Net defined benefit liability	174,216	176,003	180,691
Amount recognized in the consolidated statement of financial position			
Retirement benefit liability	174,230	176,010	180,720
Retirement benefit asset	14	7	29
Net defined benefit liability	174,216	176,003	180,691

B. Changes in the present value of defined benefit obligations

Changes in the present value of defined benefit obligations are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Present value of defined benefit obligations at the beginning of the fiscal year	195,402	195,400
Current service cost	10,510	10,180
Interest cost	1,124	1,228
Remeasurements		
Actuarial gains and losses arising from changes in demographic assumptions	(2,025)	308
Actuarial gains and losses arising from changes in financial assumptions	(1,437)	(702)
Actuarial gains and losses arising from experience adjustments	1,775	1,245
Past service cost	212	499
Benefits paid	(10,056)	(10,860)
Exchange differences on translation of foreign operations	(226)	(437)
Other	121	(32)
Present value of defined benefit obligations at the end of the fiscal year	195,400	197,703

The weighted average duration of the defined benefit obligations as of the transition date (April 1, 2019) and for the fiscal years ended March 31, 2020 and March 31, 2021 are 12.37 years, 11.98 years and 11.67 years, respectively.

C. Changes in the fair value of plan assets

Changes in the fair value of plan assets are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Fair value of plan assets at the beginning of the fiscal year	21,186	19,397
Interest income	109	335
Remeasurements		
Return on plan assets	(2,249)	3,964
Contributions to the plan by the employer	529	376
Benefits paid	(213)	(7,315)
Exchange differences on translation of foreign operations	(55)	202
Other	90	53
Fair value of plan assets at the end of the fiscal year	19,397	17,012

The IHI Group plans to contribute ¥473 million for the fiscal year ending March 31, 2022.

D. Breakdown of fair value of plan assets

The breakdown of plan assets by major category is as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)		
	Assets with quoted prices in active markets	Assets without quoted prices in active markets	Total
Cash and deposits	1,838	–	1,838
Equity instruments			
Stocks issued by Japanese companies	15,941	46	15,987
Stocks issued by foreign companies	394	43	437
Debt instruments			
Bonds	1,153	245	1,398
Other	–	1,526	1,526
Total	19,326	1,860	21,186

	As of March 31, 2020		
	Assets with quoted prices in active markets	Assets without quoted prices in active markets	Total
Cash and deposits	3,203	–	3,203
Equity instruments			
Stocks issued by Japanese companies	12,284	39	12,323
Stocks issued by foreign companies	847	32	879
Debt instruments			
Bonds	1,153	208	1,361
Other	–	1,631	1,631
Total	17,487	1,910	19,397

	As of March 31, 2021		
	Assets with quoted prices in active markets	Assets without quoted prices in active markets	Total
Cash and deposits	1,179	–	1,179
Equity instruments			
Stocks issued by Japanese companies	12,117	50	12,167
Stocks issued by foreign companies	764	29	793
Debt instruments			
Bonds	1,019	94	1,113
Other	–	1,761	1,761
Total	15,079	1,934	17,012

A major component of the IHI Group's plan assets is a retirement benefit trust set up for the lump-sum retirement payment plan. The trust is largely made up of cross-shareholdings. With respect to cross-shareholdings, the propriety of holding individual shares is assessed in the Board of Directors every year by confirming the medium- to long-term significance based on the holding policy and examining the economic rationality from the perspective whether the benefits and risks from each holding cover the cost of capital.

E. Significant actuarial assumptions

The significant assumptions used for actuarial calculations are as follows:

(%)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Discount rate	Mainly 0.5%	Mainly 0.6%	Mainly 0.6%

F. Sensitivity analysis

The effect on the present value of the defined benefit obligations of a 0.5% change in discount rates used for actuarial calculations is as follows. The analysis assumes that all other variables are constant; however, in reality, changes in other assumptions may affect the sensitivity analysis.

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
0.5% increase in discount rate	(10,791)	(10,255)	(10,581)
0.5% decrease in discount rate	11,574	11,247	11,409

(2) Defined contribution plan

The amounts recognized as expenses for defined contribution plans for the fiscal years ended March 31, 2020 and 2021 are ¥18,667 million and ¥18,415 million, respectively.

(3) Employee benefit expenses

The total amounts of employee benefit expenses included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit or loss for the fiscal years ended March 31, 2020 and 2021 are ¥252,752 million and ¥227,338 million, respectively.

24. Provisions

The breakdown of changes in provisions and the breakdown of provisions in the consolidated statement of financial position are as follows:

Fiscal year ended March 31, 2021

(Millions of yen)

	Provision for construction warranties	Provision for loss on construction contracts	Other provisions	Total
April 1, 2020	12,354	19,577	5,968	37,899
Increases during period	5,402	6,439	673	12,514
Decreases during period (intended use)	(2,793)	(8,457)	(43)	(11,293)
Decreases during period (reversal)	(2,405)	(3,751)	(5)	(6,161)
Other (translation adjustments)	28	21	68	117
March 31, 2021	12,586	13,829	6,661	33,076
Current liabilities	12,586	13,829	323	26,738
Non-current liabilities	–	–	6,338	6,338
March 31, 2021	12,586	13,829	6,661	33,076

(1) Provision for construction warranties

To provide for possible expenditures associated with product warranties, the provision for construction warranties is recorded at an estimate of future expenditures based on historical experience.

(2) Provision for loss on construction contracts

If the incurrence of future loss for an undelivered project, for which the IHI Group is fulfilling its contractual obligations, is considered to be probable, the provision for loss on construction contracts is recorded at an estimate of future loss that is reasonably estimable at the end of the fiscal year. These expenditures are expected to be incurred according to the progress of construction projects subject to the provision, among other factors.

(3) Other provisions

Other provisions include asset retirement obligations. To provide for the performance of restoration obligations required by laws and regulations or under contract incidental to leases of buildings and land and other properties, such as offices used by the IHI Group, asset retirement obligations are recorded at an amount expected to be paid in the future based on historical experience of restoration of leased properties. These expenditures are expected to be incurred after the expected period of use determined taking into account, among other factors, economic useful lives of underlying leased assets and property improvements made to leased offices and other properties as well as lease terms. However, they may be affected by future business plans.

25. Other liabilities

The breakdown of other liabilities is as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Accrued expenses	52,597	50,514	53,594
Provision for bonuses	28,071	26,672	24,151
Refund liabilities	44,748	45,491	23,227
Accrued paid absences	19,938	21,752	22,198
Other	28,716	28,580	38,567
Total	174,070	173,009	161,737
Current liabilities	160,490	156,797	144,907
Non-current liabilities	13,580	16,212	16,830
Total	174,070	173,009	161,737

26. Equity and other components of equity

(1) Number of shares authorized and total number of shares issued

Changes in the numbers of shares authorized and total number of shares issued are as follows:

(Shares)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Number of shares authorized		
Ordinary shares	300,000,000	300,000,000
Total number of shares issued		
Balance at beginning of period	154,679,954	154,679,954
Increase (decrease) during period	–	–
Balance at end of period	154,679,954	154,679,954

Note: The shares issued by IHI are ordinary shares with no par value that have no restrictions on any rights. The shares issued have been fully paid up.

(2) Treasury shares

Changes in the numbers of treasury shares and balances are as follows:

	Number of shares (Shares)	Amount (Millions of yen)
Transition date (As of April 1, 2019)	388,300	1,170
Increase (decrease) during period (Note 1)	5,666,200	14,729
As of March 31, 2020	6,054,500	15,899
Increase (decrease) during period (Note 2)	110,800	54
As of March 31, 2021	6,165,300	15,953

Notes:
1. In response to an intention given by TOSHIBA CORPORATION in November 2019 to sell all its shares of IHI contributed to the retirement benefit trust by the said company, IHI acquired its treasury shares from the perspectives of mitigating the short-term effect of the sale on the supply-demand balance of shares of IHI and alleviating the impact on existing shareholders. As a result, the number and balance of treasury shares increased by 5,542,200 shares and by ¥14,487 million in the fiscal year ended March 31, 2020. Other main causes for the increase or decrease during the fiscal year ended March 31, 2020 are the acquisition of treasury shares conducted by the trust account for the Board Benefit Trust and exercise of share acquisition rights.
2. Main causes of the increase or decrease during the fiscal year ended March 31, 2021 are the acquisition of treasury shares and granting of treasury shares conducted by the trust account for the Board Benefit Trust, and the exercise of share acquisition rights.
3. The shares in treasury presented above include 393,900 shares and 552,400 shares of IHI owned by a trust account for the Board Benefit Trust as of March 31, 2020 and 2021, respectively.
4. The numbers of shares of IHI owned by its associates as of March 31, 2020 and 2021 are both 20,200 shares.

(3) Capital surplus

The Companies Act of Japan (hereinafter, the "Companies Act") provides that at least a half of payment or contribution at the share issuance shall be credited to share capital, and the remaining amount may be credited to legal capital surplus included in capital surplus. The Companies Act also provides that legal capital surplus may be credited to share capital pursuant to a resolution at the General Meeting of Shareholders.

Changes in capital surplus include the effect of equity-settled share-based payments under the performance-based share remuneration plan of IHI. For details, refer to Note "35. Share-based payments."

(4) Retained earnings

The Companies Act provides that an amount equal to 10% of the dividends paid from surplus must be transferred to legal capital surplus and legal retained earnings until the aggregate amount of legal capital surplus and legal retained earnings equals 25% of share capital. The amount accumulated in legal retained earnings may be used to offset deficit. Further, legal retained earnings may be reversed pursuant to a resolution at the General Meeting of Shareholders.

27. Dividends

The dividends paid are as follows:

Fiscal year ended March 31, 2020

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

Notes: 1. Total dividends paid in accordance with the resolution passed at the Ordinary General Meeting of Shareholders held on June 20, 2019 include ¥9 million of dividends for the shares of IHI owned by a trust account for the Board Benefit Trust.

2. Total dividends paid in accordance with the resolution passed at the Ordinary General Meeting of Shareholders held on November 1, 2019 include ¥12 million of dividends for the shares of IHI owned by a trust account for the Board Benefit Trust.

Fiscal year ended March 31, 2021

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

Note: Total dividends paid in accordance with the resolution passed at the Ordinary General Meeting of Shareholders held on June 25, 2020 include ¥8 million of dividends for the shares of IHI owned by a trust account for the Board Benefit Trust.

Dividends with effective date falling in the following fiscal year are as follows:

Fiscal year ended March 31, 2020

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

Note: Total dividends paid in accordance with the resolution passed at the Ordinary General Meeting of Shareholders held on June 25, 2020 include ¥8 million of dividends for the shares of IHI owned by a trust account for the Board Benefit Trust.

Fiscal year ended March 31, 2021

Not applicable

28. Revenue

(1) Disaggregation of revenue

Disaggregation of revenue recognized from contracts with customers and other sources of revenue, and revenue by major type of goods or services and regional market and the relationships with reportable segments are as follows:

Fiscal year ended March 31, 2020

A. Revenue recognized from contracts with customers and other sources of revenue

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Revenue recognized from contracts with customers	320,979	124,220	391,925	367,364	1,204,488	43,587	1,248,075
Revenue recognized from other sources of revenue	–	13,864	103	327	14,294	809	15,103
Total	320,979	138,084	392,028	367,691	1,218,782	44,396	1,263,178

Revenue recognized from other sources of revenue includes lease income under IFRS 16 *Leases* (hereinafter, “IFRS 16”).

B. Breakdown by type of goods or services

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Power systems	83,376				83,376		83,376
Boilers	94,488				94,488		94,488
Plants	56,730				56,730		56,730
Nuclear energy	31,568				31,568		31,568
Bridges and water gates		80,408			80,408		80,408
Shield systems		15,464			15,464		15,464
Urban development		16,505			16,505		16,505
Vehicular turbochargers			153,656		153,656		153,656
Parking			53,472		53,472		53,472
Rotating machineries			48,094		48,094		48,094
Heat treatment and surface engineering			38,121		38,121		38,121
Transport machineries			30,687		30,687		30,687
Civil aero engines				222,370	222,370		222,370
Other	63,056	37,001	81,917	168,781	350,755	67,055	417,810
Intersegment revenue	(8,239)	(11,294)	(13,919)	(23,460)	(56,912)	(22,659)	(79,571)
Revenue from external customers	320,979	138,084	392,028	367,691	1,218,782	44,396	1,263,178

C. Breakdown by region

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Japan	195,591	117,933	213,488	147,789	674,801	36,941	711,742
North America	35,526	–	17,883	196,946	250,355	1,830	252,185
Asia	80,210	17,273	106,897	6,521	210,901	439	211,340
Europe	3,626	2,438	45,927	15,386	67,377	4,702	72,079
Central and South America	538	384	7,230	843	8,995	3	8,998
Other	5,488	56	603	206	6,353	481	6,834
Overseas	125,388	20,151	178,540	219,902	543,981	7,455	551,436
Revenue from external customers	320,979	138,084	392,028	367,691	1,218,782	44,396	1,263,178

Fiscal year ended March 31, 2021

A. Revenue recognized from contracts with customers and other sources of revenue

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Revenue recognized from contracts with customers	315,722	130,649	363,179	242,292	1,051,842	42,066	1,093,908
Revenue recognized from other sources of revenue	–	17,594	135	327	18,056	942	18,998
Total	315,722	148,243	363,314	242,619	1,069,898	43,008	1,112,906

Revenue recognized from other sources of revenue includes lease income under IFRS 16.

B. Breakdown by type of goods or services

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Power systems	87,190				87,190		87,190
Boilers	107,493				107,493		107,493
Plants	38,206				38,206		38,206
Nuclear energy	32,744				32,744		32,744
Bridges and water gates		76,896			76,896		76,896
Shield systems		19,407			19,407		19,407
Urban development		23,948			23,948		23,948
Vehicular turbochargers			146,617		146,617		146,617
Parking			46,096		46,096		46,096
Rotating machineries			49,701		49,701		49,701
Heat treatment and surface engineering			30,440		30,440		30,440
Transport machineries			40,086		40,086		40,086
Civil aero engines				101,679	101,679		101,679
Other	57,014	38,230	62,202	153,984	311,430	66,893	378,323
Intersegment revenue	(6,925)	(10,238)	(11,828)	(13,044)	(42,035)	(23,885)	(65,920)
Revenue from external customers	315,722	148,243	363,314	242,619	1,069,898	43,008	1,112,906

C. Breakdown by region

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Japan	204,115	119,020	197,692	142,079	662,906	36,012	698,918
North America	20,941	–	14,430	90,562	125,933	225	126,158
Asia	79,804	23,207	109,473	4,329	216,813	1,698	218,511
Europe	3,413	5,999	33,466	5,357	48,235	4,592	52,827
Central and South America	532	–	7,622	248	8,402	101	8,503
Other	6,917	17	631	44	7,609	380	7,989
Overseas	111,607	29,223	165,622	100,540	406,992	6,996	413,988
Revenue from external customers	315,722	148,243	363,314	242,619	1,069,898	43,008	1,112,906

The IHI Group consists of segments by business area and sets the business areas of Resources, Energy and Environment; Social Infrastructure and Offshore Facilities; Industrial Systems and General-Purpose Machinery; and Aero Engine, Space and Defense, and is engaged in the sale of goods, execution of construction and rendering of services in each business area.

The primary method to record revenue for each segment is as follows:

- Resources, Energy and Environment and Social Infrastructure and Offshore Facilities

  For revenue from sale of goods, the IHI Group determines that performance obligations have been satisfied when customers obtain control of the goods upon its delivery. Hence, revenue from sale of goods is usually recognized upon the delivery of goods.

With regard to the execution of construction contracts and rendering of services including maintenance services, the IHI Group determines that performance obligations are satisfied over time, and revenue is recognized by measuring the progress towards complete satisfaction of said performance obligations to provide such services to customers.

The progress is measured by specifying the satisfaction of performance obligations. Measurements are estimated based on the ratio of the costs incurred to satisfy the performance obligations against the total expected costs to fully satisfy the contractual obligations.

Revenue is recognized by the cost recovery method when it is not possible to reasonably estimate progress towards satisfaction of performance obligations, but it is probable that the costs incurred will be recovered.

- Industrial Systems and General-Purpose Machinery and Aero Engine, Space and Defense

  In the sale of goods mainly in the Civil aero engines Business and the Vehicular turbochargers Business, the IHI Group determines that performance obligations have been satisfied when customers obtain control of the goods upon its delivery. Hence, revenue from sale of goods is usually recognized upon the delivery of goods.

  In the Civil aero engines Business, revenue decreased after estimating the costs to be borne in connection with the civil aero engine programs in which IHI participates, which are deducted revenue as consideration paid to customers.

  Furthermore, “Revenue” decreased during reversal as consideration prepaid by customers was recorded in “Other non-current assets”.

When certain refund obligations to customers are expected to arise, such as compensation for damages incurred in association with performance of contracts, the IHI Group reduces revenue to the extent of the estimated refund liability.

The consideration of a transaction is generally received based on the progress for each performance obligation satisfied over time, such as a milestone in the case of a construction contract. The consideration for the sale of goods or rendering of services is mostly received within one year after the performance obligation is satisfied.

In either case, the contract does not include a significant financing component.

Further, IHI provides warranties assuring that a product satisfies specifications as provided in the contract. However, IHI does not identify this warranty as a separate performance obligation because it does not provide a distinct service.

(2) Contract balances

The breakdown of receivables arising from contracts with customers and contract assets and liabilities is as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Receivables arising from contracts with customers	321,912	323,180	330,075
Contract assets	93,692	101,823	111,830
Contract liabilities	154,961	148,424	165,818

The amounts of revenue recognized in the fiscal years ended March 31, 2020 and 2021 that were included in the beginning balance of contract liabilities are ¥97,623 million and ¥82,393 million, respectively.

All revenues recognized for performance obligations satisfied (or partially satisfied) in the previous periods are immaterial.

The contract assets relate to consideration for work completed but not billed at the account closing date. The contract assets are transferred to receivables when the rights become unconditional.

The contract liabilities primarily relate to the advances received from customers.

(3) Transaction price allocated to the remaining performance obligations

The aggregate amount of transaction price allocated to the remaining performance obligations is as follows:

As of March 31, 2021

(Millions of yen)

	Reportable segments					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Remaining performance obligations	482,310	226,449	175,312	243,499	1,127,570	37,471	1,165,041

The amounts presented above include all consideration from contracts with customers.

The Vehicular turbochargers Business and the Rotating machineries Business in Industrial Systems and General-Purpose Machinery and the Civil aero engines Business in Aero Engine, Space and Defense belong to the volume production business, and their performance obligations are generally expected to be satisfied within one year.

Businesses other than above primarily belong to the individual made-to-order products business. As such, many of transactions in such businesses are for construction contracts that have performance obligations to be fulfilled over the span of one year or longer.

The IHI Group applies the practical expedient in Paragraph C5(d) of IFRS 15 *Revenue from Contracts with Customers* (hereinafter, “IFRS 15”) and does not disclose information about the transaction price allocated to the remaining performance obligations and when the IHI Group expects to recognize the amount as revenue for the fiscal year ended March 31, 2020.

(4) Assets recognized from contract costs

The IHI Group recognizes assets only to the extent that it is probable that the incremental commission fees paid to intermediaries mainly to obtain contracts and direct costs incurred for fulfilling contracts are recoverable.

Further, applying the practical expedient in Paragraph 94 of IFRS 15, the IHI Group recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of such costs is one year or less.

The amounts capitalized as of March 31, 2020 and 2021 are immaterial.

29. Selling, general and administrative expenses

The breakdown of selling, general and administrative expenses is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Expenses incurred in taking customer orders	13,739	14,169
Employee benefits expense	70,603	69,603
Depreciation	15,398	15,185
Research and development expenses	37,616	24,951
Outsourcing expenses	13,757	9,652
Other	36,991	30,665
Total	188,104	164,225

30. Other income and expenses

The breakdown of other income is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Gain on sale of investment property (Note1)	–	25,611
Gain on sale of property, plant and equipment	4,409	702
Gain on transfer of intellectual property rights	3,837	-
Gain on transfer of equity interest of subsidiaries and associates (Note2)	566	-
Other	6,680	3,384
Total	15,492	29,697

Notes: 1. Gain on sale of investment property

In the fiscal year ended March 31, 2021, IHI decided to transfer some assets aiming at securing investment resources for creating growth businesses to contribute for the realization of sustainable society on the basis of "Project change" released on November 10, 2020

Accordingly, IHI has recorded gain on sale of investment property in "Other income."

(Millions of yen)

Details and location of property	Gain on sale of investment property
Investment property（Land about 27,600 ㎡） Shinsuna 2-chome, Koto-ku, Tokyo, Japan	16,797
Investment property（Land about 7,300 ㎡） Shinsuna 1-chome, Koto-ku, Tokyo, Japan	4,590
Other	4,224

2. Gain on transfer of equity interest of subsidiaries and associates

In the fiscal year ended March 31, 2020, IHI lost control over its consolidated subsidiary IHI Investment for Aero Engine Leasing LLC as IHI transferred a portion of equity interest in the said subsidiary. As a result, IHI Investment for Aero Engine Leasing LLC became IHI's entity accounted for using the equity method. Accordingly, IHI has recorded gain on transfer of equity interest of subsidiaries and associates of ¥566 million.

The gain on transfer of equity interest of subsidiaries and associates includes a realized loss from exchange differences on translation of foreign operations of ¥256 million and a valuation loss of ¥1,457 million incurred as a result of the measurement of the remaining equity interest at fair value at the time of the transfer.

The breakdown of other expenses is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Dismantlement costs for facilities in former Aichi Headquarters Representative's Office	–	3,930
Impairment losses (Note)	4,385	3,745
Other	7,737	9,810
Total	12,122	17,485

Note: Please refer to Note "16. Impairment of non-financial assets" for the breakdown of impairment losses.

31. Finance income and finance costs

The breakdown of finance income is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Interest income		
Financial assets measured at amortized cost	708	382
Dividend income		
Financial assets measured at fair value through other comprehensive income	1,168	631
Foreign exchange gain	–	3,432
Other	189	2,251
Total	2,065	6,696

The breakdown of finance costs is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Interest expenses		
Financial liabilities measured at amortized cost	3,966	3,167
Lease liabilities	1,672	1,566
Foreign exchange loss	1,933	–
Other	868	374
Total	8,439	5,107

32. Other comprehensive income

Amounts arising during the fiscal year, reclassification adjustments to profit or loss and tax effects by item of other comprehensive income are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income		
Amount arising during the fiscal year	(3,739)	3,264
Tax effects	231	(777)
Financial assets measured at fair value through other comprehensive income	(3,508)	2,487
Remeasurements of defined benefit plans		
Amount arising during the fiscal year	(167)	2,571
Tax effects	(3)	(685)
Remeasurements of defined benefit plans	(170)	1,886
Other comprehensive income of investments accounted for using equity method		
Amount arising during the fiscal year	134	176
Other comprehensive income of investments accounted for using equity method	134	176
Total of items that will not be reclassified to profit or loss	(3,544)	4,549
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations		
Amount arising during the fiscal year	(6,323)	7,004
Reclassification adjustments	256	–
Before tax effect adjustments	(6,067)	7,004
Tax effects	(20)	–
Exchange differences on translation of foreign operations	(6,087)	7,004
Cash flow hedges		
Amount arising during the fiscal year	266	129
Reclassification adjustments	(354)	(65)
Before tax effect adjustments	(88)	64
Tax effects	13	(15)
Cash flow hedges	(75)	49
Other comprehensive income of investments accounted for using equity method		
Amount arising during the fiscal year	(55)	322
Reclassification adjustments	31	28
Other comprehensive income of investments accounted for using equity method	(24)	350
Total of items that may be reclassified to profit or loss	(6,186)	7,403
Total	(9,730)	11,952

33. Earnings per share

(1) Basis for calculating basic earnings per share

(Millions of yen, unless otherwise stated)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit attributable to owners of parent	8,204	13,093
Profit not attributable to ordinary shareholders of parent	–	–
Profit used for calculating basic earnings per share	8,204	13,093
Weighted-average number of ordinary shares (Thousands of shares)	152,137	148,561
Basic earnings per share (Yen)	53.93	88.13

(2) Basis for calculating diluted earnings per share

(Millions of yen, unless otherwise stated)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit used for calculating basic earnings per share	8,204	13,093
Adjustment to profit	–	–
Profit used to calculate diluted earnings per share	8,204	13,093
Weighted-average number of ordinary shares (Thousands of shares)	152,137	148,561
Increase in ordinary shares		
Share acquisition rights (Thousands of shares)	34	2
Weighted-average number of ordinary shares after dilution (Thousands of shares)	152,171	148,563
Diluted earnings per share (Yen)	53.91	88.13

Note: Shares of IHI owned by a trust account for the Board Benefit Trust are included in the number of shares issued at the end of the fiscal year and the number of treasury shares excluded for the calculation of the weighted-average number of ordinary shares. For the fiscal year ended March 31, 2021, the weighted-average number of ordinary shares as treasury shares excluded for the calculation of basic earnings per share and diluted earnings per share is 490 thousand shares (314 thousand shares for the fiscal year ended March 31, 2020).

34. Cash flow information

Changes in liabilities arising from financing activities are as follows:

Fiscal year ended March 31, 2020

(Millions of yen)

	As of April 1, 2019	Changes arising from cash flows	Non-cash changes			As of March 31, 2020
			Exchange rate changes	New contracts	Other (Note)	
Short-term borrowings	62,544	84,004	(494)	–	–	146,054
Long-term borrowings	227,511	(1,663)	(1,329)	–	(23,055)	201,464
Bonds payable	49,949	10,000	–	–	(106)	59,843
Lease liabilities	153,603	(18,871)	(491)	15,330	(230)	149,341
Commercial papers	–	56,000	–	–	–	56,000
Other financial liabilities	115,745	(5,587)	(158)	–	648	110,648
Total	609,352	123,883	(2,472)	15,330	(22,743)	723,350

Note: "Other" in changes in long-term borrowings include the decrease by ¥22,728 million arising from loss of control over IHI Investment for Aero Engine Leasing LLC, which was a subsidiary of IHI, due to the partial transfer of its equity interest. Furthermore, for details of debt guarantees to the borrowings of this company, please refer to Note "40. Contingent liabilities."

Fiscal year ended March 31, 2021

(Millions of yen)

	As of April 1, 2020	Changes arising from cash flows	Non-cash changes			As of March 31, 2021
			Exchange rate changes	New contracts	Other (Note)	
Short-term borrowings	146,054	(43,633)	492	–	(21)	102,892
Long-term borrowings	201,464	78,438	572	–	(11)	280,463
Bonds payable	59,843	20,000	–	–	(86)	79,757
Lease liabilities	149,341	(19,244)	753	12,073	(100)	142,823
Commercial papers	56,000	(56,000)	–	–	–	–
Other financial liabilities	110,648	2,529	120	–	933	114,230
Total	723,350	(17,910)	1,937	12,073	715	720,165

Note: "Other" in changes without cash flows includes changes arising from acquisition or loss of control over subsidiaries or other businesses.

35. Share-based payments

IHI operates a share-based compensation-type stock option plan and performance-based share remuneration plan as share-based payment plans.

(1) Share-based compensation-type stock option plan

A. Description of the plan

IHI adopted a share-based compensation-type stock option plan for the purpose of providing a long-term incentive to directors and executive officers (hereinafter, “Directors, etc.”), and granted stock options to its Directors, etc. during a period between the fiscal years ended March 31, 2008 and 2017. All stock options issued by IHI are equity-settled share-based payments. The exercise period is specified in the allotment agreement. The options not exercised within this exercise period will expire. Stock options that existed during the fiscal year ended March 31, 2021 are as follows:

	Number of shares granted (Shares) (Note)	Grant date	Exercise period	Vesting conditions
FY2007 Stock option	27,400	August 9, 2007	August 9, 2037	In principle, stock option rights vest one year after the date on which both the positions as director and executive officer are lost.
FY2008 Stock option	51,100	August 18, 2008	August 18, 2038	In principle, stock option rights vest one year after the date on which both the positions as director and executive officer are lost.
FY2009 Stock option	64,700	August 5, 2009	August 5, 2039	In principle, stock option rights vest one year after the date on which both the positions as director and executive officer are lost.
FY2010 Stock option	75,900	August 9, 2010	August 9, 2040	In principle, stock option rights vest one year after the date on which both the positions as director and executive officer are lost.
FY2011 Stock option	59,300	August 17, 2011	August 17, 2041	In principle, stock option rights vest one year after the date on which both the positions as director and executive officer are lost.
FY2012 Stock option	79,800	August 16, 2012	August 16, 2042	In principle, stock option rights vest one year after the date on which both the positions as director and executive officer are lost.

	Number of shares granted (Shares) (Note)	Grant date	Exercise period	Vesting conditions
FY2013 Stock option	35,000	August 21, 2013	August 21, 2043	In principle, stock option rights vest one year after the date on which both the positions as director and executive officer are lost.
FY2014 Stock option	32,500	August 11, 2014	August 11, 2044	In principle, stock option rights vest one year after the date on which both the positions as director and executive officer are lost.
FY2015 Stock option	24,200	August 10, 2015	August 10, 2045	In principle, stock option rights vest one year after the date on which both the positions as director and executive officer are lost.
FY2016 Stock option	49,100	August 9, 2016	August 9, 2046	In principle, stock option rights vest one year after the date on which both the positions as director and executive officer are lost.

Note: The number of stock options is translated into the number of ordinary shares. The number of stock options is translated into the number of shares after the 1-for-10 consolidation of the ordinary shares on October 1, 2017.

B. Number and weighted-average exercise prices of stock options

	Fiscal year ended March 31, 2020		Fiscal year ended March 31, 2021	
	Number of shares (Shares)	Weighted-average exercise price (Yen)	Number of shares (Shares)	Weighted-average exercise price (Yen)
Unexercised balance at the beginning of the fiscal year	247,600	1	195,700	1
Granted	–	–	–	–
Exercised	51,900	1	48,400	1
Forfeited	–	–	–	–
Expired	–	–	–	–
Unexercised balance at the end of the fiscal year	195,700	1	147,300	1
Exercisable balance at end of the fiscal year	118,900	1	79,000	1

Notes:
1. The weighted-average stock prices at the time of exercising stock options during the period for the fiscal years ended March 31, 2020 and 2021 are ¥2,192.7 and ¥1,566.0, respectively.
2. The exercise prices of stock options outstanding as of March 31, 2020 and 2021 are both ¥1.
3. The weighted-average remaining contractual lives of stock options outstanding as of March 31, 2020 and 2021 are 23.0 years and 22.8 years, respectively.

C. Fair value of stock options granted during the fiscal year and assumptions

Not applicable

D. Share-based remuneration expenses

Not applicable

(2) Performance-based share remuneration plan

A. Description of the plan

IHI adopted a performance-based share remuneration plan (hereinafter, the “Plan” in this section) in order to enhance the motivation of directors and executive officers (hereinafter, “Directors, etc.” in this section) to contribute to increasing corporate value of the IHI Group over the medium- to long-term by making a strong link between the remuneration for Directors, etc. and price of ordinary shares of IHI (hereinafter, the “IHI’s shares” in this section) and medium- to long-term performance. The Plan is a system by which Directors, etc. will have IHI’s shares and money equivalent to 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” in this section). The Plan is outlined as follows:

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).

The transfer of IHI's shares based on the Plan is categorized as equity-settled share-based payment whereas the transfer of money equivalent to market value of IHI's shares is categorized as cash-settled share-based payment.

B. Share-based payments transferred in the form of IHI's shares

The number of points awarded and weighted-average fair value of equity-settled share-based payments transferred in the form of IHI's shares under the Plan at the grant date are as follows:

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Number of points awarded (Points)	57,800	88,600
Weighted-average fair value at the grant date (Yen)	2,629	1,510

Note: Due to the fact that the fair value of points awarded is approximately the same as the stock price at the grant date, the stock price at the grant date has been used.

C. Share-based payments transferred in the form of money equivalent to market value of the IHI's shares

The carrying amounts of liabilities arising from the cash-settled share-based payments transferred in the form of money equivalent to market value of the IHI's shares under the Plan are as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Other current liabilities	204	171	434

D. Share-based remuneration expenses

The amounts recorded as share-based remuneration expenses included in "Selling, general and administrative expenses" in the consolidated statement of profit or loss for the fiscal years ended March 31, 2020 and 2021 are ¥119 million and ¥360 million, respectively.

36. Financial instruments

(1) Capital management

The IHI Group manages its capital with the aim of maximizing corporate value through sustainable growth.

Indicators mainly used by the IHI Group for capital management are D/E ratio, ratio of equity attributable to owners of the parent and return on invested capital (ROIC).

The IHI Group's D/E ratio, ratio of equity attributable to owners of the parent and ROIC are as follows:

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Interest-bearing liabilities (Millions of yen)	493,607	612,702	605,935
Equity (Millions of yen)	338,885	306,040	327,727
D/E ratio (Times)	1.46	2.00	1.85
Ratio of equity attributable to owners of the parent (%)	16.9	15.0	16.4
ROIC (%)	–	4.1	2.2

These indicators are regularly reported to and monitored by management.

Further, the IHI Group's borrowings include syndicated loans with associated financial covenants relating to the equity and profits, however there are no events which conflict with the covenants as of the transition date (April 1, 2019), March 31, 2020 and March 31, 2021.

(2) Financial risk management

The IHI Group is exposed to financial risks (credit risk, liquidity risk, foreign exchange risk, interest rate risk, market price fluctuation risk) in the course of performing operation activities. To mitigate such financial risks, the IHI Group has managed the risks in accordance with certain policies.

The IHI Group uses derivative transactions to hedge the fluctuation risks of foreign exchange rates or interest rates under the policy of not entering into any speculative transactions.

(3) Credit risk management

Credit risk is the risk of a financial loss that the IHI Group will incur from a default of a contractual obligation by a counterparty of financial assets held by the IHI Group.

To manage the credit risks, 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 preservation of receivables by means of such as a collection of collateral and an early identification and mitigation of collectability concern caused by deterioration in financial status.

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

The maximum exposure to the credit risk of the IHI Group's financial assets is the carrying amount of the financial assets presented in the consolidated financial statements.
With respect to debt guarantees, the balance of debt guarantee presented in Note "40. Contingent liabilities" is the maximum exposure to the credit risks of the IHI Group's debt guarantees.
The IHI Group does not hold any properties as collateral and other credit enhancements against these exposures to the credit risk.

The IHI Group determines allowance for doubtful accounts by classifying receivables into trade receivables and contract assets and other receivables.

Any receivable of which collection is fully or partially impossible or is considered extremely difficult is deemed as a defaulted receivable.

In addition, the IHI Group determines that the credit impairment has occurred when a payment delay is not due to a temporary demand for funds but due to significant financial difficulty of the debtor or other factors and the recoverability of the receivables is significantly doubtful.

Changes in allowance for doubtful accounts are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020				
		Lifetime expected credit losses			
	Allowance for doubtful accounts measured at an amount equal to 12-month expected credit losses	Allowance for doubtful accounts on trade receivables and contract assets	Allowance for doubtful accounts on financial assets for which credit risk has increased significantly since initial recognition	Allowance for doubtful accounts on credit-impaired financial assets	Total
As of April 1, 2019	83	1,108	3,036	1,195	5,422
Increases during period	23	187	192	27	429
Decreases during period (intended use)	–	(39)	(68)	(1)	(108)
Decreases during period (reversal)	–	(399)	(264)	(174)	(837)
Other	(18)	429	(2)	(18)	391
As of March 31, 2020	88	1,286	2,894	1,029	5,297

(Millions of yen)

	Fiscal year ended March 31, 2021				
		Lifetime expected credit losses			
	Allowance for doubtful accounts measured at an amount equal to 12-month expected credit losses	Allowance for doubtful accounts on trade receivables and contract assets	Allowance for doubtful accounts on financial assets for which credit risk has increased significantly since initial recognition	Allowance for doubtful accounts on credit-impaired financial assets	Total
As of April 1, 2020	88	1,286	2,894	1,029	5,297
Increases during period	43	328	1,121	4	1,496
Decreases during period (intended use)	(10)	–	(23)	(49)	(82)
Decreases during period (reversal)	(111)	(486)	(122)	(13)	(732)
Other	118	(46)	104	53	229
As of March 31, 2021	128	1,082	3,974	1,024	6,208

The carrying amounts of financial assets and contract assets for which allowance for doubtful account is to be recognized (before deducting allowance for doubtful accounts) are as follows:

(Millions of yen)

	Financial assets measured at an amount equal to 12-month expected credit losses	Lifetime expected credit losses			Total
		Trade receivables and contract assets	Financial assets for which credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Transition date (As of April 1, 2019)	16,184	412,451	3,160	1,197	432,992
As of March 31, 2020	15,450	422,188	2,945	1,041	441,624
As of March 31, 2021	13,978	439,938	2,166	989	457,071

(4) Liquidity risk management

Liquidity risk is a risk that the IHI Group is unable to perform payments on the due date when it should perform the repayment obligation of financial liabilities as they become due.

The IHI Group prepares the appropriate funds for repayment by procuring short-term funds through measures, such as bank borrowings and commercial papers, and long-term funds through measures, such as long-term borrowings and bonds payables, if needed, in addition to net cash provided by operating activities.

Also, the IHI Group is taking efforts to secure liquidity and improve capital efficiency by means of financing through the cash management system among IHI and domestic subsidiaries, and among foreign affiliates in a partial area.

In addition, the IHI Group manages liquidity risks by measures such as timely forming and updating the cash flow plan by each group company.

The balanced of financial liabilities (including derivative financial instruments) by due date are as follows:

Transition date (As of April 1, 2019)

(Millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	After 1 year and within 5 years	After 5 years
Non-derivative financial liabilities					
Trade and other payables	311,689	311,689	311,230	459	–
Short-term borrowings	112,234	112,857	112,857	–	–
Bonds payable	49,949	50,243	20,068	30,176	–
Long-term borrowings	177,821	185,865	–	169,687	16,178
Lease liabilities	153,603	178,181	18,914	50,719	108,548
Other financial liabilities	115,745	115,745	10,968	58,111	46,666
Derivative financial liabilities	173	173	60	113	–
Total	921,214	954,753	474,097	309,265	171,392

Note: Receivables and payables arising from derivative transactions are stated on a net basis.

As of March 31, 2020

(Millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	After 1 year and within 5 years	After 5 years
Non-derivative financial liabilities					
Trade and other payables	292,754	292,754	292,501	253	–
Short-term borrowings	185,970	186,472	186,472	–	–
Commercial papers	56,000	56,019	56,019	–	–
Bonds payable	59,843	60,149	10,111	30,072	19,967
Long-term borrowings	161,548	164,677	–	164,041	636
Lease liabilities	149,341	172,730	19,203	50,522	103,005
Other financial liabilities	110,648	110,648	13,486	56,667	40,495
Derivative financial liabilities	1,098	1,098	800	298	–
Total	1,017,202	1,044,547	578,592	301,853	164,103

Note: Receivables and payables arising from derivative transactions are stated on a net basis.

As of March 31, 2021

(Millions of yen)

	Carrying amount	Contractual cash flows	Within 1 year	After 1 year and within 5 years	After 5 years
Non-derivative financial liabilities					
Trade and other payables	234,451	234,451	234,154	297	–
Short-term borrowings	138,383	139,084	139,084	–	–
Bonds payable	79,757	81,306	20,272	30,652	30,382
Long-term borrowings	244,972	248,409	–	231,581	16,828
Lease liabilities	142,823	163,682	19,170	48,608	95,904
Other financial liabilities	114,230	114,230	9,939	56,345	47,946
Derivative financial liabilities	940	940	795	145	–
Total	955,556	982,102	423,414	367,628	191,060

Note: Receivables and payables arising from derivative transactions are stated on a net basis.

(5) Foreign exchange risk management

To manage the foreign exchange risks for trade receivables and payables denominated in foreign currencies, the IHI Group hedges the foreign exchange 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. The IHI Group also carries out similar management for principal consolidated subsidiaries.

To reduce the fluctuation risk of foreign exchange rates of borrowings denominated in foreign currencies, IHI and certain consolidated subsidiaries use foreign currency swaps.

As for derivatives, transactions are recorded and the balance is confirmed between the IHI Group and the counterparty. 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.

Exposures to foreign exchange risk

Major exposures to foreign exchange risk of IHI and its consolidated subsidiaries (net) are as follows.

The amounts of exposures to fluctuation risk of foreign exchange rates is hedged by derivative transactions are excluded.

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
U.S. dollar	(27,575)	45,359

Foreign exchange sensitivity analysis

In each reporting period, the effect of a 1% appreciation of the Japanese yen against U.S. dollar on profit before tax in the consolidated statement of profit or loss is as follows.

However, this analysis is based on the assumption that other variable factors (such as balances and interest rates) are constant.

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit before tax	275	(454)

(6) Interest rate risk management

To reduce the fluctuation risks of interest rates regarding bonds payable and long-term borrowings, IHI and certain consolidated subsidiaries use interest rate swaps.

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.

Exposures to interest rate risk

Exposures to interest rate risk of IHI and its consolidated subsidiaries are as follows.

The amount of exposures of which interest rate risk is hedged by derivative transactions are excluded.

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Floating rate borrowings	197,814	207,929

Interest rate sensitivity analysis

In each reporting period, the effect of a 1% increase in interest rate on profit before tax in the consolidated statement of profit or loss is as follows.

However, this analysis is based on the assumption that other variable factors (such as balances and foreign exchange rates) are constant.

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit before tax	(1,978)	(2,079)

(7) Market price fluctuation risk management

IHI and certain consolidated subsidiaries hold shares associated with business consolidation or capital consolidation with companies to maintain business relationships, and such shares are exposed to the market price fluctuation risk.

As for such shares, 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 securities is continuously reviewed by taking into account the relationships with the companies with which the IHI Group does business.

Exposures to market price fluctuation risk

Exposures to the market price fluctuation risk of IHI and its consolidated subsidiaries are as follows.

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Equity instruments with quoted prices	8,732	10,710

Stock price sensitivity analysis

In each reporting period, the effect of a 10% decrease in the market price of equity instruments held by the IHI Group on other comprehensive income (before tax effect) in the consolidated statement of comprehensive income is as follows.

However, this analysis is based on the assumption that other variable factors are constant.

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Other comprehensive income (before tax effect)	(873)	(1,071)

(8) Hedging activities

Forward foreign exchange contracts and interest rate swaps are utilized to hedge cash flow fluctuation risk associated with changes in foreign exchange rates in transactions denominated in foreign currencies and changes in interest rates of borrowings, and are designated as cash flow hedges.

Derivative transactions are utilized to mitigate risks associated with future fluctuation of foreign exchange rates (market price fluctuation risk) to which the IHI Group is exposed when performing its ordinary business activities, and are not utilized to gain short-term trading profits or for speculative purposes.

Notes and accounts receivable - trade, which are trade receivables, are exposed to customers' credit risks. Trade receivables denominated in foreign currencies related to construction in abroad or the like are exposed to the fluctuation risks of foreign exchange rates, which are, in principle, hedged by derivatives using forward foreign exchange contracts and foreign currency options for the position after netting trade payables denominated in foreign currencies.

Notes and accounts payable - trade, which are trade 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 in general less than the balance of accounts receivable - trade denominated in the same foreign currency.

Derivatives that the IHI Group uses are forward foreign exchange contracts to hedge the fluctuation risks of foreign exchanges pertaining to trade receivables and payables denominated in foreign currencies, and interest rate swaps to hedge the fluctuation risks of interest rates regarding borrowings.

For details of hedge accounting, such as hedging instruments and hedged items, hedging policy and method for assessing hedge effectiveness, refer to "C. Derivatives and hedge accounting" of Note "3. Significant accounting policies, (4) Financial instruments."

The balances by settlement date and average rates of hedging instruments designated as cash flow hedges are as follows:

Transition date (As of April 1, 2019)

(Millions of yen)

	Balance by settlement date			Average rate
	Within 1 year	Over 1 year	Total	
Foreign exchange risk				
Forward foreign exchange contracts				
(Sell)				
U.S. dollar	2,493	–	2,493	109.31 yen
Euro	175	–	175	131.39 yen
Hong Kong dollar	91	5	96	13.52 yen
Thai baht	87	–	87	3.32 yen
(Buy)				
U.S. dollar	3,535	2,114	5,649	106.82 yen
Euro	931	972	1,903	127.30 yen
Swedish Krona	1	–	1	12.46 yen
Hong Kong dollar	111	–	111	14.07 yen
Chinese yuan	121	–	121	16.01 yen
New Taiwan dollar	245	8	253	3.68 yen
Interest rate risks				
Interest rate swaps (Payments fixed receipts floating)	21,365	27,393	48,758	Payments 0.93% Receipts 1.44%
Interest rate swaps (Payments fixed receipts fixed	–	20,000	20,000	Payments 0.31% Receipts 0.27%

As of March 31, 2020

(Millions of yen)

	Balance by settlement date			Average rate
	Within 1 year	Over 1 year	Total	
Foreign exchange risk				
Forward foreign exchange contracts				
(Sell)				
U.S. dollar	8,815	868	9,683	106.98 yen
Euro	95	298	393	120.14 yen
(Buy)				
U.S. dollar	1,878	2,206	4,084	104.51 yen
Euro	1,563	372	1,935	122.10 yen
Sterling pound	2	–	2	142.75 yen
Chinese yuan	1,241	586	1,827	14.21 yen
New Taiwan dollar	100	–	100	3.52 yen
Interest rate risks				
Interest rate swaps (Payments fixed receipts floating)	10,776	27,663	38,439	Payments 0.92% Receipts 0.96%
Interest rate swaps (Payments fixed receipts fixed	–	20,000	20,000	Payments 0.31% Receipts 0.27%

As of March 31, 2021

(Millions of yen)

	Balance by settlement date			Average rate
	Within 1 year	Over 1 year	Total	
Foreign exchange risk				
Forward foreign exchange contracts				
(Sell)				
U.S. dollar	2,740	–	2,740	106.70 yen
Euro	388	–	388	121.62 yen
Malaysian ringgit	95	–	95	25.49 yen
(Buy)				
U.S. dollar	931	38	969	104.33 yen
Euro	527	–	527	121.80 yen
Thai baht	453	–	453	3.48 yen
Chinese yuan	1,028	–	1,028	14.63 yen
Interest rate risks				
Interest rate swaps (Payments fixed receipts floating)	7,745	23,846	31,591	Payments 0.50% Receipts 0.35%
Interest rate swaps (Payments fixed receipts fixed	20,000	–	20,000	Payments 0.31% Receipts 0.27%

The effect of hedging instruments designated as cash flow hedges on the consolidated statement of financial position is as follows:

Transition date (As of April 1, 2019)

(Millions of yen)

Hedging instruments	Notional amount	Carrying amount		Line items in the consolidated statement of financial position
		Assets	Liabilities	
Forward foreign exchange contracts				
(Sell)				
U.S. dollar	2,493	6	–	
Euro	175	9	–	
Hong Kong dollar	96	–	1	
Thai baht	87	–	3	Other financial assets
(Buy)				Other financial
U.S. dollar	5,649	72	–	liabilities
Euro	1,903	–	48	
Swedish Krona	1	–	0	
Hong Kong dollar	111	–	1	
Chinese yuan	121	3	–	
New Taiwan dollar	253	–	9	
Interest rate swaps				
Payments fixed receipts floating	48,758	–	51	
Payments fixed receipts fixed	20,000	–	24	

As of March 31, 2020

(Millions of yen)

Hedging instruments	Notional amount	Carrying amount		Line items in the consolidated statement of financial position
		Assets	Liabilities	
Forward foreign exchange contracts				
(Sell)				
U.S. dollar	9,683	–	18	
Euro	393	4	–	
(Buy)				Other financial assets
U.S. dollar	4,084	87	–	Other financial
Euro	1,935	–	66	liabilities
Sterling pound	2	–	0	
Chinese yuan	1,827	84	–	
New Taiwan dollar	100	3	–	
Interest rate swaps				
Payments fixed receipts floating	38,439	–	213	
Payments fixed receipts fixed	20,000	–	16	

As of March 31, 2021

(Millions of yen)

Hedging instruments	Notional amount	Carrying amount		Line items in the consolidated statement of financial position
		Assets	Liabilities	
Forward foreign exchange contracts				
(Sell)				
U.S. dollar	2,740	–	99	
Euro	388	–	26	
Malaysian ringgit	95	–	3	
(Buy)				Other financial assets
U.S. dollar	969	55	–	Other financial
Euro	527	35	–	liabilities
Thai baht	453	5	–	
Chinese yuan	1,028	142	–	
Interest rate swaps				
Payments fixed receipts floating	31,591	–	167	
Payments fixed receipts fixed	20,000	–	8	

Amounts recorded due to the application of hedge accounting in other comprehensive income in the consolidated statement of comprehensive income for the fiscal years ended March 31, 2020 and 2021 are as follows:

Fiscal year ended March 31, 2020

(Millions of yen)

	Gains or losses on hedges recognized in other comprehensive income	Reclassification adjustments from other comprehensive income to profit or loss	Line items of reclassification adjustments in the consolidated statement of profit or loss
Foreign exchange risk			
Forward foreign exchange contracts	49	(113)	Finance income
Interest rate risks			
Interest rate swaps	(107)	(210)	

There was no reclassification adjustment due to discontinued hedges.

The ineffective portion of hedges is immaterial.

Fiscal year ended March 31, 2021

(Millions of yen)

	Gains or losses on hedges recognized in other comprehensive income	Reclassification adjustments from other comprehensive income to profit or loss	Line items of reclassification adjustments in the consolidated statement of profit or loss
Foreign exchange risk			
Forward foreign exchange contracts	157	(41)	Finance income
Interest rate risks			Finance costs
Interest rate swaps	37	4	

There was no reclassification adjustment due to discontinued hedges.

The ineffective portion of hedges is immaterial.

(9) Fair value of financial instruments

The fair value measurements of financial instruments measured at fair value are categorized into the following three levels based on the observability and significance of inputs used to measure such financial instruments.

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2: Fair value, other than Level 1, that is determined by directly or indirectly using the observable price

Level 3: Fair value determined by using valuation techniques that incorporate unobservable inputs

A. Measurement method for fair value

The measurement method for fair value of financial instruments is as follows.

(Cash and cash equivalents, trade and other receivables and trade and other payables)

The fair value of these accounts is assumed to be approximate to their carrying amount due to the short-term maturity. Thus, the carrying amount is used as fair value.

(Bonds and borrowings)

The fair value of bonds is determined based on the market prices or prices provided by financial and other institutions with which the IHI Group does business.

The fair value of borrowings is determined based on the present value of future cash flows discounted at the interest rate to be applied if similar new contracts were entered into.

These liabilities are classified as Level 2.

(Government grants classified under contingent settlement provisions)

The fair value of government grants classified under contingent settlement provisions is determined based on the present value of future cash flows discounted at the interest rate to be applied if similar new contracts were entered into.

These liabilities are classified as Level 2.

(Other financial assets and other financial liabilities)

Derivatives are measured as financial assets or liabilities measured at fair value through profit or loss based on prices provided by the counterparty financial institutions and classified as Level 2.

The fair value of marketable shares and investments in capital are calculated based on the market price at the account closing date and classified as Level 1.

The fair value of non-marketable shares and investments in capital are mainly calculated by the valuation technique using the net asset value, while a portion of shares and investments in capital are calculated by the valuation technique using quoted market prices of comparable companies, and in both cases, they are classified as Level 3.

The significant unobservable inputs are mainly illiquidity discounts, and when illiquidity discounts rise, the fair value falls. The illiquidity discount that is used is 30%.

B. Financial instruments measured at amortized cost

The carrying amounts and fair values of financial instruments measured at amortized cost are as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)		As of March 31, 2020		As of March 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost						
Borrowings	290,055	296,005	347,518	347,827	383,355	383,407
Bonds payable	49,949	50,037	59,843	59,833	79,757	79,622
Government grants classified under contingent settlement provisions	102,702	100,426	98,595	96,540	101,865	99,771
Total	442,706	446,468	505,956	504,200	564,977	562,800

C. Financial instruments measured at fair value

The fair value hierarchy for financial instruments measured at fair value is as follows:

Transition date (As of April 1, 2019)

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Derivatives	–	248	–	248
Other	–	1,064	1,455	2,519
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	16,543	–	21,420	37,963
Total	16,543	1,312	22,875	40,730
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives	–	173	–	173
Total	–	173	–	173

As of March 31, 2020

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Derivatives		184		184
Other		1,068	1,938	3,006
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	8,732		20,841	29,573
Total	8,732	1,252	22,779	32,763
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives	–	1,098	–	1,098
Total	–	1,098	–	1,098

As of March 31, 2021

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Derivatives	–	319	–	319
Other	–	1,157	2,449	3,606
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	10,710	–	21,141	31,851
Total	10,710	1,476	23,590	35,776
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives	–	940	–	940
Total	–	940	–	940

Transfers between levels of the fair value hierarchy are recognized on the day when the event or change in circumstances that caused the transfer occurred. The IHI Group did not recognize any material transfers between Level 1 and Level 2 for each fiscal year.

D. Valuation processes

For financial instruments classified as Level 3, an external valuation expert or an internal qualified staff performs the valuation and analyzes the result of valuation in accordance with the valuation policy and procedures approved by the responsible person of the management control department. The result of valuation has been reviewed and approved by the responsible person of the management control department.

E. Reconciliation of financial instruments classified as Level 3 from the beginning to the end of the fiscal year

Changes in financial instruments classified as Level 3 from the beginning to the end of the fiscal year are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Balance at beginning of period	22,875	22,779
Total gains and losses		
Profit or loss (Note 1)	126	86
Other comprehensive income (Note 2)	316	1,088
Purchases	2,662	448
Sales	(1,177)	(218)
Transfer from Level 3	–	–
Other	(2,023)	(593)
Balance at end of period	22,779	23,590
Changes in unrealized gains or losses recorded in profit or loss on assets held at the end of the reporting period (Note 1)	126	86

Notes: 1. Included in “Finance income” and “Finance costs” in the consolidated statement of profit or loss.
2. Included in “Financial assets measured at fair value through other comprehensive income” in the consolidated statement of comprehensive income.

37. Major subsidiaries

The status of major subsidiaries of the IHI Group is as follows:

Name	Address	Reportable segments	Percentage of voting rights held (%) (Note 1)		
			Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
IHI AEROSPACE CO., LTD.	Koto-ku, Tokyo	Aero Engine, Space and Defense	100.0	100.0	100.0
IHI Power Systems Co., Ltd. (Note 2)	Chiyoda-ku, Tokyo	Resources, Energy and Environment	100.0	100.0	100.0
MEISEI ELECTRIC CO., LTD.	Isesaki-city, Gunma	Other	51.0	51.0	51.0
IHI Transport Machinery Co., Ltd.	Chuo-ku, Tokyo	Industrial Systems and General-Purpose Machinery	100.0	100.0	100.0
IHI Agri-Tech Corporation	Chitose-city, Hokkaido	Industrial Systems and General-Purpose Machinery	100.0	100.0	100.0
IHI Rotating Machinery Engineering Co., Ltd.	Koto-ku, Tokyo	Industrial Systems and General-Purpose Machinery	100.0	100.0	100.0
IHI Infrastructure Systems Co., Ltd.	Sakai-city, Osaka	Social Infrastructure and Offshore Facilities	100.0	100.0	100.0
Niigata Transys Co., Ltd.	Chiyoda-ku, Tokyo	Social Infrastructure and Offshore Facilities	100.0	100.0	100.0
IHI Turbo Co., Ltd.	Koto-ku, Tokyo	Industrial Systems and General-Purpose Machinery	100.0	100.0	100.0
IHI Logistics & Machinery Corporation	Koto-ku, Tokyo	Industrial Systems and General-Purpose Machinery	100.0	100.0	100.0
IHI Plant Services Corporation	Koto-ku, Tokyo	Resources, Energy and Environment	100.0	100.0	100.0
IHI INC.	New York, U.S.A.	Other	100.0	100.0	100.0
IHI Power Generation Corp.	New York, U.S.A.	Resources, Energy and Environment	100.0 (100.0)	100.0 (100.0)	100.0 (100.0)
JURONG ENGINEERING LIMITED	Singapore	Resources, Energy and Environment	95.6 (15.0)	95.6 (15.0)	95.6 (15.0)
ALPHA Automotive Technologies LLC	Moscow, Russia	Other	83.1	83.1	83.1
IHI INFRASTRUCTURE ASIA CO., LTD.	Haiphong, Vietnam	Social Infrastructure and Offshore Facilities	100.0	100.0	100.0
IHI E&C International Corporation	Texas, U.S.A.	Resources, Energy and Environment	100.0 (100.0)	100.0 (100.0)	100.0 (100.0)
Changchun FAWER-IHI Turbo Co., Ltd.	Jilin, China	Industrial Systems and General-Purpose Machinery	57.2 (7.8)	57.2 (7.8)	57.2 (7.8)
IHI Charging Systems International GmbH	Ichtershausen, Germany	Industrial Systems and General-Purpose Machinery	100.0	100.0	100.0
IHI ASIA PACIFIC PTE. LTD.	Singapore	Other	100.0	100.0	100.0

Name	Address	Reportable segments	Percentage of voting rights held (%) (Note 1)		
			Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
I&H Engineering Co., Ltd.	Yangon, Myanmar	Social Infrastructure and Offshore Facilities	60.0 (60.0)	60.0 (60.0)	60.0 (60.0)
IHI DALGAKIRAN MAKİNA SANAYİ VE TİCARET A.Ş.	KOCAELİ, Turkey	Industrial Systems and General-Purpose Machinery	51.0 (51.0)	51.0 (51.0)	51.0 (51.0)
IHI Transport Machinery Taiwan Corporation	Taipei, Taiwan	Industrial Systems and General-Purpose Machinery	100.0 (100.0)	100.0 (100.0)	100.0 (100.0)
IHI Turbo America Co.	Illinois, U.S.A.	Industrial Systems and General-Purpose Machinery	100.0	100.0 (100.0)	100.0 (100.0)
IHI TURBO (THAILAND) CO., LTD.	Chonburi, Thailand	Industrial Systems and General-Purpose Machinery	90.0 (10.0)	90.0 (10.0)	90.0 (10.0)
IHI-Sullair Compression Technology (Suzhou) Co., Ltd.	Jiangsu, China	Industrial Systems and General-Purpose Machinery	51.0 (51.0)	51.0 (51.0)	51.0 (51.0)
IHI SOLID BIOMASS MALAYSIA SDN. BHD.	Kuala Lumpur, Malaysia	Resources, Energy and Environment	100.0	100.0	100.0
IHI Europe Ltd.	London, U.K.	Other	100.0	100.0	100.0
Jiangsu IHI Fengdong Vacuum Technology Co., Ltd.	Jiangsu, China	Industrial Systems and General-Purpose Machinery	50.0 (50.0)	50.0 (50.0)	50.0 (50.0)
IHI Americas Inc.	New York, U.S.A.	Other	100.0	100.0	100.0
IHI (Shanghai) Management Co., Ltd.	Shanghai, China	Other	100.0	100.0	100.0
IHI Aero Engines US Co., Ltd.	New York, U.S.A.	Aero Engine, Space and Defense	100.0	100.0	100.0
Other			123 companies	124 companies	119 companies

Notes:
1. The figures in parentheses in the voting rights holding column indicate indirectly owned portions included in the figures outside the parentheses.
2. On July 1, 2019, Niigata Power Systems Co., Ltd. changed its company name to IHI Power Systems Co., Ltd.

38. Related parties

(1) Related party transactions

Transactions between the IHI Group and related parties and the balances of receivables and payables are as follows.

Related party transactions are conducted on the basis of arm's length transactions.

Transition date (As of April 1, 2019)

(Millions of yen)

Type	Name	Relationship	Transaction	Line item	Amount outstanding (Note 1)
Associate	IHI Finance Support Corporation ("IFS")	Factoring	Factoring (Note 2)	Trade and other payables	84,124
				Other current liabilities	1,893
		Lease transaction	Lease transaction	Lease liabilities (current)	5,302
				Lease liabilities (non-current)	24,575
General advisor	Toshinori Sekido	Japan Aero Engine Corporation ("JAEC") (Chairman)	Operating transactions with JAEC (Note 3)		
			- Subcontract of work from JAEC related to R&D of jet engines		–
			- Payment of a portion of funding related to the above		–
			- Reception of subsidies related to the above	Other financial liabilities	99,303
			- Manufacture of jet engine components and delivery thereof to JAEC	Trade and other receivables	36,880
				Other non-current assets	33,549
				Contract liabilities	13,303
				Other current liabilities	25,013
			- Payment of a portion of funding related to the above		–

Notes: 1. Consumption taxes are included in the amounts outstanding.

2. With regard to factorings, IHI or a consolidated subsidiary, any customer and IFS have entered into a basic agreement concerning the IHI Group's liabilities and have settled the amount.

3. 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.

Fiscal year ended March 31, 2020

(Millions of yen)

Type	Name	Relationship	Transaction	Transaction amount (Note 1)	Line item	Amount outstanding (Note 1)
Associate	IFS	Factoring	Factoring (Note 2)	240,902	Trade and other payables	75,841
					Other current liabilities	1,244
		Lease transaction	Lease transaction	10,754	Lease liabilities (current)	6,756
					Lease liabilities (non-current)	27,906
	Japan Marine United Corporation ("JMU")	Financial assistance Interlocking officers	Underwriting of additional investment (Note 3)	15,000		–
	PW1100G-JM Engine Leasing, LLC	Underwriting of additional investment	Underwriting of additional investment (Note 4)	48,625 (Note 5)		–
General advisor	Toshinori Sekido	JAEC (Chairman)	Operating transactions with JAEC (Note 6)			
			- 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 financial liabilities	95,196
			- Manufacture of jet engine components and delivery thereof to JAEC	168,406	Trade and other receivables	68,874
					Other non-current assets	37,712
					Contract liabilities	13,988
					Other current liabilities	27,059
			- Payment of a portion of funding related to the above	165,858		–

Notes:
1. Consumption taxes are not included in the transaction amounts but included in the amounts outstanding.
2. With regard to factorings, IHI or a consolidated subsidiary, any customer and IFS have entered into a basic agreement concerning the IHI Group's liabilities and have settled the amount.
3. With regard to underwriting of additional investment, IHI underwrote the shareholder allotment conducted by JMU.
4. With regard to underwriting of additional investment, IHI Investment for Aero Engine Leasing LLC underwrote the shareholder allotment conducted by PW1100G-JM Engine Leasing, LLC.
5. Since PW1100G-JM Engine Leasing, LLC was excluded from the scope of application of the equity method during the fiscal year ended March 31, 2020, the transaction amount reflects the amount before the exclusion date.

6. 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.

Fiscal year ended March 31, 2021

(Millions of yen)

Type	Name	Relationship	Transaction	Transaction amount (Note 1)	Line item	Amount outstanding (Note 1)
Associate	IFS	Factoring	Factoring (Note 2)	188,588	Trade and other payables	59,350
					Other current liabilities	505
		Lease transaction	Lease transaction	7,340	Lease liabilities (current)	7,587
					Lease liabilities (non-current)	28,371
	JMU	Financial assistance Interlocking officers	Preferred shares investment (Note 3)	10,000		–
General advisor	Toshinori Sekido	JAEC (Chairman)	Operating transactions with JAEC (Note 4,5)			
			- Subcontract of work from JAEC related to R&D of jet engines	570		–
			- Payment of a portion of funding related to the above	781		–
			- Reception of subsidies related to the above	2,543		
			Manufacture of jet engine components and delivery thereof to JAEC	52,817		
			Payment of a portion of funding related to the above	120,066		–

Officer	Tsugio Mitsuoka	JAEC (Chairman)	Operating transactions with JAEC (Note 4,6)			
			- Subcontract of work from JAEC related to R&D of jet engines	369		
			- Payment of a portion of funding related to the above	576		
			- Reception of subsidies related to the above	1,342	Other financial liabilities	101,868
			- Manufacture of jet engine components and delivery thereof to JAEC	20,474	Trade and other receivables	82,774
					Other non-current assets	33,147
					Contract liabilities	12,022
					Other current liabilities	18,544
			Payment of a portion of funding related to the above	4,715		—

Notes:
1. Consumption taxes are not included in the transaction amounts but included in the amounts outstanding.
2. With regard to factorings, IHI or a consolidated subsidiary, any customer and IFS have entered into a basic agreement concerning the IHI Group’s liabilities and have settled the amount.
3. With regard to preferred shares investment, IHI underwrote the shareholder allotment conducted by JMU.
4. 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.
5. Toshinori Sekido retired from the position of chairman of the JAEC on February 28, 2021. The above-mentioned amounts are for the term of office for the fiscal year ended March 31, 2021.
6. Tsugio Mitsuoka was appointed as a chairman of JAEC on March 1, 2021. The above-mentioned amounts are for the term of office for the fiscal year ended March 31, 2021

(2) Remuneration for key management personnel

Remuneration for key management personnel is as follows:

Fiscal year ended March 31, 2020

(Millions of yen)

	Base remuneration	Performance-based share remuneration (Note)	Performance-based bonuses
Directors (excluding outside directors)	395	188	12
Audit & supervisory board members (excluding outside audit & supervisory board members)	72	–	–
Outside directors and audit & supervisory board members	75	–	–
Total	542	188	12

Fiscal year ended March 31, 2021

(Millions of yen)

	Base remuneration	Performance-based share remuneration (Note)	Performance-based bonuses
Directors (excluding outside directors)	320	239	–
Audit & supervisory board members (excluding outside audit & supervisory board members)	66	–	–
Outside directors and audit & supervisory board members	81	–	–
Total	467	239	–

Note: The amounts of performance-based share remuneration are the aggregated amounts of equity-settled share-based payments, which are measured by reference to the fair value of shares of IHI as of the grant date, and cash-settled share-based payments, which are measured by reference to the stock price of IHI's share at the date of the consolidated statement of financial position, for the granted points in each fiscal year. Therefore, the amounts may differ from the amounts written in "(ii) Remuneration in the current fiscal year" of (4) Remuneration, etc. of directors and audit & supervisory board member under 4. Corporate governance, etc. in Ⅳ. Information about reporting company.

39. Commitments

(1) Amounts committed for the purchase of property, plant and equipment ordered but not yet inspected for acceptance.

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Amounts committed for the purchase ordered but not yet inspected for acceptance	24,360	12,363	8,200

Note: The amount of payments completed at the account closing date is excluded.

(2) Overdraft agreements and commitment line agreements (as a debtor)

The IHI Group has entered into overdraft agreements and commitment line agreements with multiple financial institutions for the purpose of stable and efficient procurement of its operating capital.

The unexecuted balance of commitment lines under such agreements is as follows:

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Total amount of maximum overdraft limit and commitment line agreements	367,404	361,928	414,297
Executed commitment lines	64,091	149,499	106,638
Net amount	303,313	212,429	307,659

40. Contingent liabilities

(1) Debt guarantees and guarantees in kind

The IHI Group provides debt guarantees and guarantees in kind for borrowings from financial and other institutions taken out by companies such as business counterparties and entities accounted for using the equity method.

The balances of such guarantees for each fiscal year are as follows:

Debt guarantees (Note)

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
IHI Investment for Aero Engine Leasing LLC	–	14,961	10,531
Japanese Aero Engine Corporation	5,905	5,659	3,540
Chubu Segment Co., Ltd.	25	25	325
Japan Aeroforge, Ltd.	413	354	295
Contingent liabilities for employee housing loans	262	194	164
Yachiyo 5 Logistic Specific Purpose Company	–	–	38
Total	6,605	21,193	14,892

Guarantees in kind (Note)

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020	As of March 31, 2021
Contingent liabilities for employee housing loans	4,864	4,255	3,626
Total	4,864	4,255	3,626

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

A. 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.

B. 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.

(2) Other contingent liabilities

There was a construction delay involving a process plant project in North America that was ordered to the consolidated subsidiary IHI E&C International Corporation (hereinafter, "IHI E&C") in the U.S., in 2016. The process plant has been delivered to a customer, and commercial operation of LNG shipping equipment has started by the customer on August 26, 2020.

The IHI Group recognizes that the delay was caused by the customer's circumstances and has continued negotiations enlisting the perspective that additional costs incurred due to the delay could be charged to the customer based on the contract. In 2019, inter-party discussions were held based on the contract terms with the customer, and in March and October 2020 in accordance with the contract terms as the next step, the IHI Group has sincerely held discussions through mediation including third party. However, since no agreement was reached, the IHI Group determined that the discussions had reached a stage where there was no option left but to refer the dispute resolution to the court proceedings in the local court based on the contract terms. As a result, on December 4, 2020, the IHI Group has filed a lawsuit with the local court seeking to have the customer pay approximately 227 million U.S. dollars (approximately ¥25.1 billion at an exchange rate of 110.65 yen to the U.S. dollar) as a claim for a higher contracted amount primarily on the grounds of breach of contract. Meanwhile, on December 4, 2019, at the stage of aforementioned inter-party discussion, IHI E&C received a letter of claim for payment of 117 million U.S. dollars (approximately ¥12.9 billion at an exchange rate of 110.65 yen to the U.S. dollar) from the customer for liquidated damages contractually stipulated in the case of delayed delivery (hereinafter, the "Invoice amount"). However, at this stage, the specific amount charged to IHI E&C by the customer has yet to be disclosed in the ongoing trial. At this point, because it is difficult to reasonably estimate the amount of the effect on the financial position and operating results, the effect of the matter of the Invoice amount has not been reflected in the consolidated financial statements.

Moreover, it is not possible to predict the outcome of this lawsuit at this point, and detailed disclosure regarding these matters is not being made as it may have a significant impact on the development of this lawsuit.

41. Subsequent events

(Transfer of certain non-current assets)

As the announcement on April 26, 2021, IHI transferred certain non-current assets in order to secure investment resources for creating growth businesses to contribute for the materialization of sustainable society on the basis of the "Project Change" released on November 10, 2020.

(1) Transfer of part of the land and buildings of the former Aichi Headquarters Representative's Office

The former Aichi Headquarters Representative's Office ceased to function as a production site at the end of November 2018, and IHI has been earnestly considering measures for its effective utilization. IHI received a proposal of business plan utilizing most of the characteristics of the site, therefore we transferred the assets on this site.

A Description of the assets transferred

Details and Location of assets	Gain on Sale	Type of Asset
Land and buildings (including incidental non-current assets) 11-1, Kitahama-machi, Chita-city, Aichi, Japan (approximately 393,300 m^2)	Approximately ¥16.0 billion	Idle asset

Note: Due to the request of the transferee, the transfer prices and book values of the assets are not disclosed. In addition, the gains on sale are approximate figures obtained by deducting the book values, transfer-related expenses, etc. from the transfer prices.

B Overview of the transferee

Company name	Oono Development Co., Ltd.
Headquarters	184, Kita-Umemoto-machi Kou, Matsuyama-city, Ehime
Name and title of representative	Tsuyoshi Oono, Representative Director
Main business activities	Collection, transportation, intermediate disposal, and final disposal of industrial waste and specially controlled industrial waste; contracting and construction of civil engineering demolition work, etc.
Date of establishment	November 19, 1973
Relationship with IHI	There is no capital, personnel, business relationships, related parties, or other matters that require special mention.

C Schedule of transfer

April 28, 2021: Conclusion of sales agreement

May 13, 2021: Transfer of ownership

(2) Transfer of land as investment property

IHI transferred the following non-current asset using as real estate for rent.

A Description of the assets transferred

Details and Location of Assets	Gain on Sale	Type of Asset
Land as investment property Showa-machi, Kanazawa-ku, Yokohama-city, Kanagawa, Japan (approximately 26,700 m^2)	Approximately ¥5.5 billion	Rental property

Note: Due to the request of the transferee, the transfer prices and book values of the assets are not disclosed. In addition, the gains on sale are approximate figures obtained by deducting the book values, transfer-related expenses, etc. from the transfer prices.

B Overview of the transferee

Although the transferee is a general business company in Japan, detailed information of the transferee is not disclosed according to its request.

In addition, there are no capital, personnel or business relationships between the transferee and IHI to be especially reported, and the transferee is not a related party of IHI. IHI has also confirmed that the transferee does not belong to an anti-social force.

C Schedule of transfer

May 14, 2021: Conclusion of sales agreement and transfer of ownership

(3) Impact on consolidated operating results

Due to the above-mentioned transfer of non-current assets, approximately ¥21.5 billion of "Other income" is planned to be recorded for the fiscal year ending March 31, 2022.

(IHI's acquisition of 100% ownership of MEISEI ELECTRIC CO., LTD. through simplified share exchange)

IHI and MEISEI ELECTRIC CO., LTD. (hereinafter, "MEISEI"), at both companies' respective Board of Directors meetings held on May 13, 2021, adopted a resolution for a share exchange as a result of which IHI would be the wholly owning parent company in the share exchange and MEISEI would be the wholly owned subsidiary in the share exchange, and executed a share exchange agreement between the companies.

(1) Purpose of the share exchange

IHI made MEISEI a wholly owned subsidiary with the intention of creating further synergy effects derived through resulting technical and product cooperation between the two companies, effective utilization of management resources such as human resources and more prompt decision-making in collaborative efforts and so on.

(2) A summary of the share exchange

A Schedule for the share exchange

Record date for the Ordinary General meeting of Shareholders for approving the share exchange agreement	(MEISEI)	March 31, 2021
Date of the Board of Directors meeting resolution for execution of the share exchange agreement	(Both companies)	May 13, 2021
Execution date of the share exchange agreement	(Both companies)	May 13, 2021
Date of the Ordinary General meeting of shareholders meeting for approving the share exchange agreement	(MEISEI)	June 23, 2021
Last trading date	(MEISEI)	July 28, 2021 (planned)
Delisting date	(MEISEI)	July 29, 2021 (planned)
Effective date of the share exchange agreement		August 1, 2021 (planned)

Note: The effective date of the share exchange may be changed upon agreement between IHI and MEISEI if necessary, to accommodate the procedure for the share exchange or for any other reason.

B Method of the share exchange

The share exchange will make IHI the wholly owning parent company and MEISEI the wholly owned subsidiary.The share exchange is scheduled to take place effective as of August 1, 2021: (i) without obtaining the approval of IHI's shareholders' meeting by following the simplified share exchange procedure pursuant to the provisions of Article 796, Paragraph 2 of the Companies Act; and (ii) after obtaining the approval of MEISEI's shareholders' meeting at its Ordinary General meeting of shareholders held on June 23, 2021.

C Details of allotment of shares in the share exchange

	IHI (a wholly owning parent company in share exchange)	MEISEI (a wholly owned subsidiary in share exchange)
Share exchange ratio for the share exchange	1	0.42
Number of shares to be delivered upon the share exchange	IHI's ordinary shares: 2,729,838 shares (planned)	

Notes: 1. Share allotment ratio

0.42 of IHI's shares will be allotted and delivered per MEISEI's share. However, no shares will be allotted in the share exchange for MEISEI's shares held by IHI (6,772,000 shares as of May 13, 2021). Note that the allotment ratio for the share exchange specified in the above table (hereinafter, the "Share Exchange Ratio") is subject to change by agreement between IHI and MEISEI when there are any significant changes in the terms and conditions that form the basis of the calculation of Share Exchange Ratio pursuant to the share exchange agreement.

2. Number of the IHI's shares to be delivered upon the share exchange

Number of the IHI's shares: 2,729,838 shares (planned)

The above number of shares has been calculated based on: (i) the total number of issued shares (13,279,633 shares) and the number of treasury shares (8,017 shares) of MEISEI as of March 31, 2021; and (ii) the number of MEISEI's shares held by IHI as of May 13, 2021 (6,772,000 shares).

In the share exchange, IHI will allot and deliver the number of IHI's shares calculated based on Share Exchange Ratio to the shareholders of MEISEI (meaning the shareholders after cancellation of MEISEI's treasury shares specified below, and excluding IHI) at the time immediately before the IHI's acquisition of all issued shares of MEISEI (excluding MEISEI's shares held by IHI) through the share exchange (the "Base Time"), in exchange for MEISEI's shares held by these shareholders. IHI plans to allocate treasury shares held by it to these shareholders entitled to IHI's shares to be delivered in the share exchange, and IHI does not plan to issue any new shares to be allotted in the share exchange. MEISEI plans to cancel, at the Base Time and by a resolution of its Board of Directors meeting to be held no later than the day before the effective date of the share exchange, all of the treasury shares held by it (8,017 shares as of March 31, 2021, and including any shares that may be acquired by MEISEI as a result of dissenting shareholders' demand, if made in the course of share exchange, for share purchase under Article 785, Paragraph 1 of the Companies Act) at the Base Time. The number of shares to be allotted and delivered in the share exchange may be modified in the future due to such reasons as MEISEI's acquisition, cancellation, etc. of its treasury shares.

(3) Grounds and reasons for the details of allotment of shares in the share exchange

IHI and MEISEI have begun to seriously consider the matter of ensuring fairness and validity with respect to Share Exchange Ratio. To such ends, IHI and MEISEI have appointed Deloitte Tohmatsu Financial Advisory LLC and Plutus Consulting Co., Ltd., as their respective third-party valuation institutions. They have also appointed Nishimura & Asahi as well as Nakamura, Tsunoda & Matsumoto, as their respective legal advisors.

The two companies each gave the matter careful consideration based on the valuation results of the share exchange ratio and advice received from their respective third-party valuation institutions, as well as on advice from their respective legal advisors, and in light of, among other things, the results of due diligence investigations conducted by both companies on their respective counterparties, followed by repeated, careful negotiations on the share exchange ratio by taking comprehensively into account both companies' financial conditions, business performance trends, and stock price trends, etc. As a result, the two companies reached a conclusion that Share Exchange Ratio was appropriate and would contribute to the interests of their respective shareholders. The two companies executed the share exchange agreement between them upon having decided to conduct the share exchange using Share Exchange Ratio.

Share Exchange Ratio is subject to change by agreement between both companies when there are any significant changes in the terms and conditions that form the basis of the calculation of Share Exchange Ratio pursuant to the share exchange agreement.

(4) Overview of accounting method to be implemented

Since the conversion to a wholly owned subsidiary through the share exchange is an additional share acquisition of a consolidated subsidiary company, it will be treated as a capital transaction in the IHI Group's consolidated financial statements.

42. First-time adoption of IFRS

The IHI Group has prepared consolidated financial statements in accordance with IFRS from the fiscal year ended March 31, 2021. The latest consolidated financial statements prepared in accordance with Japanese GAAP are those for the fiscal year ended March 31, 2020, with the date of transition to IFRS being April 1, 2019.

(1) Exemptions under IFRS 1

In principle, IFRS requires that companies adopting IFRS for the first time (hereinafter, "First-time Adopter") apply the standards required under IFRS retrospectively.

However, for some of the standards required under IFRS, IFRS 1 *First-Time Adoption of International Financial Reporting Standards* (hereinafter, "IFRS 1") specifies standards for which the exemption is applied mandatorily and those for which the exemption is applied voluntarily.

The exemptions that the IHI Group applies in connection with the transition from Japanese GAAP to IFRS are as follows:

- Business combinations

  IFRS 1 permits a First-time Adopter to elect not to apply IFRS 3 *Business Combinations* (hereinafter, "IFRS 3") retrospectively to business combinations that occurred before the date of transition to IFRS.

  The IHI Group elected to apply this exemption and not to apply IFRS 3 retrospectively to the business combinations that occurred before the transition date. Accordingly, goodwill arising in business combinations that occurred before the transition date was recorded at the carrying amount under Japanese GAAP at the transition date.

  Goodwill is tested for impairment at the transition date, regardless of whether there is an indication of impairment.

- Exchange differences on translation of foreign operations

  IFRS 1 permits a First-time Adopter to elect to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS. The IHI Group elected to deem the cumulative translation differences of all foreign operations to be zero at the transition date.

- Share-based payments

  A First-time adopter is encouraged, but not required, to apply IFRS 2 *Share-based Payment* (hereinafter, "IFRS 2") to equity instruments that were granted after November 7, 2002 and vested before the date of transition to IFRS.

  The IHI Group elected not to apply IFRS 2 to share-based payments vested before the transition date.

- Leases

  IFRS 1 permits a First-time Adopter to assess whether a contract contains a lease at the date of transition to IFRS.

  In addition, IFRS 1 permits a First-time Adopter to measure a lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of transition to IFRS, and to measure a right-of-use asset, on a lease-by-lease basis, at either: its carrying amount as if IFRS 16 had been applied since the commencement date of the lease, but discounted using the lessee's incremental borrowing rate at the date of transition to IFRS; or an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of transition to IFRS.

Furthermore, IFRS 1 permits a First-time Adopter, as practical expedients, to recognize a lease for which the lease term ends within 12 months of the date of transition to IFRS or for which the underlying asset is of low value as an expense.

The IHI Group applies these exemptions and practical expedients; and recognize and measure leases.

- Borrowing costs

  IFRS 1 permits to begin capitalizing borrowing costs relating to qualifying assets on the date of transition to IFRS. The IHI Group capitalizes borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the transition date.

- Revenue

  IFRS 1 permits a First-time Adopter to apply the transition provisions in Paragraph C5 of IFRS 15 *Revenue from Contracts with Customers* (hereinafter, "IFRS 15").

  The IHI Group applies the practical expedient in Paragraph C5(c) of IFRS 15 and reflects the aggregate effect of all of the contract modifications that occur before the transition date.

  The IHI Group applies the practical expedient in Paragraph C5(d) of IFRS 15 and does not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the IHI Group expects to recognize that amount as revenue for the fiscal year ended March 31, 2020.

  The application of these expedients has no material impact on the consolidated financial statements.

- Assets and liabilities of subsidiary

  IFRS 1 provides that if an entity becomes a First-time Adopter later than its subsidiary, the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary at the same carrying amounts as in the financial statements of the subsidiary, after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary.

  The IHI Group measures the assets and liabilities of its overseas consolidated subsidiaries that have already adopted IFRS in the past at the same carrying amounts as in the financial statements of those subsidiaries.

- Designation of financial instruments recognized before the transition date

  IFRS 1 permits an entity to assess the classification under IFRS 9 *Financial Instruments* (hereinafter, "IFRS 9") on the basis of the facts and circumstances that exist at the transition date rather than those that exist at initial recognition.

  IFRS 1 also permits an entity to designate an equity instruments as financial assets measured at fair value through other comprehensive income on the basis of the facts and circumstances that exist at the transition date.

  The IHI Group assesses the classification under IFRS 9 on the basis of the facts and circumstances that exist at the transition date and designates some equity instruments as financial assets measured at fair value through other comprehensive income.

(2) Mandatory exceptions under IFRS 1

IFRS 1 prohibits the retrospective application of IFRS concerning "estimates," "derecognition of financial assets and financial liabilities," "hedge accounting," "non-controlling interests," "classification and measurement of financial instruments" and others.

The IHI Group prospectively applies these items on or after the transition date.

(3) Reconciliation

The reconciliation required to be disclosed at the first-time adoption of IFRS is as follows.

"Reclassification" column in the reconciliation table below presents items that do not affect retained earnings and comprehensive income and "Recognition and measurement differences" column presents items that affect retained earnings and comprehensive income.

Reconciliations of equity as of April 1, 2019 (the date of transition to IFRS)

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	94,951	(2,343)	138	92,746	1, 12	Cash and cash equivalents
Notes and accounts receivable – trade	377,695	(67,579)	21,214	331,330	2, 3, 5, 13	Trade and other receivables
	–	88,853	4,839	93,692	5, 13	Contract assets
	–	4,108	6	4,114	1, 3, 6	Other financial assets
Finished goods	23,084	(23,084)	–	–	4	
Work in process	276,238	(276,238)	–	–	4	
Raw materials and supplies	142,588	(142,588)	–	–	4	
	–	441,910	(124,715)	317,195	4, 12, 13, 18, 19	Inventories
Other	77,351	(27,082)	(433)	49,836	2, 6, 12, 13	Other current assets
Allowance for doubtful accounts	(4,043)	4,043	–	–	3	
Total current assets	987,864	–	(98,951)	888,913		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	367,394	(137,241)	22,611	252,764	7, 12, 15, 26	Property, plant and equipment
	–	16,036	112,996	129,032	7, 16	Right-of-use assets
Goodwill	10,032	–	(1,362)	8,670	17	Goodwill
Intangible assets	24,052	(74)	124,877	148,855	15, 18	Intangible assets
		121,279	–	121,279	7	Investment property
Investments and other assets						
Investment securities	117,967	(117,967)	–	–	6, 8	
	–	85,766	(4,601)	81,165	8, 12	Investments accounted for using equity method
	–	42,357	1,536	43,893	6, 27	Other financial assets
Net defined benefit asset	31	(31)	–	–		
Deferred tax assets	116,802	–	(40,965)	75,837	14	Deferred tax assets
Other	41,763	(11,501)	40,604	70,866	3, 6, 13	Other non-current assets
Allowance for doubtful accounts	(1,376)	1,376	–	–	3	
Total non-current assets	676,665	–	255,696	932,361		Total non-current assets
Total assets	1,664,529	–	156,745	1,821,274		Total assets

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable – trade	290,043	31,303	(9,657)	311,689	2, 12, 13, 19	Trade and other payables
Short-term loans payable	111,785	(111,785)	–	–	9	
Current portion of bonds	20,000	(20,000)	–	–	9	
	–	131,785	440	132,225	9, 12	Bonds and borrowings
	–	3,184	14,021	17,205	16	Lease liabilities
	–	59	10,209	10,268	19	Other financial liabilities
Income taxes payable	7,384	–	224	7,608		Income taxes payable
Advances received	157,546	–	(2,585)	154,961	5, 13	Contract liabilities
Provision for bonuses	28,089	(28,089)	–	–	11	
Provision for construction warranties	47,968	(47,968)	–	–	10	
Provision for loss on construction contracts	21,212	(21,212)	–	–	10	
Other provisions	1,079	(1,079)	–	–	11	
	–	69,180	(28,727)	40,453	10, 13	Provisions
Accrued expenses	88,520	(88,520)	–	–	11	
Other	49,483	83,142	27,865	160,490	2, 11, 13, 20, 23, 24	Other current liabilities
Total current liabilities	823,109	–	11,790	834,899		Total current liabilities

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
Non-current liabilities						Non-current liabilities
Bonds payable	30,000	(30,000)	–	–	9	
Long-term loans payable	175,813	(175,813)	–	–	9	
	–	205,813	1,966	207,779	9, 12	Bonds and borrowings
Lease obligations	14,307	–	122,091	136,398	16	Lease liabilities
	–	113	105,537	105,650	19, 21, 29	Other financial liabilities
Deferred tax liabilities for land revaluation	4,953	1,501	(2,043)	4,411	14, 26	Deferred tax liabilities
Net defined benefit liability	160,244	–	13,986	174,230	22	Retirement benefit liability
Provision for loss on business of subsidiaries and associates	1,212	(1,212)	–	–	10	
Other provisions	1,132	(1,132)	–	–	11	
	–	1,428	4,014	5,442	10	Provisions
Other	72,067	(698)	(57,789)	13,580	10, 11, 19, 21	Other non-current liabilities
Total non-current liabilities	459,728	–	187,762	647,490		Total non-current liabilities
Total liabilities	1,282,837	–	199,552	1,482,389		Total liabilities
Net assets						Equity
Capital stock	107,165	–	–	107,165		Share capital
Capital surplus	53,410	–	(80)	53,330	24, 26	Capital surplus
Retained earnings	184,092	–	(42,711)	141,381		Retained earnings
Treasury shares	(1,170)	–	–	(1,170)		Treasury shares
Total accumulated other comprehensive income	5,683	659	870	7,212	22, 25, 26, 27	Other components of equity
Subscription rights to shares	659	(659)	–	–		
	–	–	(41,921)	307,918		Total equity attributable to owners of parent
Non-controlling interests	31,853	–	(886)	30,967	12, 29	Non-controlling interests
Total net assets	381,692	–	(42,807)	338,885		Total equity
Total liabilities and net assets	1,664,529	–	156,745	1,821,274		Total liabilities and equity

Reconciliations of equity as of March 31, 2020

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	147,228	(1,744)	254	145,738	1, 12	Cash and cash equivalents
Notes and accounts receivable – trade	403,832	(74,344)	5,063	334,551	2, 3, 5, 13	Trade and other receivables
	–	103,268	(1,445)	101,823	5, 13	Contract assets
Securities	21	3,390	–	3,411	1, 3, 6	Other financial assets
Finished goods	18,417	(18,417)	–	–	4	
Work in process	289,277	(289,277)	–	–	4	
Raw materials and supplies	137,848	(137,848)	–	–	4	
	–	445,542	(118,627)	326,915	4, 12, 13, 18, 19	Inventories
Other	83,410	(34,594)	(3,569)	45,247	2, 6, 12, 13	Other current assets
Allowance for doubtful accounts	(4,024)	4,024	–	–	3	
Total current assets	1,076,009	–	(118,324)	957,685		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	397,495	(177,956)	45,486	265,025	7, 12, 15, 26	Property, plant and equipment
	–	26,355	97,912	124,267	7, 16	Right-of-use assets
Goodwill	7,456	–	(1,993)	5,463	17	Goodwill
Intangible assets	24,706	(67)	100,344	124,983	15, 18	Intangible assets
	–	151,668	–	151,668	7	Investment property
Investments and other assets						
Investment securities	63,514	(63,514)	–	–	6, 8	
	–	56,723	(5,625)	51,098	8, 12, 28	Investments accounted for using equity method
	–	30,004	5,826	35,830	6, 27	Other financial assets
Net defined benefit asset	7	(7)	–	–		
Deferred tax assets	112,440	–	(37,212)	75,228	14	Deferred tax assets
Other	60,410	(24,461)	41,842	77,791	3, 6, 13	Other non-current assets
Allowance for doubtful accounts	(1,255)	1,255	–	–	3	
Total non-current assets	664,773	–	246,580	911,353		Total non-current assets
Total assets	1,740,782	–	128,256	1,869,038		Total assets

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
						Liabilities and equity
Current liabilities						Current liabilities
Notes and accounts payable – trade	262,587	38,968	(8,801)	292,754	2, 12, 13, 19	Trade and other payables
Short-term borrowings	185,600	(185,600)	–	–	9	
Commercial papers	56,000	(56,000)	–	–	9	
Current portion of bonds	10,000	(10,000)	–	–	9	
	–	251,600	368	251,968	9, 12	Bonds and borrowings
	–	5,262	12,261	17,523	16	Lease liabilities
	–	800	10,236	11,036	19	Other financial liabilities
Income taxes payable	6,012	–	3	6,015		Income taxes payable
Advances received	151,790	–	(3,366)	148,424	5, 13	Contract liabilities
Provision for bonuses	26,672	(26,672)	–	–	11	
Provision for construction warranties	42,759	(42,759)	–	–	10	
Provision for loss on construction contracts	19,929	(19,929)	–	–	10	
Other provisions	1,141	(1,141)	–	–	11	
	–	62,688	(30,628)	32,060	10, 13	Provisions
Accrued expenses	88,082	(88,082)	–	–	11	
Other	58,433	70,865	27,499	156,797	2, 11, 13, 20, 23, 24	Other current liabilities
Total current liabilities	909,005	–	7,572	916,577		Total current liabilities

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
Non-current liabilities						Non-current liabilities
Bonds payable	50,000	(50,000)	–	–	9	
Long-term loans payable	159,223	(159,223)	–	–	9	
	–	209,223	2,170	211,393	9, 12	Bonds and borrowings
Lease obligations	22,089	–	109,729	131,818	16	Lease liabilities
	–	298	100,412	100,710	19, 21, 29	Other financial liabilities
Deferred tax liabilities for land revaluation	4,950	1,503	(2,014)	4,439	14, 26	Deferred tax liabilities
Net defined benefit liability	166,193		9,817	176,010	22	Retirement benefit liability
Provision for loss on business of subsidiaries and associates	1,249	(1,249)	–	–	10	
Other provisions	1,068	(1,068)	–	–	11	
	–	5,815	24	5,839	10	Provisions
Other	73,259	(5,299)	(51,748)	16,212	10, 11, 19, 21	Other non-current liabilities
Total non-current liabilities	478,031	–	168,390	646,421		Total non-current liabilities
Total liabilities	1,387,036	–	175,962	1,562,998		Total liabilities
Net assets						Equity
Capital stock	107,165	–	–	107,165		Share capital
Capital surplus	51,780	–	(1)	51,779	24, 26	Capital surplus
Retained earnings	186,170	–	(49,654)	136,516		Retained earnings
Treasury shares	(15,899)	–	–	(15,899)		Treasury shares
Accumulated other comprehensive income	(2,841)	533	2,925	617	22, 25, 26, 27	Other components of equity
Subscription rights to shares	533	(533)	–	–		
	–	–	(46,730)	280,178		Total equity attributable to owners of parent
Non-controlling interests	26,838	–	(976)	25,862	12, 29	Non-controlling interests
Total net assets	353,746	–	(47,706)	306,040		Total equity
Total liabilities and net assets	1,740,782	–	128,256	1,869,038		Total liabilities and equity

Notes on reconciliation of equity

(Reclassification)

Reclassifications consist mainly of the following:

(1) Reclassification of cash and deposits

Time deposits with maturities of more than three months, which were included in “Cash and deposits” under Japanese GAAP, are reclassified to “Other financial assets (current)” under IFRS.

(2) Reclassification of accounts receivable - other and accounts payable - other

Accounts receivable - other, which was included in “Other” in current assets under Japanese GAAP, is reclassified to “Trade and other receivables” under IFRS. Accounts payable - other, which was included in “Other” in current liabilities under Japanese GAAP, is reclassified to “Trade and other payables” under IFRS.

(3) Reclassification of allowance for doubtful accounts

“Allowance for doubtful accounts (current),” which was separately presented under Japanese GAAP, is reclassified to be presented on a net basis by directly deducting the item from “Trade and other receivables” and “Other financial assets (current)” under IFRS. Likewise, “Allowance for doubtful accounts (non-current)” is reclassified to be presented on a net basis by directly deducting the item from “Other non-current assets.”

(4) Reclassification of inventories

“Finished goods,” “Work in process” and “Raw materials and supplies,” which were separately presented under Japanese GAAP, are presented as “Inventories” under IFRS.

(5) Reclassification of contract assets and contract liabilities

Certain accounts receivable - trade, which were included in “Notes and accounts receivable - trade” under Japanese GAAP, are reclassified to “Contract assets” under IFRS. “Advances received,” which were separately presented under Japanese GAAP, are reclassified to “Contract liabilities” under IFRS.

(6) Reclassification of other financial assets

Short-term loans receivable and some other items, which were included in “Other” in current assets under Japanese GAAP, are reclassified to “Other financial assets (current)” under IFRS. Meanwhile, “Investment securities,” which were separately presented in non-current assets under Japanese GAAP, and long-term loans receivable and some other items, which were included in “Other” in non-current assets under Japanese GAAP, are reclassified to “Other financial assets (non-current)” under IFRS.

(7) Reclassification of investment property

In accordance with IFRS presentation rules, “Investment property” is reclassified from “Property, plant and equipment” and “Intangible assets.”

(8) Reclassification of the recorded amount of investments accounted for using equity method

“Investments accounted for using equity method,” which was included in “Investment securities” under Japanese GAAP, is separately presented under IFRS.

(9) Reclassification of bonds and borrowings

“Short-term loans payable,” “Commercial papers” and “Current portion of bonds,” which were separately presented in current liabilities under Japanese GAAP, are reclassified to “Bonds and borrowings (current)” after deducting issuance costs under IFRS. Meanwhile, “Bonds payable” and “Long-term loans payable,” which were separately presented in non-current liabilities under Japanese GAAP, are reclassified to “Bonds and borrowings (non-current)” after deducting issuance costs under IFRS.

(10) Reclassification of provisions

"Provision for construction warranties" and "Provision for loss on construction contracts," which were separately presented in current liabilities under Japanese GAAP, are presented as "Provisions (current)" under IFRS.

Meanwhile, "Provision for loss on business of subsidiaries and associates," which was separately presented in non-current liabilities under Japanese GAAP, and asset retirement obligations, which were included in "Other" in non-current liabilities under Japanese GAAP, are reclassified to "Provisions (non-current)" under IFRS.

(11) Reclassification of other current liabilities and other non-current liabilities

"Provision for bonuses," "Other provisions (current)" and "Accrued expenses," which were separately presented in current liabilities under Japanese GAAP, are reclassified to "Other current liabilities" under IFRS.

Meanwhile, "Other provisions (non-current)," which were separately presented in non-current liabilities under Japanese GAAP, are reclassified to "Other non-current liabilities" under IFRS.

(Recognition and measurement differences)

Recognition and measurement differences consist mainly of the following:

(12) Revision of the scope of consolidation

Certain insignificant subsidiaries were not included in the scope of consolidation and accounted for using the equity method under Japanese GAAP. However, these subsidiaries are included in the scope of consolidation under IFRS.

(13) Adjustments to revenue from contracts with customers

Major items to which the revenue recognition criteria are applied have been changed in a manner that complies with IFRS.

- Although revenue from certain sales of goods was previously recognized upon shipment under Japanese GAAP, it is now recognized upon delivery. As a result, adjustments were made to "Trade and other receivables" and "Inventories."
- Under Japanese GAAP, the percentage of completion method was mainly applied to transactions based on certain forms of contract, such as construction contracts. However, under IFRS, for transactions where the control of goods or services is transferred to customers over a certain period of time, regardless of the legal form of the contract, revenue is recognized over time. Further, for certain long-term maintenance works for which revenue was recognized at the time of obtaining consideration for claims under contracts under Japanese GAAP, revenue is recognized when the performance obligations are satisfied under IFRS.
- Under Japanese GAAP, revenue related to works that were already inspected for acceptance by customers was fully recognized and work costs expected in the future were recoded as operating payables. Under IFRS, for construction works with remaining performance obligations, the corresponding revenue recognition is withheld and the transaction price corresponding to these performance obligations is principally recorded in "Contract liabilities."
- Under Japanese GAAP, certain rebates and expenses for delayed delivery were presented in "Selling, general and administrative expenses" and "Non-operating expenses," respectively. Under IFRS, they are presented by being deducted from "Revenue" as payments of consideration to customers. In addition, under IFRS, prepaid consideration to customers are recorded in "Other non-current assets," and "Revenue" is reduced when the prepaid consideration is reversed.
- Regarding the revenue recognition of the engine programs in which IHI participates, although revenue was recorded based on sales notifications sent by our main partners in the month following the sale at the transition date under Japanese GAAP, the calculation method was changed in March

2020 to record revenue within the same month. On the other hand, under IFRS, revenue has been recorded within the month in which sales were carried out, since the transition date.

(14) Reconsideration of recoverability of deferred tax assets

Upon the adoption of IFRS, recoverability of all deferred tax assets has been reconsidered under IFRS.

(15) Adjustments to the recorded amounts of property, plant and equipment and intangible assets

IFRS does not allow the deduction of the amount of source of acquisition funds from the carrying amount of assets unless they are acquired using government grants. Therefore, the IHI Group cancelled the treatment to directly deduct the amount of source of acquisition funds from the carrying amount as allowed under Japanese GAAP in some cases.

In addition, under IFRS, the useful lives of certain intangible assets were reviewed.

(16) Recording of right-of-use assets and lease liabilities

Under Japanese GAAP, leases for which the IHI Group was a lessee were classified into finance and operating leases, and operating leases were accounted for in the similar manner to ordinary rental transactions.

Under IFRS, however, leases for which the IHI Group is a lessee are not classified into finance and operating leases but applied a single accounting model. Therefore, the IHI Group record “Right-of-use assets” and “Lease liabilities” for lease transactions.

(17) Adjustments to the recorded amount of goodwill and recognition of impairment losses

Goodwill, which was amortized over a certain period under Japanese GAAP, is not amortized under IFRS. The IHI Group ceased to amortize goodwill from the transition date.

Furthermore, under Japanese GAAP, the IHI Group conducted an impairment assessment for goodwill only when there was an indication of impairment. However, under IFRS, goodwill is tested for impairment in each fiscal year, mainly in the fourth quarter, irrespective of whether there is any indication of impairment.

As a result of an impairment test for groups of cash-generating units conducted based on the business plan as of the date of transition to IFRS, the IHI Group recognized an impairment loss of goodwill of ¥1,363 million for Industrial Systems and General-Purpose Machinery.

The recoverable amount of goodwill was determined based on value in use by discounting the future cash flows at a discount rate of 18.5%.

(18) Development intangible assets

Under Japanese GAAP, development expenses were expensed as research and development expenses in “Selling, general and administrative expenses” as incurred, and some of the expenses related to the mass production of new products and new models were recorded as “Work in process.”

Under IFRS, only development expenses that satisfy requirements for capitalization under IFRS are recognized in “Intangible assets.”

(19) Government grants classified under contingent settlement provisions

Government grants that were accounted for as a reduction in research and development expenses or inventories at the time of receiving the grants under Japanese GAAP, are recorded in “Other financial liabilities” as liabilities classified under contingent settlement provisions until their repayment.

(20) Adjustments to levies

Under Japanese GAAP, expenses were recognized for items qualified as levies such as property tax, in the fiscal year in which the taxes were paid. Under IFRS, they are recognized on the date when an obligation event occurs.

(21) Liabilities in respect of revenue-sharing arrangements

For the arrangements entered into with financial and other institutions in the Civil aero engines Business, under which funds are received to execute the business and repaid from future proceeds, the amount measured at amortized cost based on the amount of funds received is recorded in “Other financial liabilities.”

(22) Adjustments to retirement benefit liability

Under Japanese GAAP, actuarial gains and losses and past service cost were recognized in other comprehensive income as incurred and amortized on a straight-line basis over a certain number of years within the average remaining service period of employees, starting in the following fiscal year of the incurrence.

Under IFRS, actuarial gains and losses are recognized in other comprehensive income as incurred and immediately reclassified to retained earnings, and past service cost is recognized in profit or loss as incurred.

In addition, the IHI Group has partially revised the basis on which retirement benefit liability is determined.

(23) Accrued paid absences

Unused paid absences, which were not accounted for under Japanese GAAP, are recoded as liabilities in “Other current liabilities” under IFRS.

(24) Share-based payments

Under IHI’s performance-based share remuneration plan, provisions were recorded at an estimate of amount necessary to be transferred to directors and executive officers under Japanese GAAP. Under IFRS, the expense is recognized based on the fair value, and the corresponding amount is recognized as an increase in equity for the equity-settled share-based payment and as an increase in liability for the cash-settled share-based payment.

(25) Reclassification of cumulative exchange differences on translation of foreign operations

Upon the first-time adoption of IFRS, the IHI Group elected to apply exemptions provided under IFRS 1 and reclassified all cumulative exchange differences on translation of foreign subsidiaries as of the transition date to retained earnings.

(26) Reclassification of revaluation reserve for land

Under Japanese GAAP, the IHI Group revalued certain land used for business in accordance with the “Act on Revaluation of Land” (Act No. 34 promulgated on March 31, 1998). However, under IFRS, the IHI Group reversed the revaluation reserve for land, “Deferred tax liabilities for land revaluation” and “Capital surplus” and reverted the carrying amount of the land to the carrying amount before the revaluation.

(27) Adjustments to equity instruments

Under Japanese GAAP, gain or loss on sale of equity instruments and impairment loss on such instruments were recognized in profit or loss. Under IFRS, for equity instruments designated as measured at fair value through other comprehensive income, changes in the fair value are recognized in other comprehensive income and reclassified to retained earnings when they are derecognized and when the fair value decreases significantly.

(28) Accounting for residual interest upon the partial transfer of equity interest

For investments in an associate over which IHI lost control due to the partial transfer of its equity interest in the associate in the fiscal year ended March 31, 2020, the residual interest was not remeasured under Japanese GAAP. However, under IFRS, the residual interest is measured at the fair value at the transfer date, and the difference between the fair value and the carrying amount is recognized in profit or loss.

(29) Obligations to purchase non-controlling interests under forward contracts with non-controlling shareholders

With regard to certain non-controlling interests in subsidiaries, if the IHI Group's obligations to purchase these non-controlling interests at the request of non-controlling shareholders under certain conditions have been set forth, under IFRS, such non-controlling interests are recognized in financial liabilities, and non-controlling interests are decreased.

(30) Adjustment to retained earnings

(Millions of yen)

	Transition date (As of April 1, 2019)	As of March 31, 2020
(12) Revision of the scope of consolidation	(249)	(285)
(13) Adjustments to revenue from contracts with customers	52,073	38,871
(14) Reconsideration of recoverability of deferred tax assets	(36,975)	(33,223)
(15) Adjustments to the recorded amounts of property, plant and equipment and intangible assets	36,499	35,972
(16) Recording of right-of-use assets and lease liabilities	(4,370)	(3,542)
(17) Adjustments to the recorded amount of goodwill and recognition of impairment losses	(1,363)	(2,122)
(18) Development intangible assets	(3,308)	(2,338)
(19) Government grants classified under contingent settlement provisions	(32,944)	(34,030)
(20) Adjustments to levies	(4,808)	(4,807)
(21) Liabilities in respect of revenue-sharing arrangements	(7,455)	(6,491)
(22) Adjustments to retirement benefit liability	(17,342)	(15,443)
(23) Accrued paid absences	(16,247)	(17,777)
(24) Share-based payments	77	199
(25) Reclassification of cumulative exchange differences on translation of foreign subsidiaries	2,808	2,808
(26) Reclassification of revaluation reserve for land	(1,109)	(1,109)
(27) Adjustments to equity instruments	(5,588)	(1,733)
(28) Accounting for residual interest upon the partial transfer of equity interest	–	(1,633)
(29) Obligations to purchase non-controlling interests under forward contracts with non-controlling shareholders	–	12
Other	(2,410)	(2,983)
Total	(42,711)	(49,654)

Note: "(14) Reconsideration of recoverability of deferred tax assets" includes the impact of tax effects related to other items. "Other" includes the impact of non-controlling interests related to other items.

Reconciliations of profit or loss and comprehensive income for the fiscal year ended March 31, 2020

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
Net sales	1,386,503	–	(123,325)	1,263,178	3	Revenue
Cost of sales	1,131,775	–	(101,190)	1,030,585	3, 7	Cost of sales
Gross profit	254,728	–	(22,135)	232,593		Gross profit
Selling, general and administrative expenses	193,931	–	(5,827)	188,104	3, 4, 7	Selling, general and administrative expenses
	–	16,228	(736)	15,492	1, 6	Other income
	–	14,571	(2,449)	12,122	1, 3, 4	Other expenses
Operating profit	60,797	1,657	(14,595)	47,859		Operating profit
Non-operating income	6,545	(6,545)	–	–	1	
Non-operating expenses	35,091	(33,430)	(1,661)	–	1, 3, 5	
Extraordinary income	11,790	(11,554)	(236)	–	1, 5	
Extraordinary losses	5,262	(479)	(4,783)	–	1, 5	
	–	1,871	194	2,065	1, 5	Finance income
	–	6,347	2,092	8,439	1, 5	Finance costs
	–	(12,991)	688	(12,303)	1	Share of profit (loss) of investments accounted for using equity method
Profit before income taxes	38,779	–	(9,597)	29,182		Profit before tax
Income taxes – current	14,970	5,759	(4,798)	15,931	2, 8	Income tax expense
Income taxes – deferred	5,759	(5,759)	–	–	2	
Profit	18,050	–	(4,799)	13,251		Profit
Profit attributable to non-controlling interests	5,238	–	(191)	5,047		Profit attributable to non-controlling interests
Profit attributable to owners of parent	12,812	–	(4,608)	8,204		Profit attributable to owners of parent

(Millions of yen)

Line items presented under Japanese GAAP	Japanese GAAP	Reclassification	Recognition and measurement differences	IFRS	Notes	Line items presented under IFRS
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss
Valuation difference on available-for-sale securities	(1,741)	–	(1,767)	(3,508)	5	Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans, net of tax	(2,031)	–	1,861	(170)	7	Remeasurements of defined benefit plans
	–	178	(44)	134		Share of other comprehensive income of investments accounted for using equity method
				(3,544)		Total of items that will not be reclassified to profit or loss
						Items that may be reclassified to profit or loss
Foreign currency translation adjustment	(6,183)	–	96	(6,087)		Exchange differences on translation of foreign operations
Deferred gains or losses on hedges	(75)	–	–	(75)		Cash flow hedges
Share of other comprehensive income of entities accounted for using equity method	590	(178)	(436)	(24)		Share of other comprehensive income of investments accounted for using equity method
				(6,186)		Total of items that may be reclassified to profit or loss
Total other comprehensive income	(9,440)	–	(290)	(9,730)		Other comprehensive income, net of tax
Comprehensive income	8,610	–	(5,089)	3,521		Comprehensive income

Notes on reconciliations of profit or loss and comprehensive income

(Reclassification)

Reclassifications consist mainly of the following:

(1) Adjustments to line items

For items presented as “Non-operating income,” “Non-operating expenses,” “Extraordinary income” and “Extraordinary losses” under Japanese GAAP, finance-related profits or losses are recorded as “Finance income” and “Finance costs,” and other items are presented as “Other income,” “Other expenses” and “Share of profit (loss) of investments accounted for using equity method” under IFRS.

(2) Income tax expense

“Income taxes - current” and “Income taxes - deferred,” which were separately presented under Japanese GAAP, are presented in total as “Income tax expense” under IFRS.

(Recognition and measurement differences)

Recognition and measurement differences consist mainly of the following:

(3) Adjustments to revenue from contracts with customers

Major items to which the revenue recognition criteria are applied have been changed in a manner that complies with IFRS.

- Although revenue from certain sales of goods was previously recognized upon shipment under Japanese GAAP, it is now recognized upon delivery. As a result, adjustments were made to “Trade and other receivables” and “Inventories.”
- Under Japanese GAAP, the percentage of completion method was mainly applied to transactions based on certain forms of contract, such as construction contracts. However, under IFRS, for transactions where the control of goods or services is transferred to customers over a certain period of time, regardless of the legal form of the contract, revenue is recognized over time. Further, for certain long-term maintenance works for which revenue was recognized at the time of obtaining consideration for claims under contracts under Japanese GAAP, revenue is recognized when the performance obligations are satisfied under IFRS.
- Under Japanese GAAP, revenue related to works that were already inspected for acceptance by customers was fully recognized and work costs expected in the future were recoded as operating payables. Under IFRS, for construction works with remaining performance obligations, the corresponding revenue recognition is withheld and the transaction price corresponding to these performance obligations is principally recorded in “Contract liabilities.”
- Under Japanese GAAP, certain rebates and expenses for delayed delivery were presented in “Selling, general and administrative expenses” and “Non-operating expenses,” respectively. Under IFRS, they are presented by being deducted from “Revenue” as payments of consideration to customers. In addition, under IFRS, prepaid consideration to customers are recorded in “Other non-current assets,” and “Revenue” is reduced when the prepaid consideration is reversed.
- Regarding the revenue recognition of the engine programs in which IHI participates, although revenue was recorded based on sales notifications sent by the IHI Group’s main partners in the month following the sale at the transition date under Japanese GAAP, the calculation method was changed in March 2020 to record revenue within the same month. On the other hand, under IFRS, revenue has been recorded within the month in which sales were carried out, since the transition date. Accordingly, for the fiscal year ended March 31, 2020, revenue for 13 months was recorded under Japanese GAAP whereas revenue for 12 months was recorded under IFRS.

(4) Adjustments to the recorded amount of goodwill and recognition of impairment losses

Goodwill, which was amortized over a certain period under Japanese GAAP, is not amortized under IFRS. The IHI Group ceased to amortize goodwill from the transition date.

Furthermore, under Japanese GAAP, the IHI Group conducted an impairment assessment for goodwill only when there was an indication of impairment. However, under IFRS, goodwill is tested for impairment in each fiscal year, mainly in the fourth quarter, irrespective of whether there is any indication of impairment.

(5) Adjustments to equity instruments

Under Japanese GAAP, gain or loss on sale of equity instruments and impairment loss on such instruments were recognized in profit or loss. Under IFRS, for equity instruments designated as measured at fair value through other comprehensive income, changes in the fair value are recognized in other comprehensive income and reclassified to retained earnings when they are derecognized and when the fair value decreases significantly.

(6) Accounting for residual interest upon the partial transfer of equity interest

For investments in an associate over which IHI lost control due to the partial transfer of its equity interest in the associate in the fiscal year ended March 31, 2020, the residual interest was not remeasured under Japanese GAAP. However, under IFRS, the residual interest is measured at the fair value, and the difference between the fair value and the carrying amount is recognized in profit or loss.

(7) Accounting for retirement benefit liability

Under Japanese GAAP, actuarial gains and losses and past service cost were recognized in other comprehensive income as incurred and amortized on a straight-line basis over a certain number of years within the average remaining service period of employees, starting in the following fiscal year of the incurrence.

Under IFRS, actuarial gains and losses are recognized in other comprehensive income as incurred and immediately reclassified to retained earnings, and past service cost is recognized in profit or loss as incurred.

In addition, the IHI Group has partially revised the basis on which retirement benefit liability is determined.

(8) Reconsideration of recoverability of deferred tax assets

Upon the adoption of IFRS, recoverability of all deferred tax assets has been reconsidered under IFRS.

Notes on reconciliation of cash flows

The consolidated statement of cash flows for the fiscal year ended March 31, 2020 under IFRS changed compared to that under Japanese GAAP as follows: net cash provided by operating activities increased by ¥27,974 million, net cash used in investing activities increased by ¥9,676 million and net cash used in financing activities decreased by ¥18,372 million.

Major differences are as follows:

- Expenditures related to development expenses that satisfy requirements for capitalization under IFRS, which were previously included in cash flows from operating activities, are included in cash flows from investing activities.
- Lease payments paid under operating lease transactions, which were previously included in cash flows from operating activities under Japanese GAAP, are included in cash flows from financing activities as “Repayments of lease liabilities.”
- Receipts and payments in connection with government grants classified under contingent settlement provisions, which were previously included in either cash flows from operating activities or cash flows from investing activities, are included in cash flows from financing activities.

(2) Others

Quarterly results for the fiscal year ended March 31, 2021

(YTD period)	First quarter	Second quarter	Third quarter	Full year
Net sales (Millions of yen)	218,551	482,807	766,837	1,115,077
Profit (loss) before income taxes (Millions of yen)	(7,925)	(8,494)	(8,799)	17,086
Profit (loss) attributable to owners of parent (Millions of yen)	(7,658)	(9,567)	(11,551)	2,922
Basic earnings (loss) per share (Yen)	(51.52)	(64.37)	(77.74)	19.67

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings (loss) per share (Yen)	(51.52)	(12.85)	(13.36)	97.45

Notes: 1. The amounts shown in "Consolidated financial statements" under "Financial information" are rounded to the nearest million yen.

2. The quarterly results for the fiscal year ended March 31, 2021 are prepared in accordance with Japanese GAAP.

3. The above items related to the consolidated financial statements for the fiscal year ended March 31, 2021 and the fourth quarter ended March 31, 2021 are not audited or reviewed pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

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 statement of financial position as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in equity, 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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">The estimation of such as construction contracts in which performance obligations are satisfied over time</th></tr>
<tr><th>Description of Key Audit Matter</th><th>Auditor’s Response</th></tr>
<tr><td>
As described in Note 28. Revenue to the consolidated financial statements, with regard to construction contracts and the rendering of services, the Resources, Energy and Environment segment and the Social Infrastructure and Offshore Facilities segment of the Group (For the year ended March 31, 2021, revenue related to these two segments was ¥315,722 million and ¥148,243 million respectively, or 41.6% of the total revenue.) determine that the related performance obligations are satisfied over time. Revenue is recognized by measuring the progress towards complete satisfaction of the performance obligations to provide such services to customers.
Such progress is measured by specifying the satisfaction of performance obligations. Measurements are estimated based on the ratio of the costs incurred to satisfy the performance obligations against the total expected costs to fully satisfy the contractual obligations.
When certain refund obligations to customers are expected to arise, such as compensation for damages incurred in association with the performance of contracts, the Group reduces revenue to the extent of the estimated refund liability.
As described in Note 24. Provisions to the consolidated financial statements, if the incurrence of future loss for an undelivered project, for which the Group is fulfilling its contractual obligations, is considered to be probable, a provision for loss on construction contracts is recorded at an estimate of future loss that is reasonably estimable at the end of the fiscal year.
In the consolidated statement of financial position at March 31, 2021, the provision for loss on construction contracts was ¥13,829 million.
Most of the Group’s construction contracts and services are distinctive, require long periods of time, and a high degree of expertise and experience. In addition, there is uncertainty in the estimate of the total expected costs to fully satisfy the contractual obligations and the estimate of the reduction in revenue due to the refund obligations to the customer, and it is dependent on management judgment.
</td><td>
We obtained an understanding of the project management system as well as the processes for estimating the total expected costs to fully satisfy the contractual obligations and variability, and we tested the design and operating effectiveness of certain internal controls relevant to the operational budgeting, reviewing the estimated total costs to fully satisfy the contractual obligations and contract fluctuations.
We selected samples of such as construction contracts whose total contract value or estimated total costs exceeded certain materiality thresholds, and performed the following audit procedures in order to verify the estimate of the total expected costs and the reduction in revenue due to the refund obligations to customers.

We identified the significant factors which influence the estimates, including those related to customer specifications and the timing of delivery by examining documents such as contracts, project management materials and purchase orders, and by making inquiries of the Planning & Control Departments relevant to each Business Area and Project Risk Management Division responsible for examination and monitoring functions, and performing confirmation of total order amounts to subcontractors. We also evaluated management judgement on the effects of estimation uncertainty, and the estimation of the estimated total costs and the reduction in revenue due to the refund obligations to customers.
We evaluated the legal basis of the estimate of the total expected costs and the reduction in revenue due to the refund obligations to customers by examining external engineers’ schedule analysis results to prove the entitlement to the excusable contract time extension for customer reasons, and by receiving confirmations from external attorneys, if necessary.
We assessed the accuracy of the estimated total expected costs by comparing preliminary estimated amounts of the total expected costs with actual amounts and revised estimated amounts, comparing construction period elapsed rate with percentage of completion of such as construction contracts and performing site visits to the material construction

</td></tr>
</table>

Therefore, we determined that the estimation of such as construction contracts in which performance obligations are satisfied over time is a key audit matter.	projects to compare the volume and percentage of completion of construction contracts.

<table>
<tr><td colspan="2">Recoverability of deferred tax assets</td></tr>
<tr><th>Description of Key Audit Matter</th><th>Auditor’s Response</th></tr>
<tr><td>As described in Note 18. Income taxes to the consolidated financial statements, in the consolidated statement of financial position, the deferred tax assets were ¥70,455 million and were 3.8% of total assets as at March 31, 2021. As described in Note 4. Significant accounting judgements, estimates and assumptions to the consolidated financial statements, the Group recognizes deferred tax assets to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. In determining the probability that taxable profit will be available, the Group estimates the timing and the amount of the taxable profit based on the business plan.

The Group has made estimates for taxable income for the fiscal year ending March 31, 2022, and subsequent fiscal years by considering the assumptions regarding the timing and speed of the demand recovery, particularly in the Civil aero engines Business in relation to the impact of the spread of COVID-19, and the gain on sale of assets held for securing resources for creating growth businesses as outlined in “Project Change.”

The Group is evaluating the Civil aero engines Business demand recovery to the 2019 level, i.e. before the impact of the spread of COVID-19, would be achieved in 2024.

There is uncertainty in these assumptions, and it is dependent on management judgment.

Therefore, we determined that recoverability of deferred tax assets is a key audit matter.</td><td>We mainly conducted the following audit procedures in order to verify the recoverability of deferred tax assets.

・ We examined the balance of temporary differences and net operating loss carryforwards by involving tax specialists, and we also examined scheduling of the timing of their reversal.

・ We compared the estimate of future taxable income to the underlying business plan approved by the Board of Directors, and we also discussed with management and made inquiries of the Planning & Control Department of Aero Engine, Space & Defense Business Area.

・ We compared the business plan for the current consolidated fiscal year with the actual result.

・ We compared the outlook for the timing and speed of the demand recovery in the Civil aero engines Business with the order forecast, the trend analysis result from past actual results and the available market forecast data published by external sources (International Air Transport Association (IATA)).

・ We tested the reliability of expected sales price of the assets the Group is currently planning to sell by examining documents such as proposals and appraisal reports.

・ We examined management assessment of estimation uncertainties that are reflected as certain risks in the future business plan.</td></tr>
</table>

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 IFRSs, 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 IFRSs, 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 IFRSs.
- 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.

From the matters communicated with the Audit & Supervisory Board Members and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 24, 2021

/s/ Yoshiyuki Sakuma
Designated Engagement Partner
Certified Public Accountant

/s/ Hironori Oya
Designated Engagement Partner
Certified Public Accountant

/s/ Yoichi Takanashi
Designated Engagement Partner
Certified Public Accountant

(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 24, 2021
Company name	株式会社ＩＨＩ (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
Title and name of representative	Hiroshi Ide, President and Chief Executive 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)

1. Appropriateness of the content of statements in this Annual Securities Report

   Hiroshi Ide, President and Chief Executive Officer of IHI Corporation ("IHI"), has confirmed that this Annual Securities Report of the 204th fiscal term (April 1, 2020 through March 31, 2021) 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 24, 2021
Company name	株式会社ＩＨＩ (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
Title and name of representative	Hiroshi Ide, President and Chief Executive 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)

1. Basic framework of internal control related to financial reporting

   Hiroshi Ide, President and Chief Executive 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, 2021 (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, 77 consolidated subsidiaries, and one affiliate accounted for using the equity method. 74 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 ten 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.