

206th term (from April 1, 2022 to March 31, 2023)

Annual Securities Report

1. This is an English equivalent of the Annual Securities Report via the Electronic Disclosure for Investors' Network ("EDINET") system as set forth in Article 27-30-2 of the same Act. It contains 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 the English Independent Auditor's Report, the Confirmation Letter and the 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
206th 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	5
3. Description of business	8
4. Overview of affiliated companies	11
5. Information about employees.....	14
II. Overview of business	17
1. Management policies, business environment and issues to be addressed	17
2. Views and initiatives regarding sustainability	21
3. Business risks	23
4. Management’s analysis of financial position, operating results and cash flows	29
5. Material contracts for operation	36
6. Research and development (R&D) activities	37
III. Information about facilities	39
1. Overview of capital expenditures, etc.	39
2. Major facilities	40
3. Planned additions, retirements, etc. of facilities	43
IV. Information about reporting company	44
1. Information about shares, etc.	44
2. Acquisitions, etc. of treasury shares	56
3. Dividend policy	58
4. Corporate governance, etc.	59
V. Overview of operational procedures for stock	93
VI. Reference information of reporting company	94
1. Information about parent company, etc. of reporting company	94
2. Other reference information	94
Part 2. Information about company which provides guarantee to reporting company	95
[Consolidated financial statements]	96
Consolidated financial statements of IHI Corporation and subsidiaries.	98
Independent Auditor’s Report	192
[Confirmation Letter (Translation)]	198
[Management’s Report on Internal Control Over Financial Reporting for the consolidated financial statements (Translation)]	200

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 23, 2023
Fiscal year	206th term (from April 1, 2022 to March 31, 2023)
Company name	株式会社IHI (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
Title and name of representative	Hiroshi Ide, Representative Director and President
Address of registered head office	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan
Telephone number	+81-3-6204-7065
Name of contact person	Naohiko Kubota, 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	Naohiko Kubota, Head of Accounting Group, Finance & Accounting Division
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo, Japan)

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	205th term	206th term
Fiscal year ended	As of April 1, 2019	March 31, 2020	March 31, 2021	March 31, 2022	March 31, 2023
Revenue (Millions of yen)	–	1,263,178	1,112,906	1,172,904	1,352,940
Operating profit (loss) (Millions of yen)	–	47,859	27,961	81,497	81,985
Profit (loss) before tax (Millions of yen)	–	29,182	27,617	87,637	64,865
Profit (loss) attributable to owners of parent (Millions of yen)	–	8,204	13,093	66,065	44,545
Comprehensive income (Millions of yen)	–	3,521	28,906	88,240	65,775
Comprehensive income attributable to owners of parent (Millions of yen)	–	(474)	24,010	83,998	61,670
Equity attributable to owners of parent (Millions of yen)	307,918	280,178	300,769	382,134	431,245
Total assets (Millions of yen)	1,821,274	1,869,038	1,832,891	1,879,673	1,941,964
Equity attributable to owners of parent per share (Yen)	1,995.69	1,885.13	2,025.18	2,526.33	2,850.48
Basic earnings (loss) per share (Yen)	–	53.93	88.13	439.77	294.48
Diluted earnings (loss) per share (Yen)	–	53.91	88.13	439.73	294.44
Ratio of equity attributable to owners of parent (%)	16.91	14.99	16.41	20.33	22.21
Return on equity (ROE) (%)	–	2.79	4.51	19.35	10.95
Price earnings ratio (PER) (Times)	–	23.40	25.47	6.71	11.27
Cash flows from operating activities (Millions of yen)	–	42,484	36,380	114,155	54,116
Cash flows from investing activities (Millions of yen)	–	(85,572)	(40,482)	27,926	(52,347)
Cash flows from financing activities (Millions of yen)	–	96,892	(23,712)	(121,489)	(24,043)
Cash and cash equivalents at end of period (Millions of yen)	92,746	145,738	120,766	145,489	124,743
Number of employees (Persons)	29,669	29,328	29,149	28,801	28,486

- Notes:
1. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards from the 204th term.
 2. Due to the fact that the number of temporary employees is less than 10% the total number of employees, the average number of temporary employees are not shown.
 3. The consolidated payout ratio for the 203rd term, the 205th term, and the 206th term is 92.7%, 15.9%, and 30.6%, respectively. No dividends were paid for the 204th term.
 4. Monetary amounts and ratios less than one unit are rounded off.

Term	Japanese GAAP		
	202nd term	203rd term	204th term
Fiscal year ended	March 31, 2019	March 31, 2020	March 31, 2021
Net sales (Millions of yen)	1,483,442	1,386,503	1,115,077
Ordinary profit (loss) (Millions of yen)	65,749	32,251	5,078
Profit (loss) attributable to owners of parent (Millions of yen)	39,889	12,812	2,922
Comprehensive income (Millions of yen)	39,597	8,610	13,360
Net assets (Millions of yen)	381,692	353,746	387,670
Total assets (Millions of yen)	1,664,529	1,740,782	1,704,525
Net assets per share (Yen)	2,263.12	2,195.96	2,417.16
Basic earnings (loss) per share (Yen)	258.53	84.21	19.67
Diluted earnings (loss) per share (Yen)	258.37	84.19	19.67
Shareholders' equity ratio (%)	20.98	18.75	21.06
Return on equity (ROE) (%)	11.84	3.79	0.85
Price earnings ratio (PER) (Times)	10.29	14.99	114.13
Cash flows from operating activities (Millions of yen)	46,402	14,510	22,841
Cash flows from investing activities (Millions of yen)	(79,280)	(75,896)	(37,197)
Cash flows from financing activities (Millions of yen)	16,463	115,264	(13,730)
Cash and cash equivalents at end of period (Millions of yen)	92,608	145,484	120,766
Number of employees (Persons)	29,286	28,964	29,149

- Notes:
1. The consolidated financial statements prepared in accordance with Japanese GAAP for the 204th term are not audited pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.
 2. Due to the fact that the number of temporary employees is less than 10% the total number of employees, the average number of temporary employees are not shown.
 3. The consolidated payout ratio for the 202nd term and the 203rd term is 27.1% and 59.4%, respectively. No dividends were paid for the 204th term.
 4. Monetary amounts and ratios less than one unit are rounded off.

(2) Business results of reporting company

Term	202nd term	203rd term	204th term	205th term	206th term
Fiscal year ended	March 31, 2019	March 31, 2020	March 31, 2021	March 31, 2022	March 31, 2023
Net sales (Millions of yen)	700,497	620,207	405,845	423,640	535,285
Ordinary profit (loss) (Millions of yen)	39,355	28,282	(1,927)	8,377	57,025
Profit (loss) (Millions of yen)	20,558	(5,720)	16,012	46,084	51,275
Capital stock (Millions of yen)	107,165	107,165	107,165	107,165	107,165
Total number of issued shares (Thousands of shares)	154,679	154,679	154,679	154,679	154,679
Net assets (Millions of yen)	238,305	205,266	250,112	299,167	339,998
Total assets (Millions of yen)	1,113,379	1,201,832	1,193,715	1,228,221	1,269,179
Net assets per share (Yen)	1,540.24	1,377.51	1,681.31	1,976.14	2,246.23
Dividends per share [Interim dividends per share] (Yen)	70.00 [30.00]	50.00 [30.00]	– [–]	70.00 [30.00]	90.00 [40.00]
Basic earnings (loss) per share (Yen)	133.24	(37.60)	107.78	306.76	338.97
Diluted earnings (loss) per share (Yen)	133.16	–	107.78	306.74	338.92
Shareholders' equity ratio (%)	21.34	17.04	20.92	24.34	26.78
Return on equity (ROE) (%)	8.85	(2.59)	7.05	16.80	16.06
Price earnings ratio (PER) (Times)	19.96	–	20.83	9.62	9.79
Payout ratio (%)	52.54	–	–	22.82	26.55
Number of employees (Persons)	8,011	7,741	7,796	7,779	7,768
Total shareholder return (%)	82.57	41.82	71.56	95.01	108.93
[Reference index: TOPIX including dividends] (%)	[94.96]	[85.94]	[122.15]	[124.57]	[131.82]
Highest stock price (Yen)	4,565	2,890	2,385	3,050	4,305
Lowest stock price (Yen)	2,580	1,093	1,051	2,004	2,770

- Notes:
1. Diluted earnings per share for the 203rd term is not shown even though IHI has issued potential shares, because the per share figures are net losses.
 2. Price earnings ratio (PER) and payout ratio for the 203rd term are not shown, because the per share figures are net losses. The payout ratio for the 204th term is not shown, because no dividends were paid.
 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 is not shown.
 4. The highest and lowest stock prices are in the first section of the Tokyo Stock Exchange before April 3, 2022 and in the Prime Market of the Tokyo Stock Exchange after April 4, 2022.
 5. 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.
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 March 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.
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.
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.
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).
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.

Month / Year		Major Event
August	2009	Acquired the shares of Kurimoto Bridge, Ltd. and made it a wholly owned subsidiary.
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 Limited 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. (hereafter EAS) 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.
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.

Month / Year		Major Event
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.
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.
June	2021	Started operations of Tsurugashima Aero-Engine Maintenance Works as a maintenance plant for jet engines for aircraft.
August	2021	Acquired shares of MEISEI ELECTRIC CO., LTD through simplified share exchange and made it a wholly owned subsidiary.
November	2021	Announced “IHI Group’s ESG Management” with the aim of resolving social issues through business to achieve a sustainable, mutual growth for the IHI Group and society.
November	2022	Delisted stocks from the Nagoya Stock Exchanges, Fukuoka Stock Exchanges, and Sapporo Securities Exchange.
April	2023	Launched a medium-term management plan, “Group Management Policies 2023” with the aim of realizing business transformation to achieve sustainable high growth and transformation into a corporate structure capable of responding to changes in the environment.
April	2023	Transferred the large engines and related products business of IHI Power Systems Co.,Ltd. to Mitsui E&S Co., Ltd.

3. Description of business

IHI and its affiliated companies (145 consolidated subsidiaries and 28 associates accounted for using the equity method as of March 31, 2023) 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), Carbon solutions (boilers and storage facilities), 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., IPS Aioi Ltd. (Note (i)), JURONG ENGINEERING LIMITED and its 19 subsidiaries (Note (ii)), ISHI POWER SDN. BHD., PT Cilegon Fabricators, PT IHI POWER SERVICE INDONESIA (Note (iii)), NIIGATA POWER SYSTEMS (SINGAPORE) PTE. LTD., IHI E&C International Corporation and its 1 subsidiary (Note (iv)), IHI POWER SYSTEM MALAYSIA SDN. BHD., Steinmüller Engineering GmbH and its 1 subsidiary, IHI Power System (Thailand) Co., Ltd., IHI Power Generation Corporation and its 4 subsidiaries (Note (v)), IHI SOLID BIOMASS MALAYSIA SDN. BHD., IHI Terrasun Solutions Inc., IHI Energy Solutions Inc and other 1 company.

(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, San-Etsu Co., Ltd., Niigata Transys Co., Ltd., JIM Technology Corporation, IHI INFRASTRUCTURE ASIA CO., LTD., IHI California Inc. I&H Engineering Co., Ltd., Terratec Limited and its 4 subsidiaries., (Note (vi))

(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 Agri-Tech Corporation, IHI Turbo Service Co.,Ltd., IHI PACKAGED BOILER CO., LTD., IHI Rotating Machinery Manufacturing Co.,Ltd. (Note (vii)), IHI Hauzer Techno Coating B.V. and its 5 subsidiaries, IHI Press Technology America, Inc., Indigo TopCo Limited and its 22 subsidiaries (Note (viii)), 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., 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., IHI-Sullair Rotating Machinery Engineering and Manufacturing (Suzhou) Co., Ltd. (Note (ix)), (Note (x)), (Note (xi))

(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., MEISEI ELECTRIC 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, 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) Newly established and newly included in the scope of consolidation.
 - (ii) One subsidiary of JURONG ENGINEERING LIMITED (Resources, Energy and Environment) ceased to exist because its liquidation was completed.
 - (iii) PT Cilegon Fabricators changed its company name to PT IHI POWER SERVICE INDONESIA
 - (iv) One subsidiary of IHI E&C International Corporation (Resources, Energy and Environment) ceased to exist because its liquidation was completed.
 - (v) Two subsidiaries of IHI Power Generation Corporation (Resources, Energy and Environment) are already proceeding with their liquidation process, and as the importance has diminished, they were excluded from the scope of consolidation.
 - (vi) Chiba Warehouse Co., Ltd. (Social Infrastructure and Offshore Facilities) became no longer an affiliate of IHI because of the transfer of its shares to the third party.
 - (vii) Acquired additional shares and newly included in the scope of consolidation.
 - (viii) One subsidiary of Indigo TopCo Limited (Industrial Systems and General-Purpose Machinery) ceased to exist because its liquidation was completed.
 - (ix) Newly established and newly included in the scope of consolidation.
 - (x) IHI Technical Training Institution (Industrial Systems and General-Purpose Machinery) became no longer an affiliate of IHI because of the transfer of its shares to the third party.
 - (xi) SHANGHAI STAR MODERN AGRICULTURE EQUIPMENT CO., LTD. (Industrial Systems and General-Purpose Machinery) is already proceeding with its liquidation process, and as its importance has diminished, it was excluded from the scope of consolidation.

[Overview of the corporate group]

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

	○ Manufacturing	□ Sale	● Engineering	▲ Installation	■ Service
	IHI Corporation				
Resources, Energy & Environment	Kotobuki Iron Works Co., Ltd./ IHI Power Systems Co., Ltd./ IHI Plant Services Corporation/ IPS Aioi Ltd.				
	NICO Precision Co., Inc./ PT IHI POWER SERVICE INDONESIA/ IHI SOLID BIOMASS MALAYSIA SDN.BHD.		Aomori Plant Co., Ltd.(○) and other 1 company		
	NIIGATA POWER SYSTEMS (SINGAPORE) PTE. LTD. (■)		ISHI POWER SDN.BHD./ Steinmüller Engineering GmbH and its 1 subsidiary/ JURONG ENGINEERING LIMITED and its 19 subsidiaries/ IHI E&C International Corporation and its 1 subsidiary/ IHI Energy Solutions Inc.		IHI POWER SYSTEM MALAYSIA SDN.BHD./ IHI Terrasun Solutions Inc./ IHI Power Generation Corporation and its 4 subsidiaries
	IHI Power System (Thailand) Co., Ltd.				
Social Infrastructure & Offshore Facilities	IHI Infrastructure Systems Co., Ltd./ IHI Construction Service Co., Ltd./ IHI CONSTRUCTION MATERIALS Co., Ltd./ IHI INFRASTRUCTURE ASIA CO., LTD./ JIM Technology Corporation/ I&H Engineering Co., Ltd./ Terratec Limited and its 4 subsidiaries				
	Niigata Transys Co., Ltd.(■)			IHI California Inc.	
Industrial Systems & General Purpose Machinery	IHI Transport Machinery Co., Ltd./ IHI Machinery and Furnace Co., Ltd./ IHI Hauzer Techno Coating B.V. and its 5 subsidiaries/ Jiangsu IHI Fengdong Vacuum Technology Co., Ltd./ IHI Rotating Machinery Engineering Co., Ltd./ IHI-Sullair Compression Technology (Suzhou) Co., Ltd./ IHI Logistics & Machinery Corporation/ CENTRAL CONVEYOR COMPANY, LTD./ Voith IHI Paper Technology Co., Ltd./ IHI DALGAKIRAN MAKINA SANAYI VE TICARET A.Ş./ IHI PACKAGED BOILER CO., LTD.				
	IHI ASIA PACIFIC (Thailand) Co., Ltd.				
	IHI Fuso Engineering Co., Ltd.				
	IHI Agri-Tech Corporation(■)/ IHI Turbo Service Co., Ltd.(■)/ IHI Turbo America Co./ IHI Charging Systems International GmbH and its 2 subsidiaries			IHI Press Technology America, Inc. / Indigo TopCo Limited and its 22 subsidiaries/ IHI VTN GmbH and its 3 subsidiaries	
	IHI Turbo Co., Ltd./ IHI Rotating Machinery Manufacturing Co., Ltd./ IHI-Sullair Rotating Machinery Engineering and Manufacturing (Suzhou) Co., Ltd.		Nishi-nihon Sekkei Engineering Co., Ltd.		
IHI TURBO (THAILAND) CO., LTD./ Changchun FAWER-IHI Turbo Co., Ltd. and its 1 subsidiary/ IHI Transport Machinery Taiwan Corporation(■)					
Aero Engine, Space & Defense	IHI CASTINGS CO., LTD./ IHI MASTER METAL Co., Ltd./ IHI Aero Manufacturing Co., Ltd.		IHI Jet Service Co., Ltd./ INC Engineering Co., Ltd.		
			IHI AEROSPACE ENGINEERING CO., LTD.		IHI · ICR, LLC/ IHI Aero Engines US Co., Ltd.
	Meisei Electric Co., Ltd.				
IHI AEROSPACE CO., LTD.					
Others	IHI Trading, Inc./ IHI Europe Ltd./ IHI do Brasil Representações Ltda./ Soma I Grid Limited Liability Company(■) / IHI (CANADA) LTD.		IHI Inspection & Instrumentation Co., Ltd.		
	IHI INC.(■)/ IHI (Shanghai) Management Co., Ltd.(■)/ IHI ASIA PACIFIC PTE. LTD.(■)		IHI Scube Co., Ltd./ IHI Business Support Corporation / Toyosu Energy Service Co., Ltd. / IHI Americas Inc.		
	IHI ENGINEERING AUSTRALIA PTY. LTD.				
	Takashima Giken Co., Ltd.				
	ALPHA Automotive Technologies LLC				

*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 the company 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, 2023.

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, Japan	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. (Note 4)	Chiyoda-ku, Tokyo, Japan	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
IHI Transport Machinery Co., Ltd.	Chuo-ku, Tokyo, Japan	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, Hokkaido, Japan	1,111	Industrial Systems and General-Purpose Machinery	100.0	Conducts development, manufacture and sale of agricultural machinery, turf-grass/lawn maintenance equipment, forged/cast materials, and electronic control units. Interlocking officers, etc.: Yes
IHI Rotating Machinery Engineering Co., Ltd.	Koto-ku, Tokyo, Japan	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. (Note 5)	Sakai, Osaka, Japan	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.	Kitakanbara- gun, Niigata, Japan	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. (Note 6)	Koto-ku, Tokyo, Japan	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, Japan	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, industrial equipment and disinfecting/deodorizing equipment, in addition to repair and maintenance services for parts and equipment. Interlocking officers, etc.: Yes
IHI Plant Services Corporation	Koto-ku, Tokyo, Japan	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

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 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
IHI INFRASTRUCTURE ASIA CO., LTD.	Haiphong, Vietnam	Millions of VND 542,638	Social Infrastructure and Offshore Facilities	100.0	Conducts engineering, manufacture, installation, and maintenance of steel structures and concrete structures, and manufacture and installation of construction and industrial machinery. 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 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 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 (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.: No
IHI SOLID BIOMASS MALAYSIA SDN.BHD.	Kuala Lumpur, Malaysia	Thousands of MYR 25,400	Resources, Energy and Environment	100.0	Conducts manufacture, sale, and export of fuel in Malaysia. Interlocking officers, etc.: Yes

Name	Address	Share capital (Millions of yen)	Main business	Voting rights holding [or held] (%)	Nature of relationship
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) (Note 7)	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.: No
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
IHI (Shanghai) Management Co., Ltd.	Shanghai, China	Thousands of RMB 13,604	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 114 companies					
Total of 145 companies					
(Entities accounted for using the equity method)					
Japan Marine United Corporation	Yokohama, Kanagawa, Japan	57,500	Others	35.0	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\$ 590,762 (Note 8)	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	Aero Engine, Space and Defense	45.0	Conducts investment in specialist leasing company of PW1100G-JM engine. Interlocking officers, etc.: Yes
Other 25 companies					
Total of 28 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. As of April 1, 2023, Transferred the large engines and related products business of IHI Power Systems Co.,Ltd. to IPS Aioi Ltd. by an absorption-type company split, and on the same date, transferred all the shares of IPS Aioi Ltd. to Mitsui E&S Co., Ltd.
 5. As of April 1, 2023, Transferred the Water Gate, Penstock, Mass Dampers, and Seismic Isolation Floors businesses of IHI Infrastructure Systems CO.,LTD. to IHI Construction Service Co.,Ltd. by an absorption-type company split.
 6. This company is classified as a specified subsidiary.
 7. Ownership percentage of voting rights is 50% or less, however it is considered a subsidiary since the company is substantially controlled by the Parent Company.
 8. This company has changed the amount of its capital.

5. Information about employees

(1) Information about the IHI Group

As of March 31, 2023

Segment name	Number of employees (Persons)
Resources, Energy and Environment	6,626
Social Infrastructure and Offshore Facilities	2,344
Industrial Systems and General-Purpose Machinery	9,645
Aero Engine, Space and Defense	7,010
Reportable segment total	25,625
Others	1,802
Corporate (company-wide)	1,059
Total	28,486

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, 2023

Number of employees (Persons)	Average age (Years old)	Average length of service (Years)	Average annual salary (Yen)
7,768	41.4	16.5	7,929,311

Segment name	Number of employees (Persons)
Resources, Energy and Environment	1,907
Social Infrastructure and Offshore Facilities	91
Industrial Systems and General-Purpose Machinery	529
Aero Engine, Space and Defense	4,182
Reportable segment total	6,709
Others	–
Corporate (company-wide)	1,059
Total	7,768

- 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) Diversity Indicators

The diversity indices for the current consolidated fiscal year, based on the provisions of the Act on Promotion of Women's Participation and Advancement and the Act on Childcare Leave, Caregiver Leave, are as follows:

As of March 31, 2023

Company	Percentage of female employees in management positions (%)	Differences in wages between male and female employees (%)		
		All employees	Employees	Temporary employees
IHI Corporation	4.7	64.4	75.9	36.8
IHI Transport Machinery Co.,Ltd	1.4	77.4	79.1	51.0
IHI Power Systems Co.,Ltd.	0.4	65.9	72.7	49.7
IHI Rotating Machinery Engineering Co.,Ltd.	4.2	66.4	70.8	61.4
IHI Business Support Corporation	7.5	64.4	82.9	50.1
IHI Jet Service Co.,Ltd.	—	66.3	79.1	57.9
IHI Infrastructure Systems CO.,LTD.	—	64.0	69.7	64.3
IHI Logistics & Machinery Corporation	0.8	76.2	76.6	67.2
IHI Plant Services Corporation	3.1	64.6	64.3	—
IHI Turbo Co.,Ltd.	1.9	67.1	73.7	83.1
IHI Construction Service Co.,Ltd.	0.7	64.3	66.3	73.8
IHI Scube Co.,Ltd	3.7	78.5	82.0	100.0
IHI Agri-Tech Corporation	6.8	78.8	82.8	74.6
NIIGATA TRSNSYS CO.,LTD.	1.2	69.0	70.9	51.5
IHI CASTINGS CO.,LTD.	2.9	74.2	79.5	61.1
IHI Inspection&Instrumentation Co.,Ltd.	7.4	78.7	76.6	24.7
MEISEI ELECTRIC CO.,LTD.	5.6	79.7	81.9	57.2

Company	Percentage of male employees taking childcare leave and leave for childcare purposes (%)
IHI Corporation	103.2
IHI Transport Machinery Co.,Ltd	161.2
IHI Power Systems Co.,Ltd.	102.9
IHI Rotating Machinery Engineering Co.,Ltd.	313.0
IHI Business Support Corporation	83.3

Notes: 1. The calculation method is as follows:

Differences in wages between male and female employees: $(\text{Total wages paid to female employees during the fiscal year} / \text{Total number of female employees during the fiscal year}) / (\text{Total wages paid to male employees during the fiscal year} / \text{Total number of male employees during the fiscal year})$

Percentage of male employees taking childcare leave and leave for childcare purposes: $(\text{Number of male employees who took childcare leave in the current fiscal year}) / (\text{Number of male employees whose partners gave birth in the current fiscal year})$

- Temporary employees include employees with fixed-term employment contracts, such as part-time employees and those rehired after retirement.
- Regarding the percentage of female employees in management positions, seconded employees are counted as employees of the company to which they were transferred.

4. The percentage of male employees taking childcare leave, leave for childcare purposes is calculated for employees who were seconded to the company to which they were transferred.
5. The difference in wages between male and female employees shows the ratio of female wages to male wages and excludes seconded employees.

(4) Relationship with labor unions

IHI's labor union is called the IHI Labor Union, which forms the IHI Labor Union Federation with the 8 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, 2023, there are 9,845 members (7,078 members of the IHI Labor Unions (including seconded employees to other companies) and 2,767 members of the labor unions of consolidated subsidiaries (8 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.

In Japan, there are 10 labor unions at the 42 consolidated subsidiaries (4,761 members, excluding the 8 labor unions which belong to the aforementioned IHI Labor Union Federation) and 7 labor unions at other companies (444 members), and its umbrella organization is the Japan Federation of Basic Industry Worker's Unions.

In addition, the IHI Group Labor Union Federation (15,050 members) is made up of 18 labor unions by the IHI Labor Union and each of the consolidated subsidiaries' labor unions.

II. Overview of business

1. Management policies, business environment and issues to be addressed

The IHI Group's management policies, business environment, and issues to be addressed are as follows. Forward-looking statements in the text are based on the Group's judgements as of the end of the current fiscal year (March 31, 2023).

(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.

Under these circumstances, the Group has placed ESG at the center of its management. We are committed to solving climate change issues through our business activities and realizing a sustainable world in which nature and technology work in unity, while upholding human rights and creating a corporate culture in which diverse and inclusive human resources are built.

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

In May 2023, the IHI Group announced its three-year medium-term management plan, the "Group Management Policies 2023," which begins in fiscal 2023. The Group has been promoting initiatives in the lifecycle business and ammonia value chain business through the medium-term management plan "Project Change," which was implemented from FY2020. Under the new management policies, we will promote more concrete and full-fledged reform of our businesses to achieve sustainable high growth, and at the same time, we will accelerate our transformation into a corporate structure capable of responding to drastic changes in the business environment.

Initiatives and Management Objectives of the "Group Management Policies 2023"

i. Business transformation to achieve sustainable high growth

In order to solve social issues through its business and achieve sustainable high growth for both society and the IHI Group, it is important to provide value throughout the lifecycle of customers' businesses and to enhance value by building a value chain. Under the "Group Management Policies 2023," the business is separated into the following three categories, all of which will be approached with a strong awareness of lifecycles and value chains.

- Growth businesses: aero-engine and rocket fields

The IHI Group positioned the aero-engine and rocket fields as businesses that will drive the growth of the IHI Group.

In addition to strengthening the aero-engine business and the rocket business, including the defense sector, the IHI Group will expand its business with an awareness of lifecycles and value chains such as weight reduction and electrification of equipment and airframes, development of SAF fuel to realize environmentally friendly and economically efficient aircraft, and utilization of space, ground, and undersea data acquired during rocket launches.

- Development businesses: clean energy field

The IHI Group will work to develop the clean energy field into a business that will be the twin of the aero-engine and rocket fields and a growth driver for the IHI Group.

The IHI Group is a world leader in ammonia combustion technologies, and going forward, the IHI Group will strive to contribute to society and customers by building an ammonia value chain that includes storage and transportation. The IHI Group will also work to create new business models, such as investing in fuel production projects.

- Core businesses:

The IHI Group continued to position the Business Areas of Resources, Energy and Environment, Social Infrastructure, and Industrial Systems and General-Purpose Machinery as the core of the IHI Group.

These businesses will not be an extension of its existing businesses, however, will provide more advanced services to customers by getting deeper into their lifecycle and feeding back the knowledge the IHI Group gains from this process.

In addition, in order to generate management resources, such as cash and human resources, to be invested in growth businesses and development businesses, the IHI Group will further improve operational efficiency by reforming business processes and utilizing digital infrastructure, and also review our businesses.

ii. Transformation into a corporate structure capable of responding to changes in the environment

The IHI Group will ensure thoroughly management centered on ESG, upgrade the information digital infrastructure that is indispensable for business reform, and actively promote the development and acquisition of human resources for change, which is the most important factor in achieving reform of the corporate structure.

iii. Resource Allocation and Management Targets

The IHI Group will continuously generate operating cash flow of 100 billion yen or more and invest 500 billion yen or more over the next three years, mainly in growth and development businesses. In addition, we will aim for a consolidated dividend payout ratio of 30% based on a basic policy of stable dividends.

Financial targets	FY 2025
ROIC (After tax)	8% or more
Operating profit margin	7.5%
CCC	100 days
(Reference) Revenue	¥1,700.0 billion

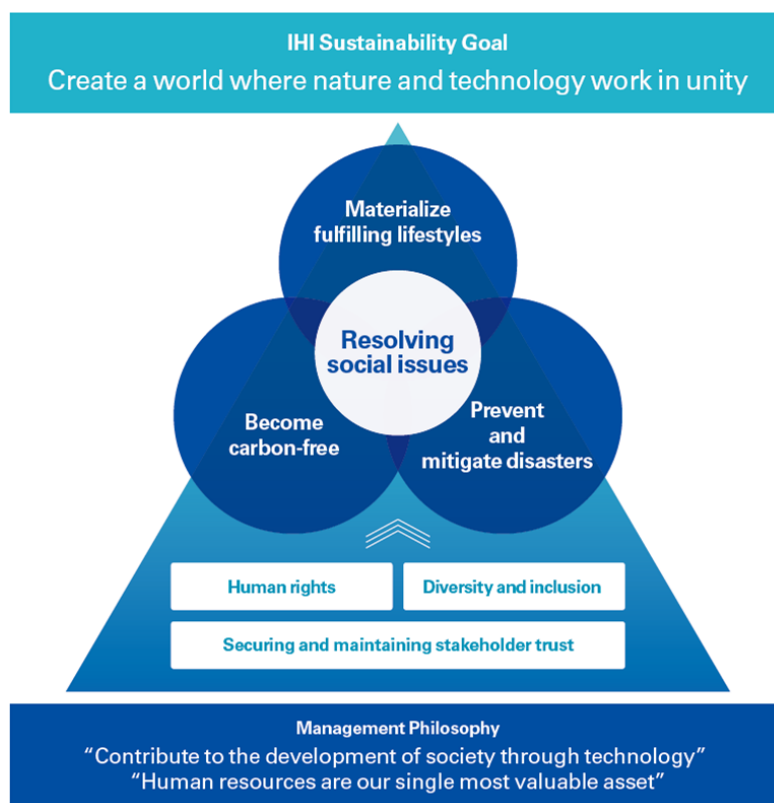
Note: The calculation method for each indicator is shown below.

- ROIC : $(1 - \text{Effective statutory tax rate}) \times (\text{Operating profit} + \text{Interest income} + \text{Dividend income}) \div (\text{Equity attributable to owners of parent} + \text{Amount of interest-bearing liabilities})$
- CCC : $\text{Working capital} \div \text{Revenue} \times 365 \text{ days}$
- Working capital: $\text{Trade receivables} + \text{Contract assets} + \text{Inventories} + \text{Prepayments} - \text{Contract liabilities} - \text{Trade payables} - \text{Refund liabilities}$

(3) Business environment and issues to be addressed

The issues to be addressed by the Company are as described in the initiatives under the medium-term management plan “Group Management Policies 2023” in the preceding section “(2) Medium- to Long-term Management Strategies and Management Indicators”.

<Long-term management>
ESG management



The IHI Group is seeking to create a world where nature and technology work in unity through addressing social issues in three main areas by “becoming carbon-neutral,” “preventing and mitigating disasters,” and “enriching lives of all people.” We are doing our part to enable flourishing societies while taking steps to halt global climate change through mitigation by reducing our greenhouse gas (GHG) emissions, and through adaptation by preparing for the impact to reduce the negative effects from climate change.

- Solving social issues

The IHI Group has pledged to make its complete value chain carbon-neutral by 2050. We aim to be carbon-neutral in our processes overall by reducing the direct and indirect (Scope 1 and 2) GHG emissions from our business activities as well as Scope 3 emissions from the upstream and downstream processes in our value chain. Specifically, we will work in two actions: “transition” for our existing technologies and “transformation” primarily through new technologies.

In addition, the IHI Group is helping to realize safe, secure, and comfortable communities by improving infrastructure to be more economical and disaster resilient, and by constructing systems that combine infrastructure with disaster and damage prediction to achieve zero human suffering. We are building on our strength in advanced maintenance technologies for bridges and other infrastructure. By adding sensing and monitoring technologies and developing preventive diagnosis technology, we are expanding our business to provide timely and appropriate infrastructure maintenance. Furthermore, we are working to establish communities with dual-purpose infrastructure that is resilient in emergencies and convenient in normal times.

- Human rights

The Basic Code of Conduct for the IHI Group reflects our Management Philosophy and outlines what we should do to be aware of global issues and to meet the expectations of all stakeholders. In accordance with the Basic Code of Conduct for the IHI Group, we established the IHI Group Human Rights Policy in December 2020. We are conducting human rights awareness activities following international standards to fulfill our responsibility to respect the human rights of all by fostering a respectful corporate culture and promoting human rights throughout our business activities. We also enforce the IHI Group Procurement Policy to fulfill our responsibility and work with our business partners for CSR procurement in our supply chain.

We are using our value chain to protect against and reduce the negative impacts of our business activities on our stakeholders and rights-holders as part of our efforts to enrich the lives of all people.

- Diversity and inclusion

Welcoming diversity and accurately understanding and responding to changes in the social environment are essential to a sustainable society.

It is necessary that every employee understanding our corporate mission and management philosophy of “contributing to the development of society” and our goal to “create a world where nature and technology work in unity”. We believe that key elements of sustainable growth are to align the organization and our employees and ultimately to maintain a relationship where we contribute to each other’s growth.

In addition, with diversity and inclusion that respects and accepts the differences of individuals as fundamental value, the IHI Group is creating an environment where human resources with various backgrounds, distinct experiences, and original perspectives can play an active role. We will also expand the human resources structure to provide employees various opportunities to acquire broader perspectives and experience.

- Securing and Maintaining Stakeholder Trust

To use our business to solve social issues and enhance corporate value, we need a foundation to maximize the Group’s inherent strengths and active dialogue with all our stakeholders.

2. Views and initiatives regarding sustainability

Since its establishment in 1853, the IHI Group has been helping to resolve social issues from one era to the next underpinned by its management philosophies of “Contribute to the development of society through technology” and “Human resources are our single most valuable asset.” Meanwhile, with the Group addressing ever-changing social issues and placing greater consideration on the natural environment and society in aiming to achieve a sustainable society and persisting corporate growth, the “IHI Group’s ESG Management” was released in November 2021 to identify business opportunities that involve resolving such challenges.

In seeking to enable sustainability in both the global environment and people living there, the IHI Group has set its vision on creating “a World where Nature and Technology Work in Unity” in terms of a society where all people, including future generations, are able to live abundantly and with peace of mind. To such ends, the Group has identified material issues to be prioritized in terms of tackling climate change, upholding human rights, building a diverse and inclusive human resources, and securing and maintaining stakeholder trust.

(1) Governance

The IHI Group believes that giving rise to a sustainable society hinges on engaging in management in a manner exhibiting distinct values in relation to its contribution and responsibility toward the environment and society, and in relation to its governance for achieving such ends.

This ESG management has involved establishing the ESG Management Promotion Committee to serve as a forum for identifying matters deemed important as material issues then holding discussions and making decisions on implementation guidelines, promotion frameworks, and action plans. The ESG Management Promotion Committee meets twice per year, in principle. It is chaired by the CEO and consists entirely of officers ranked executive officer and above.

Addressing Group-wide issues, such as the environment, human rights and compliance, entails establishing Group-wide committees, as necessary, which serves as a structure where policies deliberated and decided upon by such committees are reflected in specific measures of each division.

Among discussions in these committees, those related to making important managerial decisions are submitted to the Board of Directors subsequent to their deliberation by the Management Committee, which serves as the decision-making body for business execution.

Sustainability Promotion System



Information about corporate governance is included in “4. Corporate governance, etc.” under “IV. Information about reporting company” in this Annual Securities Report.

(2) Risk management

In addition to short-term business risks, the IHI Group also manages risks associated with sustainability that may cause changes in the business environment on a medium to long-term basis as risks pertaining to its business activities. Specifically, this involves evaluating the impact such risks impose on the IHI Group over the medium to long term, and incorporating such assessment into the short-term business risk profile. The Group accordingly clarifies roles and responsibilities of the internal audit divisions, corporate divisions, Business Areas, and business divisions including affiliated companies, and manages them within a multi-

layered risk management system.

Details on the risk management system are included in “3. Business risks” under “II. Overview of business” of this Annual Securities Report.

(3) Key strategies, indicators and targets

i. Strategies

In aiming to achieve a sustainable society and persisting corporate growth, the IHI Group engages in management that embraces ESG values and makes proper social and environmental considerations.

Tackling climate change stands as a social issue that needs to be addressed on a global scale and as such serves as a challenge of greater significance when it comes to our ESG management. The IHI Group views efforts to achieve carbon neutrality across our entire value chain as a business opportunity for which the IHI Group enlists a two-stage approach in pursuing initiatives to mitigate climate change in terms of reducing greenhouse gas emissions utilizing our existing technologies and existing facilities, and also reducing greenhouse gas emissions by building new technologies and mechanisms.

The IHI Group will help our customers achieve carbon neutrality by expanding our life cycle businesses, previously covered our group’s products, to our customers’ value chains and enhancing the environmental value we provide. Management resources created through the life cycle businesses from the customer value chain perspective are invested in developing new technologies and new systems that contribute to carbon neutrality, as well as in growth and development-focus businesses, and the IHI Group will actively adopt these new technologies and systems within the IHI Group, thereby giving rise to early achievement of carbon neutrality and sustained high growth in our group’s business activities.

Details on matters such as the life cycle businesses as well as the growth and development-focus businesses are included in “1. Management policies, business environment and issues to be addressed” under “II. Overview of business” of this Annual Securities Report.

ii. Indicators and targets

The IHI Group has pledged to attain “Carbon Neutrality by 2050” with the aim of achieving carbon neutrality across its entire value chain by the year 2050. The IHI Group aims to be carbon-neutral in our processes overall by reducing Scope 3 GHG emissions from the upstream and downstream processes, in addition to reducing the direct and indirect (Scope 1 and 2) GHG emissions from our business activities.

The IHI Group has set the target of halving our FY 2019 Scope 1 and 2 GHG emissions by FY 2030.

For trends regarding the IHI Group’s CO₂ emissions, please refer to “IHI Sustainability Data Book 2023,” slated for release in around August 2023.

(4) Human capital strategies, indicators and targets

i. Strategies

The IHI Group believes that responding to the new social environment where instability is becoming the norm calls for it to further strengthen its corporate structure. As such, the IHI Group will actively develop and recruit innovative human resources, which serve as the most vital aspect of achieving transformation of our business and corporate structure on a global scale.

In order to focus on agile and continuous self-transformation of the management and personnel and to make it part of the corporate culture, the IHI Group aims to acquire global-level expertise and management skills and make it part of our corporate culture, while also improving engagement and well-being. To such ends, the IHI Group will provide our employees with re-skilling opportunities and furnish support for self-career development.

ii. Indicators and targets

The IHI Group aims to become an enterprise group that empowers human resources to resolve issues by coordinating and collaborating with a variety of stakeholders, and that also upholds the human rights of everyone involved in its businesses. More specifically, the IHI Group is spearheading efforts to achieve a more diverse range of senior management candidates while also leveraging the broad perspectives and ideas of the younger generation in management.

The proportion of female officers serves as an indicator regarding senior management candidate diversification. The IHI Group endorses the “Challenge Initiatives for 30% of Executives to be Women by 2030” of the Japan Business Federation (Keidanren) and have set a target of achieving a 30% or higher ratio of female officers by the year 2030. The IHI Group will also monitor findings of employee-awareness surveys to assess progress in achieving systemic reform and cultivation of a climate for evaluating efforts to take on challenges of transformation.

Related indicators and results are also included in “5. Information about employees” under “I. Overview of company” of this Annual Securities Report.

3. 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

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

The Group 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 Group, the Group Risk Management Units, which mainly comprise the Group'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, after clarifying roles and responsibilities of Internal Audit Division, corporate divisions, Business Areas, and business divisions including affiliated companies in risk management, the Group sets a risk management system. Business divisions including affiliated companies identify risks and respond to them directly. Business Areas monitor and instruct in the risk management activities of the business divisions and detect new risk signs. The corporate divisions evaluate and advise on the risk management activities of the business divisions and Business Areas, issue alerts toward unrecognized risks, detect new risk signs, and roll out measures against occurred risk items. The Internal Audit Division ensures these risk management functions.

(3) Risk management activities for FY 2023

In terms of major themes on "IHI Group Key Risk Management Policies" for FY 2023, the IHI Group will focus on the following matters

- i. Response to risks that hinder to secure robust business operation foundation
 - Compliance
 - Quality assurance
 - Economic security
 - Information security
 - Upholding human rights
 - Human resource risks
- ii. Response to risks that hinder to execute business scenario

In "response to risks that hinder to secure robust business operation foundation", 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 is working to build a working environment where past lessons would not be forgotten with initiatives related to "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. Initiatives with respect to economic security, information security, upholding human rights, and securing human resources are stated in "(4) Business risks". As for "response to risks that hinder to execute business scenario", the Group is prioritizing the management of risks that impair the ability of the four Business Areas to execute their respective strategies in order to respond to them quickly and appropriately, while keenly grasping the drastic changes in the business environment surrounding the Group including the response to the impact of the sudden changes in the prices for material and equipment and sudden changes in the international situation .

In order to systematically check the latent risks in the business plan, the Group are also constantly assessing and confirming the response plans and implementation progress for a wide range of 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 adversely impact on the operating results and financial position of the IHI Group. Note that forward-looking statements are based on the Group’s judgements as of the end of the current fiscal year (March 31, 2023). 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.

The Group will build a system that is prepared for any eventuality in light of a social environment in which instability is the norm, including worsening international conditions (such as Russia’s prolonged invasion of Ukraine and the political conflicts between U.S. and China), global inflations, energy shortages, human resource shortages, and frequent catastrophic disasters. The Group will also accelerate our transformation into a corporate structure capable of responding to dramatic changes in the environment.

The Group treats the appropriate identification of “risks” and “opportunities” arising from changes in the business environment as an issue for the entire group, and is working to identify risks that may be latent in business reformation beyond the boundaries of conventional businesses in the changing environment, to determine and analyze significant risks, and to promote flexible risk management.

i. Social responsibility

a. Laws and regulations

In the course of conducting its businesses on a global basis, the IHI Group is subject to restrictions and 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. If these laws and regulations are strengthened or revised, the cost of compliance with such changes may adversely affect the Group’s operation results and financial position. 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, except for the item stated in the other risk, 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.

b. Quality assurance

The IHI Group establishes quality management system and develops structures and systems to assure quality in order to provide products and services realizing customers’ satisfaction, safety, and security. This system includes the reflection of necessary requirements including customer demands and responses to risks assumed in the planning stage.

However, an unanticipated situation could arise, leading to deterioration in customer’s evaluation and 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.

c. 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.

d. Human rights

In accordance with international standards and IHI Group Human Rights Policy, the IHI Group promotes initiatives to respect human rights throughout its business activities, including its supply chains. Specifically, the Group conducts human rights due diligence to identify and assess risks related to human rights and to verify and improve the results of its measures. The Group also fulfills its responsibility and work with business partners for CSR procurement in its supply chain that gives due consideration to human rights, labor conditions, occupational health and safety, the environment, and information management. However, if a violation of human rights or an event that disrespects human rights were to occur in the Group's business activities, the Group's operating results and financial position could be adversely affected due to loss of public trust, suspension of transactions with customers, or liability for damages.

e. 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.

ii. Preparing for changes in the external environment

a. Competitive environment and business strategy

Under the medium-term management plan "Group Management Policies 2023," the IHI Group is promoting initiatives to achieve sustainable high growth even in a social environment where instability is the norm.

However, the Group's products and services' superiority over competitors in the market may be rapidly lost due to fluctuations in the market environment caused by trends in air passenger demand, automobile production volume, other consumption and capital investment trends, resource and energy prices, materials and equipment prices and transportation costs in the supply chain, and labor costs. In such cases, the Group's operating results and financial position may be adversely affected.

b. 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.

c. Country risk

The IHI Group conducts its activities including procurement, production, export, sales, and construction on a global basis. If the continuation of business activities or the operation of business sites could become difficult due to political or economic turmoil in each country and region and a resulting freeze on currency exchange transactions, or debt defaults, or seizure of investment assets, occurrence of unforeseen acts of terrorism or labor disputes, political instability, defaults, or other factors, the Group's operating results and financial position could be adversely affected. 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).

The Group's perception is that the importance of this item is rising, due to increasing uncertainty such as the impact of the situation involving Russia and Ukraine, political changes in Myanmar, political conflicts between U.S. and China, and expanding impact of economic security issues etc.

d. Economic security

With the recent advance of globalization, deepening economic interdependence among nations has made economic activities and security inseparable. Sudden changes in the international situation, such as Russia's invasion of Ukraine and the political conflicts between the U.S. and China, have led to changes in the policies and laws and regulations of various countries, including Japan, and have created challenges related to economic security, such as strengthening supply chains and developing cutting-edge key technologies. If the IHI Group's production, procurement, export, and other business activities are constrained by changes in the policies of various countries without resolving these issues, the Group's operating results and financial position

could be adversely affected.

e. Natural disasters, disease, conflict, terrorism

Situations that could prevent the execution of business operations include the worldwide spread of an infectious disease like COVID-19, severe disasters such as an earthquake or flood, a criminal act such as terrorism, or a computer system failure. The Group has taken measures to minimize any impact even if such an event should occur by revising policies and place business continuity plan (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.

iii. Management Resources & Business Operations

a. securing human resources

In order to maintain the IHI Group's business foundation and link it to future growth, it is necessary to acquire, retain, and develop the human resources required for business operations. If Failure to secure key personnel, the Group's future growth, operating results and financial position could be adversely affected.

b. Currency movements

Currency movements have impacts on the IHI Group's operating results and financial position. 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.

c. 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.

d. 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.

e. 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 the "Financial information" section in this Annual Securities Report.

f. 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.

g. 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.

Due to the filing for bankruptcy by an airline company in May 2023, there is a possibility that a portion of the accounts receivable that the Group indirectly hold in the engine program in which we participate through an international joint venture company for civil aero engines may become uncollectible. In response to this matter, the Group is considering the enhancement of debt management in order to reduce the risk of debt collection.

h. Information security

The IHI Group takes appropriate information security measures when using technical information, administrative information, and information systems for processing such information in its business, and is also strengthening measures in consideration of the increasing sophistication of cyber-attacks and the increase in teleworking, and thoroughly educating employees on information security. However, cyber attacks, loss or theft of information equipment and documents, hardware failures, and software inadequacies could result in information leaks or business stoppages caused by system failures, which could adversely affect the Group's operating results and financial position.

i. Research and development

Information relating to the IHI Group's research and development activities is included in "6. 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 and financial position.

j. Intellectual property management

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

k. Technology license contracts

The IHI Group handles a broad range of products and services 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 and financial position.

l. Project management

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. As a result, the Group's operating results and financial position could be adversely affected. 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. As a result, the Group's performance and financial position could be adversely affected. 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 receipt of an invoice for penalties for delayed delivery on the IHI Group's process plant project executed 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.

m. Procurement & Logistics

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 material and equipment, or in the demand and supply balance of special steel and others, and rise in procurement costs in the process of promoting CSR procurement for the purpose of respecting human rights and realizing sustainable society, as well as in the international situation, in addition to disruption of our supply chain caused by a severe disaster and the spread of COVID-19, they may cause problems including increased costs or delayed deliveries. These problems could lead to deterioration in the Group's operating results and financial position.

n. 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 severe disaster affecting the Group's production facilities, production delays/suspension, supply chain disruption, a power outage, inability to obtain materials or equipment, or a power restriction affecting production activities caused from infections including COVID-19 and geopolitical changes such as the situation involving Russia and Ukraine, could occur on a greater scale than anticipated in their BCPs, or 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 and financial position.

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

(1) Overview of operating results, etc.

i. Financial position and operating results

a. Operating results

During the current fiscal year, the outlook remained uncertain due to heightened geopolitical risks, such as the lengthening of the Russian invasion upon Ukraine, and inflation and monetary tightening policies internationally. On the other hand, the sluggish Chinese economy showed a temporary recovery mainly in domestic demand, triggered by the lifting of the zero-Covid policy. In the Japanese economy, as economic activities normalize after COVID-19, the economy is gradually recovering, although it is still affected by global inflation.

In the IHI Group's main business, the Civil aero engines Business, although the supply chain disruptions continue, sales of spare parts remained generally steady along with the recovery in demand for aero transportation which had been depressed by COVID-19.

In the Vehicular turbochargers Business, although the shortage of semiconductors is being resolved, the production volume of automobile companies recovered only moderately due to concerns about the risk of a global economic slowdown.

In the IHI Group's businesses as a whole, although the soaring prices of raw material has affected the profitability of many of its business, steadily reflecting that in sales prices and improved construction profitability, in addition to the yen depreciation, are beginning to show results.

Under the "Project Change" initiative, the IHI Group positioned the period up to the current fiscal year as a period of preparation for business reforms in response to changes in the business environment, and has worked to return to a growth trajectory and create growth businesses. In particular, the IHI Group has been promoting a shift in its business model from products and services to providing value throughout the product lifecycle (lifecycle business) and strengthening its earnings base.

With this initiatives, orders received of the IHI Group for the current fiscal year increased 8.3% from the previous fiscal year to ¥1,366.1 billion. Revenue increased 15.3% from the previous fiscal year to ¥1,352.9 billion.

In terms of profit, operating profit increased ¥0.4 billion to ¥81.9 billion due to increased sales of spare parts and improved profitability in the Civil aero engines Business, increased profit resulted from increased revenue in the Nuclear energy Business, and improved profitability in the Carbon solutions Business, as well as the effect of yen depreciation, despite decreased profit due to the sales of assets in the previous fiscal year and the effect caused by the soaring prices of raw materials. Both sales and operating profit increased in all of the reportable segment. On the other hand, profit before tax decreased ¥22.7 billion to ¥64.8 billion due to decreased share of loss of investments accounted for using equity and recording of foreign exchange losses, profit attributable to owners of parent decreased ¥21.5 billion to ¥44.5 billion.

Results by reportable segment for the fiscal year ended March 31, 2023 are as follows:

(Billions of yen)

Reportable segment	Orders received			Fiscal year ended March 31, 2022		Fiscal year ended March 31, 2023		Changes from the previous fiscal year (%)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	Changes from the previous fiscal year (%)	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)	Revenue	Operating profit (loss)
Resources, Energy and Environment	373.8	393.4	5.2	344.4	22.9	371.3	26.2	7.8	14.2
Social Infrastructure and Offshore Facilities	181.0	134.0	(25.9)	167.3	15.3	171.0	17.0	2.2	11.2
Industrial Systems and General-Purpose Machinery	384.5	455.9	18.6	376.9	12.8	436.5	18.0	15.8	40.2
Aero Engine, Space and Defense	304.7	372.7	22.3	265.2	(9.3)	364.1	36.1	37.3	–
Reportable segment total	1,244.1	1,356.2	9.0	1,154.0	41.8	1,343.1	97.5	16.4	133.1
Others	54.7	53.9	(1.5)	62.7	(1.0)	54.2	1.3	(13.5)	–
Adjustments	(37.6)	(44.0)	–	(43.9)	40.6	(44.4)	(16.8)	–	–
Total	1,261.2	1,366.1	8.3	1,172.9	81.4	1,352.9	81.9	15.3	0.6

<Resources, Energy and Environment>

The movement toward carbon neutrality is accelerating in many countries around the world, and the challenges of reducing environmental impact are becoming more diverse, depending on the country, region, and customer circumstances. The move away from fossil resources is not limited to the utility sector, such as electricity and gas in the energy sector, but is also spreading to the industrial sector, such as steel and chemicals, where there is a growing trend to shift carbon neutral in the manufacturing process of materials.

Under this business environment, orders received increased due to orders for large-scale power plant project in Southeast Asia. Revenue increased in the Nuclear energy Business.

Operating profit increased due to the progress of construction in the Nuclear energy Business and improved profitability in the Carbon solutions Business.

<Social Infrastructure and Offshore Facilities>

In Japan, the national land resilience policy continues to be implemented as a countermeasure against aging infrastructure and severe natural disasters caused by climate change, and further promotion of watershed flood control, bridge maintenance, repair, and post-maintenance is required. Meanwhile, with a declining population, labor shortages in the construction sector have become the norm, and there is a need to improve productivity by promoting labor saving, automation, and DX in order to steadily develop and maintain the infrastructure.

Under this business environment, orders received decreased in the Bridges and water gates Business.

Revenue increased in the Bridge and water gates Business.

Operating profit increased due to higher sales and improved profitability of overseas projects in the Bridges and water gates Business.

<Industrial Systems and General-Purpose Machinery>

Although the disruption caused by the lockdown in China, which had a major impact mainly on the automotive industry, has been resolved, in the industrial sector as a whole, soaring labor, raw material, and energy prices have become the norm, and supply shortages of materials and equipment and long deliver times continue.

On the other hand, as megatrends in the industrial sector, the need for carbon neutral, especially in energy-intensive industries, and the need for labor saving due to a shrinking workforce are growing even more. In addition, the fragmentation of the global economy is driving the shift to an autonomous society with local production for local consumption. These changes provide opportunities to create new businesses.

Under this business environment, orders received increased in the Vehicular turbochargers Business and the Transport machineries Business.

Revenue increased due to the impact of yen depreciation, etc. in the Vehicular turbochargers Business, the Heat treatment and surface engineering Business and the Rotating machineries Business.

Operating profit increased in the Vehicular turbochargers Business and the Rotating machineries Business, although it decreased in the Parking Business and the Logistics and industrial systems Business.

<Aero Engine, Space and Defense>

Global passenger demand is steadily recovering, and its engines' superiority in fuel efficiency and operating costs has led to a continued recovery in aftermarket earnings.

In response to the increased defense budget and market expansion in the space industry, the IHI Group will also aim to create new value and improve its competitiveness in the defense and space businesses.

On the other hand, supply chain disruptions and soaring prices continue, and the future business environment remains uncertain. To build a business structure that can overcome change, the IHI Group will accelerate growth by further strengthening its cost structure, including productivity improvement through DX.

Under this business environment, orders received increased in the Civil aero engines Business, etc.

Revenue increased due to increased sales of both main units and spare parts for civil aero engines and yen depreciation in the Civil aero engines Business.

Operating profit increased due to increased sales of spare parts, cost reductions for new engines, decrease in program-related burdens associated with improved performance, as well as yen depreciation in the Civil aero engines.

Note that forward-looking statements are based on the Group's judgements as of the end of the current fiscal year (March 31, 2023).

b. Assets and liabilities, and equity

Total assets at the end of the fiscal year ended March 31, 2023 were ¥1,941.9 billion, up ¥62.2 billion compared with the end of the previous fiscal year. The major items of increase were inventories, up ¥34.3 billion and trade and other receivables, up ¥30.4 billion. The major item of decrease was cash and cash equivalents, down ¥20.7 billion.

Total liabilities were ¥1,485.7 billion, up ¥13.0 billion compared with the end of the previous fiscal year. The major item of increase was bonds and borrowings, up ¥21.4 billion. The balance of interest-bearing liabilities, including lease liabilities, was ¥519.4 billion, up ¥13.9 billion from the end of the previous fiscal year, which included the Transition Bond issued as part of its initiatives to become carbon neutral.

Equity was ¥456.2 billion, up ¥49.2 billion compared with the end of the previous fiscal year. This includes profit attributable to owners of parent of ¥44.5 billion.

As a result of the above, the ratio of equity attributable to owners of parent increased from 20.3% at the end of the previous fiscal year to 22.2%.

ii. Cash flows

At the end of the current fiscal year, the outstanding balance of cash and cash equivalents (hereinafter, “cash”) was ¥124.7 billion, down ¥20.7 billion from the end of the previous fiscal year.

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

(Cash flows from operating activities)

Net cash flows from operating activities were ¥54.1 billion in excess of income (the previous fiscal year: ¥114.1 billion in excess of income). This was due to profit while there were increases in inventories in preparation for higher procurement costs and delays in the delivery of procurement.

(Cash flows from investing activities)

Net cash flows from investing activities were ¥52.3 billion in excess of expenditures (the previous fiscal year: ¥27.9 billion in excess of income). This was due to acquisitions of property, plant and equipment. In the same period of the previous fiscal year, there were excesses of incomes due to proceeds from sales of assets despite expenditures for the acquisitions of property, plant and equipment.

(Cash flows from financing activities)

Net cash flows from financing activities were ¥24.0 billion in excess of expenditures (¥121.4 billion in excess of expenditures). This was due to dividend payments and repayment of financial 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	384,267	9.4
Social Infrastructure and Offshore Facilities	170,288	0.3
Industrial Systems and General-Purpose Machinery	434,025	12.8
Aero Engine, Space and Defense	368,957	32.2
Reportable segment total	1,357,537	14.6
Others	33,805	12.1
Total	1,391,342	14.5

Notes: 1. The amounts are represented by selling prices and inter-segment transactions have been eliminated.

2. 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	393,402	5.2	565,718	7.2
Social Infrastructure and Offshore Facilities	134,094	(25.9)	218,410	(12.7)
Industrial Systems and General-Purpose Machinery	455,982	18.6	201,033	11.2
Aero Engine, Space and Defense	372,759	22.3	293,455	3.4
Reportable segment total	1,356,237	9.0	1,278,616	2.9
Others	53,938	(1.5)	20,879	(8.7)
Adjustments	(44,003)	–	–	–
Total	1,366,172	8.3	1,299,495	2.7

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

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	371,397	7.8
Social Infrastructure and Offshore Facilities	171,038	2.2
Industrial Systems and General-Purpose Machinery	436,526	15.8
Aero Engine, Space and Defense	364,172	37.3
Reportable segment total	1,343,133	16.4
Others	54,277	(13.5)
Adjustments	(44,470)	–
Total	1,352,940	15.3

- 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, 2022		Fiscal year ended March 31, 2023	
	Amount (Millions of yen)	Ratio (%)	Amount (Millions of yen)	Ratio (%)
Japanese Aero Engines Corporation	88,214	7.5	157,344	11.6

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

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

i. Significant accounting policies and estimates

The IHI Group’s consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). When preparing its consolidated financial statements, for matters that require an estimate the IHI 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 assumptions” 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.”

Under the “Project Change” initiative, the IHI Group has positioned the period up to the fiscal year ended March 31, 2023 as a period of preparation for business reforms in response to changes in the business environment, and has been working to return to a growth trajectory and create growth businesses.

As for returning to a growth trajectory, the IHI Group has shifted the business model from product and service business to lifecycle businesses. The IHI Group’s lifecycle business revenue has increased by 35% compared to fiscal 2019, achieving “Project Change” target. The IHI Group has also worked to reinforce cost structure and has made progress in improving productivity and reforming business processes through DX.

As for the creation of growth businesses, the IHI Group has started full-scale efforts to develop a new business model, the ammonia value chain business. As a result, although the IHI Group was not able to achieve the management targets under “Project Change,” the IHI Group achieved the highest ever level of operating profit and is ready to lead to “Group Management Policies 2023”.

In order to fully implement the business transformation prepared under “Project Change”, “Group Management Policies 2023” positions the aero engine and space fields as a growth business, which is expected to drive the IHI Group’s growth and the clean energy field as a development focus business, which is expected to become a pillar of the IHI Group’s future business. The IHI Group will boldly shift management resources to these growth and development focus businesses and make investments in them. In its core businesses of Resources, Energy and Environment, Social Infrastructure, and Industrial Systems and General-Purpose Machinery, the IHI Group will continue to create a continuous growth scenario through the transformation of its business portfolio and generate cash necessary for investments. In addition, the IHI Group will invest in the human resources and DX necessary to achieve these goals, and promote the transformation of its corporate culture and corporate structure.

	Results for the fiscal year ended March 31, 2020	Results for the fiscal year ended March 31, 2021	Results for the fiscal year ended March 31, 2022	Results for the fiscal year ended March 31, 2023	“Project Change” management targets for the fiscal year ended 31, 2023
ROIC	4.1%	2.2%	6.4%	6.3%	10% or more
Operating profit margin	3.8%	2.5%	6.9%	6.1%	8% or more
CCC	92 days	124 days	112 days	120 days	80 days

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

- ROIC : $(1 - \text{Effective statutory tax rate}) \times (\text{Operating profit} + \text{Interest income} + \text{Dividend income}) \div (\text{Equity attributable to owners of parent} + \text{Amount of interest-bearing liabilities}).$
- CCC : $\text{Working capital} \div \text{Revenue} \times 365 \text{ days}$
- Working capital: $\text{Trade receivables} + \text{Contract assets} + \text{Inventories} + \text{Prepayments} - \text{Contract liabilities} - \text{Trade payables} - \text{Refund liabilities}$

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 2022, cash in flows from operating activities were 54.1 billion. Net cash flows from investing activities were ¥52.3 billion in expenditures. The total of free cash flow was ¥1.7 billion, a decrease of ¥140.3 billion from the previous fiscal year. Although the results of the “Project Change” initiative have established a foundation for cash generation capabilities, challenges remain in reducing working capital.

The Group will continue to generate operating cash flow by improving operational efficiency, reducing fixed and variable costs, and improving CCC through business process reforms and the advancement of digital infrastructure as stated in the “Group Management Policies 2023”. And by optimally allocating funds to growth and development businesses, the Group will achieve transformation into a corporate structure that can realize sustainable high growth and enhance 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, R&D and capital expenditure for the creation of growth businesses.

At the end of the current fiscal year, the balance of interest-bearing liabilities, including lease liabilities, was ¥519.4 billion, an increase of ¥13.9 billion from the end of the previous fiscal year. This was mainly due to an increase in working capital from business activities financed by external borrowings and the issuance of bonds.

At the end of the current fiscal year, the outstanding balance of cash and cash equivalents was ¥124.7 billion, a decrease of ¥20.7 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.

In fundraising, in addition to ensuring liquidity, IHI issued the first transition bonds in machineries sector in June 2022 as part of our initiatives to become carbon neutral. The IHI Group has been active in ESG finance in its external borrowing and will continue to be active in ESG finance to promote ESG-centered management from the financial aspect.

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

5. 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, 2030
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 Energy Solutions 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, 2023
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

6. Research and development (R&D) activities

Having established the group technology strategy based on “Group Management Policies 2019,” the IHI Group (IHI and its consolidated subsidiaries) has been pursuing R&D 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 Business Areas into the three groupings “Carbon solutions”, “Maintenance, disaster prevention and disaster mitigation”, and “Air transportation systems”. Corporate Strategy Headquarters, which was newly established in FY 2021 under the direct control of the president, selects the following technologies as “strategic technologies” necessary for growth businesses and leads acquisition activities. These include technologies aimed at building a value chain that includes the production, transportation, and use of ammonia in the field of “Carbon solutions”; technologies for predicting disaster through observation and modeling of the natural environment, controlling infrastructure accordingly, and creating environmental value, including ecosystem conservation in the field of “Maintenance, disaster prevention and disaster mitigation”; and technologies for decarbonizing airframe systems through electrification in the field of “Air transportation systems”.

In the current fiscal year, the IHI Group spent ¥34.0 billion on R&D, of which ¥18.8 billion was for R&D aimed at creating growth businesses.

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, Corporate Research & Development and Corporate Strategy Headquarters conduct R&D related to energy and carbon solutions with the aim of achieving a recycling-oriented society that is carbon neutrality by providing optimal integrated solutions for each region and customer.

The major achievements in the current fiscal year included achieving CO₂-free power generation with the world’s first gas turbine using 100% liquid ammonia; signing a memorandum of understanding with GE to develop gas turbines that can operate on 100% ammonia; bringing forward the launch of large-volume co-firing of fuel ammonia at the Hekinan Thermal Power Station; developing a methanation system to produce fuel from CO₂ and hydrogen; and establishing the Ammonia Value Chain Co-creation Research Center with Tohoku University.

R&D expenses in this segment totaled ¥4.8 billion.

(2) Social Infrastructure and Offshore Facilities

Social Infrastructure and Offshore Facilities Business Area, Corporate Research & Development conduct R&D related to maintenance, disaster prevention and mitigation, bridges and water gates, with the aim of contributing to safe, trustworthy social infrastructure, primarily bridges and tunnels, throughout the world and over the whole lifecycle.

The major achievements in the current fiscal year included launching operation of a large suspension bridge monitoring system that employs IoT bolts on sensing, communication, and data use technology; obtaining approval for the level crossing obstacle detection system in Germany; and undertaking initiatives related to BIM/CIM.

R&D expenses in this segment totaled ¥1.1 billion.

(3) Industrial Systems and General-Purpose Machinery

Industrial Systems and General-Purpose Machinery Business Area, Corporate Research & Development conduct R&D related to vehicular turbochargers, parking, rotating machineries, heat treatment and surface engineering, transport machineries, and logistics and industrial machinery systems with the aim of contributing to the development of industrial infrastructure by thoroughly pursuing operation optimization throughout the lifecycle in partnership with customers.

The major achievements in the current fiscal year included having IHI's electric turbocharger (ETC) selected for the fuel cell system developed by AVL LIST GmbH, the world's largest power train engineering company; launching a demonstration project for an automated transport system with JFE Steel; opening the Yokohama Logistics Laboratory, a technical development base and hands-on showroom for the three-dimensional picking system "SKYPOD"; developing Japan's first remote controlled small hammer-knife lawn mower; and developing a mist air purifier that uses the anti-bacterial water Re:Clear, which is based on fine bubble technology.

R&D expenses in this segment totaled ¥8.1 billion.

(4) Aero Engine, Space and Defense

Aero Engine, Space and Defense Business Area, Corporate Research & Development conduct R&D related to aero engines, rocket systems, and space utilization with the aim of creating the future of air transportation, defense systems, and space utilization and contributing to the realization of an affluent, safe society through advanced technology.

The major achievements in the current fiscal year included concluding a memorandum of understanding with Northrop Grumman regarding small, highly maneuverable satellites; participating in the international joint development of the next-generation fighter; successfully developing a high-power electric motor for aircraft propulsion systems; launching a tropical peatland management consulting service through a space collaboration with Sumitomo Forestry Co., Ltd.; establishing Satellite VDES Consortium to improve maritime safety through ocean-space collaboration; and conducting a demonstration project of 1400°C-class CMC shroud for the JAXA F7 engine.

R&D expenses in this segment totaled ¥7.3 billion.

(5) Others

Head office divisions, Corporate Research & Development are in charge of new technologies and new business fields and medium- to long-term R&D for the future of each segment in cooperation with each Business Area, and at the same time engaged in R&D of a new technology platform.

The major achievements in the current fiscal year included confirming top-class yield for hydrocarbon generation using CO₂ through the development of synthesizing technology for sustainable aircraft fuel (SAF); and launching a joint project to promote carbon neutrality initiatives by valuing customer's activities for energy greening and CO₂ emission reduction with the IoT device company GUGEN Inc.

R&D expenses in this segment totaled ¥12.6 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) invested a total of ¥61.1 billion during the current fiscal year. These investments were focused on the increase of production capacity, improvement of production systems, as well as maintenance and upgrade of existing facilities to enhance competitiveness. Investments by segment were follows:

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

In Social Infrastructure and Offshore Facilities, ¥15.3 billion was invested to increase production capacity, and to improve, maintain and upgrade investment property.

In Industrial Systems and General-Purpose Machinery, ¥12.9 billion was invested to increase production capacity, improve production systems, and to maintain and upgrade of existing facilities.

In Aero Engine, Space and Defense, ¥17.4 billion was invested to improve production systems, maintain and upgrade existing facilities, and to rationalize office work.

In others, ¥9.4 billion was invested to maintain and upgrade existing facilities, streamline and save labor of production as well to maintain and upgrade existing facilities, and rationalize office work.

Cash on hand was the primary source of funds for the investments.

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, Hyogo, Japan)	Resources, Energy and Environment	Production facilities for boilers and storage facilities	1,073	1,691	194 (229)	13	187	3,158	395
Yokohama Works (Yokohama, Kanagawa, Japan)	Resources, Energy and Environment	Production facilities for components for nuclear power plants and aero engines	2,493	1,589	1,106 (227)	250	583	6,021	274
Mizuho Aero-Engine Works (Nishitama-gun, Tokyo, Japan)	Aero Engine, Space and Defense	Production facilities for aero engines and space-related equipment	4,581	3,552	2,321 (201)	1,150	3,776	15,380	1,518
Soma Aero-Engine Works (Soma, Fukushima, Japan)	Aero Engine, Space and Defense	Production facilities for aero engines and space-related equipment	5,200	6,037	3,597 (374)	13,774	11,949	40,557	907
Kure Aero-Engine & Turbo Machinery Works (Kure, Hiroshima, Japan)	Aero Engine, Space and Defense	Production facilities for aero engines	1,438	1,233	57 (48)	697	265	3,690	464
Tsurugashima Aero- Engine Maintenance Works (Tsurugashima, Saitama, Japan)	Aero Engine, Space and Defense	Maintenance facilities for aero engines	7,791	3,213	7,105 (136)	2,703	460	21,272	171
Head Office (Koto-ku, Tokyo, Japan, etc.) (Notes 2, 3)	Others	Other facilities	17,006	6,608	10,030 (129,971)	47,249	159,268	240,161	3,229

- 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. The book value of the Head Office land includes land located in Chita of Aichi, land located in Kagoshima, land owned in Brazil, and other land.
 3. The book value includes book value of ¥148,232 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, Gunma, Japan)	Resources, Energy and Environment	Production facilities	1,140	376	2,152 (152)	115	1,062	4,845	327
	Niigata engine Works (Niigata, Niigata, Japan)	Resources, Energy and Environment	Production facilities	923	372	1,050 (55)	387	33	2,765	222
IHI Infrastructure Systems Co., Ltd.	Sakai Works (Sakai, Osaka, Japan)	Social Infrastructure and Offshore Facilities	Production facilities	3,287	2,302	5,686 (83)	8,307	1,468	21,050	380
IHI Turbo Co., Ltd.	Shinmachi Works (Kamiina-gun, Nagano, Japan)	Industrial Systems and General-Purpose Machinery	Production facilities	1,257	1,585	194 (25)	4	261	3,301	122
	Kiso Works (Kiso-gun, Nagano, Japan)	Industrial Systems and General-Purpose Machinery	Production facilities	657	734	94 (65)	353	400	2,238	306
IHI Rotating Machinery Engineering Co., Ltd.	Tatsuno Work (Kamiina-gun, Nagano, Japan)	Industrial Systems and General-Purpose Machinery	Production facilities	664	445	352 (89)	98	205	1,764	299
IHI Transport Machinery Co., Ltd.	Numazu Works (Numazu, Shizuoka, Japan)	Industrial Systems and General-Purpose Machinery	Production facilities	842	114	2,270 (138)	40	130	3,396	140
IHI AEROSPACE CO., LTD.	Tomioka Works (Tomioka, Gunma, Japan)	Aero Engine, Space and Defense	Production facilities	5,336	4,613	2,388 (490)	1,813	3,148	17,298	924

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	764	1,625	257 (12)	2,795	994	6,435	652
Changchun FAWER-IHI Turbo Co., Ltd. (Note 2)	China	Industrial Systems and General-Purpose Machinery	Production facilities	965	2,290	—	255	859	4,369	611
IHI Turbo America Co.	U.S.A	Industrial Systems and General-Purpose Machinery	Production facilities	2,068	3,251	29 (65)	33	1,175	6,556	217
Indigo TopCo Ltd. (Note 2)	Switzerland, etc.	Industrial Systems and General-Purpose Machinery	Production facilities	1,764	8,286	501 (35)	2,654	1,655	14,860	1,081

- Notes: 1. The “Book value - Others” column represents the total amount of tools, furniture and fixtures, software, as well as construction in progress.
2. For IHI Charging Systems International GmbH, Changchun FAWER-IHI Turbo Co., Ltd., and 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 ¥84.0 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 2023 (Millions of yen)	Facilities
Resources, Energy and Environment	7,100	Production facilities for power systems and carbon solutions-related, etc.
Social Infrastructure (Note 2)	12,400	Production facilities for bridges and water gates, and concrete construction materials and upgrades of investment property, etc.
Industrial Systems and General-Purpose Machinery	14,100	Production facilities for vehicular turbochargers, parking, and rotating machineries and processing facilities for heat treatment and surface engineering, etc.
Aero Engine, Space and Defense	34,500	Production facilities and facilities for the maintenance business of aero engines such as PW1100G, production facilities for space utilization systems-related, DX investment for business process reform, etc.
Reportable segment total	68,100	
Others (Note 3)	15,900	
Total	84,000	

- Notes:
1. The required funds for the investment plans will be mainly allocated from cash on hand.
 2. Segment name has been changed from “Social Infrastructure and Offshore Facilities” to “Social Infrastructure” effective FY2023.
 3. Others include the amount of company-wide capital expenditure not attributable to the reportable segment.

(2) Sale and scrap

As of March 31, 2023, there is no plan to sell or scrap any of the IHI Group’s important facilities.

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, 2023)	Number of issued shares as of the filing date (Shares) (June 23, 2023)	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	Prime Market of Tokyo Stock Exchange	The number of shares constituting one unit is 100 shares.
Total	154,679,954	154,679,954	—	—

Notes: 1. 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, 2023 and the filing date of this Annual Securities Report.

2. Delisting applications were filed on November 4, 2022 for Nagoya Stock Exchange, Fukuoka Stock Exchange, and Sapporo Securities Exchange, and delisted on December 25, 2022.

(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, 2010

(4th share acquisition rights)

	As of the end of the fiscal year (March 31, 2023)	As of the end of the month previous to the filing month (May 31, 2023)
Category and number of grantees	13 directors and 13 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	23	23
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)	2,300	2,300
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

(b) 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, 2023)	As of the end of the month previous to the filing month (May 31, 2023)
Category and number of grantees	13 directors and 14 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	52	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)	5,200	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 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

(c) 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, 2023)	As of the end of the month previous to the filing month (May 31, 2023)
Category and number of grantees	13 directors and 15 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	71	71
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)	7,100	7,100
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

(d) 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, 2023)	As of the end of the month previous to the filing month (May 31, 2023)
Category and number of grantees	13 directors and 14 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	66	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)	6,600	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 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

(e) 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, 2023)	As of the end of the month previous to the filing month (May 31, 2023)
Category and number of grantees	13 directors and 17 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	70	65
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)	7,000	6,500
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

(f) 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, 2023)	As of the end of the month previous to the filing month (May 31, 2023)
Category and number of grantees	12 directors and 18 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	64	56
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)	6,400	5,600
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

(g) 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, 2023)	As of the end of the month previous to the filing month (May 31, 2023)
Category and number of grantees	10 directors and 18 executive officers of IHI	Same as left
Number of share acquisition rights (Units)	225	212
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)	22,500	21,200
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
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 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:
- 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.
 - There were no changes in share capital between April 1, 2023, and the filing date of this Annual Securities Report (June 23, 2023).

(5) Shareholding by shareholder category

(As of March 31, 2023)

Classification	Status of shares (one unit = 100shares)							Shares less than one unit (Shares)	
	National and local governments	Financial institutions	Securities companies	Other corporations	Foreign shareholders		Individuals and other		Total
					Foreign shareholders other than individuals	Individuals			
Number of shareholders (Persons)	—	82	68	972	385	158	84,116	85,781	—
Number of shares held (Units)	—	525,193	84,524	57,364	447,313	979	427,592	1,542,965	383,454
Ratio (%)	—	34.03	5.47	3.71	28.99	0.06	27.71	100.00	—

- Notes:
- 2,799,307 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 27,993 units and 7 shares, respectively.
 - The shares registered in the name of the Japan Securities Depository Center are included in “Other corporations” and “Share less than one unit” in the above table. The amounts are 8 units and 36 shares respectively.

(6) Major shareholders

(As of March 31, 2023)

Name	Address	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan (Holder in Trust)	11-3, Hamamatsucho 2-chome, Minato-ku, Tokyo, Japan	21,952	14.45
Custody Bank of Japan, Ltd. (Holder in Trust)	8-12, Harumi 1-chome, Chuo-ku, Tokyo, Japan	12,339	8.12
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, Japan	3,218	2.11
STATE STREET BANK AND TRUST COMPANY 505001 (standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Division)	P. O. BOX 351 BOSTON MASSACHUSETTS 02101 U.S.A. (15-1, Konan 2-chome, Minato-ku, Tokyo, Japan)	3,124	2.05
IHI Supplier Stock Ownership Association	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan	2,774	1.82
The Dai-ichi Life Insurance Company, Limited	13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo, Japan	2,703	1.77
IHI Employee Stock Ownership Association	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan	2,600	1.71
Sumitomo Life Insurance Company	2-1, Yaesu 2-chome, Chuo-ku, Tokyo, Japan	2,284	1.50
JPMorgan Securities Japan Co., Ltd.	7-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo, Japan	1,845	1.21
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	9-2, Otemachi 1-chome, Chiyoda-ku Tokyo, Japan	1,696	1.11
Total	—	54,539	35.90

- 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 2,799 thousand shares.
3. From the above, the following owned shares are held through trusts.
- The Master Trust Bank of Japan (Holder in Trust)
 - Custody Bank of Japan, Ltd. (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.
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.
- STATE STREET BANK AND TRUST COMPANY 505001
5. In the Report of Possession of Large Volume provided by Mizuho Bank, Ltd. for public viewing on January 20, 2023, the following shareholdings are respectively attributed to Mizuho Bank, Ltd. and its three joint holders as of January 13, 2023. However, since IHI is unable to confirm the actual number of shares held as of March 31, 2023, they are not included in major shareholders above.

Name	Number of shares held (Thousand shares)	Shareholding ratio (%)
Mizuho Bank, Ltd.	3,218	2.08
Mizuho Securities Co., Ltd.	477	0.31
Mizuho Trust and Banking Co., Ltd.	592	0.38
Asset Management One Co., Ltd.	3,471	2.24
Total	7,760	5.02

6. In the Change Report pertaining to Report of Possession of Large Volume provided by Nomura Securities Co., Ltd. for public viewing on October 21, 2022, the following shareholdings are respectively attributed to Nomura Securities Co., Ltd. and its two joint holders as of October 14, 2022. However, since IHI is unable to confirm the actual number of shares held as of March 31, 2023, they are not included in major shareholders above.

Name	Number of shares held (Thousand shares)	Shareholding ratio (%)
Nomura Securities Co., Ltd.	12	0.01
Nomura International PLC	217	0.14
Nomura Asset Management Co., Ltd.	7,439	4.81
Total	7,670	4.96

(7) Voting rights
(i) Issued shares

(As of March 31, 2023)

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.)	Ordinary shares 2,799,300	–	–
Shares with full voting rights (others)	Ordinary shares 151,497,200	1,514,972	–
Shares less than one unit	Ordinary shares 383,454	–	Shares less than one unit (100 shares)
Number of issued shares	154,679,954	–	–
Total number of voting rights	–	1,514,972	–

- Notes:
1. Ordinary shares in “Shares less than one unit” include 7 shares of treasury shares held by IHI and 36 shares whose ownership has yet not been transferred and which have been registered in the name of Japan Securities Depository Center.
 2. Ordinary shares in “Shares with full voting rights (others)” include 800 shares whose ownership has yet not been transferred and which have been registered in the name of Japan Securities Depository Center. These shares constitute eight units of voting rights, which are included in the figure in “Number of voting rights.”
 3. Ordinary shares in “Shares with full voting rights (others)” include 592,300 shares of IHI owned by a trust account for the Board Benefit Trust.

(ii) Treasury shares, etc.

(As of March 31, 2023)

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 (%)
IHI Corporation	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan	2,799,300	–	2,799,300	1.80
Total	–	2,799,300	–	2,799,300	1.80

Note: 592,300 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, 2024, IHI will award a total of 37,623 points to directors and a total of 48,207 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 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. However, for those who have not been residents of Japan during the period from April 1, 2023 until the deliver of the shares (hereinafter referred to as "non-resident officers"), money equivalent to the market value of shares is paid outside the framework of this trust.

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	3,593	13,020,421
Treasury shares acquired during the current period	290	984,850

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, 2023 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 offered to subscribers for subscription	–	–	–	–
Acquired treasury shares canceled	–	–	–	–
Acquired treasury shares transferred due to merger, equity swap, issuance of shares, or corporate split	–	–	–	–
Acquired treasury shares 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)	31,617	82,199,315	6,200	16,121,260
Number of treasury shares held	2,799,307	–	2,793,397	–

Note: These acquired treasury shares disposed in other ways in the current period do 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, 2023 to the filing date of this Annual Securities Report. The breakdown for the current fiscal year is the disposal due to the exercise of share acquisition rights (31,600 shares, total disposal amount of ¥82,155,124), and the sale of shares less than one unit (17 shares, total disposal amount of ¥44,191). The breakdown for the current period is the disposal due to the exercise of share acquisition rights (6,200 shares, total disposal amount of ¥16,121,260).

3. Dividend policy

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

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

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

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

The annual dividends for the current fiscal year in consideration of the year's operating results, future business development, and other aspects are the interim dividends of ¥40 per share and the year-end dividends of ¥50 per share to shareholders. IHI strives to effectively use retained earnings to further bolster and enhance the business base and for future business development, as part of an overall effort to increase shareholder profits over the long term.

Dividends for the current fiscal year are as follows:

Date of resolution	Total dividends (Millions of yen)	Dividends per share (Yen)
November 8, 2022 Resolution of the Board of Directors	6,074	40
June 23, 2023 Resolution of the Ordinary General Meeting of Shareholders	7,594	50

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

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.

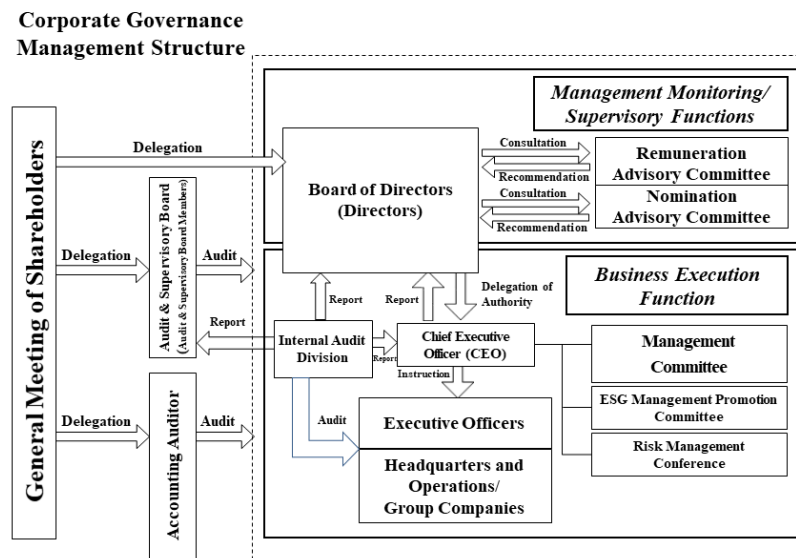
IHI works to enhance its corporate governance in line with the following basic policies.

- 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 Niimura 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 24 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. In addition, IHI has established the “ESG Management Promotion Committee” and “Risk Management Conference” as bodies for which the CEO himself serves as the chairman. The ESG Management Promotion Committee aims to examine basic policies and specific measures for ESG management, and assess and improve the implementation status. The Risk Management Conference controls risk management of the IHI Group, discusses and approves important matters in relation to general risk management.
- IHI has established the Compensation Advisory Committee, which is an optional committee for ensuring the validity and objectivity of director's remuneration, and comprises six members: three independent outside directors (Yoshiyuki Nakanishi, Minoru Usui, Toshihiro Uchiyama) and one independent outside audit & supervisory board member (Kazuhiro Muto), the director in charge of human resources (Akihiro Seo), and the director in charge of finance and accounting (Yasuaki Fukumoto), with one independent outside director (Yoshiyuki Nakanishi) 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 (Yoshiyuki Nakanishi, Chieko Matsuda, Minoru Usui, Toshihiro Uchiyama), 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.



(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.

(viii) Activities of Board of Directors

- The Board of Directors makes decisions on important matters concerning the management of the Company and the Group, and supervises the directors' execution of their duties.
- Regular meetings of the Board of Directors are held once a month in principle, and extraordinary meetings are held whenever necessary. During the current fiscal year, the Board of Directors held a total of 18 meetings.
- In the current fiscal year, the Board discussed the progress of initiatives based on “IHI Group ESG Management” and “Project Change” and the formulation of a new medium-term management plan, “Group Management Policies 2023”.
- Attendance during the current fiscal year as follows:

Position	Name	Attendance at the Committee	Appointments to Advisory Boards	
			Remuneration Advisory Committee	Nomination Advisory Committee
Chairman of the Board	Tsugio Mitsuoka	18 of 18 (100%)		
President	Hiroshi Ide	18 of 18 (100%)		Chairman
Representative director	Takeshi Yamada	18 of 18 (100%)	Committee member	
Representative director	Masataka Ikeyama	14 of 14 (100%)		
Director	Takeshi Kawakami	18 of 18 (100%)		
Director	Yasuhiro Shigegaki	18 of 18 (100%)		
Director	Hideo Morita	18 of 18 (100%)		
Director	Akihiro Seo	14 of 14 (100%)	Committee member	
Outside director	Yoshiyuki Nakanishi	18 of 18 (100%)	Chairman	Committee member
Outside director	Chieko Matsuda	17 of 18 (94%)		Committee member
Outside director	Minoru Usui	18 of 18 (100%)	Committee member	Committee member
Outside director	Toshihiro Uchiyama	14 of 14 (100%)	Committee member	Committee member
Standing audit & supervisory board member	Takashi Niimura	18 of 18 (100%)		
Standing audit & supervisory board member	Seiji Maruyama	18 of 18 (100%)		
Outside audit & supervisory board member	Toshio Iwamoto	18 of 18 (100%)	Committee member	
Outside audit & supervisory board member	Aiko Sekine	18 of 18 (100%)		
Outside audit & supervisory board member	Yumiko Waseda	17 of 18 (94%)		

Note: Attendance at Board of Directors held after appointments as director.

- In order to enhance the effectiveness of the Board of Directors, IHI has been conducting an evaluation of the Board of Directors every year since fiscal year 2015. In the current fiscal year, all directors and audit & supervisory board members were given questionnaires by outside experts and individual interviews were conducted by the secretariat, and issues identified were discussed by the Board of Directors.

- In the effectiveness evaluation conducted during the current fiscal year, IHI assessed itself that the effectiveness of the Board of Directors of the Company continues to be ensured. In addition, in order to further enhance the effectiveness of the Board of Directors, the following items were recognized as efforts for improvement.
 - Further discussion and reporting on specific management strategies and important monitoring issues
 - Expansion of contacts between outside directors who are members of the Nomination Advisory Committee and executive officers, taking into account the perspective of successor planning
 - Enhancement of information provision to outside officers and further improvement of communication among officers as a basis for deeper discussions

In response, the Board of Directors will take the following actions in fiscal year 2023.

- Set “Business Portfolio Transformation” as the most important theme to be discussed throughout the year, as stated in the “Group Management Policies 2023”
- Planned discussion of other important company-wide initiatives
- Expansion of dialogue between outside directors and executive officers
- Revision of criteria for submission to the Board of Directors to enhance reporting items
- Further enhancement of opportunities to provide more information and communication to outside directors

(ix) Activities of optional committee

(a) Remuneration Advisory Committee

- The Remuneration Advisory Committee has been established as a optional advisory committee of the Board of Directors. The committee met four times during the current fiscal year and deliberated on the policy and details of remuneration to be received by directors and executive officers.

Position	Name		Attendance at the Committee
Outside director	Yoshiyuki Nakanishi	Chairman	4 of 4 (100%)
Representative director	Takeshi Yamada	Committee member	4 of 4 (100%)
Director	Akihiro Seo	Committee member	4 of 4 (100%)
Outside director	Minoru Usui	Committee member	4 of 4 (100%)
Outside director	Toshihiro Uchiyama	Committee member	4 of 4 (100%)
Outside audit & supervisory board member	Toshio Iwamoto	Committee member	4 of 4 (100%)

(b) Nomination Advisory Committee

- The Nomination Advisory Committee has been established as a optional advisory committee of the Board of Directors. The committee met five times during the current fiscal year, and deliberated on executive personnel matters, successor training plans, and other matters.

Position	Name		Attendance at the Committee
President	Hiroshi Ide	Chairman	5 of 5 (100%)
Outside director	Yoshiyuki Nakanishi	Committee member	5 of 5 (100%)
Outside director	Chieko Matsuda	Committee member	5 of 5 (100%)
Outside director	Minoru Usui	Committee member	5 of 5 (100%)
Outside director	Toshihiro Uchiyama	Committee member	5 of 5 (100%)

(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)
Representative Director and Chairman of the Board	Tsugio Mitsuoka	October 13, 1954	Apr. 1980 Apr. 2010 Apr. 2013 Jun. 2014 Apr. 2016 Apr. 2017 Apr. 2020 Jun. 2020 Apr. 2021	Joined IHI Executive Officer; Vice President of Aero-Engine and Space Operations, IHI Managing Executive Officer; President of Aero-Engine and Space Operations, IHI Director; Managing Executive Officer; President of Aero-Engine and Space Operations, IHI Representative Director and President; Chief Operating Officer, IHI Representative Director and President; Chief Executive Officer, IHI Chairman of the Board and Representative Director and President; Chief Executive Officer, IHI Chairman of the Board; Chief Executive Officer, IHI Chairman of the Board, IHI (incumbent)	(Note 6)	17,100
Representative Director and President, Chief Executive Officer	Hiroshi Ide	February 16, 1961	Apr. 1983 Apr. 2013 Apr. 2017 Apr. 2019 Apr. 2020 Jun. 2020 Apr. 2021 Apr. 2023	Joined IHI President, Jurong Engineering Limited Executive Officer; Vice President of Resources, Energy and Environment Business Area, IHI Managing Executive Officer; President of Resources, Energy and Environment Business Area, IHI Chief Operating Officer and President of Resources, Energy and Environment Business Area, IHI Representative Director and President; Chief Operating Officer, IHI Representative Director and President; Chief Executive Officer and General Manager of Corporate Strategy Headquarters, IHI Representative Director and President; Chief Executive Officer, IHI (incumbent)	(Note 6)	3,700
Representative Director, Senior Executive Officer	Masataka Ikeyama	January 4, 1960	Apr. 1984 Apr. 2013 Apr. 2016 Apr. 2017 Jun. 2019 Aug. 2021 Apr. 2022 Jun. 2022 Apr. 2023	Joined IHI Division Director of Defense System Division, Aero-Engine and Space Operations, IHI Executive Officer; Vice President of Aero-Engine and Space Operations, IHI Executive Officer; Vice President of Aero-Engine, Space and Defense Business Area, IHI Representative Director and President and CEO, MEISEI ELECTRIC CO.,LTD. Managing Executive Officer; General Manager of MEISEI PMI Office Senior Executive Officer; General Manager of MEISEI PMI Office, IHI Representative Director, Senior Executive Officer; General Manager of MEISEI PMI Office, IHI Representative Director, Senior Executive Officer, IHI (incumbent)	(Note 6)	4,800
Representative Director, Senior Executive Officer	Tsuyoshi Tsuchida	January 5, 1961	Apr. 1984 Apr. 2010 Jun. 2015 Apr. 2020 Apr. 2021 Apr. 2022 Apr. 2023 Jun. 2023	Joined IHI Vice President of Logistics systems Operations, IHI President, IHI Logistics and Machinery Corporation Vice President of Industrial Systems and General-Purpose Machinery Business Area, IHI Executive Officer; Vice President of Industrial Systems and General-Purpose Machinery Business Area, IHI Managing Executive Officer; General Manager of Corporate Planning Division. IHI Senior Executive Officer, IHI Representative Director, Senior Executive Officer, IHI (incumbent)	(Note 6)	2,700

Position and responsibilities	Name	Date of Birth	Brief Personal History		Term of Office	No. of IHI's shares owned (Shares)
Director, Managing Executive Officer	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 and Space Operations, IHI Deputy Division Director of Civil Aero-Engine Division, Aero-Engine and Space Operations, IHI Division Director of Civil Aero Engine Division, Aero-Engine, Space and Defense Business Area, IHI Executive Officer; Vice President of Aero Engine, Space and Defense Business Area, IHI Managing Executive Officer; President of Aero Engine, Space and Defense Business Area, IHI Director; Managing Executive Officer; President of Aero Engine, Space and Defense Business Area, IHI (incumbent)	(Note 6)	3,200
Director, Managing Executive Officer	Akihiro Seo	October 21, 1963	Apr. 1987 Dec. 2007 Apr. 2013 Apr. 2017 Apr. 2018 Apr. 2021 Apr. 2022 Jun. 2022	Joined IHI President, ALPHA Automotive Technologies LLC General Manager of Planning & Control Department, Global Marketing Headquarters, IHI General Manager of Corporate Business Development Division, IHI General Manager of Corporate Planning Division, IHI Executive Officer; General Manager of Corporate Planning Division, IHI Managing Executive Officer; General Manager of Human Resources Division, IHI Director; Managing Executive Officer; General Manager of Human Resources Division, IHI (incumbent)	(Note 6)	800
Director, Managing Executive Officer	Jun Kobayashi	May 23, 1964	Apr. 1988 Apr. 2013 Sep. 2018 Apr. 2019 Apr. 2020 Apr. 2021 Apr. 2023 Jun. 2023	Joined IHI General Manager of Sales Department, Solution & Engineering Headquarters, IHI Assistant General Manager of Corporate Business Development & Solution Headquarters General Manager of Rome Office, Global Marketing & Sales Headquarters, IHI General Manager of Global Business Development Group, Strategy Development Department, Social Infrastructure and Offshore Facilities Business Area, Assistant General Manager of Corporate Business Development & Solution Headquarters, and General Manager of Rome Office, Global Marketing & Sales Headquarters, IHI Vice President of Social Infrastructure and Offshore Facilities Business Area and General Manager of Rome Office, Global Marketing & Sales Headquarters, IHI Executive Officer; General Manager of Solution & Business Development Headquarters, IHI Managing Executive Officer; General Manager of Business Development Headquarters, IHI Director; Managing Executive Officer; General Manager of Business Development Headquarters, IHI (incumbent)	(Note 6)	600
Director, Executive Officer	Yasuaki Fukumoto	September 8, 1966	Apr. 1990 Apr. 2014 Jun. 2018 Apr. 2020 Apr. 2021 Apr. 2022 Jun. 2023	Joined IHI General Manager of Accounting Group, Finance & Accounting Division, IHI Manager of Group Strategy Group, Corporate Planning Division, IHI General Manager of Accounting Group, Finance & Accounting Division, IHI General Manager of Finance & Accounting Division, IHI Executive Officer; General Manager of Finance & Accounting Division, IHI Director, Executive Officer; General Manager of Finance & Accounting Division, IHI	(Note 6)	600

Position and responsibilities	Name	Date of Birth	Brief Personal History		Term of Office	No. of IHI's shares owned (Shares)
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 Director, IHI (incumbent) Director, DIC Corporation Executive Advisor, DIC Corporation	(Note 6)	600
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 Economics and Business Administration, Tokyo Metropolitan University (incumbent) Professor, Graduate School of Management, Tokyo Metropolitan University (incumbent) Director, IHI (incumbent)	(Note 6)	1,500
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)	2,100
Director	Toshihiro Uchiyama	November 28, 1958	Apr. 1981 Jun. 2008 Jun. 2009 Jun. 2010 Jun. 2012 Jun. 2013 Jun. 2015 Jun. 2017 Apr. 2021 Jun. 2022	Joined NSK Ltd. Vice President, Deputy Head of Corporate Planning Division HQ, NSK Ltd. Vice President, Head of Corporate Planning Division HQ, NSK Ltd. Senior Vice President, Head of Corporate Planning Division HQ, NSK Ltd. Director; Senior Vice President, Head of Corporate Planning Division HQ, NSK Ltd. Director; Representative Executive Vice President, Head of Corporate Strategy Division HQ, NSK Ltd. Director; Representative President, NSK Ltd. Director; Representative President and CEO, NSK Ltd. Chairman of the Board of Directors, NSK Ltd. Director, IHI (incumbent)	(Note 6)	300

Position and responsibilities	Name	Date of Birth	Brief Personal History		Term of Office	No. of IHI's shares owned (Shares)
Standing audit & supervisory board member	Takashi Niimura	August 6, 1960	Apr. 1983 Apr. 2010 Apr. 2012 Apr. 2013 Apr. 2016 Apr. 2017 Apr. 2018 Apr. 2019 Apr. 2020 Jun. 2020	Joined IHI General Manager of Administration Department, Global Marketing Headquarters, IHI General Manager of Corporate Sales & Marketing Department, Global Marketing Headquarters, IHI General Manager of Chubu Branch, Sales Headquarters, IHI Executive Officer; Deputy General Manager of Sales Headquarters and General Manager of Corporate Sales & Marketing Department, IHI Executive Officer; Vice President of Industrial Systems and General-Purpose Machinery Business Area and Deputy General Manager of Sales Headquarters, IHI Executive Officer; Vice President of Industrial Systems and General-Purpose Machinery Business Area and Deputy General Manager of Global Marketing & Sales Headquarters, IHI Executive Officer; General Manager of Global Marketing & Sales Headquarters, IHI General Advisor, IHI Standing audit & supervisory board member, IHI (incumbent)	(Note 7)	3,200
Standing audit & supervisory board member	Seiji Maruyama	August 4, 1962	Apr. 1985 Dec. 2008 Apr. 2010 Apr. 2012 Apr. 2014 Apr. 2018 Apr. 2019 Apr. 2021 Jun. 2021	Joined IHI General Manager of Internal Control Assessment Division, IHI General Manager of Corporate Audit Division, IHI General Manager of Administration Department, Rotating Machinery Operations, IHI General Manager of Tax Accounting & Overseas Project Group, Finance & Accounting Division, IHI Deputy General Manager of Finance & Accounting Division, IHI General Manager of Finance & Accounting Division, IHI Fellow of Finance & Accounting Division, IHI Standing audit & supervisory board member, IHI (incumbent)	(Note 8)	2,200
Audit & supervisory board member	Aiko Sekine	May 13, 1958	Apr. 1981 Oct. 1985 Mar. 1989 Sep. 2006 Jul. 2007 Jan. 2008 Jul. 2010 Jul. 2016 Jan. 2019 Jul. 2019 Jun. 2020	Joined Citibank, N.A., Tokyo Branch Joined Aoyama Audit Corporation Registered as Certified Public Accountant Partner, PricewaterhouseCoopers Aarata, LLC Executive Board Member, Japanese Institute of CPAs (JICPA) Board Member, International Ethics Standards Board for Accountants (IESBA), International Federation of Accountants Deputy President, JICPA Chairman and President, JICPA Member of the Nominating Committee, International Federation of Accountants Advisor, JICPA (incumbent) Audit & supervisory board member, IHI (incumbent)	(Note 7)	—
Audit & supervisory board member	Yumiko Waseda	January 29, 1960	Apr. 1985 Apr. 2004 Apr. 2005 Apr. 2013 Apr. 2016 Aug. 2020 Jun. 2021	Registered as Attorney at Law; Joined Max Law Offices (currently Mori Hamada & Matsumoto) Vice President, Daini Tokyo Bar Association Executive Director Governor, Japan Federation of Bar Associations Partner, Tokyo Roppongi Law & Patent Offices (incumbent) President, Daini Tokyo Bar Association; Vice President, Japan Federation of Bar Associations Executive Director, Japan Law Foundation (incumbent) Audit & supervisory board member, IHI (incumbent)	(Note 8)	—

Position and responsibilities	Name	Date of Birth	Brief Personal History		Term of Office	No. of IHI's shares owned (Shares)
Audit & supervisory board member	Kazuhiro Muto	February 14, 1963	Apr. 1985	Joined IBM Japan, Ltd.	(Note 9)	—
			Jan. 2009	Executive Officer; President of Finance Division ii, IBM Japan, Ltd.		
			Jan. 2014	Managing Executive Officer; President of Finance Division ii, IBM Japan, Ltd.		
			Aug. 2014	Managing Executive Officer; President of System Product Division, IBM Japan, Ltd.		
			Feb. 2015	Managing Executive Officer; President of IBM Systems Hardware Division, IBM Japan, Ltd		
			Jul. 2016	Senior Managing Executive Officer; President of IBM Systems Hardware Division, IBM Japan, Ltd		
			Sep. 2018	Senior Managing Executive Officer; President of Panasonic Enterprise Division, IBM Japan, Ltd.		
			Jan. 2023	Advisor, IBM Japan, Ltd. (incumbent)		
			Jun. 2023	Audit & supervisory board member, IHI (incumbent)		
Total						43,400

- Notes:
1. Chief Executive Officer, Senior Executive Officer and Managing Executive Officer are executive officer ranks.
 2. Outside directors are four members, Yoshiyuki Nakanishi, Chieko Matsuda, Minoru Usui, and Toshihiro Uchiyama. IHI has registered directors Yoshiyuki Nakanishi, Chieko Matsuda, Minoru Usui, and Toshihiro Uchiyama with Tokyo Stock Exchange, Inc. (where IHI is listed) as independent directors respectively.
 3. Outside audit & supervisory board members are three members, Aiko Sekine, Yumiko Waseda and Kazuhiro Muto. IHI has registered audit & supervisory board members Aiko Sekine, Yumiko Waseda and Kazuhiro Muto with Tokyo Stock Exchange, Inc. (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 23, 2023.
 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 25, 2020.
 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 24, 2021.
 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 23, 2023.

10. IHI has sorted out expertise and experience necessary for the Board of Directors to sufficiently fulfill its function and realize the IHI Group's management philosophy and future ideal vision. The following list shows up to three skills that are particularly expected of each Director and Audit & Supervisory Board Member and does not cover all expertise and experience of each person.

	Name	Corporate Management	Technology Research and Development	Global Business	Sales Marketing	ICT DX	Personnel Affairs Human Resources Development	Finance and Accounting	Legal Compliance Risk Management
Director	Tsugio Mitsuoka	○	○						○
	Hiroshi Ide	○		○	○				
	Masataka Ikeyama	○	○						○
	Tsuyoshi Tsuchida	○				○			○
	Hideo Morita		○						
	Akihiro Seo						○		○
	Jun Kobayashi			○	○				
	Yasuaki Fukumoto							○	
Outside Director	Yoshiyuki Nakanishi	○		○	○				
	Chieko Matsuda						○	○	○
	Minoru Usui	○	○	○					
	Toshihiro Uchiyama	○		○	○				
Audit & Supervisory Board Member	Takashi Niimura				○				○
	Seiji Maruyama							○	
Outside Audit & Supervisory Board Member	Aiko Sekine							○	
	Yumiko Waseda								○
	Kazuhiro Muto			○	○	○			

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

Men: 22 Women: 2 (Percentage of women among Executive Officers : 8.33%)

	Position and Role	Name	Main Responsibilities
*	Chief Executive Officer	Hiroshi Ide	
*	Senior Executive Officer	Masataka Ikeyama	In Charge of Group Economic Security In Charge of Group Quality Assurance /Design Process
*	Senior Executive Officer	Tsuyoshi Tsuchida	In Charge of Group Procurement, Group DX In Charge of Business Relating to Corporate Planning Division
	Managing Executive Officer	Takeshi Kawakami	President of Social Infrastructure Business Area
	Managing Executive Officer	Yoshinori Komiya	General Manager of Intelligent Information Management Headquarters
	Managing Executive Officer	Yasuhiro Shigegaki	President of Industrial Systems and General-Purpose Machinery Business Area
*	Managing Executive Officer	Hideo Morita	President of Aero Engine, Space and Defense Business Area
	Managing Executive Officer	Kouji Takeda	President of Resources, Energy and Environment Business Area
*	Managing Executive Officer	Akihiro Seo	In Charge of Group Human Resources /Personnel /Administration, Group Safety and Health, Group ESG General Manager of Human Resources Division
	Managing Executive Officer	Nobuhiko Kubota	In Charge of Group Engineering General Manager of Technology & Intelligence Integration
	Managing Executive Officer	Noriko Morioka	General Manager of Corporate Strategy Headquarters
*	Managing Executive Officer	Jun Kobayashi	General Manager of Business Development Headquarters
	Executive Officer	Kiyoshi Nihei	In Charge of Group Operations General Manager of Marketing & Sales Headquarters
	Executive Officer	Kazuhiro Onitsuka	Vice President of Industrial Systems and General-Purpose Machinery Business Area
	Executive Officer	Yukihisa Ozawa	Vice President of Resources, Energy and Environment Business Area
	Executive Officer	Go Maeda	General Manager of Project Risk Management Division
	Executive Officer	Shotaro Tabata	Vice President of Industrial Systems and General-Purpose Machinery Business Area
	Executive Officer	Yoshikazu Hamada	In Charge of Business Relating to Shareholder Meeting / Board of Directors In Charge of Group Legal Affairs, Group Compliance General Manager of Legal Division
*	Executive Officer	Yasuaki Fukumoto	In Charge of Group Finance & Accounting General Manager of Finance & Accounting Division
	Executive Officer	Chie Fukuoka	Deputy General Manager of Technology & Intelligence Integration
	Executive Officer	Atsushi Sato	Vice President of Aero Engine, Space and Defense Business Area
	Executive Officer	Takao Tanaka	Vice President of Resources, Energy and Environment Business Area
	Executive Officer	Kazuya Ueda	Vice President of Social Infrastructure Business Area Representative Director and President, IHI Infrastructure Systems Co., Ltd.
	Executive Officer	Bernd Bahlke	Deputy General Manager of Business Development Headquarters

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 Tokyo Stock Exchange, Inc 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
Yoshiyuki Nakanishi	<p>The IHI's subsidiaries have business relationships involving the maintenance and sale of industrial machinery, etc. with DIC Corporation, where Yoshiyuki Nakanishi previously served as a business executive.</p> <p>However, the transaction amount that business relationship generates is less than 0.01% of the IHI's consolidated revenue and less than 0.01% of consolidated net sales of DIC Corporation (for the fiscal year ended March 31, 2023), which is immaterial. Therefore, this has no impact on his independence.</p>	<p>Yoshiyuki Nakanishi following experiences in sales of products and services of a global chemical manufacturer and involvement in operations of its key business, has gained abundant experience, accomplishments, and extensive insight into overall corporate management at the helm of the manufacturer, where he implemented various measures to respond to changes in the business environment. Aiming to reflect these qualities in the management of IHI and expecting he can carry out management oversight and monitoring functions from an independent perspective. Therefore, IHI has elected him as an outside director.</p> <p>Yoshiyuki Nakanishi does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interests with general shareholders. IHI has therefore elected him as an independent director.</p>
Chieko Matsuda	Not applicable	<p>Chieko Matsuda has abundant experience and insight gained through financial and capital market operations and management consulting operations and an extremely high level of expertise in corporate and finance strategy as a researcher, as well as broad insight as an outside director of several companies. Aiming to reflect these qualities in the management of IHI and expecting she can carry out management oversight and monitoring functions from an independent perspective. Therefore, IHI has elected her as an outside director.</p> <p>Chieko Matsuda does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interests with general shareholders. IHI has therefore elected her as an independent director.</p>

Name	Attributes of independent directors/audit & supervisory board members	Reason for Election
Minoru Usui	<p>The IHI Group has business relationships involving the sale, purchase and maintenance of power generation equipment with Seiko Epson Corporation, where Mr. Minoru Usui previously served as a business executive. However, the transaction amount that business relationship generates is less than 0.02% of the IHI's consolidated revenue and less than 0.01% of Seiko Epson Corporation's consolidated revenue (for the fiscal year ended March 31, 2023), which is immaterial. Therefore, this has no impact on his independence.</p>	<p>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 into overall corporate management at the helm of the manufacturer, where he implemented various measures to respond to changes in the business environment. Aiming to reflect these qualities in the management of IHI and expecting he can carry out management oversight and monitoring functions from an independent perspective. Therefore, IHI has elected him as an outside director.</p> <p>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.</p>
Toshihiro Uchiyama	<p>The IHI Group has business relationships involving the maintenance of industrial machinery, purchase of aircraft components, etc. with NSK Ltd., where Toshihiro Uchiyama previously served as a business executive. However, the transaction amount that business relationship generates is less than 0.01% of the IHI's consolidated revenue and less than 0.1% of consolidated net sales of NSK Ltd. (for the fiscal year ended March 31, 2023), which is immaterial. Therefore, this has no impact on his independence.</p>	<p>Toshihiro Uchiyama, after working on sales of products and services, production reforms in its overseas affiliated company, and other initiatives in an electronic equipment manufacturer that operates business globally, has gained abundant experience and extensive insight into overall corporate management at the helm of the manufacturer, where he implemented various measures to respond to changes in the business environment. Aiming to reflect these qualities in the management of IHI and expecting he can carry out management oversight and monitoring functions from an independent perspective. Therefore, IHI has elected him as an outside director.</p> <p>Toshihiro Uchiyama does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interests with general shareholders. IHI has therefore elected him as an independent audit & supervisory board member.</p>
Aiko Sekine	Not applicable	<p>Aiko Sekine has abundant experience and insight of Partner of PricewaterhouseCoopers Aarata, Japan, and Chairman and President of JICPA. Expecting these qualities and her independent perspective to be reflected in the management auditing operations of IHI. Therefore, IHI has elected her as an outside audit & supervisory board member.</p> <p>Aiko Sekine does not contravene the standards for independence stipulated by the Tokyo Stock Exchange and is judged unlikely to have a conflict of interests with general shareholders. IHI has therefore elected her as an independent audit & supervisory board member.</p>

Name	Attributes of independent directors/audit & supervisory board members	Reason for Election
Yumiko Waseda	Not applicable	<p>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.</p> <p>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.</p>
Kazuhiro Muto	<p>The IHI Group has business relationships involving consignment of system introduction support, etc. with IBM Japan, Ltd. where Mr. Kazuhiro Muto previously served as a business executive. However, the transaction amount that business relationship generates is less than 0.01% of the IHI's consolidated revenue and less than 0.01% of IBM Japan, Ltd.'s revenue (for the fiscal year ended March 31, 2023), which is immaterial. Therefore, this has no impact on his independence.</p>	<p>Kazuhiro Muto has gained abundant experience, accomplishments, and extensive insight into overall corporate management as an executive of a Japanese subsidiary of a globally active IT company, where he implemented various measures to respond to changes in the business environment including overseas business. Aiming to reflect these qualities in the management of IHI and expecting he can carry out management oversight and monitoring functions from an independent perspective. Therefore, IHI has elected him as an outside director.</p> <p>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.</p>

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

(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 qualified as a certified public accountant and possesses considerable knowledge of financial and accounting matters.

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

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

Classification	Name	Attendance at meetings of the Audit & Supervisory Board
Standing	Takashi Niimura	13 of 13 (100%)
Standing	Seiji Maruyama	13 of 13 (100%)
Outside	Toshio Iwamoto	13 of 13 (100%)
Outside	Aiko Sekine	13 of 13 (100%)
Outside	Yumiko Waseda	13 of 13 (100%)

During the current fiscal year, the main matters considered by the Audit & Supervisory Board as priority audit items, were 1) the establishment and operational status of the internal control system and the status of compliance with important laws and ordinances, 2) the status of risk management, 3) the promotion of structural reforms and execution status of business strategies, 4) the status of business of the affiliated companies selected based on management issues and risk perception, 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) Attend meetings of the Board of Directors and other important meetings and committee meetings in order to understand the process leading to decision-making by the directors and the status of the directors’ performance of their duties, and express their opinions as necessary.
- 2) Exchange opinions with representative directors, heads of Business Areas, and heads of head office divisions at meetings of the Board of Corporate Auditors in order to deepen mutual understanding between the corporate auditors and directors and their efforts in corporate governance.
- 3) Hold regular meetings with the head office divisions and Business Areas, and conduct on-site inspections of business sites and domestic and overseas affiliated companies in order to grasp the status of the Group’s priority measures and the establishment and operation of the internal control system.
- 4) Receive reports from the Internal Audit Division on the status of internal audits and internal control evaluations, and exchange opinions on the status of the Group’s internal control system and its advancement.
- 5) Hold regular meetings with the Project Risk Management Division, which monitors the profit management of important orders, and the Legal Division, which is in charge of the compliance hotline, to exchange views on issues such as recognition of specific risk areas.
- 6) Audit of business report and supplementary schedules, and audit of consolidated financial statements and non-consolidated financial statements and their supplementary schedules. Also confirm whether there are any competing transactions, conflicts of interest, or gratuitous provision of benefits by the directors.
- 7) Receive reports from the accounting auditor on the audit plan and the status of the accounting audit at each quarterly settlement of accounts, and monitor and verify the appropriateness of the accounting auditor’s audit.

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

(a) Structure and personnel

The Internal Audit Division conducts internal audits of the Company and its group companies. The Internal Audit Division is independent in terms of internal organization, and its 30 staff members (as of March 31, 2023) do not hold concurrent positions in other departments or organizations.

(b) Activities of Internal Audit Division

The Internal Audit Division strives to develop, maintain and improve internal controls across the entire Group by providing confirmation and advice regarding self-inspection performed by head office divisions on the basis of expert opinion, audits and monitoring performed by regional headquarters with respect to Group companies within each of their regions, and internal audits performed by Group companies themselves.

The General Manager of the Internal Audit Division reports to the Chief Executive Officer (CEO) regarding all audit results as well as details on guidance and confirmation with respect to each of the aforementioned divisions and companies. Upon having compiled such reports, the General Manager of the Internal Audit Division regularly reports to the Management Committee, Board of Directors, and Audit & Supervisory Board. With respect to the internal controls over financial reporting, in accordance with internal control reporting systems under the Financial Instruments and Exchange Act, the Internal Audit Division compiles Group-wide internal control evaluations as an independent division, and ultimately reports to the Management Committee, Board of Directors, and Audit & Supervisory Board in the form of an internal control evaluation report.

Activities of the Internal Audit Division are disclosed to relevant internal divisions in monthly reports, and necessary information is shared with audit & supervisory board members and the accounting auditor at periodic information exchange sessions. Moreover, the Internal Audit Division performs self-assessments of its activities in accordance with the requirements in international standards stipulated by The Institute of Internal Auditors (IIA). It then compiles such assessments in annual activity reports and furnishes such reports to the Management Committee, Board of Directors, and Audit & Supervisory Board.

(iii) Accounting audit

(a) Name of accounting auditor

Ernst & Young ShinNihon LLC

(b) Duration of audit

58 years

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

Yoshiyuki Sakuma (three years)

Hironori Oya (six years)

Yoichi Takanashi (seven years)

(d) Assistants for the accounting audit

Certified Public Accountants: 23 persons

Others: 62 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

The Audit & Supervisory Board selects the accounting auditor based on a comprehensive evaluation of items such as the accounting auditor's quality management, audit plan, audit system, independence, and audit remuneration.

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.

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

The accounting auditor is evaluated regularly by the Audit & Supervisory Board of IHI by checking items such as the accounting auditor's quality management, the audit team, the audit remuneration, etc., communication with the audit & supervisory board members, business managers, other auditors in charge of auditing group companies, etc., fraud risks and so on. In the current fiscal year, IHI made an evaluation and decided to reappoint Ernst & Young ShinNihon LLC.

(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, 2022		Fiscal year ended March 31, 2023	
	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	276	2	282	18
Consolidated subsidiaries	179	13	167	16
Total	455	15	449	34

The fiscal year ended March 31, 2022

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.

The fiscal year ended March 31, 2023

The non-audit services IHI entrusts the accounting auditor are guidance on accounting and advisory services related to human rights due diligence and supply chain management.

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, 2022		Fiscal year ended March 31, 2023	
	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	–	34	–	40
Consolidated subsidiaries	121	28	115	28
Total	121	62	115	68

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, 2022 and 2023

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 (hereinafter called "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 9, 2023, 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 independent outside director serves as the chairperson of the Remuneration Advisory Committee, which consists of six members, including 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).

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 amount of money to be provided every fiscal year as an annual performance-based incentive is the sum of the product consists of the standard payment amount corresponding to titles and positions as multiplicand and the performance evaluation payout rates proportionate to the achievement level of the profit indicators as multiplier, and the payments based on individuals' performance evaluations. The monetary amount shall vary, depending on the achievement level, within an approximate range between 0 and 200 under the assumption that the amount provided is 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 strengthening cash generation capabilities needed for growth, "Individuals evaluation indicators corresponding to tasks assigned to each executive", etc. The performance evaluation indicators shall be reviewed as necessary upon changes in management environment, executives' roles, etc.
- The number of shares to be provided every fiscal year as a medium- and long-term performance-based incentive (a certain part of this incentive is delivered with money by the amount corresponding to the market price) is the product consists of the standard number of shares to be delivered corresponding to titles and positions as multiplicand and the coefficient proportionate to the achievement level of the performance evaluation indicator as multiplier. The number of shares shall vary, depending on the achievement level, within an approximate range between 0 and 150 under the assumption that the number of shares provided is 100 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 "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 (hereinafter (4) Remuneration, etc. of directors and audit & supervisory board members, "Consolidated ROIC"). The changes in the indicator, if necessary, shall be taken into consideration when reviewing the Group management policies.

(4) Remuneration for officers providing services outside Japan

If deemed necessary for the execution of work, an allowance may be paid separately for expenses, etc. determined by IHI in consideration of laws and regulations, practices, and standards pertaining to remuneration in the region, or the remuneration may be determined individually in consideration of local market standards, etc. The equivalent allowance will be paid as part of the basic remuneration.

(5) 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 independent 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 five 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, 2024

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 23, 2023, 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, 2024 (hereinafter, “fiscal year 2023”) would be provided to all of those directors of IHI present on June 23, 2023 (excluding outside directors), in consideration for their execution of duties in the fiscal year 2023.

[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 indicators used for reference	×	Performance evaluation payout rates proportionate to the profit indicators	+	Payments based on individuals’ performance evaluations)×	Adjustment factor based on growth rate of consolidated operating profit
-------------------------------------	-----	--	---	--	---	--	----	---

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

- For representative directors, the Consolidated profit, the Consolidated operating cash flows are 50%, 50%, respectively.
- For directors excluding representative directors, the Consolidated profit, the Consolidated operating 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 52% (when Consolidated operating cash flows decreases by ¥40.0 billion from the target), and when it falls below the target by more than ¥40.0 billion from the target, it will be 0%. Furthermore, if Consolidated operating cash flows is less 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 and Consolidated operating cash flows for the fiscal year ending March 31, 2023 is as described in [a] of “(e) Calculation method of money provided as performance, based remuneration for the fiscal year ended March 31, 2023 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] Adjustment factor based on growth rate of consolidated operating profit is 1.1 if the growth rate of consolidated operating profit for the current fiscal year is 10% or more, 0.9 if the growth rate is minus 10% or less, and 1.0 otherwise compared to the consolidated operating profit for the previous fiscal year.

[f] 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.

[g] 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 23, 2023, 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, 2026 (hereinafter, "fiscal year 2025") would be provided to all of those directors of IHI present on June 23, 2023 (excluding outside directors and non-resident officers), in consideration for their execution of duties in the fiscal year 2023.

The details of the calculation method are as given below, which was resolved by the Board of Directors based on the report made by the Remuneration Advisory Committee whose majority is independent outside directors and audit & supervisory board members (all of the members who are three independent outside directors and one independent outside audit & supervisory board member agreed with the report.). 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 2025, for which the profit indicators will be finalized.

$$\text{IHI's shares to be provided} = \text{Base points corresponding to titles and positions} \times \text{Performance evaluation payout rates} \times \frac{\text{The ratio obtained by dividing the months of service in the fiscal year 2023 by the directors of IHI by 12}}{50\%}$$

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

Titles and positions	Base points
Chairman of the Board	7,826
President	8,538
Representative directors excluding above	5,041
Directors excluding above *	3,619

* Base points corresponding to each new director who has been elected in the Ordinary General Meeting of Shareholders held on June 23, 2023 is 3,780 for Representative directors excluding Chairman of the Board and President and 2,132 for Directors excluding Representative directors.

[b] Performance evaluation payout rates shall be determined by the Consolidated ROIC in the fiscal year 2025 as below. (Figures below a decimal point shall be omitted.)

March 31, 2026 year-end Consolidated ROIC * (%)	Performance evaluation payout rates (%)
Less than 5	0
Equal or more than 5 but less than 8	$=25 + 15 \times (\text{Consolidated ROIC} - 5)$
8	100
More than 8 but less than 11	$= 100 + 50/3 \times (\text{Consolidated ROIC} - 8)$
Equal or more than 11	150

* : Consolidated ROIC shall be calculated as the ratio calculated by $(1 - \text{"Effective statutory tax rate"}) \times (\text{"Operating profit"} + \text{"Interest income"} + \text{"Dividend income"}) \div (\text{"Total equity attributable to owners of parent"} + (\text{Amount of interest-bearing liabilities}))$. (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 of such sale shall 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 amounts (rounded to the nearest million yen) respectively 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” 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 serving as the directors of IHI in the fiscal year 2023 by 9” shall be used for calculation. In addition, the “months serving as the directors of IHI in the fiscal year 2023” 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 23, 2023 and June 30, 2023 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 23, 2023. Moreover, shares shall not be provided to directors who died before the end of June 2026 (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 2025.
7. During the period from the calculation date of number of finalized points to the end of June 2026, 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”), IHI 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 shall implement the transfer with the modified number of the finalized points.
 - (2) If the transfer has already been implemented at the point the above fact is found out or is implemented with the calculated number of finalized points since it could not be stopped, the receiver of the transfer shall return the difference between the money and/or shares transferred according to the modified number of the finalized points and those transferred according to 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 23, 2023, 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 2025 shall be provided to all of those directors of IHI present on June 23, 2023 (excluding outside directors), in consideration for their execution of duties in the fiscal year 2023. 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. (However, for non-resident officers, only the cash equivalent to 100% of the fixed number of points will be delivered.)

The details of the calculation method are as given below, which was resolved by the Board of Directors based on the report made by the Remuneration Advisory Committee whose majority is independent outside directors and audit & supervisory board members (all of the members who are three independent outside directors and one independent outside audit & supervisory board member agreed with the report.). 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 (However, for non-resident officers, one month) of the day following the day on which is held the Ordinary General Meeting of Shareholders pertaining to the fiscal year 2025, for which the profit indicators will be finalized.

The monetary amount to be provided = a. (Number of finalized points - Number of the Shares to be provided as performance-based share remuneration) × b. The market price of IHI’s shares on the last day of June 2026 (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	59,390
President	64,070
Representative directors excluding above	38,610
Directors excluding above *	27,280

*: For newly elected Representative directors excluding Chairman of the Board and President, the maximum amount is ¥ 28,700 thousand and for newly elected Directors excluding Representative directors, the maximum amount is ¥ 16,980 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.
3. For non-resident officers, a. will be the “Number of finalized points” and only money will be paid outside the framework of the Trust.

(e) The target about the performance evaluation indicators of performance-based remuneration for the fiscal year ended March 31, 2023 and result, etc.

1. Performance-based bonuses to be evaluated for the fiscal year ended March 31, 2023

[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, 2023.

Performance evaluation indicators	Weight	Fluctuation range of performance evaluation payout rates	Target	Result	Performance evaluation payout rates
Consolidated profit	50%	0~200%	Upper : ¥ 58.1 billion Target : ¥ 37.1 billion Lower : ¥ 16.1 billion	¥ 25.6 billion	33.7%
Consolidated operating cash flows	50%	0~200%	Upper : ¥ 180.0 billion Target : ¥ 130.0 billion Lower : ¥ 80.0 billion	¥ 44.4 billion	0%

[b] For the directors (excluding representative directors and outside directors) are provided bonuses based on the Consolidated profit, the Consolidated operating cash flows and individuals' performance evaluations.

Performance evaluation indicators	Weight	Fluctuation range of performance evaluation payout rates	Target and result	Performance evaluation payout rates
Consolidated profit	40%	0~200%	Same as (e) 1. [a]	26.9%
Consolidated operating cash flows	40%	0~200%	Same as (e) 1. [a]	0%
Individuals' performance evaluations	20%	0~150%	Set individually and evaluated by the President and decided at the board of directors.	Maximum : 15% Minimum : 7.5%

Note: Result of the Consolidated profit and the Consolidated operating cash flows of the Business Area in charge are adjusted such as adjustment based on the level of planned foreign exchange, etc.

2. Performance-based share remuneration which set the fiscal year 2022 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, 2021 as the start of the evaluation period and the fiscal year ended March 31, 2023 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 : 5%	6.3%	25%

(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 remuneration	Performance-based share remuneration	Performance-based bonus	
Directors (excluding outside directors)	613	362	141	110	10
Audit & supervisory board members (excluding outside audit & supervisory board members)	72	72	—	—	2
Outside directors and outside audit & supervisory board members	96	96	—	—	8

- 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 may be 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, 2023 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 three directors who retired at the conclusion of the 205th Ordinary General Meeting of Shareholders held on June 23, 2022.

(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	115	66	27	22
Hiroshi Ide	Director	Reporting company	125	72	29	24

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 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, etc. 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- to long-term growth and corporate value.

Moreover, the propriety of holding individual shares is assessed annually in the Board of Directors by confirming the medium- to 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	83	4,106
Stocks other than unlisted stocks	25	8,476

(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
Unlisted stocks	2	439	Acquisition of stock-based golf course membership rights. Investment in a start-up company with renewable energy-derived green ammonia production and decomposition technology in order to promote more external collaboration and accelerated technology acquisition in the carbon solution initiative to promote carbon neutrality.
Stocks other than unlisted stocks	1	37	Acquired as related assets in connection with the acquisition of the real estate leasing business of Chiba Warehouse Co., Ltd.

(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	5	129
Stocks other than unlisted stocks	1	1,899

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

Specified investment shares

Stock name	The current fiscal year	The previous fiscal year	Holding purpose, Outline of business alliance, etc., quantitative effects from holdings and reason of share increase	IHI's shares held by the company
	Number of shares (Shares)	Number of shares (Shares)		
	Amount on the balance sheet (Millions of yen)	Amount on the balance sheet (Millions of yen)		
China Steel Structure Co., Ltd	11,061,690	11,061,690	Has business relationships in the steelmaking machinery, compressor, boiler, and other businesses, and crucial to establish the brand of IHI in the global market, especially in Taiwan	No
	2,846	2,733		
Mizuho Financial Group, Inc.	1,166,639	2,333,277	To smooth financial transactions and collect domestic and overseas information, including financing for the steady creation of growth and development businesses	Yes
	2,190	3,656		
Mitsui Fudosan Co., Ltd.	402,000	402,000	Crucial to execute the urban development business, such as jointly conducting the leasing business in the Toyosu area	Yes
	998	1,053		
The Kansai Electric Power Company, Incorporated	520,300	520,300	Because a strategic partner through the growth strategy in the clean energy area, a business under development, and life-cycle business, which is indispensable to reinforce the business foundation, including construction and maintenance of boiler facilities	No
	671	597		
Electric Power Development Co., Ltd.	217,500	217,500	Because a strategic partner through the growth strategy in the clean energy area, a business under development, and life-cycle business, which is indispensable to reinforce the business foundation, including construction and maintenance of boiler facilities	No
	463	380		
Sumitomo Mitsui Financial Group, Inc.	73,200	73,200	To smooth financial transactions and collect domestic and overseas information, including financing for the steady creation of growth and development businesses	Yes
	387	285		
The 77 Bank, Ltd	79,050	79,050	To smooth financial transactions and collect domestic and overseas information, including financing for the steady creation of growth and development businesses	Yes
	170	122		
The Hachijuni Bank, Ltd.	294,000	294,000	To smooth financial transactions and collect domestic and overseas information, including financing for the steady creation of growth and development businesses	Yes
	169	119		
Tokyo Electric Power Company Holdings,	275,139	275,139	Because a strategic partner through the growth strategy in the clean energy area, a business under development, and life-cycle business, which is indispensable to reinforce the business foundation, including construction and maintenance of nuclear and boiler facilities	No
	130	110		
DAIO PAPER CORPORATION	119,000	119,000	Crucial to strengthen the business foundation thorough lifecycle businesses, such as the paper-making machineries business, etc.	No
	123	188		

Stock name	The current fiscal year	The previous fiscal year	Holding purpose, Outline of business alliance, etc., quantitative effects from holdings and reason of share increase	IHI's shares held by the company
	Number of shares (Shares)	Number of shares (Shares)		
	Amount on the balance sheet (Millions of yen)	Amount on the balance sheet (Millions of yen)		
Mitsui Chemicals, Inc.	19,600	19,600	Because a strategic partner through the growth strategy in the clean energy area, a business under development, and life-cycle business, which is indispensable to reinforce the business foundation, including construction and maintenance of boiler facilities	No
	66	60		
Nishi-Nippon Financial Holdings, Inc.	50,200	50,200	To smooth financial transactions and collect domestic and overseas information, including financing for the steady creation of growth and development businesses	Yes
	54	38		
Hokkaido Electric Power Co., Inc.	96,611	96,611	Because a strategic partner through the growth strategy in the clean energy area, a business under development, and life-cycle business, which is indispensable to reinforce the business foundation, including construction and maintenance of boiler facilities	No
	46	46		
Tokuyama Corporation	21,600	21,600	Because a strategic partner through the growth strategy in the clean energy area, a business under development, and life-cycle business, which is indispensable to reinforce the business foundation, including construction and maintenance of boiler facilities	No
	45	37		
Chilled & Frozen Logistics Holdings Co., Ltd.	30,600	—	Acquired as related assets in connection with the acquisition of the real estate leasing business of Chiba Warehouse Co., Ltd. IHI intends to have a full dialogue with the company with a view to reducing	No
	38	—		
Penta-Ocean Construction Co., Ltd.	33,275	33,275	Crucial to strengthen the business foundation thorough lifecycle businesses, such as the shield and cargo-handling machineries in the social infrastructure and transport machineries businesses as core businesses	No
	21	20		
Nippon Paper Industries Co., Ltd.	18,600	18,600	Because a strategic partner through the growth strategy in the clean energy area, a business under development, and life-cycle business, which is indispensable to reinforce the business foundation, including construction and maintenance of boiler facilities	No
	19	19		
Sumitomo Mitsui Construction Co., Ltd.	27,720	27,720	Crucial to strengthen the business foundation, such as jointly receiving orders for construction projects of the Bangabandhu Sheikh Mujib Railway Bridge (a dedicated bridge for the Jamuna Railway) in the People's Republic of Bangladesh	No
	10	11		

Stock name	The current fiscal year	The previous fiscal year	Holding purpose, Outline of business alliance, etc., quantitative effects from holdings and reason of share increase	IHI's shares held by the company
	Number of shares (Shares)	Number of shares (Shares)		
	Amount on the balance sheet (Millions of yen)	Amount on the balance sheet (Millions of yen)		
Hokuriku Electric Power Company	17,069	17,069	Because a strategic partner through the growth strategy in the clean energy area, a business under development, and life-cycle business, which is indispensable to reinforce the business foundation, including construction and maintenance of boiler facilities	No
	10	9		
Mitsubishi Paper Mills Limited	15,600	15,600	IHI intends to have a full dialogue with the company with a view to reducing	No
	5	4		
Rinko Corporation.	3,000	3,000	Crucial to execute business in Niigata Prefecture	No
	4	5		
The Chugoku Electric Power Co., Inc.	100	100	Because a strategic partner through the growth strategy in the clean energy area, a business under development, and life-cycle business, which is indispensable to reinforce the business foundation, including construction and maintenance of boiler facilities	No
	0	0		
Chubu Electric Power Co., Inc.	100	100	Because a strategic partner through the growth strategy in the clean energy area, a business under development, and life-cycle business, which is indispensable to reinforce the business foundation, including construction and maintenance of nuclear and boiler facilities	No
	0	0		
Tohoku Electric Power Co., Inc.	100	100	Because a strategic partner through the growth strategy in the clean energy area, a business under development, and life-cycle business, which is indispensable to reinforce the business foundation, including construction and maintenance of boiler facilities	No
	0	0		
Kyushu Electric Power Co., Inc.	100	100	Because a strategic partner through the growth strategy in the clean energy area, a business under development, and life-cycle business, which is indispensable to reinforce the business foundation, including construction and maintenance of boiler facilities	No
	0	0		

Note: Though it is difficult to describe quantitative effects from holding for each stock, annually in the Board of Directors, the medium- to 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.

Deemed share holdings

Stock name	The current fiscal year	The previous fiscal year	Holding purpose, Outline of business alliance, etc., quantitative effects from holdings and reason of share increase	IHI's shares held by the company
	Number of shares (Shares)	Number of shares (Shares)		
	Amount on the balance sheet (Millions of yen)	Amount on the balance sheet (Millions of yen)		
MITSUI & CO., LTD.	1,709,255	1,709,255	Has authority to direct the exercise of voting rights	Yes
	7,035	5,688		
Sumitomo Mitsui Trust Holdings, Inc.	284,474	284,474	Has authority to direct the exercise of voting rights	Yes
	1,291	1,138		
KYOKUTO BOEKI KAISHA, LTD.	771,160	385,580	Has authority to direct the exercise of voting rights. The increase in the number of shares is due to a stock split conducted by the company	Yes
	1,161	847		
Tosoh Corporation	578,000	578,000	Has authority to direct the exercise of voting rights	Yes
	1,038	1,048		
TOHO GAS CO., LTD.	177,050	177,050	Has authority to direct the exercise of voting rights	Yes
	436	482		
Kajima Corporation	257,132	257,132	Has authority to direct the exercise of voting rights	Yes
	410	383		
The Iyo Bank, Ltd.	539,782	539,782	Has authority to direct the exercise of voting rights	Yes
	405	323		
Tokyo Gas Co., Ltd.	159,750	159,750	Has authority to direct the exercise of voting rights	No
	398	356		
JGC HOLDINGS CORPORATION	194,000	194,000	Has authority to direct the exercise of voting rights	Yes
	318	284		
SHIZUOKA GAS Co., Ltd.	200,000	200,000	Has authority to direct the exercise of voting rights	Yes
	229	170		
OBAYASHI CORPORATION	220,000	220,000	Has authority to direct the exercise of voting rights	Yes
	222	198		
Yamaguchi Financial Group, Inc.	268,000	537,000	Has authority to direct the exercise of voting rights	Yes
	217	365		
SHIMIZU CORPORATION	250,000	250,000	Has authority to direct the exercise of voting rights	Yes
	187	183		
ANA HOLDINGS INC.	64,242	64,242	Has authority to direct the exercise of voting rights	No
	184	164		
Taisei Corporation	42,000	42,000	Has authority to direct the exercise of voting rights	Yes
	171	148		

Stock name	The current fiscal year	The previous fiscal year	Holding purpose, Outline of business alliance, etc., quantitative effects from holdings and reason of share increase	IHI's shares held by the company
	Number of shares (Shares)	Number of shares (Shares)		
	Amount on the balance sheet (Millions of yen)	Amount on the balance sheet (Millions of yen)		
The Gunma Bank, LTD	371,000	371,000	Has authority to direct the exercise of voting rights	No
	164	131		
Osaka Gas Co., Ltd.	61,300	61,300	Has authority to direct the exercise of voting rights	No
	133	128		
Mitsubishi Estate Co., Ltd.	64,723	64,723	Has authority to direct the exercise of voting rights	No
	102	117		
Dai-ichi Life Holdings, Inc.	—	324,400	—	Yes
	—	810		
The Shibusawa Warehouse Co., Ltd.	—	80,000	—	Yes
	—	184		

- 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	(Special account)
Location of office	2-8-4, Izumi, Suginami-ku, Tokyo, Japan Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Business Planning Department
Administrator of Shareholders' Register	(Special account) 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan 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.ihico.jp/ihico/elec/index.html
Special benefits for shareholders	Not applicable

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

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 (205th) | From April 1, 2021 To March 31, 2022 | Filed with Director-General of the Kanto Local Finance Bureau on June 23, 2022 |
| (2) | Amendment Report for Annual Securities Report and Confirmation Letter | Fiscal year (204th) | From April 1, 2020 To March 31, 2021 | Filed with Director-General of the Kanto Local Finance Bureau on November 10, 2022 |
| | | Fiscal year (205th) | From April 1, 2021 To March 31, 2022 | Filed with Director-General of the Kanto Local Finance Bureau on November 10, 2022 |
| (3) | Management’s Report on Internal Control Over Financial Reporting for the consolidated financial statements and Documents Attached | | | Filed with Director-General of the Kanto Local Finance Bureau on June 23, 2022 |
| (4) | Shelf Registration Statements (Bonds Payable) and Documents Attached | | | Filed with Director-General of the Kanto Local Finance Bureau on December 2, 2022 |
| (5) | Amended Shelf Registration Statements | | | Filed with Director-General of the Kanto Local Finance Bureau on January 30, 2023 |
| (6) | Quarterly Reports and Confirmation Letters | (206th First Quarter) | From April 1, 2022 To June 30, 2022 | Filed with Director-General of the Kanto Local Finance Bureau on August 10, 2022 |
| | | (206th Second Quarter) | From July 1, 2022 To September 30, 2022 | Filed with Director-General of the Kanto Local Finance Bureau on November 10, 2022 |
| | | (206th Third Quarter) | From October 1, 2022 To December 31, 2022 | Filed with Director-General of the Kanto Local Finance Bureau on February 10, 2023 |
| (7) | Extraordinary Reports | | | |
| | Extraordinary Report based on Article 19, Paragraph 2, item ix-2 (results of exercise of voting rights at a General Meeting of Shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc. | | | Filed with Director-General of the Kanto Local Finance Bureau on June 24, 2022 |
| | Extraordinary Report based on Article 19, Paragraph 2, item ix (Change in representative directors) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc. | | | Filed with Director-General of the Kanto Local Finance Bureau on January 30, 2023 |

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

Not applicable

Consolidated financial statements

	<u>Page Number</u>
Consolidated financial statements of IHI Corporation and subsidiaries:	
Consolidated statement of financial position	98
Consolidated statement of profit or loss	100
Consolidated statement of comprehensive income	101
Consolidated statement of changes in equity	102
Consolidated statement of cash flows	104
Notes to consolidated financial statements	106
 Independent Auditor's Report	 192

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”).

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, 2023 (from April 1, 2022 to March 31, 2023) 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, accounting 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	As of March 31, 2022	As of March 31, 2023
Assets			
Current assets			
Cash and cash equivalents	8,36	145,489	124,749
Trade and other receivables	9,28,36	347,998	378,446
Contract assets	28,36	126,560	144,740
Other financial assets	10,36	3,193	4,368
Inventories	11	340,125	374,523
Other current assets	12	60,627	58,918
Total current assets		1,023,992	1,085,744
Non-current assets			
Property, plant and equipment	13	230,306	225,032
Right-of-use assets	20	109,034	102,432
Goodwill	14,16	6,094	6,486
Intangible assets	14	120,998	123,736
Investment property	15	137,679	142,550
Investments accounted for using equity method	6,17,19	56,732	56,578
Other financial assets	10,19,36	43,167	43,042
Deferred tax assets	18	78,428	82,280
Other non-current assets	12	73,243	74,084
Total non-current assets		855,681	856,220
Total assets	6	1,879,673	1,941,964

(Millions of yen)

	Notes	As of March 31, 2022	As of March 31, 2023
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	22,36	235,414	247,086
Bonds and borrowings	19,36	95,220	140,370
Lease liabilities	19,20,36	17,061	16,726
Other financial liabilities	21,36	14,636	14,551
Income taxes payable		18,005	9,685
Contract liabilities	28	214,726	201,883
Provisions	24	22,433	22,942
Other current liabilities	25	156,180	178,358
Total current liabilities		773,675	831,601
Non-current liabilities			
Bonds and borrowings	19,36	276,987	253,291
Lease liabilities	19,20,36	116,285	109,101
Other financial liabilities	21,36	103,681	95,479
Deferred tax liabilities	18	3,485	4,470
Retirement benefit liability	23	175,328	167,595
Provisions	24	7,348	7,948
Other non-current liabilities	25	15,845	16,228
Total non-current liabilities		698,959	654,112
Total liabilities		1,472,634	1,485,713
Equity			
Share capital	26	107,165	107,165
Capital surplus	26	47,052	46,741
Retained earnings	26	213,026	251,915
Treasury shares	26	(8,815)	(8,746)
Other components of equity		23,706	34,170
Total equity attributable to owners of parent		382,134	431,245
Non-controlling interests		24,905	25,006
Total equity		407,039	456,251
Total liabilities and equity		1,879,673	1,941,964

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, 2022	Fiscal year ended March 31, 2023
Revenue	6,28	1,172,904	1,352,940
Cost of sales		963,497	1,070,935
Gross profit (loss)		209,407	282,005
Selling, general and administrative expenses	29	176,600	201,158
Other income	30	71,452	11,805
Other expenses	16,30	22,762	10,667
Operating profit (loss)	6	81,497	81,985
Finance income	31	9,577	2,431
Finance costs	31	4,624	11,177
Share of profit (loss) of investments accounted for using equity method	6,17	1,187	(8,374)
Profit (loss) before tax		87,637	64,865
Income tax expense	18	18,718	16,485
Profit (loss)		68,919	48,380
Profit (loss) attributable to:			
Owners of parent		66,065	44,545
Non-controlling interests		2,854	3,835
Profit (loss)		68,919	48,380
Earnings per share			
Basic earnings per share (Yen)	33	439.77	294.48
Diluted earnings per share (Yen)	33	439.73	294.44

Consolidated statement of comprehensive income

(Millions of yen)

	Notes	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Profit (loss)		68,919	48,380
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	1,989	1,946
Remeasurements of defined benefit plans	23,32	3,794	5,923
Share of other comprehensive income of investments accounted for using equity method	17,32	614	816
Total of items that will not be reclassified to profit or loss		<u>6,397</u>	<u>8,685</u>
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations	32	11,807	6,616
Cash flow hedges	32,36	108	153
Share of other comprehensive income of investments accounted for using equity method	17,32	1,009	1,941
Total of items that may be reclassified to profit or loss		<u>12,924</u>	<u>8,710</u>
Other comprehensive income, net of tax		<u>19,321</u>	<u>17,395</u>
Comprehensive income		<u><u>88,240</u></u>	<u><u>65,775</u></u>
Comprehensive income attributable to:			
Owners of parent		83,998	61,670
Non-controlling interests		<u>4,242</u>	<u>4,105</u>
Comprehensive income		<u><u>88,240</u></u>	<u><u>65,775</u></u>

iii) Consolidated statement of changes in equity
Fiscal year ended March 31, 2022

(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
	107,165	51,735	148,428	(15,953)	1,102	(61)	7,939
			66,065				
					11,729	(206)	2,229
			66,065		11,729	(206)	2,229
				(109)			
		5		154			
27			(4,555)				
35		(5)					
		(4,683)		7,093			
			3,416				765
			(328)			(46)	
		(4,683)	(1,467)	7,138		(46)	765
	107,165	47,052	213,026	(8,815)	12,831	(313)	10,933

Notes	Equity attributable to owners of parent			Total	Non-controlling interests	Total
	Other components of equity		Total			
	Remeasurements of defined benefit plans	Share acquisition rights				
		414	9,394	300,769	26,958	327,727
				66,065	2,854	68,919
	4,181		17,933	17,933	1,388	19,321
	4,181		17,933	83,998	4,242	88,240
				(109)		(109)
		(159)	(159)			
27				(4,555)	(3,978)	(8,533)
35				(5)		(5)
				2,410	(2,326)	84
	(4,181)		(3,416)			
			(46)	(374)	9	(365)
	(4,181)	(159)	(3,621)	(2,633)	(6,295)	(8,928)
		255	23,706	382,134	24,905	407,039

Fiscal year ended March 31, 2023

(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, 2022		107,165	47,052	213,026	(8,815)	12,831	(313)	10,933
Profit (loss)				44,545				
Other comprehensive income						7,561	861	1,922
Total comprehensive income		–	–	44,545	–	7,561	861	1,922
Purchase of treasury shares					(13)			
Disposal of treasury shares			5		82			
Dividends	27			(12,148)				
Share-based remuneration transactions	35		3					
Changes in ownership interest in subsidiaries								
Transfer from other components of equity to retained earnings				6,573				208
Other			(319)	(81)		(2)		
Total transactions with owners		–	(311)	(5,656)	69	(2)	–	208
Balance as of March 31, 2023		107,165	46,741	251,915	(8,746)	20,390	548	13,063

	Notes	Equity attributable to owners of parent				Non-controlling interests	Total
		Other components of equity			Total		
		Remeasurements of defined benefit plans	Share acquisition rights	Total			
Balance as of April 1, 2022		–	255	23,706	382,134	24,905	407,039
Profit (loss)				–	44,545	3,835	48,380
Other comprehensive income		6,781		17,125	17,125	270	17,395
Total comprehensive income		6,781	–	17,125	61,670	4,105	65,775
Purchase of treasury shares				–	(13)		(13)
Disposal of treasury shares			(87)	(87)	–		–
Dividends	27			–	(12,148)	(4,490)	(16,638)
Share-based remuneration transactions	35			–	3		3
Changes in ownership interest in subsidiaries				–	–	21	21
Transfer from other components of equity to retained earnings		(6,781)		(6,573)	–		–
Other			1	(1)	(401)	465	64
Total transactions with owners		(6,781)	(86)	(6,661)	(12,559)	(4,004)	(16,563)
Balance as of March 31, 2023		–	169	34,170	431,245	25,006	456,251

iv) Consolidated statement of cash flows

(Millions of yen)

	Notes	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Cash flows from operating activities			
Profit (loss) before tax		87,637	64,865
Depreciation, amortization and impairment losses		84,193	70,934
Finance income and finance costs		2,391	3,319
Share of loss (profit) of investments accounted for using equity method		(1,187)	8,374
Loss (gain) on sale of property, plant and equipment, intangible assets and investment property		(66,051)	(5,468)
Decrease (increase) in trade receivables		(2,521)	(23,896)
Decrease (increase) in contract assets		(11,480)	(14,821)
Decrease (increase) in inventories and prepayments		(15,320)	(33,708)
Increase (decrease) in trade payables		(5,082)	5,002
Increase (decrease) in contract liabilities		47,026	(14,843)
Increase (decrease) in allowance for doubtful accounts		(342)	7,118
Other		3,312	26,902
Subtotal		122,576	93,778
Interest received		396	867
Dividends received		2,153	1,205
Interest paid		(3,615)	(3,858)
Income taxes paid		(7,355)	(37,876)
Net cash provided by (used in) operating activities		114,155	54,116
Cash flows from investing activities			
Purchase of property, plant and equipment, intangible assets and investment property		(45,574)	(62,577)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		73,229	7,373
Purchase of investments (including investments accounted for using equity method)		(3,124)	(4,288)
Proceeds from sale and redemption of investments (including investments accounted for using equity method)		4,591	2,283
Purchase of equity interest in subsidiaries		—	(64)
Proceeds from sale of equity interest in subsidiaries		144	1,224
Other		(1,340)	3,702
Net cash provided by (used in) investing activities		27,926	(52,347)

(Millions of yen)

	Notes	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	19,34	(50,579)	14,372
Proceeds from long-term borrowings	19,34	14,625	30,216
Repayments of long-term borrowings	19,34	(36,570)	(42,630)
Proceeds from issuance of bonds	19,34	—	20,000
Redemption of bonds	19,34	(20,000)	—
Repayments of lease liabilities	19,34	(20,553)	(21,505)
Decrease (increase) in treasury shares		(6)	(13)
Dividends paid	27	(4,541)	(12,110)
Capital contribution from non-controlling interests		85	822
Dividends paid to non-controlling interests		(3,966)	(4,490)
Increase in other financial liabilities	34	3,464	5,168
Decrease in other financial liabilities	34	(3,513)	(13,332)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation		—	(542)
Other		65	1
Net cash provided by (used in) financing activities		(121,489)	(24,043)
Effect of exchange rate change on cash and cash equivalents		4,131	1,528
Net increase (decrease) in cash and cash equivalents		24,723	(20,746)
Cash and cash equivalents at beginning of period	8	120,766	145,489
Cash and cash equivalents at end of period	8	145,489	124,743

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

The consolidated financial statements of the IHI Group are prepared in accordance with IFRS, pursuant to the provisions of Article 93 of the Regulation on Consolidated Financial Statements, as the IHI Group 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, Representative Director and President, on June 23, 2023.

(2) Basis of measurement

As described in Note “3. Significant accounting policies,” the IHI Group’s consolidated financial statements have been prepared on the acquisition 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 in 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 in equity.

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 allocates 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 group tax sharing 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 judgements, 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 judgements 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:

- 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, etc. 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, 2023, the IHI Group has made estimates for taxable income for the fiscal year ending March 31, 2024, and subsequent fiscal years by considering the assumption regarding demand recovery in the Civil aero engines Business as well as the effects of various investments to realize transformation, measures for the expansion of the lifecycle businesses and the strengthening of earnings foundations set forth in the "Group Management Policies 2023". As for the recovery in demand for the Civil aero engines Business, 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.

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. At present, there have been no significant changes in the judgement on the recoverability, etc. of deferred tax assets from the previous fiscal year.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Deferred tax assets	78,428	82,280

- 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.

(Changes in accounting estimates)

For estimates of a part of consideration payable to a customer incurred related to the civil aero engine programs in which IHI participates, primarily due to the progress in performance improvement of the aero engines and the decrease in actual payments, IHI changed to the method based on the burden after performance improvement from the second quarter ended September 30, 2022.

As a result, revenue, operating profit, and profit before tax each increased by ¥11,206 million for the fiscal year ended March 31, 2023.

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 segment

The business 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, allocates management resources necessary for execution of the SBUs' business strategies. SBUs shall be the units possessing complete business processes including sales, developments, designs, productions, constructions, services, etc. based on the visions and strategies drawn up by Business Areas. Each SBU is an organization executing business and responsible for ensuring a profit in the SBU.

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 segment. There are no aggregated business segments when deciding the reportable segment.

Main businesses, products and services belonging to each segment are as follows:

Reportable segment	Main businesses, products and services
Resources, Energy and Environment	Power systems (power systems plants for land use and power systems for ships), Carbon solutions, 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 segment

Fiscal year ended March 31, 2022

(Millions of yen)

	Reportable segment					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	342,430	157,445	369,848	262,295	1,132,018	40,886	1,172,904	–	1,172,904
Intersegment revenue and transfers	2,019	9,905	7,141	2,994	22,059	21,877	43,936	(43,936)	–
Total	344,449	167,350	376,989	265,289	1,154,077	62,763	1,216,840	(43,936)	1,172,904
Segment profit (loss) (Note 3)	22,992	15,363	12,854	(9,370)	41,839	(1,011)	40,828	40,669	81,497
Segment assets	300,107	290,963	329,745	716,302	1,637,117	184,138	1,821,255	58,418	1,879,673
Others									
Depreciation and amortization	6,115	10,186	13,623	31,821	61,745	2,894	64,639	9,797	74,436
Impairment losses	193	775	3,996	–	4,964	4,793	9,757	–	9,757
Share of profit (loss) of investments accounted for using equity method	11	–	(444)	1,337	904	283	1,187	–	1,187
Investments accounted for using equity method	162	–	4,108	27,818	32,088	24,644	56,732	–	56,732
Capital expenditures	5,351	6,319	9,620	15,119	36,409	1,715	38,124	5,205	43,329

- Notes:
- The “Others” classification consists of business that is not included in reportable segment. It includes inspection and measurement business, the manufacture and sale of equipment and the like related to such business, and other service operations.
 - The details of adjustment are as follows:
 - Adjustment of segment profit (loss) represents intersegment transactions of ¥(222) million and unallocated corporate income of ¥40,891 million. Unallocated corporate income mainly consists of gain on sale of property, plant and equipment and gain on sale of investment property.
 - Adjustment of ¥58,418 million for segment assets includes eliminations of intersegment receivables and payables of ¥(123,741) million and corporate assets unallocated to each reportable segment of ¥182,159 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.
 - Adjustment of depreciation and amortization represents depreciation and amortization not allocated to each reportable segment.
 - Adjustment of capital expenditures represents corporate capital expenditures not allocated to each reportable segment.
 - Segment profit (loss) is adjusted with operating profit (loss) in the consolidated statement of profit or loss.

Fiscal year ended March 31, 2023

(Millions of yen)

	Reportable segment					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	369,721	166,155	428,195	360,272	1,324,343	28,597	1,352,940	–	1,352,940
Intersegment revenue and transfers	1,676	4,883	8,331	3,900	18,790	25,680	44,470	(44,470)	–
Total	371,397	171,038	436,526	364,172	1,343,133	54,277	1,397,410	(44,470)	1,352,940
Segment profit (loss) (Note 3)	26,264	17,089	18,018	36,171	97,542	1,333	98,875	(16,890)	81,985
Segment assets	352,349	298,835	340,142	744,051	1,735,377	193,996	1,929,373	12,591	1,941,964
Others									
Depreciation and amortization	6,162	10,194	12,164	29,594	58,114	1,496	59,610	9,506	69,116
Impairment losses	421	149	104	–	674	1,144	1,818	–	1,818
Share of profit (loss) of investments accounted for using equity method	(82)	–	121	(836)	(797)	(7,577)	(8,374)	–	(8,374)
Investments accounted for using equity method	2,356	–	4,330	32,982	39,668	16,910	56,578	–	56,578
Capital expenditures	5,853	15,349	12,999	17,462	51,663	3,430	55,093	6,061	61,154

- Notes:
1. The “Others” classification consists of business that is not included in reportable segment. 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 ¥164 million and unallocated corporate expenses of ¥(17,054) million. Unallocated corporate expenses mainly consist of general and administrative expenses that are not attributable to reportable segment.
 - (2) Adjustment of ¥12,591 million for segment assets includes eliminations of intersegment receivables and payables of ¥(155,746) million and corporate assets unallocated to each reportable segment of ¥168,337 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 segment, 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)

	As of March 31, 2022	As of March 31, 2023
Japan	549,793	545,251
North America	11,734	11,528
Asia	21,397	19,983
Europe	20,338	22,604
Other	849	870
Total	604,111	600,236

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, 2022	Fiscal year ended March 31, 2023
Japanese Aero Engines Corporation	Aero Engine, Space and Defense	88,214	157,344

(6) Matters about changes of reportable segment, etc.

Changes in accounting estimates

IHI changed the method regarding the estimation of a part of a consideration payable to a customer incurred related to the civil aero engine programs in which IHI participates from the second quarter ended September 30, 2022 as described above in “Changes in accounting estimates”. Therefore, IHI has similarly changed the method of measuring revenue in the Aero Engine, Space and Defense.

For further details, please refer to “Changes in accounting estimates” of Note “4. Significant accounting judgements, estimates and assumptions” under “Notes to consolidated financial statements” of “Financial information” section in this Annual Securities Report.

7. Business combinations

Fiscal year ended March 31, 2022

As it is immaterial, no further information is given.

Fiscal year ended March 31, 2023

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)

	As of March 31, 2022	As of March 31, 2023
Cash and deposits	144,338	123,495
Short-term investments	1,151	1,254
Cash and cash equivalents in consolidated statements of financial position	145,489	124,749
Pledged deposit	-	(6)
Cash and cash equivalents in the consolidated statements of cash flows	145,489	124,743

9. Trade and other receivables

The breakdown of trade and other receivables is as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Notes and accounts receivable – trade	339,141	367,112
Accounts receivable – non trade	13,148	23,356
Allowance for doubtful accounts	(4,291)	(12,022)
Total	347,998	378,446

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 ¥2,891 million and ¥23,399 million as of March 31, 2022 and March 31, 2023, respectively.

10. Other financial assets

(1) Breakdown of other financial assets

The breakdown of other financial assets is as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Financial assets measured at amortized cost		
Time deposits	2,112	1,265
Other	14,307	14,673
Financial assets measured at fair value through profit or loss		
Derivative assets (Note)	313	1,063
Other	4,222	6,096
Financial assets measured at fair value through other comprehensive income		
Stocks and investments in capital	25,406	24,313
Total	46,360	47,410
Current assets	3,193	4,368
Non-current assets	43,167	43,042
Total	46,360	47,410

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	As of March 31, 2022
Mizuho Financial Group, Inc.	3,666
China Steel Corporation	2,733
Mitsui Fudosan Co., Ltd.	1,053
FUKADA SALVAGE & MARINE WORKS CO., LTD.	957
ABB Bailey Japan Co., Ltd.	921

(Millions of yen)

Stock name	As of March 31, 2023
China Steel Corporation	2,847
Mizuho Financial Group, Inc.	2,202
FUKADA SALVAGE & MARINE WORKS CO., LTD.	1,019
Mitsui Fudosan Co., Ltd.	999
TOKYO GAS CO., LTD.	998

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, 2022	Fiscal year ended March 31, 2023
Fair value	4,365	2,235
Accumulated gains (losses) that have been recognized in other comprehensive income	193	(319)

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, 2022 and 2023 are ¥(765) million and ¥(208) million, respectively.

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

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Dividend income from investments derecognized during period	0	148
Dividend income from investments held as of the end of reporting period	1,075	902
Total	1,075	1,050

11. Inventories

The breakdown of inventories is as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Finished goods	21,139	21,322
Work in process	174,060	214,002
Raw materials and supplies	144,926	139,199
Total	340,125	374,523

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, 2022 and 2023 are ¥(55) million and ¥(1,774) million, respectively.

12. Other assets

The breakdown of other assets is as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Prepaid expenses	7,571	9,765
Prepayments	26,323	29,476
Consumption taxes receivable	15,733	9,670
Consideration paid to customers (Note)	60,430	58,845
Other	23,813	25,246
Total	133,870	133,002
Current assets	60,627	58,918
Non-current assets	73,243	74,084
Total	133,870	133,002

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, 2022

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
As of April 1, 2021	83,556	70,491	25,417	59,333	13,713	252,510
Acquisition	281	2,037	603	9	29,631	32,561
Depreciation (Note 1)	(6,482)	(17,175)	(14,022)	–	–	(37,679)
Impairment losses (Note 2)	(690)	(3,172)	(589)	(184)	(4,110)	(8,745)
Sale or disposal	(378)	(951)	(163)	(2,354)	201	(3,645)
Transfer of accounts	4,761	12,811	8,908	5	(26,485)	–
Exchange differences on translation of foreign operations	850	1,715	157	166	393	3,281
Other	(607)	(170)	416	(908)	(6,708)	(7,977)
As of March 31, 2022	81,291	65,586	20,727	56,067	6,635	230,306

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, 2023

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
As of April 1, 2022	81,291	65,586	20,727	56,067	6,635	230,306
Acquisition	239	2,870	820	–	35,964	39,893
Depreciation (Note 1)	(6,443)	(15,783)	(11,590)	–	–	(33,816)
Impairment losses (Note 2)	(487)	(167)	(106)	(16)	(62)	(838)
Sale or disposal	(338)	(588)	(85)	(169)	355	(825)
Transfer of accounts	9,146	8,052	11,433	79	(28,710)	–
Exchange differences on translation of foreign operations	425	1,040	142	110	178	1,895
Other	(5,328)	623	127	348	(7,353)	(11,583)
As of March 31, 2023	78,505	61,633	21,468	56,419	7,007	225,032

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
As of April 1, 2021	244,671	368,882	184,828	65,208	13,909	877,498
As of March 31, 2022	235,462	381,265	191,764	62,385	10,666	881,542
As of March 31, 2023	242,431	392,175	201,407	62,527	7,013	905,553

(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
As of April 1, 2021	161,115	298,391	159,411	5,875	196	624,988
As of March 31, 2022	154,171	315,679	171,037	6,318	4,031	651,236
As of March 31, 2023	163,926	330,542	179,939	6,108	6	680,521

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, 2022

(Millions of yen)

	Goodwill	Intangible assets				
		Software	Capitalized development costs	Patents	Other	Total
As of April 1, 2021	5,876	18,493	92,135	7,225	3,412	121,265
Acquisition	—	5,329	4,114	34	102	9,579
Amortization (Note 1)	—	(6,021)	(3,259)	(1,247)	(190)	(10,717)
Impairment losses (Note 2)	—	(99)	—	—	—	(99)
Sale or disposal	—	(50)	—	—	—	(50)
Exchange differences on translation of foreign operations	409	32	41	(4)	168	237
Other	(191)	786	(134)	(27)	158	783
As of March 31, 2022	6,094	18,470	92,897	5,981	3,650	120,998

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.”

Fiscal year ended March 31, 2023

(Millions of yen)

	Goodwill	Intangible assets				
		Software	Capitalized development costs	Patents	Other	Total
As of April 1, 2022	6,094	18,470	92,897	5,981	3,650	120,998
Acquisition	—	7,117	5,628	2	174	12,921
Amortization (Note 1)	—	(6,205)	(3,240)	(1,248)	(233)	(10,926)
Impairment losses (Note 2)	—	(31)	—	—	(9)	(40)
Sale or disposal	—	(43)	—	—	(1)	(44)
Exchange differences on translation of foreign operations	392	24	45	(1)	186	254
Other	—	825	(76)	—	(176)	573
As of March 31, 2023	6,486	20,157	95,254	4,734	3,591	123,736

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
As of April 1, 2021	10,968	80,778	109,654	26,518	7,723	224,673
As of March 31, 2022	11,547	84,566	113,662	26,526	9,512	234,266
As of March 31, 2023	12,350	89,130	119,316	25,354	9,820	243,620

(3) Accumulated amortization and accumulated impairment losses

(Millions of yen)

	Goodwill	Intangible assets				
		Software	Capitalized development costs	Patents	Other	Total
As of April 1, 2021	5,092	62,285	17,519	19,293	4,311	103,408
As of March 31, 2022	5,453	66,096	20,765	20,545	5,862	113,268
As of March 31, 2023	5,864	68,973	24,062	20,620	6,229	119,884

(4) Research and development expenses

The IHI Group's research and development expenses recognized as expenses for the fiscal years ended March 31, 2022 and 2023 are ¥29,816 million and ¥34,054 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, 2022	Fiscal year ended March 31, 2023
Balance at beginning of period	144,183	137,679
Acquisition	3,606	10,967
Depreciation	(5,958)	(6,215)
Impairment loss	(5)	(836)
Sale or disposal	(4,231)	(847)
Transfer of accounts	250	2,068
Other	(166)	(266)
Balance at end of period	137,679	142,550
Balance at beginning of period		
Acquisition cost	200,514	200,457
Accumulated depreciation and accumulated impairment losses	(56,331)	(62,778)
Balance at end of period		
Acquisition cost	200,457	212,367
Accumulated depreciation and accumulated impairment losses	(62,778)	(69,817)

(2) Carrying amount and fair value

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

(Millions of yen)

	As of March 31, 2022		As of March 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Investment property	137,679	335,554	142,550	344,046

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, 2022	Fiscal year ended March 31, 2023
Rent income	17,648	16,604
Direct operating expenses	11,853	12,031

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, 2022	Fiscal year ended March 31, 2023
Buildings and structures	690	490
Machinery and vehicles	3,172	167
Tools, furniture and fixtures	589	106
Construction in progress	4,110	62
Land	184	849
Right-of-use assets	797	104
Software	99	31
Other	116	9
Total	9,757	1,818

The impairment losses recognized for the fiscal year ended March 31, 2022 are primarily the reductions of 4,788 million yen in the carrying amounts of construction in progress and others in the other segment to their recoverable amounts as the profitability of the assets decreased at ALPHA Automotive Technologies LLC, in consideration of the uncertainty surrounding the outlook of the resumption of automobile production of its customers following Russia's invasion of Ukraine and it is very difficult to reasonably forecast its business conditions. Such recoverable amounts were based on the value in use, whose value in use was calculated by discounting the estimated cash flows based on the business plan and the remaining economic life to present value using the discount rate based on the pre-tax weighted average cost of capital of the cash-generating units or groups of cash-generating units.

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 ¥6,094 million and ¥6,486 million as of March 31, 2022 and March 31, 2023, 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)

	As of March 31, 2022	As of March 31, 2023
Heat treatment and surface engineering	2,818	3,049
Carbon solutions	1,273	1,348
Shield systems	955	1,041
Parking	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 for up to five years, 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 7.2 to 16.8% (5.8 to 15.4% as of March 31, 2022) 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 is zero for both the fiscal years ended March 31, 2022 and 2023.

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 as of March 31, 2023, therefore, even if the discount rate and the growth rate 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	
			As of March 31, 2022	As of March 31, 2023
Japan Marine United Corporation (Note)	Shipbuilding	Yokohama, Kanagawa, Japan	35.00%	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)

	As of March 31, 2022	As of March 31, 2023
Current assets	158,171	171,347
Non-current assets	92,890	94,413
Total assets	251,061	265,760
Current liabilities	138,374	172,414
Non-current liabilities	82,705	75,137
Total liabilities	221,079	247,551
Total equity	29,982	18,208
IHI Group's interests in total equity	10,494	6,373
Goodwill and consolidation adjustment	519	519
Carrying amount of the IHI Group's interests	11,013	6,892

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Revenue	227,761	266,098
Profit (loss)	171	(15,945)
Other comprehensive income	(266)	4,170
Total comprehensive income	(95)	(11,775)
Dividends received by the IHI Group	–	–
Interests of the IHI Group:		
Profit (loss)	60	(5,581)
Other comprehensive income	(93)	1,460

B. Individually immaterial associates

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

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Total carrying amount	45,719	49,686

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, 2022	Fiscal year ended March 31, 2023
Equity share in profit (loss)	1,127	(2,793)
Equity share in other comprehensive income	1,716	1,296
Equity share in comprehensive income	2,843	(1,497)

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, 2022

(Millions of yen)

	As of April 1, 2021	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2022
Deferred tax assets				
Losses on valuation of inventories	2,106	124	–	2,230
Excess depreciation for tax purposes	8,486	(372)	–	8,114
Impairment losses	953	277	–	1,230
Refund liabilities	3,879	2,117	–	5,996
Provision for bonuses	3,251	567	–	3,818
Provision for construction warranties	1,911	526	–	2,437
Provision for loss on construction contracts	2,582	(1,070)	–	1,512
Accrued expenses, etc.	5,255	(33)	–	5,222
Retirement benefit liability	56,257	391	(1,443)	55,205
Lease liabilities	36,037	(2,544)	–	33,493
Financial liabilities	6,931	(422)	–	6,509
Net tax loss carried forward	1,738	(217)	–	1,521
Other	15,053	8,113	(191)	22,975
Total	144,439	7,457	(1,634)	150,262
Deferred tax liabilities				
Gain on transfer from business divestitures	1,085	(1,085)	–	–
Financial assets measured at fair value through other comprehensive income	3,578	–	(1,653)	1,925
Property, plant and equipment	14,167	(423)	–	13,744
Intangible assets and other non-current assets	14,115	(882)	–	13,233
Right-of-use assets	34,640	(2,416)	–	32,224
Gain on contribution of securities to retirement benefit trust	2,171	–	–	2,171
Other	7,360	4,567	95	12,022
Total	77,116	(239)	(1,558)	75,319

Fiscal year ended March 31, 2023

(Millions of yen)

	As of April 1, 2022	Recognized through profit or loss	Recognized in other comprehensive income	As of March 31, 2023
Deferred tax assets				
Losses on valuation of inventories	2,230	(263)	–	1,967
Excess depreciation for tax purposes	8,114	(559)	–	7,555
Impairment losses	1,230	278	–	1,508
Refund liabilities	5,996	(1,660)	–	4,336
Provision for bonuses	3,818	1,322	–	5,140
Provision for construction warranties	2,437	(170)	–	2,267
Provision for loss on construction contracts	1,512	213	–	1,725
Accrued expenses, etc.	5,222	544	–	5,766
Retirement benefit liability	55,205	94	(2,573)	52,726
Lease liabilities	33,493	(2,510)	–	30,983
Financial liabilities	6,509	755	–	7,264
Net tax loss carried forward	1,521	990	–	2,511
Other	22,975	4,383	(477)	26,881
Total	150,262	3,417	(3,050)	150,629
Deferred tax liabilities				
Financial assets measured at fair value through other comprehensive income	1,925	–	551	2,476
Property, plant and equipment	13,744	(331)	–	13,413
Intangible assets and other non-current assets	13,233	(953)	–	12,280
Right-of-use assets	32,224	(2,666)	–	29,558
Gain on contribution of securities to retirement benefit trust	2,171	(177)	–	1,994
Other	12,022	846	230	13,098
Total	75,319	(3,281)	781	72,819

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

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Net tax loss carried forward	143,659	148,094
Deductible temporary differences	255,472	209,524
Total	399,131	357,618

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

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Year 1	23	48
Year 2	21	16
Year 3	16	2
Year 4	2,688	84
Year 5 or later	140,911	147,944
Total	143,659	148,094

- 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 March 31, 2022 and 2023 were ¥28,862 million and ¥34,558 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, 2022	Fiscal year ended March 31, 2023
Current tax expense	26,414	23,183
Deferred tax expense	(7,696)	(6,698)
Total	18,718	16,485

(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, 2022	Fiscal year ended March 31, 2023
Statutory tax rate	30.6	30.6
Share of profit (loss) of investments accounted for using equity method	(0.3)	4.0
Non-deductible expenses for tax purposes	1.0	3.1
Withholding tax related to dividends from overseas subsidiaries	0.8	0.9
Income taxes for prior periods	(3.3)	0.3
Non-taxable income excluded from gross revenue	(0.6)	(0.1)
Foreign tax rate differences	(1.2)	(2.9)
Changes in unrecognized deferred tax assets	(3.2)	(3.6)
Tax credit for experimentation and research expenses, etc.	(4.1)	(7.1)
Other	1.7	0.2
Average effective tax rate	21.4	25.4

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, 2022 and 2023 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)

	As of March 31, 2022	As of March 31, 2023	Average interest rate (Note 2) (%)	Repayment due
Short-term borrowings (Note 3)	53,241	67,854	0.48	–
Current portion of long-term borrowings (Note 3)	41,979	62,522	0.54	–
Current portion of bonds payable (Note 4)	–	9,994	–	–
Long-term borrowings (Note 3)	217,175	183,511	0.64	April 2024 to January 2029
Bonds payable (Note 4)	59,812	69,780	–	October 2024 to June 2032
Short-term lease liabilities	17,061	16,726	1.09	–
Long-term lease liabilities	116,285	109,101	1.52	April 2024 to January 2067
Total	505,553	519,488	–	–
Current liabilities	112,281	157,096	–	–
Non-current liabilities	393,272	362,392	–	–
Total	505,553	519,488	–	–

- 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	As of March 31, 2022	As of March 31, 2023	Interest rate (%)	Maturity
IHI	43rd Unsecured Bonds	October 17, 2019	9,976	9,985	0.200	October 17, 2024
IHI	44th Unsecured Bonds	October 17, 2019	9,970	9,977	0.260	October 16, 2026
IHI	45th Unsecured Bonds	October 17, 2019	9,961	9,966	0.340	October 17, 2029
IHI	46th Unsecured Bonds	September 3, 2020	9,981	9,994 (9,994)	0.220	September 1, 2023
IHI	47th Unsecured Bonds	September 3, 2020	9,968	9,978	0.350	September 3, 2025
IHI	48th Unsecured Bonds	September 3, 2020	9,956	9,961	0.490	September 3, 2030
IHI	49th Unsecured Bonds	June 6, 2022	–	10,957	0.390	June 4, 2027
IHI	50th Unsecured Bonds	June 6, 2022	–	8,956	0.620	June 4, 2032
Total			59,812	79,774 (9,994)	–	–

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)

	As of March 31, 2022	As of March 31, 2023
Investments accounted for using equity method	(Notes 1 and 3) 4,663	(Notes 1 and 3) 4,663
Other financial assets (non-current)	(Note 2) 752	(Note 2) 761
Total	5,415	5,424

- 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:

Not applicable

20. Leases

Information about 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 amount of increase of right-of-use assets by class of underlying assets are as follows:

Fiscal year ended March 31, 2022

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Other (Note)	Total
Carrying amount at beginning of period	53,888	21,111	5,095	37,513	187	117,794
Carrying amount at end of period	47,628	19,355	4,853	37,040	158	109,034
Depreciation	9,479	5,824	1,817	1,283	85	18,487
Increase in right-of-use assets	3,544	4,731	1,546	19	28	9,868

Note: The "Other" category includes right-of-use assets relating to leases of intangible assets such as software.

Fiscal year ended March 31, 2023

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Other (Note)	Total
Carrying amount at beginning of period	47,628	19,355	4,853	37,040	158	109,034
Carrying amount at end of period	45,506	15,653	4,878	36,225	170	102,432
Depreciation	8,714	5,214	1,809	1,557	86	17,381
Increase in right-of-use assets	8,110	2,625	2,014	204	70	13,023

Note: 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, 2022	Fiscal year ended March 31, 2023
Interest expense on lease liabilities	1,552	1,536
Expense relating to short-term leases	2,552	3,676
Expense relating to leases of low-value assets	3,441	3,590

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, 2022	Fiscal year ended March 31, 2023
Total cash outflow for leases	28,876	30,980

(5) Sale and leaseback

As it is immaterial, no further information about 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 about 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, 2022 and 2023 is ¥19,903 million and ¥34,349 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
As of March 31, 2022	21,914	20,150	19,950	19,759	19,733	29,793	131,299
As of March 31, 2023	19,531	18,493	20,100	19,965	19,952	60,480	158,521

21. Other financial liabilities

The breakdown of other financial liabilities is as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Financial liabilities measured at amortized cost		
Government grants classified under contingent settlement provisions (Note 1)	103,226	96,223
Liabilities in respect of revenue-sharing arrangements (Note 2)	11,937	12,610
Other	931	591
Financial liabilities measured at fair value through profit or loss		
Derivative liabilities	2,223	606
Total	118,317	110,030
Current liabilities	14,636	14,551
Non-current liabilities	103,681	95,479
Total	118,317	110,030

- 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)

	As of March 31, 2022	As of March 31, 2023
Notes and accounts payable – trade	222,288	230,208
Other	13,126	16,878
Total	235,414	247,086

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)

	As of March 31, 2022	As of March 31, 2023
Present value of defined benefit obligations	194,840	190,109
Fair value of plan assets	19,545	22,807
Net defined benefit liability	175,295	167,302
Amount recognized in the consolidated statement of financial position		
Retirement benefit liability	175,328	167,595
Retirement benefit asset	33	293
Net defined benefit liability	175,295	167,302

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, 2022	Fiscal year ended March 31, 2023
Present value of defined benefit obligations at the beginning of the fiscal year	197,703	194,840
Current service cost	10,137	9,911
Interest cost	1,307	1,624
Remeasurements		
Actuarial gains and losses arising from changes in demographic assumptions	444	80
Actuarial gains and losses arising from changes in financial assumptions	(2,950)	(7,995)
Actuarial gains and losses arising from experience adjustments	(1,532)	675
Past service cost	242	(59)
Benefits paid	(11,522)	(9,819)
Exchange differences on translation of foreign operations	944	719
Other	67	133
Present value of defined benefit obligations at the end of the fiscal year	194,840	190,109

The weighted average duration of the defined benefit obligations for the fiscal years ended March 31, 2022 and 2023 are 11.66 years and 11.37 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, 2022	Fiscal year ended March 31, 2023
Fair value of plan assets at the beginning of the fiscal year	17,012	19,545
Interest income	119	152
Remeasurements		
Return on plan assets	1,596	1,904
Contributions to the plan by the employer	477	641
Benefits paid	(257)	(224)
Exchange differences on translation of foreign operations	528	533
Other	70	256
Fair value of plan assets at the end of the fiscal year	19,545	22,807

The IHI Group plans to contribute ¥230 million for the fiscal year ending March 31, 2024.

D. Breakdown of fair value of plan assets

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

	As of March 31, 2022		
	Assets with quoted prices in active markets	Assets without quoted prices in active markets	Total
Cash and deposits	967	–	967
Equity instruments			
Stocks issued by Japanese companies	13,225	49	13,274
Stocks issued by foreign companies	2,160	34	2,194
Debt instruments			
Bonds	1,273	190	1,463
Other	–	1,647	1,647
Total	17,625	1,920	19,545

	As of March 31, 2023		
	Assets with quoted prices in active markets	Assets without quoted prices in active markets	Total
Cash and deposits	4,771	–	4,771
Equity instruments			
Stocks issued by Japanese companies	14,112	52	14,164
Stocks issued by foreign companies	108	36	144
Debt instruments			
Bonds	1,786	152	1,938
Other	–	1,790	1,790
Total	20,777	2,030	22,807

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:

	As of March 31, 2022	As of March 31, 2023
Discount rate	Mainly 0.8%	Mainly 1.2%

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)

	As of March 31, 2022	As of March 31, 2023
0.5% increase in discount rate	(9,545)	(11,594)
0.5% decrease in discount rate	12,874	12,539

(2) Defined contribution plan

The amounts recognized as expenses for defined contribution plans for the fiscal years ended March 31, 2022 and 2023 are ¥18,172 million and ¥18,770 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, 2022 and 2023 are ¥236,507 million and ¥249,207 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, 2023

(Millions of yen)

	Provision for construction warranties	Provision for loss on construction contracts	Other provisions	Total
April 1, 2022	13,909	8,391	7,481	29,781
Increases during period	4,905	10,079	1,798	16,782
Decreases during period (intended use)	(4,296)	(8,280)	(157)	(12,733)
Decreases during period (reversal)	(1,466)	(1,318)	(1)	(2,785)
Other (translation adjustments)	(176)	(112)	133	(155)
March 31, 2023	12,876	8,760	9,254	30,890
Current liabilities	12,876	8,760	1,306	22,942
Non-current liabilities	–	–	7,948	7,948
March 31, 2023	12,876	8,760	9,254	30,890

(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

The provision for loss on construction contracts is recorded at losses expected to be incurred in subsequent fiscal years for an undelivered project, for which the IHI Group is fulfilling its contractual obligations, if it is probable that a loss will be incurred and a reliable estimate can be made of the amount of the loss 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)

	As of March 31, 2022	As of March 31, 2023
Accrued expenses	61,090	64,316
Provision for bonuses	26,893	32,295
Refund liabilities	33,638	38,642
Accrued paid absences	20,485	21,761
Other	29,919	37,572
Total	172,025	194,586
Current liabilities	156,180	178,358
Non-current liabilities	15,845	16,228
Total	172,025	194,586

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, 2022	Fiscal year ended March 31, 2023
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)
As of April 1, 2021	6,165,300	15,953
Increase (decrease) during period (Note 1)	(2,745,700)	(7,138)
As of March 31, 2022	3,419,600	8,815
Increase (decrease) during period (Note 2)	(28,000)	(69)
As of March 31, 2023	3,391,600	8,746

Notes: 1. Through the share exchange between IHI as a wholly owning parent company and MEISEI ELECTRIC CO.,LTD. as a wholly owned subsidiary company, the number and balance of treasury shares decreased by 2,729,210 shares and by ¥7,093 million in the fiscal year ended March 31, 2022. Other main causes of the increase or decrease during the fiscal year ended March 31, 2022 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.

2. Main causes of the increase or decrease during the fiscal year ended March 31, 2023 are the acquisition of treasury shares conducted by the trust account for the Board Benefit Trust and exercise of share acquisition rights.

3. The shares in treasury presented above include 592,300 shares of IHI owned by a trust account for the Board Benefit Trust as of both March 31, 2022 and 2023.

(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 a 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, 2022

Resolution	Classes of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting held on November 9, 2021	Ordinary shares	4,555	30	September 30, 2021	December 10, 2021

Note: Total dividends paid in accordance with the resolution passed at the Board of Directors meeting held on November 9, 2021 include ¥18 million of dividends for the shares of IHI owned by a trust account for the Board Benefit Trust.

Fiscal year ended March 31, 2023

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 23, 2022	Ordinary shares	6,074	40	March 31, 2022	June 24, 2022
Board of Directors meeting held on November 8, 2022	Ordinary shares	6,074	40	September 30, 2022	December 9, 2022

Notes: 1. Total dividends paid in accordance with the resolution passed at the Ordinary General Meeting of Shareholders held on June 23, 2022 include ¥24 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 Board of Directors meeting held on November 8, 2022 include ¥24 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, 2022

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 23, 2022	Ordinary shares	6,074	40	March 31, 2022	June 24, 2022

Note: Total dividends paid in accordance with the resolution passed at the Ordinary General Meeting of Shareholders held on June 23, 2022 include ¥24 million of dividends for the shares of IHI owned by a trust account for the Board Benefit Trust.

Fiscal year ended March 31, 2023

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 23, 2023	Ordinary shares	7,594	50	March 31, 2023	June 26, 2023

Note: Total dividends paid in accordance with the resolution passed at the Ordinary General Meeting of Shareholders held on June 23, 2023 include ¥29 million of dividends for the shares of IHI owned by a trust account for the Board Benefit Trust.

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 segment are as follows:

Fiscal year ended March 31, 2022

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

(Millions of yen)

	Reportable segment					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	342,430	140,651	369,785	262,056	1,114,922	39,958	1,154,880
Revenue recognized from other sources of revenue	–	16,794	63	239	17,096	928	18,024
Total	342,430	157,445	369,848	262,295	1,132,018	40,886	1,172,904

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 segment					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	88,914	–	–	–	88,914	–	88,914
Carbon solutions	155,858	–	–	–	155,858	–	155,858
Nuclear energy	45,396	–	–	–	45,396	–	45,396
Bridges and water gates	–	89,628	–	–	89,628	–	89,628
Shield systems	–	22,706	–	–	22,706	–	22,706
Urban development	–	18,624	–	–	18,624	–	18,624
Vehicular turbochargers	–	–	149,406	–	149,406	–	149,406
Parking	–	–	47,212	–	47,212	–	47,212
Rotating machineries	–	–	52,757	–	52,757	–	52,757
Heat treatment and surface engineering	–	–	39,642	–	39,642	–	39,642
Transport machineries	–	–	31,081	–	31,081	–	31,081
Logistics and industrial systems	–	–	32,340	–	32,340	–	32,340
Civil aero engines	–	–	–	123,382	123,382	–	123,382
Other	62,025	36,624	25,529	158,026	282,204	62,763	344,967
Intersegment revenue	(9,763)	(10,137)	(8,119)	(19,113)	(47,132)	(21,877)	(69,009)
Revenue from external customers	342,430	157,445	369,848	262,295	1,132,018	40,886	1,172,904

C. Breakdown by region

(Millions of yen)

	Reportable segment					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Japan	187,247	123,618	192,560	141,099	644,524	32,794	677,318
North America	24,573	–	19,101	110,209	153,883	57	153,940
Asia	115,630	26,744	106,375	2,102	250,851	1,303	252,154
Europe	6,619	7,072	38,531	8,633	60,855	6,204	67,059
Central and South America	510	11	12,748	223	13,492	3	13,495
Other	7,851	–	533	29	8,413	525	8,938
Overseas	155,183	33,827	177,288	121,196	487,494	8,092	495,586
Revenue from external customers	342,430	157,445	369,848	262,295	1,132,018	40,886	1,172,904

Fiscal year ended March 31, 2023

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

(Millions of yen)

	Reportable segment					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	369,721	149,794	428,175	360,252	1,307,942	27,638	1,335,580
Revenue recognized from other sources of revenue	–	16,361	20	20	16,401	959	17,360
Total	369,721	166,155	428,195	360,272	1,324,343	28,597	1,352,940

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 segment					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	81,885	–	–	–	81,885	–	81,885
Carbon solutions	156,297	–	–	–	156,297	–	156,297
Nuclear energy	71,020	–	–	–	71,020	–	71,020
Bridges and water gates	–	103,172	–	–	103,172	–	103,172
Shield systems	–	18,003	–	–	18,003	–	18,003
Urban development	–	17,506	–	–	17,506	–	17,506
Vehicular turbochargers	–	–	189,567	–	189,567	–	189,567
Parking	–	–	46,368	–	46,368	–	46,368
Rotating machineries	–	–	58,911	–	58,911	–	58,911
Heat treatment and surface engineering	–	–	47,757	–	47,757	–	47,757
Transport machineries	–	–	33,929	–	33,929	–	33,929
Logistics and industrial systems	–	–	33,640	–	33,640	–	33,640
Civil aero engines	–	–	–	201,400	201,400	–	201,400
Other	75,290	32,424	27,005	184,338	319,057	54,277	373,334
Intersegment revenue	(14,771)	(4,950)	(8,982)	(25,466)	(54,169)	(25,680)	(79,849)
Revenue from external customers	369,721	166,155	428,195	360,272	1,324,343	28,597	1,352,940

C. Breakdown by region

(Millions of yen)

	Reportable segment					Other	Total
	Resources, Energy and Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space and Defense	Total		
Japan	192,190	115,983	200,608	157,681	666,462	26,202	692,664
North America	25,999	–	33,021	185,088	244,108	311	244,419
Asia	141,234	36,112	131,970	2,732	312,048	713	312,761
Europe	2,018	13,819	45,921	14,530	76,288	226	76,514
Central and South America	333	57	15,995	42	16,427	–	16,427
Other	7,947	184	680	199	9,010	1,145	10,155
Overseas	177,531	50,172	227,587	202,591	657,881	2,395	660,276
Revenue from external customers	369,721	166,155	428,195	360,272	1,324,343	28,597	1,352,940

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 as progress towards satisfaction of the provision of performance obligations to customers is measured.

The progress is measured in a way that reflects the satisfaction of performance obligations, and 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 performance 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)

	As of April 1, 2021	As of March 31, 2022	As of March 31, 2023
Receivables arising from contracts with customers	330,075	339,141	367,112
Contract assets	111,830	126,560	144,740
Contract liabilities	165,818	214,726	201,883

The amounts of revenue recognized in the fiscal years ended March 31, 2022 and 2023 that were included in the beginning balance of contract liabilities are ¥125,883 million and ¥136,603 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, 2022

(Millions of yen)

	Reportable segment					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	527,519	250,075	180,760	283,805	1,242,159	22,877	1,265,036

As of March 31, 2023

(Millions of yen)

	Reportable segment					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	565,718	218,410	201,033	293,455	1,278,616	20,879	1,299,495

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.

(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, 2022 and 2023 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, 2022	Fiscal year ended March 31, 2023
Expenses incurred in taking customer orders	15,197	16,031
Employee benefits expense	71,270	76,181
Depreciation	15,555	15,488
Research and development expenses	28,678	32,113
Outsourcing expenses	10,235	11,208
Other	35,665	50,137
Total	176,600	201,158

30. Other income and expenses

The breakdown of other income is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Gain on sale of investment property (Note1)	46,228	5,027
Gain on sale of property, plant and equipment (Note2)	19,823	441
Other	5,401	6,337
Total	71,452	11,805

Notes: 1. Gain on sale of investment property

IHI decided to transfer the investment property aiming at securing funds for investment for creating growth businesses to contribute to materialize social sustainability on the basis of “Project Change” announced on November 10, 2020.

Accordingly, IHI has recorded gain on sale of investment property in “Other income” in the fiscal year ended March 31, 2022.

(Millions of yen)

Details and location of assets	Gain on sale of investment property
Part of interest in the land as investment property Koto-ku, Tokyo, Japan	27,989
Land as investment property Matobashin-machi, Kawagoe, Saitama, Japan (approximately 66,000 m ²)	5,896
Land as investment property Showa-machi, Kanazawa-ku, Yokohama, Kanagawa, Japan (approximately 27,000 m ²)	5,595
Other	1,800
Total	41,280

IHI decided to construct a functional logistics facility and conducts a logistics facility leasing business on the following land in order to respond to social needs in the growing logistics business sector through the effective utilization of real estate owned by IHI. At the start of this project, we sold our part of interest in the land to Nomura Real Estate Development Co., Ltd. that is the partner.

Accordingly, IHI has recorded gain on sale of investment property in “Other income” in the fiscal year ended March 31, 2022.

(Millions of yen)

Details and location of assets	Gain on sale of investment property
Part of interest in the land as investment property Showa-machi, Kanazawa-ku, Yokohama, Kanagawa, Japan (approximately 72,000 m ²)	4,948

Accordingly, IHI has recorded gain on sale of investment property in “Other income” in the fiscal year ended March 31, 2023.

(Millions of yen)

Details and location of assets	Gain on sale of investment property
Part of interest in the land as investment property Showa-machi, Kanazawa-ku, Yokohama, Kanagawa, Japan (approximately 72,000 m ²)	4,961
Other	66
Total	5,027

2. Gain on sale of property, plant and equipment

IHI decided to transfer certain non-current assets aiming at securing funds for investment for creating growth businesses to contribute to materialize social sustainability on the basis of “Project Change” announced on November 10, 2020. Accordingly, IHI has recorded gain on sale of property, plant and equipment in “Other income” in the fiscal year ended March 31, 2022.

(Millions of yen)

Details and location of assets	Gain on sale of property, plant and equipment
Land and buildings (including incidental non-current assets) Kitahama-machi, Chita, Aichi, Japan (approximately 393,000 m ²)	16,179
Land Kitahama-machi, Chita, Aichi, Japan (approximately 53,000 m ²)	2,064
Land and buildings (including incidental non-current assets) Kitahama-machi, Chita, Aichi, Japan (approximately 45,000 m ²)	1,210
Other	370
Total	19,823

The breakdown of other expenses is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Impairment losses (Note 1)	9,757	1,818
Production and management costs during AAT's factory closure (Note 2)	—	1,696
Soil pollution remediation expenses for Shinsugita logistics facility project	2,071	—
Dismantlement costs for former Sunamachi Works	1,340	—
Dismantlement costs for former Yokohama Works of IHI Construction Machinery Limited	1,242	—
Other	8,352	7,153
Total	22,762	10,667

Notes: 1. Please refer to Note “16. Impairment of non-financial assets” for the breakdown of impairment losses.

2. AAT: ALPHA Automotive Technologies LLC

31. Finance income and finance costs

The breakdown of finance income is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Interest income		
Financial assets measured at amortized cost	390	872
Dividend income		
Financial assets measured at fair value through other comprehensive income	1,075	1,050
Foreign exchange gain	7,521	-
Other	591	509
Total	9,577	2,431

The breakdown of finance costs is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Interest expenses		
Financial liabilities measured at amortized cost	2,670	3,399
Lease liabilities	1,552	1,536
Foreign exchange loss	-	5,754
Other	402	488
Total	4,624	11,177

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, 2022	Fiscal year ended March 31, 2023
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	336	2,497
Tax effects	1,653	(551)
Financial assets measured at fair value through other comprehensive income	1,989	1,946
Remeasurements of defined benefit plans		
Amount arising during the fiscal year	5,237	8,496
Tax effects	(1,443)	(2,573)
Remeasurements of defined benefit plans	3,794	5,923
Share of other comprehensive income of investments accounted for using equity method		
Amount arising during the fiscal year	614	816
Share of other comprehensive income of investments accounted for using equity method	614	816
Total of items that will not be reclassified to profit or loss	6,397	8,685
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations		
Amount arising during the fiscal year	11,807	7,184
Reclassification adjustments	—	—
Before tax effect adjustments	11,807	7,184
Tax effects	—	(568)
Exchange differences on translation of foreign operations	11,807	6,616
Cash flow hedges		
Amount arising during the fiscal year	(254)	144
Reclassification adjustments	369	38
Before tax effect adjustments	115	182
Tax effects	(7)	(29)
Cash flow hedges	108	153
Share of other comprehensive income of investments accounted for using equity method		
Amount arising during the fiscal year	1,006	1,656
Reclassification adjustments	3	285
Share of other comprehensive income of investments accounted for using equity method	1,009	1,941
Total of items that may be reclassified to profit or loss	12,924	8,710
Total	19,321	17,395

33. Earnings per share

(1) Basis for calculating basic earnings per share

(Millions of yen, unless otherwise stated)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Profit (loss) attributable to owners of parent	66,065	44,545
Profit (loss) not attributable to ordinary shareholders of parent	–	–
Profit (loss) used for calculating basic earnings per share	66,065	44,545
Weighted-average number of ordinary shares (Thousands of shares)	150,226	151,267
Basic earnings (loss) per share (Yen)	439.77	294.48

(2) Basis for calculating diluted earnings per share

(Millions of yen, unless otherwise stated)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Profit (loss) used for calculating basic earnings (loss) per share	66,065	44,545
Adjustment to profit (loss)	–	–
Profit (loss) used to calculate diluted earnings (loss) per share	66,065	44,545
Weighted-average number of ordinary shares (Thousands of shares)	150,226	151,267
Increase in ordinary shares		
Share acquisition rights (Thousands of shares)	13	18
Weighted-average number of ordinary shares after dilution (Thousands of shares)	150,238	151,286
Diluted earnings (loss) per share (Yen)	439.73	294.44

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, 2023, the weighted-average number of ordinary shares as treasury shares excluded for the calculation of basic earnings (loss) per share and diluted earnings (loss) per share is 592 thousand shares (581 thousand shares for the fiscal year ended March 31, 2022).

34. Cash flow information

Changes in liabilities arising from financing activities are as follows:

Fiscal year ended March 31, 2022

(Millions of yen)

	As of April 1, 2021	Changes arising from cash flows	Non-cash changes			As of March 31, 2022
			Exchange rate changes	New contracts	Other (Note)	
Short-term borrowings	102,892	(50,579)	928	–	–	53,241
Long-term borrowings	280,463	(21,945)	994	–	(358)	259,154
Bonds payable	79,757	(20,000)	–	–	55	59,812
Lease liabilities	142,823	(20,553)	1,000	10,185	(109)	133,346
Other financial liabilities	114,230	(49)	761	–	1,152	116,094
Total	720,165	(113,126)	3,683	10,185	740	621,647

Fiscal year ended March 31, 2023

(Millions of yen)

	As of April 1, 2022	Changes arising from cash flows	Non-cash changes			As of March 31, 2023
			Exchange rate changes	New contracts	Other	
Short-term borrowings	53,241	14,372	260	–	(19)	67,854
Long-term borrowings	259,154	(12,414)	2,253	–	(2,960)	246,033
Bonds payable	59,812	20,000	–	–	(38)	79,774
Lease liabilities	133,346	(21,505)	984	13,380	(378)	125,827
Other financial liabilities	116,094	(8,164)	688	–	806	109,424
Total	621,647	(7,711)	4,185	13,380	(2,589)	628,912

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, 2023 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.

	Number of shares granted (Shares) (Note)	Grant date	Exercise period	Vesting conditions
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.
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, 2022		Fiscal year ended March 31, 2023	
	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	147,300	1	88,700	1
Granted	–	–	–	–
Exercised	58,600	1	31,600	1
Forfeited	–	–	–	–
Expired	–	–	–	–
Unexercised balance at the end of the fiscal year	88,700	1	57,100	1
Exercisable balance at the end of the fiscal year	61,000	1	29,400	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, 2022 and 2023 are ¥2,554.6 and ¥3,338.8, respectively.
 2. The exercise prices of stock options outstanding as of March 31, 2022 and 2023 are both ¥1.
 3. The weighted-average remaining contractual lives of stock options outstanding as of March 31, 2022 and 2023 are 22.1 years and 21.3 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, 2022	Fiscal year ended March 31, 2023
Number of points awarded (Points)	48,400	41,100
Weighted-average fair value at the grant date (Yen)	2,654	3,775

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)

	As of March 31, 2022	As of March 31, 2023
Other current liabilities	612	624

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, 2022 and 2023 are ¥175 million and ¥19 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:

	As of March 31, 2022	As of March 31, 2023
Interest-bearing liabilities (Millions of yen)	505,553	519,488
Equity (Millions of yen)	407,039	456,251
D/E ratio (Times)	1.24	1.14
Ratio of equity attributable to owners of the parent (%)	20.3	22.2
ROIC (%)	6.4	6.3

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 March 31, 2022 and 2023.

(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, 2022				
	Allowance for doubtful accounts measured at an amount equal to 12-month expected credit losses	Lifetime expected credit losses			Total
		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	
As of April 1, 2021	128	1,082	3,974	1,024	6,208
Increases during period	2	62	394	47	505
Decreases during period (intended use)	–	–	(791)	–	(791)
Decreases during period (reversal)	–	–	(67)	(42)	(109)
Other	(88)	126	29	137	204
As of March 31, 2022	42	1,270	3,539	1,166	6,017

(Millions of yen)

	Fiscal year ended March 31, 2023				
	Allowance for doubtful accounts measured at an amount equal to 12-month expected credit losses	Lifetime expected credit losses			Total
		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	
As of April 1, 2022	42	1,270	3,539	1,166	6,017
Increases during period	–	–	7,944	45	7,989
Decreases during period (intended use)	–	–	(158)	–	(158)
Decreases during period (reversal)	(7)	(86)	(324)	(4)	(421)
Other	–	16	–	(227)	(211)
As of March 31, 2023	35	1,200	11,001	980	13,216

The carrying amounts of financial assets and contract assets for which allowance for doubtful accounts 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	
As of March 31, 2022	12,879	462,117	3,724	1,166	479,886
As of March 31, 2023	16,335	500,858	11,001	980	529,174

(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:

As of March 31, 2022

(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	235,414	235,414	234,160	1,254	–
Short-term borrowings	95,220	95,776	95,776	–	–
Bonds payable	59,812	61,035	186	40,575	20,274
Long-term borrowings	217,175	219,844	–	207,362	12,482
Lease liabilities	133,346	151,728	18,527	44,811	88,390
Other financial liabilities	116,094	116,094	13,779	54,606	47,709
Derivative financial liabilities	2,223	2,223	2,183	40	–
Total	859,284	882,114	364,611	348,648	168,855

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

As of March 31, 2023

(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	247,086	247,086	245,754	1,332	–
Short-term borrowings	130,376	131,037	131,037	–	–
Bonds payable	79,774	81,572	10,274	41,856	29,442
Long-term borrowings	183,511	185,881	–	185,586	295
Lease liabilities	125,827	143,310	18,400	40,480	84,430
Other financial liabilities	109,424	109,424	17,368	49,999	42,057
Derivative financial liabilities	606	606	591	15	–
Total	876,604	898,916	423,424	319,268	156,224

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, 2022	As of March 31, 2023
U.S. dollar	21,369	4,035

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, 2022	Fiscal year ended March 31, 2023
Profit before tax	(214)	(40)

(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, 2022	As of March 31, 2023
Floating rate borrowings	158,772	118,911

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, 2022	Fiscal year ended March 31, 2023
Profit before tax	(1,588)	(1,189)

(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, 2022	As of March 31, 2023
Equity instruments with quoted prices	11,302	10,262

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, 2022	Fiscal year ended March 31, 2023
Other comprehensive income (before tax effect)	(1,130)	(1,026)

(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:

As of March 31, 2022

(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	1,190	–	1,190	111.81 yen
Euro (Buy)	161	232	393	130.04 yen
U.S. dollar	927	14	941	114.20 yen
Euro	383	–	383	130.14 yen
Thai baht	474	–	474	3.51 yen
Chinese yuan	1,265	–	1,265	17.45 yen
New Taiwan dollar	69	828	897	4.33 yen
Singapore dollar	49	–	49	83.48 yen
Interest rate risks				
Interest rate swaps (Payments fixed receipts floating)	2,161	21,730	23,891	Payments 0.45% Receipts 0.34%

As of March 31, 2023

(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	19,255	–	19,255	129.76 yen
Euro	6	–	6	130.13 yen
Hong Kong dollar	85	–	85	16.39 yen
Malaysian ringgit (Buy)	–	85	85	28.25 yen
U.S. dollar	2,361	–	2,361	132.26 yen
Euro	207	–	207	132.16 yen
Thai baht	648	–	648	3.90 yen
Chinese yuan	456	–	456	19.15 yen
New Taiwan dollar	901	564	1,465	4.39 yen
Singapore dollar	51	–	51	100.03 yen
Interest rate risks				
Interest rate swaps (Payments fixed receipts floating)	6,000	17,153	23,153	Payments 0.65% Receipts 1.39%

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

As of March 31, 2022

(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	1,190	–	96	
Euro	393	–	18	
(Buy)				Other financial assets
U.S. dollar	941	58	–	Other financial
Euro	383	21	–	liabilities
Thai baht	474	18	–	
Chinese yuan	1,265	96	–	
New Taiwan dollar	897	–	27	
Singapore dollar	49	4	–	
Interest rate swaps				
Payments fixed receipts	23,891	16	–	
floating				

As of March 31, 2023

(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	19,255	137	–	
Euro	6	–	1	
Hong Kong dollar	85	–	–	
Malaysian ringgit	85	–	3	Other financial assets
(Buy)				Other financial
U.S. dollar	2,361	–	11	liabilities
Euro	207	1	–	
Thai baht	648	–	2	
Chinese yuan	456	3	–	
New Taiwan dollar	1,465	–	18	
Singapore dollar	51	–	1	
Interest rate swaps				
Payments fixed receipts	23,153	161	–	
floating				

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, 2022 and 2023 are as follows:

Fiscal year ended March 31, 2022

(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	(336)	352	Finance income
Interest rate risks			Finance costs
Interest rate swaps	133	20	

There is no reclassification adjustment due to discontinued hedges.

The ineffective portion of hedges is immaterial.

Fiscal year ended March 31, 2023

(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	757	302	Finance income
Interest rate risks			Finance costs
Interest rate swaps	101	21	

There is 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)

As the fair value of these accounts is assumed to be approximate to their carrying amount due to the short-term maturity, no further information is given.

(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 calculated by the valuation technique using the net asset value, the valuation technique using quoted market prices of comparable companies, and in both cases, they are classified as Level 3.

B. Financial instruments measured at amortized cost

The carrying amounts and fair values of financial instruments measured at amortized cost are as follows.

Financial instruments whose carrying amount is a reasonable approximation of the fair value are not included in the following table.

(Millions of yen)

	As of March 31, 2022		As of March 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Borrowings	312,395	311,918	313,887	313,200
Bonds payable	59,812	59,340	79,774	78,818
Government grants classified under contingent settlement provisions	103,226	100,822	96,223	94,072
Total	475,433	472,080	489,884	486,090

C. Financial instruments measured at fair value

The fair value hierarchy for financial instruments measured at fair value is as follows:

As of March 31, 2022

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Derivatives	–	313	–	313
Other	–	1,166	3,056	4,222
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	11,302	–	14,104	25,406
Total	11,302	1,479	17,160	29,941
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives	–	2,223	–	2,223
Total	–	2,223	–	2,223

As of March 31, 2023

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through profit or loss				
Derivatives	–	1,063	–	1,063
Other	–	1,459	4,637	6,096
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	10,262	–	14,051	24,313
Total	10,262	2,522	18,688	31,472
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivatives	–	606	–	606
Total	–	606	–	606

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 significant transfers between Level 1 and Level 2 for the fiscal years ended March 31, 2022 and 2023.

D. Valuation processes

For financial instruments classified as Level 3, the staff determines the valuation method of target financial instruments and measures the fair value in accordance with the valuation policy and procedures set by the IHI Group. The fair value measurement result is approved by the responsible person.

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, 2022	Fiscal year ended March 31, 2023
Balance at beginning of period	23,590	17,160
Total gains and losses		
Profit or loss (Note 1)	620	417
Other comprehensive income (Note 2)	203	502
Purchases	101	1,673
Sales	(4,541)	(27)
Transfer from Level 3	–	–
Other (Note 3)	(2,813)	(1,037)
Balance at end of period	17,160	18,688
Changes in unrealized gains or losses recorded in profit or loss on assets held at the end of the reporting period (Note 1)	620	417

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.

3. The impact of transfer to investments accounted for using equity method is included.

(10) Offsetting financial assets and financial liabilities

The information on offsetting financial assets and liabilities recognized against the same companies is as follows:

As of March 31, 2022

(Millions of yen)

Financial assets	Transaction type	Total amount of recognized financial assets	Total amount of recognized financial liabilities offset in the consolidated financial statements	Net financial assets presented in the consolidated financial statements
Cash and cash equivalents	Notional pooling	16,814	10,210	6,604

Financial liabilities	Transaction type	Total amount of recognized financial liabilities	Total amount of recognized financial assets offset in the consolidated financial statements	Net financial liabilities presented in the consolidated financial statements
Bonds and borrowings	Notional pooling	10,210	10,210	–

As of March 31, 2023

(Millions of yen)

Financial assets	Transaction type	Total amount of recognized financial assets	Total amount of recognized financial liabilities offset in the consolidated financial statements	Net financial assets presented in the consolidated financial statements
Cash and cash equivalents	Notional pooling	14,402	7,637	6,765

Financial liabilities	Transaction type	Total amount of recognized financial liabilities	Total amount of recognized financial assets offset in the consolidated financial statements	Net financial liabilities presented in the consolidated financial statements
Bonds and borrowings	Notional pooling	7,637	7,637	–

37. Major subsidiaries

(1) The status of major subsidiaries of the IHI Group is as follows:

Name	Address	Reportable segment	Percentage of voting rights held (%) (Note 1)	
			As of March 31, 2022	As of March 31, 2023
IHI AEROSPACE CO., LTD.	Koto-ku, Tokyo, Japan	Aero Engine, Space and Defense	100.0	100.0
IHI Power Systems Co., Ltd.	Chiyoda-ku, Tokyo, Japan	Resources, Energy and Environment	100.0	100.0
IHI Transport Machinery Co., Ltd.	Chuo-ku, Tokyo, Japan	Industrial Systems and General-Purpose Machinery	100.0	100.0
IHI Agri-Tech Corporation	Chitose, Hokkaido, Japan	Industrial Systems and General-Purpose Machinery	100.0	100.0
IHI Rotating Machinery Engineering Co., Ltd.	Koto-ku, Tokyo, Japan	Industrial Systems and General-Purpose Machinery	100.0	100.0
IHI Infrastructure Systems Co., Ltd.	Sakai, Osaka, Japan	Social Infrastructure and Offshore Facilities	100.0	100.0
Niigata Transys Co., Ltd.	Kitakanbara-gun, Niigata, Japan	Social Infrastructure and Offshore Facilities	100.0	100.0
IHI Turbo Co., Ltd.	Koto-ku, Tokyo, Japan	Industrial Systems and General-Purpose Machinery	100.0	100.0
IHI Logistics & Machinery Corporation	Koto-ku, Tokyo, Japan	Industrial Systems and General-Purpose Machinery	100.0	100.0
IHI Plant Services Corporation	Koto-ku, Tokyo, Japan	Resources, Energy and Environment	100.0	100.0
IHI INC.	New York, U.S.A.	Other	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)
JURONG ENGINEERING LIMITED	Singapore	Resources, Energy and Environment	95.6 (15.0)	95.6 (15.0)
ALPHA Automotive Technologies LLC	Moscow, Russia	Other	83.1	83.1
IHI E&C International Corporation	Texas, U.S.A.	Resources, Energy and Environment	100.0 (100.0)	100.0 (100.0)
IHI INFRASTRUCTURE ASIA CO., LTD.	Haiphong, Vietnam	Social Infrastructure and Offshore Facilities	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)
IHI Charging Systems International GmbH	Ichtershausen, Germany	Industrial Systems and General-Purpose Machinery	100.0	100.0
IHI ASIA PACIFIC PTE. LTD.	Singapore	Other	100.0	100.0

Name	Address	Reportable segment	Percentage of voting rights held (%) (Note 1)	
			As of March 31, 2022	As of March 31, 2023
I&H Engineering Co., Ltd.	Yangon, Myanmar	Social Infrastructure and Offshore Facilities	60.0 (60.0)	60.0 (60.0)
IHI Turbo America Co.	Illinois, U.S.A.	Industrial Systems and General-Purpose Machinery	100.0 (100.0)	100.0 (100.0)
IHI DALGAKIRAN MAKINA SANAYİ VE TİCARET A.Ş.	KOCAELİ, Turkey	Industrial Systems and General-Purpose Machinery	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)
IHI TURBO (THAILAND) CO., LTD.	Chonburi, Thailand	Industrial Systems and General-Purpose Machinery	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)
IHI SOLID BIOMASS MALAYSIA SDN. BHD.	Kuala Lumpur, Malaysia	Resources, Energy and Environment	100.0	100.0
IHI Europe Ltd.	London, U.K.	Other	100.0	100.0
Jiangsu IHI Fengdong Vacuum Technology Co., Ltd.	Jiangsu, China	Industrial Systems and General-Purpose Machinery	50.0 (50.0) (Note 2)	50.0 (50.0) (Note 2)
IHI Americas Inc.	New York, U.S.A.	Other	100.0	100.0
IHI (Shanghai) Management Co., Ltd.	Shanghai, China	Other	100.0	100.0
IHI Aero Engines US Co., Ltd.	New York, U.S.A.	Aero Engine, Space and Defense	100.0	100.0
Other			120 companies	114 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. Ownership percentage of voting rights is 50% or less, however it is considered a subsidiary since the company is substantially controlled by the Parent Company.

(2) Changes in ownership interest in a subsidiary that do not result in a loss of control

Fiscal year ended March 31, 2022

The IHI Group acquired a portion of shares of MEISEI ELECTRIC CO., LTD., a consolidated subsidiary of IHI, through a simplified share exchange.

Therefore, the ownership interest in MEISEI ELECTRIC CO., LTD. increased from 51.0% to 100%.

Descriptions of the transactions with non-controlling interests under such acquisition of shares are as follows:

(Millions of yen)

	Amount
Decrease (increase) in treasury shares	7,093
Increase (decrease) in non-controlling interests	(2,410)
Increase (decrease) in other components of equity	—
Increase (decrease) in capital surplus	(4,683)

Fiscal year ended March 31, 2023

No important events

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.

Fiscal year ended March 31, 2022

(Millions of yen)

Type	Name	Relationship	Transaction	Transaction amount	Line item	Amount outstanding
Associate	IHI Finance Support Corporation ("IFS")	Factoring	Factoring (Note 1)	141,996	Trade and other payables	50,001
					Other current liabilities	286
		Lease transaction	Lease transaction	4,977	Lease liabilities (current)	7,623
					Lease liabilities (non-current)	25,293
Officer	Tsugio Mitsuoka	Japan Aero Engine Corporation ("JAEC") (Chairman)	Operating transactions with JAEC (Note 2)			
			- Subcontract of work from JAEC related to R&D of jet engines	1,324		-
			- Payment of a portion of funding related to the above	1,227		-
			- Reception of subsidies related to the above	4,438	Other financial liabilities	103,226
			- Manufacture of jet engine components and delivery thereof to JAEC	88,193	Trade and other receivables	99,474
					Other non-current assets	31,565
			- Payment of a portion of funding related to the above	64,372	Contract liabilities	37,513
		Other current liabilities	30,016			

- Notes:
1. 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.
 2. The person conducted these transactions as a representative of a third party, and the transaction amounts and prices are subject to terms and conditions of general transactions.

Fiscal year ended March 31, 2023

(Millions of yen)

Type	Name	Relationship	Transaction	Transaction amount	Line item	Amount outstanding
Associate	IFS	Factoring	Factoring (Note 1)	125,846	Trade and other payables	44,248
		Lease transaction	Lease transaction	3,983	Other current liabilities	567
					Lease liabilities (current)	6,956
					Lease liabilities (non-current)	20,187
Officer	Tsugio Mitsuoka	JAEC (Chairman)	Operating transactions with JAEC (Note 2)			
			- Subcontract of work from JAEC related to R&D of jet engines	1,841		-
			- Payment of a portion of funding related to the above	1,700		-
			- Repayment of subsidies related to the above	4,829	Other financial liabilities	96,223
			- Manufacture of jet engine components and delivery thereof to JAEC	157,320	Trade and other receivables	122,849
					Other non-current assets	30,837
					Contract liabilities	36,823
					Other current liabilities	32,078
			- Payment of a portion of funding related to the above	93,123		-

- Notes:
1. 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.
 2. The person conducted these transactions as a representative of a third party, and the transaction amounts and prices are subject to terms and conditions of general transactions.

(2) Remuneration for key management personnel

Remuneration for key management personnel is as follows:

Fiscal year ended March 31, 2022

(Millions of yen)

	Base remuneration	Performance-based share remuneration (Note)	Performance-based bonuses
Directors (excluding outside directors)	366	154	93
Audit & supervisory board members (excluding outside audit & supervisory board members)	72	–	–
Outside directors and audit & supervisory board members	84	–	–
Total	522	154	93

Fiscal year ended March 31, 2023

(Millions of yen)

	Base remuneration	Performance-based share remuneration (Note)	Performance-based bonuses
Directors (excluding outside directors)	363	141	110
Audit & supervisory board members (excluding outside audit & supervisory board members)	72	–	–
Outside directors and audit & supervisory board members	96	–	–
Total	531	141	110

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.

39. Commitments

- (1) Amounts committed for the purchase of property, plant and equipment ordered but not yet inspected for acceptance.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Amounts committed for the purchase ordered but not yet inspected for acceptance	29,884	21,721

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)

	As of March 31, 2022	As of March 31, 2023
Total amount of maximum overdraft limit and commitment line agreements	358,026	351,653
Executed commitment lines	70,392	75,839
Net amount	287,634	275,814

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)

	As of March 31, 2022	As of March 31, 2023
IHI Investment for Aero Engine Leasing LLC	8,269	8,902
Japanese Aero Engine Corporation	4,180	3,910
Japan Aeroforge, Ltd.	236	177
Contingent liabilities for employee housing loans	186	185
Yachiyo 5 Logistic Specific Purpose Company	33	-
Total	12,904	13,174

Guarantees in kind (Note)

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Contingent liabilities for employee housing loans	3,062	2,629
Total	3,062	2,629

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 ¥30.3 billion at an exchange rate of 133.41 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 ¥15.6 billion at an exchange rate of 133.41 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

Not applicable

(2) Others

Quarterly results for the fiscal year ended March 31, 2023

(YTD period)	First quarter	Second quarter	Third quarter	Full year
Revenue (Millions of yen)	264,290	594,456	946,382	1,352,940
Profit (loss) before income taxes (Millions of yen)	16,902	39,516	52,347	64,865
Profit (loss) attributable to owners of parent (Millions of yen)	8,494	21,115	27,043	44,545
Basic earnings (loss) per share (Yen)	56.15	139.59	178.78	294.48

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings (loss) per share (Yen)	56.15	83.44	39.19	115.70

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, 2023, 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, 2023, 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.

The estimates of total revenues and total costs for construction contracts and similar contracts in which performance obligations are satisfied over time of the Resources, Energy and Environment segment and the Social Infrastructure and Offshore Facilities segment

Description of Key Audit Matter	Auditor's Response
<p>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, 2023, revenues related to these two segments were ¥369,721 million and ¥166,155 million respectively, or 39.6% of total revenue) determine that the related performance obligations are predominantly satisfied over time. Revenue is recognized as progress towards satisfaction of the provision of performance obligations to customers is measured. Such progress is measured in a way that reflects the satisfaction of performance obligations, and 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 performance obligations.</p> <p>As described in Note 24. "Provisions" to the consolidated financial statements, the provision for loss on construction contracts is recorded at losses expected to be incurred in subsequent fiscal years for an undelivered project, for which the Group is fulfilling its contractual obligations, if it is probable that a loss will be incurred and a reliable estimate can be made of the amount of the loss at the end of the fiscal year. In the consolidated statement of financial position at March 31, 2023, the provision for loss on construction contracts was ¥8,760 million.</p> <p>Most of the Group's construction contracts and services tend to be unique, require long periods of time because the basic specifications and work requirements are based on the customer's instructions. Therefore, the estimates of expected total costs involve certain assumptions and judgments based on a high degree of expertise and experience in construction. In addition, construction delays that could not be expected at the beginning of design, expansion of construction scope due to specification changes, fluctuations in equipment prices and transportation costs and similar factors may occur. Therefore, there is uncertainty in the estimates of expected total costs, and it is dependent on management judgment.</p>	<p>1. Evaluation of internal control</p> <p>We tested the design and operating effectiveness of certain internal controls relevant to the estimated total revenues and the estimated total costs with greater focus on the following internal controls.</p> <ul style="list-style-type: none"> • The controls to ensure reliability of estimates of total revenue which require calculations based on accumulating information from materials such as construction instructions and quotations, and necessary approvals. • The controls to ensure reliability of estimates of total costs which require approvals on operating budgets that serve as the basis of total costs estimates • The controls to ensure that estimates of total costs are revised in a timely manner according to factors such as the construction status and the actual costs incurred, or specification changes • Monitoring in timely and appropriate manner by Project Risk Management Division for estimates of total costs <p>2. Evaluation of the appropriateness of estimates of total revenues and total costs</p> <p>We selected samples such as construction contracts whose total revenues or total costs exceeded certain materiality thresholds, and mainly performed the following audit procedures to verify the estimates of total revenues and total costs.</p> <p>(1) Estimates of total revenues</p> <ul style="list-style-type: none"> • We assessed the accuracy of the estimated total revenues for specification changes whose consideration has not been agreed by examining documents such as work instructions agreed previously with the customer and the project cost management materials on which the quotation is based. • We evaluated the legal basis of the estimate of the reduction in revenue due to the refund obligations to customers, for some contracts for which a significant contract time extension occurred, by examining external attorney's legal opinions and external engineers' schedule analysis results to prove entitlement to contract time extension due to customer reasons. • We assessed the process for estimates of total revenues by comparing preliminary estimated amounts of the total revenues for specification changes whose consideration has not been agreed with customers with actual amounts and revised estimated amounts.

The estimates of total revenues and total costs for construction contracts and similar contracts in which performance obligations are satisfied over time of the Resources, Energy and Environment segment and the Social Infrastructure and Offshore Facilities segment

Description of Key Audit Matter	Auditor's Response
<p>Furthermore, as described in Note 28. "Revenue" to the consolidated financial statements, 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.</p> <p>In addition, consideration may not be fixed for specification changes that the customers agreed in a timely manner, or liquidated damages due to delay in contract delivery schedule may occur, therefore there is uncertainty in the estimates of total revenue, and management judgment is needed.</p> <p>Therefore, we determined that the estimates of total revenues and total costs for such as construction contracts in which performance obligations are satisfied over time is a key audit matter.</p>	<p>(2) Estimates of total costs</p> <ul style="list-style-type: none"> • We assessed the accuracy of the estimated total costs by examining documents such as contracts, project management materials and purchase orders, and by performing confirmation of total order amounts to subcontractors. • We evaluated the timeliness and appropriateness of the revision of estimated total costs by comparing the most recent estimates of total costs with the corresponding estimates of total costs for the preceding quarter or prior fiscal year end, by making inquiries of the Planning & Control Departments relevant to each Business Area and Project Risk Management Division, and by examining documents such as monitoring materials. • We assessed the process for estimates of total costs by comparing preliminary estimated amounts of total costs with actual amounts and revised estimated amounts. • We also selected additional samples such as construction contracts for which estimated progress based on the ratio of costs incurred against the total expected costs differed unusually from the predicted progress using Project Progress Anomaly Detector machine learning tools, and performed the same audit procedures as above mentioned.

Recoverability of deferred tax assets of IHI Corporation	
Description of Key Audit Matter	Auditor's Response
<p>Deferred tax assets were ¥82,280 million and were 4.2% of total assets in the consolidated statement of financial position as at March 31, 2023. As described in Note 18. "Income taxes" to the consolidated financial statements, deferred tax assets before offsetting deferred tax liabilities were ¥150,629 million. Further IHI Corporation (the Company) and its wholly owned subsidiaries in Japan adopted the group tax sharing system for Japanese corporate tax and local corporate tax.</p> <p>Deferred tax assets on the consolidated statement of financial position primarily represent those arising from the tax sharing group with the Company as the parent company and are mostly related to the Company's own deferred tax assets related to deductible temporary differences and net operating loss carryforwards.</p> <p>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, etc. 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 its business plan.</p> <p>The Group has made estimates for taxable income for the fiscal year ending March 31, 2024, and subsequent fiscal years by considering the assumptions regarding demand recovery in the Civil aero engines Business as well as the effects of various investments to realize transformation, measures for the expansion of the lifecycle businesses and the strengthening of earnings foundations set forth in the "Group Management Policies 2023".</p> <p>The Group assumes that recovery to the 2019 level, i.e. before the impact of the spread of COVID-19, would be achieved in 2024 and this is considered to be the most significant assumption in the above estimates. Hence, there is uncertainty in these assumptions, and it is dependent on management judgment. Therefore, we determined that recoverability of deferred tax assets of the Company is a key audit matter.</p>	<p>We mainly performed the following audit procedures to verify the recoverability of deferred tax assets of the Company.</p> <ul style="list-style-type: none"> • 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 to assess the reasonableness of the estimate of future taxable income. • We compared the estimate of future taxable income to the underlying business plan approved by the Board of Directors. • We compared the business plans for the current consolidated fiscal year with the actual result to assess the effectiveness of the estimation process of Management's business planning. • We mainly performed the following audit procedures to assess the reasonableness of key assumptions adopted in preparing the business plan. <ul style="list-style-type: none"> • We discussed with management and made inquiries of the Planning & Control Department of Aero Engine, Space & Defense Business Area. • We compared the outlook for the timing and speed of the demand recovery in the Civil aero engines Business with the order forecast from major customers and the available market forecast data published by external sources (International Air Transport Association (IATA)). • We examined management's assessment of estimation uncertainties that are reflected as certain risks in the future business plan by performing trend analysis from past results. • We independently estimated future taxable income by incorporating the effect of specific uncertainties into the business plan, considering the results of the above procedures and examined the impact to the judgment on the recoverability of deferred tax assets the Company assessed.

Other Information

The other information comprises the information included in the Annual Securities Report that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 consolidated 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 23, 2023

/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

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 23, 2023
Company name	株式会社IHI (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
Title and name of representative	Hiroshi Ide, Representative Director and President
Title and name of chief financial officer	Not applicable
Address of registered head office	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo, Japan)

1. Appropriateness of the content of statements in this Annual Securities Report

Hiroshi Ide, Representative Director and President of IHI Corporation (“IHI”), has confirmed that this Annual Securities Report of the 206th fiscal term (April 1, 2022 through March 31, 2023) 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.

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 23, 2023
Company name	株式会社IHI (Kabushiki Kaisha IHI)
Company name in English	IHI Corporation
Title and name of representative	Hiroshi Ide, Representative Director and President
Title and name of chief financial officer	Not applicable
Address of registered head office	1-1, Toyosu 3-chome, Koto-ku, Tokyo, Japan
Place for public inspection	Tokyo Stock Exchange, Inc. (2-1, Nihonbashi Kabutocho, Chuo-ku, Tokyo, Japan)

1. Basic framework of internal control related to financial reporting

Hiroshi Ide, Representative Director and President 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, 2023 (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 company-level internal control assessment performed for IHI, 80 consolidated subsidiaries, and one affiliate accounted for using the equity method. 65 consolidated subsidiaries and 27 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 revenue (after eliminating intra-group company transactions) for the previous fiscal year of each business site/office reached to roughly two-thirds of the consolidated revenue 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 selected as 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 revenue, 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.