

(Translation)

Securities Code: 7013

June 5, 2013

To: Shareholders

**IHI Corporation**

Tamotsu Saito, President & CEO  
1-1, Toyosu 3-chome, Koto-ku, Tokyo

**NOTICE OF CONVOCATION  
OF THE 196<sup>TH</sup> ORDINARY GENERAL MEETING OF SHAREHOLDERS**

You are cordially invited to attend the 196<sup>th</sup> Ordinary General Meeting of Shareholders of IHI Corporation (the "Company"). The meeting shall be held as described below.

**If you are unable to attend the meeting on the date specified below, you can exercise your voting rights by voting form (i.e., "Form for Exercising Voting Right") or via the Internet, etc. as described in "4. Outline of Exercising Voting Rights by Voting Form or via the Internet, etc." on the following page. Please exercise your voting rights after reviewing the Reference Material for the General Meeting of Shareholders on pages 6 through 27.**

- 1. Date and Time:** June 27, 2013 (Thursday), 10:00 a.m.  
(The reception of the attendees to the meeting at the reception desk shall start at 8:45 a.m.)
- 2. Place:** The "Hiten" main banquet hall, Grand Prince Hotel New Takanawa  
13-1, Takanawa 3-chome, Minato-ku, Tokyo
- 3. Purposes**

**Matters to be reported:**

1. Report on the business report and the consolidated financial statements for the 196<sup>th</sup> fiscal year (from April 1, 2012 to March 31, 2013), and the results of the audit of the consolidated financial statements by the accounting auditor and the Board of Corporate Auditors.
2. Report on the non-consolidated financial statements for the 196<sup>th</sup> fiscal year (from April 1, 2012 to March 31, 2013).

**Matters to be resolved:**

- Agenda Item No. 1:** Appropriation of surplus  
**Agenda Item No. 2:** Election of fifteen (15) directors  
**Agenda Item No. 3:** Election of two (2) corporate auditors

**4. Outline of Exercising Voting Rights by Voting Form or via the Internet, etc.**

- (1) If you exercise your voting rights by voting form  
Please exercise your voting rights by stating whether you are for or against the agenda items on the voting form enclosed herein and send the form back to us so that it reaches us by 5:30 p.m. on June 26, 2013 (Wednesday). If you do not state whether you are for or against each of the agenda items in exercising your voting rights by the voting form, you shall be considered to have stated that you are for the agenda item.
- (2) If you exercise your voting rights via the Internet, etc.  
Please exercise your voting rights after examining “Exercise of Voting Rights by Electronic Measures” on page 4 by using the Internet etc. through the website designated by the Company (<http://www.web54.net>) by 5:30 p.m. on June 26, 2013 (Wednesday) (JST).
- (3) Treatment if you exercise your voting rights in duplicate on one agenda item
  - (a) If any voting rights are exercised redundantly both by the voting form and via the Internet, etc., the votes which reach us last shall be considered to be valid. If both the votes by the voting form and the votes via the Internet, etc. reach us on the same day, the votes cast via the Internet, etc. shall be considered to be valid.
  - (b) If any voting rights are exercised via the Internet, etc. more than once, the votes cast last shall be considered to be valid.

**5. Matters regarding the Reference Material for the General Meeting of Shareholders and the Attachment to the Notice of Convocation**

- (1) The Reference Material for the General Meeting of Shareholders, and the business report, the consolidated financial statements, the non-consolidated financial statements and the audit reports to be attached to this Notice of Convocation are presented on pages 6 through 99.
- (2) Please note that we will post any amendments to the Reference Material for the General Meeting of Shareholders, or the business report, the consolidated financial statements or the non-consolidated financial statements on our website, if any such amendment is made.

Our website: <http://www.ihl.co.jp>

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1. You are kindly requested to present the enclosed voting form to the receptionist when you attend the meeting. Also, please be sure to bring this Notice of Convocation to the meeting.
  2. The air conditioning in the meeting hall will be set slightly conservatively. We appreciate your understanding.

Disclaimer:

This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the Japanese original shall prevail.

### **[Exercise of Voting Rights by Electronic Measures]**

You can exercise your voting rights only through a designated special website specifically for such purpose (<http://www.web54.net>). There is no site tailored for access by mobile phone. When you use it, please read and follow the following rules and instructions:

#### **■ Electronic voting**

1. Votes for which rights are exercised by 5:30 p.m. on the day prior to the General Meeting of Shareholders (Wednesday, June 26, 2013) shall be effective. Please vote as early as possible to allow us sufficient time to tabulate votes.
2. If any voting rights are exercised via the Internet, etc. more than once, the votes cast last shall be considered to be valid.
3. If any voting rights are exercised redundantly both by the voting form and via the Internet, etc., the votes which reach us last shall be considered to be valid. If both the votes by the voting form and the votes via the Internet, etc. reach us on the same day, the votes cast via the Internet, etc. shall be considered to be valid.
4. Provider fees and communication fees (telephone charges) to access the Voting Right Exercising Website shall be borne by the shareholder.

#### **■ Password**

1. A password is required to verify a shareholder's identity. Please take appropriate measures to ensure the security of your password.
2. Passwords supplied by us and those created by you will only apply to matters related to this General Meeting of Shareholders.
3. Your password will become invalid if you enter the wrong password multiple times. Should you need a password to be reissued, please follow the directions on the screen.

#### **■ System requirement**

1. Display with screen resolution of 800 x 600 pixels (SVGA) or higher
2. The following applications must be installed:
  - (1) Web browser Microsoft® Internet Explorer Ver. 5.01 Service Pack 2 or later
  - (2) PDF reader Adobe® Acrobat® Reader™ Ver. 4.0 or later or Adobe® Reader® Ver. 6.0 or later

\*Internet Explorer is a registered trademark, trademark and product name of Microsoft Corporation, used in the United States and/or other countries, and Adobe® Acrobat® Reader™ and Adobe® Reader® are those of Adobe Systems Incorporated, respectively. These softwares are distributed through their websites at no charge.
- (3) If you use a web browser, add-in tool, or other software with a pop-up blocking function, please disable said function when accessing the website.
- (4) If you have trouble accessing the website, Internet communications may be being limited due to the settings of your firewall, proxy server, security software, etc. Please check their respective settings.

■ **If you are unclear about the operation**

Please contact as below if you are unclear about the operation of Exercise of Voting Rights by Electronic Measures:

<p><b>Sumitomo Mitsui Trust Bank Securities Agency Web Support [Toll Free] 0120 (652) 031 (9:00 – 21:00)</b></p>
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For other inquiries please refer to the following:

- 1) Shareholders with an account at a brokerage firm

Please contact the brokerage firm that you trade with

- 2) Shareholders without an account at a brokerage firm (shareholders with a special account)

Sumitomo Mitsui Trust Bank Securities Administration Center

Tel: 0120 (782) 031

Hours: Weekdays 9:00 – 17:00

**To Institutional investors**

You can exercise your voting rights by electronic measures as above and also can use the electronic platform to exercise voting rights which is operated by ICJ Inc.

## Reference Material for the General Meeting of Shareholders

### Agenda Items and Reference Matters

#### Agenda Item No. 1:       **Appropriation of surplus**

IHI sets as its basic policy for profit distribution that it is important to provide stable dividend and to increase retained earnings necessary for strengthening the business base for enabling stable dividend payment.

In consideration of the above policy, the results for this fiscal year and internal revenue fund requirement, the 196th year-end dividends will be increased by 1 yen from the previous fiscal year, and will be as follows:

- (i) Type of dividend assets  
Cash
- (ii) Matters concerning the allotment of dividend assets and the total amount  
5 yen per share of the Company's common stock  
Total amount of dividends       7,316,549,085 yen
- (iii) Effective date of dividends  
June 28, 2013

**Agenda Item No. 2: Election of fifteen (15) directors**

Approval is hereby requested for the election of fifteen (15) directors in total, as follows, since the term of office of all fifteen (15) current directors will expire at the conclusion of this General Meeting of Shareholders.

The candidates for the offices of directors are as follows:

Candidate No.	Name (Date of Birth)	Brief Personal History, Position and Areas of Responsibility at the Company, and Significant Concurrent Positions	No. of the Company's shares owned
1	Kazuaki Kama (December 26, 1948)	<p>Jul. 1971: Joined the Company</p> <p>Jun. 2004: Executive Officer; General Manager of Finance &amp; Accounting Division, the Company</p> <p>Apr. 2005: Managing Executive Officer; General Manager of Finance &amp; Accounting Division, the Company</p> <p>Jun. 2005: Director; Managing Executive Officer, General Manager of Finance &amp; Accounting Division, the Company</p> <p>Apr. 2006: Director; Managing Executive Officer, the Company</p> <p>Apr. 2007: President; Chief Executive Officer, the Company</p> <p>Apr. 2012: Chairman of the Board, the Company (incumbent)</p> <p>(Position and Areas of Responsibility at the Company)                      Chairman of the Board                      (Significant Concurrent Positions)                      Representative Director, Japanese Aero Engines Corporation                      Chairman, The Shipbuilders' Association of Japan                      President, Japan Ship Exporters' Association</p>	153,000 shares

Candidate No.	Name (Date of Birth)	Brief Personal History, Position and Areas of Responsibility at the Company, and Significant Concurrent Positions	No. of the Company's shares owned
2	Tamotsu Saito (July 13, 1952)	<p>Apr. 1975: Joined the Company</p> <p>Apr. 2006: Vice President of Aero-Engine &amp; Space Operations, the Company</p> <p>Jun. 2006: Executive Officer; Vice President of Aero-Engine &amp; Space Operations, the Company</p> <p>Jan. 2008: Executive Officer; President of Aero-Engine &amp; Space Operations, the Company</p> <p>Apr. 2008: Director; Executive Officer, President of Aero-Engine &amp; Space Operations, the Company</p> <p>Apr. 2009: Director; Managing Executive Officer, President of Aero-Engine &amp; Space Operations, the Company</p> <p>Apr. 2010: Director, the Company</p> <p>Apr. 2011: Executive Vice President, the Company</p> <p>Apr. 2012: President; Chief Executive Officer, the Company (incumbent)</p> <p>(Position and Areas of Responsibility at the Company)                      President; Chief Executive Officer (Significant Concurrent Positions)                      President, Manufacturing Science and Technology Center</p>	81,000 shares

Candidate No.	Name (Date of Birth)	Brief Personal History, Position and Areas of Responsibility at the Company, and Significant Concurrent Positions	No. of the Company's shares owned
3	Fusayoshi Nakamura (March 11, 1952)	<p>Apr. 1974: Joined the Company</p> <p>Apr. 2003: Division Director, Vehicular Turbocharger Division, Industrial Machinery Operations, the Company</p> <p>Oct. 2003: President, IHI Turbo America Co.</p> <p>Apr. 2007: Executive Officer; Vice President of Vehicular Turbocharger Operations, the Company</p> <p>Apr. 2008: Director; Executive Officer, President of Vehicular Turbocharger Operations, the Company</p> <p>Apr. 2010: Director; Managing Executive Officer, President of Vehicular Turbocharger Operations, the Company</p> <p>Apr. 2011: Executive Vice President; Senior Executive Officer, President of Vehicular Turbocharger Operations, the Company</p> <p>Apr. 2012: Executive Vice President, the Company (incumbent)</p> <p>(Position and Areas of Responsibility at the Company) Executive Vice President; Assistant to the President</p>	35,000 shares

Candidate No.	Name (Date of Birth)	Brief Personal History, Position and Areas of Responsibility at the Company, and Significant Concurrent Positions	No. of the Company's shares owned
4	Kazuo Tsukahara (April 17, 1950)	<p>Apr. 1974: Joined the Company</p> <p>Jul. 2002: Manger of Human Resources Division, the Company</p> <p>Apr. 2005: General Manager of Planning Group, Corporate Planning Division, the Company</p> <p>Apr. 2006: Executive Officer; General Manager of Corporate Planning Division, the Company</p> <p>Apr. 2008: Director; Managing Executive Officer; General Manager of Corporate Planning Division, the Company</p> <p>Apr. 2009: Director, the Company</p> <p>Apr. 2012: Executive Vice President, the Company (incumbent)</p> <p>(Position and Areas of Responsibility at the Company)</p> <p>Executive Vice President; Assistant to the President; in charge of Business Relating to Procurement, Internal Audit, Project Audit</p> <p>(Significant Concurrent Positions)</p> <p>Director, Japan Marine United Corporation</p>	51,000 shares

Candidate No.	Name (Date of Birth)	Brief Personal History, Position and Areas of Responsibility at the Company, and Significant Concurrent Positions	No. of the Company's shares owned
5	Sadao Degawa (July 20, 1951)	<p>Apr. 1977: Joined the Company</p> <p>Jul. 2004: Deputy General Manager of Corporate Research &amp; Development, the Company</p> <p>Apr. 2008: Executive Officer; General Manager of Corporate Research &amp; Development, the Company</p> <p>Jun. 2009: Director; Executive Officer, General Manager of Corporate Research &amp; Development, the Company</p> <p>Apr. 2011: Director; Managing Executive Officer; General Manager of Corporate Research &amp; Development, the Company</p> <p>Apr. 2012: Executive Vice President, the Company (incumbent)</p> <p>(Position and Areas of Responsibility at the Company)</p> <p>Executive Vice President; Assistant to the President; in charge of Group Engineering; in charge of Business Relating to Information Systems</p>	55,000 shares

Candidate No.	Name (Date of Birth)	Brief Personal History, Position and Areas of Responsibility at the Company, and Significant Concurrent Positions	No. of the Company's shares owned
6	Joji Sakamoto (November 23, 1952)	<p>Apr. 1976: Joined the Company</p> <p>Jul. 2002: Manager of Administration Division, the Company</p> <p>Jul. 2005: General Manager of Public Relations &amp; Advertising Division, the Company</p> <p>Apr. 2007: General Manager of Compliance Control Division and General Manager of Contracts &amp; Legal Division, the Company</p> <p>Apr. 2008: Executive Officer; General Manager of Compliance Control Division, General Manager of Contracts &amp; Legal Division, General Manager of Reform the Internal Control System Project Division, the Company</p> <p>Jun. 2009: Director, the Company (incumbent)</p> <p>(Position and Areas of Responsibility at the Company)</p> <p>Director; in charge of Business Relating to Public Relations and Investors Relations, Legal, CSR and Administration; in charge of Group Compliance and Risk Management</p>	50,000 shares

Candidate No.	Name (Date of Birth)	Brief Personal History, Position and Areas of Responsibility at the Company, and Significant Concurrent Positions	No. of the Company's shares owned
7	Ichiro Terai (January 12, 1954)	<p>Apr. 1976: Joined the Company</p> <p>Jul. 2002: Manager of Tax Accounting Group, Finance &amp; Accounting Division, the Company</p> <p>Apr. 2009: Executive Officer; Deputy General Manager of Finance &amp; Accounting Division, Manager of Tax Accounting Group, Finance &amp; Accounting Division, the Company</p> <p>Jun. 2009: Director; Executive Officer, General Manager of Finance &amp; Accounting Division, the Company</p> <p>Apr. 2012: Director; Managing Executive Officer; General Manager of Finance &amp; Accounting Division, the Company (incumbent)</p> <p>(Position and Areas of Responsibility at the Company)                      Director; Managing Executive Officer; General Manager of Finance &amp; Accounting Division</p>	14,000 shares

Candidate No.	Name (Date of Birth)	Brief Personal History, Position and Areas of Responsibility at the Company, and Significant Concurrent Positions	No. of the Company's shares owned
8	Tatsumi Kawaratani (August 2, 1952)	<p>Aug. 1987: Joined the Company</p> <p>Apr. 2002: General Manager of Administration Department, Corporate Research &amp; Development, the Company</p> <p>Apr. 2006: Vice President of Industrial Machinery Operations, the Company</p> <p>Apr. 2007: Executive Officer; Vice President of Industrial Machinery Operations, the Company</p> <p>Apr. 2009: Executive Officer; President of Industrial Machinery Operations, the Company</p> <p>Apr. 2010: Managing Executive Officer; President of Industrial Machinery &amp; Environmental Equipment Operations, the Company</p> <p>Jun. 2010: Director; Managing Executive Officer; President of Industrial Machinery &amp; Environmental Equipment Operations, the Company</p> <p>Apr. 2011: Director; Managing Executive Officer; President of Machinery, Environmental &amp; Logistics Systems Operations, the Company</p> <p>Apr. 2013: Director; Managing Executive Officer; President of Machinery &amp; Logistics Systems Operations, Deputy General Manager of Intelligent Information Management Headquarters, the Company (incumbent)</p> <p>(Position and Areas of Responsibility at the Company)            Director; Managing Executive Officer; President of Machinery &amp; Logistics Systems Operations, Deputy General Manager of Intelligent Information Management Headquarters; in charge of Industrial Systems &amp; General-Purpose Machinery Business Areas</p>	35,000 shares

Candidate No.	Name (Date of Birth)	Brief Personal History, Position and Areas of Responsibility at the Company, and Significant Concurrent Positions	No. of the Company's shares owned
9	Izumi Imoto (February 12, 1953)	<p>Apr. 1978: Joined the Company</p> <p>Apr. 2006: Vice President of Logistics Systems &amp; Structures Operations, the Company</p> <p>Apr. 2008: Executive Officer; Vice President of Logistics Systems &amp; Structures Operations, the Company</p> <p>Apr. 2009: Executive Officer; President of Infrastructure Operations, the Company</p> <p>Jun. 2010: Director; Executive Officer; President of Infrastructure Operations, the Company</p> <p>Apr. 2011: Director; Managing Executive Officer; President of Infrastructure Operations, the Company</p> <p>Apr. 2012: Director; Managing Executive Officer; President of Infrastructure Operations and General Manager of Monozukuri Innovation Initiative, the Company</p> <p>Apr. 2013 Director; Managing Executive Officer; President of Infrastructure Operations and Deputy General Manager of Solution &amp; Engineering Headquarters, the Company (incumbent)</p> <p>(Position and Areas of Responsibility at the Company)            Director; Managing Executive Officer; President of Infrastructure Operations and Deputy General Manager of Solution &amp; Engineering Headquarters; in charge of Social Infrastructure &amp; Offshore Facilities Business Areas (Significant Concurrent Positions)            Outside Director, Meisei Electric Co., Ltd.</p>	40,000 shares

Candidate No.	Name (Date of Birth)	Brief Personal History, Position and Areas of Responsibility at the Company, and Significant Concurrent Positions	No. of the Company's shares owned
10	Toshinori Sekido (July 6, 1953)	<p>Apr. 1978: Joined the Company</p> <p>Jul. 2004: Division Director of Civil Aero-Engine Division, Aero-Engine &amp; Space Operations, the Company</p> <p>Apr. 2007: Executive Officer; Vice President of Aero-Engine &amp; Space Operations, the Company</p> <p>Apr. 2010: Managing Executive Officer; President of Aero-Engine &amp; Space Operations, the Company</p> <p>Jun. 2011: Director; Managing Executive Officer; President of Aero-Engine &amp; Space Operations, the Company</p> <p>Apr. 2013 Director, the Company (incumbent)</p> <p>(Position and Areas of Responsibility at the Company)                      Director; in charge of Business Relating to Corporate Business Development and Defense;                      in charge of Aero Engine, Space and Defense Business Areas;                      in charge of New Priority Business Areas</p>	36,000 shares

Candidate No.	Name (Date of Birth)	Brief Personal History, Position and Areas of Responsibility at the Company, and Significant Concurrent Positions	No. of the Company's shares owned
11	Hiroshi Iwamoto (September 11, 1952)	<p>Apr. 1976: Joined the Company</p> <p>Apr. 2005: General Manager of Human Resources Division, the Company</p> <p>Apr. 2008: Executive Officer, the Company</p> <p>Jul. 2008: Executive Officer, the Company; President and Chief Executive Officer, IHI INC. (Regional Headquarter for the Americas)</p> <p>Apr. 2010: Executive Officer, the Company; President and Chief Executive Officer, IHI INC. (Regional Headquarter for the Americas); Vice President of Global Marketing Headquarters, the Company</p> <p>Apr. 2011: Managing Executive Officer; Vice President of Global Marketing Headquarters; Chief Regional Officer in China Region, the Company</p> <p>Apr. 2012: Managing Executive Officer; President of Global Marketing Headquarters, the Company</p> <p>Jun. 2012: Director; Managing Executive Officer; President of Global Marketing Headquarters, the Company</p> <p>Apr. 2013: Director; Managing Executive Officer; President of Global Marketing Headquarters, the Company (incumbent)</p> <p>(Position and Areas of Responsibility at the Company)            Director; Managing Executive Officer; President of Global Marketing Headquarters;            in charge of Business Relating to Human Resources</p>	45,000 shares

Candidate No.	Name (Date of Birth)	Brief Personal History, Position and Areas of Responsibility at the Company, and Significant Concurrent Positions	No. of the Company's shares owned
12	Hiromitsu Hamamura (August 10, 1953)	<p>Apr. 1976: Joined the Company</p> <p>Apr. 2002: Manager of Strategic Department, Procurement Strategics, the Company</p> <p>Apr. 2005: General Manager of Strategic Department, Procurement Strategics, the Company</p> <p>Apr. 2007: General Manager of Planning &amp; Control Department, Energy Plants Operations; General Manager of Business Development Department, the Company</p> <p>Apr. 2009: Vice President of Energy Plants Operations, the Company</p> <p>Apr. 2010: Executive Officer; President of Energy Systems Operations, the Company</p> <p>Apr. 2012: Executive Officer; President of Energy Operations, the Company</p> <p>Jun. 2012: Director; Executive Officer; President of Energy Operations, the Company</p> <p>Apr. 2013: Director; Managing Executive Officer; President of Energy &amp; Plant Operations and General Manager of Solution &amp; Engineering Headquarters, the Company (incumbent)</p> <p>(Position and Areas of Responsibility at the Company)</p> <p>Director; Managing Executive Officer; President of Energy &amp; Plant Operations and General Manager of Solution &amp; Engineering Headquarters; in charge of Resources, Energy and Environment Business Areas</p>	24,000 shares

Candidate No.	Name (Date of Birth)	Brief Personal History, Position and Areas of Responsibility at the Company, and Significant Concurrent Positions	No. of the Company's shares owned
13	Candidate for Outside Director  Tomokazu Hamaguchi (April 20, 1944)	<p>Apr. 1967: Joined Nippon Telegraph and Telephone Public Corporation</p> <p>Apr. 1985: Senior Manager, Administration Division, Public Administrations System Division, Data Communication Sector, NIPPON TELEGRAPH AND TELEPHONE CORPORATION</p> <p>Jul. 1988: Senior Manager, Corporate Strategy Planning Department, NTT DATA CORPORATION</p> <p>Jun. 1995: Senior Vice President, NTT DATA CORPORATION</p> <p>Jun. 1997: Executive Vice President, NTT DATA CORPORATION</p> <p>Jun. 2001: Senior Executive Vice President, NTT DATA CORPORATION</p> <p>Jun. 2003: President and Chief Executive Officer, NTT DATA CORPORATION</p> <p>Jun. 2007: Counselor and Director, NTT DATA CORPORATION</p> <p>Apr. 2008: Director, the Company (incumbent)</p> <p>Jun. 2009: Senior Corporate Adviser, NTT DATA CORPORATION (incumbent)</p> <p>(Position and Areas of Responsibility at the Company) Director (Significant Concurrent Positions) Outside Director, East Japan Railway Company</p>	26,000 shares





(Notes)

1. Mr. Kazuaki Kama is serving concurrently as Representative Director of the Japanese Aero Engines Corporation (JAEC), which is involved in the following transactions with the Company.
  - (1) The Company is entrusted with development and research of civil aircraft jet engines and pays the private sector portion of its funding.
  - (2) The Company guarantees a portion of JAEC's loan obligations, etc.
  - (3) The Company receives subsidies from JAEC for developing civil aircraft jet engines.
  - (4) The Company manufactures and delivers civil aircraft jet engine components, etc. to JAEC.
  - (5) The Company pays a portion of expenses required for the profit-making activities of JAEC.

There are no special interests between the Company and any of the other enterprises at which Mr. Kazuaki Kama serves as representative.

2. Mr. Tamotsu Saito serves as Representative Director of the Manufacturing Science and Technology Center. There are no special interests between the Company and the Manufacturing Science and Technology Center.
3. The matters to be noted in relation to the candidates for outside directors are as follows:
  - (1) Mr. Tomokazu Hamaguchi was selected as a candidate for an outside director with the aim of reflecting in the management of the Company his broad insight from his track record in transforming his own organization and supporting transformations at customers while at the helm of a state-of-the-art IT and telecommunications company. In addition, through his appointment as a highly independent outside director, the Company aims to improve management oversight and monitoring functions while also enhancing corporate governance. Mr. Tadashi Okamura was selected as a candidate for an outside director with the aim of enhancing management oversight and monitoring functions. For this purpose, the Company aims to secure his advice on the appropriateness and fairness of decision making by the Board of Directors from his perspective as a business manager with abundant experience and broad insight, which he cultivated over many years at a general electric goods manufacturer.
  - (2) While Mr. Tadashi Okamura served as Director at TOSHIBA Corporation ("that company"), that company, along with eight other heavy electric service providers, was involved in bid-rigging for electrical facilities for sewerage systems ordered by the City of Sapporo up to 2005. The eight other companies received cease and desist orders in accordance with the Antimonopoly Act and the involvement of that company therein was recognized. As a result, that company received a partial business suspension order in accordance with the Construction Business Act in April 2009. That company has since implemented legal compliance measures such as the establishment of sales compliance departments and the formulation of behavioral standards when conducting business with governmental agencies all in an effort to eradicate illegal orders and regain trust.
  - (3) At the conclusion of this meeting, Mr. Tomokazu Hamaguchi will have served 5 years as outside director of the Company. At the conclusion of this meeting, Mr. Tadashi Okamura will have served 3 years as outside director of the Company.
  - (4) The Company has concluded contracts with Mr. Tomokazu Hamaguchi and Mr. Tadashi Okamura to limit their liability for damages prescribed in Article 423, Paragraph 1 of the Corporation Law, pursuant to the provisions of Article 427, Paragraph 1 of the same Law. The amount of the limitation of their liability for damages under the said contracts shall be the amount stipulated by laws and

regulations. If reappointment of these directors is approved, the Company shall continue the aforementioned contract to limit liability with same, respectively.

- (5) One of the Company's subsidiaries has a business relationship involving equipment maintenance with NTT DATA CORPORATION, where Mr. Tomokazu Hamaguchi previously served as a business executive, which generates less than 0.01% of the Company's consolidated net sales (for the fiscal year ended March 31, 2013). In addition, the Company has a business relationship involving the sale and purchase of nuclear power-related products with TOSHIBA Corporation, where Mr. Tadashi Okamura previously served as a business executive, which generates 2.43% of the Company's consolidated net sales (average for the three most recent fiscal years). Even so, neither of the candidates have served at the Company's parent company, its fellow subsidiaries or a major shareholder of the Company holding at least 10% of the votes of all shareholders, and neither of them are in a position that compromises their independence from the management of the Company. For these reasons, the Company judges that both candidates are unlikely to have a conflict of interests with general shareholders, and plans to register both candidates with domestic financial instrument exchanges (where the Company is listed) as independent directors.
4. Mr. Kazuaki Kama's term of office as Chairman of The Shipbuilders' Association of Japan is scheduled to expire at the conclusion of the Association's ordinary general meeting to be held on June 18, 2013, and he is scheduled to be appointed as Vice Chairman of the Association at a meeting of the Association's board to be held subsequent to the ordinary general meeting.
5. Mr. Kazuaki Kama is scheduled to be appointed as Outside Director of KYOKUTO BOEKI KAISHA, LTD. at that company's ordinary general meeting of shareholders to be held on June 21, 2013.
6. Mr. Izumi Imoto is scheduled to retire from his position as Outside Director of Meisei Electric Co., Ltd. at the conclusion of that company's ordinary general meeting of shareholders to be held on June 26, 2013, in line with the expiration of his term of office.
7. Mr. Tomokazu Hamaguchi is scheduled to be appointed as Outside Director of KURARAY CO., LTD. at that company's ordinary general meeting of shareholders to be held on June 21, 2013.
8. Mr. Tadashi Okamura is scheduled to retire from his position as Outside Director of Japan Post Holdings Co., Ltd. at the conclusion of that company's ordinary general meeting of shareholders to be held on June 20, 2013, in line with the expiration of his term of office.

**Agenda Item No. 3: Election of two (2) corporate auditors**

Approval is hereby requested for the election of two (2) corporate auditors, as follows, since out of the five (5) current corporate auditors, the terms of office of Messrs. Masakazu Maruyama and Hisatsugu Nonaka will expire at the conclusion of this General Meeting of Shareholders. Consent to submission of this agenda has already been obtained from the Board of Corporate Auditors.

The candidates for the office of corporate auditor are as follows:

Candidate No.	Name (Date of Birth)	Brief Personal History and Position and Areas of Responsibility at the Company	No. of the Company's shares owned
1	Candidate for New Corporate Auditor  Makoto Serizawa (March 17, 1954)	Apr. 1976: Joined the Company Apr. 2005: Deputy General Manager of Finance & Accounting Division, the Company Apr. 2006: Executive Officer; General Manager of Finance & Accounting Division, the Company Apr. 2007: Executive Officer; General Manager of Finance & Accounting Division, General Manager of Internal Control Planning & Promotion Division, the Company Jun. 2007: Director; Executive Officer, General Manager of Finance & Accounting Division, General Manager of Internal Control Planning & Promotion Division, the Company Apr. 2008: Director; Executive Officer, General Manager of Finance & Accounting Division, General Manager of Internal Control Assessment Division, the Company Dec. 2008: Director; Executive Officer, General Manager of Finance & Accounting Division, the Company Jun. 2009: Director, the Company (incumbent) (Position and Areas of Responsibility at the Company) Director; Assistant to the President	50,000 shares

Candidate No.	Name (Date of Birth)	Brief Personal History and Position and Areas of Responsibility at the Company	No. of the Company's shares owned
2	Candidate for New Corporate Auditor  Candidate for Outside Corporate Auditor  Toshiharu Watanabe (July 28, 1950)	<p>Apr. 1974    Joined Tokyo Shibaura Electric Co., Ltd. (now TOSHIBA Corporation)</p> <p>Apr. 2002    Vice President, Social &amp; Industrial Systems Division, Social Infrastructure Systems Company, TOSHIBA Corporation</p> <p>Apr. 2003    Vice President, Social Systems Division, Industrial &amp; Power Systems Company, TOSHIBA Corporation</p> <p>Apr. 2006    Executive Vice President, Industrial Systems Company, TOSHIBA Corporation</p> <p>Jun. 2007    Executive Officer, Corporate Vice President and Executive President, Industrial Systems Company, TOSHIBA Corporation</p> <p>Apr. 2008    Executive Officer, Corporate Vice President and Executive President, Social Systems Company, TOSHIBA Corporation</p> <p>Jun. 2008    Executive Officer, Corporate Senior Vice President and Executive President, Social Systems Company, TOSHIBA Corporation</p> <p>Apr. 2010    Executive Officer, Corporate Senior Vice President, Managing Director, Smart Facilities Division and Executive President, Social Systems Company, TOSHIBA Corporation</p> <p>Jun. 2010    Executive Officer, Corporate Executive Vice President and Managing Director, Smart Facilities, TOSHIBA Corporation</p>	0 shares

Candidate No.	Name (Date of Birth)	Brief Personal History and Position and Areas of Responsibility at the Company	No. of the Company's shares owned
		<p>Oct. 2010 Executive Officer, Corporate Executive Vice President and Managing Director, Smart Community, TOSHIBA Corporation</p> <p>Jun. 2011 Director, Executive Officer, and Corporate Executive Vice President, TOSHIBA Corporation (incumbent)</p>	

(Notes)

1. There is no special interest between the Company and any candidate.
2. The matters to be noted in relation to the candidate for outside corporate auditor are as follows:
  - (1) Mr. Toshiharu Watanabe was selected as a candidate for an outside corporate auditor with the aim of reflecting in the auditing of the management of the Company his experience and insight, which he cultivated as a business executive in the field of social infrastructure at a general electric goods manufacturer.
  - (2) While Mr. Toshiharu Watanabe served as Executive Officer at TOSHIBA Corporation ("that company"), that company, along with eight other heavy electric service providers, was involved in bid-rigging for electrical facilities for sewerage systems ordered by the City of Sapporo up to 2005. The eight other companies received cease and desist orders in accordance with the Antimonopoly Act and the involvement of that company therein was recognized. As a result, that company received a partial business suspension order in accordance with the Construction Business Act in April 2009. That company has since implemented legal compliance measures such as the establishment of sales compliance departments and the formulation of behavioral standards when conducting business with governmental agencies all in an effort to eradicate illegal orders and regain trust.
  - (3) If Mr. Toshiharu Watanabe is elected as proposed, the Company will enter into an agreement with him to limit his liability for damages prescribed in Article 423, Paragraph 1 of the Corporation Law, pursuant to the provisions of Article 427, Paragraph 1 of the same Law. The amount of the limitation of his liability for damages under the said contract shall be the amount stipulated by laws and regulations.
  - (4) The Company has a business relationship with TOSHIBA Corporation, where Mr. Toshiharu Watanabe serves as a business executive, which involves the sale and purchase of nuclear power-related products. This relationship generates 2.43% of the Company's consolidated net sales (average for the three most recent fiscal years). However, Mr. Toshiharu Watanabe has not served at the Company's parent company, its fellow subsidiaries or a major shareholder of the Company holding at least 10% of the votes of all shareholders, and he is not in a position that compromises his independence from the management of the Company. For these reasons, the Company judges that he is unlikely to have a conflict of interests with general shareholders, and plans to register him with domestic financial instrument exchanges (where the Company is listed) as an independent auditor.

3. Mr. Toshiharu Watanabe is scheduled to retire from the position of Director, Executive Officer and Corporate Executive Vice President of Toshiba Corporation and take office as Advisor of that company at the conclusion of its ordinary general meeting of shareholders to be held on June 25, 2013.

(Attachment)

## **Business Report**

(From April 1, 2012 to March 31, 2013)

### **1. Matters on Current Status of Company Group**

#### **(1) Progress of business operations and their results**

In Japan during the fiscal year under review, the economy was weak overall due to the slowness of post-earthquake reconstruction demand to come into effect, stagnant private sector demand, and depressed overseas demand primarily as a result of the European debt crisis. There has been a positive response to economic policies following a change of government in December 2012 and brighter signs are being observed such as a correction to the strong yen and rising stock prices occurring close to the fiscal year-end. However, it is expected to take some time before these changes are reflected in the real economy. Overseas, on the other hand, despite signs of moderate recovery in the U.S. underpinned by firm internal demand, there is a downturn trend in Europe that is affected by weakening internal demand arising from its debt crisis, and China and other emerging countries have experienced weakening exports. As a result, an overall trend of economic slowdown is continuing.

Even though in this very uncertain business environment, IHI Group made concerted efforts to promote three paradigm shifts to strengthen competitive advantage: towards a business model geared to entire life cycle, a product strategy geared to market needs, and global business management. The Group also strove to achieve the management benchmarks in its medium-term management plan, Group Management Policies 2010, for which the final year is fiscal year 2012.

As a result of the above, regarding orders received, there was a large decrease in orders received in Social Infrastructure Operations caused by the impact of a large project in the previous fiscal year. Consequently, orders received decreased 44.0 billion yen from the previous fiscal year to 1,225.6 billion yen. Although there were declines in Ships & Offshore Facilities Operations and Social Infrastructure Operations, there was a slight increase in sales as a whole (up 34.1 billion yen from the previous fiscal year) to 1,256.0 billion yen due to increases in Logistics Systems & Industrial Machinery Operations and Aero Engine & Space Operations. Also, the order backlog at the end of the fiscal year under review stood at 1,114.0 billion yen, a decrease of 204.5 billion yen from the previous fiscal year-end mainly due to exclusion of Ships & Offshore Facilities Operations from the scope of consolidation.

In terms of profits, although profitability increased for Aero Engine & Space Operations and Logistics Systems & Industrial Machinery Operations, operating income for the entire Group decreased 1.1 billion yen from the previous fiscal year to 42.1 billion yen, while ordinary income also decreased 5.4 billion yen to 36.2 billion yen due to declines in profitability in Rotating Equipment & Mass-Production Machinery Operations and Social Infrastructure Operations. Net income was up 9.5 billion yen from the previous fiscal year to 33.3 billion yen, due mainly to the recording of a 13.5 billion yen gain from the sale of a co-ownership interest in land at Toyosu 3-chome (Tokyo, Japan) under extraordinary income. Furthermore, IHI has continually achieved its target in its

Group Management Policies 2010 for achieving interest-bearing debt of no more than 400 billion yen since fiscal year 2010, with interest-bearing debt at the end of the fiscal year totaling 353.8 billion yen.

The Company sincerely regrets to inform you that it has decided to withhold payment of interim dividends at the end of the first half of the fiscal year under review due to uncertainty in the business environment going forward.

Business operations by sector are summarized as follows.

○ **Energy & Resources**

Despite an increase in orders for power systems, orders received decreased 22.7 billion yen from the previous fiscal year to 290.1 billion yen owing to declines in orders for components for nuclear power plants and boilers.

Sales increased 4.8 billion yen from the previous fiscal year to 317.2 billion yen because of increased sales for process plants, despite decreases in storage facilities and power systems for land and marine use.

Operating income declined 1.1 billion yen from the previous fiscal year to 9.8 billion yen because of an increase in selling, general and administrative expenses, despite a positive impact from correction of strong yen.

○ **Ships & Offshore Facilities**

Orders received increased from the previous fiscal year by 39.4 billion yen to 116.1 billion yen owing to shipbuilding orders at five units including naval and patrol vessels.

Sales declined 58.8 billion yen from the previous fiscal year to 117.3 billion yen because shipbuilding and ship repairs both decreased.

Regarding operating income, owing to a decrease in sales and others, there was a 1.3 billion yen decline from the previous fiscal year to 6.5 billion yen.

On January 1, 2013, IHI Marine United Inc., which was an IHI's wholly-owned subsidiary, and Universal Shipbuilding Corporation merged. As a result, IHI Marine United Inc. and its three subsidiaries, which have been consisted the Ships & Offshore Facilities Operations, became Japan Marine United Corporation, newly integrated company, and its three subsidiaries and became associates accounted for using equity method. As a result, the orders received, sales, and operating income for the fiscal year under review are the amounts from April 1, 2012 to December 31, 2012.

○ **Social Infrastructure**

Orders received decreased 102.5 billion yen from the previous fiscal year to 97.0 billion yen because of a large-scale bridge order in the previous fiscal year.

Sales decreased 13.2 billion yen from the previous fiscal year to 101.4 billion yen because of decreases in marine equipment and shield tunneling machines.

Operating income declined 2.4 billion yen from the previous fiscal year to 5.8 billion yen because of a decrease in sales and others.

○ **Logistics Systems & Industrial Machinery**

As a result of increases in orders for parking systems, material handling systems and paper production machines despite a decrease in physical distribution and factory automation systems, orders received increased 12.2 billion yen from the previous fiscal year to 177.8 billion yen.

Sales increased 38.7 billion yen from the previous fiscal year to 191.6 billion yen because of increases in sales of steel manufacturing equipment, material handling systems and parking systems.

Owing to an increases in sales despite an increase in selling, general and administrative expenses, operating income increased 4.2 billion yen from the previous fiscal year to 9.9 billion yen.

○ **Rotating Equipment & Mass-Production Machinery**

Orders received increased in vehicular turbocharger despite a decrease in compressors. As a result, orders received increased 4.2 billion yen from the previous fiscal year to 165.7 billion.

Sales increased 3.9 billion yen from the previous fiscal year to 169.8 billion yen because of an increase in sales of vehicular turbocharger despite decreases in compressors and separators.

Operating income decreased by 5.1 billion yen from the previous fiscal year to 5.2 billion yen, reflecting a decreases in sales, an expense for increase in production of vehicular turbocharger and for defect correction of a certain products.

○ **Aero Engine & Space**

Orders received increased 13.7 billion yen from the previous fiscal year to 344.8 billion yen because of increased orders for space-related equipment and civil jet engines.

Sales increased 39.0 billion yen from the previous fiscal year to 338.4 billion yen, reflecting increases in civil jet engine and defense machinery sales.

Operating income increased by 9.3 billion yen from the previous fiscal year to 15.4 billion yen, mainly because of an increase in profit owing to correction of strong yen, the increased sales of civil jet engines and improved profitability overall.

○ **Others**

Orders received increased 4.8 billion yen from the previous fiscal year to 110.0 billion yen because of a stock acquisition in Meisei Electric to make it a subsidiary of IHI, despite a decrease in orders for agricultural machinery.

Sales increased 0.6 billion yen from the previous fiscal year to 107.9 billion yen, mainly because of Meisei Electric becoming a subsidiary of IHI, despite decreases in sales of diesel engines and agricultural machinery.

Operating income increased 1.0 billion yen from the previous fiscal year to 2.1 billion yen reflecting mainly an improvement in profitability of construction machinery and the effect of making Meisei Electric IHI's subsidiary.

[Sales, Orders Received and Order Backlog by Business Segment]

(Millions of yen)

Business Segment	Sales		Orders Received		Order Backlog	
	Amount	%	Amount	%	Amount	%
Energy & Resources	317,229	25	290,105	24	340,159	31
Ships & Offshore Facilities	117,358	9	116,191	9	-	-
Social Infrastructure	101,482	8	97,064	8	185,261	17
Logistics Systems & Industrial Machinery	191,653	15	177,816	14	147,172	13
Rotating Equipment & Mass-Production Machinery	169,807	14	165,788	14	15,163	1
Aero Engine & Space	338,481	27	344,822	28	393,543	35
Others	107,991	9	110,086	9	32,723	3
Adjustment	(87,952)	(7)	(76,223)	(6)	-	-
Total	1,256,049	100	1,225,649	100	1,114,021	100
Of which, overseas	486,303	39	455,881	37	483,761	43

(Note) For Ships & Offshore Facilities, the amounts of sales and orders received are those of the period from April 1, 2012 to December 31, 2012.

**(2) Financing**

The Company carried out financing primarily through 60.8 billion yen from long-term loans and 10.0 billion yen from the 37th unsecured bonds, and this was allocated for agreed repayment of long-term loans, redemption of bonds, working capital, capital for business acquisitions, and others.

**(3) Capital investment**

With regard to capital investment activities, the total capital investment for the fiscal year under review was 55.0 billion yen as a result of the Company having made progress centering on flagship businesses as well as growth and focal businesses stipulated by Group Management Policies 2010, such as additional factory constructions for jet engines in the Aero Engine & Space Operations, a manufacturing facility in the Energy & Resources Operations, and a manufacturing facility for our vehicular turbocharger manufacturing subsidiary in the Rotating Equipment & Mass-Production Machinery Operations.

**(4) Status of important business reorganizations etc.**

- 1) The Company merged with its subsidiary, IHI Technology Solutions Inc., by absorption-type merger on April 1, 2012, with the Company as the surviving company.
- 2) The Company conducted tender offers for common stock of its listed subsidiaries, IHI Transport Machinery Co., Ltd. and Ishikawajima Construction Materials CO., LTD., between February and March 2012. Following this, both companies became wholly owned subsidiaries of the Company on August 28, 2012 upon the completion of various procedures pursuant to the Corporation Law.
- 3) The Company concluded a business alliance agreement with Meisei Electric Co., Ltd. on May 8, 2012, with the aim of expanding its technology base and product lineup in the security field and bolstering its sensing and communications and control technologies. Between May and June 2012, the Company conducted a tender offer for common stock of Meisei Electric Co., Ltd., making it into a consolidated subsidiary on June 12, 2012.
- 4) In November 2012, the Company established Paul Wurth IHI Co., Ltd. a joint venture company with Paul Wurth S.A., a Luxembourg-based leading player in the field of iron- and coke-making engineering and supply, to undertake business in iron-making machinery.
- 5) In December 2012, the Company acquired 100% of the shares of Swiss company Ionbond, which provides abrasion-resistant coatings for metals, non-metals and other materials, and brought Indigo TopCo Ltd. and its subsidiaries into the IHI Group.
- 6) IHI Marine United Inc., a wholly owned subsidiary of the Company, concluded a merger agreement with Universal Shipbuilding Corporation on August 27, 2012, resulting in the launch of Japan Marine United Corporation on January 1, 2013. In line with this, IHI Marine United Inc., became an equity method affiliate of the Company as Japan Marine United Corporation.

## (5) Issues to be addressed

As a consequence of the slowdown in the global economy and record strength of the yen in foreign exchange markets, the Company could not achieve the numerical targets stated in the Group Management Policies 2010. However, operating income ended in the black for four consecutive terms in all business segments as a result of the effect of various measures taken for strengthening the internal control system. Hence, the Company considers that the operating foundation for growth has been established.

Under the theme of realizing growth by actively taking measures for resolving various issues which societies face, in November 2012, the Company drew up a three-year medium-term management plan, Group Management Policies 2013, which starts in fiscal year 2013.

In the process of drawing up Group Management Policies 2013, we realized that the communities surrounding us are experiencing the three Megatrends of Smart Social Infrastructure; Advanced, Highly Networked IT; and Increasingly Complex Global Economy. To respond to these Megatrends, we will intensify our efforts for the Three *Tsunagu* mentioned below to create values for customers and achieve the growth of the IHI Group.

### The Three *Tsunagu*

- Link among existing businesses and between existing businesses and peripheral businesses
- Link products and services with information and communication technology (ICT)
- Link global markets with IHI Group

In consideration of the three Megatrends, in April 2013, we re-categorized IHI Group businesses into four business areas of “Resources, Energy and Environment,” “Social Infrastructure and Offshore Facilities,” “Industrial Systems and General-Purpose Machinery” and “Aero Engine, Space and Defense” according to the characteristics of markets. To solve the issues of customers and to promote the three *Tsunagu*, we have set up the Solution & Engineering Headquarters, Intelligent Information Management Headquarters, and Global Marketing Headquarters to strengthen the functions common to the IHI Group.

Group Management Policies 2013 sets up specific management targets by stating that the IHI Group will attain consolidated net sales of 1,400 billion yen and consolidated operating income of 70.0 billion yen for fiscal year 2015. We will also focus on investment for growth as well as enhancement of capital efficiency.

With fiscal year 2013 as the initial fiscal year, we will implement the various measures stated below and do our utmost to attain the targets of the new management policies.

- Expand business areas, provide high-value added products and services, ensure receipt of high-quality orders by developing in global markets
- Strengthen cost competitiveness through continuous cost-cutting activities, secure competitive superiority through innovative changes in the earnings structure, and establish a foundation for promoting

improvement in profitability

- Accelerate global business management, under the initiative of newly-established Global Marketing Headquarters and regional headquarters in the Americas, China, and Asia and Oceania
- Establish and improve a foundation for human resource management to respond to diversification of human resources, and secure, foster and utilize human resources who can support global group management.

Through these measures, the IHI Group continuously strives to realize growth and improvement in corporate value and evolve into a corporate group which will bring the dreams of societies to life as shown in “Realize your dreams,” a new corporate message.

We would like to ask for your continued understanding and support.

**(6) Changes in assets and profit/loss**

(Millions of yen)

Item	193 <sup>rd</sup> Fiscal Year	194 <sup>th</sup> Fiscal Year	195 <sup>th</sup> Fiscal Year	196 <sup>th</sup> Fiscal Year
Orders Received	970,422	1,200,999	1,269,676	1,225,649
Net Sales	1,242,700	1,187,292	1,221,869	1,256,049
Ordinary Income	33,027	51,482	41,715	36,219
Net Income	17,378	29,764	23,823	33,386
Net Income per Share (Yen)	11.85	20.29	16.26	22.81
Total Assets	1,412,421	1,361,441	1,338,131	1,364,239
Net Assets	227,065	253,640	258,475	299,282

**(7) Main business (As of March 31, 2013)**

The IHI Group's business activities are primarily composed of the manufacture and sale of products and the provision of services as listed in the table below.

Business Segment	Main Business
Energy & Resources	Boilers, gas turbines, components for nuclear power plants, pressure vessels, storage facilities, floating-LNG facilities, petroleum/gas plants, low-temperature liquefied gas plants, motors for land and marine use, power systems, etc.
Ships & Offshore Facilities	Tankers, container vessels, bulk carrier ships, ore carrier, ferries, LNG carrier, electrical propulsion ship, naval vessels, coast guard ships, work vessels, offshore structures, etc.
Social Infrastructure	Bridges, water gate, construction materials, urban development, etc.
Logistics Systems & Industrial Machinery	Material handling systems including cranes, physical distribution and factory automation systems, parking, transportation system, iron and steel manufacturing equipment, heat treatment facilities, paper production machines, environmental control systems, etc.
Rotating Equipment & Mass-Production Machinery	Compressors, vehicular turbochargers, superchargers for ships, etc.
Aero Engine & Space	Jet engines, space-related equipment, defense machinery, etc.
Others	Diesel engines, agricultural machinery, construction machinery, etc.

The Company changed its seven previous business segments into four business areas on April 1, 2013 as listed in the table below.

Business Areas	Main Business
Resources, Energy and Environment	Boilers, power systems, motors for land and marine use, gas processes, pharmaceuticals, nuclear power, environmental systems, large marine motors
Social Infrastructure and Offshore Facilities	Bridges, water gates, shield tunneling machines, transportation systems, urban development, floating-LNG facilities, offshore structures
Industrial Systems and General-Purpose Machinery	Marine machinery, logistics systems, materials handling equipment, parking systems, steel manufacturing machinery, industrial machinery, heat / surface treatment machinery, papermaking machinery, vehicular turbochargers, compressors, separation equipment, marine turbochargers, construction machinery, agricultural machinery, small motors
Aero Engine, Space and Defense	Aero engines, rocket systems/space utilization systems, defense systems

**(8) Main sales offices and works (As of March 31, 2013)**

Head Office	1-1, Toyosu 3-chome, Koto-ku, Tokyo		
Sales Offices	Hokkaido Branch (Chuo-ku, Sapporo-city) Metropolitan Branch (Naka-ku, Yokohama-city) Chubu Branch (Nakamura-ku, Nagoya-city) Chugoku Branch (Naka-ku, Hiroshima-city) Kyushu Branch (Chuo-ku, Fukuoka-city)	Tohoku Branch (Aoba-ku, Sendai-city) Hokuriku Branch (Toyama-city, Toyama) Kansai Branch (Chuo-ku, Osaka-city) Shikoku Branch (Takamatsu-city, Kagawa)	
Oversea Offices	SINGAPORE ALGER JAKARTA BEIJING NEW DELHI	PARIS HANOI BANGKOK SHANGHAI KUALA LUMPUR	MOSCOW BAHRAIN SEOUL TAIPEI
Works	Sunamachi Works (Koto-ku, Tokyo) Mizuho Aero-Engine Works (Mizuho-machi, Nishitama-gun, Tokyo) Soma No.1 Aero-Engine Works Soma No.2 Aero-Engine Works (Soma-city, Fukushima) Yokohama Nuclear & Chemical Components Works Yokohama Machinery Works (Isogo-ku, Yokohama-city) Aichi Works (Chita-city, Aichi) Aioi Works, Aioi Casting Workshop (Aioi-city, Hyogo) Kure Aero-Engine & Turbo Machinery Works (Kure-city, Hiroshima)		

(Note) Locations of material subsidiaries are as provided in “(10) Material Subsidiaries.”

**(9) Employees of Corporate Group (As of March 31, 2013)**

Business Segment	Number of Employees
Energy & Resources	6,648
Ships & Offshore Facilities	-
Social Infrastructure	1,546
Logistics Systems & Industrial Machinery	4,640
Rotating Equipment & Mass-Production Machinery	4,106
Aero Engine & Space	5,843
Others	3,021
Corporate (company-wide)	814
Total	26,618

(297 decrease compared with March 31, 2012)

**(10) Material subsidiaries (As of March 31, 2013)**

Company Name	Location	Capital	Voting Interest of the Company	Main Business
IHI AEROSPACE CO., LTD.	Koto-ku, Tokyo	5,000 million yen	100.00 %	Manufacture, sale, and repair of space development equipment and rocket vehicles
IHI Infrastructure Systems Co., Ltd.	Sakai-ku, Sakai-city	4,903 million yen	100.00 %	Design, manufacture, installation, maintenance and repair of bridges and water gates
Niigata Power Systems Co., Ltd.	Chiyoda-ku, Tokyo	3,000 million yen	100.00 %	Manufacture and sale of internal combustion engines, gas turbine engines and marine equipment

Company Name	Location	Capital	Voting Interest of the Company	Main Business
Meisei Electric Co., Ltd.	Bunkyo-ku, Tokyo	2,996 million yen	51.00%	Manufacture and sale of communication, electronic, electric measuring, information processing machines and other instruments and equipment, in addition to construction design and contracting and other incidental services
IHI Transport Machinery Co., Ltd.	Chuo-ku, Tokyo	2,647 million yen	100.00 %	Design, manufacture, sale, installation, maintenance, and repair of parking systems, materials handling equipment, and transport and distribution plants
IHI Construction Machinery Ltd.	Kanazawa-ku, Yokohama-city	1,750 million yen	100.00 %	Manufacture, sale and repair of construction machinery and materials handling equipment
IHI Shibaura Machinery Corporation	Matsumoto-city, Nagano	1,111 million yen	90.95%	Design, manufacture, sale, installation, maintenance and repair of internal combustion engines, agricultural machinery, fire pumps and turf-grass management equipment
IHI Compressor and Machinery Co., Ltd.	Koto-ku, Tokyo	1,033 million yen	100.00 %	Design, manufacture, sale, installation, maintenance and repair of compressors, separators and superchargers for ships

Company Name	Location	Capital	Voting Interest of the Company	Main Business
IHI Turbo Co., Ltd.	Koto-ku, Tokyo	1,000 million yen	100.00 %	Manufacture and sale of vehicular turbochargers
Niigata Transys Co., Ltd.	Chiyoda-ku, Tokyo	1,000 million yen	100.00 %	Manufacture and sale of rolling stock, industrial vehicles and machines for snow removal
IHI Plant Construction Co., Ltd.	Koto-ku, Tokyo	500 million yen	100.00 %	Design, manufacture, installation and repair of boiler facilities, nuclear power facilities, environmental and storage plant facilities, and industrial machinery facilities
IHI STAR Machinery Corporation	Chitose-city, Hokkaido	500 million yen	100.00 %	Design, manufacture, sale, maintenance and repair of agricultural machinery
IHI INC. (Note 2)	U.S.A.	84,582 thousand US dollars	100.00 %	Sale and order procurement of various plant, machinery and maintenance of jet engine, etc.
JURONG ENGINEERING LIMITED	Singapore	51,788 thousand Singapore dollars	95.56%	Installation of various types of plants and facilities/equipment, engineering and consulting of architectural work and civil engineering and plants
Changchun FAWER-IHI Turbo Co., Ltd.	China	158,300 thousand Chinese yuan	57.16%	Manufacture and sale of vehicular turbochargers
IHI Charging Systems International GmbH (Note 3)	Germany	15,000 thousand euro	100.00 %	Design, manufacture, and sale of vehicular turbochargers

Company Name	Location	Capital	Voting Interest of the Company	Main Business
IHI Turbo America Co.	U.S.A.	7,700 thousand US dollars	100.00 %	Manufacture and sale of vehicular turbochargers
IHI INFRASTRUCTURE ASIA CO., LTD.	Vietnam	251,803 million Vietnamese dong	100.00 %	Engineering, construction and installation of steel structures and concrete structures
IHI TURBO (THAILAND) CO., LTD.	Thailand	260,000 thousand Thai baht	90.00%	Manufacture and sale of vehicular turbochargers
IHI-Sullair Compression Technology (Suzhou) Co., Ltd.	China	55,465 thousand Chinese yuan	51.00%	Manufacture, sale and service of general-purpose turbo compressors
IHI Europe Ltd.	U.K.	2,500 thousand pound	100.00 %	Sale and mediation of various types of plant, machinery, ships/vessels and aircraft engines

(Notes)

1. The Voting Interests of the Company include indirectly owned portions.
2. IHI INC. is a regional headquarter in the Americas. The company increased its capital to maintain a capital level required to operate as such a company.
3. The Company gained a voting interest of 100.00% in IHI Charging Systems International GmbH as a result of acquiring Daimler AG's stake in that company.

**(11) Main lenders of Corporate Group (As of March 31, 2013)**

(Millions of yen)	
Lender	Amount
Mizuho Corporate Bank, Ltd.	52,616
Sumitomo Mitsui Banking Corporation	36,331
Sumitomo Mitsui Trust Bank, Limited	34,940
Development Bank of Japan Inc.	18,677
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	16,184
THE HACHIJUNI BANK, LTD	12,615
Nippon Life Insurance Company	8,640
The Dai-ichi Life Insurance Company, Limited	8,500
The Yamaguchi Bank, Ltd.	6,788
Hiroshima Bank, Ltd.	4,025

## 2. Company Officers

### (1) Directors and Corporate Auditors (as of March 31, 2013)

Title	Name	Responsibilities and significant concurrent position(s)
Chairman of the Board	Kazuaki Kama	Representative Director, Japanese Aero Engines Corporation Chairman, The Shipbuilders' Association of Japan
President	Tamotsu Saito	
Executive Vice President	Fusayoshi Nakamura	Assistant to the President Chairman of the Board, IHI Shibaura Machinery Corporation
Executive Vice President	Kazuo Tsukahara	Assistant to the President In charge of Business Relating to Procurement and Human Resources Director, Japan Marine United Corporation
Executive Vice President	Sadao Degawa	Assistant to the President In charge of Group Engineering In charge of Business Relating to Information Systems and Corporate Business Development
Director	Makoto Serizawa	In charge of Business Relating to Internal Audit
Director	Joji Sakamoto	In charge of Business Relating to Public Relations and Investors Relations, Legal, CSR and Administration In charge of Group Compliance and Risk Management
Director	Ichiro Terai	General Manager of Finance & Accounting Division
Director	Tatsumi Kawaratani	President of Machinery, Environmental & Logistics Systems Operations
Director	Izumi Imoto	President of Infrastructure Operations; General Manager of Monozukuri Innovation Initiative Outside Director, Meisei Electric Co., Ltd.
Director	Toshinori Sekido	President of Aero-Engine & Space Operations In charge of Business Relating to Defense
Director	Hiroshi Iwamoto	President of Global Marketing Headquarters
Director	Hiromitsu Hamamura	President of Energy Operations
Director	Tomokazu Hamaguchi	Outside Director, East Japan Railway Company

Title	Name	Responsibilities and significant concurrent position(s)
Director	Tadashi Okamura	Chairman, The Japan Chamber of Commerce and Industry Chairman, The Tokyo Chamber of Commerce and Industry Outside Director, Japan Post Holdings Co., Ltd. External Director, The Shoko Chukin Bank, Ltd.
Standing Corporate Auditor	Masakazu Maruyama	
Standing Corporate Auditor	Hideo Otaka	
Corporate Auditor	Takeo Inokuchi	Outside Corporate Auditor, Sanki Engineering Co., Ltd. Outside Corporate Auditor, Kikkoman Corporation Independent Member of the Board, Kaneka Corporation
Corporate Auditor	Nobuo Gohara	Attorney at Law
Corporate Auditor	Hisatsugu Nonaka	Outside Director, Miraca Holdings Inc.

- (Notes)
1. Executive Vice President: Mr. Fusayoshi Nakamura retired from the position of Chairman of the Board of IHI Shibaura Machinery Corporation on March 31, 2013.
  2. Director: Messrs. Tomokazu Hamaguchi and Tadashi Okamura are outside directors.
  3. Corporate Auditor: Messrs. Takeo Inokuchi, Nobuo Gohara, and Hisatsugu Nonaka are outside corporate auditors.
  4. Standing Corporate Auditor: Mr. Masakazu Maruyama possesses considerable knowledge of financial and accounting matters gained through his years of experience working in the Finance and Accounting Division of the Company, as well as at one of the subsidiaries (IHI Transport Machinery Co., Ltd.).
  5. The Company has registered Corporate Auditor Mr. Nobuo Gohara with domestic financial instrument exchanges (where the Company is listed) as an independent auditor.

**(2) Directors and Corporate Auditor who resigned during this fiscal year**

Directors and Corporate Auditor who held office during this fiscal year and whose terms expired during this fiscal year are as follows:

Position (at time of resignation)	Name	Responsibilities and significant concurrent positions at time of resignation	Date of resignation
Director	Yuji Hiruma	Assistant to the President Chairman, Japan Bridge Association	June 22, 2012
Director	Ichiro Hashimoto	Assistant to the President	June 22, 2012
Standing Corporate Auditor	Teruo Shimizu		June 22, 2012

**(3) Directors' and Executive Officers' responsibilities as of April 1, 2013**

Directors' and Executive Officers' responsibilities as of April 1, 2013 are as follows:

Position	Name	Responsibilities
Chairman of the Board	Kazuaki Kama	
President Chief Executive Officer	Tamotsu Saito	
Executive Vice President	Fusayoshi Nakamura	Assistant to the President
Executive Vice President	Kazuo Tsukahara	Assistant to the President In charge of Business Relating to Procurement, Internal Audit and Project Audit
Executive Vice President	Sadao Degawa	Assistant to the President In charge of Group Engineering In charge of Business Relating to Information Systems
Director	Makoto Serizawa	Assistant to the President
Director	Joji Sakamoto	In charge of Business Relating to Public Relations and Investor Relations, Legal, CSR and Administration In charge of Group Compliance and Risk Management
Director Managing Executive Officer	Ichiro Terai	General Manager of Finance & Accounting Division
Director Managing Executive Officer	Tatsumi Kawaratani	President of Machinery & Logistics Systems Operations; Deputy General Manager of Intelligent Information Management Headquarters In charge of Industrial Systems & General-Purpose Machinery Business Areas
Director Managing Executive Officer	Izumi Imoto	President of Infrastructure Operations; Deputy General Manager of Solution & Engineering Headquarters In charge of Social Infrastructure & Offshore Facilities Business Areas

Position	Name	Responsibilities
Director	Toshinori Sekido	In charge of Business Relating to Corporate Business Development and Defense In charge of Aero Engine, Space and Defense Business Areas In charge of New Priority Business Areas
Director Managing Executive Officer	Hiroshi Iwamoto	President of Global Marketing Headquarters In charge of Business Relating to Human Resources
Director Managing Executive Officer	Hiromitsu Hamamura	President of Energy & Plant Operations; General Manager of Solution & Engineering Headquarters In charge of Resources, Energy and Environment Business Areas
Managing Executive Officer	Eiichi Yoshida	General Manager of Sales Headquarters; Deputy General Manager of Solution & Engineering Headquarters
Managing Executive Officer	Naruto Takata	General Manager of Procurement Strategy Planning
Managing Executive Officer	Hiroshi Asakura	General Manager of Corporate Planning Division
Managing Executive Officer	Tsugio Mitsuoka	President of Aero-Engine & Space Operations; Deputy General Manager of Intelligent Information Management Headquarters
Managing Executive Officer	Hajime Kuwata	Vice President of Global Marketing Headquarters
Executive Officer	Hiroyuki Otani	Vice President of Machinery & Logistics Systems Operations
Executive Officer	Mikio Mochizuki	President of IHI INC. (Regional Headquarters in the Americas)
Executive Officer	Kazuyoshi Matsui	Vice President of Energy & Plant Operations
Executive Officer	Junichi Sakaki	President of Rotating Machinery Operations
Executive Officer	Akira Tateno	General Manager of Corporate Research & Development
Executive Officer	Naoya Domoto	Vice President of Energy & Plant Operations
Executive Officer	Hiromu Furukawa	President of Vehicular Turbocharger Operations
Executive Officer	Akinori Abe	President of Offshore Project & Steel Structures Operations
Executive Officer	Taizo Suga	President of Urban Development Operations; General Manager of Intelligent Information Management Headquarters
Executive Officer	Tsutomu Yoshida	Vice President of IHI INC. (Regional Headquarters in the Americas)
Executive Officer	Takanori Kunihiro	President of Nuclear Power Operations
Executive Officer	Tomoharu Shikina	Vice President of Aero-Engine & Space Operations

(Notes) 1. Executive Vice President, Mr. Fusayoshi Nakamura supervises the Global Marketing Headquarters.

2. Executive Vice President, Mr. Kazuo Tsukahara supervises Solution & Engineering Headquarters.
3. Executive Vice President, Mr. Sadao Degawa supervises Intelligent Information Management Headquarters.
4. Director, Mr. Joji Sakamoto supervises Headquarters Representative's Offices.

**(4) Remuneration of directors and corporate auditors**

(i) Number of amount and recipients

(Millions of yen)

Position	Number of recipients	Breakdown			Total Amount Paid
		Base amount	Share-based compensation	Performance-based bonus	
Director	17	591	73	94	759
Corporate Auditor	6	87	—	—	87
Total	23	678	73	94	847
(Of which, number of outside officers)	(5)	(45)	(—)	(—)	(45)

- (Notes)
1. Remuneration of directors does not include salaries of those who are also company employees.
  2. Maximum total amount of directors' remuneration is set at 1,090 million yen or below (excluding employee salaries) per year and maximum total amount of corporate auditors' remuneration is set at 90 million yen or below as determined at the 190<sup>th</sup> Ordinary General Meeting of Shareholders held on June 27, 2007.
  3. During the fiscal year under review, 13 directors (excluding outside directors) were paid 103 million yen in performance-based bonuses for the fiscal year ended March 31, 2012. (The difference between the amount disclosed as remuneration (81 million yen) in the previous fiscal year and the amount paid in the fiscal year under review is included and provided in the amount of performance-based bonus.)
  4. The numbers of directors and corporate auditors as of March 31, 2013 are respectively 15 (including 2 outside directors) and 5 (including 3 outside corporate auditors). The reason for the discrepancy from the above chart is that figures in the chart include 2 directors and one corporate auditor who resigned at the conclusion of the 195<sup>th</sup> Ordinary General Meeting of Shareholders held on June 22, 2012.

(ii) Policy on determination of remuneration

Maximum total remuneration of directors and corporate auditors is determined at an Ordinary General Meeting of Shareholders as described Note 2 above.

Directors' remuneration is a reward system that considers the standard necessary to secure superior human resources, more strongly aspires towards improvements of the Group's business results and corporate value, and emphasizes sharing the risk and return of stock price fluctuations with shareholders. Directors' remuneration consists of a base amount, stock compensation-type stock options and performance-based bonuses. The amounts and eligible recipients are determined at a meeting of the Board of Directors based upon recommendation reports from the Remuneration Advisory Committee (the "Committee"). Outside directors receive only a base amount.

Remuneration for corporate auditors is paid under a fixed-rate system as corporate auditors have responsibility for auditing operations throughout the Group. The amount is determined through discussions among corporate auditors.

The Committee was established to ensure the adequacy of remuneration and the transparency of payment procedures. The Committee consists of 4 members, which are an outside director, an outside corporate auditor, the director in charge of human resource, and the director in charge of finance. The outside director takes the chair and finalizes the Committee's recommendations.

**(5) Information regarding outside directors and outside corporate auditors**

(i) Significant concurrent positions at other entities and the relationship between the Company and those entities

Significant concurrent positions at other entities are as follows. There is no special relationship between the Company and these entities.

Position	Name	Significant concurrent positions at other entities
Director	Tomokazu Hamaguchi	Outside Director, East Japan Railway Company
Director	Tadashi Okamura	Chairman, The Japan Chamber of Commerce and Industry Chairman, The Tokyo Chamber of Commerce and Industry Outside Director, Japan Post Holdings Co., Ltd. External Director, The Shoko Chukin Bank, Ltd.

Position	Name	Significant concurrent positions at other entities
Corporate Auditor	Takeo Inokuchi	Outside Corporate Auditor, Sanki Engineering Co., Ltd. Outside Corporate Auditor, Kikkoman Corporation Independent member of the board, Kaneka Corporation
Corporate Auditor	Nobuo Gohara	Attorney at Law
Corporate Auditor	Hisatsugu Nonaka	Outside Director, Miraca Holdings Inc.

(ii) Attendance to directors/corporate auditors' meetings and activities during this fiscal year:

Position	Name	Attendance of meetings		Activities
		Directors' meetings	Auditors' meetings	
Director	Tomokazu Hamaguchi	17 of 19 (89%)	-	Provided advice and suggestions accordingly, from the viewpoint of an experienced business manager of a leading-edge IT/telecommunication business, in order to ensure appropriate and correct decisions were taken at the meetings.
Director	Tadashi Okamura	15 of 19 (79%)	-	Provided advice and suggestions accordingly, from the viewpoint of an experienced business manager of a manufacturing business, in order to ensure that appropriate and correct decisions were taken at the meetings.
Corporate Auditor	Takeo Inokuchi	16 of 19 (84%)	11 of 12 (92%)	Addressed questions and expressed opinions accordingly from the viewpoint of an experienced business manager of financial institutions.
Corporate Auditor	Nobuo Gohara	19 of 19 (100%)	12 of 12 (100%)	Addressed questions and expressed opinions accordingly from the viewpoint of a leading expert on corporate compliance.

Position	Name	Attendance of meetings		Activities
		Directors' meetings	Auditors' meetings	
Corporate Auditor	Hisatsugu Nonaka	17 of 19 (89%)	12 of 12 (100%)	Addressed questions and expressed opinions accordingly from the viewpoint of a business manager with global experience of manufacturing industries.

(iii) Limitation of liability

In accordance with Article 427, Paragraph 1 of the Corporation Law, each outside director/corporate auditor has entered into an agreement with the Company to limit his liability for damages stipulated in Article 423, Paragraph 1 of the same law. Amount of maximum liability of each director/corporate auditor under the agreement shall be subject to laws and regulations.

### 3. Corporate Share Information

#### (1) Corporate shares (as of March 31, 2013)

- (i) Total number of shares authorized to be issued: 3,300,000,000
- (ii) Total number of shares issued (excluding 3,748,665 treasury stock shares): 1,463,309,817
- (iii) Total number of shareholders: 104,446
- (iv) Major shareholders (top 10 shareholders)

Name	Number of shares held (Thousand)	Shareholding ratio (%)
Japan Trustee Services Bank, Ltd. (Holder in Trust)	60,305	4.12
Japan Trustee Services Bank, Ltd. (TOSHIBA Corporation Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)	55,422	3.78
The Dai-ichi Life Insurance Company, Limited	54,060	3.69
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	50,095	3.42
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	43,680	2.98
IHI Customer Stock Ownership Association	28,105	1.92
Nippon Life Insurance Company	23,867	1.63
Sumitomo Life Insurance Company	21,624	1.47
Mizuho Corporate Bank, Ltd.	20,801	1.42
GOLDMAN, SACHS & CO. REG	19,614	1.34

- (Notes)
1. Voting rights for 55,422,000 shares held by “Japan Trustee Services Bank, Ltd. (TOSHIBA Corporation Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited)” are exercised in accordance with the instructions of TOSHIBA Corporation because TOSHIBA Corporation is a consigner of the shares.
  2. Voting rights for 43,680,000 shares held by “Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.” are exercised in accordance with the instructions of Mizuho Bank because Mizuho Bank is a consigner of the shares.
  3. Shareholding ratios are calculated without including total number of treasury stock shares (3,748,665 shares).

**(2) Subscription rights to shares**

(i) Subscription rights to shares at the end of the fiscal year

- Subscription rights to shares granted to Company officers in remuneration for the performance of their duties:

Name (Date of decision)	Number of subscription rights to shares	Class and number of shares underlying subscription rights to shares	Amount to be paid in (per subscription right to shares)	Value of property to be contributed upon exercise (per subscription right to shares)	Exercise period
1 <sup>st</sup> Subscription Rights to Shares (July 23, 2007)	70	Common stock 70,000 shares	462,000 yen	1,000 yen	From August 10, 2007 to August 9, 2037
2 <sup>nd</sup> Subscription Rights to Shares (July 22, 2008)	205	Common stock 205,000 shares	185,000 yen	1,000 yen	From August 19, 2008 to August 18, 2038
3 <sup>rd</sup> Subscription Rights to Shares (July 21, 2009)	273	Common stock 273,000 shares	165,000 yen	1,000 yen	From August 6, 2009 to August 5, 2039
4 <sup>th</sup> Subscription Rights to Shares (July 23, 2010)	374	Common stock 374,000 shares	154,000 yen	1,000 yen	From August 10, 2010 to August 9, 2040
5 <sup>th</sup> Subscription Rights to Shares (July 25, 2011)	323	Common stock 323,000 shares	178,000 yen	1,000 yen	From August 18, 2011 to August 17, 2041
6 <sup>th</sup> Subscription Rights to Shares (July 23, 2012)	465	Common stock 465,000 shares	159,000 yen	1,000 yen	From August 17, 2012 to August 16, 2042

(Notes) Terms and conditions for exercising subscription rights to shares are as follows.

1. Subscription rights to shares shall be exercisable for five (5) years from the date one (1) year after a director or an executive officer lost its position (in the event that such individual assumes the position of corporate auditor within one (1) year after he/she resigns a director or an executive officer, the date he/she lost its position as corporate auditor) (“Exercise Start Date”).

2. Notwithstanding the above 1, in the event of the following, subscription rights to shares shall be exercisable for the period stipulated below. (However, (2) does not apply to subscription rights to shares issued by a reorganized company.)

- (1) In the event that the Exercise Start Date does not become effective by the dates indicated below for each of the subscription rights to shares (the “due date”):

Name	Due date	Exercise period of subscription rights to shares
1 <sup>st</sup> Subscription Rights to Shares	August 9, 2036	From August 10, 2036 to August 9, 2037
2 <sup>nd</sup> Subscription Rights to Shares	August 18, 2037	From August 19, 2037 to August 18, 2038
3 <sup>rd</sup> Subscription Rights to Shares	August 5, 2038	From August 6, 2038 to August 5, 2039
4 <sup>th</sup> Subscription Rights to Shares	August 9, 2039	From August 10, 2039 to August 9, 2040
5 <sup>th</sup> Subscription Rights to Shares	August 17, 2040	From August 18, 2040 to August 17, 2041
6 <sup>th</sup> Subscription Rights to Shares	August 16, 2041	From August 17, 2041 to August 16, 2042

- (2) In the event that a merger agreement (under which the Company becomes an absorbed company) or an agenda item of an equity-swap agreement and/or an equity transfer plan (under which the Company becomes a wholly-owned subsidiary of another company) is approved at a General Meeting of Shareholders of the Company (or at a Board of Director meeting or by the Chief Executive Officer if a decision at a shareholders’ meeting is not necessary) Fifteen (15) days from the following day of such decision.

3. A holder of subscription rights to shares who relinquishes his/her subscription rights to shares shall not be able to exercise such rights.

o Number of subscription rights to shares

Name (Date of decision)	Director		
	Number of subscription rights to shares	Number of underlying shares	Number of holders
1 <sup>st</sup> Subscription Rights to Shares (July 23, 2007)	70	70,000 shares	7
2 <sup>nd</sup> Subscription Rights to Shares (July 22, 2008)	205	205,000 shares	10
3 <sup>rd</sup> Subscription Rights to Shares (July 21, 2009)	273	273,000 shares	11
4 <sup>th</sup> Subscription Rights to Shares (July 23, 2010)	374	374,000 shares	12
5 <sup>th</sup> Subscription Rights to Shares (July 25, 2011)	323	323,000 shares	13
6 <sup>th</sup> Subscription Rights to Shares (July 23, 2012)	465	465,000 shares	13

(Note) These subscription rights to shares are not granted to outside directors and corporate auditors.

(ii) Subscription rights to shares granted to the Company's executive officers in remuneration for the performance of their duties during this fiscal year:

Date of decision	July 23, 2012
Number of subscription rights to shares	333
Class and number of underlying shares	Common stock: 333,000 shares (1,000 shares per subscription right to shares)
Amount to be paid in	159,000 yen per subscription right to shares
Value of property to be contributed upon exercising	1,000 yen per subscription right to shares (1 yen per share)
Exercise period	From August 17, 2012 to August 16, 2042
Status of granting	Number of subscription rights to shares: 333 Number of underlying shares: 333,000 Number of individuals to whom subscription rights to shares have been granted: 15

- (Notes) Terms and conditions for exercising subscription rights to shares are as follows.
1. Subscription rights to shares shall be exercisable for five (5) years from the date one (1) year after a director or an executive officer lost its position (in the event that such individual assumes the position of corporate auditor within one (1) year after he/she resigns a director or an executive officer, the date he/she lost its position as corporate auditor) ("Exercise Start Date").
  2. Notwithstanding the above 1, in the event of the following, subscription rights to shares shall be exercisable for the period stipulated below. (However, (2) does not apply to subscription rights to shares issued by a reorganized company.)
    - (1) In the event that Exercise Start Date does not become effective by August 16, 2041  
From August 17, 2041 to August 16, 2042
    - (2) In the event that a merger agreement (under which the Company becomes an absorbed company) or an equity-swap agreement and/or an equity transfer plan (under which the Company becomes a wholly-owned subsidiary of another company) is approved at a General Meeting of Shareholders of the Company (or at a Board of Director meeting or by the Chief Executive Officer if a decision at a shareholders' meeting is not necessary)  
Fifteen (15) days from the following day of such decision
  3. A holder of subscription rights to shares who relinquishes her/his subscription rights to shares shall not be able to exercise such rights.

(iii) Other important matters regarding subscription rights to shares  
 Subscription rights attached to Euro-Yen convertible bonds due 2016  
 based on a resolution at the Board of Directors meeting held on March 10,  
 2011. (As of March 31, 2013)

Date of Issue	Number of subscription rights to shares	Class and number of underlying shares	Amount to be paid in	Outstanding amount of bonds with subscription rights to shares
March 28, 2011	2,300	Common stock The number of shares of common stock of the Company to be delivered upon the exercise of subscription rights to shares shall be the total face value on the bonds for which a request for exercise was made divided by the conversion price. Any fractions of less than one (1) share shall be rounded down and no adjustment in cash shall be made.	Without contribution	23,000,000,000 yen

#### **4. Status of Accounting Auditor**

##### **(1) Name**

Ernst & Young ShinNihon LLC

##### **(2) Remunerations, etc.**

	Amount of payment	
Remunerations paid to the accounting auditor for the fiscal year under review	187	million yen
Total sum of cash and profits relating to other assets that the Company and its subsidiaries should pay to the accounting auditor	402	million yen

- (Notes) 1. The audit agreement entered into by the accounting auditor and the Company does not clearly distinguish the amount being derived from the audit under the Corporation Law and that being derived from the audit under the Financial Instruments and Exchange Act, and the two amounts cannot be substantially distinguished from each other. Therefore, the remunerations paid to the accounting auditor for the fiscal year under review indicates the total of these two kinds of amounts.
2. Of the Company's material subsidiaries, IHI INC., JURONG ENGINEERING LIMITED and other eight companies are audited by certified public accountants or accounting auditors (including persons overseas possessing the overseas country's equivalent qualification) other than the accounting auditor of the Company.

##### **(3) Details of non-audit services**

The Company entrusts the accounting auditor with the services regarding "Advice and support for issues arising from implementation of IFRS" and "Guidance on accounting for subsidiaries and affiliates" other than services defined in Article 2, Paragraph 1 of the Certified Public Accountants Law of Japan (non-audit services).

##### **(4) Policy for decisions on dismissal or non-reappointment of accounting auditors**

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 Corporation Law, the Board of Corporate Auditors shall dismiss the accounting auditor based on the consent of all corporate auditors.

In addition, in cases where the accounting auditor is deemed to have difficulty in conducting audit operations appropriately, the Board of Directors, based on the consent or at the request of the Board of Corporate Auditors, shall propose the dismissal or non-reappointment of the accounting auditor as an agenda item at a general meeting of shareholders.

**5. Systems to ensure compliance of directors with laws and regulations and articles of incorporation, and systems to ensure appropriateness of other operations.**

**Chapter 1 Purpose**

**(1) Purpose**

The purpose of this policy is to define the requirements of directors in accordance with the Corporation Law (Act No. 86 of 2005) regarding the establishment of “systems for ensuring that directors’ execution of duties conform to laws and regulations and articles of incorporation and systems to ensure the appropriateness of operation activities of other corporation” to improve the corporate governance of the IHI group companies and increase corporate value.

**Chapter 2 Internal Control System to Supervise Directors and Employees**

**(2) System for ensuring compliance of directors and employees with laws and regulations and articles of incorporation**

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

**(i) Preparation of rules and regulations**

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

**(ii) Compliance activities**

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

(iii) A system to ensure and correct activities

An internal audit mechanism shall be created to monitor, inspect, and assess operation activities at each division to ensure the appropriateness of such activities. "Corporate Audit Division", which is independent of all other divisions, shall be established. Corporate Audit Division shall report the results of audits to the Board of Directors as needed. To prevent noncompliance, a "Compliance Hotline" shall be established as an internal reporting system and CSR Promotion Division shall provide the necessary consultations.

**(3) System for storing and managing information**

Information related to Directors' exercise of their duties shall be saved as a written document or in an electromagnetic form. Directors shall establish a basic policy for storing and managing documents and electromagnetic records, and shall manage information thereof.

Amendment of safekeeping policy for documents and digital records shall be subject to approval of the Board of Directors.

**(4) System for managing risks**

Directors of the Company shall continuously assess, identify, and monitor business risks at each division of IHI group companies.

Directors shall recognize the importance of assessing, identifying, and monitoring any of the following risks as various risks relevant to the execution of duties of IHI group companies, and shall establish an appropriate system to manage such risks and as well as a system to apply and evaluate it.

(i) Contracts/agreements

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

(ii) Design, manufacturing, and technologies

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

(iii) Laws and regulations

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

(iv) Information systems

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

(v) Safety, health, and environment

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

(vi) Disaster and system failure

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

(vii) Financial activities

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

(viii) Financial reporting

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

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

**(5) System for assuring that Directors exercise their duties efficiently**

Directors of the Company shall clearly separate the function of management supervision from that of performance to ensure efficient performance of duties, and shall delegate most rights to perform duties to executive officers for efficiency.

To make appropriate decisions through multi-dimensional considerations, the Chief Executive Officer shall organize a management committee as an advisory body to discuss important matters of IHI group companies.

Directors shall prepare profit plans including target profitability of each division at the beginning of every financial period and verify their results each month.

**Chapter 3 Internal Audit System for Corporate Group**

**(6) Ensuring for assuring operational legitimacy within the corporate group**

Directors of the Company shall establish a system to ensure IHI group-wide governance by setting rules to manage group companies and appointing responsible divisions to manage, control, and direct such companies. As for group company matters with high levels of importance, directors shall submit/report to the Board of Directors and Management Committee.

Directors of the Company shall monitor the business conditions of group companies on a routine basis by deploying part-time corporate auditors or other employees to group companies. If necessary, responsible division or related division shall provide support to secure the appropriateness of business operations.

Directors also establish a group business management section within the Corporate Planning Division to create a group-wide management mechanism and to supervise group company businesses.

#### **Chapter 4 Internal Audit System to Ensure Corporate Auditors' Performance of Duties**

**(7) Employees to assist corporate auditors**

Corporate auditors of the Company shall establish an audit office to assist them in the performance of their duties.

The audit office shall consist of several employees of IHI with core competencies, and such employees shall be appointed based on discussions between corporate auditors and related directors.

Directors shall ensure the independence of the employees of the audit office from executive officers.

**(8) Audit by corporate auditors**

Corporate auditors of the Company, in accordance with the audit policies defined at the Board of Corporate Auditors, shall attend important meetings including the Board of Directors meetings and management meetings, and audit the performance of directors through interviews with directors, reviews of documents related to important resolutions, and investigations of operations and financial situations of each division and major subsidiaries.

**(9) Reporting to corporate auditors**

Directors and employees of the Company shall, without delay, report to corporate auditors and the Board of Corporate Auditors regarding related laws and regulations, results of internal audits, results of hotline system, and other important matters that have a company-wide impact.

**Consolidated Balance Sheet**  
(As of March 31, 2013)

(Millions of yen)

Account title	Amount	Account title	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>814,786</b>	<b>Current liabilities</b>	<b>665,452</b>
Cash and deposits	73,032	Notes and accounts payable-trade	266,299
Notes and accounts receivable-trade	348,350	Short-term loans payable	114,927
Short-term investment securities	395	Commercial papers	6,000
Finished goods	19,741	Accrued expenses	56,851
Work in process	190,594	Income taxes payable	11,984
Raw materials and supplies	105,968	Advances received	106,377
Deferred tax assets	31,358	Provision for bonuses	22,443
Other	52,083	Provision for construction warranties	18,948
Allowance for doubtful accounts	(6,735)	Provision for loss on construction contracts	21,510
		Other provision	740
		Other	39,373
<b>Noncurrent assets</b>	<b>549,453</b>	<b>Noncurrent liabilities</b>	<b>399,505</b>
Property, plant and equipment	321,057	Bonds payable	63,335
Buildings and structures	132,416	Long-term loans payable	151,449
Machinery, equipment and vehicles	58,191	Lease obligations	14,431
Land	88,370	Deferred tax liabilities for land revaluation	6,312
Lease assets, net	16,537	Provision for retirement benefits	115,408
Construction in progress	11,323	Other provision	4,217
Other	14,220	Other	44,353
Intangible assets	39,143	<b>Total liabilities</b>	<b>1,064,957</b>
Goodwill	22,608	<b>Net Assets</b>	
Software	12,184	<b>Shareholders' equity</b>	<b>282,748</b>
Other	4,351	Capital stock	95,762
Investments and other assets	189,253	Capital surplus	43,047
Investment securities	128,879	Retained earnings	144,675
Deferred tax assets	36,383	Treasury stock	(736)
Other	26,248	<b>Accumulated other comprehensive income</b>	<b>5,636</b>
Allowance for doubtful accounts	(2,257)	Valuation difference on available-for-sale securities	6,158
		Deferred gains or losses on hedges	(810)
		Revaluation reserve for land	4,665
		Foreign currency translation adjustment	(4,377)
		<b>Subscription rights to shares</b>	<b>563</b>
		<b>Minority interests</b>	<b>10,335</b>
		<b>Total net assets</b>	<b>299,282</b>
<b>Total assets</b>	<b>1,364,239</b>	<b>Total liabilities and net assets</b>	<b>1,364,239</b>

**Consolidated Statement of Income**  
(Year ended March 31, 2013)

(Millions of yen)

Account title	Amount
Net sales	1,256,049
Cost of sales	1,059,279
<b>Gross profit</b>	<b>196,770</b>
Selling, general and administrative expenses	154,629
<b>Operating income</b>	<b>42,141</b>
Non-operating income	
Interest and dividends income	2,871
Equity in earnings of affiliates	4,333
Foreign exchange gains	4,571
Other	5,295
Non-operating expenses	
Interest expenses	4,438
Expenses for delayed delivery	6,062
Other	12,492
<b>Ordinary income</b>	<b>36,219</b>
Extraordinary income	
Gain on sales of noncurrent assets	14,137
Gain on change in equity	11,848
Extraordinary losses	
Loss on valuation of investment securities	1,432
Cost of environment conservation measures	1,280
Impairment loss	1,260
Provision for loss on subsidiaries and affiliates	987
<b>Income before income taxes and minority interests</b>	<b>57,245</b>
Income taxes—current	19,166
Income taxes—deferred	3,280
<b>Income before minority interests</b>	<b>34,799</b>
Minority interests	1,413
<b>Net income</b>	<b>33,386</b>

**Consolidated Statement of Changes in Net Assets**  
(Year ended March 31, 2013)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	95,762	43,044	116,083	(547)	254,342
Changes of items during the period					
Dividends from surplus			(5,857)		(5,857)
Net income			33,386		33,386
Purchase of treasury stock				(212)	(212)
Disposal of treasury stock		3		23	26
Net increase from newly consolidated subsidiaries			1,063		1,063
Net changes of items other than shareholders' equity					-
Total changes of items during the period	-	3	28,592	(189)	28,406
Balance at the end of current period	95,762	43,047	144,675	(736)	282,748

	Accumulated other comprehensive income					Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at the beginning of current period	(361)	(55)	4,665	(8,452)	(4,203)	462	7,874	258,475
Changes of items during the period								
Dividends from surplus					-			(5,857)
Net income					-			33,386
Purchase of treasury stock					-			(212)
Disposal of treasury stock					-			26
Net increase from newly consolidated subsidiaries					-			1,063
Net changes of items other than shareholders' equity	6,519	(755)	-	4,075	9,839	101	2,461	12,401
Total changes of items during the period	6,519	(755)	-	4,075	9,839	101	2,461	40,807
Balance at the end of current period	6,158	(810)	4,665	(4,377)	5,636	563	10,335	299,282

## **Notes to the Consolidated Financial Statements**

### **I. Basis of Preparation of the Consolidated Financial Statements**

#### **1. Scope of Consolidation**

*(1) Number and names of major consolidated subsidiaries*

Number of consolidated subsidiaries: 143

Names of major consolidated subsidiaries:

IHI AEROSPACE CO., LTD., IHI Infrastructure Systems Co., Ltd.,  
Niigata Power Systems Co., Ltd., Meisei Electric Co., Ltd.,  
IHI Transport Machinery Co., Ltd., IHI Construction Machinery Ltd.,  
IHI Shibaura Machinery Corporation,  
IHI Compressor and Machinery Co., Ltd., IHI Turbo Co., Ltd.,  
Niigata Transys Co., Ltd., IHI Plant Construction Co., Ltd.,  
IHI STAR Machinery Corporation, IHI INC.,  
JURONG ENGINEERING LIMITED, Changchun FAWER-IHI Turbo Co., Ltd.,  
IHI Charging Systems International GmbH, IHI Turbo America Co.,  
IHI INFRASTRUCTURE ASIA CO., LTD., IHI TURBO (THAILAND) CO., LTD.,  
IHI-Sullair Compression Technology (Suzhou) Co., Ltd., IHI Europe Ltd.

In the fiscal year under review, the number of consolidated subsidiaries increased by 42 due to additional acquisition of shares, 4 due to new establishment of the companies and 3 due to inclusion in the scope of consolidation because of increase in materiality, and decreased by 1 due to a merger. IHI Marine United Inc. and its 3 subsidiaries were removed as a result of a management integration with Universal Shipbuilding Corporation in January 2013.

*(2) Names of major non-consolidated subsidiaries, etc.*

Names of major non-consolidated subsidiaries:

San-Etsu Co., Ltd., Wuxi IHI Turbo Co., Ltd.,  
IHI POWER SYSTEM MALAYSIA SDN. BHD.

(Reason for excluding from the scope of consolidation)

Those non-consolidated subsidiaries are small in size and their total assets, net sales, the net income or loss for the Company's equity interest, and retained earnings for the Company's equity interest do not have a significant effect on the consolidated financial statement.

*(3) Special purpose company ("SPC") subject to disclosure*

Outline of SPC subject to disclosure, details of transactions through SPC subject to disclosure and the amount of transactions with SPC subject to disclosure are disclosed in "Special Purpose Company ("SPC") Subject to Disclosure".

## **2. Application of the Equity Method**

*(1) Number and names of major affiliated companies accounted for by the equity method*

Number of affiliated companies accounted for by the equity method: 32

Names of major equity method affiliates:

Japan Marine United Corporation, Turbo Systems United Co., Ltd.

In the fiscal year under review, the number of affiliated companies accounted for by the equity method increased by 8 due to additional acquisition of shares, 1 due to new establishment of the company and 3 due to increase in materiality. Japan Marine United Corporation and its 3 subsidiaries were added as a result of a management integration of IHI Marine United Inc. with Universal Shipbuilding Corporation in January 2013.

*(2) Names of affiliated companies not accounted for by the equity method*

Name of major company: UNIGEN Inc., Ishiko Building Services Co., Ltd.

(Reason for excluding from the scope of equity method)

The company's net income or loss for the Company's equity interest, and retained earnings for the Company's equity interest have immaterial effect on the consolidated financial statement and is less significant as a whole.

## **3. Significant Accounting Policies**

*(1) Valuation bases and methods of securities*

Securities to be held until maturity are stated at amortized cost (by the straight-line method).

Other securities with market prices available are stated at fair market value as of the balance sheet date. The related valuation differences are directly included into net assets and the cost of sale price is determined by the moving-average method. Other securities without market prices available are stated at moving-average cost.

*(2) Valuation bases and methods of derivatives*

Derivatives are stated at fair market value.

*(3) Valuation bases and methods of inventories*

Raw materials and supplies are stated at moving-average cost (for figures shown on balance sheet, the book value write-down method based on decreased profitability is used).

Finished goods and Work in process are stated at identified cost (for figures shown on balance sheet, the book value write-down method based on decreased profitability is used).

(4) *Depreciation and amortization of noncurrent assets*

*Property, plant and equipment (except for lease assets)*

These assets are depreciated by the declining-balance method. However, lend-lease properties and buildings (excluding building fixtures) acquired on or after April 1, 1998, are depreciated by the straight-line method. In addition, some of the Company's consolidated subsidiaries employ the straight-line method.

*Intangible assets (except for lease assets)*

Intangible assets are amortized by the straight-line method. Software used internally is amortized using the straight-line method over the useful life of the assets, estimated by the company (within five years).

*Lease assets*

Lease assets related to ownership transfer finance lease transactions are depreciated using the same method as that applied to property, plant and equipment.

Lease assets related to non-ownership transfer finance leases are depreciated over the lease period as useful life using the straight-line method with no residual value. The Company uses the method for ordinary rental transactions for non-ownership transfer finance leases for which lease agreements were concluded on or before March 31, 2008.

(5) *Bases for significant allowances and provisions*

*Allowance for doubtful accounts*

To prepare for losses on bad debts, the allowance for doubtful accounts is provided for based on historical default rates for general receivables, plus individually estimated uncollectible amounts for specific receivables such as doubtful receivables.

*Provision for bonuses*

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

*Provision for directors' bonuses*

To prepare for payment of bonuses for directors, the provision for bonuses is provided for in the amount that is expected to be paid for the fiscal year under review.

*Provision for construction warranties*

To prepare for expenditures for construction warranties, the provision for construction warranties is provided for in the amount of estimated future expenditures based on historical experience.

*Provision for loss on construction contracts*

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

*Provision for retirement benefits*

Provision for retirement benefits is provided for based on projected benefit obligations and pension funds assets as of the balance sheet date. Some consolidated subsidiaries adopt the conventional method to determine a provision for retirement benefits.

Past service costs are amortized using the straight-line method over a certain number of years within the average remaining service period of employees when the cost incurred in each year.

In principle, actuarial differences are amortized from the next fiscal year of the fiscal year in which the difference occurs using the straight-line method over a certain number of years within the average remaining service period of employees.

*Provision for directors' retirement benefits*

The domestic consolidated subsidiaries provided the provision for directors' retirement benefits for the amount required to be paid at the end of the fiscal year under review in accordance with the internal policy.

*Provision for loss on subsidiaries and affiliates*

To prepare for losses on the businesses of subsidiaries and affiliates, estimated loss amount to be borne by the Company is provided for, taking into account the details of assets and other factors of the relevant subsidiaries.

(6) *Other Significant Matters Concerning the Preparation of Consolidated Financial Statements*

*Recognition of revenue and expenses*

*Basis of recording revenues and costs of construction contracts*

Construction projects whose outcome of the progress by the end of the fiscal year deemed definite are recorded on the percentage-of-completion basis (rate of progress estimated by the cost-ratio method), while all other projects are accounted for on the completed construction basis.

*Hedge accounting*

Deferred hedge accounting is applied. Transactions under forward foreign exchange contracts are booked in yen by translation at the foreign exchange rate stipulated in the contract if requirements for such treatment (*"furiate-shori"*) is satisfied.

Interest rate swaps that satisfy requirements for exceptional treatments are accounted for by the exceptional treatment (*"tokurei-shori"*).

*Amortization method and period of goodwill*

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

*Consumption taxes*

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

## **II. Change in Accounting Policy**

(Change in accounting policy that is difficult to distinguish from change in accounting estimate)

In the fiscal year under review, the Company and its major domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment acquired on or after April 1, 2012 in line with the revision of the Corporate Tax Act of Japan.

As a result of this change, operating income, ordinary income and income before income taxes and minority interests each increased by ¥574 million in the fiscal year under review in comparison to under the previous method.

## **III. Changes in Presentation**

(Consolidated balance sheet)

“Lease obligations” which was included in “Other” under “Noncurrent liabilities” in the previous fiscal year, increased in materiality, and has therefore been separately presented in the fiscal year under review. “Lease obligations” included in “Other” under “Noncurrent liabilities” totaled 12,407 million yen in the previous fiscal year.

(Consolidated statement of income)

“Expenses for delayed delivery” which was included in “Other” under “Non-operating expenses” in the previous fiscal year, increased in materiality, and has therefore been separately presented in the fiscal year under review. “Expenses for delayed delivery” which was included in “Other” under “Non-operating expenses” totaled 143 million yen in the previous fiscal year.

#### IV. Notes to the Consolidated Balance Sheet

##### 1. Accumulated depreciation of property, plant and equipment

477,912 million yen

##### 2. Assets pledged as collateral and secured liabilities

###### (1) Assets pledged as collateral

Cash and deposits	709 million yen
Notes and accounts receivable - trade	103 million yen
Raw materials and supplies	5 million yen
Other Current assets	2,510 million yen
Buildings and structures	2,714 million yen
Machinery, equipment and vehicles	256 million yen
Land	11,187 million yen
Other property, plant, and equipment	9 million yen
Investment securities	646 million yen
	(Note)

Of above, the following assets are pledged as collateral of factory foundation.

Buildings and structures	263 million yen
Machinery, equipment and vehicles	88 million yen
Land	2,613 million yen
Other property, plant, and equipment	9 million yen

###### (2) Secured liabilities

Short-term loans payable	5,765 million yen
Other Current liabilities	840 million yen
Long-term loans payable	1,958 million yen
Other Noncurrent liabilities	3,360 million yen

Of above, the liabilities for which the collateral of factory foundation are pledged are as follows:

Short-term loans payable	2,475 million yen
--------------------------	-------------------

(Note) Kagoshima Mega Solar Power Corporation and seven shareholder companies of the said company entered into a revolving pledge agreement with financial institutions in order to secure all and any liabilities of the said company under the limited loan agreement concluded between Kagoshima Mega Solar Power Corporation and the financial institutions.

### 3. Contingent liabilities

(1) Liabilities on guarantee (\*)

(Millions of yen)

Guarantee Given to	Amount	Description
Japanese Aero Engines Corporation	5,675	Guarantee of loan obligations for purchase of fuselages, guarantee of lease obligations and guarantee of fuselage asset value
UNIGEN Inc.	5,000	Loans from financial institutions
ALPHA Automotive Technologies LLC	1,600	Guarantee for lease obligations and loans from financial institutions
IHI Group Health Insurance Association	983	Loans from financial institutions
Japan Aeroforge, Ltd.	944	Loans from financial institutions
IHI Logistics System Technology Shanghai Co., Ltd.	416	Loans from financial institutions
Construction machinery customers	120	Guarantee for lease obligations
Employees	88	Guarantee on mortgage and education loans, etc.
Chubu Segment Co., Ltd.	50	Loans from financial institutions
Kinki Ishiko Co., Ltd.	17	Loans from financial institutions
Total	14,893	

(2) Quasi-guarantee (\*)

(Millions of yen)

Guarantee Given to	Amount	Description
Employees	9,721	Guarantee on mortgage and guarantee on bank loans, etc.
IHI Group Health Insurance Association	1,025	Loans from financial institutions
Turbo Systems United Co., Ltd.	40	Loans from financial institutions
Total	10,786	

\* Amount(s) shown above is the amount paid by the IHI Group to the creditor if the agreement is a guarantee agreement (such as joint guarantee) and if the IHI Group's responsibility is clearly expressed and specified irrespective of the another guarantor's ability to guarantee.

### 4. Notes receivable-trade discounted

450 million yen

**5. Notes with maturity date at the end of the fiscal year**

Accounting of notes with maturity date at the end of the fiscal year is settled on the date of bank clearing.

Therefore, because the last day of the fiscal year under review was a bank holiday, the following notes that matured at the end of the fiscal year are included in the balance at the end of the fiscal year.

Notes receivable-trade	2,045 million yen
Notes payable-trade	2,492 million yen

**V. Notes to the Consolidated Statement of Changes in Net Assets**

**1. Numbers of Shares Issued**

*(1) Class and number of shares issued*

(unit: shares)

Class	Number of Shares at April 1, 2012	Increase	Decrease	Number of Shares at March 31, 2013
Common stock	1,467,058,482	-	-	1,467,058,482

*(2) Class and numbers of treasury stock shares*

(unit: shares)

Class	Number of Shares at April 1, 2012	Increase	Decrease	Number of Shares at March 31, 2013
Common stock	2,853,236	1,011,327	115,898	3,748,665

(Notes)

1. Of the increase in shares, 1,000,000 shares are the result of acquisitions pursuant to Article 797, Paragraph 1 of the Corporation Law, and 11,327 shares are the result of the purchase of shares less than one unit.
2. Of the decrease in shares, 898 shares are due to the sale of fractional shares at the request of shareholders and 115,000 shares are due to disposal of shares associated with the exercise of new share subscription rights.

## 2. Matters Concerning Dividends

### (1) Cash dividends

Resolution	Class of Shares	Total Amount of Dividend (million yen)	Dividend per Share (yen)	Record Date	Effective Date
June 22, 2012 Ordinary General Meeting of Shareholders	Common stock	5,857	4	March 31, 2012	June 25, 2012

### (2) Of the dividends whose record date belongs to the current fiscal year, the dividend whose effective date falls in the following fiscal year is as follows:

Resolution	Class of Shares	Total Amount of Dividend (million yen)	Dividend per Share (yen)	Record Date	Effective Date
June 27, 2013 Ordinary General Meeting of Shareholders	Common stock	7,317	5	March 31, 2013	June 28, 2013

## 3. Class and Number of Shares underlying Subscription Rights to Shares

Common stock     3,190,000 shares

## VI. Financial Instruments

### 1. Status of Financial Instruments

As a Group policy, the Company and consolidated subsidiaries restrict the investments only in short-term and highly safe financial instruments and obtain funds through bank borrowings and bond issuance.

The customer credit risks in connection with notes and accounts receivable are managed by monitoring the balances and the collectability status by customer and by order in accordance with the Company's policies and procedures. At the same time, the financial status of each counterparty is periodically monitored in order to early capture and mitigate collectability concern arisen from deterioration in financial conditions.

Foreign currency risks associated with monetary assets and liabilities denominated in foreign currencies are, in principle, hedged by utilizing foreign exchange futures and currency option contracts.

As for securities and investment securities, their market prices and the financial status of issuers are regularly assessed, and the Company's holding status is continuously monitored. Loans, commercial papers and bond payables are made for the purpose of obtaining working capital and funds for capital expenditures. Of which, loans, commercial papers or bond payables with floating rate are exposed to fluctuation risk of interest rate, therefore, such risk is hedged by employing derivative contracts. Derivative contracts are utilized solely to avoid fluctuation risks of foreign exchange rate, interest rate and commodity prices, and the Company does not enter derivative contracts for speculative purpose.

## 2. Fair Values of Financial Instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheet and their fair values as of March 31, 2013, as well as their differences.

(Millions of yen)

	Consolidated Balance Sheet Amount	Fair Value	Differences
(1) Cash and deposits	73,032	73,032	-
(2) Notes and accounts receivable - trade	348,350		
Allowance for doubtful accounts(*1)	(3,974)		
	344,376	344,189	(187)
(3) Short-term investment securities and investment securities	40,893	40,897	4
Securities to be held until maturity	1,999	2,003	4
Available-for-sale securities	38,894	38,894	-
Total assets	458,301	458,118	(183)
(4) Notes and accounts payable - trade	266,299	266,299	-
(5) Short-term loans payable	114,927	114,927	-
(6) Commercial papers	6,000	6,000	-
(7) Bonds payable	63,335	68,113	4,778
(8) Long-term loans payable	151,449	152,742	1,293
Total liabilities	602,010	608,081	6,071
(9) Derivatives (*2)			
(a) Derivatives to which hedge accounting is applied	(1,105)	(1,105)	-
(b) Derivatives to which hedge accounting is not applied	(631)	(631)	-
Derivatives, total	(1,736)	(1,736)	-

(\*1) The amount of allowance for doubtful accounts, which is recorded individually for notes and accounts receivable, is excluded.

(\*2) Derivatives are stated in net of assets and liabilities. The figures in parenthesis indicate net liabilities.

(Notes)

1. Fair value measurement of financial instruments and notes on securities and derivatives

- (1) Cash and deposits  
The fair value of cash and deposits approximates their book value because of their short-term nature. Thus, the book value is used as fair value.
  - (2) Notes and accounts receivable-trade  
The fair values are measured based on the present values calculated by discounting receivable amounts classified by certain period at a rate with time to maturity and credit risk taken into account.
  - (3) Short-term investment securities and Investment securities  
The fair values of equity securities are based on the market prices at the exchange.
  - (4) Notes and accounts payable-trade, (5) Short-term loans payable, and (6) Commercial papers  
The fair value of these accounts approximates their book value because of their short-term nature. Thus, the book value is used as fair value.
  - (7) Bonds payable  
The fair value of bonds issued by the Company is based on market price. If there is no market price, the price is computed by the present value method by which the total amount of principal and interest is discounted for the remaining period of the bond and taking into account credit risk.
  - (8) Long-term loans payable  
The fair value of long-term loans payable is measured by discounting the total amount (\*3) of principles and interests at an assumed interest rate for similar new borrowings.  
  
(\*3) Long-term loans payable which are subject to either designated hedge accounting of forward exchange contracts, etc. or exceptional treatment of interest rate swaps are measured depending on the conditions of cases where they are accounted for together with said derivatives.
  - (9) Derivatives  
The fair value of forward foreign exchange contracts is based on the forward exchange rate. Forward foreign exchange contracts, etc., which qualify for the designated hedge accounting, are accounted for together with notes and accounts receivable-trade, notes and accounts payable-trade or long-term loans payable designated as a hedged item. Therefore, their fair values are included in the fair value of any of these items (please refer to the above (2), (4) and (8)).  
  
Also, interest rate swaps, which qualify for the exceptional treatment, are accounted for together with long-term loans payable and short-term loans payable designated as a hedged item. Therefore, their fair values are included in the fair value of long-term loans payable and short-term loans payable (please refer to the above (8))
2. Unlisted equity securities (consolidated balance sheet amount of 25,255 million yen) and stocks of subsidiaries and affiliates (consolidated balance sheet amount of 63,126 million yen) are not included in the above “(3) Short-term investment securities and investment securities, Available-for-sale securities,” since their market price is not available and the assessment of their fair values is deemed extremely difficult.

## VII. Investment and Rental Properties

### 1. Status of Investment and Rental Properties

The Company and certain consolidated subsidiaries own rental office buildings (including land), parking lots and commercial facilities in Tokyo and other areas. Income from rental properties is 5,753 million yen for the fiscal year under review.

Major income from rental properties is included in Net sales, where major rental expenses are included in Cost of sales.

### 2. Fair Values of Investment and Rental Properties

(Millions of yen)

Consolidated Balance Sheet Amount	Fair Value
98,095	252,016

(Notes)

1. Consolidated balance sheet amount is calculated by subtracting accumulated depreciation and accumulated impairment loss from acquisition cost.
2. Fair values as of March 31, 2013 are measured mainly based on the values in the appraisal report prepared by external real estate appraisers.

## VIII. Special Purpose Company (“SPC”) Subject to Disclosure

### 1. Outline of SPC Subject to Disclosure and Details of Transactions Through SPC Subject to Disclosure

The Company executed the securitization of real estate properties in March 2005, in order to obtain stable funding, and the Company uses 1 SPC which is a special limited liability company. The SPC business includes the acquisition, the possession, the management and the sale of beneficiary rights of real estate in trust. Besides, the Company provides the SPC with property management contract services.

For this securitization, the Company enters into the anonymous association contract with SPC and makes investments in capital in accordance with the contract. The Company plans to collect all investments in capital under the anonymous association contract, and considers no future loss to be assumed as of the end of fiscal year under review. Total assets and total liabilities of this SPC, as at its most current closing date, are 5,182 million yen and 4,733 million yen, respectively.

The Company has neither capital with voting rights nor dispatching of executives and employees to this SPC.

## 2. Amounts of Transactions with SPC

(Millions of yen)

Description of transaction	Amounts of major transactions or balance as at March 31, 2013	Major income or loss	
		Account name	Amount
Investment in capital (Note 1)	308	Non-operating income (Note 2)	142
Property management contract services	-	Operating income	3

(Notes)

1. Investment in capital is deemed to be investment securities, and included in Available-for-sale securities.
2. Income distribution from investment in capital is recorded as non-operating income.

## IX. Per Share Information

**1. Net assets per share** 197.08 yen

**2. Net income per share** 22.81 yen

(Note)

The basis for calculating net income per share is as follows.

Net income	33,386 million yen
Amounts for non-common shareholders	-
Net income regarding common stock	33,386 million yen
Average number of shares of common stock	1,463,401 thousand shares

## X. Significant Subsequent Events

No applicable item.

## XI. Other Notes

(Business combination of subsidiary)

IHI Marine United Inc. ("IHI Marine United"), which was a consolidated subsidiary of IHI until December 31, 2012, carried out a management integration through merger with Universal Shipbuilding Corporation ("Universal Shipbuilding") on January 1, 2013, forming Japan Marine United Corporation. A summary of Japan Marine United Corporation, which is an equity method affiliate of the Company, is provided below.

1. Summary of business combination

(1) Names and business lines of companies involved in business combination

	Surviving company	Merged company
Trade name	Universal Shipbuilding	IHI Marine United
Business	<ul style="list-style-type: none"> <li>· Design, manufacture, sale and repair of ships</li> <li>· Design, manufacture, sale and repair of floating oil storage facilities, and steel structures including mega-floats</li> <li>· Design, manufacture, sale and repair of marine equipment, industrial robots and defense equipment</li> <li>· Design and supervision of contracted civil engineering and construction work</li> <li>· Sale of technologies related to above</li> <li>· Business incidental or related to the above</li> </ul>	<ul style="list-style-type: none"> <li>· Design, manufacture, purchase, sale, lease, installation, repair, maintenance and preservation of ships, naval vessels/patrol vessels, marine floaters (LNG/LPG production systems, oil drilling units, etc.), marine equipment, defense equipment, industrial robots, floating/underwater equipment, marine structures and other steel structures</li> <li>· Design and supervision of civil engineering and construction work</li> <li>· Consulting and engineering related to above, and provision of other technical know-how</li> <li>· Business incidental or related to the above</li> </ul>

(2) Primary reasons for business combination

The management integration was conducted in order to achieve both of competitiveness and profitability in areas such as the shipbuilding industry, particularly new shipbuilding, and engineering and lifecycle industry, and realize strategies for further growth as an established industry leader with cross-industry capabilities by enhancing development capabilities by gathering the respective design capabilities of Universal Shipbuilding and IHI Marine United and pursuing an optimized production system that takes maximum advantage of shipyard characteristics.

(3) Date of business combination

January 1, 2013

(4) Summary of transaction including legal form

Management integration through merger whereby Universal Shipbuilding is the surviving company

2. Summary of accounting treatment implemented

Accounting treatment for the business combination was carried out in accordance with “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, December 26, 2008) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, December 26, 2008). As a result of the application of this accounting treatment for the business combination in the preparation of the consolidated financial statements, ¥11,848 million in gain on change in equity was recorded as extraordinary income with respect to the Company’s investment in IHI Marine United.

3. Amount of profit or loss from IHI Marine United recorded in consolidated statements of income for the fiscal year under review

Net sales: 115,177 million yen  
Operating income: 6,535 million yen

4. Outline of new company

Trade name	Japan Marine United Corporation
Head office	36-7, Shiba 5-chome, Minato-ku, Tokyo, Japan
Representatives	President & CEO Shinjiro Mishima Representative Director Yoshio Otagaki
Capital	25,000 million yen
Fiscal year-end	March 31
Net assets	131,718 million yen (as of January 1, 2013)
Total assets	323,441 million yen (as of January 1, 2013)
Business	Design, manufacture, sale of ships, naval/patrol vessels, marine floaters, etc.

(Note) In preparing the consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets, and notes to the consolidated financial statements, any fractional amount less than one unit of monetary value is rounded off.

**Non-Consolidated Balance Sheet**  
(As of March 31, 2013)

(Millions of yen)

Account title	Amount	Account title	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>489,880</b>	<b>Current liabilities</b>	<b>420,475</b>
Cash and deposits	33,201	Notes payable-trade	4,139
Notes receivable-trade	2,400	Accounts payable-trade	128,709
Accounts receivable-trade	161,643	Short-term loans payable	124,014
Finished goods	16	Commercial papers	6,000
Work in Process	110,939	Lease obligations	1,657
Raw materials and supplies	81,582	Accounts payable-other	15,289
Advance payments-other	6,028	Accrued expenses	40,490
Prepaid expenses	4,315	Income taxes payable	2,032
Deferred tax assets	15,274	Advances received	60,153
Accounts receivable-other	19,481	Deposits received	1,264
Short-term loans receivable	55,951	Provision for bonuses	8,857
Other	3,864	Provision for directors' bonuses	138
Allowance for doubtful accounts	(4,820)	Provision for construction warranties	13,495
<b>Noncurrent assets</b>	<b>446,213</b>	Provision for loss on construction contracts	9,120
Property, plant and equipment	192,980	Other	5,110
Buildings	95,430	<b>Noncurrent liabilities</b>	<b>322,718</b>
Structures	5,752	Bonds payable	63,335
Docks and building berths, net	630	Long-term loans payable	132,197
Machinery and equipment, net	26,420	Lease obligations	6,775
Vessels, net	0	Long-term lease and guarantee deposited	8,234
Vehicles, net	169	Provision for retirement benefits	79,072
Tools, furniture and fixtures, net	6,491	Provision for loss on subsidiaries and affiliates	8,311
Land	44,267	Asset retirement obligations	140
Lease assets, net	7,836	Other	24,650
Construction in progress	5,982	<b>Total liabilities</b>	<b>743,193</b>
Intangible assets	9,776	<b>Net Assets</b>	
Goodwill	55	<b>Shareholders' equity</b>	<b>188,747</b>
Royalties and other intangible assets	1,449	Capital stock	95,762
Leasehold right	7	Capital surplus	43,144
Right of using facilities	24	Legal capital surplus	43,133
Software	8,111	Other capital surplus	10
Lease assets	65	Retained earnings	50,576
Other	62	Legal retained earnings	6,083
Investments and other assets	243,455	Other retained earnings	44,492
Investment securities	59,835	Reserve for advanced depreciation of noncurrent assets	10,648
Stocks of subsidiaries and affiliates	129,955	Retained earnings brought forward	33,844
Investments in capital	1,071	Treasury stock	(735)
Investments in capital of subsidiaries and affiliates	14,305	<b>Valuation and translation adjustments</b>	<b>3,589</b>
Long-term loans receivable	6,751	Valuation difference on available-for-sale securities	3,473
Deferred tax assets	24,355	Deferred gains or losses on hedges	115
Other	7,796	<b>Subscription rights to shares</b>	<b>563</b>
Allowance for doubtful accounts	(616)	<b>Total net assets</b>	<b>192,899</b>
<b>Total assets</b>	<b>936,093</b>	<b>Total liabilities and net assets</b>	<b>936,093</b>

**Non-Consolidated Statement of Income**  
(Year ended March 31, 2013)

(Millions of yen)

Account title	Amount
Net sales	589,444
Cost of sales	515,673
<b>Gross profit</b>	<b>73,771</b>
Selling, general and administrative expenses	69,063
<b>Operating income</b>	<b>4,708</b>
Non-operating income	
Interest and dividends income	24,008
Foreign exchange gains	2,762
Other	3,865
Non-operating expenses	
Interest expenses	3,262
Expenses for delayed delivery	6,061
Cost of demolition of noncurrent assets	1,995
Other	7,359
<b>Ordinary income</b>	<b>16,665</b>
Extraordinary income	
Gain on sales of noncurrent assets	13,798
Gain on extinguishment of tie-in shares	163
Extraordinary losses	
Loss on valuation of shares in subsidiaries and affiliates	2,238
Provision for loss on subsidiaries and affiliates	996
Cost of environment conservation measures	839
Loss on valuation of investment securities	749
Impairment loss	738
<b>Income before income taxes</b>	<b>25,064</b>
Income taxes—current	1,183
Income taxes—deferred	3,976
<b>Net income</b>	<b>19,903</b>

**Non-Consolidated Statement of Changes in Net Assets**  
(Year ended March 31, 2013)

(Millions of yen)

	Shareholders' equity									
	Capital stock	Capital surplus			Legal retained earnings	Other retained earnings		Total retained earnings	Treasury stock	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus		Reserve for advanced depreciation of noncurrent assets	Retained earnings brought forward			
Balance at the beginning of current period	95,762	43,133	7	43,141	6,083	11,235	19,210	36,529	(546)	174,886
Changes of items during the period										
Dividends from surplus							(5,856)	(5,856)		(5,856)
Net income							19,903	19,903		19,903
Reversal of reserve for advanced depreciation of noncurrent assets						(586)	586	—		—
Purchase of treasury stock									(211)	(211)
Disposal of treasury stock			3	3					22	25
Net changes of items other than shareholders' equity										
Total changes of items during the period	—	—	3	3	—	(586)	14,633	14,047	(188)	13,861
Balance at the end of current period	95,762	43,133	10	43,144	6,083	10,648	33,844	50,576	(735)	188,747

	Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at the beginning of current period	(3,017)	4	(3,012)	461	172,335
Changes of items during the period					
Dividends from surplus					(5,856)
Net income					19,903
Reversal of reserve for advanced depreciation of noncurrent assets					—
Purchase of treasury stock					(211)
Disposal of treasury stock					25
Net changes of items other than shareholders' equity	6,491	110	6,601	101	6,703
Total changes of items during the period	6,491	110	6,601	101	20,564
Balance at the end of current period	3,473	115	3,589	563	192,899

## **Notes to the Non-Consolidated Financial Statements**

### **I. Significant Accounting Policies**

#### **1. Valuation Bases and Methods of Assets**

##### *(1) Securities*

Stocks of subsidiaries and affiliates are stated at moving-average cost. Other securities with market prices available are stated at fair market value as of the balance sheet date. The related valuation differences are directly included into net assets and the cost of sale price is determined by the moving-average method. Other securities without market prices available are stated at moving-average cost.

##### *(2) Derivatives*

Derivatives are stated at fair market value.

##### *(3) Inventories*

*Inventories held for the purpose of sales in the normal course of business*

Finished goods are stated at moving-average cost (for figures shown on balance sheet, the book value write-down method based on decreased profitability is used).

Work in process is stated at identified cost (for figures shown on balance sheet, the book value write-down method based on decreased profitability is used).

Raw materials and supplies are stated at moving-average cost (for figures shown on balance sheet, the book value write-down method based on decreased profitability is used).

#### **2. Depreciation and Amortization of Noncurrent Assets**

##### *(1) Property, plant and equipment (except for lease assets)*

These assets are depreciated by the declining-balance method. However, lend-lease properties and buildings (excluding building fixtures) acquired on or after April 1, 1998, are depreciated by the straight-line method.

##### *(2) Intangible assets (except for lease assets)*

Intangible assets are amortized by the straight-line method. Software used internally is amortized using the straight-line method over the useful life of the assets as estimated by the company (within five years).

*(3) Lease assets*

Lease assets related to ownership transfer finance lease transactions are depreciated using the same method as that applied to property, plant and equipment.

Lease assets related to non-ownership transfer finance leases are depreciated over the lease period as useful period using the straight-line method with no residual value. The Company uses the method for ordinary rental transactions for non-ownership transfer finance leases for which lease agreements were concluded on or before March 31, 2008.

**3. Allowances and Provisions**

*(1) Allowance for doubtful accounts*

To prepare for losses on bad debts, the allowance for doubtful accounts is provided for based on historical default rates for general receivables, plus individually estimated uncollectible amounts for specific receivables such as doubtful receivables.

*(2) Provision for bonuses*

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

*(3) Provision for directors' bonuses*

To prepare for payment of bonuses for directors, the provision for bonuses is provided for in the amount that is expected to be paid.

*(4) Provision for construction warranties*

To prepare for expenditures for construction warranties, the provision for construction warranties is provided for in the amount of estimated future expenditures based on historical experience.

*(5) Provision for loss on construction contracts*

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

*(6) Provision for retirement benefits*

Provision for retirement benefits is provided for based on projected benefit obligations as of the balance sheet date.

Past service costs are amortized using the straight-line method over a certain number of years within the average remaining service period of employees when the cost incurred in each year.

In principle, actuarial differences are amortized from the next fiscal year of the fiscal year in which the difference occurs using the straight-line method over a certain number of years within the average remaining service period of employees.

(7) *Provision for loss on subsidiaries and affiliates*

To prepare for losses on the businesses of subsidiaries and affiliates, estimated loss amount to be borne by the Company is provided for, taking into account the details of assets and other factors of the relevant subsidiaries.

#### **4. Basis of Recognizing Revenues and Expenses**

*Basis of recognizing revenues and costs of construction contracts*

Construction projects whose outcome of the progress by the end of the fiscal year deemed definite are recorded on the percentage-of-completion basis (rate of progress estimated by the cost-ratio method), while all other projects are accounted for on the completed construction basis.

#### **5. Other Significant Matters Concerning Preparation of the Non-Consolidated Financial Statements**

(1) *Hedge accounting*

Deferred hedge accounting is applied. Transactions under forward foreign exchange contracts are booked in yen by translation at the foreign exchange rate stipulated in the contract if requirements for such treatment (“*furiate-shori*”) is satisfied.

Interest rate swaps that satisfy requirements for exceptional treatments are accounted for by the exceptional treatment (“*tokurei-shori*”).

(2) *Consumption taxes*

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

## **II. Change in Accounting Policy**

(Change in accounting policy that is difficult to distinguish from change in accounting estimate)

In the fiscal year under review, the Company changed the depreciation method for property, plant and equipment acquired on or after April 1, 2012 in line with the revision of the Corporate Tax Act of Japan.

As a result of this change, operating income, ordinary income and income before income taxes each increased by 250 million yen in the fiscal year under review in comparison to under the previous method.

### III. Changes in Presentation

(Non-consolidated statement of income)

“Expenses for delayed delivery” which was included in “Other” under “Non-operating expenses” in the previous fiscal year, increased in materiality, and has therefore been separately presented in the fiscal year under review. “Expenses for delayed delivery” which was included in “Other” under “Non-operating expenses” totaled 71 million yen in the previous fiscal year.

“Cost of demolition of noncurrent assets,” which was included in “Other” under “Non-operating expenses” in the previous fiscal year, increased in materiality, and has therefore been separately presented in the fiscal year under review.

“Cost of demolition of noncurrent assets,” which was included in “Other” under “Non-operating expenses” totaled 816 million yen in the previous fiscal year.

### IV. Notes to the Non-Consolidated Balance Sheet

#### 1. Assets Pledged as Collateral and Secured Liabilities

*Assets pledged as collateral*

Stocks of subsidiaries and affiliates	144 million yen (Note 1)
Investment securities	646 million yen (Note 2)

(Notes)

1. Collateral for loans of subsidiaries and affiliates (44 million yen of short-term loans payable and 109 million yen of long-term loans payable).
2. Kagoshima Mega Solar Power Corporation and seven shareholder companies of the said company entered into a revolving pledge agreement with financial institutions in order to secure all and any liabilities of the said company under the limited loan agreement concluded between Kagoshima Mega Solar Power Corporation and the financial institutions.

#### 2. Accumulated Depreciation of Property, Plant and Equipment

285,312 million yen

### 3. Contingent Liabilities

(1) Liabilities on guarantee (\*)

(Millions of yen)

Guaranteed entity	Amount	Details of liability on guarantee
IHI Charging Systems International GmbH	7,328	Loans from financial institutions
Japanese Aero Engines Corporation	5,674	Guarantee of loan obligations for purchase of fuselages, guarantee for lease obligations and guarantee of fuselage asset value
UNIGEN Inc.	5,000	Loans from financial institutions
IHI Ionbond AG	4,782	Loans and letter of guarantee issuance from financial institutions
ALPHA Automotive Technologies LLC	1,600	Guarantee for lease obligations and loans from financial institutions
IHI Machinery and Furnace Co., Ltd.	1,000	Loans from financial institutions
IHI Group Health Insurance Association	983	Loans from financial institutions
Japan Aeroforge, Ltd.	944	Loans from financial institutions
Niigata Power Systems Co., Ltd.	705	Loans from financial institutions
IHI Logistics System Technology Shanghai Co., Ltd.	415	Loans from financial institutions
Toshiba IHI Power Systems Corporation	220	Loans from financial institutions
Total	28,653	

(2) Quasi-guarantee (\*)

(Millions of yen)

Guaranteed entity	Amount	Details of liability on guarantee
Employees of the Company	9,336	Housing loans and others
IHI Group Health Insurance Association	1,024	Loans from financial institutions
Niigata Power Systems Co., Ltd.	295	Loans from financial institutions
Turbo Systems United Co., Ltd.	40	Loans from financial institutions
Total	10,696	

\* Amount(s) shown above is the amount paid by the Company to the creditor if the agreement is a guarantee agreement (such as joint guarantee) and if the Company's responsibility is clearly expressed and specified irrespective of the another guarantor's ability to guarantee.

#### **4. Monetary Claims and Liabilities to Subsidiaries and Affiliates**

Short-term monetary claims	81,134 million yen
Long-term monetary claims	3,628 million yen
Short-term monetary liabilities	116,207 million yen
Long-term monetary liabilities	480 million yen

#### **5. Notes with maturity date at the end of the fiscal year**

Accounting of notes with maturity date at the end of the fiscal year is settled on the date of bank clearing.

Therefore, because the last day of the fiscal year under review was a bank holiday, the following notes that matured at the end of the fiscal year are included in the balance at the end of the fiscal year.

Notes receivable-trade	161 million yen
Notes payable-trade	240 million yen

#### **V. Notes to the Non-Consolidated Statement of Income**

##### **Amounts of Transactions with Subsidiaries and Affiliates**

###### *(1) Operating transactions*

Sales to subsidiaries and affiliates	56,549 million yen
Purchases from subsidiaries and affiliates	156,071 million yen

###### *(2) Non-operating transactions*

36,891 million yen

#### **VI. Notes to the Non-Consolidated Statements of Changes in Net Assets**

##### **Class and Number of Treasury Stock Shares at the End of the Fiscal Year**

Common stock	3,748,665 shares
--------------	------------------

#### **VII. Tax Effect Accounting**

(Primary causes for the occurrence of deferred tax assets and liabilities)

Deferred tax assets are mainly in association with provision for retirement benefits, and deferred tax liabilities are mainly in association with reserve for advanced depreciation of noncurrent assets.

#### **VIII. Noncurrent Assets Used Through Leases**

In addition to the noncurrent assets on the non-consolidated balance sheets, machinery, devices and other equipment for manufacturing jet engines are used through leases.

## IX. Related Party Transactions

### 1. Subsidiaries, Affiliates and Other Related Parties

(Millions of yen)

Type	Name	Location	Capital or Contribution	Nature of Business	Voting Rights Holding or Held	Relation with the Party
Subsidiary	IHI Marine United Inc. (Note 2)	Minato-ku, Tokyo	13,599	Manufacture	Holding directly 100%	Business successor company
Subsidiary	IHI TURBO (THAILAND) CO., LTD.	Chon Buri, Thailand	260 million TBA	Manufacture	Holding directly 80.0% Indirectly 10.0%	Manufacturing subsidiary
Subsidiary	IHI Transport Machinery Co., Ltd.	Chuo-ku, Tokyo	2,647	Manufacture	Holding directly 100%	Company sharing business function
Subsidiary	IHI Construction Machinery Ltd.	Yokohama-city, Kanagawa	1,750	Manufacture	Holding directly 100%	Company sharing business function
Affiliate	IHI Finance Support Corporation	Chuo-ku, Tokyo	200	Lease, factoring, etc.	Holding directly 33.5%	Factoring

(Millions of yen)

Name	Transactions	Transaction Amount	Account Title	Balance as of March 31, 2013 (Note 1)
IHI Marine United Inc.	-Repayment of loans through in-group financing	(Note 3) 12,800	-	-
IHI TURBO (THAILAND) CO., LTD.	-Receipt of dividends	(Note 4) 3,685	-	-
IHI Transport Machinery Co., Ltd.	-Receipt of dividends	(Note 4) 3,367	-	-
IHI Construction Machinery Ltd.	-Collection of loans through in-group financing, etc.	(Note 3) 1,329	Short-term loans receivable	10,282
IHI Finance Support Corp.	-Factoring	(Note 5) 75,997	Accounts payable-trade Accounts payable-other	28,090 942

## 2. Directors/Corporate Auditors and Major Individual Shareholders

(Millions of yen)

Type	Name	Location	Capital or Contribution	Nature of Business or Occupation	Voting Rights Holding or Held	Relation with the Party
Director/corporate auditor	Kazuaki Kama	-	-	Japanese Aero Engines Corporation (Representative Director)	Held directly 0%	Chairman of the Board of the Company

(Millions of yen)

Name	Transactions	Transaction Amount	Account Title	Balance as of March 31, 2013 (Note 1)
Kazuaki Kama	Operating transactions with Japanese Aero Engines Corporation (JAEC) (Note 6)			
	-Subcontract of work from JAEC related to R&D of jet engines	8,100	-	-
	-Payment of a portion of funding related to the above	7,382	-	-
	-Acceptance of subsidies related to the above	6,010	Accounts payable-other	2,833
			Long-term accounts payable-other	23,196
	-Manufacture of jet engine components and delivery thereof to JAEC	96,324	Accounts receivable-trade	18,119
		Advances received	4,369	
	-Payment of a portion of expenses related to the above	50,426	-	-

(Notes)

1. Amounts of transactions do not include consumption taxes and balances as of March 31, 2013 do.
2. Because IHI Marine United Inc. was dissolved in a merger with Universal Shipbuilding Corporation (now Japan Marine United Corporation) on January 1, 2013, it ceased to be a related party. Therefore, the transaction amount is that of the period during which IHI Marine United Inc. was a related party and the balance as of March 31, 2013 is that of when it was no longer a related party.
3. Fund transactions are transactions within the Company Group and transaction amounts shown above are net increases and decreases.  
Interest is based on market interest rate.
4. Receipt of dividends is rationally determined pursuant to certain standards based on the amount of surplus available for distribution, etc.
5. With regard to factorings, the Company, any customer and IHI Finance Support Corp. enter into a basic agreement concerning the Company's liabilities and settle the amount.
6. The Company conducted these transactions as a representative of third parties, and amounts of transactions and trading prices were based on conditions for general transactions.

**X. Per Share Information**

(1) Net assets per share	131.44 yen
(2) Net income per share	13.60 yen

(Note)

The basis for calculating net income per share is as follows.

Net income	19,903 million yen
Amounts for non-common shareholders	–
Net income regarding common stock	19,903 million yen
Average number of shares of common stock	1,463,400 thousand shares

**XI. Significant Subsequent Events**

No applicable item.

(Note) In preparing the non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, and notes to the non-consolidated financial statements, any fractional amount less than one unit of monetary value is rounded off.

## **Audit Report of Accounting Auditor on Consolidated Financial Statements**

(Translation)

### **Report of Independent Auditors**

May 17, 2013

To the Board of Directors  
IHI Corporation

#### **Ernst & Young ShinNihon LLC**

Hidetoshi Watanabe (Seal)  
Certified Public Accountant  
Designated and Engagement Partner

Yoshiyuki Sakuma (Seal)  
Certified Public Accountant  
Designated and Engagement Partner

Ichiro Tajima (Seal)  
Certified Public Accountant  
Designated and Engagement Partner

Pursuant to Article 444, Section 4 of the Corporation Law, we have audited the consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of IHI Corporation (the “Company”) applicable to the fiscal year from April 1, 2012 through March 31, 2013.

#### *Management’s Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan; this includes the development, implementation, and maintenance of internal control deemed necessary by management for the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors’ Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and applied depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of the entity’s internal control.

However, in making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the IHI Group, which consisted of the Company and consolidated subsidiaries, applicable to the fiscal year ended March 31, 2013 in conformity with accounting principles generally accepted in Japan.

*Conflicts of Interest*

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Law of Japan.

## **Audit Report of Accounting Auditor on Financial Statements**

(Translation)

### **Report of Independent Auditors**

May 17, 2013

To the Board of Directors  
IHI Corporation

#### **Ernst & Young ShinNihon LLC**

Hidetoshi Watanabe (Seal)  
Certified Public Accountant  
Designated and Engagement Partner

Yoshiyuki Sakuma (Seal)  
Certified Public Accountant  
Designated and Engagement Partner

Ichiro Tajima (Seal)  
Certified Public Accountant  
Designated and Engagement Partner

Pursuant to Article 436, Section 2, Paragraph 1 of the Corporation Law, we have audited the financial statements, which comprise the balance sheet, the statement of income, the statement of changes in net assets, the notes to the financial statements and the related supplementary schedules of IHI Corporation (the "Company") applicable to the 196th fiscal year from April 1, 2012 through March 31, 2013.

#### *Management's Responsibility for the Financial Statements, etc.*

Management is responsible for the preparation and fair presentation of the financial statements and the related supplementary schedules in accordance with accounting principles generally accepted in Japan; this includes the development, implementation, and maintenance of internal control deemed necessary by management for the preparation and fair presentation of the financial statements and the related supplementary schedules that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements and the related supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the related supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the related supplementary schedules. The procedures selected and applied depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements and the related supplementary schedules, whether due to fraud or error. The purpose of an audit is not to

express an opinion on the effectiveness of the entity's internal control. However, in making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements and the related supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the related supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of IHI Corporation applicable to the 196th fiscal year ended March 31, 2013 in conformity with accounting principles generally accepted in Japan.

*Conflicts of Interest*

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Law of Japan.

## **Audit Report of the Board of Corporate Auditors**

<Translation>

### **Audit Report**

We at the Board of Corporate Auditors, having discussed the Directors' performance of duties during the 196th fiscal year, from April 1, 2012 through March 31, 2013, based on audit reports from each Corporate Auditor, prepared this Audit Report. Our audit opinion is as follows.

#### **I. Methods and Contents of the Audit Implemented by Corporate Auditors and the Board of Corporate Auditors**

The Board of Corporate Auditors established its audit policy, assigned responsibilities to each Corporate Auditor in carrying out the policy, and received reports from each Corporate Auditor on audit implementation and results. In addition, the Board of Corporate Auditors, when necessary, requested reports and received explanations from Directors, other executives and accounting auditors concerning the execution of their duties.

Each Corporate Auditor, in accordance with the Corporate Auditors standard of audit, established by the Board of Corporate Auditors, as well as the audit policy and assigned responsibilities, communicated with Directors, internal audit divisions, and other employees, in order to gather information and develop an optimal audit environment. At the same time, each Corporate Auditor attended meetings of the Board of Directors and other important meetings, received reports on the execution of duties from Directors, employees and other personnel, received reports and requested explanations from them when necessary, perused important documents, including those subject to executive approval, and examined the conditions of assets and business at the head office and other major business office. In addition, each Corporate Auditor has reviewed the contents of the Board of Directors' resolutions on a system which assures that the execution of Directors' duties described in the business report comply with laws and regulations and the Articles of Incorporation, and monitored improvements to the system for assuring the propriety of operations of a corporation, as stipulated in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Corporation Law of Japan. Each Corporate Auditor also verified that improvements had been made to the internal control system, in accordance with the Board of Directors' resolutions.

With regard to the Company's subsidiaries, each Corporate Auditor communicated and exchanged information with Directors, Corporate Auditors, and other personnel of the subsidiaries, requested reports from them, and examined the conditions of assets and business when necessary. Based on the methods described above, the Board of Corporate Auditors reviewed the business report and its supplementary schedules for the fiscal year.

Further, each Corporate Auditor has monitored the accounting auditor to verify their independence and the propriety of their audit implementation, and has received reports and requested explanations from them when necessary. In

addition, each Corporate Auditor received a notice from the accounting auditor that “the system for securing appropriate execution of duties” (in each item listed in Article 131 of the Corporate Accounting Rules) has been developed in accordance with “the Standard on Quality Control Concerning Audit” (established by the Business Accounting Council on October 28, 2005), and requested explanations from them when necessary. Based on the methods described above, the Board of Corporate Auditors reviewed non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, and notes to non-consolidated financial statements) and their supplementary schedules, as well as consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets, and notes to consolidated financial statements) for the fiscal year.

## **II. Results of Audit**

### 1. Results of the audit of the business report and other documents

(1) The business report and its supplementary schedules present fairly the condition of the Company in accordance with applicable laws and regulations, as well as the Articles of Incorporation.

(2) With regard to the execution of Directors’ duties, we have found no misconduct or material matters in violation of laws and regulations, or the Articles of Incorporation.

(3) We find the content of the Board of Directors’ resolution on the internal control system sufficient. Also, with regard to the description of the internal control system in the business report and execution of Director’s duties, nothing unusual is to be pointed out.

### 2. Results of the audit of non-consolidated financial statements and their supplementary schedules

The method and results of the audit conducted by Ernst & Young ShinNihon LLC, the Company’s accounting auditor, are recognized as fair and proper.

### 3. Results of the audit of consolidated financial statements

The method and results of the audit conducted by Ernst & Young ShinNihon LLC, the Company’s accounting auditor, are recognized as fair and proper.

May 24, 2013

### **The Board of Corporate Auditors IHI Corporation**

Masakazu Maruyama (Seal)

Standing Corporate Auditor

Hideo Otaka (Seal)

Standing Corporate Auditor

Takeo Inokuchi (Seal)

Outside Corporate Auditor

Nobuo Gohara (Seal)

Outside Corporate Auditor

Hisatsugu Nonaka (Seal)

Outside Corporate Auditor

(Reference)

**Consolidated Statements of Cash Flows (Summary)**  
(Year ended March 31, 2013)

(Millions of yen)

Account title	Amount
Net cash provided by (used in) operating activities	74,347
Net cash provided by (used in) investing activities	(61,033)
Net cash provided by (used in) financing activities	(3,150)
Effect of exchange rate change on cash and cash equivalents	4,083
Net increase in cash and cash equivalents	14,247
Cash and cash equivalents at end of period	72,070