



IHI

Realize your dreams

IHI Sustainability Report 2016

IHI Corporation

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Editorial Policy

IHI Sustainability Report 2016 serves as a timely platform for providing the most up-to-date information on IHI's sustainability activities in society.

As with the 2015 report, IHI Sustainability Report 2016 communicates IHI's commitment to addressing societal issues through business and CSR activities, both of which are supported by monozukuri technology that the company has nurtured for over 160 years.

The IHI Integrated Report 2016 summarizes both financial and CSR information for the reporting year, whereas the Sustainability Report focuses on IHI's sustainable CSR activities within the scope of its medium- and long-term plans for creating value for customers and society.

Related links:[Financial and performance information](#)

Communication channels



[News](#)

Scope of Report

IHI Corporation and its major group companies

Period

This report covers activities carried out in FY2015 (April 1, 2015 to March 31, 2016), but may also include information prior to or after this period.

Publication Date (Japanese version)

September 2016

(The previous Sustainability Report was published in September 2015.)

Guidelines Referenced

Environmental Reporting Guidelines (2012 version), Ministry of the Environment

Sustainability Reporting Guidelines version G4 (version 4), Global Reporting Initiative

Disclaimer

This report contains facts, both past and present, as well as forward-looking plans and projections based on our business plans and policies in effect as of the date of this report. These forward-looking plans and projections, which are based on assumptions and decisions made as of the date of this report, are subject to change and may be materially different as a result of actual business or changes in company terms, conditions or policies.

Message from the President

Tsugio Mitsuoka
President and Chief Operating Officer



Turning Dreams into Reality Worldwide

IHI's Raison D'être

Manufacturing technology from IHI has been contributing to society since 1853. Originally a shipbuilder, IHI gradually expanded in parallel with the growth of Japan. Today, IHI tackles challenges that affect the global environment, energy, industry and infrastructure. As expressed in our corporate message "Realize your dreams," our mission is to help customers and society realize their dreams. Every IHI employee understands the value of their work and strives to turn aspirations into reality around the world. That is the raison D'être of IHI.

Duties as a Global Company

As IHI steadily globalizes, it has been reinforcing its continuing commitment to sustainable growth through a variety of measures. This includes the achievement of targets under the Sustainable Development Goals, which the United Nations adopted in September 2015 to encourage public and private entities to adopt more sustainable practices. Going forward, we expect to support society's sustainable development on an even greater level as we continue to expand worldwide.

To succeed in the global environment, a business must take an interest in local culture and history, and respect human rights. Moreover, to meet the diverse demands of people worldwide, a company must build a corporate culture that facilitates creativity and innovation. For such reasons, IHI is actively diversifying its workforce. However, as the IHI workforce of some 30,000 employees becomes more diverse in terms of nationality and race, it is important that we all continue to share the same values. This is why the handbook on IHI's Basic Code of Conduct was renewed and translated into 18 languages and copies were provided to employees in FY2015.



Linking with Society through Dialogue

To continue reforming our company and nimbly adapt to the rapidly changing business environment, we are proactively engaging our stakeholders in dialogue. Looking ahead, we will attach increasing importance to constructive dialogues with stakeholders to explain our business strategies in detail. At the same time, IHI will make a united and concerted effort to maximize its contributions to society's sustainable development. On these and other matters, we welcome candid feedback from our stakeholders.

Tsugio Mitsuoka
President and Chief Operating Officer



Management Practices and CSR

7 CSR Activities

10 Stakeholder Engagement

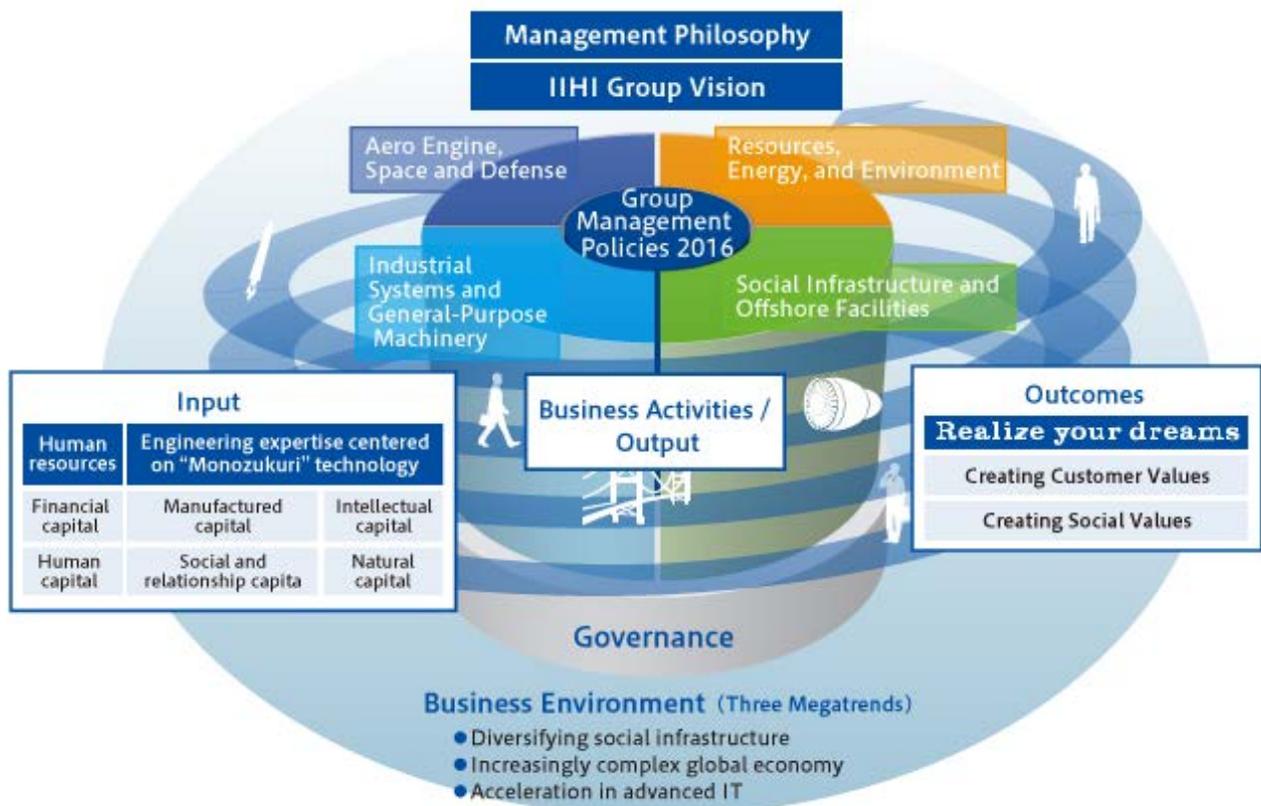
13 Basic Code of Conduct

CSR Activities

IHI fulfills its corporate social responsibility to satisfy the expectations of society by following the philosophies of “Contribute to the development of society through technology” and “Human resources are our single most valuable asset.”

Value-creation Process

IHI has issued this report as part of its value creation process shown in the chart on the right. The IHI Group Vision, which is based on our management philosophy, lays out how we aim to operate in the long term. We believe that our human resources and engineering expertise centered on “Monozukuri” technology are important capital (input) for conducting business over the long term. In this global business environment, we will implement the business strategies set by the Group Management Policies 2016 in four business areas to provide products and services (output). As a result, we will continue to create value for customers and society (outcomes), and achieve our corporate message of “Realizing your dreams.” We will also aim to improve and sustain growth by making use of our accumulated experiences and the social value we created to develop new and better capital (input).



Group Management Policies 2016

Under the Group Management Policies 2016 set out this year, we are striving to strengthen our earnings foundations for sustainable growth and enhanced corporate value.

CSR Management

IHI believes that to improve its corporate value in future, the company must satisfy society's expectations, create value of benefit to society, and earn society's trust. IHI established a CSR committee in 2013 to discuss and carry out its basic policy for corporate social responsibility.

CSR Committee

The CSR Committee members include the chairman (IHI president), vice-chairman (officer in charge of CSR activities), board directors and heads of each business division. Under this structure, top managers are proactively involved in IHI's CSR activities. By combining CSR and sales, IHI aims to create added momentum for business growth.

■ First CSR Committee Meeting (August, FY 2013)

The committee confirmed IHI's current situation, challenges, and goals regarding “promoting CSR activities in businesses” and “promoting social activities.”

1. CSR in business

■ Priority issues

- Realize low-carbon societies and reduce environmental burdens
- Provide stable energy supplies
- Respond to industrialization , advancement and urbanization
- Develop medical , food and water solutions

■ Confirm current CSR status, tasks and goals in business

2. CSR in socially minded activities

■ Priority issues

- Nurturing future generations
- Promoting precision manufacturing and scientific technologies
- Supporting environmental sustainability
- Providing access to medical care, food and water
- Resolving problems in local communities

■ Socially minded activities, targets and plans

■ Second CSR Committee Meeting (April 2014)

Following its first meeting, the committee reported on CSR activities conducted in FY2013 and confirmed related challenges and future directions. An external expert presented a lecture on the significance of publishing an integrated (financial and CSR) report among other current trends in CSR reporting.

■ Third CSR Committee Meeting (May 2015)

Following its second meeting, the committee reported on CSR activities in FY2014, confirmed the direction of CSR activities in FY2015 and discussed publishing the IHI Integrated Report 2015, including its editorial policy and main contents.



Third CSR Committee Meeting
(May 2015)

■ Fourth CSR Committee Meeting (May 2016)

The committee invited an outside CSR expert as a guest speaker to talk about the latest developments in CSR. The committee also reported on CSR activities in FY2015 and set the direction of activities in FY2016. It also confirmed the editorial policy and main contents of the IHI Integrated Report 2016.

Going forward, IHI will continue to enrich its CSR activities, as driven by the committee, to engage stakeholders continuously.



Fourth CSR Committee Meeting
(May 2016)

Stakeholder Engagement

Communication with Stakeholders

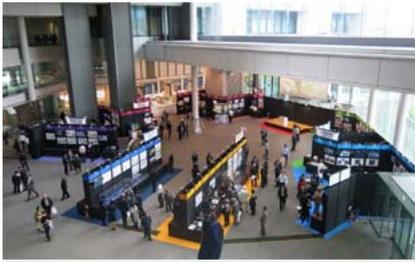
To respond to the expectations of society, we must discuss issues with our stakeholders and incorporate these expectations into our business activities.

We are proactively opening the dialogue with stakeholders through the Integrated Report and other communications tools, exhibitions, questionnaires, and more.

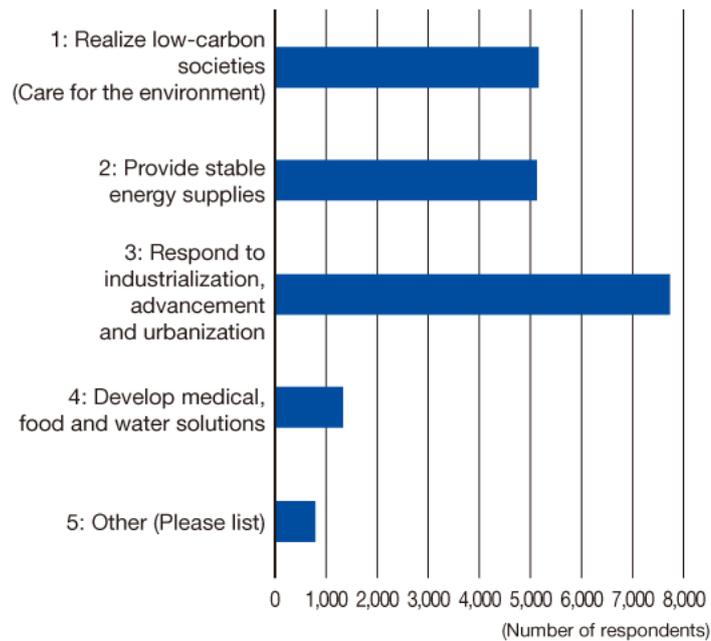
IHI Stakeholders



Dialogue with Stakeholders

Stakeholders	Dialogue
Shareholders /Investors	Communication with Shareholders/Investors
Local community	<p>In order for our stakeholders to feel connected to IHI, we held the IHI Forum 2015 at the Toyosu IHI Building on November 17-21, 2015 under the theme of "Wishes that only Monozukuri can grant: Realize your dreams." We not only displayed IHI products and technology, but also introduced specialties from regions associated with IHI, and held the "i-muse Children's Research Lab" for children to experience the workings of our products and technology through science experiments.</p> <p>Many of our neighbors also visited the Forum, and a wide range of stakeholders became more familiar with IHI.</p>  <p>IHI Forum</p>
Employees	<p>After publishing our Integrated Report, we held an e-learning course for all group employees and conducted a survey to raise understanding and awareness of our business and CSR activities. In FY2015, we received responses from 15,361 employees, including those at Group companies. We found that most employees understand how their own work connects to society. We also obtained valuable news in that employees particularly emphasized "human resources," "technology and R&D," and "trust from our customers" as drivers of IHI's long-term growth.</p>

Q: Which of the following social issues do you think your work (or your department) contributes to solving?



Key Issues

Social Issues that IHI Is Addressing

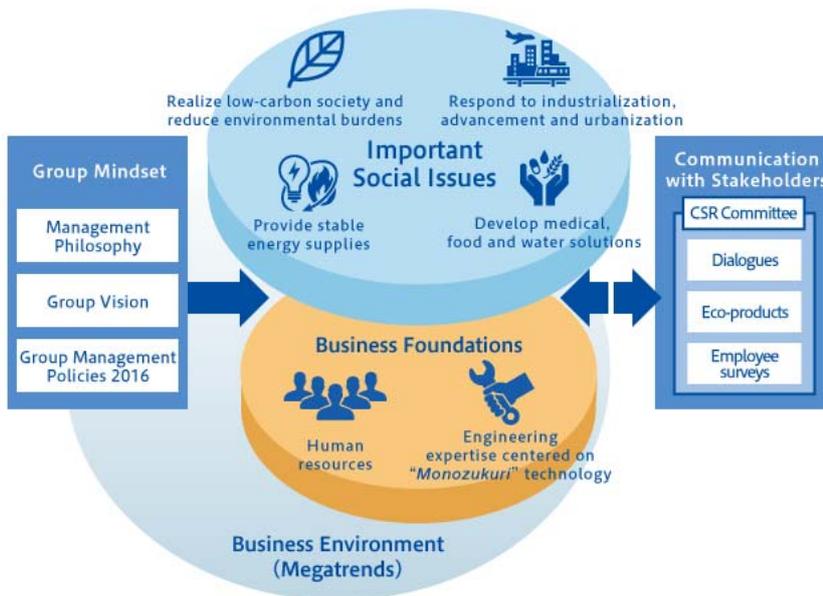
At the first meeting of the CRS Committee in August 2013, it was decided that IHI would prioritize a select number of key issues that are related directly to the company’s businesses, including realizing low-carbon societies and reducing environmental burdens; providing stable energy supplies; responding to industrialization, advancement and urbanization; and developing medical, food and water solutions.

Business Foundations

IHI’s mission is to contribute to the development of society through technology and to treat human resources as the company’s single most valuable asset. Also, the medium- to long-term IHI Group Vision is based on these principles. Accordingly, human resources and engineering expertise centered on “Monozukuri” technology are viewed as strategic capital for doing business over the long-run (see Value Creation Process figure).

To determine which social issues to pursue, IHI personnel participated in e-learning training and then took a questionnaire to gauge their awareness of social issues in 2015. The findings and a number of related topics were then discussed with other stakeholders and outside experts.

Going forward, the IHI will continue to engage its stakeholders by pursuing dialogues, both inside and outside the group, regarding all IHI activities.



Dialogue with Stakeholders

Dialogue with Stakeholders (February 2016)

To enhance its corporate value, IHI believes it must meet a wide variety of expectations around the world. With this in mind, IHI initiated a dialogue to learn and respond to society's expectations.

That first dialogue took place in February 2016 and welcomed Masao Seki, Senior Advisor on CSR at Sompo Japan Nipponkoa Insurance, and Yoichi Mori, CPA and Technical Taskforce Member of the International Integrated Reporting Council (IIRC), which developed the International Integrated Reporting Framework. Partaking from IHI were Executive Vice-President Joji Sakamoto and four people from the CSR Division. The members openly discussed past activities of the IHI and explored directions in its internal and external communications.



Dialogue with Stakeholders

The two outside experts, widely versed in such matters, offered a variety of valuable opinions: "It is expected that IHI will proactively take part in processes to set rules that influence society from a long-term perspective;" "It is critical for IHI to identify how its business can help solve social problems;" and "IHI already should be engaging stakeholders – customers, employees, communities and governments – in dialogues regarding every aspect of daily business, and the suggestions and topics highlighted in these micro-level dialogues should be effectively reflected in the company's operations." These opinions continue to be discussed in-house in relation to company activities.

IHI will continue to seek opportunities to engage stakeholders in an effort to implement CSR activities that reflect society's expectations regarding IHI's business.

Basic Code of Conduct

Basic Code of Conduct

IHI employees are provided with a guideline to the Basic Code of Conduct to ensure their understanding of the code.

Respect for Human Rights

IHI respects human rights in every aspect of its business. In keeping with the Group's Basic Code of Conduct, which clearly states IHI's respect for human rights, employees are educated on this subject in a variety of ways. In 2015, IHI renewed its Basic Code of Conduct handbook to raise employees' awareness of the code. The handbook, which has been translated into 18 languages, is provided to every employee.

Also, IHI business partners are requested to respect the human rights of their employees, including by assuring adequate working conditions and the health and safety of employees (see the IHI Group Procurement Policy). As a member of the global community, the company strives to ensure socially responsible procurement.

As a global company, IHI contributes to society's sustainable development through its intolerance of child labor and forced labor. Going forward, IHI will continue to disclose its human rights activities to stakeholders.

CSR in Business Activities

15 Key Issues Addressed by IHI

18 Efforts by Each Business Area

19 Businesses helping to solve problems in society

Key Issues Addressed by IHI

IHI is committed to contributing to the resolutions of problems of society through manufacturing technology. IHI focuses on the following four key issues through its business activities.

Key Issues

Realize low-carbon societies and reduce environmental burdens



IHI is contributing to sustainable societies by reducing environmental impact, addressing environmental issues and providing eco-friendly products and services.

Provide stable energy supplies



IHI provides products and technologies that transform diverse energy sources into electricity to meet increasing electric power demands and changing conditions in society.

Respond to industrialization, advancement and urbanization



IHI provides products and technologies that enhance urban functions, alleviate risks associated with dense populations, elevate standards of living and contribute to a safer society. In addition, our innovative manufacturing processes increase productivity, contributing to affluent lifestyles and social stability.

Develop medical, food and water solutions



IHI provides new products and services that address issues relating to medical care, food and water.

Priority Activities

Energy conservation

- Increase energy efficiency
- Control and reduce use of natural resources (fuels)

GHG reduction

- Control and reduce greenhouse gas emissions, including CO₂

Resource conservation (excluding fuels)

Control and reduce consumption of natural resources

Environmental risk reduction

- Expand anti-pollution measures (seven types of pollution)
- Prevent chemicals in products from being released into the atmosphere

Biodiversity protection

- Protect native species

Respond to increasing electric power demand (power generation)

Improve efficiency of existing energy-generating technologies

New energy development (LNG and renewable energy)

- New energy development
- Resources & energy
- Develop energy-generating technologies

Develop infrastructure for urbanization

Land conservation and create new urban functions

Upgrade existing infrastructure to increase lifespan

- Improve disaster prevention measures, land conservation and accessibility
- Reduce public expenses

Respond to increased movement of people and goods
Develop and enhance transportation systems

- Expand mobility

Respond to evolution of industrialization and changes in industrial structure

Further develop industrial and chemical technologies

Improve manufacturing process, develop new technologies and labor-saving innovations, conduct research into advanced technologies

Medical care

Expand delivery of medical care

Food supply

Increase food production efficiency in agricultural and fishery sectors

Water supply

- Increase water-use efficiency
- Develop water resources

Sustainable Development Goals (SDGs)

The United Nations established the Sustainable Development Goals in September 2015 as part of its action plan for prosperity of the earth and people. The SDGs, which include 17 goals and 169 associated targets covering a broad range of sustainable development issues, are recognized by 193 member states of the United Nations. IHI will continue helping to solve societal problems by contributing to the realization of SDGs through its business.

▸ [Top Message](#)

SUSTAINABLE DEVELOPMENT GOALS 17 GOALS TO TRANSFORM OUR WORLD



Efforts by Each Business Area

Key Issues Addressed by IHI	Business Area				
	Resources, Energy and Environment ▶	Social Infrastructure and Offshore Facilities ▶	Industrial Systems and General-Purpose Machinery ▶	Aero Engine, Space and Defense ▶	New Business Development ▶
	Global Marketing Headquarters ▶ Solution & Engineering Headquarters ▶ Intelligent Information Management Headquarters ▶				
Realize low-carbon societies and reduce environmental burdens 	○	○	○	○	○
Provide stable energy supplies 	○	○			○
Respond to industrialization, advancement and urbanization 		○	○	○	○
Develop medical, food and water solutions 					○

Businesses helping to solve problems in society

Achievements in FY2015

IHI wins order to construct ultra-supercritical coal-fired boilers for reduced impact (Resources, Energy and Environment)

IHI received an engineering, procurement and construction (EPC) orders from Kobe Steel, Ltd. for large-scale ultra-supercritical coal-fired boilers (650 MW x 2 units) that will achieve world-leading levels of generating efficiency. The order was for a project to build a thermal power plant at a Kobe Steel facility. The first and second boilers are slated to start operating in FY2021 and FY2022, respectively.

Coal-fired power generation is expected to continue to play a role as a major power supply source from an economic and energy source diversification point of view. The newly ordered boilers will become equipment capable of boosting generating efficiency while constraining fuel consumption and CO₂ emissions by heating steam to ultra-high temperatures of 593°C and higher while realizing ultra-high pressures of 24.1 Mpa and higher (ultrasupercritical pressure). IHI will continue to contribute to clean power provision through cutting-edge boiler technology.



IHI delivered boilers to the No. 2 Thermal Power Plant in Kobe Steel's Kobe Works in 2004

Contributing to various nations by developing social infrastructure (Social Infrastructure and Offshore)

IHI Infrastructure Systems Co., Ltd., a joint venture with Larsen & Toubro, India's largest general contractor, received an order from the Dedicated Freight Corridor Corp., whose parent is India's Ministry of Railways, for bridges along a freight route linking Delhi and Mumbai. The initiative is part of the Delhi-Mumbai Industrial Corridor project that both the Japanese and Indian governments are promoting as a centerpiece of economic collaboration initiatives between the two nations, and is slated for completion in October 2019.

The route will slash shipment times, streamlining India's logistics network and contributing to economic development. IHI will continue contributing to progress in nations around the world by developing social infrastructure.



Planned Western Dedicated Freight Corridor

Establishment of joint venture company in agricultural machinery business in China (Industrial Systems and General-Purpose Machinery)

Having continued to grow significantly over recent years, the Chinese agricultural machinery market is becoming the world's largest. The needs for high function and high quality for agricultural machinery are also growing.

IHI has been providing agricultural machinery that has been popularly used for various agricultural operations from rice paddy and field cultivation to dairy and livestock farming, mostly in Japan via IHI subsidiaries, IHI STAR Machinery Corporation (STAR) and IHI Shibaura Machinery Corporation (ISM).

Aiming to supply high quality agricultural machinery in China, IHI has now established a joint venture company with Yuanda China Holdings Limited, a large company from Liaoning Province, China. In addition to introducing the medium-sized corn picker that was jointly developed by STAR and ISM to meet the expanding demand for agricultural machinery for harvesting corn for livestock in Liaoning, Jilin, and Heilongjiang Provinces (Three Northeastern Provinces), the joint venture company will manufacture and sell some models of agricultural tractors that ISM manufactures.



Corn picker

German heat treatment job service provider VTN becomes IHI subsidiary (Industrial Systems and General-Purpose Machinery)

IHI acquired and converted into a subsidiary VTN, a German leading group that has been providing general heat treatment job services for over 60 years.

Heat treatment is a technology to strengthen metal and non-metal component materials by heating and then cooling them in such a way as to change their internal structures.

Use of heat treatment technology is expected to increase owing to demand for higher diversification and sophistication for materials such as metals and non-metals,

especially those used to make industrial machinery, automotive, and aerospace components. IHI Machinery and Furnace Co., Ltd (hereinafter "IMS") is a group company that manufactures and sells vacuum heat treatment units such as vacuum furnaces and vacuum carburizing furnaces. In our recent full-scale entry into the European heat treatment job services market, we will bring together VTN's process engineering and service network and IMS's unit design engineering excellence to provide customers with an even more attractive lineup of units and heat treatment services.



Freiburg Works

IHI has achieved cumulative shipments of 1,000 units for the GENx engine parts for Boeing's medium-size passenger aircraft Boeing 787 and wide-body jet passenger aircraft Boeing 747-8.

IHI started development for the GENx as an international collaborative project in 2004 led by General Electric Company. Compared with previous models, the engine boasts 15% improved fuel efficiency, reduced emissions of CO₂, nitrogen oxide and other gases, and lowered noise levels. IHI has approximately a 15% stake in the program, with responsibility for the design and manufacture of the low-pressure turbine module and the aft part of the high-pressure compressor, which are key components in the engine. IHI plans to produce around 300 units in the current fiscal year in response to strong demand of Boeing 787.

Currently involved in a wide range of engines for airplanes from 70-seat class regional jets to 500-seat class wide-body jets, IHI plans to participate in an engine program for the GE9X civil aircraft engine, which will be loaded on the next-generation wide-body jet Boeing 777X, which Boeing plans to start commercial operation in 2020. Through its provision of various civil aero engines, IHI will continue to contribute to the safe operation of airliners worldwide.



Low-pressure turbine module

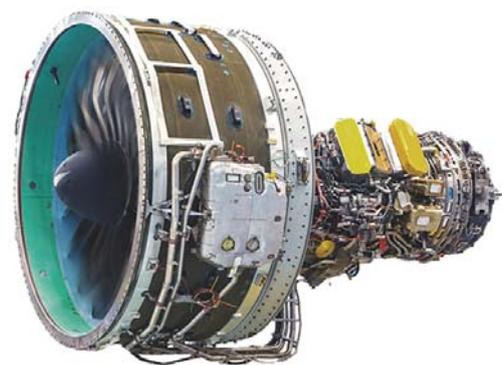
Aircraft Fitted with PW1100G-JM Civil Aero Engine Begin Commercial Flights (Aero Engine, Space, and Defense)

The first Airbus A320neo was delivered to Lufthansa by Airbus in January, 2016 and began commercial flights. The Airbus A320neo is fitted with the PW1100G-JM engine, jointly developed by U.S. company Pratt & Whitney, German company MTU

Aero Engines AG and IHI, working under the Japanese Aero Engines Corporation.

Participating with 15% stake in the PW1100G-JM program, IHI is in charge of the development, design, and production of key components such as fan modules and part of low pressure compressors utilizing proprietary material and manufacturing technologies centered on composite materials. Already, orders for more than 2,500 units of PW1100G-JM have been received, and IHI expects it to serve as a stable pillar of business.

IHI will continue to provide a wide range of advanced manufacturing technologies, and contribute not only to the development of the aviation industry but also to the operation of safe and comfortable aircraft.

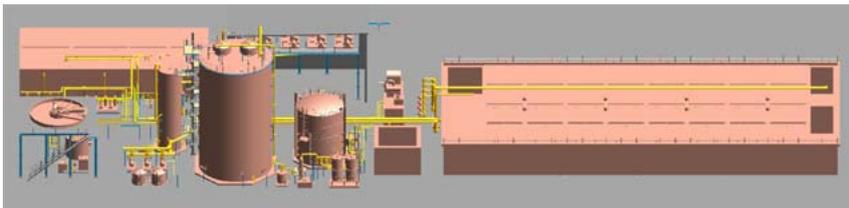


PW1100G-JM Source: Japanese Aero Engines Corporation

Wastewater treatment for palm oil mills in Southeast Asia (New Business)

IHI is intending to apply IHI's wastewater treatment technology for environmental protection in Southeast Asia, where wastewater has become a problem due to the increased output of food-processing factories. Countries in the region are working to strengthen their environmental regulations, but costly treatment plants using sophisticated technology are not readily accepted in local areas. The challenge is to ensure regulatory compliance using methods that are as inexpensive as possible.

IHI Enviro Corporation's IC reactor is an anaerobic wastewater treatment system that enables palm oil mills not only to clean their wastewater but also operate their facilities using energy produced with methane gas recovered from the wastewater.



Rendering of IHI-IC reactor for wastewater treatment at a palm oil mill

Nanatsujima biomass power generation project (Shared Group Functions)

Along with other sponsors, IHI will undertake a wood biomass power generation project (output scale 49MW) in Nanatsujima, Kagoshima City, Kagoshima Prefecture. The electricity generated in this project will be sold to Kyushu Electric Power Co., Inc. based on the Act on Special Measures Concerning Procurement of Renewable Energy Sourced Electricity by Electric Utilities. The power plant will be completed in the second half of 2018, and it is planned to sell electricity for 20 years. Through this power generation project, we will promote the adoption of environment-friendly energy and contribute to revitalization of the region.

Governance

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33 Compliance

39 Risk Management



Basic Views on Corporate Governance

IHI Corporation defines corporate governance as a system that assures sustainable growth and maximization of corporate value by enhancing management efficiency so that IHI Corporation can leverage its innate capabilities to the fullest extent possible.

To achieve this, IHI Corporation targets efficient and appropriate internal decision-making by clearly separating management monitoring and supervisory functions from functions related to their execution of duties. Furthermore, by establishing the relevant internal rules and building a system to administer them, IHI ensures appropriate operations across the entire Group.

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

Basic Policies on Enhancing Corporate Governance

IHI Corporation will work to enhance its corporate governance in line with the following basic policies.

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

Corporate Governance Measures

(1) Establishment of the Nomination Advisory Committee

On June 25, 2015, we established the Nomination Advisory Committee consisting of volunteers from the Board of Directors. It aims to improve corporate governance by strengthening the independence, objectivity and accountability of the Board of Directors when choosing top management, executive officers and candidates for director and auditor positions.

(2) Number of outside directors increased

The number of outside directors was increased from two to three as of June 25, 2015, to further reinforce corporate governance.



As of July 1 , 2016

Corporate Governance System

(1) Board of Directors

The Board of Directors, which consists of 13 directors (3 from outside), makes decisions related to all important matters concerning the management of the IHI Corporation and the Group, in addition to supervising directors in their business execution.

(2) Board of Corporate Auditors

IHI Corporation has a Board of Corporate Auditors which comprises 5 corporate auditors (3 from outside) who audit the duties executed by directors.

(3) Business execution framework

IHI Corporation has an executive officer system to facilitate and strengthen the decision-making and supervisory functions of the Board of Directors, as well as to improve the efficiency of business operations. Appointed by resolution of the Board of Directors, there are 25 executive officers, 5 of whom concurrently serve as directors.

(4) Compensation Advisory Committee

To ensure that directors and corporate auditors are remunerated appropriately, IHI Corporation established the Compensation Advisory Committee as a voluntary committee, consisting of 6 members: 3 outside directors, 1 outside corporate auditors, a director responsible for human resources, and a director responsible for finance and accounting. The chair of the Committee is an outside director.

(5) Nomination Advisory Committee

Additionally, IHI Corporation established a Nomination Advisory Committee, to supervise the nomination of candidates for directors and corporate auditors by the representative director, checking that such appointments are conducted appropriately, and to offer related advice, among other purposes. The Committee consists of 5 members: the President and Representative Director, the Chief Executive Officer and 3 outside directors. , and the President and Representative Director serves as chair.

Policies relating to appointment of officers

The Board of Directors decides on ideal attributes for officers and draws up independence standards for outside directors and outside corporate auditors. These standards are based on the requirements for independent directors/auditors stipulated by the Tokyo Stock Exchange. The emphasis is to assure that outside directors and outside corporate auditors are genuinely independent.

The Board of Directors sets the basic policy of appointing the most appropriate officers according to the ideal attributes and the independence standards for outside directors and outside corporate auditors with the aim of ensuring sustainable growth and increased corporate value for IHI over the medium to long term.

Ideal Attributes for Officers

IHI Corporation appoints directors and corporate auditors who are healthy in mind and body and have all the following attributes:

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

Independence Standards and Qualification for Independent Outside Directors

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

1. Major shareholders

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

2. Major clients, suppliers, etc.

The director should not currently serve as a director, corporate auditor, executive officer at a company with committees, executive officer or employee of any of the Company's major clients, suppliers, etc. detailed below, nor have served as an executive director, executive officer at a company with committees, or executive officer of a major client, supplier, etc. in the past.

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

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

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

4. Accounting auditor

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

5. Mutual exchange of officers, etc. with the Company

The director should not be assigned to a corporation with which the Company mutually exchanges directors or corporate auditors.

6. Close relatives

The director should not be the spouse or first- to second-degree relative of a director, corporate auditor, executive officer or equivalent executive-level employee of IHI.

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

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

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

Policy on determination of remuneration

(1) Basic stance

The maximum total remuneration of directors and corporate auditors is resolved at the Ordinary General Meeting of Shareholders.

Directors' and executive officers' remuneration is based on a reward system that considers the standard necessary to secure superior human resources, more strongly aspires towards improvements of the Group's consolidated business results and corporate value, and emphasizes sharing the risk and return of stock price fluctuations with shareholders. Remuneration details are finalized at a meeting of the Board of Directors, following consultation with and recommendations from the Compensation Advisory Committee which was created to ensure that remuneration is appropriate and that the process is transparent.

(2) Types of compensation

Directors' and executive officers' remuneration consists of a base amount, share-based compensation and performance-based bonuses.

For performance-based bonuses, the amount paid is determined so as to provide an incentive for achieving the operating income targets in the medium-term management plan. For performance-based bonuses, the amount paid is determined so as to provide an incentive for achieving the operating income targets in the medium-term management plan. The amount paid is calculated based on the degree to which operating income target values in the medium-term management plan and for each term are achieved, and finalized after consultation with and recommendations from the Compensation Advisory Committee.

In addition, outside directors receive only a base amount.

Remuneration for corporate auditors comprises basic remuneration only as compensation for their responsibilities for auditing the execution of duties throughout the Group. The amount is determined through discussions among corporate auditors.

(3) FY2015 breakdown

(millions of yen)

Position	Number of recipients	Breakdown			Total amount paid
		Base amount	Stock-based compensation	Performance-based bonuses	
Director	18	581	52	0	634
Corporate auditor	6	108	—	—	108
Total (Outside officers)	24 (7)	689 (69)	52 (—)	0 (—)	742 (69)

Notes:

1. Remuneration for directors does not include salaries of those who are also company employees.
2. Total annual remuneration for a director is 1,090 million yen or less (excluding employee salaries), as resolved at the 190th Ordinary General Meeting of Shareholders on June 27, 2007. Total annual remuneration for corporate auditors is 120 million yen or less, as resolved at the 197th Ordinary General Meeting of Shareholders on June 27, 2014.
3. During the fiscal year under review, 13 directors (excluding outside directors) were paid a total of 140 million yen in performance-based bonuses for the 2014 fiscal year.
4. The numbers of directors and corporate auditors as of March 31, 2016 are respectively 15 (including 3 outside directors) and 5 (including 3 outside corporate auditors). The reason for the discrepancy from the above is that figures in the chart include 3 directors and 1 corporate auditor who retired at the end of the 198th Ordinary General Meeting of Shareholders on June 25, 2015.

From the Outside Directors

Harnessing strengths for the next phase

Taketsugu Fujiwara,
Outside Director

As CEO and then Vice Chairman of Asahi Kasei Corporation, Mr. Fujiwara developed extensive experience and broad insight wide-ranging insight and plentiful experience promoting diversified business management. He now serves as a Senior Advisor there.



IHI has always been at the core of Japan's modernization process, and its strong precision manufacturing foundations have driven the safety and credibility that Japan prides itself on. However, FY2015 saw an incident that shook these foundations deeply. It seems to me that IHI is now immersed in a struggle to "shed its skin" and transform itself for the next phase.

The world is changing faster than we can possibly imagine. To react to these changes, IHI must follow an upward trajectory where it not only selects and focuses its business, but also digests what it has learned.

IHI has strong operational capabilities on the manufacturing floor, combined with consistent organizational strengths from planning to completion. These are supported by its steady accumulation of experience and its technical background.

I want IHI to create new fields in which it can use its strengths to globally dominate markets and discover business areas where it can become a major player. This will put its business on an upward trajectory.

IHI must smoothly fuse its factory floor strengths with its management skills, and its businesses with social changes. In which fields should IHI take the initiative to accomplish this in an ideal future society? I hope that IHI will create opportunities to discuss these aspirations on a daily basis and cultivate individuals with the intuition to respond to rapidly-changing societal values and engineers who can create innovation.

I fully expect that IHI will become a global champion in its next phase.



Creating innovation with new ideas

Takayuki Hashimoto,
Outside Auditor Audit & supervisory board member

Mr. Hashimoto was CEO and then Chairman of IBM Japan, Ltd.. He developed wide-ranging insight and abundant experience from these top management roles he played at this cutting-edge global IT company. He now serves as Vice Chairman there.

I believe that IHI is a truly "good" company – one that contributes to society with its "Monozukuri" technology and earns the trust of its employees. On the other hand, from events this past year, I feel that IHI is not a "strong" company – one that has the ability to honor its commitments to its customers, to complete projects within budget and to respond to crises. I believe these issues were most apparent during the transition from "defensive" to "offensive" management. In this disjointed situation, which differs from its past successes, IHI must change its thinking on organizational structure, management and risk assessment.

To achieve this, IHI needs systems and ideas that allow it to think and do new things. Bringing diversity into the company, such as by hiring expert human resources from outside the company, making full use of women, non-Japanese, disabled and LGBT individuals, and adapting work styles using ICT, will become the engine for creating new innovation.

CSR is like vitamins for a corporation – without it, a company cannot thrive. IHI needs to create shared value by adhering to its core business and contributing to society through it.

IHI has history, potential and an excellent management philosophy. It must now present a clear business vision with the next 5 to 10 years in view, and prove that it can execute and achieve that vision.

Internal Control System

The basic policy for the internal control system is designed to boost the effectiveness of corporate governance and increase the corporate value of the Group. IHI believes that establishing a robust internal control system is key to expanding business globally, and we are making continuous efforts to achieve a sound compliance structure and enhance risk-management systems, as well as to develop and implement a shared management framework throughout IHI.

Project Auditing System

The Project Audit Division is under the headquarters and reviews large projects with high contract values, including construction projects subject to the percentage of completion method*, to ensure that they are being executed properly. Matters for review include project management, risk assessment criteria and the transparency of calculating estimated profitability.

As of the end of fiscal 2015, 84 projects worth about 18% of consolidated sales were being audited in the IHI Group. Large projects undertaken either in Japan or overseas are audited with consideration for the following:

- Adequacy of the project's execution system and execution plan after the order is received
- Appropriateness of the final cost estimated in view of current progress
- Transparency, appropriateness and timeliness of the project's estimated profitability

For projects that either are worth large amounts or are turning unprofitable, the Project Audit Division goes on-site to verify the state of progress and holds discussions with personnel in charge. The division works to identify factors leading to declines in estimated profitability of projects and to improve the accuracy of profitability estimates for future projects.

When preparing estimates for large projects, IHI implements a screening process related to project execution risk to verify execution systems, the validity of the execution plan and the profitability of the project.

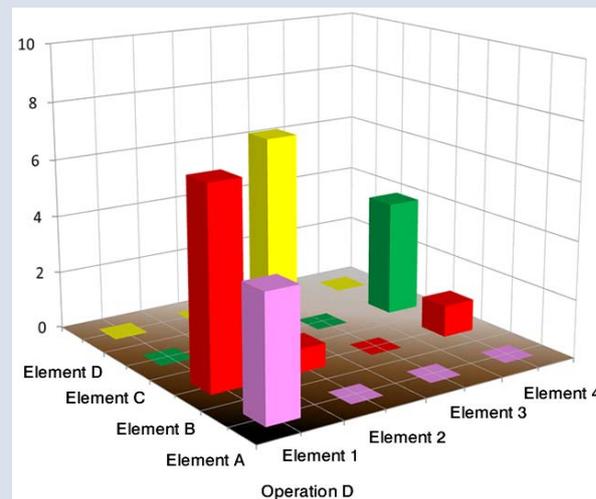
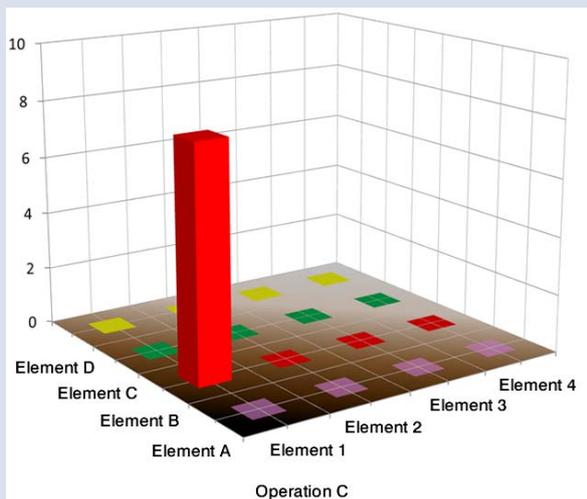
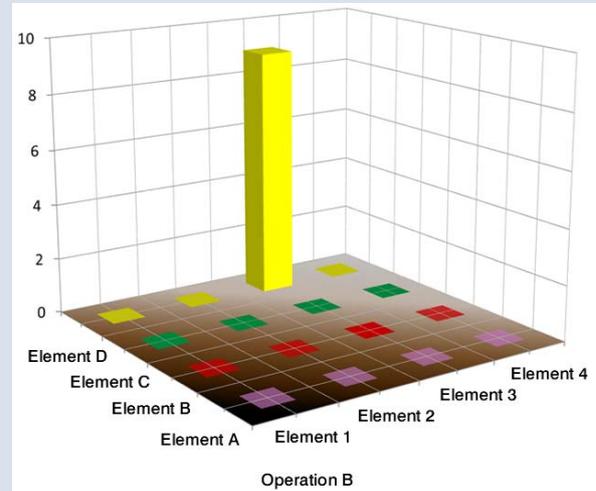
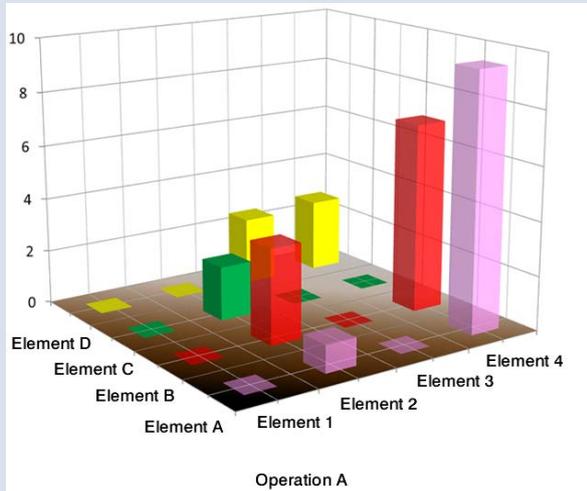
To ensure both adequacy and timely rectification, we will continue to conduct audits and risk assessments of construction projects, including local assessments, as well as strive to further enhance our auditing quality. Each department's activities will be independently audited and evaluated, and the results will be communicated. The department will be notified prior to the audit regarding the items to be reviewed, and upon completion of the audit the results will be communicated throughout the Group. The results may be used as case studies for training purposes.

Note :

For large construction projects that span more than one accounting period, revenue is recognized not after construction is completed, but instead is recorded as a per-year amount in line with the progress of work.

Activities in FY2015

IHI continue analyzing cases of declining profitability by facility type, including the configuration of equipment facilities or units where such declines occur. Going forward, this analysis and giving feedback to business operation division are expected to help prevent losses in projects, including by identifying causes at an earlier stage.



Objectives in FY2016

Before preparing an estimate for a project, the unit responsible for the project will identify risk factors that can reduce profitability of the project. Such factors include compliance with the laws and regulations of countries where the constructions have never taken place before. IHI has a check sheet that helps project managers to identify risk factors and strengthens the project implementation structure to build a framework for consistent profitability.



Basic Policies

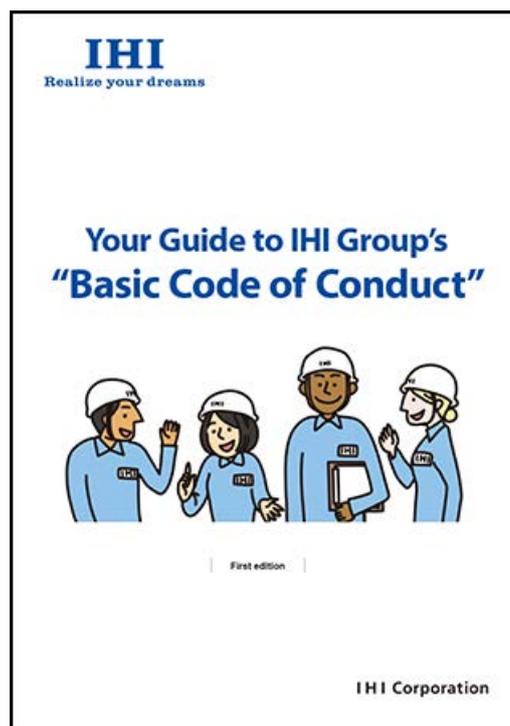
Compliance provides a company with a foundation for operating within society. In IHI, compliance policies are based on the following.

- Observing all laws, company rules, and other regulations
- Acting in a fair and responsible manner as a corporate citizen

In addition to compliance with laws and regulations, our policies must also meet the demands of society.

In FY2015, IHI revamped guidelines for the Basic Code of Conduct and provided it to group employees. We are also working on creating multilingual versions of the guidelines so that all Group employees can understand the Basic Code of Conduct and reflect it in their work.

Basic Code of Conduct



Basic Code of Conduct Guidelines

Compliance System

Compliance Committee

In accordance with the Basic Code of Conduct for the IHI Group, a compliance committee was established to review, plan and implement important policies. The chief Compliance Officer serves as the chairman of the committee. The committee meets four times annually with the participation of divisional Compliance Officers who serve as compliance managers responsible for implementing policies. According to the annual action plan and other decisions made by the committee, each Compliance Officer undertakes activities based on the PDCA model and in accordance with their division's particular structure. Each division implements activities among the Group companies for which it is responsible. Information on these activities is shared at the Compliance Committee to ensure steady progress throughout IHI.

Compliance Organizational Chart



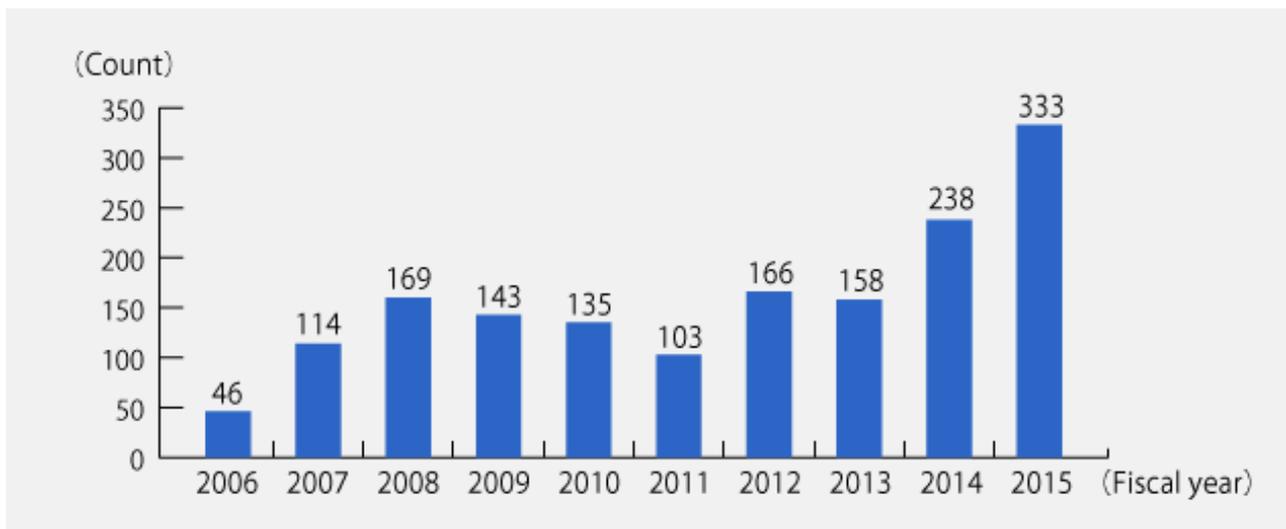
As of March 31, 2016

Compliance Hotline

IHI established a Compliance Hotline to facilitate reporting of possible illegal, unethical or improper conduct and to prompt corporate responses to remedy such actions. IHI employees are welcome to seek advice from the Hotline, which is run by the Corporate Ethics Hotline, an independent, third-party organization. Hotline Cards explaining the Hotline mechanism and method of use are distributed to all employees, from senior managers to temporary staffers.

The Hotline received 333 calls in 2015, of which 125 were actually investigated. Many of these calls also were about interpersonal relations in the workplace and were addressed seriously for fast resolution.

■ Number of hotline reports



As of March 31, 2016

Compliance Education

Compliance awareness is reinforced through compliance education, which is provided on a continuous basis at Group companies and affiliates in the form of level-specific training, e-learning programs and small group dialogue. In 2015, e-learning was provided to ensure that employees properly understood the Compliance Hotline.

Also, discussions focusing on anger management were held as a countermeasure for dealing with harassment and stress. Small group discussions were organized so that participants would be more open to talking, and past surveys on harassment were used as reference to help participants understand how anger and frustration can disrupt the workplace. Participants discussed ways to control emotions on the job and, in response to an active exchange of opinions, were motivated to review their own behavior to help make workplaces more pleasant.

Additionally, divisions educated personnel about laws and regulations applicable to their specific businesses.

Topics in FY 2015

■ Executive seminar on compliance

We must consider compliance not just from the conventional perspective of adhering to regulations, but also in responding to the demands of a global society (Sustainable Development Goals, ESG information disclosure, and others). An external expert gave a lecture to top management on recent world trends, and this seminar was also an effective opportunity for dialogue with external stakeholders.



Executive seminar

Corporate Ethics Month

October is designated by Keidanren, the Japan Business Federation, as a month for improving corporate ethics. In October 2015, IHI's president responded to the federation's initiative by sending a message to directors and employees to remind them that IHI's Basic Code of Conduct declares that IHI acts sincerely, fairly and ethically in step with social norms and international agreements. The message noted that profiteering in ways that violate social norms would not be tolerated. It also urged everyone to enhance IHI's presence and value by earning the trust of both IHI host communities and the international community at large.

Compliance Poetry Contest

To encourage employees to reflect on actions in their workplace, including one's own actions, we invited them to submit senryu, a satirical style of Japanese poetry, on the topics of compliance and CSR. More than 200 senryus were submitted, the best of which were showcased in internal publications.

Compliance Training

Outside guest speakers are retained to deliver compliance training to line managers who guide personnel in daily operations. The program has trained about 670 persons since 2006.

This year, the program was modified to help line managers:

- (1) Properly understand the keys to avoiding compliance violations;
- (2) Recognize the importance of creating workplaces where self-esteem is high, and;
- (3) Uphold management principles.

The concept of self-esteem was incorporated into training for the first time to teach managers that feeling important, being competent and liking oneself are critical for productivity improvement and that enhancing the self-esteem of subordinates helps to prevent compliance violations.

■ Compliance Training

Position	Participants
IHI Corporation executives	28
IHI group executives	23
Managers at IHI Corporation and group companies	38
Line managers	82

2016 Plans in FY2016

Compliance at IHI in 2015 focused on understanding what is happening in each workplace and reviewing rules to make changes as required. Managers sought out and corrected issues where rules were not being followed or restraints were not working properly. That said, some managers failed to identify problems at the source and saw no need to rectify matters. Going forward, such people must understand the need to lead by example to help solve problems.

Compliance in 2016 carried on with the policies implemented in 2015. Divisions were instructed to examine their workplaces to determine if:

- New rules were needed for daily operations;
- Established rules were observed, and;
- A system existed for third-party verifications.

When necessary, rules were to be adopted and/or modified. Managers were to observe operations down to the smallest detail concerning compliance, listen carefully to questions from subordinates, and propose and implement effective fixes to solve issues as quickly as possible.

The Construction Industry Act Liaison Conference was established in 2013 to consider problems in business divisions, propose solutions and provide guidance, and create opportunities to report and share information. With becoming increasingly global, IHI plans to create a reporting system for divisions in abroad.

Compliance Initiatives

With increasing globalization and borderless implications of corporate actions, fair international competition in terms of price and quality has become increasingly necessary to secure commercial opportunities. There is a growing international awareness that corrupt acts such as illegal payoffs must be stamped out. Against a backdrop of regional conflicts and terrorist attacks around the globe, security trade controls have never been more important. In response to this environment, IHI has focused on compliance with the Competition Law, the Anti-Corruption Law and the IHI's own compliance measures for security trade control.

Competition Law Compliance

In addition to training employees on Japan's Antimonopoly Act, the U.S. Sherman Antitrust Act and the EU Competition Law, IHI is working to make its bidding process for public works projects more transparent. No fair trade law violation occurred during FY2015.

Anti-corruption Law Compliance

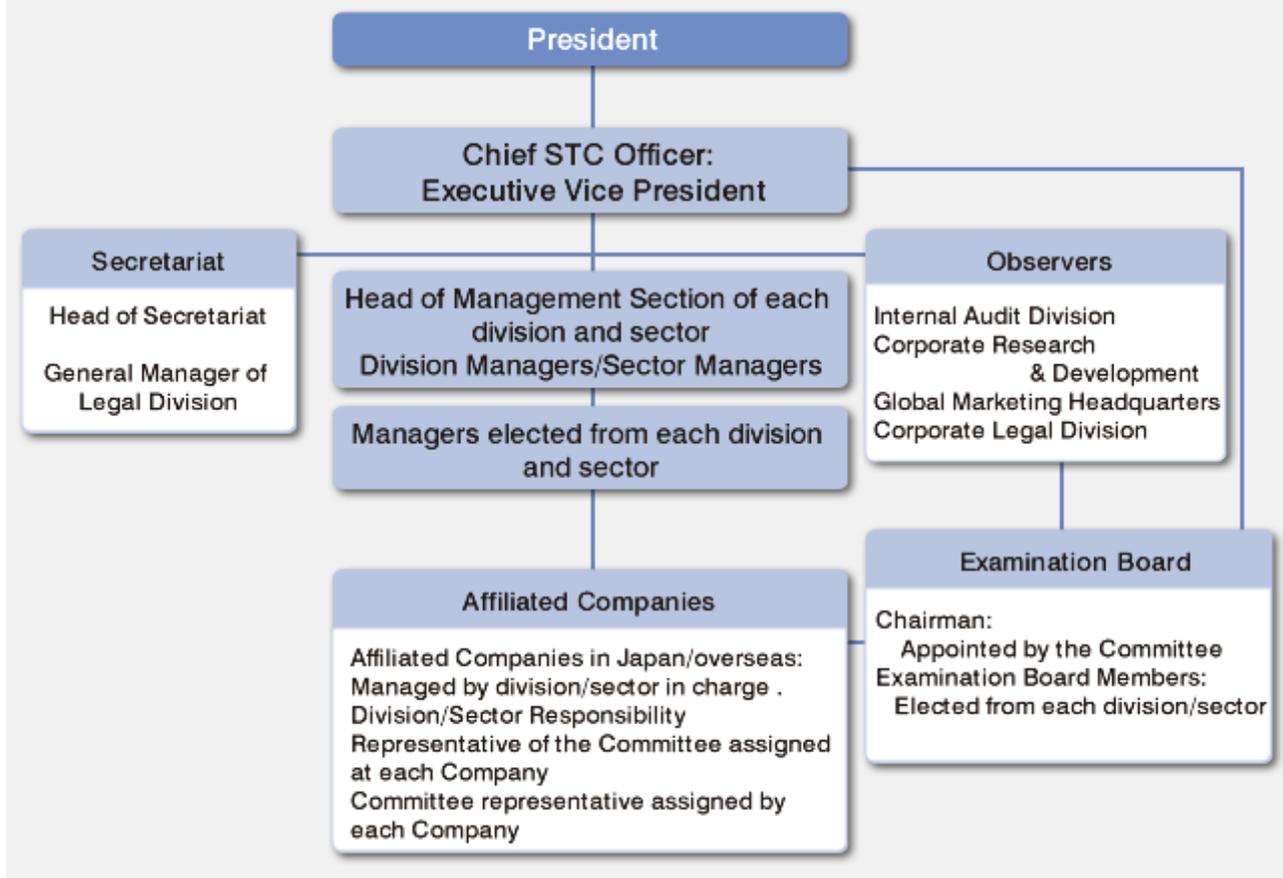
IHI regularly trains its employees regarding the U.S. Foreign Corrupt Practices Act (FCPA), the U.K. 2010 Bribery Act and Japan's Unfair Competition Prevention Act. In addition, risk is monitored at both domestic and overseas sales offices throughout the IHI. Currently, IHI implements two sets of internal regulations concerning anti-corruption: a Basic Policy that reflects IHI's commitment to prevent corruption, and Operational Guidelines that set out specific procedures and concrete examples. No anti-corruption law violation occurred during FY2015.

Security Trade Control Compliance

IHI has enacted the internal regulations security trade control regulations and established Security Trade Control Committee to ensure compliance with Foreign Exchange and Foreign Trade Act and related risk-management requirements.

The committee is comprised of a chairman (representative director), secretariat (Legal Division), members from each division and sector, and examination board members. In the case of international transactions, it is responsible for internal screening, self-audits, monitoring, information sharing and raising awareness of related regulations. Going forward, IHI will continue to improve its quality management by addressing needs and challenges identified through self-auditing.

Structure of Company-wide Committee: The committee works based on the IHI Security Trade Control Regulations and the IHI Security Trade Control Committee regulations.



As of March 31, 2016

Topics in 2015

To ensure full compliance with laws and regulations governing competition, rules on contacting and sharing information with other companies were established. These rules went into effect across the IHI Group on October 1, 2015.

Targets in FY2016

IHI will continue enlightening employees to ensure that everyone in the IHI Group complies with all applicable laws and rules related to competition, anti-bribery and security export controls, among others.



Basic Policies

The basic approach to risk management entails making business continuity plans, ensuring the safety of employees and their families, conserving management resources and retaining the trust of society. IHI manages risk based on our Basic Code of Conduct, adhering to the following principles:

1. Ensure business continuity
2. Improve society's perception of IHI
3. Conserve management resources
4. Avoid actions detrimental to the interests of stakeholders
5. When trouble occurs, work toward a speedy recovery
6. When difficult situations arise, address them in a responsible fashion
7. Respond to society's expectations with regard to risks

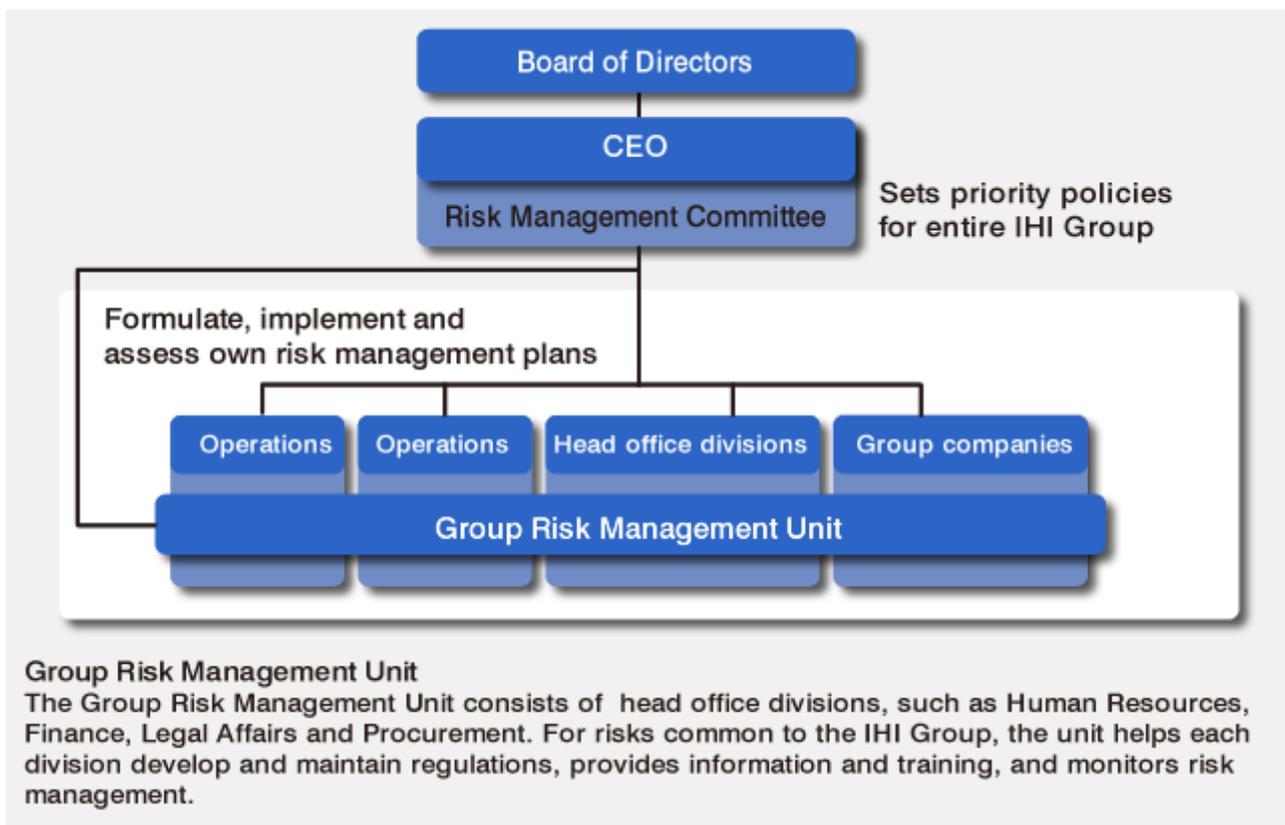
Risk Management System

The chief executive officer (CEO) of IHI is responsible for implementing the company's risk-management system. The Risk Management Committee chaired by the CEO discusses important matters related to risk management and makes related decisions.

The Risk Management Committee sets out the IHI Group Risk Management Priority Policy to identify risks that the Group needs to focus on. Based on this policy, divisions within IHI and Group companies worldwide prepare their own risk-management action plans and then assess achievements reached under these plans once every year. Risks to the IHI Group are reported to the Risk Management Committee, and required corrections and improvements are reflected in the next year's risk-management action plans.

For Group-wide risks, the Group Risk Management Unit provides advice and training to help each unit and Group company eliminate such risks. The division also monitors risk-management activities to ensure uniformity and effectiveness across IHI. The Internal Audit Division audits every division according to its respective risk-management action plan. This PDCA cycle improves risk management continuously.

■ Risk Management System



As of March 31, 2016

Strengthening our review process for large-scale projects

Considering the continual and significant losses in largescale projects in FY2014 and FY2015, we will strengthen our project review process in FY2016. These losses were caused by insufficient analysis of new field-projects and insufficient identification of risks in projects that involve conditions we had never encountered before. Going forward, we will reinforce these processes by performing our reviews more thoroughly and rigorously. We will also continue to improve the precision of our estimates and strengthen our monitoring structure. Visualization of project progress and review by key experts at each stage will ensure steady implementation of large-scale projects and prevent drops in project profit.

■ Support framework for largescale projects



What is tollgate monitoring?

A system in which stages are set in individual projects for each major milestone from estimate to delivery, and major deliverables created by the project manager or proposal manager, etc. (estimate creator) are reviewed by executive management and other relevant individuals in each stage. In tollgate monitoring, you must clear and solve the conditions set at each stage before proceeding to the next stage.

Topics in FY2015

The main activities in FY2015 were as follows.

1. Preventing problems from reoccurring

In FY2015, we ran into additional costs with an offshore F-LNG project, fell behind schedule in another project because of welding-quality issues with the boiler, and lost precious time on a bridge project across Izmit Bay in Turkey because the catwalk for erecting the main cable collapsed. Of course, we quickly took measures to rectify each situation, but to prevent any reoccurrence we also took steps to strengthen our quality controls and project execution practices.

2. Verifying the appropriateness of large investments

Before committing to large investments, we set up tollgates to analyze the appropriateness of the investment plans and the projected returns on those investments. With projects that went forward, we periodically checked progress.

3. Measures against information leaks

Whenever it was necessary to disclose to suppliers or contractors confidential information about defense, nuclear power or other sensitive content, we concluded information security agreements that clearly bound those parties to confidentiality, and verified their fulfillment of stated obligations. Moreover, to deal with targeted threats aimed at IHI, we worked closely with governmental agencies and strengthened our security.

4. Managing working hours

To get an accurate picture of working hours, logged data was fed back to management on a monthly basis.

5. Protecting trade secrets, personal information and important technologies against leaks and hacks

Alongside the start of Japan's national identification number system, strict Group-wide rules were established to manage system support and access rights. Moreover, a working group of concerned divisions was formed to extract risks, set topics of true concern and propose countermeasures.

■FY2016 Risk Management Priority Action Policy

In FY2015, risks emerged in the implementation framework and quality control of multiple large-scale construction projects, causing profits to fall and repeated downward adjustments in performance projections. To prevent these risks from reoccurring, we will take the following priority actions in FY2016.

1. Rebuilding the quality assurance systems
2. Ensuring the appropriateness of the order process in large projects
3. Sound pursuit of large-scale projects and increased accuracy of intermediate cost control

We will also continue the following actions to prevent other risks from occurring.

1. Response to changing business and competitive environment
2. Ensuring the appropriateness of large-scale investments
3. Appropriate response to risks associated with the execution of a global strategy
4. Increased sophistication in dealing with exchange rate risk
5. Strengthening compliance
6. Leaking of trade secrets/personal information/key technological information
7. Ensuring information security
8. Thorough commitment to safety and sound mental health
9. Thorough observance of environmental laws and regulations
10. Appropriate measures in the event of disasters and accidents
11. Public relations and public consultation activities conscious of the responsibility to explain, in order to recover trust
12. Cutting off all ties to anti-social forces
13. Further promotion of diversity improvement
14. Dealing with harassment
15. Promoting human rights education and awareness raising activities

Business Continuity Plans (BCP)

IHI has internal regulations requiring each office and division to prepare for serious disasters. In May of each year, which is designated as BCP Review Month, each division reviews its own BCP to ensure that all employees are registered in the safety-confirmation system, distributes pocket-sized disaster-prevention information cards, updates the telephone-contact chain and verifies the number of emergency kits. Regular training enables IHI to check and more widely promote its BCP plan. Moreover, for emergency response drills, the hypothetical emergency is changed each time to test BCP from diverse angles.



Emergency drill by senior managers



Pocket-sized disaster-prevention card distributed to all employees

Information Security Policy

IHI, under its information security policies, strives to effectively manage information while maintaining and improving information security to protect the confidentiality of its customers and business partners, as well as Company information and technical data.

Information Security Measures

IHI addresses information security risks from three perspectives: rules, tools and education. Internal rules include the Information Security Policy, Information Security Standards and Information System User Regulations. Various security tools, including frequently updated antivirus software, are deployed. E-learning sessions designed to maintain and raise security awareness are held annually. In FY2015, 95.6% of all employees participated in an e-learning program.

Computer virus infections caused by targeted e-mail attacks made headlines in 2011. Since even before then, however, IHI has been working with government agencies and specialists to institute countermeasures against attacks. As of March 2016, IHI has not reported any leaked information or related damage.

Organized and Planned Security Measures and Improvements

The Information Security Committee consisting of representatives from IHI's major divisions and Group companies meets quarterly to coordinate planning, operations and inspections on a yearly basis. Every year since FY2005, IHI has conducted an internal audit of its information security measures and provided guidance on improvements. A written survey of all 52 Group companies was conducted in FY2015, followed by interviews of four selected companies. The audit found no major flaw in security measures.

If a serious information security event were to occur, IHI would respond in accordance with the Basic Rules on Crisis Management for the IHI Group.

International Certification (ISO27001)

Divisions and Group companies of IHI engaged in sensitive projects for the national government are subject to annual certification reviews under the international standard for information security management systems (ISO27001), conducted by an external organization, to maintain a high level of information security.

Topics in FY2015

Two important tools for internal governance concerning information security—the Information Security Policy for the IHI Group and the Basic Rules on Information Security for the IHI Group—were adopted and put into effect across the IHI Group. The new rules were explained to Group companies both in Japan and abroad, and overseas companies were educated about information security via e-learning (10 companies) and lectures (6 companies).

Targets in FY2016

To ensure that Group companies in Japan and abroad establish sound systems and practices for information management, they will implement PDCA activities concerning information security. They also will use ICT to build security measures into their everyday operations.

Protecting Intellectual Property

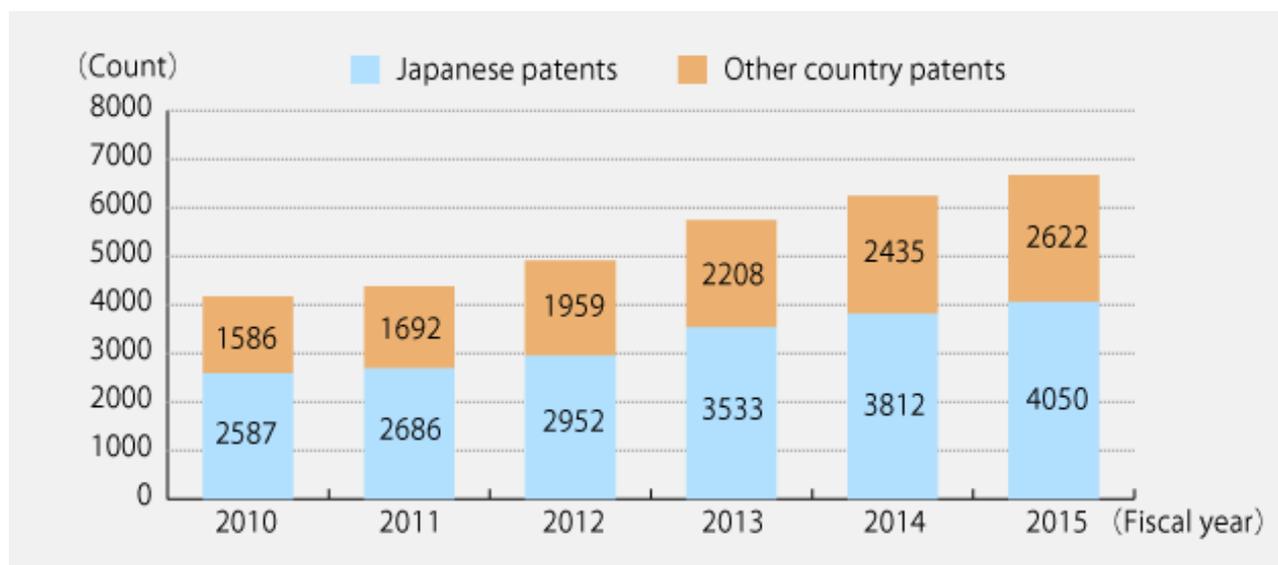
Basic Policies

IHI is enhancing its intellectual property (IP) activities to support business and R&D. It also manages a Group-wide IP management system. The basic principle is to rigorously protect Group IP while respecting the rights of third parties. To protect its technologies and trade secrets, the company is strategically managing business and product IP through rights acquisition and confidentiality measures.

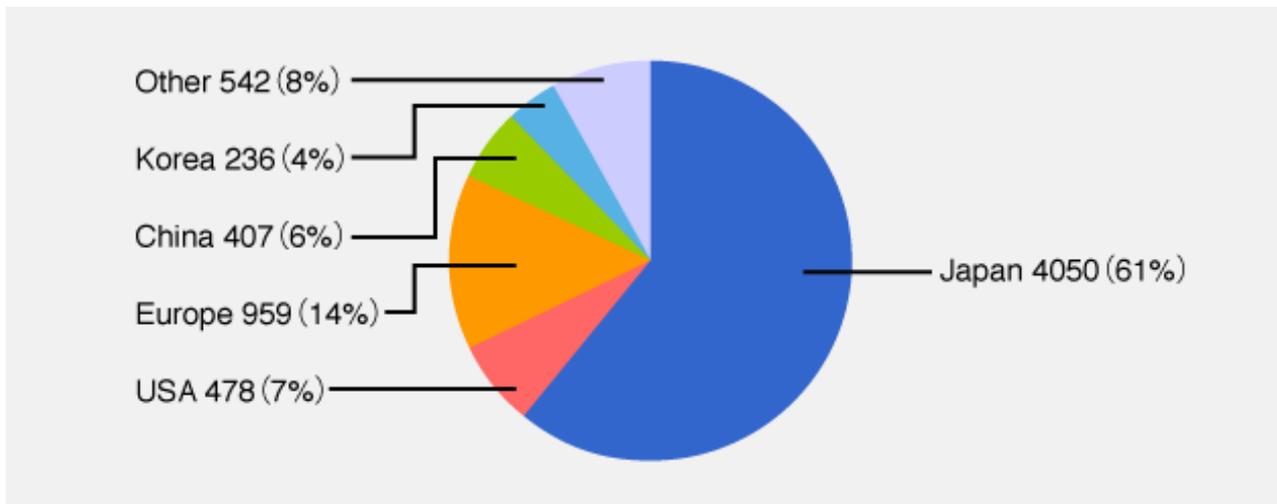
IP Protection and IP Rights of Third Parties

IHI views both foreign and domestic patent applications as being equally important. In recent years, patent applications filed by IHI outside Japan increased to approximately 180 per year. To reduce related business risks, a team specializing in patent searches in the Intellectual Property Department looks for patents owned by other companies to ensure respect for third-party IP rights.

Owned patents (Japan and abroad)



Owned patents by location (2015)



IP Education

Employees learn about IP in their first to fifth years at IHI via e-learning. Moreover, business operation divisions and group companies impart general education covering patent audits, rights acquisition policies, copyrights, brand protection and more. In December 2015, outside speakers were brought in to lecture on IP that effectively made the workforce more aware and knowledgeable of the most recent business strategies and IP activities.

Topics in FY2015

The globalization of IHI's business led to increased patent filings overseas. To improve the cost effectiveness of those activities, standards that peg the selection of countries for patent application to business priorities were established. Also, IHI rebuilt its IP portfolio.

In addition, IHI announced efforts to combat product imitations in FY2015. The policy going forward is to investigate, expose and eliminate any infringements of IHI's IP rights.

Targets in FY2016

In FY2015, IHI began updating internal IP rules because of changes to Japan's Patent Act. In 2016, those updates will be completed and steps will be taken to further boost inventor incentive.

Also, as part of the effort to realize Group Management Policies 2016, IP strategies and practices will be strengthened according to each business. The focus will be to emphasize the quality of IP in addition to maintaining the quantity thereof.

Social Report

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55 Investor Relations

58 Supply Chain Management

62 How We Use Human Resources



Fundamental Policy

IHI aims to satisfy customers and gain their trust by developing and supplying safe, useful products and services that leverage technology to help meet needs in society.

Quality Assurance

Group-wide Efforts to Improve Quality

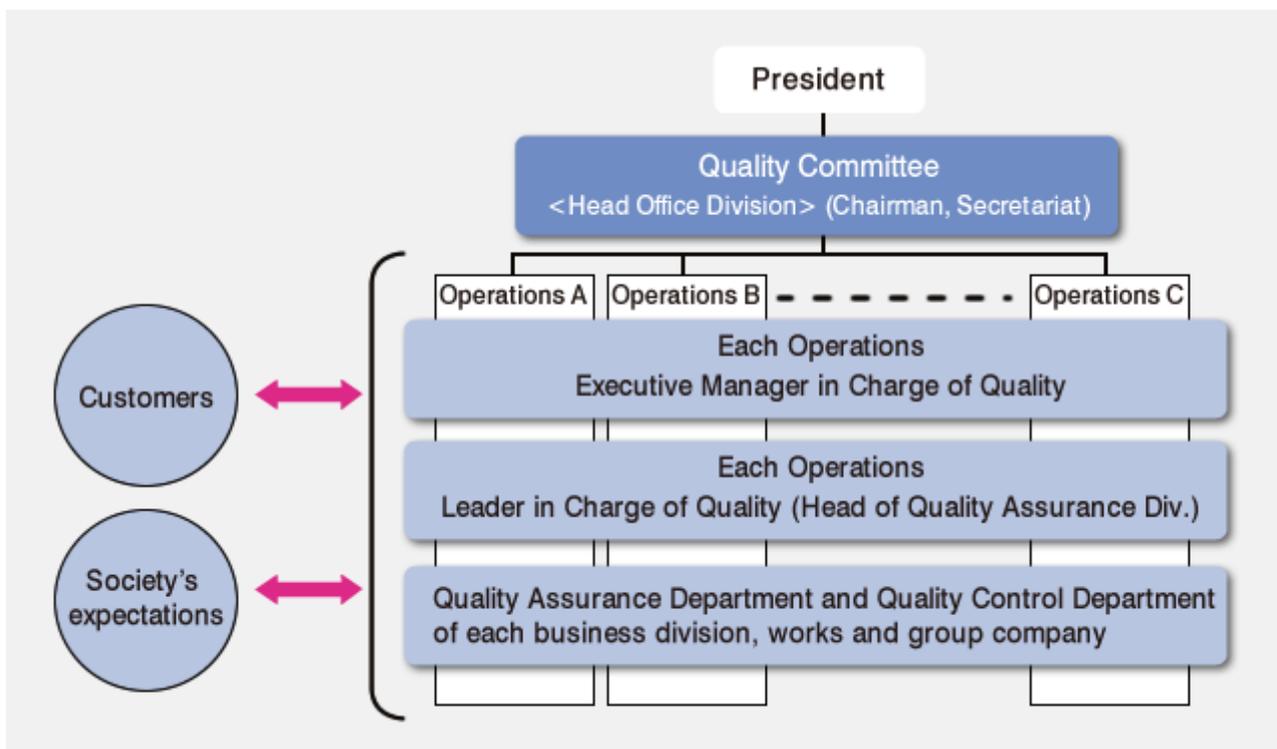
As part of a company-wide effort to improve quality, the Quality Committee, which includes representatives from Group companies, meets regularly to discuss quality issues. In FY2015, the committee focused on measures to prevent non-conforming products and services from being shipped, including by restructuring the process for preventing such problems. Also, we trained personnel on how to identify risks and we enhanced onsite inspections for this purpose.

Under the restructured process, searches for serious risks were performed when we prepared estimates, which enabled us to eliminate risks and take follow-up preventative action. To eliminate risks, individual units worked independently and also engaged in cross-sectional cooperation. Suppliers sometimes were invited to quality meetings held by IHI units responsible for manufacturing technology, design and procurement.

Employees who demonstrated abilities to identify risks were reassigned to design or quality-assurance units, where they provided on-the-job training to other personnel in these units. For any product found to have serious non-conformance issues, measures were implemented to avoid producing such products. All measures were documented to educate workers.

To strengthen onsite inspections, we reviewed each step to develop a quality-control process chart for onsite workers, and we provided related training. We also focused on assessing risks related to safety and quality immediately before the start of any construction project.

Each business operation division is responsible for its specific quality-assurance and quality-control activities. The Quality Committee reviews the results of priority measures taken by each business operation division, as well as any related problems, and ensures that knowhow is properly acquired and shared throughout IHI. The committee employs the PDCA cycle to strengthen working relationships between Group companies and to make certain that best practices for quality assurance and quality control are implemented.



As of March 31, 2016

Quality Management Systems

Business operation divisions conduct their work in accordance with quality management systems including ISO9001. Certification bodies conduct annual monitoring to determine if the quality systems are working and if there are opportunities for improvement. The Group's 33 affiliated companies and divisions in Japan and 40 affiliates overseas engaged in design, manufacturing or service operations have obtained quality certifications including ISO9001.

In FY2015, there was no case of a product or service being in serious violation or non-conformity with quality rules or regulations.

When ISO 9001 was revised in September 2015, some business operation divisions that had obtained this certification began revising their quality-control systems to respond to the revised standard. We also began preparing a training course on the revised ISO 9001, with implementation scheduled in FY2016.

Customer Satisfaction

Training to Enhance Customer Satisfaction

IHI conducts training to enhance product-quality management, customer satisfaction and product safety. In addition to position-specific training, business operation divisions carry out their own general training programs.

New-employee training includes etiquette and product-quality courses covering theoretical and practical elements that instill a customer-oriented mindset in new employees. Training for employees in their second year includes lectures on quality and intellectual property rights. Training for those in their third year focuses on safety and engineering ethics, and mid-level employees are provided with training on manufacturing technology. In training workshops, attendees hear about the experiences of veteran engineers and engage in group discussions.

In FY2015, each workshop was attended by more than 300 employees of IHI and group companies. In addition, IHI held training workshops on quality assurance and quality control and also provided such training online.

Four courses related to product quality and product safety were offered a total of seven times in FY2015, with approximately 130 employees participating.

Ensuring Product Safety

Safety design and quality improvement

IHI is constantly working to enhance the safety of its products. During product development, we conduct risk assessments by considering each product's usage and life cycle, as well as by designing measures to reduce risk and providing customers with information on any residual risk. When designs are altered, we conduct risk assessments of the changes, including the extent of the impact on products.

For mass products, we strived to develop more safe designs and higher quality products to respond to customers' changing needs amid globalization, stricter environmental and safety regulations and technology advancement. Specifically, we set up a specialized design unit to streamline our standard product portfolio and standardize our designs. In the design phase, we thoroughly reviewed design processes. We also reviewed how we evaluate suppliers to ensure that they are evaluated properly beginning from the development phase to improve quality.

These efforts were shared with the Group's Quality Committee to facilitate application to other products and models as required.

In FY2015, there was no serious accident involving any product.

Activities in FY2015

■Excellent Supplier Award from Volkswagen FAW Engine (Dalian) Co.

Changchun Fawer-IHI Turbo Co.,Ltd. (FIT) was selected as an excellent supplier by Volkswagen FAW Engine (Dalian) Co. (VWED). Since 2009, FIT has been supplying gasoline-engine turbo chargers to VWED for installation in Audi and Volkswagen cars. This marks the sixth straight year for FIT to receive a VWED award in recognition of its quality, distribution or overall capabilities.



Excellent supplier award ceremony

■Three ITT Awards from Toyota Co-operation Club

Toyota Co-operation Club (TCC), an association of Toyota Motor suppliers in Thailand, presented three Winner Awards to IHI Turbo (Thailand) Co., Ltd. (ITT) in FY2015.

TCC suppliers share knowhow on plant operations to improve productivity. In FY2015, ITT received Winner Awards in the three categories that it entered—Toyota production system (TPS), human resource and development (HRD) and quality assurance (QA). This was ITT's first entry in the TPS and QA categories. In the HRD competition, ITT was awarded for the second straight year. The awards not only demonstrated our capabilities to Toyota but also encouraged ITT to work even harder in the future.



ITT's President Takeshi Yoshihara at TCC ceremony

When ITT begins increasing production in 2017, it plans to further strengthen its training schemes.

■New Supplier Award from Beijing Benz Automotive

Wuxi IHI Turbo Co., Ltd. (WIT) won the New Excellent Supplier Award from Beijing Benz Automotive Co., Ltd. (BBAC) on BBAC Supplier Day held in August 2015. BBAC, Daimler's major manufacturing joint venture in China, commended WIT's preparation for mass production and efforts to prevent non-conforming products. WIT and other IHI companies are striving to improve quality and further satisfy customers in the rapidly growing turbocharger market.



Executives of BBAC, WIT and Daimler at award ceremony

■ Recognition by International Research Institute for Nuclear Decommissioning

In March 2016, IHI Nuclear Power Operations were presented a certificate of appreciation by the International Research Institute for Nuclear Decommissioning (IRID) for its construction works of mock-up facility of lower part of the reactor primary containment vessel of the Fukushima Daiichi Nuclear Power Station. The mock-up facility, constructed in the Japan Atomic Energy Agency's Naraha Remote Technology Development Center in Fukushima, is being used to develop remote-control robots and devices that will be used in the decommissioning of the power station.



IRID's certificate of appreciation



Mock-up facility of lower part of reactor primary containment vessel

■ Recognition from TEPCO

In July 2015, IHI's Energy & Plant Operation was presented a certificate of appreciation by the Higashi Ohgishima thermal power station manager of Fuel & Power Company*, an in-house company of Tokyo Electric Power Company (TEPCO), for completing its regular maintenance of boilers ahead of schedule. Going forward, the unit will continue to provide high-quality, high-performance and eco-conscious solutions for the construction, reconstruction and inspection of power plant boilers in Japan and overseas, aiming to help satisfy growing needs for the stable supply of electricity and reduced fuel costs.

*Now known as TEPCO Fuel & Power, Inc.



TEPCO's certificate of appreciation

■ Recognition for equipment renewal at Himeji No. 2 Power Station

In April 2015, Kansai Electric Power Company (KEPCO) held a ceremony to mark the completion of equipment renewal at its Himeji No. 2 Power Station.

The ceremony was attended by 100 guests, including IHI Chairman Kazuaki Kama and KEPCO President Makoto Yagi, to receive a certificate of appreciation as one of the companies that helped to complete the project seven months ahead of schedule.

For the renewal, the station's power generation method was changed from steam power (2,550,000 kW; power generation efficiency of 42%) to combined cycle (2,919,000 kW; 60%). IHI's Energy & Plant Operation increased the pressure capacity of the fuel LNG storage tanks and the company's Rotating Machinery Operation constructed fuel gas compressors.

The Himeji No. 2 Power Station now boasts thermal power generation with world-class efficiency electricity.



IHI executives receiving certificate of appreciation



KEPCO's certificate of appreciation

■ Shimane Scenery Award

Shimane Prefecture presented its Excellent Scenery Award to IHI Infrastructure Systems Co., Ltd. for its construction of the Tenjin River Gate. The award was presented at the 23rd Shimane Scenery Award in February 2016. The prefecture praised the gate's unobtrusive design that does not disrupt the surrounding scenery, as well as its superior function as a water gate.



Tenjin River Gate



Award ceremony

Disclosure of Information about Products and Services

IHI is carrying out a continuing series of media campaigns, including via advertisements on TV, newspapers and the Internet, to introduce its corporate vision to the public, raise awareness of IHI and bring IHI closer to people's everyday lives. The campaigns are closely coordinated with relevant divisions to ensure that accurate information is provided to customers and other stakeholders. In addition, precautions are taken to ensure compliance with laws and regulations, such as the Copyright Act and the Trademark Act, and related industry rules and regulations. Moreover, effects of the campaigns are monitored regularly to identify opportunities for improvement.

In FY2015, no violation of any law or regulation applicable to advertising or publicity public relations was reported.



Message from the General Manager of Administration Division

Communicating with Shareholders

IHI believes that meeting the expectations of society and bringing benefit to communities are its main responsibilities as a company that seeks the long-lasting trust and support of its shareholders.

The Administration Division is dedicated to communicating effectively with shareholders by providing them with information by post and through the IHI website in a timely manner.

In FY2015, we introduced an information delivery service for shareholders. We posted two mailings, one to send out our Integrated Report and the other to invite shareholders to events. Some 20% of our shareholders, or more than 20,000 people, signed up for the delivery service.

At shareholders' meetings, IHI answers questions about Group activities, corporate governance, etc., and learns about the expectations of shareholders. Moving forward, we will continue to nurture communication with shareholders.



Kazuki Awai
Executive Officer
General Manager of
Administration Division

Policy for Constructive Dialogue with Shareholders

(1) Basic stance

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

(2) Dialogue with shareholders

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

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

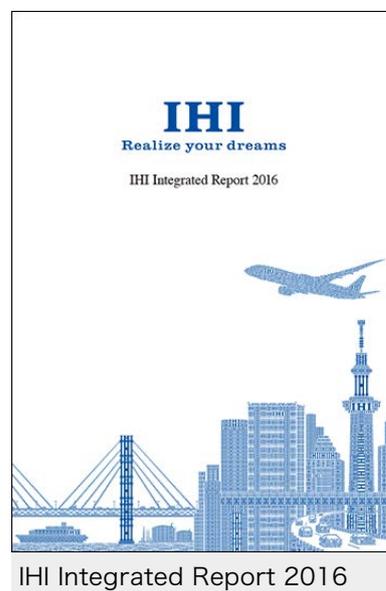
(3) System for promoting dialogue

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

IR Information

To communicate timely and appropriately with investors and other stakeholders, IHI publishes the IHI Integrated Report, which discloses precise financial and non-financial information. Briefings for financial analysts and institutional investors are held when the financial results for the second quarter and full year are announced. IHI also organizes telephone conferences after announcing its financial results for the first and third quarters.

At each briefing held this year, we provided approximately 100 people with an overview of the term's financial results, our progress in implementing ongoing business plans and details of the new IHI Group Management Policies 2016.



Communication with Overseas Investors

IHI implements proactive IR activities and is using increasingly diverse communication channels for its growing number of foreign shareholders. These include meetings with foreign investors, opportunities to participate in investor conferences and one-on-one interviews.

In FY2015, similar to the prior year, IHI managers travelled to North America, Europe and Asia to forge and renew relationships with institutional investors. Many investors expressed satisfaction with our briefings about our business environment and their pleasure in sharing information about the challenges that IHI faces.

Also during the year, we created numerous opportunities, including investor conferences and one-on-one interviews, to facilitate communication with some 250 foreign institutional investors.

Activities in FY2016

FY2016 is the first year of our Group Management Policies 2016 three-year plan through FY2018.

During this period, IHI will hold meetings with analysts and investors to raise awareness of our efforts to strengthen earnings foundations in our four main business areas.



Message from the General Manager of Procurement Strategy Planning

Building Beneficial Relationships with Business Partners

The IHI Group's Basic Procurement Policy, established in FY2012, focuses on three principles: (1) fair and impartial procurement, (2) mutually beneficial partnerships with business partners and (3) compliance with laws and the fulfillment of social requirements.

We asked major suppliers in Japan to respond to a CSR questionnaire, after which we contacted these respondents to work on improving our procurement process.

In FY2016, we will intensify our efforts to raise our overseas companies' understanding of the IHI procurement policy.

Our procurement personnel must understand our social responsibility correctly and be able to communicate it effectively with all parties concerned. Otherwise, we will not be able to address evolving issues and needs concerning the environment and human rights, such as complying with conflict mineral regulations and the UK's Modern Slavery Act.

We work tirelessly to ensure that these needs are communicated to employees and shared with business partners, ultimately to strengthen relationships with our partners.



Nobuko Mizumoto
Executive Officer
General Manager of
Procurement Strategy
Planning

Basic Policy on Procurement

IHI regards suppliers of goods and services, both in Japan and overseas, as key partners sharing similar goals.

We ensure that our procurement teams comply with domestic and foreign laws and regulations, and meet other social requirements as part of their basic code of conduct. Our suppliers are selected through a fair and impartial evaluation process, and our procurement activities help to enhance the competitiveness and prosperity of these partners, as well as IHI.



Related link: [IHI Group Basic Procurement Policy](#)

Responsibilities regarding supply chain

The IHI procurement policy ensures that both IHI and business partners correctly understand the needs of society. For procurement in Japan, IHI and its business partners share information on their supply chains, including tier-two and tier-three suppliers. This also helps IHI to evaluate the status of its supply chains following natural disasters, such as earthquakes.

To facilitate procurement overseas, we are setting up bases around the world, mainly in Southeast Asia, to optimize our supply chains. We provide technical assistance and quality guidance to business partners in emerging nations.

Corporate Social Responsibility in Procurement

Since releasing the IHI Group Basic Procurement Policy in FY2012, we have circulated the policy to major business partners and asked them to respond to a CSR questionnaire to ensure compliance. Based on the results of the questionnaire, we have been helping certain business partners to engage in more responsible procurement.

Some 4,700 IHI group employees involved with procurement have taken e-learning courses on responsible procurement, including Japan's Subcontract Act, practices for fair subcontracts and information security. Employees involved with global procurement also receive lectures about laws, tax systems and related conditions in foreign countries.

In FY2016, we will intensify efforts to raise awareness of responsible procurement among affiliated companies in Japan and overseas, confident that these measures will help to improve the competitiveness of both IHI and its business partners.

IHI Group Policy on Conflict Minerals

We have established the IHI Group Policy on Conflict Minerals as part of the IHI Group's Basic Procurement Policy. As a company policy, IHI will not procure raw materials, parts, or products that contain conflict minerals produced in the Democratic Republic of the Congo or its adjoining countries. We have also conveyed this policy to our major business partners to ask for their cooperation in disclosing related procurement information if requested by our clients.

Fair and Appropriate Trade

IHI contributes to society by conducting fair and appropriate trade. To provide products and services that respond to societal needs, we advise business partners on technical and managerial issues, if requested, after evaluating the technology, quality and price considerations. Global procurement activities are carried out at procurement bases in each region, so to ensure adherence to local standards and compliance with import/export regulations, awareness training is conducted throughout the Group. Training also is provided on meeting requirements related to the environment, human rights, labor, health and safety.

Training and Inspection Regarding Procurement-related Legislation

IHI conducts internal training on procurement-related laws, such as Japan's Act Against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors (Subcontractors Act) and the Construction Business Act. Internal training courses designed to ensure compliance with procurement-related laws are now offered to all related divisions, helping to increase understanding and awareness of proper procurement procedures.

In FY2015, 354 employees attended the Subcontractors Act course and 85 took part in the Construction Business Act course.

To comply with foreign procurement legislation, we support voluntary post-clearance inspections for all relevant IHI divisions.

We also offer training in the procurement laws and tax systems of key emerging countries and provide local personnel with training on our procurement policy to ensure global compliance.

IHI internally audits procurement divisions to determine if they are in compliance with Japan's Subcontractors Act, and then offers guidance as required. Voluntary inspections and improvements have been encouraged since FY2012.

Organized Crime Countermeasures

IHI rejects any involvement with organized crime in its procurement activities. We clearly stipulate to our business partners that no relationship with such groups is permissible, especially in the case of partners from industries that are sometimes alleged to have links with organized crime. By so doing, we strive to eliminate any involvement with organized crime.

Building Relationships with Business Partners

IHI is constantly striving to enhance its procurement activities by sharing information and policies with business partners. We work to strengthen relationships with our partners through value engineering* and other initiatives for sharing information on quality, costs and delivery deadlines.

*Value engineering is a professional, function-oriented, systematic team approach to analyzing and improving value in products, facility designs, systems or services. It can be applied to any business and has been proven useful for long-term business strategy, increasing customer satisfaction and adding value to investments.

Comment from Chinese supplier

We are from Jiangsu Chang Bao Steel Tube Co., Ltd., a top-class high-pressure boiler tube manufacturer in China. We specialize in R&D in high-pressure rifled boiler tubes. Since the beginning of our partnership in 2010, we have continuously improved our product quality and created a service framework for flexible deliveries with the guidance of IHI. As a result, we have earned IHI's trust and achieved growth as well.

In 2016, we were presented with a letter of gratitude for swift delivery, and we have grown close to IHI. We will continue our management philosophy of "quality is #1" and create a bright future where both companies can achieve a win-win relationship.



Supplier Award for Jiangsu Chang Bao Steel Tube Co., Ltd.

Plans for FY2016

In FY2016, IHI will provide group companies in Japan and overseas with addition assistance to strengthen their compliance with procurement rules. We will implement a range of measures, including raising their awareness of the IHI Group Basic Procurement Policy, educating procurement staff about compliance and providing lectures to affiliated companies overseas.



Message from the General Manager of Human Resources Division

Managing Human Resources to Strengthen Our Earnings Foundations

In 2013, IHI established its current Group Human Resource Management Policy, including human-resource management concepts that are being shared throughout the group and core values for all members of the IHI workforce.

The policy is designed to ensure that all group employees – not just those in IHI Corporation – have opportunities to grow and to build workplace environments where diverse employees can realize their full potential in concert with IHI's Management Philosophy and Group Vision.

Group-wide discussions were held to consider what constitutes ideal human resources. It was determined that all employees should be sincere, dependable, creative and innovative; should serve customers and society as a whole; should contribute as team players; and should act and perform like world-class professionals. These values are applied as a matter of policy in every process of human resource management, from recruitment to training to evaluation.

The Group Human Management Policies 2016 also aim to nurture an organizational climate that improves IHI's revenue base by creating ideal human resources, and spawns creativity and innovation by promoting greater diversity in the IHI workforce and linking the various mindsets that emerge in this environment.

Moreover, IHI is proactively addressing recruiting and developing human resources to drive business strategy, and exploring ways to manage human resources to steer global business.

IHI continues to solidify the foundations of principles it has long pursued, including workplace safety and hygiene, risk management, mental healthcare, building trust with labor unions, and respect for human rights. IHI also continues to look ahead to formulate new strategies and strengthen its workplace environments so that all employees can perform to the best of their abilities.



Masato Shida
Associate Director
General Manager of Human
Resources Division

Group Human Resource Management Policy

The IHI management principles clearly state that human resources are our single most valuable asset. We firmly believe it is necessary to develop supportive systems, workplace environment and corporate culture that help each employee realize his or her full potential with common values.

From this perspective, in 2013 we formulated the IHI Group Human Resource Management Policy to be shared by group employees, in which five ideal traits of human resources and guidelines based on the keywords of “group,” “global” and “diversity” are provided.

The Group Management Policies 2016 also state that we should thoroughly permeate ideal traits and promote diversity more to foster a corporate culture that spurs further creation and innovation. We will also develop human resources to support our business strategies and sustainably grow our business, and introduce human resource management system for global business operations.

Group Human Resource Management Policy

In line with IHI’s management principles and Group vision, IHI creates values for customers by wielding our engineering expertise that has “Monozukuri” technology at its core.

1. In order to become an enterprise of distinguished global professionals who strive to excel in “Monozukuri” and engineering technologies via world-renowned high quality products, the ideal traits determined here for human resources shall be permeated throughout the group and shall serve as shared values for group employees.
2. The ideal traits of human resources shall serve as a foundation for establishing HR management policies in order to provide group employees with opportunities to develop.
3. We shall provide a work environment where people of diverse backgrounds can demonstrate their abilities and are in tune with the management principles and Group vision of IHI.

■ Ideal Traits of Human Resource

Integrity and Trust

For Customers
and Society

Innovation and
Creation

Teamwork

World-Class
Professional

■ Keywords

Group

Global

Diversity

Underlying Thoughts

IHI strives to provide its entire workforce with workplace environments where all persons feel respected, welcome, motivated and rewarded. A crucial component of this has been to craft strategies that include women, foreign nationals, persons with disabilities and the elderly for greater diversity. This mindset is the pretext to weaving a wide range of values into the organizational climate to spawn creativity and innovation. Moreover, IHI recognizes the sanctity of human rights and endeavors to ensure full respect in all activities at all times.

Such efforts help to bolster a sense of unity within IHI, motivate and enhance the abilities of every employee, and create a more open corporate atmosphere.

Workforce Demographics

IHI Group Workforce, by Region

Region	Workforce
Japan	22,751
Asia Oceania	3,664
Americas	1,127
Europe, Middle East & Africa	1,952
Total	29,494

As of March 31, 2016

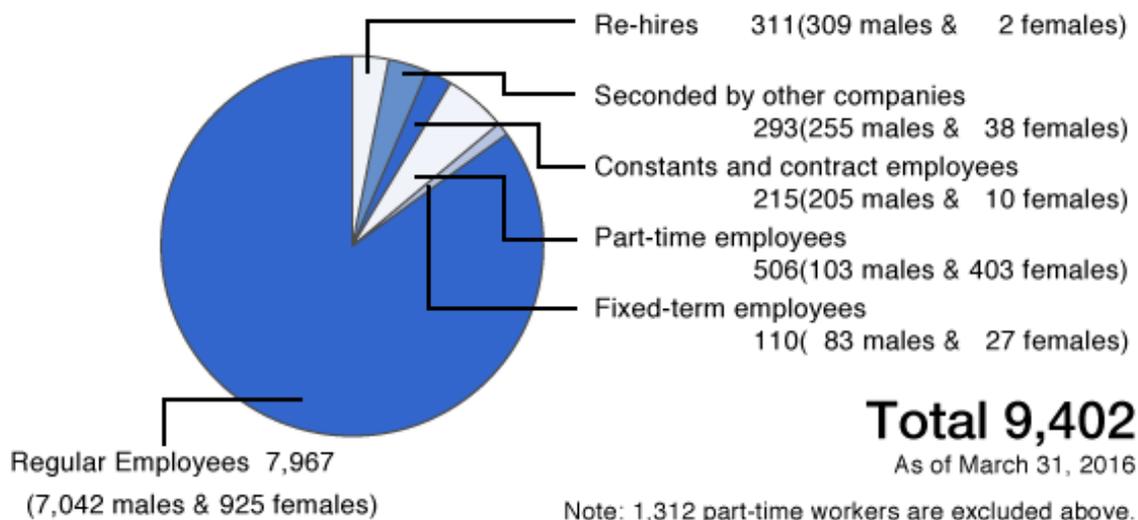
Workforce by Age and Gender (IHI Corporation)

	Men	Women	Total
Under 30	1,699	248	1,947
30 to 39	1,838	276	2,114
40 to 49	2,043	336	2,379
50 to 59	1,166	63	1,229
60 and over	605	4	609
Tota	7,351	927	8,278

As of March 31, 2016

Includes regular and rehired employees

Employees by Employment Status (IHI Corporation)



Turnover Rate and Average Length of Service by Gender (IHI Corporation)

[Less than 3 years with company]

	Men	Women	Total
Total	4.8%	9.1%	5.5%

Based on employees who entered IHI in 2013

[Average years of service]

	Men	Women	Total
Total	14.7	12.1	14.4

As of March 31, 2016

Respect for Human Rights

Raising Awareness

IHI addresses human rights in its management philosophy, which cites human resources as IHI's single most valuable asset. Actual awareness activities began in 1981 with the establishment of the company-wide Dowa Promotion Committee. Recognizing our corporate social responsibility, we formulated a basic policy to resolve social discrimination issues in support of a fair, non-discriminatory society, which is now a key aspect of IHI's business.

Based on plans and policies drawn up by the company-wide committee, each worksite has since established a local Dowa Promotion Committee. In light of domestic and international trends and changes in the social environment, these committees have undertaken education and awareness activities that address a wide range of human rights issues relevant to each workplace, including the treatment of social outcasts.

Outside Japan, other key human rights issues include child labor and forced labor. IHI believes it is also important to address such issues from a global perspective.

In this context, the Basic Code of Conduct of the IHI Group in 2010 was amended to list respect for human rights as a fundamental principle of the company, based on which IHI is implementing various initiatives on an ongoing basis. These activities are reported to executive management to convey their importance throughout the IHI Group.

No human rights violations, including the use of child/forced labor, were reported during the year.

Human Rights Training

In 2015, 5,137 employees participated in position-specific training, training at IHI offices and plants, and training conducted by third parties, to deepen awareness and knowledge of human rights, compliance, harassment and more.

Equal Wages for International Recruits

IHI practices fair and impartial wage setting both in Japan and in international locations. Employees are treated equally-regardless of gender-and basic wages are set in the same manner.

Promoting Diversity

Promoting diversity is important towards creating an organizational climate that spawns creativity and innovation. Presently, diversity initiatives are focused on women, foreign nationals, persons with disabilities and the elderly.

Enhanced System for New Graduate Recruitment

To ensure a diverse workforce, IHI recruits human resources regardless of nationality, gender or age, and accepts candidates who have been out of school for up to three years.

In its recruiting practices, IHI selects suitable and capable candidates that fit the company's standards for ideal human resources (sincere, dependable, creative and innovative; serve customers and society as a whole, contribute as team players; and act and perform like world-class professionals) described in the Group Human Resource Management Policy. Moreover, personnel assigned to candidate interviews, etc. are trained to follow fair and impartial recruitment practices.

To attract global talent, IHI provides a wide range of opportunities, including recruitment seminars in the U.S., U.K., South Korea and Singapore. Looking at the past five years, IHI hired 7 non-Japanese employees in 2011, 15 in 2012, 14 in 2013, 11 in 2014, 9 in 2015 and 7 in 2016 (some of which are scheduled to start working in October).

■ Recruitment in 2016 (IHI Corporation)

Engineers	227(19)
Administrative	56(18)
Total Foreign nationals in the total above	283(37) 7(2)

Women indicated in ()

Some of the 7 foreign nationals start work in October but are not included in the total.

Active Recruitment of Mid-career Employees

IHI actively recruits mid-career employees, with 131 such people joining the company in FY2015. We conduct an annual symposium to inform mid-career recruits about career opportunities at IHI and to build networks. Also, we offer fixed-term employment contracts as a mechanism for shifting temporary staffers to regular employment. Under this system, six-month contracts can be renewed up to a maximum of three years and personnel who meet certain standards can be subsequently hired as regular employees.

Employment of Physically-challenged Persons

To create workplaces where anyone can work with ease, IHI encourages the employment of persons who are physically challenged. As of June 1, 2016, 2.14% of IHI employees had disabilities. We will continue to cooperate with public employment agencies to actively provide employment opportunities for workers with disabilities.

■Employment of Disabled People

	Employment rate at IHI	Statutory employment rate
FY2012	1.79%	1.8%
FY2013	1.87%	2.0%
FY2014	2.04%	2.0%
FY2015	2.15%	2.0%
FY2016	2.14%	2.0%

As of June 1 of each year

Employment at Age 60 and Above

In April 2013, IHI replaced its previous re-employment system with a new system that allows employees at the age of 59 to decide their retirement age anywhere between 60 and 65. Not only does this new system comply with amendments to the Law concerning the Stabilization of Employment of Older People, but it also creates an environment where people can continue working actively beyond the age of 60. The system was reviewed in April 2016 to make improvements, which has resulted in about 90% of those aged 60 choosing to stay on the job beyond that age.

Empowering Women in the Workplace

It is important to actively recruit outstanding female employees, foster their professional development, and cultivate an environment in which they can thrive for IHI to grow sustainably.

Therefore, IHI aims to have women in at least 3.5% of manager positions (section manager or higher) by FY2020, as well as setting other quantitative targets to encourage the advancement of women. We are implementing a variety of initiatives to reach this goal.

We are also committed to making male employees change their mind to support women in the workplace, and are working with group companies on this initiative through lectures and workshops for female managers in group companies.

IHI, after being certified by the "Kurumin" system in 2007 and 2011, which is under Japan's Act on Advancement of Measures to Support Raising Next-generation Children, was again certified in 2015.



Mark for childcare support program

Recruitment and Promotion of Women

To recruit women, IHI has prepared pamphlets, created a special webpage on the company's website and staged seminars just for women candidates. This includes the Technical Recruitment Seminar for Women that was held twice in 2016, on March 29 (Osaka) and 30 (Tokyo), to provide female university students in technical fields with an idea of what it would be like to work for a heavy-industry manufacturer such as IHI.

■Recruitment of Female University Graduates (IHI Corporation)

FY2012	36(16 technical and 20 administrative)
FY2013	33(13 technical and 20 administrative)
FY2014	31(11 technical and 20 administrative)
FY2015	47(24 technical and 23 administrative)
FY2016	37(19 technical and 18 administrative)

■Recruitment Targets for Female University Graduates (IHI Corporation)

	Current*	Target
Administrative	36%	35% or above
Engineers	9%	10% or above
University graduates	15%	15% or above

*Average of last three years

IHI Endorses the Empowerment of Women in the Workplace

The Council for Women to Shine was hosted on March 28, 2014 at the prime minister's residence as an opportunity for business leaders to craft a Declaration of Action on empowering women in the workplace. IHI Chairman Saito has endorsed this declaration as a signal that top management at IHI is committed to empowering women in the workplace.



Encouraging More Women Managers

IHI has taken constructive steps to create workplace environments based on a philosophy of workforce diversity and helping individuals to reach their potential. For example, in 2012, training was imparted to women in managerial positions to raise their awareness, enhance their leadership skills and support their networking efforts. A networking leadership program was launched in 2013 to support women employees in diverse business areas. A second stage was begun in 2015 with workshops, seminars and other activities for 14 women. One training program has offered seminars to women in managerial positions since 2013, and also to their superiors since 2014. These events invite women directors from diversity-minded businesses to speak to the women about career development and to their superiors about the roles that they play in their development. Moreover, to groom women candidates for managerial positions, the Human Resource Division continues to interview the candidates' superiors.

A major initiative to empower women came as a 3-year action plan (2016 - 2018) that IHI adopted on the heels of the Law on Promoting Women in the Workplace that went into effect in April 2016. The plan boldly sets numerical targets for recruiting and promoting women to managerial positions, and IHI is continuing to implement various empowerment programs in order to attain these targets.



Seminar for women in managerial positions and their superiors

■ Percentage of Women Managers (IHI Corporation)

	April 2014	April 2015	April 2016
Total managers	2,847	2,847	2,630
Female managers	51(1.8%)	60(2.1%)	66(2.5%)
	Division managers:8 Section managers:43	Division managers:14 Section managers:46	Division managers:19 Section managers:47

Note: Figures in parentheses show female percentages.

Transferred managers included. Intragroup transfers not included in 2016 figures. Directors not included.

There was 1 woman director in each of the indicated years, but not included in above manager numbers.

■ Targeted Percentage of Women Managers (IHI Corporation)

	2018 Target	2020 Target
Percentage of all managers	3% minimum	3.5% minimum

■ Targeted Number of Women Directors (IHI Corporation)

	2020 Target
Directors	1 minimum

One woman was appointed executive director in April 2014.

Initiatives to promote local hiring

Based on the Group Human Resource Management Policy stipulated in Group Management Policies 2013, IHI actively seeks and hires capable individuals regardless of gender, educational background, age, or nationality to promote the diversity and abilities of its global human resources. Based on the ideal makeup of human resources as identified in the Group Human Resource Management Policy, each overseas base recruits necessary candidates relative to the respective country's labor market and customs. IHI also conducts trainings to develop managers at overseas base. In FY2015, trainings for managers were conducted in Asia Pacific region.

■ Locally Hired Managers

Company	Managers
ICL	1
IHIAP*	10
IHI INC.	9

*IHIAP includes IHIAPT.

2015 Topics

IHI was selected as a Nadeshiko Brand for FY2015 by the Tokyo Stock Exchange and the Ministry of Economy, Trade, and Industry. Nadeshiko Brands have been chosen each year since FY2012 from listed companies in each industry that show excellence in promoting women and helping them achieve their full potential. This was our second time to be selected, following FY2013. We especially focus on developing female managers, promoting network leader activities, and enhancing policies to support for an appropriate work and family-life balance. We will continue to develop an environment where women can thrive.



Human Resource Development Initiatives

IHI's Group Human Resource Management Policy defines common concepts in human resource management for sharing within the group and core values for the entire group workforce. Development of human resources is implemented under guidelines separately stipulated by IHI's Group Human Resource Development Policy. More specifically, level-specific training that spans the workforce from new recruits to newly appointed managers is implemented via programs and curriculums that have been designed in keeping with the ideal human resources principle described in the Group Human Resource Management Policy. There are also training courses for grooming executives, global human resources and women managers. Moreover, a selection of optional open seminars is offered for employees to hone specialties.

Another HR tool used within the IHI Group to keep training consistent with evaluations and deployments is a series of three interviews given to all employees over the course of a year. Evaluation results are fed back to employees in the form of positive qualities and desirable improvement points. The program is intended to help each individual develop his/her skills.

Development of Group and Global Human Resource

The IHI Group invests time, money and effort into developing human resources who can perform in the global arena. This includes overseas training. In 2015, 38 persons were sent to India for intensive training, five persons went to ex-Japan offices for internal training and two persons were dispatched to the International Potential Development Internship Program sponsored by Japan's Ministry of Economy, Trade and Industry. These overseas training programs not only support the acquisition of language skills but also provide more in-depth exposure to different cultures. As for language training in Japan, booths were set up at business sites in 2013 so that employees could practice their English in between jobs. In 2015 alone, some 392 persons attended conversational sessions. In addition, language classes and seminars on cross-cultural understanding are open to all employees.

Under the principle that there is no growth of IHI if there is no growth of its human resources, we established the IHI Group Human Resources Development Policy and are developing our human resources by enhancing training programs and facilities.

In April 2015, we started the operation of the IHI Human Resources Development & Communication Center, called I-STEP Shonan, a core facility for human resource training located in Yokosuka, Kanagawa Prefecture. More than 10,000 group employees from Japan and overseas have used the facility as of March 2016. This will be more than just a training facility – we will use it as a place for members of IHI Group from around the world to gather, share our corporate philosophy and values, actively communicate, and learn and grow together.

Passing Skills Along to Others

Each IHI production facility is in charge of specific manufacturing skills, such as welding and machine work, that must be passed along to the next generation. Employees with specialized skills are designated as takumi (master artisans) and are assigned to train younger workers. In FY2016, 45 employees were certified as new takumi.



Highly Skilled Casting

■ Employees Certified as Takumi in FY2016

Welding	6
Assembly	6
Machine work	14
Testing/Inspection	10
Maintenance	3
Other	6
Total	45

Human Resource Development System

	Training for management candidates	Level- or position-specific training	Training in basic knowledge	Global human resource training	Other training
Managers	Senior management IHI: Equivalent to associate directors	Training for senior management Training for newly appointed officers of affiliated companies		Overseas study programs (short-term MBA)	
	Division managers IHI: Equivalent to Rank I	Special training for division managers Special training for senior management of affiliated companies	Open lectures (management skills)	English conversation courses at language laboratory	
	Division managers IHI: Equivalent to Rank II	Special training for division managers of affiliated companies Production management training	Training for middle managers Training for line managers (Division or section managers)	Open lectures (business, technical, etc. skills)	Cross-industry exchange programs
Team leaders	Section managers IHI: Equivalent to Rank III	Special training for section managers of affiliated companies Special training for section managers	Training for managers	Pre-overseas posting training Open lectures (language and culture)	CTraining for female managers
	Assistant section managers IHI: Equivalent to Level E	Special training for assistant section managers Overseas study programs (MBA)	Training for leaders	Intensive courses in India Training at overseas offices	Training for group managers
Mid-level employees	Mid-level employees IHI: Equivalent to Level S1		Training for main players Training for instructors		Training for general group leadership
Junior employees	Mid-level employees IHI: Equivalent to Level S2		Training for third-year employees Training for second-year employees		
	Mid-level employees IHI: Equivalent to Level S3		New employees induction courses Basic technical skill courses		

Training for selected employees
Training for employees of levels or positions
Training for all employees

■ Participants in Main Training Courses and Total Training Hours

	Participants	Hours of training
Position-specific	2,500	1,270,000
Open lectures	5,600	55,000

Environmental Report

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Increasing Emphasis on Environmental Management

The threat of climate changes is becoming more evident around the world. At the United Nations Climate Change Conference (COP 21) held in December 2015, goals were set to greenhouse gas emission and absorption levels, and to improve global society's ability to adapt to the threat of climate changes. In addition, the UN General Assembly adopted the Sustainable Development Goals (SDGs) to establish multiple targets for environmental protection in September 2015.

IHI has four main business areas—Resources, Energy and Environment; Social Infrastructure and Offshore Facility; Industrial System and General-Purpose Machinery; and Aero Engine, Space and Defense. Each of these areas offers opportunities to tackle key environmental issues. IHI's senior management team, recognizing the need to run the group in an increasingly environment-friendly manner, spearheaded the IHI Group Environmental Vision 2013 to spell out specific environmental activities up to FY2018, centering on the themes of reducing the environmental burdens of IHI's products/services and business activities and strengthening IHI's environmental management.

Under the IHI Group Environmental Action Plan 2013 covering the three years up to FY2015, IHI largely finished the task of establishing a foundation for conducting business in an environment-friendly manner. This included setting up an system of guidelines to designate products and services that are environmentally friendly, based on which 10 products have received this designation so far. Also, in FY2015, IHI participated in the Eco-Products exhibition for a third consecutive year to inform stakeholders about IHI products that are helping to prevent climate change.

The IHI Group Environmental Action Plan 2016 was launched in April 2016 as a three-year initiative to strengthen efforts at each group company to enable the IHI Group to operate in a more environment-friendly manner.

IHI continues to build on its organizational culture of encouraging each employee to think independently about how their work affects the environment and what they can do, and then take action. Such awareness among employees is steadily being enhanced to ensure that IHI does whatever it takes to help solve environmental problems and thereby meet the expectations of society.



Chikako Oshima



Activities in FY2015

New Three-year Environmental Action Plan

The IHI Group Environmental Vision 2013 set various targets to be achieved by FY2018. In the three-year period up to FY2015, the task of laying a foundation to carry out IHI business in an environment-friendly manner was largely completed.

The newly adopted IHI Group Environmental Action Plan 2016 focuses on compliance with environmental laws and regulations, enhanced efforts to combat climate change and proactive disclosure of environmental, social and governance information to investors. The key themes of the plan are reducing the environmental burdens through products/services and business activities and strengthening IHI's environmental management.

IHI Group Environmental Action Plan 2016 (FY2016 to FY 2018)

Strengthen environmental management

- Zero occurrence of serious environmental violations or accidents
- Establish a system for accurately aggregating environmental-impact information
- Complete migration to ISO 14001: 2015
- Facilitate environmental education and disclosure (environmental e-learning course for all employees)

Reduce environmental burdens through products and services

- Cut annual CO₂ emissions from products/services by more than 10 million tons
- Generate over 70% of total product sales with certified environmentally friendly products
- Publicize environmentally friendly products more proactively
- Strengthen sharing of information about chemical substances in products internally and with business partners
- Promote green procurement

Reduce environmental burdens through business activities

- Cut energy consumption and CO₂ emissions per standard physical unit by more than 3% compared to FY2015
- Cut waste per standard physical unit by more than 3% compared to FY2015
- Cut water consumption per standard physical unit by 3% compared to FY2015
- Promote management of waste, including PCB
- Promote management of chemicals (VOC, PRTR, Freon, mercury, etc.)
- Address biodiversity

IHI Exhibits at Eco-Products 2015

IHI displayed products and presented videos at Eco-Products 2015, an exhibition held at Tokyo Big Sight from December 10 to 12, 2015. The displays were focused on two primary themes, mitigation and adaptation, which respectively refer to preventing climate change from worsening and adapting to the impact of climate change. This was the first time that IHI had classified its displays this way for the exhibition. The IHI booth was visited by 5,300 people, including business people, students and people interested in environment protection.





IHI Group Basic Environmental Policy

Global warming is becoming a pressing issue due to increasing greenhouse gas emissions. Part of IHI's mission is to reduce the environmental burden of its operations and protect the environment in whatever way possible. The IHI Group Basic Environmental Policy was written to accord with Basic Code of Conduct, Article 7: Responsibilities toward the Global Environment. This is one of IHI's many tireless, proactive approaches to mitigate its impact on the global environment.

IHI Group Basic Environmental Policy

Article 1. Establishment of Environmental Management System

To ensure continuous improvement of environmental management, the IHI Group establishes an environmental management system, sets specific objectives and executes an action and a performance evaluation.

Article 2. Compliance with Environmental Laws and Regulations

The IHI Group complies with environment-related laws and regulations/agreements, policies/plans in related industries, and strives to stipulate and apply independent management standards to enhance environment management.

Article 3. Provision of Environmentally-Friendly Products

The IHI Group provides the society with the products/services that contribute to reduce environmental burdens.

Article 4. Reduction in Environmental Burdens in Business Activities

The IHI Group strives to preserve environment and reduce environmental burdens in its all business activities.

Article 5. Environmental Education

The IHI Group, through environmental education, raises awareness of all people engaging in operations, including officers, employees, and temporary staff of IHI Group companies, thereby they are able to act having concern with environmental problems on their own.

Article 6. Disclosure of Information

The IHI Group actively participates in the society, disclose information, and develop communications to commune with local communities and preserve regional environment.

Revised October 2015



Basic Policy and Environmental Action Plan

IHI is committed to protecting the environment, especially in communities where we have production bases. It is also our mission to reduce the impact of our products and services, and contribute to sustainable development.

IHI Group Environmental Vision 2013 was an interim three-year action plan designed to help IHI achieve a new environmental profile by FY2018. The plan was implemented in coordination with the overall business plan, IHI Group Management Policies 2013.

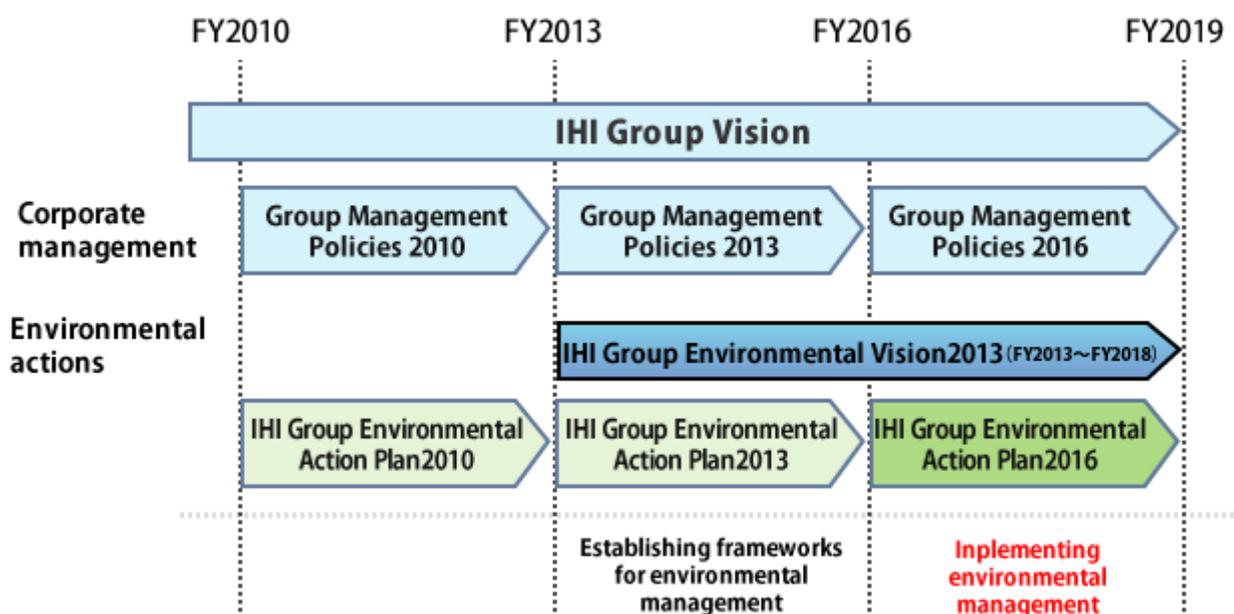
Under a companion three-year environmental action plan running through FY2015, most of the tasks were completed to establish a foundation for more environmentally friendly business. A new three-year action plan is now being implemented to further advance IHI's Environmental Vision.

Environmental Vision

IHI Group Environmental Vision 2013 (FY2013 - 2018)

IHI, as a responsible global group, strives to help preserve the global environment on a continuous basis through cooperation with customers and business partners around the world.

Environmental Action Plan



Environmental Vision

What are the goals under the IHI Group Environmental Vision 2013 ending in FY2018? Described below are the goals IHI hopes to accomplish by lowering the environmental burdens of IHI products/services and business activities, and enhancing IHI's environmental-management activities.

Reduce environmental burdens through products/services

- Limit CO₂ emissions from IHI operations to approximately 300,000 tons/year. Cut emissions from products/services worldwide by 10 million tons/year.
- Hit specific targets for reducing CO₂ emissions from products/services as stipulated by each Operation.
- Increase Group-wide sales ratio of environmentally friendly products to over 70%.
- Foster recognition among customers and employees that IHI products/services help to protect the environment.
- Win awards with IHI products that contribute to global environmental preservation.

Reduce environmental burdens through business activities

- Achieve the CO₂ emissions-reduction target for Group-wide business.
- Implement energy-savings activities at production sites and offices to avoid wasting electricity or fuel.
- Promote green procurements by prioritizing eco-conscious suppliers.
- Stringently manage chemical substances in products to enhance customer trust.
- Make biodiversity protection a larger part of IHI's business.

Strengthen environmental management

- Share targets for reducing environmental burdens among production sites in Japan and overseas.
- Leverage environmental management systems in main production sites worldwide to support IHI's consistent environmental management.
- Globally share information on how to comply with increasingly strict local and regional environment-related laws and regulations/agreements.
- Implement internal environmental audits to ensure that problems are quickly identified and addressed.
- Inform the Group about the status of environmental activities via in-house journals, intranet, etc.

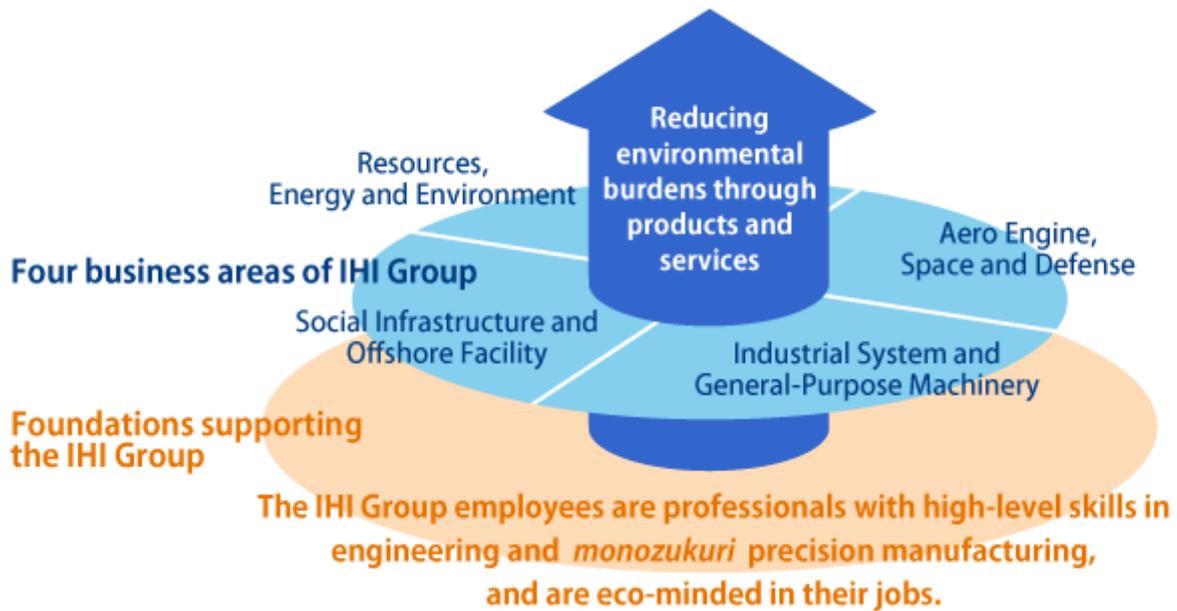
Environmental Vision

IHI, aiming to build sustainable societies that help to protect the global environment, works to reduce environmental burdens in four main business areas. These are newly defined when IHI introduced its new Environmental Vision: Resources, Energy and Environment; Social Infrastructure and Offshore Facility; Industrial System and General-purpose Machinery; and Aero Engines, Space and Defense.

Since IHI cannot achieve every goal alone, it is working closely with customers and business partners worldwide.

IHI also is taking measures to ensure that everyone in the Group acts with environmental awareness in their respective operations, leveraging high technological capabilities and monozukuri precision-manufacturing skills as professionals.

IHI Group is help to realize --- **Society based on sustainable development**



Achieving Our Environmental Vision

IHI has identified three major categories of activities under its Environmental Vision:

1. Measures to save energy and mitigate or adapt to climate change
2. Measures to establish material-cycle societies
3. Measures to protect the environment
 - Chemical substances and environmental risks
 - Biodiversity

IHI's business can be classified into nine basic categories: management, sales, R&D, design, procurement, manufacturing, transportation, construction and testing. The products and services resulting from these activities are classified into three stages: usage, maintenance and disposal. The following table describes the specific actions needed in these various categories to raise the environmental awareness of IHI employees.

Operational process		Action for each process			
		Energy saving to combat climate change	Creation of material-recycling societies	Environmental protection	
				Chemical substance reduction Environmental risk reduction	Biodiversity protection
Reduced impact of operations	Management	<ul style="list-style-type: none"> ◎ Group-wide environmental management 			<ul style="list-style-type: none"> • Balancing biodiversity and business needs • Establishing basic policies
	Sales	<ul style="list-style-type: none"> ◎ Proposing environmentally friendly products ◎ Proposing environmental-preservation products • Proposing products to reduce CO₂ emissions 			
	R&D	<ul style="list-style-type: none"> ◎ R&D into energy conservation, environmental load reduction and energy diversification ◎ Developing and implementing guidelines for environmentally friendly products ◎ Expanding environmentally friendly products ◎ Expanding eco-conservation products ◎ Publishing CO₂ emissions reduction results 			
	Design	<ul style="list-style-type: none"> • Design and develop products based on 3 Rs 	<ul style="list-style-type: none"> • Control chemical substances in products 		
	Procurement	<ul style="list-style-type: none"> ◎ Green procurement 	<ul style="list-style-type: none"> • Control chemical substances in products 	<ul style="list-style-type: none"> • Survey and identify use of scarce resources • Address conflict minerals 	
	Manufacturing	<ul style="list-style-type: none"> • Conserve energy at production sites and in transport 	<ul style="list-style-type: none"> • Reduce waste at production sites and in transport 	<ul style="list-style-type: none"> • Reduce use of substances covered by PRTR • Reduce environmental risks 	<ul style="list-style-type: none"> • Protect biodiversity at production sites
	Transportation				
	Construction	<ul style="list-style-type: none"> • Conserve energy at construction sites 	<ul style="list-style-type: none"> • Measure and reduce waste at construction sites 	<ul style="list-style-type: none"> • Tightly manage substances at construction sites • Reduce environment risks 	
	Testing				
	Reduced environmental burdens through products/services	Usage	<ul style="list-style-type: none"> ◎ Provide environmentally friendly products ◎ Provide eco-conservation products ◎ Provide products to reduce CO₂ emissions 		
Maintenance		<ul style="list-style-type: none"> ◎ Maintain and improve environment performance 			
Disposal					



Companies Covered in Our Environmental Data

The scope of IHI's environmental-management activities includes consolidated group companies, including ex-Japan affiliates. We classify IHI Group facilities into two categories—production sites and non-production sites (offices)—to carry out environmental activities that fit each category. We also formulated the medium-term IHI Group Environmental Action Plan 2013 lasting until FY2015, the same timeframe as IHI Group Management Policy 2013. FY2016 data as of July 1, 2016 is shown below.

Implementation of Environmental Action Plan

IHI Group Environmental Action Plan 2013 centered around the following three core strategies:

- Promote Group environmental management
- Reduce environmental burdens through products and services
- Reduce environmental burdens through business activities

At the beginning of the three-year period, we set targets for establishing a foundation that would ensure more environmentally friendly business. Most of these targets were achieved.

To strengthen group environmental management, we expanded the scope of related activities. For affiliated companies, we considered their size and impact on the environment to formulate new rules regarding their operations. As part of our proactive disclosure related to environmental activities, we operated a booth at Eco-Products 2015 to inform visitors about IHI products/services that help protect the environment and our efforts to combat climate change. Also, IHI took part in environmental business surveys conducted by third parties, including the Nikkei Environmental Management Survey, which earned favorable evaluations of IHI by outside organizations.

To reduce the environmental burdens of IHI products and services, an in-house system was deployed to designate environmentally friendly products, resulting in 10 such designations so far.

Efforts to reduce environmental burdens of IHI activities, energy-saving training and investments in energy-saving equipment resulted in a 10% reduction in environmental burdens per standard physical unit. We also formulated and disseminated internal rules on waste management and compliance with environmental laws, including Japan's Revised Freon Control Act.

Environmental Action Plan Results (FY2013 to FY2015)

Achievements are graded on a scale of 1 (low) to 4 (high).

Initiatives			Grade
1. Strengthen Group environment management (◆Achievements ◇Further challenges)			
1.1 Establish environmentally aware business framework	◆Decided on types, scope and ways to collect data on environmental burdens ◆Gathered information about how ex-Japan affiliates are protecting the environment at their main production sites ◇Need to further improve how this data is used		3
1.2 Utilize environmental management systems	◆Identified internal procedures that need to be revised to comply with new ISO14001:2015 standard		3
1.3 Reduce environmental risks	◆There was no environmental accident or legal violation that seriously impacted IHI's business		3
1.4 Environmental communication	◆Disclosed information on environmental activities by issuing Integrated Reports and Sustainability Reports ◆Scored over 400 in Nikkei Environmental Management Survey for third straight year ◆Operated booth at Eco-Products exhibition for third straight year		4
1.5 Provide environmental information on supply chain	◆Asked business partners to respect environment based on IHI Group Basic Procurement Policy ◆Achieved climate disclosure score exceeding 90 and climate performance band of at least B in CDP Climate Change Program for third straight year ◇Need to further improve how environmental information is communicated to customers		3
2. Reduce environmental burdens through IHI products and services (◆Achievements ◇Further challenges)			
2.1 Further quantitative reduction of CO ₂ emissions	◆Formulated basic rules for quantifying reduction of CO ₂ emissions ◇Need to further improve how quantities, such as number of products manufactured, should be described		3
2.2 Expand environmentally friendly products	◆Introduced in-house certification scheme to identify products achieving outstanding environmental performance ◆Designated 10 environmentally friendly products		4
3. Reduce environmental burdens through IHI activities (◆Achievements ◇Challenges to tackle)			
3.1 Promote energy conservation and climate-change mitigation	◆Held energy-saving lectures at 14 production sites of IHI and subsidiaries in Japan to improve energy management ◆Achieved a significant 10% reduction in energy consumption in FY2015 compared to FY2013 ◆Formulated company-wide rules for energy management		4
3.2 Promote creation of material-cycle societies	◆Formulated guidelines for handling wastes ◆Detoxified PCB-containing equipment		3
3.3 Strengthen sharing of information about chemical substances in products of IHI and business partners	◆Strengthened chemical management of in-house operations and at affiliated companies		3
3.4 Promote management of chemicals at worksites	◆Formulated company-wide rules for complying with Japan's Revised Freon Control Act		3
3.5 Promote green procurement	◆Asked business partners to respect for environment based on IHI Group Basic Procurement Policy		3
3.6 Measure impact on biodiversity	◆Promoted biodiversity in woods surrounding Headquarters Representative's Office, Aichi District ◇Need to further improve measuring impact of products/services on biodiversity		2

Third-party Evaluation

We disclosed information on IHI business by responding to questionnaires of third parties. Our efforts to operate the IHI group in an environmentally friendly manner led to improved ratings by third parties.

Nikkei Environmental Management Survey

Nikkei Inc. conducts an annual survey of Japan's leading companies to evaluate their environmental initiatives and business efficiency. The scores and rankings of each company are published. Evaluations cover five categories: environmentally friendly business, pollution and biodiversity, resource recycling, products, and global warming. The respondents are scored in each category using a 100-point scale for a maximum of 500 points.

In FY2015, IHI scored better marks in each of the five categories and ranked higher in the manufacturers' ranking, compared to FY2014. The greatest improvement in any score was received for pollution prevention measures and efforts to maintain biodiversity. Going forward, IHI will continue to participate in this objective evaluation of the company's environmental activities.

■ Survey Results

FY2013: 403 (123rd out of 438 manufacturers)

FY2014: 411 (129th out of 419 manufacturers)

FY2015: 436 (66th out of 413 manufacturers)

CDP

Formerly known as the Carbon Disclosure Project, the CDP is a non-profit organization established by responsible investors worldwide. Every year it discloses the results of questionnaires sent to corporations and local governments, aiming to encourage more action in tackling climate change. The CDP index is relied upon by institutional investors worldwide.

In FY2014, CDP selected IHI as a company to include in the Climate Disclosure Leadership Index (CDLI) and the Climate Performance Leadership Index (CPLI). Various environmental initiatives resulted in our achieving better scores in FY2015.



■ Survey Results

FY2013 disclosure: 91 out of 100 Overall performance: B

FY2014 disclosure: 97 out of 100 Overall performance: A

FY2015 disclosure: 99 out of 100 Overall performance: B

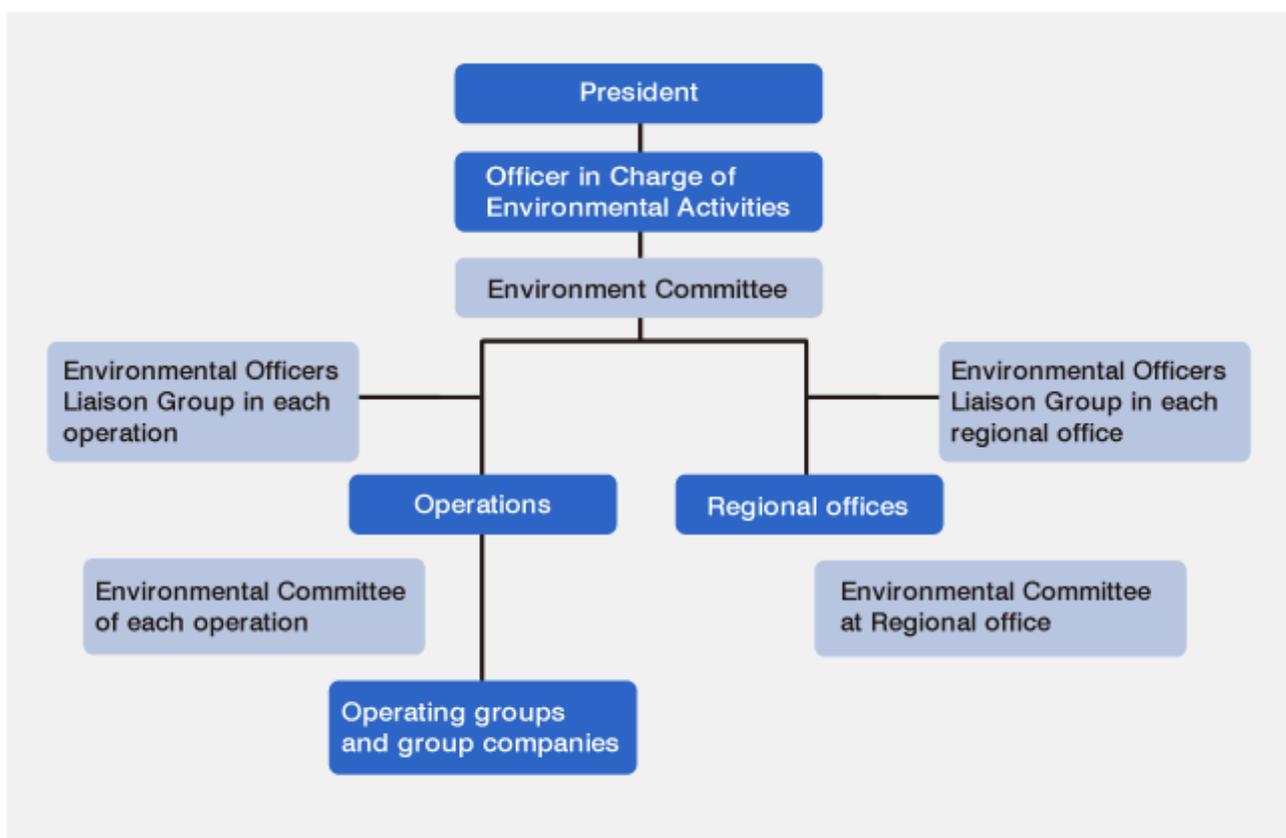
Environmental Management Systems

IHI's Environmental Committee, chaired by the officer in charge of environmental activities, formulates group-wide policies for environmental activities and then evaluates and follows up on these activities. The policies and related decisions are shared with principal domestic and ex-Japan affiliates through the Environmental Officers Liaison Group in each operation.

In addition, Environmental Officers Liaison Groups help to facilitate environmental activities at each regional office and worksite.

Also, each Operation formulates its own environmental activity plan every fiscal year. Typical themes include investment in environmental facilities, legal and regulatory compliance, and activities to reduce environmental burdens, such as energy-saving and waste-reduction measures. Each unit follows up on its own progress by implementing the PDCA cycle.

Environmental Management Systems



Acquisition of ISO 14001 Certifications in Japan

■ IHI Regions and Worksites

Regions/Worksites,SBU※1	Acquisition	Certifying Body※2
Musashi and Soma	December 1999	BVJ
Yokohama	July 1998	JQA
Aichi	May 2000	NK
Aioi	June 2000	JQA
Kure	July 2000	JQA
SBU Energy & Plant Operations Gas Process SBU	March 1999	LRQA

※1 SBU : Strategic Business Unit

※2 Abbreviation

JQA : Japan Quality Assurance Organization

BV(J) : Bureau Veritas Japan

NK : Nippon Kaiji Kyokai

LRQA : Lloyd's Register Quality Assurance

■ Companies in Japan

Sector	Company	Acquisition	Certification Body※3
Intelligent Information Management Headquarters	IHI Inspection & Instrumentation Co., Ltd	March 2000	JAPEIC
	MEISEI ELECTRIC Co., Ltd.	November 2001	JQA
Energy & Plant Operations	Diesel United, Ltd.	June 2000	JQA
	NIIGATA POWER SYSTEMS Co., Ltd.	September 2001	LRQA
	IHI Enviro Corporation	November 2003	JQA
	NICO Precision Co., Inc.	May 2004	LRQA
Infrastructure Operations	IHI Construction Service Co., Ltd.	March 2011	MSA
	IHI Infrastructure Systems Co., Ltd.	June 2012	JQA
Machinery & Logistics Systems Operations	IHI Shibaura Machinery Corporation	March 2016	LRQA
Rotating Machinery Operations	IHI Compressor and Machinery Co., Ltd.	September 2000	DNV
Vehicular Turbocharger Operations	IHI Turbo Co., Ltd.	April 2002	DNV
Aero-Engine & Space Operations	IHI Castings Co., Ltd.	February 1999	BV
	IHI Master Metal Co., Ltd.	June 2000	JQA
	IHI Aero Manufacturing Co., Ltd.	September 2000	DNV
	IHI AEROSPACE Co., Ltd.	May 2002	BVJ

※3 Certifying bodies

JAPEIC: Japan Power Engineering and Inspection Corporation

JQA : Japan Quality Assurance Organization

LRQA : Lloyd's Register Quality Assurance

MSA : Management System Assessment Center

DNV : Det Norske Veritas AS

BV : Bureau Veritas

BV(J) : Bureau Veritas Japan

■ Ex-Japan Group Companies

Sector	Company	Acquisition	Certification Body
Machinery & Logistics Systems Operations	IHI Ionbond AG	July 2013	Swiss Association for Quality and Management Systems(SQS)
Rotating Machinery Operations	IHI-Sullair Compression Technology (Suzhou) Co., Ltd.	June 2014	Lloyd's Register Quality Assurance
	IHI TURBO (THAILAND) Co., Ltd.	November 2004	BUREAU VERITAS
	Wuxi IHI Turbo Co., Ltd.	June 2013	XING YUAN CERTIFICATION CENTRE CO,LTD
Vehicular Turbocharger Operations	Changchun FAWER-IHI Turbo Co., Ltd.	February 2014	SGS
	IHI Charging Systems International GmbH	March 2016	TÜV Süd
	IHI Charging Systems International S.p.A	April 2016	TUV Italia S.r.l.
	IHI Charging Systems International Germany GmbH	May 2016	TÜV Süd

Issues Identified in Third-party Reviews

In FY2015, IHI Shibaura Machinery Corporation, an IHI affiliated company, acquired ISO14001:2015 certification. All IHI group companies that have acquired ISO14001 certifications were audited and approved by third-party organizations. It was determined that more could be done in the following areas:

- Themes, objectives and targets
- Records of environmental activity
- Operation and management of environmental equipment
- Emergency preparedness
- Environmental training
- Identification and assessment of environmental aspects

Issues Identified in Internal Audits

All IHI group companies that have acquired an ISO14001 certificate conducted internal audits and underwent third-party reviews. Internal audits in FY2014 identified problems related to:

- Themes, objectives and targets
- Records of environmental activity
- Operation and management of environmental equipment
- Environmental training

Compliance with Environmental Laws and Regulations

In FY2015, IHI considered how to define environmental accidents, environmental law violations and their seriousness to enhance compliance evaluations. The unification of internal terminology strengthened our recognition of environmental accidents at IHI and group companies and evaluate their seriousness and causes. As a result, no serious environmental accident occurred.

Environmental Training and Awareness

Environmental training at IHI comprises level-specific training provided through group-wide educational programs and other training carried out in each location.

Level-specific training helps to familiarize participants with their duties to protect the environment and to reduce impact in accordance with IHI's environmental action policies and targets.

Location-specific environmental training is conducted by internal and external experts to improve the skills of specialized personnel in specific regions, worksites and major group companies. Training also covers ISO14001 skills for internal auditors and ensuring the effectiveness of environment-related activities.

In FY2015, training included education targeted at employees who had spent two years at IHI. We also provided education on energy efficiency and chemical management conducted by outside specialists.



Environmentally Friendly Product Certification

In FY2014, IHI introduced an in-house certification scheme to identify products and services that offer outstanding environmental performance. The aims were to raise environmental awareness among employees, help reduce environmental burdens and protect the environment by producing more environmentally friendly products and services.

Eleven products have been certified as environmentally friendly—four in 2014, six in 2015 and the most recent one in November 2016. Going forward, we expect to steadily expand our list of environmentally friendly products.

Certification process

The Environmental Committee, a group-wide organization, evaluates products based on the five criteria below. Certification as an environmentally friendly product is effective for three years.



Energy efficiency

Improves energy efficiency, and recovers exhaust energy and/or energy-load leveling



Reduced greenhouse gas emissions

Reduces, absorbs, captures, stores and decomposes greenhouse gas emissions; produces renewable energy; and/or reduces fluorocarbons



Resource saving

Reduces natural-resource consumption during the manufacture, usage or maintenance stages, and/or facilitates recycling



Reduced environmental risks

Reduces waste/pollution in terms of air, water, soil, noise, vibration, ground subsidence and smell, and/or promotes environmental-data monitoring



Biodiversity protection

Helps to protect ecological habitats and/or locate facilities from an ecological viewpoint

Certified products

IHI certified four products as environmentally friendly in FY2014, six in FY2015 and one in November 2016.

Product certified in FY2016

■Energy-saving multistory parking lot

A five-story car parking lot built by IHI became the first parking lot that obtained a five-star rating of the Building-Housing Energy-efficiency Labelling System, known as BELS. The system, established by a Japanese law, rates the energy efficiency of buildings from five stars for highest efficiency to one for lowest. The structure in Tachikawa, Tokyo was built for Nippon Parking Corporation, a parking lot operator.



Energy efficiency



Reduced greenhouse gas emissions



Resource saving



Reduced environmental risks



Biodiversity protection

Products Certified in FY2015

■IHI-IC Reactor

The IHI-IC Reactor efficiently processes organic wastewater, including that from breweries. Methane gas generated by the reactor can be used as fuel for electricity generators and boilers.



Energy efficiency



Reduced greenhouse gas emissions



Resource saving



Reduced environmental risks



Biodiversity protection

HEAT INNOVATOR®

HEAT INNOVATOR is a 100kW organic Rankine cycle turbo generator that uses unutilized heat of between 80°C and 200°C. Its oil-free magnetic bearing eliminates sliding parts for reduced maintenance. Optimal placement of modules results in a small footprint for flexible installation.

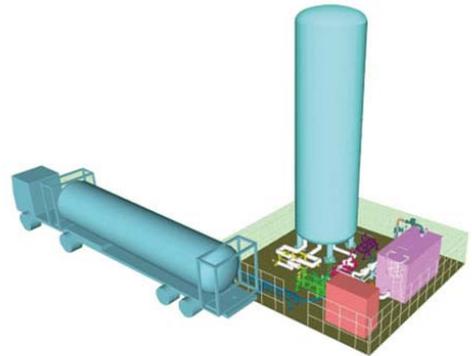
				
Energy efficiency	Reduced greenhouse gas emissions	Resource saving	Reduced environmental risks	Biodiversity protection



LNG Smart Satellite

LNG Smart Satellite stores and vaporizes LNG to supply fuel gas. The facility cuts CO2 emissions by using LNG for oil and helps to disperse storage for more stable energy supply. Installation can be carried out quickly.

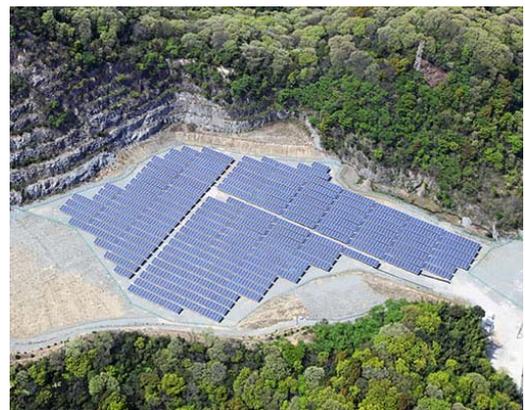
				
Energy efficiency	Reduced greenhouse gas emissions	Resource saving	Reduced environmental risks	Biodiversity protection



Industrial solar power system

Solar power is a major renewable energy. IHI supports customers throughout the system's lifecycle, including pre-construction planning, design, construction, maintenance and legal procedures.

				
Energy efficiency	Reduced greenhouse gas emissions	Resource saving	Reduced environmental risks	Biodiversity protection



■NitroJet®

NitroJet is a technology for creating an ultra-high pressure jet of liquid nitrogen to clean, chip and cut surfaces. The technology efficiently decontaminates objects without using water, eliminating the necessity to process wastewater.



Energy efficiency



Reduced greenhouse gas emissions



Resource saving



Reduced environmental risks



Biodiversity protection



■Community Cycles

Community Cycles is a system for sharing bicycles parked at bike stations in designated areas. The system encourages the use of bikes instead of cars to help reduce CO₂ emissions.



Energy efficiency



Reduced greenhouse gas emissions



Resource saving



Reduced environmental risks



Biodiversity protection



Products certified in FY2014

■Vehicular turbocharger

IHI's vehicular turbocharger features a downsized engine displacement and reduced fuel consumption, which were realized by improving output power and torque.



Energy efficiency



Reduced greenhouse gas emissions



Resource saving



Reduced environmental risks



Biodiversity protection



■Heat Recovery HR Series 20kW small-scale binary electric power generator

The Heat Recovery Series generates electricity using low-temperature water ranging from 70°C to 95°C. The generator interconnects power systems. The small-package generator has a maximum sending-end output of 20kW.



				
Energy efficiency	Reduced greenhouse gas emissions	Resource saving	Reduced environmental risks	Biodiversity protection

■IWV-34C Vacuum Degreaser

This compact facility for degreasing metal parts uses low-temperature boiling in a vacuum for efficient cleaning with reduced solvent. IHI's Cryo system dries parts with unprecedented speed.



				
Energy efficiency	Reduced greenhouse gas emissions	Resource saving	Reduced environmental risks	Biodiversity protection

■Toyosu Foresia Eco-friendly Building

Toyosu Foresia, a building designed to save energy, uses sunlight concentrators to light indoor spaces and generate electricity. It also reuses wastewater. The highly quake-resistant building is well equipped for natural disasters. Greenery accounts for 44% of the site's land.

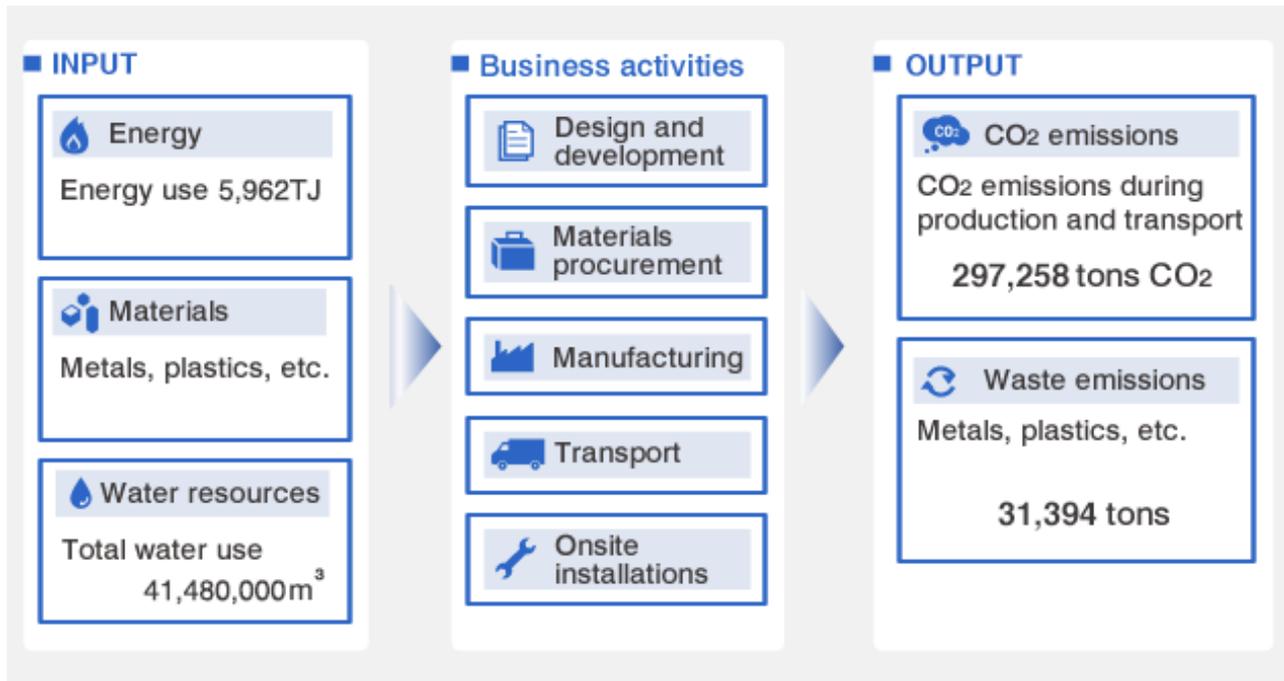


				
Energy efficiency	Reduced greenhouse gas emissions	Resource saving	Reduced environmental risks	Biodiversity protection



Materials

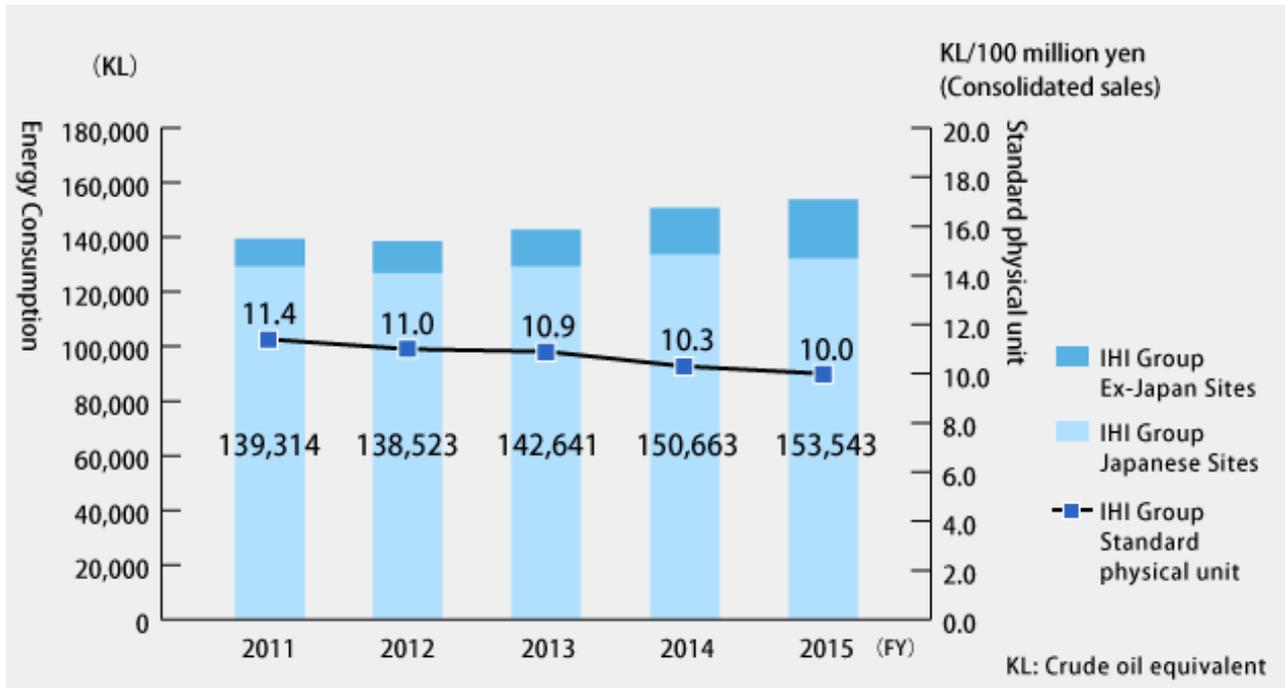
IHI works continuously to lower its environmental impact by reducing the amounts of materials it uses and generates in its operations. The “material balance” in IHI operations in FY2015 is shown below.



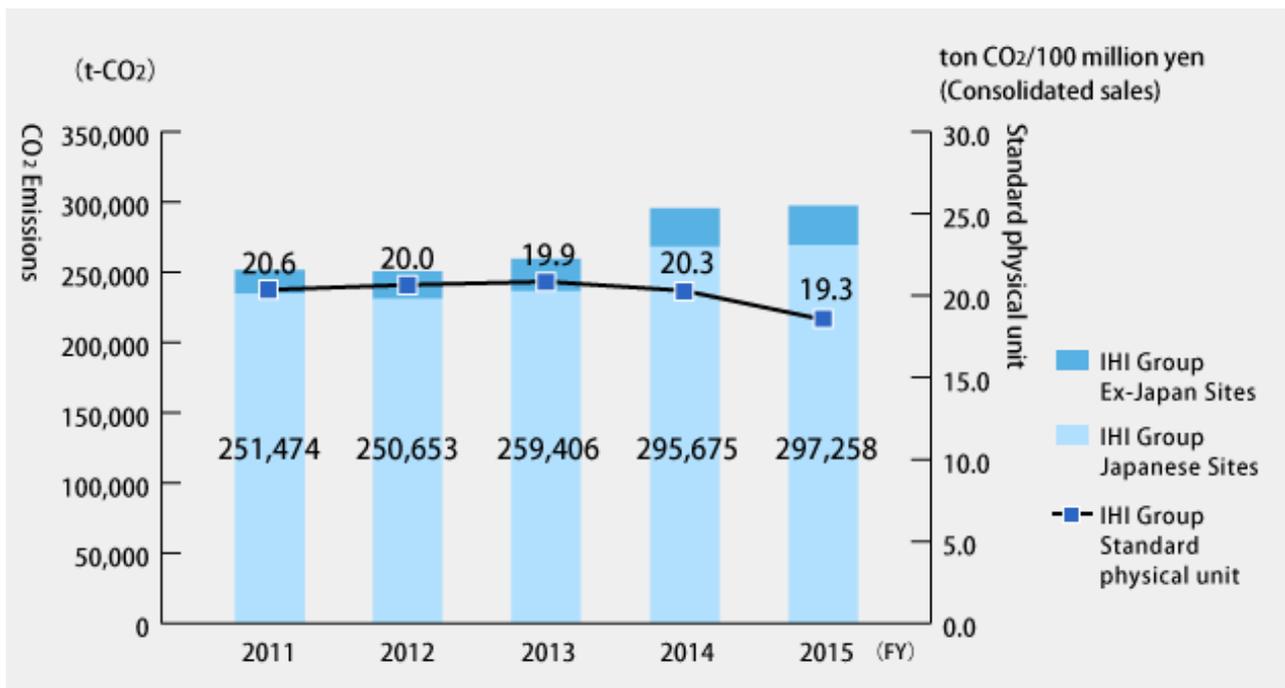
Cutting Energy Consumption and CO₂ Emissions

IHI is constantly striving to use energy more efficiently and further reduce CO₂ emissions. The aim this year is to cut energy consumption per unit of consolidated sales (energy consumption per standard physical unit) by 1% compared to FY2014. To achieve this target, IHI is introducing energy-saving equipment and holding in-house lectures where outside experts teach employees about, for example, energy-control procedures for improved energy management. In FY2015, IHI’s energy consumption per standard physical unit was 10.0 (crude oil equivalent, kilo-liter/100 million yen), a 2.9% reduction from FY2014. Although energy consumption has been increasing since FY2012, energy consumption per standard physical unit has been decreasing thanks to energy-saving efforts. In FY2015, IHI’s CO₂ emissions was 297,000 tons, up 0.5% from FY2014, and its CO₂ emissions per standard physical unit was 19.3 (t-CO₂/100 million yen), down 4.9%.

Energy Consumption



CO₂ Emitted



Reducing Energy Consumption in Transportation

Transportation-related initiatives are targeted at reducing energy consumption by at least 1% annually. For example, when aero engine parts manufactured at the Soma No. 1 and No. 2 Aero-Engine Works are sent for assembly at the Kure Aero-Engine & Turbo Machinery Works, the company now uses larger trucks, consolidates diverse products in one truck and runs trucks more regularly.

Also, a deck crane manufactured at the Aichi Works is transported by a salvage barge. In addition, roll-on/roll-off (RO-RO) ships are being used more often because vehicles can be driven directly on and off the ship for enhanced efficiency.

Through such measures, IHI is intensifying efforts to visualize the amount of energy it expends to transport products at each works. Also, the data is reported regularly to the Group-wide Environment Committee chaired by the board member in charge of the environment.

Building material-cycles societies

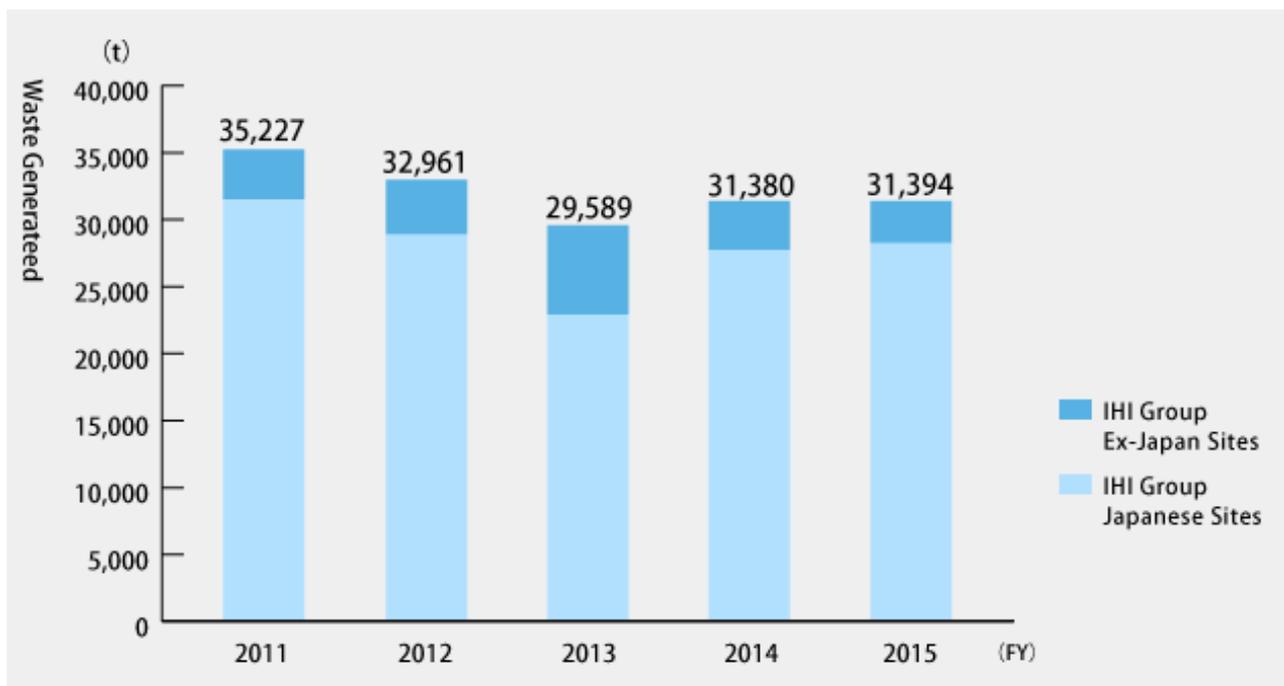
Improving waste management

IHI reduces, reuses and recycles industrial waste—the 3Rs—and appropriately disposes it as required. Since FY2012, all IHI offices and works have been using an electronic manifest system to comply with the laws and regulation of waste management. In FY2015, IHI introduced the Manual for Handling Wastes, which is helping to raise in-house understanding of how to manage waste effectively.

Waste emitted by IHI

IHI segregates and recycles selected waste to increase its value. In FY2015, the company emitted 31,394 tons of wastes, the same level as FY2014.

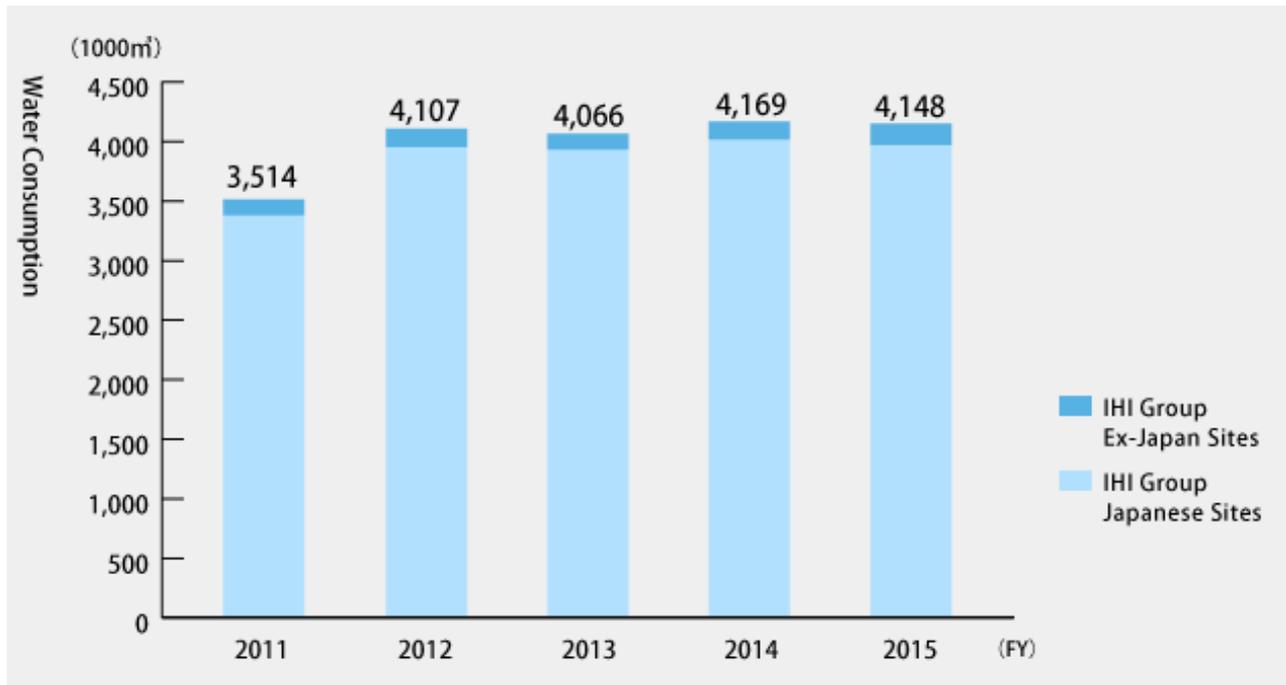
■ Waste Generated on Consolidated Basis



Water Consumption

IHI is striving to cut its water consumption by reusing more water, including drinking water, industrial water and groundwater. IHI also is working hard to cut its water emissions to rivers, seas and sewerage. IHI consumed 4,148,000 m³ of water in FY2015, down 0.5% from FY2014.

■ Water Consumption on Consolidated Basis



Management and Disposal of PCB contaminated equipment

Since FY2009, IHI has been detoxifying electric equipment containing highly concentrated polychlorinated biphenyl (PCB). As of FY2015, detoxification had been completed on 97% of such equipment and 29% of all capacitors.

Addressing Soil Contamination

Contamination of soil can adversely affect the health of humans and other organisms through direct and indirect intake of hazardous substances. Worksites are inspected regularly and aging equipment is being renewed to avoid any leakage of hazardous substances. A survey of hazardous substances* used at 68 former and current production facilities was completed in March 2013. The survey results are compiled in a database.

*25 substances, including lead, hexavalent chromium and mercury, listed in Article 2 of Japan's Soil Contamination Countermeasures Act.

Chemical Substances and Pollutant Release and Transfer Registers (PRTR)

IHI is developing a system to manage chemical substances contained in IHI products. We cooperate with suppliers to provide customers with information about chemical substances contained in our products in a timely manner.

IHI also monitors each worksite's release of designated chemical substances into the atmosphere, public waters, soil, etc., or transfer to off-premises locations. This is done in accordance with the Pollutant Release and Transfer Register (PRTR), and the government is notified accordingly. The table below compiles the release or transfer of Class I Chemical Substances designated by the PRTR Act.

■ PRTR Act Class I Chemical Substances Released or Transferred by IHI

(unit : metric ton)

Cabinet Order No.	Designated substance	Total release to atmosphere, rivers, seas or soils	Total transfer (Substances discharged to sewers or disposed as industrial waste)
37	Bisphenol A	0.0	2.8
53	Ethylbenzene	76.5	14.5
80	Xylene	175.8	34.4
87	Chromium and chromium (III) compounds	0.0	39.8
186	Methylene chloride	3.6	4.6
240	Styrene	1.1	0.0
296	1,2,4-trimethylbenzene	2.1	0.0
300	Toluene	79.2	7.5
374	Hydrogen fluoride and its water-soluble salts	0.0	4.2
384	1-bromopropane	4.6	1.3
448	Methylenebis (4, 1-phenylene) = diisocyanate	0.0	1.3
453	Molybdenum and its compound	0.0	1.0
	Subtotal	342.9	111.4
	Total		454.3

The IHI Group handled no Class I Chemical Substances.

Global Effort

The Convention on Biological Diversity was signed at the United Nations Conference on Environment and Development (Earth Summit) in 1992 for the main purpose of protecting biodiversity. In 1995, the Japanese government introduced its National Biodiversity Strategy, followed by the enactment of the Basic Act on Biodiversity in 2008, which urge businesses to partake in biodiversity protection. In 2010, the International Year of Biodiversity, the 10th Conference of Parties (COP 10) was held in Aichi Prefecture, Japan. The Strategic Plan of the Convention of the Biological Diversity, or the Aichi Target, adopted at COP 10 describes a course of action for interested parties at all levels, including corporations, to practice sustainable production and consumption, and presents the rationale for putting concrete measures into practice.

Protecting Biodiversity

IHI is undertaking a number of initiatives to protect biodiversity in the face of urban development in Japan and other areas of the world.

■ IHI's Stance

IHI Group Basic Environmental Policy sets out the group's stance regarding environmental protection. Recognizing the impact that its business has on the environment, IHI strives to reduce any burden and to protect biodiversity. Each IHI office and work carries out local activities in conjunction with their surrounding communities.

Going forward, IHI will continue to strengthen awareness of biodiversity among its executives and employees, and will strive to further protect biodiversity and environmental sustainability through its business and philanthropic activities.

■ Selected initiatives

- Replaced non-native species with native species on land within IHI premises
- Created and maintained biotopes on IHI premises
- Organized tours of green preserve on IHI premises
- Engaged in activities to conserve forests

■ Aichi Worksites

In Chita, Aichi Prefecture, where IHI's Aichi worksite is located, 54% of the city is covered with woodland, lush greenery in an industrial zone, and parks. The IHI Aichi worksite has its own green preserve measuring nearly 70,000 m², which studies have shown helps to protect biodiversity in the area. The Aichi worksite is conducting a variety of activities related to biodiversity protection, including nature watches for local residents and the planting of native plants by university students, which are presented herein.

■ Activities in FY2015

IHI's Aichi Works opened its green preserve for LOVE GREEN DAY 2015 and welcomed 20 residents on August 29 and 30, 2015.

The works opened its green preserve for the Chita City Nature Watch Group on September 19. Some 30 residents enjoyed looking for animals and plants living in the forest on the works' premises.

Going forward, the works will continue to organize such activities so that its preserve can serve as a place for locals and employees to commune with nature and learn about the environment.

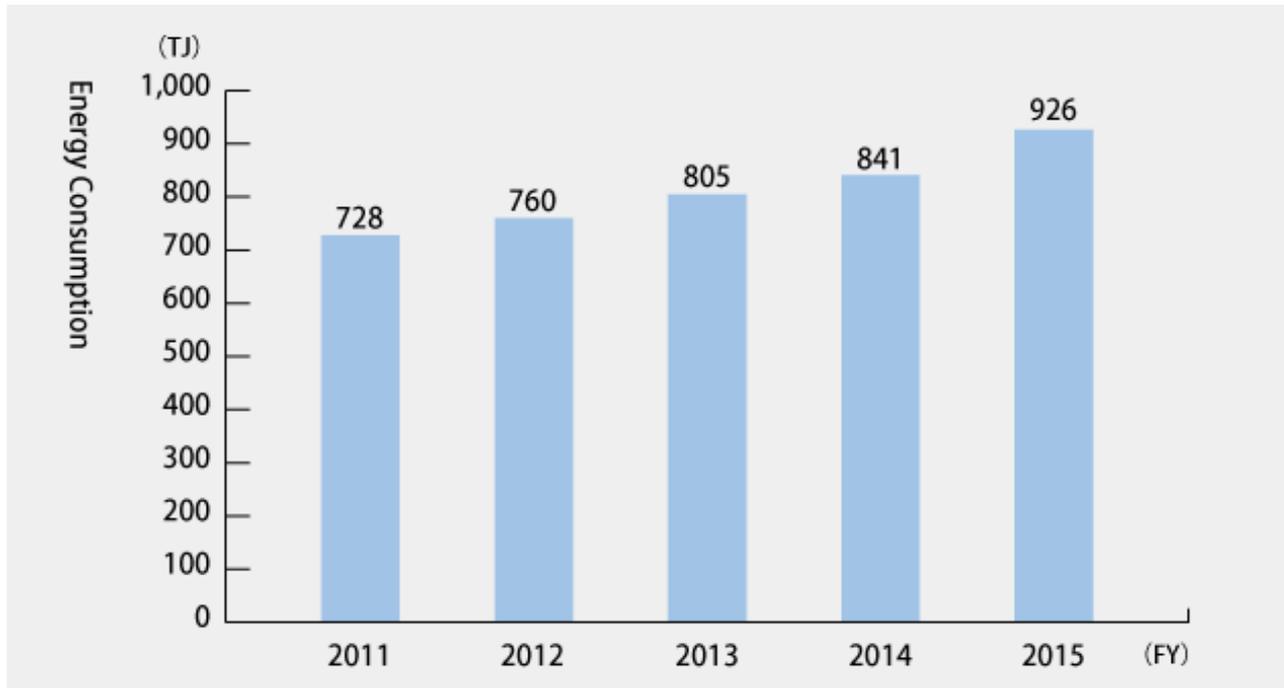




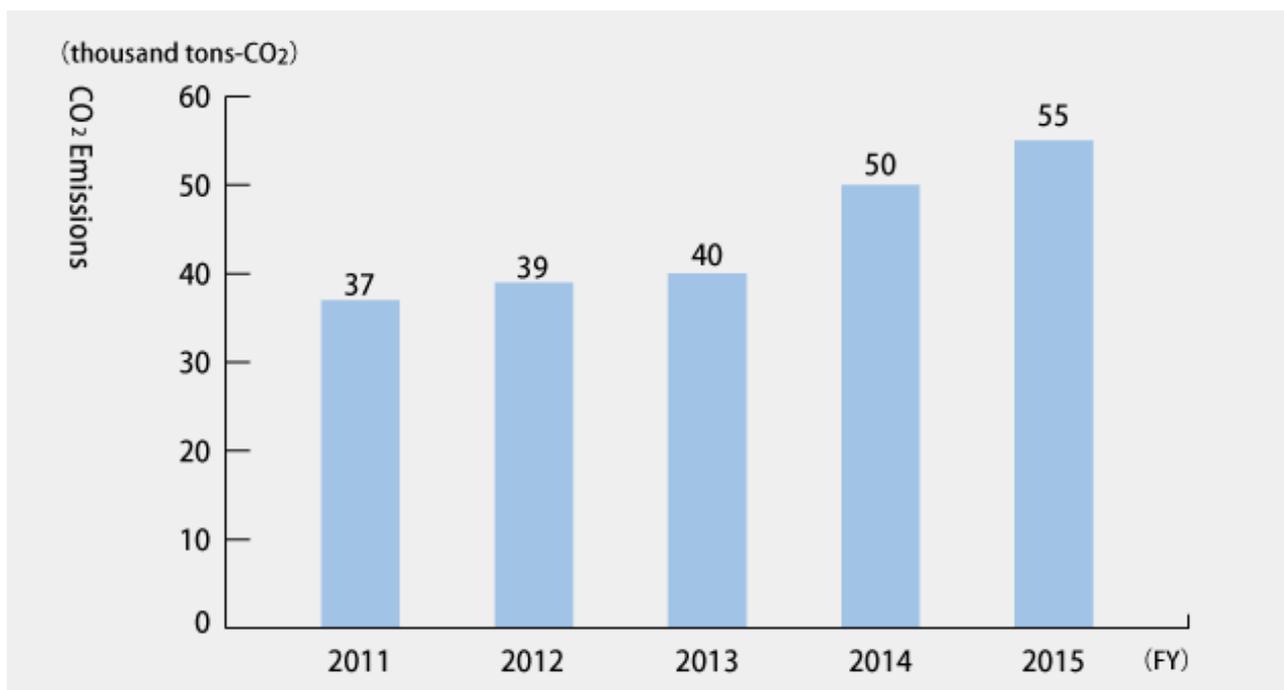
Musashi / Soma Works

Data: Soma Aero-Engine Works and Mizuho Aero-Engine Works

■ Energy Consumption



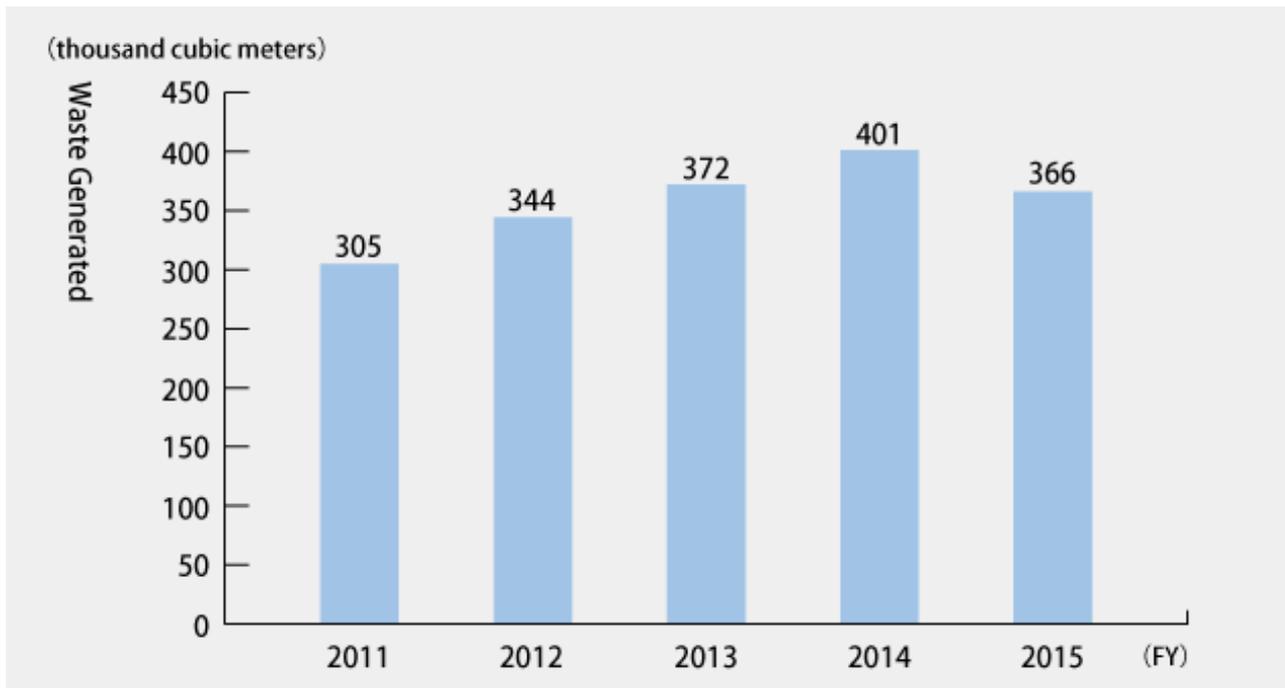
■ CO₂ Emissions



■ Waste Generated



■ Water Consumption



Headquarters Representative's Office, Yokohama District

Data: Yokohama Works, Vehicular Turbocharger Technical Center, Corporate Research & Development , and General Affairs Dept., Yokohama

■ Energy Consumption



■ CO₂ Emissions



■ Waste Generated

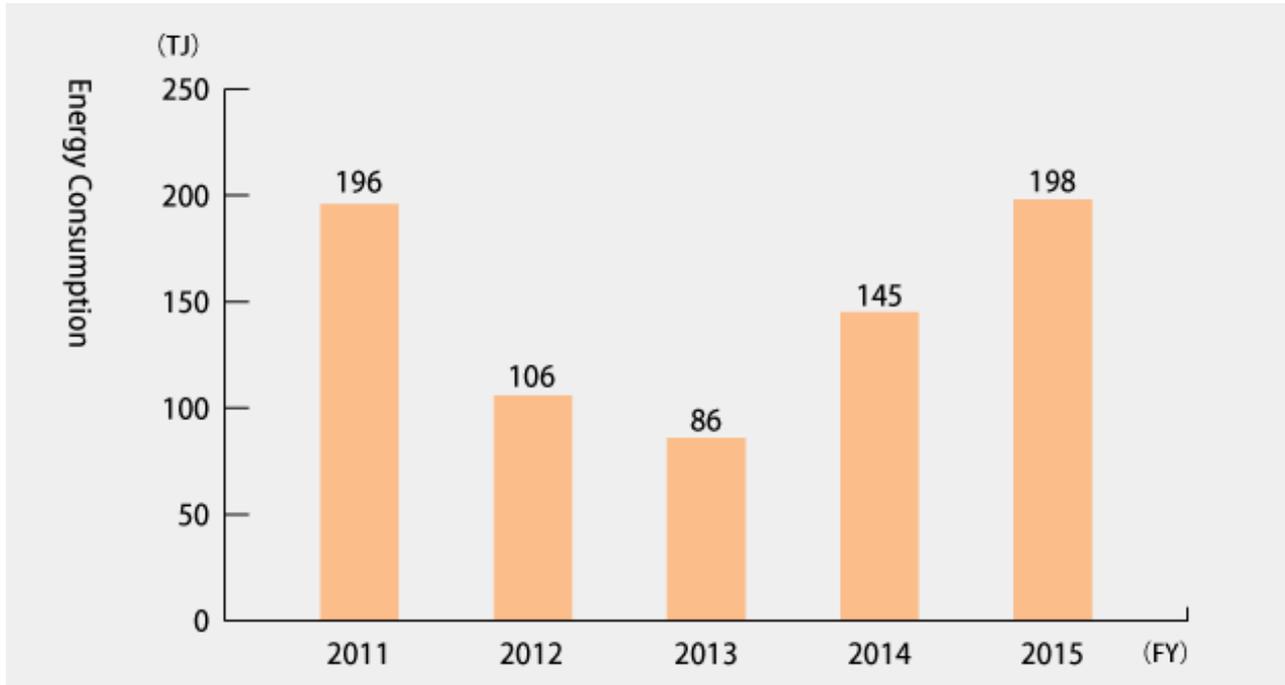


■ Water Consumption

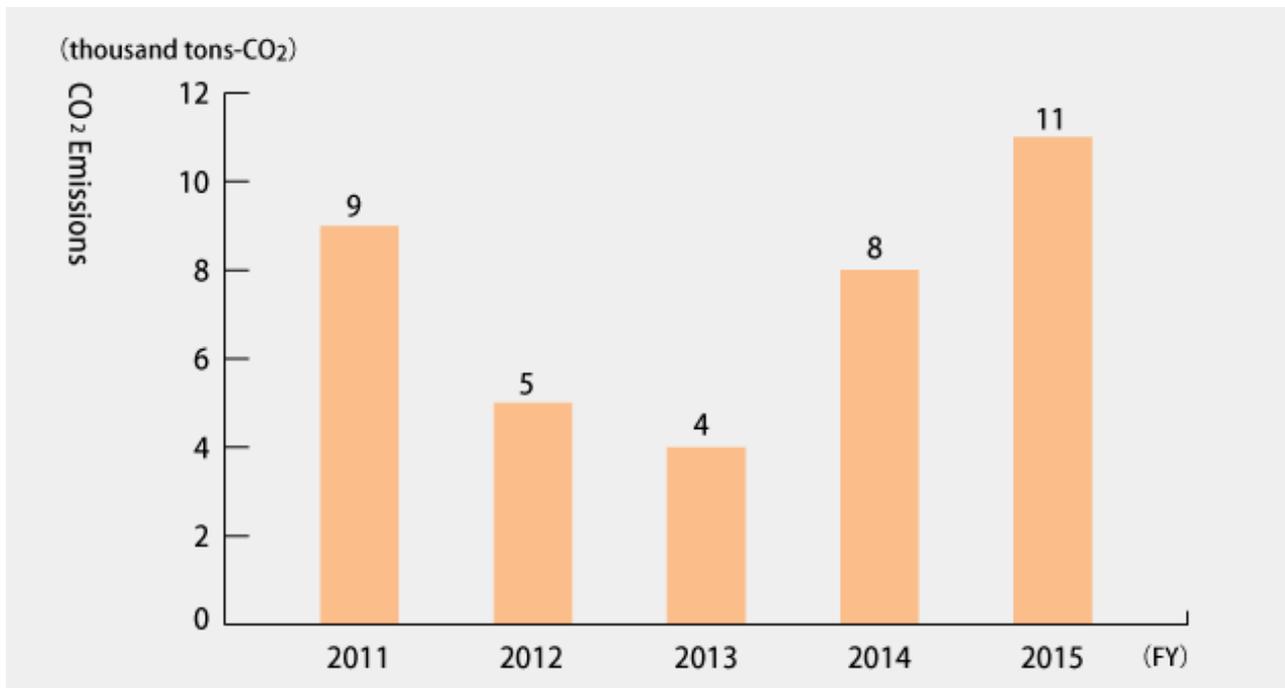


Data: Aichi Works

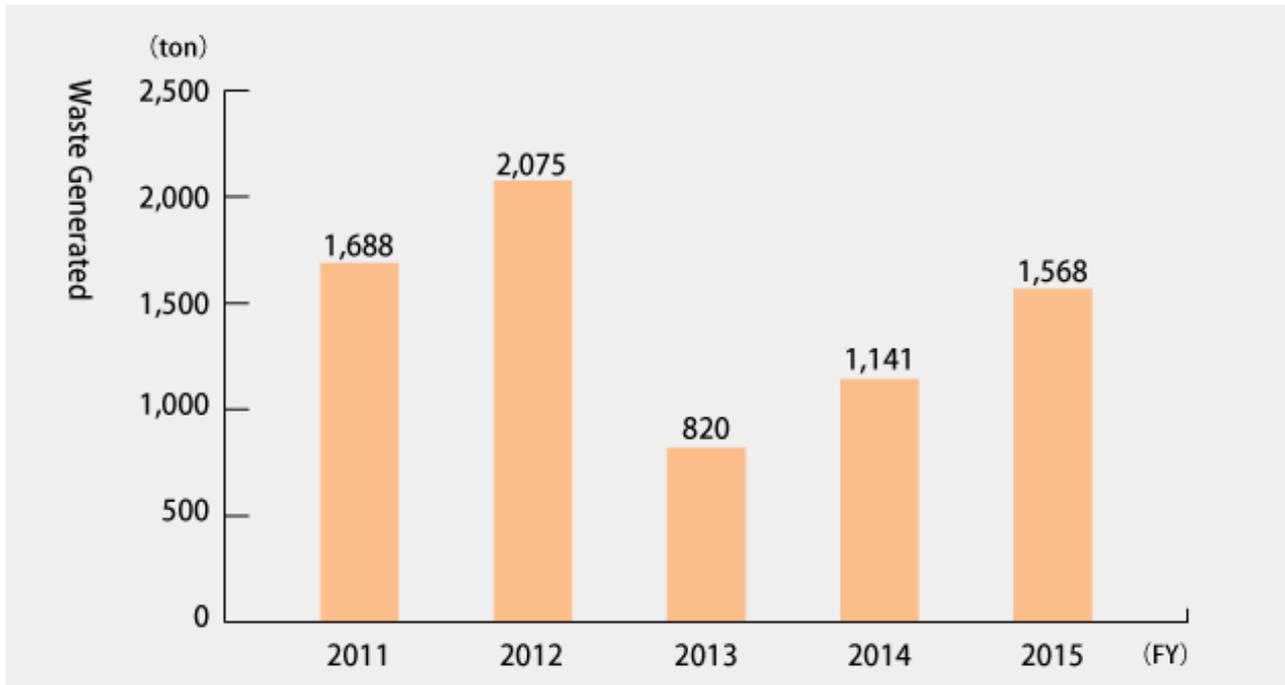
■ Energy Consumption



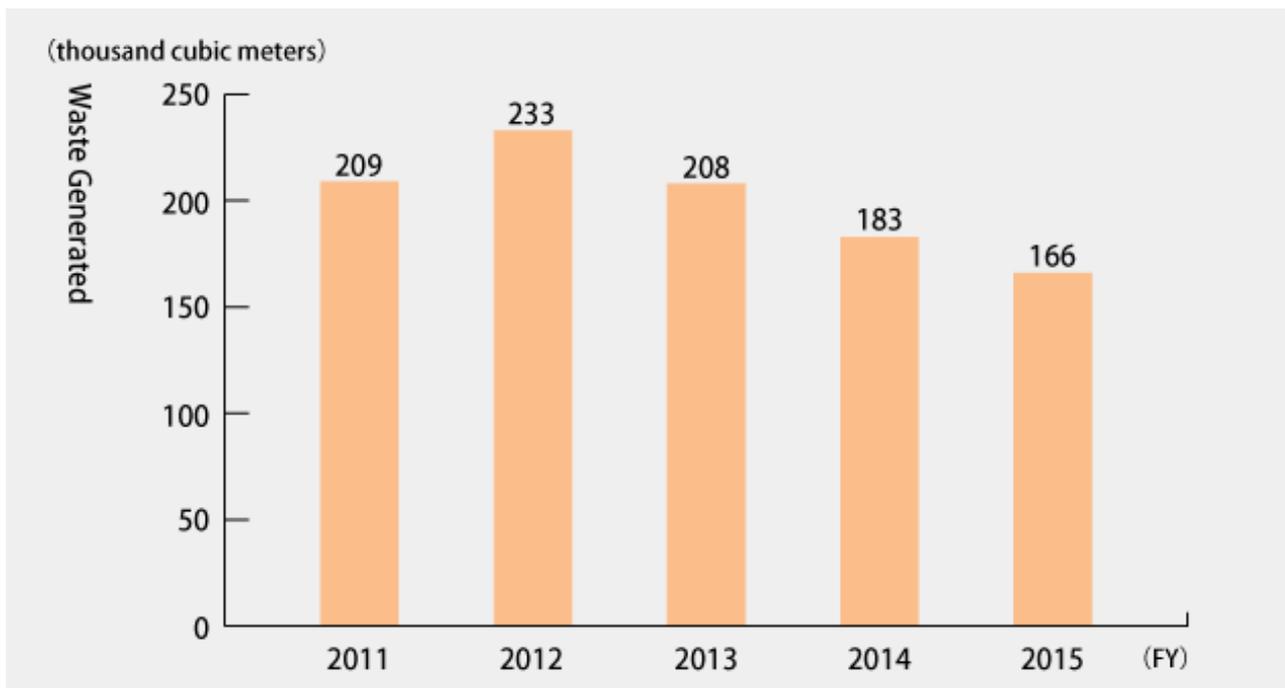
■ CO₂ Emissions



■ Waste Generated



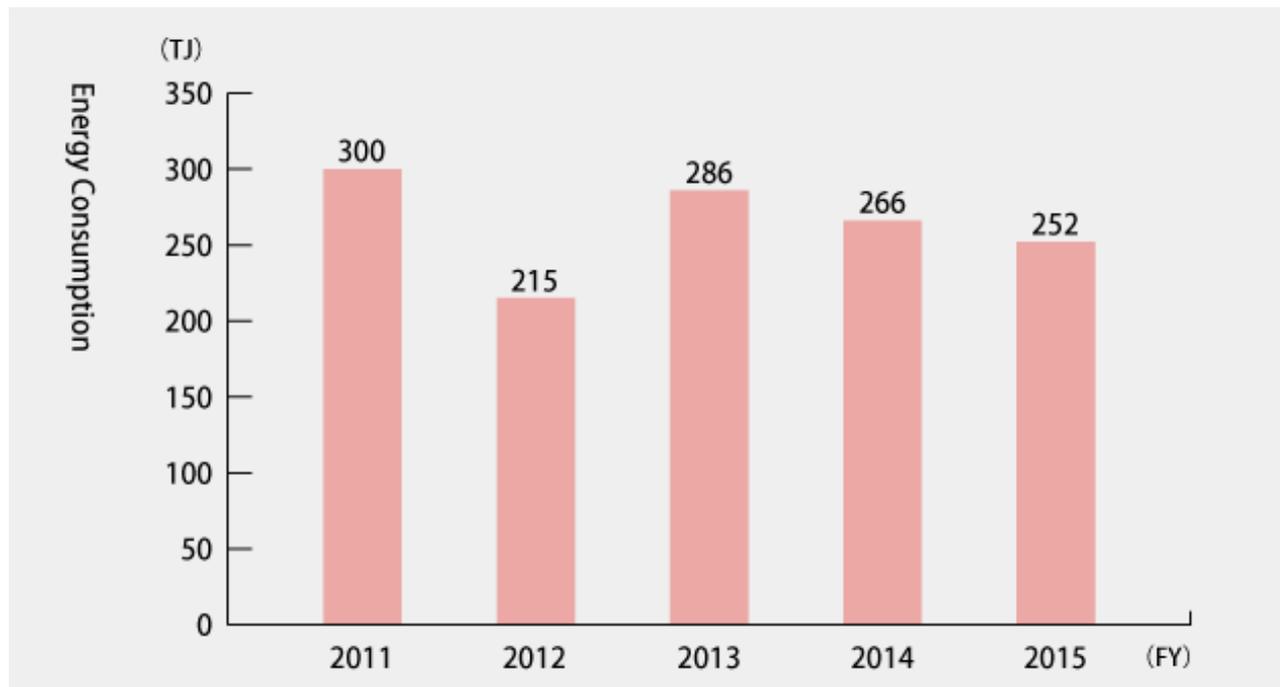
■ Water Consumption



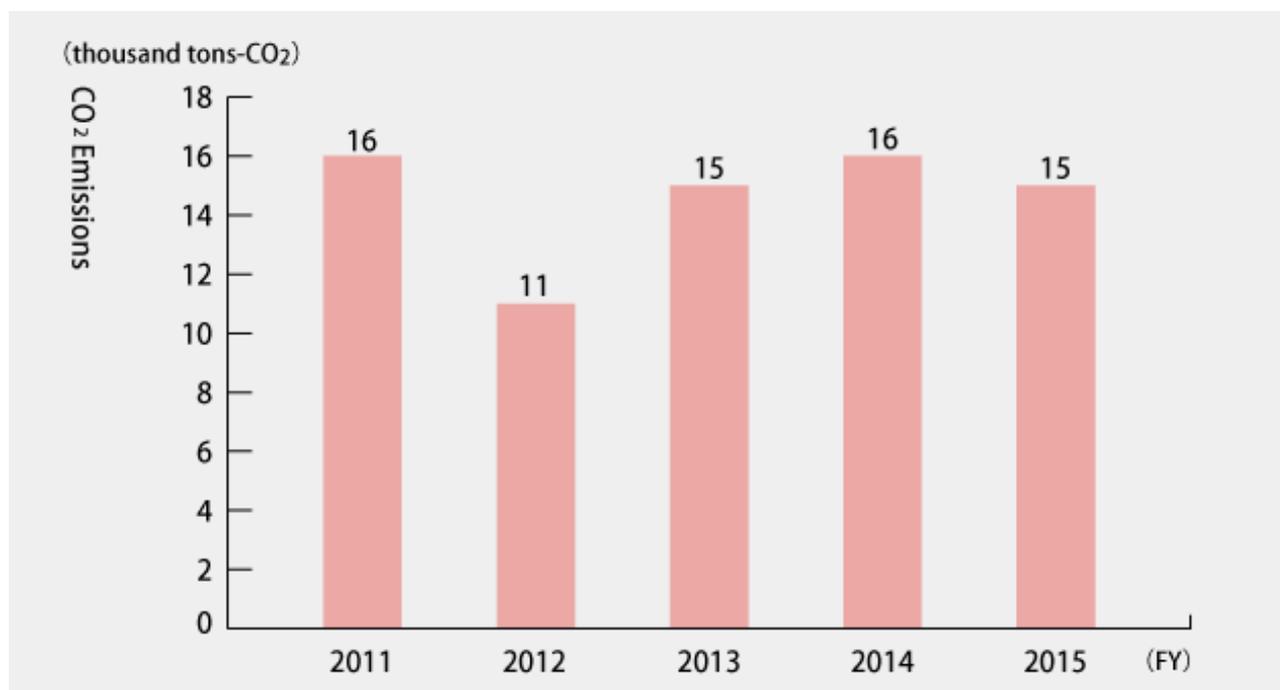
Headquarters Representative's Office, Aioi District

Data: Aioi Works, foundry works, and General Affairs Dept., Aioi

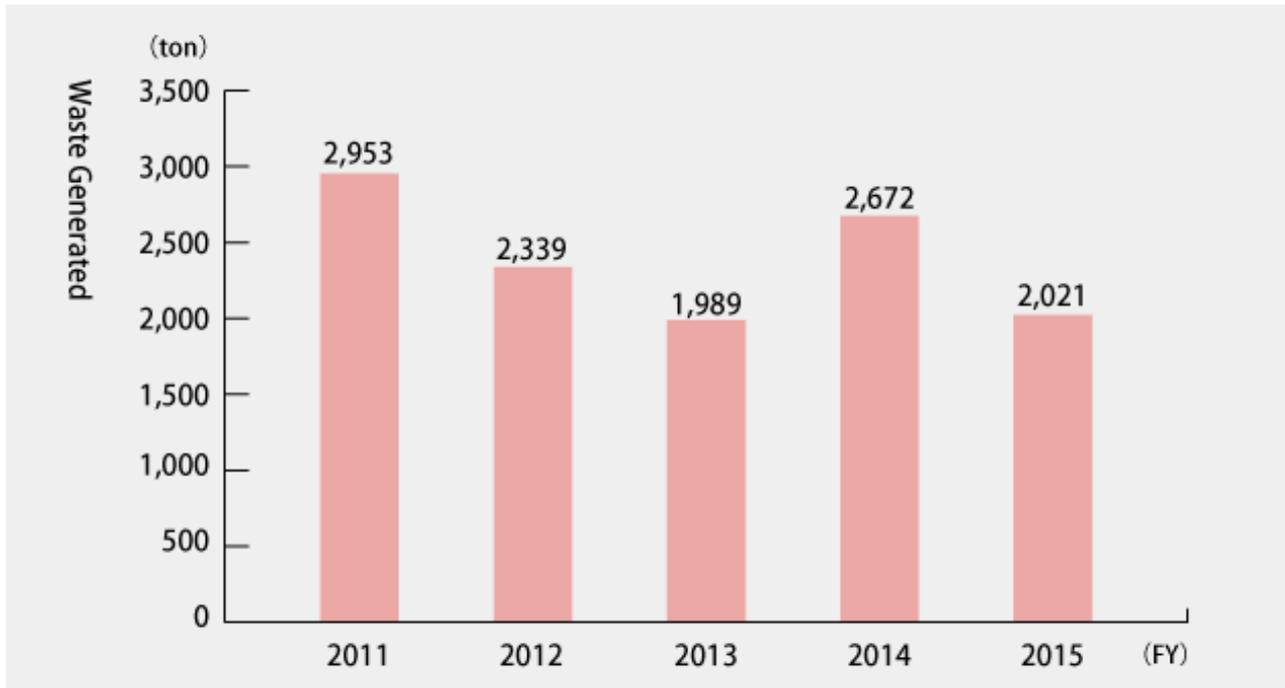
■ Energy Consumption



■ CO₂ Emissions



■ Waste Generated



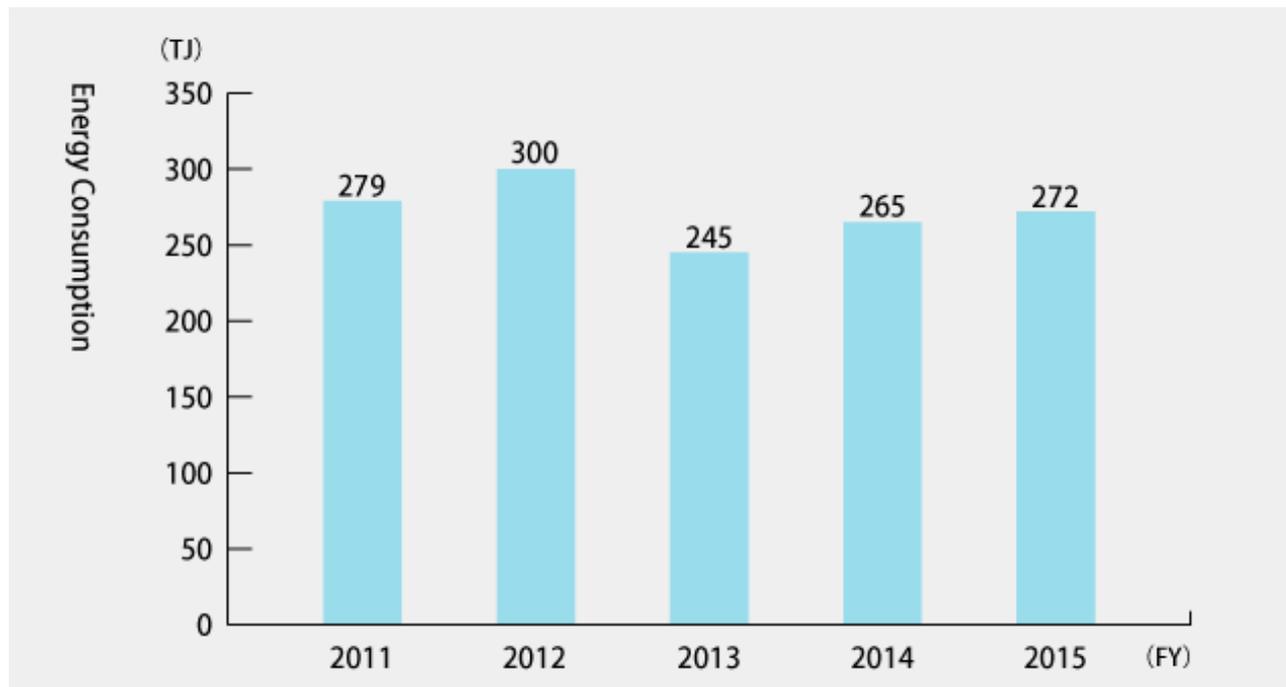
■ Water Consumption



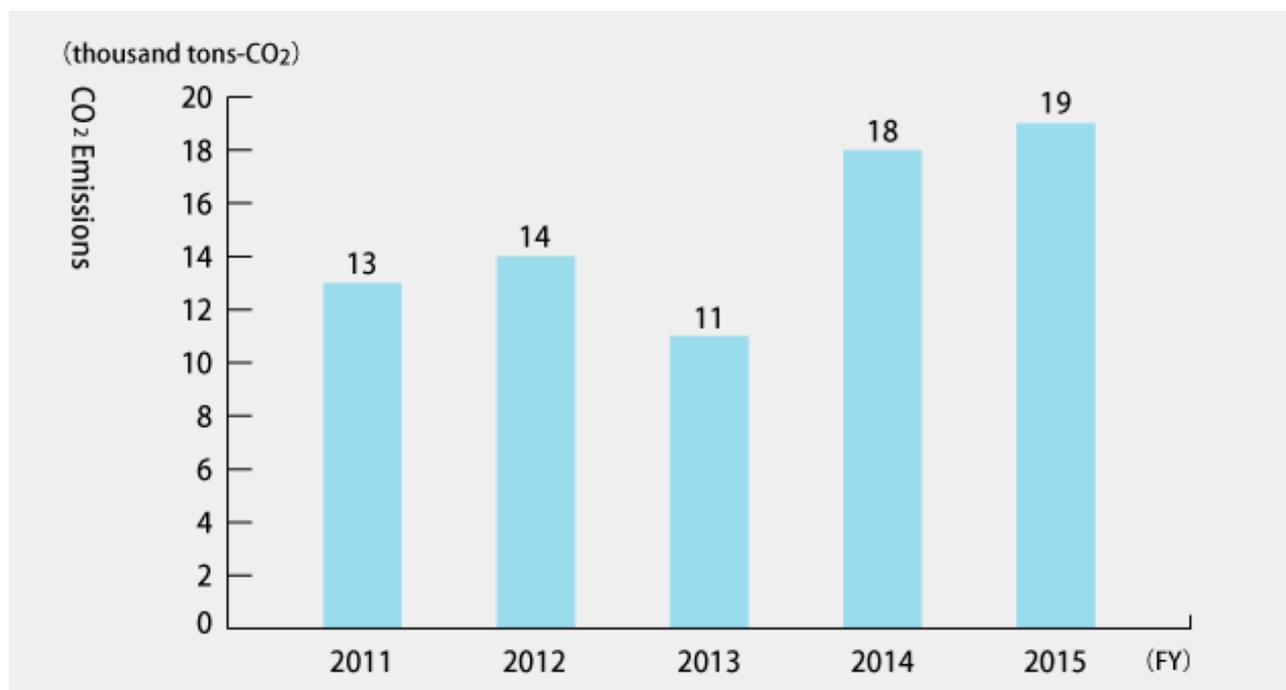
Headquarters Representative's Office, Kure District

Data: Kure Aero-Engine & Turbo Machinery Works and General Affairs Dept., Kure

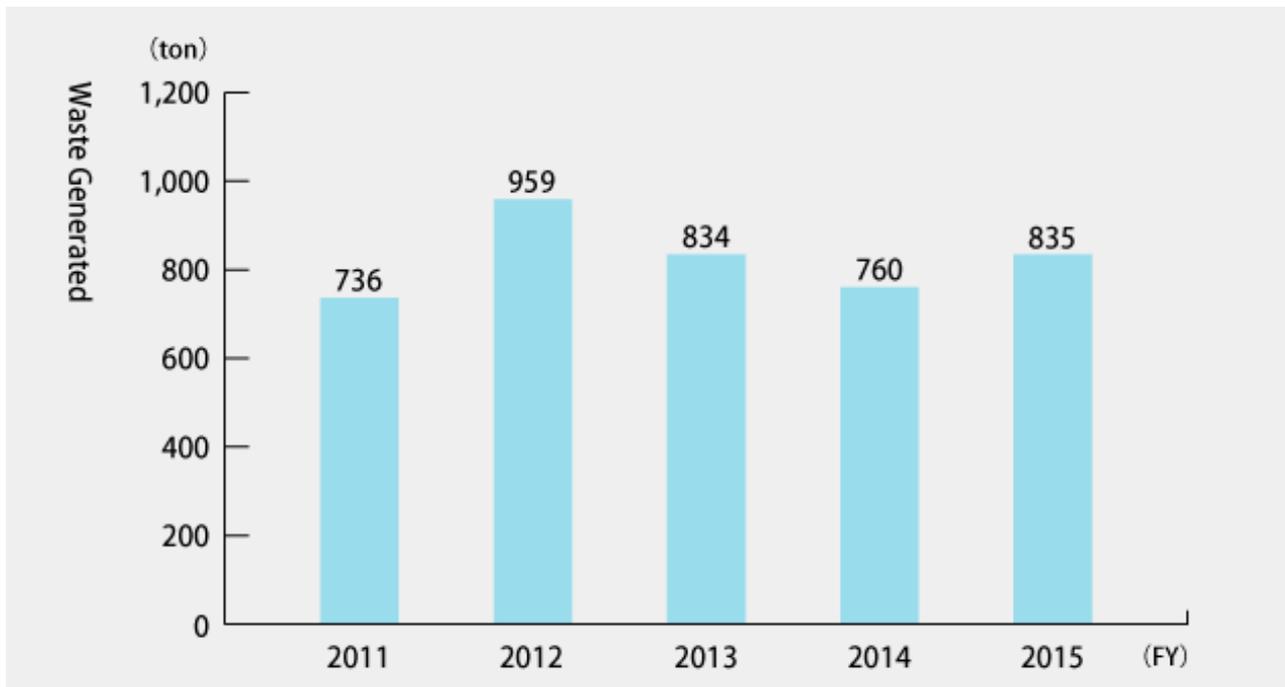
■ Energy Consumption



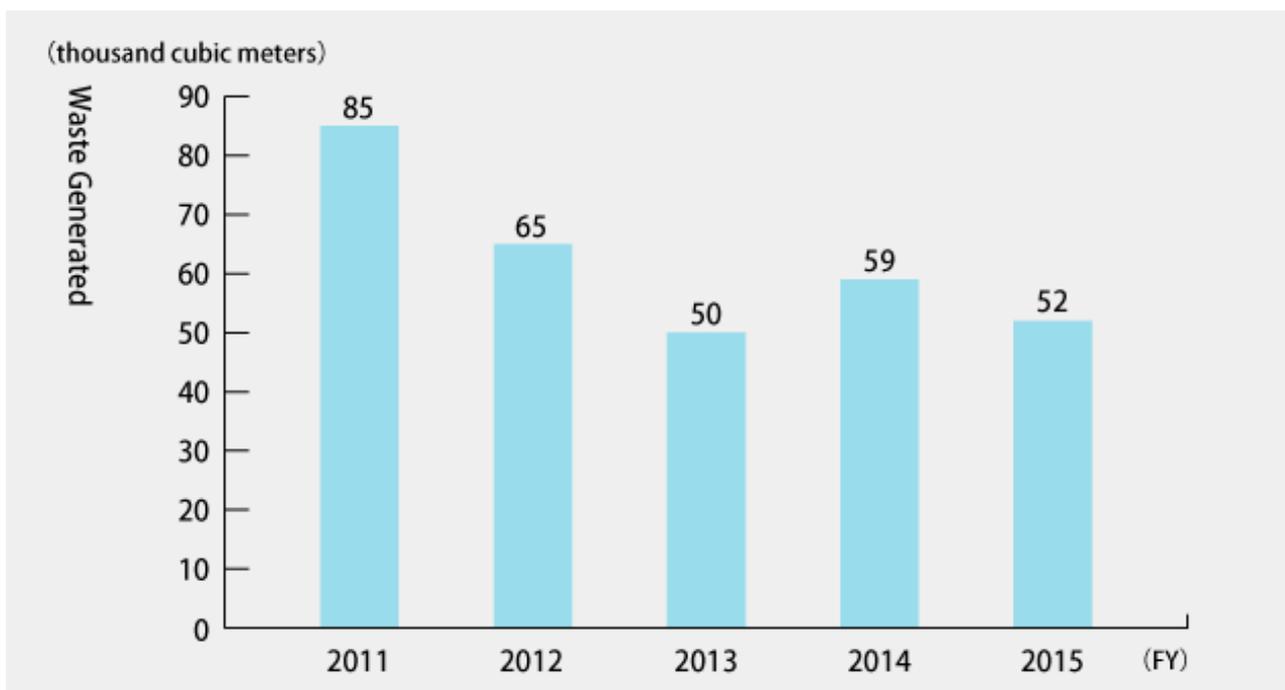
■ CO₂ Emissions



■ Waste Generated



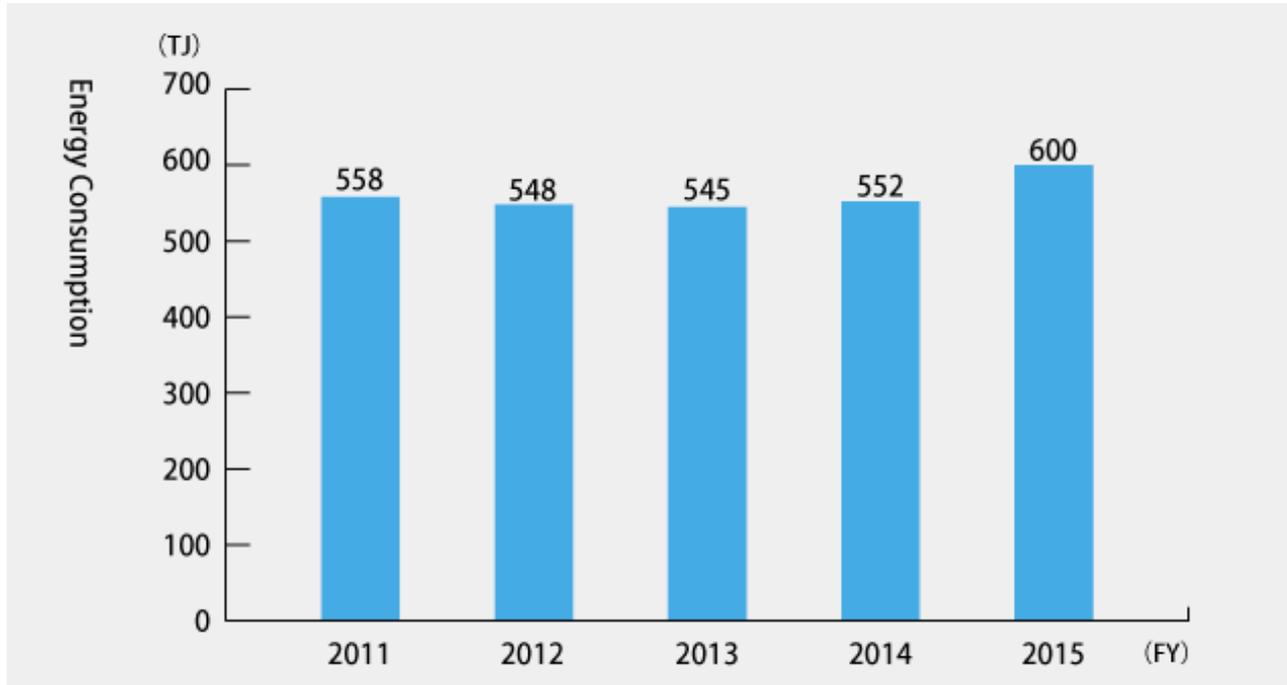
■ Water Consumption



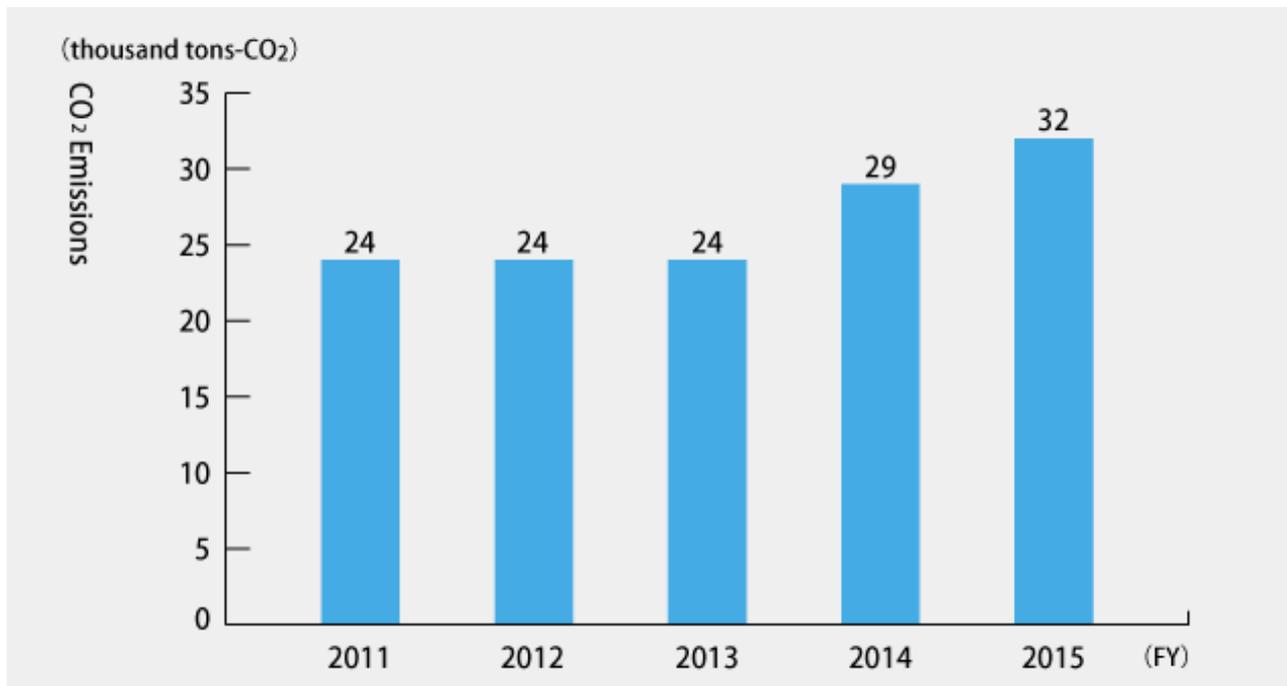
Headquarters

Data: Toyosu Center Building, Toyosu Center Building Annex, and Toyosu IHI Building

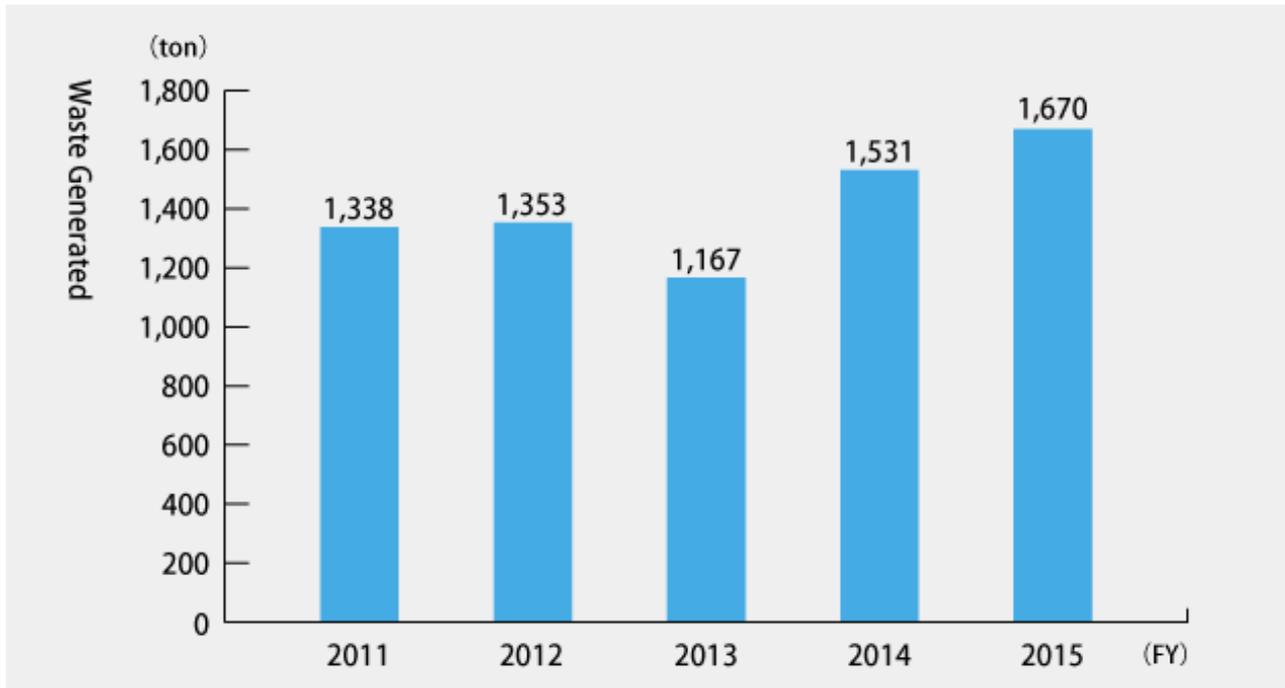
■ Energy Consumption



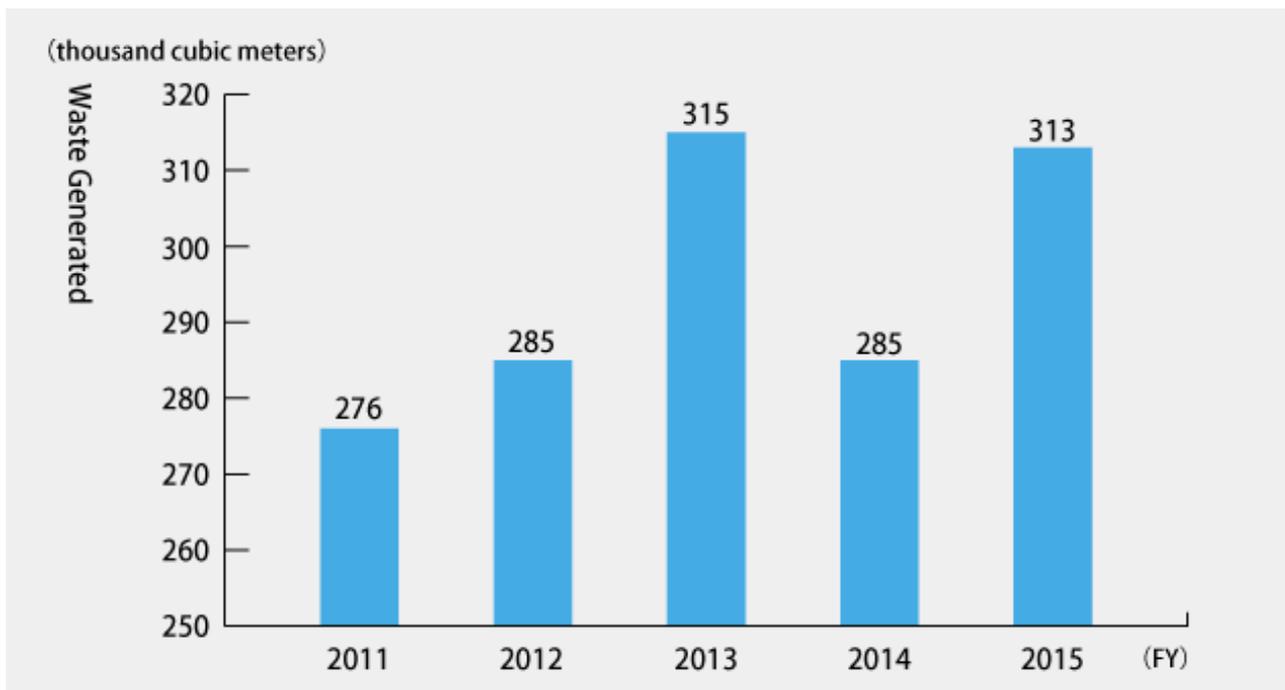
■ CO₂ Emissions



■ Waste Generated



■ Water Consumption



Community Service



Message from the General Manager of Administration Division

Communicating with host communities

IHI believes that company offices and facilities have the responsibility as community members to communicate with local residents to solve local issues together. IHI is committed to nurturing close relationships with all of its host communities.



Kazuki Awai
Executive Officer
General Manager of
Administration Division

■ Participation in local events in FY 2015



May: Aioi Pe-on Festival

The Pe-on Festival's history traces back to IHI's roots as a shipbuilder, when it held aquatic sports events. Although the festival is now organized by Aioi city, it is still conducted in front of an IHI waterfront factory. The 2015 event attracted some 110,000 visitors and IHI sponsored six boats.



July: Soma Wild Horse Chase (Soma Nomaoi)

The Soma Nomaoi, an annual festival going back more than 1,000 years, is famous for its staged fight among warriors on horseback. In a parade associated with the festival, young IHI employees shoulder a portable shrine from Soma Nakamura Shrine and the head of the local IHI office rides a horse.



November: IHI Forum 2015

IHI opened its head office in Toyosu to display its products and technology to the local public. Agricultural and marine products from communities that host IHI offices and factories around Japan were sold and scientific experiments were performed for children.



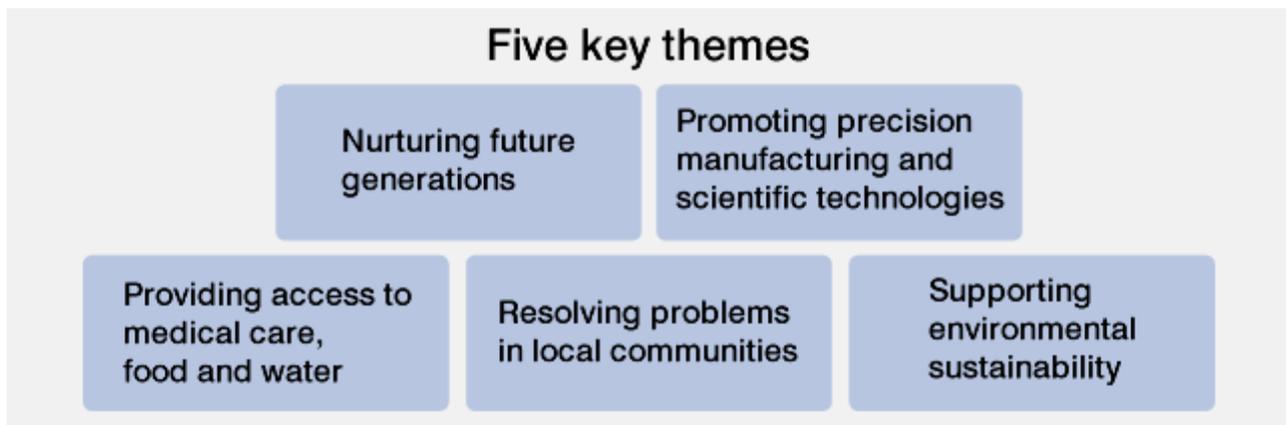
February: Wheelchair Basketball

IHI supports the wheelchair basketball team representing Japan. In February, the company opened its gymnasium in Yokohama to the team for a training camp. During that period, exhibition matches were held and local residents were given an opportunity to experience playing wheelchair basketball.

IHI also stages two orchestral concerts at the head office in Toyosu every year. The concerts are attended by local people of all ages.

Basic Policy

IHI recognizes the importance of each individual in society and respects the unique characteristics of each local community. By leveraging its experience and collective expertise, IHI contributes to the resolution of societal issues, even those outside of the company's specific business areas. IHI supports efforts to improve host communities, focusing on five key themes, as part of its commitment to social responsibility.



Conserving biodiversity

Total spending on social contributions in FY2015: 230 million yen

Activities in FY2015

Contributing to nurturing the next generation of scientists

As a Japanese "Monozukuri" (precision manufacturing) company, IHI is participating in social activities that help to nurture the next generation of scientists. As part of our activities, we developed a science class aligned with the elementary school curriculum with the theme of "Aero Engines" in collaboration with the Ochanomizu University Science & Education Center. After learning about the history of aero engines and their structure using models, students perform an experiment to deepen their understanding. We held this class in elementary schools near our offices in FY2015. These elementary school students are our future, and we hope they will become interested in "Monozukuri" by encountering this cutting-edge technology. IHI will expand these activities to cultivate the next generation of engineers.



Jet engine small-size model

Charity walk in support of resolving food issues

IHI participates in the activities of the United Nations World Food Program (WFP), in order to contribute to solving world food problems. Every year, we sponsor the WFP's Walk the World. In FY2015, over 350 employees and their families took part in this charity walk along the Yokohama waterfront (450 in 2016). Participants enjoyed walking with their IHI logo sports towels and raised their own and others' awareness of poverty and starvation in Africa and Asia. IHI will continue to contribute to the resolution of food problems and nurturing the next generation.



Walk the World participants
(May 2015)

Performance Objectives

Performance Objectives



Financial information (billions of yen)						
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Net sales	1,187.2	1,221.8	1,256.0	1,304.0	1,455.8	1,539.3
Operating income	61.3	43.3	42.1	53.2	63.2	22.0
Profit attributable to owners of parent	29.7	23.8	33.3	33.1	9.0	1.5
R&D expenses	29.2	30.0	30.2	33.5	37.0	41.6
Investment in plant and equipment	86.3	53.5	55.0	54.5	63.9	50.8
Depreciation and amortization	38.2	41.1	41.7	40.4	43.2	46.7
Overseas net sales	512.0	521.0	486.3	618.5	758.0	796.9
Percentage of overseas sales	43%	43%	39%	47%	52%	52%
Total assets	1,361.4	1,338.1	1,364.2	1,496.3	1,690.8	1,715.0
Interest-bearing debt	373.3	345.2	353.8	357.8	410.6	374.5
Net assets	253.6	258.4	299.2	362.5	359.5	333.3
Cash flows from operating activities	95.5	24.7	74.3	39.2	63.5	95.3
Cash flows from investing activities	-77.7	-37.7	-61.0	-62.2	-74.6	-35.5
Free cash flow	17.7	-12.9	13.3	-23.0	-11.0	59.8
Cash flows from financing activities	-25.9	-38.5	-3.1	11.3	33.4	-47.5
EPS (Earnings per share) ¹	20.29yen	16.26yen	22.81yen	22.51yen	5.88yen	0.99yen
BPS (Book value per share) ²	162.33yen	170.84yen	197.08yen	223.68yen	224.03yen	206.16yen
Cash dividend per share	3yen	4yen	5yen	6yen	6yen	3yen
Operating margin	5.2%	3.5%	3.4%	4.1%	4.3%	1.4%
ROIC (Return on invested capital) ³	6.2%	4.6%	4.5%	5.3%	5.8%	2.3%
ROA (Return on assets) ⁴	2.1%	1.8%	2.5%	2.3%	0.6%	0.1%
ROE (Return on equity) ⁵	13.2%	9.8%	12.4%	10.5%	2.6%	0.5%
D/E ratio ⁶	1.47 times	1.34 times	1.18 times	0.99 times	1.14 times	1.12 times

All financial figures are on a consolidated basis, unless IHI Corporation is specified.

¹ Profit attributable to owners of parent ÷ Total number of shares issued

² Net assets ÷ Total number of share issued

³ (Operating income + interest and dividend income) after-tax ÷ (owner's equity + interest-bearing debt)

⁴ Profit attributable to owners of parent ÷ (average of total assets at end of previous term and end of current term)

⁵ Profit attributable to owners of parent ÷ (average of owner's equity at end of previous term and end of current term)

⁶ Interest-bearing debt ÷ net assets

Areas		FY2013	FY2014	FY2015	FY2016 Plan	Future objectives
CSR						
Measures	Employee awareness	Raised awareness of issues via e-learning programs	Ongoing	Ongoing	Expanding reach of education	Raise awareness of global CSR issues and show steps each individual should take to meet stakeholder expectations, earn trust and raise company value over the long-term
Relevant data	Level of employee awareness	86%	89%	90%	90% or greater	
Governance						
Measures	Risk management	Set 12 priority policies	Set 14 priority policies	Set 16 priority policies	Set 18 priority policies	-
Relevant data	Outside director meeting attendance rate	88%	95%	94%	Outside director meeting attendance rate: 75% or greater	Outside director meeting attendance rate: 75% or greater
Compliance						
Measures	Compliance training	Conducted compliance and risk management programs	Ongoing	Developed self-esteem program	Ongoing	Act ethically with a priority on sincerity and fairness, so as to comply with internal, national and international rules, laws, regulations, prescribed practices, internal policies and procedures
	Globalization of compliance system	Reviewed IHI's and Regional Headquarters for the Americas' compliance system	Improved IHI's and Regional Headquarters for the Americas' compliance system	Clarified compliance system for overseas subsidiaries	Ongoing	Establish Group-wide global compliance system
Relevant data	Hotline reports	158	238	333	-	-

Areas		FY2013	FY2014	FY2015	FY2016 Plan	Future objectives
Supply chain						
Measures	Procurement policy awareness	<ul style="list-style-type: none"> · Surveyed 1,332 major domestic business partners · Established IHI Group Policy on Conflict Minerals 	<ul style="list-style-type: none"> · Reviewed survey findings · Established environmental control guidelines 	Deployed throughout IHI Group domestically and overseas	Reinforce publicity throughout IHI Group domestically and overseas	Expand the IHI Group Basic Procurement Policy to major suppliers in order to create trust relationships, mutual benefit and competitiveness
	Procurement personnel training	<ul style="list-style-type: none"> · Started training courses for local procurement personnel · Introduced training courses on procurement-related laws, regulations and tax systems of priority emerging countries 	<ul style="list-style-type: none"> · Ensured procurement compliance, including in the management of chemical substances · Held procurement seminars for global procurement personnel 	<ul style="list-style-type: none"> · Imparted e-learning to procurement personnel · Held procurement seminars for global procurement personnel 	<ul style="list-style-type: none"> · Impart e-learning to procurement personnel · Hold procurement compliance seminars for overseas affiliates 	Ensure global procurement compliance
Health and safety						
Measures	Reinforcing health and safety management	<ul style="list-style-type: none"> · Established IHI Group Safety and Health Committee · Introduced mental resilience training · Introduced new health management system 	<ul style="list-style-type: none"> · Introduced OHD(Occupational Health Dynamics) assessments · Introduced standards for responding to medical checkup results 	<ul style="list-style-type: none"> · Established IHI Group Central Safety and Health Committee · Direction and support for major IHI Group affiliates · Enhanced health and safety management overseas · Enhanced health management for employees dispatched overseas · Selected as a Health and Productivity Brand 	<ul style="list-style-type: none"> · Direction and support for major IHI Group affiliates · Expand Health and Safety Management Assessment method to affiliates · Enhance health and safety management overseas · Communicate the Healthy Management Declaration 	Work to ensure workplace environments are healthy and safe for all people working for or with IHI
Relevant data	Rate of occurrence of work-related accidents requiring time off work	0.21	0.24	0.22	0.00	-
	Number of annual leave days taken	16.27 days	16.02 days	15.92 days	16 days or more	-

Areas	FY2013	FY2014	FY2015	FY2016 Plan	Future objectives		
Diversity							
Measures	Gender diversity	<ul style="list-style-type: none"> · Promoted awareness of gender diversity · Established networks for female personnel · Supported women's career ambitions and increased motivation · Heightened awareness of gender diversity among male employees, especially those in managerial and supervisory positions · Identified obstacles to gender diversity 		<ul style="list-style-type: none"> · Promoted work-life balance · Expanded gender diversity initiatives throughout the Group · Improved male employee awareness of gender diversity · Provided ongoing support for networking among female personnel 	Ongoing	Foster inclusive workplaces that share our Management Philosophy and the IHI Group Vision. Provide greater opportunities for employees to develop and grow	
		<ul style="list-style-type: none"> · Announced numerical targets related to gender diversity · Introduced support system for employees returning to work · Selected as a Nadeshiko Brand 	<ul style="list-style-type: none"> · Executive Officer Mizumoto received the Award for Cultivating Women Engineers · Prepared diversity page for official website, released messages from top executives 	<ul style="list-style-type: none"> · Diversity Promotion Month (November) · Followed up on Group company initiatives · Formulated an action plan on the Women's Advancement Promotion Law · Selected as a Nadeshiko Brand 			
	Employment opportunities for persons with disabilities	<ul style="list-style-type: none"> · Received internship participants · Joined ACE (Accessibility Consortium of Enterprises) 	<ul style="list-style-type: none"> · Ensured appropriate workplaces and workload for persons with disabilities · Posted job openings on an employment site for people with disabilities 	<ul style="list-style-type: none"> Participated in joint briefing session hosted by a company supporting persons with disabilities 			Ongoing
	Employment opportunities for seniors	<ul style="list-style-type: none"> Introduced optional retirement age system where employees have the option to work until their 65th birthdays 	<ul style="list-style-type: none"> Reviewed life planning seminars 	<ul style="list-style-type: none"> Held new life planning seminars (for regular employees 58 years of age and 50 years of age) 			Raise base wages for those 60 years and older (Selective retirement scheme individuals)
	Employment opportunities for non-Japanese persons	<ul style="list-style-type: none"> Recruited candidates from priority areas(Asia) 	Ongoing	Ongoing			Ongoing

Areas		FY2013	FY2014	FY2015	FY2016 Plan	Future objectives
Relevant data	Female recruitment	College graduate: 33(15%) Technical:6	College graduate: 32(14%) Technical:3	College graduate: 47(17%) Technical:3	College graduate: 40(14%) Technical:6 (Those hired in April and planned for October)	<ul style="list-style-type: none"> College graduate:15% or greater of total (Goals:Technical: 10% or greater, Administrative: 35% or greater) Technical: 15 or more in FY2016-2018
	Number of female managers	44(1.6%)	51(1.8%)	60(2.1%)	66(2.5%) (As of April 1, 2016)	<ul style="list-style-type: none"> 3% or greater (FY2018) 3.5% or greater (FY2020)
	Number of female officers	0	1	1	2 (1 is an outside auditor)	<ul style="list-style-type: none"> 1 or more (FY2018) 1 or more (FY2020)
	Percentage of employees returning to work after childcare leave	100%	100%	100%	100%	100%
	Employment rate of person with disabilities	2.02%	2.04%	2.15%	2.0% or greater	2.3% (FY2018, April)
	Recruitment of new non-Japanese graduates	14	11	9	7 (Not including planned October hires)	-

Areas		FY2013	FY2014	FY2015	FY2016 Plan	Future objectives
Environment						
Measures	Environmental management	Began the IHI Group Environmental Action Plan 2013 (FY2013-2015)	Established energy consumption, CO ₂ emissions and waste reduction targets and monthly monitoring program	Finished creation of environmental impact collection system	Initiate the IHI Group Environmental Action Plan 2016 (FY2016-2018)	【IHI Group Environmental Vision 2013 Goals through FY2018】 · IHI's vision is to make environmental sustainability an integral part of all Group communities by working together with our customers and business partners around the world
Relevant data	CO ₂ emissions from business activities	259,000 tons	296,000 tons	297,000 tons	Less than 300,000 tons	Less than 300,000 tons (FY2018)
	Reduction in CO ₂ emissions from products and services	Estimated 12 products/services contributing	Estimated 11 products/services contributing	Organized calculation and publication methods	2.5 million tons or greater	10 million tons (FY2018)
	Number of environmentally friendly products certified	-	Number certified: 4	Number certified: 10	Sales ratio 10% or greater	Sales ratio 70% or greater (FY2018)
	CDP climate disclosure scores	91	97	99	Management level (Same level as previous year)	-
	CDP climate performance bands	B	A	B		-
	Nikkei Environmental Management Survey (Out of 500 points)	403	411	436	400 or higher	400 or higher

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