



IHI Sustainability Report 2017

SUSTAINABILITY REPORT 2017

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About Sustainability Report 2017

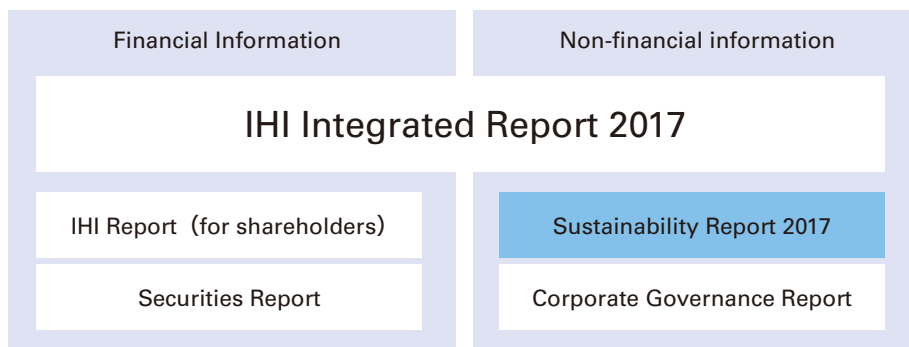
Editorial Policy

IHI Sustainability Report 2017 serves as a timely platform for providing the most up-to-date information on IHI's sustainability activities in society.

As with the 2016 report, IHI Sustainability Report 2017 communicates IHI's commitment to addressing societal issues through business and CSR activities, both of which are supported by monozyukuri technology that the company has nurtured for over 160 years.

The IHI Integrated Report 2017 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.

■ Communication channels



■ Scope of Report

IHI Corporation and its major group companies

■ Period

This report covers activities carried out in FY2016 (April 1, 2016 to March 31, 2017), but may also include information prior to or after this period.

■ Publication Date (Japanese version)

December 2017 (The previous Sustainability Report was published in September 2016.)

■ 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



The IHI Mission

IHI's corporate philosophies are "Contribute to the development of society through technology" and "Human resources are our single most valuable asset." Our mission is to leverage the skills and strengths that our employees have accumulated over our 160 year-plus history to realize the dreams of our stakeholders and society.

This is expressed in our corporate slogan, "Realize your dreams." IHI strives to fulfill its mission by pursuing growth and enhancing its corporate value to become a trusted corporate group.

Social Responsibility as a Global Company

Improving IHI's performance in international society as a global company will surely help us to fulfill our mission.

The world is facing many global-scale issues, including problems targeted by the sustainable development goals (SDGs) adopted by the Paris Agreement (to fight climate change) and the United Nations. If we effectively pool our Group's skills, people power and global network, we can do our part to help solve such issues around the world, as well as achieve sustainable development. This is the social responsibility of a global company.

To satisfy the various needs of people around the world, IHI must build an organizational culture focused on creativity and innovation. This is why IHI hires and nurtures diverse people. Furthermore, to ensure that our diverse professionals share a common set of values, our IHI Group Basic Code of Conduct has been translated into 18 languages and distributed to all employees to guide them in their everyday activities.



Linking with Society



We must communicate closely with our stakeholders to help them realize their dreams as a company that creates new value. This is why we place a strong emphasis on engaging all of our stakeholders in constructive dialogue to thoroughly convey our company's stance. Going forward, we will continue working closely with all of our Group companies to contribute meaningfully to society's sustainable development.

We welcome your frank feedback on these and other matters.

SUSTAINABILITY REPORT 2017

Business and CSR

Company Concept **P6**

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Creating Value for the Future **P22**

Company Concept

Corporate Philosophy and Group Vision

IHI's primary objective is to be a good corporate citizen that develops together with society and fulfills its social mission in accordance with the IHI group vision and corporate philosophy.

Corporate Philosophy

Contribute to the development of society through technology
Human resources are our single most valuable asset

Group Vision

The IHI Group seeks to solve the various environmental, industrial, social, and energy related problems of the 21st century, through using engineering expertise to focus on "Monozukuri" technology. In striving towards these goals, IHI is becoming a global enterprise offering the safety and security for the benefit of both the environment and humanity.

"Monozukuri" Technology means the technology used to improve the competitiveness of products and services offered, by strengthening the capabilities required in development, design, supply, manufacture and construction.

Value-creation Process

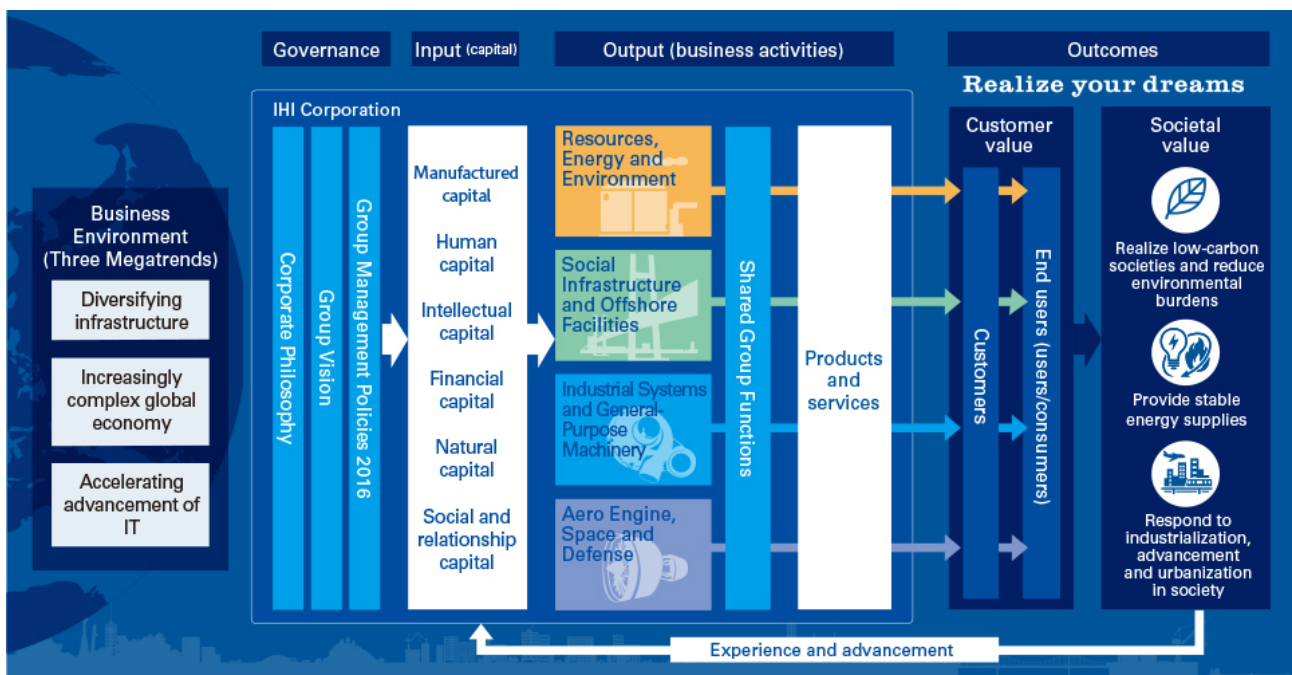
This report is a reflection of the IHI value-creation process shown in the following chart.

IHI's Group Vision, which is based on the company's corporate philosophy, is the long-term roadmap for IHI's path into the future.

In our value-creation process, we utilize six forms of capital (input) to implement the business strategies in our Group Management Policies 2016 targeting our four global business areas, ultimately to deliver outstanding products and services (output).

As the result, IHI will continue to create value (outcomes) for customers and society based on its corporate slogan "Realizing your dreams."

We will work tirelessly to achieve sustainable long-term growth by transforming our experience and value offerings into enhanced capital assets.



Group Management Policies

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

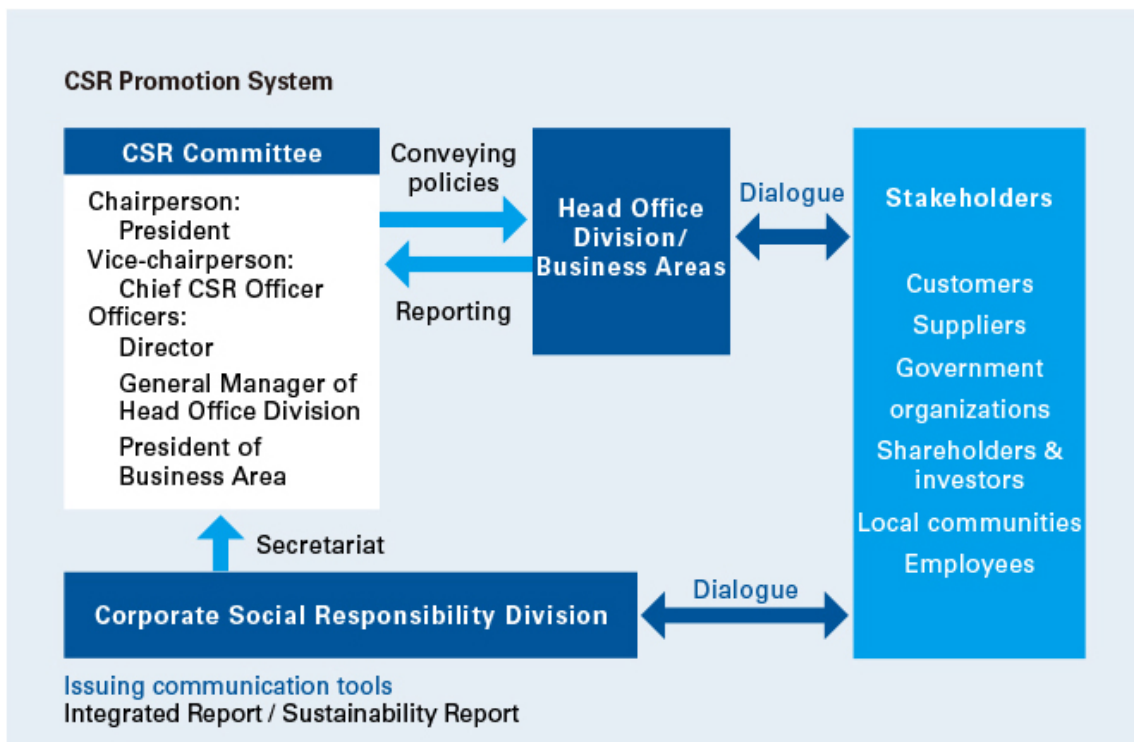
Basic Code of Conduct

IHI believes that meeting society’s expectations is one of its basic corporate social responsibilities (CSR). In accordance with this belief, the company’s Basic Code of Conduct compiles the necessary practices IHI is obliged to carry out. A guide to the Basic Code of Conduct has been translated into 18 languages other than Japanese to ensure that all IHI employees understand and follow these practices in their work.

<https://www.ihico.jp/en/company/policy/guideline/>

CSR Promotion System

The heart of IHI’s CSR system is the CSR Committee, in which the president serves as the chairperson, the chief CSR officer serves as the vice-chairperson and divisional heads from the head office and business areas serve as officers. The CSR Committee has met annually since FY2013 to enable executives to consider society’s expectations and discuss basic policies and measures relating to CSR. At the 5th CSR Committee meeting in April 2017, an external expert explained the demands of global society and participants considered the way businesses are managed with societal issues in mind. The meeting also reviewed CSR activities implemented in FY2016 and confirmed the policies and measures for FY2017.



Respect for Human Rights

IHI respects human rights in every aspect of its business.

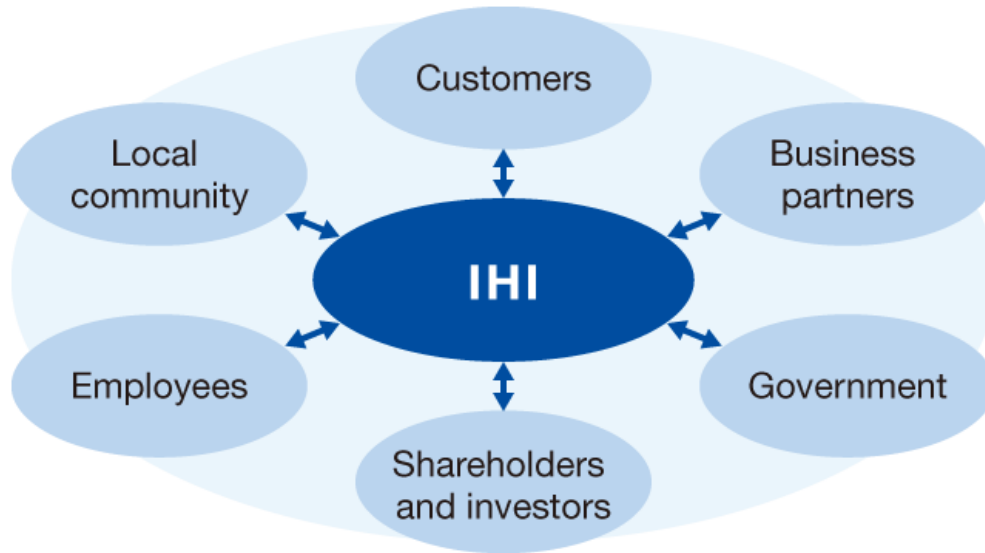
In keeping with the Group's Basic Code of Conduct, which clearly states IHI's respect for human rights, IHI renewed its human rights handbook, translating it into 18 languages and distributing it to Group employees around the world. The company also organizes human rights training for employees. In keeping with the changing environment surrounding human rights, in FY2017 IHI renamed its related internal body the IHI Group Human Rights Promotion Committee, reflecting its mission to further human rights activities from a wide perspective throughout the entire Group.

IHI requests its business partners as well to respect the human rights of their employees, including by assuring adequate working conditions, health and safety for employees (see IHI Group Procurement Policy). As a concerned member of the global community, IHI pursues socially responsible procurement. IHI also contributes to sustainable development through its intolerance for child and forced labor. Going forward, IHI will continue to disclose its human rights activities to stakeholders.

Communication with Stakeholders

IHI believes that communication with stakeholders is essential for gaining an understanding of society’s expectations toward the company. IHI creates various opportunities to engage in dialogue with customers.

IHI Stakeholders



Stakeholder Engagement Stakeholders Main engagements and methods

Stakeholders	Main engagements and methods
Customers	Sales activities, customer satisfaction surveys, product/service information on website, and CSR questionnaires
Suppliers	Procurement activities, explanation of group procurement basic policies, reviews of quality management systems, and supplier award system
Government organizations	Making notification and receiving authorization to comply with relevant laws
Shareholders & investors	General meeting of shareholders, financial results briefing, factory tours, and visits from overseas investors
Local communities	Activities contributing to local communities, (sponsorship of traditional events, atrium concerts, etc.), and IHI Forum
Employees	e-learning (questionnaires) and employee-awareness surveys

Dialogue with Experts



Ken Shibusawa

Chairman, Commons
Asset Management Inc.

In March 2017, a dialogue was held with Mr. Ken Shibusawa, chairman of Commons Asset Management Inc., to consider how institutional investors who make long-term investment decisions view IHI.

The aim was to reflect this insight in the management of IHI. The discussion included key factors for achieving sustainable growth and methods for communicating with stakeholders.

According to Mr. Shibusawa, “People are the most important factor in company management because they create corporate value.” He also commented that “IHI’s Integrated Report is a useful communication tool that provides straightforward information on the usefulness of IHI products and services and the impact that the company has on society.”

Exhibit at Trade Fairs

■ IHI Forum 2016

IHI Forum 2016, which was organized around the theme “IHI Evolving with ICT,” was held at the Toyosu IHI Building. This was an opportunity to convey IHI as it is today — creating new value by merging cutting-edge information communications & technology (ICT) with products, services and technologies.

The Products/Technology Exhibit Corner demonstrated monitoring of actual aircraft engines using ILIPS* and remote operation based on a combination of virtual-reality and robotics technologies.

Customers and business partners alike expressed favorable opinions regarding these exhibits.

Fun activities were organized for visitors from the surrounding community and employee families, including an entertaining event that taught children about IHI technology and history.

There also was market to sell specialties from regions throughout Japan where IHI has local operations.

* IHI Group Lifecycle Partner System, a remote monitoring common platform

■ IHI Exhibits at Eco-Products 2016

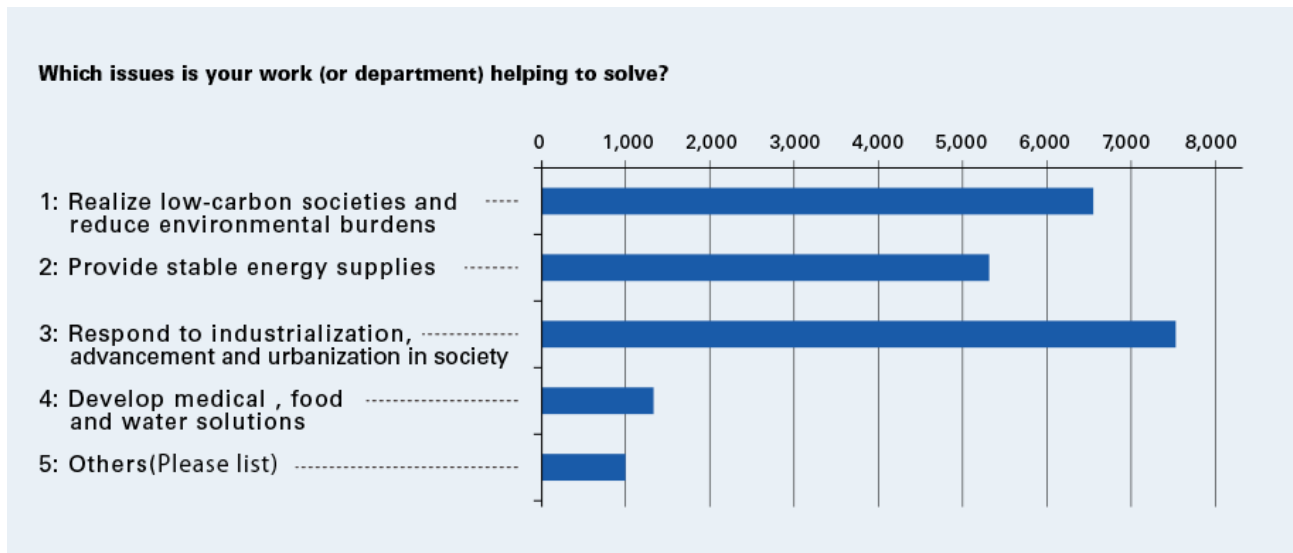
An exhibit was organized at EcoPro 2016: International Exhibition on Environment and Energy, Japan’s largest environmental fair, which was held in December 2016. Targeting junior high school students, IHI staged pantomime, animations and other presentations to introduce how it is combating climate change through responsible products and services. We will continue to proactively communicate with our stakeholders through such events.



Introducing products and services with tablets

Dialogue with Employees

After publishing our Integrated Report, we hold an e-learning course for all Group employees and conduct a survey to raise understanding and awareness of our business and CSR activities. In FY2016, we received responses from 21,693 employees, including those at Group companies. We found that most employees understand how their own work connects to society and how they are contributing to the solution of major issues confronting society.



Message from an Outside Director



Hiroshi Kimura

Outside Director

Hiroshi Kimura, having served as President & CEO and Chairman of the Board at Japan Tobacco Inc., possesses extensive experience and broad insight based on his active implementation of globalization strategies. Currently serving as an advisor to Japan Tobacco.

■ Establishing IHI as a globally necessary company

IHI has survived as an organization with a rich history and tradition of carrying out bold structural reforms. In the face of declining performance in recent years, the company has implemented necessary countermeasures to start climbing back up the ladder. Now is a prime time for IHI to take long strides in a positive direction.

IHI is dealing with the issue of strategically reorganizing its corporate resources. I feel that the company's scope is still too broad and that it must decide which businesses to maintain or withdraw from, with a greater sense of urgency for enhanced competitiveness.

In growth areas that will serve as its future core, IHI must remain committed to long-term investment.

In this regard, the shift to an SBU system in April 2017 has made it easier to reallocate corporate resources. Going forward, IHI will need to muster its collective strengths by sharing basic technologies, customer information and so forth. Another key will be the resolve of top executives to nurture the necessary managers. To ensure that employees achieve professional growth, they must be delegated responsibilities from a young age and given experience in various business areas, including overseas.

Looking to the future, global cities are destined to undergo broad changes in accordance with economic and technological advancements over the next 50 years. There is no limit to the areas where IHI can play an active role if it develops the technological strengths needed to build these new cities. I believe IHI can establish an irreplaceable global presence by leveraging its 'monozukuri' (manufacturing) power to help meet the vital needs of future society.

Message from an Outside Audit & Supervisory Board Member



Yoko Hatta

Outside Audit &
Supervisory Board Member

As a partner at KPMG Peat Marwick (present day KPMG Japan), Yoko Hatta acquired extensive experience and insight in global business focused on international taxation. She is currently serving as an auditor at International Christian University.

■ Adjusting to change and responding swiftly

IHI helped to rebuild Japan's infrastructure following World War II. For IHI to continue advancing its business, it must leverage its solid track record and sophisticated technologies to respond with increasing speed to the rapidly changing global business environment.

Particularly when expanding its global footprint over a diverse range of business environments, there is an ever-mounting need to respond with multifaceted strength and flexibility. Rather than merely attempting to transplant methods from Japan, IHI must grasp the values and rules of any region where it conducts business and then respond with a global perspective.

Moreover, the company will be able to respond to change only if it remains flexible by constantly incorporating new concepts and diverse values. It is absolutely necessary to facilitate the participation of young employees, because they are so acutely aware of the changing times, as well as women who feel they still have not been able to fully demonstrate their talents. To encourage greater participation in the workplace by women, it will be important to create increasingly inviting work environments.

For IHI to make strides in a positive direction, it must enhance its unique strengths by fusing proprietary technologies and leading IoT. I would like to see IHI stay attuned to global changes so that it can adapt and respond swiftly whenever required.





CSR in Business Activities

Key Issues Addressed by IHI

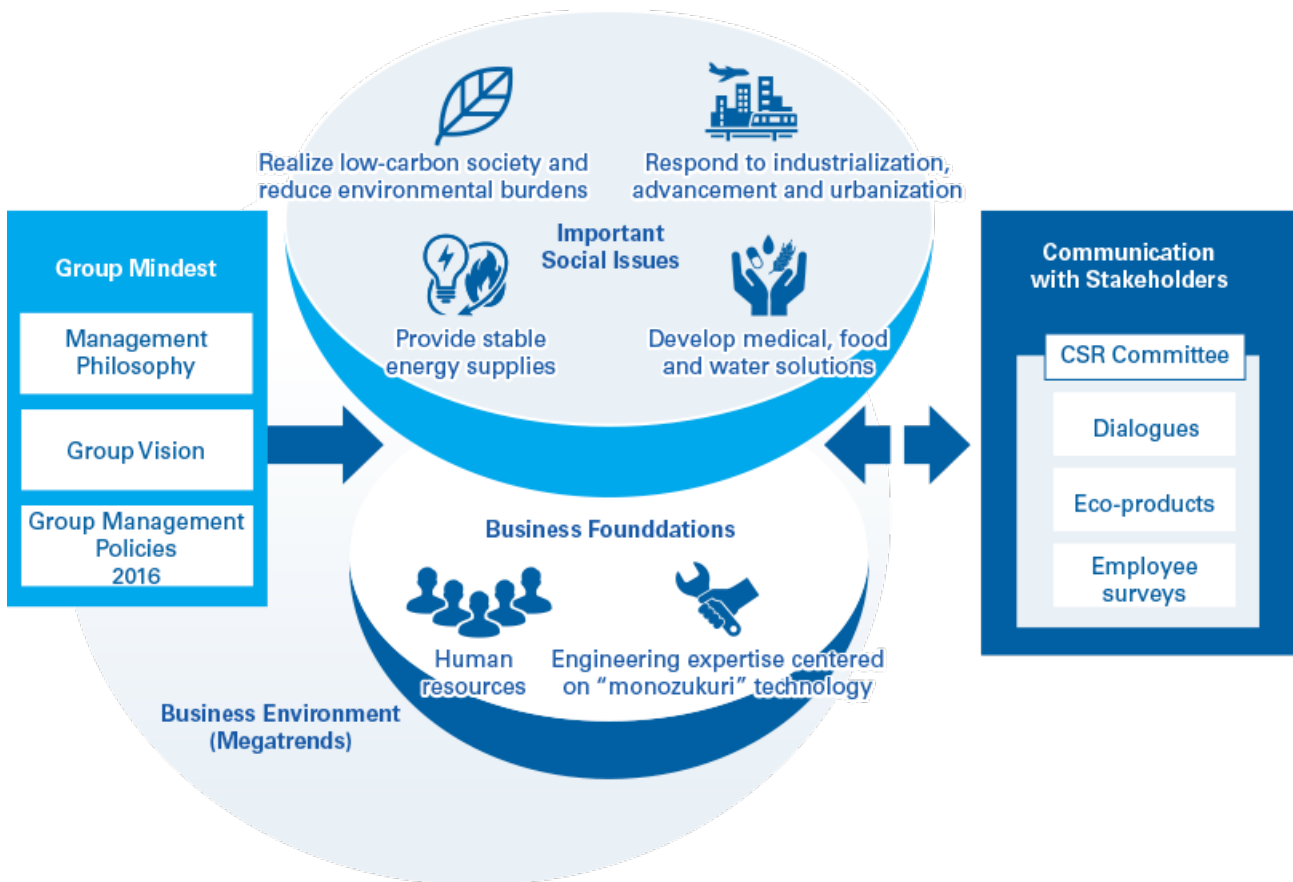
IHI is committed to contributing to the resolutions of problems of society through manufacturing technology.

IHI focuses on the following four key issues through its business activities.





Efforts by Each Business Area

Key Issues Addressed by IHI		Business Area				
		Resources, Energy & Environment	Social Infrastructure and Offshore Facilities	Industrial Systems and General-Purpose Machinery	Aero Engine, Space & Defense	New Business Development
	<p>Realize low-carbon societies and reduce environmental burdens</p> <ul style="list-style-type: none"> •Addressing environmental issues •Providing environmentally-friendly products and services 	●	●	●	●	●
	<p>Provide stable energy supplies</p> <ul style="list-style-type: none"> •Providing products and technologies that transform diverse energy sources into electricity 	●	●			●
	<p>Respond to industrialization, advancement and urbanization in society</p> <ul style="list-style-type: none"> •Enhance urban functions •Provide products and technologies that contribute to a safer society •Increase industrial productivity •Create and enhance manufacturing processes 		●	●	●	●
	<p>Develop medical, food and water solutions</p> <ul style="list-style-type: none"> •Providing products and technologies that help address issues relating to medical care, food and water 					●

Determining Key Social Issues for IHI to Address



Efforts & Priority Activities

Efforts	Priority Activities	
Realize low-carbon societies and reduce environmental burdens 	Energy conservation	<ul style="list-style-type: none"> ● Increase energy efficiency ● Control and reduce use of natural resources (fuels)
	GHG reduction	<ul style="list-style-type: none"> ● Control and reduce greenhouse gas emissions, including CO₂
	Resource conservation (excluding fuels)	<ul style="list-style-type: none"> ● Control and reduce consumption of natural resources
	Environmental risk reduction	<ul style="list-style-type: none"> ● Expand anti-pollution measures (seven types of pollution) ● Prevent chemicals in products from being released into the atmosphere
	Biodiversity protection	<ul style="list-style-type: none"> ● Protect native species
Provide stable energy supplies 	Respond to increasing electric power demand (power generation)	<ul style="list-style-type: none"> ● Improve efficiency of existing energy-generating technology
	New energy development (LNG and renewable energy)	<ul style="list-style-type: none"> ● New energy development · Resources & energy · Develop energy-generating technologies
Respond to industrialization, advancement and urbanization in society 	Develop infrastructure for urbanization	<ul style="list-style-type: none"> ● Land conservation and create new urban functions
	Upgrade existing infrastructure to increase lifespan	<ul style="list-style-type: none"> ● Improve disaster prevention measures, land conservation and accessibility ● Reduce public expenses
	Respond to increased movement of people and goods Develop and enhance transportation systems	<ul style="list-style-type: none"> ● Expand mobility
	Respond to evolution of industrialization and changes in industrial structure Further develop industrial and chemical technologies	<ul style="list-style-type: none"> ● Improve manufacturing process, develop new technologies and labor-saving innovation, conduct research into advanced technologies
Develop medical, food and water solutions 	Medical care	<ul style="list-style-type: none"> ● Expand delivery of medical care
	Food supply	<ul style="list-style-type: none"> ● Increase food production efficiency in agricultural and fishery sectors
	Water supply	<ul style="list-style-type: none"> ● Increase water-use efficiency ● Develop water resources

Initiatives targeting Sustainable Development Goals (SDGs)

IHI also believes that another of society’s expectations is for the company to contribute to the achievement of Sustainable Development Goals (SDGs) adopted by the United Nations in 2015. With the aim of creating more sustainable societies, IHI will continue to adhere to its Basic Code of Conduct and contribute to the achievement of the SDGs through its business.



Businesses helping to solve problems in society

Businesses for low carbon and reduced impacts

■ Type approval obtained for GE Passport 20 engine for large business jets

IHI received type approval from the US Federal Aviation Administration for the GE Passport 20 turbofan engine it is jointly developing for business jets through an international project. IHI, which has a roughly 30% share in the project, is responsible for developing and manufacturing the fan stator, low-pressure turbine and gear-drive system.

Using advanced aerodynamic design technologies, IHI developed a high-efficiency low-pressure turbine blade and an integrated guide vane that functions as both an outlet guide vane and a structural support for the fan case. These IHI innovations greatly improve fuel consumption by reducing weight and enhancing efficiency. Going forward, IHI will continue contributing to safe and comfortable air transportation by supplying eco-friendly engines for civil aviation aircraft.



GE Passport 20 (Photo courtesy of GE)

■ Development of innovative chrome finishing technology

IHI Hauzer Techno Coating B.V. (Hauzer) has developed Cromatipic®, a new plastic chrome-coating technology, and opened the Cromatipic Competence® Center with an automated processing line in Spain. Cromatipic® is a high-quality, environmentally friendly technology that does not use chromium 6, a hazardous material that is used in conventional chrome plating. Chromium 6 is coming under restrictions in Europe, so the demand for a more eco-minded chrome-coating technology is expected to increase. Hauzer, in addition to its manufacture and sale of equipment, plans to launch contract-based coating services.

Leveraging the suitability of Cromatipic® for a wide variety of plastic products, we expect to expand this new coating business in fields including vehicle interiors/exteriors, home appliances, sanitary goods, décor goods.



Coating unit at Cromatipic Competence® Center

Businesses for stable energy supplies

■ IHI awarded contract for ultra-supercritical boiler for coal-fired power plant in Indonesia

In March 2016, IHI was awarded a contract by Sumitomo Corporation to supply a coal-fired boiler for a 315MW ultra-supercritical (USC) coal-fired power project in Indonesia. This will be the fourth boiler of the Lontar power station, which is operated by PT. PLN, an Indonesian state-owned electricity company. The boiler is expected to start operating in 2019. The USC boiler adopted for the project will use extremely high steam pressure and temperature to enable the plant to achieve high efficiency, including reduced fuel consumption and CO₂ emissions. A USC boiler design incorporating Japan's highly efficient coal-firing technologies was downsized to meet local needs for medium-capacity while also reducing the environmental footprint. In countries such as Indonesia that expect to achieve high rates of economic growth over the coming years,

IHI will continue to supply power generation equipment and systems, primarily consisting of boilers boasting high efficiency and quality as well as low emissions, thereby contributing to stable and efficient electricity supply in these countries.



planning delivery site

■ Orders for high-capacity LNG storage tanks at Soma Port in Fukushima Prefecture

Fukushima Gas Power Co., Ltd. submitted an order to IHI's joint venture with Shimizu Corporation to perform engineering, procurement and construction for one above-ground LNG storage tank (230,000 kl capacity).

This order for LNG storage tanks at Soma Port in Fukushima Prefecture is a follow-on to an above-ground LNG storage tank under construction at the Soma LNG Receiving Terminal of Japan Petroleum Exploration Co., Ltd. (JAPEX). We expect to achieve a much shorter construction period this time using a new method developed by IHI (construction to begin in 2017 and commercial operation in 2020).



LNG storage tank site in Soma Port

Businesses for industrial, advanced and urban societies

■ Opening of Izmit Bay Crossing Bridge, the longest suspension bridge in Turkey

Izmit Bay Crossing Bridge (Turkish name: Osman Gazi Bridge), constructed in Turkey by IHI Infrastructure Systems Co., Ltd., was opened in a ceremony held on June 30, 2016. The bridge is the world's fourth-longest suspension bridge, and the longest overseas bridge constructed by IHI. The opening of the bridge has reduced the crossing time over the bay from one hour by car or ferry to just six minutes, and has brought dramatic improvement in transportation efficiency.



■ Successful launch of Epsilon-2

Japan Aerospace Exploration Agency's (JAXA) Epsilon-2 was launched on December 20, 2016 and the Exploration of energization and Radiation in Geospace (ERG) was successfully separated.

This success demonstrates our technological capabilities related to rocket systems, such as the improved launch capabilities and the expanded satellite loading space.



Businesses for medical, food and water needs

■ Sustainable food production thanks to fast and precise GPS Navicaster fertilizer spreader

IHI Star Machinery developed, manufactures and sells the GPS Navicaster, which spreads chemical fertilizers with high accuracy and efficiency.

Delivering fertilizer conventionally requires great skill to drive a tractor across a field at a constant speed and in equidistant patterns to spread fertilizer properly. Moreover, in the interest of sustainable farming, it is important not to overload the environment by using excessive fertilizer. The GPS Navicaster uses GPS data to control fertilizer amounts automatically according to tractor speed and fertilizer fluidity. Driving is assisted with an onboard guidance system, so virtually anyone can spread fertilizer easily and accurately.

In response to aging agricultural workforces in advanced nations and growing populations in emerging nations, IHI is developing low-cost, stable and eco-friendly ways to produce food by incorporating IC technologies in farming equipment for improved produce quality and yields.



GPS Navicaster

Creating Value for the Future

Message from General Director of Corporate R&D



Kouichi Murakami

Executive Officer
General Director of
Corporate Research &
Development

The Corporate Research & Development is responsible for developing new technology, one of the main engines for the IHI Group. We have about 700 R&D researchers, engineers and specialists mainly at two sites, the Yokohama Office at Yokohama (Kanagawa Prefecture) and the Toyosu Head Office in Tokyo's Koto ward. We have two missions. The first one is to respond any technology demand in the IHI Group. Typically this involves not only creating new products but also services as well as making them more valuable. We also look ahead and create new technology that will be required in the future.

The demands and expectations of the market are changing day by day; time flies like an arrow. Also our products such as the factory equipment and public infrastructure that we have supplied are used for long years, sometimes more than 100 years. Designing for reliability for long term shall be IHI group's responsibility. In order to satisfy the both competing requirements of ever-evolving expectations and long-term durability, we develop wide range of technology and evolve it to the latest version. Global-Class engineers researchers, and specialists are necessary to achieve this aim. We have been grateful to our friends for many years companies, universities and research institutes over the world. We also will be walking a long and winding way with friends whom we will meet in the future as well. Working with talented, highly trained researchers, engineers and specialists in the world are the life blood of the IHI Group. On a global scale, we need friends—even if not all of them work for IHI!

In line with our corporate philosophy “Using technology to contribute to the development of society”, developing new technology is the fundamental basis of our operations and indeed, as our core value to society. The quest for new technology represents the driving force behind the commitment and dedication of each and every employee, and the means to realize the dreams of the world.

IHI Technology Strategy

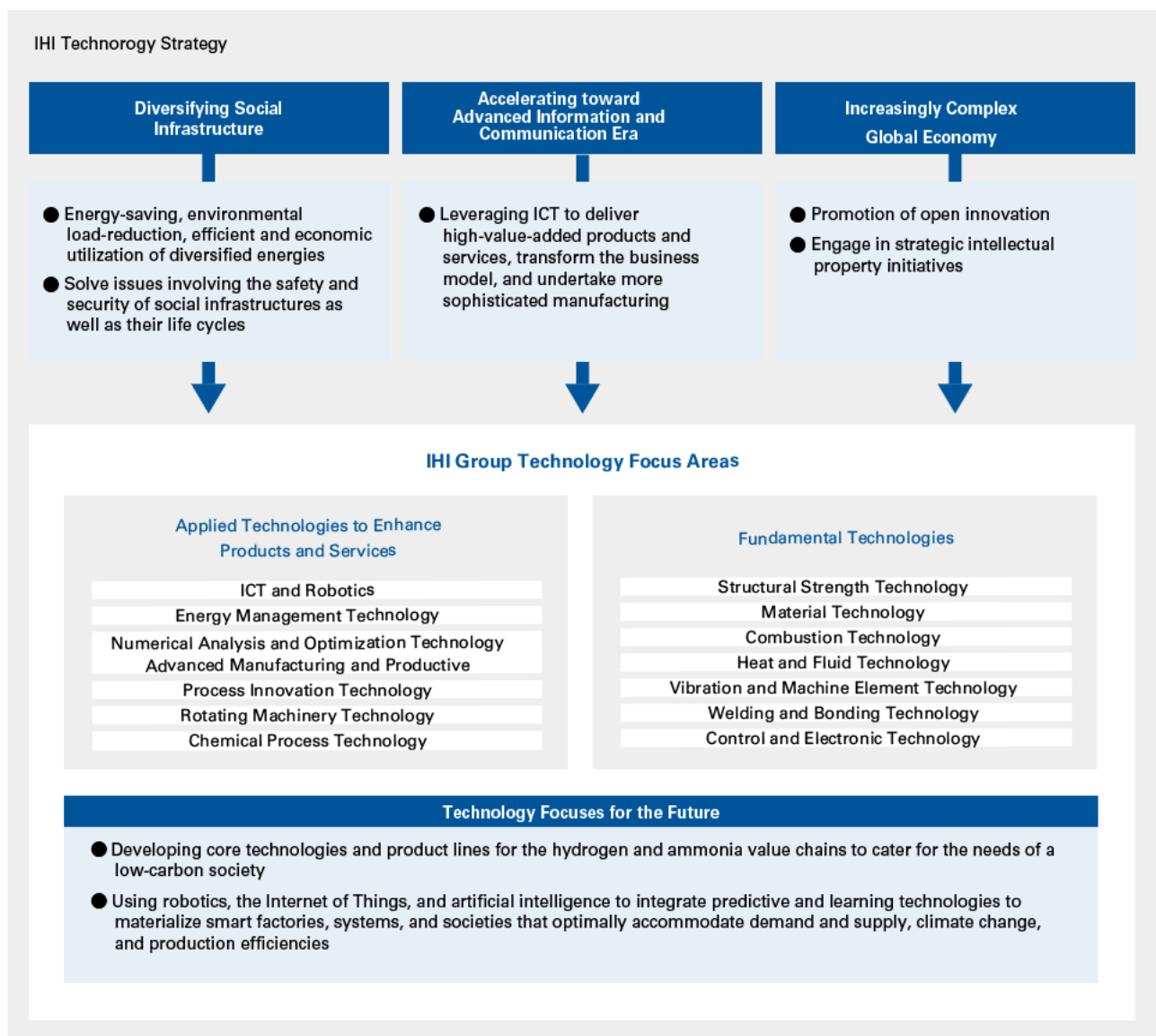
The 2016 Technology Strategy for the IHI Group sets out the shared medium to long term objectives of technology development throughout the Group. To achieve the strategy goal, "energy management" and "intelligent machinery and equipment" are nominated as the two key focusing areas for the future.

In the energy management field, it is important to develop the technology for renewable energy with minimal environmental impact, as outlined in the United Nations Sustainable Development Goals (SDGs).

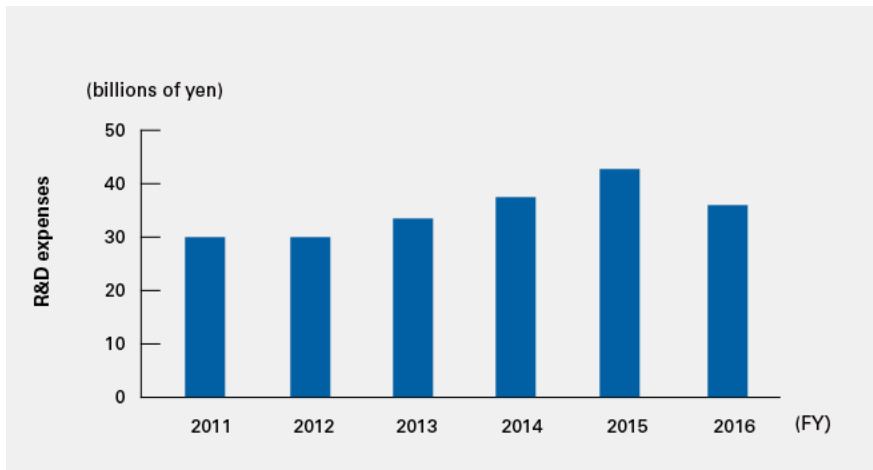
We need to find ways to reduce the environmental burden of existing energy infrastructure, while at the same time developing more environmentally friendly energy sources such as hydrogen and ammonia, algae-based biofuels, and tidal energy.

We use the term "intelligent machinery and equipment" to refer to products and services that incorporate elements of IT functionality and are able to make decisions and perform autonomously in certain respects, thus achieving a more natural form of collaboration with their human operators. This is the concept behind the "smart factory" as well as the public infrastructure of the future.

To proceed technological development, we actively embrace open innovation initiatives in wider society as the basis of collaborative and cooperative approaches.



R&D expenses



A Future Based on Technologies

Generating new energy aimed at realizing a low-carbon society

In order to reduce greenhouse gases for preventing global warming and realizing a sustainable low-carbon society, we are engaged in the research and development of new energy.

■ Hydrogen-ammonia value chain

In the future, amid increasing electric power demand around the world, it goes without saying that balancing the convenience of living and global environmental protection requires changing an energy source.

As one of the solutions to this issue, hydrogen is increasingly used as a clean energy source that does not emit CO₂ during its use. To expand the use of hydrogen, it is necessary to develop infrastructures that allow users to easily access hydrogen. We will manifest our group's overall ability to build a value chain that connects activities ranging from producing hydrogen to using it.

Currently, hydrogen is mainly produced by heating natural gas and petroleum, and in during the production process, CO₂ is emitted. To resolve this issue, we are striving to develop a method for efficiently electrolyzing water by using unused waste heat as well as renewable energy such as photovoltaic power generation. Furthermore, in Indonesia, we are proceeding with demonstrating technology for producing hydrogen from biomass by means of the twin IHI gasifier TIGAR®.

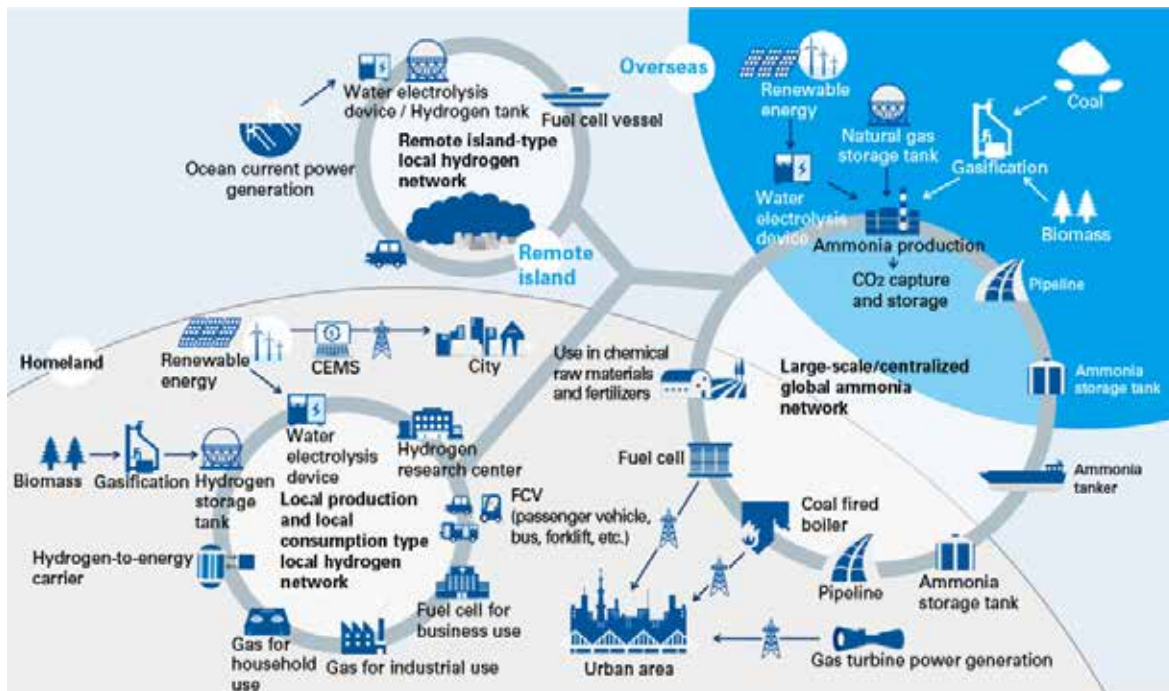
Hydrogen is less likely to liquefy and likely to make metal fragile; therefore, the high cost to transport and store it has become an issue. As a carrier for efficiently transporting hydrogen, we are focusing on using ammonia (NH₃), which is converted from hydrogen.

Ammonia has high hydrogen content per volume and is likely to liquefy. In addition, ammonia has been distributed as a fertilizer or chemical raw material and its transportation infrastructure has already been developed, providing a big advantage for implementing in society. To realize a hydrogen society early on with minimal capital investment, we are also focusing on developing technology for using ammonia in various scenarios.

As part of using ammonia, we are striving to use it as fuel for boilers and gas turbines. Since ammonia, as with hydrogen, does not emit CO₂ during its use, it is possible to reduce CO₂ emissions by using ammonia instead of coal and LNG.

We have established a technology for stably burning ammonia while suppressing the production of NO_x (nitrogen oxide). Going forward, we will accelerate our efforts to commercialize this technology by field-testing power generation by 2-MW class gas turbines as well as carrying out co-firing tests with ammonia injected in coal boilers and other tests.

Concept drawing of hydrogen-ammonia value chain

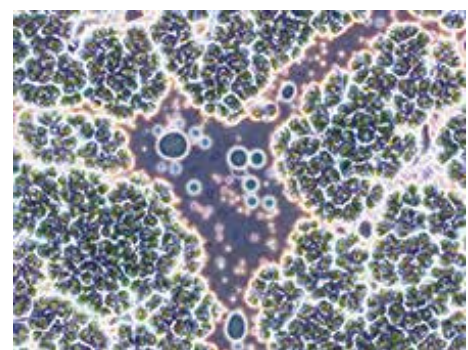


Algae biofuel

Since 2011, IHI has been collaborating with Chitose Laboratory Corp. and Gene & Gene Technology to develop an algae biofuel, named MOBURA, as an energy substitute for fossil fuels.

In the production of conventional biofuels, ethanol is produced by saccharifying and fermenting food materials such as corn and sugarcane. Algae biofuel, however, is produced by collecting and refining oil that is produced by the non-food algae, so there is no impact on the food market. Moreover, the algae absorb CO₂ as they multiply, so they also help to combat global warming. The International Civil Aviation Organization (ICAO) has set a goal of halting further increases in CO₂ emissions from 2020 onward (Carbon Neutral Growth 2020), so sustainable biofuel such as MOBURA is expected to play a significant role in the achievement of this goal.

Using an alga called Botryococcus, IHI is developing ideal varieties suitable for industrial production as well as devising optimal production processes. To support efforts to accelerate practical application, Japan's New Energy and Industrial Technology Development Organization (NEDO) has been supporting IHI since 2012. In 2015, stable cultivation of algae was achieved at a test facility equipped with a 1,500 m² culturing pond in southern Japan. In April 2017, IHI was commissioned by NEDO to participate in the Technology Development of Full-Scale Manufacturing Process for Biojet Fuels project. Going forward, aiming to convert MOBURA into biojet fuel, IHI will construct an extra-large cultivation facility overseas and proceed with initiatives to demonstrate long-term continuous operation and reduced production cost.



Oil seeping out from algae



Outdoor cultivation facility (Kagoshima Prefecture, Japan)

■ Ocean current power generation

Japan, a seafaring country surrounded by sea on all sides, is being required to accelerate use of marine renewable energy in terms of response to global warming and energy security. As such, we envisioned a large-scale power generation farm in which turbines floating on water are turned by the energy of ocean current such as the Japan Current flowing along Japan's coast to generate electric power, and with support from NEDO since 2011, we have been engaged in the technical development of an ocean current power generation system. As ocean energy is less subject to seasonal and temporal variations, it is possible to generate power at high facility operation rates of at least 60% throughout the year.

The ocean current power generation system at the practical use stage is a large structure with a floating part 100 meters wide, a turbine blade with a diameter of approx. 40 meters and weighing 1,000 tons. Each system generates electric power of 2,000 kW. In manufacturing this system, our proprietary technologies including manufacturing techniques of floating bodies accumulated from our ship building business as well as material technologies and processing technologies developed in our aircraft engine and rocket business have been leveraged. Furthermore, employing the self-control function technology that maintains the correct posture by perceiving the surrounding condition and floats the system to the sea surface in case of emergency enables a stable and secure power supply.

In July 2017, we completed a 100kW demonstration machine. This machine was named Kairyu and was chosen from submissions for the name from elementary school and junior high school students in Toshima Village in Kagoshima Prefecture. We conducted the world's first field test of a floating-type ocean current power generation system in the 100kW class in the waters off Kuchinoshima Island (Kagoshima Prefecture), and we successfully generated power. We will leverage the success of this test looking to put this system, which efficiently and economically uses ocean current energy, into practical use in 2020.



Picture of underwater installation of floating-type ocean current power generation system



Demonstration machine Kairyu mounted on barge for transportation use



Scene of towing Kairyu

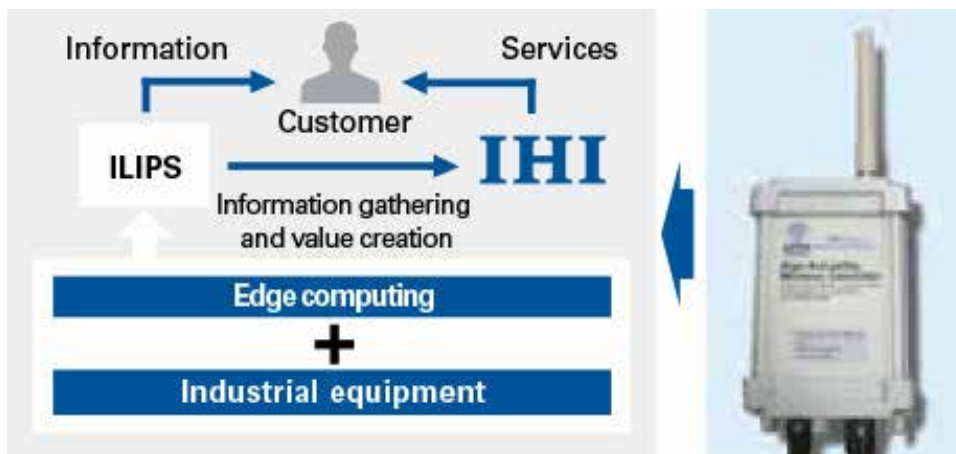
A world in which people and machines work together

We can generate new value propositions in products and services by using AI, robotics and other advanced technologies as well as the IoT, where various things are connected via the Internet.

■ Generating social value from Big Data

The IHI Group is working on new services that use the common platform, ILIPS. By analyzing operational data from industrial machinery installed at customer premises, we can generate optimal operation schedules and other recommendations designed to maximize operating consistency and productivity.

The IoT Edge Processing Device under development represents a further extension of ILIPS featuring IoT and AI technology. Preceding the usage of the Internet or public telephone lines, the edge computing process analyzes huge volumes of operating data generated by nearby industrial equipment and extracts the salient information and attributes at high speed. Incorporating edge computing into ILIPS generates more value by processing more data quickly. In this way, the IHI Group generates genuine social value from Big Data by IoT and AI technology.



How edge computing generates value

IoT Edge Processing Device

Robotics Intelligent machines will transform manufacturing and the workplace

At IHI Group, we have a vision of the future where humans and machines work together with complementary abilities and qualities.

In the manufacturing sector, simple tasks such as transportation and welding have already been robotized to boost productivity and compensate for labor shortages. But at IHI, we believe that more complex tasks such as assembly and machining can also be automated by truly intelligent industrial machinery and intelligent industrial machinery replaces skilled workers. After a human operator teaches a robot the skills and techniques used to perform a certain task, the resulting learning data can instantly be copied across to multiple robots, generating significant efficiency improvements.

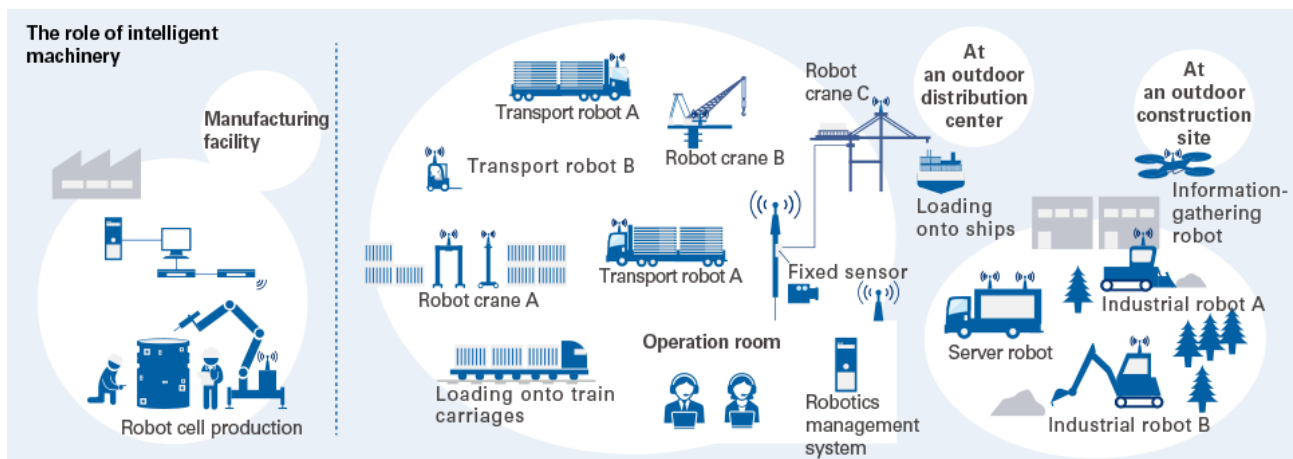
Furthermore, the learning is preserved as data and will never be lost. IHI is also working on an unmanned (automated/remotely controlled) system designed for outdoor applications and disaster response tasks, as well as for working underwater or in inaccessible spaces. The system consists of multiple intelligent machines that are remotely monitored and controlled from a protected control room.

The Robo QS, developed by IHI in a joint project together with Fujita Corporation and the Kyushu Technology Office of the Kyushu Regional Development Bureau of the Ministry of Land, Infrastructure, Transport and Tourism, represents the first step towards the unmanned system. In 2017, the Robo QS was fitted to the operator's seat of an industrial backhoe digger and successfully completed a number of tasks via remote control. This technology has considerable potential for post-disaster response tasks, which can be dangerous.

We hope to boost development in which our systems will be used as part of social implementation such as the figures below by 2020.



Back hoe with Robo QS



Drive innovation in IHI Group through the collaboration with customers

The IHI Group is promoting the innovation based on shared ideas to create new value with companies, universities and research institute in Japan and around the world.

■ Promoting innovation driven by IHI Tsunagu Lab.

IHI Tsunagu Lab., IHI Innovation Centre, was launched in 2014 as the hub for open innovation of IHI Group. It has already hosted more than 7,000 visitors over the first three years.

Innovation is like a process of fitting together the pieces of a jigsaw puzzle such as technologies and many other types of aspects. As we search for the missing pieces, we hold technology seminars actively for matching our needs and solutions with external organizations. We also hold Sessions with people from various businesses are to inspire the future of society and businesses. The Sessions provide us an opportunity to inculcate innovative mind and to discuss what needs to be done now for the future.



Tsunagu Lab. exhibit: "Inspiration Area"

■ Promoting innovation driven by Technological Attachés

The dispatch of Technological Attachés has been started since 2007. They work as the liaison of technology information in four key locations: London, New York, Silicon Valley and Singapore. Their role is to cultivate global R&D networks with companies and universities, and to promote the innovation basing on a unique perspective in their each region.

< Technological Attachés for the United States of America (Since 2007) >

The Technological Attachés based in North America are focusing on strengthening networks in the fields of ICT, robotics and renewable energy, which are currently most attractive for inventors in the United States at the moment. They are also promoting collaboration to create.

< Technological Attachés for Europe (Since 2007) >

The Technological Attachés for Europe are focusing on collaborative arrangements with universities and research institutes that are working on cutting-edge technology research and production systems. They are also promoting research into revolutionary materials, advanced production and testing systems.

< Technological Attachés for Asia-Oceania (Since 2011) >

The Technological Attachés for Asia-Oceania is evolving closer ties with the Agency for Science, Technology and Research in Singapore by conducting joint development projects which are lined to commercial applications directly. For example, it can be included, field testing of a 3-D Laser Radar with positioning and object configuration, production line automation and monitoring systems.

IHI creates innovation to solve the technological challenge in the society, promoting innovation by IHI Tsunagu Lab. and Technological Attachés.

SUSTAINABILITY REPORT 2017

Governance

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Risk Management **P47**

Corporate Governance

Basic Stance

IHI Corporation defines corporate governance as a system that assures sustainable growth and maximization of corporate value by enhancing management efficiency so that the 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 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 for Enhancing Corporate Governance

The company will work to enhance its corporate governance in line with the following basic policies. Basic Policies for Enhancing Corporate Governance

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 audit & supervisory board members and the audit & supervisory board to enable them to adequately fulfill their management-monitoring and supervisory functions
5. Conduct constructive dialogues with shareholders whose investment policies accord with the medium to long-term interests of shareholders

Corporate Governance System

(1) Board of Directors

The board of directors, which consists of 14 directors (4 from outside), makes decisions related to all important matters concerning the management of IHI Corporation and its Group, in addition to supervising directors in their business execution.

(2) Audit & Supervisory Board

IHI Corporation has an audit & supervisory board, which comprises 5 audit & supervisory board members (3 from outside) who audit the duties executed by directors.

(3) Business Execution Framework

IHI Corporation has an executive officers 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, 8 of whom concurrently serve as directors.

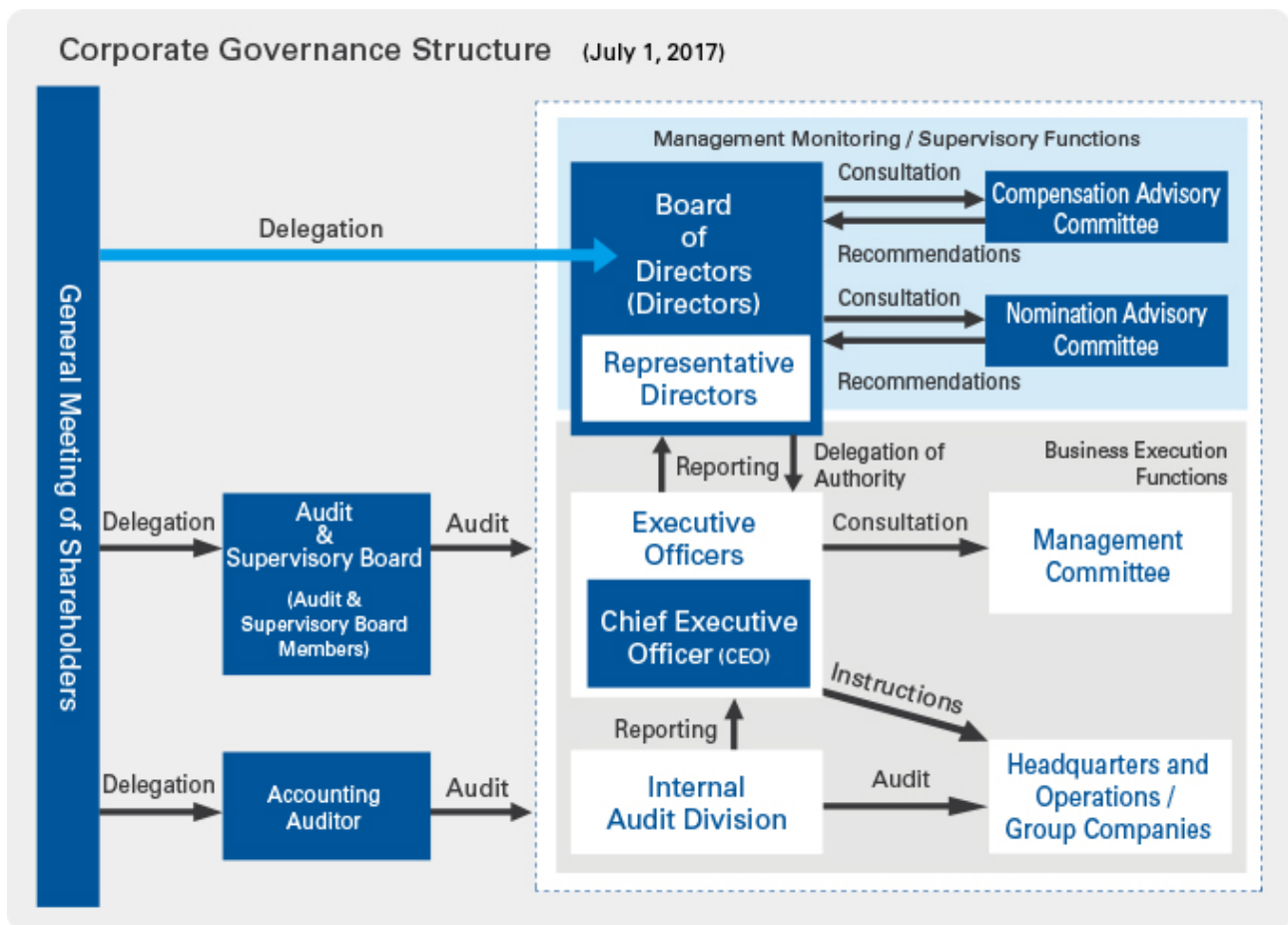
(4) Compensation Advisory Committee

To ensure that directors and audit & supervisory board members are remunerated appropriately, IHI Corporation has the Compensation Advisory Committee, a voluntarily established body consisting of six members: three outside directors, one outside audit & supervisory board member, one director in charge of human resources, and one director in charge of finance and accounting. The chair is an outside director.

(5) Nomination Advisory Committee

IHI Corporation established a Nomination Advisory Committee to supervise the IHI representative director's nomination of candidates for directors and corporate auditors, checking that such appointments are conducted appropriately and offering related advice. The committee has five members: IHI's President and Representative Director, and four outside directors, with the President and Representative Director serving as chair.

Corporate Governance Structure



Corporate Officers

<https://www.ihico.jp/en/company/executivelist/>

■ Organization of officers

2016

	Directors	Audit & supervisory board members	Total
Inside	10	2	12
Outside (ratio)	3 (23.1%)	3 (66.7%)	6 (33.3%)
Total	13	5	18

2017

	Directors	Audit & supervisory board members	Total
Inside	10	2	12
Outside (ratio)	4 (28.6%)	3 (66.7%)	7 (36.8%)
Total	14	5	19

Policies Relating to Appointment of Officers

The board of directors decides on ideal attributes for officers and draws up standards of independence for outside directors and outside audit & supervisory board members. 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 audit & supervisory board members are genuinely independent.

The board of directors sets the basic policy of appointing the most appropriate officers according to ideal attributes and independence standards for outside directors and outside audit & supervisory board members. The aim is to ensure sustainable growth and increased corporate value for the IHI Group over the medium to long term.

Ideal Attributes for Officers

IHI Corporation appoints officers who are healthy in mind and body and have all of the following attributes:

- Deep understanding of, and empathy for, IHI Group's corporate philosophy and vision
- The ability to contribute to sustainable growth and medium- to long-term increases in corporate value by addressing societal issues in accordance with the IHI Group's vision
- Outstanding foresight, penetrating discernment, and ability to make appropriate decisions with regard to the management of the IHI Group
- Good character with a strong sense of ethics
- Ample experience as a corporate manager, or a high degree of specialist knowledge, combined with 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.

Policies and procedures in determining officer remuneration

In May 2017, IHI Corporation's board of directors revised the policy for determining the remuneration, etc. of officers as follows.

Basic policy on determining remuneration of directors (excluding outside directors) and executive officers

1. Remuneration shall be aimed at fully encouraging directors and executive officers to perform their duties in line with corporate philosophy, Group vision, and Group Management Policies, as well as strongly motivating them to achieve specific goals for the company's and the IHI Group's sustainable growth and improve medium- and long-term corporate value.
2. Remuneration shall be structured with the appropriate allocation of an annual incentive (performance-based bonus) linked to each fiscal year's operating performance, and medium- and long-term incentive (performance-based share-denominated remuneration) linked to medium- and long-term operating performance and corporate value. The aim is for them to broadly share a sense of value with stakeholders and thereby perform their duties with a sound entrepreneurial spirit.
3. Under the corporate philosophy, "Human resources are our single most valuable asset," appropriate treatment shall be provided to officers of the company in consideration of its business environment, roles in society, responsibilities and other factors.

Remuneration level and allocated ratios of remuneration

1. IHI Corporation shall regularly survey objective market data on remuneration researched by a specialized external institution, and set appropriate remuneration levels.
2. In consideration of IHI Corporation's business, effectiveness of incentives, etc., the total amount of remuneration shall be allocated in the approximate proportions of 60%, 20%, and 20% to (i) a fixed base amount, (ii) an annual incentive (performance-based bonus) to be provided upon the achievement of the targeted performance, and (iii) a medium- and long-term incentive (performance-based share-denominated remuneration) to be delivered upon the achievement of the targeted performance, respectively.

Framework of incentive remuneration

1. The monetary amount of an annual incentive to be provided every fiscal year shall vary, depending on the achievement level, within an approximate range of from 0 to 200 under the assumption of providing the amount of 100 upon the achievement of the targeted performance. Performance evaluation indicators shall be those such as consolidated profit attributable to owners of parent, which is aimed at sharing the interests with shareholders, profitability emphasized in Group Management Policies 2016 (consolidated operating profit margin and operating profit margin of responsible business areas), and individual evaluation indicators corresponding to tasks assigned to each officer. The indicators shall be reviewed as necessary in response to changes in the business environment, officers' duties, etc.
2. The number of shares to be delivered every fiscal year as a medium- and long-term incentive shall vary, depending on the achievement level, within an approximate range from 0 to 150 under the assumption of delivering 100 shares upon the achievement of the targeted performance. The performance evaluation period shall be the coming three fiscal years. Performance goals for the final fiscal year shall be established in the initial fiscal year. The performance evaluation indicator shall be consolidated ROIC (return on invested capital), as emphasized in Group Management Policies 2016, and changes in the indicator, if necessary, shall be taken into consideration when reviewing Group policies.

Procedures for determining remuneration

To ensure appropriateness and objectivity in determining the remuneration of directors and executive officers, the company has the Compensation Advisory Committee, a voluntarily established body consisting of six members: three outside directors, one outside audit & supervisory board member, one director in charge of human resources, and one director in charge of finance, with an outside director serving as the chair. The committee shall examine and report remuneration related to directors and executive officers, and the board of directors shall make final decisions.

Remuneration of outside directors and audit & supervisory board members

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

Remuneration of officers in 2016

(millions of yen)

Position	Number of recipients	Break down			Total Amount Paid
		base amount	Share-denominated compensation	Performance based bonus	
Directors	19	479	66	0	546
Audit & supervisory board members	7	108	-	-	108
Total (of which, outside officers)	26 (8)	587 (72)	66 (-)	0 (-)	654 (72)

Notes

1. Remuneration of directors does not include salaries of those who are also company employees.
2. The maximum total amount of each director's annual remuneration is set at 1,090 million yen (excluding employee salaries), as resolved at the 198th Ordinary General Meeting of Shareholders held on June 25, 2015. The maximum total amount of each audit & supervisory board members' remuneration is set at 120 million yen, as resolved at the 197th Ordinary General Meeting of Shareholders held on June 27, 2014.
3. The numbers of directors and audit & supervisory board members as of March 31, 2017 are respectively 13 (including 3 outside directors) and 5 (including 3 outside audit & supervisory board members). The reason for the discrepancy from the above is that figures in the chart include 6 directors and 2 audit & supervisory board members who retired at the conclusion of the 199th Ordinary General Meeting of Shareholders held on June 24, 2016.

■ Topics in FY 2016

Evaluating the Board of Directors

IHI has evaluating its board of directors annually since FY2015 to raise the board's effectiveness. The same evaluation will be carried out in FY2017 as well.

The evaluation is performed as follows:

- An external consulting company administers an anonymous questionnaire to all directors and audit & supervisory board members. Items covered by the questionnaire include the board's composition and operation, risk management, and culture.
- The external consulting company collects and analyzes the questionnaire responses.
- All relevant officers are interviewed regarding the questionnaire and the analyzed responses. Furthermore, a panel comprising mainly outside officers exchange views.
- The results of the above process are brought together in the form of a self-evaluation by the board of directors to identify points for improvement.

■ Board of Directors Evaluation and Future Initiatives

Response to FY2015 evaluation

The FY2015 evaluation recognized issues such as the need to discuss risk more thoroughly and to increase the time available for deliberating key agenda items at board of directors meetings.

In response, besides enhancing business-execution reporting, in October 2016 IHI Corporation revised the items to be resolved/reported at board meetings and developed a new discussion agenda.

FY2016 evaluation and policy for response

The aspects recognized as strongpoints in the FY2015 evaluation, such as the transparency of board operations and discussions as well as adherence to compliance-related requirements, were recognized to have maintained their high level in the FY2016 evaluation. In addition, the board was evaluated to have effectively resolved the FY2015 key issues, such as specifically targeted improvements.

However, it was recognized that the board needs to enhance discussions by securing time for crucial measures and effectively using written proposals and explanatory materials, etc.

The IHI Corporation's board of directors will continue to enhance its effectiveness by implementing measures to resolve such issues.

Compliance

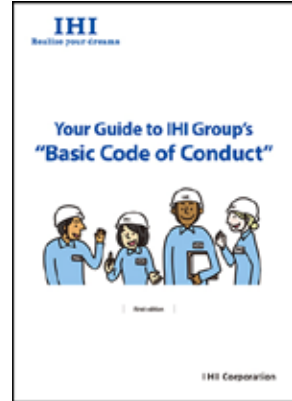
Basic Policies

Compliance helps form the foundation for corporate activities.

The following conduct is specified in the Basic Code of Conduct for IHI's group companies.

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

This supports not only legal compliance but also efforts to accurately assess changing social values and demands, a necessary step in meeting society's expectations.



Basic Code of Conduct Guidelines

System for Implementing Compliance Activities

Compliance Committee

The Compliance Committee reviews and plans important compliance policies and oversees compliance activities.

The committee meets four times a year. It comprises the Chief Compliance Officer as the chairperson and Divisional Compliance Officers who serve as managers responsible for implementing policies. In response to decisions made at committee meetings, each compliance officer engages in compliance activities suited to the business of that officer's division. Each compliance officer also shares information about the compliance activities in their divisions with the Compliance Committee. Activities are managed with the PDCA cycle.

Compliance Activity Promotion

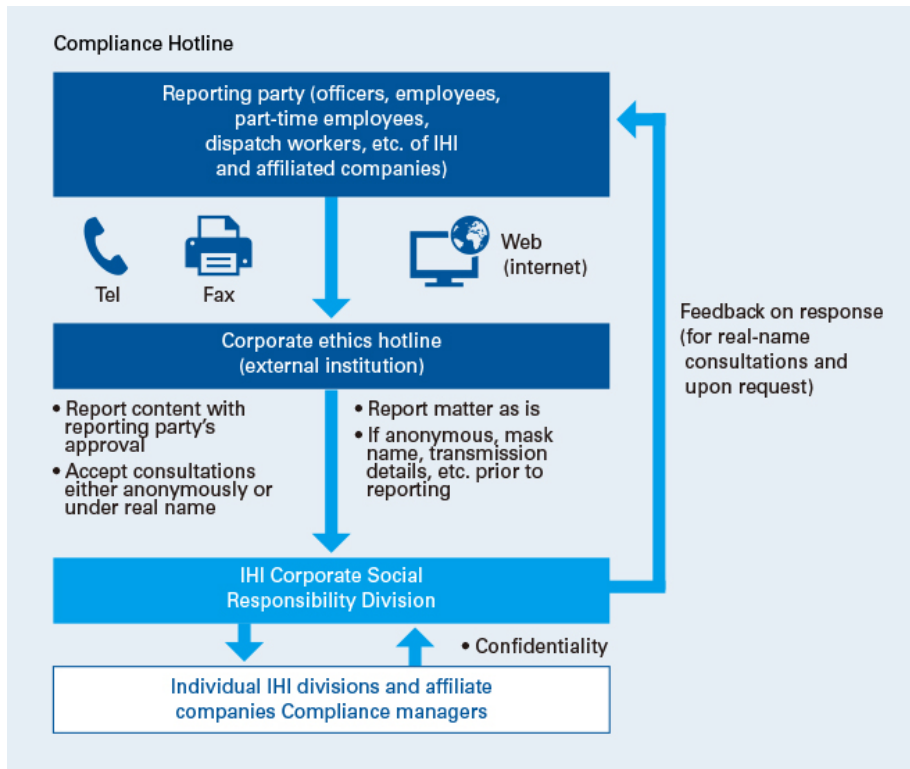
The Corporate Social Responsibility Division, acting in accordance with policies set by the Compliance Committee, plans and implements activities and provides related guidance and support, as well as monitors the status of activities within each division.



As of April 1, 2017

Compliance Hotline

IHI established a Compliance Hotline as an internal whistleblowing system to facilitate reporting of possible illegal, unethical or improper conduct by officers or employees of any IHI company and to prompt corporate responses to remedy any such action. Officers and employees can directly report and consult to Corporate Ethics Hotline, an independent third-party organization without going through an ordinary reporting line. Hotline Cards explaining the system and how to use it are distributed to all officers and employees, from senior managers to temporary staffers. The Hotline received 218 calls in FY2016, of which 98 resulted in investigations. A higher number of calls were about interpersonal relations in the workplace than consultations relating to rule violations, etc.



Compliance Hotline reports



As of March 31, 2017

Promoting Compliance Awareness

Compliance Activities

IHI conducts multifaceted training and education to improve compliance awareness. Creative approaches help to ensure that the activities are highly effective and carefully tailored to each target audience.

- **e-Learning**

Compliance education is provided to employees in the form of e-learning focused on set themes. For the FY2016 theme, “preventing data falsification,” education was provided to IHI companies worldwide.

- **Officer Training**

All IHI officers participate in compliance training. In FY2016, an external lecturer provided training on “The roles of management executives in preventing and responding to scandals.”

- **Training for Line Management**

Outside guest speakers are retained to deliver compliance training to line managers who guide personnel in daily operations. The program has trained about 740 persons since 2006.

In 2016, the goals of the program were established as:

- (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 training covered characteristics of workplaces in which compliance violations are likely to occur and considering the points of preventing compliance violations from the perspective of case studies and self-esteem to learn about the importance of workplace culture.

■ Compliance training results

Position	Participants
IHI Corporation executives	28
IHI group executives	27
Managers at IHI Corporation and group companies	40
Line managers	73

Corporate Ethics Month

October is designated by the Japan Business Federation (Keidanren) as the month for improving corporate ethics. In October 2016, IHI's president and CEO responded to the federation's initiative by sending the following message to officers and employees: "In our pursuit of sustainable growth and enhanced corporate value, it is essential that we gain the trust of society through ethical conduct. I ask all those in positions of responsibility within the organization to lead by example and directly evaluate how people are doing and how work is progressing in their teams, and then implement any necessary measures regarding corporate ethics and compliance."

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.

■ Plans for FY2017

IHI's compliance activity policy for 2017 asks every employee to take note of certain fundamental concepts when engaging in compliance activities:

- (1) Society is constantly changing. While taking that into consideration, practice the following from the viewpoint of society:
 - observe rules
 - be honest
- (2) It is people that create an organization. Respect each other to promote good communication, and build positive working environments that allow anyone to promptly discuss any concerns.
- (3) Managers' awareness and behavior greatly impact the workplace. They shall be good role models for subordinates, show healthy attitudes, and lead to resolve problems promptly.

Each organization identifies potential issues and develops action plans in accordance with changes in the business environment. Thereafter, they ensure that action plans are carried out, monitor achievement, and make evaluations. Further improvement measures are studied, and the PDCA Cycle is repeated.

IHI also continues to enhance its overseas internal whistleblowing system for stronger global business management.

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, export controls have never been more important. In response to this environment, IHI has focused on compliance with competition law, anti-corruption law and the IHI's own compliance measures for export 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 FY2016.

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 FY2016.

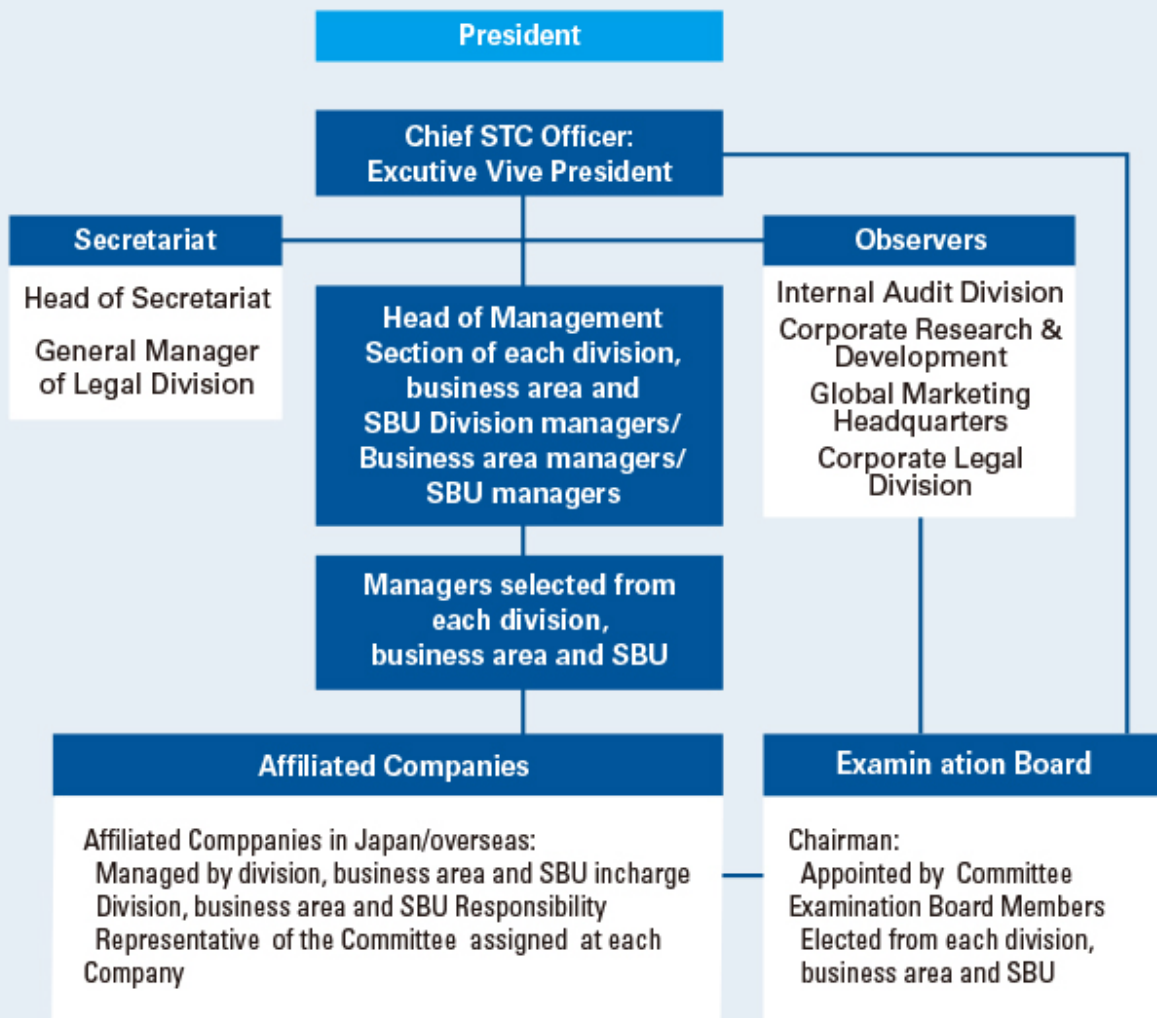
Export Control Compliance

To manage export control, IHI has internal regulations and an Export Control Committee to ensure compliance with Japan's Foreign Exchange and Foreign Trade Act and related risk-management requirements.

The committee is comprised of a chairman (representative director), secretariat (Legal Division), members (people in roles of responsibility selected from each division, business area and SBU), and examiners. In the case of international transactions, the committee 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.



■ Topics in 2016

In 2016, IHI began full-fledged efforts at overseas bases to roll out training and awareness-raising activities concerning compliance with competition law and prevention of bribery, including the organization of training sessions for affiliates in the U.S. and Thailand.

■ Plans in FY2017

IHI will continue providing education to ensure that employees comply with all laws and rules related to competition, anti-bribery and export controls.

Risk Management

Basic Policies for Risk Management

IHI group recognizes risk management as a top business priority and strives to strengthen it.

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

1. Ensure the continuity of the IHI Group's business operations
2. Improve the public reputation of the IHI Group
3. Protect the IHI Group's managerial resources
4. Avoid jeopardizing stakeholders' interests
5. Achieve prompt recovery from damage
6. Take responsible action when risk event occurs
7. Meet social request regarding risks

Risk Management System

The chief executive officer (CEO) of IHI is responsible for implementing the company's risk-management system. The Risk Management Conference controls risk-management activities under the leadership of the CEO as its director.

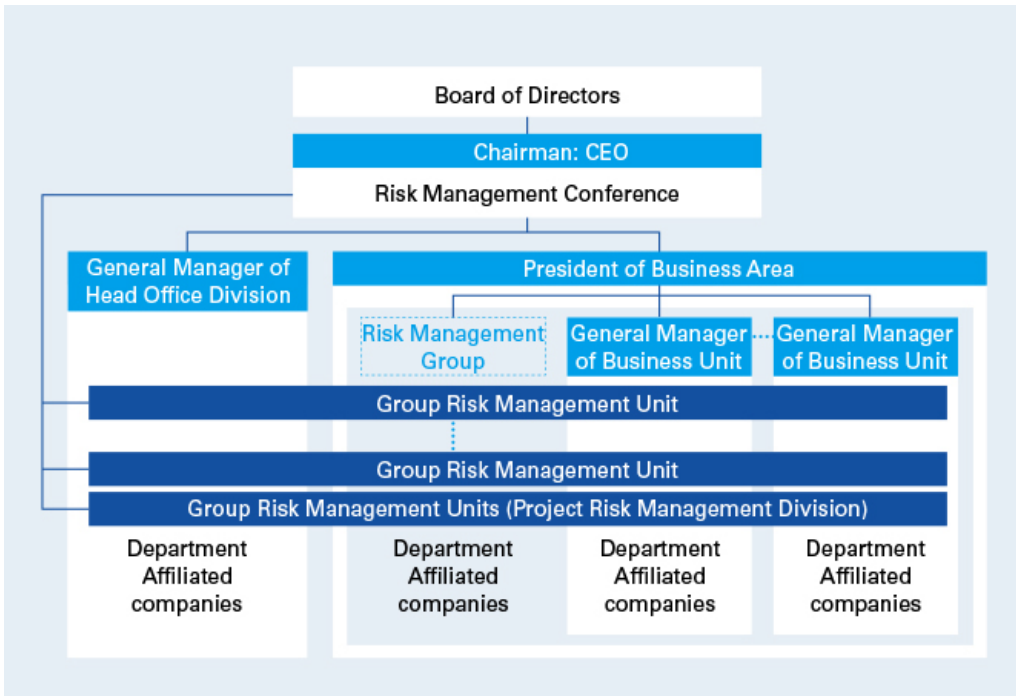
The Risk Management Conference identifies key risks, and sets out the Key Policies on IHI Group's Risk Management. IHI's head office, business areas, business units, and affiliated companies establish their risk-management plans based on the policies and their individual business plans, assessing and reporting the achievements to the Risk Management Conference annually. Corrective actions and management improvements are reflected in the following year's plans.

Regarding commonly existing risks in the IHI Group, the Group Risk Management Units take responsibility for supporting each division, as well as monitoring the implementation of the rules and developing effective risk management measures.

The Internal Audit Division conducts audits to determine the status of the Group-wide risk management system, and orders correction as needed.

To further strengthen risk management, IHI established a Project Risk Management Division at its headquarters and Risk Management Arms within each business area in FY2017. Through collaboration between these organizations, IHI has established a system that facilitates the efficient risk review and monitor of large-scale orders and investments.

■ Risk Management System



As of April 1, 2017

■ Topics in FY2016

The main activities in FY2016 were as follows.

1. Prevention profit deteriorations of large-scale projects

In 2016, profit deteriorations occurred in some large-scale project. It was found that the project's initial plan flaws were major reasons for the deteriorations, so the following corrective actions have been implemented since 2016: (1) risk identification for machinery or project with no or little experience; (2) project review by certificated experts; and (3) technology, project resources and contract review especially in new field business. Risk management systems for ongoing projects were also strengthened to detect and cope with project performance decline immediately.

2. Improvement for quality management and operation system

Led by the Monozukuri System Strategic Headquarters (established in FY2015), IHI promoted the restructuring of its quality assurance system. Quality compliance issues were revealed by companywide inspections, and deployed to our group companies with corrective activities. They have improved the Quality Management System and QMS activities (education & training, supplier evaluation/reviews, other reviews, and standardization). In addition to the enhancement of the auditing system, they have also focused on quality management including joint ventures and procurements. IHI group is taking continuous actions to strengthen IHI's monozukuri (precision manufacturing) capabilities.

3. Implementation of large investment review system

In regards to large investment projects of IHI group companies, the review board inspected validity of the plans, confirmed the progress regularly and conducted tollgate review under the new review-system.

4. Reformation of workstyles

The effectivity of working hour management was assessed by monitoring monthly hour data. In addition, the policy on overtime work was deployed to each division as well as the measures for its reduction. In response to recent government initiatives relating to extra-long working hours, We are working on the eradication of long working hours, by improving productivity through work-style reforms.

5. Occupational safety and health

To eliminate accidents and enhance occupational health and safety levels, IHI group is carrying out the prevention of recurrence of the accident thoroughly, and identifying the potential hazards through risk assessment.

■ Key Policies for Risk Management in FY2017

The deteriorating profitability of certain large-scale projects and affiliated companies pushed IHI business results below expectations in FY2016. In terms of safety, we were unable to achieve zero accidents within the IHI Group. To minimize such risk and respond appropriately when risks do arise, the company is taking steps to reinforce its risk countermeasures based on past experiences. IHI is focusing on the following risk activities in FY2017.

1. Thoroughly manage safety
2. Ensure profitability through steady implementation of large-scale project and risk-management system
3. Reform quality and operational systems
4. Reform workstyles to shorten working hours for employees
5. Respond to changes in business and competitive environment
6. Ensure appropriateness of large-scale investments
7. Respond to risks in execution of global strategies
8. Strengthen compliance
9. Prevent leaks in trade secrets, personal information and key technologies
10. Ensure information security
11. Strictly comply with environmental laws and regulations
12. Prevent disasters and accidents
13. Recover trust of stakeholders
14. Promote diversity
15. Prevent harassment
16. Promote human rights education and awareness activities

Project Execution System

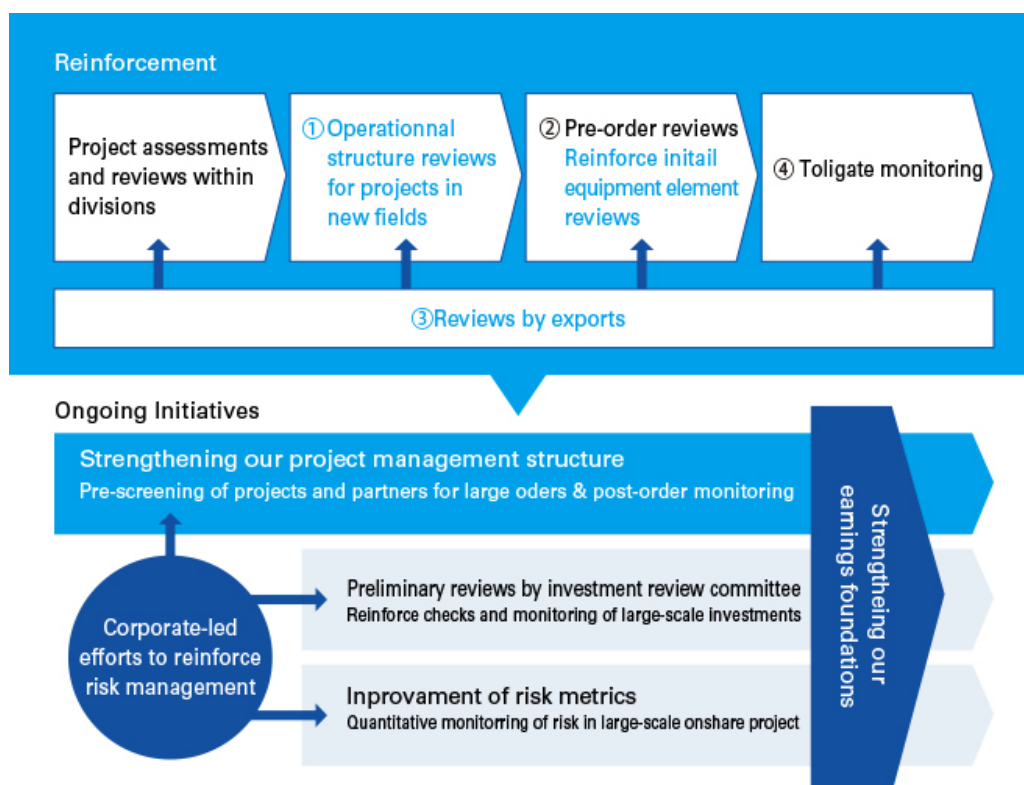
Establishment of Project Risk Management Division

After recording significant losses in large-scale projects between FY2014 and FY2016, IHI strengthened its risk management system by establishing the Project Risk Management Division in April 2017. This division analyzes the potential risks of large-scale projects and investments to ensure consistent and profitable implementation. It was established by consolidating functions for pre-bid assessments and ongoing-project monitoring, which had been separated. The consolidation has made it possible to strengthen ongoing project monitoring with awareness of risks identified during pre-bid assessments, and then reflect lessons learned during monitoring when conducting other pre-bid assessments. The result has been a more robust risk-management system.

Strengthening our review process for large-scale projects

To strengthen its project-review process, IHI is working to thoroughly and rigorously review and identify risks and other aspects of projects and equipment for which it has no prior experience, recognizing that failure to do so in the past led to losses. Efforts are also being made to improve the accuracy of estimates and strengthen monitoring structures. Visualization of project progress and review by key experts at each stage is expected to help ensure steady implementation of large-scale projects and avoid declines in project profitability.

■ 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 (estimate creator), etc. 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.

Project Auditing System

The Project Risk Management Division evaluates large-scale 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 FY2016, 89 projects worth about 15% of consolidated sales were being audited. Large-scale projects undertaken either in Japan or overseas are audited for:

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

For projects that either are worth large amounts or are turning unprofitable, the Project Risk Management Division goes on-site to verify the state of progress and holds discussions with personnel in charge. The division strives to quickly detect and correct factors leading to declines in project profitability, as well as to support unprofitable divisions. In addition to seeking solutions to unfavorable situations, it shares feedback and works to improve the accuracy of profitability estimates for future projects.

When preparing estimates for large-scale projects, a project-execution risk-screening process is implemented to verify execution systems, the validity of the execution plan and the profitability of the project. Continuous follow up is carried out to maintain profitability after any project is acquired.

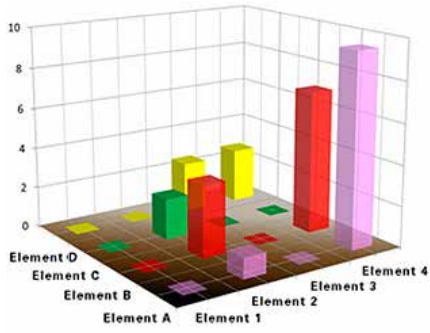
To ensure both adequacy and timely rectification, audits and risk assessments of construction projects are done repeatedly, including locally, and efforts are made to further enhance auditing quality. Each division's activities are independently audited and evaluated. Prior to an audit, the division is notified of the items to be reviewed, and upon completion of the audit the results are communicated throughout the IHI Group. In some cases, the results are used as case studies for training purposes.

*Note:

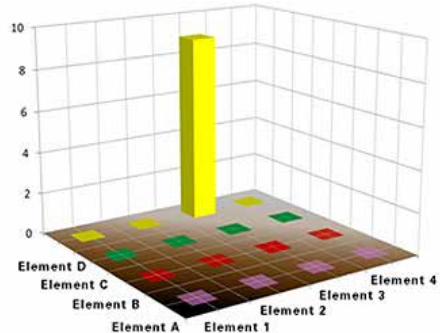
For large-scale construction projects that span more than one accounting period, rather than recognizing revenue after construction is completed, it is recorded as a per-year amount in line with the progress of work.

■ Activities in FY2016

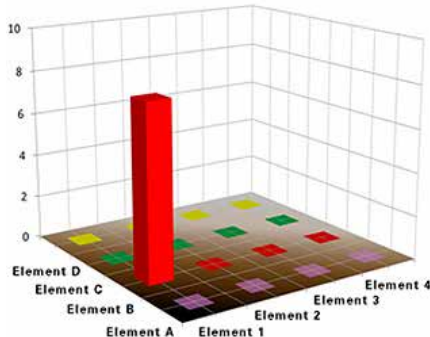
IHI continue analyzing cases of declining profitability by facility type, including the configuration of equipment facilities or units where such declines occur. Going forward, this analysis and giving feedback to business operation division are expected to help prevent losses in projects, including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



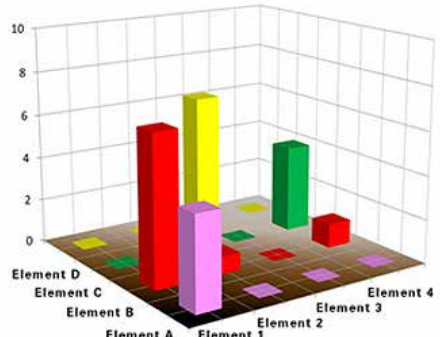
Division A



Division B



Division C



Division D

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.

■ Topics in FY2016

In December 2016, IHI earned a Resilience Certification to acknowledge its achievements in strengthening business continuity and thereby contributing to Japan's resilience against disasters.

The certification system is based on guidelines stipulated by the Japanese government to promote a more resilient nation.

Since FY2016, IHI has carried out activities under a new three-year disaster-prevention plan aimed at improving company resilience, with an ultimate aim to become the most disaster-prepared organization in Japan.

IHI will continue ceaselessly to improve its disaster preparedness, mindful of its responsibility as a corporation supplying critical infrastructure both in Japan and around the world.

Pocket-sized disaster-prevention card distributed to all employees



Maintaining and Improving Information Security

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 FY2016, 98.5% 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 2017, IHI has not reported any leaked information or related damage.

Information Security Management System

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 48 Group companies was conducted in FY2016, followed by interviews of five 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.

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

■ Topics in FY2016

In accordance with two sets of rules—the Information Security Policy for the IHI Group formulated in 2015 and the Basic Rules on Information Security for the IHI Group—we built frameworks for information security and promoted related activities, including for affiliate companies within Japan and abroad. Thirteen overseas companies were educated about information security via e-learning.

■ Plans in FY2017

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 protect Group IP while respecting the rights of third parties.

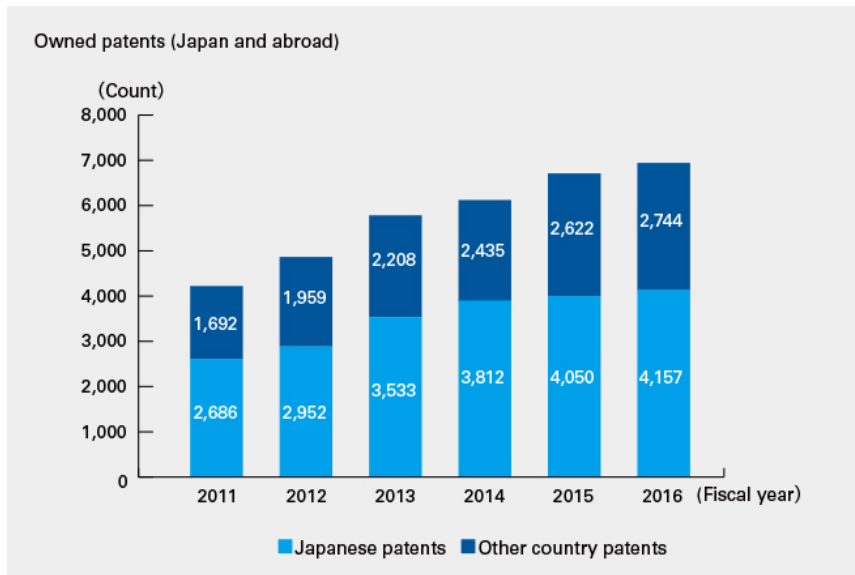
To protect its technologies and trade secrets, the company is strategically managing business and product IP through rights acquisition and confidentiality measures.

IP Protection and IP Rights of Third Parties

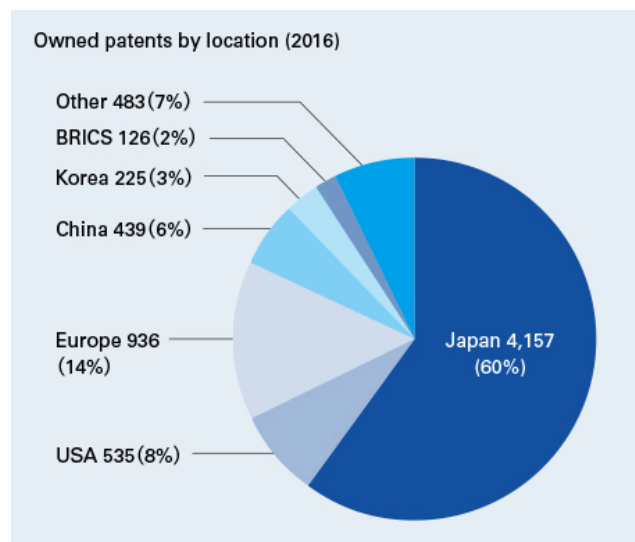
IHI views both foreign and domestic patent applications as being equally important. Patent applications filed by IHI outside Japan have increased along with expanding global business.

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 (FY2016)



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 2016, 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 FY2016

Efforts to realize targets under Group Management Policies 2016

To strengthen earnings, one of the targets of Group Management Policies 2016, strategic activities regarding intellectual property were carried out. An increasing number of patents related to global business were filed abroad and IHI's IP portfolio was strengthened with a view toward rights utilization. Also, protection of IP rights was strengthened and business risks for the overall Group were mitigated.

■ Plans in FY2017

In 2017, with the aim of increasing incentives for inventors and further utilizing IP rights, IHI revised company rules relating to the handling of IP rights in July. The company is focusing on IP utilization not only in terms of quantity but also quality, and further strengthening strategic IP activities suited to each IHI business in order to achieve the targets of Group Management Policies 2016.

SUSTAINABILITY REPORT 2017

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Offering maximized value to Customers

Message from the General Manager of Sales Headquarters



Atsushi Kuwata

Director,
Managing Executive
Officer,
and General Manager of
Sales Headquarters,

This fiscal year, the foremost priority for IHI salespersons is to understand where customers are heading and try to add value for realization of Customers' goals. The aim is to improve customer satisfaction by responding to their needs, specifically by moving beyond the perspective of selling things to achieve the bigger target of deeply understanding customers' mid-to-long term goals and strategies and then offering them maximized value by leveraging IHI's technical capabilities.

To improve customer satisfaction, we have established the below four guidelines to reform our mindset, ultimately to achieve our sales and profit targets:

1. Go beyond the mindset of selling "things" and adapt accordingly
2. Accelerate sales by removing barriers between domestic and overseas operations
3. Roll out activities to increase IHI fans respectful business activities
4. Nurture sales personnel who can be trusted by customers

Initiatives to Improve Customer Satisfaction

IHI provides education and training to ensure that personnel fundamentally understand sales principles, methods, etiquette, courtesy and so forth, as well as to enforce quality control in business divisions and enrich product safety. Companywide rank-based training and other programs are conducted regularly for each business division.

Each year, new sales personnel are trained in the importance of developing a customer-oriented mindset in terms of both attitude and concrete action. This fiscal year, four cumulative days of training were held for approximately 60 salespeople, including new hires and transferees. In addition to studying practical sales tasks, the participants learned about sales concepts through lectures by sales executives and senior staff members and panel discussions among divisional general managers of sales. Moreover, factory training in each business division instructed participants about IHI's "monozukuri" precision manufacturing, product cost structures and safety, and the importance of compliance. As can be seen, multifaceted training programs were deployed to improve customer satisfaction.

Improve Quality

IHI satisfies customers and gains their trust by leveraging technology to offer safe, useful products and services that meet real needs in society.

The Quality Committee, which comprises representatives from Group companies, meets regularly to discuss quality issues. In FY2016, efforts were focused on restructuring quality-control processes, strengthening the quality-auditing system and strengthening operations that support quality.

To restructure quality-control processes, manufacturing processes were broken down into detailed flow charts to understand each process again and to support risk assessments. The assessments involved people not only from manufacturing, but also production engineering, design and purchasing divisions. Improvements were made and shared both on an individual and operational level.

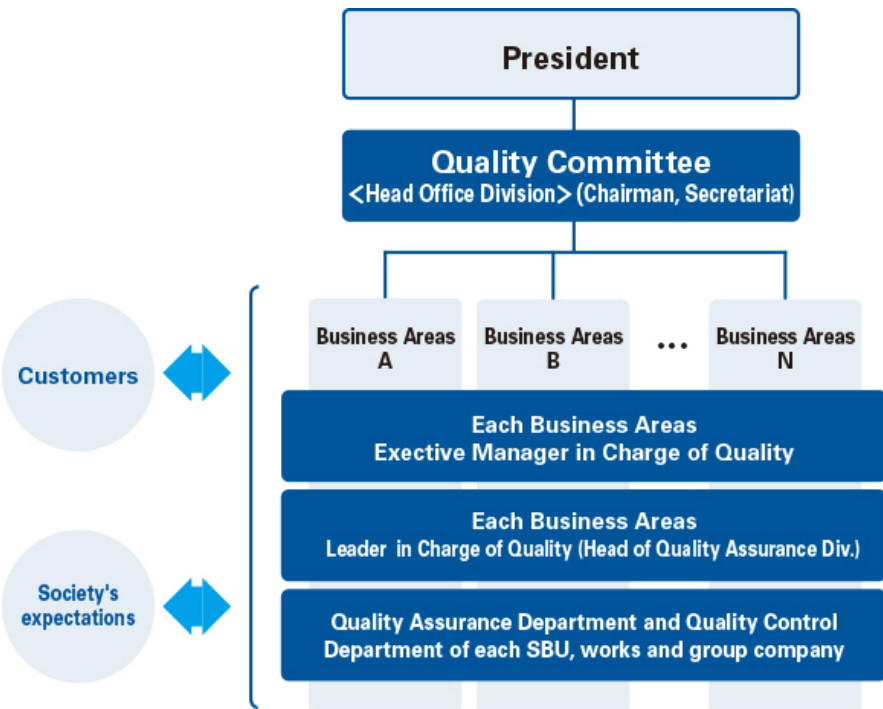
For strengthened auditing, IHI participated in the internal audits of multiple affiliate companies to evaluate overall management and quality systems and to share best practices and learnings regarding auditing subjects and procedures. Also, group-wide training was held for just under 500 internal auditors.

For quality-related operations, we identified key needs to be shared horizontally, including identifying defective products due to non-compliant welding, heat treatment, painting, etc. that occurred in the previous fiscal year and eradicating inconsistencies between actual work and work procedures. Each business division addressed such issues by making necessary revisions in their rules, procedural manuals and quality control process charts for use on shop floors and at training programs. The effectiveness of these revisions were evaluated in meetings and internal audits of quality-management systems, and various related issues also were addressed.

Each business division is responsible for its own quality-assurance and quality-control activities.

The Quality Committee reviews the results of measures taken by the divisions, as well as any related themes and ensures that knowhow is properly applied 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.

Quality Assurance Promotion Diagram



As of April 1, 2017

Quality Management Systems

Business divisions adopt quality management systems including ISO9001. Certification bodies conduct annual monitoring to determine if these systems are working and if there are opportunities for improvement. IHI's 31 affiliated companies and divisions in Japan and 35 affiliates overseas engaged in design, manufacturing or services have obtained quality certifications including ISO9001.

In FY2016, there was no case of a product or service being in serious violation or non-conformity with quality rules or regulations.

In line with the cutoff date of September 2018 for migrating to ISO9001:2015, business divisions with ISO9001 certification either completed restructuring of their quality management systems or are in the process of doing so. A training course relating to this migration was established in FY2016 and held for nearly 400 employees on approximately 20 occasions.

Employee Training and Education

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

Training for new employees includes etiquette and product-quality courses covering theoretical and practical elements to instill a customer-oriented mindset. Training for second-year employees includes lectures on quality and intellectual property rights. Third-year employees learn about safety and engineering ethics. Midlevel employees are trained in manufacturing technology. Such training was also carried out for IHI Group companies, where more than 400 people completed each course. Additions made last year included a seminar for third-year employees to refresh their awareness of quality management and product safety. Also, a seminar was held for new foremen and assistant foremen of manufacturing section regarding solving problems and overcoming quality management challenges. About 200 people participated in the former and some 100 people in the latter.

In FY2016, five seminars on quality and product safety were held on 13 occasions for some 200 participants.



3rd-year employee training on quality management and product safety



Task leader training on problem-solving using QC techniques

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 FY2016, there was no serious accident involving any product.

■ Activities in FY2016

Group Achievement Awards from National Aeronautics and Space Administration (NASA)

NASA presented Meisei Electric, an IHI Group company, with a Group Achievement Award for its DIS (Dual Ion Sensor) ion observation equipment. Development commenced in 2008 as a joint project between Meisei Electric, NASA's Goddard Space Flight Center (GSFC), the Southwest Research Institute (SwRI) and the Japan Aerospace Exploration Agency (JAXA).

NASA's Magnetospheric Multiscale (MMS), a satellite to observe Earth's magnetosphere, launched from Cape Canaveral in March 2015, is using 16 of these devices for stable, high-quality data observations.

MMS is the first satellite used to achieve electronic kinetic observation of magnetospheric plasma with both temporal and spatial resolution. Meisei Electric will continue contributing to research in this field.



Group Achievement Awards received from NASA

Certificate of Appreciation from Hokkaido Gas Co., Ltd.

In October 2016, IHI's Process Plant SBU received a Certificate of Appreciation from Hokkaido Gas for leveraging its extensive experience and technologies to complete the construction of the second storage tank at Hokkaido Gas's Ishikari LNG terminal, working under the general contractor Tokyo Gas Engineering Solutions Corporation.

Much of the natural gas consumed in Hokkaido is shipped from the Ishikari LNG terminal, which is the region's only large LNG import terminal. The second LNG storage tank will enable flexible responses to Hokkaido's expected increase in natural gas demand as well as help to diversify LNG procurements. As such, it will support life in Hokkaido by contributing to the stable operation of the Ishikari LNG terminal.

IHI will continue contributing to sustainable societies by leveraging technologies that support the stable supply of clean energy.



Certificate of Appreciation from Hokkaido Gas Co.Ltd

Certificate of Appreciation from Tohoku Electric Power Co., Inc.

In November 2016, IHI's Process Plant SBU received a Certificate of Appreciation from Tohoku Electric Power for applying its installation capabilities and cutting-edge technologies to complete the construction of LNG import terminal facilities including an LNG tank and LNG vaporization equipment. The work was part of an LNG fuel equipment installation project being carried out at the Shin-Sendai Thermal Power Plant's Unit 3.

IHI applied its JCM method for the first time to shorten the LNG tank's construction period and meet the expectations of Tohoku Electric Power, which is helping to reconstruct the Tohoku region following the 2011 Great East Japan Earthquake.

Tohoku Electric Power received the Edison Award for the Shin-Sendai Thermal Power Station's

Unit 3, which will help advance the region's electric power industry as a leading example of post-earthquake reconstruction and development.

IHI will continue leveraging technologies to support safety, quality and reduction of environmental burdens.



Certificate of Appreciation from Tohoku-Electric Power Co., Inc.

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 FY2016, no violation of any law or regulation applicable to advertising or publicity public relations was reported.

Together with Shareholders and Investors

Message from the General Manager of the Public Relations/IR Department



Takayoshi Shirai

Associate Director
General Manager of
the Public Relations/IR
Department

IHI carries out IR activities to strengthen its relationships of trust with shareholders and investors, and ultimately to improve corporate value. In addition to meeting the core needs of timely and appropriate information disclosure, we work to fulfill our responsibilities to shareholders and investors by providing swift and accurate response to their inquiries.

The Public Relations/IR Department provides briefings or telephone conferences to institutional investors every quarter to explain IHI's financial reports, performance and so forth. Audio and video recordings of these meetings are uploaded to IHI's website on the same day to allow all shareholders and investors to stay informed.

Many other opportunities for direct communication with Japanese and overseas institutional investors are created through one-on-one interviews, visits and so forth, thereby enabling them to deepen their understanding of IHI.

Moving forward, we will continue to enrich our communication with shareholders and investors.

Basic policy

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.

System for promoting dialogue

The director responsible for the Public Relations Division oversees investor relations (IR) activities, while the director responsible for the Administration Division oversees shareholder relations (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.



IHI Integrated Report 2017

Dialogue with shareholders

Guided by above basic policy, IHI pursues IR and 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.

Communication with Overseas Investors

IHI's proactive IR activities are deploying increasingly diverse communication channels, including direct meetings, investor conferences and one-on-one interviews. In FY2016, as in the prior year, IHI managers travelled to North America, Europe and Asia to strengthen relationships with institutional investors. Many investors expressed satisfaction with our briefings, providing feedback such as "It was good to receive explanations directly from top managers" and "The detailed explanations enabled me to learn more about IHI's business."

Also during the year, investor conferences, one-on-one interviews and other methods were implemented to communicate with some 170 foreign institutional investors.

■ Activities in FY2016

Plant tour for shareholders

To win the long-term trust and affection of shareholders, IHI organized a tour of its Yokohama Works for shareholders under a new initiative called the Information Delivery Service. Showing shareholders where IHI develops its products and technologies enables them to sense firsthand our monozukuri (precision manufacturing) capabilities and our connection with society. The plant tour will be held again in FY2017.



■ Plans in FY2017

FY2017 is the second 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.

Together with Business Partners

Message from the General Manager of Procurement Strategy Planning Division



Nobuko Mizumoto

Managing Executive Officer
General Manager of Procurement Strategy Planning Division

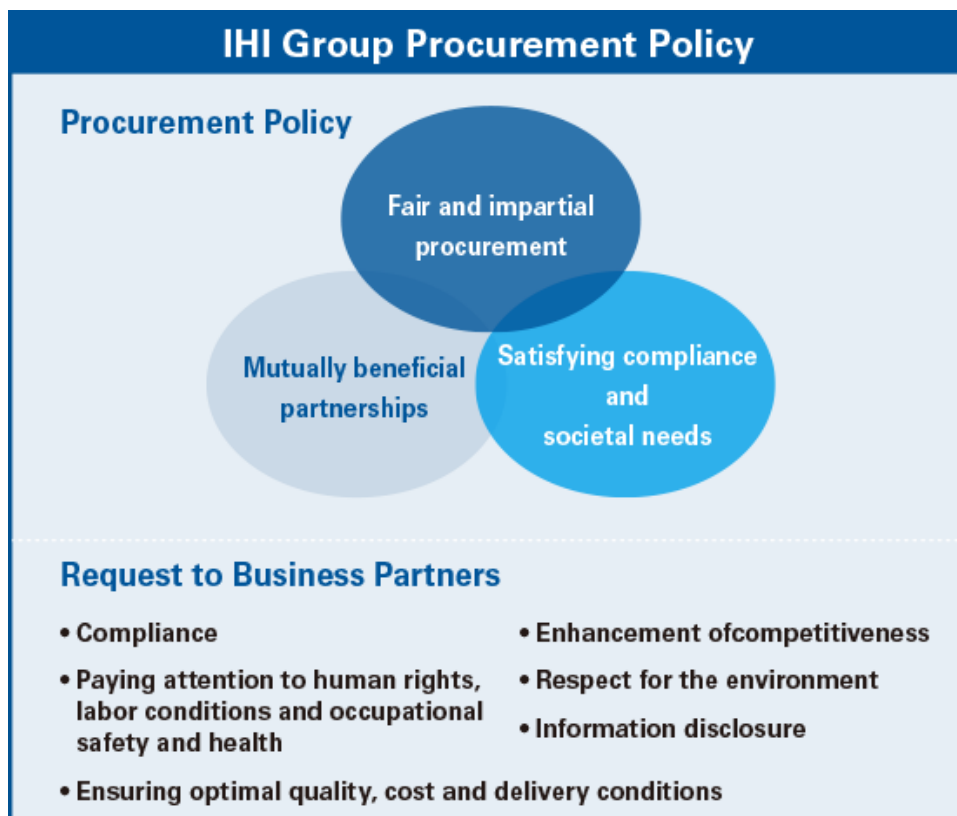
IHI's Group Procurement Policy is based on three core principles — fair and impartial procurement, mutually beneficial partnerships with business partners and satisfying compliance and societal needs.

The procurement of materials or equipment involves not only compliance with legal requirements but also consideration of human rights, the environment and conflict minerals*. In addition to education for employees, IHI also satisfies societal demands by sharing information with suppliers for beneficial coexistence and co-prosperity.

* Minerals from conflict regions that, if purchased, sometimes result inadvertently in funding armed insurgents or fueling regional disputes.

Basic Policy

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.



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.

Mutual Prosperity 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.

Responsibilities regarding Business Partners

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.

Together with Suppliers

IHI promotes enhanced collaboration by awarding suppliers who produce particularly outstanding accomplishments. In FY2016, we presented Tata Steel (Thailand) Public Co., Ltd. with an award of appreciation. Tata is a partner that supplies IHI with materials for plant construction. We recognized Tata for helping us to enhance a plant-construction project by providing high-quality products and flexible deliveries tailored to the project's progress.



Award ceremony in Bangkok
Tata Steel (Thailand) Public Co., Ltd.

Initiatives for Legal Compliance

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 FY2016, 122 employees attended the Subcontractors Act course and 87 took part in the Construction Business Act course.

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.

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.

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 since FY2014.

Some 4,900 IHI group employees involved with procurement have taken e-learning courses on responsible procurement to learn about topics including Japan's Subcontract Act and the UK Modern Slavery Act.

We will intensify efforts to raise awareness of responsible procurement, confident that these measures will help to improve the competitiveness and prosperity 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.

Response to UK Modern Slavery Act

Some 4,900 IHI Group employees involved with procurement have taken e-learning courses on responsible procurement to learn about topics including Japan's Subcontract Act and the UK Modern Slavery Act.

We will continue to raise awareness of responsible procurement within the IHI Group companies.

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.

■ Activities in FY2016

Deployment of Basic Procurement Rules

In addition to deploying our Basic Procurement Policy, in April 2017 we publicly announced our Basic Procurement Rules for fair and impartial procurement, mutually beneficial partnerships with business partners, and observance of compliance and social needs in work processes.

To deploy these rules throughout our global operations, we held briefings for overseas affiliates at our overseas procurement bases in Shanghai, Singapore, London and New York, and communicated the importance of compliance in procurement to employees throughout the IHI Group companies.

Moving forward, we will continue to effectively govern procurement and increase awareness within our Group.

Developing Global Procurement Professionals

To develop global procurement professionals, IHI accepts local employees of overseas affiliates for training in Japan and provides employees of affiliate companies in Japan with training in overseas procurement.

In FY2016, IHI Headquarters received one trainee from Thai affiliate IHI Asia Pacific Pte. Ltd. (Thailand), who completed a year-long OJT program related to procurement.

IHI Headquarters also received three trainees from Japanese affiliate Paul Wurth IHI, who completed a six-month OJT program on overseas procurement.

We will continue group-wide efforts to develop procurement professionals who can operate on a global level.

■ Plans for FY2017

IHI will provide group companies in Japan and overseas with additional 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.

Together with Local Communities

Message from the General Manager of Administration Division

Communicating with host communities



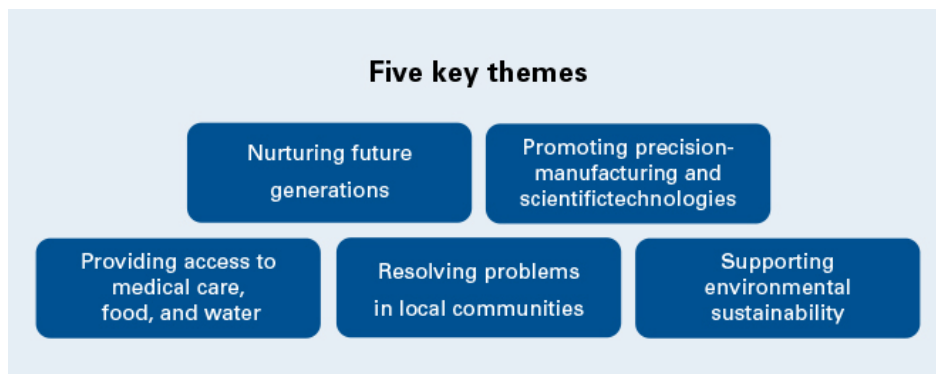
Director
Executive Officer
General Manager of
Administration Division

Kazuki Awai

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.

Basic Policy

Meeting society's expectations: IHI aims to meet society's expectations not only through its business, but also through five categories of activities focused on society.



■ Total spending on social contributions in FY2016: 206 million yen

Nurturing future generations

Lecture for Elementary & Junior High Students

IHI's CSR activities in FY2016 included organizing a lecture on jet engines for around 370 elementary and junior high school students. This lecture featured a video about the history and structure of jet engines, which IHI created in a joint project with Ochanomizu University, and a demonstration of a propeller car. The lecture helped the students understand how interesting science can be and how their studies at school can contribute to society. Feedback included "I learnt a lot about jet engines" and "It made me interested in science."

As a monozukuri (precision manufacturing) company, IHI will continue helping to nurture future engineers.

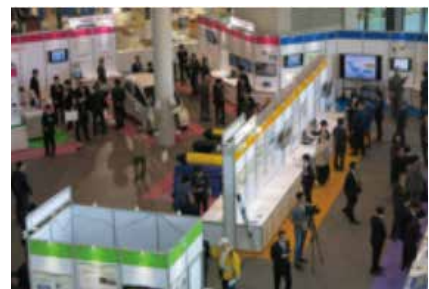


Class in Main Training Hall of IHI Head Office, with Associate Professor Yoshimura of Ochanomizu University on right.

Promoting precision-manufacturing and scientific technologies

IHI Forum 2016

The IHI Forum 2016 presented IHI products and technologies through a seminar and various other events, and also introduced special foods from regions where the IHI Group companies have business. The participants comprised IHI customers, business partners and other diverse stakeholders, including nearby residents and elementary school students, numbering around 7,000 people in total.



Providing access to medical care, food, and water

Participation in WFP's Walk the World

To fight child hunger and malnutrition, IHI co-sponsors the annual Walk the World event of the United Nations World Food Program (WFP).

In FY2016, over 450 employees and their families took part in this charity walk along the Yokohama waterfront. Part of the participation fee and money raised by participants will be used by the United Nations WFP School Lunch Program to support the healthy growth of children in underdeveloped nations and meals at schools.



Walk the World participants (May 2016)

Resolving problems in local communities

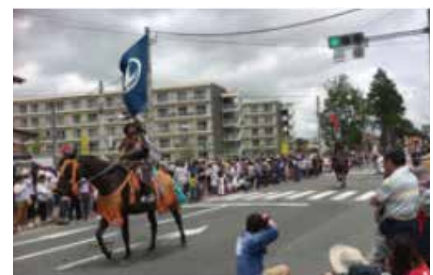
Aioi Pe-ron Festival

The Pe-ron Festival's history traces back to IHI's roots as a shipbuilder, when it used to hold aquatic sports events. Although the festival is now organized by Aioi city, it is still conducted in front of an IHI waterfront factory. The event attracts tens of thousands of visitors each year and IHI sponsors some of the boats that participate in the race.



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.



Wheelchair Basketball

IHI held a wheelchair basketball event in Kure Gymnasium as part of its policy to support socially minded activities. This event attracted around 300 people, including IHI employees, the mayor of Kure city and local residents. The hugely successful undertaking included professional players participating in an exhibition match and forum, a group commemorative photo and more.



IHI Atrium Concert

IHI stages two orchestral concerts for local people of all ages at the company's head office in Toyosu, Tokyo every year. The fourth and fifth concerts were held in FY2016, attracting some 800 people to the former and 1,000 to the latter

Supporting environmental sustainability

Initiatives by Aichi Works → [Environment](#) **P118**

Together with Employees

Message from the General Manager of Human Resources Division



Masato Shida

Associate Director
General Manager of
Human Resources Division

Without the growth of human resources, there would be no growth at IHI.

We are steadily strengthening human resources in keeping with our corporate philosophy of “human resources are our single most valuable asset.”

As our business becomes more globalized, global leader development is also essential. IHI hires outstanding talents worldwide, not just in Japan, and offers employees language and cross-cultural understanding training to strengthen abilities to perform on the global stage.

We are also reforming our work styles as one of a priority issues. In addition to being lean and standardizing tasks, we aim to thoroughly revise our work processes to improve employee productivity. To this end, we are establishing new ICT infrastructure and enhancing our work systems with systems for flexible work schedules and telecommuting. Such measures are helping to reduce work hours and create workplaces in which every employee feels increasingly motivated and empowered.

By creating environments in which diverse professionals can maximize their abilities, we expect to continue growing as a corporate group that values people — our single most valuable asset.

Basic policy

IHI strives to provide its entire workforce with workplace environments where all persons feel respected, welcome, motivated and rewarded.

We believe diversity is important to foster diverse viewpoints and to create the organizational culture of creation and innovation. We are rolling out a broad range of measures focused on women, non-Japanese nationals, people with limited abilities and senior workers, aiming to create workplaces in which people representing widely varying individualities and values can maximize their potential. Moreover, IHI recognizes the sanctity of human rights and endeavors to ensure full respect in all activities at all times.

Group Human Resource Management Policy

To achieve our Group Vision of “Devising reliable and convenient solutions that bring benefit to humanity and the environment as a global company,” we develop supportive systems, workplace environments and a corporate culture that enable employees to realize their full potential while sharing common values.

In 2013, we introduced our Group Human Resource Management Policy for all Group employees. The policy includes measures for realizing ideal human resources by observing the key concepts of “group,” “global” and “diversity” in personnel hiring, deployment, development and evaluation.

Group Human Resource Management Policy

In line with IHI's management principles and Group vision, IHI Group aim to create customer value through using engineering expertise to focus on Monozukuri technology by the following:

1. In order to become an enterprise with distinguished global professionals who strive to excel in Monozukuri Technology and engineering technologies with world-renowned high quality products, ideal human resources shall be enhanced and shall serve as a shared value for employees within the group.
2. Ideal human resources shall serve as the foundation for the establishment of HR management policies in order to provide employees with opportunities for development.
3. Providing 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 Human Resources

- Integrity and Trust
- Innovation and Creation
- World-class Professional

Keywords

- Group
- Global
- Diversity

- For Customers and Society
- Team Work

Workforce Demographics

IHI Group Workforce, by Region

Region	Workforce
Japan	22,752
Asia Oceania	3,856
Americas	1,166
Europe, Middle East & Africa	1,885
Total	29,659

(As of March 31, 2017)

Workforce by Age and Gender (IHI Corporation)

	Men	Women	Total
Under 30	1,810	263	2,073
30 to 39	1,994	302	2,296
40 to 49	2,083	349	2,432
50 to 59	1,168	84	1,252
60 and over	570	7	577
Total	7,625	1,005	8,630

(As of March 31, 2017, Includes regular and rehired employees)

■ Employees by Employment Status (IHI Corporation)

	Men	Women	Total
Regular Employees	7,216	964	8,180
Re-hires	181	1	182
Second by other companies	228	40	268
Constants and contract employees	216	10	226
Part-time employees	83	389	472
Fixed-term employees	56	17	73
Total	7,980	1,421	9,401

(As of March 31, 2017, Note 1,307 part-time workers are excluded above)

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

Less than 3 years with company

	Men	Women	Total
Turnover Rate	4.9%	6.7%	4.2%

(Based on employees who entered IHI in 2014)

Average years of service

	Men	Women	Total
Average Length	15.4year	11.1year	14.8year

(As of March 31, 2017)

Respect for Human Rights

Raising Awareness

IHI corporate philosophy specifies people as IHI's single most valuable asset, a recognition of the importance of human rights. Activities to raise awareness of human rights began in 1981 with the establishment of the company-wide Dowa Promotion Committee. Recognizing IHI's corporate social responsibility, a basic policy was formulated to support fair, nondiscriminatory treatment of human resources, which is now a key aspect of IHI's business.

Each worksite has a local Dowa Promotion Committee based on plans and policies drawn up by the company-wide committee. In light of domestic and international trends and changes in the social environment, these committees undertake education and awareness activities to address a wide range of human rights issues relevant to each workplace, including the treatment of social outcasts. In FY2017, the name of the company-wide committee was changed to the IHI Group Committee for Promotion of Human Rights to recognize the broadening perspective and a group-wide approach of IHI's human rights activities.

Outside Japan, relevant human rights issues include child labor and forced labor, which IHI is addressing from a global perspective.

In this context, IHI's Basic Code of Conduct was amended in 2010 to include respect for human rights as a fundamental principle of the company. Since then, IHI has been implementing various relevant initiatives on an ongoing basis. The activities are reported to executive management, a reflection of their importance to the company. No human rights violation, including the use of child or forced labor, was reported in FY2016.

Human Rights Training

In 2016, 5,187 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.

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 15 non-Japanese employees in 2012, 14 in 2013, 11 in 2014, 9 in 2015, 7 in 2016 and 8 in 2017.

■ Recruitment (IHI Corporation)

	FY2015	FY2016	FY2017
Engineers	204(24)	229(21)	193(19)
Administrative	57(23)	59(19)	52(16)
Total	261(47)	288(40)	245(35)
Foreign nationals in the total above	9(4)	7(2)	8(3)

Women indicated in ()

IHI actively recruits mid-career employees, with 153 such people joining the company in FY2016. 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, 2017, 2.01% 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
FY2013	1.87%	2.0%
FY2014	2.04%	2.0%
FY2015	2.17%	2.0%
FY2016	2.14%	2.0%
FY2017	2.01%	2.0%

(As of June 1 of each year)

Employment from Age 60

In April 2013, IHI revised its re-employment system to allow employees at the age of 59 to decide their retirement age anywhere between 60 and 65.

In addition to complying with Japan's revised Law concerning the Stabilization of Employment of Older People, the system has assured an environment in which people can continue working actively beyond the age of 60. The system was further revised in April 2016, resulting in more than 80% of those aged 59 choosing to continued working.

Recruitment and Promotion of Women

To recruit more women, IHI has developed pamphlets, created a special webpage on the company's website and staged seminars for women candidates. This includes the Technical Recruitment Seminar for Women held on March 14, 2017 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)

FY2013	33(3 technical and 20 administrative)
FY2014	31(11 technical and 20 administrative)
FY2015	47(24 technical and 23 administrative)
FY2016	40(21 technical and 19 administrative)
FY2017	35(19 technical and 16 administrative)

(As of April 1, 2017)

Recruitment Targets for Female University Graduates (IHI Corporation)

	Current [※]	Target
Administrative	34%	35% or above
Technical	10%	10% or above
University Graduates	15%	15% or above

*Average of last three years

IHI has taken constructive steps to create work environments based on workforce diversity and helping individuals to reach their potential.

For example, in 2012, training was introduced for 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 and in 2017 workshops, seminars and other activities were launched for a total of 12 women. One training program has provided seminars for women in managerial positions since 2013 and their superiors since 2014. At these events, female executives from diversity-minded businesses 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 interviews the candidates' superiors.



Panel discussion at seminar on promoting female roles in the workplace

Percentage of Women Managers (IHI Corporation)

	April 2015	April 2016	April 2017
Total managers	2,847	2,630	2,626
Woman managers	60(2.1%)	66(2.5%)	68(2.7%)
	Division managers:14	Division managers:19	Division managers:21
	Section managers:46	Section managers:47	Section managers:47

Note: Figures in parentheses show female percentages. Transferred managers included. Intragroup transfers not included in 2016 figures. Directors not included.

Targeted Percentage of Women Managers (IHI Corporation)

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

Number of Woman Directors (IHI Corporation)

	2020 Target
Number of Women Directors	1 minimum

Note: As of April 1, 2017, IHI had one female executive officer and one female external auditor.

Locally Hired Employees of Overseas Affiliates

Based on the Group Human Resource Management Policy stipulated in Group Management Policies 2013, IHI actively hires capable individuals regardless of gender, educational background, age or nationality, aiming to promote the diversity and global capabilities of its workforce. To achieve ideal human resources, as identified in the Group Human Resource Management Policy, each overseas base recruits candidates relative to the respective country's labor market and customs.

Since FY2014, IHI has conducted training to develop local managers at overseas bases, expanding such training in China and the Asia Pacific region in FY2016. In the past three years, 40 employees in China and 62 in Asia Pacific have completed such training. We will continue working to develop local personnel to manage business in each country.

■ Locally Hired Managers

Company	Managers
ICL	1
IHIAP*	10
IHI INC.	9

*IHIAP includes IHIAPT.

■ FY2016 Topics

IHI offers various initiatives to help employees return quickly and smoothly after childcare leave and to balance work and child-raising.

In May 2017, an external consultation service called "Child-care Advisor" was established in addition to an existing internal consultation service. Child-care Advisors are specialists who advise on topics ranging from searching for childcare services to general child-raising concerns. Preparations for new internal childcare centers began in FY2016 and were completed at Soma Works in May 2017 and Mizuho Works in August 2017.

Moving forward, IHI will continue to ensure its work environments support work-life balance.

Creating Better Workplaces

Ensuring employee safety and well-being is an important issue for IHI.

Safety, hygiene and health issues across the group are reported to the Board of Directors every month.

Moreover, IHI takes constructive steps (managing workplace safety, hygiene and risk, providing mental healthcare, preventing harassment, building feelings of trust with labor unions, etc.) to create workplace environments where all group employees feel respected, welcome, motivated and rewarded, and can exhibit their full potential.

Health and Safety Management

IHI emphasizes health management because it believes that a satisfying and fulfilling work environment improves productivity. Currently, 12 full-time industrial doctors and about 45 full-time health nurses are supporting the management of IHI employees' physical health and mental healthcare.

Mental health education includes both remedial aftercare for people with mental illnesses and preventative measures promoting mental toughness. Everyone from senior managers to new employees is targeted as part of nurturing a robust workforce and pleasant work environment through various programs for mental health.

Additional measures address health issues such as metabolic syndrome, smoking and other unhealthy lifestyles.

■ Health management data (IHI Corporation)

	FY2014	FY2015	FY2016
Employees with negative diagnosis in one or more categories	64%	63%	65%
Need special healthcare guidance (metabolic syndrome)	20%	20%	20%
Smokers	27%	26%	26%

IHI is committed to eradicating work-related accidents and has established five group-wide safety principles as the basis for doing that.

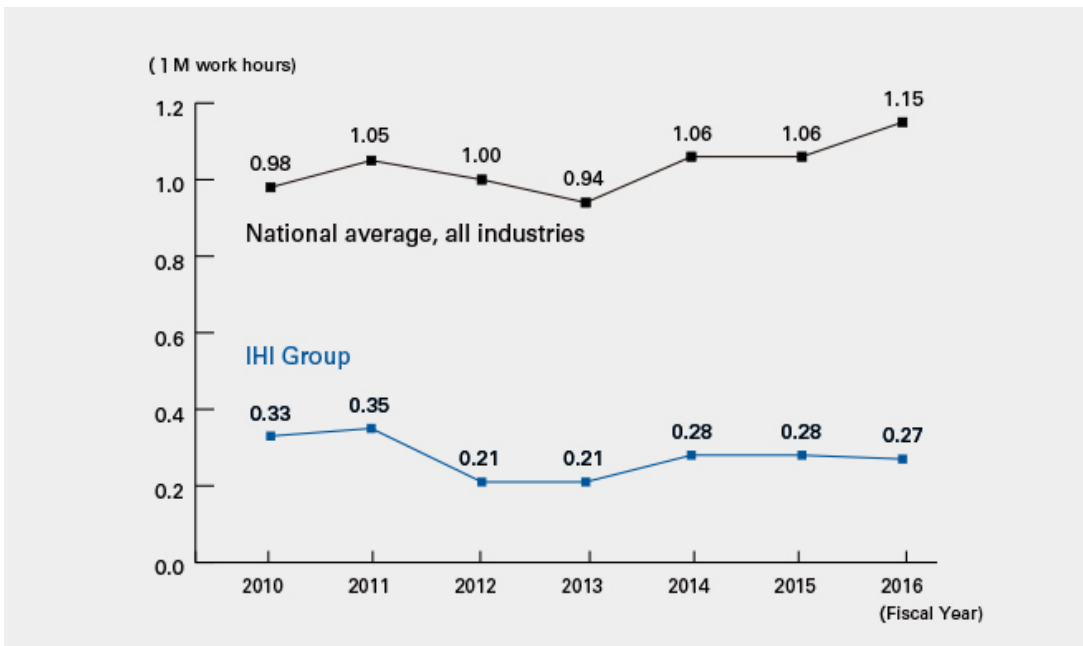
At factories and construction sites, risk assessments are implemented to identify and mitigate potential hazards via strict verifiable countermeasures. Moreover, regular safety training is provided not only to supervisors, leaders and site managers but to all employees as well, in order to make workplaces accident-free. Support is also given to outside contractors at IHI work sites to raise the level of their safety management and, together with IHI, keep the work site safe.

Our health and safety initiatives are based on a logical and far-reaching occupational health and safety management system.

【5 Safety Principles】

- Give first priority to safety over everything.
- Don't do or make others do dangerous work.
- Take measures to prevent accidents in advance.
- Observe safety regulations.
- Our own efforts prevent accidents.

IHI Group Work Hours Lost to Injuries



Promotion of Work-Life Balance

Besides providing workplace environments that make jobs motivating and rewarding, IHI is always improving and adding programs and systems to help employees balance their professional and personal lives. For example, the company offers flexible working hours, encourages employees to use paid holidays to take longer vacations, allows employees to take time off for childcare and nursing obligations, and requires worksites to shut down at certain times.

Employees with reduced work hours (IHI Corporation)

FY2012	130
FY2013	137
FY2014	151
FY2015	145
FY2016	149

Employees who utilized childcare leave (IHI Corporation)

FY2012	406
FY2013	420
FY2014	400
FY2015	622
FY2016	674

Employees who utilized nursing-care leave (IHI Corporation)

FY2012	5
FY2013	3
FY2014	2
FY2015	8
FY2016	11

Employees Who Took Childcare Leave and Returned to Work (IHI Corporation)

FY2012	101 (95% returned)
FY2013	89 (100% returned)
FY2014	92 (100% returned)
FY2015	82 (100% returned)
FY2016	89 (100% returned)

■ Average leisure holidays acquired (IHI Corporation)

FY2012	16.14 days
FY2013	16.27 days
FY2014	16.02 days
FY2015	15.92 days
FY2016	16.50 days

Each year, IHI formulates a working-hours policy to promote a healthy work-life balance, by limiting non-essential overtime. The key initiatives under that policy are to promote work efficiency and delegate tasks among employees. Other activities serving that same purpose include having individual divisions craft action plans, shutting down all of our works at the same time, and reporting overtime conditions to the Board of Directors.

■ Average monthly overtime(IHI Corporation)

FY2012	21.8 hours
FY2013	22.7 hours
FY2014	23.3 hours
FY2015	23.8 hours
FY2016	23.9 hours

Partnership between Labor and Management

IHI concludes labor agreements with IHI labor unions based on mutual understanding and trust.

Various labor-relations councils are organized in accordance with labor agreements, including workers' councils to promptly resolve day-to-day issues, management councils to discuss management initiatives and financial results, and production councils to maintain and improve productivity in works divisions.

■ Labor Union Membership (IHI Corporation)

Region	Members	Region	Members
Musashi	1,795	Tomioka	667
Tokyo	1,542	Aioi	505
Yokohama	1,461	Kure	501
Soma	913	Nagoya	500
Total			7,884

(As of March 31, 2017)

IHI management and labor are provided with abundant opportunities for dialog under the I-Project group-wide initiative. In FY2016, meetings to exchange views and ideas were held at seven IHI offices and nine group companies. Moreover, when management visited factories and worksites, time was provided for them to tour the sites and interact with employees.

The Management Council gathers management and labor for meetings to explain corporate policies and hear union proposals. The IHI president joins three meetings each year.

Moreover, regular patrols of plants and construction sites are conducted through collaboration between management and labor to ensure that safety and hygiene are being properly managed.

Addressing Labor-related Complaints

Based on labor agreements, IHI operates a committee to promptly respond to labor-related complaints from employees in a fair manner, ultimately to realize harmonious work environments. No complaints were raised in FY2016.

■ 2016 Topics

Certification under Health and Productivity Corporations 2017 (White 500)

Four IHI companies (IHI Corporation, IHI Scube, IHI Plant Construction and Niigata Power Systems) were certified under the Health and Productivity Corporations 2017 (White 500) program operated by Japan's Ministry of Economy, Trade and Industry. The certification recognizes initiatives taken under the Group Health Management Declaration relating to workplace vitalization and promotion of healthy lifestyles for employees and their families by reducing health risks and improving the health of individuals and the organization.

In addition, IHI was ranked in the highest level under the DBJ Health Management Ranking program run by the Development Bank of Japan.



Human Resource Development

Human Resource Development Initiatives

HR training is based on the Group Human Resource Development Policy.

Level-specific training spanning the workforce, from new recruits to newly appointed managers, is implemented via programs and curricula based on principles for ideal human resources described in the Group Human Resource Management Policy. There are also training courses for grooming executives, global human resources and women managers. Moreover, optional open seminars are offered to help employees hone specialties.

To ensure that training remains consistent with evaluations and deployments, a series of three interviews is administered to all employees over the course of a year. Results are fed back to employees to help them reinforce their positive qualities and work on any weakness, thereby helping them to develop further.

Development of 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 2016, 30 persons were sent to India for intensive training and one person was 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 2016 alone, some 342 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.



Activity with professors from SRM University in India

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.

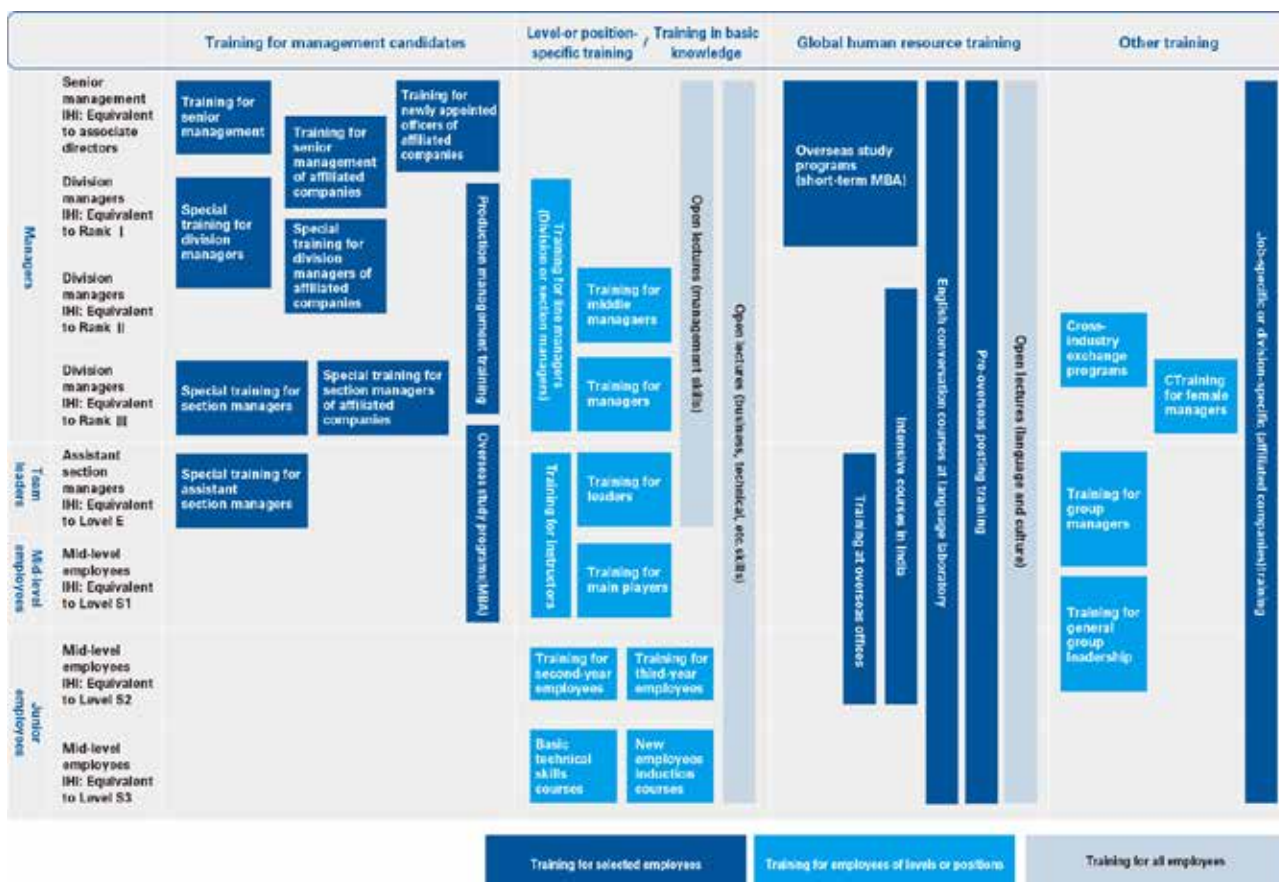


Highly Skilled Casting

■ 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



Participants in Main Training Courses and Total Training Hours (IHI Group)

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

SUSTAINABILITY REPORT 2017

Environment

Environmental Management **P91**

Promote Group Environmental Management **P98**

Reduce the environmental impact of products and services **P104**

Reduce the environmental impact of our business activities **P111**

Environmental Management

Message from General Manager of CSR Division



Chikako Oshima

General Manager
of Corporate Social
Responsibility Division

The risks posed by climate change are a global problem. As seen in the Paris Agreement, Sustainable Development Goals (SDGs) and other trends, international society is building new frameworks to strengthen the global response to the threat of climate change.

In FY2013, IHI announced its Group Environmental Vision 2013. The vision established three core eco strategies for the period lasting until FY2018:

- 1) Reduce the environmental impact of products and services. Help customers reduce their impact by using our products, technology and services.
- 2) Reduce the environmental impact of our business activities. We are reducing the environmental impact of our own business and production activities.
- 3) Strengthen environmental management to support 1) and 2). To achieve our vision by 2018, our entire group is engaged in environmental activities.

Our diverse businesses encompass resources, energy, environment, social infrastructure, offshore facilities, industrial systems, general-purpose machinery, aero engines, space and defense. Each business includes initiatives to stem climate change and to address the effects of climate change.

In April 2017, we shifted our organizational structure from a single business headquarters with eight sectors to four strategic business units. The shift is enabling us to implement environmental management within a much wider framework than previously possible.

By responding to society's expectations for our technologies, we expect to increase our corporate value and expand the range of people who believe in our company. Moreover, by contributing to global sustainability through environmental initiatives, we are confident that this will create new business opportunities.

Basic Policy

Global warming is becoming a critical issue due to increasing greenhouse gas emissions, which is why our mission includes reducing the environmental impact of the company’s activities and protecting the environment in whatever way possible. The IHI Group Basic Environmental Policy, which is based on the Basic Code of Conduct, Article 7: Responsibilities toward the Global Environment, helps to define our diverse, tireless and proactive approach to mitigating its impact on the global environment.

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

Positioning the first three years from FY2013 to FY2015 as the period for “building the foundation of group environmental management”, we have formulated and implemented the IHI Group Environmental Action Plan 2013, which comprises of three core strategies; 1) “Reduce the environmental impact of products and services”, 2) “Reduce the environmental impact of IHI business activities.” and 3) “Strengthen environmental management”. As a result, we were able to strengthen the foundation of our Group Environmental management.

Positioning the last three years beginning in FY2016 as the “implementation phase of group environmental management” we have formulated the IHI Group Environmental Action Plan 2016 comprised of the same three core strategies as the first three years. We are currently in the second year of this plan. By utilizing the mechanisms we have built to date and enhancing the level of individual initiatives we will implement environmental management across our entire Group and aim to realize our Environmental Vision by the end of FY2018.



Group Basic Environmental Policy

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

Environmental Vision

■ IHI Group Environmental Vision 2013 (FY2013–FY2018)

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.

■ Materializing Our Environmental Vision

Described below are the goals IHI hopes to accomplish by lowering the environmental burdens of its products, services and business activities as well as enhancing its environmental-management activities.

Reduce the environmental impact of products and services

- Limit CO₂ emissions from our operations to approximately 300,000 tons/year and 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 our products/services help to protect the environment.
- Win awards for our products that contribute to global environmental preservation.

Reduce the environmental impact of our business activities

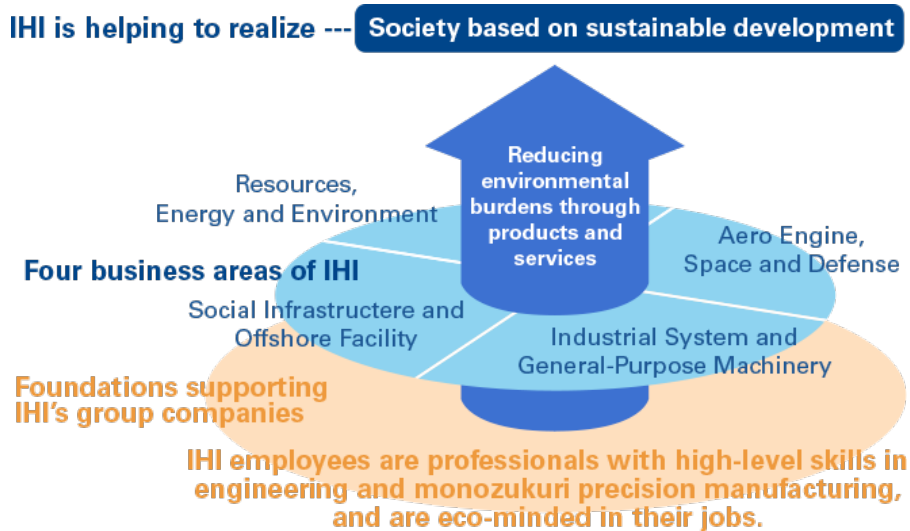
- Achieve the CO₂ emissions-reduction target for Group-wide business.
- Implement energy-saving activities at production sites and offices to avoid wasting electricity or fuel.
- Facilitate green procurements by prioritizing eco-conscious suppliers.
- Stringently manage chemical substances in products to enhance customer trust.
- Make biodiversity protection a larger part of our 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 for consistent environmental management.
- Globally share information on how to comply with increasingly strict local and regional environmental laws, regulations and 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.

IHI, aiming to build sustainable societies that protect the global environment, works to reduce environmental burdens in four main business areas, which were newly defined when IHI introduced its new Environmental Vision: Resources, Energy and Environment; Social Infrastructure and Offshore Facilities; Industrial Systems 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. Also, measures are being taken to ensure that everyone in the Group acts with environmental awareness in their respective operations, including by leveraging high technological capabilities and monozukuri precision-manufacturing skills as professionals.



■ 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 recycling societies
 3. Measures to protect the environment
- Chemical substances and environmental risks
 - Biodiversity

Our 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 our employees.

Operational process		Action			
		Energy saving to combat climate change	Creation of recycling societies	Environmental protection	
				Chemical substance reduction Environmental risk reduction	Biodiversity protection
Reduced impact of operations	Management	◎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	◎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"> • Product 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 impact of products/services	Usage	◎Provide environmentally friendly products		
Maintenance		◎Provide eco-conservation products			
Disposal		◎Provide products to reduce CO ₂ emissions			
		◎Maintain and improve environment performance			

Group Environmental Action Plan

The below table shows the results and targets of the IHI Group Environmental Action Plan 2016, which began in FY2016 year. The results and targets have been graded using four levels, represented by the symbols of ◎ (very good), ○ (good), △ (average) and × (poor).

Activity Plan	FY2018 targets	FY2016 results	
Reduce environmental impact of products and services	Reduce emissions from products and services by more than 10 million tons of CO ₂	△	More than 2.5 million tons
	Environmentally friendly products accounted for 70% of net sales	○	No. of certifications: 15
Reduce environmental impact of business activities	Reduce energy intensity and GHG emissions intensity by more than 3% compared to FY2015	△	Energy: 4% increased from FY2015
		△	CO ₂ : 0.9% increased from FY2015
	Reduce waste generation intensity by more than 3% compared to FY2015	△	0.5% increased from to FY2015
	Reduce water consumption intensity by more than 3% compared to FY2015	×	4.1% increased from FY2015
Promote group environment management	No major violation of environmental laws/ regulations or environmental accident	◎	No incident
	Environmental e-Learning participation rate: 100%	△	Participation rate: 84.3%
	Earn "management" or "leadership" rating in CDP climate change evaluation	◎	Leadership level A-
	Nikkei Environmental Management Survey score of 400 or higher (out of 500)	◎	429

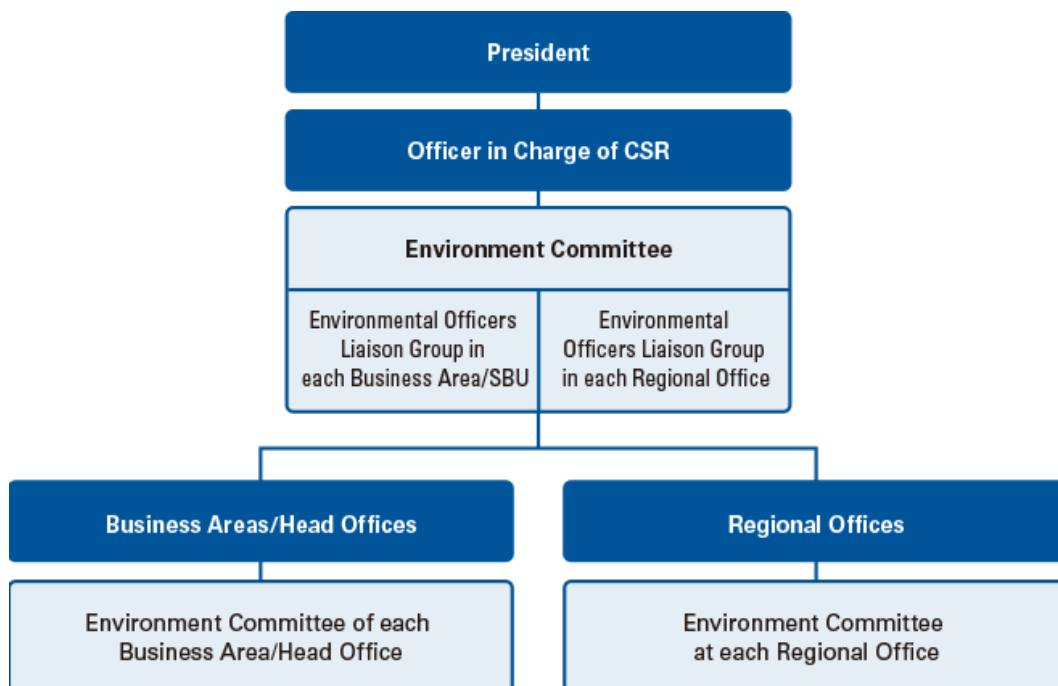
Promote Group Environmental Management

Environmental Management Systems

With the recent organizational reform, the IHI Group has converted its previous one business head office and eight sectors into four business areas. This has created a system where it is possible to promote environmental management within a much broader framework than previously.

Our 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 Business Area/SBU. In addition, Environmental Officers Liaison Groups help to facilitate environmental activities at each regional office and worksite.

Also, each business area and SBU 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.



Companies Covered in Our Environmental Data

The scope of our environmental-management activities includes consolidated group companies, including overseas affiliates.

Our Group comprises of various different business types, such as companies with plants which conduct production activities, companies with the primary businesses of engineering and on-site construction work, and companies without plants and only an administrative department. For this reason, we have categorized the business sites, plants and offices of each company depending on annual energy consumption, etc. and made this the unit of environmental management activities. Based on this unit, each business location collects environmental information, reduces environmental impact and rolls out other environmental management activities suited to their respective business activities.

In FY2016, we formulated the IHI Group Environmental Action Plan 2016 as a medium-term activity plan aimed at FY2018.

The FY2016 data shows figures current as of July 1, 2017.

Acquisition of Environmental Management System Certifications

I H I

Districts/Environmental Management Centers		EMS	Certifying Body*1	Acquisition
Musashi and Soma	Soma No.1 Aero-Engine Works	ISO14001:2004	BVJ	December 1999
	Soma No.2 Aero-Engine Works	ISO14001:2004		
	Mizuho Aero-Engine Works	ISO14001:2004		
Yokohama	Headquarters Representative's Office, Yokohama District	ISO14001:2015	JQA	July 1998
	Yokohama Works	ISO14001:2015		
	Vehicular Turbocharger Business Unit Engineering Center Test And Validation Department	ISO14001:2015		
	Corporate Research & Development	ISO14001:2015		
Aichi	Aichi Works	ISO14001:2015	NK	May 2000
Aioi	Headquarters Representative's Office, Aioi District	ISO14001:2004	JQA	June 2000
	Aioi Works	ISO14001:2004		
	Development & Demonstration Park	ISO14001:2004		
	Casting Department	ISO14001:2004		
Kure	Headquarters Representative's Office, Kure District	ISO14001:2004	JQA	June 2000
	Kure Aero-Engine & Turbo Machinery Works	ISO14001:2004		
Resources, Energy & Environment Business Area Process Plants Business Unit		ISO14001:2004	LRQA	March 1999

*1 Abbreviation

JQA : Japan Quality Assurance Organization

BVJ : Bureau Veritas Japan Co., Ltd.

NK : Nippon Kaiji Kyokai

LRQA : Lloyd's Register Quality Assurance Limited

Group Companies in Japan

Business Area	Company/Environmental Management Centers	EMS	Certifying Body	Acquisition	
Resources, Energy & Environment Business Area	IHI Enviro Corporation	Chita Plant	ISO14001:2004	JQA	November 2003
		Nagoya Plant	ISO14001:2004	JQA	November 2003
	Diesel United, Ltd.	Aioi Works	ISO14001:2004	JQA	June 2000
	NIIGATA POWER SYSTEMS CO.,LTD.	Ohta Plant	ISO14001:2004	LRQA	May 2004
		Niigata Foundry Plant	ISO14001:2004	LRQA	May 2004
		Niigata Engine Plant	ISO14001:2004	LRQA	May 2004
	Niigata Gas Turbine Plant	ISO14001:2004	LRQA	May 2004	
NICO Precision Co., Inc.	Muikamachi Plant	ISO14001:2004	LRQA	September 2000	
Social Infrastructure & Offshore Facilities Business Area	IHI Infrastructure Systems Co., Ltd.	Sakai Works	ISO14001:2015	JQA	June 2012
Industrial Systems & General-Purpose Machinery Business Area	IHI Agri-Tech Corporation	Matsumoto Head Office	ISO14001:2015	LRQA	March 2016
		Okayama Factory	ISO14001:2015	LRQA	March 2016
	IHI Rotating Machinery Engineering Co.,Ltd.	Tatsuno Office	ISO14001:2004	DNV	September 2000
	IHI Turbo Co., Ltd.	Kiso No.1 Works	ISO14001:2004	DNV	April 2002
		Kiso No.2 Works	ISO14001:2004	DNV	April 2002
		Kiso No.3 Works	ISO14001:2004	DNV	April 2011
Shinmachi Works	ISO14001:2004	DNV	July 2009		
Aero-Engine, Space & Defense Business Area	INC Engineering Co., Ltd.	Head Office	ISO14001:2004	BSK ^{*2}	March 2000
	IHI AEROSPACE CO., LTD.	Tomioka Plant	ISO14001:2004	BVJ	May 2002
		Aioi Test Center	ISO14001:2004	BVJ	May 2002
		Taketoyo Test Center	ISO14001:2004	BVJ	May 2002
	IHI Aero Manufacturing Co., Ltd.	Headquarters	ISO14001:2004	DNV	September 2000
	IHI CASTINGS CO.,LTD.	Souma Plant	ISO14001:2004	BVJ	December 1999
IHI MASTER METAL Co.,Ltd.	Headquarters	ISO14001:2004	JQA	June 2000	
Intelligent Information Management Headquarters	IHI Inspection & Instrumentation Co., Ltd.	Fukuura Division	ISO14001:2004	JAPEIC ^{*3}	March 2004
		Tachikawa Division	ISO14001:2004	JAPEIC	December 2014
	MEISEI ELECTRIC CO., LTD.	Headquarters	ISO14001:2004	JQA	November 2001

*2 BSK : Deffence Structure Improvement Foundation

*3 JAPEIC : Japan Power Engineering and Inspection Corporation

Group Companies outside Japan

Business Area	Company	EMS	Certifying Body	Acquisition
Industrial Systems and General-Purpose Machinery Business Area	IHI Ionbond AG	ISO14001:2004	Swiss Association for Quality and Management Systems (SQS)	July 2013
	IHI-Sullair Compression Technology (Suzhou) Co., Ltd.	ISO14001:2004	Lloyd's Register Quality Assurance	June 2014
	IHI TURBO (THAILAND) CO.,LTD.	ISO14001:2004	BUREAU VERITAS	November 2004
	WUXI IHI TURBO CO.,LTD.	ISO14001:2015	XING YUAN CERTIFICATION CENTRE CO.,LTD.	June 2013
	Changchun Fawer-IHI Turbocharger Co., Ltd.	ISO14001:2004	SGS	February 2014
	IHI Charging Systems International GmbH	ISO14001:2004	TÜV Süd	April 2016
	IHI Charging Systems International S.p.A	ISO14001:2004	TUV Italia S.r.l.	April 2016
	IHI Charging Systems International Germany GmbH	ISO14001:2004	TÜV Süd	May 2016

Issues Identified in Third-party Reviews

All group companies that had 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-related aspects

All IHI group companies that have acquired an ISO14001 certificate conducted internal audits and underwent third-party reviews.

Internal audits in FY2016 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 FY2016, the IHI Group considered how to define environmental accidents and environmental law violations in order to evaluate the status of compliance with environmental laws.

The unification of internal terminology strengthened recognition of environmental accidents at IHI and group companies as well as evaluation of seriousness and causes.

It was determined that no serious environmental accidents had occurred since FY2013.

Environmental Communication

Third-party Evaluation

We disclosed information on IHI business by responding to questionnaires of third parties. Our efforts to operate group companies 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, and then publishes the scores and rankings of each company.

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.

Term	2013	2014	2015	2016
Score maximum 500 points	403	411	436	429
Rank (total number of manufactures)	123 (438)	129 (419)	66 (413)	75 (396)

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.

Term	2013	2014	2015	2016
Score	91 out of 100	91 out of 100	91 out of 100	Leadership level A-
	Overall performance: B	Overall performance: A	Overall performance: B	

IHI Exhibits at Eco-Products 2016

IHI exhibited at Eco-Products 2016, Japan's largest environmental exhibition, which was held at Tokyo Big Sight from December 8 to 10, 2016. In addition to exhibiting actual products and models to present our products, technologies and services that help to counter climate change, we screened an animation for people not familiar with heavy industry. Our booth was visited by some 5,500 people comprising not only business persons but also elementary and junior high school students, the public and more. Some of the comments about our exhibit were as follows:

- We'd like IHI to lead the industry in solving social issues including global environmental problems.
- It would be extremely wonderful if environmental changes could be solved with technology.
- I am hopeful that IHI can help improve the environment.

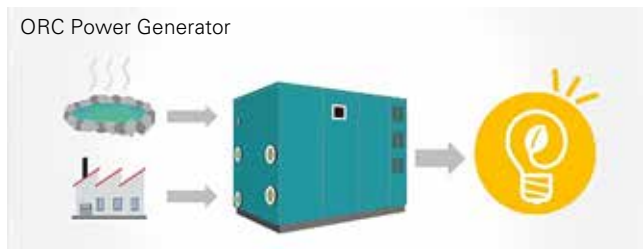
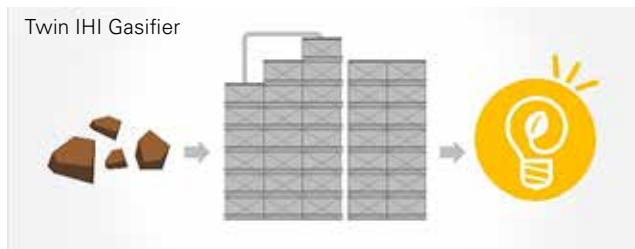
IHI will continue to carry out initiatives that effectively convey its role in developing solutions to global warming.



IHI booth at Eco-Products 2016



Animation introducing IHI products and services (on right, binary power generator)



Raising Employee Awareness

In addition to each IHI business location acquiring ISO14001 certification on its own, IHI provides these locations with level-specific environmental guidance through group-wide education and training.

IHI conducted level-based training for employees in their third year of employment and e-learning for all employees of affiliates in Japan. The aim is to raise employee awareness of our environment-focused initiatives and its obligation both to protect the environment and reduce the company's impact.

Outside specialists provide education on energy efficiency and chemical management. Also, 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. Other training is organized to improve the skills of ISO14001 internal auditors and the effectiveness of environment-related activities.

Every June is "Environment Month" at IHI, where employees complete an environmental quiz to heighten their awareness of the environment. In 2016, 4,694 employees completed the quiz group-wide.

Reduce the environmental impact of products and services

Eco-friendly Product Certification






In FY2014, IHI introduced an in-house certification scheme to identify products and services that achieve outstanding environmental performance.

The aims are to raise environmental awareness among employees, help reduce environmental burdens and protect the environment by producing more environmentally friendly products and services.

Fifteen products were certified as environmentally friendly, four in 2014, six in 2015 and five in 2016. Going forward, we expect to steadily expand its 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.

	<p>Energy efficiency Improves energy efficiency and recovers exhaust energy, and/or achieves energy-load leveling</p>
	<p>Reduced greenhouse gas emissions Reduces, absorbs, captures, stores and decomposes greenhouse gas emissions; produces renewable energy; and/or reduces fluorocarbons</p>
	<p>Resource saving Reduces natural-resource consumption during the manufacture, usage or maintenance stages, and/or facilitates recycling</p>
	<p>Reduced environmental risks Reduces waste/pollution in terms of air, water, soil, noise, vibration, ground subsidence and/or odors, and/or facilitates environmental-data monitoring</p>
	<p>Biodiversity protection Helps to protect habitats and/or locations around facilities from an ecological viewpoint</p>

Certified products

Certified year: FY2016

Diesel Engines

IHI makes engines with energy-saving specifications to satisfy emissions regulations.

Large, low-speed diesel engines are used in vessels such as oil tankers and container ships, while medium-speed diesel engines are used in ferries or to generate power for island communities, etc.

IHI also makes dual-fuel engines to enable switching between fuel types as required.



Energy efficiency



Reduced greenhouse gas emissions



Resource saving



Reduced environmental risks



Biodiversity protection

Life Cycle Administrator(LC-A)

The LC-A enables vast amounts of measurement data from engine rooms to be analyzed in real time using machine learning and other advanced technologies for preventive maintenance, optimizing operating parameters, troubleshooting and enhanced engine servicing for safer vessel operation and reduced life cycle costs.



Energy efficiency



Reduced greenhouse gas emissions



Resource saving



Reduced environmental risks



Biodiversity protection

■ TF-Detector

The TF-Detector measures the concentration of magnetic particles from steel, etc. that get into lubricants, making it possible to assess wear and then take preventative measures as required to prevent damage or accidents. Magnetic substances in powder also can be detected with this device.

The TF-Detector was jointly developed with Meiyo Electric Co., Ltd.



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

■ MF-Detector (Metal Fragment Detector)

The MF-Detector is used to find conductive particles such as aluminum alloy, copper alloy, tin alloy, etc. in lubricants.

Constantly monitoring for conductive foreign matter makes it possible to identify and fix early-stage damage to instrumentation to avoid major damage or accidents.



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

■ Energy-saving parking system NPC24H Tachikawa Midori-cho No.2 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

Certified year: 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

■ ORC Power Generator 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



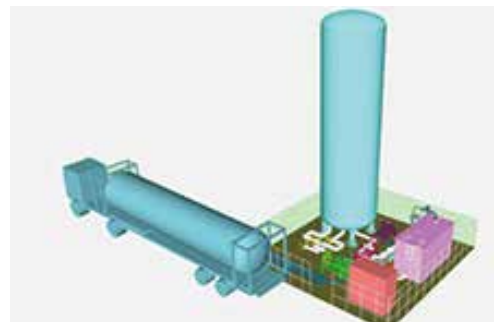
Reduced environmental risks



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



Cycle Management Systems

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



Certified year: FY2014

■ Turbochargers for Vehicles

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



■ ORC Power Generator Heat Recovery HR Series

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



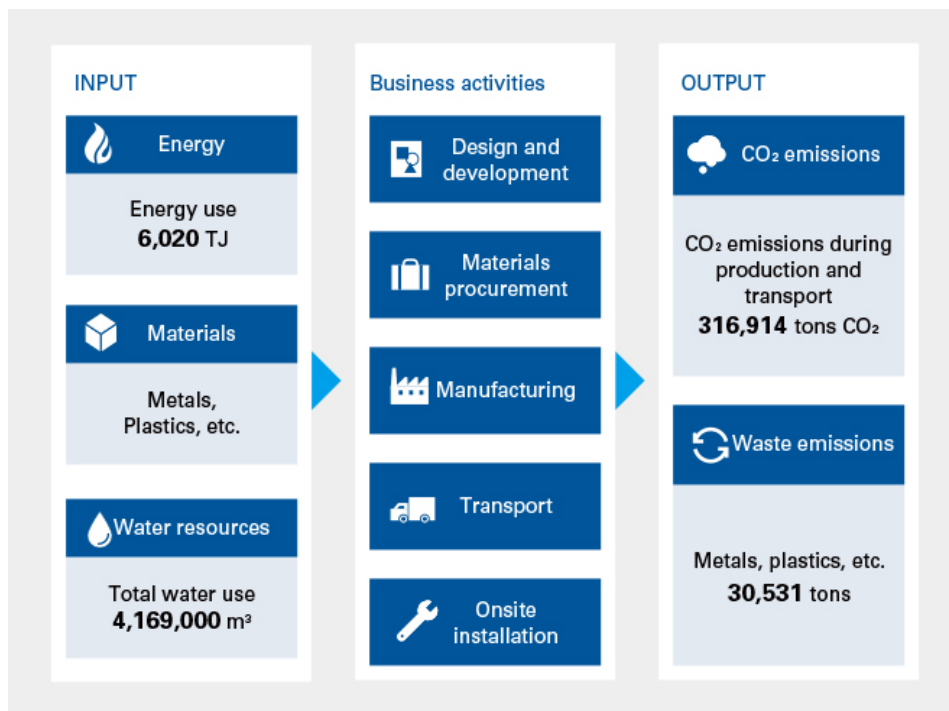
Biodiversity protection

Reduce the environmental impact of our business activities

Materials

IHI works continuously to lower its environmental impact by reducing the amounts of materials it uses and generates in operations.

The material balance in our operations in FY2016 is shown below.



Climate Change Countermeasures

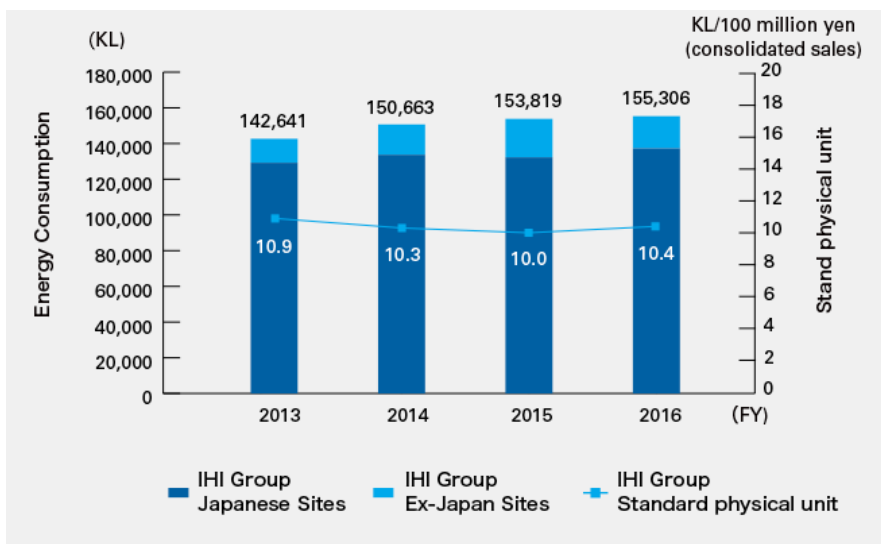
Reducing Energy Consumption and GHG Emissions

IHI is constantly striving to use energy more efficiently and further reduce its CO₂ emissions. The aim for FY2018 is to cut energy consumption per unit of consolidated sales (Energy intensity) by at least 3% compared to FY2015. 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.

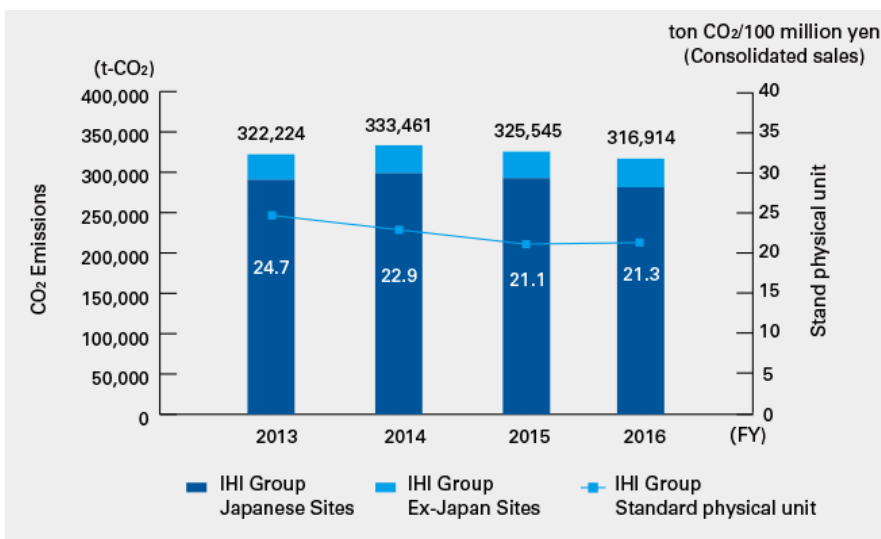
In FY2016, our energy intensity was 10.4 (crude oil equivalent, kiloliter/100 million yen), a 4.0% increase from FY2015. In FY2016, our CO₂ emissions was 317,000 tons*, down 2.7% from FY2015 CO₂ emissions per standard physical unit went up by 0.9% to 21.3 (t-CO₂/100 million yen). In FY2017, we will aggressively push forward with initiatives to achieve targets for both energy consumption and CO₂ emissions.

* The emissions coefficient by electricity retailer was used to calculate CO₂ emissions based on electricity consumption.

Energy Consumption



CO₂ Emitted



Reducing Energy Consumption in Transportation

In our IHI Group Environmental Action Plan 2016, we have established a target of reducing energy consumption during transportation of products, etc. by at least 1% compared to the previous fiscal year.

In order to reduce the energy consumption during transportation, we are actively promoting a modal shift to domestic vessels and slipways. Trucks are used for products, etc. which cannot be transported by ship and, in order to increase transportation efficiency, trucks with larger maximum load capacities are used and other initiatives are made to improve load capacity.

Building Recycling Societies

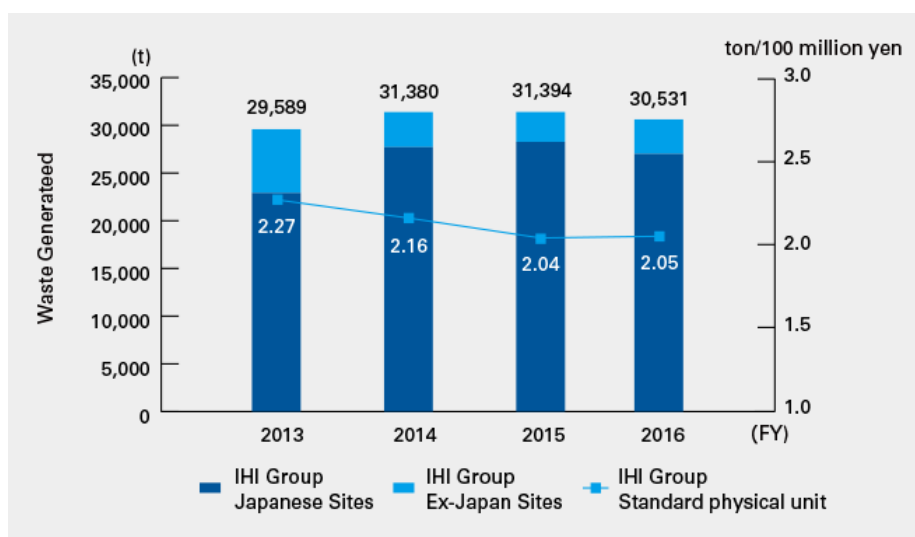
Improving Waste Management

IHI reduces, reuses and recycles (“3 Rs”) industrial waste and appropriately disposes whatever remains. Since FY2012, all IHI offices and works have been using an electronic manifest to comply with waste-management laws and regulations.

In FY2015, IHI compiled the Manual for Handling Wastes and improved its waste management level by enforcing management in accordance with this manual. In FY2016, a meeting to exchange opinions relating to waste was held between our headquarters and individual district business sites and issues relating to waste risk were shared.

Moreover, the IHI Group segregates the waste emitted from its business activities, then recycles and converts to valuable materials as part of efforts to reduce waste emissions. The target for FY2018 is to reduce the amount of waste emitted per unit of sales (waste emissions intensity) by at least 3% compared to FY2015. In FY2016, the amount of waste emitted was 30,531 tons. The waste emissions intensity for FY2016 was 2.05 (tons/100 million yen), a 0.5% increase compared to FY2015. IHI will continue its efforts from FY2017 onwards in order to achieve our waste emissions intensity target.

Waste Generated on Consolidated Basis



Appropriate Management of Toxic Waste

Since FY2009, IHI has been detoxifying electric equipment containing highly concentrated polychlorinated biphenyl (PCB). As of FY2016, detoxification had been completed on 98% of such equipment.

The same processing has been completed for 55% of low-concentration PCB and 56% of stabilizers and we plan to complete processing for all except difficult-to-process substances by the end of FY2018.

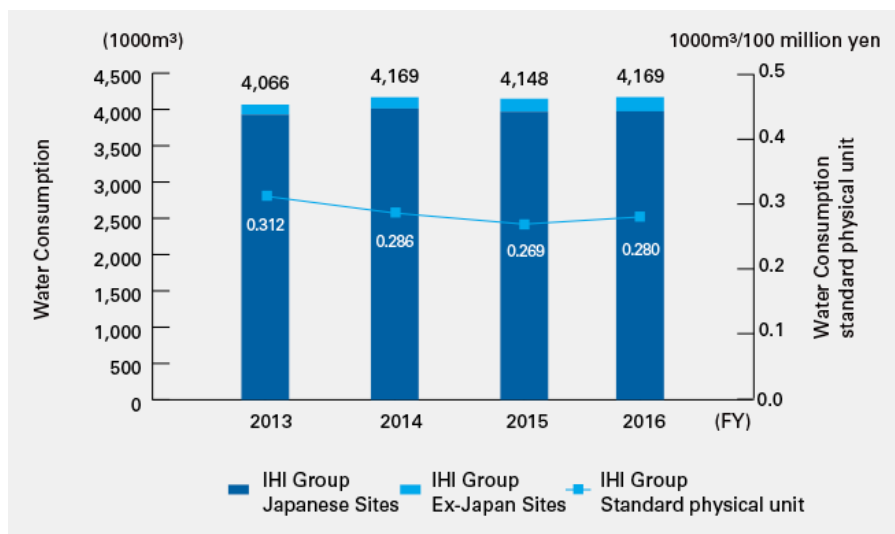
Reducing Water Consumption

IHI works to prevent leakages from water-supply pipes, industrial-water pipes and drainage pipes, many of which are buried within plant sites and are deteriorating due to age.

Renewal plans spanning several fiscal years are established for deteriorated buried pipes at each plant. New countermeasures are taken when renewal work is performed, such as running new pipes aboveground to enable potential leaks to be swiftly discovered, installing pipes in buried boxes or running pipes overhead using supports.

To reduce water consumption, the target for FY2018 is to reduce consumption per sales (water consumption intensity) by 3% compared to the previous year. In FY2016, water consumption totaled 4,169,000m³ and the water consumption intensity was 0.280 (1000 m³ / 100 million yen), which was a 4.1% increase over FY2015.

Water Consumption



Lowering Environmental Risks

Environmental Measures Near Worksites

■ Water Pollution Prevention

IHI monitors the quality of wastewater discharged from plants, one of many ways it protects public waters (oceans, rivers, etc.) at wastewater discharge points. The deterioration of treatment equipment, devices, instruments, etc. is noted during daily maintenance and environmental risks are assessed to determine renewal priorities. The results of these assessments are visualized in environmental risk-reduction plans.

Every year, the head office sets aside a special budget for environmental activities, after which allocations for renewals in the following year are determined to enable the responsible department at each plant to conduct renewal work in an orderly manner. In addition to environmental risk countermeasures, the special budget covers measures for removing and renewing (excluding disposal) equipment containing PCB, as well as energy-saving measures and global warming countermeasures.

Water pollution measures in FY2016 included evaluations of wastewater treatment facilities at the Aioi and Soma worksites, based on which plans were drawn up for necessary renewals in FY2017.

■ Soil Contamination Prevention

Contamination of soil can adversely affect the health of humans and other organisms through direct or indirect intake of hazardous substances.

Worksites are inspected regularly and aging equipment is renewed to avoid any leakage of hazardous substances. A survey of 25 hazardous substances* at 68 former and current production facilities was completed in March 2013. The survey results are compiled in a database.

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

Chemical Substances in Products

Appropriate Management

IHI has appropriate procedures for handling products that contain chemical substances.

IHI Group Basic Policy for the Management of Products Containing Chemical Substances

To enhance the competitiveness of its products and services, we have a Basic Policy for the Management of Products Containing Chemical Substances as shown below

(Basics of activities)

We identify prohibited and controlled substances that are restricted by laws and regulations in countries where it sells products and services, as well as in accordance with customer requirements.

Such products are appropriately assessed and managed throughout the entire supply chain. IHI is working on developing systems for conveying such information to customers in an appropriate manner.

Based on advice from an external specialist, chemSHERPA was introduced to communicate information on chemical substances in products for agricultural machinery.

Similar systems for other products will be introduced in accordance with customer requests.

Release and Transfer of Chemical Substances

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 Japanese government is notified accordingly (see table).

The release and transfer of Class I Designated Chemical Substances in FY2016 were as follows.

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

(unit : t)

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	1.2
53	Ethylbenzene	37.9	6.4
80	Xylene	82.3	14.5
87	Chromium and chromium(III) compounds	0.0	47.6
186	Methylene dichloride	2.2	1.9
300	Toluene	51.5	3.0
308	Nickel	0.0	1.6
374	Hydrogen fluoride and its water-soluble salts	0.0	6.3
384	1-bromopropane	4.0	0.7
	Subtotal	177.9	83.2
	Total	261.1	

IHI handled no Specified Class I Designated Chemical Substance either for release or transfer at its worksites.

Biodiversity Protection

Initiative Policies

■ Global Effort

The Japanese government introduced its National Biodiversity Strategy in 1995, which was followed by the enactment of the Basic Act on Biodiversity in 2008 to urge participation by businesses. 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, which was adopted at COP 10, describes a course of action for interested parties at all levels, including corporations, to practice sustainable production and consumption, as well as a rationale for putting concrete measures into practice.

In recent years, to achieve the Aichi Target adopted in 2010, the National Biodiversity Strategy 2012-2020 obtained Cabinet approval in September 2012. The Strategy presents a roadmap for Japan to achieve the Aichi Target as well as establishes “Five Basic Strategies” (*) as the directions for policies to be focused on up until FY2020.

* “Five Basic Strategies”

- (1) Permeate biodiversity throughout society
- (2) Review and rebuild human-nature relationships in regions
- (3) Secure connections between forests, mountains, rivers and oceans
- (4) Act with the entire world in mind
- (5) Strengthen scientific foundation and connect with political strategy

■ 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.

Basic Stance

The 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 works carries out activities in conjunction with their surrounding communities.

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

Selected initiatives

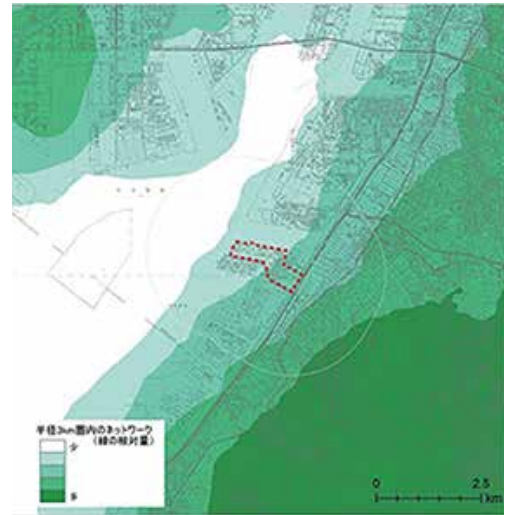
- Replacement of non-native species with native species on IHI premises
- Creation and maintenance of biotopes on IHI premises
- Organizing tours of green preserves on IHI premises
- Engaging in activities to conserve forests

Aichi Worksites

In Chita, Aichi Prefecture, where Aichi worksite is located, 54% of the city is covered with woodland, lush greenery in an industrial zone and parks. The Aichi worksite has its own green preserve measuring nearly 70,000m². The worksite also conducts nature watches for local residents and the planting of native plants by university students. For information on detailed activities, please see below.

Recent Activities (FY2010-12)

In FY2010, IHI investigated if the Aichi worksite’s vast green belt could be used for conserving biodiversity. It was determined that the green belt was in fact the central point of an ecosystem connecting the local mountains and sea. Moreover, the existence of over 33 species of living creatures was confirmed, including mammals such as raccoons, birds such as kingfishers and Japanese pygmy woodpeckers, insects such as the Dorcus rectus beetle and eastern pale clouded yellow butterfly, proving that the area helps to maintain biodiversity. Accordingly, a study was conducted to determine the policy and tasks for green belt management, after which initiatives were introduced to vitalize the area as part of the surrounding ecosystem so that various animals could inhabit and travel through it.



Percentage of land contained in green belt within 3 km of Aichi worksite
 [Photo courtesy of Eco-Asset Consortium (InterRisk Research Institute & Consulting, Inc., Sumitomo Forestry Landscaping Co., Ltd., Regional Environmental Planning, Inc., Sumitomo Forestry Co., Ltd.)]



Raccoon feces accumulation



Dorcus rectus beetle



Common copper butterfly

[Photo courtesy of Eco-Asset Consortium (InterRisk Research Institute & Consulting, Inc., Sumitomo Forestry Landscaping Co., Ltd., Regional Environmental Planning, Inc., Sumitomo Forestry Co., Ltd.)]

Environment

Since 2011, IHI has held many events aimed at teaching the importance of nature by enabling people to come in close contact with diverse flora and fauna, including observing plants and gathering insects at the Aichi green belt.

In December 2011, the “Inochi wo tsunagu (“Connect Lives”) Project,” a workshop for university students, was held at the green belt. The project connects the green belts of companies located along the Chita Peninsula coastline (Tokai and Chita cities) to form a large ecosystem. It also is attracting people to assist in this initiative through forums held in the green belts and environmental-maintenance programs in model zones. The Aichi worksite is collaborating with nearby companies, universities and government departments to support this activity by providing its green belt as a place for activities.

The workshop was led by the Ecologist Support Association of Japan, an NPO in charge of this project, and attracted 23 university students, etc. from Aichi and Mie prefectures. The students engaged in activities such as observing wild birds and maintaining the green belt area. After the workshop, the students conducted a study on how the company green belts could be used to form a rich ecosystem on the Chita Peninsula. They also compiled a free handout and ecosystem map of the green belts.

This project’s activities of protecting the natural environment, raising environmental awareness and developing people to continue such activities for the next generation were highly regarded and officially recognized by being awarded the “Grand Prize” of the Aichi Environmental Award and the Judge’s Special Award as part of the Good Life Awards sponsored by the Ministry of the Environment.



Participants of
Inochi wo tsunagu (“Connect Lives”) Project



Workshop

■ Recent Activities (FY2013-16)

As part of efforts to replace nonnative trees with native species in the Aichi green belt, IHI has set up a nursery to grow tree seedlings, and in FY2014, a gathering was held at the nursery to plant the seedlings. Members of the student executive committee of the Inochiwotsunagu ("Connect Lives") Project began the event by sharing knowledge on native and nonnative trees.

Every year since FY2012, the Aichi worksite has hosted "LOVE! GREEN DAY," an event organized by the Ecologist Support Association of Japan, the NPO in charge of the Inochiwotsunagu Project. Through such undertakings, the green belts of companies on Chita Peninsula coast are opened to the public. At the Aichi worksite, participants planted native species such as enoki mushroom and Japanese zelkova in planters called kaminekon made from recyclable cardboard. They also enjoyed observing water creatures such as numachichibu dragonfly larvae and diving beetles in a biotope. Later, their feedback included remarks such as "I realized for the first time that there are many creatures living on the plant premises" and "I want to see many more kinds of creatures." IHI will continue working to maintain its Aichi worksite green belt as a place of respite and study for members of the public and employees.



Tree planting



Participants of LOVE! GREEN DAY 2016

Site Data

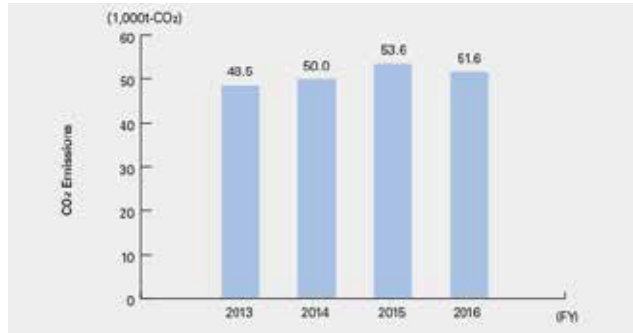
Musashi and Soma works

Data: Soma and Mizuho Aero-engine Works

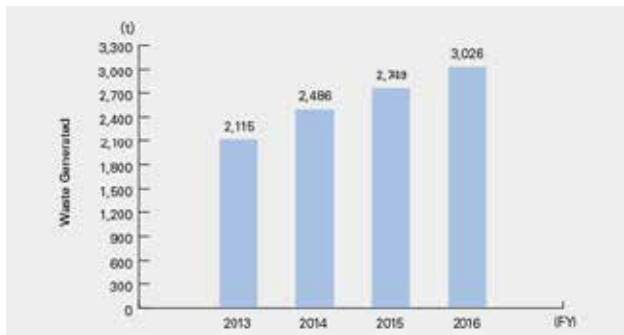
Energy Consumption



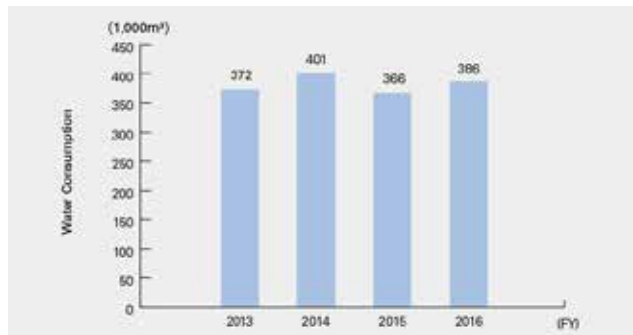
CO₂ Emissions



Waste Generated



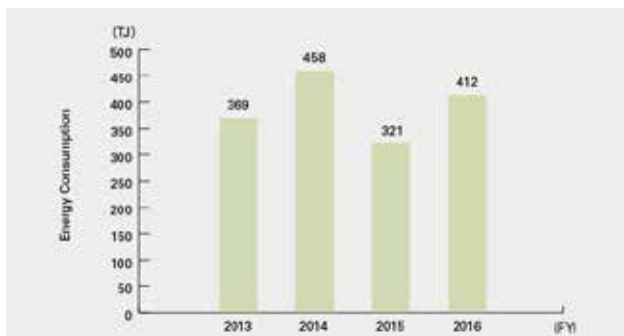
Water Consumption



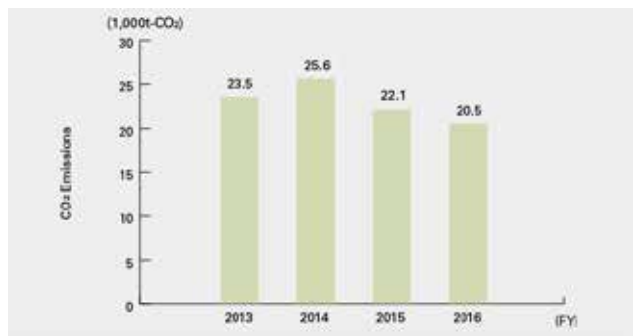
Headquarters Representative's Office, Yokohama District

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

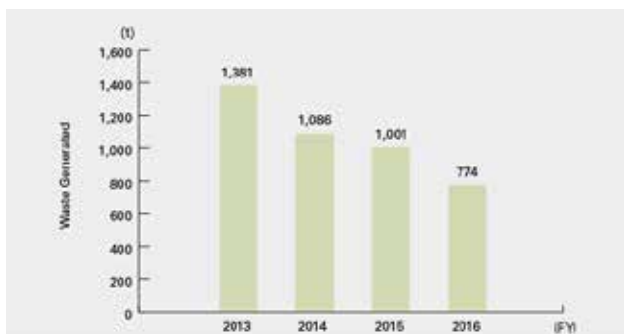
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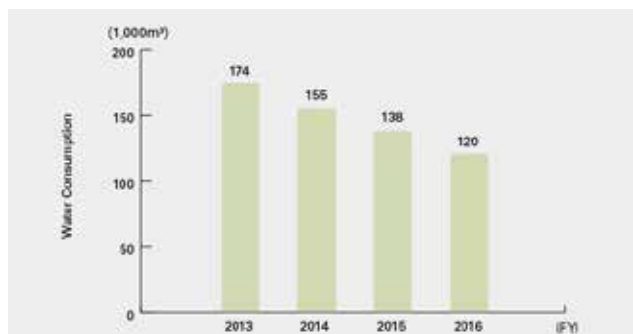
CO₂ Emissions



Waste Generated



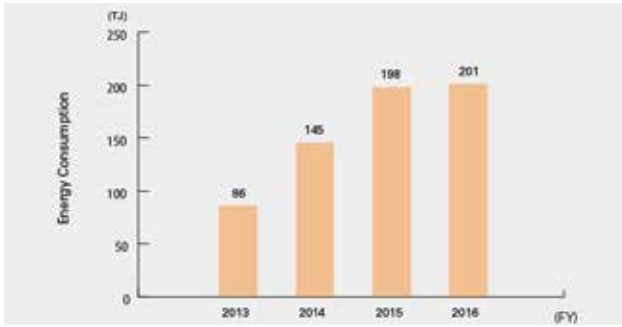
Water Consumption



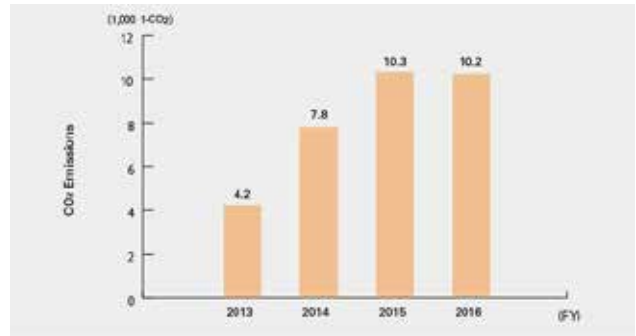
Headquarters Representative's Office, Aichi District

Data : Aichi Works

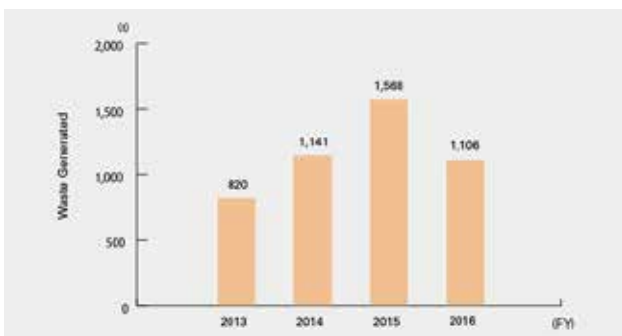
Energy Consumption



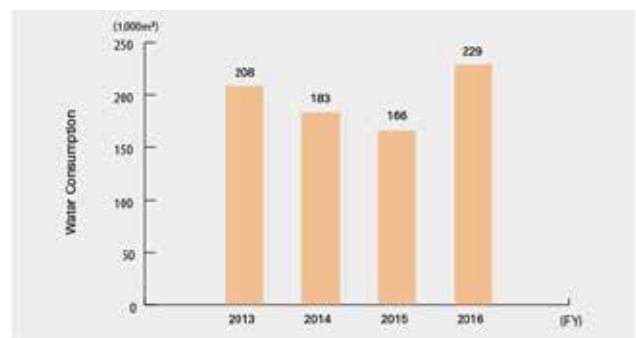
CO₂ Emissions



Waste Generated



Water Consumption



Headquarters Representative's Office, Aioi District

Data : Aioi Works, Foundry Works, and General Affairs Dept., Aioi

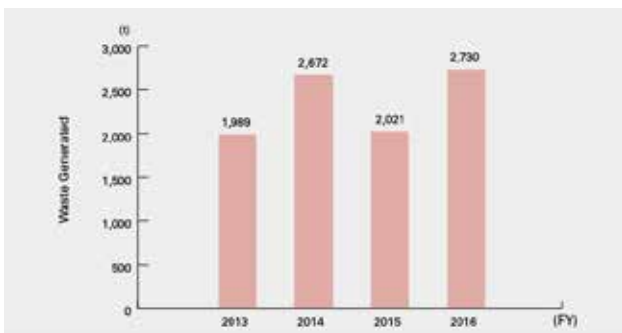
Energy Consumption



CO₂ Emissions



Waste Generated



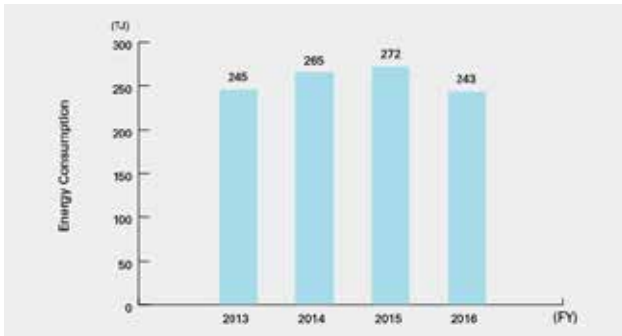
Water Consumption



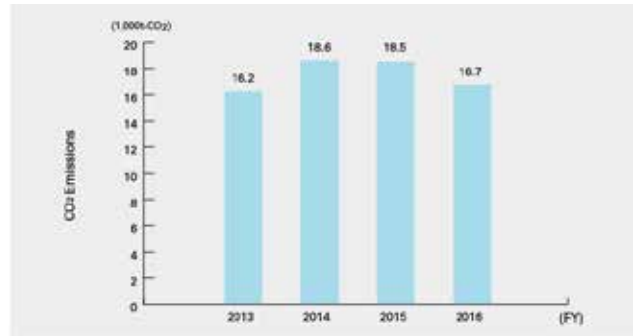
Headquarters Representative's Office, Kure District

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

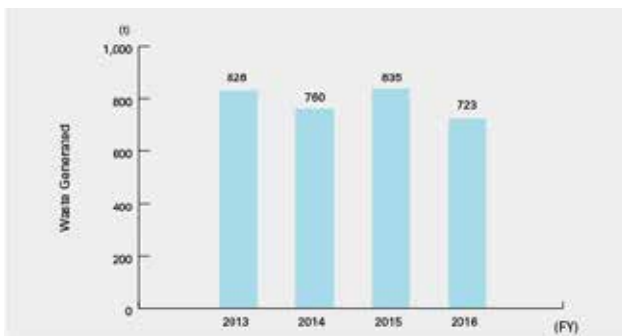
Energy Consumption



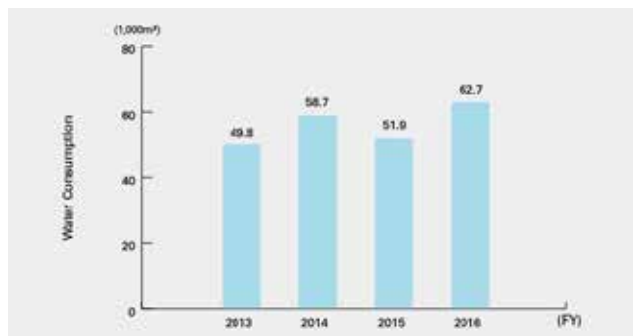
CO2 Emissions



Waste Generated



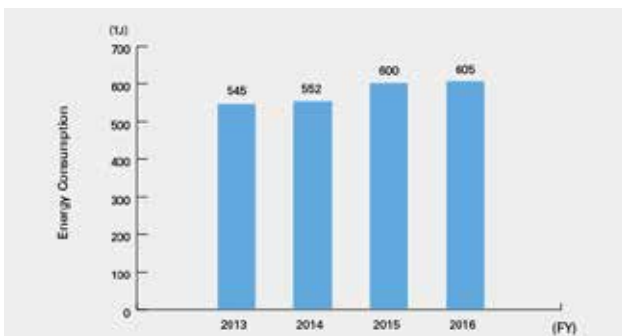
Water Consumption



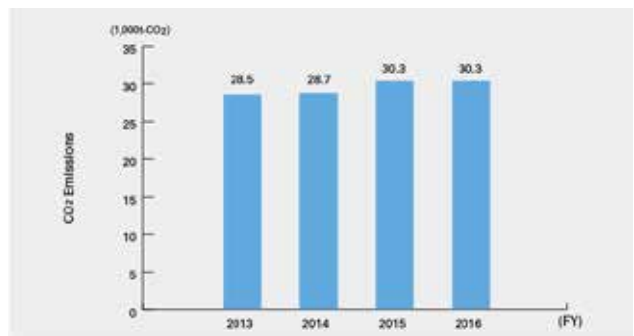
Headquarters

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

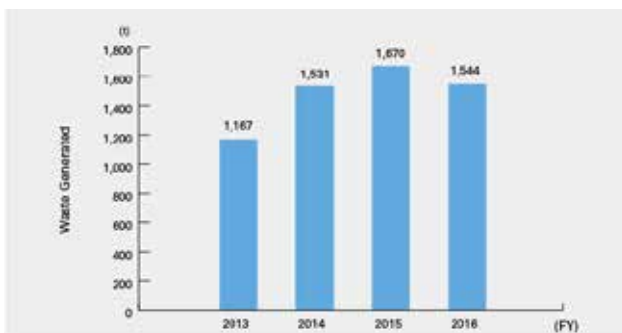
Energy Consumption



CO2 Emissions



Waste Generated



Water Consumption



Performance Objectives

Financial information							
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Net sales	1,187.2	1,221.8	1,256.0	1,304.0	1,455.8	1,539.3	1,486.3
Operating income	61.3	43.3	42.1	53.2	63.2	22.0	47.3
Profit attributable to owners of parent	29.7	23.8	33.3	33.1	9.0	1.5	5.2
R&D expenses	29.2	30.0	30.2	33.5	37.0	41.6	35.5
Investment in plant and equipment	86.3	53.5	55.0	54.5	63.9	50.8	52.7
Depreciation and amortization	38.2	41.1	41.7	40.4	43.2	46.7	46.6
Overseas net sales	512.0	521.0	486.3	618.5	758.0	796.9	757.4
Percentage of overseas sales	43%	43%	39%	47%	52%	52%	51%
Total assets	1,361.4	1,338.1	1,364.2	1,496.3	1,690.8	1,715.0	1,692.8
Interest-bearing debt	373.3	345.2	353.8	357.8	410.6	374.5	371.9
Net assets	253.6	258.4	299.2	362.5	359.5	333.3	337.6
Cash flows from operating activities	95.5	24.7	74.3	39.2	63.5	95.3	65.3
Cash flows from investing activities	-77.7	-37.7	-61.0	-62.2	-74.6	-35.5	-28.9
Free cash flow	17.7	-12.9	13.3	-23.0	-11.0	59.8	36.4
Cash flows from financing activities	-25.9	-38.5	-3.1	11.3	33.4	-47.5	-21.9
EPS (Earnings per share) ¹	20.29yen	16.26yen	22.81yen	22.51yen	5.88yen	0.99yen	3.40yen
BPS (Book value per share) ²	162.33yen	170.84yen	197.08yen	223.68yen	224.03yen	206.16yen	206.03yen
Cash dividend per share	3yen	4yen	5yen	6yen	6yen	3yen	0yen
Operating margin	5.2%	3.5%	3.4%	4.1%	4.3%	1.4%	3.2%
ROIC (Return on invested capital) ³	6.2%	4.6%	4.5%	5.3%	5.8%	2.3%	5.0%
ROA (Return on assets) ⁴	2.1%	1.8%	2.5%	2.3%	0.6%	0.1%	0.3%
ROE (Return on equity) ⁵	13.2%	9.8%	12.4%	10.5%	2.6%	0.5%	1.6%
D/E ratio ⁶	1.47 times	1.34 times	1.18 times	0.99 times	1.14 times	1.12 times	1.10 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		FY2016	FY2017 Plan	Future objectives (or action plan)
CSR				
Measures	Employee awareness	Raised awareness via e-learning programs	Expand scope of education	Raise awareness of global CSR issues and show individuals how to meet stakeholder expectations, earn trust and raise company value over long-term
Relevant data	Level of employee awareness	90% or greater	90% or greater	-
Governance				
Measures	Risk management	Set 18 priority policies	Set 16 priority policies	-
Relevant data	Outside director meeting attendance rate	Outside director meeting attendance rate:75% or greater		
Compliance				
Measures	Compliance training	Developed self-esteem program	Ongoing	Act ethically and emphasize sincerity and fairness in compliance with internal, national and international rules, laws, regulations, prescribed practices, internal policies and procedures
	Globalization of compliance system	Conducted e-learning for overseas employees	Launch overseas hotline	Establish Group-wide global compliance system
Relevant data	Hotline cases	218	-	-
Supply chain				
Measures	Procurement policy awareness	Reinforced publicity throughout IHI and Group companies worldwide	Reinforce publicity throughout IHI and Group companies worldwide	Expand IHI Group Basic Procurement Policy to major suppliers for enhanced trust, mutual benefit and competitiveness
	Procurement personnel training	<ul style="list-style-type: none"> ● Conducted e-learning for procurement personnel ● Held procurement compliance seminars for overseas affiliates 	<ul style="list-style-type: none"> ● Conduct e-learning for procurement personnel ● Prepare teaching material for procurement compliance seminars for overseas affiliates and hold seminars (starting with China and Korea) 	Ensure global procurement compliance

Areas		FY2016	FY2017 Plan	Future objectives (or action plan)
Health and safety				
Measures	Reinforcing health and safety management	<ul style="list-style-type: none"> ● Provided direction and support to major IHI Group affiliates ● Expanded Health and Safety Management Assessment to affiliates ● Enhanced health and safety management overseas ● Communicated Healthy Management Declaration ● Chosen for Health & Productivity Stock Selection program 	<ul style="list-style-type: none"> ● Conduct Group Labor/ Management Patrols, including at affiliates ● Provide direction and support to major IHI Group affiliates ● Devise a standard model for HSE Management System ● Implement health management initiatives ● Provide support for health treatment and professional life 	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	0.27	Less than 0.2	-
	Number of annual leave days taken	16.5 days	16 days or more	-

Areas		FY2016	FY2017 Plan	Future objectives (or action plan)
Diversity				
Measures	Gender diversity	<ul style="list-style-type: none"> ● Promoted work-life balance ● Expanded gender-diversity initiatives throughout Group ● Improved male awareness of gender diversity ● Provided ongoing support for networking among females 	Ongoing	Foster inclusive workplaces based on our Corporate Philosophy and IHI Group Vision. Provide greater opportunities for employees to develop and grow.
		<ul style="list-style-type: none"> ● Held group-wide seminar to promote female careers and Diversity Month (November) ● Prepared daycare centers at company premises (Soma and Musashi) ● Released numerical targets for FY2020 	<ul style="list-style-type: none"> ● Hold a group-wide seminar to promote participation by women and Diversity Month (November) ● Open daycare centers on company premises and launch child-raising advisory service ● Create telecommute system and spouse-relocation-leave system 	
	Employment opportunities for persons with disabilities	Established consultation desk	Ongoing	
	Employment opportunities for seniors	Raised base wages from age 60 (for selective retirement scheme)	<ul style="list-style-type: none"> ● Revise life-planning seminars ● Revise performance evaluations for employees from age 60 	
	Employment opportunities for non-Japanese	Recruited candidates from priority area (Asia)	Strengthen acceptance system (enhance instructor training, etc.)	
Relevant data	Female recruitment	College graduates: 40 (14%) Technical: 6	College graduates: 35 (14%) Technical: 4	College graduates: 15% or greater of total (Targets: Technical: 10% or greater, Administrative: 35% or greater) Technical: 15 or more in FY2016-2018
	Female managers	66 (2.5%)	68 (2.6%) (as of April 1, 2017)	3% (FY2018) 3.5% (FY2020)
	Female officers	2 (1 is an outside audit & supervisory board member)	4 (3 are outside officers)	1 or more (FY2018)
	Percentage returning to work after childcare leave	100%	100%	100%
	Employees with disabilities	2.14%	2.3% or greater	2.3% (FY2018, April)
	Non-Japanese graduates	7	8 (not including planned October hires)	-

Areas		FY2016	FY2017 Plan	Future objectives (or action plan)
Environment				
Measures	Environmental management	Established Group Environmental Action Plan 2016	Study mid-to-long-term environmental issues	IHI's vision is to make environmental sustainability an integral part of all Group companies by working Offering maximized value to Customers and business partners worldwide.
Relevant data	CO ₂ emissions from business activities ¹	317,000 tons	-	Less than 300,000 tons (FY2018)
	Reduced CO ₂ emissions	2.5 million tons or greater	5 million tons or greater	10 million tons or greater (FY2018)
	Sales ratio of eco-friendly products	Certified: 15	Improve the sales ratio	70% or greater (FY2018)
	CDP climate change	Leadership level A-	Management level or higher	Management level or higher
	Nikkei Environmental Management Survey (max. 500 points)	429	400 points or higher	400 points or higher

1: Emissions coefficients by electrical power provider were used for calculation of CO₂ emissions from electrical power consumption.



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