

Supply Chain Management

Approach

The IHI group's procurement activities are based upon the IHI Group Procurement Policy, which consists of three pillars: "Fair and Impartial Procurement," "Mutually Beneficial Partnership with our Business Partners," and "Approach to Compliance and Social Responsibility."

In fiscal 2022, the IHI Group formulated the IHI Group Code of Conduct for Business Partners, which sets out specific requests and expectations for its business partners. The IHI Group asks its business partners and their supply chains for considering human rights and labor, health and safety, environment, fair business and ethics, information security, and procurement responsibilities over mineral resources, on top of basic requirements such as compliance, quality, price, and delivery.

Each procurement department in the IHI Group conducts its procurement activities in accordance with the Basic Rules of Procurement for the IHI Group which reflects the procurement policy described in the IHI Group Procurement Policy, and takes its social responsibility by building sustainable supply chains.

Policies

● IHI Group Procurement Policy

The IHI Group conducts procurement activities in accordance with the "Basic Code of Conduct for the IHI Group" as set forth below.

Article 1. Fair and Impartial Procurement

We provide business opportunities in an open manner to business partners from around the world, and welcome working with creative and competitive business partners. We also evaluate and select business partners in a comprehensive and fair manner based on factors such as quality, price, delivery schedule, technology development capabilities, and financial conditions.

Article 2. Mutually Beneficial Partnership with Our Business Partners

We regard our business partners as value creators, and through seeking to realize optimal levels for quality, price and delivery, together with procurement reliability, we aim to establish relationships of trust with our business partners and bring about the mutual enhancement of competitiveness and prosperity with them.

Article 3. Approach to Compliance and Social Responsibility

We comply with the related laws that govern our local and global businesses. To fulfill our social responsibility, we shall conduct CSR procurement with due consideration not only of basic requirements such as quality, price and delivery, but also of human rights, labor conditions, health and safety, the environment, and information management.

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● IHI Group Code of Conduct for Business Partners

1. Compliance with Laws and Regulations and Respect for International Norms

- 1.1. Compliance with Laws and Regulations and Respect for International Norms

2. Human Rights and Labor

- 2.1. Prohibition of Forced Labor
- 2.2. Prohibition of Child Labor
- 2.3. Prohibition of Inhumane Treatment
- 2.4. Prohibition of Discriminatory Practices
- 2.5. Appropriate Management of Working Hours
- 2.6. Appropriate Wages and Allowances
- 2.7. Freedom of Association and Right to Collective Bargaining

3. Health and Safety

- 3.1. Safe Workplaces
- 3.2. Emergency Preparedness
- 3.3. Occupational Injury and Illnesses
- 3.4. Industrial Hygiene
- 3.5. Consideration for Physically Demanding Work
- 3.6. Safety Measures for Plant Equipment
- 3.7. Health and Safety at Facilities
- 3.8. Health and Safety Communication
- 3.9. Worker Health Management

4. Environment

- 4.1. Climate Change Countermeasures
- 4.2. Proper Management of Water Resources
- 4.3. Proper Management of Chemical Substances
- 4.4. Proper Management of Waste
- 4.5. Biodiversity Conservation

5. Fair Business and Ethics

- 5.1. Prevention of Corruption and Accepting Improper Benefit
- 5.2. Information Disclosure
- 5.3. Respecting Intellectual Property
- 5.4. Conducting of Fair Business
- 5.5. Whistleblower Protection

6. Quality, Safety, and Stable Supply of Products

- 6.1. Product Safety
- 6.2. Quality Control
- 6.3. Stable Supply
- 6.4. Liability over Product Accidents and Nonconformities

7. Information Security

- 7.1. Defense against Cyber Attacks
- 7.2. Protection of Personal Information
- 7.3. Protection of Confidential Information

8. Competitive Edge

- 8.1. Enhancement of Competitiveness

9. Proactive Approach for Social Issues

- 9.1. Contributing to Local Communities
- 9.2. Reasonable Effort for Global Social Issues

10. Establishment of Management System

- 10.1. Establishment of Management System
- 10.2. Communication with Your Supply Chain
- 10.3. Procurement Responsibility over Mineral Resources
- 10.4. Proper Import and Export Controls
- 10.5. Grievance Mechanism
- 10.6. Progress Report

Governance

The IHI Group shares and deliberates activity policies and measures related to human rights issues in the supply chain, as well as their results, at the IHI Group Human Rights Committee.

P.74 IHI Group Human Rights Committee

Strategy

Risks

While the IHI Group manufactures key components within the Group, it also procures raw materials, parts, and services from suppliers outside the Group. Cost increase and/or delivery delay may be brought about by dramatic fluctuations in material and equipment prices, imbalance between supply and demand for special steel, sudden changes in the international situation, and supply chain disruption due to severe disasters or large-scale spread of infectious diseases.

Additionally, in the process of promoting CSR procurement, procurement costs may rise, consequently causing negative impact on the Group's business performance and financial condition.

Opportunities

The IHI Group's firm conviction is that risk mitigation efforts in the supply chain brings edge over strengthening production capabilities, establishing a business structure that is less susceptible to external factors, and ultimately stabilizing business performance and financial conditions, as well as increasing corporate value.

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Risk Management

Strengthen Supply Chains

The IHI Group is globally promoting activities to strengthen its supply chain to prevent stagnation of corporate activities possibly caused by natural disasters, infectious diseases, conflicts, and emerged risks from the CSR procurement perspective, and so on.

The IHI Group strives for stable procurement by collecting market trends about raw materials and parts, thoroughly manages quality and delivery of its suppliers to avoid excessive concentration and dependence, and proceeds with multiple source selection. In particular, the IHI Group, identifying important suppliers essential to business continuity, establishes its supply chain that is less susceptible to various risks.

Utilization of Sustainability Assessment Service "EcoVadis"

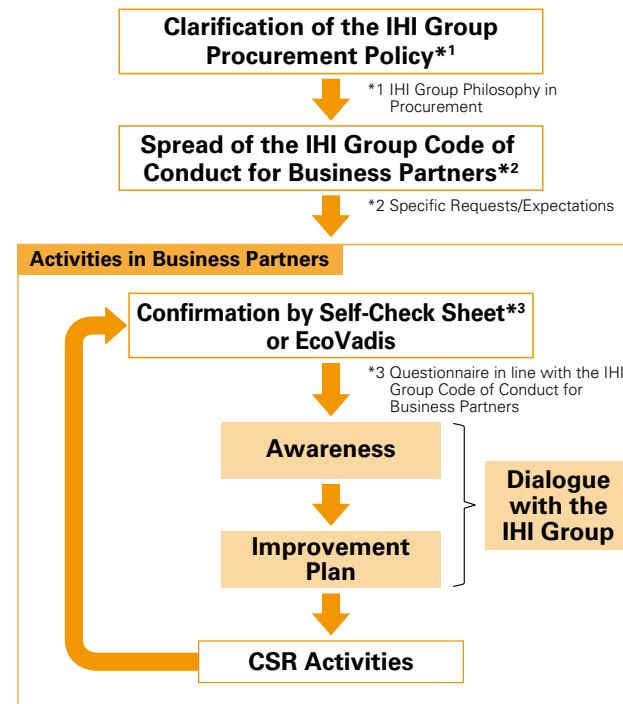
The IHI Group entered into an agreement with EcoVadis, a third-party ESG assessment firm, in June 2024, to establish a system to evaluate supply chain risk properly and fairly.

The IHI Group establishes a risk management system where it encourages its business partners to undergo sustainability assessments conducted by EcoVadis: if there are no issues found, it manages them as excellent suppliers, and if there are concerns picked up, it makes special interviews for clarification and improvement purpose. EcoVadis system also enables it to promptly pick up publicly opened news such as compliance violations, and to respond to the relevant supplier(s) in little time.

Supplier Management Using Self-check Sheets

The IHI Group develops a self-check sheet for its business partners that corresponds one-on-one with each item on the IHI Group Code of Conduct for Business Partners. Through this self-check, the Group asks its business partners to recognize issues to be addressed and to drive CSR activities.

CSR Activity Promotion Process



Operation of Grievance (Remediation) Mechanisms

P.77 Grievance (Remediation) Mechanism Maintenance

Responding to Anti-social Forces and Anticorruption

The IHI Group contractually requires its business partners to prohibit all relationships with anti-social forces, and commits no acts of bribery toward foreign government officials as prohibited by the "Penal Code and the Unfair Competition Prevention Act" or against the laws enacted in the particular country. If any acts as said above are found, the IHI Group requests the relevant company(s) investigate and report it to the IHI Group.

Metrics and Targets

Participants in Procurement Training

(Unit: People, Scope: IHI and affiliated companies in Japan)

Item	FY2021	FY2022	FY2023
Lecture on Subcontract Act*1	143	379	431
Lecture on Construction Business Act*1	98	354	313
Lecture on Overseas Procurement*1	82	112	152
Professional Procurement Training*2	642	1,367	1,534

*1 These three lectures are part of "Professional Procurement Training" and each participant number adds up to the numbers of "Professional Procurement Training."

*2 Lectures on security trade control has been added since FY2022.

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Initiatives

Education/Awareness Building

The IHI Group enhances compliance consciousness prioritizing education and internal audits about laws and regulations in the procurement field including security trade control.

The IHI Group conducts a variety of professional procurement and other training programs aimed at not only its procurement departments but also all other departments with a need to understand procurement-related laws. In fiscal 2023, educational lectures on “security trade control for procurement departments” and “supply chain management for senior employees” were newly added.

E-learning is made for all employees and all procurement personnel, with content that enables them to thoroughly comply with laws and rules, understand the latest social demands, and acquire knowledge of laws and systems. Each IHI Group procurement department conducts regular self-audit against the record of the “Subcontract Act” on a monthly basis, and of import declarations on an annual basis to ensure proper practices. Rectification and countermeasures are mandatory in case improvement points are found by self-audit and/or internal audit by other divisions.

Permeation of the IHI Group Code of Conduct for Business Partners

The IHI Group not only publishes the IHI Group Code of Conduct for Business Partners on its website, but also distributes it to existing business partners through notification letter and information session for its business partners. For newcomers, each IHI group procurement department asks them to respect the IHI Group Code of Conduct for Business Partners on the contract. Additionally, the IHI Group has opened joint seminars led by Procurement Strategy Planning since fiscal 2024, starting with “Human Rights and Labor” (completed in June), followed by “Fair Business and Ethics” (planned in October) and then “Carbon Neutrality” (planned in February 2025).

Human Rights Risk Mitigation Activities

Starting in fiscal 2023, the IHI Group, in cooperation with the Global Alliance for Sustainable Supply Chains (ASSC), engages in proactive dialogue or direct dialogue for risk mitigation purpose regarding non-Japanese technical intern trainees working under its contractors and on the premises of IHI itself and Group affiliated companies. The IHI Group gets a handle on the interviewees’ grievance and/or complaints about work conditions and/or environment when they are small.

Procurement Responsibility over Mineral Resources including Conflict Minerals

The IHI Group endorses the aims of the Responsible Minerals Initiative (RMI), an international organization leading procurement responsibility regarding mineral resources. The IHI Group, for the time being, conducts activities regarding tin, tantalum, tungsten, and cobalt which have a considerable number of RMI-approved suppliers. The final target is to confirm that all purchases are manufactured through RMI-certified refiners and smelters.

The IHI Group specifies product groups such as jet engine parts that surely contain the targeted mineral resources, and conducts surveys by sending questionnaires designated by RMI to manufacturers which produce the targeted parts. The IHI Group plans to expand the scope of the survey as needed. Respecting the “5-step Frame Work guidance” set out by the Organization for Economic Co-operation and Development (OECD), Procurement Planning Strategy in the IHI Group takes a lead over activities by designated procurement departments.

In addition, the IHI Group has notified its business partners of the policy and recommendation about “Procurement Responsibility over Mineral Resources” in Section 10.3 in the IHI Group Code of Conduct for Business Partners.

Mutually Beneficial Partnership with Our Business Partners

In September 2020, the IHI Group publicized the registration of “Declaration for Building Partnerships.” Based on this declaration, the IHI Group aims for mutually beneficial partnership with its business partners.

In response to the “Guidelines on Price Negotiation for Appropriate Pass-through of Labor Costs,” which were jointly developed by the Cabinet Secretariat and the Japan Fair Trade Council in November 2023, the IHI Group modified the Declaration for Building Partnerships incorporating price pass-through initiatives approved by its top management. The IHI Group, taking a careful look at circumstances its business partners are placed in, regularly reports to its top management about price pass-through status.

The IHI Group considers its suppliers as valued partners to proceed with business in collaboration, and hones its competitive edge aiming for mutual prosperity through open dialogue and cooperation.