In Keeping with the Public Trust

Kawasaki aims to be a corporation that continues to have the trust of society by developing and reinforcing its corporate structure to promote corporate governance, internal control and compliance.

Reinforcement of Corporate Governance

Policies of Corporate Governance

Led by our directors and auditors, we are building corporate governance systems that are suitable for our Group and seeking to implement them thoroughly. As a unified Group, our fundamental approach to corporate governance is to conduct management that is highly transparent to stockholders, customers, employees, local communities and other stakeholders. Furthermore, while building harmonious relationships with stakeholders, we seek to improve enterprise value by maintaining efficient and sound operation.

Structure of Corporate Governance

In our structure of corporate governance, the directors are in charge of formulating management strategies and supervising the conducting of operations, and auditors, including two outside auditors who have no stake in Kawasaki, conduct auditing, thereby retaining objectivity and neutrality of management monitoring.

We also introduced the internal company system, in which each company autonomously carries out business operations in their own field under the management of each company president assigned by the Board of Directors.

For business operations, executive officers appointed by the Board of Directors are responsible for the conduct of business operations under the executive officer system in order to quickly respond to changes in the operating environment.

Promotion of Group Management

Basic goals and policies for conduct of operations are determined by the Board of Directors. In response, the Group Executive Officer Committee is held by all executive officers to see that the basic goals and policies are carried out thoroughly.

Important business subjects are intensively discussed by the Management Committee, composed of representative directors, and predetermined items are put to review by the Board of Directors. The Management Committee, which also serves as the advisory organ for the President, is responsible for discussing essential management tasks and reviewing management policies and strategies. When necessary, the Committee invites executive officers of subsidiaries to ensure thorough review of the problems.

Incentive salary system is introduced for the directors. On the other hand, the directors are appointed on one-year basis to clarify management responsibility.

Reinforcement and Improvement of the Auditing Function

The auditors, including two outside ones, attend the Board of Directors and the Management Committee meetings, check important documents, have periodic meetings with the representative directors, and investigate the operational and financial status through auditing divisions of the Company and subsidiaries.

The Auditing Department, which is responsible for internal auditing, endeavors to improve the capability of compliance, as the department regularly monitors to make sure the business operations in all the fields of the Group’s business activities are conducted in compliance with the applicable laws and regulations as well as internal rules.

The auditors and the Auditing Department share information on auditing through a monthly meeting to reinforce each auditing function. Financial reports of the Kawasaki Group are audited by certified public accountants.
Promotion of Internal Control and Compliance

Fundamental Approach to Internal Control Systems

The mission of the Kawasaki Group is to contribute to the development of society. This Group Mission, including the roles we must fulfill, is expressed as follows in the Kawasaki Group Mission Statement.

| Group Mission |
| Kawasaki, Working as One for the Good of the Planet |

In order to realize our Group Mission through the practice of our Mission Statement, it is indispensable that we improve our value to stakeholders and gain the trust of customers, capital markets and society by responding to their expectations.

The Fundamental Philosophy of the Kawasaki Heavy Industries Corporate Ethics Rules

1. Follow the Code of Ethics as a Corporate Member
   We should carry out business activities with truth and proper conduct.

2. Respect Each Other's Personality and Human Rights and Practice No Discrimination
   We should respect everyone’s personality and human rights and refrain from segregation and discrimination, sexual harassment, and bullying in order to create and maintain a comfortable work place.

3. Promote Environmental Conservation
   We should cherish the limited resources of mother nature and actively and voluntarily conduct ourselves with an eye to environmental conservation in order to reduce our impact thereupon, including saving resources and energy, minimizing waste, recycling resources, and preventing environmental pollution.

4. Comply with Laws, Regulations and Social Rules
   We should realize the importance of legal, social and ethical compliance, and aggressively promote such compliance.

5. Ensure Appropriate Accounting Procedures and Reliability of Financial Reporting
   We should carry out recording and accounting of corporate activities correctly and precisely according to the best practice specified by laws, regulations and standards.

Based on this recognition, we seek to not only maintain the internal control systems that we have built thus far, but also to improve them through constant review. By doing so, we are making the efficient and legal enterprise structure of our Group even more solid.

In addition, we established the basic ideas, with which all directors and employees must comply recognizing corporate social responsibility, as the “Kawasaki Heavy Industries Corporate Ethics Rules.” Internal control and compliance is being pursued by every Kawasaki member.
Establishment of Internal Control Management Rules and Various Related Regulations

Corporation Law and Financial Instruments and Exchange Act require companies to construct internal control system. These laws present the standard of internal control system which companies should implement. The Kawasaki Group has also been diligently advancing preparations in response to the enactment of the Financial Instruments and Exchange Act, which makes the submission of internal control reports obligatory from this fiscal year.

During this preparation process, the lack of clear regulations and instructions as well as other internal control issues in relation to assuring the reliability of financial reports became clear. In order to resolve these issues, we revised existing company regulations and established new ones for individual items that were deficient. In particular, we established Internal Control Management Rules as company regulations in order to comprehensively and systematically regulate internal control itself, set fundamental rules, which are at the core of internal control, and create a company regulation structure that is systematic and free from omissions.

Moreover, we established other sets of additional company regulations. Risk Management Rules were created to systematically organize and operate structures to sort, evaluate and analyze the variety of risks that surround enterprise management, while Crisis Management Rules were made to respond when those risks materialize—in other words, to cope with emergency situations. Division of Duties Management Regulations were arranged to clarify procedures related to the management of the division of current work duties.
Guidebook Distribution

We have been distributing our Compliance Guidebook to all employees, including temporary workers, in order to achieve thorough compliance. We have now published and distributed a new 3rd Edition in order to convey revisions to laws and regulations and other new information and make employees understand them correctly. Moreover, in order to assure thorough compliance with the Antimonopoly Law, which is one of the fundamental rules related to corporate economics, we had already distributed our Antimonopoly Law Compliance Guidebook Vol. 1: Bid-rigging Q&A. In addition, we published our Antimonopoly Law Compliance Guidebook Vol. 2: Private Monopolization and Unfair Business Practices Q&A and distributed it to all office and technical employees.

Implementation of Compliance Education

We keep our employees informed about compliance using education for different levels of employees, including new hires, newly promoted key-post employees and executives, as well as E-learning with computers and other methods.

Compliance Report and Consultation System

When employees suspect that there might be a compliance violation in their section, ordinarily, they should first report to and consult with their superiors and the related sections. However, if they suspect that their superiors or that many people in the section might be involved, they might feel that they are isolated, under pressure from those around them or otherwise in a difficult position that makes them wary or afraid to use in-house reporting or consultation. For such situations, we established our Compliance Report and Consultation System.

In this system, an external lawyer consults directly with the people who come to him and listens to their reports. Moreover, with the name of the person who came for consultation kept secret, the situation is reported to the Compliance Report and Consultation System Subcommittee. The Compliance Report and Consultation System Subcommittee, which also has the external lawyer as a member, investigates the situation to determine whether or not there is a violation and decides future measures in response. The external lawyer conveys this directly to the person who came for the consultation.

In order to allow our employees to use this system effectively, we make them aware of how to use it through numerous means, including articles in the Compliance Guidebook that we distribute, in-house intranet notice boards and in-house magazines.
Advancing the Development of our Doctor-Heli
Contributing to Safety and Peace-of-Mind

Doctor-Helis are the subject of high expectations as a means of rapidly providing emergency medical service. In addition to rushing doctors to locations where there are injured and ill people so that they can be diagnosed and receive initial treatment, a Doctor-Heli can be used to transfer patients with a doctor attending to a medical facility. In 2001, we delivered the BK117 C-1 as our first Doctor-Heli, and we are now continuing with our newest model, the BK117 C-2. In June 2007, the Doctor-Helicopter Special Law* was established in Japan. We want to focus on expanding the use of our Doctor-Heli in order to contribute to the safety and peace-of-mind of every member of society.

* Law for Special Measures to Secure Emergency Medical Service with Helicopters

Making the Helicopter Even More Functional for Users

We are seeking to improve our Doctor-Heli further because we believe that realizing greater usability for every user, including patients, doctors, nurses and even pilots, is a key to providing true customer satisfaction.

Our Doctor-Heli has numerous features, including large clamshell doors at the rear end of the aircraft that make it easy to roll in and roll out the stretcher. In addition, the cabin is spacious and can accommodate up to five people including the patients, a doctor, nurses and others. We are also developing the Emergency Medical Service (EMS) equipment at the core of the Doctor-Heli in consultation with numerous medical professionals. We assure close proximity to the patient by allowing the placement of the stretchers and seats to be adjusted and by making the seats movable and rotatable. In addition, the oxygen-supply device, portable respirator, defibrillator and other equipment are located functionally, and the various medical devices are stowed efficiently in medical panels, cabinets and other contrivances.

Furthermore, we have made operation of the helicopter easier for the pilot as well with improvements to the cockpit systems. Moreover, the BK117 C-2 Doctor-Heli is produced in Japan, so we have established a domestic system to provide replacement parts within 24 hours in cases of emergency. We can also dispatch engineers who are experts with the model to provide rapid response to user needs.
Realizing Improved Noise Reduction and Fuel Efficiency, and the Highest Level of Environmental Performance

With the BK117 C-2 model, we are improving both flight and environmental performance. Through the adoption of parabolic tips and negative taper main rotor blades, and by incorporating adjustable rotor speed and other functions using the latest technologies, we have realized external noise reductions that greatly surpass international standards.

Moreover, through the optimization of the fuselage aerodynamics, we have improved the allowable load and cruising range. Compared to the previous C-1 model, 10% more freight can be transported with the same amount of fuel consumption, thus contributing to the reduction of CO₂ emissions.

Improvements of Payload-Range Performance

Thorough Design for Safety and High-Level Quality Control

The BK117 C-2 model is a product that has an important role as a part of society’s infrastructure for response to fires, disasters, medical emergencies and other crises. For this reason, thorough design for safety and a high-level of quality control are necessary.

In addition to a fuselage structure that has sufficient strength against impacts, other safety design features include impact-resistant passenger seats that lessen the effect of emergency landings on passengers and an impact-resistant fuel system that uses reinforced rubber fuel tanks. With the advanced quality control skills that we have developed as an aircraft manufacturer, we hope to continue providing products and services that earn the confidence of our customers.

Voice User Voice

We have been making every effort to provide emergency medical services to critically ill patients.

I have been working in emergency medicine for the last 20 years. Over this time, pre-hospital emergency medical services (EMS) in Japan improved with the development of Doctor-Car* systems and helicopter emergency medical service (HEMS) systems called “Doctor-Heli.” In April of 2001, our Kawasaki Medical School Hospital started the very first such Doctor-Heli service in Japan. The Doctor-Heli service is one excellent system for bringing doctors to the scene when there are critically ill or severely traumatized victims.

The current BK117 C-2 model has outstanding features such as big doors at the rear of the fuselage and a spacious cabin. These features, which also include many types of medical equipment inside the cabin, make the process of transporting critically ill patients easier and allow us to continue critical medical care in the cabin without difficulty.

I believe that the further development of doctor transportation systems, such as the Doctor-Heli service, in conjunction with the efficient use of other emergency helicopters, such as those belonging to public fire departments, will improve Japanese pre-hospital EMS. Furthermore, I hope that in the near future the EMS system in Japan will be improved more and that there will be closer collaboration among EMS-related organizations so that we can work together to provide satisfactory EMS to the critically ill and trauma victims.

* Doctor-Car: an emergency vehicle that brings doctors who can provide emergency medical care at the scene and during the transport of patients to hospitals.

Ryukoh Ogino, M.D., Ph.D.
Vice Director
Department of Emergency and Critical Care
Kawasaki Medical School Hospital
Creating a Flexible Working Environment

Supporting a Balanced Working Life

We are supporting the realization of balanced working lives as a way to create workplaces where people are able to work positively. Among these efforts, we have introduced our No Overtime Day and Consecutive Vacation Days for Refreshment. For better and for worse, Japanese employees tend to work long hours and take few vacations, so these programs are designed to make them take more time off work to enjoy other parts of their lives.

No Overtime Day

We began implementing a No Overtime Day in April 2006. The details of No Overtime Day vary by workplace, but this is conducted once per week as a rule.

The purposes of establishing a No Overtime Day are to promote the mental and physical recovery of employees by separating work from home life and to create an atmosphere that encourages leaving work soon after the completion of set working hours. Labor and management are working together to implement this system, which was created in agreement between them, by conducting workplace patrols and taking other steps to administrate the system precisely.

In October 2007, we conducted a questionnaire of all employees on company systems as a whole, and included a question about their level of satisfaction with No Overtime Day. The result was that this program received the third highest level of satisfaction among all items of the survey. For this reason, we believe that the implementation of No Overtime Day is meeting employee needs, and we plan to continue it in order to make employees separate work from home life.

Consecutive Vacation Days for Refreshment

We began our Consecutive Vacation Days for Refreshment program in April 2008. In this program, at the beginning of the fiscal year employees are required to set consecutive vacation days for later in the year. When those days come, they must take a vacation from work in this system. Moreover, until FY2007, one day was provided as an anniversary holiday, but we have now expanded this to a two-day vacation.

The purpose of the Consecutive Vacation Days for Refreshment system is to promote the use of annual paid vacation days. By taking planned breaks, we hope to help employees become refreshed both mentally and physically and to create a balance between work and private life. Moreover, promoting the use of annual paid vacation days is also a goal of the company from the perspective of supporting the fostering of the next generation, which is discussed next.

Voice Employee Voice

We had been playing futsal after work for some time, but it was difficult to arrange the schedule because of the different workplace conditions of the members. Thanks to the creation of No Overtime Day, it is now easier for us to set the schedule and all get together regularly.

Kawasaki employees sweating it out at a nearby futsal court after regular working hours

In the past, we had a system for three-day vacations, but it was fairly hard to arrange my work to take three days off at one time. Now, though, taking two consecutive vacation days and linking them with weekends and public holidays makes it easier to arrange with my work, so I think this program is convenient. I have already used Consecutive Vacation Days for Refreshment to take a five-day trip to Kyushu with my family.
System for Fostering the Next Generation

We are providing various forms of support so that all employees are able to continue their jobs when they raise children. We want our employees to be able to continue working positively while balancing it with child-rearing.

In particular, we have received high evaluations for our leading efforts in our childcare leave system and other child-rearing support systems. In 2006, for example, the Hyogo Prefectural Labor Bureau gave us the Family-friendly Enterprise Commendation Prefectural Labor Bureau Director Award.

In these ways, we have emphasized the creation of systems, but we are not concerned with systems just as vessels for our policies. We are also trying to examine how to promote their actual use.

With this in mind, in our in-house magazine this fiscal year, we included interviews with employees who have made use of our systems to support the fostering of the next generation. By introducing employees who have actually used these systems to colleagues, we hope to promote understanding of these systems and encourage their use.

Main in-house systems

During pregnancy
- Handling of leaves and other absences for health guidance and diagnoses for expecting and nursing mothers
- Special work conditions for expecting and nursing mothers
  - Reduction of labor hours
  - Longer and more frequent breaks
  - Changed work starting and finishing times
  - Leaves

During birth
- Leaves before and after birth
  - Six weeks before birth
  - Eight weeks after birth
- Childcare leave
  - Until a child is three years old

Child rearing
- Special occasion leave
  - Two days (can be split)

After returning to work
- Restriction on overtime work
- Restriction on late night work
- Handling of work to allow childcare
- Nursing leave
- Elimination of restriction of the number of half-day leaves
- Use of accumulated expired paid vacation days for leave
- Other systems

Childcare support cafeteria plan
Financial support for the use of daycare centers and childcare services, for example

Article introducing systems to support the fostering of the next generation (in our in-house magazine Kawasaki)
Creating Safer and Healthier Workplace

Kawasaki has proclaimed that protecting the safety and health of its employees comes first, and aims to promote the creation of a healthy workplace and foster various activities in safety management and health management to bring this about.

Safety Management Activities

Promotion and Establishment of Occupational Safety and Health Management System

We are promoting and strengthening risk assessment in the workplace, and we are seeking to steadily improve our safety and health standards by conducting safety and health management activities that continually implement a Plan – Do – Evaluate – Improve cycle. Through such efforts, we are endeavoring to prevent occupational accidents in our workplace and create comfortable workplace environments.

Continued Implementation of the KSKY Movement

Continuing since 2002, the KSKY Movement is one of our important safety policies, with each letter standing for the first letter of a Japanese word meaning “basic rule” for K, “pointing and naming” for S and “predicting danger” for KY. The purpose of the movement is to ensure thorough compliance with basic safety rules and safety checks, enhance sensitivity to danger and toxicity, encourage every employee to willingly participate in safety actions and create a workplace where “mutual cautioning” among employees is a standard practice.

Transmission of Safety Technologies and Techniques

As one aspect of our current efforts to strengthen measures to prevent serious or similar disasters, we have made a Safety Expertise Compilation in order to transmit knowledge and expertise related to safety to future generations.

This Safety Expertise Compilation is a collection of examples of improvements and other ideas from every workplace for the realization of essential safety with equipment and machinery. By announcing this Safety Expertise Compilation for all of Kawasaki, we are seeking to further reduce workplace risks and endeavoring to transmit safety technologies and techniques through the utilization of this collection of expertise.

Safety Expertise Compilation sample

Installing safety plugs to prevent accidents with automated equipment

If a worker goes inside a safety fence in a factory while equipment is operating automatically, there is the danger of an accident in which the worker gets dragged into equipment or pinched by a robot. We have installed safety plugs in the inspection doors of safety fences to prevent the occurrence of such accidents. Until these safety plugs are disconnected to stop the machinery and other equipment nobody can enter the fenced facilities.
Occupational Health Management Activities

Specific Health Diagnoses and Health Guidance

Specific health diagnoses and health guidance for employees aged over 40 years and their dependents were begun by our health insurance association in April. We have also been cooperating as a company with the health insurance association in the implementation of these efforts and hope that they will be beneficial.

1) Determination of the health guidance level by risk factors
   • Step 1: evaluate internal fat accumulation risk by waist girth and body mass index
   • Step 2: count additional risks from examination results and questionnaires
   • Step 3: determine health guidance level group from the results of steps 1 and 2
   • Step 4: set the health guidance level taking other conditions into account

2) Implementation of the health guidance according to the risk of contracting lifestyle diseases
   • Information provision:
     This allows the recipient to understand their own physical condition based on the results of physical examinations and gives them an opportunity to reconsider lifestyle habits. (Provided annually along with the results of the physical examination)
   • Motivation support:
     This allows the recipient to consider their own lifestyle habits in order to set behavior targets and aim to continue a new lifestyle after the end of the support program. (Support provided once in principle)
   • Active support:
     In addition to motivation support, through periodic and continuous support, this also allows the recipient to consider their own lifestyle habits in order to set behavior targets and aim to continue a new lifestyle after the end of the support program. (Continuous support for three or more months)

Mental Health Measures

Through stress checks at the time of regular health diagnoses, work stress diagnoses and Fatigue Accumulation Self-diagnosis Checks during physical examinations of people who work long hours, for example, we are making efforts to improve stress levels in workplaces. In the future, we also plan to implement line-care education, self-care education and other measures through E-learning.

1) Mental health line-care (E-learning contents)
   • Importance of care at the line through examples
   • Significance of mental health care in the workplace
   • Guidelines for achieving mental health and the role of management supervisors
   • Handling consultations with subordinates and the use of mental health consultations
   • Mental health crisis management
   • Support for employees that return to the workplace
   • Improving the workplace environment
   • Self-care
   • Accurate knowledge about mental health

2) Mental health self-care (E-learning contents)
   • Mental health examples
   • What is stress?
   • Being aware of stress
   • Ways of coping with stress
   • Mental health consultation system
   • Accurate knowledge about illnesses
Toward Symbiosis with Society and People

As a member of society, we hope that we can help promote local communities and nurture their happiness. We are determined to fulfill our social responsibility as a corporate citizen by promoting coexistence with local communities.

Supporting a Collaborative Forest Restoration Project with Kochi Prefecture and the Town of Niyodogawa

We are supporting a forest restoration project that is being promoted by Kochi Prefecture and the town of Niyodogawa. Enterprises will cooperate with the community and local governments in this project to restore the forest for three years starting in 2007 as one part of an environmental conservation project by Kochi Prefecture. The area included in this agreement is 70 ha of forest called the Kawasaki-Niyodogawa Manabi-no-Mori (forest for learning), which is one part of the Niyodogawa managed forest.

In October 2007, with the goal of encouraging interaction with the local people, 13 of our new employees spent four days doing hands-on training in the Kawasaki-Niyodogawa Manabi-no-Mori.

Supporting “the I Declare CO₂ Reduction of 1kg 1day 1person” Movement

In the Team Minus 6% global warming prevention effort promoted by the Ministry of the Environment, citizens of Japan are being encouraged to reduce their individual CO₂ emissions by 1 kg per day in order to meet the reduction target of the Kyoto Protocol. We support this movement as a corporation. For example, we held a promotional campaign event at Kawasaki Good Times World from October 1, 2007.

Your goal—Reduce CO₂ emissions by 1 kg each day!

Cooperation in a Petition Effort to Restore the Seto Inland Sea

With the reduction of the natural coast and the land reclamation in the Seto Inland Sea that has occurred until now, the environments of its coastal and shallow sea areas have been changed greatly. Facing these conditions, we are cooperating with the Seto Inland Sea Environmental Conservation Conference of Governors and Mayors, as well as other groups, in an effort to gather signatures on a petition calling for legal measures to promote the restoration of the Seto Inland Sea. For collecting over 15,000 signatures from employees and their family members, we received a certificate of appreciation from Hyogo Prefecture as an enterprise that makes proactive efforts for the environment.

Participating in Hyogo Canal Beautification as a Company Based in Kobe

Kobe is a beautiful city that features Hyogo Canal, Japan’s largest canal. As a company based in Kobe and as a member of the Hyogo Canal Association, we participate in volunteer cleaning activities to keep Hyogo Canal beautiful.

The Hyogo Canal Association was established in 1971 to keep the canal beautiful for our children and grandchildren through “purification of the water and beautification of the surrounding landscape.” This association cooperates with the government and contributes to the local community. Numerous enterprises in the neighborhood of the canal now agree with its mission and participate in beautification efforts.
Donation of Disaster Prevention Training Equipment to Promote the Security of the Community

Kawasaki Precision Machinery donated disaster prevention training equipment (fire fighting challenger, emergency call training set, etc.) to the Kobe City Nishi Fire Station so that it could be used in citizen disaster prevention training. This is the third time that we have donated equipment to the Kobe City Nishi Fire Station. At the acceptance ceremony held on February 28, 2008, Kobe City Nishi Fire Station Chief Kanagawa gave us a certificate of appreciation from the Mayor of Kobe for our contribution to the local community.

Donations to Support Areas Stricken by Disaster

- **Support for Recovery from Cyclone Damage in Myanmar**
  Kawasaki Plant Systems contributed 5 million yen to support the victims of the cyclone that struck the Union of Myanmar in May 2008.

- **Support for Recovery from the Earthquake Disaster in China's Szechwan Province**
  Kawasaki Heavy Industries, Kawasaki Shipbuilding, Kawasaki Precision Machinery and Kawasaki Plant Systems contributed 20 million yen to support the victims of the large-scale earthquake disaster in China's Szechwan Province that occurred in May 2008.

Deepening Communication with the Community at Kawasaki Good Times World

On May 17, 2006, we opened Kawasaki Good Times World, our corporate museum. The goal of this museum is to allow as many people as possible to experience the “wonders of technology” and the “importance of craftsmanship.” We also established this facility in order to deepen communication with members of the community. Starting with our history that is over 100 years long and accurately showing changes through the eras, we introduce our representative products for the land, sea and air that have contributed to the development of society with our leading-edge technology. Moreover, the museum also holds various events and other programs as a part of our efforts to communicate with the local community.

Over 4,300 People Visiting Our Model Train Running Event

We held our second model train running event of the year in September 2007. This event had numerous attractions including the presence of 2,500 model train cars. Over 4,300 people attended during two days.

Vissel Kobe Public Chat and Autograph Session

We are supporting the Vissel Kobe J1 football club by, for example, being a uniform sponsor. In December 2007, we held a public chat and autograph session at Kawasaki Good Times World with Vissel players Yoshito Okubo and Kang Jo Park. Many fans came to this fun event, which had an at-home atmosphere, and took photos with and interacted with the players.