

Medium-Term Business Plan (FY2010-2012)

—For Achieving Kawasaki Business Vision 2020—

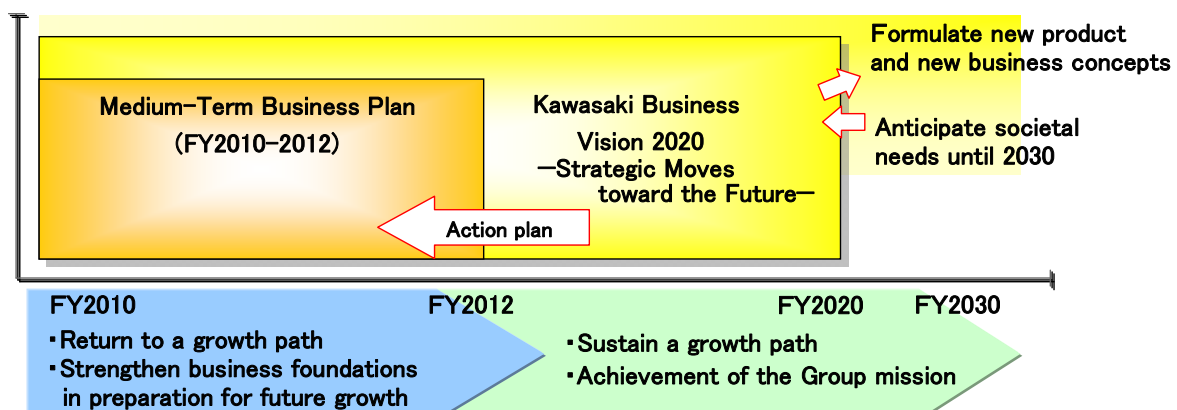
Kawasaki Heavy Industries, Ltd. (KHI) has established the Medium-Term Business Plan (FY2010-2012) and Kawasaki Business Vision 2020, the premise for the business plan, as described herein.

In the previous Global K medium-term business plan, the KHI Group set the goal of making the leap to a global enterprise and undertook business growth in North America, Asia, and other overseas markets and improvement of the financial position. The Group achieved tremendous results under the plan, including record-high profits for two consecutive years in FY2006 and FY2007. Nevertheless, the Group has been hard hit by the global economic recession from the autumn of 2008 onward, especially in its mass-production businesses.

The newly established Medium-Term Business Plan (FY2010-2012) is the outcome of a review of Global K undertaken to swiftly define the direction and strategy of the KHI Group as it copes with the sudden change in the business environment. The plan aims to clearly define strategies and policies in two areas.

- 1) Return to the growth path followed until the first half of FY2008 during the term of the medium-term business plan, which ends in FY2012.
- 2) Define a vision for the KHI Group in 2020, set forth a roadmap and strategy to attain the vision, and steadily implement policies and measures for future growth.

< The Relationship between the Kawasaki Business Vision 2020 and the Medium-Term Business Plan >



1. Kawasaki Business Vision 2020—Strategic Moves toward the Future

Kawasaki Business Vision 2020 sets forth a vision of the KHI Group in 2020 and a roadmap and strategy to attain the vision. To achieve the Group mission

“Kawasaki, working as one for the good of the planet

- We are the Kawasaki Group, a global technology leader with diverse integrated strength.
- We create new value –for a better environment and a brighter future,”

the Company has clearly defined a business vision to which KHI should aspire and the strategic direction for each business segment. The vision also defines a quantitative vision of the KHI Group in FY2020 to facilitate consideration of management resource allocation planning from a long-term perspective.

(1) Business Vision

- 1) A company that contributes to customers and society in three principal business sectors: transport systems, energy and environmental engineering, and industrial equipment
- 2) A company that nimbly adapts to changes in the business environment and has established an earnings structure that makes possible sustainable growth investment
- 3) A company that develops business globally while attaching importance to *monozukuri* (manufacturing) in Japan
- 4) A company that continues to develop and refine environment-friendly business operation
- 5) A company that places importance on CSR and is trusted wherever it does business around the world
- 6) A company whose employees work with vigor and enthusiasm in a safe, worker-friendly work environment

(2) Basic Strategy

1) Strengthening of the business base

- Classify each business as a “developing business,” a “core profit-making business,” or a “business requiring review” and concentrate management resources on developing businesses and core profit-making businesses. On the basis of careful examination of market trends, implement structural reform or downsize or withdraw from businesses requiring review.
- In the existing businesses that constitute the Group’s earnings structure, maintain and increase competitiveness and create stable earnings and cash flow. Furthermore, actively pursue expansion into new products and new markets to develop an earnings structure for the future.

2) Reinforcement of development and technological capabilities and *monozukuri* capabilities

- Anticipate developments in society until around 2030 and identify business sectors where needs will increase in the medium term to long term. On that basis, utilize the Group’s intellectual assets to nurture and reinforce competitive new products and businesses.

- Position the Group's plants in Japan as development and production bases that integrate advanced technological capabilities and reinforce development and technological capabilities and *monozukuri* capabilities.

3) Global business development in overseas markets

- In overseas markets that offer prospects for expansion, principally developing countries, formulate regional market entry strategies based on existing products and technologies while simultaneously pursuing market development through product development adapted to regional needs.

4) CSR and environmental response

- Enrich lifestyles and improve the global environment through products that incorporate the ultimate in energy-saving, low environmental impact technologies.
- Establish the 2020 Environmental Vision and engage in environment-friendly business operation. Be conscious of corporate social responsibility in all business activities and steadily implement CSR activities.

5) Implementation of personnel policies

- Develop and improve such systems as personnel and education and create a corporate climate in which employees strive to improve their skills and can take maximum advantage of their abilities.
- Prepare a safe, worker-friendly work environment that reflects consideration of work-life balance and diversity.

(3) Quantitative Vision of Consolidated Performance in FY2020

-Net sales: ¥2 trillion (Assumed exchange rate: ¥90=US\$1)

FY2009 Comparison (FY2009 sales: ¥1.18 trillion)

-Net sales: Increase of ¥820 billion

(including ¥600 billion from new products and new businesses)

-Overseas sales contribution: 30% increase (ratio to total sales: 50% to 65%)

-Net sales by region:

Japan: 30% increase; Developed countries: 100% increase;

Developing countries (Asia): 200% increase; Developing countries (Other): 100% increase

-Recurring profit: ¥100 billion or higher (Ratio of recurring profit to sales: 5.0% or higher)

(4) Management Resource Plan (Vision)

1) Capital investment

-Annual basis of ¥60 billion

Steadily implement scheduled updating of existing facilities and capital investment in overseas

facilities in line with overseas sales expansion.

2) R&D investment

-Annual basis of ¥60 billion

Investment will expand in comparison with FY2006 to FY2009 (annual average: ¥37.0 billion) owing to new product and new business development in preparation for 2020.

3) Number of employees

-Basis of 35,000 people at the FY2020 year-end (an increase of 2,700 employees from the FY2009 year-end)

Aim to achieve the business vision by implementing productivity improvements and controlling hiring to below the level of the sales increase.

(5) Vision for Each Business Segment

-Shipbuilding

One of the world's leading shipbuilding groups and an enterprise that plays a key role in marine transport, a critical part of the world's economic infrastructure, and contributes to solving critical global problems through energy conservation, low environmental impact products, and other measures

-Rolling stock

A rolling stock manufacturer that takes advantage of world-class technologies and quality to engage in wide-ranging businesses, from high-speed railcars to LRT

-Aerospace

A leader in Japan's aerospace industry and an aircraft manufacturer with solid international competitiveness in terms of quality, cost, and delivery speed

-Gas Turbines & Machinery

An equipment and systems manufacturer that does business globally in the transport system and energy and environmental engineering sectors

-Motorcycles & Engines

A world-class personal vehicle and engine manufacturer focused on motorcycles that leverages further penetration of the Kawasaki brand, supported by advanced environmental technologies, to leap ahead

-Plant & Infrastructure Engineering

A distinctive plant engineering enterprise that provides products and technologies that can contribute to global environment protection and CO₂ reduction, with a focus on energy conservation, resource conservation, and resource recycling

-Precision Machinery

Industrial Hydraulic Products

A manufacturer of top brands in the global motion control sector that provides customers around the world with drive and control systems, engineering, and services centered on hydraulics technologies

Industrial Robots

A robot manufacturer that has established a position as a top provider of quality and total solutions in the automotive, semiconductor, and solar panel manufacturing sectors and opens up new market sectors with latent automation needs

2. Medium-Term Business Plan (FY2010-2012)

The Medium-Term Business Plan (FY2010-2012) establishes policies and measures for returning to a growth path by rebuilding the earnings structure and policies and measures to strengthen business foundations in preparation for future growth. Also, the Company has positioned the Medium-Term Business Plan as a concrete action plan for the first three years of the Kawasaki Business Vision 2020 and shortened the period of the plan to three years from the previous five years. By shortening the period of the business plan, the Company aims to define the timing for a return to a growth path by FY2012 and make possible a rapid and flexible response to changes in the business environment.

(1) Basic Objectives

1) Return to a growth path

- Rebuild the earnings structure during the term of the Medium-Term Business Plan and return to a growth path in preparation for achievement of the Kawasaki Business Vision 2020

2) Reinforcement of overall Group profitability

- Pursue radical cost reduction and productivity improvement in all development, design, procurement, and *monozukuri* processes and reinforce overall Group profitability by implementing bold structural reform of businesses experiencing or expected to experience demand shortages.

3) Strengthen business foundations in preparation for future growth

- Steadily nurture new products and new businesses in preparation for achievement of the

Kawasaki Business Vision 2020 and engage in business overseas, focusing on developing countries.

4) Reinforcement of the Group's collective strength

- Reorganize the business structure through the re-merger of Kawasaki Heavy Industries, Ltd., Kawasaki Shipbuilding Corporation, Kawasaki Precision Machinery Ltd., and Kawasaki Plant Systems, Ltd. and establish an internal company system with companies to operate in seven business segments: Shipbuilding, Rolling Stock, Aerospace, Gas Turbines & Machinery, Plant & Infrastructure Engineering, Motorcycles & Engines, and Precision Machinery. In this way, accelerate the upgrading of existing products and product development in new business sectors. In particular, maximize the benefits of establishing a Plant & Infrastructure Engineering company.
- Reinforce the Group's collective strength by promoting the sharing and utilization of intellectual assets within the Group related to technology, marketing, and human resources.

5) Realization of a worker-friendly work environment

- Develop such systems as personnel and education that place importance on work-life balance and diversity in preparation for further development of environmental management and CSR activities.

(2) Quantitative Targets

Achieve the quantitative vision in the Kawasaki Business Vision 2020 by completing rebuilding of the earnings structure and accomplishing a return to a growth path during the term of the Medium-Term Business Plan.

Consolidated Quantitative Targets for FY2012

-Net sales	¥1,400 billion	-Before-tax ROIC	8.5%
-Operating income	¥52 billion	-Interest-bearing debt	¥430 billion
-Ratio of operating income to sales	3.7%		(FY2012 year-end balance)
-Recurring profit	¥56 billion		
-Ratio of recurring profit to sales	4.0%		

	(Billion yen)			Reference
	FY2009 (actual)	FY2010 (forecast)	FY2012 (target)	FY2020 (vision)
Net sales	1,173.4	1,280.0	1,400.0	2,000.0
Operating income (Ratio to sales)	-1.3 -0.1%	32.0 2.5%	52.0 3.7%	
Recurring profit (Ratio to sales)	14.2 1.2%	32.0 2.5%	56.0 4.0%	100.0 5.0%
Before-tax ROIC	0.2%	5.6%	8.5%	

Debt-to-equity ratio (Fiscal year-end)	1.55	1.55	1.30
Equity ratio (Fiscal year-end)	20.4%	20.8%	24.0%

Exchange rate assumption: ¥90=US\$1

ROIC (return on invested capital) = (before-tax profit + interest expenses) ÷ invested capital

Debt-to-equity ratio = balance of interest-bearing debt ÷ total net assets

Shareholder returns

-Continue to pay stable dividends in line with business results, using a consolidated payout ratio of 30% as the medium-term to long-term basis for dividend calculation.

(3) Management Resource Plan

1) Capital investment

-Annual basis of ¥58 billion

Steadily implement new project-related investments and updating of aging facilities.

2) R&D investment

-Annual basis of ¥42 billion

Investment will expand in comparison with the average of the past three years (¥38 billion per year) owing to R&D activities to nurture new products and new businesses.

3) Number of employees

-33,000 (at the fiscal 2012 year-end)

Minimize business environment-driven workforce fluctuations and maintain stable employment.

(4) Key Strategies for Returning to a Growth Path

- 1) Reinforce the capability to respond to changes in the business environment by lowering the breakeven point for mass-production businesses through means including fixed cost reductions and optimize inventory levels. Make putting the motorcycle business in the black an especially important priority.
- 2) For businesses that produce custom-built products based on individual orders, emphasize profitability, increase cost competitiveness by implementing rigorous risk management in business operation, and achieve the profit target.
- 3) Improve the financial position through cash flow improvement and reduction of interest-bearing debt.

(5) Key Policies and Measures

- 1) Reinforcement and nurturing of businesses that will constitute the future earnings structure
 - The business units and headquarters collaborate in the continuous nurturing of new products and businesses, taking a perspective that extends to 2030.
 - Strengthen the liaison and incubation functions for the rapid commercialization of developed technologies
- 2) Acceleration of global business development
 - Engage in product development and market development that take into account the individual market characteristics of China, India, Brazil, and other developing countries in addition to European and North American countries.
 - In response to overseas business expansion, develop an optimal business structure at the global level through collaboration among business sites in Japan and abroad and collaborative ventures with business partners in various countries.
- 3) Group-wide sharing and utilization of intellectual assets
 - Put in place mechanisms to promote group-wide sharing and utilization of intellectual assets accumulated at each of the business units in areas such as technology, marketing, procurement, production, and human resources.
- 4) Strengthen technological capabilities
 - Expand R&D investment at business units and headquarters and reinforce the upgrading existing products and development of new products.
 - At the Corporate Technology Division, engage in anticipatory research into core technologies for future businesses and reinforce R&D of basic technologies shared throughout the Group.

5) Strengthen product development and *monozukuri* capabilities

- Pursue optimization of all development, design, procurement, and manufacturing processes and implement radical cost reduction and productivity improvement.

6) Effective utilization of plants and business sites

- Responding to changes in the business environment, restructure the plants to ensure the effective utilization of each business site, focusing on plant complexes where multiple business units are located.

7) Development of human resources, personnel systems, and the workplace environment

- Implement policies and measures to reinforce management capabilities, business execution capabilities, and autonomy and develop global human resources.
- Develop a balanced performance-based compensation system and personnel systems that increase employee motivation and the desire to develop skills.
- Create a workplace culture of putting safety first and implement policies that place importance on work-life balance and diversity.

8) The practice of environmental management

- Establish the seventh Environmental Management Activities Plan to promote a low-carbon, recycling society in harmony with nature and reduce green house gas and waste emissions in business activities.

9) IT strategy and systems development

- Strengthen the capability at headquarters to formulate and implement a Group information strategy and develop and reinforce systems at information departments throughout the Group.

10) Implementation of group-wide risk management

- In addition to risk management implemented at the business units, develop systems for identifying and managing from group-wide perspective critical risks common to all the businesses, and strengthen initiatives.

11) Qualitative improvement of headquarters departments

- Enhance specialized skills at headquarters administrative departments and implement initiatives to increase medium-term and long-term corporate value from the perspective of total optimization.