

## Governance and Compliance

### In Keeping with the Public Trust

Kawasaki hopes 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

The Kawasaki Group endeavors to improve its corporate value by establishing a good relationship with our stakeholders, including customers, employees, stockholders, investors, business partners and local communities to maintain efficient and sound operation. With this as our basic concept, we plan to establish corporate governance suitable for our Group, and to improve it.

##### Structure of Corporate Governance

In Kawasaki's 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

Although we have no outside directors, we have some directors independent of the executive roles of operations so as to provide reinforced supervision and monitoring of the Board of Directors on general management affairs.

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

##### Philosophy of Corporate Ethics

Kawasaki 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.

##### Efforts to Promote Internal Control and Compliance

We have the CSR Committee, headed by the President, as the supreme organ of decision-making related to the Group's internal control and compliance.

The CSR Department was also set up as a special organ to supervise the entire Group to ensure promotion of internal control and compliance.

A Compliance Reporting and Consultation System has been created to enable employees to report on or receive advice on compliance violations through an outside legal office.

Each internal company and main subsidiaries\* also has their own CSR Department and Compliance Committee so that the entire Group can effectively establish a concrete and powerful system for internal control and compliance.

\* main subsidiaries: Kawasaki Shipbuilding Corporation, Kawasaki Precision Machinery Ltd., and Kawasaki Plant Systems, Ltd.

## 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. Ensure Appropriate Accounting Procedures**

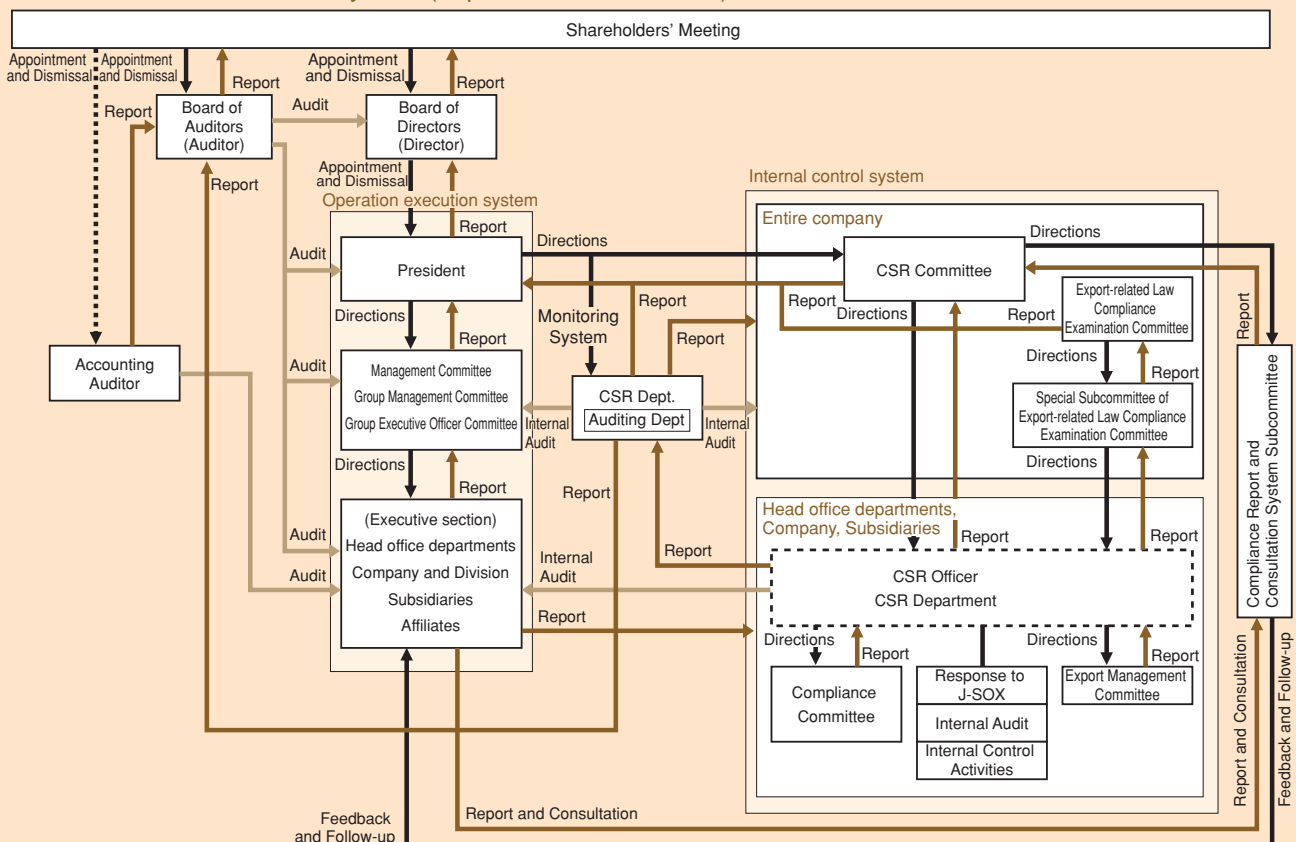
We should carry out recording and accounting of corporate activities correctly and precisely according to the best practice specified by laws, regulations and standards.

**5. Comply with Laws, Regulations and Social Rules**

We should realize the importance of legal, social and ethical compliance, and aggressively promote such compliance.

Kawasaki Heavy Industries, Ltd. was ordered by the Fair Trade Commission to pay penalty charges for violating the Antimonopoly Law with respect to a tunnel ventilation system project and a water gate system project in FY2006. To eliminate any recurrence of such a situation, Kawasaki is making an all-out company-wide effort to reinforce our compliance structure so as to realize the earliest possible recovery of our social trustworthiness.

### Internal Control Promotion System (Implemented in FY2007)



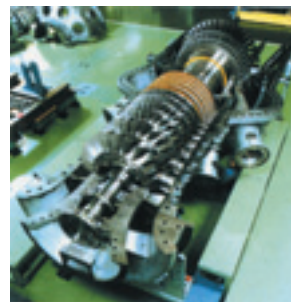
## For Customer Satisfaction

# Higher Reliability and Advanced Quality Control for Kawasaki Gas Turbines

## Quality Assurance and Customer Support for Kawasaki Gas Turbines

Kawasaki's gas turbines are widely installed as stand-by power generators and cogeneration systems in the world market.

Such high reliability is supported by our technology and "advanced quality control," fully established in all stages from design and development to production and installation.



L20A type gas turbine

## Coordination of Departments for Customer Satisfaction

In 1942, we produced Japan's first prototype jet engine. In 1952, we started the overhauling of US air forces' jet engines. The technical know-how accumulated in those years allowed us to develop and produce our first industrial gas turbine in 1974.

Since then, we have developed and supplied a wide range

of products to meet the market needs and customers' requests, and currently produce about 300 gas turbines a year. All the departments concerned join forces to produce and provide quality products at all stages from design to production and delivery to customers.

## Quality Assurance and Customer Support for Kawasaki Gas Turbines



Round-the-clock monitoring with remote monitoring equipment

After delivery, Kawasaki Gas Turbines & Machinery Company and Kawasaki Machine Systems, Ltd., a company specialized in sales and service, jointly supports customers. Customers' comments and requests for improvement or correction are fed back to the relevant divisions to enable further quality improvement.



Inspection before shipment from factory

Except certain large machines and equipment, Kawasaki Gas Turbines are carried out combined testing at the factory and ships out after passing the test. After shipped products arrive, legal inspection and various tests necessary for practical operation are conducted on-site to verify the performance and quality of the products.



Product development meeting

Product Development

Owing to higher start-up reliability and thermal efficiency, which are major features of Kawasaki gas turbines, we have a wide variety of product lines to meet customers' needs.



System design

Our flexible design system is another feature; they can precisely incorporate the customers' requirements into product specifications. Our project management is also flexible; it enables delivery schedule according to status of customers' work.

System Design and Process Management

At Improvement of Customer Satisfaction from the Viewpoint of Both Quality and Service

After-sale Service

Factory and Field-Testing

Inspection and Quality Control in Production

Quality Assurance and Parts Delivery



Inspection during assembly process

Kawasaki gas turbines are manufactured in production lines controlled with a level equal to that of aircraft engines. Hence, quality and reliability is highly guaranteed.



Dimensions measurement and inspection of procured parts

Quality Assurance Department takes various actions to ensure quality, including periodic in-house education and training, internal auditing, and measures to specifically meet the targets provided by the General Manager.

## Materializing Customers' Needs

### Kawasaki Machine Systems True to the Idea of Market-in

Kawasaki Machine Systems, Ltd. (KMS) is a company specializing in sales of gas turbines, robots and construction machinery, and the provision of their related services.

KMS conducts fine-tuned and customer-centered sales and service activities to meet varying needs of the market, thereby winning its high confidence.

### Better Contribution to Society through Support of Industry

In the gas turbine section, KMS promotes the development and provision of technologies designed to make effective use of limited energy resources with the cogeneration system.

In the robot division, KMS developed automation systems equipped with robots, which now realize the production of quality products and overall efficient production activities. In the construction machinery section, we provide construction machines that fit the nature of each work site, such as for stone crushing work, snow removal work, tunneling work and others to maintain those various infrastructures, trying to achieve a better society through its support of various industries.

### Solving Customers' Problems with the Market-in Concept

The primary role of KMS is to sale Kawasaki products and provide the related services, and we operate our business with an idea of market-in, under which we think about how to solve customers' problems as our own, propose solutions, and turn customers' needs into products.

Take a cogeneration system, for instance. KMS proposes an optimal energy mixture that meets each customers' power consumption and demands as well as their thermal demands. Another proposal would be, in this case, cogeneration system that can also serve as a stand-by generator in order to ensure efficient system and minimize cost to meet customers' needs.

In the robots division, KMS proposes efficient automation that meets the customers' needs.

In the construction machinery section, we proposed development of a high-speed snow removing dozer that can run at up to 49 km/h and start up and accelerate twice as fast as the conventional machine, and provided the new snow removal machine together with Kawasaki Heavy Industries, Ltd. One of the chronic problems with conventional snow removers is their slowness in moving; it took them a lot of time to move between places, and that caused traffic congestion. This problem was solved by our new machine with the new function: speed. This is just one example of how we listen to the voice of the front line, and practice the idea of market-in.



Emergency gas turbine generator



Gas turbine cogeneration system



Painting robot



Handling robot



Wheel loader



Snow remover (left) and rotary snow-plow (right)

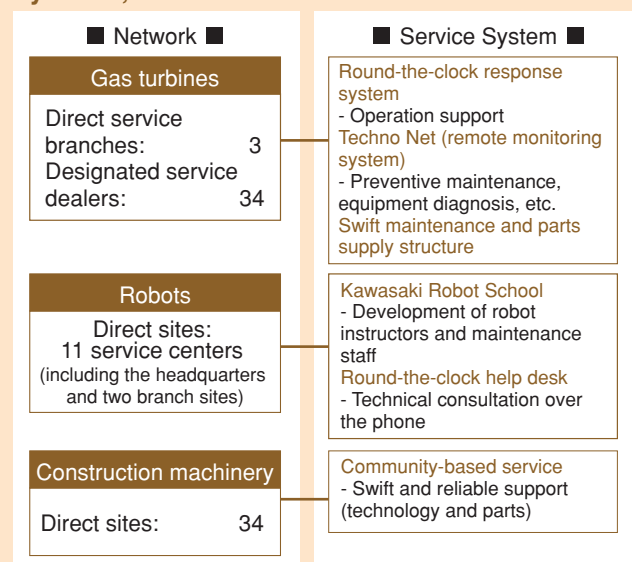
### For Elongated Use of Kawasaki Products

The gas turbine section and robot section have a round-the-clock support system. The construction machinery section operates a locally based sales and service network with major bases located all over the country.

To help Kawasaki customers use for as long as possible, KMS carries out a well-developed after-sale service system, which includes the provision of periodic inspection. Customers' requests and demands are fed back to the development and production sections through development meetings and quality meeting sessions so as to encourage the smooth improvement of performance and quality.

KMS always wants to keep in touch with customers, thinking and feeling as if we ourselves were customers, so as to always provide safe, practical and easy-to-use products as well as fine-tuned service.

### Service Structure of Kawasaki Machine Systems, Ltd.



## For Employee Welfare

### Creating an Enthusiastic Work Environment

Kawasaki strives to create a workplace in which each and every one of its employees can work enthusiastically while they show off their individuality, and we have introduced a variety of systems for this, and strive to enrich their content.

### Supporting Employees with a Sense of Both the Value of Work and the Value of Life

#### System for Fostering the Next Generation

We provide our employees with various support programs that allow them to continue to work with enthusiasm while making a balance between work and child rearing. One such support is revision of the pre- and post-natal leave. We extended it for two more years, that is, until the child reaches the age of three. We also promote an atmosphere of understanding and cooperation toward employees rearing children, and provide financial assistance to cover part of the costs of social services, such as daycare nurseries and babysitters. Our actions to support child rearing and family care were highly evaluated and therefore rewarded by the Prefectural Labor Bureau Director Award by the Labor Bureau of Hyogo Prefectural Government in October 2006.



Kawasaki's employee presenting a case study report at the awarding ceremony for Kawasaki recognized as a "Family Friendly Corporation"

companies and our efforts to create a work environment friendly to senior citizens.



General manager of the Personnel & Labor Administration Dept. Mihara (left) receives a certificate of merit for the Health, Labor and Welfare Minister Special Prize awarded to Kawasaki

#### Key-Post<sup>\*1</sup> Reemployment System

The reemployment scheme was also studied for application to the key-post employees, and it was decided that although no extension of retirement age was applied, a reemployment period of 3 to 5 years would be applied in stages from October 2006. In and after 2014, employees who had key-posts will be allowed to work until 65 years of age at the longest. This arrangement makes an effective use of valuable human resources with managerial skills, experience and knowledge even after their retirement and is sure to bring benefits both to the employees themselves and the Company.

The work-net section, set up to operate the reemployment scheme for key-post employees as an assemblage of in-house labor market conditions as well as an organization for these employees to adjust and move their position, mobilizes and utilizes the seasoned staff by converting the data on individual experiences and capabilities into the database, and provides post-retirement life support by holding training on how to work after retirement to managerial employees well before their retirement.

#### Key-Post Personnel Affairs and Handling System Combining "Challenge" and "Trust"

A new personnel affairs and handling system is to begin for key-post employees, which adjusts compensation depending on the individuals responsibilities, while at the same time aiming to establish an organization that realizes sustainable growth. The key-post staff bracket is divided to the organizational management career system that bears the burden of organizational operation as heads of departments and the senior professional career system for those who do higher level work by using their business knowledge and experience, and the compensation is set depending on the role of each type of career. Neither the organizational management career system nor the senior professional career system is fixed, and employees of either system can be exchanged depending on their individual performance, suitability and specialty.

#### Child-bearing support available at each stage



#### Increasing Opportunities to Work for Senior Citizens

Kawasaki decided to extend the retirement age in stages starting in April 2005, and the retirement age will settle at 63 years of age in 2010. In addition, a system was put to effect in 2006 to offer a reemployment opportunity to allow for one or two more years of work, and ultimately in 2012, our employees will be able to utilize their skills and knowledge until the age of 65 using two-year reemployment right after retirement at 63.

Kawasaki was awarded the Health, Labor and Welfare Minister Special Prize in October 2006 for our active involvement in employee welfare, particularly the decision to extend the retirement age ahead of other

\*1 Key-post: employees at the post of section manager or higher

## Making the Workplace Safer and Healthier

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 the Management System

We assess risks attributable for operational work or operational environment and promote activities that can reduce the risks based on the results of the risk assessment.

#### 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 work place where "mutual cautioning" among employees is a standard practice.

#### Safety Patrol by the Japan Industrial Safety and Health Association

We have asked the Japan Industrial Safety and Health Association, a juridical entity that evaluates safety, to have their safety inspectors patrol our sites since 2004. With the fresh suggestions and indications of these outside parties, we steadily improved the safety management of our business sites. This year is the second time for all the sites to have the Association's patrol, and we asked the Association to change what to patrol so that we can find more room for improvement.



Safety patrol by third-party safety inspectors

### Health Management Activities

#### Health Seminars

Company-wide THP\*2 activities include holding of such health seminars as "Quit Smoking Challenge Class," "Health Habit Improvement Class," "Blood Sugar Reduction Class," and "Dental Health Study Class" to help our employees improve their health management.

Those seminars are intended for new employees and other employees who were diagnosed as having a disease associated with adult lifestyle habits, or signs thereof, through a regular medical checkup.

A scene of the classroom on how to lower high blood sugar held in 2006 at the Kobe head office



Employees learning the facts, knowledge and skills for reducing high blood sugar such as about eating, exercise and sleep



Exercise drill: Employees walking around the head office building to see how their blood sugar changes after exercise

#### Stress Level Check

Stress levels for each employee are measured during periodic physical checkups, and those employees who are identified as having a high level of stress receive individual counseling from an industrial medicine specialist. In FY2007, we plan to take measures to mitigate employees' stress at the workplace based on the workplace-derived stress level diagnosis.

#### Fatigue Self-Assessment Check

Workers who work over-long stretches of time are obligated to fill out a work fatigue self-assessment checklist. Those whose degree of accumulated fatigue is high receive individual counseling from an industrial medicine specialist.

#### Asbestos Control

As part of our efforts toward asbestos removal, we follow the various laws and regulations and work to consider the health of our employees and retirees who may have been exposed to asbestos. We also keep in mind the protection of the surrounding environment of our business sites according to the guidance of concerned authorities.

#### Improvement of Health Check System for Early Detection of Cancers

We plan to establish a medical examination system used in concert with the pepsinogen tests (blood tests) for the purpose of detecting stomach cancer in its early stages. We also plan to review an examination system that utilizes cancer marker checks.

\*2 THP (Total Health Promotion)

## Coexistence with Communities

### Toward Symbiosis with Society and the People

The Kawasaki Group hopes we can help promote local communities and nurture their happiness as a member of society. We are determined to fulfill our social responsibility as a corporate citizen by promoting coexistence with local communities.

#### Tying Up with Kobe University, Setting Social Contribution as Our Common Philosophy

Kobe University and Kawasaki Heavy Industries, Ltd. signed an agreement on industrial-academic cooperation with social contribution as their common philosophy in October 2006. The purpose of this bilateral concord is to fuse the "wisdom" of Kobe University with the "manufacturing" of KHI to create new values and projects for the betterment of society. Close ties, as represented by promotion of joint research and human resources exchange and mutual use of facilities, should allow us to solve the various problems of our present times that concern energy and the environment.



Representatives of Kobe University and Kawasaki Heavy Industries announcing the industrial-academic tie-up



Work experience at Kobe Works

#### Cooperating with the "Trial Week" as a Member of Local Community

The Trial Week is a public initiative jointly conducted by school and local community for second graders of all public junior high schools in Hyogo prefecture to nurture the moral values of students by exposing them to work experience. Our factories in Hyogo, such as Kobe Works, receive students of nearby junior high schools and provide them with opportunities to experience manufacturing at field workshops in the compound every year.

#### Cooperating with the National Convention of Motorcycle Safety Riding

The National Convention of Motorcycle Safety Riding is held at the Education Center of the Suzuka Circuit, Mie Prefecture, every summer to improve the safety riding skills of motorcycle riders and their compliance with traffic rules, and eventually promote prevention of traffic accidents. Kawasaki cooperates with the operation of the convention, sent six judges, and provided 12 vehicles this summer.



Women's class (block snake)



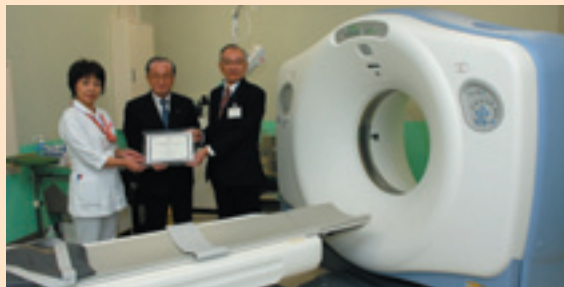
Donation of money and 20 motorcycles to the governor of Yogyakarta

#### Support to Earthquake Victims

The Kawasaki Group donated a total sum of about ¥12 million to support the victims of the devastating earthquake that shook the middle of Java, Indonesia, in May 2006. The donation included relief money of ¥9 million through Japan Red Cross, and \$10,000 in monetary and 20 motorcycles to the province of Yogyakarta by P.T. Kawasaki Motor Indonesia. We also repaired for free motorcycles damaged by the disaster through dealers.

## Kawasaki Donated Advanced Medical Equipment and Emergency Medical Equipment

As part of our local contribution to improved emergency medical preparedness, our Rolling Stock Company (Hyogo works), in celebration of its 100th anniversary made donations to Kawasaki Hospital located in their neighborhood area for introduction of advanced 64-row multislice CT.

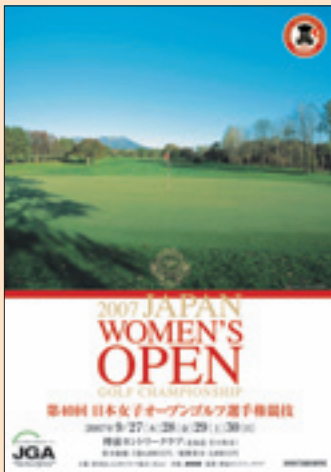


Chairman of Kawasaki Hospital, Ichihara (rightmost), and Kawasaki's Senior Vice President Segawa (center)

Kawasaki Precision Machinery Ltd. donated AED (Automated External Defibrillator) and two sets of its training equipment to the Kobe Municipal West Fire Department.



Chairman of the Board, Kawasaki Precision Machinery, Sakamoto (left), received Kobe Mayor's certificate of appreciation from Fire Chief Ono (right), West Fire Department, Kobe City



## Support of Japan Women's Open Golf Championship Event September 27 to 30, 2007

The Tarumae Country Club, Tomakomai City, Hokkaido, run by Kawasaki Life Corporation was chosen as the venue of one of the three major Japan open golf competitions, Japan Women's Open Golf Championship. Against the backdrop of increased popularity of women's golf tournaments in Japan, we provided competing golfers with the excellently arranged golf course to help them show wonderful performances and were pleased that golf fans who visited the Tarumae Country Club could enjoy a wonderful golf competition in the spread of grand nature.

- Sponsorship: Japan Golf Association ● Co-sponsorship: NHK
- Support: Tarumae Country Club <http://www.tarumae-cc.jp/>

## Kawasaki Good Times World Attracting over 240,000 Visitors in One Year after Opening

The Kawasaki Good Times World, our corporate museum that opened its doors in May 2006 in Kobe, attracted over 240,000 visitors in one year. The facility is designed to help visitors touch and feel "the wonders of technology" and "the importance of craftsmanship" in the zones of land, sea and sky. Getting on a real Shinkansen train or a helicopter, watching the launching ceremony of a ship on a wide screen and much more fun experiences await visitors at the Kawasaki Good Times World, the place where we can deepen mutual communication with people.



Kawasaki's technologies contributing to the world in various fields