THEME

# We will always act with integrity and good faith to merit society's trust.

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Corporate governance W Pursuing sound, transparent management, we will realize the independent operation of each business division and the application of the combined strengths of the Group.

credibility. Risk management

capable of providing the most appropriate response

Information security We will institute rigid information security measures and maintain the safety and security of our information. Information disclosure We will disseminate corporate information in the appropriate manner and at the appropriate time, while further improving the substance of disclosure. Business partners Coexisting with our business partners and sustaining equitable partnerships with them, we will also encourage their cooperation with CSR activities.

# **The Corporate Governance System**

Ideal

The Company adopts a statutory auditor system of corporate governance and has appointed an independent auditor.

## **Corporate Governance**

Kawasaki Heavy Industries, Ltd. (KHI) has established a corporate governance system that accommodates the KHI Group's operations, with the Board of Directors and auditors playing central roles in governance, as they continuously work to improve this system.

The basic stance of the KHI Group as a whole regarding corporate governance is to endeavor to increase the Group's corporate value through the highly transparent, efficient, and sound management of its operations as the Group works to build solid relationships with all of its stakeholders, including shareholders, customers, employees, and the community.

### **Overview of the Corporate Governance System**

The Chairman serves as the presiding officer of the Board of Directors, which consists of 12 directors (authorized number: 15 directors). The Company has four corporate auditors and has established a Board of Auditors. In addition to the Board of Directors, the Company has established a Management Committee and a Group Executive Officer Committee, both of which are composed of representative directors and managers responsible for major subsidiaries, while the Group Executive Officer Committee also includes executive officers. To reinforce the oversight and monitoring function of the Board of Directors with respect to management overall, the Company appoints directors who do not have roles in the execution of operations. With regard to corporate auditors, to ensure objectivity and neutrality in the management oversight function, the Company appoints two outside corporate auditors with no business relationships or other vested interests in the Company. To ensure the reliability of financial reports, the Company appoints internal corporate auditors who have considerable knowledge of finance and accounting. The Board of Directors appoints executive officers to conduct business operations. The Board of Directors decides the basic objectives and policies for the execution of operations under the management plan and promptly issues directives for implementation to all executive officers. The Group Executive Officer Committee ensures that the objectives and policies are implemented. The Management Committee, which consists of representative directors and managers responsible for major subsidiaries, and the Board of Directors periodically follow up on the status of implementation of the management plan. The Company clearly defines the management responsibility of directors by means of incentive based compensation that reflects business performance and a one-year term of office for directors.

The Management Committee thoroughly discusses important management issues and confers with the Board of Directors concerning prescribed matters. As a rule, the Management Committee meets three times a month to discuss management policy, management strategy, important management issues, and other matters from the perspective of the Group as a whole.





### **Preparations Status for Internal Control Systems**

The KHI Group is preparing to move toward preparation of its internal control systems as described below, and keeping in mind the changes in the Group's environment, we assume that we will have to reassess matters as necessary in the future. The status of our preparations in 2010 is as follows:

#### (1) Enterprise of Risk Management System

To ensure a uniform level of risk management throughout the Group, the KHI Group has established a group-wide risk enterprise management system, which identifies and deals with critical risks that have a material impact on management, thereby enhancing risk management as set forth in the Kawasaki Group Management Principles.

#### (2) Compliance Framework

In April 2010, the KHI Group reorganized the compliance committees in each business segment into CSR committees and put in place a framework for raising compliance awareness as part of efforts to enhance overall CSR activities. We are working to increase compliance awareness throughout the KHI Group by distributing the Compliance Guidebook to employees and enhancing compliance education using e-learning and other means. In addition, we have put in place a mechanism by which employees can obtain advice discreetly through the establishment of the Compliance Reporting and Consultation System as a point of contact with an outside attorney.

### **Internal Auditing**

The Auditing Department, an internal auditing unit strives to improve internal control functions by such means as the periodic conducting of audits to confirm whether operations are executed appropriately in accordance with laws, regulations, and the Company's internal rules in all of the Group's management activities. Also, the corporate auditors and the Auditing Department have monthly meetings and share information on the results and findings of their respective audits.

# **Statutory Auditing**

Concerning statutory auditing, the corporate auditors attend meetings of the Board of Directors and the Management Committee, examine important documents, and examine the state of business operations and financial assets through periodic meetings with the representative directors and audits of KHI's divisions and subsidiaries. In addition, two outside corporate auditors ensure the objectivity and neutrality of the management oversight function. The full-time corporate auditors and outside corporate auditors share information and strive to enhance the management oversight function.

## **Independent Auditing**

With regard to independent auditing, the Company undergoes audits of its financial statements conducted by the Company's independent auditor, KPMG AZSA & Co. The corporate auditors and the Board of Auditors receive an outline of the audit plan and a report on important audit items from the independent auditor, and the Board of Auditors explains the Company's auditing plan to the independent auditor. The corporate auditors and the Board of Auditors periodically (twice a year) receive reports on the results of independent auditing and collaborate with the independent auditor by exchanging information and opinions. Also, the corporate auditors take part in the audits performed by the independent auditor as necessary and receive reports from the independent auditor concerning audits as appropriate.



# **Compliance**

The KHI Group places great importance on compliance and has already instituted a variety of policies. This includes two activities that are described below.

### We Have Established a 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 Svstem.

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 CSR Department (secretariat). The CSR Department 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 and post the results of its use through numerous means, including articles in the Compliance Guidebook that we distribute, in-house intranet notice boards and in-house magazines. In FY2009, there were 14 cases of reporting and consultation.

#### In 2009, We Conducted Harassment Training

We conducted our first compliance consciousness survey in February 2009 in order to examine the results of the various policies that we had implemented thus far and to use this to quide our future compliance efforts.

As a result, we determined that most employees wanted training and guidance on sexual harassment, abuse of authority, and other violations of human rights.

Based on the results of the consciousness survey, we set up "Education and Consciousness-raising about Human Rights, Especially Sexual Harassment and Power Harassment." a Company-wide compliance emphasis program for FY2009. This program is based on training that combined viewing an educational DVD with lectures for all employees, with the actual details of the program put together in each business division.

Employees who attended the lectures reported that they were easy to understand and ought to be repeated. In addition, several people came to the Compliance Report and Consultation System for consultations on sexual harassment and abuse of authority. We will be looking into further education and consciousness-raising about these concerns in the future.



# **Risk Management and Crisis Management**

We strive to prevent risk,

and if it surfaces, to put a halt to any possible damage and keep it to a minimum.

#### **Risk Management**

Starting in April 2010, the President was given ultimate responsibility for risk management and the Chief Risk Officer (CRO) was designated the responsible party for risk management operations overall. At the same time, we practice risk management throughout the company by setting up a Risk Management Committee whose function is to discuss major items connected with risk management and monitor the implementation status of risk management measures. In addition to establishing a Risk Management Department and promoting and supporting risk management throughout the company. we further manage risk Company-wide by constructing similar systems and designating persons responsible for risk management in all the business divisions.

Corporate Risk Management Structure



Corporate Risk Management Programs



Under this structure, starting in April 2010, we have driven a uniform cycle in each division consisting of finding and evaluating risks. formulating and implementing countermeasures, and monitoring. In these procedures, we annually specify, using a common scale, major risks that are likely to have a significant influence on management, and manage these risks by the most rational and optimal methods for the benefit of the entire Group.

### **Crisis Management**

In preparation for such times as crises might emerge, the KHI Group has set up Crisis Management Regulations with the objective of preserving life and assets, minimizing damage and loss, and ensuring rapid recovery of business operations. The Crisis Management and Countermeasure Organization, which is organized in an integrated, horizontal manner throughout the Group, is a set of measures for managing crises, with the president as the ultimate responsible party. Under this system, when a crisis occurs, we launch a task force at the Main Office and local offices for rapid response.

During the 2009 outbreak of H1N1 influenza, the Crisis Management and Countermeasure Organization issued information and warnings throughout the Group, but when it was confirmed that a person had contracted the disease in Japan, a Crisis Management Task Force was set up at the Main Office, and each office formulated and instituted its own BCP (business continuity plan) against H1N1 influenza.

Furthermore, the KHI Group introduced a Safety Information System in FY2004 for the purpose of rapidly confirming the safety of Group employees at the time of a major earthquake or other natural disaster. We have held repeated disaster drills, but beginning on October 1, 2010, we took a further step in enhancing our system by upgrading to a user-friendly KHI Group Emergency Contact System that uses an outside system (cloud computing), so that we are prepared for any risks that might emerge.



KHI Group Emergency Contact System



# **Communication with Shareholders and Investors**

Besides returning profits to shareholders that are appropriate for our performance, we are proactively making efforts to disclose information to shareholders and investors through briefings and our website.

### Meeting of Shareholders

The highest corporate decision-making body for Kawasaki is the Meeting of Shareholders. We believe that this meeting is an important opportunity for communication between our shareholders and the Kawasaki board members.

In order to enable our shareholders to thoroughly consider the important issues that they will decide on at the Meeting of Shareholders, we send out invitation letters at a date that is earlier than what is required by law. Furthermore, for shareholders who are not able to attend the meeting, we have made it possible for them to exercise their voting rights using the Internet or mobile phones.

At the site of the Meeting of Shareholders, we strive to explain the business conditions of the company, including annual progress and results of our business, using video images so that our shareholders can easily understand. (You can also see the videos used at the Meeting of Shareholders on our website.)

- \* The 187th Ordinary Meeting of Shareholders regarding the fiscal year ended March 2010 was held on June 25, 2010 in the city of Kobe Approximately 680 shareholders attended and enthusiastically exchanged opinions.
- \* At this year's Meeting of Shareholders, we set up panel displays in the lobby to explain our Medium-term Business Plan and Kawasaki Business Vision 2020, which were formulated in April 2010, and we answered questions from many of our shareholders



### Distribution of Dividends

Our basic dividend policy is to pay stable cash dividends that are appropriate to our performance while giving careful attention to increasing retained earnings to strengthen and expand the KHI Group's management base in preparation for our future growth.

For FY2009 (fiscal year ended March 2010), upon consideration of the outlook for our performance, the level of retained earnings, other factors, we paid an annual cash dividend of three yen per share.

	FY2005	FY2006	FY2007	FY2008	FY2009
Net income (loss) per share	¥11.20	¥18.94	¥21.08	¥7.02	¥(6.51)
Dividend	¥3.00	¥5.00	¥5.00	¥3.00	¥3.00

## **IR Efforts (Information Disclosure**)

We endeavor to disclose information on our business performance in a fair and prompt manner through constructive approaches to investor relations (IR) around the world.

For institutional investors and analysts, we hold interim and



The Group's website: 'Investor Relations"

end-of-year financial performance briefings and one-on-one meetings. Corporate representatives visit institutional investors outside Japan to explain recent business performance and other critical information

In addition, our website has a section entitled "Investor Relations" with pages for shareholders and investors. These pages include information on our business outlook, our recent business performance, our management policies, our historical financial results by business segment, every type of accounting document and presentation materials distributed at interim and end-of-year financial performance briefings.

Moreover, at the end of June and in the beginning of December, we send our shareholders a "BUSINESS REPORT" to report our business conditions and business content in a way that is easy to understand.



For details, see KHI Group "Investor Relations." http://www.khi.co.jp/english/ir/index.html

# **Relations with Business Partners**

In our procurement activities, we believe that it is important to build relationships of mutual trust through fair dealings with our business partners.

## Fair Dealings and Building Relationships of Trust

In November 1999, the Group enacted Action Guidelines for Persons Involved in Procurement, and all persons involved in

procurement strive to act with self-awareness and good faith as well as maintaining fair and sincere relationships with business partners as they carry out their duties. Guidelines are These prominently displayed in every Division, and have become a "compass" for daily procurement operations.



Action Guidelines for Persons Involved in Procurement

### **Promotion of CSR Procurement**

We adopt a socially responsible stance in the Basic Procurement Contracts that we enter into with our business partners. These contracts stipulate that both parties acknowledge the importance of corporate social responsibility and independently and proactively engage in business and social programs based on environment and sustainable development of society.

#### <Green Procurement>

Our business divisions practice whatever form of "Green procurement" is appropriate for their particular characteristics, with the aim of encouraging production of products with a low environmental load.

For example, the Green Procurement Guidelines for our Motorcycle and Engine Company are applicable to business partners both in Japan and overseas, and that Company has asked business partners to institute



Green Procurement





environmental management systems and has joined forces with business partners to understand and manage the environmental loads of their products, including parts and raw materials.

# Stressing the Importance of Compliance

In order to ensure compliance with the Subcontracting Act (The Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors) and the Construction Industry Law, we conduct mass training sessions for all the Procurement Divisions in the Group once or twice a year, with about 40 participants each time.

Furthermore, we are continuing our active efforts in connection with the Subcontracting Act as follows:

- Holding training sessions for design departments and other departments at each plant.
- Creating and distributing "Collected Examples of Violations of the Subcontracting Act," which provides cautionary case studies for each operation.
- A summary and explanation of the Subcontracting Act is displayed on the Company's internal website to inform the entire company.

In the matter of preventing relationships with anti-social forces, the previously mentioned Action Guidelines for Persons Involved in Procurement and Basic Procurement Contracts contain requirements for both the KHI Group and its business partners to refrain from any and all dealings with anti-social forces.

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Internal website: Subcontracting Act, top screen