

# KHI Group CSR Report 2012 (Digest)



**KAWASAKI HEAVY INDUSTRIES, LTD.**

CSR Report Editorial Committee

<http://www.khi.co.jp/english>



The Hyogo Prefectural Labor Office has certified Kawasaki Heavy Industries, Ltd., as a company that actively strives to support the development of the next generation on the basis of the Law for Measures to Support the Development of the Next Generation.

## Printing Considerations



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# Kawasaki Heavy Industries, Ltd. (KHI) and the Group it leads —collectively, the KHI Group—seek to provide useful reports that enable all stakeholders to gain a better understanding of the Group’s CSR activities.

We have prepared a CSR report in three versions, as described below, based on responses from a readers’ survey and third-party opinions, so that readers may choose the format and depth-of-content to suit their specific objectives.

**1 Booklet Version (this booklet)** Presented in digest style, this tightly arranged version provides information on key activities. The 2012 report is eight pages shorter than the 2011 report and the paper is thinner, making for an easier read.

**2 Full Report (web)** This version adds to the information in the paper-based digest with more detailed content. It can be downloaded as a PDF file.  
<http://www.khi.co.jp/english/csr/index.html> (CSR section of the KHI Group website)  
<http://www.khi.co.jp/english/csr/report/2012/index.html> (PDF file)

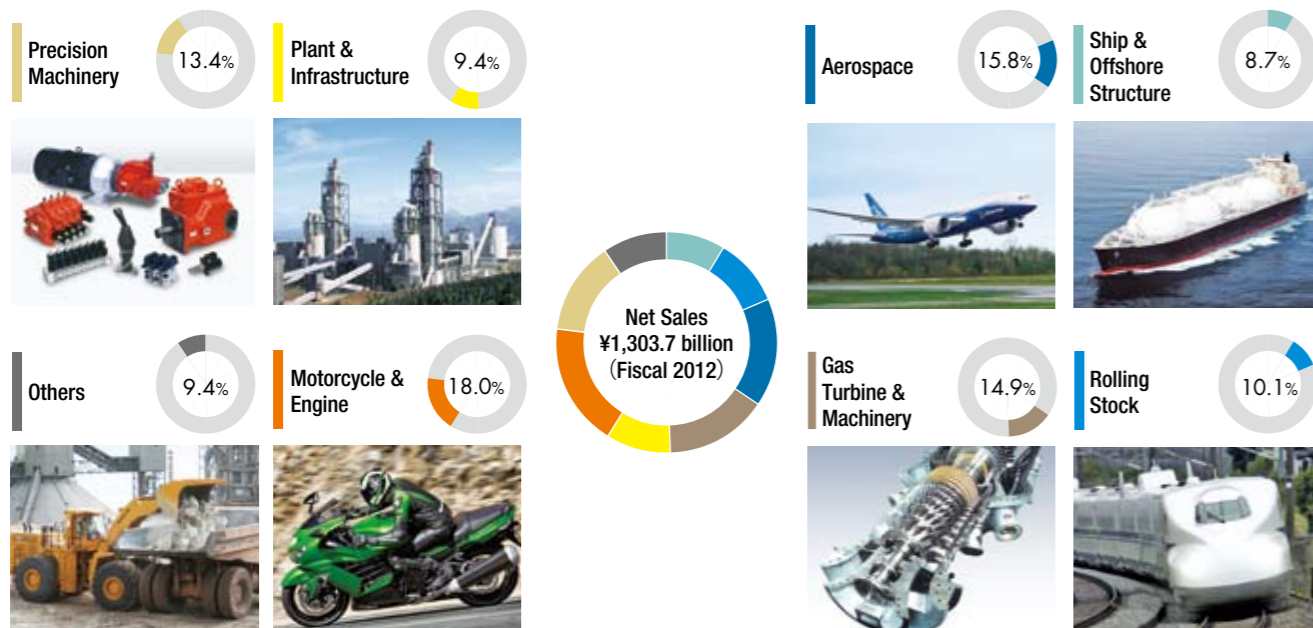
**3 Detailed Environmental Report (web)** A PDF file, this version focuses entirely on environment-related content. It also includes a collection of environmental data.  
<http://www.khi.co.jp/english/csr/report/detail/2012/index.html> (PDF file)

## KHI Group’s Profile

KHI Group is a leading global manufacturer of transportation and industrial equipment, comprising about 100 subsidiaries and affiliates in Japan and around the world.

The group boasts a comprehensive technological base that encompasses mastery of the land, sea, and air. This allows it to offer an impressive lineup of products, including aircraft, rolling stock, marine vessels, power plants, manufacturing equipment and systems. Among the many assets of which it is proud, the Group also manufactures such world-famous consumer products as Kawasaki motorcycles and Jet Ski® watercraft.

With its technological wealth and brand prowess, the Group strives to protect the global environment and contribute to the development of a sustainable society. This is the philosophy that guides the KHI Group’s operations.



## Editorial Notes

In 1999, KHI issued its first environmental report, which later became a report on environmental and social responsibilities. Both publications provided a look at the KHI Group’s activities from environmental and social perspectives. In 2010, the report was renamed the CSR Report. The report for 2012 covers this content:

• The overall structure of the report parallels the five themes of KHI Group CSR.

- ① Value creation through business
- ② Management
- ③ Employees
- ④ Environmental activities
- ⑤ Social contribution

• Our special features this year include

**Special Feature 1** After the Earthquake: Just Over a Year We offer an update on a variety of activities undertaken during this time.

**Special Feature 2** We provide an overview of our first dialogue with experts.

### Target

This report covers CSR activities undertaken throughout the Group.

### Period

Fiscal 2012 (April 1, 2011 to March 31, 2012), as well as a part of fiscal 2013

### Publication frequency

Annually, as a fiscal report

### Editing and publication

CSR Report Editorial Committee (Editorial office: CSR Department, CSR Division)

### Publication responsibility

General manager, CSR Division

### Guidelines

In preparing this report, the editorial office referred to the Environmental Reporting Guidelines (2012 Edition) issued by the Ministry of the Environment and GRI Sustainability Reporting Guidelines (G 3.1) issued by the Global Reporting Initiative (GRI).

### Disclaimer

This report contains forward-looking statements and descriptions of plans, estimates and forecasts based on business plans and management policies as of the date of publication as well as past and present facts about the KHI Group. Such plans, estimates and forecasts reflect possible courses of action and assumptions formed with information available at the time of publication. Consequently, they are inherently susceptible to uncertainties and changes in circumstances, and future performance and events undertaken in the course of business may differ from anticipated results.

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 We will use our integrated technological expertise to create values that point the way to the future.

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## To fulfill the social responsibilities incumbent upon an enterprise that plays such an essential part in the creation of social infrastructure in communities around the world



### KHI Group CSR

The KHI Group traces its beginnings back to 1878 and KHI's early activities in the shipbuilding business. Since then, the Group has expanded its business pursuits in line with the times, gaining a solid foothold in transportation equipment and systems, specifically rolling stock, aircraft and motorcycles known worldwide under the Kawasaki brand, and then a growing presence in energy and environmental engineering, emphasizing gas turbines, gas engines and energy and environmental plant engineering, and also industrial equipment, where expertise has been applied to such products as industrial plants, hydraulic machinery and robots.

In 2007, we embraced a newly formulated mission statement—"Kawasaki, working as one for the good of the planet (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)"—that clearly defined our duty to society as a corporate citizen. To keep this mission statement alive and realize inherent objectives at ever higher levels, we work toward action goals from a perspective infused with the solid understanding of CSR. This is the driving force that sustains CSR activities within the Group.

A keen awareness of our responsibility to stakeholders permeates all aspects of our corporate activities, and we always act accordingly. At the same time, we strive to contribute to the development of a better society, today and

tomorrow.

In fiscal 2012, we opened a dialogue with experts in an effort to ascertain with greater clarity the position that is specifically required of the KHI Group. (Please refer to pages 11–12 for details.) The comments and suggestions offered by the panel of experts will be reflected in future CSR activities as if the opinions were those of stakeholders.

### Over One Year Since the Great East Japan Earthquake

The perils of unprecedented natural disasters etched itself deeply into my mind in 2011. My heart goes out to those still affected by the earthquake and tsunami and the ensuing consequences, and while reconstruction will take time, I fervently hope that life returns to normal in the areas of devastation as quickly as possible.

The KHI Group already had a business continuity plan (BCP) in place—prompted by the lessons learned in the Great Hanshin Earthquake of 1995—that stressed protecting the lives of employees and their families, getting business back to normal on our own, and recognizing our responsibility to and the importance of contributing to local communities. The Great East Japan Earthquake prompted management to review the existing BCP and give priority to business activities that must be maintained even when a large-scale disaster strikes to

ensure our ability to fulfill the social responsibilities incumbent upon an enterprise that plays such an essential part in the creation of social infrastructure. (Please refer to pages 9–10 for details.)

The demands of society also changed after the Great East Japan Earthquake. For example, heightened interest in emergency power sources pushed up requests for reliable energy supply systems and products capable of greater energy use efficiency, including operation during power-saving times. In addition, the importance of building towns better able to withstand disasters became blatantly more obvious.

The KHI Group will resourcefully respond to these demands, providing new value to society through such installations as independent distributed power systems that take advantage of local features and through the establishment of disaster shelters equipped with these power generation facilities. Such responses will contribute to the development of communities where people feel safe and secure.

### Taking on Global Issues

In recent years, the global economy has maintained accelerated growth, fueled by emerging markets, while environmental problems, particularly global warming, have become increasingly more of a concern. In addition, governments are once again rethinking the energy policies of

tomorrow with the environment and natural resources in mind. We are also seeing steadily rising demand for key infrastructure systems, such as transportation and industrial installations, in emerging markets.

I believe that the ability to consistently meet the expectations of people worldwide requires direct contact with communities and customers to really know their needs and create and provide new value to address those needs. Given this scenario, KHI established the Marketing Division in April 2012 to integrate corporate capabilities in all product categories under the Group umbrella for a total solution response to evolving issues, to acquire a global perspective, and to facilitate mutual understanding between the Company and customers, while reinforcing activities that attest to our commitment to social contribution through business.

Through these efforts, we will respond to evolving social and economic circumstances, continuously promote innovation and reform, and contribute to all stakeholders, including communities and customers. This emphasis will lead to further growth for us as well.

A handwritten signature in black ink that reads "S. Hasegawa".

Satoshi Hasegawa  
President, Kawasaki Heavy Industries, Ltd.

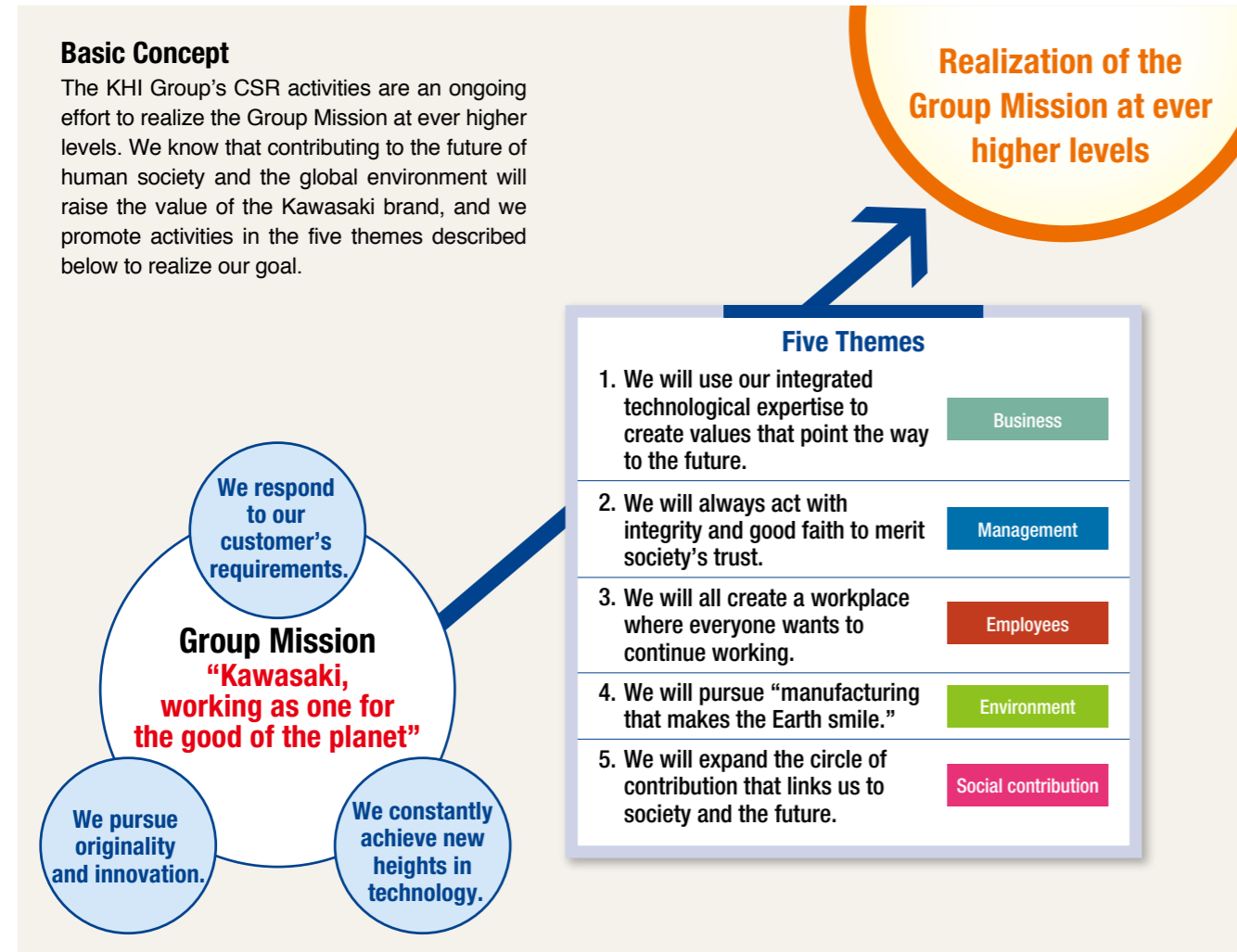
# KHI Group CSR

The KHI Group's mission is "Kawasaki, working as one for the good of the planet : (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)."

Each and every employee puts this statement into practice as he or she goes about individually assigned daily business activities.

To this we added a broader view of CSR and action goals, as we seek to realize the Group Mission at ever higher levels.

## Group Mission and CSR



## Creating the Group's CSR Framework

The Group's CSR activities fall into five themes.

Categories are established for each theme and action goals are set for each one of these.

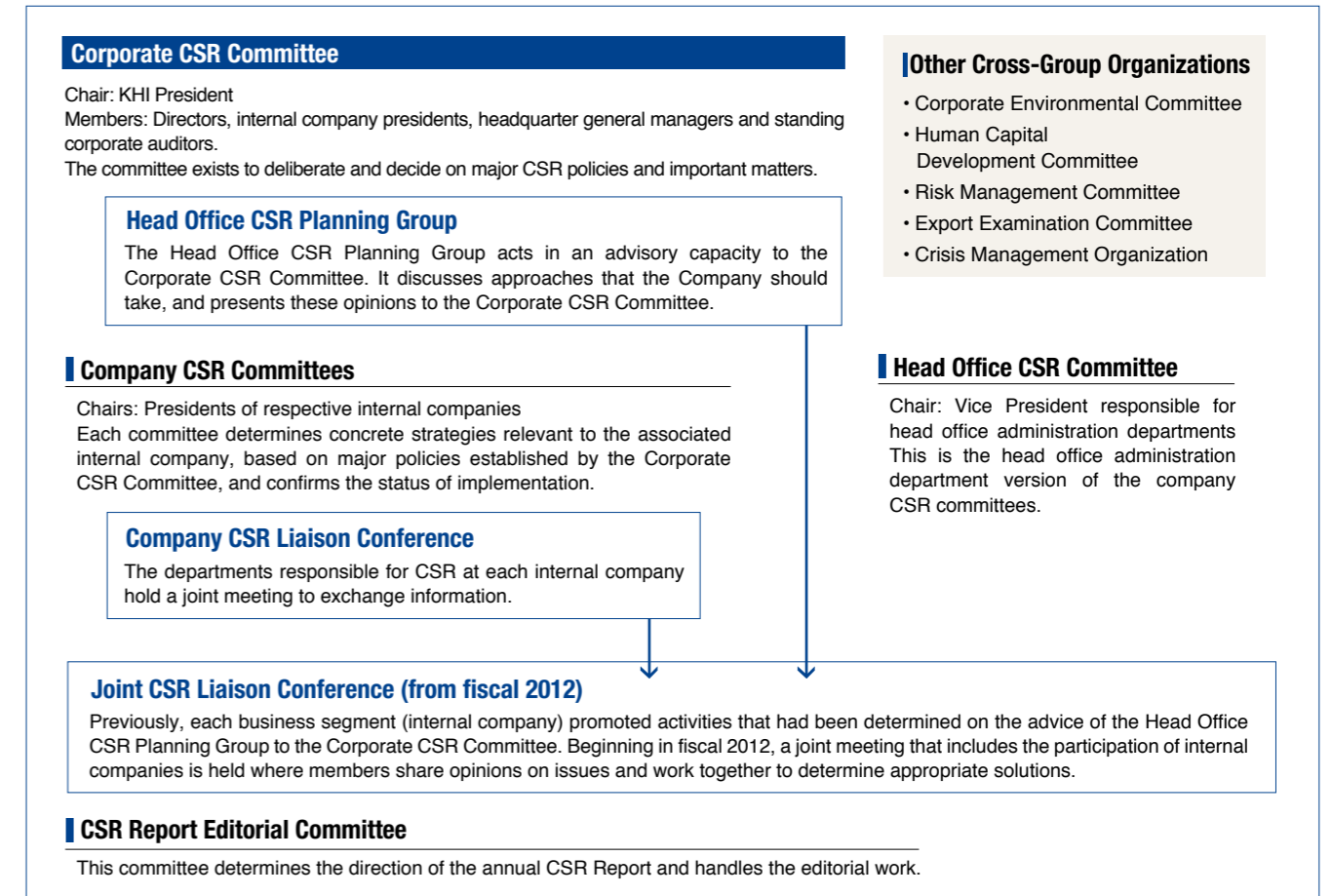
Various social expectations are placed upon companies. We collected and consolidated feedback from different sources, including requests from customers, points in CSR surveys conducted by third-party organizations, and ISO 26000 core subjects, and then selected specific CSR issues that we, as a corporate group, should address. These issues have been positioned as items of focused activity during the Medium-Term Business Plan 2010 (fiscal 2011-2013) that will enable the KHI Group to achieve its ideal.

The divisions assigned to these items self-assess the current status of their efforts and draft action plans highlighting

measures to compensate for shortcomings and to reinforce existing strengths. This PDCA (Plan-Do-Check-Act) cycle is repeated. (Please see page 7-8 for the individual CSR issues and Actions)

However, the social expectations placed on companies gradually change as the years go by, and the scope of issues that must be addressed starts to expand. Fiscal 2013 will be a year of preparation for the new medium-term business plan that will begin in fiscal 2014. During fiscal 2013, we will review our CSR issues and be ready to implement activities over the term of the new plan that perfectly reflect the changing times.

## CSR Activity Structure



## Group CSR Themes: Categories and Action Goals

Themes	Categories	Action Goals
Overall	CSR overall	Realize the Group Mission (KHI's duty to society) at a higher level.
1 Business	Product Development	Draw on comprehensive Group capabilities and apply sophisticated technologies to the development of high-performance, high-quality products.
	Product Liability	Provide products and services that are reliable and safe from customer's perspective.
	Customer Satisfaction	Provide products and services that meet customer needs and leave a great impression.
2 Management	Corporate Governance	Pursue sound, transparent management, enable each business segment to operate independently, and demonstrate the combined strength of the Group.
	Compliance	Build an organization that is open and self-regulating to underpin a corporate culture with credibility.
	Risk Management	Pinpoint major risks that threaten the achievement of business targets and establish a system capable of providing the most appropriate responses.
	Information Security	Institute reliable information security measures and maintain the safety and security of information.
	Information Disclosure, IR Activities	Provide timely, accurate corporate information and further enrich the contents of disclosure.
	Business Partners	Coexist with business partners and maintain fair partnerships while promoting collaboration in CSR activities.
3 Employees	Occupational Safety and health	Create a safe, pleasant working environment where employees can perform their jobs in good health and in a positive state of mind.
	Human Resources Development	Consistently cultivate the skills of employees, refine acquired talents, and raise the value of personnel assets to the highest level.
	Human Rights	Respect the diversity of employees and strive to create a workplace that embraces wide-ranging values and abilities and utilizes them.
	Labor	Endeavor to create a workplace that provides motivation and satisfaction and one in which employees are treated fairly and appropriately.
4 Environment	Global Environment	Strive to realize a low-carbon society, a recycling-oriented society, and a society that coexists with nature.
5 Social Contribution	Local Communities and Japanese Society	Coexist and cooperate with local communities and help nurture new generations that will develop future dream technologies.
	International Community	Respect the myriad cultures of countries around the world and contribute to their vibrancy by cultivating technology and human resources in these countries.

# CSR Issues and Actions

## Progress Report on Corporate Actions

Action plans are ultimately designed to achieve the action goals described on pages 5–6, with the PDCA cycle repeating until the desired objectives are reached. On this page, we describe action plans of head office divisions that promote corporate activities as well as changes in self-assessments based on results achieved through the stated action plans.

With sure and steady progress, we undertake activities in line with the characteristics of each action. Our activities address a range of subjects, including establishing policies and rules, which conclude in a single fiscal year with one action; diversity, which assumes higher priority as time goes on and results in an accumulation of measures; environmental activities, which incrementally expand in scope from the parent company to companies throughout the Group; and compliance awareness activities, for which an achievable target is hard to measure because no specific “complete-by date” goals are set.

★ Will address   ★★ Have addressed somewhat   ★★★ Have addressed fairly well   ★★★★ Have addressed sufficiently but would like to improve

Category	Action	Fiscal 2012 Action Plan (as found in CSR Report 2011)	Current Assessment for Period March 2011 to March 2012 [Supplementary information on actual status]
Overall	Encourage understanding of CSR in-house and make everyone fully aware of CSR issues and practices.	Prepare informative tools. Provide information to all divisions in all regions and for employees/management at all career levels.	★★★⇒★★★★ [Included organizing information meetings in each office]
	Pursue dialogue with society at large (separate from daily stakeholder communication activities).	Hold dialogue opportunities on a trial basis and reflect comments in appropriate activities.	★⇒★★★ [Implemented dialogue with experts]
Management	Implement compliance and ethics seminars and assess the effectiveness of such training.	Implement activities common throughout the Company and run special sessions during training geared to career levels.	★★★★⇒★★★★ [Implemented various activities and conducted compliance awareness survey]
	Identify significant risks at subsidiaries.	Implement risk management at principal subsidiaries in Japan.	★★★⇒★★★★ [Risks can now be identified through same framework used at KHI]
	Formulate and review business continuity plans.	Each business segment will formulate business continuity plan and embark on suggested preparations.	★★★⇒★★★★ [Plans matched to business characteristics of each segment are ready]
	Aggressively promote communication with shareholders and investors.	Hold information meetings (target: institutional investors) for quarterly performance and upload Q&A from the results announcement.	★★★⇒★★★★ [Action plan implemented smoothly]
	Request business partners to observe CSR management practices and work with them to implement required activities.	Look into our CSR management policies with regard to our business partners.	★★★★⇒★★★★ [Formulated CSR procurement guidelines, disclosed content in April 2012]
	Implement initiatives, especially for safety, health and mental health.	Implement measures, such as safety training programs, initiatives to support good mental health and address lifestyle diseases, and steps to improve workplace environments.	★★★★⇒★★★★ [Confirmed that content corresponds with actual conditions in each office]
Employees	Offer opportunities for employee development based on career tracks right up to mandatory retirement.	Look into the development of career planning seminars appropriate to each level of the corporate ladder and implement suitable programs, and create a database of intellectual assets.	★★★★⇒★★★★ [Finished looking into development of career planning seminars appropriate to each job assignment level]
	Present opportunities for women to advance to managerial positions.	Promote such initiatives as the introduction of senior female employees to young female staff as role models and help supervisors foster skill development in female staff.	★★★⇒★★★ [Held a diversity seminar]
	Maintain dialogue and build trust with labor unions and employee representatives.	Hold meetings with labor unions and employee representatives, and conduct employee awareness surveys.	★★★★⇒★★★★ [Held meetings with various labor unions]
	Expand scope for tracking environmental information on the entire KHI Group, including overseas operations.	Broaden target range to include all domestic consolidated subsidiaries and principal subsidiaries overseas.	★★★⇒★★★★ [Established environmental management systems at all domestic consolidated subsidiaries and principal subsidiaries overseas]
Environment	Pursue efforts to reduce environmental load in each business segment, including subsidiaries in Japan and overseas.	Expand scope to include all domestic consolidated subsidiaries and principal subsidiaries overseas, and disclose reduction targets.	★★★⇒★★★★ [Expanded scope for tracking amount of energy consumed to include consolidated subsidiaries]
	Efforts toward waste reduction and recycling and evaluate the results.	Enhance efforts to reduce waste and boost recycling, evaluate the results and introduce an electronic manifest.	★★★⇒★★★★ [Enhanced waste management practices through establishment of environmental data management system]
Social Contribution	Encourage social contribution initiatives planned and sponsored on our own.	Host a child-oriented manufacturing and engineering classroom.	★★★★⇒★★★★ [Developed tools for manufacturing and engineering classroom, held events]

\* A review of actions will be undertaken after fiscal 2014.

## Progress Report on Actions Taken by Each Internal Company

In fiscal 2012, each internal company—that is, business segment—addressed issues designated as priorities but also dealt with other issues pertinent to the respective company. A second self-assessment of all issues was conducted at the end of the fiscal year, comparing their status with that from the beginning of the fiscal year to verify progress toward the action goals.

Assessments made by head office divisions that promote CSR actions may not match those made by the internal company assigned to implement actions in all cases, but going forward efforts will be made to smooth out any discrepancies in perception. Specific actions selected for attention in fiscal 2013 are based on results achieved in fiscal 2012. The table below showcases the assessment results for some certain of the CSR actions and the internal companies responsible for executing them.

★ Will address   ★★ Have addressed somewhat   ★★★ Have addressed fairly well   ★★★★ Have addressed sufficiently but would like to improve

Category	Action	March 2011 ⇒ March 2012 Assessment (average)	Fiscal 2012 Business Segment to Execute Action	Fiscal 2013 Business Segment to Execute Action
Overall	Encourage understanding of CSR in-house and make everyone fully aware of CSR issues and practices.	★★★⇒★★★★	All internal companies	Rolling Stock Company Motorcycle & Engine Company Precision Machinery Company Robot Division
	Create mechanism to take in comments and critiques from stakeholders, including customers, suppliers, business partners and communities and reflect such opinions in business activities.	★★★★⇒★★★★★	Motorcycle & Engine Company	—
Business	Create new markets, strive to develop new customer value.	★★★★⇒★★★★★	—	Motorcycle & Engine Company
	Lay out quality policy in written form, execute quality assurance activities in line with policy.	★★★★⇒★★★★★	Ship & Offshore Structure Company Rolling Stock Company	Ship & Offshore Structure Company Rolling Stock Company
	Conduct customer satisfaction survey and apply the results to enhance customer satisfaction	★★★★⇒★★★★★	Precision Machinery Company	Precision Machinery Company
Management	Create a mechanism for regular, exhaustively thorough internal audits and management reporting, and apply this mechanism to operations.	★★★★⇒★★★★★	—	Gas Turbine Division Machinery Division
	Ensure thorough appreciation for mission statement.	★★★★⇒★★★★★	—	Aerospace Company
	Implement and assess the effectiveness of compliance and ethics seminars.	★★★★⇒★★★★★	Gas Turbine Division Machinery Division Robot Division	Plant & Infrastructure Company Gas Turbine Division Machinery Division Robot Division
	Ensure that overseas operations are in full compliance with local laws.	★★★⇒★★★★	Aerospace Company	—
	Maintain an overall crisis management system and a framework for its operation.	★★★★⇒★★★★	Plant & Infrastructure Company	Plant & Infrastructure Company
	Design business continuity plans that prioritize activities for continuation or restoration in the event of a disaster, and implement regular assessment and review.	★★★⇒★★★★	Ship & Offshore Structure Company Gas Turbine Division Machinery Division	Ship & Offshore Structure Company Gas Turbine Division Machinery Division
	Request business partners to observe CSR management practices and work with them to implement required activities.	★★★⇒★★★★	Motorcycle & Engine Company Precision Machinery Company	Precision Machinery Company
	Track environmental information at all companies under the Group umbrella, including those overseas.	★★★⇒★★★★	Robot Division	Robot Division
Environment	Address efforts to reduce environmental load in each business segment, including subsidiaries in Japan and overseas.	★★★★⇒★★★★★	—	Motorcycle & Engine Company
	Encourage self-planned and -sponsored social contribution initiatives.	★★★⇒★★★★	Aerospace Company Plant & Infrastructure Company	Aerospace Company Plant & Infrastructure Company
Social Contribution	Define disaster response measures applicable to such events as earthquakes and typhoons, and establish a support policy to assist citizens affected by disaster.	★★★⇒★★★★	Rolling Stock Company	Rolling Stock Company

\* A review of actions will be undertaken after fiscal 2014.

# Just Over a Year Since the Great East Japan Earthquake —KHI Group Activities—

The Great East Japan Earthquake prompted us, once again, to rethink our mission and reassess our own objectives as a corporate group. It is just over a year since the unprecedented disaster struck. We offer an update on a variety of activities undertaken by the KHI Group during this time.

## Review of Business Continuity Plan for Large-scale Earthquakes

A business continuity plan (BCP) is itself a management strategy. It requires more than just typical preparations, such as setting up disaster-prevention equipment and running evacuation drills, to expedite emergency responses in the wake of a disaster. It must also detail approaches to ensure that business continues without interruption and that the corporate mission is fulfilled. The lessons learned in the Great Hanshin

Earthquake, which hit the Kobe area in January 1995, formed the basis of the Group's disaster-prevention measures, and the outbreak of a new influenza virus in 2009 prompted the establishment of a BCP. However, with the Great East Japan Earthquake of March 2011, the BCP was revised to enhance the Group's ability to deal with the consequences of a large-scale earthquake.

### 1 Basic Corporate Policy Determine course of action to be taken by the KHI Group in the event of a large-scale earthquake

Basic corporate policy has been set for the KHI Group that clarifies courses of action to be taken in an emergency. Naturally, human life is the highest priority, and once again we documented our commitment to fulfilling the social responsibilities incumbent upon an enterprise that plays such an essential role in the creation of social infrastructure. When a large-scale earthquake strikes, our focus must be on operational support for equipment, including aircraft and naval vessels, used in rescue activities, and efforts to restore and repair infrastructure systems or components thereof, such as rolling stock, power generation facilities and waste-processing facilities, as quickly as possible and to assist our clients and business partners in returning operations back to normal.

#### Basic Corporate Policy

- Ensure safety and health of employees and their families.
- Ensure services and products that are essential to the fulfillment of corporate responsibility go on without interruption.
- Get Group operations back to normal.
- Acknowledge responsibility to local communities and contribute to each region.

### 2 Head Office and Internal Company Priorities With the basic corporate policy in mind, designate functions to be maintained at the head office and internal companies in the event of disaster.

We have identified priorities for the head office and internal companies in line with our basic corporate policy and have designated certain functions that must be maintained even in the event of disaster with due consideration given to the different business content of each internal company and the features inherent in products and services.

### 3 Response in Time of Disaster and Preparation during Normal Time Consider responses appropriate in the wake of disaster and prepare for the eventuality of such events during normal times.

Many disaster scenarios indicate the possibility of a massive earthquake centered directly under Tokyo as well as a cascade-like triple megaquake event along the Tokai-Tonankai-Nankai segment of the Pacific Ocean coastline. Bearing these potential events in mind, we considered the responses necessary should such catastrophes occur and activities that could be undertaken during normal times to prepare for such eventualities.

We formulated a plan that designated specific divisions with a specific task, and outlined preparations necessary to achieve the desired objectives. Preparations are moving ahead in line with this plan.

### 4 Drills and Revisions Drills are undertaken regularly and content is revised based on results.

We are constantly running BCP drills and revising BCP content based on how the drills were performed.

\*More information on our BCP is available in the Full Report.



A simulation disaster drill for essential personnel in the local command center at the Tokyo head office in August 2011.

## Frontline Perspective from the Disaster Area Message from the Senior Manager of the Sendai Office

A year after the disaster, we continue to help the region recover and rebuild.

Right after the disasters, myself and others—not only those at the Sendai Office but everyone associated with the office—responded as best we could in our respective capacities to fulfill our social responsibility. From the evening of the day disaster struck, the office began receiving requests for restoration of damaged infrastructure facilities, and the next morning, a few people who were able to get to the office joined me in getting discussions started with representatives from disaster-stricken municipalities and ensuring a timely restoration response. Also, as part of our community response, we met with many local governments to get information about what equipment and materials was needed for relief efforts and restoration operations, and we were able to provide wheel loaders and a crushing machine for moving and processing rubble and debris, motorcycles for efficiently traversing a broken landscape and transporting

goods, and a helicopter that became the community's eye in the sky—all at no cost.

Even now, a year after the earthquake and tsunami, many issues still require attention before reconstruction can get fully under way. I believe that efforts to successfully address these challenges include the active involvement of the private sector.

KHI has strengths in diverse reconstruction-supporting fields, including energy, the environment and transportation equipment, that can help in the rebuilding process. By utilizing this base of expertise and providing the necessary infrastructure support, particularly distributed power sources and renewable energy systems as well as products to reinforce crisis management efforts, we will accelerate reconstruction and development in the Tohoku region and contribute to the creation of communities that are more resilient to disaster.



Hayato Nakamura, Senior Manager, Sendai Office

\*For information about our support for reconstruction and restoration in the disaster area, see the Full Report.

## Efforts to Address Stable Energy Supply

An issue that the Great East Japan Earthquake pushed into the spotlight is stable energy supply, and the KHI Group addresses this issue in various ways.

### Effective Operation of Standby Gas Turbine Power Generation Systems in Times of Disaster

In a survey of system operating status during the power outages and rolling blackouts associated with the events of March 11, 2011, and the aftershocks that followed, 1,034 standby gas turbine generation systems out of 1,035 continued to supply power without any problem, for an operating rate of 99%. The one system that was not in operation had not undergone regular maintenance. Targeting an operating rate of 100%, we will establish a power feed structure that is truly reliable even in emergency situations.



Highly reliable standby gas turbine power generation system

### Increased Production of Gas Engine Power Generation Systems

Given the inability of commercial power facilities to meet demand after the earthquake and tsunami, the need for stable power supply grew stronger day by day. Distributed power sources, especially in-house power generation systems, are widely seen as a possible answer to the problem, and KHI, seeking to contribute to stable power supply without harm to the environment, expanded monthly production capacity of its Green Gas Engine to four units. This system boasts the world's highest power generating efficiency and environmental features.



The Green Gas Engine boasts the world's highest power generating efficiency—49.5%.

### Power Supply to Power Company

In response to a request to address reduced power capacity paralleling the shutdown of nuclear power plant operations, KHI increased its generating capacity for the Kawasaki-brand gas turbine in-house power generation system at Akashi Works, boosted the amount generated, and supplied the output to a power company to ensure stable power supply to its service area. Between February 1, 2012 and March 31, 2012, total power volume hovered at 16 million kWh. This is equivalent to the amount used by approximately 27,000 ordinary households. Going forward, we will continue to support the power company to the extent that we are able and meet the electricity needs of society.



Gas turbine generation system at Akashi Works

# KHI Group's First Dialogue with Experts

On December 28, 2011, specialists in environmental management and CSR, and a CSR manager from an outside company gathered at Kobe Crystal Tower—the location of KHI's Kobe head office—for an inaugural dialogue with experts. The panel was asked to comment on expectations from the perspective of business activities and suggest approaches to enhance CSR pursuits. This was followed by a discussion that included the KHI representatives in attendance.



## Event Summary

### Date

December 28, 2011

### Place

KHI Kobe Head Office (Kobe Crystal Tower)

### Outside Participants

**Takehiko Mizukami** | Facilitator, Cre-en Inc.

**Takehiko Isobe** | Professor and Ph.D. in Business Administration, Graduate School of Business Administration, Keio University

**Mizue Unno** | Managing Director, So-Tech Consulting Inc.

**Katsunori Kawasaki** | ESG (Environment, Society, Governance) Promotion Department, TOTO Ltd.

### KHI Participants

**Yoshizumi Hashimoto** | Executive Officer, General Manager, CSR Division

Members of the CSR Planning Group  
Secretaries of company CSR committees

## Tour of Kawasaki Good Times World

Before the event, we guided the experts through Kawasaki Good Times World, a corporate museum within the Kobe Maritime Museum complex in Kobe's Meriken Park, to promote a deeper understanding of the activities undertaken by the KHI Group.



## Improved Brand Value Should Target Next Generation

Before considering what expectations anyone might have of KHI from the perspective of business activities, I believe the Company should first cement its brand image and refine that image. Why? Because if you ask students about KHI, they may know about *shinkansen* bullet trains and motorcycles, but they are not particularly familiar with the Company's other businesses. The brand—essentially, the face of products and technologies—is hard to see. Consequently, I feel KHI is not viewed accurately by the public.

An effective method for raising brand value is to give some background about what led to the development of your products and technologies. Customers and consumers are not impacted much by products and technologies or corporate image advertising, but a simple story would probably leave more of an impression. Regarding approaches to enhance CSR pursuits, the most important thing is to decide who you are sending that message to. As a company making products like *shinkansen* bullet trains and aircraft, which attract the interest of children, I think you should put your CSR efforts into activities that target children, since they are tomorrow's decision makers.



**Takehiko Isobe**  
Graduate School Professor,  
Keio University

### Facilitator's Comment

#### Narrow Down the Issues and Set Targets from a Strategic Perspective

KHI has identified 85 CSR-related issues to address; however, it will have to narrow down the list to issues that really require improvement, issues that have to be carried through to completion.

Also, your internal companies pursue CSR activities independently, but current targets are quite general. Set corporate targets, such as CSR training, and then have internal companies establish their own objectives fine-tuned to the characteristics of their respective businesses. And, if

I may add, setting targets that enhance value creation through business activities and strategic CSR activities will certainly determine the direction that KHI takes on its CSR journey.



**Takehiko Mizukami**  
Cre-en Inc.

## Expect Expansion of CSR Activities on a Global Scale

Even though KHI's business activities are mainly B-to-B (business-to-business) transactions, soon a C—for consumer and community—will come into play. This is especially so for companies involved in the design and construction of facilities and infrastructures because their customers have numerous contacts in the community, and a CSR perspective attuned to local governments and administrations is integral to successful business development.

Also, if a company seeking to expand globally does not convey its long-term view on giving to the community, such as local hiring and respect for diversity in the workplace—that is, making the most of human resources without getting hung up on differences, such as gender or race—then the company will have a difficult time being accepted there. ISO 26000, an international guide on social responsibilities, highlights some themes, like human rights issues and labor issues, that global companies have yet to properly resolve. I would like to see KHI explore how it can best contribute to communities as a global company with a global perspective and get involved in every community where it has a presence.



**Mizue Unno**  
So-Tech Consulting Inc.

## Execute CSR Activities that Demonstrate the Qualities that Make KHI Distinct

As someone responsible for CSR at a company, I recognize common issues pertaining to CSR activities going forward. KHI is quite involved in CSR with a risk management emphasis, and the Company appears to be promoting CSR activities based on a careful assessment of systems and structures and proven results. The next step would probably be to emphasize efforts to strategically link business activities and CSR activities. ISO 26000 casts a net over many global social issues. KHI has to pinpoint the themes where it can demonstrate qualities that distinguish it from other companies and then focus efforts on these fields to showcase corporate originality. This will surely lead to higher value in business activities. KHI has a role in all sorts of infrastructure projects and as such is closely connected to people's lives, so I think there are many fields in which KHI could demonstrate its special qualities. Moving forward, social change will require that KHI become more proactive—as opposed to passive, or reactive—in its CSR activities. I believe it is vital for all companies, including KHI, to seek out these kinds of CSR activities.



**Katsunori Kawasaki**  
ESG Promotion Department,  
TOTO Ltd.

### On the receiving end of comments

#### Toward CSR Activities as a Global Company with a Proactive Perspective on CSR

We promote activities based on our desire to realize our Group Mission "Kawasaki, working as one for the good of the planet" at ever higher levels. Today's dialogue has reconfirmed our view that we are expected to contribute to social development through sophisticated products and services and that we are expected to provide new value for all stakeholders. Toward this end, we must constantly review our activities to ensure that we address social needs and meet social expectations. We must also strive to be receptive to stakeholders' feedback and respond accordingly, and broaden the scope of our pursuits.

Based on the comments offered by our panel of experts, I am keen to embrace CSR activities from a proactive position, along with passive CSR activities, throughout the Group, not only in Japan but also abroad, under the banner of a global company.



**Yoshizumi Hashimoto**  
Executive Officer,  
General Manager, CSR Division

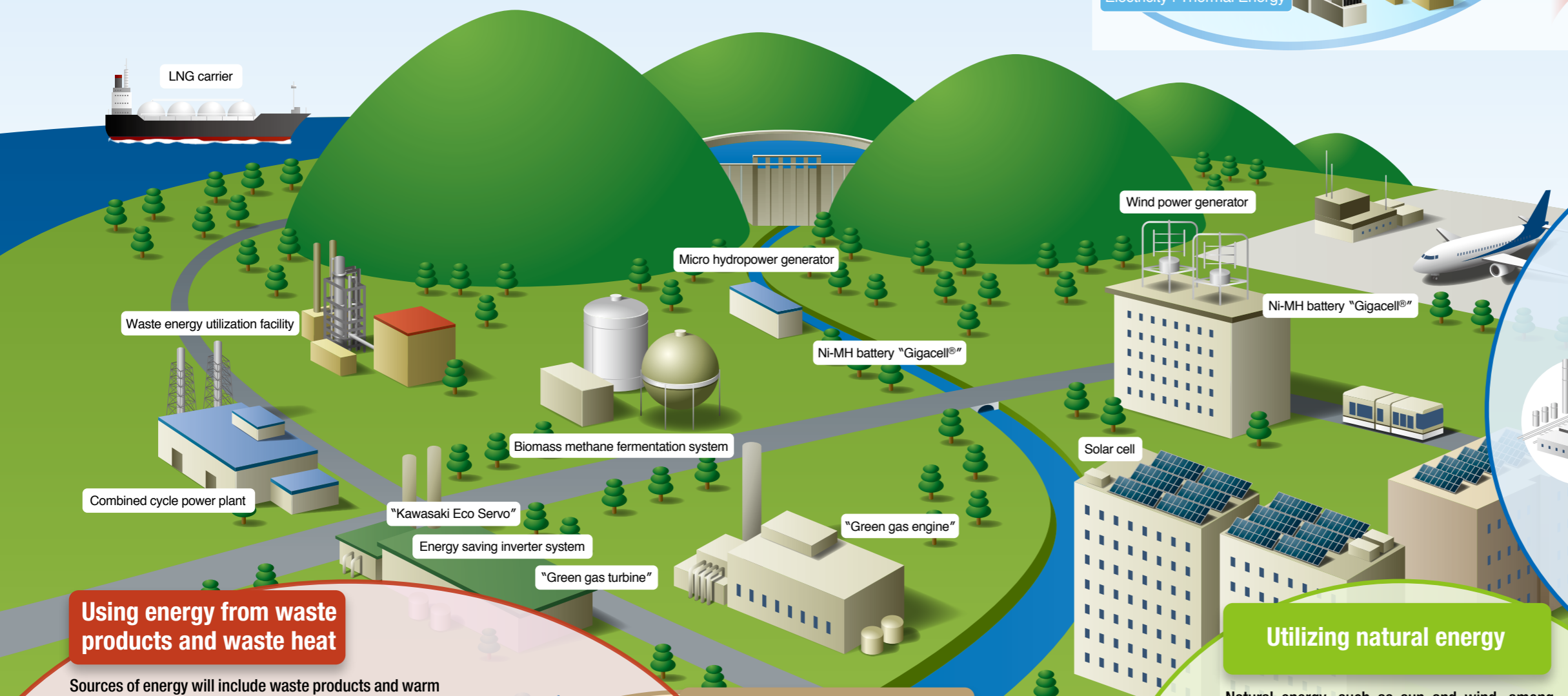
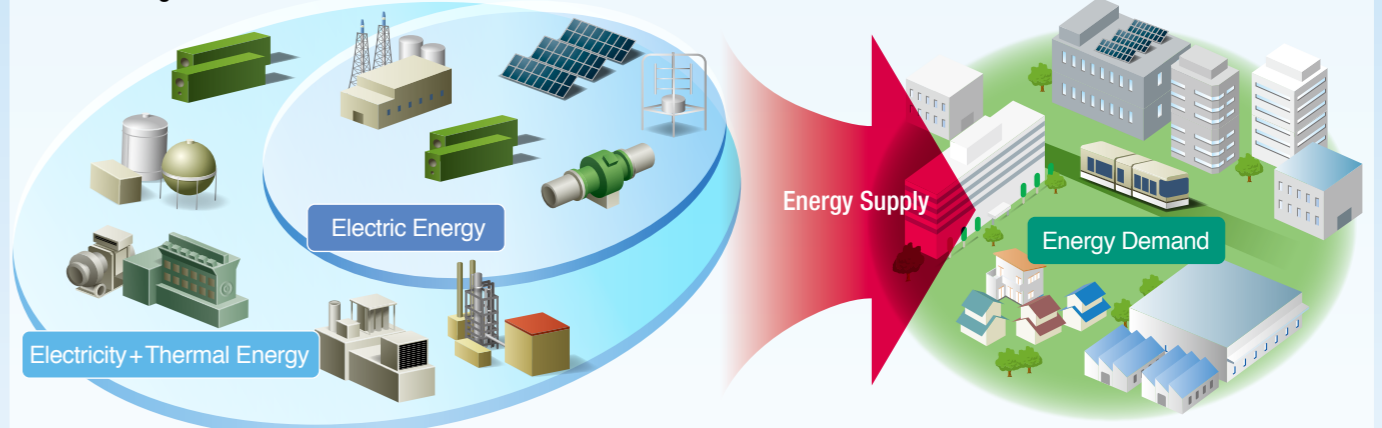
# We will use our integrated technological expertise to create values that point the way to the future.

## KHI Group's Ideal Society: In the Fields of Energy and the Environment

Energy should be efficient, environment- and resource-conscious, and most certainly reliable. As a company whose role includes the building of infrastructures worldwide, the KHI Group provides new values with energy and the environment, both present and future, integral to the development of safe and comfortable lifestyles.

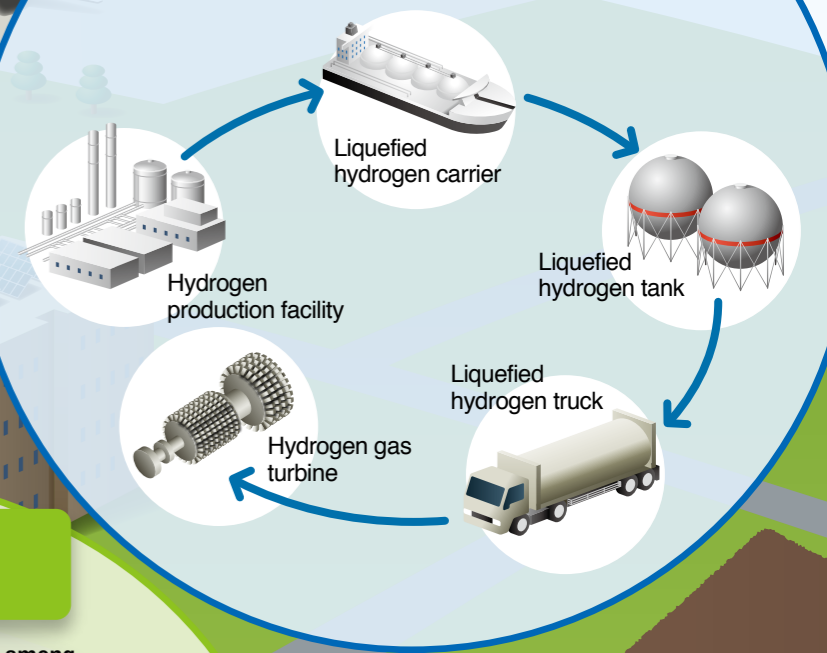
### Distributed energy systems

Distributed energy systems are highly efficient and contribute to the creation of safe and secure communities because they are better configured to withstand disasters.



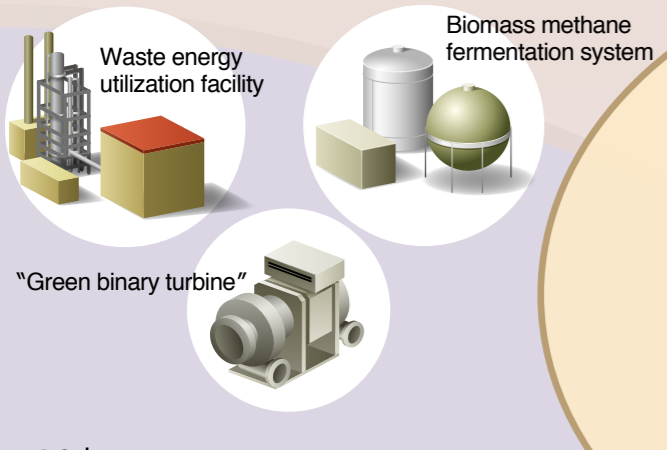
### Realizing the perfect energy for tomorrow

We have proposed the CO<sub>2</sub>-free hydrogen chain as a new energy system for tomorrow's energy needs.



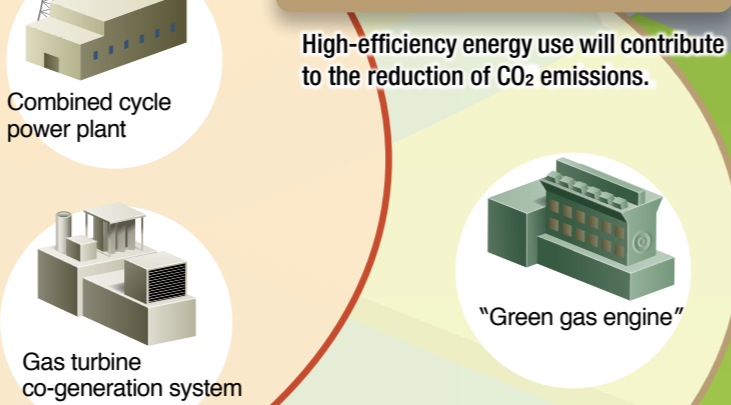
### Using energy from waste products and waste heat

Sources of energy will include waste products and warm water, steam and exhaust gas released from plants.



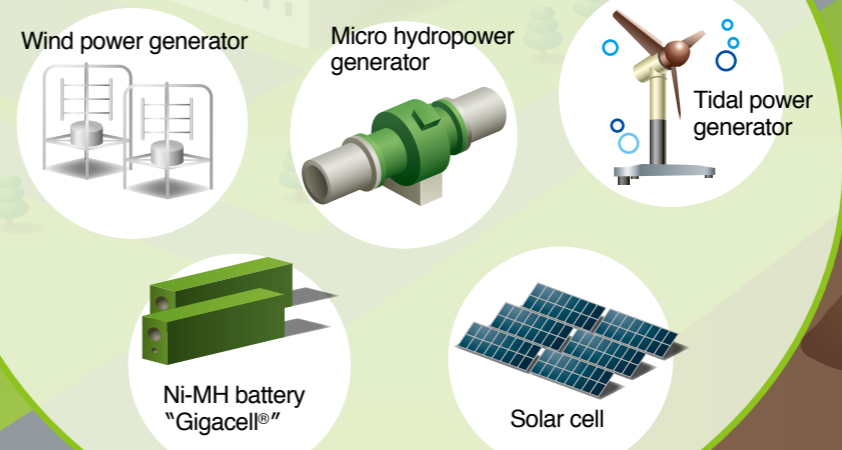
### Reducing energy consumed to generate power

High-efficiency energy use will contribute to the reduction of CO<sub>2</sub> emissions.



### Utilizing natural energy

Natural energy, such as sun and wind, among others, will not generate CO<sub>2</sub>.





# We will use our integrated technological expertise to create values that point the way to the future.

The KHI Group consistently applies a practical perspective to activities aimed at improving product quality, ensuring product safety and boosting customer satisfaction. In this report, we showcase activities undertaken by the Ship & Offshore Structure Company, the Plant & Infrastructure Company and the Precision Machinery Company to highlight efforts to improve product quality, ensure product safety, and boost customer satisfaction, respectively.

## Efforts to Improve Product Quality

### Ship and Offshore Structure Company

The Ship and Offshore Structure Company, the business segment that quite literally launched KHI, has delivered more than a thousand ships. Here we highlight efforts to improve product quality by capitalizing on the many opportunities we have to interact with customers in the building of ships and the face-to-face relationships that are formed as the process unfolds.

#### 1 Development, contract

We accurately identify customer needs and determine ship specifications through numerous meetings.



Ship building specifications

#### 2 Design

Even at the design stage, we frequently hold technical meetings with customers and confirm requirements by obtaining approval of drawings while putting forward reliable designs conforming to technical standards.



Design work setting

#### 3 Procurement

We order equipment and components from more than a hundred suppliers. We accompany customers to suppliers' shop test of critical equipment and confirm that the products meet the required specifications.



Shop test of critical equipment

With our customers

#### 6 After-sales services

We take account of post-delivery customer feedback and quickly extend technical support to customers requiring repairs or supply of components. The information obtained through such activities is valuable and passed on to all the departments involved because the feedback is useful in efforts to improve quality.



Ship visited for after-sales services with the crew

#### 5 Sea trial, delivery

In the final stage of shipbuilding, the ship is actually put to sea and we, along with our customers, confirm performance. Later, we bid farewell as the ship leaves the shipyard quay to ply the world's oceans, marking delivery to the customer.



Sending the ship off from the quay amid waving flags

#### 4 Manufacturing, inspection

At the shipyard, the ship takes form over multiple stages, such as steel plate fabrication, welding, painting and installation of equipment. Customers dispatch supervisors to track progress and together we ensure quality through various inspections.



Welding inspection using an aerial work platform

## Efforts to Ensure Product Safety

### Plant & Infrastructure Company



**Hiroshi Takaya**  
No.1 Design Section, Chemical Plant Department  
Chemical Plant & Cryogenic Storage System Engineering Division  
Plant & Infrastructure Company

One way to assess safety based on plant design is to use HAZOP (Hazard and Operability Studies). We applied HAZOP to a fertilizer plant project to ascertain safety. The HAZOP exercise brought together the parties involved in the project—the customer, the provider of fertilizer manufacturing technology and KHI—to 1) identify areas of possible safety issues, 2) analyze the hazardous events that would occur in the areas and look into their causes, and 3) formulate safeguards and necessary improvements to prevent such hazardous situations from arising, but if they were to occur, to avert an actual accident, on the assumption that operations deviated considerably from normal, in such areas as flow rate, pressure and temperature. This hypothetical scenario enabled us to reduce risk to a permissible level. Specifically, we suggested a safety device that brings the

plant to an emergency stop when pressure rises in the fertilizer synthesis equipment, a safety device that stops the compressor in an emergency, when the compressor inlet pressure drops, and a warning display to prevent an excess drop in pump pressure when the tank water level decreases due to manual valve mishandling by the operator. We thus identified possible hazards at an early stage and verified the status of safety from a design perspective and confirmed the need for improvements. Through HAZOP, we were able to raise awareness of safety design and implemented approaches to reduce risk by addressing concerns in the actual plant design.



Fertilizer plant for Fatima Fertilizer Company Ltd. (Pakistan)

## Efforts to Boost Customer Satisfaction

### Precision Machinery Company, Nishi-Kobe Works



**Shoji Fujiwara**  
Quality Assurance Department,  
Quality Assurance Division  
Precision Machinery Company

The Precision Machinery Company produces hydraulic equipment and hydraulic units responsible for motion control in a range of machinery and provides products to countries all over the world. Among these products, hydraulic equipment for construction machinery, especially hydraulic shovels, have captured high shares and have earned a stellar reputation from customers. We have also earned the solid trust of customers by providing products fine-tuned to customers' varied needs right from the design stage.

In addition, we have offices in Japan, of course, as well as England, the United States, China and South Korea to expedite after-sales service requests, and through these quick responses we are able to meet customers' needs and maintain excellent customer satisfaction. We strive to enhance the activities that support this capability. Comments from customer questionnaires are categorized into themes: product quality, after-sales services, performance and delivery, and the information is shared among all divisions and with management. We take the results seriously and everyone strives daily to address issues that customers have noted so as to raise the level of customer satisfaction.



Training the people responsible for after-sales services



Overhauling hydraulic equipment

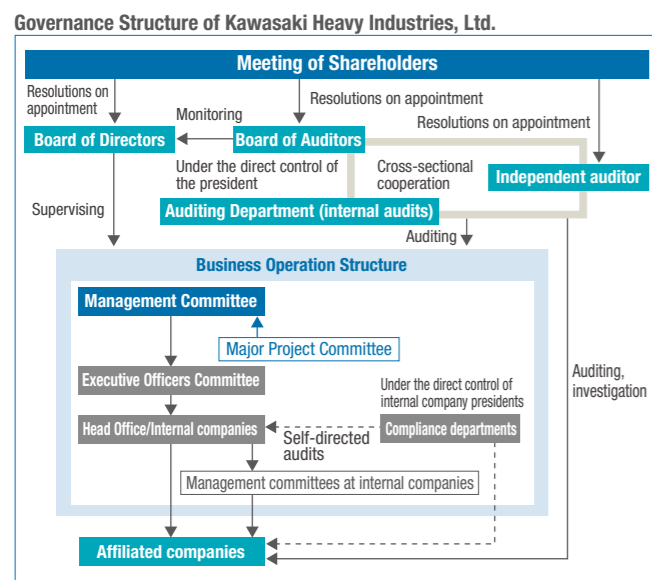


# We will always act with integrity and good faith to merit society's trust.

More information on Theme 2 "Management" is available in the Full Report.

## Corporate Governance System

The Company has a Board of Directors, a Management Committee consisted of representative directors and others, and an Executive Officers Committee which includes all executive officers. As for directors, the Company appoints a director who does not have roles in the execution of operation. Also, the Company applies incentive-based compensation corresponding to their business performance and limits the term of office to one year. These conditions serve to clarify the management responsibilities of directors. The Company opted for the statutory auditor system with board of auditors and has appointed independent auditors. The board of auditors includes two outside corporate auditors with no business relationships or other vested interests in the Company. One of these outside corporate auditors is an independent officer as required by the Tokyo Stock Exchange.



## Auditing Structure and Status

The Auditing Department, an internal auditing unit under the direct authority of the president, audits management activities in all the Group's business segments. Corporate auditors attend various meetings, including those of the Board of Directors and the Management Committee, and also review important documents and check the status of business operations and financial assets through periodic meetings with representative directors and business audits of corporate divisions and subsidiaries. With regard to independent auditing, KHI undergoes audits of its financial statements conducted by the independent auditor, KPMG AZSA LLC.

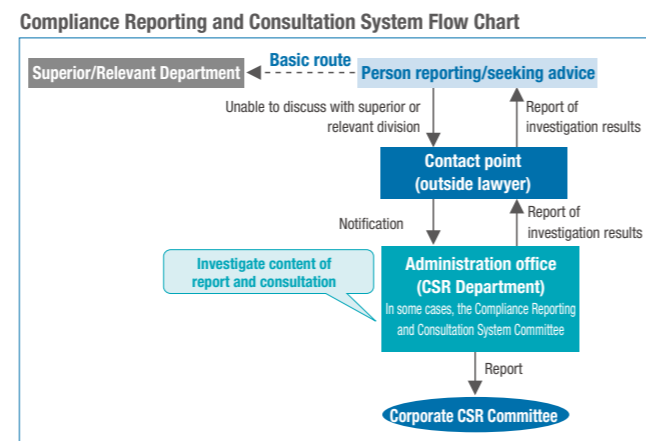
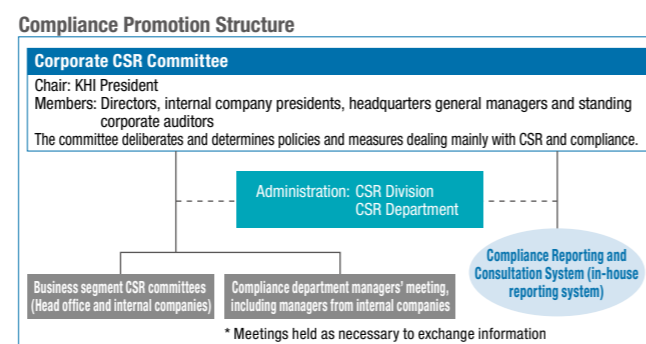
## Compliance

### Developing a Deeper Awareness of Compliance

In fiscal 2012, KHI implemented a learn-by-example program to reinforce compliance in the workplace. This was a compliance activity shared throughout the Company. With the consent of newspaper companies, we prepared original instruction materials using newspaper articles describing various examples of actual corporate compliance violations, and superiors in all offices used these materials as the basis of presentations to instill the importance of compliance. In addition, to verify the effectiveness of such approaches in raising awareness of compliance issues, in February 2012 we directed a compliance awareness survey of all employees and temporary staff at Group companies in Japan.

### Compliance Reporting and Consultation System (in-house reporting system)

In certain situations, employees who suspect a violation of compliance practices in their department may find it difficult to report the situation or seek advice from superiors or a department that would normally address alleged misconduct. We established the Compliance Reporting and Consultation System to solve this problem. In fiscal 2012, the system was used 18 times.



## TOPICS

### Example of Compliance Education in the United States

At KCMA Corporation, a manufacturer of construction machinery—wheel loaders—in the United States, a code of conduct describing corporate ethics and compliance was created and all 120 employees became signatories to the document, thereby affirming their agreement to observe the code of conduct. Also, a company meeting is held every three months in which all employees participate and where the Senior Manager of the Personnel & General Affairs continues to bring up the importance of corporate ethics and compliance and reminds everyone to be alert to compliance issues. In this way, KCMA persistently strives to raise awareness of corporate ethics and compliance among its employees.



## Crisis Management

To prepare for the possibility that risk might become reality, the KHI Group adheres to internally defined Crisis Management Regulations and has a structure in place to expedite the establishment of command centers to ensure a quick response in the event of a crisis. To prepare for crisis situations, we rely on the Crisis Management Organization, a horizontally integrated Group structure for crisis management.

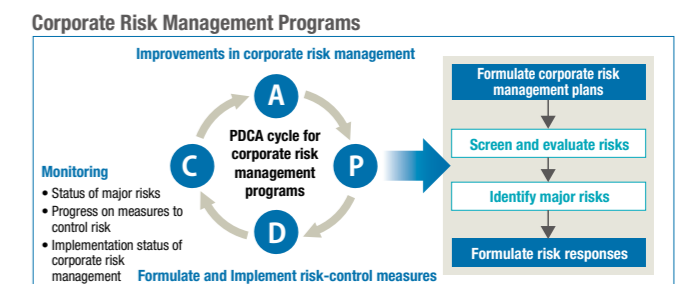
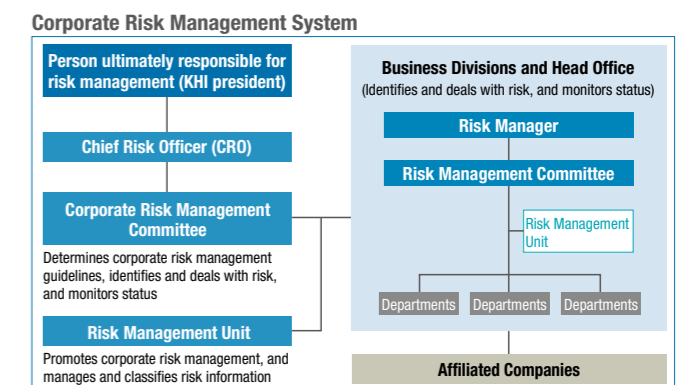
### Reporting Route in Times of Emergency

Should an accident or natural disaster occur, information gets to where it is needed through a predetermined reporting route for use in times of emergency. This route is made widely known to employees and executives through the Crisis Management Organization, which under normal circumstances underpins the Group's crisis management structure.

## Risk Management

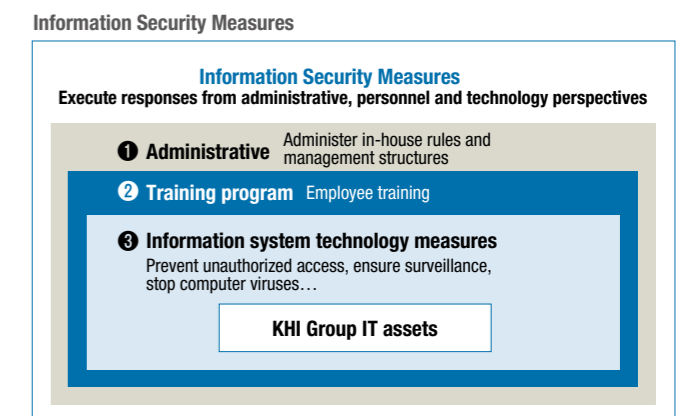
Under the Corporate Risk Management System, we have been implementing corporate risk management programs—an integrated process of screening and evaluating risk, identifying major risks and determining risk treatment, and formulating, executing, and monitoring risk-hedging policy—to pinpoint any major risks having a significant impact on business according to annual and universal risk criteria, and we are controlling

such risks with reasonable and appropriate methods from the perspective of enterprise management. Since fiscal 2012, the Corporate Risk Management System has been gradually introduced at domestic affiliated companies. We plan to establish the Corporate Risk Management System across the Group including overseas affiliated companies in fiscal 2014.



## Information Security Management

The KHI Group provides products to a wide range of customers, from general consumers to the public sector and further to defense forces, and meticulously promotes various information security measures matched to the requirements of respective customer sectors.



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

## Relationship with Shareholders and Investors

### General Meeting of Shareholders

At KHI, we believe the General Meeting of Shareholders—the highest corporate decision-making body of any company—is an important opportunity for communication between the Board members and our shareholders. To enable shareholders to properly consider important matters on which they will cast their vote at the General Meeting of Shareholders, we send out the convocation notice even earlier than required by law. In addition, we prepare an English version of our official Japanese-language convocation notice and make it posted on our website. Shareholders who are unable to attend the annual meeting in person now have the option of exercising their voting rights through the Internet or by mobile phone.



General Meeting of Shareholders

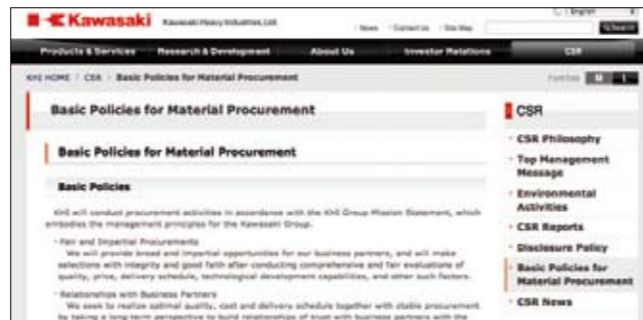
### IR Activities

We keep an open channel to shareholders and investors through various investor relations (IR) activities at home and abroad to promote communication. We hold financial performance briefings for institutional investors and analysts. Corporate representatives visit institutional investors outside Japan. We send shareholders our Business Report, an easy-to-understand update on management conditions. Also, we strive to enrich the content of the IR Information section on our website.

## Relationship with Business Partners

### Fair Transactions and Bonds of Trust

In accordance with Basic Policies for Material Procurement and Code of Conduct for Dealing with Business Partners, everyone—including employees in design and manufacturing departments—who deals with business partners undertake procurement activities predicated on long-standing relationships of trust with our business partners. We seek to ensure widespread acknowledgement of the guidelines and toward this end post them on our web site, with each division prominently displaying them as a constant reminder of the importance of fairness and mutual trust.



Basic Policies for Material Procurement (excerpt)

### CSR-Driven Procurement

From the perspective of CSR-driven demands and customer trust, KHI formulated CSR Procurement Guidelines in April 2012 and placed the document on its website. Backed by the Basic Policies for Materials Procurement and these new guidelines, the Company will encourage suppliers to support its position on these issues and promote procurement activities in line with CSR principles, such as compliance, of course, and human rights, labor and employee health and safety as well as environmental consciousness.



CSR Procurement Guidelines

### Thorough Compliance

Every year, KHI holds a group workshop mainly for procurement divisions within the Group to ensure compliance with procurement-related laws and regulations, especially the Subcontractors' Act—or more formally, the Act against Delay in Payment of Subcontract Proceeds, etc., to Subcontractors—and the Construction Industry Law. Of note, with regard to the Subcontractors' Act, we maintain proactive measures, as outlined below.

- Run sessions for design and manufacturing divisions at plants and affiliates (in fiscal 2012, a total of 16 sessions attracting 769 participants)
- Distribute a collection of examples on violation of the Subcontractors' Act, which highlights actual situations that businesses need to be aware of.
- Planning to prepare a checklist for self-auditing compliance status pursuant to the Subcontractors' Act, post it on the internal website in fiscal 2013, and widely raise awareness of the checklist to divisions other than those involved in procurement, design and manufacturing.

# We will all create a workplace where everyone wants to continue working.

## Developing Human Resources

KHI's ideal human resources fall into six categories, based on the Company's mission statement. They are 1) actively involved around the world; 2) solving issues for customers and the community; 3) leading reforms and innovation; 4) taking technology to new heights; 5) demonstrating comprehensive capabilities; and 6) always maintaining a profitability perspective. Seeking to cultivate human resources with these qualities, we promote comprehensive training and skill development for employees.

### 1 Reinforce the management and business execution capabilities of employees (Administrative and technical training)

During their first three years of employment, employees in administrative and technical positions receive a combination of structured on-the-job training, facilitated by a mentoring system, and access to various training content to help these young professionals shoulder new responsibilities as quickly as possible.

We offer some trainings for managers, such as section managers training session, general managers training session and board members training session. Such initiatives serve to strengthen middle management and develop the skills of candidates for management positions.



Training session for general managers.

### 2 Improve on-site capabilities (Training for production specialists)

We encourage young employees in production positions to enhance their skills and older employees to share their acquired expertise. Toward this end, we have a system in place for young workers to obtain technical qualifications early in their careers and a fairly recently introduced masters' system whereby experienced workers with sophisticated, specialized capabilities are designated "masters" upon which they impart their hands-on knowledge to younger colleagues.

KHI's production professionals actively participate in industry competitions involving technical skills, including the Technical Skill Grand Prix. At the 2011 event, the KHI representative took third place in the machinery assembly work category and the fighting spirit award in the conventional lathe work category.

## Realize Vibrant Workplace Atmosphere

### Encourage employees to take annual paid vacation

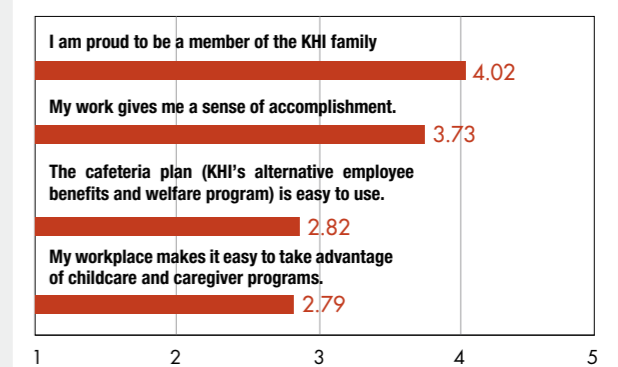
KHI encourages employees to use their annual paid vacation time to refresh mind and body and to strike a better balance between work and private life. As one approach to this, the Company introduced a program—*Yuyu Renkyu*—that asks employees to decide on consecutive days off at the beginning of the fiscal year that they will have to take when those days come round on the calendar. Also, since April 2010 the Company has endeavored to create an environment that makes it easier to take vacation time, including a one-day increase in annual paid vacation, from 21 days, to 22.

## TOPICS

### The Result of Employee Satisfaction Survey

KHI conducts employee satisfaction surveys every other year and use the results in the preparation of new policies and programs. The survey undertaken in February and March 2011 garnered an increase in positive responses on nearly all questions, such as "Proud to be a member of the KHI family" and "My work gives me a sense of accomplishment". But positive responses to questions on employee welfare and the environment to take advantage of childcare and caregiver programs were relatively few. We will carefully evaluate this situation and promote various measures to ameliorate perceived concerns.

\*From the 59 questions in the survey, we selected four that generated notable results. The number represents the average value given by respondents who were asked to rate the statement on a scale from 1 to 5. The higher the value, the more positive the assessment, indicating a high level of satisfaction.



# We will all create a workplace where everyone wants to continue working.

More information on Theme 3 "Employees" is available in the Full Report.

## Respect for Diversity

### Promoting Active Roles for Women

KHI is taking an enthusiastic approach to hire women. The number of women hired and the number of women in managerial positions increases annually, and in the area of hiring in particular, about 30% of the university graduates taking administrative positions with us are women. KHI is also implementing actions such as introducing senior female employees to young female staff as role models, and helping supervisors foster skill development in female staff.

### Promoting Active Roles for the Disabled

We also strive to hire more people with disabilities, and people with physical challenges are thriving in various office environments. We earnestly endeavor to break down barriers, in the true sense of barrier-free, and in 2010, we took a stab at in-house training featuring sign-interpreted lectures so that employees with hearing impairments could benefit from the content covered just as much as their hearing colleagues.

## Support for a Good Work-Life Balance

All employees should be able to combine work and childcare responsibilities, continuing to work with energy and enthusiasm. With this in mind, KHI provides a wide variety of programs to support employees' efforts to raise the next generation and balance work and family life.

Of note, our childcare leave system goes beyond the requirements of the law, and we have instituted programs to support the workplace return of employees who have taken such leave. These progressive efforts have been favorably received, substantiated already back in 2006 with the Hyogo Labor Office Director's Award.

In April 2011, we introduced a new system, whereby former employees, who retired for such reasons as marriage, childbirth or childcare, may request reinstatement when their circumstances allow them to rejoin the workforce. We also introduced a system that enables employees to take time off in hourly blocks when needed to deal with child-related issues such as regular parenting duties or when a child is sick. These efforts are not only applicable to childcare. Similar programs are available to employees with elderly or ill family members who require home care, and we provide many kinds of support for maintaining a balance between working and caring for family members.

## Respect for Human Rights

### Prohibiting Harassment and Raising Awareness of Human Rights

We seek to create a comfortable working environment in which employees can perform their jobs free from harassment. KHI offers training to guide everyone onto the path of appropriate behavior and to enlighten everyone on the morale-crushing consequences of harassment. On the issue of sexual harassment, we have established counseling offices at all work sites. We also maintain an e-mail address just for harassment-related comments to facilitate communication.

To raise awareness of human rights issues, we utilize training for new employees and sessions for existing employees in various corporate positions as opportunities to highlight the importance of respect for human rights.



Notice for preventing sexual harassment

## Creating a Safe, Comfortable Workplace

### Efforts to Prevent Occupational Accidents

#### 1 Maintaining the KSKY Campaign

KHI has been implementing the KSKY campaign since 2002. KSKY is coined from the first letters of Japanese words: the K from *kihon*, meaning "basic rules"; the S from *shisakosho*, "pointing and calling"; and the KY from *kiken yochi*, "predicting danger". The purpose of this campaign is to instill greater awareness of safety measures and to create a workplace secured by "mutual cautioning", which is, essentially, employees watching out for the safety of others as well as themselves.

#### 2 Learning to Detect Dangerous Situations

To raise safety awareness, we run mock accidents that allow employees to identify possible dangers in the workplace. As an added precautionary measure, we are installing more devices and facilities to make the practical experience more effective.

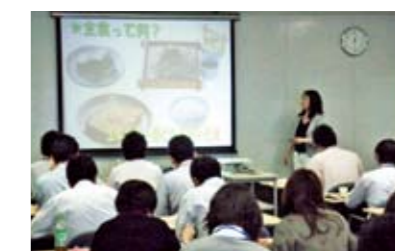


Mock accidents training

### Health Advice and Efforts in Mental Healthcare

#### 1 Health Classes

KHI offers health classes to help employees lead healthier lives. These classes cover general topics, such as dental hygiene and quitting smoking, as well as specialized topics, such as better diets for young adults and approaches for lowering high blood sugar, which are geared to both new employees and existing employees who show signs of having lifestyle diseases based on the results of legally required health checks.



Health class

#### 2 Stress Checks

We ask that employees have their daily stress levels checked during regular health checks, and industrial physicians interview employees with high stress levels and provide them with personalized advice. In addition, we conduct group classes for managers and supervisors and offer information about "line-care"—to improve the working environment and assist staff who wish to discuss mental health issues—and self-care, or personal health maintenance, as well as other topics through e-learning.

#### 3 Fatigue Accumulation Self-diagnostic Checks

We require people who work long hours to undergo fatigue accumulation self-diagnostic checks. Industrial physicians interview employees with high levels of accumulated fatigue and provide them with personalized advice.

## TOPICS

### Consideration Given to Employees at KMI (Indonesia)

PT. Kawasaki Motor Indonesia (KMI) is a local manufacturing and marketing base for Kawasaki-brand motorcycles in Indonesia.

About 90% of the population of Indonesia is Muslim, and many of KMI's employees are followers of Islam. Therefore, various considerations are extended to these employees.

The company has set aside an area on site for a *mushola* (prayer room). Female employees are allowed to wear a headscarf during working hours and, in the cafeteria, no dishes made with pork are served since dietary laws prohibit consumption of pork.

During the holy month of Ramadan, Muslims fast between sunrise and sunset, and through this month office hours for employees in administrative and marketing divisions start 30 minutes earlier than usual. This change reflects the desire of many Muslims to have their evening meal with family at home during Ramadan.

Also, after Lebaran (a celebration to mark the end of fasting), which follows Ramadan, KMI holds a *halal bi halal* event for Muslims.

But Islam is not the state religion of Indonesia. In fact, there are Christian and Hindu minorities, and since the constitution guarantees religious freedom, Christmas and Hindu celebrations are also observed as national

holidays. KMI therefore extends considerations to employees of Christian and other faiths and holds events, such as Christmas celebrations.

This demonstrates KMI efforts to accommodate the local religions, culture and customs of the land and execute business activities that respect human rights.



On site prayer room (*mushola*)



Women employees wearing a headscarf

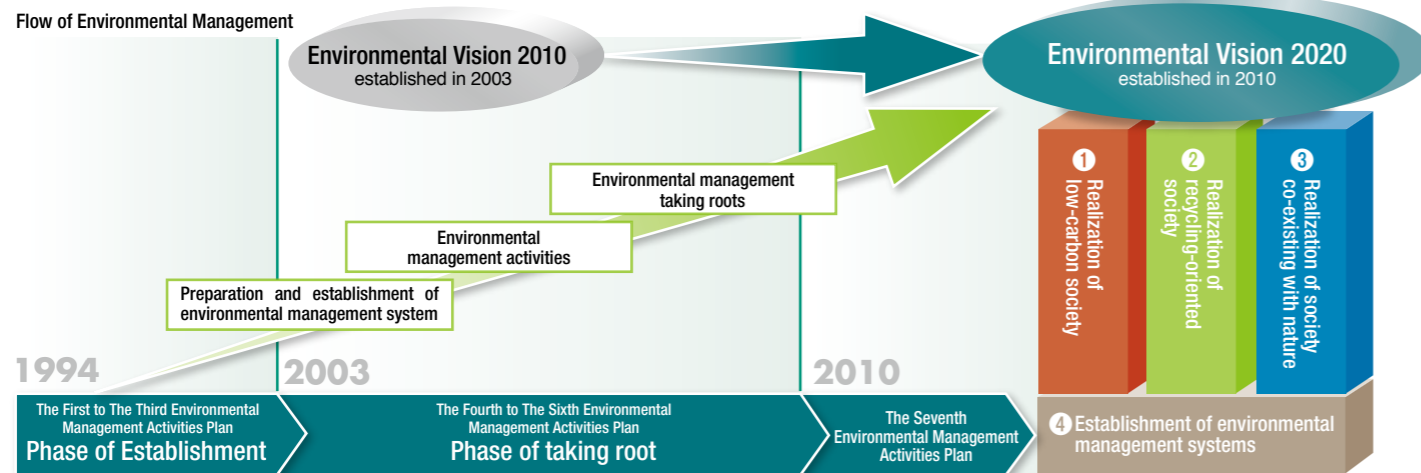


Halal Bi Halal

# We will pursue "manufacturing that makes the Earth smile."

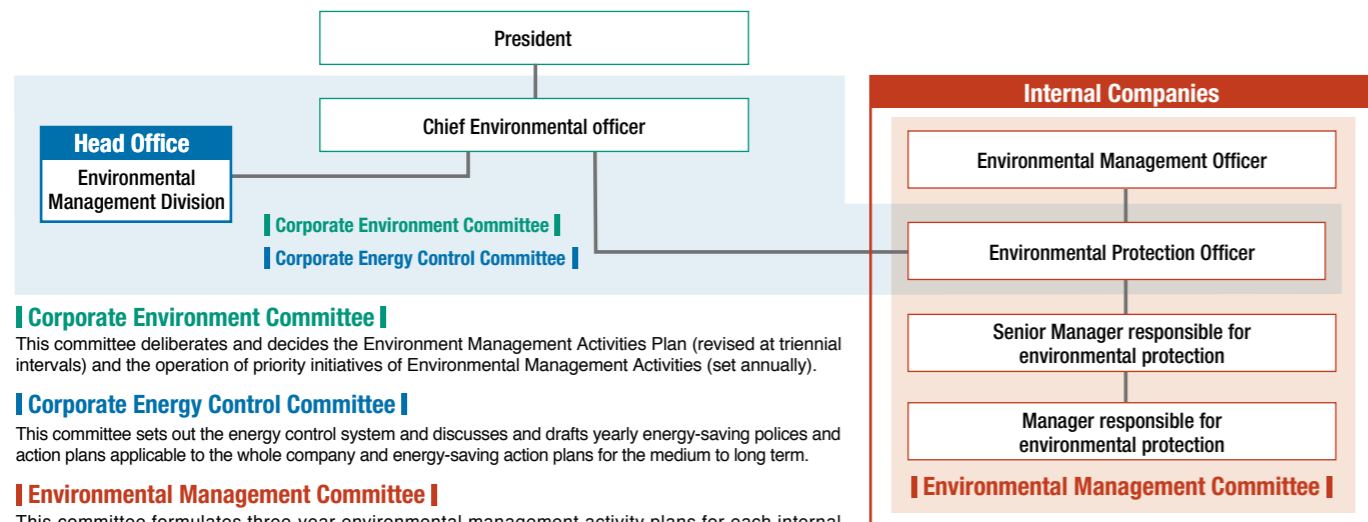
## Environmental Management

KHI established our "Environmental Vision 2020" which defines what KHI Group should be like in the year 2020. We set the "Environmental Management Activity Plans" every three years to realize the vision with the four basic policies; ① realization of low carbon society, ② realization of recycling-oriented society, ③ realization of society co-existing with nature and ④ establishment of environmental management systems. We will pursue the following items as the Seventh Environmental Management Activities Plan from FY2011 to FY2013.



## Environmental Management Organization

KHI has established the framework of organization to promote environment management. We deliberate and decide operations of various important matters by Corporate Environmental Committee chaired by Chief Environmental Officer. Furthermore, we appoint Environmental Management Officer, Environmental Protection Officer, Senior Manager responsible for environmental protection, Manager responsible for environmental protection for each internal company to be able to spread out the formulated Environmental Management Activities Plan.



### Corporate Environment Committee

This committee deliberates and decides the Environment Management Activities Plan (revised at triennial intervals) and the operation of priority initiatives of Environmental Management Activities (set annually).

### Corporate Energy Control Committee

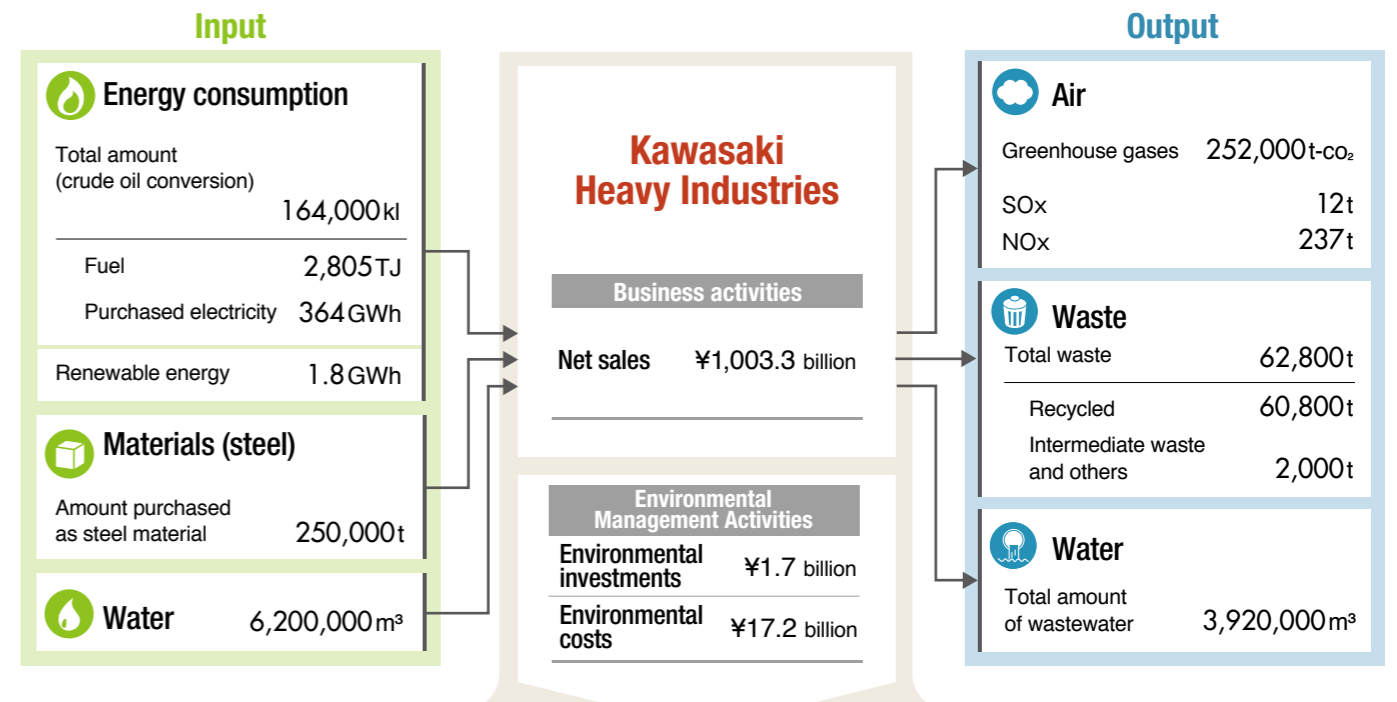
This committee sets out the energy control system and discusses and drafts yearly energy-saving policies and action plans applicable to the whole company and energy-saving action plans for the medium to long term.

### Environmental Management Committee

This committee formulates three-year environmental management activity plans for each internal company and tracks the results achieved through company-specific activities.

## Environmental Impact Through KHI's Business Activities and Environmental Contribution Through Our Products

Below is a diagram of the "input" and "output" of resources used in KHI's business activities in fiscal 2012.



### New type LNG Carriers



Low fuel consumption

### "Type 13000 Commuter Train" for Keihan Railway



Energy conservation, Low noise

### "Boeing 787 Dreamliner"



Low fuel consumption, Low noise

### Highly efficient gas turbine engine "L30A"



High efficiency power, NOx reduction

## KHI's products contribute to the protection of the environment

KHI contributes to the protection of the environment by our high efficiency and eco-friendly products, resource saving, and reduction of the environmental load.

More details are available on our website.

### Spot welding robots "BX series"



Resource saving, Energy conservation

### Oil pressure pumps "K7V series"



Resource saving, Energy conservation

### "Ninja ZX-14R"



Emission clean-up

### "Green Gas Engine"



High efficiency power, NOx reduction

### Cement waste heat power plant



Waste heat utilization

We will pursue "manufacturing that makes the Earth smile."

We are further eliminating wasteful use of energy by encouraging practices, such as cutting standby power for machine tools, preventing leakage of pressurized air and turning off unnecessary lights, at all the sites.

To start, KHI processed 114 PCB-filled condensers from the old Noda Works. Going forward, we will continue to process waste materials in an appropriate manner.

Old discarded Jet Skis® are collected, dismantled and processed through the FRP Boat Recycling System with wide area authorization system of industrial waste and the reusable materials are used as recycled-resources.

Many industrial wastes are generated from plants. We carefully separate and sort the various industrial wastes to facilitate material and thermal recycle.

Photovoltaic power generation equipment has been installed in 11 main domestic plants. We are promoting the use of natural powers. Annual generated electricity for FY2012: 1.8 GWh

We maintain Kawasaki-brand gas turbine and gas engine power-generation systems and other equipment at domestic plants. Also we are installing cogeneration systems using electricity and heat energy without waste. Annual generated electricity for FY2012: 120 GWh

Reduce CO<sub>2</sub> and energy consumption

Proper disposal of waste

Promote the 3Rs

Separate and sort the collected wastes

Utilize renewable energy sources

In-house power generation

Realization of low-carbon society

Realization of recycling-oriented society

Environmental Vision 2020

Contribute to the prevention of global warming through our products and manufacturing that use energy without waste.

Engage in manufacturing that uses resources without waste in order to recycle and fully utilize limited resources.

Contribute to reduction of environmental impact and conservation of the ecosystem through manufacturing that is in harmony with the global environment.

Build a foundation for environmental management that will realize the Environmental Vision 2020.

Realization of society co-existing with nature

Establishment of environmental management systems

Chemical substances information management

Forest conservation activities

Co-exist with the environment

Ecological education

Environmental management

Environmental data management

We invited external lecturers to speak at corporate study sessions on chemical substance information management, with an emphasis on responses to the REACH Regulation.

We are participating in the forest conservation activity "Corporate reforestation project" promoted by Hyogo Prefecture from December 2008, to co-exist with local communities and protect bio-diversity.

An eco-friendly new building at the Kobe Works has been completed. It features nature lighting, photovoltaic power generation, wind generation, rooftop greenery and high-performance double glazed windows.

To maintain and improve environmental awareness among employees of the Group, we are offering environmental e-learning opportunities to new employees.

KHI received a Development Bank of Japan loan at a fine rate. This is a result of our environmental management being highly evaluated and given the highest rating in DBJ's environmental rating schedule.

"ECOKEEP" has been created. It is an environmental management information system that integrates environmental data from each plant and the offices at our data center, thereby we are facilitating consolidation of environmental data and instantaneous output.



In December 2011 the company received a Development Bank of Japan loan based on its being given the highest rating in DBJ's four-grade environmental rating schedule: "companies with particularly impressive environmental programs."

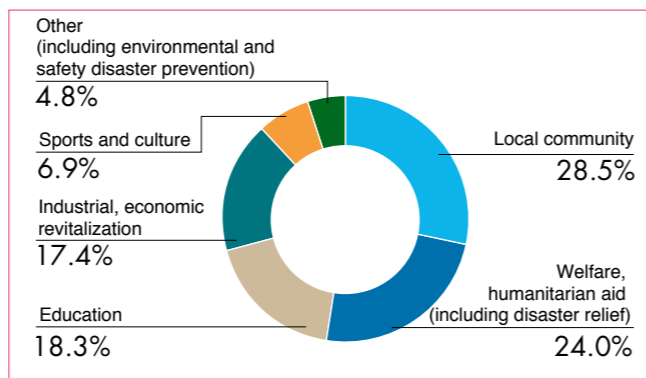


# We will expand the circle of contribution that links to society and to the future.

## Social Contribution Activities (Fiscal 2012)

The KHI Group donates funds for a variety of charitable activities and for disaster relief and also undertakes voluntary programs, including management of the corporate museum Kawasaki Good Times World, various events for children, support for culture and sports, involvement in local economic development projects, and corporate forest restoration projects. Continuing from fiscal 2011, in fiscal 2012 we directed support toward the area devastated by the Great East Japan Earthquake. We also enthusiastically promoted activities in new pursuits, including the first-ever Kobe Marathon 2011, where our level of sponsorship got our name on the runners' number bibs, and participation in science events for elementary school children.

Social Contribution Expenditures in Fiscal 2012



### Polio Vaccines for the World's Children

—CO<sub>2</sub> reduction through Ecocap Movement—



KHI participates in the Ecocap Movement. Through this effort, plastic bottle caps are separated and collected and then sold to recyclers, thereby curbing CO<sub>2</sub> emissions (3.15 kg of CO<sub>2</sub> is released in the incineration of 400 caps), and the profits from the sale of the caps goes toward purchasing vaccines for children around the world. It takes 800 caps to buy one vaccine.

I was aware of this movement, and I thought it was something we at KHI could support. The Environmental Affairs Department kicked off the collection effort in 2009.

As the objective of this movement percolated through the Company, more people got involved, some even bringing bags of caps from home. Through everyone's efforts, especially at the Kobe Head Office and Kobe Works, we have sent a total of about 400,000 caps to Ecocap Movement to date. This represents a CO<sub>2</sub> reduction of 3,133 kg and facilitated the purchase of enough vaccines to inoculate 497 children. We will continue to participate in the cap-collection effort to reduce CO<sub>2</sub> emission and deliver vaccines to the world's children.



Collected caps

### Support for victims of the flood (Thailand)

Kawasaki Motors Enterprise (Thailand) Co., Ltd. (KMT), the local manufacturing and marketing base for Kawasaki-brand motorcycles in Thailand, was not directly affected by the severe floods that inundated Thailand in autumn of 2011.

The KHI Group supported relief and recovery efforts with cash donations of 4 million baht (about ¥10 million) to the Thai Red Cross and 4 million baht (about ¥10 million) to the Thailand Board of Investment, and also equipment, notably 10 Kawasaki MULE™ utility vehicles, for a total donation value of ¥30 million.

A total of 40 Kawasaki motorcycle-riding volunteers took advantage of the mobility afforded by motorcycles to expedite relief efforts to the people affected by this disaster. In addition to providing spare parts, oil, gasoline and other motorcycle-related necessities at no cost, KMT dispatched three repair specialists to the area to support the volunteers riding through the flooded region.

For customers affected by the floods, KMT undertook free motorcycle repairs and offered discounts on spare parts.



Volunteer riders

### Kobe Marathon Runners' Bib Sponsor

KHI's corporate sponsorship for the inaugural Kobe Marathon 2011, held on November 20, 2011, in Kobe, was reflected on the men's number bibs. The Company was also represented by 86 volunteers who manned the water station and cheered the runners on from the sidelines.



Volunteers at water station

### Participating as a Volunteer

My name wasn't drawn to run in the race, but I knew the Company was recruiting people for its team of volunteers, and that's how I got involved. I had never been backstage, so to speak, at a race, and the hard work of a volunteer and the fun of cheering were aspects of a race that I had never known when I was a runner.



Kishige Funato  
Kawaju Akashi  
Engineering Co., Ltd.

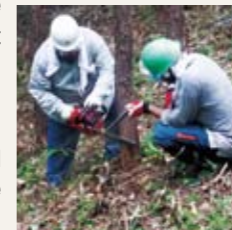
### Community Forest Maintenance Starts in Miyagi Prefecture

—Realizing a society coexisting with nature—

Seeking to coexist with local communities, the KHI Group is also involved in the preservation and maintenance of forests. Employees have participated in forest-building projects, starting in Kochi Prefecture in 2007 and then Hyogo Prefecture in 2008. Community forest maintenance activities began in 2011 in Miyagi Prefecture as a third project area.

In September 2011, Group employees in the Sendai area, along with the volunteer group Miyagi Forest ReCreators Club, cleared undergrowth and pruned and thinned trees in an area on the outskirts of Sendai. Members of the club explained the significance of forest preservation and the need for maintenance, and then work began. Woods where light barely got through the tree branches became bright, and participants were able to really feel that their efforts that day would contribute to forest renewal.

Forest maintenance in Miyagi Prefecture will continue as a local activity in the area affected by the Great East Japan Earthquake.



Community forest maintenance group

### Make Your Own Helicopter!

—Part of Kansai Science Yard—

On a sunny day off from school in March, children gathered at Kansai Science Yard, a hands-on science and technology event for elementary school children in the Kansai region. Leave a Nest Co., Ltd., the event sponsor, brought KHI in for a session entitled "Make Your Own Helicopter!" which saw the children make a model helicopter out of balsa wood.

We showed the children how a helicopter and its rotor are assembled and estimated the rotor's lift force—the force that lifts the helicopter—and described some



Making model helicopters

insider secrets, such as the trick to stop the whole helicopter from spinning. The children gained a love for the skies and an interest in science born from this love, and enjoyed building their own helicopters.

### Participating as Teachers

The smiles on those children's faces kept growing, first with the lift force experiment and then as the helicopter took form in their hands. These children experienced the power of science and the fun of building something. This event may well prompt some of these children toward a career in engineering.



Yoshinari Tobinaga Gen Tazawa  
Planning Department, Planning Division  
Aerospace Company

### Interaction Opportunities with the Local Community (Akashi Works)

Taking advantage of the Labor Day holiday, in November 2011, we welcomed neighborhood elementary school children and their families—a total of 201 people—to tour the Akashi Works by bus and then enjoy some time at the corporate museum Kawasaki Good Times World. At the works, the site manager explained the activities and history of the works to the children as if he were telling a story, and to the adults, he emphasized the corporate objective to develop operations along with the community. Lunch was offered at the cafeteria on-site.

At the museum, when the group was asked "What did you find most interesting?" a little boy eagerly exclaimed, "The bullet train!"



Akashi interaction group

## Takehiko Isobe, professor at Keio University's Graduate School of Business Administration offers his opinion on the KHI Group's CSR Report for 2012.



**Takehiko Isobe,**  
Professor and Ph.D. in Business  
Administration, Graduate School of  
Business Administration, Keio  
University

### Overall Impression and Assessment

It may be because fiscal 2012 brought the medium-term management plan to a close, but I feel the story quality—that is, the quality of your message—was supported loud and clear throughout the report this year. In particular, the environmental activities and social contribution sections presented a very clear picture of the environmental management image that the KHI Group seeks to establish. In addition, regarding self-assessment of actions to address CSR issues, activities with an internal focus have garnered a high rating in the past, but this time, issues with an external connection, such as to shareholders or customers, also earned a higher grade. I would say the CSR activities that you have put steady effort into are nearing final form. However, I am unable to compare assessments of corporate actions and internal company-specific actions. Going forward, a comparative analysis of corporate and internal company-specific actions is an issue you still need to address.

### B-to-B Brand Efforts

The April 2012 establishment of the Marketing Division, which the president mentioned in his message, is going to play a major role, I would expect. In today's global era, even B-to-B companies will have to have sharp marketing

capabilities. What KHI sells is not so much products or technology but rather solutions that solve customers' concerns. Therefore, you have to identify customer needs and present approaches to address such needs, which will generate higher customer satisfaction.

### KHI Group's Technology Strengths

The business fields of the internal companies are all different from each other, but these business segments do share access to environmental and energy solution technologies. Moreover, these are leading-edge technologies on the world stage. Plus, these technologies need not stand alone but can be systematically integrated to provide even greater value to society. You must, however, specifically indicate the kind of value that society might expect from the combination of technologies. A case in point: The distributed energy system that came out of your experiences in the Great East Japan Earthquake is a concept with very unique value.

### Dialogue with Experts

Many valuable opinions were voiced at the first dialogue with experts. An opinion shared by all the experts was that you need activities that tie CSR and business activities together. Environmental Vision 2020, which is described in this report, shows that environmental management itself is a core competence of the KHI Group and fortifies the "Global Kawasaki" brand. I believe you have to recognize that the environmental management requirements placed on companies by society presents the greatest business opportunity for the KHI Group.

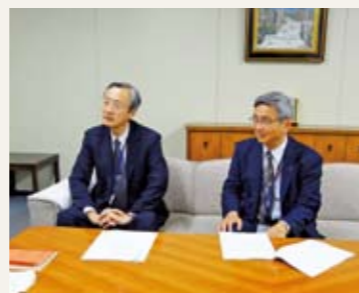
### Response to the Third-Party Opinion

We must extend our gratitude to Dr. Isobe for the valuable thoughts he offered during the dialogue with experts and here again with his evaluation of the Group's activities in his third-party opinion in the CSR Report. The points he made regarding issues that KHI must address in the future will be shared within the Company and discussed among the many people involved in CSR activities, and necessary measures will then be implemented with a forward-looking perspective.

In particular, with regard to business activities, the hints about providing solutions to customers' concerns and systematically integrating the intellectual assets of the KHI Group are well-taken. Moving forward, we will be even more proactive about conveying the kind of society we regard as ideal and the kind of new value we hope to provide.

**Yoshizumi Hashimoto, Executive Officer and General Manager of the CSR Division (left)**

**Yutaka Fukuda, Senior Manager, CSR Department (right)**



### Corporate Profile

#### Kawasaki Heavy Industries, Ltd.

Incorporated	October 15, 1896	Representative	Satoshi Hasegawa, President
Head Offices	Tokyo Head Office: World Trade Center Bldg., 4-1, Hamamatsu-cho 2-chome, Minato-ku, Tokyo, 105-6116 Japan  Kobe Head Office: Kobe Crystal Tower, 1-3, Higashikawasaki-cho 1-chome, Chuo-ku, Kobe, Hyogo, 650-8680 Japan	Paid-in Capital	¥104,484 million (As of March 31, 2012)
		Number of Shares Issued	1,671,892,659 shares (As of March 31, 2012)
		Net Sales	¥1,303,778 million (As of March 31, 2012, consolidated)
		Number of Employees	33,267 (As of March 31, 2012, consolidated)