Chapter 1

Transforming Management and Launching Spin-offs

1997–2006

Kawasaki celebrated its 100th anniversary in 1996. This year, in which the company achieved its highest earnings ever (on a non-consolidated basis), was designated as the year of "New Beginnings" and marked the beginning of a new chapter in its history for a new century.
The Japanese economy had been in a slump since the burst of the bubble economy, and the sharp appreciation of the yen that started in 1999, in particular, dealt a heavy blow to Japanese exporters. The Kawasaki Group also suffered its second consecutive loss due to a prolonged economic slump and declining investments in public works projects.
In April 2000, the company formulated a medium-term business plan, "K21: From Heavy Industry to Flexible Enterprise," with the goal of returning to profitability. Under this plan, the company placed an emphasis on quality over quantity and aimed to shift its business model from an order-driven business model that promoted quantity with an aim to expand the market to a solutions-driven business model that focused on responding to actual customer needs.
In 2001, Kawasaki started transforming its business structure with a focus on selection and concentration. It adopted an internal company system to promote the independent management of each business. Identifying the aerospace business and the consumer products and machinery business as core businesses and the rolling stock business and the gas turbine and machinery business as growth businesses, the company invested its management resources in these operations. In order to respond flexibly to changes in the market environment, Kawasaki spun off the shipbuilding and precision machinery businesses in 2002, the plant business in 2005, and the environmental business in 2006.
On top of that, the company actively worked on consolidating plants, reducing interest-bearing debt, overhauling its personnel system, and forming alliances with other companies. As a result of these efforts, in fiscal 2006, the Kawasaki Group posted its highest profit figure since fiscal 1996.

1. New Horizons for the 101st Year

1) A New Beginning

October 1996 would mark Kawasaki's 100th anniversary and the company celebrated the milestone with a host of commemorative events. The year marked a major turning point in the company's performance record. It posted sales of 1,043 billion yen and recurring profit of 38 billion yen, both the highest ever in its history (on a non-consolidated basis). This was proof that the management restructuring measures that had been implemented over the preceding ten years since 1986 had come to fruition.
During this period, the company encountered many challenges, including a serious shipbuilding recession, a substantial appreciation of the yen, a slump after the bubble economy burst, and the Great Hanshin-Awaji Earthquake. However, under the strong leadership of President Hiroshi Ohba, the company steadily rebuilt itself, aiming to build a flexible and strong corporate structure.
Kawasaki designated 1996 the year of "New Beginnings," signaling the start of a new chapter in its history as it looked ahead to a bright new century. In September of the same year, it formulated a medium-term business plan running from fiscal 1996 to fiscal 2001. It is outlined below.

[Management goals]

(1) Qualitative goals

<Corporate image and corporate structure>

- Excellent company with global operations in key industries related to land, sea, and air
- Build a flexible but strong business structure designed to weather any storm that may lie ahead

<Business areas for expansion and growth>

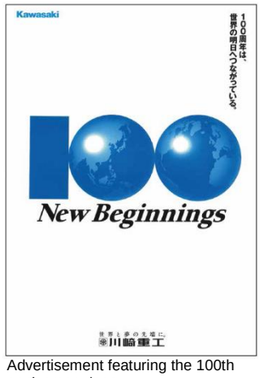
- Land, sea, and air transportation systems
- Energy solutions, including power generation
- Social infrastructure development, including environmental and recycling systems
- Plants and industrial machinery
- Consumer products

(2) Quantitative goals (FY2001)

	Non-consolidated basis		Consolidated basis	
	Net sales	Recurring profit	Net sales	Recurring profit
FY2001 targets	1.2 trillion yen	(5%) 60 billion yen	1.5 trillion yen	70 billion yen

[Priority Initiatives]

Re-enforce the three management action guidelines to ensure business quality, enhance inter-division and inter-group activities, and make science-based decisions, while pushing forward with the following measures



Advertisement featuring the 100th anniversary logo


Pamphlet promoting Kawasaki's 100th anniversary, "Corporate Vision for the 100th Anniversary"


President Ohba pictured with former British Prime Minister Margaret Thatcher who spoke at the 100th anniversary event

The medium-term business plan explained in the company newsletter

(1) Improve product and business mix
  (i) Focus management resources on growth areas
  (ii) Strengthen international cost competitiveness
(2) Expand operations globally
(3) Strengthen the Group's comprehensive capabilities
(4) Strengthen financial health
(5) Create an efficient organization and creative corporate culture

In April 1997, when the mid-term business plan was fully launched, Ohba urged the new employees who would carry the torch into the next century to refine their unique skills, cultivate a flexible as well as strong mind and body, and become internationally minded people ready to work in the global arena.

President Kamei (left) and Chairman Ohba (right)

President Kamei's inaugural address in the company newsletter

2) Inauguration of Toshio Kamei as President

In June 1997, there was a changing of the guard with the company president, Hiroshi Ohba, being appointed chairman, and managing director, Toshio Kamei, being appointed president.

In his inaugural address, Kamei announced key strategies for achieving the goals of the medium-term business plan: (1) create and develop businesses that should be at the heart of Kawasaki's operations over the next one hundred years; (2) transform Kawasaki into a comprehensive systems engineering company; (3) drastically reduce costs with the aim of halving them; (4) make further inroads across the globe; (5) shift management's focus to consolidated accounting and return on equity (ROE); and (6) achieve a creative corporate culture.

In closing, he said, "In order to make Kawasaki a vibrant and innovative company as we move toward the 21st century, we must create a positive and healthy work environment where employees are free to openly discuss issues and unleash their full potential."

3) Restructuring and Reorganization of Business Groups

In order to thoroughly implement the key strategies laid out in the medium-term business plan, Kawasaki undertook an organizational restructuring from 1997 to 2000, with a focus on reorganizing its business groups.

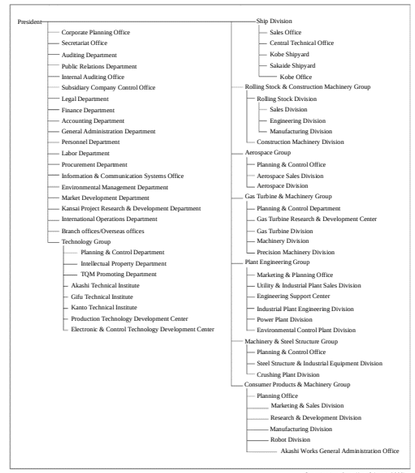
In June 1997, the Machinery, Environment and Energy Group was established with the goal of expanding and growing energy and environment-related operations. The Precision Machinery Division was merged with the CP Group to form the Consumer Products & Machinery Group.

In April 1998, the Ship and Rolling Stock Groups were integrated to form the Ship & Rolling Stock Group. The aim was to improve engineering and production capabilities as well as efficiency through the integrated operation of the shipbuilding and rolling stock businesses.

In July of the same year, the General Purpose Gas Turbine Division and the FA and Robot Division's robot business were incorporated into the Consumer Products & Machinery Group. The FA and Robot Division's FA products were, however, left with the Industrial Machinery & Steel Structure Group to be handled by its Industrial Plant Engineering Division.

In April 1999, as a result of the reorganization of the Machinery, Environment and Energy Group and the Industrial Machinery & Steel Structure Group, the EPC (Engineering, Procurement, Construction) contractor business was newly consolidated into the Plant Engineering Group while integrated manufacturing and sales operations and plants were consolidated into the Machinery & Steel Structure Group. This change was intended to strengthen the company's overall engineering capabilities and expand its business.

In April 2000, in a move to restructure the shipbuilding business, the Ship & Rolling Stock Group was abolished, and the Ship Division was set up to independently operate the shipbuilding business. In addition to that, the rolling stock business and the construction machinery business, which are similar in both technology and production, were integrated into the Rolling Stock & Construction Machinery Group. The Jet Engine Division, Machinery Division, General Purpose Gas Turbine Division, and Precision Machinery Division were all reorganized and integrated into the newly established Gas Turbine & Machinery Group. In order to further strengthen the company's technological development capabilities, the Gas Turbine Research & Development Center was established with an eye to bringing the gas turbine development functions of the Akashi Technical Institute, Jet Engine Division, and General Purpose Gas Turbine Division all under one roof.



Organization chart (As of Apr.1, 2000)

4) Boosting the Financial Health of the Entire Group

As the pace of internationalization picked up, it was becoming more common for companies to be evaluated on a consolidated basis in line with global standards. In response to this trend toward consolidated accounting, Kawasaki reviewed its basic policy on the management of affiliated companies to improve the competitiveness and profitability of the Group as a whole. This included setting profit indices according to the characteristics and actual conditions of each company, clarifying personnel policies, and delegating certain authorities to the business units in charge. The overall reorganization of the Kawasaki Group took place from fiscal 1997 to fiscal 1999. It included some major changes as described below. In overseas markets, the company continued to expand its production bases in China and other Asian countries.

<Japan>

- In order to strengthen the operational foundation of the entire rolling stock business group, relevant affiliates were integrated and reorganized. Kawasaki Koki Co., Ltd. and Kawasaki Transportation Service Co., Ltd. were merged to establish the new Kawasaki Koki Co., Ltd. while Kawasaki Sanyo Co., Ltd., Kawasaki Railway Rolling Stock Engineering Co., Ltd., and Kawasaki Hyogo Business Center Co., Ltd. were all merged to form Kawasaki Rolling Stock Engineering Co., Ltd. (October 1998)
- In the construction machinery business, mergers were conducted with the aim of further improving the efficiency of sales company operations and boosting business activities tailored to local needs.

Four companies, including Kawasaki Construction Machinery, Chubu Ltd., Kawasaki Construction Machinery, Kinki Ltd., Asahi Construction Machinery, Ltd., and Kawasaki Construction Machinery Sales, Ltd., merged to establish Kawasaki Machine Systems, Naka-Nihon Ltd., while Kawasaki Construction Machinery, Kyushu Ltd. and Kawasaki Construction Machinery, Nishi-Nihon Ltd. merged to form Kawasaki Machine Systems Nishi-Nihon, Ltd. (July 1999)

- Kobe Crystal Tower Management Co., Ltd. and KOS Co., Ltd., a company operating under the Environmental Control Plant Division, were integrated to form Kobe Crystal Tower Service Co., Ltd., with an eye to centrally managing and operating office services in Kobe Crystal Tower. (October 1999)
- KGM Co., Ltd. absorbed its subsidiary, Sohara Works Co., Ltd. in order to streamline and simplify the subsidiary's operations. (October 1999)

After this, Kawasaki continued to work on the integration and reorganization of its affiliates whenever necessary for the purpose of improving their competitiveness, profitability, and efficiency.

<Overseas>

- In the Chinese market, where demand for steel structure products was growing by leaps and bounds, Kawasaki merged with COSCO-affiliated companies, such as COSCO Industry Company, to establish the steel structure production company, Shanghai COSCO Kawasaki Heavy Industries Steel Structure Co. Ltd. (October 1997)
- Kawasaki merged with a Thai company to create Kawasaki Motors Enterprise (Thailand) Co., Ltd. for the production and sales of motorcycles and general-purpose engines in a move designed to restructure the motorcycle business in Thailand. (December 1997)
- Kawasaki then founded the gas turbine sales and service company, Kawasaki Gas Turbine Europe GmbH, in Germany as base for making further inroads into the general-purpose gas turbine market. (May 1998)
- Looking to get a firm foothold in the Korean robotics market, the company launched Kawasaki Machine Systems Korea, Ltd., providing robots along with customer services and after-sales service training. (June 1999)

Shanghai COSCO Kawasaki Heavy Industries Steel Structure Co. Ltd.

Kawasaki Motors Enterprise(Thailand)Co., Ltd.

5) Implementing Reforms and Laying the Foundation for a New Age

Comprehensive Reform of Personnel Systems

● Revised personnel system for executives

In order to create the efficient organization and a creative corporate culture that was a key focus of the medium-term business plan (FY1996–2001), Kawasaki revised its organizational structure and personnel system for executives in January 1998.

The company adopted a structure that would allow for the flexible allocation of human resources so that it could respond quickly to issues and challenges that were becoming more complex and diverse over time.

It replaced its sections with a group system. The purpose of this was to (1) enable departments to flexibly form an organizational structure and place personnel; (2) simplify the hierarchical structure within departments; and (3) promote the effective use of employees regardless of what their official qualifications were. Under the group system, the titles for section managers, such as "shukan" and "shuji," were abolished, and the qualification-based titles, "sanyo" and "sanji," were adopted for staff members and specialists both internally and externally.

In April 1998, in order to shift away from a seniority-based system to an ability and performance-based system, the company widened the gap in salaries based on personnel evaluations. Any bonuses employees now earned were based on their current contribution to the company. An employee's bonus was no longer based on their salary which normally increased with annual pay raises. The revised system rewarded employees on the basis of their job qualifications and personnel evaluations (performance assessments).

● Revised personnel system for general employees

In April 1999, Kawasaki revamped its personnel system for general employees on the heels of the executive personnel system overhaul. In order to appropriately treat each employee fairly in light of his or her role, ability, and performance, the company revised the professional qualification and wage systems.

[New professional qualifications system]

Kawasaki introduced three categories of qualifications based on the concept of "expected roles:" G (operations), R (planning and development), and S (supervisory capacity and specialized skills).

[New wage system]

In order to fairly assess employees according to their roles in the G, R, and S categories, the company reduced the more seniority-oriented base salary and introduced distinct performance-based pay for each category. It also abolished the age-based pay for the R category in order to place more weight on the ability and performance of each employee.

Building a Foundation for Environmental Management

● Formulating the First Environmental Protection Activities Plan

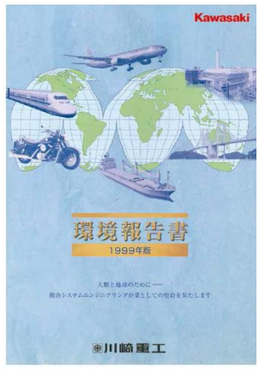
Before the enactment and enforcement of Japan's Basic Act on the Environment in November 1993, Kawasaki had formulated its own environmental management regulations in April of the same year. The company established a new environmental management system to address not only conventional industrial pollution, but also urban, household, and global environmental problems as well.

It also formulated the first stage of its Environmental Protection Activities Plan (EPAP, FY1994–1996) to actively engage in independent initiatives aimed at promoting environmental conservation. Moving ahead with this plan, the company focused its environmental management activities on implementing measures aimed at reducing the environmental impact of its production activities, including preventing pollution, saving energy, conserving resources, and recycling. This included, among other things, developing products and technologies designed to help protect the environment and supplying environmentally friendly products to consumers.

Explanation of the first stage of EPAP in the company newsletter

The Precision Machinery Division became ISO 14001 certified

Environmental Charter



Environmental Report (first issue)

Following this basic plan, business divisions formulated their own first and annual environmental protection activities plans. This was the beginning of Kawasaki's new environmental management initiative to protect the global environment.

- **Becoming ISO 14001 certified**

In 1997, Kawasaki began working to obtain ISO 14001 certification, an International Organization for Standardization (ISO) environmental management system (EMS) standard, to facilitate its environmental management activities. In February 1998, the Precision Machinery Division became the first Kawasaki organization to be certified, followed by the Robot Division in October of the same year and the Environmental Control Plant Division I in March of the following year.

- **Establishing the Environmental Management Department and Environmental Charter**

Recognizing protecting the global environment as one of its most important management issues, the Kawasaki Group established the Environmental Management Department in April 1999. The department's function was to oversee the global environment-related matters of the entire company (excluding environmental business) and plan as well as implement specific measures aimed at environmental management for sustainability.

In August of the same year, Kawasaki established the Environmental Charter. Outlining its basic environmental philosophy and action guidelines for taking on the task of environmental conservation across the company, the document made Kawasaki's stance on environmental issues clear to the entire world.

Environmental Philosophy

As a company in key industries related to land, sea and air, Kawasaki is deploying its business activities globally in pursuit of reducing environmental impact and creating a sustainable society. This makes us to commit ourselves to contribute to the sustainable development of society through our environmentally conscious business activities, technologies and products that preserve the global environment.

In 1999, Kawasaki published the first issue of its Environmental Report, which highlighted the company's environmental conservation activities. This marked a new chapter on how the company would share information on its environmental initiatives with the public.

2. Aiming to Return to a Sustainable Growth Path —Establishment of Spin-off Companies

1) Inauguration of Masamoto Tazaki as President

In June 2000, Kawasaki's president, Toshio Kamei, became its chairman, and Masamoto Tazaki, its senior managing director, became president.

At the time, due to the prolonged economic stagnation and lack of government spending on public projects, Kawasaki found itself between a rock and a hard place. It posted losses for two consecutive fiscal years, 1999 and 2000, with many of its business units beset with structural problems, such as slumping orders and falling prices due to fierce competition.

Tazaki zeroed-in on achieving profitability in fiscal 2001, announcing he would steer the company through this rocky business environment with a focus on implementing a selection and concentration strategy, making the most of available management resources across the organization, shifting from a quantity-first approach to a quality over quantity approach, and cultivating a corporate culture that would be open to team reorganization. He reassured employees that Kawasaki could evolve from a heavy industry company into a flexible enterprise if everyone put their heads together and moved toward the same goal despite any obstacles and conflicts that might arise along the way.

He impressed upon employees he was absolutely determined to make the year 2001, the dawn of the 21st century, a new beginning for a company poised to make a turnaround.


President Kamei and Senior Managing Director Tazaki at a press conference

Message from the new president, Masamoto Tazaki, in the company newsletter

2) Formulation of the K21 Medium-Term Business Plan

Under the new direction of Masamoto Tazaki, Kawasaki implemented various measures to improve its financial position and ensure that it was selective about the orders they accepted, with the goal of returning to profitability by fiscal 2001. At the same time, the company formulated a medium-term business plan, "K21: From Heavy Industry to Flexible Enterprise" (FY2000–2004), with an eye to new growth in the 21st century (see Table I).

This medium-term business plan aimed to increase enterprise value, via the following four strategies with an emphasis on quality over quantity and an aim of achieving an ROIC* of 5% or more (after tax).

(1) Selection and concentration

Core businesses: Aerospace and Consumer Products & Machinery

Growth businesses: Rolling Stock and Gas Turbine & Machinery

Businesses to be reorganized: Shipbuilding, Plant Engineering, and Steel Structure

(2) Business model overhaul (measures to improve profitability)

(i) Shift from being order-driven to solutions-driven: Increase added value through repeated production

(ii) Shift to a business model that delivers customer satisfaction over the entire life of a product

[Table I] Quantitative Targets under K21 Medium-Term Business Plan (FY2004)

		Consolidated basis	
			FY2000
Before-tax ROIC		9% or more	
After-tax ROIC		5% or more	
Interest-bearing debt		420 billion yen	500 billion yen
For reference	Net sales	1.25 trillion yen	1.08 trillion yen
	Recurring profit	50 billion yen	-16 billion yen
	Domestic workforce	22,000 people	24,000 people

		Non-consolidated basis	
			FY2000
Before-tax ROIC		9% or more	
After-tax ROIC		5% or more	
Interest-bearing debt		320 billion yen	400 billion yen
For reference	Net sales	1 trillion yen	870 billion yen
	Recurring profit	40 billion yen	-18 billion yen
	Domestic workforce	13,000 people	14,900 people

*ROIC: Return on invested capital (earnings before interest expense divided by invested capital).
An after-tax ROIC of 5% corresponds to a pre-tax ROIC of 9%.

The K21 medium-term business plan explained in the company newsletter

(iii) Invest management resources across the organization
(iv) Strengthen product and service differentiation strategies

(3) Change in management style
(i) Shift to an internal company system
(ii) Introduce an executive officer system
(iii) Restructure the headquarters organization

(4) Reform of the corporate culture
(i) Increase employees' sense of participation in company management by reflecting company performance in their compensation
(ii) Develop education and personnel programs that instill the motivation needed to be innovative and take on new challenges
(iii) Establish a personnel transfer and compensation system in order to swiftly promote spin-offs and alliances with other companies
(iv) Develop human resources capable of responding to changes through active rotations involving affiliated companies

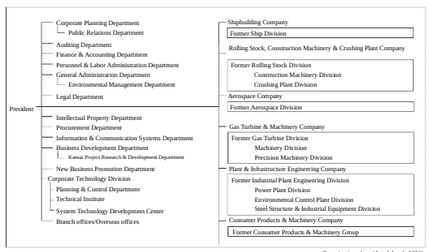
3) Introduction of Internal Company and Executive Officer Systems

Internal Company System

In April 2001, Kawasaki introduced the internal company system, taking the previous business division and group system to new heights. The new system would enable each internal company to make its own decisions via delegated authorities and responsibilities and conduct its business operations with greater agility than ever, including business alliances and M&As with other companies. Based on the previous business group structure, the 13 business divisions were reorganized into six companies, i.e., the Shipbuilding Company, Rolling Stock, Construction Machinery & Crushing Plant Company, Aerospace Company, Gas Turbine & Machinery Company, Plant & Infrastructure Engineering Company, and Consumer Products & Machinery Company.

Each internal company set up its own management committee headed by a company president to operate its business. Business centers (BCs) were also established when it was necessary to create independent business segments for certain markets, products, etc.

The Technology Group, which served as the research and development department for the entire company, transferred specific R&D functions to relevant internal companies where appropriate. It integrated laboratories to enhance its capabilities to more efficiently develop basic technologies that could be used in common, as well as new products and technologies.



Organization chart (As of Apr.1, 2001)

Executive Officer System

Kawasaki introduced an executive officer system in April 2001 to effectively conduct the diverse range of businesses it operated in different markets.

The new system was designed to enable professionals in respective areas of business to make the optimal decisions and execute business operations promptly. At the same time, the number of directors was reduced from 26 to 11 to invigorate discussions at the Board of Directors meetings, speed up strategic decision-making on matters discussed by the board, and enhance management oversight.

4) Strengthening Financial Health

Raising Funds through Capital Increases at Market Value and the Issuance of Convertible Bonds

Despite everything it did to boost profitability, all Kawasaki had to show for its efforts was a low equity ratio of 12% at the end of fiscal 1995 and a need to increase shareholders' equity as well as improve the equity ratio. In July 1996, the company issued 30 million shares (worth approximately 15 billion yen) at market value overseas and 40 billion yen in convertible bonds (CB) domestically. Since the company had been conducting annual investor relations activities in Europe and the U.S. since the beginning of the 1990s, it took advantage of these activities to sell shares to overseas institutional investors. This was the first step the company took toward raising funds with a view to global capital markets as it was expanding its operations across the world. The successful completion of the capital increase also reaffirmed the importance of overseas investor relations. The 15 billion yen raised through new shares issued at market value were immediately capitalized, contributing to the expansion of shareholders' equity.

Issuance of Euro-yen Convertible Bonds with Stock Acquisition Rights

As the company sought to further strengthen its financial position, a major challenge was to meet its funding needs without increasing interest-bearing debt. Accordingly, the company decided to issue euro-yen convertible bonds in light of the overall benefits. They would enable the company to enhance its equity ratio at an early stage while securing immediate funds. On top of that the favorable market environment would allow the company to issue the bonds under favorable terms. Specifically, the company issued euro-yen denominated convertible bonds worth a total of 25 billion yen on December 8, 2003, and again on September 21, 2004 for a total worth 22 billion yen. As the company progressed with restructuring, its stock price rose, and that was converted into equity, which greatly helped strengthen its financial position.

5) Reforming Every Business Division with an Eye to Spinning Them Off into Independent Entities

Following the introduction of the internal company and executive officer systems, Kawasaki moved into the second phase of its management style reform as it worked to restructure its business with a view to spinning off all of its business divisions and forming alliances with other companies.

Shipbuilding cranes at Kawasaki Shipbuilding

Message from the Kawasaki Shipbuilding president in the company newsletter

Message from the Kawasaki Precision Machinery president in the company newsletter

Establishing Kawasaki Shipbuilding Corporation

Kawasaki spun off its ship division and established Kawasaki Shipbuilding Corporation as a wholly owned subsidiary on October 1, 2002.
The company's shipbuilding division was expected to easily stay well afloat for the foreseeable future as it focused on meeting the mounting demand for submarines and gas carriers. On the other hand, competition in the overcrowded global construction market was growing more intense in an ever rocky business environment where financial performance was susceptible to exchange rate fluctuations.
Working to establish a lasting stable profit structure that could weather any storm, Kawasaki decided to spin off its shipbuilding operations into an independent entity. The move would enable Kawasaki to transform itself into a company that could flexibly respond to changes in the business environment and conduct business operations in an agile and efficient manner.
The new company would concentrate more of its resources on high value-added products, with a focus on its submarine, LNG and LPG carrier technologies that customers were clamoring for. At the same time it was implementing various cost reduction measures in order to create the kind of lean structure that could outpace the competition and adapt to changes in the business environment.
Kawasaki's shipbuilding business, the anchor upon which the company was founded more than 100 years before, was readying to launch itself into the 21st century with a big splash.
<Outline of the new company>
Name: Kawasaki Shipbuilding Corporation
Head Office: Chuo Ward, Kobe City
Capital: 10 billion yen
Operations: Design, manufacture, sale, and repair of ships, naval vessels, marine equipment, and other transportation equipment, as well as other related businesses

Establishing Kawasaki Precision Machinery, Ltd.

Kawasaki spun off its precision machinery division at the same time it spun off the ship division. The division, which had grown significantly with the addition of mechanical and electrical products as well as control systems to its core lineup of hydraulic equipment and devices, had put the Kawasaki hydraulics brand squarely on the map.
Unfortunately the domestic hydraulics market had been shrinking since fiscal 1998, with no significant recovery in sight.
In order to ensure that the precision machinery division would survive and grow steadily in this business environment, it was necessary to bolster the foundation of the division's operations, including services, and make it a more agile organization. That's why Kawasaki went ahead and spun off the division.
The new company merged with Kawasaki Hydraulic Co., Ltd., a Kawasaki subsidiary engaged in servicing hydraulic products, with the aim of strengthening and expanding its highly profitable service business while rebuilding an integrated business structure for hydraulic products and services. It focused on further differentiating itself with highly functional, high-performance products, as it took aim at becoming the world leader in hydraulic components.

The launch of Kawasaki Precision Machinery, Ltd. on October 1, 2002 marked the first step to firmly establishing itself as a top global company.
<Outline of the new company>
Name: Kawasaki Precision Machinery, Ltd.
Head Office: Nishi Ward, Kobe City
Capital: 3 billion yen
Operations: Design, manufacture, sale, after-sales service, and maintenance of hydraulic components and devices, electrical equipment, and control systems

Establishing Kawasaki Plant Systems, Ltd.

The performance of the plant business, which had been one of Kawasaki's core businesses since the 1960s, had been lackluster since the latter half of the 1990s due to fierce price competition within Japan and overseas.
It was against this backdrop that the company decided to spin off the business. Moving ahead with an eye to develop operations centered on stand-alone equipment and plants, Kawasaki established a wholly owned subsidiary, Kawasaki Plant Systems, Ltd. on April 1, 2005. The new subsidiary would provide valuable products at reasonable prices in the fields of energy, social infrastructure, and environmental conservation to establish a unique position in the domestic and international plant industry.
<Outline of the new company>
Name: Kawasaki Plant Systems, Ltd.
Location: Chuo Ward, Kobe City
Capital: 5 billion yen
Operations: Design, manufacture, installation, repair and sale of various plants

Message from the Kawasaki Plant Systems president in the company newsletter

Establishing Kawasaki Environmental Engineering, Ltd.

Kawasaki had expanded its environmental business by actively developing technologies for facilities and equipment related to the treatment and recycling of municipal and industrial waste. In the 2000s, however, the company faced tough times as orders fell off and the competition slashed prices.
On the other hand, demand for waste treatment and water treatment facilities that are so vital to public health was expected to remain stable over the medium-to-long-term as communities looked to revitalize their aging infrastructure.
Therefore, the company decided to aim for further growth and development through the spin-off of its environmental business, and on October 1, 2006, it established Kawasaki Environmental Engineering, Ltd. as a wholly owned subsidiary.

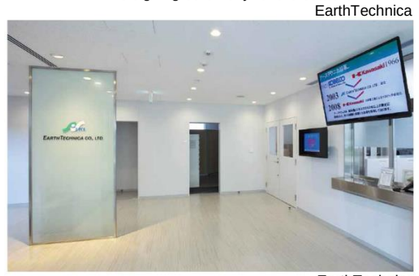
Message from the Kawasaki Environmental Engineering president in the company newsletter

<Outline of the new company>
Name: Kawasaki Environmental Engineering, Ltd.
Head Office: Chuo Ward, Kobe City
Capital: 3.5 billion yen
Operations: Design, manufacture, sale, and repair of municipal waste incineration plants, industrial waste treatment plants, resource recycling facilities, water treatment facilities, etc.

Subsequently, Kawasaki formulated a medium-term business plan, Global K (FY2006–2010), laying out a policy to develop the energy and environmental engineering business into a new pillar of group operations. On April 1, 2007, Kawasaki Plant Systems was merged with Kawasaki Environmental Engineering since both of these spin-off companies were operating businesses that could be core energy and environmental engineering businesses, and the surviving entity, Kawasaki Environmental Engineering, was renamed Kawasaki Plant Systems.
The newly launched Kawasaki Plant Systems (capitalized at 8.5 billion yen) aimed to become a top engineering company in the fields of energy and global environmental conservation.

Establishing EarthTechnica Co., Ltd.


The signing ceremony for the establishment of EarthTechnica


EarthTechnica

Kawasaki’s crushing equipment business had been seeing its primary market, the domestic construction aggregate market, continue to shrink due to a decrease in public works projects, with little prospect for a recovery. In light of market conditions, the company formed an alliance with Kobe Steel, Ltd., a leading company in the industry, and established EarthTechnica Co., Ltd. on April 1, 2003 to engage in the design and sales of crushing equipment.
Parallel to the commencement of EarthTechnica’s operations in July of the same year, the two companies looked into fully integrating manufacturing and sales functions and decided to transfer their crushing equipment manufacturing divisions to EarthTechnica on April 1, 2005.
The new EarthTechnica, a 50-50 venture between Kawasaki and Kobe Steel, hit the ground running as the industry's largest integrated crusher sales and manufacturing company.
<Outline of the new company>
Name: EarthTechnica Co., Ltd.
Head Office: Chuo Ward, Tokyo
Capital: 1.2 billion yen
Operations: Design, manufacture, and sale of crushers, grinding mills, separators, waste recycling equipment, and wear and heat-resistant cast parts for crushers

Consolidation and Reorganization of Affiliates

Kawasaki reviewed the functions of affiliated companies and worked on improving efficiency through reorganization, mergers, and business alliances in order to strengthen the business structure and cost competitiveness of its corporate group as a whole. Major reorganizations and consolidations carried out between fiscal 2000 and fiscal 2004 were as follows.

● Establishment of Kawasaki Machine Systems, Ltd.

Kawasaki Machine Systems

Kawasaki Machine Systems, Naka-Nihon Ltd., Kawasaki Machine Systems, Nishi-Nihon Ltd., Kanto Kawasaki Construction Machinery Co., Ltd., and Tohoku Kawasaki Construction Machinery Co., Ltd., which were sales companies related to construction machinery operating across Japan, were all merged into one. At the same time, Kawasaki’s sales division for general-purpose gas turbines was transferred to the newly merged entity that, on July 1, 2000, would become Kawasaki Machine Systems, Ltd., specializing in the sales and servicing of construction machinery and general-purpose gas turbines.
On April 1, 2001, the new company incorporated Kawasaki's domestic robot sales division, and absorbed Kawasaki Robotics Co., Ltd., which provided after-sales services for robots in Japan, as well as Kawasaki Turbine Technos Co., Ltd., which provided after-sales services for general-purpose gas turbines in Japan. As a result, Kawasaki Machine Systems became the sales company for Kawasaki’s general-purpose products offering a wide range of services, including system engineering solutions, user training, and after-sales services.
<Outline of the new company (as of April 1, 2001)>
Name: Kawasaki Machine Systems, Ltd.
Head Office: Kita Ward, Osaka City
Capital: 343.8 million yen
Operations: Sale of construction equipment, general-purpose gas turbines, robots, and related products, systems, and parts, as well as after-sales services, on-site construction, and other related operations

● Reorganization of the Steel Structure & Industrial Equipment Division’s affiliates

On October 1, 2000, Kawasaki merged the three companies, Kawasaki Construction Co., Ltd., Kawasaki Bridge Maintenance Co., Ltd., and Kawasaki Construction Equipment Co., Ltd., into Kawasaki Construction. Having added bridge repair and maintenance as well as on-site equipment management functions to its Steel Structure & Industrial Equipment Division’s on-site construction work business, Kawasaki Construction was now able to handle everything from engineering to construction for various building projects.
At the same time, Kawaju Harima Tech Inc., Kawaju Noda Tech Inc., Toban Business Center Co., Ltd., and Tokatsu Business Center Co., Ltd. were integrated into Kawaju Harima Tech Inc., which was then renamed Kawaju Equipment Tech, Co., Ltd. (Harima-cho, Kako-gun, Hyogo Prefecture).

Kawaju Equipment Tech was now equipped with the capability to provide advanced technology and customized services in a wide range of areas, including maintenance of cargo handling machinery, sluice gates, and movable structures; design, fabrication, and installation of factory machinery and equipment; painting and transportation work for steel structures; and various services such as design contracting, copying services, as well as sales and leasing of office equipment.
As a result of these reorganizations and consolidations, the Steel Structure & Industrial Equipment Division along with its affiliated companies as a whole reinforced their business foundations and expanded operations with the capability to handle everything from engineering to maintenance for a wide range of products.

- **Comprehensive business alliance and capital tie-up between Kawasaki Safety Service Industries, Ltd. and Air Water Inc.**

In July 2003, Kawasaki Safety Service Industries, Ltd. (KSSI), and its parent company, Kawasaki Heavy Industries, reached a basic agreement with Air Water Inc. to bolster their partnership with an eye to expanding their healthcare-related businesses. KSSI possessed a wealth of experience in medical equipment, such as medical gas systems as well as breathing apparatuses used in firefighting and lifesaving activities, while Air Water had long been engaged in medical equipment sales and medical services with a focus on supplying medical and other gases.
On October 1 of the same year, Kawasaki transferred 33% of its shares in KSSI to Air Water, after which KSSI and Air Water inked a comprehensive business alliance agreement. In August 2006, KSSI was renamed Air Water Safety Service Inc., and in August 2007, all KSSI shares were transferred to Air Water, making it a wholly owned subsidiary of Air Water.

- **Establishment of Kawasaki Life Corporation**

Kawasaki Life Corporation was established on April 1, 2004 through an integration and reorganization of three companies engaged in services related to asset management and employee welfare for the Kawasaki Group, including Kawaju Real Estate Co., Ltd. (specializing in asset management, real estate sales, and brokering), Kawasaki Kosan Co., Ltd. (specializing in insurance sales, leasing, and real estate management), and Kawaju Tomakomai Kanko Kaihatsu Co., Ltd. (specializing in golf course management).

Kawasaki Life Corporation

<Outline of the new company>
Name: Kawasaki Life Corporation
Head Office: Chuo Ward, Kobe City
Capital: 400 million yen
Operations: Real estate sales, purchases, leasing, management and operation, lot sales and development, contracting of civil engineering and construction work, design and supervision of construction work, insurance agency business, general leasing business, etc.

- **Establishment of Benic Solution Corporation**

With the rapid development of information technology, the role of the information systems department and the nature of its operations changed dramatically. In response to this change, Kawasaki looked for the smartest way to handle its information systems in the 21st century. At the end of the day it decided it would be best to set apart the division responsible for building and operating information systems for the company and group as well as the division that sold technologies and know-how cultivated in those operations. In January 1999, the separated divisions were merged to form the Information Systems Division at Kawaju Techno Service Corporation.
After carefully looking into the feasibility of turning the division into a business, Kawasaki finally decided to make it an independent company, and on February 9, 2001, established Benic Solution Corporation, which opened its doors for business on April 1.

Benic Solution

<Outline of the new company>
Name: Benic Solution Corporation
Head Office: Akashi City, Hyogo Prefecture
Capital: 50 million yen
Operations:
- Construction, operation, and maintenance of Information processing systems and information communication network systems
- Software and hardware sales
- IT solutions

6) Selection and Concentration of Production Divisions

Chiba and Noda Works Consolidated into Harima Works

Kawasaki's Steel Structure & Industrial Equipment Division had been hard at work building bridges and floodgates for public works projects, LNG tanks and penstocks for public utilities such as electric power and gas companies, and building structures (mainly steel frames) for the private sector. However, a prolonged economic slump and changing societal needs after the collapse of the bubble economy had created a stark business environment. Price competition among manufacturers in the boiler business across the globe was also heating up.
In order to keep its steel structure and boiler businesses from going under in this harsh business environment, Kawasaki would have to reorganize its production divisions in Harima, Noda, Sodegaura, and Chiba so it could improve its operational foundation and get performance back on track.
The company eventually moved forward with the relocation and consolidation of its factories, integrated the Chiba Works' boiler division into the Harima Works, and transferred the Sodegaura Works' bridge product manufacturing operations to the Noda Works. It also relocated the Noda Works' production lines for pipes, tanks, and equipment to the Harima Works.


Noda Works


Sodegaura Works

Chiba Works


Yachiyo Works

Delhi Office (2007)


Moscow Office (2011)

Kawasaki Heavy Industries (Singapore) Pte. Ltd. (2013)

In fiscal 2000, the four plants in Harima, Noda, Chiba, and Sodegaura were consolidated into two, the Harima and Noda Works. The following fiscal year, production management at the Harima and Noda Works was centralized, but since capacity utilization at the Noda Works had declined significantly, its operations were folded into the Harima Works. The Noda Works was closed in the final days of September 2003 after its production lines were shut down at the end of March, leaving Kawasaki with only the Harima Works.

Closure of the Yachiyo Works and Opening of the Kakogawa Works

Kawasaki's Yachiyo Works, which had been responsible for the manufacture of crushers, grinding mills, environment-related equipment, etc., became the production base for EarthTechnica when the company was established in 2003. As a result, Kawasaki ceased its operations at the Yachiyo Works on March 31, 2005.
In April of the following year the company opened the Kakogawa Works. Serving as a factory for the Consumer Products & Machinery Company, which had transferred part of its production operations to the former Kakogawa rolling stock plant in 1989, the new facility started manufacturing crankcase materials for V-engines using its first-ever newly installed 1,650 ton die casting machine.

7) Establishing Overseas Representative Offices

As the market was becoming more and more globalized, Kawasaki started setting up overseas representative offices. Following the restructuring of overseas operations, involving the opening two new offices and consolidation of four locations, the company moved to a new organizational structure in January 2007.
The two new offices included one in Delhi, India that was opened in January and another in Moscow, Russia, that opened in March. In the Southeast Asian market, where Kawasaki’s operating divisions had already secured a foothold, the functions of the local offices in Bangkok, Kuala Lumpur, and Jakarta were transferred and consolidated into Kawasaki Heavy Industries (Singapore) Pte. Ltd., the local subsidiary in Singapore. In China, the Shanghai Office was reorganized as a locally incorporated company, Kawasaki Heavy Industries Consulting & Service (Shanghai) Company, Ltd. (capitalized at US$250,000, and wholly owned by Kawasaki), in January 2007, to provide services and assistance to Kawasaki's group companies operating in China.
This shuffle was designed to strengthen the trailblazing role overseas offices were playing in new markets. Kawasaki also aimed to build on its regional bases as well as enhance the functions and efficiency of its overseas operations by dividing the global market into the four strategic blocks of America, Europe, China, and Asia.
In Russia and India, two BRIC countries that were enjoying remarkable economic growth, the two new offices worked on conducting market research, cultivating business opportunities, collecting project information, and assisting business travelers.

After restructuring its overseas operations, Kawasaki now had four overseas offices and eight local subsidiary locations from where it could cultivate overseas markets and boost its brand power. It was perfectly poised to enhance management efficiency and achieve its corporate vision of "Global Kawasaki."

8) Implementing a Brand Strategy

Kawasaki overhauled its visual identity (VI) in September 2001, employing visual elements that enabled it to communicate its corporate image more accurately and effectively, and take its brand power to new heights. Since the need for digital data has grown with the digitization of design and printing of catalogs as well as other materials, the company also introduced a new brand name, brand logo, revised logotype for the company name and trademark. Aligned with the corporate VI, the elements were more distinct and easier to use than ever before.

Kawasaki

Kawasaki

Visual identity (new brand logo)

9) The “Big Bang” in Accounting

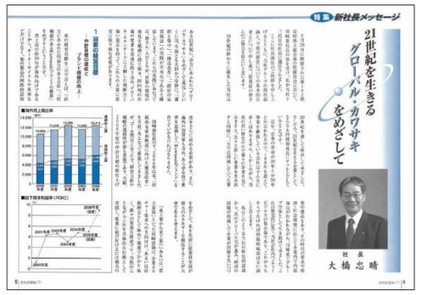
As corporate globalization accelerated, more and more companies adopted internationally accepted accounting standards. Beginning in 1999, new standards were sequentially established in Japan for consolidated accounting, tax effect accounting, financial instruments accounting, retirement benefit accounting, and business combination accounting.
Since Kawasaki had long been focusing on investor relations (IR) activities overseas and had lots of opportunities to hear what was on its investors’ minds, it had already taken proactive steps, such as opting for consolidated business management, ahead of the internationalization of accounting standards. In fiscal 1998, the company implemented interim consolidated accounting and introduced tax-effect accounting. In the following fiscal year, the company included all subsidiaries in the scope of consolidation, laying the groundwork for full-fledged consolidated business management.
In the 2000s, the entire Kawasaki Group streamlined its management and was ready to become a corporate group that would be highly regarded in capital markets in light of the new accounting standards.

3. Cultivating New Growth in the 21st Century

1) Formulating the K21 Medium-Term Business Plan

The K21 medium-term business plan formulated in 2000 laid out a plan for boosting the marginal profit rate by cutting fixed costs and transforming business models based on the basic policies of “quality followed by quantity” and “selectivity and concentration.” In particular, Kawasaki positioned the Shipbuilding and Plant & Infrastructure Engineering as businesses requiring structural reforms, since their markets had matured in Japan and did not expect to see an improvement in the supply-demand balance anytime soon. Kawasaki planned various reforms, including spin-offs, alliances, and consolidation of factories, and completed most of them. During this time, the company worked on reducing interest-bearing debt and strengthened its financial position.
However, a combination of significant changes in the business environment, including a prolonged economic slowdown in Japan and a slump in aviation demand triggered by the terrorist attacks in the U.S., as well as deferrals of large-scale rolling stock and other projects, caused a two-year delay in achieving the ROIC target. Kawasaki then decided to make fiscal 2005 the final year for the K21 and formulate a new medium-term business plan in light of the current operating environment.

President Ohashi (right) is named the new president



Message from President Ohashi in the company newsletter

2) Inauguration of Tadaharu Ohashi as President

In June 2005 Kawasaki president, Masamoto Tazaki, became the chairman, and Tadaharu Ohashi, the senior executive vice president, became the president. Ohashi had built his career in the rolling stock business and had abundant overseas experience. Tazaki noted that one of the reasons for handing over the reins to Ohashi was that, as a leader who could compete with the world's most powerful companies, he had a wealth of overseas experience, resilience to adversity, and the ability to adapt to changes in the environment.
In order to complete the series of structural reforms implemented by Tazaki, Ohashi aimed to make Kawasaki a powerful earning engine while building trust for the Kawasaki brand. He also made the company’s basic management policies about boosting earning power by focusing more than ever on the profitability of businesses and products; giving priority to compliance in all aspects over everything else; and contributing to solving global environmental problems with Kawasaki’s advanced technology and superior products.
He called on employees to start working together to create a "Global Kawasaki" that would survive and steadily grow in the 21st century, an era where there was full-fledged international division of labor free from economic borders.

3) Strengthening Compliance Management

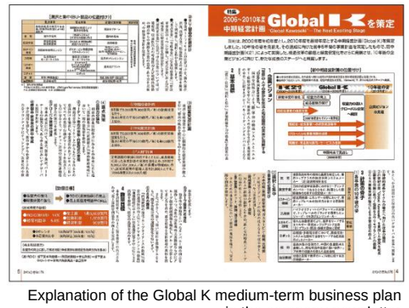
Kawasaki, along with four other companies, was subjected to an on-site inspection in 1998 in connection with a bid for the construction of a municipal waste incinerator.

As a result, in 1999, the Japan Fair Trade Commission (JFTC) issued a cease-and-desist order under the Japanese competition law. While the five companies appealed to the Supreme Court, it decided against them and upheld the JFTC ruling in 2009.
In fiscal 2005, a number of companies in the industry, including Kawasaki, were brought up on charges of violating the competition law in connection with steel bridge construction contracts and were penalized by the JFTC. In fiscal 2006, the JFTC ordered Kawasaki to pay a surcharge for violating the competition law in connection with tunnel ventilation and sluice gate construction.
The company pledged to make group-wide efforts to prevent any such occurrence from ever happening again and placed an even greater emphasis on compliance throughout its operations. In fact, the company made ensuring thorough compliance a bedrock corporate policy. It did everything possible to ensure no employee would ever commit an illegal act again, recognizing that such illicit actions could jeopardize the very existence of the company itself. In addition to that, the company started holding regular meetings of its Corporate Ethics Committee, chaired by the president, and set up the Compliance Committee under the Corporate Ethics Committee.
Compliance committees were also established at internal companies and major subsidiaries to build an organizational structure needed to support the implementation of systematic internal control and compliance measures across the Kawasaki Group.
The company implemented a Compliance Reporting and Consultation System (a whistle-blower system) in June 2003 that is still in place and provides all employees with a copy of its Compliance Guidebook.
Since 2006, the Board of Directors has passed a resolution every year, at its annual meeting held immediately after the ordinary general meeting of shareholders, stating that Kawasaki would steadfastly comply with competition laws and strive to build on the company's enterprise value and worth to society.

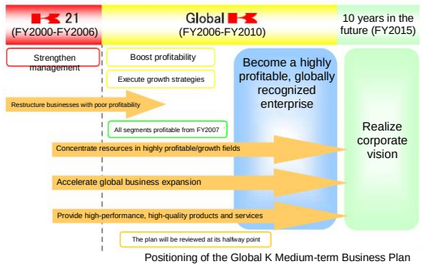
Compliance Guidebook

4) Formulation of the Global K Medium-Term Business Plan

Following the K21 medium-term business plan, Kawasaki formulated Global K “Global Kawasaki”—The Next Exciting Stage (FY2006–2010), This was a business plan beginning in fiscal 2006 that would guide the company during the first five years of working toward the Kawasaki Group’s ten-year vision. Building on the structural reforms and business stabilization measures implemented under K21, Kawasaki aimed to take the company to new heights with an eye to achieving its corporate vision for the coming decade. The outline of Global K is as follows.
[Corporate Vision]
Enriching lifestyles and helping safeguard the environment: Global Kawasaki



Explanation of the Global K medium-term business plan in the company newsletter



Positioning of the Global K Medium-term Business Plan

[Quantitative Targets] (Fiscal 2010, on a consolidated basis)

Net sales	1.56 trillion yen
Operating income	100 billion yen
Recurring profit	90 billion yen
Before-tax ROIC	14%
Ratio of recurring profit to sales	5.8%

Kawasaki aims to become a leading global enterprise that enriches lifestyles and helps safeguard the environment through its core businesses, which encompass land, sea and air transportation systems, and the energy and environmental engineering sectors.

[Basic Objectives]

The company should leap forward to become a highly profitable, globally recognized enterprise during the period of the Global K plan by implementing the principal management policies of "Quality Followed by Quantity," selectivity and concentration, and stronger non-price competitiveness.

[Gist of the Plan]

(1) What Each Business Should be 10 Years in the Future:
Work toward achieving the ten-year vision for business segments including Rolling Stock, Aerospace, Gas Turbines & Machinery, Consumer Products & Machinery, Energy & Environmental Engineering, Industrial Robots, Shipbuilding, and Industrial Hydraulic Products.

(2) Selectivity and Concentration: Positioning of the Businesses
Four Core Businesses: Rolling Stock, Aerospace, Gas Turbines & Machinery, and Consumer Products & Machinery
Developing Business: Energy & Environmental Engineering
Self-sufficient Businesses: Industrial Robots, Shipbuilding, and Industrial Hydraulic Products

[Priority Initiatives]

(i) Strengthen technological capabilities
(ii) Encourage market-oriented thinking and action
(iii) Accelerate global business development
(iv) Create and cultivate new products and businesses
(v) Strengthen Group management capabilities
(vi) Promote CSR

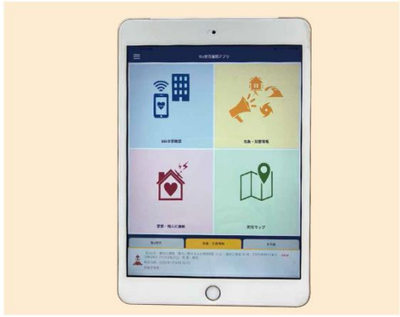
When kicking off Global K, Ohashi asserted the new medium-term business plan, which picked up where the K21 medium-term business plan launched in fiscal 2000 left off, would take the entire Group to "the Next Exciting Stage." He assured everyone that Kawasaki was "determined to put all its might and energy into aggressively moving forward to achieve its goals."

5) Ten Years after the Great Hanshin-Awaji Earthquake

Strengthening the Group's Crisis Management System

The Great Hanshin-Awaji Earthquake that occurred in the early hours of January 17, 1995 took many lives, paralyzed urban functions, and caused unprecedented damage. In the wake of the disaster, every Kawasaki plant drafted guidelines on what to do in the event of a major earthquake or other disasters. The guidelines cover everything from stockpiling emergency supplies to working with local governments and neighborhood associations on various projects, so that Kawasaki plants can play a positive role in the local communities they are a part of.

In 2004, the Kawasaki Group introduced an emergency safety confirmation system dubbed the K-Emergency Communication System. The system allows employees and their families in disaster-stricken areas to voluntarily report on their safety status using a personal computer, mobile phone, public phone, etc. in the event of a large-scale disaster. It will not only help confirm their safety but also facilitate rescue operations and business recovery.
The Kawasaki Group is strengthening its crisis management system to ensure the safety of employees and their families in the event of natural disasters and terrorist attacks not only in Japan but also overseas.


K-Emergency Communication System safety confirmation app

Aiding Victims and Areas Hit by Natural Disasters

The Kawasaki Group has been actively providing assistance to areas and people affected by large-scale natural disasters that frequently occur in Japan and overseas, including the donation of funds and Kawasaki products to help recovery efforts (see Table II).

[Table II] Aid to Victims and Areas Hit by Natural Disasters

	Month/year decision to provide assistance was made	Disasters and affected areas	Assistance provided
Overseas	February 2004	Bam earthquake (Iran)	Donated 80 portable generators
	January 2005	2004 Indian Ocean earthquake and tsunami	Donated a total of approximately ¥20 million
	September 2005	Hurricane Katrina (USA)	Donated US$200,000 and Kawasaki multi-purpose vehicles (equivalent to US$100,000)
	May 2006	2006 Yogyakarta earthquake (Indonesia)	Donated ¥10 million and 20 motorcycles (mopeds)
	May 2008	Cyclone Nargis (Myanmar)	Donated ¥5 million
	May 2008	2008 Sichuan earthquake (China)	Donated ¥20 million
	January 2010	2010 Haiti earthquake	Donated US$50,000
	October 2011	2011 Thailand floods	Donated money and Kawasaki multipurpose vehicles totaling ¥30 million
	November 2013	Typhoon Haiyan (Philippines)	Donated ¥10 million and 20 Kawasaki motorcycles (equivalent to ¥3.8 million)
	April 2015	2015 Nepal earthquake	Donated an equivalent of ¥10 million
	September 2017	Hurricanes Harvey and Irma (USA)	Donated US$100,000 and 10 Kawasaki multipurpose vehicles, plus donations from local subsidiaries and employees
Japan	November 2004	Niigata Chuetsu earthquake	Donated ¥10 million and a piece of Kawasaki construction machinery (equivalent to ¥22 million in total) to Niigata Prefecture
	November 2004	Typhoon Tokage 2004 (disaster victim assistance and reconstruction)	Donated ¥5 million to Hyogo Prefecture
	March 2011	Great East Japan Earthquake	*Detailed in Chapter 2, Section 2-5
	August 2014	Heavy rain in northern Hiroshima City	Donated an equivalent of ¥10 million
	April 2016	Kumamoto earthquake	Donated ¥10 million
	August 2017	2017 Northern Kyushu torrential rainfall	Donated ¥2 million
	July 2018	Torrential rainfall in July 2018	Donated ¥10 million

6) Contributing to Local Communities

Corporate Museum, Kawasaki Good Times World, Opens

PR magazine announcing the opening of Kawasaki Good Times World

Kawasaki Good Times World opening ceremony

On May 17, 2006, Kawasaki opened the Kawasaki Good Times World in the Kobe Maritime Museum (Chuo Ward, Kobe City). This interactive museum allows visitors to experience the wonders of technology and the importance of craftsmanship while interacting with Kawasaki products in fun and informative ways.
The museum is divided into the History Area, outlining the history of the Kawasaki Group; the Motorcycle Gallery showcasing lines of Kawasaki motorbikes, both old and new; the Sea Zone, where visitors can watch how ships are built and launched at the Kobe Works on a triple-screen audiovisual system; the Land Zone, featuring an actual Shinkansen cab; and the Air Zone, where an actual model of a large twin-engine helicopter that can hold up to 27 people is displayed. Also on display are Kawasaki's high-performance small industrial robots that are widely used in factories These continue to be a magnet of attraction for kids.
In October 2015, nine years after its opening, the museum welcomed its two millionth visitor and presented them with a certificate of recognition, a bouquet of flowers, and memorabilia to mark the occasion. The total number of visitors reached three million in September 2020.
The Kawasaki Good Times World changes exhibits from time to time and underwent a major overhaul in 2016 and 2018.

Promoting Strategic Industry-University Collaboration

On October 23, 2006, Kawasaki and Kobe University signed an agreement on industrial-academic cooperation.
Under the agreement, the two parties were to build a strategic industry-academia partnership leveraging each other’s wealth of research and technological expertise in pursuit of mutually beneficial ends. It was based on a shared philosophy of contributing to society by creating new value and business opportunities through Kobe University's knowledge and Kawasaki’s manufacturing.
The partnership would enable Kobe University to further its basic research and enhance the education of students, through internships and more. It would allow Kawasaki to complement and reinforce a wide range of technologies and knowledge, strengthen its core technologies and basic technological capabilities necessary for new product development, and promote the development of new technologies and businesses in the areas of energy and the environment.
Through these activities, Kobe University and Kawasaki aimed to reinforce priority areas, strengthen basic and elemental technology capabilities, explore new business areas to accelerate and streamline research and development, and create new value and businesses, with an eye to making the world a better place.

7) Structural Reform of the Personnel System

As part of the structural reforms aimed at achieving the goals set in the K21 medium-term business plan (FY2000–2006), Kawasaki initiated a drastic overhaul of its personnel system in fiscal 2002.

Introduction of Term-end Allowance Linked to the Performance of Internal Companies

Pamphlet on the new executive compensation plan

Moving in line with the introduction of the internal company system, Kawasaki introduced a performance linked system in fiscal 2003 that based year-end bonuses on how well each internal company performed financially. The company designed this system to be the driving force that would propel performance at internal companies. Kawasaki believed it would foster a sense of ownership as well as a sense of unity among employees at each internal company, all with an aim of firmly establishing the internal company system and strengthening the entire business foundation.

New Executive Compensation Plan

In fiscal 2002, Kawasaki introduced a new executive compensation plan. It introduced an annual salary, abolished automatic pay increases (the regular pay raise), and implemented a system linking internal company performance to year-end bonus amounts while adding greater weight to individual performance when determining bonuses. Under the new plan, the annual income of individual executives was determined on the basis of their ability and performance.
This revision to the executive compensation plan was a precursor to the structural reform of the personnel system (TAR-GET), which is outlined below.

Implementation of Seven TAR-GET Initiatives

Moving forward with the reform of the personnel system, which had been ongoing since fiscal 2000, Kawasaki implemented the second phase of the structural reform dubbed TAR-GET. It was an acronym for "Total and Aggressive Reformation for Gaining Excellent Tomorrow," which meant making drastic and ambitious changes that would pave the way to a bright new future. In order to overcome the hurdles facing the company, it was necessary to comprehensively and aggressively change the personnel system, with a focus on performance, actual costs, and self-help efforts.
Seven initiatives were implemented under TAR-GET starting in April 2004 (see Table III).

Extension of the Retirement Age (for General Employees) and Introduction of the Re-employment System

In the early 2000s, Kawasaki was saddled with a major labor challenge as a large number of skilled workers reached retirement age.

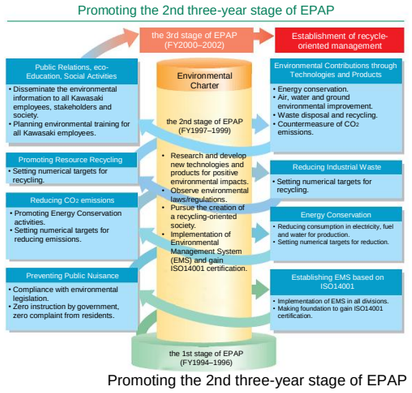
Moreover, since Kawasaki was expecting a steady flow of large orders, it became a company-wide challenge to fulfill them without a hitch. The real trick was using a skilled labor force to maintain and improve quality while seamlessly passing on the technology and skills it possessed to the next generation that would take the torch and bear it into the future. In a greying Japanese society, the prolonged pension gap resulting from the reform of the public pension system had also become a major social problem.
Anticipating the social problems looming on the horizon, Kawasaki revised its mandatory retirement age with an eye to ensuring job security. Stabilizing employment was one of the principles of TARGET, which would relieve employees' concerns about retirement and revitalize the workplace. Under the new system, the mandatory retirement age for general employees was gradually raised from 61 to 63 between fiscal 2005 and 2007. In fiscal 2006, the company made it possible for general employees and executives who reached the mandatory retirement age to be rehired and continue working until they reached the age of 65.
Subsequently, due to the need to secure and utilize an even older workforce, the retirement age for general employees and partners was raised to 65 in fiscal 2019.

8) Environmental Management for Sustainability

Promoting Environmental Management for Sustainability

In the first stage of the Environmental Protection Activities Plan (EPAP), which started in fiscal 1994, Kawasaki invested in equipment to prevent pollution and concentrated on the purification of factory exhaust and wastewater. In the second stage (FY1997–1999), the company tackled various environmental issues such as energy and resource conservation as well as waste reduction, with the aim of building an ISO 14001-based environmental management system. In the third stage (FY2000–2002), efforts were made to enhance information disclosure by introducing green procurement, life cycle assessment (LCA), product assessment (environmentally conscious design), and environmental accounting.
Since many Kawasaki products are energy-intensive, the company focused on saving energy and resources as well as recycling, not only at the manufacturing stage but also at the operation and disposal stages of these products. This was done in order to contribute to achieving a recycling-based sustainable society.
In 2003, the company formulated its Environmental Vision 2010: "What Kawasaki Should Be in the Year 2010," to step up efforts on environmental management.

Promoting the 2nd three-year stage of EPAP



Promoting the 2nd three-year stage of EPAP

Employing Green Manufacturing Technologies

In February 2005, the Kyoto Protocol, mandating that developed countries cut carbon dioxide (CO_2) and other greenhouse gas emissions, went into effect.

Japan adopted the Kyoto Protocol Target Achievement Plan.
The plan outlined a multipronged environmental and economic strategy for reaching Japan's 6% CO_2 reduction commitment that included promoting technological innovation; ensuring participation and collaboration by all stakeholders (national and local governments, businesses, etc.), transparency and information sharing; utilizing various policy measures; and ensuring international collaboration.
Against the backdrop of growing awareness of all the environmental problems affecting the planet, the Kawasaki Group developed environmentally friendly products (a.k.a. eco products) and introduced them to the global market in order to achieve its 2010 Environmental Vision (see Table IV).

Achieving Zero Emissions at All Plants

The third stage of EPAP (FY2000–2002) set a goal of achieving zero waste emissions and a recycling rate of 100% at all plants by the end of fiscal 2004.

[Table IV] Environmentally Conscious Products and Environmental Protection Products and Technologies

Environmentally Conscious Products	
Aircraft	Boeing 787, a next-generation environmentally friendly aircraft Fitted with a lighter fuselage, the Boeing 787 is expected to save a huge amount fuel. Kawasaki worked on the development and manufacture of the forward fuselage and other components, utilizing its carbon fiber composite processing technology.
	Trent 1000, eco-friendly jet engine Kawasaki also participated in the development of a new eco-friendly jet engine from the British manufacturer, Rolls-Royce. It featured improved fuel efficiency contributing to a significant reduction of CO_2 and NOx emissions. The completed engine was used to power the Boeing 787.
Ships	Environmentally conscious large oil tanker (Katsuragisan) The vessel's fuel oil tank has a double-hull structure similar to that of a cargo tanker to prevent polluting the water in the event of an accident. It's equipped with an energy saving device called the RBS-F* to reduce energy consumption. *RBS-F: Rudder Bulb System with Fins
	Environmentally friendly electronically controlled marine diesel engine Electronically controlled diesel engines improve fuel efficiency, lower cylinder lubricant consumption, and reduce NOx and dust emissions.
Rolling stock	Environmental measures for China's EMU* (adoption of heavy metal-free paints) Paints for rolling stock used to contain heavy metals such as hexavalent chromium and lead, but Kawasaki is promoting the use of heavy metal-free paints that do not contain these substances as an environmental measure and has also reduced the number of substances listed on the Pollutant Release and Transfer Register (PRTR). *EMU: Electric multiple unit (trains)
Plant and industrial machinery	Energy conservation via friction spot joining (FSJ) robots An FSJ robot performs spot welding of light alloys such as aluminum and magnesium. It uses frictional heat to soften and fuse the sections of workpieces to be joined. The FSJ process consumes a 20th or less of the power consumed by conventional resistance spot welding, in which workpieces are melted and joined using a high current.
Social infrastructure	Effective use of resources by reusing built-in parts on shield machines Kawasaki worked with Araigumi to develop the DSR technique that allows for extracting the internal shell of a shield machine, most of which had been buried underground after construction, and reusing approximately 90% of the parts. This achieved a better use of resources.

Products and technologies that protect the environment	
Energy facilities	Winning ACEJ Chairman's Award Kawasaki's cogeneration system delivered to Fuji Electric Device Technology Co., Ltd. was highly rated by the Advanced Cogeneration and Energy Utilization Center Japan (ACEJ) for its energy saving, environmentally friendly, and innovative features, earning it the Chairman's Award, which is given to only the most outstanding equipment.
	Combined cycle power plant (CCPP) Kawasaki employs its high-efficiency L20A gas turbine for combined cycle power plants (CCPPs) that use both gas and steam turbines. The turbine improves energy efficiency and cut CO_2 emissions at power generation facilities where they are employed.
	Woody biomass power generation system (fixed bed gasification/gas engine system) This system gasifies lumber residue, timber from forest thinning, clippings, etc., and generates electricity via a gas engine. These wood resources are called woody biomass, and since they grow by absorbing atmospheric CO_2, they can be said to be renewable energy sources that do not increase CO_2.
Improvement of the air quality	Low NOx gas turbine power generation systems The use of catalytic combustion further reduces NOx emissions from gas turbine cogeneration systems, which already feature low NOx emissions. The amount is less than a tenth of the emissions (2.5 ppm or less) from conventional gas turbine cogeneration systems.
Waste treatment and recycling	Waste incinerators (stoker incinerators) The advanced stoker system, which dramatically improves the performance of stoker incinerators, achieves high-efficiency power generation and reduced environmental impact. In addition to this, ash is made into slag in a smelter and can be used in asphalt and concrete products.
	Soda recovery boiler A soda recovery boiler uses waste liquor (black liquor) generated during pulp production in paper mills as fuel. It recovers soda used as a solvent while utilizing the heat from burning the pulp residue in the black liquor all with an eye to conserving the environment.
Improvement of water and soil	Landfill leachate treatment system (Sado) The leachate treatment system removes organic substances and heavy metals from landfill leachates. Its stable treatment capacity and outstanding water purification performance help protect the environment.

In December 2000, the Harima Works began full-scale efforts toward achieving zero waste emissions. After identifying challenges lying ahead and exploring ways to recycle waste, it achieved zero emissions in September 2001. The factory achieved a recycling rate of 100% for waste it generated annually while successfully slashing waste management costs.
Subsequently all Kawasaki plants worked on zero waste initiatives and achieved a zero emissions status in March 2005 as initially planned, with the Gifu Works, Nagoya Works 1, Nagoya Works 2, and Yachiyo Works all reaching their zero emission targets.
In 2011, Kawasaki redefined zero emissions as a final disposal rate of 1% or less in light of prevailing trends, and has maintained a zero emission status since then.

Shuttering In-house Industrial Waste Treatment Facilities

Solar power plant at the former landfill site

The Japanese government mandated that companies take responsibility for disposing of their own industrial waste due to the shortage of public landfill sites. Kawasaki turned its eye to Iwaoka, a town located in Tarumi Ward, Kobe City, Hyogo Prefecture (now Iwaoka, Nishi Ward, Kobe). It's there that it established a landfill site in 1973 and then the Industrial Waste Disposal Center (IWDC) in 1979, which was designed to reduce the volume of waste through incineration. In response to the government mandate, the company ceased operation of the IWDC's incineration facility in 2001 (which was followed by its demolition and dismantlement in 2003, and the closing of the IWDC in 2007). It ceased operations at the landfill site in 2003 (and shut it down permanently in 2005). After serving their purpose, there was no room for these facilities in a future where recycling and zero waste emissions were the order of the day. The site is currently being used effectively as an in-house distribution warehouse (completed in 2012) and a 1,500 kW solar power plant (opened in 2014).

Establishment of Environmental Management System (EMS)

Kawasaki is working to acquire ISO 14001 certification at all its locations. The Shipbuilding Company's Kobe Works acquired certification in August 2002, making all six internal companies ISO 14001-certified (see Table VI).

[Table VI] ISO 14001-certified Kawasaki Locations

Month/year certified	Internal companies and business centers	Group companies, etc.
February 1998	Precision Machinery Business Center	
October 1998	Robot Business Center	
March 1999	Environmental Business Center	
November 1999	Steel Business Center	
February 2000	Consumer Products & Machinery Company	
March 2000	Jet Engine Division, Gas Turbine Business Center	
May 2000	Construction Machinery Business Center	
July 2000	Industrial Machinery Business Center	
August 2000	Crushing Plant Business Center	
August 2000	Shipbuilding Company (Sakaide Works)	
November 2000	Machinery Business Center	
March 2001	Power Plant Business Center	
May 2001	Gas Turbine Business Center & Gas Turbine Research & Development Center	
February 2002	Aerospace Company	Kawaju Gifu Service Co., Ltd., Kawaju Gifu Engineering Co., Ltd., Kawasaki Helicopter System Co., Ltd., and KGM Co., Ltd.
February 2002	Rolling Stock, Construction Machinery & Crushing Plant Company (Hyogo Works)	Kawasaki Rolling Stock Engineering Co., Ltd. (Kawasaki Heavy Industries Hyogo Works)
August 2002	Shipbuilding Company (Kobe Works)	

*Company and division names are as of 2002.

9) Celebrating the 110th Anniversary

On October 12, 2006, Kawasaki held its 110th anniversary celebration at Kobe Meriken Park Oriental Hotel's Zuiten no Ma banquet hall. The event was attended by Kawasaki executives, former executives, presidents of major domestic affiliates, labor union officials and members of Hyogo prefecture and Kobe city assemblies (who were former Kawasaki employees). A reception was held following a commemorative lecture entitled "The Milestones Made by the Cosmopolitan Kojiro Matsukata," given by Masanori Aoyagi, Director of the National Museum of Western Art.
The Kawasaki Group had been enjoying steady financial progress as it reached this milestone moment. It had seen sales and profits increase for the three consecutive fiscal years from 2004 to 2006, and was about to kick off fiscal 2007 with a bang.