Promise to the Earth

地球が微笑むモノづくり

Kawasaki

KAWASAKI REPORT 2006

Environmental and Social Responsibility

KAWASAKI
HEAVY INDUSTRIES, LTD.

The Kawasaki Philosophy of Manufacturing

Contributing to People and Society That's the Philosophy of Kawasaki's Business Activities

In the latter half of the 19th century, Japan embarked on a new era after a long period of national seclusion. At that time, Shozo Kawasaki, the founder of our company, believed that for Japan to develop and prosper, the most important priorities were trading with overseas countries and having a fleet to promote that trade. Following this determination, he started building western type ships. "The most important thing I can do with my life, I believe, is to see what and how much I can contribute to society, and the business I start should be for that very purpose." That philosophy is the state of mind maintained by the company to this day.

In the years since, Kawasaki has continued to grow into a comprehensive heavy industry manufacturer that has contributed to people and society through its products, not only on the seas, but also on land, in the air and even outer space.

Kawasaki vows to continue referring to this philosophy in order to create new values in societal contribution.

Kawasaki Group History

1878 The Kawasaki Tsukiji Shipyard is founded.

1896 Kawasaki Dockyard Co., Ltd., is incorporated.

1906 Kawasaki begins the manufacture of locomotives, freight cars, and bridge girders.

1918 The production of aircraft begins.

1919 The Marine Freight Department is spun off and incorporates as Kawasaki Kisen Kaisha Ltd.

1928 The railroad division is spun off from the main company and incorporates as the Kawasaki Rolling Stock Manufacturing Co., Ltd.

1937 The aircraft production division is spun off and incorporates as Kawasaki Aircraft Co., Ltd.

1950 The steel manufacturing division is spun off and is incorporated as Kawasaki Steel Corporation.

1966 Merger with Yokoyama Kogyo Co., Ltd, a manufacturer of boilers and grinders.

1969 Merger of the three Kawasaki companies into Kawasaki Heavy Industries, Ltd.

1972 Merger with Kisha Seizo Co., Ltd., a manufacturer of railroad cars.

2002 The shipbuilding division incorporates as Kawasaki Shipbuilding Corporation.

The hydraulic machinery division incorporates as Kawasaki Precision Machinery Ltd.

2005 The industrial plants division incorporates as Kawasaki Plant Systems, Ltd.

Present

Kawasaki Group

Kawasaki Heavy Industries, Ltd.

Subsidiaries and Affiliates (135)

Main Subsidiaries

- Kawasaki Shipbuilding Corporation
- Kawasaki Precision Machinery Ltd.
- Kawasaki Plant Systems, Ltd.

Editorial Notes

Reporting Scope This report covers the environmental and social activities of the Kawasaki Group focusing on Kawasaki Heavy Industries, Ltd., and the following main subsidiaries—Kawasaki Shipbuilding Corporation, Kawasaki Precision Machinery Ltd., and Kawasaki Plant Systems, Ltd. Some of our overseas offices are also described herein.

Reporting Period The period for reporting covers April 1, 2005, to March 31, 2006. Some activities taking place subsequent to April 2006 are also noted herein.

Next Scheduled Publication This report will be published annually.

Contents

Message from the President

Striving for Coexistence between Environmental Conservation and Business Progress

— To Serve Our Customers, Society and the Planet's Future

Over a year has passed since I was appointed the President of Kawasaki Heavy Industries. During this period I have benefited from many opportunities to meet and talk with our customers, representatives of various fields, our suppliers and numerous other parties both in Japan and abroad, regardful of their invaluable opinions and conveying my own ideas in return.

These experiences have further deepened my determination, as the chief executive at Kawasaki Heavy Industries to empower the Kawasaki Group to sustain progress and development, while fulfilling its social responsibilities as a global corporate group within an environment in which unpredictable events are daily realities.

Marine Resources in Peril

As we know, Japan is a country with few underground resources, having no choice but to rely on imports for its supply of resources and energy. It can also be said, however, that this resource shortage is the very reason that Japan has charted robust development as an industrialized nation. Today, the Japanese companies boast the world's highest level of technology in the fields of energy conservation, recycling, and alternative energy. What this shows is that the scarcity of precious natural resources in Japan has led companies to relentlessly search out and devise effective uses for limited supplies.

On the other hand, we must also reflect upon the issues regarding marine resources. In terms of its total land area, Japan ranks sixtieth in the world (approx. 380,000km^2). However, in terms of its exclusive economic zone (EEZ), Japan's some 4.47 million km^2 area is the sixth largest in the world, making it a country rich in marine resources. The daily lives of the Japanese people, therefore, are dependent on marine resources to a large degree. Yet, concerns are now emerging that a further rise in marine pollution accompanying the industrialization on a global basis will have a direct impact on food supplies and other critical aspects of our lives.

As far as environmental conservation activities are concerned, it seems that Japan is conventionally prone to focus on problems related to the underground resources mentioned above and to overlook those related to marine resources because of their abundance. However, in view of the major importance of marine resources, as well as the magnitude of the issues surrounding them, Japan must clearly emerge as a global opinion leader in the quest to prevent marine pollution. Kawasaki and other Japanese companies have perfected outstanding technologies and products for treating sewage and refuse as well as for preventing marine pollution. Over the years to come, we are determined to contribute to society by supplying these technologies and products to help protect our precious marine resources.

Social Contributions through Products

As I noted above, the best potential social contribution we can make as a manufacturer consists in our actual corporate activities — namely, supplying the world with sophisticated technologies and outstanding products that achieve harmony with the global environment, and bringing greater convenience and affluence to people's lives. For that matter, comprehensive heavy industrial manufacturers like Kawasaki are also positioned as core industries both in Japan and the world at large. Taking to this heart, we are keenly aware of the especially high expectations that society places on us to contribute to society through our products.

In addressing these hopes, the Kawasaki Group has already commercialized a large number of environmentally conscious products. They include power generation systems utilizing wind power, biomass, refuse paper and plastic fuel (RPF) and other refuse; tankers and onshore storage tanks for liquefied natural gas (LNG), a substance now being heralded as a source of clean energy; gas turbine cogeneration systems using LNG; sewage treatment plants and other innovations.

Looking to our business future, in China for example, transportation capacity currently handles less than half of demand, with electric power supply also falling behind the increasing demand. Under these conditions, the possibilities for us include supplying and supporting gas turbine power generation systems and technology, as well as transferring rolling stock and technology to China as environmentally friendly mass-transportation systems and supporting local production. As I mentioned above, we must also consider furnishing technology for sewage treatment, refuse incineration plants and other advances in order to prevent marine pollution resulting from rapid

economic growth around the globe.

Kawasaki has developed the BULLDOG humanitarian demining system, whose performance was tested in Afghanistan for over six months from 2004 to 2005.

Further improvement of the system continues today toward its practical use, and we have high hopes that this BULLDOG system, once put to practical use, will contribute to improving the safety and quality of the global environment.

As I stated, it is my firm conviction that to excel as a global company in the 21st century requires effort to strike a working harmony between business success and contributions to global environmental conservation. For the Kawasaki Group, the use of leading technology and products to help resolve global environmental issues is synonymous with the very core of Kawasaki corporate activities. It is also instrumental in strengthening both the value of Group companies and the "Kawasaki brand."

Management Quality Assurance

Today, with increasing attention being focused on corporate social responsibility, it goes without saying that the expectations placed by society on companies are not limited to their products. Corporate activities are now evaluated according to an expanding range of parameters, including compliance systems, soundness and transparency in management, employment practices, corporate ethics and other fronts.

The compliance of all management and staff with relevant laws and regulations is a key assumption underlying all our activities. Having prepared internal rules and regulations regarding corporate ethics, the Kawasaki Group has begun to conduct training programs for management and staff and has distributed compliance-related guidebooks. Along with this, the Group has formed committees in each of its organizational units to take the initiative in promoting the self-assessment and verification of compliance and is working to make all personnel fully aware of the laws and regulations they must obey. My policy is to further bolster our compliance efforts from now on.

Along with improving and protecting the environment through our products, society demands from us that we adopt environmentally conscious process of product manufacturing; observe law and social order; strive for a relationship of mutual benefit with regional communities; and uphold fair competition, proper working conditions and the quality of the surrounding environment. Society's demands on corporations span many dimensions, and from the standpoint of a corporate leader, I look upon these requirements as the true essence of "management quality assurance."

As an executive, I pledge to continue to uphold a corporate culture in which the highest priority is constantly placed on information disclosure and transparency, in striving to make our "management quality assurance" an even more established and reliable presence. It is in this spirit, therefore, that I look forward in the coming years to your continued support and understanding of the Kawasaki Group.

Tadaharu Ohashi
President
Kawasaki Heavy Industries, Ltd.

T Ohashi

Managerial Stance

To Remain a Corporation in Keeping with the Public's Trust

Starting this year we enhance the report on our social nature and call it *KAWASAKI REPORT 2006-Environmental and Social Responsibility*. The stance of Kawasaki's spirit of manufacturing that contributes to a sustainable society is to provide products that help people and give society what it demands. From our basic management objectives and Medium-Term Business Plan to our corporate governance and compliance, all are devised to assure Kawasaki remains a company that maintains its social trust through our spirit of manufacturing.

Medium-Term Business Plan Global K

"Global Kawasaki" —The Next Exciting Stage (FY2006-FY2010)

Kawasaki issued its new medium-term business plan, Global K, covering the period from FY2006, ending March 31, 2007, to FY2010. In this plan, the Company aims to further enhance strategies and measures set in the previous K21 Medium-Term Business Plan, under which it established a stable earnings structure. Having decided on its corporate vision and what each business should be 10 years in the future, Kawasaki has set the Global K plan to guide the next five years, with a view to achieving its vision.

Corporate Vision:

Enriching lifestyles and helping safeguard the environment:Global Kawasaki

Kawasaki aims to become a leading global enterprise that enriches lifestyles and helps safeguard the environment through its 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.

(1) Implement ongoing reforms to establish a sustainable growth cycle
(2) Achieve steady growth in keeping with the Global Kawasaki vision
(3) Build a solid Kawasaki brand by leveraging consumer trust
(4) Reinforce CSR* organization to enhance Corporate Quality

Priority Initiatives:

(1) Strengthen technological capabilities
(2) Encourage market-oriented thinking and action
(3) Accelerate global business development
(4) Create and cultivate new products and businesses
(5) Strengthen Group management capabilities
(6) Promote CSR

*CSR:Corporate Social Responsibility

Corporate Governance

Basic Stance toward Corporate Governance

The basic stance of the Kawasaki Group as a whole regarding corporate governance is to conduct its activities with a high level of transparency and promote good relationships with all its stakeholders, including shareholders, customers, employees, and the community, as it works to increase its corporate value through the efficient and sound management of its operations.

Corporate Governance Framework

(1)Conduct of Operations

The Company has adopted the corporate auditor governance model. Under this model, nine directors are responsible for formulating management strategy and supervising the conduct of operations. In addition, four corporate auditors (two of whom are outside auditors) are responsible for auditing. To establish a management system that can respond quickly to changes in the operating environment, executive officers are appointed by the Board of Directors to be responsible for the day-to-day conduct of business operations.

The Board of Directors decides on the basic objectives and policies for the conduct of operations as they formulate management plans. These objectives and policies are then presented to all the executive officers in the Group Executive Officer Committee, and the Board of Directors follows up on the implementation of such objectives and policies periodically. For major management issues, the Management Committee, which consists of the representative directors and other members, discusses such issues in detail, then designated matters are decided by the Board of Directors. The Management Committee discusses management policy, management strategy, and important management issues from the perspective of the Group as a whole, the committee calls on the management personnel basis.

(2)Auditing Functions

The corporate auditors examine and monitor the state of operations and Group assets through a number of activities. These include attending the meetings of the Board of Directors and Management Committee, examining important documents, holding periodic meetings with the representative directors, and auditing divisions and subsidiaries. In addition, the two outside corporate auditors on the Board of Auditors perform their surveillance duties as neutral and objective third parties. The internal corporate auditors share information with the outside corporate auditors and work to enhance the effectiveness of their management surveillance functions.

Moreover, the Auditing Department, which is responsible for internal auditing, monitors the overall conduct of management activities within the Group and carries out periodic audits of whether operations are being conducted appropriately and in compliance with laws and internal rules as well as other matters while endeavoring to upgrade internal control functions. In addition, the corporate auditors and the Auditing Department exchange information on a monthly basis and share information regarding the results of their auditing activities and items they have singled out for attention.

Audits of the Group's financial statements are conducted by an independent public accounting firm. The corporate auditors and the Board of Auditors review the outline of the audit plans of the independent accounting firm, receive report on items the accounting firm selects for particular focus, and provides briefings for the accounting firm on audit plans of the Board of Auditors. Reports on the results of audits by the accounting firm are presented twice annually, and the corporate auditors and the accounting firm work closely together, exchanging information and opinions. In addition, as necessary, the corporate auditors attend the audits conducted by the independent accounting firm and receive reports from the accounting firm as deemed appropriate.

(3)Compliance Systems

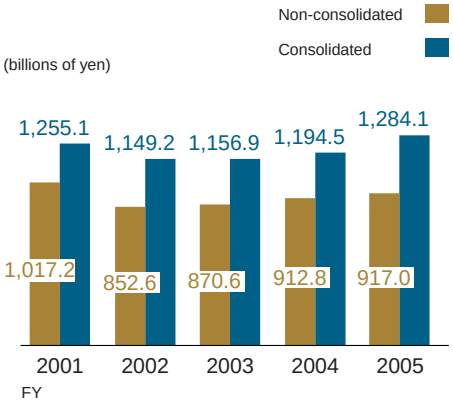
In addition to updating and improving internal regulations related to ethical matters, the Company has formed a CSR Committee chaired by the president, while the Group has formed committees in each of its organizational units in Japan to take the initiative in promoting the self-assessment and verification of compliance. In addition, a Compliance Guidebook has been prepared and distributed to employees of the parent company and major domestic subsidiaries and measures are being implemented to conduct compliance training along with concerted efforts to raise the level of awareness of compliance matters within the Group. In addition to these initiatives, a Compliance Reporting and Consultation System has been created through an outside legal office to enable employees to receive advice without being concerned about being observed by other employees.

Corporate Profile

Company Name:	Kawasaki Heavy Industries, Ltd.
Incorporated:	October 15, 1896 (Founded in April 1878)
Capital:	92 billion yen
Kobe Head Office:	1-3 Higashikawasaki-cho 1-chome, Chuo-ku, Kobe, Hyogo 650-8680 Japan
Tokyo Head Office:	4-1 Hamamatsu-cho 2-chome, Minato-ku, Tokyo 105-6116 Japan
Representative:	Tadaharu Ohashi, President

(as of April 1, 2006)

Total Assets



The Kawasaki Works to Solve Environmental Issues in Addition to Equipping and Expanding Social and Industrial Infrastructure

Overview of Enterprise

Product Fields & Business Units

Rolling Stock Ⓐ

Shinkansen Train Prototype FASTECH360S

This year marks the centennial of our involvement in the manufacture of railroad cars. We have manufactured a number of famous train cars that have entered the annals of Japanese railroad history and received high praise overseas as well.

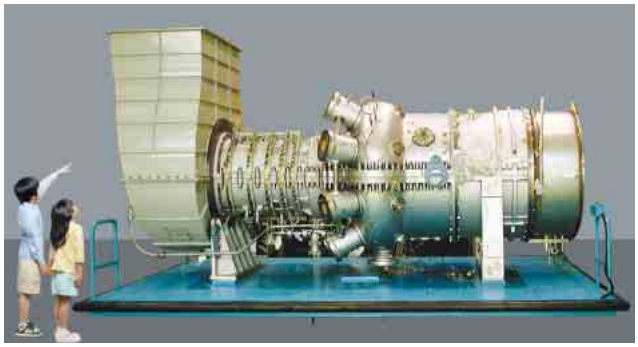
Ships ⓒⓔ

LNG carrier

In the field of shipbuilding—the very roots of our company—we've made the most of our wealth of experience and the latest technologies which have contributed to the field of marine transport as well as the development of the social economy.

Energy/Environmental Preservation Facilities ⓒⒼ

Gas Turbine



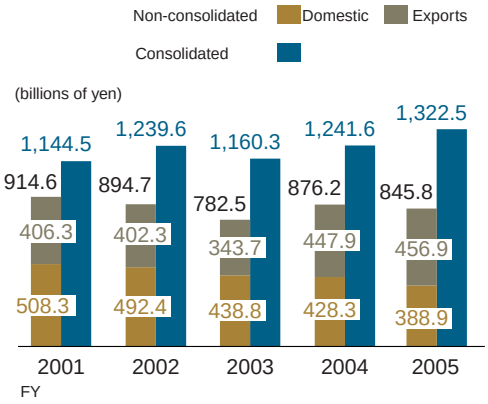
Through the development of high efficiency energy equipment, new energy equipment, and various types of environmental preservation equipment, we endeavor to bring about a stable society.

Industrial Plants and Equipment ⓒⒹⒻⒼ

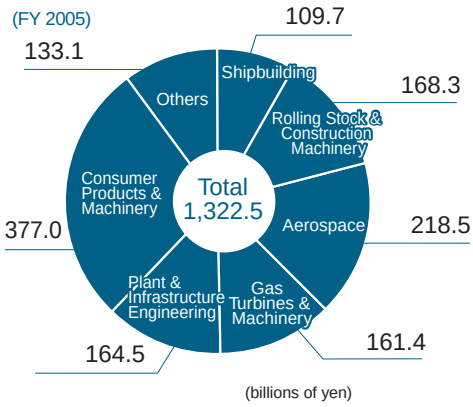
Fertilizer Plant

Along with engineering every stage in the development of a variety of plants from the planning stages through the design, construction, and first test run, we also involve ourselves in the development and manufacture of key component machinery.

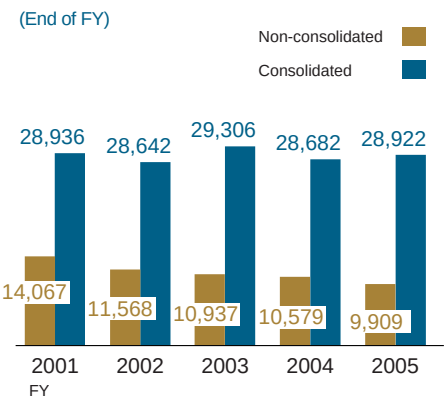
Net Sales



Sales by Segment (Consolidated)



Number of Employees



Ⓐ Rolling Stock & Construction Machinery Company Ⓑ Aerospace Company Ⓒ Gas Turbines & Machinery Company
Ⓓ Consumer Products & Machinery Company Ⓔ Kawasaki Shipbuilding Corporation Ⓕ Kawasaki Precision Machinery Ltd. Ⓖ Kawasaki Plant Systems, Ltd.

Aircraft ⒷⒸ

B777-300ER

Kawasaki participates in a number of governmental projects involving passenger aircraft, helicopters and space development and has earned hearty trust with our high level of technology.

Motorcycles, Jet Ski®* Ⓓ

ZZR1400

We also work to spice up the lives of general consumers with our motorcycles, Jet Ski® watercraft, and ATVs (all-terrain vehicles).

Steel Structures Ⓐ

Vehicle Assembly Facility

Making the most of our know-how and technology cultivated over our long history, we provide our services in equipping structures that form the foundations of society, such as rocket assembly facilities, airport equipment, and multi-purpose domes.

Civil Engineering and Construction Machinery Ⓐ

Wheel Loader AUTHENT135ZV

Grounded in safety, the environment, and efficiency, we develop and manufacture a variety of machines spanning various areas of construction such as excavation, conveyance, and ground leveling.

*Jet Ski® is a registered trademark of Kawasaki Heavy Industries, Ltd.

Contributions to Environment

A New Dawn for Future Energy Use

Promise in the Large-Scale Nickel-Metal Hydride Battery GIGACELL

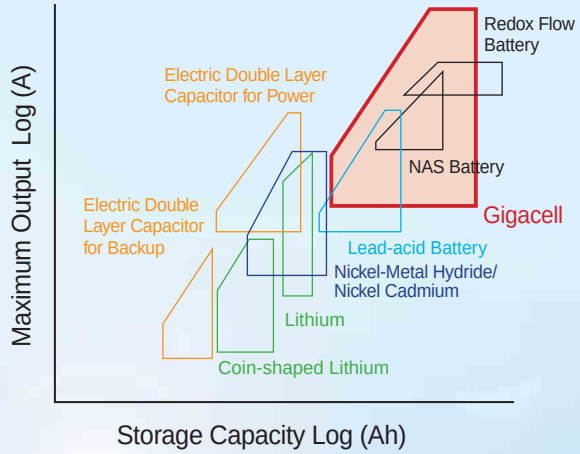
GIGACELL—This new kind of large-capacity, high-output battery is attracting attention as a system component that is free from hazardous metals, compensates for fluctuations in natural energy systems and is new source of electrical power for high energy efficiency transportation systems.

Large-Scale, Nickel-Metal Hydride Battery GIGACELL Backs Up Renewable Energy

As a result of the Kyoto Protocol coming into effect in February 2005, natural energy sources such as wind and solar power have come to receive increased attention as energy sources free of CO_2 emissions, but the generated power fluctuates greatly based on wind and sunlight conditions, so not only is it difficult to adjust the balance of supply and demand, these fluctuations can also affect voltage and frequencies adversely thereby limiting the scope of large-scale operations when connected to commercial electrical systems.

A way to settle this kind of problem is Kawasaki's nickel-metal hydride battery Gigacell. A Gigacell can always provide power in a stable state by storing electrical power generated by natural energy for subsequent use. Moreover, as you can understand by the comparison of various types of battery performance shown in the diagram below, the Gigacell has a remarkably large capacity and high output compared to conventional batteries, so there are high hopes for its use in a broad range of applications.

Comparison of Various Battery Performance



Various Applications for the Large-Capacity, High-Output GIGACELL

The large-capacity, high-output Gigacell not only adjusts the balance of supply and demand with wind and solar power systems but is also receiving notice as a component to produce new systems such as the currently much discussed Micro Grids and light rail vehicles (LRV) which can travel in area without trolley wire.

Speaking of Micro Grids, the application of a large-capacity, high-output Gigacell makes it possible to link various dispersed power generation systems such as wind power, solar power, biomass, fuel cells, and gas turbines into one network to perform functions that conduct stable and reliable supply and demand adjustments.

Another example that displays the functions of the Gigacell is their use in light rail vehicles (LRV) whose introduction has begun in various places around the world.

Some electric trains recover energy with the use of the motor as a power generator when braking (regenerating brakes) and can return electricity to trolley wire, but the electricity is not effectively used if another train to use that electricity is not nearby. With the installation of the Gigacell, this regenerated electricity can be stored by itself and securely used effectively to become a system high in energy efficiency. Moreover, if the train becomes able to travel using only this installed battery, it has the possibility to become a new, long dreamt of transportation system that won't even require trolley wire.

Large-Scale Nickel-Metal Hydride Battery GIGACELL

Image of Kawasaki LRV SWIMO
which can travel in area without trolley wire

Increasing Hopes toward a New Dawn for Future Energy Use with Environmentally Conscious Basic Technology

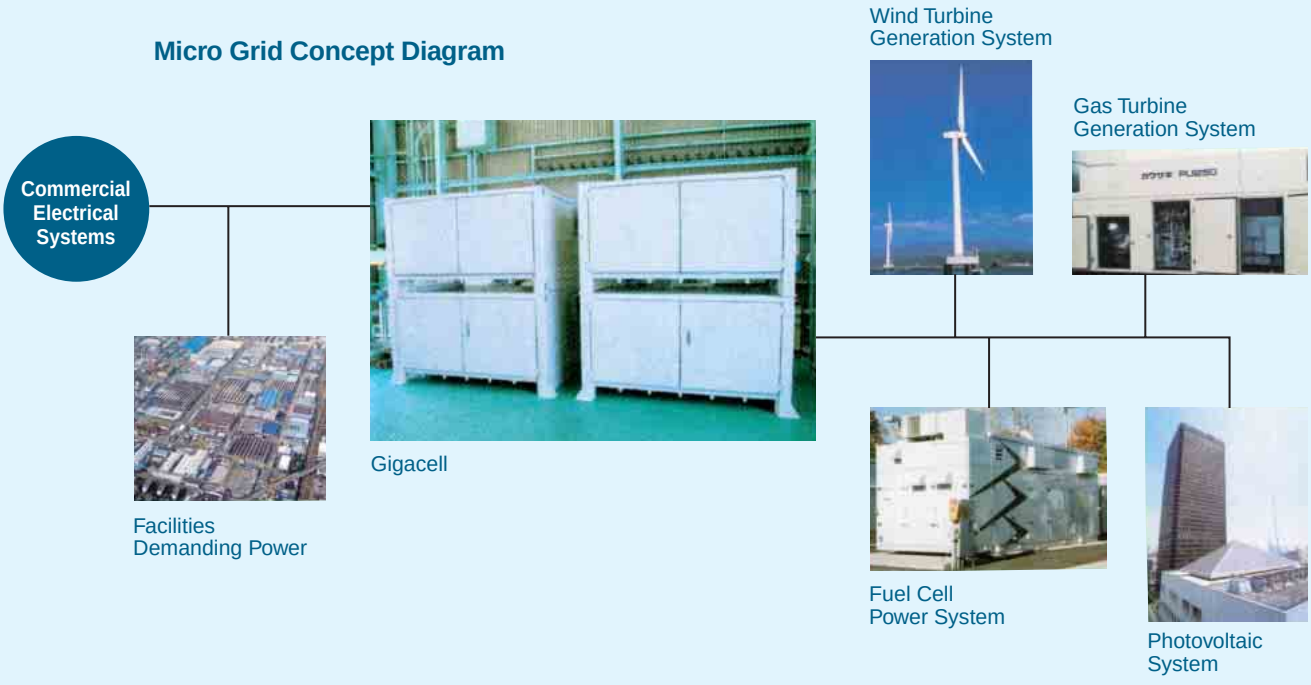
The Gigacell supports various environmentally conscious electrical power systems. Arising from the principle that a product that is useful to the environment must also itself be conscious of it, this battery employs specifications to accommodate environmental considerations. It is free of hazardous metals like lead, mercury, and cadmium and can be easily dismantled for recovery and recycling owing to its simple and weld-free construction.

The Gigacell has already gained attention from various business fields such as power companies, gas companies, and public transport.

From here on, the Gigacell holds promise as a basic technology that increases hopes toward a new dawn for future energy use and contributes greatly to people, society and the global environment.

In addition to all this, the Gigacell can be used as a back-up power source in intelligent buildings and industrial plants, so it holds promise in a variety of uses as a method to further increase the reliability of electricity.

Micro Grid Concept Diagram



Trusted Kawasaki Technology Contributes to World Peace

Steps toward the Practical Use for BULLDOG Humanitarian Demining System

Kawasaki has developed an anti-personal landmine removing system to clear landmines laid under grounds to promote the safety of people and restore their lives in such war-torn countries as Afghanistan. We've completed an improved version of this based on the results of a series of field tests in Afghanistan in FY2005.

Landmines without Remorse

There are over 70 countries around the world in which landmines still lie under grounds, and it is said that the total sum of these landmines exceeds 110 million. The only current method of removal is carried out by hand and involves danger, and since a mere 100,000 landmines can be removed each year, at this pace it will take more than 1,100 years to clear all landmines.

Because a landmine remains active from 50 to 100 years once laid, it is estimated that casualties by landmines each year reach 15,000 to 20,000 people, half of whom are killed and the remaining half lose limbs. The majority of the victims are civilians, most of whom are children.

Japan's Global Contributions and Kawasaki's Mission as a Comprehensive Heavy Industry Manufacturer

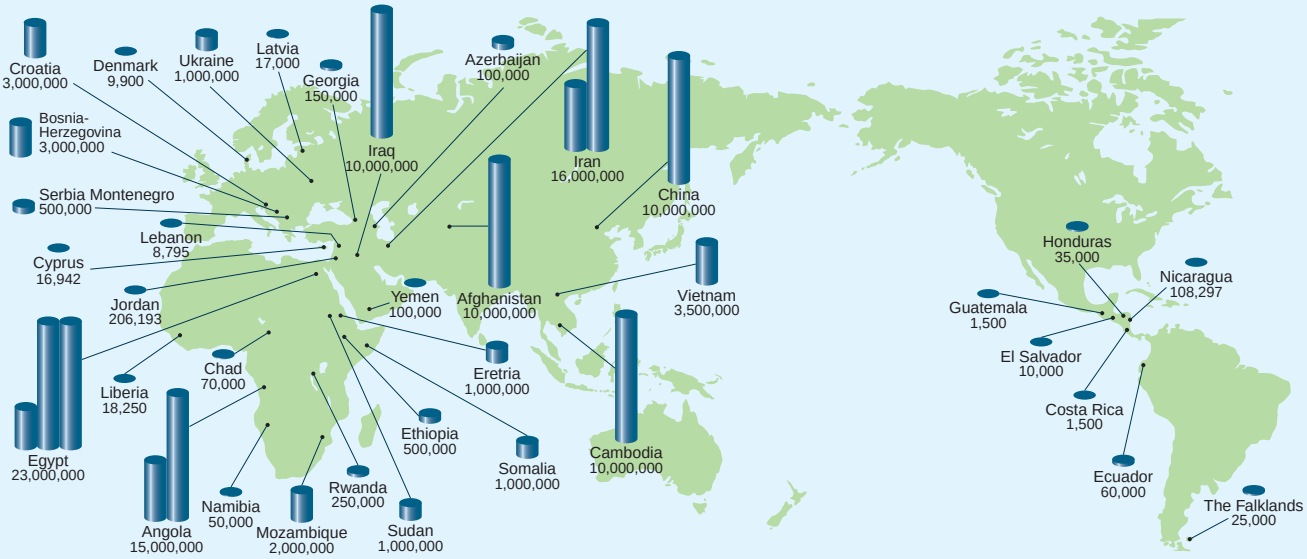
Japan became a member of the Ottawa Treaty to ban the use of anti-personnel landmines enacted in 1999 and has actively supported both the relief of victims and the research and development of safer and more effective anti-personnel landmine detectors and removal systems.

On the other hand, Kawasaki has engaged in the research and development of safe anti-personal landmine clearance systems since 1993, and has completed the first prototype in 2002 with the development of the Kawasaki BULLDOG System for practical use in 2003.

Our demining systems consist of the MINEDOG, a vehicle mounted landmine detection system which marks landmines and maps their locations with its detection sensor, and the MINEBULL, an anti-personnel mine clearance vehicle which excavates mines with its digging drum, detonates and crushes them, and collects iron fragments, and the Kawasaki BULLDOG System, which is equipped with the remote controllers to operate MINEDOG and MINEBULL from a remote and safer place.

DISTRIBUTION OF ACTIVE LANDMINES THROUGHOUT THE WORLD

TOTAL：111,738,337



SOURCE: UN Database for Landmine Clearance (As of April 10, 1996)

MINEDOG Automatically Detects Landmines Using Ground Penetrating Radar

The MINEDOG is about 7 meters long, 2 meters wide, and 3 meters tall. The MINEDOG's 8-channel sensors and proprietary software detect and identify AP landmines and unexploded ordnance. The sensor emits radio waves with its ground piercing radar that moves up and down following the terrain and measures the depth and size of the landmines or explosive devices based on the reflected waves when it encounters a target. It has the ability to automatically detect antipersonnel mines to a depth of 30 centimeters and anti-tank landmines to a depth of 50 centimeters.

MINEBULL Excavates and Detonates Landmines and Retrieves Their Shrapnel

The MINEBULL vehicle is about 9 meters long, 3 meters, wide, and 4 meters tall. It is equipped with digging depth control equipment, remote-control equipment, a GPS antenna and cameras to monitor the drum and the vehicle's path, a metal fragment collection bucket to simplify verification that all ordnance has been removed, and a digging drum with sturdy bits. The high-speed digging drum mechanism can be controlled to preset depths in order to remove landmines with precision up to a depth of 35 centimeters along with the dirt surrounding it. Further, it can automatically separate remaining.

Field Tests Earned High Praise from the Afghani Government, the UN, and Local NGOs.

Kawasaki sent a team of 11 to Afghanistan to carry out a series of tests on landmine detection capabilities, anti-personnel landmine clearing capabilities, actual field tests for the detection and clearance of landmines, and comprehensive tests on durability, anti-explosive capabilities, and detection and removal systems at a test area on the outskirts of Kabul and we could get various great successful results.

In the flat terrain detection test prepared by the United Nations, MINEDOG detected 100% of the actual landmines. In the clearance test carried out subsequently in an actual minefield on the periphery of the Kabul International Airport, MINEBULL detonated 32 antipersonnel landmines, achieving a removal rate of 100%. Even in explosion-resistance tests, we proved our products' durability against explosive blasts, protection for the operator, and easy maintenance.

Achieving many impressive results, the Kawasaki BULLDOG System received high praise from the Afghani government, the UN, and local NGOs concerning its performance in tests and capabilities.

Hopes Toward the Practical Use of the Kawasaki BULLDOG System

Consequent to the field tests in the Afghanistan minefield Kawasaki has improved the prototype and produced the modified BULLDOG System in 2005. These improvements include counter measures to prevent minute sand granules smaller than 1micro-meter in diameter entering machine components, which often cause machine failure and increase maintenance work.

Thanks to MINEDOG, sensitivity in landmine detection and identification in instances of high temperatures and low humidity have been improved. MINEBULL also incorporates countermeasures for reducing blast wave pressure in the cabin and for escaping from minefields in the event of breakdowns.

The Banshu (left) and Harima Works(right) which carried out modifications accordant to field tests in Afghanistan mine fields

Environmental Management

Realizing Our Goals to Contribute to a Sustainable Society

Kawasaki drew up our Environmental Charter in order to promote our environmental management activities to fulfill our 2010 Environmental Vision–What Kawasaki Should Be in the year 2010 toward symbiosis with our precious planet verging on a critical tipping point.

Masatoshi Terasaki
Chief Environmental Officer
Senior Executive Vice President

Contributing to Environment & Society

Our New Three-Year Activity Plan Starting from FY2006

Being a member of the manufacturing industry, we at Kawasaki Group regard our mission in conducting business as providing products and technologies that can contribute to the world's welfare. Now in this age when environmental issues such as global warming, depletion of natural resources, and environmental contamination from industrial waste and chemicals are all the more pressing, we feel compelled to focus on the following major themes in conducting our corporate activities: the development/supply of products and technologies that have less of an impact on the environment throughout the life cycle of the products, and that help protect the environment.

Having completed our fourth three-year plan in the fiscal year 2005, this year marks the inception of activities that follow a new plan. During our Fourth Plan, we succeeded in the following:

- Achieving zero emissions (no landfill waste disposal) in all the plants and the main offices of Kawasaki.
- Completing an environmental data management system of Kawasaki and the main subsidiaries.
- Enhancing environmental consciousness among our employees through distribution of the Environmental Handbook.

Moreover, we were able to step forward in the areas of developing environmental management systems in subsidiaries and affiliates, and of reducing hazardous chemical substances.

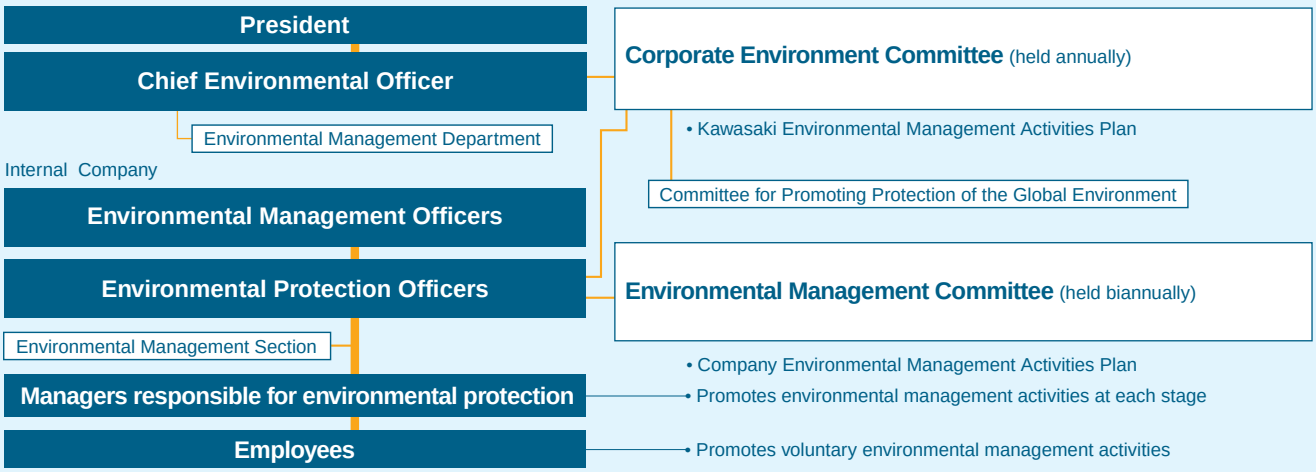
In our new fifth plan, we intend to continue working with the themes including the following as well as working toward achieving the 2010 Environmental Vision we proposed in 2003:

- Developing activities that examine the impact our products have on the environment throughout their life cycle; not only in the manufacturing process but also in their whole lifespan including the stages of use and disposal after use.
- Developing our scope of activities to encompass the entire Kawasaki Group.
- Reviewing and reassessing various environmental risks, and management practices in environmental activity area to ensure and improve our social reliability.

I firmly believe that as our employees enhance their understanding of environmental issues, they will naturally acquire a greater sense of duty to contribute not only at work but in the community and at home as well, and in so doing Kawasaki will consequently exert a more positive influence on the environment as an organization of individuals working in concert to become a corporation in which society can place even greater trust.

Organization for Environmental Management

Environmental Management System



Environmental Charter

(Established in 1999)

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.

Conduct Guidelines

1. Recognizing that global environmental protection is a common and serious issue for humankind, Kawasaki will positively volunteer to engage itself in harmonizing with the environment globally. We shall regard this as one of the most important strategies when we deploy our business activities.
2. During its production stages, Kawasaki will endeavor to conserve resources, to save energy, to recycle resources and to reduce industrial waste and will promote the reduction of environmental impacts.
3. In the new product planning (i.e. research and development) and designing stages, Kawasaki will render careful attention throughout the procurement, production, distribution, utilization and material disposal stages in order to minimize the environmental impacts.
4. In seeking solutions to global environmental issues, Kawasaki will do its best to develop and provide new technologies and new products that contribute to environmental protection, energy saving and resource conservation.
5. Notwithstanding its compliance with environmentally related institutional laws, regulations and agreements and voluntary action plans of each industry concerned, Kawasaki will voluntarily institute its own environmental control standards as an appropriate and necessary action in order to strive to improve environmental control levels.
6. Through environmental training and public awareness activities, Kawasaki will strive to enlighten all its employees on global environmental issues and will support individual views, lifestyles and will encourage their participation in the social activities and services.
7. Kawasaki will implement an environmental management system to promote environmental preservation and conservation, and hold regular conferences to review management systems and maintain continual improvement.

Environmental Impact of Our FY2005 Business Activities

IN PUT

Raw Materials (Metals (steel, aluminum, copper, etc.))	Energy (Conversion of crude oil)	Water Resources	PRTR* Regulated Substances
609,000 tons	1,590,000 kl	7.2 million m^3	2,500 tons

Business Activities Net Sales ¥1,322.4 billion

Envrionmental Management Activities

Environmental Investments ¥1.7 billion Environmental Costs ¥10.8 billion

OUT PUT

Emissions to Air		Emissions to Water Area		Emissions of Wastes	
Greenhouse Gases	293,000t-CO_2	Drainage	6.2 million m^3	Total Waste Output	67,000 tons
SOx	15 tons	COD	17 tons	Final Disposal Wastes	1,000 tons
NOx	199 tons	Nitrogen	34 tons	PRTR Regulated Substances	212 tons
Soot & Dust	3 tons	Phosphorous	1 ton		
PRTR Regulated Substances	1,500 tons	PRTR Regulated Substances	2 tons		

*PRTR: Pollutant Release and Transfer Resister

Environmental Management

Toward Our 2010 Environmental Vision: What Kawasaki Should Be in the Year 2010

Achievements and Appraisal of Environmental Management Activities

	2010 Environmental Vision (What Kawasaki Should Be in the Year 2010)	4th Environmental Management Activities Plan (FY 2003 to 2005)
Environmental Philosophy	- Actions by all employees are taken with concern for the environment, not only at work, but also in their local communities and homes, in accord with our Environmental Philosophy, which declares our commitments to the realization of a sustainable society.	**Provision of comprehensive education and training programs for promoting environmental consciousness** - Publication of the Environmental Handbook in FY2004 - Use of IT to promote the environmental consciousness of all employees - Continued education activities about environmental issues for employees
Environmental Management	- Implementation of an Environmental Management System (EMS) and actions are taken based on this EMS by all employees. - Incorporation of environmental considerations into the business management of each internal company enhances their environmental management levels. - An environmental management information system is created.	**Environmental management to increase social trust** - Support for promotion and development of EMS for affiliates - Establishment of techniques for analyzing environmental management activities - Provision of management-related environmental information to management - Utilization of Information Technology for acquiring and managing environmental data
Environmentally Conscious Products	- Design for Environment (DfE) is used for all products to enhance their environmental efficiency. - Products are offered that help protect the environment, thus contributing to the environment, society and businesses.	**Contribution to the sustainable development of society through technologies and products that help protect the environment** - Application of DfE(product assessment, LCA, etc.) for major products - Promotion of green procurement systems in order to expand the use of green goods - Enhancement of supply of products that promote environmental protection and reduce environmental impact
Environmentally Conscious Production	- Administrative penalties and administrative provisions are avoided, and voluntary control standards based on the needs of society are established to improve environmental control levels. - Every production activity is free of irrationality and waste to enhance the efficient utilization of resources and energies. - Total greenhouse gas emissions in FY2010 is reduced by 6% relative to the FY1990 level. - Total waste production in FY2010 is reduced by 10% relative to the FY2000 level. - Maintenance of zero emissions (recycling rate 100%) is realized in all works. - The use of hazardous chemical substances is reduced.	**Compliance with environmental laws, regulations, and agreements** - No administrative penalty, administrative provision, etc. - Setup of voluntary control standards that addresses social needs **Promotion of environmental impact alleviation in production activities** - Examination of programs for measuring and reducing the amounts of resources and energy input in production processes - Reduction in total emissions of greenhouse gases to the FY1990 level - Reduction in total waste emissions by 5% relative to the FY2000 level - Realization of zero emissions in all works by the end of FY2004 - Implementation of hazardous chemical substances reduction program
Environmental Communication	- Kawasaki Environmental Reports that comply with the needs of society are published. - Communication with stakeholders is promoted. - The entire corporation and all employees are committed to environmental improvement in local communities.	**Improvement of social trust in Kawasaki for sustainable development** - Information disclosure of environmental data - Promotion of communications with stakeholders - Positive cooperation in environmental activities of national and local governments

(Evaluation Criteria) A: Achieved; B: Mostly Achieved; C: Not yet achieved

Achievements of 4th Environmental Management Activities Plan (FY 2003 to 2005)		5th Environmental Management Activities Plan (FY 2006 to 2008)
		Raising the level of environmental awareness of employees in the Kawasaki Group
- Environmental Handbook was published as scheduled	A	- Promoting the construction of an environmental education system through the use of IT
- Planning of e-learning was completed	C	- Continuation of activities to provide information to educate employees in environmental issues
- Educational activities were carried out through our publication of internal news	A	
		Promotion of environmental management to increase the social trust of the Kawasaki Group
- Planning for development of EMS among our domestic subsidiaries	B	- Promoting the development of EMS among our subsidiaries around the globe
- Fell short of developing methods for analysis	C	- Promoting risk review activities to reassess environmental risks [Execution with the treatment of liquid waste from our manufacturing works as a theme]
- Implemented and still being carried out	A	- Establish an environmental risk management system
- Utilization of Information Technology was completed	A	- Development of an environmental management information system [Apply the Information Technology for acquiring and managing environmental data into environmental management]
		Contribute to the sustainable development of society through technologies and products conducive to environmental impact alleviation
- Applied product assessment to all fields	B	- Reduction of environmental impact throughout the product lifecycle
- Expanded and enhanced in fields such as consumer-oriented products	A	- Increase in providing green products
- See pages 21 to 28 for examples of this	A	
		Compliance with laws, regulations, and agreements related to the environment
- See page 19	C	- No administrative penalty, provision, etc.
- Put into effect but some divisions were on the way to furnish all items as voluntary control standards	B	- A reassessment of voluntary control standards complying with revisions and records of related laws, regulations, and agreements
		Promotion of environmental impact alleviation in production activities
- Put into effect in some divisions	C	- Further examination of problems for measuring and reducing the amounts of resources and energy input in production processes [Establishment of measures for reducing greenhouse gases based on a review of energy–saving activities]
		- Reduction in total emissions of greenhouse gases to the FY1990 level
- Underlying condition of increased greenhouse gases due to an increase in business	C	- Reduction in total waste emissions by 8% relative to FY2000 level
- Increased in FY 2005	C	- Continue to achieve zero emissions (no landfill waste disposal) and expand this activity throughout the entire group
- Achieved in all sectors but Kawasaki Shipbuilding Corporation	B	**Implementation of hazardous chemical substances reduction program**
		- 15% reduction of the total emitted amount of VOC relative to base year
- Completed the drafting of the plan and put reduction activities into practice	B	- 20% reduction of the handled amount of hazardous chemical substances relative to base year
		- Drafting of a plan for the disposal of waste containing PCBs
		Improvement of social trust based on the environment
- Carried out successfully	A	- Disclosure and enhancement of environmental data
- Fell short of reaching sufficient levels of communication	C	- Promotion of communication with shareholders
- Carried out successfully	A	[Improve the social trust with the release of *KAWASAKI REPORT 2006-Environmental and Social Responsibility*]
		- Positive cooperation in environmental activities with national and local governments

Environmental Management

Environmental Accounting

An environmental accounting for FY2005 is represented below. The graphs show yearly changes of environmental investments, environmental costs, and economic effects. The effects of reductions in environmental impact appear on page 18. We continue to promote investments as planned to prevent global warming, but since we showed a tendency toward the increase in the amounts of greenhouse gas emissions, we are examining further measures to address this.

Environmental Accounting Calculations for FY2005

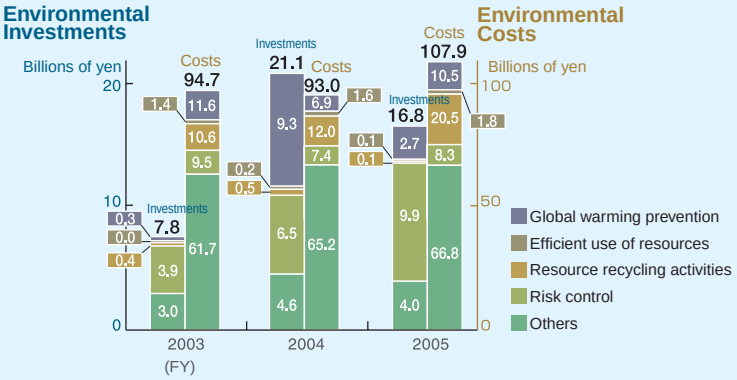
– These figures were compiled in accordance to the Environmental Accounting Guideline released by the Japanese Ministry of the Environment.
– Coverage: Kawasaki Heavy Industries, Ltd., and our three main subsidiaries. —Period: April 1, 2005 to March 31, 2006.

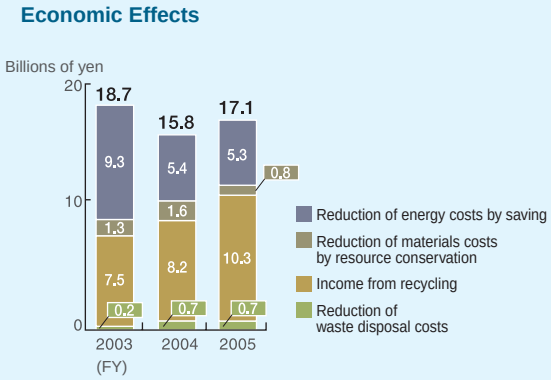
Millions of Yen

Item			Environmental Investments	Environmental Costs	Economic Effects
Business area costs	Global warming prevention (Energy conservation, reduction of greenhouse gas emissions, ozone layer protection, etc.)		267	1,046	Reduction of energy costs by saving 527
	Efficient use of resources		6	181	Reduction of materials costs by resource conservation 80
	Resource recycling activities	Resource recycling activities	10	793	Income from recycling 1,032
		Waste disposal costs	2	1,260	Reduction of waste disposal costs 73
	Risk control (pollution control, compliance measures)		995	829	——
	Subtotal		1,279	4,109	1,712
	Comparisons w / previous FY		78%	148%	108%
Upstream/downstream costs			339	3,514	0
Management activity costs			0	454	——
Research and development (R&D) costs			15	2,301 ※1	——
Social activity costs			3	161	——
Environmental damage compensation costs			41	251	——
Total			1,677 ※2	10,790	1,712
Comparison w/previous FY			80%	116%	108%

Item	Total
Total investments in FY 2005 ※3	22,648
Total R&D costs in FY 2005 ※4	11,806

Item	Proportion
Percentage of investments (Environmental investments ※2 / Total investments ※3)	7%
Percentage of R&D costs (Environmental R&D costs ※1 / Total R&D costs ※4)	19%





Environmental Impact Data

Kawasaki is taking aggressive measures toward reducing the environmental impact of our activities. In order to support these activities, we compile annual environmental impact data and officially disclose these results.

Coverage: Kawasaki Heavy Industries, Ltd., and our three main subsidiaries.

Environmental Performance Category			Unit	Environmental Impact Data (FY 2005)	Comparison w/Previous FY
Environmental Impact from Material/Energy Input		Total material input: Metals (steel, aluminum, copper, etc.)	ton	608,670	+26%
		Amount of recycled materials	ton	7,232	+8%
		Total energy consumption Electricity	TJ*	3,300	−1%
		Fuel	TJ	2,870	+14%
		Total	TJ	6,170	+6%
		Renewable energy consumption	TJ	0.159	——
		Water consumption	m^3	7,197,158	−2%
		Amount of recycled water	m^3	350,236	+70%
		Input of recycled resources and parts	ton	199	+694%
		Amount of hazardous material handled	ton	2,531	+26%
Upstream Environmental Impact		Green purchasing	¥ millions	829	−18%
Environmental Impact from Refuse Output	Emissions to Air	Greenhouse gas emissions	t-CO_2	292,902	+6.5%
		Ozone depleting substance emissions	ODP ton	0	——
		SOx emissions	ton	14.5	+6.3%
		NOx emissions	ton	199	+45.9%
		Soot and dusts emissions	ton	2.5	−2.2%
		VOCs emissions	ton	1,888	+14.3%
		PRTR regulated substance emissions	ton	1,524	+28%
		Concentration of restricted substances SOx	ppm	Compliant	——
		NOx	ppm	Compliant	——
		Dust	g/m^3N	Compliant	——
		Dioxins	ng/m^3N	Not applicable	——
		Benzene	mg/m^3N	Not applicable	——
		Noise and vibration	dB	Compliant	——
		odor	m^3/min	Compliant	——
	Emissions to Water and Soil	Total drainage	m^3	6,189,290	+80%
		PRTR regulated substance discharge	ton	2	−17%
		Eutrophication substance discharge COD	ton	17	+6.8%
		Nitrogen	ton	34	+20%
		Phosphorous	ton	1	+6.4%
		Density of emitted substances under drainage control	mg/L	Compliant	——
	Emissions of Wastes	Total amount of wastes	ton	67,033	+5.2%
		Reused resources	ton	36,870	+10%
		Recycled resources	ton	24,804	+4.6%
		Resources subject to thermal energy recovery	ton	2,583	−16%
		Incinerated wastes	ton	1,494	−26%
		Final disposal wastes	ton	1,015	−20%
		Reduction of intermediately treated wastes	ton	191	−17%
		Specially controlled industrial waste (internal figures)	ton	1,008	−1.7%
		PRTR substance transfer	ton	212	+18%
Downstream Environmental Impact		Measures to reduce environmental impact of products	——	See pages. 21 to 26	——
		Products and technologies to protect environment	——	See pages. 27 to 28	——
Environmental Impact from Transportation		CO_2 emissions during transport	t-CO_2	1,020	+26%
		NOx emissions during transport	ton	4.7	−4%
		Number of eco-vehicles introduced	units	25	−17%

*TJ: terajoules (10^{12} J)

Environmental Management

Environmental Management System (EMS)

Kawasaki is working on activities to incorporate environmental management throughout its entire Kawasaki Group. We are also working to further improve the degree of environmental management through things like improving communication with local residents, internal and external environmental auditing, and educating all of our employees in environmental issues.

Development of EMS

All the domestic production bases of Kawasaki and its main subsidiaries have acquired ISO 14001 certification. We now aim to make other bases of entire Kawasaki Group than the above develop some EMS to maintain and improve the brand value of Kawasaki.

ISO 14001 Certification Acquisition Kawasaki and its Main Subsidiaries

Internal Company			Date acquired	Registration
Kawasaki Heavy Industries	Rolling Stock & Construction Machinery Company	Rolling Stock Division	2002	LRQA
		Construction Machinery Division	2000	JICQA
		Steel Structure & Industrial Equipment Division	1999	JICQA
	Aerospace Company		2002	BSK
	Gas Turbines & Machinery Company	Gas Turbine Division	2000	LRQA
		Machinery Division	2000	NK
		Environmental Control Plant Division	1999	NK
	Consumer Products &Machinery Company		2000	DNV
Subsidiaries	Kawasaki Shipbuilding Corporation	Kobe Works	2002	NK
		Sakaide Works	2000	DNV
	Kawasaki Precision Machinery Ltd.		1998	DNV
	Kawasaki Plant Systems, Ltd.		2001	NK

As of April 1, 2006

LRQA : Lloyd's Register Quality Assurance
JICQA : JIC Quality Assurance
NK : Nippon Kaiji Kyokai (ClassNK)
BSK : Bouei Choutatsu Kiban Seibi Kyoukai (Defense Procurement Framework Establishment Association of Japan)
DNV : Det Norske Veritas

Development of EMS for Other Subsidiaries

As far as other domestic subsidiaries are concerned, 27 companies have already acquired ISO14001 certification.

The following overseas subsidiaries have already acquired the ISO14001 certification.

Subsidiaries	Country	Date acquired	Registration
Kawasaki Motors Manufacturing Corp.	USA	2003	DNV
Kawasaki Robotics, Inc.	USA	2006	DNV
Nantong COSCO KHI Ship Engineering Co., Ltd.	China	2003	DNV
Kawasaki Precision Machinery Ltd.	UK	2001	LRQA
Flutek Ltd.	Korea	2005	KMA

KMA: KMA Registrations & Assessments Inc.

Improvement of the Degree of Environmental Management through 3 Levels of Environmental Auditing

Environmental auditing is very important for confirming whether environmental activities are going according to plan and considering subsequent coping measures. We execute the three levels of environmental auditing listed below.

Environmental Auditing Systems

Environmental Management Hearings

The Environmental Management Department in our company's organization conducts hearings to follow up on the environmental management within our company and divisions.

▶ ◀

Internal Auditing

Carries out its actions within our company and divisions based on the environmental management system governed by ISO14001.

▶ ◀

External Auditing

Auditing based on the environmental management system of ISO14001 dictated by an organization registered as a third-party auditor.

Compliance with Laws & Regulations

Violations, and Accidents, during the Past 5 Years

FY	2001	2002	2003	2004	2005
Judicial/Administrative Penalties	0	0	0	0	1*
Administrative Measures	0	0	0	0	1**
Administrative Warnings	1	3	0	0	0

■ Judicial/Administrative Penalties: Punishment by judicial or administrative authorities.
■ Administrative Measures: Receiving instructions for improvements, etc., in written form.
■ Administrative Warnings: Receiving verbal directives concerning business practices.

e.g.

* A small amount of oil leakage onto the surface of the sea at Kobe Works

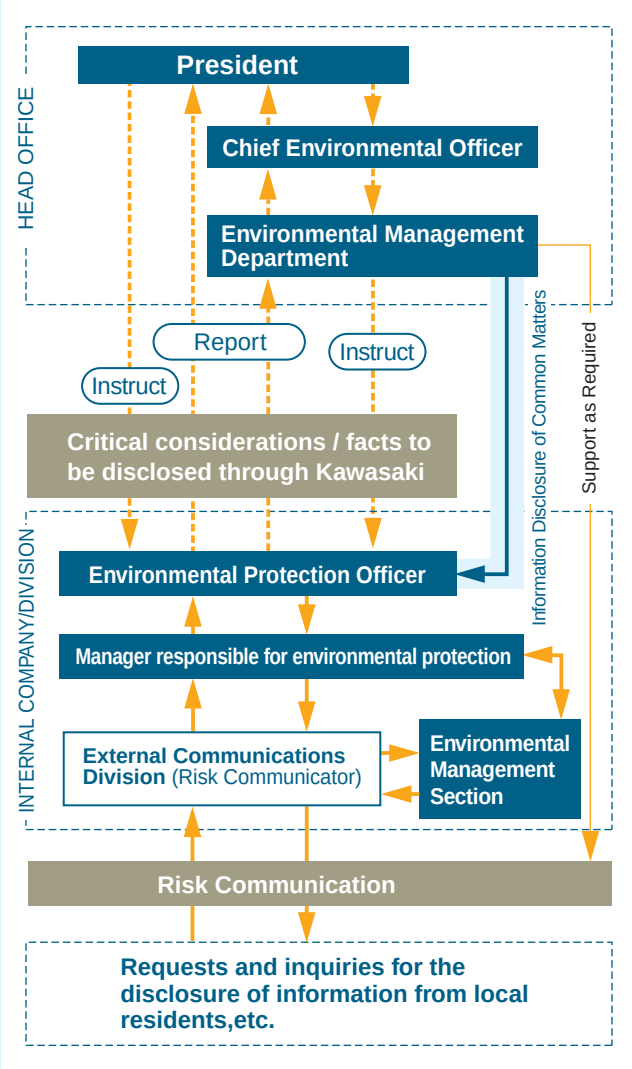
**Countermeasures against the pollution of the soil in Yachiyo Works to follow governmental directions

Risk Management

Kawasaki aggressively deals with risk management. On the environmental issues, we endeavor to prevent environmental troubles/accidents before they occur, by the activities not only based on the EMS developed in Kawasaki but additional considerations/ reviews.

We provide a risk communication system as shown below:

Risk Communication System

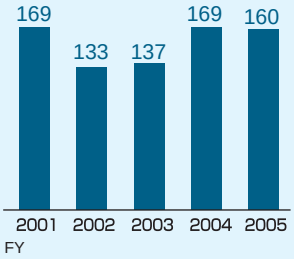


Environmental Education

Kawasaki promotes environmental education with the goal of improving environmental awareness. We also periodically hold internal environmental auditing training based on ISO 14001. In FY 2005, 160 members were newly registered and joined as ISO 14001 internal auditors.

The numbers of our other qualified managers are shown below:

Number of Newly Registered ISO auditors



Number of Qualified Pollution Control Manager

Air	81
Water	54
Noise	36
Vibration	22
Others	17
TOTAL	210

Number of Qualified Energy Managers

Heat	36
Electricity	21
TOTAL	57

Educational Activities for Environmental Awareness

Kawasaki has devoted its efforts to improve the environmental awareness of its employees by encouraging all of them to take action concerning the environment not only at work but in the community and at home as well.

We transmit to our employees the information both of outside and inside of our company which contributes to the abovementioned purpose, by various kinds of measures.

Environmental News
(released 4 times a year)

Serialized issues on the in-house magazine (published quarterly)

Environmentally Conscious Products

Endeavoring to Reduce the Environmental Impact throughout the Life Cycle of Products

Measures for the Consumer Products

Kawasaki considers the reduction of the environmental impact in the course of its business activities as an important issue. We have therefore undertaken steps to tackle the problem of reducing this throughout all stages of the life cycle of products from design and development to disposal. As an example of this, we introduce the activities of the Consumer Products & Machinery Company that produces motorcycles and the Jet Ski.®

Design and Development ► **Procuring Materials** ► **Production**

Enacting Product Assessments

During the design and development of motorcycles, we strive to improve on important areas of consideration such as cleaning exhaust gases and noise reduction. Furthermore, motorcycles by law are required to use a minimum of resources and promote recycling, so we encourage steps to achieve the 3Rs* from the stages of product design and development.

Product Assessment Regulation

We establish product assessment regulations and then conduct an assessment for each product in matters such as achieving the 3Rs, the prospects for suitable treatment and disposal, the reduction and elimination of environmental substances of concern and the disclosure of suitable information.

Basic Worksheet Used for Product Assessments

*3Rs: Reducing, Reusing, Recycling

Promoting Green Procurement

During the procurement of necessary parts and materials for the manufacture of products, we promote activities that enlist the cooperation of vendors to reduce environmental substances of concern contained in products.

Green Procurement Guidelines and Seminars

Green Procurement Guidelines

Green Procurement Seminar

Based on the Green Procurement Guidelines established in 2004, we have asked vendors to develop an EMS and report on the amount of environmental substances of concern contained in parts and materials supplied to our company, as well as pledge that parts and materials are free from substances prohibited from use and switch them to alternatives. To gain such cooperation, we have held green procurement seminars for vendors in various locations around the world.

Improvement of Production Procedures and Facilities

Along with promoting improvements in production procedures to reduce environmental impact, we also strive for the renovation toward more efficient facilities to conserve energy.

VOC* Reduction

By promoting the switchover to VOC -free powder coatings and high-solid coatings low in volatile substances, we strive to reduce use of VOC.

VOC-Free Powder Coatings

Promotion of Energy Conservation

Energy conservation is promoted through the adoption of cogeneration systems, the use of energy-saving transformers and inverter type power sources for welding machines.

*VOC: Volatile Organic Compounds

Transportation ► Use ► Recovery, Recycling and Disposal

Increasing Efficiency in Transportation and Reducing Packing Materials

In the area of product transportation, we are taking the following measures toward reducing environmental impact.

Transportation of Products to Overseas Markets

The majority of our products produced in Japan, including motorcycles, are exported and this is carried out through efficient marine transport using containers.

Reduction of Packing Materials

The domestic transport of motorcycles is carried out by truck, and this requires almost no packing materials. For shipment overseas, we promote the use of returnable pallets among most of the products and parts of our Consumer Products & Machinery Company, thereby working to reduce packing materials even further.

Returnable Pallets for Jet Ski Engines

Measuring Exhaust Gases, Noise and Improving Reliability through Quality Control

In the areas of exhaust gases and noise, together with conforming to the regulations of each country, we continue to work toward further improvement. We have developed technologies for motorcycles with the goal of conforming to the tougher exhaust gas regulations of Europe and Japan enacted from 2006. Moreover, based on the improvement of reliability with quality control, we also engage in extending the length of warranties and reducing environmental impact by lengthen the lives of our products.

Measuring Exhaust Gases

Year after year the exhaust gas restrictions for motorcycles become stricter, and we have found it difficult to respond to these using old methods. That is why we have focused on three-way catalysts, and to apply them to motorcycles, we have conducted research on their construction and intensity and optimized the air-fuel ration control, and through these efforts have succeeded in introducing three-way catalysts. As a result of their introduction, we are now able to promote efforts in cleaning exhaust gases and have succeeded in clearing strict European exhaust gas regulations from 2006.

Three-Way Catalysts

Applying the Product Recycling System

We have enacted the motorcycle and Jet Ski® recycling system as some of our autonomous environmental measures. For the Jet Ski, the FRP Boat Recycling System was constructed with seven key manufacturing enterprises including Kawasaki which is a member of the Japan Boating Industry Association and was put into effect from November 2005.
As a result of this, along with fulfilling the demands of the Extended and Shared Producer Responsibility (EPR) programs as a manufacturer, we believe this allows us to contribute to the prevention of illegal dumping of wastes.
★For details on the Motorcycle Recycling System, see page 23.

Dismantling of FRP Boats

Reducing Waste and Reducing/Eliminating the Use of Environmental Substances of Concern

Based on the adoption of easily recyclable materials for products, we have improved the ratio of recycling and tackled the reduction of waste that ends up in landfills during disposal of the product. We also strive to reduce and eliminate the use of environmental substances of concern linked to pollution of the land and water during the disposal stage.
★For details on the reduction of waste and the reduction and elimination of the use of environmental substances of concern, see pages 23 to 24.

Environmentally Conscious Products

Endeavoring to Reduce the Environmental Impact throughout the Life Cycle of Products

Measures for Motorcycles as Part of a Recycling-Based Society

The society of the future demands a shift from the present system of a society of mass production, mass consumption, and mass disposal to a recycling-based one.

To meet the requirements of such a society, Kawasaki has participated in enacting the Motorcycle Recycling System, employed 3R design, and striven to reduce environmental substances of concern.

Enacting the Motorcycle Recycling System from October 2004

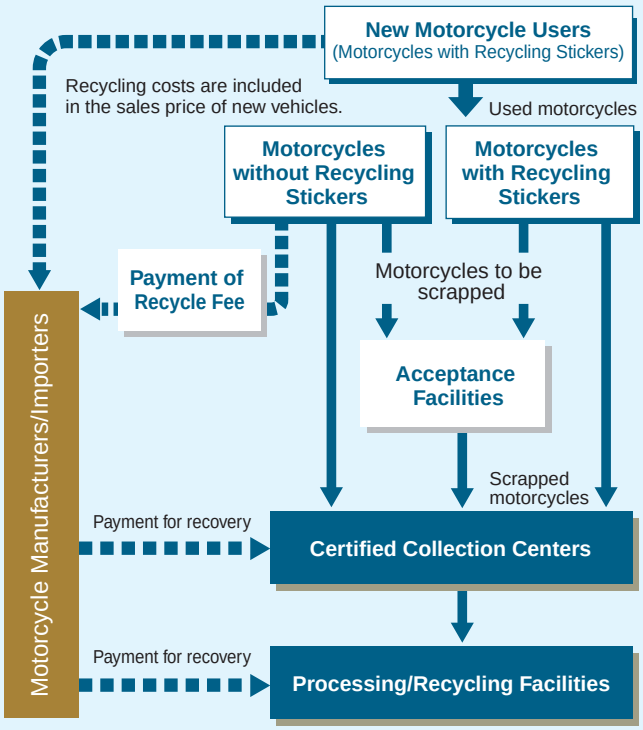
In the Motorcycle Recycling System voluntarily carried out by four domestic motorcycle manufacturers including Kawasaki which is a member of the Japan Automobile Manufacturers Association, Inc., and 12 motorcycle importers, we collect scrapped motorcycles from final owners at acceptance facilities or certified collection centers, gather these up, and carry out the appropriate recycling measures at processing/recycling facilities.

Under this system, participating manufacturers calculate the future recycling costs into the price of the motorcycle, attach a recycling sticker on the motorcycle, and sell it. But when a used motorcycle that was sold before this system started does not have this sticker attached, we require the owner of the motorcycle to incur the cost of the recycling fee.

The achieved ratio of recycling for our products from April 2005 to March 2006 reached an average of 87.2% in terms of gross weight.

Recycling Sticker for Motorcycles

Motorcycle Recycling System



Stance on 3R Design

In order to achieve a design more amenable to recycling, new models of motorcycles sold in FY2005 were manufactured to yield a ratio of recyclable materials of more than 90% relative to its gross weight.

Considering not only recycling but also the reduction of waste during disposal of the product, we adopted an aluminum monocoque frame to achieve lightweight construction for the ZZR1400 motorcycle, which began to be mass-produced from the end of FY2005. And to achieve further weight reduction, we took a second look at the body frame to achieve a slimmer construction while improving frame reinforcement.

Aluminum Monocoque Frame for the ZZR 1400 motorcycle

We have also improved the ratio of recyclable materials for products other than motorcycles such as the Jet Ski® and general-purpose gasoline engines, and design products accounting for the display of materials in parts and easy dismantling.

Working to Reduce Environmental Substances of Concern

The Consumer Products & Machinery Company has promoted the reduction and elimination of the four substances (lead, mercury, hexavalent chromium, and cadmium) that has a large environmental impact in accordance with green procurement guidelines since FY2004.

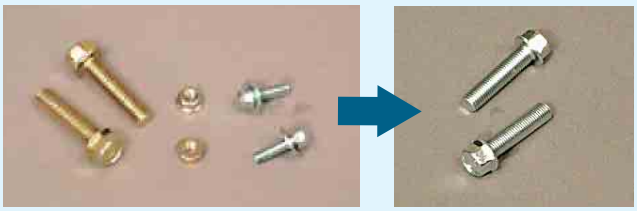
For motorcycles we completed the reduction of lead according to plan at the end of December 2005 (except for the solder of electronic boards and electric parts, as well as bearings, etc.). And for the coatings of general-purpose gasoline engines, we have begun the shift to those, which do not contain lead at the end of the FY 2005.

We have also completed the elimination of mercury in motorcycles except for the use of an infinitesimal amount in necessary parts for road safety by the end of September 2004. A trace of cadmium remains in some electric and electronic parts, but we have set targets for alternative technologies and are eliminating its use in successive models.

Hexavalent chromium is used in the surface treatment of many parts such as metal components, nuts, bolts, and the like, and poses a difficult technological problem in the development of alternative technologies, but there are prospects for alternative technologies concerning the most difficult connective functions of nuts and bolts and in the new model motorcycle ZZR1400 that went into production at the end of FY2005, we have succeeded in eliminating hexavalent chromium in connective parts. In other parts as well, we have successively extended the switchover to surface treatments free from hexavalent chromium, and we plan to eliminate hexavalent chromium in all models of motorcycles during FY2006.

In the Jet Ski®, surface coatings used for rust prevention and primer treatment on aluminum parts that both contain hexavalent chromium are also scheduled to be replaced with alternative technologies—some of which have already been introduced—and we are currently formulating the time schedule for a complete changeover.

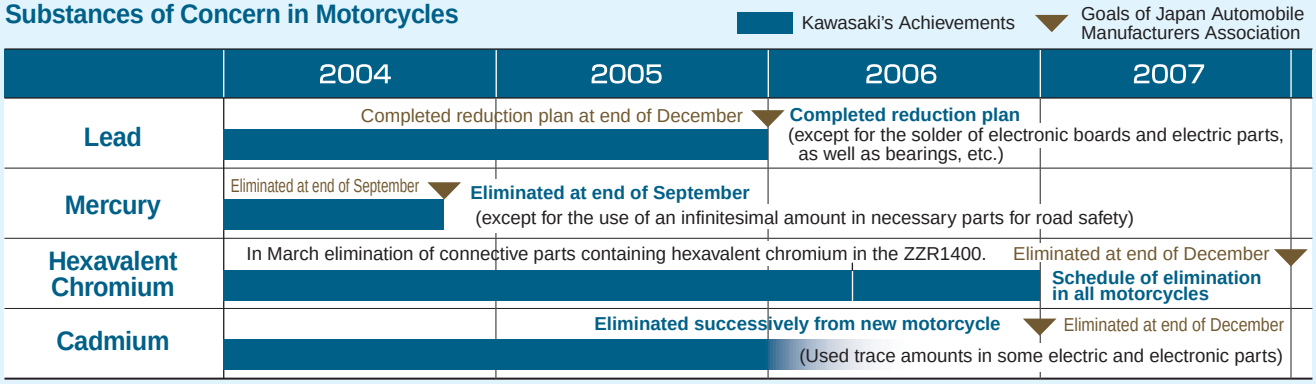
The ZZR1400 eliminated the use of connective parts containing hexavalent chromium.



Old parts
(containing hexavalent chromium)

New parts
(free from hexavalent chromium)

Schedule for Reduction and Elimination of Environmental Substances of Concern in Motorcycles



Environmentally Conscious Products

Endeavoring to Reduce the Environmental Impact throughout the Life Cycle of Products

Measures for All Products

Kawasaki is working positively toward the reduction of the environmental impact throughout the life cycles of each product in all product fields as well as the previously introduced consumer products.

Aircraft

As far as environmental measures for our aircraft are concerned, issues, which demand our immediate attention, are energy conservation and cleaning exhaust gas, etc.

We jointly develop and manufacture passenger aircraft with Boeing in the USA and Brazil's Embraer and also develop and manufacture various types of helicopters, such as the BK117, which was jointly developed with Eurocopter in Europe.

For the reduction of environmentally huzardous substances in coatings, we encourage the adoption of high-solid coatings with low solvent and the development of high-solid coatings and coatings free from hexavalent chromium meeting our original specifications.

On the other hand, since our environmentally conscious technologies in aircraft engines have been highly regarded, we continue to expand our joint development and manufacture with aircraft engine manufacturers of Europe and the USA.

The Next-Generation Passenger Aircraft Boeing 787

Boeing intends to use carbon fiber composite materials in many parts of aircraft and to reduce the amount of fuel consumption through reducing overall weights. We make the most of our fabricating technologies for carbon fiber composite materials and jointly develop and manufacture the front of the fuselage.

The TRENT 1000 Jet Engine

Kawasaki has also had a hand in the development and manufacture of the new environmentally conscious aircraft engine from U.K.'s Rolls-Royce plc. This engine is planned to be installed in the Boeing 787.

Ships

Transportation by ships is one of the best means of transportation in terms of environmental impact with small fuel consumption per unit load transported. We have an established record in the development and construction of a variety of marine vessels such as LNG carriers and LPG carriers, along with container ships, bulk carriers, crude oil tankers, and many others.

As one of our measures in reducing environmental impact, we are striving to reduce fuel consumption to begin with; therefore, we are working on technological developments to optimize hull shapes, improve the shapes of ship bows, and raise the efficiency of propellers. We have also developed a Rudder Bulb System with Fins (RBS-F) that effectively converts the rotational energy of the flow behind the propeller into propulsive force and have employed this in many ships.

As a measure against marine pollution, in Very Large Crude Oil Carriers (VLCC) we employ a double-hull construction for the fuel oil tank similar to that of cargo oil tanks to prevent oil leaks in the event of accidents.

For installed engines, we have developed an electronically controlled marine diesel engine that is designed to reduce environmental impact in addition to innovatively improving operative functions.

Additionally, we have participated in the development of the Super Marine Gas Turbine which will be installed as the main engine in the next-generation coastal ships arising from the Super Eco-Ship project promoted by the Ministry of Land, Infrastructure, and Transport. This turbine has helped achieve reductions in fuel consumption by 30% and reduce pollutants such as NOx.

Environmental Considerations for the VLCC *KATSURAGISAN*

The fuel oil tank, as with the cargo oil tank, has a double-hull construction. It also is installed with the RBS-F as a measure to reduce energy consumption.

Electronically Controlled Marine Diesel Engine

This engine reduces fuel consumption, curtails the amount of cylinder lubrication oil, and significantly reduces the amounts of NOx as well as soot and dust in exhaust gas.

Rolling Stock

Rolling stock contributes to the prevention of global warming as a mode of transport that is high in energy efficiency and low in CO_2 emissions during operation. We produce a wide range of products such as Shinkansen trains, commuter trains, subway cars, freight cars, and locomotives.

When one looks at the environmental impact of rolling stock throughout its life cycle, the greatest impact is based on the consumption of energy during operation, and accordingly the reduction of environmental impact here becomes an important point. We therefore work toward technological cooperation with our customers and adopt technologies such as improving motor efficiency, regenerating electricity during braking, reducing the weight of car bodies, and creating car shapes with little air resistance in order to achieve high energy efficiency for rolling stock.

We are also adopting various environmental measures such as promoting the use of recycled aluminum to conserve resources, the use of coatings free from heavy metals to reduce environmental impact when cars are decommissioned, and selecting materials and constructions amenable to recycling. Moreover, we work to take the local environment into consideration with low-noise car design that makes the best use of aerodynamic technologies.

China EMU* (Adopting Coatings free from Heavy Metals)

We promote the adoption of coatings that do not contain heavy metals (hexavalent chromium, lead, etc.) which were contained in coatings for rolling stock up till now.

*EMU: Electric Multiple Unit

Industrial Plants and Equipment

In field of the industrial plants and equipment, the development of energy-efficient products is crucial.

Industrial plants: We are developing fluidized bed advanced cement kiln systems to making energy-efficient cement plants.

Gas and steam turbines: We work to improve efficiency, naturally, and reduce the consumption of material resources by making these more compact, lighter, and more durable.

Industrial robots: We are promoting the production of robots that are useful to the reduction of environmental impact, such as the Friction Spot Joining (FSJ) robot.

Hydraulic pumps: In addition to undertaking efforts to make these products highly efficient, more compact, and lighter, we promote the application of bio-degradable hydraulic fluid to eliminate environmental pollution on account of oil leaks.

Friction Spot Joining (FSJ) Robot

This machine performs spot joining of light metals like aluminum. Using frictional heat, it softens the joining spots of components and joins together. Compared to the conventional method of resistance spot welding, it reduces the consumption of electric power by more than 1/20.

Social Infrastructure

As part of our products for social infrastructure, we offer civil engineering/construction machinery and steel structures.

The shield tunneling machine, one product of civil engineering machinery, moves in the ground while excavating the required diameter tunnel, has high work efficiency and reduces environmental impact on the surrounding environment in comparison with conventional cut-and-cover tunneling method.

Furthermore, we have developed the DSR* construction method to increase performance in the reduction of environmental impact.

In construction machinery, we are engaged in the reduction of fuel consumption, cleaning exhaust gases, and reducing noise. Among these, with the adoption of the electronically controlled engine in the wheel loader, we have realized the reduction of NOx and particulate matter in exhaust gases along with the reduction of fuel consumption.

As far as steel structures go, we manufacture steel bridges, steel frames used in high-rise buildings, and LNG tanks; and in the field of steel bridge construction, we employ atmospheric corrosion resisting steel components for bridge girders to expand construction methods free from chemical substances by completely eliminating the use of coatings.

Reusable Internal Parts in the Shield Tunneling Machine

A good portion of the internal shell of the shield tunneling machine which was not reused after the completion of construction until now can be extracted, and it is called the DSR construction method that allows approximately 90% of its built-in parts to be reused.

*DSR: Draw a Shield for Recycle System

Environmentally Conscious Products

Environmental Protection Products and Technologies

Along with tackling the reduction of the environmental impact throughout the life cycle of products, Kawasaki is also developing products and technologies that actively improve and preserve the environment. Through these products and technologies we aim to contribute to the realization of a sustainable society.

Energy Facilities

In an age in which humankind can no longer avoid the issue of reducing CO_2 emissions, the promotion of the highly efficient use of energy, the utilization of waste energy and the use of renewable energy are just some of the measures society will have to take.

We have developed and supplied technology like the high-efficiency combined cycle power plant (CCPP) that combines gas turbines and steam turbines, of which the latter runs on the waste heat of the gas turbine and the gas turbine cogeneration system that effectively uses the waste heat of the gas turbine.

We also are giving high priority to developing technologies that efficiently use waste energy and market products such as a waste heat recovery boiler, a cement plant waste heat power generation system that uses the waste heat recovery boiler, and a top-pressure recovery plant for blast furnaces that recover the internal pressure of blast furnaces and generate electricity.

In the area of renewable energies, we also provide wind turbine generation systems, photovoltaic systems, geothermal generation systems, and woody biomass power generation systems.

As for technologies that increase the efficiency of energy utilization, we supply ice storage cooling systems that efficiently use nighttime electricity and the optimization and diagnosis of industrial energy system that optimizes the efficiency of energy utilization throughout factories.

Our lineup of technologies that hold great potential in the future include the Gigacell (see pages 9 to 10 for further details) and liquid H_2 transport and storage technology that will accommodate the coming hydrogen society of the future.

Winner of the Japan Cogeneration Center Chairman's Prize

The cogeneration system supplied to Fuji Electric Device Technology Co., Ltd., was evaluated highly for its many features such as its energy-saving technology and received the prize mentioned above.

Woody Biomass Power Generation Systems

This system converts wood chips and thinned wood, etc. into gas to generate electricity with high efficiency. These timber resources are referred to as woody biomass and are a form of renewable energy sources that is CO_2 neutral.

Air Pollution Control

During this era in which acid rain has been observed around the country and the increase of instances of air pollution from the photochemical oxidants and suspended particulate matter has been reported, air pollution control continues to be an ever-more pressing issue.

We have dedicated ourselves to producing De-NOx/De-SOx plant and dust collector for flue gases from boilers, etc., since the 1970s, and we have subsequently continued to improve those technologies. Additionally, we have completed low-NOx gas turbine generation systems, low-NOx coal-burning boilers, and low-NOx heavy oil burning boilers from our research and development activities concerning low-NOx combustion technologies for various conventional products.

Low-NOx Gas Turbine Generation System

Through the adoption of catalytic combustion in gas turbine generation systems, NOx emission is reduced below 1/10 (not in excess of 2.5 ppm) of that of conventional systems (lean premixed combustion).

Waste Treatment and Recycling

Promoting the material and thermal recycling of waste, continuing the pursuit of other activities to reduce the final disposal waste, and making hazardous substances innocuous have become leading social imperatives these days.

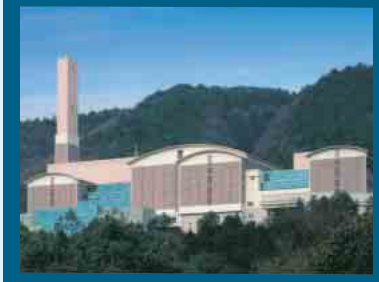
We have intensified the research and development of technologies for the incineration and gasification of wastes to construct high-performance refuse incineration systems (stoker-type furnace, fluidized bed furnace) and refuse gasification and melting systems (fluidized bed gasification and melting furnace, shaft gasification and melting furnace) and then supplied these various locations in Japan.

Further, we also supply a refuse derived fuel (RDF) production system and RDF-burning power generation system which used in concert generate power by processing and burning domestic waste, and kraft recovery boilers.

We provide equipment that removes and thermally decomposes harmful substances like dioxins in flue gas and flying ash for refuse incineration and gasification systems.

Other related products we supply include bulky waste crushing and recycling systems, utilization systems for fly ash and coal ash, fermenting-gasification systems and composting systems for organic wastes and melt-state polymerization systems for chemical recycling of pet bottles. Moreover, we also proceed to research and develop treatment technologies for waste containing hazardous substances that are hard to decompose like PCBs and asbestos.

Refuse Incineration Systems (Stoker-type Furnaces)



Achievement of even higher efficiency in power generation and greater reduction in environmental impact is made possible through the development of the advanced stoker system. Melting systems make it possible to convert ash into slag for effective use as construction material.

Kraft Recovery Boilers

Along with burning the industrial effluents (black liquor) discharged during the production of pulp in paper mills and utilizing the heat efficiently, these enable the recovery and reuse of soda used as a solvent.

Water and Soil Pollution Control

While measures to prevent the pollution of rivers, lakes and the sea have improved, they are still not sufficient. Society has now reached the point where we all must take full measures hereon out to confront the issue of soil pollution.

In the area of sewage and sludge treatment, we have proven our technologies in high performance systems, and these have been supplied various lacation in Japan. We also supply various membrane-type water treatment systems to purify leachates and thoroughly treat drinking water.

As facilities for effectively using sludge, we supply sludge utilization systems that convert sludge into activated charcoal, fuel, and compost.

Furthermore, we have also developed a high-efficiency, on-vehicle sludge drying system that can go round several small and medium-scale sewage treatment facilities.

For decontamination of polluted soil, we continue to research and develop cleaning technologies that can decompose pollutants such as dioxins.

Systems for Purifying Landfill Leachates

We create systems to remove organic matter and heavy metals from landfill leachates. These systems have brought about secure treatment capacities and a high level of purification for treated water.

Environmentally Conscious Production

Reducing Environmental Impact during Production

In addition to producing environmentally conscious products and products useful to preserving the environment, Kawasaki is making sincere efforts to prevent global warming, conserve energy, and reduce waste materials during the manufacture of these products as well, and we strive to reduce any further impacts on the environment.

Activities to Prevent Global Warming

Global warming is believed to have been brought about by the increase in emissions of greenhouse gases such as carbon dioxide, and quelling its advance is deeply related to energy-saving activities.

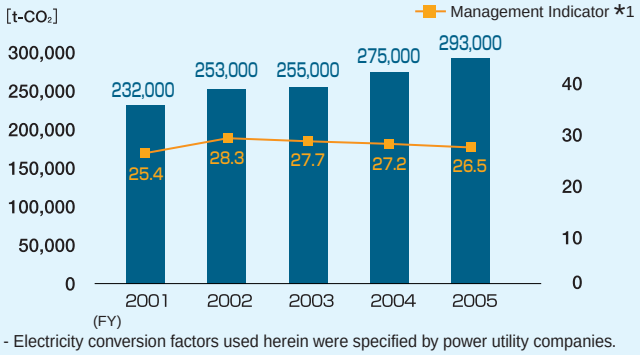
The first way our corporation contributes to these activities is by the reduction of GHG emitted when the products we provide our put to use made possible by our top-class technologies in areas such as energy conservation, and for this reason we concentrate our efforts into such activities as the development of these technologies.

Meanwhile, in working toward the reduction of GHG produced within our group during production, we have set a goal beginning in 2003 to reduce emissions by 6% of 1990's level by FY 2010, and we continue to strive for further energy conservation measures like putting cogeneration systems in operation for our Akashi and Gifu Works.

Based on events such as the increase in the amount of our corporate activities, the increase in trial operations, and unfavorable purchased electricity conversion factors (arising from stoppages at nuclear power plants), however, our GHG emissions took an upswing in spite of our efforts listed above.

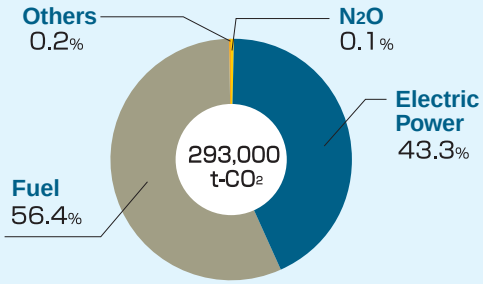
We will continue from hereon to enact our activities to reduce energy through our previously formulated conservation measures.

Amounts of Greenhouse Gas Emissions (CO_2 equivalent)



- Electricity conversion factors used herein were specified by power utility companies. (Electricity conversion factors for FY 2004 were used to compute those of 2005.)

Breakdown of Greenhouse Gas Emissions (FY2005)



Energy-Saving Activities

Parallel to our efforts to prevent global warming, we have established the four levels of activities to conserve energy shown below to make the energy conservation measures assumed by each operation more effectual. In spite of these efforts, the total amount of energy shows a similar upswing to the results concerning greenhouse gas shown on the left.

LEVEL 1 Activities to save electrical power, curtail power use, etc.

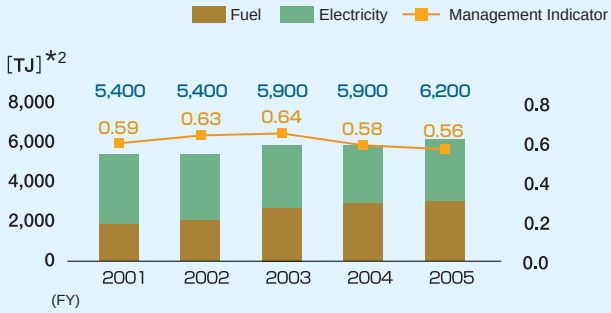
LEVEL 2 Activities to employ energy-saving operations.

LEVEL 3 Activities to renovate production facilities.

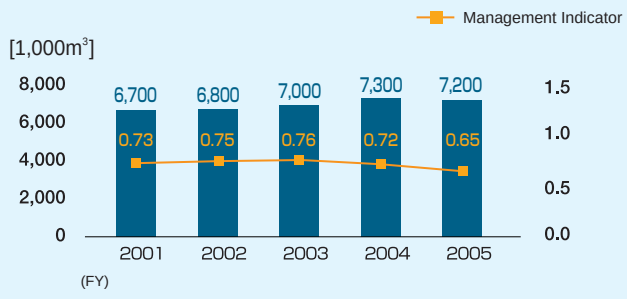
LEVEL 4 Activities to modify large-scale production facilities and production methods.

The use of water, on the other hand, has remained at the same level as a result of our efforts to reduce water usage through the prevention of leaks and recycling measures.

Total Energy Consumption



Water Consumption



*1-Management Indicator: These figures represent the respective amounts of greenhouse gas emissions, total energy consumption, and water consumption as a ratio of sales volume.

*2-TJ: terajoules (10^{12}J)

Receiving the Award in Recognition of 3R Promotion

The Kawasaki Group immediately set to work on its zero emissions activities to prevent the creation of industrial waste and was the first in the field of heavy industries in Japan to achieve zero emissions at all of its production sites. This initiative was evaluated highly and in 2005 we were awarded with the Chairman's Award in Recognition of Reduce, Reuse and Recycling Promotion from the Japan Conference for the Promotion of Reduce, Reuse and Recycling.

Waste Reduction Activities

We achieved zero emissions, a 100% rate for reusing and recycling waste generated from our works, in all of our domestic works in FY 2004. Even now we carry out the thorough sorting and recovery of wastes and maintain this system. Meanwhile, the total amount of produced waste has increased by approximately 3,300 tons compared to the previous year, mainly on account of the repercussions from the increase in our amount of business operations.

Volume of Produced and Recycled Waste

Efforts for Reducing Chemical Substances

Aiming to reduce the amounts of hazardous chemical substances handled and emitted by 2010, each works determined critical items and reduction targets and started activities necessary to achieve them.

1. Reduce emissions of main volatile organic compounds (toluene, xylene, ethel benzene) by 30%
2. Reduce emissions of dichloromethane by 50%
3. Reduce the amounts of hazardous heavy metals (lead, hexavalent chromium, cadmium) handled (30% reduction targets for hexavalent chromium and cadmium)

Total of Chemical Substance Released and Transferred (FY2005)

tons

Govt.No.	Substance	Release into Air	Release into public Water Areas	Release into Ground	Release Subtotal	Transfers to Public Sewerage	Transfers as Waste
Type 1 Designated Chemical Substances:1,000kg or more handled annually							
30	Bisphenol A	0	0	0	0	0	11
40	Ethyl benzene	280	0	0	280	0	8
43	Ethylene glycol	0.011	0	0	0.011	0	0.46
46	Ethylene diamine	0.062	0.022	0	0.084	0	1.6
63	Xylene	820	0	0	820	0	74
67	Cresol	0	0.098	0	0.098	0	0.083
68	Chromium and its trivalent compounds	0	0.039	0	0.039	0	7.8
100	Cobalt and its compounds	0	0	0	0	0	0.011
101	2-ethoxyethyl acetate	1.6	0	0	1.6	0	0.67
108	Inorganic cyan compound	0	0.0058	0	0.0058	0	0.3
145	Dichloromethane	80	0.0069	0	80	0.0002	4.4
177	Styrene	5.5	0	0	5.5	0	5.2
207	Water-soluble copper salts (excluding complex salts)	0	0.016	0	0.016	0	0.29
224	1,3,5-trimethyl benzene	2.6	0	0	2.6	0	0.081
227	Toluene	330	0	0	330	0	56
230	Lead and its compounds	0	0	0	0	0.0001	1.3
266	Phenol	0	0.0003	0	0.0003	0	4.8
283	Hydrogen fluoride and its water-soluble salts	0.29	1.2	0	1.5	0	6.4
309	Poly (oxyethelene) = Nonylphenol ether	0.086	0.0006	0	0.086	0	1.2
311	Manganese and its its compounds	0.12	0	0	0.12	0	21
Special Type 1 Designated Chemicals: 500 kg or more handled annually							
69	Hexavalent chromium compounds	0.0023	0.008	0	0.01	0	4.1
179	Dioxins (mg-TEQ)	0.0001	0	0	0.0001	0	0
232	Nickel compounds	0	0.59	0	0.59	0	3.9
299	Benzene	0.008	0	0	0.008	0	0

Coexistence with Communities

Walking Hand-in-Hand with the World Community

Kawasaki Wishes to Help Society through It's Technology and Compassion Activities for the Social Good

Contributing to Disaster Prevention and Relief

Helicopters that Assist in Emergencies and Disasters

Kawasaki helicopters are integral in medical emergencies, fire fighting, and disaster prevention in a safe and secure social network that can respond rapidly and reliably to unforeseen disasters and sudden illnesses. We continue to extend our technological know-how cultivated in the field of aeronautic transfer throughout society.

Doctor-Heli (Model: BK117 C-1)

Firefighting Helicopeter (Model: BK117 C-2)

International Relief and Rescue Support during Disasters

Relief for Hurricane Damage in the USA

To help out stricken areas and victims of the massive hurricane Katrina that caused massive destruction in America, we made contributions to the American National Red Cross and donated 12 of our utility vehicles MULE to FEMA* for use in disaster relief efforts.

*FEMA: Federal Emergency Management Agency

Assisting Earthquake Victims on Indonesia's Java Island

To assist those affected by earthquakes on Indonesia's Java Island, we made contributions to the victims by way of the Japanese Red Cross. On site, P.T. Kawasaki Motor Indonesia also made contributions to the government of Yogyakarta, donated 20 mopeds to aid in disaster relief, and repaired motorcycles and scooters through its sales offices free of charge.

Support for Rescue Work

Kawasaki made contributions when many houses were flooded by typhoon Tokage in 2004 in Japan's Hyogo Prefecture where Kawasaki's head office is located. Additionally, drawing a lesson from the damage from this typhoon, in the following year 2005 our subsidiary Kawasaki Precision Machinery Ltd. donated 7 rescue boats and 35 life vests to the local Fire Department.

Helping Victims of the Mid Niigata Earthquake

Along with contributing monetary relief to the areas and victims affected by the October 2004 Mid Niigata Earthquake, we also donated our AUTHENT 60ZV large wheel loaders to the Niigata prefectural government. These wheel loaders are widely used in various earth-moving capacities and snow removals, and they helped out greatly in reconstruction efforts in this area of heavy snowfall.

Supporting the Next Generation

Product & Technological Assistance for Technical College Students

As part of its contribution to technical education, the Society of Automotive Engineers of Japan, Inc., holds the Student Formula SAE Competition car races for technical college students. In addition to providing colleges engines and technical support, we also help operate this competition.

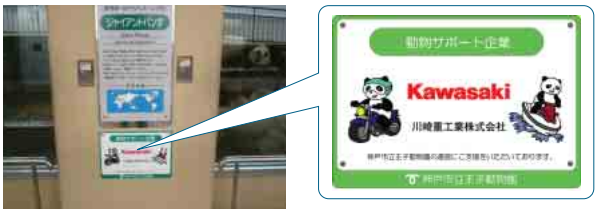
Cooperating in JICA* Trainee Intern Programs

A staff of Kawasaki helped teach JICA's *Country Focused Training Course: Industrial Environmental Control for Republic of Tunisia* and lectured on various technologies concerning environmental preservation like biomass power generation. We feel this is of significance in contributing to the nurturing of human resources that will go on to create its country's future.

*JICA: Japan International Cooperation Agency

Community Contributions

Helping Out with Local Zoos



Kawasaki supports the operation of Kobe's Oji Municipal Zoo as a corporate sponsor. We hope this zoo that opened in 1951 will continue to prosper and acquaint a wide variety of residents with the animals living here.

Inviting Local Residents to Ship Launching Ceremonies

Kawasaki invites local residents to our launching ceremonies and hope they can appreciate the emotional festivities surrounding these events. We often come across families with children and hope the ceremony that unfolds before them leaves a lasting impression on our little visitors.

Kawasaki Supports Vissel Kobe

The Vissel Kobe soccer team, where our main offices are also located. Kawasaki and the team's local fans supports this team that prizes its followers and has become an integral part of the local community.

Local Community Cleanup Activities

Our employees and their families voluntarily participate in clean-up activities in the surrounding neighborhoods. When these are finished, there's nothing like the exhilaration that comes from the sight of the town and seaside returned to its pristine state.

Coexistence with Communities

The Birth of Our Corporate Museum: Kawasaki Good Times World

A World of Experience Awaits You

The Kawasaki Group was born in Kobe and has continued to provide the world with its latest technologies that encompass the land, sea, and air in fields beginning with shipbuilding and expanding to rolling stock and aircraft. The corporate museum Kawasaki Good Times World opened its doors in May 2006. It introduces visitors to our history of over a century devoted to our spirit of in manufacturing, our popular products that have played important roles over the decades, and our new endeavors in cutting-edge technology as we look to the future. This museum is located inside the Kobe Maritime Museum in Kobe's Meriken Park. It's large venue is approximately 2,000m^2 wide allowing you to take in all the wonder of our technology and the importance of manufacturing exhibited in our various products and the powerful images projected on a massive screen to help you learn about our company and have a good time.

1 Welcome Gate

A megascreen dynamically displaying Kawasaki products welcomes you to Kawasaki World.

2 Meet the Founders Area

Introducing Kawasaki founder Shozo Kawasaki and the first president, Kojiro Matsukata.

3 History Area

This area takes you through more than a century of Kawasaki Heavy Industries Group's history—tracing its growth from a shipbuilding company into a comprehensive heavy industry leader—through photographs and models.

4 Kawasaki World Theater

Six large monitors and an impressive acoustics system bring a vast array of Kawasaki products to life.

5 Motorcycle Gallery

This showcases vintage Kawasaki motorcycles, racing models, and many others.

6 Land Zone

Visitors can explore the passenger area and cab space of the Series 0 Shinkansen.

Kawasaki Good Times World

7 Sea Zone

A triple-screen audiovisual system in the Ship Theater shows a ship being built and launched at Kawasaki Shipbuilding Corporation's Kobe Shipyard.

8 Air Zone

Board a Kawasaki-Vertol KV-107II helicopter to see the cockpit and cabin area.

9 Environment and Safety Area

View Kawasaki's innovative environmental and safety technologies, such as renewable energy sources and landmine detection and clearance systems.

10 Performing Robots

Industrial robots take on the challenge of Rubik's Cube.

For Customer Satisfaction

Our Duties and Responsibilities to Our Customers

Kawasaki always has our customers first and foremost in mind, and their satisfaction through our products is our first duty. We would like to introduce to you one such case from our Consumer Products & Machinery Company that comes into contact with many of our customers, and sells motorcycles and watercrafts as a key example of its responsibility.

We Listen Carefully to What Our Customers Have to Say

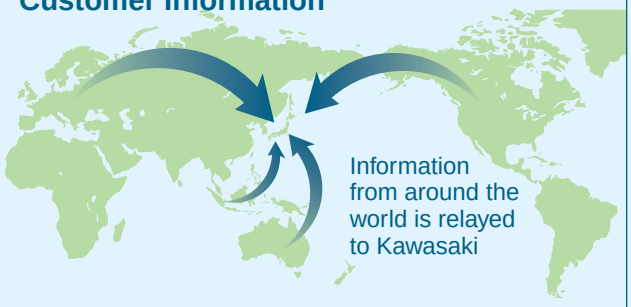
Our main mission is your satisfaction with Kawasaki's products and services.

The Consumer Products & Machinery Company has set up customer service department in our subsidiaries both domestically and overseas to field the queries, comments, and request of our customers, and we endeavor to respond to these in a prompt, appropriate, and polite manner.

Moreover, product designers and quality assurance staff visit the market to periodically hear remarks from customers and sales staff directly.

These opinions and comments regarding products are then relayed back to various production sections and aid in the development of products and improvement in service.

Flowchart for the Relay of Customer Information



Domestic and Overseas Customers

Opinions/ Requests

Domestic/Overseas Subsidiaries Customer Service Department

Riders' Club (KAZE, ROK)

Market Research Carried Out by Product Desingers and Quality Assurance Staff

Consumer Products & Machinery Company of Kawasaki

Amusement Areas for Customers

Picture a highland plain on which you encounter hundreds of Kawasaki motorcycles. Or how about a beach where you stare at Jet Ski® watercraft operating on the blue water under the rays of the sun. These are just some of the friends you would never meet in such a place and some experiences you'd never discover were it not for the assistance and activities Kawasaki performs through our Kawasaki Riders' Club KAZE (Kawasaki Amusing Zone for Everybody) in Japan and ROK (Riders of Kawasaki) in the United States.

An event organized by Japan's riders club KAZE (Okinawa)

The ROK Club Demo Ride session

Providing the Latest Information over the Internet

Kawasaki provides a various bulletins containing the latest information on our products and activities by way of its website. Along with customer services such as introductions to new products like our latest models and parts lists, we also include information regarding product recalls*

Kawasaki Motors Corp., USA Homepage (http://www.kawasaki.com/)

* Measures for Product Recalls

A manufacturer's responsibility is to work hard to avoid the occurrence of defects in products. Should some unforeseen problem arise, however, and it is deemed necessary to take measures to rectify these, we implement the following measures:

- We notify the appropriate authorities of that particular country.
- We notify our customers.
- We perform recall on all eligible units free of charge.

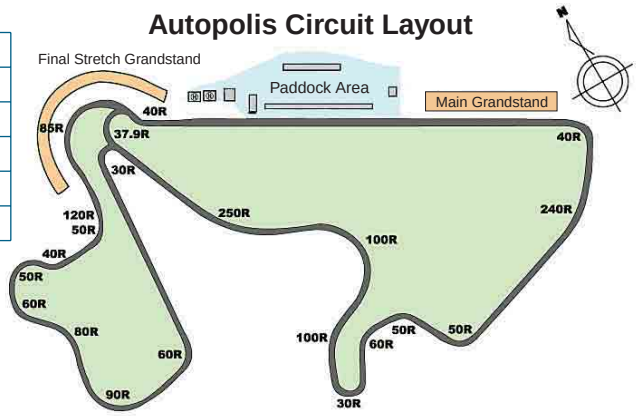
Course Specifications

Total Course Length	4,675m
Course Width	12 to 15m
Maximum Straight-Away	902m
Maximum Vertical Incline	7.2% ascent/10% descent
Maximum Traversal Incline	3%
Maximum Difference of Elevation	52 m

Autopolis Circuit (Hida City, Oita Prefecture)

Kawasaki has acquired an official international racing circuit. In addition to being used as a test course, it is also serves as a motorcycle race venue of the All Japan of motorcycle races as well as a venue for motor sports events geared to amateur enthusiasts.

Autopolis Circuit Layout



Quality Assurance in Customer Relations

Based on the belief that the reputation of our business and image of our brand is established on the esteem with which our customers hold us, we in the Consumer Products & Machinery Company work hard to incorporate the need of our customers into product planning, and along with enforcing quality assurance in the various steps of development (design and testing), procuring parts, and manufacturing and inspecting products, we endeavor to ensure the highest quality in customer relations in areas such as customer service. Moreover, we are always including regulated specifications into the production process to create products you the customer can feel secure with and safely use.

Kawasaki's Quality Assurance System

Interview with European Consumers

The various needs of our customers are incorporated into our products.

Test run on Autopolis Circuit

Product Planning

Customer's Voice

We provide our customers in a timely manner with technical information and the supply of spare parts as after-service.

Customer Service

Speedy and Appropriate Response to Customers

Development (Design, Testing)

Testing, Evaluation → Improvement

In the various stages of development, we conduct rigorous tests and design reviews to realize a product with a greater degree of completion.

Aiming for further Quality Improvement

Motorcycle inspection line

Motorcycle assembly line

Manufacturing /Inspection

During the various processes of painting and assembly, we manufacture our products based on operation standards and quality control according to production plan.

Thorough Quality Control

Parts Procurement

Ensuring Quality Control and Further Improvement of Quality

To ensure the quality of procured parts, we audit and direct our suppliers.

Parts improvements forum among Thailand suppliers

●We continuously circumnavigate these steps shown above in our endeavors for further product improvement.

For Employee Welfare

Creating an Enthusiastic Work Environment

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

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

System for Fostering the Next Generation

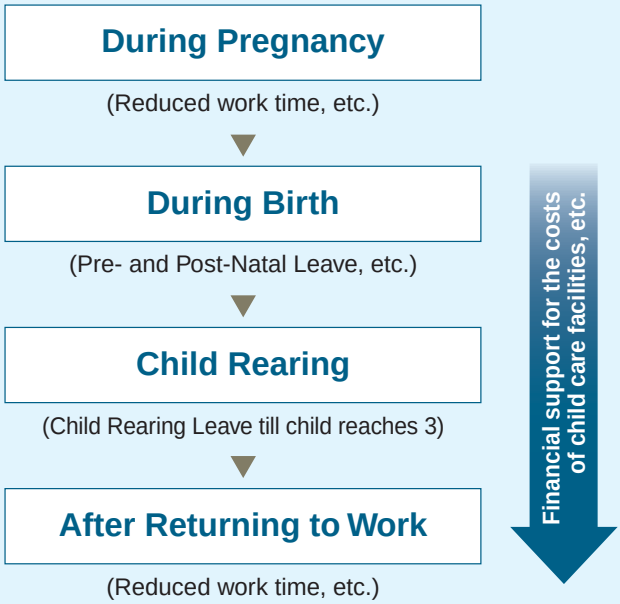
This system aims to allow our employees to return to work after going through pregnancy, birth, and child rearing, as well as to continue to work actively as they balance the demands of work and child rearing through the assistance its various programs provide.

This system has programs that for pre- and post-natal leave, leave for child rearing, and shortened work schedules. The period of leave for child rearing used to be until the child reached the age of one, but now we have extended it until the child reaches three years of age.

Kawasaki has considered and enriched programs that allow both female and male employees raising children to receive child rearing leave and subsequently return to work and freely demonstrate their abilities.

Moreover, we also provide financial assistance to cover part of the costs of social services, such as day-care nurseries, day-care centers, baby sitters, and home helpers.

Child Support Assistance and It's Use at Various Stages



Increasing Opportunities to Work for Senior Citizens

In Japan the system of lifetime employment in which you continue to work for a single company immediately after you graduate from school until the time you reach so-called retirement is common, and this labor force that is diligent and stable has supported the economic growth of Japan's corporations and the country itself.

When those people who work for a corporation reach the age of retirement, they are expected to retire, but as the average life expectancy has increased, there is a tendency toward an increase in people who wish to continue working even after retirement.

Based on these circumstances and the amendments of laws concerning retirement that directs the institutionalization of a retirement age of 65 by the year 2015, Kawasaki has revised its regulations to increase opportunities to continue work for those employees who have the desire to work beyond the mandatory age of retirement, which used to be 60 years of age.

In response to these labor regulations, we have set up two systems—one that puts a gradual extension of the retirement age into effect and the other that allows for reemployment after retirement. These establish means of employment that consider the wishes of the employee and the needs of the company to allow those who so desire to keep on working. The retirement-age extension system is scheduled to put the age of 65 into effect in a few years.

Meanwhile, we have set up a work-net section within our company that facilitates the activities of the more seasoned staff to line them up with suitable positions in line with their abilities. Because Kawasaki believes that a work environment in which all employees can work with peace of mind, is what helps our employees enhance their various abilities and further leads to a desire to work and live life to its fullest.

Making the Workplace Safer and Healthier

Kawasaki has proclaimed that protecting the safety and health of our employees comes first, and we aim to promote the creation of a healthy workplace and foster various activities in safety management and health management to bring this about.

Safety Management Activities

- Review committees for promoting the application of our safety management systems are held throughout our group in which members discuss current issues in safety management and subsequent measures to ameliorate or improve these and work toward improving safety and hygiene standards.

- Aspiring to create a disciplined work place based on observance of the fundamental rules of safety, encourage thorough check procedures through voice and signal checks at production sites, and further enhance the appreciation of dangerous and harmful practices, every one of our employees voluntarily participates in safety procedures. Employees are also active in creating a work environment that practices mutual regard to ensure everyone's safety.

- We have also asked the Japan Industrial Safety and Health Association, a juridical entity that evaluates safety, to have their safety inspectors patrol our sites from 2005. With the fresh suggestions and indications of these outside parties, we steadily improved the safety management of our business sites, and we continue to try to improve on our patrol procedures even further this year.

Safety patrols carried out by third-party safety inspectors

Health Management Activities

- Health seminars are held as part of our Total Health Promotion program include the challenge to quit smoking classroom, improving your Health Habits seminar, seminar on reducing blood sugar, and dental health study group, which Kawasaki provides to promote health care for our employees.

Lecture on dental hygiene presented by a dentist

Instruction in brushing techniques carried out by dentists and dental hygienists

- Stress levels for each employee are measured during periodic physical check-ups and they receive individual counseling from an industrial medicine specialist.

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

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

- On a trial basis, pepsinogen tests (blood tests) are administered for the purpose of detecting stomach cancer in its early stages, and we plan to establish a stomach examination system used in concert with the pepsinogen tests.

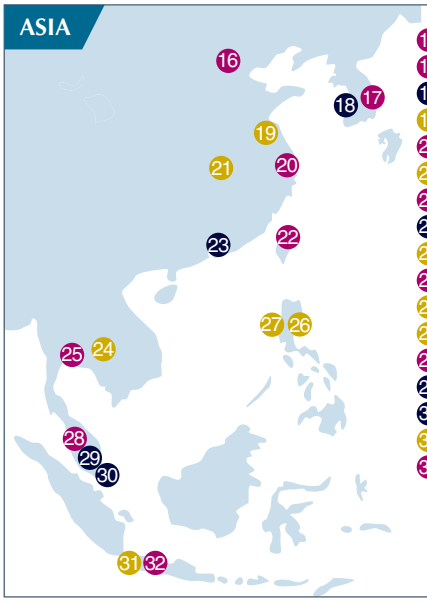
GLOBAL NETWORK

● Overseas offices ● Overseas Subsidiaries and Affiliates (sales centers) ● Overseas Subsidiaries and Affiliates (production sites)

EUROPE

1. Kawasaki Motors Europe N.V. (KME)
2. KME Sweden Branch
3. Kawasaki Robotics (U.K.) Ltd.
4. KME U.K. Branch
5. Kawasaki Heavy Industries (U.K.) Ltd.
6. Kawasaki Precision Machinery (U.K.) Limited
7. Kawasaki Robotics G.m.b.H
8. Kawasaki Heavy Industries (Europe) B.V.
9. KHI Europe Finance B.V.
10. KME Benelux Branch
11. KME France Branch
12. KME Germany Branch
13. Kawasaki Gas Turbine Europe G.m.b.H
14. KME Italy Branch
15. KME Spain Branch

ASIA

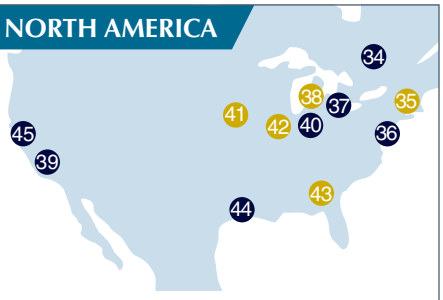


16. Beijing Offices
17. Seoul Offices
18. Kawasaki Machine Systems Korea, Ltd.
19. Nantong COSCO KHI Ship Engineering Co., Ltd.
20. Shanghai Offices
21. Wuhan Kawasaki Marine Machinery Co., Ltd.
22. Taipei Offices
23. Kawasaki Heavy Industries (H.K.) Ltd.
24. Kawasaki Motors Enterprise (Thailand) Co., Ltd.
25. Bangkok Offices
26. KHI Design & Technical Service Inc.
27. Kawasaki Motors (Phils.) Corporation
28. Kuala Lumpur Offices
29. Kawasaki Gas Turbine Asia
30. Kawasaki Heavy Industries (Singapore) Pte. Ltd.
31. P.T. Kawasaki Motor Indonesia
32. Jakarta Offices

AUSTRALIA

Kawasaki Motors Pty. Ltd. 33

NORTH AMERICA



34. Canadian Kawasaki Motors Inc.
35. Kawasaki Rail Car, Inc.
36. Kawasaki Heavy Industries (U.S.A.), Inc.
37. Kawasaki Robotics (U.S.A.), Inc.
38. Kawasaki Precision Machinery (U.S.A.), Inc.
39. Kawasaki Motors Corp., U.S.A.
40. KMC Grand Rapids Office
41. Kawasaki Motors Manufacturing Corp., U.S.A. Lincoln Plant (KMM)
42. KMM Maryville Plant
43. Kawasaki Construction Machinery Corp. of America
44. KHI (U.S.A.) Houston Branch
45. Kawasaki Robotics (U.S.A.), Inc. San Jose Office

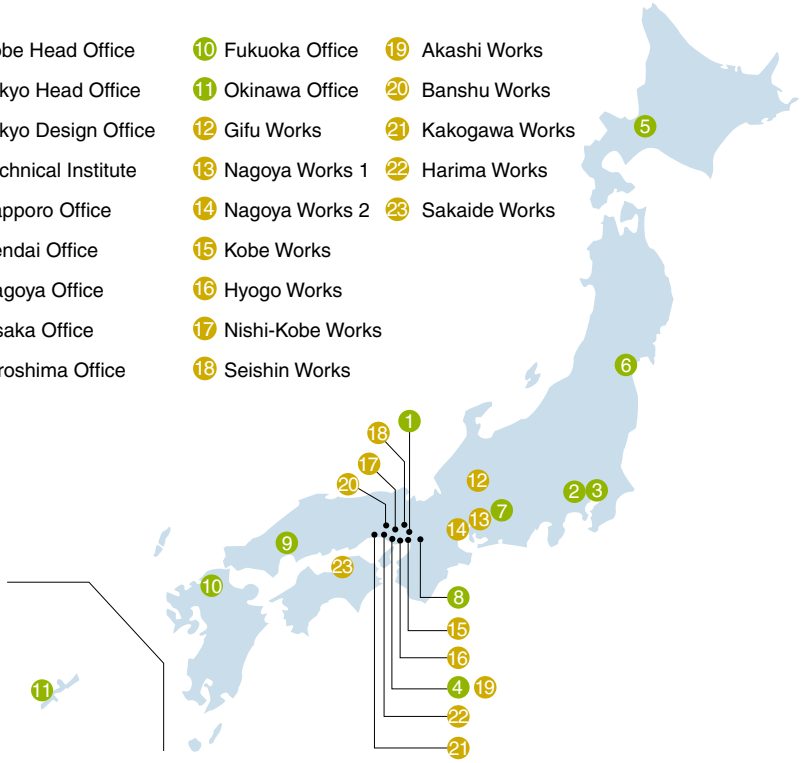
SOUTH AMERICA

Kawasaki do Brasil Indústria e Comércio Ltda. 46

DOMESTIC OFFICES AND WORKS

● Head Offices, Branch Offices, Design Offices, Technical Institute ● Works

1. Kobe Head Office
2. Tokyo Head Office
3. Tokyo Design Office
4. Technical Institute
5. Sapporo Office
6. Sendai Office
7. Nagoya Office
8. Osaka Office
9. Hiroshima Office
10. Fukuoka Office
11. Okinawa Office
12. Gifu Works
13. Nagoya Works 1
14. Nagoya Works 2
15. Kobe Works
16. Hyogo Works
17. Nishi-Kobe Works
18. Seishin Works
19. Akashi Works
20. Banshu Works
21. Kakogawa Works
22. Harima Works
23. Sakaide Works



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