

Compliance

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

We Have Established a Compliance Report and Consultation System

When employees suspect that there might be a compliance violation in their section, ordinarily, they should first report to and consult with their superiors and the related sections. However, if they suspect that their superiors or that many people in the section might be involved, they might feel that they are isolated, under pressure from those around them or otherwise in a difficult position that makes them wary or afraid to use in-house reporting or consultation. For such situations, we established our Compliance Report and Consultation System.

In this system, an external lawyer consults directly with the people who come to him and listens to their reports. Moreover, with the name of the person who came for consultation kept secret, the situation is reported to the CSR Department (secretariat). The CSR Department investigates the situation to determine whether or not there is a violation and decides future measures in response. The external lawyer conveys this directly to the person who came for the consultation.

In order to allow our employees to use this system effectively, we make them aware of how to use it and post the results of its use through numerous means, including articles in the Compliance Guidebook that we distribute, in-house intranet notice boards and in-house magazines. In FY2009, there were 14 cases of reporting and consultation.

In 2009, We Conducted Harassment Training

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

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

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

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



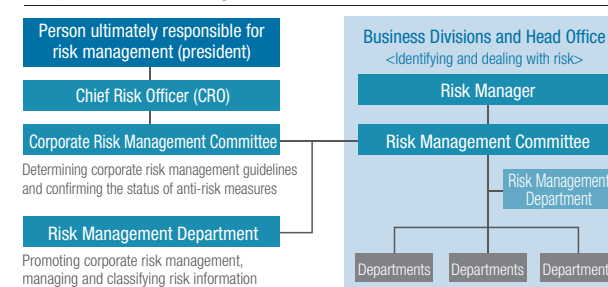
Risk Management and Crisis Management

We strive to prevent risk, and if it surfaces, to put a halt to any possible damage and keep it to a minimum.

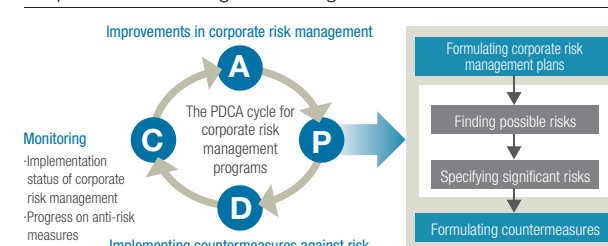
Risk Management

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

Corporate Risk Management Structure



Corporate Risk Management Programs



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

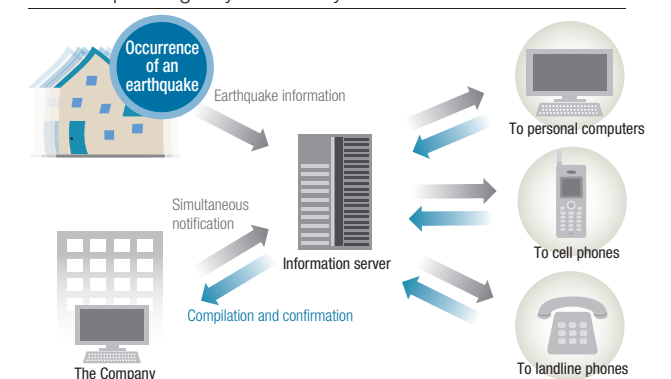
Crisis Management

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

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

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

KHI Group Emergency Contact System



Communication with Shareholders and Investors

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

Meeting of Shareholders

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

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

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

* The 187th Ordinary Meeting of Shareholders regarding the fiscal year ended March 2010 was held on June 25, 2010 in the city of Kobe. Approximately 680 shareholders attended and enthusiastically exchanged opinions.

* At this year's Meeting of Shareholders, we set up panel displays in the lobby to explain our Medium-term Business Plan and Kawasaki Business Vision 2020, which were formulated in April 2010, and we answered questions from many of our shareholders.



Distribution of Dividends

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

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

Change of Consolidated Net Income (Loss) and Annual Dividends per Share

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

IR Efforts (Information Disclosure)

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

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

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

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

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



The Group's website: "Investor Relations"

Relations with Business Partners

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



Fair Dealings and Building Relationships of Trust

In November 1999, the Group enacted Action Guidelines for Persons Involved in Procurement, and all persons involved in procurement strive to act with self-awareness and good faith as well as maintaining fair and sincere relationships with business partners as they carry out their duties.

These Guidelines are prominently displayed in every Division, and have become a "compass" for daily procurement operations.



Action Guidelines for Persons Involved in Procurement

Promotion of CSR Procurement

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

<Green Procurement>

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

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



Green Procurement Guidelines

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

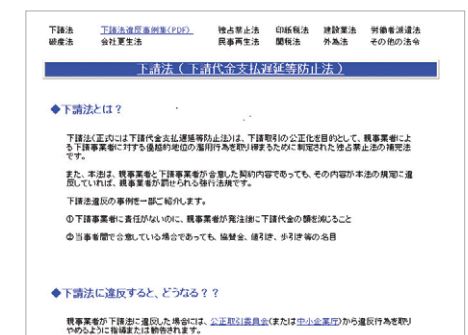
Stressing the Importance of Compliance

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

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

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

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



Internal website: Subcontracting Act, top screen