

# Message from the Top Management



# We will press forward toward the goal of further increasing corporate value.

I am Shigeru Murayama, the new representative director and president of Kawasaki Heavy Industries, Ltd. I was appointed at a meeting of the Board of Directors following approval by our shareholders at the 190th Ordinary General Meeting of Shareholders held on June 26, 2013.

Before proceeding, as the newly appointed president, I wish to address our stakeholders with an explanation on recent events.

As you will no doubt have already heard in the media, an extraordinary meeting of the Board of Directors held on June 13, 2013, voted to relieve three directors of their positions as president, senior executive vice president, and senior vice president, respectively.

Further, the same meeting of the Board of Directors resolved officially to terminate negotiations on management integration with Mitsui Engineering & Shipbuilding Co., Ltd., and resolved to introduce a new management team with me as president.

This situation came about after the three directors in question attempted to implement executive measures in opposition to the views of the majority of directors and acted generally without due regard for the Board of Directors. For this and related reasons, the Board of Directors was forced to conclude that, from the perspective of corporate governance and compliance, the directors in question were not qualified to bear the core responsibility for the management of KHI.

I wish to express my greatest gratitude to stakeholders for your patience and understanding toward this recent series of decisions made by our corporate organs, which may have caused certain distress and concern. At the same time, I hope that we can rely on your continued support as we focus ongoing efforts on the management of Group operations going forward.

August 2013  
President



## Fiscal 2013 Business Results

During fiscal 2013, ended March 31, 2013, the world economy saw growth held to modest levels overall under the impact of slackening growth in the Chinese economy and other signs of a deceleration in the emerging economies that had hitherto been its driving force. On the domestic front, although progress was made with recovery from the Great East Japan Earthquake, fears of a downturn in the world economy contributed to overall continuing instability.

Against this economic background, the KHI Group achieved an overall increase in the consolidated value of orders for the fiscal year under review, with growth notably in the Ship & Offshore Structure and Rolling Stock segments making up for decreases in the Precision Machinery segment and elsewhere. Net sales in the Precision Machinery segment were impacted by China's economic slowdown and also fell in the Ship & Offshore Structure segment, but thanks to increases in the Aerospace segment and other areas, the overall figure equaled that of the previous fiscal year. Operating

income showed improvements thanks to the increased net sales in the Aerospace, the Motorcycle & Engine and other segments, but the overall figure decreased particularly due to a decline in the Precision Machinery and Plant & Infrastructure segments.

As a result of these movements, the consolidated value of orders for the KHI Group grew by ¥57.7 billion from the previous fiscal year to ¥1,369.5 billion. Consolidated net sales, meanwhile, decreased by ¥14.8 billion to ¥1,288.8 billion, operating income by ¥15.4 billion to ¥42.0 billion, and recurring profit\* by ¥24.2 billion to ¥39.3 billion. Nevertheless, due to a boost to extraordinary income and reduced tax expenses, net income climbed by ¥7.5 billion to ¥30.8 billion.

In our non-consolidated business results for fiscal 2013, the value of orders totaled ¥1,086.2 billion, net sales ¥983.9 billion, operating income ¥12.5 billion, recurring profit ¥19.4 billion, and net income ¥17.1 billion.

\*Recurring profit is used in accounting standards generally accepted in Japan. It is the sum of operating income, net interest income (expense), dividend income, and other non-operating and recurring income items.

## Fiscal 2014 Forecast

Fiscal 2014 is expected to see a background of continuing gradual growth in the world economy. The shale gas revolution in the United States has strengthened the mood of recovery, with evidence of increased energy-related demand and an improved employment situation. However, the European economy is still mired in concerns over sovereign debt issues, while in China and other emerging economies we believe that the situation needs to be watched for future trends. As for the domestic economy, in addition to the improved export environment following the reversal of the yen's appreciation, the effect of expanded investment in public works based on flexible government spending initiatives has contributed to gradual growth. Going forward, the effect of growth-oriented government policies is expected to bring an expansion in private-sector capital investment and an increase in household incomes, which in turn is expected to lead to stable growth.

Our business environment is thus showing a return to a brighter overall picture. Moving into fiscal 2014, we are

committed to making an earnest response to the dip in our business performance in fiscal 2013 by continuing with steady management of our business operations and also working on a range of measures for the realization of Kawasaki Business Vision 2020.

We come now to our fiscal 2014 forecast, for which we assume an exchange rate of ¥95 to the U.S. dollar and ¥120 to the euro. Although consolidated net sales are expected to decrease year on year in the Ship & Offshore Structure and other segments, increases are forecast in other areas including the Aerospace, Rolling Stock, and Motorcycle & Engine segments, so that overall we forecast year-on-year growth of approximately ¥90.0 billion in net sales to ¥1,380.0 billion. On the profit front, by continuing with a range of profit-boosting measures across all operations, including continuation of the vigorous efforts made so far to reduce fixed costs and other expenses and to improve productivity, we forecast consolidated results of ¥60.0 billion for operating income, ¥53.0 billion for recurring profit, and ¥34.0 billion for net income.

## Management Policy

In the spirit of our Group Mission—"Kawasaki, working as one for the good of the planet"—the KHI Group aspires to be a business group that is equipped with advanced and comprehensive technological capabilities in a broad range of sectors, allowing us to work in harmony with the global environment to create new value to help achieve a bright and prosperous future society.

To work toward the realization of this Group Mission, the KHI Group has formulated a long-term vision—Kawasaki Business Vision 2020—and a concrete implementation

strategy in the form of a medium-term business plan. To give the vision and the business plan a reliable prospect of success, it is essential that we achieve an increase in corporate value to maintain and strengthen the cycle of business development and profit return. In common with the rest of the management team, I understand it as our task to achieve this.

### KHI Group Mission

**Kawasaki, working as one for the good of the planet**

#### Target profile

A company that provides products and services suited to the diverse needs of people around the world through advanced technological capabilities in three principal business sectors: Land, Sea, and Air Transportation Systems, Energy & Environmental Engineering, and Industrial Equipment

#### Transportation Systems

##### Profitability and investment for growth

An enterprise with a high level of profitability based on a strong ability to adapt to changes in the business environment and ongoing investment for future growth

##### Global business development and emphasis on *monozukuri* (manufacturing)

A company that upgrades plants in Japan and actively pursues business development overseas

##### Coexistence and co-prosperity with society

An enterprise that contributes continuously to resolving social issues and meeting stakeholder expectations through its business operations

##### Improvement of the global environment

A company that creates products that incorporate the ultimate in low environmental impact technologies in each business sector

##### Workplace environment development

A company whose employees have hopes and dreams and work with vigor and enthusiasm

## 1. New Medium-term Business Plan “MTBP 2013” and Kawasaki Business Vision 2020

Our Medium-term Business Plan 2010, which we launched in fiscal 2011, concluded in fiscal 2013. In response, the KHI Group announced in April 2013 a new three-year medium-term business plan—MTBP 2013—to start from April 2013. MTBP 2013 sets out a range of initiatives designed not only to maintain the KHI Group’s sustainable growth, but also to outline in more concrete terms the roadmap to achieve Kawasaki Business Vision 2020. The plan sets the following numerical targets for our consolidated results in fiscal 2016, its final year: net sales of ¥1,600.0 billion, operating income of ¥90.0 billion, recurring profit of ¥85.0 billion, and return on invested capital (ROIC) of 11%.

MTBP 2013 and its underpinning Kawasaki Business Vision 2020 express the fundamental approach that we in the recently formed management team intend to follow. We also intend to adhere without deviation to the business policies and numerical targets adopted for each business segment. Our main focus, however, will be on achieving a profit increase rather than an expansion of scale, with foremost priority given to boosting ROIC, and emphasis also on profit figures and profit margin.

Specifically, by the end of fiscal 2014, we intend to have outlined a business portfolio to ensure that we achieve our recurring profit target of ¥85.0 billion for fiscal 2016, the final year of MTBP 2013. This will lay the basis for rapid realization of the recurring profit level of at least ¥100.0 billion envisaged in Kawasaki Business Vision 2020.

### ● Consolidated targets and forecasts (Billions of yen)

	FY2013 (Actual)	FY2014 (Forecast)	FY2016 (Target)
Net sales	1,288.8	1,380.0	1,600.0
Operating income (Ratio to net sales)	42.0 3.3%	60.0 4.3%	90.0 5.6%
Recurring profit (Ratio to net sales)	39.3 3.0%	53.0 3.8%	85.0 5.3%

Net debt/equity ratio	131.9%	130%	110%
Equity ratio	23.0%	22.1%	23.4%

Before tax ROIC	FY2013 (Actual)	FY2014 (Forecast)	FY2016 (Target)
Ship & Offshore Structure	17.3%	0.0%	10.0%
Rolling Stock	4.6%	7.5%	15.3%
Aerospace	15.9%	12.9%	12.7%
Gas Turbine & Machinery	5.3%	4.7%	7.5%
Plant & Infrastructure	21.2%	16.0%	15.0%
Motorcycle & Engine	3.4%	3.8%	14.3%
Precision Machinery	14.0%	17.1%	26.3%
Total	6.1%	7.4%	11.0%

Assumed exchange rate	—	¥95/US\$	¥95/US\$
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## 2. Business Strategy

In terms of our concrete business strategy, we will continue to undertake innovative technology development while sustaining consistent in-house efforts to cut costs through the Kawasaki Production System (KPS) and through further development of our manufacturing capabilities. By also implementing differentiation strategies (next-generation product development, system solutions, brand strategy, and so on) adapted to each of our business operations, we aim to establish market superiority and achieve further improvements in profitability. Specifically, we will work to strengthen our core competences, with a focus on how to achieve an unbeatable competitive differentiation and build a more solid profit base.

As for our approach to the overseas market, we will build a system in which the superior technologies, manufacturing expertise, and outstanding human resources that we have accumulated at our domestic mother factories are input into the respective overseas market. In these overseas markets, taking care to limit risk, we will work together with local enterprises to secure business growth and profits. However, we do not intend to carry out reckless offshore transfer of domestic manufacturing bases in a search for low-cost labor with profit as the only criterion. The origin of our technological capabilities as a manufacturer lies in our development and manufacturing capabilities, which were of course nurtured in Japan. Our approach is therefore to work to refine technology development and manufacturing capabilities at our domestic manufacturing bases, which will act as mother factories coordinating our overseas bases.

Through initiatives of this kind, we will work to attain further development by strengthening the cycle in which the proceeds of our business operations are used for future investment and return to stakeholders.



### 3. Ensuring Quality over Quantity

We have consistently sought to approach our business operations with an emphasis on “Quality over Quantity.” Over the last few years, however, we feel that the pursuit of the net sales target envisaged in Kawasaki Business Vision 2020 may have received too much attention and not improved our financial position. This is an area that requires an earnest rethink, and we are now determined to reaffirm our commitment to an approach of “Quality over Quantity.”

We thus need to realize “Quality over Quantity”—in other words capital efficiency—and combine it with business growth potential to continuously increase corporate value; establishing a foundation on which to achieve this is the task assigned to us as the new management team. These two goals are in no sense contradictory. The surplus capacity in human resources, capital, and other operational resources that results from the pursuit of efficiency will be transferred to growth sectors, and this “Quality over Quantity” approach will be shared and implemented among all employees.

As a strategy to ensure an approach of “Quality over Quantity,” we will carry out a thorough evaluation of profitability for each product and each business unit, and clearly identify the core competence of each business and its position within our portfolio, clarifying the ideal future profile of our business portfolio. Focusing on business areas projected to have future potential, we will undertake key investment of operational resources in sectors with leading positions within the industry, or that have strong potential to reach such positions, targeting further reinforcement through new product development and mergers and acquisitions. Businesses that over a future period consistently fail to attain the expected profitability level will be subjected to comprehensive structural reform, while withdrawal from business will also be considered where future potential is judged not to exist.

To achieve results within the period of MTBP 2013 by combining capital efficiency with business growth potential, our first step will be to prioritize efficiency to generate surplus investment capacity. We hope to be able to show our stakeholders benefits from these improvements by fiscal 2015.

### 4. Strengthening Corporate Governance and Organizational Management

As approved at the general meeting of shareholders held at the end of June 2013, KHI took steps to further strengthen management oversight functions by recruiting outside directors independent of the execution of operations and appointing three independent officers, as defined by the Tokyo Stock Exchange, including outside corporate auditors. Going forward, we aim to strengthen corporate governance through sustained efforts to increase the transparency and objectivity of our management.

In our organizational management, we believe that the internal company system that we have adopted, by virtue of features such as its financial independence and devolution of powers, is suited to the format of our business, which handles a wide range of diverse products. It is generally said that the internal company system suffers from a strong centrifugal force between Head Office and the internal companies, but at KHI the Head Office is equipped with sufficient company-wide horizontal functions to counter this tendency. Additionally, our culture of openness, which encourages full and free discussion of issues regardless of organizational affiliation or professional grade and concerted effort once the decision has been taken, overcomes the disadvantages of the internal company system and is the greatest driver of organizational synergies. We will all join together in reaffirming these positive aspects of our corporate culture. Among the roles required of the Head Office under the internal company system are check functions based on management indicators and functions to support and promote business activity, all of which we aim to strengthen further.

On the employment front, to create a workplace where employees experience strong motivation and can demonstrate their full potential, we need to create strong business operations, essential to which is the securing and cultivation of outstanding human resources. By further refining our superior technological capabilities and products, and continuing to communicate their appeal, we will keep a focus on creating and maintaining quality employment opportunities as an important goal of our operations.

Going forward, we will seek to achieve an even more appropriate form of organizational management. We also intend to address the issue of creating an organizational framework and related systems that are adapted to realizing our future business portfolio.

### CSR Activities

With the aim of fulfilling our Group Mission at a higher level, the KHI Group sets itself targets from the perspective of corporate social responsibility (CSR) that are adapted to the needs of the times and current conditions.

Across the range of CSR, our activities are based on the setting of a “target profile” for each thematic area, but we also actively consult external opinion through our Dialogues with Experts and other events as part of efforts to improve public perceptions of our organization.

In the area of compliance, in addition to putting in place regulations on corporate ethics and providing grade-specific training and e-learning, we distribute a range of guidance handbooks and take other measures to ensure full familiarity with the laws and regulations which staff need to observe. Going forward, we will strive to further enhance compliance measures.

In the field of environmental management, we are working to strengthen environmental management on the basis of our newly formulated Eighth Environmental Management Activities Plan. Additionally, as a measure to reduce CO<sub>2</sub> emissions and energy consumption, we plan to roll out to all business sites an energy visualization system successfully operated at our model factory.

Meanwhile, we are working on measures to support child-rearing as part of a strategy to improve work-life balance and introducing measures to create diversity-friendly workplace environments, for instance by recruiting more international human resources and ensuring a barrier-free environment at all business sites. We will also step up measures to promote the employment of people with disabilities.

## Basic Concept

The KHI Group's CSR activities are an ongoing effort to realize the Group Mission at ever higher levels. We know that contributing to the future of human society and the global environment will raise the value of the Kawasaki brand, and we promote activities in the five themes described below to realize our goal.

### Five Themes

- Value Creation** We will use our integrated technological expertise to create values that point the way to the future.
- Management** We will always act with integrity and good faith to merit society's trust.
- Employees** We will all create a workplace where everyone wants to continue working.
- Environment** We will pursue "manufacturing that makes the Earth smile."
- Social Contribution** We will expand the circle of contribution that links to society and the future.

**Realization of the  
Group Mission at ever  
higher levels**



### Kawasaki Value

- We respond to our customers' requirements
- We constantly achieve new heights in technology
- We pursue originality and innovation

### The Kawasaki Group Management Principles

#### 1. Trust

As an integrated technology leader, the Kawasaki Group is committed to providing high-performance products and services of superior safety and quality. By doing so, we will win the trust of our customers and the community.

#### 2. Harmonious coexistence

The importance of corporate social responsibility (CSR) permeates all aspects of our business. This stance reflects the Kawasaki Group's corporate ideal of harmonious coexistence with the environment, society as a whole, local communities and individuals.

#### 3. People

The Kawasaki Group's corporate culture is built on integrity, vitality, organizational strength and mutual respect for people through all levels of the Group. We nurture a global team for a global era.

#### 4. Strategy

The Kawasaki Group pursues continuous enhancement of profitability and corporate value based on three guiding principles—selectively focusing resources on strategic businesses; emphasizing quality over quantity; and employing prudent risk management.

### The Kawasaki Group Code of Conduct

1. Always look at the bigger picture. Think and act from a long-term, global perspective.
2. Meet difficult challenges head-on. Aim high and never be afraid to try something new.
3. Be driven by your aspirations and goals. Work toward success by always dedicating yourself to your tasks.
4. Earn the trust of the community through high ethical standards and the example you set for others.
5. Keep striving for self-improvement. Act on your own initiative as a confident professional.
6. Be a part of Team Kawasaki. Share your pride and sense of fulfillment in a job well done.

Apart from these measures, our other social contribution activities in fiscal 2013 included the holding of handicraft workshops in the earthquake-hit Tohoku region. Based on the use of KHI products as workshop materials, these events aimed to help educate the next generation and support recovery from the disaster. We intend to continue with activities of this kind in fiscal 2014 and beyond.

Going forward, in addition to further deepening the coordination between business management and CSR, we intend to promote initiatives at the level of the global Group (the entire KHI Group including overseas operations) and to step up our cooperation with business partners in the field of CSR.

## To Our Stakeholders

In concluding my greeting as the newly appointed president, I wish to once again express my greatest gratitude to stakeholders for your patience and understanding toward the recent abrupt changes in management, and take this opportunity to vow that, under my leadership, our officers and employees will unite to

press forward toward the goals of restoring trust and further increasing corporate value. In these efforts, I request your increased support and cooperation.