

2 Management

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



To ensure that the KHI Group remains a company able to meet the expectations of society, management is committed to operating with a high degree of transparency toward stakeholders and to promoting activities that integrate business operations in the spirit of our Mission Statement with CSR activity.

Categories		
Corporate governance	Compliance	Risk management, Crisis management
Information security	Information disclosure, IR activities	Business partners

Goals/Approaches and Actions of Medium-term Business Plan 2013 (FY2014 - 2016)

Goals/Approaches	Actions
<ul style="list-style-type: none"> ● Seek further improvement in corporate governance practices 	<ul style="list-style-type: none"> ● Consider measures (introduce outside directors, increase number of outside directors) to underpin enhanced governance and internal controls
<ul style="list-style-type: none"> ● Familiarize all employees with code of corporate ethics and code of conduct 	<ul style="list-style-type: none"> ● Ensure thorough understanding of corporate ethics guidelines at all Group companies ● Strengthen measures to prevent irregularities at regional and small-scale operating sites
<ul style="list-style-type: none"> ● Seek further improvement in safeguarding all types of information 	<ul style="list-style-type: none"> ● Improve security level to prevent against the risk of leaked confidential information ● Implement full-scale rollout of IT audit
<ul style="list-style-type: none"> ● Seek further improvement in communication with shareholders and investors 	<ul style="list-style-type: none"> ● Review information disclosed and methods of disclosure; enrich content of IR events ● Hold regular factory tours for shareholders
<ul style="list-style-type: none"> ● Promote joint CSR management efforts with business partners 	<ul style="list-style-type: none"> ● Promote establishment of CSR procurement guidelines for all Group companies

Overview of Activities in Fiscal 2014

Fiscal 2014, the first year of MTBP 2013, saw the appointment of KHI's first outside director. This new position significantly enhances the Company's ability to make management practices sounder and improve corporate value.

In addition, KHI added to its corporate regulations a rule to prevent bribery, and Group companies at home and abroad were asked to implement a similar rule. This was achieved as of the fiscal year-end. With regard to procurement, measures have been introduced to deal with evolving situations on the world stage. This includes the establishment of a policy on conflict minerals.

Amid a push to develop more comprehensive risk management practices within the Group, in fiscal 2014 we set up a risk management structure for affiliated companies in Japan.

We also reinforced the factory tour program for shareholders, with activities at the Akashi Works and the Hyogo Works.

1 KHI Group Internal Audits

The practice of implementing internal audits goes back to the 1928 establishment of the Business Division Audit Office following the financial crisis that hit Japan in 1927. This was a very progressive effort among Japanese listed companies.

The current internal auditing system is integral to corporate governance. The Auditing Department, under the direct authority of the president, evaluates and reports on internal controls—according to J-SOX—regarding audits of the Group's business activities and its financial reports, and executes its auditing function by keeping close ties to internal divisions, corporate auditors and the independent auditor. In addition, a special feature of the KHI Group is that the compliance departments at each divisional company-audit operations according to the characteristics of each company. These activities at each division contribute to enhancing internal controls in conjunction with the Auditing Department.

To ensure the objectivity and credibility of internal audits, the Auditing Department has been placed under the direct authority of the president to make

it organizationally independent of other divisions. Efforts to uphold and further improve the quality of audits have been achieved through the preparation of auditing handbooks and through regular implementation of internal quality reviews, in compliance with the International Professional Practices Framework (IPPF) established by The Institute of Internal Auditors – Japan. In addition, staff in the Auditing Department endeavor to develop their auditing techniques. They are encouraged to acquire qualifications as certified internal auditor and certified fraud examiner under international standards, participate in outside seminars, and engage in study sessions with auditing departments at other companies.

The activities of the KHI Group are global in scope, and as related overseas companies have grown considerably within the overall organization, overseas audits become all the more important. A close watch over related domestic companies is also imperative. Guided by achievements forged by our predecessors, we will strive to boost the corporate value of the Group and pursue activities that address the requirements of stakeholders.

2 Establishment and Promotion of Bribery Prevention Regulations

Bribery and corruption is, of course, an issue that hinders fair business competition, but recently, the issue has become more of a problem, with a change in the quality of government administrations resulting in the exploitation of the people instead of their protection. Consequently, the world needs companies to step up their anti-corruption efforts.

KHI already requires all companies within the Group to respect the Anti-Monopoly Law. But taking a more robust approach toward measures to prevent the root of corruption, the Company recently reaffirmed its stand against bribery as well, with the establishment

of a corporate regulation that lays out basic policy and philosophy. Affiliated companies at home and abroad were encouraged to do the same.

For information on all our efforts to combat bribery and corrupt practices, please visit our website.



Approaches for corruption prevention
<http://www.khi.co.jp/english/csr/management/compliance.html>



Shareholders hear about next-generation, Kawasaki-developed rolling stock bogie "efWING" during Hyogo Works factory tour
 *See page 37 for details.



Theme 2 Management
<http://www.khi.co.jp/english/csr/management/index.html>



Theme 3 Employees
<http://www.khi.co.jp/english/csr/employee/index.html>

The KHI Group's CSR activities fall into five themes, with considerable content in Theme 2: Management and Theme 3: Employees because they cover the greatest scope. We have showcased a few activities on this page, but our website presents a more complete perspective.

Corporate Governance System

Basic Stance on Corporate Governance

Guided by the Group Mission “Kawasaki, working as one for the good of the planet,” KHI established a corporate governance system centered on directors and corporate auditors, with content appropriate for the activities that the Group undertakes, and efforts are made to further improve the system. The basic stance on corporate governance for the Group as a whole is to raise enterprise value through effective and sound business activities while forming a solid relationship with all stakeholders, including shareholders, customers, employees and communities, through highly transparent management practices.

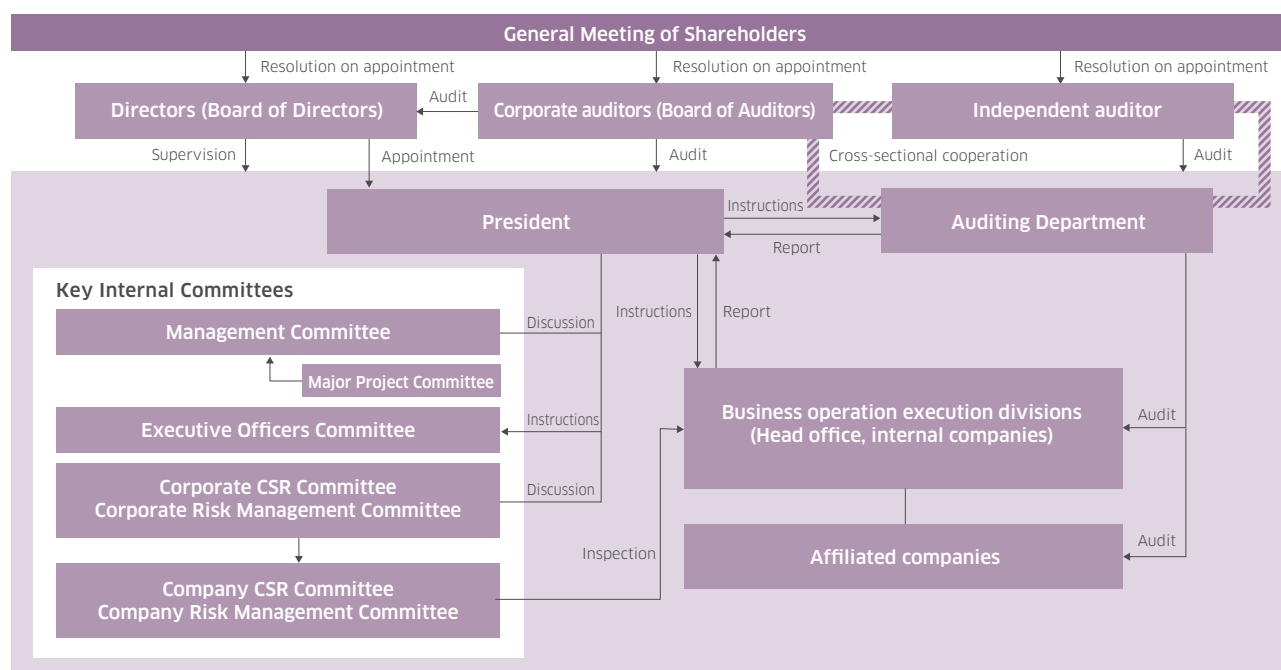
Overview of the Corporate Governance System

KHI opted for the statutory auditor system with a Board of Auditors and appoints an independent accounting auditor. In addition to the Board of Directors and the Board of Auditors, the Company benefits from the Management Committee and the Executive Officers Committee, both comprising people of appropriate rank, such as representative directors, but the Executive Officer Committee also includes executive officers who have been appointed by the Board of Directors.

Key Internal Committees Other Than Board of Directors and Board of Auditors

Name	Activities
Management Committee	<ul style="list-style-type: none"> Assists the president as an advisory body with regard to Group management Discusses important management policy, management strategy, management issues, and other matters from a Group perspective
Executive Officers Committee	<ul style="list-style-type: none"> Conveys business execution policy based on management policy and management plans determined mainly by the Board of Directors and the Management Committee Venue for communicating necessary and important information regarding business execution and exchanging opinions
Corporate CSR Committee	<ul style="list-style-type: none"> Discusses and decides on CSR basic policy and important matters for the Group as a whole and monitors implementation status
Corporate Risk Management Committee	<ul style="list-style-type: none"> Discusses important issues pertaining to risk management for the Group as a whole and monitors implementation status
Major Project Committee	<ul style="list-style-type: none"> Discusses risk management for major projects, starting with major orders

KHI's Governance Structure



Efforts to Strengthen Corporate Governance

1961	Adopted divisional structure	Adopted divisional structure to respond to increasingly complicated economic activities, wider geographical sphere of business and progress in engineering and science (delegated authority and responsibilities with regard to profits to each division)
1966	Established "Management Principles"	Established on occasion of 70th anniversary with the principal objective to prosper along with stakeholders
2001	Adopted internal company structure Adopted executive officer system	Expedited decision-making through delegation of authority and clarification of responsibilities Improved management efficiency by designating two distinct management functions: decision-making and business-execution
2007	Established Mission Statement	In light of changes in the environment after "Management Principles" had been established, created new Mission Statement (partially revised in 2012) that incorporated the Group's social mission for the 21st century, commonly shared values to increase Kawasaki brand value, core principles to guide business activities, and actions regularly expected of each individual employee
2013	Appointed outside director	Strengthened supervisory function of Board of Directors with regard to overall management

Board of Directors

The Board of Directors comprises 13 directors (authorized number: 18), with the president serving as presiding officer due to a vacancy in the position of chairman. Seeking to strengthen the oversight function of the Board of Directors with regard to overall management, the Company appoints one outside director (an independent officer, as required by the Tokyo Stock Exchange) who is independent from any role in the execution of business activities. As a way to clarify management responsibilities, all directors' terms of office are limited to one year and compensation for all directors except the outside director is incentive-based to reflect performance.

Number of Board of Directors' Meetings, and Directors' and Corporate Auditors' Attendance Rates (Includes Extraordinary Meetings)*1

	June 2011- June 2012	June 2012- June 2013	June 2013- June 2014
Number of meetings	13	14	13
Directors' attendance rate	97.9%	98.9%	99.2%
Auditors' attendance rate	96.2%	100%	100%
Outside corporate auditors' attendance rate	100%	92.9%	100%
Outside director's attendance rate	N/A	N/A	100%

*1 The number of meetings and associated attendance rates apply to meetings that occur during a one-year period, beginning with the Board of Directors' meeting that takes place after the General Meeting of Shareholders and ending immediately preceding the General Meeting of Shareholders the following year.

Reason for Appointing an Outside Director

Name	Reason for Appointment
Yoshihiko Morita	The Company judged that Mr. Morita would be able to express useful opinions and advice on important matters of the Company from a position independent of any role in the execution of business activities, in light of his substantial overseas experience and knowledge as a specialist, acquired at the Japan Bank for International Cooperation and other institutions. ² Management believes he will be able to fully perform his role as an outside director in supervising the execution of business activities by the Company.

*2 Japan Bank for International Cooperation, where Mr. Morita was once a director (until retirement in June 2011), and Sumitomo Mitsui Banking Corporation, where Mr. Morita was once an advisor (until retirement in June 2013) are business associates of KHI. However, the Company conducts transactions with several financial institutions and reliance on both banks is low and neither bank exerts much of an influence on KHI management. Consequently, we see nothing that would encroach upon Mr. Morita's independence, and therefore he is suitable as an independent officer.

Corporate Auditors and Board of Auditors

The Board of Auditors comprises four corporate auditors (authorized number: 5). To ensure the reliability of financial reports, the Company appoints internal corporate auditors who have considerable knowledge of finance and accounting, and to ensure objectivity and neutrality in the management oversight function, the Company appoints two outside corporate auditors (independent officers, as required by the Tokyo Stock Exchange) with no business relationships or other vested interests in the Company. The internal corporate auditors and outside corporate auditors share information closely and work to enhance the management oversight function.

Number of Board of Auditors' Meetings, and Corporate Auditors' Attendance Rate*1

	June 2011- June 2012	June 2012- June 2013	June 2013- June 2014
Number of meetings	17	18	21
Corporate auditors' attendance rate	100%	100%	100%
Outside corporate auditors' attendance rate	100%	97.2%	100%

*1 The number of meetings and associated attendance rates apply to meetings that occur during a one-year period, beginning with the Board of Auditors' meeting that takes place after the General Meeting of Shareholders and ending immediately preceding the General Meeting of Shareholders the following year.

Reason for Appointing Outside Corporate Auditors

Name	Reason for Appointment
Michio Oka	To enhance the auditing function by drawing on the vast experience and keen insight Mr. Oka has accumulated as a corporate director ³ and by incorporating opinions based on his impartial and independent perspective
Nobuyuki Fujikake	To enhance the auditing function by drawing on the keen insight and varied experiences Mr. Fujikake has acquired as a lawyer and by incorporating opinions based on his impartial and independent perspective

*3 Kawasaki Kisen Kaisha, Ltd., where Mr. Oka was once a director (until retirement in June 2002) is a business partner of KHI. However, there is essentially no capital relationship like that of a Group company and average transaction volumes between the Kawasaki Kisen Group and KHI Group for the most recent five fiscal years account for less than 2% of the total annual average sales each for the Kawasaki Kisen Group and KHI Group over the corresponding period. Consequently, the Company has determined that there is no issue as regards to the independence of Mr. Oka, and he is therefore suitable as an independent officer.

Internal Auditing

With regard to internal auditing, the Auditing Department, a unit under the direct authority of the president, maintains an independent position for monitoring all corporate business activity. The department targets management activities in all of the Group's business segments for audits. In this way, the department verifies and evaluates effectiveness and efficiency in the execution of operations, the reliability of financial reports, and conformity to standards of compliance (corporate ethics and laws), and offers suggestions for improvements.

Independent Auditing

With regard to independent auditing, KHI undergoes audits of its financial statements by the independent auditor KPMG AZSA LLC. Corporate auditors and the Board of Auditors receive an outline of the audit plan and a report on important audit items from the independent auditor, and the Board of Auditors explains the Company's auditing plan to the independent auditor. Corporate auditors and the Board of Auditors periodically receive reports on the results of audits by the independent auditor, and conversely, the independent auditor receives reports on the results of audits by the corporate auditors and the Board of Auditors, who strive to keep lines of communication open with the independent auditor by also exchanging information and opinions. When necessary, corporate auditors take part in the audits performed by the independent auditor, and may also receive reports from the independent auditor concerning audits when appropriate.

Independent Auditor Compensation (Millions of yen)

Subject of audit	Fiscal 2014	
	Compensation based on audit certification services	Compensation based on non-audit services
Kawasaki Heavy Industries Ltd.	169	40
Consolidated subsidiaries	54	0
Total	223	40

Compensation to Corporate Officers

The compensation system for KHI directors—which is designed to promote sustained improvement in corporate performance and enterprise value and to secure outstanding human resources—ensures a level of compensation in line with the duties of the individual officer. The level of compensation is determined by the president as delegated by the Board of Directors. Compensation for directors, except the outside director, is linked to corporate performance.

From the perspective of professional independence, compensation for corporate auditors is set at a fixed level and not linked to corporate performance. It is determined by the Board of Auditors. The system of compensation for directors and corporate auditors described above operates within a fixed compensation range approved by shareholders at the General Meeting of Shareholders.

Amount of Corporate Officers' Compensation in Fiscal 2014 (Millions of yen)

Category	Fiscal 2014
Directors 16 people	¥600 million
Corporate auditors 5 people	¥88 million
Total 21 people	¥689 million (of which ¥27 million was paid to four outside directors/corporate auditors)

Note: The maximum amount of compensation for directors is ¥1,200 million per year (as resolved at the 189th Ordinary General Meeting of Shareholders held on June 27, 2012). The maximum amount of compensation for corporate auditors is ¥8 million per month (as resolved at the 170th Ordinary General Meeting of Shareholders held on June 29, 1993).

Business Operations Structure

The Company adopted the executive officer system, which facilitates quick responses to changes in the business environment. Under this system, duties are delegated to executive officers who have been appointed by the Board of Directors.

The Company has established the Management Committee as an advisory body that assists the president with regard to Group management. The committee discusses important management policy, management strategy, and management issues and then presents its opinions on given issues to the Board of Directors.

Business execution policy based on management policy and management plans, determined mainly by the Board of Directors and the Management Committee, is immediately conveyed to all executive officers. In addition, the Executive Officers Committee, in its efforts to unify the direction of Group management, ensures that such policy has been thoroughly conveyed. This system enables the smooth execution of business operations.

Applying this structure throughout the Group, KHI will keep improving its enterprise value while maintaining management transparency and achieving greater efficiency and soundness in management practices.

Compliance

In the Kawasaki Group Management Principles, which target the entire KHI Group, we extol the corporate virtue of “recognizing social responsibility and coexisting harmoniously with the environment, society as a whole, local communities and individuals,” and in the Kawasaki Group Code of Conduct, we ask each and every member of the Group to “earn the trust of the community through high ethical standards and the example you set for others.”

We drafted the KHI Code of Corporate Ethics for ourselves and the Kawasaki Global Business Ethics Guidelines as common policy for the Group, and we maintain a basic philosophy on corporate ethics that executives and employees are expected to uphold.

KHI Code of Corporate Ethics

We established the KHI Code of Corporate Ethics, and the basic principles of corporate ethics are stipulated in the Code as follows.

1. Practice of ethics as a business person

We do not hide the truth and do the right things when performing the duties.

2. Respect for individuality and human rights / Prohibition of discrimination

To create and maintain a comfortable workplace, we respect the individuality and human rights of all people. We do not engage in discrimination, sexual harassment and bullying.

3. Promotion of environmental protection

To conserve limited resources and nature and reduce the impact on the global environment, we take voluntary and proactive efforts to save resources and energy, minimize waste, promote resource recycling and prevent environmental pollution.

4. Compliance with laws, regulations and social rules

We recognize the importance of compliance and proactively ensure compliance.

5. Proper accounting and reliability of financial reports

We record and disclose corporate activity in accordance with proper accounting standards stipulated in laws and regulations. We ensure reliability of financial reports.

Kawasaki Global Business Ethics Guideline

1) Integrity in transaction

We do not use false information when explaining and advertising our products. We deal with customers, agents and suppliers with respect and integrity.

2) Fair Competition

We abide by antitrust laws to compete fairly. We do not discuss sales prices and bid prices with our competitors.

3) Accuracy of Accounting

We record transactions with proper accounting procedure. We prepare accurate and complete financial reports.

4) Prohibition of Excessive Gifts and Entertainment

We do not provide or accept excessive gifts and entertainment.

5) Anti-Bribery

We do not give bribes to domestic and foreign government officials. We do not give bribes through agents and intermediaries either.

6) Avoiding Conflicts of Interest

We avoid conflicts of interest when performing our jobs. We act in the best interest of the company, not influenced by personal interest.

7) Proper Use of Company Asset

We do not use company's asset for personal profit.

8) Proper Handling of Company's Non-Public Information

We do not disclose non-public information to outside of the company unless disclosure is required for business purpose. We do not use non-public information for personal profit.

9) Compliance with Export Control Laws.

We abide by applicable export control laws.

10) Compliance with Environmental Laws.

We abide by applicable laws to protect clean air and water. We store and dispose of hazardous wastes in a legal manner.

11) Safe Workplace

We recognize that safety is top priority. We conduct our operations in a safe manner following legal standards.

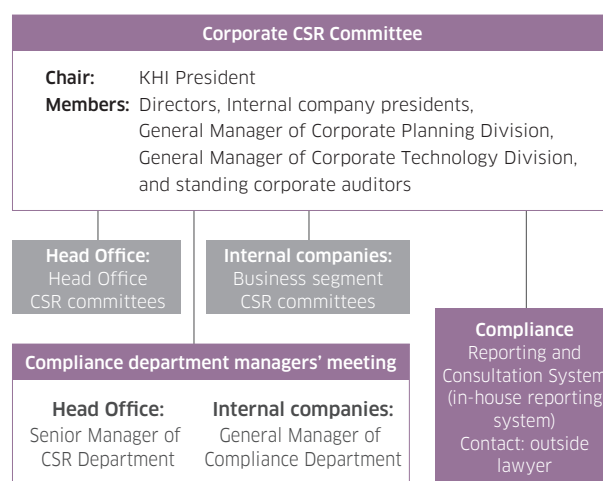
12) Respect for Human Rights

We do not discriminate or harass anyone in workplace. We do not tolerate child labor under local minimum age and any forced labor.

Compliance Promotion Structure

The Corporate CSR Committee meets at least twice a year. All executives are members of this committee, which is chaired by the KHI president. Their goals are to discuss and determine approaches that enable the KHI Group to fulfill its corporate social responsibilities and to monitor the status of compliance efforts. This includes compliance with the basic philosophy of corporate ethics set forth in the KHI Code of Corporate Ethics. To ensure that the objectives of the Corporate CSR Committee extend to all corporate structures, business segments at the head office and internal companies hold "business segment CSR committee" meetings in their effort to promote compliance throughout the Group.

Compliance Promotion Structure



Compliance Reporting and Consultation System (In-House Reporting System)

In certain situations, employees at the company and domestic consolidated subsidiaries who suspect a violation of compliance practices in their department may find it difficult to report the situation or seek advice from superiors or a department that would normally address alleged misconduct. To address this problem, we established the Compliance Reporting and Consultation System.

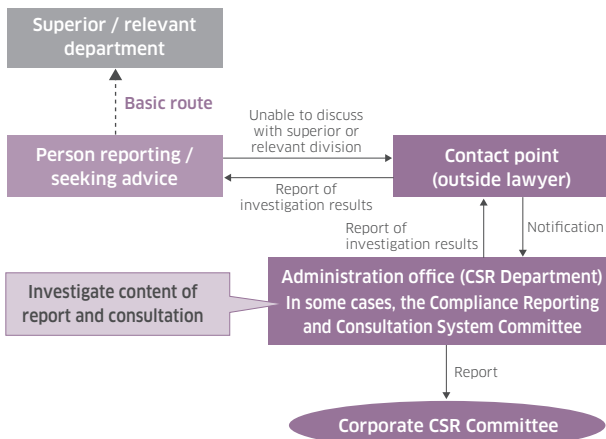
Under our compliance reporting and consultation system, reports from staff with concerns are heard by an outside lawyer who can be contacted directly for advice and consultation. The substance of the report is then investigated and an assessment is made as to whether a violation has occurred. After a decision has been made on appropriate response measures going forward, the results of the procedure are reported by the outside lawyer directly to the employee who raised the issue.

In fiscal 2014, the system was used 19 times.

Number of Report or Consultation (in fiscal 2014)

Nature of report or consultation	Number of cases
Power harassment	6
Personnel treatment	5
Illegal or dishonest acquisition of money	4
Others	4
Total	19

Compliance Reporting and Consultation System Flow Chart



Compliance Promotion Activities

Declaration to Observe Laws and Regulations

To make doubly sure that executives and managerial staff realize they “shall not act in any way that contravenes established rules,” KHI requires them to submit a Compliance Declaration, which declares their intention to observe laws and regulations when they assume their duties.

Power Harassment Program

We select compliance-related themes each fiscal year and implement compliance-related activities throughout the Group under a shared concept.

In fiscal 2014, we introduced a program on power harassment for general managers and section managers at the Company and domestic affiliated companies. About 2,298 people participated in the program. The purpose of this training is not merely to caution managers against committing—or allowing others to commit—power harassment but also, from the perspective of employee development and office productivity, it is an opportunity to encourage managers to cultivate a vibrant atmosphere free of power harassment.

Distribution of Fifth (Revised) Edition of Compliance Guidebook

In September 2013, we published the fifth (revised) edition of the Compliance Guidebook, which presented in the foreword the president’s compliance declaration, “Ensure full compliance under any and all conditions, in any and all locations.” The guidebook was distributed to all KHI Group corporate officers, employees and temporary staff in Japan.

The Compliance Guidebook outlines the KHI Group’s compliance system and compliance activities, and explains its compliance information and consultation system. Using cartoons to illustrate the points, it presents easily grasped examples of situations where care is required. Further sections deal with Matters concerning Securing the Trust of Customers and Business Partners; Matters



to Be Observed as a Corporate Citizen; Matters concerning Data Protection; Matters concerning Handling Financial Transactions; Matters concerning the Workplace; and Responsibilities of Executives.

Efforts to Prevent Corruption

Response to the Anti-Monopoly Law

KHI clearly states its promise to respect, and comply with, laws and social rules in the KHI Code of Corporate Ethics. Unfortunately, however, the Company has been admonished in the past for actions contravening the Anti-Monopoly Law.

Firmly resolved to prevent a repeat of such situations, the Company drafted various measures to ensure compliance with the Anti-Monopoly Law.

Specifically, since it is the responsibility of top management to set an example for the Company, the Board of Directors passes a resolution at the meeting that immediately follows the general meeting of shareholders each year to the effect that the Anti-Monopoly Law is to be upheld. For employees, we have prepared rules emphasizing respect for the Anti-Monopoly Law and strongly urge employees to refrain from actions that might contravene the Anti-Monopoly Law. In addition, our Guidebook for Observing the Anti-Monopoly Law describes behavioral standards using situations that could arise in daily business activities, with an emphasis on awareness and direction to prevent problems.

Bribery Prevention Regulations

Taking an even tougher stand against corruption, KHI established Bribery Prevention Regulations in August 2013. These regulations represent a thorough commitment to prevent situations with the potential for dishonesty in corporate practices. Our basic policy states that “the KHI Group will uphold laws in the execution of business activities and that bribes to public officials in Japan or overseas is not at all condoned.” Currently, we are promoting the establishment of regulations with similar content at domestic and overseas affiliated companies.

Measures to Prevent Irregularities at Small-Scale Operating Sites

Certain situations are unique to small-scale operating sites, such as regional offices and satellite branches, which may not give the “check system” the attention it is due or may have people stuck in a particular position because personnel rotation is more of a challenge to implement. Related divisions at the head office put together working groups to reduce the risk of irregularities that might occur due to these issues specific to small-scale operating sites, and they seek to promote effective and efficient risk management—namely, the establishment of a structure to prevent irregularities.

Elimination of Antisocial Forces

KHI resolutely rejects inappropriate requests from antisocial forces and undertakes various measures to break off completely from any relationship that may unwittingly be formed.

Specifically, we publish our Compliance Guidebook and our Manual of Responses to Antisocial Forces, and strive to promote awareness and full compliance of established practices and systems, such as internal structures to prevent dealings with antisocial forces and specific actions that must be taken should transactions inadvertently occur. In addition, we have established a unit at the head office to supervise responses associated with the elimination of antisocial forces. This unit works closely with the police and other external specialist organizations and has the task of building a structure to systematically deal with inappropriate requests from antisocial forces.

Risk Management

Risk Management Policy

In accordance with the Companies Act, the KHI Board of Directors has adopted a basic policy for internal control systems. The policy makes it clear that risk management should be addressed in accordance with the Risk Management Regulations by seeking to anticipate and avoid loss caused by risk, and to minimize risk through appropriate operation of the risk management system.

In addition, to achieve sustained improvement of profitability and corporate value, the Kawasaki Group Mission Statement identifies risk management as a guiding theme of the Kawasaki Group Management Principles.

To support these policies, the Risk Management Regulations lay down the following basic policy for the KHI Group in the field of risk management:

- 1 Aiming to realize its Group Mission—"Kawasaki, working as one for the good of the planet"—KHI and the KHI Group will facilitate global and sustained business execution by continuously implementing risk management.
- 2 In implementing risk management, KHI and the KHI Group will put in place a risk management system, for which ultimate responsibility lies with the company president, as a means of preventing risks that may hinder business execution.
- 3 In the event that a risk situation emerges, KHI and the KHI Group will work to minimize loss to customers, employees, local communities and other stakeholders, and to prevent recurrence.
- 4 Each individual corporate officer and employee will engage actively with risk management and will work to maintain the risk management system and improve risk management and response capabilities.

In accordance with these basic guidelines, the Risk Management Regulations and Corporate Risk Management Manual stipulate that, to undertake risk management organized on a Group-wide basis, the risk management activities carried out hitherto by divisions responsible for the different areas of operations should be reinforced and that Group-wide action should be taken each year to identify major risk which could have a serious impact on business operations (Group-level risk), as well as to specify

risk which requires Group-wide response measures (risk requiring Group-wide action), with appropriate response measures taken and the results subjected to monitoring.

Regarding risk associated with management strategy, in accordance with the Board of Directors Regulations, Management Committee Regulations, and Approval Regulations, the relevant divisions are required in advance to analyze the risk and consider response measures or other appropriate steps, and relevant matters should be discussed and a resolution agreed by the Board of Directors or the Management Committee in accordance with regulations. In particular, in the case of major projects with significant impact on operations, appropriate risk management should be carried out in accordance with the Major Project Risk Management Regulations, published separately.

Concurrently, action to be taken when a risk situation emerges is set out in the crisis management provisions of the Risk Management Regulations, which stipulate that emergency action guidelines should be clearly identified, a Crisis Management Officer should be appointed for each operating site, and a system should be operated as appropriate to reduce losses to the minimum.

Scope of Risk Covered

KHI defines risk as "phenomena that hinder the conduct of business operations or the achievement of organizational goals," and is committed to giving due consideration to strategic risk and other risk items, as well as to phenomena that have a beneficial effect on the organization.

In concrete terms, this means all risk listed below, classified into external risk and internal risk (strategic risk and business risk), is included in the scope.

Corporate Risk Management System

KHI has established a Corporate Risk Management System to ensure a uniform level of risk management across the Group, through which it identifies and responds to major risk with potential serious impact on operations and works to enhance risk management as outlined in the Kawasaki Group Management Principles.

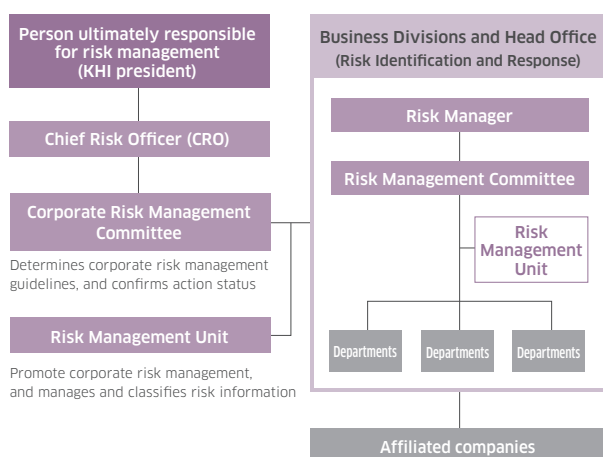
To engage in continuous activities through implementation of the Corporate Risk Management System, we highlighted realization of Group-wide risk management as one of the key strategies of our Medium-term Business Plan. In addition, we revised the Risk Management Regulations in April 2010.

The KHI system places ultimate responsibility for risk management with the company president, and responsibility for coordinating risk management operations with the Chief Risk Officer (CRO). The KHI system also seeks to reinforce the risk management system by setting up a Risk Management Committee with the function of discussing important matters relating to risk management and monitoring implementation status. Meanwhile, a Risk Management Unit has been set up within the Head Office Corporate Planning Department to implement and support corporate risk management, and each business division operates a similar system, for which the general manager of the business division is responsible. These measures are

designed to reinforce a system that takes a Group-wide approach to risk management.

From October 2011, similar initiatives were extended to important affiliated companies in Japan so that, by the end of fiscal 2013 a Corporate Risk Management System was in place that included domestic affiliated companies.

Corporate Risk Management System



Responding to Significant Risks in Fiscal 2014

Under the Corporate Risk Management System, major risk that could have a potentially serious impact on Group-wide operations is identified each year using uniform metrics and subjected to continuous management from a Group-wide perspective using efficient and optimal methods.

In concrete terms, this means that management of major risk at the Group-wide level is carried out by applying the following Plan-Do-Check-Act (PDCA) cycle to Group-wide risk management programs: (1) screening and evaluation of risk; (2) identification of major risk and specification of risk requiring action; (3) formulation and implementation of risk response measures; and (4) monitoring.

Regarding activities in fiscal 2013, to coincide with the formulation of the Short-term Business Plan, operations were begun in January 2013 to (1) detect and evaluate risk and (2) identify major risk and specify risk requiring action.

Risk Identified as Group-Level Risk in Fiscal 2014

Data on major risk identified at the business division level were collated, and the Corporate Risk Management Committee then identified major risk that could have a serious impact on operations under 20 item headings.

These risks are subject to monitoring in March of every year by the Head Office division responsible for monitoring. Meanwhile, taking Group-level risk as the basis, decisions are made on which risk items to disclose as "business risk and other risk" in the Securities Report, this report, and other information sources.

The risk items are subject to yearly review.

Risk Identified as Group-Level Risk in Fiscal 2014

Name of risk	Head Office division responsible for monitoring
Foreign exchange risk	Finance Department/ Corporate Planning Department
Human risk	Personnel Department
Major disaster risk	Corporate Planning Department
Procurement risk	Procurement Division
Information leakage risk	General Affairs Department/ Information Planning Department
Individual commissioned project management risk	Corporate Planning Department
Economic recession risk	Corporate Planning Department
Quality management risk	Manufacturing Improvement Department
Safety and health risk	Safety & Health Management Department
Development and design risk	Corporate Technology Division
Country risk	Marketing Division
Debt collection risk	Finance Department
Compliance risk	CSR Department
Contract risk	Legal Department
Production process management risk	Manufacturing Improvement Department
Tax risk	Accounting Department
Environmental contamination risk	Environmental Affairs Department
Facility obsolescence risk	Corporate Planning Department
Intellectual property risk	Intellectual Property Department
Business investment risk	Corporate Planning Department

Risk Specified as Risk Requiring Group-wide Action in Fiscal 2014

Within Group-level risk, we specified the three items listed below as areas where response was insufficient and Group-wide action was urgently necessary. To deal with these risks, a Head Office division responsible for action was designated to take the main role in formulating and implementing response measures.

Risk Specified as Risk Requiring Group-wide Action in Fiscal 2014

Name of risk	Head Office division responsible for monitoring
Major disaster risk	Corporate Planning Department / General Affairs Department
Facility obsolescence risk	Construction Control Department / Corporate Planning Department

Crisis Management

Basic Stance for Crisis Management

The KHI Group's Risk Management Regulations contain crisis management provisions set out in readiness for the emergence of a risk situation. These regulations set forth behavioral guidelines and response systems that serve to protect lives and preserve assets, minimize damage and loss, and expedite the resumption of business activities in the event of unplanned interruption. To prepare for crisis situations, we rely on the Crisis Management Organization, a horizontally integrated Group structure for crisis management, and have a structure in place to expedite the establishment of command centers at the Head Office and local works or offices, as necessary, to ensure a quick response in the event of a crisis.

Crisis Management

In Normal Times

To prepare for possible crisis situations, we established the Crisis Management Organization, which oversees a crisis management system integrated horizontally across the Group structure. The KHI president has the role of Chief Crisis Management Officer, while the head of each operating site or organizational unit acts as its Crisis Management Officer and supervises the setting up of a Crisis Management Office. The Crisis Management Office assists the Crisis Management Officer and undertakes the task of putting in place and maintaining a mobilization system to ensure normal operations in the event of an emergency. Meanwhile, the heads of the various Head Office divisions and other staff members whom they designate form a dedicated support team for the Crisis Management Office.

In Times of Disaster or Accident

If an accident or natural disaster occurs, information is sent where it is needed through a predetermined reporting route for use in times of emergency. This route is made known clearly to employees and executives through the Crisis Management Organization, which in normal circumstances underpins the Group's crisis management structure. In cooperation with the emergency-activated reporting route, we have introduced contact networks in all business divisions and at all operating sites to ensure quick updates on the status of personnel and facilities throughout the Group.

In Times of Disaster or Accident

Type of Command Center	Key Role	Location
Corporate Command Center	Set up in the event of a crisis that requires a Group-wide response; determines measures to be implemented throughout the Group and basic policy on action plans	Office that has not sustained any damage In principle, either the Kobe Head Office or the Tokyo Head Office
Integrated Plant Command Center	Determines issues relevant to all plants; coordinates with internal companies	Plant facilities of several internal companies
Company Command Center	Provides internal company support in areas devastated by disaster; determines response to affected suppliers and customers	Appropriate location at each internal company
Local Command Center	Determines measures, according to business segment and business office	Office that sustained damage

In addition, we introduced an emergency communication system applicable to all companies under the Group umbrella that immediately confirms the safety of employees when a disaster occurs; tests are repeated every year to ensure that employees are familiar with the system and know how to use it.

Crisis Management Efforts

In addition to the establishment of the aforementioned crisis management structure, the KHI Group has formulated a business continuity plan (BCP) in preparation for a major earthquake centered on Tokyo or a similar major seismic event, or a pandemic caused, for example, by a new strain of influenza.

The plan was formulated with attention to the following basic principles:

1. Protecting the health and the life of employees and their families (including non-employees working on site and visitors)
2. Performing of duties essential to the fulfillment of our social responsibilities (commissions from customers, business partners, and government offices, and maintenance and restoration of mission-critical systems such as public infrastructure and civil defense)
3. Normalizing the business operations of the KHI Group
4. Fulfilling responsibilities and contributing to local communities

Export Control

To ensure safety by maintaining international peace and security, the export of materials or technology that could be diverted for military purposes requires a license from the Minister of Economy, Trade and Industry in certain cases. This provision is contained in the Foreign Exchange and Foreign Trade Act and other export control laws and regulations.

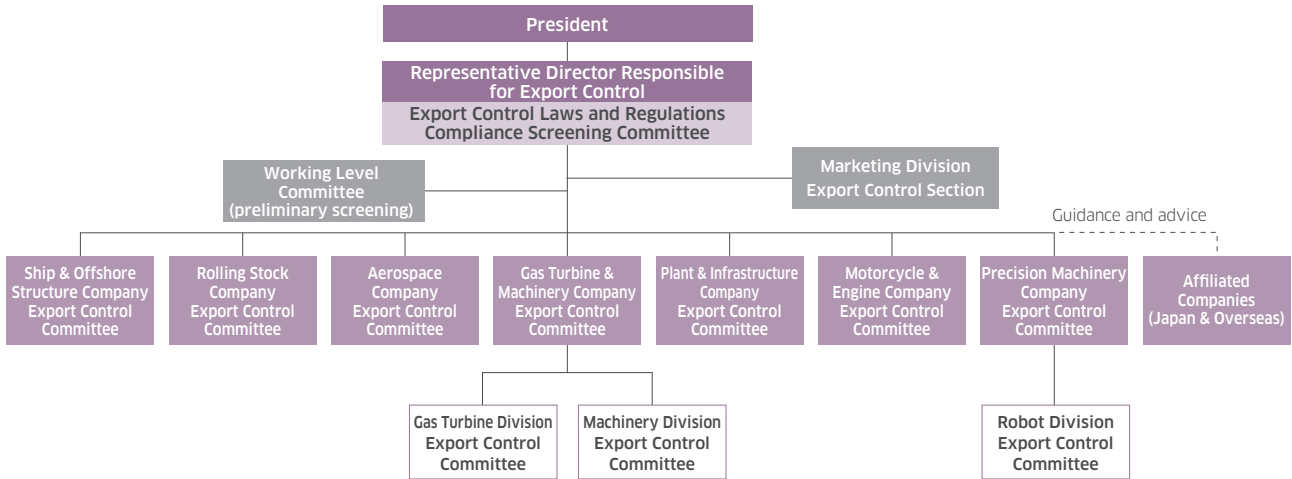
Basic Policy on Export Control

KHI's basic policy on export control is to "refrain from transactions that might endanger the maintenance of international peace and security." Accordingly, KHI is committed to ensuring this through compliance with the Foreign Exchange and Foreign Trade Act and other export control laws and regulations. Moreover, when engaging in transactions that involve materials and technology of U.S. origin, KHI takes account of U.S. reexport regulations in its export control procedures.

Export Control System

To ensure Group-wide compliance with export control laws and regulations, we have formulated a set of corporate export control regulations for goods and technologies relevant to security maintenance and have put in place an export control system in which a representative director acts as Chief Export Control Officer.

Export Control Structure



As a first measure, we set up the Export Control Laws and Regulations Compliance Screening Committee (hereafter the Screening Committee) at the Head Office chaired by the Chief Export Control Officer. The Screening Committee undertakes final assessment of all export transactions across the Group to confirm compliance with export control laws and regulations, and provides guidance and supervision to our internal companies to help them establish control systems that ensure legal and regulatory compliance. In addition, the Export Control Section was set up within the Head Office Marketing Division to provide secretariat services to the Screening Committee and to function as a Group-wide division to coordinate export control. Next, the Working Level Committee was instituted under the control of the Screening Committee to undertake preliminary screening ahead of the assessment by the Screening Committee, discuss matters delegated to it by the Screening Committee, report to the Screening Committee, and undertake horizontal rollout to internal companies of export control-related information.

Furthermore, each internal company and business center operates an Export Control Committee, which screens all the export transactions of the relevant company or business center and refers the screening results to the Screening Committee for discussion.

Export Control Training and Guidance

To provide Group-wide training in export control covering all Group companies, the Head Office Export Control Section organizes Group-Wide Export Control Training Meetings each year at a number of offices throughout Japan, with external lecturers invited from the Center for Information on Security Trade Control (CISTEC). Concurrently, each internal company offers export control training as a separate module in its grade-specific training.

An export control audit is carried out jointly by the Head Office Auditing Department and the Head Office Export Control Section, which perform individual audits once a year of all internal companies and of major Group companies in Japan.

Moreover, overseas Group companies are subject each year to a questionnaire-based survey of their export record and related matters, with appropriate guidance and support on export control provided by the relevant internal company.

Information Security Management

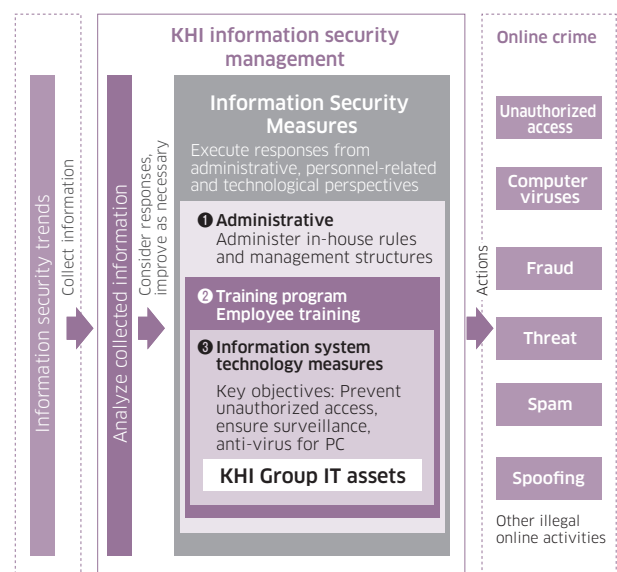
Basic Stance for Information Security

The KHI Group provides products to a diverse range of customers, from general consumers and the public sector to the Self-Defense Forces, and promotes numerous information security measures suited precisely to the requirements of each customer sector.

Information Security Management Structure

We established a dedicated framework under the corporate risk management structure to handle information security management for the Group. We promote a management cycle, emphasizing rules, training and technology measures to address information security risks that constantly change with the times, and we systematically implement, maintain and enhance information security measures.

Information Security Management System



In addition, the Group's data center has acquired ISO 27001, the international standard for information security management, and strives to uphold a high level of operational reliability.

Information Security Measures

Rules

The necessary information security management practices have been established as corporate regulations to ensure compliance with prevailing domestic and international laws and in respect of contractual promises to clients and to protect our businesses from external risks.

These corporate regulations comprise Rules for Information Management, as the underlying policy, along with various standards for establishing administrative management guidelines, including the use and implementation/development of information systems.

Education and Training

We run education and training programs on the information security theme for employees of all Group companies.

Education delves into laws and social customs as well as corporate rules and incident examples, and course content is tailored to career level, such as newly hired employees, general employees and executives.

Training programs use simulations, conducted on a regular basis, that help employees learn how to avoid damaging situations, such as cyber attacks and online crime, which could occur in the course of daily business operations.

Information System Security Measures

We have implemented systems to prevent unauthorized access to data from outside as well as information leaks from inside and to stop the spread of computer viruses. We have also introduced systems to check for irregularities, such as illegal activity.

Safeguarding Intellectual Property

To survive amid intense global competition, we must raise corporate value by developing business pursuits that showcase core competence. Toward this end, we rely on intellectual property—a vital management resource—and the key to securing and successfully applying this corporate asset is to undertake activities from a three-point perspective that adds intellectual property to business and R&D as a third component of core competence.

To promote these strategic intellectual property-oriented activities, we maintain a structure whereby the Intellectual Property Department in the Corporate Technology Division drafts corporate measures for implementation and works with other intellectual property management departments in each business segment. This provides support in line with each segment's business activities.

Invention Reward System

Based on the Patent Law regulation pertaining to inventions by employees, KHI has established a provision in its internal rules regarding inventions by employees to reward the employees at specific milestones, such as the filing of a patent application (application reward), patent registration (registration reward), and practical application (performance-based reward). The Company faithfully adheres to this provision. In addition, the same reward system is applied even when the invention is not made public for strategic reasons. Of note, the performance-based reward is fairly awarded after duly taking into consideration how the Company has benefited from the invention, using an evaluation standard based on comparisons with other companies in the same industry as well as trends in society.

Protecting Personal Information

KHI abides by its Privacy Policy (Personal Information Protection Policy), a basic policy for protecting personal information. This policy is publicly disclosed.

The Company also has a chief personal information protection officer and has created Rules for Protecting Personal Information, a document that functions as a guide for personal information management.

As part of personal information management, a data-handling ledger is prepared to facilitate at-a-glance confirmation of the status of personal information handled by each business segment. The information is updated on a regular basis.

With regard to personal information in its possession, the Company has put in place a structure that ensures a prompt response to individual requests on the use of personal information, such as disclosing it or no longer using it.

Communicating with Shareholders and Investors

We strive to disclose information in a fair, timely, and appropriate manner, in accordance with the Disclosure Policy posted on our website, and we keep an open channel to shareholders and investors through various investor relations (IR) activities at home and abroad to promote communication.

General Meeting of Shareholders

At KHI, we believe that the general meeting of shareholders—the highest corporate decision-making body of any company—is an important opportunity for communication between the Board members and our shareholders. We actively employ methods to encourage participation from all shareholders.



General Meeting of Shareholders

<http://www.khi.co.jp/english/ir/meeting/index.html>

Measures to Revitalize the General Meeting of Shareholders and Facilitate the Exercise of Voting Rights

Schedule general meeting of shareholders around peak shareholder meeting dates of other companies	We schedule our general meeting of shareholders around days when most other companies hold their meetings, so that as many shareholders as possible can attend.
Early distribution of convocation notice for shareholders' meeting	To give shareholders sufficient time to look over agenda items, we post the convocation notice three weeks before the general meeting of shareholders, which is earlier than legally required.
Exercising voting rights by electromagnetic methods	For shareholders who are unable to attend a general meeting of shareholders in person, we adopted a system that allows them to exercise their voting rights over the Internet by computer or mobile phone.
Participation in electronic voting platform and other measures to make environment better for institutional investors to exercise their voting rights	We joined the electronic proxy voting platform operated by Investor Communications Japan, Inc., for institutional investors and foreign investors, effective from the June 2006 general meeting of shareholders.
Availability of convocation notice (summary) in English	The original Japanese-language convocation notice and its English translation are made available for viewing and downloading on our website and other sites on the same day the materials are sent out by post, and we encourage all shareholders to exercise their right to vote.
Other	At the general meeting of shareholders, we use video and other methods to provide shareholders with an easy-to-understand review of the business activities and results achieved by our operating segments over the past fiscal year. (Materials used at previous meetings are posted on our website.)

Return of Profits

Our basic policy on the return of profits to shareholders calls for a stable cash dividends appropriate to our performance, giving due attention to sufficient maintenance of retained earnings to strengthen and expand profitability and the business foundation in preparation for future growth. Taking an overall perspective, with particular consideration to future business performance and retained earnings, management resolved to pay a year-end dividend of ¥6 per share for fiscal 2014, the year ended March 31, 2014.

Consolidated Net Income (Loss) and Annual Cash Dividends per Share

	FY2010	FY2011	FY2012	FY2013	FY2014
Net income (loss)	¥(6.51)	¥15.55	¥13.95	¥18.46	¥23.09
Cash dividends	¥3	¥3	¥5	¥5	¥6
Dividend Payout Ratio	—	19.3%	35.8%	27.0%	25.9%

* Dividend payout ratio in fiscal 2010 is not written because of net loss.

IR Activities

KHI strives to improve dialogue with shareholders and investors through IR activities matched to diversifying needs. The Company also seeks to use the comments expressed in the context of these IR activities as internal feedback and works to reflect the comments in management and business operations.



Disclosure Policy posted on our website
<http://www.khi.co.jp/english/ir/policy/disclosure/index.html>



Please also visit the IR section of our website
<http://www.khi.co.jp/english/ir/index.html>

Status of IR Activities

	Supplementary Information	Explanation by Representative
Preparation and Announcement of Disclosure Policy	We prepare our disclosure policy and post it on our website.	
Regular financial results briefings for analysts and institutional investors	We hold financial results briefings twice a year, when results for the first two quarters are announced and when results for the full year are announced. The president and director responsible for financial matters provide details on business results during the respective periods, reveal performance forecasts, and offer explanations about future management strategies and other topics of interest. Key question-and-answer content from financial results briefings is posted on our website in the IR Information section.	Yes
Separate visits to overseas institutional investors	Executives' overseas activities include visits to institutional investors in North America and in Europe.	Yes
Posting IR materials on the website	The Company has allocated a specific area of its website for posting IR materials, in English and in Japanese, mainly in the categories (1) to (7) below. (1) Consolidated financial reports (2) Timely disclosure materials other than financial reports (3) <i>Yukashoken Hokokusho</i> (Japanese-language business reports) and quarterly reports (4) Convocation notices for the general meeting of shareholders (5) Japanese-language semiannual and annual reports (6) English-language semiannual and annual reports (7) Presentation materials from financial results briefings	
Establishment of department (officer) specifically for IR	IR matters are handled by the Finance Department's IR section and by the General Affairs Department's documentation and stock section.	
Other	We organized a factory tour of the Akashi Works and the Hyogo Works as an opportunity to encourage contact with individual investors.	

Supply Chain Management

Basic Stance to Supply Chain Management

The Kawasaki Group Mission Statement highlights KHI's commitment to create new value that shapes a beautiful and comfortable society for tomorrow while seeking harmonious coexistence with the environment through high-level, integrated technological capabilities in wide-ranging areas. But the cooperation of business suppliers who provide the necessary materials and component parts of Kawasaki-brand products is imperative to the creation of new value.

This perspective applies to CSR as well. At KHI, we look beyond CSR-compliant business activities of our own. We believe that cooperation all along the supply chain, which includes business partners, is vital, and we ask them to work with us to enhance our CSR responses.

Supply Chain Management Structure

KHI adopted its Basic Policies for Material Procurement and its Code of Conduct for Dealing with Business Partners in April 2011, and its CSR Procurement Guidelines in April 2012, all of which are published on the KHI website.

- *1. Explains KHI's approach (policy) to procurement activities and describes issues that the Company would like business partners to address.
- *2. Explains the respective duties of those dealing with business partners, including Company directors, employees, temporary employees and part-timers, in line with the Basic Policies for Material Procurement.
- *3. Requests the understanding and cooperation of business partners as pertains to CSR activities by detailing issues in the Basic Policies for Material Procurement that KHI would like business partners to address so as to underpin CSR activities throughout the supply chain.

Our procurement activities are built upon our basic policies, code of conduct and guidelines, and they reflect our approach to CSR, particularly in terms of compliance, human rights, labor, health and safety, and our respect for the global environment. We also seek the support of our business partners and actively promote CSR activities throughout the supply chain.



Basic Policies for Material Procurement

<http://www.khi.co.jp/english/csr/procurement/policy.html>



Code of Conduct for Dealing with Business Partners

<http://www.khi.co.jp/english/csr/procurement/policy.html>



CSR Procurement Guidelines

<http://www.khi.co.jp/english/csr/procurement/guideline.html>

Reinforcing Partner Sentiment with Suppliers

At KHI, we seek to forge cooperative relationships with our business partners based on mutual trust, and we strive to foster a sense of coexistence and co-prosperity in joint activities. Toward this end, each internal company and business center maintains a cooperation-building association comprising business partners with whom the respective business segment has cultivated close ties. We emphasize efforts to reinforce the partnership perspective through the activities described below.

- Holding of regular meetings, to share policies on procurement, production and other operations
- Implementation of improvement initiatives, emphasizing joint efforts between KHI and business partners to enhance quality and production
- Holding of lectures and workshops on such themes as human resource development and management practices
- Offering of factory tours and discussion opportunities for member companies

Conflict Minerals

In December 2013, KHI posted its Policy Regarding Procurement of Conflict Minerals on its website, which states clearly that KHI has no intention whatsoever of being party to conflicts or inhumane acts in the Democratic Republic of the Congo and neighboring countries through the procurement or use of the tin, tantalum, tungsten and gold—so called conflict minerals—that are produced in these countries.

Policy Regarding Procurement of Conflict Minerals

Armed groups that repeatedly commit inhumane acts such as killings, looting and sexual violence may derive capital from the four minerals of tin, tantalum, tungsten and gold (known as “conflict minerals”) being produced in the Democratic Republic of the Congo and its neighboring countries. As a result, there is a concern that these conflict minerals will lead to an escalation of problems.

The Kawasaki Heavy Industries Group has no intention whatsoever of being party to such conflicts or inhumane acts through the procurement or use of these conflict minerals in consideration of respect for human rights. Going forward, efforts will be made to tackle the issue of conflict minerals in close liaison with customers and suppliers.

Thorough Compliance

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

- In October 2009, we published a collection of examples of Subcontractors' Act violations, using actual cases in which other companies had contravened this law.
- In April 2013, we posted a checklist for self-auditing compliance status pursuant to the Subcontractors' Act on the corporate intranet. This checklist functions as a tool for identifying any administrative activity prone to violations of the Subcontractors' Act and for correcting such situations.
- Since fiscal 2012, we have held sessions, mainly for design and manufacturing divisions at plants and major affiliated companies. In fiscal 2014, the sessions attracted 652 participants. (Reference: To date, 2,146 people have attended the sessions.)

Issues to Consider, Future Direction

In addition to ongoing efforts to build a stronger relationship with its business partners based on mutual trust, KHI repeatedly expands application of the aforementioned policies, code of conduct and guidelines—all properly matched to operating environment—at each of its affiliated companies in Japan and overseas. Through this process, the Company promotes CSR procurement activities on a global and Group-wide basis.