

1.

Reaching New Heights

Chapter 2

Toward "Global Kawasaki"

—Living in Harmony with People, Society, and the Planet

2007–2013

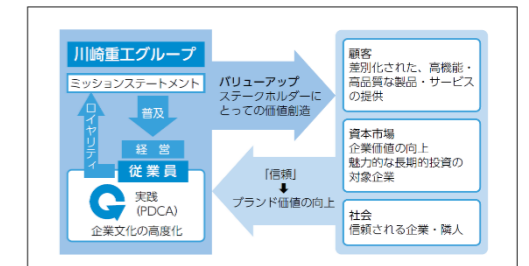
In 2007, the Kawasaki Group drafted a mission statement, "Kawasaki, working as one for the good of the planet," to guide the entire Group in making the leap forward to become a global leader in the 21st century. Following fiscal 2006, the company posted record profits in fiscal 2007, but due to the global economic recession and slowdown caused by the Lehman Brothers collapse, sales and profits declined for the first time in five years in fiscal 2008.

In April 2010, it formulated the Kawasaki Business Vision 2020 and Medium-term Business Plan (MTBP) 2010 (FY2010–2012). In October of the same year, Kawasaki Heavy Industries, Ltd., Kawasaki Shipbuilding Corporation, Kawasaki Precision Machinery, Ltd., and Kawasaki Plant Systems, Ltd., were reintegrated to efficiently and rapidly consolidate and utilize group-wide intellectual assets. The new Kawasaki Heavy Industries, consisting of seven internal companies that emerged from this reintegration then decided to strengthen its solutions business and focus on the development of its environmental and energy systems business. In moving toward the coming low-carbon society and hydrogen society, the company also started to work on demonstrating its CO₂-free hydrogen supply chain technology while building a cooperative consortium.

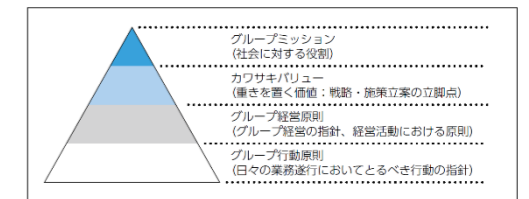
Overseas, the company opened production bases for ships, plants, and precision machinery in China, which was experiencing rapid economic development, and successively opened production and sales bases for motorcycles in the emerging economies of Southeast Asia, Brazil, and India.

1) Establishment of the Kawasaki Group Mission Statement

The Kawasaki Group celebrated its 110th anniversary in October 2006. In September of the same year, the company formulated its medium-term business plan, Global K, aiming to “become a leading global enterprise that enriches lifestyles and helps safeguard the environment through its core businesses” in ten years. In May 2007, the company drafted the Kawasaki Group Mission Statement which underscored its vision for the next decade that was outlined in the Global K medium-term business plan. This mission statement would help the entire Group navigate through the rapidly changing social and business environment as it made the most of its comprehensive technological capabilities in making the leap toward becoming a global leader in the 21st century. Kawasaki had established its Management Principles in 1966 to spell out the corporate culture and management standards it stood for. The new mission statement incorporated all the good that came from those principles over the years and recast them in the light of a new era. The mission statement incorporates the Kawasaki Group's social mission and the values that underlie the Kawasaki brand, as well as the Group Management Principles and Group Action Guidelines. In January 2012 and April 2016, the mission statement was revised to make it easier to understand and more concise without compromising any of the meaning behind the original wording.



Positioning of the Mission Statement in Management



Mission Statement

Kawasaki Group Mission Statement

Group Mission

Kawasaki, working as one for the good of the planet

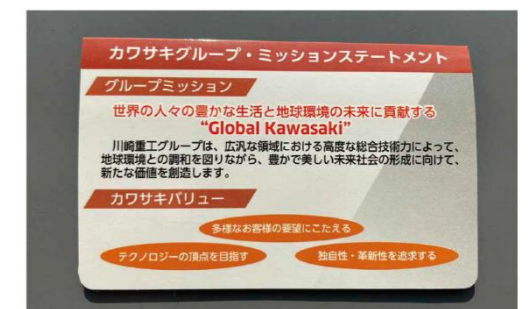
- We are the Kawasaki Group, a global technology leader with diverse integrated strengths.
- We create new value—for a better environment and a brighter future for generations to come.

The Kawasaki Group Core Values

Value Creation: We are globally driven to create new value—both for our customers and for the benefit of society as a whole

Originality: We thrive on originality, innovation and leadership

Excellence: What we produce is of exceptionally high quality and functionality, as we constantly strive to be at the global cutting edge



Mission Statement card distributed to employees

The Kawasaki Group Management Principles

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) Strategy: The Kawasaki Group pursues continuous enhancement of profitability and enterprise 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

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

2) Weathering the Global Financial Storm and Economic Slowdown

Kawasaki's consolidated net sales in fiscal 2007 reached 1,501 billion yen (up 4.3% year on year) mainly due to an uptick in sales for the shipbuilding, consumer products, and machinery businesses. A turnaround in the shipbuilding as well as plant and infrastructure businesses pumped up profits. Operating income hit 76.9 billion yen (up 11.2% year on year) and recurring profit 63.9 billion yen (up 30.4% year on year), while both net sales and profit figures hit record highs.

In fiscal 2008, the global economic slowdown triggered by the collapse of Lehman Brothers took a significant toll. Consolidated net sales fell to 1,338.5 billion yen (down 10.8% year on year) as operating income and recurring profit both dropped sharply, to total 28.7 billion yen (down 62.6% year on year) and 38.7 billion yen (down 39.4% year on year) respectively. Sales and profits declined for the first time in five years.

The bleak business environment cast a dark shadow over the horizon and left no hope that Kawasaki's performance would bounce back in fiscal 2009. Among its produce-to-order businesses, Kawasaki had an abundance of backorders for the rolling stock, gas turbine and machinery, and shipbuilding businesses, which gave it enough work for the foreseeable future. However, new orders for the shipbuilding and other businesses were drying up.

The aerospace business was also in rough shape due to delays in both the development of the next-generation C-X transport aircraft as well as the mass production of the Boeing 787.

Meanwhile, among the mass-production businesses, the consumer products and machinery business, which had been a cash cow for the entire company, was hit hard by lagging performance in developed countries that were its key markets. It was the same story for the precision machinery, robot, and construction machinery businesses where production also declined rapidly. On top of that, the yen's appreciation against all currencies in the foreign exchange market had an inevitable impact on earnings.

The consumer products and machinery business as well as the robot business, in particular, suffered significant sales declines. Their employees were reassigned or seconded to further reduce fixed costs. Production workers in the consumer products and machinery business went to other companies to assist with their operations.

3) Building a Solid Revenue Base for Sustainable Growth**Continuing Reforms to Cultivate a Sustainable Growth Cycle**

The Kawasaki Group decided to firm up its business foundation in order to withstand the worsening recession caused by the global economic downturn. President Tadaharu Ohashi noted that it was a critical time for the Group, and that they would work hard to rebuild the revenue base and return to a sustainable growth path. He laid out an urgent business management strategy focusing on: (1) ensuring quality over quantity and strict risk management; (2) bolstering the business foundation; (3) investing in growth; and (4) getting business back on a growth trajectory. He emphasized that Kawasaki should closely monitor changes in the market environment, be selective about what orders it accepted and make discerning investments based on thorough risk assessments of businesses that were likely to experience a decline in demand, and all the while focus on reducing the break-even point, improving cash flow, and streamlining the balance sheet. He decided to invest resources in growth areas such as energy and the environment as well as research and development vital to building the Group's future technological foundation as planned. He also planned to continue strategically investing in key markets with a keen eye to selecting the right targets, the amount and speed of resource input needed, etc.

In addition to that, he compiled a list of tasks to be done for mass-production businesses, including quickly optimizing inventory levels, bringing fixed costs down to where they were commensurate with the market size, and improving marginal profit ratios. When it came to produce-to-order businesses, the focus was placed on enhancing the profitability of large mass-production projects and promptly responding to foreseeable loss risks.

Ohashi said, "We will temporarily hold back on investing in businesses and products that are in jeopardy as we strive to maintain a stable operating foundation upon which the Group as a whole can move ahead with preparations for our leap forward into a bright new future."



President Ohashi's 2009 New Year's address in the company newsletter describing his business management policy

Measures Taken by Business Divisions

The following measures were implemented by individual businesses so they could boost their bottom line amid the global economic downturn.

[Rolling Stock]

Strengthen business operations in the three major markets of Japan, North America, and the rest of Asia, with the huge backlog of orders for projects in North America and elsewhere

[Aerospace]

Move ahead with large-scale projects, such as moving into the mass production of next-generation fixed-wing maritime patrol aircraft, completing the development of the next-generation transport aircraft, and meeting mass production requirements to supply components for the Boeing 787

[Gas Turbine & Machinery]

Proceed with the development of new jet engines for commercial aircraft, work on developing new products and models for industrial gas turbines, high-efficiency gas engines, etc. to strengthen Kawasaki's position in the energy and environmental engineering business, and boost overall productivity to gain a bigger competitive edge

[Consumer Products & Machinery]

Increase the profitability of motorcycles sold in developed countries, which constitutes Kawasaki's top priority business, despite the global recession. Strengthen development and production systems on a global basis with the aim of making Kawasaki products more competitive

[Robots]

Strengthen development capabilities and expand customer base

[Construction Machinery]

Improve development and sales capabilities through alliances with Hitachi Construction Machinery and TCM

[Shipbuilding]

Step up efforts to optimize Kawasaki Shipbuilding Group production systems, including its China operations, to pave the way for better earnings in anticipation of new orders in the future

[Plant & Infrastructure]

Accelerate the development of the energy and environmental engineering business as set forth in the Global K medium-term business plan, under the leadership of Kawasaki Plant Systems

[Precision Machinery]

Make strategic investments of corporate resources while lowering the breakeven point, and strengthen global operations covering the five key markets (Japan, U.S., Europe, China, and South Korea)

Through the implementation of the above measures, the Kawasaki Group aimed to enhance profitability in all aspects of its business, increase enterprise value by ensuring compliance, and build a trusted brand.

Consolidation of Affiliates

● Aim of consolidation

Kawasaki worked to clearly define the boundaries of its business domains, thoroughly implement the selectivity and concentration strategy, and focus on strengthening Group management capabilities, the priority measures outlined in the Global K medium-term business plan which went into effect in fiscal 2006.

As part of these efforts, the company identified where its affiliates and their businesses fall in its Group operations as well as the direction they should be headed, and started implementing action plans in 2007 to achieve goals set in Global K.

Specifically, the company determined the future direction of its affiliates' businesses in terms of synergies they would generate within the Group, their future profitability and strategic value, and in light of the original nature of these businesses. The company also looked at consolidating companies that didn't fall squarely under the business domains listed in the medium-term business plan as well as businesses (affiliates) with overlapping functions.

The purpose of consolidating affiliates was threefold.

- (i) Reduce indirect costs through the integration of affiliates and effectively use management resources, such as people, goods, and money, to enhance synergies and improve management efficiency and quality.
- (ii) Increase the number of affiliates above a certain size through consolidation so they could also be used as centers of strategic human resources development for the future of the Kawasaki Group.
- (iii) Further enhance group-wide legal compliance and strengthen internal control functions by reorganizing and consolidating affiliates.

The combined effect of the above reasons would enhance the overall quality of management and further strengthen the Group's earning power through centralized organizational management, faster business operations, etc.

● Changes in the number of affiliates after consolidation

As of January 1, 2007, Kawasaki had 136 affiliates (86 in Japan and 50 overseas). After looking at their status with an eye to consolidating affiliates operating under the same business division, eliminating overlapping businesses, and ensuring profitability and a competitive advantage in comparison with other specialized companies, Kawasaki worked on consolidating them as necessary until the end of fiscal 2008. The company continued to review the operations of its affiliates beyond fiscal 2009, and as of the end of March 2014, the number of affiliates totaled 127 (64 in Japan and 63 overseas). The number of affiliates in Japan had been whittled down by a total of 22 (after cutting 32 and adding 10). The number of overseas affiliates, on the other hand, grew by 13 (after cutting 7 and adding 20) due to the expansion of global operations (see Table I).

[Table I] Changes in the Number of Affiliates

	Japan	Overseas	Total	
January 1, 2007	86	50	136	
Change	Decrease	-32	-7	-39
	Increase	10	20	30
	Total	-22	13	-9
March 31, 2014	64	63	127	

[Table II] Changes in the Number of Affiliates That Are Consolidated Subsidiaries

	Japan	Overseas	Total	
January 1, 2007	58	36	94	
Change	Decrease	-21	-3	-24
	Increase	7	15	22
	Total	-14	12	-2
March 31, 2014	44	48	92	

The number of affiliates that were consolidated subsidiaries totaled 94 (58 in Japan and 36 overseas) as of January 1, 2007, then 92 (44 in Japan and 48 overseas) as of March 31, 2014, with a decrease of 14 (after cutting 21 and adding 7) in Japan and an increase of 12 (after cutting 3 and adding 15) overseas (see Tables II and III).

[Table III] Among Affiliated Companies as of January 1, 2007, Consolidated Subsidiaries That Were Eliminated or Added by March 31, 2014 (Excluding Spin-offs, Mergers, and Waste Treatment Facility Operation and Maintenance Companies)

• Eliminated companies (21 in Japan and 3 overseas)

	Company Name	Month/Year	Description
Japan	Kawasaki Helicopter System, Ltd.	March 2007	Partial share transfer
	Fukae Powtec Co., Ltd.	March 2007	Transfer of shares to EarthTechnica Co., Ltd.
	Technica Corp.	October 2007	Merged into Shinko Die Casting Co., Ltd. (the trade name remained Technica Corp.)
	Kawasaki Construction Co., Ltd.	January 2008	Merged into Kawasaki Heavy Industries
	KRT Co., Ltd.	April 2008	Merged into Kawasaki Rolling Stock Component Co., Ltd.
	Sakaide Ace Co., Ltd.	April 2008	Merged into Kawajyu Sakaide Service Co., Ltd. (which was renamed Kawasaki Techno Wave Co., Ltd. on January 1, 2009)
	K-Point Co., Ltd.	July 2008	Merged into Kawasaki Motors Corporation Japan
	KAA Co., Ltd.	January 2009	Merged into K-TEC Corp.
	Kawajyu Hyogo Service Co., Ltd.	April 2009	Merged into Kawasaki Rolling Stock Component Co., Ltd.
	Nisseki Service Consultant Co., Ltd.	April 2009	Merged into Nichijo Manufacturing Co., Ltd.
	Enetec Co., Ltd.	April 2009	Merged into Kawasaki Engineering Co., Ltd.
	Kawasaki Oita Manufacturing Co., Ltd.	August 2010	Liquidation completed on August 18 following the approval of dissolution on March 31
	Kawasaki Gas Turbine Research Center Ltd.	August 2010	Operations ceased at the end of March 2009, and liquidation completed on August 23, 2010 following the approval of dissolution on December 31, 2009
	Akashi Ship Model Basin Co., Ltd.	April 2011	Merged into Kawasaki Marine Engineering Co., Ltd.
	Ship Partners Limited	April 2011	Merged into Kawasaki Marine Engineering Co., Ltd.
	Kawajyu Steel Works & Engineering Co., Ltd.	October 2011	Merged into Kawaju Facilittech Co., Ltd.
	Fukae Powtec Co., Ltd.	April 2012	Merged into EarthTechnica Co., Ltd.
	Kawasaki Shipbuilding Inspection Co., Ltd.	July 2012	Merged into Kawajyu Kobe Support Co., Ltd.
	Kawaju Tokyo Service Corporation	July 2012	Merged into Kawasaki Life Corporation
	Kawasaki Metal Industries, Ltd.	July 2012	Liquidation completed on July 6, 2012 following the approval of dissolution on December 31, 2011
K-GES Co., Ltd.	April 2013	Merged into Kawasaki Motors Corporation Japan	
Overseas	Kawasaki Aeronautica do Brasil Industria Ltda.	March 2007	Liquidation completed on March 20
	KHI Europe Finance B.V.	March 2009	Liquidation completed on March 31, 2009 following the approval of dissolution on December 8, 2008
	Kawasaki Motors Racing B.V.	April 2010	Merged into Kawasaki Motors Europe N.V.

• Added companies (* indicates companies that became consolidated subsidiaries due to changes in stock holdings) (7 in Japan and 15 overseas)

	Company Name	Month/Year	Description
Japan	*EarthTechnica Co., Ltd.	April 2008	Made into a wholly owned subsidiary through stock purchase
	*EarthTechnica M&S Co., Ltd.	April 2008	In connection with EarthTechnica becoming a wholly owned subsidiary
	*Fukae Powtec Co., Ltd.	April 2008	In connection with EarthTechnica becoming a wholly owned subsidiary
	KCM Corporation	January 2009	Established to take over the operations of the Construction Machinery Business Center (Kawasaki's construction machinery division was spun off and transferred to KCM Corporation on April 1.)
	KCMJ Corporation	January 2009	Established to take over the construction machinery division operations of Kawasaki Machine Systems, Ltd. (KMS) (KMS's construction machinery division was spun off and transferred to KCMJ Corporation on April 1.)
	Kawasaki Robot Service, Ltd.	January 2012	Established to take over the robot division operations of Kawasaki Machine Systems, Ltd. (KMS) (KMS's robot division was spun off and transferred to Kawasaki Robot Service, Ltd. on April 1.)
	Kawaju Heartfelt Service Co., Ltd.	September 2013	Special-purpose subsidiary for the employment of persons with disabilities Engaged in contracting employees who perform general clerical work, real estate maintenance, management and cleaning, etc.
Overseas	Kawasaki Motors Racing B.V.	March 2007	Engaged in the operation of MotoGP races, acquisition and storage of operational equipment, and administrative work
	KCM Receivables Funding LLC	September 2007	Engaged in the acquisition, holding, and sale of KCM dealer receivables for the purpose of securitization of receivables
	Kawasaki Motores do Brasil Ltda.	October 2007	Engaged in the production and sales of motorcycles, ATVs, PWCs, and related businesses in Brazil
	Kawasaki Heavy Industries Middle East FZE (United Arab Emirates)	July 2008	Engaged in the marketing and sales of Kawasaki products and providing related support in the Middle East and North Africa
	*KHITKAN, Co., Ltd.	February 2009	Became Kawasaki's wholly owned subsidiary after Kawasaki Motors Enterprise (Thailand) Co., Ltd. acquired all shares in the company
	Kawasaki Trading do Brasil Ltda.	April 2009	Engaged in the sales of steelmaking, power generation, marine, hydraulic, transport, and other related equipment in the Brazilian market (wholly owned by Kawasaki Trading Co., Ltd.)
	Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd.	August 2009	Engaged in the manufacture and sale of hydraulic pumps for construction machinery
	Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.	February 2010	Engaged in the sales of Kawasaki Precision Machinery, Ltd. products (including products made by joint ventures) as well as customer service and customer satisfaction management activities in China
	Kawasaki Trading (Shanghai) Ltd.	April 2010	Engaged in the sales of power generation equipment as well as steel-related, marine, hydraulic, and civil engineering machinery plus other related equipment in the Chinese market (wholly owned by Kawasaki Trading Co., Ltd.)
	India Kawasaki Motors Private Limited	July 2010	Engaged in the production and sales of Motorcycle & Engine Company products and related operations
	Kawasaki Componentes da Amazonia Ltda.	November 2011	Engaged in the production and sales of motorcycle, ATV, PWC, small engine parts and engines (wholly owned by KMB)
	Wipro Kawasaki Precision Machinery Private Limited	February 2012	Engaged in the manufacture, sale, and servicing of hydraulic pumps for construction machinery (74% owned by Kawasaki)
	Kawasaki Hydrogen Engineering Australia Pty Ltd	August 2012	Engaged in design work for the CO ₂ -free hydrogen energy supply chain project
	Kawasaki Robotics (Kunshan) Co., Ltd.	January 2013	Engaged in the procurement of industrial robot parts and peripheral equipment
	PT.Kawasaki Motor Sales Indonesia	February 2014	Engaged in the import and sale of finished motorcycles and parts (99.90% owned by KMI)

• Consolidation and integration of service divisions in the Kansai Region

In October 2008, service operations and functions of service companies in Hyogo Prefecture, including Kawaju Kobe Support Co., Ltd., Kawajyu Hyogo Service Co., Ltd., Kawaju Akashi Service Co., Ltd., Kawaju Facilittech Co., Ltd., and Kawasaki Life Corporation (Office Support Division), were consolidated and integrated into Kawaju Service Co., Ltd. (renamed Kawaju Akashi Service Co., Ltd.) to enhance and streamline management.

• Withdrawal from the bridge and floodgate business

Kawasaki had been carrying out structural reforms of its businesses since 2000, including spinning off its shipbuilding, precision machinery, and plant businesses, and forming a joint venture for its crusher business. As part of this process, the company was also looking into spinning off its bridge business. With little hope left for maintaining and expanding the business in light of diminishing public investment in Japan, its primary market, Kawasaki finally decided to withdraw from the bridge and floodgate business altogether in June 2007.

• Restructuring of the construction machinery business

In the construction equipment industry, where global cooperative relationships were beginning to blossom, competing companies were ramping up the scale of production while aggressively making inroads into overseas markets and strengthening their IT capabilities in the service sector. While Kawasaki's Construction Machinery Business Center also looked to expand its operations, a lack of management resources made it difficult to do in the rocky business environment. As a solution Kawasaki sought partnerships with other companies and signed a tripartite business alliance agreement in the wheel loader business with Hitachi Construction Machinery Co., Ltd. and TCM Corporation (currently Mitsubishi Logisnext Co., Ltd.) in October 2008.

In April 2009, Kawasaki spun off its construction machinery division into KCM Corporation specializing in construction machinery design, manufacture, sales, and repair. In the same month, the domestic construction machinery sales and service division and other operations of Kawasaki Machine Systems, Kawasaki's wholly owned subsidiary, were spun off and transferred to KCMJ Corporation, Kawasaki's other wholly owned subsidiary established in January 2009.

In June 2010, Hitachi Construction Machinery took a stake in KCM in the form of a third-party allocation of new shares, bringing KCM's shareholder composition to 66% for Kawasaki and 34% for Hitachi Construction Machinery. Kawasaki subsequently transferred all its shares in KCM to Hitachi Construction Machinery in October 2015. KCMJ, a subsidiary of KCM, was transferred to Hitachi Construction Machinery Japan Co., Ltd. on the same day.



Kawaju Service Co., Ltd. head office building



4) Crane Accident at Kawasaki Shipbuilding's Kobe Works and Kawasaki's Commitment to Safety

On August 25, 2007, at the Kobe Works of Kawasaki's subsidiary, Kawasaki Shipbuilding, a 30-meter-long arm of a shipbuilding crane (elevated approximately 50 meters high and weighing about 800 tons) collapsed, killing three of nine workers who were repairing the crane, and injuring four others.

Kawasaki Shipbuilding set up an emergency headquarters to investigate the collapse of the crane that occurred at its Kobe Works No. 4 Building Berth. Under the president's direction, the company worked to uncover the facts, determine the cause of the accident, and implement measures to prevent a recurrence. The company promptly cut the amount of compensation paid to all full-time directors as a measure of accountability for the terrible accident and harm it caused to all involved.

Working to strengthen its management structure, Kawasaki Shipbuilding created a new position of chairman and, to fill it, appointed Masatoshi Terasaki, senior executive vice president of its parent company, Kawasaki Heavy Industries, in December 2007. In response to this accident, Kawasaki president, Tadaharu Ohashi, in his 2008 New Year's address, assured all employees that he would strengthen the safety management system of the entire Kawasaki Group. He pledged to put safety first for all employees, products, and equipment, with an aim to eradicate serious accidents, and prevent such an incident from ever occurring again.

2.

Achieving the Group Mission and Consolidating Four Companies

1) Inauguration of Satoshi Hasegawa as President

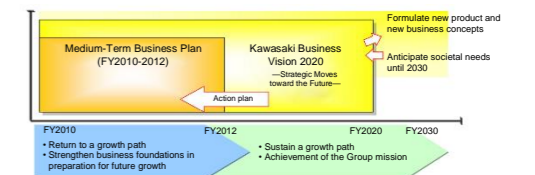
In June 2009, Kawasaki president, Tadaharu Ohashi, became the chairman, and Satoshi Hasegawa, the senior executive vice president, became the president. Hasegawa took over the helm in the midst of a global recession the likes of which they say could only occur once in 100 years. He made clear exactly where he stood on management policy right from the beginning, saying, "Kawasaki operates a wide range of businesses that support the development of public infrastructure around the world. As a company living in the 21st century, we should operate with a broad awareness of our corporate social responsibility, focusing not only on environmental issues with our products and manufacturing processes, but also on our relationships with all our stakeholders, including shareholders, customers, employees, and local communities."



Chairman Ohashi (left) and President Hasegawa (right)

2) Formulation of the Medium-Term Business Plan 2010 and Kawasaki Business Vision 2020

Kawasaki worked on expanding operations in North America, Asia, and other overseas markets as well as improving its financial position under the Global K medium-term business plan (FY2006–2010), which was launched in fiscal 2006, and achieved significant results, including record profits for two consecutive years in fiscal 2006 and 2007. However, the global economic recession that began in the fall of 2008 forced the company to revise this plan. Then, in April 2010, it formulated the Kawasaki Business Vision 2020 and the Medium-Term Business Plan (MTBP) 2010 (FY2010–2012), outlining the Group's vision for 2020 and a roadmap for achieving that vision. In an attempt to adapt quickly and flexibly to the changing business environment, the medium-term management plan was shortened from the conventional period of five years to three. The summary of the Kawasaki Business Vision 2020 and MTBP 2010 is as follows.



The Relationship between the Kawasaki Business Vision 2020 and the Medium-Term Business Plan

<Kawasaki Business Vision 2020>

[Business Vision]

Aiming to achieve the Group Mission, we will move toward becoming a company that provides products and services designed to meet the diverse needs of people around the world by leveraging our advanced technological capabilities in three principal business sectors: transport systems, energy and environmental engineering, and industrial equipment.

[Basic Strategy]

(1) Strengthening of the business base

- Classify each business as a “developing business,” a “core profit-making business,” or a “business requiring review” and concentrate management resources on developing businesses and core profit-making businesses. On the basis of careful examination of market trends, implement structural reform or downsize or withdraw from businesses requiring review.

- In the existing businesses that constitute the Group's earnings structure, maintain and increase competitiveness as well as create stable earnings and cash flow. Furthermore, actively pursue expansion into new products and new markets to develop an earnings structure for the future.
- (2) Reinforcement of development and technological capabilities and *monozukuri* (manufacturing) capabilities
 - Anticipate developments in society until around 2030 and identify business sectors where needs will increase in the medium term to long term. On that basis, utilize the Group's intellectual assets to nurture and reinforce competitive new products and businesses.
 - Position the Group's plants in Japan as development and production bases that integrate advanced technological capabilities and reinforce development and technological capabilities and *monozukuri* capabilities.
- (3) Global business development in overseas markets
 - In overseas markets that offer prospects for expansion, principally developing countries, formulate regional market entry strategies based on existing products and technologies while simultaneously pursuing market development through product development adapted to regional needs.
- (4) CSR and environmental response
 - Enrich lifestyles and improve the global environment through products that incorporate the ultimate in energy-saving, low environmental impact technologies.
 - Establish the Environmental Vision 2020 and engage in environment-friendly business operation. Be conscious of corporate social responsibility in all business activities and steadily implement CSR activities.
- (5) Implementation of personnel policies
 - Develop and improve such systems as personnel and education and create a corporate climate in which employees strive to improve their skills and can take maximum advantage of their abilities.
 - Build a safe, worker-friendly work environment that reflects consideration of work-life balance and diversity.

[Quantitative Vision of Consolidated Performance] (FY2020)

Net sales	2 trillion yen
Recurring profit	100 billion yen or higher (Ratio of recurring profit to sales: 5.0% or higher)

<MTBP 2010>

[Basic Objectives]

- (1) Return to a growth path
 - Rebuild the earnings structure during the term of the Medium-Term Business Plan and return to a growth path in preparation for achievement of the Kawasaki Business Vision 2020.
- (2) Reinforce overall Group profitability
 - Pursue radical cost reduction and productivity improvement in all development, design, procurement, and *monozukuri* processes and reinforce overall Group profitability by implementing bold structural reform of businesses experiencing or expected to experience demand shortages.

- (3) Strengthen business foundations in preparation for future growth
 - Steadily nurture new products and new businesses in preparation for achievement of the Kawasaki Business Vision 2020 and engage in business overseas, focusing on developing countries.
- (4) Reinforce the Group's collective strength
 - Reorganize the business structure through the re-merger of Group companies and establish an internal company system with companies to operate in seven business segments: Shipbuilding, Rolling Stock, Aerospace, Gas Turbines & Machinery, Plant & Infrastructure, Motorcycle & Engine, and Precision Machinery. In this way, accelerate the upgrading of existing products and product development in new business sectors. In particular, maximize the benefits of establishing a Plant & Infrastructure Company.
 - Reinforce the Group's collective strength by promoting the sharing and utilization of intellectual assets within the Group related to technology, marketing, and human resources.
- (5) Achieve a worker-friendly work environment
 - Develop such systems as personnel and education that place importance on work-life balance and diversity.

[Key Strategies for Returning to a Growth Path]

- (i) Reinforce the capability to respond to changes in the business environment by lowering the break-even point for mass-production businesses through means including fixed cost reductions and optimize inventory levels. Make putting the motorcycle business in the black an especially important priority.
- (ii) For businesses that produce custom-built products based on individual orders, emphasize profitability, increase cost competitiveness by implementing rigorous risk management in business operation, and achieve the profit target.
- (iii) Improve the financial position through cash flow improvement and reduction of interest-bearing debt.

[Key Policies and Measures]

- (i) Reinforce and nurture businesses that will constitute the future earnings structure
- (ii) Accelerate global business development
- (iii) Share and utilize intellectual assets across the Group
- (iv) Strengthen technological capabilities
- (v) Strengthen product development and *monozukuri* capabilities
- (vi) Promote effective use of plants and business sites
- (vii) Develop human resources, personnel systems, and the workplace environment
- (viii) Implement environmental management
- (ix) Develop IT strategy and systems
- (x) Implement group-wide risk management

[Consolidated Quantitative Targets] (FY2012)

Net sales	1.4 trillion yen
Operating income	52 billion yen (Ratio of operating income to sales: 3.7%)
Recurring profit	56 billion yen (Ratio of recurring profit to sales: 4.0%)
Before-tax ROIC	8.5%
Interest-bearing debt	430 billion yen (FY2012 year-end balance)



Firm handshake to mark the merger of the four Group companies

(xi) Improve the quality of headquarters departments

3) Integrating Four Group Companies to Consolidate Technologies and Know-how and Cultivate New Businesses

Kawasaki worked on transforming itself from a heavy industry company into a flexible enterprise and strengthened its business foundation by implementing the principal management policies of quality over quantity, selectivity and concentration, and increased autonomy for business divisions, as set out in the medium term business plan formulated in 2000. In following through on these policies, Kawasaki spun off its shipbuilding and precision machinery divisions on October 1, 2002, and the plant engineering division on April 1, 2005, making them its wholly-owned subsidiaries. After the spin-off, the three subsidiaries strived to strengthen their competitiveness with an eye to becoming independent and achieving profitability.

As a result, the Kawasaki Group was able to achieve its original goal of transforming its corporate structure and strengthening its business foundation.

Guided by its mission statement adopted in 2007, Kawasaki had worked to create new value for a better environment and brighter future by leveraging its advanced technological capability across a broad range of fields. Creating new value involves making existing products smarter through innovation and developing new products in totally new fields. To do this Kawasaki had to work quickly to efficiently integrate operations and make the most of the entire Kawasaki Group's intellectual assets.

That's why, in October 2010, Kawasaki decided to remerge Kawasaki Shipbuilding, Kawasaki Precision Machinery, and Kawasaki Plant Systems and achieve maximum efficiency by leveraging the Group's technological assets and human resources, while removing any of the limitations caused by being subsidiaries.

The new Kawasaki born as a result of this re-merger was now poised to use this opportunity as a springboard toward reaching the goal proclaimed in its mission statement to be a profitable global corporate group working as one for the good of the planet.

4) Reorganizing Corporate Divisions and Internal Company Operations

Corporate Divisions

In fiscal 2010, when the four group companies were integrated, Kawasaki also reorganized its corporate divisions. The Corporate Technology Division established a company-wide system for developing new businesses. It focused on the early involvement of internal companies and budgeting part of the costs at the head office, while conducting research on hydrogen-related and other future businesses.

The office functions of the plant complexes were incorporated into the head office which would carry out overall plant operations with a long-term perspective. It was an independent corporate organization that acted as an external representative of all plants and performed operations common to all plants.

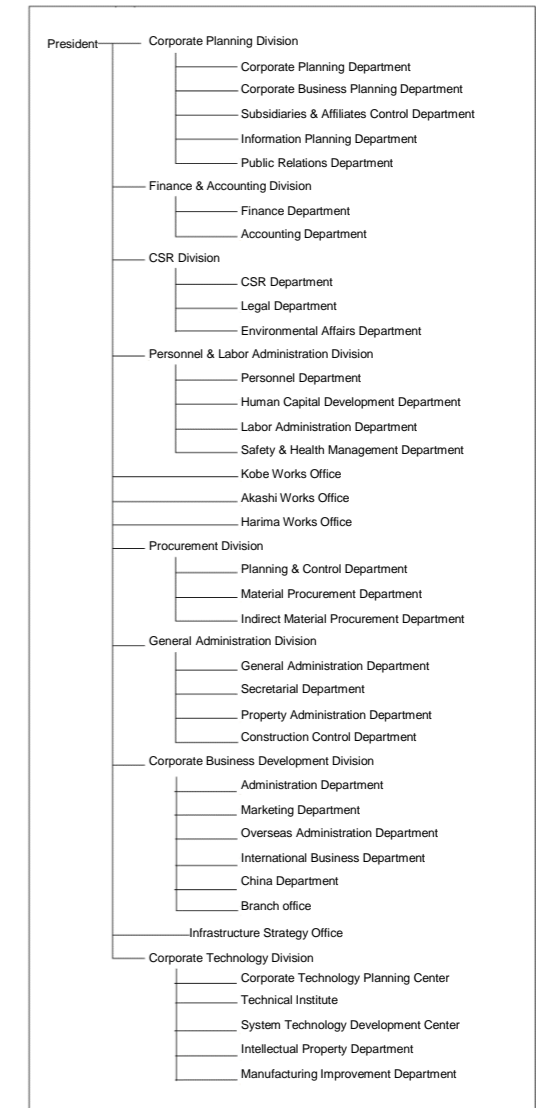
The Procurement Division was newly established with an eye to strengthening the Kawasaki Group's procurement capabilities. It established a centralized purchasing system in order to share information about domestic and overseas procurement across the organization and deliver advantageous purchasing terms based on the company-wide order volume. In addition to that, the Infrastructure Strategy Office was newly created to share information across the company that would contribute to management decisions regarding the infrastructure market. It focused on next-generation energy and provided relevant divisions with specific information that would help them identify opportunities and cultivate new businesses. The new division would facilitate Kawasaki's efforts to build stronger ties with the public and academic sectors, gather information on the market as well as related internal departments, and expand its business in the promising infrastructure market.

In November 2012, after leasing the entire TIS Takeshiba Building located at Kaigan 1-chome, Minato Ward, Tokyo, the company moved its Tokyo head office there (which was tentatively named the Hamamatsucho Building) from the World Trade Center Building at Hamamatsucho 2-chome, Minato Ward, Tokyo. At the same time, it merged the Tokyo Office (plant and infrastructure business operations) in Minamisuna, Koto Ward into the new head office location. The Marketing Division, which was established in April of the same year, seized this opportunity to spearhead the sharing of intellectual assets within the company. In gearing up its comprehensive efforts aimed at creating markets in Japan as well as overseas, it went a long way to helping the Kawasaki Group create further value.

Ship & Offshore Structure Company

The prolonged slump in the shipping market since the collapse of Lehman Brothers had resulted in a decline in demand for new vessels. On top of that, the ultra-strong yen and weak won blunted Japanese shipyards' competitive ability and pulled the plug on new shipbuilding orders. Kawasaki's Ship & Offshore Structure Company had also seen a significant decline in merchant shipbuilding volume since the second half of fiscal 2012. As a result, the company decided to downsize the workforce at its Sakaide Works. It then laid out strategic business management plans for the plant with a focus on: (1) maintaining its operational foundation for years to come since it serves as the key factory; (2) developing the LPG-fueled vessel and offshore development businesses into future profit engines, with the aim of building two LNG carriers and one LPG carrier every year; and (3) minimizing losses after the second half of fiscal 2012, when the utilization rate would inevitably take a precipitous dive.

As part of this strategy, the production staff at the Sakaide Works were transferred to other internal companies, with some assigned to the Machinery Business Center in December 2012, and others to the Aerospace and Precision Machinery Companies in May and June of 2013.



Organization chart (As of Oct.1, 2010)



Hamamatsucho Building where the Tokyo head office was relocated

Clerical and engineering personnel were transferred to the head office and other internal companies between October 2012 and March 2014.

Plant & Infrastructure Company

In 2011, Kawasaki decided to strengthen organizational functions and improve efficiency at the Plant & Infrastructure Company. It would do that by consolidating its engineering and common back-office functions, which were dispersed throughout the Kobe and Harima Works, into a new administrative office at the Kobe Works, and transferred Harima Works employees to the Kobe Works in September of the same year.

As a result, the manufacturing division of the Harima Works was positioned as a common production base for all business units (BUs) of the Plant & Infrastructure Company, and all BUs were poised to join hands in better utilizing the plant.

Precision Machinery Company (Robot Division)

In April 2012, the Robot Division incorporated the sales division of the Kawasaki Machine Systems (KMS) robot business to establish an organizational structure that would enable it to work closely with the development, design, and engineering divisions in developing strategies and quickly delivering solutions that would fulfill customer needs via better product development and improvement. In April 2012, the service division was transferred to Kawasaki Robot Service, Ltd., which was established in January of the same year by spinning off KMS's robot division. The move would enable the division to supervise and engage in overall service operations across the globe. KMS continued to sell and service gas turbine power generation systems.

5) The Great East Japan Earthquake and Helping Build Back

Aiding Disaster Areas and Victims

At 2:46 p.m. on March 11, 2011, a massive earthquake with a magnitude of 9.0 struck off the northeast coast of Japan. The quake triggered a towering tsunami measuring more than nine meters that hit the Pacific coast of Japan's Tohoku and Kanto regions, leaving a trail of death and destruction in its wake. Although the Kawasaki Group did not suffer any human casualties, some of its sales and service bases in the Tohoku region were severely damaged, where the head office and various other divisions came together to help with reconstruction work.

Meanwhile, the Group donated a total of 100 million yen spread across three prefectures and one municipality as well as the Japanese Red Cross Society to support the disaster areas and victims.



D-Tracker X and D-Tracker 125 motorcycles donated to Iwate Prefecture

As part of its efforts to be a good corporate citizen, Kawasaki reached out to numerous local government officials and other relevant parties to find out exactly what kind of equipment they needed. It donated 30 of its motorcycles to help responders in the disaster areas get around more easily and efficiently transporting goods to those in need. In addition to the motorcycles, Kawasaki also donated five KCM wheel loaders and an EarthTechnica crusher for use in debris disposal. Beside the vehicles, whose sum total value added up to 100 million yen, the company also provided a helicopter, which became the community's eye in the sky, at no cost. Kawasaki's domestic and overseas group companies also provided a total of 38 million yen to assist in relief efforts. In 2013 and 2014, the company donated two of its Jet Ski® watercraft.

Revising Business Continuity Plan

The Kawasaki Group had developed disaster prevention measures based on the lessons learned from the January 1995 Great Hanshin-Awaji Earthquake and had worked on business continuity planning (BCP) since the outbreak of a new influenza virus in 2009. Following on the heels of the Great East Japan Earthquake, Kawasaki revised its business continuity plan for large-scale earthquakes and set forth a basic corporate policy to clarify courses of action to take in the event of an emergency.

<Basic Corporate Policy>

- Ensure the safety and health of employees and their families.
- Ensure services and products that are essential to the fulfillment of corporate responsibility go on without interruption.
- Get Group operations back to normal.
- Acknowledge responsibility to local communities and contribute to each region.

Working with this basic corporate policy in mind, Kawasaki was to: (1) designate functions to be maintained at the head office and internal companies in the event of disaster; (2) consider the appropriate actions to take in the wake of a disaster and prepare for the eventuality of such events during normal times; and (3) conduct drills regularly and revise the BCP based on the outcome of the drills.

In order to respond quickly and flexibly to emergency situations, the Corporate Command Center, Integrated Plant Command Center, Company Command Center, and Local Command Center were also established as the Group's crisis management system.

6) Overseas Production and Sales

Overseas Sales Exceeds 50% of Overall Group Sales

Since the 1960s, the Kawasaki Group has been aggressively expanding its business overseas. In 2010, its overseas sales ratio reached 55%, and employees working overseas accounted for 25% of the total workforce.



Wheel loader used for debris disposal and land leveling



EarthTechnica crusher



Section of CSR Report 2012 on the revised BCP

Crisis Management System

	Key Role	Location
Corporate Command Center	Set up in the event of a crisis that requires a companywide 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 related to all plants; coordinates with internal companies.	Plant facilities of several internal companies
Company Command Center	Provides internal company support in areas devastated by the disaster; determined responses to affected suppliers and customers.	Appropriate location at each internal company
Local Command Center	Determines responses for business segments and business offices.	Office that sustained damage

Overseas Sales, Sales Ratio, and Number of Affiliated Companies

	1990	2000	2010
Overseas sales	223 billion yen	432 billion yen	669 billion yen
Overseas sales ratio	25%	41%	55%
Number of overseas affiliated companies	13	29	46

Kawasaki used the lessons learned from motorcycle production in the United States that had begun in 1975 to expand the operations of other businesses overseas. As a result, the company now boasts full-scale overseas production facilities for everything from rolling stock to construction machinery, precision machinery, general-purpose gasoline engines, ships, and marine machinery, while also supplying high-quality products all around the world.

From around 2007 to 2013, the company sought to make further market inroads encompassing a wide range of businesses, including shipbuilding, plants, and precision machinery, in China, which was experiencing rapid economic growth at the time. In emerging economies such as Southeast Asian countries, Brazil, and India, the company's motorcycle business grew by leaps and bounds.

Growth of Kawasaki Operations in China

[Shipbuilding]

In 1995, Kawasaki and China Ocean Shipping (Group) Company (COSCO) signed an agreement to establish a joint venture company that would serve as a production base for the shipbuilding business in China, and in January 1999, incorporated Nantong COSCO KHI Ship Engineering Co., Ltd. (NACKS) in Nantong City, Jiangsu Province, China. In 2008, it became one of the top shipbuilding companies in China with the completion of its second dock (measuring 500 meters long, 80 meters wide, and 12.8 meters deep and equipped with 5 cranes) in addition to its first dock (measuring 350 meters long, 68 meters wide, 12.8 meters deep and equipped with 5 cranes) which was already in operation.

At the same time, NACKS established a joint venture with Wuhan Marine Machinery Plant Co., Ltd., Wuhan Kawasaki Marine Machinery Co., Ltd. (WKM), in Wuhan, Hubei Province to produce side thrusters.*² Production increased nearly threefold in the five years from 2002, reaching a total of 1,000 units in June 2006.

In 2007, Dalian COSCO Shipbuilding Industry Co., Ltd. (DACOS) was established in Dalian City through joint investment from NACKS and COSCO Shipbuilding Industry Company (COSIC). Production facilities such as the first and second docks as well as the fabrication, block assembly and block paint shops were built on the new company's vast site measuring about 1.9 million square meters. Since then, the Kawasaki Group has been conducting shipbuilding operations at four different locations, including the Kobe Works, Sakaide Works, NACKS, and DACOS.*³

*1 Nantong COSCO KHI Ship Engineering Co., Ltd. changed its Chinese trade name slightly in 2018.

*2 A side thruster is a propulsion device (generally a screw propeller) installed within a tunnel built into the bow or stern of a ship below the waterline. It enables a vessel to turn or move sideways when maneuvering in port.

*3 DACOS was renamed Dalian COSCO KHI Ship Engineering Co., Ltd. in 2012 and its Chinese trade name was changed slightly in 2018.

[Plant Engineering]



Nantong COSCO KHI Ship Engineering Co., Ltd. (NACKS)



Wuhan Kawasaki Marine Machinery Co., Ltd. (WKM)



Dalian COSCO KHI Ship Engineering Co., Ltd. (DACKS)

Kawasaki joined hands with the Anhui Conch Group, the parent company of Asia's largest cement company, Anhui Conch Cement Co., Ltd., to establish two joint ventures in Wuhu, Anhui Province, Anhui Conch Kawasaki Engineering Co., Ltd. (ACK) in 2006, and Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd. (CKM) in 2007. ACK designed, procured, and sold waste heat recovery power generation systems for cement plants, and CKM manufactured PH boilers for waste heat recovery power generation systems needed to fill orders ACK received.

ACK steadily gained orders in China after combining the advanced technical capabilities of Kawasaki Plant Systems with the sales force and reliability of the CONCH Group and its expertise in local procurement and operations. Its products earned a good reputation among users and helped establish awareness of energy conservation and environmental protection among the Chinese public as a whole.

In July 2007, CKM started manufacturing PH boilers for waste heat recovery power generation systems at its 27,000-square-meter Plant 1. In 2008, CKM's second plant (measuring 18,000 m²) and third plant (measuring 27,000 m²) were completed to respectively produce highly efficient vertical cement mills and AQC boilers for waste heat recovery power generation systems and waste treatment facilities that can be added to existing cement plants.

[Precision Machinery]

In the 2000s, the Chinese market for hydraulic excavators became the largest in the global construction machinery industry with further growth on appearing on its horizon.

Operating against this backdrop, in December 2005, Kawasaki established Kawasaki Precision Machinery (Suzhou) Ltd. (KPM Suzhou), as a wholly owned subsidiary located in Suzhou, Jiangsu Province, to produce hydraulic components for construction machinery in China. The company kicked off full-scale production in 2011 with the completion of a new plant (with a total area of 13,500 m²) fitted with production lines transferred from the old plant and additional new facilities for increased production capacity. The new plant had an annual production capacity of approximately 110,000 units, including 60,000 hydraulic pumps and 50,000 hydraulic motors, double that of the old plant.

In August 2009, Kawasaki and China's Zhejiang Chunhui Group Co., Ltd. jointly established Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd. (KCPM) in the Zhejiang Shangyu Economic Development Zone as a new production base for hydraulic components. By 2012, the company was producing 40,000 hydraulic pumps annually. In March 2011, Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd. (KPM Shanghai) opened the CS Center in China to provide services for hydraulic construction machinery components, including products made by both companies. In China, where sales of hydraulic excavators increased sharply in 2010, from about 100,000 the previous year to about 170,000, Kawasaki's hydraulic components enjoyed the lion's share of the market.



The office where Anhui Conch Kawasaki Engineering Co., Ltd. (ACK) originally operated



Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd. (CKM) plant buildings



Kawasaki Precision Machinery (Suzhou) Ltd. (KPM Suzhou) when it was first launched



Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd. (KCPM)



Overhauling hydraulic equipment at Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd. CS



Kawasaki Motores do Brasil Ltda.(KMB)



India Kawasaki Motors Pvt. Ltd.(IKM)



Motorcycle dealer in China (Xi'an)

Paving Inroads into Motorcycle Markets in Brazil, India, and China

Kawasaki started selling its motorcycles in Indonesia, Thailand, Malaysia, and other Southeast Asian countries in the 1960s and 1970s. Sales of medium- and large-size motorcycles, which are Kawasaki's specialty, increased as the economies of these countries grew.

Later the company turned an eye to Brazil, India, and China as new markets for its motorcycles. In October 2007, it set up Kawasaki Motors do Brasil Ltda. (KMB) in Sao Paulo, Brazil and in October of the following year, began selling motorcycles that were imported from factories abroad. A Brazilian factory was built in Manaus in October 2009 and started knockdown production of Kawasaki's major medium and large size models, such as Ninja and Z series. In India, India Kawasaki Motors Pvt. Ltd. (IKM) was established in July 2010 to import and sell motorcycles. The company commissioned Bajaj, a major local motorcycle manufacturer, to produce and sell the Ninja 250R. In February 2013, it established its own factory to begin full-scale production of the Ninja 300 as well as the Ninja 650. It then opened a dealership in September.

In China, Kawasaki started selling medium and large size models, including the Ninja ZX-14R, Ninja 650, Ninja 250, and Z250, through Kawasaki Heavy Industries Management (Shanghai), Ltd. in August 2013. In September 2016, it established Kawasaki Motors (Shanghai), Ltd. (KMSH) to independently operate the motorcycle business there. The company went on to open stores in major cities such as Shanghai, Beijing, and Chengdu.

Kawasaki aimed to put the motorcycle business in high gear by boosting sales in the maturing markets of Southeast Asia and cultivating the promising markets of Brazil, India and China.

3.

Corporate Social Responsibility and Environmental Management

1) Formulation of MTBP 2013

After looking back on the initiatives implemented under MTBP 2010 (FY2010–2012), Kawasaki formulated the medium-term business plan, MTBP 2013 (FY2013–2015), in April 2013 in light of the subsequent changes in the market. Since fiscal 2015, the final year of the plan, marked the halfway point of Kawasaki Business Vision 2020, the work to be done under the medium-term business plan was key to achieving the Group's vision.

MTBP 2013 focused on forging a foundation for the future and building a business structure designed to bend with any winds of change ahead, while steadily building on the progress made under MTBP 2010.

[Basic Objectives]

- (1) Ensure efficient business management to survive the severe business environment
- (2) Implement measures to reflect changing business environments
- (3) Implement specific measures to achieve the Vision
- (4) Promote earlier commercialization of new products and businesses
- (5) Aim to be a corporate group that enjoys sustainable growth, while contributing to the growth of society

[Key Policies and Measures]

—Efforts to expand business foundations—

- (i) Provide solutions
- (ii) Expand the range of existing businesses
- (iii) Accelerate global business development aimed at growth markets
- (iv) Encourage early commercialization of new products and businesses
- (v) Enhance the competitiveness of existing businesses

—Efforts to secure future revenue basis—

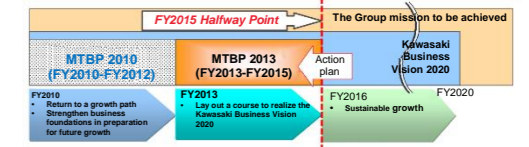
- (i) Promote R&D efforts and capital investments on a continuous basis
- (ii) Promote the sharing of intellectual properties and education to develop globally minded personnel, etc.

—Efforts to solidify the management system—

- (i) Reinforce the financial structure
- (ii) Increase the efficiency of the execution of common duties

2 Building a Stronger Kawasaki Brand

Strengthening the Kawasaki brand was one of the keys to achieving the Kawasaki Business Vision 2020. It entailed building up the Kawasaki Group's brand and communicating the value and mission of the brand both internally and externally in an easy-to-understand way, with an aim of building stronger ties with existing customers and expanding the customer base across the globe.



The Position of the FY2013-2015 Medium Term Business Plan "MTBP 2013"

[Quantitative Targets] (FY2015)

Net sales	1.6 trillion yen
Operating income	90 billion yen (Ratio of operating income to sales: 5.6%)
Recurring profit	85 billion yen (Ratio of recurring profit to sales: 5.3%)
Before-tax ROIC	11.0%

The Kawasaki Group faced several problems in implementing brand strategies, including: (1) lost opportunities with the target audience due to a low brand recognition and awareness in domestic and overseas markets (particularly in emerging markets); (2) lack of a common understanding of the value and intent of the Kawasaki brand within the company; (3) the need to develop a shared awareness of the Kawasaki brand among employees in order to offer comprehensive solutions that leveraged the collective know-how of all internal companies; and (4) lack of clear standards for unifying and distinguishing product brands of the motorcycle business and corporate brands. To solve these problems, it was necessary to develop a brand messaging system and tools.

Kawasaki adopted "Powering Your Potential"* as the group tagline in April 2013. It was a powerful phrase that clearly differentiated the Kawasaki brand from others in a way that was relevant to its target audience, conveying where the company was headed both internally and externally with integrity. The tagline embodied Kawasaki's aspiration to be the power that opens up new possibilities for customers and communities as it works to achieve its Group mission.

- * Powering: Empowering and fueling
- Your: Customers, society, and employees
- Potential: Possibilities, capabilities, and prospects for growth

3) Environmental Management Initiatives

Formulating Environmental Vision 2020

Kawasaki incorporated the Group's environmental management policy into the Kawasaki Group Mission Statement in 2007, and in 2010, established the Environmental Vision 2020 (What Kawasaki Should Be in the Year 2020). It was the company's medium- to long-term environmental vision that picked up where its Environmental Vision (What Kawasaki Should Be in the Year 2010), drafted in 2003, left off. After looking at the environmental trends in Japan and overseas, Kawasaki rooted its Environmental Vision 2020 in four basic objectives: achieving a low-carbon society, a recycling-oriented society, and a society coexisting with nature, while establishing environmental management systems that would serve as the spring boards for reaching these three goals.

Revising the Environmental Charter

In 2010, Kawasaki revised the environmental philosophy stated in its Environmental Charter to align it with its Environmental Vision 2020.

 **Kawasaki**
Powering your potential

 **Kawasaki**
Powering your potential

Group tagline

Environmental Philosophy

Kawasaki pursues business activities globally in key industries related to land, sea, and air, guided by the desire to contribute to the development of society and nations through *monozukuri* manufacturing. In this effort, we emphasize the "achievement of a low-carbon society," "achievement of a recycling-oriented society," and "achievement of a society coexisting with nature" to help solve global environmental issues, and we strive to help build a sustainable society through environmentally harmonious business activities and Kawasaki-brand products and technologies that help improve the global environment.

Climate Change Mitigation

In fiscal 2010, which was the last year of the 6th Environmental Management Activities Plan (FY2008–2010), Kawasaki launched the 7th Environmental Management Activities Plan (FY2010–2012) ahead of schedule to coordinate it with the formulation of a new business plan.

The 7th plan also marked the beginning of the company's trial and error efforts to accelerate measures against global warming in line with the Kyoto Protocol that came into force in 2005.

- **Utilizing the domestic carbon credit system**

In 2010, the Kawasaki Group participated in Hyogo Prefecture's partnership program aimed at reducing carbon dioxide (CO₂) emissions. Kawasaki was the first to work on a carbon reduction project under this program that made use of Japan's carbon credit system (currently the J-Credit Scheme). The Kawasaki initiative replaced the heavy oil-fired boiler used at the Kobe Medical Cooperative Association's Akashi plant with its natural gas-fired boiler. The project cut CO₂ emissions by approximately 2,600 tons over four years, which Kawasaki was able to credit as a reduction for all its facilities throughout Hyogo.

- **Buying a green power certificate**

In 2011, Kawasaki purchased a green power certificate (worth 18,300 kWh) and used the green power generated by a photovoltaic power generation system installed at the Kobe Municipal Resource Recycling Center's power plant to offset some of the electricity used at the Kobe Head Office.

Bringing a Low-carbon, Recycling-oriented Society Coexisting with Nature to Life

- **Product development leveraging the Kawasaki Group's collective capabilities**

Gigacell: Achieving high energy efficiency

The Gigacell is a high-capacity storage battery developed by Kawasaki in 2005. Featuring quick charging and discharging capabilities, it can level the gap between the electricity generated from renewable energy and the electricity consumed in distributed power generation systems over a wide range of durations, from a few hundredths of a second to several hours.



Gigacell



SWIMO low floor, battery-powered tram

In August 2006, a test run of the SWIMO low floor, battery-powered tram equipped with the Gigacell was conducted at Kawasaki's Hyogo-Works. The SWIMO is a ground breaking train that can run without the use of overhead wires.

In 2009, Kawasaki received the 2009 Minister of the Environment's Award for Outstanding Achievement in the Fight against Global Warming (technological development and commercialization category) for the superior energy efficiency of its Gigacell. The following year, Kawasaki won the Grand Prize in the 19th Global Environment Award (hosted by the Fujisankei Communications Group) for developing the SWIMO.

● **Green binary turbine: Effective use of low-temperature waste heat**

Most of the low-temperature waste heat (such as hot wastewater and exhaust gas) generated in factories, waste incinerators, sewage treatment plants, and power plants is discharged without being utilized. Kawasaki's green binary turbine released in June 2010 is a nice, neat, compact system that's designed to recover this low-temperature waste heat for generating electricity. In effectively utilizing the previously unused low-temperature waste heat to generate electricity, the system cuts CO₂ emissions dramatically.

● **Kawasaki Green Gas Engine: #1 in power generation efficiency**

The Gas Turbine & Machinery Company's gas engine project team and the Corporate Technology Division's Technical Institute worked together to develop the Kawasaki Green Gas Engine, incorporating Kawasaki's fluid analysis technology and more. The use of clean natural gas as a fuel as well as the engine's optimal combustion chamber design, leaner burn, and optimized control system significantly reduces the environmental impact. In July 2007, it achieved a world record-breaking power generation efficiency of 48.5% along with the world's highest level of environmental performance that boasted all-time low NOx emissions.

4) CSR Initiatives

Establishment of the CSR Committee and CSR Department

In October 2006, Kawasaki established its CSR Committee, chaired by the president. It is the Kawasaki Group's top decision-making body for internal control and compliance. The committee makes sure the company toes the line in adhering to the basic principles of corporate ethics stipulated in the Kawasaki Heavy Industries Corporate Ethics Rules. Working to ensure internal control and compliance as well as appropriate financial reporting in light of the internal control reporting system to be adopted in fiscal 2008 under the Financial Instruments and Exchange Act, the company also established the CSR Department, a specialized organization overseeing the entire Group's effort to establish a system of internal controls.



Green binary turbine



Kawasaki Green Gas Engine

The Kawasaki Group's Fundamental Approach to CSR

One of the goals set forth in the Kawasaki Business Vision 2020 formulated in April 2010 was to become "a company that places importance on CSR and is trusted wherever it does business around the world."

That same year, as Kawasaki moved forward to meet the needs of customers and "people everywhere today and tomorrow," it adopted the Kawasaki Group's Fundamental Approach to CSR along with the five themes, outlining the various goals it wanted to reach across the organization.

In April of the same year, and in the same vein as the organizational reforms involving CSR activities, internal controls, and internal audits, the CSR Committee was renamed the Corporate CSR Committee. The committee would discuss and decide on major CSR policies as well as other important matters with an eye to making Kawasaki's commitment to fulfilling its corporate social responsibility clear to all. The Compliance Committee was renamed the Company CSR Committee to reflect the expanded scope of its agenda, covering not only compliance but also overall CSR activities.

<Fundamental Approach to CSR>

The Kawasaki Group's CSR is reflected in our combined efforts to achieve the Group Mission on an even higher level.

We consider the future of human society and the global environment to be an extension of the increase in value of the Kawasaki brand, and promote the following five themes accordingly.

<Five Themes>

- (1) We will use our integrated technological expertise to create values that point the way to the future.
- (2) We will always act with integrity and good faith to merit society's trust.
- (3) We will all create a workplace where everyone wants to continue working.
- (4) We will pursue "manufacturing that makes the Earth smile."
- (5) We will expand the circle of contribution that links us to society and the future.

Kawasaki Named to DJSI for the First Time

In September 2013, Kawasaki was listed on the Dow Jones Sustainability Asia Pacific Index for the first time. The Dow Jones Sustainability Indices (DJSI) are leading benchmarks for ESG investing.* The U.S.-based S&P Global evaluates and selects companies for the DJSI on the basis of their corporate sustainability in economic, environmental, and social aspects. The DJSI is one of the most important investment criteria for investors around the world who are interested in companies' ESG initiatives.



Special feature on CSR in the company newsletter



As of 2021, Kawasaki has been listed on the DJSI Asia Pacific Index, covering companies in the Asia and Oceania region, for nine consecutive years.

* ESG investing encompasses not only traditional financial analysis but also looks at a company's environmental, social, and governance initiatives in order to analyze hidden risks and opportunities from a more in-depth perspective.

5) Aiming to Commercialize CO₂-free Hydrogen Energy Supply Chain

Following the announcement of its CO₂-free hydrogen energy supply chain project in the MTBP 2010 (FY2010–2012), Kawasaki conducted research and development toward its achievement and worked on demonstrating the technology as well as building a cooperative consortium with the aim of commercialization. The use of hydrogen, one of the cleanest energy sources that can be produced from fossil fuels, has been gaining momentum around the world. Under the CO₂-free hydrogen energy supply chain project, Kawasaki positioned hydrogen as an important energy option along with renewable energy. The project included plans to liquefy hydrogen, which was produced by gasifying and refining brown coal (an unused resource that is abundant in Australia), and transport it to Japan via liquefied hydrogen carrier. In order to achieve a CO₂-free hydrogen energy supply chain, Kawasaki needed to make core technologies and products for producing, transporting, storing, and using hydrogen seamlessly available throughout the supply chain from upstream to downstream.

In 2011, the company launched the Harima Project, in which it built a prototype liquefaction system (5 tons/day) and a demonstration plant at its Harima Works to test the technology in house. After repeated demonstration tests, the first Japan-made industrial hydrogen liquefaction system was successfully developed in September 2014. The company went on to conduct continuous operation and various functional tests using an improved liquefaction system to demonstrate its performance and reliability before completing the development process. In June 2020, it began selling the first hydrogen liquefier produced by a Japanese manufacturer.



Hydrogen liquefaction plant demonstration facility built at Harima Works