

Environmental Management

Gazing at the Future of the Global Environment

"Environmentally conscious corporate management" is one of the priority initiatives of our medium-term business plan Global K. This is our determination to commit ourselves to the betterment of the environment in every aspect of our business activities through conducting business with a focus on reducing the environmental impact of both our products and production activities.

Furthering "Environmental Management" under the Medium-term Business Plan "Global K"

We gave Kawasaki, Working as One for the Good of the Planet as our corporate vision in the medium-term business plan Global K, which handles the period until 2010.

We aim at "environmentally conscious corporate management" contribute to environmental improvement by

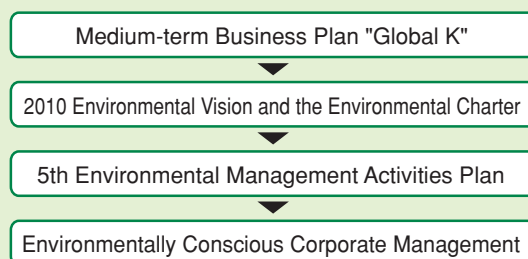
means of excellent products and technologies, reducing environmental impact in our production activities, and promoting environmental management that incorporates environmental considerations into corporate management.

Towards the Kawasaki Group's 2010 Environmental Vision

In 2006, Kawasaki started anew its effort to further reinforce these activities towards the 2010 Environmental Vision: "What Kawasaki Should Be in the Year 2010," under the guidelines of Global K.

We actively took various measures in the 5th Kawasaki Environmental Management Activities Plan to promote environmental activities which were integrated with Global K.

The achievements and appraisals of those activities are shown on pages 15 and 16.



Environmental Charter

(Established in 1999)

Environmental Philosophy

As a company in key industries related to land, sea and air, Kawasaki is deploying its business activities globally in pursuit of reducing environmental impact and creating a sustainable society. This makes us to commit ourselves to contribute to the sustainable development of society through our environmentally conscious business activities, technologies and products that preserve the global environment.

Conduct Guidelines

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

Organization for Environmental Management

The Promotion of Environmental Management - Towards Realizing the Corporate Vision of Contribution to the Global Environment -

Global pollution, global warming and depletion of natural resources have come to the forefront of the issue of today. It is becoming commonly understood that there exist environmental restrictions, and that protecting and improving the environment is essential for the sustainable growth of mankind. Tackling the issue of the environment as one of our important management themes for many years now, we clarified anew our mission Kawasaki, Working as One for the Good of the Planet thereby contributing to the solution of these global problems through our corporate activities.

Since last year, the 5th Environmental Management Activities Plan has been under way, and we need to carry it out more aggressively. So doing, we decided to implement the plan integrally with the new medium-term business plan "Global K," formulated last autumn and to promote truly effective environmental activities integrally with the pursuit of business management.

Major focal points are as follows:

- (1) Contribution through the very products and technologies has the first priority. We set in place the structure that thoroughly meets the requirements of each product, such as energy saving, reduction in exhausted gases and other environmental impact, and improvement of recyclability,

Masatoshi Terasaki

Chief Environmental Officer
Senior Executive Vice President

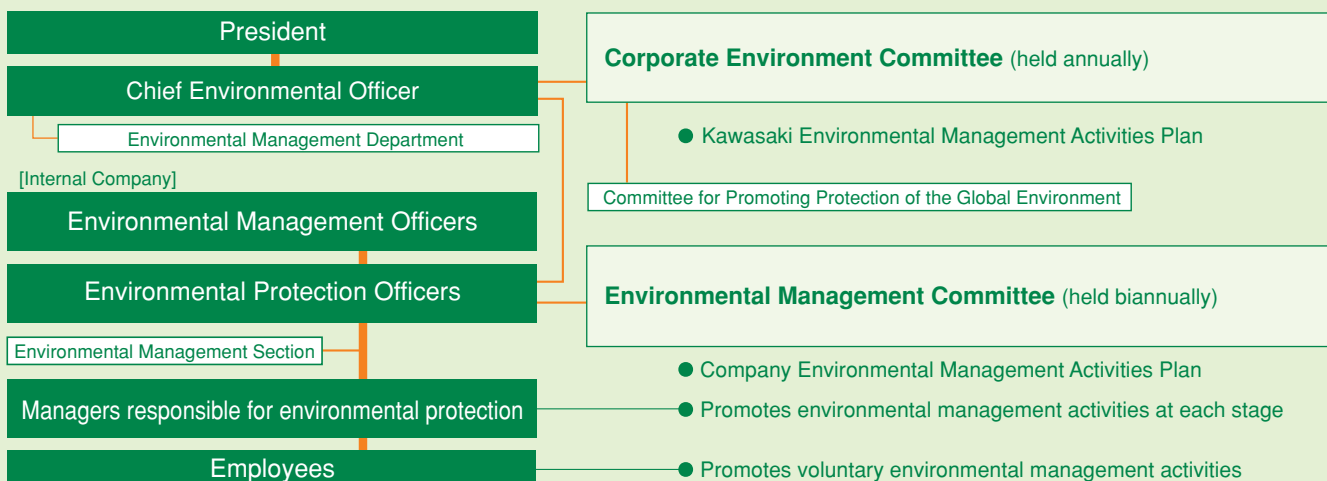


for the contribution to the global environment.

- (2) We will promote again the activities, designed to reduce environmental impact including greenhouse gases, wastes, and hazardous chemical substances emitted from manufacturing processes, with returning the starting point according to the new medium-term business plan. Then we will evaluate and address effective measures to reduce environmental impact in terms of the entire scope of business management by eliminating redundancies.
- (3) We will continue the activities to review environmental risks, which started last year, and take necessary actions to reduce the environmental risk and ensure the environmental improvement.
- (4) Improvement in environmental management will be implemented for the Kawasaki Heavy Industries, Ltd. and three main subsidiaries,*1 and will also be intentionally enlarging this activity for the entire Kawasaki Group.

We continue to pursue environmentally conscious corporate management, promote contribution to environmental conservation and improvement through corporate activities for realizing the corporate visions specified in the Mission Statement and the medium-term business plan Global K, and try our best to get social trust as a corporation engaged in environmental betterment.

Environmental Management System



*1 Three main subsidiaries (Kawasaki Shipbuilding Corp., Kawasaki Precision Machinery Ltd., and Kawasaki Plant Systems, Ltd.)

Environmental Management

Toward Our Environmental Vision: "What Kawasaki Should Be in the Year 2010" Achievements and Appraisal of Environmental Management Activities

The focal point of the priority initiatives for FY2007 is the preparatory activities for forming the 6th Kawasaki Environmental Management Activities Plan (FY2008-2010). To be specific, environmental actions to be taken as per the medium-term business plan Global K should be integrated into the next Plan, working towards the establishment of the follow-up system.

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

	2010 Environmental Vision (What Kawasaki Should Be in the Year 2010)	5th Environmental Management Activities Plan (FY 2006 to 2008)		Achievements in FY2006	Evaluation	Priority Initiatives in FY2007
Environmental Philosophy	<ul style="list-style-type: none"> - Actions by all employees are taken with concern for the environment, not only at work, but also in their local communities and homes, in accord with our Environmental Philosophy, which declares our commitments to the realization of a sustainable society. 	<p>Raising the level of environmental awareness of employees in the Kawasaki Group</p> <ul style="list-style-type: none"> - Promoting the construction of an environmental education system through the use of IT - Continuation of activities to provide information to educate employees in environmental issues 		<ul style="list-style-type: none"> - E-learning programs intended for the education of all employees were developed. - "Message from the President," "Environmental News" and other internal publications were issued to promote environmental education. 	C A	<ul style="list-style-type: none"> - Furthering employee education by e-learning - Continued publication of environmental information for Kawasaki Group employees
Environmental Management	<ul style="list-style-type: none"> - Implementation of an Environmental Management System (EMS) and actions are taken based on this EMS by all employees. - Incorporation of environmental considerations into the business management of each internal company enhances their environmental management levels. - An environmental management information system is created. 	<p>Promotion of environmental management to increase the social trust of the Kawasaki Group</p> <ul style="list-style-type: none"> - Promoting the development of EMS among our subsidiaries around the globe - Promoting risk review activities to reassess environmental risks -- "Understanding of environmental risk" and EMS review based on that viewpoint - Establish an environmental risk management system -- Implementation of appropriate and quick response on the part of the entire Group based on legal compliance - Development of an environmental management information system for the entire Kawasaki Group 		<ul style="list-style-type: none"> - EMS was developed in 38 out of 60 major Japanese subsidiaries and affiliates. - Environmental education was conducted for the management of Japanese subsidiaries and affiliates. - A status survey of major overseas subsidiaries and affiliates was conducted and their problems were identified with an eye to developing EMS. - Potential risks were analyzed by each production factory, and those facilities facing high environmental risks were identified. - Problems facing the organization for environmental risk management were identified. - Problems facing development of a database for environmental management information were identified. 	A A A A C C	<ul style="list-style-type: none"> - Increase in the number of major Japanese subsidiaries and affiliates with EMS - Monitoring of environmental data and improvement of risk management system of major Japanese subsidiaries and affiliates - Increase in the number of major overseas subsidiaries and affiliates with EMS - Identification of potential environmental risks and incorporation of countermeasures into the business plan - Verification of the level of deterioration of environment-related equipment and incorporation of equipment renewal/improvement programs into the business plan - Full use of the environmental risk management system - Expansion of the range from which environmental management data is gathered, and improvement of the timeliness of such data gathering
Environmentally Conscious Products	<ul style="list-style-type: none"> - Design for Environment (DfE) is used for all products to enhance their environmental efficiency. - Products are offered that help protect the environment, thus contributing to the environment, society and businesses. 	<p>Contribute to the sustainable development of society through technologies and products conducive to environmental impact alleviation</p> <ul style="list-style-type: none"> - Reduction of environmental impact throughout the product lifecycle - Increase in providing green products 		<ul style="list-style-type: none"> - The status of attention paid to the environment was investigated by each product field. - Green procurement started in the Rolling Stock Company. - Commercialization of new products, including woody biomass power generation and the large-scale nickel-metal hydride battery Gigacell[®]* was furthered. 	B A A	<ul style="list-style-type: none"> - Evaluation of the degree of improvement in environmental performance for newly developed products and major products - Sections engaged in green procurement: Improvement of green procurement level; sections not engaged: clarification of problems facing - Social contribution through development of products providing environmental solutions, and the improvement of their performance
Environmentally Conscious Production	<ul style="list-style-type: none"> - Administrative penalties and administrative provisions are avoided, and voluntary control standards based on the needs of society are established to improve environmental control levels. - Every production activity is free of irrationality and waste to enhance the efficient utilization of resources and energies. - Total greenhouse gas emission in FY2010 is reduced by 6% relative to the FY1990 level. - Total waste production in FY2010 is reduced by 10% relative to the FY2000 level. - Maintenance of zero emissions (recycling rate 100%) is realized in all works. - The use of hazardous chemical substances is reduced. 	<p>Compliance with laws, regulations, and agreements related to the environment</p> <ul style="list-style-type: none"> - No administrative penalty, provision, etc. - A reassessment of voluntary control standards complying with revisions and records of related laws, regulations, and agreements <p>Promotion of environmental impact alleviation in production activities</p> <ul style="list-style-type: none"> - Further examination of problems for measuring and reducing the amounts of resources and energy input in production processes - Reduction in total emissions of greenhouse gases toward the FY2010 goal - Reduction in total waste emissions toward the FY2010 goal - Continued effort to achieve zero emissions and expansion of this activity throughout the entire Group - Implementation of hazardous chemical substances reduction program -- Reduction of the total emitted amount of VOCs toward the FY2010 goal -- Reduction of the handled amount of hazardous chemical substances toward the 2010 goal -- Drafting of a plan for the disposal of waste containing PCBs 		<ul style="list-style-type: none"> - Administrative measures and warnings were issued for six cases. - Environmental management standard values and environmental management rules were reexamined, corrected or revised. - Good energy-saving practices were diffused to all companies. - Greenhouse gas emissions increased by 7.5% against those in FY2005 because of increased business operations. - Total waste emissions increased by 7.5% against those in FY2005 because of increased business operations. - Major VOC emissions increased by 4.2% against those in FY2005. - The amount of hazardous chemicals handled increased by 6.8% against those in FY2005. 	C B B C C C C	<ul style="list-style-type: none"> - No administrative penalty, measure, etc. - Response to act amendment, factor analysis of legal violations or accidents, followed by diffusion of findings and knowledge obtained across the Group - Development of a scheme to implement the target reduction in greenhouse gas emissions included in the business plan (This applies to wastes and hazardous chemical substances.) - Collection data of greenhouse gas emissions and the total waste emissions of major Japanese subsidiaries and affiliates - Continuation of achieving the quality improvement of, and increase in the number of zero emissions
Environmental Communication	<ul style="list-style-type: none"> - Kawasaki Environmental Reports that comply with the needs of society are published. - Communication with stakeholders is promoted. - The entire corporation and all employees are committed to environmental improvement in local communities. 	<p>Improvement of social credibility toward sustainable growth under the viewpoint of corporate social responsibility (CSR)</p> <ul style="list-style-type: none"> - Improvement of information disclosure - Promotion of communication with stakeholders - Positive cooperation in environmental activities with national and local governments 		<ul style="list-style-type: none"> - The Kawasaki Report - Environmental and Social Responsibility was issued as a result of reinforcing the social responsibility portion thereof. 	A	<ul style="list-style-type: none"> - Information disclosure for the improvement of social trust

* Gigacell[®] is the registered trademark of Kawasaki Heavy Industries, Ltd.

Environmental Management

Environmental Management Activities

Kawasaki is aggressively working on promoting environmental management. With the improvement of the environmental management system (EMS) as the focal point of our efforts, we are actively engaged in increasing the number of sites that practice EMS and in continuous improvement thereof, as well as in environmental risk management as the social responsibility of a corporate citizen for preventing environmental accidents.

Further Development of EMS

All the domestic production bases of Kawasaki Heavy Industries, Ltd. and its main subsidiaries have acquired ISO 14001 certification. Since there are still more sites in Japan and overseas that do not practice EMS, we aim to have them develop EMS at their sites in the future.

ISO 14001 Certification Acquisition

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

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

Development of EMS for Other Subsidiaries in Japan

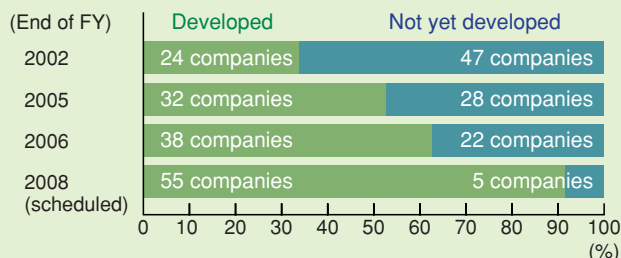
We have three step-by-step approaches to EMS development in place to help our sites practice environmental management in steps that match their practical condition based on their business field and production activity, and encourage our Japanese subsidiaries which have not yet developed EMS.

- Level 1** Acquisition of ISO 14001 certification
- Level 2** Acquisition of simplified EMS
- Level 3** Self-declaration of EMS development

In FY2006, a total of seven subsidiaries have developed their EMS (2 subsidiaries for Level 1, 3 for Level 2, and 2 for Level 3).

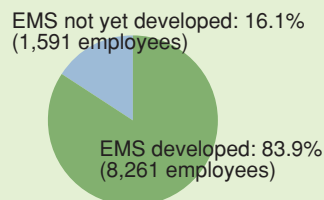
As a result, 38 Japanese subsidiaries out of 60 now practice EMS, and the effort to help the remaining 22 follow suit according to the 5th Kawasaki Environmental Management Activities Plan is currently underway.

Status of EMS Development at Japanese Subsidiaries*



Ratio of Employees of Companies with EMS Developed*

(as of the end of March 2007)



Acquisition of ISO 14001 Certification in Overseas Subsidiaries

Out of 30 overseas subsidiaries in total, there are 13 that seem to need development of their EMS because of their size, and the effort continues to help them acquire ISO 14001 certification.

(End of March 2007)

Subsidiaries	Data acquired	Registration
Kawasaki Motors Manufacturing Corp. (U.S.A.)	2003	DNV
Kawasaki Robotics, Inc. (U.S.A.)	2006	DNV
Nantong COSCO KHI Ship Engineering Co., Ltd. (China)	2003	DNV
Kawasaki Precision Machinery Ltd. (U.K.)	2001	LRQA
Flutek Ltd. (South Korea)	2005	KMA

DNV: Det Norske Veritas, LRQA: Lloyd's Register Quality Assurance, KMA: KMA R&A Inc.

3-Step Environmental Auditing to Help Improve Environmental Management

In addition to internal and external auditing conducted as per the requirements of ISO 14001, the Environmental Management Department of the head office conducts hearings with each site and follows up based on the results of the interview.

Environmental Auditing Systems

Environmental Management Hearings	Internal Auditing	External Auditing
The Environmental Management Department conducts hearings to follow up on the environmental management within our company and divisions.	Carries out its actions within our company and divisions based on the environmental management system governed by ISO14001.	Auditing based on the environmental management system of ISO14001 dictated by an organization registered as a third-party auditor.

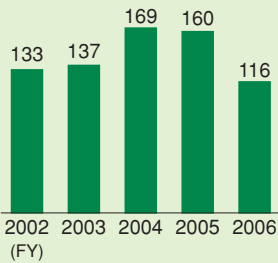
* Excluding main subsidiaries

Internal Education

Kawasaki systematically provides all our employees with environmental education, providing general environmental knowledge on topics such as global warming and Kawasaki's environmental activities. We have also been regularly holding internal environmental audit training based on ISO 14001 for the entire company since 1997. Developing qualified managers, whom Kawasaki is required to assign by relevant laws, is also part of our efforts.

Number of Newly Registered ISO 14001 Auditors

(including subsidiaries)



Number of Qualified Pollution Control Managers

Air	83
Water	87
Noise	36
Vibration	22
Others	17
Total	245

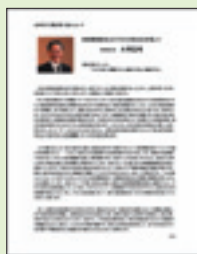
Number of Qualified Energy Managers

58

Encourage Further Awareness

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

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



"Message from the President" about environmental management



Environmental News (released 4 times a year)



Serialized column "Eco Mind" in the in-house magazine Kawasaki (published five times a year)

Environmental Risk Management

Kawasaki focused its attention to the following activities to ensure effective operation of EMS and prevention of environmental problems, placing particular emphasis on the following two points, thereby improving our social trustworthiness as regards environmental management.

Environmental Risk Review

Kawasaki determined the potential risks associated with the effluent treatment facilities and rainwater drainage routes of all our production sites, and identified those that have a high level of environmental risk. We plan to evaluate the level of impact of the potential environmental risks associated with such natural disasters as heavy rain, flood, wind, earthquake or fire, and power outage and develop response measures.

Strict Compliance with Environment-related Standards

Any environmental conservation activities should be based on compliance with environment-related laws, regulations, agreements and self-imposed standards. As for the standards developed by us, we make it a rule to check if they themselves are appropriate, verify our own system, and ensure those standards are always being complied with.

Compliance with Laws & Regulations

Violations and Accidents during the Past 5 Years

FY	2002	2003	2004	2005	2006
Judicial/Administrative Penalties	0	0	0	1	0
Administrative Measures	0	0	0	1	1*
Administrative Warnings	3	0	0	0	5

* Contents of measures undetermined

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

We received the following administrative measures and administrative warnings in FY2006. We investigated the causes of every case, took proactive measures to prevent recurrences, and provided the information to other works.

Administrative Measures:

- Fuel Oil A in small quantity leaked from a ship under construction at the Sakaide Works because of an erroneous operation.

Administrative Warnings:

- COD in discharge to the public water from Banshu Works exceeded the upper limit of the wastewater standard.
- Discharge from Banshu Works to the public water exceeded the notified amount.
- Erroneous documentation by Harima Works including erroneous transfer of data to a periodic report as per the public pollution prevention agreement.
- N-hexane extracts in the discharge to the sewerage from Seishin Works exceeded the upper limit of the wastewater standard.
- Quenching solution leaked from Akashi Works to the public water.

Environmental Management

Environmental Accounting

Environmental accounting for FY2006 is shown below. The graphs show yearly changes in environmental investments, environmental costs, and economic effects. We grasp the cost-effectiveness of environmental management so as to provide feedback to plan and review of measures for the next year.

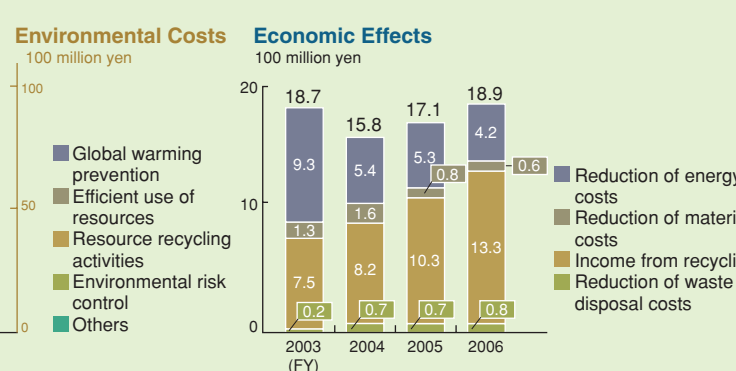
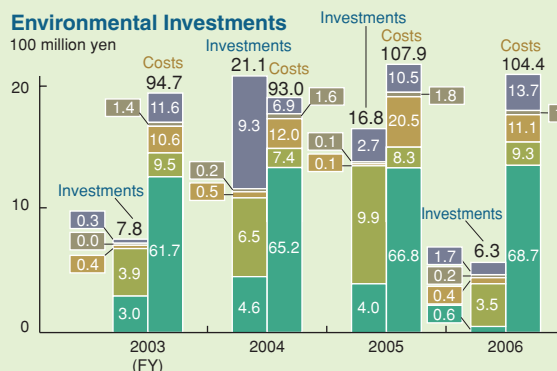
Environmental Accounting Calculations for FY2006

These figures were compiled in accordance to the Environmental Accounting Guideline released by the Ministry of the Environment. Coverage: Kawasaki Heavy Industries, Ltd., and our three main subsidiaries. Period: April 1, 2006 to March 31, 2007

Millions of Yen

Item		Environmental Investments	Environmental Costs	Economic Effects	Environmental Preservation effects: Reduction as compared with previous FY (★ is an increase)		
Business area costs	Global warming prevention	165	1,373	Reduction of energy costs 423	Energy consumption Reduction	6,625 TJ*1 ★455 TJ	
					Greenhouse gas emissions Reduction	314,073 t-CO ₂ ★21,171 t-CO ₂	
	Efficient use of resources	20	162	Reduction of materials costs 55	Materials input Reduction	642,688 t ★34,018 t	
					Water consumption Reduction	7,669,000 m ³ ★472,000 m ³	
	Resource recycling activities	Resource recycling activities	18	901	Income from recycling 1,334 Reduction of waste disposal costs 76	Waste emissions Reduction	72,114 t ★5,081 t
		Waste disposal costs	17	205		Amount of waste recycled Recycling ratio	69,657 t 97 %
	Environmental risk control	348	928	—	SOx emissions Reduction	19 t ★4 t	
					NOx emissions Reduction	229 t ★30 t	
					COD emissions Reduction	15 t 2 t	
	Subtotal		568	3,569	1,887	—	
Comparisons w/ previous FY		44%	87%	110%	—		
Upstream/downstream costs		53	3,571	0	—		
Management activity costs		0	462	—	—		
R&D costs		0	2,635*2	—	—		
Social activity costs		5	142	—	—		
Environmental damage compensation costs		2	56	—	—		
Total		628*3	10,435	1,887	—		
Comparisons w/ previous FY		37%	97%	110%	—		

Item	Total	Item	Proportion
Total investments in FY2006*4	29,278	Percentage of investments (Environmental investments*3 / Total investments*4)	2%
Total R&D costs in FY2006*5	32,659	Percentage of R&D costs (Environmental R&D costs*2 / Total R&D costs*5)	8%



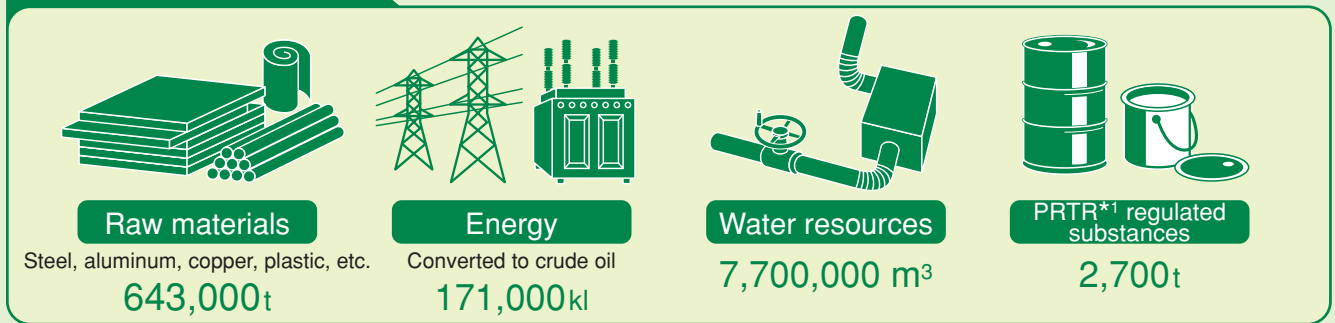
*1 TJ: terajoules (10¹²J)

Material Balance of Business Activities

We produce various products used on land, at sea and in the air. Raw materials, energy and water are input to those business activities, from which a variety of substances are emitted to the air or waters. We are trying to reduce environmental impact by those business activities by monitoring input and output.

Summary of Environmental Impact in FY2006

INPUT



Business Activities

Net Sales: ¥1,438.6 billion
(including all consolidated businesses)

Environmental Management Activities

Environmental Investments: ¥0.6 billion
Environmental Costs: ¥10.4 billion

Production Activities at Works



Aerospace Company
Nagoya Works 1



Rolling Stock Company
Hyogo Works



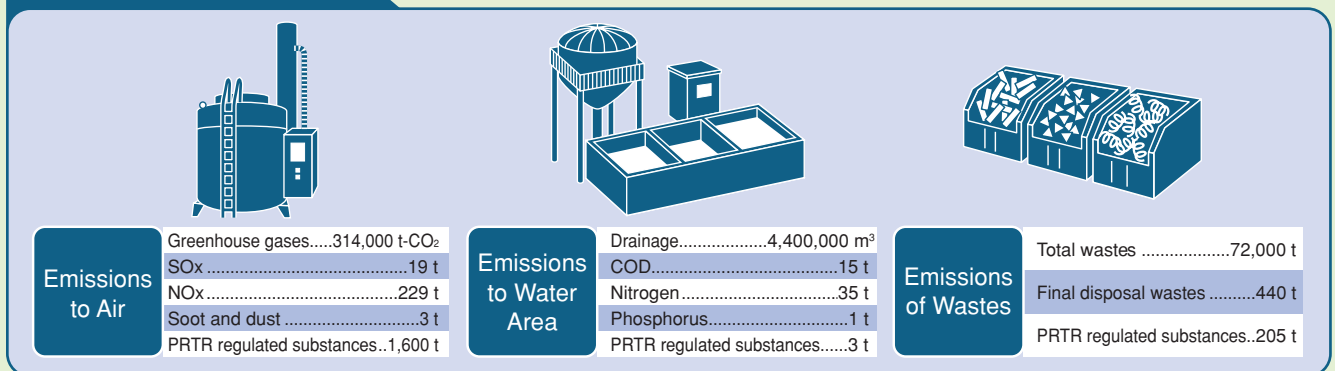
Gas Turbine & Machinery
Company
Akashi Works



Consumer Products &
Machinery Company
Akashi Works



OUTPUT



*1 PRTR: Pollutant Release and Transfer Register