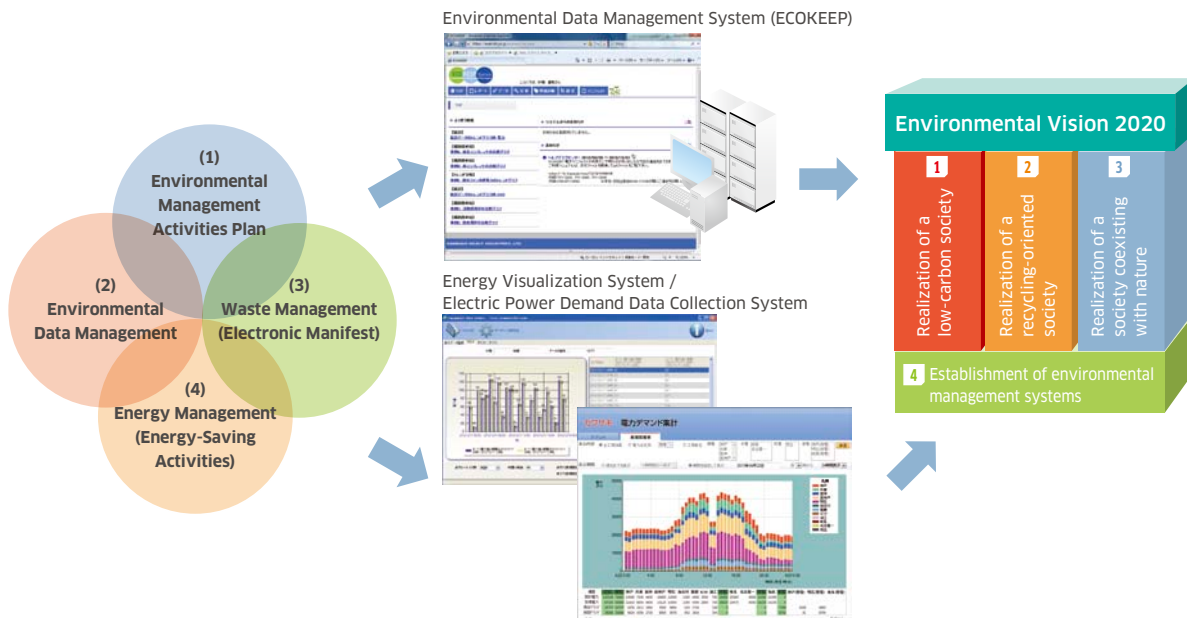


# Establishment of Environmental management System

## Using IT Systems

KHI uses the Environmental Data Management System, also known as ECOKEEP, to manage target values for its environmental management activities plan. The system manages environmental data through an electronic manifest. We also use an energy visualization system,

designated K-SMILE, which is designed to reduce energy consumption mainly through energy-saving approaches. Because environmental management activities are an important element of business operations, we strive to fully realize Environmental Vision 2020 while undertaking quantitative assessments based on cooperative IT systems.



## KHI Group EMS

All of KHI's consolidated domestic production sites have acquired ISO 14001 status.

Of the Company's 39 consolidated subsidiaries in Japan, a certain number were required to establish EMS, have either obtained ISO 14001 certification or simplified EMS certification from other standards organizations, such as Kobe Environmental Management System (KEMS), or else established EMS through self-declaration. Companies that have completed the establishment of EMS will now collect environmental data through the in-house ECOKEEP system and set reduction targets.

Of our 25 overseas consolidated subsidiaries required to establish EMS, 24 have done so through acquisition of ISO 14001 or through self-declaration. The one remaining company is working to establish EMS.

### Current Situations for Acquiring ISO 14001 (JIS Q 14001) Certification for KHI Production Bases

Internal companies		Date acquired	Registration
Ship & Offshore Structure Company	Kobe Works	Aug. 2002	DNV GL
	Sakaide Works	Aug. 2000	DNV GL
Rolling Stock Company		Feb. 2002	LRQA
Aerospace Company		Feb. 2002	BSK
Gas Turbine & Machinery Company	Gas Turbine Division	Mar. 2000	LRQA
	Machinery Division	Dec. 2000	NK
Plant & Infrastructure Company		Nov. 1999	JICQA
Motorcycle & Engine Company		Feb. 2000	DNV GL
Precision Machinery Company	Nishi-Kobe Works	Feb. 1998	DNV GL
	Robot Division	Mar. 2011	DNV GL

LRQA: Lloyd's Register Quality Assurance Limited., JICQA: JIC Quality Assurance Ltd., NK: Nippon Kaiji Kyokai (ClassNK), BSK: Bouei Kiban Seibi Kyoukai (Defences Structure Improvement Foundation), DNV GL: DNV GL Group.

### Status of EMS Establishment at Consolidated Subsidiaries

(Number of companies)

Number of sites	Domestic (39 companies)		Overseas (25 companies)	
	Manufacturing sites	Non-manufacturing sites	Manufacturing sites	Non-manufacturing sites
	14 companies	25 companies	14 companies	11 companies
ISO14001	10	11	9	1
Simplified EMS	3	7	-	-
Self-declared	1	7	4	10
Implementation in progress	0	0	1	0
Establishment rate	100%		96%	

## Compliance with Laws and Regulations

### Legal Compliance Status in Japan

In fiscal 2014, there were no incidents that incurred administrative penalties for the KHI Group. However, some construction work at a factory led to the outflow of wastewater exceeding the allowable pH level for wastewater whenever rain added to wastewater discharge. An administrative warning was issued by the authorities. We gave this situation additional attention and endeavored to prevent recurrence of the problem through several approaches, including a tougher allowable pH level for wastewater prior to discharge.

## Risk Management

In addition to approaches based on Company-wide risk management structures, we hold liaison conferences at appropriate intervals for environmental management officers from within the Group, who work with the secretariat—the Environmental Affairs Department—to ensure that environmental laws and regulations are obeyed and that legal revisions are widely known and understood, and to enhance the abilities of managers with environmental responsibilities. These conferences emphasize compliance with environmental laws and regulations to preempt environmental accidents.

In fiscal 2014, we gathered environmental management officers together to discuss such topics as thorough compliance and risks that manifest when compliance status is broken, partial revisions to the Water Pollution Prevention Law and subsequent trends, the status of PCB waste treatment and associated responses, and measures to mitigate environmental risk.

## Promoting Environmental Communication

### Raising Environmental Awareness

The KHI Group runs publicity campaigns designed to raise the environmental awareness of each and every employee. We undertake these campaigns continually to promote environmentally conscious conduct not only in the workplace but also in the community and at home.



"Eco Mind," featured in the Group magazine *Kawasaki*



Message from the President concerning environmental management

## Environmental e-Learning

To maintain and improve environmental awareness among employees throughout the domestic Group, we offer environmental e-learning opportunities to new employees. This ongoing process is aimed not only at new employees at KHI but also those at domestic consolidated subsidiaries. In fiscal 2014, approximately 1,650 people participated in the environmental e-learning courses. The attendance rate was 97%.

## Cultivating Qualified Managers

To enrich management activities emphasizing energy and the environment, we are striving to cultivate individuals with legal qualifications required under laws and regulations related to energy and the environment. In addition, as an internal qualification, we offer training for internal ISO 14001 auditors, through which 114 employees qualified as internal auditors in fiscal 2014.

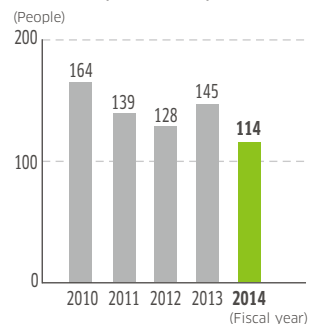
### Number of Qualified Pollution Control Managers

Air	76
Water	75
Noise, vibration	44
Others	83
<b>Total</b>	<b>278</b>

### Number of Qualified Energy Managers

Energy managers	60
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### Number of Completed Training of Internal Environmental Auditors (ISO 14001)



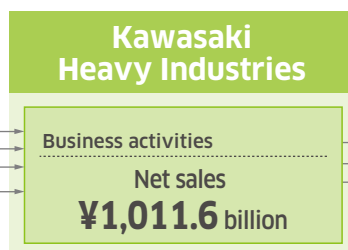
## External Information Disclosure

At KHI, we are committed to information disclosure as indicated by our cooperation with many external evaluation organizations conducting surveys, such as the CDP investors' information request "CDP Japan 500," published by the CDP (Carbon Disclosure Project), the Nikkei Environmental Management Survey, conducted by Nikkei Research, Inc., the Toyo Keizai CSR Survey, the Dow Jones Sustainability Index Asia Pacific category, and the environmental survey by Sampo Japan Nipponkoa Risk Management Inc.

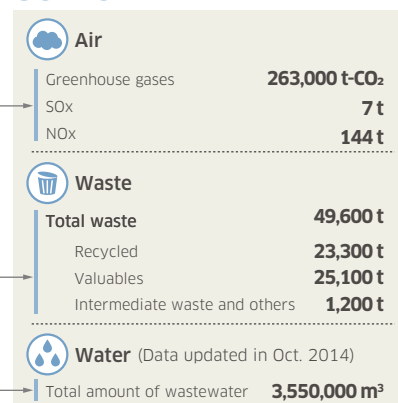
## Material Balance of Business Activities for Fiscal 2014 (Overall Picture of the Environmental Impact)

KHI has drawn up a summary of the impact of our business activities on the environment during fiscal 2014. We undertake activities to reduce the amounts of raw materials, energy and water used in the manufacturing of our many products, and we strive to curb the emission of substances that adversely affect the environment.

### INPUT



### OUTPUT



## Environmental Accounting Calculations for Fiscal 2014

In compiling the statistics, reference was made to the Japanese Ministry of the Environment's Environmental Accounting Guidelines (2005 edition).

Item		(Millions of yen)			
		Environmental investments	Environmental costs	Economic effects	
Business area costs	Global warming prevention (Save energy, reduce greenhouse gas emissions, stop ozone layer destruction, etc.)	1,055	3,332	Energy-saving cost reduction 266	
	Efficient use of raw materials, water, and other resources	49	137	Resource-saving cost reduction 33	
	Resource-recycling activities	Resource-recycling activities	152	513	Income from recycling 460
		Waste disposal costs	9	391	Waste disposal cost reduction 4
	Environmental risk control	206	652	0	
	<b>Subtotal</b>	<b>1,470</b>	<b>5,025</b>	<b>764</b>	
Year-on-year comparisons		80%	85%	87%	
Upstream/downstream costs		36	2,801	0	
Management activity costs		3	421	0	
R&D costs		108	9,152	0	
Social activity costs		56	178	0	
Environmental remediation costs		0	27	0	
<b>Total</b>		<b>1,673</b>	<b>17,603</b>	<b>764</b>	
Year-on-year comparisons		81%	100%	87%	

Item		(Millions of yen)
Item	Total	
Total investments	62,497	
Total R&D costs	39,124	
<hr/>		
Item	Proportion	
Percentage of investments (environmental investments 1,673 / Total investments 62,497)	3%	
Percentage of R&D costs (environmental R&D costs 9,152 / Total R&D costs 39,124)	23%	