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(Securities Code 7012)
June 4, 2013

Dear Shareholders

Satoshi Hasegawa
President
Kawasaki Heavy Industries, Ltd.
1-1 Higashikawasaki-cho 3chome,
Chuo-ku, Kobe
(Registered Office)
1-3 Higashikawasaki-cho 1chome,
Chuo-ku, Kobe

NOTICE OF THE 190TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 190th Ordinary General Meeting of Shareholders of Kawasaki Heavy Industries, Ltd. (the “Company” or “KHI”). The meeting will be held for the purposes as described below.

If you are unable to attend on the day of the meeting we kindly ask you to review the “Reference Documents for the General Meeting of Shareholders” (described hereinafter), and exercise your voting right in writing or electronically (via the Internet, and so forth) by 5:00 p.m. on June 25, 2013.

Exercise of Voting Rights in Writing

Please indicate your vote for or against the proposals on the enclosed Voting Rights Exercise Form, and return it so that it is delivered by the above-mentioned exercise date.

Exercise of Voting Rights via the Internet

Please exercise your voting right by logging on to the Internet website (<http://www.web54.net>) and entering the voting right exercise code and password stated on the enclosed Voting Rights Exercise Form, and follow the online instructions to submit your vote.

- 1. Date and Time:** Wednesday, June 26, 2013 at 10:00 a.m. (Door opens at 9 a.m.)
- 2. Place:** Kokusai Hall at The Kobe International House, located at 1-6, Gokoudori 8-chome, Chuo-ku, Kobe

3. Meeting Agenda:

- Matters to be reported:**
1. The Business Report, Consolidated Financial Statements for the Company's 190th Fiscal Year (April 1, 2012 - March 31, 2013) and results of audits by the Accounting Auditor and the Board of Corporate Auditors of the Consolidated Financial Statements
 2. Non-Consolidated Financial Statements for the Company's 190th Fiscal Year (April 1, 2012 - March 31, 2013)

Proposal No. 1: Appropriation of Retained Earnings

Proposal No. 2: Partial Amendments to the Articles of Incorporation

Proposal No. 3: Election of Thirteen Directors

Proposal No. 4: Election of Three Corporate Auditors

Proposal No. 5: Election of One Substitute Corporate Auditor

(Please refer to the "Reference Documents for the General Meeting of Shareholders" hereinafter for information on each of the proposals.)

4. Other decisions regarding the General Meeting of Shareholders:

- (1) When voting rights have been exercised twice in writing or electronically, the latter vote received shall be deemed valid, however when votes are received on the same day, the voting right exercised electronically shall be deemed valid.
Shareholders who intend to diversely exercise voting rights are requested to give written notification to that effect, and the reason(s) thereof, no later than three (3) days prior to the day of the General Meeting of Shareholders.
- (2) Among the documents to be submitted when sending the Notice, "Notes to the Consolidated Financial Statements" and "Notes to the Non-consolidated Financial Statements" are posted on our Website (<http://www.khi.co.jp/english/ir/>) according to laws and the Article 16 of the Articles of Incorporation, and they are not included in the Appendix regarding matters to be reported. "Notes to the Consolidated Financial Statements" and "Notes to the Non-consolidated Financial Statements" have been combined with the Consolidated Financial Statements and the Non-Consolidated Financial Statements for the auditing process when preparing the results of audits by the Accounting Auditor and the Board of Corporate Auditors.

Notes:

1. When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk at the venue on the day of the meeting. Please note that persons other than shareholders who are able to exercise voting rights, including representatives and their companions who are not shareholders, are not permitted to enter the venue.
In order to save resources, please bring this Notice with you to the Meeting.
2. Any updates to the Appendix and the Reference Documents for the General Meeting of Shareholders, will be posted on the Company's Website at the following URL: (<http://www.khi.co.jp/english/ir/>).

Reference Documents for the General Meeting of Shareholders

Proposals and References

Proposal No. 1: Appropriation of Retained Earnings

The Company's basic policy is to pay stable cash dividends to its shareholders, giving due attention to increased internal reserves to strengthen and expand its business foundations for future growth.

Taking into consideration the earnings forecasts and the level of internal reserves, and so forth, the annual cash dividend will amount to ¥5 per ordinary share for a total of ¥8,358,962,715.

In addition, the Company's year-end dividend distribution is June 27, 2013.

Proposal No. 2: Partial Amendments to the Articles of Incorporation

1. Reasons for amendment

As proposed in Proposal No. 3 below, the Company wishes to be able to invite competent personnel as Outside Directors more easily and help the personnel to fully play the expected roles. Hence, the Company proposes, relating to the new election of Outside Directors, the new establishment of provisions allowing the Company to enter into an agreement to limit Outside Directors' liabilities in cases where the Outside Directors have performed their duties without intent or gross negligence, pursuant to the provisions of Article 427 of the Companies Act.

We have obtained the prior approval of each Corporate Auditor on the establishment of this new Article.

2. Contents of proposed amendments

The contents of the proposed amendments are as follows:

(Underline indicates amendment)

Current Articles of Incorporation	Proposed provisions after amendment
<u>(New)</u>	<u>(Exemption of Liabilities of Directors)</u>
	<u>Art. 32: Pursuant to Art. 427, Paragraph 1, of the Companies Act, the Company may enter into an agreement with outside directors to limit such outside directors' liabilities for damage attributable to such outside directors' negligence of duties. However, the upper limit of liabilities based on the agreement shall be the higher of either ¥10 million or the amount provided by law.</u>
Art. <u>32</u> to Art. <u>50</u> : (Omitted)	Art. <u>33</u> to Art. <u>51</u> : (Changes in article numbers only)

Proposal No. 3: Election of Thirteen Directors

The term of office of all thirteen Directors will expire at the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, we propose to elect thirteen Directors to promote various efforts toward the enhancement of our corporate value. Such efforts include the new appointment of one Outside Director in the aim of further strengthening the internal control system and increasing transparency and objectivity of the management.

The new election of the Outside Director will become effective with a proviso that Proposal No. 2 is approved in its original form.

The candidates for Director are as follows:

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]		Shares of the Company
1	Satoshi Hasegawa (Aug. 16, 1947)	Apr. 1972 Jun. 2007 Apr. 2009 Jun. 2009	Joined Kawasaki Heavy Industries, Ltd. Senior Vice President President, Gas Turbine & Machinery Company Senior Executive Vice President, Assistant to the President President (current position)	126,000 shares
2	Mitsutoshi Takao (Apr. 1, 1950)	Apr. 1972 Jun. 2008 Apr. 2012 Apr. 2013	Joined Kawasaki Heavy Industries, Ltd. Senior Vice President General Manager, Finance & Accounting Department Senior Executive Vice President Assistant to the President, In charge of Corporate Planning Division, Finance & Accounting Division, CSR Division, Personnel & Labor Administration Division and General Administration Division Senior Executive Vice President Assistant to the President, In charge of Corporate Planning Division, Finance & Accounting Division, CSR Division, Personnel & Labor Administration Division, General Administration Division and Procurement Division (current position)	111,000 shares
3	Kyohei Matsuoka (Sep. 16, 1949)	Apr. 1973 Apr. 2008 Apr. 2009 Jun. 2009	Joined Kawasaki Heavy Industries, Ltd. Managing Executive Officer Vice President, Rolling Stock Company Managing Executive Officer President, Rolling Stock Company Senior Vice President President, Rolling Stock Company (current position)	83,000 shares
4	Hiroshi Takata (Jan. 5, 1950)	Apr. 1972 Apr. 2007 Apr. 2009 Jun. 2009 Apr. 2010	Joined Kawasaki Heavy Industries, Ltd. General Manager, Research & Development Division, Consumer Products & Machinery Company Managing Executive Officer President, Consumer Products & Machinery Company Senior Vice President President, Consumer Products & Machinery Company Senior Vice President President, Motorcycle & Engine Company (current position)	58,000 shares
5	Makoto Sonoda (Dec. 7, 1948)	Apr. 1971 Jun. 2007 Jun. 2010 Oct. 2010	Joined Kawasaki Heavy Industries, Ltd. President, Kawasaki Precision Machinery, Limited. Director, Kawasaki Heavy Industries, Ltd. President, Kawasaki Precision Machinery, Limited. Senior Vice President President, Precision Machinery Company (current position)	56,000 shares
6	Shigeru Murayama (Feb. 27, 1950)	Apr. 1974 Apr. 2008 Apr. 2010 Jun. 2010	Joined Kawasaki Heavy Industries, Ltd. Managing Executive Officer Vice President, Aerospace Company Managing Executive Officer President, Aerospace Company Senior Vice President President, Aerospace Company (current position)	107,000 shares

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]	Shares of the Company
7	Joji Iki (Sep. 5, 1951)	Apr. 1977 July. 2006 Apr. 2009 Apr. 2012 Jun. 2012 Joined Kawasaki Heavy Industries, Ltd. Deputy General Manager, Machinery Division, Gas Turbine & Machinery Company Executive Officer General Manager, Machinery Division, Gas Turbine & Machinery Company Managing Executive Officer President, Gas Turbine & Machinery Company Senior Vice President President, Gas Turbine & Machinery Company (current position)	21,000 shares
8	Masahiko Hirohata (Sep. 20, 1951)	Apr. 1975 Apr. 2008 Apr. 2011 Apr. 2012 Jun. 2012 Joined Kawasaki Heavy Industries, Ltd. Executive Officer General Manager, Planning & Control Division, Gas Turbine & Machinery Company Managing Executive Officer General Manager, Corporate Planning Division Senior Manager, Infrastructure Strategy Office Managing Executive Officer General Manager, Corporate Planning Division Senior Vice President General Manager, Corporate Planning Division (current position)	66,000 shares
9	Eiji Inoue (Feb. 22, 1952)	Apr. 1974 Jun. 2008 Jun. 2010 Oct. 2010 Apr. 2011 Apr. 2012 Jun. 2012 Joined Kawasaki Heavy Industries, Ltd. Director, Kawasaki Plant Systems, Ltd. Senior Vice President General Manager, Project Engineering Center, Kawasaki Plant Systems, Ltd. Executive Officer General Manager, Project Engineering Center, In charge of Kobe Engineering Department, Plant & Infrastructure Company, Kawasaki Heavy Industries, Ltd. Executive Officer Vice President, Plant & Infrastructure Company Managing Executive Officer President, Plant & Infrastructure Company Senior Vice President President, Plant & Infrastructure Company (current position)	36,000 shares
10	Yoshinori Kanehana (Feb. 19, 1954)	Apr. 1976 Dec. 2008 Jan. 2009 Apr. 2009 Apr. 2011 Apr. 2012 Jun. 2012 Joined Kawasaki Heavy Industries, Ltd. General Manager, Rolling Stock Division, General Manager, Project Management Center, Rolling Stock Division, Rolling Stock Company General Manager, Rolling Stock Division, Rolling Stock Company Executive Officer Vice President, Rolling Stock Company Managing Executive Officer Vice President, Rolling Stock Company Managing Executive Officer General Manager, Marketing Division Senior Vice President General Manager, Marketing Division (current position)	37,000 Shares

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]		Shares of the Company
11	Minoru Makimura (Nov. 18, 1950)	Apr. 1975 Apr. 2008	Joined Kawasaki Heavy Industries, Ltd. Executive Officer Deputy General Manager, Corporate Technology Division and Senior Manager, Technical Institute	43,000 Shares
		Apr. 2011	Managing Executive Officer General Manager, Corporate Technology Division and Senior Manager, Technical Institute	
		Apr. 2012	Managing Executive Officer General Manager, Corporate Technology Division (current position)	
12	Akio Murakami (Nov. 18, 1950)	Apr. 1975 Jun. 2008	Joined Kawasaki Heavy Industries, Ltd. Director, General Manager, Technology Division, Kawasaki Shipbuilding Corporation	19,000 Shares
		Jun. 2010	Senior Vice President General Manager, Technology Division, Kawasaki Shipbuilding Corporation	
		Oct. 2010	Executive Officer General Manager, Planning & Control Division, Ship & Offshore Structure Company	
		Apr. 2013	Managing Executive Officer President, Ship & Offshore Structure Company (current position)	
13	Yoshihiko Morita (Mar, 7, 1947)	Apr. 1969 Oct. 2004 Oct. 2008	Joined Export-Import Bank of Japan (At present: Japan Bank for International Cooperation) Vice Governor of Japan Bank for International Cooperation Representative Director and Senior Managing Executive Officer Deputy CEO of Japan Bank for International Cooperation, Japan Finance Corporation	2,000 Shares
		Jun. 2011	Resigned Deputy CEO of Japan Bank for International Cooperation, Japan Finance Corporation	
		Dec. 2011	Advisor, Sumitomo Mitsui Banking Corporation	
		Jun. 2012	President, Japan Institute for Overseas Investment Corporate Auditor, TOKYO GAS Co., Ltd. (current position) [Significant concurrent position] President, Japan Institute for Overseas Investment Corporate Auditor, TOKYO GAS Co., Ltd.	

(Notes)1. There is no special interest relationship between the candidates and the Company.

2. Contents of the matter stipulated regarding candidates for Outside Director pursuant to Article 74, Paragraph 4 of the Ordinance for Enforcement of the Companies Act

(1) Mr. Yoshihiko Morita is a candidate for Outside Director.

(2) Mr. Yoshihiko Morita has been chosen as a candidate for Outside Director as the Company has judged that he is able to express useful opinions and advice in determining important matters of the Company's management. The Company believes he can do so from a position independent from the Company's execution of duties in light of his substantial overseas experiences and knowledge as a specialist, acquired in the Japan Bank for International Cooperation and other institutions. The Company believes he will be able to fully perform his roles as an Outside Director in the supervision of the execution of duties of the Company. Mr. Yoshihiko Morita will resign as advisor of Sumitomo Mitsui Banking Corporation on June 30, 2013.

(3) After the proposed election, Mr. Yoshihiko Morita will enter into a limited liability agreement pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act with the Company on condition that Proposal No. 2 is approved in its original form. The liability for damages under said agreement shall be limited to either an amount of ¥10 million, or an amount specified by law and regulation, whichever is higher.

3. Mr. Yoshihiko Morita satisfies the requirements of independent directors/corporate auditors stipulated by the Tokyo Stock Exchange, Osaka Securities Exchange and Nagoya Stock Exchange.

Proposal No. 4: Election of Three Corporate Auditors

As the term of office of the Corporate Auditors, Mr. Kenzo Doi, Mr. Tatsuyoshi Ogushi and Mr. Michio Oka will expire at the conclusion of this Ordinary General Meeting of Shareholders, we propose to elect three Corporate Auditors.

We have obtained the prior approval of the Board of Corporate Auditors on this proposal.

The candidate for Corporate Auditor is as follows.

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]		Shares of the Company
1	Tatsuyoshi Ohgushi (Jan. 3, 1952)	Apr. 1974 Apr. 2008 Apr. 2009 Jun. 2009	Joined Kawasaki Heavy Industries, Ltd. Senior Manager, Personnel & Labor Administration Department Staff Officer to Corporate Auditor Corporate Auditor	14,000 shares
2	Michio Oka (Mar. 19, 1946)	Apr. 1969 Jun. 2000 Jun. 2002 Jun. 2009 Jun. 2009	Kawasaki Kisen Kaisha, Ltd. Senior Vice President Resigned Senior Vice President President, Kawaki Kosan Kaisha, Ltd. President, "K" Line Accounting and Finance Co., Ltd. Resigned President, Kawaki Kosan Kaisha, Ltd. Resigned President, "K" Line Accounting and Finance Co., Ltd. Corporate Auditor, Kawasaki Heavy Industries, Ltd. (current position)	0 shares
3	Nobuyuki Fujikake (Apr. 24, 1955)	Apr. 1991 Apr. 1991 Apr. 1993 Nov. 2001 Jun. 2010	Admitted to Bar in Japan Joined Iseki Law Office Established Takashima-Fujikake Law Office Established Fujikake Law Office (At present Kobe-Minatogawa Law Office) Substitute Corporate Auditor, Kawasaki Heavy Industries, Ltd. (current position)	0 shares

(Notes) 1. There is no special conflict of interest between the Company and the candidate for Corporate Auditor.

2. Contents of the matter stipulated regarding candidates for Outside Corporate Auditor pursuant to Article 76, Paragraph 4 of the Ordinance for Enforcement of the Companies Act

(1) Mr. Michio Oka and Mr. Nobuyuki Fujikake are candidates for Outside Corporate Auditor.

(2) Mr. Michio Oka has been chosen as a candidate for Outside Corporate Auditor as the Company has judged that he is able to continue to perform duties as Outside Corporate Auditor in light of his substantial experience as corporate management.

(3) Mr. Jiro Noguchi, formerly Senior Vice President of KHI, has been appointed as Outside Corporate Auditor of Kawasaki Kisen Kaisha, Ltd. ("Kawasaki Kisen"), to which Mr. Michio Oka belonged. Kawasaki Kisen owns a total of 1.03% of the outstanding shares in KHI. Meanwhile, KHI owns a total of 0.31% of the outstanding shares in Kawasaki Kisen, and 3.19% of the voting rights of the outstanding shares in Kawasaki Kisen, which are held by Trust & Custody Services Bank, Ltd. (Kawasaki Heavy Industries, Ltd. retirement benefit trust account re-entrusted by Mizuho Trust and Banking Co., Ltd.). However, Kawasaki Kisen is not a company of KHI Group. In addition, although Kawasaki Kisen is a business partner of KHI mainly in ship-related transactions, the annual average transactions between the Kawasaki Kisen Group and KHI Group for the most recent five fiscal years accounted for less than 2% of the total annual average sales each for the Kawasaki Kisen Group and KHI Group over the corresponding period.

(4) Four years have passed since Mr. Michio Oka commenced his service as Outside Corporate Auditor of the Company at the conclusion of this Ordinary General Meeting of Shareholders.

(5) Mr. Nobuyuki Fujikake has been chosen as a candidate for Outside Corporate Auditor as the Company has judged that he is able to perform duties as Outside Corporate Auditor appropriately in light of his substantial experience and knowledge as a lawyer even though he has not yet been directly involved in corporate management.

(6) After the proposed election, Mr. Michio Oka and Mr. Nobuyuki Fujikake will enter into a limited liability agreement pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act with the Company. The liability for damages under said agreement shall be limited to either an amount of ¥10 million, or an amount specified by law and regulation, whichever is higher.

3. Mr. Michio Oka and Mr. Nobuyuki Fujikake satisfy the requirements of independent directors/corporate auditors stipulated by the Tokyo Stock Exchange, Osaka Securities Exchange and Nagoya Stock Exchange.

Proposal No. 5: Election of One Substitute Corporate Auditor

We propose in Proposal No. 4 to elect Mr. Nobuyuki Fujikake, who was elected as a substitute Corporate Auditor at the 187th Ordinary General Meeting of Shareholders held on June 25, 2010, as an Outside Corporate Auditor. For that reason, we propose anew electing a substitute Corporate Auditor on condition that Proposal No. 4 is approved in its original form in readiness for cases where there is a shortfall in the number of Corporate Auditors.

Furthermore, if the candidate for the position of substitute Corporate Auditor is elected as a substitute Corporate Auditor, the Company may, with the resolution of the Board of Directors and consent of the Board of Auditors, cancel the appointment, as stipulated in Article 96, Paragraph 2, Item 6 of the Ordinance for Enforcement of the Companies Act.

We have obtained the prior approval of the Board of Corporate Auditors for this proposal.

The candidate for substitute Corporate Auditor is as follows.

Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]		Shares of the Company
Satoru Kohdera (Dec. 30, 1958)	Apr. 1991	Admitted to Bar in Japan	0 shares
	Apr. 1991	Joined Ohshiro Law Office (At present: Higashimachi LPC)	
	Apr. 1993	Partner, Higashimachi Law Office	
	Jun. 2010	Partner, Higashimachi LPC (current position)	

- (Notes) 1. There is no special interest relationship between the candidate for substitute Corporate Auditor and the Company.
 2. Contents of the matter stipulated regarding candidate for substitute Outside Corporate Auditor pursuant to Article 76, Paragraph 4 of the Ordinance for Enforcement of the Companies Act
 (1) Mr. Satoru Kohdera is a candidate for substitute Outside Corporate Auditor.
 (2) Mr. Satoru Kohdera has been chosen as a candidate for substitute Outside Corporate Auditor as the Company has judged that he is able to perform duties as Outside Corporate Auditor appropriately in light of his substantial knowledge as a lawyer even though he has not yet been directly involved in corporate management.
 (3) When Mr. Satoru Kohdera assumes office as Corporate Auditor, he will enter into a limited liability agreement pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act with the Company. The liability for damages under said agreement shall be limited to either an amount of ¥10 million, or an amount specified by law and regulation, whichever is higher.

Business Report

(April 1, 2012 - March 31, 2013)

1. Overview of the Company Group

(1) Business Progress and Results

(i) General Conditions

During the current consolidated fiscal year, the global economy saw mild growth overall with the decelerating economic growth in emerging countries such as China, which had previously been a driver of the world economy.

The Japanese economy, despite making progress in restoration from the damage of the Great East Japan Earthquake, continued to be unstable overall with concern about a downturn in the global economy.

Amid this operating environment, the overall orders received by KHI Group for the fiscal year under review amounted to ¥1,369.5 billion, 4% higher than the previous fiscal year. This was because a decrease in orders in some segments including the Precision Machinery segment were made up for by an increase in the Ship & Offshore Structure segment and the Rolling Stock segment.

Net sales were ¥1,288.8 billion, remained at the same level as in the previous year. That is because sales decreased in the Precision Machinery segment due to the effect of the decelerating Chinese economy and in the Ship & Offshore Structure segment, while net sales increased in the Aerospace segment.

In terms of profit, although the Aerospace segment and the Motorcycle & Engine segment reported increased sales and profits or reported improved performance, the Precision Machinery segment and the Plant & Infrastructure segment reported lower profits, resulting in operating income of ¥42.0 billion, 27% lower than the previous fiscal year. Recurring profit was ¥39.3 billion, 38% lower than the previous fiscal year. However, the favorable extraordinary income and decrease of tax expenses resulted in current net income of ¥30.8 billion, 32% higher than the previous fiscal year.

(ii) Operating conditions by business segment

The **Ship & Offshore Structure segment** received orders amounting to ¥105.7 billion, which was significantly higher than the previous fiscal year, owing to orders for one submarine and five carriers including LNG carriers.

Net sales were ¥90.3 billion, which was significantly lower than the previous fiscal year. This is attributable to a decrease in the construction of capesize bulk carriers and others, while the construction of liquefied gas carriers including LNG/LPG carriers increased.

In spite of a sales decrease, operating income was ¥4.1 billion, nearly at the same level as in the previous year, because of the effect of cost reductions and the yen depreciation.

The **Rolling Stock segment** received orders worth ¥124.4 billion, which was significantly higher than the previous fiscal year, thanks to orders received for high-speed rail vehicle from Taiwan and subway car from Singapore.

Net sales were ¥129.9 billion, nearly at the same level as in the previous year. This was mainly attributable to a sales decrease in overseas markets, while sales to Japan Railway companies contributed to an increase in sales in the Japanese market.

Operating income declined ¥2.9 billion from the previous fiscal year to ¥2.2 billion, due to the fall in profitability of overseas projects.

The **Aerospace segment** orders received were ¥283.4 billion, which was lower than the previous fiscal year when large-scale orders for Japan's Ministry of Defense (MOD) were received, despite an increase in orders for component parts for the Boeing 777 and Boeing 787 aircrafts.

Net sales were ¥239.1 billion, an increase from the previous fiscal year, thanks to an increase in sales to The Boeing Company for component parts for the Boeing 777 and Boeing 787 aircrafts, in addition to an increase in sales to the MOD, including C-2 transport aircraft.

Operating income increased ¥7.0 billion from the previous fiscal year to ¥14.8 billion, due in part to increased sales and cost reduction.

The **Gas Turbine & Machinery segment** orders received were ¥255.5 billion, which was higher than the previous fiscal year, due to an increase in orders for component parts of aircraft jet engines and others.

Net sales were ¥207.0 billion, which was higher than the previous fiscal year, due to an increase in orders for component parts of aircraft jet engines and gas engines, although sales of the items such as marine diesel engines decreased.

Operating income decreased ¥0.7 billion from the previous fiscal year to ¥7.0 billion, due in part to depreciation of development expenses of a new project.

The **Plant & Infrastructure segment** orders received were ¥113.6 billion, which was lower than the previous fiscal year. This was attributable to a decrease in orders for an LNG tank project and carrier equipment from Japanese customers, despite receiving orders for cryogenic tanks for the Ichthys LNG Project, and so forth.

Net sales were ¥115.8 billion, which was lower than the previous fiscal year. This was because of decreased sales of large-scale projects to overseas customers, while sales of the LNG tank project remained high and increased sales in conveyance equipment and refuse incineration plants.

Operating income decreased ¥4.3 billion from the previous fiscal year to ¥9.7 billion, due to decreased sales and profitability.

Net sales of the **Motorcycle & Engine segment** were ¥251.8 billion, which was higher than the previous fiscal year, due in part to increased sales of motorcycles in the U.S. and emerging countries including Indonesia, despite a decrease in sales of motorcycles to European customers.

Operating income was ¥2.3 billion, an improvement of ¥5.3 billion from the previous fiscal year, owing to increased sales and profitability.

The **Precision Machinery segment** orders received were ¥109.7 billion, which was significantly lower than the previous fiscal year, due in part to a decrease in orders for hydraulic components for the construction machinery market in emerging countries mainly China.

Net sales were significantly lower than the previous fiscal year at ¥130.4 billion, due in part to a decrease in sales of hydraulic components for the construction machinery market in emerging countries mainly China.

Operating income decreased ¥18.1 billion from the previous fiscal year to ¥8.4 billion, due in part to an increase in fixed costs associated with capital spending in the prior years in addition to decreased sales.

In the **Others segment** net sales were higher than the previous fiscal year at ¥124.2 billion.

Operating income decreased ¥2.5 billion from the previous fiscal year to ¥1.2 billion.

(Orders Received, Net Sales and Operating Income/Loss by Segment)

Unit: 100 million yen

Segment	Orders Received		Net Sales		Operating Income/Loss	
	Amount	Year-on-Year Change	Amount	Year-on-Year Change	Amount	Year-on-Year Change
Ship & Offshore Structure	1,057	658	903	(231)	41	1
Rolling Stock	1,244	583	1,299	(27)	22	(29)
Aerospace	2,834	(437)	2,391	325	148	70
Gas Turbine & Machinery	2,555	282	2,070	123	70	(7)
Plant & Infrastructure	1,136	(56)	1,158	(69)	97	(43)
Motorcycle & Engine	2,518	166	2,518	166	23	53
Precision Machinery	1,097	(648)	1,304	(446)	84	(181)
Others	1,251	29	1,242	10	12	(25)
Adjustment	—	—	—	—	(80)	7
Total	13,695	577	12,888	(148)	420	(154)

(Notes) 1. Net sales recorded are for sales to external customers.

2. The net sales figure for Motorcycle & Engine segment is also used as the figure for orders received.

(2) Capital Investments, etc.

In the current consolidated fiscal year, KHI Group's total amount of capital investment was ¥78.6 billion, predominantly for the renewal of aging equipment and facilities for streamlining production and necessary facilities to handle new model and products, as well as facilities to increase the production capacity of the Aerospace segment.

Main capital investments completed and/or acquired during the current consolidated fiscal year, and main capital investments under construction as at the end of the current consolidated fiscal year are listed below.

(i) Main capital investments completed and/or acquired during the consolidated fiscal year under review

- Aircraft production facilities (Aerospace segment)
- Production facilities for jet engines (Gas Turbine & Machinery segment)
- Production facilities for marine machinery (Gas Turbine & Machinery segment)
- Assembly Plant, Harima Works Office (Plant & Infrastructure segment)

(ii) Main capital investments under construction as at the end of the consolidated fiscal year under review

- Facilities for streamlining production of hydraulic equipment (Precision Machinery segment)
- Facilities for energy-related verification tests (company-wide)
- Welfare facilities (company-wide)

(3) Financing

Funds of ¥44.3 billion from long-term debt, ¥20.0 billion from domestic unsecured straight bonds and short-term borrowings and other funds from various sources were raised in the current consolidated fiscal year. The funds were allocated to such items as redemption of bonds, long-term loan repayments, capital investments and working capital.

(4) Assignment of businesses, absorption-type splits and incorporation-type corporate splits

Not applicable.

(5) Transfer of business from other companies

Not applicable.

(6) Succession of rights and obligations pertaining to the business of another juridical person, etc., due to absorption-type merger or absorption-type company split

Not applicable.

(7) Acquisition or disposal of another company's stocks or other holdings, or share options, etc.

Not applicable.

(8) Issues to be addressed

While the global economy is on a track for mild growth, we believe that emerging countries and resource-producing countries will achieve steady economic growth. This will be in contrast to the situation where the Chinese economy was driving the whole world economy as an engine of significant growth during the period of the previous Medium-term Business Plan (fiscal 2010 to 2012). Developed countries are also expected to grow in the domains of energy saving, environment and advanced technologies. KHI Group will strive to steadily respond to increased demand in various growth markets and domains, and accelerate the global strategy in respective business segments and the Marketing Division.

Meanwhile, amid the growing interest worldwide in energy issues, guaranteeing the security of resources such as energy and rare earth metals has become a major issue, due to an increase in demand for them triggered by the Great East Japan Earthquake and emerging countries' growth. Given the above, business expansion in the energy area as well as the Energy and Environment Engineering area has become an important issue for KHI Group. We need to swiftly respond to diverse customer needs in expectation of increasing demand for dispersed power energy system that suits local situations not only in the Japanese market but also in emerging countries' markets where there is a fear of energy shortages. As more concrete measures, we will shift KHI Group's business style from a product-oriented to a customer-oriented concept and share various pieces of knowledge that have been cultivated in each

business segment beyond the framework of each organization so as to strengthen the solution business that we will offer to our customers as an overall energy system.

In addition, shale gas development in the U.S. and resources development in Australia and Brazil are becoming more active. Therefore, we will expand business in a variety of areas, including resource development, storage and transportation as well as use of energy. Furthermore, we aim to expand business through energy-saving and high efficiency technologies in the areas of land, marine and air transportation equipment and industrial equipment. We will also work to achieve early commercialization of new propulsion systems in the transportation equipment, and enter into advanced production systems and mobile hydraulic systems in the field of industrial equipment.

Under such circumstances, KHI Group has formulated a new Medium-term Business Plan (“MTBP2013”), which spans the period from fiscal 2013 to fiscal 2015, based on the result of the three-year medium-term business plan (“MTBP2010”), which was drawn up in 2010. In MTBP2013, we have set the target of achieving net sales of ¥1,600.0 billion, operating income of ¥90.0 billion and recurring profit of ¥85.0 billion for fiscal 2015, the final year of the plan. To facilitate the achievement of these goals, we are implementing the following key measures: “expanding the business foundation” primarily by providing first-class solutions; “establishing a future earnings structure” mainly by promoting research and development; and “establishing a solid management base” chiefly by reinforcing the financial foundation.

Through these measures, KHI Group, as a company which continuously grows together with society, will play a part in the growth strategy currently promoted by the government.

The initiatives to be undertaken by each business segment are as follows.

- (i) Ship & Offshore Structure: Increase orders received for LNG carriers, develop technologies of new propulsion plant for LNG carriers and LNG fuel propulsion vessels, expand business in China and establish business in Brazil, enter into the ocean development field, and strengthen the foundations of the business for naval vessels.
- (ii) Rolling Stock: Enhance competitiveness through technologies and products that meet customer needs including cutting-edge technological development and new rolling stock, reinforce our project management to respond to an increase in overseas projects, and construct a global optimal business execution system including adoption of overseas production and procurement and effective use of partnerships
- (iii) Aerospace: Establish a mass production system for P-1 patrol aircraft and C-2 transport aircraft including repair and component support, develop derivative products, and respond to boost production of component parts for the Boeing 787 and develop derivative products
- (iv) Gas Turbine & Machinery: Develop the energy solution business based on high efficiency industrial gas turbines and gas engines for industrial use, expand these models in the overseas markets, respond to demand in Japan for dispersed power sources and expand operations in overseas markets, promote the development of new models of jet engines for commercial aircraft and improve the productivity of these models
- (v) Plant & Infrastructure: Enhance competitiveness through sophistication of existing products in the Energy & Environmental Engineering business sector, achieve early commercialization of new products and technologies, and expand the overseas business to emerging countries and resource-rich countries through personnel development and strengthening of overseas partnerships
- (vi) Motorcycle & Engine: Enhance cost competitiveness through optimized production and expansion of overseas procurement on a global basis, expand sales channels in emerging countries we have already entered (Southeast Asia, Brazil, and so forth.) and develop new markets, and develop leading technologies to respond to environmental requirements
- (vii) Precision Machinery: Maintain a high market share in the area of hydraulic excavation systems while developing other construction machinery products in the global market, enhance cost competitiveness in the robot business, and expand sales in emerging markets
- (viii) Others: Improve development capabilities with respect to the construction machinery business unit through our alliance with Hitachi Construction Machinery Co., Ltd., and increase our global market share and profitability

Compliance is a major premise in carrying out business activities such as those above. KHI Group strives to ensure that employees are made thoroughly aware of the provisions of various laws and regulations which they should conform to. We do so by implementing such measures as establishing internal regulations concerning corporate ethics, carrying out staff training for each position level, and

distributing various guidebooks. In addition to continuing these efforts, in order to improve managerial transparency and objectivity, we have lately decided to strengthen the monitoring of management by corporate auditors including outside corporate auditors who have no conflict of interest with KHI, and by newly introducing outside directors. Through these measures, we are endeavoring to enhance our corporate governance system.

As described above, KHI Group will aim to improve corporate value through reinforcing its earnings capability in all businesses and thoroughly implementing compliance, while establishing the Kawasaki brand that customers trust.

(9) Trends in Assets and Income

(i) Company Group Assets and Income

Unit: billions of yen

Item	The 187th fiscal year	The 188th fiscal year	The 189th fiscal year	The 190th fiscal year (under review)
Orders received	1,001.2	1,270.6	1,311.8	1,369.5
Net sales	1,173.4	1,226.9	1,303.7	1,288.8
Recurring profit	14.2	49.1	63.6	39.3
Net income (loss)	(10.8)	25.9	23.3	30.8
Net income (loss) per share (yen)	(¥6.51)	¥15.55	¥13.95	¥18.46
Total assets	1,352.4	1,354.2	1,362.1	1,466.2
Net assets	283.0	297.4	315.9	349.8

(ii) Company Assets and Income

Unit: billions of yen

Item	The 187th fiscal year	The 188th fiscal year	The 189th fiscal year	The 190th fiscal year (under review)
Orders received	578.6	816.0	1,018.1	1,086.2
Net sales	644.1	817.4	1,003.3	983.9
Recurring profit	8.6	32.8	38.0	19.4
Net income (loss)	(5.4)	33.3	11.4	17.1
Net income (loss) per share (yen)	(¥3.24)	¥19.97	¥6.87	¥10.26
Total assets	976.4	1,116.0	1,144.6	1,195.1
Net assets	220.7	246.8	255.0	258.4

(10) Major Parent Companies and Subsidiaries**(i) Parent Companies**

Not applicable.

(ii) Major Subsidiaries

Company name	Capital	The Company's percentage of equity participation	Main business
Kawasaki Trading Co., Ltd.	¥600 million	70%	Sale of various industrial machinery, petroleum, steel stock, air conditioning equipment, etc.
NIPPI Corporation	¥6,048 million	100%	Manufacture of aircraft components, targeting systems, rocket components, aerospace equipment, wind power generation system and marine systems; repair, maintenance and modification of aircraft
KCM Corporation	¥4,825 million	66%	Design, manufacture, sale, repair, etc. of construction machinery
Kawasaki Machine Systems, Ltd.	¥350 million	100%	Sale, repair and after-sales service of gas turbine generators (Note 2)
Kawasaki Thermal Engineering Co., Ltd.	¥1,460 million	83%	Manufacture, sales, installation and after-sales service for boilers, air-conditioning equipment and absorption-style heat pumps, etc.
KCMJ Corporation	¥300 million	Note 3	Sale, repair and lease of construction machinery, etc.
EarthTechnica Co., Ltd.	¥1,200 million	100%	Design, manufacture, and sale of crushers, grinders, castings, and other equipment; design, execution and supervision of engineering, construction, installation of machinery and appliances
Kawasaki Motors Corporation Japan	¥100 million	100%	Sole distributor of motorcycles and JET SKI® in Japan
Kawasaki Motors Corp., U.S.A.	U.S.\$165 million	100%	Sales of motorcycles, JET SKI®, 4-wheel buggies, and general purpose gasoline engines in the U.S.
Kawasaki Motors Manufacturing Corp., U.S.A.	U.S.\$170 million	100%	Manufacture of JET SKI®, 4-wheel buggies, and general purpose gasoline engines in the U.S.; manufacture, servicing and engineering of rolling stock
Kawasaki Rail Car, Inc.	U.S.\$60 million	Note 4	Manufacture, sale, servicing and engineering of rolling stock in the U.S.
Kawasaki Motors Europe N.V.	€64 million	100%	Sales of motorcycles, JET SKI®, 4-wheel buggies, and general purpose gasoline engines in Europe
Kawasaki Motors Enterprise (Thailand) Co., Ltd.	1,900 million baht	100%	Manufacture and sale of motorcycles in Thailand
P.T. Kawasaki Motor Indonesia	U.S.\$40 million	83%	Manufacture and sale of motorcycles in Indonesia
Kawasaki Motors (Phils.) Corporation	101 million peso	50%	Manufacture and sale of motorcycles in the Philippines
Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.	¥400 million	100%	Customer service, sales and CS activities relating to precision machinery products (including products of joint company) in China
Flutek, Ltd.	1,310 million won	50%	Assembly and after-sales services for hydraulic equipment in Korea

(Notes)

1. From this current consolidated fiscal year, the following changes were made in relation to companies classified as major subsidiaries: Two companies — Kawasaki Motores do Brasil Ltda. and Kawasaki Precision Machinery (U.K.) Ltd. — were excluded.
2. As of April 1, 2012, Kawasaki Machine Systems, Ltd. carried out an absorption-type company split of the department related to industrial robots with Kawasaki Robot Service, Ltd., KHI's wholly-owned subsidiary.
3. KCMJ Corporation is a wholly-owned subsidiary of KCM Corporation.
4. Kawasaki Rail Car, Inc. is a wholly-owned subsidiary of Kawasaki Motors Manufacturing Corp., U.S.A.

(iii) Progress of Business Combinations

There are 95 consolidated subsidiaries, including 17 companies which are cited in (ii) above as major subsidiaries, and there are 17 companies which are accounted for using the equity method.

(iv) Results of Business Combinations

As stated above in “Business Progress and Results”, for the current consolidated fiscal year net sales decreased ¥14.8 billion (1%) compared to the previous fiscal year, to ¥1,288.8 billion, and consolidated current net income was ¥30.8 billion.

(11) Company Group’s Main Business and Number of Employees

Segment	Main Business	Number of Employees			
Ship & Offshore Structure	Manufacture and sale of ships, etc.	2,577			
Rolling Stock	Manufacture and sale of rolling stock, and snow removal machinery, etc.	3,123			
Aerospace	Manufacture and sale of aircraft, etc.	5,648			
Gas Turbine & Machinery	Manufacture and sale of jet engines, industrial gas turbines, prime movers, etc.	3,915			
Plant & Infrastructure	Manufacture and sale of industrial machinery, boilers, environmental equipment, steel structures and crushing machines, etc.	2,930			
Motorcycle & Engine	Manufacture and sale of motorcycles, four-wheel buggies (ATVs), multi-purpose four-wheel vehicles, personal water craft (“JET SKI®”), general purpose gasoline engines, etc.	9,052			
Precision Machinery	Manufacture and sale of hydraulic components and industrial robots, etc.	2,514			
Other	Manufacture and sale of construction machinery, commerce, brokerage and mediation for sale and order reception and administration of welfare facilities, etc.	3,293			
Company-wide common areas	(Head Office Administration Department, Research & Development Department, etc.)	958			
Total	-	<table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: right;">34,010</td> </tr> <tr> <td style="text-align: right;">(Japan 25,222)</td> </tr> <tr> <td style="text-align: right;">Overseas 8,788</td> </tr> </table>	34,010	(Japan 25,222)	Overseas 8,788
34,010					
(Japan 25,222)					
Overseas 8,788					

(Note) This company has 15,067 employees (average age: 41.3 years; average years of service: 15.7 years)

(12) Company Group’s Principal Offices and Plants

(i) The Company

		Name and location
Principal offices	Head office	Kobe Head Office, Tokyo Head Office 2 Head Offices
	Branches	Sapporo Office, Sendai Office, Nagoya Office, Osaka Office, Hiroshima Office, Fukuoka Office, Okinawa Office 7 Offices
Plants, etc.		Gifu Works (Kakamigahara), Nagoya Works 1 (Yatomi, Aichi), Nagoya Works 2 (Ama-gun, Aichi), Kobe Works, Hyogo Works, Seishin Works, Nishi Kobe Works (Kobe), Akashi Works (Akashi), Kakogawa Works (Kakogawa), Harima Works (Kako-gun, Hyogo), Sakaide Works (Sakaide, Kagawa), Technical Institute (Akashi) 12 Works (including a Technical Institute)

(ii) Material Subsidiaries**i) Domestic**

Company name	Location of principal offices	Location of plants
Kawasaki Trading Co., Ltd.	Kobe / Chiyoda-ku, Tokyo	-
NIPPI Corporation	Yokohama	Yokohama / Yamato
KCM Corporation	Kako-gun, Hyogo	Kako-gun, Hyogo
Kawasaki Machine Systems, Ltd.	Osaka	-
Kawasaki Thermal Engineering Co., Ltd.	Kusatsu / Osaka / Koto-ku, Tokyo	Kusatsu
KCMJ Corporation	Kakogawa	-
EarthTechnica Co., Ltd.	Chiyoda-ku, Tokyo	Yachiyo
Kawasaki Motors Corporation Japan	Akashi	-

ii) Overseas

Company name	Location
Kawasaki Motors Corp., U.S.A.	U.S.
Kawasaki Motors Manufacturing Corp., U.S.A.	U.S.
Kawasaki Rail Car, Inc.	U.S.
Kawasaki Motors Europe N.V.	The Netherlands
Kawasaki Motors Enterprise (Thailand) Co., Ltd.	Thailand
P.T. Kawasaki Motor Indonesia	Indonesia
Kawasaki Motors (Phils.) Corporation	Philippines
Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.	China
Flutek, Ltd.	Korea

(13) Principal lenders

(Unit: 100 million yen)

Lenders	Balance of Loans		
	Long term	Short term	Total
Mizuho Corporate Bank, Ltd.	90	510	600
Sumitomo Mitsui Banking Corporation	180	210	390
Sumitomo Mitsui Trust Bank, Ltd.	130	110	240
Development Bank of Japan Inc.	219	5	225
Bank of Tokyo-Mitsubishi UFJ, Ltd.	18	134	153

(14) Other important issues concerning the current situation of corporate groups**Important law suits cases, etc.**

The Japan Fair Trade Commission issued on June 27, 2006 a cease and desist order against our company on the grounds that there was illegal conduct (bid rigging) in violation of the Antimonopoly Act in relation to the construction of refuse incineration plants ordered by municipal governments, and so forth. We have, however, lodged an appeal with the Tokyo High Court to seek for the cancellation of the decision. In that appeal, the Tokyo High Court ruled against our company (i.e. not agreeing to cancel the decision). We therefore appealed to the Supreme Court on October 9, 2008, however, on October 6, 2009, the appeal was declined, which confirms our company lost the suit.

The Japan Fair Trade Commission issued a surcharge payment order on March 23, 2007 for the amount of ¥5,165 million against our company. We have appealed the decision to the Japan Fair Trade Commission and demanded a trial. However, the same payment order for the amount of ¥5,165 million was issued in the decision made on November 10, 2010, and thus we decided not to challenge the decision. We paid the surcharge in full on January 11, 2011, which closed this case.

Meanwhile, in relation to this matter, law suits have been filed against our company individually or together

with other companies as follows as of the end of March 2013, in order to seek damages from us on the grounds that we caused damage to the ordering parties due to bid rigging. Lawsuits settled during FY2012 are also included.

Municipalities, etc.	Status of the law suits
Atami City	Regarding the action filed by citizens of Atami City seeking damages of ¥1,357 million against seven companies including our company, the Supreme Court ruled in favor of our company and others on April 13, 2009, confirming that our company won the suit. However, a new action for damages of ¥512 million was brought against five companies including our company by Atami City at Tokyo High Court on August 19, 2010. The Tokyo High Court ruled against our company and ordered KHI and others to pay ¥315 million on March 15, 2013. The five companies including our company then appealed to the Supreme Court and the case is currently under dispute.
Sado City	An action for damages of ¥621 million was brought against our company at Niigata District Court on May 26, 2009. The District Court ruled against our company and ordered KHI to pay ¥273 million on October 14, 2011. However, both Sado City and our company filed an appeal to the Tokyo High Court. The Tokyo High District Court ruled against our company and ordered KHI to pay ¥265 million on May 24, 2012. Neither Sado City nor our company filed an appeal, which confirmed the above ruling. The case is now closed.
Manatsuru-machi, Yugawara-machi Hygiene Association	An action for damages of ¥256 million was brought against our company at Tokyo High Court on October 31, 2011. The Tokyo High Court ruled in favor of our company on November 27, 2012, confirming that the allegation of bid rigging by our company was not valid. Yugawara Town and Manazuru Town Health Association did not file an appeal, which confirmed the above ruling. The case is now closed.
Sasebo City	An action for damages of ¥463 million was brought against our company at the Sasebo Branch of the Nagasaki District Court on November 30, 2011. A settlement was reached on April 12, 2013, with our company agreeing to pay a settlement in the amount of ¥115 million to Sasebo City based on advice to settle issued by the Sasebo Branch of the Nagasaki District Court and both Sasebo City and our company agreed. The case is now closed.

2. Status of Shares (as of March 31, 2013)

- (1) **Total number of shares authorized to be issued** 3,360,000,000 shares
- (2) **Total number of shares issued** 1,671,892,659 shares
(including 100,116 shares of treasury stock)
- (3) **Number of shareholders** 146,087 persons
- (4) **Major shareholders (top 10)**

Shareholder name	Shareholders' investment in the company	
	Number of shares held	Shareholding ratio
	thousand shares	%
Japan Trustee Services Bank, Ltd. (Trust Account)	85,654	5.1
The Master Trust Bank of Japan, Ltd. (Trust Account)	80,797	4.8
Nippon Life Insurance Company	57,516	3.4
Mizuho Bank, Ltd.	57,443	3.4
JFE Steel Corporation	56,174	3.3
Kawasaki Heavy Industries, Ltd. Kyoueikai	35,916	2.1
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	34,361	2.0
Kawasaki Heavy Industries, Ltd. Employees Shareholder Association	33,981	2.0
Tokio Marine & Nichido Fire Insurance Co., Ltd.	27,838	1.6
Sumitomo Mitsui Banking Corporation	26,828	1.6

(Note) The shareholding ratio is calculated after subtracting treasury stock (100,116 shares).

3. Company Share Options

- (1) **Share options held by company officers at the end of the fiscal year under review**
Not applicable.
- (2) **Share options delivered to employees, etc. during the fiscal year under review**
Not applicable.
- (3) **Other important matters concerning share options, etc.**
Not applicable.

4. Company Officers

(1) Directors and Corporate Auditors

Position	Name	Areas of Responsibility within the Company and other significant concurrent positions
Chairman of the Board	Tadaharu Ohashi	Chairman, The Kobe Chamber of Commerce and Industry Vice Chairman, Kansai Economic Federation
* President	Satoshi Hasegawa	
* Senior Executive Vice President	Masashi Segawa	Assistant to the President, in charge of Marketing Division, Procurement Division and Corporate Technology Division
* Senior Executive Vice President	Mitsutoshi Takao	Assistant to the President, in charge of Corporate Planning Division, Finance & Accounting Division, CSR Division, Personnel & Labor Administration Division and General Administration Division
* Senior Vice President	Nobumitsu Kambayashi	President, Ship & Offshore Structure Company, Chairman, Nantong COSCO KHI Ship Engineering Co., Ltd.
* Senior Vice President	Kyohei Matsuoka	President, Rolling Stock Company
* Senior Vice President	Hiroshi Takata	President, Motorcycle & Engine Company
* Senior Vice President	Shigeru Murayama	President, Aerospace Company
* Senior Vice President	Makoto Sonoda	President, Precision Machinery Company
* Senior Vice President	Joji Iki	President, Gas Turbine & Machinery Company
Senior Vice President	Masahiko Hirohata	General Manager, Corporate Planning Division
* Senior Vice President	Eiji Inoue	President, Plant & Infrastructure Company
Senior Vice President	Yoshinori Kanehana	General Manager, Marketing Division
Corporate Auditor	Tatsuyoshi Ogushi	(Standing)
Corporate Auditor	Yuji Murakami	(Standing)
Corporate Auditor	Kenzo Doi	Attorney, Outside Corporate Auditor of World Co., Ltd.
Corporate Auditor	Michio Oka	

- (Notes)
- * means a Representative Director.
 - Corporate Auditors Kenzo Doi and Michio Oka are both Outside Corporate Auditors.
 - Corporate Auditor Michio Oka is an Independent Officer.
 - Mr. Jiro Noguchi, formerly Senior Vice President of KHI, has been appointed as Outside Corporate Auditor of Kawasaki Kisen, to which Mr. Michio Oka belonged. Kawasaki Kisen owns a total of 1.03% of the outstanding shares in KHI. Meanwhile, KHI owns a total of 0.31% of the outstanding shares in Kawasaki Kisen, and 3.19% of the voting rights of the outstanding shares in Kawasaki Kisen, which are held by Trust & Custody Services Bank, Ltd. (Kawasaki Heavy Industries, Ltd. retirement benefit trust account re-entrusted by Mizuho Trust and Banking Co., Ltd.). However, Kawasaki Kisen is not a company of KHI Group. In addition, although Kawasaki Kisen is a business partner of KHI mainly in ship-related transactions, the annual average transactions between the Kawasaki Kisen Group and KHI Group for the most recent five fiscal years account for less than 2% of the total annual average sales each for the Kawasaki Kisen Group and KHI Group over the corresponding period. Consequently, we have determined that there is no issue as regards to the independence of Mr. Michio Oka and he is therefore suitable as an independent officer.

5. Both Yuichi Asano and Toshikazu Hayashi, Directors, have resigned during the relevant business year with the conclusion of the 189th Ordinary General Meeting of Shareholders.
6. As of April 1, 2013, the Director positions have changed: Masashi Segawa, formerly Senior Executive Vice President (Representative Director), and Nobumitsu Kambayashi, formerly Senior Vice President (Representative Director), have become Directors.
7. Yuji Murakami, Corporate Auditor, who has many years of experience with administration and accounting operations at our company, has substantial knowledge about finance and accounting matters.
8. Executive Officers as of April 1, 2013 are as follows.

Position	Name	Areas of Responsibility within the Company
President	Satoshi Hasegawa	
Senior Executive Vice President	Mitsutoshi Takao	Assistant to the President, in charge of Corporate Planning Division, Finance & Accounting Division, CSR Division, Personnel & Labor Administration Division, General Administration Division and Procurement Division
Senior Vice President	Kyohei Matsuoka	President, Rolling Stock Company
Senior Vice President	Hiroshi Takata	President, Motorcycle & Engine Company
Senior Vice President	Shigeru Murayama	President, Aerospace Company
Senior Vice President	Makoto Sonoda	President, Precision Machinery Company
Senior Vice President	Joji Iki	President, Gas Turbine & Machinery Company
Senior Vice President	Masahiko Hirohata	General Manager, Corporate Planning Division
Senior Vice President	Eiji Inoue	President, Plant & Infrastructure Company
Senior Vice President	Yoshinori Kanehana	General Manager, Marketing Division
Managing Executive Officer	Minoru Makimura	General Manager, Corporate Technology Division
Managing Executive Officer	Akio Murakami	President, Ship & Offshore Structure Company
Managing Executive Officer	Masahiro Ibi	Deputy General Manager, Marketing Division
Executive Officer	Takeshi Sugawara	Deputy General Manager, Corporate Technology Division (in charge of Manufacturing Improvement)
Executive Officer	Shinsuke Tanaka	Deputy General Manager, Corporate Planning Division. (In charge of special matters)
Executive Officer	Yoshizumi Hashimoto	General Manager, CSR Division
Executive Officer	Takafumi Shibahara	General Manager, Personnel & Labor Administration Division
Executive Officer	Minoru Akioka	General Manager, Finance & Accounting Division
Executive Officer	Yukinobu Kono	Deputy General Manager, Corporate Technology Division and General Manager, System Technology Development Center
Executive Officer	Masafumi Nakagawa	General Manager, Marketing & Sales Division, Motorcycle & Engine Company
Executive Officer	Atsuhiko Yamanaka	General Manager, Procurement Division
Executive Officer	Kaoru Kawabe	General Manager, Kobe Shipyard, Ship & Offshore Structure Company
Executive Officer	Kazuo Hida	Vice President and General Manager, Engineering Division, Precision Machinery Company

Executive Officer	Makoto Ogawara	Vice President, Rolling Stock Company
Executive Officer	Yugo Nakagami	Overall administration of Marketing & Sales Division, Tokyo Engineering Department and Chinese JV business, Plant & Infrastructure Company
Executive Officer	Hirokazu Komaki	General Manager, Engineering Division, Aerospace Company
Executive Officer	Shiro Nakabayashi	General Manager, General Administration Division
Executive Officer	Munenori Ishikawa	Vice President, Aerospace Company
Executive Officer	Toshiyuki Kuyama	General Manager, Gas Turbine Division, Gas Turbine & Machinery Company
Executive Officer	Shigehiko Kiyama	General Manager, Supply Chain Division, Motorcycle & Engine Company
Executive Officer	Kenji Tomida	General Manager, Planning & Control Division, Ship & Offshore Structure Company
Executive Officer	Genichi Abe	General Manager, Project Division and in charge of special matters, Ship & Offshore Structure Company
Executive Officer	Kazuo Ota	General Manager, Corporate Planning Division, Aerospace Company
Executive Officer	Masami Maeda	General Manager, Project Division, Precision Machinery Company
Executive Officer	Hiroji Iwasaki	Rolling Stock Company (in charge of and having control over North American operation, seconded to Kawasaki Rail Car, Inc.)
Executive Officer	Koji Kadota	Deputy General Manager, Corporate Technology Division and General Manager, Technical Institute
Executive Officer	Yasuhiko Hashimoto	General Manager, Robot Division, Precision Machinery Company
Executive Officer	Tatsuya Watanabe	Senior Manager, Energy Plants Engineering Division, Plant & Infrastructure Company
Executive Officer	Takeshi Ohata	General Manager, Machinery Division, Gas Turbine & Machinery Company

(2) Compensation to Directors and Corporate Auditors

Directors 15 persons	¥739,919 thousand
Corporate Auditors 5 persons	¥88,080 thousand
Total 20 persons	¥827,999 thousand (of which ¥17,280 thousand to two Outside Corporate Auditors)

(Notes) The maximum amount of remuneration for the Directors is ¥1,200 million per year (as resolved at the 189th Ordinary General Meeting of Shareholders held on June 27, 2012). The maximum amount of remuneration for the Corporate Auditors is ¥8 million (which was resolved at the 170th Ordinary General Meeting of Shareholders held on June 29, 1993).

(3) Outside Officers

(i) Concurrent Director positions at other companies and the relationship between our company and said companies

Not applicable.

(ii) Concurrent positions held as Outside Officer at other companies and the relationship between our company and said companies

Corporate Auditor, Kenzo Doi concurrently holds a position as an Outside Corporate Auditor at World Co., Ltd. Our company does not have any dealings or other special relationship with this company.

(iii) Relationships between the company or specific related business operators and Directors and employees, etc.

Not applicable.

(iv) Main activities during the business year

Attendance and comments at Board of Directors Meetings and Board of Corporate Auditors meetings

Kenzo Doi, Corporate Auditor, attended all of the 13 Board of Directors Meetings, and all of the 17 Board of Corporate Auditors meetings held during the business year, and mainly made comments based on his expert standpoint as an attorney.

Michio Oka, Corporate Auditor, attended all of the 13 Board of Directors Meetings, and all of the 17 Board of Corporate Auditors meetings held during the business year, and mainly made comments based on his experience as a company manager.

(v) Overview of provisions in contracts for limitation of liability

The company has concluded contracts for limitation of liability with Corporate Auditors Kenzo Doi and Michio Oka, pursuant to the provisions of Article 427 Paragraph 1 of Japan's Companies Act. The liability under said contract shall be limited to either an amount of ¥10 million, or an amount specified by law, whichever is higher.

5. Accounting Auditors

(1) Accounting Auditor's Name

KPMG AZSA LLC

(2) Accounting Auditors' Compensation, etc., for the fiscal year under review

(i) Accounting Auditors' Compensation, etc., for the fiscal year under review

¥162,540 thousand

(ii) Cash and Other Profits Payable by the Company or its Subsidiaries to Accounting Auditors

¥222,390 thousand

(Note) Under the audit agreement between the Company and its Accounting Auditors, compensation for audits pursuant to the Companies Act and audits pursuant to the Financial Instruments and Exchange Act are not separated, and otherwise cannot be separated. Consequently, the above amounts reflect total compensation.

(3) Details of Non-audit Services

IFRS advisory services, Procedures relating to the confirmation of balances of certain accounts submitted to the authorities concerned to proceed liquidation of receivables and so forth.

(4) Policy Regarding Determination of Termination or Nonrenewal of Appointment of Accounting Auditors

Where the Accounting Auditor violates or contravenes laws such as the Companies Act and Certified Public Accountant Act, and where it is determined acts have been committed which go against public order and morality, the Board of Corporate Auditors shall consider whether to terminate or not renew the Accounting Auditors based on those facts, and make a decision in accordance with the Board of Corporate Auditors Regulations. Where the Board of Corporate Auditors determines that it is appropriate to terminate or not renew the appointment of Accounting Auditors, it will request the Board of Directors to terminate the Accounting Auditors' appointment, or put forward a proposal at the General Meeting of Shareholders to not renew the appointment of the Accounting Auditors, and the Board of Directors shall discuss the matter.

6. System to ensure that Directors' execution of duties complies with laws and the Articles of Incorporation and other systems to ensure proper execution of business

A resolution was made with respect to the company's internal control systems, pursuant to the Companies Act, at the Board of Directors Meeting of May 24, 2006 regarding confirmation of the basic policies and status of established internal control systems, and henceforth whenever there are organizational changes or changes to internal regulations, resolutions are made again at Board of Directors Meetings. The overview thereof is as follows. In addition, KHI conducts year-end assessment of the operation status of resolved internal control systems to ensure proper operation and provides reports to the Board of Directors.

I. Basic policy for developing a system for internal controls

KHI Group develops and maintains systems for internal controls to establish systems to ensure formation of proper organizational structures, development of company rules and regulations, dissemination of information and proper execution of operations; since KHI's management philosophy, which is indicated in our Group Mission (missions and roles which must be carried out) **"Kawasaki, working as one for the good of the planet"** (Enriching lifestyles and helping safeguard the environment: Global Kawasaki), "Kawasaki Value", the "The Kawasaki Group Management Principles" and "The Kawasaki Group Code of Conduct"; is embodied in each and every officer and employee of our Group. KHI strives to improve its internal controls by constantly reviewing them, and in doing so improves the efficiency and lawfulness of company systems which contribute to the Group's sound and sustained growth.

II. Development of internal control systems

KHI has established the following internal control systems and is streamlining, maintaining, and improving them. Going forward, KHI will review them as necessary, taking into account such factors as changes in the company's operating environment.

1. Internal control systems concerning Directors and employees

(1) Systems to ensure that Directors' and employees' execution of duties are compliant with laws and the Articles of Incorporation

- 1) We established KHI Corporate Ethics Regulations, and are thoroughgoing in ensuring compliance with laws and the Articles of Incorporation and other KHI regulations and policies, and bind KHI's directors and employees to: "put ethics regulations into practice as corporate citizens", "respect individuals and individual rights and prohibit discrimination", "promote protection of the environment", "comply with laws and social rules", and "use proper accounting practices and ensure reliability of financial reports" (hereinafter, "Fundamental Principles of Corporate Ethics").
- 2) According to the Internal Controls Management Regulations, we appropriately manage the system to promote measures, with the President as the chief executive of internal controls and General Manager of each division as the manager in charge of internal controls, and deliberate and make decisions on policies and measures at Management Committee, which are designed to streamline, maintain, and improve internal control systems, in order to ensure the appropriateness of business operations by achieving objectives such as effective and efficient business operations, reliable financial reporting, compliance with laws, and safeguarding of assets. Based on the roles and responsibilities given to Executive Officers, officers, and employees, we manage internal control systems in a unified way.
- 3) According to the Company-wide CSR Committee Regulations and the CSR Committee Rules for Business Divisions, we deliberate and make decisions on policies and measures, under the governance of the President, for the Company-wide CSR Committee and the CSR Committee for Business Divisions (consisting of officers and employees) to comply with the Fundamental Principles of Corporate Ethics stipulated in KHI Corporate Ethics Regulations, and to take thoroughgoing compliance initiatives for KHI Group. We continue to improve understanding and awareness of compliance through ongoing education and training activities for various types of legal compliance and also monitor operational status.
- 4) According to the Compliance Reporting and Consultation System Regulations, we work to enhance compliance systems by managing the internal whistleblower system to report information regarding compliance breaches in cases where it is difficult to correct compliance breaches through ladders or concerned divisions.

- 5) Executive Officers who are delegated to execute business operations are appointed at Board of Directors Meetings, and while Executive Officers are delegated to execute business operations, a Director who does not concurrently serve as an Executive Officer and an Independent Officer established by the Tokyo Stock Exchange are appointed to enhance the supervisory and monitoring functions of the Board of Directors for overall management.
 - 6) According to the Internal Controls Regulations, we ensure the appropriateness of business operations through business audits conducted by the Auditing Department.
 - 7) Based on our Basic Policy on Internal Controls over Financial Reporting, we establish internal controls over financial reporting and appropriately carry out evaluation and assessment thereof to ensure the reliability of financial reporting.
- (2) Systems for storage and management of information related to Directors' execution of duties
- 1) Information pertaining to Directors' execution of duties (meeting minutes, decision making records and appurtenant materials, account books, account invoices and other information) shall be appropriately stored and managed in accordance with Document Handling Regulations and other related policies and regulations. The information shall be made accessible at any time to Directors, Corporate Auditors and employees nominated thereby.
 - 2) With respect to protection of confidential information, we have established a Rules for Handling Corporate Secrets, and with respect to personal information we have established Regulations for Protecting Personal Information to ensure appropriate handling is thoroughly observed, and we ensure enforcement thereof through such measures as inspections and business audits, which are carried out according to methods stipulated in the regulations.
- (3) Systems for management of risk of loss
- 1) According to the Risk Management Regulations, with the President as the chief executive of risk management and General Manager of each division as manager in charge of risk management, we grasp the assumed risk in detail using a unit of measurement common to the entire Group, and appropriately manage the risk management system, which is designed to avoid or minimize risk or losses caused by such risk.
 - 2) With respect to risks pertaining to management strategies, risk analysis and consideration of countermeasures shall be conducted in advance by the concerned divisions in accordance with the Regulations of Board of Directors, the Management Committee Regulations and the Approval Regulations, and deliberations and decision making regarding those risks shall be carried out at Board of Directors Meetings or Management Committees in accordance with those regulations. We also implement appropriate risk management for major projects that have a significant impact on business operations, in accordance with the Major Project Risk Management Regulations particularly.
 - 3) As a measure to be taken when risk becomes evident, according to the Crisis Management Regulations, we articulate codes of conduct in event of emergencies, and also appoint persons in charge of crisis management at each place of business to appropriately manage the system, which is designed to minimize losses. In particular, in anticipation of the occurrence of disasters, including large-scale earthquake and pandemic diseases, we specify important operations to which priority should be given to ensure the continuation or recovery of the operations in order to minimize the impact on business and formulate a business continuity plan to shorten the length of time until recovery.
- (4) Systems to ensure efficient execution of Directors' duties
- 1) Based on KHI Group's role and objectives as articulated in the Kawasaki Group Mission Statement, we share final goals for the future by setting forth a long-term vision for each business division in the Medium-Term Business Plan.
 - 2) To attain the goals set forth in the Kawasaki Group Mission Statement and the long-term vision ("Kawasaki Business Vision 2020"), we have formulated a Medium-Term Business Plan and a Short-Term Business Plan, and have determined goals at each organization level based on these plans. We have also established performance goals for each officer and employee, and work on activities that articulate goals to be achieved. Furthermore, by conducting regular reviews of these respective plans and goals, we aim to secure a system that enables more appropriate and efficient execution of business operations.
 - 3) We have stipulated matters such as division of roles and authority for executing business operations and lines of responsibility and chains of command, and so forth, in regulations

such as the Rules for Managing Segregation of Business Operations and the Approval Regulations, in order to clarify the authority and limits of discretion of officers and employees. According to the Executive Officers Regulations, Executive Officers are appointed based on a resolution passed at Board of Directors Meetings to clarify the “Systems for Execution of Business Operations.” As a result of appropriately managing these systems, we aim to efficiently execute business operations in each business and function area.

- 4) We have established Management Committee, which act as a deliberative organ to support the Board of Directors Meetings’ resolutions and the President’s decision making, to ensure efficient execution of duties by Board Members through discussions at Management Committees. Furthermore, we hold Executive Officers Committee Meeting for all Executive Officers to ensure familiarity and a common understanding of management strategies and plans.
 - 5) According to the company system, each business division makes decisions on its own under delegated authority and responsibility, and executes flexible business operations to adapt to changes in the environment.
2. Internal controls systems in the company group
- Systems to ensure proper business execution within the company group which is composed of the company and subsidiaries
 - 1) With respect to the management at each company within our Group, while respecting the autonomy thereof, we ensure the appropriateness of business operations as a whole by KHI and each company within our Group sharing the basic philosophy and vision indicated in the Kawasaki Group Mission Statement and the Medium-Term Business Plan, and so forth.
 - 2) According to the Internal Controls Management Regulations, we govern internal controls of our subsidiaries and affiliates from the perspective of the parent company and appropriately manage the system to ensure the appropriateness of business operations by achieving objectives such as the effectiveness and efficiency of business operations, reliability of financial reporting, compliance with laws and safeguarding of assets as a whole group.
 - 3) We implement controls as shareholders of subsidiaries and affiliates through the execution of voting rights at the General Meeting of Shareholders, and also implement controls over important decisions, and so forth, concerning the operation of subsidiaries and affiliates through the Subsidiaries and Affiliates Regulations and the Approval Regulations. Specifically, we carry out management supervision and monitoring by dispatching non-full-time Directors and non-full-time Corporate Auditors to subsidiaries, and also through the establishment of the Subsidiaries & Affiliates Control Department which presides over subsidiaries to clarify the roles of each company, we secure appropriate Group business management systems. Furthermore, according to the Internal Regulations for Non-full-Time Officers of Subsidiaries and Affiliates, we also carry out education and training for non-full-time officers dispatched from KHI.
 - 4) The Auditing Department, which presides over Group internal audits, ensures the appropriateness of operations and prevents unfair transactions between Group companies through business audits and assessment of internal controls over financial reporting at KHI and subsidiaries.
 - 5) According to the Company-wide CSR Committee Regulations, we deliberate strategies and policies and measures concerning the Fundamental Principles of Corporate Ethics and compliance as the entire KHI Group, and secure systems to check operational status.
3. Internal controls systems for ensuring appropriate audits by Corporate Auditors
- (1) Systems for employees in cases where the Corporate Auditor requests appointment of employees to assist with the Corporate Auditor’s duties
 - We allocate the required staff (to the Corporate Auditor) according to the Corporate Auditors’ requests.
 - (2) Systems to ensure employees who assist with the Corporate Auditors duties are independent from Directors.
 - The person employed to assist with the duties of the Corporate Auditor (assistant of the Corporate Auditor) shall follow the Corporate Auditor’s directions and orders, and the consent of the Corporate Auditor is required in relation to the hiring or firing of the staff.
 - (3) Systems for Directors and employees to report to the Board of Corporate Auditors and other systems for reports to the Board of Corporate Auditors.

- 1) Corporate Auditors attend Board of Directors Meetings, Management Committee, Executive Officers Committee and company-wide meetings, including Company-wide CSR Committees and Company-wide Risk Management Committees; at these meetings, Directors and employees provide reports concerning important matters about company management and business operations, including matters regarding compliance, risk management and internal controls, and the status of execution of duties. Furthermore, Directors shall immediately report to the Board of Corporate Auditors when discovering that there is a risk of the company suffering significant damages.
 - 2) Employees shall, in accordance with the Approval Regulations, report to the Corporate Auditor regarding the execution of business operations by circulation of internal memos.
 - 3) The Auditing Department and Accounting Auditors from time to time report to, and exchange information with Corporate Auditors regarding the status of audits on each place of business and Group companies.
- (4) Other systems to ensure the effective conduct of audits by the Board of Corporate Auditors
- 1) Directors and Corporate Auditors regularly hold meetings to ensure mutual understanding, and the Corporate Auditor also attends important meetings such as Board of Directors Committee and Management Committee, and directly expresses his/her opinion regarding Directors' execution of duties.
 - 2) Directors promote collaboration between Corporate Auditors and the Auditing Department, and cooperate to establish systems which enable greater effectiveness in the conduct of audits.
 - 3) Matters concerning the election of Corporate Auditors and their remuneration, and so forth, are determined in accordance with laws and the Articles of Incorporation, by obtaining the consent of Corporate Auditors, or approval of the Board of Corporate Auditors.
4. Basic stance on expulsion of anti-social forces and countermeasures

Because our Group resolutely refuses to comply with any unreasonable demands from anti-social forces, and works to cut off all relations with anti-social forces, we distribute the "Compliance Guidebook" to all employees. Paragraph 1 of the Guidebook prohibits "giving favors to anti-social forces," and lists specific examples of prohibited acts. We work to ensure that employees are thoroughly familiar with the matters contained in the Compliance Guidebook by conducting training, and so forth, and do not merely distribute the guidebook.

Furthermore, with respect to internal systems, we have established a department in headquarters which is responsible for overseeing handling of expulsion of anti-social forces, established close cooperation with external specialized organizations such as the police force, and in collaboration with concerning departments we systematically handle unreasonable requests from anti-social forces.

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 (Note) Amounts in this Business Report are rounded down to the nearest unit.

## Consolidated Balance Sheet

(As of March 31, 2013)

(Unit: million yen)

| Description                        | Amount    | Description                                              | Amount    |
|------------------------------------|-----------|----------------------------------------------------------|-----------|
| (Assets)                           |           | (Liabilities)                                            |           |
| Current assets                     | 1,016,813 | Current liabilities                                      | 782,540   |
| Cash on hand and in banks          | 38,525    | Trade payables                                           | 281,062   |
| Trade receivables                  | 432,649   | Short-term debt and current portion of<br>long-term debt | 213,510   |
| Merchandise and finished products  | 61,446    | Current bonds payable                                    | 10,000    |
| Work in process                    | 311,107   | Commercial papers                                        | 6,000     |
| Raw materials and supplies         | 87,551    | Current portion of lease obligations                     | 347       |
| Deferred tax assets                | 37,648    | Income taxes payable                                     | 3,756     |
| Other current assets               | 50,671    | Deferred tax liabilities                                 | 1,793     |
| Allowance for doubtful receivables | (2,785)   | Advances from customers                                  | 108,213   |
|                                    |           | Accrued bonuses                                          | 20,060    |
|                                    |           | Provision for product warranties                         | 6,148     |
|                                    |           | Provision for losses on construction contracts           | 18,719    |
|                                    |           | Provision for environmental measures                     | 45        |
| Fixed assets                       | 449,476   | Asset retirement obligations                             | 133       |
| Net property, plant and equipment  | 305,792   | Other current liabilities                                | 112,747   |
| Buildings and structures           | 124,206   | Long-term liabilities                                    | 333,868   |
| Machinery and equipment            | 86,141    | Bonds payable                                            | 70,000    |
| Land                               | 62,318    | Long-term debt, less current portion                     | 184,362   |
| Leased assets                      | 111       | Lease obligations                                        | 433       |
| Construction in progress           | 19,198    | Deferred tax liabilities                                 | 5,511     |
| Other                              | 13,815    | Provision for losses on legal proceeding                 | 569       |
| Intangible assets                  | 19,446    | Provision for environmental measures                     | 4,512     |
| Investments and other assets       | 124,236   | Employees' retirement and severance benefits             | 62,300    |
| Investments in securities          | 22,729    | Asset retirement obligations                             | 551       |
| Long-term loans                    | 409       | Other                                                    | 5,626     |
| Deferred tax assets                | 36,428    | Total liabilities                                        | 1,116,409 |
| Other investments and other assets | 65,605    | (Net assets)                                             |           |
| Allowance for doubtful receivables | (936)     | Shareholders' equity                                     | 357,379   |
|                                    |           | Common stock                                             | 104,484   |
|                                    |           | Capital surplus                                          | 54,393    |
|                                    |           | Retained earnings                                        | 198,528   |
|                                    |           | Treasury stock                                           | (27)      |
|                                    |           | Accumulated other comprehensive income                   | (19,139)  |
|                                    |           | Net unrealized gains on securities, net tax              | 4,524     |
|                                    |           | Deferred gains (losses) on hedges                        | (5,998)   |
|                                    |           | Foreign currency translation adjustments                 | (17,665)  |
|                                    |           | Minority interests                                       | 11,641    |
|                                    |           | Total net assets                                         | 349,881   |
| Total assets                       | 1,466,290 | Total liabilities and net assets                         | 1,466,290 |

## Consolidated Statement of Income

(April 1, 2012 - March 31, 2013)

(Unit: million yen)

| Description                                                                | Amount |           |
|----------------------------------------------------------------------------|--------|-----------|
| Net sales                                                                  |        | 1,288,881 |
| Cost of sales                                                              |        | 1,085,469 |
| Gross profit                                                               |        | 203,412   |
| Selling, general and administrative expenses                               |        | 161,349   |
| Operating income                                                           |        | 42,062    |
| Non-operating income                                                       |        | 17,576    |
| Interest income                                                            | 876    |           |
| Dividend income                                                            | 765    |           |
| Gain on sales of securities                                                | 1,424  |           |
| Equity in income of non-consolidated subsidiaries and affiliates           | 8,530  |           |
| Other non-operating income                                                 | 5,980  |           |
| Non-operating expenses                                                     |        | 20,310    |
| Interest expense                                                           | 4,151  |           |
| Foreign exchange losses, net                                               | 9,919  |           |
| Other non-operating expenses                                               | 6,239  |           |
| Recurring profit                                                           |        | 39,328    |
| Extraordinary income                                                       |        | 8,624     |
| Gain on transfer of benefit obligation relating to employees' pension fund | 8,624  |           |
| Extraordinary losses                                                       |        | 1,800     |
| Loss on environmental measures                                             | 1,437  |           |
| Loss on impairment of fixed assets                                         | 363    |           |
| Income before income taxes                                                 |        | 46,152    |
| Income taxes-current                                                       |        | 10,590    |
| Income taxes-deferred                                                      |        | 2,550     |
| Income before minority interests                                           |        | 33,011    |
| Minority interests in income                                               |        | 2,147     |
| Net income                                                                 |        | 30,864    |

## Consolidated Statement of Changes in Net Assets

(April 1, 2012 - March 31, 2013)

(Unit: million yen)

|                                                                                            | Shareholders' equity |                 |                   |                |                            |
|--------------------------------------------------------------------------------------------|----------------------|-----------------|-------------------|----------------|----------------------------|
|                                                                                            | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of the period                                                     | 104,484              | 54,393          | 176,414           | (22)           | 335,270                    |
| Changes of items during the period                                                         |                      |                 |                   |                |                            |
| Cash dividends                                                                             |                      |                 | (8,359)           |                | (8,359)                    |
| Net income for the year                                                                    |                      |                 | 30,864            |                | 30,864                     |
| Treasury stock purchased                                                                   |                      |                 |                   | (5)            | (5)                        |
| Treasury stock disposed                                                                    |                      |                 | (0)               | 0              | 0                          |
| Effect of changes in accounting periods of consolidated subsidiaries                       |                      |                 | (204)             |                | (204)                      |
| Decrease with addition of affiliate companies which are accounted for by the equity method |                      |                 | (185)             |                | (185)                      |
| Net changes of items other than shareholders' equity                                       |                      |                 |                   |                |                            |
| Total changes of items during the period                                                   | -                    | -               | 22,114            | (4)            | 22,109                     |
| Balance at the end of the period                                                           | 104,484              | 54,393          | 198,528           | (27)           | 357,379                    |

|                                                                                            | Accumulated other comprehensive income        |                                 |                                          |                                              | Minority interests | Total net assets |
|--------------------------------------------------------------------------------------------|-----------------------------------------------|---------------------------------|------------------------------------------|----------------------------------------------|--------------------|------------------|
|                                                                                            | Net unrealized gains on securities net of tax | Gains (losses) on hedging items | Foreign currency translation adjustments | Total accumulated other comprehensive income |                    |                  |
| Balance at the beginning of the period                                                     | 3,989                                         | 246                             | (33,451)                                 | (29,215)                                     | 9,868              | 315,922          |
| Changes of items during the period                                                         |                                               |                                 |                                          |                                              |                    |                  |
| Cash dividends                                                                             |                                               |                                 |                                          |                                              |                    | (8,359)          |
| Net income for the year                                                                    |                                               |                                 |                                          |                                              |                    | 30,864           |
| Treasury stock purchased                                                                   |                                               |                                 |                                          |                                              |                    | (5)              |
| Treasury stock disposed                                                                    |                                               |                                 |                                          |                                              |                    | 0                |
| Effect of changes in accounting periods of consolidated subsidiaries                       |                                               |                                 |                                          |                                              |                    | (204)            |
| Decrease with addition of affiliate companies which are accounted for by the equity method |                                               |                                 |                                          |                                              |                    | (185)            |
| Net changes of items other than shareholders' equity                                       | 535                                           | (6,244)                         | 15,785                                   | 10,076                                       | 1,772              | 11,848           |
| Total changes of items during the period                                                   | 535                                           | (6,244)                         | 15,785                                   | 10,076                                       | 1,772              | 33,958           |
| Balance at the end of the period                                                           | 4,524                                         | (5,998)                         | (17,665)                                 | (19,139)                                     | 11,641             | 349,881          |

## Non-consolidated Balance Sheet

(As of March 31, 2013)

(Unit: million yen)

| Description                                       | Amount    | Description                                         | Amount    |
|---------------------------------------------------|-----------|-----------------------------------------------------|-----------|
| <b>(Assets)</b>                                   |           | <b>(Liabilities)</b>                                |           |
| <b>Current assets</b>                             | 788,014   | <b>Current liabilities</b>                          | 640,841   |
| Cash on hand and in banks                         | 21,025    | Notes payable-trade                                 | 27,251    |
| Notes receivable-trade                            | 7,000     | Accounts payable-trade                              | 229,025   |
| Accounts receivable-trade                         | 317,327   | Short-term debt                                     | 99,655    |
| Lease investment assets                           | 5,332     | Current portion of long-term debt                   | 58,715    |
| Raw materials and supplies                        | 58,014    | Commercial papers                                   | 6,000     |
| Work in process                                   | 254,644   | Current bonds payable                               | 10,000    |
| Advance payments                                  | 26,094    | Notes payable-facilities                            | 2,076     |
| Prepaid expenses                                  | 519       | Lease obligations                                   | 3         |
| Deferred tax assets                               | 27,460    | Accumulated impairment loss on leased assets        | 294       |
| Short-term loans                                  | 46,052    | Accounts payable-other                              | 28,631    |
| Accounts receivable-other                         | 22,353    | Accrued expenses                                    | 29,736    |
| Accrued income                                    | 171       | Income taxes payable                                | 306       |
| Other current assets                              | 2,878     | Advances from customers                             | 82,041    |
| Allowance for doubtful receivables                | (861)     | Deposits received                                   | 1,446     |
|                                                   |           | Unearned revenue                                    | 15        |
| <b>Fixed assets</b>                               | 407,102   | Accrued bonuses                                     | 13,463    |
| <b>Net property, plant and equipment</b>          | 196,957   | Provision for product warranties                    | 3,765     |
| Buildings                                         | 67,720    | Provision for losses on construction contracts      | 15,797    |
| Structures                                        | 13,603    | Asset retirement obligations                        | 120       |
| Docks and building berths                         | 616       | Derivatives liabilities                             | 31,945    |
| Machinery and equipment                           | 58,231    | Other current liabilities                           | 549       |
| Vessels                                           | 6         |                                                     |           |
| Aircraft                                          | 62        | <b>Noncurrent liabilities</b>                       | 295,795   |
| Vehicles                                          | 522       | Bonds payable, less current portion                 | 70,000    |
| Tools, Furniture and fixtures                     | 8,789     | Long-term debt, less current portion                | 183,929   |
| Land                                              | 35,677    | Accumulated impairment loss on leased assets        | 398       |
| Leased assets                                     | 52        | Long-term accounts payable-other                    | 974       |
| Construction in progress                          | 11,674    | Provision for losses on legal proceeding            | 569       |
|                                                   |           | Provision for environmental measures                | 4,324     |
| <b>Intangible assets</b>                          | 16,302    | Employees' retirement and severance benefits        | 35,168    |
| Software                                          | 9,919     | Asset retirement obligations                        | 428       |
| License production and licensee's execution right | 511       | Other long-term liabilities                         | 0         |
| Other intangible assets                           | 5,872     | <b>Total liabilities</b>                            | 936,637   |
| <b>Investments and other assets</b>               | 193,841   |                                                     |           |
| Investments in securities                         | 21,110    | <b>Net assets</b>                                   |           |
| Stock of affiliates                               | 94,729    | Shareholders' equity                                | 260,161   |
| Investments in capital of affiliates              | 34,096    | Common stock                                        | 104,484   |
| Long-term loans                                   | 6,518     | Capital surplus                                     | 52,210    |
| Deferred tax assets                               | 29,816    | Legal capital surplus                               | 52,210    |
| Other investments and other assets                | 8,193     | Retained earnings                                   | 103,494   |
| Allowance for doubtful receivables                | (622)     | Other retained earnings                             | 103,494   |
|                                                   |           | Provision for special depreciation                  | 917       |
|                                                   |           | Provision for advanced depreciation of fixed assets | 7,220     |
|                                                   |           | Retained earnings brought forward                   | 95,356    |
|                                                   |           | Treasury stock                                      | (27)      |
|                                                   |           | Valuation and translation adjustments               | (1,682)   |
|                                                   |           | Net unrealized gains on securities, net tax         | 3,988     |
|                                                   |           | Deferred gains (losses) on hedges                   | (5,670)   |
|                                                   |           | <b>Total net assets</b>                             | 258,479   |
| <b>Total assets</b>                               | 1,195,116 | <b>Total liabilities and net assets</b>             | 1,195,116 |

## Non-consolidated Statement of Income

(April 1, 2012 - March 31, 2013)

(Unit: million yen)

| Description                                  | Amount |         |
|----------------------------------------------|--------|---------|
| Net sales                                    |        | 983,921 |
| Cost of sales                                |        | 879,924 |
| Gross profit                                 |        | 103,997 |
| Selling, general and administrative expenses |        | 91,423  |
| Operating income                             |        | 12,573  |
| Non-operating income                         |        | 25,839  |
| Interest income                              | 809    |         |
| Dividend income                              | 19,533 |         |
| Gain on sales of securities                  | 1,367  |         |
| Other non-operating income                   | 4,128  |         |
| Non-operating expenses                       |        | 18,979  |
| Interest expense                             | 2,776  |         |
| Interest on bonds                            | 863    |         |
| Foreign exchange losses                      | 10,647 |         |
| Loss on disposal of fixed assets             | 900    |         |
| Other non-operating expenses                 | 3,792  |         |
| Recurring profit                             |        | 19,433  |
| Extraordinary losses                         |        | 1,756   |
| Loss on impairment of fixed assets           | 363    |         |
| Loss on environmental measures               | 1,393  |         |
| Income before income taxes                   |        | 17,676  |
| Income taxes-current                         | (607)  |         |
| Income taxes-deferred                        | 1,126  |         |
| Net income                                   |        | 17,158  |

## Non-consolidated Statement of Changes in Net Assets

(April 1, 2012 - March 31, 2013)

(Unit: million yen)

|                                                                 | Shareholders' equity |                       |                       |                                  |                                                   |                                   |      | Treasury stock | Total shareholders' equity |
|-----------------------------------------------------------------|----------------------|-----------------------|-----------------------|----------------------------------|---------------------------------------------------|-----------------------------------|------|----------------|----------------------------|
|                                                                 | Common stock         | Capital surplus       |                       | Retained earnings                |                                                   |                                   |      |                |                            |
|                                                                 |                      | Legal capital surplus | Other capital surplus | Other retained earnings          |                                                   |                                   |      |                |                            |
|                                                                 |                      |                       |                       | Reserve for special depreciation | Reserve for advanced depreciation of fixed assets | Retained earnings brought forward |      |                |                            |
| Balance at beginning of period                                  | 104,484              | 52,210                | -                     | 1,085                            | 7,363                                             | 86,245                            | (22) | 251,366        |                            |
| Changes of items during the period                              |                      |                       |                       |                                  |                                                   |                                   |      |                |                            |
| Cash dividends                                                  |                      |                       |                       |                                  |                                                   | (8,359)                           |      | (8,359)        |                            |
| Net income for the year                                         |                      |                       |                       |                                  |                                                   | 17,158                            |      | 17,158         |                            |
| Treasury stock purchased                                        |                      |                       |                       |                                  |                                                   |                                   | (5)  | (5)            |                            |
| Treasury stock disposed                                         |                      |                       |                       |                                  |                                                   | (0)                               | 0    | 0              |                            |
| Provision for special depreciation                              |                      |                       |                       | 99                               |                                                   | (99)                              |      | -              |                            |
| Reversal of provision for special depreciation                  |                      |                       |                       | (268)                            |                                                   | 268                               |      | -              |                            |
| Reversal of provision for advanced depreciation of fixed assets |                      |                       |                       |                                  | (142)                                             | 142                               |      | -              |                            |
| Net changes of items other than shareholders' equity            |                      |                       |                       |                                  |                                                   |                                   |      |                |                            |
| Total changes of items during the period                        | -                    | -                     | -                     | (168)                            | (142)                                             | 9,110                             | (4)  | 8,794          |                            |
| Balance at end of period                                        | 104,484              | 52,210                | -                     | 917                              | 7,220                                             | 95,356                            | (27) | 260,161        |                            |

|                                                                 | Valuation and translation adjustments         |                                 |                                             | Total net assets |
|-----------------------------------------------------------------|-----------------------------------------------|---------------------------------|---------------------------------------------|------------------|
|                                                                 | Net unrealized gains on securities net of tax | Gains (losses) on hedging items | Total valuation and translation adjustments |                  |
| Balance at beginning of period                                  | 3,410                                         | 262                             | 3,672                                       | 255,039          |
| Changes of items during the period                              |                                               |                                 |                                             |                  |
| Cash dividends                                                  |                                               |                                 |                                             | (8,359)          |
| Net income for the year                                         |                                               |                                 |                                             | 17,158           |
| Treasury stock purchased                                        |                                               |                                 |                                             | (5)              |
| Treasury stock disposed                                         |                                               |                                 |                                             | 0                |
| Provision for special depreciation                              |                                               |                                 |                                             | -                |
| Reversal of provision for special depreciation                  |                                               |                                 |                                             | -                |
| Reversal of provision for advanced depreciation of fixed assets |                                               |                                 |                                             | -                |
| Net changes of items other than shareholders' equity            | 578                                           | (5,932)                         | (5,354)                                     | (5,354)          |
| Total changes of items during the period                        | 578                                           | (5,932)                         | (5,354)                                     | 3,439            |
| Balance at end of period                                        | 3,988                                         | (5,670)                         | (1,682)                                     | 258,479          |

## **Audit Report**

(English Translation)

Regarding the performance of duties by the Directors for the 190th fiscal year from April 1, 2012 to March 31, 2013, the Board of Corporate Auditors hereby submits its audit report, which has been prepared upon careful consideration based on the audit report prepared by each Corporate Auditor.

### 1. Summary of Auditing Methods by the Corporate Auditors and Board of Corporate Auditors

- (1) The Board of Corporate Auditors established auditing policies, allocation of duties, and other relevant matters, and received reports from each Corporate Auditor regarding his audits and results thereof, as well as received reports from the Directors, other relevant personnel, and the Accounting Auditor regarding performance of their duties, and sought explanations as necessary.
- (2) Each Corporate Auditor complied with the auditing standards of the Corporate Auditors established by the Board of Corporate Auditors, followed the auditing policies, allocation of duties, and other relevant matters, communicated with the Directors, internal control development division, Auditing Department (internal audit dept.) and other employees, and any other relevant personnel, and made efforts to prepare the environment for information collection and audit, as well as participated in meetings of the Board of Directors and other important meetings, received reports from the Directors, Executive Officers, employees, and other relevant personnel regarding performance of their duties, sought explanations as necessary, examined important authorized documents and associated information, and studied the operations and financial positions at the head office and principal business offices.
- (3) Each Corporate Auditor received reports from the Directors, employees, and other relevant personnel regarding the structure and operation status of the system for ensuring that the performance of duties by the Directors conforms to the related laws and regulations and Articles of Incorporation, and the system prepared based on the contents of the resolutions of the Board of Directors and such resolutions regarding preparation of the system stipulated in Article 100, Paragraphs 1 and 3, of the Ordinance for Enforcement of the Companies Act (internal control system), which system is necessary for ensuring that a joint stock corporation's business is proper, and sought explanations as necessary.  
Furthermore, with respect to internal controls on financial reporting under the Financial Instruments and Exchange Act, each Corporate Auditor received reports from the Directors and other relevant personnel as well as KPMG AZSA LLC regarding the assessment of the internal controls concerned and the status of auditing thereof, and sought explanations as necessary.
- (4) Each Corporate Auditor communicated and exchanged information with Directors, Corporate Auditors, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary.

Based on the above methods, we examined the business report and annexed specifications related to the relevant fiscal year.

- (5) Each Corporate Auditor audited whether the Accounting Auditor maintained their independence and implemented appropriate audits, as well as received reports from the Accounting Auditor regarding the performance of their duties and sought explanations as necessary.
- (6) Each Corporate Auditor received notice from the Accounting Auditor that "the system for ensuring that duties are performed properly" (matters set forth in each item of Article 131 of the Ordinance for Corporate Accounting) has been prepared in accordance with the Product Quality Management Standards Regarding Audits (issued by the Business Accounting Deliberation Council (BACD) on October 28, 2005) and other relevant standards, and sought explanations as necessary.

Based on the above methods, we examined the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets,

and non-consolidated notes) and their annexed specifications, as well as consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets, and consolidated notes) related to the relevant fiscal year.

## 2. Results of Audit

### (1) Results of Audit of Business Report and Other Relevant Documents

- (i) In our opinion, the business report and the supplementary schedules are in accordance with the related laws and regulations and Articles of Incorporation, and fairly represent the Company's condition.
- (ii) We have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation, related to performance of duties by the Directors.
- (iii) In our opinion, the contents of the resolutions of the Board of Directors related to the internal controls system are fair and reasonable. In addition, we have found no matters on which to remark regarding the information contained in this Business Report and the performance of duties by the Directors related to such internal controls system.

In addition, with respect to internal controls over financial reporting, at the time of preparation of this audit report, we received report from the directors and other relevant personnel that states that the said controls were effective, and also received report from KPMG AZSA LLC that states that no material weakness in the said controls.

### (2) Results of Audit of Non-consolidated Financial Statements and Supplementary Schedules

In our opinion, the methods and results employed and rendered by KPMG AZSA LLC are fair and reasonable.

### (3) Results of Audit of Consolidated Financial Statements

In our opinion, the methods and results employed and rendered by KPMG AZSA LLC are fair and reasonable.

May 22, 2013

Board of Corporate Auditors, Kawasaki Heavy Industries, Ltd.

|                             |                   |
|-----------------------------|-------------------|
| Full-Time Corporate Auditor | Tatsuyoshi Ogushi |
| Full-Time Corporate Auditor | Yuji Murakami     |
| Outside Corporate Auditor   | Kenzo Doi         |
| Outside Corporate Auditor   | Michio Oka        |