

Kawasaki Report 2013

Year ended March 31, 2013



Kawasaki Heavy Industries, Ltd.
Printed in Japan
September 2013

This report was created using environment-friendly waterless printing that does not produce toxic fluids.
We selected vegetable oil ink and used FSC®-certified paper produced from well-managed forests to create this report.

Solving Social Issues through Business

Transportation Systems

4 billion people

The economies of Asia sustain the livelihoods of more than four billion people—about 60% of the world's population—and continue to grow.

By supplying rolling stock that is optimally suited to large-volume transportation and a reduced environmental load, we support the ongoing development of this continent with its busy interchange of people, goods, finance and information.

Powering your potential—Kawasaki continues on track.



Train cars to Singapore

Urban Railway System in Singapore

Singapore, currently having a population of more than five million at high density in the small territory, has been establishing an efficient public transportation system since the 1980s. The first urban railway transit system was inaugurated in 1987 and since then the railway network has been expanding as a convenient and comfortable public transportation system.

Since 1986, Kawasaki has delivered to Singapore a total of 656 cars. The latest type of Kawasaki rolling stock has features of more passenger capacity at less energy consumption and contributes to provide Singapore with an enhanced mobility. Kawasaki-brand rolling stock is indispensable for the highly efficient public transportation system in Singapore.

Taiwan High Speed Rail

In 2007, Taiwan High Speed Rail commenced a revenue service as the first Japanese high-speed rail system to be exported, which makes it possible to have a trip of 90 minutes between two large cities in the north and south of Taiwan, Taipei and Kaohsiung. Taiwan High Speed Rail provides immeasurable economic benefit for business and sightseeing.

The consortium consisting of seven Japanese companies was awarded the contract of supply and installation of an electrical and mechanical (E&M) system, and Kawasaki supplied 360 700T series cars as a member in charge of design, manufacturing and supply of rolling stock.

Variable types of passengers including business people, families, students, etc., are enjoying their trips with the 700T series high speed train. Kawasaki takes much pride in supply of the 700T, the popular train among the people of Taiwan.



High-speed train cars to Taiwan

Solving Social Issues through Business

Energy & Environmental Engineering

15.8 trillion kWh

Asia is a powerful driver of growth in the world economy.

By 2035, the International Energy Agency forecasts that Asia's annual power demand will have doubled from its present level to approximately 15.8 trillion kWh.

One of the most promising sources of energy for electricity generation is natural gas, which has a low environmental load and is still available in plentiful reserves.

To meet the rising demand for natural gas-powered electricity generating facilities, KHI is committed to delivering energy solutions tailored to customer needs.



Kawasaki Green Gas Engine

Offering Solutions for a Serious Electric Power Shortage

India's economy continues to grow, but because power demand exceeds supply and the power grid is unreliable, a growing number of independent power producers (IPPs) are operating distributed energy systems.

In 2013, KHI received its first order from an Indian IPP. All of the electric power produced by Kawasaki Green Gas Engine, which boast the world's highest generating efficiency along with outstanding environmental performance, will be sold to electric power companies.

As a contribution to solving India's serious power shortage, KHI gas engines will continue to be used in an expanding range of fields.

Enhancing Energy Security

To promote a stable energy supply, Singapore has begun building its first LNG terminal.

At the end of 2012, KHI completed the delivery of two gas engines for the terminal. The electricity generated by these gas engines will be for captive use at the LNG terminal. Our gas engines, which boast the world's highest generating efficiency, will contribute significantly to reducing electric power costs, and will achieve low environmental load operations with their outstanding environmental performance.

KHI gas engines will thus contribute to a stable energy supply for Singapore, which has developed into one of the world's greatest cities.

Solving Social Issues through Business

Industrial Equipment

26.28 million hectares

With about half its population engaged in the agriculture, forestry and fishery sectors, Pakistan is a major agricultural nation and the world's fourth-largest producer of wheat. Approximately one-third of its land area, or 26.28 million hectares, is devoted to agriculture. To improve the soil of this vast area and improve yields, securing supplies of fertilizer in huge quantities is a very important priority.

KHI won a contract to provide industrial equipment including a facility for manufacturing urea, the raw material from which fertilizer is made. This facility therefore plays an especially important role in the country's largest fertilizer plant. The facility was handed over in 2009 and is contributing to not only Pakistan's agricultural development but also the livelihoods of farming families.

In the years ahead, KHI will continue with manufacturing activities to support the livelihoods of people around the world.



Urea Manufacturing Facility for Fertilizer Plant of Fatima Fertilizer Company Ltd.

Fatima Fertilizer Company Ltd. has built Pakistan's largest fertilizer plant on the outskirts of the city of Sadiqabad in the country's central region. Using the natural gas produced in the nearby Mari gas field as raw material, it manufactures urea and a range of other synthetic fertilizers from ammonia. The equipment delivered by KHI is the core facility of the factory and produces 1,500 tons of urea a day. KHI was also commissioned with engineering and project management operations for the rest of the plant's fertilizer manufacturing facilities.



Urea manufacturing facility

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● Publication Formats

The report is published in three formats according to reader needs.

1. The booklet version (which you are now reading): a digest version presenting information in compact form.
2. The full report: a PDF version on our website supplementing the booklet content with more detailed information.
<http://www.khi.co.jp/english/ir/library/annual/index.html> <http://www.khi.co.jp/english/csr/report/index.html>
The IR and CSR sections of the KHI Group's website offer a wider range of information in searchable format, including financial data, share-related data, and data on individual CSR activities.
<http://www.khi.co.jp/english/ir/index.html> (IR) <http://www.khi.co.jp/english/csr/index.html> (CSR)
3. The detailed environmental report: a PDF version focused exclusively on environment-related content and including environmental data supplements.
<http://www.khi.co.jp/english/csr/report/detail/index.html>

● Disclaimer

Figures in this report appearing in forecasts of future business performance or similar contexts represent forecasts made by the Company based on information accessible at the time, and are subject to risk and uncertainty. Readers are therefore advised against making investment decisions reliant exclusively on these forecasts of business performance.

Readers should be aware that actual business performance may differ significantly from these forecasts due to a wide range of significant factors arising from changes in the external and internal environment. Significant factors that affect actual business performance include economic conditions in the Company's business sector, the yen exchange rate against the U.S. dollar and other currencies, and developments in taxation and other systems.

This report not only describes actual past and present conditions at the KHI Group but also includes forward-looking statements based on plans, forecasts, business plans and management policy as of the publication date.

These represent suppositions and judgments based on information available at the time. Due to changes in circumstances, the results and the features of future business operations may differ from the content of such statements.

Editorial Policy

In the past, the Kawasaki Heavy Industries (KHI) Group produced an Annual Report presenting information on areas such as the direction of management policy and its business environment and business strategy, and a CSR Report presenting information on activities to ensure sustainability. From this fiscal year, however, to give stakeholders a more comprehensive picture of our activities, these two separate yearly reports have been integrated in a single Kawasaki Report.

The KHI Group's mission statement is "Kawasaki, working as one for the good of the planet." This reflects the consistently high level of agreement and shared focus in our operations between business activities on one hand and, on the other hand, commitment to sustainability and to resolving the issues facing society.

We would like this report to serve as a way to reinforce appreciation of this point among our stakeholders and as a basic channel of communication for suggestions and comments on our corporate activity and business operations.

Hereafter, the KHI Group is committed to enhanced promotion of activities that integrate business management with corporate social responsibility (CSR). In this report, we intend to provide greater coverage of such activities, continuing this trend in the next fiscal year's report and subsequent issues. At the same time, where there are corporate activities or other aspects we consider to be unsatisfactory, we intend to report on these together with ideas for corrective measures.

● **Period**

The report covers fiscal 2013 (April 1, 2012 to March 31, 2013), but content referring to its Medium-term Business Plan 2010 (FY2011-2013) also includes activities during fiscal 2011, 2012, and 2014.

● **Scope**

The report covers Kawasaki Heavy Industries, Ltd., and its 95 consolidated subsidiaries (48 in Japan and 47 overseas) and 17 equity-method nonconsolidated subsidiaries. Some data, however, refer to the parent company alone.

● **Guidelines**

In preparing the report, the editorial office referred to the Environmental Reporting Guidelines (2012 Edition) issued by the Ministry of the Environment and the Sustainability Reporting Guidelines (G3.1 ver.) issued by the Global Reporting Initiative (GRI).

Corporate Profile

Kawasaki Heavy Industries, Ltd.

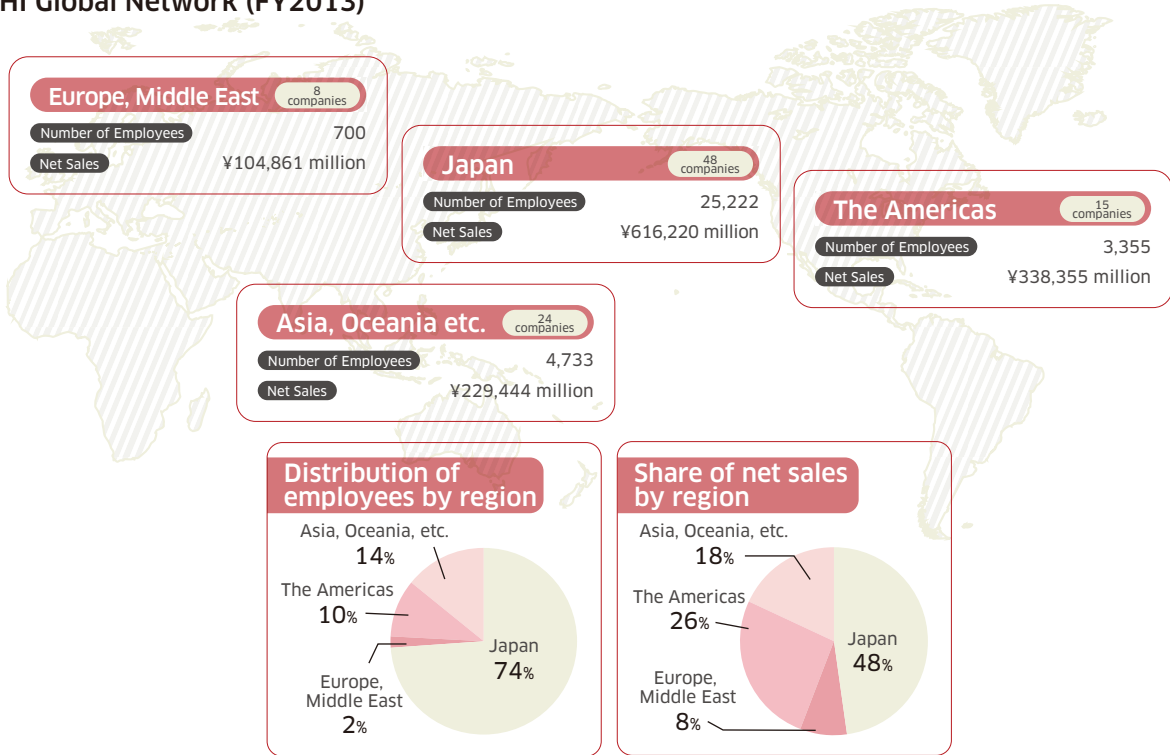
Head Offices

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Kobe Head Office:
Kobe Crystal Tower, 1-3, Higashikawasaki-cho 1-chome, Chuo-ku, Kobe, Hyogo 650-8680, Japan

President	Shigeru Murayama
Paid-in Capital	¥104,484 million (As of March 31, 2013)
Number of Shares Issued	1,671,892,659 (As of March 31, 2013)
Net Sales	¥1,288,881 million (Fiscal year ended March 31, 2013)
Number of Employees	34,010 (As of March 31, 2013)

■ KHI Global Network (FY2013)



■ Distribution of Value to Stakeholders (FY2013)

Value delivered to customers or to society through customers

	Amount (billions of yen)	Remarks
Value delivered	1,288.8	Net sales

Breakdown of value delivered

	Amount (billions of yen)	Remarks
Business partners	1,047.5	Business costs (excluding costs for employees, society, and government)
Employees	190.7	Salaries and bonuses
Society	0.7	Social contribution expenses
Administration and government	13.1	Income taxes, etc.
Value created	36.7	Value created minus expenses for employees, society, and government
Total value delivered	1,288.8	

Return of value created

	Amount (billions of yen)	Remarks
Creditors	4.1	Interest expense
Shareholders	10.5	Minority interests in net income plus dividends paid
Company internal, etc.	22.1	Increase in retained earnings during period
Total value created	36.7	

Message from the Top Management



We will press forward toward the goal of further increasing corporate value.

I am Shigeru Murayama, the new representative director and president of Kawasaki Heavy Industries, Ltd. I was appointed at a meeting of the Board of Directors following approval by our shareholders at the 190th Ordinary General Meeting of Shareholders held on June 26, 2013.

Before proceeding, as the newly appointed president, I wish to address our stakeholders with an explanation on recent events.

As you will no doubt have already heard in the media, an extraordinary meeting of the Board of Directors held on June 13, 2013, voted to relieve three directors of their positions as president, senior executive vice president, and senior vice president, respectively.

Further, the same meeting of the Board of Directors resolved officially to terminate negotiations on management integration with Mitsui Engineering & Shipbuilding Co., Ltd., and resolved to introduce a new management team with me as president.

This situation came about after the three directors in question attempted to implement executive measures in opposition to the views of the majority of directors and acted generally without due regard for the Board of Directors. For this and related reasons, the Board of Directors was forced to conclude that, from the perspective of corporate governance and compliance, the directors in question were not qualified to bear the core responsibility for the management of KHI.

I wish to express my greatest gratitude to stakeholders for your patience and understanding toward this recent series of decisions made by our corporate organs, which may have caused certain distress and concern. At the same time, I hope that we can rely on your continued support as we focus ongoing efforts on the management of Group operations going forward.

August 2013
President

Shigeru Murayama

Fiscal 2013 Business Results

During fiscal 2013, ended March 31, 2013, the world economy saw growth held to modest levels overall under the impact of slackening growth in the Chinese economy and other signs of a deceleration in the emerging economies that had hitherto been its driving force. On the domestic front, although progress was made with recovery from the Great East Japan Earthquake, fears of a downturn in the world economy contributed to overall continuing instability.

Against this economic background, the KHI Group achieved an overall increase in the consolidated value of orders for the fiscal year under review, with growth notably in the Ship & Offshore Structure and Rolling Stock segments making up for decreases in the Precision Machinery segment and elsewhere. Net sales in the Precision Machinery segment were impacted by China's economic slowdown and also fell in the Ship & Offshore Structure segment, but thanks to increases in the Aerospace segment and other areas, the overall figure equaled that of the previous fiscal year. Operating

income showed improvements thanks to the increased net sales in the Aerospace, the Motorcycle & Engine and other segments, but the overall figure decreased particularly due to a decline in the Precision Machinery and Plant & Infrastructure segments.

As a result of these movements, the consolidated value of orders for the KHI Group grew by ¥57.7 billion from the previous fiscal year to ¥1,369.5 billion. Consolidated net sales, meanwhile, decreased by ¥14.8 billion to ¥1,288.8 billion, operating income by ¥15.4 billion to ¥42.0 billion, and recurring profit* by ¥24.2 billion to ¥39.3 billion. Nevertheless, due to a boost to extraordinary income and reduced tax expenses, net income climbed by ¥7.5 billion to ¥30.8 billion.

In our non-consolidated business results for fiscal 2013, the value of orders totaled ¥1,086.2 billion, net sales ¥983.9 billion, operating income ¥12.5 billion, recurring profit ¥19.4 billion, and net income ¥17.1 billion.

*Recurring profit is used in accounting standards generally accepted in Japan. It is the sum of operating income, net interest income (expense), dividend income, and other non-operating and recurring income items.

Fiscal 2014 Forecast

Fiscal 2014 is expected to see a background of continuing gradual growth in the world economy. The shale gas revolution in the United States has strengthened the mood of recovery, with evidence of increased energy-related demand and an improved employment situation. However, the European economy is still mired in concerns over sovereign debt issues, while in China and other emerging economies we believe that the situation needs to be watched for future trends. As for the domestic economy, in addition to the improved export environment following the reversal of the yen's appreciation, the effect of expanded investment in public works based on flexible government spending initiatives has contributed to gradual growth. Going forward, the effect of growth-oriented government policies is expected to bring an expansion in private-sector capital investment and an increase in household incomes, which in turn is expected to lead to stable growth.

Our business environment is thus showing a return to a brighter overall picture. Moving into fiscal 2014, we are

committed to making an earnest response to the dip in our business performance in fiscal 2013 by continuing with steady management of our business operations and also working on a range of measures for the realization of Kawasaki Business Vision 2020.

We come now to our fiscal 2014 forecast, for which we assume an exchange rate of ¥95 to the U.S. dollar and ¥120 to the euro. Although consolidated net sales are expected to decrease year on year in the Ship & Offshore Structure and other segments, increases are forecast in other areas including the Aerospace, Rolling Stock, and Motorcycle & Engine segments, so that overall we forecast year-on-year growth of approximately ¥90.0 billion in net sales to ¥1,380.0 billion. On the profit front, by continuing with a range of profit-boosting measures across all operations, including continuation of the vigorous efforts made so far to reduce fixed costs and other expenses and to improve productivity, we forecast consolidated results of ¥60.0 billion for operating income, ¥53.0 billion for recurring profit, and ¥34.0 billion for net income.

Management Policy

In the spirit of our Group Mission—"Kawasaki, working as one for the good of the planet"—the KHI Group aspires to be a business group that is equipped with advanced and comprehensive technological capabilities in a broad range of sectors, allowing us to work in harmony with the global environment to create new value to help achieve a bright and prosperous future society.

To work toward the realization of this Group Mission, the KHI Group has formulated a long-term vision—Kawasaki Business Vision 2020—and a concrete implementation

strategy in the form of a medium-term business plan. To give the vision and the business plan a reliable prospect of success, it is essential that we achieve an increase in corporate value to maintain and strengthen the cycle of business development and profit return. In common with the rest of the management team, I understand it as our task to achieve this.

KHI Group Mission

Kawasaki, working as one for the good of the planet

Target profile

A company that provides products and services suited to the diverse needs of people around the world through advanced technological capabilities in three principal business sectors: Land, Sea, and Air Transportation Systems, Energy & Environmental Engineering, and Industrial Equipment

Transportation Systems

Energy & Environmental Engineering

Industrial Equipment

Profitability and investment for growth

An enterprise with a high level of profitability based on a strong ability to adapt to changes in the business environment and ongoing investment for future growth

Global business development and emphasis on *monozukuri* (manufacturing)

A company that upgrades plants in Japan and actively pursues business development overseas

Coexistence and co-prosperity with society

An enterprise that contributes continuously to resolving social issues and meeting stakeholder expectations through its business operations

Improvement of the global environment

A company that creates products that incorporate the ultimate in low environmental impact technologies in each business sector

Workplace environment development

A company whose employees have hopes and dreams and work with vigor and enthusiasm

1. New Medium-term Business Plan
“MTBP 2013” and Kawasaki Business Vision 2020

Our Medium-term Business Plan 2010, which we launched in fiscal 2011, concluded in fiscal 2013. In response, the KHI Group announced in April 2013 a new three-year medium-term business plan—MTBP 2013—to start from April 2013. MTBP 2013 sets out a range of initiatives designed not only to maintain the KHI Group's sustainable growth, but also to outline in more concrete terms the roadmap to achieve Kawasaki Business Vision 2020. The plan sets the following numerical targets for our consolidated results in fiscal 2016, its final year: net sales of ¥1,600.0 billion, operating income of ¥90.0 billion, recurring profit of ¥85.0 billion, and return on invested capital (ROIC) of 11%.

MTBP 2013 and its underpinning Kawasaki Business Vision 2020 express the fundamental approach that we in the recently formed management team intend to follow. We also intend to adhere without deviation to the business policies and numerical targets adopted for each business segment. Our main focus, however, will be on achieving a profit increase rather than an expansion of scale, with foremost priority given to boosting ROIC, and emphasis also on profit figures and profit margin.

Specifically, by the end of fiscal 2014, we intend to have outlined a business portfolio to ensure that we achieve our recurring profit target of ¥85.0 billion for fiscal 2016, the final year of MTBP 2013. This will lay the basis for rapid realization of the recurring profit level of at least ¥100.0 billion envisaged in Kawasaki Business Vision 2020.

2. Business Strategy

In terms of our concrete business strategy, we will continue to undertake innovative technology development while sustaining consistent in-house efforts to cut costs through the Kawasaki Production System (KPS) and through further development of our manufacturing capabilities. By also implementing differentiation strategies (next-generation product development, system solutions, brand strategy, and so on) adapted to each of our business operations, we aim to establish market superiority and achieve further improvements in profitability. Specifically, we will work to strengthen our core competences, with a focus on how to achieve an unbeatably competitive differentiation and build a more solid profit base.

As for our approach to the overseas market, we will build a system in which the superior technologies, manufacturing expertise, and outstanding human resources that we have accumulated at our domestic mother factories are input into the respective overseas market. In these overseas markets, taking care to limit risk, we will work together with local enterprises to secure business growth and profits. However, we do not intend to carry out reckless offshore transfer of domestic manufacturing bases in a search for low-cost labor with profit as the only criterion. The origin of our technological capabilities as a manufacturer lies in our development and manufacturing capabilities, which were of course nurtured in Japan. Our approach is therefore to work to refine technology development and manufacturing capabilities at our domestic manufacturing bases, which will act as mother factories coordinating our overseas bases.

Through initiatives of this kind, we will work to attain further development by strengthening the cycle in which the proceeds of our business operations are used for future investment and return to stakeholders.

Consolidated targets and forecasts (Billions of yen)

	FY2013 (Actual)	FY2014 (Forecast)	FY2016 (Target)
Net sales	1,288.8	1,380.0	1,600.0
Operating income (Ratio to net sales)	42.0 3.3%	60.0 4.3%	90.0 5.6%
Recurring profit (Ratio to net sales)	39.3 3.0%	53.0 3.8%	85.0 5.3%
Net debt/equity ratio	131.9%	130%	110%
Equity ratio	23.0%	22.1%	23.4%
Before tax ROIC	FY2013 (Actual)	FY2014 (Forecast)	FY2016 (Target)
Ship & Offshore Structure	17.3%	0.0%	10.0%
Rolling Stock	4.6%	7.5%	15.3%
Aerospace	15.9%	12.9%	12.7%
Gas Turbine & Machinery	5.3%	4.7%	7.5%
Plant & Infrastructure	21.2%	16.0%	15.0%
Motorcycle & Engine	3.4%	3.8%	14.3%
Precision Machinery	14.0%	17.1%	26.3%
Total	6.1%	7.4%	11.0%
Assumed exchange rate	—	¥95/US\$	¥95/US\$



3. Ensuring Quality over Quantity

We have consistently sought to approach our business operations with an emphasis on “Quality over Quantity.” Over the last few years, however, we feel that the pursuit of the net sales target envisaged in Kawasaki Business Vision 2020 may have received too much attention and not improved our financial position. This is an area that requires an earnest rethink, and we are now determined to reaffirm our commitment to an approach of “Quality over Quantity.”

We thus need to realize “Quality over Quantity”—in other words capital efficiency—and combine it with business growth potential to continuously increase corporate value; establishing a foundation on which to achieve this is the task assigned to us as the new management team. These two goals are in no sense contradictory. The surplus capacity in human resources, capital, and other operational resources that results from the pursuit of efficiency will be transferred to growth sectors, and this “Quality over Quantity” approach will be shared and implemented among all employees.

As a strategy to ensure an approach of “Quality over Quantity,” we will carry out a thorough evaluation of profitability for each product and each business unit, and clearly identify the core competence of each business and its position within our portfolio, clarifying the ideal future profile of our business portfolio. Focusing on business areas projected to have future potential, we will undertake key investment of operational resources in sectors with leading positions within the industry, or that have strong potential to reach such positions, targeting further reinforcement through new product development and mergers and acquisitions. Businesses that over a future period consistently fail to attain the expected profitability level will be subjected to comprehensive structural reform, while withdrawal from business will also be considered where future potential is judged not to exist.

To achieve results within the period of MTBP 2013 by combining capital efficiency with business growth potential, our first step will be to prioritize efficiency to generate surplus investment capacity. We hope to be able to show our stakeholders benefits from these improvements by fiscal 2015.

CSR Activities

With the aim of fulfilling our Group Mission at a higher level, the KHI Group sets itself targets from the perspective of corporate social responsibility (CSR) that are adapted to the needs of the times and current conditions.

Across the range of CSR, our activities are based on the setting of a “target profile” for each thematic area, but we also actively consult external opinion through our Dialogues with Experts and other events as part of efforts to improve public perceptions of our organization.

In the area of compliance, in addition to putting in place regulations on corporate ethics and providing grade-specific training and e-learning, we distribute a range of guidance handbooks and take other measures to ensure full familiarity with the laws and regulations which staff need to observe. Going forward, we will strive to further enhance compliance measures.

4. Strengthening Corporate Governance and Organizational Management

As approved at the general meeting of shareholders held at the end of June 2013, KHI took steps to further strengthen management oversight functions by recruiting outside directors independent of the execution of operations and appointing three independent officers, as defined by the Tokyo Stock Exchange, including outside corporate auditors. Going forward, we aim to strengthen corporate governance through sustained efforts to increase the transparency and objectivity of our management.

In our organizational management, we believe that the internal company system that we have adopted, by virtue of features such as its financial independence and devolution of powers, is suited to the format of our business, which handles a wide range of diverse products. It is generally said that the internal company system suffers from a strong centrifugal force between Head Office and the internal companies, but at KHI the Head Office is equipped with sufficient company-wide horizontal functions to counter this tendency. Additionally, our culture of openness, which encourages full and free discussion of issues regardless of organizational affiliation or professional grade and concerted effort once the decision has been taken, overcomes the disadvantages of the internal company system and is the greatest driver of organizational synergies. We will all join together in reaffirming these positive aspects of our corporate culture. Among the roles required of the Head Office under the internal company system are check functions based on management indicators and functions to support and promote business activity, all of which we aim to strengthen further.

On the employment front, to create a workplace where employees experience strong motivation and can demonstrate their full potential, we need to create strong business operations, essential to which is the securing and cultivation of outstanding human resources. By further refining our superior technological capabilities and products, and continuing to communicate their appeal, we will keep a focus on creating and maintaining quality employment opportunities as an important goal of our operations.

Going forward, we will seek to achieve an even more appropriate form of organizational management. We also intend to address the issue of creating an organizational framework and related systems that are adapted to realizing our future business portfolio.

In the field of environmental management, we are working to strengthen environmental management on the basis of our newly formulated Eighth Environmental Management Activities Plan. Additionally, as a measure to reduce CO₂ emissions and energy consumption, we plan to roll out to all business sites an energy visualization system successfully operated at our model factory.

Meanwhile, we are working on measures to support child-rearing as part of a strategy to improve work-life balance and introducing measures to create diversity-friendly workplace environments, for instance by recruiting more international human resources and ensuring a barrier-free environment at all business sites. We will also step up measures to promote the employment of people with disabilities.

Basic Concept

The KHI Group’s CSR activities are an ongoing effort to realize the Group Mission at ever higher levels. We know that contributing to the future of human society and the global environment will raise the value of the Kawasaki brand, and we promote activities in the five themes described below to realize our goal.

Five Themes

Value Creation

We will use our integrated technological expertise to create values that point the way to the future.

Management

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

Employees

We will all create a workplace where everyone wants to continue working.

Environment

We will pursue “manufacturing that makes the Earth smile.”

Social Contribution

We will expand the circle of contribution that links to society and the future.

We respond to our customers’ requirements.

We pursue originality and innovation.

We constantly achieve new heights in technology.

Group Mission
“Kawasaki,
working as one for
the good of the planet”

Kawasaki Value

- We respond to our customers’ requirements
- We constantly achieve new heights in technology
- We pursue originality and innovation

The Kawasaki Group Management Principles

1. Trust

As an integrated technology leader, the Kawasaki Group is committed to providing high-performance products and services of superior safety and quality. By doing so, we will win the trust of our customers and the community.

2. Harmonious coexistence

The importance of corporate social responsibility (CSR) permeates all aspects of our business. This stance reflects the Kawasaki Group’s corporate ideal of harmonious coexistence with the environment, society as a whole, local communities and individuals.

3. People

The Kawasaki Group’s corporate culture is built on integrity, vitality, organizational strength and mutual respect for people through all levels of the Group. We nurture a global team for a global era.

4. Strategy

The Kawasaki Group pursues continuous enhancement of profitability and corporate value based on three guiding principles—selectively focusing resources on strategic businesses; emphasizing quality over quantity; and employing prudent risk management.

The Kawasaki Group Code of Conduct

1. Always look at the bigger picture. Think and act from a long-term, global perspective.

2. Meet difficult challenges head-on. Aim high and never be afraid to try something new.

3. Be driven by your aspirations and goals. Work toward success by always dedicating yourself to your tasks.

4. Earn the trust of the community through high ethical standards and the example you set for others.

5. Keep striving for self-improvement. Act on your own initiative as a confident professional.

6. Be a part of Team Kawasaki. Share your pride and sense of fulfillment in a job well done.

Apart from these measures, our other social contribution activities in fiscal 2013 included the holding of handicraft workshops in the earthquake-hit Tohoku region. Based on the use of KHI products as workshop materials, these events aimed to help educate the next generation and support recovery from the disaster. We intend to continue with activities of this kind in fiscal 2014 and beyond.

To Our Stakeholders

In concluding my greeting as the newly appointed president, I wish to once again express my greatest gratitude to stakeholders for your patience and understanding toward the recent abrupt changes in management, and take this opportunity to vow that, under my leadership, our officers and employees will unite to

Going forward, in addition to further deepening the coordination between business management and CSR, we intend to promote initiatives at the level of the global Group (the entire KHI Group including overseas operations) and to step up our cooperation with business partners in the field of CSR.

press forward toward the goals of restoring trust and further increasing corporate value. In these efforts, I request your increased support and cooperation.

Performance Highlights

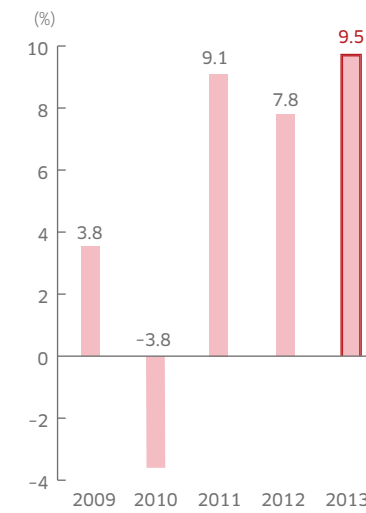
Years ended March 31

	Millions of yen		Thousands of U.S. dollars	
	2013	2012	2011	2013
Net sales	¥1,288,881	¥1,303,778	¥1,226,949	\$13,712,958
Operating income	42,062	57,484	42,628	447,515
Recurring profit	39,328	63,627	49,136	418,433
Net income	30,864	23,323	25,965	328,375
Comprehensive income	44,039	24,569	18,252	468,554
Net cash provided by operating activities	¥28,101	¥84,737	¥81,929	\$298,978
Net cash used for investing activities	(81,160)	(65,959)	(52,942)	(863,496)
Free cash flow	(53,058)	18,778	28,986	(564,517)
Net cash provided by (used for) financing activities	57,671	(26,831)	(18,862)	613,586
Cash on hand and in banks	38,525	34,316	47,233	409,884
Trade receivables (notes and accounts receivables)	432,649	404,054	401,753	4,603,138
Inventories	460,105	441,897	425,322	4,895,255
Other current assets	85,534	86,918	77,409	910,040
Current assets	1,016,814	967,186	951,719	10,818,321
Total fixed assets	325,239	293,536	295,029	3,460,364
Total investments and other assets	124,236	101,416	107,529	1,321,804
Total assets	1,466,290	1,362,139	1,354,278	15,600,489
Trade payables (notes and accounts payables)	281,063	310,775	319,272	2,990,350
Interest-bearing debt	484,653	407,166	429,144	5,156,433
Other liabilities	350,693	328,274	308,428	3,731,172
Total liabilities	1,116,409	1,046,216	1,056,844	11,877,955
Total shareholders' equity	357,379	335,270	317,176	3,802,308
Total accumulated other comprehensive income	(19,139)	(29,216)	(28,120)	(203,627)
Minority interests	11,641	9,868	8,377	123,853
Net assets	349,881	315,922	297,433	3,722,534
Liabilities and net assets	1,466,290	1,362,139	1,354,278	15,600,489
CO ₂ emissions (non-consolidated)	279	252	258	(thousand t-CO ₂)
Expenditure on social contribution activity	687	796	737	(millions of yen)
Number of employees	34,010	33,267	32,706	(persons)
Domestic	25,222	24,770	24,511	(persons)
Overseas	8,788	8,498	8,195	(persons)

Note: All dollar figures have been translated into yen at ¥93.99 to US\$1, the approximate rate of exchange at March 31, 2013.

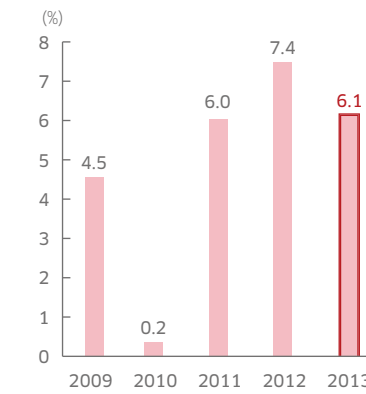
Return on equity

Net income / Shareholders' equity



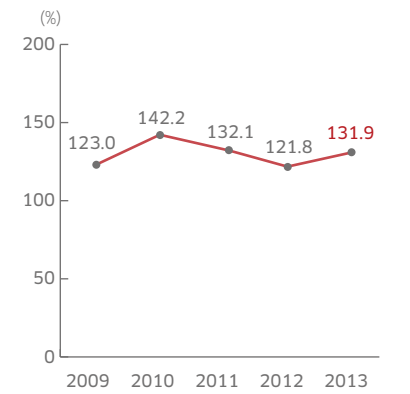
Return on invested capital

(Income before income taxes and minority interests + Interest expense) / Invested capital



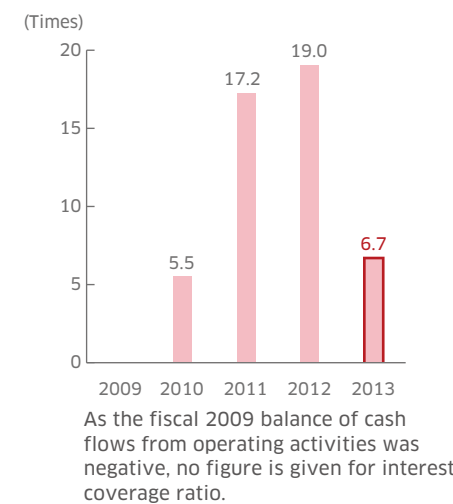
Debt equity ratio

Net interest-bearing debt / Shareholders' equity

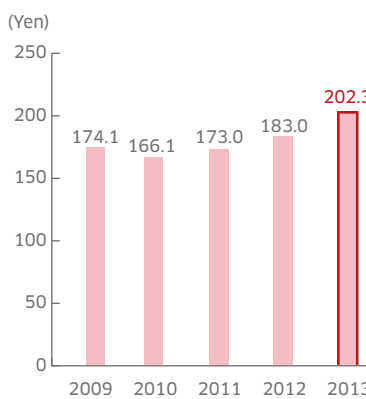


Interest coverage ratio

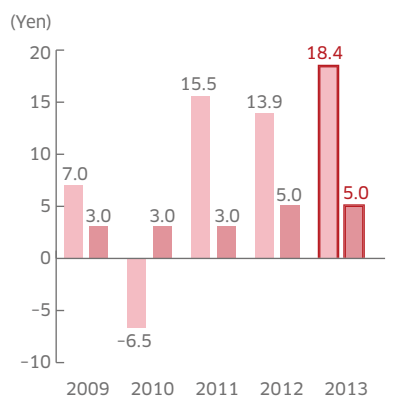
Cash flow from operating activities / interest expense



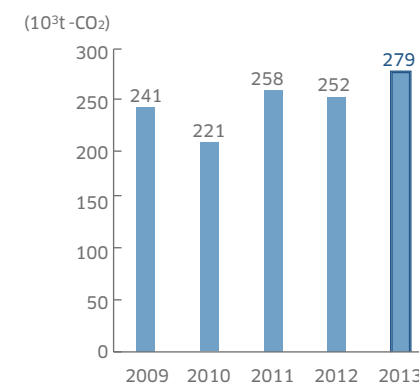
Net assets per share



Net income per share Dividends per share

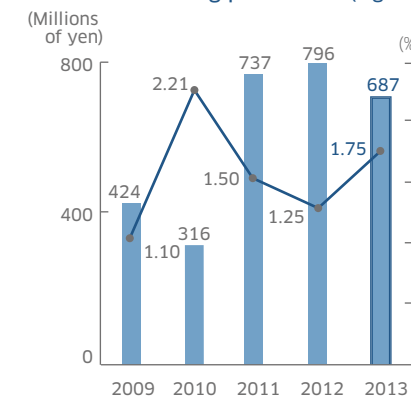


CO₂ emissions (non-consolidated)

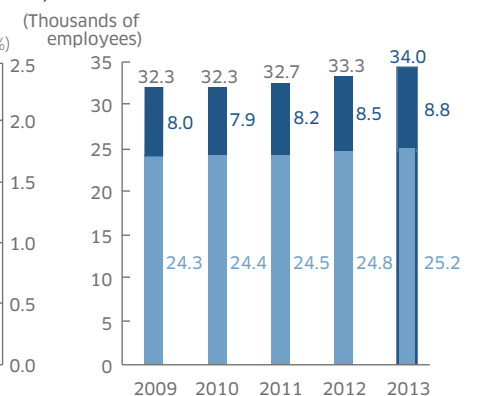


CO₂ emissions are impacted by the electricity emission factor.

Expenditure on social contribution activity (left-axis) Recurring profit ratio (right-axis)



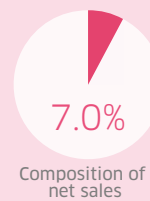
Number of employees (domestic and overseas) Domestic Overseas



Business Review & Strategies

Company

Main Products



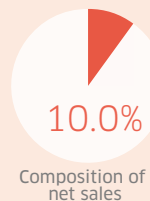
Ship & Offshore Structure p. 18

FY2013 (billions of yen)

Net sales 90.3

Operating income 4.1

- LNG carriers
- LPG carriers
- VLCCs
- Bulk carriers
- Submarines
- Offshore structures



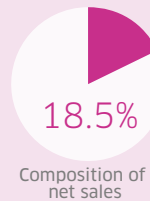
Rolling Stock p. 19

FY2013 (billions of yen)

Net sales 129.9

Operating income 2.2

- Electric train cars (including Shinkansen)
- Electric and diesel locomotives
- Passenger coaches
- Gigacell (High-Capacity, Full Sealed Ni-MH Battery)



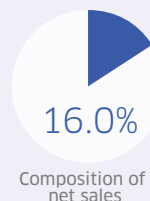
Aerospace p. 20

FY2013 (billions of yen)

Net sales 239.1

Operating income 14.8

- Aircraft for Japan's Ministry of Defense
- Component parts for commercial aircrafts
- Commercial helicopter
- Missiles / Space equipment



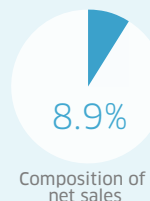
Gas Turbine & Machinery p. 21

FY2013 (billions of yen)

Net sales 207.0

Operating income 7.0

- Jet engines
- Gas turbine cogeneration system
- Gas engines
- Diesel engines
- Gas turbines and steam turbines for marine and land
- Marine propulsion system / Aerodynamic machinery



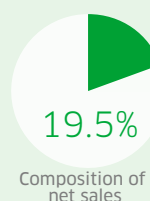
Plant & Infrastructure p. 22

FY2013 (billions of yen)

Net sales 115.8

Operating income 9.7

- Industrial plants (cement, fertilizer and others)
- Power plants
- LNG tanks
- Municipal refuse incineration plants
- Tunnel boring machines
- Crushing machines



Motorcycle & Engine p. 23

FY2013 (billions of yen)

Net sales 251.8

Operating income 2.3

- Motorcycles
- All-Terrain Vehicles (ATVs)
- Utility Vehicles
- Personal Watercraft
- General-purpose Gasoline Engines



Precision Machinery p. 24

FY2013 (billions of yen)

Net sales 130.4

Operating income 8.4

- Hydraulic components (pumps, motors and valves)
- Hydraulic systems for industrial use
- Hydraulic marine machinery
- Precision Machinery / Electric-powered devices
- Industrial Robots



LNG carrier ENERGY HORIZON

Ship & Offshore Structure

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

Consolidated orders received totaled ¥105.7 billion, a large increase of ¥65.8 billion from the previous fiscal year. They included orders for one submarine and five carriers, including LNG carriers.

Consolidated net sales decreased ¥23.1 billion year on year to ¥90.3 billion as growth in construction of liquefied gas carriers, including LNG and LPG carriers, was offset by a decline in construction of other classes of vessels, most notably Capesize bulk carriers.

Despite the drop in net sales, operating income, mainly supported by cost reductions and the effects of yen depreciation, totaled ¥4.1 billion, on a par with the previous fiscal year.

For fiscal 2014, we expect the consolidated value of orders to be ¥120 billion, net sales to be ¥70 billion and operating income to be ¥0 billion.

Key Strategies of the Medium-term Business Plan 2013 (FY2014-2016)

- Japanese operations** Establish the superiority of existing businesses and secure our role as a center for advanced technology development in energy saving, environmental load reduction, and other areas. Strengthen our functions as the mother factory for overseas businesses.
- Overseas operations** Maintain and improve the profitability of Chinese joint ventures. Support the smooth start-up of a project in Brazil.

Although the unbalanced appreciation of the yen, particularly relative to the Korean won, is now being corrected, the shipping and shipbuilding markets continue to stagnate and a proper recovery in tonnage value has yet to emerge. On the other hand, driven notably by global environmental issues and the rising price of fuel oil, shipping companies are showing heightened interest in saving energy and reducing the environmental load.

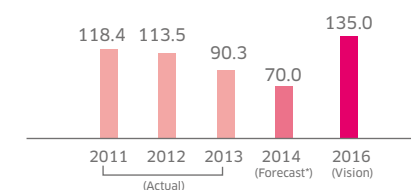
Against this background, in Japan, we are establishing the superiority of our technology in LNG and LPG carriers and submarines and by fulfilling the role of a center for development of advanced technology in energy saving, environmental load reduction, and other areas.

Turning to overseas operations, two joint ventures in China (NACKS*1 and DACKS*2) have established a steady record of performance. In the projects, we are targeting further improvements in price competitiveness through cost reductions. We are also engaged in a joint venture in Brazil centered on construction of drill ships. Here we will ensure the smooth progress of the project by assisting with the construction of the shipyard, the design and construction of drill ships, and other support activities.

Financial Highlights

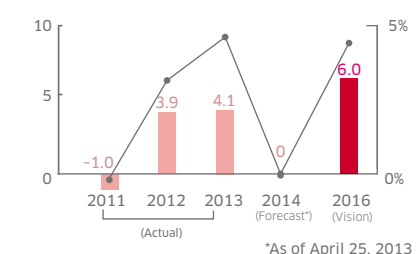
Net sales

Years Ended/Ending March 31
(Billions of yen)



Operating income (loss) Ratio of operating income (loss) to sales

Years Ended/Ending March 31 (Billions of yen)



Approach to Social Issues

- Contributing to the resolution of global issues including energy saving and environmental load reduction through marine transport solutions that support comfortable lifestyles around the world
- Contributing to a materially secure future through participation in marine development to access a new store of natural resources

*1 Nantong COSCO KHI Ship Engineering Co., Ltd.

*2 Dalian COSCO KHI Ship Engineering Co., Ltd.



Rolling Stock

R188 subway cars for MTA New York City Transit

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

Orders received increased ¥58.3 billion year on year, to ¥124.4 billion, mainly reflecting orders received for Taiwan's high-speed rail cars and Singapore's subway cars.

Domestic net sales expanded on the back of increased sales to the Japan Railways companies, but decrease in overseas net sales contributed to an overall lack of movement in net sales, which approximated the previous fiscal year's total at ¥129.9 billion.

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

For fiscal 2014, we expect orders received to be ¥160 billion, net sales to be ¥155 billion and operating income to be ¥6 billion.

Key Strategies of the Medium-term Business Plan 2013 (FY2014-2016)

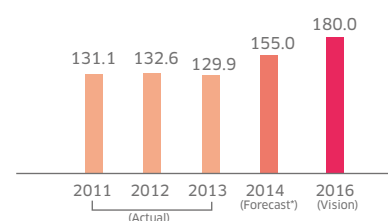
- Achieve profit growth in North America from our entire processing system, which ranges from car body fabrication through final assembly, and new product lineup
- Strengthen competitiveness in the Asian market by enhancing capacity for railroad system projects and optimal project delivery framework

Recent years have seen an upswing in infrastructure investment in emerging nations. At the same time, developed nations have planned numerous projects in areas such as the construction of high-speed railways and upgrades of existing networks, as well as the creation or expansion of urban transport systems. As a result, worldwide long-term growth in demand in the rolling stock business is expected.

Against this background, KHI will draw on its strengths in advanced technological expertise and high quality to not only maintain its market share in the Japanese market, but also attain its vision by achieving balanced growth in the three markets of Japan, North America and Asia. In the North American market, for example, we are leveraging new products in the form of the K-Star Express, a new semi high-speed passenger coach for the U.S. market and the efSET (Environmentally Friendly Super Express Train), a new high-speed train for the overseas market. We are also maximizing the advantages of two local production facilities to expand on our record of numerous successful projects in North America, which includes delivery of more than 2,000 cars to the New York City Transit Authority. In the Asian market, we are working to maintain and develop local partnerships to establish optimal project delivery systems and strengthen system integration capabilities.

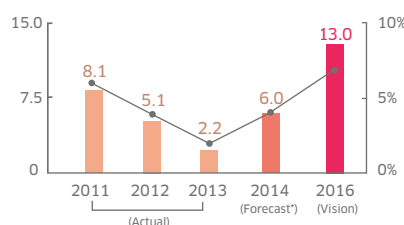
Financial Highlights

Net sales Years Ended/Ending March 31 (Billions of yen)



Operating income
Ratio of operating income to sales

Years Ended/Ending March 31 (Billions of yen)



*As of April 25, 2013

Approach to Social Issues

- 1 Provision of a safe and environment-friendly rolling stock system
- 2 Contribution to the construction of transport infrastructure that underpins economic development in emerging nations



BK117 C-2 helicopter

Aerospace

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

Growth was recorded in orders received for component parts for the Boeing 777 and 787. However, the consolidated value of orders declined ¥43.7 billion, to ¥283.4 billion, decreasing in comparison with the previous fiscal year, when large-scale contracts had been received from Japan's Ministry of Defense.

Growth in Ministry of Defense projects such as the C-2 transport aircraft and the increased sales of Boeing 777 and 787 component parts helped to boost consolidated net sales, which rose ¥32.5 billion from the previous fiscal year, to ¥239.1 billion.

Operating income posted substantial growth of ¥7.0 billion year on year, to ¥14.8 billion, due to stronger net sales, cost reductions, and other factors.

For fiscal 2014, we expect the consolidated value of orders to be ¥250 billion, net sales to be ¥290 billion and operating income to be ¥19 billion.

Key Strategies of the Medium-term Business Plan 2013 (FY2014-2016)

- Defense Establish a system for mass production of P-1 patrol aircraft and C-2 transport aircraft and branch out to derivative aircraft
- Commercial Adapt for increased production of component parts for the Boeing 787 and branch out to derivative aircraft

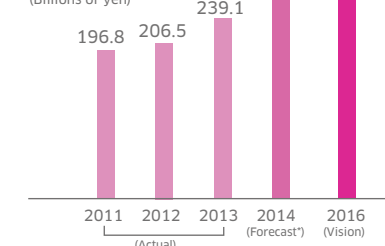
In the defense aircraft business, we have already begun mass production of the P-1 patrol aircraft and the C-2 transport aircraft, which will be the core of our defense business going forward. To establish these two aircraft as the cornerstones of our sales and profits strategy and thereby place our defense business on a still firmer footing, we are establishing a mass production system at the Gifu Works that also covers repairs and spare parts supply, and we will work to branch out the system to derivative aircraft. Concurrently, we are targeting R&D at new projects and other forms of business expansion and will deploy our technological expertise as a system integrator to secure contracts and expand market share in the field of defense.

In the commercial aircraft business, meanwhile, continuing expansion of demand is expected in the medium to long term. To adapt to increased production of component parts for the Boeing 787, we will further boost production capacity at the Nagoya Works and target cost reductions. In addition, to maintain a stable and high rate of production in the manufacture of component parts for the Boeing 777, we are upgrading our production systems including the Gifu Works. Going forward, we will draw on the record of performance and expertise we have built up so far, to be an energetic participant in the development and production of new aircraft models and the full range of derivative aircraft.

Financial Highlights

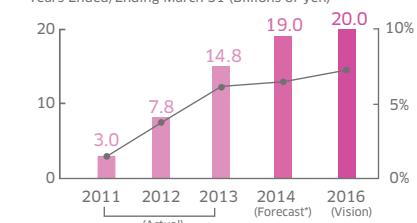
Net sales

Years Ended/Ending March 31 (Billions of yen)



Operating income
Ratio of operating income to sales

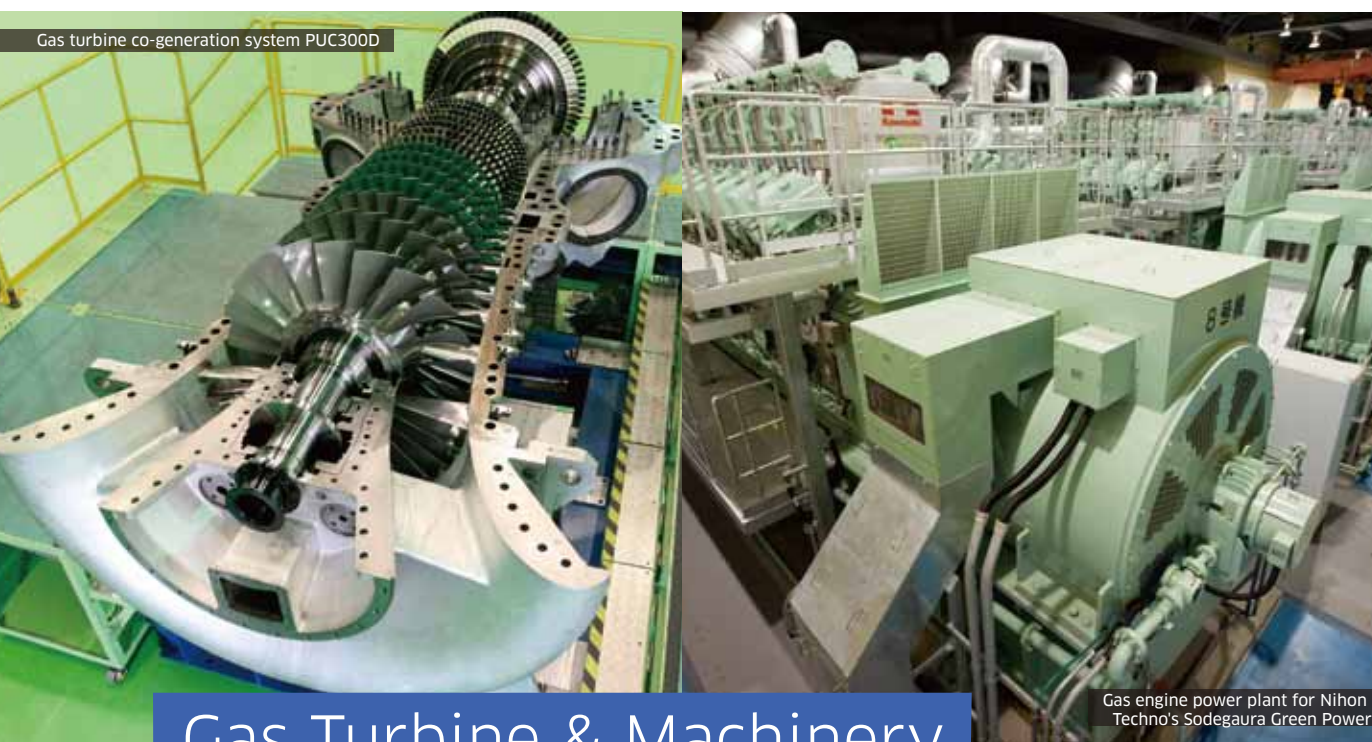
Years Ended/Ending March 31 (Billions of yen)



*As of April 25, 2013

Approach to Social Issues

- 1 Contributing to reducing environmental load using carbon fiber composite technology
- 2 Contributing to development of the aerospace industry including human resources development and passing on technical skills to the next generation



Gas Turbine & Machinery

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

Led by increased orders of component parts for commercial aircraft jet engines, the consolidated value of orders increased by ¥28.2 billion from the previous fiscal year, to ¥255.5 billion.

Reduced sales of marine diesel engines and related sectors were counterbalanced by growth in areas including component parts for commercial aircraft jet engines and gas engines. As a result, net sales grew ¥12.3 billion year on year, to ¥207.0 billion.

Operating income dropped ¥0.7 billion, however, to ¥7.0 billion, due mainly to allocation of non-recurring cost for new projects.

For fiscal 2014, we expect the consolidated value of orders to be ¥220 billion, net sales to be ¥185 billion and operating income to be ¥11 billion.

Key Strategies of the Medium-term Business Plan 2013 (FY2014-2016)

- Use the newly established Energy Solutions Division to strengthen our response to increased energy demand
- Expand the commercial aircraft engine business and secure stable profits
- Expand the marine propulsion systems business targeting the oil- and gas-related offshore market

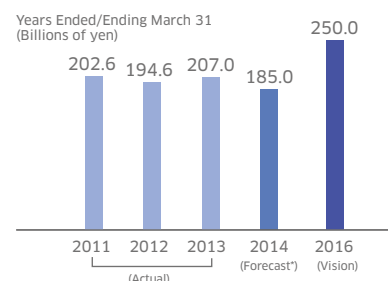
In the energy sector, we set up the Energy Solutions Division to strengthen our response to increased energy demand from emerging nations, as well as to heightened demand for distributed power sources following the revision of energy policies after the Great East Japan Earthquake. By transcending the previous product-based divisional structure to combine and integrate key hardware elements, the new division will address the needs of a wider customer base and strengthen our ability to present energy solutions.

In the transportation equipment sector, where increased demand for aircraft is expected, we are moving ahead with mass production of the Trent1000 engine for the Boeing 787 and with development of the Trent XWB engine for the Airbus A350 XWB and the PW1100G-JM engine for the Airbus A320neo. While putting in place an effective production system for these new projects, we will reduce costs to promote stable profits. Going forward, we will continue with operations as a module supplier involved in joint international development from the basic design stage.

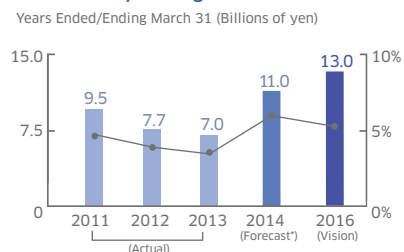
Concurrently, with the upswing in exploitation of offshore resources driven by the rise in worldwide energy demand, we are working to grow our business in marine propulsion systems with products such as shuttle tankers and drill ships for use in the oil- and gas-related offshore market.

Financial Highlights

Net sales



Operating income Ratio of operating income to sales



*As of April 25, 2013

Approach to Social Issues

- 1 Contributing to the stable supply of clean energy
- 2 Delivery of solutions to diversifying energy and transportation needs



Plant & Infrastructure

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

Positive factors included orders received for cryogenic tanks for the Ichthys LNG Project. Nevertheless, reflecting reductions in domestic LNG storage tank projects, material handling systems, and other areas, the consolidated value of orders fell ¥5.6 billion, to ¥113.6 billion.

Net sales were supported by the continuing robust sales of LNG storage tank projects as well as by sales growth in other areas, such as material handling systems and municipal waste incineration plants. However, due to decreases in major projects for overseas clients, consolidated net sales shrank ¥6.9 billion year on year, to ¥115.8 billion.

Due to the fall in net sales and the narrowed profit margin, operating income fell ¥4.3 billion year on year, to ¥9.7 billion.

For fiscal 2014, we expect the consolidated value of orders to be ¥130 billion, net sales to be ¥115 billion and operating income to be ¥7 billion.

Key Strategies of the Medium-term Business Plan 2013 (FY2014-2016)

- Strengthen delivery systems for all project types
- Improve and standardize existing technologies and promote early commercialization of next-generation core products
- Enhance the product lineup and build partnerships in overseas markets

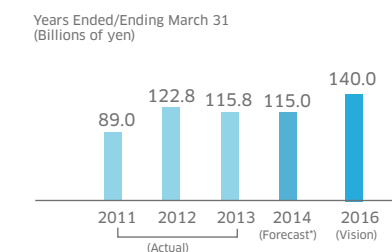
We are engaged in a wide-ranging variety of businesses, from manufacturing plants for cement, fertilizer and other products to constructing LNG tanks and municipal refuse incineration facilities, and deliver high-quality products with our engineering capabilities built up over many years. To further boost our engineering capabilities, we are working to develop human resources and strengthen project delivery systems.

On the technology front, in addition to improving the added value of our superior technologies, we are standardizing design across the board to achieve stable quality, shorter delivery lead times, and cost reductions. In the commercialization of new products and technologies, we use measures such as working in coordination with our Corporate Technology Division and other measures to integrate intellectual property Group-wide and promote commercialization at an early stage.

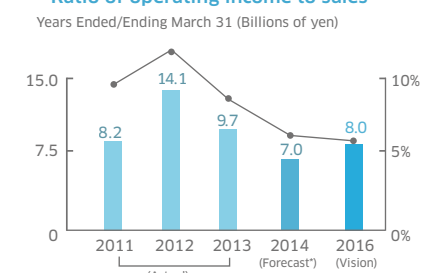
To expand our market share in emerging nations and resource-rich countries against a background of rising worldwide energy demand, we are seeking active launches in overseas markets of product groups that have proven to be strongly competitive in the domestic Japanese market. At the same time, we are enhancing our product line and, through joint operations with overseas partners, improving our engineering, procurement and construction (EPC) capabilities.

Financial Highlights

Net sales



Operating income Ratio of operating income to sales



*As of April 25, 2013

Approach to Social Issues

- 1 Contributing to global environment conservation and CO₂ reduction through products and technology
- 2 Contributing to the creation of social infrastructure in emerging nations



Motorcycle & Engine

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

Motorcycle sales to Europe decreased, but higher sales to the United States and emerging markets, especially Indonesia, helped to boost consolidated net sales ¥16.6 billion year on year, to ¥251.8 billion.

Consolidated operating income totaled ¥2.3 billion, a ¥5.3 billion year-on-year improvement largely attributable to sales growth and improved profitability.

For fiscal 2014, we expect net sales to be ¥290 billion and operating income to be ¥10 billion.

Key Strategies of the Medium-term Business Plan 2013 (FY2014-2016)

- Improve our brand strength: continue with development and sale of strongly competitive models that deliver the joy of riding to consumers in line with our key concepts of "Fun to Ride," "Ease of Riding" and "Friendly to the Environment"
- Expand our business in emerging markets: strengthen our position in the leisure motorcycle field

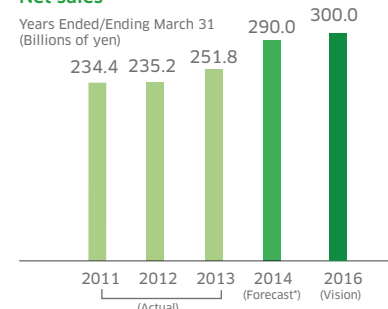
In the developed countries market, we have continued to develop and launch strongly competitive models and thereby boosted our brand strength. A benefit from this is that our presence as a premium brand has also strengthened in emerging markets, where we have established a business base for achieving high profitability. In developed countries, where there is little prospect of a major market recovery and as our focus is on profitability rather than quantitative growth, we will concentrate on further improving our brand strength.

In emerging markets, further expansion is expected on the back of economic growth. To strengthen our position in the leisure motorcycle field, where we already enjoy a competitive lead, we are steadily capturing growing market demand through strategies including expansion of production capacity at local factories, continual launches of strategic new models, expansion of our business in India, and penetration of the Chinese market.

In the general-purpose engine business, we will strengthen our profit base through the development and market release of new engine models and the establishment of a production system with bases in the United States and China.

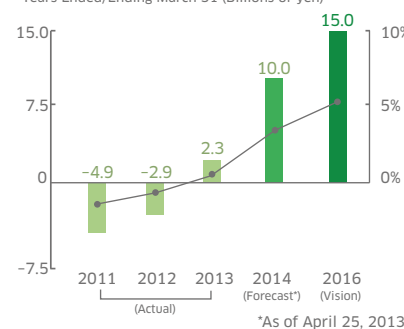
Financial Highlights

Net sales



Operating income (loss)

Ratio of operating income (loss) to sales



Approach to Social Issues

- 1 Fulfillment of both the requirements of a low-carbon society and delivery of "Fun to Ride", "Ease of Riding" to people
- 2 Product development to match the needs of emerging markets and branching out of production bases

New Hydraulic Components for Construction Machinery



Precision Machinery

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

The orders received totaled ¥109.7 billion, a steep ¥64.8 billion year-on-year decline mainly due to reduced demand for hydraulic equipment for construction machinery in emerging market economies, most notably China.

This downshift in emerging market, particularly Chinese, demand for hydraulic equipment for construction machinery resulted in a large decline in sales also. Net sales were down ¥44.6 billion year on year to ¥130.4 billion.

Operating income totaled ¥8.4 billion, a steep decline of ¥18.1 billion year on year, largely due to the sales decline and growth in fixed expenses stemming from capital investments in the previous fiscal year.

For fiscal 2014, we expect the consolidated orders received to be ¥150 billion, net sales to be ¥140 billion and operating income to be ¥14 billion.

Key Strategies of the Medium-term Business Plan 2013 (FY2014-2016)

- Hydraulic Components: Maintain a high share in the hydraulic excavator sector and diversify our business structure by expanding sales beyond this sector. Expand sales in the global market and achieve an optimal global production system.
- Industrial Robots: Further strengthen operations for automotive and semiconductor sectors, expand into emerging markets, and open up new sectors

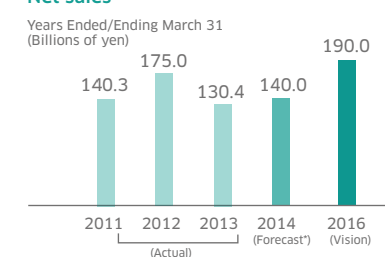
In the Hydraulic Machinery business unit, to maintain our high market share in the hydraulic excavator sector, we will work to realize cutting-edge hydraulic equipment technology and improve systematization technology. We will also promote business diversification through expanded sales of hydraulic equipment for agricultural machinery and for construction machinery other than the power hydraulic excavator. As a response to globalization, following our entry into China, we have set up a new company in the expected future growth market of India that began production in 2012. We have thus established a system with six centers worldwide in Japan, the United Kingdom, the United States, South Korea, China and India. In this way, we aim to achieve a flexible response to rapid globalization and Group-wide optimization.

Meanwhile, in the Industrial Robots business unit, to make a rapid advance toward globalization, we will boost cost-competitiveness to facilitate expansion in emerging markets and reinforce the automotive and semiconductor sectors. To open up new sectors, we will develop user-friendly technology and unearth latent demand for automation.



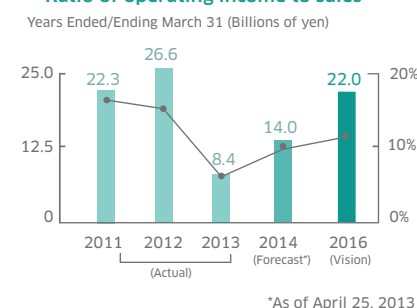
Financial Highlights

Net sales



Operating income

Ratio of operating income to sales



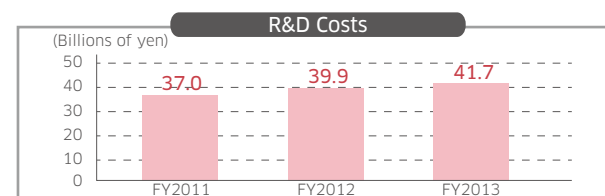
Approach to Social Issues

- 1 Product development focused on energy saving and environmental adaptation
- 2 Contribution to provision of infrastructure in emerging markets

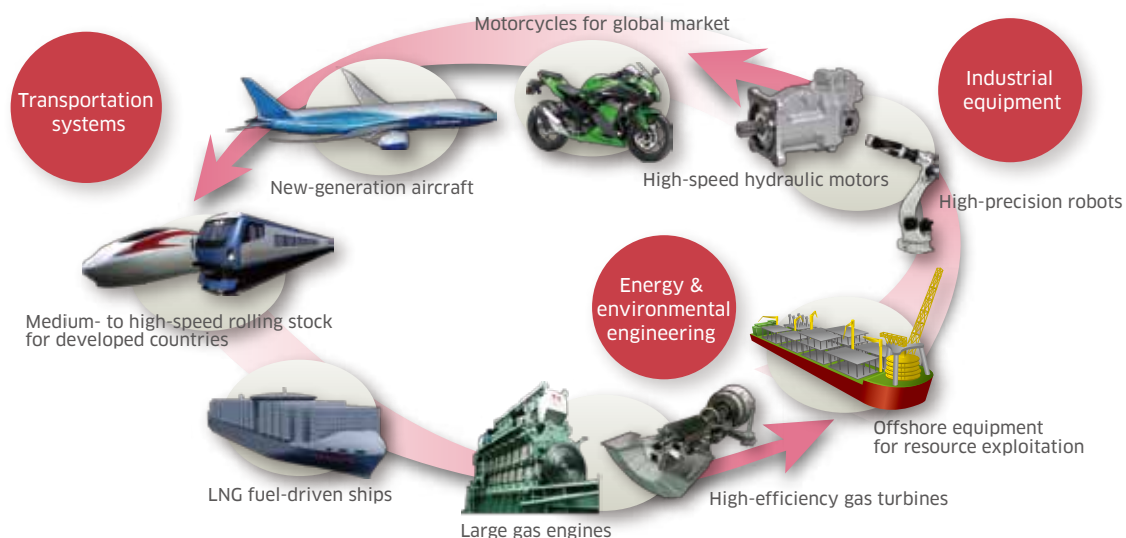
Research and Development

In its approach to R&D activities, the KHI Group keeps in mind a continual picture of the lifestyles and the society of the future. In addition to our existing markets in developed countries, it is essential to respond to diverse customer needs in emerging nations that are experiencing rapid economic growth and in resource-rich nations. To do this, we promote new product and business development and engage in development activities aimed, for example, at reinforcing product competitiveness and boosting quality and productivity. As part of this policy, particularly in the case of important and challenging development projects, the Corporate Technology Division (our corporate R&D division) works in close coordination with business divisions to create a shared business strategy covering market needs and product development goals as a way to deliver well-timed and innovative products.

With its diverse products and wide range of technologies, the KHI Group seeks to “create new and powerful strength through synergistic effects.” To promote this, the development and production teams of our business divisions and the Corporate Technology Division serve as the interlocking threads of a network that is knit together into a flexible but resilient collaborative system, working to create stable foundations for our business operations and to expand our business domains.



■ Creating New Products and New Businesses with the Combined Strengths of Kawasaki



■ Promoting Vision-Oriented R&D with an Eye to the Future

Keeping a careful watch on the continuing rapid growth in the emerging markets of Asia and other regions and on global issues in areas such as energy and the environment, the Corporate Technology Division devotes its greatest energies to supporting new product development and product improvement. In parallel, however, we continue to take on the challenge of developing bold new businesses that target future markets.

By tapping into dynamic trends in the wider world to create our vision of the future and acknowledging the tasks that need to be carried out, we are energetically pushing forward with R&D to create the new products, businesses and solutions that will be needed in the society of the future, as well as the core components and innovative production technology that are indispensable to them.

The development projects we are currently working on include energy solutions that deliver, at the lowest cost and with outstanding environmental performance, the electric power and fuel required by customers not only in Japan but also in emerging nations and elsewhere; and

superconducting motors with compact bodies that generate enormous power. In addition, to build a hydrogen-utilizing society in which energy is supplied by hydrogen-based fuel and our streets are busy with fuel cell vehicles, we are engaged in developing technologies based on the concept of the CO₂-free hydrogen chain, which combines the benefits of stable energy supply with CO₂ reduction. These technology development projects, in areas from the production and transport of hydrogen to its storage and utilization, are being tackled enthusiastically through teamwork involving relevant business divisions, Head Office divisions, and the Corporate Technology Division in an approach that emphasizes commercial viability and includes tie-ups with experienced external partners.

Minoru Makimura

Senior Vice President,
General Manager,
Corporate Technology Division



Topic Automated iPS Cell Culture System



Automatic operation of cell culturing



Appearance of the system

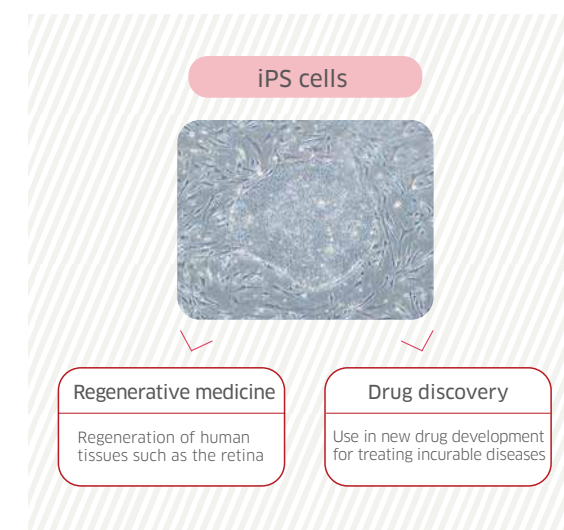
Since the KHI Group commercialized Japan's first industrial robot in 1969, we have applied robot technology in many different areas and strived to advance its technology.

One example is the automated cell culture system, developed with an eye to medical treatment in the future, which utilizes the advanced control, mechanical and cleaning technology that we acquired in developing robot technology for semiconductor manufacturing equipment.

Cell culture operations are largely performed by experienced technicians who skillfully handle equipment and chemical solutions. We have automated this delicate procedure using our robot technology. In 2008, the Plant & Infrastructure Company began selling our automated cell culture system as an “expert that never gets tired” and that stably performs mass cell culturing, and it has already been used in the field of drug discovery. Induced pluripotent stem (iPS) cells are versatile cells that can grow into any cell type. They are expected to be used in developing drugs for diseases that have no effective cure, such as Parkinson's disease, and in regenerative medicine. To realize practical use of iPS cells, stable culturing of high-quality iPS cells is needed. In June 2010, using our automated cell culture system, we succeeded in automatic culturing of iPS cells for the first time in the world.

Currently, we are collaborating with the Center for iPS Cell Research and Application, led by Professor Shinya Yamanaka of Kyoto University, as a member of a research association working on a project* to accelerate the industrial application of stem cells. We are researching and developing technology for the mass culturing of high-quality cells. Meanwhile, as the first step to develop our business in the world market, we have begun research aimed at clinical use overseas through an international project*.

We are working now on marketing (market creation) alongside the R&D outlined above and seeking to contribute to the future of medicine.



* Projects supported by New Energy and Industrial Technology Development Organization (NEDO)

CSR

KHI Group CSR

Building the KHI Group CSR Framework, and Issues for Action

The KHI Group's CSR activities embrace five themes. Within each theme, we have established individual categories, for each of which there are set action goals.

Five Themes

1 We will use our integrated technological expertise to create values that point the way to the future.

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

3 We will all create a workplace where everyone wants to continue working.

4 We will pursue "manufacturing that makes the Earth smile."

5 We will expand the circle of contribution that links to society and the future.

Value Creation

Management

Employees

Environment

Social Contribution

There is a wide range of expectations from society regarding business enterprises. We collect and collate information on these from a number of sources including customer suggestions, CSR surveys conducted by nonprofit and other organizations, and ISO 26000 core issues. Based on this information, we identify issues for action within each theme that we, as the KHI Group, should tackle.

During the period of the Medium-term Business Plan 2010 (FY2011–2013), 85 items were established as issues for action. These were subject to self-assessment regarding the current status, and corresponding action plans were

formulated. They aimed to remedy deficiencies and further improve strengths, and were followed up with a Plan-Do-Check-Action (PDCA) cycle. (Progress with action on each of the issues is reported by theme on pages 29–42.)

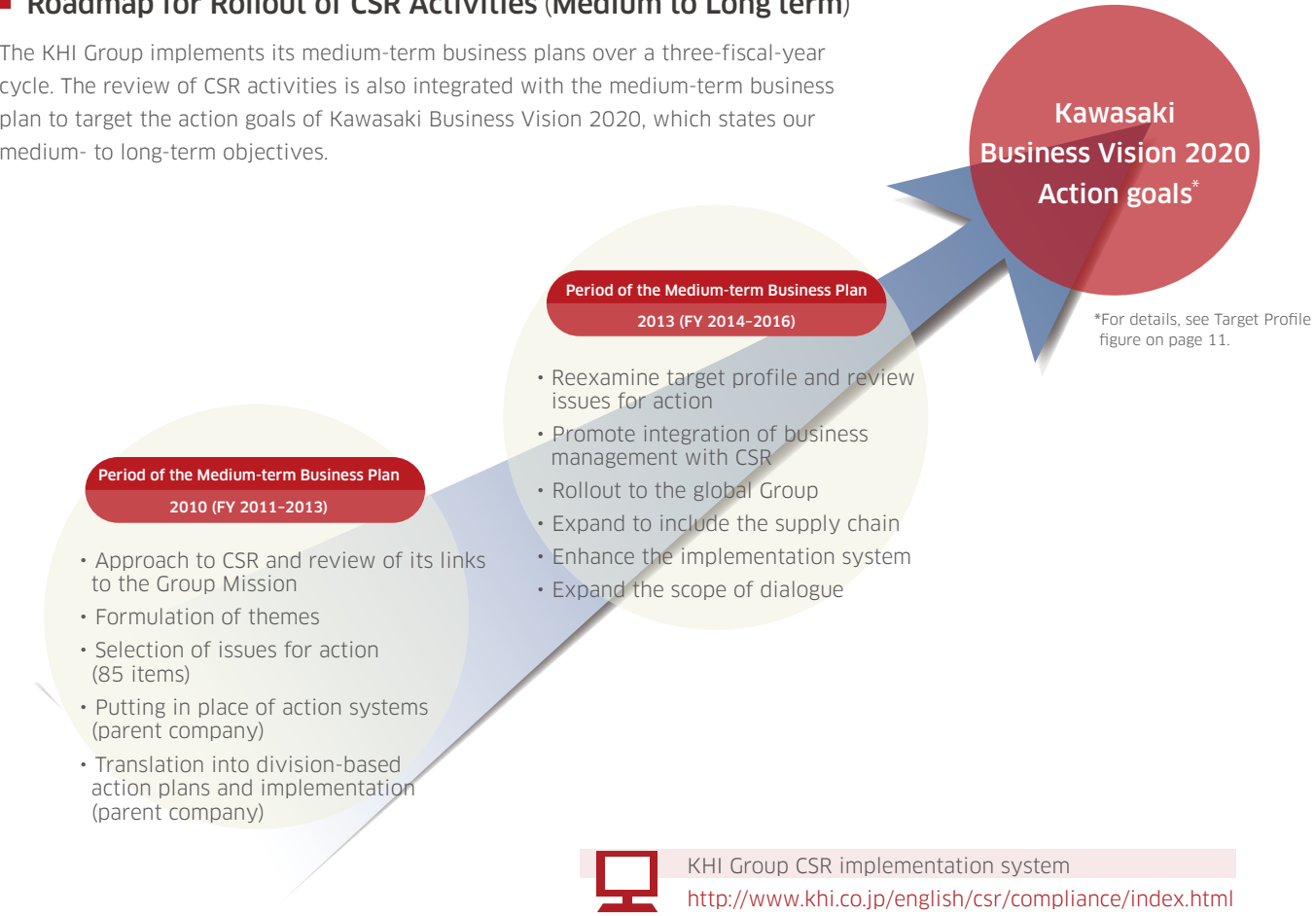
At the end of fiscal 2013, we decided to review the issues based on developments over the previous three fiscal years to prepare for further progress during the period of the Medium-term Business Plan 2013 (FY2014–2016). For details on each issue, please refer to the theme-by-theme report.

Categories and Action Goals

Categories		Action goals
Overall	CSR overall	Realize the Group Mission (KHI's duty to society) at a higher level.
Value Creation	Product development	Draw on comprehensive Group capabilities and apply sophisticated technologies to the development of high-performance, high-quality products.
	Product liability	Provide products and services that are reliable and safe from the customer's perspective.
	Customer satisfaction	Provide products and services that meet customer needs and leave a very positive impression.
Management	Corporate governance	Pursue sound, transparent management, enable each business segment to operate independently, and demonstrate the combined strengths of the Group.
	Compliance	Build an organization that is open and self-regulating to underpin a corporate culture with credibility.
	Risk management	Pinpoint major risks that threaten the achievement of business targets and establish a system capable of providing the most appropriate responses.
	Information security	Institute reliable information security measures and maintain the safety and security of information.
	Information disclosure, IR activities	Provide timely, accurate corporate information and further enrich the content of disclosure.
	Business partners	Coexist with business partners and maintain fair partnerships while promoting collaboration in CSR activities.
Employees	Occupational safety and health	Create a safe, pleasant working environment where employees can perform their jobs in good health and in a positive state of mind.
	Human resources development	Consistently cultivate the skills of employees, refine acquired talents, and raise the value of personnel assets to the highest level.
	Human rights	Respect the diversity of employees and strive to create a workplace that embraces wide-ranging values and abilities and utilizes them to the full.
	Labor	Endeavor to create a workplace that provides motivation and satisfaction and one in which employees are treated fairly and appropriately.
Environment	Global environment	Strive to realize a low-carbon society, a recycling-oriented society, and a society that coexists with nature.
Social contribution	Local communities and Japanese society	Coexist and cooperate with local communities and help nurture new generations that will develop future "dream" technologies.
	International community	Respect the myriad cultures of countries around the world and contribute to their vibrancy by cultivating technology and human resources in these countries.

Roadmap for Rollout of CSR Activities (Medium to Long term)

The KHI Group implements its medium-term business plans over a three-fiscal-year cycle. The review of CSR activities is also integrated with the medium-term business plan to target the action goals of Kawasaki Business Vision 2020, which states our medium- to long-term objectives.



KHI Group CSR implementation system
<http://www.khi.co.jp/english/csr/compliance/index.html>

Measures during the Medium-term Business Plan 2013 (FY2014–2016)

Based on the issues for action in our Medium-term Business Plan 2010 (FY2011–2013), we launched a fresh appraisal that factored in newly received customer suggestions and the evaluation items of the overseas SRI index (the socially responsible investment index, which includes important investment criteria on the corporate financial situation as well as environmental and social activities and other factors).

Our approach is to set a relatively loose target profile, take effective action according to separate divisional action

plans for each fiscal year, and follow up with a PDCA cycle.

To achieve a more concrete picture of what society expects from the KHI Group, we also organize a Dialogue with Experts. (Please see page 43 for information on the fiscal 2013 dialogue.) Viewing them as representative of stakeholders' opinion, we reflect the experts' insights and comments in our CSR activities. This activity will be continued and expanded in fiscal 2014 and thereafter.

The target profile for the broad range of our CSR activities is set out below. The target profile for each theme is indicated on the page dedicated to the individual theme.

Target profile	Measures
Clearly state the KHI Group's social responsibility that is communicated to employees Group-wide, and have an implementation system in place	• Update CSR and communicate to the Group • Support global operations (coordinate with the CSR Division and others) • Ensure familiarity with CSR through site meetings
Listen to stakeholders' opinion and reflect it in corporate activities and business operations	• Continue and expand dialogue, and integrate the SRI index into CSR activities • Enhance labor-management negotiations and direct dialogue between managers and employees
Respect the Global Compact, UN Millennium Development Goals, ISO 26000, and other international CSR-related codes of conduct	• Promote action on human rights issues at the global Group level

1

Value Creation

We will use our integrated technological expertise to create values that point the way to the future.

The KHI Group Mission—"Kawasaki, working as one for the good of the planet"—indicates that we are committed to achieving sustainability and resolving issues in society through our business operations. At the same time, we are taking action to further improve our activities to ensure product safety and enhance quality and customer satisfaction.

Categories

Product development

Product liability

Customer satisfaction

Overview of Activities during the Medium-term Business Plan 2010 (FY2011–2013)

Initiatives to improve product safety, product quality, customer satisfaction and other areas of our operations have been a focus of energies since our establishment as a manufacturer. To visualize this process as a way to promote further improvement, in 2011 all internal companies carried out a product safety self-assessment based on product quality and activity level, in which the degree of development of the quality management system was used as an evaluation index. In the field of customer satisfaction, the evaluation methods used vary due to the

differing nature of the products handled by our business segments. We therefore carried out an internal survey to determine which structures each of our internal companies has in place and how these operate, and shared the survey results as part of Group-wide activities.

As a task for the future, we aim to create links across a broader front between our business operations and action to resolve issues in society. This action will include identifying social issues and undertaking dialogue with new stakeholders.

Self-Assessment of Activities

Category	Action	Annual self-assessment (average)		
		FY2011	FY2012	FY2013
Product development	Efforts to create new markets and develop new customer value	★★★★★	★★★★★	★★★★★
	Clearly delineated product safety assurance system involving senior management	★★★★★	★★★★★	★★★★★
Product liability	Clearly delineated product quality assurance system involving senior management	★★★★★	★★★★★	★★★★★
	Clearly stated quality policy and quality assurance activity in line with the policy	★★★★★	★★★★★	★★★★★
Customer satisfaction	Initiatives to improve customer satisfaction reflecting customer satisfaction surveys	★★★★★	★★★★★	★★★★★
	System for reporting customer suggestions and complaints to senior management of business divisions and achieving relevant improvement	★★★★★	★★★★★	★★★★★

★ Will take action going forward ★★ Some action taken ★★★ Robust action taken ★★★★ Sufficient action taken but further improvement targeted

Measures during the Medium-term Business Plan 2013 (FY2014–2016)

Target profile	Measures
We are aiming to contribute to a sustainable society through our business operations and products	Each internal company is formulating its own plan to achieve "value creation through business".
We are working to further improve quality and product safety so as to make products that customers trust	
We are monitoring customer satisfaction to achieve further improvement	

In our CSR Reports for FY2012 and FY2013, the reports on product safety, improvement of product quality, and improvement of customer satisfaction were presented in order by business division. This year's report adopts the same format.

Topic 1

Initiatives for Product Safety

Rolling Stock Company

Rolling Stock Crash Safety



Atsushi Sano
Manager, Carbody Structure Engineering Section, Development Engineering Department, Engineering Division, Rolling Stock Company

Rail is a public transit system that offers excellent punctuality and safety and is also friendly to the global environment.

The Rolling Stock Company delivers rolling stock that meets the full range of needs to customers around the world, playing an important role in the provision of public transit services.

Improvement of rolling stock safety is a responsibility of this role. Specifically, further enhancement of safety in the event of a crash is a priority for our customers in the rail industry and society as a whole. Based on the scenario of a collision with an automobile at a railroad crossing, or a collision between two trains, the task is to control the way each rail car body "crushes" at the time of impact to protect the passenger compartment and enhance customer and driver safety.

With automobiles, the usual approach is to carry out a crash test using an actual vehicle, but since rolling stock is much larger in size and weight, a crash test using an actual rail car would be a major undertaking and is therefore impractical in terms of cost and time. Accordingly, numerical simulation is the main method used when verifying the crash safety of the many different types of rail car. This makes it essential to develop the relevant technology and ensure its accuracy.

To evaluate safety during a crash, we start with the impact-absorbing elements at the level of the individual

parts and materials and continue through to the elements that affect the behavior of the entire rail car as well as the entire train, building upon component technologies step by step to assess the safety of the entire rail car.

Numerical simulations along with verification tests that use an actual physical unit of each component are the drivers of improvement in crash safety verification technology. Numerical simulations backed up by verification tests make it possible to assess the crash safety of rail cars. In 1999, the Rolling Stock Company carried out a test in which an actual rail car designed for overseas export was crashed into a wall. The simulation and the test results showed a very high degree of consistency. As a result, we received the Best Paper Award in the Rail Transportation Division from the American Society of Mechanical Engineers. The Rolling Stock Company was the first Japanese rail car manufacturer to tackle the issue of crash safety, and is proud of having steadily built up the relevant technologies through tireless efforts in R&D.

In the development of high-speed rolling stock for Japan and overseas markets, we supplement the crash safety technologies and the knowledge and experience of the Rolling Stock Company through application of crash safety technologies developed by other companies. These are used, for instance, to design the obstacle deflector for the front car of a train or to create car body structures that enhance operability for the driver while providing protection from potential dangers such as bird strikes.

Going forward, we are committed to continuing with our dedicated efforts that will rapidly achieve the improvement in rolling stock safety that society wishes to see.

1

Crash involving impact-absorbing parts and materials

2

Impact on the crushable zone

3

Impact on the entire rolling stock

4

Crash between two trains

Before the crash

After the crash

Crushable zone (showing the floor frame only)

Test

Analysis

Improvements based on test results

Before the crash

After the crash

Before the crash

Test

Analysis

Improvements based on test results

Before the crash

After the crash

Stationary train

Moving train

Rolling stock body standards

• Japanese Industrial Standard JIS E7105

• U.S. Code of Federal Regulations 49CFR238

• European Standard EN12663, EN15227

Topic 2 Initiatives for Product Quality Improvement Motorcycle & Engine Company

Continuous and Horizontal Quality Assurance Activity



Takeo Tsubonouchi (upper left)

Manager, Quality Control Section, QA Administration Department, Quality Assurance Division, Motorcycle & Engine Company

Our company is the only division within KHI that delivers goods directly to consumers.

We manufacture and deliver to world markets a wide range of products including motorcycles, all-terrain vehicles (ATVs), recreation utility vehicles (RUVs), utility vehicles, Jet Ski personal watercraft, and general-purpose gasoline engines. Of these products, the Ninja series and Z series in particular are loved by riders around the world and have become a byword for Kawasaki motorcycles. In 2013, we released new models for 2013, the Ninja ZX-6R, Ninja 300, and Ninja 250 and the Z800 and Z250, assembling a wide-ranging product lineup that has enjoyed popular acclaim.

To continuously raise brand strength by delivering attractive products and services that inspire customer confidence and satisfaction, we need to not only assemble a comprehensive product lineup but also manufacture all products to an excellent level of quality.

In the development process, comprehensive quality checks are carried out at intermediate stages by relevant divisions. If a set quality level is not reached at internal design review meetings, the product is not allowed to proceed to the next stage. This system guarantees quality in the models we develop.

Meanwhile, our manufacturing divisions continue to work hard maintaining and improving quality through continuous quality improvement activity and carry out a stringent quality inspection of each unit on final inspection area at mass production lines, ensuring the quality of the products we deliver to customers.

Quality assurance activity is not a task limited to our company, however, but also needs to embrace our suppliers. Of the parts used in our products, the essential items are manufactured in-house, but a large number of other component parts are sourced from suppliers. Cooperation by both parties in activities to maintain and improve product quality is therefore another important aspect of quality assurance activity.

In addition, after a sale is completed, we continue to constantly gather information and suggestions from sales bases at the market frontline and from customers. We use the information we obtain in product development and quality improvement.

Today, our procurement and production activity is rapidly globalizing, and we therefore need to approach related quality assurance activities from a global angle. The quality assurance activity that has underpinned Japanese manufacturing is evolving to a still higher level.



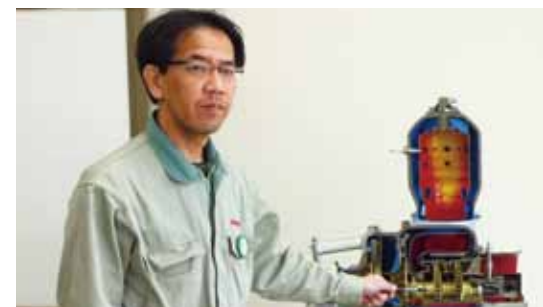
Final Inspection at the Akashi Works



Final Inspection at the Thailand Works
(Kawasaki Motors Enterprise (Thailand) Co., Ltd.)

Topic 3 Initiatives to Improve Customer Satisfaction Levels Kawasaki Machine Systems, Ltd.

Human Resources Development to Improve Customer Satisfaction



Masayoshi Yokoo

Deputy Section Manager, Engineering Control Section, Administration Department, Gas Turbine Service Coordination Division, Kawasaki Machine Systems, Ltd.

Kawasaki Machine Systems, Ltd. (KMS) is a company that carries out sales and after-service for gas turbine emergency generator sets, mobile gas turbine generator sets, and gas turbine pump driven units; and servicing for gas turbine co-generation systems. All of the above are manufactured and/or engineered by Kawasaki Heavy Industries, Ltd. (KHI).

Especially in the market for emergency gas turbine generators, KMS and KHI have kept the top share of the domestic market for the 34 years since market studies began in 1979, delivering high satisfaction to customers. The achievement of the top share is due not only to advantages in product performance and quality, but also to sales service and attentive after-sales performance.

The KMS Service Coordination Division operates a unique licensing system to cover its maintenance operations. KMS has created its own licensing system under which the company gives licenses to

both its own technical staff as well as to the staff of its 32 service dealers following training and education. Currently, around 400 service experts are active in providing maintenance services.

The KMS Service Coordination Division provides practical training and a lecture and examination program leading to issue of the maintenance expert certificate in four levels from first grade to fourth grade. For each grade, trainees undertake a fixed period of practical exercise combined with regular classroom lectures and examinations, allowing them to progress to the next certificate grade. KMS puts great effort into this program to produce staff with more advanced work skills and responsibilities. In this way, KMS and all service dealers are concentrating on education and human resources development.

At the time of the Great East Japan Earthquake in 2011, the operating rate of KMS gas turbine emergency generator facilities located in the main disaster area reached a value of 99.9%, which indicates the very high degree of reliability of our product. We believe this high performance was achieved thanks to the underpinning of high-quality service provided by our well-trained technicians and staff.

The goal of KMS is to achieve the No. 1 level of customer satisfaction in the market by maintaining close relationships with customers through speedy, reliable, and honest sales and service activities.

Business Model That Reflects Customer Comments



2

Management

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

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

Categories

Corporate governance

Information security

Compliance

Information disclosure, IR activities

Risk management, Crisis management

Business partners

Overview of Activities during the Medium-term Business Plan 2010 (FY2011-2013)

During the period of the Medium-term Business Plan 2010, appointment of independent corporate officers (from fiscal 2011), holding of dialogues with experts (from fiscal 2012) and appointment of outside directors (fiscal 2013) were among the steps we implemented to gain the opinions of people outside our organization and thereby achieve higher levels of fairness, transparency and efficiency. In addition, in April 2011 we formulated and published our

Basic Policies for Material Procurement, followed by our CSR Procurement Guidelines in April 2012, both of which helped lay the foundations for CSR activities in the supply chain.

Going forward, we intend to intensify activities in the parent company and expand the scope of activities through rollout to subsidiaries and business partners in Japan and overseas.

Self-Assessment of Activities

Category	Action	Annual self-assessment (average)		
		FY2011	FY2012	FY2013
Corporate governance	System according to which the company president listens directly to employee comments	★★★★★	★★★★★	★★★★★
	Appointment of outside directors	★★★★★	★★★★★	★★★★★
	Familiarity throughout the organization with the corporate Mission Statement	★★★★★	★★★★★	★★★★★
	Operation of a system for regular and comprehensive internal audits and reporting of results	★★★★★	★★★★★	★★★★★
Compliance	Familiarity throughout the organization with codes of conduct and a code of corporate ethics	★★★★★	★★★★★	★★★★★
	Access to reporting and consultation contact point	★★★★★	★★★★★	★★★★★
	Provisions to protect whistleblowers	★★★★★	★★★★★	★★★★★
	Evaluation of effectiveness of compliance and ethics training	★★★★★	★★★★★	★★★★★
	Full compliance with local laws and regulations in overseas business operations	★★★★★	★★★★★	★★★★★
Risk management, Crisis management	Establishment of a corporate risk management system and operating framework	★★★★★	★★★★★	★★★★★
	Evaluation of the effectiveness of corporate risk management	★★★★★	★★★★★	★★★★★
	Identification of major risk at subsidiaries	★★★★★	★★★★★	★★★★★
	Formulation of a business continuity plan (BCP), and regular evaluation and revision	★★★★★	★★★★★	★★★★★
Information security	Publication of a policy for protection of confidential corporate information	★★★★★	★★★★★	★★★★★
	Preparation of a backup and recovery plan, periodic revision	★★★★★	★★★★★	★★★★★
Information disclosure, IR activities	Well-developed communication with shareholders and investors	★★★★★	★★★★★	★★★★★
Business partners	Formulation and publication of the Basic Policies for Material Procurement	★★★★★	★★★★★	★★★★★
	Requirement that business partners undertake CSR management and provision of assistance	★★★★★	★★★★★	★★★★★

★ Will take action going forward ★★ Some action taken ★★★ Robust action taken ★★★★ Sufficient action taken but further improvement targeted

Measures during the Medium-term Business Plan 2013 (FY2014-2016)

Target profile	Measures
Targeting further improvement of corporate governance	• Introduce and increase outside directors, consider measures to strengthen governance and internal control
Familiarizing all employees with the code of corporate ethics and code of conduct	• Enforce individual corporate ethics guidelines at all Group companies • Strengthen measures to prevent irregularities at provincial and small-scale operating sites
Targeting further improvement of an array of information protection measures	• Improve the security level to protect against confidential information leakage risk • Full-scale rollout of IT audit
Targeting further improvement of shareholder and investor communication	• Review information disclosed and disclosure methods, enhance IR events • Hold regular factory tours for shareholders
Promoting cooperation with business partners in CSR management	• Promote formulation of CSR procurement guidelines at all Group companies

Topic 1 Appointment of an Outside Director

At KHI, directors with an intimate knowledge of the Company's business operations are charged with formulating business strategy and supervising the execution of operations, while four corporate auditors, including two outside corporate auditors with no conflict of interest relating to the Company, fulfill a management oversight function. This system has thus far ensured efficient execution of business operations.

However, with business expansion proceeding rapidly at the global level, we made the assessment that, to maintain sustained growth by responding flexibly to the changing environment, we needed to welcome onto the Board of Directors a member who, drawing on a rich array of experience and specialist knowledge in areas outside KHI's business domain, would be able to provide appropriate opinions and advice from a standpoint that was objective and

independent, relative to that of the Board members responsible for the execution of operations. We accordingly appointed Yoshihiko Morita as an outside director.

Based on his range of activities, including experience of business management from a global perspective at the Japan Bank for International Cooperation and his position as president of the Japan Institute for Overseas Investment, we believe that Mr. Morita is in a position to provide useful opinions and advice relevant to decision-making on important matters relating to corporate business management and also to play a full role in the supervision of business execution.



Yoshihiko Morita
Outside Director

Topic 2 Holding of First Factory Tour for Shareholders

On March 12-13, 2013, we organized the first-ever factory tour mainly for individual shareholders at Nagoya Works 1. The participants were shareholders selected by lot from among the many applicants, whose numbers exceeded the places available.

At our factory, the participants eagerly viewed operations including an autoriveter that automatically assembles the joints of Boeing 777 fuselage panels and an autoclave that fuses at high temperature the Boeing 787 forward fuselage, which is made of carbon fiber composite.

Going forward, we will actively organize additional events of this kind as a forum for communication with shareholders and an opportunity for shareholders to gain a deeper understanding of our business operations.



Watching an autoriveter at work on Boeing 777 panels

The case regarding potential infringement of Act Concerning Elimination and Prevention of Involvement in Bid Rigging etc. in receipt of orders for the new multi-purpose helicopter (UH-X)

In regard to the receipt of orders for the new multi-purpose helicopter(UH-X), questions were raised regarding potential infringement of the Act Concerning Elimination and Prevention of Involvement in Bid Rigging etc., and an investigation was undertaken by the Tokyo District Public Prosecutor's Office.

However, the case against KHI and its associates was not prosecuted as a result. Nevertheless,KHI has been recognizing the importance of compliance.

To prevent a recurrence of the situation, KHI will enhance efforts to ensure full compliance.

For more detailed coverage, please see the full report.
http://www.khi.co.jp/english/csr/report/2013/index_full.html

3

Employees

We will all create a workplace where everyone wants to continue working.

As part of our efforts to fulfill the KHI Group's mission and operational goals, we consider our employees to be our most important resource. We engage in initiatives to build a supportive work environment where employees feel safe and comfortable and can show their full potential.

Categories

Safety and health

Human resource development

Human rights

Labor

Overview of Activities during the Medium-term Business Plan 2010 (FY2011–2013)

During the period of the Medium-term Business Plan 2010, we continued to promote diversity and created an information database covering our human resources in administrative and technical positions. These were among our initiatives to make the work environment even more supportive of employees seeking to demonstrate their

potential. Going forward, a particularly important task is awareness of child labor, forced labor, and other human rights issues. In this regard, we plan to ensure that employees both in Japan and overseas are fully informed on these issues as part of concrete initiatives to promote employee human rights awareness.

Self-Assessment of Activities

Category	Action	Annual self-assessment (average)		
		FY2011	FY2012	FY2013
Safety and health	Operation of management system and continuous improvement	★★★★★	★★★★★	★★★★★
	Operation of health protection system for staff working overtime	★★★★★	★★★★★	★★★★★
	Action in excess of legal requirement in safety, health, mental healthcare, etc.	★★★★★	★★★★★	★★★★★
Human resource development	Publication of employee education policies and goals taking account of business strategy	★★★★★	★★★★★	★★★★★
	Publication of education policies and goals taking account of careers up to retirement	★★★★★	★★★★★	★★★★★
Human rights and labor	System of fair evaluation reflected in employment conditions	★★★★★	★★★★★	★★★★★
	Measures for promotion of women to managerial positions	★★★★★	★★★★★	★★★★★
	Measures for employment of people with disabilities	★★★★★	★★★★★	★★★★★
	Action to support staff combining work with childcare	★★★★★	★★★★★	★★★★★
	Dialogue with labor unions and employees	★★★★★	★★★★★	★★★★★

★ Will take action going forward ★★ Some action taken ★★★ Robust action taken ★★★★★ Sufficient action taken but further improvement targeted

Measures during the Medium-term Business Plan 2013 (FY2014–2016)

Target profile	Measures
Appropriate operation and continuous improvement of occupational safety and health management system with due consideration to employee safety and health	<ul style="list-style-type: none">Implement safety awareness educationStrengthen mental healthcare
Measures to maximize the personal value of employees	<ul style="list-style-type: none">Strengthen education for global human resources and put in place relevant systems and conditionsRoll out human resources development programs to the entire Group
Initiatives to promote employee human rights awareness	<ul style="list-style-type: none">No child labor or forced labor Group-wide
Positive action for equal opportunities and diversity	<ul style="list-style-type: none">Support activities aimed at all female employees (4U (for you) Network)Recruit employees of overseas nationality, create employment promotion network for overseas nationals, etc.
Strengthen initiatives to create a supportive work environment for employees	<ul style="list-style-type: none">Reinforce support for employees with childcare and care responsibilities

Topic 1 Strengthening Our Safety Management System


Guided by a spirit that calls for “respect for humanity” and “health first,” we strive to build a workplace atmosphere that gives foremost priority to safety and health, creating a safe and comfortable workplace environment that promotes both physical and mental health. Unfortunately, however, three serious accidents were recorded in 2012. This figure, the first since 1999, is a cause of great concern to us. To remedy the situation, we have formulated a safety reinforcement strategy to be implemented going forward. The key points are listed below.

1. Based on the view that the serious accidents arose from unidentified risk, we will seek to prevent accidents in advance by constantly strengthening the ability to identify risk and carrying out risk assessment of each work procedure at every workplace, to comprehensively reduce latent risk in the workplace.
2. Instead of leaving safety management to veteran employees, we will enforce a set of rules whereby managers and supervisors are responsible for establishing a systematic safety management system based on observation of workplace procedures and for carrying out regular patrols and other measures.
3. We will seek ways to enhance mock training facilities to raise awareness and thereby encourage employees to take the initiative in avoiding unsafe practices.

Topic 2 Opening of the Skills Academy Training Center at the Harima Works

The Skills Academy Training Center opened in March 2012 as an education and training facility for the Plant & Infrastructure Company located within the Harima Works. The center consists of a two-story building that houses on its first floor a welding training workshop, a practical training workshop for machine processing and finishing, an intensive training room, and an accident simulation training classroom. On the second floor are a lecture room with capacity of more than 90 students and other facilities including a small classroom and a stack room. This comprehensive educational facility stands amid a rich, green setting.

We have entered an era marked by a change in age structure, with few mid-level employees, and the retirement in large numbers of a generation of highly skilled employees. This means that passing on technical skills has become a difficult challenge for our manufacturing workplaces. Through synergies with the existing skills academy-type training system, the Skills Academy Training Center is achieving results as a center for transmission of existing technical skills, cultivation of new technical skills, and accelerated training in technical skills and instructor skills.



The Skills Academy Training Center

Topic 3 Enhanced Nursery Provision at Workplaces

A nursery opened at Kawasaki Motors Enterprise (Thailand) Co., Ltd., in April 2010. The nursery is available to care for employees’ children aged between 1 and 4 years. As of March 2013, it is providing regular care for approximately 20 children. An additional 15 or so children are registered and are looked after when the need arises. The nursery is generally open from 7:30 to 17:15 to coincide with regular working hours, but if requested by more than a fixed number of employees, it is also made available during overtime or holidays.

The opening of the nursery means that parents can continue working with complete peace of mind, having left their children to be cared for nearby. From the employer’s viewpoint as well, the loss of skilled human resources due to childbirth or childcare is avoided, promoting a stable and committed workforce. The opening of the nursery has thus proved to be a measure with mutual advantages.

In Japan, meanwhile, from fiscal 2013, we began providing nursery facilities at the workplace on supplementary work days to offer childcare for limited periods.



The nursery of Kawasaki Motors Enterprise (Thailand) Co., Ltd.

4

Environment

We will pursue “manufacturing that makes the Earth smile.”

The KHI Group has undertaken business whose foundation calls for the advancement of society and the nation through manufacturing, and has sought to develop a global enterprise in key industries related to land, sea, and air. In doing so, we have worked to resolve global environmental problems by seeking to realize a low-carbon society, a recycling-oriented society, and a society coexisting with nature. We will contribute to the sustainable development of society through business activities that are in harmony with the environment as well as through products and services that show consideration for the global environment.

Category

Global environment (sustainable development)

Overview of Activities during the Medium-term Business Plan 2010 (FY2011–2013)

In the Seventh Environmental Management Activities Plan (FY2011–2013), we set out key strategies and targets related to four issues: reduction of greenhouse gas emissions, reduction of total waste emissions, reduction of chemical substances, and the establishment of environmental management systems (EMS), and we promoted our environmental activities through the plan.

For greenhouse gas emissions, we did not achieve the reduction target, but we will use CO₂ credits to cover the surplus emissions. In the area of chemical substances, we did not meet reduction targets for major VOCs*, but exceeded reduction targets for other substances. In terms of reduction of total waste emissions and establishment of EMS, we achieved our targets in both of these areas.

*VOC: Volatile organic compound. For the KHI Group, the major VOCs are toluene, xylene and ethylbenzene.

Self-Assessment of Activities

Category	Action	Annual self-assessment (average)		
		FY2011	FY2012	FY2013
Global environment	Extend the scope of environmental data collection to the entire group including overseas operations	★★★★★	★★★★★	★★★★★
	Publish emissions reduction targets for domestic and overseas affiliated companies	★★★★★	★★★★★	★★★★★
	Measure the amount of energy consumed in business operations and publish it along with reduction targets	★★★★★	★★★★★	★★★★★
	Take action to reduce waste emissions and to promote recycling and assess achievement	★★★★★	★★★★★	★★★★★

★ Will take action going forward ★★ Some action taken ★★★ Robust action taken ★★★★★ Sufficient action taken but further improvement targeted

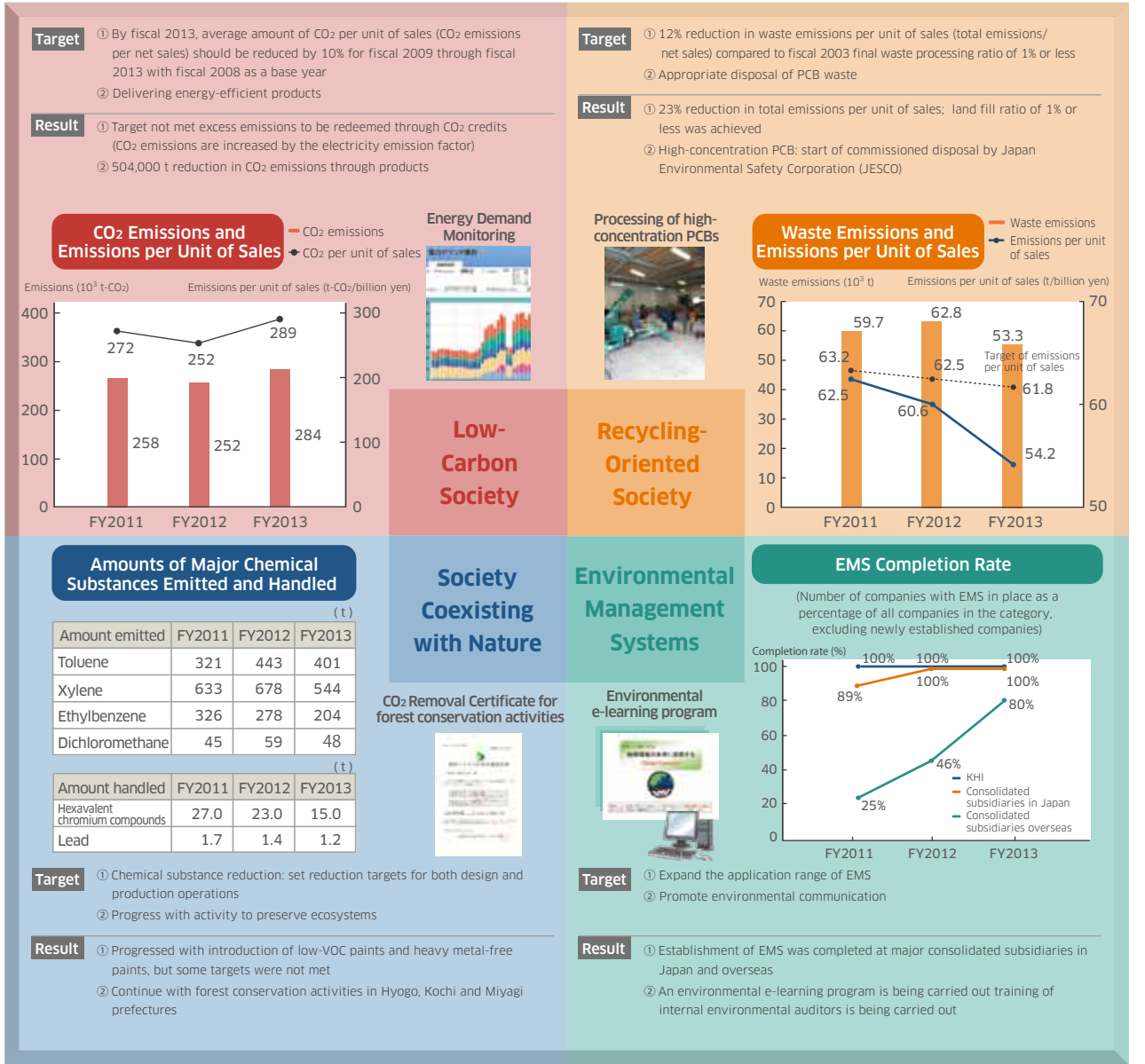
Measures during the Medium-Term Business Plan 2013 (FY2014–2016)

Target profile	Measures
Steadily reduce annual CO ₂ emissions and energy consumption	Use and promote a system to visualize energy use
Reduce waste emissions and promote reuse and recycling	Reduce waste, promote reuse and recycling, and promote PCB* treatment
Steadily reduce substances of the environmental load	Reduce chemical substances

* PCB: Polychlorinated biphenyl

Results of Activities in Fiscal 2013

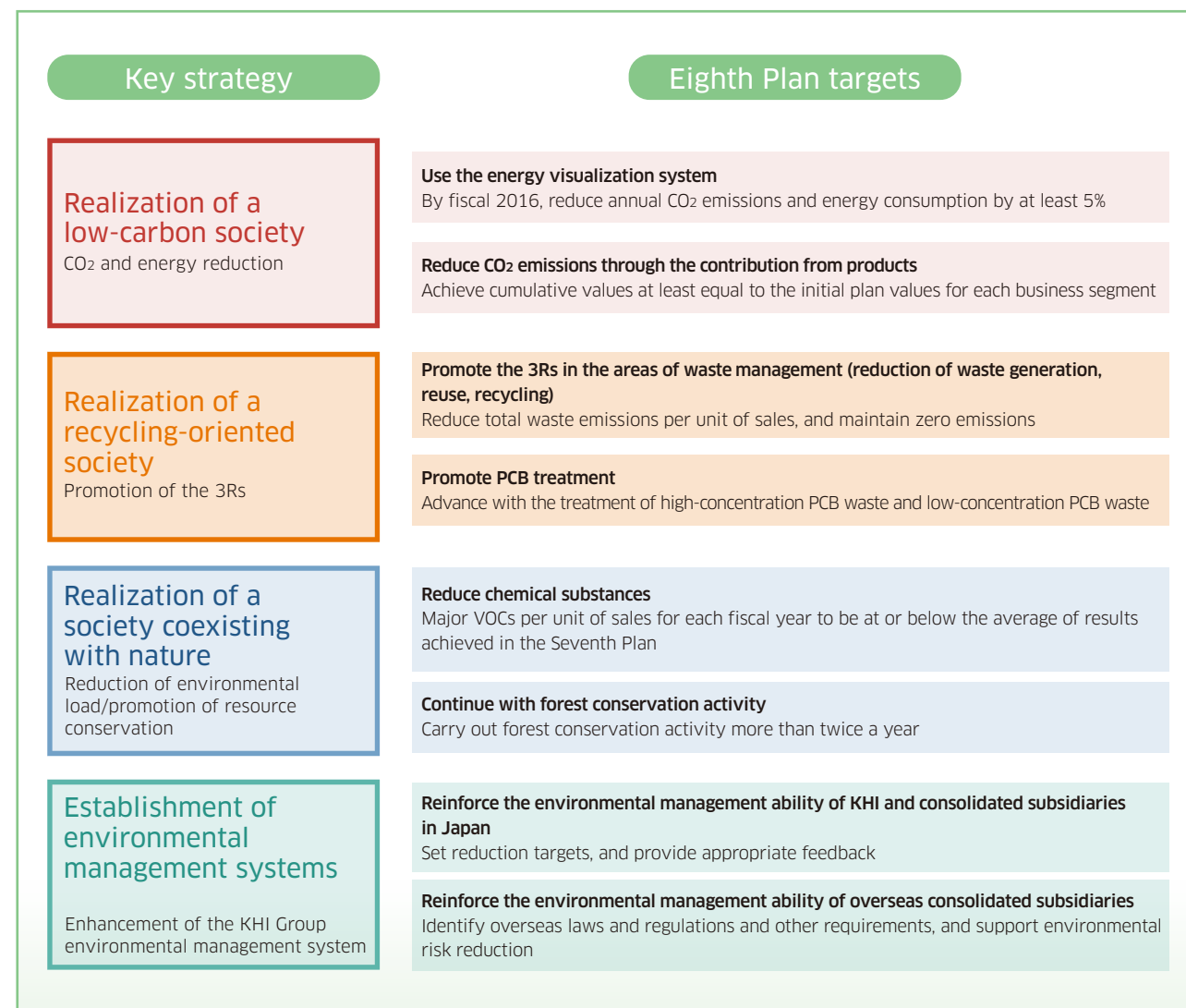
The Seventh Environmental Management Activities Plan identifies four items for action: realization of a low-carbon society, realization of a recycling-oriented society, realization of a society coexisting with nature, and establishment of EMS as the foundation for environmental management. In each of these, we lay down basic policies and key strategies and specific goals. The results of our activities in fiscal 2013 and during the period of the Seventh Plan are set out below. (Unless otherwise stated, data are for the KHI parent company only.)



Eighth Environmental Management Activities Plan (FY2014–2016)

The Eighth Environmental Management Activities Plan (referred to below as the Eighth Plan), covering the period from fiscal 2014 to fiscal 2016, lays down a basic policy for coordinating environmental management with business management and promoting the KHI Group's environmental contribution. By setting key strategies and the Eighth Plan targets for the fulfillment of this policy to anticipate society's environmental needs, we will accelerate progress in energy saving and resource saving. In concrete terms, the four key strategies we will pursue are (1) realization of a low-carbon society, (2) realization of a recycling-oriented society, (3) realization of a society coexisting with nature, and (4) establishment of EMS. Along these lines, we will roll out activities to achieve our Environmental Vision 2020.

Coordination with Business Management and Promotion of Environmental Contribution



KHI Group Examples of Environment-Conscious Products



Newly developed LNG carriers



Series E6 Shinkansen (bullet train) rolling stock



Forward fuselages for the Boeing 787



High-efficiency gas turbine L30A



Kawasaki Green Gas Engine



Waste processing facilities



Ninja 300



KAWASAKI ECO SERVO



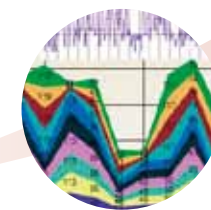
Spot-welding robots BX200L



For more detailed coverage, please see the full report and the environmental report.

http://www.khi.co.jp/english/csr/report/2013/index_full.html
<http://www.khi.co.jp/english/csr/report/detail/2013/index.html>

Target Profile of the KHI Group in 2020



•**Energy consumption and CO₂ emissions**
Major reductions achieved
•**Contribution from products**
Major reductions achieved in CO₂ emissions during utilization



•**3Rs**
Major reductions achieved per unit of sales
Recycling rate more than 97%
Zero emissions maintained
•**PCB treatment**
All treatment completed



•**Major VOCs**
Major reductions achieved per unit of sales and in total amount
•**Heavy metals**
Major reduction in amount utilized
•**Forest conservation activity**
Forest conservation activity continued



•**Establishment of EMS**
Establishment completed across the KHI Group as a whole

Group Mission

“Kawasaki, working as one for the good of the planet”

Environmental Vision 2020

Realization of a low-carbon society

Contribute to the prevention of global warming through our products and manufacturing that use energy without waste

- ① Reduce 2020 greenhouse gas emissions in line with national targets.
- ② Offer customers energy-efficient products and services and reduce emissions of greenhouse gases on a planetary scale.
- ③ Promote energy conservation in production and logistics processes and reduce emissions of greenhouse gases.

Realization of a recycling-oriented society

Engage in manufacturing that uses resources without waste to recycle and fully utilize limited resources

- ① Practice design that uses resources effectively and work to make products lighter, more durable and more recyclable.
- ② Practice the 3Rs (reduce, reuse and recycle of waste) in production activities and achieve zero emissions at all plants.
- ③ Completely and appropriately treat all PCB waste and PCB-containing devices.

Realization of a society coexisting with nature

Contribute to reduction of the environmental impact and conservation of the ecosystem through manufacturing that is in harmony with the global environment

- ① Offer customers products and services that prevent air and water pollution, and advance environment improvements and ecosystem protection.
- ② Reduce the use of chemical substances in products and production activities.
- ③ Cooperate in regional forest conservation and other activities to protect the environment of ecosystems.

Establishment of environmental management systems

Build a foundation for environmental management that will achieve the Environmental Vision 2020

- ① Establish EMS at all consolidated subsidiaries in Japan and overseas to promote environmental management Group-wide.
- ② Comply with environmental laws and regulations and regularly follow up on compliance status.
- ③ Communicate environmental data within and beyond the Group and maintain two-way dialogue while protecting the environment.

5

Social Contribution

We will expand the circle of contribution that links to society and the future.

In the field of social contribution activities beyond its business operations, the KHI Group focuses on dynamic activities designed to meet the expectations of society while drawing on strengths, in line with its Group Mission, "Kawasaki, working as one for the good of the planet."

Categories

Local communities and Japanese societyInternational community

Overview of Activities during the Medium-term Business Plan 2010 (FY2011–2013)

In addition to donating funds to a variety of charitable activities and supporting disaster relief across the globe, notably after the Great East Japan Earthquake, the KHI Group undertakes a range of voluntary programs. These include operation of the corporate museum, Kawasaki Good Times World, organization of numerous events mainly to benefit children, support for culture and sports, involvement in local economic development projects, and corporate forest restoration projects.

Looking ahead, we aim to define our social contribution vision and policies more clearly and build systems to better implement them. At the same time, we are committed to expanding our voluntary program of activities to support and nurture the next generation.

Self-Assessment of Activities

Category	Action	Annual self-assessment (average)		
		FY2011	FY2012	FY2013
Social contribution	Formulation and publication of basic policy on social contribution and key areas	★★★★★	★★★★★	★★★★★
	Publication of expenditure on social contribution activity	★★★★★	★★★★★	★★★★★
	Encouragement of self-planning and self-sponsored social contribution initiatives	★★★★★	★★★★★	★★★★★
	Identification of conditions in countries where the Company has overseas operations and corresponding activities	★★★★★	★★★★★	★★★★★

★ Will take action going forward ★★ Some action taken ★★★ Robust action taken ★★★★★ Sufficient action taken but further improvement targeted

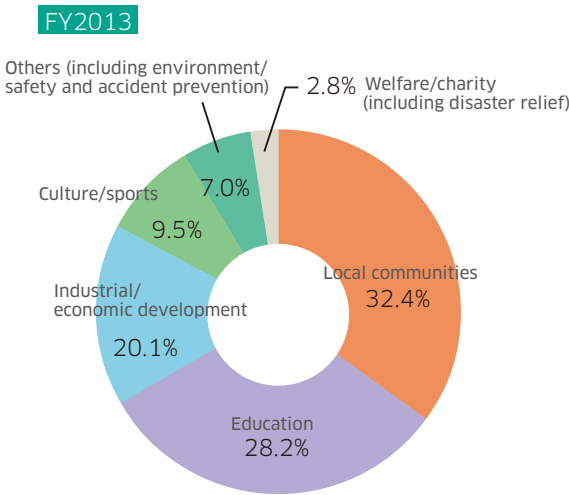
Expenditure on Social Contribution (Millions of yen)

	FY2011	FY2012	FY2013
Local communities	164	226	223
Education	153	164	194
Industrial/economic development	120	142	137
Culture/sports	55	55	65
Welfare/charity (including disaster relief)	232	190	20
Others (including environment/safety and accident prevention)	13	19	48
Total	737	796	687
Recurring profit for the fiscal year	49,136	63,627	39,328
Expenditure as a proportion of recurring profit	1.50%	1.25%	1.75%

Notes

1. Figures include donations, sponsorship contributions, goods and material supply, the cost of operations commissioned from external organizations, and the personnel cost of staff posted to external organizations (the portion covered by KHI), etc.

2. Figures exclude the personnel cost related to KHI employees and costs related to the use of corporate facilities. Consolidated subsidiaries are included.



Measures during the Medium-term Business Plan 2013 (FY2014–2016)

Target profile	Measures
Clearly define Group-wide social contribution vision, basic policy, and key areas and implement activities	Clarify vision, basic policy, key areas, and role of individual organizations
Encourage self-planned and self-sponsored social contribution initiatives	Build internal systems, strengthen activities, identify society's expectations of KHI and reflect these in activities

Topic Make Your Own Helicopter!

Handicraft workshops given at Minamisanriku Town and Rikuzentakata City

We wanted to use our social contribution activities to allow large numbers of children to experience the wonder of technology and the importance of manufacturing. We therefore developed and are holding a handicraft workshop program for elementary schoolchildren based on the technology used in the helicopters we manufacture. Since the program (Make Your Own Helicopter!) was launched in fiscal 2012, workshops have been held in three areas, Osaka, Miyagi, and Iwate prefectures, and approximately 140 children have taken part.

In fiscal 2013, with the twin aims of helping to nurture the next generation and assisting recovery in the earthquake-stricken Tohoku region, workshops were held for 77 children and their parents at three elementary schools in Miyagi and Iwate prefectures over two days, from October 26 to 27, 2012.

The educational helicopter is an original model developed in house for use in the handicraft workshop. With KHI employees acting as coaches, the children assemble the helicopter fuselage and rotor from balsa wood, while measuring the lift force of the rotor, experimenting with technologies to stop the fuselage from rotating, and tackling other issues in a program that allows them to experience the elements of learning, manufacturing and enjoyment, all at the same time. With the help of advice from the coaches, the children became so engrossed that they forgot to go out and play during break.

Going forward, the KHI Group will continue to work with local communities to explore ways of making social contributions through its business operations.



The children became so engrossed that they forgot to go and play during break!



Handcrafted helicopter

What the children said (77 responses)

	Agree	Agree a little	Do not agree very much	Do not agree
The lesson with the coach was interesting.	72	5	0	0
It was fun talking with our group's coach.	63	13	1	0
After the lesson, I felt like trying to make something myself.	55	15	6	1
I would like the coach to come to our school again and teach us more.	72	5	0	0

What the parents said (22 responses)

	Agree	Agree a little	Do not agree very much	Do not agree
The lesson with the coach was interesting.	20	2	0	0
I would like my child to take part again in a similar handicraft workshop.	21	1	0	0

KHI Wins a Prize at the CSR Initiative Award in Education 2012 in the Teaching Material Development Category

On December 22, 2012, this program was awarded a prize in the teaching material development category at the CSR Initiative Award in Education 2012, organized by Leave a Nest Co., Ltd. For details, please follow the link below to the website.

<http://www.kyouikuouen.com/award2012/>



Award ceremony



Presentation



For more detailed coverage, please see the full report.

http://www.khi.co.jp/english/csr/report/2013/index_full.html

The KHI Group's Second Dialogue with Experts

Toward Achieving Kawasaki Business Vision 2020



On December 20, 2012, we invited specialists in a number of aspects of CSR to the KHI Tokyo Head Office for our second Dialogue with Experts. This took the form of an exchange of opinions, including those from KHI staff, on how to achieve Kawasaki Business Vision 2020, as well as how to promote CSR as we approach the formulation of a new medium-term business plan to start from fiscal 2014.

Event Summary

Date
December 20, 2012

Place
KHI Tokyo Head Office

Outside Participants
Itaru Yasui Professor Emeritus, The University of Tokyo; former Vice-Rector, United Nations University
Toshihiko Fujii Visiting Professor, Saitama University, Graduate School of Economic Science
Hitoshi Suzuki President, Institute for International Socio-Economic Studies
Executive Specialist, CSR and Environmental Management Promotion Division, NEC Corporation
Takehiko Mizukami Consultant, Cre-en Inc. (Facilitator)

KHI Participants
Mitsutoshi Takao Senior Executive Vice President
Yoshizumi Hashimoto General Manager, CSR Division
Executive Officer
Takashi Shimakawa Deputy General Manager, Marketing Division
Senior Associate Officer
Takamasa Ogata Senior Manager, Environmental Affairs Department
Associate Officer
Kazutoshi Honkawa Senior Manager, Corporate Planning Department
Associate Officer
Yutaka Fukuda Senior Manager, CSR Department

Note: Official titles are correct as at the time of the dialogue.

Outline of the Dialogue

This year's dialogue focused on how to reflect the issues and demands of society in our corporate operations going forward, and how to make them relevant in achieving our Business Vision and formulating our medium-term business plan. Opinions were also offered on the issues that need to be tackled in the course of our global business expansion, which will intensify in the years ahead.

Facilitator's Comment

Staying with our mission to create both social value and corporate value

As we approach the year 2020, innovation and globalization are indispensable. Creating innovation requires risk-taking, but the pivotal point of our decision-making in this area is our mission. Moreover, in terms of business expansion in the emerging nations that are at the heart of globalization, we need to retain a focus on developing hand in hand with society. Putting our mission into practice by increasing points of contact with society, listening to voices in society, and combining creation of social value with corporate value: this is where the future lies for KHI.



Takehiko Mizukami
Consultant Cre-en Inc.

Extracts from Our Experts' Opinions

- **All divisions must adapt to achieve the Group's Mission**
- **Recognizing the difference in thinking between Japan and overseas**

The KHI Group's Mission is all about CSR. To achieve it would be the most wonderful thing imaginable. The issue going forward is how individual divisions should adapt to the Mission Statement. One problem is that the Mission Statement speaks of "enriching lifestyles," which might be difficult to understand. Enrichment includes both material and financial aspects, but I don't think that's the whole story.

If we view the earth as a kind of system, we need to look ahead constantly to see what courses are open to us. By taking the worldwide lead, I think we can achieve integrated CSR. To do this, an essential precondition is to devise criteria on the amount of risk we can take and the purposes of taking such risk, and this needs to be set out clearly in terms of corporate policy.



Itaru Yasui
Professor Emeritus,
The University of Tokyo;
former Vice-Rector,
United Nations University

- **Looking beyond customers to citizens and the society of the future**

Looked at from a corporate standpoint, CSR means activity to improve management quality that involves stakeholders and leads to sustainable development. By engaging with stakeholders, we need to identify what society wants and expects from us, add inputs from the perspective of management strategy, and then choose the priority themes of CSR.

When we seek to grow businesses that lead to sustainability, it is important to look beyond our immediate customers to the citizens, global environment and society of the future. I would like to see KHI contributing to society by interacting with citizens and consumers and presenting solutions based on the need to resolve social issues. Although globalization creates new blind spots in terms of risk, my experience with practical operations tells me that these can be identified quickly through engagement with stakeholders.



Hitoshi Suzuki
President, Institute for International Socio-Economic Studies
Executive Specialist, CSR and Environmental Management
Promotion Division, NEC Corporation

CSR as we think of it in Japan sometimes differs from the idea of CSR that people have overseas. It is not a question of asking who is right and who is wrong, but we need to recognize that there are differences. In Europe, at the root of CSR is the idea that firms should change the way they do business to resolve social issues. For instance, to take the example of human rights, the idea is not to engage in businesses that help to advance human rights, but to change the business process to eliminate practices that infringe on human rights.

In Japan, contributing through business activities is recognized as CSR. In global operations, we must win the sympathies of people from a rich diversity of backgrounds, and CSR is a valuable tool in this regard. I would like KHI to think about what it can do to help these people understand that our company is a really good company.



Toshihiko Fujii
Visiting Professor
Saitama University
Graduate School of Economic Science

Taking on board expert opinion

Yoshizumi Hashimoto

General Manager, CSR Division

I think that what is required of the KHI Group is, through its business operations, to continuously present accurate solutions that answer the demands and expectations of society. The Group Mission advocates two goals, "Enriching lifestyles" and "helping safeguard the environment," that are sometimes in conflict, but I want us to work to fulfill them both. We are committed to continuing to pursue this mission until and beyond the year 2020.

In today's dialogue, we have heard numerous suggestions on how to move forward our management operations and our business itself. In addition, because CSR is reflected in business execution through risk management and other aspects, I realize now that divisions other than those with direct responsibility for CSR need to consider it from the same perspective.



Management's Discussion & Analysis

OVERVIEW

In fiscal 2013, ended March 31, 2013, the world economy as a whole managed only a modest rate of expansion, due to the slowdown in China's economic development and a general deceleration in the growth of emerging economies that had been driving the world economy in past years. In terms of the outlook, despite the unstable economic situation in Europe due to the sovereign debt crisis, expectations of a recovery trend in the U.S. manufacturing industry and solid underlying infrastructural demand in emerging markets point to a continuation of modest growth.

In Japan, recovery progressed in the wake of the Great East Japan Earthquake, but fears over a downturn in the world economy contributed to an overall lack of stability. Looking ahead, hopes of economic growth have been supported by fiscal and monetary policies aimed at ending deflation and spurring sustained economic growth and by the current trend to reverse the yen's appreciation, but it is likely to take some time before these factors are reflected in the real economy.

In this operating environment, the KHI Group enjoyed an overall increase in the value of orders received in fiscal 2013, with increases in the Ship & Offshore Structure, Rolling Stock, and other segments counterbalancing decreases in segments such as Precision Machinery. Overall, net sales were roughly on a par with those of the previous fiscal year due to increases in the Aerospace and other segments, despite a decline in the Precision Machinery segment caused by the economic slowdown in China and a drop in the Ship & Offshore Structure segments. Overall, operating income decreased, reflecting lower profitability in the Precision Machinery and Plant & Infrastructure segments, despite improvement in the Aerospace and Motorcycle & Engine segments, where net sales increased.

Consequently, on a consolidated basis, orders received by the KHI Group increased ¥57.7 billion from the previous fiscal year, to ¥1,369.5 billion. Furthermore, net sales decreased ¥14.8 billion, to ¥1,288.8 billion, operating income fell ¥15.4 billion, to ¥42.0 billion, and recurring profit declined ¥24.2 billion, to ¥39.3 billion. Nevertheless, due to a boost in extraordinary income and reduced tax expenses, net income grew ¥7.5 billion year on year, to ¥30.8 billion.

RESULTS OF OPERATIONS

Net Sales

As noted, consolidated net sales, at ¥1,288.8 billion, showed little change from the previous fiscal year. Overseas sales totaled ¥672.6 billion. By region, sales in the United States were ¥272.5 billion, sales in Europe accounted for ¥97.5 billion, sales in Asia outside Japan contributed ¥202.7 billion, and sales in other areas added ¥99.8 billion. The ratio of overseas sales to consolidated net sales fell 4.4 percentage points, to 52.1%, compared to 56.5% in the previous fiscal year.

The following sections supply additional details on the consolidated performance of each business segment. Please note that operating income or loss includes intersegment transactions.

Ship & Offshore Structure

Thanks to orders received for one submarine and five other vessels including LNG carriers, the consolidated value of orders received a major boost, rising ¥65.8 billion from the previous fiscal year, to ¥105.7 billion.

An increase in the construction of LNG and LPG carriers and others was balanced by a decrease in the construction of cape-size bulk carriers and other vessels, resulting in a drop of ¥23.1 billion in net sales from the previous fiscal year, to ¥90.3 billion.

Despite the drop in net sales, operating income, supported notably by cost reductions and the effects of yen depreciation, totaled ¥4.1 billion, on a par with the previous fiscal year.

Rolling Stock

The consolidated value of orders received increased ¥58.3 billion year on year, to ¥124.4 billion, mainly reflecting orders received for rolling stock, notably for Taiwan's high-speed rail cars and Singapore's subway cars.

Domestic net sales expanded on the back of increased sales to the Japan Railways companies, but a shrinkage in overseas net sales contributed to an overall lack of movement in net sales, which approximated the previous fiscal year's total at ¥129.9 billion.

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

Aerospace

Growth was recorded in orders received for component parts for the Boeing 777 and 787. However, the consolidated value of orders declined ¥43.7 billion, to ¥283.4 billion, decreasing in comparison with the previous fiscal year, when large-scale contracts had been received from Japan's Ministry of Defense.

Growth in Ministry of Defense projects such as the C-2 transport aircraft and the increased sales of Boeing 777 and 787 component parts helped to boost consolidated net sales, which rose ¥32.5 billion from the previous fiscal year, to ¥239.1 billion.

Operating income posted substantial growth of ¥7.0 billion year on year, to ¥14.8 billion, due to stronger net sales, cost reductions, and other factors.

Gas Turbine & Machinery

Led by increased orders of component parts for commercial aircraft jet engines, the consolidated value of orders rose ¥28.2 billion from the previous fiscal year, to ¥255.5 billion.

Reduced sales of marine diesel engines and related sectors were counterbalanced by growth in areas including component parts for commercial aircraft jet engines and gas engines. As a result, net sales

grew ¥12.3 billion year on year, to ¥207.0 billion. Operating income dropped ¥0.7 billion to ¥7.0 billion, due mainly to allocation of non-recurring cost for new projects.

Plant & Infrastructure

Positive factors included orders received for cryogenic tanks for the Ichthys LNG project. Nevertheless, reflecting reductions in domestic LNG storage tank projects, material handling systems, and other areas, the consolidated value of orders fell ¥5.6 billion, to ¥113.6 billion.

Net sales were supported by the continuing high level of LNG storage tank projects as well as by increases in material handling systems, municipal refuse incineration plants, and other areas. However, due to decreases in major projects for overseas clients, consolidated net sales shrank ¥6.9 billion year on year, to ¥115.8 billion. Due to the fall in net sales and the narrowed profit margin, operating income fell ¥4.3 billion year on year, to ¥9.7 billion.

Motorcycle & Engine

Motorcycle sales to Europe decreased, but higher sales to the United States and emerging markets, especially Indonesia, helped to boost consolidated net sales ¥16.6 billion year on year, to ¥251.8 billion.

Compared to the operating loss of the prior year, growth in net sales and improved profitability factored a net improvement of ¥5.3 billion in operating income to ¥2.3 billion.

Precision Machinery

Consolidated orders received totaled ¥109.7 billion, a steep ¥64.8 billion year-on-year decline mainly due to reduced demand for hydraulic equipment for construction machinery in emerging market economies, most notably China.

This downshift in emerging market, particularly Chinese, demand for hydraulic equipment for construction machinery resulted in a large decrease in sales also. Consolidated net sales were down ¥44.6 billion year on year, to ¥130.4 billion. Consolidated operating income totaled ¥8.4 billion, a steep decline of ¥18.1 billion year on year, largely due to the decline in sales and increase in fixed

expenses stemming from capital investments in the previous fiscal year.

Other

Net sales in this segment were up ¥1.0 billion, to ¥124.2 billion.
Operating income decreased ¥2.5 billion, to ¥1.2 billion.

Cost, Expenses, and Earnings

Cost of sales decreased ¥3.4 billion from the previous fiscal year, to ¥1,085.4 billion. As a result, gross profit declined ¥11.4 billion, to ¥203.4 billion, while the gross profit margin edged down 0.7 percentage point, to 15.7%, from 16.4% in the previous fiscal year.
Selling, general and administrative expenses grew ¥3.9 billion, to ¥161.3 billion, primarily because of higher R&D expenses. Operating income fell ¥15.4 billion, to ¥42.0 billion. The fall in operating income, which occurred despite sales growth and improved profitability in the Aerospace and Motorcycle & Engine segments, was due to reduced profitability in the Precision Machinery segment caused by a major drop in income from hydraulic equipment for the construction machinery market in emerging markets, especially China. The ratio of operating income to net sales slipped 1.2 percentage points, to 3.2%, from 4.4% in the previous fiscal year. Other income (expenses) showed net income of ¥4.0 billion, compared with net expenses of ¥8.7 billion in the previous fiscal year. The principal reason for this was “other expenses, net,” which leveled off at ¥1.9 billion, compared with ¥15.3 billion in the previous fiscal year. The main component of this change was a ¥14.5 billion decrease in impairment losses.

Although extraordinary income increased from the previous fiscal year, there were balancing year-on-year decreases in operating income and recurring profit. As a result, income before income taxes and minority interests fell ¥2.5 billion from the previous fiscal year, to ¥46.1 billion. After deduction of minority interests, net income increased ¥7.5 billion from the previous fiscal year, to ¥30.8 billion. This rise was due to a change in the tax system, causing a partial reversal of deferred tax assets

that had been recorded during the previous fiscal year, to be absent during the fiscal year under review. The ratio of net income to net sales edged up 0.6 percentage point, to 2.3%, from 1.7% in the previous fiscal year. ROE (calculated using average total shareholders’ equity) edged up 1.7 percentage points, to 9.5%, from 7.8% a year ago. Capital expenditures in fiscal 2013 came to ¥78.6 billion, up from ¥63.9 billion in the previous fiscal year. R&D expenses were ¥41.7 billion, up from ¥39.9 billion a year ago.

FINANCIAL CONDITION

Current assets grew 5.1% from the previous fiscal year, to ¥1,016.8 billion. This expansion reflected chiefly an increase in trade receivables related to the booking of net sales, and a rise in inventories associated with work in progress. Fixed assets meanwhile rose 13.8% from the previous fiscal year, to ¥449.4 billion, due mainly to growth in tangible fixed assets arising from capital investment and from equity investment in Dalian Cosco KHI Ship Engineering Co., Ltd. (DACKS). As a result, total assets rose 7.6% from the previous fiscal year, to ¥1,466.2 billion. Total liabilities benefited from decreases in trade payables, retirement and severance benefits, and provision for losses on construction contracts. However, chiefly because of a 19.0% year-on-year rise in interest-bearing debt to ¥484.6 billion, the balance of total liabilities rose 6.7%, to ¥1,116.4 billion. Net assets grew 10.7%, to ¥349.8 billion, reflecting items such as payment of dividends and booking of net income. The ratio of shareholders’ equity to total assets expanded 0.6 percentage point, to 23.0%, from 22.4% at the end of the previous fiscal year. In addition, the net debt-to-equity ratio increased by 10.1 percentage points, from 121.8% to 131.9%.

CASH FLOWS

Net cash provided by operating activities in fiscal 2013 amounted to ¥28.1 billion, a net decrease of ¥56.6 billion from fiscal 2012. Principal inflows were ¥48.3 billion in depreciation and amortization and a ¥10.6 billion decrease in trade receivables, while the principal outflows consisted of a ¥41.1 billion

decrease in trade payables and ¥15.7 billion in income tax payments. Net cash used in investing activities amounted to ¥81.1 billion in fiscal 2013, up ¥15.2 billion from fiscal 2012. The cash was applied primarily toward the acquisition of property, plant and equipment. Free cash flow, which is the net amount of cash from operating and investing activities, showed a net outflow of ¥53.0 billion in fiscal 2013, against a net inflow of ¥18.7 billion in fiscal 2012. Net cash provided by financing activities amounted to ¥57.6 billion in fiscal 2013. This was due mainly to an increase in borrowing. Given these changes in cash flows, cash and cash equivalents at the end of the term totaled ¥36.9 billion, up ¥3.7 billion from a year earlier.

**MANAGEMENT OF LIQUIDITY RISK
(RISK OF The COMPANY’S DEFAULT)**

The Company manages liquidity risk through the timely preparation and updating of financial plans by the Finance Department, based on information from each business segment. Managing liquidity risk includes diversifying methods of financing, adjusting financial periods of long- and short-term debt based on the prevailing financing environment, and securing commitment lines (maximum financing amount of ¥54.0 billion) and issuing commercial paper (maximum issuing amount of ¥120.0 billion).

MANAGEMENT INDICATOR

Seeking a level of profitability that meets the expectations of investors, the Company has adopted before-tax return on invested capital (ROIC), a management indicator that measures how efficiently the Company uses its capital. To strengthen its financial position while striving to maximize ROIC, the Company will emphasize enhanced efficiency of invested capital. The Company uses the following formula to calculate ROIC.
Before-tax ROIC: The ratio of earnings before interest and taxes (EBIT) to the sum of interest-bearing debt and total shareholders’ equity. ROIC calculated using this formula edged down 1.3 percentage points, from 7.4% in fiscal 2012 to 6.1% in fiscal 2013.

DIVIDENDS

The Company’s basic dividend policy is to sustain stable cash dividends in line with performance, while giving careful consideration to retained earnings to strengthen and expand the KHI Group’s business base in preparation for future growth. The Company’s basic policy regarding cash dividends from retained earnings is to pay dividends twice annually—an interim dividend and a year-end dividend. The decision-making structures with the final say on dividends are the Board of Directors for the interim dividend and the General Meeting of Shareholders for the year-end dividend. Upon consideration of business performance, the level of retained earnings and other factors, with these policies in mind, it was decided to pay an annual dividend of ¥5 per share (an interim dividend of ¥0 and a year-end dividend of ¥5) for fiscal 2013. Retained earnings after the dividend payout will be appropriated for investments in the Company’s businesses, the repayment of borrowings and other uses. Please note that the Company’s Articles of Incorporation provides for the distribution of an interim dividend as stipulated in Article 454, Paragraph 5, of Japan’s Companies Act.

Consolidated Balance Sheets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
At March 31, 2013 and 2012

	Millions of yen		Thousands of U.S dollars(Note1)
	2013	2012	2013
ASSETS			
Current assets:			
Cash on hand and in banks (Note 19)	¥38,525	¥34,316	\$409,884
Receivables:			
Trade (Note 8)	432,649	404,054	4,603,138
Other	16,464	15,680	175,167
Allowance for doubtful receivables	(2,785)	(3,255)	(29,630)
	446,328	416,479	4,748,675
Inventories:			
Merchandise and finished products	61,446	53,558	653,750
Work in process	311,108	300,226	3,310,013
Raw materials and supplies	87,551	88,113	931,492
	460,105	441,897	4,895,255
Deferred tax assets (Note 18)	37,648	33,007	400,553
Other current assets	34,208	41,487	363,954
Total current assets	1,016,814	967,186	10,818,321
Property, plant and equipment (Note 8):			
Land	62,318	61,942	663,027
Buildings and structures	344,813	327,877	3,668,613
Machinery and equipment	576,753	537,959	6,136,325
Construction in progress	19,198	11,782	204,255
	1,003,082	939,560	10,672,220
Accumulated depreciation	(697,289)	(664,810)	(7,418,757)
Net property, plant and equipment	305,793	274,750	3,253,463
Investments and intangible and other assets:			
Investments in securities (Notes 6, 7 and 8)	75,143	53,257	799,478
Long-term loans	409	432	4,351
Deferred tax assets (Note 18)	36,428	37,614	387,573
Goodwill and other intangible assets	19,446	18,786	206,894
Allowance for doubtful receivables	(936)	(940)	(9,958)
Other (Note 8)	13,193	11,054	140,367
Total investments and intangible and other assets	143,683	120,203	1,528,705
Total assets	¥1,466,290	¥1,362,139	\$15,600,489

	Millions of yen		Thousands of U.S dollars(Note1)
	2013	2012	2013
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt and current portion of long-term debt (Note 8)	¥229,857	¥147,924	\$2,445,547
Trade payables (Note 8)	281,063	310,775	2,990,350
Advances from customers	108,214	99,051	1,151,335
Income taxes payable (Note 18)	3,756	4,627	39,961
Accrued bonuses	20,060	20,582	213,426
Provision for product warranties	6,148	7,128	65,411
Provision for losses on construction contracts (Note 9)	18,719	30,977	199,159
Deferred tax liabilities (Note 18)	1,793	1,465	19,076
Asset retirement obligations	133	150	1,415
Other current liabilities	112,797	73,324	1,200,099
Total current liabilities	782,540	696,003	8,325,779
Long-term liabilities:			
Long-term debt, less current portion (Note 8)	254,796	259,243	2,710,884
Employees' retirement and severance benefits (Note 10)	62,300	75,052	662,836
Deferred tax liabilities (Note 18)	5,511	4,060	58,633
Provision for losses on legal proceedings	569	910	48,005
Provision for environmental measures	4,512	3,282	6,053
Asset retirement obligations	551	611	5,862
Other	5,630	7,056	59,903
Total long-term liabilities	333,869	350,214	3,552,176
Contingent liabilities (Note 11)			
Net assets (Note 12):			
Shareholders' equity:			
Common stock:			
Authorized - 3,360,000,000 shares			
Issued - 1,671,892,659 shares in 2013			
- 1,671,892,659 shares in 2012	104,484	104,484	1,111,650
Capital surplus	54,394	54,394	578,721
Retained earnings	198,528	176,414	2,112,224
Treasury stock - 100,116 shares in 2013			
- 77,126 shares in 2012	(27)	(22)	(287)
Total shareholders' equity	357,379	335,270	3,802,308
Accumulated other comprehensive income:			
Net unrealized gains on securities, net of tax	4,524	3,989	48,133
Deferred gains (losses) on hedges	(5,998)	246	(63,815)
Foreign currency translation adjustments	(17,665)	(33,451)	(187,945)
Total accumulated other comprehensive income	(19,139)	(29,216)	(203,627)
Minority interests	11,641	9,868	123,853
Total net assets	349,881	315,922	3,722,534
Total liabilities and net assets	¥1,466,290	¥1,362,139	\$15,600,489

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Income and Comprehensive Income

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2013, 2012 and 2011

Consolidated Statements of Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
Net sales	¥1,288,881	¥1,303,778	¥1,226,949	\$13,712,958
Cost of sales (Note 13)	1,085,469	1,088,918	1,037,079	11,548,771
Gross profit	203,412	214,860	189,870	2,164,187
Selling, general and administrative expenses (Note 14)	161,350	157,376	147,242	1,716,672
Operating income	42,062	57,484	42,628	447,515
Other income (expenses):				
Interest and dividend income	1,641	2,331	2,306	17,459
Equity in income of nonconsolidated subsidiaries and affiliates	8,530	8,567	9,205	90,754
Interest expense	(4,151)	(4,282)	(4,677)	(44,164)
Other expenses, net (Note 15)	(1,930)	(15,394)	(10,867)	(20,534)
Income before income taxes and minority interests	46,152	48,706	38,595	491,030
Income taxes (Note 18)				
Current	(10,591)	(9,932)	(14,340)	(112,682)
Deferred	(2,550)	(12,899)	3,503	(27,130)
Income before minority interests	33,011	25,875	27,758	351,218
Minority interests in net income of consolidated subsidiaries	(2,147)	(2,552)	(1,793)	(22,843)
Net income	¥30,864	¥23,323	¥25,965	\$328,375

Consolidated Statements of Comprehensive Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
Income before minority interests	¥33,011	¥25,875	¥27,758	\$351,218
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities	541	106	(1,437)	5,755
Deferred gains (losses) on hedges	(6,381)	1,281	(480)	(67,890)
Foreign currency translation adjustments	11,713	(2,924)	(5,422)	124,620
Share of other comprehensive income of associates accounted for using equity method	5,155	231	(2,167)	54,846
Total other comprehensive income (loss)	11,028	(1,306)	(9,506)	117,331
Comprehensive income	44,039	24,569	18,252	468,549
Comprehensive income attributable to:				
Owners of the parent company	40,940	22,228	16,506	435,578
Minority interests	3,099	2,341	1,746	32,971
	Yen			U.S. dollars (Note 1)
Per share amounts (Note 20)				
Net income per share - basic	¥18.4	¥13.9	¥15.5	\$0.19
Net income per share - diluted	-	13.8	15.3	-
Cash dividends	5.0	5.0	3.0	0.05

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2013, 2012 and 2011

	Thousands	Shareholders' equity					Millions of yen					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Accumulated other comprehensive income					
							Net unrealized gains (losses) on securities, net of tax	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at March 31, 2010	1,669,629	¥104,329	¥54,275	¥137,689	¥(552)	¥295,741	¥5,305	¥(162)	¥(23,803)	¥(18,660)	¥5,972	¥283,053
Net income for the year	-	-	-	25,965	-	25,965	-	-	-	-	-	25,965
Adjustments from translation of foreign currency financial tatements	-	-	-	-	-	-	-	-	(7,203)	(7,203)	-	(7,203)
Decrease in net unrealized gains on securities, net of tax	-	-	-	-	-	-	(1,429)	-	-	(1,429)	-	(1,429)
Treasury stock purchased, net	-	-	-	-	(15)	(15)	-	-	-	-	-	(15)
Cash dividends	-	-	-	(5,003)	-	(5,003)	-	-	-	-	-	(5,003)
Loss on sales of treasury stock	-	-	(0)	-	1	1	-	-	-	-	-	1
Conversion of convertible bonds	1,017	11	(24)	(17)	536	506	-	-	-	-	-	506
Decrease resulting from increase in equity method affiliate	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	(19)	-	(19)	-	(828)	-	(828)	2,405	1,558
Balance at March 31, 2011	1,670,646	¥104,340	¥54,251	¥158,615	¥(30)	¥317,176	¥3,876	¥(990)	¥(31,006)	¥(28,120)	¥8,377	¥297,433
Net income for the year	-	-	-	23,323	-	23,323	-	-	-	-	-	23,323
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	(2,445)	(2,445)	-	(2,445)
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	113	-	-	113	-	113
Treasury stock purchased, net	-	-	-	-	(6)	(6)	-	-	-	-	-	(6)
Cash dividends	-	-	-	(5,011)	-	(5,011)	-	-	-	-	-	(5,011)
Loss on sales of treasury stock	-	-	(0)	(3)	1	(2)	-	-	-	-	-	(2)
Conversion of convertible bonds	1,246	144	143	-	13	300	-	-	-	-	-	300
Increase (decrease) due to changes in fiscal period of consolidated subsidiaries	-	-	-	(510)	-	(510)	-	-	-	-	-	(510)
Decrease resulting from increase in equity method affiliate	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	1,236	-	1,236	1,491	2,727
Balance at March 31, 2012	1,671,892	¥104,484	¥54,394	¥176,414	¥(22)	¥335,270	¥3,989	¥246	¥(33,451)	¥(29,216)	¥9,868	¥315,922
Net income for the year	-	-	-	30,864	-	30,864	-	-	-	-	-	30,864
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	15,786	15,786	-	15,786
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	535	-	-	535	-	535
Treasury stock purchased, net	-	-	-	-	(5)	(5)	-	-	-	-	-	(5)
Cash dividends	-	-	-	(8,359)	-	(8,359)	-	-	-	-	-	(8,359)
Loss on sales of treasury stock	-	-	-	(1)	0	(1)	-	-	-	-	-	(1)
Conversion of convertible bonds	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary	-	-	-	(205)	-	(205)	-	-	-	-	-	(205)
Decrease resulting from increase in equity method affiliate	-	-	-	(185)	-	(185)	-	-	-	-	-	(185)
Other	-	-	-	-	-	-	-	(6,244)	-	(6,244)	1,773	(4,471)
Balance at March 31, 2013	1,671,892	¥104,484	¥54,394	¥198,528	¥(27)	¥357,379	¥4,524	¥(5,998)	¥(17,665)	¥(19,139)	¥11,641	¥349,881
		(Thousands of U.S. dollars) (Note 1)										
Balance at March 31, 2012		\$1,111,650	\$578,721	\$1,876,944	\$(234)	\$3,567,081	\$42,440	\$2,617	\$(355,899)	\$(310,842)	\$104,989	\$3,361,228
Net income for the year		-	-	328,375	-	328,375	-	-	-	-	-	328,375
Adjustments from translation of foreign currency financial statements		-	-	-	-	-	-	-	167,954	167,954	-	167,954
Increase in net unrealized gains on securities, net of tax		-	-	-	-	-	5,693	-	-	5,693	-	5,693
Treasury stock purchased, net		-	-	-	(53)	(53)	-	-	-	-	-	(53)
Cash dividends		-	-	(88,936)	-	(88,936)	-	-	-	-	-	(88,936)
Loss on sales of treasury stock		-	-	(10)	0	(10)	-	-	-	-	-	(10)
Conversion of convertible bonds		-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) due to changes in fiscal period of consolidated subsidiaries		-	-	(2,181)	-	(2,181)	-	-	-	-	-	(2,181)
Decrease resulting from increase in equity method affiliate		-	-	(1,968)	-	(1,968)	-	-	-	-	-	(1,968)
Other		-	-	-	-	-	-	(66,432)	-	(66,432)	18,864	(47,568)
Balance at March 31, 2013		\$1,111,650	\$578,721	\$2,112,224	\$(287)	\$3,802,308	\$48,133	\$(63,815)	\$(187,945)	\$(203,627)	\$123,853	\$3,722,534

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
Cash flows from operating activities:				
Income before income taxes and minority interests	¥46,152	¥48,706	¥38,595	\$491,031
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by (used for) operating activities:				
Depreciation and amortization	48,385	48,901	50,276	514,788
Loss on impairment of fixed assets	363	14,921	9,923	3,862
Increase (decrease) in employees' retirement and severance benefits	(10,970)	(5,257)	(8,159)	(116,714)
Increase (decrease) in accrued bonuses	(521)	4,885	1,489	(5,543)
Increase (decrease) in allowance for doubtful receivables	(653)	449	514	(6,947)
Increase (decrease) in provision for product warranties	(1,195)	(750)	794	(12,714)
Increase (decrease) in provision for losses on construction contracts	(12,617)	(2,016)	15,349	(134,237)
Increase (decrease) in provision for restructuring charges	-	(1,077)	(5,249)	-
Increase (decrease) in provision for losses on legal proceedings	(340)	(4,957)	(837)	(3,617)
Increase (decrease) in provision for environmental measures	1,261	(545)	(658)	13,416
Loss (gain) on disposal of inventories	1,711	(70)	1,336	18,204
Gain on sales of marketable securities and investments in securities	(1,424)	(591)	(0)	(15,150)
Loss on valuation of securities	55	918	1,577	585
Loss on sales of property, plant, and equipment	1,032	1,177	552	10,979
Equity in income of nonconsolidated subsidiaries and affiliates	(8,530)	(8,567)	(9,205)	(90,754)
Interest and dividend income	(1,641)	(2,331)	(2,306)	(17,459)
Interest expense	4,151	4,282	4,677	44,164
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	10,601	(942)	14,910	112,788
Inventories	(10,711)	(18,705)	(17,775)	(113,958)
Other current assets	8,073	(2,139)	8,590	85,892
Increase (decrease) in:				
Trade payables	(41,150)	(7,332)	25,114	(437,812)
Advances from customers	5,670	18,973	(15,552)	60,325
Other current liabilities	4,015	8,708	(17,156)	42,717
Other, net	(2,333)	4,134	1,897	(24,823)
Subtotal	39,384	100,775	98,696	419,023
Cash received for interest and dividends	8,668	6,656	6,407	92,222
Cash paid for interest	(4,194)	(4,455)	(4,762)	(44,621)
Cash paid for income taxes	(15,757)	(18,239)	(13,245)	(167,646)
Payment of levies	-	-	(5,167)	-
Net cash provided by (used for) operating activities	¥28,101	¥84,737	¥81,929	298,978

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
Cash flows from investing activities:				
Decrease (increase) in time deposits with maturities over three months	(310)	1,446	(2,138)	(3,298)
Acquisition of property, plant and equipment	(65,517)	(61,126)	(47,408)	(697,063)
Proceeds from sales of property, plant and equipment	348	535	616	3,702
Acquisition of intangible assets	(4,898)	(4,921)	(4,886)	(52,111)
Proceeds from sales of intangible assets	33	16	37	351
Acquisition of investments in securities	(571)	(47)	(350)	(6,075)
Proceeds from sales of investments in securities	2,899	663	12	30,843
Acquisition of investments in subsidiaries or affiliates	(12,339)	(1,761)	-	(131,279)
Decrease (increase) in short-term loans	(11)	(11)	287	(117)
Additions to long-term loans	(44)	(70)	(40)	(468)
Proceeds from collection of long-term loans	101	89	102	1,074
Decrease (increase) in lease and guarantee deposits	(1,152)	-	-	(12,256)
Other	301	(772)	826	3,201
Net cash provided by (used for) investing activities	(81,160)	(65,959)	(52,942)	(863,496)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	42,129	(569)	(53,670)	448,228
Proceeds from long-term debt	64,327	39,963	44,000	684,402
Repayment of long-term debt	(38,837)	(59,887)	(4,836)	(413,203)
Acquisition of treasury stock	(4)	(8)	(14)	(42)
Proceeds from stock issuance to minority shareholders	217	-	1,209	2,308
Cash dividends paid	(8,351)	(5,014)	(5,000)	(88,849)
Cash dividends paid to minority shareholders	(1,326)	(1,070)	(476)	(14,107)
Other	(484)	(246)	(75)	(5,151)
Net cash provided by (used for) financing activities	57,671	(26,831)	(18,862)	613,586
Effect of exchange rate changes	(886)	(1,823)	367	(9,426)
Net increase (decrease) in cash and cash equivalents	3,726	(9,876)	10,492	39,642
Cash and cash equivalents at beginning of year	33,245	44,629	34,137	353,708
Decrease in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries	-	(1,508)	-	-
Cash and cash equivalents at end of year	¥36,971	¥33,245	¥44,629	\$393,350
Supplemental information on cash flows:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheets	¥38,525	¥34,316	¥47,233	\$409,884
Time deposits with maturities over three months	(1,554)	(1,071)	(2,604)	(16,534)
Total (Note 19)	¥36,971	¥33,245	¥44,629	\$393,350

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Notes to the Consolidated Financial Statements

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of presenting consolidated financial statements

Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting and disclosure records in Japanese yen. The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (Japanese GAAP), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of changes in net assets from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2013, which was ¥93.99 to U.S. \$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control (together, the "Companies"). The consolidated financial statements include the accounts of the Company and 95 subsidiaries (97 in the years ended March 31, 2012 and 96 in 2011). The aggregate amount of total assets, net sales, net income and retained earnings of the excluded subsidiaries would not have had a material effect on the consolidated financial statements if they had been included in the consolidation.

(b) Application of the equity method of accounting

Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. For the year ended March 31, 2013, 17 affiliates (14 in 2012 and 14 in 2011) were accounted for by the equity method. For the year ended March 31, 2013, investments in 13 affiliates (14 in 2012 and 14 in 2011) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end

The fiscal year-end of 30 consolidated subsidiaries (30 in 2012 and 33 in 2011) is December 31. These subsidiaries are consolidated as of December 31, and significant transactions for the period between December 31 and March 31, the Company's fiscal year-end, are adjusted for on consolidation. One consolidated subsidiary has a fiscal year-end of June 30. For the purpose of preparing the consolidated financial statements, that subsidiary conducts a provisional settlement of accounts on March 31.

(d) Elimination of intercompany transactions and accounts

All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation, and the portion attributable to minority interests is credited to minority interests. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

(e) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates. The balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, except for shareholders' equity accounts, which are translated at historical rates. The income statements of consolidated overseas subsidiaries are translated at average rates. The Company and its domestic subsidiaries report foreign currency translation adjustments in net assets.

(f) Revenue recognition

<Sales of products and construction contracts>

The percentage-of-completion method is applied to construction contracts if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the completed-contract method is applied.

<Service revenues>

Service revenues are recognized when the services are rendered. Services include supervisory and installation services for products such as rail cars, machinery and plants. When the prices of such services are individually determined by the contract and the collectability of the revenue is reasonably assured, the service revenue is recognized on an accrual basis. Otherwise, the service revenue is recognized on a completion basis.

Sales and cost of sales in finance leases transactions are mainly recognized when the Company receives the lease payments.

(g) Cash and cash equivalents

Cash on hand, readily available deposits and short-term highly liquid and low risk investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents in preparing the consolidated statements of cash flows.

(h) Allowance for doubtful receivables

An allowance for possible losses from notes and accounts receivable, loans and other receivables is provided based on past experience and the Companies' estimates of losses on collection.

(i) Assets and liabilities arising from derivative transactions

Assets and liabilities arising from derivative transactions are stated at fair value.

(j) Inventories

Inventories are stated mainly at the historical cost computed using the specific identification cost method, the moving-average cost method or the first-in, first-out method. The ending balance of inventories is measured at the lower of cost or market.

(k) Investments in securities

The Company and its consolidated subsidiaries classify securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) all other securities (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2013, 2012 or 2011. Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available market value are stated at moving average cost.

If the market value of held-to-maturity debt securities, equity securities issued by nonconsolidated subsidiaries or affiliated companies or available-for-sale securities declines significantly, such securities are stated at market value, and the difference between market value and the carrying amount is recognized as loss in the period of the decline. If the market value of equity securities issued by nonconsolidated subsidiaries and affiliated companies not subject to the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the statements of income in the event net asset value declines significantly. In these cases, the market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(l) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed mainly on a declining balance basis over the estimated useful life of the asset. Depreciation of buildings acquired after April 1998 in Japan is computed on a straight-line basis over the building's estimated useful life.

(m) Intangible assets

Amortization of intangible assets, including software for the Company's own use, is computed by the straight-line method over the estimated useful life of the asset.

Goodwill is amortized on a straight-line basis over the period the Company benefits from its use. If the amount is not significant, it is expensed when incurred.

(n) Accrued bonuses

Accrued bonuses for employees are provided for based on the estimated amount of payment.

(o) Provision for product warranties

The provision for product warranties is based on past experience and provided separately when it can be reasonably estimated.

(p) Provision for losses on construction contracts

A provision for losses on construction contracts at the fiscal year-end is made when substantial losses are anticipated for the next fiscal year and beyond and such losses can be reasonably estimated.

(q) Provision for restructuring charges

The provision for restructuring charges is based on the estimated charges for restructuring in the Motorcycle & Engine business in North America.

(r) Provision for losses on legal proceedings

The Provision for losses on legal proceedings in which the Company is a defendant in the suit is provided based on estimates of expected compensation and other associated expenses.

(s) Provision for environmental measures

The Company reserved an estimated amount to cover expenditures for environmental measures such as the disposal of PCB waste required under the "Law Concerning Special Measures for Promotion of Appropriate Disposal of PCB (polychlorinated biphenyl) Waste" and soil improvement.

(t) Income taxes

The asset-liability approach is used to recognize deferred tax assets and liabilities for loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(u) Employees' retirement and severance benefits

Employees who terminate their services with the Company or one of its consolidated domestic subsidiaries are generally entitled to lump-sum payments, the amounts of which are determined by reference to basic rates of pay at the time of termination and length of service.

The liabilities and expenses for retirement and severance benefits are determined based on amounts actuarially calculated using certain assumptions. The Company and its consolidated domestic subsidiaries provide the allowance for employees' retirement and severance benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets (including the retirement benefit trust).

Actuarial gains and losses and prior service costs are recognized in expenses in equal amounts primarily over 10 years commencing with the following period and the current period, respectively.

Employees of the Company's overseas consolidated subsidiaries are generally covered by various pension plans accounted for in accordance with generally accepted accounting principles in the respective country of domicile.

<Additional information>

Regarding the substitutional portion of the employees' pension fund for certain subsidiaries, the Minister of Health, Labor and Welfare approved the exemption of their obligation to pay benefits related to future employee services on May 1, 2012, and the return of the portion related to past services on March 31, 2013. As a result, "Gain on transfer of benefit obligation relating to employees' pension fund" of ¥8,624 million was recorded in "Other income (expenses)" in the consolidated statements of income for the year ended March 31, 2013.

(v) Hedge accounting

The Company and its consolidated subsidiaries employ deferred hedge accounting. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized.

(w) Finance leases

Leased assets under finance leases that transfer ownership of the lease assets to the lessee are amortized by the same method as that used for property, plant and equipment or intangible assets. Lease assets under finance leases that do not transfer ownership to the lessee are amortized by the straight-line-method over the lease term with zero residual value.

(x) Net income per share

The computations of net income per share shown in the consolidated statements of income are based upon net income available to common stockholders and the weighted average number of shares outstanding during each period. Diluted net income per share is computed based on the assumption that all dilutive convertible bonds were converted at the beginning of the year.

(y) Accounting for consumption taxes

National and local consumption taxes are accounted for based on the net amount.

(z) Application of consolidated tax reporting

Effective from the year ended March 31, 2012, the Company and its wholly owned consolidated domestic subsidiaries have elected to file a consolidated tax return.

3. Changes in accounting policies

(a) Depreciation method

In accordance with an amendment to the Corporation Tax Act, effective from the year ended March 31, 2013, the Company and its domestic consolidated subsidiaries have changed the depreciation method applied to property, plant and equipment acquired on or after April 1, 2012 to reflect the amended Corporation Tax Act. As a result, both operating income and income before income taxes and minority interests for the year ended March 31, 2013, were ¥1,379 million more than the amounts that would have been recorded without the change.

(b) Application of Accounting Standard for Asset Retirement Obligations

Effective from the year ended March 31, 2011, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Asset Retirement Obligations" (Statement No. 18, issued by ASBJ on March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (Guidance No. 21, issued by ASBJ on March 31, 2008). As a result of this change, operating income was ¥16 million less and income before income taxes ¥313 million less than the amounts that would have been recorded without the change.

(c) Application of Accounting Standard for Business Combinations

Effective from the year ended March 31, 2011, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Business Combinations" (Statement No. 21, issued by ASBJ on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (Statement No. 22, issued by ASBJ on December 26, 2008), "Amendments to Accounting Standard for Research and Development Costs" (Statement No. 23, issued by ASBJ on December 26, 2008), "Revised Accounting Standard for Business Divestitures" (Statement No. 7, issued by ASBJ on December 26, 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments" (Statement No. 16, issued by ASBJ on December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Guidance No. 10, issued by ASBJ on December 26, 2008).

4. Accounting standards issued but not yet adopted

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits." Under this accounting standard, actuarial gains and losses and past service costs are to be recognized in the net assets section of the consolidated balance sheets, after adjusting for tax effects, and the difference between retirement obligations and plan assets (deficit or surplus) are to be recognized as a liability or asset. With regard to the method of attributing expected benefits to periods, this accounting standard allows the application of either the straight-line basis or the benefit formula basis. This accounting standard also amends the method of determining the discount rate.

The Company will adopt this accounting standard from the year ending March 31, 2014. Since this accounting standard includes transitional provisions, no retrospective application of the standard will be applied to the consolidated financial statements of prior periods. The effect of the adoption of this accounting standard on the preparation of the consolidated financial statements is currently being evaluated by the Company.

5. Additional information

The Company and its consolidated subsidiaries have adopted "Accounting Standard for Accounting Changes and Error Corrections" (Statement No. 24, issued by ASBJ on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (Guidance No. 24, issued by ASBJ on December 4, 2009) for accounting changes and prior period error corrections made on or after April 1, 2011.

6. Securities

(a) Book values and market values of held-to-maturity securities with available market values as of March 31, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013			
	Book value	Market value	Unrealized losses	Unrealized losses
Market values not exceeding book values:				
Bonds	¥133	¥125	¥ (8)	\$ (85)
	Millions of yen			
	2012			
	Book value	Market value	Unrealized losses	
Market values exceeding book values:				
Bonds	¥404	¥376	¥ (28)	

(b) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013			
	Book value	Acquisition cost	Unrealized gains (losses)	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:				
Equity securities	¥14,082	¥6,843	¥7,239	\$77,018
Other securities:				
Equity securities	659	717	(58)	(617)
Total	¥14,741	¥7,560	¥7,181	\$76,401
	Millions of yen			
	2012			
	Book value	Acquisition cost	Unrealized gains (losses)	
Securities with book values exceeding acquisition costs:				
Equity securities	¥13,362	¥6,164	¥7,198	
Other securities:				
Equity securities	2,660	3,485	(825)	
Total	¥16,022	¥9,649	¥6,373	

(c) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2013, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2013					
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities	¥2,892	¥1,428	¥(3)	\$30,769	\$15,193	\$(31)
	Millions of yen					
	2012					
	Sales amounts	Gains	Losses			
Equity securities	¥611	¥593	¥(1)			
	Millions of yen					
	2011					
	Sales amounts	Gains	Losses			
Equity securities	¥3	¥1	¥(0)			

(d) Investments in securities subject to impairment

Impairment loss on investments in securities is recognized when there has been a significant decline in the market value.

Investments in securities for which the market value as of the end of the fiscal year has fallen to below 50% of the acquisition costs are deemed to have no recovery potential and to be fully impaired. Investments in securities for which the market value has fallen to between 30% and 50% of the acquisition costs are deemed to be partially impaired by an amount that takes into consideration the likelihood of recovery and other factors. In the years ended March 31, 2012 and 2011, the Company recognized an impairment loss on investments in securities in the amount of ¥918 million and ¥1,577 million, respectively. For the year ended March 31, 2013, the amount of impairment loss on investments was not disclosed because it was immaterial.

7. Investments in nonconsolidated subsidiaries and affiliates

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2013 and 2012 were ¥52,412 million (\$557,633 thousand) and ¥30,007 million, respectively.

8. Short-term debt and long-term debt

Short-term debt and long-term debt as of March 31, 2013 and 2012 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Short-term debt:			
Short-term debt, principally bank loans, bearing average interest rates of 0.74 percent and 0.81 percent as of March 31, 2013 and 2012, respectively	¥160,767	¥112,806	\$1,710,470
Current portion of long-term debt, bearing average interest rates of 0.75 percent and 1.12 percent as of March 31, 2013 and 2012, respectively	68,743	34,763	731,386
Lease obligations, current	347	355	3,691
Total short-term debt	¥229,857	¥147,924	\$2,445,547
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2013 to 2022, bearing average interest rates of 0.77 percent and 0.90 percent as of March 31, 2013 and 2012, respectively	¥243,105	¥223,500	\$2,586,501
Notes and bonds issued by the Company:			
0.81 percent notes due in 2012	-	10,000	-
1.84 percent notes due in 2013	10,000	10,000	106,394
0.72~1.22 percent notes due in 2015	20,000	20,000	212,788
0.58 percent notes due in 2016	10,000	10,000	106,394
1.06 percent notes due in 2017	10,000	10,000	106,394
0.68 percent notes due in 2019	10,000	-	106,394
1.41 percent notes due in 2021	10,000	10,000	106,394
1.10 percent notes due in 2022	10,000	-	106,394
Long-term lease obligations	780	861	8,298
	323,885	294,361	3,445,951
Less portion due within one year	(69,089)	(35,118)	(735,067)
Total long-term debt	¥254,796	¥259,243	\$2,710,884

As of March 31, 2013 and 2012, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Receivables: Trade	¥49,911	¥44,935	\$531,026
Buildings and structures	82	3,981	872
Land	-	6	-
Investments in securities	14	418	148
Other	13	13	138
Total	¥50,020	¥49,353	\$532,184

In addition to the items shown above, the Company had pledged (on a long-term basis) shares of an affiliate company eliminated from the scope of consolidation in the amount of ¥30 million (\$319 thousand).

As of March 31, 2013 and 2012, debt secured by the above pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Trade payables	¥3	¥59	\$31
Short-term and long-term debt	30,888	29,652	328,631
Total	¥30,891	¥29,711	\$328,662

The aggregate annual maturities of long-term debt as of March 31, 2013 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2014	¥69,089	\$735,067
2015	85,872	913,629
2016	45,327	482,253
2017	21,220	225,768
2018 and thereafter	102,377	1,089,234
Total	¥323,885	\$3,445,951

9. Provision for losses on construction contracts

Inventories for construction contracts with substantial anticipated losses and the provision for losses on construction contracts were not offset. As of March 31, 2013 and 2012, the inventories for the construction contracts for which the provision for losses on construction contracts were provided were ¥8,900 million (\$94,690 thousand) and ¥10,994 million, respectively. These amounts were all included in work in process.

10. Employees' retirement and severance benefits

Upon terminating employment, employees of the Company and its consolidated domestic subsidiaries are entitled, under most circumstances, to lump-sum indemnities. For an employee who voluntarily retires under normal circumstances, a minimum payment amount is calculated based on the rate of pay at the time of retirement, length of service and conditions under which the employee retires. The Company and certain consolidated subsidiaries have a defined contribution pension plan and a cash balance plan, and certain consolidated foreign subsidiaries have a retirement pension system. The cash balance plan is linked to market interest rates and treated as a defined benefit pension plan. The plan assets of the company are generally held in a separately administered trust as a proportion of a general fund.

The liability for employees' retirement and severance benefits included in the long-term liability section of the consolidated balance sheets as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥(166,866)	¥(177,268)	\$(1,775,357)
Fair value of plan assets	77,992	63,743	829,790
Unrecognized prior service costs	722	(5,857)	7,681
Unrecognized actuarial gains and losses	30,347	48,553	322,874
Prepaid pension cost	(4,495)	(4,223)	(47,824)
Liability for retirement and severance benefits	¥(62,300)	¥(75,052)	\$(662,836)

Retirement and severance benefit expenses in the consolidated statements of income for the years ended March 31, 2013, 2012 and 2011 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Service costs - benefits earned during the year	¥8,900	¥8,882	¥9,338	\$94,691
Interest cost on projected benefit obligation	3,566	3,675	3,821	37,940
Expected return on plan assets	(1,172)	(1,061)	(1,046)	(12,469)
Amortization of prior service costs	(1,603)	(2,409)	(2,304)	(17,055)
Amortization of actuarial gains and losses	3,852	4,715	3,849	40,983
Contribution to the defined contribution pension plans	726	712	667	7,724
Retirement and severance benefit expenses	14,269	14,514	14,325	151,814
Gain on transfer of benefit obligation relating to employees' pension fund	(8,624)	-	-	(91,754)
Total	¥5,645	¥14,514	¥14,325	\$60,060

Basic assumptions and information used to calculate retirement and severance benefits were as follows:

	2013	2012	2011
Discount rate	mainly 2.0%	mainly 2.0%	mainly 2.0%
Expected rate of return on plan assets			
(For the Company and consolidated domestic subsidiaries)	3.0 to 3.5%	3.0 to 3.5%	3.0 to 3.5%
(For consolidated overseas subsidiaries)	5.04 to 7.25%	6.18 to 7.75%	6.64 to 7.75%
Amortization period for prior service costs	mainly 10 years	mainly 10 years	mainly 10 years
Amortization period for actuarial gains and losses	mainly 10 years	mainly 10 years	mainly 10 years

11. Contingent liabilities

Contingent liabilities as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	¥30,396	¥29,496	\$323,396

12. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus. Under the Japanese Corporate Law ("the Law"), if a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit or capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

13. Cost of sales

The ending balance of inventories was measured at the lower of cost or market. Gain on the valuation of inventories included in the cost of sales for the year ended March 31, 2013 and 2011 was ¥361 million (\$3,840 thousand) and ¥49 million, respectively. Loss on the valuation of inventories included in the cost of sales for the year ended March 31, 2012 was ¥1,246 million.

Provision for losses on construction contracts included in the cost of sales for the years ended March 31, 2013, 2012 and 2011 was ¥5,929 million (\$63,081 thousand), ¥14,980 million and ¥20,948 million, respectively.

14. Research and development expenses

Research and development expenses included in selling, general and administrative expenses and product costs were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Research and development expenses	¥41,709	¥39,940	¥37,090	\$443,759

15. "Other expenses, net" in "Other income (expenses)"

"Other expenses, net" in "Other income (expenses)" in the consolidated statements of income for the years ended March 31, 2013, 2012 and 2011 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Foreign exchange gain (loss), net	¥(9,919)	¥206	¥1,491	\$(105,532)
Gain on transfer of benefit obligation relating to employees' pension fund	8,624	-	-	91,754
Loss on environmental measures (a)	(1,437)	-	-	(15,288)
Gain on sales of marketable securities and investments in securities	1,424	591	-	15,150
Loss on impairment of fixed assets (b)	(363)	(14,921)	(9,923)	(3,862)
Loss on valuation of securities	(55)	(918)	(1,577)	(585)
Provision for doubtful receivables of affiliates (c)	-	-	(325)	-
Loss on adjustment for changes in accounting standard for asset retirement obligations	-	-	(291)	-
Other, net	(204)	(352)	(242)	(2,171)
Total	¥(1,930)	¥(15,394)	¥(10,867)	\$(20,534)

(Reclassification)

Certain reclassifications have been made to components of "Other expenses, net" for the year ended March 31, 2012 to conform to the presentation for the year ended March 31, 2013.

(a) "Loss on environmental measures" is a provision for the disposal of PCB waste in accordance with the "Law Concerning Special Measures for Promotion of Appropriate Disposal of PCB (polychlorinated biphenyl) Waste" and soil improvement.

(b) Loss on impairment of fixed assets

Owing to a decline in the profitability or the market prices of certain asset groups, the Company and its consolidated subsidiaries reduced the book value of certain assets to the recoverable amount. Assets are grouped mainly by units of business. However, significant assets for rent or those that are idle are treated separately. Recoverable amounts were determined by the net salable value or value in use, and net salable value was estimated by appraisal or property tax assessment.

Asset groups for which the Company and its consolidated subsidiaries recognized impairment loss for the year ended March 31, 2013 were as follows:

Function or status	Location	Type of assets
Idle property	Funabashi City, Chiba	Buildings and structures, etc.
Idle property	Kobe City, Hyogo	Buildings and structures, land, etc.

Impairment loss for the year ended March 31, 2013 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥247	\$2,628
Land, etc.	116	1,234
Total	¥363	\$3,862

Asset groups for which the Company and its consolidated subsidiaries recognized impairment loss for the year ended March 31, 2012 were as follows:

Function or status	Location	Type of assets
Operating property	Sakaide City, Kagawa	Buildings and structures, machinery and equipment, etc.
Operating property	Minato-ku and Koto-ku, Tokyo	Buildings
Idle property	Kakamigahara City, Gifu	Buildings and structures, etc.
Idle property	Akashi City, Hyogo	Buildings and structures, etc.
Idle property	Takeda City, Oita	Land, etc.

Impairment loss for the year ended March 31, 2012 consisted of the following:

	Millions of yen
Buildings and structures	¥7,091
Machinery and equipment	4,315
Land	2,587
Other	928
Total	¥14,921

Asset groups for which the Company and its consolidated subsidiaries recognized impairment loss for the year ended March 31, 2011 were as follows:

Function or status	Location	Type of assets
Operating property	Akashi City, Hyogo	Buildings and structures, machinery and equipment, etc.
Operating property	Kobe City, Hyogo	Buildings and structures, machinery and equipment, etc.

Impairment loss for the year ended March 31, 2011 consisted of the following:

	Millions of yen
Buildings and structures	¥3,731
Machinery and equipment	2,300
Other	3,892
Total	¥9,923

(c) "Provision for doubtful receivables of affiliates" is an allowance for doubtful receivables to Tonfang Kawasaki Air-Conditioning Co., Ltd., an affiliate of the Company.

16. Consolidated statement of comprehensive income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized gains (losses) on securities			
Increase (decrease) during the year	¥3,466	¥(231)	\$36,875
Reclassification adjustments	(2,506)	2	(26,662)
Subtotal, before tax	960	(229)	10,213
Tax (expense) or benefit	(419)	335	(4,458)
Subtotal, net of tax	¥541	106	5,755
Deferred gains (losses) on hedges			
Increase (decrease) during the year	(20,351)	2,351	(216,522)
Reclassification adjustments	10,371	(243)	110,341
Asset acquisition cost adjustments	(35)	(12)	(372)
Subtotal, before tax	(10,015)	2,096	(106,553)
Tax (expense) or benefit	3,634	(815)	38,663
Subtotal, net of tax	(6,381)	1,281	(67,890)
Foreign currency translation adjustments			
Increase (decrease) during the year	11,713	(2,924)	124,620
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	5,155	231	54,846
Total other comprehensive income	¥11,028	¥(1,306)	\$117,331

17. Dividends

(a) Dividends paid

Year ended March 31, 2013					
Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 27, 2012 General Meeting of Shareholders	Common stock	¥8,359 million (\$88,934 thousand)	¥5.0 (\$0.05)	March 31, 2012	June 28, 2012

Year ended March 31, 2012					
Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 28, 2011 General Meeting of Shareholders	Common stock	¥5,011 million	¥3.0	March 31, 2011	June 29, 2011

(b) Dividend payments for which the record date is the subject fiscal year but have an effective date in the succeeding consolidated fiscal year

Year ended March 31, 2013						
Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2013 General Meeting of Shareholders	Common stock	Retained earnings	¥8,358 million (\$88,924 thousand)	¥5.0 (\$0.05)	March 31, 2013	June 27, 2013

Year ended March 31, 2012						
Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 27, 2012 General Meeting of Shareholders	Common stock	Retained earnings	¥8,359 million	¥5.0	March 31, 2012	June 28, 2012

18. Income taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporation tax (national tax) and enterprise and inhabitants taxes (local taxes), which, in the aggregate, resulted in a statutory tax rate of approximately 37.8 percent and 40.5 percent for the years ended March 31, 2013 and 2012, respectively.

The significant differences between the statutory and effective tax rates for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Statutory tax rate	37.8%	40.5%
Valuation allowance	(4.6)	2.1
Equity in income of nonconsolidated subsidiaries and affiliates	(7.0)	(7.0)
Dividend from overseas consolidated subsidiaries	2.2	1.7
Changing tax rate	-	12.7
Other	0.0	(3.2)
Effective tax rate	28.4%	46.8%

Significant components of deferred tax assets and liabilities as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Accrued bonuses	¥8,524	¥8,579	\$90,690
Retirement benefits	32,012	36,163	340,589
Allowance for doubtful receivables	653	900	6,947
Inventories – elimination of intercompany profits	137	654	1,457
Fixed assets – elimination of intercompany profits	436	373	4,638
Depreciation	8,431	9,874	89,701
Net operating loss carryforwards	7,819	801	83,189
Unrealized loss on marketable securities, investments in securities and other	3,262	3,472	34,705
Provision for losses on construction contracts	6,197	11,196	65,932
Other	29,471	25,946	313,559
Gross deferred tax assets	96,942	97,958	1,031,407
Less valuation allowance	(12,281)	(16,759)	(130,663)
Total deferred tax assets	84,661	81,199	900,744
Deferred tax liabilities:			
Deferral of gain on sale of fixed assets	4,733	4,914	50,356
Net unrealized gain on securities	2,359	1,993	25,098
Other	10,797	9,198	114,873
Total deferred tax liabilities	17,889	16,105	190,327
Net deferred tax assets	¥ 66,772	¥65,094	\$710,417

19. Cash and cash equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2013, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Cash on hand and in banks:	¥38,525	¥34,316	¥47,233	\$409,884
Time deposits with maturities over three months:	(1,554)	(1,071)	(2,604)	(16,534)
Total	¥36,971	¥33,245	¥44,629	\$393,350

20. Net income per share

Per share amounts for the years ended March 31, 2013, 2012 and 2011 are set forth in the table below. Diluted net income per share for the year ended March 31, 2013 was not disclosed since there were no residual securities.

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Basic net income per share:				
Net income	¥30,864	¥23,323	¥25,965	\$328,375
Net income allocated to common stock	30,864	23,323	25,965	328,375
	(Number of shares in millions)			
Weighted average number of shares of common stock	1,671	1,671	1,669	

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Diluted net income per share				
Net income adjustment	¥-	¥22	¥44	\$-
(Interest expenses, etc.)	(-)	(22)	(44)	(-)
	(Number of shares in millions)			
Increase in shares of common stocks	-	13	28	
(Convertible bonds)	(-)	(5)	(11)	
(Zero coupon convertible bonds)	(-)	(8)	(17)	

21. Derivative transactions

(a) Outstanding positions and recognized gains and losses at March 31, 2013 were as follows:

(Derivative transactions to which the Company did not apply hedge accounting)

	Millions of yen				Thousands of U.S. dollars
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)	Gain (loss)
Currency related contracts:					
Foreign exchange contracts:					
To sell	¥148,250	¥-	¥(22,437)	(22,437)	\$(238,716)
To purchase	408	-	8	8	85
Option contracts:					
To sell	-	-	-	-	-
To purchase	-	-	-	-	-
Total	¥148,658	¥-	¥(22,429)	(22,429)	\$(238,631)

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company did not apply hedge accounting)

	Subject of hedge	Millions of yen		
		Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables	¥77,504	¥15,694	¥(9,783)
To purchase	Trade payables	5,272	1,544	834
Option contracts				
To sell	Trade receivables	7,224	-	(259)
To purchase	Trade payables	6,800	-	(79)
Alternative method (*)				
Foreign exchange contracts				
To sell	Trade receivables	3,677	-	(52)
To purchase	Trade Payables	22	-	3
Option contracts				
To sell	Trade receivables	1,809	-	(27)
To purchase	Trade payables	1,660	-	(9)
Total		¥103,968	¥17,238	¥(9,372)

Fair value is based on prices provided by financial institutions.

(*) For certain trade accounts receivable and payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the risk of foreign currency fluctuation, the fair value of the derivative financial instrument is included in the fair value of "Trade receivables" and "Trade payables" as hedge items.

	Subject of hedge	Thousands of U.S. dollars		
		Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables	\$824,600	\$166,975	\$(104,086)
To purchase	Trade payables	56,091	16,427	8,873
Option contracts				
To sell	Trade receivables	76,859	-	(2,755)
To purchase	Trade payables	72,348	-	(840)
Alternative method				
Foreign exchange contracts				
To sell	Trade receivables	39,121	-	(553)
To purchase	Trade Payables	234	-	31
Option contracts				
To sell	Trade receivables	19,246	-	(287)
To purchase	Trade payables	17,661	-	(95)
Total		\$1,106,160	\$183,402	\$(99,712)

	Subject of hedge	Millions of yen		
		Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Interest swap Deferral hedge accounting				
Floating-rate receipt/fixed-rate payment	Short-term debt	¥15,000	¥-	¥(81)
Special treatment (*)				
Floating-rate receipt/fixed-rate payment	Long-term debt	12,000	12,000	-
Interest rate and currency swaps treated as single item (special treatment, hedge accounting treatment as an alternative method)	Long-term debt	6,993	6,993	-
		¥33,993	¥18,993	¥(81)

Fair value is based on prices provided by financial institutions.

(*) As interest rate swaps subject to special treatment for interest rate swaps are accounted for as a single item with the long-term debt, which comprises the hedged items, the fair value is included in that of the long-term debt.

	Subject of hedge	Thousands of U.S. dollars		
		Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Interest swap Deferral hedge accounting				
Floating-rate receipt/fixed-rate payment	Short-term debt	\$159,592	\$-	\$(861)
Special treatment				
Floating-rate receipt/fixed-rate payment	Long-term debt	127,673	127,673	-
Interest rate and currency swaps treated as single item (special treatment, hedge accounting treatment as an alternative method)	Long-term debt	74,401	74,401	-
		\$361,666	\$202,074	\$(861)

(b) Outstanding positions and recognized gains and losses at March 31, 2012 were as follows:

(Derivative transactions to which the Company did not apply hedge accounting)

	Millions of yen			
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)
Currency related contracts:				
Foreign exchange contracts:				
To sell	¥135,398	¥-	¥(3,023)	¥(3,022)
To purchase	441	-	(1)	(1)
Option contracts:				
To sell	76,480	-	(2,209)	(1,212)
To purchase	44,720	-	(87)	(848)
Total	¥257,039	¥-	¥(5,320)	¥(5,083)

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company did not apply hedge accounting)

		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables	¥88,798	¥33,629	¥(334)
To purchase	Trade payables	45,608	1,624	1,027
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Alternative method (*)				
Foreign exchange contracts				
To sell	Trade receivables	1,388	-	19
To purchase	Trade payables	1,388	-	(19)
Total		¥137,182	¥35,253	¥693

Fair value is based on prices provided by financial institutions.

(*) For certain trade accounts receivable and payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the risk of foreign currency fluctuation, the fair value of the derivative financial instrument is included in the fair value of "Trade receivables" and "Trade payables" as hedge items.

		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Interest swap Deferral hedge accounting				
Floating-rate receipt/fixed-rate payment	Short-term debt	¥20,000	¥15,000	¥(259)
Special treatment (*)				
Floating-rate receipt/fixed-rate payment	Long-term debt	15,000	12,000	-
Interest rate and currency swaps treated as single item (special treatment, hedge accounting treatment as an alternative method)	Long-term debt	2,688	2,688	-
		¥37,688	¥29,688	¥(259)

Fair value is based on prices provided by financial institutions.

(*) As interest rate swaps subject to special treatment for interest rate swaps are accounted for as a single item with the long-term debt, which comprises the hedged items, the fair value is included in that of the long-term debt.

22. Financial Instruments

Information related to financial instruments as of March 31, 2013 and 2012 was as follows.

(1) Matters related to the status of financial instruments

(a) Policies on the use of financial instruments

The Company meets its long-term operating capital and capital expenditure requirements through bank loans and the issuance of bonds and meets its short-term operating capital requirements through bank loans and the issuance of short-term bonds (electronic commercial paper). Temporary surplus funds are managed in the form of financial assets that have a high level of safety. The Company utilizes derivative financial instruments to hedge the risks described below and does not engage in speculative transactions as a matter of policy.

(b) Details of financial instruments and risks associated with those instruments

Trade receivables are exposed to the credit risk of customers. The Company operates internationally and has significant exposure to the risk of fluctuation in foreign exchange rates. However, this risk is hedged using forward exchange contracts, etc., against the net position of foreign currency exposure. Investments in securities mainly comprise equity securities of companies with which the Company conducts business and are held to maintain relationships with these business partners. With such securities, listed stocks are exposed to market fluctuation risk.

Almost all trade payables are due within one year. A portion of trade payables are denominated in foreign currency—specifically those related to payment for imported materials, etc.—and are exposed to the risk of foreign currency fluctuation. However, this risk is mitigated principally by the position of trade payables denominated in foreign currency being less than the position of receivables in the same currency. Loans payable, bonds payable and lease obligations under finance leases are mainly used to raise operating capital and carry out capital expenditure and are due in a maximum of nine years from March 31, 2013 (ten years from March 31, 2012). A portion of these instruments is exposed to the risk of interest rate fluctuation. However, such risk is hedged using derivatives (interest swaps and currency swaps) as necessary.

In sum, derivatives comprise forward exchange and currency option contracts used to hedge foreign currency fluctuation risk on receivables and payables in foreign currencies and interest swap contracts to hedge interest rate fluctuation risk on debt. With regard to hedge accounting, see Note 2, "Significant accounting policies- (v) Hedge accounting."

(c) Risk management system for financial instruments

(i) Management of credit risk, including customer default risk

The Company's sales management functions and those of its consolidated subsidiaries regularly evaluate the financial circumstances of customers and monitor the due dates and balances by customer to identify and limit doubtful accounts.

With regard to derivative transactions, the Company enters into contracts with highly rated financial institutions to reduce counterparty risk. The amount presented in the balance sheet is the maximum credit risk at the fiscal year end of the financial instruments that are exposed to credit risk.

(ii) Management of market risk (related to foreign currency exchange rates, interest rates, etc.)

The Company and certain of its consolidated subsidiaries hedge foreign currency fluctuation risk on receivables and payables in foreign currencies using forward exchange contracts, which are categorized by the type of currency and the monthly due date. In principle, the net position of receivables less payables in foreign currency is hedged with forward exchange contracts. The Company and certain of its consolidated subsidiaries hedge interest rate risk on debt using interest swap contracts.

With regard to investments in securities, the Company reviews its holding policies through periodic analysis of market prices and the financial condition of the issuers, taking into consideration relationships with business partners.

With regard to derivatives, in accordance with rules for the provision of transaction authorization, the Company's finance functions and those of its consolidated subsidiaries manage transactions in accordance with an established set of fundamental policies, such as those covering limitations on transaction amounts, under the authority of the director in charge of finance. Transactions are reported to the director in charge of finance on a monthly basis. Consolidated subsidiaries manage derivatives in accordance with the same rules as those of the Company.

(iii) Management of liquidity risk (risk of the Company being unable to meet its payment obligations by their due dates)

The Company manages liquidity risk through its finance department, maintaining and updating its finance plans based on reports from each business division. Liquidity risk is managed through the diversification of financing methods, taking into consideration the financing environment and balancing long- and short-term financing requirements, securing commitment lines, etc.

(d) Supplemental information on the fair value of financial instruments

The fair value of financial instruments includes values based on market price and reasonably estimated values when market price is not available. However, as variables are inherent in these value calculations, the resulting values may differ if different assumptions are used. With regard to the contract amounts, etc. of the derivatives described below in "(2) Fair values of financial instruments," these amounts do not represent the market risk associated with the corresponding derivative transactions themselves.

(2) Fair values of financial instruments

The book values, the fair values and the differences between these values as of March 31, 2013 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	Millions of yen			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Cash on hand and in banks	¥38,525	¥38,525	¥-	\$-
Trade receivables	432,649	432,619	(30)	(319)
Investments in securities	14,876	14,868	(8)	(85)
Total assets	486,050	486,012	(38)	(404)
Trade payables	281,063	281,063	-	-
Short-term debt and current portion of long-term debt (excluding lease obligations)	229,510	229,510	-	-
Long-term debt, less current portion (excluding lease obligations)	254,362	255,269	907	9,649
Total liabilities	764,935	765,842	907	9,649
Derivative transactions (*)	¥(31,883)	¥(31,883)	¥-	\$-

(*) Derivative financial instruments are presented as net amounts. Negative amounts stated with parentheses () indicate that the net amount is a liability.

The book values, fair values and the differences between these values as of March 31, 2012, were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	Millions of yen		
	Book value	Fair value	Unrealized gains (losses)
Cash on hand and in banks	¥34,316	¥34,316	¥-
Trade receivables	404,054	403,847	(207)
Investments in securities	16,427	16,399	(28)
Total assets	454,797	454,562	(235)
Trade payables	310,775	310,775	-
Short-term debt and current portion of long-term debt (excluding lease obligations)	147,568	147,568	-
Long-term debt, less current portion (excluding lease obligations)	258,738	260,672	1,934
Total liabilities	717,081	719,015	1,934
Derivative transactions (*)	¥(4,886)	¥(4,886)	¥-

(*) Derivative financial instruments are presented as net amounts. Negative amounts stated with parentheses () indicates that the net amount is a liability.

(i) Methods used to calculate the fair value of financial instruments and details of securities and derivative instruments

<Assets>

-Cash on hand and in banks

The fair value of cash on hand and in banks is stated at the relevant book value since the settlement periods are short and the fair values are substantially the same as the book values.

-Receivables

The fair value of receivables is stated at present value computed by applying a discount rate reflecting the settlement period and the credit risk.

-Investments in securities

Equity securities are stated at the fair value, and bonds are stated at market price or the asking price of financial institutions. See Note 2(k), "Investments in securities," for the detailed information by classification.

<Liabilities>

-Trade payables, short-term debt and current portion of long-term debt

Since the settlement periods of these items are short and their fair values are substantially the same as their book values, the relevant book values are used.

-Long-term debt, less current portion

The fair value of bonds payable is calculated based on trading reference data. The fair value of long-term debt is calculated by applying a discount rate to the total of principal and interest. That discount rate is based on the interest rates of similar new loans.

<Derivatives>

See Note 21, "Derivative Transactions."

(ii) Financial instruments for which the fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unlisted equity securities and investments in partnerships	¥7,855	¥7,122	\$83,572
Stocks of nonconsolidated subsidiaries and affiliates	7,620	6,917	81,072
Investments in affiliates	44,792	23,090	476,561
Total	¥60,267	¥37,129	\$641,205

Since no market values are available for these items and since it is extremely difficult to determine their fair values, the items listed in the table above are not included in investments in securities.

(iii) Planned redemption amounts after the balance sheet date for monetary receivables and investments in securities with maturity dates as of March 31, 2013 and 2012 were as follows:

	Millions of yen			
	2013			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	¥38,525	¥-	¥-	¥-
Trade receivables	426,027	6,622	-	-
Investments in securities				
-Bonds	-	133	-	-
Total	¥464,552	¥6,755	¥-	¥-

	Thousands of U.S. dollars			
	2013			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	¥409,884	\$-	\$-	\$-
Trade receivables	4,532,684	70,454	-	-
Investments in securities				
-Bonds	-	1,415	-	-
Total	¥4,942,568	\$71,869	\$-	\$-

	Millions of yen			
	2012			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	¥34,316	¥-	¥-	¥-
Trade receivables	368,419	35,635	-	-
Investments in securities				
-Bonds	300	104	-	-
Total	¥403,035	¥35,739	¥-	¥-

(iv) Planned repayment amounts after the balance sheet date for bonds payable, convertible bonds and long-term debt

See Note 8, "Short-Term debt and Long-term debt."

23. Finance leases

As discussed in Note 2(w), finance leases commenced prior to April 1, 2008 which do not transfer ownership of the leased assets to the lessee are accounted for as operating leases. Information regarding such leases, as required to be disclosed in Japan, is as follows:

(a) Lessee

The original costs of leased assets under non-capitalized finance leases and the related accumulated depreciation and amortization, assuming it was calculated by the straight-line method over the term of the respective lease, as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Property, plant and equipment	¥24,064	¥31,691	\$256,027
Accumulated depreciation	(15,528)	(19,888)	(165,209)
	8,536	11,803	90,818
Intangible assets	82	284	872
Accumulated amortization	(77)	(238)	(819)
	¥5	¥46	\$53

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current portion	¥2,264	¥3,150	\$24,087
Noncurrent portion	6,111	9,081	65,018
Total	¥8,375	¥12,231	\$89,105

Lease payments, "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases for the years ended March 31, 2013, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Lease payments	¥3,702	¥4,911	¥5,038	\$39,387
Depreciation and amortization	3,402	4,531	4,669	36,195
Interest	¥270	¥388	¥486	\$2,872

(b) Lessor

The original costs of leased assets under finance leases and the related accumulated depreciation and amortization as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Property, plant and equipment	¥956	¥1,429	\$10,171
Accumulated depreciation	(803)	(1,107)	(8,544)
	153	322	1,627
Intangible assets	12	45	127
Accumulated amortization	(12)	(45)	(127)
	¥-	¥0	\$-

The present values of future minimum lease payments to be received under finance leases as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current portion	¥122	¥195	\$1,298
Noncurrent portion	54	181	574
Total	¥176	¥376	\$1,872

Lease payments received, depreciation and amortization and interest on finance leases for the years ended March 31, 2013, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Lease payments received	¥193	¥241	¥282	\$2,053
Depreciation and amortization	165	213	257	1,755
Interest	¥13	¥24	¥35	\$138

24. Operating leases

There were no operating lease transactions for the years ended March 31, 2013 and 2012.

25. Segment information

(a) Overview of reportable segments

The Company's reportable segments are components of the Company for which separate financial information is available. These segments are subject to periodic review by the Company's Board of Directors to determine the allocation of resources and assess performance. The Company's operations are divided into internal companies based on product categories. Certain authority is delegated to each of the internal companies based on whether they conduct businesses in Japan or overseas. The Company's operations are therefore segmented based on each internal company's product categories. The Company's eight reportable segments are the Ship & Offshore Structure segment, the Rolling Stock segment, the Aerospace segment, the Gas Turbine & Machinery segment, the Plant & Infrastructure segment, the Motorcycle & Engine segment, the Precision Machinery segment and the Other segment.

The main businesses in the Company's reportable segments are set forth in the table below.

Business segment	Major products
Ship & Offshore Structure	Construction and sale of ships and other vessels, etc.
Rolling Stock	Production and sale of rolling stock, snow plows, etc.
Aerospace	Production and sale of aircraft, etc.
Gas Turbine & Machinery	Production and sale of jet engines, general-purpose gas turbine generators, prime movers, etc.
Plant & Infrastructure	Production and sale of industrial equipment, boilers, environmental equipment, steel structures, crushers, etc.
Motorcycle & Engine	Production and sale of motorcycles, personal watercraft, all-terrain vehicles (ATV), utility vehicles, general-purpose gasoline engines, etc.
Precision Machinery	Production and sale of industrial hydraulic products, industrial robots, etc.
Other	Production and sale of construction machinery, commercial activities, sales/order agency and intermediary activities, administration of welfare facilities, etc.

(b) Calculation methods for sales, income (loss), assets, liabilities and other items by reportable segment
Accounting methods applied for the calculation of sales, income (loss), assets, liabilities and other items by business segment largely correspond to information presented under Note 2, “Significant accounting policies.” Segment income is based on operating income. Intersegment sales and transfers are based on market prices.

(c) Sales, income (loss), assets, liabilities and other items by reportable segment

	Year ended March 31, 2013								
	Millions of yen								
	Sales			Other items					
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥90,343	¥1,999	¥92,342	¥4,162	¥112,612	¥1,364	¥-	¥35,434	¥1,781
Rolling Stock	129,973	2,888	132,861	2,215	163,528	3,536	-	99	2,808
Aerospace	239,172	2,289	241,461	14,827	311,659	10,769	-	-	17,171
Gas Turbine & Machinery	207,008	19,404	226,412	7,033	251,808	6,100	-	1,086	9,324
Plant & Infrastructure	115,813	15,115	130,928	9,772	115,470	1,861	-	11,768	4,376
Motorcycle & Engine	251,858	757	252,615	2,397	271,548	10,480	-	994	14,866
Precision Machinery	130,455	14,027	144,482	8,452	114,699	7,713	-	-	12,320
Other	124,259	32,873	157,132	1,273	144,211	2,427	363	2,521	2,149
Total	¥1,288,881	¥89,352	¥1,378,233	¥50,131	¥1,485,535	¥44,250	¥363	¥51,902	¥64,795
Adjustments	-	(89,352)	(89,352)	(8,069)	(19,245)	4,135	-	-	13,829
Consolidated total	¥1,288,881	¥-	¥1,288,881	¥42,062	¥1,466,290	¥48,385	¥363	¥51,902	¥78,624

	Year ended March 31, 2012								
	Millions of yen								
	Sales			Other items					
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥113,532	¥1,636	¥115,168	¥3,964	¥102,102	¥3,819	¥13,554	¥15,278	¥2,297
Rolling Stock	132,684	2,105	134,789	5,154	157,487	3,693	-	92	2,266
Aerospace	206,580	1,846	208,426	7,815	295,668	9,633	33	-	10,208
Gas Turbine & Machinery	194,655	20,438	215,093	7,775	223,649	6,680	-	576	7,310
Plant & Infrastructure	122,800	13,150	135,950	14,118	109,395	1,703	64	10,171	3,277
Motorcycle & Engine	235,243	1,033	236,276	(2,959)	222,515	11,151	-	967	11,770
Precision Machinery	175,077	14,245	189,322	26,622	110,578	6,647	-	-	16,221
Other	123,207	35,281	158,488	3,838	183,396	2,539	1,270	2,412	3,384
Total	¥1,303,778	¥89,734	¥1,393,512	¥66,327	¥1,404,790	¥45,865	¥14,921	¥29,496	¥56,733
Adjustments	-	(89,734)	(89,734)	(8,843)	(42,651)	3,036	-	-	7,186
Consolidated total	¥1,303,778	¥-	¥1,303,778	¥57,484	¥1,362,139	¥48,901	¥14,921	¥29,496	¥63,919

	Year ended March 31, 2011								
	Millions of yen								
	Sales			Other items					
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥118,416	¥1,895	¥120,311	¥(1,013)	¥115,800	¥4,264	¥-	¥13,125	¥3,183
Rolling Stock	131,104	2,079	133,183	8,173	151,212	3,634	-	123	2,416
Aerospace	196,876	1,811	198,687	3,030	288,495	9,402	-	-	7,121
Gas Turbine & Machinery	202,692	20,783	223,475	9,545	211,369	6,550	67	61	5,659
Plant & Infrastructure	89,012	12,017	101,029	8,281	95,115	1,554	141	8,603	2,033
Motorcycle & Engine	234,479	1,211	235,690	(4,961)	216,559	15,294	9,520	946	11,340
Precision Machinery	140,328	13,277	153,605	22,318	99,612	4,872	-	-	9,822
Other	114,042	34,340	148,382	2,577	159,618	2,477	195	2,308	8,017
Total	¥1,226,949	¥87,413	¥1,314,362	¥47,950	¥1,337,780	¥48,047	¥9,923	¥25,166	¥49,591
Adjustments	-	(87,413)	(87,413)	(5,322)	16,498	2,229	-	-	5,743
Consolidated total	¥1,226,949	¥-	¥1,226,949	¥42,628	¥1,354,278	¥50,276	¥9,923	¥25,166	¥55,334

	Year ended March 31, 2013								
	Thousands of U.S. dollars								
	Sales			Other items					
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	\$961,197	\$21,268	\$982,465	\$44,280	\$1,198,127	\$14,512	\$-	\$376,998	\$18,949
Rolling Stock	1,382,839	30,727	1,413,566	23,567	1,739,845	37,621	-	1,053	29,875
Aerospace	2,544,654	24,354	2,569,008	157,752	3,315,874	114,576	-	-	182,689
Gas Turbine & Machinery	2,202,447	206,447	2,408,894	74,827	2,679,093	64,900	-	11,554	99,202
Plant & Infrastructure	1,232,184	160,815	1,392,999	103,968	1,228,535	19,800	-	125,204	46,558
Motorcycle & Engine	2,679,625	8,054	2,687,679	25,502	2,889,116	111,501	-	10,576	158,166
Precision Machinery	1,387,967	149,239	1,537,206	89,925	1,220,332	82,062	-	-	131,078
Other	1,322,045	349,750	1,671,795	13,544	1,534,323	25,822	3,862	26,822	22,864
Total	\$13,712,958	\$950,654	\$14,663,612	\$533,365	\$15,805,245	\$470,794	\$3,862	\$552,207	\$689,381
Adjustments	-	(950,654)	(950,654)	(85,850)	(204,756)	43,994	-	-	147,133
Consolidated total	\$13,712,958	\$-	\$13,712,958	\$447,515	\$15,600,489	\$514,788	\$3,862	\$552,207	\$836,514

(d) Reconciliation and the main components of differences between the total for reportable segments and amounts on the consolidated financial statement for the years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Net sales				
Total for reportable segments	¥1,378,233	¥1,393,512	¥1,314,362	\$14,663,612
Intersegment transactions	(89,352)	(89,734)	(87,413)	(950,654)
Net sales reported on the consolidated financial statements	¥1,288,881	¥1,303,778	¥1,226,949	\$13,712,958

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Income				
Total for reportable segments	¥50,131	¥66,327	¥47,950	\$533,365
Intersegment transactions	564	(131)	(3)	6,000
Corporate expenses (*)	(8,633)	(8,712)	(5,319)	(91,850)
Operating income (loss) on the consolidated financial statements	¥42,062	¥57,484	¥42,628	\$447,515

(*) Corporate expenses mainly comprise general and administrative expenses not attributed to reportable segments.

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Income				
Total for reportable segments	¥50,131	¥66,327	¥47,950	\$533,365
Intersegment transactions	564	(131)	(3)	6,000
Corporate expenses (*)	(8,633)	(8,712)	(5,319)	(91,850)
Operating income (loss) on the consolidated financial statements	¥42,062	¥57,484	¥42,628	\$447,515

(*) Corporate expenses mainly comprise general and administrative expenses not attributed to reportable segments.

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Assets				
Total for reportable segments	1,485,535	1,404,790	1,337,780	15,805,245
Corporate assets shared by all segments (*)	122,759	112,985	141,029	1,306,086
Intersegment transactions	(142,004)	(155,636)	(124,531)	(1,510,842)
Total assets on the consolidated financial statements	1,466,290	1,362,139	1,354,278	15,600,489

(*) Corporate assets shared by all segments mainly comprise fixed assets not attributed to reportable segments.

	Millions of yen								
	Year ended March 31, 2013			Year ended March 31, 2012			Year ended March 31, 2011		
Other items	Total for reportable segments			Adjustments (*)			Amounts reported on the consolidated financial statements		
Depreciation/amortization	¥44,250	¥45,865	¥48,047	¥4,135	¥3,036	¥2,229	¥48,385	¥48,901	¥50,276
Increase in property, plant and equipment and intangibles	64,795	56,733	49,591	13,829	7,186	5,743	78,624	63,919	55,334

(*) Adjustment is mainly due to fixed assets not attributed to reportable segment.

	Thousands of U.S. dollars		
	Year ended March 31, 2013	Year ended March 31, 2012	Year ended March 31, 2011
Other items	Total for reportable segments	Adjustments	Amounts reported on the consolidated financial statements
Depreciation/amortization	\$470,794	\$43,994	\$514,788
Increase in property, plant and equipment and intangibles	689,381	147,133	836,514

(e) Related information

(i) Sales by geographic region

Net sales in the years ended March 31, 2013, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Japan	¥616,220	¥567,044	¥558,126	\$6,556,229
United States	272,531	237,941	236,572	2,899,574
Europe	97,540	123,317	87,162	1,037,770
Asia	202,704	239,627	224,685	2,156,655
Other areas	99,886	135,849	120,404	1,062,730
Total	¥1,288,881	¥1,303,778	¥1,226,949	\$13,712,958

Net sales are based on the clients' location and classified according to nation or geographical region.

Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Japan	¥259,212	¥238,733	\$2,757,867
United States	21,298	19,450	226,598
Europe	2,618	2,104	27,854
Asia	21,638	13,610	230,215
Other areas	1,026	853	10,918
Total	¥305,792	¥274,750	\$3,253,452

(ii) Information by major clients

Clients	Net sales		Related segments
	2013	2012	
Ministry of Defense	193,685 million yen (\$2,060,697 thousand)	179,786 million yen	Ship & Offshore Structure, Aerospace, Gas Turbines & Machinery, etc.

26. Related party transactions

(a) Related party transactions for the years ended March 31, 2013 and 2012 were as follows:

	Year ended March 31, 2013
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million (\$106 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of Company products
Details of transactions	Sales of Company products
Amount of transactions	¥85,325 million (\$907,809 thousand)
Account	Trade receivables
Ending balance	¥25,957 million (\$276,167 thousand)

	Year ended March 31, 2012
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of Company products
Details of transactions	Sales of Company products
Amount of transactions	¥59,265 million
Account	Trade receivables
Ending balance	¥26,229 million

(b) A summary of the total financial information of all affiliates (17 companies) (14 in 2012) which was the basis for calculating the equity in income of nonconsolidated affiliates, including that of Nantong COSCO KHI Ship Engineering Co., Ltd., which is a significant affiliate, for the years ended March 31, 2013 and 2012 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current assets	¥156,902	¥102,806	\$1,669,347
Fixed assets	153,656	71,760	1,634,812
Current liabilities	154,814	84,489	1,647,132
Long-term liabilities	25,407	11,710	270,315
Net assets	130,337	78,367	1,386,711
Net sales	197,764	161,212	2,104,096
Minority interests in net income of consolidated subsidiaries	20,339	19,387	216,395
Total net income	17,305	16,188	184,115

27. Subsequent events

On June 26, 2013, the following appropriation of nonconsolidated retained earnings was approved at the ordinary meeting of shareholders of the Company:

	Millions of yen
Cash dividends (¥5.0 per share)	¥8,358

28. Other matters

(Quarterly financial information)

	Millions of yen			
Year ended March 31, 2013	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Net sales	¥283,530	¥574,999	¥885,896	¥1,288,881
Income before income taxes and minority interests	11,727	20,165	29,837	46,152
Net income	6,030	12,429	19,343	30,864
	yen			
Net income per share - basic	¥3.6	¥7.4	¥11.5	¥18.4

	Thousands of U.S. dollars			
Year ended March 31, 2013	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
Net sales	\$3,016,597	\$6,117,661	\$9,425,428	\$13,712,958
Income before income taxes and minority interests	124,768	214,544	317,448	491,030
Net income	64,155	132,237	205,798	328,375
	U.S. dollars			
Net income per share - basic	\$0.03	\$0.07	\$0.12	\$0.19



Independent Auditor's Report

To the Board of Directors of
Kawasaki Heavy Industries, Ltd.:

We have audited the accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2013, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 25, 2013
Kobe, Japan

Directors, Corporate Auditors and Executive Officers (As of June 26, 2013)

Directors



Shigeru Murayama ^{★†}
President



Kyohei Matsuoka ^{★†}
Senior Executive Vice President



Hiroshi Takata ^{★†}
Senior Executive Vice President



Makoto Sonoda ^{★†}
Senior Vice President



Joji Iki ^{★†}
Senior Vice President



Eiji Inoue ^{★†}
Senior Vice President



Yoshinori Kanehana ^{★†}
Senior Vice President



Minoru Makimura [†]
Senior Vice President



Akio Murakami ^{★†}
Senior Vice President



Yoshihiko Morita
Outside Director

★ Representative Director
† Executive Officer

Corporate Auditors



Tatsuyoshi Ogushi
Corporate Auditor



Yuji Murakami
Corporate Auditor



Michio Oka
Outside Corporate Auditor



Nobuyuki Fujikake
Outside Corporate Auditor

Managing Executive Officers

Masahiro Ibi
Munenori Ishikawa
Shigehiko Kiyama

Executive Officers

Takeshi Sugawara	Masafumi Nakagawa	Hirokazu Komaki	Masayoshi Maeda
Shinsuke Tanaka	Atsuhiko Yamanaka	Shiro Nakabayashi	Hiroji Iwasaki
Yoshizumi Hashimoto	Kaoru Kawabe	Toshiyuki Kuyama	Koji Kadota
Takafumi Shibahara	Kazuo Hida	Kenji Tomida	Yasuhiko Hashimoto
Minoru Akioka	Makoto Ogawara	Genichi Abe	Tatsuya Watanabe
Yukinobu Kono	Yugo Nakagami	Kazuo Ota	Takeshi Ohata

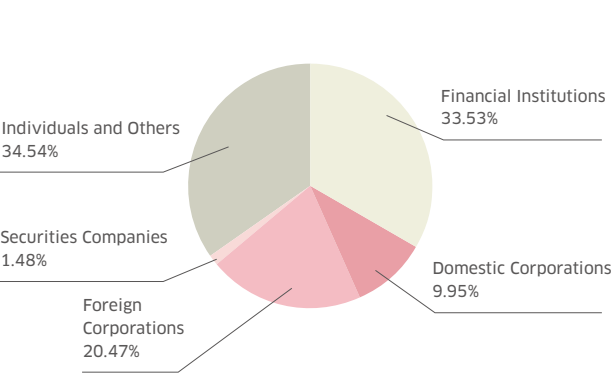
Stock Information (As of March 31, 2013)

Stock Listings	Tokyo, Osaka and Nagoya Stock Exchanges
Total Number of Shares Authorized	3,360,000,000 shares
Total Number of Shares Issued	1,671,892,659 shares
Number of Shareholders	146,087 persons
Annual General Meeting of Shareholders	June

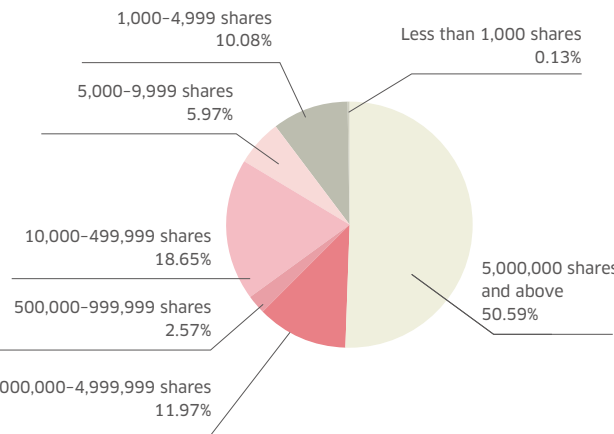
Major Shareholders

Shareholder	Number of Shares Owned	Percentage
Japan Trustee Services Bank, Ltd. (Trust Account)	85,654,000	5.12%
The Master Trust Bank of Japan, Ltd. (Trust Account)	80,797,000	4.83%
Nippon Life Insurance Company	57,516,659	3.44%
Mizuho Bank, Ltd.	57,443,650	3.43%
JFE Steel Corporation	56,174,400	3.35%
Kawasaki Heavy Industries, Ltd. Kyoeikai	35,916,192	2.14%
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	34,361,700	2.05%
Kawasaki Heavy Industries Employee Stock Ownership Association	33,981,217	2.03%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	27,838,589	1.66%
Sumitomo Mitsui Banking Corporation	26,828,453	1.60%
Total	496,511,860	29.69%

Classified by Type of Shareholder



Classified by Number of Holdings



Base Introduction

Offices in Japan

Tokyo Head Office
Kobe Head Office
Corporate Technology Division
Sapporo Office
Sendai Office
Nagoya Office
Osaka Office
Hiroshima Office
Fukuoka Office
Okinawa Office

Production Bases in Japan

Gifu Works
Nagoya Works 1
Nagoya Works 2
Kobe Works
Hyogo Works
Seishin Works
Nishi-Kobe Works
Akashi Works
Kakogawa Works
Harima Works
Sakaide Works

Major Subsidiaries in Japan

KCM Corporation
KCMJ Corporation
Kawasaki Trading Co., Ltd.
Kawasaki Hydromechanics Corporation
Kawasaki Life Corporation
Kawasaki Technology Co., Ltd.
Benic Solution Corporation
Nippi Kosan Co., Ltd.
Kawaju Service Co., Ltd.
K Career Partners Corp.
Kawaju Support Co., Ltd.
Kawaju Marine Engineering Co., Ltd.
Kawasaki Techno Wave Co., Ltd.
KHI JPS Co., Ltd.
Alna Yusoki-Yohin Co., Ltd.
Kawasaki Rolling Stock Technology Co., Ltd.
Kawasaki Rolling Stock Component Co., Ltd.
Kansai Engineering Co., Ltd.
Sapporo Kawasaki Rolling Stock Engineering Co., Ltd.
Nichijo Manufacturing Co., Ltd.
NIPPI Corporation
Kawaju Gifu Engineering Co., Ltd.
KGM Co., Ltd.
Kawaju Gifu Service Co., Ltd.
Nippi Skill Corporation
Kawasaki Thermal Engineering Co., Ltd.
Kawasaki Machine Systems, Ltd.
Kawaju Akashi Engineering Co., Ltd.
Kawasaki Prime Mover Engineering Co., Ltd.
Kawasaki Naval Engine Service, Ltd.
Earth Technica Co., Ltd.
Kawasaki Engineering Co., Ltd.
KEE Environmental Service, Ltd.
KEE Environmental Construction Co., Ltd.
Kawaju Facilitech Co., Ltd.
Earth Technica M&S Co., Ltd.
Kawasaki Motors Corporation Japan
Technica Corp.
K-Tec Corp.
Union Precision Die Co., Ltd.
AutoPolis
Kawasaki Robot Service, Ltd.

Overseas Offices

Beijing Office
Taipei Office
Delhi Office
Moscow Office

Overseas Subsidiaries & Affiliates

KCMA Corporation
Kawasaki Trading do Brasil Ltda.
Kawasaki do Brasil Indústria e Comércio Ltda.
Kawasaki Heavy Industries (U.S.A), Inc.
Kawasaki Heavy Industries (U.K) Ltd.
Kawasaki Hydrogen Engineering Australia Pty Ltd.
Kawasaki Heavy Industries Middle East FZE
Kawasaki Heavy Industries (Singapore) Pte. Ltd.
Kawasaki Trading (Shanghai) Co., Ltd.
Kawasaki Heavy Industries Management (Shanghai) Ltd.
KHI (Dalian) Computer Technology Co., Ltd.
Estaleiro Enseada do Paraguauçu S.A.
Nantong COSCO KHI Ship Engineering Co., Ltd.
Dalian COSCO KHI Ship Engineering Co., Ltd.
Kawasaki Motors Manufacturing Corp., U.S.A.
Kawasaki Rail Car, Inc.
Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.
Kawasaki Gas Turbine Europe GmbH
Kawasaki Gas Turbine Asia Sdn. Bhd.
Kawasaki Heavy Industries (Europe) B.V.
Kawasaki Heavy Industries (H.K.) Ltd.
Wuhan Kawasaki Marine Machinery Co., Ltd.
KHI Design & Technical Service Inc.
Kawasaki Heavy Industries Machinery Trading (Shanghai) Co., Ltd.
Anhui Conch Kawasaki Engineering Co., Ltd.
Anhui Conch Kawasaki Equipment Manufacturing Co., Ltd.
Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd.
Shanghai COSCO Kawasaki Heavy Industries Steel Structure Co., Ltd.
Kawasaki Motors Corp., U.S.A.
Canadian Kawasaki Motors Inc.
Kawasaki Motores do Brasil Ltda.
Kawasaki Motors Europe N. V.
Kawasaki Motors Pty. Ltd.
Kawasaki Motors Enterprise (Thailand) Co., Ltd.
KHITKAN Co., Ltd.
P.T. Kawasaki Motor Indonesia
Kawasaki Motors (Phils.) Corporation
India Kawasaki Motors Pvt. Ltd.
Changzhou Kawasaki and Kwang Yang Engine Co., Ltd.
Kawasaki Precision Machinery (U.S.A), Inc.
Kawasaki Robotics (U.S.A), Inc.
Kawasaki Precision Machinery (UK) Ltd.
Kawasaki Robotics (UK) Ltd.
Kawasaki Robotics GmbH
Kawasaki Machine Systems Korea, Ltd.
Flutek, Ltd.
Wipro Kawasaki Precision Machinery Pvt. Ltd.
Kawasaki Precision Machinery (Suzhou) Ltd.
Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.
Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd.
Kawasaki Robotics (Tianjin) Co., Ltd.
Kawasaki Robotics (Kunshan) Co., Ltd.

(As of June 30, 2013)

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