Selected as components of the SRI(Socially Responsible Investment) Indexes listed below

KHI announced that it has been selected for the first time for the Dow Jones Sustainability Asia Pacific Index (DJSI Asia Pacific), the Asia Pacific version of the Dow Jones Sustainability Indexes (DJSI), which is one of the world's premier indices for Sustainability Investing (SI) in September 2013.

KHI has been included since 2011 in the Morningstar Socially Responsible Investment Index (MS-SRI). Morning Star Japan K.K. selects 150 companies judged to demonstrate outstanding social awareness, and converts their stock prices into the index, which is Japan's first socially responsible investment index.

Consideration for the environment

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

Kawasaki Heavy Industries, Ltd.

Printed in Japan
September 2014

The full version of this report can be accessed from the QR code above.

Kawasaki
Powering your potential

Kawasaki Report 2014

Year ended March 31, 2014

Contents

In protecting the lives of its people, society has a duty to ensure health care access for all.

Great strides forward have been made in research, as well as technology, maintaining a constant stream of successful treatment options, but there still remain issues that cannot be solved by medical technology alone and hurdles that must be cleared.

The KHI Group seeks to find solutions to issues in health-care fields through efforts in the three business areas of Transportation Systems, Energy & Environmental Engineering, and Industrial Equipment.

Transportation Systems

Energy & Environmental Engineering

Industrial Equipment

Editorial Policy

Since 2013, the KHI Group has been publishing a single report–the Kawasaki Report–which integrates the previously separate Annual Report and CSR Report for the Group.

The Kawasaki Report is published in three formats, matched to reader needs, to enable all stakeholders to acquire a greater understanding of the Group's activities and perspectives on performance and CSR.

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, mainly on CSR.

3. The detailed environmental report:
a PDF version report focused exclusively on environment-related content.

Publication Formats and Contents

Formats \ Contents	Digest	Detailed Information: Finance	Detailed Information: CSR	Detailed Information: Environment
The booklet version (Japanese)	●			
The full report (Japanese)	●		●	●
The booklet version (English)	●	●		
The full report (English)	●	●	●	●
The detailed environmental report				●

Period
The report covers fiscal 2014 (April 1, 2013 to March 31, 2014), but some contents refers to activities during fiscal 2015.

Scope
The report covers Kawasaki Heavy Industries, Ltd., and its 96 consolidated subsidiaries (48 in Japan and 48 overseas) and 18 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 (G4 ver.) issued by the Global Reporting Initiative (GRI)

Frequency of Publication Annually, in general

Previous number Issued in October 2013
Following number Expected to be issued in August 2015

Contact us
Please make inquiries through the inquiry form on our Web site
http://www.khi.co.jp/contact/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.

Corporate Profile

Kawasaki Heavy Industries, Ltd.

Head Offices

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14-5, Kaigan 1-chome, Minato-ku,
Tokyo 105-8315, Japan

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

President
Shigeru Murayama

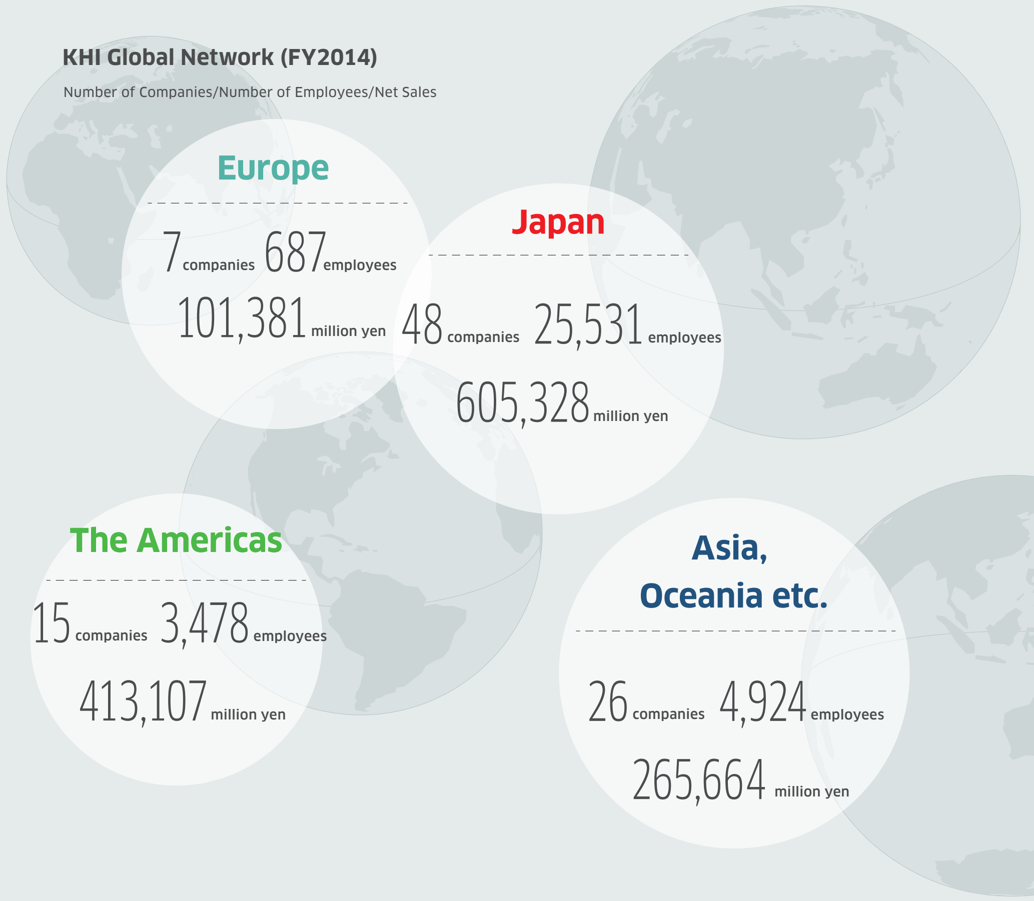
Number of Shares Issued
1,671,892,659 (As of March 31, 2014)

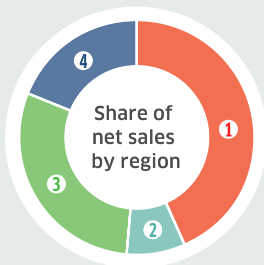
Net Sales
¥1,385,482 million
(Fiscal year ended March 31, 2014)

Number of Employees
34,620 (As of March 31, 2014)

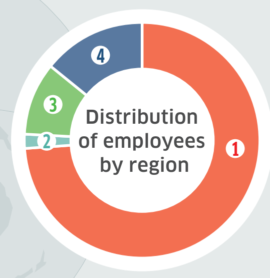
KHI Global Network (FY2014)

Number of Companies/Number of Employees/Net Sales



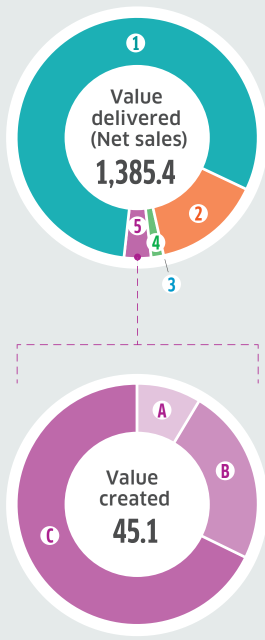


1	Japan	44%
2	Europe	7%
3	The Americas	30%
4	Asia, Oceania etc.	19%



1	Japan	74%
2	Europe	2%
3	The Americas	10%
4	Asia, Oceania etc.	14%

Distribution of Value to Stakeholders (FY2014)



(billions of yen)

1	**Business partners** Business costs (excluding costs for employees, society, and government)	1,107.7
2	**Employees** Salaries and bonuses	211.6
3	**Society** Social contribution expenses	0.6
4	**Administration and government** Income taxes, etc.	20.3
5	**Value created** Value created minus expenses for business partners, employees, society, and government	45.1
A	**Creditors** Interest expense	3.9
B	**Shareholders** Minority interests in net income plus dividends paid	10.7
C	**Company internal, etc.** Increase in retained earnings during period	30.4

Transportation Systems

-40%

Better Accessibility to Medical Services

If only medical personnel had gotten to the patient sooner, if only medical care had been administered sooner, a life might have been saved. At the scene of a medical emergency, where help is urgently needed, time is the enemy.

Recent years have brought a constant stream of amazing advances in medical technology and modes of transportation. For example, urban areas in developed countries are seeing an increase in the number of hospitals with a full array of leading-edge medical equipment and facilities. But what about “medically underserved areas” that have no medical center or where medical help is not easily accessible? You might think this is a situation common only to emerging nations, but in fact it is a serious problem that occurs in developed countries, too.

To knock down those walls of distance and time, and enable sufficient access to medical care in any location, helicopters are increasingly being used to expedite emergency medical services (EMS). According to a report * regarding injuries sustained in traffic accidents, a 40% decrease in mortality was expected when EMS helicopters were deployed, compared with situations that assumed no EMS helicopters had been deployed. The results also indicated that expedited medical attention allowed 1.6 times more people to return to normal life after the accident.

The Kawasaki BK117 C-2 helicopter, our newest model, offers a spacious cabin area, reflecting comments from doctors, nurses, and clinical sites, and rear doors that open wide to facilitate quick transfer of patients in and out of the helicopter. Not only does this model feature all the necessary medical equipment, changes made to the helicopter body itself contribute to reduced noise and other improvements. In addition, if an overland route to a medical emergency would take too long or is impassable due to a catastrophe, an EMS helicopter ensures access.

Kawasaki BK117 C-2 helicopter

We aim to solve medical access problems through transportation systems, and contribute to a society in which complete medical care is available to everyone. KHI will continue to address medical scene issues with technological expertise, based on the concept “Powering your potential”—the promise behind the Kawasaki brand that seeks to open up possibilities for customers and communities through diverse technology-driven solutions.

* Source: “Analysis of Actual Situations of EMS Helicopter Systems,” funded research by the Ministry of Health, Labour and Welfare, March 2006

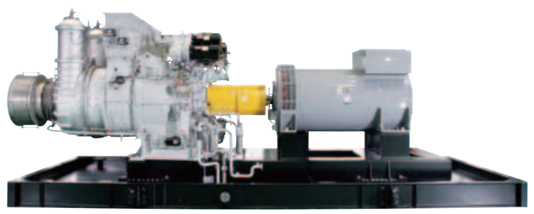
Energy & Environmental Engineering

365 days

Stable Supply of Power to Medical Sites

People are so accustomed nowadays to having ready access to electricity that when the power goes out, everything comes to a standstill. Consider the events of the Great East Japan Earthquake. The associated disasters impacted power-generating capacity in the region and had serious consequences on many fronts, from rolling blackouts to restrictions on power consumption. Disruption of power may invite problems beyond damage caused by a disaster. What would happen if the power goes out while doctors are performing surgery and the operating room is plunged into pitch-black darkness? And how would fire-fighting equipment, such as fire extinguishing devices, sprinklers, indoor hydrant systems and smoke exhaust fans, work without electricity? Nearly all such equipment is powered by electricity, making a stable supply of power vitally important to ensure that facilities operate normally in any situation no matter how unlikely a failure scenario may be.

Guided by the corporate slogan "Powering your potential," KHI seeks to contribute to society through technology. As part of this approach, we offer the Kawasaki PU Series of gas turbine emergency generators, which are vital components of power supply systems that can be counted upon to operate reliably even in times of crisis. The series comprises 21 types of emergency generators with capacities ranging from 150kVA to 6,000kVA to match energy requirements at each installation. Another advantage of this series is ease of operation and maintenance, and it can be installed both indoors and outdoors.In designing this series, KHI also gave consideration to reduced exhaust emissions so that the generators will fit nicely into environmental protection initiatives as well. Maintenance and management of the equipment have little impact at the standby site or to the surrounding environment. More than 7,000 generators in the Kawasaki PU Series have been delivered to date, and we are ready for when demand jumps anywhere in the world.



Gas turbine emergency generators "Kawasaki PU Series"

Emergency generators are the unsung heroes of power supply at hospitals and other medical treatment facilities. They do not take center stage but rather, from the shadows, ensure that medical facilities remain safe and secure. Medical staff and patients always have peace of mind with our generators standing by to provide stable power supply in any situation no matter how unlikely the scenario might be. Our generators also support the realization of a society in which no one need to worry about being left in the dark—quite literally—even in times of disaster. Our efforts are never-ending because it is our enduring mission to make power readily available at all times.

Industrial Equipment

Toward Zero

Striving for Zero Risk in Pharmaceutical and Medical Services

Research into advanced medical treatment is constantly yielding new therapies and remedies. But even today, with the latest that modern medicine has to offer, many diseases remain difficult to cure because their causes have yet to be identified. Great leaps forward are expected in drug discovery, which yields new pharmaceuticals, and from such fields as regenerative medicine, which enables the body to repair, replace, restore and regenerate damaged or diseased cells, tissues and organs. Meanwhile, hospitals and other facilities providing healthcare services await practical access to medical-use robots, which have the potential to save more lives through early detection of illness, reduce the physical burden that currently accompanies surgery and courses of drug therapy through minimally invasive treatment to promote a quicker recovery, and support medical personnel.

KHI seeks to acquire the ability to open up new possibilities for customers and communities through diverse technology-based solutions. Just what do we have at KHI to promote growth in the areas of pharmaceuticals and medicine? Well, we developed a robot for drug dispensing and manufacturing by applying the experience and expertise we had accumulated in automating operations at production sites making a variety of products. Designed to have a flat, smooth surface and excellent chemical resistance, this robot contributes to faster operation and improved work environments. In addition, this robot essentially eliminates the risk of human error and bacterial contamination in operation.

In other pursuits, we have been exploring possible applications of various core proprietary technologies, mainly in robotics and plant and infrastructure construction, for use in the pharmaceutical and medical fields. We devised an automated cell culture system for cultivating such cells as induced pluripotent stem (iPS) cells.* The system will contribute to an environment conducive to safe and stable culturing of human cells for practical use in regenerative medicine.

We also invested equally with Sysmex Corporation to establish Medicaroid Corporation, a marketing company covering the development, manufacture and sale of medical-use robots.

*Using results realized through a project supported by the New Energy and Industrial Technology Development Organization (NEDO)

Pharmaceutical- and medical-use robot

Society is graying, but as the population ages, everyone—patients, people who work in the medical field, and patients' families—will live comfortably and have access to good healthcare. That is our view of the future, supported by expectations heralded by advances in robots for use in developing new drugs, facilitating regenerative medicine and providing medical treatment to save more lives.

We will continue to refine our technological skills with an eye to the future to fuel progress in research toward new destinations in the areas of pharmaceuticals and medical.

Automated cell culture system

Message from the Top Management

With the issue of the second Kawasaki Report, I would like to take this opportunity to address our stakeholders.

Up until fiscal 2013, the KHI Group published the following reports separately: the Annual Report, which focused on disclosure of financial information, management direction, the business environment, and strategies for the Group; and the CSR Report, which contained information on sustainability-oriented activities from a corporate social responsibility (CSR) perspective. However, in fiscal 2014, these two reports were integrated into a single publication—the Kawasaki Report—to reinforce this composite view of business management and CSR.

I believe the Kawasaki Report allows stakeholders to see the high degree to which our business segments undertake activities with respect for the concept of sustainability and as part of our mission to solve social issues. These themes have become consistent and central to all our pursuits. Indeed, compliance and shared objectives in business and in CSR practices will contribute significantly to improving enterprise value.

Going forward, all members of the Group will strive as one to further improve enterprise value and emphasize corporate activities that merit the support of stakeholders. The Kawasaki Report is a corporate communication tool that provides an open channel to all our stakeholders, and I encourage everyone to use it as a starting point for comments and suggestions that underpin our continued success together.

July 2014

President

S. Murayama

Interview

President

Shigeru Murayama × Yoshihiko Morita

Outside Director

Shigeru Murayama, president and representative director at KHI, and Yoshihiko Morita, the first outside director at KHI, respond to questions on the theme of improving enterprise value.

Fiscal 2014—ended March 31, 2014—was the first year of the Medium-term Business Plan 2013 (MTBP 2013). Looking back on the past year, how was the operating environment and how would you evaluate the Group's performance under these conditions?

Murayama: In fiscal 2014, gradual economic growth worldwide, along with a correction in the strong yen, underpinned higher sales and income for the KHI Group. In fact, net income reached an all-time high of ¥38.6 billion.

Of special note, we are seeing wider global demand for the Group's products, particularly in the areas of commercial aircraft, with demand expected to increase over the medium to long term; rolling stock, which is essential to economic development in all countries regardless of developed or emerging nation status; infrastructure, including decentralized power sources; and also for industrial robots, which are a key component of measures to mitigate soaring personnel expenses and to improve labor productivity.

Products to meet this kind of demand require sophisticated engineering to facilitate enhanced safety, efficiency, and comfort. Innovative production technology aligns myriad components into a fine-tuned integrated whole, in addition to state-of-the-art production facilities necessitating upfront investment. Our strength lies in the ability to maximize the Group's capacity to provide such products—something other corporate groups are hard-pressed to replicate.

Consolidated financial results and forecasts for orders received, net sales and profits (Billions of yen)

		FY2014 (Actual)	FY2015 (Forecast)
Orders received		1,455.4	1,580.0
Net sales		1,385.4	1,490.0
Operating income		72.3	73.0
Recurring profit		60.6	66.0
Net income		38.6	41.0
Before-tax ROIC		8.1%	8.6%
Exchange rates (Actual / Assumed)	US$ (¥/$)	99.63	100
	EUR (¥/EUR)	134.56	135

Before-tax ROIC = (income before income taxes + interest expense) / invested capital

Assumed exchange rates apply to FX exposure for FY2015 as of the date of release

Morita: The upturn in business results brought with it a much better financial position in fiscal 2014. Mr. Murayama led the Group to this result.

Murayama: Our interest-bearing debt had ballooned in recent years due to investments management had deemed necessary to sustain business expansion. By the end of fiscal 2013, interest-bearing debt had reached ¥484.6 billion. Consequently, management made it an imperative priority to reduce this balance in fiscal 2014. Our goal was to get down into the ¥450.0 billion range by the end of the fiscal year, and we—the Group as a whole—embraced measures to improve cash flow. As a matter of fact, this united approach cut our interest-bearing debt to ¥444.6 billion as of March 31, 2014. Our ultimate target, however, is to bring the level down into the ¥400.0 billion range by the end of fiscal 2016, which is the last year of MTBP 2013, and this is certainly within the realm of possibility. Overall, I would say that MTBP 2013 got off to a terrific start.

What is the performance outlook for fiscal 2015 and where will efforts be directed?

Murayama: We are looking forward to another year of higher sales and income. We expect recurring profit* of ¥66.0 billion and net income of ¥41.0 billion in fiscal 2015, which would exceed previous records.

*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.

Morita: In fiscal 2014, the overseas sales ratio hit 56.3% on a consolidated basis. Going forward, activities in overseas markets will surely assume greater weight within the Group from a growth perspective.

Murayama: Absolutely right. So by business segment, here is what we will be emphasizing in fiscal 2015. In the Ship & Offshore Structure segment, we aim to establish a firm position in the offshore structure business and reinforce global business development capabilities by decentralizing production across domestic and overseas sites. In the Rolling Stock segment, we intend to lay a solid business foundation to capture demand in North America and in Asia. In the Aerospace segment, we will pursue a stronger partnership with Boeing. In the Gas Turbine & Machinery segment, we will seek a higher profile in international joint development projects on jet engines and establish a wider presence in the decentralized power source market. In the Plant & Infrastructure segment, we will pursue joint activities with overseas companies. In the Motorcycle & Engine segment, we will promote a strategy to reinforce our premium brand presence in emerging markets. Finally, in the Precision Machinery segment, we have expanded our production center for hydraulic components across six countries, and will begin overseas production of industrial robots. In these efforts, we will push further ahead with our unique global strategies for Group operations.

With an emphasis on return on invested capital (ROIC)* as a key performance indicator and efforts being channeled into improving the Group's enterprise value, what are your thoughts on the Kawasaki Group Mission Statement, overall management, and strengths?

* Before-tax ROIC =
(Income before income taxes + Interest expense) / Invested capital

Murayama: Kawasaki Value—a component of our Mission Statement—describes the responsibilities that the KHI Group,

Kawasaki Group Mission Statement

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.

as a corporate group, must fulfill. Within this statement, I personally quite like the phrase "We constantly achieve new heights in technology," as it reflects the Group's colors beautifully. Enterprise value is the sum of discounted returns that appear as years go by, reflecting the value of future profits in each successive year. To boost enterprise value, we absolutely must maintain returns above the cost of invested capital while concentrating management resources, particularly personnel, capital investment, and R&D, into each segment with growth potential. The key to success is technology—and this is where the Group excels. Our technological capabilities are unrivaled. We inherited this strength from our predecessors, and each successive generation developed it further. Going forward, we must do our utmost to pass this precious asset on to the next generation.

Morita: The KHI Group is an organization with technologies honed over a long and industrious history. Each of the seven segment-specific, internal companies boasts world-caliber technologies, and the Group as a whole has carefully cultivated this stock of technologies.

However, I believe there is still much potential for pooling the capabilities of the seven internal companies and I would like to see the Group build on the exponential effect produced as companies access expertise beyond their respective technology inventories.

I reread *Karin no Umi* ("Sea of Steamships") penned by Kojiro Matsukata, the first president of Kawasaki Heavy Industries in its earliest incorporation as Kawasaki Dockyard Co., Ltd. Four concepts stood out to me. First—a timely perspective. That is, responding quickly to prevailing needs while looking to the future. Second—an awareness of public interests. This really epitomizes the KHI Group Mission. Third—a competitive attitude. And fourth—thorough adherence to cost principles. This fourth one is none other than a commitment to quality over quantity, and the pursuit of capital efficiency, still applicable today. Mr. Matsukata's business philosophy is as pertinent today as it was all those years ago.

Murayama: Under Mr. Matsukata's direction, the company established a presence in the shipbuilding business and also ventured into rolling stock and aircraft. Later, leveraging the technologies accumulated through the early businesses, the company diversified into fields such as power generating equipment and motorcycles, laying a solid foundation for today's KHI Group. Going forward, we will, as an integrated corporate group, reinforce our ability to deliver solutions matched to customer needs, and we will lift the composite capabilities of the seven internal companies to new heights.

Regarding commitment to quality over quantity and the pursuit of capital efficiency, tell us about the evaluation of business units (BUs) in fiscal 2014.

Murayama: KHI adopted an internal company structure, effective from fiscal 2002, and has fully embraced financial independence and bonuses linked to corporate performance for each internal company. Ideas on getting day-to-day operations done are important, but equally important is the ability to calmly evaluate the viability of these operations as businesses. Under the new plan, we established a hurdle rate using ROIC as the evaluation standard and ranked each BU accordingly. Any BU that fails to meet the standard for that grade will be subject to review, taking into account such criteria as profitability and required management resources, with an eye toward restructuring. But if the review finds that future prospects are dim, even with corporate support, associated management resources will be shifted to growth fields instead. The underlying objective in business restructuring is to reinforce core competence. Where operations were previously lumped together under internal companies, we aim to refine the BU concept, thereby making it easier to extract the core competence from each segment.

We will also evaluate operations using the 3C Model—Customer, Competitor, and Company—and think on how best to improve our reputation in the eyes of our customers and strive to link this to higher income under a revitalized operating structure. This process will be open to all members of corporate management, and by sharing information, we will eliminate the reliance and dependence that one segment has on another while pooling knowledge and expertise for mutual use by members of other internal companies. I am sure that the newest measures will be successful in this regard.

This Kawasaki ROIC Management perspective is vital to the pursuit of capital efficiency and sustainable growth. It is the perfect business management tool for us because we are working to promote well-balanced, integrated management practices.

Morita: I think so, too. Being able to visualize certain dynamics, such as strengths and weaknesses within each BU and issues specific to those units, from the respective ROIC number is a definite advantage. Furthermore, sharing information among internal companies is a way to promote deeper corporate dialogue—allowing decision-makers to imagine "we could apply this here, too" or "this company's technology could be combined with that company's technology to achieve synergistic effects." I would definitely like to have such dialogue lead to real concrete actions.

Mr. Morita, as an outside director, what are your thoughts on corporate governance at the KHI Group?

Morita: I was struck by the fact that dialogue is extremely free and open here. This is a company with good communication practices. In this environment, I received a very warm welcome for which I am truly grateful. I think corporate governance has two functions. One is to maintain sound and transparent management practices, and the other is to consistently improve enterprise value.

An important perspective for an outside director is to look at corporate issues from an observer's position. Also, however, in conjunction with shareholders and other stakeholders, the purpose of an outside director should be to help a company improve its enterprise value.

Murayama: Mr. Morita is extremely perceptive, and his questions have a point—a purpose. Furthermore, he speaks from a stakeholder's perspective, on behalf of stakeholders, as it were.

For example, in regard to a particular undertaking, he said "The plan is a very good one indeed, but the time frame seems too long. Wouldn't a swifter approach be better?" He knew that the stated time frame would ensure a perfect result, but he felt that customers and society as a whole might not be able to or want to wait that long. This was a very constructive observation.

There is a danger that management might lean in a certain direction—losing objectivity—if the executive team were to comprise only members from the same organization. The absolutely essential ingredient of good corporate governance is therefore to have an outside director in the mix, one who voices opinions from a stakeholder's perspective and acts as a beacon of light to reveal issues that we executives on the inside might not see. We can then discuss these issues in a free and open forum to make policy decisions that we all work steadily to implement. I believe that an outside director plays a vital role, contributing to sound management practices as well as enhanced enterprise value.

With regard to the environment, the KHI Group Mission Statement, "Kawasaki, working as one for the good of the planet," addresses efforts to contribute to the global environment. The Group is promoting various initiatives, including conformity assessment of Kawasaki green products and energy visualization.

Murayama: CO_2 emissions are increasing and this is a serious social concern. Measures to reduce emissions will continue to be absolutely imperative. Thus, it is very important for us to facilitate solutions, such as greater fuel economy and greater efficiency in the products we market to the world. Naturally, therefore, our goal is to develop environmentally conscious green products, and we intend to maintain this focus in the years ahead. Currently, we are involved in a hydrogen project,* and I believe we should continue to promote such projects because they—and by extension the Group—can play an integral part in realizing a society of the not-too-distant future that benefits from energy supplied by hydrogen-based fuel.

Morita: Anything with a good efficiency rating tends to require high initial investment. However, looking at total costs, including running costs, such products are actually low-cost. It is important to highlight this cost reality from various angles.

* For details on the hydrogen project, please go to page 29–30.

What are your thoughts on company stakeholders?

Murayama: Company stakeholders include shareholders, customers, employees, business partners, and local communities, but the crucial support for improved enterprise value actually comes from the relationships we build and maintain with these stakeholders.

To boost enterprise value, we have to get customers to buy Kawasaki-brand products. Regardless of how sophisticated our technology may be, if no one buys our products, we are not fulfilling our role in society. In that sense, customers are indeed our first priority. We must provide what meets customer requirements.

Morita: Japan's manufacturing industry has always prioritized technology—call it a technology-push perspective. Going forward, that emphasis will have to shift, I think, to a demand-pull perspective favoring demand creation. Can extremely excellent technologies be turned into profitable businesses? The answer to that will require greater efforts to reinforce sales and marketing strategies, and it applies to the whole industry, including the KHI Group. I think KHI has to fully demonstrate synergies among its seven internal companies and promote global strategies premised upon the demand-pull concept.

Murayama: I totally agree. Backed by superior technological capabilities and a vast expanse of business pursuits, we aim to utilize our conglomerate advantage to cultivate demand from our customers, and expand our businesses along with those of our customers. For that, we have to be keenly aware of demand-pull from two positions—our commitment to sustainability and our desire to help resolve the issues facing society today—and we have to pursue manufacturing giving thought to further reinforcing our technology platform so that we can properly meet evolving demand.

We cannot forget employees; they are one of the stakeholders fulfilling a vital role in raising enterprise value. If employees are motivated in a direction conducive to realizing the Group Mission, they will gain a greater sense of satisfaction from the eventual achievement of objectives. This in turn will lead to higher enterprise value. There is a term in Japanese—*sokusenryoku*—that is used quite often in Japan right now. It means "battle-ready," but in a job-related sense it refers to someone who has the skills to be of great benefit to a company immediately upon hiring. I often tell new employees "You hear the term *sokusenryoku* all the time, but to be someone like that you must first study hard and acquire practical abilities; that's how you get to be an expert." Following this process is a true reflection of the principle "We constantly achieve new heights in technology," which underpins the technological capabilities that represent the forte of the KHI Group. Creating this kind of environment is key.

Recognizing diversity is also important. Capitalizing on the latent potential of women and foreign personnel will definitely accelerate corporate growth and strengthen operations.

Moving on to business partners, we must promote a keen reciprocal awareness of the win-win benefits of a good business relationship. If our business partners subscribe to the idea that we are in the same boat, so to speak, even in a harshly competitive environment, then we will be able to maintain good relationships with each other over the medium to long term. This will certainly add strong links to our supply chain.

Additionally, we can boost enterprise value by contributing to local communities and through other approaches conveyed by our Group Mission. Building relationships with stakeholders based on mutual understanding is, in itself, sure to raise enterprise value and strengthen our position. Ultimately, shareholders benefit as higher enterprise value leads to increased share value and returns on their investment in the KHI Group.

As I say here—and will say again many times—to realize higher enterprise value, it is exceedingly important to have a good mix of stakeholders, never leaning more toward any one type of stakeholder group than to another.

Morita: I agree. There is, with some disparity depending on the situation perhaps, only one kind of stakeholder interest. Higher enterprise value.

Improving enterprise value benefits all stakeholders. It is not mutually exclusive. Enterprise value is often associated with a quantitative number, such as sales or profits, benefiting investors. But it is important to employees, too. And then there is the realization of the Group Mission—a qualitative aspect of enterprise value. It may be perceived as the polar opposite of quantitative targets but it is not. You see, the KHI Group has various technologies that make the world a better place. However, this potential will remain latent—and thus meaningless—if people around the world do not make use of the technologies. Utilizing these technologies means that the associated products have been purchased. That is, sales and profits go up. I believe a company's existence hinges on doing good for the world while concurrently increasing sales and profits.

Murayama: Our duty is to improve enterprise value by achieving a balance between increasing sales and profits and realizing the Group Mission. Toward this end, we must look outside the box and acknowledge diverse points of view. A company exists only because it has the support of all kinds of stakeholders, from investors and customers to employees and business partners. Every organization has its own particular perspective or ideas as a result of its own unique history and way of doing business. But to be able to acknowledge diverse points of view makes us more flexible and open. It is for this very reason that we have to actively maintain opportunities where our stakeholders can speak—and we will listen. Through Kawasaki ROIC Management, underpinned by the understanding and support of our stakeholders, we will achieve sustainable growth and higher enterprise value for the realization of a better future for all of our stakeholders.

First Set of Kawasaki Green Products

To realize our Group Mission: "Kawasaki, working as one for the good of the planet," we will draw on high-level, comprehensive technological capabilities over the KHI Group's extensive range of business pursuits to create new value for coexisting with nature and building a brighter, more comfortable future for generations to come.

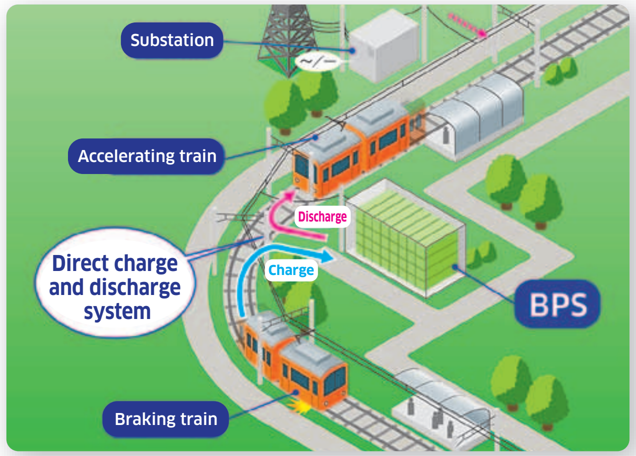
Just recently, we launched Kawasaki Green Products, a program in support of the Group Mission objective and through which we will boost the environmental performance of products and accelerate the reduction of environmental impact caused by associated manufacturing processes. The products selected for this program must meet self-established criteria and are categorized as either Kawasaki Green Products or Kawasaki Super Green Products. The products are then labeled compliant with ISO 14021, and the list is made public.

The program logo embodies KHI's commitment to environmental sustainability through products and manufacturing. The three pillars in the logo represent our primary business areas—land, sea and air transport systems, energy and environmental engineering, and industrial equipment—and the innovative and advanced technological capabilities in these respective areas form a firm foundation for these pillars, which together support the global environment.

"Kawasaki, working as one for the good of the planet"

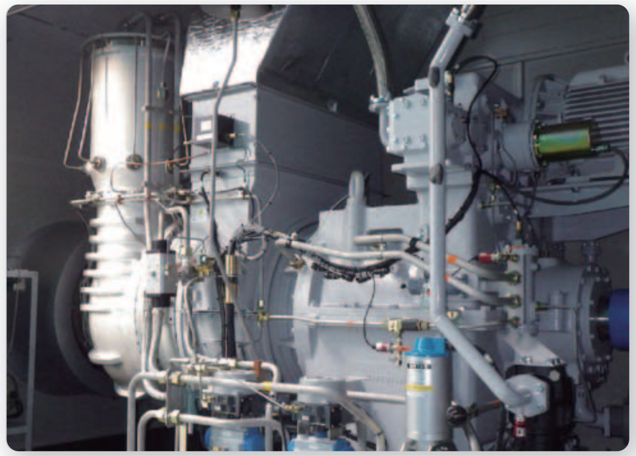
Kawasaki Green Product
Promotion Activity

Program logo



Battery Power System (BPS)

BK117C-2 Helicopter


M1A-17D Gas Turbine


Green Gas Engine


Spot Welding Robot (BX200LS)

Kawasaki Green Product Promotion Activity

First Kawasaki Green Products Announcement

The first group of Kawasaki Green Products has been selected.
These are the Kawasaki Green Products and Kawasaki Super Green Products that were assessed overall review from the perspectives of environmental performance and environmental management during manufacturing processes and are subsequently cleared according to self-established criteria.

* For details, please refer to the Kawasaki Environmental Report 2014.


MAG Turbo (Single Stage Aeration Blower with Magnetic Bearings)


Hydraulic Pump for Excavators (K7V)


Ninja ZX-6R


CKK System


Centrifugal Chiller Using Water as Refrigerant

Application

Looking at environmentally conscious products and environmental solutions from the perspective of

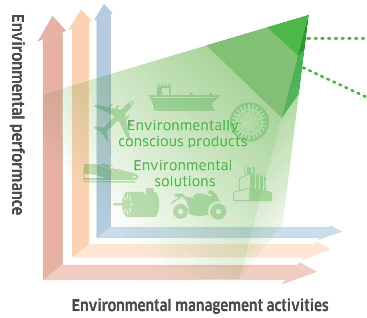
- A low-carbon society
- A recycling-oriented society
- A society coexisting with nature

We will apply those that exhibit particularly excellent performance.

Overall Evaluation Criteria

We take an overall view, considering environmental performance of the product as well as environmental management during manufacturing processes.

- Key considerations: CO_2 reduction, renewable energy and high-efficiency, etc. — Low-carbon society
- Key considerations: recyclability, reuse, lighter weight, longer service life, etc. — Recycling-oriented society
- Key considerations: reduced use of toxic substances, lower noise and vibration, reduced substances with an environmental load, environmental protection, etc. — Society coexisting with nature



Conformity Assessment

We assess products and determine if they comply with established criteria.

Kawasaki Super Green Products

Products with environmental features that are among the best in the industry.

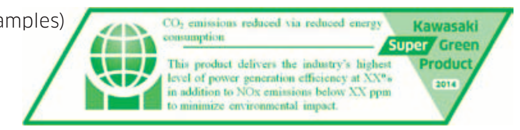
Kawasaki Green Products

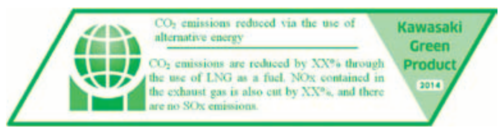
Products that demonstrate higher environmental performance than the industry standard or our own pre-existing models.

Environmental Labels

Products that meet conformity assessments receive an environmental label describing product features, including basis for authorization, and environmental claims are announced.

(Examples)



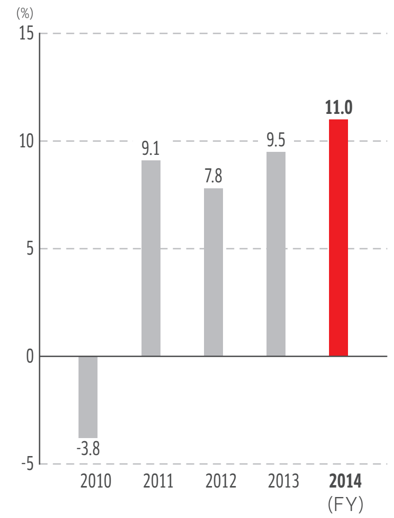


Performance Highlights

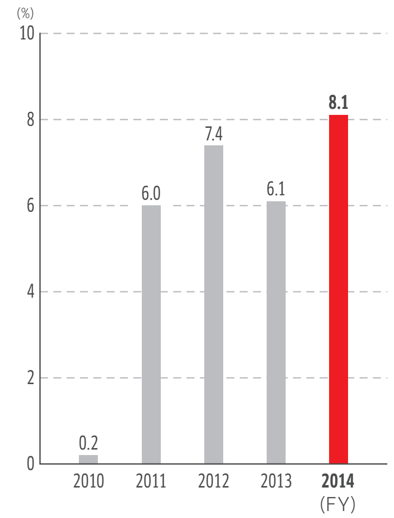
	Millions of yen			Thousands of U.S. dollars
	FY2014	FY2013	FY2012	FY2014
Net sales	**1,385,482**	1,288,881	1,303,778	13,461,737
Operating income	**72,351**	42,062	57,484	702,982
Recurring profit	**60,605**	39,328	63,627	588,855
Net income	**38,601**	30,864	23,323	375,058
Comprehensive income	**68,705**	44,039	24,569	667,557
Net cash provided by operating activities	**151,721**	28,101	84,737	1,474,164
Net cash used for investing activities	**(77,559)**	(81,160)	(65,959)	(753,585)
Free cash flow	**74,162**	(53,058)	18,778	720,579
Net cash provided by (used for) financing activities	**(62,505)**	57,671	(26,831)	(607,316)
Cash on hand and in banks	**47,949**	38,525	34,316	465,886
Trade receivables (notes and accounts receivables)	**415,664**	432,649	404,054	4,038,709
Inventories	**458,033**	460,105	441,897	4,450,379
Other current assets	**84,107**	85,534	86,918	817,207
Current assets	**1,005,754**	1,016,814	967,186	9,772,192
Total fixed assets	**401,174**	325,239	293,536	3,897,920
Total investments and other assets	**147,500**	124,236	101,416	1,433,151
Total assets	**1,554,430**	1,466,290	1,362,139	15,103,284
Trade payables (notes and accounts payables)	**306,030**	281,063	310,775	2,973,484
Interest-bearing debt	**444,644**	484,653	407,166	4,320,287
Other liabilities	**427,068**	350,693	328,274	4,149,514
Total liabilities	**1,177,744**	1,116,409	1,046,216	11,443,296
Total shareholders' equity	**376,284**	357,379	335,270	3,656,082
Total accumulated other comprehensive income	**(13,243)**	(19,139)	(29,216)	(128,672)
Minority interests	**13,645**	11,641	9,868	132,578
Net assets	**376,686**	349,881	315,922	3,659,988
Liabilities and net assets	**1,554,430**	1,466,290	1,362,139	15,103,284
CO_2 Emissions from Business Sites (non-consolidated) *1	**263**	284	252	(10^3t-CO_2)
CO_2 Emission Reduction with Product Usage*2	**741**	504	321	(10^3t-CO_2)
Expenditure on social contribution activity	**631**	687	796	(millions of yen)
Number of employees	**34,620**	34,010	33,267	(persons)
Domestic	**25,531**	25,222	24,770	(persons)
Overseas	**9,089**	8,788	8,497	(persons)

Note: All dollar figures have been translated into yen at ¥102.92 to US$1, the approximate rate of exchange at March 31, 2014.

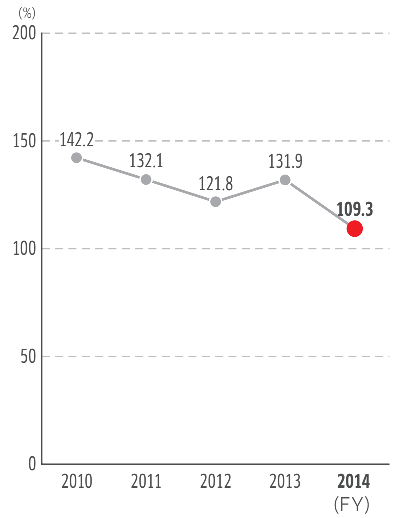
Return on equity
Net income / Shareholders' equity



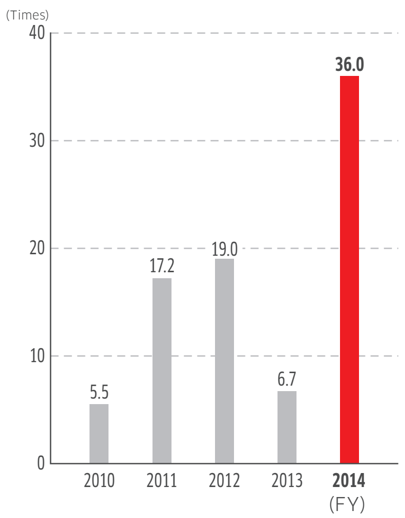
Return on invested capital
(Income before income taxes and minority interests + Interest expense) / Invested capital



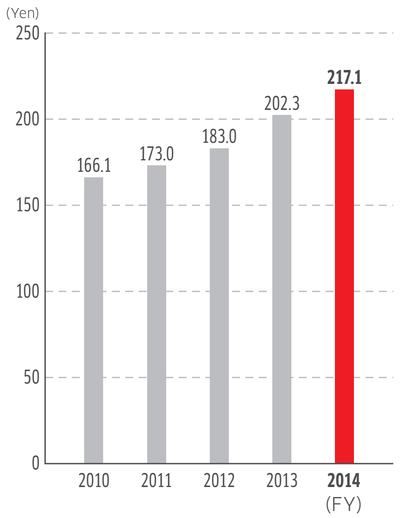
Debt equity ratio
Net interest-bearing debt / Shareholders' equity



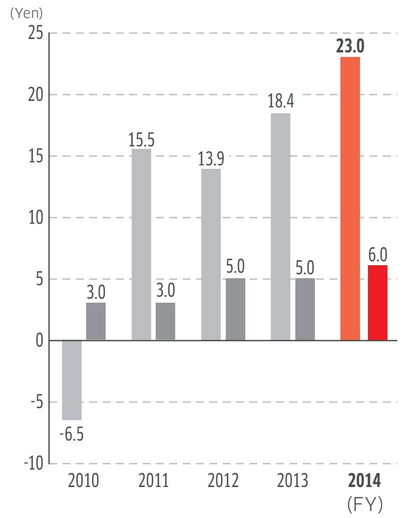
Interest coverage ratio
Cash flow from operating activities / interest expense



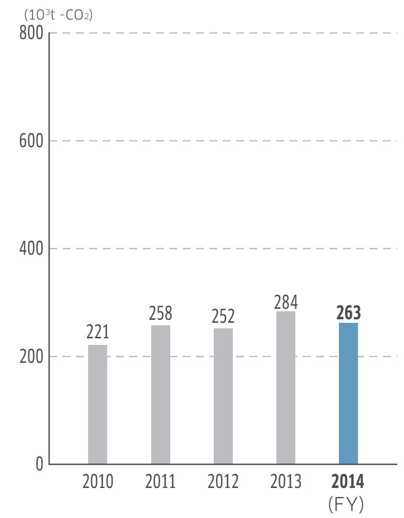
Net assets per share



Net income per share
Dividends per share

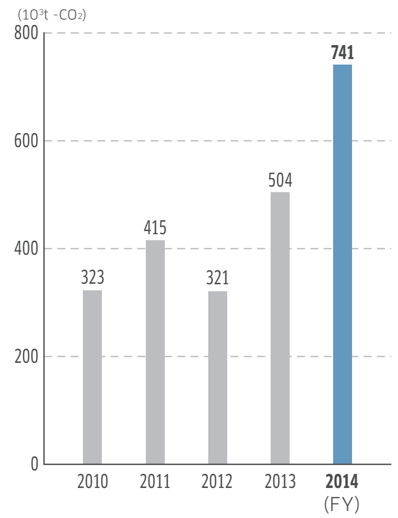


CO_2 Emissions from Business Sites (non-consolidated) *1



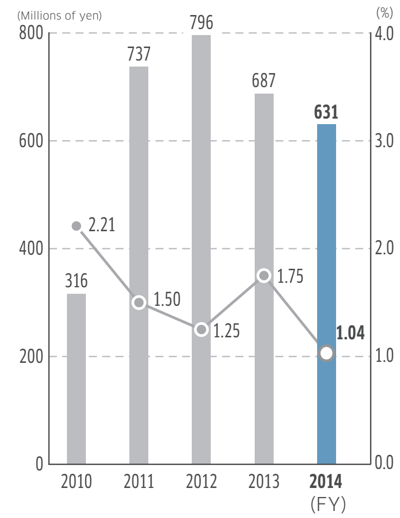
*1 For details, please refer to page 42.

CO_2 Emission Reduction with Product Usage*2



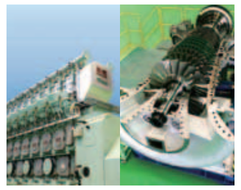
*2 Estimates based on actual delivery record

Expenditure on social contribution activity*3 (left-axis)
Recurring profit ratio(right-axis)



*3 Since fiscal 2011, the figure for expenditure on social contribution activity has been based on an altered range of corporate activities and organizations.

FY2014 (billions of yen)

Company		Composition of net sales	Net sales	Operating income	Main Products
	Ship & Offshore Structure	5.8%	80.8	-2.0	● LNG carriers ● LPG carriers ● Offshore work vessels ● VLCCs ● Bulk carriers ● Submarines
	Rolling Stock	10.6%	147.9	7.5	● Electric train cars (including Shinkansen) ● Electric and diesel locomotives ● Passenger coaches ● Gigacell (High-Capacity, Full Sealed Ni-MH Battery)
	Aerospace	20.2%	280.7	26.2	● Aircraft for Japan's Ministry of Defense ● Component parts for commercial aircrafts ● Commercial helicopter ● Missiles / Space equipment
	Gas Turbine & Machinery	13.6%	189.2	10.4	● 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	7.4%	103.8	6.3	● Industrial plants (cement, fertilizer and others) ● Power plants ● LNG tanks ● Municipal refuse incineration plants ● Tunnel boring machines ● Crushing machines
	Motorcycle & Engine	23.2%	322.2	16.1	● Motorcycles ● All-Terrain Vehicles (ATVs) ● Utility Vehicles ● Personal Watercraft ● General-purpose Gasoline Engines
	Precision Machinery	8.8%	123.2	10.4	● Hydraulic components (pumps, motors and valves) ● Hydraulic systems for industrial use ● Hydraulic marine machinery ● Precision Machinery / Electric-powered devices ● Industrial Robots

Ship & Offshore Structure

LNG carrier GRACE DAHLIA

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

Consolidated orders received increased by ¥12.1 billion year on year to ¥117.8 billion. The Group booked nine newbuild orders, including orders for liquefied gas (LNG and LPG) carriers and a large offshore service vessel. Consolidated net sales decreased by ¥9.4 billion year on year to ¥80.8 billion as an increase in construction of liquefied gas carriers failed to offset a decrease in construction of bulk carriers and other vessels. The segment incurred a consolidated operating loss of ¥2.0 billion, a ¥6.1 billion downturn from the previous fiscal year's consolidated operating income. The deterioration in profitability was chiefly attributable to higher steel prices and a new provision for losses on construction contracts.

For fiscal 2015, we expect the consolidated value of orders to be ¥150 billion, net sales to be ¥85 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

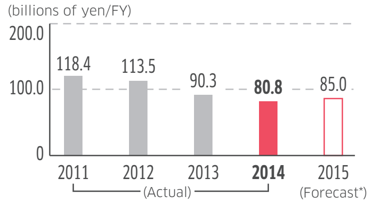
- Maintain and improve the profitability of Chinese joint ventures.
- Support the smooth start-up of a project in Brazil.

Despite signs of improvement in the shipping market, a full-fledged recovery failed to take hold in the shipbuilding market. However, 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. In addition, we aim to achieve steady business expansion with products in new areas, such as large offshore work vessels and LNG-fuelled vessels, for which orders were received last fiscal year.

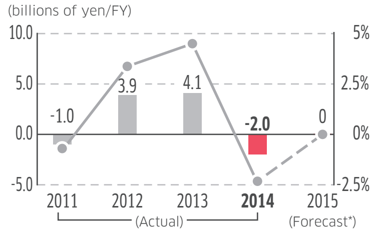
Turning to overseas operations, two joint ventures in China (NACKS*1 and DACKS*2) have established a steady track record of performance. In these projects, we are targeting further improvements in competitiveness mainly through enhanced design capabilities and cost reductions. We are also engaged in 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



Operating income
Ratio of operating income to sales



*As of April 25, 2014

Before-tax ROIC

FY2013	FY2014	FY2015 (Forecast)
17.3%	3.4%	0.2%

Approach to Social Issues

1. 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
2. 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

Series E7 Shinkansen (bullet train) operated by East Japan Railway Company

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

Consolidated orders received grew ¥8.6 billion to ¥133.0 billion, largely due to orders for commuter car by the Long Island Rail Road and Metro-North Railroad and orders for subway car by the Washington Metropolitan Area Transit Authority and Sapporo City Transportation Bureau. Consolidated net sales increased by ¥17.9 billion year on year to ¥147.9 billion, largely due to the growth in overseas sales to customers in North America and Singapore. Consolidated operating income increased by ¥5.3 billion year on year to ¥7.5 billion, largely by cost reduction and yen depreciation.

For fiscal 2015, we expect the consolidated value of orders to be ¥180 billion, net sales to be ¥135 billion and operating income to be ¥6 billion.

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

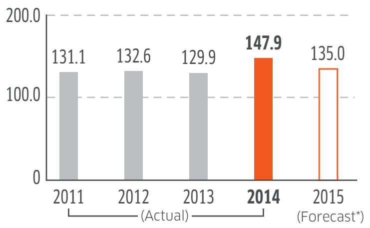
- Improve presence through solution-style order activities backed by leading-edge technology and development capabilities, and promotion of distinctive products
- Achieve profit growth in North America through advanced-technology and quality, our integrated production system, which ranges from car body fabrication through final assembly, and our new product lineups
- Strengthen competitiveness in the Asian market by enhancing capacity for railroad system projects and further optimizing our project delivery framework

Recent years have seen an upswing in infrastructure investment paralleling economic growth in emerging economies. At the same time, developed countries have planned projects such as the construction of high-speed rail and modernization of railways. As a result, the world rolling stock market is expected to expand. Against this background, KHI will establish a stronger presence in the domestic market by fully meeting customer needs and by expanding sales of high-performance, high-function products, including the efWING (environmentally friendly Weight-Saving Innovative New Generation) rail truck. In North America, where we have a record of numerous successful projects and where demand is expected to grow, we are leveraging new products in the form of the efSET (environmentally friendly Super Express Train), a new high-speed train for the overseas market. We are also maximizing the advantages of two production facilities in the United States, advanced technology and quality, and contract execution. We will maximize these strengths to reinforce our position as a top manufacturer of rolling stock in North America. In the Asian market, we are working to maintain and develop local partnerships to establish optimal project delivery systems and strengthen system integration capabilities.

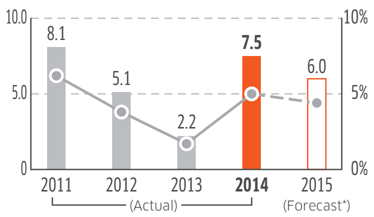
We are continuously expanding our growth in three strategic markets, domestic, the United States and Asia in order to realize our target described in Kawasaki Vision 2020.

Financial Highlights

Net sales



Operating income
Ratio of operating income to sales



*As of April 25, 2014

Before-tax ROIC

FY2013	FY2014	FY2015 (Forecast)
4.6%	10.2%	7.9%

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

Aerospace

Boeing 787-9 Dreamliner (fore section of fuselage)

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

Consolidated orders grew by ¥2.8 billion year on year to ¥286.3 billion. The increase was attributable to the growth in orders for components for Boeing 787. Consolidated net sales increased by ¥41.5 billion year on year to ¥280.7 billion, largely due to the growth in sales of component parts for Boeing777 and 787 coupled with the growth in sales to Japan's Ministry of Defense. Consolidated operating income showed a sharp increase of ¥11.4 billion increase year on year to ¥26.2 billion, largely by virtue of sales growth, enhanced productivity and yen depreciation.

For fiscal 2015, we expect the consolidated value of orders to be ¥290 billion, net sales to be ¥320 billion and operating income to be ¥27 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

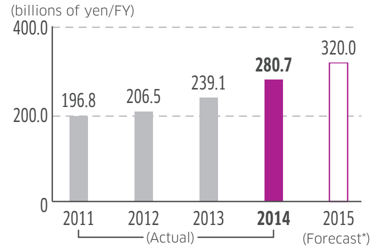
- Adapt for increased production of component parts for the Boeing 787 and branch out to derivative aircraft

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.

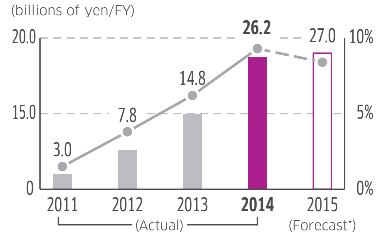
In the commercial aircraft business, meanwhile, continuing expansion of demand is expected in the medium to long term. To adapt to increased production of component parts for the Boeing 787, we will further boost production capacity at the Nagoya Works and target cost reductions. In addition, to maintain 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



Operating income
Ratio of operating income to sales



*As of April 25, 2014

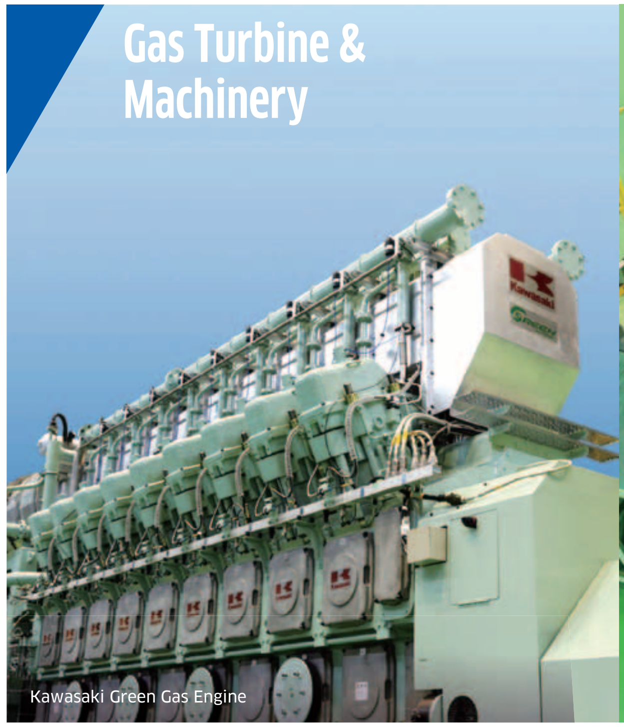
Before-tax ROIC

FY2013	FY2014	FY2015 (Forecast)
15.9%	19.6%	17.7%

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



Kawasaki Green Gas Engine

Gas Turbine L30A

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

Consolidated orders received decreased by ¥33.5 billion year on year to ¥222.0 billion. Adjusted to factor out a change in accounting treatment of aircraft engine components that detracted from orders received by ¥56.8 billion, consolidated orders received increased by ¥23.3 billion year on year. The increase was mainly attributable to increased orders for gas engines and aircraft engine components. Consolidated net sales decreased by ¥17.7 billion year on year to ¥189.2 billion, but when adjusted to factor out said change in accounting treatment, which detracted from sales by ¥37.4 billion, consolidated net sales increased by ¥19.7 billion year on year. Major year-on-year changes in sales included decreases in sales of marine gas turbines and marine diesel engines and increases in sales of aircraft engine components and gas engines. Consolidated operating income increased by ¥3.4 billion year on year to ¥10.4 billion, largely as a result of the increase in sales adjusted to factor out the effect of the change in accounting treatment of aircraft engine components.

For fiscal 2015, we expect the consolidated value of orders to be ¥230 billion, net sales to be ¥230 billion and operating income to be ¥9 billion.

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

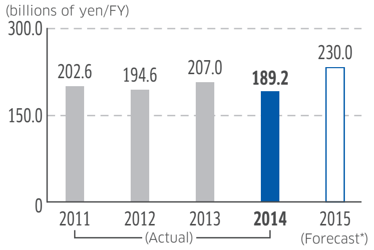
- Use the newly established Energy Solutions Division to strengthen our response to increased energy demand
- Expand the commercial aircraft engine business and secure stable profits
- Expand the marine propulsion systems business targeting the oil- and gas-related offshore market

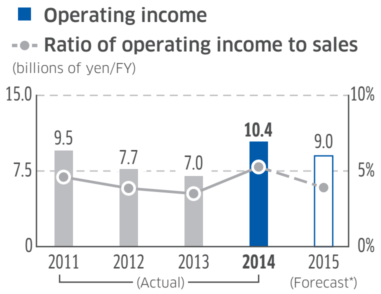
In the energy sector, in fiscal 2014, we set up the Energy Solutions Division to strengthen our response to increased energy demand from emerging nations, as well as to heightened demand for distributed power sources following the revision of energy policies after the Great East Japan Earthquake. By 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 offshore work vessels for use in the oil- and gas-related offshore market.

Financial Highlights

Net sales





*As of April 25, 2014

Before-tax ROIC

FY2013	FY2014	FY2015 (Forecast)
5.3%	4.6%	5.1%

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

LNG tank for Hokkaido Gas Ishikari Co., Ltd LNG Terminal

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

Consolidated orders received decreased by ¥9.6 billion year on year to ¥103.9 billion despite orders received on LNG tanks for CPC Corporation, Taiwan's Taichung LNG Terminal Expansion Project. Consolidated net sales decreased by ¥11.9 billion year on year to ¥103.8 billion despite an increase in environmental infrastructure contracts. The sales decline was chiefly attributable to a lower sales for conveyance equipment and large overseas contracts. Consolidated operating income declined by ¥3.4 billion year on year to ¥6.3 billion, largely due to the sales decline coupled with shrinkage in profit margins.

For fiscal 2015, we expect the consolidated value of orders to be ¥130 billion, net sales to be ¥120 billion and operating income to be ¥6 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

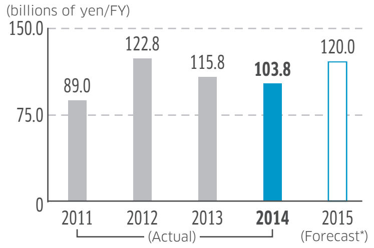
We are engaged in a wide-ranging variety of businesses, from manufacturing plants for cement, fertilizer and other products to constructing LNG tanks and municipal refuse incineration facilities, and deliver high-quality products with our engineering capabilities built up over many years. To further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

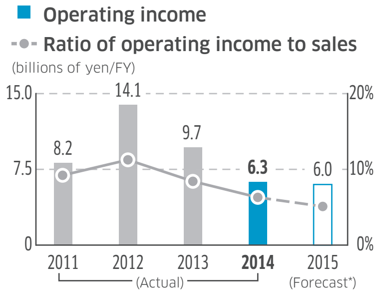
On the technology front, in addition to improving the added value of our superior technologies, we are standardizing design across the board to achieve stable quality, shorter delivery lead times, and cost reductions. In the commercialization of new products and technologies, we use measures such as 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





*As of April 25, 2014

Before-tax ROIC

FY2013	FY2014	FY2015 (Forecast)
21.2%	14.9%	13.5%

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

Ninja 1000

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

Consolidated net sales rose by ¥70.3 billion year on year to ¥322.2 billion, boosted by motorcycle sales growth in the United States and emerging-market economies, particularly Indonesia and Thailand. Consolidated operating income showed a sharp increase of ¥13.7 billion increase year on year to ¥16.1 billion, largely by virtue of sales growth and improved profitability.

For fiscal 2015, we expect net sales to be ¥320 billion and operating income to be ¥16 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.

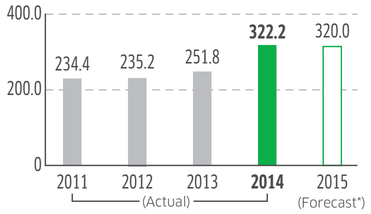
In emerging markets, further expansion is expected on the back of economic growth. To strengthen our position in the leisure motorcycle field, where we already enjoy a competitive lead, we are steadily capturing growing market demand through strategies including expansion of production capacity at local 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

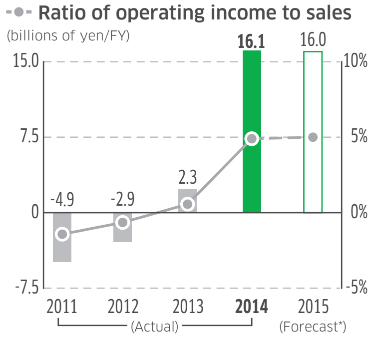
Net sales

(billions of yen/FY)



■ Operating income
Ratio of operating income to sales

(billions of yen/FY)



*As of April 25, 2014

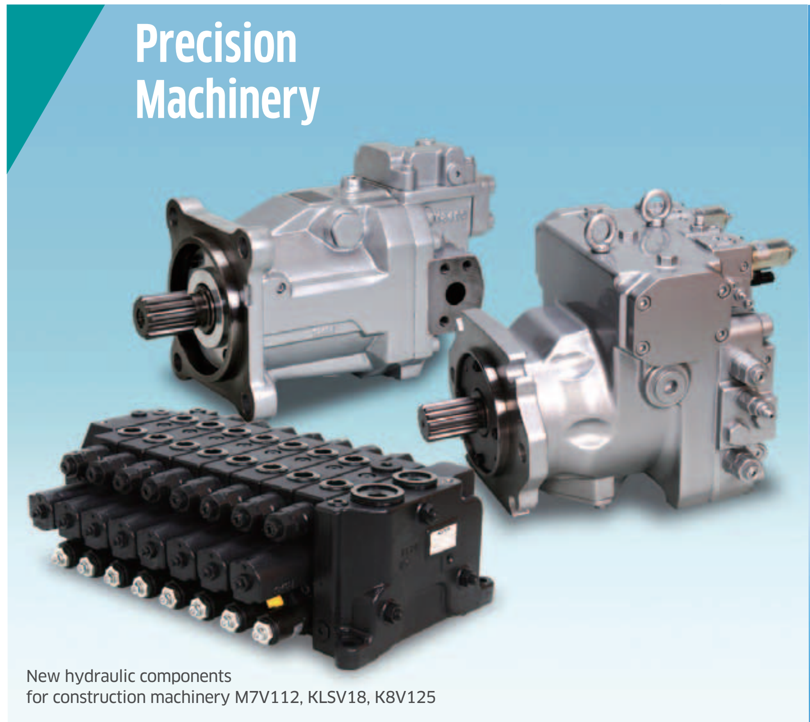
Before-tax ROIC

FY2013	FY2014	FY2015 (Forecast)
3.4%	1.4%	9.2%

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

Precision Machinery



New hydraulic components
for construction machinery M7V112, KLSV18, K8V125

BX series BX200L

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

Consolidated orders received increased by ¥17.5 billion year on year to ¥127.2 billion, largely by virtue of the growth in orders for clean robots for semiconductor manufacturing equipment and industrial robots for the automotive industry. Consolidated net sales declined by ¥7.1 billion year on year to ¥123.2 billion, as growth in sales of clean robots for semiconductor manufacturing equipment and industrial robots for the automotive industry were insufficient to offset declines in sales of other products, particularly hydraulic equipment. Consolidated operating income increased by ¥1.9 billion year on year to ¥10.4 billion, largely as a result of growth in sales of clean robots for semiconductor manufacturing equipment and industrial robots for the automotive industry and yen depreciation.

For fiscal 2015, we expect the consolidated value of orders to be ¥140 billion, net sales to be ¥140 billion and operating income to be ¥12 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.

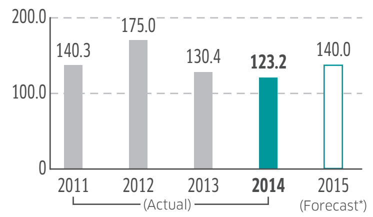
As a response to globalization, following our entry into China, we have set up a new company in the expected future growth market of India that began production in 2012. We have thus established a system with six centers worldwide in Japan, the United Kingdom, the United States, South Korea, China and 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. In addition, we aim to participate in the medical robot field and also cultivate new sectors by developing human-robot collaboration technology and pinpointing latent demand for automation.

Financial Highlights

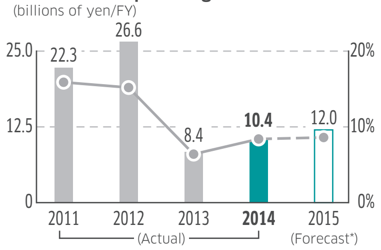
Net sales

(billions of yen/FY)



■ Operating income
Ratio of operating income to sales

(billions of yen/FY)



*As of April 25, 2014

Before-tax ROIC

FY2013	FY2014	FY2015 (Forecast)
14.0%	17.5%	16.8%

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

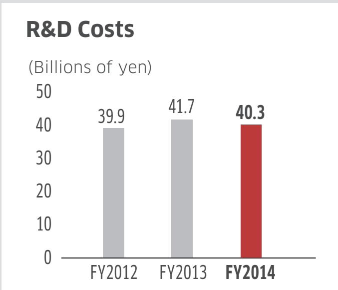
Seeking to enhance core competence in its business divisions and create new value for its customers, KHI emphasizes a Group-wide approach to R&D that is based on integrated efforts by business divisions and the Corporate Technology Division to promote new product and business development and to engage in development activities aimed at, for example, sharper product competitiveness and higher quality and productivity.

In addition, under the ROIC management strategy, we will strive as one to raise the cohesive power of the Group and improve corporate value by pursuing technology-driven synergies extending beyond divisional walls and efficiently promoting new product and business development.

Technology and Product Development Looking Ahead to a More Distant Future

In our pursuit of enhanced core competence in existing businesses, we are making progress in the development of new products, including an offshore service vessel for marine resource development, a commuter train for the North American market, FLNG/FPSO marine boilers*, high-output gas engines for power generation, and a motorcycle engine fitted with a supercharger. In addition, we aim to quickly cultivate and strengthen technology for the future to underpin the creation of new value for customers, and toward this end we are delving into technology to integrate electrical and mechanical systems and innovative production technology designed to achieve efficient production of civilian aircraft and large aircraft engines. We are also looking ahead to the eventual realization of a society that benefits from energy supplied by hydrogen and are directing efforts into the development of hydrogen-related technology and products.

These activities reflect a corporate perspective that goes beyond tomorrow to a more distant point in time and guides us on an enduring quest to achieve a well-balanced R&D program.



Focus

Developing Hydrogen-Based Technology with an Eye to Wider Future Demand

At present, hydrogen is primarily used as an industrial gas. But society is on the verge of consuming hydrogen, a clean energy, in large quantity, buoyed by such demand-boosting factors as the upcoming market debut in Japan of fuel cell vehicles in fiscal 2015 and discussion over the possibility of using hydrogen as a source of electricity during the 2020 Summer Olympics in Tokyo. Anticipating these social trends and market needs, we began working on related R&D several years ago to facilitate the safe and large-volume supply and use of hydrogen.

Our efforts include the construction of liquefied hydrogen carriers, which will be needed to transport hydrogen in bulk, as well as the technology for efficient liquefaction of hydrogen. Other efforts depend on core technology, from hydrogen production, including gas turbines compatible with hydrogen fuel, to hydrogen infrastructure products associated with transport, storage, and use. We will accelerate the introduction of products, in succession, that are well-matched to evolving hydrogen-linked businesses.

Liquefied Hydrogen Carrier

Hydrogen for use as an energy source will require handling in bulk. At the transport stage, a key question is how to carry the load more efficiently. Hydrogen, in its liquefied state, is extremely compact, taking up just one-eight-hundredth the volume of gas. The liquefied form is therefore the most optimal for transport and storage.

We are now in the process of developing the world's first liquefied hydrogen carrier. Last year, we were the first to receive certification from Nippon Kaiji Kyokai (ClassNK)—Japan's ship classification society—for an on-board liquefied hydrogen containment system. This recognition substantiates leading-edge technologies applied to LNG carriers, which have earned high marks from customers over many years, as well as liquefied hydrogen tanks with the largest capacity available in Japan.

Hydrogen Gas Turbines

As a pioneer in industrial-use power-generation equipment, KHI is working to make its gas turbine and gas engine power-generation equipment compatible with hydrogen gas. In the field of gas turbines, we set a new world mark for efficiency and outstanding environmental performance with our proprietary supplemental burner system, a technology that facilitates the burning of a hydrogen gas and natural gas mixture in a combustor.

KHI has leveraged this technology with the recent launch of the L30A—a superhigh-efficiency gas turbine in the 30MW class.

KHI Group CSR

CSR Framework-Building and Themes

For the KHI Group, CSR activities are seen as a cumulative effort to realize the Group Mission—"Kawasaki, working as one for the good of the planet"—at ever higher levels.

We know that contributing to the future of 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 this objective.

Five Themes

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

CSR Activity Issues and Medium-term Targets for MTBP 2013

We collect and collate comments from customers along with results from surveys by nonprofits and other organizations as well as ISO 26000 core issues, and extract from this information specific CSR issues within each theme that we should address from a Group-wide perspective. For Medium-term Business Plan 2013 (MTBP 2013), which runs from fiscal 2014 through fiscal 2016, we took a fresh look at CSR issues, factoring in newly received customer comments and evaluation items in the overseas SRI (socially responsible investment) index to determine targets and the necessary measures that would unfold during MTBP 2013.

Previously, during the Medium-term Business Plan 2010, we set our sights on establishing an activity structure and a PDCA cycle, mainly covering the parent company. For MTBP 2013, we will widen the scope to facilitate action on issues as a global group—including points overseas—and to better cover our supply chain. In addition, we are reinforcing efforts in the area of human rights and labor-management, including steps, such as our Dialogue with Experts, to encourage employees throughout the Group to better understand current issues. (Please see pages 47–48 for details.)

Status of Activities in Fiscal 2014

Medium-term goals and strategies in each of our five CSR activity themes and the individual categories within these themes were reviewed, with an eye toward getting to where we want to be in the long term. Divisions laid out action plans designed to reach stated overall targets, and implementation efforts were tracked. In the table below, we provide a status update, as of March 2014, with efforts assessed a grade out of four stars.

Each division at the Head Office has its assigned CSR issues to deal with. In addition, we have pinpointed topics specific to internal companies for an independent emphasis.

There will, however, be two issues under MTBP 2013 shared at a global Group level.

1. Human rights and labor-management topics: Ensure that no location uses child labor or forced labor, and obtain a declaration at each Group company stating that no such forms of labor will ever be used.
2. Business partner (supply chain)-related topics: Encourage all Group companies to have their own CSR procurement guidelines and ask suppliers to support such guidelines.

Theme	Categories	Action goals	MTBP 2013 Goals/Approaches*	Concrete Actions to Achieve MTBP 2013 Targets	Self-Assessment of MTBP 2013 Targets (March 2014)
Overall	CSR overall	Realize the Group Mission (KHI's duty to society) at a higher level.	Clarify the KHI Group's social responsibility, make employees fully aware that CSR is a Group-wide obligation, and cement a structure to promote relevant practices.	• Update CSR activities, communicate status to Group, coordinate relevant aspects with corporate management (CSR Department) • Consider integration of corporate planning operations and CSR planning operations (Corporate Planning Department, CSR Department) • Promote greater awareness of CSR through meetings at each location (Marketing Division) • Run CSR-related educational programs (Personnel & Labor Administration Division) • Reinforce legal support structure at overseas locations (Legal Department) • Conduct stratified training program and expand to wholly owned subsidiaries (Plant & Infrastructure Company) • Promote CSR topics through company news and establish internal company rules (Motorcycle & Engine Company) • Promote greater awareness among all employees through stratified training program (Precision Machinery Company, Precision Machinery Division) • Promote greater awareness among all employees through stratified training program (Robot Division)	★★½
			Listen to stakeholders' opinions and reflect these comments in corporate activities and business operations.	• Continue and expand dialogue, and integrate the SRI index into CSR activities (CSR Department) • Enhance labor-management negotiations and direct dialogue between managers and employees (Personnel & Labor Administration Division)	★★½
			Respect the Global Compact, UN Millennium Development Goals, and ISO 26000 and other international CSR-related standards.	• Identify trends in all international standard practices and prepare responses (CSR Department) • Promote action on human rights issues throughout the Group at the global level (CSR Department, Personnel & Labor Administration Division, Planning & Control Department)	★★
Value creation	Product development	Draw on comprehensive Group capabilities and apply sophisticated technologies to the development of high-performance, high-quality products.	Strive to contribute to a sustainable society through business activities and products.	• Create value for customers (Marketing Division) • Develop models with the underlying concepts of "Fun to Ride," "Ease of Riding" and "Friendly to the Environment" (Motorcycle & Engine Company)	★★★
	Product responsibility	Provide products and services that are reliable and safe from the customer's perspective.	Create products that customers can trust and seek to further improve quality and product safety.	• Strive to quantify targets set for quality control and continuously improve on results, and reflect and apply reduction criteria for product safety risk in internal company rules (Ship & Offshore Structure Company) • Visualize the content of activities to boost product quality and enhance safety features (Gas Turbine Division)	★★★★
	Customer satisfaction	Provide products and services that meet customer needs and leave a very positive impression.	Track customer satisfaction and strive to boost the level higher.	• Introduce a survey to gauge customer opinions (Marketing Division) • Expand opportunities to exchange technology with customers, and promote strategies based on results of customer satisfaction surveys (Precision Machinery Company, Precision Machinery Division)	★★★
Management	Corporate governance	Pursue sound, transparent management, enable each business segment to operate independently, and demonstrate the combined strengths of the Group.	Target further improvement in corporate governance.	• Consider steps to strengthen governance and internal controls (welcome outside directors and increase number) (Corporate Planning Department)	★★★★
	Compliance	Build an organization that is open and self-regulating to underpin a corporate culture with credibility.	Familiarize all employees with KHI's code of corporate ethics and code of conduct.	• Ensure widespread adherence to corporate ethics guidelines at each Group company (CSR Department) • Establish rules to prevent bribery of public servants in foreign countries and promote acceptance of such rules throughout the Group (CSR Department) • Maintain education and awareness programs that highlight importance of respect for the law (General Administration Department) • Promote greater awareness through meetings at each company (Marketing Division) • Maintain activities, such as classes and training programs, to promote greater awareness of compliance practices (Machinery Division)	★★★
	Information security	Institute reliable information security measures and maintain the safety and security of information.	Target further improvement in all existing measures to protect information.	• Improve security level to mitigate risk associated with leaks of confidential information (Information Planning Department) • Maintain and further reinforce measures to safeguard personal information (CSR Department) • Execute full-scale rollout of IT audit (Auditing Department)	★★★
	Information disclosure, IR activities	Provide timely, accurate corporate information and further enrich the content of disclosure.	Target further improvement in shareholder and investor communication practices.	• Hold regular factory tours for individual shareholders (General Administration Department) • Reinforce responses through IR connection (Public Relations Department) • Review methods and content of disclosure, and enhance IR events (Finance Department)	★★★★
	Business partners	Coexist with business partners and maintain fair partnerships while promoting collaboration in CSR activities.	Promote cooperation in CSR management with business partners.	• Establish CSR procurement guidelines at all Group companies (Planning & Control Department, CSR Department) ⇒ **Shared global Group effort**	★★
Employees	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.	Ensure appropriate use and continuous improvement of occupational safety and health management system with due consideration to employee safety and health.	• Reinforce measures to prevent serious accidents or equally disastrous circumstances (Personnel & Labor Administration Division) • Promote safety-awareness education (Personnel & Labor Administration Division) • Reinforce safety and health organization control (Personnel & Labor Administration Division) • Enhance mental health policy (Personnel & Labor Administration Division) • Continue to audit occupational safety and health management system through DNV (certification body) and constantly conduct risk assessment activities (Ship & Offshore Structure Company)	★★★
	Human resource development	Consistently cultivate the skills of employees, refine acquired talents, and raise the value of personnel assets to the highest level.	Apply measures to maximize the personal value of employees.	• Increase learning opportunities to cultivate skills of global human resources and put in place relevant systems and conditions to support training (Personnel & Labor Administration Division) • Enhance management training and stratified training programs (Personnel & Labor Administration Division) • Cultivate entrepreneurial and engineering talent, and enhance frontline manufacturing capabilities (Personnel & Labor Administration Division) • Roll out human resource development programs throughout the Group (Personnel & Labor Administration Division) • Cultivate skills of engineers, provide support for manufacturing activities at production sites, and enhance manufacturing capabilities (Plant & Infrastructure Company)	★★★
	Human rights Labor	Respect the diversity of employees and strive to create a workplace that embraces wide-ranging values and abilities and utilizes them to the full. Endeavor to create a workplace that provides motivation and satisfaction and one in which employees are treated fairly and appropriately.	Implement initiatives to enhance employees' awareness of human rights issues.	• Ensure there is no use of child labor or forced labor at any Group company, including locations overseas (Personnel & Labor Administration Division, CSR Department) ⇒ **Shared global Group effort**	★★
			Look to utilize the long-term benefits of equal opportunity and diversity.	• Implement approaches, such as 4U (for you) Network, geared toward all female employees (Personnel & Labor Administration Division) • Continue to recruit foreign nationals, introduce measures such as an employment promotion network for overseas nationals (Personnel & Labor Administration Division) • Keep employment ratio of people with disabilities stable and promote active roles (establishment and operation of special purpose subsidiary) (Personnel & Labor Administration Division)	★★
			Strengthen initiatives to create a pleasant work environment for employees.	• Reinforce support for employees with childcare and elder care responsibilities (Personnel & Labor Administration Division) • Repair and rebuild noticeably rundown dormitories and company housing to make the structures safer for occupants (Personnel & Labor Administration Division)	★★★
Environment	Global environment	Strive to realize a low-carbon society, a recycling-oriented society, and a society that coexists with nature.	Steadily reduce annual CO_2 emissions and energy consumption.	• Use and promote an energy visualization system (Environmental Affairs Department) • Work to identify Group's CO_2 level on a global basis and then work to decrease emissions (Motorcycle & Engine Company)	★★★
			Reduce amount of waste and promote reuse and recycling.	• Reduce waste, promote reuse and recycling, and promote PCB treatment (Environmental Affairs Department) • Reduce basic unit of waste output (Gas Turbine Division)	★★★★
			Steadily reduce environmentally hazardous substances.	• Reduce chemical substances (Environmental Affairs Department) • Reduce water consumption (Environmental Affairs Department)	★★★½
Social contribution	(Overall)		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 (CSR Department, General Administration Department) • Consider social contribution activities delivering tangible results and make them known (General Administration Department)	★★
	Local communities and Japanese society	Coexist and cooperate with local communities and help nurture new generations that will develop future "dream" technologies.	Encourage self-planned and self-sponsored social contribution initiatives.	• Build internal systems, strengthen activities, identify the expectations placed on KHI by society and reflect these views in future activities (CSR Department) • Continue to give tours of Kawasaki Good Times World to elementary and junior high school students as part of their social studies programs (Public Relations Department) • Continue to run clean-up campaigns near factory sites, promote work experience opportunities, and conduct educational activities such as the Make Your Own Helicopter! workshop to support development of the next generation (Aerospace Company) • Continue participation in Kawasaki Kyodo no Mori, a forest regeneration project undertaken jointly with the town of Niyodogawa, in Kochi Prefecture, and maintain support for exchange students (Plant & Infrastructure Company)	★★
	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.			

* The column heading "Target profile," which appeared in Kawasaki Report 2013, has been replaced with "MTBP 2013 Goals/Approaches" in the 2014 report.

Evaluation subject: In principle, non-consolidated

Self-assessment grades marking achievement of medium-term goals:

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

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

Goals/Approaches and Actions of Medium-term Business Plan 2013 (FY2014 - 2016)

Goals/Approaches	Actions
●Aim to contribute to a sustainable society through business operations and products	※Key strategies for "value creation through business" are described under Concrete Actions to Achieve MTBP 2013 Targets on page 32.
●Create products that customers can trust, and seek to further improve quality and product safety	
●Monitor customer satisfaction, and boost level higher	

Overview of Activities in Fiscal 2014

Initiatives to improve various aspects of our operations, including product safety, product quality and customer satisfaction, have been a focus of our efforts since our earliest days as a manufacturer.

Fiscal 2014 was the first year of MTBP 2013, and during this time, all internal companies pursued approaches designed to lead them to medium-term targets. Activities included a push to visualize the steps involved in enhancing product quality and safety, measures in various areas to boost customer satisfaction based on the results of customer satisfaction surveys, and a push to develop products from the perspective of "creating value for customers."

Going forward, we are committed to maintaining processes, such as identifying pertinent issues and pursuing opportunities for dialogue with stakeholders, to link business operations with solutions to social concerns over a more extensive range.

Reports on product safety, improved quality and higher customer satisfaction are presented by business division in the same order that has been used in years past.

Focus 1

Motorcycle & Engine Company
Product Safety Initiatives

In pursuit of safety and that "fun-to-ride, ease-of-riding" feeling

Hiroshi Tanigawa
Senior Staff Officer, Product Planning Department, Research & Development Division, Motorcycle & Engine Company

The most crucial feature of motorcycles is its ability to perform reliably—to run, to turn and to stop. Motorcycles, unlike cars, are not self-supporting unless in motion and the risk of tipping over is always present. It is therefore important to have good control of the machine in all aspects of operation. That said, cornering—when the rider leans hard into a turn and, at a glance, the body of the motorcycle appears at a precarious angle to the road surface—and speed control through acceleration and deceleration, which differs from the approach used by cars to change speed, are distinctive to motorcycles and what allow riders to truly enjoy the riding experience.

In the area of motorcycles for leisure use, which is Kawasaki's area of expertise, we pursue product development designed to meet seemingly conflicting requirements, that is, providing motorcycles that create a fun-to-ride, ease-of-riding feeling while giving due care to safety. Let me describe a few noteworthy products below.

The Ninja ZX-14R, the flagship Kawasaki model, boasts our most advanced engine management system—Kawasaki TRaction Control, or KTRC—which combines two systems: one to help maintain optimum traction for acceleration and the other that facilitates smooth riding even on slippery surfaces. Riders can choose from three modes, or they may elect to turn the system off, allowing them to achieve control matched to their own level of riding skill.

The 1400GTR, a tourer model for riders who go on lots of long-distance road trips, is equipped with the Tire Pressure Monitoring System (TPMS). A drop in tire air pressure could lead to poor handling and stability or other issues. TPMS continuously measures the pressure—if the sensors detect a significant decrease in tire air pressure, an indicator appears on the instrument panel, immediately alerting the rider to the situation.

Tire Pressure Monitoring System

Multifunction LCD meter

The Ninja 400, a popular model in the Japan market, has an instrument panel that combines an analog tachometer with a digital speedometer integrated into a multi-function LCD. Considering features that would allow riders to concentrate on their riding, we used white LEDs in the backlight for excellent visibility, even at night.

We installed an anti-lock braking system into the Ninja 250—an extremely popular model worldwide, with the Ninja 300—, and it was the first Kawasaki model in the 250cc-class to get the system that prevents the wheels from locking up when the brakes are applied and avoids uncontrolled skidding for obviously more stable handling. We also used the world's smallest, technologically advanced control unit, which makes finer hydraulic pressure control possible, so kickback to the brake lever during operation is minimal, resulting in a very natural feeling.

As in the car industry, technological advances in the motorcycle industry continue without end. New technologies appear in a steady stream to be incorporated into engine and chassis designs. As elsewhere, here in the Motorcycle & Engine Company, we consider safety factors as we strive to develop products that fully satisfy riders' appetite for a "fun-to-ride, ease-of-riding" experience.

Operational modes of Kawasaki TRaction Control

Compact ABS unit

FOCUS 2

Plant & Infrastructure Company

Seeking Higher Quality

Tackling big projects overseas

Hiroaki Fujino
(back row, fourth from the left) at an Indonesian Fabrication Vendor
Manager, Section 1, Quality Assurance Department
Plant & Infrastructure Company

The Plant & Infrastructure Company has a wide range of products such as industrial plants (Cement / Chemical), LNG plants, power plants and incineration plants and others. Most of these products share a noteworthy characteristic in that they are completely built-to-order. A prime example would be LNG tanks. With automatic welding and improved pressing methods at KHI's Harima Works, we are able to realize high quality at reasonable prices and have earned the trust of our customers.

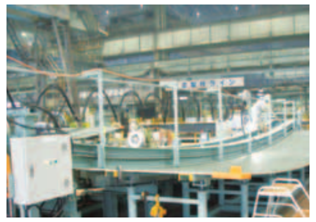
Meanwhile, against the current background of rising international energy demand, we are actively developing a presence in overseas markets with products in categories for which already cultivated competitive strength in the domestic market. But the overseas market environment is fiercely competitive, fueled by a downward trend in prices, of course, as well as the need for high-spec features and high-quality performance. On large projects, the order amount may be significant, but tiny mistakes can have a major influence on how successful a project is overall, and may draw into requiring the true value of integrated engineering expertise.

- Project members strive for barrier-free communication and structure cutting laterally across divisions to ensure that projects proceed smoothly.
- The Plant & Infrastructure Company applies its own approach to front-end engineering, which exhaustively identifies latent risks right from estimate and design stages.
- We endeavor to enhance integrated engineering expertise through Company-wide training opportunities as well as our own education and training programs and a proactive use of on-the-job-training as a means for experienced employees to pass on acquired technical knowledge to their younger colleagues.

In addition, to meet rising quality requirements, we constantly strive to enhance quality by

- sharing information on nonconformities that occurred in the past and building a database that can be used as live text;
- running a preliminary check to identify risks, visualizing possible actions and then tackling risk management in a timely manner as a team;
- promoting standardization of technologies and products;
- improving the accuracy of production capability assessment at overseas vendors; and
- achieving greater efficiency in the manufacturing-related control methods used by overseas vendors.

Currently, we are working on the production of cryogenic tanks for the Ichthys Project Onshore LNG Facilities in Australia. Major components of the tanks, which are made of 9% nickel steel and cryogenic-use carbon steel, are being constructed at the Harima Works, but in a first for the Plant & Infrastructure Company, we outsourced production of the carbon-steel roof to an overseas vendor. For the roof structure connection, we opted for bolt construction rather than the conventional welded construction to reduce installation costs in Australia where labor costs are high. On the other hand, the need for accurate manufacturing of component parts is much higher than conventional construction, but experienced personnel at the Harima Works in cooperation with experienced personnel of overseas project achieved the quality of parts produced outside Japan as good as that of parts produced in Japan.



Automatic welding of 9% nickel steel tank inner wall at Harima Works

Going forward, international competition is bound to intensify due to the rise of emerging economies. The Plant & Infrastructure Company will strive to improve quality still further and draw on integrated engineering expertise to provide internationally competitive products to customers around the world.

Shipment of LNG tank roof components made by Indonesian vendor is loaded for journey to project site in Australia

FOCUS 3

Ship & Offshore Structure Company

Working to Boost Customer Satisfaction

Product support utilizing know-how

Yoshihiro Watanabe
General Manager, Business Department, KHI JPS Co., Ltd.

Currently, there are 22 fully submerged hydrofoils—Jetfoils—operating in Japan. KHI JPS provides support services, such as technical services, parts supply and gas turbine engine maintenance and repair, to companies operating Jetfoils.

Jetfoils are high-speed waterjet-propelled hydrofoils that hover over the surface of the water as if flying. They were developed by Boeing, which applied technology from airplanes to a hydrofoil format. KHI, which acquired licensing from Boeing to manufacture and sell Jetfoils, is now the only maker of Jetfoils in the world. Boeing has withdrawn from the market, and KHI JPS works with relevant internal companies, including the Ship & Offshore Structure Company, as an access point for Jetfoil support services within the KHI Group to address the needs of Jetfoil-operating companies.

Jetfoils typically operate between a mainland area and outlying islands, providing a vital connection that enables communities to exist and supports local activities, such as sightseeing, businesses and other aspects of an island economy. Today, Jetfoils are an indispensible form of transportation. For this reason, every effort must be made to prevent situations that cause a service interruption, whether due to accident or some other kind of trouble.

Jetfoils are based on airplane technology, so every structural part is special. KHI JPS always keeps a sufficient inventory of parts to deal with customer requests and can respond to sudden calls for parts and shipping, thanks to a structure for getting the necessary parts to where they need to be 24 hours a day, 365 days a year. In addition, technicians are dispatched as required to trouble-shoot and offer suggestions on how to deal with the problems.

Ship operators just introducing Jetfoils into their fleets have little familiarity with this style of vessel or obligatory operating know-how, and personnel need classroom training and an opportunity to practice to understand the intricacies of operation and day-to-day maintenance. KHI JPS has prepared a menu of training programs and practice drills, from theory to hands-on practice and on-site maintenance, to help operating personnel acquire the necessary skills and knowledge. Recently, we ran a series of classes and drills for people involved in the operation and upkeep of High-Speed Rainbow Jet, which commenced service without a hitch on March 1, 2014, on a route linking the port of Sakaiminato and the Oki Islands.

These efforts underpin a commitment at KHI JPS to support smooth Jetfoil operations and build a high level of customer satisfaction.

Jetfoil in service between Niigata and Sado Island, in the Sea of Japan

Jetfoil List in Japan (As of March 2014)

Ship No.	Operator	Ship Name	Manufacture
BJ-11	Iwasaki Corporation	Toppy 7	Jun. 1978
BJ-15	Sado Kisen	Ginga	Nov. 1979
BJ-17	Tokai Kisen	Seven Islands Ai (Love)	Aug. 1980
BJ-19	Tokai Kisen	Seven Islands Niji (Rainbow)	Feb. 1981
BJ-20	Tokai Kisen	Seven Islands Yume (Dream)	Apr. 1981
BJ-23	Cosmo Line (Ichimaru Group)	Rocket 2	Jun. 1984
BJ-26	Kyusyu Yusen	Venus 2	Apr. 1985
KJ-01	Sado Kisen	Tsubasa	Mar. 1989
KJ-02	Tokai Kisen	Seven Islands Tomo (Friend)	Jun. 1989
KJ-03	JR Kyusyu Jet Ferry	Beetle 3	Sep. 1989
KJ-04	Kyushu Shosen	Pegasus	Mar. 1990
KJ-05	JR Kyusyu Jet Ferry	Beetle	Apr. 1990
KJ-06	Cosmo Line (Ichimaru Group)	Rocket 3	Jul. 1990
KJ-07	Kyushu Shosen	Pegasus 2	Oct. 1990
KJ-08	JR Kyusyu Jet Ferry	Beetle 2	Feb. 1991
KJ-09	Kyusyu Yusen	Venus	Mar. 1991
KJ-10	Sado Kisen	Suisei	Apr. 1991
KJ-11	Oki Kouiki Rengo	Rainbow Jet	Jun. 1991
KJ-12	Iwasaki Corporation	Toppy 2	Apr. 1992
KJ-13	Iwasaki Corporation	Toppy 3	Mar. 1995
KJ-14	JR Kyusyu Jet Ferry	Beetle 5	Jun. 1994
KJ-15	Cosmo Line (Ichimaru Group)	Rocket	Jun. 1994

*BJ:Manufactured by Boeing, KJ:Manufactured by KHI

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	Compliance	Risk management, Crisis management
Information security	Information disclosure, IR activities	Business partners

Goals/Approaches and Actions of Medium-term Business Plan 2013 (FY2014 - 2016)

Goals/Approaches	Actions
●Seek further improvement in corporate governance practices	●Consider measures (introduce outside directors, increase number of outside directors) to underpin enhanced governance and internal controls
●Familiarize all employees with code of corporate ethics and code of conduct	●Ensure thorough understanding of corporate ethics guidelines at all Group companies ●Strengthen measures to prevent irregularities at regional and small-scale operating sites
●Seek further improvement in safeguarding all types of information	●Improve security level to prevent against the risk of leaked confidential information ●Implement full-scale rollout of IT audit
●Seek further improvement in communication with shareholders and investors	●Review information disclosed and methods of disclosure; enrich content of IR events ●Hold regular factory tours for shareholders
●Promote joint CSR management efforts with business partners	●Promote establishment of CSR procurement guidelines for all Group companies

Overview of Activities in Fiscal 2014

Fiscal 2014, the first year of MTBP 2013, saw the appointment of KHI's first outside director. This new position significantly enhances the Company's ability to make management practices sounder and improve corporate value.

In addition, KHI added to its corporate regulations a rule to prevent bribery, and Group companies at home and abroad were asked to implement a similar rule. This was achieved as of the fiscal year-end. With regard to procurement, measures have been introduced to deal with evolving situations on the world stage. This includes the establishment of a policy on conflict minerals.

Amid a push to develop more comprehensive risk management practices within the Group, in fiscal 2014 we set up a risk management structure for affiliated companies in Japan.

We also reinforced the factory tour program for shareholders, with activities at the Akashi Works and the Hyogo Works.

Focus 1 KHI Group Internal Audits

The practice of implementing internal audits goes back to the 1928 establishment of the Business Division Audit Office following the financial crisis that hit Japan in 1927. This was a very progressive effort among Japanese listed companies.

The current internal auditing system is integral to corporate governance. The Auditing Department, under the direct authority of the president, evaluates and reports on internal controls—according to J-SOX—regarding audits of the Group's business activities and its financial reports, and executes its auditing function by keeping close ties to internal divisions, corporate auditors and the independent auditor. In addition, a special feature of the KHI Group is that the compliance departments at each divisional company-audit operations according to the characteristics of each company. These activities at each division contribute to enhancing internal controls in conjunction with the Auditing Department.

To ensure the objectivity and credibility of internal audits, the Auditing Department has been placed under the direct authority of the president to make it organizationally independent of other divisions. Efforts to uphold and further improve the quality of audits have been achieved through the preparation of auditing handbooks and through regular implementation of internal quality reviews, in compliance with the International Professional Practices Framework (IPPF) established by The Institute of Internal Auditors – Japan. In addition, staff in the Auditing Department endeavor to develop their auditing techniques. They are encouraged to acquire qualifications as certified internal auditor and certified fraud examiner under international standards, participate in outside seminars, and engage in study sessions with auditing departments at other companies.

The activities of the KHI Group are global in scope, and as related overseas companies have grown considerably within the overall organization, overseas audits become all the more important. A close watch over related domestic companies is also imperative. Guided by achievements forged by our predecessors, we will strive to boost the corporate value of the Group and pursue activities that address the requirements of stakeholders.

Focus 2 Establishment and Promotion of Bribery Prevention Regulations

Bribery and corruption is, of course, an issue that hinders fair business competition, but recently, the issue has become more of a problem, with a change in the quality of government administrations resulting in the exploitation of the people instead of their protection. Consequently, the world needs companies to step up their anti-corruption efforts.

KHI already requires all companies within the Group to respect the Anti-Monopoly Law. But taking a more robust approach toward measures to prevent the root of corruption, the Company recently reaffirmed its stand against bribery as well, with the establishment of a corporate regulation that lays out basic policy and philosophy. Affiliated companies at home and abroad were encouraged to do the same.

For information on all our efforts to combat bribery and corrupt practices, please visit our website.

Approaches for corruption prevention
http://www.khi.co.jp/english/csr/management/compliance.html

Shareholders hear about next-generation, Kawasaki-developed rolling stock bogie "efWING"* during Hyogo Works factory tour
*See page 37 for details.

The KHI Group's CSR activities fall into five themes, with considerable content in Theme 2: Management and Theme 3: Employees because they cover the greatest scope. We have showcased a few activities on this page, but our website presents a more complete perspective.

Theme 2 Management
http://www.khi.co.jp/english/csr/management/index.html

Theme 3 Employees
http://www.khi.co.jp/english/csr/employee/index.html

3 Employees

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

We consider employees to be our most valuable resource—real assets—to fulfill the Group Mission and achieve business targets. We place great emphasis on cultivating a corporate atmosphere conducive to free and open dialogue and seek to build a pleasant workplace environment in which employees feel safe and comfortable and can demonstrate their full potential.

Categories			
Safety and health	Human resource development	Human rights	Labor

Goals/Approaches and Actions of Medium-term Business Plan 2013 (FY2014 - 2016)

Goals/Approaches	Actions
●Implement appropriate administration and continuous improvement of occupational safety and health management system with due consideration to employee safety and health	●Promote safety awareness training ●Strengthen programs for good mental health
●Implement measures to maximize the personal value of employees	●Strengthen education for fostering global human resources and put in place relevant systems and conditions ●Reinforce management training and programs according to career position
●Conduct programs to promote employee human rights awareness	●Ensure the prohibition of child labor and forced labor at all Group companies
●Take positive action for equal opportunities and diversity	●Support activities for female employees (4U (for you) Network) ●Recruit foreign nationals, create employment promotion network and other work opportunities
●Strengthen initiatives to create a comfortable work environment for employees	●Enrich support initiatives for employees with children and eldercare responsibilities

Overview of Activities in Fiscal 2014

In fiscal 2014, the first year of MTBP 2013, KHI was able to expand initiatives to enhance diversity through such efforts as establishment of a special subsidiary, Kawaju Heartfelt Service, and activities in the 4U (For You) Network, which supports diversity in the workplace.

In addition, experts, including representatives from non-governmental organizations, gave lectures on human rights at the dialogue with experts—see pages 47-48—and helped employees gain a deeper understanding of human rights at the workplace.

In the area of global human rights and labor issues, the following themes demand urgent corporate attention.

- **Support to eliminate all forms of forced labor**
- **Support to effectively abolish child labor**

Therefore, during MTBP 2013, the KHI Group will build on existing measures and reinforce programs, including approaches that promote greater awareness among employees of conditions around the world.

Toward this end, we hold dialogues with invited experts in the field. In addition, the Corporate CSR Committee has signed a declaration regarding the prohibition of forced labor and a declaration regarding the prohibition of child labor by managers at Group operating sites, including locations overseas. This process should be completed in fiscal 2015.

Focus 1 Kawaju Heartfelt Service

Kawaju Heartfelt Service Co.,Ltd., was established with full investment from KHI in September 2013 as part of Group-wide efforts to promote diversity, a priority theme in the MTBP 2013. Currently, a dozen or so people are involved in general administration and cleaning services at the Kobe Head Office, the Nishi-Kobe Works and the Akashi Works.

The purpose of this company is two-fold: to provide places where people with various disabilities become more self-motivated and enthusiastic about life by working at jobs matched to their respective abilities; and to fulfill social responsibilities, including efforts to provide regional employment opportunities, by achieving the statutory employment ratio of people with disabilities within the Group.

We intend to set up offices at more locations to provide various services within the KHI Group and thereby create more employment opportunities. Going forward, we aim to expand the range of activities currently offered and engage in new businesses, such as simple printing and merchandise production.

Staff cleaning the entrance area of a factory

Grounds maintenance at the Nishi-Kobe Works

Focus 2 Fiscal 2014 Technical Skill Contest

A pressing issue that has emerged in recent years at production facilities is the looming, full-scale retirement of baby boomers and the need to ensure that the knowledge and skills of veteran engineers are passed down to the next generation before they leave the factory floor. In response, we have been directing concerted efforts into training and skill improvement to cultivate young human resources in technical fields.

About 10 years ago, we held a technical skill contest at the Akashi Works, kicking off what has become an annual event where young engineers from production sites at home and abroad compete with skills mastered on the job. In fiscal 2014, participants from Japan and four other countries gave their all, demonstrating accomplished skills in a fierce competition. It was a great learning experience for everyone.

Going forward, we will utilize this approach to maintain and further improve the skills of employees in production positions at companies throughout the Group.

Lathe turning skill contest

Focus 3 Promoting Diversity Through External Links

At KHI, we believe promoting diversity and a good work-life balance are important components of management strategy, and we undertake activities toward these ends. In addition, to accelerate acceptance of these ideas within society, we enthusiastically participate in external study groups and work with other organizations and companies beyond a single-company framework.

A prime example of this is our involvement in the Research Project toward Realization of a Work-Life Balanced Society, a joint effort by the Institute of Social Science at the University of Tokyo and the private companies. The project's objective is to convey the principles of the work-life balance concept widely through surveys and research. KHI joined the project in 2013 and, as the model to follow, introduced work-life balance seminars for managers.

We are also a member of the Diversity Western-Japan Study Group, comprising chief diversity officers at companies in the Kansai region, The study Group Members share ideas and good examples of diversity in action and lobby corporate management and government to convey the principles of diversity concept widely. This study group coordinates the planning and execution of Pan-industry forums for company's diversity and work life balance measures, for example, targeting female employees and foreign nationals working in Japan.

Work-life balance seminar for managers

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)

Goals/Approaches and Actions of Medium-term Business Plan 2013 (FY2014 - 2016)

Goals/Approaches	Actions
●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

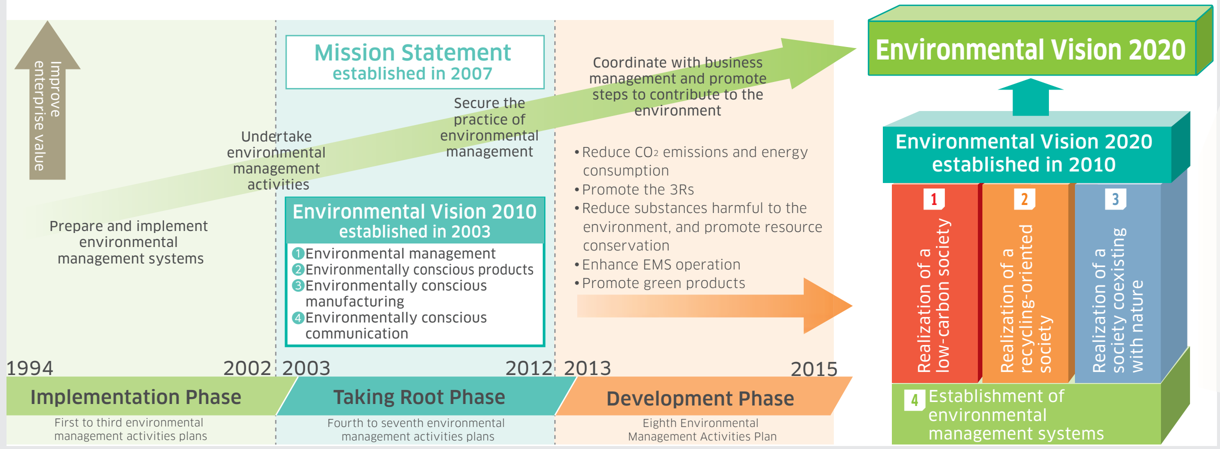
Overview of Activities in Fiscal 2014

Fiscal 2014 was the first year of the Eighth Environmental Management Activities Plan (FY2014–FY2016), and during this kickoff year, we pushed ahead on key strategies designed to achieve stated targets related to four issues: reduction of greenhouse gas emissions, reduction of total waste on a unit basis, reduction of chemical substances, and the establishment of environmental management systems (EMS).

Greenhouse gas emissions steadily declined, mainly due to improvement activities taken because of information provided by equipment to visualize energy consumption, and we reached our reduction target for total waste on a unit basis. We also made progress on EMS, enhancing our status in Japan and overseas.

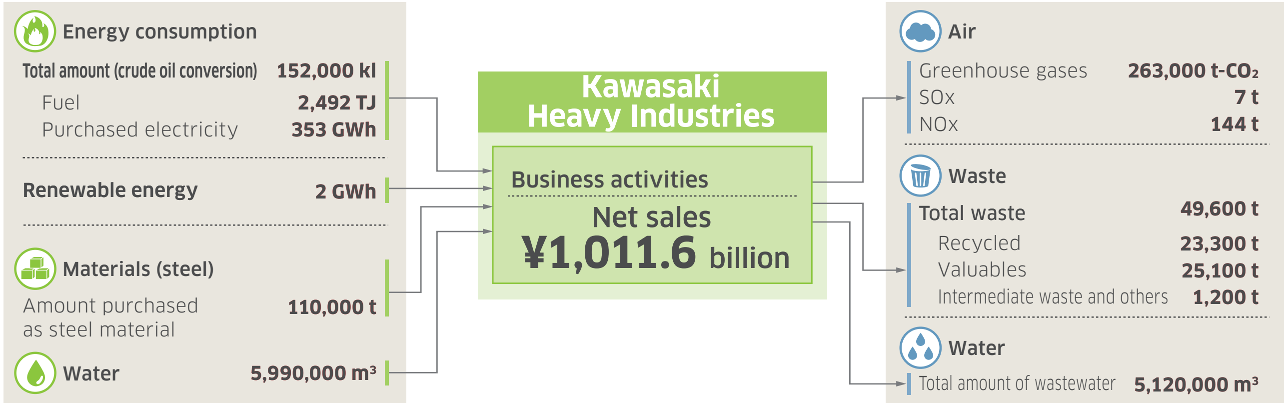
Environmental Management Flow

The basic direction of Environmental Vision 2020, drafted in line with the Group Mission, highlights four points. Three deal with realization of specific types of societies—a low-carbon society, a recycling-oriented society, and a society that coexists with nature—and the fourth point provides a foundation—the establishment of environmental management systems—that form the cornerstone of such societies. Through Environmental Vision 2020, we will contribute to a sustainable society. Toward this end, we draw up environmental management activities plans every three years—we are now on the Eighth Environmental Management Activities Plan—which lay out basic policy, key strategies, and concrete targets to achieve during each three-year period.



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

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



Results of Activities in Fiscal 2014

1 Realization of a low-carbon society

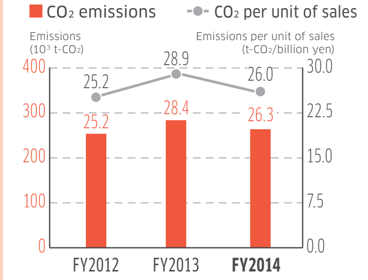
Target
1. Working toward a reduction of at least 5% in annual CO_2 emissions and energy consumption by fiscal 2016
2. Achieve cumulative values equal to or more than the initial plan values for each business segment through contribution from products

Result
1. Introduced energy visualization system at certain facilities in each factory and initiated improvement activities based on visualization results
2. CO_2 emission reduction through products reached 741 thousand t-CO_2

Note: CO_2 emission volume was standardized to a value that includes jet engine fuel in the calculation.

Note: Carbon credits of 31.5 thousand t-CO_2 have been factored into CO_2 emission volume for fiscal 2014.

CO_2 Emissions and Emissions per Unit of Sales

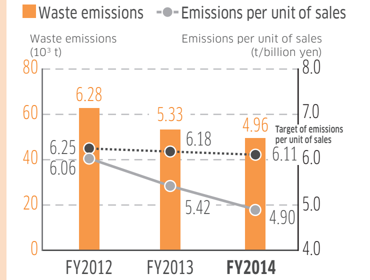


2 Realization of a recycling-oriented society

Target
1. Reduce total waste on a unit basis and maintain zero emissions
2. Proceed steadily with treatment of high-concentration PCB waste and use the most appropriate methods to treat low-concentration PCB waste

Result
1. Total waste on a unit basis decreased 20% and final disposal ratio was below 1%, meeting respective targets
2. For high-concentration PCB waste, treatment commissioned to Japan Environmental Safety Corporation (JESCO) is in progress, and for low-concentration PCB waste, information on treatment processes is being collected

Waste Emissions and Emissions per Unit of Sales



3 Realization of a society coexisting with nature

Target
1. Reduce use of chemical substances, particularly major VOCs, dichloromethane and heavy metals
2. Reduce water consumption and wastewater
3. Maintain forest conservation activities

Result
1. Achieved reduction targets for major VOCs, dichloromethane and heavy metals
2. Introduced measures to conserve water
3. Continued forest conservation activities in Hyogo Prefecture, Miyagi Prefecture and Kochi Prefecture

Reduction-Targeted Chemicals Handled and Emitted (t)

		FY2012	FY2013	FY2014
Amount emitted	Major VOCs	1,399	1,149	942
	Dichloromethane	59	48	42
Amount handled	Hexavalent chromium compounds	23	15	15
	Lead	1	1	2

Biodiversity Initiatives (non-business activities)

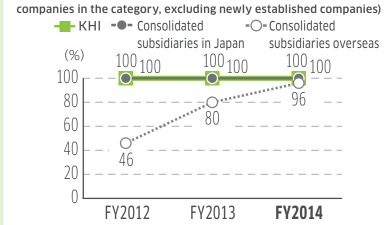
- Join communities in forest-creation activities, including woodland maintenance
- Promote cleanup events around business sites
- Implement greening programs and other activities at corporate sites and in surrounding areas

4 Establishment of environmental management systems (EMS)

Target
1. Reinforce environmental management ability of KHI and affiliated companies in Japan
2. Reinforce environmental management ability of affiliated companies overseas

Result
1. Rolled out in-house IT system ECOKEEP to domestic affiliated companies and began collecting environmental data
2. Identified and tabulated environmental load data at overseas affiliated companies and encouraged steps to lower environmental risk

EMS Completion Rate
(Number of companies with EMS in place as a percentage of all companies in the category, excluding newly established companies)



Note: Unless specifically noted, the data described within Theme 4 pertains to KHI on a non-consolidated basis.

For details, please refer to the Kawasaki Environmental Report 2014.

Focus 1

Realizing a Low-Carbon Society: Reduced CO_2 Emissions and Energy Use

Rolling out energy visualization system

Toward realization of a low-carbon society, we aim to reduce CO_2 emissions and energy consumption through energy-saving approaches. To achieve this end, we are rolling out the energy visualization system to factories throughout the KHI Group and have launched energy-saving activities that have the participation of all employees.

1. Roll out energy visualization system to all operating facilities
2. Create database with standardized cases on energy savings and share access to information
3. Promote energy-saving activities with participation from all employees

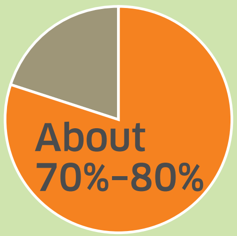
Energy-saving activities using K-SMILE

Promote environmental contribution

In conjunction with energy visualization system development, we put corporate activity know-how into an energy-savings database. We will encourage the use of the system and database in energy-saving activities involving all employees, especially those in manufacturing, energy, and administrative divisions.

Why are energy visualization systems necessary?

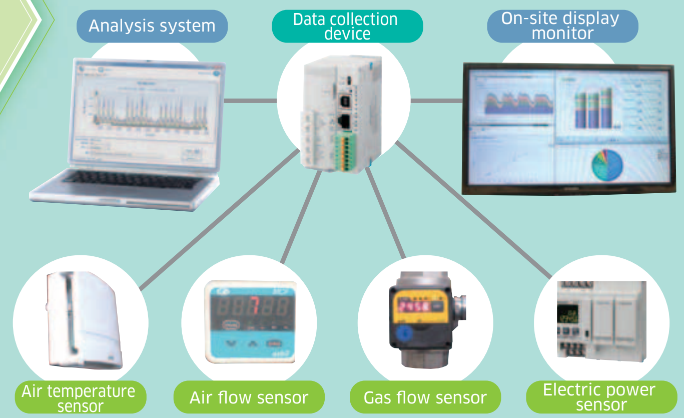
We had already made considerable progress through energy-saving improvements at factories, supported by the efforts of energy-management departments to monitor utility equipment, such as power receiving-and-distribution and transformer facilities, pneumatic compressors, air conditioning equipment and lighting. In fact, due to such progress, we reached a point where it became difficult to achieve further reduction in energy consumption. Production facilities consume somewhere between 70%–80% of total corporate energy applications, and over and above the fact that each location has several hundred to several thousand electric power-drawing units, there is an extremely wide variety of equipment and the features and methods of use are very different. To promote energy savings, it was important to know where energy was being wasted.



Production facilities consume about 70%–80% of total corporate energy applications

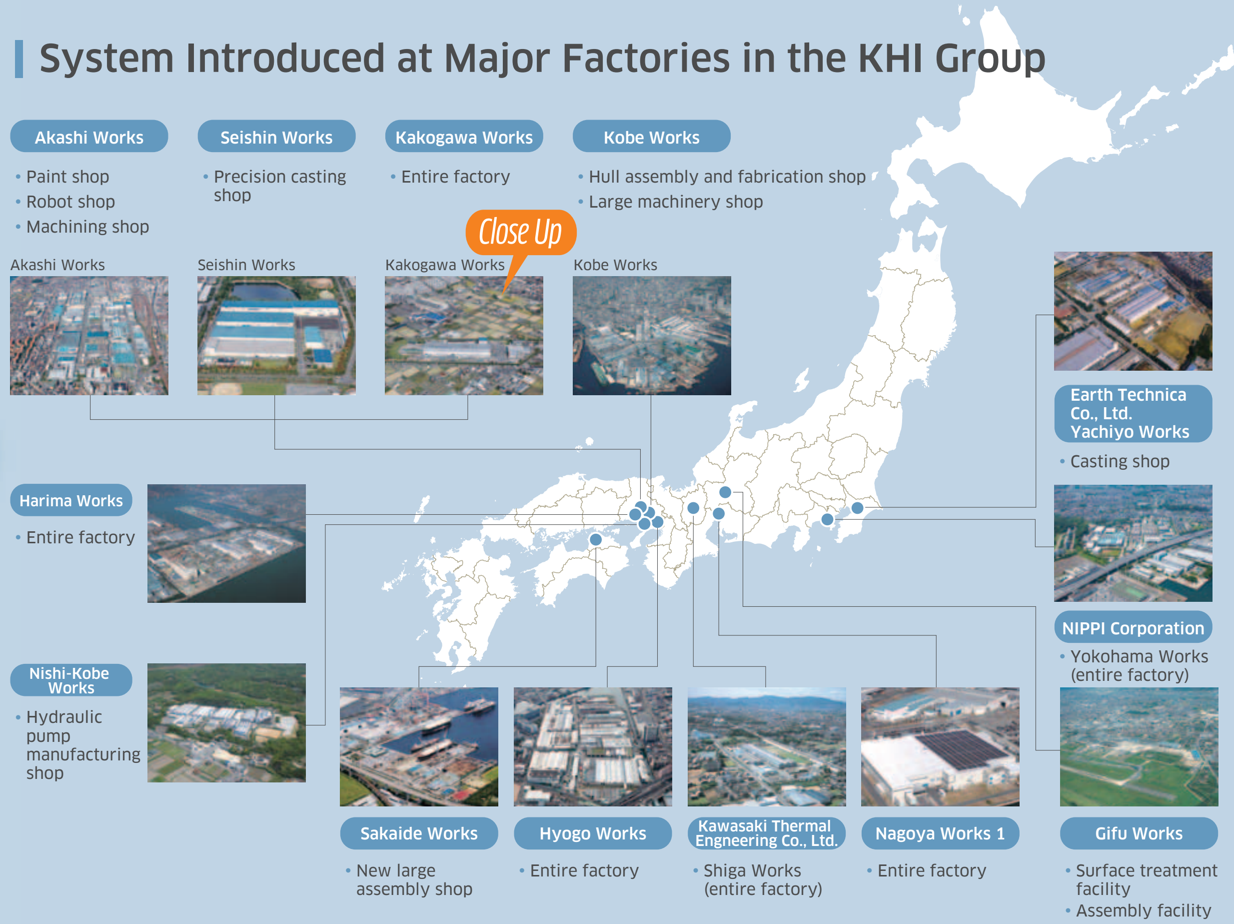
K-SMILE the KHI Group's energy visualization system

The energy visualization system "sees" utilization conditions for the different types of energy used at factories and pinpoints in real time such information as where, when, and how much energy is being consumed. The system reveals energy waste and irregularities and contributes to the reduction of energy consumption.



K-SMILE is a registered trademark of Kawasaki Technology Co., Ltd.

System Introduced at Major Factories in the KHI Group



Development of K-SMILE Energy Visualization System

K-SMILE is being developed as an energy visualization system for the KHI Group. Development began with configuration of a system that could tally demand for electricity at each factory in response to the tight supply-and-demand situation that arose in the wake of the Great East Japan Earthquake in March 2011. Today, it is being extended as a corporate system providing at-a-glance measurement data from major factories in Japan and utilizing it as a factory system for detailed analysis of energy savings achieved at each location.

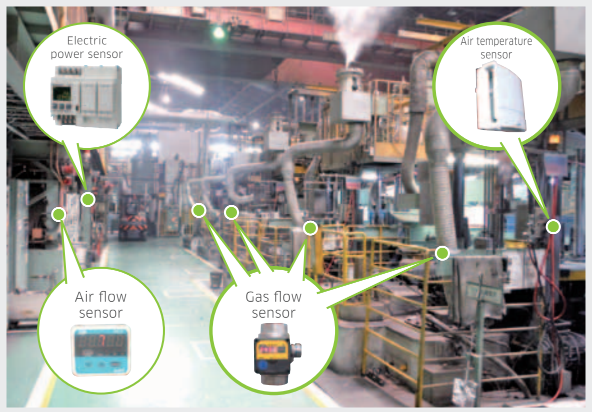
K-SMILE is one strategy that will help us reach our goal to reduce CO_2 emissions and energy consumption by more than 5% annually. In conjunction with measures to promote energy-saving improvements at factories, we will create a visualization system with greater sophistication.

Close Up: System Verification at Kakogawa Works Leads to Full Corporate Roll-out

In fiscal 2011, we installed the energy visualization system at the Kakogawa Works to evaluate its potential in enhancing energy savings.

Through regular data checks on the amount of compressed air used, we discovered waste—air leaks—and through a comparison of energy consumed by similar equipment and facilities and subsequent analysis, we found additional waste, which we were able to address with appropriate responses. As a result, total energy consumption over one year dropped by about 10%, validating system potential for energy savings. Given this proof of improvement, a decision was made to install the system at all of KHI's principal facilities to expand the range of measurement data.

Measurement sensor placement (● dots) at Kakogawa Works



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 society	International community

Goals/Approaches and Actions of Medium-term Business Plan 2013 (FY2014 - 2016)

Goals/Approaches	Actions
●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 offices within the organization
●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

Overview of Activities in Fiscal 2014

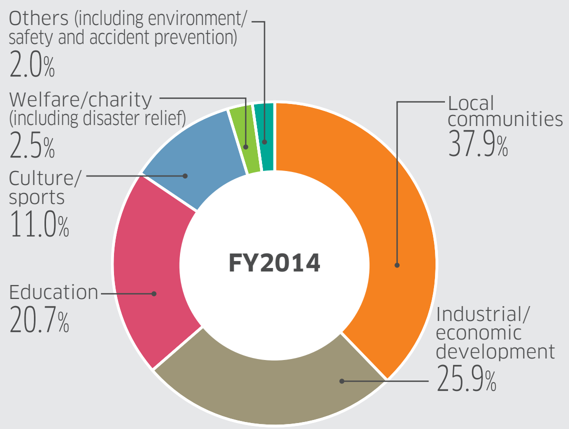
In fiscal 2014, we took our handicraft workshops to Tokyo as well as added new programs, and also reinforced the structure that underpins the promotion of our activities to nurture the minds of the next generation.

We continued to provide relief funds to the victims of disasters everywhere and maintained a solid community presence through such ongoing activities as the operation of our corporate museum, Kawasaki Good Times World, the organization of various events primarily to benefit children, support for culture and sports, involvement in local economic development projects, and participation in corporate forest restoration projects.

Expenditure on Social Contribution

(Millions of yen)

Category	FY2012	FY2013	FY2014
Local communities	226	223	239
Industrial/economic development	142	137	163
Education	164	194	131
Culture/sports	55	65	69
Welfare/charity (including disaster relief)	190	20	16
Others (including environment/ safety and accident prevention)	19	48	13
Total	796	687	631
Recurring profit for the fiscal year	63,627	39,328	60,505
Expenditure as a proportion of recurring profit	1.25%	1.75%	1.04%



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

Focus 1 Make Your Own Crane!

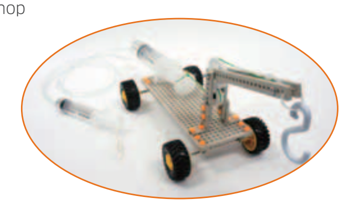
Handicraft workshop in the town of Minamisanriku

On November 5, 2013, we held a handicraft workshop under the Make Your Own Crane! program for sixth-grade students at the Shizugawa Elementary School in Minamisanriku, Miyagi Prefecture.

KHI launched the handicraft workshop program in fiscal 2012 as part of its social contribution activities designed to develop skills and outlook of the next generation while also supporting recovery in the Tohoku region devastated in the March 2011 earthquake and tsunami. The crane-themed program follows on from the Make Your Own Helicopter! program presented last time—in fiscal 2013—and showcases the mechanics of hydraulic products.

The children learned about Pascal's principle by using two syringes, each a different size, in an experiment that revealed how small amounts of force can move big objects. The children also assembled a model crane and attached the two syringes to see how lifting force varies between the two. This hands-on encounter with technology allowed the children to experience the fun of building things and the wonders of engineering.

Handicraft workshop



Model of crane

Focus 2 Help in the Wake of Philippines' Typhoon

In November 2013, Typhoon Haiyan tore through the Philippines and caused catastrophic damage and major loss of life.

The KHI Group's relief package—donations equivalent to ¥13.8 million—included ¥10 million in relief funds to help the people and communities affected by the typhoon as well as 10 KLX150 and 10 Bajaj CT100 Kawasaki-brand motorcycles to transport emergency supplies.

Kawasaki Motors (Phils.) Corporation, which manufactures and sells Kawasaki motorcycles in the Philippines, also provided support in the affected area. The company encouraged employees to get involved in relief efforts and implemented a program at service centers in the city of Tacloban to repair damaged motorcycles at no cost to customers.

The ring of support extended to the United States, where employees at Kawasaki Motors Corp., U.S.A., volunteered their time to prepare food packages for about 150,000 people. Their goal was to have these emergency rations get to people in the typhoon-stricken area as quickly as possible, and the entire process from sorting to boxing was completed in an amazingly short time, thanks to awesome teamwork from everyone involved.

Free repairs campaign at service centers

Employee-led food drive at Kawasaki Motors Corp., U.S.A.

Great East Japan Earthquake Recovery Support in Fiscal 2014

Donation of Jet Ski Personal Watercraft

In March 2014, KHI donated a Jet Ski STX-15F and trailer to the city of Miyako, in Iwate Prefecture, and another jet ski and trailer to the town of Yamada, also in Iwate Prefecture, as well as a third set to the town of Onagawa, in Miyagi Prefecture, to support recovery in the region and help prepare for future emergencies. We plan to continue this kind of support in the area devastated by the March 2011 disasters.

Donated jet ski and trailer (Onagawa, Miyagi Prefecture)

Human Rights in a Business Context

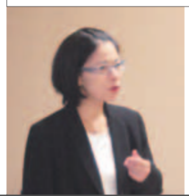
In addition to separate opportunities to communicate with stakeholder groups, KHI holds dialogues with experts who represent the general public, a stakeholder group with which the KHI Group has little direct contact.

In fiscal 2014, we held three dialogues on the theme of human rights and business activities within the context of corporate social responsibility. These dialogues had the participation of division managers at the Head Office as well as CSR officers/managers from all corners of the Company. The dialogue setting allowed invited representatives from global human rights non-governmental organizations and CSR specialists from non-governmental organizations to speak on real issues surrounding human rights problems and to bring everyone up to speed on situations at the global level. In addition, people who have had to address global human rights issues in business commented on their experiences and perceptions. Discussions evolved from the respective topics.

Event Summary, Speaker

First Dialogue
October 24, 2013

Asako Nagai, BSR Senior Advisor (Japan)
"What's happening right now in the world in the fields of human rights and labor?"
KHI Participants: General Manager, CSR Division; CSR managers from Head Office divisions; CSR managers from internal companies



Senior Advisor at BSR (Business for Social Responsibility), world's largest CSR-oriented NGO
Formerly, manager of CSR division at Sony Corporation with overall responsibility for creating CSR policy and strategies, communicating with external stakeholders and overseeing supply chain management

Second Dialogue
December 5, 2013

Hideki Wakabayashi Secretary-general of Amnesty International Japan
"Human Rights in a Business Context"
KHI Participants: Kyohei Matsuoka, Senior Executive Vice President; Hiroshi Takata, Senior Executive Vice President; managers of Head Office divisions

Secretary-general of Amnesty International Japan, member of the world's largest human rights NGO
Was responsible for social security policy and working hours scheme as executive committee member of Japanese Electrical, Electronic & Information Union, First Secretary at the Embassy of Japan, United States
Was responsible for Official Development Assistance and Japan–US alliance activities
Member of House of Councillors (Upper House), Center for Strategic and International Studies, Councilor, Senior Research Fellow of the Japan Forum on International Relations (up to present)

Third Dialogue
February 4, 2014

Hitoshi Suzuki President, Institute for International Socio-Economic Studies
"CSR in the Era of Globalization—Corporations and Human Rights"
KHI Participants: Managers of Head Office divisions

President, Institute for International Socio-Economic Studies
(Formerly, General Manager of CSR Promotion Division at NEC Corporation)

Note: Official titles are correct as of the time the respective dialogue took place.

Noteworthy Comments from Our Experts

Specify Scope of Responsibility for Dealing with Human Rights

For companies to expand their business activities globally, they must also assume a global perspective with regard to sustainability issues. Going forward, there are eight issues that are likely to become more important worldwide: health, human rights, water, economic problems, climate change, biodiversity, education, and safety and peace. Japanese companies are taking progressive steps in regard to the environment, but they lag far behind in recognizing human rights—and it may be a cultural thing—but it is a huge latent risk nonetheless. Fighting for human rights should really be an issue addressed by respective governments, but in emerging countries, the response has been too slow so companies have had to take the initiative.

But what should companies do and how far should they go in protecting human rights? Each company has to set parameters of responsibility and stay within those boundaries. More to the point, each company has to formulate its own approach and policy on human rights, evaluate the impact of such measures, and educate employees. This is vital. At the same time, if business activities can be pursued in a way that concurrently helps resolve human rights problems, that would be a huge advantage for any company.

Asako Nagai BSR Senior Advisor (Japan)

Really Be "Global Kawasaki," An Advocate for Human Rights Worldwide

Human rights is more than just a labor issue. The disregard for human rights is the underlying cause of all sorts of problems, including those affecting the environment and community safety and security. Human rights is seen as "the inalienable rights of people to live with the respect that is due us all as human beings." To understand human rights, it is imperative to accept this concept as part of our personal traditions and values and to promote and develop the concept based on international human rights criteria.

Companies exert effects on their surroundings through the course of business activities. Even if business activities do not directly encroach on human rights, the issue may appear somewhere along the supply chain, and today, if this happens, the company that procures raw materials or parts from that supply chain is assumed to be responsible for the problem by association. For this reason, you have to understand the notion of avoiding complicity. Top management must subscribe to this notion, and corporate efforts to mitigate human rights risks must infuse management practices.

I hope that the KHI Group will strive to be a truly "Global Kawasaki," solving social problems through core business activities and protecting the rights of people all over the world.

Hideki Wakabayashi Secretary-general of Amnesty International Japan

The Importance of Human Rights Management based on Global Standards

The negative impact of such issues as forced labor, child labor and destruction of the environment has grown much bigger as a result of the increasing globalization of economies. Consequently, the evaluation criteria for companies now go well beyond the economic element with a widening emphasis on measures to protect the environment, strengthen governance function and contribute to society as well.

Specifically, issues such as human rights and environmental problems, particularly in developing countries where value chains are formed, are highlighted globally, and questions raised by NGOs about corporate involvement as well as lawsuits by employees are among the risks that are becoming increasingly apparent as companies pursue business opportunities in such areas.

A global company (as KHI) must recognize that "human rights" are fundamental issues within CSR, and efforts must be made to ensure human rights risk management—that is, due diligence—is up to global standards. Toward this end, the company must identify human rights risks in value chain business processes, from upstream to downstream and raise awareness of human rights issues among employees while constantly assess progress. This evaluation is to be conducted on the basis of policy on human rights and guideline including one for grievance mechanism in the event a problem arises, should be prepared. It is also vital that such policy and guidelines are disclosed inside and outside—that is, to employees and executives within the company and to the public—so that all stakeholders have a common understanding of where the company stands on prevailing issues.

Hitoshi Suzuki President, Institute for International Socio-Economic Studies

In Response

Participation was limited, but the dialogues allowed everyone to acquire a common understanding of global human rights issues and the corporate connection. Using this as a starting point, we will take another look at Group functions and businesses from the perspective of human rights involvement and promote wider awareness within our corporate house. We will also strive to reinforce human rights-related initiatives already in force.

Management Discussion & Analysis

OVERVIEW

In fiscal 2014 (the year ended March 31, 2014), the global economy recovered moderately, spearheaded by developed economies, in the wake of the United States economic recovery and improvement in European economies. Emerging market economies, by contrast, downshifted from their historical growth trend, largely due to weakness in domestic demand. The global economy as a whole is expected to continue growing at a modest pace for the time being, with developed economies, led by the the United States, offsetting weakness in emerging market economies. However, a number of downside risks pose concern, including the impact of tapering of the United States monetary easing, the European debt crisis's future course and rising geopolitical tensions.

The Japanese economy recovered moderately, bolstered by fiscal and monetary stimulus policies. Another driver of the economic recovery was a pickup in personal consumption stemming from a demand rush ahead of April's consumption tax increase. The Japanese economy is expected to remain in a recovery trend against a backdrop of improvement in employment conditions and the income environment and expansion of public investment. However, weakness in overseas economies and the impact of a reflexive contraction in demand in the wake of the demand rush preceding the consumption tax increase pose concern as downside risks to the Japanese economy.

Amid such an economic environment, the Group's overall orders received increased in fiscal 2014 despite decreased orders in certain segments. The increase in overall orders was chiefly attributable to the Motorcycle & Engine, Precision Machinery, and Ship & Offshore Structure segments. Overall sales likewise increased, as increased sales in segments such as Motorcycle & Engine and Aerospace offset sales declines in other segments, including Plant & Infrastructure and Ship & Offshore Structure. Operating income increased substantially. Segments that contributed to the increase include Motorcycle & Engine, Aerospace, and Rolling Stock.

The Group's consolidated orders received increased by ¥85.8 billion year on year to ¥1,455.4 billion. Consolidated net sales totaled ¥1,385.4 billion, a ¥96.6 billion year-on-year increase, and consolidated operating income increased by ¥30.2 billion year on year to ¥72.3 billion. As a result of operating income growth, consolidated recurring profit increased by ¥21.2 billion year on year to ¥60.6 billion even as foreign exchange gains and losses netted to a loss versus a net gain in the year-earlier period. Consolidated net income increased by ¥7.7 billion year on year to ¥38.6 billion.

RESULTS OF OPERATIONS

Net Sales

As noted, consolidated net sales increased ¥96.6 billion from the previous fiscal year to ¥1,385.4 billion. Overseas sales totaled ¥780.1 billion. By region, sales in the United States were ¥326.3 billion, sales in Europe accounted for ¥101.3 billion, sales in Asia outside Japan contributed ¥240.2 billion, and sales in other areas added ¥112.2 billion. The ratio of overseas sales to consolidated net sales increased 4.2 percentage points, to 56.3%, compared to 52.1% 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

Consolidated orders received increased by ¥12.1 billion year on year to ¥117.8 billion. The Group booked nine newbuild orders, including orders for liquefied gas (LNG and LPG) carriers and a large offshore service vessel.

Consolidated net sales decreased by ¥9.4 billion year on year to ¥80.8 billion as an increase in construction of liquefied gas carriers failed to offset a decrease in construction of bulk carriers and other vessels.

The segment incurred a consolidated operating loss of ¥2.0 billion, a ¥6.1 billion downturn from the previous fiscal year's consolidated operating income. The deterioration in profitability was chiefly attributable to higher steel prices and a new provision for losses on construction contracts.

Rolling Stock

Consolidated orders received grew ¥8.6 billion to ¥133.0 billion, largely due to orders for commuter car by the Long Island Rail Road and Metro-North Railroad and orders for subway car by the Washington Metropolitan Area Transit Authority and Sapporo City Transportation Bureau.

Consolidated net sales increased by ¥17.9 billion year on year to ¥147.9 billion, largely due to the growth in overseas sales to customers in North America and Singapore.

Consolidated operating income increased by ¥5.3 billion year on year to ¥7.5 billion, largely by cost reduction and yen depreciation.

Aerospace

Consolidated orders grew by ¥2.8 billion year on year to ¥286.3 billion. The increase was attributable to the growth in orders for components for Boeing 787.

Consolidated net sales increased by ¥41.5 billion year on year to ¥280.7 billion, largely due to the growth in sales of component parts for Boeing 777 and 787 coupled with the growth in sales to Japan's Ministry of Defense.

Consolidated operating income showed a sharp increase of ¥11.4 billion increase year on year to ¥26.2 billion, largely by virtue of sales growth, enhanced productivity and yen depreciation.

Gas Turbine & Machinery

Consolidated orders received decreased by ¥33.5 billion year on year to ¥222.0 billion. Adjusted to factor out a change in accounting treatment of aircraft engine components that detracted from orders received by ¥56.8 billion, consolidated orders received increased by ¥23.3 billion year on year. The increase was mainly attributable to increased orders for gas engines and aircraft engine components.

Consolidated net sales decreased by ¥17.7 billion year on year to ¥189.2 billion, but when adjusted to factor out said change in accounting treatment, which detracted from sales by ¥37.4 billion, consolidated net sales increased by ¥19.7 billion year on year. Major year-on-year changes in sales included decreases in sales of marine gas turbines and marine diesel engines and increases in sales of aircraft engine components and gas engines.

Consolidated operating income increased by ¥3.4 billion year on year to ¥10.4 billion, largely as a result of the increase in sales adjusted to factor out the effect of the change in accounting treatment of aircraft engine components.

Plant & Infrastructure

Consolidated orders received decreased by ¥9.6 billion year on year to ¥103.9 billion despite orders received on LNG tanks for CPC Corporation, Taiwan's Taichung LNG Terminal Expansion Project.

Consolidated net sales decreased by ¥11.9 billion year on year to ¥103.8 billion despite an increase in environmental infrastructure contracts. The sales decline was chiefly attributable to a lower sales for conveyance equipment and large overseas contracts.

Consolidated operating income declined by ¥3.4 billion year on year to ¥6.3 billion, largely due to the sales decline coupled with shrinkage in profit margins.

Motorcycle & Engine

Consolidated net sales rose by ¥70.3 billion year on year to ¥322.2 billion, boosted by motorcycle sales growth in the United States and emerging-market economies, particularly Indonesia and Thailand.

Consolidated operating income showed a sharp increase of ¥13.7 billion increase year on year to ¥16.1 billion, largely by virtue of sales growth and improved profitability.

Precision Machinery

Consolidated orders received increased by ¥17.5 billion year on year to ¥127.2 billion, largely by virtue of the growth in orders for clean robots for semiconductor manufacturing equipment and industrial robots for the automotive industry.

Consolidated net sales declined by ¥7.1 billion year on year to ¥123.2 billion, as growth in sales of clean robots for semiconductor manufacturing equipment and industrial robots for the automotive industry were insufficient to offset declines in sales of other products, particularly hydraulic equipment.

Consolidated operating income increased by ¥1.9 billion year on year to ¥10.4 billion, largely as a result of growth in sales of clean robots for semiconductor manufacturing equipment and industrial robots for the automotive industry and yen depreciation.

Other

Consolidated net sales increased by ¥13.0 billion year on year to ¥137.2 billion.

Consolidated operating income increased by ¥3.2 billion year on year to ¥4.4 billion.

Cost, Expenses, and Earnings

Cost of sales increased ¥54.8 billion from the previous fiscal year, to ¥1,140.2 billion. As a result, gross profit increased ¥41.7 billion, to ¥245.1 billion, while the gross profit margin edged up 1.9 percentage point, to 17.6%, from 15.7% in the previous fiscal year.

Selling, general and administrative expenses grew ¥11.4 billion, to ¥172.8 billion, primarily because of higher salaries and benefits, and advertising expenses. Operating income increased ¥30.2 billion, to ¥72.3 billion. The large increase in operating income was due to increased profit in the Motorcycle & Engine, Aerospace and Rolling Stock segments. The ratio of operating income to net sales increased 2.0 percentage points, to 5.2%, from 3.2% in the previous fiscal year.

Other income (expenses) showed net expenses of ¥11.0 billion, compared with net income of ¥4.0 billion in the previous fiscal year. The principal reason for this was "other expenses, net," which leveled off at ¥15.3 billion, compared with ¥1.9 billion in the previous fiscal year. The main component of this change was due to foreign exchange losses.

As a result, after deduction of minority interests, net income increased ¥7.7 billion from the previous fiscal year, to ¥38.6 billion. The ratio of net income to net sales edged up 0.4 percentage point, to 2.7%, from 2.3% in the previous fiscal year. ROE (calculated using average total shareholders' equity) edged up 1.5 percentage points, to 11.0%, from 9.5% a year ago.

Capital expenditures in fiscal 2014 came to ¥87.7 billion, up from ¥78.6 billion in the previous fiscal year. R&D expenses were ¥40.3 billion, down from ¥41.7 billion a year ago.

FINANCIAL CONDITIONS

At March 31, 2014, consolidated assets totaled ¥1,554.4 billion, a 6.0% increase from March 31, 2013. Of this total, current assets accounted for ¥1,005.7 billion, a 1.0% year-on-year decrease chiefly attributable to a decrease in trade receivables. Fixed assets totaled ¥548.6 billion at March 31, 2014, a 22.0% increase from the previous fiscal year, mainly as a result of capital investments that added to holdings of property, plant and equipment.

Consolidated liabilities increased 5.5% year on year to ¥1,177.7 billion at March 31, 2014, despite decreases in both long- and short-term debt. The increase was mainly attributable to recognition of previously unrecognized retirement and severance benefit liabilities.

Consolidated net assets at March 31, 2014, totaled ¥376.6 billion, a 7.7% increase from March 31, 2013. While dividend payments and the aforementioned recognition of previously unrecognized retirement and severance benefit liabilities detracted from consolidated net assets, these factors were more than offset by net income and improvement in foreign currency translation adjustments due to yen depreciation.

The ratio of shareholders' equity to total assets expanded 0.3 percentage points, to 23.3%, from 23.0% at the end of the previous fiscal year. In addition, the net debt-to-equity ratio improved 22.6 percentage points, from 131.9% to 109.3%, as of March 31, 2014.

CASH FLOWS

Operating activities provided net cash of ¥151.7 billion, a ¥123.6 billion increase from the previous fiscal year. Major sources of operating cash flow included depreciation expense of ¥37.8 billion, a ¥25.9 billion increase in advances from customers, a ¥20.0 billion increase in trade payables, and a ¥17.7 billion decrease in trade receivables. Major uses of operating cash flow included tax payments of ¥18.3 billion.

Investing activities used net cash of ¥77.5 billion, ¥3.6 billion less than in the previous fiscal year, mainly to acquire property, plant and equipment.

Free cash flow, which is the net amount of cash from operating and investing activities, showed a net inflow of ¥74.1 billion in fiscal 2014, up from net outflow of ¥53.0 billion in fiscal 2013.

Financing activities used net cash of ¥62.5 billion, a ¥120.1 billion swing from the previous fiscal year's net cash inflow from financing activities. The cash outflow was mainly due to debt repayments.

Given these changes in cash flows, cash and cash equivalents at the end of the term settled at ¥45.4 billion, up ¥8.4 billion from the beginning of the year.

MANAGEMENT OF LIQUIDITY RISK

To manage our liquidity risk comprehensively, the Finance Department formulates and renews financial plans in a timely fashion, based on reports from each business segment. In addition, measures are taken to diversify sources of financing, adjust the balance of long and short term financing with consideration of financial conditions, and secure commitment lines (credit limitation of ¥54.0 billion, immediate activation possible) and commercial papers (issuance limit of ¥150.0 billion).

MANAGEMENT INDICATOR

In the ultimate aim of improving its enterprise value, the Group has adopted profit targets (operating income, recurring profit, and net income) and ROIC (return on invested capital: earnings before interest and taxes (EBIT) ÷ invested capital), a measure of capital efficiency, as its target metrics of operating performance.

The Group aims to maximize its enterprise value into the future by achieving ROIC in excess of its weighted-average cost of capital (WACC). Additionally, the Group will endeavor to optimize its business portfolio by using ROIC as a performance metric for each of its business units (BU), the smallest unit into which its operations are classified.

Calculated with this formula, ROIC increased 2.0 percentage points to 8.1%, from 6.1% in the previous fiscal year.

DIVIDENDS

As a basic policy, the Company aims to meet shareholders' expectations by endeavoring to enhance its enterprise value, paying dividends commensurate with earnings, and internally retaining funds sufficient to continue returning the fruits of its operations to stakeholders, conducting R&D and making forward-looking capital investments as a supplier of key societal infrastructure.

The Company has a basic policy of distributing surplus retained earnings as dividends twice a year, once after the fiscal second quarter and once after fiscal year-end. Interim dividends are authorized by the Board of Directors; year-end dividends are authorized at general meetings of shareholders.

After comprehensively considering its earnings forecast, the sufficiency of its retained earnings, and other relevant factors in light of said policies, the Company intends to pay a dividend of ¥6 per share (¥0 interim dividend, ¥6 year-end dividend) for fiscal 2014. After paying the dividend, the Company plans to use residual internally retained funds to repay debt and invest in operations.

The Company's Articles of Incorporation authorize the Company to pay interim dividends as defined in Article 454(5) of the Companies Act.

For fiscal 2014, the Company plans to pay dividends of ¥7 per share (¥3 interim dividend plus ¥4 year-end dividend).

Consolidated Balance Sheets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
At March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
ASSETS			
Current assets:			
Cash on hand and in banks (Note 18)	**¥47,949**	¥38,525	**$465,886**
Receivables:			
Trade (Note 7)	**415,664**	432,649	**4,038,709**
Other	**14,115**	16,464	**137,145**
Allowance for doubtful receivables	**(3,104)**	(2,785)	**(30,159)**
	426,675	446,328	**4,145,695**
Inventories: (Note 8)			
Merchandise and finished products	**56,673**	61,446	**550,650**
Work in process	**302,513**	311,108	**2,939,304**
Raw materials and supplies	**98,848**	87,551	**960,435**
	458,034	460,105	**4,450,389**
Deferred tax assets (Note 17)	**33,046**	37,648	**321,084**
Other current assets	**40,049**	34,208	**389,137**
Total current assets	**1,005,754**	1,016,814	**9,772,191**
Property, plant and equipment (Note 7):			
Land	**62,866**	62,318	**610,823**
Buildings and structures	**368,582**	344,813	**3,581,247**
Machinery and equipment	**650,375**	576,753	**6,319,230**
Construction in progress	**29,330**	19,198	**284,978**
	1,111,153	1,003,082	**10,796,278**
Accumulated depreciation	**(727,241)**	(697,289)	**(7,066,080)**
Net property, plant and equipment	**383,912**	305,793	**3,730,198**
Investments and intangible and other assets:			
Investments in securities (Notes 5, 6 and 7)	**84,377**	75,143	**819,830**
Long-term loans	**424**	409	**4,119**
Deferred tax assets (Note 17)	**52,711**	36,428	**512,155**
Goodwill and other intangible assets	**17,262**	19,446	**167,722**
Allowance for doubtful receivables	**(710)**	(936)	**(6,898)**
Net defined benefit assets (Note 9)	**1,444**	-	**14,030**
Other (Note 7)	**9,256**	13,193	**89,937**
Total investments and intangible and other assets	**164,764**	143,683	**1,600,895**
Total assets	**¥1,554,430**	¥1,466,290	**$15,103,284**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt and current portion of long-term debt (Note 7)	**¥191,161**	¥229,857	**$1,857,374**
Trade payables (Note 7)	**252,107**	281,063	**2,449,543**
Electronically recorded obligations	**53,923**	-	**523,931**
Advances from customers	**137,598**	108,214	**1,336,941**
Income taxes payable (Note 17)	**10,100**	3,756	**98,134**
Accrued bonuses	**22,118**	20,060	**214,904**
Provision for product warranties	**10,535**	6,148	**102,361**
Provision for losses on construction contracts (Note 8)	**13,560**	18,719	**131,752**
Deferred tax liabilities (Note 17)	**442**	1,793	**4,294**
Asset retirement obligations	**49**	133	**476**
Other current liabilities	**103,822**	112,797	**1,008,768**
Total current liabilities	**795,415**	782,540	**7,728,478**
Long-term liabilities:			
Long-term debt, less current portion (Note 7)	**253,482**	254,796	**2,462,903**
Employees' retirement and severance benefits (Note 9)	**-**	62,300	**-**
Liability for retirement benefits (Note 9)	**97,048**	-	**942,945**
Deferred tax liabilities (Note 17)	**6,630**	5,511	**64,418**
Provision for losses on legal proceedings	**395**	569	**3,837**
Provision for environmental measures	**3,669**	4,512	**35,649**
Asset retirement obligations	**487**	551	**4,731**
Other	**20,618**	5,630	**200,335**
Total long-term liabilities	**382,329**	333,869	**3,714,818**
Contingent liabilities (Note 10)			
Net assets (Note 11):			
Sharehoders' equity:			
Common stock:			
Authorized - 3,360,000,000 shares			
Issued - 1,671,892,659 shares in 2014			
- 1,671,892,659 shares in 2013	**104,484**	104,484	**1,015,196**
Capital surplus	**54,394**	54,394	**528,507**
Retained earnings	**217,449**	198,528	**2,112,796**
Treasury stock - 141,710 shares in 2014			
- 100,116 shares in 2013	**(43)**	(27)	**(417)**
Total shareholders' equity	**376,284**	357,379	**3,656,082**
Accumulated other comprehensive income:			
Net unrealized gains on securities, net of tax	**2,653**	4,524	**25,777**
Deferred losses on hedges	**(3,803)**	(5,998)	**(36,951)**
Foreign currency translation adjustments	**6,416**	(17,665)	**62,339**
Accumulated adjustments for retirement benefits	**(18,509)**	-	**(179,837)**
Total accumulated other comprehensive income	**(13,243)**	(19,139)	**(128,672)**
Minority interests	**13,645**	11,641	**132,578**
Total net assets	**376,686**	349,881	**3,659,988**
Total liabilities and net assets	**¥1,554,430**	¥1,466,290	**$15,103,284**

Consolidated Statements of Income and Comprehensive Income

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
At March 31, 2014 and 2013

Consolidated Statements of Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2014	2013	2012	**2014**
Net sales	**¥1,385,482**	¥1,288,881	¥1,303,778	**$13,461,737**
Cost of sales (Note 12)	**1,140,293**	1,085,469	1,088,918	**11,079,411**
Gross profit	**245,189**	203,412	214,860	**2,382,326**
Selling, general and administrative expenses (Note 13)	**172,838**	161,350	157,376	**1,679,344**
Operating income	**72,351**	42,062	57,484	**702,982**
Other income (expenses):				
Interest and dividend income	**1,317**	1,641	2,331	**12,796**
Equity in income of nonconsolidated subsidiaries and affiliates	**7,016**	8,530	8,567	**68,169**
Interest expense	**(3,991)**	(4,151)	(4,282)	**(38,777)**
Other expenses, net (Note 14)	**(15,383)**	(1,930)	(15,394)	**(149,465)**
Income before income taxes and minority interests	**61,310**	46,152	48,706	**595,705**
Income taxes (Note 17)				
Current	**(15,903)**	(10,591)	(9,932)	**(154,508)**
Deferred	**(4,409)**	(2,550)	(12,899)	**(42,849)**
Income before minority interests	**40,998**	33,011	25,875	**398,348**
Minority interests in net income of consolidated subsidiaries	**(2,397)**	(2,147)	(2,552)	**(23,290)**
Net income	**¥38,601**	¥30,864	¥23,323	**$375,058**

Consolidated Statements of Comprehensive Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2014	2013	2012	**2014**
Income before minority interests	**¥40,998**	¥33,011	¥25,875	**$398,348**
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities	**(1,852)**	541	106	**(17,994)**
Deferred gains (losses) on hedges	**2,314**	(6,381)	1,281	**22,483**
Foreign currency translation adjustments	**11,996**	11,713	(2,924)	**116,556**
Remeasurements of defined benefit plans	**1,870**	-	-	**18,169**
Share of other comprehensive income of associates accounted for using equity method	**13,379**	5,155	231	**129,995**
Total other comprehensive income (loss)	**27,707**	11,028	(1,306)	**269,209**
Comprehensive income	**68,705**	44,039	24,569	**667,557**
Comprehensive income attributable to:				
Owners of the parent company	**64,908**	40,940	22,228	**630,664**
Minority interests	**3,797**	3,099	2,341	**36,893**
	Yen			U.S. dollars (Note 1)
Per share amounts (Note 19)				
Net income per share - basic	**¥23.0**	¥18.4	¥13.9	**$0.22**
Net income per share - diluted	**-**	-	13.8	**-**
Cash dividends	**6.0**	5.0	5.0	**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, 2014, 2013, and 2012

	Thousands	Millions of yen												
		Shareholders' equity					Accumulated other comprehensive income							
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities, net of tax	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income	Minority interests	Total net assets
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
Cumulative effect of changes in accounting policies	-	-	-	(11,523)	-	(11,523)	-	-	-	(20,410)	(20,410)	-	(31,933)
Restated Balance	-	104,484	54,394	187,005	(27)	345,856	4,524	(5,998)	(17,665)	(20,410)	(39,549)	11,641	317,948
Net income for the year	-	-	-	38,601	-	38,601	-	-	-	-	-	-	38,601
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	24,081	-	24,081	-	24,081
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	(1,871)	-	-	-	(1,871)	-	(1,871)
Treasury stock purchased, net	-	-	-	-	(16)	(16)	-	-	-	-	-	-	(16)
Cash dividends	-	-	-	(8,358)	-	(8,358)	-	-	-	-	-	-	(8,358)
Loss on sales of treasury stock	-	-	0	-	0	0	-	-	-	-	-	-	0
Conversion of convertible bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary	-	-	-	201	-	201	-	-	-	-	-	-	201
Decrease resulting from increase in equity method affiliate	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	2,195	-	1,901	4,096	2,004	6,100
Balance at March 31, 2014	¥1,671,892	¥104,484	¥54,394	¥217,449	¥(43)	¥376,284	¥2,653	¥(3,803)	¥6,416	¥(18,509)	¥(13,243)	¥13,645	¥376,688
Balance at March 31, 2013		$1,015,196	$528,507	$1,928,954	$(262)	$3,472,395	$43,956	$(58,278)	$(171,638)	$(198,309)	$(185,960)	$113,107	$3,399,542
Cumulative effect of changes in accounting policies		-	-	(111,960)	-	(111,960)	-	-	-	(198,309)	(198,309)	-	(310,269)
Restated Balance		1,015,196	528,507	1,816,994	(262)	3,360,435	43,956	(58,278)	(171,638)	(198,309)	(384,269)	113,107	3,089,273
Net income for the year		-	-	375,058	-	375,058	-	-	-	-	-	-	375,058
Adjustments from translation of foreign currency financial statements		-	-	-	-	-	-	-	233,977	-	233,977	-	233,977
Increase in net unrealized gains on securities, net of tax		-	-	-	-	-	(18,179)	-	-	-	(18,179)	-	(18,179)
Treasury stock purchased, net		-	-	-	(155)	(155)	-	-	-	-	-	-	(155)
Cash dividends		-	-	(81,208)	-	(81,208)	-	-	-	-	-	-	(81,208)
Loss on sales of treasury stock		-	0	-	0	0	-	-	-	-	-	-	0
Conversion of convertible bonds		-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) due to changes in fiscal period of consolidated subsidiaries		-	-	1,952	-	1,952	-	-	-	-	-	-	1,952
Decrease resulting from increase in equity method affiliate		-	-	-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	21,327	-	18,472	39,799	19,471	59,270
Balance at March 31, 2014		$1,015,196	$528,507	$2,112,796	$(417)	$3,656,082	$25,777	$(36,951)	$62,339	$(179,837)	$(128,672)	$132,578	$3,659,988

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, 2014, 2013 and 2012

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2014	2013	2012	**2014**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥61,310**	¥46,152	¥48,706	**$595,705**
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by (used for) operating activities:				
Depreciation and amortization	**37,838**	48,385	48,901	**367,644**
Loss on impairment of fixed assets	**476**	363	14,921	**4,621**
Increase (decrease) in employees' retirement and severance benefits	**-**	(10,970)	(5,257)	**-**
Increase (decrease) in liability for retirement benefits	**(2,830)**	-	-	**(27,497)**
Increase (decrease) in accrued bonuses	**1,839**	(521)	4,885	**17,868**
Increase (decrease) in allowance for doubtful receivables	**(129)**	(653)	449	**(1,253)**
Increase (decrease) in provision for product warranties	**4,117**	(1,195)	(750)	**40,001**
Increase (decrease) in provision for losses on construction contracts	**(5,345)**	(12,617)	(2,016)	**(51,933)**
Increase (decrease) in provision for restructuring charges	**-**	-	(1,077)	**-**
Increase (decrease) in provision for losses on damages suit	**(102)**	(340)	(4,957)	**(991)**
Increase (decrease) in provision for environmental measures	**(915)**	1,261	(545)	**(8,890)**
Loss (gain) on disposal of inventories	**1,339**	1,711	(70)	**13,010**
Gain on sales of marketable securities and investments in securities	**(1,187)**	(1,424)	(591)	**(11,533)**
Loss on valuation of securities	**619**	55	918	**6,014**
Loss on sales of property, plant, and equipment	**1,043**	1,032	1,177	**10,134**
Equity in income of nonconsolidated subsidiaries and affiliates	**(7,016)**	(8,530)	(8,567)	**(68,169)**
Interest and dividend income	**(1,317)**	(1,641)	(2,331)	**(12,796)**
Interest expense	**3,991**	4,151	4,282	**38,777**
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	**17,750**	10,601	(942)	**172,464**
Inventories	**(1,295)**	(10,711)	(18,705)	**(12,582)**
Other current assets	**1,349**	8,073	(2,139)	**13,107**
Increase (decrease) in:				
Trade payables	**20,059**	(41,150)	(7,332)	**194,898**
Advances from customers	**25,978**	5,670	18,973	**252,409**
Other current liabilities	**7,713**	4,015	8,708	**74,941**
Other, net	**2,973**	(2,333)	4,134	**28,893**
Subtotal	**168,258**	39,384	100,775	**1,634,842**
Cash received for interest and dividends	**6,018**	8,668	6,656	**58,472**
Cash paid for interest	**(4,210)**	(4,194)	(4,455)	**(40,905)**
Cash paid for income taxes	**(18,345)**	(15,757)	(18,239)	**(178,245)**
Net cash provided by (used for) operating activities	**¥151,721**	¥28,101	¥84,737	**$1,474,164**

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2014	2013	2012	**2014**
Cash flows from investing activities:				
Decrease (increase) in time deposits with maturities over three months	**(584)**	(310)	1,446	**(5,674)**
Acquisition of property, plant and equipment	**(77,396)**	(65,517)	(61,126)	**(752,001)**
Proceeds from sales of property, plant and equipment	**2,212**	348	535	**21,492**
Acquisition of intangible assets	**(2,778)**	(4,898)	(4,921)	**(26,991)**
Proceeds from sales of intangible assets	**595**	33	16	**5,781**
Acquisition of investments in securities	**(610)**	(571)	(47)	**(5,926)**
Proceeds from sales of investments in securities	**2,695**	2,899	663	**26,185**
Acquisition of investments in subsidiaries and affiliates	**(2,063)**	(12,339)	(1,761)	**(20,044)**
Decrease (increase) in short-term loans	**196**	(11)	(11)	**1,904**
Additions to long-term loans	**(64)**	(44)	(70)	**(621)**
Proceeds from collection of long-term loans	**84**	101	89	**816**
Payments in lease and guarantee deposits	**-**	(1,152)	-	**-**
Other	**154**	301	(772)	**1,494**
Net cash provided by (used for) investing activities	**(77,559)**	(81,160)	(65,959)	**(753,585)**
Cash flows from financing activities:				
Increase (decrease) in short-term debt	**(64,139)**	42,129	(569)	**(623,192)**
Proceeds from long-term debt	**80,430**	64,327	39,963	**781,480**
Repayment of long-term debt	**(68,749)**	(38,837)	(59,887)	**(667,984)**
Acquisition of treasury stock	**(17)**	(4)	(8)	**(165)**
Proceeds from stock issuance to minority shareholders	**-**	217	-	**-**
Cash dividends paid	**(8,363)**	(8,351)	(5,014)	**(81,257)**
Cash dividends paid to minority shareholders	**(1,532)**	(1,326)	(1,070)	**(14,885)**
Other	**(135)**	(484)	(246)	**(1,313)**
Net cash provided by (used for) financing activities	**(62,505)**	57,671	(26,831)	**(607,316)**
Effect of exchange rate changes	**(4,001)**	(886)	(1,823)	**(38,874)**
Net increase (decrease) in cash and cash equivalents	**7,656**	3,726	(9,876)	**74,389**
Cash and cash equivalents at beginning of year	**36,971**	33,245	44,629	**359,220**
Increase (decrease) in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries	**804**	-	(1,508)	**7,811**
Cash and cash equivalents at end of year	**¥45,431**	¥36,971	¥33,245	**$441,420**
Supplemental information on cash flows:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheets	**¥47,949**	¥38,525	¥34,316	**$465,886**
Time deposits with maturities over three months	**(2,518)**	(1,554)	(1,071)	**(24,466)**
Total (Note 18)	**¥45,431**	¥36,971	¥33,245	**$441,420**

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, 2014, which was ¥102.92 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 96 subsidiaries (95 in the year ended March 31, 2013 and 97 in 2012). 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, 2014, 18 affiliates (17 in 2013 and 14 in 2012) were accounted for by the equity method. For the year ended March 31, 2014, investments in 13 affiliates (13 in 2013 and 14 in 2012) 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 28 consolidated subsidiaries (30 in 2013 and 30 in 2012) 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. Three consolidated subsidiaries, KHITKAN Co., Ltd., Kawasaki Motors (Phils.) Corporation, and Kawasaki Motors Enterprise (Thailand) Co., Ltd., which previously had their fiscal year-end on December 31, have changed their fiscal year-end to March 31 to coincide with the consolidated fiscal year-end of the Company.

(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 the 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 the 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 lease transactions are recognized mainly 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, 2014, 2013 or 2012. 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 the 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 a nonconsolidated subsidiary or affiliated company not subject to the equity method is not readily available, the 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 by the straight-line method over the estimated useful life of the asset.

(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.

An equivalent amount of goodwill is amortized by the straight-line method 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 or 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 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.

(r) 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.

(s) 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.

(t) Liability for retirement benefits
Employees who terminate their services with the Company or some 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 charged to income on a straight-line basis primarily over 10 years commencing with the following period and the current period, respectively. With regard to previously unrecognized actuarial gains and losses and unrecognized prior services costs, after adjusting for tax effects, the Company records accumulated adjustment for retirement benefits as part of accumulated other comprehensive income within net assets.

In calculating retirement benefit obligations, the method of attributing expected benefits to periods employs a benefit formula basis.

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.

(u) 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.

(v) 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 and 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.

(w) 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.

(x) Accounting for consumption taxes
National and local consumption taxes are accounted for based on the net amount.

(y) 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) Adoption of new accounting standard for retirement benefits

Effective from the beginning of the fiscal year ended March 31, 2014, the Company has adopted the Accounting Standards Board of Japan's new "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and its accompanying implementation guidelines, "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012), both of which take effect from the start of the first fiscal year beginning on or after April 1, 2013. The Company now recognizes the excess of retirement benefit obligations over plan assets as a liability for retirement benefits. Previously, the excess was booked as unrecognized actuarial losses and unrecognized prior service costs as retirement and a liability for retirement benefits. Additionally, the Company revised its method of calculating retirement benefit obligations and service costs and changed its method of attributing projected retirement and severance benefit obligations to accounting periods from a straight-line basis to a benefit formula basis.

When recognizing a liability for retirement benefits in the amount of the excess of retirement benefit obligations over plan assets as of the start of the fiscal year ended March 31, 2014, the Company debited accumulated other comprehensive income's accumulated adjustment for retirement benefit to reflect recognition of the liability in accordance with the transitional measures provided in Paragraph 37 of the Accounting Standard for Retirement Benefits. The Company also debited its capital surplus account as of the beginning of the first quarter of the fiscal year ended March 31, 2014, to reflect the effect of the change in its method for calculating retirement benefit obligations and service costs.

These debits reduced accumulated other comprehensive income and capital surplus as of the beginning of the fiscal year ended March 31, 2014, by ¥20,410 million ($198,309 thousand) and ¥11,125 million ($108,093 thousand), respectively. The effect on the financial statements was minimal. The impact of the change on earnings per share is disclosed below under "27. Other matters".

(b) Treatment of FIA

When the Company's main partners sell jet engines to airlines, the airlines demand a type of discount called fleet introductory assistance (FIA). The Company is charged a share of this FIA in proportion to its involvement in projects. The Company has previously included these FIA charges in cost of sales. Effective from the beginning of the fiscal year ended March 31, 2014, the Company has switched to reporting FIA charges as a deduction from net sales.

After reassessing its FIA transactions in light of the Japanese Institute of Certified Public Accountants' Accounting Practice Committee Research Report No. 13, "Research Report on Revenue Recognition in Japan (Interim Report)," issued in July 2009, the Company decided that this revised treatment results in a more appropriate presentation of its operating performance.

The Company deducted FIA charges from net sales in the beginning of the fiscal year ended March 31, 2014, and because the impact of this accounting policy change on the consolidated financial statements as a whole was minimal, the Company did not apply the change retrospectively.

The change reduced both sales and cost of sales for the fiscal year ended March 31, 2014, by ¥37,499 million ($364,350 thousand) relative to what they would have been in the absence of the change, but it had no effect on operating income, ordinary income or income before income taxes and minority interests.

The impact of the change on segment results is disclosed below under "(2) Calculation methods for sales, income (loss), assets, liabilities and other items by reportable segment".

(c) Treatment of specialized jigs and tools for civilian aircraft

The Company and some of its consolidated subsidiaries have reclassified jigs and tools used in the Aerospace segment's civilian aircraft manufacturing operations from inventories (work in process) to property, plant and equipment as a result of a reassessment of these jigs and tools' balance sheet classification in light of their growing size and functionality.

The Company and its applicable consolidated subsidiaries reclassified the jigs and tools as of the previous fiscal year-end and carried the revised asset balances over as beginning balances of the fiscal year ended March 31, 2014. Since the impact of the reclassification on the consolidated financial statements as a whole was minimal, the reclassification was not applied retrospectively.

The reclassification reduced work in process as of the beginning of the fiscal year ended March 31, 2014 by ¥26,781 million ($260,211 thousand) and increased property, plant and equipment and intangible assets by ¥26,555 million ($258,015 thousand) and ¥226 million ($2,195 thousand), respectively, relative to what they would have been in the absence of the reclassification.

Previously, the book value of the specialized jigs and tools was transferred from work in process to cost of sales upon the sale of the aircraft components for which the jigs and tools were used. After the reclassification, the jigs and tools is depreciated as property, plant and equipment, and the depreciation allocated between cost of sales and work in process. The impact of this change on earnings and earnings per share has been minimal.

(d) Treatment of subsidies related to aircraft development

In developing aircraft and jet engines, the Company receives development related subsidies pursuant to the Aircraft Industry Promotion Act. The Company previously placed priority on the legal form of the subsidy transactions by recognizing the subsidies as revenue received in consideration for development deliverables, charging the corresponding development expenses to cost of sales, and recognizing projected future obligations related to the subsidies as warranty obligations. From the fiscal year ended March 31, 2014, the Company is placing more priority on the economic substance of the subsidy transactions and has revised its accounting treatment accordingly. Specifically, the Company no longer recognizes the subsidies as revenue and, on its balance sheet, recognizes projected future obligations as liabilities and capitalizes development expenses as inventories.

After reassessing the subsidy transactions by placing priority on their substance in light of the Japanese Institute of Certified Public Accountants' Accounting Practice Committee Research Report No. 13, "Research Report on Revenue Recognition in Japan (Interim Report)," issued in July 2009, the Company decided that this revised treatment results in a more appropriate presentation of its operating performance and financial condition.

At March 31, 2014, the Company capitalized the development expenses as inventories and recognized a liability as described above. Since the impact of these changes on the consolidated financial statements as a whole has been minimal, the Company did not apply the changes retrospectively. The impact of the changes on earnings also has been minimal.

As a result, the work in process, accounts payable-other and long-term accounts payable-other balance at March 31, 2014 increased by ¥14,409 million ($140,001 thousand), ¥1,160 million ($11,270 thousand) and ¥13,249 million ($128,731 thousand), respectively. The impact of the changes on earnings and earnings per share was minimal.

(e) Changes in accounting policies based on other justified reasons than revision of accounting standards or amendment of respective law or regulation that are not distinguishable from change in accounting estimates.

-Changes in depreciation method and depreciable lives

The Company and its domestic consolidated subsidiaries had previously used the declining balance method to depreciate their property, plant and equipment (except for buildings (excluding fixtures) acquired on or after April 1, 1998, which have been depreciated by the straight-line method). Effective from the fiscal year ended March 31, 2014, the straight-line method is used for all property, plant and equipment.

In accordance with *Kawasaki Business Vision 2020*, the Company and its consolidated subsidiaries actively conduct overseas operations ranging from production to sales while treating their domestic plants as development and production hubs where advanced technological capabilities are concentrated. Given this configuration, overseas capital investment is expected to become even more important than before.

The change in depreciation method in conjunction with the change in capital investment environment is expected to stabilize the Group production facilities. The economic benefits of capital investments will accordingly accrue evenly over time. The Company therefore decided that switching to the straight-line method of depreciation would more accurately reflect the state of its operations from the standpoint of appropriately reporting quarterly and annual income and losses.

Additionally, the Company and its domestic consolidated subsidiaries have previously depreciated their machinery and tools based mainly on depreciable lives prescribed in the Corporation Tax Act. In conjunction with the change in depreciation method, they have revised the depreciable lives of their machinery and tools effective from the fiscal year ended March 31, 2014. They did so based on a comprehensive reassessment of the physical and economic lives of the machinery and tools, taking into account various factors including product life spans and the risk of production process obsolescence.

As a result of these changes, consolidated operating income, ordinary income, and income before income taxes and minority interests for the fiscal year ended March 31, 2014 were each ¥13,602 million ($132,160 thousand) higher than they would have been in the absence of the changes.

The impact of these changes on individual segments is disclosed below under "(2) Calculation methods for sales, income (loss), assets, liabilities and other items by reportable segment".

4. Accounting standards issued but not yet adopted

- Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013)
- Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013)
- Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013)
- Accounting Standard for Earnings Per Share (ASBJ Statement No. 2, September 13, 2013)
- Guidance on Accounting Standard for Business Combinations and Business Divestitures (ASBJ Guidance No. 10, September 13, 2013)
- Guidance on Accounting Standard for Earnings Per Share (ASBJ Guidance No. 4, September 13, 2013) (Please also refer to the ASBJ homepage, which has a summary in English of the accounting standard.)

(1) Summary

Under the revised accounting statements, the followings have been predominantly amended.

1. Accounting treatment for changes in equity of parent company to its subsidiary in case where parent company still controls its subsidiary in case of additional purchase of investment in subsidiary.
2. Accounting treatment of acquisition related costs
3. Presentation of net income and change from minority interests to non-controlling shareholders' interests
4. Provisional accounting treatment

(2) Effective dates

Effective for the beginning of annual periods ending on or after March 31, 2016. Provisional accounting treatment is effective from the beginning of annual periods ending on or after March 31, 2016.

(3) Effect of application of the standard

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

5. Securities

(a) Book values and market values of held-to-maturity securities with available market values as of March 31, 2014 and 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014			
	Book value	Market value	Unrealized losses	
Market values not exceeding book values:				
Bonds	**¥132**	**¥128**	**¥(4)**	**$(38)**

	Millions of yen		
	2013		
	Book value	Market value	Unrealized losses
Market values not exceeding book values:			
Bonds	¥133	¥125	¥(8)

(b) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2014 and 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014			
	Book value	Acquisition cost	Unrealized gains (losses)	
Securities with book values exceeding acquisition costs:				
Equity securities	**¥7,499**	**¥3,223**	**¥4,276**	**$41,546**
Other securities:				
Equity securities	**168**	**187**	**(19)**	**(184)**
Total	**¥7,667**	**¥3,410**	**¥4,257**	**$(41,362)**

	Millions of yen		
	2013		
	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:			
Equity securities	¥14,082	¥6,843	¥7,239
Other securities:			
Equity securities	659	717	(58)
Total	¥14,741	¥7,560	¥7,181

(c) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2014, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2014					
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities:	**¥2,828**	**¥1,187**	**¥-**	**$27,477**	**$11,533**	**$-**

	Millions of yen		
	2013		
	Sales amounts	Gains	Losses
Equity securities:	¥2,892	¥1,428	¥(3)

	Millions of yen		
	2012		
	Sales amounts	Gains	Losses
Equity securities:	¥611	¥ 593	¥ (1)

(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, 2014 and 2012, the Company recognized an impairment loss on investments in securities in the amount of ¥619 million ($6,014 thousand) and ¥918 million, respectively. For the year ended March 31, 2013, the amount of impairment loss on investments was not disclosed because it was immaterial.

6. Investments in nonconsolidated subsidiaries and affiliates

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2014 and 2013 were ¥70,208 million ($682,160 thousand) and ¥52,412 million, respectively.

7. Short-term debt and long-term debt

Short-term debt and long-term debt as of March 31, 2014 and 2013 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Short-term debt:			
Short-term debt, principally bank loans, bearing an average interest rates of 0.81 percent and 0.74 percent as of March 31, 2014 and 2013, respectively	**¥105,004**	¥160,767	**$1,020,249**
Current portion of long-term debt, bearing average interest rates of 0.75 percent as of March 31, 2014 and 2013.	**85,753**	68,743	**833,200**
Lease obligations, current	**404**	347	**3,925**
Total short-term debt	**¥191,161**	¥229,857	**$1,857,374**
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2014 to 2037, bearing average interest rates of 0.74 percent and 0.78 percent as of March 31, 2014 and 2013, respectively	**¥227,096**	¥243,105	**$2,206,535**
Notes and bonds issued by the Company:			
1.84 percent notes due in 2013	**-**	10,000	**-**
0.72~1.22 percent notes due in 2015	**20,000**	20,000	**194,325**
0.58 percent notes due in 2016	**10,000**	10,000	**97,162**
1.06 percent notes due in 2017	**10,000**	10,000	**97,162**
0.33~0.57 percent notes due in 2018	**20,000**	-	**194,325**
0.68 percent notes due in 2019	**10,000**	10,000	**97,162**
0.98~0.99 percent notes due in 2020	**20,000**	-	**194,325**
1.41 percent notes due in 2021	**10,000**	10,000	**97,162**
1.10 percent notes due in 2022	**10,000**	10,000	**97,162**
Long-term lease obligations	**2,543**	780	**24,708**
	339,639	323,885	**3,300,028**
Less portion due within one year	**(86,157)**	(69,089)	**(837,125)**
Total long-term debt	**¥253,482**	¥254,796	**$2,462,903**

As of March 31, 2014 and 2013, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Receivables: Trade	**¥-**	¥49,911	**$-**
Buildings and structures	**82**	82	**796**
Investments in securities	**14**	14	**136**
Other	**854**	13	**8,298**
Total	**¥950**	¥50,020	**$9,230**

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 ($291 thousand).

As the affiliated company for ENSEADA INDUSTRIA NAVAL S.A. had long-term debt from financial institutions, the Company had pledged (on a long-term basis) their shares. The corresponding long-term debt in end of the consolidated year was ¥31,842 million ($309,385 thousand).

As of March 31, 2014 and 2013, debt secured by the above pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Trade payables	**¥4**	¥3	**$38**
Short-term and long-term debt	**140**	30,888	**1,361**
Total	**¥144**	¥30,891	**$1,399**

The aggregate annual maturities of long-term debt as of March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2015	**¥106,157**	**$1,031,452**
2016	**35,491**	**344,841**
2017	**27,286**	**265,119**
2018	**64,250**	**624,271**
2019 and thereafter	**106,455**	**1,034,345**
Total	**¥339,639**	**$3,300,028**

8. 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, 2014 and 2013, the inventories for the construction contracts for which the provision for losses on construction contracts were provided were ¥2,754 million ($26,758 thousand) and ¥8,900 million, respectively. These amounts were all included in work in process.

9. Employees' retirement and severance benefits

1. The Company and its domestic consolidated subsidiaries have a system of retirement and severance lump-sum payments for employees. The Company and certain consolidated subsidiaries also have a defined contribution pension plan and a cash balance plan (pension plan linked to market interest rates), and a portion of the existing retirement and severance benefits are funded. Certain consolidated subsidiaries have a retirement pension plan. The Company has an employees' retirement benefit trust. The Company and certain consolidated subsidiaries made changes to their system of retirement and severance lump-sum payments for employees. As a result, the Company incurred prior service cost (increase in obligation).
   Gain on contribution of securities to employees' retirement benefit trust was attributable to the contribution of holdings of investments in securities to the employees' retirement benefit trust.

2. Defined benefit plans (including plans that apply a simplified method)

(1) Reconciliation of beginning- and end-of-period balance of retirement benefit obligation

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance of retirement benefit obligations at beginning of period	¥166,867	$1,621,327
Effect of change to benefit formula at beginning of period	19,016	184,764
Service cost	9,700	94,247
Interest cost	3,252	31,597
Actuarial gains and losses	2,251	21,871
Retirement benefits paid	(13,281)	(129,041)
Prior service cost	958	9,308
Other (foreign currency translation difference, etc.)	2,980	28,956
Balance of retirement benefit obligations at end of period	¥191,743	$1,863,029

(2) Reconciliation of beginning- and end-of-period balance of plan assets

Balance of plan assets at beginning of period	¥77,992	$757,792
Expected return on plan assets	2,031	19,733
Actuarial gains and losses	5,213	50,650
Contributions paid by the employer	10,542	102,429
Retirement benefits paid	(4,423)	(42,975)
Other (foreign currency translation difference, etc.)	4,784	46,484
Balance of plan assets at end of period	¥96,139	$934,113

(3) Reconciliation of end-of-period balance of retirement benefit obligations and plan assets to liabilities and assets for retirement benefits presented on the consolidated balance sheets

Funded retirement benefit obligations	¥179,057	$1,739,768
Plan assets	(96,139)	(934,113)
	82,918	805,655
Unfunded plan retirement benefit obligations	12,686	123,260
Net amount of liabilities and assets presented on the consolidated balance sheets	¥95,604	$928,915
Liability for retirement benefits	¥97,048	$942,945
Asset for retirement benefits	(1,444)	(14,030)
Net amount of liabilities and assets presented on the consolidated balance sheets	¥95,604	$928,915

(4) Breakdown of retirement benefit expense

Service cost	¥9,700	$94,247
Interest cost	3,252	31,597
Expected return on plan assets	(2,031)	(19,733)
Amortization period for actuarial gains and losses	2,079	20,200
Amortization period for prior service costs	(1,093)	(10,619)
Retirement benefit expense related to defined benefit plan	¥11,907	$115,692

(5) Adjustments for retirement benefit
Adjustments for retirement benefit (before tax effects) comprised the following.

	Millions of yen	Thousands of U.S. dollars
Prior service cost	¥(1,864)	$(18,111)
Actuarial gains and losses	4,874	47,357
Total	¥3,010	$29,246

(6) Accumulated adjustments for retirement benefit
Accumulated adjustments for retirement benefit (before tax effects) comprised the following.

	Millions of yen	Thousands of U.S. dollars
Unrecognized prior service cost	¥(2,980)	$(28,954)
Unrecognized actuarial gains and losses	(25,959)	(252,225)
Total	¥(28,939)	$(281,179)

(7) Plan assets
① Breakdown of main plan assets
The breakdown of main asset categories as a percentage of total plan assets is as follows

Bonds	14%
Equities	69%
Cash and deposits	5%
Others	12%
Total	100%

Note: Within total plan assets, 59% of assets are included in the employees' retirement benefit trust established as part of the retirement benefit plan.

② Method for setting long-term expected rate of return
To set the expected rate of return on plan assets, the Company takes into account the current and expected allocation of plan assets, and the expected present and future long-term rate of return on the diverse range of assets that makes up the plan assets.

(8) Underlying actuarial assumptions

Main underlying actuarial assumptions as of March 31, 2014 (presented as the compound average)

Discount rate	**1.36 ~ 4.55%**
Long-term expected rate of return on plan assets	**3.00 ~ 7.25%**

3. Defined contribution plan

The required contribution by the Company and its consolidated subsidiaries to the defined contribution plan was ¥1,080 million.

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 consisted of the following:

	Millions of yen
	2013
Projected benefit obligation	¥(166,866)
Fair value of plan assets	77,992
Unrecognized prior service costs	722
Unrecognized actuarial gains and losses	30,347
Prepaid pension cost	(4,495)
Liability for retirement and severance benefits	¥(62,300)

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

	Millions of yen	
	2013	2012
Service costs - benefits earned during the year	¥8,900	¥8,882
Interest cost on projected benefit obligation	3,566	3,675
Expected return on plan assets	(1,172)	(1,061)
Amortization of prior service costs	(1,603)	(2,409)
Amortization of actuarial gains and losses	3,852	4,715
Contribution to the defined contribution pension plans	726	712
Retirement and severance benefit expenses	14,269	14,514
Gain on transfer of benefit obligation relating to employees' pension fund	(8,624)	-
Total	¥5,645	¥14,514

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

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

10. Contingent liabilities

Contingent liabilities as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	**¥25,630**	¥30,396	**$249,028**

11. 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.

12. Cost of sales

The ending balance of inventories was measured at the lower of cost or market. Loss on the valuation of inventories included in the cost of sales for the year ended March 31, 2014 and 2012 was ¥459 ($4,459 thousand) million and ¥1,246 million, respectively. Gain on the valuation of inventories included in the cost of sales for the year ended March 31, 2013 was ¥361 million.

Provision for losses on construction contracts included in the cost of sales for the years ended March 31, 2014, 2013 and 2012 was ¥6,332 million ($61,523 thousand), ¥5,929 million and ¥14,980 million, respectively.

13. 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
	2014	2013	2012	**2014**
Research and development expenses	**¥40,398**	¥41,709	¥39,940	**$392,518**

14. Other expenses, net

"Other expenses, net" in "Other income (expenses)" in the consolidated statements of income for the years ended March 31, 2014, 2013 and 2012 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Foreign exchange gain (loss), net	**¥(14,785)**	¥(9,919)	¥206	**$(143,655)**
Gain on transfer of benefit obligation relating to employees' pension fund	**-**	8,624	-	**-**
Loss on environmental measures	**-**	(1,437)	-	**-**
Gain on sales of marketable securities and investments in securities	**1,187**	1,424	591	**11,533**
Loss on impairment of fixed assets (a)	**(476)**	(363)	(14,921)	**(4,624)**
Loss on valuation of securities	**(619)**	(55)	(918)	**(6,014)**
Gain on contribution of securities to retirement benefit trust (b)	**3,323**	-	-	**32,287**
Loss on disaster (c)	**(2,142)**	-	-	**(20,812)**
Other, net	**(1,871)**	(204)	(352)	**(18,180)**
Total	**¥(15,383)**	¥(1,930)	¥(15,394)	**$(149,465)**

(a) 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 higher of 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, 2014 were as follows:

Function or status	Location	Type of assets
Operating property	Kitakyushu City, Fukuoka	Land, buildings and structures, etc.

Impairment loss for the year ended March 31, 2014 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Land	**¥381**	**$3,701**
Buildings and structures	**63**	**612**
Other	**32**	**311**
Total	**¥476**	**$4,624**

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
Buildings and structures	¥247
Land, etc.	116
Total	¥363

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

(b) Gain on contribution of securities to retirement benefit trust

Gain on contribution of securities to retirement benefit trust was attributable to the contribution of holdings of investments in securities to the employees' retirement benefit trust.

(c) Loss on disaster

Loss on disaster was recognized as a result of a major snowstorm on February 15, 2014, which caused the collapse of an aircraft hangar's roof at a consolidated subsidiary's NIPPI Corporation's Atsugi Plant. The loss was largely attributable to the destruction of fixed assets and inventory and the expenses associated with tearing down the building.

(Additional information)

Japan Self-Defense Force and U.S. Navy aircraft that were in the hangar at the time for regular maintenance suffered damage as a result of the roof collapse. The Company and NIPPI Corporation are currently in discussions with the Japan Ministry of Defense and the U.S. Navy regarding how this matter should be handled. Depending on the outcome of these discussions, the operating performance of the KHI Group may be affected.

15. 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
	2014	2013	**2014**
Unrealized gains (losses) on securities			
Increase (decrease) during the year	**¥1,514**	¥3,466	**$14,710**
Reclassification adjustments	**(4,429)**	(2,506)	**(43,032)**
Subtotal, before tax	**(2,915)**	960	**(28,322)**
Tax (expense) or benefit	**1,063**	(419)	**10,328**
Subtotal, net of tax	**¥(1,852)**	¥541	**(17,994)**
Deferred gains (losses) on hedges			
Increase (decrease) during the year	**¥(10,331)**	¥(20,351)	**(100,378)**
Reclassification adjustments	**14,089**	10,371	**136,891**
Asset acquisition cost adjustments	**-**	(35)	**-**
Subtotal, before tax	**3,758**	(10,015)	**36,513**
Tax (expense) or benefit	**(1,444)**	3,634	**(14,030)**
Subtotal, net of tax	**¥2,314**	¥(6,381)	**22,483**
Foreign currency translation adjustments			
Increase (decrease) during the year	**¥11,996**	¥11,713	**116,556**
Remeasurements of defined benefit plan			
Increase (decrease) during the year	**¥2,010**	-	**19,529**
Reclassification adjustments	**1,000**	-	**9,716**
Subtotal, before tax	**3,010**	-	**29,245**
Tax (expense) or benefit	**(1,140)**	-	**(11,076)**
Subtotal, net of tax	**1,870**	-	**18,169**
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	**¥13,379**	¥5,155	**129,995**
Total other comprehensive income	**¥27,707**	¥11,028	**269,209**

16. Dividends

(a) Dividends paid

Year ended March 31, 2014

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2013 General Meeting of Shareholders	**Common stock**	**¥8,358 million ($81,208 thousand)**	**¥5.0 ($0.05)**	**March 31, 2013**	**June 27, 2013**

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	¥5.0	March 31, 2012	June 28, 2012

(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, 2014

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2014 General Meeting of Shareholders	**Common stock**	**Retained earnings**	**¥10,030 million ($97,454 thousand)**	**¥6.0 ($0.05)**	**March 31, 2014**	**June 27, 2014**

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	¥5.0	March 31, 2013	June 27, 2013

17. 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 37.8 percent for the years ended March 31, 2014 and 2013, respectively.

The significant differences between the statutory and effective tax rates for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013
Statutory tax rate	**37.8%**	37.8%
Valuation allowance	**(6.3)**	(4.6)
Equity in income of nonconsolidated subsidiaries and affiliates	**(4.2)**	(7.0)
Dividend from overseas consolidated subsidiaries	**2.0**	2.2
Changing tax rate	**3.0**	-
Other	**0.8**	0.0
Effective tax rate	**33.1%**	28.4%

Significant components of deferred tax assets and liabilities as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Accrued bonuses	**¥8,772**	¥8,524	**$85,231**
Retirement benefits	**-**	32,012	**-**
Liability for retirement benefits	**45,326**	-	**440,400**
Allowance for doubtful receivables	**666**	653	**6,471**
Inventories – elimination of intercompany profits	**1,560**	137	**15,157**
Fixed assets – elimination of intercompany profits	**435**	436	**4,226**
Depreciation	**11,100**	8,431	**107,850**
Net operating losses carryforwards	**3,893**	7,819	**37,825**
Unrealized loss on marketable securities, investments in securities and other	**2,044**	3,262	**19,860**
Provision for losses on construction contracts	**4,477**	6,197	**43,499**
Other	**26,592**	29,471	**258,379**
Gross deferred tax assets	**104,865**	96,942	**1,018,898**
Less valuation allowance	**(8,926)**	(12,281)	**(86,729)**
Total deferred tax assets	**95,939**	84,661	**932,169**
Deferred tax liabilities:			
Deferral of gain on sales of fixed assets	**4,596**	4,733	**44,656**
Net unrealized gain on securities	**1,292**	2,359	**12,553**
Other	**11,366**	10,797	**110,435**
Total deferred tax liabilities	**17,254**	17,889	**167,644**
Net deferred tax assets	**¥78,685**	¥66,772	**$764,525**

Following the promulgation on March 31, 2014 of the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 10, 2014), the Company is no longer subject to Special Reconstruction Corporation Tax for consolidated fiscal years commencing on or after April 1, 2014. Accompanying this change, the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was changed from 37.8% to 35.4% for the temporary differences expected to be eliminated in the fiscal year beginning on April 1, 2014.

As a result of this change in the statutory tax rate, net deferred tax assets decreased by ¥2,040 million, deferred income taxes recorded for fiscal 2014 increased by ¥1,896 million, and deferred hedge losses increased by ¥143 million.

18. Cash and cash equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2014, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Cash on hand and in banks:	**¥47,949**	¥38,525	¥34,316	**$465,886**
Time deposits with maturities over three months:	**(2,518)**	(1,554)	(1,071)	**(24,466)**
Total	**¥45,431**	¥36,971	¥33,245	**$441,420**

19. Net income per share

Per share amounts for the years ended March 31, 2014, 2013 and 2012 are set forth in the table below. Diluted net income per share for the year ended March 31, 2014 was not disclosed since there were no residual securities.

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Basic net income per share:				
Net income	**¥38,601**	¥30,864	¥23,323	**$375,058**
Net income allocated to common stock	**38,601**	30,864	23,323	**375,058**
	(Number of shares in millions)			
Weighted average number of shares of common stock	**1,671**	1,671	1,671	

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Diluted net income per share				
Net income adjustment	**¥-**	¥-	¥22	**$-**
(Interest expenses, etc.)	**(-)**	(-)	(22)	**(-)**
	(Number of shares in millions)			
Increase in shares of common stocks	**-**	-	13	**-**
(Convertible bonds)	**(-)**	(-)	(5)	**(-)**
(Zero coupon convertible bonds)	**(-)**	(-)	(8)	**(-)**

20. Derivative transactions

(a) Outstanding positions and recognized gains and losses at March 31, 2014 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	**¥29,227**	**¥1,426**	**¥(972)**	**¥(972)**	**$(9,444)**
To purchase	**7,680**	**-**	**28**	**28**	**272**
Option contracts:					
To sell	-	-	-	-	-
To purchase	-	-	-	-	-
Interest rate and currency swaps					
U.S. dollars floating-rate receipt/ fixed-rate payment	**6,993**	**6,993**	**2,222**	**2,222**	**21,589**
Total	**¥43,900**	**¥8,419**	**¥1,278**	**¥1,278**	**$12,417**

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company applied 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	**¥73,958**	**¥8,842**	**¥(6,987)**
To purchase	Trade payables	**13,324**	**2,228**	**1,119**
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Alternative method (*)				
Foreign exchange contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Total		**¥87,282**	**¥11,070**	**¥(5,868)**

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	**$718,596**	**$85,912**	**$(67,887)**
To purchase	Trade payables	**129,459**	**21,647**	**10,872**
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Alternative method				
Foreign exchange contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade Payables	-	-	-
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Total		**$848,055**	**$107,559**	**$(57,015)**

	Subject of hedge	Millions of yen		
		Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Deferral hedge accounting Interest swap				
Floating-rate receipt/fixed-rate payment	Short-term debt	**¥12,000**	**¥2,000**	**¥(61)**
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/ fixed-rate payment	Long-term debt	**6,993**	**6,993**	**91**
		¥18,993	**¥8,993**	**¥30**

Fair value is based on prices provided by financial institutions.

	Subject of hedge	Thousands of U.S. dollars		
		Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Deferral hedge accounting Interest swap				
Floating-rate receipt/fixed-rate payment	Short-term debt	**$116,596**	**$19,432**	**$(592)**
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/ fixed-rate payment	Long-term debt	**67,945**	**67,946**	**884**
		$184,541	**$87,378**	**$292**

(b) 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			
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)
Currency related contracts:				
Foreign exchange contracts:				
To sell	¥148,250	-	¥(22,437)	¥(22,437)
To purchase	408	-	8	8
Option contracts:				
To sell	-	-	-	-
To purchase	-	-	-	-
Total	¥148,658	-	¥(22,429)	¥(22,429)

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company applied 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	¥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.

		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	¥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.

21. Financial Instruments

Information related to financial instruments as of March 31, 2014 and 2013 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, 2014 (nine years from March 31, 2013). 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, 2014 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	¥47,949	¥47,949	¥-	$-
Trade receivables	415,664	415,546	(118)	(1,147)
Investments in securities	7,800	7,795	(5)	(48)
Total assets	¥471,413	¥471,290	¥(123)	$(1,195)
Trade payables	252,107	252,107	-	-
Electronically recorded obligations	53,923	53,923	-	-
Short-term debt and current portion of long-term debt (excluding lease obligations)	190,757	190,757	-	-
Long-term debt, less current portion (excluding lease obligations)	251,345	252,518	(1,173)	(11,397)
Total liabilities	¥748,132	¥749,305	¥(1,173)	$(11,397)
Derivative transactions (*)	¥(4,558)	¥(4,558)	¥-	$-

(*) 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, 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		
	Book value	Fair value	Unrealized gains (losses)
Cash on hand and in banks	¥38,525	¥38,525	¥-
Trade receivables	432,649	432,619	(30)
Investments in securities	14,876	14,868	(8)
Total assets	¥486,050	¥486,012	¥(38)
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
Total liabilities	¥764,935	¥765,842	¥907
Derivative transactions (*)	¥(31,883)	¥(31,883)	¥-

(*) 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, electronically recorded obligations, 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 principal and interest. That discount rate is based on the interest rates of similar new loans.

<Derivatives>
See Note 20, "Derivative Transactions."

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unlisted equity securities and investments in partnerships	¥6,368	¥7,855	$61,873
Stocks of nonconsolidated subsidiaries and affiliates	10,078	7,620	97,920
Investments in affiliates	60,130	44,792	584,241
Total	¥76,576	¥60,267	$744,034

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, 2014 and 2013 were as follows:

	Millions of yen			
	2014			
	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	¥47,949	¥-	¥-	¥-
Trade receivables	389,410	26,255	-	-
Investments in securities				
-Bonds	-	132	-	-
Total	¥437,359	¥26,387	¥-	¥-

	Thousands of U.S. dollars			
	2014			
	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	$465,886	$-	$-	$-
Trade receivables	3,783,618	255,101	-	-
Investments in securities				
-Bonds		1,282	-	-
Total	$4,249,504	$256,383	$-	$-

	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	¥-	¥-

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

See Note 7, "Short-Term debt and Long-term debt."

22. 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, was 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, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Property, plant and equipment	**¥19,376**	¥24,064	**$188,262**
Accumulated depreciation	**¥(13,198)**	(15,528)	**(128,235)**
	6,178	8,536	**60,027**
Intangible assets	**22**	82	**213**
Accumulated amortization	**(3)**	(77)	**(29)**
	¥19	¥5	**$184**

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Current portion	**¥1,859**	¥2,264	**$18,062**
Noncurrent portion	**4,383**	6,111	**42,587**
Total	**¥6,242**	¥8,375	**$60,649**

Lease payments, "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases for the years ended March 31, 2014, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Lease payments	**¥2,713**	¥3,702	¥4,911	**$26,360**
Depreciation and amortization	**2,428**	3,402	4,531	**23,591**
Interest	**¥195**	¥270	¥388	**$1,894**

(b) Lessor

The original costs of leased assets under finance leases and the related accumulated depreciation and amortization as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Property, plant and equipment	**¥850**	¥956	**$8,258**
Accumulated depreciation	**(805)**	(803)	**(7,821)**
	45	153	**437**
Intangible assets	**-**	12	**-**
Accumulated amortization	**-**	(12)	**-**
	¥-	¥-	**$-**

The present values of future minimum lease payments to be received under finance leases as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Current portion	**¥54**	¥122	**$524**
Noncurrent portion	**-**	54	**-**
Total	**¥54**	¥176	**$524**

Lease payments received, depreciation and amortization and interest on finance leases for the years ended March 31, 2014, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Lease payments received	**¥128**	¥193	¥241	**$1,243**
Depreciation and amortization	**107**	165	213	**1,039**
Interest	**¥6**	¥13	¥24	**$58**

23. Operating leases

There were no operating lease transactions for the years ended March 31, 2014 and 2013.

24. 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 Turbines & 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. The Company deducted FIA charges from sales in the beginning of the fiscal year ending March 31, 2014, and because the impact of this accounting policy change on the consolidated financial statements as a whole is minimal, the Company did not apply the change retrospectively. The change reduced both sales and cost of sales for the fiscal year ended March 31, 2014, by ¥37,499 million ($364,350 thousand), relative to what they would have been in the absence of the change, but it had no effect on operating income, recurring profit, or income before income taxes and minority interests through each segment results.

The Company and its domestic consolidated subsidiaries had previously used the declining balance method to depreciate property, plant and equipment (except for buildings (excluding fixtures) acquired on or after April 1, 1998, which had been depreciated by the straight-line method). Effective from the fiscal year ended March 31, 2014, the straight-line method is used for all property, plant and equipment.

Additionally, the Company and its domestic consolidated subsidiaries have previously depreciated their machinery and tools based mainly on depreciable lives prescribed in the Corporation Tax Act. In conjunction with the change in depreciation method, they have revised the depreciable lives of machinery and tools effective from the fiscal year ended March 31, 2014. As a result of these changes, improvements in each segment profits were as follows:
Ship & Offshore Structure 626 million ($6,082 thousand), Rolling Stock 628 million ($6,101 thousand), Aerospace 3,626 million ($35,231 thousand), Gas Turbines & Machinery 1,966 million ($19,102 thousand), Plant & Infrastructure 847 million ($8,229 thousand), Motorcycle & Engine 1,851 million ($17,984 thousand), Precision Machinery 2,607 million ($25,330 thousand) and Other 1,446 million ($14,049 thousand).

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

	Year ended March 31, 2014 — 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	**¥80,863**	**¥1,777**	**¥82,640**	**¥(2,006)**	**¥129,542**	**¥755**	**¥-**	**¥49,089**	**¥1,532**
Rolling Stock	**147,951**	**5,821**	**153,772**	**7,572**	**159,363**	**2,630**	**-**	**125**	**5,490**
Aerospace	**280,737**	**2,537**	**283,274**	**26,254**	**348,608**	**9,937**	**-**	**-**	**25,699**
Gas Turbines & Machinery	**189,241**	**16,923**	**206,164**	**10,486**	**279,356**	**3,155**	**-**	**1,424**	**8,300**
Plant & Infrastructure	**103,898**	**15,639**	**119,537**	**6,312**	**109,878**	**1,297**	**476**	**15,234**	**2,424**
Motorcycle & Engine	**322,248**	**794**	**323,042**	**16,100**	**252,933**	**10,241**	**-**	**1,099**	**17,250**
Precision Machinery	**123,276**	**13,568**	**136,844**	**10,415**	**124,989**	**4,435**	**-**	**6**	**7,734**
Other	**137,268**	**33,016**	**170,284**	**4,483**	**120,533**	**2,081**	**-**	**2,720**	**4,241**
Total	**¥1,385,482**	**¥90,075**	**¥1,475,557**	**¥79,616**	**¥1,525,202**	**¥34,531**	**¥476**	**¥69,697**	**¥72,670**
Adjustments	**-**	**(90,075)**	**(90,075)**	**(7,265)**	**29,228**	**3,307**	**-**	**-**	**15,056**
Consolidated total	**¥1,385,482**	**¥-**	**¥1,385,482**	**¥72,351**	**¥1,554,430**	**¥37,838**	**¥476**	**¥69,697**	**¥87,726**

	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 Turbines & 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 Turbines & 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, 2014 — 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	**$785,688**	**$17,256**	**$802,954**	**$(19,491)**	**$1,258,677**	**$7,345**	**$-**	**$476,962**	**$14,885**
Rolling Stock	**1,437,534**	**56,588**	**1,494,092**	**73,571**	**1,548,416**	**25,554**	**-**	**1,214**	**51,838**
Aerospace	**2,727,721**	**24,650**	**2,752,371**	**255,092**	**3,387,175**	**96,551**	**-**	**-**	**249,698**
Gas Turbines & Machinery	**1,838,719**	**164,442**	**2,003,148**	**101,885**	**2,714,302**	**30,655**	**-**	**13,836**	**80,645**
Plant & Infrastructure	**1,009,502**	**151,953**	**1,161,455**	**61,329**	**1,067,606**	**12,602**	**4,624**	**148,018**	**23,552**
Motorcycle & Engine	**3,131,053**	**7,715**	**3,138,768**	**156,432**	**2,457,569**	**99,514**	**-**	**10,678**	**167,606**
Precision Machinery	**1,197,785**	**131,830**	**1,329,615**	**101,195**	**1,214,428**	**43,091**	**-**	**58**	**75,146**
Other	**1,333,735**	**320,760**	**1,654,528**	**43,558**	**1,171,123**	**20,201**	**-**	**26,419**	**42,712**
Total	**$13,461,737**	**$ 875,194**	**$14,336,931**	**$773,571**	**$14,819,296**	**$335,513**	**$4,624**	**$677,185**	**$706,082**
Adjustments	**-**	**(875,194)**	**(875,194)**	**(70,579)**	**283,978**	**32,131**	**-**	**-**	**146,288**
Consolidated total	**$13,461,737**	**$-**	**$13,461,737**	**$702,982**	**$15,103,274**	**$367,644**	**$4,624**	**$677,185**	**$852,370**

(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, 2014, 2013 and 2012

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Net sales				
Total for reportable segments	**¥1,475,557**	¥1,378,233	¥1,393,512	**$14,336,931**
Intersegment transactions	**(90,075)**	(89,352)	(89,734)	**(875,194)**
Net sales reported on the consolidated financial statements	**¥1,385,482**	¥1,288,881	¥1,303,778	**$13,461,737**

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Income				
Total for reportable segments	**¥79,616**	¥50,131	¥66,327	**$773,571**
Intersegment transactions	**(79)**	564	(131)	**(767)**
Corporate expenses (*)	**(7,186)**	(8,633)	(8,712)	**(69,822)**
Operating income (loss) on the consolidated financial statements	**¥72,351**	¥42,062	¥57,484	**$702,982**

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

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Assets				
Total for reportable segments	**¥1,525,202**	¥1,485,535	¥1,404,790	**$14,819,296**
Corporate assets shared by all segments (*)	**129,822**	122,759	112,985	**1,261,387**
Intersegment transactions	**(100,594)**	(142,004)	(155,636)	**(977,399)**
Total assets on the consolidated financial statements	**¥1,554,430**	¥1,466,290	¥1,362,139	**$15,103,284**

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

	Millions of yen								
	Year ended March 31,			Year ended March 31,			Year ended March 31,		
	2014	2013	2012	**2014**	2013	2012	**2014**	2013	2012
Other items	Total for reportable segments			Adjustments(*)			Amounts reported on the consolidated financial statements		
Depreciation/amortization	**¥34,531**	¥44,250	¥45,865	**¥3,306**	¥4,135	¥3,036	**¥37,838**	¥48,385	¥48,901
Increase in property, plant and equipment and intangibles	**72,670**	64,795	56,733	**15,055**	13,829	7,186	**87,726**	78,624	63,919

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

	Thousands of U.S. dollars		
	Year ended March 31, **2014**	Year ended March 31, **2014**	Year ended March 31, **2014**
Other items	Total for reportable segments	Adjustments	Amounts reported on the consolidated financial statements
Depreciation/amortization	**$335,513**	**$32,131**	**$367,644**
Increase in property, plant and equipment and intangibles	**706,082**	**146,288**	**852,370**

(e) Related information

(i) Sales by geographic region

Net sales for the years ended March 31, 2014, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Japan	**¥605,328**	¥616,220	¥567,044	**$5,881,539**
United States	**326,337**	272,531	237,941	**3,170,783**
Europe	**101,381**	97,540	123,317	**985,046**
Asia	**240,221**	202,704	239,627	**2,334,055**
Other areas	**112,215**	99,886	135,849	**1,090,314**
Total	**¥1,385,482**	¥1,288,881	¥1,303,778	**$13,461,737**

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
	2014	2013	**2014**
Japan	**¥324,502**	¥259,212	**$3,152,953**
North America	**26,059**	21,298	**253,196**
Europe	**3,704**	2,618	**35,989**
Asia	**28,363**	21,638	**275,582**
Other areas	**1,284**	1,026	**12,478**
Total	**¥383,912**	¥305,792	**$3,730,198**

(ii) Information by major clients

	Net sales		
Clients	**2014**	2013	Related segments
Ministry of Defense	**197,640 million yen ($1,920,326 thousand)**	193,685 million yen	Ship & Offshore Structure, Aerospace, Gas Turbines & Machinery, etc.

25. Related party transactions

(a) Related party transactions for the years ended March 31, 2014 and 2013 were as follows:

	Year ended March 31, 2014 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 ($97 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥108,684 million ($1,056,004 thousand)
Account	Trade receivables
Ending balance	¥16,209 million ($157,491 thousand)

	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
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
Account	Trade receivables
Ending balance	¥25,957 million

(b) A summary of the total financial information of all affiliates (18 companies) (17 in 2013) 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, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Current assets	**¥226,484**	¥156,902	**$2,200,582**
Fixed assets	**245,565**	153,656	**2,385,979**
Current liabilities	**247,603**	154,814	**2,405,781**
Long-term liabilities	**63,734**	25,407	**619,257**
Net assets	**160,712**	130,337	**1,561,523**
Net sales	**274,666**	197,764	**2,668,732**
Income before income taxes and minority interests	**19,338**	20,339	**187,893**
Total net income	**14,721**	17,305	**143,033**

26. Subsequent events

On June 26, 2014, the following appropriation of nonconsolidated retained earnings was approved at the ordinary meeting of shareholders of the Company:

	Millions of yen
Cash dividends (¥6.0 per share)	¥10,030

27. Other matters

(Quarterly financial information)

	Millions of yen			
Year ended March 31, 2014	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	¥282,509	¥595,077	¥920,852	¥1,385,482
Income before income taxes and minority interests	9,400	22,788	38,729	61,310
Net income	4,496	13,001	23,292	38,601
	Yen			
Net income per share - basic	¥2.6	¥7.7	¥13.9	¥23.0

	Thousands of U.S. dollars			
Year ended March 31, 2014	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$2,744,937	$5,781,937	$8,947,260	$13,461,737
Income before income taxes and minority interests	91,333	221,414	376,301	595,705
Net income	43,684	126,321	226,311	375,058
	U.S. dollars			
Net income per share - basic	$0.02	$0.07	$0.13	$0.22

As stated under changes in accounting policies, the Company has adopted the Accounting Standard for Retirement Benefits and is applying transitional accounting in accordance with Paragraph 37 of the Accounting Standard for Retirement Benefits. As a result, net assets per share in the fiscal year ended March 31, 2014 decreased by ¥17.93 compared to the amounts that would have been reported without the change. The impact on net income per share was minimal.

KPMG

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, 2014 and 2013, 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, 2014, 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, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2014, in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 4(a) to the consolidated financial statements, the Company and its domestic consolidated subsidiaries have changed the depreciation method and depreciable lives for depreciable assets for the year ended March 31, 2014.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 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, 2014
Kobe, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Directors, Corporate Auditors and Executive Officers (As of June 26, 2014)

Directors

Shigeru Murayama *†
President

Kyohei Matsuoka *†
Senior Executive Vice President

Hiroshi Takata *†
Senior Executive 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

Munenori Ishikawa *†
Senior Vice President

Kazuo Hida *†
Senior Vice President

Shigehiko Kiyama *†
Senior Vice President

Kenji Tomida †
Senior Vice President

Yoshihiko Morita
Outside Director

* Representative Director
† Executive Officer

Corporate Auditors

Yuji Murakami
Corporate Auditor

Takafumi Shibahara
Corporate Auditor

Michio Oka
Outside Corporate Auditor

Nobuyuki Fujikake
Outside Corporate Auditor

Managing Executive Officers

Masahiro Ibi

Executive Officers

Shinsuke Tanaka	Hirokazu Komaki	Masayoshi Maeda	Takeshi Ohata
Yukinobu Kono	Shiro Nakabayashi	Hiroji Iwasaki	Ikuhiro Narimatsu
Masafumi Nakagawa	Toshiyuki Kuyama	Koji Kadota	Takeshi Asano
Kaoru Kawabe	Genichi Abe	Yasuhiko Hashimoto	Toshiyuki Mimura
Makoto Ogawara	Kazuo Ota	Tatsuya Watanabe	Akio Nekoshima

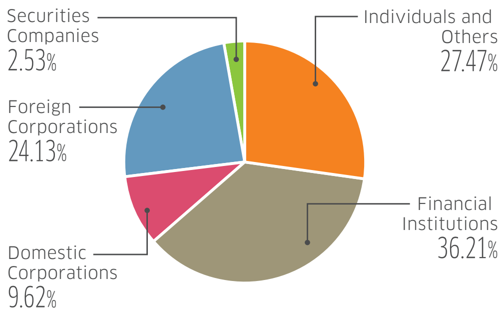
Stock Information (As of March 31, 2014)

Stock Listings	Tokyo 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	128,248 persons
Annual General Meeting of Shareholders	June

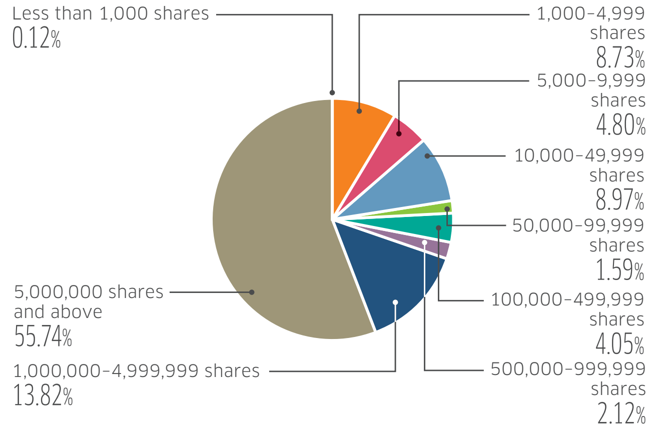
Major Shareholders

Shareholder	Number of Shares Owned	Percentage
The Master Trust Bank of Japan, Ltd. (Trust Account)	108,666,000	6.49%
Japan Trustee Services Bank, Ltd. (Trust Account)	79,989,000	4.78%
Mizuho Bank, Ltd.	59,207,773	3.54%
Nippon Life Insurance Company	57,516,659	3.44%
JFE Steel Corporation	56,174,400	3.35%
Kawasaki Heavy Industries, Ltd. Kyoueikai	34,871,192	2.08%
Kawasaki Heavy Industries Employee Stock Ownership Association	30,975,217	1.85%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	27,838,589	1.66%
Sumitomo Mitsui Banking Corporation	26,828,453	1.60%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	21,465,000	1.28%
Total	**503,532,283**	**30.11%**

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 Heartfelt Service Co., Ltd.
Hokkaido Kawaju Kenki Co.Ltd.
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.
JP Steel Plantech Co.
Kawasaki Motors Corporation Japan
Technica Corp.
K-Tec Corp.
Union Precision Die Co., Ltd.
AutoPolis
Kawasaki Robot Service, Ltd.
Medicaroid Co.,Ltd.

Overseas Offices

Beijing Office
Taipei Office
Bangkok 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 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.
Enseada indùstria Naval 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.
Tongfan Kawasaki Advanced Energy-saving Machine Co., Ltd.
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.
PT. Kawasaki Motor Indonesia
Kawasaki Motors (Phils.) Corporation
India Kawasaki Motors Pvt. Ltd.
PT. Kawasaki Motor Sales Indonesia
Kawasaki Componentes da Amazonia Ltda.
Changzhou Kawasaki and Kwang Yang Engine Co., Ltd.
Kawasaki Precision Machinery (U.S.A.), Inc.
Kawasaki Precision Machinery (UK) Ltd.
Flutek, Ltd.
Wipro Kawasaki Precision Machinery Private. Ltd.
Kawasaki Precision Machinery (Suzhou) Ltd.
Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.
Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd.
Kawasaki Robotics (U.S.A.), Inc.
Kawasaki Robotics (UK) Ltd.
Kawasaki Robotics GmbH
Kawasaki Machine Systems Korea, Ltd.
Kawasaki Robotics (Tianjin) Co., Ltd.
Kawasaki Robotics (Kunshan) Co., Ltd.

(As of March 31, 2014)