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(Securities Code 7012)
June 4, 2014

Dear Shareholders

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

**NOTICE OF
THE 191ST ORDINARY GENERAL MEETING OF SHAREHOLDERS**

You are cordially invited to attend the 191st Ordinary General Meeting of Shareholders of Kawasaki Heavy Industries, Ltd. (the “Company” or “KHI”). The meeting will be held for the purposes as described below.

If you are unable to attend on the day of the meeting, we kindly ask you to review the “Reference Documents for the General Meeting of Shareholders” (described hereinafter), and exercise your voting right in writing or electronically (via the Internet, and so forth) by 5:00 p.m. on June 25, 2014.

Exercise of Voting Rights in Writing

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

Exercise of Voting Rights via the Internet

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

- 1. Date and Time:** Thursday, June 26, 2014 at 10:00 a.m. (Door opens at 9 a.m.)
- 2. Place:** Kokusai Hall at The Kobe International House, located at 1-6, Gokoudori 8-chome, Chuo-ku, Kobe

3. Meeting Agenda:

Matters to be reported:

1. The Business Report, Consolidated Financial Statements for the Company's 191st Fiscal Year (April 1, 2013 - March 31, 2014) and results of audits by the Accounting Auditor and the Board of Corporate Auditors of the Consolidated Financial Statements
2. Non-Consolidated Financial Statements for the Company's 191st Fiscal Year (April 1, 2013 - March 31, 2014)

Proposal No. 1: Appropriation of Retained Earnings

Proposal No. 2: Election of Thirteen Directors

Proposal No. 3: Election of One Corporate Auditor

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

4. Other decisions regarding the General Meeting of Shareholders:

- (1) When voting rights have been exercised twice in writing or electronically, the latter vote received shall be deemed valid, however when votes are received on the same day, the voting right exercised electronically shall be deemed valid.

Shareholders who intend to diversely exercise voting rights are requested to give written notification to that effect, and the reason(s) thereof, no later than three (3) days prior to the day of the General Meeting of Shareholders.

- (2) Among the documents to be submitted when sending the Notice, "Notes to the Consolidated Financial Statements" and "Notes to the Non-consolidated Financial Statements" are posted on the Website (<http://www.khi.co.jp/english/ir/>) according to laws and the Article 16 of the Articles of Incorporation, and they are not included in the Appendix regarding matters to be reported. "Notes to the Consolidated Financial Statements" and "Notes to the Non-consolidated Financial Statements" have been combined with the Consolidated Financial Statements and the Non-Consolidated Financial Statements for the auditing process when preparing the results of audits by the Accounting Auditor and the Board of Corporate Auditors.

Notes:

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

Reference Documents for the General Meeting of Shareholders

Proposals and References

Proposal No. 1: Appropriation of Retained Earnings

The Company's basic policy is to pay cash dividends to its shareholders based on business results, giving due attention to increased internal reserves to maintain and strengthen a cycle to return business profits to its stakeholders, and to live up to shareholders' expectations by striving to improve its enterprise value.

Taking into consideration the strategic investment necessary to improve enterprise value, earning trends, financial position, and so forth, in accordance with the said policy, the annual cash dividend will amount to ¥6 per ordinary share for a total of ¥10,030,505,694, up ¥1 per share from the previous fiscal year.

In addition, the Company's year-end dividend distribution is June 27, 2014.

Proposal No. 2: Election of Thirteen Directors

The term of office of all ten Directors will expire at the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, we propose to elect thirteen Directors to promote various efforts toward the improvement of the Company's enterprise value. Such efforts include establishment for a solid management base of KHI Group and expansion of business foundation of in-house companies.

The candidates for Director are as follows:

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]	Shares of the Company
1	Kyohei Matsuoka (Sep. 16, 1949)	Apr. 1973 Joined Kawasaki Heavy Industries, Ltd. Jun. 2009 Senior Vice President President, Rolling Stock Company Jun. 2013 Senior Executive Vice President Assistant to the President, in charge of Head Office Administration Department, General Manager, Corporate Planning Division July. 2013 Senior Executive Vice President Assistant to the President, in charge of Head Office Administration Department (current position)	90,000 shares
2	Hiroshi Takata (Jan. 5, 1950)	Apr. 1972 Joined Kawasaki Heavy Industries, Ltd. Jun. 2009 Senior Vice President President, Consumer Products & Machinery Company Apr. 2010 Senior Vice President President, Motorcycle & Engine Company Jun. 2013 Senior Executive Vice President Assistant to the President, in charge of technology and sales department Nov. 2013 Senior Executive Vice President Assistant to the President, in charge of technology, sales and procurement department, and in charge of special matters (relate to development and logistics) in Motorcycle & Engine Company Apr. 2014 Senior Executive Vice President Assistant to the President, in charge of technology, sales and procurement department, and in charge of Motorcycle & Engine Company (current position)	65,000 shares

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]	Shares of the Company
3	Shigeru Murayama (Feb. 27, 1950)	Apr. 1974 Apr. 2008 Apr. 2010 Jun. 2010 Jun. 2013 Joined Kawasaki Heavy Industries, Ltd. Managing Executive Officer Vice President, Aerospace Company Managing Executive Officer President, Aerospace Company Senior Vice President President, Aerospace Company President (current position) [Significant concurrent position] President(representative director), Commercial Airplane Company	114,000 shares
4	Joji Iki (Sep. 5, 1951)	Apr. 1977 Apr. 2009 Apr. 2012 Jun. 2012 Joined Kawasaki Heavy Industries, Ltd. Executive Officer General Manager, Machinery Division, Gas Turbine & Machinery Company Managing Executive Officer President, Gas Turbine & Machinery Company Senior Vice President President, Gas Turbine & Machinery Company (current position)	31,000 shares
5	Eiji Inoue (Feb. 22, 1952)	Apr. 1974 Jun. 2008 Jun. 2010 Oct. 2010 Apr. 2011 Apr. 2012 Jun. 2012 Joined Kawasaki Heavy Industries, Ltd. Director, Kawasaki Plant Systems, Ltd. Senior Vice President General Manager, Project Engineering Center, Kawasaki Plant Systems, Ltd. Executive Officer General Manager, Project Engineering Center, in charge of Kobe Engineering Department, Plant & Infrastructure Company, Kawasaki Heavy Industries, Ltd. Executive Officer Vice President, Plant & Infrastructure Company Managing Executive Officer President, Plant & Infrastructure Company Senior Vice President President, Plant & Infrastructure Company (current position)	45,000 shares
6	Yoshinori Kanehana (Feb. 19, 1954)	Apr. 1976 Apr. 2009 Apr. 2011 Apr. 2012 Jun. 2012 Jun. 2013 Joined Kawasaki Heavy Industries, Ltd. Executive Officer Vice President, Rolling Stock Company Managing Executive Officer Vice President, Rolling Stock Company Managing Executive Officer General Manager, Marketing Division Senior Vice President General Manager, Marketing Division Senior Vice President President, Rolling Stock Company (current position)	47,000 Shares
	Minoru Makimura (Nov. 18, 1950)	Apr. 1975 Apr. 2008 Apr. 2011 Apr. 2012 Jun. 2013 Joined Kawasaki Heavy Industries, Ltd. Executive Officer Deputy General Manager, Corporate Technology Division and Senior Manager, Technical Institute Managing Executive Officer General Manager, Corporate Technology Division and Senior Manager, Technical Institute Managing Executive Officer General Manager, Corporate Technology Division Senior Vice President General Manager, Corporate Technology Division (current position)	48,000 Shares

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]		Shares of the Company
8	Akio Murakami (May. 9, 1952)	Apr. 1975 Jun. 2008 Jun. 2010 Oct. 2010 Apr. 2013 Jun. 2013	Joined Kawasaki Heavy Industries, Ltd. Director General Manager, Technology Division, Kawasaki Shipbuilding Corporation Senior Vice President General Manager, Technology Division, Kawasaki Shipbuilding Corporation Executive Officer General Manager, Planning & Control Division, Ship & Offshore Structure Company Managing Executive Officer President, Ship & Offshore Structure Company Senior Vice President President, Ship & Offshore Structure Company (current position) [Significant concurrent position] Director, Nantong COSCO KHI Ship Engineering Co., Ltd. Director, Dalian COSCO KHI Ship Engineering Co., Ltd. Director, ENSEADA INDÚSTRIA NAVAL S.A.	23,000 Shares
9	Yoshihiko Morita (Mar. 7, 1947)	Apr. 1969 Oct. 2008 Jun. 2011 Dec. 2011 Jun. 2012 Jun. 2013 Jun. 2013	Joined Export-Import Bank of Japan (At present: Japan Bank for International Cooperation) Representative Director and Senior Managing Executive Officer Deputy CEO of Japan Bank for International Cooperation, Japan Finance Corporation Resigned Deputy CEO of Japan Bank for International Cooperation, Japan Finance Corporation Advisor, Sumitomo Mitsui Banking Corporation President, Japan Institute for Overseas Investment Outside Corporate Auditor, TOKYO GAS Co., Ltd. Outside Director, Kawasaki Heavy Industries, Ltd. Resigned Advisor, Sumitomo Mitsui Banking Corporation (current position) [Significant concurrent position] President, Japan Institute for Overseas Investment Outside Corporate Auditor, TOKYO GAS Co., Ltd.	2,000 Shares
10	(Newly-appointed) Munenori Ishikawa (Feb. 26, 1953)	Apr. 1975 Apr. 2009 Apr. 2012 Apr. 2013 Jun. 2013	Joined Kawasaki Heavy Industries, Ltd. General Manager, Manufacturing Division, Aerospace Company Executive Officer General Manager, Manufacturing Division, Aerospace Company Executive Officer Vice President, Aerospace Company Managing Executive Officer President, Aerospace Company (current position)	25,000 Shares
11	(Newly-appointed) Kazuo Hida (Feb. 1, 1954)	Apr. 1978 Jun. 2009 Oct. 2010 Apr. 2011 Sep. 2011 Apr. 2013 Apr. 2014	Joined Kawasaki Heavy Industries, Ltd. Seconded to Kawasaki Precision Machinery (UK) Ltd. Senior Associate Officer, Kawasaki Heavy Industries, Ltd. Seconded to Kawasaki Precision Machinery (UK) Ltd. Executive Officer, Kawasaki Heavy Industries, Ltd. Seconded to Kawasaki Precision Machinery (UK) Ltd. Executive Officer General Manager, Engineering Division, Precision Machinery Company Executive Officer Vice President and General Manager, Engineering Division, Precision Machinery Company Managing Executive Officer President, Precision Machinery Company (current position)	22,000 Shares

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]	Shares of the Company
12	(Newly-appointed) Shigehiko Kiyama (Feb. 4 1954)	<p>Aug. 1980 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2009 General Manager, Supply Chain Division, Consumer Products & Machinery Company</p> <p>Apr. 2010 General Manager, Supply Chain Division, Motorcycle & Engine Company</p> <p>Apr. 2012 Executive Officer, General Manager, Supply Chain Division, Motorcycle & Engine Company</p> <p>Jun. 2013 Managing Executive Officer President, and General Manager, Supply Chain Division, Motorcycle & Engine Company</p> <p>Sep. 2013 Managing Executive Officer President, Motorcycle & Engine Company (current position)</p>	39,000 Shares
13	(Newly-appointed) Kenji Tomida (Aug. 7, 1955)	<p>Apr. 1978 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2009 Deputy General Manager, Corporate Planning Division, and Senior Manager, Corporate Business Planning Department</p> <p>Apr. 2010 Deputy General Manager, Corporate Planning Division</p> <p>Apr. 2012 Executive Officer Deputy General Manager, Corporate Planning Division Marketing Division</p> <p>Apr. 2013 Executive Officer General Manager, Planning & Control Division, Ship & Offshore Structure Company</p> <p>July. 2013 Executive Officer General Manager, Corporate Planning Division</p> <p>Apr. 2014 Managing Executive Officer General Manager, Corporate Planning Division (current position) [Significant concurrent position] Director, ENSEADA INDÚSTRIA NAVAL S.A.</p>	26,000 Shares

(Notes)1. Mr. Shigeru Murayama also serves as President (representative director) of Commercial Airplane Co., Ltd. which engages in the following transaction with the Company as well as a business that is the same type as the Company's Aerospace segment:

- Sales, etc. of aircraft component parts for The Boeing Company.

2. Mr. Akio Murakami also serves as Director of Nantong COSCO KHI Ship Engineering Co., Ltd., Dalian Cosco Khi Ship Engineering Co., Ltd., and ENSEADA INDÚSTRIA NAVAL S.A. Each company engages in a business that is the same type as the Company's Ship & Offshore Structure segment.

3. Mr. Kenji Tomida also serves as Director of ENSEADA INDÚSTRIA NAVAL S.A., which engages in business that is the same type as the Company's Ship & Offshore Structure segment.

4. There is no special interest relationship between the other candidates and the Company.

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

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

(2) One year has passed since Mr. Yoshihiko Morita commenced his service as Outside Director of the Company at the conclusion of this Ordinary General Meeting of Shareholders.

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

(4) Mr. Yoshihiko Morita has entered into a limited liability agreement pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, and the liability under said agreement shall be limited to either an amount of ¥10 million, or an amount specified by law and regulation, whichever is higher. Should the appointment of Mr. Yoshihiko Morita be approved, the Company will extend the above agreement with him.

6. Mr. Yoshihiko Morita satisfies the requirements of independent Officer stipulated by the Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc.

Proposal No. 3: Election of One Corporate Auditor

As the term of office of the Corporate Auditor, Mr. Tatsuyoshi Ogushi will expire at the conclusion of this Ordinary General Meeting of Shareholders, we propose to elect one Corporate Auditor.

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

The candidate for Corporate Auditor is as follows.

Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]		Shares of the Company
Takafumi Shibahara (Aug. 5, 1953)	Apr. 1976	Joined Kawasaki Heavy Industries, Ltd.	34,000 Shares
	Apr. 2009	Executive Officer Deputy General Manager (in charge of Procurement Planning and Administration Department), Corporate Planning Division, and Senior Manager, Subsidiaries & Affiliates Control Department	
	Apr. 2010	Executive Officer Deputy General Manager, Corporate Planning Division, and Senior Manager, Subsidiaries & Affiliates Control Department, and in charge of procurement overview	
	Oct. 2010	Executive Officer General Manager, General Administration Division	
	Oct. 2010	Executive Officer General Manager, General Administration Division and Personnel & Labor Administration Division, and in charge of Kobe Works Office, Akashi Works Office and Harima Works Office	
	Apr. 2012	Executive Officer General Manager, Personnel & Labor Administration Division	
	Apr. 2014	Executive Officer Staff Officer to Corporate Auditor (current position)	

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

Business Report

(April 1, 2013 - March 31, 2014)

1. Overview of the Company Group

(1) Business Progress and Results

(i) General Conditions

The global economy recovered moderately, spearheaded by developed economies, in the wake of US 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 Japanese economy was shored up by the effect of various fiscal and monetary policies, along with an increase in consumer spending due to a last-minute demand before a consumption tax increase, leading to a mild recovery.

Amid this operating environment, the overall orders received by KHI Group for the fiscal year under review amounted to ¥1,455.4 billion, 6% higher than the previous fiscal year despite decreased orders in certain segments. The increase in overall orders was chiefly attributable to the Motorcycle & Engine segment, the Precision Machinery segment, and the Ship & Offshore Structure segment. Net sales were ¥1,385.4 billion, 7% higher than the previous fiscal year due to increases in the Motorcycle & Engine segment and the Aerospace segment, while decreases were seen in the Plant & Infrastructure segment and the Ship & Offshore Structure segment.

In terms of profit, the Motorcycle & Engine segment, the Aerospace segment, the Rolling Stock segment and others reported a profit increase, resulting in an operating income of ¥72.3 billion, 72% higher than the previous fiscal year. Recurring profit was ¥60.6 billion, 54% higher than the previous fiscal year, and net income was ¥38.6 billion, 25% higher than the previous fiscal year.

(ii) Operating conditions by business segment

The **Ship & Offshore Structure segment** received orders amounting to ¥117.8 billion, which was higher than the previous fiscal year, owing to orders for nine vessels including liquefied gas carriers (LNG/LPG carriers) and a large offshore work vessel.

Net sales were ¥80.8 billion, which was lower than the previous fiscal year. This was attributable to a decrease in the construction of bulk carriers and others, while the construction of liquefied gas carriers increased.

Operating loss deteriorated ¥6.1 billion from the previous fiscal year to ¥2.0 billion, mainly due to a new provision for loss on construction contracts and a rise in the price of steel materials.

The **Rolling Stock segment** received orders worth ¥133.0 billion, which was higher than the previous fiscal year. This was mainly attributable to orders received for commuter trains for the Long Island Rail Road and Metro-North Railroad, subway cars for the Washington Metropolitan Area Transit Authority and subway cars for the Sapporo City Transportation Bureau.

Net sales were ¥147.9 billion, which was higher than the previous fiscal year, owing to increased sales for overseas markets including North America and Singapore.

Operating income increased ¥5.3 billion from the previous fiscal year to ¥7.5 billion, due to the cost reduction and the effect of depreciation of the yen.

The **Aerospace segment** orders received were ¥286.3 billion, which was higher than the previous fiscal year, due to an increase in orders from The Boeing Company for component parts for the Boeing 787 aircraft.

Net sales were ¥280.7 billion, an increase from the previous fiscal year, due to an increase in sales to The Boeing Company for component parts for the Boeing 777 and Boeing 787 aircrafts, in addition to an increase in sales to the Japan's Ministry of Defense.

Operating income increased ¥11.4 billion from the previous fiscal year to ¥26.2 billion, mainly due to increased sales, productivity improvement, and the effect of yen depreciation.

The **Gas Turbine & Machinery segment** orders received were ¥222.0 billion, which was lower than the previous fiscal year. However, when the decrease of ¥56.8 billion produced by changes in accounting policies for component parts of aircraft jet engines is excluded, orders were in fact substantially higher than the previous fiscal year. This was mainly attributable to an increase in orders

for gas engines and component parts of aircraft jet engines.

Net sales were ¥189.2 billion, which was lower than the previous fiscal year. However, when the decrease of ¥37.4 billion caused by changes in accounting policies for component parts of aircraft jet engines is excluded, the result was substantially higher than the previous fiscal year. This was mainly attributable to a decrease in sales for marine gas turbines and marine diesel engines and an increase in sales for component parts of aircraft jet engines and gas engines.

Operating income increased ¥3.4 billion from the previous fiscal year to ¥10.4 billion, partly owing to an increase in substantial net sales from which a decrease produced by changes in accounting policies for component parts of aircraft jet engines is excluded.

In the **Plant & Infrastructure segment**, orders received were ¥103.9 billion, which was lower than the previous fiscal year, despite receiving orders for LNG tanks of the CPC Corporation, Taiwan's Taichung LNG Terminal Expansion Project.

Net sales were ¥103.8 billion, which was lower than the previous fiscal year. This was due to decreased sales of conveyance equipment and large-scale projects to overseas customers, despite a sales increase in environmental equipment projects.

Operating income decreased ¥3.4 billion from the previous fiscal year to ¥6.3 billion, due to decreased sales and profit margin.

Net sales of the **Motorcycle & Engine segment** were ¥322.2 billion, which was significantly higher than the previous fiscal year, mainly due to increased sales of motorcycles in the U.S. and emerging countries, particularly Indonesia and Thailand.

Operating income was ¥16.1 billion, an improvement of ¥13.7 billion from the previous fiscal year, owing to increased sales and profitability.

In the **Precision Machinery segment**, orders received were ¥127.2 billion, which was higher than the previous fiscal year, mainly due to an increase in orders for clean robots used for semiconductor manufacturing equipment and robots for the automotive industry.

Net sales were lower than the previous fiscal year at ¥123.2 billion, mainly due to a decrease in sales of hydraulic components, despite an increase in sales of clean robots used for semiconductor manufacturing equipment and robots for the automotive industry.

Operating income increased ¥1.9 billion from the previous fiscal year to ¥10.4 billion, mainly due to an increase in sales of clean robots used for semiconductor manufacturing equipment and robots for the automotive industry and the effect of the depreciation of the yen.

In the **Others segment**, net sales were higher than the previous fiscal year at ¥137.2 billion.

Operating income increased ¥3.2 billion from the previous fiscal year to ¥4.4 billion.

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

Unit: 100 million yen

Segment	Orders Received		Net Sales		Operating Income/Loss	
	Amount	Year-on-Year Change	Amount	Year-on-Year Change	Amount	Year-on-Year Change
Ship & Offshore Structure	1,178	121	808	(94)	(20)	(61)
Rolling Stock	1,330	86	1,479	179	75	53
Aerospace	2,863	28	2,807	415	262	114
Gas Turbine & Machinery	2,220	(335)	1,892	(177)	104	34
Plant & Infrastructure	1,039	(96)	1,038	(119)	63	(34)
Motorcycle & Engine	3,222	703	3,222	703	161	137
Precision Machinery	1,272	175	1,232	(71)	104	19
Others	1,426	174	1,372	130	44	32
Adjustment	—	—	—	—	(72)	8
Total	14,554	858	13,854	966	723	302

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

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

(2) Capital Investments, etc.

In the current consolidated fiscal year, KHI Group's total amount of capital investment was ¥87.7 billion, predominantly for the renewal of aging equipment and facilities for streamlining production, necessary facilities to handle new model and products, and facilities to increase the production capacity of the Aerospace segment.

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

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

- Aircraft production facilities (Aerospace segment)
- Production facilities for large engines/turbines (Gas Turbine & Machinery segment)
- Facilities for streamlining production of hydraulic equipment (Precision Machinery segment)
- Akashi Works general office (company-wide)
- Kobe Works office building (company-wide)

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

- Aircraft production facilities (Aerospace segment)
- Production facilities for jet engines (Gas Turbine & Machinery segment)
- Facilities for energy-related verification tests (company-wide)

(3) Financing

Funds of ¥40.3 billion from long-term debt, ¥40.0 billion from domestic unsecured straight bonds and short-term borrowings and other funds from various sources were raised in the current consolidated fiscal year. The funds were allocated to such items as redemption of bonds, long-term loan repayments, capital investments and working capital.

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

Not applicable.

(5) Transfer of business from other companies

Not applicable.

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

Not applicable.

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

Not applicable.

(8) Issues to be addressed

1. Improvement of enterprise value

KHI Group has implemented "ROIC management" as a concrete means to improve its enterprise value. This involves visualizing the actual status and future growth of business segments by Business Unit (BU), addressing financial issues based on ROIC (return on invested capital) and making efforts to strengthen the core competence of each BU. With regard to formulation of the FY2014 business plan, we have identified what hurdles must be surmounted and what issues must be tackled by each BU for future growth, through giving overall consideration to not only their financial challenges but also business environments, growth prospects, core competences and other necessary factors. Especially, we will provide company-wide assistance to BUs in which ROIC needs to be improved by getting the most of the advantage of comprehensive management, striving to improve the BU's structure so that it contributes to enhancing the enterprise value in a "without strain, without risk and without delay" manner.

2. Pursuit of synergy

In addition to each BU's respective efforts, we believe that pursuing synergistic effects across BUs or in-house company boundaries will lead to a mutual increase in competitive superiority. Thus, to reach our

aims in the medium-term business plan, the new challenge is to establish a framework combining multiple BUs' core competences across the barrier of organization units to achieve early commercialization of new products/businesses. Moreover, in order to continuously enhance synergistic effects at the Company-level, we will strengthen cross-sectional activities centering on the Corporate Technology Division and the Marketing Division in our Head Office, striving to secure, develop and strengthen engineering human resources, which support KHI Group's technological ability.

3. Creation of investment capacity

We were able to reduce our interest-bearing liabilities as of the end of FY2013 to the target level, and will make continuous efforts to improve free cash flow by assigning concrete tasks set out based on each BU's cash conversion cycle to related units, and further lower our interest-bearing liabilities toward FY2015 to achieve the ROIC target. The biggest purpose of reducing interest-bearing liabilities is to create a capacity to make investments for future growth. To that end, we will continue with the policy in FY2014 to further to invest in the necessary human resources, facilities and R&D, keeping an eye on investment efficiency.

4. Strengthening of risk management

KHI Group strives to strengthen risk management when participating in large projects and new development projects, and conducting large capital investments and R&D. More specifically, this includes understanding various risks that can be predicted in advance and implementing measures to minimize those risks, and strengthening front loading to respond to diverse specifications requested by customers in orders received. When laying out growth strategies, KHI Group places emphasis on thorough prior management of large risk projects and solid management decision-making.

One of KHI Group's greatest risks relating to profitability is fluctuations in foreign exchange rates. We believe that under the basics of risk management, this risk should be addressed through business activities including strengthening core competence to be capable of resisting fluctuations in exchange rates, enhancing our global production system, and thoroughly reducing costs. Therefore, we make efforts to strengthen our resistance to fluctuations in exchange rates on a day-to-day basis.

5. Enhancement of corporate governance

KHI Group has adopted the company system, and each in-house company endeavors to execute business operations under delegated authority and responsibility. As a result, KHI Group's profit level is steadily increasing, and we will continue to keep the policy to pursue the greatest possible advantages of the company system. Meanwhile, it is also true to say that interest-bearing liabilities have been tending to increase for the last several years, giving rise to the urgent issue of controlling management resources at the Group-wide level. To that end, we need to further search for a policy to develop a corporate governance system that is appropriate for KHI Group, in ways including clarifying the roles of Head Office and in-house companies.

With regard to management decision-making, we aim to become a "sincere business group" in which each and every decision-making member, including Outside Directors and Outside Corporate Auditors, takes the necessary actions by following a policy determined through "free and open" discussions, which are encouraged by the Group. We will continue our ceaseless efforts to increase the transparency and objectivity of the management for shareholders and investors by actively interacting with capital markets.

6. Fostering of CSR activities

Across the range of our CSR activities, our efforts are based on setting a "target profile" for each thematic area. We also actively listen to opinions of external parties through our Dialogues with Experts and feedback from outside parties' evaluations. In the area of compliance, in addition to putting in place regulations on corporate ethics and providing grade-specific training and e-learning, we distribute a range of guidance handbooks and take other measures to ensure our staff are fully familiar with the laws and regulations which they need to observe. Going forward, we will strive to further enhance compliance measures. In the field of environmental management, we are working to strengthen environmental management on the basis of our Eighth Environmental Management Activities Plan and are proceeding with measures including "promotion activities of procurement of green products" and "development of energy visualization system." Meanwhile, we are working on measures to support child-rearing as part of a strategy to improve our employees' work-life balance and introducing measures to create a diversity-friendly workplace environments, for instance by recruiting more international human resources, ensuring a barrier-free environment at all business sites, and further

strengthening the employment of people with disabilities through establishment of a special subsidiary. Going forward, we intend to promote initiatives at the level of the entire KHI Group including overseas operations by further deepening the coordination between business management and CSR activities, and to step up our cooperation with business partners in the field of CSR.

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

- (i) **Ship & Offshore Structure:** Increase orders received for liquefied gas carriers (LNG/LPG carriers), commercialize new fields including offshore vessels and LNG fuel propulsion vessels, expand business in China and establish business in Brazil, and strengthen the foundations of the business for naval vessels
- (ii) **Rolling Stock:** Enhance competitiveness through technologies and products that meet customer needs including cutting-edge technological development and new rolling stock, reinforce our project management to respond to an increase in overseas projects, and construct a global optimal business execution system including adoption of overseas production and procurement and effective use of partnerships
- (iii) **Aerospace:** Establish a mass production system and develop derivative products for P-1 patrol aircraft and C-2 transport aircraft including repair and component support, respond to boosted production of component parts for the Boeing 787 and develop derivative products including 777-X
- (iv) **Gas Turbine & Machinery:** Develop the energy solution business based on high efficiency gas turbines and gas engines for industrial use, expand these models in the overseas markets, respond to demand in Japan for dispersed power sources and expand operations in overseas markets, promote the development of new models of jet engines for commercial aircraft and improve the productivity of these models
- (v) **Plant & Infrastructure:** Enhance competitiveness through sophistication of existing products and achieve early commercialization of new products and technologies in the Energy & Environmental Engineering business sector, expand the overseas business to emerging countries and resource-rich countries through strengthening of overseas partnerships, and enhance engineering capability by cultivating human resources.
- (vi) **Motorcycle & Engine:** Establish a premium brand, enhance cost competitiveness through optimized production and expansion of overseas procurement on a global basis, expand sales channels in emerging countries the Company has already entered (Southeast Asia, Brazil, and so forth) and develop new markets, and refine leading technologies to respond to environmental requirements
- (vii) **Precision Machinery:** Maintain a high market share in the area of hydraulic excavation systems while developing other construction machinery products in the global market, enhance cost competitiveness in the robot business, and expand sales in emerging markets
- (viii) **Others:** Improve development capabilities with respect to the construction machinery business unit through our alliance with Hitachi Construction Machinery Co., Ltd., and increase our global market share and profitability

(9) Trends in Assets and Income

(i) Company Group Assets and Income

Unit: billions of yen

Item	The 188th fiscal year	The 189th fiscal year	The 190th fiscal year	The 191st fiscal year (under review)
Orders received	1,270.6	1,311.8	1,369.5	1,455.4
Net sales	1,226.9	1,303.7	1,288.8	1,385.4
Recurring profit	49.1	63.6	39.3	60.6
Net income	25.9	23.3	30.8	38.6
Net income per share (yen)	¥15.55	¥13.95	¥18.46	¥23.09
Total assets	1,354.2	1,362.1	1,466.2	1,554.4
Net assets	297.4	315.9	349.8	376.6

(ii) Company Assets and Income

Unit: billions of yen

Item	The 188th fiscal year	The 189th fiscal year	The 190th fiscal year	The 191st fiscal year (under review)
Orders received	816.0	1,018.1	1,086.2	1,089.5
Net sales	817.4	1,003.3	983.9	1,011.6
Recurring profit	32.8	38.0	19.4	35.9
Net income	33.3	11.4	17.1	32.0
Net income per share (yen)	¥19.97	¥6.87	¥10.26	¥19.20
Total assets	1,116.0	1,144.6	1,195.1	1,243.5
Net assets	246.8	255.0	258.4	273.1

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

Not applicable.

(ii) Major Subsidiaries

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

(Notes)

1. From this current consolidated fiscal year, the following changes were made in relation to companies classified as major subsidiaries: Kawasaki Robotics (U.S.A.), Inc. was included.
2. KCMJ Corporation is a wholly-owned subsidiary of KCM Corporation.
3. Kawasaki Rail Car, Inc. is a wholly-owned subsidiary of Kawasaki Motors Manufacturing Corp., U.S.A.
4. Kawasaki Robotics (U.S.A.), Inc. is a wholly-owned subsidiary of Kawasaki Motors Corp., U.S.A.
5. There are 96 consolidated subsidiaries, including 18 companies as major subsidiaries, and there are 18 companies which are accounted for using the equity method.

(iii) Status of Business Combinations

Not applicable.

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

Segment	Main Business	Number of Employees			
Ship & Offshore Structure	Manufacture and sale of ships, etc.	2,444			
Rolling Stock	Manufacture and sale of rolling stock, and snow removal machinery, etc.	3,139			
Aerospace	Manufacture and sale of aircraft, etc.	5,869			
Gas Turbine & Machinery	Manufacture and sale of jet engines, industrial gas turbines, prime movers, etc.	3,952			
Plant & Infrastructure	Manufacture and sale of industrial machinery, boilers, environmental equipment, steel structures and crushing machines, etc.	2,976			
Motorcycle & Engine	Manufacture and sale of motorcycles, four-wheel buggies (ATVs), multi-purpose four-wheel vehicles, personal water craft ("JET SKI®"), general purpose gasoline engines, etc.	9,235			
Precision Machinery	Manufacture and sale of hydraulic components and industrial robots, etc.	2,589			
Other	Manufacture and sale of construction machinery, commerce, brokerage and mediation for sale and order reception and administration of welfare facilities, etc.	3,462			
Company-wide common areas	(Head Office Administration Department, Research & Development Department, etc.)	954			
Total	-	<table style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: right;">34,620</td> </tr> <tr> <td style="text-align: right;">(Japan 25,531)</td> </tr> <tr> <td style="text-align: right;">Overseas 9,089)</td> </tr> </table>	34,620	(Japan 25,531)	Overseas 9,089)
34,620					
(Japan 25,531)					
Overseas 9,089)					

(Note) The Company has 15,196 employees (average age: 38.7 years; average years of service: 14.4 years)

(12) Company Group's Principal Offices and Plants

(i) The Company

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

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

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

ii) Overseas

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

(13) Principal lenders

(Unit: 100 million yen)

Lenders	Balance of Loans		
	Long term	Short term	Total
Mizuho Bank, Ltd.	78	491	570
Sumitomo Mitsui Banking Corporation	65	318	383
Sumitomo Mitsui Trust Bank, Ltd.	60	179	239
Development Bank of Japan Inc.	173	45	219
Bank of Tokyo-Mitsubishi UFJ, Ltd.	19	138	157

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

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

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

Meanwhile, in relation to this matter, several lawsuits have been filed against our company alone or together with other companies, in order to seek damages from us on the grounds that we caused damage to the ordering parties due to the bid rigging. With the end of the following case within FY2013, all the lawsuits that had been previously filed are now closed.

Municipalities, etc.	Status of the law suits
Atami City	Regarding the action filed by citizens of Atami City seeking damages of ¥1,357 million against seven companies including our company, the Supreme Court ruled in favor of our company and others on April 13, 2009, confirming that our company won the suit. However, a new action for damages of ¥512 million was brought against five companies including our company by Atami City at the Tokyo High Court on August 19, 2010. The Tokyo High Court ruled against our company and ordered KHI and others to pay ¥315 million on March 15, 2013. The five companies including our company then appealed to the Supreme Court; however, on January 16, 2014, the court declined the appeal. The case is now closed.

2. Status of Shares (as of March 31, 2014)

- | | |
|--|--|
| (1) Total number of shares authorized to be issued | 3,360,000,000 shares |
| (2) Total number of shares issued | 1,671,892,659 shares
(including 141,710 shares of treasury stock) |
| (3) Number of shareholders | 128,248 persons |
| (4) Major shareholders (top 10) | |

Shareholder name	Shareholders' investment in the Company	
	Number of shares held thousand shares	Shareholding ratio %
The Master Trust Bank of Japan, Ltd. (Trust Account)	108,666	6.5
Japan Trustee Services Bank, Ltd. (Trust Account)	79,989	4.7
Mizuho Bank, Ltd.	59,207	3.5
Nippon Life Insurance Company	57,516	3.4
JFE Steel Corporation	56,174	3.3
Kawasaki Heavy Industries, Ltd. Kyoueikai	34,871	2.0
Kawasaki Heavy Industries, Ltd. Employees Shareholder Association	30,975	1.8
Tokio Marine & Nichido Fire Insurance Co., Ltd.	27,838	1.6
Sumitomo Mitsui Banking Corporation	26,828	1.6
Japan Trustee Services Bank, Ltd. (Trust Account 9)	21,465	1.2

(Note) The shareholding ratio is calculated after subtracting treasury stock (141,710 shares).

3. Company Share Options

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

4. Company Officers

(1) Directors and Corporate Auditors

Position	Name	Areas of Responsibility within the Company and other significant concurrent positions
* President	Shigeru Murayama	President(representative director), Commercial Airplane Company
* Senior Executive Vice President	Kyohei Matsuoka	Assistant to the President, in charge of Head Office Administration Department
* Senior Executive Vice President	Hiroshi Takata	Assistant to the President, in charge of technology, sales and procurement department and special matters of the Motorcycle & Engine Company (relating to development and logistics)
* Senior Vice President	Makoto Sonoda	President, Precision Machinery Company
* Senior Vice President	Joji Iki	President, Gas Turbine & Machinery Company
* Senior Vice President	Eiji Inoue	President, Plant & Infrastructure Company
* Senior Vice President	Yoshinori Kanehana	President, Rolling Stock Company
Senior Vice President	Minoru Makimura	General Manager, Corporate Technology Division
* Senior Vice President	Akio Murakami	President, Ship & Offshore Structure Company, Director, Nantong COSCO KHI Ship Engineering Co., Ltd. Director, Dalian COSCO KHI Ship Engineering Co., Ltd. Director, ENSEADA INDÚSTRIA NAVAL S.A.
Director (Outside)	Yoshihiko Morita	President, Japan Institute for Overseas Investment, Outside Corporate Auditor, TOKYO GAS Co., Ltd.
Full-Time Corporate Auditor	Tatsuyoshi Ogushi	
Full-Time Corporate Auditor	Yuji Murakami	
Corporate Auditor (Outside)	Michio Oka	
Corporate Auditor (Outside)	Nobuyuki Fujikake	Attorney at law

(Notes) 1. * means a Representative Director.

2. Director Yoshihiko Morita and Corporate Auditors Michio Oka and Nobuyuki Fujikake are Independent Officers stipulated by the Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc..
3. Mr. Jiro Noguchi, formerly Senior Vice President of KHI, has been appointed as Outside Corporate Auditor of Kawasaki Kisen Kaisha, Ltd. (“Kawasaki Kisen”), to which Mr. Michio Oka belonged. Kawasaki Kisen owns a total of 1.03% of the outstanding shares in KHI. Meanwhile, KHI owns a total of 3.50% of the voting rights of the outstanding shares in Kawasaki Kisen, which are held by Trust & Custody Services Bank, Ltd. (Kawasaki Heavy Industries, Ltd. retirement benefit trust account re-entrusted by Mizuho Trust and Banking Co., Ltd.). However, Kawasaki Kisen is not a company of KHI Group. In addition, although Kawasaki Kisen is a business partner of KHI mainly in ship-related transactions, the annual average transactions between the Kawasaki Kisen Group and KHI Group for the most recent five fiscal years account for less than 2% of the total annual average sales each for the Kawasaki Kisen Group and KHI Group over the corresponding period. Consequently, we have determined that there is no issue as regards to the independence of Mr. Michio Oka and he is therefore suitable as an independent officer.
4. Tadaharu Ohashi, Satoshi Hasegawa, Masashi Segawa, Mitsutoshi Takao, Nobumitsu Kambayashi and Masahiko Hirohata, Directors, and Kenzo Doi, Corporate Auditor, resigned during the relevant business year with the conclusion of the 190th Ordinary General Meeting of Shareholders.
5. As of April 1, 2014, the Director positions have changed: Makoto Sonoda, formerly Senior Vice President (Representative Director), has become Director.
6. Yuji Murakami, Corporate Auditor, who has many years of experience with administration and accounting operations at our company, has substantial knowledge about finance and accounting matters.

7. Executive Officers as of April 1, 2014 are as follows.

Position	Name	Areas of Responsibility within the Company
President	Shigeru Murayama	
Senior Executive Vice President	Kyohei Matsuoka	Assistant to the President, in charge of Head Office Administration Department
Senior Executive Vice President	Hiroshi Takata	Assistant to the President, in charge of Technology, Sales and Procurement Division and the Motorcycle & Engine Company
Senior Vice President	Joji Iki	President, Gas Turbine & Machinery Company
Senior Vice President	Eiji Inoue	President, Plant & Infrastructure Company
Senior Vice President	Yoshinori Kanehana	President, Rolling Stock Company
Senior Vice President	Minoru Makimura	General Manager, Corporate Technology Division
Senior Vice President	Akio Murakami	President, Ship & Offshore Structure Company
Managing Executive Officer	Masahiro Ibi	General Manager, Marketing Division and Senior Manager of MD Project Department
Managing Executive Officer	Munenori Ishikawa	President, Aerospace Company
Managing Executive Officer	Shigehiko Kiyama	President, Motorcycle & Engine Company
Managing Executive Officer	Kazuo Hida	President, Precision Machinery Company
Managing Executive Officer	Kenji Tomida	General Manager, Corporate Planning Division
Executive Officer	Shinsuke Tanaka	Deputy General Manager, Corporate Planning Division. (In charge of special matters)
Executive Officer	Takafumi Shibahara	Staff Officer to Corporate Auditor
Executive Officer	Yukinobu Kono	Deputy General Manager, Corporate Technology Division and General Manager, System Technology Development Center and Marketing Division
Executive Officer	Masafumi Nakagawa	Motorcycle & Engine Company (seconded to Kawasaki Motors Corp., U.S.A.)
Executive Officer	Kaoru Kawabe	Vice President, Ship & Offshore Structure Company
Executive Officer	Makoto Ogawara	Vice President, Rolling Stock Company
Executive Officer	Hirokazu Komaki	Vice President, Aerospace Company
Executive Officer	Shiro Nakabayashi	General Manager, General Administration Division
Executive Officer	Toshiyuki Kuyama	General Manager, Gas Turbine Division, Gas Turbine & Machinery Company
Executive Officer	Genichi Abe	General Manager, Project Division and in charge of special matters, Ship & Offshore Structure Company
Executive Officer	Kazuo Ota	General Manager, Planning & Control Division, Aerospace Company
Executive Officer	Masami Maeda	General Manager, Project Division, Precision Machinery Company
Executive Officer	Hiroji Iwasaki	General Manager, Planning & Control Division, Rolling Stock Company
Executive Officer	Koji Kadota	Deputy General Manager, Corporate Technology Division and General Manager, Technical Institute
Executive Officer	Yasuhiko Hashimoto	General Manager, Robot Division, Precision Machinery Company
Executive Officer	Tatsuya Watanabe	Senior Manager, Energy Plants Engineering Division, Plant & Infrastructure Company

Executive Officer	Takeshi Ohata	General Manager, Machinery Division, Gas Turbine & Machinery Company
Executive Officer	Ikuhiro Narimatsu	General Manager, Personnel & Labor Administration Division
Executive Officer	Takeshi Asano	General Manager, Marketing & Sales Division, Motorcycle & Engine Company
Executive Officer	Toshiyuki Mimura	General Manager, Planning & Control Division, Plant & Infrastructure Company
Executive Officer	Akio Nekoshima	General Manager, Finance & Accounting Division

(2) Compensation to Directors and Corporate Auditors

Directors 16 persons	¥600,997 thousand
Corporate Auditors 5 persons	¥88,980 thousand
Total 21 persons	¥689,977 thousand (of which ¥27,180 thousand to four Outside Directors/Corporate Auditors)

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

(3) Outside Officers

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

Not applicable.

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

Director Yoshihiko Morita concurrently holds a position as President of the Japan Institute for Overseas Investment and Outside Corporate Auditor of TOKYO GAS Co., Ltd. Our company does not have any important dealings or other special relationships with the said institute and the company.

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

Not applicable.

(iv) Main activities during the business year

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

Director Yoshihiko Morita attended all of the 11 Board of Directors Meetings held following his appointment as a Director on June 26, 2013, and made comments based on his substantial overseas experience and knowledge as a specialist, acquired in the Japan Bank for International Cooperation and other institutions.

Corporate Auditor Michio Oka attended 13 of 14 Board of Directors Meetings, and 21 of 22 Board of Corporate Auditors meetings held during the business year, and mainly made comments based on his experience as a company manager.

Corporate Auditor Nobuyuki Fujikake attended all of the 11 Board of Directors Meetings, and all of the 17 Board of Corporate Auditors meetings held following his appointment as a Corporate Auditor on June 26, 2013, and mainly made comments based on his expert standpoint as an attorney at law.

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

The Company has concluded contracts for limitation of liability with Director Yoshihiko Morita and Corporate Auditors Michio Oka and Nobuyuki Fujikake, pursuant to the provisions of Article 427 Paragraph 1 of the Companies Act. The liability under said contract shall be limited to either an amount of ¥10 million, or an amount specified by law, whichever is higher.

5. Accounting Auditor

(1) **Accounting Auditor's Name**
KPMG AZSA LLC

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

(i) **Compensation, etc. as an accounting auditor for the fiscal year under review**

¥169,256 thousand

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

¥223,991 thousand

(Note 1) Under the audit agreement between the Company and its Accounting Auditor, compensation for audits pursuant to the Companies Act and audits pursuant to the Financial Instruments and Exchange Act are not separated, and they cannot be separated in a practical way. Consequently, the above amounts reflect total compensation.

(Note 2) Of the Company's material subsidiaries, some overseas subsidiaries have been audited by certified public accountants or audit corporations (including those who possess equivalent qualifications in foreign countries) other than the Company's Accounting Auditor.

(3) **Details of Non-audit Services**

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

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

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

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

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

I. Basic policy for developing a system for internal controls

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

II. Development of internal control systems

KHI has established the following internal control systems and is streamlining, maintaining, and improving them. Going forward, KHI will review them as necessary, taking into account such factors as changes in the Company's operating environment. In addition, KHI will conduct a year-end assessment of the operation status of internal control systems to ensure proper operation.

1. Internal control systems concerning Directors and employees

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

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

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

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

(3) Systems for Directors and employees to report to the Board of Corporate Auditors and other systems for reports to the Board of Corporate Auditors.

- 1) Corporate Auditors attend Board of Directors Meetings, Management Committee, Executive Officers Committee and company-wide meetings, including Company-wide CSR Committees and Company-wide Risk Management Committees; at these meetings, Directors and employees provide reports concerning important matters about company management and business operations, including matters regarding compliance, risk management and internal controls, and the status of execution of duties. Furthermore, Directors shall immediately report to the Board of Corporate Auditors when discovering that there is a risk of the company suffering significant damages.
- 2) Employees shall, in accordance with the Approval Regulations, report to the Corporate Auditor regarding the execution of business operations by circulation of internal memos.
- 3) The Auditing Department and Accounting Auditors from time to time report to, and exchange information with Corporate Auditors regarding the status of audits on each place of business and Group companies.

(4) Other systems to ensure the effective conduct of audits by the Board of Corporate Auditors

- 1) Directors and Corporate Auditors regularly hold meetings to ensure mutual understanding, and the Corporate Auditor also attends important meetings such as Board of Directors Committee and Management Committee, and directly expresses his/her opinion regarding Directors' execution of duties.
- 2) Directors promote collaboration between Corporate Auditors and the Auditing Department, and cooperate to establish systems which enable greater effectiveness in the conduct of audits.
- 3) Matters concerning the election of Corporate Auditors and their remuneration, and so forth, are determined in accordance with laws and the Articles of Incorporation, by obtaining the consent of Corporate Auditors, or approval of the Board of Corporate Auditors.

4. Basic stance on expulsion of anti-social forces and countermeasures

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

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

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

## Consolidated Balance Sheet

(As of March 31, 2014)

(Unit: million yen)

| Description                        | Amount           | Description                                           | Amount           |
|------------------------------------|------------------|-------------------------------------------------------|------------------|
| <b>(Assets)</b>                    |                  | <b>(Liabilities)</b>                                  |                  |
| <b>Current assets</b>              | 1,005,754        | <b>Current liabilities</b>                            | 795,415          |
| Cash on hand and in banks          | 47,949           | Trade payables                                        | 252,107          |
| Trade receivables                  | 415,664          | Electronically recorded obligations                   | 53,923           |
| Merchandise and finished products  | 56,673           | Short-term debt and current portion of long-term debt | 190,757          |
| Work in process                    | 302,511          | Current portion of lease obligations                  | 404              |
| Raw materials and supplies         | 98,848           | Income taxes payable                                  | 10,100           |
| Deferred tax assets                | 33,046           | Deferred tax liabilities                              | 442              |
| Other current assets               | 54,165           | Advances from customers                               | 137,598          |
| Allowance for doubtful receivables | (3,104)          | Accrued bonuses                                       | 22,118           |
|                                    |                  | Provision for product warranties                      | 10,535           |
|                                    |                  | Provision for losses on construction contracts        | 13,560           |
|                                    |                  | Asset retirement obligations                          | 49               |
|                                    |                  | Other current liabilities                             | 103,818          |
| <b>Fixed assets</b>                | 548,675          | <b>Long-term liabilities</b>                          | 382,328          |
| Net property, plant and equipment  | 383,912          | Bonds payable                                         | 110,000          |
| Buildings and structures           | 144,147          | Long-term debt, less current portion                  | 141,343          |
| Machinery and equipment            | 99,768           | Lease obligations                                     | 2,139            |
| Land                               | 62,866           | Deferred tax liabilities                              | 6,630            |
| Leased assets                      | 1,987            | Provision for losses on legal proceeding              | 395              |
| Construction in progress           | 29,330           | Provision for environmental measures                  | 3,669            |
| Other                              | 45,810           |                                                       | 97,048           |
| Intangible assets                  | 17,262           | Asset retirement obligations                          | 487              |
| Investments and other assets       | 147,500          | Other                                                 | 20,614           |
| Investments in securities          | 14,167           |                                                       |                  |
| Long-term loans                    | 424              | <b>Total liabilities</b>                              | <b>1,177,744</b> |
| Deferred tax assets                | 52,711           | <b>(Net assets)</b>                                   |                  |
| Other investments and other assets | 80,906           | Shareholders' equity                                  | 376,284          |
| Allowance for doubtful receivables | (710)            | Common stock                                          | 104,484          |
|                                    |                  | Capital surplus                                       | 54,393           |
|                                    |                  | Retained earnings                                     | 217,449          |
|                                    |                  | Treasury stock                                        | (43)             |
|                                    |                  | Accumulated other comprehensive income                | (13,243)         |
|                                    |                  | Net unrealized gains on securities, net tax           | 2,652            |
|                                    |                  | Deferred gains (losses) on hedges                     | (3,803)          |
|                                    |                  | Foreign currency translation adjustments              | 6,416            |
|                                    |                  | Accumulated adjustment for retirement benefits        | (18,509)         |
|                                    |                  | Minority interests                                    | 13,645           |
|                                    |                  | <b>Total net assets</b>                               | <b>376,686</b>   |
| <b>Total assets</b>                | <b>1,554,430</b> | <b>Total liabilities and net assets</b>               | <b>1,554,430</b> |

## Consolidated Statement of Income

(April 1, 2013 - March 31, 2014)

(Unit: million yen)

| Description                                                      | Amount |           |
|------------------------------------------------------------------|--------|-----------|
| Net sales                                                        |        | 1,385,482 |
| Cost of sales                                                    |        | 1,140,293 |
| Gross profit                                                     |        | 245,189   |
| Selling, general and administrative expenses                     |        | 172,837   |
| Operating income                                                 |        | 72,351    |
| Non-operating income                                             |        | 12,190    |
| Interest income                                                  | 919    |           |
| Dividend income                                                  | 397    |           |
| Gain on sales of securities                                      | 1,187  |           |
| Equity in income of non-consolidated subsidiaries and affiliates | 7,016  |           |
| Other non-operating income                                       | 2,669  |           |
| Non-operating expenses                                           |        | 23,936    |
| Interest expense                                                 | 3,991  |           |
| Foreign exchange losses, net                                     | 14,785 |           |
| Other non-operating expenses                                     | 5,159  |           |
| Recurring profit                                                 |        | 60,605    |
| Extraordinary income                                             |        | 3,323     |
| Gain on contribution of securities to retirement benefit trust   | 3,323  |           |
| Extraordinary losses                                             |        | 2,618     |
| Loss on disaster                                                 | 2,142  |           |
| Loss on impairment of fixed assets                               | 476    |           |
| Income before income taxes                                       |        | 61,310    |
| Income taxes-current                                             |        | 15,902    |
| Income taxes-deferred                                            |        | 4,409     |
| Income before minority interests                                 |        | 40,998    |
| Minority interests in income                                     |        | 2,396     |
| Net income                                                       |        | 38,601    |

## Consolidated Statement of Changes in Net Assets

(April 1, 2013 - March 31, 2014)

(Unit: million yen)

|                                                                      | Shareholders' equity |                 |                   |                |                            |
|----------------------------------------------------------------------|----------------------|-----------------|-------------------|----------------|----------------------------|
|                                                                      | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of the period                               | 104,484              | 54,393          | 198,528           | (27)           | 357,379                    |
| Cumulative effect of changes in accounting policies                  |                      |                 | (11,523)          |                | (11,523)                   |
| Restated balance                                                     | 104,484              | 54,393          | 187,005           | (27)           | 345,856                    |
| Changes of items during the period                                   |                      |                 |                   |                |                            |
| Cash dividends                                                       |                      |                 | (8,358)           |                | (8,358)                    |
| Net income for the year                                              |                      |                 | 38,601            |                | 38,601                     |
| Treasury stock purchased                                             |                      |                 |                   | (16)           | (16)                       |
| Treasury stock disposed                                              |                      | 0               |                   | 0              | 0                          |
| Effect of changes in accounting periods of consolidated subsidiaries |                      |                 | 201               |                | 201                        |
| Net changes of items other than shareholders' equity                 |                      |                 |                   |                |                            |
| Total changes of items during the period                             | -                    | 0               | 30,444            | (16)           | 30,428                     |
| Balance at the end of the period                                     | 104,484              | 54,393          | 217,449           | (43)           | 376,284                    |

|                                                                      | Accumulated other comprehensive income        |                                 |                                          |                                                |                                              | Minority interests | Total net assets |
|----------------------------------------------------------------------|-----------------------------------------------|---------------------------------|------------------------------------------|------------------------------------------------|----------------------------------------------|--------------------|------------------|
|                                                                      | Net unrealized gains on securities net of tax | Gains (losses) on hedging items | Foreign currency translation adjustments | Accumulated adjustment for retirement benefits | Total accumulated other comprehensive income |                    |                  |
| Balance at the beginning of the period                               | 4,524                                         | (5,998)                         | (17,665)                                 | -                                              | (19,139)                                     | 11,641             | 349,881          |
| Cumulative effect of changes in accounting policies                  |                                               |                                 |                                          | (20,410)                                       | (20,410)                                     |                    | (31,933)         |
| Restated balance                                                     | 4,524                                         | (5,998)                         | (17,665)                                 | (20,410)                                       | (39,549)                                     | 11,641             | 317,947          |
| Changes of items during the period                                   |                                               |                                 |                                          |                                                |                                              |                    |                  |
| Cash dividends                                                       |                                               |                                 |                                          |                                                |                                              |                    | (8,358)          |
| Net income for the year                                              |                                               |                                 |                                          |                                                |                                              |                    | 38,601           |
| Treasury stock purchased                                             |                                               |                                 |                                          |                                                |                                              |                    | (16)             |
| Treasury stock disposed                                              |                                               |                                 |                                          |                                                |                                              |                    | 0                |
| Effect of changes in accounting periods of consolidated subsidiaries |                                               |                                 |                                          |                                                |                                              |                    | 201              |
| Net changes of items other than shareholders' equity                 | (1,871)                                       | 2,195                           | 24,081                                   | 1,900                                          | 26,306                                       | 2,004              | 28,310           |
| Total changes of items during the period                             | (1,871)                                       | 2,195                           | 24,081                                   | 1,900                                          | 26,306                                       | 2,004              | 58,738           |
| Balance at the end of the period                                     | 2,652                                         | (3,803)                         | 6,416                                    | (18,509)                                       | (13,243)                                     | 13,645             | 376,686          |

## Non-consolidated Balance Sheet

(As of March 31, 2014)

(Unit: million yen)

| Description                                       | Amount    | Description                                         | Amount    |
|---------------------------------------------------|-----------|-----------------------------------------------------|-----------|
| <b>(Assets)</b>                                   |           | <b>(Liabilities)</b>                                |           |
| <b>Current assets</b>                             | 777,732   | <b>Current liabilities</b>                          | 657,336   |
| Cash on hand and in banks                         | 28,285    | Notes payable-trade                                 | 18,230    |
| Notes receivable-trade                            | 4,389     | Electronically recorded obligations                 | 46,575    |
| Accounts receivable-trade                         | 316,878   | Accounts payable-trade                              | 192,498   |
| Lease investment assets                           | 1,996     | Short-term debt                                     | 82,843    |
| Raw materials and supplies                        | 70,391    | Current portion of long-term debt                   | 85,215    |
| Work in process                                   | 246,840   | Notes payable-facilities                            | 272       |
| Advance payments                                  | 32,068    | Electronically recorded obligations                 | 6,648     |
| Prepaid expenses                                  | 1,396     | Lease obligations                                   | 88        |
| Deferred tax assets                               | 21,196    | Accumulated impairment loss on leased assets        | 226       |
| Short-term loans                                  | 27,939    | Accounts payable-other                              | 27,001    |
| Accounts receivable-other                         | 24,679    | Accrued expenses                                    | 37,654    |
| Accrued income                                    | 77        | Income taxes payable                                | 1,122     |
| Other current assets                              | 2,528     | Advances from customers                             | 107,645   |
| Allowance for doubtful receivables                | (936)     | Deposits received                                   | 7,507     |
|                                                   |           | Unearned revenue                                    | 653       |
| <b>Fixed assets</b>                               | 465,800   | Accrued bonuses                                     | 15,106    |
| <b>Net property, plant and equipment</b>          | 259,708   | Provision for product warranties                    | 7,444     |
| Buildings                                         | 80,435    | Provision for losses on construction contracts      | 11,889    |
| Structures                                        | 14,792    | Derivatives liabilities                             | 7,939     |
| Docks and building berths                         | 543       | Other current liabilities                           | 771       |
| Machinery and equipment                           | 65,331    | <b>Noncurrent liabilities</b>                       | 313,002   |
| Vessels                                           | 14        | Bonds payable, less current portion                 | 110,000   |
| Aircraft                                          | 40        | Long-term debt, less current portion                | 140,483   |
| Vehicles                                          | 1,134     | Lease obligations                                   | 1,569     |
| Tools, Furniture and fixtures                     | 39,665    | Accumulated impairment loss on leased assets        | 172       |
| Land                                              | 36,275    | Long-term accounts payable-other                    | 16,457    |
| Leased assets                                     | 1,905     | Provision for losses on legal proceeding            | 395       |
| Construction in progress                          | 19,571    | Provision for environmental measures                | 3,425     |
|                                                   |           | Employees' retirement and severance benefits        | 40,078    |
| <b>Intangible assets</b>                          | 13,931    | Asset retirement obligations                        | 409       |
| Software                                          | 11,314    | Other long-term liabilities                         | 11        |
| License production and licensee's execution right | 270       | <b>Total liabilities</b>                            | 970,339   |
| Other intangible assets                           | 2,346     | <b>Net assets</b>                                   |           |
| <b>Investments and other assets</b>               | 192,160   | Shareholders' equity                                | 272,842   |
| Investments in securities                         | 12,366    | Common stock                                        | 104,484   |
| Stock of affiliates                               | 96,993    | Capital surplus                                     | 52,210    |
| Investments in capital of affiliates              | 34,084    | Legal capital surplus                               | 52,210    |
| Long-term loans                                   | 6,208     | Other capital surplus                               | 0         |
| Deferred tax assets                               | 35,829    | Retained earnings                                   | 116,190   |
| Other investments and other assets                | 7,236     | Other retained earnings                             | 116,190   |
| Allowance for doubtful receivables                | (558)     | Provision for special depreciation                  | 646       |
|                                                   |           | Provision for advanced depreciation of fixed assets | 7,453     |
|                                                   |           | Retained earnings brought forward                   | 108,090   |
|                                                   |           | Treasury stock                                      | (43)      |
|                                                   |           | Valuation and translation adjustments               | 351       |
|                                                   |           | Net unrealized gains on securities, net tax         | 2,004     |
|                                                   |           | Deferred gains (losses) on hedges                   | (1,653)   |
|                                                   |           | <b>Total net assets</b>                             | 273,193   |
| <b>Total assets</b>                               | 1,243,533 | <b>Total liabilities and net assets</b>             | 1,243,533 |

## Non-consolidated Statement of Income

(April 1, 2013 - March 31, 2014)

(Unit: million yen)

| Description                                                    | Amount |           |
|----------------------------------------------------------------|--------|-----------|
| Net sales                                                      |        | 1,011,603 |
| Cost of sales                                                  |        | 882,346   |
| Gross profit                                                   |        | 129,257   |
| Selling, general and administrative expenses                   |        | 93,148    |
| Operating income                                               |        | 36,108    |
| Non-operating income                                           |        | 24,511    |
| Interest income                                                | 769    |           |
| Dividend income                                                | 21,505 |           |
| Gain on sales of securities                                    | 1,233  |           |
| Other non-operating income                                     | 1,002  |           |
| Non-operating expenses                                         |        | 24,714    |
| Interest expense                                               | 2,342  |           |
| Interest on bonds                                              | 948    |           |
| Foreign exchange losses                                        | 17,704 |           |
| Other non-operating expenses                                   | 3,718  |           |
| Recurring profit                                               |        | 35,905    |
| Extraordinary income                                           |        | 3,323     |
| Gain on contribution of securities to retirement benefit trust | 3,323  |           |
| Extraordinary losses                                           |        | 2,973     |
| Loss on disaster                                               | 349    |           |
| Adjustment on transfer pricing taxation                        | 2,624  |           |
| Income before income taxes                                     |        | 36,255    |
| Income taxes-current                                           | (874)  |           |
| Income taxes-deferred                                          | 5,030  |           |
| Net income                                                     |        | 32,099    |

## Non-consolidated Statement of Changes in Net Assets

(April 1, 2013 - March 31, 2014)

(Unit: million yen)

|                                                                 | Shareholders' equity |                       |                       |                                  |                                                   |                                   |      | Treasury stock | Total shareholders' equity |
|-----------------------------------------------------------------|----------------------|-----------------------|-----------------------|----------------------------------|---------------------------------------------------|-----------------------------------|------|----------------|----------------------------|
|                                                                 | Common stock         | Capital surplus       |                       | Retained earnings                |                                                   |                                   |      |                |                            |
|                                                                 |                      | Legal capital surplus | Other capital surplus | Other retained earnings          |                                                   |                                   |      |                |                            |
|                                                                 |                      |                       |                       | Reserve for special depreciation | Reserve for advanced depreciation of fixed assets | Retained earnings brought forward |      |                |                            |
| Balance at beginning of the period                              | 104,484              | 52,210                | -                     | 917                              | 7,220                                             | 95,356                            | (27) | 260,161        |                            |
| Cumulative effect of changes in accounting policies             |                      |                       |                       |                                  |                                                   | (11,043)                          |      | (11,043)       |                            |
| Restated balance                                                | 104,484              | 52,210                | -                     | 917                              | 7,220                                             | 84,312                            | (27) | 249,117        |                            |
| Changes of items during the period                              |                      |                       |                       |                                  |                                                   |                                   |      |                |                            |
| Cash dividends                                                  |                      |                       |                       |                                  |                                                   | (8,358)                           |      | (8,358)        |                            |
| Net income for the year                                         |                      |                       |                       |                                  |                                                   | 32,099                            |      | 32,099         |                            |
| Treasury stock purchased                                        |                      |                       |                       |                                  |                                                   |                                   | (16) | (16)           |                            |
| Treasury stock disposed                                         |                      |                       | 0                     |                                  |                                                   |                                   | 0    | 0              |                            |
| Reversal of provision for special depreciation                  |                      |                       |                       | (270)                            |                                                   | 270                               |      | -              |                            |
| Reserve for advanced depreciation of fixed assets               |                      |                       |                       |                                  | 456                                               | (456)                             |      | -              |                            |
| Reversal of provision for advanced depreciation of fixed assets |                      |                       |                       |                                  | (223)                                             | 223                               |      | -              |                            |
| Net changes of items other than shareholders' equity            |                      |                       |                       |                                  |                                                   |                                   |      |                |                            |
| Total changes of items during the period                        | -                    | -                     | 0                     | (270)                            | 232                                               | 23,778                            | (16) | 23,724         |                            |
| Balance at end of the period                                    | 104,484              | 52,210                | 0                     | 646                              | 7,453                                             | 108,090                           | (43) | 272,842        |                            |

|                                                                 | Valuation and translation adjustments         |                                 |                                             | Total net assets |
|-----------------------------------------------------------------|-----------------------------------------------|---------------------------------|---------------------------------------------|------------------|
|                                                                 | Net unrealized gains on securities net of tax | Gains (losses) on hedging items | Total valuation and translation adjustments |                  |
| Balance at beginning of the period                              | 3,988                                         | (5,670)                         | (1,682)                                     | 258,479          |
| Cumulative effect of changes in accounting policies             |                                               |                                 |                                             | (11,043)         |
| Restated balance                                                | 3,988                                         | (5,670)                         | (1,682)                                     | 247,435          |
| Changes of items during the period                              |                                               |                                 |                                             |                  |
| Cash dividends                                                  |                                               |                                 |                                             | (8,358)          |
| Net income for the year                                         |                                               |                                 |                                             | 32,099           |
| Treasury stock purchased                                        |                                               |                                 |                                             | (16)             |
| Treasury stock disposed                                         |                                               |                                 |                                             | 0                |
| Reversal of provision for special depreciation                  |                                               |                                 |                                             | -                |
| Reserve for advanced depreciation of fixed assets               |                                               |                                 |                                             | -                |
| Reversal of provision for advanced depreciation of fixed assets |                                               |                                 |                                             | -                |
| Net changes of items other than shareholders' equity            | (1,983)                                       | 4,017                           | 2,033                                       | 2,033            |
| Total changes of items during the period                        | (1,983)                                       | 4,017                           | 2,033                                       | 25,757           |
| Balance at end of the period                                    | 2,004                                         | (1,653)                         | 351                                         | 273,193          |

## **Audit Report**

(English Translation)

Regarding the performance of duties by the Directors for the 191st fiscal year from April 1, 2013 to March 31, 2014, the Board of Corporate Auditors hereby submits its audit report, which has been prepared upon careful consideration based on the audit report prepared by each Corporate Auditor.

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

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

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

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

Based on the above methods, we examined the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, and non-consolidated notes) and their annexed specifications, as well as consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net

assets, and consolidated notes) related to the relevant fiscal year.

## 2. Results of Audit

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

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

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

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

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

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

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

May 22, 2014

Board of Corporate Auditors, Kawasaki Heavy Industries, Ltd.

|                             |                   |
|-----------------------------|-------------------|
| Full-Time Corporate Auditor | Tatsuyoshi Ogushi |
| Full-Time Corporate Auditor | Yuji Murakami     |
| Outside Corporate Auditor   | Michio Oka        |
| Outside Corporate Auditor   | Nobuyuki Fujikake |