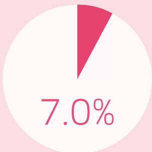
Business Review & Strategies

Company	Main Products



Composition of net sales

Ship & Offshore Structure p. 18

FY2013 (billions of yen)

Net sales	90.3
Operating income	4.1

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

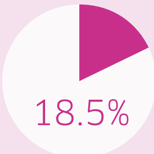
Composition of net sales

Rolling Stock p. 19

FY2013 (billions of yen)

Net sales	129.9
Operating income	2.2

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



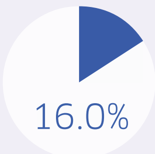
Composition of net sales

Aerospace p. 20

FY2013 (billions of yen)

Net sales	239.1
Operating income	14.8

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



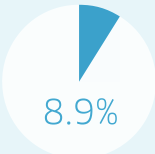
Composition of net sales

Gas Turbine & Machinery p. 21

FY2013 (billions of yen)

Net sales	207.0
Operating income	7.0

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



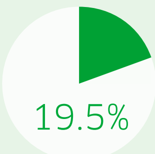
Composition of net sales

Plant & Infrastructure p. 22

FY2013 (billions of yen)

Net sales	115.8
Operating income	9.7

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



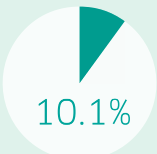
Composition of net sales

Motorcycle & Engine p. 23

FY2013 (billions of yen)

Net sales	251.8
Operating income	2.3

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



Composition of net sales

Precision Machinery p. 24

FY2013 (billions of yen)

Net sales	130.4
Operating income	8.4

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

LNG carrier ENERGY HORIZON

Ship & Offshore Structure

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

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

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

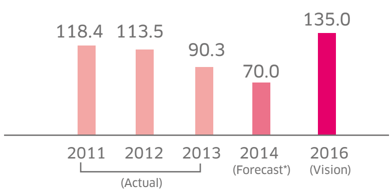
Against this background, in Japan, we are establishing the superiority of our technology in LNG and LPG carriers and submarines and by fulfilling the role of a center for development of advanced technology in energy saving, environmental load reduction, and other areas.

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

Financial Highlights

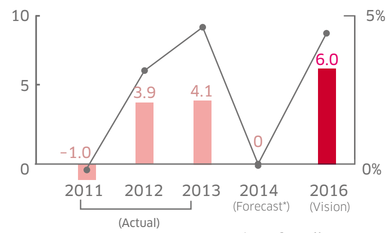
Net sales

Years Ended/Ending March 31
(Billions of yen)



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

Years Ended/Ending March 31 (Billions of yen)



*As of April 25, 2013

Approach to Social Issues

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

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

R188 subway cars for MTA New York City Transit

Rolling Stock

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

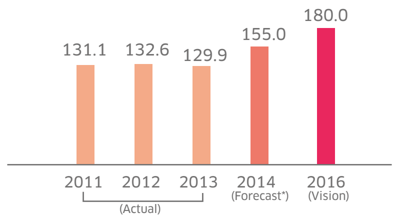
- Achieve profit growth in North America from our entire processing system, which ranges from car body fabrication through final assembly, and new product lineup
- Strengthen competitiveness in the Asian market by enhancing capacity for railroad system projects and optimal project delivery framework

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

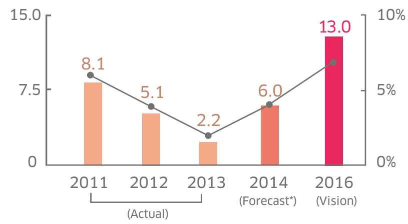
Against this background, KHI will draw on its strengths in advanced technological expertise and high quality to not only maintain its market share in the Japanese market, but also attain its vision by achieving balanced growth in the three markets of Japan, North America and Asia. In the North American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

Financial Highlights

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



Operating income
Ratio of operating income to sales
Years Ended/Ending March 31(Billions of yen)



*As of April 25, 2013

Approach to Social Issues

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

BK117 C-2 helicopter

Aerospace

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

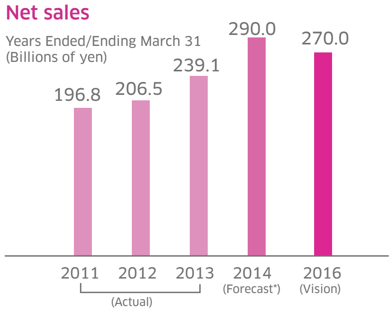
■ Defense	Establish a system for mass production of P-1 patrol aircraft and C-2 transport aircraft and branch out to derivative aircraft
■ Commercial	Adapt for increased production of component parts for the Boeing 787 and branch out to derivative aircraft

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

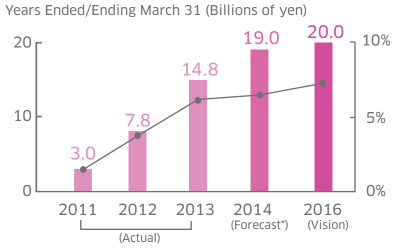
In the commercial aircraft business, meanwhile, continuing expansion of demand is expected in the medium to long term. To adapt to increased production of component parts for the Boeing 787, we will further boost production capacity at the Nagoya Works and target cost reductions. In addition, to maintain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

Financial Highlights

Net sales



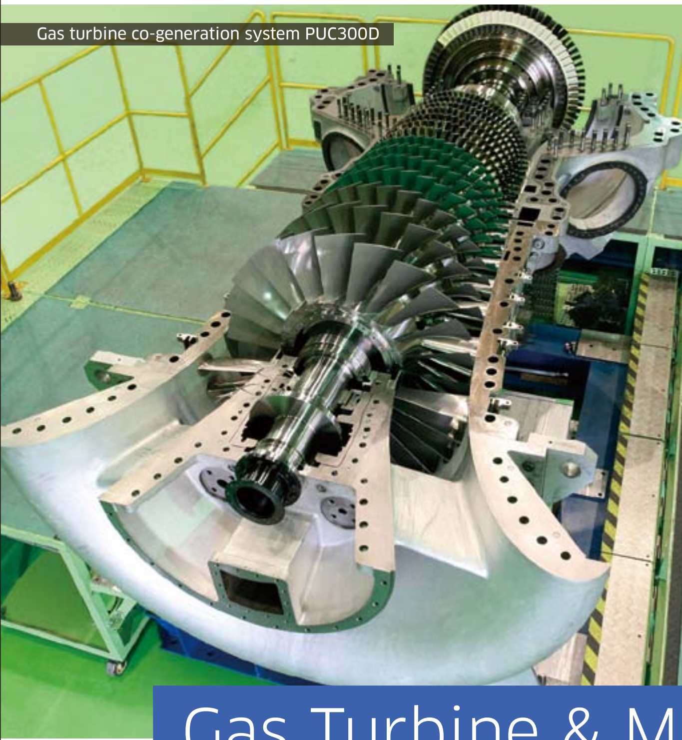
Operating income / Ratio of operating income to sales



*As of April 25, 2013

Approach to Social Issues

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



Gas turbine co-generation system PUC300D

Gas engine power plant for Nihon Techno's Sodegaura Green Power

Gas Turbine & Machinery

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

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

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

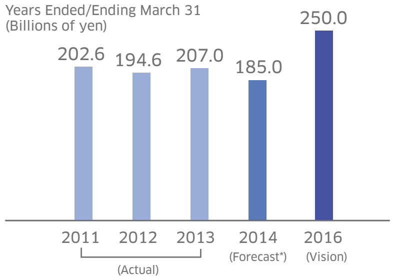
In the transportation equipment sector, where increased demand for aircraft is expected, we are moving ahead with mass production of the Trent1000 engine for the Boeing 787 and with development of the Trent XWB engine for the Airbus A350 XWB and the PW1100G-JM engine for the Airbus A320neo. While putting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

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

Financial Highlights

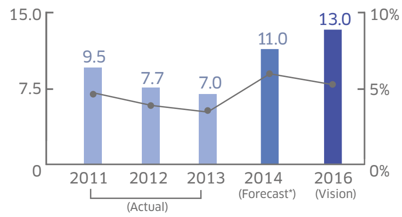
Net sales

Years Ended/Ending March 31
(Billions of yen)



Operating income
Ratio of operating income to sales

Years Ended/Ending March 31 (Billions of yen)



*As of April 25, 2013

Approach to Social Issues

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

Ammonia and urea plants in Mary, Turkmenistan

Plant & Infrastructure

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

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

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

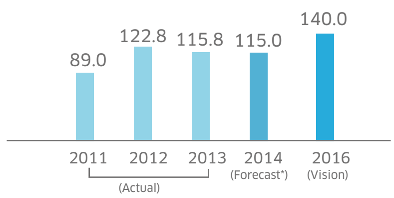
On the technology front, in addition to improving the added value of our superior technologies, we are standardizing design across the board to achieve stable quality, shorter delivery lead times, and cost reductions. In the commercialization of new products and technologies, we use measures such as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

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

Financial Highlights

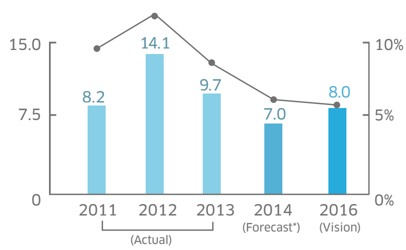
Net sales

Years Ended/Ending March 31
(Billions of yen)



– Operating income
◆ Ratio of operating income to sales

Years Ended/Ending March 31 (Billions of yen)



*As of April 25, 2013

Approach to Social Issues

1. Contributing to global environment conservation and CO_2 reduction through products and technology
2. Contributing to the creation of social infrastructure in emerging nations

Ninja ZX-10R

Motorcycle & Engine

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

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

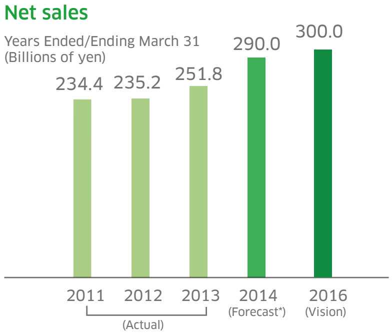
In emerging markets, further expansion is expected on the back of economic growth. To strengthen our position in the leisure motorcycle field, where we already enjoy a competitive lead, we are steadily capturing growing market demand through strategies including expansion of production capacity at local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

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

Financial Highlights

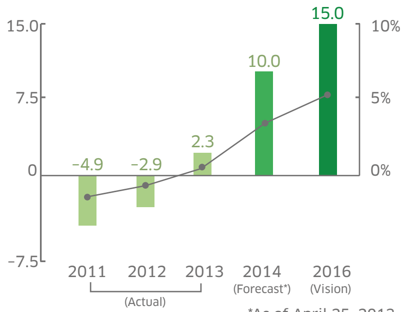
Net sales

Years Ended/Ending March 31 (Billions of yen)



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

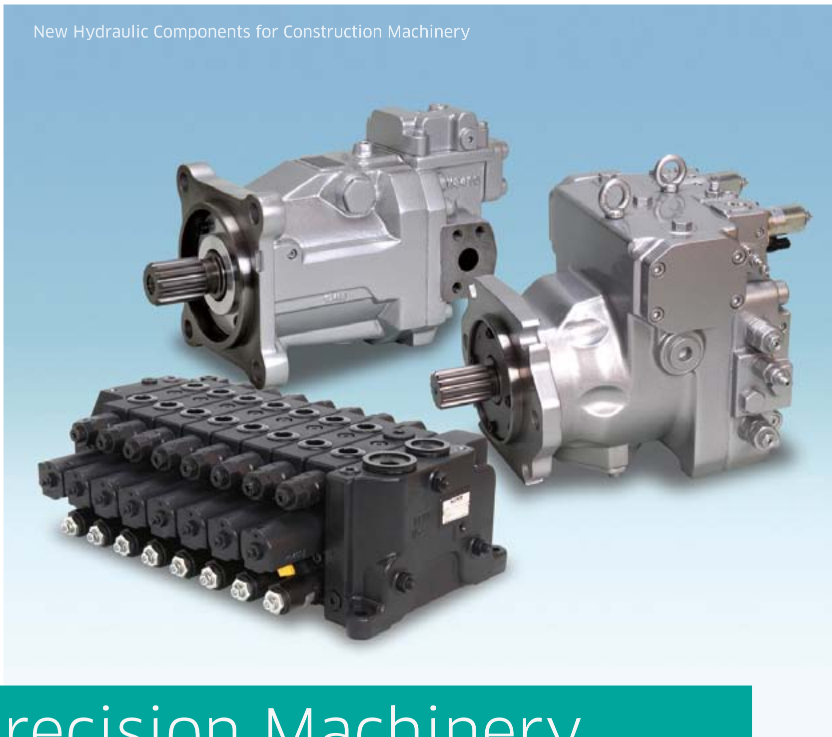
Years Ended/Ending March 31 (Billions of yen)



*As of April 25, 2013

Approach to Social Issues

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



New Hydraulic Components for Construction Machinery

BX series BX 200L

Precision Machinery

Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

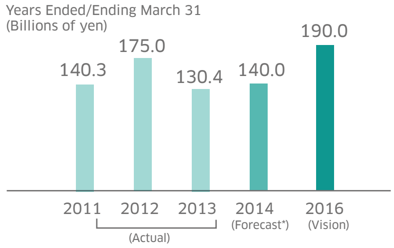
- Hydraulic Components: Maintain a high share in the hydraulic excavator sector and diversify our business structure by expanding sales beyond this sector. Expand sales in the global market and achieve an optimal global production system.
- Industrial Robots: Further strengthen operations for automotive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

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

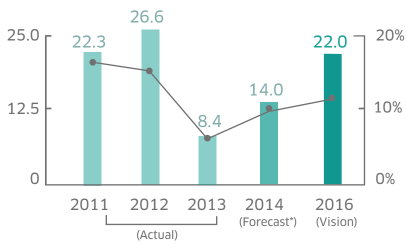
Meanwhile, in the Industrial Robots business unit, to make a rapid advance toward globalization, we will boost cost-competitiveness to facilitate expansion in emerging markets and reinforce the automotive and semiconductor sectors. To open up new sectors, we will develop user-friendly technology and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

Financial Highlights

Net sales



Operating income / Ratio of operating income to sales



*As of April 25, 2013

Approach to Social Issues

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