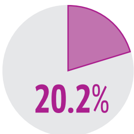
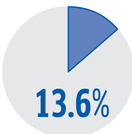
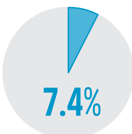
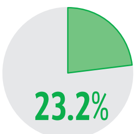
Business Review & Strategies

FY2014 (billions of yen)

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

Ship & Offshore Structure

LNG carrier GRACE DAHLIA

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

For fiscal 2015, we expect the consolidated value of orders to be ¥150 billion, net sales to be ¥85 billion and operating income to be ¥0 billion.

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

Japanese operations

- Establish the superiority of existing businesses and secure our role as a center for advanced technology development in energy saving, environmental load reduction, and other areas.
- Strengthen our functions as the mother factory for overseas businesses.

Overseas operations

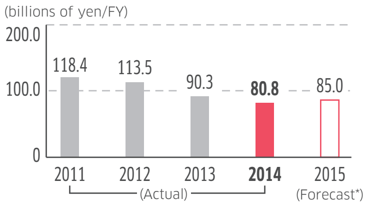
- Maintain and improve the profitability of Chinese joint ventures.
- Support the smooth start-up of a project in Brazil.

Despite signs of improvement in the shipping market, a full-fledged recovery failed to take hold in the shipbuilding market. However, driven notably by global environmental issues and the rising price of fuel oil, shipping companies are showing heightened interest in saving energy and reducing the environmental load. Against this background, in Japan we are establishing the superiority of our technology in LNG and LPG carriers and submarines and by fulfilling the role of a center for development of advanced technology in energy saving, environmental load reduction, and other areas. In addition, we aim to achieve steady business expansion with products in new areas, such as large offshore work vessels and LNG-fuelled vessels, for which orders were received last fiscal year.

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

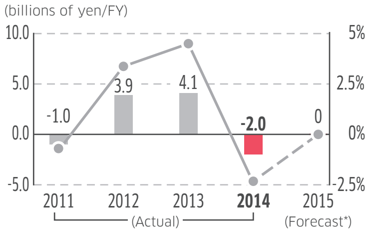
Financial Highlights

Net sales



Operating income

Ratio of operating income to sales



*As of April 25, 2014

Before-tax ROIC

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

Approach to Social Issues

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

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

Rolling Stock

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

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

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

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

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

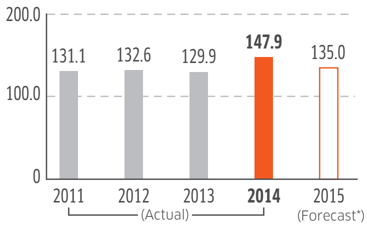
Recent years have seen an upswing in infrastructure investment paralleling economic growth in emerging economies. At the same time, developed countries have planned projects such as the construction of high-speed rail and modernization of railways. As a result, the world rolling stock market is expected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

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

Financial Highlights

Net sales

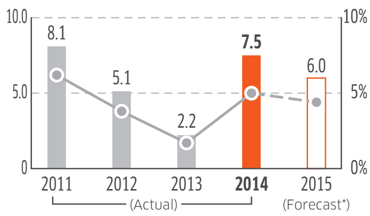
(billions of yen/FY)



■ Operating income

-●- Ratio of operating income to sales

(billions of yen/FY)



*As of April 25, 2014

Before-tax ROIC

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

Approach to Social Issues

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

Aerospace


Boeing 787-9 Dreamliner (fore section of fuselage)

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

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

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

Defense
- Establish a system for mass production of P-1 patrol aircraft and C-2 transport aircraft and branch out to derivative aircraft

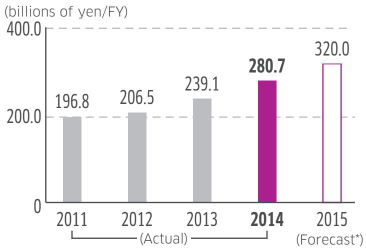
Commercial
- Adapt for increased production of component parts for the Boeing 787 and branch out to derivative aircraft

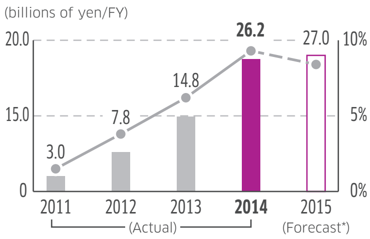
In the defense aircraft business, we have already begun mass production of the P-1 patrol aircraft and the C-2 transport aircraft, which will be the core of our defense business going forward. To establish these two aircraft as the cornerstones of our sales and profits strategy and thereby place our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

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

Financial Highlights

Net sales





*As of April 25, 2014

Before-tax ROIC

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

Approach to Social Issues

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

Gas Turbine & Machinery

Kawasaki Green Gas Engine

Gas Turbine L30A

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

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

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

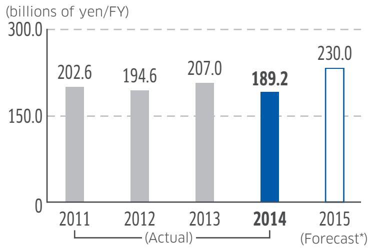
- Use the newly established Energy Solutions Division to strengthen our response to increased energy demand
- Expand the commercial aircraft engine business and secure stable profits
- Expand the marine propulsion systems business targeting the oil- and gas-related offshore market

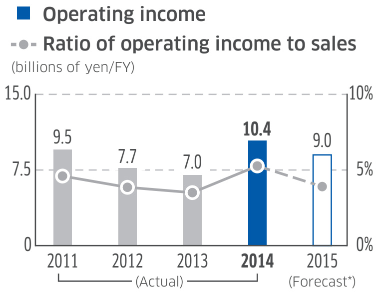
In the energy sector, in fiscal 2014, we set up the Energy Solutions Division to strengthen our response to increased energy demand from emerging nations, as well as to heightened demand for distributed power sources following the revision of energy policies after the Great East Japan Earthquake. By transcending the previous product-based divisional structure to combine and integrate key hardware elements, the new division will address the needs of a wider customer base and strengthen our ability to present energy solutions.

In the transportation equipment sector, where increased demand for aircraft is expected, we are moving ahead with mass production of the Trent1000 engine for the Boeing 787 and with development of the Trent XWB engine for the Airbus A350 XWB and the PW1100G-JM engine for the Airbus A320neo. While putting in place an effective production system for these new projects, we will reduce costs to promote stable profits. Going forward, we will continue with operations as a module supplier involved in joint international development from the basic design stage. Concurrently, with the upswing in exploitation of offshore resources driven by the rise in worldwide energy demand, we are working to grow our business in marine propulsion systems with products such as shuttle tankers and offshore work vessels for use in the oil- and gas-related offshore market.

Financial Highlights

Net sales





*As of April 25, 2014

Before-tax ROIC

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

Approach to Social Issues

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

Plant & Infrastructure


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

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

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

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

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

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

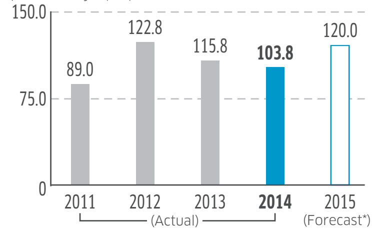
On the technology front, in addition to improving the added value of our superior technologies, we are standardizing design across the board to achieve stable quality, shorter delivery lead times, and cost reductions. In the commercialization of new products and technologies, we use measures such as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

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

Financial Highlights

Net sales

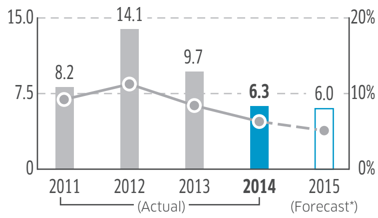
(billions of yen/FY)



Operating income

Ratio of operating income to sales

(billions of yen/FY)



*As of April 25, 2014

Before-tax ROIC

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

Approach to Social Issues

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

Motorcycle & Engine

Ninja 1000

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

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

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

Improve our brand strength

- Continue with development and sale of strongly competitive models that deliver the joy of riding to consumers in line with our key concepts of "Fun to Ride," "Ease of Riding" and "Friendly to the Environment"

Expand our business in emerging markets

- Strengthen our position in the leisure motorcycle field

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

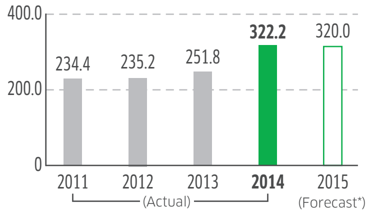
In emerging markets, further expansion is expected on the back of economic growth. To strengthen our position in the leisure motorcycle field, where we already enjoy a competitive lead, we are steadily capturing growing market demand through strategies including expansion of production capacity at local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

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

Financial Highlights

Net sales

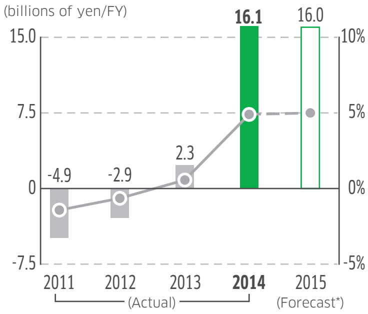
(billions of yen/FY)



■ Operating income

-●- Ratio of operating income to sales

(billions of yen/FY)



*As of April 25, 2014

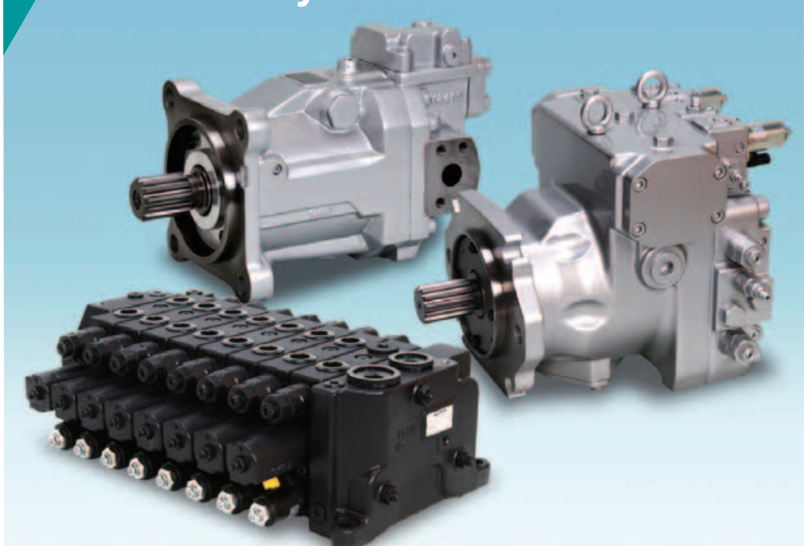
Before-tax ROIC

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

Approach to Social Issues

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

Precision Machinery



New hydraulic components
for construction machinery M7V112, KLSV18, K8V125

BX series BX200L

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

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

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

Hydraulic Components

- Maintain a high share in the hydraulic excavator sector and diversify our business structure by expanding sales beyond this sector.
- Expand sales in the global market and achieve an optimal global production system.

Industrial Robots

- Further strengthen operations for automotive and semiconductor sectors, expand into emerging markets, and open up new sectors

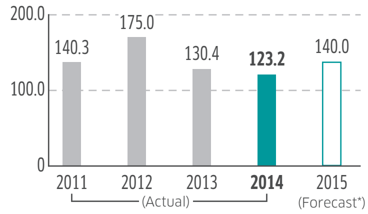
In the Hydraulic Machinery business unit, to maintain our high market share in the hydraulic excavator sector, we will work to realize cutting-edge hydraulic equipment technology and improve systematization technology. We will also promote business diversification through expanded sales of hydraulic equipment for agricultural machinery and for construction machinery other than the power hydraulic excavator.

As a response to globalization, following our entry into China, we have set up a new company in the expected future growth market of India that began production in 2012. We have thus established a system with six centers worldwide in Japan, the United Kingdom, the United States, South Korea, China and India. In this way, we aim to achieve a flexible response to rapid globalization and Group-wide optimization.

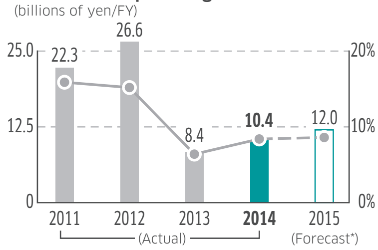
Meanwhile, in the Industrial Robots business unit, to make a rapid advance toward globalization, we will boost cost-competitiveness to facilitate expansion in emerging markets and reinforce the automotive and semiconductor sectors. In addition, we aim to participate in the medical robot field and also cultivate new sectors by developing human-robot collaboration technology and pinpointing latent demand for automation.

Financial Highlights

Net sales
(billions of yen/FY)



Operating income
Ratio of operating income to sales
(billions of yen/FY)



*As of April 25, 2014

Before-tax ROIC

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

Approach to Social Issues

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