Annual Report 2001 KAWASAKI HEAVY INDUSTRIES, LTD.

Profile

Founded in 1878, Kawasaki Heavy Industries, Ltd. (KHI), is a leading global comprehensive manufacturer of transportation equipment and industrial goods. With a broad technological base that encompasses land, sea, and air, KHI manufactures ships, rolling stock, aircraft and jet engines, refuse incinerators, industrial plants, steel structures, and a wide range of manufacturing equipment and systems. KHI also produces such world-famous consumer products as Kawasaki-brand motorcycles and Jet Ski® watercraft.

Contents

Cover: L20A Gas Turbine (Featured on page 11)

Financial Highlights

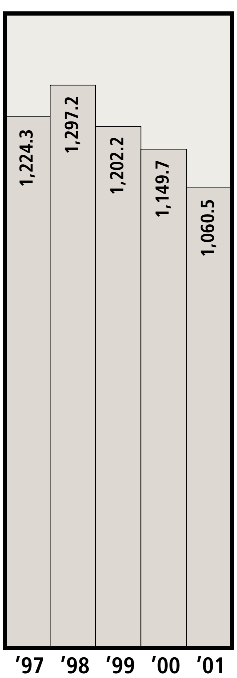
Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries For the years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
For the year:				
Net sales	**¥1,060,479**	¥1,149,698	¥1,202,189	**$ 8,559,152**
Operating income	**4,460**	1,251	21,666	**35,997**
Net loss	**(10,320)**	(18,632)	(6,132)	**(83,293)**
Net cash provided by operating activities	**9,236**	31,232	22,347	**74,545**
Capital expenditures	**32,687**	39,685	42,143	**263,818**
Per share (in yen and U.S. dollars):				
Net loss	**(7.4)**	(13.4)	(4.4)	**(0.06)**
Cash dividends	**—**	—	6.0	**—**
At year-end:				
Total assets	**¥1,247,472**	¥1,206,806	¥1,204,857	**$10,068,378**
Total shareholders' equity	**164,081**	174,955	199,637	**1,324,302**
Orders received and outstanding:				
Orders received during the fiscal year	**¥1,273,686**	¥1,071,104	N.A	**$10,279,953**
Order backlog at fiscal year-end	**1,320,894**	1,072,645	N.A	**10,660,965**

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥123.90 to $1.00, the approximate rate of exchange at March 31, 2001. The Company began to disclose its orders received and outstanding on a consolidated basis in fiscal 2000.

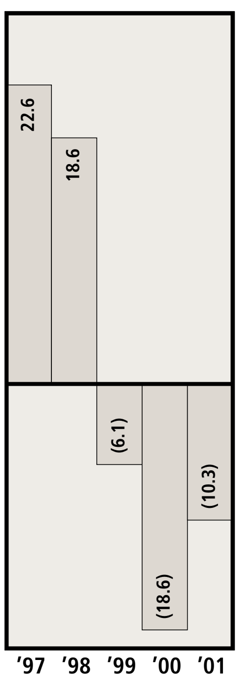
Net Sales

(Billions of yen)



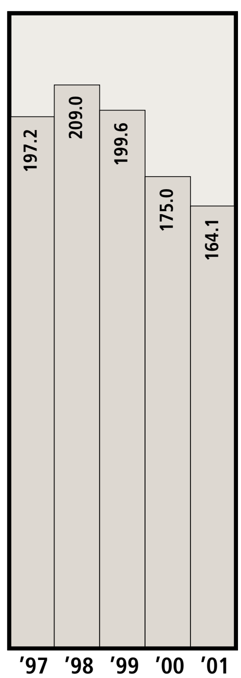
Net Income (Loss)

(Billions of yen)



Total Shareholders' Equity

(Billions of yen)



Performance in Fiscal 2001

During the first half of fiscal 2001, ended March 31, 2001, the Japanese economy showed gradual improvement supported by government fiscal policies and an ultralow interest rate policy. In addition, the economy was boosted by growth in private capital investment, especially in Information Technology (IT)-related areas, and expansion in exports to the United States and the rest of Asia. However, recovery in consumer spending failed to materialize, and the sudden deceleration in the U.S. economy from the end of 2000 clouded the outlook for Japan's exports, leading to a relatively weak overall performance.

Against this backdrop, KHI took an aggressive approach to marketing that resulted in a substantial rise in orders received during fiscal 2001—especially by the Transportation Equipment and the Industrial Equipment business segments—of 18.9%, or ¥202.6 billion, to ¥1,273.7 billion. On the other hand, KHI's net sales for the year under review declined 7.8%, or ¥89.2 billion, to ¥1,060.5 billion, owing principally to lower sales in Aerospace that accompanied a decline in deliveries to the Japan Defense Agency as well as Industrial Equipment due to a low level of orders received during the previous fiscal year. Operating income, however, shot up ¥3.2 billion, to ¥4.5 billion, supported by an improvement in profitability, principally in Industrial Equipment, and the success of various measures implemented to reduce fixed costs and lower the Company's breakeven point. Nevertheless, KHI reported a net loss of ¥10.3 billion due mainly to provision for losses on construction orders, expenses associated with consolidating KHI's production facilities, and other restructuring expenses as well as losses on the revaluation of securities. This net loss, however, represented an improvement of ¥8.3 billion, or 44.6%, from the net loss recorded for the previous fiscal year. In view of the net loss for the fiscal year, we regret that we have decided to continue to suspend the payment of cash dividends. We request you, our shareholders, to examine carefully our ongoing initiatives and we look forward to your continued support.

Although the economic environment surrounding KHI in Japan and overseas is expected to remain challenging, under the Company's new medium-term business plan, K21, KHI is placing maximum priority on returning to profitability. Accordingly, we are confident that the fiscal year ending March 31, 2002, will mark the first step toward further gains in performance.

Medium-Term Business Plan K21

For KHI to take its place among globally competitive enterprises in the 21st century, continue to develop, and enhance the trust of all its stakeholders, we have adopted the objective of "Quality followed by Quantity." Briefly, this means we are giving quality priority over quantity, but will work aggressively to sell our high-value-added products and differentiated services to a wider range of customers; quality will drive quantity. In parallel with this, we are drawing on management resources to create a more sophisticated business structure and have adopted the goals of establishing strong earnings power and returning to a sustainable growth path. With these fundamental objectives in mind, we prepared our K21 medium-term business plan in November 2000 and will be implementing it through the year ending March 2005.

The three objectives of this medium-term business plan are:

1. Sharpening the focus of our business portfolio;
2. Transforming our business model; and
3. Enhancing the effectiveness of our management systems.

By the final year of the plan, we are aiming to achieve a return on invested capital (ROIC) of 5% or more. In addition, based on our K21 business plan, we must evolve into an enterprise that is capable of responding speedily and flexibly to major changes in the operating environment. To this end, we will work to increase the awareness of every member of the management and staff of the KHI Group regarding the changing environment and motivate them to bring about KHI's further evolution and development.

Sharpening the Focus of Our Business Portfolio

We have identified Aerospace, Consumer Products, Rolling Stock, and Gas Turbines & Machinery as both core businesses and business we must develop. To this end, we will be allocating corporate resources to nurture and strengthen these businesses' contributions to profitability.

In the Shipbuilding, Plant Engineering, and Steel Structures businesses, however, markets are mature and excess supply conditions are not forecast to improve. Therefore, in these businesses, we will be working to further lower the breakeven points and strengthen profitability even in the midst of intense competition for new orders. In addition, to further strengthen our position, we are aggressively pursuing the formation of alliances and business partnerships.

Transforming Our Business Model

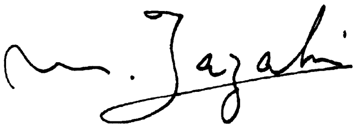
To implement reforms in our business model—including the structure of our business operations and sources of earnings—that will lead to enhanced profitability, we will be aggressively pursuing four initiatives. The first will be to shift our focus from primarily accepting orders to meet highly specific customer needs to proposing solutions applicable to a broader range of customers; this change will enable us to achieve greater standardization and maximize added value. Second, we will work to increase customer satisfaction and expand our business domain by offering sophisticated and efficient maintenance services that cover the full life cycles of our products. Third, we will make the most effective use of our corporate resources, especially the capabilities for development of overseas activities and the global network of our consumer products business by realizing cross-divisional synergies, and finally, we will differentiate our products and services through the application of IT.

Enhancing the Effectiveness of Our Management Systems

To substantially strengthen our operational structure, in April 2001 we took our previous divisional system of organization a major step forward with the introduction of an internal company system. The Company's operations now encompass six in-house companies: the Shipbuilding, Rolling Stock, Aerospace, Gas Turbines & Machinery, Plant & Infrastructure Engineering, and Consumer Products & Machinery companies. This move has resulted in increased autonomy and allowed the speedier management of operations in a manner suited to specific industrial sectors, as well as greater flexibility, including in the formation of alliances and pursuit of M&A. In addition, we introduced an Executive Officer System with the objectives of achieving swift and flexible conduct of operations and reducing the size of the Board of Directors. This has increased the effectiveness of the Board in strategic decision making and the supervision of management functions.

By carrying out the various measures set out in K21, we intend to increase enterprise value and become a company that is highly valued in capital markets. Looking forward, the staff of KHI will unite their energies to enhance the Company's potential and, while expanding KHI's capabilities, will endeavor to raise enterprise value. We have decided on a course of making reforms in our organization, improving our business model, and pursuing other initiatives. KHI will build on its long history to break free from the traditional business model to become a dynamic corporation. We would like our shareholders to share our optimism regarding what we can accomplish while continuing to offer their advice and support.

June 29, 2001



Masamoto Tazaki
President

Aiming to Increase Enterprise Value

The "K21" Medium-Term Business Plan (FY2001 through FY2005)

To prepare the way for further development in the 21st century, KHI has formulated a new medium-term business plan containing objectives to be attained by fiscal 2005. The principal management objective of the plan is to increase KHI's enterprise value, and we have set a goal of ROIC of 5% or more. We are also adopting the following specific strategies under the plan's basic guideline of "Quality followed by Quantity."

Our strengths include a strong record of accomplishments, brand equity, and technological capabilities, and we have identified four core businesses with market growth potential for particular focus and development. KHI will allocate resources to these businesses on a priority basis.

In parallel, we will shift to a policy of developing and introducing standardized products in growth markets and aggressively making proposals to our customers while nurturing these products to become important income generators. In addition, to promote this policy for increasing profitability, we will further improve our business model, including the composition of our business portfolio and sources of earnings.

Sharpening the Focus of Our Business Portfolio

Allocate resources to core businesses with growth potential

KHI has identified Aerospace, Consumer Products, Rolling Stock, and Gas Turbines & Machinery as both core businesses and businesses it must develop and is allocating corporate resources to nurture and strengthen these businesses' contributions to profitability.

Improve the profitability of mature sectors

In other businesses, KHI will focus on lowering the breakeven points and strengthening profitability even under intense competition.

Transforming Our Business Model

KHI will pursue four initiatives to reform its business model.

Shift our focus from primarily accepting orders to meet highly specific customer needs to proposing solutions applicable to a broader range of customers with the aims of achieving greater standardization and maximizing added value.

Increase customer satisfaction and expand the Company's business domain by offering sophisticated and efficient maintenance services that cover the full life cycles of its products.

Make optimal use of our corporate resources, especially our capabilities for development of overseas activities and the global network of our consumer products business, by realizing cross-divisional synergies.

Differentiate products and services through the application of IT.

Refocusing Our Business Portfolio

Core businesses
—Aerospace and Consumer Products

Businesses for further development
—Rolling Stock and Gas Turbines

Businesses for review and structural reform
—Shipbuilding, Plant Engineering, and Steel Structures

Increasing Enterprise Value

ROIC: 5% or more

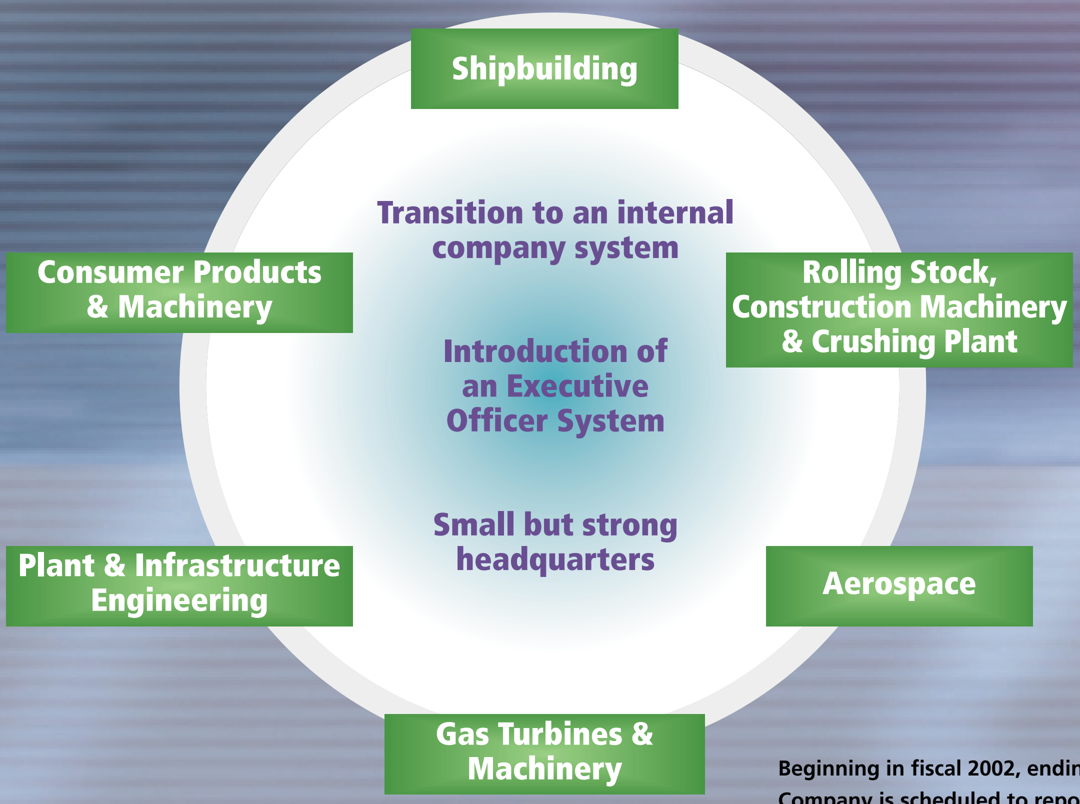
Enhancing Our Management Systems

Under our K21 medium-term business plan, we are implementing policies to reallocate corporate resources and sharpening the focus of our business portfolio. To this end, we have introduced an internal company system and an Executive Officer System and are proceeding with other improvements in our corporate headquarters organization. These initiatives aim at speeding up management action, enhancing the effective use of our corporate resources, and delegating greater autonomy and responsibility to individual business units.

In April 2001, to substantially strengthen our operational structure, we introduced an internal company system that takes the divisional system of organization we had employed previously a major step forward. We created six in-house companies: the Shipbuilding, Rolling Stock, Aerospace, Gas Turbines & Machinery, Plant & Infrastructure Engineering, and Consumer Products & Machinery companies. By elevating these business units to company status, we have given them greater autonomy, allowing them to manage their operations speedily and in ways best suited to their industrial sectors, as well as to act flexibly in forming alliances and pursuing M&A.

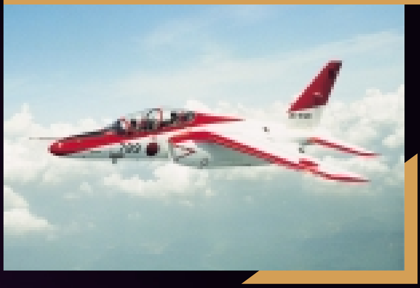
Also, in April 2001 we introduced an Executive Officer System with the objective of clearly separating the functions of the Board of Directors from the day-to-day management of operations. Along with this change, we reduced the number of members of the Board to 11 in July 2001.

Within our corporate headquarters, we also made a clear separation between those units responsible for formulating corporate strategy and those providing services for our internal companies. This clarification of the specialized functions of units has allowed us to streamline the corporate headquarters.



Beginning in fiscal 2002, ending March 31, 2002, the Company is scheduled to report its performance according to a new business segment classification based on its internal company system.

Review of Operations



Transportation Equipment

Main Products

- LNG carriers
- LPG carriers
- Container ships
- VLCCs and other types of tankers
- Bulk carriers
- High-speed vessels
- Submarines
- Maritime application equipment
- Electric cars (including *Shinkansen*)
- Electric and diesel locomotives
- Passenger coaches
- Integrated transit systems
- Monorail cars
- Platform screen doors

Orders received by this segment jumped 72.2%, or ¥110.7 billion, to ¥264.1 billion, as a result of a marked increase in demand for ships and rolling stock from overseas, including cars for the Taiwan Bullet Train.

During the year, although shipments of rolling stock increased due to higher sales to overseas customers, including sales of subway cars to Singapore and New York City, a drop in sales of new ships more than offset the increase in rolling stock. Overall, sales declined 3.2%, or ¥5.2 billion, to ¥159.7 billion. The segment reported an operating loss of ¥2.1 billion, an improvement of ¥7.6 billion, or 78.3%, compared with the previous year, owing to cost reductions in the Shipbuilding Division and improved performance in the Rolling Stock Division.

In fiscal 2001, KHI received orders for 16 vessels, including LPG carriers, bulk carriers, and other types of ships. In addition, two VLCCs (Very Large Crude-oil Carriers) and two LPG carriers were delivered to customers. In the shipbuilding area, KHI is streamlining operations and improving productivity under the current K21 plan to cope with the severe business conditions caused by worldwide overcapacity in the industry. To improve cost-competitiveness, KHI thus far has concluded alliances with Mitsui Engineering & Shipbuilding Co., Ltd., and Ishikawajima-Harima Heavy Industries Co., Ltd. (IHI). Moreover, the Company reached a basic agreement with IHI to consolidate the shipbuilding and marine operations of the two companies, including naval vessel operations, in April 2001. As a premium shipbuilder, KHI aims to continue supplying the LPG carriers and other high-value-added vessels

❶ VLCC SANKO UNITY
KHI delivered a 300,000-dwt VLCC on order from UNITY TANKSHIP, S.A. of Panama.

❷ CARS FOR THE NEW YORK SUBWAY
Subway cars delivered for New York City Transit; these new stainless steel cars are lightweight and equipped with state-of-the-art electronic systems.

❸ SERIES 5000 CARS FOR THE KOBE CITY SUBWAY SYSTEM:
Linear motor powered railcars delivered for use on the Coast Line of the Kobe subway system

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that have earned it its outstanding reputation while further enhancing its international competitiveness through alliances, consolidation, and other efforts.

In rolling stock, KHI has an enviable record of accomplishments in manufacturing cars for Japan's *Shinkansen* bullet trains and other high-speed railways as well as supplying rolling stock to overseas customers, including those in the United States, Southeast Asia, and elsewhere. KHI's principal plant for rolling stock is in Hyogo Prefecture in Japan, and it has another plant situated in Yonkers, New York, in the United States. At present, a third manufacturing plant for rolling stock is under construction in Lincoln, Nebraska, at Kawasaki Motors Manufacturing Corp., a manufacturing subsidiary for consumer products. Equipped with the most advanced production lines and systems, the Lincoln Plant will be the full-scale manufacturing facility for rolling stock, handling all stages from car body construction to interior fitting.

Countries around the world are showing renewed interest in railway transportation because of its low impact on the environment. In the United States, in particular, demand for new lines as well as replacement and capacity-expansion demand for existing lines is increasing. In addition, in the rolling stock field, KHI concluded an operating agreement with Hitachi, Ltd., in April 2001, for supplying railway systems to overseas customers. Accordingly, KHI will work to substantially strengthen its capabilities for supplying rolling stock to overseas markets from its plants in Japan and the United States.

Sales

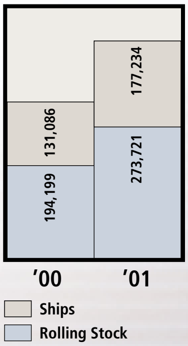
(Millions of yen)

Orders Received

(Millions of yen)

Order Backlog

(Millions of yen)



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Aerospace

Main Products

- T-4 intermediate jet trainers
- CH-47, OH-1, and BK117 helicopters
- Component parts for B777 and B767 passenger airplanes
- Missiles
- Electronic equipment
- Space equipment
- Jet engines
- Gas turbines
- Small- and medium-sized gas turbine generators

Although orders from the Japan Defense Agency (JDA) were virtually unchanged from the previous fiscal year, orders for aircraft and jet engines from the commercial sector increased. Orders for this segment rose 9.9%, or ¥21.1 billion, to ¥234.6 billion. Segment sales declined 13.4%, or ¥32.1 billion, to ¥207.9 billion as deliveries of aircraft to the JDA fell, and operating income decreased 11.3%, or ¥1.3 billion, to ¥9.9 billion.

KHI ranks among Japan's leading aircraft manufacturers and is renowned internationally for its technological capabilities. KHI manufactures high-quality products, principally aircraft and jet engines, for both the defense and commercial sectors. In the commercial sector, KHI is involved in joint development and production programs for the Boeing 767 and 777 passenger aircraft. In the jet engine field, KHI has participated in the international development and production project for the V2500 engine and jointly develops and manufactures aircraft engines with leading international suppliers. This includes working together with Rolls-Royce plc of the United Kingdom on the RB211/Trent series and Pratt & Whitney of the United States on the PW4000 series.

In the aircraft business, during fiscal 2001, KHI jointly developed the BK117 C-2 helicopter, the successor to the BK117 C-1, with Eurocopter of Germany. The BK117 C-2 offers improvements in flight performance and comfort over the BK117 C-1 helicopter, a best-seller with more than 400 units having been shipped worldwide. In the jet

❶ KHI BK117 C-2 HELICOPTER

❷ T-4 INTERMEDIATE JET TRAINER
This is a training aircraft used mainly by Japan Air Self Defense Force. KHI has delivered approximately 190 of these since 1988.

❸ L20A 20MW CLASS HIGH-EFFICIENCY GAS TURBINE GENERATOR

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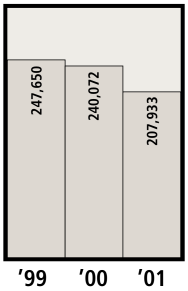
engine field, KHI completed a facility at its Akashi Works in Japan, which is capable of operating and testing jet engines with thrust of up to 100,000lb, the highest class in the world. The facility will be used for development and maintenance of jet engines. KHI plans to continue to strengthen its technological capabilities in the aerospace field and develop its position as a supplier to defense and commercial aircraft and engine markets.

Drawing on its sophisticated technology in the aircraft jet engine field, KHI is a leading manufacturer in Japan of small- and medium-sized industrial gas turbine electric power generators. During fiscal 2001, KHI successfully developed and introduced the L20A 20MW class high-efficiency gas turbine generator, which it developed internally, making use of its own technology. In recent years, there has been a trend toward distributed energy sources both for environmental reasons and for improving power generating efficiency. Along with this trend, cogeneration systems and combined-cycle electric power plants are attracting greater attention. In the years to come, demand for these systems both in Japan and in Southeast Asia as well as other overseas markets is expected to be strong. KHI plans to respond aggressively to this opportunity by supplying the L20A and other types of gas turbine generators.

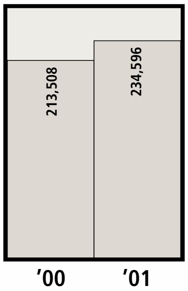
Sales

(Millions of yen)



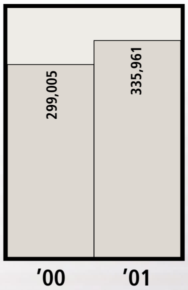
Orders Received

(Millions of yen)



Order Backlog

(Millions of yen)



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Industrial Equipment

Main Products

Steelmaking, cement, chemical, and other industrial plants
Power plants
Municipal refuse incineration plants
Aero-derived gas turbine engines for naval vessels
Bridges
LNG and LPG tanks
Shield machines and tunnel boring machines
Crushing machinery
Industrial hydraulic equipment
Wheel loaders

Because of the receipt of major orders, including those for refuse incineration plants from municipal governments in Japan, a fertilizer plant from China, and a cogeneration combined cycle power plant from Mexico, orders in this segment rose 16.0%, or ¥57.0 billion, to ¥412.9 billion. Sales in this segment declined 17.5%, or ¥69.6 billion, to ¥327.7 billion, primarily owing to the low level of orders received for industrial plants and steel structures in the previous fiscal year. Despite the drop in sales, operating loss was maintained at ¥11.0 billion, about the same as for the previous year, as a result of measures to improve profitability and reduce fixed costs.

KHI is regarded as a leading engineering company in a diverse range of industrial plant construction projects in Japan and abroad. In particular, the level of KHI's proven technical expertise in steel and cement plant engineering is widely regarded as one of the highest in the world. In the steel structure business, KHI has participated in the construction of a number of bridges and other major infrastructure projects. KHI ranks in the top echelon of Japanese providers of municipal refuse incineration plants, both in terms of its solid customer base and technical expertise.

In fiscal 2001, industrial plant sales included power generation equipment for the Chubu Electric Power Co., Inc.'s Hekinan thermal plant, and sales of steel structures included a hovering stage for the Sapporo Dome. Also, in the environmental field, KHI received its first order for a

❶ MUNICIPAL REFUSE INCINERATION PLANT FOR HONJO CITY IN SAITAMA PREFECTURE

❷ ELECTRIC POWER GENERATION EQUIPMENT FOR THE HEKINAN THERMAL POWER PLANT OF CHUBU ELECTRIC POWER

❸ HOVERING STAGE FOR THE SAPPORO DOME
Delivered the world's first air-supported hovering and movable natural grass football pitch for the Sapporo Dome, where matches in the 2002 World Cup—jointly sponsored by Japan and Korea—will be held.

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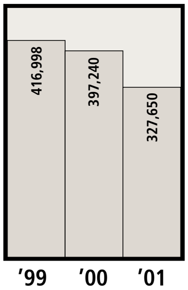
gasification and ash-melting refuse incineration plant from a regional government organization in Shiga Prefecture. Gasification and ash-melting incinerators offer a number of advantages, including decreased dioxin synthesis and a lower burden on the environment as a result of refuse processing as well as the conversion of incinerated waste matter into usable resources. These systems are attracting considerable attention as a 21st century refuse processing method.

The Industrial Equipment segment reported substantial operating losses in both fiscal 2000 and fiscal 2001 because of the deterioration in profitability in industrial plants and steel structures owing to the prolonged stagnation in the Japanese economy as well as the delayed recovery of economies in Southeast Asia. Giving a return to profitability the highest priority, KHI is accelerating the streamlining of its operations in this segment.

An important strength of this segment is its broad range of products and technologies applied to improve social infrastructure or utilized in key industries. By combining, upgrading, and optimizing them, KHI will continue creating solutions to meet customer needs around the world.

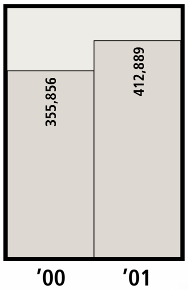
Sales

(Millions of yen)



Orders Received

(Millions of yen)



Order Backlog

(Millions of yen)

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Consumer Products

Main Products

- Motorcycles
- ATVs (All-Terrain Vehicles)
- Jet Ski® watercraft
- General-purpose gasoline engines
- Brush cutters
- Transmissions
- Industrial robots

Sales in the Consumer Products segment amounted to ¥275.9 billion, virtually the same as in the previous fiscal year, as sales of motorcycles, ATVs, and MULE utility vehicles remained firm in the United States. Operating income declined 32.1%, or ¥3.1 billion, to ¥6.5 billion, because of the adverse impact of the decline in the value of the euro on motorcycle sales in Europe.

KHI introduced a number of new models in this segment during fiscal 2001.

Motorcycles: In Japan, North America, and Europe, the Company launched the ZRX1200 large-displacement road sports series, following up the concept of ZRX1100, which has been highly acclaimed in the markets. Along with the "Ninja" Super Sports series, the ZRX1200 series has substantially strengthened the competitiveness of the "Kawasaki" brand in the large sports bike markets. In Asia, KHI introduced the 120cc "Leo Star," a sports moped, in Thailand and the ELIMINATOR, a 175cc top-of-the-line motorcyle, in India.

ATVs: The PRAIRIE 650, a top-of-the-line sports utility ATV, was released into the large-displacement, automatic transmission segment of the U.S. market.

Jet Ski® watercraft: The Company expanded its lineup with the introduction of the two-passenger Jet Ski Ultra 130 D.I., which incorporates an electronic fuel injection system that produces substantially more power while reflecting concern for the environment. KHI was the first company in the world to successfully commercialize Jet Ski® watercraft.

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❶ ZRX1200S

❷ PRAIRIE 650

❸ NS320 CLEAN ROBOT

In motor sports, Kawasaki team member Hitoyasu Izutsu won the Japan Super Bike Championship, and, in the United States, Ricky Carmichael won the U.S. National Motorcross Championship.

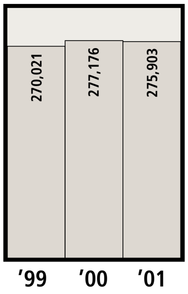
Also, in industrial robots, in tandem with development of the IT-society, KHI made a full-scale entry into the clean robot market. Such robots are used in the manufacture of semiconductors and LCDs. KHI's NS320 Clean Robot joins KHI's lineup of robots for welding, palletizing, painting, and other tasks.

To strengthen sales capabilities, KHI established Kawasaki Motors Europe N.V. (KMEU) in the Netherlands to take responsibility for consumer products. KMEU will take overall charge of sales and after-sales service, as well as the management of inventories, finance, information, and other functions that were formerly performed by distributors in each of the countries where KHI sold its products. The establishment of KMEU will allow KHI make the transition to the centralized management of its sales activities in Europe.

In Japan, a wholly owned subsidiary, Kawasaki Machine Systems, Ltd. (KMS), reinforced its responsibilities and business areas in fiscal 2001. KMS has been given overall responsibility for sales, after-sales service, proposals for system engineering, user education, and other tasks related to mass produced industrial machinery, such as construction machinery, industrial robots, and small- and medium-sized gas turbine generators. KMS is therefore now well positioned to conduct sales and service activities and strengthen ties with the communities where KHI's products are sold.

Sales

(Millions of yen)



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Overview

KHI meets the needs of society in its role as a leader in key industries providing a broad range of products that are used on land, at sea, and in the air. Many of KHI's products contribute to reducing the burden on the environment, and the Company believes it is important to broaden its lineup of such products.

At present, KHI is implementing environment-related activities under the third three-year stage of its Environmental Protection Activities Plan (EPAP), covering fiscal 2001 through fiscal 2003. As a manufacturing company, in all its activities KHI aims to help create a sustainable recycling society, and seeks to maintain the reputation of the "Kawasaki" brand as one that is synonymous with harmony with the environment.

Environmental Protection Activities

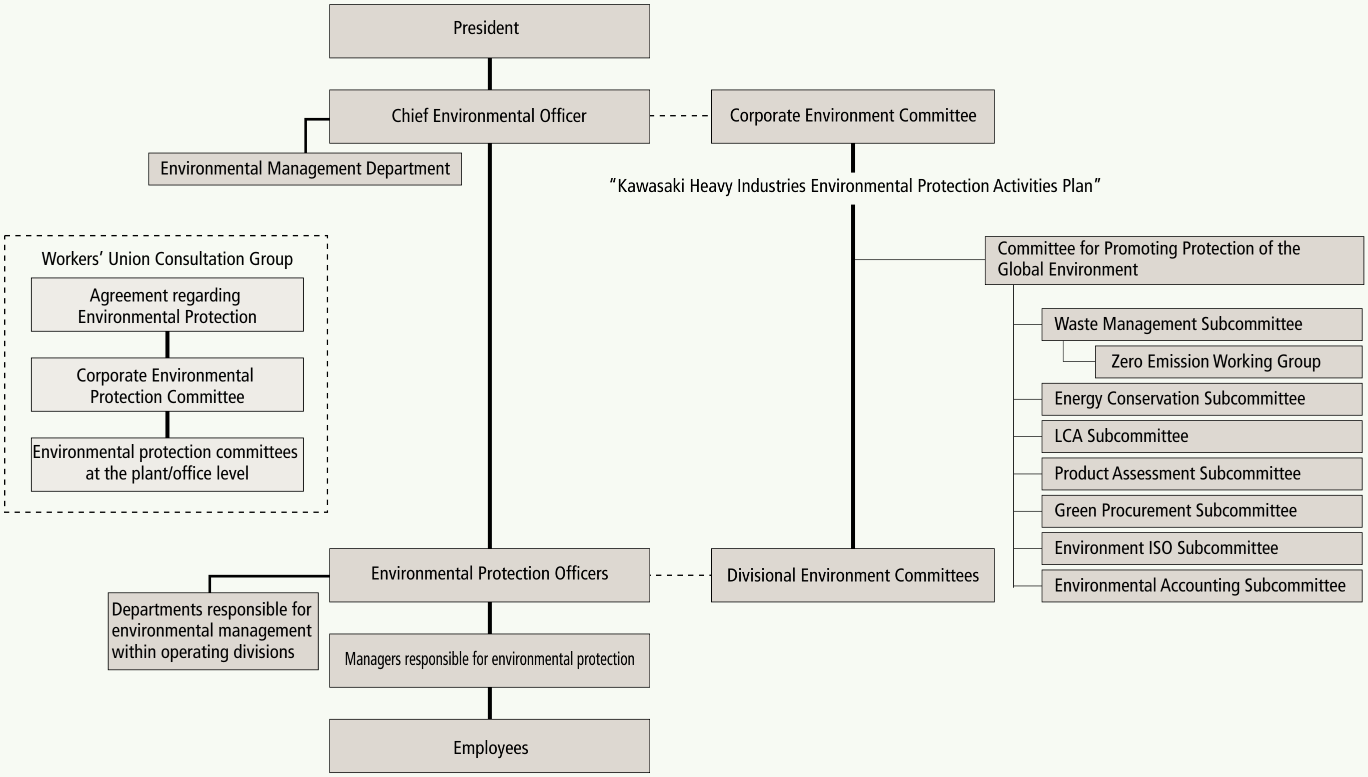
Under the third three-year stage of EPAP, KHI is implementing the following environmental protection activities:

1. Intensified environmental protection activities on a Companywide basis
2. Compliance with environmental legislation and regulations
3. Programs addressing global warming countermeasures
4. Introduction of "green" procurement
5. Introduction of life cycle assessment (LCA) analysis
6. Introduction of environmental performance evaluations
7. Fuller disclosure in the Company's environmental report
8. Introduction of environmental accounting

Basic Philosophy for the Environment

KHI, as it develops its operations globally as "a leader in key industries providing products that are used on land, at sea, and in the air," aims to contribute to the solution of global environmental problems. KHI's goals in its environmental activities are to make its operations more eco-friendly and, through its technology and products, contribute to the realization of a recycling-oriented society that can coexist in harmony with the environment and achieve sustainable development.

Organization for Environmental Management

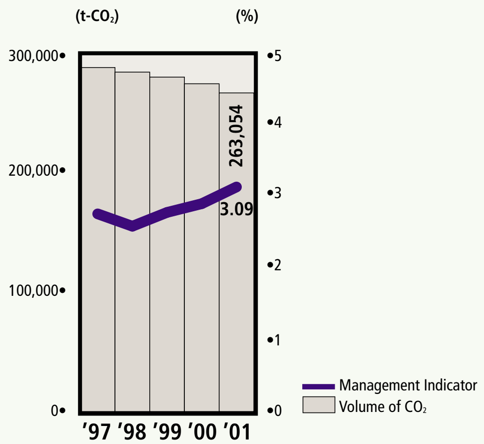


KHI has appointed an Executive Officer to take overall responsibility for environmental matters. This officer convenes KHI's Corporate Environment Committee periodically to discuss and revise KHI's three-year EPAP with the aim of making continual improvements in the Company's environmental activities.

Climate Change

KHI is engaged in a range of activities that contribute to prevention of global warming.

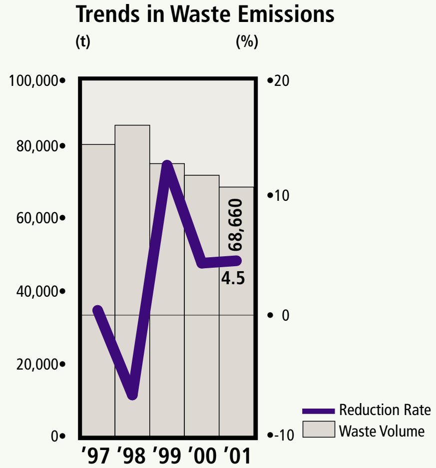
Trends in CO_2 Emissions



Resource Conservation and Recycling

In addition to activities to reduce the volume of industrial and other waste emissions, KHI is also working to make effective use of resources through thoroughgoing efforts to increase the ratio of materials recycled.

Trends in Waste Emissions



Environmentally Conscious Technology and Products

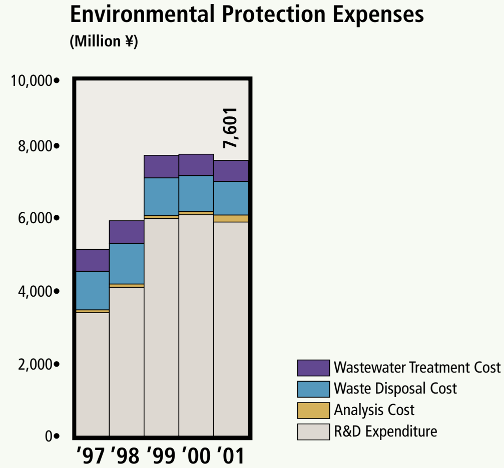
KHI contributes to society by providing products and technologies in a wide range of fields that help to maintain the environment. KHI believes, as a manufacturing company, that reducing the burden on the environment of its production activities and the products it delivers is one of its most important environment-related activities. At the same time, for all its manufacturing processes and products, KHI considers the full life cycle from the design stage and works to contribute in the following environment-related areas:

1. Energy,
2. The atmosphere,
3. Soil,
4. Processing and recycling of waste materials,
5. Water, and
6. Measures for controlling hazardous chemicals.

Environmental Protection Expenses

Investment in environmental maintenance equipment in fiscal 2001 was ¥750 million and total environmental expenses amounted to ¥7.6 billion. To prepare for the introduction of environmental accounting, KHI has formed an Environmental Accounting Subcommittee and is conducting pilot tests for application of the *Environmental Accounting Guidebook* prepared by Japan's Environment Agency. Consideration is being given to introducing environmental accounting in fiscal 2003.

Environmental Protection Expenses



Six-Year Summary

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries Years ended March 31

Millions of yen

	2001	2000	1999	1998	1997	1996
Operating results:						
Net sales	**¥1,060,479**	¥1,149,698	¥1,202,189	¥1,297,212	¥1,224,259	¥1,086,244
Cost of sales	**924,522**	1,008,860	1,045,143	1,114,693	1,041,697	928,126
Gross profit	**135,957**	140,838	157,046	182,519	182,562	158,118
Selling, general and administrative expenses	**131,497**	139,587	135,380	131,440	120,351	111,362
Operating income	**4,460**	1,251	21,666	51,079	62,211	46,756
Net income (loss)	**(10,320)**	(18,632)	(6,132)	18,556	22,572	16,462
Capital expenditures	**32,687**	39,685	42,143	35,030	36,992	38,036
Depreciation and amortization	**33,303**	35,081	34,607	32,416	31,245	30,823
R&D expenses	**17,548**	19,905	18,615	17,800	17,400	17,300
Financial position at year-end:						
Working capital	**¥ 148,577**	¥ 188,403	¥ 161,712	¥ 162,084	¥ 150,759	¥ 127,644
Net property, plant and equipment	**241,893**	245,278	244,866	242,435	233,196	231,615
Total assets	**1,247,472**	1,206,806	1,204,857	1,222,906	1,303,168	1,252,371
Long-term debt, less current portion	**270,605**	264,048	208,763	198,135	197,130	204,801
Total shareholders' equity	**164,081**	174,955	199,637	209,040	197,161	162,984
Per share amounts (yen):						
Net income (loss)	**¥ (7.4)**	¥ (13.4)	¥ (4.4)	¥ 13.3	¥ 16.4	¥ 12.2
Cash dividends	**—**	—	6.0	6.0	7.0	5.5
Shareholders' equity	**118.0**	125.8	143.6	150.3	141.9	120.7
Other data:						
Number of shares issued (millions)	**1,391**	1,391	1,391	1,391	1,389	1,350
Number of employees	**29,162**	29,772	26,486	26,102	24,211	24,401
Non-consolidated data:						
Orders received	**¥1,054,662**	¥ 865,317	¥ 951,652	¥1,007,115	¥ 955,478	¥1,030,339

Overview

During the first half of fiscal 2001, ended March 31, 2001, the Japanese economy showed gradual improvement supported by the beneficial impact of government fiscal policies, including an ultralow interest rate policy as well as growth in private capital expenditure, especially in the IT area, and expansion in exports to the United States and the rest of Asia. However, for the fiscal year as a whole, conditions were generally weak because of the lack of recovery in consumer spending and the slowdown in exports accompanying the sudden deceleration of the U.S. economy that began at the end of 2000.

Amid these economic conditions, Kawasaki Heavy Industries, Ltd. (the "Company"), and its consolidated subsidiaries (collectively, the "Group") conducted aggressive marketing activities and, as a result, orders received on a consolidated basis, especially by the Transportation Equipment and the Industrial Equipment segments, rose a substantial ¥202.6 billion, or 18.9%, to ¥1,273.7 billion.

On the other hand, consolidated net sales declined ¥89.2 billion, or 7.8%, to ¥1,060.5 billion, primarily because of a decline in sales in the Aerospace segment accompanying a drop in deliveries of defense-related products and lower sales in the Industrial Equipment segment due to a relatively low level of orders won in the previous fiscal year.

Turning to profitability, consolidated operating income rose ¥3.2 billion, to ¥4.5 billion, despite the decline in sales and the adverse impact of the depreciation of European currencies. The improvement in operating profitability was due mainly to the positive effects of improvements in margins especially in the Industrial Equipment segment, and the implementation of various measures to lower fixed costs and reduce the Group's breakeven point. However, the Group reported a net loss of ¥10.3 billion because of additions to the reserve for possible losses on construction orders, expenses associated with consolidating Company production facilities, additional retirement benefit payments under the Company's early retirement support program, and other restructuring expenses as well as losses on the revaluation of securities and the early amortization of differences in employees' retirement benefits for certain subsidiaries arising with the application of new accounting standards. This net loss, however, represented an improvement of ¥8.3 billion, or 44.6%, from the net loss recorded for the previous fiscal year. In view of these financial results, the Company regrets its decision to forgo the payment of cash dividends for fiscal 2001.

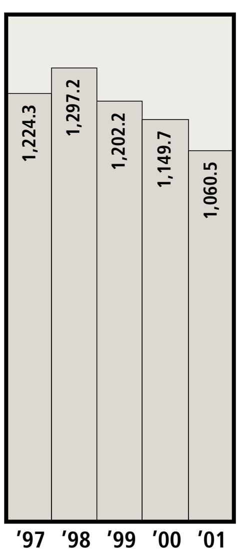
Results of Operations

Net Sales

As mentioned previously, the Group's consolidated net sales declined 7.8%, from ¥1,149.7 billion in fiscal 2000 to

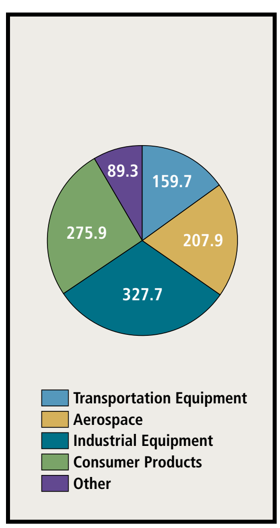
Net Sales

(Billions of yen)



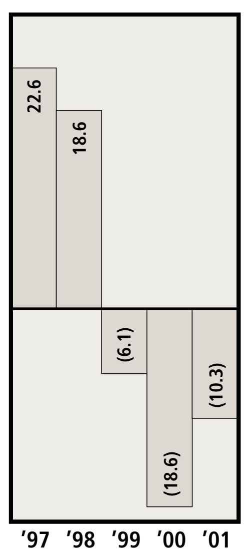
Sales by Segment (FY2001)

(Billions of yen)



Net Income (Loss)

(Billions of yen)



¥1,060.5 billion in fiscal 2001. Total overseas sales declined ¥29.1 billion, to ¥432.4 billion, reflecting the weakness in sales in Europe. The drop in overseas sales, however, was partially offset by an increase in sales to North America. The percentage of the Group's overseas sales increased 0.6 percentage point, to 40.7%, reflecting the weakness in domestic sales.

The following paragraphs summarize performance by business segment.

Transportation Equipment

Orders received by this segment rose 72.2%, or ¥110.7 billion, to ¥264.1 billion. These included orders for 16 new vessels, including LPG carriers and bulk carriers as well as orders for rolling stock, including *Shinkansen,* commuter, and interurban trains for the JR companies in Japan as well as an order for Bullet Trains in Taiwan.

Sales in this segment declined 3.2%, or ¥5.2 billion, to ¥159.7 billion. Although sales of LPG carriers, VLCCs, and other ships were recorded in the shipbuilding area, the volume of sales was lower than in the previous term, when deliveries of new vessels were concentrated. In the rolling stock area, the Group delivered subway cars overseas for the cities of New York and Singapore. The percentage of total Group sales accounted for by this segment, however, rose from 14.3% in the previous fiscal year to 15.1% for the fiscal year under review.

Profitability in the shipbuilding and rolling stock areas both showed improvement, with this segment reporting a net operating loss of ¥2.1 billion, a 78.3%, or ¥7.6 billion improvement from the previous fiscal year.

Aerospace

Orders won by this segment in fiscal 2001 were 9.9%, or ¥21.1 billion higher than for the previous fiscal year and amounted to ¥234.6 billion. This increase was accounted for by new orders for T-4 intermediate jet trainers, OH-1 light observation helicopters, helicopter engines, and other products. Other orders received included contracts for commercial-sector aircraft and engines, including component parts for Boeing 777 and 767 aircraft and parts for V2500, Trent, and other jet engines.

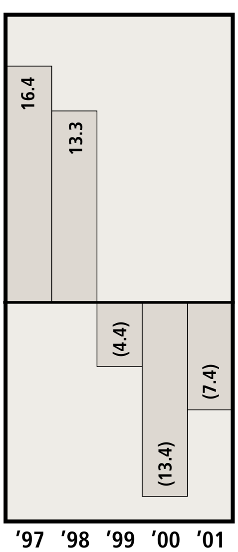
Sales in this segment fell 13.4%, or ¥32.1 billion, to ¥207.9 billion owing to a decline in deliveries to the Japan Defense Agency. The percentage of Group sales accounted for by this segment fell slightly from 20.9% in the previous year to 19.6%. Operating income for this segment declined 11.3%, or ¥1.3 billion, to ¥9.9 billion.

Industrial Equipment

Order-intake rose 16.0%, or ¥57.0 billion from the previous year, to ¥412.9 billion. Factors accounting for this increase included the receipt of major orders for municipal refuse

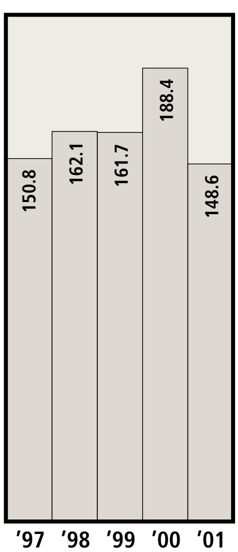
Net Income (Loss) per Share

(Yen)



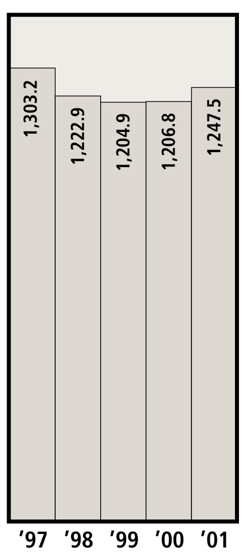
Working Capital

(Billions of yen)



Total Assets

(Billions of yen)



incineration plants from regional government agencies in Japan, a fertilizer plant for China, and a cogeneration combined cycle power plant for Mexico.

Sales of this segment declined 17.5%, or ¥69.6 billion, to ¥327.7 billion, owing mainly to the low level of orders received for industrial plants and steel structures in the previous fiscal year. The percentage of total Group sales accounted for by this segment fell from 34.6% in the previous fiscal year to 30.9% in the fiscal year under review. Despite the drop in sales, operating loss was maintained at ¥11.0 billion, about the same as for the previous year, as a result of measures to improve profitability and reduce fixed costs.

Consumer Products

Sales of motorcycles and ATVs remained generally firm and total sales of this segment amounted to ¥275.9 billion, representing a slight decline of 0.5%, or ¥1.3 billion, from the previous fiscal year. Sales in this segment accounted for 26.0% of Group sales, compared with 24.1% for the previous fiscal year. Operating income of the segment was ¥6.5 billion, a decline of 32.1%, or ¥3.1 billion, from the prior year, reflecting the impact of the depreciation of the euro on sales of motorcycles in Europe.

Other

Sales in this segment increased 27.1%, or ¥19.0 billion, to ¥89.3 billion. Operating income declined 34.1%, or ¥0.6 billion, to ¥1.1 billion. The percentage of Group sales accounted for by this segment rose from 6.1% in the previous year to 8.4% during the year under review.

Cost, Expenses, and Earnings

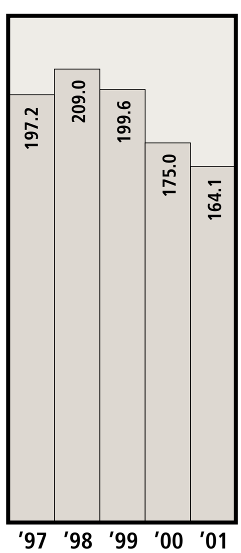
Cost of sales fell 8.4% and amounted to ¥924.5 billion. Gross profit declined 3.5%, to ¥136.0 billion. As a result of activities to reduce costs, the gross profit ratio improved 0.6 percentage point, to 12.8%.

Selling, general and administrative expenses were down 5.8%, to ¥131.5 billion. This decline was due to the impact of concentration of R&D expenses for greater efficiency and reductions in fixed costs. As a result, operating income rose 256.5% from ¥1.3 billion in the previous fiscal year to ¥4.5 billion in fiscal 2001. The ratio of operating income to net sales improved from 0.1% to 0.4%.

Other income (expenses) for fiscal 2001 amounted to expenses of ¥22.9 billion, representing a 4.6% improvement from expenses of ¥24.0 billion for the previous fiscal year. Factors accounting for this improvement included (1) gain on sales of marketable securities and investments in securities and (2) a net foreign exchange gain amounting to ¥3.1 billion (versus a net loss of ¥7.8 billion for the previous fiscal year) owing to depreciation in the value of the yen in the second half of the fiscal year. Note that a number of developments resulted in other expenses and losses, and these offset a portion of the previously described improvements. These were (1) interest

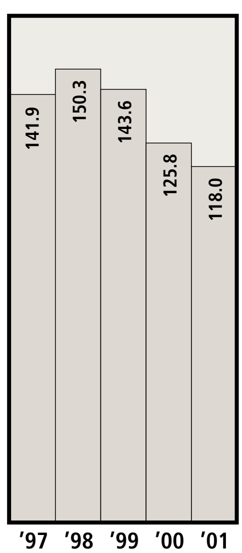
Total Shareholders' Equity

(Billions of yen)



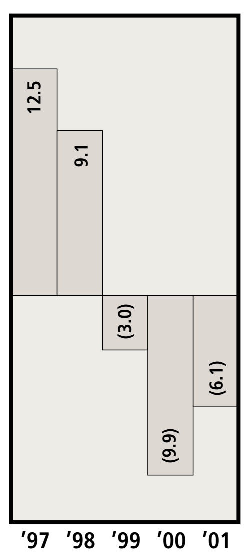
Total Shareholders' Equity per Share

(Yen)



Return on Equity

(%)



and dividends received less interest paid rose from ¥7.5 billion in the previous year to ¥8.3 billion, (2) equity in losses of unconsolidated subsidiaries and affiliates expanded from ¥0.7 billion in the previous fiscal year to ¥1.6 billion for the year under review, (3) write-downs of securities and others increased from ¥3.9 billion in fiscal 2000 to ¥5.7 billion in fiscal 2001, and (4) three other factors, namely provision for losses on construction contracts, expenses for making structural improvements (including expenses for consolidating production facilities and additional employees' retirement benefits under the Company's system to support employees taking early retirement), and expenses for net transition obligation of retirement and severance benefits of certain subsidiaries, which amounted to expenses totaling ¥11.2 billion.

As a result, the loss before income taxes and minority interests declined ¥4.3 billion from a loss of ¥22.7 billion to a loss of ¥18.4 billion for fiscal 2001.

After application of tax-effect accounting to income taxes, tax benefits increased 115.9%, or ¥4.1 billion, from ¥3.6 billion for the previous period to ¥7.7 billion for fiscal 2001. The principal reasons for this increase in tax benefits was a rise in deferred tax assets because of an increase in additions to reserves for employees' retirement benefits in excess of the limit allowable as an expense for tax purposes. Minority interests in net loss of consolidated subsidiaries declined from ¥0.5 billion in the previous period to ¥0.4 billion for the fiscal year under review.

As a consequence of the factors previously mentioned, the net loss for the fiscal year was reduced 44.6%, or ¥8.3 billion, from ¥18.6 billion in fiscal 2000 to ¥10.3 billion in fiscal 2001. The ratio of net loss to shareholders' equity thus improved from minus 9.9% to minus 6.1%.

Financial Condition

The Group's total assets rose 3.4%, or ¥40.7 billion, to ¥1,247.5 billion.

The four principal factors accounting for the increase in assets were a rise in trade receivables of ¥20.4 billion, an increase in inventories of ¥30.0 billion, expansion in investments in securities of ¥59.0 billion, and a net increase in the liquid and fixed portions of deferred tax assets of ¥6.3 billion. The increase in trade receivables was because of an increase in such receivables of the subsidiaries in Europe and the United States and an increase in work in process accompanying the recovery in the balance of orders received. The rise in investments in securities was mainly the result of a shift of marketable securities of ¥45.9 billion to this item following a review of the objectives for holding such securities as of April 1, 2000, and an upward revaluation of these securities, which increased the value of the balance by ¥22.6 billion. Both of the latter changes took place as new accounting standards for financial products were applied. Note that the change in value of investments in securities was reflected in contra accounts as follows. Total deferred tax liabilities increased ¥9.6 billion and a net unrealized gain on securities of ¥13.1 billion was included in the shareholders' equity account. The net increase in deferred tax assets reflects the amount of additional provisions for employees' retirement benefits that exceeded the amount allowable as an expense for tax purposes and an increase in items that cannot be included in losses, such as losses carried forward. A portion of the increase in the valuation of investments in securities was offset by the recognition of deferred tax liabilities.

The principal factors offsetting a portion of the increase in assets were a decline in cash on hand and in banks of ¥8.7 billion, a drop in marketable securities of ¥45.9 billion, a fall in net property, plant and equipment of ¥3.4 billion, and a decline in foreign currency translation adjustments of ¥17.8 billion. The decline in cash on hand and in banks reflects the net decline in cash, which is described later. The drop in marketable securities was mainly a result of the previously described shift of certain of these securities to the investments in securities account. Factors accounting for the decline in property, plant and equipment were primarily investments in plant and equipment in excess of depreciation. During the fiscal year under review, capital investments in equipment were made principally in the Consumer Products, Aerospace, and Industrial Equipment segments to rationalize production and reduce labor costs. Similarly, other capital investments were made in these segments to introduce new models of equipment and new products. Total capital investment during the fiscal year under review amounted to ¥32.7 billion. The decline in foreign currency translation adjustments included among assets was the result of the application of revisions in accounting regulations for foreign currency transactions, which require that the foreign currency translation adjustment item be included in shareholders' equity. The amount of this item included in shareholders' equity was a negative balance of ¥13.6 billion.

The Group's total liabilities rose 5.2%, or ¥53.3 billion, to ¥1,078.7 billion. The factors accounting for this increase included a gain in trade payables of ¥15.7 billion, an increase in short-term and long-term debt of ¥12.7 billion, and a rise in advances from customers of ¥18.2 billion. The increase in trade payables was mainly due to the same factor as for the increase in trade receivables. The rise in borrowings was basically to raise funds to finance capital investments. The increase in advances from customers was due to higher payments obtained to cover a portion of construction work commissioned. Minority interests declined from ¥6.4 billion in the previous fiscal year to ¥4.7 billion.

The Group's shareholders' equity declined 6.2%, or ¥10.9 billion, to ¥164.1 billion. This decrease was basically a reflection of the net loss for the fiscal year, which lowered the Group's retained earnings. The previously mentioned unrealized gains on securities (after adjustment for the tax effect) in shareholders' equity had a positive effect on shareholders' equity, but the inclusion of foreign currency translation adjustments, which were negative on balance, in the shareholders' equity account accompanying the revision of accounting regulations for foreign currency transactions almost offset the previously mentioned inclusion of unrealized gains on other securities. As a result, the shareholders' equity ratio declined 1.3 percentage points, from 14.5% in fiscal 2000 to 13.2% in fiscal 2001.

Cash Flows

The Group's cash flows from operating activities are the basic source of funds for supplying operating cash requirements and financing capital investment. When cash flows from operations are insufficient, the Group finances its requirements from retained earnings and external borrowings. The balance of cash and cash equivalents at the end of the year amounted to ¥75.2 billion, which was ¥6.9 billion lower than at the end of the previous fiscal year. Apart from the cash movements described in the following paragraphs, this overall decline includes an increase in cash of ¥1.0 billion due to foreign currency conversion of cash and cash equivalents.

Net cash provided by operating activities was ¥9.2 billion, compared with ¥31.2 billion for the previous year. The principal operating cash inflows for the fiscal year were (1) expenses for depreciation of ¥33.3 billion, compared with ¥35.1 billion for the previous fiscal year, which were not accompanied by cash outflows, (2) an evaluation loss on marketable and investment securities (after deduction of gains), which is an item transferred from cash flows from investing activities and was also not accompanied by cash outflows, of ¥0.7 billion, compared with ¥3.0 billion in the previous fiscal year, and (3) net inflow from other current assets and liabilities of ¥1.5 billion, compared with a net outflow of ¥5.6 billion in the previous year. The principal operating cash outflows were (1) a loss before income taxes and minority interests of ¥18.4 billion, compared with a loss of ¥22.7 billion for the previous fiscal year, (2) outflows of ¥8.9 billion (compared with inflows of ¥28.1 billion in the previous fiscal year) in connection with the conduct of operations, including trade receivables, inventories, and advances from customers, and (3) cash paid for income taxes of ¥1.9 billion, compared with payments of ¥8.6 billion in the previous fiscal year.

Net cash used in investing activities amounted to ¥20.7 billion, compared with ¥46.6 billion for the prior year. Principal cash inflows were (1) net recoveries of short- and long-term loans of ¥3.0 billion, compared with net outflows of ¥5.9 billion in the previous fiscal year and (2) net inflows from the sale of securities of ¥8.3 billion, which had no corresponding item in the previous fiscal year, after offsetting cash outflows for purchase of shares of newly consolidated subsidiaries. The principal cash outflow item was expenditures of ¥33.0 billion, compared with ¥37.5 billion for the previous fiscal year, for the acquisition of property, plant and equipment related to the Group's capital investment activities.

Net cash provided by financing activities was ¥3.6 billion, compared with ¥39.7 billion for the previous fiscal year. The principal financial cash inflow items were a net increase in short-term and long-term debt of ¥3.6 billion, compared with ¥44.0 billion for the previous fiscal year. The substantial decline in net new borrowings for the fiscal year under review was due to borrowings made in advance of actual capital investments in the previous fiscal year. Other financial cash outflows for the previous fiscal year included ¥4.2 billion in cash dividends, compared with no such payments for the fiscal year under review.

Consolidated Balance Sheets

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries As of March 31, 2001 and 2000

ASSETS	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 1) 2001
Current assets:			
Cash on hand and in banks	**¥ 77,048**	¥ 85,782	**$ 621,856**
Marketable securities (Note 5)	**—**	46,021	**—**
Receivables (Note 5):			
Trade	**418,064**	397,616	**3,374,205**
Other	**12,942**	16,304	**104,455**
Allowance for doubtful receivables	**(5,076)**	(3,375)	**(40,968)**
	425,930	410,545	**3,437,692**
Inventories (Notes 4 and 5)	**346,567**	316,529	**2,797,151**
Deferred tax assets (Note 9)	**14,922**	4,216	**120,436**
Other current assets	**19,830**	16,345	**160,049**
Total current assets	**884,297**	879,438	**7,137,184**
Investments and long-term loans:			
Investments in securities (Notes 3 and 10)	**91,154**	32,136	**735,706**
Long-term loans	**4,882**	8,716	**39,403**
Other (Note 5)	**15,355**	13,734	**123,930**
Allowance for doubtful receivables	**(4,173)**	(7,327)	**(33,680)**
Total investments and long-term loans	**107,218**	47,259	**865,359**
Property, plant and equipment (Note 5):			
Land	**53,018**	50,822	**427,909**
Buildings	**248,388**	244,103	**2,004,746**
Machinery and equipment	**452,840**	443,876	**3,654,883**
Construction in progress	**3,572**	5,829	**28,830**
	757,818	744,630	**6,116,368**
Accumulated depreciation	**(515,925)**	(499,352)	**(4,164,044)**
Net property, plant and equipment	**241,893**	245,278	**1,952,324**
Intangible and other assets:			
Deferred tax assets (Note 9)	**4,924**	9,315	**39,742**
Intangible and other assets	**9,140**	7,676	**73,769**
	14,064	16,991	**113,511**
Foreign currency translation adjustments	**—**	17,840	**—**
Total assets	**¥1,247,472**	¥1,206,806	**$10,068,378**

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2001	Millions of yen 2000	Thousands of U.S. dollars (Note 1) 2001
Current liabilities:			
Short-term borrowings and current portion of long-term debt (Note 5)	**¥ 228,462**	¥ 222,302	**$ 1,843,923**
Trade payables	**326,257**	310,557	**2,633,228**
Advances from customers	**104,194**	86,012	**840,952**
Accrued income taxes (Note 9)	**3,393**	2,441	**27,385**
Accrued expenses	**15,583**	19,549	**125,771**
Provision for product warranty	**1,551**	1,648	**12,518**
Provision for losses on construction contracts	**6,571**	3,794	**53,035**
Deferred tax liabilities (Note 9)	**457**	515	**3,689**
Other current liabilities	**49,252**	44,217	**397,514**
Total current liabilities	**735,720**	691,035	**5,938,015**
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	**270,605**	264,048	**2,184,060**
Employees' retirement and severance benefits (Note 14)	**56,331**	56,669	**454,649**
Directors' and statutory auditors' retirement and severance benefits	**1,388**	1,663	**11,203**
Deferred tax liabilities (Note 9)	**4,654**	2,705	**37,562**
Other	**10,025**	9,313	**80,912**
Total long-term liabilities	**343,003**	334,398	**2,768,386**
Contingent liabilities (Note 11)			
Minority interests	**4,668**	6,418	**37,675**
Shareholders' equity (Note 6):			
Common stock of ¥50 par value:			
Authorized—3,360,000,000 shares			
Issued—1,390,595,964 shares	**81,427**	81,427	**657,199**
Capital surplus	**24,682**	24,682	**199,209**
Retained earnings	**58,452**	68,846	**471,768**
Net unrealized gains on securities	**13,091**	—	**105,658**
Foreign currency translation adjustments	**(13,571)**	—	**(109,532)**
Treasury stock	**—**	—	**—**
Total shareholders' equity	**164,081**	174,955	**1,324,302**
Total liabilities and shareholders' equity	**¥1,247,472**	¥1,206,806	**$10,068,378**

Consolidated Statements of Operations

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries For the three years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	**2001**
Net sales	**¥1,060,479**	¥1,149,698	¥1,202,189	**$8,559,152**
Cost of sales	**924,522**	1,008,860	1,045,143	**7,461,840**
Gross profit	**135,957**	140,838	157,046	**1,097,312**
Selling, general and administrative expenses (Note 7)	**131,497**	139,587	135,380	**1,061,315**
Operating income	**4,460**	1,251	21,666	**35,997**
Other income (expenses):				
Interest and dividend income	**4,480**	4,274	5,495	**36,158**
Equity in income (loss) of unconsolidated subsidiaries and affiliates	**(1,586)**	(654)	683	**(12,800)**
Interest expense	**(12,779)**	(11,782)	(12,646)	**(103,140)**
Other, net (Note 8)	**(12,981)**	(15,819)	(15,723)	**(104,770)**
Loss before income taxes and minority interests	**(18,406)**	(22,730)	(525)	**(148,555)**
Income taxes (Note 9):				
Current	**(5,609)**	(5,899)	(9,358)	**(45,270)**
Deferred	**13,309**	9,466	2,943	**107,417**
Minority interests in net loss of consolidated subsidiaries	**386**	531	808	**3,115**
Net loss	**¥ (10,320)**	¥ (18,632)	¥ (6,132)	**$ (83,293)**

	Yen			U.S. dollars (Note 1)
Per share amounts (Note 2(w)):				
Net loss	**¥(7.4)**	¥(13.4)	¥(4.4)	**$(0.06)**
Cash dividends	**—**	—	6.0	**—**

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

Consolidated Statements of Shareholders' Equity

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries For the three years ended March 31, 2001, 2000 and 1999

	Thousands	Millions of yen					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 1998	1,390,596	¥81,427	¥24,682	¥102,931	¥ —	¥ —	¥—
Net loss for the year	—	—	—	(6,132)	—	—	—
Cumulative effect of adopting tax effect accounting	—	—	—	5,652	—	—	—
Increase in retained earnings arising from affiliates newly accounted for by the equity method	—	—	—	65	—	—	—
Merger of unconsolidated subsidiaries with consolidated subsidiary	—	—	—	24	—	—	—
Adjustment for changes of interests in affiliates accounted for by the equity method	—	—	—	(406)	—	—	—
Cash dividends	—	—	—	(8,344)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(262)	—	—	—
Balance at March 31, 1999	1,390,596	81,427	24,682	93,528	—	—	—
Net loss for the year	—	—	—	(18,632)	—	—	—
Increase in retained earnings arising from newly consolidated subsidiaries	—	—	—	2,677	—	—	—
Increase in retained earnings arising from affiliates newly accounted for by the equity method	—	—	—	34	—	—	—
Decrease due to companies ceasing to be affiliates accounted for by the equity method	—	—	—	(3,996)	—	—	—
Decrease due to merger of unconsolidated subsidiaries with consolidated subsidiary	—	—	—	(357)	—	—	—
Adjustment for changes of interests in affiliates accounted for by the equity method	—	—	—	(64)	—	—	—
Cash dividends	—	—	—	(4,172)	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(172)	—	—	—
Balance at March 31, 2000	1,390,596	81,427	24,682	68,846	—	—	—
Net loss for the year	—	—	—	**(10,320)**	—	—	—
Adjustment for changes of interests in affiliates accounted for by the equity method	—	—	—	**(17)**	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	**(13,571)**	—
Adoption of new accounting standard for financial instruments	—	—	—	—	**13,091**	—	—
Treasury stock	—	—	—	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	**(57)**	—	—	—
Balance at March 31, 2001	**1,390,596**	**¥81,427**	**¥24,682**	**¥ 58,452**	**¥13,091**	**¥(13,571)**	**¥—**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2000	$657,199	$199,209	$555,658	$ —	$ —	$—
Net loss for the year	—	—	**(83,293)**	—	—	—
Adjustment for changes of interests in affiliates accounted for by the equity method	—	—	**(137)**	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	**(109,532)**	—
Adoption of new accounting standard for financial instruments	—	—	—	**105,658**	—	—
Treasury stock	—	—	—	—	—	—
Bonuses to directors and statutory auditors	—	—	**(460)**	—	—	—
Balance at March 31, 2001	**$657,199**	**$199,209**	**$471,768**	**$105,658**	**$(109,532)**	**$—**

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

Consolidated Statements of Cash Flows

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries For the three years ended March 31, 2001, 2000 and 1999

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2001	2000	1999	**2001**
Cash flows from operating activities:				
Loss before income taxes and minority interests	**¥(18,406)**	¥(22,730)	¥ (525)	**$(148,555)**
Adjustments to reconcile loss before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	**33,303**	35,081	34,607	**268,789**
Provision for (reversal of) retirement and severance benefits	**(634)**	3,479	1,842	**(5,117)**
Accrued bonuses	**(3,995)**	(3,419)	186	**(32,244)**
Provision for (reversal of) losses on construction contracts	**6,190**	(4,111)	5,784	**49,960**
Write-downs of securities and others	**5,714**	3,031	—	**46,118**
Provision for (reversal of) allowance for doubtful accounts	**(1,380)**	4,765	876	**(11,138)**
Interest and dividend income	**(4,480)**	(4,274)	(5,495)	**(36,158)**
Interest expense	**12,779**	11,782	12,646	**103,139**
Gain on sale of marketable & investments securities	**(4,975)**	(266)	1,077	**(40,153)**
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	**(11,850)**	3,583	6,985	**(95,642)**
Inventories	**(23,480)**	21,447	3,471	**(189,508)**
Other current assets	**(441)**	(5,615)	1,258	**(3,559)**
Increase (decrease) in:				
Trade payables	**9,092**	(2,911)	(5,346)	**73,382**
Advances received	**17,384**	5,972	(16,294)	**140,307**
Other current liabilities	**1,977**	38	2,552	**15,956**
Other, net	**520**	1,151	1,722	**4,197**
Sub total	**17,318**	47,003	45,346	**139,774**
Cash received for interest and dividends	**5,447**	4,122	6,562	**43,963**
Cash paid for interest	**(11,636)**	(11,270)	(12,380)	**(93,914)**
Cash paid for income taxes	**(1,893)**	(8,623)	(17,181)	**(15,278)**
Net cash provided by operating activities	**9,236**	31,232	22,347	**74,545**
Cash flows from investing activities:				
Acquisition of property, plant and equipment	**(32,967)**	(37,513)	(40,428)	**(266,077)**
Proceeds from sale of investments in securities	**10,673**	—	—	**86,142**
Decrease in short-term loans	**1,415**	—	—	**11,420**
Additions to long-term loans receivable	**(1,693)**	(5,866)	(406)	**(13,664)**
Proceeds from collection of long-term loans receivable	**3,241**	—	—	**26,158**
Payment for purchase of newly consolidated subsidiaries' stock	**(2,375)**	—	—	**(19,169)**
Other	**973**	(3,200)	(2,546)	**7,853**
Net cash used for investing activities	**(20,733)**	(46,579)	(43,380)	**(167,337)**
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	**1,497**	(4,643)	(6,514)	**12,082**
Proceeds from long-term debt	**40,840**	88,368	54,894	**329,621**
Repayment of long-term debt	**(38,689)**	(39,719)	(37,681)	**(312,260)**
Cash dividends paid	**(9)**	(4,203)	(8,310)	**(73)**
Cash dividends paid to minority interests	**(56)**	(64)	(62)	**(452)**
Net cash provided by financing activities	**3,583**	39,739	2,327	**28,918**
Effect of exchange rate changes	**966**	(1,408)	(946)	**7,797**
Net increase (decrease) in cash and cash equivalents	**(6,948)**	22,984	(19,652)	**(56,077)**
Cash and cash equivalents at beginning of year	**82,160**	54,837	74,489	**663,115**
Increase in cash and cash equivalents arising from newly consolidated subsidiaries	**—**	4,339	—	**—**
Cash and cash equivalents at end of year	**¥ 75,212**	¥82,160	¥54,837	**$ 607,038**
Supplemental information on cash flows:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheet	**¥ 77,048**	¥85,782	¥55,306	**$ 621,856**
Time deposits with maturities over three months	**(1,836)**	(3,622)	(469)	**(14,818)**
Total	**¥ 75,212**	¥82,160	¥54,837	**$ 607,038**

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

1. Basis of presenting consolidated financial statements

Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated cash flow statement for 1999 and statements of shareholders' equity for 2001, 2000 and 1999 have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements were not customarily prepared in Japan and not required to be filed with the regulatory authorities.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2001, which was ¥123.90 to US$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

(a) Consolidation

The Company prepared the consolidated financial statements for the years ended March 31, 2001 and 2000 in accordance with the revised Accounting Principles for Consolidated Financial Statements (the "Revised Accounting Principles") effective from the year ended March 31, 2000.

The accompanying consolidated financial statements include the accounts of the Company and significant companies, over which the Company has power of control through majority voting right or existence of certain conditions evidencing control by the Company. Investments in non-consolidated subsidiaries and affiliates, over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for on the equity method. The effect of adopting the Revised Accounting Principles is immaterial.

The consolidated financial statements include the accounts of the Company and 105 (112 in 2000 and 65 in 1999) subsidiaries.

For the year ended March 31, 2001, 4 (4 in 2000 and 58 in 1999) subsidiaries are excluded from the consolidation. The amounts of total assets, net sales, net income and retained earnings of these excluded subsidiaries, in the aggregate, would not have had a material effect on the consolidated financial statements.

(b) Application of the equity method of accounting

For the year ended March 31, 2001, 18 (20 in 2000 and 12 in 1999) affiliates are accounted for by the equity method.

For the year ended March 31, 2001, investments in 4 (4 in 2000 and 58 in 1999) unconsolidated subsidiaries and 12 (14 in 2000 and 22 in 1999) affiliates, respectively, are stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the amounts of net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-ends

Fiscal year-ends of 32 (29 in 2000 and 20 in 1999) consolidated subsidiaries end on December 31. The Company consolidates such subsidiaries' financial statements as of each subsidiary's latest year-end. Unusual significant transactions for the period between each subsidiary's year-end and the Company's year-end are adjusted on consolidation.

(d) Elimination of inter-company transactions and accounts
All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated on consolidation, and the portion thereof attributable to minority interests is credited to minority interests.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

When the excess of cost over equity is considered significant, it is amortized to income by the straight-line method over five years. Otherwise, it is charged to income in the year of acquisition or the year newly included in consolidation.

(e) Foreign currency translation
Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payable denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

The effect on the consolidated statement of operations of adopting the Revised Accounting Standard was immaterial.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for shareholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company.

Due to the adoption of the Revised Accounting Standard, the Company and its domestic subsidiaries report foreign currency translation adjustments in shareholders' equity (and minority interests). The prior year's amount, which is included in assets, has not been reclassified.

(f) Appropriations of retained earnings
Appropriations of retained earnings are recorded in the fiscal year when the proposed appropriations are approved.

(g) Revenue recognition
Sales are principally recognized at the time of completion of the contracts. However, the percentage-of-completion method is applied to long-term contracts exceeding ¥5,000 million.

(h) Consolidated statements of cash flows
In accordance with the "Standards for Preparation of Consolidated Cash Flow Statement, etc."(the "New Standards"), effective from the year ended March 31, 2000, the Company is required to prepare consolidated cash flow statements. The 1999 consolidated cash flow statement, which was prepared for readers outside Japan although such statement was not required, has been restated to conform to the New Standards.

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

(j) Allowance for doubtful receivables
Effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, possible losses from notes and accounts receivable, loans and other receivables are provided for based on past experience rate and the Companies' estimates of losses on collection.

As a result of adopting the new accounting standard for financial instruments, loss before income taxes and minority interests increased ¥2,983 million ($24,076 thousand) compared with the amounts which would have been recognized under the previous method of accounting.

(k) Inventories

Inventories are stated at cost, as determined principally by the specific identification cost method, the first-in, first-out method or the moving-average method.

(l) Assets and liabilities arising from derivative transactions

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

(m) Investments in securities

Prior to April 1, 2000, securities of the Company and its consolidated subsidiaries were stated at moving-average cost.

Effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new Japanese accounting standard for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999).

Upon applying the new accounting standard, the Company and its consolidated domestic subsidiaries examined the intent of holding each security and classified those securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) for all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2001.

Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Other securities with no available fair market value are stated at moving-average cost.

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

As a result of adopting the new accounting standard for financial instruments, loss before income taxes and minority interests increased ¥2,731 million ($22,042 thousand) compared with the amounts which would have been recognized under the previous method of accounting. Also, based on the examination of the intent of holding each security upon application of the new accounting standard on April 1, 2000, held-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets.

As a result, at April 1, 2000, securities in current assets decreased by ¥45,875 million ($370,258 thousand) and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.

(n) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed principally by the declining-balance method over estimated useful lives.

(o) Intangible assets

Amortization of intangible assets is computed by the straight-line method.

(p) Provision for product warranty

Expected future product warranty costs are provided for ships and consumer products.

(q) Provision for losses on construction contracts

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

(Change in accounting policy)

Effective for the year ended March 31, 2001, the Company changed its accounting policy for the provision for losses on uncompleted construction contracts. Previously, it was applied only for the subsidiary in the United States based on U.S. GAAP.

The Company made this change in accounting policy following the preparation of its Medium-Term Business Plan in November 2000 and as a result of a review of construction contracts at the end of the year, which led to the judgment that factors of losses on construction contracts are increasing. In view of these circumstances, this change was deemed prudent to increase the soundness of the Company's financial position and substantially better reflect profitability.

As a result of this change, loss before income taxes and minority interests increased ¥6,190 million ($49,959 thousand) compared with the amounts which would have been recognized under the previous method of accounting.

(r) Bond issue expenses

Bond issue expenses are charged to income as incurred.

(s) Income taxes

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

(t) Retirement and severance benefits

Employees who terminate their services with the Company and its domestic consolidated subsidiaries are generally entitled to lump-sum payments, the amounts of which are determined by reference to their current basic rates of pay and length of service. At March 31, 2000, the Company and its domestic consolidated subsidiaries provided for 40 percent of the amount which would be required to be paid if all eligible employees voluntarily terminated their services at the balance sheet date.

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16, 1998 (the "New Accounting Standard"). Under the New Accounting Standard, the liabilities and expenses for retirement and severance benefits are determined based on the amounts actuarially calculated using certain assumptions. The Company and its domestic consolidated subsidiaries provided allowance for employees' retirement and severance benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation at that date.

The excess of the projected benefit obligation over the liabilities for retirement and severance benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥130,928 million ($1,056,723 thousand), which will be recognized in expenses in equal amounts primarily over 10 years commencing with the year ended March 31, 2001. Actuarial gains and losses are recognized in expenses in equal amounts over the average of the estimated remaining service lives of the employees commencing with the following period. As a result of the adoption of the New Accounting Standard, in the year ended March 31, 2001, retirement and severance benefit expenses increased by ¥2,935 million ($23,688 thousand), operating income decreased by ¥1,215 million ($9,806 thousand) and loss before income taxes and minority interests increased by ¥2,793 million ($22,542 thousand) compared with what would have been recorded under the previous accounting standard.

Employees of the Company's overseas consolidated subsidiaries are generally covered by various pension plans, accounted for in accordance with generally accepted accounting principles in the country of incorporation. In addition, the Company and its domestic consolidated subsidiaries provide for retirement and severance benefits for directors and statutory auditors principally at 50 percent of the amount required if they retired at the balance sheet date.

Due to the adoption of the Revised Accounting Principles, the Company and its domestic subsidiaries report Employees' retirement and severance benefits. The prior year's amount, which is included in Retirement and severance benefits, has not been reclassified.

(u) Hedge accounting

The Company and its consolidated subsidiaries employ deferred hedge accounting. If financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of financial instruments until the related losses or gains on the hedged items are recognized.

(v) Finance leases

For the Company and its domestic consolidated subsidiaries, finance leases which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

(w) Per share amounts of net income (loss) and cash dividends

The computations of per share amounts of net income (loss) shown in the consolidated statements of operations are based upon the weighted average number of issued shares outstanding during each period.

Per share amounts of cash dividends for each period represent dividends declared as applicable to the respective year.

(x) Reclassifications

Certain prior year amounts have been reclassified to conform to 2001 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Securities

(a) Acquisition costs, book values and fair value of investments in securities with available fair values as of March 31, 2001 is as follows:

	Millions of yen			Thousands of U.S. dollars
	Acquisition cost	Book values	Difference	Difference
Available-for-sale securities:				
Securities with book values exceeding acquisition costs:				
Equity securities	¥35,613	¥63,087	¥27,474	$221,743
Others	95	95	—	—
Total	¥35,708	¥63,182	¥27,474	$221,743
Other securities:				
Equity securities	¥10,417	¥ 5,942	¥ (4,475)	$ (36,118)
Total	¥46,125	¥69,124	¥22,999	$185,625

(b) Book values of investments in securities with no available fair values as of March 31, 2001 is as follows:

	Millions of yen	Thousands of U.S. dollars
	Book values	Book values
Held-to-maturity debt securities:		
Non-listed securities	¥ 20	$ 161
Available-for-sale securities:		
Equity securities	¥6,164	$49,750
Others	448	3,616
Total	¥6,612	$53,366
Equity securities issued by non-consolidated subsidiaries and affiliated companies:		
Subsidiaries	¥ 19	$ 153
Affiliated companies	3,167	25,561
Total	¥3,186	$25,714

(c) Market values, book values and unrealized and unrecognized gains of quoted securities as of March 31, 2000 is as follows:

	Millions of yen
Market values:	
Marketable securities	¥77,611
Investments in securities:	
Subsidiaries and affiliates	4,770
Others	136
	¥82,517
Book values:	
Marketable securities	¥45,867
Investments in securities:	
Subsidiaries and affiliates	8,134
Others	104
	54,105
Unrealized and unrecognized gains	¥28,412

4. Inventories

Inventories as of March 31, 2001 and 2000 are comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Finished products	**¥ 50,747**	¥ 44,006	**$ 409,580**
Work in process	**259,053**	235,050	**2,090,823**
Raw materials and supplies	**36,767**	37,473	**296,748**
Total	**¥346,567**	¥316,529	**$2,797,151**

5. Short-term borrowings and long-term debt

Short-term borrowings and long-term debt as of March 31, 2001 and 2000 are comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Short-term borrowings:			
Short-term debt, principally bank loans and commercial paper	**¥196,535**	¥187,211	**$1,586,239**
Current portion of long-term debt	**31,927**	35,091	**257,684**
Total short-term debt	**¥228,462**	¥222,302	**$1,843,923**
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2001 to 2035, bearing interest ranging from 0.495 percent to 12.0 percent and from 0.57 percent to 7.9 percent as of March 31, 2001 and 2000, respectively	**¥101,635**	¥108,242	**$ 820,299**
2.50 percent notes due 2000	**—**	10,000	**—**
2.55 percent notes due 2001	**10,000**	10,000	**80,710**
1.00 percent notes due 2002	**10,000**	10,000	**80,710**
1.05-2.00 percent notes due 2003	**20,000**	20,000	**161,421**
1.94 percent notes due 2004	**20,000**	20,000	**161,421**
1.50-1.67 percent notes due 2005	**20,000**	10,000	**161,421**
1.87 percent notes due 2006	**10,000**	10,000	**80,710**
2.00 percent notes due 2007	**10,000**	—	**80,710**
2.51-2.775 percent notes due 2008	**20,000**	20,000	**161,421**
2.33 percent notes due 2009	**10,000**	10,000	**80,710**
0.80 percent convertible bonds due 2001	**8,573**	8,573	**69,193**
0.65-0.90 percent convertible bonds due 2003	**19,079**	19,079	**153,987**
0.75 percent convertible bonds due 2005	**9,609**	9,609	**77,554**
1.10 percent convertible bonds due 2006	**17,118**	17,118	**138,160**
0.90 percent convertible bonds due 2008	**8,926**	8,926	**72,042**
1.00 percent convertible bonds due 2011	**7,592**	7,592	**61,275**
	302,532	299,139	**2,441,744**
Less portion due within one year	**(31,927)**	(35,091)	**(257,684)**
Total long-term debt	**¥270,605**	¥264,048	**$2,184,060**

The convertible bonds due 2001 through 2011 as of March 31, 2000 were convertible into 136,908,609 shares of common stock at the option of the holders at prices of ¥459 ($3.70) or ¥598 ($4.83) per share. The conversion prices are subject to adjustments under specified conditions.

As of March 31, 2001 and 2000, the following assets were pledged as collateral for short-term borrowing and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Trade receivables	**¥ 556**	¥ —	**$ 4,488**
Marketable securities	**—**	177	**—**
Inventories	**12,301**	6,144	**99,282**
Land	**5,845**	6,247	**47,175**
Buildings	**6,551**	6,635	**52,873**
Machinery and equipment	**400**	491	**3,228**
Other	**154**	233	**1,243**
Total	**¥25,807**	¥19,927	**$208,289**

As of March 31, 2001 and 2000, debt secured by the above pledged assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Trade payables	**¥ 53**	¥ 97	**$ 428**
Short-term and long-term debt	**23,780**	18,940	**191,929**
Total	**¥23,833**	¥19,037	**$192,357**

The aggregate annual maturities of long-term debt as of March 31, 2001 are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2002	¥ 31,927	$ 257,684
2003	37,606	303,519
2004	45,734	369,120
2005	36,626	295,610
2006 and thereafter	150,639	1,215,811
Total	¥302,532	$2,441,744

6. Shareholders' equity

(a) Capital surplus

The Commercial Code of Japan provides that the entire issue price of new shares must be credited to common stock, provided that, by resolution of the Board of Directors, up to one-half of such issue price may be credited to capital surplus so long as the common stock is equal to at least the aggregate par value of the shares issued.

(b) Dividends

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Commercial Code of Japan.

(c) Restrictions on dividends

Under the terms of indentures for certain notes and convertible bonds due through 2006, cumulative cash dividend payments by the Company are not to exceed an amount equivalent to accumulated net income of the Company earned during the years such securities are outstanding plus ¥10,000 million (for certain indentures ¥10,100 million).

7. Research and development expenses

Research and development expenses for the years ended March 31, 2001, 2000 and 1999 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Research and development expenses	**¥17,548**	¥19,905	¥18,615	**$141,630**

8. Other income (expenses): other, net

Other income (expenses): other, net in the consolidated statements of operations is comprised as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Gain (loss) on sales of marketable securities and investments in securities	**¥ 4,975**	¥ 266	¥ (1,077)	**$ 40,153**
Foreign exchange gain (loss), net	**3,097**	(7,774)	(11,411)	**24,996**
Provision for losses on construction contract	**(6,190)**	—	—	**(49,960)**
Write-downs of securities and others	**(5,714)**	(3,917)	—	**(46,118)**
Expenses for net transition obligation of retirement and severance benefits	**(1,578)**	—	—	**(12,736)**
Expenses for making structural improvements	**(3,470)**	—	—	**(28,006)**
Gain on cancellation of the shipbuilding contracts	**—**	2,053	—	**—**
Prior-period retirement allowances	**—**	(2,744)	—	**—**
Other, net	**(4,101)**	(3,703)	(3,235)	**(33,099)**
Total	**¥(12,981)**	¥(15,819)	¥(15,723)	**$(104,770)**

Expenses for making structural improvements are consolidation of production facilities for steel structures and special additional retirement allowance.

9. Income taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax (national tax) and enterprise tax and inhabitants' taxes (local taxes) which, in the aggregate, result in normal statutory tax rates of approximately 41.9 percent for the years ended March 31, 2001 and 2000.

Significant components of deferred tax assets and liabilities as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Deferred tax assets:			
Excess bonuses accrued	**¥ 2,574**	¥ 2,085	**$ 20,775**
Retirement benefits	**10,289**	5,872	**83,043**
Estimated loss on uncompleted contracts	**2,759**	1,653	**22,268**
Allowance for doubtful receivables	**2,786**	2,868	**22,486**
Fixed assets—inter-company profits	**1,128**	1,046	**9,104**
Depreciation	**1,014**	999	**8,184**
Net operating loss carryforwards	**11,150**	4,844	**89,992**
Write-down of marketable securities, investments in securities and others	**904**	—	**7,296**
Other	**7,620**	6,499	**61,501**
Gross deferred tax assets	**40,224**	25,866	**324,649**
Less—valuation allowance	**(8,084)**	(7,702)	**(65,246)**
Total deferred tax assets	**32,140**	18,164	**259,403**
Deferred tax liabilities:			
Deferral of gain on sale of fixed assets	**3,985**	1,997	**32,163**
Net unrealized gain on securities	**9,637**	—	**77,780**
Unrealized gain on uncompleted contracts	**—**	1,430	**—**
Other	**3,783**	4,426	**30,533**
Total deferred tax liabilities	**17,405**	7,853	**140,476**
Net deferred tax assets	**¥14,735**	¥10,311	**$118,927**

10. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Investments in securities	**¥15,399**	¥23,102	**$124,286**

11. Contingent liabilities

Contingent liabilities as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
As drawer of trade notes discounted	**¥ 916**	¥ 355	**$ 7,393**
As endorser of trade notes	**34**	36	**274**
As guarantor of indebtedness of employees, unconsolidated subsidiaries and affiliates, and others	**38,854**	40,642	**313,592**

12. Finance leases

Finance lease information, as required to be disclosed in Japan, for the respective years is as follows:

(a) As lessee

The original cost of leased assets under non-capitalized finance leases and accumulated depreciation, assuming it is calculated on the straight-line method over lease terms, as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Property, plant and equipment	**¥15,324**	¥13,793	**$123,680**
Accumulated depreciation	**(7,333)**	(6,816)	**(59,185)**
	¥ 7,991	¥ 6,977	**$ 64,495**
Intangible assets	**¥ 725**	¥ 379	**$ 5,851**
Accumulated amortization	**(340)**	(261)	**(2,744)**
	¥ 385	¥ 118	**$ 3,107**

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Current portion	**¥2,825**	¥2,556	**$22,801**
Non-current portion	**5,722**	4,715	**46,182**
Total	**¥8,547**	¥7,271	**$68,983**

Lease payments and "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases are as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Lease payments	**¥3,504**	¥3,076	¥3,094	**$28,281**
Depreciation and amortization	**3,243**	2,862	3,058	**26,174**
Interest	**232**	230	277	**1,872**

(b) As lessor

The original cost of leased assets under finance leases and accumulated depreciation, as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Property, plant and equipment	**¥1,335**	¥1,295	**$10,775**
Accumulated depreciation	**(706)**	(714)	**(5,698)**
	¥ 629	¥ 581	**$ 5,077**

The present values of future minimum lease payments to be received under finance leases as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Current portion	**¥202**	¥173	**$1,630**
Non-current portion	**471**	489	**3,802**
Total	**¥673**	¥662	**$5,432**

Lease payments received, depreciation and amortization and interest on finance leases are as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Lease payments received	**¥223**	¥218	¥325	**$1,800**
Depreciation and amortization	**181**	147	276	**1,461**
Interest	**37**	38	50	**299**

13. Operating leases

The present values of future minimum lease payments under operating leases as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Current portion	**¥ 48**	¥ 50	**$ 388**
Non-current portion	**131**	178	**1,057**
Total	**¥179**	¥228	**$1,445**

14. Employees' severance and pension benefits

The liability for employees' retirement and severance benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consists of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥180,860	$1,459,726
Unrecognized actuarial differences	(4,090)	(33,011)
Less fair value of pension assets	(4,182)	(33,753)
Less unrecognized net transition obligation	(116,497)	(940,250)
Prepaid pension cost	240	1,937
Allowance for retirement and severance benefits	¥ 56,331	$454,649

Retirement and severance benefit expenses in the consolidated statements of operations for the year end of March 31, 2001 are comprised as follows:

	Millions of yen	Thousands of U.S. dollars
Service costs—benefits earned during the year	¥ 8,700	$ 70,218
Interest cost on projected benefit obligation	6,532	52,720
Expected return on plan assets	(304)	(2,454)
Amortization of net transition obligation	14,431	116,473
Special additional retirement allowance	1,687	13,616
Retirement and severance benefit expenses	¥31,046	$250,573

The discount rate and the rate of expected return on plan assets are primarily 3.5 and 8.5 percent, respectively. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in expenses in equal amounts over 10 to 15 years commencing with the following period.

15. Derivative transactions

Since the Company and its consolidated subsidiaries operate internationally and have a substantial volume of export and import transactions, they enter into foreign currency exchange and option transactions in order to manage risk of fluctuations in exchange rates in relation to foreign currency denominated assets, liabilities and future transactions.

The Company and its consolidated subsidiaries also enter into interest swap and option transactions to hedge against future fluctuations in interest rates on borrowings, primarily to fix, cap or collar interest rates on variable rate debt.

The Company and its consolidated subsidiaries' purpose for purchasing derivatives is to hedge against risks of fluctuations in currency exchange rates and interest rates rather to than be exposed to such risks through dealing or speculation.

For derivative transactions that meet the conditions for hedge accounting based on the standards for accounting for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999), the Company and its consolidated subsidiaries apply hedge accounting principles.

In order to minimize credit risk, the Company and its consolidated subsidiaries use only highly-rated international financial institutions as counterparty to derivative transactions.

The Company and its consolidated subsidiaries have established policies that restrict the use of derivative instruments, including limits as to the purpose, nature, type and amount, and that require reporting and review in order to control the use of derivatives and manage risk.

(a) Outstanding positions and recognized gains and losses at March 31, 2001 are as follows:

	Millions of yen			Thousands of U.S. dollars
	Contract amount	Market value	Gain (loss)	Gain (loss)
Currency related contracts:				
Foreign exchange contracts:				
To sell	¥84,977	¥90,558	¥(5,581)	$(45,047)
To purchase	7,364	7,787	423	3,412
Total			¥(5,158)	$(41,635)
Interest rate related contracts:				
Option contracts				
Collar purchase	¥10,000	¥ (116)	¥ (115)	$ (928)

Effective April 1, 2000, the Company and its consolidated subsidiaries adopted the new Japanese accounting standard for financial instruments and changed their method of accounting for derivatives from non-recognition of derivatives not accounted for as hedges to recognition at market value as of the balance sheet date. Also, those transactions that were accounted for as hedges and excluded from disclosure in the notes in the previous year, have been disclosed in the notes for the current year.

In addition, foreign currency monetary assets and liabilities are now converted at the exchange rates prevailing on the balance sheet date. Gains (losses) due to the valuation of derivatives at market value and gains (losses) on revaluation of foreign currency assets and liabilities are first recognized individually and then offset against one another in the consolidated statements of operations to show the net effect.

For derivative transactions arranged in connection with scheduled transactions, the Company and its consolidated subsidiaries have applied hedge accounting from the current year, and these have been excluded from disclosure.

(b) Outstanding positions and unrealized and unrecognized gains and losses at March 31, 2000 are as follows:

		Millions of yen	
		Contract amount	Unrealized gain (loss)
Currency related contracts:			
Foreign exchange contracts:			
Sell	U.S. dollars	¥ 291	¥ 8
	Other currencies	240	3
Purchase	German marks	640	(66)
	U.S. dollars	570	9
	Pounds	515	13
	Euro	423	(10)
	Other currencies	1,003	(101)
Option contracts:			
Sell option			
Call	U.S. dollars	6,635	59
Purchase options			
Put	U.S. dollars	6,300	(39)
Total			¥(124)
Interest rate related contracts:			
Option contracts:			
Collar purchase		¥ 3,000	¥ (8)
Swap contracts:			
Receive fixed for variable rates		—	—
Receive variable for fixed rates		92,000	(977)
Total			¥(985)

16. Segment information

Industry segments of the Company and its consolidated subsidiaries are classified into Transportation Equipment, Aerospace, Industrial Equipment, Consumer Products and Other.

The Transportation Equipment segment manufactures and sells ships and rolling stock. Operations within the Aerospace segment include the production and sale of airplanes, helicopters, gas turbines and airplane engines. Products manufactured and sold by the Industrial Equipment segment include boilers, prime movers, hydraulic, crushing, and construction machines, chemical and steelmaking plants, refuse incineration plants, steel bridges and hospital respiration equipment. The Consumer Products segment manufactures and sells motorcycles, ATVs (All-Terrain Vehicles) and Jet Ski® watercraft. Operations in the Other segment involve trade, mediation of overseas sales and orders and other activities.

(a) Information by industry segment

Millions of yen

2001	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Transportation equipment	**¥ 159,702**	**¥ 1,611**	**¥ 161,313**	**¥ 163,425**	**¥ (2,112)**	**¥ 185,427**	**¥ 3,466**	**¥ 2,525**
Aerospace	**207,933**	**8,351**	**216,284**	**206,343**	**9,941**	**226,174**	**5,182**	**5,861**
Industrial equipment	**327,650**	**41,611**	**369,261**	**380,274**	**(11,013)**	**403,929**	**8,549**	**5,119**
Consumer products	**275,903**	**3,374**	**279,277**	**272,798**	**6,479**	**260,143**	**11,304**	**14,110**
Other	**89,291**	**34,709**	**124,000**	**122,907**	**1,093**	**174,098**	**2,482**	**1,621**
Total	**1,060,479**	**89,656**	**1,150,135**	**1,145,747**	**4,388**	**1,249,771**	**30,983**	**29,236**
Eliminations and corporate	**—**	**(89,656)**	**(89,656)**	**(89,728)**	**72**	**(2,299)**	**2,320**	**3,451**
Consolidated total	**¥1,060,479**	**¥ —**	**¥1,060,479**	**¥1,056,019**	**¥ 4,460**	**¥1,247,472**	**¥33,303**	**¥32,687**

Millions of yen

2000	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Transportation equipment	¥ 164,942	¥ 1,857	¥ 166,799	¥ 176,534	¥ (9,735)	¥ 159,783	¥ 3,680	¥ 2,794
Aerospace	240,072	7,400	247,472	236,264	11,208	226,552	4,953	7,297
Industrial equipment	397,240	31,082	428,322	440,013	(11,691)	417,365	9,511	7,817
Consumer products	277,176	1,986	279,162	269,621	9,541	208,780	11,095	16,485
Other	70,268	43,499	113,767	112,108	1,659	133,706	3,152	3,904
Total	1,149,698	85,824	1,235,522	1,234,540	982	1,146,186	32,391	38,297
Eliminations and corporate	—	(85,824)	(85,824)	(86,093)	269	60,620	2,690	1,388
Consolidated total	¥1,149,698	¥ —	¥1,149,698	¥1,148,447	¥ 1,251	¥1,206,806	¥35,081	¥39,685

Millions of yen

1999	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Transportation equipment	¥ 184,040	¥ 2,326	¥ 186,366	¥ 201,461	¥(15,095)	¥ 181,425	¥ 3,696	¥ 3,814
Aerospace	247,650	9,285	256,935	238,657	18,278	251,660	5,076	5,024
Industrial equipment	416,998	50,094	467,092	466,306	786	410,790	10,839	7,810
Consumer products	270,021	4,747	274,768	259,133	15,635	188,316	9,888	17,449
Other	83,480	44,138	127,618	125,460	2,158	151,977	2,383	1,893
Total	1,202,189	110,590	1,312,779	1,291,017	21,762	1,184,168	31,882	35,990
Eliminations and corporate	—	(110,590)	(110,590)	(110,494)	(96)	20,689	2,725	6,153
Consolidated total	¥1,202,189	¥ —	¥1,202,189	¥1,180,523	¥ 21,666	¥1,204,857	¥34,607	¥42,143

	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
	Thousands of U.S. dollars							
	2001							
Transportation equipment	**$1,288,959**	**$ 13,002**	**$1,301,961**	**$1,319,007**	**$(17,046)**	**$ 1,496,586**	**$ 27,974**	**$ 20,379**
Aerospace	**1,678,232**	**67,401**	**1,745,633**	**1,665,400**	**80,233**	**1,825,456**	**41,824**	**47,304**
Industrial equipment	**2,644,471**	**335,844**	**2,980,315**	**3,069,201**	**(88,886)**	**3,260,121**	**68,999**	**41,316**
Consumer products	**2,226,820**	**27,232**	**2,254,052**	**2,201,760**	**52,292**	**2,099,621**	**91,235**	**113,882**
Other	**720,670**	**280,137**	**1,000,807**	**991,985**	**8,822**	**1,405,149**	**20,033**	**13,083**
Total	**8,559,152**	**723,616**	**9,282,768**	**9,247,353**	**35,415**	**10,086,933**	**250,065**	**235,964**
Eliminations and corporate	**—**	**(723,616)**	**(723,616)**	**(724,198)**	**582**	**(18,555)**	**18,724**	**27,854**
Consolidated total	**$8,559,152**	**$ —**	**$8,559,152**	**$8,523,155**	**$ 35,997**	**$10,068,378**	**$268,789**	**$263,818**

As explained in Note 2(t), the accounting policy for retirement and severance benefits, has changed in 2001. The change resulted in increases in operating loss of ¥170 million ($1,372 thousand) for "Transportation equipment" and ¥406 million ($3,277 thousand) for "Industrial equipment", and resulted in decreases in operating income of ¥244 million ($1,969 thousand) for "Aerospace", ¥179 million ($1,445 thousand) for "Consumer products" and ¥216 million ($1,743 thousand) for "Other", for the year ended March 31, 2001, compared to what these would have been if the prior accounting policies had been used.

(b) Information by geographic area

Segment information by geographic area, as required to be disclosed in Japan, for the respective years is as follows:

	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
	Millions of yen					
	2001					
Japan	**¥ 824,213**	**¥171,516**	**¥ 995,729**	**¥ 992,563**	**¥ 3,166**	**¥1,097,447**
North America	**176,071**	**9,076**	**185,147**	**181,893**	**3,254**	**137,890**
Europe	**38,573**	**3,232**	**41,805**	**42,722**	**(917)**	**36,017**
Asia	**17,791**	**5,323**	**23,114**	**23,076**	**38**	**19,568**
Other areas	**3,831**	**165**	**3,996**	**3,907**	**89**	**1,809**
Total	**1,060,479**	**189,312**	**1,249,791**	**1,244,161**	**5,630**	**1,292,731**
Eliminations and corporate	**—**	**(189,312)**	**(189,312)**	**(188,142)**	**(1,170)**	**(45,259)**
Consolidated total	**¥1,060,479**	**¥ —**	**¥1,060,479**	**¥1,056,019**	**¥ 4,460**	**¥1,247,472**

	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
	Millions of yen					
	2000					
Japan	¥ 929,110	¥ 148,766	¥1,077,876	¥1,082,344	¥(4,468)	¥1,046,115
North America	160,436	11,288	171,724	167,977	3,747	105,322
Europe	39,554	4,515	44,069	43,231	838	24,496
Asia	16,321	4,009	20,330	21,927	(1,597)	16,675
Other areas	4,277	128	4,405	4,318	87	1,894
Total	1,149,698	168,706	1,318,404	1,319,797	(1,393)	1,194,502
Eliminations and corporate	—	(168,706)	(168,706)	(171,350)	2,644	12,304
Consolidated total	¥1,149,698	¥ —	¥1,149,698	¥1,148,447	¥ 1,251	¥1,206,806

	Millions of yen					
	1999					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	¥ 982,857	¥154,699	¥1,137,556	¥1,110,276	¥27,280	¥1,066,392
North America	155,635	11,869	167,504	172,780	(5,276)	112,105
Europe	46,287	6,252	52,539	51,224	1,315	25,736
Asia	12,881	2,855	15,736	16,611	(875)	17,036
Other areas	4,529	—	4,529	4,482	47	1,777
Total	1,202,189	175,675	1,377,864	1,355,373	22,491	1,223,046
Eliminations and corporate	—	(175,675)	(175,675)	(174,850)	(825)	(18,189)
Consolidated total	¥1,202,189	¥ —	¥1,202,189	¥1,180,523	¥21,666	¥1,204,857

	Thousands of U.S. dollars					
	2001					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	**$6,652,244**	**$ 1,384,310**	**$ 8,036,554**	**$ 8,011,001**	**$25,553**	**$ 8,857,522**
North America	**1,421,073**	**73,253**	**1,494,326**	**1,468,063**	**26,263**	**1,112,914**
Europe	**311,324**	**26,085**	**337,409**	**344,810**	**(7,401)**	**290,694**
Asia	**143,591**	**42,962**	**186,553**	**186,247**	**306**	**157,934**
Other areas	**30,920**	**1,332**	**32,252**	**31,534**	**718**	**14,600**
Total	**8,559,152**	**1,527,942**	**10,087,094**	**10,041,655**	**45,439**	**10,433,664**
Eliminations and corporate	**—**	**(1,527,942)**	**(1,527,942)**	**(1,518,500)**	**(9,442)**	**(365,286)**
Consolidated total	**$8,559,152**	**$ —**	**$ 8,559,152**	**$ 8,523,155**	**$35,997**	**$10,068,378**

As explained in Note 2(t), the accounting policy for retirement and severance benefits, has changed in 2001. The change resulted in a decrease in operating income of ¥1,215 million ($9,806 thousand) for "Japan" for the year ended March 31, 2001, compared to what this would have been if the prior accounting policy had been used.

(c) Corporate assets

Included in eliminations and corporate in (a) and (b) above under total assets are corporate assets of ¥80,928 million ($653,172 thousand), ¥106,738 million and ¥74,912 million at March 31, 2001, 2000 and 1999, respectively, which are mainly comprised of cash and time deposits of the Company and property, plant, equipment and intangible assets of the Company's Head Office.

(d) Overseas sales

Overseas sales consist of the total sales of the Company and its consolidated subsidiaries made outside of Japan. Overseas sales information, as required to be disclosed in Japan, for the respective years is as follows:

	Millions of yen	%	Millions of yen	%	Millions of yen	%	Thousands of U.S. dollars
	2001		2000		1999		**2001**
	Overseas sales	% against net sales	Overseas sales	% against net sales	Overseas sales	% against net sales	Overseas sales
North America	**¥233,976**	**22.1%**	¥221,272	19.2%	¥231,159	19.2%	**$1,888,426**
Europe	**62,815**	**5.9%**	93,984	8.2%	87,683	7.3%	**506,982**
Asia	**76,809**	**7.2%**	75,058	6.5%	70,845	5.9%	**619,927**
Other areas	**58,759**	**5.5%**	71,191	6.2%	81,453	6.8%	**474,245**
Total	**¥432,359**	**40.7%**	¥461,505	40.1%	¥471,140	39.2%	**$3,489,580**

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Kawasaki Heavy Industries, Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2001, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Kawasaki Heavy Industries, Ltd. and subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in Japan consistently applied during the periods, except for the change, with which we concur, made as of April 1, 2000, in the method of accounting for the provision for losses on construction contracts referred to in Note 2.(q).

As explained in Notes 2.(e), (m), (t) and 15, in the year ended March 31, 2001, Kawasaki Heavy Industries, Ltd. and subsidiaries prospectively adopted new Japanese accounting standards for foreign currency translation, financial instruments and retirement and severance benefits.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Asahi & Co.

Kobe, Japan
June 28, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

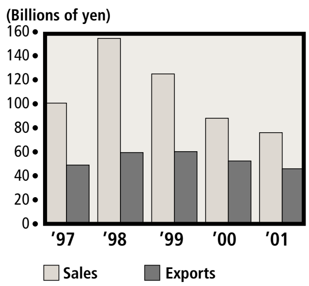
Supplementary Information on Non-Consolidated Results

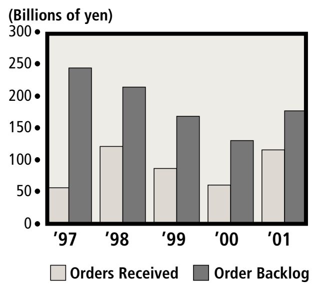
(Years ended March 31)

Ships

(Billions of yen)

	'97	'98	'99	'00	'01
Sales	100.6	154.5	124.9	88.0	76.0
Exports	49.0	59.4	60.2	52.4	45.9
Orders Received	56.3	120.9	86.5	60.6	115.0
Order Backlog	243.5	213.6	168.0	130.1	176.5





Major Orders

- 1 LNG carrier
- 7 LPG carriers
- 2 VLCCs (Very Large Crude-oil Carriers)
- 6 Bulk carriers

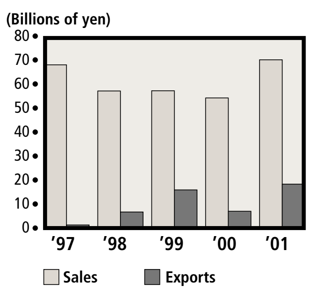
Major Components of Sales

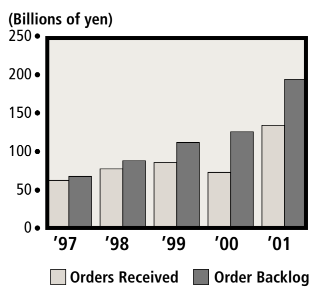
- VLCC
- LPG carrier
- Container ship
- Submarine

Rolling Stock

(Billions of yen)

	'97	'98	'99	'00	'01
Sales	68.0	57.1	57.2	54.2	70.1
Exports	1.3	6.7	15.9	7.0	18.3
Orders Received	62.0	77.0	85.1	72.5	133.8
Order Backlog	67.2	87.5	111.5	125.2	193.6





Major Orders

- 207 cars for the JR Group, including 80 *Shinkansen* cars
- 20 cars for other domestic railways
- 360 cars for Taiwan Bullet Train
- 120 subway cars for New York City

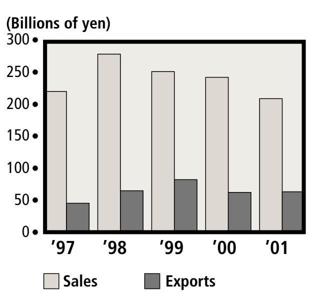
Major Components of Sales

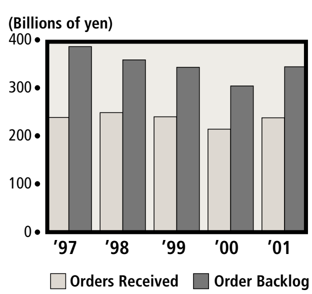
- 262 cars for JR Group, including 91 *Shinkansen* cars
- 140 cars for other domestic railways
- 42 subway cars for Singapore
- 260 subway cars for New York City

Aerospace

(Billions of yen)

	'97	'98	'99	'00	'01
Sales	219.4	277.6	250.4	241.5	208.2
Exports	45.1	64.6	81.9	62.0	63.0
Orders Received	238.5	248.5	239.9	214.1	237.8
Order Backlog	385.8	358.2	342.8	304.0	343.9





Major Orders

- T-4 intermediate jet trainers
- CH-47J large transport helicopters
- OH-1 light observation helicopters
- Helicopter engines
- Gas turbine engines for naval vessels
- Component parts for the Boeing 767 and 777
- Component parts for the ERJ-170
- Component parts for V2500, RB211/Trent and PW4000 turbo-fan engines
- Small- and medium-sized gas turbine generators

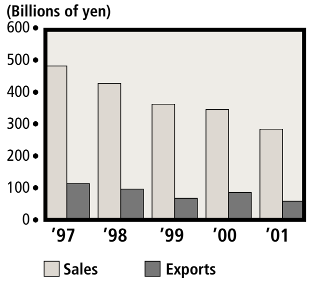
Major Components of Sales

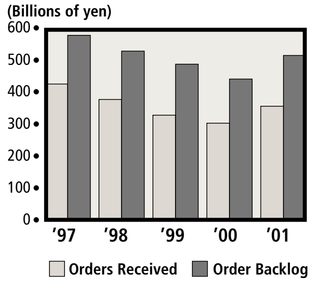
- T-4 intermediate jet trainers
- CH-47J large transport helicopter
- OH-1 light observation helicopters
- Helicopter engines
- Gas turbine engines for naval vessels
- Component parts for the Boeing 767 and 777
- Component parts for V2500, RB211/Trent and PW4000 turbo-fan engines
- Small- and medium-sized gas turbine generators

Industrial Equipment

(Billions of yen)

	'97	'98	'99	'00	'01
Sales	480.6	426.3	361.4	345.1	283.4
Exports	113.0	96.2	67.5	85.3	58.4
Orders Received	424.3	376.0	327.1	302.1	355.0
Order Backlog	576.6	527.2	486.4	439.9	513.6





Major Orders

- Municipal refuse incineration plants and modifications for dioxin reduction
- Continuous annealing line for tin plates from Turkey
- Cement plant from Morocco
- Fertilizer plant from China
- Cogeneration combined cycle power plant from Mexico
- Heat recovery steam generator (HRSG) from the United States
- Marine gas turbines and diesel engines for domestic and overseas customers
- Bridges
- LPG tanks
- Refuse paper and plastic fuel processing facilities

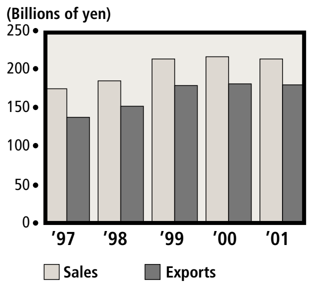
Major Components of Sales

- Municipal refuse incineration plants and modifications for dioxin reduction
- Cogeneration power plant for a domestic steel manufacturer
- Ash handling equipment and coal handling systems for a domestic power company
- Marine gas turbines and diesel engines for domestic and overseas customers
- Bridges
- Container cranes
- Shield machines

Consumer Products

(Billions of yen)

	'97	'98	'99	'00	'01
Sales	174.4	184.7	213.1	216.0	213.1
Exports	137.3	151.7	178.6	180.8	179.5
Orders Received	174.4	184.7	213.1	216.0	213.1
Order Backlog	0.0	0.0	0.0	0.0	0.0

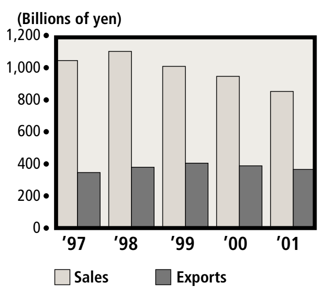


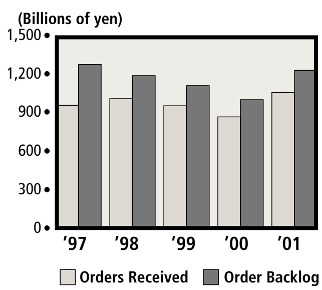
Sales of motorcycles and ATVs (All-Terrain Vehicles) as well as MULE utility vehicles were strong in the United States. In addition, sales of industrial robots for use with IT-related equipment increased, but as a result of the decline in the value of the euro, sales of motorcycles to Europe declined. Total sales amounted to ¥213.1 billion, virtually the same as for the previous year.

Total

(Billions of yen)

	'97	'98	'99	'00	'01
Sales	1,043.0	1,100.2	1,007.0	944.8	850.8
Exports	345.7	378.6	404.1	387.5	365.1
Orders Received	955.5	1,007.1	951.7	865.3	1,054.7
Order Backlog	1,273.1	1,186.5	1,108.7	999.2	1,227.6





Directors, Corporate Auditors and Executive Officers

DIRECTORS

President

Masamoto Tazaki*

Executive Vice Presidents

Yoshiro Inoue*
Overall Administration of Planning and Control

Tadashi Nishimura*
Overall Administration of Marketing and Sales

**Representative Director*

Executive Vice President YOSHIRO INOUE **President** MASAMOTO TAZAKI **Executive Vice President** TADASHI NISHIMURA

Managing Directors

Toru Ohmae*
President, Consumer Products & Machinery Company

Takashi Sugoh*
President, Aerospace Company

Hironobu Hashiguchi
General Manager, Corporate Technology Division

Takehiko Saeki*
President, Rolling Stock, Construction Machinery & Crushing Plant Company

Takuya Maeda*
President, Plant & Infrastructure Engineering Company

Shuichi Tadokoro*
President, Shipbuilding Company

Kengo Yamashita*
President, Gas Turbines & Machinery Company

Shinichi Morita
Senior Manager, Corporate Planning Department

CORPORATE AUDITORS

Toshiaki Tatsuki

Tsunemitsu Nishio

Mitsugi Maeda

EXECUTIVE OFFICERS

Toshio Atsuta

Tadao Katoh

Yousuke Fujii

Shiro Ikeda

Masakazu Sato

Isao Shindo

Fumitake Kadowaki

Mikihiko Nakayama

Kimio Itoh

Yoshimitsu Kurosaki

Shoji Aoki

Akiji Nakamura

Masatoshi Terasaki

Takashi Yoshino

Akira Matsuzaki

Tadaharu Ohashi

Chikashi Motoyama

Nobuichi Kozai

Shigeru Hamada

Shuji Mihara

(As of July 1, 2001)

Major Consolidated Subsidiaries and Affiliates

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI, unless otherwise noted)	Principal Businesses
TRANSPORTATION EQUIPMENT				
Kawasaki Rolling Stock Engineering Co., Ltd.	Japan	140	100.00	Manufacture and repair of parts and components for rolling stock; design of rolling stock
Kawasaki Industrial Co., Ltd.	Japan	125	98.71	Construction of arcades; manufacture and inspection of high-pressure containers; maintenance and repair of rolling stock
Kawasaki Rail Car, Inc.	U.S.A.	US$60,600*	100.00 (owned by KMM)	Engineering, manufacture, sale and after-sales service of rolling stock in the United States
Nangtong Cosco KHI Ship Engineering Co., Ltd.†	China	US$80,000*	50.00	Manufacture and sale of ships
AEROSPACE				
Kawasaki Helicopter System Ltd.	Japan	200	100.00	Transportation of passengers or cargo by helicopter; maintenance and repair of helicopters and flight training services; research, design and construction of heliports
Advanced Technology Institute of Commuter-Helicopter†	Japan	8,697	19.43	Research and development of basic technology for commuter helicopters
Japan Aircraft Manufacturing Co., Ltd.†	Japan	6,048	25.70	Manufacture and sale of aircraft parts
INDUSTRIAL EQUIPMENT				
Kawasaki Safety Service Industries, Ltd.	Japan	1,708	72.02	Manufacture, sale and installation of hospital respiration, fire-extinguishing and medical equipment
Kawasaki Thermal Engineering Co., Ltd.	Japan	1,460	83.01	Manufacture, sale and installation of general purpose boilers and air-conditioning equipment
Kawasaki Hydromechanics Corporation	Japan	272	99.71	Manufacture, sale and installation of hydraulic presses and other hydraulic equipment
Kawasaki Construction Co., Ltd.	Japan	350	100.00	Installation of steel structures
Kawasaki Machine Systems, Ltd.	Japan	343	100.00	Sale and repair of industrial machinery and equipment
Nichijo Manufacturing Co., Ltd.	Japan	120	50.04	Manufacture and sale of snow removal equipment
Kawasaki Construction Machinery Corp. of America	U.S.A.	US$8,000*	100.00 (owned by KMC)	Manufacture and sale of construction machinery in the United States
Kawasaki Precision Machinery (UK) Limited	U.K.	£5,000*	100.00	Manufacture and sale of hydraulic products
Wuhan Kawasaki Marine Machinery Co., Ltd.	China	1,100	55.00	Manufacture, sale and after-sales service of Kawasaki-brand azimuth thrusters, side thrusters and other machinery
Kawasaki Setsubi Kogyo Co., Ltd.†	Japan	1,581	33.62	Design and installation of air conditioning, heating/cooling, plumbing and hygiene, lighting and power equipment and facilities
Japan Gas Turbine K.K.†	Japan	1,500	40.00	Sale, assembly, site engineering support, repair, testing, pilot operation, installation and arrangement of power generation equipment, as well as related service-based businesses
Shanghai Cosco Kawasaki Heavy Industries Steel Structure Co., Ltd.†	China	US$14,900*	40.00	Manufacture and sale of steel structures

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI, unless otherwise noted)	Principal Businesses
CONSUMER PRODUCTS				
Kawasaki Motors Corporation Japan	Japan	560	100.00	Distribution of motorcycles and Jet Ski® watercraft in Japan
Kawasaki Metal Industries, Ltd.	Japan	350	100.00	Manufacture, processing and assembly of various steel products
Kawasaki Motors Manufacturing Corp., U.S.A.	U.S.A.	US$70,000*	100.00	Manufacture of motorcycles, ATVs (all-terrain vehicles), Jet Ski® watercraft, small gasoline engines and industrial robots
Kawasaki Motors Corp., U.S.A.	U.S.A.	US$65,900*	100.00	Distribution of motorcycles, ATVs, Jet Ski® watercraft and small gasoline engines in the United States
Kawasaki Motors Finance Corporation	U.S.A.	US$10,000*	100.00 (owned by KMC)	Inventory financing for dealers of Kawasaki Motors Corp., U.S.A.
KM Receivables Corporation	U.S.A.	US$100	100.00 (owned by KMFC)	Management of account receivables of Kawasaki Motors Finance Corporation
Canadian Kawasaki Motors Inc.	Canada	C$2,000*	100.00	Distribution of motorcycles, ATVs and Jet Ski® watercraft in Canada
Kawasaki Motors (UK) Ltd.	U.K.	£2,000*	100.00 (owned by KMEU)	Distribution of motorcycles, ATVs and Jet Ski® watercraft in the United Kingdom
Kawasaki Motoren GmbH	Germany	DM12,300*	100.00 (owned by KMEU)	Distribution of motorcycles, ATVs and Jet Ski® watercraft in Germany
Kawasaki Motors Europe N.V.	The Netherlands	euro 14,093*	100.00	Sole distribution of motorcycles, ATVs, Jet Ski® watercraft and small gasoline engines in Europe
Kawasaki Motors N.V.	The Netherlands	fl.3,000*	100.00 (owned by KMEU)	Distribution of spare parts for motorcycles, Jet Ski® watercraft and small gasoline engines
Kawasaki Motors France S.A.	France	Fr8,180*	100.00 (owned by KMEU)	Distribution of motorcycles, ATVs and Jet Ski® watercraft in France
Kawasaki Motors Italy S.p.A.	Italy	L4,000**	100.00 (owned by KMEU)	Distribution of of motorcycles, ATVs and Jet Ski® watercraft in Italy
Kawasaki Motors Pty. Ltd.	Australia	A$2,000*	100.00	Distribution of motorcycles, ATVs and Jet Ski® watercraft in Australia
P.T. Kawasaki Motor Indonesia	Indonesia	US$10,000*	51.00	Manufacture and distribution of motorcycles in Indonesia
Kawasaki Motors (Phils.) Corporation	Philippines	P101,430*	50.001	Manufacture and distribution of motorcycles in the Philippines
Kawasaki Motors Enterprise (Thailand) Co., Ltd.	Thailand	B1,900,000*	81.95	Manufacture and distribution of motorcycles in Thailand
Kawasaki Robotics (U.S.A.), Inc.	U.S.A.	US$1,000*	100.00 (owned by KMC)	Sale and after-sales service of industrial robots in the United States

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI, unless otherwise noted)	Principal Businesses
Kawasaki Robotics (UK) Ltd.	U.K.	£917*	100.00 (owned by KMEU)	Sale and after-sales service of industrial robots in the U.K. and Ireland
Kawasaki Machine Systems Korea, Ltd.	Korea	W1,500**	100.00	Sale and after-sales service of industrial robots, robot systems and other industrial machinery
Hainan Sundiro-Kawasaki Engine Co., Ltd.†	China	US$29,900*	33.00	Manufacture and sale of motorcycle engines
OTHER				
Kawaju Shoji Co., Ltd.	Japan	600	70.00	Trading
Kawaju Real Estate Co., Ltd.	Japan	320	100.00	Administration of Company welfare facilities; real estate sales, leasing and construction
Kawasaki Kosan Co., Ltd.	Japan	300	100.00	Insurance representation, real estate leasing, administration and maintenance, leasing and provision of loans
Kawasaki Foods Co., Ltd.	Japan	160	100.00	Food supply to Company facilities, operation of dining facilities
Kawaju Tomakomai Kanko Kaihatsu Co., Ltd.	Japan	300	100.00	Management of a golf course
Uji Kanko Co., Ltd.	Japan	240	100.00	Management of a golf course
Kawasaki do Brasil Industria e Comércio Ltda.	Brazil	R1,136*	100.00	Sale of KHI Products in Brazil and the rest of Central and South America; provision of order intermediation and various engineering services
Kawasaki Heavy Industries (U.S.A.), Inc.	U.S.A	US$600*	100.00	Product sales, mediation of orders and provision of various engineering support services in North America
Kawasaki Heavy Industries (UK) Ltd.	U.K.	£500*	100.00	Sale of KHI products in various countries in Europe (principally the U.K.), the Middle East and Africa; provision of order intermediation services

(As of March 31, 2001)

* Monetary unit in thousands
** Monetary unit in millions
† Affiliate accounted for using equity method
KMM: Kawasaki Motors Manufacturing Corp., U.S.A.
KMC: Kawasaki Motors Corp., U.S.A.
KMFC: Kawasaki Motors Finance Corporation
KMEU: Kawasaki Motors Europe N.V.

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Bangkok 10500, Thailand
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Fax: 66-2-632-9515

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Metro Manila,
The Philippines
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Fax: 60-3-2070-5148

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Fax: 1-713-654-8187

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Fax: 1-248-305-7618

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Fax: 1-949-460-5600

Grand Rapids Office
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Grand Rapids, MI 49512, U.S.A.
Phone: 1-616-949-6500
Fax: 1-616-954-3031

Green River Insurance Company
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Burlington, VT 05402, U.S.A.
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Fax: 1-802-860-0440

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Fax: 1-949-460-5600

KM Receivables Corporation
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Fax: 1-949-460-5600

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Fax: 1-402-476-6672

Maryville Plant
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Phone: 1-660-582-5829
Fax: 1-660-582-5826

Kawasaki Construction Machinery Corp. of America
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Canadian Kawasaki Motors Inc.
25 Lesmill Road, Don Mills, Toronto,
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KHI (Dalian) Computer Technology Co., Ltd.
Building Foreign Specialist of
the Dalian Maritime University,
Ling Shui Qiao, Dalian,
People's Republic of China
Phone: 86-411-467-2507
Fax: 86-411-467-2459

Wuhan Kawasaki Marine Machinery Co., Ltd.
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Fax: 86-27-86410136

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OVERSEAS JOINT VENTURES

Tiesse Robot S.p.A.
Via Isorella 24,
25010 Visano (Brescia), Italy
Phone: 39-30-9958621
Fax: 39-30-9958677

Robots International Limited
21, Archbishop Street,
Valetta, Malta
Phone: 356-320897
Fax: 356-346041

Nantong Cosco KHI Ship Engineering Co., Ltd.
117, Linjiang Road, Nantong City,
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Fax: 86-513-351-4349

Shanghai Cosco Kawasaki Heavy Industries Steel Structure Co., Ltd.
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Phone: 86-21-5602-8888
Fax: 86-21-5602-5198

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Lingui Dadao No. 3,
Guilinyang Economic Development Area,
Qiongshan City, Hainan Province,
People's Republic of China
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Fax: 86-898-6715518

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221/1 Rama IX Road, Huay Kwang,
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Fax: 81-474-82-3227

Gifu Works
1, Kawasaki-cho, Kakamigahara,
Gifu 504-8710, Japan
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Ama-gun, Aichi 490-1445, Japan
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Seishin Works
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Nishi-ku, Kobe 651-2271, Japan
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Fax: 81-78-992-1910

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Hyogo 673-8666, Japan
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Fax: 81-78-913-1366

Banshu Works
2680, Oka, Inami-cho,
Kako-gun, Hyogo 675-1113, Japan
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Harima Works
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1, Kawasaki-cho, Sakaide,
Kagawa 762-8507, Japan
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Fax: 81-877-45-0556

Kawasaki Corporate Data

(As of March 31, 2001)

Kawasaki Heavy Industries, Ltd.

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

Founded: 1878

Incorporated: 1896

Paid-in Capital: ¥81,426,590,792

Number of Shares Outstanding: 1,390,595,964 shares

Number of Shareholders: 126,423

Number of Employees: 29,162

Stock Exchange Listings:
Tokyo, Osaka, Nagoya, Fukuoka, Sapporo

Newspapers in Which Public Notices Are Made:
The Nihon Keizai Shimbun
The Kobe Shimbun

Transfer Agent:
The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome,
Minato-ku, Tokyo 105-8574, Japan

Handling Office
The Chuo Mitsui Trust and Banking Company, Limited
Osaka Branch Office,
2-21, Kitahama 2-chome,
Chuo-ku, Osaka 541-0041, Japan

Independent Auditors:
Asahi & Co.
Kobe Crystal Tower, 1-3,
Higashikawasaki-cho 1-chome,
Chuo-ku, Kobe 650-8680, Japan

ADR Facility:
KHI has a sponsored American Depository Receipt (ADR) facility. ADRs are traded in the over-the-counter (OTC) market in the United States under cusip number 486 359 20 1 with each ADR representing four ordinary shares.

ADR Depository:
The Bank of New York
101 Barclay St., 22 West,
New York, NY 10286, U.S.A.
Phone: 1-212-815-2042
U.S. Toll Free: 888-269-2377
(888-BNY-ADRS)
http://www.bankofny.com/adr

KHI Website at: http://www.khi.co.jp

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