Kawasaki Report 2014

Year ended March 31, 2014

Contents

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

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

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

Transportation Systems

Energy & Environmental Engineering

Industrial Equipment

Corporate Profile

Kawasaki Heavy Industries, Ltd.

Head Offices

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

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

President

Shigeru Murayama

Number of Shares Issued

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

Net Sales

¥1,385,482 million

(Fiscal year ended March 31, 2014)

Number of Employees

34,620 (As of March 31, 2014)

KHI Global Network (FY2014)

Number of Companies/Number of Employees/Net Sales

Europe
7 companies 687 employees
101,381 million yen

Japan
48 companies 25,531 employees
605,328 million yen

The Americas
15 companies 3,478 employees
413,107 million yen

Asia, Oceania etc.
26 companies 4,924 employees
265,664 million yen

Editorial Policy

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

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

1. The booklet version (which you are now reading):
a digest version presenting information in compact form.

2. The full report:
a PDF version on our website supplementing the booklet content with more detailed information, mainly on CSR.

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

Publication Formats and Contents

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

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

Scope
The report covers Kawasaki Heavy Industries, Ltd., and its 96 consolidated subsidiaries (48 in Japan and 48 overseas) and 18 equity-method nonconsolidated subsidiaries. Some data, however, refer to the parent company alone.

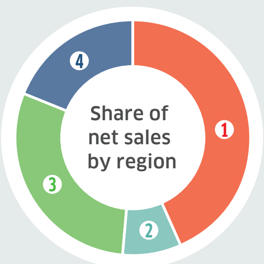
Guidelines
In preparing the report, the editorial office referred to the Environmental Reporting Guidelines (2012 Edition) issued by the Ministry of the Environment and the Sustainability Reporting Guidelines (G4 ver.) issued by the Global Reporting Initiative (GRI)

Frequency of Publication Annually, in general

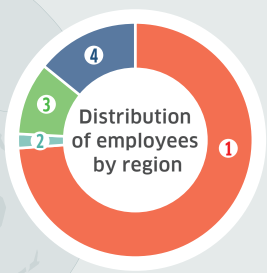
Previous number Issued in October 2013
Following number Expected to be issued in August 2015

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

Disclaimer
Figures in this report appearing in forecasts of future business performance or similar contexts represent forecasts made by the Company based on information accessible at the time, and are subject to risk and uncertainty. Readers are therefore advised against making investment decisions reliant exclusively on these forecasts of business performance. Readers should be aware that actual business performance may differ significantly from these forecasts due to a wide range of significant factors arising from changes in the external and internal environment. Significant factors that affect actual business performance include economic conditions in the Company's business sector, the yen exchange rate against the U.S. dollar and other currencies, and developments in taxation and other systems. This report not only describes actual past and present conditions at the KHI Group but also includes forward-looking statements based on plans, forecasts, business plans and management policy as of the publication date. These represent suppositions and judgments based on information available at the time. Due to changes in circumstances, the results and the features of future business operations may differ from the content of such statements.

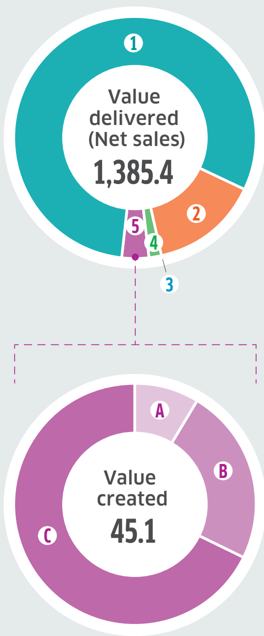


1	Japan	44%
2	Europe	7%
3	The Americas	30%
4	Asia, Oceania etc.	19%



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

Distribution of Value to Stakeholders (FY2014)



(billions of yen)

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

Transportation Systems

Better Accessibility to Medical Services

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

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

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

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

Kawasaki BK117 C-2 helicopter

-40%

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

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

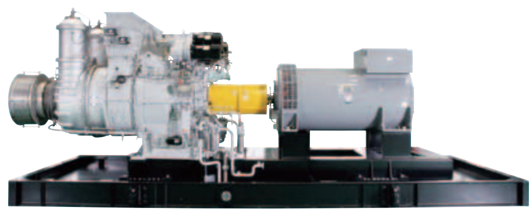
Solving Social Issues through Business #2

Energy & Environmental Engineering

Stable Supply of Power to Medical Sites

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

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



Gas turbine emergency generators “Kawasaki PU Series”

365 days

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

Solving Social Issues through Business #3

Industrial Equipment

Striving for Zero Risk in Pharmaceutical and Medical Services

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

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

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

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

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

Pharmaceutical- and medical-use robot

Toward Zero

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

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

Automated cell culture system

Message from the Top Management

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

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

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

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

July 2014

President

S. Murayama

Interview

President

Shigeru Murayama × Yoshihiko Morita

Outside Director

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

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

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

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

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

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

	FY2014 (Actual)	FY2015 (Forecast)
Orders received	1,455.4	1,580.0
Net sales	1,385.4	1,490.0
Operating income	72.3	73.0
Recurring profit	60.6	66.0
Net income	38.6	41.0
Before-tax ROIC	8.1%	8.6%

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

Exchange rates (Actual / Assumed)	US$ (¥/$)	99.63	100
	EUR (¥/EUR)	134.56	135

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

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

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

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

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

*Recurring profit is used in accounting standards generally accepted in Japan. It is the sum of operating income, net interest income (expense), dividend income, and other non-operating and recurring income items.

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

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

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

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

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

Kawasaki Group Mission Statement

Kawasaki Value

- We respond to our customers' requirements
- We constantly achieve new heights in technology
- We pursue originality and innovation

The Kawasaki Group Management Principles

1. Trust
As an integrated technology leader, the Kawasaki Group is committed to providing high-performance products and services of superior safety and quality. By doing so, we will win the trust of our customers and the community.

2. Harmonious coexistence
The importance of corporate social responsibility (CSR) permeates all aspects of our business. This stance reflects the Kawasaki Group's corporate ideal of harmonious coexistence with the environment, society as a whole, local communities and individuals.

3. People
The Kawasaki Group's corporate culture is built on integrity, vitality, organizational strength and mutual respect for people through all levels of the Group. We nurture a global team for a global era.

4. Strategy
The Kawasaki Group pursues continuous enhancement of profitability and corporate value based on three guiding principles—selectively focusing resources on strategic businesses; emphasizing quality over quantity; and employing prudent risk management.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

What are your thoughts on company stakeholders?

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

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

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

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

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

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

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

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

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

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

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

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

First Set of Kawasaki Green Products

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

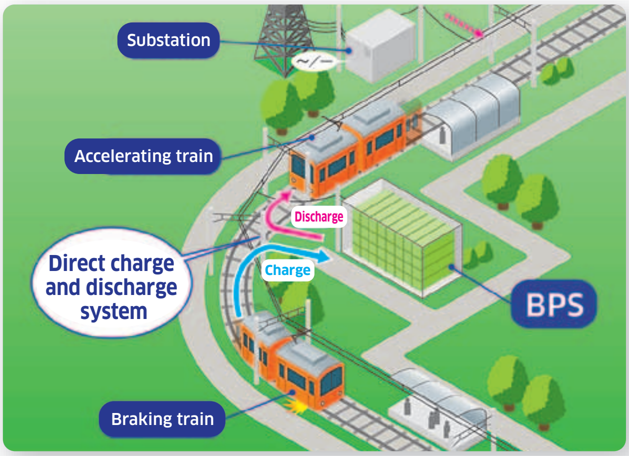
Just recently, we launched Kawasaki Green Products, a program in support of the Group Mission objective and through which we will boost the environmental performance of products and accelerate the reduction of environmental impact caused by associated manufacturing processes. The products selected for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

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

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

Kawasaki Green Product
Promotion Activity

Program logo



Battery Power System (BPS)

BK117C-2 Helicopter

Kawasaki Green Product Promotion Activity

First Kawasaki Green Products Announcement

Spot Welding Robot (BX200LS)


Hydraulic Pump for Excavators (K7V)

Ninja ZX-6R

Application

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

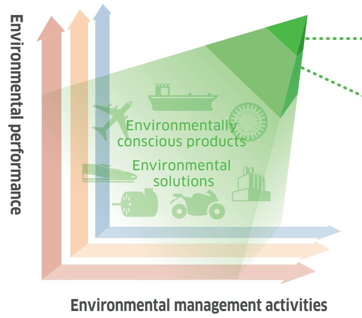
- A low-carbon society
- A recycling-oriented society
- A society coexisting with nature

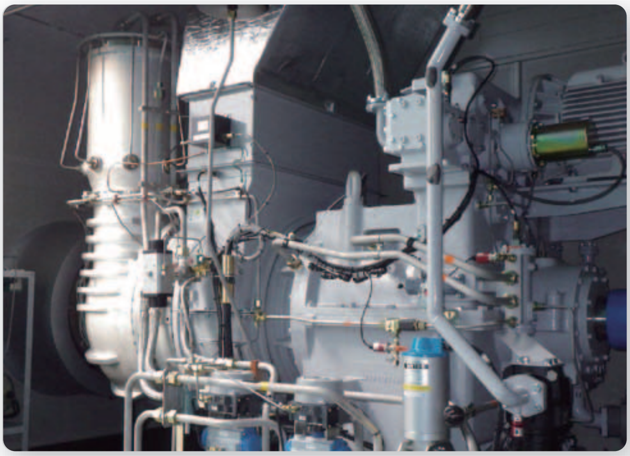
We will apply those that exhibit particularly excellent performance.

Overall Evaluation Criteria

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

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





M1A-17D Gas Turbine

Green Gas Engine

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

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

MAG Turbo (Single Stage Aeration Blower with Magnetic Bearings)

CKK System

Centrifugal Chiller Using Water as Refrigerant

Conformity Assessment

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

Kawasaki Super Green Products

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

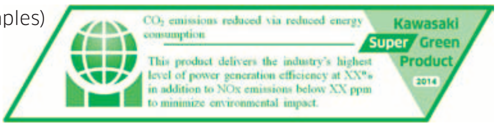
Kawasaki Green Products

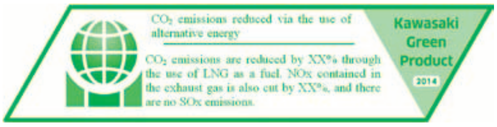
Products that demonstrate higher environmental performance than the industry standard or our own pre-existing models.

Environmental Labels

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

(Examples)



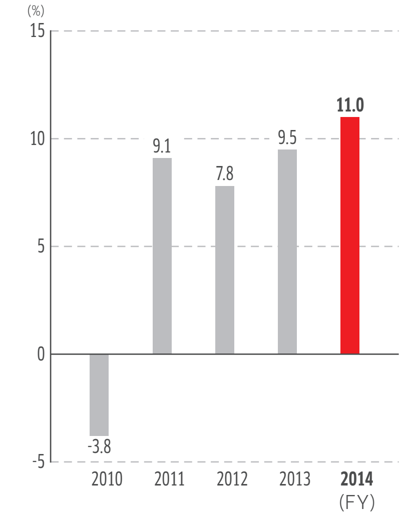


Performance Highlights

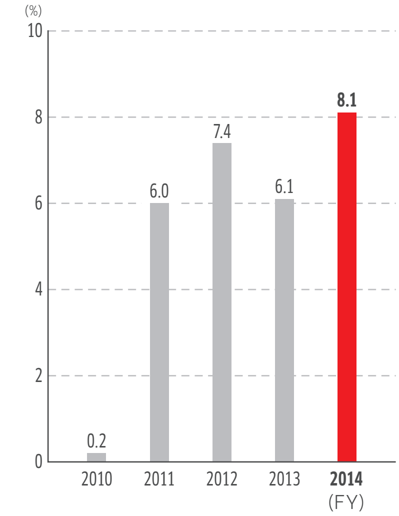
	Millions of yen			Thousands of U.S. dollars
	FY2014	FY2013	FY2012	FY2014
Net sales	**1,385,482**	1,288,881	1,303,778	13,461,737
Operating income	**72,351**	42,062	57,484	702,982
Recurring profit	**60,605**	39,328	63,627	588,855
Net income	**38,601**	30,864	23,323	375,058
Comprehensive income	**68,705**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

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

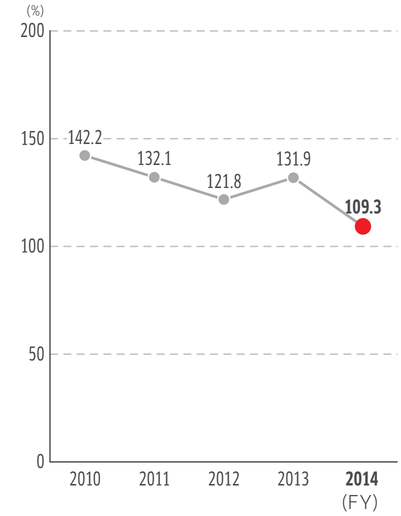
Return on equity
Net income / Shareholders' equity



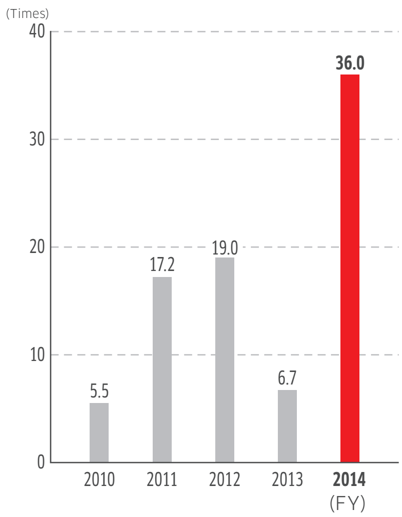
Return on invested capital
(Income before income taxes and minority interests + Interest expense) / Invested capital



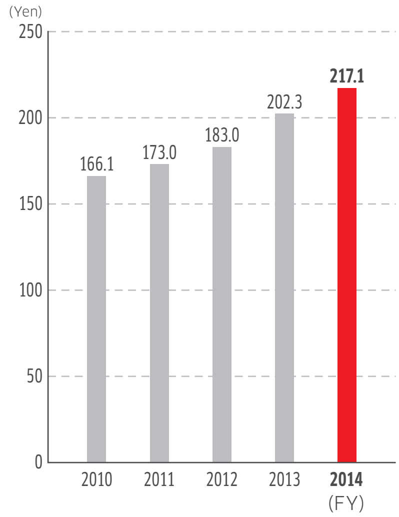
Debt equity ratio
Net interest-bearing debt / Shareholders' equity



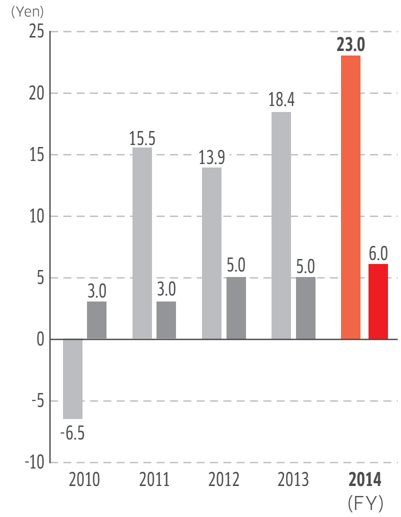
Interest coverage ratio
Cash flow from operating activities / interest expense



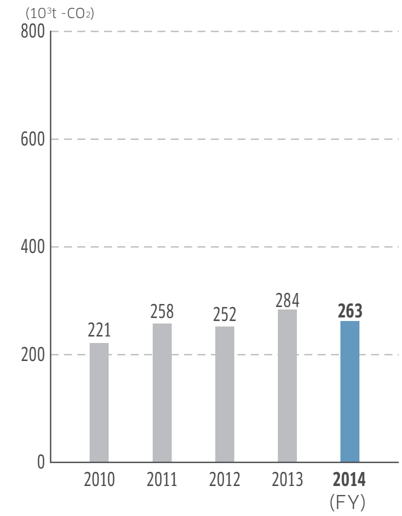
Net assets per share



Net income per share
Dividends per share

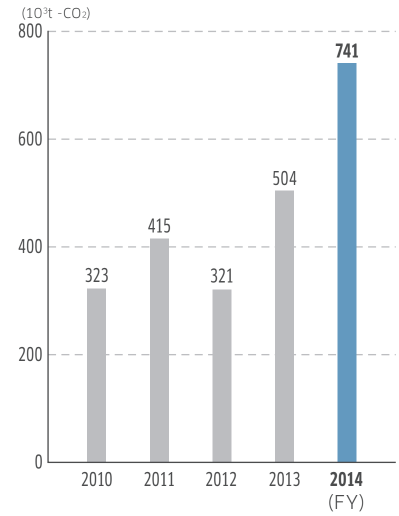


CO_2 Emissions from Business Sites (non-consolidated) *1



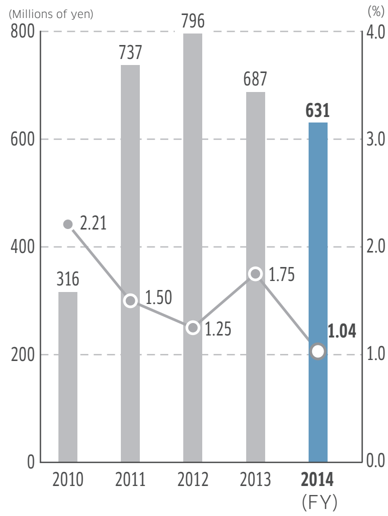
*1 For details, please refer to page 65.

CO_2 Emission Reduction with Product Usage*2



*2 Estimates based on actual delivery record

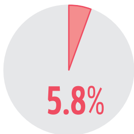
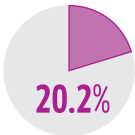
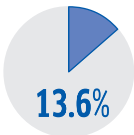
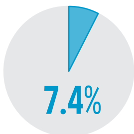
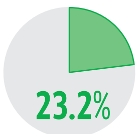
Expenditure on social contribution activity*3 (left-axis)
Recurring profit ratio(right-axis)



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

Business Review & Strategies

FY2014 (billions of yen)

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

Ship & Offshore Structure

LNG carrier GRACE DAHLIA

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

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

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

Japanese operations

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

Overseas operations

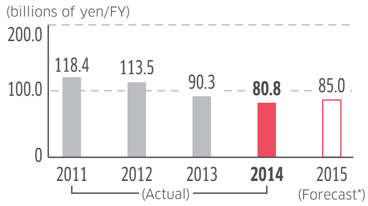
- Maintain and improve the profitability of Chinese joint ventures.
- Support the smooth start-up of a project in Brazil.

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

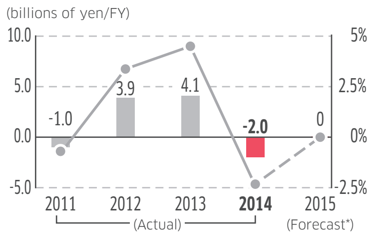
Turning to overseas operations, two joint ventures in China (NACKS*[1] and DACKS*[2]) have established a steady track record of performance. In these projects, we are targeting further improvements in competitiveness mainly through enhanced design capabilities and cost reductions. We are also engaged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

Financial Highlights

Net sales



Operating income
Ratio of operating income to sales



*As of April 25, 2014

Before-tax ROIC

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

Approach to Social Issues

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

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

Rolling Stock

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

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

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

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

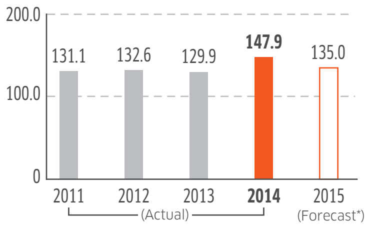
- Improve presence through solution-style order activities backed by leading-edge technology and development capabilities, and promotion of distinctive products
- Achieve profit growth in North America through advanced-technology and quality, our integrated production system, which ranges from car body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

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

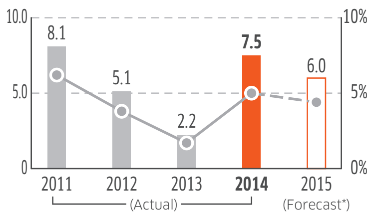
We are continuously expanding our growth in three strategic markets, domestic, the United States and Asia in order to realize our target described in Kawasaki Vision 2020.

Financial Highlights

Net sales
(billions of yen/FY)



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



*As of April 25, 2014

Before-tax ROIC

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

Approach to Social Issues

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

Aerospace

Boeing 787-9 Dreamliner (fore section of fuselage)

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

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

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

Defense

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

Commercial

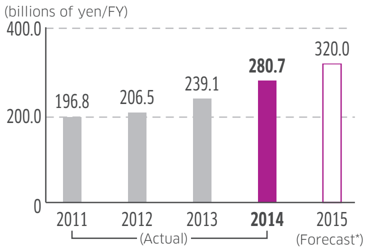
- Adapt for increased production of component parts for the Boeing 787 and branch out to derivative aircraft

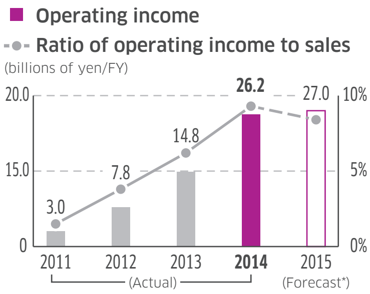
In the defense aircraft business, we have already begun mass production of the P-1 patrol aircraft and the C-2 transport aircraft, which will be the core of our defense business going forward. To establish these two aircraft as the cornerstones of our sales and profits strategy and thereby place our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

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

Financial Highlights

Net sales





*As of April 25, 2014

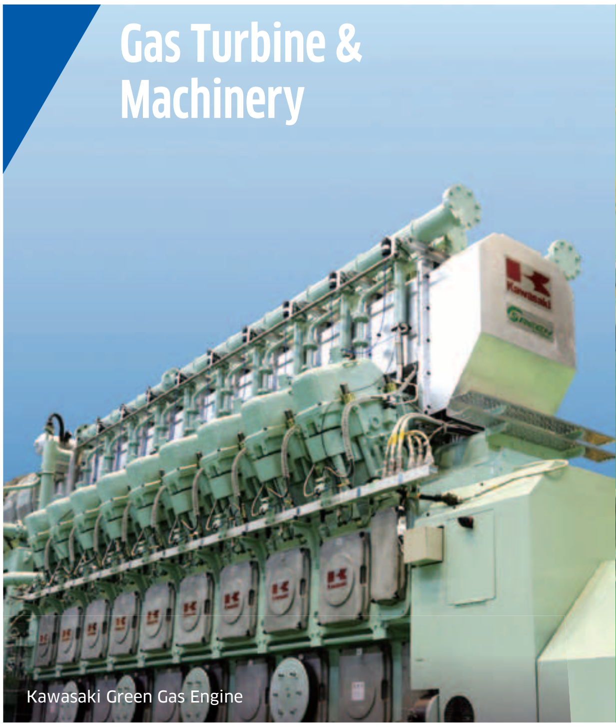
Before-tax ROIC

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

Approach to Social Issues

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

Gas Turbine & Machinery



Kawasaki Green Gas Engine

Gas Turbine L30A

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

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

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

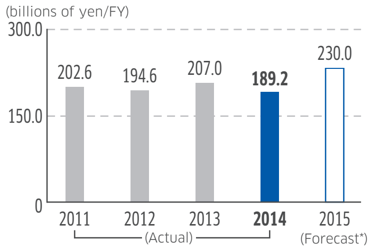
- Use the newly established Energy Solutions Division to strengthen our response to increased energy demand
- Expand the commercial aircraft engine business and secure stable profits
- Expand the marine propulsion systems business targeting the oil- and gas-related offshore market

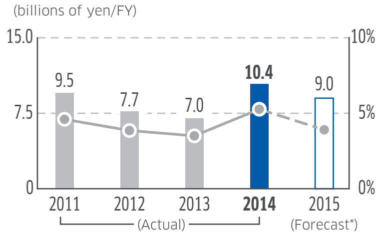
In the energy sector, in fiscal 2014, we set up the Energy Solutions Division to strengthen our response to increased energy demand from emerging nations, as well as to heightened demand for distributed power sources following the revision of energy policies after the Great East Japan Earthquake. By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

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

Financial Highlights

Net sales





*As of April 25, 2014

Before-tax ROIC

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

Approach to Social Issues

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

Plant & Infrastructure

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

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

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

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

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

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

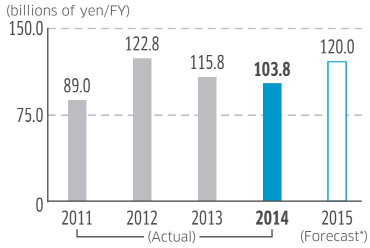
On the technology front, in addition to improving the added value of our superior technologies, we are standardizing design across the board to achieve stable quality, shorter delivery lead times, and cost reductions. In the commercialization of new products and technologies, we use measures such as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

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

Financial Highlights

Net sales

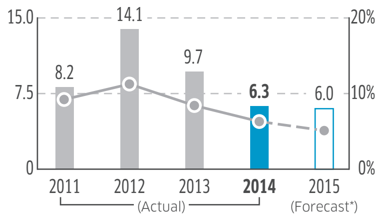
(billions of yen/FY)



Operating income

Ratio of operating income to sales

(billions of yen/FY)



*As of April 25, 2014

Before-tax ROIC

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

Approach to Social Issues

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

Motorcycle & Engine

Ninja 1000

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

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

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

Improve our brand strength

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

Expand our business in emerging markets

- Strengthen our position in the leisure motorcycle field

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

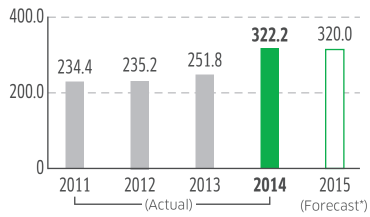
In emerging markets, further expansion is expected on the back of economic growth. To strengthen our position in the leisure motorcycle field, where we already enjoy a competitive lead, we are steadily capturing growing market demand through strategies including expansion of production capacity at local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

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

Financial Highlights

Net sales

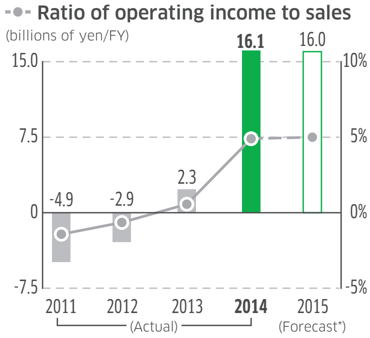
(billions of yen/FY)



Operating income

Ratio of operating income to sales

(billions of yen/FY)



*As of April 25, 2014

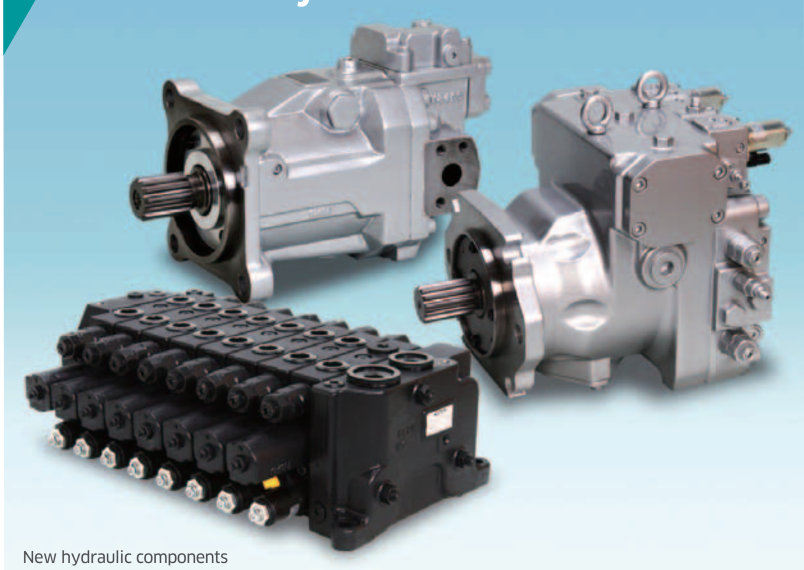
Before-tax ROIC

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

Approach to Social Issues

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

Precision Machinery



New hydraulic components
for construction machinery M7V112, KLSV18, K8V125

BX series BX200L

Business Results for Fiscal 2014 and Outlook for Fiscal 2015

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

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

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

Hydraulic Components

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

Industrial Robots

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

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

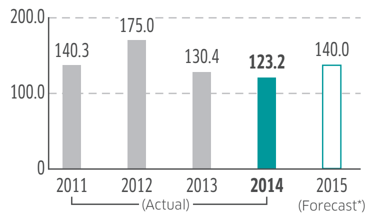
As a response to globalization, following our entry into China, we have set up a new company in the expected future growth market of India that began production in 2012. We have thus established a system with six centers worldwide in Japan, the United Kingdom, the United States, South Korea, China and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

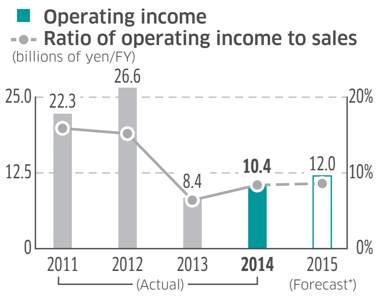
Meanwhile, in the Industrial Robots business unit, to make a rapid advance toward globalization, we will boost cost-competitiveness to facilitate expansion in emerging markets and reinforce the automotive and semiconductor sectors. In addition, we aim to participate in the medical robot field and also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

Financial Highlights

Net sales

(billions of yen/FY)





*As of April 25, 2014

Before-tax ROIC

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

Approach to Social Issues

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

Research and Development

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

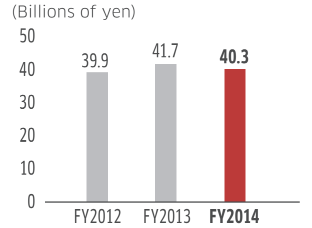
In addition, under the ROIC management strategy, we will strive as one to raise the cohesive power of the Group and improve corporate value by pursuing technology-driven synergies extending beyond divisional walls and efficiently promoting new product and business development.

Technology and Product Development Looking Ahead to a More Distant Future

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

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

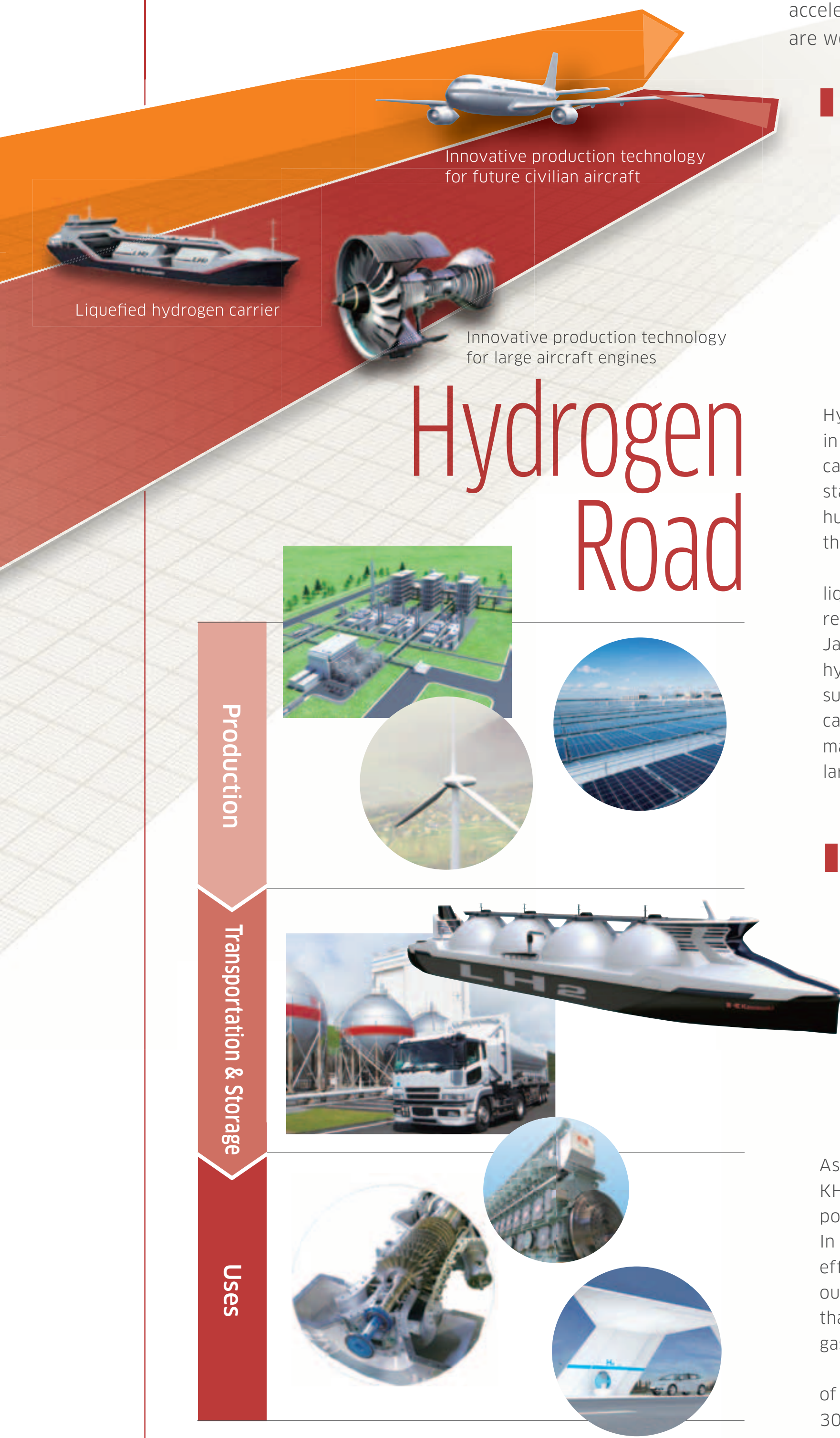
R&D Costs



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

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

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

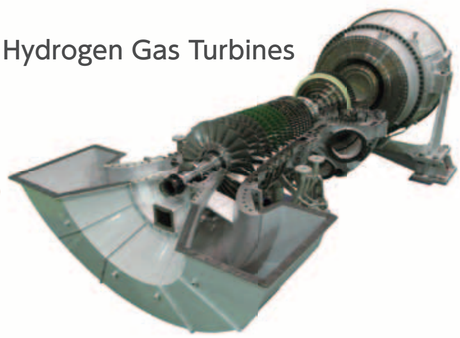


Liquefied Hydrogen Carrier

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

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

Hydrogen Gas Turbines



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

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

KHI Group CSR

CSR Framework-Building and Themes

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

We know that contributing to the future of society and the global environment will raise the value of the Kawasaki brand, and we promote activities in the five themes described below to realize this objective.

Five Themes

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

Theme	Categories	Action goals	MTBP 2013 Goals/Approaches*
Overall	CSR overall	Realize the Group Mission (KHI's duty to society) at a higher level.	Clarify the KHI Group's social responsibility, make employees fully aware that CSR is a Group-wide obligation, and cement a structure to promote relevant practices.
			Listen to stakeholders' opinions and reflect these comments in corporate activities and business operations.
			Respect the Global Compact, UN Millennium Development Goals, and ISO 26000 and other international CSR-related standards.
Value creation	Product development	Draw on comprehensive Group capabilities and apply sophisticated technologies to the development of high-performance, high-quality products.	Strive to contribute to a sustainable society through business activities and products.
	Product responsibility	Provide products and services that are reliable and safe from the customer's perspective.	Create products that customers can trust and seek to further improve quality and product safety.
	Customer satisfaction	Provide products and services that meet customer needs and leave a very positive impression.	Track customer satisfaction and strive to boost the level higher.
Management	Corporate governance	Pursue sound, transparent management, enable each business segment to operate independently, and demonstrate the combined strengths of the Group.	Target further improvement in corporate governance.
	Compliance	Build an organization that is open and self-regulating to underpin a corporate culture with credibility.	Familiarize all employees with KHI's code of corporate ethics and code of conduct.
	Information security	Institute reliable information security measures and maintain the safety and security of information.	Target further improvement in all existing measures to protect information.
	Information disclosure, IR activities	Provide timely, accurate corporate information and further enrich the content of disclosure.	Target further improvement in shareholder and investor communication practices.
	Business partners	Coexist with business partners and maintain fair partnerships while promoting collaboration in CSR activities.	Promote cooperation in CSR management with business partners.
Employees	Safety and health	Create a safe, pleasant working environment where employees can perform their jobs in good health and in a positive state of mind.	Ensure appropriate use and continuous improvement of occupational safety and health management system with due consideration to employee safety and health.
	Human resource development	Consistently cultivate the skills of employees, refine acquired talents, and raise the value of personnel assets to the highest level.	Apply measures to maximize the personal value of employees.
	Human rights Labor	Respect the diversity of employees and strive to create a workplace that embraces wide-ranging values and abilities and utilizes them to the full. Endeavor to create a workplace that provides motivation and satisfaction and one in which employees are treated fairly and appropriately.	Implement initiatives to enhance employees' awareness of human rights issues.
			Look to utilize the long-term benefits of equal opportunity and diversity.
			Strengthen initiatives to create a pleasant work environment for employees.
Environment	Global environment	Strive to realize a low-carbon society, a recycling-oriented society, and a society that coexists with nature.	Steadily reduce annual CO_2 emissions and energy consumption.
			Reduce amount of waste and promote reuse and recycling.
			Steadily reduce environmentally hazardous substances.
Social contribution	(Overall)		Clearly define Group-wide social contribution vision, basic policy and key areas, and implement activities.
	Local communities and Japanese society	Coexist and cooperate with local communities and help nurture new generations that will develop future "dream" technologies.	Encourage self-planned and self-sponsored social contribution initiatives.
	International community	Respect the myriad cultures of countries around the world and contribute to their vibrancy by cultivating technology and human resources in these countries.	

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

CSR Activity Issues and Medium-term Targets for MTBP 2013

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

Previously, during the Medium-term Business Plan 2010, we set our sights on establishing an activity structure and a PDCA cycle, mainly covering the parent company. For MTBP 2013, we will widen the scope to facilitate action on issues as a global group—including points overseas—and to better cover our supply chain. In addition, we are reinforcing efforts in the area of human rights and labor-management, including steps, such as our Dialogue with Experts, to encourage employees throughout the Group to better understand current issues. (Please see pages 93–94 for details.)

Status of Activities in Fiscal 2014

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

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

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

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

Concrete Actions to Achieve MTBP 2013 Targets	Self-Assessment of MTBP 2013 Targets (March 2014)
• Update CSR activities, communicate status to Group, coordinate relevant aspects with corporate management (CSR Department) • Consider integration of corporate planning operations and CSR planning operations (Corporate Planning Department, CSR Department) • Promote greater awareness of CSR through meetings at each location (Marketing Division) • Run CSR-related educational programs (Personnel & Labor Administration Division) • Reinforce legal support structure at overseas locations (Legal Department) • Conduct stratified training program and expand to wholly owned subsidiaries (Plant & Infrastructure Company) • Promote CSR topics through company news and establish internal company rules (Motorcycle & Engine Company) • Promote greater awareness among all employees through stratified training program (Precision Machinery Company, Precision Machinery Division) • Promote greater awareness among all employees through stratified training program (Robot Division)	★★☆☆
• Continue and expand dialogue, and integrate the SRI index into CSR activities (CSR Department) • Enhance labor-management negotiations and direct dialogue between managers and employees (Personnel & Labor Administration Division)	★★☆☆
• Identify trends in all international standard practices and prepare responses (CSR Department) • Promote action on human rights issues throughout the Group at the global level (CSR Department, Personnel & Labor Administration Division, Planning & Control Department)	★★☆☆
• Create value for customers (Marketing Division) • Develop models with the underlying concepts of "Fun to Ride," "Ease of Riding" and "Friendly to the Environment" (Motorcycle & Engine Company)	★★★☆
• Strive to quantify targets set for quality control and continuously improve on results, and reflect and apply reduction criteria for product safety risk in internal company rules (Ship & Offshore Structure Company) • Visualize the content of activities to boost product quality and enhance safety features (Gas Turbine Division)	★★★★
• Introduce a survey to gauge customer opinions (Marketing Division) • Expand opportunities to exchange technology with customers, and promote strategies based on results of customer satisfaction surveys (Precision Machinery Company, Precision Machinery Division)	★★★☆
• Consider steps to strengthen governance and internal controls (welcome outside directors and increase number) (Corporate Planning Department)	★★★★
• Ensure widespread adherence to corporate ethics guidelines at each Group company (CSR Department) • Establish rules to prevent bribery of public servants in foreign countries and promote acceptance of such rules throughout the Group (CSR Department) • Maintain education and awareness programs that highlight importance of respect for the law (General Administration Department) • Promote greater awareness through meetings at each company (Marketing Division) • Maintain activities, such as classes and training programs, to promote greater awareness of compliance practices (Machinery Division)	★★★☆
• Improve security level to mitigate risk associated with leaks of confidential information (Information Planning Department) • Maintain and further reinforce measures to safeguard personal information (CSR Department) • Execute full-scale rollout of IT audit (Auditing Department)	★★★☆
• Hold regular factory tours for individual shareholders (General Administration Department) • Reinforce responses through IR connection (Public Relations Department) • Review methods and content of disclosure, and enhance IR events (Finance Department)	★★★★
• Establish CSR procurement guidelines at all Group companies (Planning & Control Department, CSR Department) ⇒ **Shared global Group effort**	★★☆☆
• Reinforce measures to prevent serious accidents or equally disastrous circumstances (Personnel & Labor Administration Division) • Promote safety-awareness education (Personnel & Labor Administration Division) • Reinforce safety and health organization control (Personnel & Labor Administration Division) • Enhance mental health policy (Personnel & Labor Administration Division) • Continue to audit occupational safety and health management system through DNV (certification body) and constantly conduct risk assessment activities (Ship & Offshore Structure Company)	★★★☆
• Increase learning opportunities to cultivate skills of global human resources and put in place relevant systems and conditions to support training (Personnel & Labor Administration Division) • Enhance management training and stratified training programs (Personnel & Labor Administration Division) • Cultivate entrepreneurial and engineering talent, and enhance frontline manufacturing capabilities (Personnel & Labor Administration Division) • Roll out human resource development programs throughout the Group (Personnel & Labor Administration Division) • Cultivate skills of engineers, provide support for manufacturing activities at production sites, and enhance manufacturing capabilities (Plant & Infrastructure Company)	★★★☆
• Ensure there is no use of child labor or forced labor at any Group company, including locations overseas (Personnel & Labor Administration Division, CSR Department) ⇒ **Shared global Group effort**	★★☆☆
• Implement approaches, such as 4U (for you) Network, geared toward all female employees (Personnel & Labor Administration Division) • Continue to recruit foreign nationals, introduce measures such as an employment promotion network for overseas nationals (Personnel & Labor Administration Division) • Keep employment ratio of people with disabilities stable and promote active roles (establishment and operation of special purpose subsidiary) (Personnel & Labor Administration Division)	★★☆☆
• Reinforce support for employees with childcare and elder care responsibilities (Personnel & Labor Administration Division) • Repair and rebuild noticeably rundown dormitories and company housing to make the structures safer for occupants (Personnel & Labor Administration Division)	★★☆☆
• Use and promote an energy visualization system (Environmental Affairs Department) • Work to identify Group's CO_2 level on a global basis and then work to decrease emissions (Motorcycle & Engine Company)	★★★☆
• Reduce waste, promote reuse and recycling, and promote PCB treatment (Environmental Affairs Department) • Reduce basic unit of waste output (Gas Turbine Division)	★★★★
• Reduce chemical substances (Environmental Affairs Department) • Reduce water consumption (Environmental Affairs Department)	★★★☆
• Clarify vision, basic policy, key areas, and role of individual organizations (CSR Department, General Administration Department) • Consider social contribution activities delivering tangible results and make them known (General Administration Department)	★★☆☆
• Build internal systems, strengthen activities, identify the expectations placed on KHI by society and reflect these views in future activities (CSR Department) • Continue to give tours of Kawasaki Good Times World to elementary and junior high school students as part of their social studies programs (Public Relations Department) • Continue to run clean-up campaigns near factory sites, promote work experience opportunities, and conduct educational activities such as the Make Your Own Helicopter! workshop to support development of the next generation (Aerospace Company) • Continue participation in Kawasaki Kyodo no Mori, a forest regeneration project undertaken jointly with the town of Niyodogawa, in Kochi Prefecture, and maintain support for exchange students (Plant & Infrastructure Company)	★★☆☆

Evaluation subject: In principle, non-consolidated

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

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

1 Value Creation

We will use our integrated technological expertise to create values that point the way to the future.

The KHI Group Mission—"Kawasaki, working as one for the good of the planet"—indicates that we are committed to achieving sustainability and resolving issues in society through our business operations. At the same time, we are taking action to further improve our activities to ensure product safety and enhance quality and customer satisfaction.

Categories		
Product development	Product liability	Customer satisfaction

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

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

Overview of Activities in Fiscal 2014

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

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

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

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

Focus 1

Motorcycle & Engine Company

Product Safety Initiatives

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

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

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

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

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

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

Operational modes of Kawasaki TRaction Control

Tire Pressure Monitoring System

Multifunction LCD meter

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

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

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

Compact ABS unit

FOCUS 2

Plant & Infrastructure Company

Seeking Higher Quality

Tackling big projects overseas

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

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

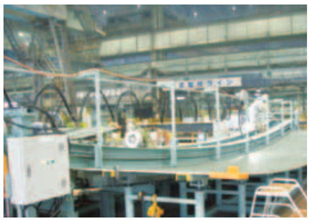
The Plant & Infrastructure Company has a wide range of products such as industrial plants (Cement / Chemical), LNG plants, power plants and incineration plants and others. Most of these products share a noteworthy characteristic in that they are completely built-to-order. A prime example would be LNG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

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

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

In addition, to meet rising quality requirements,

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



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

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

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

FOCUS 3

Ship & Offshore Structure Company

Working to Boost Customer Satisfaction

Product support utilizing know-how

Yoshihiro Watanabe

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

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

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

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

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

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

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

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

Jetfoil List in Japan (As of March 2014)

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

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

2 Management

We will always act with integrity and good faith to merit society's trust.

To ensure that the KHI Group remains a company able to meet the expectations of society, management is committed to operating with a high degree of transparency toward stakeholders and to promoting activities that integrate business operations in the spirit of our Mission Statement with CSR activity.

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

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

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

Overview of Activities in Fiscal 2014

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

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

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

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

FOCUS 1 KHI Group Internal Audits

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

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

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

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

FOCUS 2 Establishment and Promotion of Bribery Prevention Regulations

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

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

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

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

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

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

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

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

Corporate Governance System

Basic Stance on Corporate Governance

Guided by the Group Mission "Kawasaki, working as one for the good of the planet," KHI established a corporate governance system centered on directors and corporate auditors, with content appropriate for the activities that the Group undertakes, and efforts are made to further improve the system. The basic stance on corporate governance for the Group as a whole is to raise enterprise value through effective and sound business activities while forming a solid relationship with all stakeholders, including shareholders, customers, employees and communities, through highly transparent management practices.

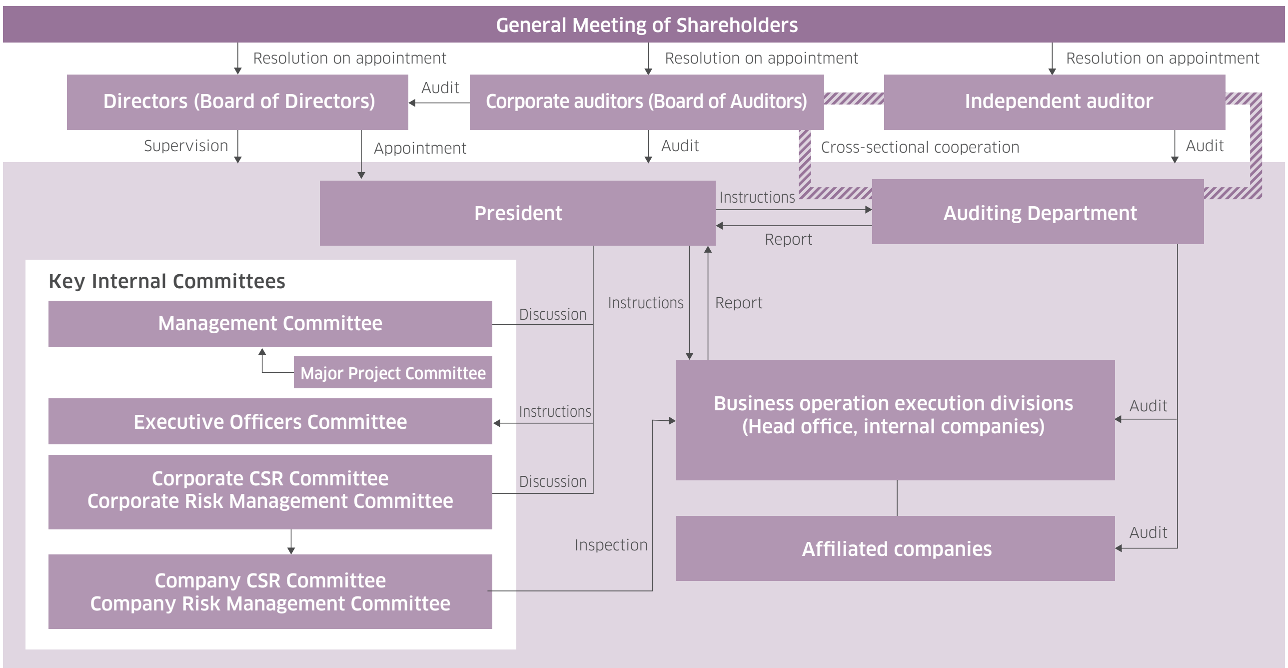
Overview of the Corporate Governance System

KHI opted for the statutory auditor system with a Board of Auditors and appoints an independent accounting auditor. In addition to the Board of Directors and the Board of Auditors, the Company benefits from the Management Committee and the Executive Officers Committee, both comprising people of appropriate rank, such as representative directors, but the Executive Officer Committee also includes executive officers who have been appointed by the Board of Directors.

Key Internal Committees Other Than Board of Directors and Board of Auditors

Name	Activities
Management Committee	• Assists the president as an advisory body with regard to Group management • Discusses important management policy, management strategy, management issues, and other matters from a Group perspective
Executive Officers Committee	• Conveys business execution policy based on management policy and management plans determined mainly by the Board of Directors and the Management Committee • Venue for communicating necessary and important information regarding business execution and exchanging opinions
Corporate CSR Committee	• Discusses and decides on CSR basic policy and important matters for the Group as a whole and monitors implementation status
Corporate Risk Management Committee	• Discusses important issues pertaining to risk management for the Group as a whole and monitors implementation status
Major Project Committee	• Discusses risk management for major projects, starting with major orders

KHI's Governance Structure



Efforts to Strengthen Corporate Governance

1961	Adopted divisional structure	Adopted divisional structure to respond to increasingly complicated economic activities, wider geographical sphere of business and progress in engineering and science (delegated authority and responsibilities with regard to profits to each division)
1966	Established "Management Principles"	Established on occasion of 70th anniversary with the principal objective to prosper along with stakeholders
2001	Adopted internal company structure Adopted executive officer system	Expedited decision-making through delegation of authority and clarification of responsibilities Improved management efficiency by designating two distinct management functions: decision-making and business-execution
2007	Established Mission Statement	In light of changes in the environment after "Management Principles" had been established, created new Mission Statement (partially revised in 2012) that incorporated the Group's social mission for the 21st century, commonly shared values to increase Kawasaki brand value, core principles to guide business activities, and actions regularly expected of each individual employee
2013	Appointed outside director	Strengthened supervisory function of Board of Directors with regard to overall management

Board of Directors

The Board of Directors comprises 13 directors (authorized number: 18), with the president serving as presiding officer due to a vacancy in the position of chairman. Seeking to strengthen the oversight function of the Board of Directors with regard to overall management, the Company appoints one outside director (an independent officer, as required by the Tokyo Stock Exchange) who is independent from any role in the execution of business activities. As a way to clarify management responsibilities, all directors' terms of office are limited to one year and compensation for all directors except the outside director is incentive-based to reflect performance.

Number of Board of Directors' Meetings, and Directors' and Corporate Auditors' Attendance Rates (Includes Extraordinary Meetings)*1

	June 2011–June 2012	June 2012–June 2013	June 2013–June 2014
Number of meetings	13	14	13
Directors' attendance rate	97.9%	98.9%	99.2%
Auditors' attendance rate	96.2%	100%	100%
Outside corporate auditors' attendance rate	100%	92.9%	100%
Outside director's attendance rate	N/A	N/A	100%

*1 The number of meetings and associated attendance rates apply to meetings that occur during a one-year period, beginning with the Board of Directors' meeting that takes place after the General Meeting of Shareholders and ending immediately preceding the General Meeting of Shareholders the following year.

Reason for Appointing an Outside Director

Name	Reason for Appointment
Yoshihiko Morita	The Company judged that Mr. Morita would be able to express useful opinions and advice on important matters of the Company from a position independent of any role in the execution of business activities, in light of his substantial overseas experience and knowledge as a specialist, acquired at the Japan Bank for International Cooperation and other institutions.*2 Management believes he will be able to fully perform his role as an outside director in supervising the execution of business activities by the Company.

*2 Japan Bank for International Cooperation, where Mr. Morita was once a director (until retirement in June 2011), and Sumitomo Mitsui Banking Corporation, where Mr. Morita was once an advisor (until retirement in June 2013) are business associates of KHI. However, the Company conducts transactions with several financial institutions and reliance on both banks is low and neither bank exerts much of an influence on KHI management. Consequently, we see nothing that would encroach upon Mr. Morita's independence, and therefore he is suitable as an independent officer.

Corporate Auditors and Board of Auditors

The Board of Auditors comprises four corporate auditors (authorized number: 5). To ensure the reliability of financial reports, the Company appoints internal corporate auditors who have considerable knowledge of finance and accounting, and to ensure objectivity and neutrality in the management oversight function, the Company appoints two outside corporate auditors (independent officers, as required by the Tokyo Stock Exchange) with no business relationships or other vested interests in the Company. The internal corporate auditors and outside corporate auditors share information closely and work to enhance the management oversight function.

Number of Board of Auditors' Meetings, and Corporate Auditors' Attendance Rate*1

	June 2011–June 2012	June 2012–June 2013	June 2013–June 2014
Number of meetings	17	18	21
Corporate auditors' attendance rate	100%	100%	100%
Outside corporate auditors' attendance rate	100%	97.2%	100%

*1 The number of meetings and associated attendance rates apply to meetings that occur during a one-year period, beginning with the Board of Directors' meeting that takes place after the General Meeting of Shareholders and ending immediately preceding the General Meeting of Shareholders the following year.

Reason for Appointing Outside Corporate Auditors

Name	Reason for Appointment
Michio Oka	To enhance the auditing function by drawing on the vast experience and keen insight Mr. Oka has accumulated as a corporate director*3 and by incorporating opinions based on his impartial and independent perspective
Nobuyuki Fujikake	To enhance the auditing function by drawing on the keen insight and varied experiences Mr. Fujikake has acquired as a lawyer and by incorporating opinions based on his impartial and independent perspective

*3 Kawasaki Kisen Kaisha, Ltd., where Mr. Oka was once a director (until retirement in June 2002) is a business partner of KHI. However, there is essentially no capital relationship like that of a Group company and average transaction volumes between the Kawasaki Kisen Group and KHI Group for the most recent five fiscal years account for less than 2% of the total annual average sales each for the Kawasaki Kisen Group and KHI Group over the corresponding period. Consequently, the Company has determined that there is no issue as regards to the independence of Mr. Oka, and he is therefore suitable as an independent officer.

Internal Auditing

With regard to internal auditing, the Auditing Department, a unit under the direct authority of the president, maintains an independent position for monitoring all corporate business activity. The department targets management activities in all of the Group's business segments for audits. In this way, the department verifies and evaluates effectiveness and efficiency in the execution of operations, the reliability of financial reports, and conformity to standards of compliance (corporate ethics and laws), and offers suggestions for improvements.

Independent Auditing

With regard to independent auditing, KHI undergoes audits of its financial statements by the independent auditor KPMG AZSA LLC. Corporate auditors and the Board of Auditors receive an outline of the audit plan and a report on important audit items from the independent auditor, and the Board of Auditors explains the Company's auditing plan to the independent auditor. Corporate auditors and the Board of Auditors periodically receive reports on the results of audits by the independent auditor, and conversely, the independent auditor receives reports on the results of audits by the corporate auditors and the Board of Auditors, who strive to keep lines of communication open with the independent auditor by also exchanging information and opinions. When necessary, corporate auditors take part in the audits performed by the independent auditor, and may also receive reports from the independent auditor concerning audits when appropriate.

Independent Auditor Compensation

(Millions of yen)

Subject of audit	Fiscal 2014	
	Compensation based on audit certification services	Compensation based on non-audit services
Kawasaki Heavy Industries Ltd.	169	40
Consolidated subsidiaries	54	0
Total	223	40

Compensation to Corporate Officers

The compensation system for KHI directors—which is designed to promote sustained improvement in corporate performance and enterprise value and to secure outstanding human resources—ensures a level of compensation in line with the duties of the individual officer. The level of compensation is determined by the president as delegated by the Board of Directors. Compensation for directors, except the outside director, is linked to corporate performance.

From the perspective of professional independence, compensation for corporate auditors is set at a fixed level and not linked to corporate performance. It is determined by the Board of Auditors. The system of compensation for directors and corporate auditors described above operates within a fixed compensation range approved by shareholders at the General Meeting of Shareholders.

Amount of Corporate Officers' Compensation in Fiscal 2014

(Millions of yen)

Category	Fiscal 2014
Directors 16 people	¥600 million
Corporate auditors 5 people	¥88 million
Total 21 people	¥689 million (of which ¥27 million was paid to four outside directors/corporate auditors)

Note: The maximum amount of compensation for directors is ¥1,200 million per year (as resolved at the 189th Ordinary General Meeting of Shareholders held on June 27, 2012). The maximum amount of compensation for corporate auditors is ¥8 million per month (as resolved at the 170th Ordinary General Meeting of Shareholders held on June 29, 1993).

Business Operations Structure

The Company adopted the executive officer system, which facilitates quick responses to changes in the business environment. Under this system, duties are delegated to executive officers who have been appointed by the Board of Directors.

The Company has established the Management Committee as an advisory body that assists the president with regard to Group management. The committee discusses important management policy, management strategy, and management issues and then presents its opinions on given issues to the Board of Directors.

Business execution policy based on management policy and management plans, determined mainly by the Board of Directors and the Management Committee, is immediately conveyed to all executive officers. In addition, the Executive Officers Committee, in its efforts to unify the direction of Group management, ensures that such policy has been thoroughly conveyed. This system enables the smooth execution of business operations.

Applying this structure throughout the Group, KHI will keep improving its enterprise value while maintaining management transparency and achieving greater efficiency and soundness in management practices.

Compliance

In the Kawasaki Group Management Principles, which target the entire KHI Group, we extol the corporate virtue of "recognizing social responsibility and coexisting harmoniously with the environment, society as a whole, local communities and individuals," and in the Kawasaki Group Code of Conduct, we ask each and every member of the Group to "earn the trust of the community through high ethical standards and the example you set for others."

We drafted the KHI Code of Corporate Ethics for ourselves and the Kawasaki Global Business Ethics Guidelines as common policy for the Group, and we maintain a basic philosophy on corporate ethics that executives and employees are expected to uphold.

KHI Code of Corporate Ethics

We established the KHI Code of Corporate Ethics, and the basic principles of corporate ethics are stipulated in the Code as follows.

1. **Practice of ethics as a business person**
   We do not hide the truth and do the right things when performing the duties.
2. **Respect for individuality and human rights / Prohibition of discrimination**
   To create and maintain a comfortable workplace, we respect the individuality and human rights of all people. We do not engage in discrimination, sexual harassment and bullying.
3. **Promotion of environmental protection**
   To conserve limited resources and nature and reduce the impact on the global environment, we take voluntary and proactive efforts to save resources and energy, minimize waste, promote resource recycling and prevent environmental pollution.
4. **Compliance with laws, regulations and social rules**
   We recognize the importance of compliance and proactively ensure compliance.
5. **Proper accounting and reliability of financial reports**
   We record and disclose corporate activity in accordance with proper accounting standards stipulated in laws and regulations. We ensure reliability of financial reports.

Kawasaki Global Business Ethics Guideline

1) **Integrity in transaction**
We do not use false information when explaining and advertising our products. We deal with customers, agents and suppliers with respect and integrity.

2) **Fair Competition**
We abide by antitrust laws to compete fairly. We do not discuss sales prices and bid prices with our competitors.

3) **Accuracy of Accounting**
We record transactions with proper accounting procedure. We prepare accurate and complete financial reports.

4) **Prohibition of Excessive Gifts and Entertainment**
We do not provide or accept excessive gifts and entertainment.

5) **Anti-Bribery**
We do not give bribes to domestic and foreign government officials. We do not give bribes through agents and intermediaries either.

6) **Avoiding Conflicts of Interest**
We avoid conflicts of interest when performing our jobs. We act in the best interest of the company, not influenced by personal interest.

7) **Proper Use of Company Asset**
We do not use company's asset for personal profit.

8) **Proper Handling of Company's Non-Public Information**
We do not disclose non-public information to outside of the company unless disclosure is required for business purpose. We do not use non-public information for personal profit.

9) **Compliance with Export Control Laws.**
We abide by applicable export control laws.

10) **Compliance with Environmental Laws.**
We abide by applicable laws to protect clean air and water. We store and dispose of hazardous wastes in a legal manner.

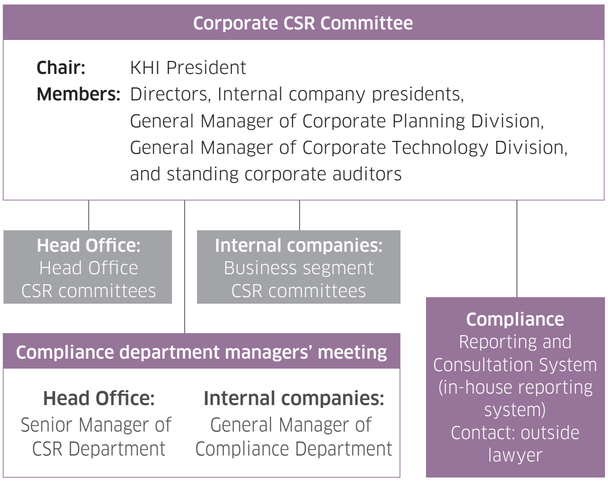
11) **Safe Workplace**
We recognize that safety is top priority. We conduct our operations in a safe manner following legal standards.

12) **Respect for Human Rights**
We do not discriminate or harass anyone in workplace. We do not tolerate child labor under local minimum age and any forced labor.

Compliance Promotion Structure

The Corporate CSR Committee meets at least twice a year. All executives are members of this committee, which is chaired by the KHI president. Their goals are to discuss and determine approaches that enable the KHI Group to fulfill its corporate social responsibilities and to monitor the status of compliance efforts. This includes compliance with the basic philosophy of corporate ethics set forth in the KHI Code of Corporate Ethics. To ensure that the objectives of the Corporate CSR Committee extend to all corporate structures, business segments at the head office and internal companies hold "business segment CSR committee" meetings in their effort to promote compliance throughout the Group.

Compliance Promotion Structure



Compliance Reporting and Consultation System (In-House Reporting System)

In certain situations, employees at the company and domestic consolidated subsidiaries who suspect a violation of compliance practices in their department may find it difficult to report the situation or seek advice from superiors or a department that would normally address alleged misconduct. To address this problem, we established the Compliance Reporting and Consultation System.

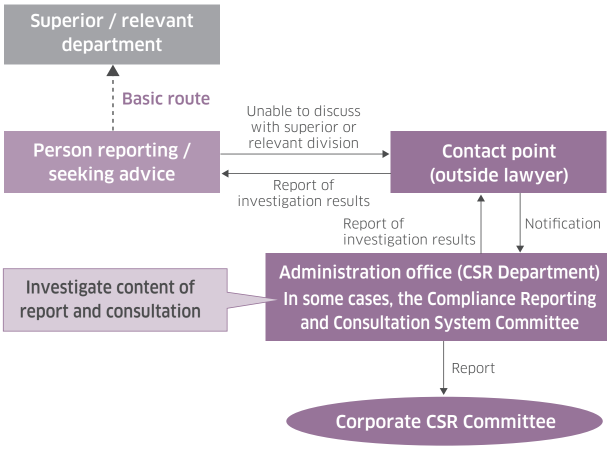
Under our compliance reporting and consultation system, reports from staff with concerns are heard by an outside lawyer who can be contacted directly for advice and consultation. The substance of the report is then investigated and an assessment is made as to whether a violation has occurred. After a decision has been made on appropriate response measures going forward, the results of the procedure are reported by the outside lawyer directly to the employee who raised the issue.

In fiscal 2014, the system was used 19 times.

Number of Report or Consultation (in fiscal 2014)

Nature of report or consultation	Number of cases
Power harassment	6
Personnel treatment	5
Illegal or dishonest acquisition of money	4
Others	4
Total	19

Compliance Reporting and Consultation System Flow Chart



Compliance Promotion Activities

Declaration to Observe Laws and Regulations

To make doubly sure that executives and managerial staff realize they "shall not act in any way that contravenes established rules," KHI requires them to submit a Compliance Declaration, which declares their intention to observe laws and regulations when they assume their duties.

Power Harassment Program

We select compliance-related themes each fiscal year and implement compliance-related activities throughout the Group under a shared concept.

In fiscal 2014, we introduced a program on power harassment for general managers and section managers at the Company and domestic affiliated companies. About 2,298 people participated in the program. The purpose of this training is not merely to caution managers against committing—or allowing others to commit—power harassment but also, from the perspective of employee development and office productivity, it is an opportunity to encourage managers to cultivate a vibrant atmosphere free of power harassment.

Distribution of Fifth (Revised) Edition of Compliance Guidebook

In September 2013, we published the fifth (revised) edition of the Compliance Guidebook, which presented in the foreword the president's compliance declaration, "Ensure full compliance under any and all conditions, in any and all locations." The guidebook was distributed to all KHI Group corporate officers, employees and temporary staff in Japan.

The Compliance Guidebook outlines the KHI Group's compliance system and compliance activities, and explains its compliance information and consultation system. Using cartoons to illustrate the points, it presents easily grasped examples of situations where care is required. Further sections deal with Matters concerning Securing the Trust of Customers and Business Partners; Matters to Be Observed as a Corporate Citizen; Matters concerning Data Protection; Matters concerning Handling Financial Transactions; Matters concerning the Workplace; and Responsibilities of Executives.

Efforts to Prevent Corruption

Response to the Anti-Monopoly Law

KHI clearly states its promise to respect, and comply with, laws and social rules in the KHI Code of Corporate Ethics. Unfortunately, however, the Company has been admonished in the past for actions contravening the Anti-Monopoly Law.

Firmly resolved to prevent a repeat of such situations, the Company drafted various measures to ensure compliance with the Anti-Monopoly Law.

Specifically, since it is the responsibility of top management to set an example for the Company, the Board of Directors passes a resolution at the meeting that immediately follows the general meeting of shareholders each year to the effect that the Anti-Monopoly Law is to be upheld. For employees, we have prepared rules emphasizing respect for the Anti-Monopoly Law and strongly urge employees to refrain from actions that might contravene the Anti-Monopoly Law. In addition, our Guidebook for Observing the Anti-Monopoly Law describes behavioral standards using situations that could arise in daily business activities, with an emphasis on awareness and direction to prevent problems.

Bribery Prevention Regulations

Taking an even tougher stand against corruption, KHI established Bribery Prevention Regulations in August 2013. These regulations represent a thorough commitment to prevent situations with the potential for dishonesty in corporate practices. Our basic policy states that "the KHI Group will uphold laws in the execution of business activities and that bribes to public officials in Japan or overseas is not at all condoned." Currently, we are promoting the establishment of regulations with similar content at domestic and overseas affiliated companies.

Measures to Prevent Irregularities at Small-Scale Operating Sites

Certain situations are unique to small-scale operating sites, such as regional offices and satellite branches, which may not give the "check system" the attention it is due or may have people stuck in a particular position because personnel rotation is more of a challenge to implement. Related divisions at the head office put together working groups to reduce the risk of irregularities that might occur due to these issues specific to small-scale operating sites, and they seek to promote effective and efficient risk management—namely, the establishment of a structure to prevent irregularities.

Elimination of Antisocial Forces

KHI resolutely rejects inappropriate requests from antisocial forces and undertakes various measures to break off completely from any relationship that may unwittingly be formed.

Specifically, we publish our Compliance Guidebook and our Manual of Responses to Antisocial Forces, and strive to promote awareness and full compliance of established practices and systems, such as internal structures to prevent dealings with antisocial forces and specific actions that must be taken should transactions inadvertently occur. In addition, we have established a unit at the head office to supervise responses associated with the elimination of antisocial forces. This unit works closely with the police and other external specialist organizations and has the task of building a structure to systematically deal with inappropriate requests from antisocial forces.

Risk Management

Risk Management Policy

In accordance with the Companies Act, the KHI Board of Directors has adopted a basic policy for internal control systems. The policy makes it clear that risk management should be addressed in accordance with the Risk Management Regulations by seeking to anticipate and avoid loss caused by risk, and to minimize risk through appropriate operation of the risk management system.

In addition, to achieve sustained improvement of profitability and corporate value, the Kawasaki Group Mission Statement identifies risk management as a guiding theme of the Kawasaki Group Management Principles.

To support these policies, the Risk Management Regulations lay down the following basic policy for the KHI Group in the field of risk management:

1. Aiming to realize its Group Mission—"Kawasaki, working as one for the good of the planet"—KHI and the KHI Group will facilitate global and sustained business execution by continuously implementing risk management.
2. In implementing risk management, KHI and the KHI Group will put in place a risk management system, for which ultimate responsibility lies with the company president, as a means of preventing risks that may hinder business execution.
3. In the event that a risk situation emerges, KHI and the KHI Group will work to minimize loss to customers, employees, local communities and other stakeholders, and to prevent recurrence.
4. Each individual corporate officer and employee will engage actively with risk management and will work to maintain the risk management system and improve risk management and response capabilities.

In accordance with these basic guidelines, the Risk Management Regulations and Corporate Risk Management Manual stipulate that, to undertake risk management organized on a Group-wide basis, the risk management activities carried out hitherto by divisions responsible for the different areas of operations should be reinforced and that Group-wide action should be taken each year to identify major risk which could have a serious impact on business operations (Group-level risk), as well as to specify risk which requires Group-wide response measures (risk requiring Group-wide action), with appropriate response measures taken and the results subjected to monitoring.

Regarding risk associated with management strategy, in accordance with the Board of Directors Regulations, Management Committee Regulations, and Approval Regulations, the relevant divisions are required in advance to analyze the risk and consider response measures or other appropriate steps, and relevant matters should be discussed and a resolution agreed by the Board of Directors or the Management Committee in accordance with regulations. In particular, in the case of major projects with significant impact on operations, appropriate risk management should be carried out in accordance with the Major Project Risk Management Regulations, published separately.

Concurrently, action to be taken when a risk situation emerges is set out in the crisis management provisions of the Risk Management Regulations, which stipulate that emergency action guidelines should be clearly identified, a Crisis Management Officer should be appointed for each operating site, and a system should be operated as appropriate to reduce losses to the minimum.

Scope of Risk Covered

KHI defines risk as "phenomena that hinder the conduct of business operations or the achievement of organizational goals," and is committed to giving due consideration to strategic risk and other risk items, as well as to phenomena that have a beneficial effect on the organization.

In concrete terms, this means all risk listed below, classified into external risk and internal risk (strategic risk and business risk), is included in the scope.

Corporate Risk Management System

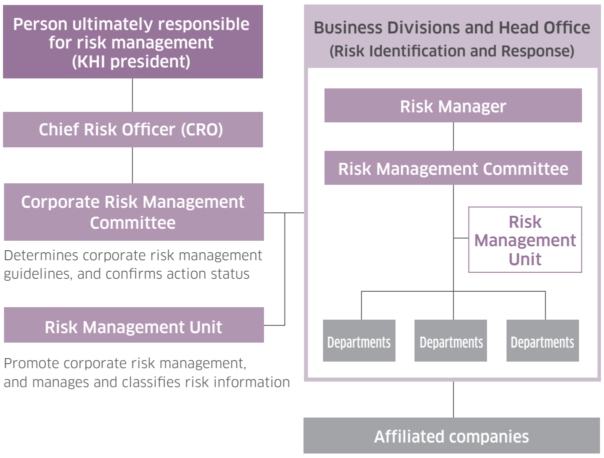
KHI has established a Corporate Risk Management System to ensure a uniform level of risk management across the Group, through which it identifies and responds to major risk with potential serious impact on operations and works to enhance risk management as outlined in the Kawasaki Group Management Principles.

To engage in continuous activities through implementation of the Corporate Risk Management System, we highlighted realization of Group-wide risk management as one of the key strategies of our Medium-term Business Plan. In addition, we revised the Risk Management Regulations in April 2010.

The KHI system places ultimate responsibility for risk management with the company president, and responsibility for coordinating risk management operations with the Chief Risk Officer (CRO). The KHI system also seeks to reinforce the risk management system by setting up a Risk Management Committee with the function of discussing important matters relating to risk management and monitoring implementation status. Meanwhile, a Risk Management Unit has been set up within the Head Office Corporate Planning Department to implement and support corporate risk management, and each business division operates a similar system, for which the general manager of the business division is responsible. These measures are designed to reinforce a system that takes a Group-wide approach to risk management.

From October 2011, similar initiatives were extended to important affiliated companies in Japan so that, by the end of fiscal 2013 a Corporate Risk Management System was in place that included domestic affiliated companies.

Corporate Risk Management System



Responding to Significant Risks in Fiscal 2014

Under the Corporate Risk Management System, major risk that could have a potentially serious impact on Group-wide operations is identified each year using uniform metrics and subjected to continuous management from a Group-wide perspective using efficient and optimal methods.

In concrete terms, this means that management of major risk at the Group-wide level is carried out by applying the following Plan-Do-Check-Act (PDCA) cycle to Group-wide risk management programs: (1) screening and evaluation of risk; (2) identification of major risk and specification of risk requiring action; (3) formulation and implementation of risk response measures; and (4) monitoring.

Regarding activities in fiscal 2013, to coincide with the formulation of the Short-term Business Plan, operations were begun in January 2013 to (1) detect and evaluate risk and (2) identify major risk and specify risk requiring action.

Risk Identified as Group-Level Risk in Fiscal 2014

Data on major risk identified at the business division level were collated, and the Corporate Risk Management Committee then identified major risk that could have a serious impact on operations under 20 item headings.

These risks are subject to monitoring in March of every year by the Head Office division responsible for monitoring. Meanwhile, taking Group-level risk as the basis, decisions are made on which risk items to disclose as “business risk and other risk” in the Securities Report, this report, and other information sources.

The risk items are subject to yearly review.

Risk Identified as Group-Level Risk in Fiscal 2014

Name of risk	Head Office division responsible for monitoring
Foreign exchange risk	Finance Department/ Corporate Planning Department
Human risk	Personnel Department
Major disaster risk	Corporate Planning Department
Procurement risk	Procurement Devision
Information leakage risk	General Affairs Department/ Information Planning Department
Individual commissioned project management risk	Corporate Planning Department
Economic recession risk	Corporate Planning Department
Quality management risk	Manufacturing Improvement Department
Safety and health risk	Safety & Health Management Department
Development and design risk	Corporate Technology Division
Country risk	Marketing Division
Debt collection risk	Finance Department
Compliance risk	CSR Department
Contract risk	Legal Department
Production process management risk	Manufacturing Improvement Department
Tax risk	Accounting Department
Environmental contamination risk	Environmental Affairs Department
Facility obsolescence risk	Corporate Planning Department
Intellectual property risk	Intellectual Property Department
Business investment risk	Corporate Planning Department

Risk Specified as Risk Requiring Group-wide Action in Fiscal 2014

Within Group-level risk, we specified the three items listed below as areas where response was insufficient and Group-wide action was urgently necessary. To deal with these risks, a Head Office division responsible for action was designated to take the main role in formulating and implementing response measures.

Risk Specified as Risk Requiring Group-wide Action in Fiscal 2014

Name of risk	Head Office division responsible for monitoring
Major disaster risk	Corporate Planning Department / General Affairs Department
Facility obsolescence risk	Construction Control Department / Corporate Planning Department

Crisis Management

Basic Stance for Crisis Management

The KHI Group's Risk Management Regulations contain crisis management provisions set out in readiness for the emergence of a risk situation. These regulations set forth behavioral guidelines and response systems that serve to protect lives and preserve assets, minimize damage and loss, and expedite the resumption of business activities in the event of unplanned interruption. To prepare for crisis situations, we rely on the Crisis Management Organization, a horizontally integrated Group structure for crisis management, and have a structure in place to expedite the establishment of command centers at the Head Office and local works or offices, as necessary, to ensure a quick response in the event of a crisis.

Crisis Management

In Normal Times

To prepare for possible crisis situations, we established the Crisis Management Organization, which oversees a crisis management system integrated horizontally across the Group structure. The KHI president has the role of Chief Crisis Management Officer, while the head of each operating site or organizational unit acts as its Crisis Management Officer and supervises the setting up of a Crisis Management Office. The Crisis Management Office assists the Crisis Management Officer and undertakes the task of putting in place and maintaining a mobilization system to ensure normal operations in the event of an emergency. Meanwhile, the heads of the various Head Office divisions and other staff members whom they designate form a dedicated support team for the Crisis Management Office.

In Times of Disaster or Accident

If an accident or natural disaster occurs, information is sent where it is needed through a predetermined reporting route for use in times of emergency. This route is made known clearly to employees and executives through the Crisis Management Organization, which in normal circumstances underpins the Group's crisis management structure. In cooperation with the emergency-activated reporting route, we have introduced contact networks in all business divisions and at all operating sites to ensure quick updates on the status of personnel and facilities throughout the Group.

In Times of Disaster or Accident

Type of Command Center	Key Role	Location
Corporate Command Center	Set up in the event of a crisis that requires a Group-wide response; determines measures to be implemented throughout the Group and basic policy on action plans	Office that has not sustained any damage In principle, either the Kobe Head Office or the Tokyo Head Office
Integrated Plant Command Center	Determines issues relevant to all plants; coordinates with internal companies	Plant facilities of several internal companies
Company Command Center	Provides internal company support in areas devastated by disaster; determines response to affected suppliers and customers	Appropriate location at each internal company
Local Command Center	Determines measures, according to business segment and business office	Office that sustained damage

In addition, we introduced an emergency communication system applicable to all companies under the Group umbrella that immediately confirms the safety of employees when a disaster occurs; tests are repeated every year to ensure that employees are familiar with the system and know how to use it.

Crisis Management Efforts

In addition to the establishment of the aforementioned crisis management structure, the KHI Group has formulated a business continuity plan (BCP) in preparation for a major earthquake centered on Tokyo or a similar major seismic event, or a pandemic caused, for example, by a new strain of influenza.

The plan was formulated with attention to the following basic principles:

1. Protecting the health and the life of employees and their families (including non-employees working on site and visitors)
2. Performing of duties essential to the fulfillment of our social responsibilities (commissions from customers, business partners, and government offices, and maintenance and restoration of mission-critical systems such as public infrastructure and civil defense)
3. Normalizing the business operations of the KHI Group
4. Fulfilling responsibilities and contributing to local communities

Export Control

To ensure safety by maintaining international peace and security, the export of materials or technology that could be diverted for military purposes requires a license from the Minister of Economy, Trade and Industry in certain cases. This provision is contained in the Foreign Exchange and Foreign Trade Act and other export control laws and regulations.

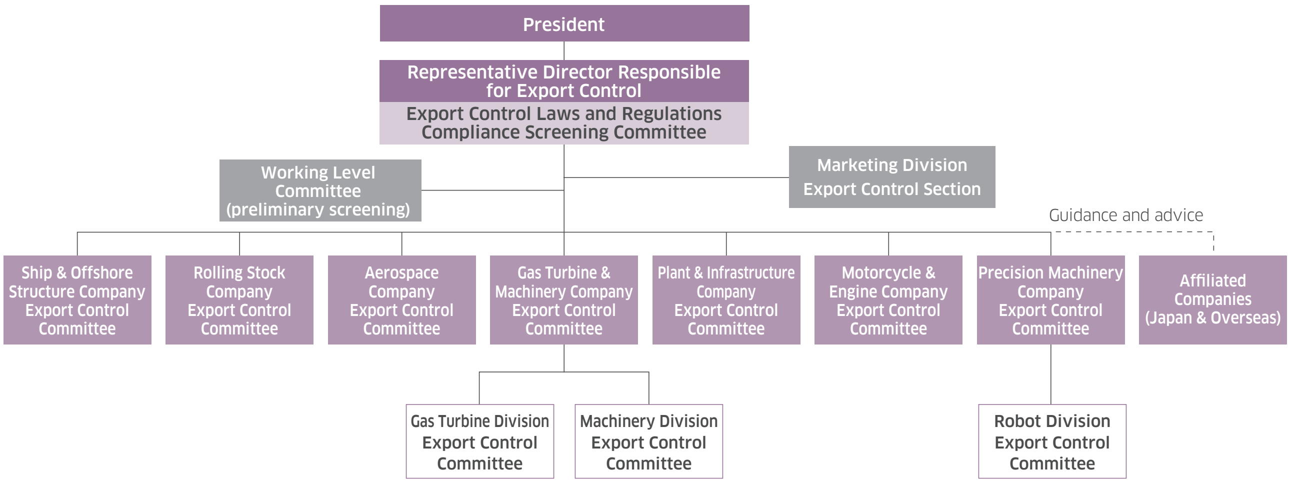
Basic Policy on Export Control

KHI's basic policy on export control is to "refrain from transactions that might endanger the maintenance of international peace and security." Accordingly, KHI is committed to ensuring this through compliance with the Foreign Exchange and Foreign Trade Act and other export control laws and regulations. Moreover, when engaging in transactions that involve materials and technology of U.S. origin, KHI takes account of U.S. reexport regulations in its export control procedures.

Export Control System

To ensure Group-wide compliance with export control laws and regulations, we have formulated a set of corporate export control regulations for goods and technologies relevant to security maintenance and have put in place an export control system in which a representative director acts as Chief Export Control Officer.

Export Control Structure



As a first measure, we set up the Export Control Laws and Regulations Compliance Screening Committee (hereafter the Screening Committee) at the Head Office chaired by the Chief Export Control Officer. The Screening Committee undertakes final assessment of all export transactions across the Group to confirm compliance with export control laws and regulations, and provides guidance and supervision to our internal companies to help them establish control systems that ensure legal and regulatory compliance. In addition, the Export Control Section was set up within the Head Office Marketing Division to provide secretariat services to the Screening Committee and to function as a Group-wide division to coordinate export control. Next, the Working Level Committee was instituted under the control of the Screening Committee to undertake preliminary screening ahead of the assessment by the Screening Committee, discuss matters delegated to it by the Screening Committee, report to the Screening Committee, and undertake horizontal rollout to internal companies of export control-related information.

Furthermore, each internal company and business center operates an Export Control Committee, which screens all the export transactions of the relevant company or business center and refers the screening results to the Screening Committee for discussion.

Export Control Training and Guidance

To provide Group-wide training in export control covering all Group companies, the Head Office Export Control Section organizes Group-Wide Export Control Training Meetings each year at a number of offices throughout Japan, with external lecturers invited from the Center for Information on Security Trade Control (CISTEC). Concurrently, each internal company offers export control training as a separate module in its grade-specific training.

An export control audit is carried out jointly by the Head Office Auditing Department and the Head Office Export Control Section, which perform individual audits once a year of all internal companies and of major Group companies in Japan.

Moreover, overseas Group companies are subject each year to a questionnaire-based survey of their export record and related matters, with appropriate guidance and support on export control provided by the relevant internal company.

Information Security Management

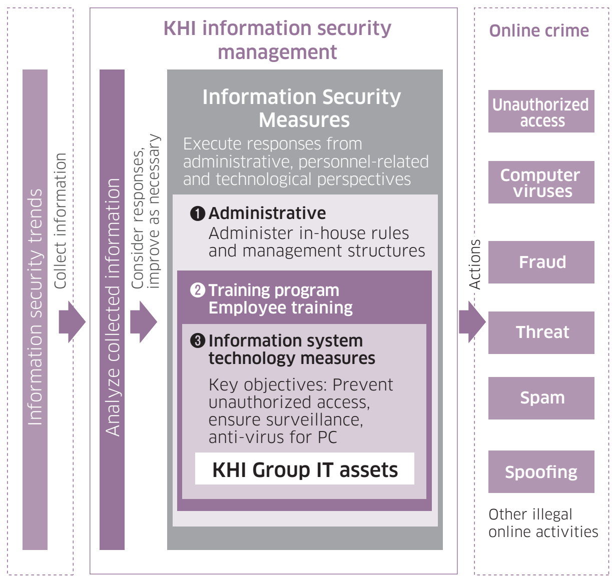
Basic Stance for Information Security

The KHI Group provides products to a diverse range of customers, from general consumers and the public sector to the Self-Defense Forces, and promotes numerous information security measures suited precisely to the requirements of each customer sector.

Information Security Management Structure

We established a dedicated framework under the corporate risk management structure to handle information security management for the Group. We promote a management cycle, emphasizing rules, training and technology measures to address information security risks that constantly change with the times, and we systematically implement, maintain and enhance information security measures.

Information Security Management System



In addition, the Group's data center has acquired ISO 27001, the international standard for information security management, and strives to uphold a high level of operational reliability.

Information Security Measures

Rules

The necessary information security management practices have been established as corporate regulations to ensure compliance with prevailing domestic and international laws and in respect of contractual promises to clients and to protect our businesses from external risks.

These corporate regulations comprise Rules for Information Management, as the underlying policy, along with various standards for establishing administrative management guidelines, including the use and implementation/development of information systems.

Education and Training

We run education and training programs on the information security theme for employees of all Group companies.

Education delves into laws and social customs as well as corporate rules and incident examples, and course content is tailored to career level, such as newly hired employees, general employees and executives.

Training programs use simulations, conducted on a regular basis, that help employees learn how to avoid damaging situations, such as cyber attacks and online crime, which could occur in the course of daily business operations.

Information System Security Measures

We have implemented systems to prevent unauthorized access to data from outside as well as information leaks from inside and to stop the spread of computer viruses. We have also introduced systems to check for irregularities, such as illegal activity.

Safeguarding Intellectual Property

To survive amid intense global competition, we must raise corporate value by developing business pursuits that showcase core competence. Toward this end, we rely on intellectual property—a vital management resource—and the key to securing and successfully applying this corporate asset is to undertake activities from a three-point perspective that adds intellectual property to business and R&D as a third component of core competence.

To promote these strategic intellectual property-oriented activities, we maintain a structure whereby the Intellectual Property Department in the Corporate Technology Division drafts corporate measures for implementation and works with other intellectual property management departments in each business segment. This provides support in line with each segment's business activities.

Invention Reward System

Based on the Patent Law regulation pertaining to inventions by employees, KHI has established a provision in its internal rules regarding inventions by employees to reward the employees at specific milestones, such as the filing of a patent application (application reward), patent registration (registration reward), and practical application (performance-based reward). The Company faithfully adheres to this provision. In addition, the same reward system is applied even when the invention is not made public for strategic reasons. Of note, the performance-based reward is fairly awarded after duly taking into consideration how the Company has benefited from the invention, using an evaluation standard based on comparisons with other companies in the same industry as well as trends in society.

Protecting Personal Information

KHI abides by its Privacy Policy (Personal Information Protection Policy), a basic policy for protecting personal information. This policy is publicly disclosed.

The Company also has a chief personal information protection officer and has created Rules for Protecting Personal Information, a document that functions as a guide for personal information management.

As part of personal information management, a data-handling ledger is prepared to facilitate at-a-glance confirmation of the status of personal information handled by each business segment. The information is updated on a regular basis.

With regard to personal information in its possession, the Company has put in place a structure that ensures a prompt response to individual requests on the use of personal information, such as disclosing it or no longer using it.

Communicating with Shareholders and Investors

We strive to disclose information in a fair, timely, and appropriate manner, in accordance with the Disclosure Policy posted on our website, and we keep an open channel to shareholders and investors through various investor relations (IR) activities at home and abroad to promote communication.

General Meeting of Shareholders

At KHI, we believe that the general meeting of shareholders—the highest corporate decision-making body of any company—is an important opportunity for communication between the Board members and our shareholders. We actively employ methods to encourage participation from all shareholders.

General Meeting of Shareholders
http://www.khi.co.jp/english/ir/meeting/index.html

Measures to Revitalize the General Meeting of Shareholders and Facilitate the Exercise of Voting Rights

Schedule general meeting of shareholders around peak shareholder meeting dates of other companies	We schedule our general meeting of shareholders around days when most other companies hold their meetings, so that as many shareholders as possible can attend.
Early distribution of convocation notice for shareholders' meeting	To give shareholders sufficient time to look over agenda items, we post the convocation notice three weeks before the general meeting of shareholders, which is earlier than legally required.
Exercising voting rights by electromagnetic methods	For shareholders who are unable to attend a general meeting of shareholders in person, we adopted a system that allows them to exercise their voting rights over the Internet by computer or mobile phone.
Participation in electronic voting platform and other measures to make environment better for institutional investors to exercise their voting rights	We joined the electronic proxy voting platform operated by Investor Communications Japan, Inc., for institutional investors and foreign investors, effective from the June 2006 general meeting of shareholders.
Availability of convocation notice (summary) in English	The original Japanese-language convocation notice and its English translation are made available for viewing and downloading on our website and other sites on the same day the materials are sent out by post, and we encourage all shareholders to exercise their right to vote.
Other	At the general meeting of shareholders, we use video and other methods to provide shareholders with an easy-to-understand review of the business activities and results achieved by our operating segments over the past fiscal year. (Materials used at previous meetings are posted on our website.)

Return of Profits

Our basic policy on the return of profits to shareholders calls for a stable cash dividends appropriate to our performance, giving due attention to sufficient maintenance of retained earnings to strengthen and expand profitability and the business foundation in preparation for future growth. Taking an overall perspective, with particular consideration to future business performance and retained earnings, management resolved to pay a year-end dividend of ¥6 per share for fiscal 2014, the year ended March 31, 2014.

Consolidated Net Income (Loss) and Annual Cash Dividends per Share

	FY2010	FY2011	FY2012	FY2013	FY2014
Net income (loss)	¥(6.51)	¥15.55	¥13.95	¥18.46	¥23.09
Cash dividends	¥3	¥3	¥5	¥5	¥6
Dividend Payout Ratio	–	19.3%	35.8%	27.0%	25.9%

* Dividend payout ratio in fiscal 2010 is not written because of net loss.

IR Activities

KHI strives to improve dialogue with shareholders and investors through IR activities matched to diversifying needs. The Company also seeks to use the comments expressed in the context of these IR activities as internal feedback and works to reflect the comments in management and business operations.

Disclosure Policy posted on our website
http://www.khi.co.jp/english/ir/policy/disclosure/index.html

Please also visit the IR section of our website
http://www.khi.co.jp/english/ir/index.html

Status of IR Activities

	Supplementary Information	Explanation by Representative
Preparation and Announcement of Disclosure Policy	We prepare our disclosure policy and post it on our website.	
Regular financial results briefings for analysts and institutional investors	We hold financial results briefings twice a year, when results for the first two quarters are announced and when results for the full year are announced. The president and director responsible for financial matters provide details on business results during the respective periods, reveal performance forecasts, and offer explanations about future management strategies and other topics of interest. Key question-and-answer content from financial results briefings is posted on our website in the IR Information section.	Yes
Separate visits to overseas institutional investors	Executives' overseas activities include visits to institutional investors in North America and in Europe.	Yes
Posting IR materials on the website	The Company has allocated a specific area of its website for posting IR materials, in English and in Japanese, mainly in the categories (1) to (7) below. (1) Consolidated financial reports (2) Timely disclosure materials other than financial reports (3) *Yukashoken Hokokusho* (Japanese-language business reports) and quarterly reports (4) Convocation notices for the general meeting of shareholders (5) Japanese-language semiannual and annual reports (6) English-language semiannual and annual reports (7) Presentation materials from financial results briefings	
Establishment of department (officer) specifically for IR	IR matters are handled by the Finance Department's IR section and by the General Affairs Department's documentation and stock section.	
Other	We organized a factory tour of the Akashi Works and the Hyogo Works as an opportunity to encourage contact with individual investors.	

Supply Chain Management

Basic Stance to Supply Chain Management

The Kawasaki Group Mission Statement highlights KHI's commitment to create new value that shapes a beautiful and comfortable society for tomorrow while seeking harmonious coexistence with the environment through high-level, integrated technological capabilities in wide-ranging areas. But the cooperation of business suppliers who provide the necessary materials and component parts of Kawasaki-brand products is imperative to the creation of new value.

This perspective applies to CSR as well. At KHI, we look beyond CSR-compliant business activities of our own. We believe that cooperation all along the supply chain, which includes business partners, is vital, and we ask them to work with us to enhance our CSR responses.

Supply Chain Management Structure

KHI adopted its Basic Policies for Material Procurement and its Code of Conduct for Dealing with Business Partners in April 2011, and its CSR Procurement Guidelines in April 2012, all of which are published on the KHI website.

*1. Explains KHI's approach (policy) to procurement activities and describes issues that the Company would like business partners to address.
*2. Explains the respective duties of those dealing with business partners, including Company directors, employees, temporary employees and part-timers, in line with the Basic Policies for Material Procurement.
*3. Requests the understanding and cooperation of business partners as pertains to CSR activities by detailing issues in the Basic Policies for Material Procurement that KHI would like business partners to address so as to underpin CSR activities throughout the supply chain.

Our procurement activities are built upon our basic policies, code of conduct and guidelines, and they reflect our approach to CSR, particularly in terms of compliance, human rights, labor, health and safety, and our respect for the global environment. We also seek the support of our business partners and actively promote CSR activities throughout the supply chain.

Basic Policies for Material Procurement
http://www.khi.co.jp/english/csr/procurement/policy.html

Code of Conduct for Dealing with Business Partners
http://www.khi.co.jp/english/csr/procurement/policy.html

CSR Procurement Guidelines
http://www.khi.co.jp/english/csr/procurement/guideline.html

Reinforcing Partner Sentiment with Suppliers

At KHI, we seek to forge cooperative relationships with our business partners based on mutual trust, and we strive to foster a sense of coexistence and co-prosperity in joint activities. Toward this end, each internal company and business center maintains a cooperation-building association comprising business partners with whom the respective business segment has cultivated close ties. We emphasize efforts to reinforce the partnership perspective through the activities described below.

- Holding of regular meetings, to share policies on procurement, production and other operations
- Implementation of improvement initiatives, emphasizing joint efforts between KHI and business partners to enhance quality and production
- Holding of lectures and workshops on such themes as human resource development and management practices
- Offering of factory tours and discussion opportunities for member companies

Conflict Minerals

In December 2013, KHI posted its Policy Regarding Procurement of Conflict Minerals on its website, which states clearly that KHI has no intention whatsoever of being party to conflicts or inhumane acts in the Democratic Republic of the Congo and neighboring countries through the procurement or use of the tin, tantalum, tungsten and gold—so called conflict minerals—that are produced in these countries.

Policy Regarding Procurement of Conflict Minerals

Armed groups that repeatedly commit inhumane acts such as killings, looting and sexual violence may derive capital from the four minerals of tin, tantalum, tungsten and gold (known as "conflict minerals") being produced in the Democratic Republic of the Congo and its neighboring countries. As a result, there is a concern that these conflict minerals will lead to an escalation of problems.

The Kawasaki Heavy Industries Group has no intention whatsoever of being party to such conflicts or inhumane acts through the procurement or use of these conflict minerals in consideration of respect for human rights. Going forward, efforts will be made to tackle the issue of conflict minerals in close liaison with customers and suppliers.

Thorough Compliance

Each year, KHI holds a group workshop intended mainly for procurement divisions within the Group to ensure compliance with procurement-related laws and regulations, particularly the Subcontractors' Act (formally, the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors) and the Construction Industry Law. Of note, with regard to the Subcontractors' Act, we maintain proactive measures, as outlined below.

- In October 2009, we published a collection of examples of Subcontractors' Act violations, using actual cases in which other companies had contravened this law.
- In April 2013, we posted a checklist for self-auditing compliance status pursuant to the Subcontractors' Act on the corporate intranet. This checklist functions as a tool for identifying any administrative activity prone to violations of the Subcontractors' Act and for correcting such situations.
- Since fiscal 2012, we have held sessions, mainly for design and manufacturing divisions at plants and major affiliated companies. In fiscal 2014, the sessions attracted 652 participants. (Reference: To date, 2,146 people have attended the sessions.)

Issues to Consider, Future Direction

In addition to ongoing efforts to build a stronger relationship with its business partners based on mutual trust, KHI repeatedly expands application of the aforementioned policies, code of conduct and guidelines—all properly matched to operating environment—at each of its affiliated companies in Japan and overseas. Through this process, the Company promotes CSR procurement activities on a global and Group-wide basis.

3 Employees

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

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

Categories			
Safety and health	Human resource development	Human rights	Labor

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

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

Overview of Activities in Fiscal 2014

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

In addition, experts, including representatives from non-governmental organizations, gave lectures on human rights at the dialogue with experts—see pages 93-94—and helped employees gain a deeper understanding of human rights at the workplace.

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

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

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

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

Focus 1 Kawaju Heartfelt Service

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

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

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


Staff cleaning the entrance area of a factory


Grounds maintenance at the Nishi-Kobe Works

Focus 2 Fiscal 2014 Technical Skill Contest

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

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

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


Lathe turning skill contest

Focus 3 Promoting Diversity Through External Links

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

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

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


Work-life balance seminar for managers

Developing Human Resources

Thoughts on Personnel

Group Management Principle No. 3 reads "People: The KHI Group's corporate culture is built on integrity, vitality, organizational strength and mutual respect for people throughout the entire Group. We nurture a global team for a global era." This provides the foundation for a corporate culture and environment in which our employees can maintain a positive outlook as they go about their work. We have introduced a variety of systems to achieve this goal and strive to enrich associated content.

Composition of Workforce (As of April 1, 2014)

	Total	Men	Women
Non-consolidated	15,196	14,355	841
(Managerial staff)	3,214	3,202	12
(General Employees)	11,982	11,153	829
Domestic group	10,335	–	–
Overseas group	9,089	–	–
KHI Group-wide	34,620	–	–

Note: The number of employees includes temporary employees (non-consolidated).

Personnel Data (as of April 1, 2014) (non-consolidated)

		Average age	Average years of service	Average annual salary (yen)
Non-consolidated	Men	38.6	15.3	7,036,800
	Women	38.8	14.7	4,989,700
	Total	38.6	15.3	6,920,600

Number of People Resigning and Turnover Rate in FY2014 (age as of April 1, 2013) (non-consolidated)

		29 and younger	30-39	40-49	50 and older	Total
Number of people resigning	Men	39	21	10	91	161
	Women	21	2	5	0	12
	Total	44	23	15	91	173
Turnover rate	Men	1.0%	0.5%	0.3%	2.9%	1.1%
	Women	2.3%	0.9%	1.9%	0%	1.4%
	Total	1.1%	0.6%	0.4%	2.7%	1.1%

Note: Excludes people who reached mandatory retirement age and those promoted to executive positions

Education and Training

KHI's ideal human resources fall into six categories, based on the Company's mission statement. The categories are (1) actively involved around the world; (2) solving issues for customers and the community; (3) leading reforms and innovation; (4) taking technology to new heights; (5) demonstrating comprehensive capabilities; and (6) always maintaining a profitability perspective. Aiming to cultivate human resources with these qualities, we promote comprehensive training and skill development for all employees regardless of rank.

Reinforce the management and business execution capabilities of employees (administrative and technical training)

During their first three years of employment, employees in administrative and technical positions receive a combination of structured on-the-job training, facilitated by a mentoring system, and a range of training content to help young professionals shoulder new responsibilities as quickly as possible.

In addition to training for managers, including section managers, general managers and board members, we regularly conduct multifaceted observation surveys that provide feedback (opinions and evaluations) from supervisors, subordinates and colleagues to managers on their strong points and areas in need of improvement. Such initiatives serve to strengthen middle management and develop the skills of candidates for management positions.

In the execution of routine duties, we utilize communication opportunities, especially the operational goal sharing program GMK—which takes its name from the Japanese gyomu mokuhyo kyoyuka (sharing business targets)—and semiannual one-on-one meetings between supervisors and subordinates, to foster skill development through the achievement of operating goals.

Record of Main Grade-Specific Training Organized by the Head Office (Fiscal 2014) (non-consolidated)

	New employee training	Training for newly appointed section managers	Training for newly appointed division managers	Training for newly appointed Board members (Newly appointed + Group meeting)
Number of participants	280	85	33	46 in total
Total number of man-hours	13,440	8,160	1,848	495

Strengthening of on-site capabilities (Training for production specialists)


Technical Skill Grand Prix

We encourage young employees in production positions to enhance their skills and older employees to share their acquired expertise. To this end, we have put in place a system for young workers to obtain technical qualifications early in their careers and a traditional skill masters' system whereby experienced workers with sophisticated, specialized capabilities are designated "traditional skill masters'" after which they impart their hands-on knowledge to younger colleagues. In fiscal 2014, 20 new traditional skill masters were designated. When added to the existing body, this brings to 73 the total number of active masters. We also participate wholeheartedly in Technical Skill Grand Prix events and other external skill competitions. In a Technical Skill Grand Prix held in February 2013, three employees won awards for "brave efforts," two in the lathe category and one in the machine assembly category.

Securing Human Resources

When recruiting human resources, rather than simply filling posts as they become vacant, we seek to recruit human resources with the necessary skills in the required numbers based on a medium- to long-term view. The concrete result is that to secure a supply of outstanding human resources which will remain stable despite fluctuations in the employment market, we are moving to a system of recruitment plans that meet the staffing needs of a number of fiscal years at a time. From fiscal 2013, we began global recruitment of new graduates. Our new graduate hiring program targets not only Japanese nationals who have studied at overseas universities but also those having graduated from overseas universities as well as non-Japanese nationals studying at overseas universities. As a result, in fiscal 2015, 11 overseas nationals joined KHI.

New Graduate Recruitment (non-consolidated)

	FY2013		FY2014		FY2015	
	Men	Women	Men	Women	Men	Women
Administrative and technical positions	266	23	256	23	272	29
Production positions	210	4	183	3	194	5
Total	476	27	439	26	466	34

Developing Global Human Resources

With the aim of developing human resources to support global business expansion, we are working to enhance training programs. These include language training in English and Chinese, practical overseas business training to foster a global perspective in the workplace and teach skills useful in overseas business, preparatory training for staff on overseas postings that provides region-specific training in cross-cultural communication, and overseas programs in which staff are sent overseas for training.

Record of Main Training Related to Global Human Resource Development Organized by the Head Office (Fiscal 2014)

	Overseas business training	Response capabilities of different cultures training	Lodging English training
Number of participants	46	77	80
Total number of man-hours	4,784	616	1,872

Note: Language training is also carried out at other operating sites.

Matching the Right Person to the Right Job

When transferring personnel, we take account of factors such as suitability, skills, personnel distribution, and issues relating to staff replacement to achieve a human resources profile that matches the right person to the right job.

As part of our effort to achieve this profile, we seek to boost employee motivation and engagement by operating a number of systems that give weight to the aspirations of the individual employee. One of these is the self-report system, which gives employees the opportunity once a year to report on their job satisfaction, strengths, suitability to their present post, and transfer requests. We have also put in place a rotation system aimed at cultivating staff with a wide range of specialist knowledge, and an in-house recruitment system (job challenge system) designed to respond to special human resources needs.

In fiscal 2013, these were supplemented by two new systems, the "free agent" system*, whereby any employee who fulfills the application criteria can apply for vacant inhouse positions, and the inter-company human resource exchange system (in-house exchange study system). These will serve the aims of more appropriate distribution of human resources and human resources development.

As a foundation of support for these systems, we also established the DRAGON human resources information management system, which begins full operation in fiscal 2014. This is a system that links existing basic personnel data with supplementary information on professional experience, assigned duties and skill level to provide an objective picture. Operating this system enables us to know, for instance, the amount of human resources we have covering specific assigned duties at specific skill levels, and the division in which the required human resources are located. This allows flexible allocation of human resources to match current work conditions.

* The free agent system supplements the self-report system and encourages employees to indicate their willingness to transfer to a different internal company or a specific department where accumulated skills and experience are well-matched to that particular field of work or department.

Respect for Diversity

Promoting Diversity

Perspective on Diversity

At KHI, we promote assorted programs revolving around the introduction of various work patterns to help all employees achieve a good work-life balance as well as efforts to encourage active roles for women, provide support for the next generation and other family-care responsibilities, and facilitate employment of people with disabilities. These measures are underpinned by a perspective on diversity that sees each and every person working at KHI as an integral component of corporate diversity and that the differences each person brings to the workplace can be turned into corporate strengths.

Envisioning a time when more employees will have to get involved in the care of family members, we launched a seminar in 2013 on work and family care.

We also set up a diversity promotion site—"Hibikiau Chikara" (Strength in Synergy)—on our corporate intranet. Here, employees can learn about diversity, view examples from the workplace, and gather information on systems to support a good work-life balance.

Ideas Infused into Diversity Symbol

Imagine KHI operations as a tree, shaped by many people with different personalities.

The tree grows quickly, with leaves and fruit adding color, and it thrives. In the same way, we who work at KHI are an assortment of colors, our unique personalities and skills dotting the landscape of KHI—and we grow, not only as individuals but as a company.

Diversity symbol

Encouraging Greater Activity among Foreign Employees

In fiscal 2013, KHI began recruiting non-Japanese university graduates. We continue to search globally, with new employees coming primarily from South Korea, China, Sweden and Australia. Given this global recruitment perspective, we prepared guidebooks for people who work with foreign nationals and distributed the materials to relevant divisions to improve communication between non-Japanese employees and their superiors and workplace colleagues and to help Japanese staff better understand foreign nationals who have different religious and cultural backgrounds.

Change in Number of Foreign Nationals (administrative position only, as of April 1 for each year) (non-consolidated)

FY2013	FY2014	FY2015
2	10	21

Promoting Active Roles for Women

Currently in our efforts to promote active roles for women in our organization, our first priority is to hire them, taking an enthusiastic approach to such recruitment. The number of women hired and the number of women in managerial positions has increased annually, and in the area of hiring in particular, about 30% of the university graduates taking administrative positions with us are women.

In 2012, we held a Forum on Work Options for Women in Administrative and Technical Positions, attended by approximately 200 staff members, and featuring lectures by external speakers and group discussions.

We have also begun a program of activities under the banner of the 4U (For You) Network, which aims to boost participation by women through female cooperation in self-development. Among its activities are identifying role models among senior employees and sharing tips on how to establish a balance between life events and work.

4U (For You) Network

Number of Women in Managerial Positions (Section Head or Above; as of April 1 for Each Year) (non-consolidated)

FY2011	FY2012	FY2013	FY2014	FY2015
13	13	14	15	17

Note: Figures include staff on external postings and staff on leave.

Promoting Active Roles for the Disabled

We also strive to hire more people with disabilities, and they are thriving in a range of office environments. In September 2013, we established Kawaju Heartfelt Service and, to maintain as well as increase the employment rate for people with disabilities, we will undertake active recruitment and work energetically to achieve barrier-free workplaces, creating an environment in which people with disabilities can develop their potential to the full.

Percentage of Disabled Employees and Number of Disabled People hired (As of June 1 for Each Year) (non-consolidated, up until fiscal 2014, and combined with Kawaju Heartfelt Service in fiscal 2015)

	FY2011	FY2012	FY2013	FY2014	FY2015
Percentage of Employees	1.83%	1.81%	1.74%	1.79%	1.95%
Number of people hired	214	296	292	301	341.5

Note: People working short hours are accounted for at a factor of 0.5.
Note: One severely disabled person is counted as two people with disabilities.

Support for a Good Work-Life Balance

All employees should be able to combine work with childcare and other care responsibilities, continuing to work with energy and enthusiasm. With this in mind, KHI provides a wide variety of programs to help employees support the next generation and other care responsibilities.

Number of Employees Using Childcare or Care Leave (non-consolidated)

	FY2011	FY2012	FY2013	FY2014
Childcare leave	27 (3 men, 24 women)	23 (0 men, 23 women)	24 (1 men, 23 women)	36 (2 men, 34 women)
Return-to-work rate after childcare leave	94.1% (16/17)	100% (30/30)	94.1% (16/17)	100% (21/21)
Care leave	3 (3 men, 0 women)	2 (2 men, 0 women)	3 (2 men, 1 women)	0

Overview of Support Systems (non-consolidated)

Parental leave before and after birth	Maternity/ paternity leave	Employees may take leaves until a child reaches the age of three. There is no limit on the number of times leave can be taken.
Parental leave before and after birth	Return to work support program "WIWIW"	Employees on maternity/paternity leave are provided with online services that enable them to get information and other materials to support their return to work, or allow them to enhance business skills, or promote communication with their office colleagues.
Parental leave before and after birth	Leave to care for sick/ injured child	Employees receive five days each year for each child up to completion of elementary school. KHI does not set a limit on the number of children used to calculate a five-day leave. (Legally, companies are only required to provide a total of up to 10 days per year to employees with two or more children.)
Parental leave before and after birth	Half-days off	Employees may take as many half-days off as necessary, within available annual paid leave, to care for a young child (up to completion of elementary school) or when morning sickness interferes with job duties.
Parental leave before and after birth	Accumulated leave*	Employees may use accumulated leave to care for a young child (up to completion of elementary school), care for a sick/injured child, or when morning sickness interferes with job duties.
Parental leave before and after birth	Use of flextime system	Employees may work on a flextime basis as necessary when looking after a young child (up to completion of elementary school) or when morning sickness interferes with job duties.
Parental leave before and after birth	Limits on out-of-hours work and work on days off	Employees may be exempted from out-of-hours work and work on days off until a child completes elementary school.
Parental leave before and after birth	Reduced working hours to care for young child	Standard working hours can be reduced up to a maximum of three hours a day until a child completes elementary school.
Family (Nursing) care	Nursing care leave	Employees may take up to one year off at a time for a total of up to three years maximum.
Family (Nursing) care	Nursing care work hours	For employees who do not take nursing care leave, they may either choose to be exempt from out-of-hours work or work on days off, or reduce standard working hours up to two hours a day for up to one year at a time for a total of up to three years maximum.
Family (Nursing) care	Special leave for family care	Employees may take special leave of five days to care for an ailing or elderly family member. KHI does not set a limit on the number of family members that employees must care for. (Legally, companies are only required to provide a total of up to 10 days per year to employees who have two or more family members in need of assistance.)
Family (Nursing) care	Half-days off	Employees may take as many half-days off as necessary, within available annual paid leave, to care for an ailing or elderly family member.
Family (Nursing) care	Accumulated leave*	Employees may use accumulated leave whenever necessary to care for an ailing or elderly family member.
Family (Nursing) care	Use of flextime system	Employees may work on a flextime basis as necessary when looking after an ailing or elderly family member.
Other	Request for re-employment	Employees who resign to care for a child or an ailing/elderly family member may apply to be rehired when a change in their situation allows them to return to work.

* Accumulated leave refers to annual paid vacation days that could not be carried over to the next year but can be taken in special circumstances.

Examples of such programs include a system of childcare leave available until employees' children reach age 3; a short-time working system available to employees with children of elementary school age; care leave available for up to three years; a program to support those on childcare leave who wish to return to work; a system whereby people can apply for reemployment when they are ready to return to work after resigning because of marriage, childbirth, childraising, or other reasons; and a system that lets staff take time off in units of one hour at a time if needed to care for children or other family members, for example. With initiatives in this area exceeding legal requirements, KHI was recognized in 2010 by the Hyogo Labor Office Director as a Childcare Supporting Company.

Meanwhile, in fiscal 2013 we extended the paternity leave entitlement from two to five days, promoting men's participation in childraising. The same year, we took steps to further enhance our systems by introducing two new measures, among others: an employee nursery offering childcare on supplementary work days, and an emergency childcare system that gives employees access to a babysitter service designated by the Company for looking after ill or convalescent children or when employees are on a business trip or working overtime.

Fixed Retirement Age of 63 and Reemployment

KHI began action to extend the retirement age before the legal requirement was introduced by the revision of the Older Persons' Employment Stabilization Law. Thus, in April 2006 the fixed retirement age for general employees was set at 63 through agreement between labor and management.

In addition, we operate a post-retirement reemployment system that in principle makes available post-retirement reemployment up to age 65 to all those who request it. These policies allow many veteran employees to remain involved in active operations where they can use their rich store of experience and pass on their skills.

Employees who have reached age 55 are invited to participate in a "Lifestyle Design Seminar," which offers them the opportunity to find out about our schemes for postponing retirement and seeking reemployment and to consider afresh their lifestyle options following reemployment.

Change in Number of People Rehired (non-consolidated)

FY2011	FY2012	FY2013	FY2014
146	136	176	193

Mid-Career Recruitment

With the aim of benefiting from diverse human resources, we are working actively in the area of mid-career recruitment. In fiscal 2014, KHI recruited 225 employees through this route. These recruits enjoy employment conditions equal to those of new graduates, while we benefit from the professional skills and strategic abilities they have built up.

Number of Mid-Career Recruits (non-consolidated)

	FY2012	FY2013	FY2014
Administrative and technical positions	147	148	167
Production positions	174	223	58
Total	321	371	225

Achieve a Vibrant Workplace Atmosphere

Encouraging Employees to Take Annual Paid Vacation

KHI encourages employees to use their annual paid vacation time to refresh mind and body and find a better balance between work and private life.

One way to do this, introduced through an agreement between labor and management, is the *Yuyu Renkyu* system combined with the "anniversary vacation" system. Under these systems, employees decide at the beginning of the fiscal year on a date for consecutive days of vacation, which they are then obliged to take when the time comes. The *Yuyu Renkyu* system allows for two consecutive days of vacation. When this is added to the "anniversary vacation," each employee receives three days of vacation a year planned in advance.

Number of Days of Annual Paid Vacation Taken (22 days of Annual Entitlement) and Total Annual Hours of Work (non-consolidated)

	FY2011	FY2012	FY2013	FY2014
Paid vacation days	15.3	15.6	15.4	15.3
Total annual hours of work	2,044	2,048	2,037	2,050
Annual overtime hours	282	278.1	272.2	283.8
Paid vacation usage rate	69.5%	70.9%	70.0%	69.5%

Communication between Management and Employees

To create a vibrant workplace environment, it is important to disseminate as rapidly as possible to all employees the thinking of top management as well as corporate policies, management information and other key issues. To ensure that information is accurately transmitted from management to employees, KHI's intranet and internal bulletins expedite delivery of information and ensure that messages from top management are quickly received by all. We have established a variety of opportunities for discussion with labor, where executives can explain policies and management information directly to employee representatives twice a year. The rate of union membership as of April 30, 2014, was 79% (proportion of full-time employees). The KHI labor agreement has adopted a union shop system.

A Flexible Range of Employment Conditions to Match Individual Abilities and Performance

To offer a flexible range of employment conditions to match individual abilities and performance as well as a system of benefits that improves motivation and incentivizes skill development, KHI employs a "job qualification system" based on employees' abilities and their target roles or duties to determine employment conditions. These include assigned position, salary, bonus, and career development, among others.

Our personnel system serves as the basis for this job qualification system. Personnel assessment consists of a performance evaluation, which assesses the degree of difficulty of the employees' work duties and their level of achievement and work attitude, and an ability evaluation, which assesses their professional ability with a focus on knowledge and skills. Evaluation criteria are disclosed to all employees.

In addition, superiors meet with their staff at least twice a year, a process that improves employee acceptance of goal-setting and evaluations.

Education and Training to Ensure Fairness in Evaluation and Employment Conditions

To ensure fair and equal evaluation, there is a fixed assessment procedure that is explained to the evaluator. Opportunities to upgrade evaluator skills are offered, for example, in section chief training through methods such as case study.

In addition, once a year, we explain the conditions for promotion and treatment of employees to the labor union, and confirm that employees are treated fairly and equally.

Creating a Safe, Comfortable Workplace

Basic Premise on Employee Safety and Health

Protecting the safety and health of employees is of paramount importance.

KHI is committed to the principle of "human respect," which means respect for human life plus respect for humanity, and to the principle of "health first." To reflect this, KHI seeks to build a workplace atmosphere that puts the highest priority on safety and health and ensures a safe and comfortable workplace environment, where employees enjoy both mental and physical well-being.

Of note, over the last two years we have established basic policies to eliminate serious accidents and to help employees deal with any potential mental health issues. Toward these objectives, we have identified the following key points for corporate safety and health management.

Corporate Safety and Health Management Outline (Summary)

1 Safety Management

(1) Reinforce measures to eliminate serious accidents and accidents that cause facilities to shut down
(2) Take a thorough approach to prevent recurrence of similar accidents
(3) Selectively implement safety and health management activities and risk-lowering activities based on the occupational safety and health management system
(4) Promote heightened sensitivity to dangerous situations (safety-perception education) and evoke a deeper respect for basic rules
(5) Reinforce measures to prevent accidents at on-site construction work

2 Health Management

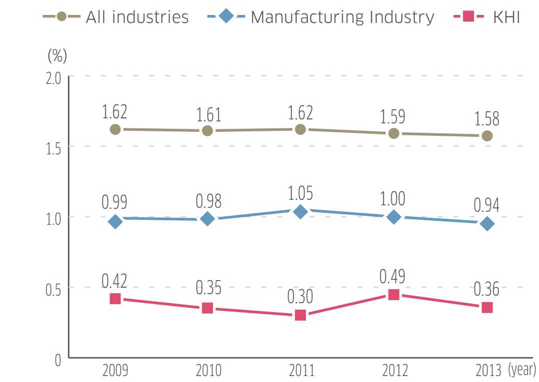
(1) Enhance measures to support good mental health
(2) Enhance measures to prevent occupational diseases
(3) Enhance health management responses

Measures to Prevent Occupational Accidents

1 Selective implementation of safety and health management activities and risk-lowering activities based on occupational safety and health management system

Our occupational safety and health management system forms the foundation of activities to promote constant improvement through planned implementation of safety and health management activities, adherence to a PDCA cycle at production sites, and continuous execution of internal audits. These efforts serve to preempt potential occupational accidents and facilitate the creation of a comfortable work environment. In our risk assessment efforts, we constantly strive to enhance our ability to identify risk and reduce latent risk.

Incidence of Occupational Accidents (Absentee Rate)



* Data source: all industries, manufacturing industry (Ministry of Health, Labour and Welfare, 2011, Occupational Accident Survey Results)
* Includes partner employees (temporary workers and shipbuilding and construction subcontractors) who are supervised and managed by KHI

2 Maintaining the KSKY Campaign

The KSKY Campaign is an important part of KHI's safety measures. The letters KSKY stand for Japanese words that describe the different elements of the campaign: K for creating a disciplined workplace that observes the basic safety rules (kihon); S for making sure to identify and call out to confirm breaks and other crucial points in each work operation (shisa koshou); and KY for working to further improve ability to predict danger (kiken yochi). The purpose of the campaign is to instill greater awareness of safety measures and to create a workplace secured by "mutual cautioning," which means essentially that employees monitor the safety of others as well as themselves.

3 Promoting safety awareness education through simulations and related training

To prevent accidents caused by unsafe practices, we implement a range of safety education programs aimed at different staff grades, including simulated scenarios that are used to help employees with the identification of dangers in the workplace. This is

Experience of dangling from a safety belt
"It was only my own body weight being hauled up, but I felt a bit of force exerted on my body."

designed to foster an awareness of safety that will encourage employees to take the initiative in avoiding unsafe practices. Every year, we review the events that heighten employees' awareness of workplace dangers and expand content.

Raising Safety and Health Awareness

To promote improved safety and health awareness, divisions with an excellent record in terms of the safety and health, or employees with outstanding achievements in the promotion of safety and health, are rewarded through a system based on the KHI Safety Award Regulations.

We have also formulated Safety and Health Education Standards under which we carry out the necessary safety and health education in addition to the education required by law. This education not only serves to improve safety and health-related knowledge and skills but is also important in boosting safety and health awareness.

Safety and health education covers grade-specific education tailored to different staff grades; operationspecific education carried out after a change in operational content or for employees engaged in specific duties; and general education, which includes health education and training in advance detection of dangers. Specifically, grade-specific education offers education based on an integrated system covering all grades, from newly recruited employees through core staff grades to managerial and supervisory staff.

Health Advice and Efforts in Mental Healthcare

1 Health checks

To monitor the health of employees and facilitate appropriate health measures, all employees undergo a regular health check once a year and additional health checks at other times, including on recruitment, before and on return from overseas postings, and when engaged in specific hazardous operations.

2 Mental healthcare

In addition to offering a permanent consultation service for mental health issues, we check routine stress levels among employees during regular health checks and send employees with high stress levels for a consultation with an industrial physician. We also offer educational programs to impart correct knowledge about stress and mental healthcare and to teach coping methods. These programs include line-care education for managerial and supervisory staff and self-care education for employees. In addition, we have put in place a set of work rehabilitation regulations that authorize shorter working hours and a reduced number of work days in cases where work rehabilitation is required as a therapeutic measure. Together with related measures, this forms part of a system to ensure a smooth return to the workplace.

3 Medical Examinations for staff working long hours

To prevent health issues caused by overwork, employees working long hours—defined as more than 45 hours of overtime a month for two consecutive months or more than 60 hours of overtime in one month—are required to carry out a self-assessment for fatigue in the following month. Employees with high levels of accumulated fatigue are also sent for a consultation with an industrial physician and provided with individual guidance.

4 Health classes

KHI's corporate Total Health Promotion (THP) activities include health education classes, for example, to help employees improve their diets and build physical fitness. In addition, personalized guidance to promote healthier lifestyles is provided to newly recruited employees, employees found in regular health checks to have symptoms of a lifestyle disease, and other groups.

Health Class

Respect for Human Rights

Respect for Human Rights and Policy on Discrimination

The philosophy underlying the Kawasaki Heavy Industries Code of Corporate Ethics is "respect for individuality and human rights / prohibition of discrimination." As part of our commitment to this philosophy, we have affirmed that "To create and maintain a comfortable workplace, we respect the individuality and human rights of all people. We do not engage in discrimination, sexual harassment or bullying." In September 2011, we formulated the Kawasaki Global Business Ethics Guidelines, which established a policy on corporate ethics and compliance that applies globally to all Group companies. The guidelines call for respect for human rights and commit us to opposing discrimination and intimidation in the workplace as well as labor involving young people below the local legal working age as well as any form of forced labor.

Kawasaki Global Business Ethics Guideline
http://www.khi.co.jp/english/csr/pdf/global_ethics_guideline_en.pdf

Prohibiting Sexual Harassment and Power Harassment

To create a comfortable working environment where employees can perform their jobs free from harassment, KHI offers a grade-specific training to guide everyone onto the path of appropriate behavior and to enlighten everyone about the morale-crushing consequences of harassment. We have implemented harassment awareness training designed to cover all employees. In fiscal 2014, we intend to roll out a program of power harassment awareness training for managerial staff.

To deal with potential issues related to sexual harassment, we have set up a counseling office at all operating sites, and established a dedicated e-mail address to which employees can turn for advice. In addition, we have prepared a manual for counselors that outlines procedures to ensure the privacy of people seeking advice as well as a proper response to their concerns.

4 Environment

We will pursue "manufacturing that makes the Earth smile."

The KHI Group has undertaken business whose foundation calls for the advancement of society and the nation through manufacturing, and has sought to develop a global enterprise in key industries related to land, sea, and air. In doing so, we have worked to resolve global environmental problems by seeking to realize a low-carbon society, a recycling-oriented society, and a society coexisting with nature. We will contribute to the sustainable development of society through business activities that are in harmony with the environment as well as through products and services that show consideration for the global environment.

Category
Global environment (sustainable development)

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

Goals/Approaches	Actions
●Steadily reduce annual CO_2 emissions and energy consumption	●Use and promote a system to visualize energy use
●Reduce waste emissions and promote reuse and recycling	●Reduce waste, promote reuse and recycling, and promote PCB* treatment
●Steadily reduce substances of the environmental load	●Reduce chemical substances

* PCB: Polychlorinated biphenyl

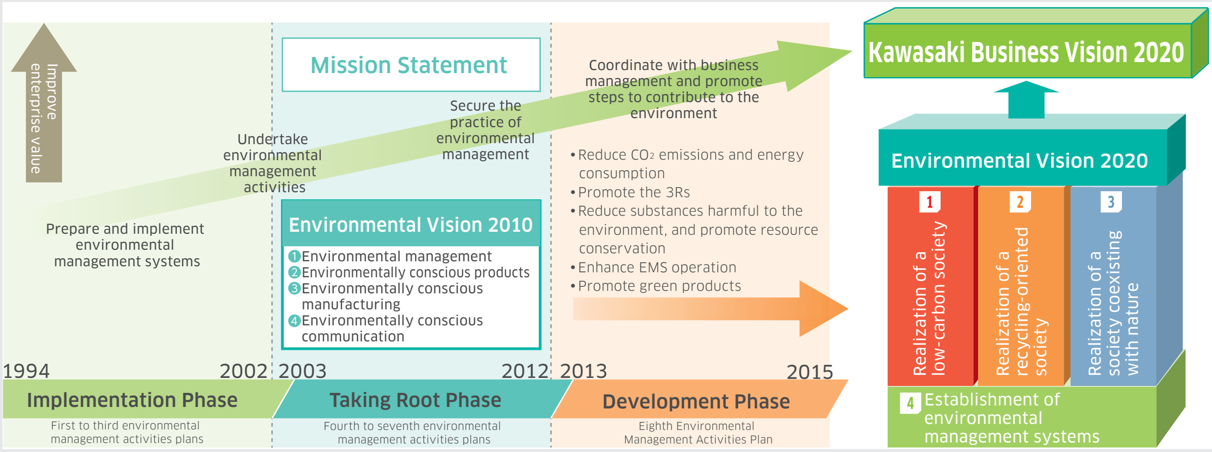
Overview of Activities in Fiscal 2014

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

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

Environmental Management Flow

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



Promoting Environmental Management

Coordinating Environmental Management with Business Management

Chief Environmental Officer (Executive Office and General Manager, General Administration Division)
Shiro Nakabayashi

The concept of environmental management is evolving from current regulatory responses that emphasize reduction of environmental risk into the acquisition of added value directly linked to business management and efforts to solve social issues in core operations.

KHI drafted Environmental Vision 2020 to define the Group's identity in 2020 from an environmental perspective in line with its Group Mission: "Kawasaki, working as one for the good of the planet (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)." The environmental management activities plan launched in fiscal 2014 lays out specific measures in four areas—(1) realization of a low-carbon society, (2) realization of a recycling-oriented society, (3) realization of a society coexisting with nature, and (4) establishment of an environmental management system (EMS)—that we will follow to achieve our vision. We seek to accelerate the shift toward greater energy- and resource-saving practices anticipating society's environmental needs and to promote reduced environmental impact through our products.

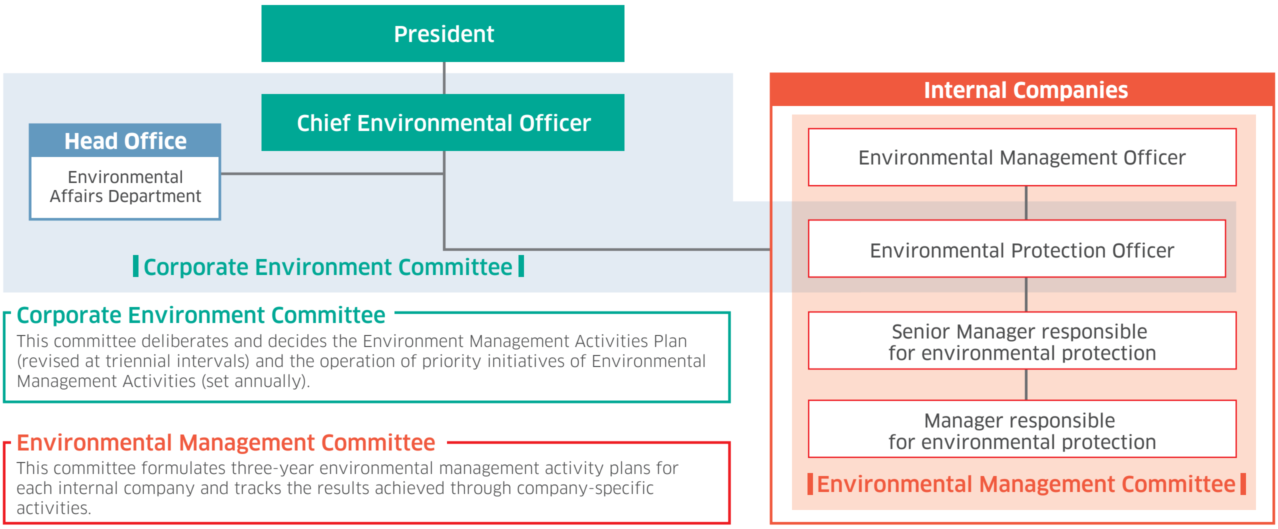
Recently, as a way to reinforce these measures, KHI initiated a program to promote ISO 14021-compliant Kawasaki Green Products. This program is intended to boost the environmental performance of products and accelerate the reduction of environmental impact caused by associated manufacturing processes. Toward this end, products which demonstrate particularly excellent environmentally conscious performance undergo a conformity assessment process. Based on their level of compliance with ISO 14021, they are selected as either a Kawasaki Green Product or Kawasaki Super Green Product. KHI then discloses the results of the assessment. Through this program, we will sharpen the competitiveness of products with an underlying environmental focus and roll out solutions to social concerns through our products.

Also, we aim to realize a sustainable society through such steps as the use of an energy visualization system, which was introduced at all key factories in fiscal 2013 and has accelerated progress toward energy and resource savings, and also through enhanced efforts to curb CO_2 emissions, which are a cause of climate change.

Environmental Management Platform

Environmental and Energy Management Organization

The director for environmental issues at KHI is appointed the Chief Environmental Officer and in this position chairs the Corporate Environment Committee, which deliberates and formulates policy on a variety of important matters related to the environment. To enable each internal company to independently promote the environmental management activities plan as formulated, an Environmental Management Officer, an Environmental Protection Officer, a Senior Manager responsible for environmental protection, and a Manager responsible for environmental protection are appointed to match the structure of each internal company with such activities. Furthermore, organization systems are in place to facilitate coordinated efforts among all employees to implement environment-oriented initiatives. In 2010, KHI established an energy management structure to develop proactive initiatives for the management of energy. Environmental management and energy management structures at subsidiaries are being established under the direction of each designated oversight division (head office or internal company).



Eighth Environmental Management Activities Plan

The Eighth Environmental Management Activities Plan (referred to below as the Eighth Plan), covers the period from fiscal 2014 to fiscal 2016. It lays down a basic policy for coordinating environmental management with business management as well as specific measures in four areas–(1) realization of a low-carbon society, (2) realization of a recycling-oriented society, (3) realization of a society coexisting with nature, and (4) establishment of EMS–that are key to accelerating the shift toward greater energy- and resource-saving practices anticipating society's environmental needs and establishing an appealing Kawasaki environmental brand.

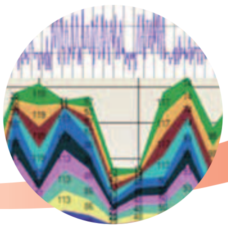
To reinforce these measures, KHI initiated a program in fiscal 2015 to promote Kawasaki Green Products.

Coordination with Business Management and Promotion of Environmental Contribution

Key strategy	Targets
Realization of a low-carbon society CO_2 and energy reduction	**Use the energy visualization system** By fiscal 2016, have equipment and system in place to reduce annual CO_2 emissions and energy consumption by at least 5%
	Reduce CO_2 emissions through the contribution from products Achieve cumulative values equal to or more than the initial plan values for each business segment and disclose the reduction of CO_2 emissions to the public
Realization of a recycling-oriented society Promotion of the 3Rs	**Promoting reduction in waste generation, greater reuse and more recycling** Reduce total waste emissions per unit of sales, and maintain zero emissions Boost recycling rate above previous years' level
	Promoting PCB treatment Look into and apply better treatment methods for low-concentration PCB waste
Realization of a society coexisting with nature Reduction of environmental load/ promotion of resource conservation	**Reduce chemical substances** Major VOCs* per unit of sales to be at or below the average of results achieved in the Seventh Plan Seek to reduce heavy metals to zero, in principle, by fiscal 2021
	Continue with forest conservation activity Carry out forest conservation activity more than twice a year
	Conserving Water Reduce water consumption and amount of wastewater
Establishment of environmental management systems Enhancement of the KHI Group environmental management system	**Reinforce the environmental management ability of KHI and consolidated subsidiaries in Japan** Set reduction targets, and provide appropriate feedback
	Reinforce the environmental management ability of overseas consolidated subsidiaries Promote information-sharing, identify issues at overseas locations, and support solutions
Kawasaki Green Product Promotion Activity	**Implementing compliancy evaluation** Thoroughly review compliancy of products for environmental friendliness and establish a system for registering such products
	Communicating information within and beyond the Company Communicate environmental aspects of products in compliance with ISO 14021

*Main VOCs: For the KHI Group, the major VOCs are toluene, xylene and ethyl benzene. VOCs: Volatile Organic Compounds

Target Profile of the KHI Group in 2020



- **Energy consumption and CO_2 emissions**
  Major reductions achieved
- **Contribution from products**
  Major reductions achieved in CO_2 emissions during utilization

- **3Rs**
  Major reductions achieved per unit of sales
  Recycling rate more than 97%
  Zero emissions maintained
- **PCB treatment**
  All treatment completed

- **Major VOCs**
  Major reductions achieved per unit of sales and in total amount
- **Heavy metals**
  Major reduction in amount utilized
- **Forest conservation activity**
  Forest conservation activity continued

- **Establishment of EMS**
  Establishment completed across the KHI Group as a whole

Group Mission

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

Environmental Vision 2020

Realization of a low-carbon society

Contribute to the prevention of global warming through our products and manufacturing that use energy without waste

① Reduce 2020 greenhouse gas emissions in line with national targets.
② Offer customers energy-efficient products and services and reduce emissions of greenhouse gases on a planetary scale.
③ Promote energy conservation in production and logistics processes and reduce emissions of greenhouse gases.

Realization of a recycling-oriented society

Engage in manufacturing that uses resources without waste to recycle and fully utilize limited resources

① Practice design that uses resources effectively and work to make products lighter, more durable and more recyclable.
② Practice the 3Rs (reduce, reuse and recycle of waste) in production activities and achieve zero emissions at all plants.
③ Completely and appropriately treat all PCB waste and PCB-containing devices.

Realization of a society coexisting with nature

Contribute to reduction of the environmental impact and conservation of the ecosystem through manufacturing that is in harmony with the global environment

① Offer customers products and services that prevent air and water pollution, and advance environment improvements and ecosystem protection.
② Reduce the use of chemical substances in products and production activities.
③ Cooperate in regional forest conservation and other activities to protect the environment of ecosystems.

Establishment of environmental management systems

Build a foundation for environmental management that will achieve the Environmental Vision 2020

① Establish EMS at all consolidated subsidiaries in Japan and overseas to promoteenvironmental management Group-wide.
② Comply with environmental laws and regulations and regularly follow up on compliance status.
③ Communicate environmental data within and beyond the Group and maintain two-way dialogue while protecting the environment.

Fiscal 2014 Results and Evaluation

Eighth Environmental Management Activities Plan (FY2014–FY2016)

Realization of a low-carbon society

Specific measure — **Reducing CO_2 emissions and energy consumption**

1. Use energy visualization system
   - **Approach** Reduce CO_2 emissions and energy consumption through improvement activities using an energy visualization system
   - **Target** By fiscal 2016, reduce annual CO_2 emissions and energy consumption by at least 5%

2. Cutting CO_2 emissions through product-based contributions
   - **Approach** Calculate reduced CO_2 amount separately for energy-related products, transportation-related products, industrial machinery, and other products
   - **Target** Achieve cumulative CO_2 emissions reduction equal to or more than the initial plan values for each business segment through product-based contributions

Realization of a recycling-oriented society

Specific measure — **Promoting 3Rs (reduce, reuse, recycle)**

1. Promoting reduced waste generation, greater reuse and more recycling
   - **Approach** Steadily implement measures to reduce total amount of waste generated.
     Promote high-level treatment and shift away from thermal recycling to material recycling and reuse
   - **Target** Reduce total amount of CO_2 emissions per unit of sales, and maintain zero emission status at all business sites

2. Promoting PCB treatment
   - **Approach** Draft appropriate treatment plans and follow through with stated measures
   - **Target** Sustain commitment to treatment of high-concentration PCB waste in cooperation with JESCO*.
     Apply optimum method to treat low-concentration PBC waste
     *Japan Environmental Safety Corporation

Realization of society coexisting with nature

Specific measure — **Reduction of substances harmful to the environment**

1. Reducing chemical substances
   - **Approach** Switch to either alternative materials that do not contain hazardous substances or materials with low-content concentrations.
     Reduce emissions into the atmosphere and prevent movement beyond the borders of business sites through such efforts as collection and treatment of chemical substances
   - **Target** Set major VOC reduction target below the average achieved through the Seventh Plan per unit of sales.
     Seek to reduce heavy metals to zero, in principle, by fiscal 2021

Specific measure — **Promoting resource conservation**

1. Forest conservation activities
   - **Approach** Continue to pursue forest conservation activities
   - **Target** Conduct forest conservation activities at least twice a year

2. Conserving Water
   - **Approach** Promote water conservation programs
   - **Target** Reduce water consumption and amount of wastewater

Establishment of environmental management systems

Specific measure — **Enriching scope of environmental management systems in the KHI Group**

1. Reinforcing environmental management ability of KHI and affiliated companies in Japan
   - **Approach** Communicate environmental data to stakeholders
   - **Target** Set reasonable reduction targets and provide appropriate feedback

2. Strengthening overseas affiliated companies' environmental management capabilities
   - **Approach** Pinpoint environmental data and evaluate environmental performance (impact on environment and effectiveness of measures to limit such impact)
   - **Target** Identify legal requirements and other criteria, and support efforts to mitigate environmental risk

Specific measure — **Kawasaki Green Product Promotion Activity**

1. Establishing compliancy evaluation system to assess environmental performance of Kawasaki green products
   - **Approach** Establish system for self-declared environmental claims regarding products
   - **Target** Establish system conforming to ISO 14021

Results of Fiscal 2014 Activities	Evaluation	Page Number:
Reducing CO_2 emissions and energy consumption 1. Use of energy visualization system Implemented energy visualization system and began improvement activities	○	▶ P.66
2. Reducing CO_2 emissions through product-based contributions Cumulative CO_2 emissions reduction through product-based contributions reached 741,000t-CO_2 in fiscal 2014.	△	▶ P.65
Promoting 3Rs (reduce, reuse, recycle) 1. Promoting reduction in waste generation, greater reuse and more recycling Total waste per unit of sales edged down 0.52 point from fiscal 2014, and zero emission status was maintained with final disposal ratio of 1% or less.	○	▶ P.69
2. Promoting PCB treatment High-concentration PCB waste continued to be treated at JESCO. For low-concentration PCB waste, information about treatment methods was collected and passed on to each business segment.	○	▶ P.69
Reduction of substances harmful to the environment 1. Reducing chemical substances Promoted reduction measures for major VOCs, dichloromethane, and heavy metals	○	▶ P.70
Promoting resource conservation 1. Forest conservation activities Continued forest conservation activities in Hyogo Prefecture, Miyagi Prefecture and Kochi Prefecture through the efforts of employees and their families	○	▶ P.70
2. Conserving water Promoted efforts to conserve water, and collected data on usage in fiscal 2014	○	▶ P.70
Enriching scope of environmental management systems in the KHI Group 1. Reinforcing environmental management ability of affiliated companies in Japan Introduced in-house environmental data management system (ECOKEEP) and began collecting environmental data. Communicate environmental information to stakeholders	○	▶ P.72
2. Reinforcing environmental management ability of affiliated companies overseas Identified and tabulated environmental data and encouraged steps to lower environmental risk	○	▶ P.72
Kawasaki Green Product Promotion Activity 1. Establishing conformity assessment system for Kawasaki green products Established system to check for conformity with ISO 14021, from the perspective of product performance and environmental management	○	▶ P.15 ▶ P.75

Realization of a Low-Carbon Society

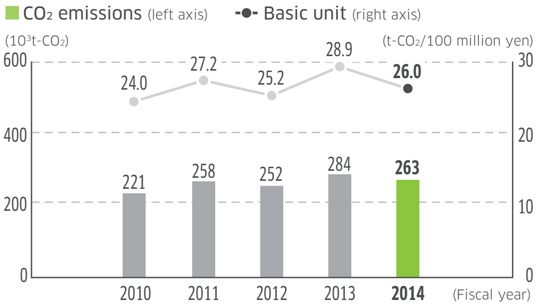
Reduction of Greenhouse Gas Emissions

Our response to climate change is a key issue affecting the continuity of our operations. The reduction of greenhouse gases is particularly important, and we emphasize measures that curb CO_2 emissions generated in our own production work as well as CO_2 emissions released when delivered products are in use.

The KHI Group is committed to contributing to the prevention of global warming worldwide through products and manufacturing that use energy without waste. Under the Eighth Plan, action is directed toward targets set separately for reduction of the CO_2 emissions generated during production and reduction of CO_2 emissions through product-based contributions. The results of fiscal 2014 are presented below.

Through implementing energy-saving measures in working toward our goal of reducing annual CO_2 emissions by at least 5% by fiscal 2016, we cut CO_2 emissions by 3,000 tons in fiscal 2014. CO_2 emissions amounted to 263,000 tons, a result that takes us closer to our goal as we employ further energy-saving measures under the energy visualization system.

CO_2 Emissions and Basic Unit at KHI

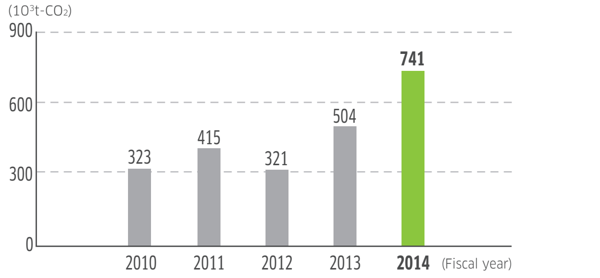


Notes: 1. The CO_2 emissions value for fiscal 2014 includes a credit adjustment of a 31,500t-CO_2.
2. Basic unit is a measurement obtained by dividing CO_2 emissions by net sales.
3. CO_2 emissions in logistics processes are calculated from our position as a specified consignor (a Japanese legal designation applied to consigners that ship 30 million ton-kilometers of freight or more per year), under the revised Energy Saving Law.

CO_2 Reduction Through Product-based Contributions

Through products delivered by KHI to its customers, the Company made an estimated annual contribution to CO_2 emissions reduction of 741,000t-CO_2 in fiscal 2014. CO_2 emissions reduction in Energy & Environmental Engineering, Transportation Systems, and Industrial Equipment is shown in the table above right. The reduction effect is based on a comparison with existing models or improved efficiency through the application of new technology.

CO_2 Emissions Reduction* Through Product-based Contributions



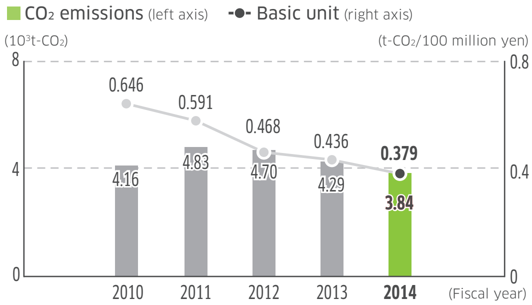
*Estimate based on delivery results

Notes: 1. Emission factors for electricity, heat, fuel and other types of energy were established with reference to the manual for the Law Concerning the Promotion of Measures to Cope with Global Warming.
2. CO_2 emission reduction effect through improved efficiency is based on a comparison with products before replacement or with standard products on the market.
3. All energy derived from the use of waste energy and energy produced from wastes is counted toward the CO_2 reduction effect.

Environmentally Conscious Logistics

KHI promotes energy-saving activities and data tracking to curb CO_2 emissions from logistics processes. Evaluating the Company's freight traffic on the basis of freight tonkilometers carried (freight weight multiplied by distance), truck transport accounts for about half, with the balance of the freight carried by train or ship, which exerts less impact on the environment. In fiscal 2014, CO_2 emissions reached 3,840 t-CO_2 and CO_2 emissions per unit of sales totaled 0.379. We will continue to look at ways of boosting the load factor for truck transport and using modal shift from truck to other modes, such as train.

CO_2 Emissions from Logistics Processes and Basic Unit



Notes: 1. CO_2 basic unit is a measurement obtained by dividing CO_2 emissions by net sales.
2. Emissions in logistics processes are calculated from our position as a specified consignor (a Japanese legal designation applied to consigners that ship 30 million tonkilometers of freight or more per year), under the revised Energy Saving Law.
3. CO_2 emissions from logistics processes in fiscal 2010 do not include emissions by Kawasaki Shipbuilding Corporation and other subsidiaries before they merged into the Company on October 1, 2010.

Installation of Solar Power Generating Facility

Kawasaki Trading Co., Ltd., a KHI Group company, began selling power under Japan's Feed-in Tariff Scheme for Renewable Energy. The photo shows the 1,500kW Iwaoka Photovoltaic Power Generation Station, which has annual power generating capacity of about 1,897MWh.

Iwaoka Photovoltaic Power Generation Station

Use of Energy Visualization System

The amount of energy used in a year at all KHI business sites is equivalent to about 150,000kl of crude oil. During MTBP2013, we aim to reduce annual CO_2 emissions and energy consumption by at least 5% by fiscal 2016 as part of our efforts to realize a low-carbon society. To reach this target, we are currently installing an energy visualization system throughout our factory network and making progress in reducing CO_2 emissions and energy consumption.

The underlying objective in introducing this system into our operations is to have all employees participate in saving energy.

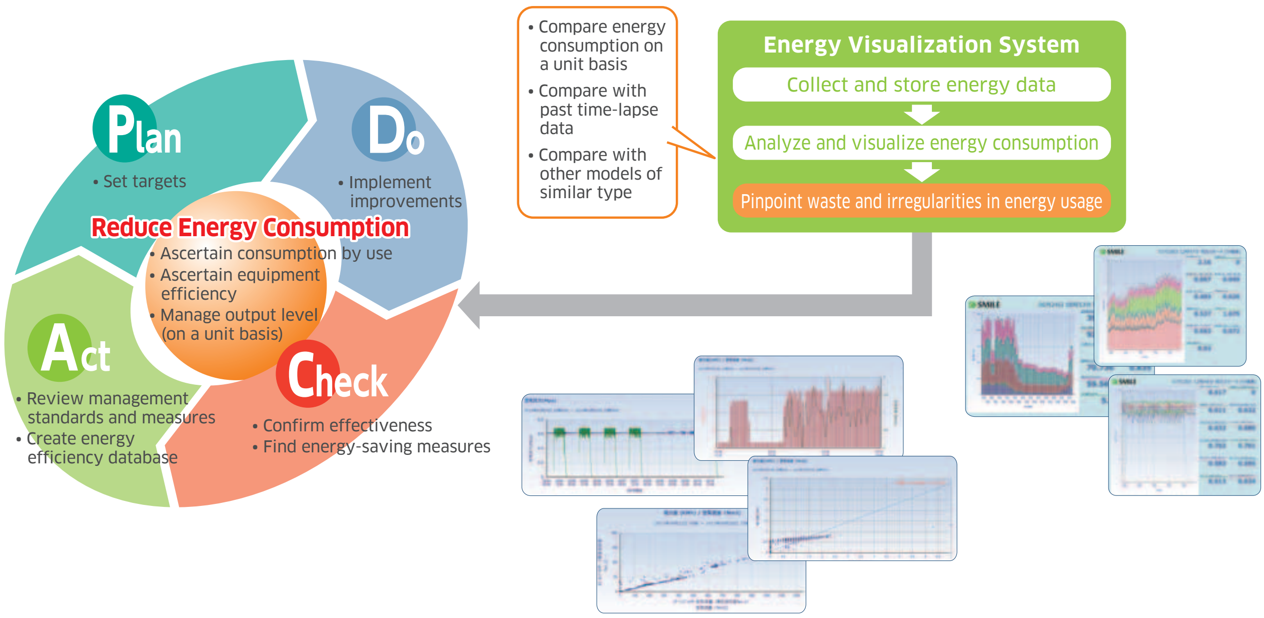
Production equipment accounts for between 70% and 80% of Company-wide energy consumption. Each factory has between several hundred and several thousand pieces of equipment, presenting an extremely varied assortment of features and many different methods of use. A limited number of energy managers cannot possibly deal with all of the energy-efficiency issues associated with such a vast array of equipment. That is why we rely on the people at each facility within a factory—those who typically use the equipment—to track energy consumption. It is these efforts by individuals that underpin greater energy savings overall. And for this reason, it is important to be able to see possible waste at a glance. The energy visualization system meets this need.

In fiscal 2013, we installed an energy visualization system at the Kakokawa Works, ahead of other factories. The system allowed us to compare and analyze the amount of energy used by similar types of machines and equipment, in operation and in standby mode, which led to the identification of discrepancies in settings and conditions and facilitated adjustments to achieve optimal performance. In addition, we were able to discover air leaks and other problems through continuous data confirmation on the amount of compressed air used. Over a one-year period, such energy-saving measures had an energy consumption reduction effect of about 10%.

In fiscal 2014, an energy visualization system was installed in test areas (see next page) at key factories in Japan. In addition to energy measurements, the system was used to track the flow volume of water, for example, and at factories emphasizing water conservation, the system led to a huge reduction in usage because leaks were found and fixed and a more appropriate level of water consumption was achieved. We will be promoting similar approaches at other factories.

In fiscal 2015, we will begin the process of extending measurement areas throughout our factories.

PDCA Cycle for Energy-Saving Improvement Activities



Focus 1

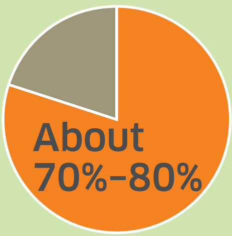
Realizing a Low-Carbon Society: Reduced CO_2 Emissions and Energy Use

Rolling out energy visualization system

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

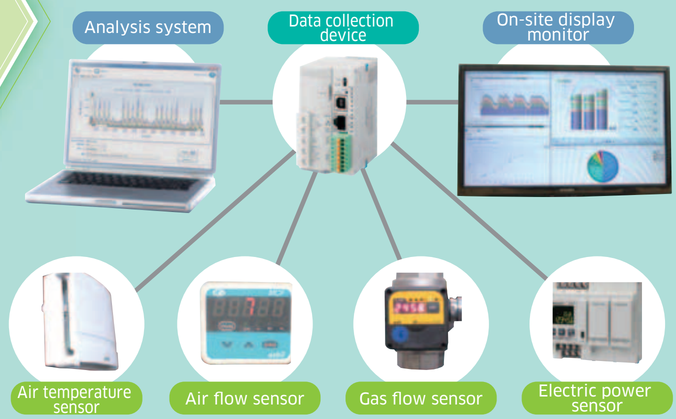
Why are energy visualization systems necessary?

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



K-SMILE the KHI Group's energy visualization system

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



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

Development of K-SMILE Energy Visualization System

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

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

1 Roll out energy visualization system to all operating facilities

2 Create database with standardized cases on energy savings and share access to information

3 Promote energy-saving activities with participation from all employees

Energy-saving activities using K-SMILE

Promote environmental contribution

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

System Introduced at Major Factories in the KHI Group

Akashi Works
- Paint shop
- Robot shop
- Machining shop

Seishin Works
- Precision casting shop

Kakogawa Works
- Entire factory

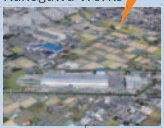
Kobe Works
- Hull assembly and fabrication shop
- Large machinery shop

Close Up

Akashi Works

Seishin Works

Kakogawa Works



Kobe Works

Earth Technica Co., Ltd. Yachiyo Works
- Casting shop

Harima Works
- Entire factory

NIPPI Corporation
- Yokohama Works (entire factory)

Nishi-Kobe Works
- Hydraulic pump manufacturing shop

Sakaide Works
- New large assembly shop

Hyogo Works
- Entire factory

Kawasaki Thermal Engneering Co., Ltd.
- Shiga Works (entire factory)

Nagoya Works 1
- Entire factory

Gifu Works
- Surface treatment facility
- Assembly facility

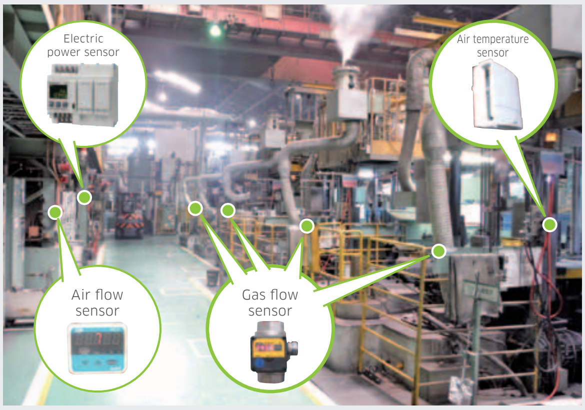
Close Up

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

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

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

Measurement sensor placement (dots) at Kakogawa Works



Realization of Recycling-Oriented Society

Waste Reduction

Promoting Resource Saving and the 3Rs

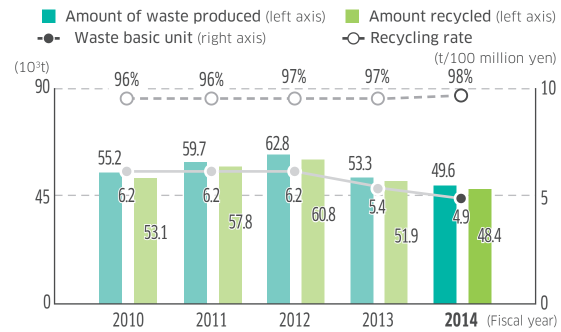
We use wisely and repurpose the limited resources that are needed to make our products and facilitate the manufacturing process so that these materials are consumed without waste. We emphasize designs that use resources effectively, and we seek to create products that are more lightweight, durable and recyclable. In addition, we advocate the 3Rs—reduce, reuse and recycle—in our manufacturing activities and seek zero emission status at all factories.

Zero Emission Activity and Higher Recycling Rate

At KHI, we define zero emissions as a final disposal ratio of 1% or less. In fiscal 2014, all key factories achieved zero emission status and the recycling ratio edged up one point, to 98%.

In fiscal 2014, total waste decreased about 7% year on year, to 49,600 tons, and we reached our Company-wide target for reduction per unit of sales, with a 0.52 point improvement over fiscal 2013.

Waste Produced, Recycling Rate and Basic Unit



Appropriate Treatment of PCB Waste

In accordance with the Law concerning Special Measures for Promotion of Proper Treatment of PCB Wastes, KHI reports to the appropriate prefectural governor by June 30 each year any polychloride biphenyl (PCB) wastes located at its operating sites. Also, in accordance with the Waste Management and Public Cleansing Law and related Cabinet and ministerial ordinances, we appoint an industrial waste manager at each relevant business location and store waste with the utmost care in line with applicable storage standards.

High-Concentration PCB Waste

In fiscal 2012, KHI began outsourcing treatment and disposal of high-concentration PCB waste to the Japan Environmental Safety Corporation (JESCO) in accordance with regulations. To date, about 1,100 condensers have been processed. We will continue with appropriate treatment in the years ahead.

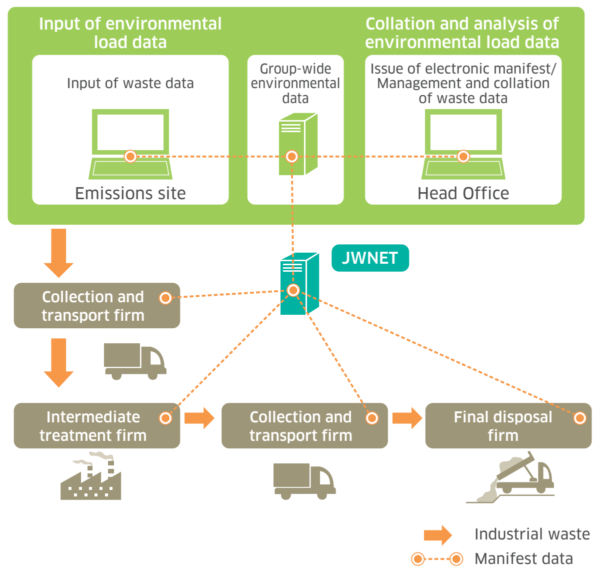
Low-Concentration PCB Waste

For low-concentration PCB waste, as well, treatment has commenced and so far about 180 transformers have been processed. This came after we had calculated treatment costs and secured an appropriate budget, confirmed that the provider is certified to treat low-concentration PCB and tracked treatment trends, and verified through on-site observation that the certified provider executes treatment in an appropriate manner. We will continue to promote appropriate treatment of low-concentration PCB waste.

Installing an Electronic Manifest System

To ensure the appropriate treatment of waste, KHI uses an environmental data management system (ECOKEEP), linked to the electronic manifest system operated by the Japan Industrial Waste Information Center, to self-determine the flow of industrial waste treatment outsourced to the companies that collect and transport waste and treat it. We began Company-wide use of this system in fiscal 2013, with all factories covered by the system as of fiscal 2014.

Environmental Data Management System (ECOKEEP)



Realization of a Society Coexisting with Nature

Chemical Substance Reduction

It is KHI's stated goal to contribute to reduced environment impact and conservation of the ecosystem through manufacturing that is in harmony with the global environment. KHI undertakes activities to achieve this goal. To reduce chemical substances, we have set targets for major VOCs (toluene, xylene and ethylbenzene), dichloromethane and hazardous heavy metals in each business segment, and progress is being made in reducing these substances.

We present data on the release and transfer of chemical substances designated under the PRTR Law*.

*PRTR law: Pollutant Release and Transfer Register law (Order for Enforcement of the Act on Confirmation, etc. of Release Amounts of Specific Chemical Substances in the Environment and Promotion of Improvements to the Management Thereof)

Major VOCs

With regard to major VOCs, KHI promoted the switch to low-VOC paints, such as water-based paint, and improved coating efficiency through electrostatic coating, while reducing its use of cleaning solvents by installing solvent recovery equipment. We achieved a slight reduction in emissions from the fiscal 2013 level. In the future, however, we will strive to curb emissions through such measures as the wider application of alternative products, including water-based paints and high-solid paints.

Dichloromethane

Dichloromethane is often found in the paint strippers that KHI uses in its operations. Emissions were reduced compared to fiscal 2013. Going forward, KHI will strive to further reduce emissions, especially through replacement of paint strippers and enhancement of dichloromethane recovery methods.

Hexavalent Chromium Compounds

Hexavalent chromium is employed in special surface treatments, but we are working to introduce technology that makes it possible to avoid its use. Although the amount handled was on a par with the previous fiscal year, we will implement planned reductions.

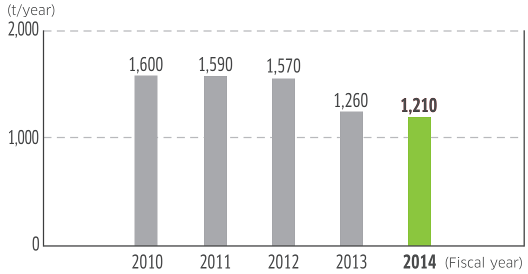
Lead

Lead is often found in paint, so KHI's efforts have focused on switching to lead-free paint. The amount handled was higher than the level recorded in the previous fiscal year, owing to an increase in the volume of products that require special paint.

Amounts of Chemicals Subject to Reduction Handled and Emitted (t/year)

	Substance	Fiscal 2014	Increase or decrease from fiscal 2013
Major VOCs	Toluene	324	-19%
	Xylene	430	-20%
	Ethylbenzene	188	-8%
	Total	942	-18%
Dichloromethane		42	-13%
Hazardous heavy ametals	Hexavalent chromium compunds	15	0%
	Lead	2	42%
	Cadmium	0.02	-78%

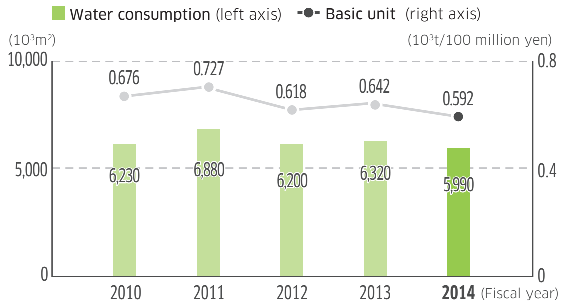
Release and Transfer of Chemical Substances Designated under the PRTR Law



Conserving Water

Concern over risk to water sources is growing worldwide. KHI places a priority on appropriate use of water and reduced consumption in the course of its business pursuits. Currently, we target a 1% reduction in water usage per unit of sales each year and verify the status of consumption restrictions. Going forward, we will pinpoint water consumption on a Group-wide basis and consider activities that assume the existence of risk to water sources in all regions.

Water Consumption and Basic Unit



Biodiversity-Friendly Society

A short-term target in Japan's national biodiversity strategy, which was revised in 2010, is to analyze the state of biodiversity to get a clearer picture of conditions and, based on this knowledge, to promote activities that protect biodiversity. We will support efforts to achieve this objective by implementing the activities listed below at all business sites with biodiversity protection in mind.

We also undertake activities such as greening programs on corporate premises that take into account location or other characteristics specific to each operating site.

Efforts to Reduce the Environmental Load from Business Activities

1. Promote measures to cut greenhouse gas emissions
2. Reduce the amount of industrial waste for final disposal
3. Decrease the environmental load from wastewater and chemical substances

Non-Business Activity

1. Promote cleanup events around business sites
2. Implement greening programs and other activities based on analysis of and insight into biodiversity conditions on corporate premises and the surrounding area
3. Embrace collaborative opportunities to protect biodiversity with local groups, such as creating corporate forests

Responding to the ELV Directive*1, the RoHS Directive*2, and the REACH Regulation*3

Since 2000, laws and regulations related to chemical substances have been strengthened in the European Union (EU) by the establishment of such controls as the ELV Directive, the RoHS Directive, and the REACH Regulation. The ELV Directive focuses on automobiles, and while motorcycles are not subject to the content of this directive, the Motorcycle & Engine Company has embraced the voluntary actions espoused by the Japan Automobile Manufacturers Association (JAMA). The Precision Machinery Company also applies this directive to some of our products. The RoHS Directive covers electric and electronic products, and within the KHI structure, the Precision Machinery Company, which includes the Robot Division, complies with the directive for some of its products.

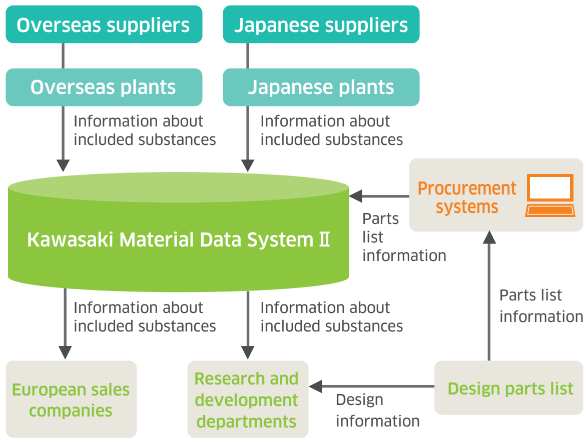
The REACH Regulation went into effect in June 2007 and applies to all chemical substances manufactured in and imported by the EU. Enterprises that manufacture or import one ton or more of chemical substances a year are required to register the chemical substances. As KHI products are mainly molded articles, only a limited number need to be registered. Registration and notification are, however, compulsory for all substances that are deliberately emitted and all substances that are carcinogenic or otherwise of high concern. In addition to registration and notification, regulations exist for the evaluation, authorization, restriction and communication of information regarding chemical substances, necessitating a system to identify information about the chemical substances in products throughout our entire supply chain.

Laws and regulations related to chemical substances have been strengthened not only in the EU but in many countries around the world. As requirements vary by country, for instance regarding substances and products covered, we believe that our response must be based on a firm understanding of the law.

KHI practices CSR procurement and responds to requests from customers to gather chemical substance information. In addition, the Motorcycle & Engine Company has created the Kawasaki Material Data System II*4 to collect data about chemical substances and respond to REACH and other applicable chemical substance regulations.

CSR Procurement Guidelines
http://www.khi.co.jp/english/csr/procurement/guideline.html

Response to REACH by the Motorcycle & Engine Company

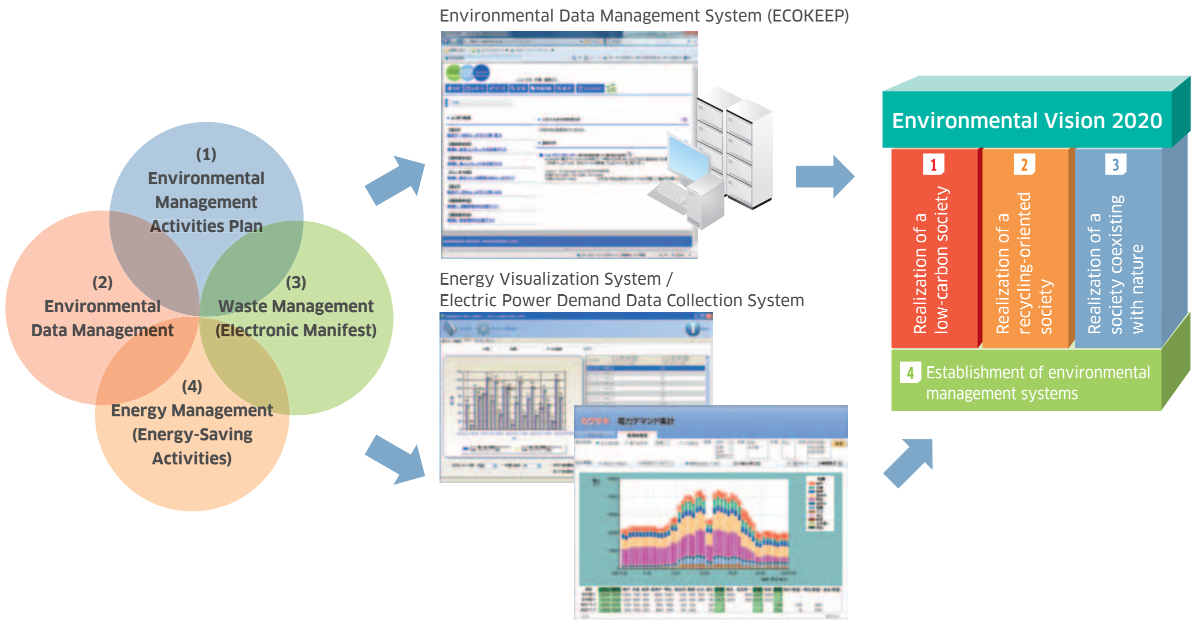


*1 ELV Directive: End of Life Vehicles Directive
*2 RoHS Directive: Directive on Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment
*3 REACH Regulation: Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals
*4 Kawasaki Material Data System II: Currently switching to IMDS (International Material Data System: A reporting system encompassing 26 finished automakers in Europe, the United States, Japan and South Korea which enables suppliers to identify the composition of materials in respective parts delivered to the automotive industry)

Establishment of Environmental management System

Using IT Systems

KHI uses the Environmental Data Management System, also known as ECOKEEP, to manage target values for its environmental management activities plan. The system manages environmental data through an electronic manifest. We also use an energy visualization system, designated K-SMILE, which is designed to reduce energy consumption mainly through energy-saving approaches. Because environmental management activities are an important element of business operations, we strive to fully realize Environmental Vision 2020 while undertaking quantitative assessments based on cooperative IT systems.



KHI Group EMS

All of KHI's consolidated domestic production sites have acquired ISO 14001 status.

Of the Company's 39 consolidated subsidiaries in Japan, a certain number were required to establish EMS, have either obtained ISO 14001 certification or simplified EMS certification from other standards organizations, such as Kobe Environmental Management System (KEMS), or else established EMS through self-declaration. Companies that have completed the establishment of EMS will now collect environmental data through the in-house ECOKEEP system and set reduction targets.

Of our 25 overseas consolidated subsidiaries required to establish EMS, 24 have done so through acquisition of ISO 14001 or through self-declaration. The one remaining company is working to establish EMS.

Current Situations for Acquiring ISO 14001 (JIS Q 14001) Certification for KHI Production Bases

Internal companies		Date acquired	Registration
Ship & Offshore Structure Company	Kobe Works	Aug. 2002	DNV GL
	Sakaide Works	Aug. 2000	DNV GL
Rolling Stock Company		Feb. 2002	LRQA
Aerospace Company		Feb. 2002	BSK
Gas Turbine & Machinery Company	Gas Turbine Division	Mar. 2000	LRQA
	Machinery Division	Dec. 2000	NK
Plant & Infrastructure Company		Nov. 1999	JICQA
Motorcycle & Engine Company		Feb. 2000	DNV GL
Precision Machinery Company	Nishi-Kobe Works	Feb. 1998	DNV GL
	Robot Division	Mar. 2011	DNV GL

LRQA: Lloyd's Register Quality Assurance Limited., JICQA: JIC Quality Assurance Ltd., NK: Nippon Kaiji Kyokai (ClassNK), BSK: Bouei Kiban Seibi Kyoukai (Defences Structure Improvement Foundation), DNV GL: DNV GL Group.

Status of EMS Establishment at Consolidated Subsidiaries

(Number of companies)

	Domestic (39 companies)		Overseas (25 companies)	
Number of sites	Manufacturing sites	Non-manufacturing sites	Manufacturing sites	Non-manufacturing sites
	14 companies	25 companies	14 companies	11 companies
ISO14001	10	11	9	1
Simplified EMS	3	7	–	–
Self-declared	1	7	4	10
Implementation in progress	0	0	1	0
Establishment rate	100%		96%	

Compliance with Laws and Regulations

Legal Compliance Status in Japan

In fiscal 2014, there were no incidents that incurred administrative penalties for the KHI Group. However, some construction work at a factory led to the outflow of wastewater exceeding the allowable pH level for wastewater whenever rain added to wastewater discharge. An administrative warning was issued by the authorities. We gave this situation additional attention and endeavored to prevent recurrence of the problem through several approaches, including a tougher allowable pH level for wastewater prior to discharge.

Risk Management

In addition to approaches based on Company-wide risk management structures, we hold liaison conferences at appropriate intervals for environmental management officers from within the Group, who work with the secretariat–the Environmental Affairs Department–to ensure that environmental laws and regulations are obeyed and that legal revisions are widely known and understood, and to enhance the abilities of managers with environmental responsibilities. These conferences emphasize compliance with environmental laws and regulations to preempt environmental accidents.

In fiscal 2014, we gathered environmental management officers together to discuss such topics as thorough compliance and risks that manifest when compliance status is broken, partial revisions to the Water Pollution Prevention Law and subsequent trends, the status of PCB waste treatment and associated responses, and measures to mitigate environmental risk.

Promoting Environmental Communication

Raising Environmental Awareness

The KHI Group runs publicity campaigns designed to raise the environmental awareness of each and every employee. We undertake these campaigns continually to promote environmentally conscious conduct not only in the workplace but also in the community and at home.

"Eco Mind," featured in the Group magazine *Kawasaki*


環境に配慮した製品とものづくりで
地球環境に貢献しよう

Message from the President concerning environmental management

Environmental e-Learning

To maintain and improve environmental awareness among employees throughout the domestic Group, we offer environmental e-learning opportunities to new employees. This ongoing process is aimed not only at new employees at KHI but also those at domestic consolidated subsidiaries. In fiscal 2014, approximately 1,650 people participated in the environmental e-learning courses. The attendance rate was 97%.

Cultivating Qualified Managers

To enrich management activities emphasizing energy and the environment, we are striving to cultivate individuals with legal qualifications required under laws and regulations related to energy and the environment. In addition, as an internal qualification, we offer training for internal ISO 14001 auditors, through which 114 employees qualified as internal auditors in fiscal 2014.

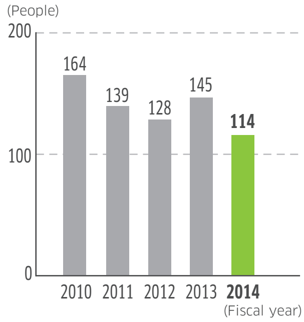
Number of Qualified Pollution Control Managers

Air	76
Water	75
Noise, vibration	44
Others	83
Total	278

Number of Qualified Energy Managers

Energy managers	60

Number of Completed Training of Internal Environmental Auditors (ISO 14001)

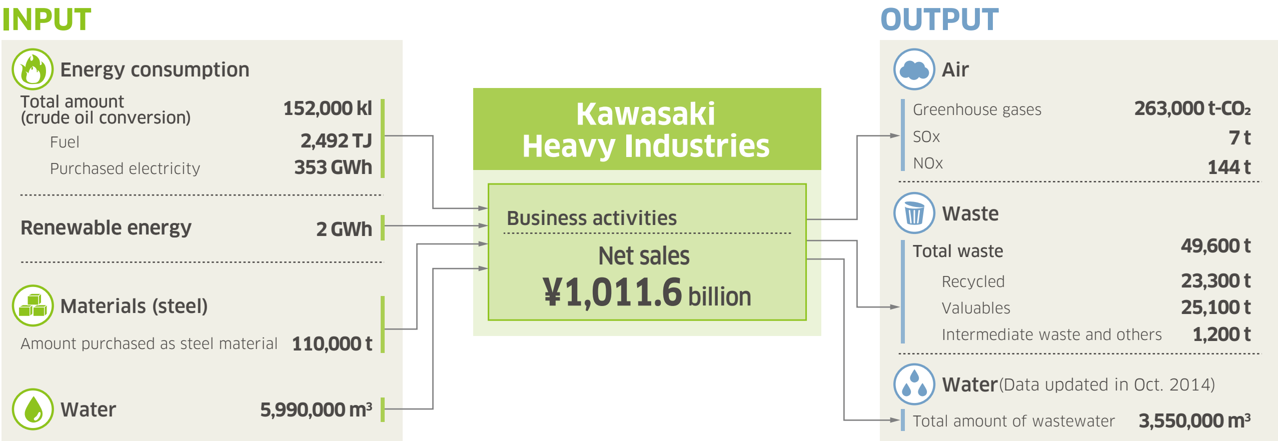


External Information Disclosure

At KHI, we are committed to information disclosure as indicated by our cooperation with many external evaluation organizations conducting surveys, such as the CDP investors' information request "CDP Japan 500," published by the CDP (Carbon Disclosure Project), the Nikkei Environmental Management Survey, conducted by Nikkei Research, Inc., the Toyo Keizai CSR Survey, the Dow Jones Sustainability Index Asia Pacific category, and the environmental survey by Sompo Japan Nipponkoa Risk Management Inc.

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

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



Environmental Accounting Calculations for Fiscal 2014

In compiling the statistics, reference was made to the Japanese Ministry of the Environment's Environmental Accounting Guidelines (2005 edition).

(Millions of yen)

Item			Environmental investments	Environmental costs	Economic effects
Business area costs	Global warming prevention (Save energy, reduce greenhouse gas emissions, stop ozone layer destruction, etc.)		1,055	3,332	Energy-saving cost reduction 266
	Efficient use of raw materials, water, and other resources		49	137	Resource-saving cost reduction 33
	Resource-recycling activities	Resource-recycling activities	152	513	Income from recycling 460
		Waste disposal costs	9	391	Waste disposal cost reduction 4
	Environmental risk control		206	652	0
	Subtotal		1,470	5,025	764
	Year-on-year comparisons		80%	85%	87%
Upstream/downstream costs			36	2,801	0
Management activity costs			3	421	0
R&D costs			108	9,152	0
Social activity costs			56	178	0
Environmental remediation costs			0	27	0
Total			**1,673**	**17,603**	**764**
Year-on-year comparisons			81%	100%	87%

(Millions of yen)

Item	Total
Total investments	62,497
Total R&D costs	39,124

Item	Proportion
Percentage of investments (environmental investments 1,673 / Total investments 62,497)	3%
Percentage of R&D costs (environmental R&D costs 9,152 / Total R&D costs 39,124)	23%

Kawasaki Green Product Promotion Activity

Kawasaki Green Product Conformity Assessment

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

* Please refer to page 15-18 of the Kawasaki Report 2014 digest and full report.

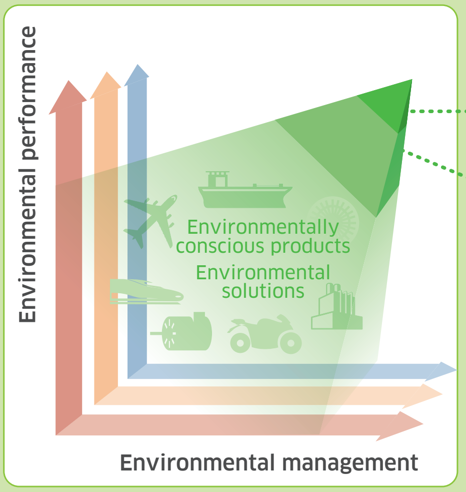
Product Applications, Overall Evaluation Criteria

Of KHI’s environmentally conscious products and environmental solutions, those boasting particularly outstanding performance from the perspective of contribution to a low-carbon society, a recycling-oriented society and a society coexisting with nature may be submitted by any division within the Company for consideration in the Kawasaki Green Products program.

Products undergo comprehensive evaluation to ensure that they meet all criteria established by KHI for environmental performance as well as environmental management during manufacturing processes, in each of three key areas crucial to global environmental sustainability—a low-carbon society, a recycling-oriented society and a society coexisting with nature.

Six Evaluation Benchmarks

Environmental Performance of Products	Environmental Management Performance During Manufacturing Processes	
1 • High-efficiency • CO_2 reduction/low fuel consumption • Renewable energy	4 • Reduced CO_2 emissions • Decrease in energy consumption	Low-carbon society
2 • Lighter weight, reduced volume • Longer service life • Recyclability, reuse	5 • Reduced volume of total waste generated • Zero emissions	Recycling-oriented society
3 • Reducing substances with environmental load • Lower noise and vibration • Reduced use of toxic substances	6 • Reduced level of chemical substances • Other approaches to environmental protection	Society coexisting with nature



Application → Benchmark evaluation: Products are evaluated according to the six benchmarks for environmental performance and environmental management during manufacturing processes → Comprehensive evaluation

Conformity assessment

- Products demonstrate higher environmental performance than the industry standard or KHI’s pre-existing models in all six categories
- Products that satisfy the above criteria for Kawasaki Green Products and have one or more world-leading features

Green Product Committee: Management Committee members including the president
Green Product Evaluation Sub-committee: Substructure of above committee with participation from members in each field of expertise

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

Kawasaki Green Product Promotion Activity

Program logo

Product Application, Overall Evaluation Standard

After careful evaluation by the team, comprising members in each field of expertise, the Green Product Committee, with participation from members of the Management Committee including the president, determines the conformity assessment level of the products according to ISO 14021.

Products are placed into two categories: Kawasaki Green Product, which exceeds either the industry standard for environmental performance or the level reached by pre-existing models of KHI products; and Kawasaki Super Green Product, which has some of the most outstanding environmentally conscious features in the industry today.

Kawasaki Super Green Product

Products with some of the most outstanding environmental features in the industry

Kawasaki Green Product

Products with environmental features that exceed either the industry standard for environmental performance or the level reached by pre-existing models of KHI products

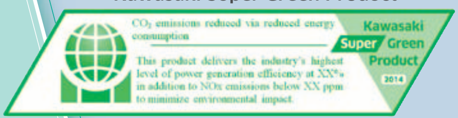
Environmental Label

To promote compliance with ISO 14021, two labels–designated as either a Kawasaki Green Product label or a Kawasaki Super Green Product label, indicating levels of environmental performance–are given to products based on their conformity assessment level.

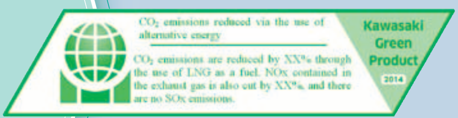
The label shows the registration year. Content is reconfirmed every three years, and labels are renewed accordingly.

Sample labels

Kawasaki Super Green Product



Kawasaki Green Product



Kawasaki Green Product

Kawasaki Super Green Product

Registration

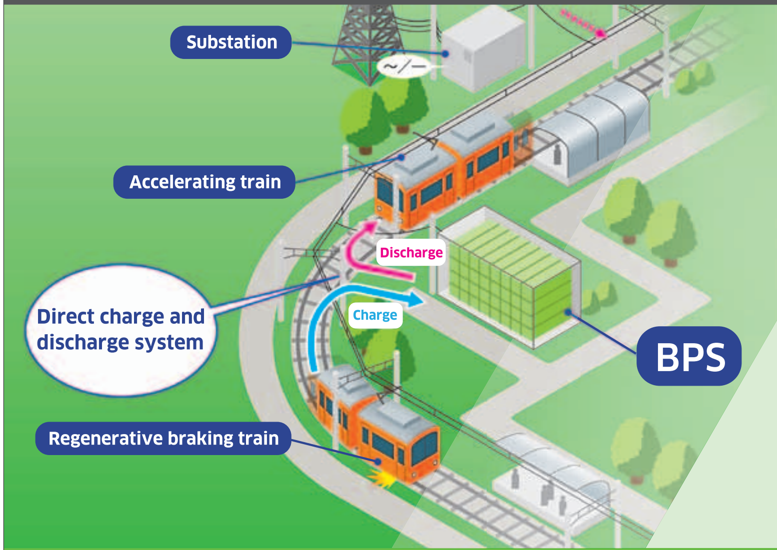
What is ISO 14021?

ISO 14021 is an international standard developed by the International Organization of Standardization for "Environmental labels and declarations–Self-declared environmental claims (Type II environmental labeling)." This standard enables companies to set their own standards and label products that meet these standards. The environmental claims are therefore self-declared by the company that makes said products. Environmental labels that comply with ISO 14021 are called Type II environmental labels.

First Kawasaki Green Products Announcement 2014

Battery Power System (BPS)

Super Kawasaki Green Product 2014



Introducing a cutting-edge high-performance battery with energy-saving potential and no electrical noise emissions

Kawasaki's wayside battery power system (BPS) utilizing GIGACELL® contributes to CO_2 emissions reduction. The fact that the BPS does not generate electrical noise emissions, it can be used for application in railway operations as an environment-friendly solution.

GIGACELL® unit

Product Description

The BPS consists of Kawasaki's nickel metal hydride GIGACELL®, which connects directly to the main DC power line (i.e., an overhead catenary line or third rail) without any inverters or converters, and as a result, it has the advantage of high response time during power load fluctuations in the railway system, as well as ensuring safety during operation.

Special Features

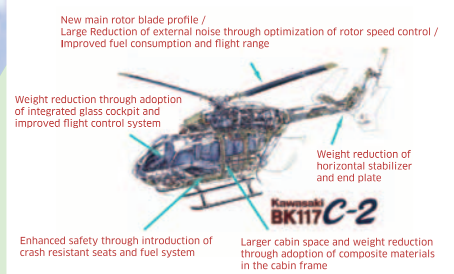
- Benefits of installation
  Energy savings, peak demand reduction, regenerative energy use, line voltage drop prevention, substitution for substations, and provides emergency power to move trains when main power fails
- System features
  Direct connection to the main power line without inverters or converters, facilitating good cost performance, high energy conversion efficiency, high charging and discharging efficiency, and no noise

BK117 C-2 Helicopter

Super Kawasaki Green Product 2014

World's Most Quiet Helicopter

The C-2 achieves a large margin (6.7 EPNdB: approx. 50% reduction) from the external noise regulation standard set by Japan's Civil Aeronautics Act, making it one of the quietest helicopters in its class.



Product Description

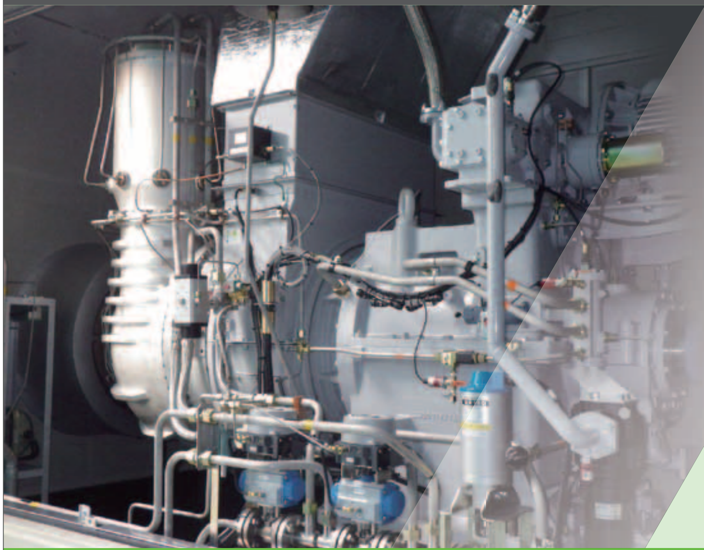
The BK 117 is a twin-engine, multi-purpose, high-performance helicopter, jointly developed with Airbus Helicopters Deutschland (AHD) of Germany. It was certified in 1982 by JCAB as the first domestically manufactured helicopter in Japan. As the latest model, the C-2 features improved performance, owing to composite materials and a one-piece cabin frame, among others.

Special Features

- The quietest helicopter in the world. 3.8EPNdB external noise reduction compared with C-1 model
- Weight reduction through introduction of composite materials and one-piece cabin frame. 25% weight reduction per unit area compared with C-1 model
- 3% improved fuel consumption compared with C-1model
- Reduced environmental impact through introduction of chrome-free primer and sealant

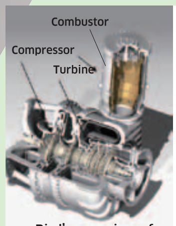
M1A-17D Gas Turbine

Super Kawasaki Green Product 2014

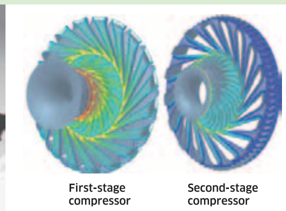


Highest power generation efficiency in its class with lowest NOx emissions, made possible by KHI's integrated technology

With improved generating efficiency (2.4% higher than the previous model), the M1A-17D is among the most efficient gas turbines in its power class and has the industry's lowest level of NOx emissions, at 35 ppm (converted at 0% O_2).



Bird' s eye view of M1A-17D engine



Results of compressor computational fluid dynamics analysis

Product Description

Power generation gas turbine boasting higher efficiency, thanks to a change in the flow passage geometry of the compressor and turbine as well as structural improvements along with a DLE (Dry Low Emission) combustion system, which ensures low-NOx emissions

Special Features

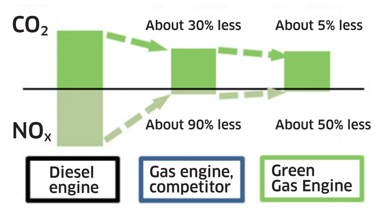
- Highest performance in its class, thanks to enhanced efficiency through aerodynamically optimized design for compressor and turbine
- Among the industry' s highest levels of environmental performance, thanks to low NOx achieved through improvements to combustor burner and passage shape
- Highly reliable, thanks to adoption of previous model' s basic structure

Green Gas Engine

Super Kawasaki Green Product 2014

The world's highest power generation efficiency in its class

The Green Gas Engine boasts the world's highest power generation efficiency at 49.0%, with a variable turbine nozzle area (VTA) turbocharger in addition to optimized combustion performance.



Comparison of Emissions Volume

Product Description

Using clean natural gas, the Green Gas Engine achieves the world' s highest level of power generation efficiency in its class and low NOx emissions, owing to resourceful efforts to optimize the shape of the combustion chamber, achieve a leaner burn and optimize the control system.

Special Features

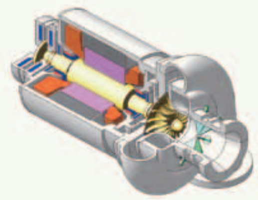
- The world' s best in terms of power generation efficiency–49.0%– in its class, as of April 1, 2014
- Top level in environmental performance, with NOx emissions at less than 200 ppm
- Wide continuous operation range at 30%–100% and maintains high power generation efficiency, even at partial loads

MAG Turbo

Super Kawasaki Green Product 2014

Domestic industry's highest level of efficiency and low environmental impact achieved through use of magnetic bearings

Featuring a high-speed motor with magnetic bearings, the MAG Turbo outperforms overall efficiency of existing sewage aeration blowers in all air volume ranges domestically.
Furthermore, the MAG Turbo does not require the use of lubricant, minimizing environmental impact.



Blower

Product Description

This new type of sewage aeration blower has an impeller attached directly to the rotor shaft of an inverter-driven, high-speed motor. The rotor levitates by magnetic bearings. This mechanism allows high-speed rotation without mechanical loss.

Special Features

The following features are possible because of the blower's inverter-driven, high-speed motor with magnetic bearings.

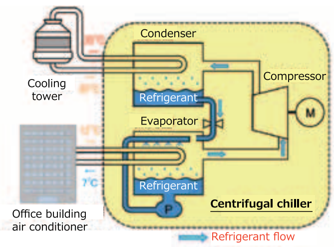
- High efficiency (a maximum of about four points higher than existing models, according to Japan Sewage Works Agency specifications)
- No lubricant or cooling water necessary
- Low noise, low vibration

Centrifugal Chiller Using Water as Refrigerant

Super Kawasaki Green Product 2014

Epoch-making HFC-free, high-efficiency chiller cuts greenhouse gas emissions

This HFC-free chiller, using water as a refrigerant, delivers efficiency comparable to existing chiller models. Its compact design makes it a viable alternative to existing chillers.



Refrigerant Explanatory Drawing

Product Description

This centrifugal chiller uses water as the refrigerant and is therefore free of hydrofluorocarbons. This choice of refrigerant can contribute to protection of the ozone layer while preventing global warming. The chiller features a new type of compressor as well as key components developed in-house. Its compact design facilitates its use as a replacement model for existing equipment.

Special Features

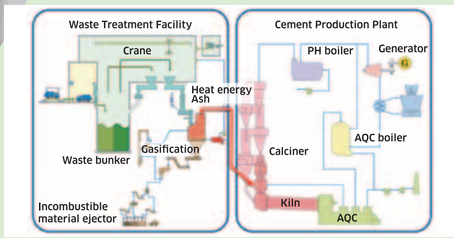
- Water refrigerant
  Selected for potential to protect the ozone layer and prevent global warming
- High efficiency
  Developed new type of compressor, boasting high performance and high pressure ratio
- Compact design
  Key components developed in-house and compact size, excellent as a replacement model for existing equipment

CKK System

Super Kawasaki Green Product 2014

Conserving energy and resources through effective use of waste

"The CKK System-Conch Kawasaki Kiln System-" integrates a waste incinerator into existing cement plants, requiring 70% fewer components than the installation of a waste incinerator alone would require. It effectively uses heat energy and ash generated from waste incineration to reduce CO_2 emissions.



Product Description

The CKK System integrates a waste incinerator into an existing cement plant, thereby combining cement manufacturing with waste processing, and effectively utilizes the heat energy and ashes resulting from the incineration of waste as fuel and raw materials, respectively, for cement-making operations.

Special Features

- Lower fuel costs

  By effectively utilizing the heat energy generated during gasification of waste as a power source for cement production, fuel costs for cement calcination have gone down 5%.
- Reduced volume

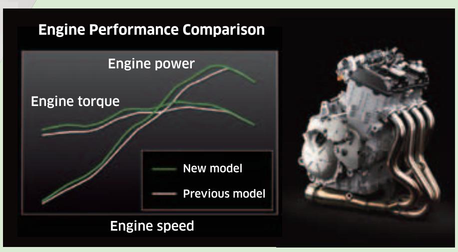
  Since a cement plant can process exhaust gas and ashes at existing facilities, this combined structure requires far less in the way of equipment than a stand-alone waste incineration facility would need.

Ninja ZX-6R

Kawasaki Green Product 2014

New model revamped for lower CO_2 emissions and enhanced recyclability

Starting with the 2009 model, the Ninja ZX-6R's displacement was increased by 37cm³ for greater output while fuel consumption was trimmed by 3%. The model was also designed for better environmental performance, particularly enhanced recyclability.



Product Description

This motorcycle features an engine that combines both improved performance in the low- to mid-speed range and better fuel efficiency, thanks to extra engine displacement over the previous model, which scored successes on the racetrack as well as the road. The Ninja ZX-6R also boasts advanced suspension, electronic traction control and a low environmental impact exterior, while allowing riders to enjoy high performance with greater confidence.

Special Features

- **Lower fuel consumption**

  Good balance of improved performance and better fuel efficiency
  Lower CO_2 emissions
- **Less environmental impact**

  Better recyclability
  Less paint used following review of surface treatment
- **Improved safety**

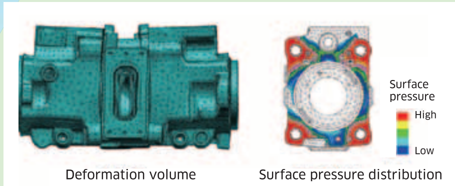
  Traction control, motorsport-responsive ABS

Hydraulic Pump for Excavators (K7V)

Super Kawasaki Green Product 2014

A world leader in environmental performance, offering higher efficiency and lower noise

The K7V's pump efficiency is improved by 1.5 points and its noise level reduced by 3 dB (A) compared with the K3V series, its widely popular predecessor, to make it one of the world's top environmental performers on both counts.



Pump Casing Deformation Analysis

Product Description

Used widely in construction machinery, particularly hydraulic excavators, the K7V series of hydraulic pumps meets recent market requirements for high efficiency, low noise, compact size and high reliability.

Special Features

- Improved efficiency, because leakage from sliding parts and torque loss are reduced
- Lower noise and vibration, thanks to suppression of surge pressure and higher casing rigidity
- Complete review of dimensional data resulted in shorter total length
- Longer service life achieved through use of thicker shaft and large-capacity bearings

Spot Welding Robot (BX200LS)

Super Kawasaki Green Product 2014

Industry's lightest, slimmest and most compact spot welding robot minimizes footprint

The BX200LS has a smaller footprint and is more lightweight than any comparable model in the industry. Since cables and hoses can be stored in the robot's arm and wrist, interference with adjacent robots or peripheral devices is minimized. This allows for installation in higher-density applications compared with earlier models.

Product Description

This energy- and resource-saving spot welding robot facilitates higher density installation and boosts production efficiency, which leads to lower production equipment costs. It is high-speed, compact and lightweight, and its cables are internally routed between the robot's wrist and base.

Special Features

- **Internally routed cables**
  Hollow arm and wrist of robot reduces area of interference where exposed cables and hoses would get in the way
- **Compact**
  Installation area is less than 60% of same-class products in the industry
- **Lightweight**
  Optimized design and reduced number of components make this the industry's most lightweight spot welding robot in its class

Other activities

Product Assessment

For newly developed and designed products, as well as for particularly important products, KHI assesses products according to such criteria as resource and energy savings and recycling potential, with the goal of reducing the environmental impact of our products during their life cycles. Because specific evaluation techniques vary depending on the type of product, each business segment draws up product assessment rules appropriate to the characteristics of the respective product. The main evaluation items of product assessment are shown below.

1. Product weight reduction
2. Product energy saving
3. Longer product life
4. Product safety and environmental conservation effectiveness
5. Measures for product disposal and recycling
6. Environmental impacts when problems or other extraordinary circumstances occur
7. Provision of information for use and maintenance
8. Compliance with regulations

Focus 2 Approach by the Motorcycle & Engine Company

Cleaner Exhaust Gas

In fiscal 2014, we continued to tackle technologies that make exhaust from motorcycles cleaner, from a world standard perspective, and launched sales of the Ninja 1000 (Z1000SX), matching the appeal of a supersport model with practical features. The Ninja 1000 (Z1000SX) conforms to European emission standards, thanks to improvements in the air intake and exhaust systems, and demonstrates high environmental performance. Within the air intake system, the electronic fuel injection system is equipped with dual throttle valves*1 for precise fuel control, matching all types of riding conditions. This ensures superior engine performance while producing cleaner exhaust gas.

Ninja1000 (Z1000SX)

*1 Dual throttle valve: a device that achieves optimal control of air intake volume through coordination between an electronically operated throttle and a manually operated throttle.

Promoting the 3Rs

Since October 2004, we have operated an independent motorcycle recycling system in cooperation with three other motorcycle manufacturers and 12 importers in Japan. In fiscal 2014, we achieved a recycling rate of 97.1%. Since October 2011, the user burden of recycling costs has become completely free of charge.

For new-model motorcycles, we emphasize environmentally conscious designs highlighting reduced materials and more recycling, right from the development phase. We conduct preliminary evaluations of efforts related to the 3Rs—reduce, reuse and recycle—before commencing design, prototyping and mass production phases. In particular, we seek to increase recyclability through greater use of materials that are easy to recycle and we have achieved a potential recycling rate exceeding 90% on every model, with most models exceeding 95%. This potential recycling rate was calculated based on the Guidelines for Definition and Calculation Method on the Recyclability Rate for New Vehicles (1998 Japan Automobile Manufacturers Association).

Reducing and Eliminating Environmental Substances of Concern

For new-model motorcycles sold in Japan, we already meet the voluntary targets of reduced environmental substances of concern (lead, mercury, hexavalent chromium and cadmium) set by the Japan Automobile Manufacturers Association, and we have also achieved voluntary targets for older models still being sold.

For general-purpose engines and JET SKI watercraft, there are no Japanese regulations such as the JAMA voluntary reduction targets, but we are making elimination and reduction efforts that follow those applied to motorcycles, and we had achieved voluntary reduction targets for lead, mercury and cadmium by fiscal 2008. Hexavalent chromium had been contained to a very small amount, but we completed its elimination in fiscal 2009.

Source: Japan Automobile Manufacturers Association, Reduction Targets for Environmental Substances of Concern for New Vehicles

Substance	Reduction target
Lead*2	Use 60 g or less in and after January 2006 (for 210-kg weight vehicle)
Mercury	Use prohibited in and after October 2004 (Exception for the use of minute quantities in parts that are necessary for traffic safety*3)
Hexavalent chromium	Use prohibited in and after January 2008
Cadmium	Use prohibited in and after January 2007

*2 Used batteries are already recycled and excluded from the target values
*3 Combination lamps, discharge headlamps, etc.

Environmental Data

KHI Environmental Load Data (Fiscal 2014)

			Unit	Whole group	Change from previous fiscal year
INPUT		Total energy consumption (crude oil conversion)	kl	152,496	102%
		Purchased electricity	MWh	352,866	113%
		Fuel	TJ	2,492	91%
		Renewable energy	MWh	1,887	106%
		Materials	10,000 t	11	79%
		Water	1,000 m^3	5,991	95%
OUTPUT	Air	CO_2 emissions volume from energy sources	t-CO_2	262,599	92%
		SOx	t	7	85%
		NOx	t	144	85%
		Soot and dust	t	2	110%
		PRTR regulated substance	t	864	82%
	Water	Wastewater	1,000 m^3	5,119	131%
		COD	t	9	88%
		Nitrogen	t	20	69%
		Phosphorus	t	0.1	136%
		PRTR regulated substance	t	1	120%
	Waste	Total emitted	t	49,578	93%
		Recycled	t	48,410	93%
		Intermediate waste	t	1,032	89%
		Final disposal volume	t	136	70%
		Specially controlled industrial waste in above total	t	1,461	78%
		PRTR regulated substance in above total	t	231	101%
	Others	CO_2 emissions during transport	t-CO_2	3,837	89%

Waste and Other Emissions Volume and Recycling Volume (Fiscal 2014)

(t)

Type of waste	Total emissions volume	Recycling (material recycling)	Recycling (thermal recycling)	Recycling rate	Intermediate treatment	Final disposal
General waste						
Paper scrap	2,421	1,843	578	100%	0	0
Wood scrap	656	402	254	100%	0	0
Others	308	289	19	100%	0	0
Subtotal	3,384	2,533	851	100%	0	0
Industrial waste						
Sludge	2,114	1,753	189	93%	93	78
Waste oil	6,432	2,402	4,024	100%	7	0
Waste acid	203	190	13	100%	0	0
Waste alkali	469	440	29	100%	0	0
Waste plastics	3,122	643	1,589	71%	889	0
Wood scrap	3,221	1,620	1,601	100%	0	0
Fiber scrap	179	0	179	100%	0	0
Metal scrap	1,001	1,001	0	100%	0	0
Glass, concrete debris and ceramics	256	256	0	100%	0	0
Slag	2,591	2,438	96	98%	0	57
Rubble (waste construction materials)	40	40	0	100%	0	0
Soot and dust	0	0	0	100%	0	0
Others	10	10	0	97%	0	0
Subtotal	19,637	10,792	7,719	94%	989	135
Specially controlled industrial waste						
Waste oil	572	431	141	100%	0	0
Waste acid	520	498	16	99%	9	0
Waste alkali	211	180	31	100%	0	0
Infectious waste	0.5	0.1	0	20%	0	0.4
Hazardous industrial waste	158	117	7	100%	35	0
Subtotal	1,461	1,226	195	97%	43	0.4
Valuables (metal scrap, etc.)	25,094					
Total	49,578	39,645	8,765	98%	1,032	136

Release and Transfer Volume of Chemical Substances (Fiscal 2014)

(t)

Government ordinance no.	Name of substance	Volume released				Volume transferred	
		Air	Water	Soil	Subtotal	Sewer	Waste
Class I designated chemical substances: annual volume handled 1t or above							
053	Ethylbenzene	188	0	0	188	0	10
080	Xylene	430	0	0	430	0	68
086	Cresol	0	0.14	0	0.14	0	1
087	Chromium and chromium (III) compounds	0	0.02	0	0.02	0	10
144	Inorganic cyanide compounds	0	Under 0.01	0	Under 0.01	0	1
186	Dichloromethane	42	0	0	42	0	2
238	Hydrogenated terphenyl	0	0	0	0	0	0.8
240	Styrene	0.2	0	0	0.2	0	0.3
296	1,2,4-trimethylbenzene	11	0	0	11	0	0.4
297	1,3,5-trimethylbenzene	4	0	0	4	0	0.3
300	Toluene	324	0	0	324	0	71
349	Phenol	0	0	0	0	0	1
374	Hydrogen fluoride and its water-soluble salts	0.3	0	0	0.3	0	13
412	Manganese and its compounds	1	0	0	1	0	13
Special Class I designated chemical substances: annual volume handled 0.5t or above							
088	Chromium (VI) compounds	Under 0.01	Under 0.01	0	Under 0.01	0	4
309	Nickel compounds	0	Under 0.01	0	0.5	0	7

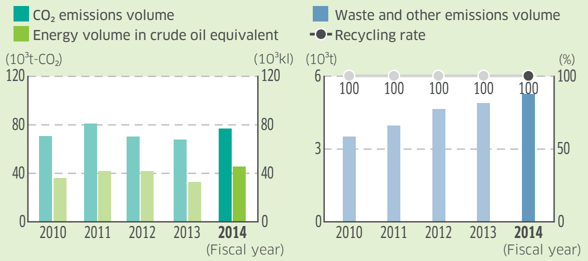
Environmental Load Data by Business Site (Fiscal 2014) 1/2

			Unit	Gifu Works	Nagoya Works 1	Kobe Works	Hyogo Works	Nishi-Kobe Works
INPUT		Total energy consumption (crude oil conversion)	kl	35,435	10,855	11,911	5,834	16,635
		Purchased electricity	MWh	71,242	41,733	32,332	18,341	59,903
		Fuel	TJ	678	16	148	46	62
		Renewable energy	MWh	0	998	28	30	588
		Water	1,000 m^3	3,984	46	326	98	148
OUTPUT	Air	CO_2 emissions volume from energy sources	t-CO_2	61,596	16,628	23,438	11,213	31,604
		SOx	t	1	Under 0.1	6	0	0
		NOx	t	52	0.5	80	0.5	1
		Soot and dust	t	0.6	Under 0.1	2	Under 0.1	Under 0.1
		PRTR regulated substance	t	133	4	88	127	47
	Water	Wastewater	1,000 m^3	3,909	9	120	98	45
		COD	t	7	0.2	Under 0.1	Under 0.1	0.3
		Nitrogen	t	17	Under 0.1	Under 0.1	Under 0.1	0.7
		Phosphorus	t	Under 0.1	Under 0.1	Under 0.1	Under 0.1	Under 0.1
		PRTR regulated substance	t	1	0	0	0	0
	Waste	Total emitted	t	4,794	536	8,530	4,310	4,967
		Recycled	t	4,794	536	8,465	4,310	4,967
		Intermediate waste	t	0	0	0	0	0
		Final disposal volume	t	0	0	58	0	0
		Specially controlled industrial waste in above total	t	132	15	215	128	44
		PRTR regulated substance in above total	t	57	2	22	44	29

Gifu Works (Including Nagoya Works 1)

Location 1, Kawasaki-cho, Kakamigahara, Gifu 504-8710, Japan

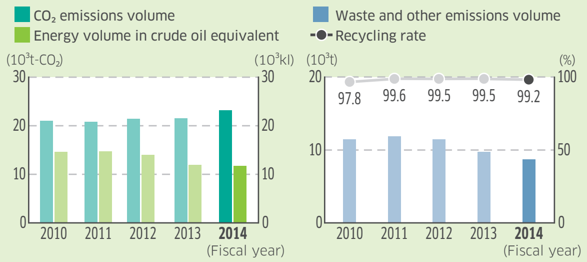
Main products Transport airplanes, helicopters, spacecraft, component parts for airplanes



Kobe Works

Location 1-1, Higashikawasaki-cho 3-chome, Chuo-ku, Kobe, Hyogo 650-8670, Japan

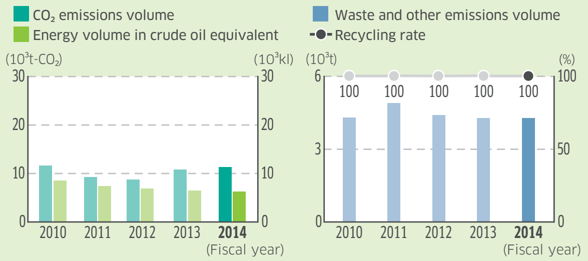
Main products Ships & maritime application equipment, steam turbines for ground and maritime applications, diesel engines



Hyogo Works

Location 1-18, Wadayama-dori 2-chome, Hyogo-ku, Kobe, Hyogo 652-0884, Japan

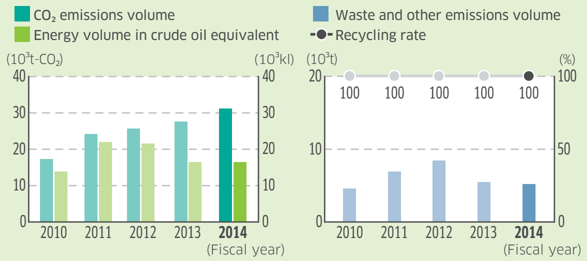
Main products Rolling stock, automated guideway transit systems, platform screen doors



Nishi-Kobe Works

Location 234, Matsumoto, Hazetani-cho, Nishi-ku, Kobe, Hyogo 651-2239, Japan

Main products Various hydraulic systems for industrial use, marine machinery, precision machinery and equipment



Note: CO_2 emissions are impacted by the electricity emission factor.

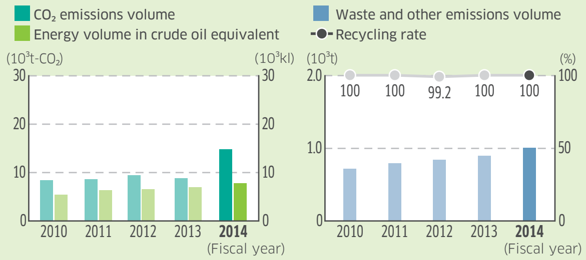
Environmental Load Data by Business Site (Fiscal 2014) 2/2

			Unit	Seishin Works	Akashi Works	Kakogawa Works	Harima Works	Sakaide Works
INPUT		Total energy consumption (crude oil conversion)	kl	7,809	47,559	3,894	4,292	7,541
		Purchased electricity	MWh	24,602	52,549	7,402	13,575	27,113
		Fuel	TJ	64	1,334	79	33	27
		Renewable energy	MWh	0	170	0	5	68
		Water	1,000 m^3	83	901	11	76	318
OUTPUT	Air	CO_2 emissions volume from energy sources	t-CO_2	14,949	97,588	7,544	8,229	19,350
		SOx	t	0	0	0	0	0
		NOx	t	1	9	0	0.2	Under 0.1
		Soot and dust	t	Under 0.1	Under 0.1	0	Under 0.1	Under 0.1
		PRTR regulated substance	t	8	98	0	42	317
	Water	Wastewater	1,000 m^3	63	561	5	41	268
		COD	t	0.5	1	Under 0.1	Under 0.1	0.3
		Nitrogen	t	0.6	1	Under 0.1	Under 0.1	0.3
		Phosphorus	t	Under 0.1	Under 0.1	Under 0.1	Under 0.1	Under 0.1
		PRTR regulated substance	t	0	0.2	0	0	0
	Waste	Total emitted	t	1,000	9,053	1,934	3,984	10,433
		Recycled	t	1,000	9,047	1,929	3,984	9,328
		Intermediate waste	t	0	0	0	0	1,032
		Final disposal volume	t	0	6	0	0	73
		Specially controlled industrial waste in above total	t	124	717	0	0	43
		PRTR regulated substance in above total	t	2	61	0	3	11

Seishin Works

Location 8-1, Takatsukadai 2-chome, Nishi-ku, Kobe, Hyogo 651-2271, Japan

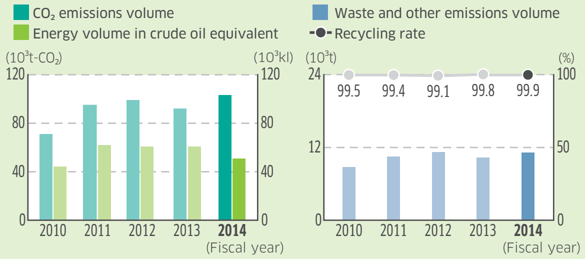
Main products Component parts for jet engines and gas turbines



Akashi Works (Including Kakogawa Works)

Location 1-1, Kawasaki-cho, Akashi, Hyogo 673-8666, Japan

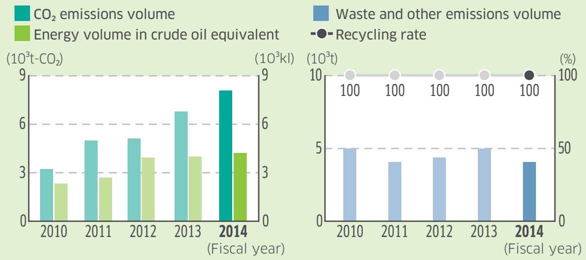
Main products Motorcycles, General-purpose gasoline engines, industrial robots, jet engines, industrial gas turbines



Harima Works

Location 8, Niijima, Harima-cho, Kako-gun, Hyogo 675-0155, Japan

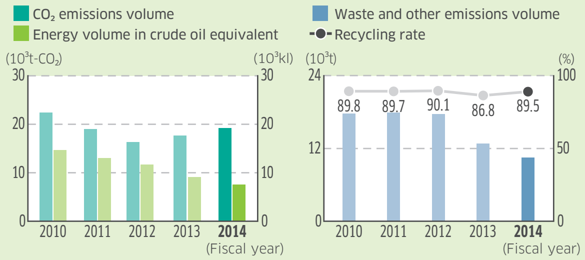
Main products Industrial & environmental plants, boilers, construction machinery, rolling stock



Sakaide Works

Location 1, Kawasaki-cho, Sakaide, Kagawa 762-8507, Japan

Main products Ships & maritime application equipment (LNG carriers, LPG carriers, container ships, etc.)



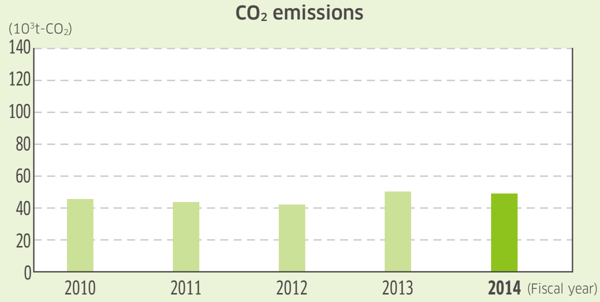
Note: CO_2 emissions are impacted by the electricity emission factor.

Environmental data of Consolidated Subsidiaries

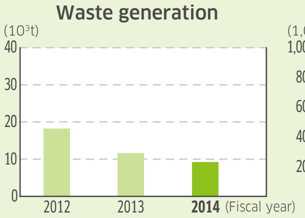
Domestic

Total of domestic subsidiaries

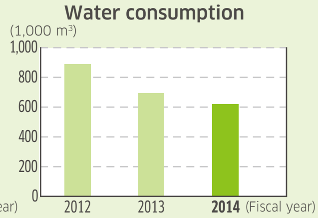
CO_2 emissions



Waste generation



Water consumption

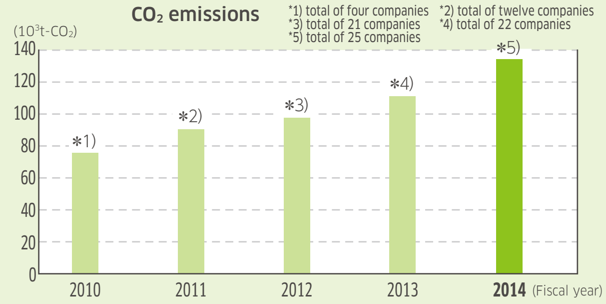


Overseas

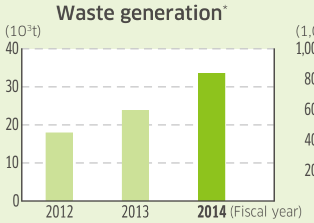
Total of overseas subsidiaries

CO_2 emissions

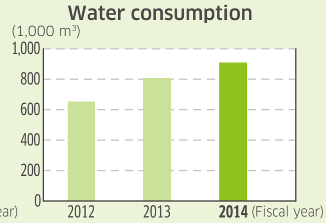
*1) total of four companies *2) total of twelve companies
*3) total of 21 companies *4) total of 22 companies
*5) total of 25 companies



Waste generation*

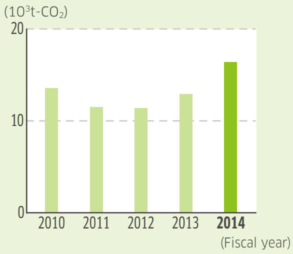


Water consumption

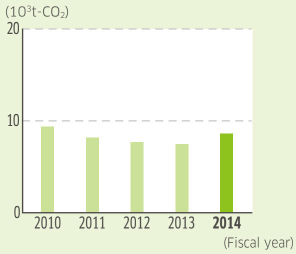


CO_2 emission of domestic major subsidiaries

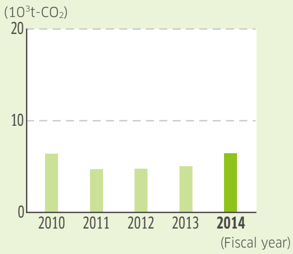
NIPPI Corporation



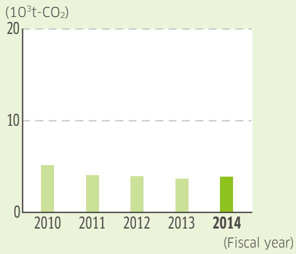
EarthTechnica Co., Ltd.



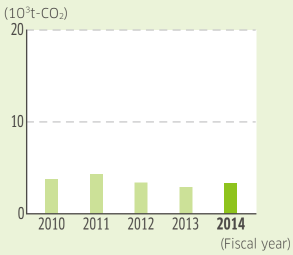
KCM Corporation



Technica Corp.

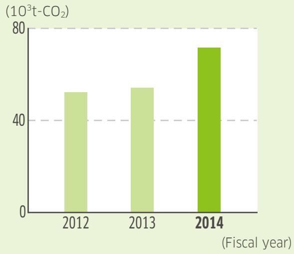


Kawasaki Thermal Engneering Co., Ltd.

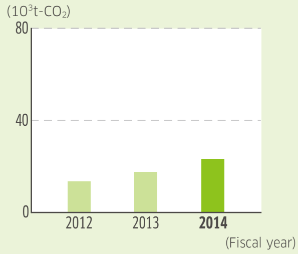


CO_2 emission of overseas major subsidiaries

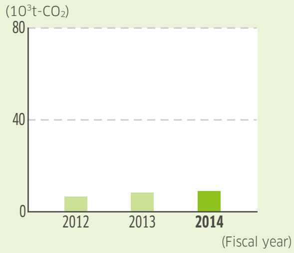
Kawasaki Motors Manufactureing Corp., U.S.A.



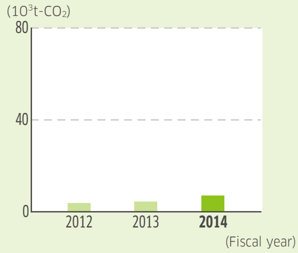
Kawasaki Motors Enterprise (Thailand) Co., Ltd



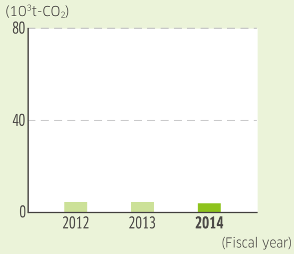
KHITKAN CO., Ltd



PT.Kawasaki Motor Indonesia



Kawasaki Precision Machinery (UK) Ltd.



Note: the CO_2 emissions coefficients used in graphs are in principle those indicated below.

- Japanese Ministry of the Environment website: press releases: publication of emissions coefficients for each fiscal year.
- For CO_2 emissions volume through overseas electricity consumption, the figures published by the Greenhouse Gas Protocol are used.

*Data updated in Oct. 2014

5 Social Contribution

We will expand the circle of contribution that links to society and the future.

In the field of social contribution activities beyond its business operations, the KHI Group focuses on dynamic activities designed to meet the expectations of society while drawing on strengths, in line with its Group Mission, “Kawasaki, working as one for the good of the planet.”

Categories

Local communities and Japanese society	International community

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

Goals/Approaches	Actions
● Clearly define Group-wide social contribution vision, basic policy, and key areas, and implement activities	● Clarify vision, basic policy, key areas, and role of individual offices within the organization
● Encourage self-planned and self-sponsored social contribution initiatives	● Build internal systems, strengthen activities, identify society’s expectations of KHI, and reflect these in activities

Overview of Activities in Fiscal 2014

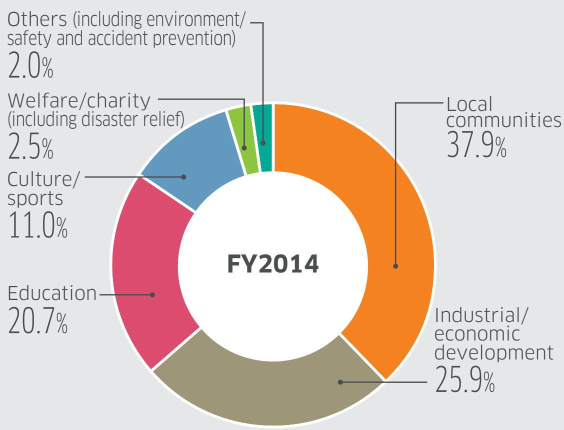
In fiscal 2014, we took our handicraft workshops to Tokyo as well as added new programs, and also reinforced the structure that underpins the promotion of our activities to nurture the minds of the next generation.

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

Expenditure on Social Contribution

(Millions of yen)

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



Notes

● Figures include donations, sponsorship contributions, goods and material supply, the cost of operations commissioned from external organizations, and the personnel cost of staff posted to external organizations (the portion covered by KHI), etc.

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

Focus 1 Make Your Own Crane!

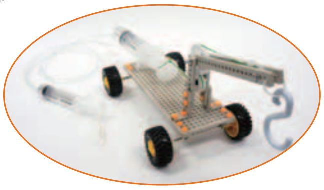
Handicraft workshop in the town of Minamisanriku

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

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

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

Handicraft workshop



Model of crane

Focus 2 Help in the Wake of Philippines' Typhoon

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

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

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

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

Free repairs campaign at service centers

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

Great East Japan Earthquake Recovery Support in Fiscal 2014

Donation of Jet Ski Personal Watercraft

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

Donated jet ski and trailer (Onagawa, Miyagi Prefecture)

FOCUS 3 Interacting with the Community (Akashi Works)

On November 4, 2013, KHI welcomed students from surrounding elementary and junior high schools and their families—102 people in all—to the Akashi Works for a tour, followed by a visit to the corporate museum Kawasaki Good Times World.

Senior manager, Akashi Works, Nozomi Okamoto, provided some history on the facility and a description of the operations undertaken here. He emphasized that the Akashi Works seeks to be an active member of the community, growing with it. During the tour, the visitors were served lunch in the staff cafeteria, with everyone ordering from the same menu. This was a great opportunity to meet and interact with the people who work here.

At Kawasaki Good Times World, a demonstration of the quick and accurate movements of robots drew shouts of wonder and surprise. Everyone had the chance to get up close to actual transportation equipment, such as a compartment of the bullet train and a helicopter. A particularly fun part of the tour was the opportunity to sit in the driver's seat of the bullet train.

Factory tour (Akashi Works)

Visitors go on board a real helicopter (Kawasaki Good Times World)

FOCUS 4 Booth at National Youngsters' Science Festival 2013

KHI set up a booth at the National Youngsters' Science Festival 2013, which ran for two days, July 27–28, in 2013. In its first appearance at this festival, the Company presented its original hands-on workshop "Make Your Own Helicopter!" six times over the two-day event, with some 140 children taking part.

High school students and KHI staff worked together, coaching younger children who assembled the helicopter fuselage and rotor, and then measured the lifting force of the rotor and experimented with technologies to stop the fuselage from rotating. The activity was so much fun that the children forgot to take a break.

Children and coaches at workshop "Make Your Own Helicopter!"

Comment from Participant

I participated as a coach.

The kids were so enthusiastic. As the work progressed, they became so focused on getting their helicopters to fly straight and high.

It would be really great if this workshop spurs kids on to go for their dreams and goals.

Takeshi Ogami

Department 1, Overseas Strategic Center, Marketing Division

FOCUS 5 Booth at Science Fair in Hyogo

On February 2, 2014, KHI set up a booth at the 6th Science Fair in Hyogo. At this annual event, students from high schools and technical colleges throughout Hyogo Prefecture and beyond announce recent research activities in the fields of mathematics and science and mingle with representatives from universities, businesses, research centers, and other organizations.

We have participated in the science fair since its second year. At the 2014 event, we picked out a topic from energy and the environment—a priority segment for us—and highlighted technology for producing bioethanol from rice straw, a non-food source of biomass.

We hope this type of interaction will deepen interest and involvement among many high school and technical college students in science and perhaps provide some hints on possible career paths.

Students avidly listening to a KHI presentation

Comment from Participant

I shared some highlights of new KHI technology.

KHI has lots of other energy and environment products, but I thought the bioethanol example would be a perfect topic to showcase the enormous size of energy facilities and familiarize students with various KHI products.

Ryouji Obara

Section 2, Chemical Plant Department, Chemical Plant & Cryogenic Storage System Engineering Division, Plant & Infrastructure Company

FOCUS 6 Kawasaki Good Times Foundation
–Operating Social Contribution Fund in U.S.

The KHI Group includes business and operating sites in the United States for motorcycles, rolling stock, industrial robots, precision machinery, construction machinery, and other products. Independently and sometimes jointly, these locations are involved in activities and programs rooted in American society.

One of the activities is the Kawasaki Good Times Foundation, which was established in 1993. Every year, a portion of profits from all the business and operating sites in the United States are put into a fund.

Fund management and administration is handled by a U.S. subsidiary, Kawasaki Heavy Industries (U.S.A.), Inc., which makes donations to institutes for the arts and culture, such as the Metropolitan Museum of Art in New York, as well as charitable works and also to support educational, medical, and scientific activities as well as disaster relief efforts.

FOCUS 7 Bib Sponsor at Third Kobe Marathon

KHI has been involved as a corporate sponsor for the Kobe Marathon–on the theme of thanks and friendship–since the inaugural event. The Company's level of sponsorship is reflected by the corporate logo on the men's numbered bibs.

The third event took place on November 17, 2013, and 139 KHI employees volunteered their time to man a water station along the route and cheer on the 20,000-plus runners who navigated their way through the city of Kobe.

Water station volunteers

FOCUS 8 Working to Realize a Society That Coexists with Nature Through Forest Restoration Efforts

To bring about a society that coexists with nature, the KHI Group companies take part in activities to preserve the ecological environment, particularly through reforestation, in three prefectures: Kochi, Hyogo, and Miyagi.

The first location for activity was in the town of Niyodogawa, Kochi Prefecture. KHI Group has maintained its involvement in the prefectures' forest restoration project since 2007. This project brings together businesses and local governments to regenerate forests. Every year, new employees participate in tree thinning and other forest maintenance activities, which help build stronger connections to the local communities.

In Hyogo Prefecture, KHI Group has participated in the prefecture's corporate forest restoration project since 2008. Employees are recruited in-house in the spring and fall and go out to an area called Saidani Nagomi-no-Mori in Taka, Hyogo Prefecture, to plant, thin, and prune trees and to run a nature watching and observation program. In the five years up to October 2013, about 1,000 employees and their families had participated in forest conservation events, and the amount of CO_2 absorbed by the forests maintained by KHI Group had reached 61.6t-CO_2. In recognition of this achievement, KHI Group was presented with a CO_2 Removals Certificate by the town of Taka.

Also, from 2011 we began forest maintenance activities in Miyagi Prefecture, to support communities affected by the March 2011 earthquake and tsunami. Staff from KHI Group business and operating sites in the Sendai area teamed up with local volunteers to participate in forest maintenance activities, such as pruning branches and thinning overgrowth, in the local forests on the outskirts of the city.

Through forest restoration activities in various parts of Japan, undertaken jointly with local groups, we contribute to coexistence between humans and nature.

New employees tackle tree thinning (Kochi Prefecture)

Employees pose for a group picture after their forest maintenance work (Hyogo Prefecture)

KHI Group employees and local volunteers engage in forest maintenance efforts (Miyagi Prefecture)

Human Rights in a Business Context

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

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

Event Summary, Speaker

First Dialogue
October 24, 2013

Asako Nagai, BSR Senior Advisor (Japan)

"What's happening right now in the world in the fields of human rights and labor?"

KHI Participants: General Manager, CSR Division; CSR managers from Head Office divisions; CSR managers from internal companies

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

Second Dialogue
December 5, 2013

Hideki Wakabayashi Secretary-general of Amnesty International Japan

"Human Rights in a Business Context"

KHI Participants: Kyohei Matsuoka, Senior Executive Vice President; Hiroshi Takata, Senior Executive Vice President; managers of Head Office divisions

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

Third Dialogue
February 4, 2014

Hitoshi Suzuki President, Institute for International Socio-Economic Studies

"CSR in the Era of Globalization—Corporations and Human Rights"

KHI Participants: Managers of Head Office divisions

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

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

Noteworthy Comments from Our Experts

Specify Scope of Responsibility for Dealing with Human Rights

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

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

Asako Nagai BSR Senior Advisor (Japan)

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

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

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

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

Hideki Wakabayashi Secretary-general of Amnesty International Japan

The Importance of Human Rights Management based on Global Standards

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

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

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

Hitoshi Suzuki President, Institute for International Socio-Economic Studies

In Response

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

Management Discussion & Analysis

OVERVIEW

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

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

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

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

RESULTS OF OPERATIONS

Net Sales

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

The following sections supply additional details on the consolidated performance of each business segment. Please note that operating income or loss includes intersegment transactions.

Ship & Offshore Structure

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

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

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

Rolling Stock

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

Consolidated net sales increased by ¥17.9 billion year on year to ¥147.9 billion, largely due to the growth in overseas sales to customers in North America and Singapore.
Consolidated operating income increased by ¥5.3 billion year on year to ¥7.5 billion, largely by cost reduction and yen depreciation.

Aerospace

Consolidated orders grew by ¥2.8 billion year on year to ¥286.3 billion. The increase was attributable to the growth in orders for components for Boeing 787.
Consolidated net sales increased by ¥41.5 billion year on year to ¥280.7 billion, largely due to the growth in sales of component parts for Boeing 777 and 787 coupled with the growth in sales to Japan's Ministry of Defense.
Consolidated operating income showed a sharp increase of ¥11.4 billion increase year on year to ¥26.2 billion, largely by virtue of sales growth, enhanced productivity and yen depreciation.

Gas Turbine & Machinery

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

Plant & Infrastructure

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

Motorcycle & Engine

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

Precision Machinery

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

Other

Consolidated net sales increased by ¥13.0 billion year on year to ¥137.2 billion.
Consolidated operating income increased by ¥3.2 billion year on year to ¥4.4 billion.

Cost, Expenses, and Earnings

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

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

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

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

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

FINANCIAL CONDITIONS

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

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

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

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

CASH FLOWS

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

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

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

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

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

MANAGEMENT OF LIQUIDITY RISK

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

MANAGEMENT INDICATOR

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

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

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

DIVIDENDS

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

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

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

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

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

Consolidated Balance Sheets

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

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

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

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

Consolidated Statements of Income and Comprehensive Income

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

Consolidated Statements of Income

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

Consolidated Statements of Comprehensive Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2014	2013	2012	**2014**
Income before minority interests	**¥40,998**	¥33,011	¥25,875	**$398,348**
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities	**(1,852)**	541	106	**(17,994)**
Deferred gains (losses) on hedges	**2,314**	(6,381)	1,281	**22,483**
Foreign currency translation adjustments	**11,996**	11,713	(2,924)	**116,556**
Remeasurements of defined benefit plans	**1,870**	-	-	**18,169**
Share of other comprehensive income of associates accounted for using equity method	**13,379**	5,155	231	**129,995**
Total other comprehensive income (loss)	**27,707**	11,028	(1,306)	**269,209**
Comprehensive income	**68,705**	44,039	24,569	**667,557**
Comprehensive income attributable to:				
Owners of the parent company	**64,908**	40,940	22,228	**630,664**
Minority interests	**3,797**	3,099	2,341	**36,893**
	Yen			U.S. dollars (Note 1)
Per share amounts (Note 19)				
Net income per share - basic	**¥23.0**	¥18.4	¥13.9	**$0.22**
Net income per share - diluted	**-**	-	13.8	**-**
Cash dividends	**6.0**	5.0	5.0	**0.05**

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

Consolidated Statements of Changes In Net Assets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2014, 2013, and 2012

	Thousands	Millions of yen											
		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities, net of tax	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at March 31, 2011	¥1,670,646	¥104,340	¥54,251	¥158,615	¥(30)	¥317,176	¥3,876	¥(990)	¥(31,006)	¥-	¥(28,120)	¥8,377	¥297,433
Net income for the year	-	-	-	23,323	-	23,323	-	-	-	-	-	-	23,323
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	(2,445)	-	(2,445)	-	(2,445)
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	113	-	-	-	113	-	113
Treasury stock purchased, net	-	-	-	-	(6)	(6)	-	-	-	-	-	-	(6)
Cash dividends	-	-	-	(5,011)	-	(5,011)	-	-	-	-	-	-	(5,011)
Loss on sales of treasury stock	-	-	(0)	(3)	1	(2)	-	-	-	-	-	-	(2)
Conversion of convertible bonds	1,246	144	143	-	13	300	-	-	-	-	-	-	300
Increase (decrease) due to changes in fiscal period of consolidated subsidiaries	-	-	-	(510)	-	(510)	-	-	-	-	-	-	(510)
Decrease resulting from increase in equity method affiliate	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	1,236	-	-	1,236	1,491	2,727
Balance at March 31, 2012	¥1,671,892	¥104,484	¥54,394	¥176,414	¥(22)	¥335,270	¥3,989	¥246	¥(33,451)	¥-	¥(29,216)	¥9,868	¥315,922
Net income for the year	-	-	-	30,864	-	30,864	-	-	-	-	-	-	30,864
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	15,786	-	15,786	-	15,786
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	535	-	-	-	535	-	535
Treasury stock purchased, net	-	-	-	-	(5)	(5)	-	-	-	-	-	-	(5)
Cash dividends	-	-	-	(8,359)	-	(8,359)	-	-	-	-	-	-	(8,359)
Loss on sales of treasury stock	-	-	-	(1)	0	(1)	-	-	-	-	-	-	(1)
Conversion of convertible bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary	-	-	-	(205)	-	(205)	-	-	-	-	-	-	(205)
Decrease resulting from increase in equity method affiliate	-	-	-	(185)	-	(185)	-	-	-	-	-	-	(185)
Other	-	-	-	-	-	-	-	(6,244)	-	-	(6,244)	1,773	(4,471)
Balance at March 31, 2013	¥1,671,892	¥104,484	¥54,394	¥198,528	¥(27)	¥357,379	¥4,524	¥(5,998)	¥(17,665)	¥-	¥(19,139)	¥11,641	¥349,881
Cumulative effect of changes in accounting policies	-	-	-	(11,523)	-	(11,523)	-	-	-	(20,410)	(20,410)	-	(31,933)
Restated Balance	-	104,484	54,394	187,005	(27)	345,856	4,524	(5,998)	(17,665)	(20,410)	(39,549)	11,641	317,948
Net income for the year	-	-	-	38,601	-	38,601	-	-	-	-	-	-	38,601
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	24,081	-	24,081	-	24,081
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	(1,871)	-	-	-	(1,871)	-	(1,871)
Treasury stock purchased, net	-	-	-	-	(16)	(16)	-	-	-	-	-	-	(16)
Cash dividends	-	-	-	(8,358)	-	(8,358)	-	-	-	-	-	-	(8,358)
Loss on sales of treasury stock	-	-	0	-	0	0	-	-	-	-	-	-	0
Conversion of convertible bonds	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary	-	-	-	201	-	201	-	-	-	-	-	-	201
Decrease resulting from increase in equity method affiliate	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	2,195	-	1,901	4,096	2,004	6,100
Balance at March 31, 2014	¥1,671,892	¥104,484	¥54,394	¥217,449	¥(43)	¥376,284	¥2,653	¥(3,803)	¥6,416	¥(18,509)	¥(13,243)	¥13,645	¥376,688
Balance at March 31, 2013		$1,015,196	$528,507	$1,928,954	$(262)	$3,472,395	$43,956	$(58,278)	$(171,638)	$(198,309)	$(185,960)	$113,107	$3,399,542
Cumulative effect of changes in accounting policies		-	-	(111,960)	-	(111,960)	-	-	-	(198,309)	(198,309)	-	(310,269)
Restated Balance		1,015,196	528,507	1,816,994	(262)	3,360,435	43,956	(58,278)	(171,638)	(198,309)	(384,269)	113,107	3,089,273
Net income for the year		-	-	375,058	-	375,058	-	-	-	-	-	-	375,058
Adjustments from translation of foreign currency financial statements		-	-	-	-	-	-	-	233,977	-	233,977	-	233,977
Increase in net unrealized gains on securities, net of tax		-	-	-	-	-	(18,179)	-	-	-	(18,179)	-	(18,179)
Treasury stock purchased, net		-	-	-	(155)	(155)	-	-	-	-	-	-	(155)
Cash dividends		-	-	(81,208)	-	(81,208)	-	-	-	-	-	-	(81,208)
Loss on sales of treasury stock		-	0	-	0	0	-	-	-	-	-	-	0
Conversion of convertible bonds		-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) due to changes in fiscal period of consolidated subsidiaries		-	-	1,952	-	1,952	-	-	-	-	-	-	1,952
Decrease resulting from increase in equity method affiliate		-	-	-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	21,327	-	18,472	39,799	19,471	59,270
Balance at March 31, 2014		$1,015,196	$528,507	$2,112,796	$(417)	$3,656,082	$25,777	$(36,951)	$62,339	$(179,837)	$(128,672)	$132,578	$3,659,988

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

Consolidated Statements of Cash Flows

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2014, 2013 and 2012

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

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

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

Notes to the Consolidated Financial Statements

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of presenting consolidated financial statements

Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting and disclosure records in Japanese yen. The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (Japanese GAAP), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of changes in net assets from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2014, which was ¥102.92 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control (together, the "Companies"). The consolidated financial statements include the accounts of the Company and 96 subsidiaries (95 in the year ended March 31, 2013 and 97 in 2012). The aggregate amount of total assets, net sales, net income and retained earnings of the excluded subsidiaries would not have had a material effect on the consolidated financial statements if they had been included in the consolidation.

(b) Application of the equity method of accounting

Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. For the year ended March 31, 2014, 18 affiliates (17 in 2013 and 14 in 2012) were accounted for by the equity method. For the year ended March 31, 2014, investments in 13 affiliates (13 in 2013 and 14 in 2012) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end

The fiscal year-end of 28 consolidated subsidiaries (30 in 2013 and 30 in 2012) is December 31. These subsidiaries are consolidated as of December 31, and significant transactions for the period between December 31 and March 31, the Company's fiscal year-end, are adjusted for on consolidation. One consolidated subsidiary has a fiscal year-end of June 30. For the purpose of preparing the consolidated financial statements, that subsidiary conducts a provisional settlement of accounts on March 31. Three consolidated subsidiaries, KHITKAN Co., Ltd., Kawasaki Motors (Phils.) Corporation, and Kawasaki Motors Enterprise (Thailand) Co., Ltd., which previously had their fiscal year-end on December 31, have changed their fiscal year-end to March 31 to coincide with the consolidated fiscal year-end of the Company.

(d) Elimination of intercompany transactions and accounts
All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation, and the portion attributable to minority interests is credited to minority interests. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

(e) Foreign currency translation
Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates. The balance sheets of the consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, except for shareholders' equity accounts, which are translated at historical rates. The income statements of the consolidated overseas subsidiaries are translated at average rates. The Company and its domestic subsidiaries report foreign currency translation adjustments in net assets.

(f) Revenue recognition
<Sales of products and construction contracts>
The percentage-of-completion method is applied to construction contracts if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the completed-contract method is applied.

<Service revenues>
Service revenues are recognized when the services are rendered. Services include supervisory and installation services for products such as rail cars, machinery and plants. When the prices of such services are individually determined by the contract and the collectability of the revenue is reasonably assured, the service revenue is recognized on an accrual basis. Otherwise, the service revenue is recognized on a completion basis.

Sales and cost of sales in finance lease transactions are recognized mainly when the Company receives the lease payments.

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

(h) Allowance for doubtful receivables
An allowance for possible losses from notes and accounts receivable, loans and other receivables is provided based on past experience and the Companies' estimates of losses on collection.

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

(j) Inventories
Inventories are stated mainly at the historical cost computed using the specific identification cost method, the moving-average cost method or the first-in, first-out method. The ending balance of inventories is measured at the lower of cost or market.

(k) Investments in securities
The Company and its consolidated subsidiaries classify securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) all other securities (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2014, 2013 or 2012. Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available market value are stated at moving average cost.

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

(l) Property, plant and equipment
Property, plant and equipment are stated at cost. Depreciation is computed mainly by the straight-line method over the estimated useful life of the asset.

(m) Intangible assets
Amortization of intangible assets, including software for the Company's own use, is computed by the straight-line method over the estimated useful life of the asset.

An equivalent amount of goodwill is amortized by the straight-line method over the period the Company benefits from its use. If the amount is not significant, it is expensed when incurred.

(n) Accrued bonuses
Accrued bonuses for employees are provided for based on the estimated amount of payment.

(o) Provision for product warranties
The provision for product warranties is based on past experience or provided separately when it can be reasonably estimated.

(p) Provision for losses on construction contracts
A provision for losses on construction contracts at the fiscal year-end is made when substantial losses are anticipated for the next fiscal year and beyond and such losses can be reasonably estimated.

(q) Provision for losses on legal proceedings
The Provision for losses on legal proceedings in which the Company is a defendant in the suit is provided based on estimates of expected compensation and other associated expenses.

(r) Provision for environmental measures
The Company reserved an estimated amount to cover expenditures for environmental measures such as the disposal of PCB waste required under the "Law Concerning Special Measures for Promotion of Appropriate Disposal of PCB (polychlorinated biphenyl) Waste" and soil improvement.

(s) Income taxes
The asset-liability approach is used to recognize deferred tax assets and liabilities for loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(t) Liability for retirement benefits
Employees who terminate their services with the Company or some consolidated domestic subsidiaries are generally entitled to lump-sum payments, the amounts of which are determined by reference to basic rates of pay at the time of termination and length of service.

The liabilities and expenses for retirement and severance benefits are determined based on amounts actuarially calculated using certain assumptions. The Company and its consolidated domestic subsidiaries provide the allowance for employees' retirement and severance benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets (including the retirement benefit trust).

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

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

Employees of the Company's overseas consolidated subsidiaries are generally covered by various pension plans accounted for in accordance with generally accepted accounting principles in the respective country of domicile.

(u) Hedge accounting
The Company and its consolidated subsidiaries employ deferred hedge accounting. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized.

(v) Finance leases
Leased assets under finance leases that transfer ownership of the lease assets to the lessee are amortized by the same method as that used for property, plant and equipment and intangible assets. Lease assets under finance leases that do not transfer ownership to the lessee are amortized by the straight-line-method over the lease term with zero residual value.

(w) Net income per share
The computations of net income per share shown in the consolidated statements of income are based upon net income available to common stockholders and the weighted average number of shares outstanding during each period. Diluted net income per share is computed based on the assumption that all dilutive convertible bonds were converted at the beginning of the year.

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

(y) Application of consolidated tax reporting
Effective from the year ended March 31, 2012, the Company and its wholly owned consolidated domestic subsidiaries have elected to file a consolidated tax return.

3. Changes in accounting policies

(a) Adoption of new accounting standard for retirement benefits
Effective from the beginning of the fiscal year ended March 31, 2014, the Company has adopted the Accounting Standards Board of Japan's new "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and its accompanying implementation guidelines, "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012), both of which take effect from the start of the first fiscal year beginning on or after April 1, 2013. The Company now recognizes the excess of retirement benefit obligations over plan assets as a liability for retirement benefits. Previously, the excess was booked as unrecognized actuarial losses and unrecognized prior service costs as retirement and a liability for retirement benefits. Additionally, the Company revised its method of calculating retirement benefit obligations and service costs and changed its method of attributing projected retirement and severance benefit obligations to accounting periods from a straight-line basis to a benefit formula basis.
When recognizing a liability for retirement benefits in the amount of the excess of retirement benefit obligations over plan assets as of the start of the fiscal year ended March 31, 2014, the Company debited accumulated other comprehensive income's accumulated adjustment for retirement benefit to reflect recognition of the liability in accordance with the transitional measures provided in Paragraph 37 of the Accounting Standard for Retirement Benefits. The Company also debited its capital surplus account as of the beginning of the first quarter of the fiscal year ended March 31, 2014, to reflect the effect of the change in its method for calculating retirement benefit obligations and service costs.
These debits reduced accumulated other comprehensive income and capital surplus as of the beginning of the fiscal year ended March 31, 2014, by ¥20,410 million ($198,309 thousand) and ¥11,125 million ($108,093 thousand), respectively. The effect on the financial statements was minimal. The impact of the change on earnings per share is disclosed below under "27. Other matters".

(b) Treatment of FIA
When the Company's main partners sell jet engines to airlines, the airlines demand a type of discount called fleet introductory assistance (FIA). The Company is charged a share of this FIA in proportion to its involvement in projects. The Company has previously included these FIA charges in cost of sales. Effective from the beginning of the fiscal year ended March 31, 2014, the Company has switched to reporting FIA charges as a deduction from net sales.
After reassessing its FIA transactions in light of the Japanese Institute of Certified Public Accountants' Accounting Practice Committee Research Report No. 13, "Research Report on Revenue Recognition in Japan (Interim Report)," issued in July 2009, the Company decided that this revised treatment results in a more appropriate presentation of its operating performance.
The Company deducted FIA charges from net sales in the beginning of the fiscal year ended March 31, 2014, and because the impact of this accounting policy change on the consolidated financial statements as a whole was minimal, the Company did not apply the change retrospectively.
The change reduced both sales and cost of sales for the fiscal year ended March 31, 2014, by ¥37,499 million ($364,350 thousand) relative to what they would have been in the absence of the change, but it had no effect on operating income, ordinary income or income before income taxes and minority interests.
The impact of the change on segment results is disclosed below under "(2) Calculation methods for sales, income (loss), assets, liabilities and other items by reportable segment".

(c) Treatment of specialized jigs and tools for civilian aircraft
The Company and some of its consolidated subsidiaries have reclassified jigs and tools used in the Aerospace segment's civilian aircraft manufacturing operations from inventories (work in process) to property, plant and equipment as a result of a reassessment of these jigs and tools' balance sheet classification in light of their growing size and functionality.
The Company and its applicable consolidated subsidiaries reclassified the jigs and tools as of the previous fiscal year-end and carried the revised asset balances over as beginning balances of the fiscal year ended March 31, 2014. Since the impact of the reclassification on the consolidated financial statements as a whole was minimal, the reclassification was not applied retrospectively.
The reclassification reduced work in process as of the beginning of the fiscal year ended March 31, 2014 by ¥26,781 million ($260,211 thousand) and increased property, plant and equipment and intangible assets by ¥26,555 million ($258,015 thousand) and ¥226 million ($2,195 thousand), respectively, relative to what they would have been in the absence of the reclassification.
Previously, the book value of the specialized jigs and tools was transferred from work in process to cost of sales upon the sale of the aircraft components for which the jigs and tools were used. After the reclassification, the jigs and tools is depreciated as property, plant and equipment, and the depreciation allocated between cost of sales and work in process. The impact of this change on earnings and earnings per share has been minimal.

(d) Treatment of subsidies related to aircraft development

In developing aircraft and jet engines, the Company receives development related subsidies pursuant to the Aircraft Industry Promotion Act. The Company previously placed priority on the legal form of the subsidy transactions by recognizing the subsidies as revenue received in consideration for development deliverables, charging the corresponding development expenses to cost of sales, and recognizing projected future obligations related to the subsidies as warranty obligations. From the fiscal year ended March 31, 2014, the Company is placing more priority on the economic substance of the subsidy transactions and has revised its accounting treatment accordingly. Specifically, the Company no longer recognizes the subsidies as revenue and, on its balance sheet, recognizes projected future obligations as liabilities and capitalizes development expenses as inventories. After reassessing the subsidy transactions by placing priority on their substance in light of the Japanese Institute of Certified Public Accountants' Accounting Practice Committee Research Report No. 13, "Research Report on Revenue Recognition in Japan (Interim Report)," issued in July 2009, the Company decided that this revised treatment results in a more appropriate presentation of its operating performance and financial condition.
At March 31, 2014, the Company capitalized the development expenses as inventories and recognized a liability as described above. Since the impact of these changes on the consolidated financial statements as a whole has been minimal, the Company did not apply the changes retrospectively. The impact of the changes on earnings also has been minimal.
As a result, the work in process, accounts payable-other and long-term accounts payable-other balance at March 31, 2014 increased by ¥14,409 million ($140,001 thousand), ¥1,160 million ($11,270 thousand) and ¥13,249 million ($128,731 thousand), respectively. The impact of the changes on earnings and earnings per share was minimal.

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

-Changes in depreciation method and depreciable lives

The Company and its domestic consolidated subsidiaries had previously used the declining balance method to depreciate their property, plant and equipment (except for buildings (excluding fixtures) acquired on or after April 1, 1998, which have been depreciated by the straight-line method). Effective from the fiscal year ended March 31, 2014, the straight-line method is used for all property, plant and equipment.
In accordance with *Kawasaki Business Vision 2020*, the Company and its consolidated subsidiaries actively conduct overseas operations ranging from production to sales while treating their domestic plants as development and production hubs where advanced technological capabilities are concentrated. Given this configuration, overseas capital investment is expected to become even more important than before.
The change in depreciation method in conjunction with the change in capital investment environment is expected to stabilize the Group production facilities. The economic benefits of capital investments will accordingly accrue evenly over time. The Company therefore decided that switching to the straight-line method of depreciation would more accurately reflect the state of its operations from the standpoint of appropriately reporting quarterly and annual income and losses.
Additionally, the Company and its domestic consolidated subsidiaries have previously depreciated their machinery and tools based mainly on depreciable lives prescribed in the Corporation Tax Act. In conjunction with the change in depreciation method, they have revised the depreciable lives of their machinery and tools effective from the fiscal year ended March 31, 2014. They did so based on a comprehensive reassessment of the physical and economic lives of the machinery and tools, taking into account various factors including product life spans and the risk of production process obsolescence.
As a result of these changes, consolidated operating income, ordinary income, and income before income taxes and minority interests for the fiscal year ended March 31, 2014 were each ¥13,602 million ($132,160 thousand) higher than they would have been in the absence of the changes.
The impact of these changes on individual segments is disclosed below under "(2) Calculation methods for sales, income (loss), assets, liabilities and other items by reportable segment".

4. Accounting standards issued but not yet adopted

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

(1) Summary

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

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

(2) Effective dates

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

(3) Effect of application of the standard

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

5. Securities

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

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

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

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

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

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

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

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

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

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

(d) Investments in securities subject to impairment

Impairment loss on investments in securities is recognized when there has been a significant decline in the market value.

Investments in securities for which the market value as of the end of the fiscal year has fallen to below 50% of the acquisition costs are deemed to have no recovery potential and to be fully impaired. Investments in securities for which the market value has fallen to between 30% and 50% of the acquisition costs are deemed to be partially impaired by an amount that takes into consideration the likelihood of recovery and other factors. In the years ended March 31, 2014 and 2012, the Company recognized an impairment loss on investments in securities in the amount of ¥619 million ($6,014 thousand) and ¥918 million, respectively. For the year ended March 31, 2013, the amount of impairment loss on investments was not disclosed because it was immaterial.

6. Investments in nonconsolidated subsidiaries and affiliates

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

7. Short-term debt and long-term debt

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Short-term debt:			
Short-term debt, principally bank loans, bearing an average interest rates of 0.81 percent and 0.74 percent as of March 31, 2014 and 2013, respectively	**¥105,004**	¥160,767	**$1,020,249**
Current portion of long-term debt, bearing average interest rates of 0.75 percent as of March 31, 2014 and 2013.	**85,753**	68,743	**833,200**
Lease obligations, current	**404**	347	**3,925**
Total short-term debt	**¥191,161**	¥229,857	**$1,857,374**

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2014 to 2037, bearing average interest rates of 0.74 percent and 0.78 percent as of March 31, 2014 and 2013, respectively	**¥227,096**	¥243,105	**$2,206,535**
Notes and bonds issued by the Company:			
1.84 percent notes due in 2013	**-**	10,000	**-**
0.72~1.22 percent notes due in 2015	**20,000**	20,000	**194,325**
0.58 percent notes due in 2016	**10,000**	10,000	**97,162**
1.06 percent notes due in 2017	**10,000**	10,000	**97,162**
0.33~0.57 percent notes due in 2018	**20,000**	-	**194,325**
0.68 percent notes due in 2019	**10,000**	10,000	**97,162**
0.98~0.99 percent notes due in 2020	**20,000**	-	**194,325**
1.41 percent notes due in 2021	**10,000**	10,000	**97,162**
1.10 percent notes due in 2022	**10,000**	10,000	**97,162**
Long-term lease obligations	**2,543**	780	**24,708**
	339,639	323,885	**3,300,028**
Less portion due within one year	**(86,157)**	(69,089)	**(837,125)**
Total long-term debt	**¥253,482**	¥254,796	**$2,462,903**

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

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

In addition to the items shown above, the Company had pledged (on a long-term basis) shares of an affiliate company eliminated from the scope of consolidation in the amount of ¥30 million ($291 thousand).

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

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

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

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

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

8. Provision for losses on construction contracts

Inventories for construction contracts with substantial anticipated losses and the provision for losses on construction contracts were not offset. As of March 31, 2014 and 2013, the inventories for the construction contracts for which the provision for losses on construction contracts were provided were ¥2,754 million ($26,758 thousand) and ¥8,900 million, respectively. These amounts were all included in work in process.

9. Employees' retirement and severance benefits

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

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

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

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

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

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

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

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

(4) Breakdown of retirement benefit expense

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

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

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

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

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

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

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

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

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

(8) Underlying actuarial assumptions

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

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

3. Defined contribution plan

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

The liability for employees' retirement and severance benefits included in the long-term liability section of the consolidated balance sheets as of March 31, 2013 consisted of the following:

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

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

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

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

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

10. Contingent liabilities

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

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

11. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus. Under the Japanese Corporate Law ("the Law"), if a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit or capitalized by a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

12. Cost of sales

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

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

13. Research and development expenses

Research and development expenses included in selling, general and administrative expenses and product costs were as follows:

	Millions of yen			Thousands of U.S. dollars
	2014	2013	2012	**2014**
Research and development expenses	**¥40,398**	¥41,709	¥39,940	**$392,518**

14. Other expenses, net

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

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

(a) Loss on impairment of fixed assets
Owing to a decline in the profitability or the market prices of certain asset groups, the Company and its consolidated subsidiaries reduced the book value of certain assets to the recoverable amount. Assets are grouped mainly by units of business. However, significant assets for rent or those that are idle are treated separately. Recoverable amounts were determined by the higher of the net salable value or value in use, and net salable value was estimated by appraisal or property tax assessment.

Asset groups for which the Company and its consolidated subsidiaries recognized impairment loss for the year ended March 31, 2014 were as follows:

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

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

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

Asset groups for which the Company and its consolidated subsidiaries recognized impairment loss for the year ended March 31, 2013 were as follows:

Function or status	Location	Type of assets
Idle property	Funabashi City, Chiba	Buildings and structures, etc.
Idle property	Kobe City, Hyogo	Buildings and structures, land, etc.

Impairment loss for the year ended March 31, 2013 consisted of the following:

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

Asset groups for which the Company and its consolidated subsidiaries recognized impairment loss for the year ended March 31, 2012 were as follows:

Function or status	Location	Type of assets
Operating property	Sakaide City, Kagawa	Buildings and structures, machinery and equipment, etc.
Operating property	Minato-ku and Koto-ku, Tokyo	Buildings
Idle property	Kakamigahara City, Gifu	Buildings and structures, etc.
Idle property	Akashi City, Hyogo	Buildings and structures, etc.
Idle property	Takeda City, Oita	Land, etc.

Impairment loss for the year ended March 31, 2012 consisted of the following:

	Millions of yen
Buildings and structures	¥7,091
Machinery and equipment	4,315
Land	2,587
Other	928
Total	¥14,921

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

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

(c) Loss on disaster

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

(Additional information)

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

15. Consolidated statement of comprehensive income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

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

16. Dividends

(a) Dividends paid

Year ended March 31, 2014

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

Year ended March 31, 2013

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 27, 2012 General Meeting of Shareholders	Common stock	¥8,359 million	¥5.0	March 31, 2012	June 28, 2012

(b) Dividend payments for which the record date is the subject fiscal year but have an effective date in the succeeding consolidated fiscal year

Year ended March 31, 2014

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

Year ended March 31, 2013

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2013 General Meeting of Shareholders	Common stock	Retained earnings	¥8,358 million	¥5.0	March 31, 2013	June 27, 2013

17. Income taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporation tax (national tax) and enterprise and inhabitants taxes (local taxes), which, in the aggregate, resulted in a statutory tax rate of approximately 37.8 percent and 37.8 percent for the years ended March 31, 2014 and 2013, respectively.

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

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

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

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

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

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

18. Cash and cash equivalents

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

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

19. Net income per share

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

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

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

20. Derivative transactions

(a) Outstanding positions and recognized gains and losses at March 31, 2014 were as follows:

(Derivative transactions to which the Company did not apply hedge accounting)

	Millions of yen				Thousands of U.S. dollars
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)	Gain (loss)
Currency related contracts:					
Foreign exchange contracts:					
To sell	**¥29,227**	**¥1,426**	**¥(972)**	**¥(972)**	**$(9,444)**
To purchase	**7,680**	**-**	**28**	**28**	**272**
Option contracts:					
To sell	-	-	-	-	-
To purchase	-	-	-	-	-
Interest rate and currency swaps					
U.S. dollars floating-rate receipt/ fixed-rate payment	**6,993**	**6,993**	**2,222**	**2,222**	**21,589**
Total	**¥43,900**	**¥8,419**	**¥1,278**	**¥1,278**	**$12,417**

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company applied hedge accounting)

	Subject of hedge	Millions of yen		
		Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables	**¥73,958**	**¥8,842**	**¥(6,987)**
To purchase	Trade payables	**13,324**	**2,228**	**1,119**
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Alternative method (*)				
Foreign exchange contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Total		**¥87,282**	**¥11,070**	**¥(5,868)**

Fair value is based on prices provided by financial institutions.

(*) For certain trade accounts receivable and payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the risk of foreign currency fluctuation, the fair value of the derivative financial instrument is included in the fair value of "Trade receivables" and "Trade payables" as hedge items.

	Subject of hedge	Thousands of U.S. dollars		
		Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables	**$718,596**	**$85,912**	**$(67,887)**
To purchase	Trade payables	**129,459**	**21,647**	**10,872**
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Alternative method				
Foreign exchange contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade Payables	-	-	-
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Total		**$848,055**	**$107,559**	**$(57,015)**

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

Fair value is based on prices provided by financial institutions.

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

(b) Outstanding positions and recognized gains and losses at March 31, 2013 were as follows:

(Derivative transactions to which the Company did not apply hedge accounting)

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

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company applied hedge accounting)

	Subject of hedge	Millions of yen		
		Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables	¥77,504	¥15,694	¥(9,783)
To purchase	Trade payables	5,272	1,544	834
Option contracts				
To sell	Trade receivables	7,224	-	(259)
To purchase	Trade payables	6,800	-	(79)
Alternative method (*)				
Foreign exchange contracts				
To sell	Trade receivables	3,677	-	(52)
To purchase	Trade payables	22	-	3
Option contracts				
To sell	Trade receivables	1,809	-	(27)
To purchase	Trade payables	1,660	-	(9)
Total		¥103,968	¥17,238	¥(9,372)

Fair value is based on prices provided by financial institutions.

(*) For certain trade accounts receivable and payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the risk of foreign currency fluctuation, the fair value of the derivative financial instrument is included in the fair value of "Trade receivables" and "Trade payables" as hedge items.

	Subject of hedge	Millions of yen		
		Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Interest swap Deferral hedge accounting				
Floating-rate receipt/fixed-rate payment	Short-term debt	¥15,000	¥-	¥(81)
Special treatment (*)				
Floating-rate receipt/fixed-rate payment	Long-term debt	12,000	12,000	-
Interest rate and currency swaps treated as single item (special treatment, hedge accounting treatment as an alternative method)	Long-term debt	6,993	6,993	-
		¥33,993	¥18,993	¥(81)

Fair value is based on prices provided by financial institutions.

(*) As interest rate swaps subject to special treatment for interest rate swaps are accounted for as a single item with the long-term debt, which comprises the hedged items, the fair value is included in that of the long-term debt.

21. Financial Instruments

Information related to financial instruments as of March 31, 2014 and 2013 was as follows.

(1) Matters related to the status of financial instruments

(a) Policies on the use of financial instruments

The Company meets its long-term operating capital and capital expenditure requirements through bank loans and the issuance of bonds and meets its short-term operating capital requirements through bank loans and the issuance of short-term bonds (electronic commercial paper). Temporary surplus funds are managed in the form of financial assets that have a high level of safety. The Company utilizes derivative financial instruments to hedge the risks described below and does not engage in speculative transactions as a matter of policy.

(b) Details of financial instruments and risks associated with those instruments

Trade receivables are exposed to the credit risk of customers. The Company operates internationally and has significant exposure to the risk of fluctuation in foreign exchange rates. However, this risk is hedged using forward exchange contracts, etc., against the net position of foreign currency exposure. Investments in securities mainly comprise equity securities of companies with which the Company conducts business and are held to maintain relationships with these business partners. With such securities, listed stocks are exposed to market fluctuation risk.

Almost all trade payables are due within one year. A portion of trade payables are denominated in foreign currency—specifically those related to payment for imported materials, etc.—and are exposed to the risk of foreign currency fluctuation. However, this risk is mitigated principally by the position of trade payables denominated in foreign currency being less than the position of receivables in the same currency. Loans payable, bonds payable and lease obligations under finance leases are mainly used to raise operating capital and carry out capital expenditure and are due in a maximum of nine years from March 31, 2014 (nine years from March 31, 2013). A portion of these instruments is exposed to the risk of interest rate fluctuation. However, such risk is hedged using derivatives (interest swaps and currency swaps) as necessary.

In sum, derivatives comprise forward exchange and currency option contracts used to hedge foreign currency fluctuation risk on receivables and payables in foreign currencies and interest swap contracts to hedge interest rate fluctuation risk on debt. With regard to hedge accounting, see Note 2, "Significant accounting policies- (v) Hedge accounting."

(c) Risk management system for financial instruments

(i) Management of credit risk, including customer default risk

The Company's sales management functions and those of its consolidated subsidiaries regularly evaluate the financial circumstances of customers and monitor the due dates and balances by customer to identify and limit doubtful accounts.

With regard to derivative transactions, the Company enters into contracts with highly rated financial institutions to reduce counterparty risk. The amount presented in the balance sheet is the maximum credit risk at the fiscal year end of the financial instruments that are exposed to credit risk.

(ii) Management of market risk (related to foreign currency exchange rates, interest rates, etc.)

The Company and certain of its consolidated subsidiaries hedge foreign currency fluctuation risk on receivables and payables in foreign currencies using forward exchange contracts, which are categorized by the type of currency and the monthly due date. In principle, the net position of receivables less payables in foreign currency is hedged with forward exchange contracts. The Company and certain of its consolidated subsidiaries hedge interest rate risk on debt using interest swap contracts.

With regard to investments in securities, the Company reviews its holding policies through periodic analysis of market prices and the financial condition of the issuers, taking into consideration relationships with business partners.

With regard to derivatives, in accordance with rules for the provision of transaction authorization, the Company's finance functions and those of its consolidated subsidiaries manage transactions in accordance with an established set of fundamental policies, such as those covering limitations on transaction amounts, under the authority of the director in charge of finance. Transactions are reported to the director in charge of finance on a monthly basis. Consolidated subsidiaries manage derivatives in accordance with the same rules as those of the Company.

(iii) Management of liquidity risk (risk of the Company being unable to meet its payment obligations by their due dates)
The Company manages liquidity risk through its finance department, maintaining and updating its finance plans based on reports from each business division. Liquidity risk is managed through the diversification of financing methods, taking into consideration the financing environment and balancing long- and short-term financing requirements, securing commitment lines, etc.

(d) Supplemental information on the fair value of financial instruments
The fair value of financial instruments includes values based on market price and reasonably estimated values when market price is not available. However, as variables are inherent in these value calculations, the resulting values may differ if different assumptions are used. With regard to the contract amounts, etc., of the derivatives described below in "(2) Fair values of financial instruments," these amounts do not represent the market risk associated with the corresponding derivative transactions themselves.

(2) Fair values of financial instruments
The book values, the fair values and the differences between these values as of March 31, 2014 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	Millions of yen			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Cash on hand and in banks	**¥47,949**	**¥47,949**	**¥-**	**$-**
Trade receivables	**415,664**	**415,546**	**(118)**	**(1,147)**
Investments in securities	**7,800**	**7,795**	**(5)**	**(48)**
Total assets	**¥471,413**	**¥471,290**	**¥(123)**	**$(1,195)**
Trade payables	**252,107**	**252,107**	**-**	**-**
Electronically recorded obligations	**53,923**	**53,923**	**-**	**-**
Short-term debt and current portion of long-term debt (excluding lease obligations)	**190,757**	**190,757**	**-**	**-**
Long-term debt, less current portion (excluding lease obligations)	**251,345**	**252,518**	**(1,173)**	**(11,397)**
Total liabilities	**¥748,132**	**¥749,305**	**¥(1,173)**	**$(11,397)**
Derivative transactions (*)	**¥(4,558)**	**¥(4,558)**	**¥-**	**$-**

(*) Derivative financial instruments are presented as net amounts. Negative amounts stated with parentheses ( ) indicate that the net amount is a liability.

The book values, fair values and the differences between these values as of March 31, 2013 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	Millions of yen		
	Book value	Fair value	Unrealized gains (losses)
Cash on hand and in banks	¥38,525	¥38,525	¥-
Trade receivables	432,649	432,619	(30)
Investments in securities	14,876	14,868	(8)
Total assets	¥486,050	¥486,012	¥(38)
Trade payables	281,063	281,063	-
Short-term debt and current portion of long-term debt (excluding lease obligations)	229,510	229,510	-
Long-term debt, less current portion (excluding lease obligations)	254,362	255,269	907
Total liabilities	¥764,935	¥765,842	¥907
Derivative transactions (*)	¥(31,883)	¥(31,883)	¥-

(*) Derivative financial instruments are presented as net amounts. Negative amounts stated with parentheses ( ) indicates that the net amount is a liability.

(i) Methods used to calculate the fair value of financial instruments and details of securities and derivative instruments

<Assets>
-Cash on hand and in banks
The fair value of cash on hand and in banks is stated at the relevant book value since the settlement periods are short and the fair values are substantially the same as the book values.
-Receivables
The fair value of receivables is stated at present value computed by applying a discount rate reflecting the settlement period and the credit risk.
-Investments in securities
Equity securities are stated at the fair value, and bonds are stated at market price or the asking price of financial institutions. See Note 2(k), “Investments in securities,” for the detailed information by classification.

<Liabilities>
-Trade payables, electronically recorded obligations, short-term debt and current portion of long-term debt
Since the settlement periods of these items are short and their fair values are substantially the same as their book values, the relevant book values are used.
-Long-term debt, less current portion
The fair value of bonds payable is calculated based on trading reference data. The fair value of long-term debt is calculated by applying a discount rate to the total principal and interest. That discount rate is based on the interest rates of similar new loans.

<Derivatives>
See Note 20, “Derivative Transactions.”

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

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

Since no market values are available for these items and since it is extremely difficult to determine their fair values, the items listed in the table above are not included in investments in securities.

(iii) Planned redemption amounts after the balance sheet date for monetary receivables and investments in securities with maturity dates as of March 31, 2014 and 2013 were as follows:

	Millions of yen			
	2014			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**¥47,949**	**¥-**	**¥-**	**¥-**
Trade receivables	**389,410**	**26,255**	**-**	**-**
Investments in securities				
-Bonds	**-**	**132**	**-**	**-**
Total	**¥437,359**	**¥26,387**	**¥-**	**¥-**

	Thousands of U.S. dollars			
	2014			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**$465,886**	**$-**	**$-**	**$-**
Trade receivables	**3,783,618**	**255,101**	**-**	**-**
Investments in securities				
-Bonds		**1,282**	**-**	**-**
Total	**$4,249,504**	**$256,383**	**$-**	**$-**

	Millions of yen			
	2013			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	¥38,525	¥-	¥-	¥-
Trade receivables	426,027	6,622	-	-
Investments in securities				
-Bonds	-	133	-	-
Total	¥464,552	¥6,755	¥-	¥-

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

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

22. Finance leases

As discussed in Note 2(w), finance leases commenced prior to April 1, 2008 which do not transfer ownership of the leased assets to the lessee are accounted for as operating leases. Information regarding such leases, as required to be disclosed in Japan, was as follows:

(a) Lessee

The original costs of leased assets under non-capitalized finance leases and the related accumulated depreciation and amortization, assuming it was calculated by the straight-line method over the term of the respective lease, as of March 31, 2014 and 2013 were as follows:

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

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

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

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

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

(b) Lessor

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

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

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

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

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

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

23. Operating leases

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

24. Segment information

(a) Overview of reportable segments

The Company’s reportable segments are components of the Company for which separate financial information is available. These segments are subject to periodic review by the Company’s Board of Directors to determine the allocation of resources and assess performance. The Company’s operations are divided into internal companies based on product categories. Certain authority is delegated to each of the internal companies based on whether they conduct businesses in Japan or overseas. The Company’s operations are therefore segmented based on each internal company’s product categories. The Company’s eight reportable segments are the Ship & Offshore Structure segment, the Rolling Stock segment, the Aerospace segment, the Gas Turbine & Machinery segment, the Plant & Infrastructure segment, the Motorcycle & Engine segment, the Precision Machinery segment and the Other segment.

The main businesses in the Company’s reportable segments are set forth in the table below.

Business segment	Major products
Ship & Offshore Structure	Construction and sale of ships and other vessels, etc.
Rolling Stock	Production and sale of rolling stock, snow plows, etc.
Aerospace	Production and sale of aircraft, etc.
Gas Turbines & Machinery	Production and sale of jet engines, general-purpose gas turbine generators, prime movers, etc.
Plant & Infrastructure	Production and sale of industrial equipment, boilers, environmental equipment, steel structures, crushers, etc.
Motorcycle & Engine	Production and sale of motorcycles, personal watercraft, all-terrain vehicles (ATV), utility vehicles, general-purpose gasoline engines, etc.
Precision Machinery	Production and sale of industrial hydraulic products, industrial robots, etc.
Other	Production and sale of construction machinery, commercial activities, sales/order agency and intermediary activities, administration of welfare facilities, etc.

(b) Calculation methods for sales, income (loss), assets, liabilities and other items by reportable segment

Accounting methods applied for the calculation of sales, income (loss), assets, liabilities and other items by business segment largely correspond to information presented under Note 2, “Significant accounting policies.” Segment income is based on operating income. Intersegment sales and transfers are based on market prices. The Company deducted FIA charges from sales in the beginning of the fiscal year ending March 31, 2014, and because the impact of this accounting policy change on the consolidated financial statements as a whole is minimal, the Company did not apply the change retrospectively. The change reduced both sales and cost of sales for the fiscal year ended March 31, 2014, by ¥37,499 million ($364,350 thousand), relative to what they would have been in the absence of the change, but it had no effect on operating income, recurring profit, or income before income taxes and minority interests through each segment results.

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

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

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

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

	Year ended March 31, 2013								
	Millions of yen								
	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥90,343	¥1,999	¥92,342	¥4,162	¥112,612	¥1,364	¥-	¥35,434	¥1,781
Rolling Stock	129,973	2,888	132,861	2,215	163,528	3,536	-	99	2,808
Aerospace	239,172	2,289	241,461	14,827	311,659	10,769	-	-	17,171
Gas Turbines & Machinery	207,008	19,404	226,412	7,033	251,808	6,100	-	1,086	9,324
Plant & Infrastructure	115,813	15,115	130,928	9,772	115,470	1,861	-	11,768	4,376
Motorcycle & Engine	251,858	757	252,615	2,397	271,548	10,480	-	994	14,866
Precision Machinery	130,455	14,027	144,482	8,452	114,699	7,713	-	-	12,320
Other	124,259	32,873	157,132	1,273	144,211	2,427	363	2,521	2,149
Total	¥1,288,881	¥89,352	¥1,378,233	¥50,131	¥1,485,535	¥44,250	¥363	¥51,902	¥64,795
Adjustments	-	(89,352)	(89,352)	(8,069)	(19,245)	4,135	-	-	13,829
Consolidated total	¥1,288,881	¥-	¥1,288,881	¥42,062	¥1,466,290	¥48,385	¥363	¥51,902	¥78,624

	Year ended March 31, 2012								
	Millions of yen								
	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥113,532	¥1,636	¥115,168	¥3,964	¥102,102	¥3,819	¥13,554	¥15,278	¥2,297
Rolling Stock	132,684	2,105	134,789	5,154	157,487	3,693	-	92	2,266
Aerospace	206,580	1,846	208,426	7,815	295,668	9,633	33	-	10,208
Gas Turbines & Machinery	194,655	20,438	215,093	7,775	223,649	6,680	-	576	7,310
Plant & Infrastructure	122,800	13,150	135,950	14,118	109,395	1,703	64	10,171	3,277
Motorcycle & Engine	235,243	1,033	236,276	(2,959)	222,515	11,151	-	967	11,770
Precision Machinery	175,077	14,245	189,322	26,622	110,578	6,647	-	-	16,221
Other	123,207	35,281	158,488	3,838	183,396	2,539	1,270	2,412	3,384
Total	¥1,303,778	¥89,734	¥1,393,512	¥66,327	¥1,404,790	¥45,865	¥14,921	¥29,496	¥56,733
Adjustments	-	(89,734)	(89,734)	(8,843)	(42,651)	3,036	-	-	7,186
Consolidated total	¥1,303,778	¥-	¥1,303,778	¥57,484	¥1,362,139	¥48,901	¥14,921	¥29,496	¥63,919

	Year ended March 31, 2014								
	Thousands of U.S. dollars								
	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	**$785,688**	**$17,256**	**$802,954**	**$(19,491)**	**$1,258,677**	**$7,345**	**$-**	**$476,962**	**$14,885**
Rolling Stock	**1,437,534**	**56,588**	**1,494,092**	**73,571**	**1,548,416**	**25,554**	**-**	**1,214**	**51,838**
Aerospace	**2,727,721**	**24,650**	**2,752,371**	**255,092**	**3,387,175**	**96,551**	**-**	**-**	**249,698**
Gas Turbines & Machinery	**1,838,719**	**164,442**	**2,003,148**	**101,885**	**2,714,302**	**30,655**	**-**	**13,836**	**80,645**
Plant & Infrastructure	**1,009,502**	**151,953**	**1,161,455**	**61,329**	**1,067,606**	**12,602**	**4,624**	**148,018**	**23,552**
Motorcycle & Engine	**3,131,053**	**7,715**	**3,138,768**	**156,432**	**2,457,569**	**99,514**	**-**	**10,678**	**167,606**
Precision Machinery	**1,197,785**	**131,830**	**1,329,615**	**101,195**	**1,214,428**	**43,091**	**-**	**58**	**75,146**
Other	**1,333,735**	**320,760**	**1,654,528**	**43,558**	**1,171,123**	**20,201**	**-**	**26,419**	**42,712**
Total	**$13,461,737**	**$ 875,194**	**$14,336,931**	**$773,571**	**$14,819,296**	**$335,513**	**$4,624**	**$677,185**	**$706,082**
Adjustments	**-**	**(875,194)**	**(875,194)**	**(70,579)**	**283,978**	**32,131**	**-**	**-**	**146,288**
Consolidated total	**$13,461,737**	**$-**	**$13,461,737**	**$702,982**	**$15,103,274**	**$367,644**	**$4,624**	**$677,185**	**$852,370**

(d) Reconciliation and the main components of differences between the total for reportable segments and amounts on the consolidated financial statement for the years ended March 31, 2014, 2013 and 2012

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

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

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

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

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

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

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

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

(e) Related information

(i) Sales by geographic region

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

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

Net sales are based on the clients' location and classified according to nation or geographical region.

Property, plant and equipment

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

(ii) Information by major clients

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

25. Related party transactions

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

	Year ended March 31, 2014
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million ($97 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥108,684 million ($1,056,004 thousand)
Account	Trade receivables
Ending balance	¥16,209 million ($157,491 thousand)

	Year ended March 31, 2013
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of Company products
Details of transactions	Sales of Company products
Amount of transactions	¥85,325 million
Account	Trade receivables
Ending balance	¥25,957 million

(b) A summary of the total financial information of all affiliates (18 companies) (17 in 2013) which was the basis for calculating the equity in income of nonconsolidated affiliates, including that of Nantong COSCO KHI Ship Engineering Co., Ltd., which is a significant affiliate, for the years ended March 31, 2014 and 2013 was as follows:

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

26. Subsequent events

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

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

27. Other matters

(Quarterly financial information)

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

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

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

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2014 and 2013, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2014, in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 25, 2014
Kobe, Japan

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

Directors

Shigeru Murayama *†
President

Kyohei Matsuoka *†
Senior Executive Vice President

Hiroshi Takata *†
Senior Executive Vice President

Joji Iki *†
Senior Vice President

Eiji Inoue *†
Senior Vice President

Yoshinori Kanehana *†
Senior Vice President

Minoru Makimura †
Senior Vice President

Akio Murakami *†
Senior Vice President

Munenori Ishikawa *†
Senior Vice President

Kazuo Hida *†
Senior Vice President

Shigehiko Kiyama *†
Senior Vice President

Kenji Tomida †
Senior Vice President

Yoshihiko Morita
Outside Director

* Representative Director
† Executive Officer

Corporate Auditors

Yuji Murakami
Corporate Auditor

Takafumi Shibahara
Corporate Auditor

Michio Oka
Outside Corporate Auditor

Nobuyuki Fujikake
Outside Corporate Auditor

Managing Executive Officers

Masahiro Ibi

Executive Officers

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

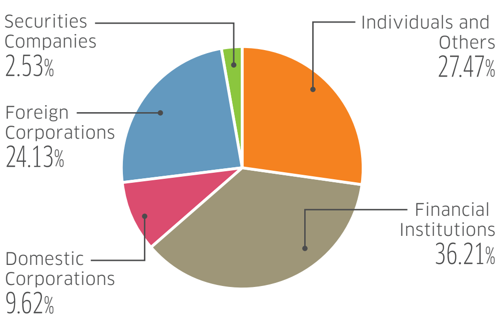
Stock Information (As of March 31, 2014)

Stock Listings	Tokyo and Nagoya Stock Exchanges
Total Number of Shares Authorized	3,360,000,000 shares
Total Number of Shares Issued	1,671,892,659 shares
Number of Shareholders	128,248 persons
Annual General Meeting of Shareholders	June

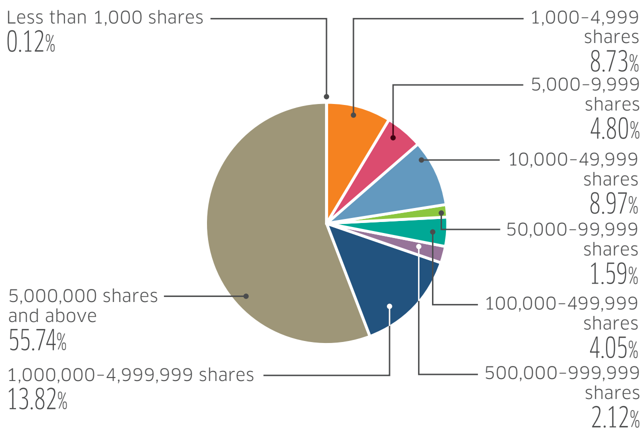
Major Shareholders

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

Classified by Type of Shareholder



Classified by Number of Holdings



Base Introduction

Offices in Japan

Tokyo Head Office
Kobe Head Office
Corporate Technology Division
Sapporo Office
Sendai Office
Nagoya Office
Osaka Office
Hiroshima Office
Fukuoka Office
Okinawa Office

Production Bases in Japan

Gifu Works
Nagoya Works 1
Nagoya Works 2
Kobe Works
Hyogo Works
Seishin Works
Nishi-Kobe Works
Akashi Works
Kakogawa Works
Harima Works
Sakaide Works

Major Subsidiaries in Japan

KCM Corporation
KCMJ Corporation
Kawasaki Trading Co., Ltd.
Kawasaki Hydromechanics Corporation
Kawasaki Life Corporation
Kawasaki Technology Co., Ltd.
Benic Solution Corporation
Nippi Kosan Co., Ltd
Kawaju Service Co., Ltd.
K Career Partners Corp.
Kawaju Heartfelt Service Co., Ltd.
Hokkaido Kawaju Kenki Co.Ltd.
Kawaju Support Co., Ltd.
Kawaju Marine Engineering Co., Ltd.
Kawasaki Techno Wave Co., Ltd.
KHI JPS Co., Ltd.
Alna Yusoki-Yohin Co., Ltd.
Kawasaki Rolling Stock Technology Co., Ltd.
Kawasaki Rolling Stock Component Co., Ltd.
Kansai Engineering Co., Ltd.
Sapporo Kawasaki Rolling Stock Engineering Co., Ltd.
Nichijo Manufacturing Co.,LTD.
NIPPI Corporation
Kawaju Gifu Engineering Co., Ltd.
KGM Co., Ltd.
Kawaju Gifu Service Co., Ltd.
Nippi Skill Corporation
Kawasaki Thermal Engineering Co., Ltd.
Kawasaki Machine Systems, Ltd.
Kawaju Akashi Engineering Co., Ltd.
Kawasaki Prime Mover Engineering Co., Ltd.
Kawasaki Naval Engine Service, Ltd.
Earth Technica Co., Ltd.
Kawasaki Engineering Co., Ltd.
KEE Environmental Service, Ltd.
KEE Environmental Construction Co., Ltd.
Kawaju Facilitech Co., Ltd.
Earth Technica M&S Co., Ltd.
JP Steel Plantech Co.
Kawasaki Motors Corporation Japan
Technica Corp.
K-Tec Corp.
Union Precision Die Co., Ltd.
AutoPolis
Kawasaki Robot Service, Ltd.
Medicaroid Co.,Ltd.

Overseas Offices

Beijing Office

Taipei Office

Bangkok Ofice

Delhi Office

Moscow Office

Overseas Subsidiaries & Affiliates

KCMA Corporation

Kawasaki Trading do Brasil Ltda.

Kawasaki do Brasil Indústria e Comércio Ltda.

Kawasaki Heavy Industries (U.S.A.), Inc.

Kawasaki Heavy Industries (U.K.) Ltd.

Kawasaki Heavy Industries Middle East FZE

Kawasaki Heavy Industries (Singapore) Pte. Ltd.

Kawasaki Trading (Shanghai) Co., Ltd.

Kawasaki Heavy Industries Management (Shanghai) Ltd.

KHI (Dalian) Computer Technology Co., Ltd.

Enseada indùstria Naval S.A.

Nantong COSCO KHI Ship Engineering Co., Ltd.

Dalian COSCO KHI Ship Engineering Co., Ltd.

Kawasaki Motors Manufacturing Corp., U.S.A.

Kawasaki Rail Car, Inc.

Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.

Kawasaki Gas Turbine Europe GmbH

Kawasaki Gas Turbine Asia Sdn. Bhd.

Tongfan Kawasaki Advanced Energy-saving Machine Co., Ltd.

Kawasaki Heavy Industries (Europe) B.V.

Kawasaki Heavy Industries (H.K.) Ltd.

Wuhan Kawasaki Marine Machinery Co., Ltd.

KHI Design & Technical Service Inc.

Kawasaki Heavy Industries Machinery Trading (Shanghai) Co., Ltd.

Anhui Conch Kawasaki Engineering Co., Ltd.

Anhui Conch Kawasaki Equipment Manufacturing Co., Ltd.

Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd.

Shanghai COSCO Kawasaki Heavy Industries Steel Structure Co., Ltd.

Kawasaki Motors Corp., U.S.A.

Canadian Kawasaki Motors Inc.

Kawasaki Motores do Brasil Ltda.

Kawasaki Motors Europe N. V.

Kawasaki Motors Pty. Ltd.

Kawasaki Motors Enterprise (Thailand) Co., Ltd.

KHITKAN Co., Ltd.

PT. Kawasaki Motor Indonesia

Kawasaki Motors (Phils.) Corporation

India Kawasaki Motors Pvt. Ltd.

PT. Kawasaki Motor Sales Indonesia

Kawasaki Componentes da Amazonia Ltda.

Changzhou Kawasaki and Kwang Yang Engine Co., Ltd.

Kawasaki Precision Machinery (U.S.A.), Inc.

Kawasaki Precision Machinery (UK) Ltd.

Flutek, Ltd.

Wipro Kawasaki Precision Machinery Private. Ltd.

Kawasaki Precision Machinery (Suzhou) Ltd.

Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.

Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd.

Kawasaki Robotics (U.S.A.), Inc.

Kawasaki Robotics (UK) Ltd.

Kawasaki Robotics GmbH

Kawasaki Machine Systems Korea, Ltd.

Kawasaki Robotics (Tianjin) Co., Ltd.

Kawasaki Robotics (Kunshan) Co., Ltd.

(As of March 31, 2014)