



# Kawasaki Report 2013

**Year ended March 31, 2013**  
(Full Report)



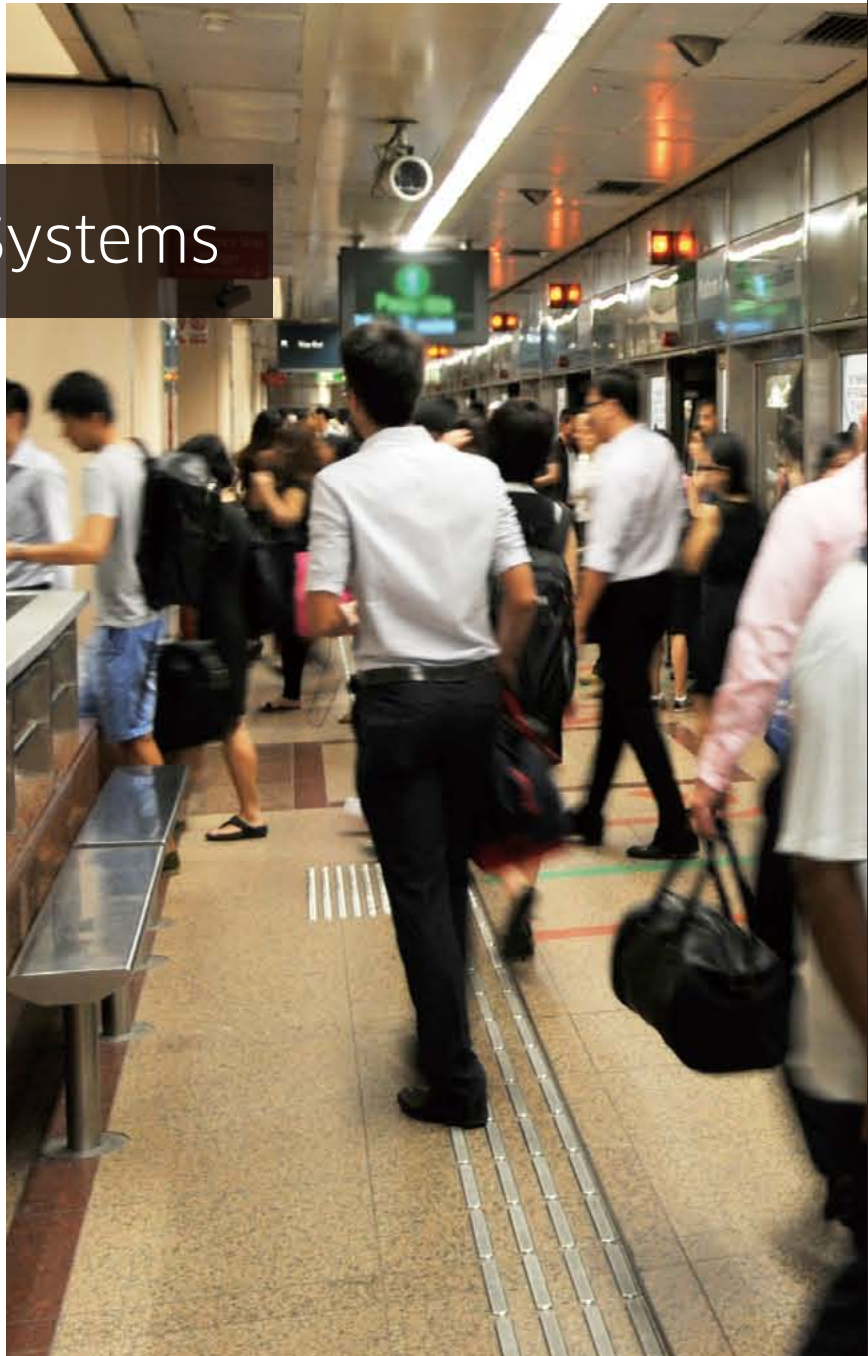
Solving Social Issues through Business

# Transportation Systems

## 4 billion people

The economies of Asia sustain the livelihoods of more than four billion people—about 60% of the world's population—and continue to grow. By supplying rolling stock that is optimally suited to large-volume transportation and a reduced environmental load, we support the ongoing development of this continent with its busy interchange of people, goods, finance and information.

Powering your potential—Kawasaki continues on track.



Train cars to Singapore

### Urban Railway System in Singapore

Singapore, currently having a population of more than five million at high density in the small territory, has been establishing an efficient public transportation system since the 1980s. The first urban railway transit system was inaugurated in 1987 and since then the railway network has been expanding as a convenient and comfortable public transportation system.

Since 1986, Kawasaki has delivered to Singapore a total of 656 cars. The latest type of Kawasaki rolling stock has features of more passenger capacity at less energy consumption and contributes to provide Singapore with an enhanced mobility. Kawasaki-brand rolling stock is indispensable for the highly efficient public transportation system in Singapore.



## Taiwan High Speed Rail

In 2007, Taiwan High Speed Rail commenced a revenue service as the first Japanese high-speed rail system to be exported, which makes it possible to have a trip of 90 minutes between two large cities in the north and south of Taiwan, Taipei and Kaohsiung. Taiwan High Speed Rail provides immeasurable economic benefit for business and sightseeing.

The consortium consisting of seven Japanese companies was awarded the contract of supply and installation of an electrical and mechanical (E&M) system, and Kawasaki supplied 360 700T series cars as a member in charge of design, manufacturing and supply of rolling stock.

Variable types of passengers including business people, families, students, etc., are enjoying their trips with the 700T series high speed train. Kawasaki takes much pride in supply of the 700T, the popular train among the people of Taiwan.



High-speed train cars to Taiwan

Solving Social Issues through Business

## Energy & Environmental Engineering

# 15.8 trillion kWh

Asia is a powerful driver of growth in the world economy.

By 2035, the International Energy Agency forecasts that Asia's annual power demand will have doubled from its present level to approximately 15.8 trillion kWh.

One of the most promising sources of energy for electricity generation is natural gas, which has a low environmental load and is still available in plentiful reserves.

To meet the rising demand for natural gas-powered electricity generating facilities, KHI is committed to delivering energy solutions tailored to customer needs.



Kawasaki Green Gas Engine

### Offering Solutions for a Serious Electric Power Shortage

India's economy continues to grow, but because power demand exceeds supply and the power grid is unreliable, a growing number of independent power producers (IPPs) are operating distributed energy systems.

In 2013, KHI received its first order from an Indian IPP. All of the electric power produced by Kawasaki Green Gas Engine, which boast the world's highest generating efficiency along with outstanding environmental performance, will be sold to electric power companies.

As a contribution to solving India's serious power shortage, KHI gas engines will continue to be used in an expanding range of fields.



## Enhancing Energy Security

To promote a stable energy supply, Singapore has begun building its first LNG terminal.

At the end of 2012, KHI completed the delivery of two gas engines for the terminal. The electricity generated by these gas engines will be for captive use at the LNG terminal. Our gas engines, which boast the world's highest generating efficiency, will contribute significantly to reducing electric power costs, and will achieve low environmental load operations with their outstanding environmental performance.

KHI gas engines will thus contribute to a stable energy supply for Singapore, which has developed into one of the world's greatest cities.

Solving Social Issues through Business

## Industrial Equipment

# 26.28 million hectares

With about half its population engaged in the agriculture, forestry and fishery sectors, Pakistan is a major agricultural nation and the world's fourth-largest producer of wheat. Approximately one-third of its land area, or 26.28 million hectares, is devoted to agriculture. To improve the soil of this vast area and improve yields, securing supplies of fertilizer in huge quantities is a very important priority.

KHI won a contract to provide industrial equipment including a facility for manufacturing urea, the raw material from which fertilizer is made. This facility therefore plays an especially important role in the country's largest fertilizer plant. The facility was handed over in 2009 and is contributing to not only Pakistan's agricultural development but also the livelihoods of farming families.

In the years ahead, KHI will continue with manufacturing activities to support the livelihoods of people around the world.





### Urea Manufacturing Facility for Fertilizer Plant of Fatima Fertilizer Company Ltd.

Fatima Fertilizer Company Ltd. has built Pakistan's largest fertilizer plant on the outskirts of the city of Sadiqabad in the country's central region. Using the natural gas produced in the nearby Mari gas field as raw material, it manufactures urea and a range of other synthetic fertilizers from ammonia. The equipment delivered by KHI is the core facility of the factory and produces 1,500 tons of urea a day. KHI was also commissioned with engineering and project management operations for the rest of the plant's fertilizer manufacturing facilities.



Urea manufacturing facility

# Contents

● Solving Social Issues through Business — 01	
Transportation Systems	
Energy & Environmental Engineering	
Industrial Equipment	
● Editorial Policy — 07	
● Corporate Profile — 08	
● Message from the Top Management — 09	
● Performance Highlights — 15	
● Business Review & Strategies — 17	
Ship & Offshore Structure — 18	
Rolling Stock — 19	
Aerospace — 20	
Gas Turbine & Machinery — 21	
Plant & Infrastructure — 22	
Motorcycle & Engine — 23	
Precision Machinery — 24	
● Research and Development — 25	
● KHI Group CSR and Five Themes	
KHI Group CSR — 27	
Value Creation — 29	
Management — 33	
Employees — 47	
Environment — 55	
Social Contribution — 81	
● The KHI Group's Second Dialogue with Experts — 85	
● Financial Section — 87	
● Independent Auditor's Report — 124	
● Directors, Corporate Auditors and Executive Officers — 125	
● Stock Information — 126	
● Base Introduction — 127	

## ● Publication Formats

The report is published in three formats according to reader needs.

1. The booklet version: a digest version presenting information in compact form.
2. The full report (which you are now reading): a PDF version on our website supplementing the booklet content with more detailed information.  
<http://www.khi.co.jp/english/ir/library/annual/index.html>    <http://www.khi.co.jp/english/csr/report/index.html>  
 The IR and CSR sections of the KHI Group's website offer a wider range of information in searchable format, including financial data, share-related data, and data on individual CSR activities.  
<http://www.khi.co.jp/english/ir/index.html> (IR)    <http://www.khi.co.jp/english/csr/index.html> (CSR)
3. The detailed environmental report: a PDF version focused exclusively on environment-related content and including environmental data supplements.

## ● 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.

# Editorial Policy

In the past, the Kawasaki Heavy Industries (KHI) Group produced an Annual Report presenting information on areas such as the direction of management policy and its business environment and business strategy, and a CSR Report presenting information on activities to ensure sustainability. From this fiscal year, however, to give stakeholders a more comprehensive picture of our activities, these two separate yearly reports have been integrated in a single Kawasaki Report.

The KHI Group's mission statement is "Kawasaki, working as one for the good of the planet." This reflects the consistently high level of agreement and shared focus in our operations between business activities on one hand and, on the other hand, commitment to sustainability and to resolving the issues facing society.

We would like this report to serve as a way to reinforce appreciation of this point among our stakeholders and as a basic channel of communication for suggestions and comments on our corporate activity and business operations.

Hereafter, the KHI Group is committed to enhanced promotion of activities that integrate business management with corporate social responsibility (CSR). In this report, we intend to provide greater coverage of such activities, continuing this trend in the next fiscal year's report and subsequent issues. At the same time, where there are corporate activities or other aspects we consider to be unsatisfactory, we intend to report on these together with ideas for corrective measures.

## ● Period

The report covers fiscal 2013 (April 1, 2012 to March 31, 2013), but content referring to its Medium-term Business Plan 2010 (FY2011-2013) also includes activities during fiscal 2011, 2012, and 2014.

## ● Scope

The report covers Kawasaki Heavy Industries, Ltd., and its 95 consolidated subsidiaries (48 in Japan and 47 overseas) and 17 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 (G3.1 ver.) issued by the Global Reporting Initiative (GRI).



# Corporate Profile

## Kawasaki Heavy Industries, Ltd.

### Head Offices

#### Tokyo Head Office:

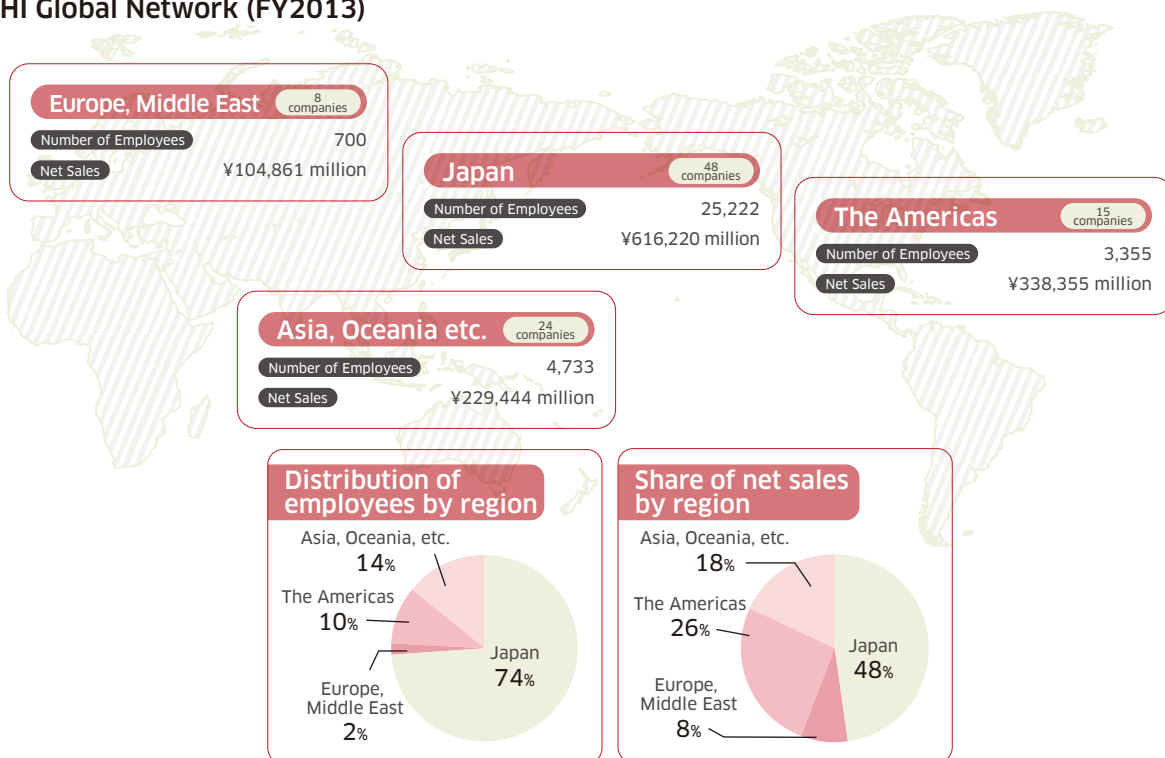
14-5, Kaigan 1-chome, Minato-ku, Tokyo 105-8315, Japan

#### Kobe Head Office:

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

<b>President</b>	Shigeru Murayama
<b>Paid-in Capital</b>	¥104,484 million (As of March 31, 2013)
<b>Number of Shares Issued</b>	1,671,892,659 (As of March 31, 2013)
<b>Net Sales</b>	¥1,288,881 million (Fiscal year ended March 31, 2013)
<b>Number of Employees</b>	34,010 (As of March 31, 2013)

### ■ KHI Global Network (FY2013)



### ■ Distribution of Value to Stakeholders (FY2013)

#### Value delivered to customers or to society through customers

	Amount (billions of yen)	Remarks
Value delivered	1,288.8	Net sales

#### Breakdown of value delivered

	Amount (billions of yen)	Remarks
Business partners	1,047.5	Business costs (excluding costs for employees, society, and government)
Employees	190.7	Salaries and bonuses
Society	0.7	Social contribution expenses
Administration and government	13.1	Income taxes, etc.
Value created	36.7	Value created minus expenses for employees, society, and government
<b>Total value delivered</b>	<b>1,288.8</b>	

#### Return of value created

	Amount (billions of yen)	Remarks
Creditors	4.1	Interest expense
Shareholders	10.5	Minority interests in net income plus dividends paid
Company internal, etc.	22.1	Increase in retained earnings during period
<b>Total value created</b>	<b>36.7</b>	

# Message from the Top Management



# We will press forward toward the goal of further increasing corporate value.

I am Shigeru Murayama, the new representative director and president of Kawasaki Heavy Industries, Ltd. I was appointed at a meeting of the Board of Directors following approval by our shareholders at the 190th Ordinary General Meeting of Shareholders held on June 26, 2013.

Before proceeding, as the newly appointed president, I wish to address our stakeholders with an explanation on recent events.

As you will no doubt have already heard in the media, an extraordinary meeting of the Board of Directors held on June 13, 2013, voted to relieve three directors of their positions as president, senior executive vice president, and senior vice president, respectively.

Further, the same meeting of the Board of Directors resolved officially to terminate negotiations on management integration with Mitsui Engineering & Shipbuilding Co., Ltd., and resolved to introduce a new management team with me as president.

This situation came about after the three directors in question attempted to implement executive measures in opposition to the views of the majority of directors and acted generally without due regard for the Board of Directors. For this and related reasons, the Board of Directors was forced to conclude that, from the perspective of corporate governance and compliance, the directors in question were not qualified to bear the core responsibility for the management of KHI.

I wish to express my greatest gratitude to stakeholders for your patience and understanding toward this recent series of decisions made by our corporate organs, which may have caused certain distress and concern. At the same time, I hope that we can rely on your continued support as we focus ongoing efforts on the management of Group operations going forward.

August 2013  
President



## Fiscal 2013 Business Results

During fiscal 2013, ended March 31, 2013, the world economy saw growth held to modest levels overall under the impact of slackening growth in the Chinese economy and other signs of a deceleration in the emerging economies that had hitherto been its driving force. On the domestic front, although progress was made with recovery from the Great East Japan Earthquake, fears of a downturn in the world economy contributed to overall continuing instability.

Against this economic background, the KHI Group achieved an overall increase in the consolidated value of orders for the fiscal year under review, with growth notably in the Ship & Offshore Structure and Rolling Stock segments making up for decreases in the Precision Machinery segment and elsewhere. Net sales in the Precision Machinery segment were impacted by China's economic slowdown and also fell in the Ship & Offshore Structure segment, but thanks to increases in the Aerospace segment and other areas, the overall figure equaled that of the previous fiscal year. Operating

income showed improvements thanks to the increased net sales in the Aerospace, the Motorcycle & Engine and other segments, but the overall figure decreased particularly due to a decline in the Precision Machinery and Plant & Infrastructure segments.

As a result of these movements, the consolidated value of orders for the KHI Group grew by ¥57.7 billion from the previous fiscal year to ¥1,369.5 billion. Consolidated net sales, meanwhile, decreased by ¥14.8 billion to ¥1,288.8 billion, operating income by ¥15.4 billion to ¥42.0 billion, and recurring profit\* by ¥24.2 billion to ¥39.3 billion. Nevertheless, due to a boost to extraordinary income and reduced tax expenses, net income climbed by ¥7.5 billion to ¥30.8 billion.

In our non-consolidated business results for fiscal 2013, the value of orders totaled ¥1,086.2 billion, net sales ¥983.9 billion, operating income ¥12.5 billion, recurring profit ¥19.4 billion, and net income ¥17.1 billion.

\*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.

## Fiscal 2014 Forecast

Fiscal 2014 is expected to see a background of continuing gradual growth in the world economy. The shale gas revolution in the United States has strengthened the mood of recovery, with evidence of increased energy-related demand and an improved employment situation. However, the European economy is still mired in concerns over sovereign debt issues, while in China and other emerging economies we believe that the situation needs to be watched for future trends. As for the domestic economy, in addition to the improved export environment following the reversal of the yen's appreciation, the effect of expanded investment in public works based on flexible government spending initiatives has contributed to gradual growth. Going forward, the effect of growth-oriented government policies is expected to bring an expansion in private-sector capital investment and an increase in household incomes, which in turn is expected to lead to stable growth.

Our business environment is thus showing a return to a brighter overall picture. Moving into fiscal 2014, we are

committed to making an earnest response to the dip in our business performance in fiscal 2013 by continuing with steady management of our business operations and also working on a range of measures for the realization of Kawasaki Business Vision 2020.

We come now to our fiscal 2014 forecast, for which we assume an exchange rate of ¥95 to the U.S. dollar and ¥120 to the euro. Although consolidated net sales are expected to decrease year on year in the Ship & Offshore Structure and other segments, increases are forecast in other areas including the Aerospace, Rolling Stock, and Motorcycle & Engine segments, so that overall we forecast year-on-year growth of approximately ¥90.0 billion in net sales to ¥1,380.0 billion. On the profit front, by continuing with a range of profit-boosting measures across all operations, including continuation of the vigorous efforts made so far to reduce fixed costs and other expenses and to improve productivity, we forecast consolidated results of ¥60.0 billion for operating income, ¥53.0 billion for recurring profit, and ¥34.0 billion for net income.

## Management Policy

In the spirit of our Group Mission—"Kawasaki, working as one for the good of the planet"—the KHI Group aspires to be a business group that is equipped with advanced and comprehensive technological capabilities in a broad range of sectors, allowing us to work in harmony with the global environment to create new value to help achieve a bright and prosperous future society.

To work toward the realization of this Group Mission, the KHI Group has formulated a long-term vision—Kawasaki Business Vision 2020—and a concrete implementation

strategy in the form of a medium-term business plan. To give the vision and the business plan a reliable prospect of success, it is essential that we achieve an increase in corporate value to maintain and strengthen the cycle of business development and profit return. In common with the rest of the management team, I understand it as our task to achieve this.

### KHI Group Mission

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

#### Target profile

A company that provides products and services suited to the diverse needs of people around the world through advanced technological capabilities in three principal business sectors: Land, Sea, and Air Transportation Systems, Energy & Environmental Engineering, and Industrial Equipment

#### Transportation Systems

##### Profitability and investment for growth

An enterprise with a high level of profitability based on a strong ability to adapt to changes in the business environment and ongoing investment for future growth

##### Global business development and emphasis on *monozukuri* (manufacturing)

A company that upgrades plants in Japan and actively pursues business development overseas

##### Coexistence and co-prosperity with society

An enterprise that contributes continuously to resolving social issues and meeting stakeholder expectations through its business operations

##### Improvement of the global environment

A company that creates products that incorporate the ultimate in low environmental impact technologies in each business sector

##### Workplace environment development

A company whose employees have hopes and dreams and work with vigor and enthusiasm

## 1. New Medium-term Business Plan “MTBP 2013” and Kawasaki Business Vision 2020

Our Medium-term Business Plan 2010, which we launched in fiscal 2011, concluded in fiscal 2013. In response, the KHI Group announced in April 2013 a new three-year medium-term business plan—MTBP 2013—to start from April 2013. MTBP 2013 sets out a range of initiatives designed not only to maintain the KHI Group’s sustainable growth, but also to outline in more concrete terms the roadmap to achieve Kawasaki Business Vision 2020. The plan sets the following numerical targets for our consolidated results in fiscal 2016, its final year: net sales of ¥1,600.0 billion, operating income of ¥90.0 billion, recurring profit of ¥85.0 billion, and return on invested capital (ROIC) of 11%.

MTBP 2013 and its underpinning Kawasaki Business Vision 2020 express the fundamental approach that we in the recently formed management team intend to follow. We also intend to adhere without deviation to the business policies and numerical targets adopted for each business segment. Our main focus, however, will be on achieving a profit increase rather than an expansion of scale, with foremost priority given to boosting ROIC, and emphasis also on profit figures and profit margin.

Specifically, by the end of fiscal 2014, we intend to have outlined a business portfolio to ensure that we achieve our recurring profit target of ¥85.0 billion for fiscal 2016, the final year of MTBP 2013. This will lay the basis for rapid realization of the recurring profit level of at least ¥100.0 billion envisaged in Kawasaki Business Vision 2020.

### ● Consolidated targets and forecasts (Billions of yen)

	FY2013 (Actual)	FY2014 (Forecast)	FY2016 (Target)
Net sales	1,288.8	1,380.0	1,600.0
Operating income (Ratio to net sales)	42.0 3.3%	60.0 4.3%	90.0 5.6%
Recurring profit (Ratio to net sales)	39.3 3.0%	53.0 3.8%	85.0 5.3%
Net debt/equity ratio	131.9%	130%	110%
Equity ratio	23.0%	22.1%	23.4%
Before tax ROIC	FY2013 (Actual)	FY2014 (Forecast)	FY2016 (Target)
Ship & Offshore Structure	17.3%	0.0%	10.0%
Rolling Stock	4.6%	7.5%	15.3%
Aerospace	15.9%	12.9%	12.7%
Gas Turbine & Machinery	5.3%	4.7%	7.5%
Plant & Infrastructure	21.2%	16.0%	15.0%
Motorcycle & Engine	3.4%	3.8%	14.3%
Precision Machinery	14.0%	17.1%	26.3%
Total	6.1%	7.4%	11.0%
Assumed exchange rate	—	¥95/US\$	¥95/US\$

## 2. Business Strategy

In terms of our concrete business strategy, we will continue to undertake innovative technology development while sustaining consistent in-house efforts to cut costs through the Kawasaki Production System (KPS) and through further development of our manufacturing capabilities. By also implementing differentiation strategies (next-generation product development, system solutions, brand strategy, and so on) adapted to each of our business operations, we aim to establish market superiority and achieve further improvements in profitability. Specifically, we will work to strengthen our core competences, with a focus on how to achieve an unbeatable competitive differentiation and build a more solid profit base.

As for our approach to the overseas market, we will build a system in which the superior technologies, manufacturing expertise, and outstanding human resources that we have accumulated at our domestic mother factories are input into the respective overseas market. In these overseas markets, taking care to limit risk, we will work together with local enterprises to secure business growth and profits. However, we do not intend to carry out reckless offshore transfer of domestic manufacturing bases in a search for low-cost labor with profit as the only criterion. The origin of our technological capabilities as a manufacturer lies in our development and manufacturing capabilities, which were of course nurtured in Japan. Our approach is therefore to work to refine technology development and manufacturing capabilities at our domestic manufacturing bases, which will act as mother factories coordinating our overseas bases.

Through initiatives of this kind, we will work to attain further development by strengthening the cycle in which the proceeds of our business operations are used for future investment and return to stakeholders.



### 3. Ensuring Quality over Quantity

We have consistently sought to approach our business operations with an emphasis on “Quality over Quantity.” Over the last few years, however, we feel that the pursuit of the net sales target envisaged in Kawasaki Business Vision 2020 may have received too much attention and not improved our financial position. This is an area that requires an earnest rethink, and we are now determined to reaffirm our commitment to an approach of “Quality over Quantity.”

We thus need to realize “Quality over Quantity”—in other words capital efficiency—and combine it with business growth potential to continuously increase corporate value; establishing a foundation on which to achieve this is the task assigned to us as the new management team. These two goals are in no sense contradictory. The surplus capacity in human resources, capital, and other operational resources that results from the pursuit of efficiency will be transferred to growth sectors, and this “Quality over Quantity” approach will be shared and implemented among all employees.

As a strategy to ensure an approach of “Quality over Quantity,” we will carry out a thorough evaluation of profitability for each product and each business unit, and clearly identify the core competence of each business and its position within our portfolio, clarifying the ideal future profile of our business portfolio. Focusing on business areas projected to have future potential, we will undertake key investment of operational resources in sectors with leading positions within the industry, or that have strong potential to reach such positions, targeting further reinforcement through new product development and mergers and acquisitions. Businesses that over a future period consistently fail to attain the expected profitability level will be subjected to comprehensive structural reform, while withdrawal from business will also be considered where future potential is judged not to exist.

To achieve results within the period of MTBP 2013 by combining capital efficiency with business growth potential, our first step will be to prioritize efficiency to generate surplus investment capacity. We hope to be able to show our stakeholders benefits from these improvements by fiscal 2015.

### CSR Activities

With the aim of fulfilling our Group Mission at a higher level, the KHI Group sets itself targets from the perspective of corporate social responsibility (CSR) that are adapted to the needs of the times and current conditions.

Across the range of CSR, our activities are based on the setting of a “target profile” for each thematic area, but we also actively consult external opinion through our Dialogues with Experts and other events as part of efforts to improve public perceptions of our organization.

In the area of compliance, in addition to putting in place regulations on corporate ethics and providing grade-specific training and e-learning, we distribute a range of guidance handbooks and take other measures to ensure full familiarity with the laws and regulations which staff need to observe. Going forward, we will strive to further enhance compliance measures.

### 4. Strengthening Corporate Governance and Organizational Management

As approved at the general meeting of shareholders held at the end of June 2013, KHI took steps to further strengthen management oversight functions by recruiting outside directors independent of the execution of operations and appointing three independent officers, as defined by the Tokyo Stock Exchange, including outside corporate auditors. Going forward, we aim to strengthen corporate governance through sustained efforts to increase the transparency and objectivity of our management.

In our organizational management, we believe that the internal company system that we have adopted, by virtue of features such as its financial independence and devolution of powers, is suited to the format of our business, which handles a wide range of diverse products. It is generally said that the internal company system suffers from a strong centrifugal force between Head Office and the internal companies, but at KHI the Head Office is equipped with sufficient company-wide horizontal functions to counter this tendency. Additionally, our culture of openness, which encourages full and free discussion of issues regardless of organizational affiliation or professional grade and concerted effort once the decision has been taken, overcomes the disadvantages of the internal company system and is the greatest driver of organizational synergies. We will all join together in reaffirming these positive aspects of our corporate culture. Among the roles required of the Head Office under the internal company system are check functions based on management indicators and functions to support and promote business activity, all of which we aim to strengthen further.

On the employment front, to create a workplace where employees experience strong motivation and can demonstrate their full potential, we need to create strong business operations, essential to which is the securing and cultivation of outstanding human resources. By further refining our superior technological capabilities and products, and continuing to communicate their appeal, we will keep a focus on creating and maintaining quality employment opportunities as an important goal of our operations.

Going forward, we will seek to achieve an even more appropriate form of organizational management. We also intend to address the issue of creating an organizational framework and related systems that are adapted to realizing our future business portfolio.

In the field of environmental management, we are working to strengthen environmental management on the basis of our newly formulated Eighth Environmental Management Activities Plan. Additionally, as a measure to reduce CO<sub>2</sub> emissions and energy consumption, we plan to roll out to all business sites an energy visualization system successfully operated at our model factory.

Meanwhile, we are working on measures to support child-rearing as part of a strategy to improve work-life balance and introducing measures to create diversity-friendly workplace environments, for instance by recruiting more international human resources and ensuring a barrier-free environment at all business sites. We will also step up measures to promote the employment of people with disabilities.

**Basic Concept**

The KHI Group's CSR activities are an ongoing effort to realize the Group Mission at ever higher levels. We know that contributing to the future of human 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 our goal.



**Five Themes**

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



**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.

**The Kawasaki Group Code of Conduct**

1. Always look at the bigger picture. Think and act from a long-term, global perspective.
2. Meet difficult challenges head-on. Aim high and never be afraid to try something new.
3. Be driven by your aspirations and goals. Work toward success by always dedicating yourself to your tasks.
4. Earn the trust of the community through high ethical standards and the example you set for others.
5. Keep striving for self-improvement. Act on your own initiative as a confident professional.
6. Be a part of Team Kawasaki. Share your pride and sense of fulfillment in a job well done.

Apart from these measures, our other social contribution activities in fiscal 2013 included the holding of handicraft workshops in the earthquake-hit Tohoku region. Based on the use of KHI products as workshop materials, these events aimed to help educate the next generation and support recovery from the disaster. We intend to continue with activities of this kind in fiscal 2014 and beyond.

Going forward, in addition to further deepening the coordination between business management and CSR, we intend to promote initiatives at the level of the global Group (the entire KHI Group including overseas operations) and to step up our cooperation with business partners in the field of CSR.

**To Our Stakeholders**

In concluding my greeting as the newly appointed president, I wish to once again express my greatest gratitude to stakeholders for your patience and understanding toward the recent abrupt changes in management, and take this opportunity to vow that, under my leadership, our officers and employees will unite to

press forward toward the goals of restoring trust and further increasing corporate value. In these efforts, I request your increased support and cooperation.

# Performance Highlights

## Years ended March 31

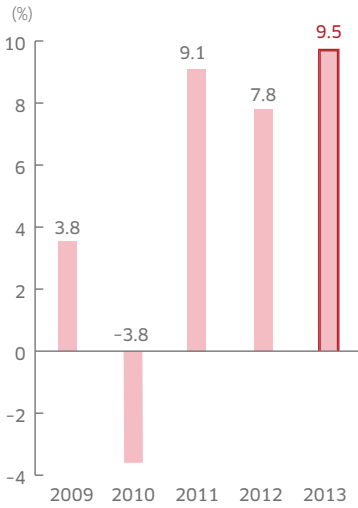
	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Net sales	¥1,288,881	¥1,303,778	¥1,226,949	\$13,712,958
Operating income	42,062	57,484	42,628	447,515
Recurring profit	39,328	63,627	49,136	418,433
Net income	30,864	23,323	25,965	328,375
Comprehensive income	44,039	24,569	18,252	468,554
Net cash provided by operating activities	¥28,101	¥84,737	¥81,929	\$298,978
Net cash used for investing activities	(81,160)	(65,959)	(52,942)	(863,496)
Free cash flow	(53,058)	18,778	28,986	(564,517)
Net cash provided by (used for) financing activities	57,671	(26,831)	(18,862)	613,586
Cash on hand and in banks	38,525	34,316	47,233	409,884
Trade receivables (notes and accounts receivables)	432,649	404,054	401,753	4,603,138
Inventories	460,105	441,897	425,322	4,895,255
Other current assets	85,534	86,918	77,409	910,040
Current assets	1,016,814	967,186	951,719	10,818,321
Total fixed assets	325,239	293,536	295,029	3,460,364
Total investments and other assets	124,236	101,416	107,529	1,321,804
Total assets	1,466,290	1,362,139	1,354,278	15,600,489
Trade payables (notes and accounts payables)	281,063	310,775	319,272	2,990,350
Interest-bearing debt	484,653	407,166	429,144	5,156,433
Other liabilities	350,693	328,274	308,428	3,731,172
Total liabilities	1,116,409	1,046,216	1,056,844	11,877,955
Total shareholders' equity	357,379	335,270	317,176	3,802,308
Total accumulated other comprehensive income	(19,139)	(29,216)	(28,120)	(203,627)
Minority interests	11,641	9,868	8,377	123,853
Net assets	349,881	315,922	297,433	3,722,534
Liabilities and net assets	1,466,290	1,362,139	1,354,278	15,600,489
CO <sub>2</sub> emissions (non-consolidated)	279	252	258	(thousand t-CO <sub>2</sub> )
Expenditure on social contribution activity	687	796	737	(millions of yen)
Number of employees	34,010	33,267	32,706	(persons)
Domestic	25,222	24,770	24,511	(persons)
Overseas	8,788	8,498	8,195	(persons)

Note: All dollar figures have been translated into yen at ¥93.99 to US\$1, the approximate rate of exchange at March 31, 2013.



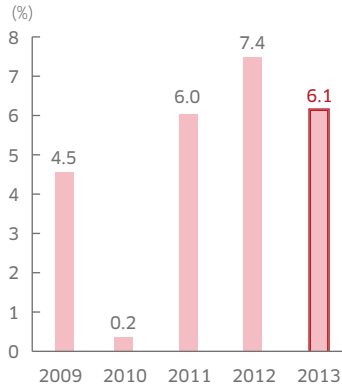
**Return on equity**

Net income / Shareholders' equity



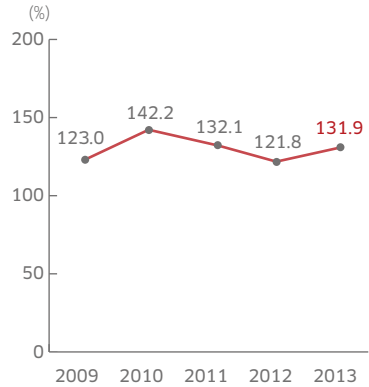
**Return on invested capital**

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



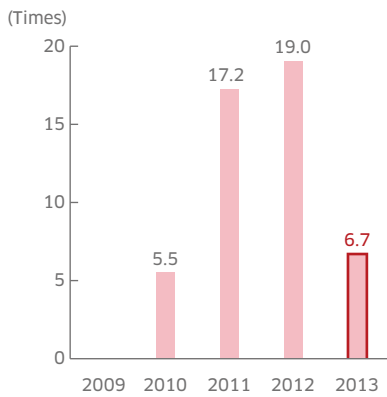
**Debt equity ratio**

Net interest-bearing debt / Shareholders' equity



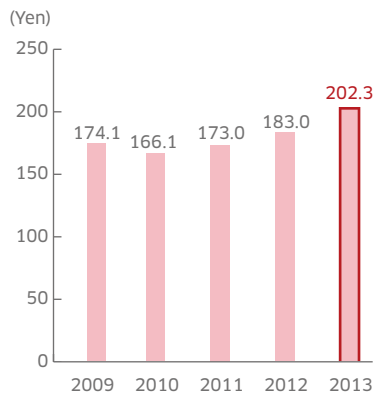
**Interest coverage ratio**

Cash flow from operating activities / interest expense

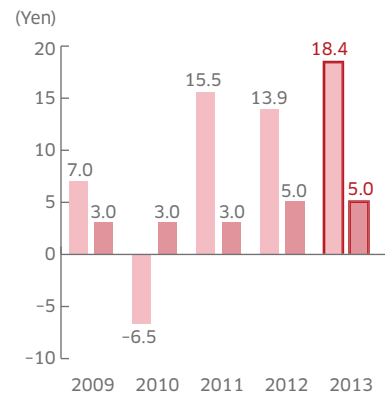


As the fiscal 2009 balance of cash flows from operating activities was negative, no figure is given for interest coverage ratio.

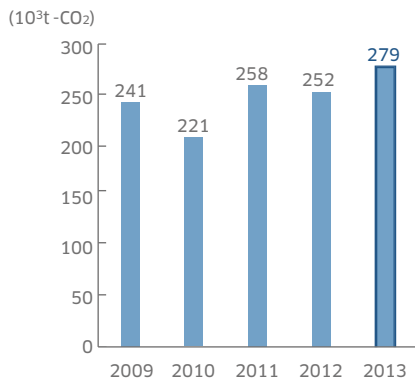
**Net assets per share**



**Net income per share**  
**Dividends per share**

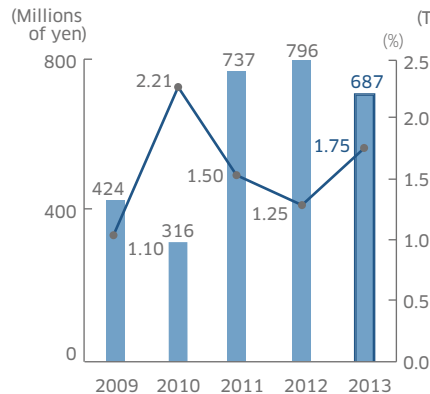


**CO<sub>2</sub> emissions (non-consolidated)**



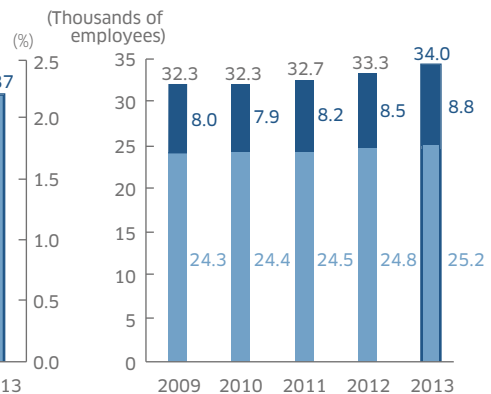
CO<sub>2</sub> emissions are impacted by the electricity emission factor.

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



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

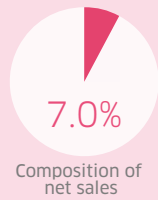
**Number of employees (domestic and overseas)**  
**Domestic** **Overseas**



# Business Review & Strategies

## Company

## Main Products



### Ship & Offshore Structure p. 18

FY2013 (billions of yen)

Net sales 90.3

Operating income 4.1

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



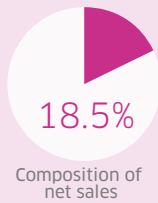
### Rolling Stock p. 19

FY2013 (billions of yen)

Net sales 129.9

Operating income 2.2

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



### Aerospace p. 20

FY2013 (billions of yen)

Net sales 239.1

Operating income 14.8

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



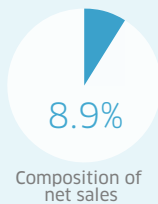
### Gas Turbine & Machinery p. 21

FY2013 (billions of yen)

Net sales 207.0

Operating income 7.0

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



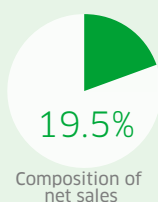
### Plant & Infrastructure p. 22

FY2013 (billions of yen)

Net sales 115.8

Operating income 9.7

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



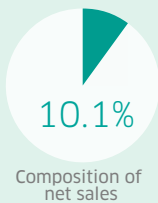
### Motorcycle & Engine p. 23

FY2013 (billions of yen)

Net sales 251.8

Operating income 2.3

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



### Precision Machinery p. 24

FY2013 (billions of yen)

Net sales 130.4

Operating income 8.4

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



LNG carrier ENERGY HORIZON

# Ship & Offshore Structure

## Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

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

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

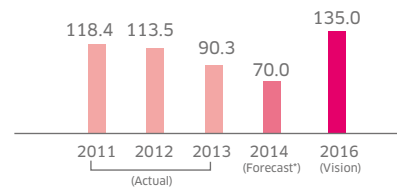
Against this background, in Japan, we are establishing the superiority of our technology in LNG and LPG carriers and submarines and by fulfilling the role of a center for development of advanced technology in energy saving, environmental load reduction, and other areas.

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

## Financial Highlights

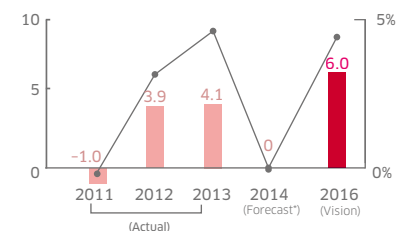
### Net sales

Years Ended/Ending March 31  
(Billions of yen)



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

Years Ended/Ending March 31 (Billions of yen)



\*As of April 25, 2013

## Approach to Social Issues

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

\*1 Nantong COSCO KHI Ship Engineering Co., Ltd.

\*2 Dalian COSCO KHI Ship Engineering Co., Ltd.



R188 subway cars for MTA New York City Transit

# Rolling Stock

## Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

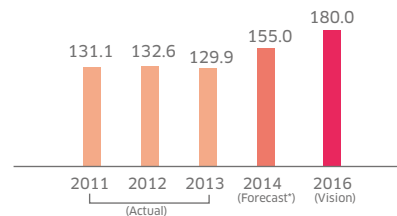
- Achieve profit growth in North America from our entire processing system, which ranges from car body fabrication through final assembly, and new product lineup
- Strengthen competitiveness in the Asian market by enhancing capacity for railroad system projects and optimal project delivery framework

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

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

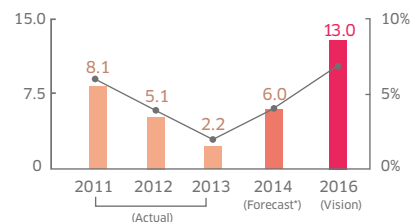
## Financial Highlights

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



**Operating income**  
**Ratio of operating income to sales**

Years Ended/Ending March 31 (Billions of yen)



\*As of April 25, 2013

## Approach to Social Issues

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



BK117 C-2 helicopter

# Aerospace

## Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

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

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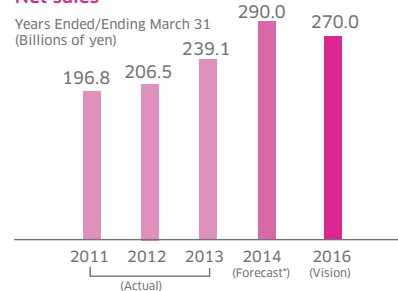
- **Commercial** Adapt for increased production of component parts for the Boeing 787 and branch out to derivative aircraft

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

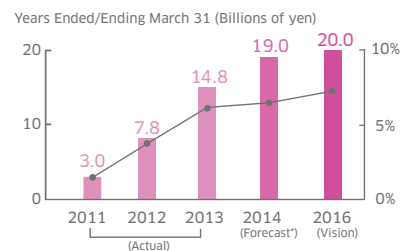
In the commercial aircraft business, meanwhile, continuing expansion of demand is expected in the medium to long term. To adapt to increased production of component parts for the Boeing 787, we will further boost production capacity at the Nagoya Works and target cost reductions. In addition, to maintain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

## Financial Highlights

### Net sales



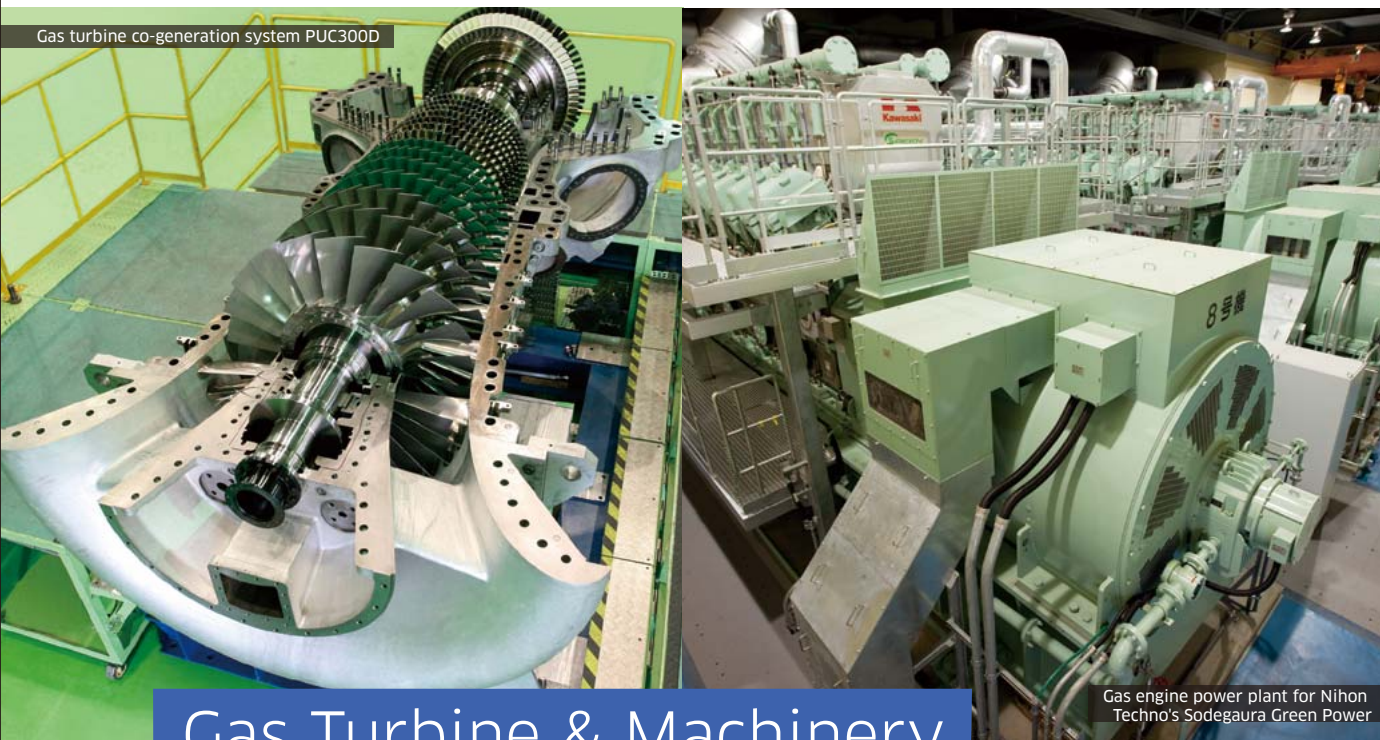
### – Operating income ◆ Ratio of operating income to sales



\*As of April 25, 2013

## Approach to Social Issues

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



# Gas Turbine & Machinery

## Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

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

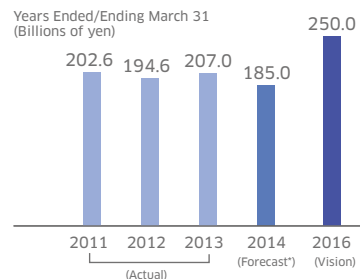
In the energy sector, we set up the Energy Solutions Division to strengthen our response to increased energy demand from emerging nations, as well as to heightened demand for distributed power sources following the revision of energy policies after the Great East Japan Earthquake. By transcending the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

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

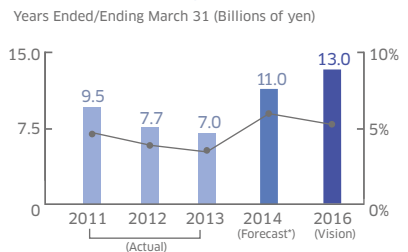
Concurrently, with the upswing in exploitation of offshore resources driven by the rise in worldwide energy demand, we are working to grow our business in marine propulsion systems with products such as shuttle tankers and drill ships for use in the oil- and gas-related offshore market.

## Financial Highlights

### Net sales



### Operating income Ratio of operating income to sales



\*As of April 25, 2013

## Approach to Social Issues

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



## Plant & Infrastructure

Ammonia and urea plants in Mary, Turkmenistan

### Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

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

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

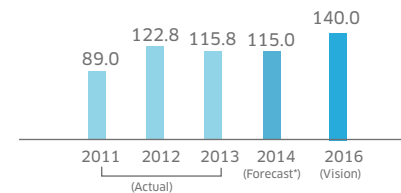
On the technology front, in addition to improving the added value of our superior technologies, we are standardizing design across the board to achieve stable quality, shorter delivery lead times, and cost reductions. In the commercialization of new products and technologies, we use measures such as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

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

### Financial Highlights

#### Net sales

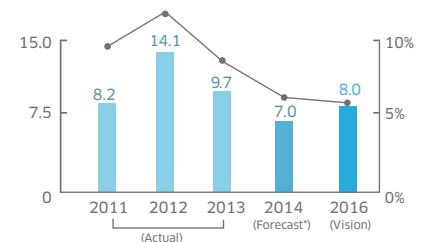
Years Ended/Ending March 31  
(Billions of yen)



#### - Operating income

#### ◆ Ratio of operating income to sales

Years Ended/Ending March 31 (Billions of yen)



\*As of April 25, 2013

### Approach to Social Issues

- 1 Contributing to global environment conservation and CO<sub>2</sub> reduction through products and technology
- 2 Contributing to the creation of social infrastructure in emerging nations



Ninja ZX-10R

# Motorcycle & Engine

## Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

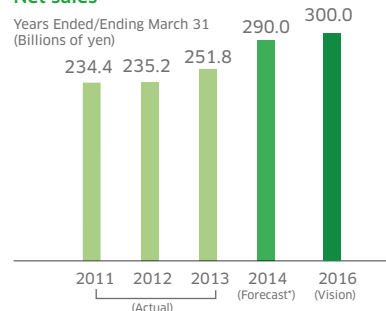
In the developed countries market, we have continued to develop and launch strongly competitive models and thereby boosted our brand strength. A benefit from this is that our presence as a premium brand has also strengthened in emerging markets, where we have established a business base for achieving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

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

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

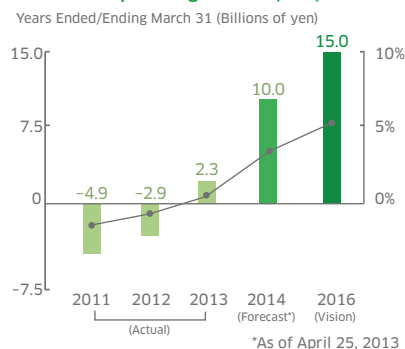
## Financial Highlights

### Net sales



### - Operating income (loss)

### ◆ Ratio of operating income (loss) to sales



## Approach to Social Issues

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



New Hydraulic Components for Construction Machinery



BX series BX 200L

# Precision Machinery

## Business Results for Fiscal 2013 and Outlook for Fiscal 2014

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

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

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

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

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

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

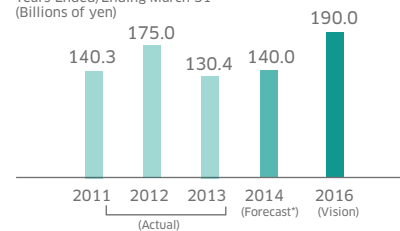
In the Hydraulic Machinery business unit, to maintain our high market share in the hydraulic excavator sector, we will work to realize cutting-edge hydraulic equipment technology and improve systematization technology. We will also promote business diversification through expanded sales of hydraulic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

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

## Financial Highlights

### Net sales

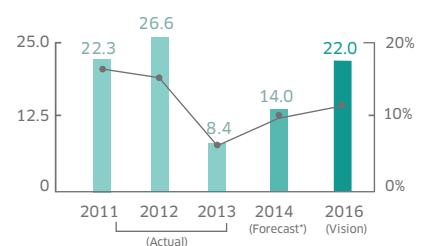
Years Ended/Ending March 31 (Billions of yen)



### - Operating income

#### ◆ Ratio of operating income to sales

Years Ended/Ending March 31 (Billions of yen)



\*As of April 25, 2013

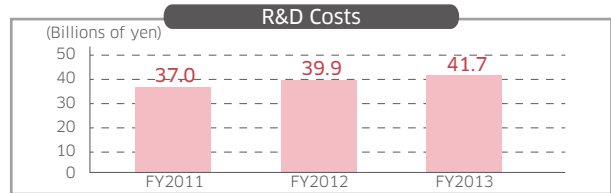
## Approach to Social Issues

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

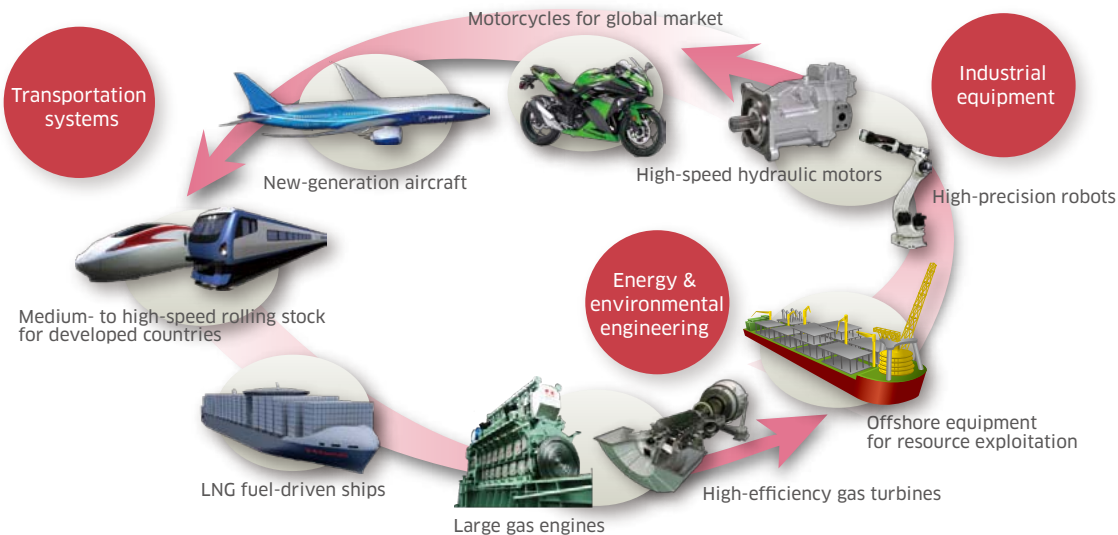
# Research and Development

In its approach to R&D activities, the KHI Group keeps in mind a continual picture of the lifestyles and the society of the future. In addition to our existing markets in developed countries, it is essential to respond to diverse customer needs in emerging nations that are experiencing rapid economic growth and in resource-rich nations. To do this, we promote new product and business development and engage in development activities aimed, for example, at reinforcing product competitiveness and boosting quality and productivity. As part of this policy, particularly in the case of important and challenging development projects, the Corporate Technology Division (our corporate R&D division) works in close coordination with business divisions to create a shared business strategy covering market needs and product development goals as a way to deliver well-timed and innovative products.

With its diverse products and wide range of technologies, the KHI Group seeks to “create new and powerful strength through synergistic effects.” To promote this, the development and production teams of our business divisions and the Corporate Technology Division serve as the interlocking threads of a network that is knit together into a flexible but resilient collaborative system, working to create stable foundations for our business operations and to expand our business domains.



## ■ Creating New Products and New Businesses with the Combined Strengths of Kawasaki



## ■ Promoting Vision-Oriented R&D with an Eye to the Future

Keeping a careful watch on the continuing rapid growth in the emerging markets of Asia and other regions and on global issues in areas such as energy and the environment, the Corporate Technology Division devotes its greatest energies to supporting new product development and product improvement. In parallel, however, we continue to take on the challenge of developing bold new businesses that target future markets.

By tapping into dynamic trends in the wider world to create our vision of the future and acknowledging the tasks that need to be carried out, we are energetically pushing forward with R&D to create the new products, businesses and solutions that will be needed in the society of the future, as well as the core components and innovative production technology that are indispensable to them.

The development projects we are currently working on include energy solutions that deliver, at the lowest cost and with outstanding environmental performance, the electric power and fuel required by customers not only in Japan but also in emerging nations and elsewhere; and

superconducting motors with compact bodies that generate enormous power. In addition, to build a hydrogen-utilizing society in which energy is supplied by hydrogen-based fuel and our streets are busy with fuel cell vehicles, we are engaged in developing technologies based on the concept of the CO<sub>2</sub>-free hydrogen chain, which combines the benefits of stable energy supply with CO<sub>2</sub> reduction. These technology development projects, in areas from the production and transport of hydrogen to its storage and utilization, are being tackled enthusiastically through teamwork involving relevant business divisions, Head Office divisions, and the Corporate Technology Division in an approach that emphasizes commercial viability and includes tie-ups with experienced external partners.

### Minoru Makimura

Senior Vice President,  
General Manager,  
Corporate Technology Division



## Topic Automated iPS Cell Culture System



Automatic operation of cell culturing



Appearance of the system

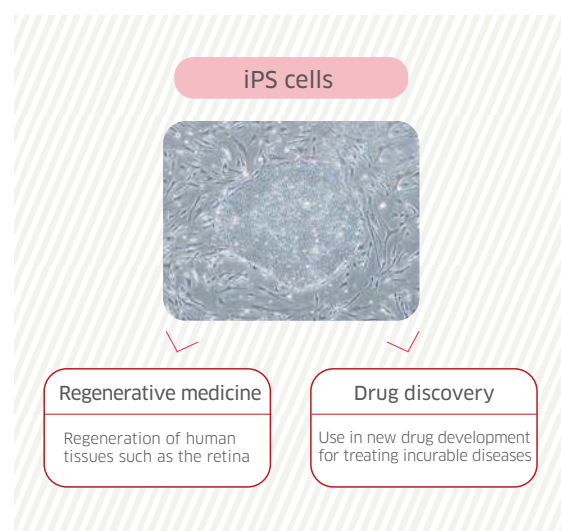
Since the KHI Group commercialized Japan's first industrial robot in 1969, we have applied robot technology in many different areas and strived to advance its technology.

One example is the automated cell culture system, developed with an eye to medical treatment in the future, which utilizes the advanced control, mechanical and cleaning technology that we acquired in developing robot technology for semiconductor manufacturing equipment.

Cell culture operations are largely performed by experienced technicians who skillfully handle equipment and chemical solutions. We have automated this delicate procedure using our robot technology. In 2008, the Plant & Infrastructure Company began selling our automated cell culture system as an "expert that never gets tired" and that stably performs mass cell culturing, and it has already been used in the field of drug discovery. Induced pluripotent stem (iPS) cells are versatile cells that can grow into any cell type. They are expected to be used in developing drugs for diseases that have no effective cure, such as Parkinson's disease, and in regenerative medicine. To realize practical use of iPS cells, stable culturing of high-quality iPS cells is needed. In June 2010, using our automated cell culture system, we succeeded in automatic culturing of iPS cells for the first time in the world.

Currently, we are collaborating with the Center for iPS Cell Research and Application, led by Professor Shinya Yamanaka of Kyoto University, as a member of a research association working on a project\* to accelerate the industrial application of stem cells. We are researching and developing technology for the mass culturing of high-quality cells. Meanwhile, as the first step to develop our business in the world market, we have begun research aimed at clinical use overseas through an international project\*.

We are working now on marketing (market creation) alongside the R&D outlined above and seeking to contribute to the future of medicine.



\* Projects supported by New Energy and Industrial Technology Development Organization (NEDO)



# KHI Group CSR

## Building the KHI Group CSR Framework, and Issues for Action

The KHI Group's CSR activities embrace five themes. Within each theme, we have established individual categories, for each of which there are set action goals.

### Five Themes

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

- Value Creation
- Management
- Employees
- Environment
- Social Contribution

There is a wide range of expectations from society regarding business enterprises. We collect and collate information on these from a number of sources including customer suggestions, CSR surveys conducted by nonprofit and other organizations, and ISO 26000 core issues. Based on this information, we identify issues for action within each theme that we, as the KHI Group, should tackle.

During the period of the Medium-term Business Plan 2010 (FY2011-2013), 85 items were established as issues for action. These were subject to self-assessment regarding the current status, and corresponding action plans were

formulated. They aimed to remedy deficiencies and further improve strengths, and were followed up with a Plan-Do-Check-Action (PDCA) cycle. (Progress with action on each of the issues is reported by theme on pages 29-84.)

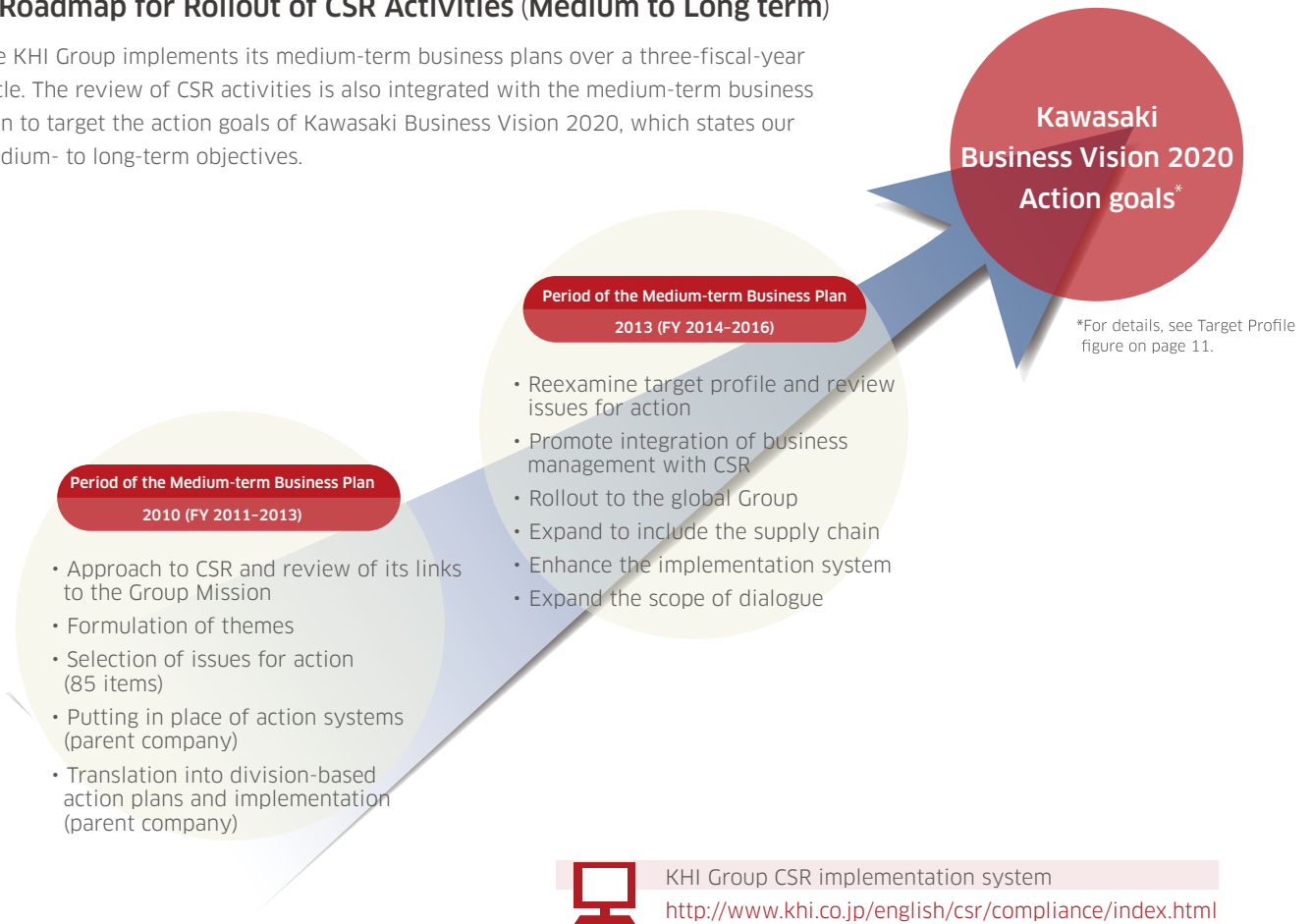
At the end of fiscal 2013, we decided to review the issues based on developments over the previous three fiscal years to prepare for further progress during the period of the Medium-term Business Plan 2013 (FY2014-2016). For details on each issue, please refer to the theme-by-theme report.

### Categories and Action Goals

Categories		Action goals
Overall	CSR overall	Realize the Group Mission (KHI's duty to society) at a higher level.
Value Creation	Product development	Draw on comprehensive Group capabilities and apply sophisticated technologies to the development of high-performance, high-quality products.
	Product liability	Provide products and services that are reliable and safe from the customer's perspective.
	Customer satisfaction	Provide products and services that meet customer needs and leave a very positive impression.
Management	Corporate governance	Pursue sound, transparent management, enable each business segment to operate independently, and demonstrate the combined strengths of the Group.
	Compliance	Build an organization that is open and self-regulating to underpin a corporate culture with credibility.
	Risk management	Pinpoint major risks that threaten the achievement of business targets and establish a system capable of providing the most appropriate responses.
	Information security	Institute reliable information security measures and maintain the safety and security of information.
	Information disclosure, IR activities	Provide timely, accurate corporate information and further enrich the content of disclosure.
	Business partners	Coexist with business partners and maintain fair partnerships while promoting collaboration in CSR activities.
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.
	Human resources development	Consistently cultivate the skills of employees, refine acquired talents, and raise the value of personnel assets to the highest level.
	Human rights	Respect the diversity of employees and strive to create a workplace that embraces wide-ranging values and abilities and utilizes them to the full.
	Labor	Endeavor to create a workplace that provides motivation and satisfaction and one in which employees are treated fairly and appropriately.
Environment	Global environment	Strive to realize a low-carbon society, a recycling-oriented society, and a society that coexists with nature.
Social contribution	Local communities and Japanese society	Coexist and cooperate with local communities and help nurture new generations that will develop future "dream" technologies.
	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.

■ Roadmap for Rollout of CSR Activities (Medium to Long term)

The KHI Group implements its medium-term business plans over a three-fiscal-year cycle. The review of CSR activities is also integrated with the medium-term business plan to target the action goals of Kawasaki Business Vision 2020, which states our medium- to long-term objectives.



\*For details, see Target Profile figure on page 11.

**Measures during the Medium-term Business Plan 2013 (FY2014-2016)**

Based on the issues for action in our Medium-term Business Plan 2010 (FY2011-2013), we launched a fresh appraisal that factored in newly received customer suggestions and the evaluation items of the overseas SRI index (the socially responsible investment index, which includes important investment criteria on the corporate financial situation as well as environmental and social activities and other factors).

Our approach is to set a relatively loose target profile, take effective action according to separate divisional action

plans for each fiscal year, and follow up with a PDCA cycle.

To achieve a more concrete picture of what society expects from the KHI Group, we also organize a Dialogue with Experts. (Please see page 85 for information on the fiscal 2013 dialogue.) Viewing them as representative of stakeholders' opinion, we reflect the experts' insights and comments in our CSR activities. This activity will be continued and expanded in fiscal 2014 and thereafter.

The target profile for the broad range of our CSR activities is set out below. The target profile for each theme is indicated on the page dedicated to the individual theme.

Target profile	Measures
Clearly state the KHI Group's social responsibility that is communicated to employees Group-wide, and have an implementation system in place	<ul style="list-style-type: none"> <li>• Update CSR and communicate to the Group</li> <li>• Support global operations (coordinate with the CSR Division and others)</li> <li>• Ensure familiarity with CSR through site meetings</li> </ul>
Listen to stakeholders' opinion and reflect it in corporate activities and business operations	<ul style="list-style-type: none"> <li>• Continue and expand dialogue, and integrate the SRI index into CSR activities</li> <li>• Enhance labor-management negotiations and direct dialogue between managers and employees</li> </ul>
Respect the Global Compact, UN Millennium Development Goals, ISO 26000, and other international CSR-related codes of conduct	<ul style="list-style-type: none"> <li>• Promote action on human rights issues at the global Group level</li> </ul>

# 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

## Overview of Activities during the Medium-term Business Plan 2010 (FY2011–2013)

Initiatives to improve product safety, product quality, customer satisfaction and other areas of our operations have been a focus of energies since our establishment as a manufacturer. To visualize this process as a way to promote further improvement, in 2011 all internal companies carried out a product safety self-assessment based on product quality and activity level, in which the degree of development of the quality management system was used as an evaluation index. In the field of customer satisfaction, the evaluation methods used vary due to the

differing nature of the products handled by our business segments. We therefore carried out an internal survey to determine which structures each of our internal companies has in place and how these operate, and shared the survey results as part of Group-wide activities.

As a task for the future, we aim to create links across a broader front between our business operations and action to resolve issues in society. This action will include identifying social issues and undertaking dialogue with new stakeholders.

### ■ Self-Assessment of Activities

Category	Action	Annual self-assessment (average)		
		FY2011	FY2012	FY2013
Product development	Efforts to create new markets and develop new customer value	★★★★☆	★★★★☆	★★★★☆
Product liability	Clearly delineated product safety assurance system involving senior management	★★★★★	★★★★★	★★★★★
	Clearly delineated product quality assurance system involving senior management	★★★★★	★★★★★	★★★★★
	Clearly stated quality policy and quality assurance activity in line with the policy	★★★★★	★★★★★	★★★★★
Customer satisfaction	Initiatives to improve customer satisfaction reflecting customer satisfaction surveys	★★★★☆	★★★★☆	★★★★☆
	System for reporting customer suggestions and complaints to senior management of business divisions and achieving relevant improvement	★★★★☆	★★★★☆	★★★★☆

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

## Measures during the Medium-term Business Plan 2013 (FY2014–2016)

Target profile	Measures
We are aiming to contribute to a sustainable society through our business operations and products	Each internal company is formulating its own plan to achieve "value creation through business".
We are working to further improve quality and product safety so as to make products that customers trust	
We are monitoring customer satisfaction to achieve further improvement	

In our CSR Reports for FY2012 and FY2013, the reports on product safety, improvement of product quality, and improvement of customer satisfaction were presented in order by business division. This year's report adopts the same format.

# Topic 1 Initiatives for Product Safety Rolling Stock Company

## Rolling Stock Crash Safety



**Atsushi Sano**  
 Manager, Carbody Structure Engineering Section, Development Engineering Department, Engineering Division, Rolling Stock Company

Rail is a public transit system that offers excellent punctuality and safety and is also friendly to the global environment.

The Rolling Stock Company delivers rolling stock that meets the full range of needs to customers around the world, playing an important role in the provision of public transit services.

Improvement of rolling stock safety is a responsibility of this role. Specifically, further enhancement of safety in the event of a crash is a priority for our customers in the rail industry and society as a whole. Based on the scenario of a collision with an automobile at a railroad crossing, or a collision between two trains, the task is to control the way each rail car body "crushes" at the time of impact to protect the passenger compartment and enhance customer and driver safety.

With automobiles, the usual approach is to carry out a crash test using an actual vehicle, but since rolling stock is much larger in size and weight, a crash test using an actual rail car would be a major undertaking and is therefore impractical in terms of cost and time. Accordingly, numerical simulation is the main method used when verifying the crash safety of the many different types of rail car. This makes it essential to develop the relevant technology and ensure its accuracy.

To evaluate safety during a crash, we start with the impact-absorbing elements at the level of the individual

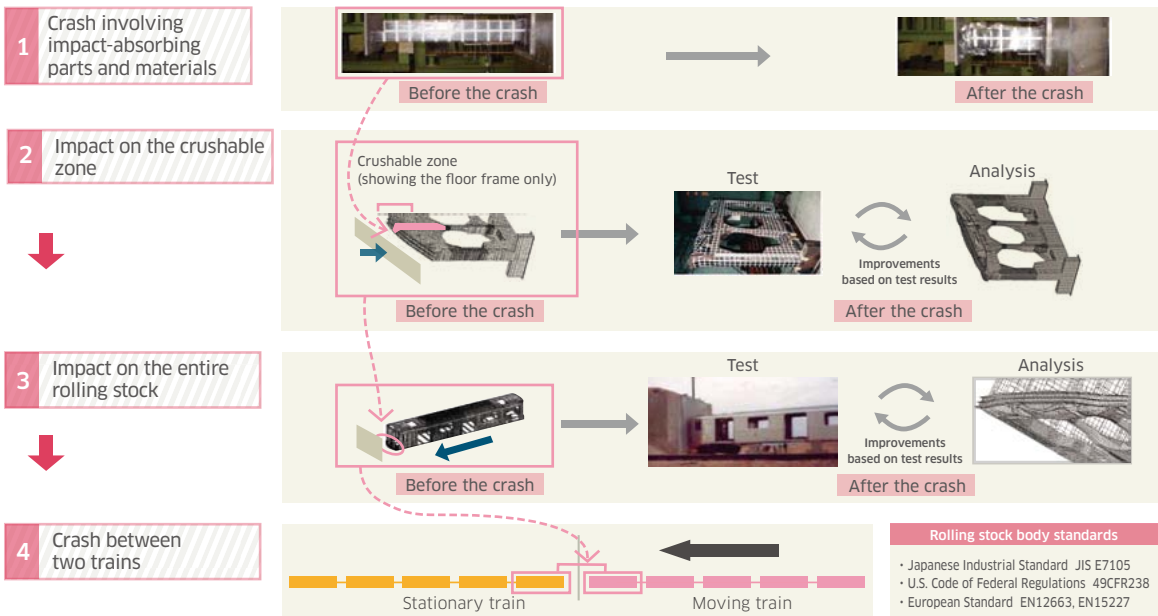
parts and materials and continue through to the elements that affect the behavior of the entire rail car as well as the entire train, building upon component technologies step by step to assess the safety of the entire rail car.

Numerical simulations along with verification tests that use an actual physical unit of each component are the drivers of improvement in crash safety verification technology. Numerical simulations backed up by verification tests make it possible to assess the crash safety of rail cars. In 1999, the Rolling Stock Company carried out a test in which an actual rail car designed for overseas export was crashed into a wall. The simulation and the test results showed a very high degree of consistency. As a result, we received the Best Paper Award in the Rail Transportation Division from the American Society of Mechanical Engineers. The Rolling Stock Company was the first Japanese rail car manufacturer to tackle the issue of crash safety, and is proud of having steadily built up the relevant technologies through tireless efforts in R&D.

In the development of high-speed rolling stock for Japan and overseas markets, we supplement the crash safety technologies and the knowledge and experience of the Rolling Stock Company through application of crash safety technologies developed by other companies. These are used, for instance, to design the obstacle deflector for the front car of a train or to create car body structures that enhance operability for the driver while providing protection from potential dangers such as bird strikes.

Going forward, we are committed to continuing with our dedicated efforts that will rapidly achieve the improvement in rolling stock safety that society wishes to see.

### Verification of Safety in the Event of a Crash



## Topic 2

### Initiatives for Product Quality Improvement

### Motorcycle & Engine Company

#### Continuous and Horizontal Quality Assurance Activity



Takeo Tsubonouchi (upper left)

Manager, Quality Control Section, QA Administration Department, Quality Assurance Division, Motorcycle & Engine Company

Our company is the only division within KHI that delivers goods directly to consumers.

We manufacture and deliver to world markets a wide range of products including motorcycles, all-terrain vehicles (ATVs), recreation utility vehicles (RUVs), utility vehicles, Jet Ski personal watercraft, and general-purpose gasoline engines. Of these products, the Ninja series and Z series in particular are loved by riders around the world and have become a byword for Kawasaki motorcycles. In 2013, we released new models for 2013, the Ninja ZX-6R, Ninja 300, and Ninja 250 and the Z800 and Z250, assembling a wide-ranging product lineup that has enjoyed popular acclaim.

To continuously raise brand strength by delivering attractive products and services that inspire customer confidence and satisfaction, we need to not only assemble a comprehensive product lineup but also manufacture all products to an excellent level of quality.

In the development process, comprehensive quality checks are carried out at intermediate stages by relevant divisions. If a set quality level is not reached at internal design review meetings, the product is not allowed to proceed to the next stage. This system guarantees quality in the models we develop.

Meanwhile, our manufacturing divisions continue to work hard maintaining and improving quality through continuous quality improvement activity and carry out a stringent quality inspection of each unit on final inspection area at mass production lines, ensuring the quality of the products we deliver to customers.

Quality assurance activity is not a task limited to our company, however, but also needs to embrace our suppliers. Of the parts used in our products, the essential items are manufactured in-house, but a large number of other component parts are sourced from suppliers. Cooperation by both parties in activities to maintain and improve product quality is therefore another important aspect of quality assurance activity.

In addition, after a sale is completed, we continue to constantly gather information and suggestions from sales bases at the market frontline and from customers. We use the information we obtain in product development and quality improvement.

Today, our procurement and production activity is rapidly globalizing, and we therefore need to approach related quality assurance activities from a global angle. The quality assurance activity that has underpinned Japanese manufacturing is evolving to a still higher level.



Final Inspection at the Akashi Works

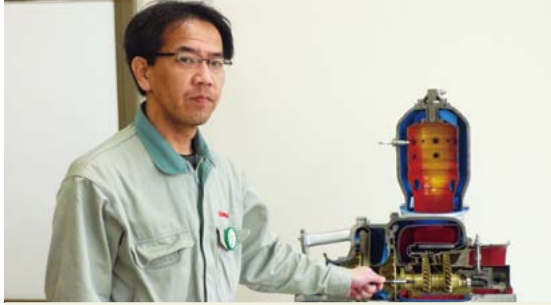


Final Inspection at the Thailand Works  
(Kawasaki Motors Enterprise (Thailand) Co.,Ltd.)



## Topic 3 Initiatives to Improve Customer Satisfaction Levels Kawasaki Machine Systems, Ltd.

### Human Resources Development to Improve Customer Satisfaction



**Masayoshi Yokoo**

Deputy Section Manager, Engineering Control Section, Administration Department, Gas Turbine Service Coordination Division, Kawasaki Machine Systems, Ltd.

Kawasaki Machine Systems, Ltd. (KMS) is a company that carries out sales and after-service for gas turbine emergency generator sets, mobile gas turbine generator sets, and gas turbine pump driven units; and servicing for gas turbine co-generation systems. All of the above are manufactured and/or engineered by Kawasaki Heavy Industries, Ltd. (KHI).

Especially in the market for emergency gas turbine generators, KMS and KHI have kept the top share of the domestic market for the 34 years since market studies began in 1979, delivering high satisfaction to customers. The achievement of the top share is due not only to advantages in product performance and quality, but also to sales service and attentive after-sales performance.

The KMS Service Coordination Division operates a unique licensing system to cover its maintenance operations. KMS has created its own licensing system under which the company gives licenses to

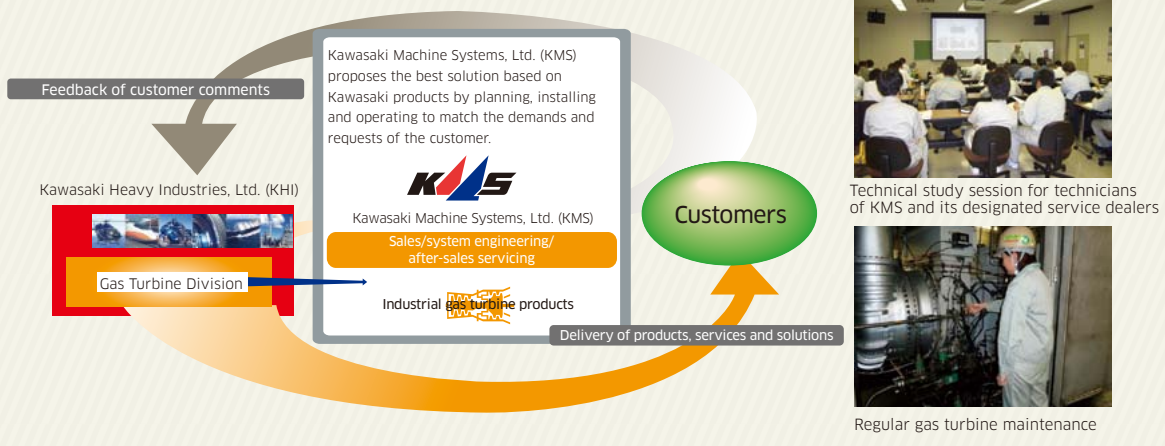
both its own technical staff as well as to the staff of its 32 service dealers following training and education. Currently, around 400 service experts are active in providing maintenance services.

The KMS Service Coordination Division provides practical training and a lecture and examination program leading to issue of the maintenance expert certificate in four levels from first grade to fourth grade. For each grade, trainees undertake a fixed period of practical exercise combined with regular classroom lectures and examinations, allowing them to progress to the next certificate grade. KMS puts great effort into this program to produce staff with more advanced work skills and responsibilities. In this way, KMS and all service dealers are concentrating on education and human resources development.

At the time of the Great East Japan Earthquake in 2011, the operating rate of KMS gas turbine emergency generator facilities located in the main disaster area reached a value of 99.9%, which indicates the very high degree of reliability of our product. We believe this high performance was achieved thanks to the underpinning of high-quality service provided by our well-trained technicians and staff.

The goal of KMS is to achieve the No. 1 level of customer satisfaction in the market by maintaining close relationships with customers through speedy, reliable, and honest sales and service activities.

### Business Model That Reflects Customer Comments



# 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

## Overview of Activities during the Medium-term Business Plan 2010 (FY2011-2013)

During the period of the Medium-term Business Plan 2010, appointment of independent corporate officers (from fiscal 2011), holding of dialogues with experts (from fiscal 2012) and appointment of outside directors (fiscal 2013) were among the steps we implemented to gain the opinions of people outside our organization and thereby achieve higher levels of fairness, transparency and efficiency. In addition, in April 2011 we formulated and published our

Basic Policies for Material Procurement, followed by our CSR Procurement Guidelines in April 2012, both of which helped lay the foundations for CSR activities in the supply chain.

Going forward, we intend to intensify activities in the parent company and expand the scope of activities through rollout to subsidiaries and business partners in Japan and overseas.

### Self-Assessment of Activities

Category	Action	Annual self-assessment (average)		
		FY2011	FY2012	FY2013
Corporate governance	System according to which the company president listens directly to employee comments	★★★★☆	★★★★☆	★★★★☆
	Appointment of outside directors	★★★☆☆	★★★★☆	★★★★☆
	Familiarity throughout the organization with the corporate Mission Statement	★★★★☆	★★★★☆	★★★★☆
	Operation of a system for regular and comprehensive internal audits and reporting of results	★★★★☆	★★★★☆	★★★★☆
Compliance	Familiarity throughout the organization with codes of conduct and a code of corporate ethics	★★★★☆	★★★★☆	★★★★☆
	Access to reporting and consultation contact point	★★★★☆	★★★★☆	★★★★☆
	Provisions to protect whistleblowers	★★★★☆	★★★★☆	★★★★☆
	Evaluation of effectiveness of compliance and ethics training	★★★★☆	★★★★☆	★★★★☆
	Full compliance with local laws and regulations in overseas business operations	★★★☆☆	★★★★☆	★★★★☆
Risk management, Crisis management	Establishment of a corporate risk management system and operating framework	★★★★☆	★★★★☆	★★★★☆
	Evaluation of the effectiveness of corporate risk management	★★★★☆	★★★★☆	★★★★☆
	Identification of major risk at subsidiaries	★★★☆☆	★★★★☆	★★★★☆
	Formulation of a business continuity plan (BCP), and regular evaluation and revision	★★★☆☆	★★★★☆	★★★★☆
Information security	Publication of a policy for protection of confidential corporate information	★★★★☆	★★★★☆	★★★★☆
	Preparation of a backup and recovery plan, periodic revision	★★★★☆	★★★★☆	★★★★☆
Information disclosure, IR activities	Well-developed communication with shareholders and investors	★★★★☆	★★★★☆	★★★★☆
Business partners	Formulation and publication of the Basic Policies for Material Procurement	★★★★☆	★★★★☆	★★★★☆
	Requirement that business partners undertake CSR management and provision of assistance	★★★☆☆	★★★★☆	★★★★☆

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

## Measures during the Medium-term Business Plan 2013 (FY2014-2016)

Target profile	Measures
Targeting further improvement of corporate governance	<ul style="list-style-type: none"> <li>• Introduce and increase outside directors, consider measures to strengthen governance and internal control</li> </ul>
Familiarizing all employees with the code of corporate ethics and code of conduct	<ul style="list-style-type: none"> <li>• Enforce individual corporate ethics guidelines at all Group companies</li> <li>• Strengthen measures to prevent irregularities at provincial and small-scale operating sites</li> </ul>
Targeting further improvement of an array of information protection measures	<ul style="list-style-type: none"> <li>• Improve the security level to protect against confidential information leakage risk</li> <li>• Full-scale rollout of IT audit</li> </ul>
Targeting further improvement of shareholder and investor communication	<ul style="list-style-type: none"> <li>• Review information disclosed and disclosure methods, enhance IR events</li> <li>• Hold regular factory tours for shareholders</li> </ul>
Promoting cooperation with business partners in CSR management	<ul style="list-style-type: none"> <li>• Promote formulation of CSR procurement guidelines at all Group companies</li> </ul>

### Topic 1 Appointment of an Outside Director

At KHI, directors with an intimate knowledge of the Company's business operations are charged with formulating business strategy and supervising the execution of operations, while four corporate auditors, including two outside corporate auditors with no conflict of interest relating to the Company, fulfill a management oversight function. This system has thus far ensured efficient execution of business operations.

However, with business expansion proceeding rapidly at the global level, we made the assessment that, to maintain sustained growth by responding flexibly to the changing environment, we needed to welcome onto the Board of Directors a member who, drawing on a rich array of experience and specialist knowledge in areas outside KHI's business domain, would be able to provide appropriate opinions and advice from a standpoint that was objective and

independent, relative to that of the Board members responsible for the execution of operations. We accordingly appointed Yoshihiko Morita as an outside director.

Based on his range of activities, including experience of business management from a global perspective at the Japan Bank for International Cooperation and his position as president of the Japan Institute for Overseas Investment, we believe that Mr. Morita is in a position to provide useful opinions and advice relevant to decision-making on important matters relating to corporate business management and also to play a full role in the supervision of business execution.



**Yoshihiko Morita**  
Outside Director

### Topic 2 Holding of First Factory Tour for Shareholders

On March 12-13, 2013, we organized the first-ever factory tour mainly for individual shareholders at Nagoya Works 1. The participants were shareholders selected by lot from among the many applicants, whose numbers exceeded the places available.

At our factory, the participants eagerly viewed operations including an autoriveter that automatically assembles the joints of Boeing 777 fuselage panels and an autoclave that fuses at high temperature the Boeing 787 forward fuselage, which is made of carbon fiber composite.

Going forward, we will actively organize additional events of this kind as a forum for communication with shareholders and an opportunity for shareholders to gain a deeper understanding of our business operations.



Watching an autoriveter at work on Boeing 777 panels

#### The case regarding potential infringement of Act Concerning Elimination and Prevention of Involvement in Bid Rigging etc. in receipt of orders for the new multi-purpose helicopter (UH-X)

In regard to the receipt of orders for the new multi-purpose helicopter(UH-X), questions were raised regarding potential infringement of the Act Concerning Elimination and Prevention of Involvement in Bid Rigging etc., and an investigation was undertaken by the Tokyo District Public Prosecutor's Office.

However, the case against KHI and its associates was not prosecuted as a result. Nevertheless, KHI has been recognizing the importance of compliance.

To prevent a recurrence of the situation, KHI will enhance efforts to ensure full compliance.



For more detailed coverage, please see the full report.

[http://www.khi.co.jp/english/csr/report/2013/index\\_full.html](http://www.khi.co.jp/english/csr/report/2013/index_full.html)

# Corporate Governance System

## Corporate Governance

At KHI, the basic stance on corporate governance is to increase the corporate value of the Group as a whole through highly transparent, efficient, together with sound management practices and solid relationships forged with all stakeholders, including shareholders, customers, employees and the community.

## Overview of the Corporate Governance System

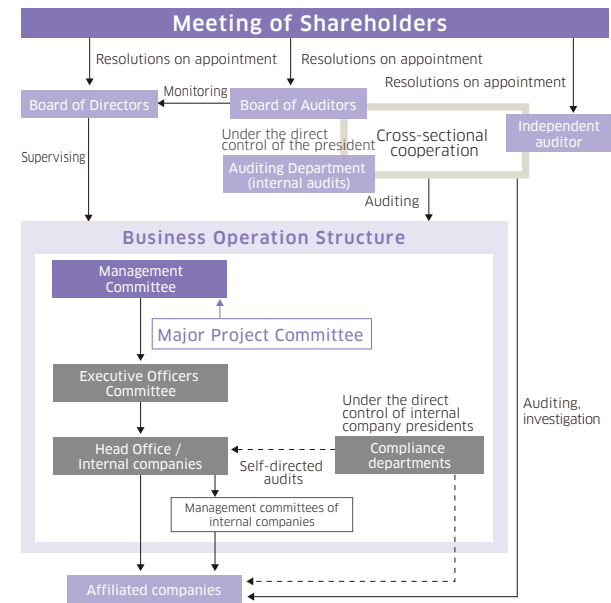
The Company has opted for the statutory auditor system with a Board of Auditors and has appointed independent auditors. With regard to corporate auditors, the Company appoints internal corporate auditors with considerable knowledge of finance and accounting as well as two outside corporate auditors with no business relationships or other potential conflicts of interests in the Company.

To protect the interests of minority shareholders, all stock exchanges require listed companies to include independent directors. Accordingly, KHI has appointed a number of outside directors.

The Board of Directors appoints executive officers to execute operations. The Board of Directors decides the basic objectives and policies for the execution of operations under the prevailing management plan and promptly issues directives for implementation to all executive officers. The Executive Officers Committee ensures that the objectives and policies are implemented.

KHI has a Board of Directors, the Management Committee consisting of representative directors and other relevant officers, and the Executive Officers Committee, which additionally includes the executive officers. As explained in the previous page, in fiscal 2013, we welcomed outside directors onto the Board to promote higher levels of efficiency and transparency in our business execution. To provide a clear delineation of their management responsibilities, directors' compensation is incentive-based to reflect performance, and their term of office is limited to one year. The Management Committee generally meets three times a month to discuss management policy, management strategy and other important management issues from a Group-wide perspective.

Governance Structure of KHI



## Board of Directors Meetings

The KHI Group has 10 directors, who engage in active exchanges of opinion at meetings of the Board of Directors.

In fiscal 2013, there were 13 meetings of the Board of Directors and the directors' attendance rate was 98.2%.

Number of Board of Directors Meetings, and Directors' Attendance Rate (Including Extraordinary Meetings)

	FY2011	FY2012	FY2013
Number of meetings	13	14	13
Directors' attendance rate	98.0%	98.7%	98.2%
Auditors' attendance rate	100%	100%	95.8%
Outside corporate auditors' attendance rate	100%	100%	100%

## Board of Auditors Meetings

The Board of Auditors consists of two full-time corporate auditors and two outside corporate auditors.

In fiscal 2013, there were 17 Board of Auditors meetings and the attendance rate of the outside corporate auditors was 100%.

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

	FY2011	FY2012	FY2013
Number of meetings	17	17	17
Auditors' attendance rate	100%	100%	100%
Outside corporate auditors' attendance rate	100%	100%	100%

## Corporate Officers' Compensation

The compensation system for KHI directors and corporate auditors—which is designed to promote sustained improvement in corporate performance and corporate value and to secure outstanding human resources—ensures a level of compensation in line with the duties of the individual officer. Based on a policy of linking directors' compensation to corporate performance, the level is determined by the company president on request from the Board of Directors.

To promote their professional independence, the compensation of corporate auditors is set at a fixed level not linked to corporate performance, and 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 the General Meeting of Shareholders.

Amount of Corporate Officers' Compensation (in Fiscal 2013)

Category	Total amount of compensation (millions of yen)	Total amount of compensation by type (millions of yen)	Number of corporate officers eligible for compensation
Directors	739	739	15
Corporate auditors	70	70	3
Outside corporate officers	17	17	2

Note: The Company abolished retirement benefits and does not pay bonuses or offer stock options to directors, corporate auditors or outside corporate officers.

## Auditing Structure and Status

### Internal Auditing

The Auditing Department, an internal auditing unit under the direct authority of the president, 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 if audits indicate a need for improvement.

### Statutory Auditing

Corporate auditors attend various meetings, including those of the Board of Directors and the Management Committee. They also review important documents and check the status of business operations and financial assets through periodic meetings with representative directors and business audits of corporate divisions and subsidiaries. In addition, two outside corporate auditors ensure the objectivity and neutrality of the management oversight function, and the full-time corporate auditors and outside corporate auditors share information and strive to enhance this function still further.

## Independent Auditing

With regard to independent auditing, KHI undergoes audits of its financial statements conducted by the independent auditor KPMG AZSA LLC. The 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. The corporate auditors and the Board of Auditors periodically receive reports on the results of independent auditing and strive to keep lines of communication open with the independent auditor by exchanging information and opinions.

## Compliance

### 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.

### Compliance Promotion Structure



## Distribution of Compliance Guidebook

In July 2012, a completely revised issue of the Compliance Guidebook was published and 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.

## Compliance Declaration

KHI requires that executives and employees in administrative positions (section chief and above) submit a handwritten statement declaring their intention to observe laws and regulations.

## Developing a Deeper Awareness of Compliance

Starting with an explanation of the KHI Code of Corporate Ethics, which represents the basic principles underpinning the KHI Group's corporate ethics, the Compliance Guidebook states a large number of fundamental matters to be observed as a responsible corporate citizen, such as not associating with anti-social organizations and prohibiting corrupt practices.

To promote understanding of the content of the Compliance Guidebook and strengthen compliance awareness among employees, a Group-wide compliance initiative covering all employees was rolled out in fiscal 2013 under the title of Compliance Check using the Compliance Guidebook.

In concrete terms, this initiative consisted of an e-learning program for those with computer access; for those without computer access, a member of the management team read out passages from the Compliance Guidebook to junior staff in the workplace and provided explanations. The e-learning program was completed by around 18,830 staff, or more than 99% of those eligible.

In addition, to verify the effectiveness of such approaches in raising awareness of compliance issues, in February 2012 we directed a compliance awareness survey of all employees and temporary staff at Group companies in Japan.

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

In certain situations, employees 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.

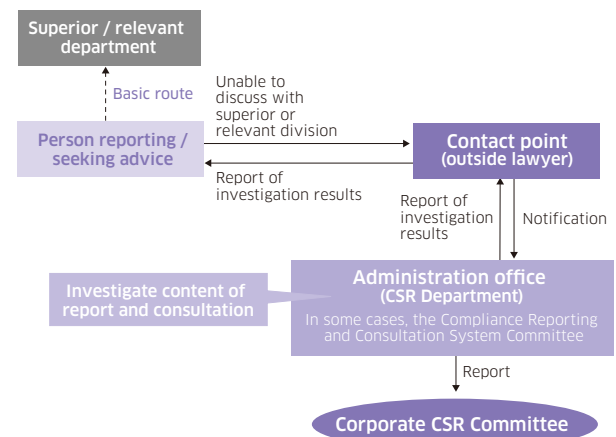
Under our compliance reporting and consultation system, reports from staff with concerns are heard by an outside lawyer who can be contacted directly for advice and consultation. The substance of the report is then investigated and an assessment is made as to whether a violation has occurred. After a 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 2013, the system was used 20 times.

Number of Report or Consultation (in fiscal 2013)

Nature of report or consultation	Number of cases
Personnel treatment	9
Power harassment	8
Others	3
<b>Total</b>	<b>20</b>

Compliance Reporting and Consultation System Flow Chart



## Prohibition of Bribery and Corrupt Practices

Prevention of corruption in relations with public officials is addressed as one of the sections in the KHI Group Compliance Guidebook. As a further part of activities to promote awareness, the content of this section is also included in our program of education through e-learning. In April and May 2011, a document was distributed to sales staff in overseas sales divisions and overseas affiliated companies calling for comprehensive prevention of corrupt practices in relations with public officials in overseas operations. In fiscal 2014, a corporate regulation on prevention of corruption was laid down (Regulation on the Prevention of Corruption), in which the KHI Group set out its policy on the prevention of corruption and its approach to related initiatives.

## Promoting Corporate Ethics and Compliance Overseas

The KHI Group pursues business opportunities around the world and has many companies located abroad. Up to the present, a number of companies operating in emerging nations and small companies did not have policies in place to address corporate ethics and compliance.

As a result, in September 2011 we drafted the Kawasaki Global Business Ethics Guidelines, which cover items generally applicable in any country, and asked that companies without their own existing policies on corporate ethics and compliance adopt our Global Business Ethics Guidelines as their own.

Consequently, nearly all overseas companies\* of the KHI Group now have policies on corporate ethics and compliance.

\* Companies where the KHI Group's equity stake exceeds 50%.

## 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.

List of Risks Covered

Risk category		Risk name	Risk category		Risk name		
External risk	Hazard	Major disaster	Internal risk	Business risk (by division)	Interest rate rise		
		Accident (caused by third party)			Foreign exchange rate fluctuation		
	Politics/Society	Government or social stability			Financial affairs	Capital procurement	
		Legal or regulatory amendment				Financial management	
	Technology	Technological innovation				Management of pension assets	
	Market environment	Competitor companies				Company stock	
		Customer needs				Credit rating	
	Economic	Economic recession				Management	Budget/planning/management
Stakeholders	Shareholders/activists	Evaluation of business performance					
	Harmful rumors	Consistency of goals and strategies					
Human rights issue	Child labor/forced labor	Public relations			Media response		
Internal risk	Strategic risk	Vision			Effectiveness of vision	Business risk (by division)	Legal affairs
		Decision making		Expansion into new business areas	Response to legal action		
				Capital investment	Information processing/IT		Information leakage
		Corporate acquisition/merger		Network/system failure			
		Organization		Effectiveness of organizational structure	Information infrastructure		
		Brand		Kawasaki Value (brand)	CSR		CSR activity
	Corporate governance	Supervising of management		External reporting	Evaluation of internal controls		
	Sales	Sales strategy			Information disclosure		
		Collection of accounts receivable		Environment	CO <sub>2</sub> emissions		
		Customer response			Environmental pollution		
	Development	Development themes		Compliance	Irregular action by organization		
		Development capabilities			Irregular action by employees		
	Design	Design not coordinated with other relevant divisions			Harassment		
		Design capabilities	Compliance with corporate ethics, social norms, laws and regulations				
		Design quality	Anti-monopoly and fair trade laws				
	Procurement	Enforcement of CSR Procurement Guidelines	Export management				
		Procurement at appropriate price	Social contribution	Social contribution activity			
		Securing of stable procurement partners		Personnel/labor	Human resources/personnel deficiency		
	Management of procurement partners	Safety and health management					
	Warehouse	Inventory management (materials, work in process, products)	Labor management				
		Production	Insufficient production capacity		Personnel employment conditions		
			Production process management		Human rights issues		
			Production facilities		Business risk (cross-divisional)	Management capabilities	
	Engineering operations	Management of individual commissioned projects	Affiliated company management				
Quality assurance	Deficient product servicing	Communication					
Logistics	Management of logistics channels	Powers/restrictions					
	Export and import procedures	Operational efficiency					
Overseas	Country risk	Outsourcing					
	Business customs	Intellectual assets (knowledge/expertise)					
Domestic operating sites	Operation/maintenance	Intellectual property					
	Specific local conditions	Operational alliances					
Accounts	Accounting methods	Security					
	Financial reporting	Information sharing					
	Tax affairs	Credit management					
			Work environment				



## 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.

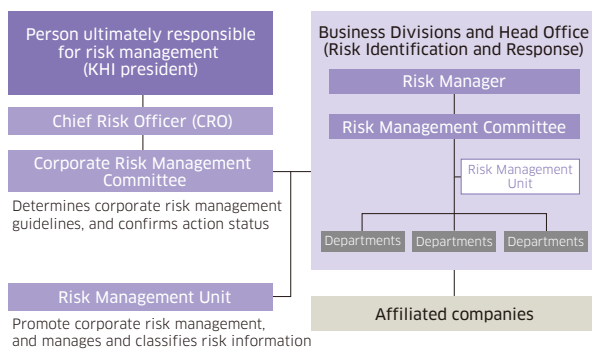
## Activities in Fiscal 2013

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.

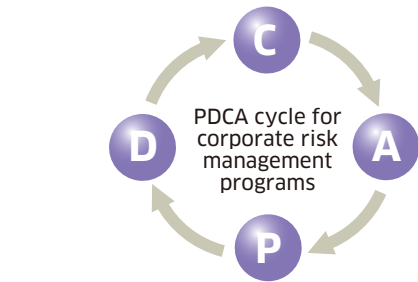
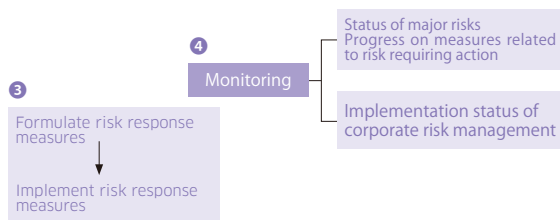
In concrete terms, this means that management of major risk at the Group-wide level is carried out by applying the following Plan-Do-Check-Act (PDCA) cycle to Group-wide risk management programs: (1) screening and evaluation of risk; (2) identification of major risk and specification of risk requiring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

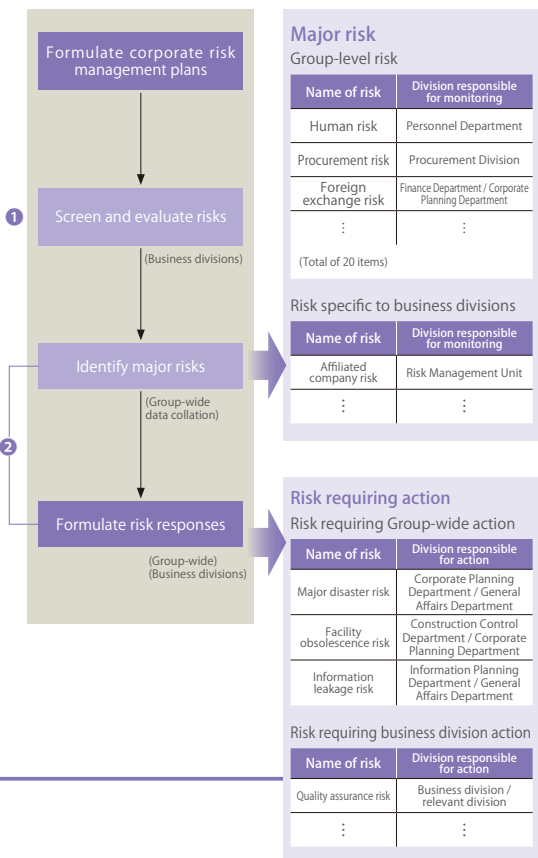
### Corporate Risk Management System



Corporate Risk Management Programs



Improvements in corporate risk management



**1 Screening and evaluation of risk**

In fiscal 2013, each division undertook a risk review beginning in January 2013 and the Risk Management Committee established a list of major risk items identified for each business segment.

**2 Identification of major risk and specification of risk requiring action (Identification of major risk)**

Data on major risk in each business division were collated and the significance level of the risks featuring in the collated data was discussed by the Corporate Risk Management Committee, which then identified major risk that could have a potentially serious impact on operations (Group-level risk) under 20 itemized categories.

Risk items other than Group-level risk are categorized as risk specific to the business segment, to be recognized and acted on by the relevant business segment.

For Group-level risk, a Head Office division responsible for monitoring is designated which carries out regular monitoring. Monitoring for fiscal 2013 took place in April 2013.

*(Specification of risk requiring action)*

Within Group-level risk, we specified three items where response was insufficient and Group-wide action was urgently necessary.

At the same time, each business division specified risk items to be acted on at the business segment level (risk requiring business segment action).

**3 Formulation and implementation of risk response measures**

In the case of risk specified as risk requiring Group-wide action, the Head Office division designated responsible for risk action formulates risk response measures, which are then referred to the Corporate Risk Management Committee for discussion and approval prior to implementation.

Likewise with risk requiring action by the business division, risk response is formulated and implemented at the business segment level.

**4 Monitoring**

*(Monitoring of major risk)*

Regarding major risk, in March 2013 the Risk Management Unit of each business division carried out monitoring of the significance, action level, and urgency of each risk item as part of fiscal 2014 risk revision operations.

In April 2013, as a specific measure for Group-level risk, the Head Office division responsible for monitoring carried out monitoring of whether the measures and structures designed to reduce the relevant risk were functioning effectively from a Group-wide perspective with reference to the business division monitoring results.

*(Monitoring of risk requiring action)*

Regarding risk requiring action (risk requiring Group-wide or business division action), in September 2012 and March 2013 the implementation status of risk response measures was subject to self-evaluation by the division responsible for action, the results of which were monitored by the Risk Management Unit. (Report of monitoring results to the Risk Management Committee)

Following the monitoring at business division level of major risk and risk requiring action, the results were reported to the Risk Management Committee of the business division.

Meanwhile, the monitoring results from Group-level risk and risk requiring Group-wide action were reported to the Corporate Risk Management Committee.

**Rollout to affiliated companies in Japan**

From the second half of fiscal 2012, Group-wide risk management programs were introduced at major domestic subsidiaries using the same methods as at KHI.

Since October 2012, we have also provided guidance to other domestic affiliated companies to carry out risk management programs. At other affiliated companies, the content of programs implemented at KHI was the starting point for adapting methods of implementation that would allow the programs to be introduced, sometimes in abbreviated or simplified form.

## Risk Identified as Group-Level Risk in Fiscal 2013

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 2013

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

## Risk Specified as Risk Requiring Group-wide Action in Fiscal 2013

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 2013

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
Information leakage risk	General Affairs Department / Information Planning Department

#### Action status

##### (1) Major disaster risk

In reaction to the disaster scenario published in September 2012 for an event involving the Nankai Trough off Japan's Pacific Coast, KHI enforced an enhanced Business Continuity Plan (BCP) that was completed by the end of March 2013. The key points of the plan and enhancements were as follows:

- (i) Confirmation of compatibility with the basic policy  
It was ordered that the enhanced plan should also be checked for compatibility with the basic policy approved at the Management Committee meeting of January 19, 2012, which designated functions that must be maintained in the event of a disaster.
- (ii) Revision in response to changes to the projected scenario  
Adaptations were made in response to the revision of the projected destruction scenario resulting from an event involving the Nankai Trough off Japan's Pacific Coast.
- (iii) Revision in response to organizational change, transfers of staff in charge, and other changes in the system  
BCP drills are carried out at all operating sites. After completion of each drill, a revision of the BCP should be carried out in light of the results of the drill.  
Measures were taken to put in place an emergency communication system, including drills in the use of emergency contact systems and satellite mobile telephones and improvements to the teleconferencing system.

##### (2) Facility obsolescence risk

For facilities judged to require urgent action in the obsolescence survey carried out in fiscal 2011-2012, response measures were completed in fiscal 2013, with a few exceptions. Response measures for other obsolescent facilities are proceeding according to plan.

##### (3) Information leakage risk

Measures effective in dealing with cyber attacks are judged to be early detection measures, measures to prevent connection to the computers used by criminals, and ongoing education and training for employees. Accordingly, self-analysis tools, access control, and other system-based action have been introduced and employee education is being carried out.

In addition, corporate regulations have been set out for the handling of documents in the process of creation (chiefly electronic documents).

## 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.

### Systems and Structures for Routine Response

In readiness for the event of a crisis, we have put in place a Crisis Management Organization to operate as a crisis management system integrated horizontally across the Group structure. The company president is the 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 has the role of assisting the Crisis Management Officer and undertakes the task of putting in place and maintaining a mobilization system that operates routinely 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.

### Reporting Route in Case of Emergency

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.

### Formulating a Business Continuity Plan (BCP)

The KHI Group has formulated a 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

The BCP is subject to continuous review and reinforcement. For details of activities in fiscal 2013, please see the Risk Management section in the preceding pages.

## 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.

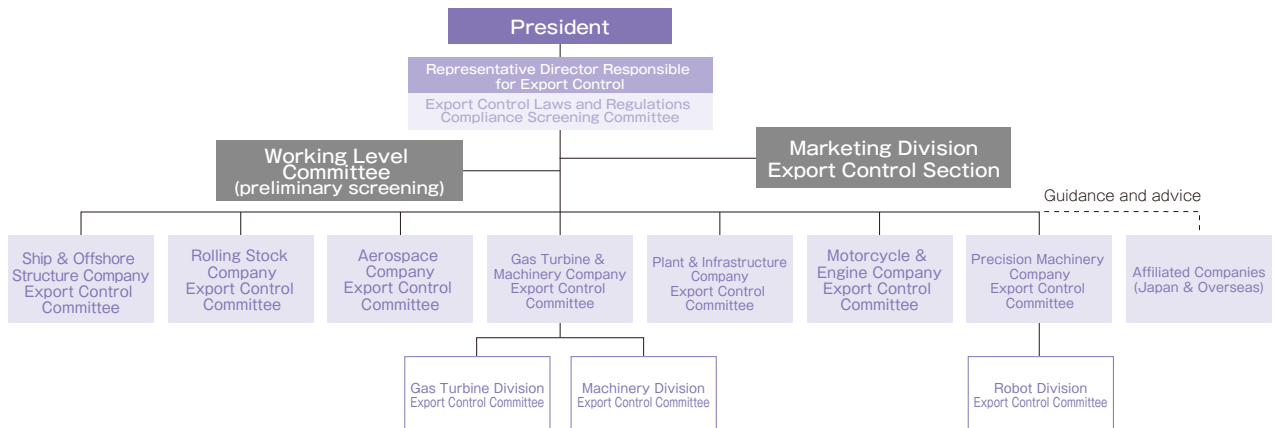
### Export Control System

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.

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 Structure



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.

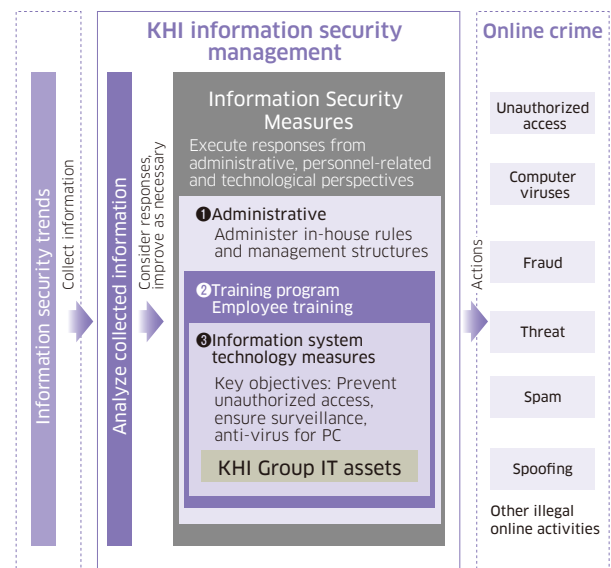
An export control audit is carried out jointly by the Head Office Auditing Department and the Head Office Export Control Section, which perform individual audits once a year of all internal companies and of major Group companies in Japan.

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

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 System



## Safeguarding Intellectual Property

KHI's basic policy on intellectual property derived from corporate R&D results is to secure patents and other rights domestically and overseas in a timely manner, to reduce risks associated with intellectual property matters worldwide and promote their full exploitation as highly valuable corporate assets. This policy also ensures technological superiority and safeguards our freedom to expand business activities.

To promote and manage 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

In accordance with 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 awarded after duly taking into consideration how the Company has benefited from the invention, using an evaluation standard that is 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.

## Relationship with Shareholders and Investors

### 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.



189th General Meeting of Shareholders, in June 2012

To avoid the period in which other shareholders' meetings are concentrated, we send out the convocation notice even earlier than the deadline required by law. In addition, we prepare an English-language version of our official Japanese-language convocation notice for the convenience of our shareholders overseas and post it on our website and elsewhere.

Shareholders who are unable to attend the meeting in person now have the option of exercising their voting rights through the Internet or by mobile phone.

At the meeting venue, we seek to present information, which highlights our business progress and results over the past year, in an easy-to-understand format utilizing video. Presentation materials from past meetings are available for viewing on our website.



#### General Meeting of Shareholders

<http://www.khi.co.jp/english/ir/meeting/index.html>

### 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 ¥5 per share for fiscal 2013, the year ended March 31, 2013.

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

	FY2009	FY2010	FY2011	FY2012	FY2013
Net income (loss)	¥7.02	¥(6.51)	¥15.55	¥13.95	¥18.46
Cash dividends	¥3	¥3	¥3	¥5	¥5

### IR Activities

We strive to disclose timely and fair business information, 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.

For institutional investors and analysts, we hold quarterly financial results briefings and organize factory tours. We also arrange individual meetings with institutional investors in Japan and overseas, and send management executives to visit institutional investors in North America and Europe. In addition to these and other activities, from fiscal 2013 we began factory tours mainly for individual shareholders. The main content of question and answer sessions at financial results briefings is published in the IR section of our website.

We use opinions expressed in the context of these IR activities as internal feedback and work to reflect them in our 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>

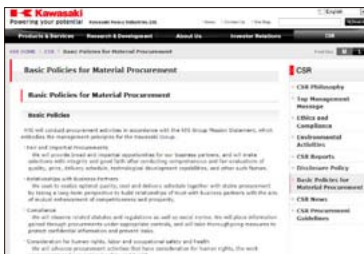
## Relationship with Business Partners

### Promotion of Procurement Activity Based on the Basic Policies for Material Procurement and Related Policies

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.

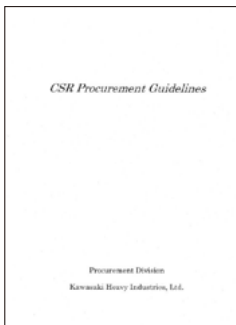
KHI's procurement activities reflect its approach to CSR in terms of compliance, human rights, labor health and safety, respect for the global environment, and other aspects. We also seek the support of our business partners in joint efforts to actively promote CSR activities throughout the supply chain.

Starting in fiscal 2014, we intend to successively roll out the guidelines to affiliated companies in Japan and overseas, to promote CSR-based procurement activity at the global Group level.



Basic Policies for Material Procurement

<http://www.khi.co.jp/english/csr/procurement/index.html>



CSR Procurement Guidelines

<http://www.khi.co.jp/english/csr/guideline/index.html>

### Reinforcing the “Partner” Sentiment in Partnership

We have organized cooperation-building associations for each business segment that have as their members business partners with whom the respective segment has developed particularly close ties.

These associations promote cooperation based on mutual trust between KHI and its business partners and help foster a sense of coexistence and coprosperity.

Specific activities, described below, reinforce the “partner” sentiment in our relationships with business partners.

- 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

### Promoting Green Procurement

In the area of green procurement, which aims to achieve product manufacture with a low environmental load, activities are coordinated with our business partners. As part of this approach, each business segment formulates guidelines to match its specific characteristics and requires its business partners to put in place environmental management systems (EMS) and to identify and monitor substances of environmental concern contained, for example, in parts and materials.

### 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.

- We run sessions for design and manufacturing divisions at plants and affiliates (in fiscal 2013, 23 sessions were held, attracting 725 participants).
- We distribute a collection of examples of violation of the Subcontractors' Act, highlighting actual situations that businesses need to be aware of.
- We have prepared a checklist for self-auditing compliance status pursuant to the Subcontractors' Act for posting on our internal website on April 1, 2013, and aim to boost awareness of the checklist to divisions other than those involved in procurement, design and manufacturing.

### Evaluation by External Bodies

As a company actively engaged in CSR activities aimed at sustainable development, KHI has been included since 2011 in the Morningstar Socially Responsible Investment Index (MS-SRI), calculated and operated by Morningstar Japan K.K. Among approximately 3,700 listed companies in Japan, Morning Star Japan K.K. selects 150 companies judged to demonstrate outstanding social awareness, and converts their stock prices into the index, which is Japan's first socially responsible investment index.



<http://www.morningstar.co.jp/sri/index.htm> (Japanese)  
(As of August 31, 2013)

# 3 Employees

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

As part of our efforts to fulfill the KHI Group's mission and operational goals, we consider our employees to be our most important resource. We engage in initiatives to build a supportive work environment where employees feel safe and comfortable and can show their full potential.

Categories	
Safety and health	Human resource development
Human rights	Labor

## Overview of Activities during the Medium-term Business Plan 2010 (FY2011-2013)

During the period of the Medium-term Business Plan 2010, we continued to promote diversity and created an information database covering our human resources in administrative and technical positions. These were among our initiatives to make the work environment even more supportive of employees seeking to demonstrate their

potential. Going forward, a particularly important task is awareness of child labor, forced labor, and other human rights issues. In this regard, we plan to ensure that employees both in Japan and overseas are fully informed on these issues as part of concrete initiatives to promote employee human rights awareness.

### Self-Assessment of Activities

Category	Action	Annual self-assessment (average)		
		FY2011	FY2012	FY2013
Safety and health	Operation of management system and continuous improvement	★★★★★	★★★★★	★★★★★
	Operation of health protection system for staff working overtime	★★★★★	★★★★★	★★★★★
	Action in excess of legal requirement in safety, health, mental healthcare, etc.	★★★★★	★★★★★	★★★★★
Human resource development	Publication of employee education policies and goals taking account of business strategy	★★★★★	★★★★★	★★★★★
	Publication of education policies and goals taking account of careers up to retirement	★★★★★	★★★★★	★★★★★
Human rights and labor	System of fair evaluation reflected in employment conditions	★★★★★	★★★★★	★★★★★
	Measures for promotion of women to managerial positions	★★★★★	★★★★★	★★★★★
	Measures for employment of people with disabilities	★★★★★	★★★★★	★★★★★
	Action to support staff combining work with childcare	★★★★★	★★★★★	★★★★★
	Dialogue with labor unions and employees	★★★★★	★★★★★	★★★★★

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

## Measures during the Medium-term Business Plan 2013 (FY2014-2016)

Target profile	Measures
Appropriate operation and continuous improvement of occupational safety and health management system with due consideration to employee safety and health	<ul style="list-style-type: none"> <li>Implement safety awareness education</li> <li>Strengthen mental healthcare</li> </ul>
Measures to maximize the personal value of employees	<ul style="list-style-type: none"> <li>Strengthen education for global human resources and put in place relevant systems and conditions</li> <li>Roll out human resources development programs to the entire Group</li> </ul>
Initiatives to promote employee human rights awareness	<ul style="list-style-type: none"> <li>No child labor or forced labor Group-wide</li> </ul>
Positive action for equal opportunities and diversity	<ul style="list-style-type: none"> <li>Support activities aimed at all female employees (4U (for you) Network)</li> <li>Recruit employees of overseas nationality, create employment promotion network for overseas nationals, etc.</li> </ul>
Strengthen initiatives to create a supportive work environment for employees	<ul style="list-style-type: none"> <li>Reinforce support for employees with childcare and care responsibilities</li> </ul>



## Topic 1 Strengthening Our Safety Management System

Guided by a spirit that calls for “respect for humanity” and “health first,” we strive to build a workplace atmosphere that gives foremost priority to safety and health, creating a safe and comfortable workplace environment that promotes both physical and mental health. Unfortunately, however, three serious accidents were recorded in 2012. This figure, the first since 1999, is a cause of great concern to us. To remedy the situation, we have formulated a safety reinforcement strategy to be implemented going forward. The key points are listed below.

1. Based on the view that the serious accidents arose from unidentified risk, we will seek to prevent accidents in advance by constantly strengthening the ability to identify

risk and carrying out risk assessment of each work procedure at every workplace, to comprehensively reduce latent risk in the workplace.

2. Instead of leaving safety management to veteran employees, we will enforce a set of rules whereby managers and supervisors are responsible for establishing a systematic safety management system based on observation of workplace procedures and for carrying out regular patrols and other measures.
3. We will seek ways to enhance mock training facilities to raise awareness and thereby encourage employees to take the initiative in avoiding unsafe practices.

## Topic 2 Opening of the Skills Academy Training Center at the Harima Works

The Skills Academy Training Center opened in March 2012 as an education and training facility for the Plant & Infrastructure Company located within the Harima Works. The center consists of a two-story building that houses on its first floor a welding training workshop, a practical training workshop for machine processing and finishing, an intensive training room, and an accident simulation training classroom. On the second floor are a lecture room with capacity of more than 90 students and other facilities including a small classroom and a stack room. This comprehensive educational facility stands amid a rich, green setting.

We have entered an era marked by a change in age structure, with few mid-level employees, and the retirement in large numbers of a generation of highly skilled employees. This means that passing on technical skills has become a difficult challenge for our manufacturing workplaces. Through synergies

with the existing skills academy-type training system, the Skills Academy Training Center is achieving results as a center for transmission of existing technical skills, cultivation of new technical skills, and accelerated training in technical skills and instructor skills.



The Skills Academy Training Center

## Topic 3 Enhanced Nursery Provision at Workplaces

A nursery opened at Kawasaki Motors Enterprise (Thailand) Co., Ltd., in April 2010. The nursery is available to care for employees' children aged between 1 and 4 years. As of March 2013, it is providing regular care for approximately 20 children. An additional 15 or so children are registered and are looked after when the need arises. The nursery is generally open from 7:30 to 17:15 to coincide with regular working hours, but if requested by more than a fixed number of employees, it is also made available during overtime or holidays.

The opening of the nursery means that parents can continue working with complete peace of mind, having left their children to be cared for nearby. From the employer's viewpoint as well, the loss of skilled human resources due to

childbirth or childcare is avoided, promoting a stable and committed workforce. The opening of the nursery has thus proved to be a measure with mutual advantages.

In Japan, meanwhile, from fiscal 2013, we began providing nursery facilities at the workplace on supplementary work days to offer childcare for limited periods.



The nursery of Kawasaki Motors Enterprise (Thailand) Co., Ltd.

## 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 (Non-Consolidated)

Number of employees 15,067 (14,237 men, 830 women)	<b>Breakdown by type of contract</b>	
	Full-time employees	14,195 (13,395 men, 800 women)
	Temporary employees	872 (842 men, 30 women)
	<b>By employment grade</b>	
	Managerial staff	3,150 (3,138 men, 12 women)
	General employees	11,917 (11,099 men, 818 women)

### 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.

#### 1 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 2013)

Grade-specific training type	New employee training	Training for section managers	Training for general managers	Training for board members
Number of participants	290	82	30	215 in total
Total number of man-hours	13,920	7,872	1,680	2,472

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

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



Technical Skill Grand Prix

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 2012, we began global recruitment of new graduates, targeting not only Japanese nationals who have studied at overseas universities but also non-Japanese graduates from overseas universities. As a result, in fiscal 2013, seven overseas nationals joined KHI.

#### New Graduate Recruitment

	FY2012		FY2013		FY2014	
	Men	Women	Men	Women	Men	Women
Administrative and technical positions	246	23	266	23	257	24
Production positions	176	2	210	4	183	3
Total	422	25	476	27	440	27

Staff turnover: of the 539 staff who joined KHI on April 1, 2009, 36 had left the Company three years later.

## 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 2013)

	Overseas business training	Language training (English)	Language training (Chinese)
Number of participants	48	10	20
Total number of man-hours	4,608	420	960

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 in-house 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.

## Respect for Diversity

### Promoting Diversity

In the Kawasaki Business Vision 2020, we affirm our aim to "create a corporate culture that emphasizes diversity and a good work-life balance, gives employees confidence in their employer and colleagues, fosters pride in their work, and enables them to enhance their skills and demonstrate their full potential." Our Diversity Promotive Section takes the lead role in implementing a range of relevant strategies that center on introducing varied work patterns to help all employees achieve a good work-life balance, promoting active roles for women, promoting the employment of people with disabilities, supporting the next generation and other care responsibilities, and creating elder-friendly workplaces.

Since 2011, a message from the Company president on the subject of promoting diversity has been distributed to all employees in June each year. In 2012, the message was entitled "Diversity in human resources: turning differences into strengths" and called for "differences at the individual employee level to be turned into strengths to overcome the competition" and for employees to "reach a higher dimension of motivation by balancing work and life."

On our corporate intranet, we have set up a diversity promotion website titled *Hibikiau Chikara* (Strength in Synergy), whose content includes an outline explanation of the concept of diversity, presentation of examples from the workplace, and information on systems to promote work-life balance.

### 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.

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

FY2010	FY2011	FY2012	FY2013	FY2014
12	13	13	14	15

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

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

## Promoting Active Roles for the Disabled

We also strive to hire more people with disabilities, and people with physical challenges are thriving in a range of office environments. Going forward, to maintain and increase the rate of employment of 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 (As of April 1 for Each Year)

FY2010	FY2011	FY2012	FY2013	FY2014
1.89%	1.83%	1.81%	1.74%	1.79%

## 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.

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.

Number of Employees Using Childcare or Care Leave

	FY2011	FY2012	FY2013
Childcare leave	27 (3 men, 24 women)	23 (0 men, 23 women)	24 (1 man, 23 women)
Care leave	3 (3 men, 0 women)	2 (2 men, 0 women)	3 (2 men, 1 woman)

## 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. Of all employees covered by the extension of retirement age, approximately 85% continue to work until age 63.

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. Some 75% of employees reaching the standard retirement age take advantage of the system for reemployment up to age 65.

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. As of April 1, 2013, the number of reemployed staff totaled 721.

## 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 2013, KHI recruited 371 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

	FY2012	FY2013
Administrative and technical positions	147	148
Production positions	174	223
Total	321	371

## 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 in fiscal 2012 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

	FY2011	FY2012	FY2013
Paid vacation days	15.3	15.6	15.4
Total annual hours of work	2,044	2,048	2,037

### Overtime Ban Once a Week

By agreement between labor and management, KHI introduced an overtime ban in fiscal 2007 to operate in principle once a week.

Mandating a day when staff go home on time improves the work routine and contributes to promoting work-life balance.

### 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.

The rate of union membership as of March 31, 2013, 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. The results of the evaluation are reflected in advancement to a higher level of job qualification and in a salary increase and bonus, and are also used when deciding on career development, position assignment, and a job transfer.

### 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.

Going forward, to improve the fairness and level of acceptance of evaluation, we will aim to give the staff undergoing evaluation a careful explanation of the personnel assessment system and provide training for evaluators.

## 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.

### Safety and Health Management Systems

In its Safety and Health Management Rules, KHI assumes the following corporate obligation: "We will establish safety and health management systems and institute measures necessary to prevent occupational accidents and conditions that impair health, sustain and perhaps improve the health of employees, and foster a pleasant working environment."

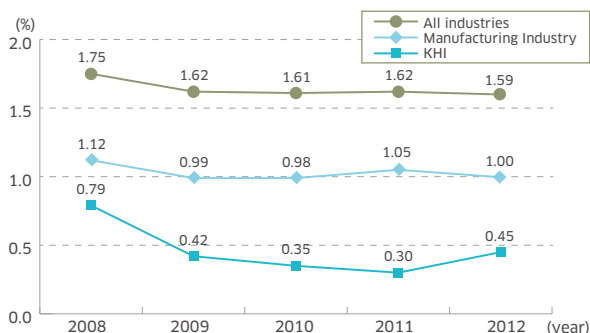
Specifically, the general safety and health manager at each site is assigned safety and health management supervisory duties, in accordance with basic policy outlined by the Chief Safety and Health Management Officer, to facilitate safety and health management.

### Efforts to Prevent Occupational Accidents

#### 1 Effective operation of occupational health and safety management system and continuous rollout of risk reduction activity

As part of our occupational health and safety management system, an internal audit is carried out at each operating site. In addition to revising and refining the system, we work to achieve efficient operation integrated with safety management activities. In the conduct of risk assessments, to ensure that unidentified risk does not lead to serious incidents, we work to continuously increase our ability to identify risk and carry out risk assessment of each work procedure at every workplace to reduce latent risk in the workplace. In this way, we strive to prevent the occurrence of serious incidents.

Incidence of Occupational Accidents (Absentee Rate)



Data source: all industries, manufacturing industry (Ministry of Health, Labour and Welfare, 2011, Occupational Accident Survey Results)

#### 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 (*riken 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 designed to foster an awareness of safety that will encourage employees to take the initiative in avoiding unsafe practices.

### 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; operation-specific 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 Measures for staff working long hours

Staff working long hours, defined as 60 hours or more of overtime in one month, are required to carry out a self-assessment for fatigue in the following month. Staff 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.

## 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](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.

To raise awareness of human rights issues, we employ training for new employees and sessions for existing employees in a range of corporate positions as opportunities to highlight the importance of respect for human rights.

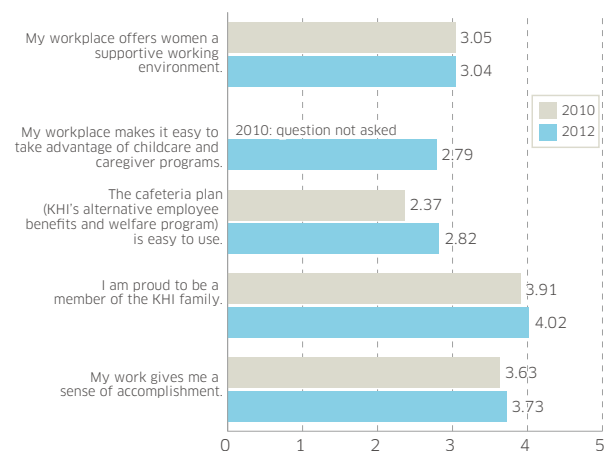
## Employee Satisfaction Survey

### Results of the Employee Satisfaction Survey

KHI conducts employee satisfaction surveys every other year and uses the results to prepare new policies and programs. The survey undertaken from February to March 2011 garnered an increase in positive responses on nearly all questions, such as "I am proud to be a member of the KHI family" and "My work gives me a sense of accomplishment."

At the same time, there were some questions where positive answers were relatively few, such as those on employee welfare and whether it was easy to take advantage of childcare and other caregiver programs. We took this result on board and responded in fiscal 2013 by introducing a nursery service for supplementary work days and an emergency childcare system.

Survey Results (Fiscal 2012 / Fiscal 2010)



Note: From the 59 questions in the survey, we selected five that generated notable results. The number represents the average value given by respondents who were asked to rate the statement on a scale from 1 to 5. The higher the value, the more positive the assessment, indicating a high level of satisfaction.

# 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)

## Overview of Activities during the Medium-term Business Plan 2010 (FY2011–2013)

In the Seventh Environmental Management Activities Plan (FY2011–2013), we set out key strategies and targets related to four issues: reduction of greenhouse gas emissions, reduction of total waste emissions, reduction of chemical substances, and the establishment of environmental management systems (EMS), and we promoted our environmental activities through the plan.

For greenhouse gas emissions, we did not achieve the reduction target, but we will use CO<sub>2</sub> credits to cover the surplus emissions. In the area of chemical substances, we did not meet reduction targets for major VOCs\*, but exceeded reduction targets for other substances. In terms of reduction of total waste emissions and establishment of EMS, we achieved our targets in both of these areas.

\* VOC: Volatile organic compound. For the KHI Group, the major VOCs are toluene, xylene and ethylbenzene.

### Self-Assessment of Activities

Category	Action	Annual self-assessment (average)		
		FY2011	FY2012	FY2013
Global environment	Extend the scope of environmental data collection to the entire group including overseas operations	★ ★ ★ ★ ★	★ ★ ★ ★ ★	★ ★ ★ ★ ★
	Publish emissions reduction targets for domestic and overseas affiliated companies	★ ★ ★ ★ ★	★ ★ ★ ★ ★	★ ★ ★ ★ ★
	Measure the amount of energy consumed in business operations and publish it along with reduction targets	★ ★ ★ ★ ★	★ ★ ★ ★ ★	★ ★ ★ ★ ★
	Take action to reduce waste emissions and to promote recycling and assess achievement	★ ★ ★ ★ ★	★ ★ ★ ★ ★	★ ★ ★ ★ ★

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

## Measures during the Medium-Term Business Plan 2013 (FY2014–2016)

Target profile	Measures
Steadily reduce annual CO <sub>2</sub> 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



# Promoting Environmental Management

## Formulating Our Eighth Environmental Management Activities Plan



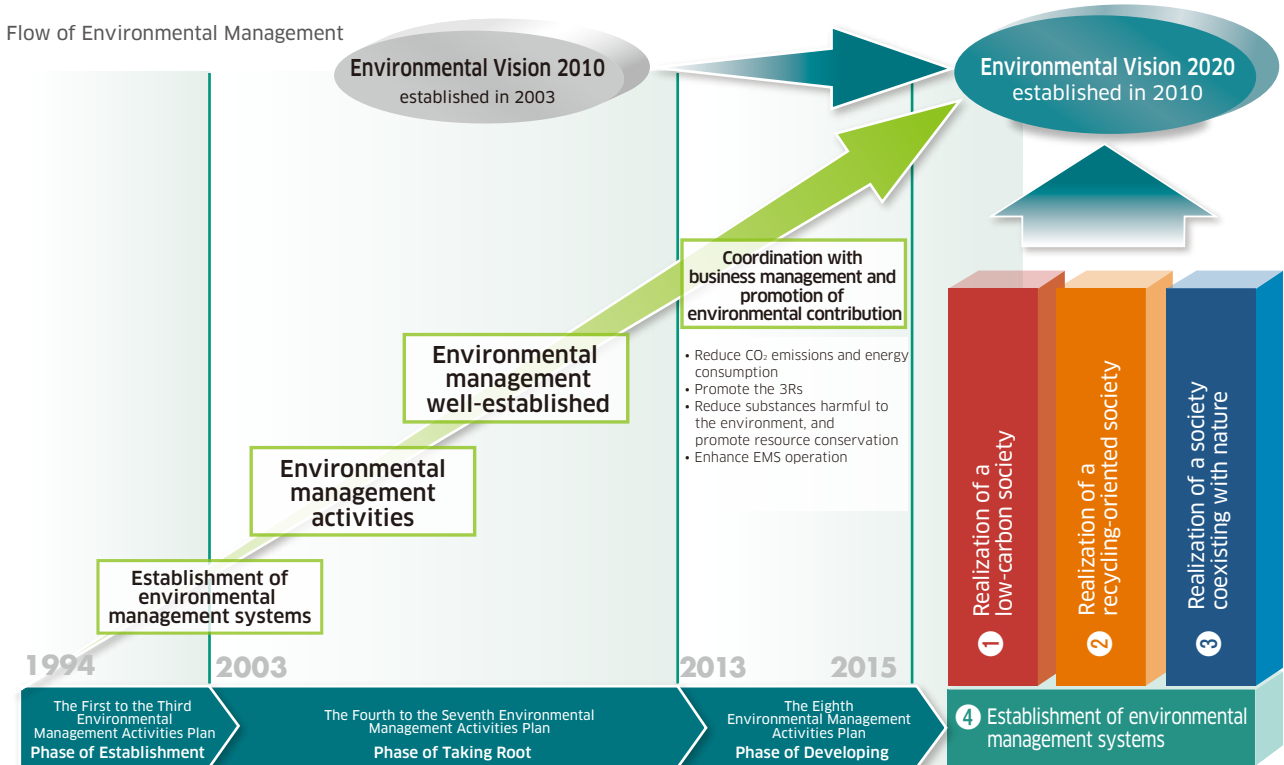
**Yoshizumi Hashimoto**  
Chief Environmental Officer,  
Executive Officer, General Manager, CSR Division

In fiscal 2011, the KHI Group drafted Environmental Vision 2020, which seeks to define the Group's identity in 2020 from an environmental perspective in line with the KHI's Group Mission: "Kawasaki, working as one for the good of the planet (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)." Efforts to achieve this vision will be supported by plans on environmental management activities, which run for three years.

Fiscal 2014 is the first year of our Eighth Environmental Management Activities Plan, which covers the period to the end of fiscal 2016. In formulating the plan, the key strategies and targets were set with the aim of coordinating business management with environmental management: a basic policy of our Medium-term Business Plan 2013, which covers the same period from fiscal 2014 to fiscal 2016.

The Great East Japan Earthquake, which struck on March 11, 2011, has produced a shift in the domestic energy balance. In response, greenhouse gas reduction targets for 2013 and subsequent years have been subjected to fundamental revision as part of the range of new Japanese government policies now being formulated to achieve a sustainable society. In response, the KHI Group seeks to adopt strategies that anticipate society's environmental needs. Specifically, it will adopt the following key strategies: reduction in energy consumption and CO<sub>2</sub> emissions; promotion of the 3Rs (reduction of waste generation, reuse, and recycling); reduction of substances harmful to the environment and promotion of resource conservation. In each of these areas, we will work to meet new targets.

Concurrently, we will move to enhance the level of environmental management Group-wide including major overseas consolidated subsidiaries, and take steps to reduce environmental risks throughout the supply chain as well as value chain as part of the steady efforts to achieve Environmental Vision 2020.



## Eighth Environmental Management Activities Plan (FY2014–2016)

The Eighth Environmental Management Activities Plan (referred to below as the Eighth Plan), covering the period from fiscal 2014 to fiscal 2016, lays down a basic policy for coordinating environmental management with business management and promoting the KHI Group's environmental contribution. By setting key strategies and the Eighth Plan targets for the fulfillment of this policy to anticipate society's environmental needs, we will accelerate progress in energy saving and resource saving. In concrete terms, the four key strategies we will pursue are (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. Along these lines, we will roll out activities to achieve our Environmental Vision 2020.

### Coordination with Business Management and Promotion of Environmental Contribution

#### Key strategy

##### Realization of a low-carbon society

CO<sub>2</sub> and energy reduction

##### Realization of a recycling-oriented society

Promotion of the 3Rs

##### Realization of a society coexisting with nature

Reduction of environmental load/promotion of resource conservation

##### Establishment of environmental management systems

Enhancement of the KHI Group environmental management system

#### Eighth Plan targets

##### Use the energy visualization system

By fiscal 2016, reduce annual CO<sub>2</sub> emissions and energy consumption by at least 5%

##### Reduce CO<sub>2</sub> emissions through the contribution from products

Achieve cumulative values at least equal to the initial plan values for each business segment

##### Promote the 3Rs in the areas of waste management (reduction of waste generation, reuse, recycling)

Reduce total waste emissions per unit of sales, and maintain zero emissions

##### Promote PCB treatment

Advance with the treatment of high-concentration PCB waste and low-concentration PCB waste

##### Reduce chemical substances

Major VOCs per unit of sales for each fiscal year to be at or below the average of results achieved in the Seventh Plan

##### Continue with forest conservation activity

Carry out forest conservation activity more than twice a year

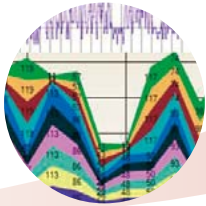
##### Reinforce the environmental management ability of KHI and consolidated subsidiaries in Japan

Set reduction targets, and provide appropriate feedback

##### Reinforce the environmental management ability of overseas consolidated subsidiaries

Identify overseas laws and regulations and other requirements, and support environmental risk reduction

## Target Profile of the KHI Group in 2020



- **Energy consumption and CO<sub>2</sub> emissions**  
Major reductions achieved
- **Contribution from products**  
Major reductions achieved in CO<sub>2</sub> 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 promote environmental 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.

## Seventh Environmental Management Activities Plan (FY2011–2013): Fiscal 2013 Results and Evaluation

The KHI Group engages in business founded on the need to promote the advancement of society and the nation through manufacturing, and it has sought to develop a global enterprise in key industries related to land, sea and air. To integrate these activities with the resolution of global environmental problems, we are working in terms of four themes: realization of a low-carbon society; realization of a recycling-oriented society; realization of a society coexisting with nature; and establishment of EMS in our Seventh Environmental Management Activities Plan (fiscal 2011 to fiscal 2013; referred to as the Seventh Plan). In the table below, we present the results of our activities in fiscal 2013 and an evaluation of the Seventh Plan.

### Seventh Environmental Management Activities Plan (FY2011–2013)

#### Realization of a Low-Carbon Society

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

##### 1. Global warming prevention measures

- 1) Reduce CO<sub>2</sub> emissions from our own production activities; make CO<sub>2</sub> more tangible to promote energy-saving activities Group-wide; create a verification system
  - Undertake Group-wide CO<sub>2</sub> reduction measures (energy-saving capital investment)
  - Promote energy savings from logistics as a specified consignor
- 2) Acquire emissions credits with KHI Group products and technologies
  - Create a system to acquire emissions credits with the KHI Group products and technologies in Japan and abroad (e.g., CDM)
- 3) Purchase emissions credits from the trading market
  - Take precautionary measures in the event that we do not meet CO<sub>2</sub> reduction targets
- 4) Acquire emissions credits through endowment or donation

#### Group target

By fiscal 2013, reduce our average amount of CO<sub>2</sub> emission per unit of sales (CO<sub>2</sub> emissions per net sales) for fiscal 2009 through fiscal 2013 by 10%, compared with fiscal 2008

#### Realization of a Recycling-Oriented Society

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

##### 1. Activities to reduce total waste emissions

- 1) Promote resource savings and the 3Rs (reduction of waste generation, reuse, and recycling)
- 2) Zero emissions activities, increasing recycling rate

#### Group target

By fiscal 2013, reduce waste basic unit (waste emissions per net sales) by 12%, compared with fiscal 2003; maintain zero emissions

##### 2. Decide on proper treatment (decomposition) plans for PCB waste and follow through with appropriate measures

#### 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. Activities to reduce chemical substances

- Set reduction targets and promote activities (both design and production initiatives)

#### Group target

Set the controlled chemical substances reduction target for fiscal 2011 through fiscal 2013, compared with the average for fiscal 2004 through fiscal 2006

##### 2. Environmental contributions through products and technologies

- 1) Activities to reduce the environmental impact over the product life cycle
  - Prepare a foundation for performing product life cycle assessment
- 2) Make products greener, and promote environmental consciousness in products

##### 3. Reduce the impact on and conserve biodiversity

- 1) Decide on biodiversity action guidelines and promote conservation

#### Establishment of Environmental Management Systems

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

##### 1. Formulate EMS for the KHI Group

#### Group target

By fiscal 2013, finish formulating EMS at factories and consolidated subsidiaries in Japan and abroad that are key production bases

##### 2. Comply thoroughly with environmental laws and regulations

- Prevent a recurrence of environmental accidents, etc.

##### 3. Practice environmental communication

- Promote an environmental dialogue with all stakeholders

## Main Strategies of the Seventh Environmental Management Activities Plan

<b>Realization of a low-carbon society</b>	We will take concrete action in the form of measures to counter global warming as a step toward meeting the Group-wide greenhouse gas target for the period up to fiscal 2013, which is to achieve a 10% reduction from fiscal 2008 levels in average emissions per unit of sales for the fiscal years 2009 to 2013.
<b>Realization of a recycling-oriented society</b>	To reduce total waste emissions, we will continue working Group-wide on activities such as resource-saving and promotion of the 3Rs (reduction of waste generation, reuse, and recycling).
<b>Realization of a society coexisting with nature</b>	We will continue promoting action to reduce chemical substances, environmental contribution through products and technology, etc.
<b>Establishment of environmental management systems</b>	As well as promoting the establishment of EMS at domestic and overseas consolidated subsidiaries, we will also take action on environmental risk management and environmental education for employees.

Results of Fiscal 2013 Activities		Evaluation of the Seventh Plan
1. Global warming prevention measures 1) Reduction of CO <sub>2</sub> emissions through our production activities <ul style="list-style-type: none"> <li>• The target for average emissions per unit of sales was not met; excess emissions were covered by CO<sub>2</sub> credits</li> <li>• The effectiveness of the energy visualization system was confirmed at a pilot factory</li> <li>• Energy-saving facilities were introduced and their efficacy verified</li> </ul> 2) Delivery of energy-efficient products <ul style="list-style-type: none"> <li>• CO<sub>2</sub> emissions reduction through products totaled approximately 500,000t-CO<sub>2</sub></li> </ul> 3) Purchase of carbon credits on the market <ul style="list-style-type: none"> <li>• CO<sub>2</sub> credits were acquired through the Japanese domestic emissions credit system</li> </ul> 4) Acquisition of emissions credits through donations and other voluntary activities <ul style="list-style-type: none"> <li>• A CO<sub>2</sub> Removal Certificate was received for forest conservation activities</li> </ul>	○	
1. Activities to reduce total waste emissions 1) Total emissions per unit of sales were reduced by 23% and the target was therefore met 2) Zero emission status was maintained with a final disposal ratio of 1% or below	○	
2. Formulation and monitoring of plans for appropriate treatment of PCB waste 1) For equipment containing high concentrations of PCB, commissioning of treatment to the Japan Environmental Safety Corporation (JESCO) was begun 2) For equipment containing low concentrations of PCB, a survey of treatment trends has been conducted	○	
1. Activities to reduce chemical substances 1) Target setting for both design and production operations <ul style="list-style-type: none"> <li>• Introduction of low-VOC paints and heavy metal-free paints progressed, but some targets were not met</li> </ul>	△	
2. Environmental contribution through products and technology <ul style="list-style-type: none"> <li>• Environmental load reduction was promoted through production activities and products</li> <li>• A full response was ensured to chemical substance-related laws and regulations (the ELV Directive, the RoHS Directive, the REACH Regulation, etc.)</li> <li>• Information was provided on our environmental contribution through products and technology</li> </ul>	○	
3. Preservation of, and reduction of impact on biodiversity <ul style="list-style-type: none"> <li>• Forest conservation activities by employees and their families continued in Hyogo, Kochi, and Miyagi prefectures</li> </ul>	○	
1. Establishment of EMS for the KHI Group 1) Formulation and implementation of EMS establishment plan at Japanese and overseas consolidated subsidiaries <ul style="list-style-type: none"> <li>• EMS was established at our main consolidated subsidiaries in Japan and overseas</li> </ul> 2) Collection of key environmental data for the whole Group <ul style="list-style-type: none"> <li>• An IT-based data collection system was established at domestic affiliated companies</li> <li>• Surveys were conducted at overseas affiliated companies to the application situation regarding compliance with laws and regulations and the environmental load</li> </ul>	△	
2. Ensuring compliance with environmental laws and regulations 1) Monitoring of compliance with environmental laws and regulations, etc. 2) Group-wide provision of information on the enactment and revision of environmental laws and regulations	○	
3. Promoting environmental communication 1) Implementation of environmental e-learning, and internal environmental auditor training 2) Provision of environmental information within and beyond the Group (CSR Report, etc.)	○	

○ : achieved , △ : partly not achieved, × : not achieved

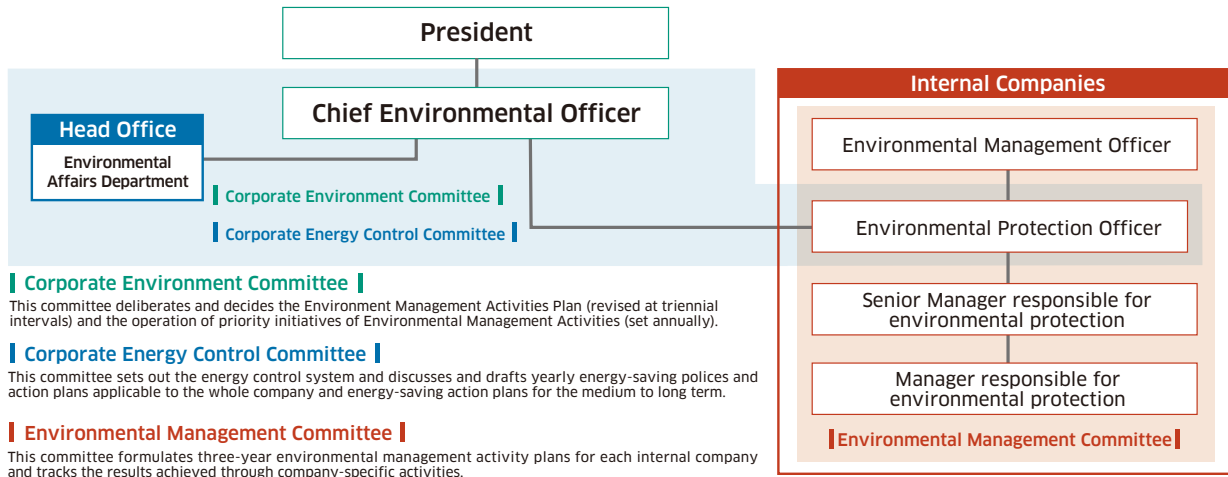
## Building an Environmental Management Platform

### Environmental 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 addition, to promote energy management, an energy management structure was put in place from 2010 to roll out activities similar to those in environmental management.



### EMS at the KHI Group

Under the Seventh Plan, action was progressed on the basis of an EMS establishment plan drawn up for domestic and overseas consolidated subsidiaries. Main consolidated subsidiaries covered by the plan each completed the establishment of EMS. At consolidated subsidiaries which have completed the establishment of EMS, the collection of key environmental data has begun.

### EMS Establishment Status at KHI

All KHI production bases have acquired ISO 14001 certification.

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
	Sakaide Works	Aug. 2000	DNV
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
Precision Machinery Company	Nishi-Kobe Works	Feb. 1998	DNV
	Robot Division	Mar. 2011	DNV

LRQA: Lloyd's Register Quality Assurance, JICQA: JIC Quality Assurance, NK: Nippon Kaiji Kyokai (ClassNK), BSK: Bouei Kiban Seibi Kyoukai (Defense Structure Improvement Foundation), DNV: Det Norske Veritas

## EMS Establishment Status at Domestic Consolidated Subsidiaries

The establishment of EMS at all domestic consolidated subsidiaries, which was targeted under the Seventh Plan, has been completed, either through acquisition of ISO 14001 registration, acquisition of EMS certification by another body, or self-declaration.

Under the Eighth Plan, we will work to enhance the EMS of domestic consolidated subsidiaries. From fiscal 2013, we began data collection under the EMS by extending the scope of data collection by our IT systems to include domestic consolidated subsidiaries.

### Domestic Consolidated Subsidiaries

Oversight organization	Company	Establishment level*	Date of establishment
Ship & Offshore Structure Company	Kawasaki Techno Wave Co., Ltd.	1	Aug. 2000
	Kawaju Support Co., Ltd.	2	Dec. 2005
	Kawaju Marine Engineering Co., Ltd.	3	Apr. 2013
	KHI JPS Co., Ltd.	3	Mar. 2008
Rolling Stock Company	Alna Yusoki-Yohin Co., Ltd.	1	Nov. 2008
	Kawasaki Rolling Stock Component Co., Ltd.	1	Aug. 2002
	Kawasaki Rolling Stock Technology Co., Ltd.	1	Aug. 2002
	Kansai Engineering Co., Ltd.	3	Aug. 2002
	Sapporo Kawasaki Rolling Stock Engineering Co., Ltd.	2	Jun. 2011
	Nichijo Manufacturing Co., Ltd.	2	May 2010
Aerospace Company	Kawaju Gifu Engineering Co., Ltd.	1	Feb. 2002
	Kawaju Gifu Service Co., Ltd.	1	Feb. 2002
	KGM Co., Ltd.	1	Feb. 2002
	NIPPI Corporation	1	Dec. 2006
Gas Turbine & Machinery Company	Kawaju Akashi Engineering Co., Ltd.	1	Mar. 2000
	Kawasaki Thermal Engineering Co., Ltd.	1	Apr. 2002
	Kawasaki Machine Systems, Ltd.	2	Dec. 2011
	Kawasaki Prime Mover Engineering Co., Ltd.	1	Dec. 2002
	Kawasaki Naval Engine Service, Ltd.	1	Dec. 2002
Plant & Infrastructure Company	KEE Environmental Construction, Co. Ltd.	1	Dec. 2003
	EarthTechnica M&S Co., Ltd.	3	Apr. 2013
	KEE Environmental Service, Ltd.	1	Jun. 2002
	Kawaju Facilitch Co., Ltd.	3	Apr. 2013
	Kawasaki Engineering Co., Ltd.	3	Oct. 2009
Motorcycle & Engine Company	EarthTechnica Co., Ltd.	1	Sep. 2000
	Kawasaki Motors Corporation Japan	1	Feb. 2008
	K-TEC Corporation	3	Dec. 2009
	Technica Corp.	3	Feb. 2012
	Autopolis	2	Dec. 2011
Head Office	Union Precision Die Co., Ltd.	1	Jul. 2006
	Kawasaki Trading Co., Ltd.	1	Dec. 2004
	Kawaju Service Co., Ltd.	1	Feb. 2000
	Kawasaki Technology Co., Ltd.	3	Mar. 2005
	Kawasaki Life Corporation	2	Jul. 2006
	Kawasaki Hydromechanics Corp.	1	Jun. 2007
	K Career Partners Corp.	2	Mar. 2007
	Benic Solution Corp.	2	Feb. 2006
	KCM Corporation	1	May 2000
KCMJ	2	Mar. 2012	

\* **Level 1** ISO 14001 registration  
**Level 2** Simplified EMS certification  
**Level 3** Self-declaration of EMS establishment

## EMS Establishment Status at Overseas Consolidated Subsidiaries

Regarding overseas consolidated subsidiaries, seven companies spread across China, Europe, North America, Southeast Asia and other regions completed establishment of EMS, either through acquisition of ISO 14001 registration or through self-declaration.

### Overseas Consolidated Subsidiaries

Oversight organization	Company	Location	Establishment level*	Date of establishment
Gas Turbine & Machinery Company	Kawasaki Gas Turbine Asia Sdn. Bhd.	Malaysia	3	Mar. 2013
	Wuhan Kawasaki Marine Machinery Co., Ltd.	China (PRC)	1	Jul. 2009
Plant & Infrastructure Company	KHI Design & Technical Service Inc.	Philippines	3	Nov. 2011
Motorcycle & Engine Company	Kawasaki Motors Corp., U.S.A.	U.S.A.	3	Mar. 2013
	Kawasaki Motors Pty. Ltd.	Australia	3	Mar. 2013
	P.T. Kawasaki Motor Indonesia	Indonesia	3	Jan. 2012
	KHITKAN Co., Ltd.	Thailand	1	Dec. 2011
	Kawasaki Motors (Phils.) Corporation	Philippines	3	Jan. 2012
	Kawasaki Motors Manufacturing Corp., U.S.A.	U.S.A.	1	Apr. 2003
	Kawasaki Motors Enterprise (Thailand) Co., Ltd.	Thailand	1	Dec. 2011
Precision Machinery Company	Canadian Kawasaki Motors Inc.	Canada	3	Feb. 2013
	Kawasaki Precision Machinery (Suzhou) Ltd.	China (PRC)	1	Dec. 2007
	Kawasaki Precision Machinery (UK) Ltd.	U.K.	1	Nov. 2001
	Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd.	China (PRC)	1	Nov. 2012
	Flutek, Ltd.	South Korea	1	Nov. 2005
	Kawasaki Robotics (Tianjin) Co., Ltd.	China (PRC)	3	Nov. 2012
Head Office	Kawasaki Robotics GmbH	Germany	3	Nov. 2012
	Kawasaki Robotics (U.S.A.) Inc.	U.S.A.	1	Feb. 2006
	KHI (Dalian) Computer Technology Co., Ltd.	China (PRC)	3	May 2013
Head Office	KCMA Corporation	U.S.A.	3	Mar. 2011

\* **Level 1** ISO 14001 registration  
**Level 2** Simplified EMS certification  
**Level 3** Self-declaration of EMS establishment

### Utilization of IT Systems

KHI utilizes IT systems to identify the direct and indirect environmental impact of its business operations and the state of progress with environmental management activities.

As environmental issues become increasingly complex, it is necessary to find solutions that transcend local and organizational structures. Because environmental management activities are an important element of business operations, speedy collation of accurate data and quantitative assessment forms part of our effort to fulfill Environmental Vision 2020.

Recent years have seen a steady increase in the environmental data items required: for example, reports to central and local government and responses to rating agency surveys, and the volume of data subject to analysis is therefore growing as well, requiring more efficient collection and analysis. Moreover, because of the electric power supply issues experienced in the wake of the Great East Japan Earthquake, management of energy data, especially data on electric power, has become ever more important.

### Environmental Data Management System

Currently, we are moving ahead with environmental management activities by rolling out to domestic consolidated subsidiaries our in-house Environmental Data Management System (ECOKEEP). In addition, we are working to introduce an energy visualization system that will include data on electric power demand for our factories.

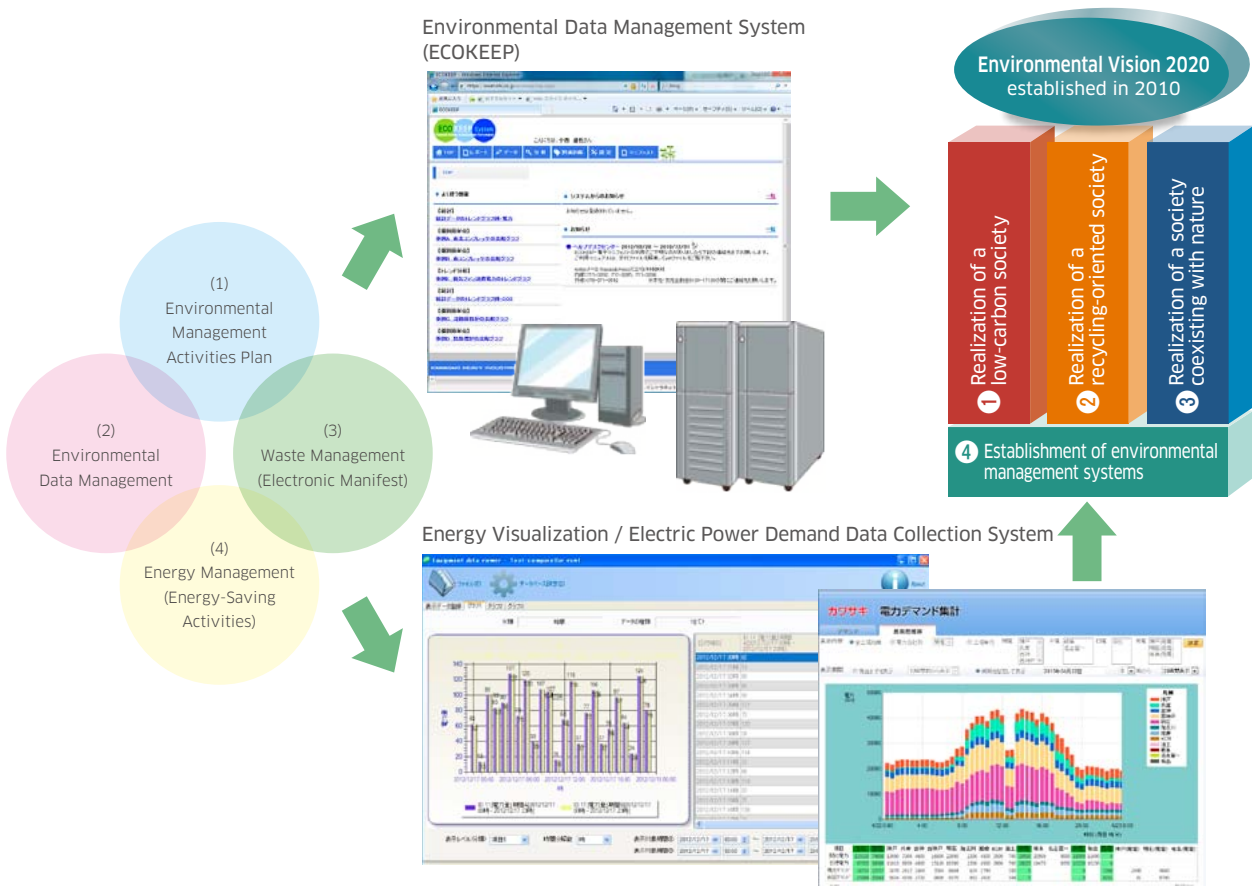
The constituent functions of ECOKEEP are management of target values for the Environmental Management Activities Plan, environmental data management, and waste management (electronic manifest). The system is

coordinated with an energy visualization system designed to facilitate energy-saving activities. The system can be outlined as follows.

- (1) Environmental Management Activities Plan: Each quarter, targets and measures for reduction of CO<sub>2</sub> emissions, energy consumption, waste generation and chemical substance utilization are monitored together with investment items for environmental conservation and their progress.
- (2) Environmental data management: In accordance with the KHI Group data collection manual, data for the month or another designated period is input and environmental performance is checked.
- (3) Waste management (electronic manifest): Through linkup to an electronic manifesto system as stipulated in Japan's Waste Disposal and Public Cleansing Law, the system monitors the industrial waste emissions of domestic factories and legal compliance.
- (4) Energy management: The system checks demand for purchase of electric power from electric power companies and achieves improvements by analyzing energy visualization data.

### Energy Visualization/Electric Power Demand Data Collection System

In fiscal 2013, we began operating a system for real-time data collection on the amount of electricity purchased and the amount generated in-house at nine factories, including the main affiliated companies in the Kansai region. We will extend this successively to our factories in other regions. In addition, we will expand the system's functions so that it can provide speedy and detailed information on utilization of energy forms other than electric power to promote a comprehensive approach to energy saving.





## Compliance with Laws and Regulations

### Legal Compliance Status in Japan

In fiscal 2013, there were no incidents of infringement by the KHI Group (judicial or administrative penalties, administrative measures, administrative warnings).

There were four instances of complaints from residents.

#### Violations and Accidents during the Past 5 Years

Fiscal year	2009	2010	2011	2012	2013
Judicial / administrative penalties	0	0	0	0	0
Administrative measures	1	0	0	0	0
Administrative warnings	4	0	2	2	0
Complaints from residents	4	0	5	0	4

\*Judicial / administrative penalties: Penalties handed down by judicial or administrative authorities

\*Administrative measures: Instructions for improvements and other corrective measures in written form

\*Administrative warnings: Verbal directives concerning business practices

### Legal Compliance Status Overseas

In fiscal 2013, as in fiscal 2012, we carried out a questionnaire survey of major overseas consolidated subsidiaries to check their compliance with environmental laws and regulations. Based on the results, we will promote adaptation to overseas legislation and reduction of environmental risk under the Eighth Plan.

## Risk Management

To ensure compliance with environmental laws and regulations as well as full familiarity with revisions to laws and improved ability among managers with environmental responsibilities, we hold liaison conferences at appropriate intervals to prevent accidents before they occur. The conferences are attended by environmental management officers from each business segment, who work together under the guidance of a secretariat (the Environmental Affairs Department).

In fiscal 2013, we held a liaison conference concentrating on the main points of the revision of the Water Pollution Prevention Law and a study meeting that covered processing activities, essential points of commissioned processing, and the promotion of appropriate processing (decomposition) of high-concentration and low-concentration PCB waste. Participants included the participation of managers from consolidated subsidiaries. From fiscal 2014, we will carry out on-site checks concentrating on overseas manufacturing bases to promote the reduction of 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*



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 2013, approximately 1,150 people participated in the environmental e-learning courses. The attendance rate was 93%.

Employees for whom computer-based environmental e-learning is not convenient are offered lectures and other educational means, which have gathered approximately 7,200 participants during the five years since fiscal 2009.

## 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 145 employees qualified as internal auditors in fiscal 2013.

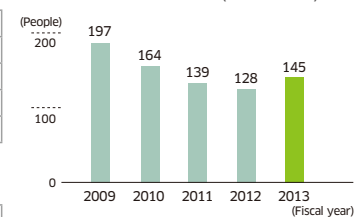
#### Number of Qualified Pollution Control Managers

Air	73
Water	76
Noise, vibration	42
Others	84
Total	275

#### Number of Qualified Energy Managers

Energy managers	51
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#### 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 numerous external evaluation organs, such as the CDP investors' information request "CDP Japan 500," published by the CDP (Carbon Disclosure Project), and the Nikkei Environmental Management Survey conducted by Nikkei Research, Inc.

## Eccop Movement

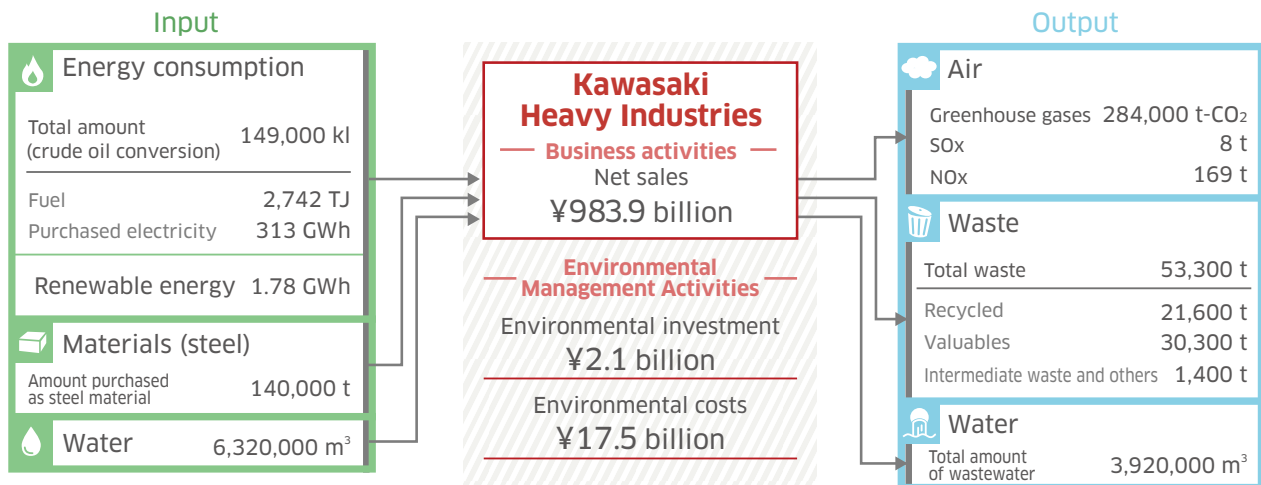
The KHI Group has participated since 2009 in the Eccop Movement, which separates and collects plastic bottle caps and sells them to recycling firms. Profits from the sale go to provide polio vaccine to children around the world.

Since the start of our participation, the efforts of KHI Group employees have led to the collection of a cumulative total of some 990,000 caps, corresponding to polio vaccine for approximately 1,100 children.

We intend to continue with this activity as an environmental initiative to raise awareness of the efficient use of resources and the sorting and collection of waste.

## Material Balance of Business Activities for Fiscal 2013 (Overall Picture of the Environmental Impact)

KHI has drawn up a summary of the impact of our business activities on the environment during fiscal 2013. 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 2013

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.)	1,154	3,603	Energy-saving cost reduction 229	
	Efficient use of raw materials, water, and other resources	72	197	Resource-saving cost reduction 33	
	Resource-recycling activities	Resource-recycling activities	66	645	Income from recycling 610
		Waste disposal costs	0	406	Waste disposal cost reduction 4
	Environmental risk control	537	1,027	0	
	<b>Subtotal</b>	<b>1,829</b>	<b>5,878</b>	<b>876</b>	
Year-on-year comparisons		116%	99%	63%	
Upstream/downstream costs		123	2,739	0	
Management activity costs		1	369	0	
R&D costs		96	7,806	0	
Social activity costs		23	153	0	
Environmental remediation costs		0	583	0	
<b>Total</b>		<b>2,072</b>	<b>17,528</b>	<b>876</b>	
Year-on-year comparisons		119%	102%	63%	

Item	Total
Total investments	56,797
Total R&D costs	39,111

Item	Proportion
Percentage of investments (environmental investments 2,072 / Total investments 56,797)	4%
Percentage of R&D costs (environmental R&D costs 7,806 / Total R&D costs 39,111)	20%

## Realization of a Low-Carbon Society

### Reduction of Greenhouse Gas Emissions

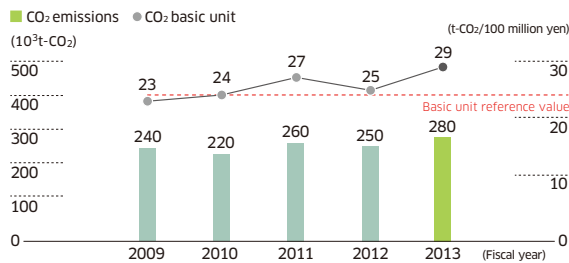
The KHI Group is committed to contributing to the prevention of global warming worldwide through products and manufacturing that use energy without waste. Under the Eighth Plan, action is directed toward targets set separately for reduction of the CO<sub>2</sub> emissions generated during production and reduction of CO<sub>2</sub> emissions through product-based contributions. The results for the Seventh Plan, which includes fiscal 2013, are presented below.

As a target for the first commitment period of the Kyoto Protocol, we committed to achieving a 10% reduction, compared with fiscal 2008, as a reference value in the average CO<sub>2</sub> emissions per unit of sales over the period from fiscal 2009 to fiscal 2013. The emissions figure per unit of sales for fiscal 2013 was 29 and the five-year average was 25, meaning that the target of 22 was not met. CO<sub>2</sub> credits will be used to cover the excess emissions.

In addition to Certified Emissions Reductions (CERs) under the United Nations Clean Development Mechanism (CDM)\*, we will also make use of a domestic credit of 2,580t-CO<sub>2</sub> acquired under a Hyogo Prefecture program aimed at reducing CO<sub>2</sub> emissions through joint reduction initiatives. The credit was obtained by replacing a heavy fuel oil-fired boiler made by Kawasaki Thermal Engineering Co., Ltd., with a newer and greener natural gas-fired boiler.

\* CDM: a system under which advanced countries and developing countries cooperate in projects to reduce greenhouse gases, with the investing developed nation receiving a CO<sub>2</sub> credit equivalent to the reduction achieved.

Changes in CO<sub>2</sub> Emissions and Basic Unit at KHI



- Notes:
- CO<sub>2</sub> emissions are impacted by the electricity emission factor.
  - CO<sub>2</sub> basic unit is a measurement obtained by dividing CO<sub>2</sub> emissions by net sales.
  - CO<sub>2</sub> emissions in logistics processes are calculated from our position as a specified consigner (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.

### Reduction of Energy Consumption

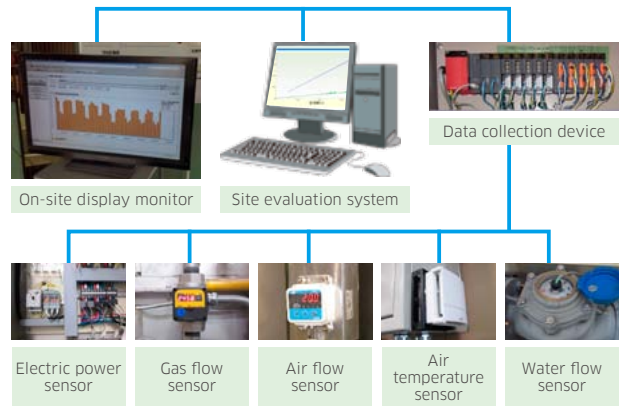
#### Reduction of Energy Consumption through Progress with Energy Visualization

By installing energy visualization facilities at the Kakogawa Works, we took measures to enhance energy saving.

The facilities installed at the Kakogawa Works measure not just electric power consumption but also the flow volumes of utility gas, compressed air and water, as well as the pressure of the compressed air and temperature.

In fiscal 2013, analysis of these data led to the identification of more than 50 items of waste, allowing a reduction in energy consumption.

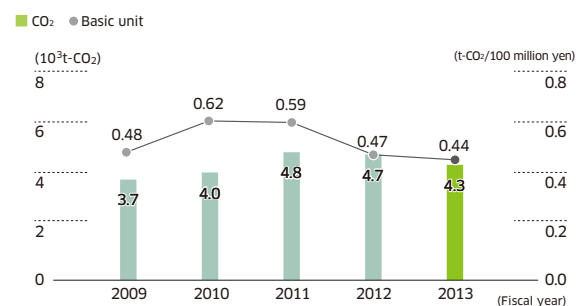
Structure of Energy Visualization Facilities



### Environmentally Conscious Logistics

KHI promotes energy-saving activities and data tracking to curb CO<sub>2</sub> emissions from logistics processes. Evaluating the Company's freight traffic on the basis of freight ton-kilometers 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 2013, CO<sub>2</sub> emissions reached 4,300 t-CO<sub>2</sub> and CO<sub>2</sub> emissions per unit of sales totaled 0.44. 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<sub>2</sub> Emissions from Logistics Processes



- Notes:
- CO<sub>2</sub> basic unit is a measurement obtained by dividing CO<sub>2</sub> emissions by net sales.
  - CO<sub>2</sub> emissions in logistics processes are calculated from our position as a specified consigner (a Japanese legal designation applied to consigners that ship 30 million tonkilometers of freight or more per year), under the revised Energy Saving Law.
  - CO<sub>2</sub> emissions from logistics processes in fiscal 2009 and 2010 do not include emissions by Kawasaki Shipbuilding Corporation and other subsidiaries before they merged into the Company on October 1, 2010.

### CO<sub>2</sub> Emissions Reduction through Product-Based Contributions

Through the main products it delivered in fiscal 2013, KHI made an estimated yearly contribution to CO<sub>2</sub> emissions reduction of 500,000 t-CO<sub>2</sub>. See page 74 for information on the CO<sub>2</sub> emissions reduction benefit of our energy- and transport-related products, industrial machinery, and other products.

# Realization of a Recycling-Oriented Society

## Waste Reduction

### Promote Resource Saving and the 3Rs

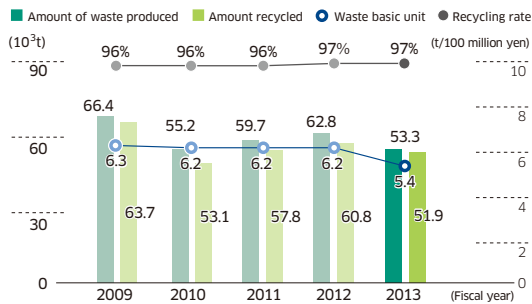
In its business operations and product development, KHI contributes to the realization of a recycling-oriented society by using the earth's limited resources while avoiding waste and by promoting reuse and recycling.

### Zero Emission Activity and Improvement of the Recycling Rate

Based on social trends, KHI defines zero emissions as a final disposal ratio (landfill) of 1% or below. In fiscal 2013, we achieved zero emissions at our main factories.

Meanwhile, we fulfilled our fiscal 2013 total emissions target with a 23% reduction per unit of sales compared to the base year. We have achieved and maintained a high recycling rate of 97% for the overall Group, and will continue with action aimed at further improvement.

#### Waste Produced and Recycling Rate



## 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

As part of operations to manage high-concentration PCB waste, 114 condensers were commissioned for treatment and disposal to the Japan Environmental Safety Corporation (JESCO) in fiscal 2012, and a further 98 in fiscal 2013. We will continue with appropriate treatment in the years ahead.

### Low-Concentration PCB Waste

In the case of low-concentration PCB waste, we are preparing for the commissioning of treatment operations. The commission will need to be placed with a firm capable of appropriate and speedy handling, which we will carry out after calculating and securing the treatment budget and checking at first hand that the certified firms carry out appropriate treatment by verifying their certification and conducting observation at their treatment sites.



PCB discharge operations

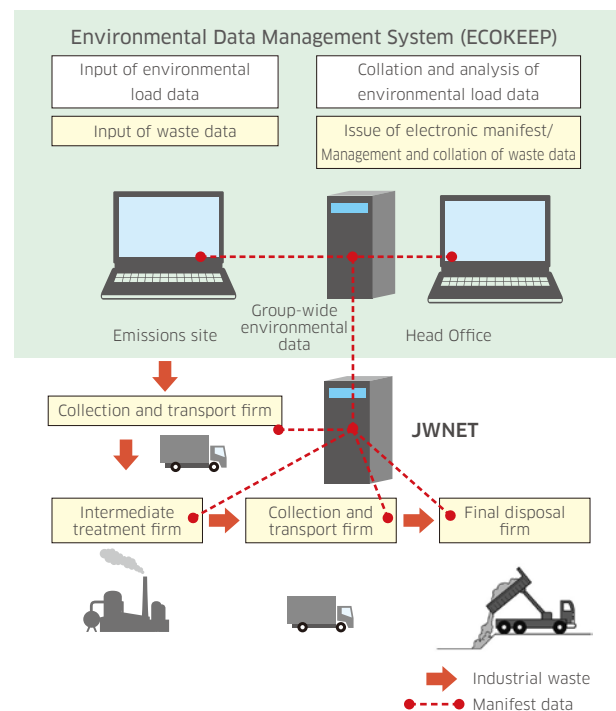


PCB storage warehouse

## Installing an Electronic Manifest System

In fiscal 2013, KHI introduced its in-house Energy/Environmental Data Management System (ECOKEEP), which is linked to the Japan Industrial Waste Information Center's electronic manifest system (JWNET). While performing integrated management of environmental data for all our factories, it contributes also to maintaining strict legal compliance and reducing the man-hours necessary to process manifest slips.

From fiscal 2014, the scope covered by the system will be expanded to encompass integrated management of environmental data for domestic consolidated subsidiaries.



## 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 a range of activities to achieve this goal.

As part of its efforts to reduce chemical substances, KHI has set targets in every business segment for major VOCs (toluene, xylene and ethylbenzene), dichloromethane, and hazardous heavy metals, and each segment has embraced the necessary approaches. The status of the efforts to reduce major VOCs, dichloromethane, hexavalent chromium compounds and lead is outlined below. Suitable measures have been implemented in nearly all areas, but efforts will continue on the study and consideration of additional measures to curb the amount of chemicals subject to reduction.

For data on the release and transfer of chemical substances designated under the PRTR Law\*, please see Release and Transfer Volume of Chemical Substances (Fiscal 2013)(page 77).

\*PRTR Law: Pollutant Release and Transfer Register Law

#### 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 2012 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 2012. 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. The amount handled decreased over fiscal 2012, and we will continue with systematic efforts in the future by switching to chrome-free paint and other practical strategies.

#### Lead

Lead is often found in paint, so KHI's efforts have focused on switching to lead-free paint. KHI is working to reduce the use of lead, and the amount handled decreased from fiscal 2012. We will redouble our efforts to cut the usage of lead.

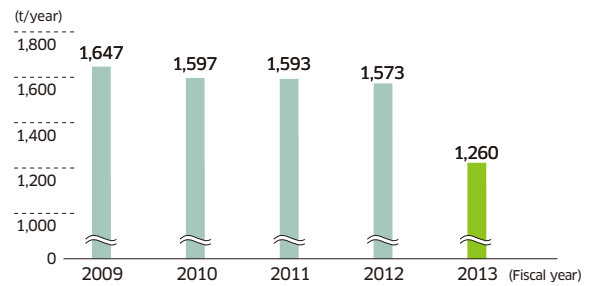
Under the Eighth Plan, which starts in fiscal 2014, we will continue to reduce controlled chemical substances.

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

Substance		Fiscal 2013	Increase or decrease from fiscal 2012
Major VOCs	Toluene	401	-9%
	Xylene	544	-20%
	Ethylbenzene	204	-26%
	<b>Total</b>	<b>1,149</b>	<b>-18%</b>
Dichloromethane		48	-18%
Hazardous heavy metals	Hexavalent chromium compounds	15	-37%
	Lead	1.2	-14%
	Cadmium	0.09	-32%

Note: Amounts of major VOCs and dichloromethane are the amounts emitted, while that of hazardous heavy metals is the amount handled.

Release and Transfer of Chemical Substances Designated under the PRTR Law



### 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

## Contributing to the Environment through Our Products

### Main Efforts of the KHI Group

#### 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

#### Responding to the ELV Directive\*<sup>1</sup>, the RoHS Directive\*<sup>2</sup>, and the REACH Regulation\*<sup>3</sup>

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 some of the products made by the Precision Machinery Company and the Robot Division comply with this directive.

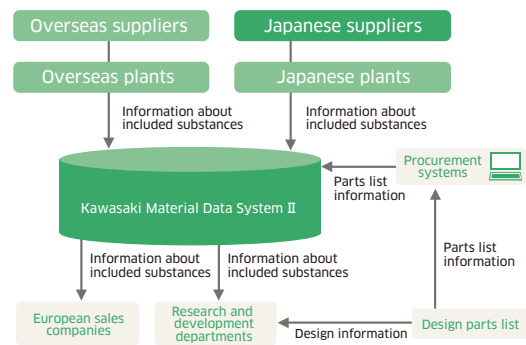
The REACH Regulation went into effect in June 2007 and applies to all chemical substances manufactured in and imported by the EU. Enterprises that manufacture or import one ton or more of chemical substances a year are required to register the chemical substances. As KHI products are

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 (see page 46) 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\*<sup>4</sup> to collect data about chemical substances and respond to REACH and other chemical substance regulations.

#### 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 we are preparing for the shift to International Material Data System (IMDS)

## Topic 1 Approach by the Motorcycle & Engine Company

### Cleaner Exhaust Gas

In fiscal 2013, we continued to tackle technologies that make exhaust from motorcycles cleaner, from a world standard perspective, and launched sales of the class-leading sports model Ninja 300. In the air intake system, the electronic fuel injection system equipped with dual throttle valves\*<sup>1</sup> and a fine-atomizing injector\*<sup>2</sup> achieves fine control of fuel supply in response to all driving conditions and attains high combustion efficiency, combining superior engine performance with cleaner exhaust emissions.



Ninja 300

\*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.

\*2 Fine-atomizing injector: a device that achieves efficient combustion through fine atomization of fuel to a particle size of 60µm.

**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 2013, we achieved a recycling rate of 93.6%. 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* <sup>1</sup>	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* <sup>2</sup> )
Hexavalent chromium	Use prohibited in and after January 2008
Cadmium	Use prohibited in and after January 2007

\*<sup>1</sup> Used batteries are already recycled and excluded from the target values

\*<sup>2</sup> Combination lamps, discharge headlamps, etc.

## Topic 2 High-Efficiency Gas Turbine L30A Wins an Award in the Japan Industrial Technology Grand Prix

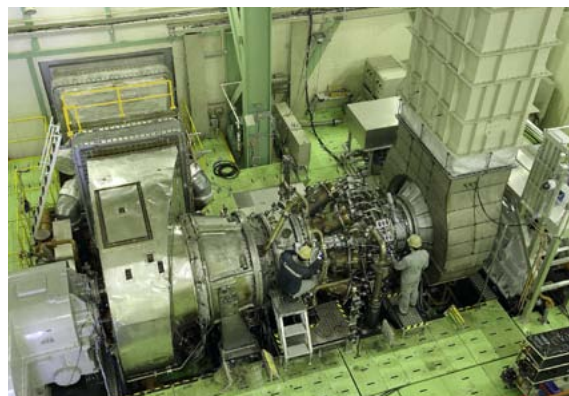
The L30A, a gas turbine in the 30 MW class developed by KHI, was recently awarded the special award by the Japan Industrial Technology Examination Committee in the 42nd Japan Industrial Technology Grand Prix, organized by the Nikkan Kogyo Shimbun. The Japan Industrial Technology Grand Prix focuses each year on technology development that has contributed to the growth of Japan's industrial society, recognizing the enterprises and groups that undertake development or practical applications.

The L30A has the world's highest level of efficiency in its class, a world-leading level of environmental performance and excellent maintenance characteristics. We believe that the prize award represents strong recognition of the technological capabilities that supported our in-house development of the L30A.

The L30A achieves a power generating efficiency of more than 40%, the world's highest level in its class. It also boasts outstanding environmental performance, with the world's lowest NOx emissions levels of 15 ppm or below (O<sub>2</sub> = 15%). The first model began pilot operation in October 2012 and accumulated over 4,600 operating hours by the end of March. After that, it has continued problem-free operation, clocking up a cumulative operating time of 700 hours a month on average. This facility has a cogeneration system using the L30A that can supply 30 MW of electric power and 46 tons of steam and is expected to deliver an annual energy-saving of 29% (equivalent to 24,000 kl

of crude oil), and an annual CO<sub>2</sub> reduction of 51% (117,000 t).

In recent years, cogeneration systems that use highly efficient and environment-friendly gas turbines and combined cycle plants have attracted attention as solutions to environmental and energy issues. Against this background, the L30A represents the optimal response to society's needs in this area. Receiving the prize award, we are committed to boosting our efforts to contribute to comfortable lifestyles for people around the world and the future of the global environment with distributing the L30A into a wide market in Japan and overseas.



L30A gas turbine of 30 MW class

## Environment-Conscious Products and Environmental-Solution Products

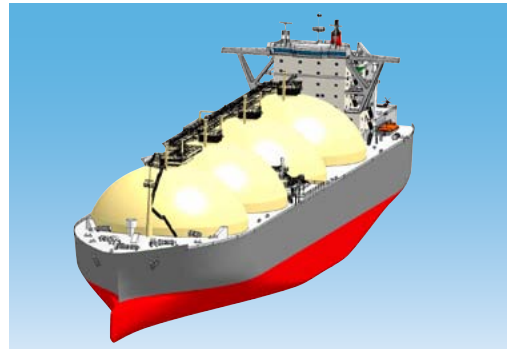
Among KHI's major business fields are transportation systems, energy and environmental engineering, and industrial equipment. Through these business fields, we deliver products endowed with high energy efficiency and environmental performance to the Japanese and overseas markets. In addition to environmentally conscious products that emphasize energy-saving, resource-saving, noise control, and similar issues, here we present examples of environmental-solution products, which are high-performance products related to various forms of energy supply, waste treatment, and prevention of environmental pollution.

### Order received for newly developed LNG carrier: an improvement of more than 25% in transport efficiency with vessels able to navigate the New Panama Canal

The LNG\* carrier for which the order was received is the largest-size Moss tank LNG\* carrier, which has a flexible range of applicability, can pass through the New Panama Canal (due for completion in 2015), and can also berth at the world's major LNG terminals.

The vessel has expanded its cargo tank capacity to approximately 164,700m<sup>3</sup>, while the main engine, an improved version of the energy-saving reheat steam turbine plant taken into service in 2011, offers an improvement in transport efficiency of 25% or more. The tank's thermal insulation performance has also been improved to achieve the world's lowest rate of boil-off (natural vaporization of LNG) at 0.08% per day. This means that gas generated naturally during marine navigation can be used with no wastage as fuel to provide propulsion power to the ship, making this a vessel with excellent levels of energy-saving and economy.

\*LNG: Liquefied natural gas



Newly developed LNG carrier

Energy saving

Fuel efficiency

### Launch of Series E6 Shinkansen rolling stock with a bold new color design

On March 16, 2013, the new Series E6 of high-speed rolling stock was launched on JR East's Tohoku and Akita Shinkansen (bullet train) lines. KHI was involved from the initial stage in the development project for this rolling stock, which is used mainly on Super Komachi services. In addition to the design and manufacture, KHI was placed in charge of the interior and exterior finish design, taking on the role of a design company for the first time. Like the earlier launched Series E5, the Series E6 model can operate at a maximum speed of 320 km/h. Its long-nosed front shaping reduces "micropressure waves," while the adoption of Intercar fairings, sound-absorbing panels, a bogie shroud, and other features reduces noise and achieves additional improvements in environmental performance. Efforts were also devoted to realize lighter weight, which also contributes to improved energy-saving characteristics.



Shinkansen rolling stock Series E6

Energy saving

Environmental load reduction

### Railway battery power system delivered to Tokyo Monorail Co., Ltd.

The GIGACELL high-capacity nickel-metal hydride battery developed by KHI is capable of high-speed charging and discharging and swift control response, and is distinguished by its high electric power storage capacity. By developing a battery power system (BPS) for rail networks that make the most of GIGACELL's characteristics, KHI has contributed significantly to promoting energy saving and CO<sub>2</sub> reduction in the railway sector. By accumulating and storing the electric power generated when the train brakes, and recycling it, this energy storage system maximizes energy-saving benefit. In fiscal 2013, the system was delivered to Tokyo Monorail Co., Ltd., which, among other features, evaluated highly the system's ability to operate trains during power outages. Tokyo Monorail plans additional BPS installation in fiscal 2014, and the system is gradually building an operational track record.



Railway battery power system

Energy saving

Environmental load reduction



## 100th forward fuselage delivered for the Boeing 787 Dreamliner

KHI is responsible for manufacturing the forward fuselage section of the 787 Dreamliner. In August 2012, we delivered to Boeing the milestone 100th unit. Extensive use of composite materials allows the 787 to achieve reduced weight. Combined synergistically with improvements to the engine and other modifications, this gives the aircraft its characteristic high level of fuel efficiency, with a reduction of approximately 20% in fuel costs compared to previous models. A contributory factor in this was our development of composite one-piece barrel molding technology for the forward fuselage. Although the forward fuselage manufacturing process uses large amounts of electric power, installing a large solar power generation panel on the factory roof has given access to renewable energy.



Forward fuselages for the Boeing 787

Fuel efficiency

Environmental load reduction

## KAWASAKI ECO SERVO used in hydraulic presses

In the hydraulic equipment and systems sector, in addition to promoting high levels of efficiency in equipment, we are promoting the use of system products characterized by compact dimensions and low noise levels along with driving energy-saving in control systems. These characteristics are being emphasized in the rollout to usage of KAWASAKI ECO SERVO in industrial equipment, including hydraulic presses and others. In combination with an electric motor for which it is possible to control rotation, the system allows optimal control of the hydraulic pump flow rate as well as reduction of the volume of hydraulic oil and more compact dimensions for peripheral devices. In hydraulic presses, these features contribute not only to energy-saving characteristics but also to preventing overheating of the hydraulic oil, boosting the reproducibility of press molding, and other performance improvements.



KAWASAKI ECO SERVO

Energy saving

Low noise

## BX series for spot welding achieves a major reduction in cycle time

The BX series is a vertically articulated robot that optimizes the spot welding of automobile bodies and components by employing the Z series of existing large, general-purpose robots. With their lightweight arms, small and high-output, high-revolution motors, and the latest in anti-vibration control technology, BX series robots achieve a cycle time about 25% shorter than equivalent models already on the market. In addition, creation of a hollow section in the arm to accommodate the cable harnesses of the welding gun realizes a compact body, reducing by approximately 50% the footprint compared to equivalent models already on the market and making it possible to install robots in high-density space.



Spot-welding robots BX200L

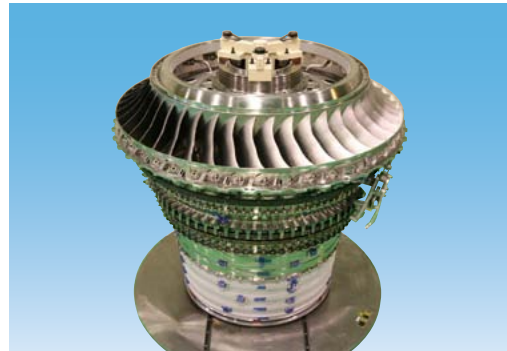
Energy saving

Resource saving

## Trent 1000/XWB jet engines: realizing outstanding energy-saving and environmental performance

The Trent 1000 and Trent XWB are high bypass-ratio engines jointly designed and developed by KHI and Rolls Royce plc. for the new Boeing 787 and Airbus 350 aircraft models. The engines realized outstanding energy-saving performance (20-25% improvement in fuel economy compared to existing models of the same class, reducing fuel costs) and outstanding environmental performance (20-25% reduction in CO<sub>2</sub> emissions compared to existing models of the same class; low NOx and noise levels that meet and surpass regulation values set by the International Civil Aviation Organization).

We acquired engine-type certification for the Trent XWB in February 2013, while for the Trent 1000, already in operation, we aim to achieve improved performance through design changes. For the intermediate-pressure compressor (IPC) modules that form the core of these engines, we are responsible for operations from design and manufacture through to assembly, while for the Trent 1000 we also carry out engine testing.



Trent 1000 jet engine IPC module

Energy saving

Environmental load reduction

## Japan's first 110MW gas engine power plant delivered

In August 2012, KHI delivered a 110MW gas engine power plant to Nihon Techno Co., LTD., a producer and supplier of power equipment. The 110 MW power plant constructed at Sodegaura, Chiba Prefecture, consists of 14 Kawasaki Green Gas Engines with an electrical output of 7,800 kW and the world's highest generating efficiency of 49.0%.

To ensure a stable power supply, there is increasing demand for distributed power systems including small and medium-scale utility and captive power plants. Kawasaki is constantly advancing to meet these needs with its innovative gas engines and other power systems.



Kawasaki Green Gas Engine

High efficiency

Environmental load reduction

## Market launch of world's first compact centrifugal chiller using water as refrigerant

KHI has commercialized and begun sale of the world's first compact centrifugal chiller that uses water as refrigerant and is therefore CFC-free. The chiller is an environment-friendly model that uses water as refrigerant, thus contributing potentially to the protection of the ozone layer and the prevention of global warming. Water, a natural refrigerant, has the advantages of causing zero depletion of the ozone layer and containing no greenhouse gases or combustible or toxic substances.

The chiller has a cooling capacity of 100 US refrigerating tons (352 kW), suitable for the air-conditioning of a small commercial building, factory, or office. Despite being CFC-free, oil-free, and compact in design, it achieves a coefficient of performance (COP) of 5.1.\*



Compact centrifugal chiller using water as refrigerant

Environmental load reduction

\*COP (Coefficient of Performance): index of cooling efficiency calculated by dividing cooling output (kW) by electric power consumption (kW).

## Orders received from the city of Kobe for construction of waste-treatment facility and outsourced facility maintenance

KHI received an order from the City of Kobe for a project to build and maintain the city's 11th Clean Center jointly with Obayashi Corporation and Daiken Sekkei Inc. The incineration plant will feature parallel-flow stoker incinerators capable of high-performance combustion with a minimum air ratio as well as bag filters and a flue gas recirculation system to completely protect against atmospheric pollution. Meanwhile, the facility will also combine high-temperature, high-pressure boilers and extraction condensing turbines to realize a highly efficient electric power generation system capable of producing up to 15,200 kW. In addition, the entire facility will be designed to minimize the use of electric power to help reduce greenhouse gas emissions.



Projected appearance of the Kobe waste-treatment facility when completed

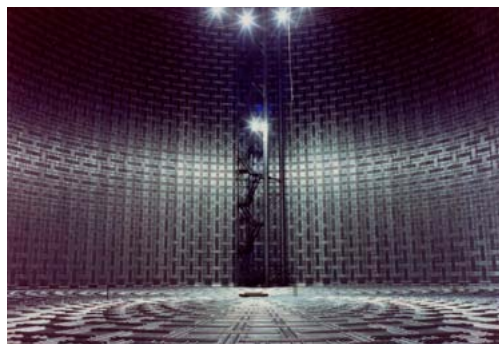
High efficiency

Environmental load reduction

## Order received for in-ground LNG tank from Toho Gas Co., Ltd.

Liquefied natural gas (LNG), which consists mostly of methane cooled to a temperature of around  $-160^{\circ}\text{C}$ , is a clean and environment-friendly energy source.

KHI has won an order from Toho Gas Co., Ltd., for one in-ground LNG storage tank for the company's Chita-Midorihamama Works. The tank will have a capacity of 220,000 kl and can hold an amount equivalent to the annual gas consumption of around 350,000 households. As well as the in-ground type, LNG tanks are made in a wide variety of other formats, including PC tanks, completely buried tanks, in-pit and single/double/full containment tanks. Able to handle all tank types, KHI has a track record of delivery covering more than 30 tanks in Japan and overseas. By constructing LNG tanks, KHI contributes to protecting the global environment.



LNG tank interior

Environmental load reduction

### CO<sub>2</sub> Emissions Reduction through Products for Major Products Delivered in Fiscal 2013

Field	CO <sub>2</sub> emissions reduction (t-CO <sub>2</sub> /year)	Major products	Technologies, remarks
Energy-related products	369,000	Gas turbine cogeneration system	①, ②
		Gas engine power generation system	①
		Binary turbine power generation system	③
		High-efficiency boiler system	②
		Absorption chiller / heater	②
Transportation-related products	123,000	Next-generation mid-sized "Boeing 787" (reduced weight)	④ Shared production
		LNG carriers, LPG carriers, bulk carriers (improved propulsion capabilities)	④
		Battery power system (BPS) for railways	③
		Vehicles fitted with fuel efficiency technology	④
Industrial equipment and other products	12,000	Sewage aeration blowers (Kawasaki MAG Turbo series)	⑤
		Natural gas compressed transport facilities (KC compressor)	⑤
		Electro-hydraulic hybrid system (KAWASAKI ECO SERVO)	⑤
		Large general-purpose robot	⑤
Total	504,000	-	-

#### Technologies:

1. High-efficiency power generation;
2. High-efficiency energy use;
3. Waste heat/exhaust energy use;
4. Reduced fuel costs;
5. Energy-saving equipment and other systems

#### CO<sub>2</sub> emissions reduction effect calculation reference points:

1. Emission factors for electricity, heat, fuel and other types of energy were set to comply with the manual for the Law Concerning the Promotion of Measures to Cope with Global Warming.
2. CO<sub>2</sub> 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 waste products is counted toward the CO<sub>2</sub> reduction effect.

## Environmental Data

### Group-wide Environmental Load Data (Fiscal 2013)

		Unit	Whole group	Change from previous fiscal year	
Input	Total energy consumption (crude oil conversion)	kl	149,373	94%*	
	Purchased electricity	MWh	313,051	86%	
	Fuel	TJ	2,742	104%*	
	Renewable energy	MWh	1,782	101%	
	Materials	10,000 t	14	56%	
	Water	1,000 m <sup>3</sup>	6,315	102%	
Output	Air	CO <sub>2</sub> emissions volume from energy sources	t-CO <sub>2</sub>	284,067	113%
		SO <sub>x</sub>	t	8	67%
		NO <sub>x</sub>	t	169	71%
		Soot and dust	t	2	50%
		PRTR regulated substance	t	1,055	77%
	Water	Wastewater	1,000 m <sup>3</sup>	3,915	100%
		COD	t	10	100%
		Nitrogen	t	29	145%
		Phosphorus	t	0.1	25%
		PRTR regulated substance	t	1	50%
	Waste	Total emitted	t	53,285	85%
		Recycled	t	51,946	85%
		Intermediate waste	t	1,173	71%
		Final disposal volume	t	166	56%
		Specially controlled industrial waste in above total	t	1,868	112%
		PRTR regulated substance in above total	t	228	83%
	Others	CO <sub>2</sub> emissions during transport	t-CO <sub>2</sub>	4,290	91%

\*Change from previous fiscal year is calculated based on FY2012 figures not including energy sold (same basis as for fiscal 2013 figures).

## Waste and Other Emissions Volume and Recycling Volume (Fiscal 2013)

(t)

Type of waste	Total emissions volume	Recycling (material recycling)	Recycling (thermal recycling)	Recycling rate	Intermediate treatment	Final disposal
<b>General waste</b>						
Paper scrap	1,480	832	648	100	0	0
Wood scrap	348	296	52	100	0	0
Others	426	412	14	100	0	0
<b>Subtotal</b>	<b>2,254</b>	<b>1,540</b>	<b>714</b>	<b>100</b>	<b>0</b>	<b>0</b>
<b>Industrial waste</b>						
Cinders	1	1	0	100	0	0
Sludge	2,121	1,522	413	94	88	97
Waste oil	5,987	2,158	3,829	100	0	0
Waste acid	194	147	47	100	0	0
Waste alkali	436	376	61	100	0	0
Waste plastics	3,075	1,087	903	95	1,085	0
Wood scrap	3,331	1,727	1,604	100	0	0
Fiber scrap	302	40	262	100	0	0
Metal scrap	846	846	0	100	0	0
Glass, concrete debris and ceramics	134	131	0	93	0	3
Slag	2,337	2,139	136	98	0	62
Rubble (waste construction materials)	42	41	0	87	0	1
Soot and dust	1	0	0	0	0	1
Others	37	37	0	100	0	0
<b>Subtotal</b>	<b>18,844</b>	<b>10,253</b>	<b>7,254</b>	<b>93</b>	<b>1,173</b>	<b>164</b>
<b>Specially controlled industrial waste</b>						
Waste oil	669	543	126	100	0	0
Waste acid	845	825	19	89	0	1
Waste alkali	304	288	16	86	0	0
Infectious waste	0.4	0.1	0	13	0	0.3
Hazardous industrial waste	48	44	4	100	0	0
Waste asbestos, etc.	1	0	0	0	0	1
<b>Subtotal</b>	<b>1,867</b>	<b>1,701</b>	<b>165</b>	<b>99</b>	<b>0</b>	<b>2</b>
Valuables (metal scrap, etc.)	30,320					
<b>Total</b>	<b>53,285</b>	<b>43,813</b>	<b>8,133</b>	<b>97</b>	<b>1,173</b>	<b>166</b>

## Release and Transfer Volume of Chemical Substances (Fiscal 2013)

(t)

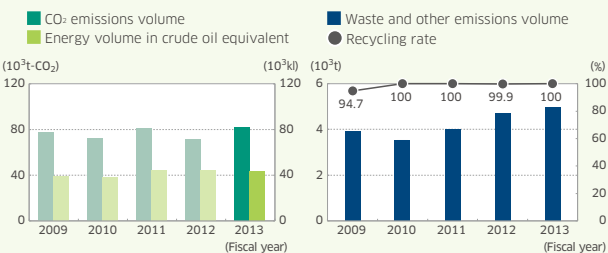
Government ordinance no.	Name of substance	Volume released				Volume transferred	
		Air	Water	Soil	Subtotal	Sewer	Waste
Class I designated chemical substances: annual volume handled 1t or above							
053	Ethylbenzene	189	0	0	189	0	15
080	Xylene	468	0	0	468	0	76
086	Cresol	0	0.02	0	0.02	0	1
087	Chromium and chromium (III) compounds	Under 0.01	0.08	0	0.08	0	3
144	Inorganic cyanide compounds	0	Under 0.01	0	Under 0.01	0	2
186	Dichloromethane	44	Under 0.01	0	44	0	4
238	Hydrogenated terphenyl	2	0	0	2	0	1
240	Styrene	9	0	0	9	0	0.2
296	1,2,4-trimethylbenzene	6	0	0	6	0	0.2
297	1,3,5-trimethylbenzene	4	0	0	4	0	0.4
300	Toluene	315	0	0	315	0	86
349	Phenol	0	Under 0.01	0	Under 0.01	0	4
374	Hydrogen fluoride and its water-soluble salts	0.1	0	0	0.1	0	10
412	Manganese and its compounds	1	0	0	1	0	14
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
243	Dioxins	0.02	Under 0.01	0	0.02	0	0
309	Nickel compounds	0	0.5	0	0.5	0	2

### Environmental Load Data by Business Site (Fiscal 2013) 1/2

		Unit	Gifu Works	Nagoya Works 1	Kobe Works	Hyogo Works	Nishi-Kobe Works	
Input	Total energy consumption (crude oil conversion)	kl	33,181	8,736	11,970	6,109	16,232	
	Purchased electricity	MWh	59,733	33,340	31,690	18,807	58,838	
	Fuel	TJ	708	15	156	52	57	
	Renewable energy	MWh	0	962	34	29	574	
	Water	1,000 m <sup>3</sup>	4,125	42	357	122	151	
Output	Air	CO <sub>2</sub> emissions volume from energy sources	t-CO <sub>2</sub>	65,043	16,637	21,790	10,618	27,281
		SOx	t	1	Under 0.1	7	0	0
		NOx	t	44	1	108	0.6	0.7
		Soot and dust	t	0.6	Under 0.1	1	0.1	Under 0.1
		PRTR regulated substance	t	138	5	143	103	55
	Water	Wastewater	1,000 m <sup>3</sup>	2,436	7	116	122	151
		COD	t	7	0.2	Under 0.1	Under 0.1	0.4
		Nitrogen	t	17	Under 0.1	Under 0.1	Under 0.1	0.8
		Phosphorus	t	Under 0.1	Under 0.1	Under 0.1	Under 0.1	Under 0.1
		PRTR regulated substance	t	Under 0.1	0	0	0	0
	Waste	Total emitted	t	4,522	437	9,619	4,310	5,322
		Recycled	t	4,522	437	9,570	4,310	5,322
		Intermediate waste	t	0	0	0	0	0
		Final disposal volume	t	0	0	49	0	0
		Specially controlled industrial waste in above total	t	336	9	173	131	40
		PRTR regulated substance in above total	t	53	1	45	43	32

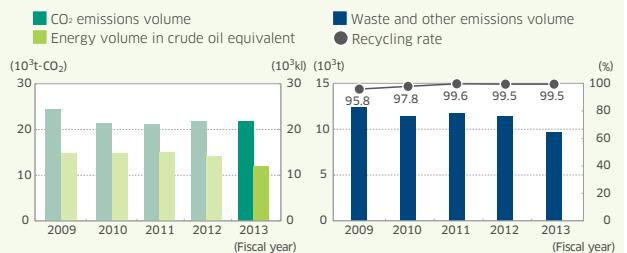
#### Gifu Works (Including Nagoya Works 1)

**Location** 1, Kawasaki-cho, Kakamigahara, Gifu 504-8710, Japan  
**Main products** Transport airplanes, helicopters, spacecraft, component parts for airplanes



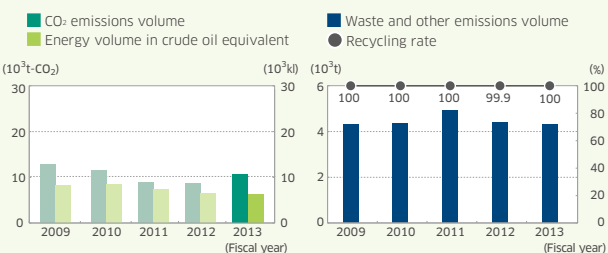
#### Kobe Works

**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



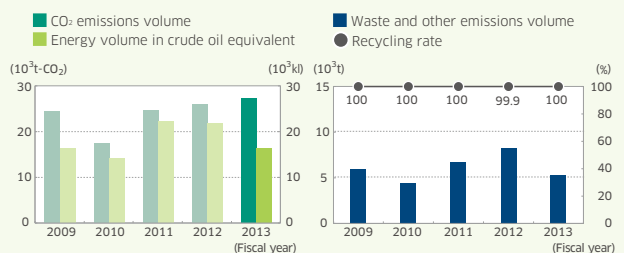
#### Hyogo Works

**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



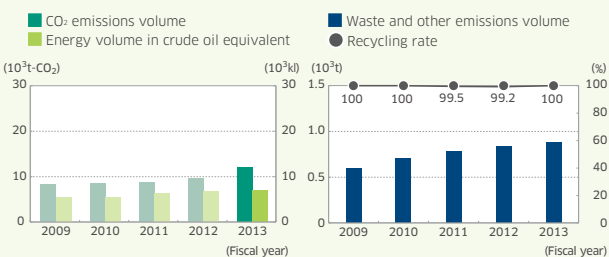
Note: CO<sub>2</sub> emissions are impacted by the electricity emission factor.

### Environmental Load Data by Business Site (Fiscal 2013) 2/2

		Unit	Seishin Works	Akashi Works	Kakogawa Works	Harima Works	Sakaide Works	
Input	Total energy consumption (crude oil conversion)	kl	6,961	47,478	3,694	4,048	9,142	
	Purchased electricity	MWh	21,424	30,563	6,950	13,049	32,763	
	Fuel	TJ	62	1,543	76	28	36	
	Renewable energy	MWh	0	115	0	5	63	
	Water	1,000 m <sup>3</sup>	82	975	12	84	362	
Output	Air	CO <sub>2</sub> emissions volume from energy sources	t-CO <sub>2</sub>	12,024	95,630	6,734	6,972	17,979
		SOx	t	0	0	0	0	0
		NOx	t	1	13	0	0.2	0.1
		Soot and dust	t	Under 0.1	Under 0.1	0	Under 0.1	0.3
		PRTR regulated substance	t	10	113	0	41	446
	Water	Wastewater	1,000 m <sup>3</sup>	82	658	5	23	313
		COD	t	0.2	2	Under 0.1	Under 0.1	0.3
		Nitrogen	t	0.5	10	Under 0.1	Under 0.1	0.3
		Phosphorus	t	Under 0.1	0.1	Under 0.1	Under 0.1	Under 0.1
		PRTR regulated substance	t	0	1	0	0	0
	Waste	Total emitted	t	875	8,404	1,840	4,959	12,712
		Recycled	t	875	8,400	1,826	4,959	11,440
		Intermediate waste	t	0	0	0	0	1,173
		Final disposal volume	t	0	4	13	0	99
		Specially controlled industrial waste in above total	t	89	1,047	0	0	43
		PRTR regulated substance in above total	t	3	33	0	3	16

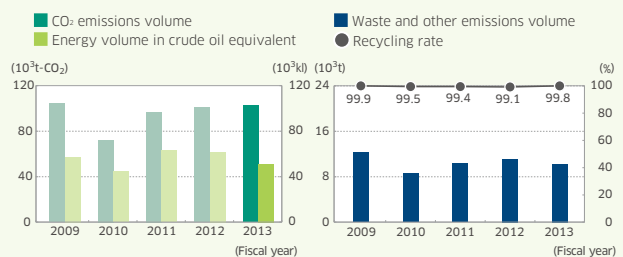
#### Seishin Works

**Location** 8-1, Takatsukadai 2-chome, Nishi-ku, Kobe, Hyogo 651-2271, Japan  
**Main products** Component parts for jet engines and gas turbines



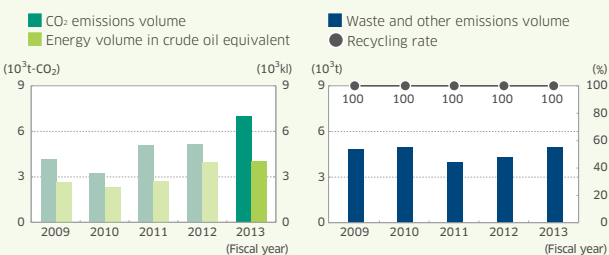
#### Akashi Works (including Kakogawa Works)

**Location** 1-1, Kawasaki-cho, Akashi, Hyogo 673-8666, Japan  
**Main products** Motorcycles, General-purpose gasoline engines, industrial robots, jet engines, industrial gas turbines



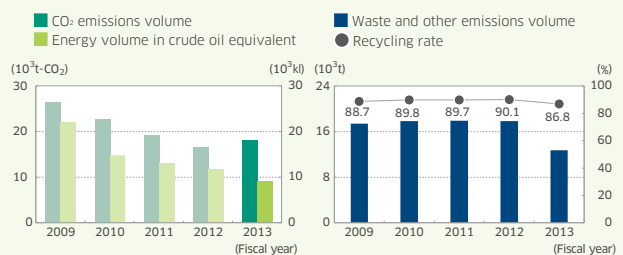
#### Harima Works

**Location** 8, Nijijima, 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.)

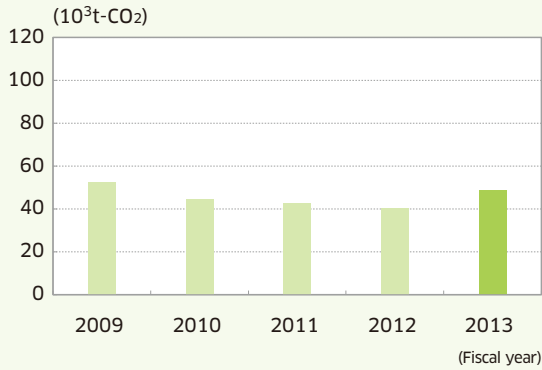


Note: CO<sub>2</sub> emissions are impacted by the electricity emission factor.



## CO<sub>2</sub> Emissions Volume of Consolidated Subsidiaries (Fiscal 2013)

### Domestic Subsidiaries

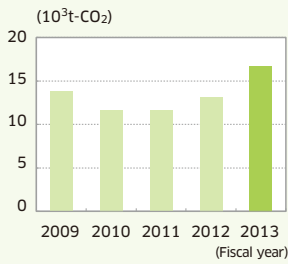


### Overseas Subsidiaries

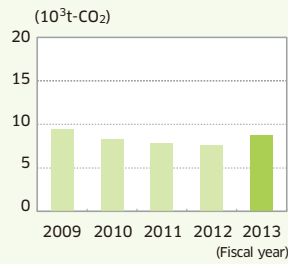


### Domestic Main Subsidiaries

#### NIPPI Corporation

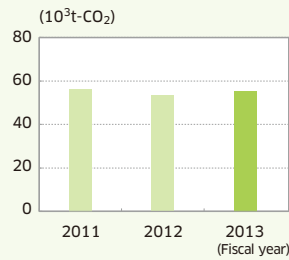


#### EarthTechnica Co., Ltd.

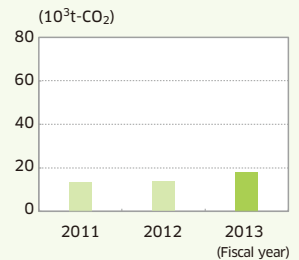


### Overseas Main Subsidiaries

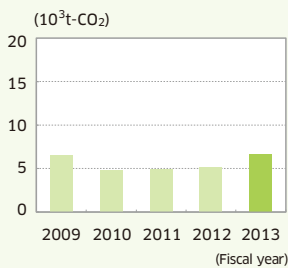
#### Kawasaki Motors Manufacturing Corp., U.S.A.



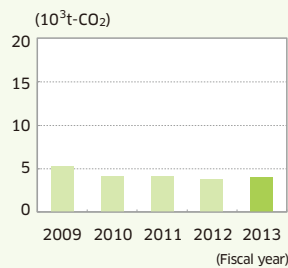
#### Kawasaki Motors Enterprise (Thailand) Co., Ltd.



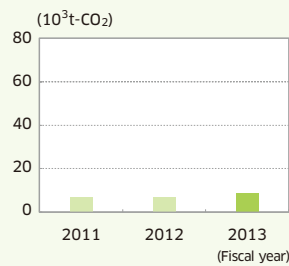
#### KCM Corporation



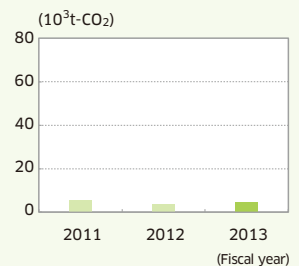
#### Technica Corp.



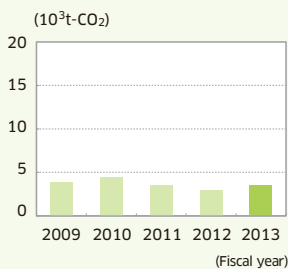
#### KHITKAN Co., Ltd.



#### P.T. Kawasaki Motors Indonesia



#### Kawasaki Thermal Engineering Co., Ltd.



Note: the CO<sub>2</sub> 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 (<http://www.env.go.jp/press/press.php?serial=14702>)
- For CO<sub>2</sub> emissions volume through overseas electricity consumption, the figures published by the Greenhouse Gas Protocol are used.

# 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

## Overview of Activities during the Medium-term Business Plan 2010 (FY2011-2013)

In addition to donating funds to a variety of charitable activities and supporting disaster relief across the globe, notably after the Great East Japan Earthquake, the KHI Group undertakes a range of voluntary programs. These include operation of the corporate museum, Kawasaki Good Times World, organization of numerous events mainly to benefit children, support for culture and sports,

involvement in local economic development projects, and corporate forest restoration projects.

Looking ahead, we aim to define our social contribution vision and policies more clearly and build systems to better implement them. At the same time, we are committed to expanding our voluntary program of activities to support and nurture the next generation.

### Self-Assessment of Activities

Category	Action	Annual self-assessment (average)		
		FY2011	FY2012	FY2013
Social contribution	Formulation and publication of basic policy on social contribution and key areas	★★★★	★★★★	★★★★
	Publication of expenditure on social contribution activity	★★★	★★★★	★★★★
	Encouragement of self-planning and self-sponsored social contribution initiatives	★★★	★★★★	★★★★
	Identification of conditions in countries where the Company has overseas operations and corresponding activities	★★★★	★★★★	★★★★

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

### Expenditure on Social Contribution

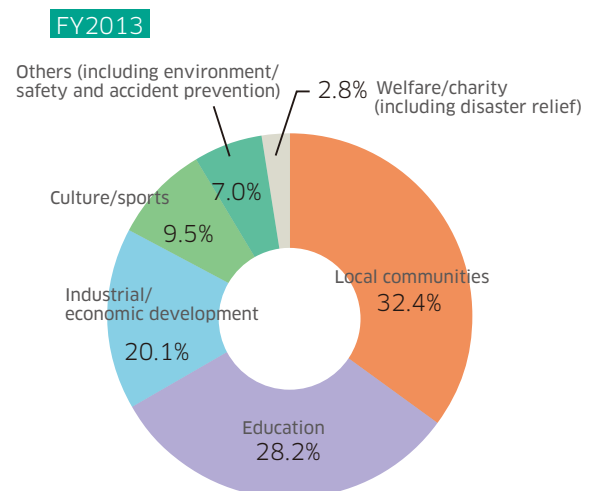
(Millions of yen)

	FY2011	FY2012	FY2013
Local communities	164	226	223
Education	153	164	194
Industrial/economic development	120	142	137
Culture/sports	55	55	65
Welfare/charity (including disaster relief)	232	190	20
Others (including environment/safety and accident prevention)	13	19	48
Total	737	796	687

Recurring profit for the fiscal year	49,136	63,627	39,328
Expenditure as a proportion of recurring profit	1.50%	1.25%	1.75%

#### 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.



## Measures during the Medium-term Business Plan 2013 (FY2014-2016)

Target profile	Measures
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 organizations
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

### Topic 1 Make Your Own Helicopter!

#### Handicraft workshops given at Minamisanriku Town and Rikuzentakata City

We wanted to use our social contribution activities to allow large numbers of children to experience the wonder of technology and the importance of manufacturing. We therefore developed and are holding a handicraft workshop program for elementary schoolchildren based on the technology used in the helicopters we manufacture. Since the program (Make Your Own Helicopter!) was launched in fiscal 2012, workshops have been held in three areas, Osaka, Miyagi, and Iwate prefectures, and approximately 140 children have taken part.

In fiscal 2013, with the twin aims of helping to nurture the next generation and assisting recovery in the earthquake-stricken Tohoku region, workshops were held for 77 children and their parents at three elementary schools in Miyagi and Iwate prefectures over two days, from October 26 to 27, 2012.

The educational helicopter is an original model developed in house for use in the handicraft workshop. With KHI employees acting as coaches, the children assemble the helicopter fuselage and rotor from balsawood, while measuring the lift force of the rotor, experimenting with technologies to stop the fuselage from rotating, and tackling other issues in a program that allows them to experience the elements of learning, manufacturing and enjoyment, all at the same time. With the help of advice from the coaches, the children became so engrossed that they forgot to go out and play during break.

Going forward, the KHI Group will continue to work with local communities to explore ways of making social contributions through its business operations.



The children became so engrossed that they forgot to go and play during break!



Handcrafted helicopter

#### What the children said (77 responses)

	Agree	Agree a little	Do not agree very much	Do not agree
The lesson with the coach was interesting.	72	5	0	0
It was fun talking with our group's coach.	63	13	1	0
After the lesson, I felt like trying to make something myself.	55	15	6	1
I would like the coach to come to our school again and teach us more.	72	5	0	0

#### What the parents said (22 responses)

	Agree	Agree a little	Do not agree very much	Do not agree
The lesson with the coach was interesting.	20	2	0	0
I would like my child to take part again in a similar handicraft workshop.	21	1	0	0

#### KHI Wins a Prize at the CSR Initiative Award in Education 2012 in the Teaching Material Development Category

On December 22, 2012, this program was awarded a prize in the teaching material development category at the CSR Initiative Award in Education 2012, organized by Leave a Nest Co., Ltd. For details, please follow the link below to the website.

<http://www.kyoiukuouen.com/award2012/>



Award ceremony



Presentation

## Topic 2 Make Your Own Crane! —Participation in Science Yard 2013—

On March 20, 2013, KHI took part in Science Yard 2013, a science and technology encounter event for elementary schoolchildren in the Kansai region sponsored by Leave a Nest Co., Ltd. This marked the second year of KHI's participation.

Each year, KHI prepares for the event by developing an educational program using our products as materials. In fiscal 2013, we developed a program based on the workings of hydraulic products and organized a handicraft workshop.

As part of our program, which was designed to allow children to experience the wonder of science and technology and the fun of making things, children used two syringes of differing size to discover Pascal's principle, assembled a model of a crane, and practiced lifting heavy objects with small amounts of force. We hope that encounters with technology of this kind will inspire many children to decide "I want to be an engineer when I grow up."



Children making their own cranes

### ■ What the children said:

- "I managed to make a good model quickly. When we set the big syringe against the little one, I never thought that the little one would win."
- "The workshop helped me understand how cranes lift heavy weights."
- "I want to find out what other situations Pascal's principle is used in."
- "I was really surprised that we were able to make a crane with syringes. It was very hard to do, but I was really happy when I managed it. I really enjoyed myself."
- "When I get home, I want to make another one."

## Topic 3 Exhibition at a Science Fair in Hyogo

On January 20, 2013, KHI exhibited at the Fifth Science Fair in Hyogo.

At this event, students from high schools and technical colleges in Hyogo Prefecture and beyond give presentations on their recent research activity in the fields of mathematics and science and communicate with universities, businesses, research centers and other institutions.

KHI has exhibited at the annual event since its second year. This year, we used the "Make Your Own Crane!" program described above to explain the principle of hydraulic technology and present examples



Students gathering at the KHI booth

of its practical application.

We hope that communications of this kind will encourage many high school and technical college students to develop a deeper interest and involvement in science and provide them with pointers for their future path in life.

### ■ What the participants said:

#### Staff member who took part as a coach

"Normally people do not get to see hydraulic equipment, but I think we were able to show the kind of places where it is used."

"The students came up with some disarmingly simple questions, such as why the liquid we use has to be oil. It was a learning experience for us too, as we had to think about how best to explain so that they could understand the equipment."



**Ken-ichi Tominaga**  
Industrial Machinery Section,  
System Engineering Department,  
Engineering Division,  
Precision Machinery Company

## Topic 4 Ship for the World Youth Program: International Exchange Activities in Kobe

On February 15, 2013, when the Ship for World Youth sailed into the port of Kobe, KHI took part in exchange activities with the 43 program participants. The ship is the focus of an international youth exchange program operated by the Cabinet Office of the government of Japan.

Under this program, youths from Japan and 10 other countries around the world spend 19 days living communally aboard the ship, taking part in a range of exchange activities on board at the ports of call (Naha, Kobe and Ofunato cities) and in the countries the youths visit. The aim is to nurture young people who can show leadership skills in a variety of sectors in societies where internationalization is progressing.

KHI staff members, consisting mainly of younger employees, joined the program participants in a visit to the corporate museum Kawasaki Good Times World. Afterward, the two sides attended a talk on the KHI Group's CSR and environmental activities and enjoyed a social meeting over lunch, promoting mutual understanding and friendship.



An on-board lecture

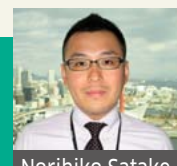


Communicating with youth program participants

### ■ What the participants said:

#### KHI staff member participant

"In some of the program participants' countries, there is no railroad system. So at Kawasaki Good Times World, participants viewed with interest the display of a real Shinkansen and the video presentation of railroad rolling stock manufacture. For me, it was another occasion when I could see that our company is one that supports the social infrastructure and has a social mission."



**Norihiko Satake**  
General Affairs & Secretarial  
Section, General Administration  
Department,  
General Administration Division

## Topic 5 Achieving a Society That Coexists with Nature through Forest Restoration Activity



In Kochi Prefecture, new employees engage in forest maintenance activities.

To help bring about a society that coexists with nature, the KHI Group engages in activities to preserve the ecological environment in three locations: Kochi, Hyogo and Miyagi prefectures.

The first location for our activity is Niyodogawa Town in Kochi Prefecture, where KHI has taken part since 2007 in the prefecture's forest restoration project. With this project, businesses and local governments come together to restore the forest. Each year, new employees participate in tree thinning and related operations, deepening relationships with local communities.

In Taka Town in Hyogo Prefecture, KHI has participated in the prefecture's corporate forest restoration project since 2008. Participants are recruited in house in the spring and fall. As of April 2013, a total of approximately 880



In Hyogo Prefecture, employees join in tree-thinning operations.

employees and family members have taken part in forest conservation activities including tree planting and thinning.

In the four years to 2012, the amount of CO<sub>2</sub> absorbed by the forests KHI maintains was 33,35t-CO<sub>2</sub>, in recognition of which the Company received a

CO<sub>2</sub> Removals Certificate from Taka Town.

From 2011, we also began forest maintenance activities in Sendai City in Miyagi Prefecture. As part of its social contribution efforts in the area hit by the 2011 earthquake disaster, staff from KHI operating sites in Sendai joined nonprofit organizations in branch pruning and tree-thinning operations in local forests on the city outskirts.

By carrying out forest restoration activities at a number of locations in cooperation with local communities, we are contributing to coexistence between humans and nature.



In Miyagi Prefecture, branch pruning operations are carried out jointly with nonprofit organizations.

## Topic 6 Kobe Marathon Runners' Race Bib Sponsor

On November 25, 2012, we followed up on our participation of 2011 by contributing to the Kobe Marathon as a race bib sponsor for male runners. In addition, 160 employee volunteers turned out to man the roadside water stations and cheer on the roughly 20,000 athletes as they raced through the streets of Kobe.



Volunteers at the water station

## Topic 7 Interaction Opportunities with the Local Community (Akashi Works)

On November 23, 2012, KHI organized a bus tour of the Akashi Works and a visit to the corporate museum Kawasaki Good Times World for a group of 112 people, comprising pupils from surrounding elementary and junior high schools and members of their families. This was the second time an interaction event of this kind had been held.

The site manager, Mr. Okamoto, welcomed the visitors with a talk on the history of the Akashi Works and the operations carried out there, and he underlined its aim to develop hand in hand with the local community. The visitors were served lunch in the works cafeteria, sharing the same menu as the staff.

At Kawasaki Good Times World, the children were asked what they would like to make, and one of the younger boys replied with a beaming smile: "A robot!"



Akashi interaction group

## Fiscal 2013 Support for Recovery from the Great East Japan Earthquake

### Donation of Jet Ski Personal Watercraft

On March 6, 2013, to support the recovery of the coastal fishing industry and help prepare for future emergencies, KHI donated a Jet Ski STX-15F to Matsushima Town in Miyagi Prefecture.



The Jet Ski is delivered.



Jet Ski STX-15F

### Support for Construction of Tohoku Rainbow House

In March 2013, KHI donated ¥2 million to support the Tohoku Rainbow House\*, which is being built by the Ashinaga charity to look after the emotional needs of children orphaned by the earthquake disaster.

\*The first Rainbow House was opened in 1999 in the city of Kobe following the Great Hanshin-Awaji Earthquake.

# The KHI Group's Second Dialogue with Experts

## Toward Achieving Kawasaki Business Vision 2020



On December 20, 2012, we invited specialists in a number of aspects of CSR to the KHI Tokyo Head Office for our second Dialogue with Experts. This took the form of an exchange of opinions, including those from KHI staff, on how to achieve Kawasaki Business Vision 2020, as well as how to promote CSR as we approach the formulation of a new medium-term business plan to start from fiscal 2014.

### ● Event Summary

#### Date

December 20, 2012

#### Place

KHI Tokyo Head Office

#### Outside Participants

Itaru Yasui	Professor Emeritus, The University of Tokyo; former Vice-Rector, United Nations University
Toshihiko Fujii	Visiting Professor, Saitama University, Graduate School of Economic Science
Hitoshi Suzuki	President, Institute for International Socio-Economic Studies Executive Specialist, CSR and Environmental Management Promotion Division, NEC Corporation
Takehiko Mizukami	Consultant, Cre-en Inc. (Facilitator)

#### KHI Participants

Mitsutoshi Takao	Senior Executive Vice President
Yoshizumi Hashimoto	General Manager, CSR Division Executive Officer
Takashi Shimakawa	Deputy General Manager, Marketing Division Senior Associate Officer
Takamasa Ogata	Senior Manager, Environmental Affairs Department Associate Officer
Kazutoshi Honkawa	Senior Manager, Corporate Planning Department Associate Officer
Yutaka Fukuda	Senior Manager, CSR Department

Note: Official titles are correct as at the time of the dialogue.

### ● Outline of the Dialogue

This year's dialogue focused on how to reflect the issues and demands of society in our corporate operations going forward, and how to make them relevant in achieving our Business Vision and formulating our medium-term business plan. Opinions were also offered on the issues that need to be tackled in the course of our global business expansion, which will intensify in the years ahead.

### ● Facilitator's Comment

#### Staying with our mission to create both social value and corporate value

As we approach the year 2020, innovation and globalization are indispensable. Creating innovation requires risk-taking, but the pivotal point of our decision-making in this area is our mission. Moreover, in terms of business expansion in the emerging nations that are at the heart of globalization, we need to retain a focus on developing hand in hand with society. Putting our mission into practice by increasing points of contact with society, listening to voices in society, and combining creation of social value with corporate value: this is where the future lies for KHI.

**Takehiko Mizukami**  
Consultant Cre-en Inc.



## Extracts from Our Experts' Opinions

### • All divisions must adapt to achieve the Group's Mission

The KHI Group's Mission is all about CSR. To achieve it would be the most wonderful thing imaginable. The issue going forward is how individual divisions should adapt to the Mission Statement. One problem is that the Mission Statement speaks of "enriching lifestyles," which might be difficult to understand. Enrichment includes both material and financial aspects, but I don't think that's the whole story.

If we view the earth as a kind of system, we need to look ahead constantly to see what courses are open to us. By taking the worldwide lead, I think we can achieve integrated CSR. To do this, an essential precondition is to devise criteria on the amount of risk we can take and the purposes of taking such risk, and this needs to be set out clearly in terms of corporate policy.



**Itaru Yasui**

Professor Emeritus,  
The University of Tokyo;  
former Vice-Rector,  
United Nations University

### • Looking beyond customers to citizens and the society of the future

Looked at from a corporate standpoint, CSR means activity to improve management quality that involves stakeholders and leads to sustainable development. By engaging with stakeholders, we need to identify what society wants and expects from us, add inputs from the perspective of management strategy, and then choose the priority themes of CSR.

When we seek to grow businesses that lead to sustainability, it is important to look beyond our immediate customers to the citizens, global environment and society of the future. I would like to see KHI contributing to society by interacting with citizens and consumers and presenting solutions based on the need to resolve social issues. Although globalization creates new blind spots in terms of risk, my experience with practical operations tells me that these can be identified quickly through engagement with stakeholders.



**Hitoshi Suzuki**

President, Institute for International Socio-Economic Studies  
Executive Specialist, CSR and Environmental Management  
Promotion Division, NEC Corporation

### • Recognizing the difference in thinking between Japan and overseas

CSR as we think of it in Japan sometimes differs from the idea of CSR that people have overseas. It is not a question of asking who is right and who is wrong, but we need to recognize that there are differences. In Europe, at the root of CSR is the idea that firms should change the way they do business to resolve social issues. For instance, to take the example of human rights, the idea is not to engage in businesses that help to advance human rights, but to change the business process to eliminate practices that infringe on human rights.

In Japan, contributing through business activities is recognized as CSR. In global operations, we must win the sympathies of people from a rich diversity of backgrounds, and CSR is a valuable tool in this regard. I would like KHI to think about what it can do to help these people understand that our company is a really good company.



**Toshihiko Fujii**

Visiting Professor  
Saitama University  
Graduate School of Economic Science

### Taking on board expert opinion

#### Yoshizumi Hashimoto

General Manager, CSR Division

I think that what is required of the KHI Group is, through its business operations, to continuously present accurate solutions that answer the demands and expectations of society. The Group Mission advocates two goals, "Enriching lifestyles" and "helping safeguard the environment," that are sometimes in conflict, but I want us to work to fulfill them both. We are committed to continuing to pursue this mission until and beyond the year 2020.

In today's dialogue, we have heard numerous suggestions on how to move forward our management operations and our business itself. In addition, because CSR is reflected in business execution through risk management and other aspects, I realize now that divisions other than those with direct responsibility for CSR need to consider it from the same perspective.



# Management's Discussion & Analysis

## OVERVIEW

In fiscal 2013, ended March 31, 2013, the world economy as a whole managed only a modest rate of expansion, due to the slowdown in China's economic development and a general deceleration in the growth of emerging economies that had been driving the world economy in past years. In terms of the outlook, despite the unstable economic situation in Europe due to the sovereign debt crisis, expectations of a recovery trend in the U.S. manufacturing industry and solid underlying infrastructural demand in emerging markets point to a continuation of modest growth.

In Japan, recovery progressed in the wake of the Great East Japan Earthquake, but fears over a downturn in the world economy contributed to an overall lack of stability. Looking ahead, hopes of economic growth have been supported by fiscal and monetary policies aimed at ending deflation and spurring sustained economic growth and by the current trend to reverse the yen's appreciation, but it is likely to take some time before these factors are reflected in the real economy.

In this operating environment, the KHI Group enjoyed an overall increase in the value of orders received in fiscal 2013, with increases in the Ship & Offshore Structure, Rolling Stock, and other segments counterbalancing decreases in segments such as Precision Machinery. Overall, net sales were roughly on a par with those of the previous fiscal year due to increases in the Aerospace and other segments, despite a decline in the Precision Machinery segment caused by the economic slowdown in China and a drop in the Ship & Offshore Structure segments. Overall, operating income decreased, reflecting lower profitability in the Precision Machinery and Plant & Infrastructure segments, despite improvement in the Aerospace and Motorcycle & Engine segments, where net sales increased.

Consequently, on a consolidated basis, orders received by the KHI Group increased ¥57.7 billion from the previous fiscal year, to ¥1,369.5 billion. Furthermore, net sales decreased ¥14.8 billion, to ¥1,288.8 billion, operating income fell ¥15.4 billion, to ¥42.0 billion, and recurring profit declined ¥24.2 billion, to ¥39.3 billion. Nevertheless, due to a boost in extraordinary income and reduced tax expenses, net income grew ¥7.5 billion year on year, to ¥30.8 billion.

## RESULTS OF OPERATIONS

### Net Sales

As noted, consolidated net sales, at ¥1,288.8 billion, showed little change from the previous fiscal year. Overseas sales totaled ¥672.6 billion. By region, sales in the United States were ¥272.5 billion, sales in Europe accounted for ¥97.5 billion, sales in Asia outside Japan contributed ¥202.7 billion, and sales in other areas added ¥99.8 billion. The ratio of overseas sales to consolidated net sales fell 4.4 percentage points, to 52.1%, compared to 56.5% 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

Thanks to orders received for one submarine and five other vessels including LNG carriers, the consolidated value of orders received a major boost, rising ¥65.8 billion from the previous fiscal year, to ¥105.7 billion.

An increase in the construction of LNG and LPG carriers and others was balanced by a decrease in the construction of cape-size bulk carriers and other vessels, resulting in a drop of ¥23.1 billion in net sales from the previous fiscal year, to ¥90.3 billion.



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

### Rolling Stock

The consolidated value of orders received increased ¥58.3 billion year on year, to ¥124.4 billion, mainly reflecting orders received for rolling stock, notably for Taiwan's high-speed rail cars and Singapore's subway cars.

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

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

### Aerospace

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

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

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

### Gas Turbine & Machinery

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

Reduced sales of marine diesel engines and related sectors were counterbalanced by growth in areas including component parts for commercial aircraft jet engines and gas engines. As a result, net sales

grew ¥12.3 billion year on year, to ¥207.0 billion. Operating income dropped ¥0.7 billion to ¥7.0 billion, due mainly to allocation of non-recurring cost for new projects.

### Plant & Infrastructure

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

Net sales were supported by the continuing high level of LNG storage tank projects as well as by increases in material handling systems, municipal refuse incineration plants, and other areas.

However, due to decreases in major projects for overseas clients, consolidated net sales shrank ¥6.9 billion year on year, to ¥115.8 billion.

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

### Motorcycle & Engine

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

Compared to the operating loss of the prior year, growth in net sales and improved profitability factored a net improvement of ¥5.3 billion in operating income to ¥2.3 billion.

### Precision Machinery

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

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

Consolidated operating income totaled ¥8.4 billion, a steep decline of ¥18.1 billion year on year, largely due to the decline in sales and increase in fixed

expenses stemming from capital investments in the previous fiscal year.

### Other

Net sales in this segment were up ¥1.0 billion, to ¥124.2 billion.

Operating income decreased ¥2.5 billion, to ¥1.2 billion.

### Cost, Expenses, and Earnings

Cost of sales decreased ¥3.4 billion from the previous fiscal year, to ¥1,085.4 billion. As a result, gross profit declined ¥11.4 billion, to ¥203.4 billion, while the gross profit margin edged down 0.7 percentage point, to 15.7%, from 16.4% in the previous fiscal year.

Selling, general and administrative expenses grew ¥3.9 billion, to ¥161.3 billion, primarily because of higher R&D expenses. Operating income fell ¥15.4 billion, to ¥42.0 billion. The fall in operating income, which occurred despite sales growth and improved profitability in the Aerospace and Motorcycle & Engine segments, was due to reduced profitability in the Precision Machinery segment caused by a major drop in income from hydraulic equipment for the construction machinery market in emerging markets, especially China. The ratio of operating income to net sales slipped 1.2 percentage points, to 3.2%, from 4.4% in the previous fiscal year. Other income (expenses) showed net income of ¥4.0 billion, compared with net expenses of ¥8.7 billion in the previous fiscal year. The principal reason for this was "other expenses, net," which leveled off at ¥1.9 billion, compared with ¥15.3 billion in the previous fiscal year. The main component of this change was a ¥14.5 billion decrease in impairment losses.

Although extraordinary income increased from the previous fiscal year, there were balancing year-on-year decreases in operating income and recurring profit. As a result, income before income taxes and minority interests fell ¥2.5 billion from the previous fiscal year, to ¥46.1 billion. After deduction of minority interests, net income increased ¥7.5 billion from the previous fiscal year, to ¥30.8 billion. This rise was due to a change in the tax system, causing a partial reversal of deferred tax assets

that had been recorded during the previous fiscal year, to be absent during the fiscal year under review. The ratio of net income to net sales edged up 0.6 percentage point, to 2.3%, from 1.7% in the previous fiscal year. ROE (calculated using average total shareholders' equity) edged up 1.7 percentage points, to 9.5%, from 7.8% a year ago.

Capital expenditures in fiscal 2013 came to ¥78.6 billion, up from ¥63.9 billion in the previous fiscal year. R&D expenses were ¥41.7 billion, up from ¥39.9 billion a year ago.

### FINANCIAL CONDITION

Current assets grew 5.1% from the previous fiscal year, to ¥1,016.8 billion. This expansion reflected chiefly an increase in trade receivables related to the booking of net sales, and a rise in inventories associated with work in progress. Fixed assets meanwhile rose 13.8% from the previous fiscal year, to ¥449.4 billion, due mainly to growth in tangible fixed assets arising from capital investment and from equity investment in Dalian Cosco KHI Ship Engineering Co., Ltd. (DACKS). As a result, total assets rose 7.6% from the previous fiscal year, to ¥1,466.2 billion.

Total liabilities benefited from decreases in trade payables, retirement and severance benefits, and provision for losses on construction contracts. However, chiefly because of a 19.0% year-on-year rise in interest-bearing debt to ¥484.6 billion, the balance of total liabilities rose 6.7%, to ¥1,116.4 billion.

Net assets grew 10.7%, to ¥349.8 billion, reflecting items such as payment of dividends and booking of net income.

The ratio of shareholders' equity to total assets expanded 0.6 percentage point, to 23.0%, from 22.4% at the end of the previous fiscal year. In addition, the net debt-to-equity ratio increased by 10.1 percentage points, from 121.8% to 131.9%.

### CASH FLOWS

Net cash provided by operating activities in fiscal 2013 amounted to ¥28.1 billion, a net decrease of ¥56.6 billion from fiscal 2012. Principal inflows were ¥48.3 billion in depreciation and amortization and a ¥10.6 billion decrease in trade receivables, while the principal outflows consisted of a ¥41.1 billion

decrease in trade payables and ¥15.7 billion in income tax payments.

Net cash used in investing activities amounted to ¥81.1 billion in fiscal 2013, up ¥15.2 billion from fiscal 2012. The cash was applied primarily toward the acquisition of property, plant and equipment. Free cash flow, which is the net amount of cash from operating and investing activities, showed a net outflow of ¥53.0 billion in fiscal 2013, against a net inflow of ¥18.7 billion in fiscal 2012.

Net cash provided by financing activities amounted to ¥57.6 billion in fiscal 2013. This was due mainly to an increase in borrowing.

Given these changes in cash flows, cash and cash equivalents at the end of the term totaled ¥36.9 billion, up ¥3.7 billion from a year earlier.

### **MANAGEMENT OF LIQUIDITY RISK (RISK OF The COMPANY'S DEFAULT)**

The Company manages liquidity risk through the timely preparation and updating of financial plans by the Finance Department, based on information from each business segment. Managing liquidity risk includes diversifying methods of financing, adjusting financial periods of long- and short-term debt based on the prevailing financing environment, and securing commitment lines (maximum financing amount of ¥54.0 billion) and issuing commercial paper (maximum issuing amount of ¥120.0 billion).

### **MANAGEMENT INDICATOR**

Seeking a level of profitability that meets the expectations of investors, the Company has adopted before-tax return on invested capital (ROIC), a management indicator that measures how efficiently the Company uses its capital. To strengthen its financial position while striving to maximize ROIC, the Company will emphasize enhanced efficiency of invested capital. The Company uses the following formula to calculate ROIC.

Before-tax ROIC: The ratio of earnings before interest and taxes (EBIT) to the sum of interest-bearing debt and total shareholders' equity.

ROIC calculated using this formula edged down 1.3 percentage points, from 7.4% in fiscal 2012 to 6.1% in fiscal 2013.

### **DIVIDENDS**

The Company's basic dividend policy is to sustain stable cash dividends in line with performance, while giving careful consideration to retained earnings to strengthen and expand the KHI Group's business base in preparation for future growth. The Company's basic policy regarding cash dividends from retained earnings is to pay dividends twice annually—an interim dividend and a year-end dividend. The decision-making structures with the final say on dividends are the Board of Directors for the interim dividend and the General Meeting of Shareholders for the year-end dividend. Upon consideration of business performance, the level of retained earnings and other factors, with these policies in mind, it was decided to pay an annual dividend of ¥5 per share (an interim dividend of ¥0 and a year-end dividend of ¥5) for fiscal 2013.

Retained earnings after the dividend payout will be appropriated for investments in the Company's businesses, the repayment of borrowings and other uses.

Please note that the Company's Articles of Incorporation provides for the distribution of an interim dividend as stipulated in Article 454, Paragraph 5, of Japan's Companies Act.

# Consolidated Balance Sheets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES  
At March 31, 2013 and 2012

	Millions of yen		Thousands of U.S dollars(Note1)
	2013	2012	2013
<b>ASSETS</b>			
Current assets:			
Cash on hand and in banks (Note 19)	<b>¥38,525</b>	¥34,316	<b>\$409,884</b>
Receivables:			
Trade (Note 8)	<b>432,649</b>	404,054	<b>4,603,138</b>
Other	<b>16,464</b>	15,680	<b>175,167</b>
Allowance for doubtful receivables	<b>(2,785)</b>	(3,255)	<b>(29,630)</b>
	<b>446,328</b>	416,479	<b>4,748,675</b>
Inventories:			
Merchandise and finished products	<b>61,446</b>	53,558	<b>653,750</b>
Work in process	<b>311,108</b>	300,226	<b>3,310,013</b>
Raw materials and supplies	<b>87,551</b>	88,113	<b>931,492</b>
	<b>460,105</b>	441,897	<b>4,895,255</b>
Deferred tax assets (Note 18)	<b>37,648</b>	33,007	<b>400,553</b>
Other current assets	<b>34,208</b>	41,487	<b>363,954</b>
Total current assets	<b>1,016,814</b>	967,186	<b>10,818,321</b>
Property, plant and equipment (Note 8):			
Land	<b>62,318</b>	61,942	<b>663,027</b>
Buildings and structures	<b>344,813</b>	327,877	<b>3,668,613</b>
Machinery and equipment	<b>576,753</b>	537,959	<b>6,136,325</b>
Construction in progress	<b>19,198</b>	11,782	<b>204,255</b>
	<b>1,003,082</b>	939,560	<b>10,672,220</b>
Accumulated depreciation	<b>(697,289)</b>	(664,810)	<b>(7,418,757)</b>
Net property, plant and equipment	<b>305,793</b>	274,750	<b>3,253,463</b>
Investments and intangible and other assets:			
Investments in securities (Notes 6, 7 and 8)	<b>75,143</b>	53,257	<b>799,478</b>
Long-term loans	<b>409</b>	432	<b>4,351</b>
Deferred tax assets (Note 18)	<b>36,428</b>	37,614	<b>387,573</b>
Goodwill and other intangible assets	<b>19,446</b>	18,786	<b>206,894</b>
Allowance for doubtful receivables	<b>(936)</b>	(940)	<b>(9,958)</b>
Other (Note 8)	<b>13,193</b>	11,054	<b>140,367</b>
Total investments and intangible and other assets	<b>143,683</b>	120,203	<b>1,528,705</b>
<b>Total assets</b>	<b>¥1,466,290</b>	¥1,362,139	<b>\$15,600,489</b>

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

	Millions of yen		Thousands of U.S dollars(Note1)
	2013	2012	2013
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Short-term debt and current portion of long-term debt (Note 8)	<b>¥229,857</b>	¥147,924	<b>\$2,445,547</b>
Trade payables (Note 8)	<b>281,063</b>	310,775	<b>2,990,350</b>
Advances from customers	<b>108,214</b>	99,051	<b>1,151,335</b>
Income taxes payable (Note 18)	<b>3,756</b>	4,627	<b>39,961</b>
Accrued bonuses	<b>20,060</b>	20,582	<b>213,426</b>
Provision for product warranties	<b>6,148</b>	7,128	<b>65,411</b>
Provision for losses on construction contracts (Note 9)	<b>18,719</b>	30,977	<b>199,159</b>
Deferred tax liabilities (Note 18)	<b>1,793</b>	1,465	<b>19,076</b>
Asset retirement obligations	<b>133</b>	150	<b>1,415</b>
Other current liabilities	<b>112,797</b>	73,324	<b>1,200,099</b>
Total current liabilities	<b>782,540</b>	696,003	<b>8,325,779</b>
Long-term liabilities:			
Long-term debt, less current portion (Note 8)	<b>254,796</b>	259,243	<b>2,710,884</b>
Employees' retirement and severance benefits (Note 10)	<b>62,300</b>	75,052	<b>662,836</b>
Deferred tax liabilities (Note 18)	<b>5,511</b>	4,060	<b>58,633</b>
Provision for losses on legal proceedings	<b>569</b>	910	<b>48,005</b>
Provision for environmental measures	<b>4,512</b>	3,282	<b>6,053</b>
Asset retirement obligations	<b>551</b>	611	<b>5,862</b>
Other	<b>5,630</b>	7,056	<b>59,903</b>
Total long-term liabilities	<b>333,869</b>	350,214	<b>3,552,176</b>
Contingent liabilities (Note 11)			
Net assets (Note 12):			
Shareholders' equity:			
Common stock:			
Authorized - 3,360,000,000 shares			
Issued - 1,671,892,659 shares in 2013			
- 1,671,892,659 shares in 2012	<b>104,484</b>	104,484	<b>1,111,650</b>
Capital surplus	<b>54,394</b>	54,394	<b>578,721</b>
Retained earnings	<b>198,528</b>	176,414	<b>2,112,224</b>
Treasury stock - 100,116 shares in 2013			
- 77,126 shares in 2012	<b>(27)</b>	(22)	<b>(287)</b>
Total shareholders' equity	<b>357,379</b>	335,270	<b>3,802,308</b>
Accumulated other comprehensive income:			
Net unrealized gains on securities, net of tax	<b>4,524</b>	3,989	<b>48,133</b>
Deferred gains (losses) on hedges	<b>(5,998)</b>	246	<b>(63,815)</b>
Foreign currency translation adjustments	<b>(17,665)</b>	(33,451)	<b>(187,945)</b>
Total accumulated other comprehensive income	<b>(19,139)</b>	(29,216)	<b>(203,627)</b>
Minority interests	<b>11,641</b>	9,868	<b>123,853</b>
Total net assets	<b>349,881</b>	315,922	<b>3,722,534</b>
Total liabilities and net assets	<b>¥1,466,290</b>	¥1,362,139	<b>\$15,600,489</b>

# Consolidated Statements of Income and Comprehensive Income

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES  
For the years ended March 31, 2013, 2012 and 2011

## Consolidated Statements of Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
Net sales	<b>¥1,288,881</b>	¥1,303,778	¥1,226,949	<b>\$13,712,958</b>
Cost of sales (Note 13)	<b>1,085,469</b>	1,088,918	1,037,079	<b>11,548,771</b>
Gross profit	<b>203,412</b>	214,860	189,870	<b>2,164,187</b>
Selling, general and administrative expenses (Note 14)	<b>161,350</b>	157,376	147,242	<b>1,716,672</b>
Operating income	<b>42,062</b>	57,484	42,628	<b>447,515</b>
Other income (expenses):				
Interest and dividend income	<b>1,641</b>	2,331	2,306	<b>17,459</b>
Equity in income of nonconsolidated subsidiaries and affiliates	<b>8,530</b>	8,567	9,205	<b>90,754</b>
Interest expense	<b>(4,151)</b>	(4,282)	(4,677)	<b>(44,164)</b>
Other expenses, net (Note 15)	<b>(1,930)</b>	(15,394)	(10,867)	<b>(20,534)</b>
Income before income taxes and minority interests	<b>46,152</b>	48,706	38,595	<b>491,030</b>
Income taxes (Note 18)				
Current	<b>(10,591)</b>	(9,932)	(14,340)	<b>(112,682)</b>
Deferred	<b>(2,550)</b>	(12,899)	3,503	<b>(27,130)</b>
Income before minority interests	<b>33,011</b>	25,875	27,758	<b>351,218</b>
Minority interests in net income of consolidated subsidiaries	<b>(2,147)</b>	(2,552)	(1,793)	<b>(22,843)</b>
Net income	<b>¥30,864</b>	¥23,323	¥25,965	<b>\$328,375</b>

## Consolidated Statements of Comprehensive Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
Income before minority interests	<b>¥33,011</b>	¥25,875	¥27,758	<b>\$351,218</b>
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities	<b>541</b>	106	(1,437)	<b>5,755</b>
Deferred gains (losses) on hedges	<b>(6,381)</b>	1,281	(480)	<b>(67,890)</b>
Foreign currency translation adjustments	<b>11,713</b>	(2,924)	(5,422)	<b>124,620</b>
Share of other comprehensive income of associates accounted for using equity method	<b>5,155</b>	231	(2,167)	<b>54,846</b>
Total other comprehensive income (loss)	<b>11,028</b>	(1,306)	(9,506)	<b>117,331</b>
Comprehensive income	<b>44,039</b>	24,569	18,252	<b>468,549</b>
Comprehensive income attributable to:				
Owners of the parent company	<b>40,940</b>	22,228	16,506	<b>435,578</b>
Minority interests	<b>3,099</b>	2,341	1,746	<b>32,971</b>
		Yen		U.S. dollars (Note 1)
Per share amounts (Note 20)				
Net income per share - basic	<b>¥18.4</b>	¥13.9	¥15.5	<b>\$0.19</b>
Net income per share - diluted	<b>-</b>	13.8	15.3	<b>-</b>
Cash dividends	<b>5.0</b>	5.0	3.0	<b>0.05</b>

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, 2013, 2012 and 2011

	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	Total accumulated other comprehensive income	Minority interests	Total net assets	
Balance at March 31, 2010	1,669,629	¥104,329	¥54,275	¥137,689	¥(552)	¥295,741	¥5,305	¥(162)	¥(23,803)	¥(18,660)	¥5,972	¥283,053	
Net income for the year	-	-	-	25,965	-	25,965	-	-	-	-	-	25,965	
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	(7,203)	(7,203)	-	(7,203)	
Decrease in net unrealized gains on securities, net of tax	-	-	-	-	-	-	(1,429)	-	-	(1,429)	-	(1,429)	
Treasury stock purchased, net	-	-	-	-	(15)	(15)	-	-	-	-	-	(15)	
Cash dividends	-	-	-	(5,003)	-	(5,003)	-	-	-	-	-	(5,003)	
Loss on sales of treasury stock	-	-	(0)	-	1	1	-	-	-	-	-	1	
Conversion of convertible bonds	1,017	11	(24)	(17)	536	506	-	-	-	-	-	506	
Decrease resulting from increase in equity method affiliate	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	(19)	-	(19)	-	(828)	-	(828)	2,405	1,558	
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	
		(Thousands of U.S. dollars)						(Note 1)					
Balance at March 31, 2012		\$1,111,650	\$578,721	\$1,876,944	\$(234)	\$3,567,081	\$42,440	\$2,617	\$(355,899)	\$(310,842)	\$104,989	\$3,361,228	
Net income for the year		-	-	328,375	-	328,375	-	-	-	-	-	328,375	
Adjustments from translation of foreign currency financial statements		-	-	-	-	-	-	-	167,954	167,954	-	167,954	
Increase in net unrealized gains on securities, net of tax		-	-	-	-	-	5,693	-	-	5,693	-	5,693	
Treasury stock purchased, net		-	-	-	(53)	(53)	-	-	-	-	-	(53)	
Cash dividends		-	-	(88,936)	-	(88,936)	-	-	-	-	-	(88,936)	
Loss on sales of treasury stock		-	-	(10)	0	(10)	-	-	-	-	-	(10)	
Conversion of convertible bonds		-	-	-	-	-	-	-	-	-	-	-	
Increase (decrease) due to changes in fiscal period of consolidated subsidiaries		-	-	(2,181)	-	(2,181)	-	-	-	-	-	(2,181)	
Decrease resulting from increase in equity method affiliate		-	-	(1,968)	-	(1,968)	-	-	-	-	-	(1,968)	
Other		-	-	-	-	-	-	(66,432)	-	(66,432)	18,864	(47,568)	
Balance at March 31, 2013		\$1,111,650	\$578,721	\$2,112,224	\$(287)	\$3,802,308	\$48,133	\$(63,815)	\$(187,945)	\$(203,627)	\$123,853	\$3,722,534	

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, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests	<b>¥46,152</b>	¥48,706	¥38,595	<b>\$491,031</b>
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by (used for) operating activities:				
Depreciation and amortization	<b>48,385</b>	48,901	50,276	<b>514,788</b>
Loss on impairment of fixed assets	<b>363</b>	14,921	9,923	<b>3,862</b>
Increase (decrease) in employees' retirement and severance benefits	<b>(10,970)</b>	(5,257)	(8,159)	<b>(116,714)</b>
Increase (decrease) in accrued bonuses	<b>(521)</b>	4,885	1,489	<b>(5,543)</b>
Increase (decrease) in allowance for doubtful receivables	<b>(653)</b>	449	514	<b>(6,947)</b>
Increase (decrease) in provision for product warranties	<b>(1,195)</b>	(750)	794	<b>(12,714)</b>
Increase (decrease) in provision for losses on construction contracts	<b>(12,617)</b>	(2,016)	15,349	<b>(134,237)</b>
Increase (decrease) in provision for restructuring charges	-	(1,077)	(5,249)	-
Increase (decrease) in provision for losses on legal proceedings	<b>(340)</b>	(4,957)	(837)	<b>(3,617)</b>
Increase (decrease) in provision for environmental measures	<b>1,261</b>	(545)	(658)	<b>13,416</b>
Loss (gain) on disposal of inventories	<b>1,711</b>	(70)	1,336	<b>18,204</b>
Gain on sales of marketable securities and investments in securities	<b>(1,424)</b>	(591)	(0)	<b>(15,150)</b>
Loss on valuation of securities	<b>55</b>	918	1,577	<b>585</b>
Loss on sales of property, plant, and equipment	<b>1,032</b>	1,177	552	<b>10,979</b>
Equity in income of nonconsolidated subsidiaries and affiliates	<b>(8,530)</b>	(8,567)	(9,205)	<b>(90,754)</b>
Interest and dividend income	<b>(1,641)</b>	(2,331)	(2,306)	<b>(17,459)</b>
Interest expense	<b>4,151</b>	4,282	4,677	<b>44,164</b>
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	<b>10,601</b>	(942)	14,910	<b>112,788</b>
Inventories	<b>(10,711)</b>	(18,705)	(17,775)	<b>(113,958)</b>
Other current assets	<b>8,073</b>	(2,139)	8,590	<b>85,892</b>
Increase (decrease) in:				
Trade payables	<b>(41,150)</b>	(7,332)	25,114	<b>(437,812)</b>
Advances from customers	<b>5,670</b>	18,973	(15,552)	<b>60,325</b>
Other current liabilities	<b>4,015</b>	8,708	(17,156)	<b>42,717</b>
Other, net	<b>(2,333)</b>	4,134	1,897	<b>(24,823)</b>
Subtotal	<b>39,384</b>	100,775	98,696	<b>419,023</b>
Cash received for interest and dividends	<b>8,668</b>	6,656	6,407	<b>92,222</b>
Cash paid for interest	<b>(4,194)</b>	(4,455)	(4,762)	<b>(44,621)</b>
Cash paid for income taxes	<b>(15,757)</b>	(18,239)	(13,245)	<b>(167,646)</b>
Payment of levies	-	-	(5,167)	-
<b>Net cash provided by (used for) operating activities</b>	<b>¥28,101</b>	¥84,737	¥81,929	<b>298,978</b>



	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
<b>Cash flows from investing activities:</b>				
Decrease (increase) in time deposits with maturities over three months	<b>(310)</b>	1,446	(2,138)	<b>(3,298)</b>
Acquisition of property, plant and equipment	<b>(65,517)</b>	(61,126)	(47,408)	<b>(697,063)</b>
Proceeds from sales of property, plant and equipment	<b>348</b>	535	616	<b>3,702</b>
Acquisition of intangible assets	<b>(4,898)</b>	(4,921)	(4,886)	<b>(52,111)</b>
Proceeds from sales of intangible assets	<b>33</b>	16	37	<b>351</b>
Acquisition of investments in securities	<b>(571)</b>	(47)	(350)	<b>(6,075)</b>
Proceeds from sales of investments in securities	<b>2,899</b>	663	12	<b>30,843</b>
Acquisition of investments in subsidiaries or affiliates	<b>(12,339)</b>	(1,761)	-	<b>(131,279)</b>
Decrease (increase) in short-term loans	<b>(11)</b>	(11)	287	<b>(117)</b>
Additions to long-term loans	<b>(44)</b>	(70)	(40)	<b>(468)</b>
Proceeds from collection of long-term loans	<b>101</b>	89	102	<b>1,074</b>
Decrease (increase) in lease and guarantee deposits	<b>(1,152)</b>	-	-	<b>(12,256)</b>
Other	<b>301</b>	(772)	826	<b>3,201</b>
<b>Net cash provided by (used for) investing activities</b>	<b>(81,160)</b>	(65,959)	(52,942)	<b>(863,496)</b>
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term debt	<b>42,129</b>	(569)	(53,670)	<b>448,228</b>
Proceeds from long-term debt	<b>64,327</b>	39,963	44,000	<b>684,402</b>
Repayment of long-term debt	<b>(38,837)</b>	(59,887)	(4,836)	<b>(413,203)</b>
Acquisition of treasury stock	<b>(4)</b>	(8)	(14)	<b>(42)</b>
Proceeds from stock issuance to minority shareholders	<b>217</b>	-	1,209	<b>2,308</b>
Cash dividends paid	<b>(8,351)</b>	(5,014)	(5,000)	<b>(88,849)</b>
Cash dividends paid to minority shareholders	<b>(1,326)</b>	(1,070)	(476)	<b>(14,107)</b>
Other	<b>(484)</b>	(246)	(75)	<b>(5,151)</b>
<b>Net cash provided by (used for) financing activities</b>	<b>57,671</b>	(26,831)	(18,862)	<b>613,586</b>
<b>Effect of exchange rate changes</b>	<b>(886)</b>	(1,823)	367	<b>(9,426)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,726</b>	(9,876)	10,492	<b>39,642</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>33,245</b>	44,629	34,137	<b>353,708</b>
Decrease in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries	-	(1,508)	-	-
<b>Cash and cash equivalents at end of year</b>	<b>¥36,971</b>	¥33,245	¥44,629	<b>\$393,350</b>
<b>Supplemental information on cash flows:</b>				
<b>Cash and cash equivalents:</b>				
Cash on hand and in banks in the balance sheets	<b>¥38,525</b>	¥34,316	¥47,233	<b>\$409,884</b>
Time deposits with maturities over three months	<b>(1,554)</b>	(1,071)	(2,604)	<b>(16,534)</b>
<b>Total (Note 19)</b>	<b>¥36,971</b>	¥33,245	¥44,629	<b>\$393,350</b>

# 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, 2013, which was ¥93.99 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 95 subsidiaries (97 in the years ended March 31, 2012 and 96 in 2011). 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, 2013, 17 affiliates (14 in 2012 and 14 in 2011) were accounted for by the equity method. For the year ended March 31, 2013, investments in 13 affiliates (14 in 2012 and 14 in 2011) 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 30 consolidated subsidiaries (30 in 2012 and 33 in 2011) 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.

**(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 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 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 leases transactions are mainly recognized 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, 2013, 2012 or 2011. 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 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 nonconsolidated subsidiaries and affiliated companies not subject to the equity method is not readily available, such 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 on a declining balance basis over the estimated useful life of the asset. Depreciation of buildings acquired after April 1998 in Japan is computed on a straight-line basis over the building's estimated useful life.

**(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.

Goodwill is amortized on a straight-line basis 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 and 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 restructuring charges**

The provision for restructuring charges is based on the estimated charges for restructuring in the Motorcycle & Engine business in North America.

**(r) 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.

**(s) 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.

**(t) 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.

**(u) Employees' retirement and severance benefits**

Employees who terminate their services with the Company or one of its 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 recognized in expenses in equal amounts primarily over 10 years commencing with the following period and the current period, respectively.

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.

**<Additional information>**

Regarding the substitutional portion of the employees' pension fund for certain subsidiaries, the Minister of Health, Labor and Welfare approved the exemption of their obligation to pay benefits related to future employee services on May 1, 2012, and the return of the portion related to past services on March 31, 2013. As a result, "Gain on transfer of benefit obligation relating to employees' pension fund" of ¥8,624 million was recorded in "Other income (expenses)" in the consolidated statements of income for the year ended March 31, 2013.

**(v) 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.

**(w) 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 or 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.

**(x) 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.

**(y) Accounting for consumption taxes**

National and local consumption taxes are accounted for based on the net amount.

**(z) 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) Depreciation method

In accordance with an amendment to the Corporation Tax Act, effective from the year ended March 31, 2013, the Company and its domestic consolidated subsidiaries have changed the depreciation method applied to property, plant and equipment acquired on or after April 1, 2012 to reflect the amended Corporation Tax Act. As a result, both operating income and income before income taxes and minority interests for the year ended March 31, 2013, were ¥1,379 million more than the amounts that would have been recorded without the change.

#### (b) Application of Accounting Standard for Asset Retirement Obligations

Effective from the year ended March 31, 2011, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Asset Retirement Obligations" (Statement No. 18, issued by ASBJ on March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (Guidance No. 21, issued by ASBJ on March 31, 2008). As a result of this change, operating income was ¥16 million less and income before income taxes ¥313 million less than the amounts that would have been recorded without the change.

#### (c) Application of Accounting Standard for Business Combinations

Effective from the year ended March 31, 2011, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Business Combinations" (Statement No. 21, issued by ASBJ on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (Statement No. 22, issued by ASBJ on December 26, 2008), "Amendments to Accounting Standard for Research and Development Costs" (Statement No. 23, issued by ASBJ on December 26, 2008), "Revised Accounting Standard for Business Divestitures" (Statement No. 7, issued by ASBJ on December 26, 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments" (Statement No. 16, issued by ASBJ on December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Guidance No. 10, issued by ASBJ on December 26, 2008).

### 4. Accounting standards issued but not yet adopted

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits." Under this accounting standard, actuarial gains and losses and past service costs are to be recognized in the net assets section of the consolidated balance sheets, after adjusting for tax effects, and the difference between retirement obligations and plan assets (deficit or surplus) are to be recognized as a liability or asset. With regard to the method of attributing expected benefits to periods, this accounting standard allows the application of either the straight-line basis or the benefit formula basis. This accounting standard also amends the method of determining the discount rate.

The Company will adopt this accounting standard from the year ending March 31, 2014. Since this accounting standard includes transitional provisions, no retrospective application of the standard will be applied to the consolidated financial statements of prior periods. The effect of the adoption of this accounting standard on the preparation of the consolidated financial statements is currently being evaluated by the Company.

### 5. Additional information

The Company and its consolidated subsidiaries have adopted "Accounting Standard for Accounting Changes and Error Corrections" (Statement No. 24, issued by ASBJ on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (Guidance No. 24, issued by ASBJ on December 4, 2009) for accounting changes and prior period error corrections made on or after April 1, 2011.

## 6. Securities

(a) Book values and market values of held-to-maturity securities with available market values as of March 31, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	<b>2013</b>			
	Book value	Market value	Unrealized losses	Unrealized losses
Market values not exceeding book values:				
Bonds	<b>¥133</b>	<b>¥125</b>	<b>¥ (8)</b>	<b>\$ (85)</b>
	Millions of yen			
	2012			
	Book value	Market value	Unrealized losses	
Market values exceeding book values:				
Bonds	¥404	¥376	¥ (28)	

(b) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2013 and 2012 were as follows:

	Millions of yen			Thousands of U.S. dollars
	<b>2013</b>			
	Book value	Acquisition cost	Unrealized gains (losses)	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:				
Equity securities	<b>¥14,082</b>	<b>¥6,843</b>	<b>¥7,239</b>	<b>\$77,018</b>
Other securities:				
Equity securities	<b>659</b>	<b>717</b>	<b>(58)</b>	<b>(617)</b>
<b>Total</b>	<b>¥14,741</b>	<b>¥7,560</b>	<b>¥7,181</b>	<b>\$76,401</b>
	Millions of yen			
	2012			
	Book value	Acquisition cost	Unrealized gains (losses)	
Securities with book values exceeding acquisition costs:				
Equity securities	¥13,362	¥6,164	¥7,198	
Other securities:				
Equity securities	2,660	3,485	(825)	
<b>Total</b>	<b>¥16,022</b>	<b>¥9,649</b>	<b>¥6,373</b>	

(c) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2013, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	<b>2013</b>					
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities	<b>¥2,892</b>	<b>¥1,428</b>	<b>¥(3)</b>	<b>\$30,769</b>	<b>\$15,193</b>	<b>\$(31)</b>
	Millions of yen					
	2012					
	Sales amounts	Gains	Losses			
Equity securities	¥611	¥593	¥(1)			
	Millions of yen					
	2011					
	Sales amounts	Gains	Losses			
Equity securities	¥3	¥1	¥(0)			

## (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, 2012 and 2011, the Company recognized an impairment loss on investments in securities in the amount of ¥918 million and ¥1,577 million, respectively. For the year ended March 31, 2013, the amount of impairment loss on investments was not disclosed because it was immaterial.

**7. Investments in nonconsolidated subsidiaries and affiliates**

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2013 and 2012 were ¥52,412 million (\$557,633 thousand) and ¥30,007 million, respectively.

**8. Short-term debt and long-term debt**

Short-term debt and long-term debt as of March 31, 2013 and 2012 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Short-term debt:			
Short-term debt, principally bank loans, bearing average interest rates of 0.74 percent and 0.81 percent as of March 31, 2013 and 2012, respectively	<b>¥160,767</b>	¥112,806	<b>\$1,710,470</b>
Current portion of long-term debt, bearing average interest rates of 0.75 percent and 1.12 percent as of March 31, 2013 and 2012, respectively	<b>68,743</b>	34,763	<b>731,386</b>
Lease obligations, current	<b>347</b>	355	<b>3,691</b>
Total short-term debt	<b>¥229,857</b>	¥147,924	<b>\$2,445,547</b>
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2013 to 2022, bearing average interest rates of 0.77 percent and 0.90 percent as of March 31, 2013 and 2012, respectively	<b>¥243,105</b>	¥223,500	<b>\$2,586,501</b>
Notes and bonds issued by the Company:			
0.81 percent notes due in 2012	-	10,000	-
1.84 percent notes due in 2013	<b>10,000</b>	10,000	<b>106,394</b>
0.72~1.22 percent notes due in 2015	<b>20,000</b>	20,000	<b>212,788</b>
0.58 percent notes due in 2016	<b>10,000</b>	10,000	<b>106,394</b>
1.06 percent notes due in 2017	<b>10,000</b>	10,000	<b>106,394</b>
0.68 percent notes due in 2019	<b>10,000</b>	-	<b>106,394</b>
1.41 percent notes due in 2021	<b>10,000</b>	10,000	<b>106,394</b>
1.10 percent notes due in 2022	<b>10,000</b>	-	<b>106,394</b>
Long-term lease obligations	<b>780</b>	861	<b>8,298</b>
	<b>323,885</b>	294,361	<b>3,445,951</b>
Less portion due within one year	<b>(69,089)</b>	(35,118)	<b>(735,067)</b>
Total long-term debt	<b>¥254,796</b>	¥259,243	<b>\$2,710,884</b>



As of March 31, 2013 and 2012, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Receivables: Trade	<b>¥49,911</b>	¥44,935	<b>\$531,026</b>
Buildings and structures	<b>82</b>	3,981	<b>872</b>
Land	-	6	-
Investments in securities	<b>14</b>	418	<b>148</b>
Other	<b>13</b>	13	<b>138</b>
<b>Total</b>	<b>¥50,020</b>	¥49,353	<b>\$532,184</b>

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 (\$319 thousand).

As of March 31, 2013 and 2012, debt secured by the above pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Trade payables	<b>¥3</b>	¥59	<b>\$31</b>
Short-term and long-term debt	<b>30,888</b>	29,652	<b>328,631</b>
<b>Total</b>	<b>¥30,891</b>	¥29,711	<b>\$328,662</b>

The aggregate annual maturities of long-term debt as of March 31, 2013 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2014	<b>¥69,089</b>	<b>\$735,067</b>
2015	<b>85,872</b>	<b>913,629</b>
2016	<b>45,327</b>	<b>482,253</b>
2017	<b>21,220</b>	<b>225,768</b>
2018 and thereafter	<b>102,377</b>	<b>1,089,234</b>
<b>Total</b>	<b>¥323,885</b>	<b>\$3,445,951</b>

## 9. 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, 2013 and 2012, the inventories for the construction contracts for which the provision for losses on construction contracts were provided were ¥8,900 million (\$94,690 thousand) and ¥10,994 million, respectively. These amounts were all included in work in process.

## 10. Employees' retirement and severance benefits

Upon terminating employment, employees of the Company and its consolidated domestic subsidiaries are entitled, under most circumstances, to lump-sum indemnities. For an employee who voluntarily retires under normal circumstances, a minimum payment amount is calculated based on the rate of pay at the time of retirement, length of service and conditions under which the employee retires. The Company and certain consolidated subsidiaries have a defined contribution pension plan and a cash balance plan, and certain consolidated foreign subsidiaries have a retirement pension system. The cash balance plan is linked to market interest rates and treated as a defined benefit pension plan. The plan assets of the company are generally held in a separately administered trust as a proportion of a general fund.

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 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	<b>¥(166,866)</b>	¥(177,268)	<b>\$(1,775,357)</b>
Fair value of plan assets	<b>77,992</b>	63,743	<b>829,790</b>
Unrecognized prior service costs	<b>722</b>	(5,857)	<b>7,681</b>
Unrecognized actuarial gains and losses	<b>30,347</b>	48,553	<b>322,874</b>
Prepaid pension cost	<b>(4,495)</b>	(4,223)	<b>(47,824)</b>
Liability for retirement and severance benefits	<b>¥(62,300)</b>	¥(75,052)	<b>\$(662,836)</b>

Retirement and severance benefit expenses in the consolidated statements of income for the years ended March 31, 2013, 2012 and 2011 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Service costs - benefits earned during the year	<b>¥8,900</b>	¥8,882	¥9,338	<b>\$94,691</b>
Interest cost on projected benefit obligation	<b>3,566</b>	3,675	3,821	<b>37,940</b>
Expected return on plan assets	<b>(1,172)</b>	(1,061)	(1,046)	<b>(12,469)</b>
Amortization of prior service costs	<b>(1,603)</b>	(2,409)	(2,304)	<b>(17,055)</b>
Amortization of actuarial gains and losses	<b>3,852</b>	4,715	3,849	<b>40,983</b>
Contribution to the defined contribution pension plans	<b>726</b>	712	667	<b>7,724</b>
Retirement and severance benefit expenses	<b>14,269</b>	14,514	14,325	<b>151,814</b>
Gain on transfer of benefit obligation relating to employees' pension fund	<b>(8,624)</b>	-	-	<b>(91,754)</b>
Total	<b>¥5,645</b>	¥14,514	¥14,325	<b>\$60,060</b>

Basic assumptions and information used to calculate retirement and severance benefits were as follows:

	2013	2012	2011
Discount rate	<b>mainly 2.0%</b>	mainly 2.0%	mainly 2.0%
Expected rate of return on plan assets			
(For the Company and consolidated domestic subsidiaries)	<b>3.0 to 3.5%</b>	3.0 to 3.5%	3.0 to 3.5%
(For consolidated overseas subsidiaries)	<b>5.04 to 7.25%</b>	6.18 to 7.75%	6.64 to 7.75%
Amortization period for prior service costs	<b>mainly 10 years</b>	mainly 10 years	mainly 10 years
Amortization period for actuarial gains and losses	<b>mainly 10 years</b>	mainly 10 years	mainly 10 years

## 11. Contingent liabilities

Contingent liabilities as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	<b>¥30,396</b>	¥29,496	<b>\$323,396</b>

## 12. 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.

## 13. Cost of sales

The ending balance of inventories was measured at the lower of cost or market. Gain on the valuation of inventories included in the cost of sales for the year ended March 31, 2013 and 2011 was ¥361 million (\$3,840 thousand) and ¥49 million, respectively. Loss on the valuation of inventories included in the cost of sales for the year ended March 31, 2012 was ¥1,246 million.

Provision for losses on construction contracts included in the cost of sales for the years ended March 31, 2013, 2012 and 2011 was ¥5,929 million (\$63,081 thousand), ¥14,980 million and ¥20,948 million, respectively.

## 14. 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
	2013	2012	2011	2013
Research and development expenses	<b>¥41,709</b>	¥39,940	¥37,090	<b>\$443,759</b>

**15. "Other expenses, net" in "Other income (expenses)"**

"Other expenses, net" in "Other income (expenses)" in the consolidated statements of income for the years ended March 31, 2013, 2012 and 2011 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Foreign exchange gain (loss), net	<b>¥(9,919)</b>	¥206	¥1,491	<b>\$(105,532)</b>
Gain on transfer of benefit obligation relating to employees' pension fund	<b>8,624</b>	-	-	<b>91,754</b>
Loss on environmental measures (a)	<b>(1,437)</b>	-	-	<b>(15,288)</b>
Gain on sales of marketable securities and investments in securities	<b>1,424</b>	591	-	<b>15,150</b>
Loss on impairment of fixed assets (b)	<b>(363)</b>	(14,921)	(9,923)	<b>(3,862)</b>
Loss on valuation of securities	<b>(55)</b>	(918)	(1,577)	<b>(585)</b>
Provision for doubtful receivables of affiliates (c)	-	-	(325)	-
Loss on adjustment for changes in accounting standard for asset retirement obligations	-	-	(291)	-
Other, net	<b>(204)</b>	(352)	(242)	<b>(2,171)</b>
<b>Total</b>	<b>¥(1,930)</b>	¥(15,394)	¥(10,867)	<b>\$(20,534)</b>

( Reclassification )

Certain reclassifications have been made to components of "Other expenses, net" for the year ended March 31, 2012 to conform to the presentation for the year ended March 31, 2013.

(a) "Loss on environmental measures" is a provision for the disposal of PCB waste in accordance with the "Law Concerning Special Measures for Promotion of Appropriate Disposal of PCB (polychlorinated biphenyl) Waste" and soil improvement.

(b) 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 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, 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	Thousands of U.S. dollars
Buildings and structures	<b>¥247</b>	<b>\$2,628</b>
Land, etc.	<b>116</b>	<b>1,234</b>
<b>Total</b>	<b>¥363</b>	<b>\$3,862</b>

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
<b>Total</b>	<b>¥14,921</b>

Asset groups for which the Company and its consolidated subsidiaries recognized impairment loss for the year ended March 31, 2011 were as follows:

Function or status	Location	Type of assets
Operating property	Akashi City, Hyogo	Buildings and structures, machinery and equipment, etc.
Operating property	Kobe City, Hyogo	Buildings and structures, machinery and equipment, etc.

Impairment loss for the year ended March 31, 2011 consisted of the following:

	Millions of yen
Buildings and structures	¥3,731
Machinery and equipment	2,300
Other	3,892
<b>Total</b>	<b>¥9,923</b>

(c) "Provision for doubtful receivables of affiliates" is an allowance for doubtful receivables to Tonfang Kawasaki Air-Conditioning Co., Ltd., an affiliate of the Company.

## 16. 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
	2013	2012	2013
Unrealized gains (losses) on securities			
Increase (decrease) during the year	<b>¥3,466</b>	¥(231)	<b>\$36,875</b>
Reclassification adjustments	<b>(2,506)</b>	2	<b>(26,662)</b>
Subtotal, before tax	<b>960</b>	(229)	<b>10,213</b>
Tax (expense) or benefit	<b>(419)</b>	335	<b>(4,458)</b>
Subtotal, net of tax	<b>¥541</b>	106	<b>5,755</b>
Deferred gains (losses) on hedges			
Increase (decrease) during the year	<b>(20,351)</b>	2,351	<b>(216,522)</b>
Reclassification adjustments	<b>10,371</b>	(243)	<b>110,341</b>
Asset acquisition cost adjustments	<b>(35)</b>	(12)	<b>(372)</b>
Subtotal, before tax	<b>(10,015)</b>	2,096	<b>(106,553)</b>
Tax (expense) or benefit	<b>3,634</b>	(815)	<b>38,663</b>
Subtotal, net of tax	<b>(6,381)</b>	1,281	<b>(67,890)</b>
Foreign currency translation adjustments			
Increase (decrease) during the year	<b>11,713</b>	(2,924)	<b>124,620</b>
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	<b>5,155</b>	231	<b>54,846</b>
<b>Total other comprehensive income</b>	<b>¥11,028</b>	¥(1,306)	<b>\$117,331</b>

**17. Dividends**

## (a) Dividends paid

Year ended March 31, 2013

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
<b>June 27, 2012 General Meeting of Shareholders</b>	<b>Common stock</b>	<b>¥8,359 million (\$88,934 thousand)</b>	<b>¥5.0 (\$0.05)</b>	<b>March 31, 2012</b>	<b>June 28, 2012</b>

Year ended March 31, 2012

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 28, 2011 General Meeting of Shareholders	Common stock	¥5,011 million	¥3.0	March 31, 2011	June 29, 2011

## (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, 2013

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
<b>June 26, 2013 General Meeting of Shareholders</b>	<b>Common stock</b>	<b>Retained earnings</b>	<b>¥8,358 million (\$88,924 thousand)</b>	<b>¥5.0 (\$0.05)</b>	<b>March 31, 2013</b>	<b>June 27, 2013</b>

Year ended March 31, 2012

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 27, 2012 General Meeting of Shareholders	Common stock	Retained earnings	¥8,359 million	¥5.0	March 31, 2012	June 28, 2012

**18. 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 40.5 percent for the years ended March 31, 2013 and 2012, respectively.

The significant differences between the statutory and effective tax rates for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Statutory tax rate	<b>37.8%</b>	40.5%
Valuation allowance	<b>(4.6)</b>	2.1
Equity in income of nonconsolidated subsidiaries and affiliates	<b>(7.0)</b>	(7.0)
Dividend from overseas consolidated subsidiaries	<b>2.2</b>	1.7
Changing tax rate	-	12.7
Other	<b>0.0</b>	(3.2)
Effective tax rate	<b>28.4%</b>	46.8%

Significant components of deferred tax assets and liabilities as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Accrued bonuses	<b>¥8,524</b>	¥8,579	<b>\$90,690</b>
Retirement benefits	<b>32,012</b>	36,163	<b>340,589</b>
Allowance for doubtful receivables	<b>653</b>	900	<b>6,947</b>
Inventories – elimination of intercompany profits	<b>137</b>	654	<b>1,457</b>
Fixed assets – elimination of intercompany profits	<b>436</b>	373	<b>4,638</b>
Depreciation	<b>8,431</b>	9,874	<b>89,701</b>
Net operating loss carryforwards	<b>7,819</b>	801	<b>83,189</b>
Unrealized loss on marketable securities, investments in securities and other	<b>3,262</b>	3,472	<b>34,705</b>
Provision for losses on construction contracts	<b>6,197</b>	11,196	<b>65,932</b>
Other	<b>29,471</b>	25,946	<b>313,559</b>
Gross deferred tax assets	<b>96,942</b>	97,958	<b>1,031,407</b>
Less valuation allowance	<b>(12,281)</b>	(16,759)	<b>(130,663)</b>
Total deferred tax assets	<b>84,661</b>	81,199	<b>900,744</b>
Deferred tax liabilities:			
Deferral of gain on sale of fixed assets	<b>4,733</b>	4,914	<b>50,356</b>
Net unrealized gain on securities	<b>2,359</b>	1,993	<b>25,098</b>
Other	<b>10,797</b>	9,198	<b>114,873</b>
Total deferred tax liabilities	<b>17,889</b>	16,105	<b>190,327</b>
Net deferred tax assets	<b>¥ 66,772</b>	¥65,094	<b>\$710,417</b>

## 19. Cash and cash equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2013, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Cash on hand and in banks:	<b>¥38,525</b>	¥34,316	¥47,233	<b>\$409,884</b>
Time deposits with maturities over three months:	<b>(1,554)</b>	(1,071)	(2,604)	<b>(16,534)</b>
Total	<b>¥36,971</b>	¥33,245	¥44,629	<b>\$393,350</b>

## 20. Net income per share

Per share amounts for the years ended March 31, 2013, 2012 and 2011 are set forth in the table below. Diluted net income per share for the year ended March 31, 2013 was not disclosed since there were no residual securities.

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Basic net income per share:				
Net income	<b>¥30,864</b>	¥23,323	¥25,965	<b>\$328,375</b>
Net income allocated to common stock	<b>30,864</b>	23,323	25,965	<b>328,375</b>
(Number of shares in millions)				
Weighted average number of shares of common stock	<b>1,671</b>	1,671	1,669	

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Diluted net income per share				
Net income adjustment	¥-	¥22	¥44	\$-
(Interest expenses, etc.)	( - )	(22)	(44)	( - )
	(Number of shares in millions)			
Increase in shares of common stocks	-	13	28	
(Convertible bonds)	( - )	(5)	(11)	
(Zero coupon convertible bonds)	( - )	(8)	(17)	

## 21. Derivative transactions

(a) 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				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	¥148,250	¥-	¥(22,437)	(22,437)	\$(238,716)
To purchase	408	-	8	8	85
Option contracts:					
To sell	-	-	-	-	-
To purchase	-	-	-	-	-
Total	¥148,658	¥-	¥(22,429)	(22,429)	\$(238,631)

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company did not apply 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.



		Thousands of U.S. dollars		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables	<b>\$824,600</b>	<b>\$166,975</b>	<b>\$(104,086)</b>
To purchase	Trade payables	<b>56,091</b>	<b>16,427</b>	<b>8,873</b>
Option contracts				
To sell	Trade receivables	<b>76,859</b>	-	<b>(2,755)</b>
To purchase	Trade payables	<b>72,348</b>	-	<b>(840)</b>
Alternative method				
Foreign exchange contracts				
To sell	Trade receivables	<b>39,121</b>	-	<b>(553)</b>
To purchase	Trade Payables	<b>234</b>	-	<b>31</b>
Option contracts				
To sell	Trade receivables	<b>19,246</b>	-	<b>(287)</b>
To purchase	Trade payables	<b>17,661</b>	-	<b>(95)</b>
<b>Total</b>		<b>\$1,106,160</b>	<b>\$183,402</b>	<b>\$(99,712)</b>

		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Interest swap Deferral hedge accounting				
Floating-rate receipt/	Short-term debt	<b>¥15,000</b>	<b>¥-</b>	<b>¥(81)</b>
fixed-rate payment				
Special treatment (*)				
Floating-rate receipt/	Long-term debt	<b>12,000</b>	<b>12,000</b>	-
fixed-rate payment				
Interest rate and currency swaps treated	Long-term debt	<b>6,993</b>	<b>6,993</b>	-
as single item				
(special treatment, hedge accounting				
treatment as an alternative method)				
		<b>¥33,993</b>	<b>¥18,993</b>	<b>¥(81)</b>

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.

		Thousands of U.S. dollars		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Interest swap Deferral hedge accounting				
Floating-rate receipt/	Short-term debt	<b>\$159,592</b>	<b>\$-</b>	<b>\$(861)</b>
fixed-rate payment				
Special treatment				
Floating-rate receipt/	Long-term debt	<b>127,673</b>	<b>127,673</b>	-
fixed-rate payment				
Interest rate and currency swaps treated	Long-term debt	<b>74,401</b>	<b>74,401</b>	-
as single item				
(special treatment, hedge accounting				
treatment as an alternative method)				
		<b>\$361,666</b>	<b>\$202,074</b>	<b>\$(861)</b>

(b) Outstanding positions and recognized gains and losses at March 31, 2012 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	¥135,398	¥-	¥(3,023)	¥(3,022)
To purchase	441	-	(1)	(1)
Option contracts:				
To sell	76,480	-	(2,209)	(1,212)
To purchase	44,720	-	(87)	(848)
<b>Total</b>	<b>¥257,039</b>	<b>¥-</b>	<b>¥(5,320)</b>	<b>¥(5,083)</b>

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company did not apply 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	¥88,798	¥33,629	¥(334)
To purchase	Trade payables	45,608	1,624	1,027
Option contracts				
To sell	Trade receivables	-	-	-
To purchase	Trade payables	-	-	-
Alternative method (*)				
Foreign exchange contracts				
To sell	Trade receivables	1,388	-	19
To purchase	Trade payables	1,388	-	(19)
<b>Total</b>		<b>¥137,182</b>	<b>¥35,253</b>	<b>¥693</b>

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	¥20,000	¥15,000	¥(259)
Special treatment (*)				
Floating-rate receipt/fixed-rate payment	Long-term debt	15,000	12,000	-
Interest rate and currency swaps treated as single item (special treatment, hedge accounting treatment as an alternative method)	Long-term debt	2,688	2,688	-
		<b>¥37,688</b>	<b>¥29,688</b>	<b>¥(259)</b>

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.

## 22. Financial Instruments

Information related to financial instruments as of March 31, 2013 and 2012 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, 2013 (ten years from March 31, 2012). 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, 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			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Cash on hand and in banks	¥38,525	¥38,525	¥-	\$-
Trade receivables	432,649	432,619	(30)	(319)
Investments in securities	14,876	14,868	(8)	(85)
Total assets	486,050	486,012	(38)	(404)
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	9,649
Total liabilities	764,935	765,842	907	9,649
Derivative transactions (*)	¥(31,883)	¥(31,883)	¥-	\$-

(\*) 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, 2012, 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	¥34,316	¥34,316	¥-
Trade receivables	404,054	403,847	(207)
Investments in securities	16,427	16,399	(28)
Total assets	454,797	454,562	(235)
Trade payables	310,775	310,775	-
Short-term debt and current portion of long-term debt (excluding lease obligations)	147,568	147,568	-
Long-term debt, less current portion (excluding lease obligations)	258,738	260,672	1,934
Total liabilities	717,081	719,015	1,934
Derivative transactions (*)	¥(4,886)	¥(4,886)	¥-

(\*) 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

## &lt;Assets&gt;

## -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.

## &lt;Liabilities&gt;

## -Trade payables, 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 of principal and interest. That discount rate is based on the interest rates of similar new loans.

## &lt;Derivatives&gt;

See Note 21, "Derivative Transactions."

## (ii) Financial instruments for which the fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unlisted equity securities and investments in partnerships	<b>¥7,855</b>	¥7,122	<b>\$83,572</b>
Stocks of nonconsolidated subsidiaries and affiliates	<b>7,620</b>	6,917	<b>81,072</b>
Investments in affiliates	<b>44,792</b>	23,090	<b>476,561</b>
Total	<b>¥60,267</b>	¥37,129	<b>\$641,205</b>

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, 2013 and 2012 were as follows:

	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	<b>¥38,525</b>	¥-	¥-	¥-
Trade receivables	<b>426,027</b>	<b>6,622</b>	-	-
Investments in securities				
-Bonds	-	<b>133</b>	-	-
Total	<b>¥464,552</b>	<b>¥6,755</b>	¥-	¥-

	Thousands of U.S. dollars			
	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	<b>¥409,884</b>	\$-	\$-	\$-
Trade receivables	<b>4,532,684</b>	<b>70,454</b>	-	-
Investments in securities				
-Bonds	-	<b>1,415</b>	-	-
Total	<b>¥4,942,568</b>	<b>\$71,869</b>	\$-	\$-

	Millions of yen			
	2012			
	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	¥34,316	¥-	¥-	¥-
Trade receivables	368,419	35,635	-	-
Investments in securities				
-Bonds	300	104	-	-
<b>Total</b>	<b>¥403,035</b>	<b>¥35,739</b>	<b>¥-</b>	<b>¥-</b>

(iv) Planned repayment amounts after the balance sheet date for bonds payable, convertible bonds and long-term debt

See Note 8, "Short-Term debt and Long-term debt."

### 23. 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, is 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, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Property, plant and equipment	<b>¥24,064</b>	¥31,691	<b>\$256,027</b>
Accumulated depreciation	<b>(15,528)</b>	(19,888)	<b>(165,209)</b>
	<b>8,536</b>	11,803	<b>90,818</b>
Intangible assets	<b>82</b>	284	<b>872</b>
Accumulated amortization	<b>(77)</b>	(238)	<b>(819)</b>
	<b>¥5</b>	¥46	<b>\$53</b>

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current portion	<b>¥2,264</b>	¥3,150	<b>\$24,087</b>
Noncurrent portion	<b>6,111</b>	9,081	<b>65,018</b>
<b>Total</b>	<b>¥8,375</b>	¥12,231	<b>\$89,105</b>

Lease payments, "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases for the years ended March 31, 2013, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Lease payments	<b>¥3,702</b>	¥4,911	¥5,038	<b>\$39,387</b>
Depreciation and amortization	<b>3,402</b>	4,531	4,669	<b>36,195</b>
Interest	<b>¥270</b>	¥388	¥486	<b>\$2,872</b>

## (b) Lessor

The original costs of leased assets under finance leases and the related accumulated depreciation and amortization as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Property, plant and equipment	<b>¥956</b>	¥1,429	<b>\$10,171</b>
Accumulated depreciation	<b>(803)</b>	(1,107)	<b>(8,544)</b>
	<b>153</b>	322	<b>1,627</b>
Intangible assets	<b>12</b>	45	<b>127</b>
Accumulated amortization	<b>(12)</b>	(45)	<b>(127)</b>
	<b>¥-</b>	¥0	<b>\$-</b>

The present values of future minimum lease payments to be received under finance leases as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current portion	<b>¥122</b>	¥195	<b>\$1,298</b>
Noncurrent portion	<b>54</b>	181	<b>574</b>
Total	<b>¥176</b>	¥376	<b>\$1,872</b>

Lease payments received, depreciation and amortization and interest on finance leases for the years ended March 31, 2013, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Lease payments received	<b>¥193</b>	¥241	¥282	<b>\$2,053</b>
Depreciation and amortization	<b>165</b>	213	257	<b>1,755</b>
Interest	<b>¥13</b>	¥24	¥35	<b>\$138</b>

## 24. Operating leases

There were no operating lease transactions for the years ended March 31, 2013 and 2012.

## 25. 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 Turbine & 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.

## (c) Sales, income (loss), assets, liabilities and other items by reportable segment

	Year ended March 31, 2013								
	Millions of yen								
	Sales			Segment income (loss)	Segment assets	Depreciation/ amortization	Other items		
External sales	Intersegment sales and transfers	Total	Investment in equity-method affiliates				Impairment loss	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 Turbine & 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			Segment income (loss)	Segment assets	Depreciation/ amortization	Other items		
External sales	Intersegment sales and transfers	Total	Investment in equity-method affiliates				Impairment loss	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 Turbine & 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, 2011

	Millions of yen								
	Sales			Segment income (loss)	Segment assets	Other items			
	External sales	Intersegment sales and transfers	Total			Depreciation/amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥118,416	¥1,895	¥120,311	¥(1,013)	¥115,800	¥4,264	¥-	¥13,125	¥3,183
Rolling Stock	131,104	2,079	133,183	8,173	151,212	3,634	-	123	2,416
Aerospace	196,876	1,811	198,687	3,030	288,495	9,402	-	-	7,121
Gas Turbine & Machinery	202,692	20,783	223,475	9,545	211,369	6,550	67	61	5,659
Plant & Infrastructure	89,012	12,017	101,029	8,281	95,115	1,554	141	8,603	2,033
Motorcycle & Engine	234,479	1,211	235,690	(4,961)	216,559	15,294	9,520	946	11,340
Precision Machinery	140,328	13,277	153,605	22,318	99,612	4,872	-	-	9,822
Other	114,042	34,340	148,382	2,577	159,618	2,477	195	2,308	8,017
Total	¥1,226,949	¥87,413	¥1,314,362	¥47,950	¥1,337,780	¥48,047	¥9,923	¥25,166	¥49,591
Adjustments	-	(87,413)	(87,413)	(5,322)	16,498	2,229	-	-	5,743
Consolidated total	¥1,226,949	¥-	¥1,226,949	¥42,628	¥1,354,278	¥50,276	¥9,923	¥25,166	¥55,334

## Year ended March 31, 2013

	Thousands of U.S. dollars								
	Sales			Segment income (loss)	Segment assets	Other items			
	External sales	Intersegment sales and transfers	Total			Depreciation/amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	\$961,197	\$21,268	\$982,465	\$44,280	\$1,198,127	\$14,512	\$-	\$376,998	\$18,949
Rolling Stock	1,382,839	30,727	1,413,566	23,567	1,739,845	37,621	-	1,053	29,875
Aerospace	2,544,654	24,354	2,569,008	157,752	3,315,874	114,576	-	-	182,689
Gas Turbine & Machinery	2,202,447	206,447	2,408,894	74,827	2,679,093	64,900	-	11,554	99,202
Plant & Infrastructure	1,232,184	160,815	1,392,999	103,968	1,228,535	19,800	-	125,204	46,558
Motorcycle & Engine	2,679,625	8,054	2,687,679	25,502	2,889,116	111,501	-	10,576	158,166
Precision Machinery	1,387,967	149,239	1,537,206	89,925	1,220,332	82,062	-	-	131,078
Other	1,322,045	349,750	1,671,795	13,544	1,534,323	25,822	3,862	26,822	22,864
Total	\$13,712,958	\$950,654	\$14,663,612	\$533,365	\$15,805,245	\$470,794	\$3,862	\$552,207	\$689,381
Adjustments	-	(950,654)	(950,654)	(85,850)	(204,756)	43,994	-	-	147,133
Consolidated total	\$13,712,958	\$-	\$13,712,958	\$447,515	\$15,600,489	\$514,788	\$3,862	\$552,207	\$836,514

(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, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Net sales				
Total for reportable segments	¥1,378,233	¥1,393,512	¥1,314,362	\$14,663,612
Intersegment transactions	(89,352)	(89,734)	(87,413)	(950,654)
Net sales reported on the consolidated financial statements	¥1,288,881	¥1,303,778	¥1,226,949	\$13,712,958

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Income				
Total for reportable segments	¥50,131	¥66,327	¥47,950	\$533,365
Intersegment transactions	564	(131)	(3)	6,000
Corporate expenses (*)	(8,633)	(8,712)	(5,319)	(91,850)
Operating income (loss) on the consolidated financial statements	¥42,062	¥57,484	¥42,628	\$447,515

(\*) Corporate expenses mainly comprise general and administrative expenses not attributed to reportable segments.

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Income				
Total for reportable segments	<b>¥50,131</b>	¥66,327	¥47,950	<b>\$533,365</b>
Intersegment transactions	<b>564</b>	(131)	(3)	<b>6,000</b>
Corporate expenses (*)	<b>(8,633)</b>	(8,712)	(5,319)	<b>(91,850)</b>
Operating income (loss) on the consolidated financial statements	<b>¥42,062</b>	¥57,484	¥42,628	<b>\$447,515</b>

(\*) Corporate expenses mainly comprise general and administrative expenses not attributed to reportable segments.

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Assets				
Total for reportable segments	<b>1,485,535</b>	1,404,790	1,337,780	<b>15,805,245</b>
Corporate assets shared by all segments (*)	<b>122,759</b>	112,985	141,029	<b>1,306,086</b>
Intersegment transactions	<b>(142,004)</b>	(155,636)	(124,531)	<b>(1,510,842)</b>
Total assets on the consolidated financial statements	<b>1,466,290</b>	1,362,139	1,354,278	<b>15,600,489</b>

(\*) 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,		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Other items	Total for reportable segments			Adjustments (*)			Amounts reported on the consolidated financial statements		
Depreciation/amortization	<b>¥44,250</b>	¥45,865	¥48,047	<b>¥4,135</b>	¥3,036	¥2,229	<b>¥48,385</b>	¥48,901	¥50,276
Increase in property, plant and equipment and intangibles	<b>64,795</b>	56,733	49,591	<b>13,829</b>	7,186	5,743	<b>78,624</b>	63,919	55,334

(\*) Adjustment is mainly due to fixed assets not attributed to reportable segment.

	Thousands of U.S. dollars		
	Year ended March 31,	Year ended March 31,	Year ended March 31,
	2013	2013	2013
Other items	Total for reportable segments		
	Adjustments		
	Amounts reported on the consolidated financial statements		
Depreciation/amortization	<b>\$470,794</b>	<b>\$43,994</b>	<b>\$514,788</b>
Increase in property, plant and equipment and intangibles	<b>689,381</b>	<b>147,133</b>	<b>836,514</b>

## (e) Related information

### (i) Sales by geographic region

Net sales in the years ended March 31, 2013, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2013	2012	2011	2013
Japan	<b>¥616,220</b>	¥567,044	¥558,126	<b>\$6,556,229</b>
United States	<b>272,531</b>	237,941	236,572	<b>2,899,574</b>
Europe	<b>97,540</b>	123,317	87,162	<b>1,037,770</b>
Asia	<b>202,704</b>	239,627	224,685	<b>2,156,655</b>
Other areas	<b>99,886</b>	135,849	120,404	<b>1,062,730</b>
Total	<b>¥1,288,881</b>	¥1,303,778	¥1,226,949	<b>\$13,712,958</b>

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
	2013	2012	2013
Japan	<b>¥259,212</b>	¥238,733	<b>\$2,757,867</b>
United States	<b>21,298</b>	19,450	<b>226,598</b>
Europe	<b>2,618</b>	2,104	<b>27,854</b>
Asia	<b>21,638</b>	13,610	<b>230,215</b>
Other areas	<b>1,026</b>	853	<b>10,918</b>
Total	<b>¥305,792</b>	¥274,750	<b>\$3,253,452</b>

## (ii) Information by major clients

Clients	Net sales		Related segments
	2013	2012	
Ministry of Defense	<b>193,685 million yen</b> <b>(\$2,060,697 thousand)</b>	179,786 million yen	Ship & Offshore Structure, Aerospace, Gas Turbines & Machinery, etc.

**26. Related party transactions**

(a) Related party transactions for the years ended March 31, 2013 and 2012 were as follows:

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 (\$106 thousand)
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 (\$907,809 thousand)
Account	Trade receivables
Ending balance	¥25,957 million (\$276,167 thousand)
Year ended March 31, 2012	
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	¥59,265 million
Account	Trade receivables
Ending balance	¥26,229 million

(b) A summary of the total financial information of all affiliates (17 companies) (14 in 2012) 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, 2013 and 2012 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current assets	<b>¥156,902</b>	¥102,806	<b>\$1,669,347</b>
Fixed assets	<b>153,656</b>	71,760	<b>1,634,812</b>
Current liabilities	<b>154,814</b>	84,489	<b>1,647,132</b>
Long-term liabilities	<b>25,407</b>	11,710	<b>270,315</b>
Net assets	<b>130,337</b>	78,367	<b>1,386,711</b>
Net sales	<b>197,764</b>	161,212	<b>2,104,096</b>
Minority interests in net income of consolidated subsidiaries	<b>20,339</b>	19,387	<b>216,395</b>
Total net income	<b>17,305</b>	16,188	<b>184,115</b>

## 27. Subsequent events

On June 26, 2013, the following appropriation of nonconsolidated retained earnings was approved at the ordinary meeting of shareholders of the Company:

	Millions of yen
Cash dividends (¥5.0 per share)	¥8,358

## 28. Other matters

(Quarterly financial information)

Year ended March 31, 2013	Millions of yen			
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
Net sales	¥283,530	¥574,999	¥885,896	¥1,288,881
Income before income taxes and minority interests	11,727	20,165	29,837	46,152
Net income	6,030	12,429	19,343	30,864
	yen			
Net income per share - basic	¥3.6	¥7.4	¥11.5	¥18.4

Year ended March 31, 2013	Thousands of U.S. dollars			
	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
Net sales	\$3,016,597	\$6,117,661	\$9,425,428	\$13,712,958
Income before income taxes and minority interests	124,768	214,544	317,448	491,030
Net income	64,155	132,237	205,798	328,375

	U.S. dollars			
Net income per share - basic	\$0.03	\$0.07	\$0.12	\$0.19



## 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, 2013 and 2012, 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, 2013, 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, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2013, in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 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, 2013  
Kobe, Japan

# Directors, Corporate Auditors and Executive Officers (As of June 26, 2013)

## ● Directors



**Shigeru Murayama** \*†  
President



**Kyohei Matsuoka** \*†  
Senior Executive Vice President



**Hiroshi Takata** \*†  
Senior Executive Vice President



**Makoto Sonoda** \*†  
Senior 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



**Yoshihiko Morita**  
Outside Director

\* Representative Director  
† Executive Officer

## ● Corporate Auditors



**Tatsuyoshi Ogushi**  
Corporate Auditor



**Yuji Murakami**  
Corporate Auditor



**Michio Oka**  
Outside Corporate Auditor



**Nobuyuki Fujikake**  
Outside Corporate Auditor

## ● Managing Executive Officers

Masahiro Ibi  
Munenori Ishikawa  
Shigehiko Kiyama

## ● Executive Officers

Takeshi Sugawara	Masafumi Nakagawa	Hirokazu Komaki	Masayoshi Maeda
Shinsuke Tanaka	Atsuhiko Yamanaka	Shiro Nakabayashi	Hiroji Iwasaki
Yoshizumi Hashimoto	Kaoru Kawabe	Toshiyuki Kuyama	Koji Kadota
Takafumi Shibahara	Kazuo Hida	Kenji Tomida	Yasuhiko Hashimoto
Minoru Akioka	Makoto Ogawara	Genichi Abe	Tatsuya Watanabe
Yukinobu Kono	Yugo Nakagami	Kazuo Ota	Takeshi Ohata

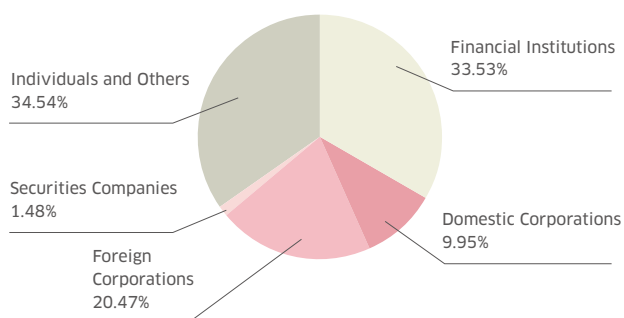
# Stock Information (As of March 31, 2013)

Stock Listings	Tokyo, Osaka 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	146,087 persons
Annual General Meeting of Shareholders	June

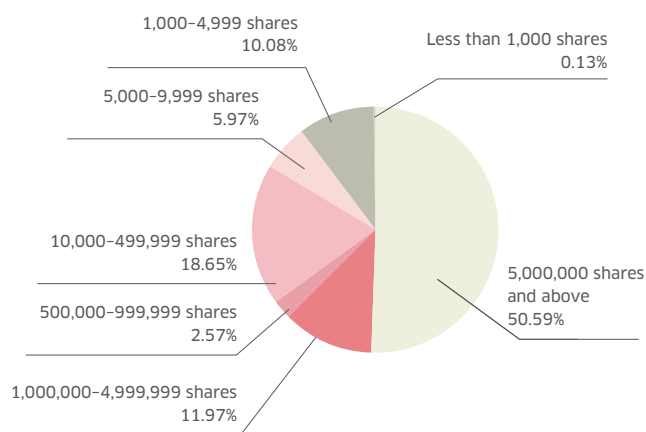
## Major Shareholders

Shareholder	Number of Shares Owned	Percentage
Japan Trustee Services Bank, Ltd. (Trust Account)	85,654,000	5.12%
The Master Trust Bank of Japan, Ltd. (Trust Account)	80,797,000	4.83%
Nippon Life Insurance Company	57,516,659	3.44%
Mizuho Bank, Ltd.	57,443,650	3.43%
JFE Steel Corporation	56,174,400	3.35%
Kawasaki Heavy Industries, Ltd. Kyoueikai	35,916,192	2.14%
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	34,361,700	2.05%
Kawasaki Heavy Industries Employee Stock Ownership Association	33,981,217	2.03%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	27,838,589	1.66%
Sumitomo Mitsui Banking Corporation	26,828,453	1.60%
<b>Total</b>	<b>496,511,860</b>	<b>29.69%</b>

## 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 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.  
 Kawasaki Motors Corporation Japan  
 Technica Corp.  
 K-Tec Corp.  
 Union Precision Die Co., Ltd.  
 AutoPolis  
 Kawasaki Robot Service, Ltd.





## Overseas Offices | Overseas Subsidiaries & Affiliates

Beijing Office	KCMA Corporation	Kawasaki Gas Turbine Europe GmbH	KHITKAN Co., Ltd.
Taipei Office	Kawasaki Trading do Brasil Ltda.	Kawasaki Gas Turbine Asia Sdn. Bhd.	P.T. Kawasaki Motor Indonesia
Delhi Office	Kawasaki do Brasil Indústria e Comércio Ltda.	Kawasaki Heavy Industries (Europe) B.V.	Kawasaki Motors (Phils.) Corporation
Moscow Office	Kawasaki Heavy Industries (U.S.A.), Inc.	Kawasaki Heavy Industries (H.K.) Ltd.	India Kawasaki Motors Pvt. Ltd.
	Kawasaki Heavy Industries (U.K.) Ltd.	Wuhan Kawasaki Marine Machinery Co., Ltd.	Changzhou Kawasaki and Kwang Yang Engine Co., Ltd.
	Kawasaki Hydrogen Engineering Australia Pty Ltd.	KHI Design & Technical Service Inc.	Kawasaki Precision Machinery (U.S.A.), Inc.
	Kawasaki Heavy Industries Middle East FZE	Kawasaki Heavy Industries Machinery Trading (Shanghai) Co., Ltd.	Kawasaki Robotics (U.S.A.), Inc.
	Kawasaki Heavy Industries (Singapore) Pte. Ltd.	Anhui Conch Kawasaki Engineering Co., Ltd.	Kawasaki Precision Machinery (UK) Ltd.
	Kawasaki Trading (Shanghai) Co., Ltd.	Anhui Conch Kawasaki Equipment Manufacturing Co., Ltd.	Kawasaki Robotics (UK) Ltd.
	Kawasaki Heavy Industries Management (Shanghai) Ltd.	Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd.	Kawasaki Robotics GmbH
	KHI (Dalian) Computer Technology Co., Ltd.	Shanghai COSCO Kawasaki Heavy Industries Steel Structure Co., Ltd.	Kawasaki Machine Systems Korea, Ltd.
	Estaleiro Enseada do Paraguaçu S.A.	Kawasaki Motors Corp., U.S.A.	Flutek, Ltd.
	Nantong COSCO KHI Ship Engineering Co., Ltd.	Canadian Kawasaki Motors Inc.	Wipro Kawasaki Precision Machinery Pvt. Ltd.
	Dalian COSCO KHI Ship Engineering Co., Ltd.	Kawasaki Motores do Brasil Ltda.	Kawasaki Precision Machinery (Suzhou) Ltd.
	Kawasaki Motors Manufacturing Corp., U.S.A.	Kawasaki Motors Europe N. V.	Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.
	Kawasaki Rail Car, Inc.	Kawasaki Motors Pty. Ltd.	Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd.
	Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.	Kawasaki Motors Enterprise (Thailand) Co., Ltd.	Kawasaki Robotics (Tianjin) Co., Ltd.
			Kawasaki Robotics (Kunshan) Co., Ltd.

(As of June 30, 2013)

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