





**For reference: Overview of Non-Consolidated Financial Results**

(1) Operating Results

	Years ended March 31	(Percentage figures indicate change compared with the previous fiscal year)		
	Net sales	Operating income	Recurring profit	Net income

## Accompanying Materials – Contents

1. Qualitative Information and Financial Statements	5
(1) Consolidated operating results	5
(2) Consolidated financial position	8
(3) Dividend policy and dividends for the fiscal years through March 31, 2012 and 2013	9
(4) Business and other risks	10
2. Status of Group	10
3. Management Strategy	10
(1) Basic management strategy	10
(2) Target management metrics	10
(3) Medium- to long-term management strategy	11
(4) Management priorities	11
4. Consolidated Financial Statements	14
(1) Consolidated balance sheets	14
(2) Consolidated statements of income and comprehensive income	16
Consolidated statements of income	16
Consolidated statements of comprehensive income	17
(3) Consolidated statement of changes in net assets	18
(4) Consolidated statements of cash flows	20
(5) Notes on the going-concern assumption	21
(6) Basis of preparation of financial statements	21
(7) Changes in basis of preparation of financial statements	21
(8) Notes on financial statements	21
5. Others	30
(1) Corporate officer changes	30
(2) Consolidated orders and sales	30
(3) Supplementary information on earnings forecasts for the fiscal year ending March 31, 2013	31

## **1. Qualitative Information and Financial Statements**

### **(1) Consolidated operating results**

#### (i) Overview of consolidated operating results

In the fiscal year ended March 31, 2012, the Japanese economy was initially forecast to remain stagnant owing to such factors as disruption of supply chains after the Great East Japan Earthquake, the historically high yen and adverse impacts from flooding in Thailand. However, signs of recovery gradually emerged toward the end of the fiscal year. As reconstruction demand following the earthquake moves into full swing and increasing attention becomes focused on Japan's future energy policy, the KHI Group role in society as an infrastructure manufacturer continues to grow.

In the global economy, while the employment situation in the US showed a gradual improvement, a number of concerns persist such as the lingering sovereign debt problem in Europe. Amid this situation, China has maintained high economic growth albeit at a slower pace, and infrastructure demand in emerging economies, including Asia and Brazil, remains firm, leading the overall global economy toward a moderate growth track. In particular, rapid growth in emerging economies has drawn attention to a number of pressing issues relating to energy, water and waste disposal. Hence, business fields in which the KHI Group is able to contribute are expanding on a global scale.

In such an operating environment, the Group achieved growth in overall sales and earnings despite declines in certain of its businesses. Orders received grew as a whole driven by large orders booked by the Aerospace, Gas Turbine & Machinery and Precision Machinery segments, thereby making up for decline in orders booked by the Rolling Stock, Ship & Offshore Structure and Plant & Infrastructure segments. Overall sales increased compared with the previous fiscal year, driven by

(ii) Segment information

**Gas Turbine & Machinery**

Orders received totaled ¥227.2 billion, up ¥39.6 billion compared with the previous fiscal year. This





(ii) Cash flows

(A) Cash flow from operating activities

Operating activities provided net cash of ¥84.7 billion, a ¥2.8 billion increase compared with the previous fiscal year. Major sources of operating cash flow included depreciation and amortization of ¥48.9 billion, loss on impairment of fixed assets of ¥14.9 billion, and ¥18.9 billion increase of advances from customers. Major uses of operating cash flow included an ¥18.7 billion increase in inventories and ¥18.2 billion in tax payments.

(B) Cash flow from investing activities

Investing activities used net cash of ¥65.9 billion, ¥13.0 billion more than in the previous fiscal year, mainly to acquire property, plant and equipment.

(C) Cash flow from financing activities

Financing activities used net cash of ¥26.8 billion, a ¥7.9 billion increase compared with the previous fiscal year, mainly to repay borrowings.

(iii) Cash flow ratios

Fiscal year ended March 31:	2008	2009	2010	2011	2012
Equity ratio (%)	22.7	20.7	20.4	21.3	22.4

**(4) Business and other risks**

No risks other than those disclosed under the heading “Business and Other Risks” in the Company’s

**(3) Medium- to long-term management strategy**

In April 2010, the Company adopted a new three-year business plan, “*Medium-Term Business Plan*”

December 2012, so as to take further advantage of the Company's intellectual assets and strengthening its system solution business in the areas of transportation equipment, energy and environment, and industrial equipment.

The initiatives to be undertaken by each business division are as follows.

establish internal regulations concerning corporate ethics, carry out staff training at each level, distribute compliance handbooks, and set up CSR committees in each organization. Furthermore, we have continued to take thoroughgoing organizational compliance initiatives by setting up a department which oversees internal controls, compliance, and CSR promotion, and creating units in charge of compliance within each business unit, while also striving to create a corporate culture that places the highest priority at all times on information disclosure and transparency.

## 4. Consolidated Financial Statements

### (1) Consolidated balance sheets

March 31	Millions of yen	
	2011	2012
<b>Assets</b>		
Current assets		
Cash on hand and in banks	47,233	34,316
Trade receivables	401,753	404,054
Merchandise and finished products	50,528	53,558
Work in process	285,977	300,224
Raw materials and supplies	88,817	88,113
Deferred tax assets	35,887	33,007
Other current assets	44,351	57,166
Allowance for doubtful receivables	(2,829)	(3,255)
Total current assets	951,719	967,186
Fixed assets		
Net property, plant and equipment		
Buildings and structures	113,186	113,632
Machinery and equipment	74,156	74,529
Land	64,107	61,942
Leased assets	283	323
Construction in progress	12,651	11,782
Other	11,394	12,540
Total property, plant and equipment	275,780	274,750
Intangible assets		
Goodwill	626	300
Other	18,622	18,485
Total intangible assets	19,249	18,786
Investments and other assets		
Investments in securities	24,641	23,249
Long-term loans	458	432
Deferred tax assets	47,193	37,614
Other	36,221	41,060
Allowance for doubtful receivables	(986)	(940)
Total investments and other assets	107,529	101,416
Total fixed assets	402,558	394,953
<b>Total assets</b>	1,354,278	1,362,139



**(2) Consolidated statements of income and comprehensive income**

**Consolidated statements of income**



## Consolidated statements of comprehensive income

Years ended March 31	Millions of yen	
	2011	2012
Income before minority interests	27,758	25,875
Other comprehensive income		
Net unrealized gains (losses) on securities, net of tax	(1,437)	106
Deferred gains (losses) on hedges	(480)	1,281
Foreign currency translation adjustments	(5,420)	(2,925)
Share of other comprehensive income of associates accounted for using equity method	(2,167)	231
Total other comprehensive income	(9,505)	(1,305)
Comprehensive Income attributable to:	18,252	24,569
Owners of the parent company	16,505	22,227
Minority interests	1,746	2,341

### (3) Consolidated statements of changes in net assets

Years ended March 31	Millions of yen	
	2011	2012
<b>Shareholders' equity</b>		
Common stock		
Balance at end of previous year	104,328	104,340
Changes during the period		
Conversion of convertible bonds	11	144
Total changes during the period	11	144
Balance at end of year	104,340	104,484
Capital surplus		
Balance at end of previous year	54,275	54,251
Changes during the period		
Conversion of convertible bonds	(24)	142
Treasury stock disposed	(0)	(0)
Total changes during the period	(24)	142
Balance at end of year	54,251	54,393
Retained earnings		
Balance at end of previous year	137,689	158,615
Changes during the period		
Conversion of convertible bonds	(16)	-
Cash dividend	(5,003)	(5,011)
Net income	25,965	23,323
Treasury stock disposed	-	(3)
Increase (decrease) by change of consolidation period of subsidiaries	-	(509)
Other	(19)	-
Total changes during the period	20,926	17,798
Balance at end of year	158,615	176,414
Treasury stock		
Balance at end of previous year	(552)	(30)
Changes during the period		
Conversion of convertible bonds	535	13
Treasury stock purchased	(15)	(6)
Treasury stock disposed	1	1
Total changes during the period	521	7
Balance at end of year	(30)	(22)
Total shareholders' equity		
Balance at end of previous year	295,741	317,176
Changes during the period		
Conversion of convertible bonds	506	300
Cash dividend	(5,003)	(5,011)
Net income	25,965	23,323
Treasury stock purchased	(15)	(6)
Treasury stock disposed	1	(2)
Increase (decrease) by change of consolidation period of subsidiaries	-	(509)
Other	(19)	-
Total changes during the period	21,435	18,093
Balance at end of year	317,176	335,270

**Comprehensive income**

Net unrealized gain (loss) on securities		
Balance at end of previous year	5,305	3,876
Changes during the period		
Net changes in items other than shareholders' equity	(1,429)	112
Total changes during the period	(1,429)	112
Balance at end of year	3,876	3,989
Deferred gains (losses) on hedges		
Balance at end of previous year	(162)	(990)
Changes during the period		
Net changes in items other than shareholders' equity	(828)	1,236
Total changes during the period	(828)	1,236
Balance at end of year	(990)	246
Foreign currency translation adjustments		
Balance at end of previous year	(23,803)	(31,006)
Changes during the period		
Net changes in items other than shareholders' equity	(7,202)	(2,444)
Total changes during the period	(7,202)	(2,444)
Balance at end of year	(31,006)	(33,451)
Total comprehensive income		
Balance at end of previous year	(18,659)	(28,119)
Changes during the period		
Net changes in items other than shareholders' equity	(9,460)	(1,095)
Total changes during the period	(9,460)	(1,095)
Balance at end of year	(28,119)	(29,215)
<b>Minority interests</b>		
Balance at end of previous year	5,972	8,376
Changes during the period		
Net changes in items other than shareholders' equity	2,404	1,491
Total changes during the period	2,404	1,491
Balance at end of year	8,376	9,868
<b>Total net assets</b>		
Balance at end of previous year	283,053	297,433
Changes during the period		
Conversion of convertible bonds	506	300
Cash dividend	(5,003)	(5,011)
Net income for the year (loss)	25,965	23,323
Treasury stock purchased	(15)	(6)
Treasury stock disposed	1	(2)
Increase (decrease) by change of consolidation period of subsidiaries	-	(509)
Other	(19)	-
Net changes in items other than shareholders' equity	(7,055)	395
Total changes during the period	14,380	18,489
Balance at end of year	297,433	315,922

**(4) Consolidated statements of cash flows**

Years ended March 31

Millions of yen

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2011

2012

**(5) Notes on the going-concern assumption**

Not applicable

**(6) Basis of preparation of financial statements**

Other than information disclosed under the heading “(7) Changes in basis of preparation of financial statements” below, no material changes have been made from the information disclosed in the Company’s most recent full-year statutory financial report (filed June 28, 2011). An updated disclosure is therefore omitted here.

**(7) Changes in basis of preparation of financial statements**

1. Change in the scope of consolidation

(1) Change in the scope of consolidation

Four companies were added as consolidated subsidiaries because they were newly established by the Company.

Three companies merged with another consolidated subsidiaries and were dissolved.

(2) Number of consolidated subsidiaries after change

97 companies

2. Change in application of the equity method

(1) Non-consolidated subsidiaries which are accounted for under the equity method:

None

(2) Associated companies which are accounted for under the equity method

(i) Change in associated companies which are accounted for under the equity method

None

(ii) Number of associated companies accounted for under the equity method after change

14 companies

**(8) Notes on financial statements**

*Consolidated balance sheets*

Fiscal year ended March 31, 2012 (As of March 31, 2012)

Information is omitted here as its disclosure in this report is not of material importance.

*Consolidated Statements of Income*

Fiscal year ended March 31, 2011 (April 1, 2011 – March 31, 2012)

1. Loss on impairment of fixed assets

(1) Outline asset groups in which loss on impairment of fixed assets was recognized

Purpose	Location	Type
Assets h		

(2) Method for asset grouping

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.

In conjunction with its October 2010 organizational restructuring, the Group renamed its Shipbuilding segment the Ship & Offshore Structure segment.

Main segment businesses are listed below.

Industry segment	Major products
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Main segment businesses are listed below.

Industry segment	Major products
Ship & Offshore Structure	Construction and sale of ships and other vessels, etc.
Rolling Stock	Production and sale of rolling stock, snow plows, etc.
Aerospace	Production and sale of aircraft, etc.
Gas Turbines & Machinery	Production and sale of jet engines, industrial gas turbines, prime movers, etc.
Plant & Infrastructure	Production and sale of industrial equipment, boilers, environmental



(b) Property, plant and equipment

(

5. Gain on negative goodwill by reportable segment

*Material subsequent events*

Fiscal year ended March 31, 2012  
(April 1, 2012 – March 31, 2013)

Investment in Chinese shipbuilding company

The Company resolved to acquire a stake in Dalian COSCO Shipbuilding Industry Co., Ltd. (DACOS), a shipbuilding company based in Dalian, China, and completed payment for this acquisition on April 12, 2012.

1. Purpose

DACOS is a joint venture company established in the Lushun Economic Development Zone in Dalian. It was co-founded

## 5. Others

### (1) Corporate officer changes

Refer to the Company's press release on January 31, 2012, titled "Directors and Executive Officers to Change."

### (2) Consolidated orders and sales

#### Orders received

Years ended March 31

(Millions of yen)

	2011 A		2012 B		Change
		% of total		% of total	
Ship & Offshore Structure	78,953	6.2	39,909	3.0	(39,043)
Rolling Stock	187,122	14.7	341,222	25.8	154,100

### (3) Supplementary information on earnings forecasts for the fiscal year ending March 31, 2013

#### 1. Consolidated earnings outlook

(Billions of yen)

	Outlook for the fiscal year ending March 31, 2013 (A)	Fiscal year ended March 31, 2012 (actual) (B)	Change (A – B)
Net sales	1,380.0	1,303.7	76.3
Operating income	52.0	57.4	(5.4)
Recurring profit	56.0	63.6	(7.6)
Net income	34.0	23.3	10.7
Orders received	1,430.0	1,311.8	118.2
Before-tax ROIC (%)	8.2%	7.4%	0.8%
R&D expenses	45.0	39.9	5.1
Capital expenditures	79.0	63.9	15.1
Depreciation/ amortization	54.0	48.8	5.2
Number of employees at end of period	34,700	33,267	1,433
*Number of employees outside of Japan included therein	*9,200	*8,497	*703

Notes: 1. Outlook's assumed foreign exchange rates: ¥80 = US\$1, ¥105 = 1 euro

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

3. Capital expenditures represent the total of newly recorded property, plant and equipment and newly recorded intangible assets. Depreciation/amortization represents depreciation/amortization expenses for property, plant and equipment and intangible assets.

#### 2. Outlook by reportable segment

(a) Net sales and oper

(b) Orders received

(Billions of yen)

	Outlook for the fiscal year ending March 31, 2013 (A)	Fiscal year ended March 31, 2012 (actual) (B)	Change (A – B)
Ship & Offshore Structure	110.0	39.9	70.1
Rolling Stock	150.0	66.0	84.0
Aerospace	220.0	327.2	(107.2)
Gas Turbine & Machinery	230.0	227.2	2.8
Plant & Infrastructure	130.0	119.2	10.8
Motorcycle & Engine	260.0	235.2	24.8