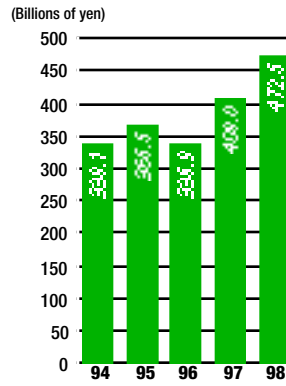
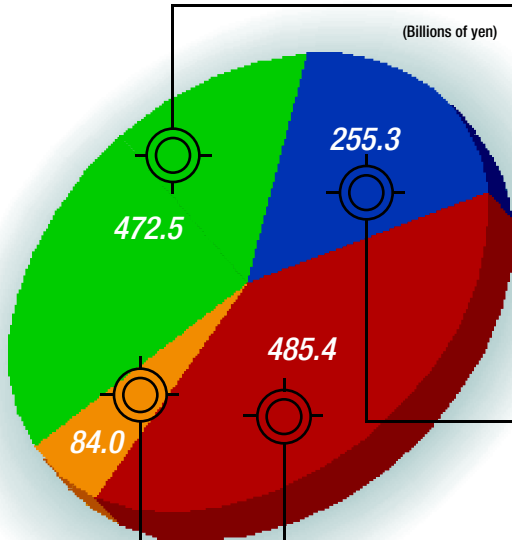


Composites of Consolidated Sales

Analysis of Operations and Financial Position

Parent Company

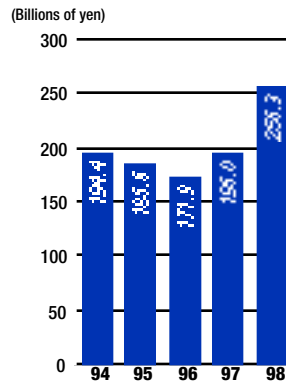


Ships

Rolling Stock

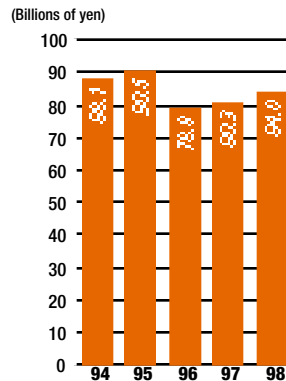
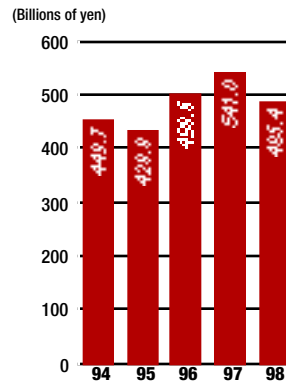
Consumer Products

Aerospace



Machinery, Environment & Power Plants

Plant Engineering & Steel Structures



Japan

Kawaju Kobe Support Co., Ltd.
Kawaju Marine Engineering Co., Ltd.
KHI JPS Co., Ltd.
Kawasaki Sanyo Co., Ltd.
Kawasaki Industrial Co., Ltd.
K-GES Co., Ltd.
Kawasaki Motors Corporation Japan
Union Precision Die Co., Ltd.
Ishihara Dockyard Co., Ltd.

Kawaju Gifu Engineering Co., Ltd.
Kawasaki Helicopter System Ltd.
Kawaju Gifu Manufacturing Co., Ltd.
Kawasaki Akashi Engineering Co., Ltd.

Kawasaki Gasturbine Technologies Co., Ltd.
Kawasaki Prime Mover Engineering Co., Ltd.
Kawasaki Gas Turbine Research Center
Kawasaki Thermal Engineering Co., Ltd.
Osaka Power Engineering Co., Ltd.
Kawasaki Engineering Co., Ltd.
Kawasaki Environmental Plant Engineering Co., Ltd.
Kawaju Yachiyo Engineering Ltd.
Kawasaki Plant Assistance & Service Co., Ltd.
Kawasaki Construction Co., Ltd.
Kawasaki Inspection Service Co., Ltd.
Kawaju Harima Tech Inc.

Kawaju Shoji Co., Ltd.
Kawaju Real Estate Co., Ltd.
Kawasaki Kosan Co., Ltd.
Kawasaki Foods Co., Ltd.
Kawaju Techno Service Corporation
Uji Kanko Co., Ltd.
Kawaju Tomakomai Kanko Kaihatsu Co., Ltd.

Kawasaki Hydraulic Co., Ltd.
Nichijo Manufacturing Co., Ltd.
Kawasaki Construction Machinery, Tohoku Ltd.
Kawasaki Construction Machinery, Nishi-Nihon Ltd.
Kawasaki Construction Machinery, Kanto Ltd.
Kawasaki Construction Machinery, Chubu Ltd.
Kawasaki Construction Machinery, Kinki Ltd.
Kawasaki Construction Machinery, Kyushu Ltd.
Kawasaki Safety Service Industries, Ltd.
Kawasaki Hydromechanics Corporation
Kawasaki Metal Industries, Ltd.

Overseas

TRANSPORTATION EQUIPMENT

Kawasaki Rail Car, Inc.
Kawasaki Motors Corp., U.S.A.
Kawasaki Motors (UK) Ltd.
Kawasaki Motoren GmbH
Kawasaki Motors Pty. Ltd.
Green River Insurance Company
P.T. Kawasaki Motor Indonesia
Kawasaki Motors Netherlands N.V.
Kawasaki Motors Manufacturing Corp., U.S.A.
Canadian Kawasaki Motors Inc.
Kawasaki Motors Finance Corporation
Kawasaki Engines Europe N.V.
Kawasaki Motors (Phils.) Corporation

AEROSPACE

INDUSTRIAL EQUIPMENT

Kawasaki Precision Machinery (UK) Ltd.
Kawasaki Construction Machinery Corp. of America
Kawasaki Robotics (U.S.A.), Inc.

OTHER

Kawasaki Heavy Industries (Europe) B.V.
Kawasaki Heavy Industries (H.K.) Ltd.
Kawasaki Heavy Industries (U.S.A.), Inc.

Financial Review

Despite an adverse business climate, consolidated net sales for fiscal 1998, ended March 31, 1998, amounted to ¥1,297.2 billion (\$9,820 million), a 6.0% increase over fiscal 1997. Net income decreased 17.8%, to ¥18.6 billion (\$140 million), as a consequence of a rise in selling, general and administrative (SGA) expenses.

The total cash dividend was ¥6.00 per share.

KHI has not reported the consolidated figures for orders received during fiscal 1998. For reference, the figures appear in the Supplementary Information on Non-Consolidated Operations on pages 22 and 23.

NET SALES

Net sales rose for a fifth consecutive year, with three of KHI's four business segments posting increases.

Sales in the Aerospace segment amounted to ¥261.5 billion (\$1,980 million), up 30.1%. Sales to the Japan Defense Agency were higher, due mainly to the delivery of prototypes of the OH-1 light observation helicopter. Sales of components for the B777 and B767 also increased, boosted by strong demand for civil aircraft worldwide and a weaker yen. Operating income for the segment increased 31.5%, to ¥20.5 billion (\$155 million).

Sales of the Transportation Equipment segment were ¥477.8 billion (\$3,617 million), an increase of 15.8%. An improved

product mix led to higher sales of ships. Sales of consumer products also increased as a result of strong performances by the North American and European subsidiaries. The profitability of rolling stock operations fell, primarily due to contractual problems for large-scale contracts with U.S. customers. Consequently, operating income declined 30.4%, to ¥10.9 billion (\$82 million).

In the Industrial Equipment segment, there were fewer large-scale projects compared to fiscal 1997, and sales decreased 8.0%, to ¥539.0 billion (\$4,080 million). Operating income decreased 39.2%, to ¥17.6 billion (\$133 million).

Sales of the Other segment increased 7.0%, to ¥127.3 billion (\$964 million). Operating income rose 1.1%, to ¥2.0 billion (\$15 million).

GEOGRAPHICAL BREAKDOWN

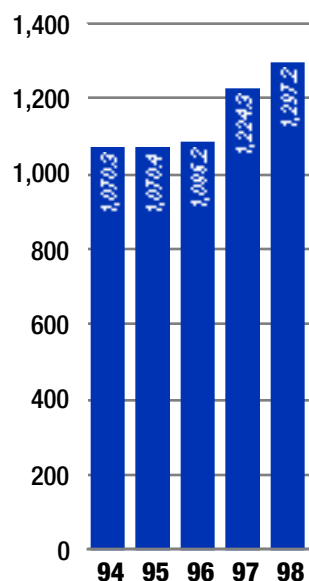
Beginning fiscal 1998, KHI is disclosing overseas sales and operating profits by region. The figures for Japan include exports.

Japan sales increased 5.2%, to ¥1,230.8 billion (\$9,317 million). Operating income decreased 21.3%, to ¥47.2 billion (\$358 million), due to a decline in profit on rolling stock.

Net sales for the four overseas regions, comprised of North America, Europe, Asia, and Other Areas, rose substantially to

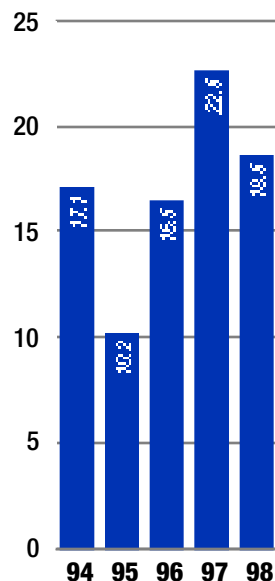
NET SALES

(Billions of yen)



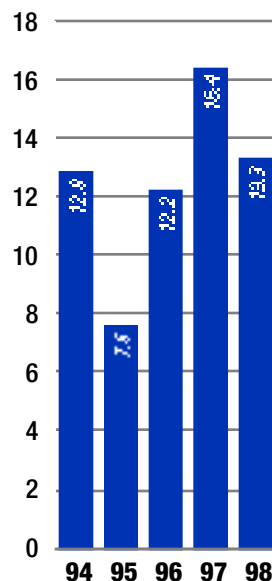
NET INCOME

(Billions of yen)



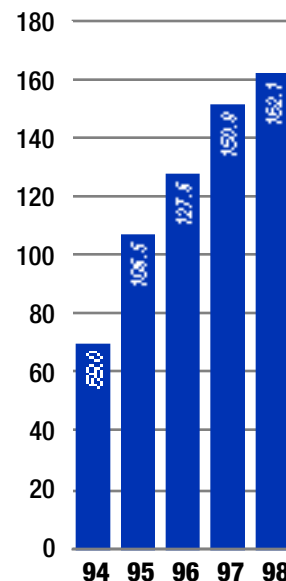
NET INCOME PER SHARE

(Yen)



WORKING CAPITAL

(Billions of yen)



¥208.8 billion (\$1,581 million) over fiscal 1997, due to large increases in North America and Asia. Operating income increased to ¥4.7 billion (\$36 million), with strong results for Europe and Asia more than offsetting a decline for North America.

COST OF SALES AND EXPENSES

Cost of sales rose 7.0%, to ¥1,114.7 billion (\$8,438 million). SGA expenses increased 9.2%, to ¥131.4 billion (\$995 million), with the ratio of SGA expenses to net sales rising 0.3 percentage points, to 10.1%.

NET INCOME

Operating income declined 17.9%, to ¥51.1 billion (\$387 million), with the ratio of operating income to net sales dropping 1.2 percentage points, to 3.9%. Consequently, income before income taxes, minority interests and other items decreased 18.9%, to ¥40.5 billion (\$306 million).

Net income declined 17.8%, to ¥18.6 billion (\$140 million). The ratio of net income to net sales declined 0.4 percentage points, to 1.4%.

CASH FLOWS

Net cash provided by operating activities increased 169.0%, to ¥43.7 billion (\$330 million). Net cash used for investing activities increased 10.0%, to ¥43.8 billion (\$332 million). Net cash used for financing activities amounted to ¥19.2 billion (\$146 million).

FINANCIAL CONDITION

Total assets declined 6%, to ¥1,222.9 billion (\$9,257 million) as a result of decreases in cash on hand and in banks and in inventories, which offset increases in receivables and property, plant and equipment. Total liabilities fell 8.5%, due to decreases in advances to customers and borrowings.

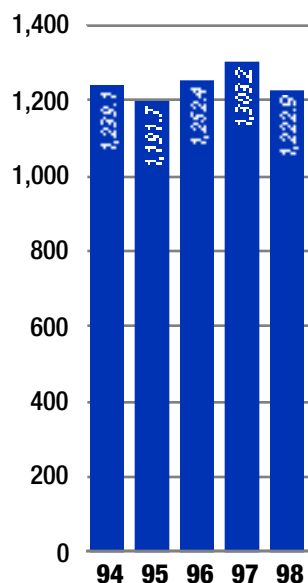
Shareholders' equity rose 6.0%, to ¥209.0 billion (\$1,582 million). Shareholders' equity ratio increased 2.0 percentage points, to 17.1%.

OTHER FINANCIAL INDICATORS

Return on equity declined 3.4 percentage points, to 9.1%, and return on assets fell 0.3 of a percentage point, to 1.5%. Working capital climbed 7.5%, to ¥162.1 billion (\$1,227 million). Accordingly, the current ratio increased from 1.18 to 1.22. Total asset turnover was 1.03 times, compared with 0.96 times for fiscal 1997.

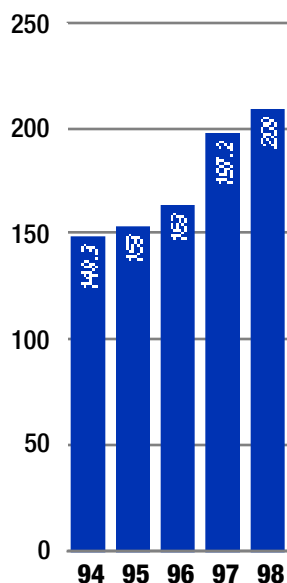
TOTAL ASSETS

(Billions of yen)



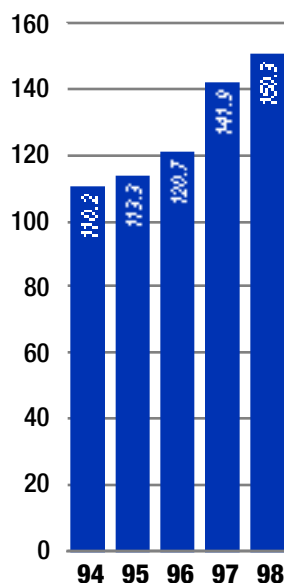
TOTAL SHAREHOLDERS' EQUITY

(Billions of yen)



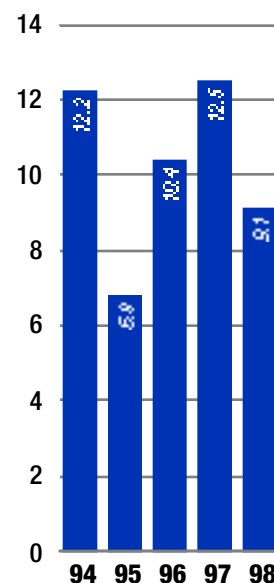
TOTAL SHAREHOLDERS' EQUITY PER SHARE

(Yen)



RETURN ON EQUITY

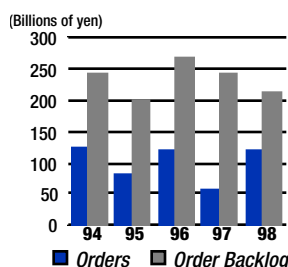
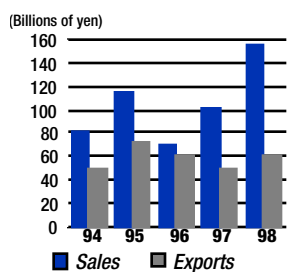
(%)



Supplementary Information on Non-Consolidated Results

SHIPS

(Billions of yen)	94	95	96	97	98
Sales	81.3	115.8	69.5	100.6	154.5
Exports	48.9	72.4	60.0	49.0	59.4
Orders	124.3	83.8	119.3	56.3	120.9
Order Backlog	241.6	201.9	269.1	243.5	213.7



Major Orders

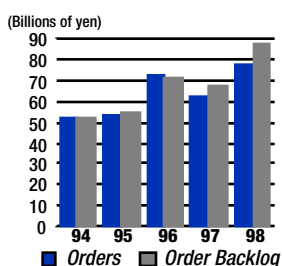
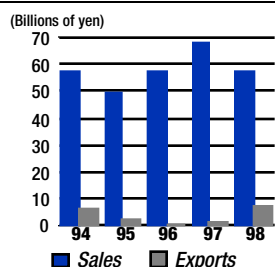
- 4 VLCCs (Very Large Crude-oil Carriers)
- 2 LPG carriers
- 1 submarine
- 1 deep-submergence rescue vehicle
- 1 patrol vessel

Major Components of Sales

- Container ship
- Bulk carrier
- LNG carrier
- LPG carrier
- Submarine
- Patrol vessel

ROLLING STOCK

(Billions of yen)	94	95	96	97	98
Sales	57.5	49.7	57.3	68.0	57.1
Exports	5.7	2.5	0.3	1.3	6.7
Orders	52.7	53.1	72.0	62.0	77.0
Order Backlog	51.6	55.0	71.6	67.2	87.5



Major Orders

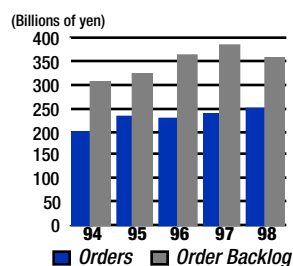
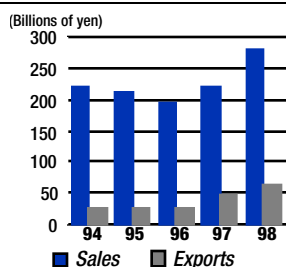
- 400 subway cars for New York City
- 66 subway cars for Singapore
- 271 cars for JR Group, including electric passenger cars for Shinkansen bullet trains, commuter and suburban trains
- 150 cars for other domestic railways, including subway cars for Sapporo City

Major Components of Sales

- 478 cars for JR Group, including 122 electric passenger cars for Shinkansen bullet trains
- 140 cars for other domestic railways
- 74 bi-level passenger coaches for the United States

AEROSPACE

(Billions of yen)	94	95	96	97	98
Sales	220.2	210.1	194.9	219.4	277.6
Exports	24.9	24.5	25.2	45.1	64.6
Orders	200.7	231.9	223.3	238.5	248.5
Order Backlog	307.3	324.5	359.7	385.8	358.2



Major Orders

- T-4 intermediate jet trainers
- CH-47J large transport helicopters
- OH-1 light observation helicopters
- Anti-tank missiles
- Helicopter engines
- Gas turbine engines for naval vessels
- Component parts for the Boeing 767 and 777 passenger airplanes
- BK117 helicopters
- Space equipment
- Component parts for V2500, RB211/TRENT and PW4000 turbo-fan engines

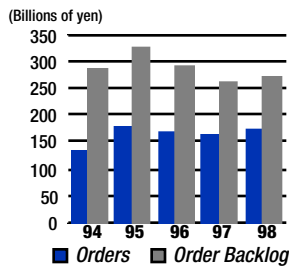
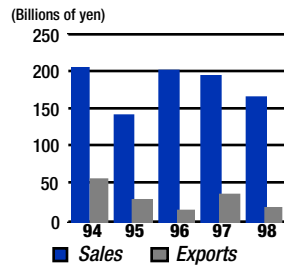
- Small- and medium-sized gas turbine generator sets
- Gas turbines for cogeneration systems

Major Components of Sales

- XOH-1 new light observation helicopters, prototypes of OH-1
- Component parts for the Boeing 767 and 777 passenger airplanes
- Component parts for V2500, RB211/TRENT and PW4000 turbo-fan engines

MACHINERY, ENVIRONMENT & POWER PLANTS

(Billions of yen)	94	95	96	97	98
Sales	204.6	141.0	200.1	192.4	163.4
Exports	55.8	25.4	13.5	34.3	14.6
Orders	132.8	178.3	165.4	164.1	171.7
Order Backlog	286.6	323.6	288.9	262.6	269.7



Major Orders

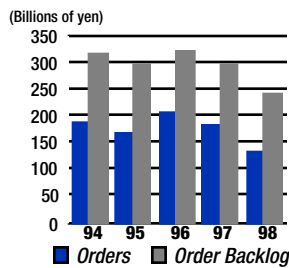
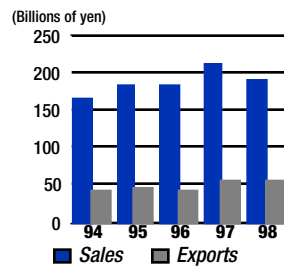
- Combined cycle power plants for domestic and Korean steel companies
- Municipal waste incineration plants and bulky waste recycling facilities
- Power generation facilities for an oil chemical company
- Marine turbines and diesel engines
- Ash handling equipment for a domestic electric power company
- Natural gas compression modules for India and Malaysia

Major Components of Sales

- Municipal waste incineration plants and bulky waste recycling facilities
- Ash handling equipment for a domestic electric power company
- Aero-derived gas-turbine engines for naval vessels
- Marine diesel engines

PLANT ENGINEERING & STEEL STRUCTURES

(Billions of yen)	94	95	96	97	98
Sales	163.6	183.2	183.3	211.2	188.1
Exports	39.1	42.9	41.7	56.3	56.0
Orders	186.2	163.5	205.7	182.1	132.2
Order Backlog	315.1	294.1	319.7	293.0	238.9



Major Orders

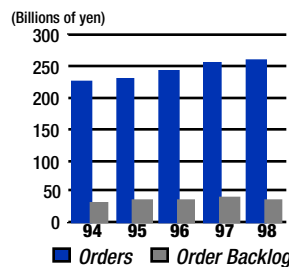
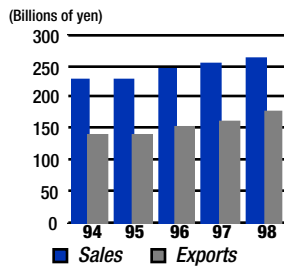
- Coal handling systems for domestic and Australian companies
- Baggage handling systems for China and Taiwan
- Shield machines and tunnel boring machines
- Industrial robots
- Parking system
- Bridges

Major Components of Sales

- Cement plant for Indonesia
- Iron carbide plant for the United States
- Section mill and steel processing line for Taiwan
- Stiffening girders of the Akashi Kaikyo Bridge
- Flue gas desulfurization plant for a domestic electric power company
- Container cranes
- Shield machines and tunnel boring machines
- Industrial robots

CONSUMER PRODUCTS & MACHINERY

(Billions of yen)	94	95	96	97	98
Sales	228.4	225.9	243.9	251.4	259.5
Exports	136.4	137.4	152.3	159.7	177.3
Orders	227.6	229.3	243.2	255.5	257.4
Order Backlog	32.1	35.5	34.6	38.8	36.4



Weak domestic sales performance for motorcycles, construction machinery and hydraulic equipment installed on it was offset by exports of motorcycles to North America and Europe as well as exports of all-terrain vehicles (ATVs) and construction machinery to the United States.

Consolidated Balance Sheets

Kawasaki Heavy Industries, Ltd. and consolidated subsidiaries
As of March 31, 1998 and 1997

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
Current assets:			
Cash on hand and in banks (Note 6)	¥ 76,265	¥ 96,617	\$ 577,328
Marketable securities (Notes 4 and 6)	48,834	49,939	369,675
Receivables (Notes 6 and 10):			
Trade	410,644	392,537	3,108,584
Other	9,918	10,174	75,080
Allowance for doubtful receivables	(2,959)	(3,794)	(22,400)
	<u>417,603</u>	<u>398,917</u>	<u>3,161,264</u>
Inventories (Notes 5 and 6)	351,236	440,970	2,658,864
Other current assets (Note 10)	14,493	11,691	109,712
Total current assets	<u>908,431</u>	<u>998,134</u>	<u>6,876,843</u>
Investments and long-term loans (Note 10):			
Investments in securities (Note 4)	38,604	40,650	292,233
Long-term loans	3,940	4,297	29,826
Other	14,293	13,679	108,199
Allowance for doubtful receivables	(2,289)	(2,247)	(17,328)
Total investments and long-term loans	<u>54,548</u>	<u>56,379</u>	<u>412,930</u>
Property, plant and equipment (Note 6):			
Land	46,524	44,819	352,188
Buildings	229,287	219,420	1,735,708
Machinery and equipment	420,536	394,373	3,183,467
Construction in progress	7,837	6,911	59,326
	<u>704,184</u>	<u>665,523</u>	<u>5,330,689</u>
Accumulated depreciation	(461,749)	(432,327)	(3,495,451)
Net property, plant and equipment	<u>242,435</u>	<u>233,196</u>	<u>1,835,238</u>
Intangible and other assets	<u>5,699</u>	<u>5,429</u>	<u>43,142</u>
Foreign currency translation adjustments	<u>11,793</u>	<u>10,030</u>	<u>89,273</u>
Total assets	<u>¥1,222,906</u>	<u>¥1,303,168</u>	<u>\$9,257,426</u>

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	1998	1997	1998
Current liabilities (Note 10):			
Short-term borrowings and current portion of long-term debt (Note 6)	¥ 239,252	¥ 250,080	\$1,811,143
Trade payables	327,176	364,641	2,476,730
Advances from customers	97,703	145,768	739,614
Accrued income taxes (Note 9)	19,904	24,334	150,674
Accrued expenses	41,721	41,461	315,829
Other current liabilities	20,591	21,091	155,874
Total current liabilities	746,347	847,375	5,649,864
 Long-term liabilities:			
Long-term debt, less current portion (Note 6)	198,135	197,130	1,499,886
Retirement and severance benefits	52,182	50,514	395,019
Other	11,466	6,411	86,798
Total long-term liabilities	261,783	254,055	1,981,703
 Contingent liabilities (Note 11)			
 Minority interests	5,736	4,577	43,422
 Shareholders' equity (Note 7):			
Common stock of ¥50 par value :			
Authorized—3,360,000,000 shares			
Issued—1,390,595,964 shares in 1998 (1,389,123,205 shares in 1997)	81,427	81,088	616,404
Capital surplus	24,682	24,345	186,843
Legal reserve	14,710	13,713	111,355
Retained earnings	88,221	78,015	667,835
Total shareholders' equity	209,040	197,161	1,582,437
Total liabilities and shareholders' equity	¥1,222,906	¥1,303,168	\$9,257,426

Consolidated Statements of Income

Kawasaki Heavy Industries, Ltd. and consolidated subsidiaries
For the three years ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1998	1997	1996	1998
Net sales	¥1,297,212	¥1,224,259	¥ 1,086,244	\$9,819,924
Cost of sales	1,114,693	1,041,697	928,126	8,438,251
Gross profit	182,519	182,562	158,118	1,381,673
Selling, general and administrative expenses	131,440	120,351	111,362	995,004
Operating income	51,079	62,211	46,756	386,669
Other income (expenses):				
Interest and dividend income	5,122	5,424	5,156	38,774
Interest expense	(11,907)	(12,578)	(13,694)	(90,136)
Other, net (Note 8)	(3,815)	(5,148)	(553)	(28,880)
Income before income taxes, minority interests and other	40,479	49,909	37,665	306,427
Income taxes (Note 9)	(22,618)	(27,128)	(21,777)	(171,219)
Minority interests in net income of consolidated subsidiaries	(541)	(529)	(48)	(4,095)
Equity in income of unconsolidated subsidiaries and affiliates	1,236	320	343	9,356
Foreign currency translation adjustments	-	-	279	-
Net income	¥ 18,556	¥ 22,572	¥ 16,462	\$ 140,469

	Yen			U.S. dollars (Note 1)
Per share amounts (Note 2 (u)):				
Net income	¥13.3	¥16.4	¥12.2	\$0.10
Net income—diluted	12.0	14.8	11.3	0.09
Cash dividends	6.0	7.0	5.5	0.05

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

Consolidated Statements of Shareholders' Equity

Kawasaki Heavy Industries, Ltd. and consolidated subsidiaries
For the three years ended March 31, 1998, 1997 and 1996

	Thousands	Millions of yen			
	Number of shares of common stock	Common stock	Capital surplus	Legal reserve	Retained earnings
Balance at March 31, 1995	1,350,038	¥ 71,108	¥ 14,375	¥ 12,190	¥ 55,318
Net income for the year	-	-	-	-	16,462
Adjustment for changes of interests in an affiliate accounted for by the equity method	-	-	-	-	174
Cash dividends	-	-	-	-	(6,750)
Transfer to legal reserve	-	-	-	687	(687)
Bonuses to directors and statutory auditors	-	-	-	-	(204)
Foreign currency translation adjustments	-	-	-	-	312
Balance at March 31, 1996	1,350,038	71,108	14,375	12,877	64,625
Net income for the year	-	-	-	-	22,572
Adjustment for changes of interests in consolidated subsidiaries and in affiliates accounted for by the equity method	-	-	-	-	22
Increase in retained earnings arising from a newly consolidated subsidiary	-	-	-	-	57
Cash dividends	-	-	-	-	(8,211)
Transfer to legal reserve	-	-	-	836	(836)
Bonuses to directors and statutory auditors	-	-	-	-	(214)
Issue of new shares	30,000	7,890	7,890	-	-
Conversion of convertible bonds	9,085	2,090	2,080	-	-
Balance at March 31, 1997	1,389,123	81,088	24,345	13,713	78,015
Net income for the year	-	-	-	-	18,556
Adjustment for changes of interests in consolidated subsidiaries	-	-	-	-	23
Increase in retained earnings arising from newly consolidated subsidiaries	-	-	-	-	2,727
Decrease in retained earnings arising from affiliates newly accounted for by the equity method	-	-	-	-	(83)
Cash dividends	-	-	-	-	(9,728)
Transfer to legal reserve	-	-	-	997	(997)
Bonuses to directors and statutory auditors	-	-	-	-	(292)
Conversion of convertible bonds	1,473	339	337	-	-
Balance at March 31, 1998	1,390,596	¥ 81,427	¥ 24,682	¥ 14,710	¥ 88,221

	Thousands of U.S. dollars (Note 1)			
	\$ 613,838	\$ 184,292	\$ 103,808	\$ 590,575
Balance at March 31, 1997	-	-	-	140,469
Net income for the year	-	-	-	174
Adjustment for changes of interests in consolidated subsidiaries	-	-	-	20,643
Increase in retained earnings arising from newly consolidated subsidiaries	-	-	-	(628)
Decrease in retained earnings arising from affiliates newly accounted for by the equity method	-	-	-	(73,641)
Cash dividends	-	-	7,547	(7,547)
Transfer to legal reserve	-	-	-	(2,210)
Bonuses to directors and statutory auditors	-	-	-	-
Conversion of convertible bonds	2,566	2,551	-	-
Balance at March 31, 1998	\$616,404	\$186,843	\$111,355	\$667,835

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

Consolidated Statements of Cash Flows

Kawasaki Heavy Industries, Ltd. and consolidated subsidiaries
For the three years ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1998	1997	1996	1998
Cash flows from operating activities:				
Net income	¥18,556	¥ 22,572	¥ 16,462	\$ 140,469
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	32,416	31,245	30,823	245,390
Provision for retirement and severance benefits	1,667	1,866	2,012	12,619
(Gain) loss on disposal of property, plant and equipment	993	(1,064)	(619)	7,517
Provision for allowance for doubtful receivables	352	507	907	2,665
Minority interests in net income of consolidated subsidiaries	541	529	48	4,095
Equity in undistributed earnings of unconsolidated subsidiaries and affiliates	(838)	(390)	(176)	(6,344)
Gain on sale of marketable securities and investments in securities	(799)	(442)	(505)	(6,048)
Changes in assets and liabilities :				
Decrease (increase) in				
Receivables	(18,951)	(48,209)	(32,402)	(143,460)
Inventories	88,306	1,805	(7,792)	668,478
Other current assets	3,342	(2,438)	(488)	25,299
Increase (decrease) in				
Payables	(37,464)	19,999	46,672	(283,603)
Advances received	(48,065)	(21,745)	(17,430)	(363,853)
Accrued income taxes	(4,379)	6,049	11,309	(33,149)
Other liabilities	6,602	3,608	(4,816)	49,977
Other, net	1,378	2,335	2,825	10,432
Net cash provided by operating activities	43,657	16,227	46,830	330,484
Cash flows from investing activities:				
Acquisition of property, plant and equipment	(42,928)	(35,130)	(39,319)	(324,966)
Proceeds from sale of property, plant and equipment	325	3,644	2,445	2,460
Decrease (increase) in marketable securities	835	(3,125)	(1,342)	6,321
Increase in intangible and other investments	(406)	(230)	(1,637)	(3,073)
Proceeds from sales and redemption of investments in securities	1,088	485	1,154	8,236
Additions to investments in securities	(3,266)	(5,734)	(7,013)	(24,724)
Payments received on long-term loans receivable	788	673	1,092	5,965
Additions to long-term loans receivable	(357)	(463)	(494)	(2,702)
Payments received on loans to unconsolidated subsidiaries and affiliates	142	188	216	1,075
Additions to loans to unconsolidated subsidiaries and affiliates	(47)	(210)	(170)	(356)
Other	23	65	660	174
Net cash used for investing activities	(43,803)	(39,837)	(44,408)	(331,590)
Cash flows from financing activities:				
Proceeds from long-term debt	37,796	43,902	35,793	286,117
Proceeds from issuance of common stock	-	15,780	-	-
Repayment of long-term debt	(36,287)	(28,182)	(63,921)	(274,693)
Cash dividends paid	(9,694)	(8,207)	(6,760)	(73,384)
Cash dividends paid to minority interests	(522)	(138)	(42)	(3,952)
Increase (decrease) in short-term borrowings	(10,528)	(5,821)	42,447	(79,697)
Net cash provided by (used for) financing activities	(19,235)	17,334	7,517	(145,609)
Effect of exchange rate changes	(971)	2,759	(1,337)	(7,350)
Net increase (decrease) in cash on hand and in banks	(20,352)	(3,517)	8,602	(154,065)
Cash on hand and in banks at beginning of year	96,617	100,134	91,532	731,393
Cash on hand and in banks at end of year	¥76,265	¥ 96,617	¥100,134	\$ 577,328
Supplemental information on cash flows:				
Cash paid during the year for:				
Interest	¥12,617	¥ 12,224	¥ 13,889	\$ 95,511
Income taxes	27,048	21,129	10,468	204,754
Convertible bonds converted into common stock	676	4,170	-	5,117

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

Notes to the Consolidated Financial Statements

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (the "Company") and consolidated subsidiaries (together the "Companies") have been prepared from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan and are in conformity with generally accepted accounting principles in Japan. Relevant notes have been added, and certain reclassifications of accounts as disclosed in the consolidated financial statements in Japan have been made, so as to present them in a form which is more familiar to readers outside Japan. Although the accompanying consolidated statements of cash flows and shareholders' equity

for the three years ended March 31, 1998 are not required in Japan, they are presented herein for the readers' convenience.

The Company prepares the original consolidated financial statements in Japanese yen. The dollar amounts included in the consolidated financial statements and these notes represent the arithmetical results of translating Japanese yen to dollars on the basis of ¥132.10=\$1, the rate prevailing as of March 31, 1998. These translations are solely for the convenience of the readers, and should not be construed as representations that the Japanese yen amounts have been, could have been or could be converted, realized or settled in dollars at that or any other rate.

2. Significant accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and 62 (51 in 1997 and 1996) majority-owned subsidiaries.

For the years ended March 31, 1998, 1997 and 1996, respectively, 59, 72 and 70 subsidiaries are excluded from the consolidation. The amounts of total assets, net sales, net income and retained earnings of these excluded subsidiaries, in the aggregate, would not have had a material effect on the consolidated financial statements.

(b) Application of the equity method of accounting

For the year ended March 31, 1998, 12 (3 unconsolidated subsidiaries and 15 affiliates in 1997 and 1996) affiliates (20 percent to 50 percent owned) are accounted for by the equity method.

For the years ended March 31, 1998, 1997 and 1996, investments in 59, 69 and 67 unconsolidated subsidiaries and 23, 22 and 20 affiliates, respectively, are stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the amounts of net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-ends

Fiscal year-ends of 17 (19 in 1997 and 1996) consolidated subsidiaries end on December 31. The Company consolidates such subsidiaries' financial statements as of each subsidiary's

latest year-end. Unusual significant transactions for the period between each subsidiary's year-end and the Company's year-end are adjusted on consolidation.

(d) Elimination of inter-company transactions and accounts

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

When the excess of equity in net assets over the cost of an investment is considered significant, it is amortized to income by the straight-line method over five years. Otherwise, it is credited directly to retained earnings in the year of acquisition or the year newly included in consolidation.

(e) Translation of foreign currency statements

The financial statements of the overseas consolidated subsidiaries are translated into yen as stated below, in accordance with a regulation issued by the Financial Accounting Deliberation Council.

- (1) Assets and liabilities are translated at the fiscal year-end exchange rates.
- (2) Share capital accounts and retained earnings are translated at historical rates.
- (3) Revenue and expense accounts are translated at average rates prevailing during the fiscal year.

Differences arising from the application of the process stated above are shown as foreign currency translation adjustments in the accompanying consolidated balance sheet.

(f) Appropriations of retained earnings

- (1) Appropriations of retained earnings are recorded in the fiscal year when the proposed appropriations are approved.
- (2) Legal reserve in the consolidated financial statements includes only that of the Company. The legal reserves of consolidated subsidiaries are included in consolidated retained earnings.

(g) Revenue recognition

Sales are principally recognized at the time of completion of the contracts. However, the percentage-of-completion method is applied to long-term contracts exceeding ¥5,000 million. (see Note 3)

(h) Cash on hand and in banks

Cash on hand and in banks includes time deposits maturing within one year.

(i) Allowance for doubtful receivables

Possible losses from notes and accounts receivable, loans and other receivables are provided for based on relevant income tax laws and the Companies' estimates of losses on collection.

(j) Inventories

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

(k) Marketable securities

Marketable securities are stated principally at cost, as determined by the moving-average method. When significant impairment of value has been deemed permanent, cost has been appropriately reduced.

(l) Investments in securities

Investments in securities are stated at cost, as determined by the moving-average method, except for those accounted for by the equity method as explained in Note 2 (b). When significant impairment of value has been deemed permanent, cost has been appropriately reduced.

(m) Property, plant and equipment

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

(n) Intangible assets

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

(o) Research and development expenses

Research and development expenses are charged to income as incurred.

(p) Bond issue expenses

Bond issue expenses are charged to income as incurred.

(q) Foreign currency translation

Foreign currency accounts of the Company and its domestic subsidiaries are translated into yen as stated below, in accordance with a regulation issued by the Financial Accounting Deliberation Council.

- (1) Foreign currencies and short-term monetary accounts are translated at the rates of exchange prevailing at the balance sheet date. The resulting translation gain or loss is included in the determination of net income for the year.
- (2) Long-term monetary accounts and non-monetary accounts are translated at historical exchange rates prevailing at the time of transactions.
- (3) Monetary accounts which are hedged by forward exchange contracts are translated into yen at the contracted rates of exchange.

Notes denominated in foreign currencies and hedged by long-term forward exchange contracts are translated at the contracted exchange rates. The exchange gain on the transaction is deferred and amortized to income over the period from the date of the contract to the date of settlement.

If long-term monetary items were translated at exchange rates in effect at March 31, 1998, net translation losses of ¥916 million (\$6,934 thousand) would have been recorded.

(r) Income taxes

Income taxes are principally provided for based on taxable income for the period, determined in accordance with applicable tax laws. The tax effect resulting from the elimination of inter-company profit is not reflected in the consolidated financial statements.

In accordance with accounting principles generally accepted in Japan, no provision is made for deferred taxes arising from timing differences for financial and tax reporting purposes.

Enterprise tax, which is based on income, has been included in selling, general and administrative expenses in the original consolidated financial statements described in Note 1, but has been reclassified to income taxes in the accompanying consolidated financial statements.

(s) Retirement and severance benefits

Employees who terminate their services with the Company and its domestic consolidated subsidiaries are generally entitled to

lump-sum payments, the amounts of which are determined by reference to their current basic rates of pay and length of service. In accordance with Japanese income tax law, the Company and its domestic consolidated subsidiaries provide for 40 percent of the amount which would be required to be paid if all eligible employees voluntarily terminated their services at the balance sheet date.

Employees of the Company's overseas consolidated subsidiaries are generally covered by various pension plans, accounted for in accordance with generally accepted accounting principles in the country of incorporation.

In addition, the Company and some of its domestic consolidated subsidiaries provide for retirement and severance benefits for directors and statutory auditors principally at 50 percent of the amount required if they retired at the balance sheet date.

(t) Finance leases

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

(u) Per share amounts of net income and cash dividends

The computations of per share amounts of net income shown in the consolidated statements of income are based upon the weighted average number of issued shares outstanding during each period. Diluted income per share, required to be disclosed commencing with the year ended March 31, 1996, is computed based on the assumption that all dilutive convertible bonds were converted at the beginning of the year.

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

3. Change in accounting policy

Effective April 1, 1997, the method of accounting for revenue from long-term construction contracts was changed from the completed-contract method to the percentage-of-completion method. The percentage-of-completion method is applied to long-term contracts exceeding ¥5,000 million.

Under the previous completed-contract method, sales of materials and equipment for plant construction projects, contract prices of which exceeded ¥10,000 million, were recognized at the time of shipment.

The application of the percentage-of-completion method to these long-term contracts improves the quality of financial disclosure and more fairly presents the results of current period operations. As a result of this change, net sales, operating income and income before income taxes, minority interests and other increased ¥79,590 million (\$602,498 thousand), ¥15,203 million (\$115,087 thousand) and ¥15,203 million (\$115,087 thousand), respectively, compared with the amounts which would have been recognized if the former method had been applied consistently.

4. Market value information for securities - the Company only

Market values, book values and unrealized gains of quoted securities as of March 31, 1998 and 1997 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Market values:			
Marketable securities	¥81,360	¥ 99,919	\$615,897
Investments in securities:			
Subsidiaries and affiliates	14,802	19,167	112,051
Other	201	308	1,522
	96,363	119,394	729,470
Book values (unconsolidated basis):			
Marketable securities	47,511	48,174	359,659
Investments in securities:			
Subsidiaries and affiliates	6,517	6,517	49,334
Other	104	104	787
	54,132	54,795	409,780
Unrealized gains (unconsolidated basis)	¥42,231	¥ 64,599	\$319,690

5. Inventories

Inventories as of March 31, 1998 and 1997 are comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Finished products	¥ 34,788	¥ 23,952	\$ 263,346
Work in process	275,272	380,835	2,083,815
Raw materials and supplies	41,176	36,183	311,703
Total	¥351,236	¥440,970	\$2,658,864

6. Short-term borrowings and long-term debt

Short-term borrowings and long-term debt as of March 31, 1998 and 1997 are comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Short-term borrowings:			
Short-term debt, principally bank loans and commercial paper	¥204,814	¥ 215,342	\$1,550,447
Current portion of long-term debt	34,438	34,738	260,696
Total short-term debt	¥239,252	¥250,080	\$1,811,143
Long-term debt :			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 1998 to 2032, bearing interest ranging from 1.05 percent to 8.125 percent and from 0.83 percent to 8.00 percent as of March 31, 1998 and 1997, respectively	¥ 76,304	¥ 78,078	\$ 577,622
6.00 percent notes due 1997	-	15,000	-
6.15 percent notes due 1999	15,000	15,000	113,550
2.10 percent notes due 1999	10,000	10,000	75,700
2.50 percent notes due 2000	10,000	10,000	75,700
2.55 percent notes due 2001	10,000	10,000	75,700
2.00 percent notes due 2003	10,000	-	75,700
2.775 percent notes due 2008	10,000	-	75,700
0.50 percent convertible bonds due 1998	17,960	17,960	135,958
0.80 percent convertible bonds due 2001	8,573	8,820	64,898
0.90 percent convertible bonds due 2003	9,105	9,116	68,925
1.10 percent convertible bonds due 2006	17,118	17,894	129,584
0.65 percent convertible bonds due 2003	9,974	10,000	75,504
0.75 percent convertible bonds due 2005	9,642	10,000	72,990
0.90 percent convertible bonds due 2008	9,812	10,000	74,277
1.00 percent convertible bonds due 2011	9,085	10,000	68,774
	232,573	231,868	1,760,582
Less portion due within one year	(34,438)	(34,738)	(260,696)
Total long-term debt	¥198,135	¥ 197,130	\$1,499,886

The convertible bonds due 1998 through 2011 as of March 31, 1998 were convertible into 179,339,824 shares of common stock at the option of the holders at a price of ¥459 (\$3.47) or ¥598 (\$4.53) per share. The conversion prices are subject to adjustments under specified conditions.

As of March 31, 1998 and 1997, the following assets were pledged as collateral for short-term borrowing and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Time deposits	¥ 157	¥ 157	\$ 1,188
Marketable securities	-	1	-
Trade receivables	20,526	14,541	155,382
Inventories	3,773	19,999	28,562
Property, plant and equipment (at net book value)	12,439	11,691	94,164
Total	¥36,895	¥46,389	\$279,296

The aggregate annual maturities of long-term debt as of March 31, 1998, are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
1999	¥ 34,438	\$ 260,696
2000	38,533	291,696
2001	28,406	215,034
2002	21,558	163,194
2003 and thereafter	109,638	829,962
Total	¥232,573	\$1,760,582

7. Shareholders' equity

(a) Capital surplus

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

(b) Legal reserve

The Commercial Code of Japan provides that an amount equal to at least 10 percent of cash dividends and directors' and statutory auditors' bonuses for each period be appropriated as

a legal reserve until such reserve equals 25 percent of common stock. The legal reserve may be used to reduce a deficit or may be transferred to common stock, but is not available for distribution as dividends.

(c) Restrictions on dividends

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

8. Other income (expenses): other, net

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

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Gain (loss) on disposal of property, plant and equipment	¥ (993)	¥ 1,064	¥ 619	\$ (7,517)
Gain on sales of marketable securities and investments in securities of:				
Unconsolidated subsidiaries and affiliates	-	-	283	-
Others	799	442	222	6,048
Foreign exchange gain (loss), net	(1,654)	(1,971)	319	(12,521)
Other, net	(1,967)	(4,683)	(1,996)	(14,890)
Total	¥(3,815)	¥(5,148)	¥ (553)	\$ (28,880)

9. Income taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax (national tax) and enterprise tax and inhabitants taxes (local taxes) which, in the aggregate, result in a normal statutory tax rate of approximately 50 percent, for the three years in the period ended March 31, 1998.

The actual effective income tax rate on income differs from the normal statutory rate principally due to (1) non-recognition

of deferred taxes on timing differences between financial and tax reporting, (2) certain expenses which are not deductible for tax purposes, (3) the non-taxable portion of dividend income from domestic companies, (4) certain gains from the sale of land which is not taxable until replacement land is sold and (5) carry-forward of tax losses to the succeeding five years as an offset against taxable income in those years.

10. Account balances with unconsolidated subsidiaries and affiliates

Account balances with unconsolidated subsidiaries and affiliates as of March 31, 1998 and 1997 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Receivables:			
Trade	¥11,137	¥13,013	\$ 84,307
Other	2,276	2,748	17,229
Other current assets	38	88	288
Investments in securities and other investments	24,354	26,695	184,360
Long-term loans receivable	94	106	712
Trade payables	14,293	23,064	108,198
Short-term borrowing	179	-	1,355
Current liabilities other than above	2,343	2,421	17,737

11. Contingent liabilities

Contingent liabilities as of March 31, 1998 and 1997 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
As a drawer of trade notes	¥ 307	¥ 699	\$ 2,324
As an endorser of trade notes	24	29	182
As a guarantor of indebtedness of employees, unconsolidated subsidiaries and affiliates, and others	47,058	35,716	356,230

12. Finance leases

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

(a) As lessee

The present value of future minimum lease payments under non-capitalized finance leases as of March 31, 1998 is as follows:

	Millions of yen	Thousands of U.S. dollars
Current portion	¥ 2,540	\$ 19,228
Non-current portion	4,880	36,942
Total	¥ 7,420	\$ 56,170

Lease payments on non-capitalized finance leases for the years ended March 31, 1998 and 1997 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Lease payments	¥3,419	¥4,992	\$25,882

(b) As lessor

The present value of future minimum lease payments to be received under finance leases as of March 31, 1998 is as follows:

	Millions of yen		Thousands of U.S. dollars
Current portion	¥ 249		\$ 1,885
Non-current portion	656		4,966
Total	¥ 905		\$ 6,851

Lease payments received on finance leases for the years ended March 31, 1998 and 1997 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Lease payments received	¥ 334	¥ 401	\$2,528

13. Operating leases

Operating lease information, as required to be disclosed commencing with the year ended March 31, 1998, is as follows:

The present value of future minimum lease payments under operating leases as of March 31, 1998 is as follows:

	Millions of yen		Thousands of U.S. dollars
Current portion	¥ 306		\$2,316
Non-current portion	965		7,305
Total	¥ 1,271		\$ 9,621

14. Derivative transactions - the Company only

Since the Company operates internationally and has a substantial volume of export and import transactions, it enters into foreign currency exchange and option transactions in order to manage risk of fluctuations in exchange rates in relation to foreign currency denominated assets and liabilities.

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

The Company's purpose for purchasing derivatives is to hedge against risks of fluctuations in currency exchange rates and interest rates rather than be exposed to such risks through dealing or speculation. In order to minimize credit risk, the Company uses only highly-rated international financial institutions as counterparty to derivative transactions.

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

In addition to foreign currency exchange contracts that are used to translate foreign currency denominated items in the balance sheet at March 31, 1998, the Company had outstanding foreign currency exchange contracts to sell, primarily U.S. dollars, of ¥12,241 million of which ¥9,766 million mature within one year, and to buy, primarily German marks, of ¥3,866 million of which ¥3,085 million mature within one year. As compared with market exchange rates at March 31, 1998, net unrealized losses on these currency exchange contracts totaled ¥613 million (\$4,640 thousand).

Foreign currency option contracts outstanding at March 31, 1998 consisted of sell call options for U.S. dollars of ¥1,797 million and buy put options for U.S. dollars of ¥1,797 million. As compared with current market exchange rates at March 31, 1998, net unrealized losses on these foreign currency options, including option premiums, totaled ¥209 million (\$1,582 thousand). Outstanding positions for interest rate swap contracts at March 31, 1998 consisted of swaps to receive a fixed rate and pay a variable rate on principal of ¥3,000 million (\$22,710 thousand) and

to pay a fixed rate and receive a variable rate on principal of ¥55,000 million (\$416,351 thousand). As compared with current market interest rates at March 31, 1998, net unrealized losses on these interest rate swap contracts, including option premiums,

were ¥1,352 million (\$10,235 thousand).

The principal amounts of option and swap contracts are not the appropriate basis for evaluating market and credit risk.

15. Segment information

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

The Transportation equipment segment manufactures and sells ships, rolling stock and consumer products such as motorcycles. Operations within the Aerospace segment include the production and sale of airplanes, helicopters and airplane engines. Products manufactured and sold by the Industrial equipment segment include boilers, prime movers, gas turbines, hydraulic, crushing, construction and factory automation

machines, chemical and steel making plants, steel bridges and hospital respiration equipment. Operations in the Other segment involve trade, mediation of overseas sales and orders and other activities.

For the purpose of industry segment classification, gas turbine generator systems, hydraulic and construction machinery, which are under the Aerospace and the Consumer Products & Machinery groups, respectively, in the Company's organizational structure are included in the Industrial equipment segment.

(a) Information by industry segment

	Millions of yen							
	1998							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets	Depreciation and amortization	Capital expenditures
Transportation equipment	¥ 472,525	¥ 5,318	¥ 477,843	¥ 466,977	¥10,866	¥ 362,189	¥12,347	¥13,613
Aerospace	255,328	6,173	261,501	240,962	20,539	218,618	4,695	3,823
Industrial equipment	485,353	53,608	538,961	521,358	17,603	444,083	10,592	9,787
Other	84,006	43,341	127,347	125,346	2,001	196,322	4,810	7,830
Total	1,297,212	108,440	1,405,652	1,354,643	51,009	1,221,212	32,444	35,053
Eliminations and corporate	-	(108,440)	(108,440)	(108,510)	70	1,694	(28)	(23)
Consolidated total	¥1,297,212	¥ -	¥1,297,212	¥1,246,133	¥51,079	¥1,222,906	¥32,416	¥35,030

	Millions of yen							
	1997							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets	Depreciation and amortization	Capital expenditures
Transportation equipment	¥ 407,977	¥ 4,599	¥ 412,576	¥ 396,967	¥ 15,609	¥ 360,894	¥12,088	¥ 15,093
Aerospace	194,973	5,951	200,924	185,308	15,616	246,440	4,775	3,784
Industrial equipment	541,030	44,694	585,724	556,760	28,964	476,867	9,984	13,288
Other	80,279	38,745	119,024	117,045	1,979	184,143	4,429	4,836
Total	1,224,259	93,989	1,318,248	1,256,080	62,168	1,268,344	31,276	37,001
Eliminations and corporate	-	(93,989)	(93,989)	(94,032)	43	34,824	(31)	(9)
Consolidated total	¥1,224,259	¥ -	¥1,224,259	¥1,162,048	¥ 62,211	¥1,303,168	¥31,245	¥ 36,992

Millions of yen								
1996								
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets	Depreciation and amortization	Capital expenditures
Transportation equipment	¥ 336,934	¥ 5,226	¥ 342,160	¥ 345,016	¥ (2,856)	¥ 309,675	¥11,914	¥16,930
Aerospace	171,900	4,235	176,135	168,557	7,578	228,170	5,202	3,656
Industrial equipment	498,649	46,249	544,898	505,354	39,544	483,171	9,429	12,980
Other	78,761	36,062	114,823	112,280	2,543	182,121	4,313	4,533
Total	1,086,244	91,772	1,178,016	1,131,207	46,809	1,203,137	30,858	38,099
Eliminations and corporate	-	(91,772)	(91,772)	(91,719)	(53)	49,234	(35)	(63)
Consolidated total	¥1,086,244	¥ -	¥1,086,244	¥1,039,488	¥46,756	¥1,252,371	¥30,823	¥38,036

Thousands of U.S. dollars								
1998								
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets	Depreciation and amortization	Capital expenditures
Transportation equipment	\$3,577,025	\$ 40,257	\$ 3,617,282	\$ 3,535,026	\$ 82,256	\$2,741,779	\$ 93,467	\$103,051
Aerospace	1,932,839	46,730	1,979,569	1,824,088	155,481	1,654,943	35,541	28,940
Industrial equipment	3,674,133	405,814	4,079,947	3,946,692	133,255	3,361,718	80,182	74,088
Other	635,927	328,092	964,019	948,872	15,147	1,486,162	36,412	59,273
Total	9,819,924	820,893	10,640,817	10,254,678	386,139	9,244,602	245,602	265,352
Eliminations and corporate	-	(820,893)	(820,893)	(821,423)	530	12,824	(212)	(174)
Consolidated total	\$9,819,924	\$ -	\$ 9,819,924	\$ 9,433,255	\$386,669	\$9,257,426	\$245,390	\$265,178

The effects of the accounting change for long-term contracts, as explained in Note 3, for the year ended March 31, 1998 are included above in the following amounts:

	Millions of yen			Thousands of U.S. dollars		
	External sales	Total sales	Operating income	External sales	Total sales	Operating income
Transportation equipment	¥54,037	¥54,037	¥10,087	\$409,061	\$409,061	\$ 76,359
Industrial equipment	25,553	25,553	5,116	193,437	193,437	38,728
Total	¥79,590	¥79,590	¥15,203	\$602,498	\$602,498	\$115,087

(b) Information by geographic area

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

Millions of yen						
1998						
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets
Japan	¥1,105,123	¥ 125,662	¥1,230,785	¥1,183,543	¥47,242	¥1,096,854
North America	127,613	9,830	137,443	136,519	924	120,853
Europe	36,922	6,194	43,116	41,810	1,306	20,830
Asia	23,056	682	23,738	21,398	2,340	5,987
Other Areas	4,498	-	4,498	4,353	145	1,669
Total	1,297,212	142,368	1,439,580	1,387,623	51,957	1,246,193
Eliminations and corporate	-	(142,368)	(142,368)	(141,490)	(878)	(23,287)
Consolidated total	¥1,297,212	¥ -	¥1,297,212	¥1,246,133	¥51,079	¥1,222,906

Millions of yen						
1997						
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets
Japan	¥1,059,821	¥ 110,163	¥1,169,984	¥1,109,940	¥60,044	¥1,157,328
Overseas Areas	164,438	11,351	175,789	171,455	4,334	131,054
Total	1,224,259	121,514	1,345,773	1,281,395	64,378	1,288,382
Eliminations and corporate	-	(121,514)	(121,514)	(119,347)	(2,167)	14,786
Consolidated total	¥1,224,259	¥ -	¥1,224,259	¥1,162,048	¥62,211	¥1,303,168

Millions of yen						
1996						
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets
Japan	¥ 957,733	¥ 103,150	¥1,060,883	¥1,015,209	¥ 45,674	¥1,109,815
Overseas Areas	128,511	9,860	138,371	136,354	2,017	113,715
Total	1,086,244	113,010	1,199,254	1,151,563	47,691	1,223,530
Eliminations and corporate	-	(113,010)	(113,010)	(112,075)	(935)	28,841
Consolidated total	¥1,086,244	¥ -	¥1,086,244	¥1,039,488	¥ 46,756	¥1,252,371

Thousands of U.S. dollars						
1998						
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets
Japan	\$8,365,806	\$ 951,264	\$ 9,317,070	\$ 8,959,447	\$357,623	\$8,303,210
North America	966,034	74,413	1,040,447	1,033,452	6,995	914,860
Europe	279,500	46,889	326,389	316,503	9,886	157,683
Asia	174,534	5,163	179,697	161,983	17,714	45,322
Other Areas	34,050	-	34,050	32,953	1,097	12,634
Total	9,819,924	1,077,729	10,897,653	10,504,338	393,315	9,433,709
Eliminations and corporate	-	(1,077,729)	(1,077,729)	(1,071,083)	(6,646)	(176,283)
Consolidated total	\$9,819,924	\$ -	\$ 9,819,924	\$ 9,433,255	\$386,669	\$9,257,426

The effects of the accounting change for long-term contracts, as explained in Note 3, for the year ended March 31, 1998 are included above in the following amounts:

	Millions of yen			Thousands of U.S. dollars		
	External sales	Total sales	Operating income	External sales	Total sales	Operating income
Japan	¥ 79,590	¥ 79,590	¥ 15,203	\$602,498	\$602,498	\$115,087
Total	¥ 79,590	¥ 79,590	¥ 15,203	\$602,498	\$602,498	\$115,087

(c) Corporate assets

Included in eliminations and corporate in (a) and (b) above under total assets are corporate assets of ¥59,245 million (\$448,486 thousand), ¥77,896 million and ¥89,556 million at March 31, 1998, 1997 and 1996, respectively, which are mainly comprised of cash and time deposits of the Company.

(d) Overseas sales

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

	Millions of yen		Millions of yen		Millions of yen		Thousands of U.S. dollars
	1998	%	1997	%	1996	%	1998
	Overseas sales	% against net sales	Overseas sales	% against net sales	Overseas sales	% against net sales	Overseas sales
North America	¥179,235	13.8%	¥ N/A	N/A	¥ N/A	N/A	\$1,356,813
Europe	66,806	5.1%	N/A	N/A	N/A	N/A	505,723
Asia	99,413	7.7%	N/A	N/A	N/A	N/A	752,558
Other Areas	102,599	7.9%	N/A	N/A	N/A	N/A	776,677
Total	¥448,053	34.5%	¥401,472	32.7%	¥320,425	29.4%	\$3,391,771

The effects of the accounting change for long-term contracts, as explained in Note 3, for the year ended March 31, 1998 are included above in the following amounts:

	Millions of yen	Thousands of U.S. dollars
North America	¥ 7,244	\$ 54,837
Asia	4,823	36,510
Other Areas	10,405	78,766
Total	¥22,472	\$170,113

16. Subsequent events

(a) On June 26, 1998, the following appropriations of retained earnings were approved at the general meeting of shareholders of the Company:

	Millions of yen	Thousands of U.S. dollars
Transfer to legal reserve	¥ 440	\$ 3,331
Cash dividends (¥3 per share)	4,172	31,582
Directors' and statutory auditors' bonuses	170	1,287

(b) On June 22, 1998, the Company offered ¥30,000 million notes in Japan due July 8, 2004 and 2008 in accordance with a resolution made by the Board of Directors on May 21, 1998.

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Kawasaki Heavy Industries, Ltd. (a Japanese corporation) and subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1998, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Kawasaki Heavy Industries, Ltd. and subsidiaries as of March 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1998 in conformity with accounting principles generally accepted in Japan which, except for the change in the method of accounting for revenue referred to in Note 3, effective April 1, 1997, were applied on consistent basis.

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



Asahi & Co.

(Member Firm of Andersen Worldwide SC)

Kobe, Japan

June 26, 1998

Six-Year Summary

Kawasaki Heavy Industries, Ltd. and consolidated subsidiaries
Years ended March 31

	Millions of yen					
	1998	1997	1996	1995	1994	1993
Operating results:						
Net sales	¥1,297,212	¥1,224,259	¥1,086,244	¥1,070,444	¥1,070,257	¥1,090,521
Cost of sales	1,114,693	1,041,697	928,126	912,432	919,092	935,162
Gross profit	182,519	182,562	158,118	158,012	151,165	155,359
Selling, general and administrative expenses	131,440	120,351	111,362	110,413	109,800	108,049
Operating income	51,079	62,211	46,756	47,599	41,365	47,310
Net Income	18,556	22,572	16,462	10,216	17,122	14,381
Financial position at year-end:						
Working capital	¥ 162,084	¥ 150,759	¥ 127,644	¥ 106,458	¥ 68,998	¥ 111,006
Net property, plant and equipment	242,435	233,196	231,615	227,173	227,213	208,590
Total assets	1,222,906	1,303,168	1,252,371	1,191,664	1,239,137	1,192,430
Long-term debt, less current portion	198,135	197,130	204,801	184,535	155,904	187,166
Total shareholders' equity	209,040	197,161	162,984	152,991	148,253	131,611
Per share amounts (yen):						
Net income	¥ 13.3	¥ 16.4	¥ 12.2	¥ 7.6	¥ 12.8	¥ 10.8
Cash dividends	6.0	7.0	5.5	5.0	5.0	5.0
Shareholders' equity	150.3	141.9	120.7	113.3	110.2	98.6
Other data:						
Number of shares issued (millions)	1,391	1,389	1,350	1,350	1,345	1,335
Number of employees	26,102	24,211	24,401	24,266	23,913	22,222

Board of Directors



Kenjiro Ogata
Executive Vice President

Shuzo Susei
Executive Vice President

Ryozo Tsutsui
Executive Vice President

Yasuhiko Ono
Executive Vice President

Junji Hayashi
Vice Chairman

Hiroshi Ohba
Chairman and CEO

Toshio Kamei
President

Chairman and CEO

Hiroshi Ohba*

Vice Chairman

Junji Hayashi*

President

Toshio Kamei*

Executive Vice Presidents

Ryozo Tsutsui*

Senior General Manager of Aerospace Group

Shuzo Susei*

Senior General Manager of Technology Group

Kenjiro Ogata*

*Overall Administration of Machinery, Environment & Power Plant Group
Senior General Manager of Corporate Marketing & Business Development Group*

Yasuhiko Ono*

Senior General Manager of Ship & Rolling Stock Group

Executive Managing Directors

Tadashi Uno*

Senior General Manager of Plant Engineering & Steel Structure Group

Mitsuo Ozawa*

Senior General Manager of Machinery, Environment & Power Plant Group

Minoru Higuchi*

*Overall Administration of Secretariat Office, Public Relations Department, Legal Department and General Administration Department
Deputy Senior General Manager of Corporate Marketing & Business Development Group*

Masayuki Yokoyama*

Overall Administration of Subsidiary Company Control Office, Finance Department and Accounting Department

Masamoto Tazaki*

Senior General Manager of Consumer Products & Machinery Group

Managing Directors

Sotaro Yamada

Hiroshi Miyamichi

*Deputy Senior General Manager of Corporate Marketing & Business Development Group
Senior Manager of Osaka Office*

Hikomichi Takawa

*Deputy Senior General Manager of Machinery, Environment & Power Plant Group
General Manager of Energy Project, Power Plant Sales Division*

Hisashi Shida

*Deputy Senior General Manager of Machinery, Environment & Power Plant Group
General Manager of Prime Mover Division*

Misao Yurikusa

Deputy Senior General Manager of Aerospace Group

Haruo Shigeta

*Deputy Senior General Manager of Plant Engineering & Steel Structure Group
General Manager of Steel Structure Division*

Yoshiro Inoue

Overall Administration of Personnel Department, Labor Department, Purchasing Department and Property Administration Department

Kenzo Shiomi

Deputy Senior General Manager of Corporate Marketing & Business Development Group

Shigetomo Matsui

Deputy Senior General Manager of Technology Group

Satoshi Akashi

Deputy Senior General Manager of Machinery, Environment & Power Plant Group

Shigeji Yamada

*Deputy Senior General Manager of Plant Engineering & Steel Structure Group
General Manager of Industrial Plant Engineering Division*

Tadashi Nishimura

Deputy Senior General Manager of Consumer Products & Machinery Group

Toshiaki Ouchida

Deputy Senior General Manager of Aerospace Group

Directors

Yoshiteru Sakai

Deputy Senior General Manager of Ship & Rolling Stock Group

Takashi Fujiura

General Manager of Rolling Stock Division

Toshiaki Tatsuki

General Manager of Environmental Control Plant Sales Division

Toru Ohmae

*Deputy Senior General Manager of Consumer Products & Machinery Group
General Manager of Consumer Products Division*

Takehiko Saeki

Minoru Sakasai

*Deputy General Manager of Energy Project, Power Plant Sales Division
Deputy General Manager of Industrial Plant Engineering Division*

Kazuo Nishino

Deputy General Manager of Ship Division

Masaru Ohira

Senior Manager of Corporate Planning Office

Kosaku Kuwata

General Manager of Power Plant Engineering Division

Takashi Sugoh

General Manager of Aerospace Sales Division

Hironobu Hashiguchi

General Manager of Ship Division

Shinzaburo Ani

Senior Manager of Public Relations Department

Yoshimasa Tanaka

Deputy Senior General Manager of Ship & Rolling Stock Group

Corporate Auditors

Akio Sera

Takeshi Miyakoshi

Rokuro Kitayama

*Representative Director

(As of July 1, 1998)

Consolidated Subsidiaries

Name	Paid-In Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI, unless otherwise noted)	Principal Businesses
K-GES Co., Ltd.	100 (20.00% owned by Kawasaki Motors Corporation Japan)	100.00	Domestic wholesale of small gasoline engines
Ishihara Dockyard Co., Ltd.	96	97.11	Manufacture and sale of various ships for public agency/gov't use and rescue boats; repair of small-sized ships
Uji Kanko Co., Ltd.	240	100.00	Management of a golf course
Kawasaki Helicopter System Ltd.	200	100.00	Transportation of passengers or cargo by helicopter; maintenance and repair of helicopters and flight training services; research, design and construction of heliports
Osaka Power Engineering Co., Ltd.	90	100.00	Design, production, installation and construction of boilers and refuse incineration plants; sale of crushing machinery
Kawasaki Prime Mover Engineering Co., Ltd.	20	100.00	Installation, inspection and repair of prime mover products; importing and sale of air compressors
Kawasaki Motors Corporation Japan	560	100.00	Domestic wholesale of motorcycles and Jet Ski® watercraft
Kawasaki Environmental Plant Engineering Co., Ltd.	30	100.00	Operation and maintenance of waste treatment facilities
Kawaju Yachiyo Engineering Ltd.	30	100.00	Installation of crushing machinery and various pulverization testing
Kawasaki Hydraulic Co., Ltd.	70	100.00	Inspection and repair of hydraulic products; manufacture and sale of commercial fishing boat machinery
Kawasaki Akashi Engineering Co., Ltd.	60	100.00	Design and production of machinery and tools; overhaul of engines and turbines
Kawaju Gifu Engineering Co., Ltd.	70	100.00	Design and production of parts and equipment for aircraft; technical testing and assistance
Kawasaki Construction Co., Ltd.	300	100.00	Installation of steel structures
Kawasaki Plant Assistance & Service Co., Ltd.	20	100.00	Procurement, packaging and transportation of parts and components for plant construction
Kawaju Real Estate Co., Ltd.	300	100.00	Administration of Company welfare facilities; real estate sales, leasing and construction
Kawasaki Sanyo Co., Ltd.	90	100.00	Manufacture and repair of parts and components for rolling stock
Kawaju Kobe Support Co., Ltd.	50	100.00	Repair and maintenance services for plant and office buildings; construction and processing of parts for shipbuilding; security services
Kawasaki Industrial Co., Ltd.	90	98.21	Construction of arcades; manufacture and inspection of high-pressure containers; maintenance and repair of rolling stock
Kawaju Shoji Co., Ltd.	600	70.00	Trading
Kawasaki Safety Service Industries, Ltd.	1,708	74.06	Manufacture, sale and installation of hospital respiration, fire-extinguishing and medical equipment
Kawasaki Inspection Service Co., Ltd.	50	100.00	Inspection and measuring
Kawaju Marine Engineering Co., Ltd.	40	100.00	Ship design; design, construction, and sale of steel rigging for large vessels
Kawaju Techno Service Corporation	60	100.00	Chemical analysis; environmental measurement; materials testing

Name	Paid-In Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI, unless otherwise noted)	Principal Businesses
Kawasaki Thermal Engineering Co., Ltd.	1,461	83.01	Manufacture, sale and installation of general purpose boilers and air-conditioning equipment
Kawasaki Engineering Co., Ltd.	100	100.00	Design and engineering of plant facilities; manufacture and sale of pool and high pressure oxygen medical equipment
Kawasaki Kosan Co., Ltd.	300	100.00	Insurance representation; real estate leasing, administration and maintenance; leasing and provision of loans
Kawasaki Foods Co., Ltd.	160	100.00	Food supply to Company facilities; operation of dining facilities
Kawasaki Metal Industries, Ltd.	350	100.00	Manufacture, processing and assembly of various steel products
Kawasaki Hydromechanics Corporation	272	99.71	Manufacture, sale and installation of hydraulic presses and various hydraulic equipment
KHI JPS Co., Ltd.	30	100.00	Parts supply, repairs and overhaul of gas turbines for high speed vessels such as the Jetfoil and Jet Piercer
Kawasaki Construction Machinery, Kanto Ltd.	68	68.68	Sale and repair of construction machinery
Kawasaki Gas Turbine Research Center	30	100.00	Research and testing of gas turbine generator sets; sale of surplus electric power
Kawasaki Gasturbine Technologies Co., Ltd.	50	100.00	Inspection and repair of cogeneration and standby systems and industrial gas turbines
Kawasaki Construction Machinery, Kyushu Ltd.	50	100.00	Sale and repair of construction machinery
Kawaju Gifu Manufacturing Co., Ltd.	70	100.00	Processing and assembly of parts and components for aircraft and the maintenance of tools and equipment
Kawaju Harima Tech Inc.	50	100.00	Manufacture, maintenance and inspection of machinery, equipment and watergates
Kawasaki Construction Machinery, Nishi-Nihon Ltd.	54	100.00	Sale and repair of construction machinery
Kawaju Tomakomai Kanko Kaihatsu Co., Ltd.	300	100.00	Management of a golf course
Kawasaki Construction Machinery, Tohoku Ltd.	57	54.39	Sale and repair of construction machinery
Nichijo Manufacturing Co., Ltd.	120	50.04	Manufacture and sale of snow removal equipment
Kawasaki Construction Machinery, Kinki Ltd.	70	88.57	Sale and repair of construction machinery
Kawasaki Construction Machinery, Chubu Ltd.	60	95.00	Sale and repair of construction machinery
Union Precision Die Co., Ltd.	50	100.00	Manufacture, sale and repair of die-casting parts
Kawasaki Motors Corp., U.S.A.	US\$65,900*	100.00	Distribution of motorcycles, all-terrain vehicles (ATVs), Jet Ski® watercraft and small gasoline engines in the United States
Kawasaki Motors (UK) Ltd.	£2,000*	100.00	Distribution of motorcycles, all-terrain vehicles (ATVs) and Jet Ski® watercraft in the United Kingdom
Kawasaki Motoren GmbH	DM12,300*	100.00	Distribution of motorcycles, all-terrain vehicles (ATVs) and Jet Ski® watercraft in Germany
Kawasaki Motors Pty. Ltd.	A\$2,000*	100.00	Distribution of motorcycles, all-terrain vehicles (ATVs) and Jet Ski® watercraft in Australia

Name	Paid-In Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI, unless otherwise noted)	Principal Businesses
Kawasaki Precision Machinery (UK) Ltd.	£3,500*	100.00	Manufacture and sale of hydraulic products
P.T. Kawasaki Motor Indonesia	US\$10,000*	51.00	Manufacture and distribution of motorcycles in Indonesia
Kawasaki Heavy Industries (H.K.) Ltd.	HKS2,820*	100.00	Product sales, mediation of orders and procurement of materials in Southeast Asia and Oceania
Kawasaki Heavy Industries (Europe) B.V.	DGL500*	100.00	Product sales, mediation of orders and procurement of materials in Europe (mainly Benelux countries), the Middle East, and Africa
Kawasaki Heavy Industries (U.S.A.), Inc.	US\$600*	100.00	Product sales, mediation of orders and provision of various engineering support services in North America
Kawasaki Motors (Phils.) Corporation	P101,430*	50.001	Manufacture and distribution of motorcycles in the Philippines
Kawasaki Motors Manufacturing Corp., U.S.A.	US\$30,000*	100.00	Manufacture of motorcycles, all-terrain vehicles (ATVs), Jet Ski® watercraft, small gasoline engines and industrial robots
Kawasaki Construction Machinery Corp. of America	US\$8,000* (owned by Kawasaki Motors Corp., U.S.A.)	100.00	Manufacture and sale of construction machinery in the United States
Canadian Kawasaki Motors Inc.	C\$2,000*	100.00	Distribution of motorcycles, all-terrain vehicles (ATVs) and Jet Ski® watercraft in Canada
Kawasaki Engines Europe N.V.	BF2,500* (owned by Kawasaki Motors Netherlands N.V.)	100.00	Sale of electricity generators and all-purpose gasoline engines in Europe
Green River Insurance Company	US\$100* (owned by Kawasaki Motors Corp., U.S.A.)	100.00	Insurance services in the United States
Kawasaki Motors Netherlands N.V.	DGL1,000*	100.00	Wholesale of Jet Ski® watercraft in Europe; distribution of motorcycles in the Netherlands
Kawasaki Motors Finance Corporation	US\$10,000* (owned by Kawasaki Motors Corp., U.S.A.)	100.00	Inventory financing for dealers of Kawasaki Motors Corp., U.S.A.
Kawasaki Rail Car, Inc.	US\$600*	100.00	Engineering, manufacture, sales and after-sales service of rolling stock in the United States
Kawasaki Robotics (U.S.A.), Inc.	US\$1,000* (owned by Kawasaki Motors Corp., U.S.A.)	100.00	Sales and after-sales service of industrial robots in the United States

*Monetary unit in thousands

(As of March 31, 1998)

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OVERSEAS

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OVERSEAS

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Phone: 1-914-376-4700
Fax: 1-914-376-4779

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Fax: 1-949-460-5600

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9950 Jeronimo Road
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Fax: 1-949-460-5600

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6600 Northwest 27th Street
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Fax: 1-402-476-6672

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Fax: 1-816-582-5826

Kawasaki Construction Machinery Corp. of America

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Fax: 1-770-421-6842

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Fax: 44-1752-364816

Kawasaki Robotics (UK) Ltd.

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Manchester M24 1SA, U.K.
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Fax: 44-161-956-5404

Kawasaki Motors (UK) Ltd.

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Fax: 44-1628-856799

Kawasaki Engines Europe N.V.

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Fax: 31-20-6294661

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2132 WV Hoofddorp
The Netherlands
Phone: 31-23-5670500
Fax: 31-23-5670583

KHI (Dalian) Computer Technology Co., Ltd.

Building Foreign Specialist
of the Dalian Maritime University
Ling Shui Qiao, Dalian
People's Republic of China
Phone: 86-411-467-2507
Fax: 86-411-467-2459

Wuhan Kawasaki Marine Machinery Co., Ltd.

No. 43 Wudong Street
Qingshan, Wuhan
People's Republic of China
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Fax: 86-27-6590627

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Fax: 852-2845-2905

Kawasaki Motors Enterprise (Thailand) Co., Ltd.

129 Rama 9 Road, Kwaeng
Huaykwang, Khet Huaykwang
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Fax: 63-2-816-1222

Kawasaki Motors (Phils.) Corporation

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Tiesse Robot S.p.A.

Via Isorella 24
25010 Visano (Brescia), Italy
Phone: 39-30-9958621
Fax: 39-30-9958677

Robots International Limited

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

Nantong Ocean Ship Engineering Co., Ltd.

Ren Gang Nanshou, Nantong City, 226005
Jiangsu Province, People's Republic of China
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Fax: 86-513-351-4349

Shanghai Cosco Kawasaki Heavy Industries Steel Structure Co., Ltd.

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Shanghai, People's Republic of China
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Fax: 86-21-5602-5198

Hainan Sundiro-Kawasaki Engine Co., Ltd.

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Guilinyang Economic Development Area
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119/18 Moo 4, G.K. Land Industrial Park
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H.S. Lee, Kuala Lumpur, Malaysia
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Chiba 278-8585, Japan
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Fax: 81-471-24-7645

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1780, Kamikoya, Yachiyo
Chiba 276-0022, Japan
Phone: 81-474-83-1111
Fax: 81-474-82-3227

Chiba Works

1, Niihama-cho, Chuo-ku
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Phone: 81-43-263-2211
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50-1, Minamisode, Sodegaura
Chiba 299-0268, Japan
Phone: 81-438-62-7127
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Gifu Works

1, Kawasaki-cho, Kakamigahara
Gifu 504-8710, Japan
Phone: 81-583-82-5712
Fax: 81-583-82-2981

Nagoya Works 1

3-11, Oaza Kusunoki, Yatomi-cho
Ama-gun, Aichi 498-0066, Japan
Phone: 81-567-68-5117
Fax: 81-567-68-5090

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Ama-gun, Aichi 490-1445, Japan
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Fax: 81-5675-5-0803

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Fax: 81-78-682-5500

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234, Matsumoto, Hazetani-cho
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Seishin Works

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Fax: 81-78-992-1910

Akashi Works

1-1, Kawasaki-cho, Akashi
Hyogo 673-8666, Japan
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Fax: 81-78-913-1366

Banshu Works

2680, Oka, Inami-cho
Kako-gun, Hyogo 675-1113, Japan
Phone: 81-794-95-1211
Fax: 81-794-95-1226

Harima Works

8, Niijima, Harima-cho
Kako-gun, Hyogo 675-0155, Japan
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Fax: 81-794-35-2132

Sakaide Works

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Kagawa 762-8507, Japan
Phone: 81-877-46-1473
Fax: 81-877-45-0556

Kawasaki Corporate Data

(As of March 31, 1998)

Kawasaki Heavy Industries, Ltd.

Head Office:

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

Founded: 1878

Incorporated: 1896

Paid-in Capital:

¥81,426,590,792

Number of Shares Outstanding:

1,390,595,964 shares

Number of Shareholders:

118,542

Number of Employees:

26,102

Stock Exchange Listings:

Tokyo, Osaka, Nagoya, Kyoto,
Hiroshima, Fukuoka, Niigata, Sapporo

Newspapers in which public notices are made:

The Nihon Keizai Shimbun
The Kobe Shimbun

Transfer Agent:

The Chuo Trust & Banking Company, Limited
7-1, Kyobashi 1-chome
Chuo-ku, Tokyo 104-0031, Japan

Handling Office

The Chuo Trust & Banking Company, Limited
Osaka Branch Office
6-26, Kitahama 2-chome
Chuo-ku, Osaka 541-0041, Japan

Independent Auditors:

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

ADR Facility:

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

ADR Depositary:

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

KHI Home Page at:

<http://www.khi.co.jp>

Kawasaki

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