Kawasaki
Powering your potential

Kawasaki Report 2016

Year ended March 31, 2016

120th Anniversary Making history anew……

This Report can be accessed from the QR code on the left.

Kawasaki Heavy Industries, Ltd.

Printed in Japan

August 2016

River Mark: Used as the corporate emblem, this stylized version of the Japanese character for "river" —the first character in the name "Kawasaki"—was adopted by the Company's founder, Shozo Kawasaki.

......by continuously moving society forward

Making history anew...

Editorial Policy
This report focuses on activities undertaken in fiscal 2016 and key aspects of strategies for the future as well as the new medium-term business plan that guides the Kawasaki Group from fiscal 2017. Also, because Kawasaki is celebrating a corporate milestone—our 120th anniversary – we offer a look back at the technologies and expanding business footprint that characterize our growth into today's Kawasaki Group.

The purpose of this report is to update all our various stakeholder groups on the status of our efforts to create value for society and to boost enterprise value, our management policies, our business environment and strategic responses, and major environmental, social and governance (ESG)-related content. We hope that this information will enable everyone to acquire a deeper understanding of what we do and what we aim to achieve as the Kawasaki Group.

For more information on many of the topics touched upon in this report, please visit our website and follow the appropriate links.

Financial information:
http://global.kawasaki.com/en/corp/ir/

CSR information:
http://global.kawasaki.com/en/corp/sustainability/

Environmental information:
http://global.kawasaki.com/en/corp/sustainability/environment/

Period
This report covers fiscal 2016 (April 1, 2015 to March 31, 2016), but some fiscal 2017 content is also included.

Scope
The report covers Kawasaki Heavy Industries, Ltd., its 99 consolidated subsidiaries (49 in Japan and 50 overseas) and 20 equity-method non-consolidated subsidiaries. Some data, however, refer to the parent company alone.

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

**The Sustainability Reporting Guidelines (G4 ver.) follows the reporting principles of the GRI G4 Sustainability Reporting Guidelines; however, our reporting is not yet in accordance with the GRI G4 Guidelines.*

Frequency of Publication
Annually, in general
Previous number – Issued in July 2015
Following number – Expected to be issued in August 2017

Contact us
Please make inquiries through the inquiry form on our website
http://global.kawasaki.com/en/corp/profile/contact/

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

120 Years of Value Creation: *A History of Providing Social Value and Enhanced Enterprise Value Firmly Rooted in Technological Innovation*

Kojiro Matsukata
First president following transition to incorporated company in 1896
Guided company into rolling stock, aircraft and shipping/steel businesses
Implemented Japan's first eight-hour day system

Shozo Kawasaki
Established Kawasaki Tsukiji Shipyard in 1878
Believed in "contributing to the nation–to society–through expertise"

Improve enterprise value ROIC
Technological value (innovative technology)
Social value of businesses

Shozo Kawasaki, founder of what eventually grew into the Kawasaki Group, established Kawasaki Tsukiji Shipyard in 1878 and ventured into the shipbuilding business, believing strongly that the construction of modern ships was essential for Japan to develop and prosper and that his mission in life was to support this process. His philosophy "contributing to the nation–to society–through expertise" was embraced by Kojiro Matsukata, the first president of the incorporated company, Kawasaki Dockyard, who also guided the company into the rolling stock, aircraft, shipping and steel businesses and developed the company into one of Japan's leading heavy industry enterprises. Later, to meet the needs of society and customers of the day, the company evolved flexibly, through active introduction of technology and the enthusiastic pursuit of innovation and application. Adapting to changing times, the company has continued to grow, and enjoys a high profile in land, sea and air transportation systems as well as energy & environmental engineering and ROBO-MECH. In 2016, Kawasaki celebrates its 120th anniversary. Going forward, today's Kawasaki Group will continue to provide social value through its business activities, underpinned by innovative technology, and pursue synergies derived among business segments to raise enterprise value to an even higher level.

Current business ● Split off/transferred ● Technology expansion ·····➤

Please refer to pages 25–40 for details on the activities of each internal company.

1878 Shipbuilding

Cargo-passenger ship *Iyomaru*
Kawasaki Dockyard's first vessel after becoming a publicly traded company

Stock boat manufacturing
Matsukata, anticipating a shortage of vessels given the circumstances of World War I, took the decisive step to build stock boats, and by 1926 the company had constructed 96 vessels

Oyashio, first domestic submarine made after World War II

The 10th Toyotomaru, first Japan-built pure car carrier

First Japan-built LNG carrier

Ship & Offshore Structure

1906 Rolling Stock

Know-how, particularly related to welding and internal combustion engines, provide basis for realizing domestic production of steam locomotives

The company's first electric-drive wooden coach **Nankai Railway Type 1 wooden coach**

Made Japan's first steel-cast electric train in 1925, marking first step toward improved railway system in Japan and wider use of rail transportation

1906 Steel Casting Division

1928 Split off into independent company (reintegrated in 1969)

1929 Automobiles

To meet the social needs of the day, began production of automobiles using **rolling stock manufacturing technology**
*Suspended production in 1942 by order of the Department of War, as emphasis shifted from automobiles to greater production of aircraft (some operations resumed later)

Business express train **Kodama**

Series 0 Shinkansen

Rolling Stock

1918 Aircraft

Company's first airplane: **Type Otsu 1 surveillance airplane**
With interest piqued by thriving aircraft industry in the United States and Europe, introduced technology from abroad along with structural technology used in shipbuilding to launch aircraft production

1937 Split off into independent company (reintegrated in 1969)

Domestic commercial aircraft **YS-11**
Participated from the planning stage, in charge of manufacturing the main wings and nacelle parts

First helicopter developed in Japan
Kawasaki BK117 Helicopter

P-1 Maritime Patrol Aircraft

Aerospace

1907 Marine Steam Turbines

Began production of steam turbines for use as main engines of ships

Marine steam turbine

1942 Jet Engines

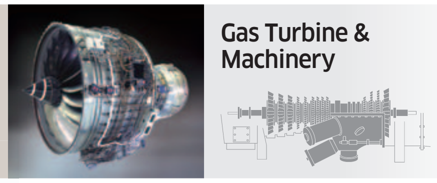
Japan's first jet engine:
Ne-0

1956 Land-use Steam Turbines

Marine-use turbine technology directed toward land-use applications to meet rapid increase in demand for power in the industrial sector

1969 Industrial Gas Turbines

Kawasaki GPS200, First Japan-made gas turbine generator



Gas Turbine & Machinery

1880 Boilers (marine-use)

Began production of marine-use boilers

Land-use applications
Diversified into environmental plant engineering, utilizing cornerstone heat-transfer/combustion technology, to expand energy-related engineering activities

1937 Boilers (land-use)

1907 Steel Structures

Embarked on production of steel bridges, utilizing **construction/welding technology**

Eitaibashi, bridge over Sumida River
Many bridges, which collapsed in the Great Kanto Earthquake, were replaced
*Withdrew from bridge business in 2006

1932 Cement Plants

Used **steel structure/engineering technology** as a cornerstone to diversify range of industrial equipment, adding chemical plants, LNG tanks, shield machines and other products derived from cement equipment

1960 Environmental Plants, Chemical Plants, LNG Tanks and Shield Machines

Cement plant for customer in Algeria

Tunnel boring machines used to excavate the Channel Tunnel, linking France and the U.K.

Plant & Infrastructure

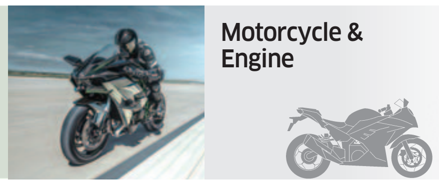
1949 Motorcycles (Engines)

KE-1 engine
Activities started after the war when production of aircraft was not allowed

1955 Motorcycles (Finished)

Began producing finished motorcycles
Meihatsu 125-500

Z1



Motorcycle & Engine

1916 Hydraulic Machinery

Began producing **Hele-Shaw electro-hydraulic steering gears** with technology acquired from England

Incorporated **Hele-Shaw radial piston pumps**

Began producing screw pumps through technology alliance with Sweden's IMO AB

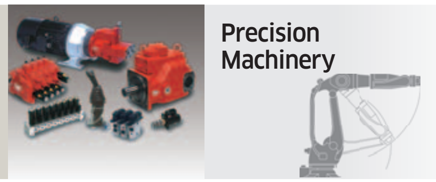
Low-speed high-torque radial piston motors

KV Series axial piston pump

1968 Robots

Kawasaki-Unimate 2000, first Japan-made industrial robot
Introduced technology from Unimation Inc., a U.S. company, and began domestic production

Dual-arm SCARA Robot "duAro"



Precision Machinery

The Kawasaki Group is currently working to create new products and quickly and efficiently improve enterprise value by deriving synergies across internal company lines and covering the extensive range of business activities that have emerged to date.

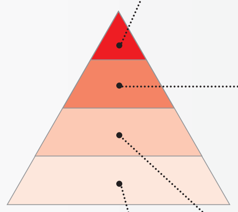
For details on hydrogen projects, please refer to pages 19–24.

1880	1890	1900	1910	1920	1930	1940	1950	1960	1970	1980	1990

- Modernization of Japanese industry *(rapidly expanding demand for transportation infrastructure)*
- Railway Nationalization Act
- World War I
- Great Kanto Earthquake *(buildings/bridges collapsed)*
- Great Depression
- World War II *(initiatives to rebuild after the war)*
- First exchange rate: ¥360 to U.S. dollar
- Opening of the Tokaido Shinkansen line
- Nixon Shock *(Dollar Shock)*

Kawasaki Group Mission Statement

In 2007, Kawasaki formulated the “Kawasaki Group Mission Statement” as a compass directing the activities of the Kawasaki Group. The statement incorporates the social mission that the Group must fulfill in the 21st century, a shared sense of values to increase Kawasaki brand value, the underlying principles of management activities, and guidelines for daily conduct that each and every member of the organization is required to follow.



Group Mission

Kawasaki, working as one for the good of the planet

- We are the Kawasaki Group, a global technology leader with diverse integrated strengths.
- We create new value-for a better environment and a brighter future for generations to come.

Kawasaki Value

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

The Kawasaki Group Management Principles

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

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

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

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

The Kawasaki Group Code of Conduct

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

To Our Stakeholders

Working to Realize the Group Mission

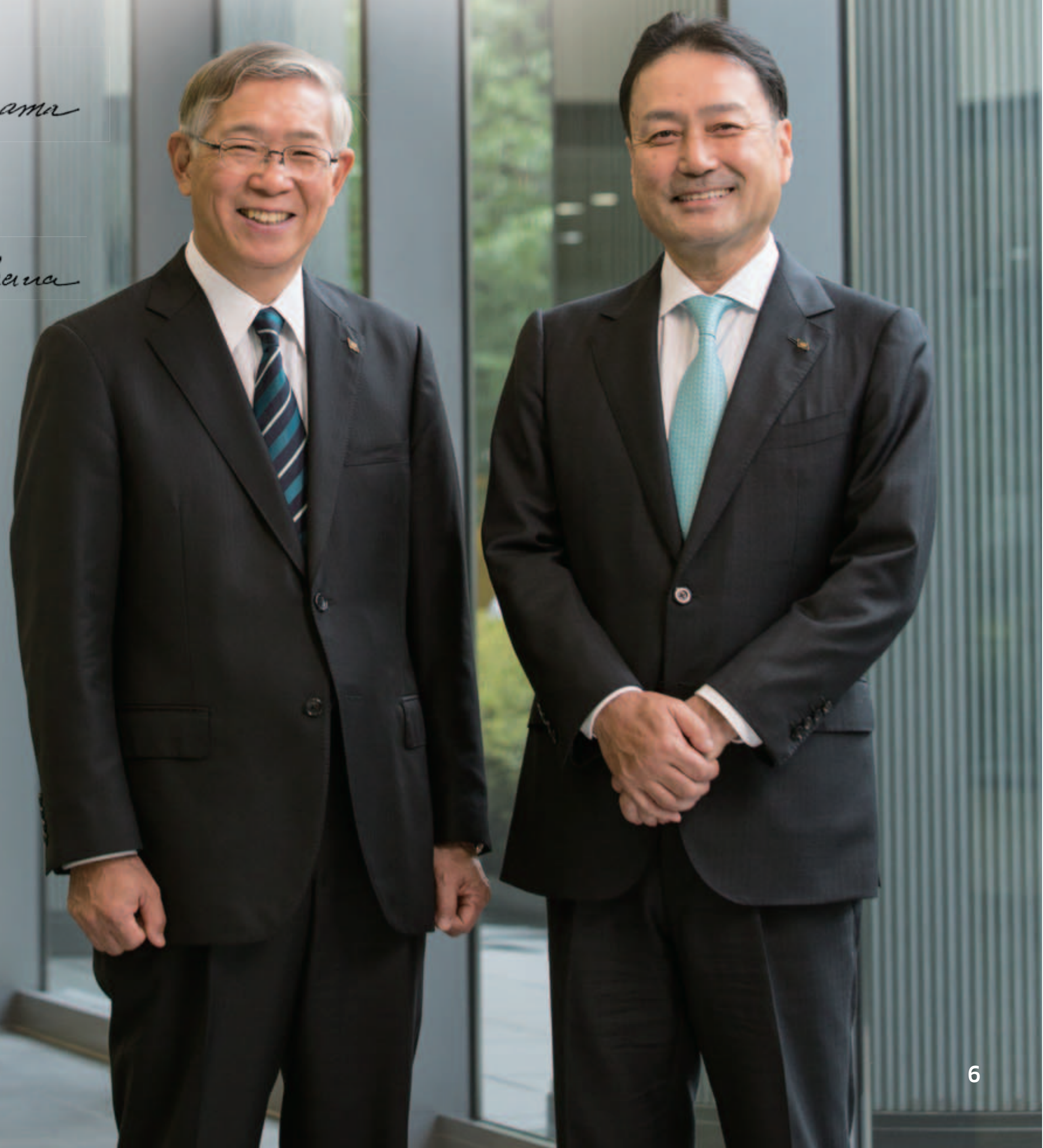
Kawasaki—and by extension, the Kawasaki Group—got its start in the shipbuilding business and, by responding to social needs of the day, has grown into an integrated provider of heavy industry products and services over a diverse range of business sectors, including land, sea and air transportation systems, energy and environmental engineering (infrastructures) and various kinds of industrial equipment. Throughout our history, we have consistently endeavored to improve enterprise value, developing along with our stakeholders, which includes shareholders, customers and local communities.

Our mission, as a corporate group, is to fulfill the Group Mission: “Kawasaki, working as one for the good of the planet (Enriching lifestyles and helping safeguard the environment: Global Kawasaki).” This is, essentially, our role in society, and to address this role, we must provide products and services that meet the varied needs of our customers as well as their customers around the world while seeking a harmonious balance with the environment. Toward this end, we prioritize technology, and are thus on an enduring quest for originality and innovation in technology.

In Kawasaki Report 2016, which you have kindly taken the time to read, we offer our thoughts on carrying out the Group Mission as well as information on business strategies, daily activities that ensure Kawasaki meets its social responsibilities as a good corporate citizen, and the relationship the Company maintains with stakeholders. We hope this report enables you to gain a better understanding of what we do.

Shigeru Murayama
Chairman of the Board
(Representative Director)
Shigeru Murayama

Yoshinori Kanehana
President
(Representative Director)
Yoshinori Kanehana



Directors and Corporate Auditors

(As of June 24, 2016)

Outside Corporate Auditor
Nobuyuki Fujikake

Senior Vice President
Makoto Ogawara

Corporate Auditor
Takafumi Shibahara

Senior Vice President
Toshiyuki Kuyama

*Senior Executive Vice President**
Joji Iki

Outside Director
Yoshihiko Morita

Senior Vice President
Kazuo Hida

*Chairman of the Board**
Shigeru Murayama

Outside Director
Michio Yoneda

Senior Vice President
Kenji Tomida

*President**
Yoshinori Kanehana

Corporate Auditor
Katsuyoshi Fukuma

Senior Vice President
Kazuo Ota

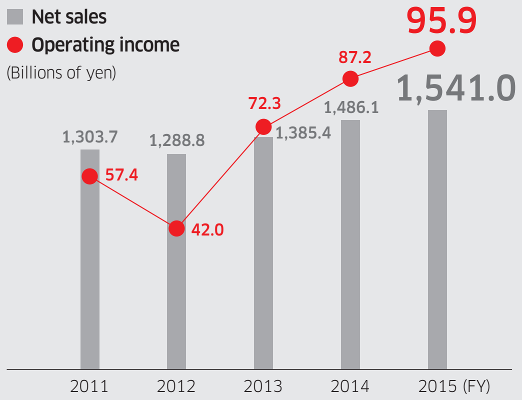
*Senior Executive Vice President**
Munenori Ishikawa

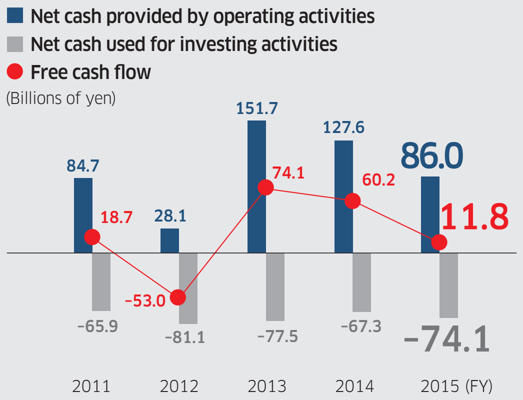
Outside Corporate Auditor
Takashi Torizumi

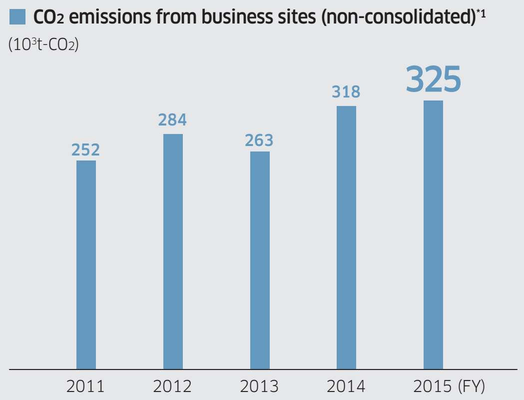
Senior Vice President
Tatsuya Watanabe

*Representative Director

Performance Highlights

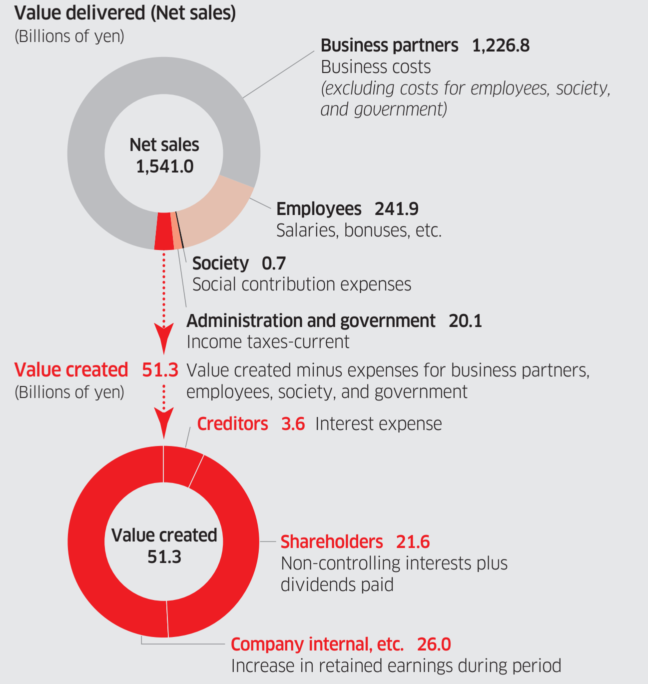


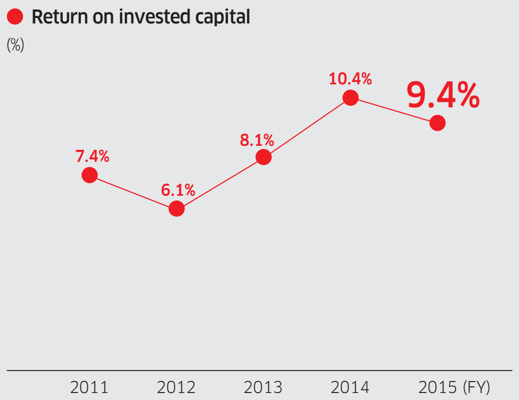




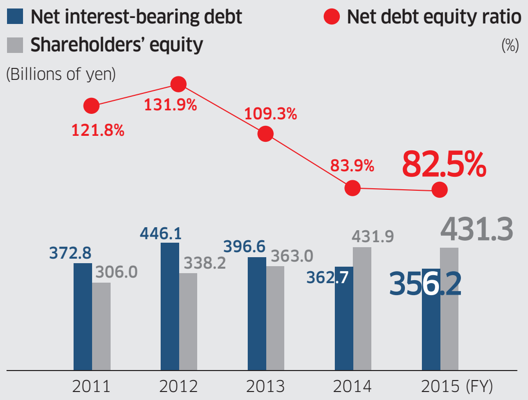
*1 For details, please refer to page 52.

Distribution of Value to Stakeholders (FY2016)

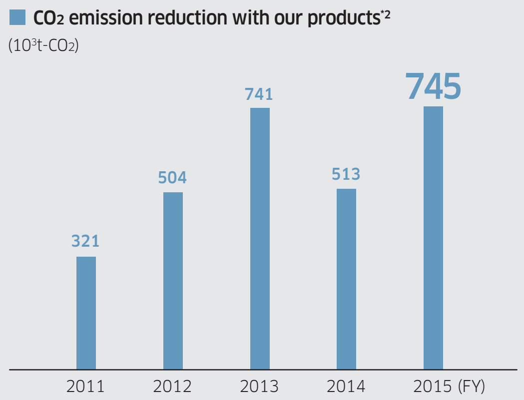




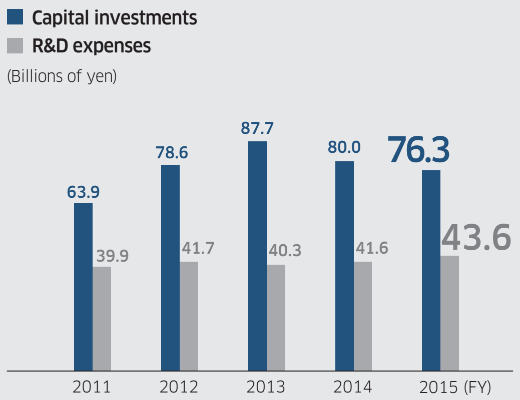
Return on invested capital = EBIT (Income before income taxes and non-controlling interests + Interest expense) / Invested capital (Interest-bearing debt + Shareholders' equity)

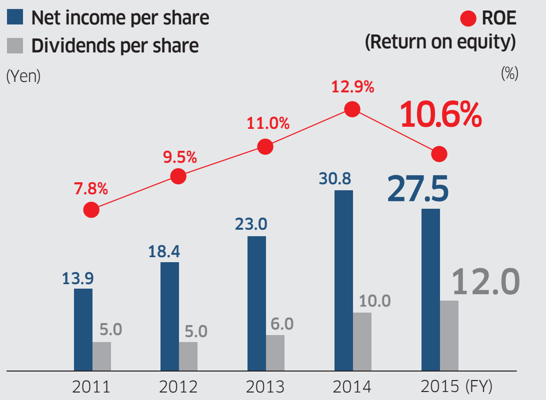


Net debt equity ratio = Net interest-bearing debt (Interest-bearing debt - Cash on hand and in banks) / Shareholders' equity

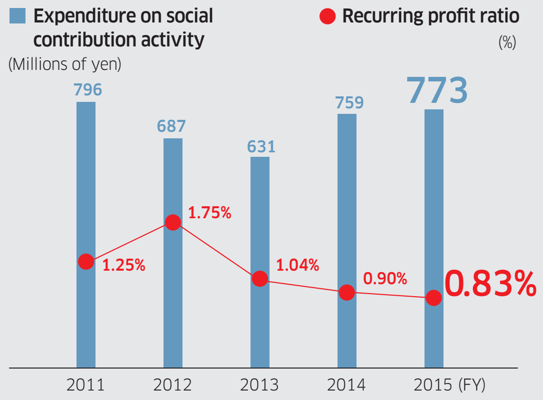


*2 Estimates based on actual delivery record

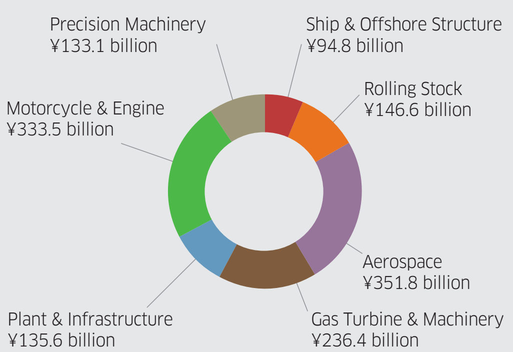




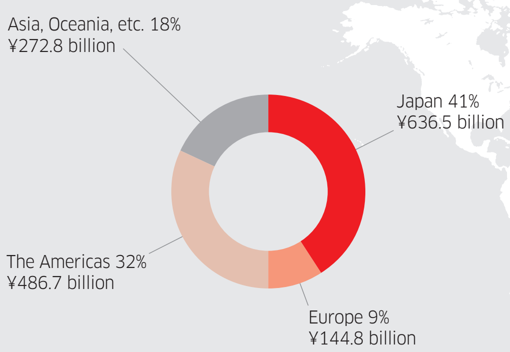
Return on equity = Profit attributable to owners of the parent / Shareholders' equity



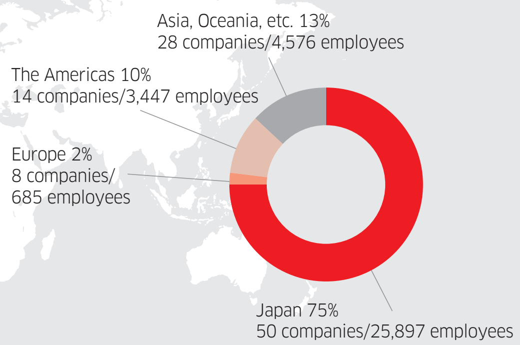
Share of net sales by segment



Share of net sales by region



Distribution of companies/employees by region



Socially Responsible Investment (SRI)-related Evaluations that Included Kawasaki

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

The Dow Jones Sustainability Index is a leading SI index which assesses and selects leading sustainability-driven companies in terms of economic, environmental, and social criteria.

MSCI 2016 Constituent MSCI Global Sustainability Indexes

THE INCLUSION OF Kawasaki Heavy Industries, Ltd. IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HERIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF Kawasaki Heavy Industries, Ltd. BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.

MSCI Global Sustainability Indexes include companies with high ESG ratings relative to their sector peers.

MS-SRI モーニングスター社会的責任投資株価指数

The Morningstar Socially Responsible Investment Index is the first index in Japan of socially responsible investment stock. The stock prices of socially responsible companies selected from all those listed in Japan by Morningstar Japan K.K. are converted into an index.

2016 健康経営銘柄

The Brand of Companies Enhancing Corporate Value through Health and Productivity Management (Health and Productivity Stock Selection) is a list of companies chosen jointly by Japan's Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE) for making strategic efforts to address employee health from a management point of view. Only one TSE-listed company in each industry category is selected for this index.

NADESHIKO

The Nadeshiko Brand is a list of companies chosen jointly by METI and the TSE that are outstanding in terms of encouraging the empowerment of women in the workplace, and that are creating an environment in which women are able to pursue careers. Companies listed on the First Section of the TSE are eligible for selection, and one or two companies are selected from each industry category for the honor.

Kawasaki received a loan from the Development Bank of Japan (DBJ) in December 2015, under the DBJ Environmentally Rated Loan Program based on a solid evaluation under the bank's rating structure for companies with particularly impressive environmental programs. DBJ also gave Kawasaki a special award recognizing the Company as a model corporation in this effort.

Yoshinori Kanehana
President
(Representative Director)

……**by** taking steps to increase
enterprise value

Main career history

Mar. 1976	Graduated from School of Engineering Science, Osaka University
Apr. 1976	Joined Kawasaki Heavy Industries, Ltd.
1976–1979	In charge of Kawasaki Computer-Controlled Vehicle System, in the Rolling Stock Group
1979–1988	Led Rolling Stock Group system integration work
Oct. 1988	Seconded to Kawasaki Heavy Industries, Ltd. London Office
Aug. 1997	Seconded to Kawasaki Rail Car, Inc. (New York, U.S.A.)
Jun. 2003	President, Kawasaki Rail Car, Inc.
Oct. 2007	General Manager, Project Management Division, Rolling Stock Company
Apr. 2012	General Manager, Marketing Division
Jun. 2013	President, Rolling Stock Company
Jun. 2016	President (Current Position)

We will create new value and boost enterprise value by integrating the world’s highest standards of technologies.

On Assuming the Position of President

My name is Yoshinori Kanehana. I assumed the position of president from Shigeru Murayama in June 2016. The Kawasaki Group traces its roots back to 1878, when Shozo Kawasaki established Kawasaki Tsukiji Shipyard. This early company was incorporated in 1896 as Kawasaki Dockyard Co., Ltd., and it is based on this year of incorporation that we will celebrate our 120th anniversary in 2016. It is my mission to promote further development of the businesses that today’s Kawasaki Group pursues across many fields worldwide, from land, sea and air transportation systems to energy and environmental engineering and all sorts of industrial equipment, to raise enterprise value even higher, and to ensure that I pass on to the next generation of employees and management a Kawasaki Group that has evolved beyond its current achievements. In this effort, I will be guided by the founder’s philosophy of “contributing to the nation—to society—through expertise.”

I have been involved in the rolling stock business ever since I joined Kawasaki. I believe I have been able to contribute to the safety and security of Japan’s railway system, which is one of the best in the world. I have also spent lots of time overseas, on assignment at facilities in New York and other locations, and I have gained experience in various aspects of business, from international discussions where I faced off against global players in the industry to win orders to the running of rolling stock facilities overseas. From this point on, however, my perspective changes, as I now stand at the helm of the entire Kawasaki Group and its seven internal companies (business segments), each serving a different client base and different markets. But I believe my background will serve me well. I will draw on the global, frontline perspective I have acquired through my involvement in the rolling stock business and apply the insights and experience accumulated over the past four years as a director participating in Group management activities to achieve medium- to long-term growth of the Kawasaki Group and improve value for all stakeholders.

Kawasaki Group Mission

The noteworthy feature of the Kawasaki Group is that each business segment takes a multifaceted approach matched to prevailing market requirements and consistently adds to its portfolio of technological innovations, which underpins capabilities of the highest global standards. Our mission statement is “Kawasaki, working as one for the good of the planet” and our goal is to use the capabilities we have amassed to solve the somewhat conflicting issue of creating comfortable lifestyles while ensuring a future for our planet, that is, the global environment. Success will require new value, which we will create by integrating the technologies of each business segment and leveraging the synergistic effects to deliver unique products and services to customers and, by extension, society as a whole.

Raising Enterprise Value

The Kawasaki Group has embraced Kawasaki-ROIC* Management, which prioritizes improvement in enterprise value among key performance indicators. The objective in Kawasaki-ROIC Management is to carefully control invested capital but still achieve higher profits, and to enhance enterprise value by boosting the Group’s overall profitability and stability while promoting growth. Kawasaki-ROIC Management led to hugely successful results during MTBP 2013, which finished in fiscal 2016.

Recently, the Group embarked on a newly drafted medium-term business plan—MTBP 2016—with measures and targets for the immediate three years but looking 10 years down the road to 2025 (fiscal 2026). MTBP 2016 has Kawasaki-ROIC Management at its core and will set the stage for an improvement in medium- to long-term enterprise value. I will discuss the details of MTBP 2016 on the next page.

**ROIC (Return on Invested Capital): A management indicator that shows how much profit will be generated with the capital invested in a business segment.*

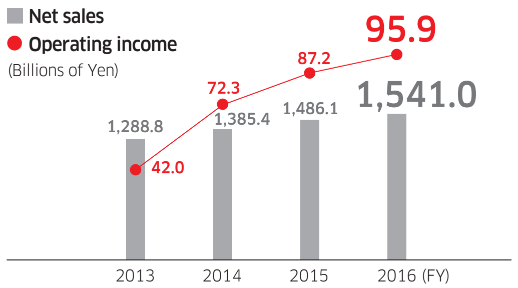
MTBP 2013

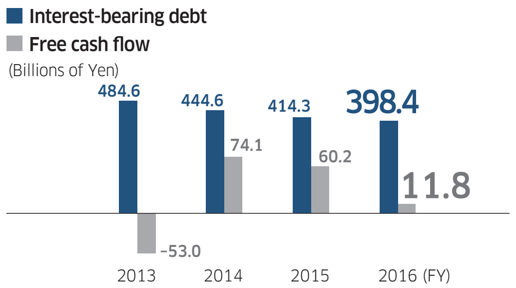
First, though, I would like to look back on MTBP 2013, which concluded in fiscal 2016. Net sales expanded significantly, buoyed mainly by internal companies, that is, Aerospace, Motorcycle & Engine, and Gas Turbine & Machinery, and hit an all-time high of ¥1,541.0 billion in fiscal 2016. Operating income, at ¥95.9 billion, exceeded the initial target of ¥90 billion and also set a new record, reflecting higher net sales, successful cost-cutting measures and the merits of a low yen. Before-tax ROIC moved into double-digit territory—10.4%—in fiscal 2015, but backtracked to 9.4% in fiscal 2016 owing to the booking of extraordinary losses on a shipbuilding joint venture in Brazil.

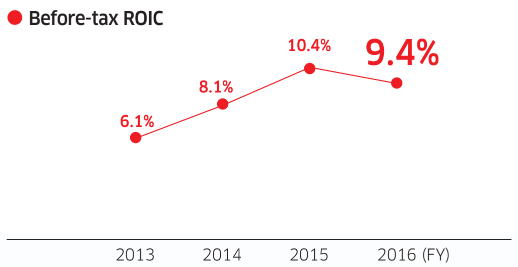
A particularly noteworthy achievement coming out of MTBP 2013 was improved capital efficiency, through Kawasaki-ROIC Management, which cemented a vastly reinforced financial position. This is substantiated by aggregate free cash flow of ¥146.2 billion on a Group-wide basis over the three years of MTBP 2013. In addition, interest-bearing debt decreased ¥86.2 billion, as of March 31, 2016, from the level at the end of March 2013, and the net debt equity ratio* dropped 49.3 percentage points.

During MTBP 2013, we made tremendous progress in terms of performance as well as financial position and reached the majority of our initial targets.

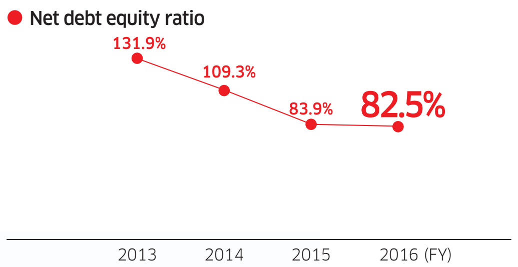
*Net debt equity ratio is calculated by dividing net interest-bearing debt (interest-bearing debt - cash on hand and in banks) by shareholders' equity. The lower the ratio, the sounder the financial position.







Before-tax ROIC = EBIT (Income before income taxes and non-controlling interests + Interest expense) / Invested capital at year-end (Interest-bearing debt + Shareholders' equity)



Net debt equity ratio = Net interest-bearing debt (Interest-bearing debt - Cash on hand and in banks) / Shareholders' equity

"A particularly noteworthy achievement coming out of MTBP 2013 was improved capital efficiency, through Kawasaki-ROIC Management, which cemented a vastly reinforced financial position."

Positioning of MTBP 2016

In defining the content of the new medium-term business plan, we revised Kawasaki Business Vision 2020 guided by our Group Mission and Group Vision. That is, we pictured the kind of businesses we would be running and the quantitative targets we would be aiming for 10 years on, in 2025 (fiscal 2026). MTBP 2016 is therefore not just a business plan for the next three years but rather an immediate action plan that will set us well on the way toward our ultimate destination ten years from now.

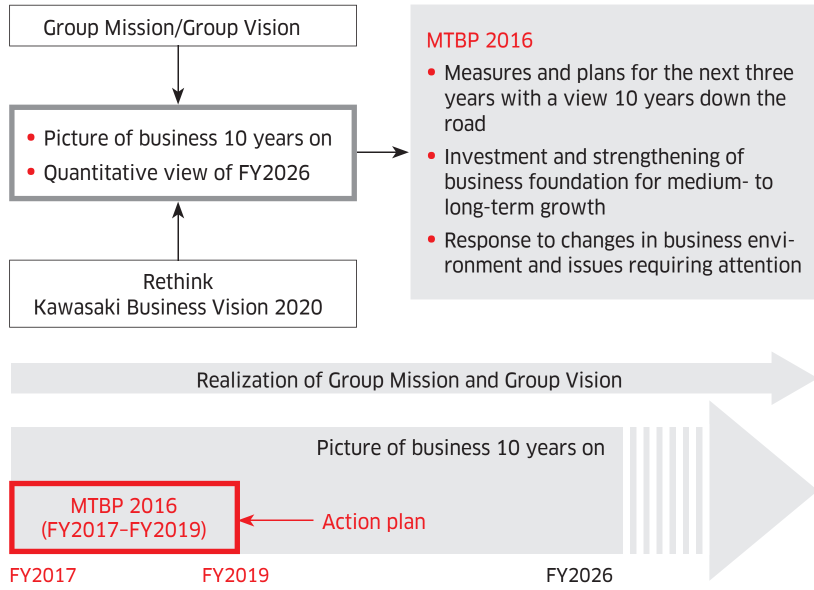
Group Mission, Group Vision

Our Group Mission—"Kawasaki, working as one for the good of the planet"—is an expression of the social mission that we, as a corporate group, wish to fulfill. It remains the same as before. We also set out a three-point Group Vision that looks forward to the kind of corporate group we plan to become.

- We will become a corporate group with four core business sectors—Air Transportation Systems, Land/Sea Transportation Systems, Energy & Environmental Engineering and ROBO-MECH (coined from industrial equipment sector)—that creates new value with integrated technological capabilities and offers products and services that open up new possibilities for customers and society.
- We plan to become a corporate group that achieves continuous improvement in enterprise value and a stable return to shareholders by building a business portfolio that ensures a high degree of adaptability to changes in the business environment and provides growth investment and cash flow.
- We plan to become a corporate group that accurately identifies social concerns and stakeholder expectations and delivers appropriate solutions through business activities, and also promotes a workplace environment where employees approach their jobs enthusiastically, driven by hopes and dreams.

Guided into the future by our Group Mission and our three-point Group Vision, we will strive to raise enterprise value.

Positioning of MTBP 2016

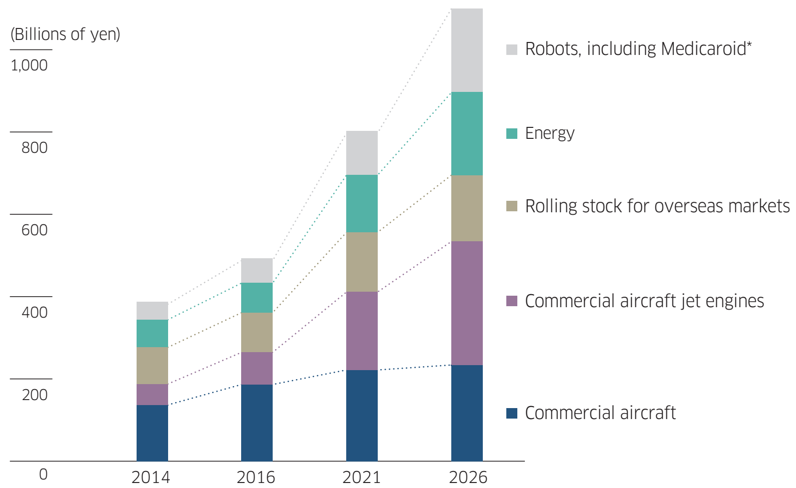


Key Products and Services that Drive Growth

Demand for Kawasaki Group products and services is steadily expanding, fueled by such factors as greater international movement of people and transportation of goods due to increased globalization, wider use of automation paralleling the graying of society and a shortage of workers, and heightened demand for products that address environmental risk. This bodes well for our businesses.

We expect the key drivers of growth for the Kawasaki Group to be commercial aircraft, commercial aircraft jet engines, rolling stock for overseas markets, energy, and robots.

Predicted Sales from Key Products and Services that Drive Growth



*Medicaroid Corporation: A joint venture established with Sysmex Corporation to develop and manufacture medical robots; accounted for by the equity method.

Picture of Business in 2025

Visualizing business in 2025, we see growth hinging on the key investment areas of air transportation systems, robots and energy, with enterprise value continuing to improve on a portfolio emphasizing high profitability, sustained growth and stability. In addition, for each of the four sectors—Air Transportation Systems, Land/Sea Transportation Systems, Energy & Environmental Engineering and ROBO-MECH—we have clarified specific growth strategies as well as business strategies aimed primarily at promoting stronger core competence, new products and business models in each sector.

Turning this image into reality should result in a before-tax ROIC of 14% or higher, an operating income margin of 9% or higher, ROE of 15% or higher, and operating cash flow of at least ¥200.0 billion in fiscal 2026.

Fundamental Strategies under MTBP 2016

What do we need to do over the next three years to achieve this vision for 10 years in the future? That was the perspective we took in formulating the new medium-term business plan MTBP 2016.

The global economic forecast remains uncertain, clouded by such factors as a downturn in oil prices, a slowdown in emerging markets, and withdrawal of the United Kingdom from the European Union (EU). And in currency markets, the yen is trending upward. Given these factors, it is possible that the operating environment during MTBP 2016 will not be particularly favorable for us. To reach our objectives for 2025 despite potential obstacles, we must be able to cope with changes in the operating environment and issues of concern in our business segments while steadily pursuing investment activities for medium- to long-term growth and solidifying our foundation.

Toward this end, we identified three fundamental strategies to follow during MTBP 2016. The first is to promote further progress on Kawasaki-ROIC Management, the second is to implement investments targeting medium- to long-term growth, and the third is to realign our businesses.

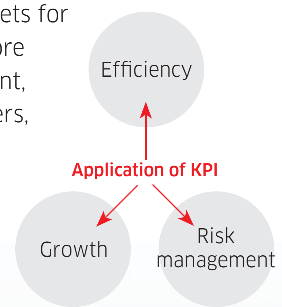
Fundamental Strategy 1:
Further progress on Kawasaki-ROIC Management

We introduced Kawasaki-ROIC Management in 2013 to improve the enterprise value of the Kawasaki Group, and the concept has proven successful in strengthening our financial position and generating cash flow on a consolidated basis. But during MTBP 2016 we have to push the concept even further, with an emphasis on reinforcing our business foundation so that it is truly primed for medium- to long-term growth.

Specifically, we will establish business-matched key performance indicators (KPI)* which break down the components of ROIC, and track progress. Because KPI hinge on daily operations and are based on the characteristics that define each business, our employees are better able to grasp the "what" and "how" of ROIC to boost enterprise value and be more involved in Kawasaki-ROIC Management. Examples of KPI include inventory turnover, consolidated marginal profit and accrued failure costs, and whatever indicator contributes significantly to a better ROIC result in each business will be the one that is chosen. Such KPI are very useful not only in the pursuit of greater efficiency and growth but also in risk management.

**KPI (Key Performance Indicators): Quantitative business metrics used to evaluate the degree of success in reaching business goals.*

Indeed, we have been meticulous in our approach to ROIC through Kawasaki-ROIC Management, even preparing balance sheets for each business unit. But we will be more thorough in regard to risk management, using KPI to check for unusual numbers, executing project bids and pre-order front-end engineering, examining latent risks, and following up after projects are completed, which will strengthen risk management.



Picture of Business in 2025

Kawasaki Group
- Growth hinging on key investment areas of air transportation, robots and energy
- Enhanced enterprise value through portfolio boasting high profitability, sustainable growth and stability

Air Transportation Systems
- Steady growth paralleling increased demand for air transportation worldwide
- System integrator, module supplier
- High profitability through after-market/MRO* business

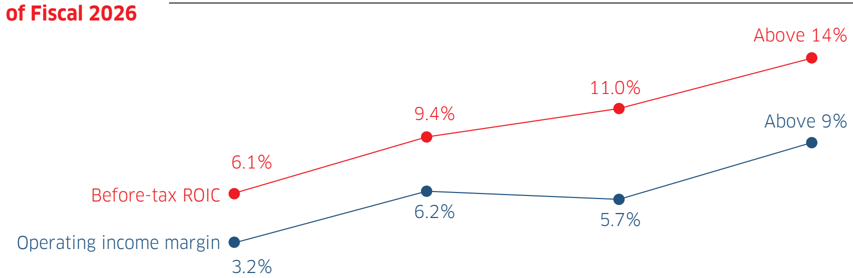
Land/Sea Transportation Systems
- Growth by tapping into overseas demand, especially in emerging markets
- Promoted high-value-added products, underpinned by technological capabilities and brand strength
- Global production structure

Energy & Environmental Engineering
- Growth fueled by wider demand for distributed power generation and oil & gas
- Promoted solution-style business and system marketing
- Leader toward realization of hydrogen society

ROBO-MECH
- Expanded business sectors for human-friendly robots that coexist with humans and for medical robots
- Promoted products maximizing synergies between robots and hydraulic components
- Top brand in motion control

**MRO: Maintenance, Repair, Overhaul*

Quantitative View of Fiscal 2026



	FY2013 (Actual)	FY2016 (Actual)	FY2019 (Target)	FY2026 (Ideal)
Before-tax ROIC ●	6.1%	**9.4%**	11.0%	**14% or higher**
Operating income margin ●	3.2%	**6.2%**	5.7%	**9% or higher**
Return on equity (ROE)	9.5%	**10.6%**	14.0%	**15% or higher**
Operating cash flow	¥28.1 billion	**¥86.0 billion**	¥140.0 billion	**¥200.0 billion or higher**
Total asset turnover (times)	0.87	**0.95**	1.00	**1 or more**
(Reference value: Net sales)	(¥1,288.8 billion)	**(¥1,541.0 billion)**	(¥1,740.0 billion)	**(¥2,400.0 billion)**

"The three fundamental strategies under MTBP 2016 are to promote further progress on Kawasaki-ROIC Management, to implement investments targeting medium- to long-term growth, and to realign our businesses."

Fundamental Strategy 2:
Investments targeting medium- to long-term growth

During MTBP 2013, the Kawasaki Group aggressively allocated funds for capital expenditure and investment in R&D; however, during MTBP 2016, the strategy is to expand investment overall, with an emphasis on growth fields. We will earmark about ¥280.0 billion over three years for capital expenditures, such as a new factory to manufacture components for the Boeing 777X as well as jet engine production facilities and increased production of robots, and about ¥150.0 billion over three years to R&D, especially on future commercial aircraft as well as medical robots and hydrogen-related businesses.

Looking at investment in air transportation systems—a key segment—as a percentage of overall application of funds, you will notice an increase in capital expenditures, from 38% in MTBP 2013 to 45% in MTBP 2016, and an increase in R&D investment as well, from 15% to 20%, respectively. I trust you understand the reasons behind our strategy to selectively invest in growth fields.

In the hydrogen business, we spearheaded the establishment of CO_2-free Hydrogen Energy Supply-Chain Technology Research Association (HySTRA) in February 2016. HySTRA's primary objective is to establish and verify the technologies required throughout the hydrogen energy supply chain, beginning with production from source materials to transportation, storage and use. The ultimate goal, however, is to contribute to the realization of a hydrogen energy society.

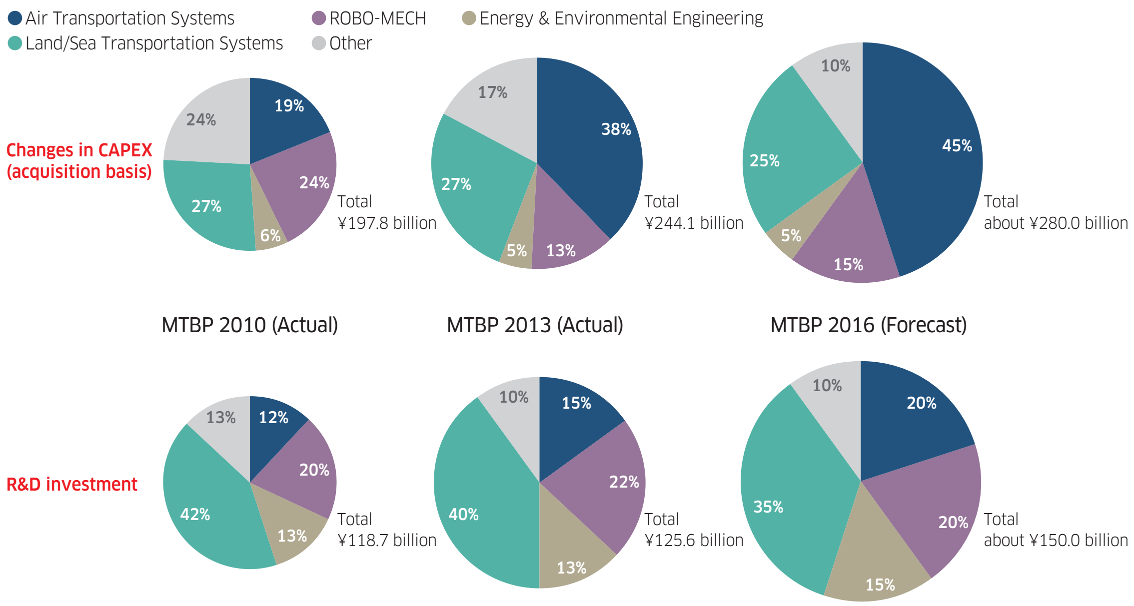
Fundamental Strategy 3:
Business realignment

Two business segments—Ship & Offshore Structure and Hydraulic Machinery—continue to face a difficult business environment, making restructuring essential. Ship & Offshore Structure will strive to optimize profits by integrating the operations of NACKS and DACKS* with the Sakaide Works, which will function as a mother factory. At the Kobe Works, the focus will be on submarine-related operations in an effort to stabilize business activities. Meanwhile, the offshore service vessels business, which booked massive losses in fiscal 2016 due to issues related to a Brazilian joint venture, will be downsized, with efforts directed mainly toward the construction of offshore service vessels for customers in Norway.

**NACKS and DACKS: Affiliated companies accounted for by the equity method as joint ventures with companies in China.*

In Hydraulic Machinery, "Kawasaki" enjoys top-brand status for leading-edge technology and a high share of the market. But the goal is to at least maintain—but ideally expand—market share, mainly by enriching the lineup and honing a sharper cost-competitive edge, and reduce reliance on the excavator market in China by developing business in the construction and agricultural machinery markets beyond excavators. In addition, this business segment will seek synergies and enhanced efficiency by integrating operations with the robot business. This effort includes production of robots at Kawasaki Precision Machinery (Suzhou) Ltd. in China and more efficient use of labor and facilities.

Changes in CAPEX (acquisition basis) and R&D investment during each MTBP (cumulative)



MTBP 2016 Quantitative Targets

In our outlook for fiscal 2017, the first year of MTBP 2016, we anticipate net sales of ¥1,570.0 billion, up from fiscal 2016, but operating income is likely to decline to ¥70.0 billion. This reflects a shift toward yen appreciation and a temporary decrease in Aerospace earnings, but the situation should correct by fiscal 2019, the last year of MTBP 2016, and we look forward to higher sales and income, mainly from Rolling Stock, Motorcycle & Engine and Precision Machinery. Expectations are for net sales of ¥1,740.0 billion, operating income of ¥100.0 billion and before-tax ROIC at 11.0%.

(Billions of yen)	**FY2016 (Actual)**	FY2017 (Forecast)	**FY2019 (Target)**
Orders received	**1,693.6**	1,500.0	**1,740.0**
Net sales	**1,541.0**	1,570.0	**1,740.0**
Operating income	**95.9**	70.0	**100.0**
Operating income margin (%)	**6.2**	4.4	**5.7**
Before-tax ROIC (%)	**9.4**	8.3	**11.0**
ROE (%)	**10.6**	11.0	**14.0**

Financial Strategies

During MTBP 2013, we worked to significantly strengthen our financial position by improving capital efficiency through Kawasaki-ROIC Management and ensuring good operating cash flow. During MTBP 2016, investing cash flow is likely to trend high, at about ¥90.0 billion per year, to fuel medium- to long-term growth; however, we expect to register operating cash flow of more than ¥110.0 billion per year and will strive to reinforce our financial position and maintain appropriate investment capacity. We are targeting a net debt equity ratio in the range of 70% to 80% as of March 31, 2019.

Return to Shareholders

The Kawasaki Group seeks to raise shareholder value and enhance enterprise value over the long term by continuously investing in the innovative R&D and state-of-the-art facilities needed to drive growth and by consistently generating income exceeding capital costs as well as a high level of cash flow from operations. We believe this approach serves our shareholders' interests.

Toward this end, our basic policy is to strike a good balance between certain corporate capital needs—reinforcing our financial footing by enriching shareholders' equity and reducing interest-bearing debt, and improving shareholder value through R&D and capital investment—and the return of profits to shareholders through the distribution of dividends. Guided by this policy, management established a benchmark of 30% for the consolidated payout ratio over the medium to long term.

Environmental Management

Guided by the strategies of the Ninth Environmental Management Activities Plan (fiscal 2017 to fiscal 2019), the Kawasaki Group seeks to reduce the environmental impact that accompanies business activities. Emphasis has been placed on measures to cut CO_2 emissions and energy costs, promote the 3R* concept and reduce environmental loads (materials exerting an impact on the environment), with targets for each division set annually. All divisions are systematically engaged in programs to achieve these targets. In addition, we maintain a program for registering products with excellent environmentally conscious features as Kawasaki Green Products, and constantly pursue activities to lower the inherent post-sale environmental impact of the Kawasaki products provided to customers.

Our lineup already includes power generation systems that draw on waste heat from garbage incinerators and cement plants as well as products designed to reduce environmental impact through, for example, the use of waste heat from gas turbine and gas engine power generation facilities. We are also working on the technologies of tomorrow that will feature in such applications as CO_2 separation and collection systems and the above-mentioned CO_2-free hydrogen projects. Through these activities, we will contribute to the realization of a sustainable society on a global scale.

**3R: Reduce, Reuse, Recycle – three essential components of initiatives to cut waste disposal*

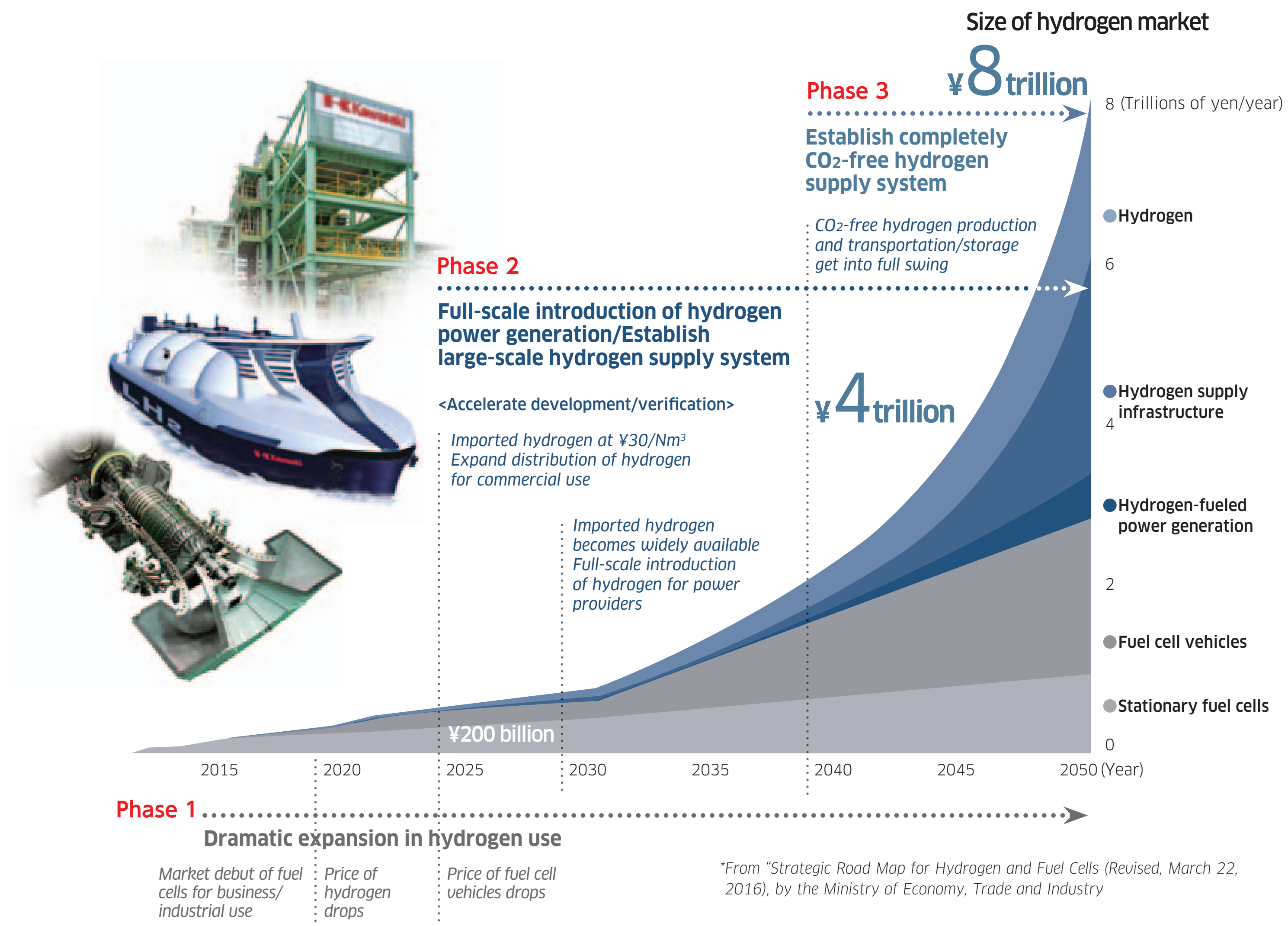
Message to Stakeholders

For the Kawasaki Group, the development of our businesses is built on a relationship of trust with stakeholders, including shareholders and customers. I hope that Kawasaki Report 2016 helps readers gain a deeper understanding of what we do as a corporate group and takes communication between stakeholders and the Kawasaki Group to a higher level. Under the corporate slogan "Powering your potential," we will undertake business activities designed to achieve our mission—to be a socially responsible corporate citizen contributing to comfortable lifestyles and the environment worldwide—and to make society a better place through ongoing value creation. Your continued understanding and support of the Kawasaki Group and its activities will be integral to our shared success.

Initiatives to Realize a Hydrogen Society

To date, uses of hydrogen have been limited to primarily industrial applications such as in oil refining, as rocket fuel, and in semiconductor manufacturing processes. But with the debut of a fuel cell system for homes in 2009 and subsequent popularity, followed by other innovative applications, including the introduction of a fuel cell vehicle in 2014, hydrogen is steadily moving toward everyday use. Kawasaki has technologies highly compatible with each process–production, transportation/storage and use–of the hydrogen supply chain. Our technologies link hydrogen production sites to consumer sites, and in so doing, pave a new way to the future–the Hydrogen Road.

……by uniting to expand possibilities



*From "Strategic Road Map for Hydrogen and Fuel Cells (Revised, March 22, 2016), by the Ministry of Economy, Trade and Industry

On February 22, 2016, four companies–Kawasaki Heavy Industries, Iwatani Corporation, Shell Japan Limited and Electric Power Development Company–established HySTRA, the CO_2-free **Hy**drogen Energy **S**upply-Chain **T**echnology **R**esearch **A**ssociation. Going forward, the plan is for HySTRA to implement the Demonstration Project for Establishment of Supply Chain for Mass Marine Transportation of Hydrogen and Gasification of Brown Coal, a demonstration project for the New Energy and Industrial Technology Development Organization (NEDO).

Kawasaki Hydrogen Road

Hydrogen Production

We promote liquefied hydrogen made from brown coal as an unused natural resource, at the cryogenic temperature of -253˚C and then transport it. We built a hydrogen liquefaction system test facility and marked a first in Japan with the successful liquefaction of hydrogen under a purely domestic production structure.

Hydrogen Transportation

We are working on the development of the world's first liquefied hydrogen carrier. Construction of a demonstration vessel is set for 2020, while we are planning for larger designs as well.

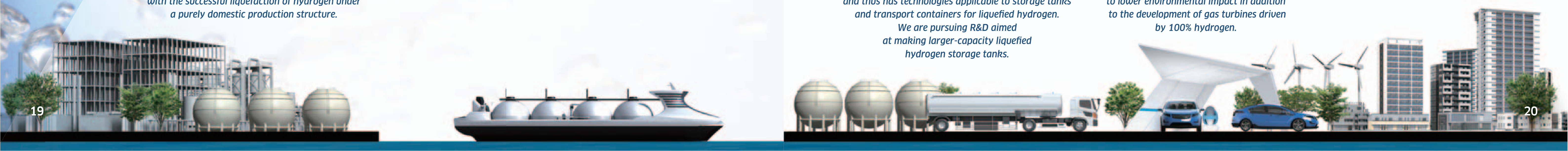
Hydrogen Storage

Liquefied hydrogen storage tanks and containers for on-land transport of liquefied hydrogen are essential to the use of hydrogen in Japan. Kawasaki has proven results, built over many years, in supporting domestic storage of rocket fuel, and thus has technologies applicable to storage tanks and transport containers for liquefied hydrogen. We are pursuing R&D aimed at making larger-capacity liquefied hydrogen storage tanks.

Hydrogen Use

We are developing gas turbine power generation equipment using hydrogen as the fuel source. We are also pursuing development of technology that allows mixed combustion with hydrogen in natural gas-fired gas turbines to lower environmental impact in addition to the development of gas turbines driven by 100% hydrogen.

Kawasaki is keen to contribute to reducing CO_2 on a global scale by pushing ahead with the development of technology aimed at realizing tomorrow's hydrogen society.



Hydrogen
Production

-253°C cryogenic temperature achieved

Kawasaki successfully developed Japan's first industrial-use hydrogen liquefaction system using entirely home-grown, proprietary technology.

The hydrogen liquefaction system we developed was installed at one of our domestic facilities and has the capacity to liquefy about five tons of hydrogen per day. This is made possible through the application of cryogenic materials handling technology and technical turbine expertise accumulated through the development of high-speed rotating machines.

When cryogenically cooled to -253˚C, hydrogen changes from a gaseous state to a liquefied state shrinking to 1/800 of its original volume. In this concentrated form, hydrogen exhibits a tremendous improvement in storage/transportation efficiency, which raises the amount of hydrogen that can be distributed by marine or ground transportation.

Hydrogen
Transportation

Cooled to -253˚C and in liquefied form, hydrogen shrinks to 1/800 of its original volume for the ocean voyage to Japan

Giving the world its first liquefied hydrogen carrier

For hydrogen to have a real future as widely used, next-generation energy, technology is needed that will ensure safe and highly efficient transportation of hydrogen in large volume. Kawasaki, which built Japan's first liquefied natural gas (LNG) carrier in 1981, enjoys a place at the forefront of cryogenic technology for marine transport. We drew together the best in cryogenic technology and shipbuilding technology accumulated over many years and are applying this expertise to the development of the world's first liquefied hydrogen carrier.

-162˚C LNG carrier: Symbolizing 30 years of Kawasaki pride

The shape of the future, from Kawasaki

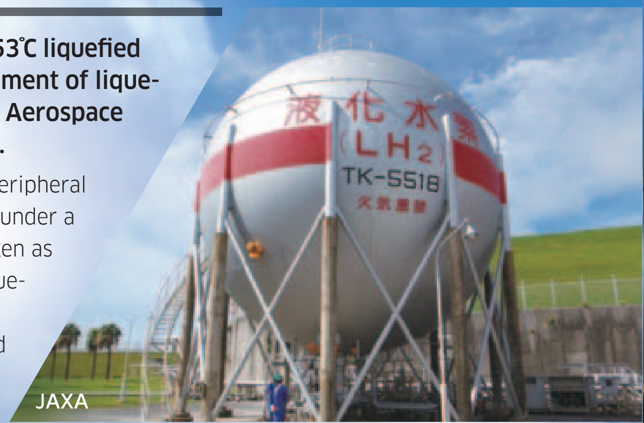
Large liquefied hydrogen carrier Should a society where hydrogen is widely used become a reality, it will require large quantities of hydrogen produced inexpensively overseas to be transported to Japan. Hydrogen–the ultimate clean energy. When society uses hydrogen as an energy source as matter-of-factly as it does coal, oil and natural gas, it will be large hydrogen carriers developed by Kawasaki that support hydrogen distribution.

Hydrogen Storage

1,000m³ liquefied hydrogen containment system

Kawasaki has cultivated cryogenic temperature −253℃ liquefied hydrogen storage technology through the development of liquefied hydrogen storage tanks installed at the Japan Aerospace Exploration Agency (JAXA) rocket launch facilities.

Kawasaki was entrusted by NEDO to undertake R&D on peripheral technology (a hydrogen liquefaction and storage system) under a cutting-edge R&D project to promote wider use of hydrogen as an energy source. We are working on a 1,000m³-class liquefied hydrogen containment system featuring a vacuum insulation structure to minimize evaporation of the stored liquefied hydrogen, as hydrogen in its liquefied state is more susceptible to evaporation than LNG.



Liquefied hydrogen storage tanks at Tanegashima Space Center, in use for more than 25 years

Hydrogen Use

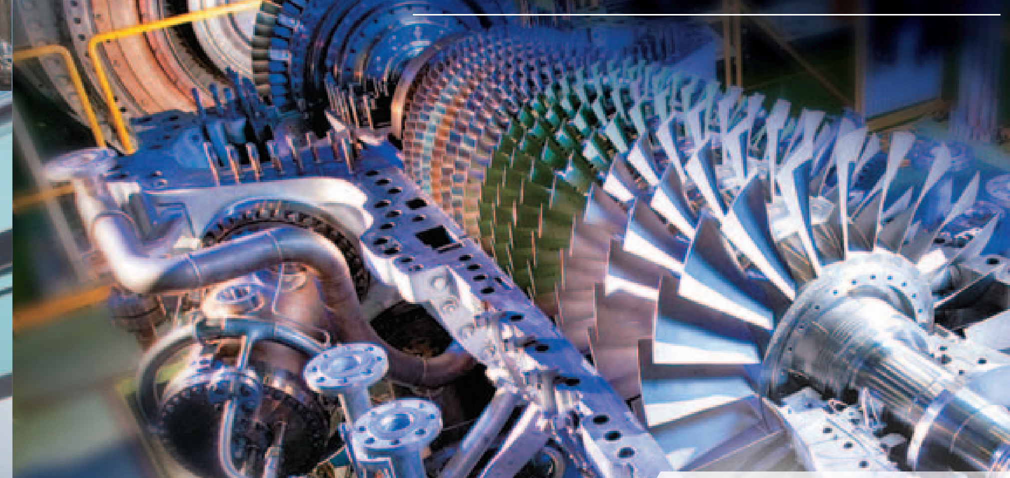
100% hydrogen power generation

Hydrogen-driven gas turbine technology

Chemical plants and other facilities generate large amounts of by-product gas, including hydrogen, leading to a growing need for effective ways to utilize the derivative gas. In response, Kawasaki is currently running verification tests on a gas turbine with a proprietary combustion system fueled by a mixture of natural gas and hydrogen. We are also engaged in the development of gas turbine combustors optimized to the characteristics of hydrogen, namely, its fast rate of combustion, to generate power using 100% hydrogen.

Hydrogen mix combustion technology: Demonstration gas turbine on site of Kawasaki facility

(Hydrogen-only combustion technology: Pilot operation under consideration)



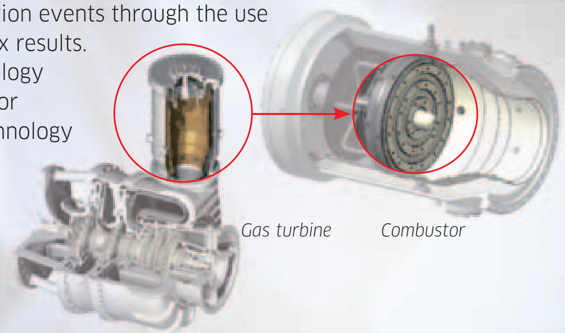
100% Hydrogen Combustion Test at High-Temperature/High-Pressure Combustion Test Facility (RWTH Aachen University)

Developed low-NOx, hydrogen-fueled gas turbine combustion technology

Hydrogen combustion in a gas turbine tends to be unstable because of hydrogen's fast rate of combustion, and as the flame temperature rises, NOx emissions nearly double compared with the amount released in the combustion of natural gas.

To solve these issues, Kawasaki teamed up with Aachen University of Applied Sciences (FH), in Germany, to pursue basic research on hydrogen-fueled Dry Low Emission (DLE*) combustion capable of suppressing flashback and other unstable combustion events through the use of small hydrogen flames while also achieving low-NOx results.

Then, commissioned by the Japan Science and Technology Agency under a strategic innovation promotion program for energy carriers—an initiative of the Council for Science, Technology and Innovation—we became involved in the development of a gas turbine combustor using this small hydrogen flame. We also conducted a hydrogen combustion test (100% hydrogen) using the high-temperature, high-pressure combustion test facility at RWTH Aachen University and confirmed that the use of the new technology achieved NOx emissions far below the regulation value.



Gas turbine *Combustor*

*A system that reduces NOx emissions by minimizing combustion temperature without the use of injected water or steam.

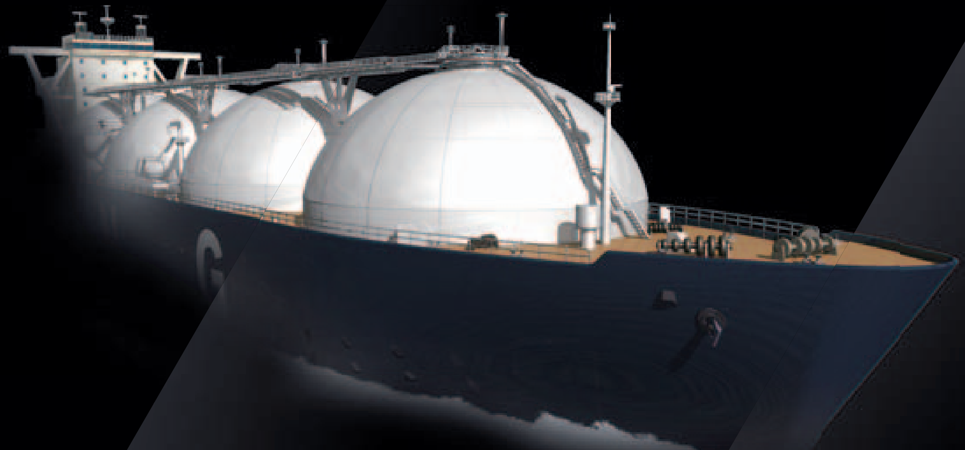
Ship & Offshore Structure

Approach to Social Issues

- Provide marine transport solutions that support comfortable lifestyles around the world
- Help mitigate issues of global scale, such as saving energy and reducing environmental load

Main Products

- LNG carriers
- LPG carriers
- VLCCs
- Bulk carriers
- Submarines



......by **utilizing** our strengths to accelerate growth

Rolling Stock

Approach to Social Issues

- Provide safe and environment-friendly rolling stock system
- Contribute to construction of transport infrastructure that supports economic development in emerging nations

Main Products

- Electric train cars, including *Shinkansen* (bullet trains)
- Electric and diesel locomotives
- Passenger coaches
- Bogies
- Gigacell (high-capacity, fully sealed Ni-MH battery)

Aerospace

Approach to Social Issues

- Contribute to reducing environmental load using carbon fiber composite technology
- Contribute to advances in aerospace industry, including human resources development and transfer of skills to the next generation

Main Products

- Aircraft for the Japan Ministry of Defense
- Component parts for commercial aircraft
- Commercial helicopters
- Missiles/Space equipment

Gas Turbine & Machinery

Approach to Social Issues

- Contribute to stable supply of clean energy
- Deliver solutions to meet diversifying energy/transportation needs

Main Products

- Jet engines
- Industrial-use gas turbines/cogeneration systems
- Gas engines
- Diesel engines
- Steam turbines for marine and land
- Aerodynamic machineries/Marine propulsion systems

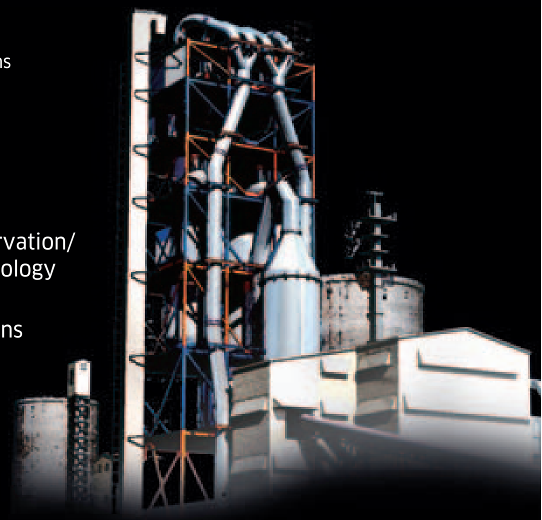
Plant & Infrastructure

Approach to Social Issues

- Contribute to global environmental conservation/ CO_2 reduction through products and technology
- Contribute to creation of social energy/ industrial infrastructure in emerging nations

Main Products

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



Motorcycle & Engine

Approach to Social Issues

- Fulfill requirements of “Fun to Ride” and “Ease of Riding” and contribute to low-carbon society
- Develop products matched to the needs of emerging markets and branch out production bases

Main Products

- Motorcycles
- All-terrain vehicles (ATVs)
- Utility vehicles
- Personal watercrafts
- General-purpose gasoline engines

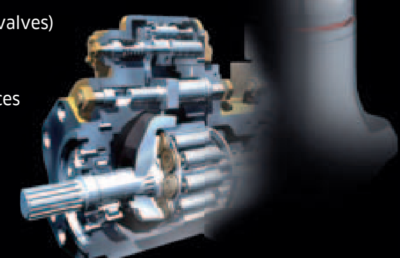
Precision Machinery

Approach to Social Issues

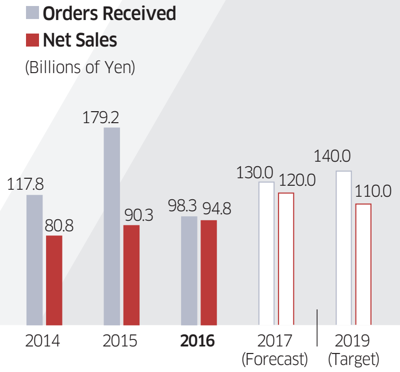
- Develop products emphasizing energy-saving and eco-friendly features
- Contribute to infrastructure formation around the world

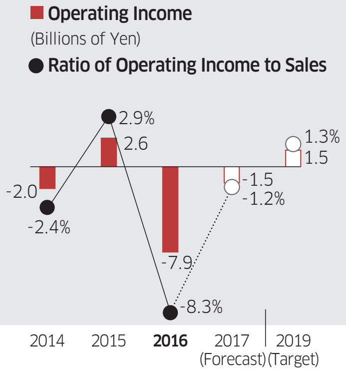
Main Products

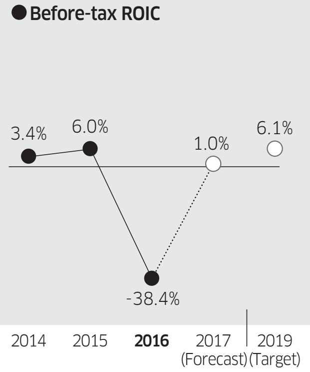
- Hydraulic components (pumps, motors and valves)
- Hydraulic systems for land use
- Hydraulic marine machineries
- Precision machinery/Electric-powered devices
- Industrial robots



Ship & Offshore Structure







Business Results for Fiscal 2016 and Outlook for Fiscal 2017

Consolidated orders received in fiscal 2016 declined by ¥80.8 billion year on year, to ¥98.3 billion, as we received orders for a submarine and a deep submergence rescue vehicle from the Japan Ministry of Defense in the previous fiscal year. Consolidated net sales rose by ¥4.5 billion year on year, to ¥94.8 billion, primarily owing to greater LPG carrier construction. The segment incurred a consolidated operating loss of ¥7.9 billion, dropping by ¥10.6 billion from the income position achieved a year ago. The reversal is largely due to provision for losses on construction contracts.

For fiscal 2017, we expect consolidated orders received to be ¥130 billion and net sales to be ¥120 billion, and operating loss to be ¥1.5 billion.

Global Topics

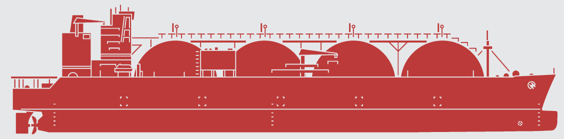
Integrating Operations of Sakaide Works, NACKS[*1] and DACKS[*2]

The Ship & Offshore Structure Company signed a joint venture agreement with China Ocean Shipping (Group) Company (COSCO), the largest shipping company in China, in 1995 and established NACKS in Nantong, Jiangsu Province. Kawasaki places priority on the development of human resources and not only sends technical instructors over from Japan but has also started a program through which locally hired engineers come to the Sakaide Works to learn the basics of shipbuilding technology. In 2015, NACKS celebrated its 20th anniversary and the first graduates of our training program are now at the forefront of this company in executive and senior management positions. The quality and performance of NACKS-built vessels have earned high marks from clients not only in China but also in other countries, and the company boasts technical expertise and cost-competitiveness that rival the highest standards anywhere in the world. In 2007, DACKS was established as a joint venture between COSCO and NACKS in Dalian, Liaoning Province, with outstanding engineers who developed their skills at NACKS assigned as mentors to develop human resources in cooperation with technical instructors from the Company. DACKS is also introducing the latest equipment and facilities into operations to boost efficiency.

*1 *Nantong COSCO KHI Ship Engineering Co., Ltd. (NACKS)*
*2 *Dalian COSCO KHI Ship Engineering Co., Ltd. (DACKS)*

Submarine

"Integrating domestic operations with our Chinese joint ventures will fuel the world's best technology, quality and cost-competitiveness."



Yoshinori Mochida
President, Ship & Offshore Structure Company

Business Vision

One of the world's most prominent shipbuilding and offshore structure engineering groups pursuing business with a focus on low-temperature, high-pressure gas technology, submarine technology and overseas projects.

Business and Management Directions in MTBP 2016

- Expand profits through integrated approach to operations at Sakaide Works, NACKS and DACKS
- Strengthen operations and business foundation at Kobe Works by focusing on submarine-related operations
- Emphasize technology/product development with 10-year perspective, spotlighting LNG-fueled vessels/LNG fuel supply vessels, IoT utilization, liquefied hydrogen carriers, new-type submarines, application of submarine technology

Operating Environment and MTBP 2016 Strategies/ Measures

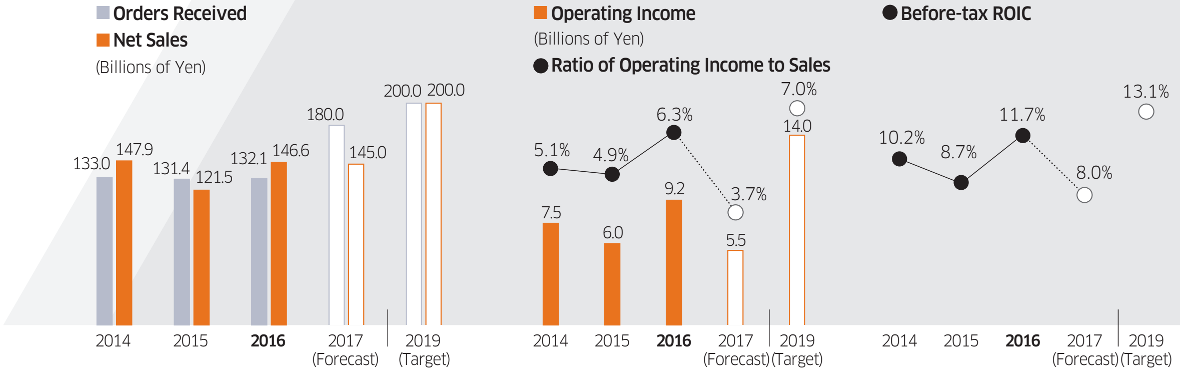
The shipping market remains difficult, owing to prolonged overcapacity paralleling sluggish growth in cargo movement and a large supply of newly built vessels as well as the impact of a slump in oil prices. Nevertheless, a quickening toward fuel conversion for ships against a backdrop of tougher environmental regulations is spurring demand for ships with energy-saving features and reduced environmental load.

In this business environment, Kawasaki will strive to maximize profits by integrating operations at three points—the Sakaide Works and two joint ventures in China (NACKS and DACKS). The Sakaide Works will specialize in construction of high-value-added vessels, such as LNG carriers and LPG carriers, and as the mother factory for NACKS and DACKS, it will undertake development of new leading-edge technologies and new hull forms while enhancing development of human resources by welcoming trainees and promoting a personnel exchange program to sharpen the competitiveness of NACKS and DACKS. The Kobe Works will strive for stable operations centering on construction and repair of submarines to strengthen the business platform.

Efforts will also be directed into new products and new technologies, including LNG-fueled vessels, liquefied hydrogen carriers and application of submarine technology.

LPG carrier

Rolling Stock



"Kawasaki's customer-backed reputation for excellent technological capabilities and brand equity in Japan, North America and Asia will energize our business growth."

Makoto Ogawara
President, Rolling Stock Company

Business Results for Fiscal 2016 and Outlook for Fiscal 2017

Consolidated orders received amounted to ¥132.1 billion in fiscal 2016, on a par with the level recorded in fiscal 2015, as no major change in order activity was seen in Japan or overseas. Consolidated net sales climbed by ¥25.1 billion year on year, to ¥146.6 billion, reflecting higher sales to customers overseas, especially Singapore and Taiwan. Operating income rose by ¥3.2 billion year on year, to ¥9.2 billion, buoyed by the higher net sales.

For fiscal 2017, we expect consolidated orders received to be ¥180 billion, net sales to be ¥145 billion and operating income to be ¥5.5 billion.

Global Topics

Introduction and Wide Application of Kawasaki Production System (KPS)* at Overseas Facilities

The Rolling Stock Company manufactures rolling stock at facilities in the United States as well as in Japan and has introduced KPS to elevate productivity in manufacturing high-quality rolling stock. In 2014, we initiated productivity improvement activities using KPS, at our facility in Yonkers, New York, on projects that were in progress at that time. Engineers were sent over from Japan a number of times, working alongside local employees to establish a better environment for operations, create the right framework for activities and pursue improvements in operations on various fronts. Language and cultural differences presented a few hurdles, but meetings, characterized by a repeated process of honest discussion, along with improvements by local employees and support from Japanese engineers proved successful, and target values were achieved. Local employees remain committed even now to the improvement trend. The facility in Lincoln, Nebraska, has also embraced KPS and is engaged in efforts to extend the scope of KPS application through improvement activities.

Persistent approaches like these form a foundation that supports the Kawasaki brand, which enjoys a solid reputation in the U.S. railway industry.

**Kawasaki Production System (KPS) is a streamlined production control method, based on the Just-In-Time (JIT) concept, and was developed and verified by Kawasaki through application at the Company's manufacturing sites and on facility production lines. The system can be applied to various facility/production lines, from mass-production to engineered-to-order manufacturing.*

Business Vision

With strong teamwork and the highest level of technology and quality we provide dreams and emotions to customers worldwide in order to become the most reliable rolling stock system supplier.

Business and Management Directions in MTBP 2016

Domestic	•Differentiate with high-value-added products that leverage synergies and high-tech expertise built on comprehensive heavy industry strengths as well as ability to provide value across overall system lifecycle
North America	•Tap into constant order activity for new cars on high-share northeastern corridor, and actively promote high-profit stock-style business underpinned by delivery record exceeding 4,000 cars
Asia	•Secure revenue base in markets, particularly Taiwan and Singapore, where the Kawasaki brand is known for excellence, and develop wider presence in emerging markets with growth potential

Operating Environment and MTBP 2016 Strategies/Measures

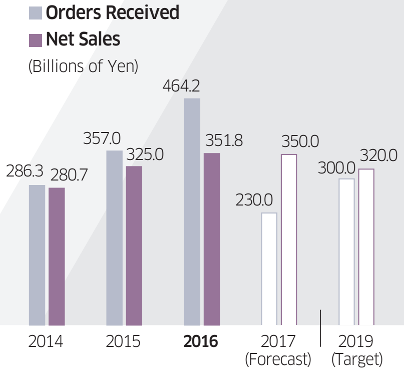
Although demand for new rail cars is flat in Japan, the market still seeks high-value-added components and value across the overall system lifecycle, which will buoy demand for replacement parts as well as repair and rebuild work, maintenance and other after-market services, and bogie and track monitoring. In North America, where we have accumulated considerable delivery results, demand for subway and commuter train systems remains brisk and requests for stock-style business, such as components, repair and rebuild work and maintenance, are increasing. Against this backdrop, we will establish a stronger presence in Japan and North America and reinforce earnings by aggressively promoting stock-style businesses and expanding sales of high-performance, high-function products, such as efWING.

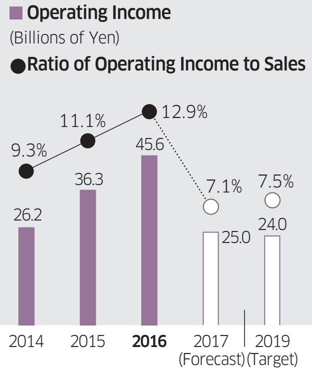
In the Asian market, we anticipate new rail car introductions and replacement demand paralleling the opening of lines in Taiwan and Singapore where the Kawasaki brand is known for excellence, as well as brisk demand for rolling stock systems in emerging countries. We will strive to strengthen the earnings base in Taiwan and Singapore while energetically cultivating new markets by enhancing our system integration capabilities and maintaining and then building additional partnerships with local companies, and expanding sales and profits.

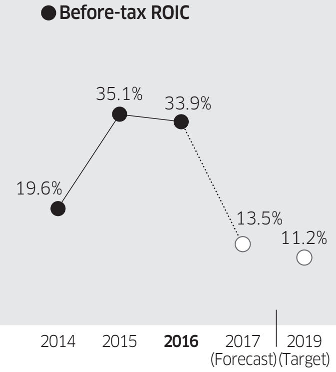
Series 7000 subway cars operated by Washington Metropolitan Area Transit Authority

Series H5 Shinkansen (bullet train) operated by Hokkaido Railway Company (JR Hokkaido)

Aerospace







Business Results for Fiscal 2016 and Outlook for Fiscal 2017

Consolidated orders received jumped by ¥107.2 billion year on year in fiscal 2016, to ¥464.2 billion, mainly due to a larger number of orders from the Japan Ministry of Defense. Consolidated net sales rose by ¥26.7 billion year on year, to ¥351.8 billion, primarily because of higher sales to the Japan Ministry of Defense as well as sustained upward sales of component parts for commercial aircraft. Other factors included the positive effect of yen depreciation. Operating income rose by ¥9.3 billion year on year, to ¥45.6 billion, largely by virtue of sales growth.

For fiscal 2017, we expect consolidated orders received to be ¥230.0 billion, net sales to be ¥350.0 billion and operating income to be ¥25.0 billion.

Global Topics

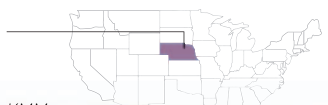
Start of Aircraft Parts Production in the United States

The Aerospace Company is in the process of building a new assembly line for Boeing 777X cargo doors at the KMM*[1] facility in Lincoln, Nebraska. Kawasaki will maximize its experience gained over many years in producing motorcycles and rolling stock at the Lincoln facility and integrate segment technologies to realize a state-of-the-art production line. In the procurement of parts and jigs and tools, the goal is local production for local consumption, and we aim to make this facility a cornerstone for expansion into a key production base in the United States. We will aggressively promote KPS*[2] here and introduce automated facilities and Kawasaki-built robots to boost productivity and keep quality levels constant. We will also focus on developing the skills of human resources with a global perspective through on-the-job training for local employees, who we will bring to the Gifu Works and the Nagoya Works for several months of hands-on instruction, while sending young employees from the Aerospace Company to local operations, to get overseas plants operating and acquire operation-related know-how.

*1 Kawasaki Motors Manufacturing Corp., U.S.A., a Kawasaki subsidiary in the United States

*2 KPS (Kawasaki Production System) is a streamlined production control method, based on the Just-In-Time (JIT) concept, and was developed and verified by Kawasaki through application at the Company's manufacturing sites and on facility production lines. The system can be applied to various facility/production lines, from mass-production to engineered-to-order manufacturing

Lincoln, Nebraska



777X Cargo Door, KMM

Boeing 777X

"We will contribute to Japan's defense and global air transport as a system integrator."

Sukeyuki Namiki
President, Aerospace Company

Business Vision

An aircraft manufacturer with international competitiveness in terms of quality, cost and delivery speed, honed as a leader in Japan's aerospace industry.

Business and Management Directions in MTBP 2016

Defense	•Steady progress on existing order development projects and production contracts •Expand orders for new projects
Commercial	•Push ahead on development of Boeing 787-10 and respond to production increases •Smooth start to production of Boeing 777X

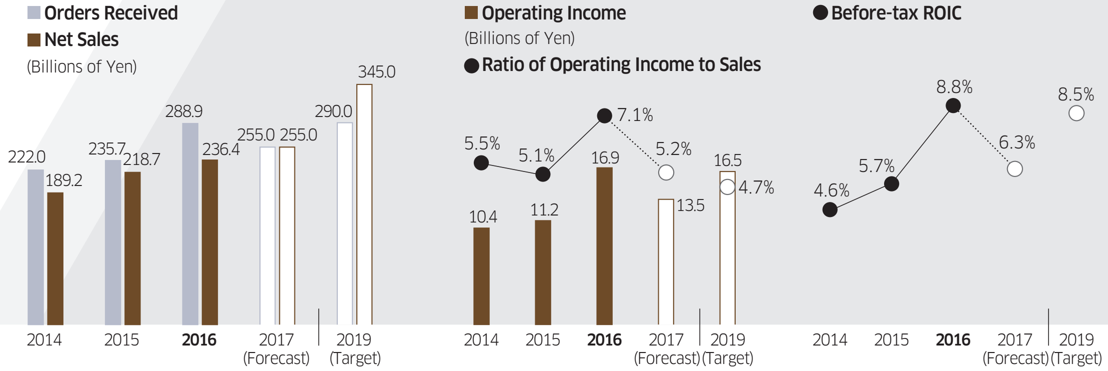
Operating Environment and MTBP 2016 Strategies/Measures

In the defense aircraft business, we have been working on concurrent development of two aircraft—the P-1 patrol aircraft and the C-2 transport aircraft—which are the core aircraft of our defense business. We concluded development of the P-1 and secured a package order for 20 aircraft in fiscal 2016. With the aim of also finishing development of the C-2, we are moving steadily toward production of both of these aircraft while also seeking orders for modernized and derivative aircraft. In addition, we will draw on our technological capabilities accumulated in the defense business as a manufacturer of finished aircraft to capture new projects and grow market share.

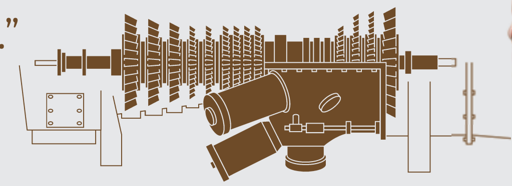
C-2 transport aircraft

In the commercial aircraft business, demand for fixed-wing aircraft is expected to expand over the medium to long term. We will work toward completing development of the Boeing 787-10 derivative model for Boeing and establishing a structure for increased production. We will also shift production from component parts for the 777 to the 777X. Going forward, we will upgrade the production system at the Gifu Works and the Nagoya Works to ensure a smooth start to production of the 777X. Looking ahead to production of next-generation commercial aircraft, we will set up an overseas production point at KMM's facility in Lincoln, Nebraska, and emphasize higher productivity and quality through KPS promotion at production sites.

Gas Turbine & Machinery



"Our transportation and energy and environment systems meet diverse market needs, helping businesses grow and contributing to society."



Toshiyuki Kuyama
President, Gas Turbine & Machinery Company

Business Results for Fiscal 2016 and Outlook for Fiscal 2017

Consolidated orders received in fiscal 2016 rose by ¥53.1 billion year on year, to ¥288.9 billion, reflecting increased orders for such products as aircraft engine components and gas engines. Consolidated net sales climbed by ¥17.6 billion year on year, to ¥236.4 billion, owing to a solid increase from component parts of commercial aircraft jet engines. Operating income reached ¥16.9 billion, up ¥5.6 billion year on year, thanks to the higher net sales.

For fiscal 2017, we expect consolidated orders received to be ¥255.0 billion, net sales to be ¥255.0 billion, and operating income to be ¥13.5 billion.

Global Topics

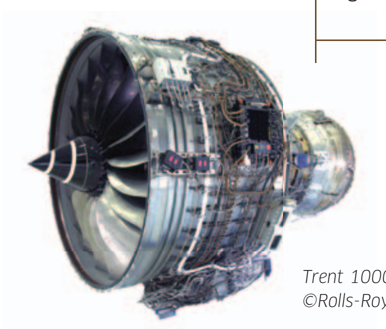
Exporting Distributed Power Generation System Infrastructures

The Gas Turbine & Machinery Company develops and produces gas engines with power efficiency rated in the world's highest class, as well as the best gas turbines for cogeneration systems, which provide both heat and electricity at the same time.

In addition to providing products with the highest efficiency rating, we help our customers boost energy efficiency and reduce environmental load from a balanced heat and power perspective through solutions emphasizing distributed energy systems ideal for the community and the customer and through access to highly efficient power generating systems.

We have built a presence at home and abroad, notably with sales and service bases in Southeast Asia, where the increase in demand for power is quite outstanding and market potential for our systems is high. Here, we present the best energy solutions for local needs.

GPB180 for Portuguese electric power company



Trent 1000 engine for Boeing 787
©Rolls-Royce plc

Business Vision

Global equipment and system manufacturer in transportation systems and energy & environment sectors.

Business and Management Directions in MTBP 2016

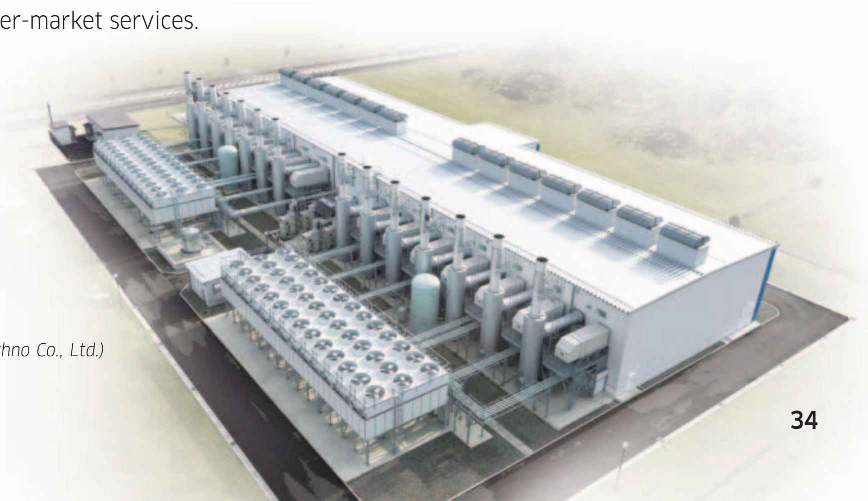
Jet Engines	•Enhance presence in jet engine sector by improving development capabilities
Energy & Environmental Engineering	•Expand share in distributed power generation market with industry's most efficient, environment-friendly product
Marine	•Strive to expand share by developing next-generation marine equipment and systems, and take a position among the world's top manufacturers

Operating Environment and MTBP 2016 Strategies/ Measures

The jet engine business should continue to post steady growth, and we are moving forward on production of many engine components, notably, the Trent 1000 for the Boeing 787, the Trent XWB engine for the Airbus A350 XWB and the PW1100G-JM engine for the Airbus A320neo. The Company has also decided to participate in a project for the Trent 7000 engine, which will be installed on the Airbus A330neo. To meet increased production of these new projects, efforts will be directed toward planned increases in production capacity over the whole supply chain and steps to enhance profitability through expanded after-market services. We will enhance our development capabilities to cement a position as a module supplier indispensable to international joint development projects and thereby improve our presence in the jet-engine market.

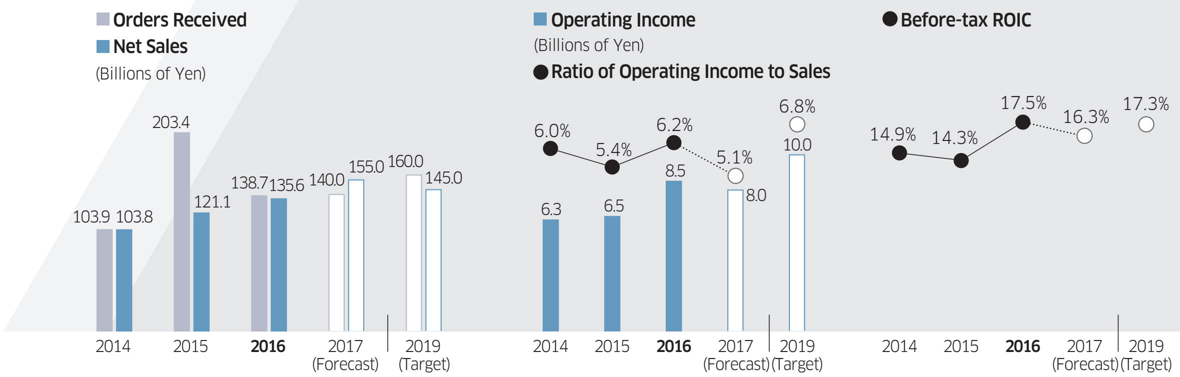
In the energy and environment business, in response to the rising demand for distributed power generation in Japan and abroad as well as the growing demand for energy in emerging markets, we will accelerate efforts to boost our presence overseas, especially in Southeast Asia, and also enhance our product competitiveness by developing high-efficiency equipment. Through these strategies, we will strive to expand market share.

In the maritime business, we aim to enrich and acquire greater competitiveness in core products by developing and bringing to market next-generation marine propulsion machinery and systems as well as new-type propulsion machinery and marine gas engines, and capturing orders for systems that combine these products. We will also strive to maintain stable profitability through expansion in after-market services.



110,000kW gas engine power plant
(for Joetsu Green Power Project, Nihon Techno Co., Ltd.)

Plant & Infrastructure



Business Results for Fiscal 2016 and Outlook for Fiscal 2017

Consolidated orders received in fiscal 2016 dropped by ¥64.6 billion, to ¥138.7 billion, a reactionary year-on-year decrease reflecting the boost given to fiscal 2015 results from the booking of large orders on overseas projects. Consolidated net sales rose by ¥14.5 billion year on year, to ¥135.6 billion, mainly owing to an increase in large plants for overseas projects. Operating income climbed by ¥1.9 billion, to ¥8.5 billion, buoyed primarily by the higher net sales starting point.

For fiscal 2017, we expect consolidated orders received to be ¥140.0 billion, net sales to be ¥155.0 billion and operating income to be ¥8.0 billion.

Global Topics

Utilizing KDT*

The Plant & Infrastructure Company includes KDT, an engineering subsidiary in the Philippines, which plays a vital role in cutting costs and developing the skills of young employees.

We intend to expand the scope of designs through standardization and also expand the scope of business activities, including opportunities to send KDT engineers to project sites as supervisors. We plan to raise the capabilities of KDT while cutting the cost of engineering overall and reinforce the competitiveness of our products.

On the human resources development front, we set up the KDT Training Program for Young Engineers, which gives Japanese engineers the chance to gain mastery in such business practices as controlling the status of on-site design work and coordination and negotiation with overseas cooperatives. Every quarter, six people are sent to KDT for three months, with the expectation that they will improve their individual skills by accumulating experience on many levels, from technical exchange with local engineers to executing tasks in English and gaining an appreciation of different customs and cultures. As of June 2016, we have sent 56 people to KDT, and the people who received training are now actively involved on-site in projects around the world.

*KHI Design & Technical Service Inc. is a Kawasaki subsidiary in the Philippines

Fertilizer plant for customer in Turkmenistan

“We will combine comprehensive engineering and *monozukuri* capabilities to build infrastructures and protect the global environment.”

Tatsuya Watanabe
President, Plant & Infrastructure Company

Business Vision

Emphasizing energy and the environment, be a plant manufacturer with distinctive capabilities to provide products and services that help protect the global environment and also earn high customer satisfaction through technologies and quality underpinned by high product development expertise and engineering know-how.

Business and Management Directions in MTBP 2016

- Improve profitability by carefully selecting orders, ensuring thorough risk management in upstream processes, and improving estimate accuracy
- Ensure stability by executing projects mindful of personnel and management resources, assigning engineers flexibly in response to market trends, and emphasizing QCD (quality, cost, delivery) management
- Develop a market for next-generation products by improving upon existing products, and seek growth by promoting hydrogen projects

Operating Environment and MTBP 2016 Strategies/ Measures

We utilize sophisticated engineering capabilities accumulated over many years to deliver high-quality products over a spectrum of business domains, including energy, industrial infrastructure and the environment.

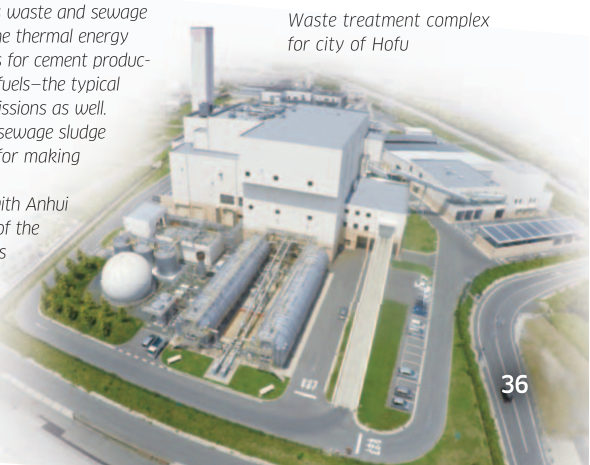
We will respond flexibly to changes in the business environment and strengthen the segment's project execution structure by effectively applying the skills of engineers beyond the borders of this segment. In addition, we will ensure thorough QCD management pegged to matrix management with a line organization dimension (vertical) and a project management dimension (horizontal), which will lead to improved profitability. Furthermore, we will direct efforts into attracting and training human resources, with an emphasis on creating and applying a professional development plan. This plan will focus on seamlessly transferring technology and practical knowledge from seasoned professionals to the next generation, and promoting local training for young engineers.

We will maintain and further reinforce our alliance structure with overseas partners through various collaborations. One such collaboration is the sale of environmental plants, featuring the CKK*1 environmentally friendly waste gasification system, in China and Southeast Asia through our joint venture with the Conch Group*2 in China.

To grow our business, we will constantly develop high-value-added product groups that improve on existing products and aggressively work to develop our markets. At the same time, we will strive to push hydrogen projects forward and expand business, with a focus on hydrogen loading and unloading facilities and liquefied hydrogen storage facilities.

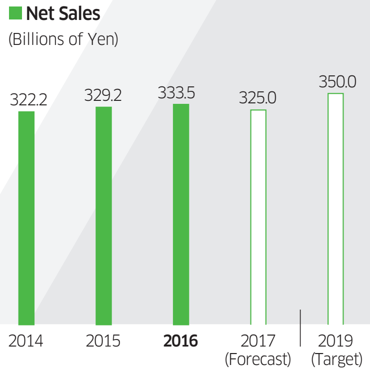
*1 CKK: Conch Kawasaki Kiln (CKK) is a revolutionary, completely emission-free waste processing system jointly developed by Kawasaki and the Conch Group. It turns waste and sewage sludge into gas and effectively utilizes the thermal energy generated during the production process for cement production. This reduces consumption of fossil fuels—the typical heat source—and leads to lower CO_2 emissions as well. The ashes that remain after waste and sewage sludge gasification can be reused as material for making cement.

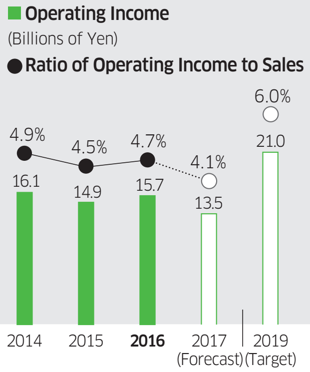
*2 Conch Group: The Anhui Conch Group, with Anhui Conch Cement—China's largest and one of the world's leading cement makers—under its umbrella, is a corporate group engaged in cement, construction materials, trading and other businesses.

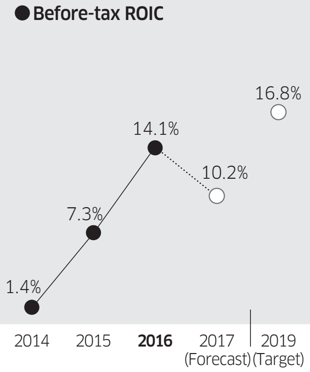


Waste treatment complex for city of Hofu

Motorcycle & Engine







Business Results for Fiscal 2016 and Outlook for Fiscal 2017

Consolidated net sales totaled ¥333.5 billion in fiscal 2016, a ¥4.3 billion year-on-year increase, as the improvement in vehicle sales and motorcycle sales to developed markets offset the decline in motorcycle sales to Indonesia and other emerging markets. Operating income increased by ¥0.8 billion year on year, to ¥15.7 billion, mainly because of the higher net sales.

For fiscal 2017, we expect consolidated net sales to be ¥325.0 billion and operating income to be ¥13.5 billion.

Global Topics

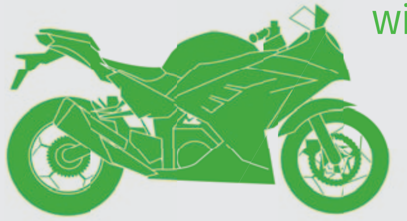
Global Business and Management

Guided by the "Kawasaki, working as one" philosophy, the Motorcycle & Engine Company is working to establish Kawasaki as a Globally Integrated Enterprise under a three-point concept highlighting One Company, One Voice (presenting a unified brand image to the world), and Number One in profitability. This focus will fuel the segment's efforts to represent Kawasaki as a manufacturer delivering continuous growth in high-value-added domains in the power sports and general-purpose engine markets.

Demand for Kawasaki-brand products encourages growth in markets all over the world, and the Motorcycle & Engine Company is building a network of production bases and sales bases worldwide. Currently, we have 12 production and sales subsidiaries in 10 countries overseas, staffed by some 5,000 locally hired employees. About 100 people have been transferred from Japan to these local subsidiaries, and by acquiring an understanding of culture and customs in each country, they help pinpoint local needs and identify emerging business chances.

We also hold events, such as safe riding programs and seminars as well as test-ride opportunities, experience tours and races, under the sponsorship of local sales subsidiaries and dealerships. These activities exemplify the efforts we put into cultivating a young customer base that enjoys motorcycles not only from an on-the-road perspective but also from a leisure perspective as well as our enthusiasm to establish new traditions, such as motorsport, in emerging markets.

MULE PRO-FXT



"Appealing products based on "Fun to Ride + Ease of Riding" concept will drive the Kawasaki brand even higher."

Kenji Tomida
President, Motorcycle & Engine Company

Business Vision

Guided by the "Kawasaki, working as one" philosophy, grow and endure as a manufacturer with primary focus on high-value-added domains in the power sports and general-purpose engine markets.

Business and Management Directions in MTBP 2016

- Achieve high brand value that is clearly different from our rivals
- Improve product competitiveness by anticipating trends and build a development structure to expedite responses to customer requirements
- Realize highly efficient management structure through realignment according to functions of consolidated companies

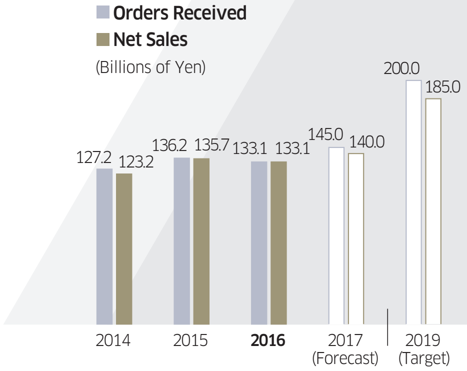
Operating Environment and MTBP 2016 Strategies/Measures

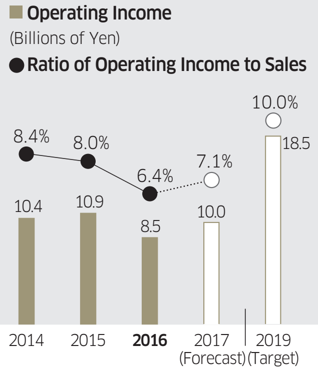
Kawasaki seeks premier brand status and has worked to enhance its brand presence by continuously developing highly competitive models, and has developed business on a global scale. Competition is intensifying in developed and emerging markets, but going forward, we will hone a sharper competitive edge by creating products with the high standard of perfection that the Kawasaki brand is known for and by reinforcing brand power. In addition, whether the market is developed or emerging, we will strive to efficiently and effectively convey the qualities that infuse the Kawasaki brand, based on a direction consistent throughout the world, and we will draw on brand power to boost profitability.

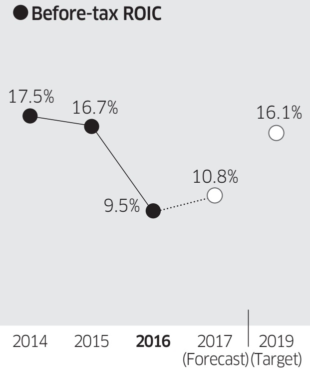
We will anticipate customer demands, streamline and integrate the functions and roles of R&D sites at home and abroad, and promote other approaches to establish a development structure that underpins the introduction of attractive new models ahead of our rivals. At the same time, we will set up a global management system incorporating business processes consistent worldwide, and we will use each production base to our best advantage to achieve higher management efficiency.

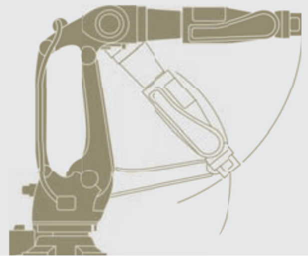
Ninja H2R

Precision Machinery









"We aim to be the world's top brand in motion control by integrating hydraulic technology and robot technology."

Kazuo Hida
President, Precision Machinery Company

Business Results for Fiscal 2016 and Outlook for Fiscal 2017

Consolidated orders received in fiscal 2016 totaled ¥133.1 billion, a ¥3.0 billion year-on-year decrease, largely owing to a fall in orders for hydraulic components. Consolidated net sales also declined, down ¥2.6 billion year on year, to ¥133.1 billion, again tracking back to hydraulic components. Operating income totaled ¥8.5 billion, down ¥2.3 billion, mainly because of lower hydraulic component sales and a deterioration in profitability.

For fiscal 2017, we expect consolidated orders received to be ¥145.0 billion, net sales to be ¥140.0 billion and operating income to be ¥10.0 billion.

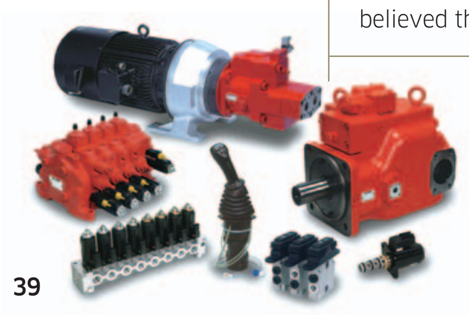
Global Topics

Integrate Precision Machinery Company Operations at KPM (Suzhou)

The Precision Machinery Company began investment in China by establishing Kawasaki Precision Machinery (Suzhou) Ltd., a production company in the hydraulic machinery business, in 2005, and Kawasaki Robotics (Tianjin) Co., Ltd., a sales and service company in the robotics business, in 2006. These subsidiaries were followed by KPM (Shanghai) and Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd., in the hydraulic machinery business, and Kawasaki Robotics (Kunshan) Co., Ltd. and Kawasaki (Chongqing) Robotics Engineering Co., Ltd., in the industrial robots business. In June 2015, KPM (Suzhou)—the hydraulic machinery production base—began producing robots.

For the industrial robots business, KPM (Suzhou) is our first overseas base for robot production, and our goal is to create "a factory where robots make robots," which has yet to be realized even at the Akashi Works—the Robot Division's headquarters—in Japan. We initially believed the project might take a long time to get up and running, but by effectively utilizing our hydraulic machinery production experience, human resources, equipment and the factory site, we were able to get the new operations going very quickly.

Currently, KPM (Suzhou) is the Precision Machinery model for integrated operations—the first facility anywhere in our segment, including Japan. It has become a symbol for the demonstration of synergistic effects as a business segment comprising the Hydraulic Machinery and the Robot Division, as described in MTBP 2016.



Hydraulic machinery and components

Business Vision

World's top brand in motion control, creating and providing total solutions for providers of medical and healthcare services and for various industries, including automobile, construction machinery and electronic equipment, with a focus on hydraulic components and robots boasting a level of performance and quality far surpassing that of rival companies.

Business and Management Directions in MTBP 2016

Hydraulic machinery	•Maintain high share of excavator market and strive to expand •Develop business beyond excavators to construction and agricultural machinery sectors •Explore business potential for industrial machinery and marine machinery
Robots	•Increase current market share •Develop and debut new technologies and new types of robots that coexist with humans in harmonized applications •Actively promote innovative development of robots for medical applications
Both	•Pursue efficiency by demonstrating synergistic effects as business segment comprising Hydraulic Machinery and Robot Division

Operating Environment and MTBP 2016 Strategies/Measures

In the hydraulic machinery business, we aim to maintain a high share of the excavator market; however, our goal is to capture a larger percentage. The keys to success are the technologies we have accumulated over 100 years in the hydraulic machinery and systems business, supported by the overall capabilities of the Kawasaki Group, and our ability to respond to the various requirements of our customers. In addition, we are keen to develop business beyond excavators to construction and agricultural machinery sectors, which we have not fully explored even though the markets have presented huge potential, and expand the range of our business activities.

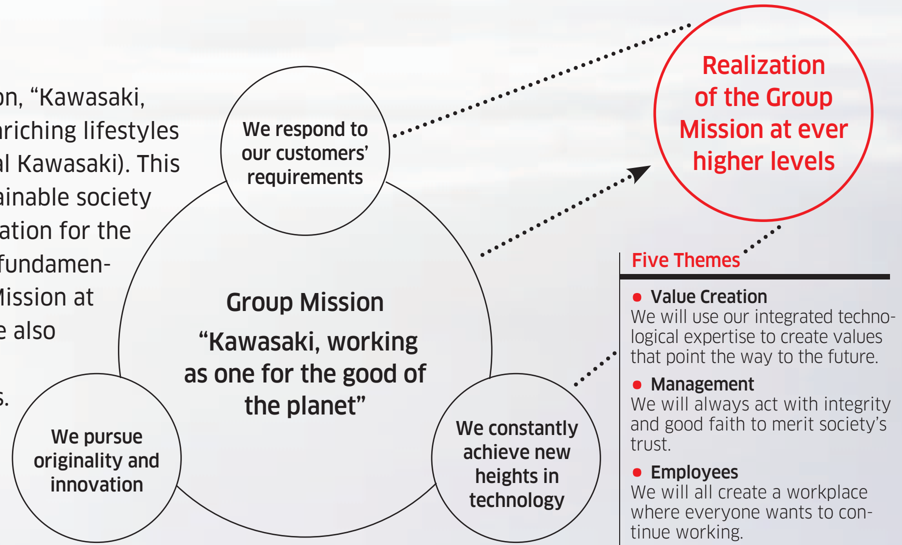
In the industrial robots business, we will increase our current market share in existing customer sectors, including the automotive sector, by boosting added value, and we will promote sales by enhancing the sales and service structure in emerging markets and offering not only robots but also peripheral equipment and applications as a solution provider. Also, the realization of robots coexisting with humans in harmonized applications will spur wider use of robots. Against this backdrop, we will initiate robot rental businesses using newly developed dual-armed SCARA (Selective Compliance Assembly Robot Arm) robots, accelerate efforts to turn medical robots into a profitable business, and spur development of tomorrow's technologies, such as friction spot joining (FSJ) technology for steel.

To date, we have advanced strategies for integrating hydraulic machinery and robot businesses, such as robot production at KPM (Suzhou); these are two businesses that share a technical feature—motion control. Going forward, we will strive to demonstrate synergies on other fronts, notably, new product development and new market creation.

Spot welding robot BX200L

CSR Activities of the Kawasaki Group

The Kawasaki Group states as its Group Mission, "Kawasaki, working as one for the good of the planet" (Enriching lifestyles and helping safeguard the environment: Global Kawasaki). This denotes contribution to the creation of a sustainable society and also articulates the most important foundation for the Group's CSR. Consequently, CSR activities are fundamentally cumulative efforts to realize the Group Mission at ever higher levels for the Kawasaki Group. We also identified five themes and issues within each theme that we emphasize in our CSR activities. Going forward, we will maintain these efforts, as we bear in mind the expectations and demands of stakeholders, and we will reinforce our foundation of value creation.



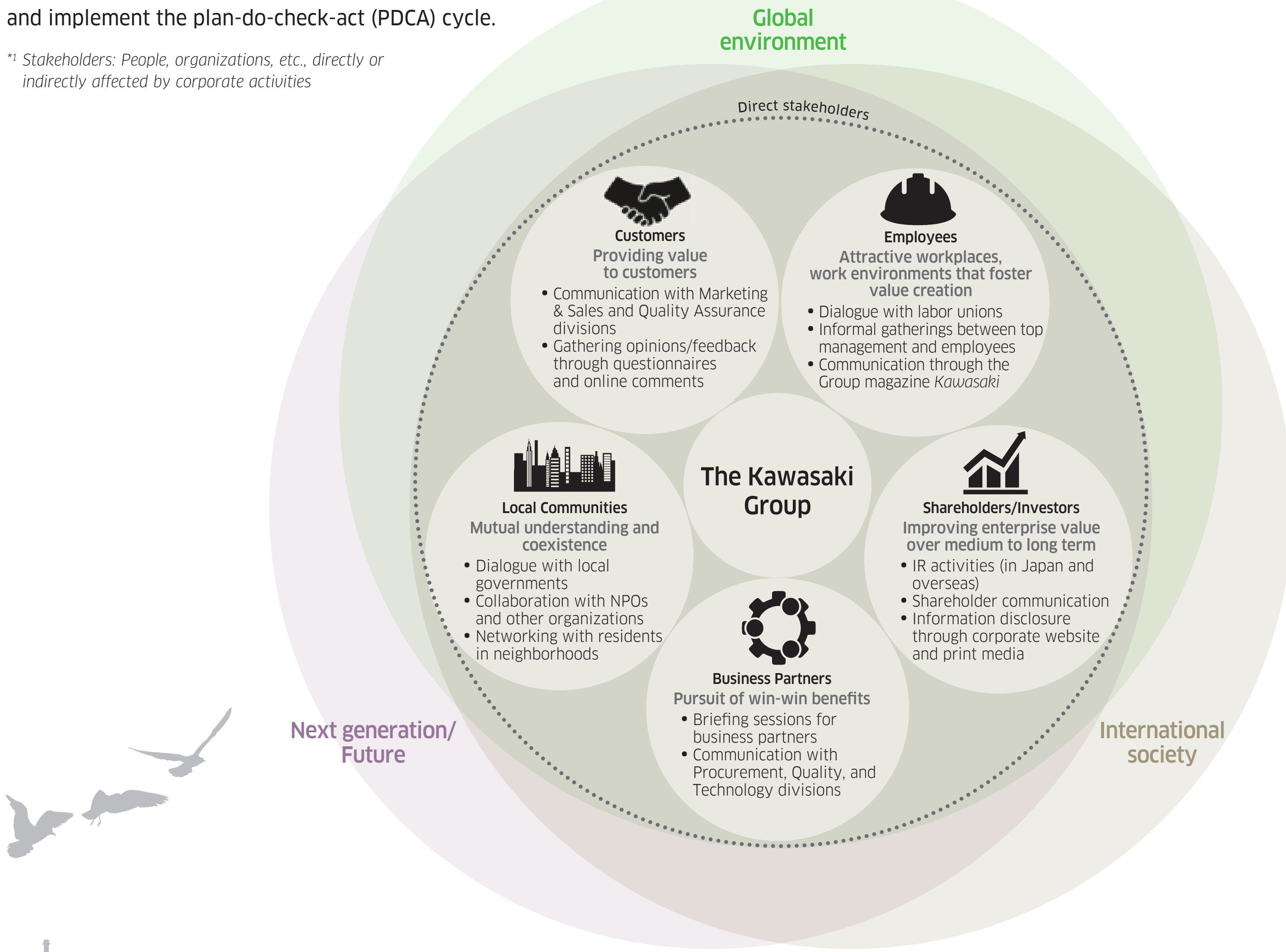
Five Themes

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

......by realizing growth that benefits all

The Kawasaki Group actively recognizes stakeholder*1 expectations, creates social value by contributing to solutions that address concerns and satisfy anticipated responses through business activities, and strives to raise enterprise value through these efforts. In addition, we communicate with each of our stakeholders, conveying our "Action goals" to them, formulate action plans, and implement the plan-do-check-act (PDCA) cycle.

*1 Stakeholders: People, organizations, etc., directly or indirectly affected by corporate activities



Overview of Medium-term Business Plan 2013 (MTBP 2013) and CSR Goals in Medium-term Business Plan 2016 (MTBP 2016)

We collect and collate comments from customers, results of surveys by nonprofits and other organizations, and core issues concerning ISO 26000, and extract from this information specific CSR issues within each theme that we need to address from a Group-wide perspective, as we work to formulate and achieve our "Action goals."

Major Achievements during MTBP 2013

- Enhancement and strengthening of the governance structure through introduction of outside directors and other measures
- Establishment and global deployment of Bribery Prevention Regulations
- Expansion of CSR procurement initiatives to all Group companies
- Establishment of Policy Regarding Procurement of Conflict Minerals and its application to all Group companies
- Signing by all Group companies of the confirmation and declaration of abolition of child labor and forced labor, and strengthening human rights initiatives
- Expanding support for work-life balance of employees
- Strengthening of safety and health measures

Major Activities to be Implemented during MTBP 2016

- Ongoing review of issues to be addressed
- Promoting integration of business management and CSR
- Further expansion of CSR activities at overseas Group companies
- CSR surveys on the supply chain
- Discussions on materiality
- Improving CSR knowledge of employees
- Further enhancement of stakeholder engagement

Please refer to the following website for more information on the self-assessment of activities under the Medium-term Business Plan 2013 (fiscal 2014 to fiscal 2016) and the goals and approaches of the Medium-term Business Plan 2016 (fiscal 2017 to fiscal 2019). http://global.kawasaki.com/en/corp/sustainability/overview/outline.html

Dialogue with Experts*2

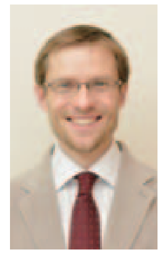
A dialogue was held between members of our Corporate CSR Committee*3 and Mr. Peter D. Pedersen as a representative of the voices of society. We had the following talks on the theme "Approaches for CSR management that contribute to strengthening competitiveness." (Held on January 14, 2016)

1. Does Kawasaki's current CSR management directly lead to the creation of enterprise value?
2. Does the CSR management stimulate innovation?
3. Does it have a positive link with the motivation of human resources?

Active discussions were held based on the idea that contributions to improvements in the motivation of employees are only possible through the evolution of CSR management that responds to the above three elements, going beyond traditional CSR that focuses on compliance, risk management, and social contributions.

The Group's participants presented the following opinions.

- The Japanese-style management approach of taking care of employees while serving society is nearest to our CSR approach.
- It is important to develop benchmarks to the level of contribution made in response to issues through our activities.
- It is necessary to faithfully communicate with our stakeholders to convey our social contribution initiatives based on the strength of technology.



Profile
Peter D. Pedersen
Born in Denmark in 1967
Has lived in Japan for 25 years
Graduated from the Department of Anthropology, University of Copenhagen
Co-founder of E-Square Inc.
Executive Director of TACL, The Academy for Corporate Leadership

*2 Dialogue: A discussion to achieve deeper levels of communication with stakeholders.
*3 Corporate CSR Committee: An organization composed of all directors, full-time corporate auditors, and presidents of internal companies (business segments). It deliberates and decides on major CSR policies and important matters of the Kawasaki Group.

Corporate Governance System

Basic Stance on Corporate Governance

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

Overview of the Corporate Governance System

Kawasaki opted for the statutory auditor system with a Board of Auditors and appoints an independent auditor. In addition to the Board of Directors and the Board of Auditors, the Company benefits from the Management Committee and the Executive Officers Committee that have been established as advisory bodies to the president, in order to build a structure that contributes to smooth business execution. Furthermore, the Nomination Advisory Committee and Compensation Advisory Committee have been established as advisory bodies to the Board of Directors.

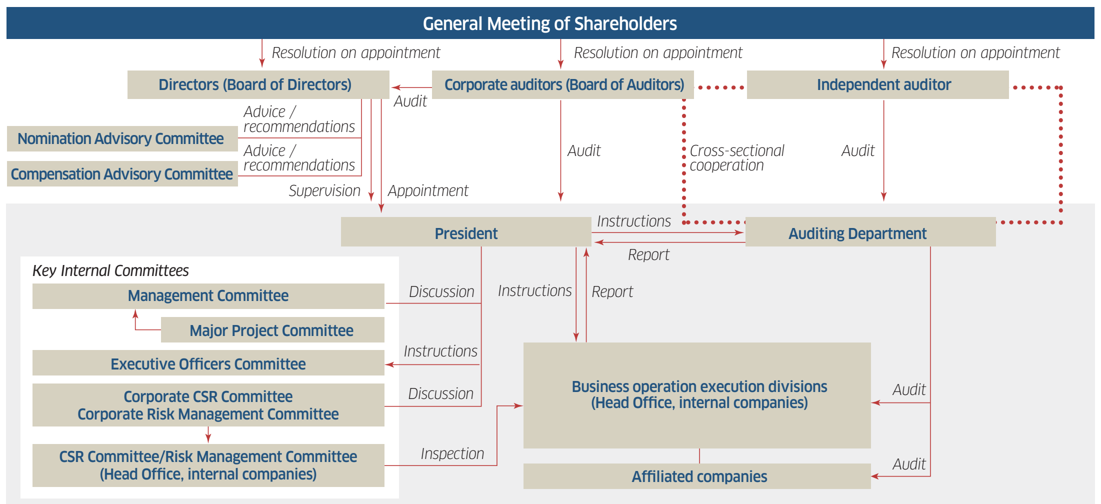
Board of Directors

The Board of Directors comprises 12 directors (authorized number: 18), with the chairman serving as the presiding officer. Seeking to strengthen the oversight function of the Board of Directors with regard to overall management, the Company appointed two outside directors (independent officers, as required by the Tokyo Stock Exchange) who are independent of any role in the execution of business activities. Furthermore, the Nomination Advisory Committee and Compensation Advisory Committee mainly composed of outside directors have been established in an effort to strengthen the transparency and objectivity of the Board of Directors.

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

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

Kawasaki Group's Governance Structure (As of June 24, 2016)



In fiscal 2016, the Board of Directors' Meeting was held 16 times (including extraordinary meetings), and the attendance rate was 96% or above for internal and outside directors and corporate auditors.

Board of Auditors

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

In fiscal 2016, the Board of Auditors' Meeting was held 17 times, and the attendance rate was 100% for internal and outside corporate auditors.

Reasons for Appointment of Outside Officers

The reasons for the appointment of outside officers (two outside directors and two outside corporate auditors) are as follows:

●*Outside Directors*

Yoshihiko Morita The Company has judged that Mr. Morita would be able to express useful opinions and give advice in determining important matters of the Company's management from a position independent of any role in the execution of business activities, in light of his substantial overseas experience and knowledge as a specialist acquired at the Japan Bank for International Cooperation and other institutions. The Company believes he would be able to fully perform his roles as an Outside Director in supervising the execution of duties of the Company.

Michio Yoneda (newly appointed) Mr. Yoneda has abundant management experience and a high level of knowledge regarding corporate governance, having served as President & CEO (Member of the Board) of Osaka Securities Exchange Co., Ltd., Director & Representative Executive Officer and Group COO of Japan Exchange Group, Inc., and other important positions. In consideration of these points, the Company has judged that he would be able to fully perform his roles as an Outside Director in supervising the execution of duties of the Company and enhancing enterprise value.

●*Outside Corporate Auditors*

Nobuyuki Fujikake The Company has judged that Mr. Fujikake would be able to perform duties as an Outside Corporate Auditor appropriately in light of his substantial experience and knowledge as a lawyer.

Takashi Torizumi The Company has judged that Mr. Torizumi would be able to perform duties as an Outside Corporate Auditor appropriately in light of his substantial experience as a corporate manager.

Compensation to Corporate Officers

The compensation system for Kawasaki directors and corporate auditors—which is designed to promote sustained improvement in corporate performance and enterprise value and to secure outstanding human resources—ensures a level of compensation in line with the duties of the individual officer. Compensation for directors, excluding outside directors, is linked to corporate performance, while compensation for outside directors and corporate auditors is set at a fixed level from the perspective of professional independence.

The amount of compensation for each director is determined by the president as delegated by the Board of Directors after consultation with the Compensation Advisory Committee, while the amount of compensation for each corporate auditor is determined by the Board of Auditors, within a fixed compensation range approved by shareholders at the General Meeting of Shareholders.

Amount of Corporate Officers' Compensation in Fiscal 2016

Category		Fiscal 2016
Directors	16 people	¥663 million
Corporate auditors	5 people	¥89 million
Total	21 people *(including 5 outside officers)*	¥752 million *(including ¥39 million for outside officers)*

Notes:
1. The number of officers includes four directors and one corporate auditor who retired at the conclusion of the General Meeting of Shareholders held in June 2015.
2. The maximum amount of compensation for directors is ¥1,200 million per year (as resolved at the 189th Ordinary General Meeting of Shareholders held on June 27, 2012). The maximum amount of compensation for corporate auditors is ¥8 million per month (as resolved at the 170th Ordinary General Meeting of Shareholders held on June 29, 1993).

Topics

Overview of the Results of Evaluation on the Effectiveness of the Board of Directors

The Board of Directors works to ensure that directors and corporate auditors including independent outside officers can hold free and open discussions based on their own knowledge and experience in order to make appropriate management decisions.

An assessment of the current state using a questionnaire given to all directors and corporate auditors was conducted based on the advice of external experts from March to May in 2016, with an aim to improve the function of the Board of Directors. Analysis of the results was reported to the Board of Directors for discussion.

As a result, it was confirmed that the effectiveness of the Board of Directors had been secured.

In addition, several opinions were submitted related to the operation of the Board of Directors by directors and corporate auditors, such as the criteria for submitting matters to the Board of Directors for approval. We shared recognition of the issues. Going forward, we will continue to hold discussions from various points of view and work to further improve the effectiveness of the Board of Directors.

Compliance

Basic Stance

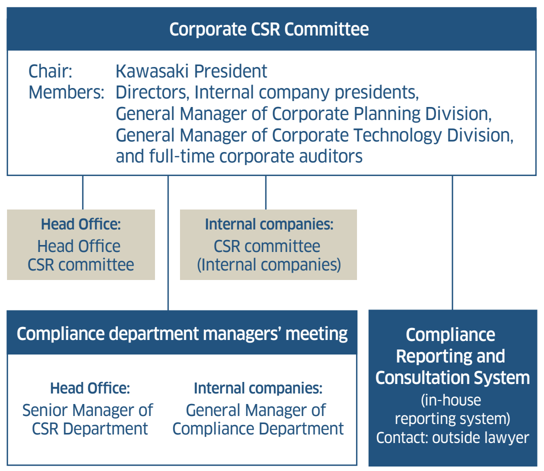
In the Kawasaki Group Management Principles, which target the entire Kawasaki Group, we set forth our corporate virtue of "recognizing social responsibility and coexisting harmoniously with the environment, society as a whole, local communities and individuals," and in the Kawasaki Group Code of Conduct,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

Furthermore, we have established the Kawasaki Code of Corporate Ethics as a set of company regulations and the Kawasaki Global Business Ethics Guidelines as common global guidelines for the entire Group, to stipulate the basic philosophy of corporate ethics with which executives and employees should stay in compliance.

Compliance Promotion Structure

The Corporate CSR Committee, which comprises all executives as members and is chaired by the Kawasaki president, meets at least twice a year. Its goals are to discuss and determine approaches that enable the Kawasaki Group to fulfill its corporate social responsibilities and to monitor the status of compliance efforts. To ensure that the objectives of the Corporate CSR Committee extend to all corporate structures, business segments at the head office and internal companies hold CSR committee meetings in their effort to promote compliance throughout the Group.

Compliance Promotion Structure



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

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

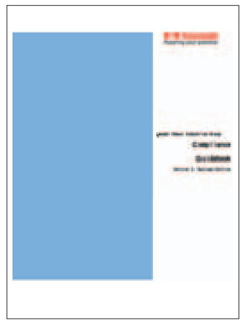
Number of Reports or Consultations (in fiscal 2016)

Nature of report or consultation	Number of cases
Power harassment	9
Personnel treatment	8
Sexual harassment	1
Others	5
Total	23

Distribution of the Compliance Guidebook

The Compliance Guidebook, which presents in its foreword the president's compliance declaration to "Ensure full compliance under any and all conditions, in any and all locations," is distributed to all executives, employees, and temporary staff at all Group companies in Japan.

The Compliance Guidebook outlines the Group's compliance system and activities as well as the Compliance Reporting and Consultation System. The Guidebook uses illustrations to present easy-to-understand examples that should be noted regarding compliance-related matters under the sections, "Matters concerning Securing the Trust of Customers and Business Partners," "Matters to Be Observed as a Corporate Citizen," "Matters concerning Data Protection," "Matters concerning Handling Financial Transactions," "Matters concerning the Workplace," and "Responsibilities of Executives."



Compliance Activities Throughout the Group

The Group selects compliance-related themes each fiscal year and conducts compliance-related activities throughout the Group under a shared concept.

In fiscal 2016, we implemented activities to reconfirm the highly important compliance items at each workplace using the Compliance Guidebook. We strive to improve the awareness of each employee regarding compliance, and conduct activities that contribute to an increased awareness of compliance at all workplaces.

Efforts to Prevent Corruption

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

In addition, we have implemented the establishment of regulations with similar content at domestic and overseas affiliated companies.

Risk Management

Basic Stance

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

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

Responding to Major Risks

To undertake risk management that is organized on a Group-wide basis, divisions responsible for different areas of operations work to strengthen risk management initiatives that have already been implemented, and also identify major risks that have the potential to exert a significant impact on operations (Group-level risk) each year. They monitor the status of responses to these risks, specify two to three risk items that require Group-wide response measures (risks requiring Group-wide action), study and implement appropriate measures, and monitor the results.

With regard to individual risks associated with business execution, in accordance with Board of Directors Regulations, Management Committee Regulations, and Approval Regulations, the relevant divisions must analyze such risks in advance and consider appropriate responses. The Board of Directors or the Management Committee then pursues discussion and resolution, accordingly.

Crisis Management

To prepare for risk situations such as a large-scale disaster, we rely on the Crisis Management Organization, a horizontally integrated Group structure for crisis management. In the event of an actual crisis, we have a structure in place to establish command centers immediately, in order to protect lives and preserve assets, minimize damage and loss, and expedite the resumption of business activities.

On-site command center drills

Developing and Utilizing Human Resources

Basic Stance

The Kawasaki Group considers its employees to be the most valuable resource to fulfill the Group Mission and achieve its business targets. In an effort to improve enterprise value in a sustainable manner by implementing the mission statement, it is very important for each and every one of the approximately 35,000 human resources who are active around the world, regardless of nationality, gender, age, religion and physical abilities, to understand and share the Group Mission and Kawasaki Value, and to diligently attend to daily business based on the Kawasaki Group Code of Conduct. In particular, for us to "constantly achieve new heights in technology," as set forth in the Kawasaki Value, the development of human resources from a long-term perspective is essential.

Accordingly, the Group's stance is that "the Kawasaki Group's corporate culture is built on integrity, vitality, organizational strength and mutual respect for people through all levels of the Group. We nurture a global team for a global era, as set forth in the Kawasaki Group Management Principles. With an aim of commitment to the principles of "human respect" and "health first" while achieving this stance, we focus on establishing workplaces that allow our human resources to work securely, safely, and enthusiastically with a sense of pride, and on developing human resources that contribute to the achievement of our business strategy and the future of the global environment.

Priority Issues for Medium-term Business Plan 2016 (MTBP 2016)

In order to support the further worldwide expansion of our business and advancement into a solution-style business, the promotion of global human resources development and the growth of personnel with advanced knowledge and broad experience in areas such as project management is essential.

Under MTBP 2016, we will work to establish the foundations for developing these types of human resources, while creating a working environment that can make the most of our diverse human resources.

Promoting the Development of Global Human Resources

Because the Group is involved in a wide variety of business fields, the approach to global expansion and its progress differ for each business field. For this reason, we establish policies for the development of human resources required for global expansion, while assessing the current conditions at head office and internal companies. During MTBP 2016, we will continue to promote training aimed at enhancing our global human resources through education on the global perspectives and skills required for overseas business and understanding diversifying values, as well as programs for our young human resources aimed at improving language skills through work experiences at public organizations or companies at overseas business locations and in emerging countries for several months. Furthermore, we will also work toward the development and employment of local staff, in order to ensure the smooth recruitment and retention of local staff overseas, through the implementation of new measures such as educational programs to provide a deeper understanding of the Group, including the Group Mission, as well as an enhanced sense of belonging.

Local meeting

Developing and Utilizing Human Resources with Advanced Knowledge and Experience

Developing and Utilizing Human Resources Across Organizational Boundaries

In order to develop and utilize human resources, we have implemented personnel rotation within each internal company, in principle, to match the right person to the right job while taking into account our business needs. However, we believe that it is necessary to pursue the utilization of human resources even further, beyond the organizational boundaries that span our internal companies, to allow us to respond to issues that are becoming more complex than ever before. For that reason, in fiscal 2017, we will establish the Corporate Personnel Committee, to allow the management team to discuss priority issues related to human resources, such as (1) succession planning, (2) supporting important measures, and (3) supporting new businesses and products, in order to promote the most optimal form of human resource development and utilization for the Group as a whole.

Responding to Project-Based Business

Along with the expansion in solution-style business in recent years, there has been an increase in project-based business, such as the contracting of entire projects, including systems and peripheral equipment, in addition to sales of single products involving transportation equipment or various types of industrial machinery. In order to support such advanced projects, which are complex and possess inherent risks, the development of human resources who are capable of assessing progress, minimizing risks, and competently carrying out projects while also maintaining a view of the entire picture is an urgent task.

For this reason, we will work to further promote information sharing by holding project management seminars to broadly pass on an understanding of the factors that underlie project success and failure, as experienced by each internal company, and to establish a network between project staff that extends beyond the framework of our internal companies. Furthermore, as practical experience is important in learning about project management methods, we will work to improve our ability to support project-based business as an entire Group, by dispatching personnel to other internal companies that have abundant project experience, thereby providing employees with opportunities to implement projects.

Promotion of Diversity and Work-Life Balance

Diversity is an important management issue for the Company from the perspectives of making the best use of the capabilities of its diverse human resources, fairness, and risk avoidance. We are developing a working environment that makes it possible to mutually recognize and take advantage not only of nationalities and genders, but also differences in sexual orientation, involvement with family care, values, lifestyles, and other factors. Efforts to this end include the active recruiting of women and the formation of women's networks and the establishment of a special subsidiary (Kawaju Heartfelt Service Co., Ltd.) to promote the employment of people with disabilities.

Diversity symbol

Going forward, we will continue initiatives such as increasing the number of women in management positions and promoting work-life balance by reviewing working patterns.

Topics

Establishment of Action Plan Based on the Act of Promotion of Women's Participation and Advancement in the Workplace

We have established the following action plan targets for implementation.

1. Increase the number of women in management positions in fiscal 2021 by three-fold, compared with the level in fiscal 2015 (from 17 in fiscal 2015 to 51 in fiscal 2021)
2. Achieve and maintain a new female graduate hiring ratio of 30% to 35% for administrative career-track hires and 5% to 10% for technical career-track hires
3. Promote reviews of working patterns and improve productivity per hour for all employees

4U (network for female employees)

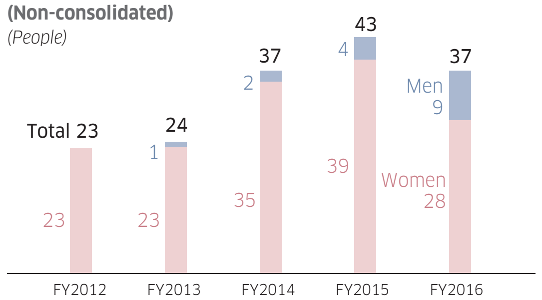
Family care seminar

Nursery facilities at the workplace on supplementary work days

Activities of Kawaju Heartfelt Service

Number of Employees Utilizing the Childcare Leave System (Non-consolidated)

(People)



Collaboration with Business Partners/Human Rights

Collaboration with Business Partners

Basic Policies for Material Procurement

The Kawasaki Group conducts procurement activities based on the following Basic Policies for Material Procurement.

Fair and Impartial Procurement
We will provide broad and impartial opportunities for our business partners, and will make selections with integrity and good faith after conducting comprehensive and fair evaluations of quality, price, delivery schedule, technological development capabilities, and other such factors.

Relationships with Business Partners
We seek to realize optimal quality, cost, and delivery schedule together with stable procurement by taking a long-term perspective to build relationships of trust with business partners with the aim of mutual enhancement of competitiveness and prosperity.

Compliance
We will observe related statutes and regulations as well as social norms. We will place information gained through procurement under appropriate controls, and will take thoroughgoing measures to protect confidential information and prevent leaks.

Consideration for Human Rights, Labor and Occupational Safety and Health
We will advance procurement activities that have consideration for human rights, the work environment and occupational safety and health.

Harmony with the Global Environment Through Green Procurement
We will advance procurement that has consideration for the global environment with respect to the materials used in products.

In addition, the Basic Policies for Material Procurement as well as the Code of Conduct for Dealing with Business Partners and the Policy Regarding Procurement of Conflict Minerals, which are in line with the objectives of the Basic Policies, are disclosed on our website. The site informs business partners of our basic stance toward material procurement.

Basic Stance toward CSR Procurement

While conducting the Group's business activities, it is essential to conduct procurement activities in line with our stance toward CSR that includes consideration for human rights, labor issues, occupational safety and health, and the global environment, in addition to compliance.

Accordingly, we have to gain the cooperation of our business partners, in addition to the Group, and actively promote CSR activities throughout the supply chain.

CSR Procurement Initiatives

We have released the CSR Procurement Guidelines on the website, where we request our business partners to strengthen their CSR efforts.

In fiscal 2017, we will conduct a questionnaire-based survey with domestic business partners to assess the status of compliance with these guidelines. If violations are discovered, we will request that the applicable business partners make improvements and provide guidance and support if necessary.

In addition, we pursue CSR procurement on a global and Group-wide basis by disclosing its policies that conform to each business through the websites of the Group's domestic and overseas companies.

Human Rights Initiatives

Respect for Human Rights and Policy on Prohibition of Discrimination

We have set forth "Respect for individuality and human rights/Prohibition of discrimination" as a basic philosophy in the Kawasaki Code of Corporate Ethics, which states, "To create and maintain a comfortable workplace, we respect the individuality and human rights of all people. We do not engage in discrimination, sexual harassment or bullying." The Kawasaki Global Business Ethics Guidelines were formulated in September 2011 as a policy related to corporate ethics and compliance that applies to the entire Group. The Global Business Ethics Guidelines call for respect for human rights and commit us to oppose discrimination and harassment in the workplace as well as child labor below the minimum working age and any form of forced labor.

Addressing Human Rights and Labor Issues

With respect to the global human rights and labor issues of child labor and forced labor, we have confirmed that no company under the Group umbrella is involved in such practices and declared that none will ever employ such practices. This style of confirmation and declaration, acknowledged and supported by the Global Compact Network Japan (GCNJ)* secretariat, was prepared in line with the "Global Compact Labor Principles and Business Guidelines" and was signed by the presidents of all Group companies, including those overseas. All Group companies, including those overseas, also prepared CSR Procurement Guidelines, which cover respect for human rights, and call on business partners to work as a team to uphold these guidelines.

We will pursue further initiatives for human rights and labor issues during MTBP 2016.

*GCNJ: A network in Japan that aims for sustainable development as part of the United Nations

Social Contribution


1.


2.


3.

The Kawasaki Group implements social contribution activities in various fields beyond its business operations, focusing on activities designed to meet the expectations of society while drawing on the Group's strengths, in order to make contributions mainly for future society, international society, and the global environment in line with its Group Mission, "Kawasaki, working as one for the good of the planet."

Please refer to the following website for details.
Theme 5 Social Contribution
http://global.kawasaki.com/en/corp/sustainability/contribution/

Science Education × Next Generation

1. Handicraft Workshops
We have held handicraft workshops using our products as materials at an elementary school in Minamisanriku, Miyagi Prefecture, since fiscal 2013.

Environment × Local Communities

2. Participation in Team Tyura Sango
Many of our employees have participated as volunteers in a coral planting program in Onna-son, Okinawa Prefecture, since fiscal 2016.

3. Working to Realize a Society that Coexists with Nature Through Forest Restoration Efforts
We conduct forest restoration activities in two locations in Kochi and Hyogo prefectures aimed at fostering the environmental awareness of employees and interacting with local communities.

Charity × International Society

Support in Response to Earthquake Damage in Nepal
In fiscal 2016, we promptly provided relief to assist early reconstruction in the affected areas.

Topics

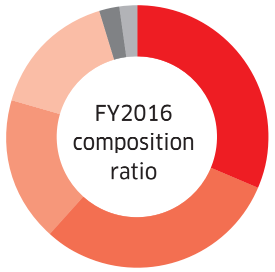
Winner of the "2015 Education Support Project Grand Prix"
Our handicraft workshop program entitled "Build Your Own Motorcycle!" won the Grand Prix Prize (along with the Gold Prize) at the "2015 Education Support Project Grand Prix" organized by Leave a Nest Co., Ltd. in December 2015.

Please refer to the following website for details.
http://www.khi.co.jp/csr/news/detail/20160219_1.html

Expenditure on Social Contribution

(Millions of yen)

		FY2014	FY2015	FY2016	Composition ratio
Category	Industrial/economic development	163	231	243	31.4%
	Local communities	239	236	235	30.4%
	Education	131	148	138	17.8%
	Culture/sports	69	73	121	15.7%
	Welfare/charity (including disaster relief)	16	34	20	2.6%
	Others (including environment/ safety and accident prevention)	13	37	16	2.1%
	Total	631	759	773	
Recurring profit for the fiscal year		60,505	84,288	93,229	
Expenditure as a proportion of recurring profit		1.04%	0.90%	0.83%	



Note: Figures include donations, sponsorship contributions, goods and material supply, the cost of operations commissioned from external organizations, and the personnel cost of staff posted to external organizations (the portion covered by Kawasaki), etc.
Figures exclude the personnel cost related to Kawasaki employees and costs related to the use of corporate facilities.

Ninth Environment Management Activities Plan (FY2017–FY2019)

The Kawasaki Group has formulated the Environmental Vision 2020, based on the Group Mission, "Kawasaki, working as one for the good of the planet," pursuing coordination between business management and environmental management in order to contribute to a sustainable society. An Environment Management Activities Plan aimed at realizing this vision is formulated every three years.

Under the Eighth Environment Management Activities Plan (FY2014–FY2016) (hereinafter, the "Eighth Plan"), we conducted activities focused on the three pillars of cutting costs, reducing environmental risks, and enhancing our environmental brand. The achievements of the activities in fiscal 2016 are described below. Under the Ninth Plan starting from fiscal 2017, we will put in place new important aspects to address, which include proactive initiatives aimed at meeting national targets set at the 21st Session of the Conference of the Parties to the United Nations (UN) Framework Convention on Climate Change (COP21), response to energy liberalization, and ensuring appropriate disclosure and transparency for environmental information. We will work to resolve issues by putting forth concrete goals.

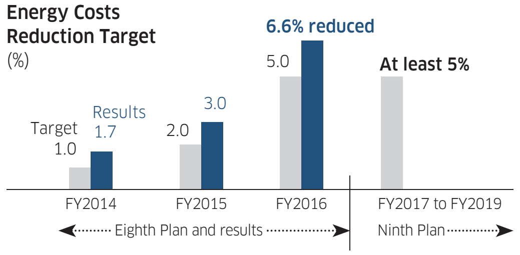
Kawasaki Group Mission Statement	Kawasaki, working as one for the good of the planet			
Environmental Vision 2020	Promoting coordination between ***business management*** and ***environmental management***			
	Realization of a low-carbon society	Realization of a recycling-oriented society	Realization of a society coexisting with nature	Enhancement of environmental management systems
Ninth Plan	*Further promotion of* **resource and energy reduction, environmental risk reduction, and heightened awareness as an environmentally friendly brand**			
Issues	• Reduce CO_2 and energy • Promote products that contribute to CO_2 reduction	• Promote PCB treatment • Improve recycling rate	• Reduce chemical substances • Conserve water	• Reduce environmental risks • Heighten awareness as an environmentally friendly brand
Targets	• Reduce annual resource and energy costs by at least 5% • Reduce CO_2 emissions by at least 3% per unit of sales year on year	• Maintain zero emissions • Consistently promote PCB treatment with the aim of full abolition by 2020	• Reduce water consumption by at least 1% per unit of sales year on year	• Complete transfer to ISO 14001:2015 • Promote registration of Kawasaki Green Products

Achievements of Activities in Fiscal 2016 and toward the Ninth Plan

Resource and Energy Reduction—*Energy-saving Promotion Activities*

We use the energy visualization system, which has been introduced at all business sites, to promote energy-saving activities.

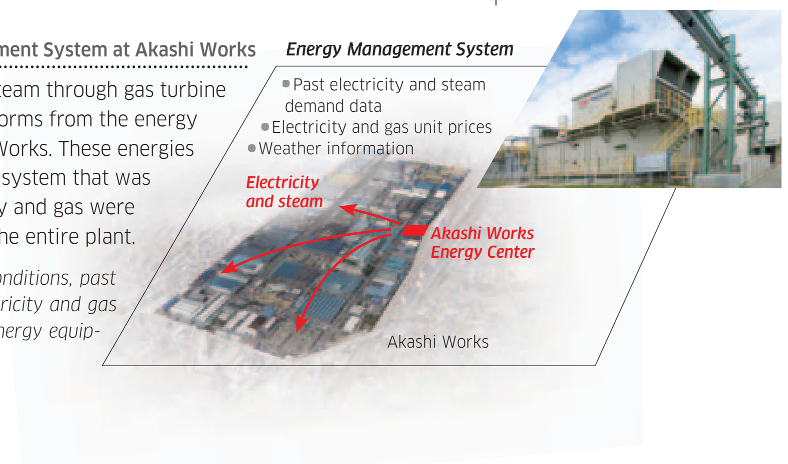
Energy costs were reduced by 6.6% (approximately ¥700 million) in fiscal 2016. We continue to work to reduce annual resource and energy costs by at least 5% in fiscal 2017 onward.



Example of Energy Saving:
Development and Installation of Energy Management System at Akashi Works

In addition to external power, electricity and steam through gas turbine power generation systems, boilers, and other forms from the energy center are supplied to the plant at the Akashi Works. These energies are optimized through an energy management system that was developed in-house. Energy costs for electricity and gas were reduced in fiscal 2016 by 3% for the year for the entire plant.

Energy Management System: *Analyzes weather conditions, past electricity and steam demand data as well as electricity and gas unit prices, thereby optimizing the operations of energy equipment such as gas turbines and boilers.*



Environmental Risk Reduction—*Enhancement of Environmental Management System*

The environmental load of consolidated subsidiaries in Japan and overseas during fiscal 2016 accounted for 35% of the entire Group's CO_2 emissions, 38% of waste emissions, and 19% of water consumption, and management for the entire Group is thus required. The Group has production bases in Europe, North America, South America, China, and Southeast Asia, in addition to Japan, and conducts operations according to the rules in each country and region. Even in the face of these differing situations, we set and follow up on targets for our environmental load, promote communication throughout the entire Group, and work to reduce environmental risks.

Communication with Overseas Sites

In order to share information related to environmental management, we visited three business locations in the United States, including Kawasaki Motors Manufacturing Corp., U.S.A., our largest overseas production site, in fiscal 2016. We plan to visit more production sites in Japan and overseas from fiscal 2017 onward to exchange information and set targets in the Group, thereby promoting environmental management including environmental risk reduction.

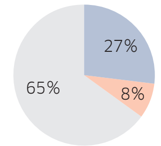
Kawasaki Motors Manufacturing Corp., U.S.A. Lincoln Plant

Example of Energy and Resource Saving Initiatives at Production Sites:
Kawasaki Motors Manufacturing Corp., U.S.A.
Lincoln Plant in Nebraska and Maryville Plant in Missouri, United States

Fixtures Enabling Container Storage
A dedicated metal fixture is used on the end underframe of a railway car to enable standard container storage. As a result, the transport efficiency between Japan and the U.S. has been improved, and the reuse of fixtures has been realized.

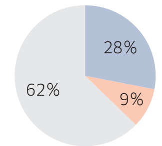
Adoption of Battery Powered Tools
By switching from less energy efficient compressed air driven tools to more efficient battery powered tools, we reduce the energy required to assemble our products. Battery powered tools are also quieter, reducing noise in the work environment.

GHG* Emissions
500,000t-CO_2

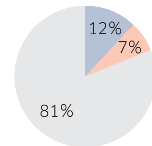


**Greenhouse gas*

Waste Emissions
82,000t



Water Consumption
7,258,000m³



- Overseas consolidated subsidiaries
- Domestic consolidated subsidiaries
- Kawasaki Heavy Industries (non-consolidated)

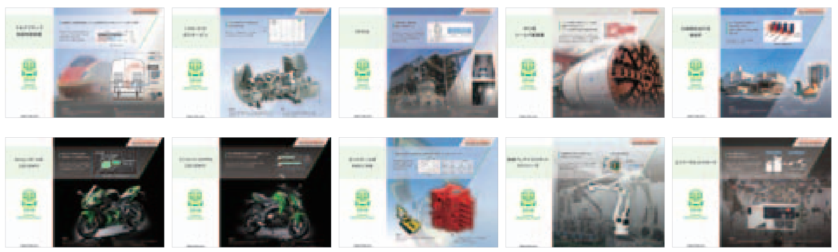
Heightened Awareness as an Environmentally Friendly Brand—*Announcement of the Third Set of Kawasaki-brand Green Products (2016)*

When considering the life cycle of the Group's products, approximately 88% of CO_2 emissions of the products we sell are released during their use (calculated based on fiscal 2016 data). We will contribute to mitigating climate change by introducing environmentally conscious products by promoting their development and sales.

Kawasaki-brand Green Products Promotion Activities

We implement a program to register products, which meet the standards independently set by the Company regarding the environmental performance of products and environmental management activities in the production process, as Kawasaki-brand Green Products, with an aim to contribute to the global environment. We have registered and announced 33 products under this program.

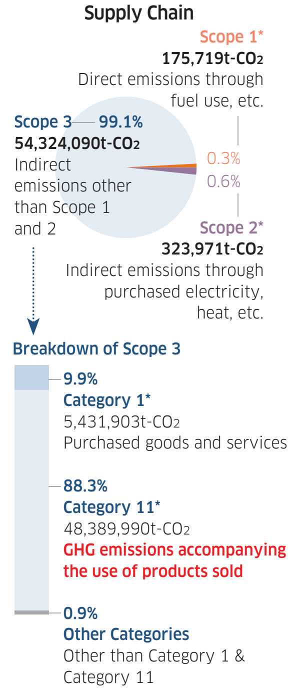
The Third Set of Kawasaki-brand Green Products (2016)
The following 11 products have been registered.



duAro Dual-Armed SCARA Robot
The duAro is a robot based on a new concept of using robots to simply conduct human labor. Its body has high mechanical efficiency, and it can contribute to energy saving in a variety of applications. In addition, its safety features that enable coexistent operations with people and the flexibility of its dual arms contribute to resource saving as it helps to reuse, simplify, and reduce peripheral parts such as safety fences, tools, and work fixtures.

Please refer to Kawasaki Environmental Report (October 2016 issue) available on our website for detailed information on the Group's environmental activities.

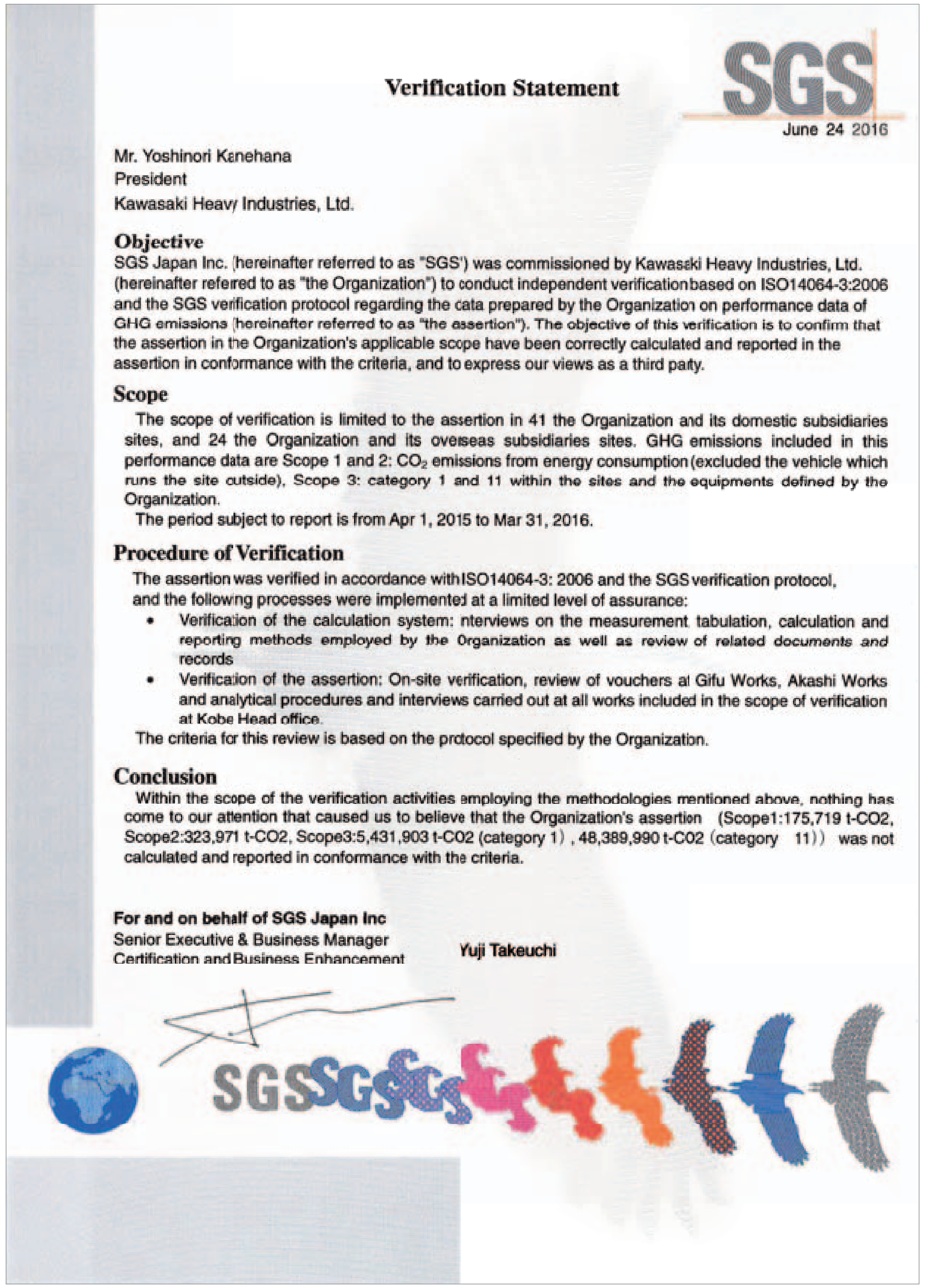
GHG Emissions in the Group's Supply Chain



**Third-party verification has been received on greenhouse gas emissions in fiscal 2016. (Please refer to the following page.)*

Third-Party Verification on Greenhouse Gas Emissions

For the purpose of ensuring credibility and transparency, the Kawasaki Group received a third-party verification from SGS Japan Inc. on greenhouse gas emissions of the Group, including consolidated subsidiaries in Japan and overseas, in fiscal 2016.



Verification Statement

SGS

June 24 2016

Mr. Yoshinori Kanehana
President
Kawasaki Heavy Industries, Ltd.

Objective

SGS Japan Inc. (hereinafter referred to as "SGS") was commissioned by Kawasaki Heavy Industries, Ltd. (hereinafter refered to as "the Organization") to conduct independent verification based on ISO14064-3:2006 and the SGS verification protocol regarding the data prepared by the Organization on performance data of GHG emissions (hereinafter referred to as "the assertion"). The objective of this verification is to confirm that the assertion in the Organization's applicable scope have been correctly calculated and reported in the assertion in conformance with the criteria, and to express our views as a third party.

Scope

The scope of verification is limited to the assertion in 41 the Organization and its domestic subsidiaries sites, and 24 the Organization and its overseas subsidiaries sites. GHG emissions included in this performance data are Scope 1 and 2: CO_2 emissions from energy consumption (excluded the vehicle which runs the site outside), Scope 3: category 1 and 11 within the sites and the equipments defined by the Organization.

The period subject to report is from Apr 1, 2015 to Mar 31, 2016.

Procedure of Verification

The assertion was verified in accordance with ISO14064-3: 2006 and the SGS verification protocol, and the following processes were implemented at a limited level of assurance:

- Verification of the calculation system: nterviews on the measurement tabulation, calculation and reporting methods employed by the Organization as well as review of related documents and records
- Verification of the assertion: On-site verification, review of vouchers at Gifu Works, Akashi Works and analytical procedures and interviews carried out at all works included in the scope of verification at Kobe Head office.

The criteria for this review is based on the protocol specified by the Organization.

Conclusion

Within the scope of the verification activities employing the methodologies mentioned above, nothing has come to our attention that caused us to believe that the Organization's assertion (Scope1:175,719 t-CO2, Scope2:323,971 t-CO2, Scope3:5,431,903 t-CO2 (category 1), 48,389,990 t-CO2 (category 11)) was not calculated and reported in conformance with the criteria.

For and on behalf of SGS Japan Inc
Senior Executive & Business Manager
Certification and Business Enhancement

Yuji Takeuchi

Directors, Corporate Auditors and Executive Officers

(As of June 24, 2016)

*Representative Director
+Current Position

Directors

Chairman of the Board*

Shigeru Murayama

- Apr. 1974 Joined Kawasaki Heavy Industries, Ltd.
- Apr. 2010 President, Aerospace Company
- Jun. 2013 President*
- Jun. 2016 Chairman*+

President*

Yoshinori Kanehana

- Apr. 1976 Joined Kawasaki Heavy Industries, Ltd.
- Oct. 2007 General Manager, Project Management Division, Rolling Stock Company
- Jun. 2013 Senior Vice President* President, Rolling Stock Company
- Apr. 2016 Senior Executive Vice President*
- Jun. 2016 President*+

Senior Executive Vice Presidents*

Joji Iki

Assistant to the President, in charge of technology and sales department, in charge of Ship & Offshore Structure Company

- Apr. 1977 Joined Kawasaki Heavy Industries, Ltd.
- Apr. 2009 Executive Officer, General Manager, Machinery Division, Gas Turbine & Machinery Company
- Apr. 2012 President, Gas Turbine & Machinery Company
- Jun. 2012 Senior Vice President*
- Apr. 2015 Senior Executive Vice President*+

Munenori Ishikawa

Assistant to the President, in charge of manufacturing and procurement department, in charge of Aerospace Company

- Apr. 1975 Joined Kawasaki Heavy Industries, Ltd.
- Apr. 2009 General Manager, Manufacturing Division, Aerospace Company
- Jun. 2013 President, Aerospace Company
- Jun. 2014 Senior Vice President*
- Apr. 2016 Senior Executive Vice President*+

Senior Vice Presidents

Kazuo Hida

President, Precision Machinery Company

- Apr. 1978 Joined Kawasaki Heavy Industries, Ltd.
- Sep. 2011 General Manager, Engineering Division, Precision Machinery Company
- Apr. 2014 President, Precision Machinery Company+
- Jun. 2014 Senior Vice President+

Kenji Tomida

President, Motorcycle & Engine Company

- Apr. 1978 Joined Kawasaki Heavy Industries, Ltd.
- Jul. 2013 General Manager, Corporate Planning Division
- Jun. 2014 Senior Vice President
- Apr. 2015 President, Motorcycle & Engine Company+ Senior Vice President+

Toshiyuki Kuyama

President, Gas Turbine & Machinery Company

- Apr. 1980 Joined Kawasaki Heavy Industries, Ltd.
- Apr. 2012 General Manager, Gas Turbine Division, Gas Turbine & Machinery Company
- Apr. 2015 President, Gas Turbine & Machinery Company+
- Jun. 2015 Senior Vice President+

Kazuo Ota

General Manager, Corporate Planning Division in charge of Finance & Accounting and Personnel & Labor Administration department

- Apr. 1978 Joined Kawasaki Heavy Industries, Ltd.
- Apr. 2012 General Manager, Planning & Control Division, Aerospace Company
- Apr. 2015 General Manager, Corporate Planning Division+
- Jun. 2015 Senior Vice President+

Senior Vice Presidents

Makoto Ogawara

President, Rolling Stock Company

- Apr. 1978 Joined Kawasaki Heavy Industries, Ltd.
- Oct. 2010 General Manager, Engineering Division, Rolling Stock Company
- Apr. 2016 President, Rolling Stock Company+
- Jun. 2016 Senior Vice President+

Tatsuya Watanabe

President, Plant & Infrastructure Company

- Apr. 1981 Joined Kawasaki Heavy Industries, Ltd.
- Apr. 2013 Senior Manager, Energy Plant Engineering Division, Plant & Infrastructure Company
- Apr. 2016 President, Plant & Infrastructure Company+
- Jun. 2016 Senior Vice President+

Outside Directors

Yoshihiko Morita

*For reasons for his appointment, please refer to page 44.

- Apr. 1969 Joined Export-Import Bank of Japan (At present: Japan Bank for International Cooperation)
- Oct. 2000 Associate Officer, Japan Bank for International Cooperation
- Oct. 2004 Vice President, Japan Bank for International Cooperation
- Oct. 2008 Deputy CEO of Japan Bank for International Cooperation, Representative Director and Senior Managing Executive Officer, Japan Finance Corporation
- Dec. 2011 Advisor, Sumitomo Mitsui Banking Corporation
- Jun. 2012 President, Japan Institute for Overseas Investment
  Corporate Auditor, TOKYO GAS Co., Ltd.+
- Jun. 2013 Outside Director, Kawasaki Heavy Industries, Ltd.+

Michio Yoneda

*For reasons for his appointment, please refer to page 44.

- Apr. 1973 Joined Bank of Japan
- May 1998 General Manager, Sapporo Branch, Bank of Japan
- Apr. 2001 Executive Director (Member of the Board), Osaka Securities Exchange Co., Ltd.
- Dec. 2003 President & CEO (Member of the Board), Osaka Securities Exchange Co., Ltd.
- Jan. 2013 Director & Representative Executive Officer, Group COO, Japan Exchange Group, Inc. Director, Tokyo Stock Exchange, Inc.
- Jun. 2016 Outside Director, Kawasaki Heavy Industries, Ltd.+

Corporate Auditors

Corporate Auditors

Takafumi Shibahara

- Apr. 1976 Joined Kawasaki Heavy Industries, Ltd.
- Oct. 2010 General Manager, General Administration Division
- Apr. 2012 General Manager, Personnel & Labor Administration Division
- Jun. 2014 Corporate Auditor+

Katsuyoshi Fukuma

- Apr. 1981 Joined Kawasaki Heavy Industries, Ltd.
- Apr. 2014 Deputy General Manager, Corporate Planning Division
- Jun. 2016 Corporate Auditor+

Outside Corporate Auditors

Nobuyuki Fujikake

*For reasons for his appointment, please refer to page 44.

- Apr. 1991 Admitted to Bar in Japan
- Apr. 1993 Established Takashima-Fujikake Law Office
- Nov. 2001 Established Fujikake Law Office (At present Kobe-Minatogawa Law Office)
- Apr. 2008 Vice President, Hyogo-ken Bar Association
- Jun. 2013 Corporate Auditor, Kawasaki Heavy Industries, Ltd.+

Takashi Torizumi

*For reasons for his appointment, please refer to page 44.

- Apr. 1975 Joined Kawasaki Kisen Kaisha, Ltd.
- Jul. 2001 Senior Manager, Accounting Group, Kawasaki Kisen Kaisha, Ltd.
- Jun. 2007 Director, Executive Officer, Kawasaki Kisen Kaisha, Ltd.
- Apr. 2009 Director, Managing Executive Officer, Kawasaki Kisen Kaisha, Ltd.
- Apr. 2011 Representative Director, Senior Managing Executive Officer, Kawasaki Kisen Kaisha, Ltd.
- Apr. 2015 Director, Kawasaki Kisen Kaisha, Ltd.
- Jun. 2015 Corporate Auditor, Kawasaki Heavy Industries, Ltd.+

Managing Executive Officers

Ikuhiro Narimatsu, Koji Kadota, Yoshinori Mochida, Sukeyuki Namiki, Yasuhiko Hashimoto

Executive Officers

Hiroji Iwasaki	Takeshi Ohata	Takeshi Asano	Toshiyuki Mimura	Akio Nekoshima	Katsuhisa Yamada
Kenichi Fukushima	Hisashi Yamaji	Katsuya Yamamoto	Eiichi Harada	Kazutoshi Honkawa	Yuji Horiuchi
Keiji Matsumura	Yoshihiro Uetake	Ichiro Kono	Akihisa Yamamoto	Akira Matsufuji	Hiroshi Nakatani

Overview

In fiscal 2015 (the year ended March 31, 2016), the global economy lacked vigor on the whole, and despite continued modest economic growth centered in developed countries, future prospects are becoming increasingly uncertain as a result of factors including the impact of the normalization of US monetary policy, the trend in crude oil prices and concerns about economic slowdowns in China and other emerging countries and resource-rich countries. Going forward, modest economic growth is expected, but risks with the potential to drag down the global economy must continue to be watched.

The Japanese economy is now at a standstill due the impacts of factors such as the deterioration of the overseas demand environment and sluggish personal consumption. Going forward, the economy is expected to grow modestly on the whole, led by steady improvements in both the income and employment environments, but there are concerns about a decline in corporate earnings, particularly those of exporters, due to the rapid appreciation of the yen since the start of the year and worries about a deterioration in business sentiment in conjunction with this.

Amid such an operating environment, the Group's orders received in fiscal 2015 declined overall from the previous fiscal year, despite increases in orders received in segments such as Aerospace and Gas Turbine & Machinery as there were decreases in segments such as Ship & Offshore Structure and Plant & Infrastructure along with other factors. Net sales during fiscal 2015 increased, centered on the Aerospace and Rolling Stock segments. Profits increased in segments such as Aerospace and Gas Turbine & Machinery, and there was an increase in operating income and recurring profit. On the other hand, there was a decline in profit attributable to owners of the parent due to the recognition of losses on overseas business as extraordinary losses.

The Group's consolidated orders received decreased by ¥19.2 billion year on year to ¥1,693.6 billion. Consolidated net sales totaled ¥1,541.0 billion, a ¥54.9 billion year-on-year increase, and consolidated operating income increased by ¥8.7 billion year on year to ¥95.9 billion. Consolidated recurring profit increased by ¥8.9 billion year on year to ¥93.2 billion. Consolidated profit attributable to owners of the parent decreased by ¥5.5 billion year on year to ¥46.0 billion.

Results of Operations

Net Sales

As noted, consolidated net sales increased by ¥54.9 billion from the previous fiscal year to ¥1,541.0 billion. Overseas sales totaled ¥904.5 billion. By region, sales in the United States were ¥396.6 billion, sales in Europe accounted for ¥144.8 billion, sales in Asia outside Japan contributed ¥241.4 billion, and sales in other areas added ¥121.5 billion. The ratio of overseas sales to consolidated net sales increased by 1.2 percentage points, to 58.7%, compared to 57.5% in the previous fiscal year.

The following sections supply additional details on the consolidated performance of each business segment. Please note that operating income or loss includes intersegment transactions.

Ship & Offshore Structure

Consolidated orders received declined ¥80.8 billion year on year to ¥98.3 billion, as in the previous fiscal year orders for a submarine and deep submergence rescue vehicle were received from Japan's Ministry of Defense.

Consolidated net sales increased ¥4.5 billion year on year to ¥94.8 billion due to an increase in the shipbuilding of LPG carriers and other factors.

Operating income deteriorated ¥10.6 billion year on year due to a provision for losses on construction contracts and other factors, resulting in an operating loss of ¥7.9 billion.

Rolling Stock

Consolidated orders received totaled ¥132.1 billion, which was on par with the previous fiscal year, due to there being no significant changes in either the domestic or overseas markets.

Consolidated net sales increased ¥25.1 billion to ¥146.6 billion as a result of increases in overseas sales, including sales to customers in Singapore and Taiwan.

Consolidated operating income increased ¥3.2 billion year on year to ¥9.2 billion, attributable to an increase in sales and other factors.

Aerospace

Consolidated orders received totaled ¥464.2 billion, a ¥107.2 billion year-on-year increase, due to increases in orders to Japan's Ministry of Defense and other facilities.

Consolidated net sales increased ¥26.7 billion year on year to ¥351.8 billion, due to an increase in sales to Japan's Ministry of Defense and the continued high level of sales of component parts for the Commercial Airplane Company, coupled with the impact of the depreciation of the yen and other factors.

Consolidated operating income increased ¥9.3 billion year on year to ¥45.6 billion, due to factors including an increase in sales.

Gas Turbine & Machinery

Consolidated orders received grew ¥53.1 billion year on year to ¥288.9 billion, attributable to an increase in orders for aircraft engine components, gas engines and other products.

Consolidated net sales grew ¥17.6 billion to ¥236.4 billion, due to an increase in sales of aircraft engine components and other products.

Consolidated operating income increased ¥5.6 billion year on year to ¥16.9 billion in response to an increase in sales, among other factors.

Plant & Infrastructure

Consolidated orders received totaled ¥138.7 billion, a ¥64.6 billion decrease in comparison to last fiscal year where large orders of plants for overseas were awarded.

Consolidated net sales grew ¥14.5 billion year on year to ¥135.6 billion, due to an increase in sales of large plants for overseas customers and other factors.

Consolidated operating income increased ¥1.9 billion year on year to ¥8.5 billion, attributable to an increase in sales and other factors.

Motorcycle & Engine

Consolidated net sales totaled ¥333.5 billion, a ¥4.3 billion year-on-year increase, as a decline in motorcycle sales to Indonesia and other emerging countries was offset by an increase in vehicle sales and motorcycle sales to developed countries.

Consolidated operating income increased ¥0.8 billion year on year to ¥15.7 billion, due to factors including an increase in sales.

Precision Machinery

Consolidated orders received decreased by ¥3.0 billion year on year to ¥133.1 billion as a result of a decline in orders for hydraulic components, among other factors.

Consolidated net sales decreased ¥2.6 billion year on year to ¥133.1 billion as a result of the decline in orders for hydraulic components among other factors.

Consolidated operating income declined ¥2.3 billion year on year to ¥8.5 billion, attributable to a decrease in sales of and profit ratio for hydraulic components and other factors.

Other

Consolidated net sales declined ¥35.4 billion year on year to ¥108.8 billion, due to sales in the construction machinery business and other factors.

Operating income declined ¥1.0 billion year on year to ¥2.8 billion, due to sales in the construction machinery business and other factors.

Cost, Expenses, and Earnings

Cost of sales increased by ¥37.0 billion from the previous fiscal year to ¥1,253.6 billion. As a result, gross profit increased by ¥18.0 billion to ¥287.4 billion, while the gross profit margin increased by 0.5 percentage point to 18.6% from 18.1% in the previous fiscal year.

Selling, general and administrative expenses grew ¥9.2 billion to ¥191.4 billion, primarily because of higher salaries and benefits and R&D expenses. Operating income increased by ¥8.7 billion to ¥95.9 billion. The increase in operating income was due to increased profit in Aerospace and Gas Turbine & Machinery segments. The ratio of operating income to net sales increased by 0.3 percentage point to 6.2%, from 5.9% in the previous fiscal year.

Non-operating income (expenses) showed net expenses of ¥2.7 billion compared with net expenses of ¥2.9 billion in the previous fiscal year. The principal reason for this was other income, net which improved to ¥3.3 billion compared with other expenses, net of ¥1.5 billion in the previous fiscal year.

As a result, after deduction of non-controlling interests, profit attributable to owners of the parent decreased by ¥5.5 billion from the previous fiscal year to ¥46.0 billion. The ratio of profit attributable to owners of the parent to net sales decreased by 0.5 percentage point to 2.9% from 3.4% in the previous fiscal year. ROE (calculated using average total shareholders' equity) decreased by 2.3 percentage points to 10.6% from 12.9% a year ago.

Capital expenditures in fiscal 2015 came to ¥76.3 billion, down from ¥80.0 billion in the previous fiscal year. R&D expenses were ¥43.6 billion, up from ¥41.6 billion a year ago.

Financial Conditions

At March 31, 2016, consolidated assets totaled ¥1,620.4 billion, a 2.5% decline from March 31, 2015. Of this total, current assets accounted for ¥1,017.9 billion, a 5.1% year-on-year decrease, chiefly attributable to a decline in trade receivables. Fixed assets totaled ¥602.5 billion at March 31, 2016, a 2.2% increase from March 31, 2015, mainly as a result of an increase in holdings of property, plant and equipment due to capital investment.

Consolidated liabilities declined 3.3% year on year to ¥1,174.8 billion at March 31, 2016, mainly attributable to a decrease in short-term debt and other factors.

Consolidated net assets at March 31, 2016 totaled ¥445.6 billion, roughly the same level as March 31, 2015. Dividend payments, a decline in foreign currency translation adjustments due to the yen's appreciation, and other factors detracted from consolidated net assets, but this was mostly offset by an increase due to the posting of profit attributable to owners of the parent.

The ratio of shareholders' equity to total assets increased by 0.7 percentage point to 26.6% from 25.9% at the end of the previous fiscal year. In addition, the net debt-to-equity ratio improved 1.4 percentage points from 83.9% to 82.5% as of March 31, 2016.

Cash Flows

Operating activities provided net cash of ¥86.0 billion, a ¥41.5 billion decrease from the previous fiscal year. Major sources of operating cash flow included income before income taxes and non-controlling interests of ¥74.8 billion and depreciation and amortization of ¥49.0 billion. Major uses of operating cash flow included expenditure of ¥25.1 billion for income taxes and expenditure of ¥19.7 billion due to an increase in inventories.

Investing activities used net cash of ¥74.1 billion, ¥6.7 billion more than in the previous fiscal year, mainly for the acquisition of property, plant and equipment and intangible assets.

Financing activities used net cash of ¥23.4 billion, ¥33.7 billion less than the previous fiscal year. The cash outflow was mainly due to the cash dividends paid.

Given these changes in cash flows, cash and cash equivalents at the end of the term settled at ¥37.8 billion, down by ¥9.8 billion from the beginning of the fiscal year.

Management of Liquidity Risk

To manage our liquidity risk comprehensively, the Finance Department formulates and renews financial plans in a timely fashion based on reports from each business segment. In addition, measures are taken to diversify sources of financing, adjust the balance of long- and short-term financing with consideration of financial conditions and secure commitment lines (credit limitation of ¥54.0 billion, immediate activation possible) and commercial paper (issuance limit of ¥150.0 billion).

Management Indicators

As target management indicators, the Company has adopted Earnings (operating income, recurring profit, profit attributable to owners of the parent) and Return on Invested Capital [ROIC = EBIT (earnings before interest and taxes) / Invested Capital (debt obligations + shareholders' equity)] as an indicator for measuring capital efficiency.

The Company's Group-wide businesses are segmented and subdivided into Business Units (hereinafter referred to as "BUs"), and ROIC management has been applied to each and every BU. Those BUs not clearing the ROIC hurdle rate (minimum required level) are required to set a timeline for clearing the hurdle rate and to identify the issues associated thereto, and in so doing, practical actions are to be taken. On the other hand, those BUs already clearing the ROIC hurdle rate are encouraged to achieve the ROIC level for the top market leader and, while taking initiatives to enhance Economic Value Added (EVA), improve the enterprise value of the entire group.

With the improvement of these management indicators, the Company also seeks to improve Return on Equity (ROE = profit attributable to owners of the parent / shareholders' equity).

Calculated with this formula, ROIC decreased by 1.0 percentage point to 9.4% from 10.4% in the previous fiscal year.

Dividends

As a basic management policy, the Company aims to increase corporate value, in other words to consistently generate profit exceeding the cost of invested capital. In line with this policy, the Company believes that one priority for management is to engage in cutting-edge research and development as well as innovative capital investment required to achieve future growth and thereby return profits to shareholders by enhancing shareholder value over the long term.

In order to maintain a good balance between enhancing shareholder value and returning profits to shareholders through dividends, the Company has set a medium- to long-term consolidated payout ratio standard of 30% corresponding to the consolidated profit attributable to owners of the parent, in light of both the outlook for future earnings and a comprehensive examination of its financial condition, including free cash flow, the D/E ratio (debt-to-equity ratio) and other factors.

The Company has a basic policy of distributing surplus retained earnings as dividends twice a year, once after the fiscal second quarter and once after the fiscal year-end. Interim dividends are authorized by the Board of Directors; year-end dividends are authorized at general meetings of shareholders.

In fiscal 2016, the Company intends to pay a dividend of ¥10 per share (¥4 interim dividend, ¥6 year-end dividend).

Consolidated Balance Sheets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
At March 31, 2016 and 2015

Assets

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Current assets:			
Cash on hand and in banks (Note 20)	¥ 42,157	¥ 51,645	$ 374,097
Receivables:			
Trade	381,339	421,890	3,383,964
Other	17,989	17,937	159,632
Allowance for doubtful receivables	(2,578)	(2,995)	(22,876)
	396,750	436,832	3,520,720
Inventories: (Notes 6 and 10)	492,965	498,652	4,374,523
Deferred tax assets (Note 19)	27,276	33,292	242,044
Other current assets	58,755	52,642	521,387
Total current assets	1,017,903	1,073,063	9,032,771
Property, plant and equipment (Note 9):			
Land	64,238	64,708	570,041
Buildings and structures	401,453	394,123	3,562,455
Machinery, equipment and others	707,753	694,871	6,280,531
Construction in progress	17,772	18,356	157,706
	1,191,216	1,172,058	10,570,733
Accumulated depreciation	(754,658)	(751,504)	(6,696,761)
Net property, plant and equipment	436,558	420,554	3,873,972
Investments and intangible and other assets:			
Investments in securities (Notes 7, 8 and 9)	89,236	95,716	791,872
Long-term loans	337	363	2,990
Deferred tax assets (Note 19)	43,842	41,611	389,049
Goodwill and other intangible assets	15,475	16,409	137,324
Allowance for doubtful receivables	(9,902)	(823)	(87,869)
Net defined benefit assets (Note 11)	74	317	656
Other (Note 9)	26,935	15,073	239,020
Total investments and intangible and other assets	165,997	168,666	1,473,042
Total assets	¥1,620,458	¥1,662,283	$14,379,785

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

Liabilities and Net Assets

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Current liabilities:			
Short-term debt and current portion of long-term debt (Note 9)	¥ 116,047	¥ 142,615	$ 1,029,789
Trade payables (Note 9)	233,979	253,907	2,076,306
Electronically recorded obligations	87,798	85,453	779,110
Advances from customers	170,454	171,607	1,512,592
Income taxes payable (Note 19)	10,889	17,094	96,627
Accrued bonuses	25,138	26,440	223,072
Provision for product warranties	12,642	11,480	112,183
Provision for losses on construction contracts (Note 10)	7,926	5,873	70,334
Deferred tax liabilities (Note 19)	979	442	8,687
Asset retirement obligations	–	15	–
Other current liabilities	101,859	109,698	903,892
Total current liabilities	767,711	824,624	6,812,592
Long-term liabilities:			
Long-term debt, less current portion (Note 9)	282,377	271,761	2,505,786
Liability for retirement benefits (Note 11)	90,789	79,272	805,652
Deferred tax liabilities (Note 19)	8,439	8,199	74,886
Provision for environmental measures	1,693	2,535	15,023
Asset retirement obligations	650	464	5,768
Other	23,174	27,471	205,646
Total long-term liabilities	407,122	389,702	3,612,761
Contingent liabilities (Note 12)			
Net assets (Note 13):			
Shareholders' equity:			
Common stock:			
Authorized–3,360,000,000 shares			
Issued–1,670,805,320 shares in 2016			
–1,670,805,320 shares in 2015	104,484	104,484	927,180
Capital surplus	54,394	54,393	482,687
Retained earnings	279,627	253,606	2,481,383
Treasury stock–228,992 shares in 2016			
–191,653 shares in 2015	(86)	(67)	(763)
Total shareholders' equity	438,419	412,416	3,890,487
Accumulated other comprehensive income:			
Net unrealized gains on securities, net of tax	2,705	3,704	24,003
Deferred gains (losses) on hedges	693	(1,985)	6,149
Foreign currency translation adjustments	8,990	25,179	79,777
Accumulated adjustments for retirement benefits	(19,439)	(7,318)	(172,499)
Total accumulated other comprehensive income	(7,051)	19,580	(62,570)
Non-controlling interests	14,257	15,961	126,515
Total net assets	445,625	447,957	3,954,432
Total liabilities and net assets	¥1,620,458	¥1,662,283	$14,379,785

Consolidated Statements of Income and Comprehensive Income

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2016, 2015 and 2014

Consolidated Statements of Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	**2016**
Net sales	**¥ 1,541,096**	¥ 1,486,123	¥ 1,385,482	**$ 13,675,534**
Cost of sales (Note 14)	**(1,253,691)**	(1,216,680)	(1,140,293)	**(11,125,129)**
Gross profit	**287,405**	269,443	245,189	**2,550,403**
Selling, general and administrative expenses (Note 15)	**(191,409)**	(182,184)	(172,838)	**(1,698,544)**
Operating income	**95,996**	87,259	72,351	**851,859**
Other income (expenses):				
Interest and dividend income	**1,164**	1,191	1,317	**10,329**
Equity in income of nonconsolidated subsidiaries and affiliates	**2,876**	6,208	7,016	**25,521**
Interest expense	**(3,637)**	(3,761)	(3,991)	**(32,274)**
Other expenses, net (Note 16)	**(21,567)**	(6,609)	(15,383)	**(191,384)**
Income before income taxes and non-controlling interests	**74,832**	84,288	61,310	**664,051**
Income taxes (Note 19)				
Current	**(20,154)**	(23,563)	(15,903)	**(178,845)**
Deferred	**(7,000)**	(6,780)	(4,409)	**(62,117)**
Net income	**47,678**	53,945	40,998	**423,089**
Profit attributable to non-controlling interests	**1,635**	2,306	2,397	**14,508**
Profit attributable to owners of the parent	**¥ 46,043**	¥ 51,639	¥ 38,601	**$ 408,581**

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

Consolidated Statements of Comprehensive Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	**2016**
Net income	**¥ 47,678**	¥53,945	¥40,998	**$ 423,089**
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities	**(910)**	783	(1,852)	**(8,075)**
Deferred gains (losses) on hedges	**2,649**	1,860	2,314	**23,506**
Foreign currency translation adjustments	**(11,763)**	12,384	11,996	**(104,383)**
Remeasurements of defined benefit plans	**(12,155)**	10,952	1,870	**(107,862)**
Share of other comprehensive income of associates accounted for using equity method	**(5,269)**	7,836	13,379	**(46,756)**
Total other comprehensive income (loss)	**(27,448)**	33,815	27,707	**(243,570)**
Comprehensive income	**20,230**	87,760	68,705	**179,519**
Comprehensive income attributable to:				
Owners of the parent company	**19,412**	84,462	64,908	**172,261**
Non-controlling interests	**¥ 818**	¥ 3,298	¥ 3,797	**$ 7,258**

	Yen			U.S. dollars (Note 1)
Per share amounts (Note 21)				
Net income per share - basic	**¥27.6**	¥30.8	¥23.0	**$0.24**
Cash dividends	**12.0**	7.0	6.0	**0.11**

Consolidated Statements of Changes in Net Assets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

For the years ended March 31, 2016, 2015, and 2014

Millions of yen

		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities, net of tax	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2013	1,671,892	¥104,484	¥ 54,394	¥ 198,528	¥ (27)	¥ 357,379	¥ 4,524	¥ (5,998)	¥ (17,665)	¥ –	¥ (19,139)	¥ 11,641	¥ 349,881
Cumulative effect of changes in accounting policies	–	–	–	(11,523)	–	(11,523)	–	–	–	(20,410)	(20,410)	–	(31,933)
Restated balance	–	104,484	54,394	187,005	(27)	345,856	4,524	(5,998)	(17,665)	(20,410)	(39,549)	11,641	317,948
Net income for the year	–	–	–	38,601	–	38,601	–	–	–	–	–	–	38,601
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	–	24,081	–	24,081	–	24,081
Increase in net unrealized gains on securities, net of tax	–	–	–	–	–	–	(1,871)	–	–	–	(1,871)	–	(1,871)
Treasury stock purchased, net	–	–	–	–	(16)	(16)	–	–	–	–	–	–	(16)
Cash dividends	–	–	–	(8,358)	–	(8,358)	–	–	–	–	–	–	(8,358)
Loss on sales of treasury stock	–	–	0	–	0	0	–	–	–	–	–	–	0
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary	–	–	–	201	–	201	–	–	–	–	–	–	201
Other	–	–	–	–	–	–	–	2,195	–	1,901	4,096	2,004	6,100
Balance at March 31, 2014	1,671,892	¥104,484	¥ 54,394	¥ 217,449	¥ (43)	¥ 376,284	¥ 2,653	¥ (3,803)	¥ 6,416	¥ (18,509)	¥ (13,243)	¥ 13,645	¥ 376,686
Net income for the year	–	–	–	51,639	–	51,639	–	–	–	–	–	–	51,639
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	–	18,763	–	18,763	–	18,763
Increase in net unrealized gains on securities, net of tax	–	–	–	–	–	–	1,051	–	–	–	1,051	–	1,051
Treasury stock purchased, net	–	–	–	–	(684)	(684)	–	–	–	–	–	–	(684)
Cash dividends	–	–	–	(15,045)	–	(15,045)	–	–	–	–	–	–	(15,045)
Loss on sales of treasury stock	–	–	0	–	0	0	–	–	–	–	–	–	0
Retirement of treasury stock	(1,087)	–	(1)	(659)	660	–	–	–	–	–	–	–	–
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary	–	–	–	222	–	222	–	–	–	–	–	–	222
Other	–	–	–	–	–	–	–	1,818	–	11,191	13,009	2,316	15,325
Balance at March 31, 2015	1,670,805	¥104,484	¥ 54,393	¥ 253,606	¥ (67)	¥ 412,416	¥ 3,704	¥ (1,985)	¥ 25,179	¥ (7,318)	¥ 19,580	¥ 15,961	¥ 447,957
Net income for the year	**–**	**–**	**–**	**46,043**	**–**	**46,043**	**–**	**–**	**–**	**–**	**–**	**–**	**46,043**
Treasury stock purchased, net	**–**	**–**	**–**	**–**	**(21)**	**(21)**	**–**	**–**	**–**	**–**	**–**	**–**	**(21)**
Cash dividends	**–**	**–**	**–**	**(20,047)**	**–**	**(20,047)**	**–**	**–**	**–**	**–**	**–**	**–**	**(20,047)**
Loss on sales of treasury stock	**–**	**–**	**1**	**–**	**2**	**3**	**–**	**–**	**–**	**–**	**–**	**–**	**3**
Retirement of treasury stock	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary	**–**	**–**	**–**	**25**	**–**	**25**	**–**	**–**	**–**	**–**	**–**	**–**	**25**
Other	**–**	**–**	**–**	**–**	**–**	**–**	**(999)**	**2,678**	**(16,189)**	**(12,121)**	**(26,631)**	**(1,704)**	**(28,335)**
Balance at March 31, 2016	**1,670,805**	**¥104,484**	**¥ 54,394**	**¥ 279,627**	**¥ (86)**	**¥ 438,419**	**¥ 2,705**	**¥ 693**	**¥ 8,990**	**¥ (19,439)**	**¥ (7,051)**	**¥ 14,257**	**¥ 445,625**

Thousands of U.S. dollars

	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities, net of tax	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2015	$927,180	$482,678	$2,250,474	$(594)	$3,659,738	$32,868	$(17,614)	$ 223,435	$ (64,939)	$ 173,750	$141,636	$3,975,124
Net income for the year	**–**	**–**	**408,581**	**–**	**408,581**	**–**	**–**	**–**	**–**	**–**	**–**	**408,581**
Treasury stock purchased, net	**–**	**–**	**–**	**(186)**	**(186)**	**–**	**–**	**–**	**–**	**–**	**–**	**(186)**
Cash dividends	**–**	**–**	**(177,895)**	**–**	**(177,895)**	**–**	**–**	**–**	**–**	**–**	**–**	**(177,895)**
Loss on sales of treasury stock	**–**	**9**	**–**	**17**	**26**	**–**	**–**	**–**	**–**	**–**	**–**	**26**
Retirement of treasury stock	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary	**–**	**–**	**223**	**–**	**223**	**–**	**–**	**–**	**–**	**–**	**–**	**223**
Other	**–**	**–**	**–**	**–**	**–**	**(8,865)**	**23,763**	**(143,658)**	**(107,560)**	**(236,320)**	**(15,121)**	**(251,441)**
Balance at March 31, 2016	**$927,180**	**$482,687**	**$2,481,383**	**$(763)**	**$3,890,487**	**$24,003**	**$ 6,149**	**$ 79,777**	**$(172,499)**	**$ (62,570)**	**$126,515**	**$3,954,432**

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

Consolidated Statements of Cash Flows

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2016, 2015, and 2014

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	**2016**
Cash flows from operating activities:				
Income before income taxes and non-controlling interests	**¥ 74,832**	¥ 84,288	¥ 61,310	**$ 664,051**
Adjustments to reconcile net income before income taxes and non-controlling interests to net cash provided by (used for) operating activities:				
Depreciation and amortization	**49,004**	44,572	37,838	**434,856**
Loss on impairment of fixed assets	**–**	–	476	**–**
Increase (decrease) in liability for retirement benefits	**(3,043)**	(2,521)	(2,830)	**(27,003)**
Increase (decrease) in accrued bonuses	**(935)**	4,255	1,839	**(8,297)**
Increase (decrease) in allowance for doubtful receivables	**(857)**	(160)	(129)	**(7,604)**
Increase (decrease) in provision for product warranties	**1,590**	666	4,117	**14,109**
Increase (decrease) in provision for losses on construction contracts	**2,228**	(7,957)	(5,345)	**19,771**
Increase (decrease) in provision for losses on damages suit	**–**	(467)	(102)	**–**
Increase (decrease) in provision for environmental measures	**(840)**	(1,134)	(915)	**(7,454)**
Loss (gain) on disposal of inventories	**1,786**	1,966	1,339	**15,848**
Gain on sales of marketable securities and investments in securities	**(1,184)**	(1,138)	(1,187)	**(10,506)**
Loss on valuation of securities	**92**	52	619	**816**
Loss on sales of property, plant, and equipment	**(3,155)**	1,428	1,043	**(27,997)**
Equity in income of nonconsolidated subsidiaries and affiliates	**(2,876)**	(6,208)	(7,016)	**(25,521)**
Interest and dividend income	**(1,164)**	(1,191)	(1,317)	**(10,329)**
Interest expense	**3,637**	3,761	3,991	**32,274**
Gain on transfer of business	**(901)**	–	–	**(7,995)**
Loss on overseas business	**19,298**	–	–	**171,248**
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	**(7,657)**	630	17,750	**(67,947)**
Inventories	**(19,719)**	(22,583)	(1,295)	**(174,984)**
Advance payments	**(5,860)**	(11,086)	(6,927)	**(52,001)**
Other current assets	**(2,670)**	(623)	8,277	**(23,693)**
Increase (decrease) in:				
Trade payables	**(5,441)**	28,933	20,059	**(48,282)**
Advances from customers	**7,433**	29,460	25,978	**65,959**
Other current liabilities	**5,003**	(62)	7,713	**44,396**
Other, net	**(298)**	1,391	2,972	**(2,645)**
Subtotal	**108,303**	146,272	168,258	**961,070**
Cash received for interest and dividends	**6,745**	6,099	6,018	**59,854**
Cash paid for interest	**(3,817)**	(4,012)	(4,210)	**(33,871)**
Cash paid for income taxes	**(25,172)**	(20,708)	(18,345)	**(223,374)**
Net cash provided by (used for) operating activities	**¥ 86,059**	¥127,651	¥151,721	**$ 763,679**

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	**2016**
Cash flows from investing activities:				
Decrease (increase) in time deposits with maturities over three months	**¥ (705)**	¥ (1,276)	¥ (584)	**$ (6,256)**
Acquisition of property, plant and equipment	**(75,565)**	(73,917)	(77,396)	**(670,556)**
Proceeds from sales of property, plant and equipment	**1,137**	11,890	2,212	**10,089**
Acquisition of intangible assets	**(3,898)**	(3,443)	(2,778)	**(34,590)**
Proceeds from sales of intangible assets	**64**	23	595	**567**
Acquisition of investments in securities	**(173)**	(486)	(610)	**(1,535)**
Proceeds from sales of investments in securities	**702**	1,470	2,695	**6,229**
Proceeds from sales of business (Note 20)	**5,390**	–	–	**47,830**
Acquisition of investments in subsidiaries and affiliates	**(1,601)**	(1,261)	(2,063)	**(14,207)**
Decrease (increase) in short-term loans	**(7)**	(1,164)	196	**(62)**
Additions to long-term loans	**(87)**	(63)	(64)	**(772)**
Proceeds from collection of long-term loans	**92**	141	84	**816**
Other	**466**	689	154	**4,137**
Net cash provided by (used for) investing activities	**(74,185)**	(67,397)	(77,559)	**(658,310)**
Cash flows from financing activities:				
Increase (decrease) in short-term debt	**4,132**	(16,587)	(64,139)	**36,666**
Proceeds from long-term debt	**39,648**	62,456	80,430	**351,832**
Repayment of long-term debt	**(45,651)**	(86,233)	(68,749)	**(405,102)**
Acquisition of treasury stock	**(20)**	(25)	(17)	**(177)**
Proceeds from stock issuance to non-controlling shareholders	**195**	1	–	**1,730**
Cash dividends paid	**(20,022)**	(15,675)	(8,363)	**(177,673)**
Cash dividends paid to non-controlling shareholders	**(1,527)**	(986)	(1,532)	**(13,550)**
Other	**(155)**	(84)	(135)	**(1,375)**
Net cash provided by (used for) financing activities	**(23,400)**	(57,133)	(62,505)	**(207,649)**
Effect of exchange rate changes	**1,639**	(953)	(4,001)	**14,544**
Net increase (decrease) in cash and cash equivalents	**(9,887)**	2,168	7,656	**(87,736)**
Cash and cash equivalents at beginning of year	**47,721**	45,431	36,971	**423,471**
Increase (decrease) in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries	**(2)**	122	804	**(18)**
Cash and cash equivalents at end of year	**¥ 37,832**	¥ 47,721	¥ 45,431	**$ 335,717**
Supplemental information on cash flows:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheets	**¥ 42,157**	¥ 51,645	¥ 47,949	**$ 374,097**
Time deposits with maturities over three months	**(4,325)**	(3,924)	(2,518)	**(38,380)**
Total (Note 20)	**¥ 37,832**	¥ 47,721	¥ 45,431	**$ 335,717**

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

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries (together the "Companies") have been prepared from the financial statements filed with the Prime Minister as required by the Financial Instruments and Exchange Act in Japan and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards. Certain reclassifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was ¥112.69 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant Accounting Policies

(a) Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control. The consolidated financial statements include the accounts of the Company and 99 subsidiaries (97 in the year ended March 31, 2015 and 96 in 2014). The aggregate amount of total assets, net sales, net income and retained earnings of the excluded subsidiaries would not have had a material effect on the consolidated financial statements if they had been included in the consolidation.

(b) Application of the equity method of accounting
Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. For the year ended March 31, 2016, 20 affiliates (17 in 2015 and 18 in 2014) were accounted for by the equity method. For the year ended March 31, 2016, investments in 11 affiliates (10 in 2015 and 13 in 2014) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end
The fiscal year-end of 26 consolidated subsidiaries (25 in 2015 and 28 in 2014) is December 31. These subsidiaries are consolidated as of December 31, and significant transactions for the period between December 31 and March 31, the Company's fiscal year-end, are adjusted for on consolidation. One consolidated subsidiary, India Kawasaki Motors Pvt. Ltd., which previously had its fiscal year-end on December 31, has changed its fiscal year-end to March 31 to coincide with the consolidated fiscal year-end of the Company.

(d) Elimination of intercompany transactions and accounts
All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation, and the portion attributable to non-controlling interests is credited to non-controlling interests. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

(e) Foreign currency translation
Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates. The balance sheets of the consolidated overseas subsidiaries are translated into Japanese yen at year-end rates, except for shareholders' equity accounts, which are translated at historical rates. The income statements of the consolidated overseas subsidiaries are translated at average rates. The Company and its domestic subsidiaries report foreign currency translation adjustments in net assets.

(f) Revenue recognition
<Sales of products and construction contracts>
The percentage-of-completion method is applied to construction contracts if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the completed contract method is applied.

<Finance lease transactions>
Sales and cost of sales in finance lease transactions are recognized mainly when the Company receives the lease payments.

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

(h) Allowance for doubtful receivables
An allowance for possible losses from notes and accounts receivable, loans and other receivables is provided based on past experience and the Companies' estimates of losses on collection.

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

(j) Inventories
Inventories are stated mainly at the historical cost computed using the specific identification cost method, the moving average cost method or the first-in, first-out method. The ending balance of inventories is measured at the lower of cost or market.

(k) Investments in securities
The Company and its consolidated subsidiaries classify securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) all other securities (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2016, 2015 or 2014. Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available market value are stated at moving average cost.

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

(l) Property, plant and equipment
Property, plant and equipment are stated at cost. Depreciation is computed mainly by the straight-line method over the estimated useful life of the asset.

(m) Intangible assets
Amortization of intangible assets, including software for the Company's own use, is computed by the straight-line method over the estimated useful life of the asset.

An equivalent amount of goodwill is amortized by the straight-line method over the period the Company benefits from its use. If the amount is not significant, it is expensed when incurred.

(n) Accrued bonuses
Accrued bonuses for employees are provided for based on the estimated amount of payment.

(o) Provision for product warranties
The provision for product warranties is based on past experience or provided separately when it can be reasonably estimated.

(p) Provision for losses on construction contracts
A provision for losses on construction contracts at the fiscal year-end is made when substantial losses are anticipated for the next fiscal year and beyond and such losses can be reasonably estimated.

(q) Provision for environmental measures
The Company has reserved an estimated amount to cover expenditures for environmental measures such as the disposal of PCB waste required under the "Law Concerning Special Measures for Promotion of Appropriate Disposal of PCB (polychlorinated biphenyl) Waste" and soil improvement.

(r) Income taxes
The asset-liability approach is used to recognize deferred tax assets and liabilities for loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(s) Liability for retirement benefits
Employees who terminate their services with the Company or some consolidated domestic subsidiaries are generally entitled to lump-sum payments, the amounts of which are determined by reference to basic rates of pay at the time of termination and length of service.

The liabilities and expenses for retirement and severance benefits are determined based on amounts actuarially calculated using certain assumptions. The Company and its consolidated domestic subsidiaries provide the allowance for employees' retirement and severance benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets (including the retirement benefit trust).

Actuarial gains and losses and prior service costs are charged to income on a straight-line basis primarily over 10 years commencing with the following period and the current period, respectively. With regard to previously unrecognized actuarial gains and losses and unrecognized prior services costs, after adjusting for tax effects, the Company records accumulated adjustment for retirement benefits as part of accumulated other comprehensive income within net assets.

In calculating retirement benefit obligations, the method of attributing expected benefits to periods employs a benefit formula basis.

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

(t) Hedge accounting
The Company and its consolidated subsidiaries employ deferred hedge accounting. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized.

(u) Finance leases
Leased assets under finance leases that transfer ownership of the lease assets to the lessee are amortized by the same method as that used for property, plant and equipment and intangible assets. Lease assets under finance leases that do not transfer ownership of the lease assets to the lessee are amortized by the straight-line-method over the lease term with zero residual value.

(v) Net income per share
The computations of net income per share shown in the consolidated statements of income are based upon profit attributable to owners of the parent available to common stockholders and the weighted average number of shares outstanding during each period.

(w) Accounting for consumption taxes
National and local consumption taxes are accounted for based on the net amount.

(x) Application of consolidated tax reporting
Effective from the year ended March 31, 2012, the Company and its wholly owned consolidated domestic subsidiaries have elected to file a consolidated tax return.

3. Changes in Accounting Policy

- Application of Accounting Standard for Business Combinations, etc.

Effective from the consolidated financial year commenced on April 1, 2015, "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 of September 13, 2013), and "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 of September 13, 2013), etc., have been applied. As a result, differences caused by changes in the Company's equity in subsidiaries with which it has a controlling interest shall now be adjusted in its capital surplus, and acquisition-related expenses shall be changed and reported as expenses incurred during the consolidated financial year in which said acquisition takes place. Furthermore, as to business combinations taking place from the beginning of the consolidated financial year commenced on April 1, 2015, finalization and restatement of the provisional accounting treatment of acquisition cost allocation shall be changed to be reflected in the relevant consolidated financial period in which the date of the business combination actually falls. Additionally, the presentation has been changed in the net income for the period, etc., and from minority interests to non-controlling interests. To reflect these changes in the presentation, the changes have been made in the consolidated financial statements of the preceding financial years.

The Accounting Standard for Business Combinations and its related standards are subject to the transitional treatments stipulated in the provisions of Article 58-2(4) of Accounting Standard for Business Combinations, Article 44-5(4) of Accounting Standard for Consolidated Financial Statements, and Article 57-4(4) of Accounting Standard for Business Divestitures, and are to be implemented from the beginning of the consolidated financial year that commenced on April 1, 2015.

There is no effect of these changes on the financial statements during the consolidated financial year that commenced on April 1, 2015.

4. Accounting Standards Issued But Not Yet Adopted

- Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Implementation Guidance No. 26, March 28, 2016)

(a) Outline

When authority for practical accounting guidelines and practical auditing guidelines (the portion relating to accounting treatment) in relation to tax-effect accounting—which had been overseen by the Japanese Institute of Certified Public Accountants (JICPA)—was placed under ASBJ, with regard to guidelines relating to the recoverability of deferred tax assets, ASBJ fundamentally followed the framework of classifications mainly prescribed in the JICPA Auditing Standards Board Report No. 66, "Audit Treatment of Judgments with Regard to Recoverability of Deferred Tax Assets." This system classifies companies into five groups, and the amount of deferred tax assets to be recorded is estimated in accordance with these classifications. The Implementation Guidance on Recoverability of Deferred Tax Assets makes necessary revisions to part of the classification criteria and treatment of the amount of deferred tax assets to be recorded. With regard to the recoverability of deferred tax assets, the Implementation Guidance prescribes the guidelines to be used when applying accounting standards related to tax-effect accounting (Business Accounting Council).

(b) Planned date of adoption

The Company will adopt the Implementation Guidance from the beginning of the fiscal year commencing on or after April 1, 2016.

(c) Impact of the adoption of the Implementation Guidance

The Company is currently assessing the effects of applying the Implementation Guidance on Recoverability of Deferred Tax Assets.

5. Additional Information

<Snow-related disaster at NIPPI Corporation>

Due to the heavy snowfall on February 15, 2014, an aircraft hangar's roof at a consolidated subsidiary's NIPPI Corporation's Atsugi Plant collapsed, causing damage to aircraft of the Japan Maritime Self-Defense Force under regular maintenance in the hangar.

The Company and NIPPI Corporation are currently in discussions with Japan's Ministry of Defense regarding how this matter should be handled. The outcome of these discussions may affect the operating performance of the KHI Group.

6. Inventories

Inventories as of March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Merchandise and finished products	**¥ 57,092**	¥ 59,487	**$ 506,629**
Work in progress (*)	**324,916**	321,328	**2,883,273**
Raw materials and supplies	**110,957**	117,837	**984,621**
Total	**¥492,965**	¥498,652	**$4,374,523**

(*) A trust was established for the Company's trade receivables generated in selling certain work in progress using a self-settled trust. The Company has a beneficiary interest in the trade receivables as trust assets. The work in progress related to the trust assets as of March 31, 2016 and 2015 was ¥5,841 million ($51,832 thousand) and ¥5,350 million, respectively.

7. Securities

(a) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2016 and 2015 were as follows:

	2016			
	Millions of yen			Thousands of U.S. dollars
	Book value	Acquisition cost	Unrealized gains (losses)	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:				
Equity securities	**¥7,029**	**¥2,876**	**¥4,153**	**$36,853**
Other securities:				
Equity securities	**522**	**657**	**(135)**	**(1,198)**
Total	**¥7,551**	**¥3,533**	**¥4,018**	**$35,655**

	2015		
	Millions of yen		
	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:			
Equity securities	¥8,593	¥3,401	¥5,192
Other securities:			
Equity securities	81	103	(22)
Total	¥8,674	¥3,504	¥5,170

(b) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2016, 2015 and 2014 were as follows:

	2016					
	Millions of yen			Thousands of U.S. dollars		
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities:	**¥678**	**¥293**	**¥(8)**	**$6,016**	**$2,600**	**$(70)**

	2015		
	Millions of yen		
	Sales amounts	Gains	Losses
Equity securities:	¥1,440	¥1,138	¥–

	2014		
	Millions of yen		
	Sales amounts	Gains	Losses
Equity securities:	¥2,828	¥1,187	¥–

(c) Investments in securities subject to impairment

Impairment loss on investments in securities is recognized when there has been a significant decline in the market value.

Investments in securities for which the market value as of the end of the fiscal year has fallen to below 50% of the acquisition costs are deemed to have no recovery potential and to be impaired. Investments in securities for which the market value has fallen to between 30% and 50% of the acquisition costs are deemed to be partially impaired by an amount that takes into consideration the likelihood of recovery and other factors.

8. Investments in Nonconsolidated Subsidiaries and Affiliates

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2016 and 2015 were ¥75,453 million ($669,562 thousand) and ¥80,228 million, respectively.

9.

Short-term Debt and Long-term Debt

Short-term debt and long-term debt as of March 31, 2016 and 2015 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term debt:			
Short-term debt, principally bank loans, bearing average interest rates of 1.40 percent and 1.22 percent as of March 31, 2016 and 2015, respectively	¥ 88,044	¥ 97,127	$ 781,293
Current portion of long-term borrowings, bearing average interest rates of 0.94 percent and 0.94 percent as of March 31, 2016 and 2015, respectively	17,846	25,212	158,363
Current portion of bonds, bearing average interest rates of 0.58 percent and 0.72–1.22 percent as of March 31, 2016 and 2015.	10,000	20,000	88,739
Lease obligations, current	157	276	1,394
Total short-term debt	¥116,047	¥142,615	$1,029,789
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2016 to 2032, bearing average interest rates of 0.55 percent and 0.58 percent as of March 31, 2016 and 2015, respectively.	¥178,657	¥184,962	$1,585,385
Notes and bonds issued by the Company:			
0.72–1.22 percent notes due in 2015	–	20,000	–
0.58 percent notes due in 2016	10,000	10,000	88,739
1.06 percent notes due in 2017	10,000	10,000	88,739
0.34–0.57 percent notes due in 2018	20,000	20,000	177,478
0.68 percent notes due in 2019	10,000	10,000	88,739
0.32–0.99 percent notes due in 2020	30,000	20,000	266,217
0.45–1.42 percent notes due in 2021	20,000	20,000	177,478
1.10 percent notes due in 2022	10,000	10,000	88,739
0.79 percent notes due in 2024	10,000	10,000	88,739
0.85 percent notes due in 2025	10,000	–	88,739
Long-term lease obligations	1,723	2,287	15,290
	310,380	317,249	2,754,282
Less portion due within one year	(28,003)	(45,488)	(248,496)
Total long-term debt	¥282,377	¥271,761	$2,505,786

As of March 31, 2016 and 2015, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Buildings and structures	¥ 75	¥ 78	$ 665
Investments in securities	14	14	124
Other	53	3,977	471
Total	¥142	¥4,069	$1,260

As of March 31, 2016 and 2015, debt secured by the above pledged assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Trade payables	¥ 4	¥ 5	$ 35
Short-term and long-term debt	83	97	737
Total	¥87	¥102	$772

In addition to the items shown above, the Company had pledged (on a long-term basis) shares of an affiliate company eliminated in the consolidation process in the amount of ¥30 million ($266 thousand).

The aggregate annual maturities of long-term debt as of March 31, 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2017	¥ 28,003	$ 248,495
2018	54,728	485,651
2019	46,787	415,183
2020	30,336	269,199
2021 and thereafter	150,526	1,335,754
Total	¥310,380	$2,754,282

10.

Provision for Losses on Construction Contracts

Inventories for construction contracts with substantial anticipated losses and the provision for losses on construction contracts were not offset. As of March 31, 2016 and 2015, the inventories for the construction contracts for which the provision for losses on construction contracts were provided were ¥3,090 million ($27,420 thousand) and ¥930 million, respectively. These amounts were all included in work in process.

11.

Employees' Retirement and Severance Benefits

1. The Company and its domestic consolidated subsidiaries have a system of retirement and severance lump-sum payments for employees. The Company and certain consolidated subsidiaries also have a defined contribution pension plan and a cash balance plan (pension plan linked to market interest rates), and a portion of the existing retirement and severance benefits are funded. Certain consolidated subsidiaries have a retirement pension plan. The Company has an employees' retirement benefit trust. The Company and certain consolidated subsidiaries made changes to their system of retirement and severance lump-sum payments for employees. As a result, the Company incurred prior service cost (increase in obligation).

   The gain on contribution of securities to employees' retirement benefit trust was attributable to the contribution of holdings of investments in securities to the employees' retirement benefit trust.

2. Defined benefit plans (including plans that apply a simplified method)

(1) Reconciliation of beginning-of-period and end-of-period balance of retirement benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance of retirement benefit obligations at beginning of period	¥196,214	¥191,743	$1,741,183
Service cost	10,219	10,722	90,682
Interest cost	2,773	3,130	24,607
Actuarial gains and losses	2,768	7,514	24,562
Retirement benefits paid	(15,416)	(14,834)	(136,800)
Prior service cost	189	32	1,677
Decrease due to transfer of benefit obligation related to welfare pension fund	–	(6,471)	–
Decrease due to business divestiture	(3,730)	–	(33,099)
Other (foreign currency translation difference, etc.)	(3,275)	4,378	(29,061)
Balance of retirement benefit obligations at end of period	¥189,742	¥196,214	$1,683,751

(2) Reconciliation of beginning-of-period and end-of-period balance of plan assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance of plan assets at beginning of period	**¥117,259**	¥ 96,139	**$1,040,544**
Expected return on plan assets	**1,698**	1,722	**15,067**
Actuarial gains and losses	**(16,956)**	21,842	**(150,465)**
Contributions paid by the employer	**3,645**	4,756	**32,345**
Retirement benefits paid	**(2,599)**	(2,650)	**(23,063)**
Decrease due to transfer of benefit obligation related to welfare pension fund	**–**	(6,466)	**–**
Decrease due to business divestiture	**(1,199)**	–	**(10,639)**
Other (foreign currency translation difference, etc.)	**(2,821)**	1,916	**(25,034)**
Balance of plan assets at end of period	**¥ 99,027**	¥117,259	**$ 878,755**

(3) Reconciliation between end-of-period balance of retirement benefit obligations and plan assets to liabilities, and liabilities and assets for retirement benefits presented on the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Retirement benefit obligations on funded plan	**¥166,662**	¥172,486	**$1,478,942**
Plan assets	**(99,027)**	(117,259)	**(878,755)**
	67,635	55,227	**600,187**
Retirement benefit obligations on unfunded plan	**23,080**	23,728	**204,809**
Net amount of liabilities and assets presented on the consolidated balance sheets	**¥ 90,715**	¥ 78,955	**$ 804,996**
Liability for retirement benefits	**¥ 90,789**	¥ 79,272	**$ 805,652**
Asset for retirement benefits	**(74)**	(317)	**(656)**
Net amount of liabilities and assets presented on the consolidated balance sheets	**¥ 90,715**	¥ 78,955	**$ 804,996**

(4) Breakdown of retirement benefit expense

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Service cost	**¥10,219**	¥10,722	**$ 90,682**
Interest cost	**2,773**	3,130	**24,607**
Expected return on plan assets	**(1,698)**	(1,722)	**(15,067)**
Amortization of actuarial gains and losses	**2,325**	2,886	**20,631**
Amortization of prior service costs	**728**	(35)	**6,460**
Retirement benefit expense related to defined benefit plan	**¥14,347**	¥14,981	**$127,313**
Profit due to transfer of benefit obligation related to welfare pension fund	**¥ –**	¥ 4	**$ –**

(5) Adjustments for retirement benefits

Adjustments for retirement benefits (before tax effects) comprised the following.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Prior service cost	**¥ 538**	¥ (63)	**$ 4,774**
Actuarial gains and losses	**(17,399)**	17,190	**(154,396)**
Total	**¥(16,861)**	¥17,127	**$(149,622)**

(6) Accumulated adjustments for retirement benefits

Accumulated adjustments for retirement benefits (before tax effects) comprised the following.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Unrecognized prior service cost	**¥ (2,504)**	¥ (3,043)	**$ (22,220)**
Unrecognized actuarial gains and losses	**(26,169)**	(8,769)	**(232,221)**
Total	**¥(28,673)**	¥(11,812)	**$(254,441)**

(7) Plan assets

1 Main breakdown of plan assets

The breakdown of main asset categories as a percentage of total plan assets is as follows:

	2016	2015
Bonds	**19%**	13%
Equities	**72%**	75%
Cash and deposits	**1%**	0%
Others	**8%**	12%
Total	**100%**	100%

Note: As of March 31, 2016 and 2015, the employees' retirement benefit trust established as part of the retirement benefit plan is included in the plan assets and represents a 61% and 65% portion of the plan assets, respectively.

2 Method for setting long-term expected rate of return

To determine the expected rate of return on plan assets, the Company takes into account the current and expected allocation of plan assets and the expected present and future long-term rate of return on the diverse range of assets that makes up the plan assets.

(8) Underlying actuarial assumptions

The main underlying actuarial assumptions as of March 31, 2016 and 2015, respectively, were as follows:

(presented as the compound average)

	2016	2015
Discount rate	**0.60–3.86%**	1.16–3.86%
Long-term expected rate of return on plan assets	**3.00–6.75%**	3.00–6.75%
Rate of compensation increase	**5.80–7.30%**	3.50–7.25%

3. Defined contribution plan

As of March 31, 2016 and 2015, the required contribution by the Company and its consolidated subsidiaries to the defined contribution plan were ¥1,925 million ($17,082 thousand) and ¥1,312 million, respectively.

12. Contingent Liabilities

Contingent liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	**¥18,722**	¥21,779	**$166,137**

13. Net Assets

Under the Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as capital reserve, which is included in capital surplus. Under the Law, if a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of capital reserve and legal earnings reserve must be set aside as capital reserve or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Law, legal earnings reserve and capital reserve can be used to eliminate or reduce a deficit or capitalized by a resolution of the shareholders' meeting.

Capital reserve and legal earnings reserve may not be distributed as dividends. Under the Law, all capital reserve and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law.

14. Cost of Sales

The ending balance of inventories was measured at the lower of cost or market. Loss on the valuation of inventories included in the cost of sales for the years ended March 31, 2016 and 2014 was ¥876 million ($7,773 thousand) and ¥459 million, respectively. Gain on the valuation of inventories included in the cost of sales for the year ended March 31, 2015 was ¥1,064 million.

Provision for losses on construction contracts included in the cost of sales for the years ended March 31, 2016, 2015 and 2014 was ¥10,586 million ($93,939 thousand), ¥6,159 million and ¥6,332 million, respectively.

15. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses and product costs were as follows:

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	**2016**
Research and development expenses	**¥43,611**	¥41,606	¥40,398	**$386,999**

16. Other Expenses, Net

"Other expenses, net" in "Other income (expenses)" in the consolidated statements of income for the years ended March 31, 2016, 2015 and 2014 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	**2016**
Foreign exchange gain (loss), net	**¥ (6,532)**	¥(5,097)	¥(14,785)	**$ (57,964)**
Gain on sales of marketable securities and investments in securities	**283**	1,138	1,187	**2,511**
Loss on impairment of fixed assets (a)	**–**	–	(476)	**–**
Gain on contribution of securities to retirement benefit trust (b)	**–**	–	3,323	**–**
Loss on disaster (c)	**–**	–	(2,142)	**–**
Gain on transfer of business (d)	**901**	–	–	**7,995**
Loss on overseas business (e)	**(19,298)**	–	–	**(171,248)**
Gain on sales of property, plant and equipment (f)	**3,155**	–	–	**27,997**
Other, net	**(76)**	(2,650)	(2,490)	**(674)**
Total	**¥(21,567)**	¥(6,609)	¥(15,383)	**$(191,383)**

(a) Loss on impairment of fixed assets

Owing to a decline in the profitability or the market prices of certain asset groups, the Company and its consolidated subsidiaries reduced the book value of certain assets to the recoverable amount. Assets are grouped mainly by units of business. However, significant assets for rent or those that are idle are treated separately. Recoverable amounts were determined by the higher of the net salable value or value in use, and net salable value was estimated by appraisal or property tax assessment.

Asset groups for which the Company and its consolidated subsidiaries recognized impairment loss for the year ended March 31, 2014 were as follows:

Function or status	Location	Type of assets
Operating property	Kitakyushu City, Fukuoka	Land, buildings and structures, etc.

Impairment loss for the year ended March 31, 2014 consisted of the following:

	Millions of yen
Land	¥381
Buildings and structures	63
Other	32
Total	¥476

(b) Gain on contribution of securities to retirement benefit trust

Gain on contribution of securities to retirement benefit trust was attributable to the contribution of holdings of investments in securities to the employees' retirement benefit trust.

(c) Loss on disaster

Loss on disaster was recognized as a result of a major snowstorm on February 15, 2014, which caused the collapse of an aircraft hangar's roof at a consolidated subsidiary's NIPPI Corporation's Atsugi Plant. The loss was largely attributable to the destruction of fixed assets and inventory and the expenses associated with tearing down the building.

(d) Gain on transfer of business

This gain was due to assignment of all shares of consolidated subsidiary KCM Corporation and all businesses of KCMJ Corporation.

(e) Loss on overseas business

Enseada Indústria Naval S.A. (hereinafter called 'Enseada'), a joint venture for shipbuilding in which KHI holds a 30% stake, has received no payments for drill ship construction work currently in progress for more than a year due to corruption problems in Brazil. This situation has seriously eroded Enseada's financial and cash flow positions. As a result, Enseada has fallen behind in its payments to KHI for the transfer of technology and for the construction of drill ship hull parts at KHI Sakaide Works. Enseada has also been unable to make progress on the repayment of loans extended by KHI.

Despite this adverse business situation, Enseada remains a going concern, and KHI continues to cooperate with Enseada in line with the underlying joint venture agreement. However, considering the asset value of investment in and loans to Enseada as well as the recoverability of trade receivables, KHI has decided to implement the necessary accounting treatment based on its revaluation under relevant accounting principles.

Accounting treatment of losses on a consolidated basis for the fiscal year ended March 31, 2016 is presented below.

1. Setting of allowance for doubtful receivables on trade receivables from Enseada and loss on valuation of inventories (work in process) destined for Enseada
   ¥19,298 million ($171,248 thousand) (Other expenses, net)
2. Losses on valuation of investments in and loans receivable from Enseada
   ¥2,847 million ($25,263 thousand) (Equity in income of nonconsolidated subsidiaries and affiliates)
3. Total
   ¥22,145 million ($196,512 thousand)

(f) Gain on sales of property, plant and equipment

This gain was mainly due to realization of deferred revenue recognized from sale and leaseback transactions of fixed assets owned by North American subsidiaries.

17. Consolidated Statement of Comprehensive Income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Unrealized gains (losses) on securities			
Increase (decrease) during the year	**¥ (1,303)**	¥ 1,833	**$ (11,562)**
Reclassification adjustments	**(48)**	(834)	**(426)**
Subtotal, before tax	**(1,351)**	999	**(11,988)**
Tax (expense) or benefit	**441**	(216)	**3,913**
Subtotal, net of tax	**(910)**	783	**(8,075)**
Deferred gains (losses) on hedges			
Increase (decrease) during the year	**(2,271)**	(10,498)	**(20,152)**
Reclassification adjustments	**6,183**	13,432	**54,866**
Subtotal, before tax	**3,912**	2,934	**34,714**
Tax (expense) or benefit	**(1,263)**	(1,074)	**(11,208)**
Subtotal, net of tax	**2,649**	1,860	**23,506**
Foreign currency translation adjustments			
Increase (decrease) during the year	**(11,592)**	12,384	**(102,866)**
Reclassification adjustments	**(171)**	–	**(1,517)**
Subtotal, before tax	**(11,763)**	12,384	**(104,383)**
Tax (expense) or benefit	**–**	–	**–**
Subtotal, net of tax	**(11,763)**	12,384	**(104,383)**
Remeasurements of defined benefit plan			
Increase (decrease) during the year	**(19,913)**	14,304	**(176,706)**
Reclassification adjustments	**3,052**	2,823	**27,084**
Subtotal, before tax	**(16,861)**	17,127	**(149,622)**
Tax (expense) or benefit	**4,706**	(6,175)	**41,760**
Subtotal, net of tax	**(12,155)**	10,952	**(107,862)**
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	**(5,269)**	7,836	**(46,756)**
Total other comprehensive income	**¥(27,448)**	¥33,815	**$(243,570)**

18. Dividends

(a) Dividends paid

Year ended March 31, 2016

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 25, 2015 General Meeting of Shareholders	Common stock	¥11,694 million ($103,771 thousand)	¥7.0 ($0.06)	March 31, 2015	June 26, 2015
October 29, 2015 Board of Directors Meeting	Common stock	¥8,352 million ($74,114 thousand)	¥5.0 ($0.04)	September 30, 2015	December 1, 2015

Year ended March 31, 2015

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2014 General Meeting of Shareholders	Common stock	¥10,030 million	¥6.0	March 31, 2014	June 27, 2014
September 30, 2014 Board of Directors Meeting	Common stock	¥5,015 million	¥3.0	September 30, 2014	December 2, 2014

(b) Dividend payments for which the record date is the subject fiscal year but have an effective date in the succeeding consolidated fiscal year

Year ended March 31, 2016

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 24, 2016 General Meeting of Shareholders	Common stock	Retained earnings	¥11,694 million ($103,771 thousand)	¥7.0 ($0.06)	March 31, 2016	June 27, 2016

Year ended March 31, 2015

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 25, 2015 General Meeting of Shareholders	Common stock	Retained earnings	¥11,694 million	¥7.0	March 31, 2015	June 26, 2015

19. Income Taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporate tax (national tax) and enterprise and inhabitants' taxes (local taxes), which, in the aggregate, resulted in a statutory tax rate of approximately 32.9% and 35.4% for the years ended March 31, 2016 and 2015, respectively.

The significant differences between the statutory and effective tax rates for the years ended March 31, 2016 and 2015 were as follows:

	2016	2015
Statutory tax rate	**32.9%**	35.4%
Valuation allowance	**9.6**	1.0
Equity in income of nonconsolidated subsidiaries and affiliates	**(2.6)**	(2.5)
Changing tax rate	**2.9**	5.4
Tax credit for research and development expenses	**(3.6)**	(4.3)
Other	**(2.9)**	1.1
Effective tax rate	**36.3%**	36.0%

Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Deferred tax assets:			
Accrued bonuses	**¥ 8,863**	¥ 9,781	**$ 78,649**
Liability for retirement benefits	**40,091**	37,786	**355,763**
Allowance for doubtful receivables	**3,863**	674	**34,279**
Inventories–elimination of intercompany profits	**2,881**	3,644	**25,565**
Fixed assets–elimination of intercompany profits	**529**	792	**4,694**
Depreciation	**7,834**	9,178	**69,518**
Net operating loss carryforwards	**34**	176	**301**
Loss from inventory revaluation	**1,457**	1,349	**12,929**
Unrealized loss on marketable securities, investments in securities and other	**1,224**	1,874	**10,861**
Loss on valuation of land	**1,552**	1,754	**13,772**
Provision for product warranties	**3,260**	2,904	**28,928**
Provision for losses on construction contracts	**2,338**	1,812	**20,747**
Stock investment to subsidiary	**2,180**	2,734	**19,345**
Other	**18,102**	19,791	**160,640**
Gross deferred tax assets	**94,208**	94,249	**835,991**
Less valuation allowance	**(16,739)**	(11,173)	**(148,540)**
Total deferred tax assets	**77,469**	83,076	**687,451**
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	**3,572**	3,935	**31,697**
Net unrealized gain on securities	**1,056**	1,504	**9,370**
Retained earnings for foreign subsidiaries	**6,425**	6,455	**57,014**
Other	**4,717**	4,920	**41,860**
Total deferred tax liabilities	**15,770**	16,814	**139,941**
Net deferred tax assets	**¥61,699**	¥ 66,262	**$ 547,510**

<Amendments to the amounts of deferred tax assets and deferred tax liabilities owing to changes in corporate tax rates>

The Act on Partial Amendment to the Income Tax Act, etc., (Act No. 15, 2016) and Act on Partial Amendment to the Local Tax Act, etc., (Act No. 13, 2016) were enacted by the National Diet on March 29, 2016. Pursuant to these acts, the corporate tax rate and other rates have been lowered for fiscal years beginning on or after April 1, 2016. Accompanying these changes, the statutory income tax rate used for calculating deferred tax assets and deferred tax liabilities, which was previously 32.1%, is 30.7% for temporary differences expected to be reversed in the fiscal years beginning April 1, 2016 and April 1, 2017 and is 30.5% for temporary differences expected to be reversed in fiscal years beginning April 1, 2018 or subsequent fiscal years.

In accordance with these tax rate changes, the amount of deferred tax assets (after deducting deferred tax liabilities) decreased by ¥2,493 million ($22,122 thousand), the amount of income taxes–deferred increased by ¥2,136 million ($18,954 thousand), net unrealized gains on securities increased by ¥48 million ($425 thousand), deferred gains on hedges increased by ¥13 million ($115 thousand) and remeasurements of defined benefit plans decreased by ¥419 million ($3,718 thousand).

20. Cash and Cash Equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2016, 2015 and 2014 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	**2016**
Cash on hand and in banks:	**¥42,157**	¥51,645	¥47,949	**$374,097**
Time deposits with maturities over three months:	**(4,325)**	(3,924)	(2,518)	**(38,380)**
Total	**¥37,832**	¥47,721	¥45,431	**$335,717**

<Breakdown of main assets and liabilities of former consolidated subsidiaries excluded from the scope of consolidation owing to the sale of shares during the fiscal year ended March 31, 2016.>

Accompanying the exclusion of KCM Corporation and two other former consolidated subsidiaries from the scope of consolidation owing to the sale of shares, the relationship between the breakdown of assets and liabilities at the time of the sales, the share sale amounts and proceeds from these sales are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 19,719**	**$ 174,984**
Fixed assets	**5,727**	**50,820**
Current liabilities	**(16,047)**	**(142,399)**
Long-term liabilities	**(3,641)**	**(32,309)**
Non-controlling interests	**(1,198)**	**(10,631)**
Net unrealized losses on securities, net of tax	**19**	**168**
Foreign currency translation adjustments	**(170)**	**(1,508)**
Accumulated adjustments for retirement benefits	**198**	**1,757**
Gain on transfer of business	**901**	**7,995**
Sales prices of stocks	**5,508**	**48,877**
Cash and cash equivalents	**118**	**1,047**
Proceeds from sales of business	**¥ 5,390**	**$ 47,830**

21. Net Income per Share

Per share amounts for the years ended March 31, 2016, 2015 and 2014 are set forth in the table below.

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	**2016**
Basic net income per share:				
Net income	**¥46,043**	¥51,639	¥38,601	**$408,581**
Net income allocated to common stock	**46,043**	51,639	38,601	**408,581**
	Number of shares in millions			
Weighted average number of shares of common stock	**1,670**	1,671	1,671	

As the Company had no dilutive securities at March 31, 2016, 2015 and 2014, the Company has not disclosed diluted net income per share for the years ended March 31, 2016, 2015 and 2014.

22. Derivative Transactions

(a) Outstanding positions and recognized gains and losses at March 31, 2016 were as follows:

(Derivative transactions to which the Company did not apply hedge accounting)

	2016				
	Millions of yen				Thousands of U.S. dollars
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)	Gain (loss)
Currency-related contracts:					
Foreign exchange contracts:					
To sell					
USD	¥14,147	¥ –	¥ 360	¥ 360	$ 3,194
EUR	329	–	20	20	177
Others	8,844	–	96	96	851
To purchase					
USD	7,819	–	(260)	(260)	(2,307)
EUR	255	–	(8)	(8)	(70)
Others	780	–	(11)	(11)	(97)
Interest rate and currency swaps					
U.S. dollars floating-rate receipt/fixed-rate payment	6,993	4,305	3,066	3,066	27,207
Total	¥39,167	¥4,305	¥3,263	¥3,263	$28,955

Fair value is based on prices provided by financial institutions, etc.

(Derivative transactions to which the Company applied hedge accounting)

	2016			
		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Currency-related contracts:				
Foreign exchange contracts:				
To sell	Trade receivables			
USD		¥28,063	¥3,065	¥ 935
EUR		12,163	–	223
Others		765	–	(13)
To purchase	Trade payables			
USD		13,745	4,144	(178)
EUR		4,658	514	27
Others		4,711	756	(9)
Total		¥64,105	¥8,479	¥ 985

Fair value is based on prices provided by financial institutions, etc.

	2016			
		Thousands of U.S. dollars		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Currency-related contracts:				
Foreign exchange contracts:				
To sell	Trade receivables			
USD		$249,028	$27,198	$ 8,297
EUR		107,934	–	1,978
Others		6,789	–	(116)
To purchase	Trade payables			
USD		121,971	36,773	(1,579)
EUR		41,334	4,561	239
Others		41,805	6,709	(79)
Total		$568,861	$75,241	$ 8,740

Fair value is based on prices provided by financial institutions, etc.

	2016			
		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest-related contracts:				
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/fixed-rate payment	Long-term debt	¥6,993	¥4,305	¥56
		¥6,993	¥4,305	¥56

Fair value is based on prices provided by financial institutions, etc.

	2016			
		Thousands of U.S. dollars		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest-related contracts:				
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/fixed-rate payment	Long-term debt	$62,055	$38,202	$496
		$62,055	$38,202	$496

Fair value is based on prices provided by financial institutions, etc.

(b) Outstanding positions and recognized gains and losses at March 31, 2015 were as follows:

(Derivative transactions to which the Company did not apply hedge accounting)

	2015			
	Millions of yen			
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)
Currency-related contracts:				
Foreign exchange contracts:				
To sell				
USD	¥38,914	¥ 602	¥(2,402)	¥(2,402)
EUR	1,456	–	93	93
Others	13,806	–	(1,208)	(1,208)
To purchase				
USD	8,595	4,677	111	111
EUR	921	–	(55)	(55)
Others	1,930	–	56	56
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/fixed-rate payment	6,993	6,993	3,765	3,765
Total	¥72,615	¥12,272	¥ 360	¥ 360

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company applied hedge accounting)

	2015			
		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Currency-related contracts:				
Foreign exchange contracts:				
To sell	Trade receivables			
USD		¥ 58,038	¥ 6,114	¥(4,318)
EUR		12,097	–	432
Others		4,183	–	(320)
To purchase	Trade payables			
USD		13,501	9,718	956
EUR		6,230	1,767	(43)
Others		8,126	134	298
Total		¥102,175	¥17,733	¥(2,995)

Fair value is based on prices provided by financial institutions, etc.

	2015			
		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest-related contracts:				
Deferral hedge accounting				
Interest rate swap				
Floating-rate receipt/fixed-rate payment	Short-term debt	¥2,000	¥ –	¥ (4)
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/fixed-rate payment	Long-term debt	6,993	6,993	67
Total		¥8,993	¥6,993	¥63

Fair value is based on prices provided by financial institutions, etc.

23. Financial Instruments

Information related to financial instruments as of March 31, 2016 and 2015 was as follows.

(1) Matters related to the status of financial instruments

(a) Policies on the use of financial instruments

The Company meets its long-term operating capital and capital expenditure requirements through bank loans and the issuance of bonds and meets its short-term operating capital requirements through bank loans and the issuance of short-term bonds (electronic commercial paper). Temporary surplus funds are managed in the form of financial assets that have a high level of safety. The Company utilizes derivative financial instruments to hedge the risks described below and does not engage in speculative transactions as a matter of policy.

(b) Details of financial instruments and risks associated with those instruments

Trade receivables are exposed to the credit risk of customers. The Company operates internationally and has significant exposure to the risk of fluctuation in foreign exchange rates. However, this risk is hedged using exchange contracts, etc., against the net position of foreign currency exposure. Investments in securities mainly comprise equity securities of companies with which the Company conducts business and are held to maintain relationships with these business partners. With such securities, listed stocks are exposed to market fluctuation risk.

Almost all trade payables and electronically recorded obligations are due within one year. A portion of trade payables are denominated in foreign currency—specifically those related to payment for imported materials, etc., and are exposed to the risk of foreign currency fluctuation. However, this risk is mitigated principally by the position of trade payables denominated in foreign currency being less than the position of receivables in the same currency. Loans payable and bonds payable are mainly used to raise operating capital and carry out capital expenditure and are due in a maximum of ten years from March 31, 2016. A portion of these instruments is exposed to the risk of interest rate fluctuation. However, such risk is hedged using derivatives (interest rate and currency swaps) as necessary.

In sum, derivatives comprise exchange and currency option contracts used to hedge foreign currency fluctuation risk on receivables and payables in foreign currencies and interest rate swap contracts to hedge interest rate fluctuation risk on debt. With regard to hedge accounting, see Note 2(t), "Hedge accounting".

(c) Risk management system for financial instruments

(i) Management of credit risk, including customer default risk

The Company's sales management functions and those of its consolidated subsidiaries regularly evaluate the financial circumstances of customers and monitor the due dates and balances by customer to identify and limit doubtful accounts.

With regard to derivative transactions, the Company enters into contracts with highly rated financial institutions to reduce counterparty risk. The amount presented in the balance sheet is the maximum credit risk at the fiscal year-end of the financial instruments that are exposed to credit risk.

(ii) Management of market risk (related to foreign currency exchange rates, interest rates, etc.)

The Company and certain of its consolidated subsidiaries hedge foreign currency fluctuation risk on receivables and payables in foreign currencies using exchange contracts, which are categorized by the type of currency and the monthly due date. In principle, the net position of receivables less payables in foreign currency is hedged with forward exchange contracts. The Company and certain of its consolidated subsidiaries hedge interest rate risk on debt using interest rate swap contracts.

With regard to investments in securities, the Company reviews its holding policies through periodic analysis of market prices and the financial condition of the issuers, taking into consideration relationships with business partners.

With regard to derivatives, in accordance with rules for the provision of transaction authorization, the Company's finance functions and those of its consolidated subsidiaries manage transactions in accordance with an established set of fundamental policies, such as those covering limitations on transaction amounts, under the authority of the director in charge of finance. Transactions are reported to the director in charge of finance on a monthly basis. Consolidated subsidiaries manage derivatives in accordance with the same rules as those of the Company.

(iii) Management of liquidity risk (risk of the Company being unable to meet its payment obligations by their due dates)

The Company manages liquidity risk through its finance department, maintaining and updating its finance plans based on reports from each business division. Liquidity risk is managed through the diversification of financing methods, taking into consideration the financing environment and balancing long- and short-term financing requirements, securing commitment lines, etc.

(d) Supplemental information on the fair value of financial instruments

The fair value of financial instruments includes values based on market price and reasonably estimated values when market price is not available. However, as variables are inherent in these value calculations, the resulting values may differ if different assumptions are used. With regard to the contract amounts, etc., of the derivatives described in Note 22, "Derivative transactions", these amounts do not represent the market risk associated with the corresponding derivative transactions themselves.

(2) Fair values of financial instruments

The book values, the fair values and the differences between these values as of March 31, 2016 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	2016			
	Millions of yen			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Cash on hand and in banks	¥ 42,157	¥ 42,157	¥ –	$ –
Trade receivables	381,339	381,337	(2)	(17)
Investments in securities	7,683	7,683	0	0
Total assets	¥431,179	¥431,177	¥ (2)	$ (17)
Trade payables	233,979	233,979	–	–
Electronically recorded obligations	87,798	87,798	–	–
Short-term debt and current portion of long-term debt (excluding lease obligations)	115,892	115,892	–	–
Long-term debt, less current portion (excluding lease obligations)	280,810	285,039	4,229	37,527
Total liabilities	¥718,479	¥722,708	¥4,229	$37,527
Derivative transactions (*)	¥ 4,304	¥ 4,304	¥ –	$ –

(*) Derivative financial instruments are presented as net amounts. Negative amounts stated with parentheses ( ) indicate that the net amount is a liability.

The book values, fair values and the differences between these values as of March 31, 2015 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	2015		
	Millions of yen		
	Book value	Fair value	Unrealized gains (losses)
Cash on hand and in banks	¥ 51,645	¥ 51,645	¥ –
Trade receivables	421,890	421,817	(73)
Investments in securities	8,808	8,807	(1)
Total assets	482,343	482,269	(74)
Trade payables	253,907	253,907	–
Electronically recorded obligations	85,453	85,453	–
Short-term debt and current portion of long-term debt (excluding lease obligations)	142,338	142,338	–
Long-term debt, less current portion (excluding lease obligations)	269,752	272,313	(2,561)
Total liabilities	¥751,450	¥754,011	¥(2,561)
Derivative transactions (*)	¥ (2,575)	¥ (2,575)	¥ –

(*) Derivative financial instruments are presented as net amounts. Negative amounts stated with parentheses ( ) indicates that the net amount is a liability.

(i) Methods used to calculate the fair value of financial instruments and details of securities and derivative instruments.

<Assets>

- Cash on hand and in banks

The fair value of cash on hand and in banks is stated at the relevant book value since the settlement periods are short and the fair values are substantially the same as the book values.

- Trade Receivables

The fair value of trade receivables is stated at present value computed by applying a discount rate reflecting the settlement period and the credit risk.

- Investments in securities

Equity securities are stated at the fair value, and bonds are stated at market price or the asking price of financial institutions. See Note 2(k), “Investments in securities”, for the detailed information by classification.

<Liabilities>

- Trade payables, electronically recorded obligations, short-term debt and current portion of long-term debt

Since the settlement periods of these items are short and their fair values are substantially the same as their book values, the relevant book values are used.

- Long-term debt, less current portion

The fair value of bonds payable is calculated based on trading reference data. The fair value of long-term debt is calculated by applying a discount rate to the total principal and interest. That discount rate is based on the interest rates of similar new loans.

<Derivatives>

See Note 22, “Derivative Transactions.”

(ii) Financial instruments for which the fair value is extremely difficult to determine.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Unlisted equity securities and investments in partnerships	**¥ 6,099**	¥ 6,681	**$ 54,122**
Stocks of nonconsolidated subsidiaries and affiliates	**9,070**	11,652	**80,486**
Investments in affiliates	**66,383**	68,576	**589,076**
Total	**¥81,552**	¥86,909	**$723,684**

Since no market values are available for these items and since it is extremely difficult to determine their fair values, the items listed in the table above are not included in investments in securities.

(iii) Planned redemption amounts after the balance sheet date for monetary receivables and investments in securities with maturity dates as of March 31, 2016 and 2015 were as follows:

	2016			
	Millions of yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**¥ 42,517**	**¥ –**	**¥–**	**¥–**
Trade receivables	**376,416**	**4,923**	**–**	**–**
Investments in securities				
-Bonds	**101**	**30**	**–**	**–**
Total	**¥418,674**	**¥4,953**	**¥–**	**¥–**

	2016			
	Thousands of U.S. dollars			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**$ 374,097**	**$ –**	**$–**	**$–**
Trade receivables	**3,340,278**	**43,686**	**–**	**–**
Investments in securities				
-Bonds	**896**	**266**	**–**	**–**
Total	**$3,715,271**	**$43,952**	**$–**	**$–**

	2015			
	Millions of yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	¥ 51,645	¥ –	¥–	¥–
Trade receivables	404,315	17,575	–	–
Investments in securities				
-Bonds	–	131	–	–
Total	¥455,960	¥17,706	¥–	¥–

(iv) Planned repayment amounts after the balance sheet date for bonds payable and long-term debt. See Note 9, “Short-term debt and Long-term debt.”

24. Finance Leases

As discussed in Note 2(u), finance leases commenced prior to April 1, 2008 which do not transfer ownership of the leased assets to the lessee are accounted for as operating leases. Information regarding such leases, as required to be disclosed in Japan, was as follows:

<Lessee>

The original costs of leased assets under non-capitalized finance leases and the related accumulated depreciation and amortization, assuming it was calculated by the straight-line method over the term of the respective lease, as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Property, plant and equipment	**¥ 13,845**	¥ 16,054	**$122,859**
Accumulated depreciation	**(11,034)**	(11,662)	**(97,915)**
	2,811	4,392	**24,944**
Intangible assets	**22**	22	**195**
Accumulated amortization	**(12)**	(8)	**(107)**
	¥ 10	¥ 14	**$ 88**

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Current portion	**¥1,303**	¥1,490	**$11,562**
Noncurrent portion	**1,782**	3,100	**15,813**
Total	**¥3,085**	¥4,590	**$27,375**

Lease payments, "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases for the years ended March 31, 2016, 2015 and 2014 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	**2016**
Lease payments	**¥1,656**	¥2,167	¥2,713	**$14,695**
Depreciation and amortization	**1,469**	1,919	2,428	**13,035**
Interest	**97**	144	195	**860**

25. Operating Leases

The schedule of future minimum lease payments under non-cancellable operating leases as of March 31, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Within one year	**¥ 2,219**	¥1,821	**$19,691**
Over one year	**8,249**	6,314	**73,201**
Total	**¥10,468**	¥8,135	**$92,892**

26. Related to Corporate Combinations, Etc.

<Business Divestiture>

On October 1, 2015, KHI assigned all shares of consolidated subsidiary KCM Corporation (hereafter "KCM") (Hyogo Prefecture) to Hitachi Construction Machinery Co., Ltd. (Tokyo).

(1) Overview of Business Divestiture

1. Name of company to which shares were assigned
   Hitachi Construction Machinery Co., Ltd. (hereafter "HCM")
2. Details of divested business
   Manufacturing and sale of construction machines, etc.
3. Reason for business divestiture
   Since October 2008, KHI and HCM have had a business alliance covering wheel-loader operations, including joint research and development of new models of wheel loaders to meet the Tier 4 exhaust emission regulations. KCM was established in January 2009 and acquired KHI's wheel-loader operations by assignment in April of the same year. With HCM's capital investment in June 2010, KCM further accelerated joint development on new models of wheel loaders and on an efficient production system. KHI agreed to HCM's proposal, having judged that it would be effective to pursue synergies within the HCM Group for the further development of KCM under a policy of investing management resources in a focused manner in order to enhance enterprise value amidst intensifying global competition in the construction machine industry. The businesses of KCMJ Corporation, which engages in sales and servicing operations for KCM products within Japan, were transferred to Hitachi Construction Machinery Japan Co., Ltd. on the same date as the execution of the transfer of KCM shares.
4. Date of business divestiture
   October 1, 2015.
5. Overview of transaction including legal format
   Transfer of shares and transfer of related assets for which compensation received is solely in the form of assets such as cash.

(2) Overview of Accounting Treatment

1. Amount of transferred income and loss
   ¥901 million ($7,995 thousand)
2. Fair book values of assets and liabilities related to the transferred business and breakdown of each

	Millions of yen	Thousands of U.S. dollars
Current assets	¥19,720	$174,994
Fixed assets	5,727	50,820
Total assets	¥25,447	$225,814
Current liabilities	¥16,048	$142,409
Long-term liabilities	3,641	32,309
Total liabilities	¥19,689	$174,718

3. Accounting Treatment
   For the transfer of the shares, accounting treatment was implemented pursuant to "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013).

(3) Name of reporting segment to which divested businesses belonged
Other

(4) Estimated operating performance of divested businesses posted in consolidated statements of income for the fiscal year ended March 31, 2016.
Net sales ¥18,777 million ($166,625 thousand)
Operating income ¥159 million ($1,410 thousand)

27. Segment Information

(a) Overview of reportable segments

The Company's reportable segments are components of the Company for which separate financial information is available. These segments are subject to periodic review by the Company's Board of Directors to determine the allocation of resources and assess performance. The Company's operations are divided into internal companies based on product categories. Certain authority is delegated to each of the internal companies based on whether they conduct businesses in Japan or overseas. The Company's operations are therefore segmented based on each internal company's product categories. The Company's eight reportable segments are the Ship & Offshore Structure segment, the Rolling Stock segment, the Aerospace segment, the Gas Turbine & Machinery segment, the Plant & Infrastructure segment, the Motorcycle & Engine segment, the Precision Machinery segment and the Other segment.

The main businesses in the Company's reportable segments are set forth in the table below.

Business segment	Major products
Ship & Offshore Structure	Construction and sale of ships and other vessels, etc.
Rolling Stock	Production and sale of rolling stock, snow plows, etc.
Aerospace	Production and sale of aircraft, etc.
Gas Turbine & Machinery	Production and sale of jet engines, general-purpose gas turbine generators, prime movers, etc.
Plant & Infrastructure	Production and sale of industrial equipment, boilers, environmental equipment, steel structures, crushers, etc.
Motorcycle & Engine	Production and sale of motorcycles, personal watercraft, all-terrain vehicles (ATV), utility vehicles, general-purpose gasoline engines, etc.
Precision Machinery	Production and sale of industrial hydraulic products, industrial robots, etc.
Other	Commercial activities, sales/order agency and intermediary activities, administration of welfare facilities, etc.

(b) Calculation methods for sales, income (loss), assets, liabilities and other items by reportable segment

Accounting methods applied for the calculation of sales, income (loss), assets, liabilities and other items by business segment largely correspond to information presented under Note 2, “Significant accounting policies.” Segment income is based on operating income. Intersegment sales and transfers are based on market prices.

(c) Sales, income (loss), assets, liabilities and other items by reportable segment

Year ended March 31, 2016

Millions of yen

	Sales					Other items		
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	**¥ 94,888**	**¥ 2,792**	**¥ 97,680**	**¥ (7,926)**	**¥ 155,063**	**¥ 995**	**¥52,063**	**¥ 2,672**
Rolling Stock	**146,646**	**1,230**	**147,876**	**9,299**	**171,323**	**2,914**	**153**	**2,536**
Aerospace	**351,858**	**1,727**	**353,585**	**45,657**	**378,982**	**13,435**	**–**	**28,760**
Gas Turbine & Machinery	**236,445**	**16,634**	**253,079**	**16,961**	**314,549**	**4,333**	**745**	**7,918**
Plant & Infrastructure	**135,668**	**14,205**	**149,873**	**8,515**	**120,741**	**1,473**	**17,276**	**1,444**
Motorcycle & Engine	**333,595**	**1,117**	**334,712**	**15,769**	**243,733**	**13,159**	**1,332**	**14,513**
Precision Machinery	**133,175**	**15,518**	**148,693**	**8,542**	**142,960**	**6,034**	**371**	**8,130**
Other	**108,821**	**38,927**	**147,748**	**2,899**	**71,372**	**1,617**	**3,004**	**3,933**
Total	**¥1,541,096**	**¥ 92,150**	**¥1,633,246**	**¥99,716**	**¥1,598,723**	**¥43,960**	**¥74,944**	**¥69,906**
Adjustments	**–**	**(92,150)**	**(92,150)**	**(3,720)**	**21,735**	**5,044**	**–**	**6,404**
Consolidated total	**¥1,541,096**	**¥ –**	**¥1,541,096**	**¥95,996**	**¥1,620,458**	**¥49,004**	**¥74,944**	**¥76,310**

Year ended March 31, 2015

Millions of yen

	Sales					Other items		
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥ 90,327	¥ 3,289	¥ 93,616	¥ 2,675	¥ 171,736	¥ 805	¥56,749	¥ 3,317
Rolling Stock	121,519	3,737	125,256	6,044	169,469	2,837	144	3,256
Aerospace	325,083	2,161	327,244	36,318	363,417	10,823	–	34,780
Gas Turbine & Machinery	218,794	17,638	236,432	11,269	296,359	3,913	1,436	7,053
Plant & Infrastructure	121,113	18,860	139,973	6,574	124,938	1,345	17,306	2,293
Motorcycle & Engine	329,240	808	330,048	14,923	271,746	13,245	1,212	15,788
Precision Machinery	135,782	14,423	150,205	10,908	134,868	5,162	7	6,175
Other	144,265	40,951	185,216	3,990	101,985	2,226	2,865	2,173
Total	¥1,486,123	¥ 101,867	¥1,587,990	¥92,701	¥1,634,518	¥40,356	¥79,719	¥74,835
Adjustments	–	(101,867)	(101,867)	(5,442)	27,765	4,216	–	5,261
Consolidated total	¥1,486,123	¥ –	¥1,486,123	¥87,259	¥1,662,283	¥44,572	¥79,719	¥80,096

Year ended March 31, 2014

Millions of yen

	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥ 80,863	¥ 1,777	¥ 82,640	¥ (2,006)	¥ 129,542	¥ 755	¥ –	¥49,089	¥ 1,532
Rolling Stock	147,951	5,821	153,772	7,572	159,363	2,630	–	125	5,490
Aerospace	280,737	2,537	283,274	26,254	348,608	9,937	–	–	25,699
Gas Turbine & Machinery	189,241	16,923	206,164	10,486	279,356	3,155	–	1,424	8,300
Plant & Infrastructure	103,898	15,639	119,537	6,312	109,878	1,297	476	15,234	2,424
Motorcycle & Engine	322,248	794	323,042	16,100	252,933	10,241	–	1,099	17,250
Precision Machinery	123,276	13,568	136,844	10,415	124,989	4,435	–	6	7,734
Other	137,268	33,016	170,284	4,483	120,533	2,081	–	2,720	4,241
Total	¥1,385,482	¥ 90,075	¥1,475,557	¥79,616	¥1,525,202	¥34,531	¥476	¥69,697	¥72,670
Adjustments	–	(90,075)	(90,075)	(7,265)	29,228	3,307	–	–	15,056
Consolidated total	¥1,385,482	¥ –	¥1,385,482	¥72,351	¥1,554,430	¥37,838	¥476	¥69,697	¥87,726

Year ended March 31, 2016

Thousands of U.S. dollars

	Sales					Other items		
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	**$ 842,026**	**$ 24,775**	**$ 866,801**	**$ (70,337)**	**$ 1,376,014**	**$ 8,829**	**$462,001**	**$ 23,712**
Rolling Stock	**1,301,323**	**10,915**	**1,312,238**	**82,519**	**1,520,303**	**25,859**	**1,357**	**22,504**
Aerospace	**3,122,354**	**15,326**	**3,137,680**	**405,156**	**3,363,050**	**119,221**	**–**	**255,213**
Gas Turbine & Machinery	**2,098,189**	**147,608**	**2,245,797**	**150,510**	**2,791,276**	**38,450**	**6,611**	**70,263**
Plant & Infrastructure	**1,203,905**	**126,054**	**1,329,959**	**75,562**	**1,071,443**	**13,071**	**153,305**	**12,814**
Motorcycle & Engine	**2,960,289**	**9,912**	**2,970,201**	**139,933**	**2,162,862**	**116,771**	**11,820**	**128,787**
Precision Machinery	**1,181,782**	**137,706**	**1,319,488**	**75,801**	**1,268,613**	**53,546**	**3,292**	**72,144**
Other	**965,666**	**345,434**	**1,311,100**	**25,725**	**633,349**	**14,349**	**26,659**	**34,901**
Total	**$13,675,534**	**$ 817,730**	**$14,493,264**	**$884,869**	**$14,186,910**	**$390,096**	**$665,045**	**$620,338**
Adjustments	**–**	**(817,730)**	**(817,730)**	**(33,011)**	**192,875**	**44,760**	**–**	**56,829**
Consolidated total	**$13,675,534**	**$ –**	**$13,675,534**	**$851,859**	**$14,379,785**	**$434,856**	**$665,045**	**$677,167**

(d) Reconciliation and the main components of differences between the total for reportable segments and amounts on the consolidated financial statement for the years ended March 31, 2016, 2015 and 2014

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	**2016**
Net sales				
Total for reportable segments	**¥1,633,246**	¥1,587,990	¥1,475,557	**$14,493,264**
Intersegment transactions	**(92,150)**	(101,867)	(90,075)	**(817,730)**
Net sales reported on the consolidated financial statements	**¥1,541,096**	¥1,486,123	¥1,385,482	**$13,675,534**

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	2016
Income				
Total for reportable segments	¥99,716	¥92,701	¥79,616	$884,869
Intersegment transactions	(22)	(1,042)	(79)	(195)
Corporate expenses (*)	(3,698)	(4,400)	(7,186)	(32,815)
Operating income (loss) on the consolidated financial statements	¥95,996	¥87,259	¥72,351	$851,859

(*) Corporate expenses mainly comprise general and administrative expenses not attributed to reportable segments.

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	2016
Assets				
Total for reportable segments	¥1,598,723	¥1,634,518	¥1,525,202	$14,186,910
Intersegment transactions	(86,409)	(90,225)	(100,594)	(766,784)
Corporate assets shared by all segments (*)	108,144	117,990	129,822	959,659
Total assets on the consolidated financial statements	¥1,620,458	¥1,662,283	¥1,554,430	$14,379,785

(*) Corporate assets shared by all segments mainly comprise fixed assets not attributed to reportable segments.

	Millions of yen								
	Year ended March 31,								
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Other items	Total for reportable segments			Adjustments(*)			Amounts reported on the consolidated financial statements		
Depreciation/amortization	¥43,960	¥40,356	¥34,531	¥5,044	¥4,216	¥3,306	¥49,004	¥44,572	¥37,838
Increase in property, plant and equipment and intangibles	69,906	74,835	72,670	6,404	5,261	15,055	76,310	80,096	87,726

(*) Adjustment is mainly due to fixed assets not attributed to reportable segments.

	Thousands of U.S. dollars		
	Year ended March 31,		
	2016		
Other items	Total for reportable segments	Adjustments(*)	Amounts reported on the consolidated financial statements
Depreciation/amortization	$390,096	$44,760	$434,856
Increase in property, plant and equipment and intangibles	620,338	56,829	677,167

(e) Related information

(i) Sales by geographic region

Net sales for the years ended March 31, 2016, 2015 and 2014 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2016	2015	2014	2016
Japan	¥ 636,565	¥ 631,018	¥ 605,328	$ 5,648,815
United States	396,697	356,806	326,337	3,520,250
Europe	144,894	115,145	101,381	1,285,775
Asia	241,424	252,371	240,221	2,142,372
Other areas	121,516	130,783	112,215	1,078,322
Total	¥1,541,096	¥1,486,123	¥1,385,482	$13,675,534

Net sales are based on the clients' location and classified according to nation or geographical region.

Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Japan	¥378,381	¥358,868	$3,357,715
North America	23,566	24,048	209,122
Europe	3,692	3,794	32,762
Asia	30,090	32,792	267,015
Other areas	828	1,052	7,349
Total	¥436,557	¥420,554	$3,873,963

(ii) Information by major clients

	Net sales		
Clients	2016	2015	Related segments
Ministry of Defense	¥227,333 million ($2,017,330 thousand)	¥220,745 million	Ship & Offshore Structure, Aerospace, Gas Turbine & Machinery, etc.
Commercial Airplane Co., Ltd.	¥159,683 million ($1,417,011 thousand)	¥144,310 million	Aerospace

28. Related Party Transactions

(a) Related party transactions for the years ended March 31, 2016 and 2015 were as follows:

	Year ended March 31, 2016
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million ($88 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥159,683 million ($1,417,011 thousand)
Account	Trade receivables
Ending balance	¥11,621 million ($103,123 thousand)
Account	Advances from customers
Ending balance	¥46,015 million ($408,332 thousand)

	Year ended March 31, 2016
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Enseada Indústria Naval S.A.
Location	Bahia, Brazil
Capital or investment	¥12,219 million ($108,430 thousand)
Business or position	Ship & Offshore Structure
Rate of ownership (%)	Directly 31.09%
Description of relationship	Order of Company products, loan of cash and board members
Details of transactions	Sales of Company products
Amount of transactions	¥4,144 million ($36,773 thousand)
Details of transactions	Loan of cash
Amount of transactions	¥– ($–)
Account	Other and Allowance for doubtful receivables in Investments and intangible and other assets
Ending balance	¥4,687 million ($41,591 thousand)

	Year ended March 31, 2015
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥144,310 million
Account	Trade receivables
Ending balance	¥18,039 million
Account	Advances from customers
Ending balance	¥45,524 million

(b) A summary of the total financial information of all affiliates (2016: 20 companies, 2015: 17 companies) which was the basis for calculating the equity in income of nonconsolidated affiliates, including that of Nantong COSCO KHI Ship Engineering Co., Ltd., which is a significant affiliate, for the years ended March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current assets	¥187,324	¥228,547	$1,662,294
Fixed assets	328,698	335,498	2,916,833
Current liabilities	226,410	304,829	2,009,140
Long-term liabilities	122,746	76,195	1,089,235
Net assets	166,866	183,021	1,480,752
Net sales	282,477	364,687	2,506,673
Income before income taxes and non-controlling interests	5,722	16,774	50,776
Total net income	563	12,777	4,996

29. Subsequent Events

On June 24, 2016, the following appropriation of nonconsolidated retained earnings was approved at the ordinary meeting of shareholders of the Company:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥7.0 per share)	¥11,694	$103,771

30. Other Matters

(Quarterly financial information)

	Millions of yen			
Year ended March 31, 2016	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	¥340,042	¥708,194	¥1,065,556	¥1,541,096
Income before income taxes and non-controlling interests	15,358	40,292	47,649	74,832
Net income	7,492	26,878	29,574	46,043
	Yen			
Net income per share—basic	¥4.5	¥16.1	¥17.7	¥27.6

	Thousands of U.S. dollars			
Year ended March 31, 2016	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$3,017,499	$6,284,444	$9,455,639	$13,675,534
Income before income taxes and non-controlling interests	136,285	357,547	422,832	664,051
Net income	66,483	238,512	262,436	408,581
	U.S. dollars			
Net income per share—basic	$0.04	$0.14	$0.16	$0.24

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for each of the three years in the period ended March 31, 2016, in accordance with accounting principles generally accepted in Japan.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

23 June, 2016
Kobe, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Corporate Profile/Stock Information

(As of March 31, 2016)

Corporate Profile

Trade Name	Kawasaki Heavy Industries, Ltd.	
Head Offices	Tokyo Head Office:	14-5, Kaigan 1-chome, Minato-ku, Tokyo 105-8315, Japan
	Kobe Head Office:	Kobe Crystal Tower, 1-3, Higashikawasaki-cho 1-chome, Chuo-ku, Kobe, Hyogo 650-8680, Japan
President	Yoshinori Kanehana (Assumed on June 24, 2016)	
Number of Shares Issued	1,670,805,320	
Net Sales	●Consolidated:	¥1,541,096 million (Fiscal year ended March 31, 2016)
	●Non-consolidated:	¥1,161,065 million (Fiscal year ended March 31, 2016)
Number of Employees	●Consolidated:	34,605
	●Non-consolidated:	15,911

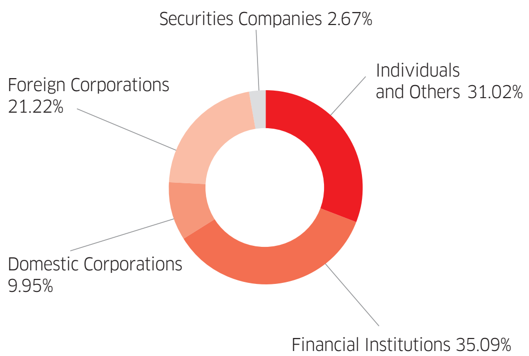
Stock Information

Stock Listings	Tokyo and Nagoya Stock Exchanges
Share Unit Number	1,000 shares
Total Number of Shares Authorized	3,360,000,000 shares
Total Number of Shares Issued	1,670,805,320 shares
Number of Shareholders	132,729 persons
Annual General Meeting of Shareholders	June

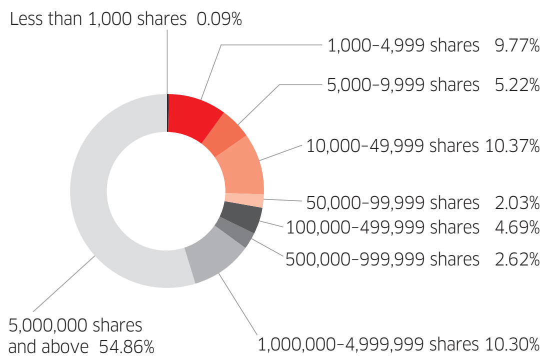
Major Shareholders

Shareholder	Number of Shares Owned	Percentage
The Master Trust Bank of Japan, Ltd. (Trust Account)	74,608,000	4.46%
Mizuho Bank, Ltd.	59,207,773	3.54%
Nippon Life Insurance Company	57,516,659	3.44%
JP MORGAN CHASE BANK 380055	57,474,799	3.43%
JFE Steel Corporation	56,174,400	3.36%
Japan Trustee Services Bank, Ltd. (Trust Account)	54,203,000	3.24%
Kawasaki Heavy Industries, Ltd. Kyoueikai	33,996,192	2.03%
Sompo Japan Nipponkoa Insurance Inc.	30,577,999	1.83%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	30,410,000	1.82%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	27,838,589	1.66%

Classified by Type of Shareholder



Classified by Number of Holdings



Base/Major Subsidiaries Introduction

(As of March 31, 2016)

Offices in Japan

- Tokyo Head Office
- Kobe Head Office
- Corporate Technology Division
- Sapporo Office
- Sendai Office
- Nagoya Office
- Osaka Office
- Hiroshima Office
- Fukuoka Office
- Okinawa Office

Production Bases in Japan

- Gifu Works
- Nagoya Works 1
- Nagoya Works 2
- Kobe Works
- Hyogo Works
- Seishin Works
- Nishi-Kobe Works
- Akashi Works
- Kakogawa Works
- Harima Works
- Sakaide Works

Overseas Offices

- Beijing Office
- Taipei Office
- Bangkok Office

Major Subsidiaries in Japan

- Kawasaki Techno Wave Co., Ltd.
- Kawaju Support Co., Ltd.
- Kawasaki Marine Engineering Co., Ltd.
- KHI JPS Co., Ltd.
- MES-KHI YURA DOCK CO., LTD.
- Alna Yusoki-Yohin Co., Ltd.
- Kawasaki Rolling Stock Component Co., Ltd.
- Kawasaki Rolling Stock Technology Co., Ltd.
- Kansai Engineering Co., Ltd.
- Sapporo Kawasaki Rolling Stock Engineering Co., Ltd.
- Nichijo Manufacturing Co., LTD.
- NIPPI Corporation
- Nippi Skill Corporation
- Kawaju Gifu Engineering Co., Ltd.
- Kawaju Gifu Service Co., Ltd.
- KGM Co., Ltd.
- Kawaju Akashi Engineering Co., Ltd.
- Kawasaki Thermal Engineering Co., Ltd.
- Kawasaki Machine Systems, Ltd.
- Kawasaki Prime Mover Engineering Co., Ltd.
- Kawasaki Naval Engine Service, Ltd.
- KEE Environmental Construction Co., Ltd.
- Kawasaki Environmental Plant Engineering Co., Ltd.
- Kawasaki Engineering Co., Ltd.
- Kawaju Facilitech Co., Ltd.
- EarthTechnica Co., Ltd.
- EarthTechnica M&S Co., Ltd.
- JP Steel Plantech Co.
- Kawasaki Motors Corporation Japan
- K-Tec Corporation
- Technica Corp.
- Autopolis
- Union Precision Die Co., Ltd.
- Kawasaki Robot Service, Ltd.
- Kawasaki Hydromechanics Corporation
- Medicaroid Corporation
- Kawasaki Trading Co., Ltd.
- Kawaju Service Co., Ltd.
- Kawasaki Technology Co., Ltd.
- Kawaju Heartfelt Service Co., Ltd.
- K Career Partners Corp.
- Benic Solution Corporation
- Kawasaki Life Corporation
- Nippi Kosan Co., Ltd

Overseas Subsidiaries & Affiliates

- Nantong COSCO KHI Ship Engineering Co., Ltd.
- Dalian COSCO KHI Ship Engineering Co., Ltd.
- Enseada Indùstria Naval S.A.
- Kawasaki Rail Car, Inc.
- Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.
- Kawasaki Gas Turbine Europe GmbH
- Kawasaki Gas Turbine Asia Sdn. Bhd.
- Tongfan Kawasaki Advanced Energy-saving Machine Co., Ltd.
- Kawasaki Machinery do Brasil Máquinas e Equipamentos Ltda.
- Kawasaki Heavy Industries (Europe) B.V.
- Kawasaki Heavy Industries (H.K.) Ltd.
- Wuhan Kawasaki Marine Machinery Co., Ltd.
- KHI Design & Technical Service Inc.
- Kawasaki Heavy Industries Machinery Trading (Shanghai) Co., Ltd.
- Anhui Conch Kawasaki Equipment Manufacturing Co., Ltd.
- Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd.
- Anhui Conch Kawasaki Engineering Co., Ltd.
- Shanghai COSCO Kawasaki Heavy Industries Steel Structure Co., Ltd.
- Kawasaki Motors Manufacturing Corp., U.S.A.
- Kawasaki Motors Corp., U.S.A.
- Canadian Kawasaki Motors Inc.
- Kawasaki Motores do Brasil Ltda.
- Kawasaki Motors Europe N.V.
- Kawasaki Motors Pty. Ltd.
- India Kawasaki Motors Pvt. Ltd.
- PT. Kawasaki Motor Indonesia
- Kawasaki Motors (Phils.) Corporation
- Kawasaki Motors Enterprise (Thailand) Co., Ltd.
- Changzhou Kawasaki and Kwang Yang Engine Co., Ltd.
- Kawasaki Precision Machinery (U.S.A.), Inc.
- Kawasaki Precision Machinery (UK) Ltd.
- Wipro Kawasaki Precision Machinery Private Limited
- Flutek, Ltd.
- Kawasaki Precision Machinery (Suzhou) Ltd.
- Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.
- Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd.
- Kawasaki Robotics (U.S.A.), Inc.
- Kawasaki Robotics (UK) Ltd.
- Kawasaki Robotics GmbH
- Kawasaki Robotics Korea, Ltd.
- Kawasaki Robotics (Tianjin) Co., Ltd.
- Kawasaki Robotics (Kunshan) Co., Ltd.
- Kawasaki (Chongqing) Robotics Engineering Co.,Ltd.
- Kawasaki Heavy Industries (U.S.A.), Inc.
- Kawasaki do Brasil Industria e Comercio Ltda.
- Kawasaki Trading do Brasil Ltda.
- Kawasaki Heavy Industries (U.K.) Ltd.
- Kawasaki Heavy Industries Middle East FZE
- Kawasaki Heavy Industries (India) Private Limited
- Kawasaki Heavy Industries (Singapore) Pte. Ltd.
- Kawasaki Heavy Industries Management (Shanghai) Ltd.
- Kawasaki Trading (Shanghai) Co., Ltd.
- KHI (Dalian) Computer Technology Co., Ltd.
- Kawasaki Heavy Industries Russia LLC
- Kawasaki Trading (Thailand) Co., Ltd.