Kawasaki
Powering your potential

Kawasaki Report 2017

Year ended March 31, 2017

Envisioning tomorrow

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

Kawasaki Heavy Industries, Ltd.

Printed in Japan

August 2017

Evolving our core

Kawasaki Group's Information Disclosure

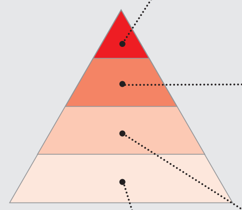
Information on how the Kawasaki Group creates value and achieves sustainable growth	Kawasaki Report 2017
Publication of detailed information and the latest information	Corporate Website https://global.kawasaki.com/en/ Investors · Corporate info · Products · R&D · Sustainability · Environment
Information for various stakeholders	*Securities Report (Japanese only)* · *Business Report (Japanese only)* · *Corporate Governance Report (Japanese only)* · *Kawasaki Technical Review* · *Kawasaki Environmental Report*

Financial information ← → Non-financial information

Cover
"duAro," dual-armed SCARA robot
Details on page 21

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.

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

IR information: https://global.kawasaki.com/en/corp/ir/

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

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

Period	This report covers fiscal 2017 (April 1, 2016 to March 31, 2017), but some fiscal 2018 content is also included.
Scope	The report covers Kawasaki Heavy Industries, Ltd., its 94 consolidated subsidiaries (42 in Japan and 52 overseas) and 18 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), the International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC) and the Environmental Reporting Guidelines (2012 Edition) issued by the Ministry of the Environment.
Frequency of Publication	Annually, in general *Previous number* – Issued in August 2016 *Following number* – Expected to be issued in August 2018
Contact us	Please make inquiries through the inquiry form on our website https://global.kawasaki.com/en/corp/profile/contact/

To Our Stakeholders

Kawasaki—and by extension, the Kawasaki Group—began as Kawasaki Tsukiji Shipyard in 1878, under founder Shozo Kawasaki's philosophy of "contributing to the nation—to society—through expertise." Responding to the needs of the day, the early company ventured into rolling stock and aircraft businesses and then a wide range of other pursuits, such as energy and environmental engineering and various kinds of industrial equipment, and motorcycles, inevitably becoming a comprehensive heavy industries enterprise.

During this time, the Group consistently has come out with uniquely innovative products and services integrating diverse, high-level technologies, thereby contributing solutions to social issues characteristic of the times and always delivering new value.

Going forward, our goal as a corporate group still hinges on the Group Mission: "Kawasaki, working as one for the good of the planet (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)." And to this end, we will continue to polish our technological expertise in the pursuit of originality and innovation, and we will strive to provide products and services that meet the diverse needs of our customers while maintaining a harmonious balance from a global environmental perspective.

Kawasaki Report 2017 describes the underlying corporate ideas we have embraced to achieve the Group Mission as well as business strategies, initiatives for a better global environment and activities that ensure we meet our social responsibilities as a good corporate citizen. We hope this report gives you deeper insight into what we do as the Kawasaki Group and provides a basis for enhanced communication between all our stakeholders and the Group.

Shigeru Murayama
Chairman of the Board

Shigeru Murayama

Yoshinori Kanehana
President
(Representative Director)

Toshinori Kanehana

Path of *monozukuri* manufacturing leads to the future


Shozo Kawasaki

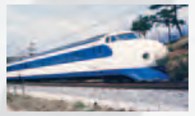

Kojiro Matsukata

- 1878 • Shozo Kawasaki, the founder, opens Kawasaki Tsukiji Shipyard (Tokyo).
- 1896 • Kawasaki Dockyard Co., Ltd. is incorporated (Kobe). (First President, Kojiro Matsukata)
- 1897 • Launches Cargo-Passenger Ship *Iyomaru* (727 GT). (Kawasaki Dockyard's first ship as a publicly traded company)

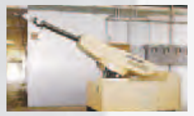
1900

- 1942 • Completes first mass production of Type 3 fighter Hien.

- 1961 • Exports a plant for the first time. (Cement plant for customer in Taiwan)
- 1964 • Delivers Series 0 *Shinkansen* electric train to the Japanese National Railways.

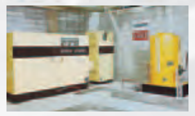


- 1969 • Develops first Kawasaki-Unimate 2000, the first Japan-made industrial robot.

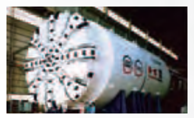


- 1971 • Delivers the first self-developed Kawasaki side thrusters.
- 1972 • Unveils Z1 motorcycle.

- 1974 • Completes self-developed S1A-01 Gas Turbine prototype. Delivers first GPS200 gas turbine generator in 1977.



- 1975 • Begins production of motorcycles in the U.S.
- 1981 • Delivers the first LNG carrier built in Japan.
- 1983 • Starts joint development of V2500 turbofan engines for Airbus A320 family with four other countries.
- 1991 • Tunnel boring machines successfully complete work on the Eurotunnel.



- 1996 • 100th anniversary

2000

- 2001 • Opens fully integrated rolling stock factory unique in the U.S.
- 2005 • Participates in the development and production of Boeing 787, next generation aircraft.
- 2007 • Kawasaki Green Gas Engine achieves world record for generating efficiency.
- 2012 • Establishes a joint venture in India for manufacture and sales of hydraulic components for construction machinery to build a global production structure in six countries (Japan, U.K., U.S., China, South Korea and India).
- 2015 • Debuts Ninja H2R/H2, featuring world's first mechanical drive centrifugal supercharger.

- 2016 • 120th anniversary

The Kawasaki Group contributes to solutions that address various social issues through the world's highest standards of technologies and consistently delivers new value.

Our Approach Towards Sustainable Value Creation

Realization of Group Mission

“Kawasaki, working as one for the good of the planet”

The Kawasaki Group consistently creates new value by drawing on diverse, high-level technological capabilities to contribute to solutions that address social issues around the world.

Contribute to solutions that address social issues

Global Social Issues

- Greater movement/ transportation of people and goods, paralleling globalization
- Heightened environmental risk
- *Emerging countries:* Insufficient social infrastructure
- *Developed countries:* Graying of society, shrinking working population

Kawasaki Group Management Resources

(as of fiscal 2017)

Financial capital
- Invested capital: ¥837.9 billion

Manufactured capital
Global production structure
- Capital investment: ¥82.7 billion
- Key production sites: in Japan, 18; overseas, 21

Intellectual capital
- 120 years of experience and know-how
- High-level technological capabilities across extensive domains
- R&D expenses: ¥43.6 billion

Human capital
Teams of engineers pursuing ultimate quality
- Number of employees: 35,127

Society and relationship capital
- Kawasaki brand
- Relationship of trust built with business partners over many years

Natural capital (non-consolidated)
- Energy consumption (crude oil equivalent) 157,000 kl
- Procured amount of raw materials (steel) 140,000 tons

Strategies and Business Vision

Plan → R&D → Design → Procurement → Production → Delivery/sale → After-market services

Details on page 7

Details on page 15

Medium-Term Business Plan 2016 Basic Direction
- Further progress on Kawasaki-ROIC* Management
- Investments targeting medium- to long-term growth
- Business realignment

Kawasaki-ROIC Management
- Plan and execute growth strategies through the strengthening of core competence in each business unit (BU)
- Set our optimal financial indicator, with a focus on ROIC, and create specific action plans for achievement
- Create new value through internal company synergies generated by our conglomerate advantage
- Define scale-down or withdrawal strategies broken down to each Sub-BU and product
- Create a portfolio focusing on profitability, stability and growth

Kawasaki Global Environmental Vision 2050
Environmental management activities
Details on pages 9 and 51

Corporate governance
Details on page 43

Developing and utilizing human resources
Workstyle reform
Details on pages 19 and 47

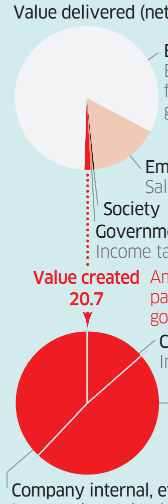
Key Output

(Actual figures in fiscal 2017)

- Before-tax ROIC 5.0%
- ROE 6.0%
- CO_2 emissions from production activities (non-consolidated) 321,000 tons
- Reduction of CO_2 emissions through product contributions (non-consolidated) 898,000 tons

Value created and distribution of value to stakeholders
(Billions of yen)

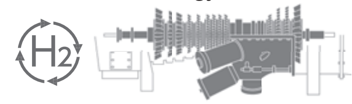
Value delivered (net sales) 1,518.8



Creating Social Value

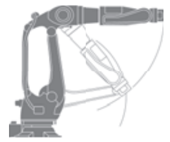
- Provide safe and secure, clean, comfortable movement of people and transportation of goods by land, sea and air

- Create clean energy



- Improve social infrastructure, especially in emerging countries

- Respond to needs of aging society and shortage of labor through automation



Accumulate and circulate management resources

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

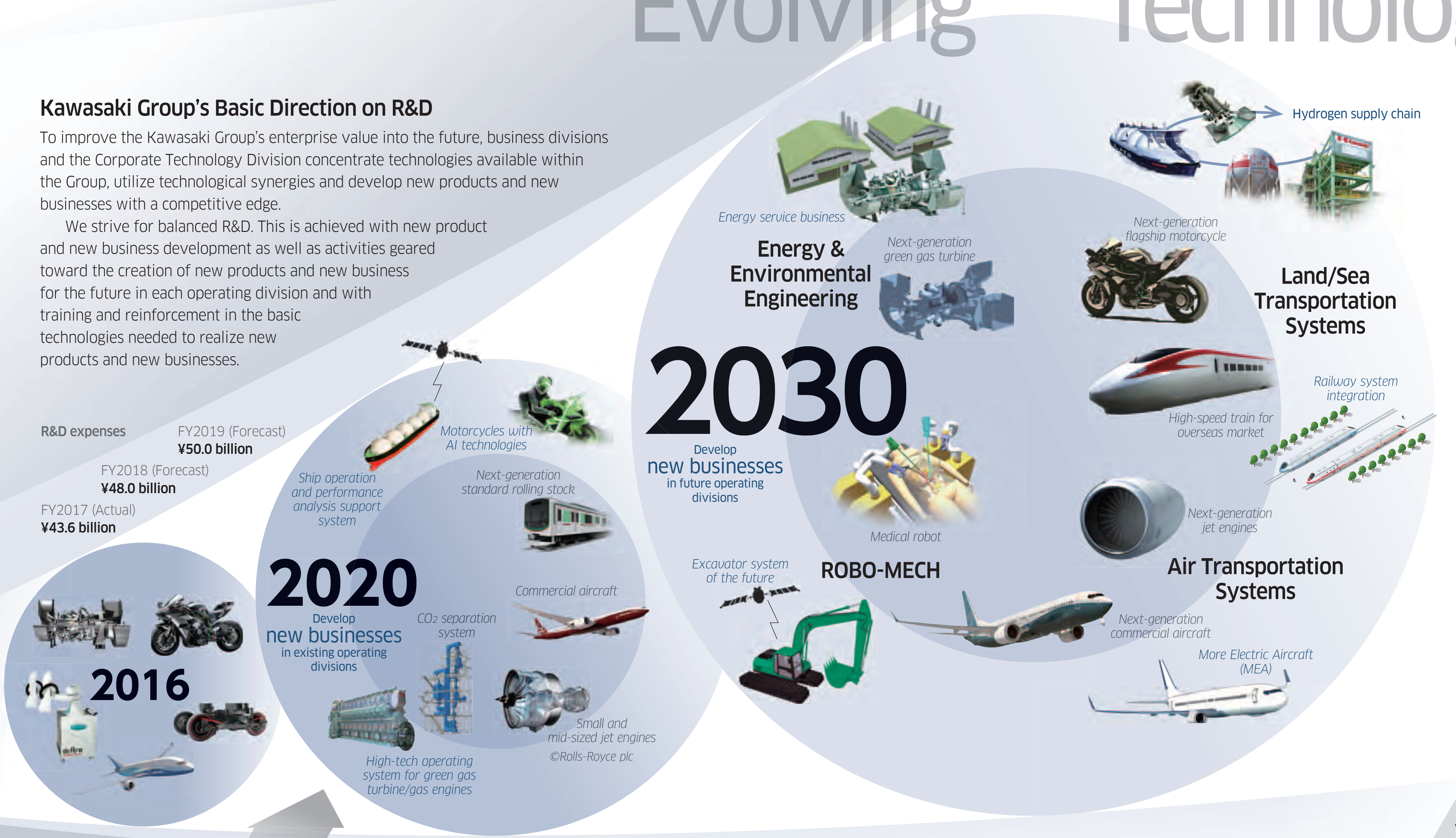
Delivering Value to Society Through Our Evolving Technology

Kawasaki Group's Basic Direction on R&D

To improve the Kawasaki Group's enterprise value into the future, business divisions and the Corporate Technology Division concentrate technologies available within the Group, utilize technological synergies and develop new products and new businesses with a competitive edge.

We strive for balanced R&D. This is achieved with new product and new business development as well as activities geared toward the creation of new products and new business for the future in each operating division and with training and reinforcement in the basic technologies needed to realize new products and new businesses.

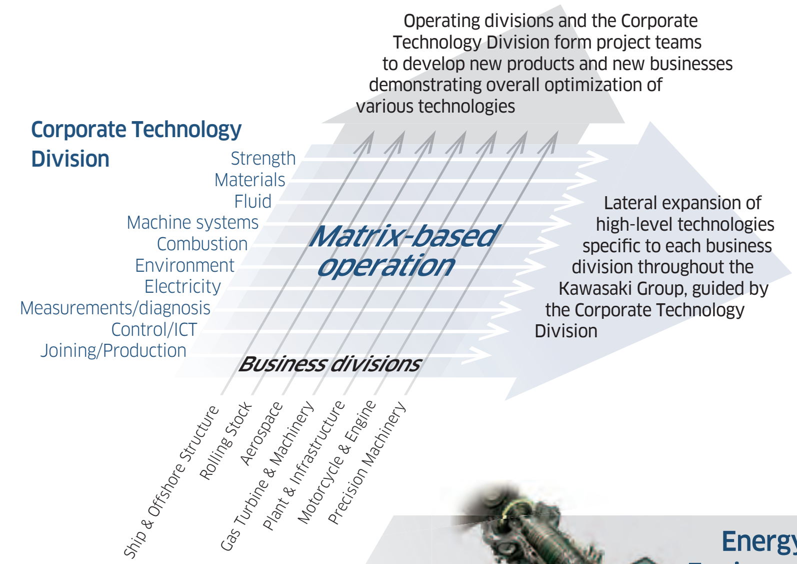
R&D expenses
FY2019 (Forecast) **¥50.0 billion**
FY2018 (Forecast) **¥48.0 billion**
FY2017 (Actual) **¥43.6 billion**

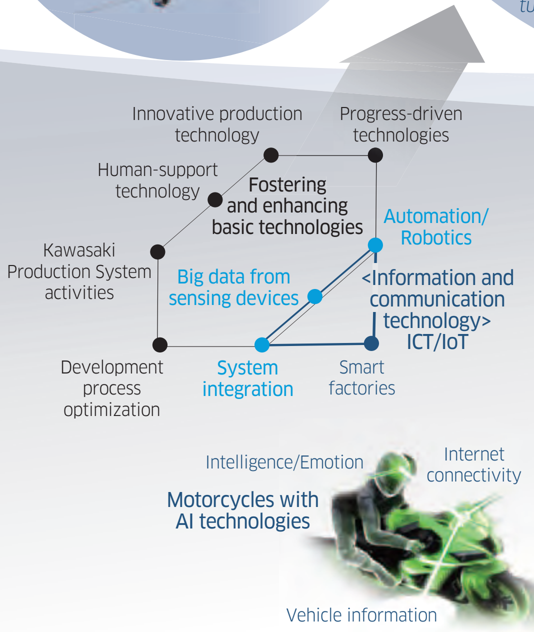


Framework for Creating Technological Synergies –Matrix-based Operation

Engineers from each business division and specialists in the Corporate Technology Division, who have expertise in various fields, form project teams to share issues and work together to develop new products and new businesses. The objective is always to achieve overall optimization of management resources. The Corporate Technology Division acts as an intermediary, facilitating access to the technological core competence that defines each business division so that the inherent value can be applied to products in other business divisions. This promotes multifaceted expansion of technology and demonstrates major synergistic effects.

We will utilize this matrix-based operation to create technological synergies throughout the Kawasaki Group and raise enterprise value even higher.





Strengthening R&D Areas

At Kawasaki, we seek to boost the customer value of products with the latest ICT/IoT features and to create new services, and we also look for ways to shorten lead time in production processes and drive down costs as we strive from a companywide perspective to raise profitability over the whole product lifecycle.

For example, we are working on a next-generation motorcycle that has the capacity to grow and develop along with the rider, utilizing AI. We are also actively promoting development of a structure for new services, such as approaches to improve the operating efficiency of power generation plants as well as remote monitoring and malfunction diagnosis for lowering maintenance costs, and status diagnosis for expanded maintenance operations of rolling stock.

In fiscal 2010, we embarked on full-scale participation in hydrogen projects, drawing on Group capabilities to establish these operations as a future pillar of business. We aim to secure a frontrunner position in the market as a supplier of key equipment and facilities spanning all aspects of the supply chain, from hydrogen production to transportation, storage and use.

Currently, we have completed development of a high-pressure hydrogen trailer, a liquefied hydrogen container and a gas turbine using a mixed hydrogen combustion system. Marketing activities are in progress. We are also fine-tuning development of hydrogen liquefaction equipment, a liquefied hydrogen carrier and liquefied hydrogen bases.

Hydrogen supply chain structure verification business
Details on page 52

Delivering Value to Society Through Our Commitment to the Environment

Formulating the Kawasaki Global Environmental Vision 2050

In light of the Paris Agreement enacted to restrict global warming and the Sustainable Development Goals (SDGs) adopted by the United Nations, the Kawasaki Group has announced that it will collaborate toward the realization of a sustainable society in the future, and formulated the "Kawasaki Global Environmental Vision 2050."

The embodiment of the Group's environmental management is based on the three visions of "CO_2 FREE," "Waste FREE," and "Harm FREE," and the Group will contribute to controlling global warming, promoting a recycling-oriented society and protecting biodiversity toward the year 2050.

Waste FREE CO_2 FREE Harm FREE

2050 Kawasaki Challenge!

*Activity Mark: Designed with the three challenges, imagining a "letter to the future."

CO_2 FREE

- Aim for zero CO_2 emissions in business activities
- Provide products and services that greatly curb CO_2 emissions

Waste FREE

- Aim for zero waste emissions in business activities
- Thoroughly enforce conservation and recycling of water resources

Harm FREE

- Aim for zero harmful chemical substances emissions in business activities
- Develop business with respect for biodiversity

Initiatives for Environmental Management

As an initiative for environmental management, Kawasaki formulated the First Environment Management Activities Plan in 1994, and the entire Company started work on environmental conservation activities. Later, in 1999, we established the "Environmental Charter" to demonstrate our commitment to the environment both inside and outside the Company, and as a long-term vision, formulated the "Environmental Vision 2010" in 2003 and the "Environmental Vision 2020" in 2010. We implement specific environment management activities plans based on the above and are steadily carrying them out.

With the realization of "Environmental Vision 2020" in sight, we have formulated the new "Kawasaki Global Environmental Vision 2050" with the aim of making a significant contribution to the global environment through products and services, in addition to zero environmental impact from business activities. Through steady environmental management activities constantly aiming for a vision that anticipates the times, we will make progress toward realizing the Group Mission "Kawasaki, working as one for the good of the planet."

Kawasaki Global Environmental Vision 2050
(Established in 2017)
- CO_2 FREE
- Waste FREE
- Harm FREE

2030 Targets
- Reduce CO_2 emissions by 26% (Compared to fiscal 2014 level)

Environmental Vision 2020
(Established in 2010)
- Realization of a low-carbon society
- Realization of a recycling-oriented society
- Realization of a society coexisting with nature
- Establishment of environmental management systems

Environmental Vision 2010
(Established in 2003)
- Environmental philosophy
- Environmental management
- Environmentally conscious products
- Environmentally conscious manufacturing
- Environmentally conscious communication

Environmental Charter
(Established in 1999 (Revised in 2010))

1994
First to Ninth Environment Management Activities Plans

1990 | 2000 | 2010 | 2020 | 2030 | 2040 | 2050

- ISO14001 issued (1996)
- COP3 Kyoto Protocol adopted (1997)
- Stockholm Convention adopted (2001)
- Principles for Responsible Investment (PRI) (2006)
- COP10 Nagoya Protocol adopted (2010)
- Japanese Version of the Stewardship Code (2014)
- COP21 Paris Agreement adopted (2015)
- Sustainable Development Goals adopted (2015)
- Corporate Governance Code (2015)

Japanese Government Targets
2030
Reduce CO_2 emissions by 26% (Compared to fiscal 2014 level)

Japanese Government Goals
2050
Reduce CO_2 emissions by 80% (Compared to fiscal 2014 level)

Directors and Corporate Auditors

(As of June 28, 2017)

Back row from the left

Outside Corporate Auditor Atsuko Ishii

Outside Corporate Auditor Takashi Torizumi

Corporate Auditor Takafumi Shibahara

Middle row from the left

Outside Director Yoshihiko Morita

Senior Vice President Tatsuya Watanabe

Senior Vice President Kazuo Ota

Senior Vice President Kazuo Hida

Front row from the left

*Senior Executive Vice President** Munenori Ishikawa

Chairman of the Board Shigeru Murayama

Back row from the left

Corporate Auditor Katsuyoshi Fukuma

Outside Corporate Auditor Satoru Kohdera

Middle row from the left

Senior Vice President Toshiyuki Kuyama

Senior Vice President Makoto Ogawara

Senior Vice President Katsuya Yamamoto

Outside Director Michio Yoneda

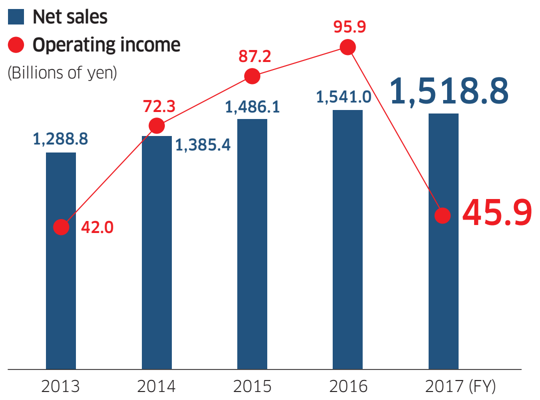
Front row from the left

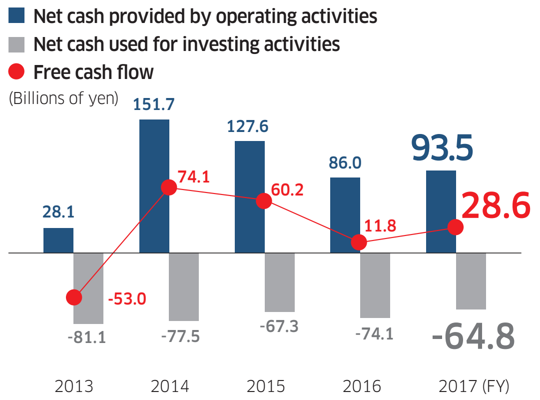
*President** Yoshinori Kanehana

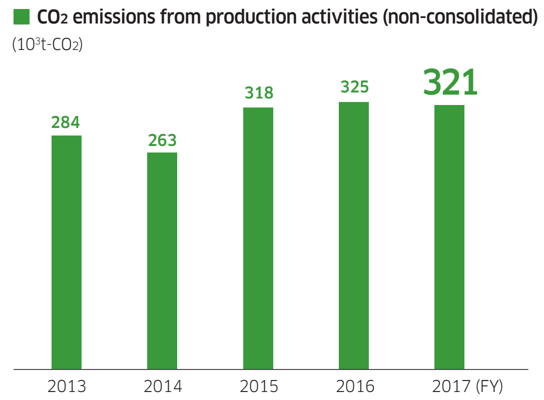
*Senior Executive Vice President** Kenji Tomida

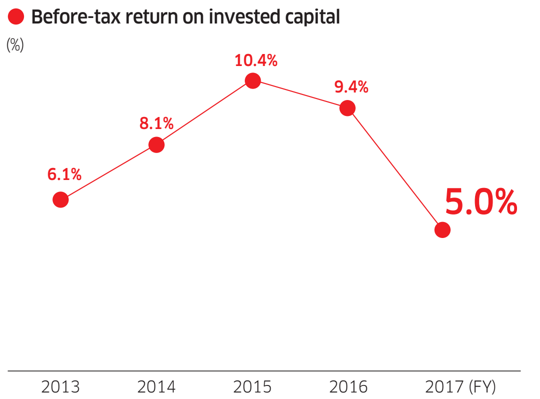
**Representative Director*

Performance Highlights

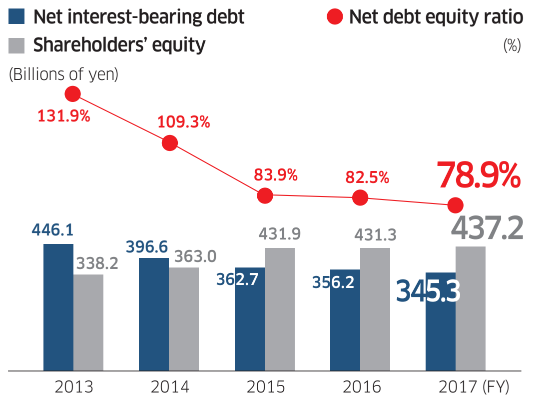




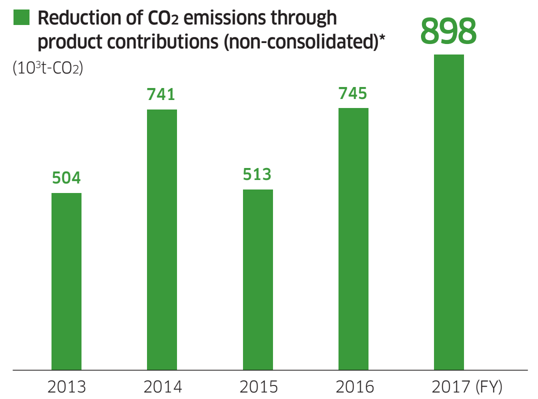




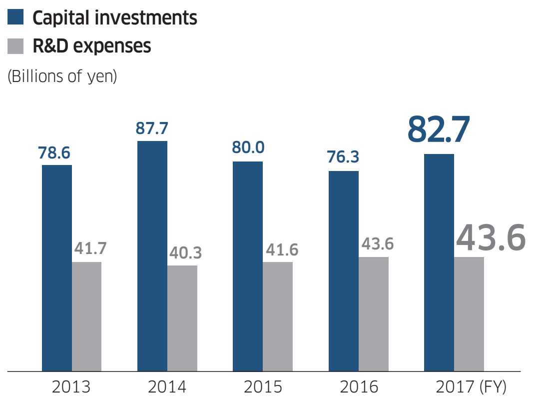
Before-tax return on invested capital = EBIT (Income before income taxes and non-controlling interests + Interest expense) / Invested capital (Interest-bearing debt + Shareholders' equity)

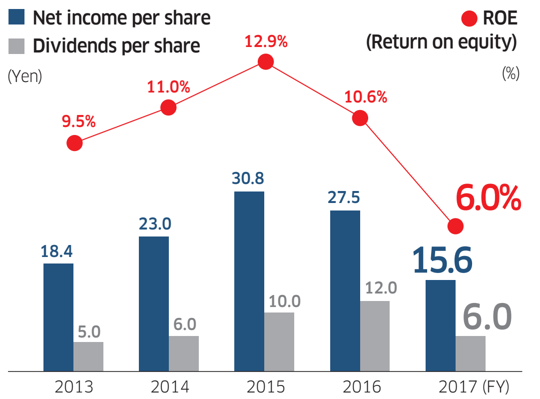


Net debt equity ratio = Net interest-bearing debt (Interest-bearing debt - Cash on hand and in banks) / Shareholders' equity

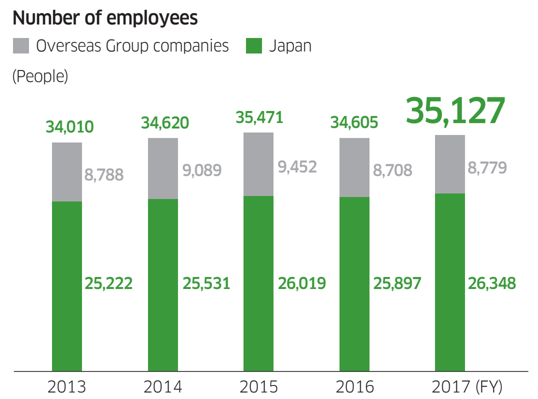


Estimates based on actual delivery record

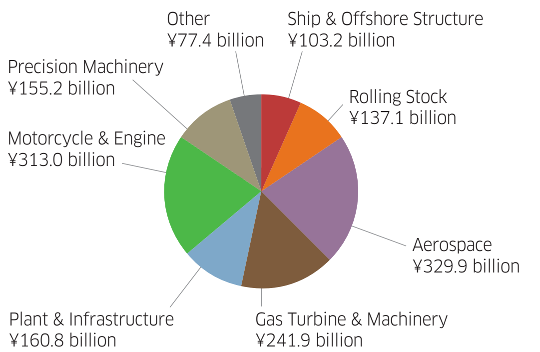




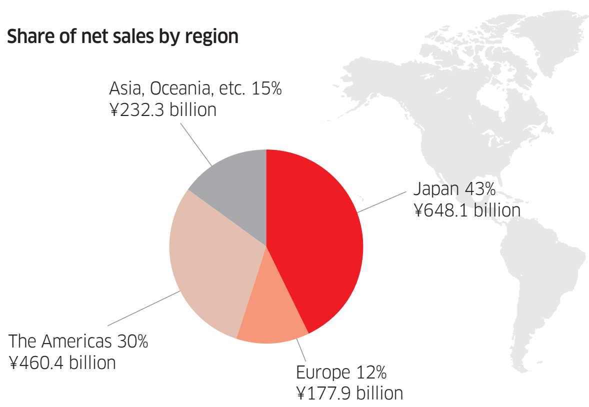
Return on equity = Profit attributable to owners of the parent / Shareholders' equity



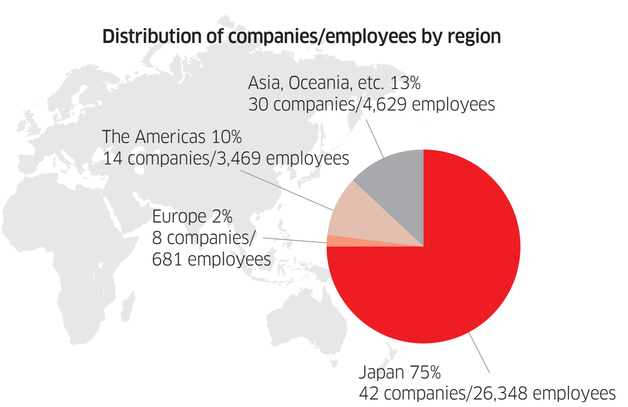
Share of net sales by segment



Share of net sales by region



Distribution of companies/employees by region



ESG-Related External Evaluations

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

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

Created by the global index provider FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company), the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.

FTSE4Good

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

MSCI 2017 Constituent MSCI ESG Leaders Indexes

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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.

MS-SRI モーニングスター社会的責任投資株価指数 Morningstar Socially Responsible Investment Index

The Certified Health & Productivity Management Organization Recognition Program identifies large corporations, small and medium-sized companies and other organizations that engage in outstanding health and productivity management practices, based on initiatives to address health-related issues in regional communities and to promote health-conscious activities promoted by the Nippon Kenko Kaigi.

2017 健康経営優良法人 Health and productivity ホワイト500

The Eruboshi system is based on the Act on Promotion of Women's Participation and Advancement in the Workplace. Of companies that draw up and submit general employer action plans under the Act, only those subsequently judged to meet certain standards and provide excellent conditions to encourage women to be more active in the workplace are eligible for certification by the Minister of Health, Labour and Welfare under the Eruboshi system.

The Kurumin Mark is a certification logo presented by the Ministry of Health, Labour and Welfare to companies that have achieved targets stated in the business action plans formulated by each company in accordance with the Act on Advancement of Measures to Support Raising Next-Generation Children and have met certain criteria. The logo indicates such companies are childcare-supportive employers.

Pursuing prosperity with society

Yoshinori Kanehana
President
(Representative Director)

We will always strive for innovation to create new value and enhance enterprise value, now and 100 years from now.

Looking Back on Fiscal 2017

In fiscal 2017, we posted net sales of ¥1,518.8 billion, operating income of ¥45.9 billion and before-tax ROIC of 5.0%. Operating income was down ¥50.0 billion from a year ago. This is largely because the yen trended higher in forex markets, decreasing profitability on component parts for commercial aircraft in Aerospace, and because of sizable losses booked by Ship & Offshore Structure on offshore service vessels business for customers in Brazil and Norway and by Plant & Infrastructure on overseas LNG tank projects.

Restructuring for Ship & Offshore Structure

Given the tough business environment and the past two years of sizable losses for Ship & Offshore Structure, a restructuring committee was set up to undertake a fundamental revision of the segment's structure. This committee put together a segment restructuring policy hinging on efforts to shrink the scale of domestic operations, deepen integrated operations with our Chinese shipbuilding joint ventures and withdraw from the offshore service vessels business. Going forward, under my leadership, we will steadily implement segment restructuring measures and achieve before-tax ROIC of at least 8%—assuming ¥100 to the U.S. dollar—by fiscal 2021.

Reinforcement of Risk Management

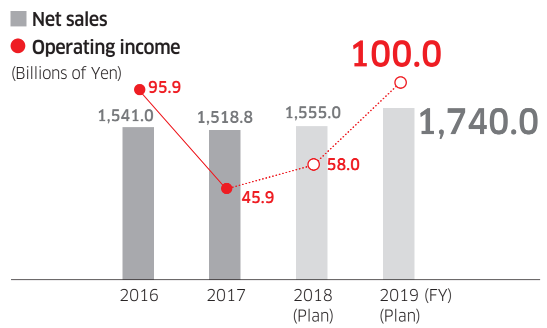
To prevent a repeat of the huge project losses that occurred, we will strengthen risk management, through all stages, from before order acceptance to after completion. Specifically, we will emphasize efforts to visualize the risk amount, quickly identify changes in status through KPI* and other measurements, and share insights and examples of approaches that lie buried within each business segment. We will avert risk but also respond immediately if risk appears. I will be personally involved, too, monitoring the progress of key projects on a monthly basis as chairman of the newly established Project Risk Management Committee.

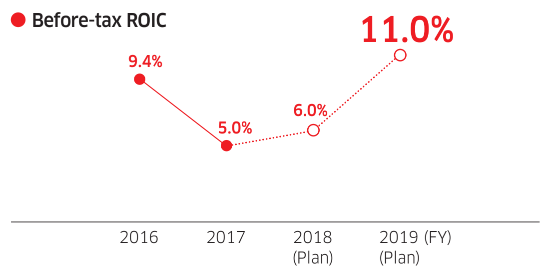
*KPI (Key Performance Indicators): Quantitative business metrics used to evaluate the degree of success in reaching business goals.

Fiscal 2018 Forecast and MTBP 2016

The performance forecast for fiscal 2018 calls for net sales of ¥1,555.0 billion. Operating income is expected to reach ¥58.0 billion, up ¥12.1 billion from fiscal 2017, mainly due to a recovery in Ship & Offshore Structure that offsets a possible decrease in Aerospace caused by a drop in production on component parts for commercial aircraft.

Under the medium-term business plan—MTBP 2016—drafted in 2016, we position the three years of MTBP 2016 as a period for strengthening our business foundation to increase enterprise value over the medium to long term, so that we can realize our image of the corporation we want to be in 10 years. In MTBP 2016, we identified three fundamental strategies: promote further progress on Kawasaki-ROIC Management, implement investments targeting medium- to long-term growth, and realign our businesses. The Kawasaki Group is moving steadily forward on the various measures set out in MTBP 2016, and making persistent efforts to improve business management, with an emphasis on cutting costs and shrinking invested capital to reach our targets.





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

Ensuring Thorough Kawasaki-ROIC Management

Across the Kawasaki Group, efforts to improve enterprise value are a top priority, and Kawasaki-ROIC Management is an integral part of this process. To raise enterprise value, we must ensure profitability exceeds capital costs. For the Group, the hurdle rate is before-tax ROIC of 8%.

Unfortunately, the Group's before-tax ROIC stalled at 5.0% in fiscal 2017, below the hurdle rate, and the target for fiscal 2018 is 6.0%, also short of the stated 8%. This means enterprise value is falling even though we are in the black, and that translates into a loss from a Kawasaki-ROIC Management perspective. I have a feeling this situation is critical, and call for employees to share such feeling. However, by ensuring thorough Kawasaki-ROIC Management, I am sure we will be able to realize higher enterprise value.

The key to ensuring thorough Kawasaki-ROIC Management is, to me, the principle that a business unable to achieve a before-tax ROIC hurdle rate of 8%, even in the medium to long term, cannot be permitted to continue as a business that is unlikely to ever contribute to higher enterprise value. Within the Group, there are about 30 business units, and before-tax ROIC is calculated for each one. For any business unit showing before-tax ROIC under 8%, strategies to improve that status to the targeted 8% and a timeframe for reaching that level will be clearly laid out, and intermediate goals will be set out periodically. We may also consider drastic options that might include shrinking the scale of business or complete withdrawal in cases where these business units face difficulties achieving these goals.

All Employees Involved in Kawasaki-ROIC Management

Another vital aspect of Kawasaki-ROIC Management is full employee participation throughout the Group to realize higher enterprise value. Employees in all divisions are diligently working to boost ROIC in the course of daily operations. At production sites, the goal is to cut costs, of course, but efforts go further to decreasing mistakes and reparation work and speeding up production periods. In design divisions, the objective is shorter design periods, more efficient development and designs with production efficiency in mind. In sales divisions, the emphasis is on profitable pricing and early receipt of payment. In procurement divisions, the spotlight is on lower material costs and streamlined inventories. In other areas, we seek efficient capital investment and R&D investment. We have set KPI that have a favorable impact on enterprise value, based on the characteristics that define each business, so that employees throughout the Group are better able to grasp the "what" and "how" to contribute to higher enterprise value and effectively engage in Kawasaki-ROIC Management. Follow-up work is undertaken as necessary.

We will ensure thorough Kawasaki-ROIC Management, setting the hurdle rate of before-tax ROIC at 8%, and achieve higher enterprise value.

Businesses that Drive Growth

Insufficient social infrastructure and rising environmental risks in emerging countries, the graying of society and an ensuing labor shortage in developed countries, increasingly active movement of people paralleling globalization—social issues are becoming more serious and spreading more around the world. Against this backdrop, Kawasaki Group products and services are in greater demand, and we believe our businesses will grow steadily. Particularly, we have high expectations for commercial aircraft and jet engines, energy, rolling stock for overseas markets, and robots. These four businesses will be growth-drivers, with the scale of business likely expanding from the current level of around ¥500.0 billion to somewhere near ¥1.2 trillion by 2025.

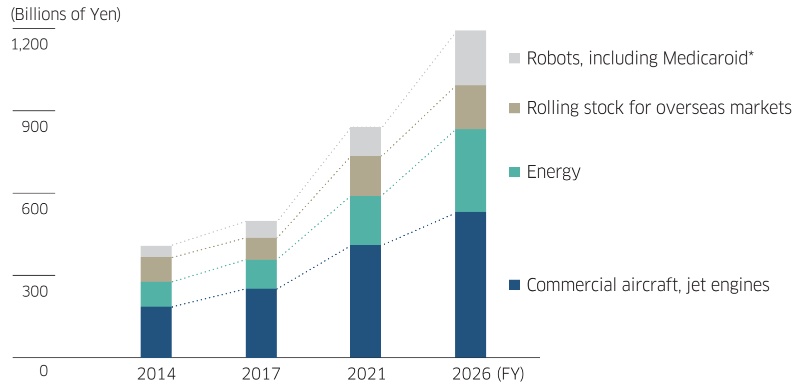
Commercial aircraft and jet engines By 2036, commercial jet airplanes could be upwards of 47,000 units on a global basis, which is double what it is today. Our commercial aircraft business as well as our jet engine business should benefit significantly. In the commercial aircraft business, we are involved in development and production of the Boeing 777X, the U.S. company's most advanced aircraft. A new factory for the 777X was completed in February 2017. In the jet engine business, we supply intermediate pressure compressors, Fan Drive Gear Systems (main gears) and combustors—core components in the latest jet engines made by Rolls-Royce in the United Kingdom and Pratt & Whitney in the United States. Although these jet engine components require up-front investment, future parts and maintenance demand should generate sizable profits.

Energy In the energy business, we restructured our organization in April 2017 to enhance our response to expanding energy demand overseas, especially in Asia. The energy business in the Gas Turbine Division and the Machinery Division were integrated under the newly established Energy System Division. Through the new division, we aim to strengthen our ability to sell solutions, boost EPC* capabilities, and accelerate overseas business development. The scale of our energy business currently stands at about ¥100.0 billion, but we expect it to triple more or less, to ¥300.0 billion, by 2025.

*EPC: Engineering, procurement and construction

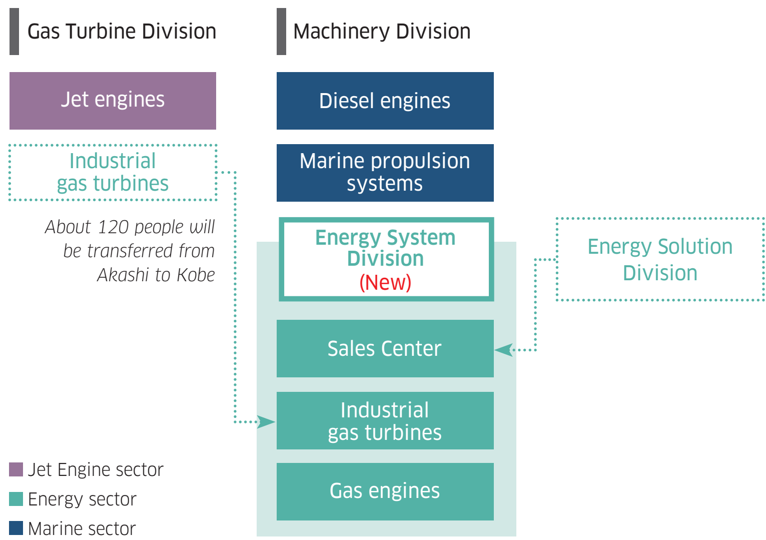
Rolling stock for overseas markets In the rolling stock business for overseas markets, we anticipate more projects financed by ODA loans to take place in the emerging countries of Asia. We are able to manufacture all types of rolling stock and will draw on this strength to steadily capture new orders.

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.

Organization Restructuring of Energy-related Businesses



Robots The robot business has grown considerably in the last few years. "*duAro,*" our dual-armed SCARA robot*, is easy to install and can operate alongside people. Given the labor shortage in developed countries, we expect huge demand for *duAro*. In other areas of robotics, the market for medical robots is rapidly expanding and could reach ¥2 trillion by 2019 on a global basis. The Kawasaki Group is involved in the medical robot business through Medicaroid, a joint venture established with Sysmex Corporation, and in March 2017, welcomed the launch of "Vercia," an operating table applying robot technology for hybrid operating rooms. Medicaroid is also developing a robot that assists in surgery, with a debut date sometime in fiscal 2020.

**SCARA robot: Selective Compliance Articulated Robot Arm robot*

Strengthening Technology and Synergies

The foundation of medium- to long-term growth is technological capabilities. Under MTBP 2016, we will invest about ¥150.0 billion in R&D pursuits over three years from fiscal 2017. This is about ¥25.0 billion more than the level earmarked during the previous business plan. We will polish our technological capabilities, which are a source of competitiveness, and utilize this expertise to develop products and services not easily copied by any other corporate group and thereby build a high barrier to entry by rival companies. In addition, the Kawasaki Group counts many world-class technologies in its corporate toolbox, and by combining these technologies and demonstrating synergies derived from these combinations, the Kawasaki Group will be able to offer even more innovative products and services. Toward this end, we established the Technology Synergy Section within the Corporate Technology Division and will earnestly pursue synergies across all business segments to achieve greater success.

Opportunities in ICT/IoT

In recent years, rapid progress in information and communication technology (ICT) has created a situation some call Industry 4.0. The Kawasaki Group will be able to provide highly competitive products and services by combining the latest ICT and the Internet of Things (IoT) technology with years of accumulated product development expertise. Currently, we are collecting information coming out of Silicon Valley, in the United States, and pursuing research into the application of ICT/IoT technology to products and services in each business segment. These activities hinge on the ICT System Department in the Corporate Technology Division and the Innovation Department in the Marketing Division at the head office.

Efforts in Environmental Management

Momentum to deal with global warming has been growing worldwide since the Paris Agreement went into effect in 2016, and people are paying greater attention to long-term corporate activities to realize a sustainable society such as through CO_2 reduction. In our activities, we—the Kawasaki Group—are guided by Environmental Vision 2020, initiated in 2010, which targets dramatic energy savings and reduced industrial waste at production sites, product-based contributions to reduce CO_2 and heightened awareness as an environmentally friendly brand through Kawasaki Green Products. These efforts are yielding steady results. In addition, we recently drafted Kawasaki Global Environmental Vision 2050, a new, long-term vision emphasizing three basic concepts: CO_2-free, waste-free and harm-free. Guided by this vision, we will contribute to various objectives with a particular focus on controlling global warming, promoting a recycling-oriented society and protecting biodiversity.

Promoting Workstyle Reform

For the Kawasaki Group to post stable profits over the long term, grow as a corporate group, and enhance enterprise value, it is vital that employees are able to demonstrate their capabilities, underpinned by rich sensitivity cultivated in their fulfilling daily lives, and contribute to higher productivity in their respective workplace and, by extension, the Group. Toward this end, we have embraced K-Win (Kawasaki Workstyle Innovation) Activities throughout the Group to encourage new approaches to work, mainly for employees in administrative and technical positions.

These activities tie into evolving corporate culture, business restructuring and support by corporate systems and are intended to limit long working hours while raising productivity and fostering a good work-life balance. In fiscal 2018, we will set the stage for sharing the content of activities, with workstyle seminars and programs to enhance operating efficiency organized for employees.

Corporate Governance and Engagement

We constantly review the corporate governance system, as it applies to the Kawasaki Group, based on the gist of the Corporate Governance Code and the Stewardship Code. Recently, with approval at the General Meeting of Shareholders, we appointed two new outside corporate auditors—Satoru Kohdera and Atsuko Ishii—so that the majority of corporate auditors are now from outside the Company. This has reinforced the oversight function. We also keep an open channel to capital markets and actively promote constructive dialogues with a purpose—engagement—that involve shareholders and companies. This way, we raise enterprise value together.

Thoughts on Return to Shareholders

The Kawasaki Group adheres to a basic management policy of improving enterprise value, that is, consistently generating income exceeding capital costs, over the long term. Return to shareholders is a key management priority that is realized by continuously investing in the state-of-the-art R&D and innovative facilities needed to drive growth and by raising shareholder value over the long term. In addition, we seek to strike a good balance between raising shareholder value and delivering returns to shareholders through the distribution of dividends. To do so, we take a comprehensive view of financial status, including future performance as well as free cash flow and the debt-equity ratio, and have set a benchmark of 30% for the consolidated payout ratio over the medium to long term.

Shining Brightly for Another 100 Years

The Kawasaki Group traces its roots back to 1878, when Shozo Kawasaki established Kawasaki Tsukiji Shipyard. The Group has grown, of course, since then and has utilized diverse, high-level technological capabilities to create uniquely innovative products and services that address all sorts of social issues.

In recent years, the world has undergone incredible changes, and the speed of change is accelerating. I believe in the excellent technologies and human resources of the Kawasaki Group, but I also think employees must share my critical feeling about changes in the environment and must always strive for innovation so that the Group can create new value, now and 100 years from now, and continuously enhance enterprise value. It is my duty to lead the way, and I will manage the Company and the Group focusing on speed.

We seek to realize our mission statement "Kawasaki, working as one for the good of the planet" and will continue to create value for all stakeholders.

We will reinforce
our technological capabilities to realize
medium- to long-term growth
and generate synergies across
the Kawasaki Group.

Discovering unparalleled values

Using robots to meet diverse automation needs

In 1969, Kawasaki was the first in Japan to start making and selling industrial robots. Since then, we have developed many robots as a domestic pioneer in this field, and we have contributed to progress in industries through automation and labor-saving systems. Today, Kawasaki robots represent a top brand in the market for robots used on automobile production lines and have also captured a leading share of the global market for robots used in semiconductor fabrication. Looking to the future, there is huge potential for wider application of robots that coexist with humans in a harmonized environment, and we will pursue this approach as well as new initiatives for robotics in medical and healthcare and other applications. With our 50th year in the robot business just around the corner, we can expect demand for Kawasaki robots to accelerate and the business to grow.

***duAro* and Humans**

In 2015, Kawasaki began sales of *duAro*, an innovative, dual-arm SCARA robot that can work alongside humans. This robot has the ability to execute a range of motions similar to that of human arms and can be easily positioned into a one-person area to perform the tasks of a human. Meticulously focused on being easy to use, our engineers raised the bar with a robot that is both easy to teach and very practical. To date, issues of preparation time and cost versus effect were obstacles to automation in the electric/electronic and food industries, but *duAro* clears these hurdles and will certainly contribute to automation in these and other sectors.

Robot Market Primed for Growth

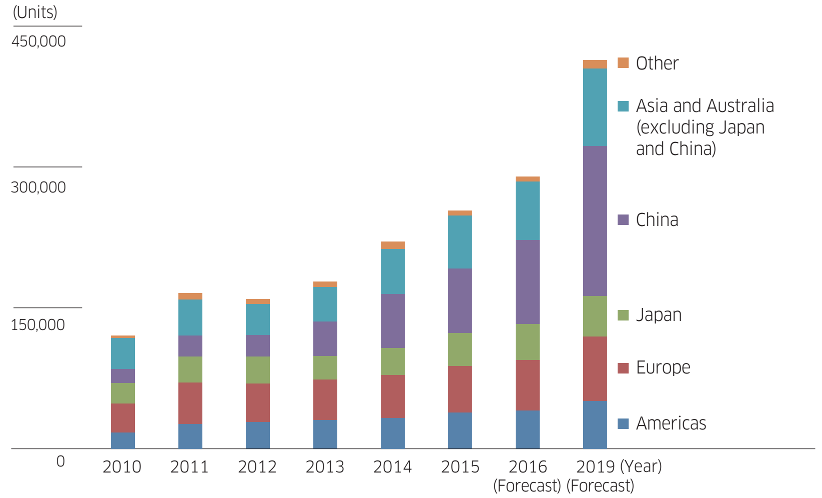
Industrial robot markets around the world are characterized by sustained high growth. In China, particularly, the market is expanding at a rapid rate, fueled by a labor shortage and skyrocketing labor costs. This situation is likely to continue, with demand for robots in Asia, centering on China, remaining high.

The range of applications for robots is also expanding, paralleling greater need for automation at customer sites in more industries, beyond automobiles to semiconductors, electronics and food and even further to pharmaceuticals and medical care. Of these industries, it is pharmaceuticals and medical care that presents a very promising market for robots, since the graying of society in developed countries, including Japan, will heighten demand for prescription drug production, nursing and medical care, and treatment methods that reduce the physical burden placed on patients.

In addition, international regulations on the safety of robots have been revised in recent years, prompting proposals for robots compliant with such regulations to be used as robots that coexist with humans in a harmonized environment.

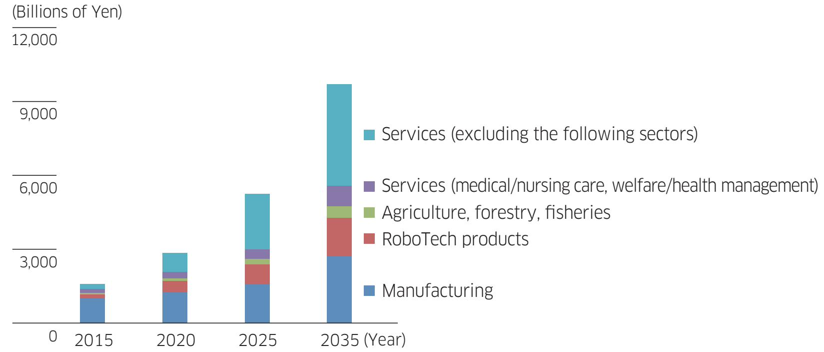
Because of this, fields where robots play an active role are likely to expand still further, and expectations for companies like Kawasaki to deliver robots and associated technology as solutions to diverse automation needs will reach unprecedented heights.

Estimated Annual Shipments of Multipurpose Industrial Robots by Region



Sources: UNECE, IFR, national robot associations

Market Scale of Japan's Robot Industry



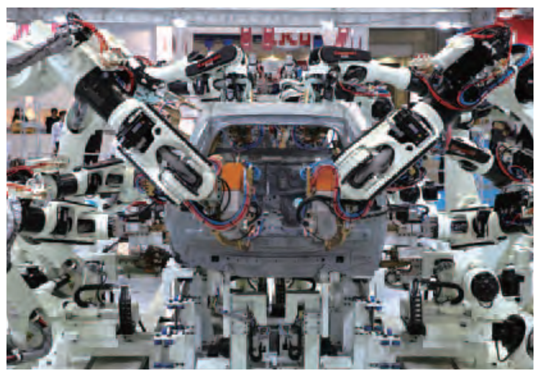
Source: FY2010 Survey of Future Robot Industry Market (Ministry of Economy, Trade and Industry, and New Energy and Industrial Technology Development Organization)

Business Expansion for Kawasaki

Kawasaki is pursuing business with an emphasis on the following three points.

New market creation for industrial robots

We will extend the boundaries of the market for industrial robots by reinforcing core technologies, such as those for welding and painting, and enriching the spectrum of applications. We will also push ahead with robots that coexist with humans in harmonized environments, showcasing *duAro*, and cultivate new automation needs at manufacturing sites.



Industrial robots

Pursue opportunities in the field of medical robots

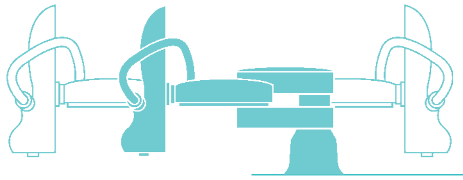
We positioned medical robots as a business that will support the eventual reality of a society with more seniors in the population, and we established a joint venture, Medicaroid Corporation, with Sysmex Corporation, to focus on medical robots. Medicaroid is working on development of applied robots, which utilize industrial robot technology for medical applications, as well as surgical support robots, with the goal to turn these products into a revenue-generating business.

Strengthen Kawasaki robot brand

We aim to cultivate a sense of security in Kawasaki robots not only through high quality but also through new services utilizing IoT. We will also strengthen the brand by presenting new concepts in the interaction of humans and robots through Kawasaki Robostage, our showroom in Tokyo.

Kawasaki Robostage

Kawasaki robots will create a new market that underpins our efforts to realize a society in which people and robots can coexist.



Yasuhiko Hashimoto
Managing Executive Officer
General Manager, Robot Division,
Precision Machinery Company

New Market Creation Through *duAro* that Coexists with Humans

The use of robots is expanding beyond the automobile industry to other production industries, such as semiconductors and electronics. But currently, the majority of installations are for mass-production industries populated by large companies worldwide. In fact, in small and medium-sized manufacturing industries, which actually employ the most workers, very few companies use robots in their operations. Reasons include short product cycles, lack of adequate space for safety fences, and the perception that robots are too difficult to deal with. *duAro* is a new kind of robot that coexists with humans and has potential in many different industries, including electric/electronics and food. But our goal was to address the underlying issues that have prevented small and medium-sized manufacturing businesses from embracing robots. In this sense, *duAro* is revolutionary.

In creating *duAro*, the development team exclusively targeted simple work otherwise performed by humans. In addition, while it usually takes six months before conventional robots are fully installed, the required time for *duAro* can be shortened from three days to seven days. This is a feat of historic proportions in industry circles. At small and medium-sized factories, many products are manufactured in just one month and the installation of robots could cause a major bottleneck in operations. But with setup potentially in as little as three days and, if *duAro* can also be transferred to another production line, management and employees would surely be comfortable with the investment.

In the robot business, coexistence-type robots present the most growth potential. If we can create robots that coexist with humans, they might be able to be used not only in the factory, but also in offices, shops, restaurants and other places where they do tasks alongside human colleagues. Our goal is to be a leader in this new market.

Kawasaki Robots Presenting Solutions

We make robots. True. But our efforts are not focused solely on enhancing the features or performance of the unit itself or on cutting costs. Our customer base is diverse and includes automakers as well as members of the semiconductor, electric/electronics and food industries, and we constantly think about what these customers require in their operations to provide solutions tailored to each production site. The merits of this approach as well as the system for implementing projects are well regarded by customers, and this reputation has underpinned growth to date. Speedy proposals and development capabilities have also won high marks, but through collaboration with customers in the semiconductor industry, which operates on a quick product cycle, we have enhanced these qualities. The most striking aspect of our robot business is that it has grown along with our customers' businesses.

In recent years, with robots being used now in various applications, the advantage of having a robot business within the Kawasaki Group has taken on greater significance. Kawasaki is involved in many businesses, and nearly all manufacturing activities under the Group umbrella use the in-house brand of robots. Also, lately, there is increasing interest in-house to use robots to make products for which robots had not previously been used. We are pursuing joint activities with other divisions to develop new robots for such applications. Field tests are run in-house, and potential new robot business can be verified and nurtured in-house. For the Robot Division, which has a mandate to present robot-based solutions, the ability to conduct trials and test the business waters in-house is a tremendous advantage.

Kawasaki also has the Corporate Technology Division, which promotes R&D activities in tandem with all the Company's operating divisions. The Corporate Technology Division and the Robot Division jointly promote robot applications, giving us—the Robot Division—centralized access to the technological expertise of all operating divisions. This creates an environment conducive to new pursuits, such as difficult applications and different markets, and I believe such an environment is a strength in developing new and better robots.

Robots Supporting an Aging Society

Today, in developed countries, society is aging, and an inevitable decrease in the future working population is an issue of concern. Robots are the likely solution to fill that gap in labor and support the aging society, and much discussion is taking place on the future robot ideal. Some of the labor shortage will be offset by people from overseas, but work in areas where people lack the necessary skills or strengths will be left to robots. Robots that coexist with humans in a harmonized environment will fulfill even greater roles.

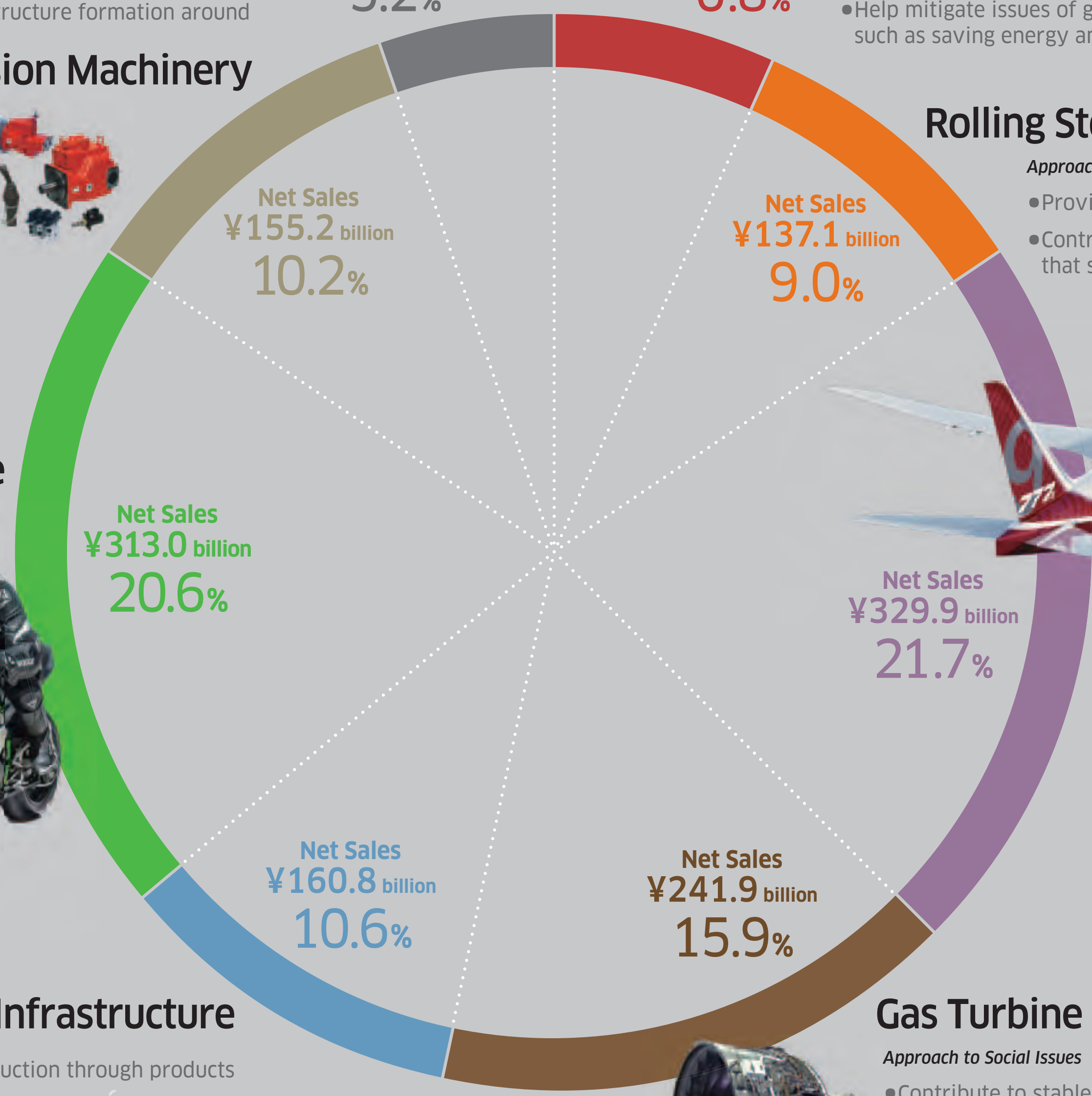
It will be possible, and perhaps even necessary in the graying society, for seniors who are willing and able to continue to work. But sight and physical strength diminish with age, and robots will be needed to compensate for the disparity between what a job requires and what an older person is capable of doing. People make decisions and determine how to get things done. If human knowledge and ingenuity are appropriately combined with robot-derived convenience, countries with large ratios of seniors in the population will realize a society in which even older people can work within their physical limitations. If robots assist people, not only the elderly but also the disabled will find it easier to remain active in society.

Robots will be necessary when a person's age or illness requires nursing care. In the future, nursing care service providers and doctors will be in extremely short supply. IoT and robotics will significantly help to offset these shortages. Inevitably, robots will have a huge duty to fulfill.

To us, in the robot business, we see responses to the new needs of society as an aspect of social contribution. At the same time, such responses create new markets and present new business opportunities. Through this business, we will realize a society in which people and robots coexist. We will strive to present solutions to the various issues that characterize an aging society, while taking the lead in new markets to grow the business.

SOT-100 Vercia, an operating table to move patients into a number of positions, from Medicaroid Corporation

Leveraging our capabilities



Other

Net Sales
¥77.4 billion
5.2%

Precision Machinery

Approach to Social Issues

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

Ship & Offshore Structure

Net Sales
¥103.2 billion
6.8%

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

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

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

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

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

Gas Turbine & Machinery

Approach to Social Issues

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

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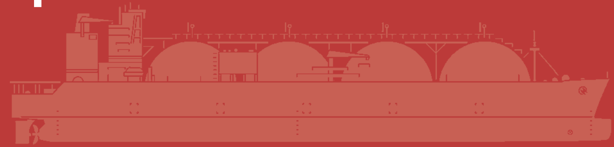
Ship & Offshore Structure



Main Products
- LNG carriers
- LPG carriers
- Bulk carriers
- Submarines

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.

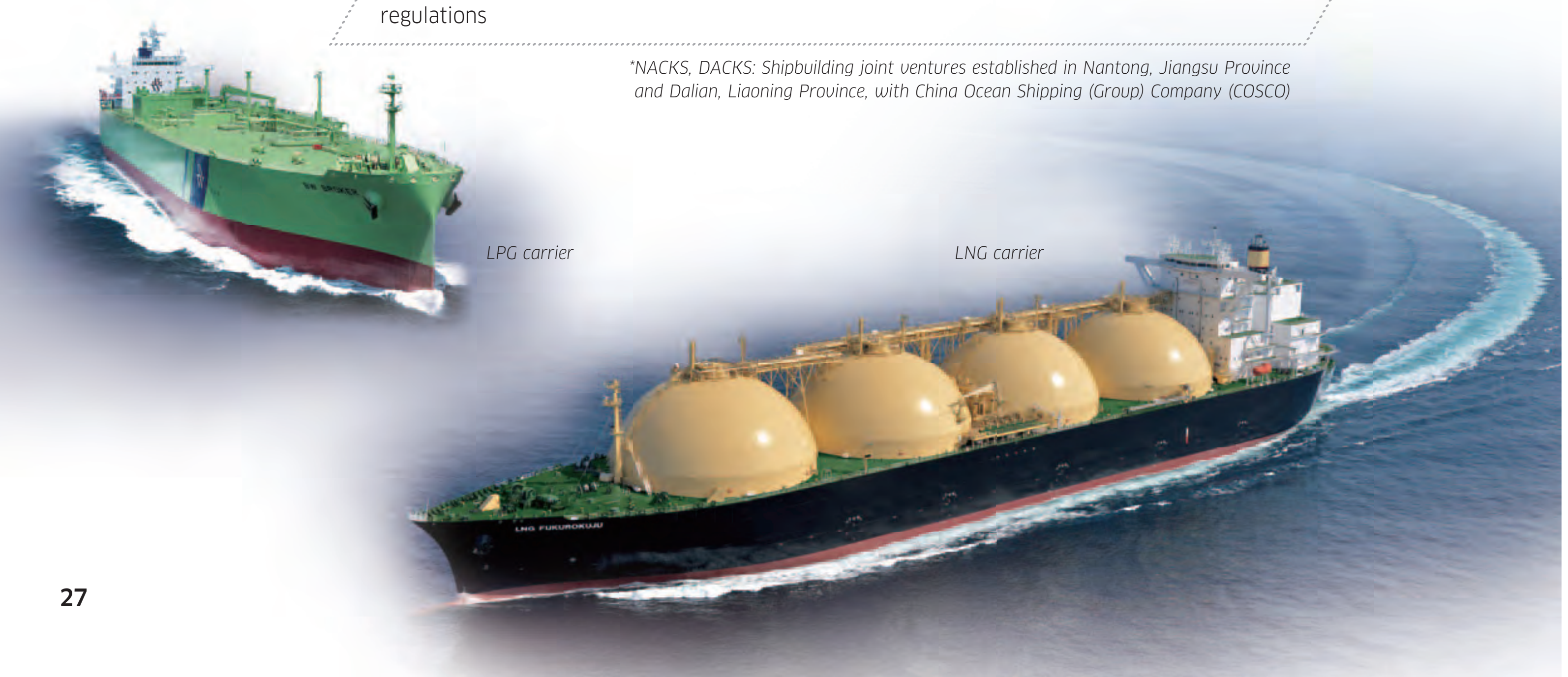
Opportunities
- Increasing demand for vessels with low environmental load due to tougher environmental regulations
- Recovery in carrier demand, owing to growing demand for LNG
- Greater automation, using IoT and AI
- Expanding operations to meet increasing fleet of submarines

Risks
- Increasingly fierce competition with China and South Korea
- Prolonged slump in shipping market
- Other companies entering gas carrier and gas fueled vessel market

Core Competence
- Low-temperature, high-pressure gas-related technologies accumulated through development and construction of LNG and LPG carriers
- Quality and cost competitiveness of Group overall, including Chinese joint ventures (NACKS, DACKS*)
- Energy-saving, environmental load-reducing technologies, and ability to develop new ship designs
- High-level technology required specifically for submarines

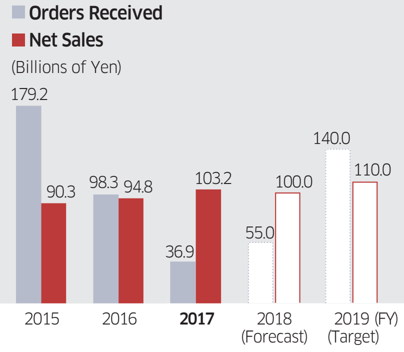
Business Direction in MTBP 2016
- Rebuild merchant ship business, with emphasis on deeper integration of operations at Sakaide Works, NACKS and DACKS
- Achieve stable operations in submarine business, create business out of autonomous underwater vehicles (AUVs) using submarine technology
- Develop environment-friendly vessels to meet more stringent international environmental regulations

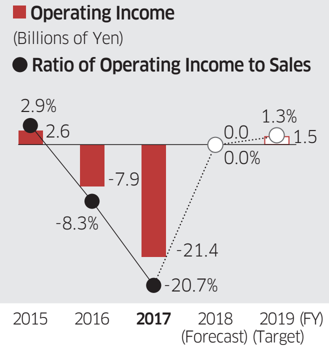
**NACKS, DACKS: Shipbuilding joint ventures established in Nantong, Jiangsu Province and Dalian, Liaoning Province, with China Ocean Shipping (Group) Company (COSCO)*

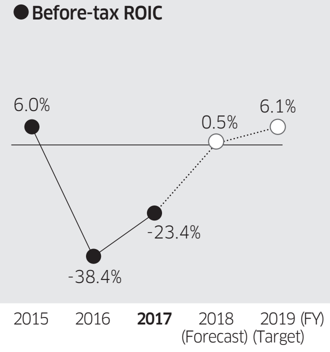


LPG carrier

LNG carrier







Business Summary

The Ship & Offshore Structure Company posted a substantial operating loss in fiscal 2017, reflecting worsening costs for an offshore service vessel for a customer in Norway and losses at a joint venture in Brazil. Efforts will be directed toward stabilizing business operations in fiscal 2018 and beyond, with an emphasis on construction of gas-related vessels.

Operating Environment and Strategies

The operating environment for the Ship & Offshore Structure Company remained challenging, owing to global overcapacity and a prolonged slump in the shipping market.

In fiscal 2016 and fiscal 2017, this business segment booked sizable losses, so a restructuring committee, headed by the president, was set up to undertake a fundamental revision of the business structure. A new operating direction was announced in March 2017.

In the merchant ship business, we will cut back on the number of orders we accept and prioritize orders for gas-related vessels. We will concentrate domestic construction at the Sakaide Works and reinforce base functions, such as human resources development and engineering, while deepening integration of operations with our Chinese joint ventures NACKS and DACKS through such approaches as joint procurement and shared construction. These efforts will help sharpen our cost-competitiveness and boost profitability.

In the submarine business, we will establish an operating structure giving the Kobe Works a submarine emphasis and stabilize the business platform. We will also apply submarine-related technologies collected over many years to our development pursuits, including autonomous underwater vehicles.

In the offshore service vessels business, we opted to make the offshore service vessel currently under construction for a customer in Norway our last, and then we will withdraw from this aspect of operations.

These restructuring efforts should lead to before-tax ROIC of 8%—assuming an exchange rate of ¥100 = US$1—by fiscal 2021.

Key Driver

Capitalizing on Demand for Vessels Compliant with Environmental Regulations

The push for fuel conversion of vessels has gained momentum, paralleling tougher environmental regulations. In fact, demand for gas-fueled vessels and LNG fuel supply vessels is expected to grow, especially from 2025 when restrictions on CO_2 emissions are tightened. The Kawasaki Group boasts gas carrier technology, honed through the development and construction of LPG carriers and LNG carriers, as well as gas-fueled vessel technology, primarily for main engines, fuel supply systems and fuel tanks. Access to such technologies is a corporate strength, and we will draw on this expertise to capitalize on expanding demand for vessels compliant with environmental regulations. In 2016, Kawasaki announced delivery of the world's first pure car and truck carrier equipped with a dual-fuel engine that can run on either heavy fuel oil or LNG. The carrier was built at NACKS, a joint venture in China.

		2013	2015	2016	2020	2025
NOx regulations	Ordinary area	Tier II regulation (20% reduction over Tier I regulation)				
	Control area	Tier II regulation		Tier III regulation (80% reduction over Tier I regulation)		
SOx regulations	Ordinary area	Sulfur content concentration: Below 3.5%			Concentration: Below 0.5%	
	Control area	Concentration: Below 1.0%	Concentration: Below 0.1%			
CO_2 (EEDI) regulation		Phase 0	Phase 1 (-10%)		Phase 2 (-20%)	Phase 3 (-30%)

Notes: 1. NOx regulations: Limits on nitrogen oxide emissions corresponding to rated speed of diesel engine
2. SOx regulations: Limits on sulfur oxide concentration in fuel oil for vessels
3. CO_2 (EEDI) regulation: Limits on CO_2 emissions based on Energy Efficiency Design Index

Rolling Stock

Makoto Ogawara
President,
Rolling Stock Company

Main Products

- Electric train cars, including *Shinkansen* (bullet trains)
- Electric and diesel locomotives
- Passenger coaches
- Bogies

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.

Opportunities

- Continuous brisk demand for subway and commuter train systems in North American market
- Brisk demand in emerging countries of Asia
- Firm replacement demand in domestic market
- Expanding stock-style demand, including components, maintenance and repair and rebuild work in existing market

Risks

- Manufacturers from China and other emerging countries entering North American market, sparking fierce price wars
- Country risk in new markets for Kawasaki

Core Competence

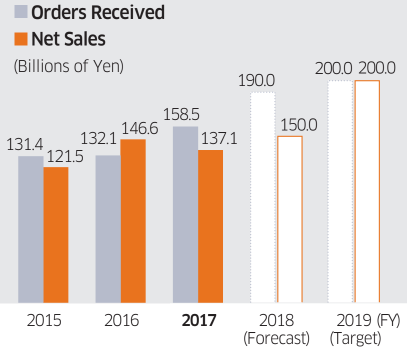
- High-tech expertise built on comprehensive heavy industry strengths
- Ability to fulfill contracts, cultivated from extensive domestic and overseas results
- High-quality, strong *monozukuri* manufacturing capabilities expressed through production of rolling stock with customers in mind

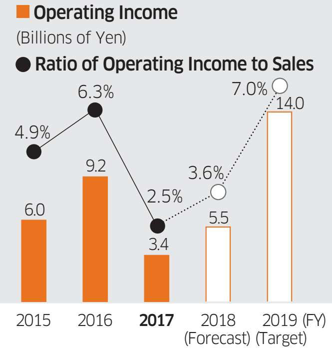
Business Direction in MTBP 2016

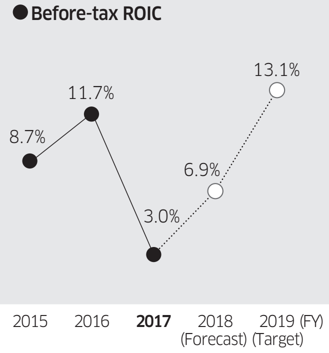
Domestic	• Differentiate with high-value-added products that leverage synergies and high-tech expertise built on comprehensive heavy industry strengths as well as ability to provide value across overall product lifecycle
North America	• Tap into constant order activity for new cars in high-share northeastern 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

Rolling stock for access to Taoyuan International Airport in Taiwan

Series 7000 subway cars operated by Washington Metropolitan Area Transit Authority







Business Summary

In fiscal 2017, a drop in sales and fewer high-profit projects were the primary reasons for a year-on-year decrease in earnings. We anticipate a rebound in sales and income, beginning in fiscal 2018, paralleling an increase in overseas projects, mainly in North America and Asia.

Operating Environment and Strategies

Against a backdrop highlighted by economic development in emerging countries and steady repair and rebuild work on transport infrastructure in developed countries, demand for rolling stock is strong, especially overseas. This is spurring wider demand for stock-style business, mainly for components and maintenance. However, the entry of manufacturers based in emerging countries, such as China, has heightened competition, prompting us to consider approaches to boost profitability through enhanced non-price competitiveness and business model reform.

We seek to differentiate ourselves from other companies by providing high-value-added products that leverage synergies and high-tech expertise built on comprehensive heavy industry strengths. A prime example of this is efWING, the world's first bogie incorporating carbon fiber reinforced plastic (CFRP). We also seek to expand earnings across the overall product lifecycle, including components, repair and rebuild work, and maintenance.

In the North American market, with persistently brisk demand based in the northeastern corridor, we will draw on extensive results and a solid reputation for reliability built over many years and the advantage of operating two production bases in the United States to consistently capture demand for new rail cars. And we will actively develop our stock-style businesses, namely, components, repair and rebuild work, and maintenance, including track monitoring using IoT.

Asia presents a market with huge growth potential. Our goal here is to expand our earnings base in Taiwan and Singapore, where we have already established a strong presence, while cultivating new markets by enhancing our system integration capabilities and maintaining and developing partnerships with local manufacturers. We are also intending to extend our business activities, mainly by capturing orders for projects financed by ODA loans.

Key Driver

Expanding Business Activities in Asia

Demand for rolling stock is expected to grow worldwide, and market scale in Asia—excluding China—presents major potential. The market is, in fact, likely to keep expanding at 5% annually until 2021. Going forward, many projects financed by ODA loans for emerging countries in Asia are in the works, and we anticipate an increase in business opportunities, including high-speed railway projects throughout the region, starting with India. Kawasaki will draw on a solid presence in Taiwan and Singapore and capabilities that facilitate production of all types of rolling stock. These efforts will broaden the scope of our business activities in Asia.

Key projects in Asia

Aerospace

Sukeyuki Namiki
President,
Aerospace Company

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

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.

Opportunities

Defense
- Sustained domestic defense equipment development and production
- Possibility of defense equipment exports

Commercial
- Medium- to long-term growth in air passenger and air freight volume, paralleling economic growth in emerging countries

Risks

Commercial
- Fiercely competitive environment, fueled mainly by fight for market share between Boeing and Airbus
- Sense of uncertainty regarding future of wide-body aircraft, due to appearance of LCCs*1
- Rise of manufacturers in emerging countries

**1 LCCs: Low-cost carriers*

Core Competence

- Technological capabilities as manufacturer of finished aircraft with experience in defense business (system integration capabilities)
- Technological capabilities based on international joint development with Boeing, and sophisticated, large-scale production facilities
- Improved productivity and quality through Kawasaki Production System (KPS)

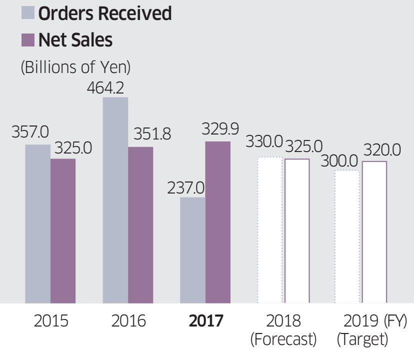
Business Direction in MTBP 2016

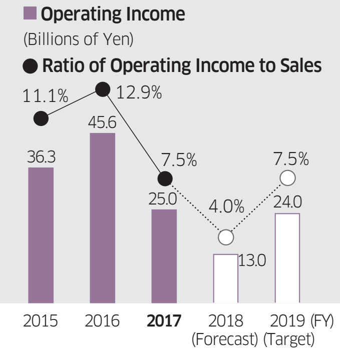
Defense
- Steady progress on existing development projects order and production contracts
- Expand orders for new projects

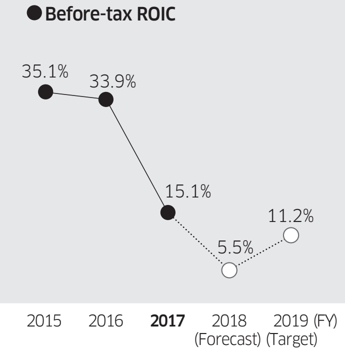
Commercial
- Respond to increased production of Boeing 787-10
- Smooth start to production of Boeing 777X

C-2 transport aircraft

Boeing 787







Business Summary

A large drop in earnings is likely in fiscal 2018, owing to a decrease in the number of aircraft produced, paralleling the switch from Boeing 777 to 777X, and also owing to decreased profitability from the commercial aircraft business, caused by a revision in pricing on some products. However, results should rebound in fiscal 2019, mainly because of a lighter development expense burden.

Operating Environment and Strategies

We anticipate expansion in air passenger and air freight volume globally over the medium to long term against a backdrop of economic growth in emerging countries and considerable improvement in our commercial aircraft business. In the defense aircraft business, we see continued potential for stable activity. That said, stiff competition between Boeing and Airbus, along with a shift toward smaller aircraft due to the rise of LCCs, could impact Kawasaki's business. We will have to consistently improve productivity and make confident progress in cost-cutting.

In the defense sector, we have been involved in 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 completed development of both the P-1 and the C-2 and will move steadily toward mass production of the two models while also seeking orders for modernized and derivative aircraft. In addition, we aim to utilize many years of system integration capabilities gained as a manufacturer of finished aircraft, capture new projects and expand our share of the market. We will also respond in line with government policy on exports of defense equipment.

In the commercial sector, we increased monthly production of component parts for Boeing 787 in fiscal 2017 to 12 aircraft from 10. We will start production of component parts for the 777X, a successor to the 777, in fiscal 2018. In this business, we will strive to maintain a level of competitiveness that companies in emerging countries simply cannot match by demonstrating world-class technological capabilities honed through international joint development with Boeing as well as production capabilities and high quality supported by leading-edge facilities. At the same time, we will promote aggressive capital investment, especially at the Gifu Works, the Nagoya Works and the KMM*2 facility in Lincoln, Nebraska, promote wider application of KPS activities at production sites and use IoT, to increase productivity and create a structure primed for business expansion.

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

Key Driver

Expanding Commercial Aircraft Business

Kawasaki has participated in international joint development of Boeing 767, 777 and 787, accumulating extensive experience and honing technological capabilities as a Tier 1 supplier. We are also involved in the 777X, a successor to the 777. For this project, we are emphasizing automation, mainly through the installation of Kawasaki-built robots, at a new facility completed in February 2017 at the Nagoya Works 1 and raising quality and production efficiency through a combination of KPS accumulated to date. In conjunction, we are preparing the infrastructure for ICT and IoT to create smart factories in the future. In May 2017, we built our first overseas aircraft component manufacturing line, at the KMM facility in Lincoln, Nebraska, and began production of 777X cargo doors. Our objective is multifaceted, targeting growth investments, higher productivity and enhanced profitability, to take advantage of the huge potential that this business presents over the medium to long term.

New 777X facility

Gas Turbine & Machinery

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

Toshiyuki Kuyama
President,
Gas Turbine & Machinery Company

Business Vision

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

Opportunities

Jet Engines	• More demand paralleling expansion of commercial aircraft market
Energy & Environmental Engineering	• Increasing demand for energy and distributed power generation, due to economic development in emerging countries • Wider demand for distributed gas fuel power generation facilities prompted by lower price for LNG fuel
Marine	• Tougher environmental regulations

Risks

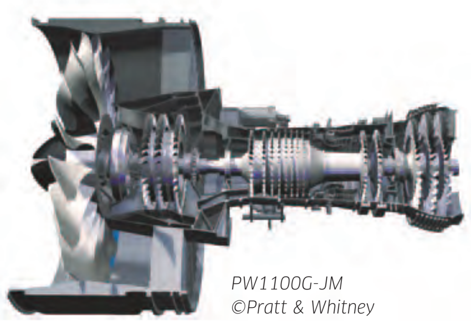
Jet Engines	• Decreasing demand due to recession
Energy & Environmental Engineering	• Delayed development and investment projects in oil and gas-related sectors, due to drop in price of oil
Marine	• Prolonged slump in the shipping market

Core Competence

Jet Engines	• Sophisticated technological capabilities built through international joint development projects and engines for defense aircraft • Production capabilities and high quality underpinned by leading-edge facilities
Energy & Environmental Engineering	• Diverse product lineup and ability to provide solutions, including world-class gas turbines in terms of efficiency and environmental performance and gas engines with the world's best performance
Marine	• Environment-friendly technologies and development capabilities in core products and systems

Business Direction 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 model
Marine	• Strive to expand share by developing next-generation marine propulsion machinery and systems, and take a position among the world's top manufacturers



PW1100G-JM
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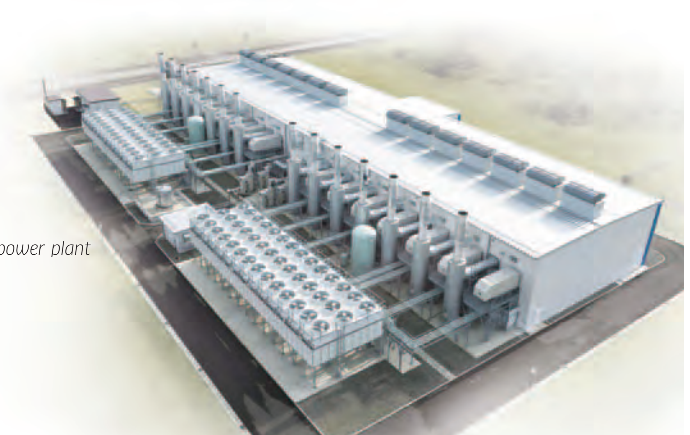
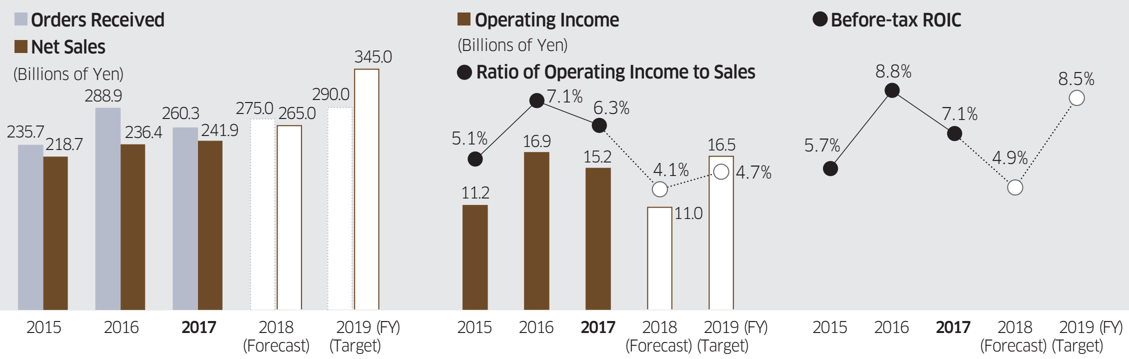


Gas engine power plant



Business Summary

In the jet engine business, we are producing more components for new-type engines, and net sales are charting a solid upward path. However, profitability on new-type engines is low in the early stages because the burden of development expenses is heavy. As a result, fiscal 2018 earnings may show a year-on-year decrease.

Operating Environment and Strategies

The jet engine business is likely to present high growth over the medium to long term, paralleling expansion in the commercial aircraft market. Kawasaki's strengths lie in sophisticated technological capabilities built through international joint development projects and defense aircraft engines as well as leading-edge facilities. Drawing on these strengths, we are able to supply core components not as individual parts but as assembled modules, such as intermediate pressure compressors, to global engine manufacturers and enjoy a solid presence as an indispensable supplier. Currently, we are involved in several new-type engine projects, and going forward, we expect the scale of our business to expand rapidly as these projects move into the real mass-production phase.

In the energy and environmental business sector, demand for gas-fired power generation is growing at about 2% a year, and the need for distributed power generation is rising, especially in Asia. In April 2017, our energy business in the Gas Turbine Division and the Machinery Division were combined under a newly established Energy System Division. Under the new structure, we aim to strengthen our ability to sell solutions that meet customer needs, increase EPC capabilities, expand international energy business, establish an integrated business structure and use internal resources effectively. This will enable us to develop the energy and environmental engineering business even more.

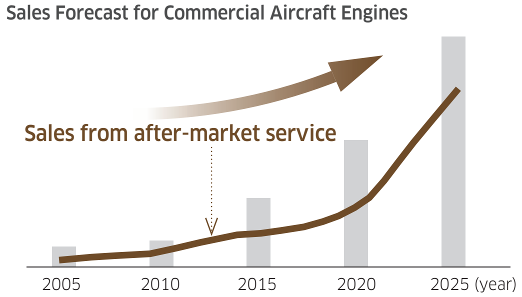
In the marine business, we will hone a sharper competitive edge through the development of next-generation marine propulsion machinery and systems, including new-type propulsion machinery and marine gas engines that meet tougher environmental regulations. We will also direct efforts toward securing earnings through after-market services.

Key Driver

Expanding Commercial Aircraft Engine Business

The global commercial aircraft market is expected to see new and replacement demand of about 41,000 aircraft over the next 20 years. As a consequence, demand for commercial aircraft engines is likely to increase considerably as well. Right now, Kawasaki is concurrently involved in several projects to develop new-type engines, including the Trent 1000 for the Boeing 787, the Trent XWB for the Airbus A350 XWB, the PW1100G-JM for the Airbus A320neo and the Trent 7000 for the Airbus A330neo. Upfront investment is required to develop and manufacture these commercial aircraft engines, but looking ahead, we anticipate sizable profits from demand for after-market services. Currently, the burden of development expenses is heavy, but sales from after-market services should increase from 2020 onward, turning this business into a growth driver for Kawasaki.

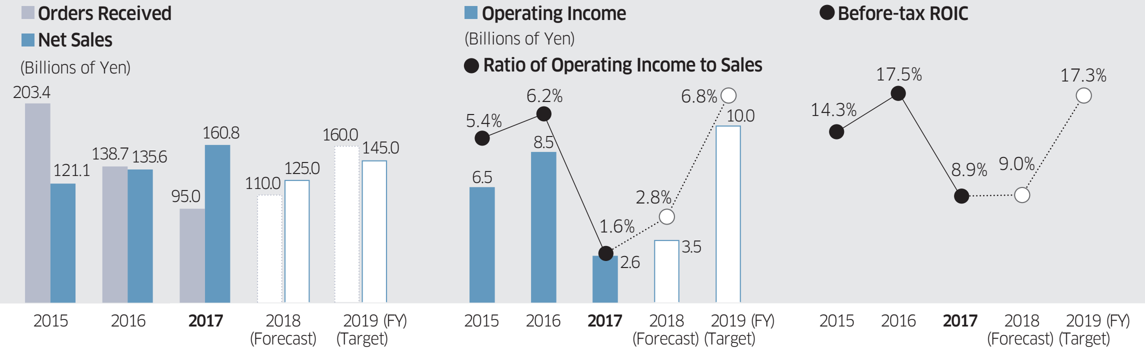
Sales Forecast for Commercial Aircraft Engines



Plant & Infrastructure

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

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.

Opportunities
- Wider infrastructure demand in emerging countries and resource-rich countries
- Tougher environmental regulations
- Demand to build new or replace various power generation facilities following the Great East Japan Earthquake
- Demand for infrastructure replacement in Japan, prompted by upcoming Olympics in Tokyo in 2020

Risks
- Delayed projects due to prolonged slump in price of oil
- Weakening investment incentive paralleling economic slowdowns in emerging countries and resource-rich countries

Core Competence
- Comprehensive engineering capabilities and product development expertise built on various types of projects
- *Monozukuri* manufacturing capabilities at our own production bases

Business Direction in MTBP 2016

Improve profitability	• Promote careful selection of orders emphasizing profitability over scale, ensure thorough risk management in upstream processes, and improve estimate accuracy
Ensure stability	• Execute business mindful of human resources, assign engineers flexibly in response to market trends, and emphasize QCD* management
Seek growth	• Develop a market for next-generation products by improving upon existing products, and facilitate hydrogen projects

QCD: Quality, cost, delivery

Boiler for the Prelude FLNG (floating liquid natural gas) facility

Fertilizer plant

Business Summary
In fiscal 2017, the segment posted a major decrease in earnings year on year, caused mainly by worsening costs on overseas LNG tank construction projects. In fiscal 2018, sales are likely to decrease again, primarily because progress on construction of a chemical plant for a customer in Turkmenistan passed a peak.

Operating Environment and Strategies
Domestic and overseas demand for plants should remain stable, paralleling steady infrastructure building, especially in emerging countries including those in Southeast Asia, as well as heightened interest in protecting the environment. However, price wars are becoming fiercer, and we will have to consider approaches to sharpen cost-competitiveness.

Kawasaki has the advantage of technology and quality underpinned by high product development expertise and engineering capabilities as well as *monozukuri* manufacturing capabilities made possible by its own production bases. We will draw on these strengths to provide unique, high-value-added products and realize customer satisfaction. Also, on the order front, we will be more selective in our bids and emphasize profitability over scale, and we will highlight thorough risk management in upstream processes. Our objective is, naturally, to achieve an improvement in profitability. In addition, we aim to enhance the accuracy of estimates, reduce failure costs, that is, the cost of defective work and guarantees on construction, and thereby strengthen our cost-competitiveness.

In business operations, we will strive to maintain a suitable project execution structure, always conscious of human resources, and take a flexible approach in assigning engineers to projects in response to market trends. In addition, we seek to constantly cultivate the skills of young engineers by encouraging the transfer of techniques and know-how from senior engineers through on-the-job training.

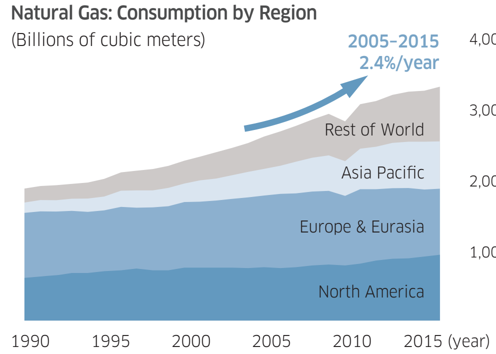
To grow our business, we will draw on technology used in existing products to develop high-value-added products better matched to customer needs, and then bring these to the market. We will also aggressively pursue development of new products, including those used in hydrogen-related projects.

Key Driver

Emphasis on Natural Gas-Related Products
Over the past decade, between 2005 and 2015, consumption of natural gas grew at an average annual rate of 2.4%, and this growth trend is expected to continue. Kawasaki has various technologies related to natural gas and provides highly reliable plants featuring the world's top technologies. To date, Kawasaki has delivered ammonia and urea fertilizer plants that use natural gas as the raw material to customers mainly in China, Iran, and Pakistan.

In addition to fertilizer plants, Kawasaki is currently constructing the world's largest gas-to-gasoline (GTG) plant in Turkmenistan, a resource-rich country. It will produce high-quality gasoline from natural gas extracted in Turkmenistan using the latest in gas liquefaction technology. In Australia, we manufactured and delivered boilers on the Prelude FLNG (floating liquid natural gas) facility developed by Royal Dutch Shell. This boiler boasts the world's largest capacity for off-shore use.

Natural Gas: Consumption by Region
(Billions of cubic meters)



Source: BP Statistical Review of World Energy June 2016

Motorcycle & Engine

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

Kazuo Ota
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.

Opportunities

Motorcycles	• Medium- to long-term market expansion in emerging countries • Stable demand for developed countries, and progress in development of technologies, such as IoT application and advanced safety features
Utility vehicles	• Expanding market in North America
General-purpose gasoline engines	• Brisk growth, reflecting bigger U.S. housing market

Risks

Motorcycles	• Intensifying price wars in emerging markets • Tougher environmental regulations
Utility vehicles	• Intensifying price wars

Core Competence

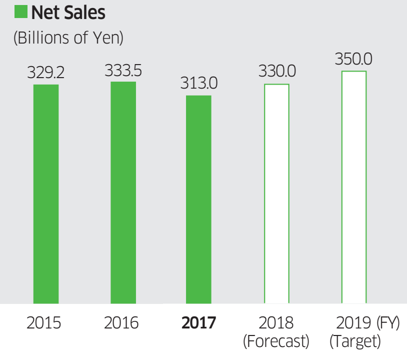
- High brand image clearly different from rivals, typified by *Ninja* and *Z*
- Top-level product development expertise on world stage
- Technological capabilities to develop and produce high-performance, high-quality products
- Global production, sales and service structure

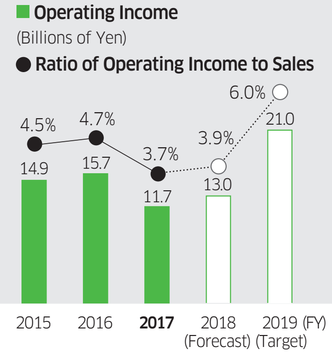
Business Direction in MTBP 2016

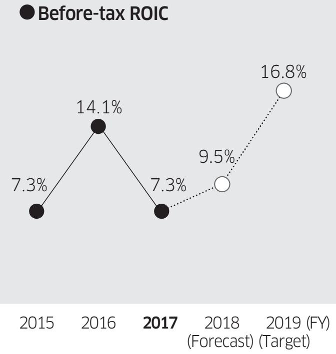
Deepen demand-chain reforms	• "A Class Apart" • Create brand that delivers high customer value a true cut above other companies
Deepen reforms to enhance competitive edge of products	• "Fun to Ride" and "Ease of Riding" • Create structure for product development geared to customer requirements
Deepen supply chain reforms and promote change in overall management system	• Boost capital efficiency through improvements in supply chain, from production through to sales
Establish stronger financial platform	• Reinforce profitability and improve free cash flow to generate investment leeway and respond to future growth markets

Ninja ZX10R ABS

Jet Ski SX-R







Business Summary

In fiscal 2017, income was down year on year, despite higher sales of motorcycles and utility vehicles in developed countries, because of the impact of yen appreciation and lower sales of motorcycles in emerging countries. In fiscal 2018, we expect an increase in sales and income because of higher sales of motorcycles and utility vehicles in developed countries as well as a rebound in sales of motorcycles in emerging countries.

Operating Environment and Strategies

Markets in developed countries will continue to present stable demand, especially for utility vehicles, and high growth is likely over the medium to long term in emerging markets as well. We believe our business can grow steadily. However, competition is heating up in all markets, mainly due to the entry of manufacturers in emerging countries, so we need to improve our profitability.

We will anticipate the needs of customers and draw on world-class product development expertise and brand image—typified by *Ninja* and *Z* and clearly different from rivals—to quickly bring attractive, highly competitive models to market. These efforts will define Kawasaki as a premium brand that can pull free of the price competition.

Toward this end, we will clarify the functions and roles of domestic and overseas R&D sites and reinforce collaborative efforts, and we will utilize synergistic effects generated through contact with the Corporate Technology Division and other segments. Then we will establish a development structure to continuously debut attractive new models ahead of the competition. In addition, we will strive to polish our brand power to a brighter shine, with a focus on CRM* and a stronger after-market service structure and by efficiently and effectively showcasing a Kawasaki brand consistent worldwide.

In business operations, we will set up a global management system hinging on business processes consistent at sites worldwide. We will also look to optimize the role of each production base, including efforts to enhance the mother factory function of the Akashi Works, to achieve higher management efficiency.

**CRM: Customer relationship management*

Key Driver

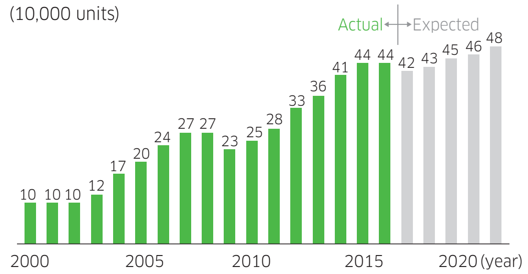
Utility Vehicle Business in North America

Utility vehicles are used for hauling work on farms, for traversing large-size estates and for sport-hunting. Such vehicles are in huge demand, especially in North America, and in recent years, recreational utility vehicles—which feature enhanced drivability over terrain to enjoy moving at speed in rural areas—have grown in popularity.

In North America, the market for utility vehicles and recreational utility vehicles, collectively referred to as the SxS (Side-by-Side) market, hovered near 440,000 units in 2016, more than four times the level—around 100,000 units per year—sold in the early 2000s. Growth should remain stable.

Kawasaki sells several models, including *Mule*, a utility vehicle, and *Teryx*, a recreational utility vehicle, mainly in North America and Europe. Market reception has been very good. Going forward, we will expand business by enriching the lineup and enhancing vehicle performance to meet customer needs.

Forecast for North American SxS Market
(10,000 units)



Source: Power Products MARKETING, 2016 North American Utility Vehicle Market Report

Precision Machinery

Main Products

- Hydraulic components for construction machineries
- Hydraulic components and systems for industrial machineries
- Marine steering gears
- Hydraulic deck machineries
- Industrial robots
- Medical and pharmaceutical robots

Kazuo Hida
President,
Precision Machinery Company

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.

Opportunities

Hydraulic machinery
- Expanding demand through worldwide infrastructure building, hinging on emerging countries

Robots
- More fields of application through realization of robots that coexist with humans in harmony
- Rising demand to eliminate labor shortage and improve quality
- Progress in use of robots beyond industrial applications (such as medical treatment and nursing care)

Risks

Hydraulic machinery
- Delayed recovery in marine hydraulic equipment market due to sluggish conditions in shipbuilding industry, and intensifying price wars
- Potential for in-house production of hydraulic machinery by makers of mother machines and entry of manufacturers from emerging countries into the market

Robots
- Increasingly fierce price wars with rival companies

Core Competence

Hydraulic machinery
- Accumulated world-class, leading-edge technology, ability of systemization and brand power for excavator hydraulic machinery
- Ability to respond to customer requests

Robots
- Ability to develop applications and make system proposals matched to diverse customer requirements
- Global service structure

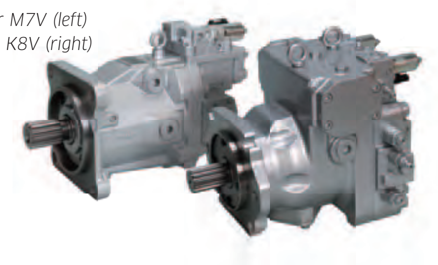
Both
- Ability to come up with unique products that utilize motion-control through fusion of hydraulic technology and robotics

Business Direction in MTBP 2016

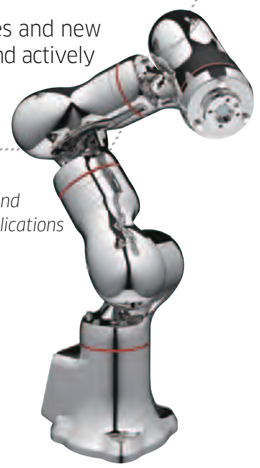
Hydraulic machinery
- Maintain high share of excavator market but seek even bigger share, pursue sales beyond excavators to construction and agricultural machinery sectors, and explore business potential in industrial machinery and marine machinery sectors

Robots
- Increase current market share, develop and debut new technologies and new types of robots that coexist with humans in harmonized applications, and actively promote innovative development of robots for medical applications

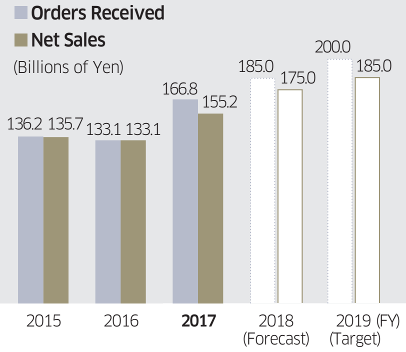
Both
- Pursue efficiency by demonstrating synergistic effects as business segment

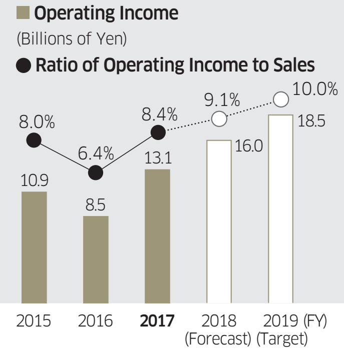


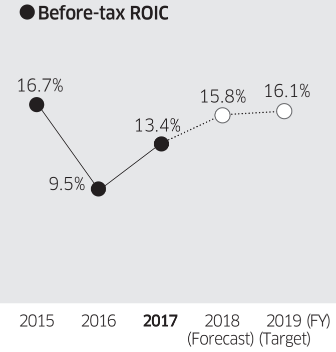
Hydraulic motor M7V (left)
Hydraulic pump K8V (right)



Robot for medical and pharmaceutical applications







Business Summary

In fiscal 2017, income was up year on year, reflecting higher sales of hydraulic machinery for the construction equipment market and higher sales of industrial robots. We currently anticipate growth in both the hydraulic machinery and industrial robot markets, which should spur sales and income from fiscal 2018 onward.

Operating Environment and Strategies

Hydraulic machinery components for construction equipment are likely to post growth over the medium to long term, buoyed by greater infrastructure building, especially in emerging countries. However, demand may be affected by economic fluctuations.

Kawasaki enjoys the top share globally in the market for excavator-use hydraulic machinery. Going forward, the goal is to maintain this position but ultimately secure a larger share by showcasing world-class, leading-edge technology and the ability to turn such technology into systems, excellent brand power and responsiveness to customer needs. Also we will actively explore new businesses with huge growth potential, such as construction and agricultural machinery, to realize further growth and improve stability in segment performance.

In the industrial robot business, we expect expanding demand to offset labor shortages and achieve higher quality. We also predict that robots will be used in a wider range of applications, including for coexisting with humans in harmonized applications and use in medical treatment and nursing care.

We will dramatically reinforce production capacity, especially in China, to take advantage of expanding demand for robots in existing customer sectors, such as automotive and semiconductor. In addition, we will expand sales and market share by providing solutions that draw on the Group's experience accumulated in developing robots and by enhancing the sales and service structure. We will concentrate on robots that harmoniously coexist with humans through *duAro*, a dual-armed SCARA (Selective Compliance Articulated Robot Arm) robot, and on medical-use robots through such applications as surgical support robots, which are under development at Medicaroid, a joint venture with Sysmex Corporation.

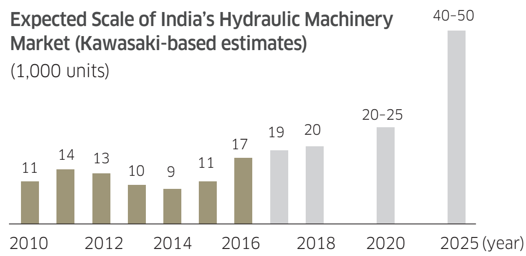
We will promote collaboration, integrating hydraulic machinery and robot businesses on the production front, and pursue synergies derived through developing new products combining the technical features of these businesses. This will underpin our goal to reinforce businesses under the business segment umbrella.

Key Driver

Business Expansion in India's Hydraulic Machinery Market

The global construction machinery market has been lackluster for a while, but underlying signs indicate that the market bottomed out and is gradually recovering. Against this backdrop, the market in India has become more lucrative, thanks to accelerated construction of infrastructure in line with a policy emphasis by India's prime minister, Narendra Modi, to grow the nation's manufacturing industry. Demand for hydraulic excavators in India is expected to surpass 20,000 units in 2020 and could surge about 2.5 times, to 50,000 units, by 2025. Given this trend, Kawasaki aims to enhance its presence in this expanding market, highlighted by the construction of a new facility at Wipro*, a joint venture in India, and a stronger local production structure.

Expected Scale of India's Hydraulic Machinery Market (Kawasaki-based estimates)
(1,000 units)

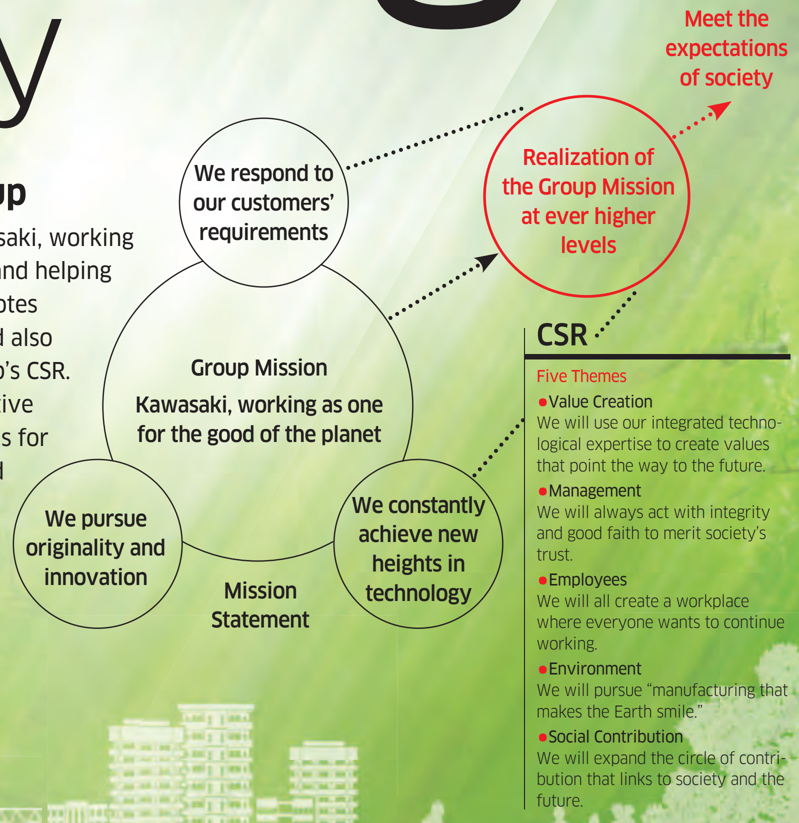


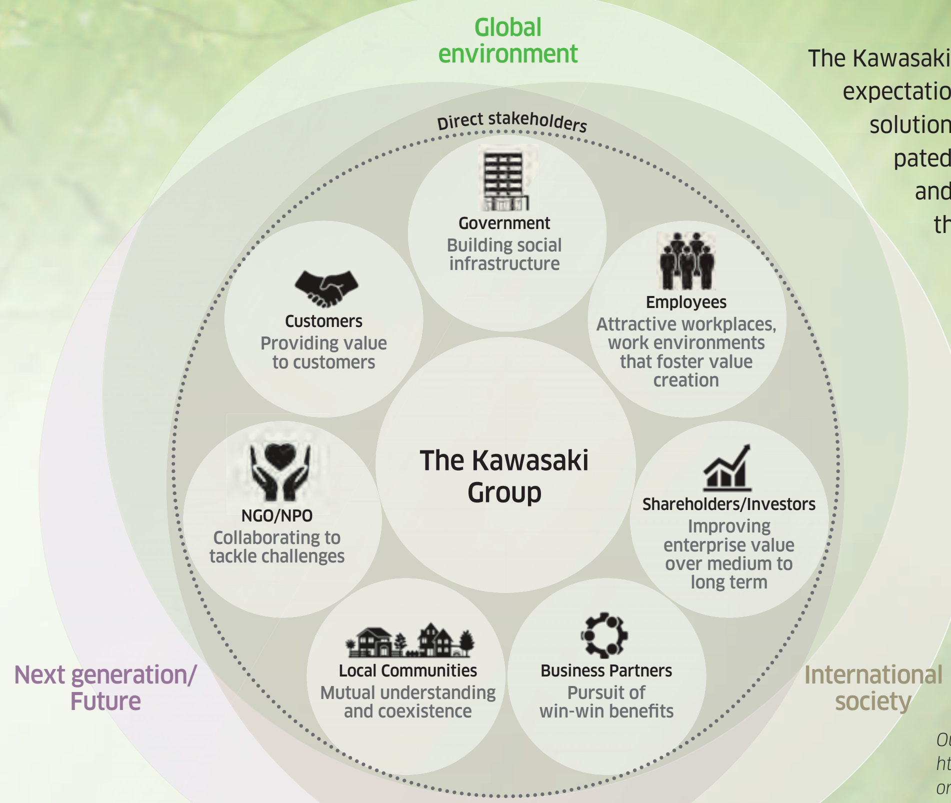
*Wipro Kawasaki Precision Machinery Private Limited

Growing with society

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 reinforce our foundation of value creation, as we bear in mind the expectations and demands of stakeholders.





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*

Our CSR activity organization is introduced on our website https://global.kawasaki.com/en/corp/sustainability/overview/organization.html

Challenges for the Kawasaki Group

In fiscal 2010, we defined CSR for the Kawasaki Group and identified CSR themes and issues. These were identified using the approach of issues to be addressed by the manufacturing industry, based on the items of ISO 26000*2 and CSR surveys from customers, SRI/ESG research organizations, economic organizations, NPOs, and the media. Since then, we have addressed these issues through the vision defined for each medium-term business plan (MTBP) and our yearly action plans, while also addressing new issues as they arise.

**2 ISO 26000: An international standard for social responsibility*

MTBP 2010
- Organizing CSR approach
- Organizing relevance with Group Mission
- Establishment of themes
- Establishment of issues to be addressed
- Preparation of initiative structure (non-consolidated)
- Inclusion in action plan (non-consolidated)

MTBP 2013
- Review of issues to be addressed
- Promoting integration of business management and CSR
- Expansion for Group companies, including overseas
- Expansion into the supply chain
- Enhancement of promotion structure
- Expansion of scope of dialog

MTBP 2016
- Discussion and identification of the Company's key issues
- Promoting integration of business management and CSR
- Further expansion for overseas Group companies
- Checking of supply chain
- Re-focusing on raising awareness among employees
- Enhancing dialog with stakeholders

Assessments of achievement of MTBP targets are reported on our website for each year. https://global.kawasaki.com/en/corp/sustainability/overview/outline.html

Identification and Recognition of Material Issues

Recently, there has been a demand for companies to identify and recognize material issues in view of their relationship between social issues and the companies' business activities, the impact on stakeholders, and other factors, and utilize these to prioritize their efforts. In our MTBP 2016, we are discussing our issues anew using this approach.

In fiscal 2018, we will identify issues using the following process.

1) We will use the survey results from SRI/ESG investment*3 assessment organizations as the expectations of society and stakeholders, winnow down questions from global organizations directed at us or our industry, and shape them into evaluation items of the level of importance for society and stakeholders.
2) Based on these items, we will evaluate the level of importance for the Kawasaki Group from the standpoints of risks and opportunities, in consideration of the relationship to our businesses and other factors.
3) We will incorporate global social issues with high affinity with our businesses, such as SDGs*4, in the discussion of material issues, from the perspective of new contributions in the future.

**3 SRI/ESG investment: Investment reflecting society's expectations of an enterprise*
**4 SDGs: The UN's "Sustainable Development Goals"*

Dialogue with Experts

Keiichi Ushijima
Japan CCaSS Leader, Managing Director, Climate Change and Sustainability Services, EY Japan

We hold dialogs with experts as representative voices of society. In fiscal 2017, we invited Mr. Keiichi Ushijima of EY to a meeting of our Corporate CSR Committee, where he spoke on the following topics, on the theme of integrating management with CSR.

- Sustainable management as empathy with society
- A business model based on value creation
- Linking management/financial planning to long-term issues
- Strategically utilizing sustainability
- MTBP and approach to material CSR issues

Our committee members expressed the following views.

- We must further recognize the links between social issues and our growth strategy, and tie this into results
- It is vital to properly communicate our focuses, initiatives, and results

Brainstorming with Management Candidates

At our training for newly appointed executive officers and associate officers held in the spring of 2017, we conducted a brainstorming session based on ISO 26000 and SDGs regarding which stakeholders were involved in the value chains of Kawasaki and its individual internal company businesses, what kinds of social issues we could resolve or promote over the next 10 to 20 years, and what the risks and opportunities were for Kawasaki.

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 adopts the statutory auditor system with a Board of Directors and Board of Auditors, and appoints an independent auditor. The Company also has the discretionary Nomination Advisory Committee, Compensation Advisory Committee, Management Committee, and Executive Officers Committee. The composition and role of each of these organizations are described below.

●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 supervisory 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 as advisory bodies to the Board of Directors, in an effort to strengthen the transparency and objectivity of the Board of Directors.

In fiscal 2017, the Board of Directors' Meeting was held 14 times (including extraordinary meetings), and the attendance rate was 99% or above for internal and outside directors and corporate auditors.

●Board of Auditors

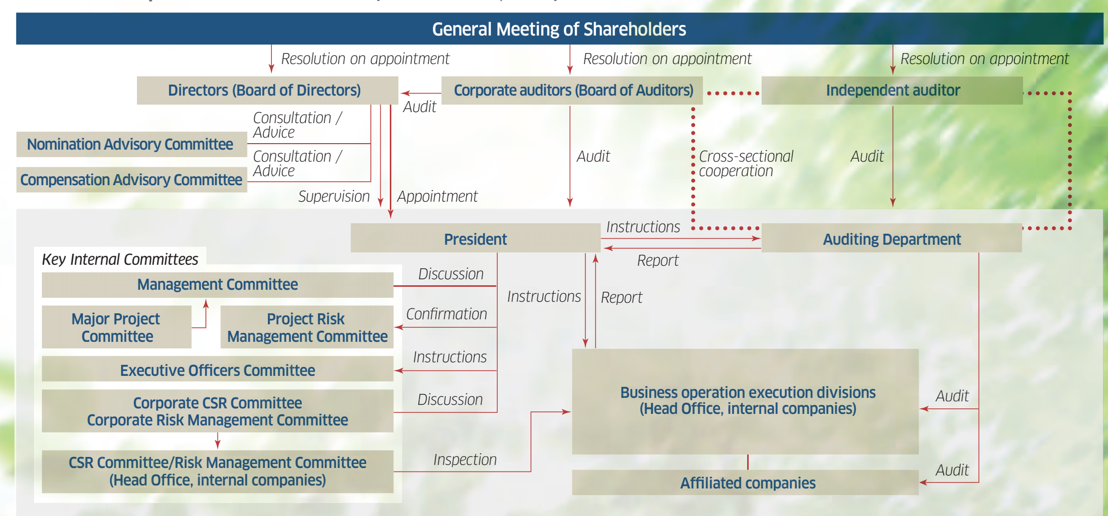
The Board of Auditors comprises five corporate auditors (authorized number: five). To ensure the reliability of financial reports, the Company appoints an internal corporate auditor who has considerable knowledge of finance and accounting. Furthermore, to enhance the supervisory function and further improve its objectivity and neutrality, the Company has increased the number of outside corporate auditors (independent officers, as required by the Tokyo Stock Exchange) with no business relationships or other vested interests in the Company from two to three members. The internal corporate auditors and outside corporate auditors share information closely and work to enhance the supervisory function.

In fiscal 2017, the Board of Auditors' Meeting was held 17 times, and the attendance rate was 100% for internal and outside corporate auditors.

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

Name	Activities
Nomination Advisory Committee	• An advisory body on nomination of directors and corporate auditors
Compensation Advisory Committee	• An advisory body on compensation for directors
Management Committee	• Includes executive directors and internal company presidents • 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	• Comprises all executive officers appointed by the Board of Directors • 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 policy and important matters related to CSR 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	• Assesses risk and considers appropriate responses before acceptance of major projects
Project Risk Management Committee	• Regularly follows up on major projects during execution

Kawasaki Group's Governance Structure (As of June 28, 2017)



Reasons for Appointment of Outside Officers

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

●Outside Directors

Yoshihiko Morita Mr. Morita has expressed useful opinions and given advice in determining important matters of the Company's management from a position independent of any role in the execution of business activities, based on his substantial overseas experience and knowledge as a specialist acquired over a career including Deputy CEO of Japan Bank for International Cooperation, Representative Director and Senior Managing Executive Officer of Japan Finance Corporation, and other important positions. In consideration of these points, 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 and increasing its enterprise value.

Michio Yoneda Mr. Yoneda has expressed useful opinions and given advice in determining important matters of the Company's management from a position independent of any role in the execution of business activities, based on his abundant management experience and high level of knowledge regarding corporate governance acquired over a career including 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 believes he would be able to fully perform his roles as an Outside Director in supervising the execution of duties of the Company and increasing its enterprise value.

●Outside Corporate Auditors

Takashi Torizumi The Company has judged that Mr. Torizumi would be able to fully perform his roles as outside corporate auditor from an independent position, based on his abundant experience as a corporate manager.

Satoru Kohdera (newly appointed) The Company has judged that Mr. Kohdera would be able to fully perform his roles as outside corporate auditor from an independent position, based on his abundant experience as an attorney and high level of knowledge of legal affairs.

Atsuko Ishii (newly appointed) The Company has judged that Ms. Ishii would be able to fully perform her roles as outside corporate auditor from an independent position, based on her abundant experience and high level of knowledge of labor administration.

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 set at a level tied to corporate performance, while compensation for outside directors is set at a fixed level not tied to corporate performance, from the perspective of professional independence. Both types of compensation are determined by the President as delegated by the Board of Directors, after consultation with the Compensation Advisory Committee.

The compensation of corporate auditors is set at a fixed level not tied to corporate performance, from the perspective of professional independence. This compensation is determined by the Board of Auditors.

Amount of Corporate Officers' Compensation in Fiscal 2017

Category		Fiscal 2017
Directors	15 people	¥763 million
Corporate auditors	5 people	¥90 million
Total	20 people *(including 5 outside officers)*	¥853 million *(including ¥46 million for outside officers)*

Notes:

1. The number of officers includes three directors and one corporate auditor who retired at the conclusion of the General Meeting of Shareholders held in June 2016.

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 ¥120 million per year (as resolved at the 194th Ordinary General Meeting of Shareholders held on June 28, 2017).

Topics

Initiatives to Increase the Effectiveness of the Board of Directors

An assessment of current status of the Board of Directors using a questionnaire given to all directors and corporate auditors is conducted based on the advice of external experts each year, with the aim to improve the function of the Board of Directors. Analysis of the results is reported to the Board of Directors for discussion. It was confirmed from the results of the fiscal 2017 assessment that the effectiveness of the Board of Directors as a whole had been sufficiently secured. The following initiatives were carried out in response to the fiscal 2016 assessment and discussion thereof.

- The Board of Directors revised the scope of delegation of authority to directors, executive officers, and other officers in order to enable the Board of Directors to conduct focused deliberation on matters of high materiality for management.
- In order to further energize discussions by the Board of Directors, we began providing information to directors and corporate auditors at an earlier stage, and early briefings to outside officers on a regular basis on agenda items for the Board of Directors' Meetings.

We will continue to work to further improve effectiveness.

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 (three meetings in fiscal 2017). 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 at least twice a year, in their effort to promote compliance throughout the Group.

Compliance Promotion Structure

Compliance Reporting and Consultation System (whistle-blower system)

In certain situations, employees of the Company and domestic consolidated subsidiaries who suspect a violation of compliance practices relating to their operations 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 2017)

Nature of report or consultation	Number of cases
Power harassment	5
Personnel matters	4
Financial fraud	2
Sexual harassment	2
Others	7
Total	20

**Number of cases listed above refers to reports and consultations received, not those identified as violation of compliance practices.*

Distribution of the Compliance Guidebook

The Compliance Guidebook, which describes necessary and useful knowledge in an easy-to-understand way for ensuring thorough compliance within the Company, 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. It is divided into 20 sub-sections in total with six classified 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 Managers."

Compliance Guidebook

Compliance with Competition Laws

The Kawasaki Group is focusing its efforts on compliance with competition (antimonopoly) laws.

Since 2006, the Board of Directors has adopted a resolution to comply with antimonopoly laws and strive to maintain and improve our enterprise value in society at the first Board of Directors' Meeting, held immediately following each year's general meeting of shareholders.

We also broadly disseminate knowledge of case studies of potential issues for the Company, and promote learning and understanding of competition laws, through the issuance of guidebooks on competition laws to our employees.

Antimonopoly Law Compliance Guidebook

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 implement 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 as company regulations by seeking to anticipate and avoid loss caused by risk, and to minimize risk through the appropriate development and operation of the 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.

With regard to individual risks associated with business execution, in accordance with company regulations such as the Board of Directors Regulations, Management Committee Regulations, and Approval Regulations, the relevant divisions must assess and analyze such risks in advance and fully consider appropriate responses. In particular, the Company practices even more thorough risk management of major projects with significant impact on operations, including management, upon bidding and concluding agreements for the projects, as well as regular follow-up by the Head Office and internal companies as needed after the project begins, in accordance with regulations such as the Major Project Risk Management Regulations.

Responding to Major Risks

To undertake integrated risk management on a Group-wide basis, divisions responsible for different areas of operations work to strengthen risk management initiatives that have already been implemented, and 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. The division in charge then monitors the results.

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 any disabilities, 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.

Development of Global Human Resources

Since 2008, we have been implementing measures for global human resource development, with the aim of furthering the development of human resources in support of global business expansion. Specifically, we provide overseas business manager seminars (at both beginner and intermediate levels) designed to promote a readiness to deal with business from a global perspective and teach useful skills for overseas business; enhanced cross-cultural responsiveness training, which instills a practical and systematic understanding of differences in ever-diversifying value perceptions; and global business mentality training for decision making, in which employees systematically study the requirements for global human resources through a reflection of their own overseas experiences. Furthermore, we will work to enhance measures toward global human resource development through such means as introducing an overseas internship system aimed at globalizing domestic human resources and considering an educational program for local skilled employees at overseas sites.

Project Manager Development

In recent years, there has been an increase in project-based business, such as the contracting of entire systems and peripheral equipment, in addition to sales of single products. In fiscal 2017, we started a new training program with the goal of developing project managers who could execute these types of projects. We are working at the Group level to improve our project management capabilities. Specific examples include project management seminars, where instructors with experience on large projects both inside and outside the Company impart their know-how for leading a project to success; and an internal exchange program, where employees study at other internal companies to gain hands-on experience on large projects.

Project management seminars

Promotion of Diversity

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.

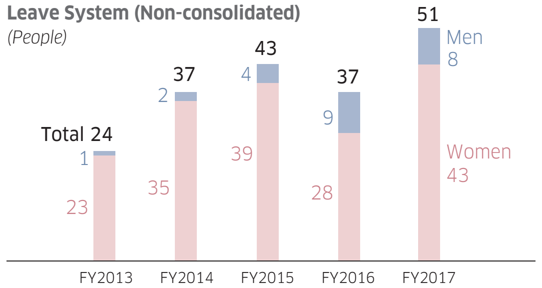
Diversity symbol

Promoting Participation by Women

The Kawasaki Group is actively committed to hiring women. About 30% of our hires for college-graduate administrative positions are women. As a measure to promote the participation of women, we run the 4U (For You) Network with the aim of enabling participants to share knowledge on how to balance work with life events, and to actively participate while spurring each other to greater growth and development. Additionally, in 2016, we held a career-track forum for about 180 women who had been at the Company for 10 years or less. At the forum, they learned from senior female employees how they had built their careers, and through group discussion, considered their own career vision for five years in the future. We also consider the promotion of women to management positions to be an important challenge, and have set a target of increasing the number of female managers (section manager and above) by 2020 by three-fold, compared with the level in fiscal 2015. In these and other ways, we are striving to develop female human resources.

4U network (network for female employees)

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



Supporting a Balance of Child Care, Nursing Care, and Work

We have a number of systems to support raising the next generation and nursing care, in order to enable our employees to continue working actively while balancing work with childcare and nursing care.

Examples include a system of childcare leave available until employees' children reach age three; a short-time working system available to employees with children until they graduate from elementary school; nursing care leave available for up to three years; holding seminars to support those on childcare leave who wish to return to work; a system whereby people can apply for reemployment when they are ready to return to work after resigning because of marriage, childbirth, child-raising, or other reasons; and a system that lets staff take time off in units of one hour at a time if needed to care for children or other family members. With initiatives in this area that go beyond national government standards, the Hyogo Labour Bureau certified us as a company supporting childcare, and awarded us the "Kurumin Mark" in 2010.

Promoting Participation by People with Disabilities

We are committed to hiring more people with disabilities, and they participate in a wide range of workplaces. In September 2013, we established Kawasaki Heartfelt Service Co., Ltd., which promotes the active employment of people with disabilities in the Group as a whole in order to maintain and improve the employment rate, and also works actively to create barrier-free workplaces. We are cultivating an environment where people with disabilities can develop their full potential.

Activities of Kawasaki Heartfelt Service
(Hand-made recycled paper business utilizing recycled resources)

Topics

Enhancing On-site Nursery Facilities

A nursery opened at Kawasaki Motors Enterprise (Thailand) Co., Ltd. in April 2010. The nursery provides temporary care for employees' children between the ages of one and four. As of March 2017, the nursery cares for the children of about 30 employees on a daily basis. Several more children are also registered at the nursery, and utilize it as necessary. The nursery is generally open from 7:30 to 17:15 to coincide with regular working hours, but if requested by more than a fixed number of employees, it is also made available during overtime or holidays.

The opening of the nursery means that parents can continue working with complete peace of mind, having left their children to be cared for nearby. From the employer's viewpoint as well, the loss of skilled human resources due to childbirth or childcare is avoided, promoting a stable and committed workforce. The opening of the nursery has thus proved to be a measure with mutual advantages.

Nursery facilities at Kawasaki Motors Enterprise (Thailand) Co., Ltd.

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.

Additionally, in fiscal 2017, we conducted a questionnaire-based survey with domestic business partners to assess the status of compliance with these guidelines. About 1,400 business partners responded to the survey. Based on the results of the survey, we will execute measures to strengthen CSR efforts throughout our entire supply chain.

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

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

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 https://global.kawasaki.com/en/corp/sustainability/contribution/

Science Education × Next Generation

Make Your Own Train!

We have held handicraft workshops using our products as materials at an elementary school in Minamisanriku, Miyagi Prefecture.

Environment × Local Communities

Working to Realize a Society that Coexists with Nature Through Forest Restoration Efforts

We take part in biodiversity conservation activities in two prefectures–Kochi and Hyogo.

Intercommunion × Local Communities

Interacting with the Community

Elementary and junior high school students and their guardians from the communities surrounding the Akashi Works are invited to the site to promote positive interaction with the community every year.

Image ©The Metropolitan Museum of Art

Philanthropy × International Society

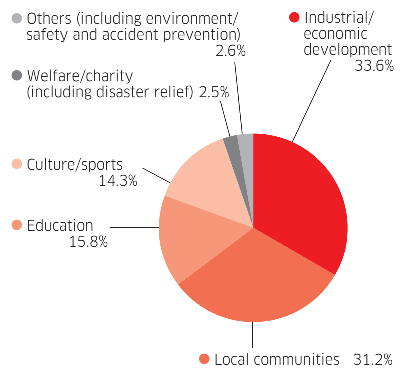
Kawasaki Good Times Foundation

We operate a social contribution fund in the United States and make various donations to institutes for the arts and culture, such as the Metropolitan Museum of Art in New York, as well as charitable works.

Expenditure on Social Contribution *(Millions of yen)*

		FY2015	FY2016	FY2017
Category	Industrial/economic development	231	243	292
	Local communities	236	235	271
	Education	148	138	137
	Culture/sports	73	121	124
	Welfare/charity (including disaster relief)	34	20	22
	Others (including environment/ safety and accident prevention)	37	16	23
	Total	759	773	869
Recurring profit for the fiscal year		84,288	93,229	36,671
Expenditure as a proportion of recurring profit		0.90%	0.83%	2.37%

FY2017 composition ratio



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.

Reducing CO_2 Emissions from Production Bases

Results of Energy-saving Activities

As a result of our energy-saving activities to make energy “visible,” which Kawasaki fully introduced in 2013 with a focus on our plants, we achieved an energy cost reduction of 7.1% in fiscal 2017.

We also make active use of such subsidies as the one by the Ministry of Economy, Trade, and Industry for supporting business operators intending to rationalize their energy use, to introduce energy-efficient equipment. In fiscal 2017, we updated air conditioning equipment, transformers, and other equipment with energy-efficient models at Akashi Works, Kobe Works, Hyogo Works, and Sakaide Works.

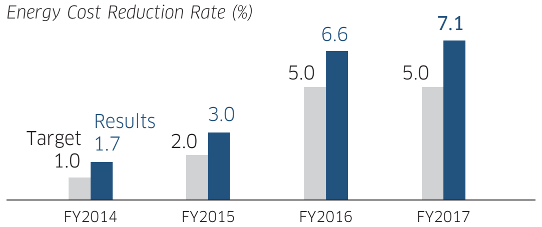
We also work to share information and promote energy saving by holding energy-saving practitioners’ conferences aimed at disseminating methods internally to promote energy saving, and energy-saving workshops in which we observe improvement through case studies and visit sites to see how energy-saving methods are applied.

Energy-saving Workshop Dissemination of energy-saving methods (Akashi Works)

LED lighting installed as part of energy-saving activities (Seishin Works)

Target and Actual Energy Cost Reduction by Fiscal Year

Energy Cost Reduction Rate (%)



Use of Low-carbon Energy at Plants and Other Facilities

The Kawasaki Group is making its production and other equipment more energy efficient, and advancing the use of renewable energy, as efforts to reduce the CO_2 emissions from its plants. We are installing solar power generating systems at our plants, and have a total generation capacity of 4,171 kW, including the Group companies (some of the equipment installations were subsidized by the New Energy Promotion Council).

The Group will continue to promote the introduction of solar power generating systems at our plants, because many of them are located in the Setouchi region, which receives a large amount of sunlight, as we continue to reduce our CO_2 emissions.

The Group’s Solar Power Generation Capacity

Name	Power Usage	Generation Capacity (kW)
Iwaoka Photovoltaic Power Generation Station*1	Sold via FIT*2	1,505
Nagoya Works 1	Used in-house	750
Seishin Photovoltaic Power Generation Station*1	Sold via FIT	701
Nishi-Kobe Works	Used in-house	505
Nishi-Kobe Photovoltaic Power Generation Station*1	Sold via FIT	422
Akashi Works	Used in-house	140
Sakaide Works	Used in-house	50
Kakogawa Photovoltaic Power Generation Station*1	Sold via FIT	48
Hyogo Works	Used in-house	25
Kobe Works	Used in-house	20
Harima Works	Used in-house	5
Total		4,171

*1 Power generation facility operated by Kawasaki Trading Co., Ltd.
*2 FIT: Feed-in tariff; a program where renewable energy is bought back at a fixed rate

Nagoya Works 1: 750-kW power generation facility

Kawasaki Trading Co., Ltd. Iwaoka Photovoltaic Power Generation Station: 1,505-kW power generation facility

Reducing CO_2 Emissions Through Product Contributions

Hydrogen Utilization Trials in Kobe

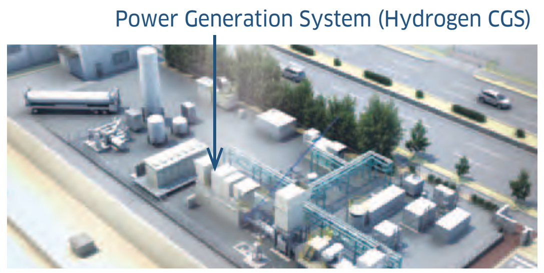
To contribute to a significant reduction in CO_2 emissions in our future energy use, we are participating in the “Demonstration Project for Establishment of Mass Hydrogen Marine Transportation Supply Chain Derived from Unused Brown Coal,” which will run from fiscal 2016 to 2021 (planned), as a project to subsidize industrial technology development expense under a specific theme by NEDO*3. The project will demonstrate technologies to gasify brown coal, which is an unused energy resource in Australia; to handle the transport of liquid hydrogen between land depots and ships; and to transport large volumes of liquid hydrogen by sea. We are charged with developing technologies to transport large volumes of liquid hydrogen over long distances, and to handle the transport of liquid hydrogen, with the aim of realization by the Tokyo Olympics in fiscal 2021.

We are also participating in the “Development of Smart Community Technology by Utilization of Hydrogen CGS (Co-Generation System),” which will run from fiscal 2016 to 2018, as a project to subsidize industrial technology development expense under a specific theme by NEDO. This project is to develop and demonstrate technologies for a new energy management system aimed at the efficient use of electrical, heat, and hydrogen energy at the community level, using a power generation system with a 1-MW-class gas turbine fueled by hydrogen and natural gas (hydrogen CGS). We are charged with development of hydrogen CGS.

*3 NEDO: New Energy and Industrial Technology Development Organization

Liquid Hydrogen Handling Depot

Provided by the CO_2-free Hydrogen Energy Supply-Chain Technology Research Association (HySTRA)



Hydrogen Co-Generation System

2017 Kawasaki-brand Green Products

In fiscal 2014, the Group started the Kawasaki-brand Green Products registration program. This program communicates externally the improved competitiveness and contribution to the global environment of our products, which take into account both environmental performance of products and reduction of environmental impact during the production process. In 2017, 10 products were added, bringing the total to 41.

Our large LNG carrier with a newly developed tank achieved the world’s lowest real BOR of 0.05%/d by combining a Kawasaki Panel System with excellent thermal insulation performance, fitted on newly developed non-spherical cargo tanks, with a partial re-liquefaction system. It has improved its fuel efficiency by about 15%, compared with our previous ships, due to the combination of a unique hull form with dual fuel engines.

*5 BOR: Boil-off rate

The details of Kawasaki-brand Green Products are disclosed on our website https://global.kawasaki.com/en/corp/sustainability/green_products

Eleven-year Summary

		Billions of yen											Thousands of U.S. dollars*1
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**	**2017**
Operating results	Net sales	¥1,438.6	¥1,501.0	¥1,338.5	¥1,173.4	¥1,226.9	¥1,303.7	¥1,288.8	¥1,385.4	¥1,486.1	¥1,541.0	**¥1,518.8**	**$13,536,809**
	Ship & Offshore Structure	108.8	141.3	126.4	151.8	118.4	113.5	90.3	80.8	90.3	94.8	**103.2**	**919,821**
	Rolling Stock*2	184.2	171.7	186.4	150.0	131.1	132.6	129.9	147.9	121.5	146.6	**137.1**	**1,222,450**
	Aerospace	269.1	237.3	200.4	188.8	196.8	206.5	239.1	280.7	325.0	351.8	**329.9**	**2,940,419**
	Gas Turbine & Machinery	183.3	185.4	195.1	191.3	202.6	194.6	207.0	189.2	218.7	236.4	**241.9**	**2,156,444**
	Plant & Infrastructure	122.0	142.5	105.1	107.5	89.0	122.8	115.8	103.8	121.1	135.6	**160.8**	**1,433,841**
	Motorcycle & Engine*3	403.7	433.9	336.4	203.0	234.4	235.2	251.8	322.2	329.2	333.5	**313.0**	**2,789,929**
	Precision Machinery*3	66.6	84.0	84.9	82.7	140.3	175.0	130.4	123.2	135.7	133.1	**155.2**	**1,383,940**
	Other*2	100.6	104.5	103.5	97.8	114.0	123.2	124.2	137.2	144.2	108.8	**77.4**	**689,965**
	Operating income [operating income margin]	69.1 [4.8%]	76.9 [5.1%]	28.7 [2.1%]	(1.3) [–]	42.6 [3.4%]	57.4 [4.4%]	42.0 [3.2%]	72.3 [5.2%]	87.2 [5.8%]	95.9 [6.2%]	**45.9 [3.0%]**	**409,625**
	Ship & Offshore Structure	(2.2) [–]	3.2 [2.3%]	(1.0) [–]	1.5 [1.0%]	(1.0) [–]	3.9 [3.4%]	4.1 [4.6%]	(2.0) [–]	2.6 [2.9%]	(7.9) [–]	**(21.4) [–]**	**(190,945)**
	Rolling Stock	13.1 [7.1%]	7.1 [4.1%]	11.3 [6.0%]	8.7 [5.8%]	8.1 [6.2%]	5.1 [3.8%]	2.2 [1.7%]	7.5 [5.1%]	6.0 [4.9%]	9.2 [6.3%]	**3.4 [2.5%]**	**31,069**
	Aerospace	13.4 [4.9%]	10.8 [4.5%]	(4.1) [–]	3.7 [1.9%]	3.0 [1.5%]	7.8 [3.7%]	14.8 [6.1%]	26.2 [9.3%]	36.3 [11.1%]	45.6 [12.9%]	**25.0 [7.5%]**	**223,109**
	Gas Turbine & Machinery	9.8 [5.3%]	13.3 [7.2%]	11.0 [5.6%]	8.9 [4.6%]	9.5 [4.7%]	7.7 [3.9%]	7.0 [3.3%]	10.4 [5.5%]	11.2 [5.1%]	16.9 [7.1%]	**15.2 [6.3%]**	**136,310**
	Plant & Infrastructure	(2.4) [–]	10.8 [7.6%]	8.9 [8.5%]	7.9 [7.3%]	8.2 [9.3%]	14.1 [11.4%]	9.7 [8.4%]	6.3 [6.0%]	6.5 [5.4%]	8.5 [6.2%]	**2.6 [1.6%]**	**23,263**
	Motorcycle & Engine*3	27.5 [6.8%]	19.6 [4.5%]	(10.1) [–]	(27.0) [–]	(4.9) [–]	(2.9) [–]	2.3 [0.9%]	16.1 [4.9%]	14.9 [4.5%]	15.7 [4.7%]	**11.7 [3.7%]**	**104,714**
	Precision Machinery*3	6.0 [9.0%]	9.1 [10.8%]	8.3 [9.8%]	3.4 [4.1%]	22.3 [15.9%]	26.6 [15.2%]	8.4 [6.4%]	10.4 [8.4%]	10.9 [8.0%]	8.5 [6.4%]	**13.1 [8.4%]**	**116,792**
	Other*2	3.5 [3.5%]	2.3 [2.2%]	4.2 [4.1%]	(1.0) [–]	2.5 [2.2%]	3.8 [3.1%]	1.2 [1.0%]	4.4 [3.2%]	3.9 [2.7%]	2.8 [2.6%]	**3.1 [4.0%]**	**27,987**
	Recurring profit	49.0	63.9	38.7	14.2	49.1	63.6	39.3	60.6	84.2	93.2	**36.6**	**326,836**
	EBIT*4	51.9	66.0	30.2	1.5	43.2	52.9	50.3	65.3	88.0	78.4	**41.7**	**371,942**
	Income before income taxes	45.2	58.0	23.6	(3.8)	38.5	48.7	46.1	61.3	84.2	74.8	**38.8**	**346,461**
	Profit attributable to owners of the parent	29.7	35.1	11.7	(10.8)	25.9	23.3	30.8	38.6	51.6	46.0	**26.2**	**233,547**
	Research and development expenses	33.8	36.2	38.2	38.0	37.0	39.9	41.7	40.3	41.6	43.6	**43.6**	**388,832**
	Capital expenditures	39.2	50.5	82.4	59.2	55.3	63.9	78.6	87.7	80.0	76.3	**82.7**	**737,468**
	Depreciation and amortization	30.2	37.4	44.3	51.4	50.2	48.9	48.3	37.8	44.5	49.0	**51.5**	**459,572**
Financial position (at year end)	Total assets	1,357.9	1,378.7	1,399.7	1,352.4	1,354.2	1,362.1	1,466.2	1,554.4	1,662.2	1,620.4	**1,687.3**	**15,038,885**
	Interest-bearing debt	304.2	276.4	389.2	428.9	429.1	407.1	484.6	444.6	414.3	398.4	**400.6**	**3,571,220**
	Net assets	295.3	319.0	295.2	283.0	297.4	315.9	349.8	376.6	447.9	445.6	**451.3**	**4,022,522**
	Invested capital*5	594.6	589.6	679.7	705.9	718.2	713.2	822.8	807.6	846.3	829.7	**837.9**	**7,468,252**
Cash flows	Cash flows from operating activities	45.8	75.7	(41.2)	30.1	81.9	84.7	28.1	151.7	127.6	86.0	**93.5**	**833,458**
	Cash flows from investing activities	(43.3)	(49.0)	(72.2)	(63.2)	(52.9)	(65.9)	(81.1)	(77.5)	(67.3)	(74.1)	**(64.8)**	**(578,244)**
	Free cash flows	2.5	26.6	(113.5)	(33.0)	28.9	18.7	(53.0)	74.1	60.2	11.8	**28.6**	**255,214**
	Cash flows from financing activities	(1.3)	(27.3)	107.6	35.9	(18.8)	(26.8)	57.6	(62.5)	(57.1)	(23.4)	**(15.8)**	**(141,265)**
Key performance indicators	Before-tax ROIC (Return on invested capital)*6	8.7%	11.2%	4.5%	0.2%	6.0%	7.4%	6.1%	8.1%	10.4%	9.4%	**5.0%**	
	Return on equity (ROE)	11.2%	11.6%	3.8%	–	9.1%	7.8%	9.5%	11.0%	12.9%	10.6%	**6.0%**	
	Net D/E ratio	91.1%	75.5%	123.0%	142.2%	132.1%	121.8%	131.9%	109.3%	83.9%	82.5%	**78.9%**	
	Net income per share	¥18.94	¥21.08	¥7.02	¥(6.51)	¥15.55	¥13.95	¥18.46	¥23.09	¥30.89	¥27.56	**¥15.68**	**$0.14**
	Net assets per share	¥175.01	¥187.73	¥174.10	¥166.13	¥173.03	¥183.06	¥202.32	¥217.16	¥258.58	¥258.21	**¥261.73**	**$2.33**
	Dividends per share	¥5.00	¥5.00	¥3.00	¥3.00	¥3.00	¥5.00	¥5.00	¥6.00	¥10.00	¥12.00	**¥6.00**	**$0.10**
	Dividend payout ratio	27.8%	23.7%	42.6%	–	19.3%	35.8%	27.0%	25.9%	32.3%	43.5%	**38.2%**	
	Number of employees (at year end)	29,211	30,563	32,266	32,297	32,706	33,267	34,010	34,620	35,471	34,605	**35,127**	

**1 For the convenience of readers, amounts in U.S. dollars have been translated using the currency exchange rate at March 31, 2017 of ¥112.20=US$1.*

**2 The construction machinery business was included in the Rolling Stock segment before fiscal 2009, and it was included in the Other segment after fiscal 2010. However, this business was sold in fiscal 2016.*

**3 Before fiscal 2009, the Motorcycle & Engine segment was the Consumer Products & Machinery segment and the Precision Machinery segment was the Hydraulic Machinery segment. The robot-related business was included in the Consumer Products & Machinery segment before fiscal 2009, but after fiscal 2010, it was included in the Precision Machinery segment.*

**4 EBIT = Income before income taxes + interest expense*

**5 Invested capital = Interest-bearing debt + shareholders' equity*

**6 Before-tax ROIC = EBIT / Invested capital at year-end*

Overview

In fiscal 2016 (the twelve months ended March 31, 2017), the global economy continued to grow modestly, with growth centered on the U.S., where the real economy remains strong. On the other hand, the global economy is relatively lacking in vigor due to languishing crude oil prices, the economic slowdown in emerging countries and resource-rich countries and other factors. In addition, future prospects for the real economy have become increasingly uncertain as a result of factors including the turmoil in international financial markets due to Brexit, concerns about an expansion of protectionist policies and other factors. Going forward, these risks with the potential to drag down the global economy must continue to be watched.

The Japanese economy remains at a standstill due to the deterioration in the external demand environment, lackluster personal consumption and other factors. Going forward, the economy is expected to grow modestly overall due to steady improvement in the income and employment environments, but there is a possibility that economic policies enacted by countries around the world, especially the U.S., geopolitical risks in the Middle East and the Korean Peninsula and other factors could result in both rapid and significant fluctuations in foreign exchange rates. As a result, foreign exchange rates must continue to be watched carefully.

Amid such an operating environment, the Group's orders received in fiscal 2016 declined from the previous fiscal year, mainly in the Aerospace, Ship & Offshore Structure and Plant & Infrastructure segments. Net sales during fiscal 2016 were on par with the same period of the previous fiscal year overall as increases in sales in the Plant & Infrastructure and Precision Machinery segments were offset by the impact of the yen's appreciation, the assignment of the construction machinery business during the previous fiscal year, and other factors. There was a decline in operating income, recurring profit, and profit attributable to owners of parent due to a deterioration in the Ship & Offshore Structure segment and a decline in profits in the Aerospace segment and other segments.

As a result, the Group's consolidated orders received declined ¥344.9 billion from the same period of the previous fiscal year to ¥1,348.7 billion, consolidated net sales declined ¥22.2 billion year on year to ¥1,518.8 billion, consolidated operating income declined ¥50.0 billion year on year to ¥45.9 billion, and profit attributable to owners of parent declined ¥19.8 billion year on year to ¥26.2 billion. ROIC* was 5.0%, while ROE was 6.0%.

*Before-tax ROIC = EBIT (income before income taxes + interest expense) / invested capital (interest-bearing debt + shareholders' equity).

Results of Operations

Net Sales

As noted, consolidated net sales decreased by ¥22.2 billion from the previous fiscal year to ¥1,518.8 billion. Overseas sales totaled ¥870.6 billion. By region, sales in the United States were ¥371.2 billion, sales in Europe accounted for ¥177.9 billion, sales in Asia outside Japan contributed ¥220.9 billion, and sales in other areas added ¥100.6 billion. The ratio of overseas sales to consolidated net sales decreased by 1.4 percentage points to 57.3% from 58.7% 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 fell ¥61.4 billion year on year to ¥36.9 billion due to the downturn in demand for newly-built ships.

Consolidated net sales increased ¥8.3 billion to ¥103.2 billion due to an increase in the amount of shipbuilding and repairing of vessels for the Ministry of Defense, and other factors.

Consolidated operating income declined ¥13.4 billion year on year to an operating loss of ¥21.4 billion attributable to an increase in the amount of allowance for doubtful accounts on trade receivables from the joint venture in Brazil, an increase in provision for losses on construction contracts resulting from the appreciation of the yen, an increase in costs and other factors.

Rolling Stock

Consolidated orders received increased ¥26.4 billion year on year to ¥158.5 billion, as despite the decline for overseas markets, orders for linear-motor subway cars were received from the Tokyo Metropolitan Bureau of Transportation along with other factors.

Consolidated net sales declined ¥9.4 billion year on year to ¥137.1 billion due to a decline in sales to Asia, including Taiwan and Singapore, and other factors.

Consolidated operating income declined ¥5.8 billion year on year to ¥3.4 billion due to a drop in sales, a decline in highly profitable projects, an increase in costs and other factors.

Aerospace

Consolidated orders received declined ¥227.2 billion to ¥237.0 billion. The year-on-year decline was due to the fact that a bulk order for patrol aircraft was received from the Ministry of Defense in the previous fiscal year.

Consolidated net sales declined ¥21.9 billion year on year to ¥329.9 billion due to the effect of the appreciation of the yen and other factors, despite an increase in sales to the Ministry of Defense.

Consolidated operating income fell ¥20.6 billion year on year to ¥25.0 billion due to the appreciation of the yen and a decline in profitability of component parts for commercial aircraft along with other factors.

Gas Turbine & Machinery

Consolidated orders received declined ¥28.5 billion year on year to ¥260.3 billion. This decline was attributable to a drop in orders for items such as marine machinery and compressors, as well as due to the fact that a bulk order was received in the previous fiscal year for a new project for aircraft engine components.

Consolidated net sales increased ¥5.5 billion year on year to ¥241.9 billion due to the increase in sales of commercial aircraft jet engine component parts, an increase in work on gas engine power generation systems and other factors, despite the impact of the yen's appreciation.

Consolidated operating income declined ¥1.6 billion year on year to ¥15.2 billion due to the effect of the appreciation of the yen, an increase in depreciation of development costs of new commercial aircraft jet engine projects and other factors.

Plant & Infrastructure

Consolidated orders received fell ¥43.7 billion year on year to ¥95.0 billion due to a decline in municipal refuse incineration plants for the domestic market along with other factors.

Consolidated net sales increased ¥25.2 billion year on year to ¥160.8 billion due to an increase in the volume of construction work on a chemical plant for an overseas market.

Consolidated operating income declined ¥5.9 billion year on year to ¥2.6 billion due to the provision for losses on construction contracts in LNG tanks for overseas markets and other factors despite an increase in sales.

Motorcycle & Engine

Consolidated net sales declined ¥20.5 billion year on year to ¥313.0 billion due to the impact of the yen's appreciation, a decline in sales of general-purpose gasoline engines and motorcycles to emerging countries and other factors despite an increase in sales of motorcycles and automobiles for developed countries.

Consolidated operating income declined ¥4.0 billion year on year to ¥11.7 billion due to a drop in sales.

Precision Machinery

Consolidated orders received increased ¥33.6 billion year on year to ¥166.8 billion due to an increase in orders for hydraulic components for construction machinery and various industrial robots, along with other factors.

Consolidated net sales increased ¥22.1 billion year on year to ¥155.2 billion due to an increase in sales of hydraulic components for construction machinery and various industrial robots, along with other factors.

Consolidated operating income increased ¥4.5 billion year on year to ¥13.1 billion due to the increase in sales.

Other

Consolidated net sales fell ¥31.4 billion year on year to ¥77.4 billion due to the assignment of the construction machinery business in the same period of the previous fiscal year.

Consolidated operating income increased ¥0.2 billion year on year to ¥3.1 billion.

Cost, Expenses, and Earnings

Cost of sales increased by ¥25.2 billion from the previous fiscal year to ¥1,278.9 billion. As a result, gross profit decreased by ¥47.4 billion to ¥239.9 billion while the gross profit margin decreased by 2.8 percentage points to 15.8% from 18.6% in the previous fiscal year.

Selling, general and administrative expenses increased by ¥2.5 billion from the previous fiscal year to ¥193.9 billion.

Operating income decreased by ¥50.0 billion to ¥45.9 billion. The decrease in operating income was due to the effect of the appreciation of the yen, decreases in profit in Ship & Offshore Structure and Aerospace segments and other factors. The ratio of operating income to net sales decreased by 3.2 percentage points to 3.0%, from 6.2% in the previous fiscal year.

Other expenses, net improved to ¥10.8 billion from ¥21.5 billion in the previous fiscal year, when there was a loss on overseas business.

As a result, after deduction of profit attributable to non-controlling interests, profit attributable to owners of parent decreased by ¥19.8 billion from the previous fiscal year to ¥26.2 billion. The ratio of profit attributable to owners of parent to net sales decreased by 1.2 percentage points to 1.7% from 2.9% in the previous fiscal year. ROE (calculated using average total shareholders' equity) decreased by 4.6 percentage points to 6.0% from 10.6% in the previous fiscal year.

Capital expenditures came to ¥82.7 billion, up from ¥76.3 billion in the previous fiscal year. R&D expenses were ¥43.6 billion, the same level of the previous fiscal year.

Financial Conditions

Total assets at March 31, 2017 were ¥1,687.3 billion, a 4.1% increase from March 31, 2016. Current assets increased 5.8% year on year to ¥1,077.8 billion, mainly attributable to an increase in trade receivables. Fixed assets increased 1.1% year on year to ¥609.5 billion, primarily due to an increase in holdings of property, plant and equipment due to capital investment.

Consolidated liabilities increased 5.2% year on year to ¥1,236.0 billion at March 31, 2017. The increase was mainly attributable to an increase in advances from customers and other factors.

Consolidated net assets increased 1.2% year on year to ¥451.3 billion as the increase from the posting of profit attributable to owners of parent was partly offset by dividend payments and other factors.

The ratio of shareholders' equity to total assets decreased by 0.7 percentage points to 25.9% from 26.6% at the end of the previous fiscal year. In addition, the net debt-to-equity ratio improved 3.6 percentage points from 82.5% to 78.9% as of March 31, 2017.

Cash Flows

Operating activities provided net cash of ¥93.5 billion, a ¥7.4 billion increase from the previous fiscal year. Major sources of operating cash flow included income before income taxes of ¥38.8 billion and depreciation and amortization of ¥51.5 billion. Major uses of operating cash flow included expenditure of ¥13.1 billion for cash paid for income taxes and expenditure of ¥64.6 billion due to an increase in trade receivables.

Investing activities used net cash of ¥64.8 billion, ¥9.3 billion less than in the previous fiscal year, mainly to acquire property, plant and equipment as well as intangible assets.

Free cash flow, which is the net amount of cash from operating and investing activities, showed a net inflow of ¥28.6 billion, up from a net inflow of ¥11.8 billion in the previous fiscal year.

Financing activities used net cash of ¥15.8 billion, ¥7.5 billion less than in the previous fiscal year. The cash outflow was mainly the result of cash dividends paid.

Given these changes in cash flows, cash and cash equivalents at end of year settled at ¥50.7 billion, up by ¥12.8 billion from the beginning of the year.

Management of Liquidity Risk

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

Management Indicator

As target management indicators, the Company has adopted Earnings (Operating income, Recurring profit, Profit attributable to owners of parent) and Return on Invested Capital [ROIC = EBIT (Income before income taxes + Interest expense) / Invested Capital (Interest-bearing debt + 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 take practical actions for clearing the hurdle rate early. 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 parent / Shareholders' equity).

Dividends

As a basic management policy, the Company aims to increase corporate value by consistently generating 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 parent and 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 the general meetings of shareholders.

Consolidated Balance Sheets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
At March 31, 2017 and 2016

Assets

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Current assets:			
Cash on hand and in banks (Note 18)	¥ 55,388	¥ 42,157	$ 493,654
Receivables:			
Trade	444,633	381,339	3,962,860
Other	18,936	17,989	168,770
Allowance for doubtful receivables	(2,593)	(2,578)	(23,110)
	460,976	396,750	4,108,520
Inventories (Notes 4 and 8)	484,862	492,965	4,321,408
Deferred tax assets (Note 17)	26,566	27,276	236,773
Other current assets	50,043	58,755	446,017
Total current assets	1,077,835	1,017,903	9,606,372
Property, plant and equipment (Note 7):			
Land	64,743	64,238	577,032
Buildings and structures	420,590	401,453	3,748,573
Machinery, equipment and others	735,854	707,753	6,558,414
Construction in progress	21,133	17,772	188,351
	1,242,320	1,191,216	11,072,370
Accumulated depreciation	(780,438)	(754,658)	(6,955,775)
Net property, plant and equipment	461,882	436,558	4,116,595
Investments and intangible and other assets:			
Investments in securities (Notes 5, 6 and 7)	85,289	89,236	760,151
Long-term loans	301	337	2,682
Deferred tax assets (Note 17)	36,499	43,842	325,303
Intangible assets	15,284	15,475	136,221
Allowance for doubtful receivables	(14,727)	(9,902)	(131,256)
Net defined benefit asset (Note 9)	86	74	766
Other (Note 7)	24,914	26,935	222,051
Total investments and intangible and other assets	147,646	165,997	1,315,918
Total assets	¥1,687,363	¥1,620,458	$15,038,885

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

Liabilities and Net Assets

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Short-term debt and current portion of long-term debt (Note 7)	¥ 121,648	¥ 116,047	$ 1,084,206
Trade payables (Note 7)	240,572	233,979	2,144,135
Electronically recorded obligations	101,449	87,798	904,180
Advances from customers	205,871	170,454	1,834,857
Income taxes payable (Note 17)	4,295	10,889	38,279
Accrued bonuses	20,288	25,138	180,819
Provision for product warranties	12,175	12,642	108,511
Provision for losses on construction contracts (Note 8)	18,103	7,926	161,345
Deferred tax liabilities (Note 17)	22	979	196
Other current liabilities	119,019	101,859	1,060,780
Total current liabilities	843,442	767,711	7,517,308
Long-term liabilities:			
Long-term debt, less current portion (Note 7)	279,043	282,377	2,487,014
Liability for retirement benefits (Note 9)	81,563	90,789	726,942
Deferred tax liabilities (Note 17)	8,476	8,439	75,543
Provision for environmental measures	1,113	1,693	9,919
Asset retirement obligations	619	650	5,516
Other	21,780	23,174	194,121
Total long-term liabilities	392,594	407,122	3,499,055
Contingent liabilities (Note 10)			
Net assets (Note 11):			
Shareholders' equity:			
Common stock:			
Authorized–3,360,000,000 shares			
Issued–1,670,805,320 shares in 2017			
–1,670,805,320 shares in 2016	104,484	104,484	931,229
Capital surplus	54,393	54,394	484,786
Retained earnings	287,448	279,627	2,561,925
Treasury stock–259,108 shares in 2017			
–228,992 shares in 2016	(95)	(86)	(846)
Total shareholders' equity	446,230	438,419	3,977,094
Accumulated other comprehensive income:			
Net unrealized gains on securities, net of tax	3,232	2,705	28,805
Deferred gains (losses) on hedges	(1,182)	693	(10,534)
Foreign currency translation adjustments	(341)	8,990	(3,039)
Accumulated adjustments for retirement benefits	(10,692)	(19,439)	(95,294)
Total accumulated other comprehensive income	(8,983)	(7,051)	(80,062)
Non-controlling interests	14,080	14,257	125,490
Total net assets	451,327	445,625	4,022,522
Total liabilities and net assets	¥1,687,363	¥1,620,458	$15,038,885

Consolidated Statements of Income and Comprehensive Income

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2017, 2016 and 2015

Consolidated Statements of Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	2017
Net sales	¥ 1,518,830	¥ 1,541,096	¥ 1,486,123	$ 13,536,809
Cost of sales (Note 12)	(1,278,907)	(1,253,691)	(1,216,680)	(11,398,458)
Gross profit	239,923	287,405	269,443	2,138,351
Selling, general and administrative expenses (Note 13)	(193,963)	(191,409)	(182,184)	(1,728,726)
Operating income	45,960	95,996	87,259	409,625
Other income (expenses):				
Interest and dividend income	1,100	1,164	1,191	9,803
Equity in income of nonconsolidated subsidiaries and affiliates	5,537	2,876	6,208	49,350
Interest expense	(2,859)	(3,637)	(3,761)	(25,481)
Other expenses, net (Note 14)	(10,865)	(21,567)	(6,609)	(96,836)
Income before income taxes	38,873	74,832	84,288	346,461
Income taxes (Note 17)				
Current	(7,471)	(20,154)	(23,563)	(66,587)
Deferred	(3,477)	(7,000)	(6,780)	(30,989)
Net income	27,925	47,678	53,945	248,885
Profit attributable to non-controlling interests	1,721	1,635	2,306	15,338
Profit attributable to owners of parent	¥ 26,204	¥ 46,043	¥ 51,639	$ 233,547

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)
	2017	2016	2015	2017
Net income	¥27,925	¥ 47,678	¥53,945	$248,885
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities	559	(910)	783	4,982
Deferred gains (losses) on hedges	(1,844)	2,649	1,860	(16,434)
Foreign currency translation adjustments	(3,742)	(11,763)	12,384	(33,351)
Remeasurements of defined benefit plans	8,777	(12,155)	10,952	78,226
Share of other comprehensive income of associates accounted for using equity method	(6,340)	(5,269)	7,836	(56,506)
Total other comprehensive income (loss) (Note 15)	(2,590)	(27,448)	33,815	(23,083)
Comprehensive income	25,335	20,230	87,760	225,802
Comprehensive income attributable to:				
Owners of the parent company	24,273	19,412	84,462	216,337
Non-controlling interests	¥ 1,062	¥ 818	¥ 3,298	$ 9,465

	Yen			U.S. dollars (Note 1)
Per share amounts (Note 19)				
Net income per share - basic	¥15.7	¥27.6	¥30.8	$0.14
Cash dividends	11.0	12.0	7.0	0.10

Consolidated Statements of Changes in Net Assets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2017, 2016 and 2015

		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, 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 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
Increase (decrease) due to changes in fiscal period of 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
Net income for the year	**–**	**–**	**–**	**26,204**	**–**	**26,204**	**–**	**–**	**–**	**–**	**–**	**–**	**26,204**
Treasury stock purchased, net	**–**	**–**	**–**	**–**	**(10)**	**(10)**	**–**	**–**	**–**	**–**	**–**	**–**	**(10)**
Cash dividends	**–**	**–**	**–**	**(18,376)**	**–**	**(18,376)**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,376)**
Loss on sales of treasury stock	**–**	**–**	**(1)**	**–**	**1**	**0**	**–**	**–**	**–**	**–**	**–**	**–**	**0**
Change in the scope of consolidation	**–**	**–**	**–**	**(7)**	**–**	**(7)**	**–**	**–**	**–**	**–**	**–**	**–**	**(7)**
Other	**–**	**–**	**–**	**–**	**–**	**–**	**527**	**(1,875)**	**(9,331)**	**8,747**	**(1,932)**	**(177)**	**(2,109)**
Balance at March 31, 2017	**1,670,805**	**¥104,484**	**¥ 54,393**	**¥ 287,448**	**¥ (95)**	**¥ 446,230**	**¥ 3,232**	**¥ (1,182)**	**¥ (341)**	**¥ (10,692)**	**¥ (8,983)**	**¥ 14,080**	**¥ 451,327**

	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, 2016	$931,229	$484,795	$2,492,219	$(766)	$3,907,477	$24,109	$ 6,177	$ 80,124	$(173,253)	$(62,843)	$127,067	$3,971,701
Net income for the year	**–**	**–**	**233,547**	**–**	**233,547**	**–**	**–**	**–**	**–**	**–**	**–**	**233,547**
Treasury stock purchased, net	**–**	**–**	**–**	**(89)**	**(89)**	**–**	**–**	**–**	**–**	**–**	**–**	**(89)**
Cash dividends	**–**	**–**	**(163,778)**	**–**	**(163,778)**	**–**	**–**	**–**	**–**	**–**	**–**	**(163,778)**
Loss on sales of treasury stock	**–**	**(9)**	**–**	**9**	**0**	**–**	**–**	**–**	**–**	**–**	**–**	**0**
Change in the scope of consolidation	**–**	**–**	**(63)**	**–**	**(63)**	**–**	**–**	**–**	**–**	**–**	**–**	**(63)**
Other	**–**	**–**	**–**	**–**	**–**	**4,696**	**(16,711)**	**(83,163)**	**77,959**	**(17,219)**	**(1,577)**	**(18,796)**
Balance at March 31, 2017	**$931,229**	**$484,786**	**$2,561,925**	**$(846)**	**$3,977,094**	**$28,805**	**$(10,534)**	**$ (3,039)**	**$ (95,294)**	**$(80,062)**	**$125,490**	**$4,022,522**

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, 2017, 2016 and 2015

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	2017
Cash flows from operating activities:				
Income before income taxes	¥ 38,873	¥ 74,832	¥ 84,288	$ 346,461
Adjustments to reconcile net income before income taxes and non-controlling interests to net cash provided by (used for) operating activities:				
Depreciation and amortization	51,564	49,004	44,572	459,572
Increase (decrease) in liability for retirement benefits	3,537	(3,043)	(2,521)	31,524
Increase (decrease) in accrued bonuses	(4,852)	(935)	4,255	(43,244)
Increase (decrease) in allowance for doubtful receivables	4,872	(857)	(160)	43,422
Increase (decrease) in provision for product warranties	(385)	1,590	666	(3,431)
Increase (decrease) in provision for losses on construction contracts	10,185	2,228	(7,957)	90,775
Increase (decrease) in provision for losses on damages suit	–	–	(467)	–
Increase (decrease) in provision for environmental measures	(579)	(840)	(1,134)	(5,160)
Loss (gain) on sales of property, plant, and equipment	(3,077)	(3,155)	1,428	(27,424)
Equity in income of non consolidated subsidiaries and affiliates	(5,537)	(2,876)	(6,208)	(49,349)
Interest and dividend income	(1,100)	(1,164)	(1,191)	(9,803)
Interest expense	2,859	3,637	3,761	25,481
Gain on transfer of business	–	(901)	–	–
Loss on overseas business	–	19,298	–	–
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	(64,605)	(7,657)	630	(575,802)
Inventories	7,453	(19,719)	(22,583)	66,426
Advance payments	7,838	(5,860)	(11,086)	69,857
Other current assets	(1,272)	(2,670)	(623)	(11,336)
Increase (decrease) in:				
Trade payables	20,743	(5,441)	28,933	184,875
Advances from customers	35,565	7,433	29,460	316,978
Other current liabilities	1,468	5,003	(62)	13,083
Other, net	22	396	2,271	196
Subtotal	103,572	108,303	146,272	923,101
Cash received for interest and dividends	5,870	6,745	6,099	52,317
Cash paid for interest	(2,827)	(3,817)	(4,012)	(25,196)
Cash paid for income taxes	(13,101)	(25,172)	(20,708)	(116,764)
Net cash provided by operating activities	¥ 93,514	¥ 86,059	¥127,651	$ 833,458

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	2017
Cash flows from investing activities:				
Acquisition of property, plant and equipment and intangible assets	¥(69,341)	¥(79,463)	¥(77,361)	$(618,012)
Proceeds from sales of property, plant and equipment and intangible assets	4,810	1,202	11,913	42,869
Acquisition of investments in securities	(1,208)	(173)	(486)	(10,766)
Proceeds from sales of investments in securities	1,841	702	1,470	16,408
Acquisition of investments in subsidiaries and affiliates	(625)	(1,601)	(1,261)	(5,570)
Proceeds from sales of investments in subsidiaries and affiliates	966	–	–	8,609
Proceeds from sale of business (Note 18)	–	5,390	–	–
Decrease (increase) in short-term loans	178	(7)	(1,164)	1,586
Additions to long-term loans	(70)	(87)	(63)	(623)
Proceeds from collection of long-term loans	94	92	141	837
Other	(1,524)	(240)	(586)	(13,582)
Net cash used for investing activities	(64,879)	(74,185)	(67,397)	(578,244)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	(20,843)	4,132	(16,587)	(185,766)
Proceeds from long-term debt	31,734	19,648	42,456	282,834
Repayment of long-term debt	(16,946)	(25,651)	(86,233)	(151,033)
Proceeds from issuance of bonds	20,000	20,000	20,000	178,253
Redemption of bonds payable	(10,000)	(20,000)	–	(89,126)
Cash dividends paid	(18,351)	(20,022)	(15,675)	(163,556)
Cash dividends paid to non-controlling shareholders	(765)	(1,527)	(986)	(6,818)
Other	(679)	20	(108)	(6,053)
Net cash used for financing activities	(15,850)	(23,400)	(57,133)	(141,265)
Effect of exchange rate changes	543	1,639	(953)	4,839
Net increase (decrease) in cash and cash equivalents	13,328	(9,887)	2,168	118,788
Cash and cash equivalents at beginning of year	37,832	47,721	45,431	337,183
Decrease in cash and cash equivalents arising from exclusion of consolidated subsidiaries	(438)	–	–	(3,904)
Increase (decrease) in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries	–	(2)	122	–
Cash and cash equivalents at end of year	¥ 50,722	¥ 37,832	¥ 47,721	$ 452,067
Supplemental information on cash flows:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheets	¥ 55,388	¥ 42,157	¥ 51,645	$ 493,654
Time deposits with maturities over three months	(4,666)	(4,325)	(3,924)	(41,587)
Total (Note 18)	¥ 50,722	¥ 37,832	¥ 47,721	$ 452,067

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, 2017, which was ¥112.20 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 93 subsidiaries (99 in the year ended March 31, 2016 and 97 in 2015). 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, 2017, 18 affiliates (20 in 2016 and 17 in 2015) were accounted for by the equity method. For the year ended March 31, 2017, investments in 12 affiliates (11 in 2016 and 10 in 2015) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end
The fiscal year-end of 28 consolidated subsidiaries (26 in 2016 and 25 in 2015) 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.

(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.

(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, 2017, 2016 or 2015. 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 service 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 net profit attributable to owners of 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
The Company and its wholly owned consolidated domestic subsidiaries file a consolidated tax return.

3. 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 the Japan Ministry of Defense regarding how this matter should be handled. The outcome of these discussions may affect the operating performance of the KHI Group.

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

Effective from the fiscal year ended March 31, 2017, the Company has adopted the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Implementation Guidance No. 26, March 28, 2016).

4. Inventories

Inventories as of March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Merchandise and finished products	**¥ 49,850**	¥ 57,092	**$ 444,295**
Work in progress (*)	**323,434**	324,916	**2,882,656**
Raw materials and supplies	**111,578**	110,957	**994,457**
Total	**¥484,862**	¥492,965	**$4,321,408**

(*) 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, 2017 and 2016 was ¥7,373 million ($65,713 thousand) and ¥5,841 million, respectively.

5.

Securities

(a) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2017 and 2016 were as follows:

	2017			
	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	**¥8,143**	**¥3,054**	**¥5,089**	**$45,356**
Other securities:				
Equity securities	**389**	**539**	**(150)**	**(1,337)**
Total	**¥8,532**	**¥3,593**	**¥4,939**	**$44,019**

	2016		
	Millions of yen		
	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:			
Equity securities	¥7,029	¥2,876	¥4,153
Other securities:			
Equity securities	522	657	(135)
Total	¥7,551	¥3,533	¥4,018

(b) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2017, 2016 and 2015 were as follows:

	2017					
	Millions of yen			Thousands of U.S. dollars		
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities:	**¥1,014**	**¥ 304**	**¥ –**	**$9,037**	**$2,709**	**$–**

	2016		
	Millions of yen		
	Sales amounts	Gains	Losses
Equity securities:	¥ 678	¥ 293	¥(8)

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

(c) Investments in securities subject to impairment

Although impairment loss on other securities was recorded for the years ended March 31, 2017, 2016 and 2015, disclosure was omitted as the amounts were immaterial.

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.

6.

Investments in Nonconsolidated Subsidiaries and Affiliates

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2017 and 2016 were ¥71,371 million ($636,105 thousand) and ¥75,453 million, respectively.

7.

Short-term Debt and Long-term Debt

Short-term debt and long-term debt as of March 31, 2017 and 2016 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Short-term debt:			
Short-term debt, principally bank loans, bearing average interest rates of 1.24% and 1.40% as of March 31, 2017 and 2016, respectively	**¥ 66,912**	¥ 88,044	**$ 596,363**
Current portion of long-term borrowings, bearing average interest rates of 0.23% and 0.94% as of March 31, 2017 and 2016, respectively	**44,544**	17,846	**397,005**
Current portion of bonds, bearing average interest rates of 1.06% and 0.58% as of March 31, 2017 and 2016.	**10,000**	10,000	**89,126**
Lease obligations, current	**192**	157	**1,712**
Total short-term debt	**¥121,648**	¥116,047	**$1,084,206**
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2017 to 2027, bearing average interest rates of 0.55% and 0.55% as of March 31, 2017 and 2016, respectively.	**¥192,037**	¥178,657	**$1,711,559**
Notes and bonds issued by the Company:			
0.58% notes due in 2016	**–**	10,000	**–**
1.06% notes due in 2017	**10,000**	10,000	**89,127**
0.34–0.57% notes due in 2018	**20,000**	20,000	**178,253**
0.68% notes due in 2019	**10,000**	10,000	**89,127**
0.32–0.99% notes due in 2020	**20,000**	30,000	**178,253**
0.10–1.42% notes due in 2021	**30,000**	20,000	**267,379**
1.10% notes due in 2022	**10,000**	10,000	**89,127**
0.99% notes due in 2023	**10,000**	–	**89,127**
0.79% notes due in 2024	**10,000**	10,000	**89,127**
0.85% notes due in 2025	**10,000**	10,000	**89,127**
0.82% notes due in 2036	**10,000**	–	**89,127**
Long-term lease obligations	**1,742**	1,723	**15,524**
	333,779	310,380	**2,974,857**
Less portion due within one year	**(54,736)**	(28,003)	**(487,843)**
Total long-term debt	**¥279,043**	¥282,377	**$2,487,014**

As of March 31, 2017 and 2016, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Buildings and structures	**¥ 69**	¥ 75	**$ 615**
Investments in securities	**14**	14	**124**
Other	**83**	53	**740**
Total	**¥166**	¥142	**$1,479**

As of March 31, 2017 and 2016, debt secured by the above pledged assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Trade payables	**¥ 5**	¥ 4	**$ 45**
Short-term and long-term debt	**70**	83	**623**
Total	**¥75**	¥87	**$668**

The aggregate annual maturities of long-term debt as of March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2018	¥ 54,736	$ 487,844
2019	46,372	413,297
2020	33,398	297,664
2021	48,372	431,123
2022 and thereafter	150,901	1,344,929
Total	¥333,779	$2,974,857

8.

Provision for Losses on Construction Contracts

Inventories for construction contracts with substantial anticipated losses and the provision for losses on construction contracts were not offset. As of March 31, 2017 and 2016, the inventories for the construction contracts for which the provision for losses on construction contracts were provided were ¥1,368 million ($12,192 thousand) and ¥3,090 million, respectively. These amounts were all included in work in process.

9.

Employees' Retirement and Severance Benefits

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

   The gain on contribution of securities to the 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 balances of retirement benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance of retirement benefit obligations at beginning of period	¥189,742	¥196,214	$1,691,105
Service cost	10,475	10,219	93,360
Interest cost	2,020	2,773	18,003
Actuarial gains and losses	2,494	2,768	22,228
Retirement benefits paid	(11,421)	(15,416)	(101,791)
Prior service cost	12	189	106
Decrease due to business divestiture	–	(3,730)	–
Other (foreign currency translation difference, etc.)	(1,850)	(3,275)	(16,487)
Balance of retirement benefit obligations at end of period	¥191,472	¥189,742	$1,706,524

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance of plan assets at beginning of period	¥ 99,027	¥117,259	$882,593
Expected return on plan assets	1,523	1,698	13,573
Actuarial gains and losses	8,808	(16,956)	78,502
Contributions paid by the employer	3,853	3,645	34,340
Retirement benefits paid	(1,727)	(2,599)	(15,392)
Decrease due to business divestiture	–	(1,199)	–
Other (foreign currency translation difference, etc.)	(1,489)	(2,821)	(13,269)
Balance of plan assets at end of period	¥109,995	¥ 99,027	$980,347

(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
	2017	2016	2017
Retirement benefit obligations on funded plan	¥ 167,297	¥166,662	$1,491,060
Plan assets	(109,995)	(99,027)	(980,347)
	57,302	67,635	510,713
Retirement benefit obligations on unfunded plan	24,175	23,080	215,463
Net amount of liabilities and assets presented on the consolidated balance sheets	¥ 81,477	¥ 90,715	$ 726,176
Liability for retirement benefits	¥ 81,563	¥ 90,789	$ 726,942
Asset for retirement benefits	(86)	(74)	(766)
Net amount of liabilities and assets presented on the consolidated balance sheets	¥ 81,477	¥ 90,715	$ 726,176

(4) Breakdown of retirement benefit expense

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥10,475	¥10,219	$ 93,360
Interest cost	2,020	2,773	18,003
Expected return on plan assets	(1,523)	(1,698)	(13,573)
Amortization of actuarial gains and losses	6,069	2,325	54,090
Amortization of prior service costs	353	728	3,146
Retirement benefit expense related to defined benefit plan	¥17,394	¥14,347	$155,026

(5) Adjustments for retirement benefits

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Prior service cost	¥ 341	¥ 538	$ 3,039
Actuarial gains and losses	12,383	(17,399)	110,365
Total	¥12,724	¥(16,861)	$113,404

(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
	2017	2016	**2017**
Unrecognized prior service cost	**¥ (2,162)**	¥ (2,504)	**$ (19,270)**
Unrecognized actuarial gains and losses	**(13,786)**	(26,169)	**(122,869)**
Total	**¥(15,948)**	¥(28,673)	**$(142,139)**

(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:

	2017	2016
Bonds	**13%**	19%
Equities	**75%**	72%
Cash and deposits	**2%**	1%
Others	**10%**	8%
Total	**100%**	100%

Note: As of March 31, 2017 and 2016, the employees' retirement benefit trust established as part of the retirement benefit plan is included in the plan assets and represents a 71% and 61% 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, 2017 and 2016, respectively, were as follows:

(presented as the compound average)

	2017	2016
Discount rate	**0.48–4.00%**	0.60–3.86%
Long-term expected rate of return on plan assets	**3.00–6.75%**	3.00–6.75%
Rate of compensation increase	**6.50–7.20%**	5.80–7.30%

3. Defined contribution plan

As of March 31, 2017 and 2016, the required contribution by the Company and its consolidated subsidiaries to the defined contribution plan were ¥2,183 million ($19,456 thousand) and ¥1,925 million, respectively.

10. Contingent Liabilities

Contingent liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	**¥18,252**	¥18,722	**$162,673**

11. 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.

12. Cost of Sales

The ending balance of inventories was measured at the lower of cost or market. Loss on the valuation of inventories included in the cost of sales for the years ended March 31, 2017 and 2016 was ¥3,010 million ($26,827 thousand) and ¥876 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, 2017, 2016 and 2015 was ¥20,631 million ($183,877 thousand), ¥10,586 million and ¥6,159 million, respectively.

13. Research and Development Expenses

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

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Research and development expenses	**¥43,627**	¥43,611	¥41,606	**$388,832**

14. Other Expenses, Net

"Other expenses, net" in "Other income (expenses)" in the consolidated statements of income for the years ended March 31, 2017, 2016 and 2015 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Foreign exchange gain (loss), net	**¥ (7,724)**	¥ (6,532)	¥(5,097)	**$(68,841)**
Gain on sales of marketable securities and investments in securities	**1,091**	283	1,138	**9,723**
Gain on sales of property, plant and equipment (a)	**3,077**	3,155	–	**27,424**
Gain on transfer of business (b)	**–**	901	–	**–**
Loss on overseas business (c)	**–**	(19,298)	–	**–**
Loss on disposal of fixed assets	**(2,233)**	(1,119)	(1,428)	**(19,901)**
Other, net	**(5,076)**	1,043	(1,222)	**(45,241)**
Total	**¥(10,865)**	¥(21,567)	¥(6,609)	**$(96,836)**

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

Gain on sales of property, plant and equipment for the fiscal year ended March 31, 2016 was mainly due to realization of deferred revenue recognized from sale and leaseback transactions of fixed assets owned by North American subsidiaries.

Gain on sales of property, plant and equipment for the fiscal year ended March 31, 2017 was due to the sale of the land and building of the Company's Tokyo office, in addition to the realization of deferred revenue recognized from sale and leaseback transactions of fixed assets owned by North American subsidiaries.

(b) 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.

(c) 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 (Other expenses, net)
2. Losses on valuation of investments in and loans receivable from Enseada
   ¥2,847 million (Equity in income of nonconsolidated subsidiaries and affiliates)
3. Total
   ¥22,145 million

15. Consolidated Statement of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrealized gains (losses) on securities			
Increase (decrease) during the year	**¥ 910**	¥ (1,303)	**$ 8,109**
Reclassification adjustments	**(119)**	(48)	**(1,060)**
Subtotal, before tax	**791**	(1,351)	**7,049**
Tax (expense) or benefit	**(232)**	441	**(2,067)**
Subtotal, net of tax	**559**	(910)	**4,982**
Deferred gains (losses) on hedges			
Increase (decrease) during the year	**(12,414)**	(2,271)	**(110,641)**
Reclassification adjustments	**9,864**	6,183	**87,914**
Subtotal, before tax	**(2,550)**	3,912	**(22,727)**
Tax (expense) or benefit	**706**	(1,263)	**6,293**
Subtotal, net of tax	**(1,844)**	2,649	**(16,434)**
Foreign currency translation adjustments			
Increase (decrease) during the year	**(3,517)**	(11,592)	**(31,345)**
Reclassification adjustments	**(225)**	(171)	**(2,006)**
Subtotal, before tax	**(3,742)**	(11,763)	**(33,351)**
Tax (expense) or benefit	**–**	–	**–**
Subtotal, net of tax	**(3,742)**	(11,763)	**(33,351)**
Remeasurements of defined benefit plan			
Increase (decrease) during the year	**6,301**	(19,913)	**56,158**
Reclassification adjustments	**6,423**	3,052	**57,246**
Subtotal, before tax	**12,724**	(16,861)	**113,404**
Tax (expense) or benefit	**(3,947)**	4,706	**(35,178)**
Subtotal, net of tax	**8,777**	(12,155)	**78,226**
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	**(6,340)**	(5,269)	**(56,506)**
Total other comprehensive income	**¥ (2,590)**	¥(27,448)	**$ (23,083)**

16. Dividends

(a) Dividends paid

Year ended March 31, 2017

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 24, 2016 General Meeting of Shareholders	Common stock	¥11,694 million ($104,224 thousand)	¥7.0 ($0.06)	March 31, 2016	June 27, 2016
September 30, 2016 Board of Directors Meeting	Common stock	¥6,682 million ($59,554 thousand)	¥4.0 ($0.03)	September 30, 2016	December 1, 2016

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	¥7.0	March 31, 2015	June 26, 2015
October 29, 2015 Board of Directors Meeting	Common stock	¥8,352 million	¥5.0	September 30, 2015	December 1, 2015

(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, 2017

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 28, 2017 General Meeting of Shareholders	Common stock	Retained earnings	¥3,341 million ($29,777 thousand)	¥2.0 ($0.01)	March 31, 2017	June 29, 2017

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	¥7.0	March 31, 2016	June 27, 2016

17. 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 30.7% and 32.9% for the years ended March 31, 2017 and 2016, respectively.

The significant differences between the statutory and effective tax rates for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016
Statutory tax rate	**30.7%**	32.9%
Valuation allowance	**(2.7)**	9.3
Equity in income of nonconsolidated subsidiaries and affiliates	**(4.4)**	(2.6)
Changing tax rate	**–**	2.9
Tax credit for research and development expenses	**(0.9)**	(3.6)
Elimination of unrealized profits	**3.0**	0.3
Other	**2.5**	(2.9)
Effective tax rate	**28.2%**	36.3%

Significant components of deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Deferred tax assets:			
Accrued bonuses	**¥ 7,043**	¥ 8,863	**$ 62,771**
Liability for retirement benefits	**37,130**	40,091	**330,926**
Allowance for doubtful receivables	**5,315**	3,863	**47,370**
Inventories–elimination of intercompany profits	**1,015**	2,881	**9,046**
Fixed assets–elimination of intercompany profits	**524**	529	**4,670**
Depreciation	**6,396**	7,834	**57,005**
Net operating loss carryforwards	**698**	34	**6,221**
Loss from inventory revaluation	**2,402**	1,457	**21,408**
Unrealized loss on marketable securities, investments in securities and other	**888**	1,224	**7,914**
Loss on valuation of land	**1,552**	1,552	**13,832**
Provision for product warranties	**3,138**	3,260	**27,967**
Provision for losses on construction contracts	**5,470**	2,338	**48,752**
Stock investment to subsidiary	**639**	2,180	**5,695**
Other	**14,115**	18,102	**125,808**
Gross deferred tax assets	**86,325**	94,208	**769,385**
Less valuation allowance	**(15,701)**	(16,739)	**(139,938)**
Total deferred tax assets	**70,624**	77,469	**629,447**
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	**4,508**	3,572	**40,178**
Net unrealized gain on securities	**1,288**	1,056	**32,675**
Retained earnings for foreign subsidiaries	**6,595**	6,425	**11,479**
Other	**3,666**	4,717	**58,778**
Total deferred tax liabilities	**16,057**	15,770	**143,110**
Net deferred tax assets	**¥54,567**	¥61,699	**$486,337**

<Revision of deferred tax assets and deferred tax liabilities due to change in tax rate of corporation tax, etc.>

The Act for Partial Revision to the Partial Revision, etc. of the Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security (Act No. 85, 2016) and the Act for Partial Revision to the Partial Revision, etc. of the Local Tax Act and the Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security (Act No. 86, 2016) were enacted by the National Diet on November 18, 2016. In addition, the timing of the increase in the consumption tax rate to 10% was postponed from April 1, 2017 to October 1, 2019.

Pursuant to these acts, execution of the following taxation reform measures was postponed from fiscal years commencing on or after April 1, 2017 to fiscal years commencing on or after October 1, 2019: abolition of the local corporation special tax; accompanying restoration of the corporate enterprise tax; change in tax rates for local corporation tax; and change in tax rates for corporate inhabitant tax.

Although the effective statutory tax rate used to calculate the Company's deferred tax assets and deferred tax liabilities was unchanged, there was a rearrangement of tax rates between national taxes and local taxes.

The effect of these changes in tax rates on the consolidated financial statements was immaterial.

18.

Cash and Cash Equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2017, 2016 and 2015 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	2017
Cash on hand and in banks:	¥55,388	¥42,157	¥51,645	$493,654
Time deposits with maturities over three months:	(4,666)	(4,325)	(3,924)	(41,587)
Total	¥50,722	¥37,832	¥47,721	$452,067

<Breakdown of main assets and liabilities of former consolidated subsidiaries excluded from the scope of consolidation due 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 due 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
Current assets	¥ 19,719
Fixed assets	5,727
Current liabilities	(16,047)
Long-term liabilities	(3,641)
Non-controlling interests	(1,198)
Net unrealized losses on securities, net of tax	19
Foreign currency translation adjustments	(170)
Accumulated adjustments for retirement benefits	198
Gain on transfer of business	901
Sale prices of stocks	5,508
Cash and cash equivalents	118
Proceeds from sales of business	¥ 5,390

19.

Net Income per Share

Per share amounts for the years ended March 31, 2017, 2016 and 2015 are set forth in the table below.

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	2017
Basic net income per share:				
Net income	¥26,204	¥46,043	¥51,639	$233,547
Net income allocated to common stock	26,204	46,043	51,639	233,547
	Number of shares in millions			
Weighted average number of shares of common stock	1,670	1,670	1,671	

As the Company had no dilutive securities at March 31, 2017, 2016 and 2015, the Company has not disclosed diluted net income per share for the years ended March 31, 2017, 2016 and 2015.

20.

Derivative Transactions

(a) Outstanding positions and recognized gains and losses at March 31, 2017 were as follows:

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

	2017				
	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	¥51,860	¥ –	¥(1,696)	¥(1,696)	$(15,115)
EUR	1,168	–	10	10	89
Others	11,235	–	(195)	(195)	(1,737)
To purchase					
USD	12,027	–	(101)	(101)	(900)
EUR	180	5	3	3	26
Others	1,283	6	7	7	62
Interest rate and currency swaps					
U.S. dollars floating-rate receipt/fixed-rate payment	4,306	–	1,835	1,835	16,354
Total	¥82,059	¥11	¥ (137)	¥ (137)	$ (1,221)

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

(Derivative transactions to which the Company applied hedge accounting)

	2017			
		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		¥ 63,349	¥1,715	¥(1,236)
EUR		9,748	–	16
Others		7,170	–	(174)
To purchase	Trade payables			
USD		11,078	460	(57)
EUR		5,155	917	(82)
Others		3,630	165	42
Total		¥100,130	¥3,257	¥(1,491)

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

	2017			
		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		$564,607	$15,285	$(11,016)
EUR		86,880	–	142
Others		63,905	–	(1,550)
To purchase	Trade payables			
USD		98,734	4,099	(508)
EUR		45,944	8,172	(730)
Others		32,354	1,472	374
Total		$892,424	$29,028	$(13,288)

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

	2017			
		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	Short-term debt	**¥4,306**	**¥–**	**¥32**
		¥4,306	**¥–**	**¥32**

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

	2017			
		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	Short-term debt	**$38,377**	**$–**	**$285**
		$38,377	**$–**	**$285**

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

(b) 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			
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)
Currency-related contracts:				
Foreign exchange contracts:				
To sell				
USD	¥14,147	¥ –	¥ 360	¥ 360
EUR	329	–	20	20
Others	8,844	–	96	96
To purchase				
USD	7,819	–	(260)	(260)
EUR	255	–	(8)	(8)
Others	780	–	(11)	(11)
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/fixed-rate payment	6,993	4,305	3,066	3,066
Total	¥39,167	¥4,305	¥3,263	¥3,263

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			
		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
Total		¥6,993	¥4,305	¥56

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

21. Financial Instruments

Information related to financial instruments as of March 31, 2017 and 2016 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 comprise mainly 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 twenty years from March 31, 2017 (ten years in 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 a 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 20, "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, 2017 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	2017			
	Millions of yen			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Cash on hand and in banks	**¥ 55,388**	**¥ 55,388**	**¥ –**	**$ –**
Trade receivables	**444,633**	**444,588**	**(45)**	**(401)**
Investments in securities	**8,563**	**8,563**	**–**	**–**
Total assets	**¥508,584**	**¥508,539**	**¥ (45)**	**$ (401)**
Trade payables	**240,572**	**240,572**	**–**	**–**
Electronically recorded obligations	**101,449**	**101,449**	**–**	**–**
Short-term debt and current portion of long-term debt (excluding lease obligations)	**121,456**	**121,456**	**–**	**–**
Long-term debt, less current portion (excluding lease obligations)	**277,494**	**279,014**	**1,520**	**13,547**
Total liabilities	**¥740,971**	**¥742,491**	**¥1,520**	**$13,547**
Derivative transactions (*)	**¥ (1,595)**	**¥ (1,595)**	**¥ –**	**$ –**

(*) 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, 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		
	Book value	Fair value	Unrealized gains (losses)
Cash on hand and in banks	¥ 42,157	¥ 42,157	¥ –
Trade receivables	381,339	381,337	(2)
Investments in securities	7,683	7,683	0
Total assets	431,179	431,177	(2)
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
Total liabilities	¥718,479	¥722,708	¥4,229
Derivative transactions (*)	¥ 4,304	¥ 4,304	¥ –

(*) 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 20, "Derivative Transactions."

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unlisted equity securities and investments in partnerships	**¥ 5,356**	¥ 6,099	**$ 47,736**
Stocks of nonconsolidated subsidiaries and affiliates	**10,600**	9,070	**94,474**
Investments in affiliates	**60,770**	66,383	**541,622**
Total	**¥76,726**	¥81,552	**$683,832**

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, 2017 and 2016 were as follows:

	2017			
	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	**¥ 55,388**	**¥ –**	**¥–**	**¥–**
Trade receivables	**435,271**	**9,362**	**–**	**–**
Investments in securities				
-Bonds	**30**	**–**	**–**	**–**
Total	**¥490,689**	**¥9,362**	**¥–**	**¥–**

	2017			
	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	**$ 493,654**	**$ –**	**$–**	**$–**
Trade receivables	**3,879,421**	**83,440**	**–**	**–**
Investments in securities				
-Bonds	**267**	**–**	**–**	**–**
Total	**$4,373,342**	**$83,440**	**$–**	**$–**

	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	¥ 42,157	¥ –	¥–	¥–
Trade receivables	376,416	4,923	–	–
Investments in securities				
-Bonds	101	30	–	–
Total	¥418,674	¥4,953	¥–	¥–

(iv) Planned repayment amounts after the balance sheet date for bonds payable and long-term debt. See Note 7, "Short-term debt and Long-term debt."

22.

Finance Leases

Finance leases commenced prior to April 1, 2008 which do not transfer ownership of the leased assets to the lessee are accounted for as operating leases. Information regarding such leases, as required to be disclosed in Japan, is as follows:

<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, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Property, plant and equipment	**¥10,710**	¥ 13,845	**$ 95,454**
Accumulated depreciation	**(9,103)**	(11,034)	**(81,132)**
	1,607	2,811	**14,322**
Intangible assets	**22**	22	**196**
Accumulated amortization	**(17)**	(12)	**(152)**
	¥ 5	¥ 10	**$ 44**

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Current portion	**¥ 872**	¥1,303	**$ 7,771**
Noncurrent portion	**907**	1,782	**8,084**
Total	**¥1,779**	¥3,085	**$15,855**

Lease payments, "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases for the years ended March 31, 2017, 2016 and 2015 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Lease payments	**¥1,364**	¥1,656	¥2,167	**$12,156**
Depreciation and amortization	**1,205**	1,469	1,919	**10,739**
Interest	**62**	97	144	**552**

23.

Operating Leases

The schedule of future minimum lease payments under non-cancellable operating leases as of March 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Within one year	**¥ 2,204**	¥ 2,219	**$ 19,643**
Over one year	**12,706**	8,249	**113,244**
Total	**¥14,910**	¥10,468	**$132,887**

24.

Segment Information

(a) Overview of reportable segments

The Company's reportable segments are components of the Company for which separate financial information is available. These segments are subject to periodic review by the Company's Board of Directors to determine the allocation of resources and assess performance. The Company's operations are divided into internal companies based on product categories. Certain authority is delegated to each of the internal companies based on whether they conduct business 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 the 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, 2017							
	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 intangible assets
Ship & Offshore Structure	**¥ 103,204**	**¥ 2,447**	**¥ 105,651**	**¥(21,424)**	**¥ 168,577**	**¥ 1,277**	**¥47,643**	**¥ 3,705**
Rolling Stock	**137,159**	**76**	**137,235**	**3,486**	**164,413**	**2,626**	**129**	**2,729**
Aerospace	**329,915**	**1,615**	**331,530**	**25,033**	**433,241**	**15,023**	**–**	**33,273**
Gas Turbine & Machinery	**241,953**	**12,823**	**254,776**	**15,294**	**347,454**	**4,764**	**–**	**8,945**
Plant & Infrastructure	**160,877**	**7,928**	**168,805**	**2,610**	**119,158**	**1,456**	**16,899**	**2,207**
Motorcycle & Engine	**313,030**	**683**	**313,713**	**11,749**	**243,412**	**13,140**	**1,350**	**18,292**
Precision Machinery	**155,278**	**15,873**	**171,151**	**13,104**	**157,502**	**6,471**	**297**	**7,228**
Other	**77,414**	**40,041**	**117,455**	**3,140**	**86,465**	**1,673**	**3,175**	**1,174**
Total	**¥1,518,830**	**¥ 81,486**	**¥1,600,316**	**¥ 52,992**	**¥1,720,222**	**¥46,430**	**¥69,493**	**¥77,553**
Adjustments	**–**	**(81,486)**	**(81,486)**	**(7,032)**	**(32,859)**	**5,134**	**–**	**5,191**
Consolidated total	**¥1,518,830**	**¥ –**	**¥1,518,830**	**¥ 45,960**	**¥1,687,363**	**¥51,564**	**¥69,493**	**¥82,744**

	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 intangible assets
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 intangible assets
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, 2017							
	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 intangible assets
Ship & Offshore Structure	**$ 919,821**	**$ 21,809**	**$ 941,630**	**$(190,945)**	**$ 1,502,468**	**$ 11,381**	**$424,625**	**$ 33,022**
Rolling Stock	**1,222,450**	**677**	**1,223,127**	**31,069**	**1,465,356**	**23,405**	**1,149**	**24,322**
Aerospace	**2,940,419**	**14,393**	**2,954,812**	**223,109**	**3,861,328**	**133,895**	**–**	**296,551**
Gas Turbine & Machinery	**2,156,444**	**114,287**	**2,270,731**	**136,310**	**3,096,738**	**42,460**	**–**	**79,723**
Plant & Infrastructure	**1,433,841**	**70,660**	**1,504,501**	**23,263**	**1,062,014**	**12,976**	**150,614**	**19,671**
Motorcycle & Engine	**2,789,929**	**6,087**	**2,796,016**	**104,714**	**2,169,448**	**117,113**	**12,032**	**163,031**
Precision Machinery	**1,383,940**	**141,471**	**1,525,411**	**116,792**	**1,403,761**	**57,674**	**2,647**	**64,420**
Other	**689,965**	**356,872**	**1,046,837**	**27,987**	**770,633**	**14,910**	**28,300**	**10,463**
Total	**$13,536,809**	**$ 726,256**	**$14,263,065**	**$ 472,299**	**$15,331,746**	**$413,814**	**$619,367**	**$691,203**
Adjustments	**–**	**(726,256)**	**(726,256)**	**(62,674)**	**(292,861)**	**45,758**	**–**	**46,265**
Consolidated total	**$13,536,809**	**$ –**	**$13,536,809**	**$ 409,625**	**$15,038,885**	**$459,572**	**$619,367**	**$737,468**

(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, 2017, 2016 and 2015

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Net sales				
Total for reportable segments	**¥1,600,316**	¥1,633,246	¥1,587,990	**$14,263,065**
Intersegment transactions	**(81,486)**	(92,150)	(101,867)	**(726,256)**
Net sales reported on the consolidated financial statements	**¥1,518,830**	¥1,541,096	¥1,486,123	**$13,536,809**

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Income				
Total for reportable segments	**¥52,992**	¥99,716	¥92,701	**$472,299**
Intersegment transactions	**(34)**	(22)	(1,042)	**(303)**
Corporate expenses (*)	**(6,998)**	(3,698)	(4,400)	**(62,371)**
Operating income (loss) on the consolidated financial statements	**¥45,960**	¥95,996	¥87,259	**$409,625**

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

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Assets				
Total for reportable segments	**¥1,720,222**	¥1,598,723	¥1,634,518	**$15,331,746**
Intersegment transactions	**(80,391)**	(86,409)	(90,225)	**(716,497)**
Corporate assets shared by all segments (*)	**47,532**	108,144	117,990	**423,636**
Total assets on the consolidated financial statements	**¥1,687,363**	¥1,620,458	¥1,662,283	**$15,038,885**

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

	Millions of yen								
	Year ended March 31,								
	2017	2016	2015	**2017**	2016	2015	**2017**	2016	2015
Other items	Total for reportable segments			Adjustments(*)			Amounts reported on the consolidated financial statements		
Depreciation/amortization	**¥46,430**	¥43,960	¥40,356	**¥5,134**	¥5,044	¥4,216	**¥51,564**	¥49,004	¥44,572
Increase in property, plant and equipment and intangible assets	**77,553**	69,906	74,835	**5,191**	6,404	5,261	**82,744**	76,310	80,096

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

	Thousands of U.S. dollars		
	Year ended March 31,		
	2017		
Other items	Total for reportable segments	Adjustments	Amounts reported on the consolidated financial statements
Depreciation/amortization	**$413,814**	**$45,758**	**$459,572**
Increase in property, plant and equipment and intangible assets	**691,203**	**46,265**	**737,468**

(e) Related information

(i) Sales by geographic region

Net sales for the years ended March 31, 2017, 2016 and 2015 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Japan	**¥ 648,166**	¥ 636,565	¥ 631,018	**$ 5,776,881**
United States	**371,249**	396,697	356,806	**3,308,815**
Europe	**177,900**	144,894	115,145	**1,585,561**
Asia	**220,901**	241,424	252,371	**1,968,814**
Other areas	**100,614**	121,516	130,783	**896,738**
Total	**¥1,518,830**	¥1,541,096	¥1,486,123	**$13,536,809**

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
	2017	2016	**2017**
Japan	**¥401,309**	¥378,381	**$3,576,729**
North America	**27,750**	23,566	**247,326**
Europe	**3,054**	3,692	**27,219**
Asia	**28,865**	30,090	**257,263**
Other areas	**904**	829	**8,058**
Total	**¥461,882**	¥436,558	**$4,116,595**

(ii) Information by major clients

Year ended March 31, 2017

Clients	Net sales	Related segments
Ministry of Defense	¥236,861 million ($2,111,060 thousand)	Ship & Offshore Structure, Aerospace, Gas Turbine & Machinery, etc.

Year ended March 31, 2016

Clients	Net sales	Related segments
Ministry of Defense	¥227,333 million	Ship & Offshore Structure, Aerospace, Gas Turbine & Machinery, etc.
Commercial Airplaine Co., Ltd.	¥159,683 million	Aerospace

25. Related Party Transactions

(a) Related party transactions for the years ended March 31, 2017 and 2016 were as follows:

	Year ended March 31, 2017
	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 ($89 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Sales of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥130,785 million ($1,165,641 thousand)
Account	Trade receivables
Ending balance	¥37,320 million ($332,620 thousand)
Account	Advances from customers
Ending balance	¥46,476 million ($414,224 thousand)

	Year ended March 31, 2017
	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 ($108,903 thousand)
Business or position	Ship & Offshore Structure
Rate of ownership (%)	Directly 31.09%
Description of relationship	Sales of Company products, loan of cash and board members
Details of transactions	Sales of Company products
Amount of transactions	¥– ($–)
Details of transactions	Loan of cash
Amount of transactions	¥– ($–)
Account	Other and Allowance for doubtful receivables in Investments and intangible and other assets
Ending balance (*)	¥– ($–)

(*) The ending balance of loans to Enseada Indústria Naval S.A. is presented net of allowance for doubtful accounts. Allowance for above loans was recognized in the amount of ¥13,790 million. In addition, a provision of allowance for above loans was ¥4,583 million for the year ended March 31, 2017.

	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
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
Account	Trade receivables
Ending balance	¥11,621 million
Account	Advances from customers
Ending balance	¥46,015 million

	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
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
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

(b) A summary of the total financial information of affiliates 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, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Current assets	**¥147,214**	¥187,324	**$1,312,067**
Fixed assets	**153,411**	328,698	**1,367,299**
Current liabilities	**114,899**	226,410	**1,024,055**
Long-term liabilities	**24,814**	122,746	**221,158**
Net assets	**160,912**	166,866	**1,434,153**
Net sales	**180,925**	282,477	**1,612,522**
Income before income taxes and non-controlling interests	**15,913**	5,722	**141,827**
Total net income	**12,806**	563	**114,135**

26. Subsequent Events

(a) Cash dividends

On June 28, 2017, 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 (¥2.0 per share)	¥3,341	$29,777

(b) Change in share unit number, consolidation of shares

On May 23, 2017, the Board of Directors passed a resolution to submit proposals for a consolidation of shares and a change in the share unit number to the 194th Ordinary General Meeting of Shareholders, convened on June 28, 2017. The two proposals were approved by the Ordinary General Meeting of Shareholders.

1. Change in share unit number

(1) Reason for change

Based on the Action Plan for Consolidating Trading Units, Japan's stock exchanges are working toward a uniform share trading unit (share unit number) of 100 shares for common stock issued by domestic listed companies.

As a company listed on the Tokyo Stock Exchange (TSE) and Nagoya Stock Exchange (NSE), the Company respects the intent of this plan, and hence made the decision to change its share unit number from 1,000 shares to 100 shares.

(2) Details of change

The share unit number will change from 1,000 shares to 100 shares.

2. Consolidation of shares

(1) Purpose of the consolidation of shares

As described in "1. Change in share unit number" above, the Company will change the share unit number from 1,000 shares to 100 shares. In addition, with regard to the price level per share trading unit, the Company took into consideration the investment unit range seen as desirable by stock exchanges (50,000–500,000 yen) when deciding on a consolidation of shares ratio of 10 shares to 1 share. With regard to the total number of shares authorized, in accordance with the consolidation of shares ratio, the total number of shares authorized will change from the current 3,360,000,000 shares to 336,000,000 shares.

(2) Details of consolidation of shares

(i) Type of shares subject to consolidation of shares
Common stock

(ii) Consolidation of shares ratio
A consolidation of shares will be carried out at the ratio of 10 shares to 1 share

(iii) Effective date of consolidation of shares
October 1, 2017

(iv) Total number of shares authorized as of the effective date
336,000,000
Pursuant to provisions in the Corporation Law, the article of incorporation that establishes the total number of shares authorized will be deemed to have changed from the current 3,360,000,000 shares to 336,000,000 shares on the effective date of October 1, 2017.

(v) Decrease in number of shares due to the consolidation of shares

Total number of shares issued prior to the consolidation (as of March 31, 2017)	1,670,805,320
Decrease in number of shares due to the consolidation	1,503,724,788
Total number of shares issued following the consolidation	167,080,532

Note: Figures for the "Decrease in number of shares due to the consolidation" and the "Total number of shares issued following the consolidation" shown above are theoretical values calculated based on the total number of shares issued prior to the consolidation of shares and the consolidation of shares ratio.

(vi) Measure to deal with cases in which a fractional share less than one share arises
For shareholders holding a fractional share less than one share due to the consolidation of shares, pursuant to provisions in the Corporation Law, the Company will dispose of all such fractional shares at once and make payment for the share sale to affected shareholders in accordance with the share fraction held.

3. Schedule

Date of Board of Directors resolution	May 23, 2017
Date of Ordinary General Meeting of Shareholders resolution	June 28, 2017
Effective date of change in share unit number	October 1, 2017 (planned)
Effective date of consolidation of shares	October 1, 2017 (planned)
Effective date of change in total number of shares authorized	October 1, 2017 (planned)

4. Impact on per Share Information
If the consolidation of shares were assumed to have been executed at the start of the previous fiscal year (April 1, 2015), per share information for the years ended March 31, 2016 and 2017 would have been as follows.

	Previous fiscal year (April 1, 2015– March 31, 2016)	Fiscal year under review (April 1, 2016– March 31, 2017)
Net assets per share (yen)	2,582.15	2,617.38
Net income per share (yen)	275.61	156.85

Note: As the Company has no dilutive securities, the Company has not disclosed diluted net income per share.

27. Other Matters

(Quarterly financial information)

	Millions of yen			
Year ended March 31, 2017	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	¥339,859	¥697,299	¥1,043,052	¥1,518,830
Income before income taxes	7,940	476	25,210	38,873
Net income (loss)	4,797	(242)	17,974	26,204
	Yen			
Net income (loss) per share—basic	¥2.9	¥(0.1)	¥10.8	¥15.7

	Thousands of U.S. dollars			
Year ended March 31, 2017	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$3,029,046	$6,214,786	$9,296,363	$13,536,809
Income before income taxes	70,766	4,242	224,688	346,461
Net income (loss)	42,754	(2,156)	160,196	233,547
	U.S. dollars			
Net income (loss) per share—basic	$0.03	$(0.00)	$0.10	$0.14

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and their financial performance and cash flows for each of the three years in the period ended March 31, 2017, 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, 2017 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

28 June, 2017
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.

Directors, Corporate Auditors and Executive Officers

(As of June 28, 2017)

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*
Jun. 2017 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**

Munenori Ishikawa

Assistant to the President, in charge of technology, production, sales and procurement

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*+

Kenji Tomida

Assistant to the President, in charge of Head Office administration

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
Dec. 2016 General Manager, Corporate Planning Division
Apr. 2017 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+

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

President, Motorcycle & Engine Company

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+
Dec. 2016 President, Motorcycle & Engine Company+

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+

Katsuya Yamamoto

General Manager, Corporate Planning Division

Apr. 1981 Joined Kawasaki Heavy Industries, Ltd.
Apr. 2011 Senior Manager, Planning Department, Precision Machinery Company
Apr. 2017 General Manager, Corporate Planning Division+
Jun. 2017 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.+

*Representative Director
+Current Position

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

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.+

Atsuko Ishii

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

Apr. 1980 Joined Ministry of Labour (At present: Ministry of Health, Labour and Welfare)
Jul. 2009 Director-General, Osaka Labour Bureau, Ministry of Health, Labour and Welfare
Jul. 2010 Deputy Director-General (in charge of equal employment, child and family policy, and measures for declining birthrate), Ministry of Health, Labour and Welfare
Sep. 2012 Director-General, Equal Employment, Child and Family Policy Bureau, Ministry of Health, Labour and Welfare
Jul. 2014 Director-General for General Policy and Evaluation (in charge of labor), Ministry of Health, Labour and Welfare
Oct. 2015 Director-General, Social Welfare and War Victims' Relief Bureau, Ministry of Health, Labour and Welfare
Jun. 2016 Resigned Director-General, Social Welfare and War Victims' Relief Bureau, Ministry of Health, Labour and Welfare
Jun. 2017 Corporate Auditor, Kawasaki Heavy Industries, Ltd.+

Satoru Kohdera

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

Apr. 1991 Admitted to Bar in Japan Joined Ohshiro Law Office (At present: Higashimachi LPC)
Apr. 1993 Partner of Higashimachi Law Office
Jun. 2010 Partner of Higashimachi LPC
Jun. 2013 Substitute Auditor, Kawasaki Heavy Industries, Ltd.
Apr. 2015 President, Hyogo-ken Bar Association
Dec. 2015 Managing Partner of Higashimachi LPC
Mar. 2016 Resigned as President, Hyogo-ken Bar Association
Apr. 2016 Vice President, Japan Federation of Bar Associations
Mar. 2017 Resigned as Vice President, Japan Federation of Bar Associations
Jun. 2017 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	Eiichi Harada	Kazutoshi Honkawa	Yuji Horiuchi
Keiji Matsumura	Yoshihiro Uetake	Ichiro Kono	Akihisa Yamamoto	Akira Matsufuji
Hiroshi Nakatani	Mitsumasa Sato	Makoto Shiota	Hiroyoshi Shimokawa	Keigo Imamura
Nobuhisa Kato	Hidehiko Shimamura			

Fellows

Toshimi Taki, Shinji Koga, Toru Nohisa, Tsutomu Fujigaki

Corporate Profile/Stock Information

(As of March 31, 2017)

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
Net Sales	● Consolidated: ¥1,518,830 million (Fiscal year ended March 31, 2017)
	● Non-consolidated: ¥1,172,427 million (Fiscal year ended March 31, 2017)
Number of Employees	● Consolidated: 35,127
	● Non-consolidated: 16,162

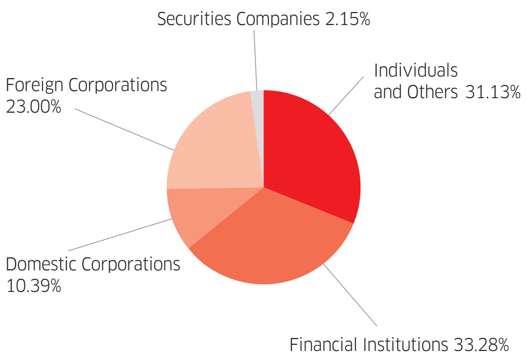
Stock Information

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	129,890 persons
Annual General Meeting of Shareholders	June

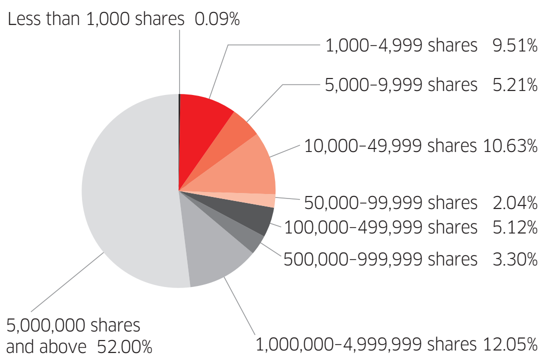
Major Shareholders

Shareholder	Number of Shares Owned	Percentage
The Master Trust Bank of Japan, Ltd. (Trust Account)	83,081,000	4.97%
Nippon Life Insurance Company	57,516,619	3.44%
JFE Steel Corporation	56,174,400	3.36%
Japan Trustee Services Bank, Ltd. (Trust Account)	54,773,000	3.27%
Mizuho Bank, Ltd.	41,764,123	2.49%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	35,616,000	2.13%
Kawasaki Heavy Industries, Ltd. Kyoueikai	35,354,192	2.11%
Sompo Japan Nipponkoa Insurance Inc.	30,577,999	1.83%
Kawasaki Heavy Industries Employee Stock Ownership Association	28,900,217	1.72%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	28,587,000	1.71%

Classified by Type of Shareholder



Classified by Number of Holdings



Base/Major Subsidiaries Introduction

(As of March 31, 2017)

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

- 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.
- Kawasaki 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.
- Kawasaki Rail Car, Inc.
- Qingdao Sifang Kawasaki Rolling Stock Technology Co., Ltd.
- Kawasaki Gas Turbine Europe GmbH
- Kawasaki Gas Turbine Asia Sdn. Bhd.
- Kawasaki Gas Turbine RUS LLC
- 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.
- Shanghai Conch Kawasaki Engineering 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 Motors (Shanghai), 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.

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.