

Leveraging our capabilities

Approach to Social Issues

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



Precision Machinery

Net Sales
¥155.2 billion
10.2%

Other

Net Sales
¥77.4 billion
5.2%

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

Net Sales
¥137.1 billion
9.0%

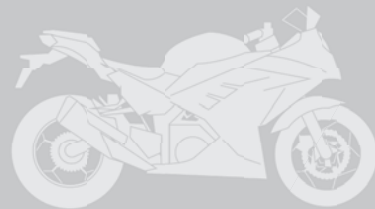


Motorcycle & Engine

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

Net Sales
¥313.0 billion
20.6%



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

Net Sales
¥329.9 billion
21.7%

Plant & Infrastructure

Approach to Social Issues

- Contribute to global environmental conservation/CO₂ reduction through products and technology
- Contribute to creation of social energy/industrial infrastructure in emerging nations



Gas Turbine & Machinery

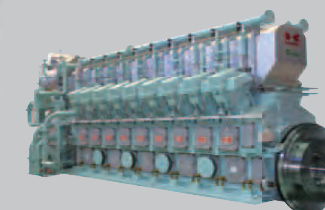
Approach to Social Issues

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

Net Sales
¥241.9 billion
15.9%



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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

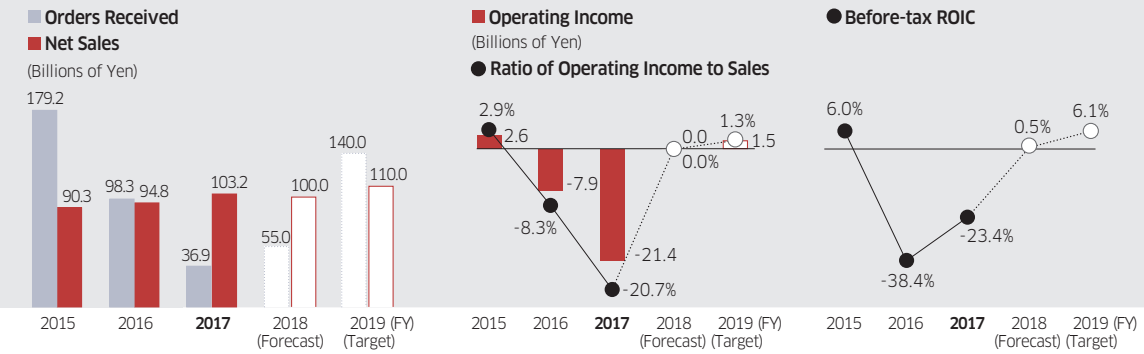
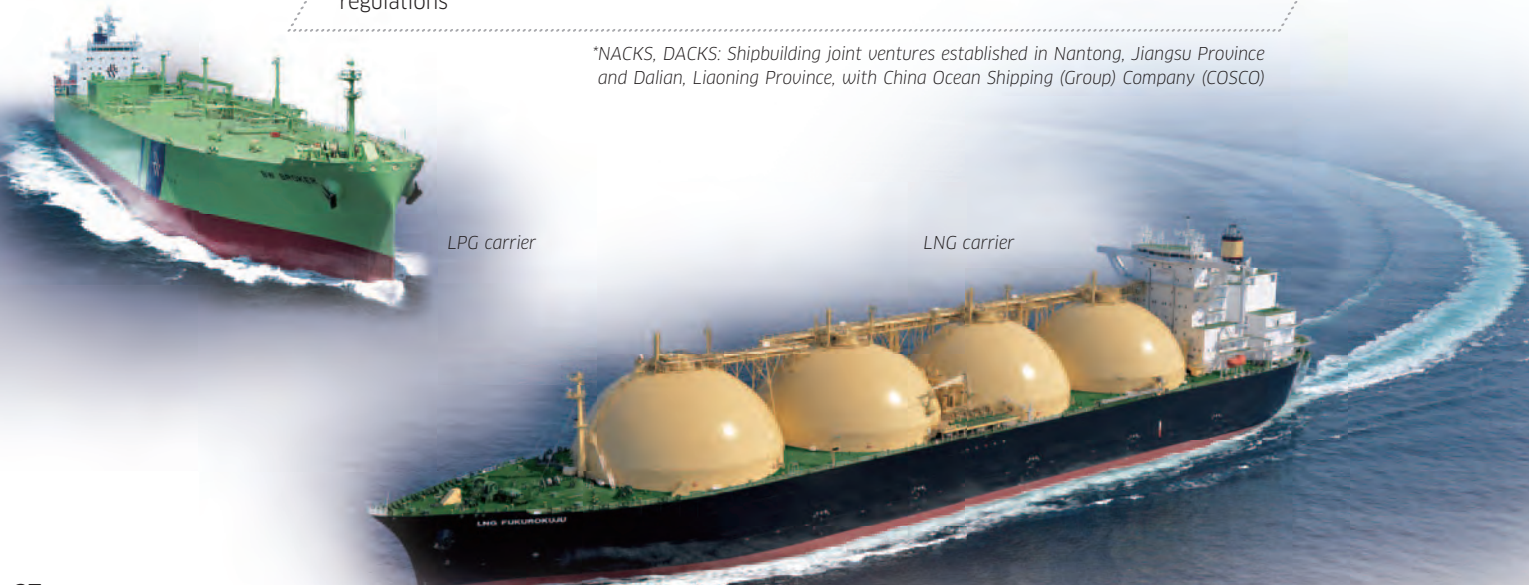
Core Competence

- 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)



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 CO₂ 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%	
CO₂ (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. CO₂ (EEDI) regulation: Limits on CO₂ 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

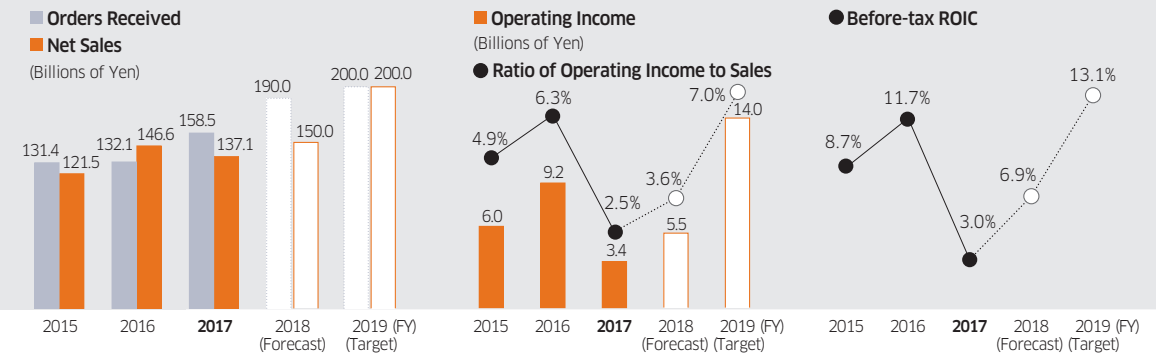
- High-tech expertise built on comprehensive heavy industry strengths
- Ability to fulfill contracts, cultivated from extensive domestic and overseas results
- High-quality, strong *monozukuri* manufacturing capabilities expressed through production of rolling stock with customers in mind

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 eWING, 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

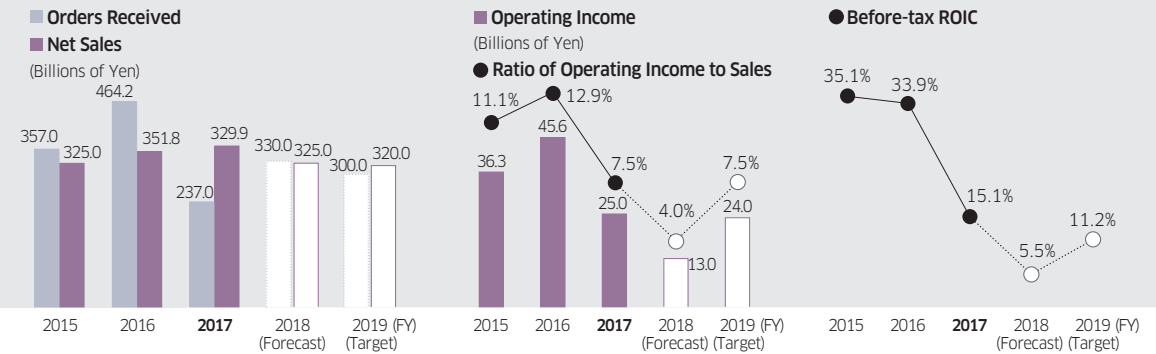
- Technological capabilities as manufacturer of finished aircraft with experience in defense business (system integration capabilities)
- Technological capabilities based on international joint development with Boeing, and sophisticated, large-scale production facilities
- Improved productivity and quality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

Boeing 787

C-2 transport aircraft



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 conjunc-

tion, 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

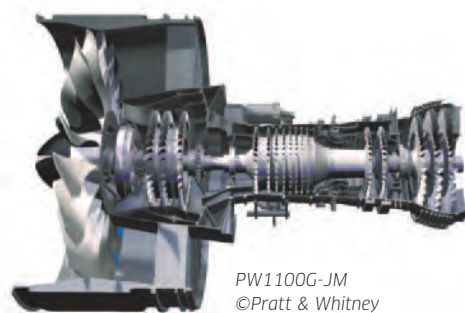
- Enhance presence in jet engine sector by improving development capabilities

Energy & Environmental Engineering

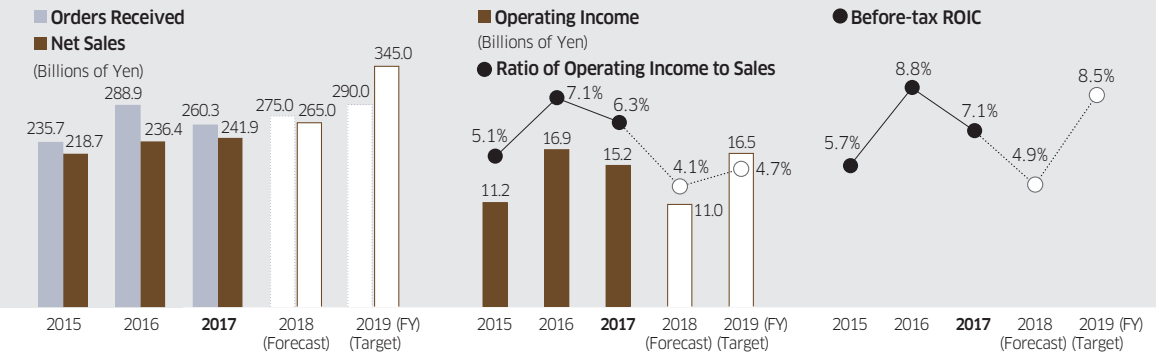
- Expand share in distributed power generation market with industry's most efficient, environment-friendly model

Marine

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



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.

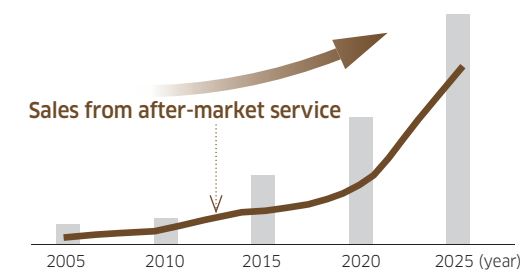
Key Driver

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



Tatsuya Watanabe
President,
Plant & Infrastructure Company

Main Products

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

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

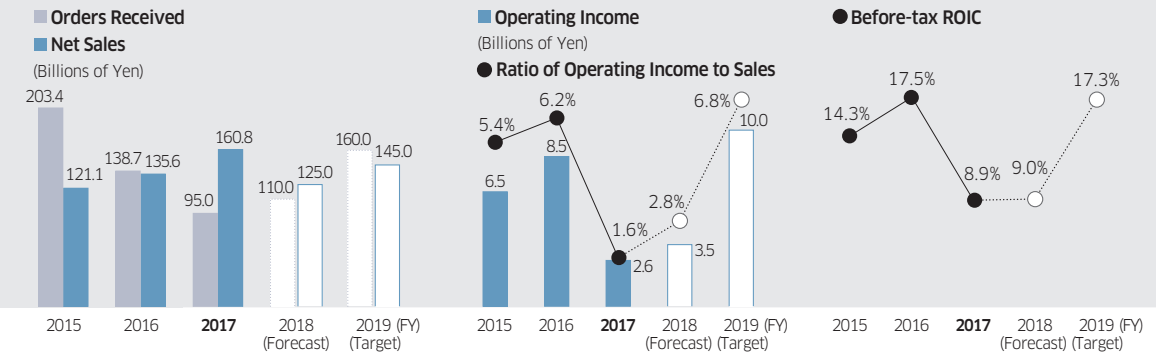
- Improve profitability** • Promote careful selection of orders emphasizing profitability over scale, ensure thorough risk management in upstream processes, and improve estimate accuracy
- Ensure stability** • Execute business mindful of human resources, assign engineers flexibly in response to market 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



Fertilizer plant

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



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

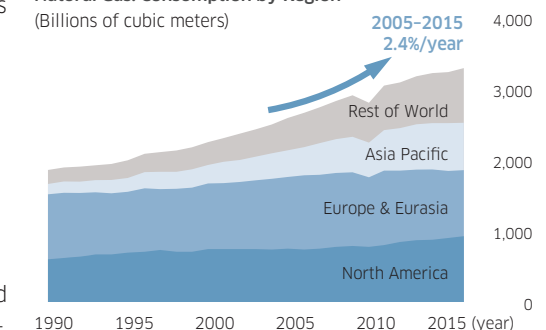
Over the past decade, between 2005 and 2015, consumption of natural gas grew at an average annual rate of 2.4%, and this growth trend is expected to continue. Kawasaki has various technologies related to natural gas and provides highly reliable plants featuring the world's top technologies. To date, 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

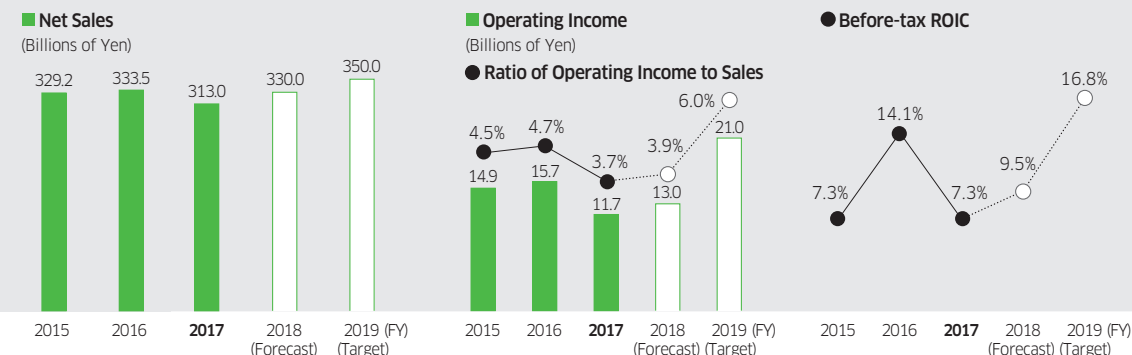
- Deepen demand-chain reforms**
- “A Class Apart”
 - Create brand that delivers high customer value a true cut above other companies
- Deepen reforms to enhance competitive edge of products**
- “Fun to Ride” and “Ease of Riding”
 - Create structure for product development geared to customer requirements
- 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

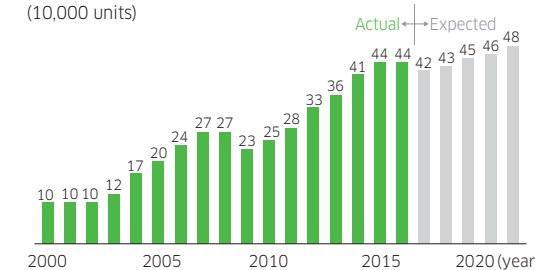
Utility vehicles are used for hauling work on farms, for traversing large-size estates and for sport-hunting. Such vehicles are in huge demand, especially in North America, and in recent years, recreational utility vehicles—which feature enhanced drivability over terrain to enjoy moving at speed in rural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

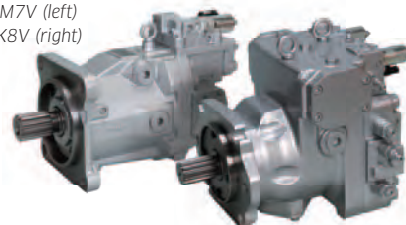
Core Competence

- 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

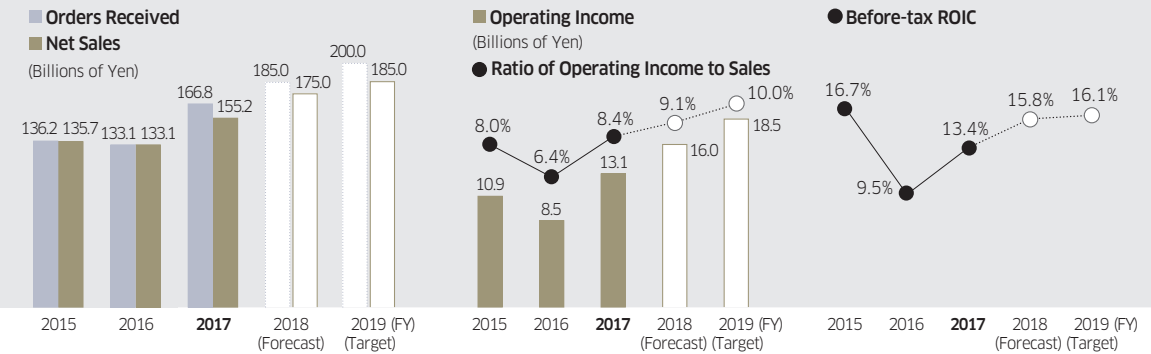
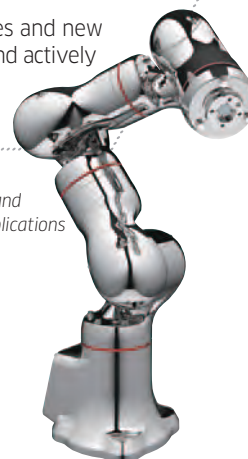
Business Direction in MTBP 2016

- 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 Mediaroid, 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.

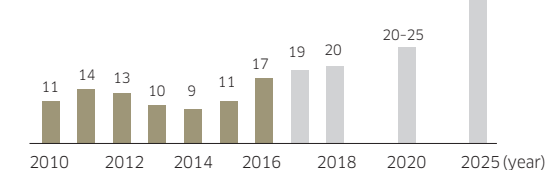
Key Driver

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