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(Securities Code 7012)  
June 6, 2016

Dear Shareholders

Shigeru Murayama  
President  
Kawasaki Heavy Industries, Ltd.  
1-1 Higashikawasaki-cho  
3chome,  
Chuo-ku, Kobe  
(Registered Office)  
1-3 Higashikawasaki-cho  
1chome,  
Chuo-ku, Kobe

## NOTICE OF THE 193<sup>rd</sup> ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 193rd Ordinary General Meeting of Shareholders of Kawasaki Heavy Industries, Ltd. (the "Company" or "KHI"). The meeting will be held for the purposes as described below.

**If you are unable to attend on the day of the meeting, we kindly ask you to review the "Reference Documents for the General Meeting of Shareholders" (described hereinafter), and exercise your voting right in writing or electronically (via the Internet, and so forth) by 5:00 p.m. on June 23, 2016.**

1. **Date and Time:** Friday, June 24, 2016 at 10:00 a.m. (Door opens at 9 a.m.)
2. **Place:** Kokusai Hall at The Kobe International House, located at 1-6, Gokoudori 8-chome, Chuo-ku, Kobe
3. **Meeting Agenda:**
  1. The Business Report, Consolidated Financial Statements for the Company's 193rd Fiscal Year (April 1, 2015 - March 31, 2016) and results of audits by the Accounting Auditor and the Board of Corporate Auditors of the Consolidated Financial Statements
  2. Non-Consolidated Financial Statements for the Company's 193rd Fiscal Year (April 1, 2015 - March 31, 2016)

**Proposal No. 1:** Appropriation of Retained Earnings

**Proposal No. 2:** Election of Twelve Directors

**Proposal No. 3:** Election of One Corporate Auditor

(Please refer to the "Reference Documents for the General Meeting of Shareholders" hereinafter for information on each of the proposals.)

#### 4. Other decisions regarding the General Meeting of Shareholders:

(1) Among the documents to be submitted when sending the Notice, "Consolidated Statement of Changes in Net Assets" "Notes to the Consolidated Financial Statements" and "Non-consolidated Statement of Changes in Net Assets" "Notes to the Non-consolidated Financial Statements" are posted on the Website (<http://global.kawasaki.com/en/corp/ir/>) according to laws and the Article 16 of the Articles of Incorporation, and they are not included in the Appendix regarding matters to be reported. "Consolidated Statement of Changes in Net Assets" "Notes to the Consolidated Financial Statements" "Non-consolidated Statement of Changes in Net Assets" and "Notes to the Non-consolidated Financial Statements" have been combined with the Consolidated Financial Statements and the Non-Consolidated Financial Statements for the auditing process when preparing the results of audits by the Accounting Auditor and the Board of Corporate Auditors.

(2) Any updates to the Appendix and the Reference Documents for the General Meeting of Shareholders, will be posted on the Company's Website at the following URL: (<http://global.kawasaki.com/en/corp/ir/>).

(3) Please note that persons other than shareholders who are able to exercise voting rights, including representatives and their companions who are not shareholders, are not permitted to enter the venue.

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#### Exercise of Voting Rights in Writing

Please indicate your vote for or against the proposals on the enclosed Voting Rights Exercise Form, and return it so that it is delivered by the above-mentioned exercise date.

#### Exercise of Voting Rights via the Internet

Please exercise your voting right by logging on to the Internet website (<http://www.web54.net>) and entering the voting right exercise code and password stated on the enclosed Voting Rights Exercise Form, and follow the online instructions to submit your vote.

#### Notes:

1. When voting rights have been exercised twice in writing or electronically, the latter vote received shall be deemed valid, however when votes are received on the same day, the voting right exercised electronically shall be deemed valid.
2. Shareholders who intend to diversely exercise voting rights are requested to give written notification to that effect, and the reason(s) thereof, no later than three (3) days prior to the day of the General Meeting of Shareholders.
3. When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk at the venue on the day of the meeting.

## Reference Documents for the General Meeting of Shareholders

### Proposals and References

#### Proposal No. 1: Appropriation of Retained Earnings

The Company considers the return of profits to shareholders as being an important management issue. The Company aims to enhance shareholder value over the long term through continuous, advanced research and development and innovative capital investment, which is necessary for future growth. The Company's basic policy is to maintain a medium- and long-term dividend payout ratio of 30% to the net income attributable to owners of parent and to distribute surplus twice a year as an interim dividend and a year-end dividend, by fully taking into consideration future earnings trends and its financial position so as to keep a balance between enhancing shareholder value and returning profits to shareholders.

Taking into consideration the strategic investment necessary to improve corporate value, earnings trends, financial position, and so forth, in accordance with the said policy, the year-end dividend will amount to ¥7 per ordinary share for a total distribution of ¥11,694,034,296. As a result, annual dividends will be ¥12 per share, including interim dividends.

In addition, the Company's year-end dividend distribution is June 27, 2016.

Type of dividend property	Cash
Dividend per share	7 yen
Total dividend	11,694,034,296 yen
Date on which the dividends from surplus will take effect	June 27, 2016

#### Proposal No. 2: Election of Twelve Directors

The term of office of all twelve Directors will expire at the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, we propose to elect twelve Directors (nine Directors to be reappointed (including an Outside Director) and three Directors to be newly appointed (including an Outside Director)) to establish corporate governance at a higher level and further improve the Company's enterprise value. Candidates for Directors are elected by the Board of Directors in accordance with "Qualifications Expected of Directors," which is described on page 10. The Company has obtained a report to the effect that this election is appropriate from the Nomination Advisory Committee, which consists mainly of independent outside officers.

The candidates for Director are as follows:

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]	Shares of the Company
1	(Reappointed) Shigeru Murayama (Feb. 27, 1950)	<p>Apr. 1974    Joined Kawasaki Heavy Industries, Ltd. Jun. 2010    Senior Vice President                   President, Aerospace Company Jun. 2013    President                   (current position)                   [Significant concurrent position]                   President(representative director), Commercial Airplane                   Company                   Chairman, The Shipbuilders' Association of Japan</p> <p><b>Reason for candidacy</b> Mr. Murayama has been mainly engaged in business related to technology and development of the aerospace segment of the Company for many years. He was appointed as its Senior Vice President in 2010 and has served as its President since 2013. Presently, as President, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable as a Director and nominated him again as a candidate for Director.</p>	129,000 shares

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]	Shares of the Company
2	(Reappointed)  Joji Iki (Sep. 5, 1951)	<p>Apr. 1977    Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2009    Executive Officer General Manager, Machinery Division, Gas Turbine &amp; Machinery Company</p> <p>Apr. 2012    Managing Executive Officer President, Gas Turbine &amp; Machinery Company</p> <p>Jun. 2012    Senior Vice President President, Gas Turbine &amp; Machinery Company</p> <p>Apr. 2015    Senior Executive Vice President Assistant to the President, in charge of Technology, Sales and Procurement department</p> <p>Feb. 2016    Senior Executive Vice President Assistant to the President, in charge of Technology, Sales and Procurement department and in charge of Ship &amp; Offshore Structure Company</p> <p>Apr. 2016    Senior Executive Vice President Assistant to the President, in charge of Technology and Sales department and in charge of Ship &amp; Offshore Structure Company (current position)</p> <p><b>Reason for candidacy</b> Mr. Iki has been mainly engaged in business related to technology and development of the gas turbine &amp; machinery segment of the Company for many years. He was appointed as its Senior Vice President in 2012 and has served as its Senior Executive Vice President since 2015. Presently, as Senior Executive Vice President in charge of Technology and Sales department and Ship &amp; Offshore Structure Company, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable as a Director and nominated him again as a candidate for Director.</p>	53,000 shares
3	(Reappointed)  Yoshinori Kanehana (Feb. 19, 1954)	<p>Apr. 1976    Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2011    Managing Executive Officer Vice President, Rolling Stock Company</p> <p>Apr. 2012    Managing Executive Officer General Manager, Marketing Division</p> <p>Jun. 2012    Senior Vice President General Manager, Marketing Division</p> <p>Jun. 2013    Senior Vice President President, Rolling Stock Company</p> <p>Apr. 2016    Senior Executive Vice President Assistant to the President (current position)</p> <p><b>Reason for candidacy</b> Mr. Kanehana has been mainly engaged in business related to technology and development of the rolling stock segment of the Company and its overseas business for many years. He was appointed as its Senior Vice President in 2012 and has served as its Senior Executive Vice President since 2016. Presently, as Senior Executive Vice President, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable as a Director and nominated him again as a candidate for Director.</p>	65,000 Shares

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]	Shares of the Company
4	(Reappointed) Yoshihiko Morita (Mar. 7, 1947)  (Outside Director Candidate) (Independent Director)	<p>Apr. 1969    Joined Export-Import Bank of Japan (At present: Japan Bank for International Cooperation)</p> <p>Oct. 2008    Representative Director and Senior Managing Executive Officer Deputy CEO of Japan Bank for International Cooperation, Japan Finance Corporation</p> <p>Jun. 2011    Resigned Deputy CEO of Japan Bank for International Cooperation, Japan Finance Corporation</p> <p>Dec. 2011    Advisor, Sumitomo Mitsui Banking Corporation</p> <p>Jun. 2012    President, Japan Institute for Overseas Investment Outside Corporate Auditor, TOKYO GAS Co., Ltd.</p> <p>Jun. 2013    Outside Director, Kawasaki Heavy Industries, Ltd.</p> <p>Jun. 2013    Resigned Advisor, Sumitomo Mitsui Banking Corporation</p> <p>Dec. 2014    Resigned President, Japan Institute for Overseas Investment (current position) [Significant concurrent position] Outside Corporate Auditor, TOKYO GAS Co., Ltd.</p> <p>Mr. Morita previously served as Deputy CEO of Japan Bank for International Cooperation, Representative Director and Senior Managing Executive Officer of Japan Finance Corporation and other important positions. By utilizing his substantial overseas experience and expertise acquired in those institutions, he has provided the Company with useful opinions and advice in determining important matters of the Company's management from a position independent from the Company's execution of duties. Considering these points, we have nominated him again as a candidate for Director as we have judged that he will be able to fully perform his roles as an Outside Director in the supervision of execution of duties and enhancement of its enterprise value.</p>	2,000 Shares
5	(Reappointed) Munenori Ishikawa (Feb. 26, 1953)	<p>Apr. 1975    Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2009    General Manager, Manufacturing Division, Aerospace Company</p> <p>Apr. 2012    Executive Officer General Manager, Manufacturing Division, Aerospace Company</p> <p>Apr. 2013    Executive Officer Vice President, Aerospace Company</p> <p>Jun. 2013    Managing Executive Officer President, Aerospace Company</p> <p>Jun. 2014    Senior Vice President President, Aerospace Company</p> <p>Apr. 2016    Assistant to the President, in charge of Production and Procurement department and in charge of Aerospace Company (current position)</p> <p><b>Reason for candidacy</b> Mr. Ishikawa has been mainly engaged in business related to technology, development and production of the aerospace segment of the Company for many years. He was appointed as its Senior Vice President in 2014 and has served as its Senior Executive Vice President since 2016. Presently, as Senior Executive Vice President in charge of Production and Procurement department and Aerospace Company, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable as a Director and nominated him again as a candidate for Director.</p>	38,000 Shares

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]	Shares of the Company
6	(Reappointed) Kazuo Hida (Feb. 1, 1954)	<p>Apr. 1978    Joined Kawasaki Heavy Industries, Ltd. Apr. 2011    Executive Officer, Kawasaki Heavy Industries, Ltd.                   Seconded to Kawasaki Precision Machinery (UK) Ltd. Sep. 2011    Executive Officer                   General Manager, Engineering Division, Precision Machinery                   Company Apr. 2013    Executive Officer                   Vice President and General Manager, Engineering Division,                   Precision Machinery Company Apr. 2014    Managing Executive Officer                   President, Precision Machinery Company Jun. 2014    Senior Vice President                   President, Precision Machinery Company                   (current position)</p> <p><b>Reason for candidacy</b> Mr. Hida has been mainly engaged in business related to technology and development of the precision machinery segment of the Company and its overseas business for many years. He has served as its Senior Vice President since 2014. Presently, as President of Precision Machinery Company, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable as a Director and nominated him again as a candidate for Director.</p>	34,000 Shares
7	(Reappointed) Kenji Tomida (Aug. 7, 1955)	<p>Apr. 1978    Joined Kawasaki Heavy Industries, Ltd. Apr. 2010    Deputy General Manager, Corporate Planning Division Apr. 2012    Executive Officer                   Deputy General Manager, Corporate Planning Division                   Marketing Division Apr. 2013    Executive Officer                   General Manager, Planning &amp; Control Division, Ship &amp; Offshore                   Structure Company July. 2013    Executive Officer                   General Manager, Corporate Planning Division Apr. 2014    Managing Executive Officer                   General Manager, Corporate Planning Division Jun. 2014    Senior Vice President                   General Manager, Corporate Planning Division Apr. 2015    Senior Vice President                   President, Motorcycle &amp; Engine Company                   (current position)</p> <p><b>Reason for candidacy</b> Mr. Tomida has been mainly engaged in business related to finance &amp; accounting and corporate planning of the Company and its overseas business for many years. He has served as its Senior Vice President since 2014. Presently, as President of Motorcycle &amp; Engine Company, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable as a Director and nominated him again as a candidate for Director.</p>	36,000 Shares

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]	Shares of the Company
8	(Reappointed) Toshiyuki Kuyama (Nov. 12, 1953)	<p>Apr. 1980    Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2009    Deputy General Manager, Gas Turbine Division, Gas Turbine &amp; Machinery Company</p> <p>Apr. 2012    Executive Officer General Manager, Gas Turbine Division, Gas Turbine &amp; Machinery Company</p> <p>Apr. 2015    Managing Executive Officer President, Gas Turbine &amp; Machinery Company</p> <p>Jun. 2015    Senior Vice President President, Gas Turbine &amp; Machinery Company (current position)</p> <p><b>Reason for candidacy</b> Mr. Kuyama has been mainly engaged in business related to technology and development of the gas turbine &amp; machinery segment of the Company for many years. He has served as its Senior Vice President since 2015. Presently, as President of Gas Turbine &amp; Machinery Company, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable as a Director and nominated him again as a candidate for Director.</p>	22,000 Shares
9	(Reappointed) Kazuo Ota (Jan. 13, 1955)	<p>Apr. 1978    Joined Kawasaki Heavy Industries, Ltd.</p> <p>Jan. 2011    Deputy General Manager, Planning &amp; Control Division and senior manager, Control Department, Aerospace Company</p> <p>Apr. 2012    General Manager, Planning &amp; Control Division, Aerospace Company</p> <p>Apr. 2013    Executive Officer General Manager, Planning &amp; Control Division, Aerospace Company</p> <p>Apr. 2015    Managing Executive Officer General Manager, Corporate Planning Division, in charge of Finance &amp; Accounting and Personnel &amp; Labor Administration department</p> <p>Jun. 2015    Senior Vice President General Manager, Corporate Planning Division, in charge of Finance &amp; Accounting and Personnel &amp; Labor Administration department (current position)</p> <p><b>Reason for candidacy</b> Mr. Ota has been mainly engaged in business related to corporate planning and finance &amp; accounting of the Company and its overseas business for many years. He has served as its Senior Vice President since 2015. Presently, as General Manager of the Corporate Planning Division and an officer in charge of Finance &amp; Accounting department and Personnel department, he exercises control over the operations including business planning, finance &amp; accounting and personnel &amp; labor administration, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable as a Director and nominated him again as a candidate for Director.</p>	46,000 Shares

No.	Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]		Shares of the Company
10	(Newly-appointed) Makoto Ogawara (Apr. 10, 1955)	Apr. 1978 Apr. 2011  Apr. 2012 Apr. 2016	Joined Kawasaki Heavy Industries, Ltd. Executive Officer General Manager, Engineering Division, Rolling Stock Company Executive Officer Vice President, Rolling Stock Company Managing Executive Officer President, Rolling Stock Company (current position)	46,000 Shares
		<p><b>Reason for candidacy</b> Mr. Ogawara has been mainly engaged in business related to technology and development of the rolling stock segment of the Company for many years. He was appointed as its Executive Officer in 2011 and has served as its Executive Officer since 2016. Presently, as President of Rolling Stock Company, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable as a Director and newly nominated him as a candidate for Director.</p>		
11	(Newly-appointed) Tatsuya Watanabe (Sep. 30, 1957)	Apr. 1981 Apr. 2011  Apr. 2013  Apr. 2015 Apr. 2016	Joined Kawasaki Heavy Industries, Ltd. Vice Senior Manager, Industrial Plant Engineering Division, Plant & Infrastructure Company Executive Officer Senior Manager, Energy Plant Engineering Division, Plant & Infrastructure Company Executive Officer Vice President, Plant & Infrastructure Company Managing Executive Officer President, Plant & Infrastructure Company (current position)	4,000 Shares
		<p><b>Reason for candidacy</b> Mr. Watanabe has been mainly engaged in business related to technology and development of the plant &amp; infrastructure engineering segment of the Company for many years. He was appointed as its Executive Officer in 2013 and has served as Managing Executive Officer since 2016. Presently, as President of Plant &amp; Infrastructure Engineering Company, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable as a Director and newly nominated him as a candidate for Director.</p>		
12	(Newly-appointed) Michio Yoneda (Jun. 14, 1949)  (Outside Director Candidate) (Independent Director)	Apr. 1973 May. 1998 Apr. 2000 Apr. 2000 Apr. 2001  Dec. 2003  Jan. 2013  Jun. 2015	Joined Bank of Japan General Manager, Sapporo Branch, Bank of Japan Resigned General Manager, Sapporo Branch, Bank of Japan Executive Director, Osaka Securities Exchange Executive Director (Member of the Board), Osaka Securities Exchange Co., Ltd. President & CEO (Member of the Board), Osaka Securities Exchange Co., Ltd. Director & Representative Executive Officer, Group COO, Japan Exchange Group, Inc. Director, Tokyo Stock Exchange, Inc. Resigned Director & Representative Executive Officer, Group COO, Japan Exchange Group, Inc. Resigned Director, Tokyo Stock Exchange, Inc. (current position) [Significant concurrent position] Outside Corporate Auditor, The Resolution and Collection Corporation.	0 Shares
		<p><b>Reason for candidacy</b> Mr. Yoneda previously served as President &amp; CEO (Member of the Board) of Osaka Securities Exchange Co., Ltd., and Director &amp; Representative Executive Officer and Group COO of Japan Exchange Group, Inc., and other important positions. He has abundant management experience and expert knowledge of corporate governance. Considering these points, we have newly nominated him as a candidate for Director as we have judged that he will be able to fully perform his roles as an Outside Director in the supervision of execution of duties and enhancement of its enterprise value.</p>		



- (Notes) 1. Mr. Shigeru Murayama also serves as President (representative director) of Commercial Airplane Co., Ltd. which engages in the following transaction with the Company as well as a business that is the same type as the Company's Aerospace segment:  
 - Sales, etc. of aircraft component parts for The Boeing Company.
2. There is no special interest relationship between the other candidates and the Company.
3. Contents of the matter stipulated regarding candidates for Outside Director pursuant to Article 74, Paragraph 4 of the Ordinance for Enforcement of the Companies Act  
 (1) Mr. Yoshihiko Morita and Mr. Michio Yoneda are candidates for Outside Director.  
 (2) Three year has passed since Mr. Yoshihiko Morita commenced his service as Outside Director of the Company at the conclusion of this Ordinary General Meeting of Shareholders.
4. Mr. Yoshihiko Morita has entered into a limited liability agreement pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, and the liability under said agreement shall be limited to either an amount of ¥10 million, or an amount specified by law and regulation, whichever is higher. Should the appointment of Mr. Yoshihiko Morita be approved, the Company will extend the above agreement with him.
5. After the proposed election, Mr. Michio Yoneda will enter into a limited liability agreement pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act with the Company on condition that Proposal No. 2 is approved in its original form. The liability for damages under said agreement shall be limited to either an amount of ¥10 million, or an amount specified by law and regulation, whichever is higher.
6. Mr. Yoshihiko Morita and Mr. Michio Yoneda satisfy the requirements of independent Officer stipulated by the Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc.

### Proposal No. 3: Election of One Corporate Auditor

The term of office of Corporate Auditor Mr. Yuji Murakami will expire at the close of this general meeting of shareholders. Accordingly, we propose to elect one Corporate Auditor. A candidate for Corporate Auditor is elected by the Board of Directors in accordance with "Qualifications Expected of Corporate Auditors," which is described on page 10. The Company has obtained a report to the effect that this election is appropriate from the Nomination Advisory Committee, which consists mainly of independent outside officers.

We have obtained the prior approval of the Board of Corporate Auditors on this proposal.

The candidate for Corporate Auditor is as follows.

Name (Date of Birth)	Abridged Personal Records, Positions and Duties [Significant concurrent positions]	Shares of the Company
(Newly-appointed)  Katsuyoshi Fukuma (Dec. 5, 1957)	Apr. 1981    Joined Kawasaki Heavy Industries, Ltd. Oct. 2010    Senior Manager, Subsidiaries & Affiliates Control Department, Corporate Planning Division Apr. 2014    Deputy General Manager, Corporate Planning Division, and Senior Manager, Corporate Business Planning Department (current position)	5,000 Shares
	<b>Reason for candidacy</b> Mr. Fukuma has been mainly engaged in business related to corporate planning and finance & accounting. He has substantial knowledge about finance and accounting matters. He is also familiar with the Company's business partly because he has been engaged in the planning and development on the Company's management and business operations as Deputy General Manager of the Corporate Planning Division. Considering these points, we have determined that he is suitable as a Corporate Auditor and newly nominated him as a candidate for Corporate Auditor.	

(Note) There is no special conflict of interest between the Company and the candidate for Corporate Auditor.

## **(Reference)**

### **[Qualifications Expected of Directors]**

1. Deeply understand and agree to the management philosophy and vision of the KHI Group
2. Be able to contribute to sustainable growth and enhancement of enterprise value in the medium to long term
3. Hold company-wide standpoints and have abundant and broad experience, deep insight and expertise to do so
4. Be able to supervise the execution of business operations and duties from an independent standpoint as a member of the Board of Directors

### **[Qualifications Expected of Corporate Auditors]**

1. Be able to help ensure the soundness of the Group's management
2. Have the ability to make fair and appropriate judgment from an independent and objective standpoint
3. Be able to exercise one's authority in an active and positive manner, and properly express one's opinions to the Board of Directors or the management
4. Be familiar with the Company's business and corporate management or have abundant and broad experience, deep insight and expertise
5. At least one Corporate Auditor must have substantial knowledge about finance and accounting

### **[Independence Standards for Officers]**

**When the outside officer does not fall under all the following items, he/she is deemed to have satisfied the independence requirements:**

1. He/she presently serves or previously served in the last ten years as managing director, executive officer, operating officer or other important employee of a firm (including major subsidiaries designated by the Company) (hereinafter, the "Home Company") that has a business relationship with the KHI Group, where the average net sales from the said business for the last five fiscal years exceeds 2% of that of the KHI Group and the Home Company.
2. He/she serves as a specialist or consultant of legal, accounting or tax affairs (corporation if it has judicial personality) and the average remuneration directly received from the KHI Group (excluding remuneration for the Company's officer) for the last five fiscal years exceeds 10 million yen.
3. He/she serves as executive officer of a non-profit organization and the average donations from the KHI Group to the organization for the last five fiscal years exceeds 10 million yen and exceeds 2% of the total revenue or the current balance of the organization.
4. His/her Home Company is a major shareholder of the KHI as it holds 10% or more of outstanding shares in KHI.
5. A relative of his/hers within the second degree falls under the preceding four items or serves as managing director, executive officer, operating officer or other important employee of the KHI Group.

# **Business Report**

(April 1, 2015 - March 31, 2016)

## **1. Overview of the Company Group**

### **(1) Business Progress and Results**

#### **(i) General Conditions**

The global economy continued to grow moderately especially in developed countries thanks to the U.S. economic recovery. Meanwhile, close attention must be continuously paid to the U.S. movement toward monetary policy normalization, the European debt issue, the fluctuation in oil prices, and the economic slowdown of emerging countries and resource-rich countries.

The Japanese economy remained stagnant due to the effect of a worsening external environment and so forth. It is expected to continue seeing mild growth owing to the steady improvement in income and employment environment. Meanwhile, there is a concern about the business downturn especially in exporting companies, and this is causing a decline in business confidence because of the sharp appreciation of the yen since the beginning of the year.

Amid this operating environment, the overall orders received by the KHI Group for the fiscal year under review amounted to ¥1,693.6 billion, 1% lower than the previous fiscal year. This was because of decreases in the Ship & Offshore Structure segment, while orders increased in the Aerospace segment and the Gas Turbine & Machinery segment. Net sales were ¥1,541.0 billion, 4% higher than the previous fiscal year due to increased sales in some segments including the Aerospace segment and the Rolling Stock segment.

In terms of profit, the Aerospace segment reported a profit increase, resulting in an operating income of ¥95.9 billion, 10% higher than the previous fiscal year. Recurring profit was ¥93.2 billion, 11% higher than the previous fiscal year. However, net income attributable to owners of parent was ¥46.0 billion, 11% lower than the previous fiscal year, mainly because of a loss on overseas business in extraordinary losses.

#### **(ii) Operating conditions by business segment**

##### **Ship & Offshore Structure segment**

The Ship & Offshore Structure segment received orders amounting to ¥98.3 billion, a decrease by ¥80.8 billion from the previous fiscal year in which orders for submarines from Japan's Ministry of Defense and deep submergence rescue vehicles were received.

Net sales were ¥94.8 billion, an increase of ¥4.5 billion from the previous fiscal year. This was attributable to an increase in the construction of LPG carriers.

Operating income decreased ¥10.6 billion from the previous fiscal year, resulting in an operating loss of ¥7.9 billion partly due to reversal of a provision for losses on construction contracts.

##### **Rolling Stock segment**

The Rolling Stock segment saw orders received at ¥132.1 billion, remaining at the same level as in the previous fiscal year as there was no significant change for both domestic and overseas customers.

Net sales increased ¥25.1 billion from the previous fiscal year to ¥146.6 billion due to increased sales for overseas countries including Singapore and Taiwan.

Operating income increased ¥3.2 billion from the previous fiscal year to ¥9.2 billion mainly due to increased sales.

##### **Aerospace segment**

At the Aerospace segment, orders received were ¥464.2 billion, an increase of ¥107.2 billion from the previous fiscal year, mainly due to an increase in orders from Japan's Ministry of Defense.

Net sales increased ¥26.7 billion from the previous fiscal year to ¥351.8 billion. This was partly because of an increase in sales to Japan's Ministry of Defense and the high level of component parts for commercial airplanes as well as the impact of the depreciation of the yen.

Operating income increased ¥9.3 billion from the previous fiscal year to ¥45.6 billion, mainly due to increased sales.

### **Gas Turbine & Machinery segment**

At the Gas Turbine & Machinery segment, orders received were ¥288.9 billion, an increase of ¥53.1 billion from the previous fiscal year. This was mainly attributable to an increase in orders for such products as component parts of commercial aircraft jet engines and gas engines.

Net sales increased ¥17.6 billion from the previous fiscal year to ¥236.4 billion, mainly due to an increase in sales of component parts of commercial aircraft jet engines.

Operating income increased ¥5.6 billion from the previous fiscal year to ¥16.9 billion partly due to increased sales.

### **Plant & Infrastructure segment**

In the Plant & Infrastructure segment, orders received were ¥138.7 billion, a decrease of ¥64.6 billion from the previous fiscal year in which large orders were received for plants from overseas customers.

Net sales increased ¥14.5 billion from the previous fiscal year to ¥135.6 billion, mainly due to increased sales of large-scale plants to overseas customers.

Operating income increased ¥1.9 billion from the previous fiscal year to ¥8.5 billion partly due to increased sales.

### **Motorcycle & Engine segment**

Net sales of the Motorcycle & Engine segment increased ¥4.3 billion from the previous fiscal year to ¥333.5 billion. This was attributable to increased sales of motorcycles and utility vehicles in developed countries, while sales of motorcycles in Indonesia and other emerging markets decreased.

Operating income increased ¥0.8 billion from the previous fiscal year to ¥15.7 billion partly due to increased sales.

(Note) The net sales figure for the Motorcycle & Engine segment is also used as the figure for orders received.

### **Precision Machinery segment**

In the Precision Machinery segment, orders received were ¥133.1 billion, a decrease of ¥3.0 billion from the previous fiscal year due to decreased orders for hydraulic components.

Net sales decreased ¥2.6 billion from the previous fiscal year to ¥133.1 billion, mainly due to decreased sales of hydraulic components.

Operating income decreased ¥2.3 billion from the previous fiscal year to ¥8.5 billion partly due to decreased sales and profitability of hydraulic components.

### **Others segment**

In the Others segment, net sales decreased ¥35.4 billion from the previous fiscal year to ¥108.8 billion partly because of the transfer of the construction machinery business.

Operating income decreased ¥1.0 billion from the previous fiscal year to ¥2.8 billion partly due to the transfer of the construction machinery business.

[Major businesses]

Kawasaki Trading Co., Ltd.

(Sale of various types of industrial machinery, petroleum, steel stock and air conditioning equipment, etc.)

Kawasaki Life Corporation

(Sale, rental and management of real estate, insurance agency business, and building management)

### (iii) Reference

#### i) Orders Received, Net Sales and Operating Income/Loss by Segment

Unit: 100 million yen

Segment	Orders Received		Net Sales		Operating Income/Loss	
	Amount	Year-on-Year Change	Amount	Year-on-Year Change	Amount	Year-on-Year Change
Ship & Offshore Structure	<b>983</b>	(808)	<b>948</b>	45	<b>(79)</b>	(106)
Rolling Stock	<b>1,321</b>	7	<b>1,466</b>	251	<b>92</b>	32
Aerospace	<b>4,642</b>	1,072	<b>3,518</b>	267	<b>456</b>	93
Gas Turbine & Machinery	<b>2,889</b>	531	<b>2,364</b>	176	<b>169</b>	56
Plant & Infrastructure	<b>1,387</b>	(646)	<b>1,356</b>	145	<b>85</b>	19
Motorcycle & Engine	<b>3,335</b>	43	<b>3,335</b>	43	<b>157</b>	8
Precision Machinery	<b>1,331</b>	(30)	<b>1,331</b>	(26)	<b>85</b>	(23)
Others segment	<b>1,044</b>	(361)	<b>1,088</b>	(354)	<b>28</b>	(10)
Adjustment	–	–	–	–	<b>(37)</b>	17
Total	<b>16,936</b>	(192)	<b>15,410</b>	549	<b>959</b>	87

(Notes) 1. Net sales recorded are for sales to external customers.

2. The net sales figure for Motorcycle & Engine segment is also used as the figure for orders received.

#### ii) ROIC and ROE

	FY2014 (192nd fiscal)	FY2015 (193rd fiscal)
ROIC	10.4%	<b>9.4%</b>
ROE	12.9%	<b>10.6%</b>

(Notes) • ROIC (return on invested capital) = EBIT (income before income taxes + interest expense) ÷ Invested capital at the end of the period (debt obligation + shareholders' equity)

• ROE (return on equity) = Net income attributable to owners of the parent ÷ {(shareholders' equity at the end of the previous period + shareholders' equity at the end of the current period) ÷ 2}

#### iii) Cash flows

	FY2014 (192nd fiscal)	FY2015 (193rd fiscal)
Cash flows from sales activities	1,276	<b>860</b>
Cash flows from investing activities	(673)	<b>(741)</b>
Cash flows from financing activities	(571)	<b>(234)</b>

## (2) Capital Investments, etc.

In the KHI Group, capital investments were made predominantly for the development of facilities to increase the production capacity in the Aerospace segment, and the development of facilities to handle new models and products and the streamlining of production in the Gas Turbine & Machinery segment and the Motorcycle & Engine segment. As a result, the KHI Group spent a total of ¥76.3 billion (including spending on intangible assets) on capital investments in the consolidated fiscal year under review. The investments were covered by internally generated funds and borrowed money.

Details of major investments in the respective segments are as follows:

Unit: 100 million yen

Segment	Major investments	Investment amounts in the consolidated fiscal year under review
Ship & Offshore Structure	Facilities for streamlining ship construction, etc.	26
Rolling Stock	Facilities for streamlining rolling stock production, etc.	25
Aerospace	Facilities for increasing aircraft production capacity, etc.	287
Gas Turbine & Machinery	Facilities for handling new models and products of jet engines, etc. and facilities for streamlining production, etc.	79
Plant & Infrastructure	Facilities for streamlining production of industrial machinery, etc.	14
Motorcycle & Engine	Facilities for handling new models and products of motorcycles and facilities for streamlining production, etc.	150
Precision Machinery	Facilities for streamlining production of hydraulic components and facilities for increasing industrial robot production capacity, etc.	81
Others segment	Facilities for research and development and welfare facilities, etc.	98
Total		763

## (3) Financing

Funds of ¥19.6 billion from long-term debt, ¥20.0 billion from domestic unsecured straight bonds and short-term borrowings and other funds from various sources were raised in the current consolidated fiscal year. The funds were allocated to such items as long-term loan repayments, capital investments and working capital.

## (4) Assignment of businesses, absorption-type splits and incorporation-type corporate splits

Not applicable.

## (5) Transfer of business from other companies

Not applicable.

## (6) Succession of rights and obligations pertaining to the business of another juridical person, etc., due to absorption-type merger or absorption-type company split

Not applicable.

## (7) Acquisition or disposal of another company's stocks or other holdings, or share options, etc.

Previously, KCM Corporation was a subsidiary of the Company and 66% of its shares were held by the Company. Effective October 1, 2015, the Company transferred the shares to Hitachi Construction Machinery Co., Ltd. In addition, effective the said date, the Company transferred the businesses of KCMJ Corporation, which was a wholly-owned subsidiary of KCM Corporation, to Hitachi Construction Machinery Japan Co., Ltd.

## (8) Corporate Management Strategies in the Medium to Long Term and Issues to be Addressed

The business environment surrounding the KHI Group is becoming tougher due to greater uncertainties about the future global economy and a shift toward the appreciation of the yen. Under

such circumstances, KHI has formulated a new medium-term business plan for fiscal years 2016 to 2018 (hereinafter, "MTBP2016") to attain the ideal model (KHI's vision, quantitative image about the future in the next ten years).

The basic policy in MTBP2016 is to further deepen ROIC Management. We seek to improve our enterprise value for the future by enhancing core competence (source of profitability and competitive superiority). We will make aggressive investments in growing areas (air transportation, robots, energy) and differentiate ourselves in terms of technologies with an eye toward future new products and businesses by increasing synergies with the combined use of our internal technologies. Furthermore, we will focus on new service businesses by utilizing our information and communications technology.

**(i) Improvement of enterprise value by further deepening ROIC Management**

By asking ourselves "what and which actions will lead to improve our enterprise value?" we can determine indicators that help us focus on links with daily operations. In this way, we will get a better understanding of KHI's employees, in accordance with the business characteristics of the respective segments. In order to satisfy those indicators, we will carry out ROIC Management in which all the Officers and employees participate. We will also utilize those indicators for risk management, thereby leading to a further improved enterprise value.

**(ii) Cash flow-oriented management**

In order to improve our enterprise value, we aim to boost our earnings power and create free cash flows, while steadily making developments and capital investments toward future growth. For FY2016, we have outlined the challenge of acquiring cash flows especially from operating activities. We will implement concrete policies to enhance the efficiency of working capital, such as by improving conditions on money reception and reduction of assets by enhancing efficiency of our supply chain.

**(iii) Thorough risk management**

In the short term, we will understand the impact of fluctuations in exchange rates and economic conditions in a timely manner to conduct efficient risk management. In the medium to long term, we will make such efforts as reviewing prices and production bases and developing products with high added value that are less prone to being affected by the external environment, as well as improving capital adequacy. We will also monitor balance sheets and cash flows for major projects to ensure thorough risk management after the projects start.

**(iv) Enhancement of corporate governance system and emphasis on engagement**

Based on the intent of the Corporate Governance Code and Stewardship Code, we will continue to review our corporate governance system that is appropriate for KHI, striving to improve enterprise value through continuous high-quality dialogue with capital markets.

(Note) 1. Corporate Governance Code: Principles for companies to establish a structure to make decisions in a transparent, fair, speedy and decisive manner from the standpoint of different parties such as shareholders and customers, employees and local communities

2. Stewardship Code: Principles for institutional investors to be responsible as a trustee to enhance the company's medium- to long-term growth through dialogue

**(v) Human resource development and respect for diversity**

We concentrate our energy on the globalization of human resources, and on such measures as securing, developing and strengthening human resources who have substantial knowledge and experience, while handing down engineering and skills to the young generation. We also encourage more women to pursue a career and provide support for child-rearing, etc. in order to improve our employees' work-life balance, and secure a comfortable workplace and employment of people with disabilities through establishing a special subsidiary to develop workplaces in which diversity is respected.

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

- i) Ship & Offshore Structure:** Optimize profitability through integrated operations with Sakaide Works, NACKS and DACKS, perform steady business operations in Kobe Works including submarine-related operations, and scale down the offshore vessel business
- ii) Rolling Stock:** Rolling Stock: Enhance competitiveness through technologies and products that meet customer needs including cutting-edge technological development and new rolling stock, further enhance system integration capability through strengthening of human resources, expand stock-type business for maintenance and remodeling, and construct a global optimal business execution system including adoption of overseas production and procurement and effective use of partnerships
- iii) Aerospace:** Establish a mass production system and develop derivative products for P-1 patrol aircraft and C-2 transport aircraft including repair and component support, boost production of component parts for the Boeing 787 and respond to needs for derivative products, and develop and start mass-producing 777-X
- iv) Gas Turbine & Machinery:** Develop the energy solution business based on high-efficiency industrial gas turbines and gas engines, promote overseas operations, and promote the development of new models of jet engines for commercial aircraft and respond to needs for mass-production of these models
- v) Plant & Infrastructure:** Enhance competitiveness through sophistication of existing products and achieve early commercialization of new products and technologies, expand the overseas business to emerging countries and resource-rich countries through strengthening of overseas partnerships, further enhance engineering capability by strengthening human resources development, and fully complete the large projects
- vi) Motorcycle & Engine:** Continue to launch strong, attractive models as expected with the "Kawasaki" brand, achieve the development of strong brands that are rooted in customer value, further improve our presence in the markets of developed countries which are showing signs of recovery, further boost the brand power and develop new markets in emerging countries, and thoroughly enhance the efficiency of consolidation-based management
- vii) Precision Machinery:** Maintain and increase a high market share in the area of hydraulic excavation systems while expanding sales of other construction/agricultural machinery products, enhance our ability to make system proposals and develop and expand overseas production systems in the robot business, and make continuous efforts toward the future in such new fields as the medical robot business



**(9) Trends in Assets and Income**  
**(i) Company Group Assets and Income**

Unit: billions of yen

Item	The 190th fiscal year	The 191st fiscal year	The 192nd fiscal year	The 193rd fiscal year (under review)
Orders received	1,369.5	1,455.4	1,712.9	<b>1,693.6</b>
Net sales	1,288.8	1,385.4	1,486.1	<b>1,541.0</b>
Operating income	42.0	72.3	87.2	<b>95.9</b>
Recurring profit	39.3	60.6	84.2	<b>93.2</b>
Net income attributable to owners of parent	30.8	38.6	51.6	<b>46.0</b>
Net income per share (yen)	¥18.46	¥23.09	¥30.89	<b>¥27.56</b>
Total assets	1,466.2	1,554.4	1,662.2	<b>1,620.4</b>
Net assets	349.8	376.6	447.9	<b>445.6</b>

**(ii) Company Assets and Income**

Unit: billions of yen

Item	The 190th fiscal year	The 191st fiscal year	The 192nd fiscal year	The 193rd fiscal year (under review)
Orders received	1,086.2	1,089.5	1,344.5	<b>1,309.0</b>
Net sales	983.9	1,011.6	1,098.0	<b>1,161.0</b>
Operating income	12.5	36.1	46.4	<b>56.8</b>
Recurring profit	19.4	35.9	55.5	<b>68.5</b>
Net income attributable to owners of parent	17.1	32.0	36.4	<b>30.7</b>
Net income per share (yen)	¥10.26	¥19.20	¥21.81	<b>18.43</b>
Total assets	1,195.1	1,243.5	1,301.1	<b>1,300.7</b>
Net assets	258.4	273.1	294.0	<b>306.8</b>

**(10) Major Parent Companies and Subsidiaries****(i) Parent Companies**

Not applicable.

**(ii) Major Subsidiaries**

Company name	Capital	The Company's percentage of equity participation	Main business
Kawasaki Trading Co., Ltd.	¥600 million	70%	Sale of various types of industrial machinery, petroleum, steel stock, etc. air conditioning equipment, etc.
Kawasaki Machine Systems, Ltd.	¥350 million	100%	Sale, repair and after-sales service of general-purpose gas turbine generators and other industrial machinery
NIPPI Corporation	¥6,048 million	100%	Manufacture of aircraft components, targeting systems, rocket components, aerospace equipment and marine systems; repair and maintenance of aircraft
Kawasaki Thermal Engineering Co., Ltd.	¥1,460 million	83%	Manufacture, sales, installation and after-sales service for boilers, air-conditioning equipment and absorption-style heat pumps, etc.
EarthTechnica Co., Ltd.	¥1,200 million	100%	Design, manufacture, and sale of crushers, grinders, castings, and other equipment; design, execution and supervision of engineering, construction, installation of machinery and appliances
Kawasaki Motors Corporation Japan	¥100 million	100%	Sole distributor of motorcycles, personal water craft ("JET SKI®"), general-purpose gasoline engines and engine components in Japan
Kawasaki Life Corporation	¥400 million	100%	Sale, rental and management of real estate, insurance agency business and building management
Kawasaki Motors Corp., U.S.A.	U.S.\$165 million	100%	Sales of motorcycles, ATV, RUV, utility vehicles, personal water craft "JET SKI®" and general-purpose gasoline engines in the U.S and South and Central Americas
Kawasaki Motors Manufacturing Corp., U.S.A.	U.S.\$170 million	100%	Manufacture of ATV, RUV, utility vehicles, personal water craft "JET SKI®" and general-purpose gasoline engines; manufacture, servicing and engineering of rolling stock
Kawasaki Rail Car, Inc.	U.S.\$60 million	Note 2	Manufacture, sale, servicing and engineering of rolling stock
Kawasaki Robotics (U.S.A.), Inc.	U.S.\$1 million	Note 3	Sale and service of industrial robots in North America
Kawasaki Motors Europe N.V.	€64 million	100%	Sales of motorcycles, ATV, RUV, utility vehicles, personal water craft "JET SKI®" and general-purpose gasoline engines in Europe
Kawasaki Motors Enterprise (Thailand) Co., Ltd.	1,900 million baht	100%	Manufacture and sale of motorcycles in Thailand
PT. Kawasaki Motor Indonesia	U.S.\$40 million	83%	Manufacture and sale of motorcycles in Indonesia
Kawasaki Motors (Phils.) Corporation	101 million peso	50%	Manufacture and sale of motorcycles in the Philippines

Company name	Capital	The Company's percentage of equity participation	Main business
Flutek, Ltd.	1,310 million won	50%	Manufacture, sale and servicing of hydraulic equipment products for construction machinery in South Korea

(Notes)

- From this current consolidated fiscal year, the following changes were made in relation to companies classified as major subsidiaries:  
Four companies (KCM Corporation, KCMJ Corporation, Canadian Kawasaki Motors Inc., and Kawasaki Precision Machinery (UK) Ltd.) were excluded.
- Kawasaki Rail Car, Inc. is a wholly-owned subsidiary of Kawasaki Motors Manufacturing Corp., U.S.A.
- Kawasaki Robotics (U.S.A.), Inc. is a wholly-owned subsidiary of Kawasaki Motors Corp., U.S.A.
- There are 99 consolidated subsidiaries, including 16 companies as major subsidiaries, and there are 20 companies which are accounted for using the equity method.

**(iii) Status of Business Combinations**

Not applicable.

**(11) Company Group's Main Business and Number of Employees**

Segment	Main Business	Number of Employees
Ship & Offshore Structure	Manufacture and sale of ships, etc.	2,569
Rolling Stock	Manufacture and sale of rolling stock, and snow removal machinery, etc.	3,237
Aerospace	Manufacture and sale of aircraft, etc.	6,161
Gas Turbine & Machinery	Manufacture and sale of jet engines, industrial gas turbines, prime movers, etc.	4,207
Plant & Infrastructure	Manufacture and sale of industrial machinery, boilers, environmental equipment, steel structures and crushing machines, etc.	3,074
Motorcycle & Engine	Manufacture and sale of motorcycles, All Terrain Vehicles(ATVs), utility vehicles, personal water craft ("JET SKI®"), general purpose gasoline engines, etc.	8,669
Precision Machinery	Manufacture and sale of hydraulic components and industrial robots, etc.	2,873
Others segment	Commerce, brokerage and mediation for sale and order reception and administration of welfare facilities, etc.	2,765
Company-wide common areas	(Head Office Administration Department, Research & Development Department, etc.)	1,050
Total	-	34,605 ( Japan 25,897 Overseas 8,708 )

(Note) The Company has 15,911 employees (average age: 38.3 years; average years of service: 13.4 years)

**(12) Company Group's Principal Offices and Plants****(i) The Company**

		Name and location
Principal offices	Head office	Kobe Head Office, Tokyo Head Office 2 Head Offices
	Branches	Sapporo Office, Sendai Office, Nagoya Office, Osaka Office, Hiroshima Office, Fukuoka Office, Okinawa Office 7 Offices
Plants, etc.		Gifu Works (Kakamigahara), Nagoya Works 1 (Yatomi, Aichi), Nagoya Works 2 (Ama-gun, Aichi), Kobe Works, Hyogo Works, Seishin Works, Nishi Kobe Works (Kobe), Akashi Works (Akashi), Kakogawa Works (Kakogawa), Harima Works (Kako-gun, Hyogo), Sakaide Works (Sakaide, Kagawa), Technical Institute (Akashi) 12 Works (including a Technical Institute)

**(ii) Material Subsidiaries****i) Domestic**

Company name	Location of principal offices	Location of plants
Kawasaki Trading Co., Ltd.	Kobe / Chiyoda-ku, Tokyo	-
Kawasaki Machine Systems, Ltd.	Osaka	-
NIPPI Corporation	Yokohama	Yokohama / Yamato
Kawasaki Thermal Engineering Co., Ltd.	Kusatsu / Osaka / Koto-ku, Tokyo	Kusatsu
EarthTechnica Co., Ltd.	Chiyoda-ku, Tokyo	Yachiyo
Kawasaki Motors Corporation Japan	Akashi	-
Kawasaki Life Corporation	Kobe	-

**ii) Overseas**

Company name	Location
Kawasaki Motors Corp., U.S.A.	U.S.
Kawasaki Motors Manufacturing Corp., U.S.A.	U.S.
Kawasaki Rail Car, Inc.	U.S.
Kawasaki Robotics (U.S.A.), Inc.	U.S.
Kawasaki Motors Europe N.V.	The Netherlands
Kawasaki Motors Enterprise (Thailand) Co., Ltd.	Thailand
PT. Kawasaki Motor Indonesia	Indonesia
Kawasaki Motors (Phils.) Corporation	Philippines
Flutek, Ltd.	Korea

**(13) Principal lenders**

(Unit: 100 million yen)

Lenders	Balance of Loans		
	Long term	Short term	Total
Mizuho Bank, Ltd.	40	341	381
Sumitomo Mitsui Banking Corporation	90	124	214
Development Bank of Japan Inc.	163	30	194
Sumitomo Mitsui Trust Bank, Ltd.	150	33	183
Bank of Tokyo-Mitsubishi UFJ, Ltd.	25	99	124

**(14) Other important issues concerning the current situation of corporate groups**

Not applicable.

## 2. Status of Shares (as of March 31, 2016)

- (1) **Total number of shares authorized to be issued** 3,360,000,000 shares
- (2) **Total number of shares issued** 1,670,805,320 shares  
(including 228,992 shares of treasury stock)
- (3) **Number of shareholders** 132,729 persons
- (4) **Major shareholders (top 10)**

Shareholder name	Shareholders' investment in the Company	
	Number of shares held	Shareholding ratio
	thousand shares	%
The Master Trust Bank of Japan, Ltd. (Trust Account)	74,608	4.4
Mizuho Bank, Ltd.	59,207	3.5
Nippon Life Insurance Company	57,516	3.4
JP Morgan Chase Bank 380055	57,474	3.4
JFE Steel Corporation	56,174	3.3
Japan Trustee Services Bank, Ltd. (Trust Account)	54,203	3.2
Kawasaki Heavy Industries, Ltd. Kyoeikai	33,996	2.0
Sompo Japan Nipponkoa Insurance Inc.	30,577	1.8
Japan Trustee Services Bank, Ltd. (Trust Account 9)	30,410	1.8
Tokio Marine & Nichido Fire Insurance Co., Ltd.	27,838	1.6

(Note) The shareholding ratio is calculated after subtracting treasury stock (228,992 shares).

## 3. Company Share Options

- (1) **Share options held by company officers at the end of the fiscal year under review**  
Not applicable.
- (2) **Share options delivered to employees, etc. during the fiscal year under review**  
Not applicable.
- (3) **Other important matters concerning share options, etc.**  
Not applicable.

## 4. Company Officers

### (1) Directors and Corporate Auditors (As of March 31, 2016)

Position	Name	Areas of Responsibility within the Company and other significant concurrent positions
* President	Shigeru Murayama	President (representative director), Commercial Airplane Company, Chairman of The Shipbuilders' Association of Japan
* Senior Executive Vice President	Joji Iki	Assistant to the President, in charge of Technology, Sales and Procurement department, in charge of Ship & Offshore Structure Company
* Senior Vice President	Eiji Inoue	President, Plant & Infrastructure Company
* Senior Vice President	Yoshinori Kanehana	President, Rolling Stock Company
* Senior Vice President	Munenori Ishikawa	President, Aerospace Company
* Senior Vice President	Kazuo Hida	President, Precision Machinery Company
* Senior Vice President	Kenji Tomida	President, Motorcycle & Engine Company
* Senior Vice President	Toshiyuki Kuyama	President, Gas Turbine & Machinery Company
Senior Vice President	Kazuo Ota	General Manager, Corporate Planning Division, in charge of Finance & Accounting and Personnel & Labor Administration Department
Director	Akio Murakami	Director, ENSEADA INDUSTRIA NAVAL S.A.
Director (Outside)	Yoshihiko Morita	Outside Corporate Auditor, TOKYO GAS Co., Ltd.
Director (Outside)	Hideki Fukuda	Outside Corporate Auditor, The Senshu Ikeda Bank, Ltd.
Full-Time Corporate Auditor	Yuji Murakami	
Full-Time Corporate Auditor	Takafumi Shibahara	
Corporate Auditor (Outside)	Nobuyuki Fujikake	Attorney at law
Corporate Auditor (Outside)	Takashi Torizumi	

(Notes) 1. \* means a Representative Director.

- Directors Yoshihiko Morita and Hideki Fukuda and Corporate Auditors Nobuyuki Fujikake and Takashi Torizumi are Independent Officers stipulated by the Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc.
- Mr. Toshikazu Hayashi, formerly Senior Vice President of KHI, has been appointed as Outside Corporate Auditor of Kawasaki Kisen Kaisha, Ltd. ("Kawasaki Kisen"), to which Mr. Takashi Torizumi belonged. Kawasaki Kisen owns a total of 1.03% of the outstanding shares in KHI. Meanwhile, KHI owns a total of 3.50% of the voting rights of the outstanding shares in Kawasaki Kisen, which are held by Trust & Custody Services Bank, Ltd. (Kawasaki Heavy Industries, Ltd. retirement benefit trust account re-entrusted by Mizuho Trust and Banking Co., Ltd.). However, Kawasaki Kisen is not a company of KHI Group. In addition, although Kawasaki Kisen is a business partner of KHI mainly in ship-related transactions, the annual average transactions between the Kawasaki Kisen Group and KHI Group for the most recent five fiscal years account for less than 2% of the total annual average sales each for the Kawasaki Kisen Group and KHI Group over the corresponding period. Consequently, we have determined that there is no issue as regards to the independence of Mr. Takashi Torizumi and he is therefore suitable as an independent officer.
- Kyohei Matsuoka, Hiroshi Takata, Minoru Makimura, Shigehiko Kiyama, Directors, and Michio Oka, Corporate Auditor, resigned during the relevant business year with the conclusion of the 192nd Ordinary General Meeting of Shareholders.
- As of April 1, 2016, the Director positions have changed:  
Eiji Inoue, formerly Senior Vice President (Representative Director), has become Director,

and Yoshinori Kanehana and Munenori Ishikawa, formerly Senior Vice President (Representative Director), have become Senior Executive Vice President (Representative Director).

6. Yuji Murakami, Corporate Auditor, who has many years of experience with administration and accounting operations at our company, has substantial knowledge about finance and accounting matters.

**(2) Executive Officers (as of April 1, 2016)**

Position	Name	Areas of Responsibility within the Company
President	Shigeru Murayama	
Senior Executive Vice President	Joji Iki	Assistant to the President, in charge of Technology and Sales Department, in charge of Ship & Offshore Structure Company
Senior Executive Vice President	Munenori Ishikawa	Assistant to the President, in charge of Production and Procurement Department, in charge of Aerospace Company
Senior Executive Vice President	Yoshinori Kanehana	Assistant to the President
Senior Vice President	Kazuo Hida	President, Precision Machinery Company
Senior Vice President	Kenji Tomida	President, Motorcycle & Engine Company
Senior Vice President	Toshiyuki Kuyama	President, Gas Turbine & Machinery Company
Senior Vice President	Kazuo Ota	General Manager, Corporate Planning Division, in charge of Finance & Accounting and Personnel & Labor Administration Department
Managing Executive Officer	Ikuhiro Narimatsu	In charge of CSR Division, Legal Division and General Administration Department, and in charge of outside activities for Kansai region
Managing Executive Officer	Koji Kadota	General Manager, Corporate Technology Division
Managing Executive Officer	Yoshinori Mochida	President, Ship & Offshore Structure Company
Managing Executive Officer	Makoto Ogawara	President, Rolling Stock Company
Managing Executive Officer	Sukeyuki Namiki	President, Aerospace Company
Managing Executive Officer	Yasuhiko Hashimoto	In charge of promoting automation, General Manager, Robot Division, Precision Machinery Company
Managing Executive Officer	Tatsuya Watanabe	President, Plant & Infrastructure Company
Executive Officer	Hiroji Iwasaki	General Manager, Business Planning & Control Division, Rolling Stock Company
Executive Officer	Takeshi Ohata	General Manager, Machinery Division, Gas Turbine & Machinery Company
Executive Officer	Takeshi Asano	General Manager, Marketing & Sales Division and Manager, Sales Department 2, Motorcycle & Engine Company
Executive Officer	Toshiyuki Mimura	General Manager, Planning & Control Division, Plant & Infrastructure Company
Executive Officer	Akio Nekoshima	General Manager, Marketing Division
Executive Officer	Katsuhisa Yamada	General Manager, Gas Turbine Division, Gas Turbine & Machinery Company
Executive Officer	Kenichi Fukushima	General Manager, Personnel & Labor Administration Division
Executive Officer	Hisashi Yamaji	General Manager, Planning & Control Division, Ship & Offshore Structure Company

Position	Name	Areas of Responsibility within the Company
Executive Officer	Katsuya Yamamoto	General Manager, Planning & Control Division, Precision Machinery Company
Executive Officer	Eiichi Harada	Deputy General Manager, Corporate Technology Division and Hydrogen Project Development Center
Executive Officer	Kazutoshi Honkawa	Vice President, Aerospace Company and General Manager, Planning & Control Division
Executive Officer	Yuji Horiuchi	General Manager, Technology Division and staff officer to Corporate Planning Division, Motorcycle & Engine Company
Executive Officer	Keiji Matsumura	Deputy General Manager, Marketing Division
Executive Officer	Yoshihiro Uetake	General Manager, Manufacturing Division, Aerospace Company
Executive Officer	Ichiro Kono	Vice President, Ship & Offshore Structure Company
Executive Officer	Akihisa Yamamoto	In charge of technology department, Plant & Infrastructure Company
Executive Officer	Akira Matsufuji	Vice President, Rolling Stock Company
Executive Officer	Hiroshi Nakatani	Deputy General Manager, Corporate Technology Division and General Manager, Technical Institute

### (3) Compensation to Directors and Corporate Auditors

Directors 16 persons	¥663,348 thousand
Corporate Auditors 5 persons	¥89,280 thousand
Total 21 persons	¥752,628 thousand (of which ¥39,480 thousand to five Outside Directors/Corporate Auditors)

(Note) The maximum amount of remuneration for the 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 remuneration for the Corporate Auditors is ¥8 million per month (which was resolved at the 170th Ordinary General Meeting of Shareholders held on June 29, 1993).

### (4) Outside Officers

#### (i) Concurrent Director positions at other companies and the relationship between our company and said companies

Not applicable.

#### (ii) Concurrent positions held as Outside Officer at other companies and the relationship between our company and said companies

Director Yoshihiko Morita concurrently holds a position as Outside Corporate Auditor of TOKYO GAS Co., Ltd. Our company does not have any important dealing or other special relationship with the said company.

Director Hideki Fukuda concurrently holds a position as Outside Corporate Auditor of The Senshu Ikeda Bank, Ltd. Our company does not have any important dealing or other special relationship with the said company.

#### (iii) Family relationships with managing officers or executive officers, of the Company or of specific related business operators of the Company

Not applicable.

#### (iv) Main activities during the business year

##### Attendance and comments at Board of Directors Meetings and Board of Corporate Auditors meetings

Director Yoshihiko Morita attended all of the 16 Board of Directors Meetings held during the business year, and made comments based on his substantial overseas experience and knowledge as a specialist, acquired in the Japan Bank for International Cooperation and other institutions.



Director Hideki Fukuda attended 13 of 14 Board of Directors Meetings held following his appointment as Director on June 25, 2015, and mainly made comments based on his substantial experience in the management of a university corporation and his extensive knowledge and experience in the manufacturing industry.

Corporate Auditor Nobuyuki Fujikake attended all of the 16 Board of Directors Meetings, and all of the 17 Board of Corporate Auditors meetings held during the business year, and mainly made comments based on his expert standpoint as an attorney at law.

Corporate Auditor Takashi Torizumi attended all of the 14 Board of Directors Meetings, and all of the 13 Board of Corporate Auditors Meetings held following his appointment as Corporate Auditor on June 25, 2015. He mainly made comments based on his experience as a corporate manager.

**(v) Overview of provisions in contracts for limitation of liability**

The Company has concluded contracts for limitation of liability with Directors Yoshihiko Morita and Hideki Fukuda and Corporate Auditors Nobuyuki Fujikake and Takashi Torizumi, pursuant to the provisions of Article 427 Paragraph 1 of the Companies Act. The liability under said contract shall be limited to either an amount of ¥10 million, or an amount specified by law, whichever is higher.

## **5. Accounting Auditor**

**(1) Accounting Auditor's Name**

KPMG AZSA LLC

**(2) Accounting Auditors' Compensation, etc., for the fiscal year under review**

**(i) Compensation, etc. as an accounting auditor for the fiscal year under review**

¥180,300 thousand

**(ii) Cash and Other Profits Payable by the Company or its Subsidiaries to the Accounting Auditors**

¥226,380 thousand

(Notes) 1. The Board of Corporate Auditors verifies the reasonableness of audit plans, audit performance and progress, and estimate and calculation of compensation regarding its Accounting Auditor in accordance with the "Practical Guidelines for Cooperation with Accounting Auditors" issued by Japan Audit & Supervisory Board Members Association. Following such verification, the Board of Corporate Auditors determines whether it agrees to the amount of compensation and other related costs payable to the Accounting Auditor.

2. Under the audit agreement between the Company and its Accounting Auditor, compensation for audits pursuant to the Companies Act and audits pursuant to the Financial Instruments and Exchange Act are not separated, and they cannot be separated in a practical way. Consequently, the above amounts reflect total compensation.

3. Of the Company's material subsidiaries, some overseas subsidiaries have been audited by certified public accountants or audit corporations (including those who possess equivalent qualifications in foreign countries) other than the Company's Accounting Auditor.

**(3) Details of Non-audit Services**

Procedures relating to the confirmation of balances of certain accounts submitted to the authorities concerned to proceed liquidation of receivables and so forth.

**(4) Policy Regarding Determination of Termination or Nonrenewal of Appointment of Accounting Auditors**

The Board of Corporate Auditors determines matters related to the termination or nonrenewal of appointment of Accounting Auditors by fully taking into consideration the independence ordered by laws and standards etc., and reliability and other conditions regarding the performance of duties of Accounting Auditors.

When the Board of Corporate Auditors recognizes that the Accounting Auditor faces a difficulty in executing his/her duties or deems it necessary to do so for other reasons, it shall prepare and

submit a proposal of termination or nonrenewal of appointment of the Accounting Auditor at a General Meeting of Shareholders. Moreover, when it judges that the Accounting Auditor has performed an activity falling under any of the items set forth in Article 340, Paragraph 1 of the Companies Act, it shall consider whether to terminate the Accounting Auditor's appointment based on the facts. As a result, if the termination is deemed to be reasonable, it shall terminate the Accounting Auditor's appointment with the consent of all the Corporate Auditors. In this case, a Corporate Auditor, who is selected by the Board of Corporate Auditors, shall report the said termination and the reason therefor at the first General Meeting of Shareholders convened after the termination.

When the Board of Directors recognizes that the Accounting Auditor faces a difficulty in executing his/her duties or deems it necessary to do so for other reasons, it shall request the Board of Corporate Auditors to add a proposal of termination or nonrenewal of appointment of the Accounting Auditor at a General Meeting of Shareholders. The Board of Corporate Auditors shall then judge the appropriateness of said action and determine the contents of the proposal which is submitted to the General Meeting of Shareholders.

## **6. System to ensure that Directors' execution of duties complies with laws and the Articles of Incorporation, other systems to ensure proper execution of business and overview of operation status of such systems**

At the Board of Directors Meeting of May 24, 2006, the Company made a resolution regarding the basic policies on the establishment of internal control systems pursuant to the Companies Act and confirmed the status of established internal control systems. Henceforth, whenever there are organizational changes or changes to internal regulations, resolutions are made at Board of Directors Meetings with regard to the revision of the basic policies. The details of resolutions regarding the basic policies as of the end of the fiscal year under review and an overview of the operation status of internal control systems for the fiscal year under review are as follows:

### **I. Basic policy for developing a system for internal controls**

The KHI Group develops and maintains systems for internal controls to establish systems to ensure formation of proper organizational structures, development of company rules and regulations, dissemination of information and proper execution of operations. KHI's management philosophy is indicated in the Group Mission (missions and roles which must be carried out) "Kawasaki, working as one for the good of the planet" (Enriching lifestyles and helping safeguard the environment: Global Kawasaki), "Kawasaki Value," the "The Kawasaki Group Management Principles" and "The Kawasaki Group Code of Conduct." KHI strives to improve its internal controls by constantly reviewing them, and in doing so improves the efficiency and lawfulness of company systems which contribute to the Group's sound and sustained growth.

More specifically, a resolution was made at the Board of Directors Meeting with respect to the Company's efforts to establish the following internal control systems and to streamline, maintain, and improve them based on the above basic policies. Going forward, the Company will continue to review the details of the said resolution as necessary, taking into account such factors as changes in the Company's operating environment.

#### **1. Necessary systems to ensure proper execution of business of the Company**

(1) Systems to ensure that execution of duties by the Company's Directors and employees are compliant with laws and the Articles of Incorporation

1) We are thoroughgoing in ensuring compliance with laws and the Articles of Incorporation and other KHI regulations and policies, and bind KHI's officers (directors and corporate auditors are collectively called "Officers") and employees: "put an ethics into practice as business person," "respect individuals and individual rights and prohibit discrimination," "promote protection of the environment," "comply with laws and social rules," and "use proper accounting practices and ensure reliability of financial reports" (hereinafter, "Fundamental Principles of Corporate Ethics") as stipulated in KHI Code of Corporate Ethics.

2) We establish a system to promote measures, with President as the chief executive of internal controls and General Manager of each division as the manager in charge of internal controls, and deliberate and make decisions on policies and measures at the Management

Committee and manage the internal control systems in a unified way. We do so based on the roles and responsibilities given to Officers and employees, in order to ensure the appropriateness of business operations by achieving objectives such as effective and efficient business operations, reliable financial reporting, compliance with laws, and safeguarding of assets.

- 3) We deliberate and make decisions on policies and measures, under the governance of President, for the Company-wide CSR Committee and the CSR Committee for Business Divisions (consisting of Officers and other employees) to comply with the "Fundamental Principles of Corporate Ethics" and to take thoroughgoing compliance initiatives for the KHI Group (which means the corporate group consisting of the Company and its subsidiaries). We continue to improve understanding and awareness of compliance through ongoing education and training activities for various types of legal compliance and also monitor operational status.
  - 4) We work to enhance compliance systems by establishing the internal whistleblower system to report information regarding compliance breaches.
  - 5) Executive Officers who are delegated to execute business operations within an appropriate scope are appointed at Board of Directors Meetings. And by appointing outside directors (independent officers stipulated in the Regulations of the Tokyo Stock Exchange) who are independent from the execution of business operations and are not likely to have any conflict of interest with any general shareholder, the Company enhances the supervisory and monitoring functions of the Board of Directors for overall management. In addition, by appointing outside auditors who are not likely to have any conflict of interest with any general shareholder (independent officers stipulated in the Regulations of the Tokyo Stock Exchange), the Company ensures the objectivity and neutrality of the management monitoring function, and enhances the monitoring function.
  - 6) The Internal Audit Department establishes internal controls over KHI's business audits and financial reporting, and carries out evaluation/assessment and reporting thereof to ensure the execution of duties and the reliability of financial reporting.
- (2) Systems for storage and management of information related to execution of duties by the Company's Directors
- 1) Information pertaining to execution of duties by the Company's Directors (meeting minutes, decision making records and appurtenant materials, account books, account invoices and other information) shall be appropriately stored and managed in accordance with applicable internal regulations. The information shall be made accessible at any time to Officers and employees nominated thereby.
  - 2) Confidential information and personal information shall be appropriately stored and managed in accordance with internal regulations and enforcement thereof shall be ensured through such measures as business audits.
- (3) Systems for management of risk of loss of the Company
- 1) With President as the chief executive of risk management and General Manager of each division as manager in charge of risk management, we grasp the assumed risk in detail, and establish a risk management system, which is designed to avoid or minimize risk or losses caused by such risk.
  - 2) With respect to risks pertaining to management strategies, risk analysis and consideration of countermeasures shall be conducted in advance by the concerned divisions in accordance with applicable internal regulations. Then, deliberations and decision making regarding those risks shall be carried out at Board of Directors Meetings. In particular, we implement risk management individually for major projects that have a significant impact on business operations.
  - 3) As a measure to be taken when a risk becomes evident, we set forth codes of conduct in the event of emergencies, and also appoint persons in charge of crisis management at each place of business to establish the system, which is designed to minimize losses.
  - 4) When a material risk becomes evident, reports are immediately given to President, who is the chief executive of risk management, in accordance with the reporting route specified in advance.
  - 5) In particular, in anticipation of the occurrence of disasters, including large-scale earthquakes and pandemic diseases, we predetermine important operations to which

priority should be given to ensure the continuation or recovery of the operations in order to minimize the impact on KHI's business. We also formulate a business continuity plan to shorten the length of time until recovery.

- (4) Systems to ensure efficient execution of duties by the Company's Directors
  - 1) Based on the KHI Group's role and objectives as articulated in the Kawasaki Group Mission Statement, we share final goals for the future by setting forth a long-term vision for the whole group and each business division.
  - 2) To attain the goals set forth in the long-term vision, we have formulated specific action plans, including the Medium-Term Business Plan and Short-Term Business Plan, and have determined goals for each organization, Officer and employee. Furthermore, by conducting regular reviews of these respective plans and goals, we aim to secure a system that enables more appropriate and efficient execution of business operations.
  - 3) We have stipulated matters such as division of roles and approval authority in internal regulations. We have also appointed Executive Officers based on a resolution passed at Board of Directors Meetings to clarify the Systems for Execution of Business Operations. As a result of establishing these systems, we aim to efficiently execute business operations in each business and function area.
  - 4) We have established the Management Committee, which acts as a deliberative organ to support the Board of Directors Meetings' resolutions and President's decision making, to ensure efficient execution of duties by Board Members through discussions at Management Committees. Furthermore, we hold meetings of Executive Officers Committee, which consists of all Executive Officers, to ensure familiarity and a common understanding of management strategies and plans.
  - 5) According to the in-house company system, each business division makes decisions on its own under delegated authority and responsibility, and executes flexible business operations to adapt to changes in the environment. We have also established the Company Management Committee in each Company, and it is led by the Company President who assumes the ultimate responsibility for execution of duties of company's business operations.

## 2. Necessary systems to ensure proper execution of business of KHI Group Companies

We ensure proper execution of business of the KHI Group through efforts to establish the following systems according to business contents, size, region and significance of each subsidiary and affiliate (hereinafter, "Group Companies").

- (1) Systems to ensure that execution of duties by Directors and employees of Group Companies are compliant with laws and the Articles of Incorporation
  - 1) The Company governs internal controls of Group Companies from the perspective of the parent company and establishes a system to ensure the appropriateness of business operations. It does so by achieving objectives regarding matters such as the effectiveness and efficiency of business operations, reliability of financial reporting, compliance with laws and safeguarding of assets as a whole group.
  - 2) The Company establishes a system to have the Company-wide CSR Committee deliberate strategies and policies and measures concerning the "Fundamental Principles of Corporate Ethics" and compliance as the entire KHI Group, and check operational status.
  - 3) The Company implements controls as shareholders of Group Companies through the execution of voting rights at the General Meeting of Shareholders, and also carries out management supervision and monitoring over the operation thereof by dispatching non-full-time Directors or non-full-time Corporate Auditors, or both (collectively referred to as "Non-Full-Time Officer"), to Group Companies, on an as-needed basis. In addition, we secure appropriate Group business management systems by establishing a department which presides over subsidiaries' operation.
  - 4) The Auditing Department, which presides over the Group's internal audits, ensures the appropriateness of operations and reliability of financial reports through business audits and assessment of internal controls over financial reporting at Group Companies.
- (2) Systems with regard to reporting to the Company on execution of duties by Directors and employees of Group Companies

- 1) The Company receives reports regarding the status of execution of duties by Directors of Group Companies through a Non-Full-Time Officer who is dispatched thereto.
  - 2) Group Companies regularly report on the status of business operation as a management report and have discussions in advance with the relevant department of the Company with regard to important matters subject to decision-making on corporate management in accordance with applicable internal regulations.
- (3) Regulations for management of risk of loss of Group Companies and other systems
- 1) The Company promotes group-wide risk management, striving to prevent or minimize risk or losses caused by such risk.
  - 2) As a measure to be taken when a risk becomes evident at Group Companies, the Company instructs Group Companies to formulate crisis handling measures and policies to establish the crisis management system.
  - 3) When a material risk becomes evident, reports are immediately given to the Company, in accordance with the reporting route specified in advance.
- (4) Systems to ensure efficient execution of duties by Directors of Group Companies
- 1) With respect to the management at each Group Company, while respecting the autonomy thereof, the Company establishes a system in which execution of duties is ensured in a fair and efficient manner by sharing the basic philosophy and vision indicated in the Kawasaki Group Mission Statement, long-term vision, the Medium-Term Business Plan, and so forth, and clarifying group-wide final goals.
  - 2) The Company instructs Group Companies to establish Approval Regulations to ensure efficient execution of duties.
3. Necessary matters for the Company's Corporate Auditors to execute duties
- (1) Policies regarding employees in cases where the Company's Corporate Auditor requests appointment of employees to assist with his/her duties  
We allocate the required staff according to the Corporate Auditors' requests.
  - (2) Policies regarding independence of employees who assist with the duties of the Company's Corporate Auditors from the Company's Directors and matters regarding ensuring efficiency in directions given to employees who assist with the duties of the Company's Corporate Auditors  
The employee who assists with the duties of the Corporate Auditor shall follow the Corporate Auditor's directions and orders. For personal transfer, personnel performance evaluation and disciplinary punishment, prior consent of the Board of Corporate Auditors is required.
  - (3) Systems for the Company's Directors and employees to report to the Company's Corporate Auditors and systems for those who receive reports from Directors and employees of Group Companies to give reports to the Company's Corporate Auditors
    - 1) The Company's Corporate Auditors attend Board of Directors Meetings, the Management Committee, Executive Officers Committee and company-wide meetings, including Company-wide CSR Committees and Company-wide Risk Management Committees. At these meetings, the Company's Directors and employees shall provide the Company's Board of Corporate Auditors with reports concerning important matters about group management and business operations, including matters regarding compliance, risk management and internal controls, and the status of execution of duties.
    - 2) The Company's Directors and employees shall immediately report to the Company's Board of Corporate Auditors when discovering that there is a risk of the KHI Group suffering significant damage.
    - 3) Directors and employees of Group Companies shall immediately report to the relevant department of the Company when discovering that there is a risk of the KHI Group suffering significant damage. Upon receiving reports, the said department shall report the details to the Company's Board of Corporate Auditors.
    - 4) The Company's employees shall, in accordance with applicable internal regulations, report to the Company's Board of Corporate Auditors regarding the execution of business operations of the KHI Group by circulation of internal memos.
    - 5) The Company's Auditing Department and Accounting Auditors from time to time report to, and exchange information with the Company's Board of Corporate Auditors regarding the status of audits on the KHI Group.

(4) System to ensure that those who give reports described in the preceding Item (3) will not be treated disadvantageously for reason of having made such report

The Company stipulates a provision regarding the prohibition of unfair and unfavorable treatment of those who give reports described in the preceding Item (3). The Company also instructs Group Companies to stipulate a provision of the same contents in their company regulations.

(5) Policies on prepaid expenses for the execution of the duties of the Company's Corporate Auditors, or expenses for procedures for repayment and the execution of other relevant duties, or on debt processing

When the Company's Corporate Auditors request the Company to make prepayment on execution of duties pursuant to the Companies Act, the Company shall promptly proceed with payment of appropriate expenses and debt settlement, except where the expense or debt whose payment is requested is deemed unnecessary to execute their duties.

(6) Other systems to ensure the effective conduct of audits by the Company's Corporate Auditors

1) The Company's Directors and Corporate Auditors regularly hold meetings to ensure mutual understanding, and the Company's Corporate Auditors also attend important meetings such as Board of Directors Meeting and Management Committee meeting, and directly express their opinion regarding execution of duties by the Company's Directors.

2) The Company's Directors and Group Companies' Directors promote collaboration between the Company's Corporate Auditors, the Company's Auditing Department and Group Companies' Corporate Auditors, and cooperate to establish systems which enable greater effectiveness in the conduct of audits.

3) The Company and Group Companies obtain the consent of the Board of Corporate Auditors or approval of the Board of Corporate Auditors with regard to the election of Corporate Auditors and their remuneration, and so forth, in accordance with laws and the Articles of Incorporation.

4) Of Corporate Auditors appointed by the Company, one or more shall have substantial knowledge about finance and accounting.

#### 4. System regarding expulsion of anti-social forces

Because our Group resolutely refuses to comply with any unreasonable demands from anti-social forces, and works to cut off all relations with anti-social forces, we distribute the "Compliance Guidebook" to all Officers and employees. The Guidebook explains the prohibition of "giving favors to anti-social forces" by listing specific examples of prohibited acts. We work to ensure that Officers and employees are thoroughly familiar with the matters contained in the Compliance Guidebook by conducting training, and so forth, and do not merely distribute the guidebook.

Furthermore, with respect to internal systems, we have established a department in the headquarters which is responsible for overseeing handling of expulsion of anti-social forces, established close cooperation with external specialized organizations such as the police force, and in collaboration with the concerned departments, we systematically handle unreasonable requests from anti-social forces.

## II. Overview of the operation status of internal control systems

An overview of the operation status of internal control systems for the fiscal year under review is as follows. The said operating status is assessed at the end of every fiscal period and the assessment results are reported to the Board of Directors Meeting.

### 1. Efforts on internal control systems in general

1) We set forth the "Fundamental Principles of Corporate Ethics" in KHI Code of Corporate Ethics, distribute guidebooks that describe the contents of the principles, and conduct various training programs to ensure that the said principles are thoroughly disseminated.

2) The Company's Audit Department carries out evaluation/assessment of internal controls over business audits and financial reporting for the KHI Group to ensure effectiveness and efficiency of business operations and reliability of financial reporting.

## 2. Efforts on compliance

- 1) We establish the Company-wide CSR Committee, which is responsible for deliberating and making decisions on policies and measures to promote compliance at a group-wide level and monitoring the compliance status thereof (performed three times during the fiscal period under review). The said committee also plays the leading role in the establishment of related internal regulations, preparation and distribution of the "Compliance Guidebook" (hereinafter, the "Guidebook"), provision of various training programs, and operation of the whistle-blowing system. In addition, we establish the CSR Committee for Business Divisions and therewith implement appropriate measures for each business environment through compliance activities performed by each business division.
- 2) In an effort to eliminate anti-social forces, we distribute the Guidebook to all Officers and employees. The Guidebook lists specific examples of prohibited acts. We work to ensure that Officers and employees are thoroughly familiar with the contents thereof. We also offer training and education to ensure thorough dissemination.

## 3. Efforts on risk management

- 1) We build a risk management system on a company-wide level based on the Risk Management Regulations. We also prepare a manual to explain the procedures of specific risk management practices and exhaustively grasp the assumed risks on a scale common to the Group to prevent and minimize risk or losses caused by such risk. In addition, we hold Risk Management Committee meetings on an as-needed basis at both the company-wide level and divisional level to report and deliberate on determination of material risks, designation of risks to be addressed, results of risk monitoring and other important matters.
- 2) For major projects that have a significant impact on business operations, a head office division conducts risk assessment and considers risk control measures before accepting orders. Furthermore, upon completion of projects, the said division assesses profitability and conducts causal analysis if the profitability of projects significantly worsens.  
In order to respond to drastic changes in the external environment more speedily and properly, we will strive to further strengthen the risk management system by setting "enhancement of thorough risk management" as one of the priority measures of "MTBP2016."
- 3) In anticipation of the occurrence of large-scale disasters and pandemic diseases, we proactively formulate a business continuity plan for each business division, and conduct annual assessment and review thereof. We also establish and build a system to minimize losses in case we suffer damage in disasters.  
During the fiscal period under review, we reviewed estimates of damage by disasters in major areas in Japan, performed disaster prevention drills and BCP drills, and conducted safety confirmation drills for all the employees.

## 4. Efforts to ensure efficient execution of duties

- 1) Based on the company-wide policies and strategies determined with reference to the contents of the Kawasaki Group Mission Statement, which stipulates the KHI Group's role and objectives, we determine the ideal way to be in each business area as well as the medium-term business plan and the short-term business plan to clearly show our final goals. We also strive to share objectives by holding a brief meeting in each business division.
- 2) We articulate division of roles and approval authority to enhance efficiency of execution of duties in each business and function area. We also give various types of guidance to Group Companies to enhance efficiency of execution of duties.
- 3) We strive to form a common understanding among Directors through thorough deliberation of important management policies, management strategies and management issues at Management Committee meetings (held 30 times during the fiscal period under review) to ensure that Directors efficiently execute duties.

## 5. Efforts on management of Group Companies

- 1) We exert group-wide efforts to work on compliance and risk management and successively develop these systems to overseas Group Companies. In order to ensure further dissemination and familiarization, we will establish and operate the systems according to business contents, size, region and significance of each Group Company.

- 2) We carry out management supervision and monitoring over the operation of Group Companies by dispatching Non-Full-Time Officers to Group Companies to attend meetings of the Board of Directors thereof. We regularly receive reports on the status of business operation from Group Companies and have discussions in advance with the relevant department of the Company with regard to important matters subject to decision-making on corporate management in accordance with applicable internal regulations.
6. Efforts on ensuring appropriateness of audits performed by Corporate Auditors
- 1) We assign two employees who are dedicated to assist with the duties of the Company's Corporate Auditor. For personnel transfer, personnel performance evaluation and disciplinary punishment of these employees, we obtain prior consent of the Board of Corporate Auditors.
  - 2) The Company's Corporate Auditor attends the Company's important meetings. The Company's Directors and employees provide the Company's Board of Corporate Auditors with reports concerning important matters about corporate management and business operations as well as the status of execution of duties through the said meetings, and report to the Company's Board of Corporate Auditors regarding the execution of business operations by circulation of internal memos.
  - 3) We establish regulations that prohibit unfair and unfavorable treatment of those who cooperate with a Corporate Auditor to perform audits and give reports to a Corporate Auditor pursuant to the "Basic Policy for the Establishment of Internal Control System." We also instruct Group Companies to stipulate regulations similar thereto.
  - 4) The Company's Auditing Department and Accounting Auditor regularly hold liaison meetings or discussions with the Company's Corporate Auditor to exchange information and opinions with him/her so as to ensure close communication.  
During the fiscal period under review, we held liaison meetings/discussions four times with the Auditing Department and five times with the Accounting Auditor to communicate with the Company's Corporate Auditor.
  - 5) We establish regulations regarding requests for prepaid expenses incurred for the execution of the duties of the Company's Corporate Auditor, and so forth.

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(Note) Amounts in this Business Report are rounded down to the nearest unit.



## Consolidated Balance Sheet

(As of March 31, 2016)

(Unit: million yen)

Description	Amount	Description	Amount
<b>(Assets)</b>		<b>(Liabilities)</b>	
Current assets	1,017,903	Current liabilities	767,711
Cash on hand and in banks	42,157	Trade payables	233,979
Trade receivables	381,339	Electronically recorded obligations	87,798
Merchandise and finished products	57,092	Short-term debt and current portion of long-term debt	105,891
Work in process	324,915	Current portion of bonds	10,000
Raw materials and supplies	110,956	Current portion of lease obligations	156
Deferred tax assets	27,275	Income taxes payable	10,889
Other current assets	76,743	Deferred tax liabilities	979
Allowance for doubtful receivables	(2,578)	Advances from customers	170,454
		Accrued bonuses	25,138
		Provision for product warranties	12,642
		Provision for losses on construction contracts	7,926
		Other current liabilities	101,854
Fixed assets	602,554		
Net property, plant and equipment	436,557	Long-term liabilities	407,120
Buildings and structures	166,345	Bonds payable	120,000
Machinery and equipment	128,814	Long-term debt, less current portion	160,809
Land	64,237	Lease obligations	1,566
Leased assets	2,192	Deferred tax liabilities	8,439
Construction in progress	17,772	Provision for environmental measures	1,693
Other	57,195	Liabilities for retirement benefits	90,789
Intangible assets	15,475	Asset retirement obligations	650
Investments and other assets	150,521	Other	23,170
Investments in securities	13,781		
Long-term loans	337	Total liabilities	1,174,832
Deferred tax assets	43,842	<b>(Net assets)</b>	
Other investments and other assets	102,462	Shareholders' equity	438,419
Allowance for doubtful receivables	(9,902)	Common stock	104,484
		Capital surplus	54,394
		Retained earnings	279,627
		Treasury stock	(86)
		Accumulated other comprehensive income	(7,051)
		Net unrealized gains on securities, net tax	2,705
		Deferred gains (losses) on hedges	692
		Foreign currency translation adjustments	8,990
		Accumulated adjustment for retirement benefits	(19,439)
		Non-controlling interests	14,257
		Total net assets	445,625
<b>Total assets</b>	<b>1,620,458</b>	<b>Total liabilities and net assets</b>	<b>1,620,458</b>

## Consolidated Statement of Income

(April 1, 2015 - March 31, 2016)

(Unit: million yen)

Description	Amount	
Net sales		1,541,096
Cost of sales		1,253,691
Gross profit		287,405
Selling, general and administrative expenses		191,408
Operating income		95,996
Non-operating income		15,111
Interest income	748	
Dividend income	415	
Equity in income of non-consolidated subsidiaries and affiliates	2,876	
Gain on sales of fixed assets	3,155	
Subsidy income	2,345	
Other non-operating income	5,569	
Non-operating expenses		17,878
Interest expense	3,637	
Foreign exchange losses, net	6,532	
Other non-operating expenses	7,708	
Recurring profit		93,229
Extraordinary income		901
Gain on transfer of business	901	
Extraordinary losses		19,298
Loss on overseas business	19,298	
Income before income taxes		74,832
Income taxes-current	20,153	
Income taxes-deferred	7,000	27,153
Net income		47,678
Net income attributable to non-controlling interests		1,635
Net income attributable to owners of parent		46,043

## Non-consolidated Balance Sheet

(As of March 31, 2016)

(Unit: million yen)

Description	Amount	Description	Amount
<b>(Assets)</b>		<b>(Liabilities)</b>	
Current assets	783,650	Current liabilities	658,362
Cash on hand and in banks	19,215	Notes payable-trade	18,270
Notes receivable-trade	7,227	Electronically recorded obligations	75,971
Accounts receivable-trade	300,995	Accounts payable-trade	187,769
Raw materials and supplies	83,581	Short-term debt	89,149
Work in process	268,972	Current portion of long-term debt	17,421
Advance payments	50,560	Current portion of bonds	10,000
Prepaid expenses	1,423	Notes payable-facilities	584
Deferred tax assets	16,812	Electronically recorded obligations-facilities	7,859
Short-term loans	11,770	Accounts payable-other	15,792
Accounts receivable-other	18,470	Accrued expenses	37,445
Derivatives	3,762	Income taxes payable	5,475
Other current assets	1,402	Advances from customers	142,144
Allowance for doubtful receivables	(544)	Deposits received	13,372
		Accrued bonuses	17,580
		Provision for product warranties	10,003
		Provision for losses on construction contracts	6,479
Fixed assets	517,142	Derivatives liabilities	1,552
Net property, plant and equipment	311,988	Other current liabilities	1,487
Buildings	95,586		
Structures	16,877	Noncurrent liabilities	335,531
Docks and building berths	520	Bonds payable, less current portion	120,000
Machinery and equipment	94,768	Long-term debt, less current portion	160,363
Vessels	190	Lease obligations	1,552
Aircraft	5	Long-term accounts payable-other	17,209
Vehicles	1,751	Provision for environmental measures	1,404
Tools, Furniture and fixtures	51,170	Employees' retirement and severance benefits	34,413
Land	37,305	Asset retirement obligations	552
Leased assets	2,067	Other long-term liabilities	35
Construction in progress	11,745	Total liabilities	993,893
Intangible assets	11,448	Net assets	
Software	8,407	Shareholders' equity	304,308
License production and licensee's execution right	118	Common stock	104,484
Other intangible assets	2,922	Capital surplus	52,210
		Legal capital surplus	52,210
Investments and other assets	193,705	Other capital surplus	0
Investments in securities	11,869	Retained earnings	147,700
Stock of affiliates	99,421	Other retained earnings	147,700
Investments in capital of affiliates	37,034	Provision for special depreciation	162
Long-term loans	9,663	Provision for advanced depreciation of fixed assets	7,674
Deferred tax assets	24,995	Retained earnings brought forward	139,863
Long-term prepaid expenses	1,315	Treasury stock	(86)
Long-term derivatives	1,874	Valuation and translation adjustments	2,590
Other investments and other assets	18,530	Net unrealized gains on securities, net tax	1,957
Allowance for doubtful receivables	(10,998)	Deferred gains (losses) on hedges	633
		Total net assets	306,899
Total assets	1,300,792	Total liabilities and net assets	1,300,792

## Non-consolidated Statement of Income

(April 1, 2015 - March 31, 2016)

(Unit: million yen)

Description	Amount	
Net sales		1,161,065
Cost of sales		1,003,694
Gross profit		157,370
Selling, general and administrative expenses		100,550
Operating income		56,819
Non-operating income		27,093
Interest income	446	
Dividend income	21,583	
Subsidy income	2,345	
Other non-operating income	2,718	
Non-operating expenses		15,396
Interest expense	1,533	
Interest on bonds	1,076	
Foreign exchange losses	5,850	
Loss on disposal of fixed assets	1,373	
Other non-operating expenses	5,563	
Recurring profit		68,517
Extraordinary income		1,109
Gain on transfer of shares of subsidiaries	1,109	
Extraordinary losses		25,220
Loss on overseas business	25,220	
Income before income taxes		44,406
Income taxes-current	8,012	
Income taxes-deferred	5,597	13,609
Net income		30,796

## **Audit Report**

(English Translation)

Regarding the performance of duties by the Directors for the 193rd fiscal year from April 1, 2015 to March 31, 2016, the Board of Corporate Auditors hereby submits its audit report, which has been prepared upon careful consideration based on the audit report prepared by each Corporate Auditor.

### 1. Summary of Auditing Methods by the Corporate Auditors and Board of Corporate Auditors

(1) The Board of Corporate Auditors established auditing policies, allocation of duties, and other relevant matters, and received reports from each Corporate Auditor regarding his audits and results thereof, as well as received reports from the Directors, other relevant personnel, and the Accounting Auditor regarding performance of their duties, and sought explanations as necessary.

(2) Each Corporate Auditor complied with the auditing standards of the Corporate Auditors established by the Board of Corporate Auditors, followed the auditing policies, allocation of duties, and other relevant matters, communicated with the Directors, internal control development division, Auditing Department (internal audit dept.) and other employees, and any other relevant personnel, as well as making efforts to prepare the environment for information collection and audit, and conducted an audit by the following methods.

- i) Participated in meetings of the Board of Directors and other important meetings, received reports from the Directors, Executive Officers, employees, and other relevant personnel regarding performance of their duties, sought explanations as necessary, examined important authorized documents and associated information, and studied the operations and financial positions at the head office and principal business offices.  
As for subsidiaries, each Corporate Auditor communicated and exchanged information with Directors, Corporate Auditors, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary.
- ii) Received reports from the Directors, employees, and other relevant personnel regarding the structure and operation status of the system for ensuring that the performance of duties by the Directors, described in the Business Report, conforms to the related laws and regulations and Articles of Incorporation, and the system prepared based on the contents of the resolutions of the Board of Directors and such resolutions regarding preparation of the system stipulated in Article 100, Paragraphs 1 and 3, of the Ordinance for Enforcement of the Companies Act (internal control system), which system is necessary for ensuring that a joint stock corporation's business is proper, and sought explanations as necessary.  
Furthermore, with respect to internal controls on financial reporting under the Financial Instruments and Exchange Act, each Corporate Auditor received reports from the Directors and other relevant personnel as well as KPMG AZSA LLC regarding the assessment of the internal controls concerned and the status of auditing thereof, and sought explanations as necessary.
- iii) Audited whether the Accounting Auditor maintained their independence and implemented appropriate audits, as well as received reports from the Accounting Auditor regarding the performance of their duties and sought explanations as necessary. Also, each Corporate Auditor received notice from the Accounting Auditor that "the system for ensuring that duties are performed properly" (matters set forth in each item of Article 131 of the Ordinance for Corporate Accounting) has been prepared in accordance with the Product Quality Management Standards Regarding Audits (issued by the Business Accounting Deliberation Council (BACD) on October 28, 2005) and other relevant standards, and sought explanations as necessary.

Based on the above methods, we examined the Business Report and other relevant documents, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of

income, non-consolidated statement of changes in net assets, and non-consolidated notes) and their annexed specifications, as well as consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets, and consolidated notes) related to the relevant fiscal year.

## 2. Results of Audit

### (1) Results of Audit of Business Report and Other Relevant Documents

- (i) In our opinion, the business report and the supplementary schedules are in accordance with the related laws and regulations and Articles of Incorporation, and fairly represent the Company's condition.
- (ii) We have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation, related to performance of duties by the Directors.
- (iii) In our opinion, the contents of the resolutions of the Board of Directors related to the internal controls system are fair and reasonable. In addition, we have found no matters on which to remark regarding the information contained in this Business Report and the performance of duties by the Directors related to such internal controls system. In addition, with respect to internal controls over financial reporting, at the time of preparation of this audit report, we received report from the directors and other relevant personnel that states that the said controls were effective, and also received report from KPMG AZSA LLC that states that no material weakness in the said controls.

### (2) Results of Audit of Non-consolidated Financial Statements and Supplementary Schedules

In our opinion, the methods and results employed and rendered by KPMG AZSA LLC are fair and reasonable.

### (3) Results of Audit of Consolidated Financial Statements

In our opinion, the methods and results employed and rendered by KPMG AZSA LLC are fair and reasonable.

May 20, 2016

Board of Corporate Auditors, Kawasaki Heavy Industries, Ltd.

Full-Time Corporate Auditor	Yuji Murakami
Full-Time Corporate Auditor	Takafumi Shibahara
Outside Corporate Auditor	Nobuyuki Fujikake
Outside Corporate Auditor	Takashi Torizumi