Kawasaki Heavy Industries, Ltd. Kawasaki Report 2015

Selected as components of the SRI(Socially Responsible Investment) Indexes listed below

Kawasaki has been selected for the Dow Jones Sustainability Asia Pacific Index (DJSI Asia Pacific), the Asia Pacific version of the Dow Jones Sustainability Indexes (DJSI), which is one of the world's premier indices for Sustainability Investing (SI) since September 2013.

Our company is unchanged at a constituent of The MSCI Global Sustainability Index series in 2015, and it has been selected as a member of the MSCI World ESG Index and MSCI ACWI ESG Index of MSCI's flagship sustainability indexes.

Kawasaki has been included since 2011 in the Morningstar Socially Responsible Investment Index (MS-SRI).

Consideration for the environment

This report was created using environment-friendly waterless printing that does not producetoxic fluids. We selected vegetable oil ink and used FSC®-certified paper produced from well-managed forests to create this report.

Kawasaki Heavy Industries, Ltd.

Printed in Japan
August 2015

This Report can be accessed from the QR code above.

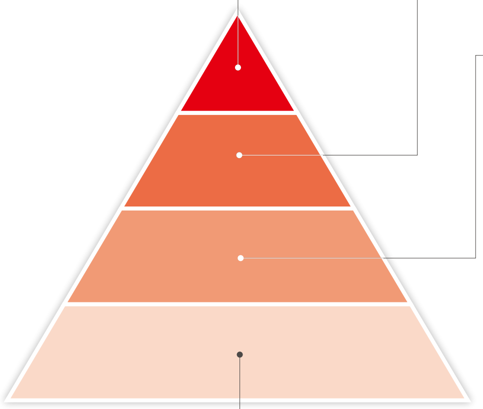
Kawasaki
Powering your potential

Kawasaki Report 2015

Year ended March 31, 2015

Kawasaki Group Mission Statement

In 2007, the Kawasaki Group established the Kawasaki Group Mission Statement to orient the group as a whole. It incorporates the Kawasaki Group's social mission for the 21st century, commonly shared values to increase Kawasaki brand value, core principles to guide business activities, and actions regularly expected of each individual employee.



Group Mission

Kawasaki, working as one for the good of the planet

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

Kawasaki Value

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

The Kawasaki Group Management Principles

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

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

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

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

The Kawasaki Group Code of Conduct

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

Editorial Policy

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

For two years the Kawasaki Report was published in three formats—a booklet version, a full report (PDF version), and a detailed environmental report (PDF version). From 2015, the Kawasaki Report is being published in two formats—a booklet version and a detailed environmental report (PDF version). Certain information that was previously published in the full report is now on our website, in our efforts to report the latest information.

1. Booklet version (which you are now reading):
A digest version presenting key information in a condensed form.

2. Detailed environmental report:
A PDF version of the report focusing exclusively on environment-related content.

3. Website:
Online content supplementing the booklet version with more detailed information, mainly on CSR matters.

Publication Formats and Contents

Formats \ Contents	Key information	Detailed information: Finance	Detailed information: CSR	Detailed information: Environment
The booklet version (Japanese)	●			
The booklet version (English)	●	●		
The detailed environmental report				●
Website			●	●

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

Contents

Period
The report covers fiscal 2015 (April 1, 2014 to March 31, 2015), but some contents refers to activities during fiscal 2016.

Scope
The report covers Kawasaki Heavy Industries, Ltd., and its 97 consolidated subsidiaries (49 in Japan and 48 overseas) and 17 equity-method nonconsolidated subsidiaries. Some data, however, refer to the parent company alone.

Guidelines
In preparing the report, the editorial office referred to the Environmental Reporting Guidelines (2012 Edition) issued by the Ministry of the Environment and the Sustainability Reporting Guidelines (G4 ver.) issued by the Global Reporting Initiative (GRI)
* This report follows the reporting principles of the GRI G4 Sustainability Reporting Guidelines; however, our reporting is not yet in accordance with the GRI G4 Guidelines.

Frequency of Publication Annually, in general

Previous number Issued in September 2014
Following number Expected to be issued in August 2016

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

Energy Design for the New Future

Kawasaki Hydrogen Road

Kawasaki has its sights set on the future– a new future where hydrogen fuels the world's energy needs.

Currently, we depend largely on fossil fuels, such as petroleum or natural gas, for energy. But this is contributing to the serious environmental problem of global warming, and depletion of natural resources remains an issue. "Hydrogen Energy" offers a solution for securing a stable energy supply and the preservation of the global environment. Hydrogen has been referred to as the "Ultimate Clean Energy." It can be used like petroleum as fuel to power automobiles, and like natural gas to generate electricity. But unlike fossil fuels, hydrogen does not emit carbon dioxide when combusted to produce energy.

Hydrogen. It can be produced from various substances using fossil fuels or green energy, and it can be transported and stored. The infrastructure needed to utilize hydrogen as a viable energy source is being established worldwide.

Hydrogen–Production, Transportation & Storage, and Utilization.
Our technologies are highly compatible with each of these processes. These technologies will link hydrogen production sites to energy consumers and in doing so forge a new way called "Hydrogen Road."

Hydrogen Production

Producing clean, low-cost hydrogen from various resources.

Hydrogen Transportation & Storage

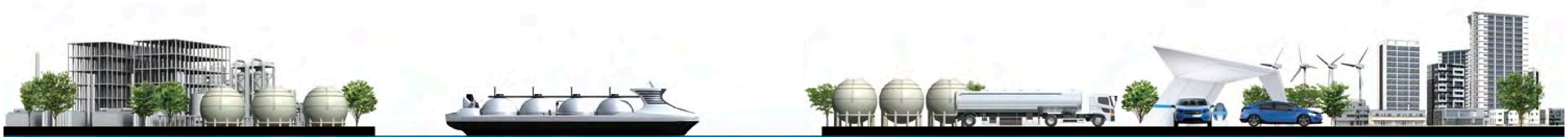
Transportation/storage technology to help disseminate hydrogen energy.

Hydrogen Use

Sustainable future realised by hydrogen energy.

Kawasaki Hydrogen Road

Kawasaki Technology Paving the Way for the Hydrogen Road.



Hydrogen Production ▶ Hydrogen Transportation & Storage ▶ Hydrogen Use

Brown Coal Project in Australia

Kawasaki is involved in a project to produce hydrogen using brown coal from Australia's Latrobe Valley. Australian brown coal is of interest to us because it presents a low cost alternative and ready availability, since it is not traded internationally due to difficulties at the transportation level, and also because local reserves could fuel Japan's total power generation needs for 240 years.* The goal is for hydrogen production without the release of CO_2 by connecting to CarbonNet—a CO_2 storage infrastructure promoted by the Australian government—so that CO_2 generated in turning brown coal into hydrogen does not enter the atmosphere.

* Calculated from government materials on future recoverable reserves in the Australian state of Victoria

Cryogenic Technology Key to Liquid Hydrogen

When hydrogen is cryogenically cooled to -253˚C, it changes from a gas to a liquid and shrinks to 1/800 of its gaseous form, which leads to a dramatic improvement in storage and transportation efficiency. Kawasaki successfully developed Japan's first industrial-use hydrogen liquefaction system using entirely home-grown, proprietary technology. This was made possible through the application of cryogenic materials handling technology and technical turbine expertise accumulated through the development of high-speed rotating machines.

Rocket Fuel Technology

Kawasaki has technologies and proven results built on more than 25 years of experience in supporting domestic production of rocket fuel. Specifically, the Company has cultivated ultralow-temperature—-253˚C—liquefied hydrogen transportation and storage technology through its involvement in the development and construction of liquefied hydrogen storage tanks at the Japan Aerospace Exploration Agency (JAXA) Tanegashima Space Center as well as liquefied hydrogen supply facilities and containers for on-land transport of liquefied hydrogen.

Power Generation Technology Fueled by Hydrogen

In its efforts to utilize hydrogen technology, Kawasaki is applying its expertise to the development of gas turbine power generation facilities that use hydrogen as the primary source of fuel. The Company is working on combustors capable of handling any rate of hydrogen, from 0% to 100%, in place of natural gas—the conventional fuel—and is pushing toward the realization of original hydrogen gas turbines through a cycle of the latest combustion simulations, collaboration with research institutes in Japan and overseas, and combustion tests.

Future Focus

Made from Natural Energy

Hydrogen can also be produced from water electrolysis. Power generation has already been achieved using natural energy sources, such as wind, solar, hydro, and geothermal energy, but storing the power has been fraught with issues. By converting excess power to hydrogen for storage, the energy can be drawn whenever needed.

World's First Liquefied Hydrogen Carrier

Kawasaki, which built Japan's first liquefied natural gas (LNG) carrier in 1981, maintains a place at the forefront of cryogenic technology for marine transport. The Company put together the best in cryogenic technology and shipbuilding technology cultivated over many years, and in December 2013 obtained approval in principle (AiP) from Nippon Kaiji Kyokai—ClassNK—for a cargo containment system (CCS) for ships that carry liquefied hydrogen in bulk. Kawasaki is now working on development of the world's first liquefied hydrogen carrier.

Large-scale liquid hydrogen carrier

Toward a Future Society Where Use of Hydrogen Energy is Widespread

Hydrogen—with latent potential to become the energy source of tomorrow. Kawasaki will contribute to the creation of a sustainable society by making hydrogen accessible for widespread use.

Message from the Top Management

We always seek new value creation through varied business pursuits in our efforts to resolve the problems of our customers and society at large.

1

Value Creation at Kawasaki Group

Kawasaki Group started its business in 1878 as Kawasaki Tsukiji Shipyard, and subsequently began production of rolling stock and aircraft. Since then, we have cultivated a corporate culture that emphasizes innovation and pursues *monozukuri* manufacturing with integrity, while expanding the scope of our business with diverse, high-level technologies in transportation systems for land, sea, and air; energy and environmental engineering; and industrial equipment. In 1975, Kawasaki Group ventured overseas with local production of motorcycles in the United States, and has been building a wider global presence ever since. Based on our rich history, we are able to resolve challenging issues in our efforts to provide unique products and services that make people's lives more comfortable and protect the environment. Through leveraging synergies across many business segments, we can successfully meet the diverse needs of our customers. This, I believe, is value creation at Kawasaki Group.

For example, we have proposed a concept—a hydrogen energy supply chain—designed to realize a society where hydrogen is used in large quantities, which would both reduce environmental impact and promote energy sustainability. This concept draws on collaboration among internal companies—Ship & Offshore Structure, Plant & Infrastructure, and Gas Turbine & Machinery—guided by the Corporate Technology Division to develop key infrastructure and equipment required in the processes of "production," "transportation/storage," and "use" of hydrogen. Under this concept, we aim to ship liquefied hydrogen, produced in Australia, to Japan, mainly for use in generating electricity. This kind of value creation is possible only because the Kawasaki Group has the advantage of diverse, high-level technologies associated with such facilities as LNG carriers and liquefied hydrogen trailers and has developed businesses globally.

Kawasaki Group will continue to fulfill its mission—"Kawasaki, working as one for the good of the planet"—through business activities and meet the expectations of all stakeholders, going beyond direct stakeholders, namely, employees, customers, business partners, shareholders, and local communities, to include the environment, the next generation, and the international community.

2

Progress on MTBP 2013 and Outlook for Fiscal 2016

In addition to higher sales in fiscal 2015, underpinned by the Aerospace segment, we benefited generally from yen depreciation, which led to new records in operating income, recurring profit, and net income, on a consolidated basis. We also steadily improved our financial strength, as efforts throughout the Group to reinforce cash flow culminated in a huge decrease in interest-bearing debt, dropping to ¥414.3 billion as of March 31, 2015, from ¥484.6 billion at the end of March 2013. Given this commendable performance, we raised the annual dividend for a second straight year, to ¥10 per share.

In fiscal 2016, Aerospace and other business segments with outstanding growth potential over the course of MTBP 2013 will remain growth drivers, and we expect to exceed the original targets set for the final year of the plan. We are looking forward to net sales of ¥1,650 billion, operating income of ¥102 billion, profit attributable to owners of parent of ¥69 billion, before-tax return on invested capital (ROIC) of 11.8%, and return on equity (ROE) of 15.0%.

These are very ambitious targets, but everyone in Kawasaki Group is committed to a successful outcome.

Consolidated financial results and forecasts for orders received, net sales and profits

(Billions of yen)

	FY2015 (Actual)	FY2016 (Forecast)
Orders received	1,712.9	**1,680.0**
Net sales	1,486.1	**1,650.0**
Operating income	87.2	**102.0**
Recurring profit	84.2	**100.0**
Net income*	51.6	**69.0**
Before-tax ROIC	10.4%	**11.8%**
ROE	12.9%	**15.0%**

Before-tax ROIC = (income before income taxes + interest expense) / invested capital
ROE = Net income* / Shareholders' equity
* "Profit attributable to owners of parent" for FY2016(Forecast)

Exchange rates (Actual / Assumed)	US$ (¥/$)	109.51	**118**
	EUR (¥/EUR)	139.34	**128**

* Assumed exchange rates apply to FX exposure for FY 2016 as of the date of release

3

Kawasaki ROIC-Management and Group Management Model 2018

Kawasaki Group has made the improvement of enterprise value a core management strategy common throughout the Group, and to ensure that income exceeds capital costs and thus underpins higher enterprise value, ROIC is used as a key management metric.

Under Kawasaki ROIC-Management, we seek to strike a good balance between enhanced capital efficiency and future growth by applying ROIC to each business unit based on balance-sheet status and then meticulously verifying profitability, growth prospects, and the financial health of each segment as we work to strengthen core competence (competitive superiority) and ensure optimum allocation of management resources to segments where investment will yield the highest returns.

Five Actions

Action 1	Plan and execute **growth strategies** through the **strengthening of core competence** in each BU
Action 2	Set our **optimal financial indicator**, with a focus on ROIC, and create specific action plans for achievement
Action 3	**Create new value** through **internal company synergies** generated by our **conglomerate advantage**
Action 4	Define **scale-down or withdrawal strategies** broken down to each Sub-BU and product
Action 5	**Create a portfolio** focusing on **profitability, stability and growth**

Kawasaki-ROIC Management focuses on five actions, steadily being put into practice through the essential participation of employees at companies throughout the Group.

In October 2014, Kawasaki Group formulated Group Management Model 2018, which incorporates the desired image of the Group in fiscal 2019 into concrete financial targets and growth strategies. This model paints the picture of a company boasting high profitability and solid financial strength as well as sufficient investment capacity to drive growth forward. This is the kind of enterprise we seek to be, and our numerical goals are operating income of more than ¥110 billion, an operating income margin above 6%, operating cash flow exceeding ¥110 billion, and an ROIC of at least 12%. We will also maintain an emphasis on cash flow management.

Once medium- to long-term growth scenarios for each business unit were set, we categorized business segment content across four sectors—Air Transportation Systems, Land/Sea Transportation Systems, Energy & Environmental Engineering, and Industrial Equipment—attuned to respective business characteristics, and we then defined growth strategies for each and decided on an approach for allocating management resources.

In fiscal 2017, we will embark on MTBP 2016, and this year—2015—is the time to prepare the strategic blueprint. We will be considering detailed action plans based on Group Management Model 2018 in MTBP 2016 discussions.

4

Thoughts on Return to Shareholders

Kawasaki Group seeks to raise shareholder value and enhance enterprise value over the long term by constantly pursuing the innovative capital investment and cutting-edge R&D needed to drive growth within the Group and consistently generating income exceeding capital costs and a continuously high level of cash flow from operations into the future. We believe this approach serves our shareholders' interests.

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

5

Corporate Governance and Engagement

The Corporate Governance Code, which went into effect June 1, 2015, is expected to support sustained corporate growth and improved enterprise value over the medium to long term, by encouraging transparent, fair, swift, and decisive decision making by management through effective governance practices.

Kawasaki Group introduced an outside director system in 2013 to strengthen the management supervision structure and elicit constructive advice on management activities. With the approval of shareholders at the recent general meeting of shareholders, an additional outside director was appointed to the Board of Directors, bringing the number of outside directors to two. In addition, using the introduction of the Corporate Governance Code as an opportunity to enhance governance practices, we are actively conducting discussions at the management level and are pursuing specific actions to fortify the governance structure, including the establishment of a compensation advisory committee and a nomination advisory committee.

Also, as seen with the implementation of Japan's Stewardship Code in early 2014 and the announcement of the Ito Review,* there is a sense of momentum in the co-creation of enterprise value through constructive dialogue and engagement between shareholders and corporations. Active dialogue is nothing new to Kawasaki Group, but going forward, greater effort will be made to promote more substantive engagement and to convey business strategies and management policies while utilizing the insights gained through dialogue in management activities.

* The Final Report of the Ito Review "Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors" Project, issued by the Ministry of Economy, Trade and Industry in August 2014. The project was chaired by Kunio Ito, a professor at the Graduate School of Commerce and Management, Hitotsubashi University, and thus is known as the "Ito Review."

6

Environmental Management Activities

Kawasaki Group provides products that have a positive impact on the environment, such as flue gas desulfurization systems, waste heat power plants, and power generation facilities that use waste materials as fuel, and aggressive measures are taken with regard to environmental management to reduce the impact that the Group's business activities have on the environment.

Currently, guided by the strategies of the Eighth Environmental Management Activities Plan (FY2014–FY2016), we are naturally working to cut costs, mainly through reduced energy consumption, and are striving to control environmental risk with rigorous environmental management systems. But we are also keen to promote programs where we can assess and register environmentally conscious products as Kawasaki Green Products, and we will turn out excellent products, such as gas turbine cogeneration systems, that significantly reduce environmental impact not only during production but also when in use. Through such efforts, we are contributing to the realization of a sustainable society on a global scale.

7

Message to Stakeholders

For Kawasaki Group to maintain value creation and achieve higher enterprise value, it is essential for Kawasaki Group to work harmoniously with all stakeholders and earn their trust.

I hope that this Kawasaki Report helps readers gain a deeper understanding of what we do in pursuit of the Group Mission—"Kawasaki, working as one for the good of the planet"—and know that our commitment to meet stakeholders' expectations by contributing to sustainability and providing solutions to social issues through these activities is an enduring commitment to our stakeholders. The Kawasaki Report is indeed a conduit for enhanced communication between Kawasaki Group and all stakeholders.

As a group, we will draw on the technological expertise we have accumulated over many years in our constant quest to deliver new value creation. In this endeavor, I ask for your continued support of Kawasaki Group.

History

Kawasaki Group Meets the Demands of Society

Dating back to its earliest days more than 130 years ago, Kawasaki Group has constantly pursued innovation and reform to fuel its growth. Drawing on the strength of proprietary technologies, the Group has contributed to the modernization of Japan and the installation of infrastructure around the world in diverse fields.

FY1878 - 1945

In the latter half of the Meiji Era, Japan's industrial sector embarked on a process of rapid modernization. Kawasaki, established as Kawasaki Tsukiji Shipyard in 1878, played a role in Japan's industrial modernization in such sectors as shipbuilding, railroads, and aircraft manufacturing, laying the cornerstone for value creation that remains solidly in place to this day.

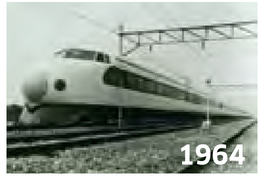

1897
Launches Cargo-Passenger Ship *Iyomaru* ,Kawasaki Dockyard's first ship


1922
Completes the first Kawasaki-made airplane - Type Otsu 1 Surveillance Airplane


1911
Completes the first Kawasaki-made locomotive

FY1946 - 1973

Japan achieved a miraculous recovery in the wake of World War II, becoming one of the world's largest economic powers and marking a significant improvement in income levels. Kawasaki pursued a business presence beyond transportation systems, venturing into such domains as industrial machinery and motorcycles, making a significant contribution to Japan's industrial development and realization of more comfortable lives for its people.


1964
Series 0 Shinkansen (bullet train) electric train delivers to the Japanese National Railways.


1972
Unveils Z1 motorcycle


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

FY1974 - 1999

In the latter half of the 1970s, Japan entered a period of stable growth. Japanese companies were beginning to turn their attention to overseas markets, and Kawasaki was one of the first to establish production points abroad and extend its business reach globally. In addition, applying accumulated technologies, Kawasaki developed products, such as LNG carriers and industrial gas turbines, and expanded its scope of activity to include sectors involved in energy and the environment.


1976
Develops GPS200 gas turbine generator

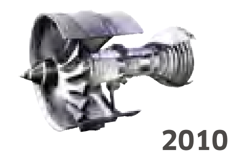

1981
Delivers the first LNG carrier built in Japan.


1991
Tunnel boring machines successfully complete work on the Eurotunnel

FY2000 -

From 2000, as the BRICs–Brazil, Russia, India, and China–and other emerging markets appeared on the world scene, Kawasaki, like other global-oriented companies, began launching products to these many new markets. In addition, amid rising interest in protecting the global environment, the Company began developing and manufacturing environment-friendly products. Drawing on the advantages afforded by integrated management, Kawasaki continues its quest for unrivaled technologies in all areas of land, sea, and air transportation systems, energy and the environmental engineering, and industrial equipment.


2004
Ships first 700T train to Taiwan High Speed Rail


2010
Delivers the first turbofan engine "Trent 1000" (Kawasaki is responsible for the development and production of the Intermediate Pressure Compressor [IPC] module)


2006
Launches production of hydraulic components in Suzhou, China

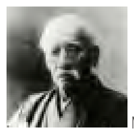

2014
Completes the largest fertilizer plant in Turkmenistan


2010
The first flight of XC-2 transport aircraft


2015
Unveils Ninja H2R


Kojiro Matsukata
Incorporates Kawasaki Dockyard Co., Ltd., and becomes the first president of the new company.

Kawasaki Dockyard Co., Ltd. is incorporated.


Shozo Kawasaki
Establishes Kawasaki Tsukiji Shipyard on borrowed land from the government at Tsukiji Minami-Iizaka-cho, Tokyo

/ 1878 / 1896 / 1919 / 1928 / 1937 / 1939 / 1950 / 1966 / 1969 / 1972 / 2002 / 2005 / 2006 / 2010 /

Shipping division is spun off → Kawasaki Kisen Kaisha, Ltd.

Kawasaki Rolling Stock Manufacturing Co., Ltd. is incorporated

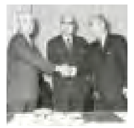
Kawasaki Aircraft Co., Ltd. is incorporated

Adopts the current company name

Steelmaking division is spun off → Kawasaki Steel Corporation is incorporated → JFE Group

Merges with Kisha Seizo Co., Ltd.

Merges with Yokoyama Kogyo Co., Ltd.


Three companies are merged

Kawasaki Shipbuilding Corporation is established

Kawasaki Precision Machinery Ltd. is established

Kawasaki Plant Systems, Ltd. (K Plant) is established

Kawasaki Environmental Engineering, Ltd. (KEE) is established

Merge

Remerge

Kawasaki Group

Kawasaki Heavy Industries, Ltd.

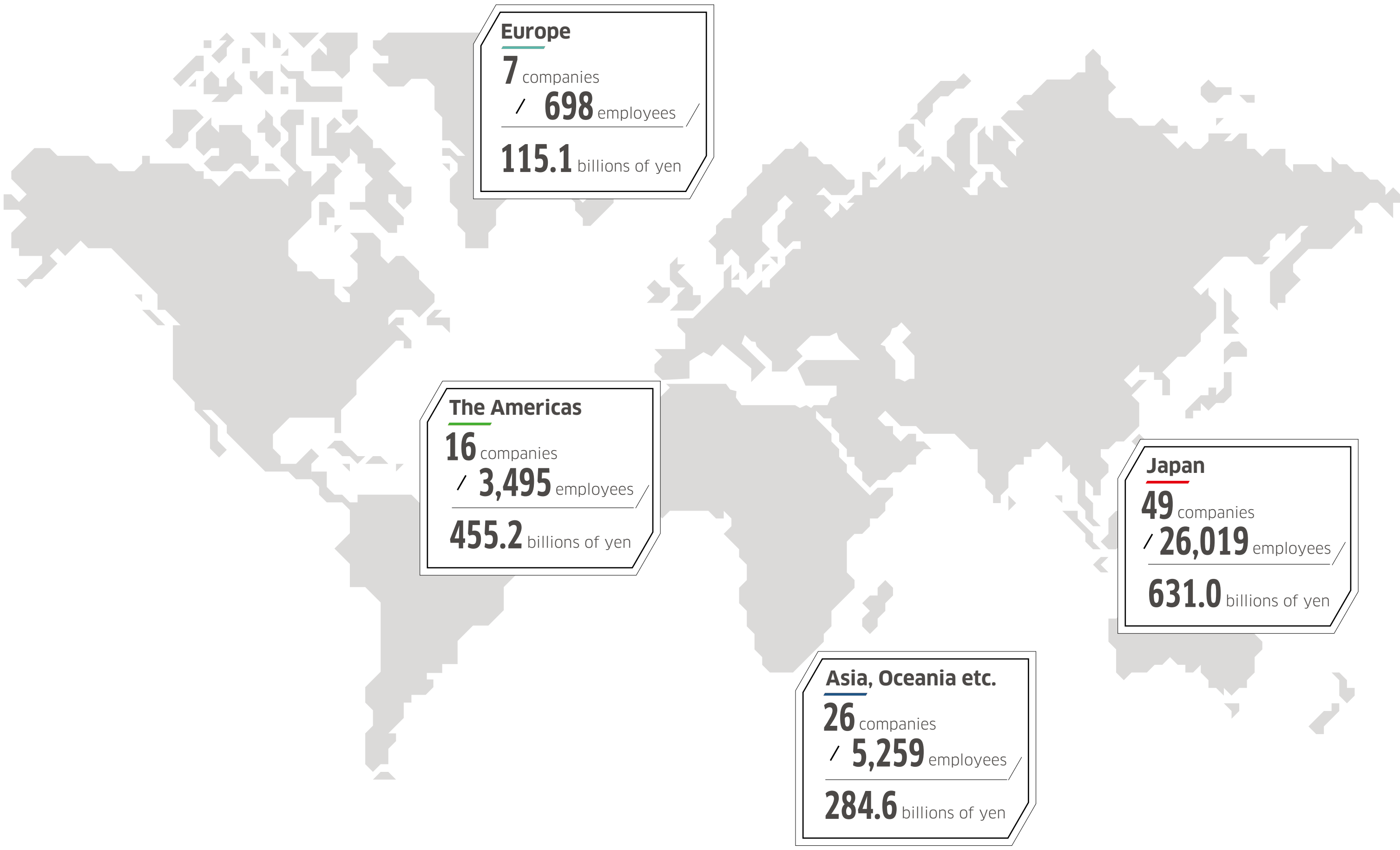
97 consolidated subsidiaries (49 in Japan and 48 overseas)

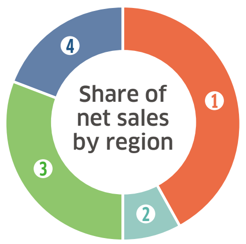
Global Network / Performance Highlights

Where We Stand Today Through Innovation and Reform

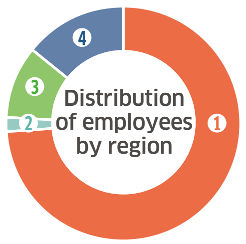
Kawasaki Global Network and Various Business Field (FY2015)

Number of Companies/Number of Employees/Net Sales

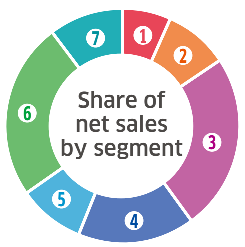




① Japan	42%
② Europe	8%
③ The Americas	31%
④ Asia, Oceania etc.	19%



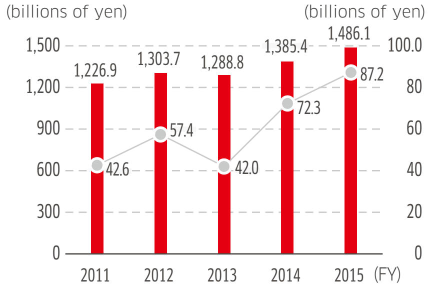
① Japan	73%
② Europe	2%
③ The Americas	10%
④ Asia, Oceania etc.	15%



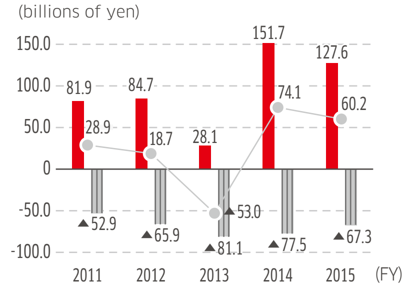
① Ship & Offshore Structure	90.3 billions of yen	▶ P23
② Rolling Stock	121.5 billions of yen	▶ P25
③ Aerospace	325.0 billions of yen	▶ P27
④ Gas Turbine & Machinery	218.7 billions of yen	▶ P29
⑤ Plant & Infrastructure	121.1 billions of yen	▶ P31
⑥ Motorcycle & Engine	329.2 billions of yen	▶ P33
⑦ Precision Machinery	135.7 billions of yen	▶ P35

Performance Highlights

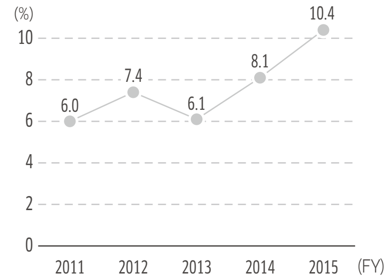
■ Net sales (left-axis)
● Operating income (right-axis)
(billions of yen) (billions of yen)



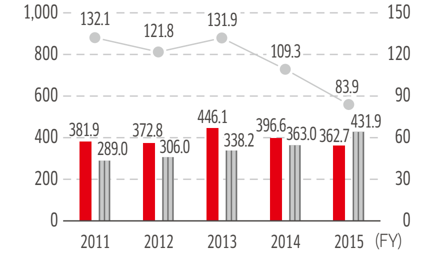
■ Net cash provided by operating activities
▥ Net cash used for investing activities
● Free cash flow
(billions of yen)



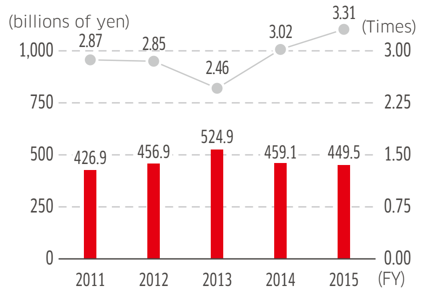
Return on invested capital
(Income before income taxes and minority interests + Interest expense) / Invested capital
(%)



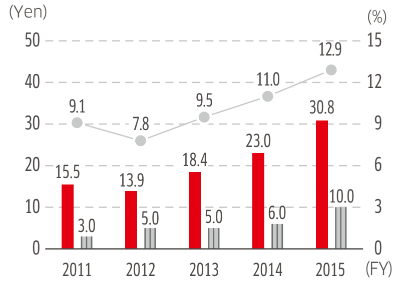
■ Net interest-bearing debt (left-axis)
▥ Shareholders' equity (left-axis)
● Net debt equity ratio (right-axis)
Net interest-bearing debt / Shareholders' equity
(billions of yen) (%)



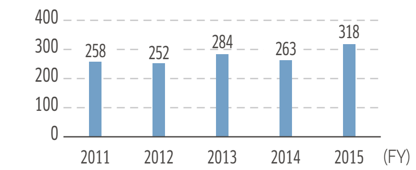
■ Working capital (left-axis)
● Working capital turnover (right-axis)
Net Sales / Working capital
(billions of yen) (Times)



■ Net income per share (left-axis)
▥ Dividends per share (left-axis)
● Return on equity (right-axis)
Net income / Shareholders' equity
(Yen) (%)

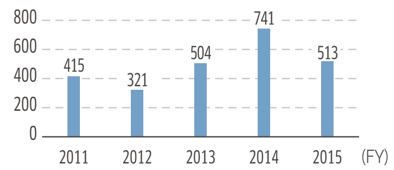


CO_2 Emissions from Business Sites (non-consolidated) *1
(10^3t -CO_2)



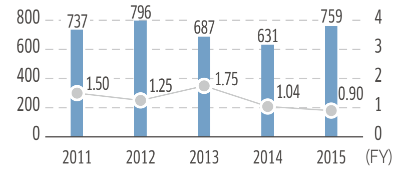
*1 For details, please refer to page 46.

CO_2 Emission Reduction with Our Products *2
(10^3t -CO_2)

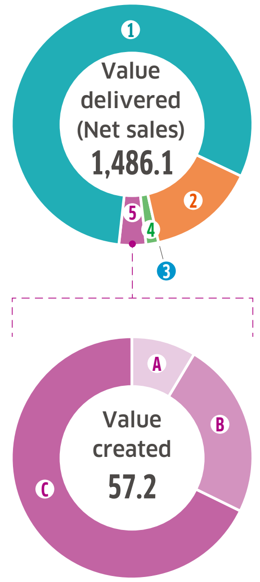


*2 Estimates based on actual delivery record

■ Expenditure on social contribution activity (left-axis)
● Recurring profit ratio (right-axis)
(Millions of yen) (%)



Distribution of Value to Stakeholders (FY2015)



(billions of yen)

① Business partners Business costs (excluding costs for employees, society, and government)	1,166.2
② Employees Salaries, bonuses etc.	231.5
③ Society Social contribution expenses	0.7
④ Administration and government Income taxes, etc.	30.3
⑤ Value created Value created minus expenses for business partners, employees, society, and government	57.2
Ⓐ Creditors Interest expense	3.7
Ⓑ Shareholders Minority interests in net income plus dividends paid	17.3
Ⓒ Company internal, etc. Increase in retained earnings during period	36.1

Selected as components of the SRI (Socially Responsible Investment) Indexes listed below

Kawasaki vigorously embraces activities related to sustainability. The activities have been widely recognized, and the Company has been selected by the following socially responsible investment (SRI) rating agencies for inclusion in their respective index compositions.(As of June 2015)

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

MSCI 2015 Constituent MSCI Global Sustainability Indexes

MS-SRI

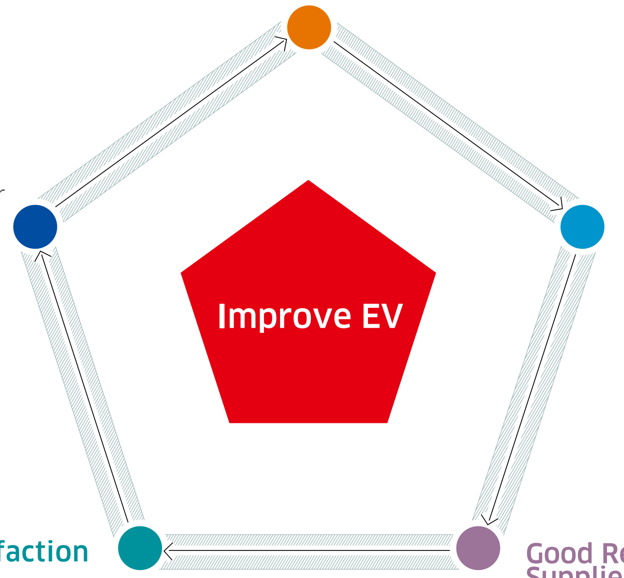
Seeking Higher Enterprise Value

Kawasaki-ROIC Management

Kawasaki Group has embraced Kawasaki-ROIC Management, with the ultimate aim to improve enterprise value. Under Kawasaki-ROIC Management, we seek to achieve enhanced capital efficiency and future growth by reinforcing core competence, pursuing synergies, and realizing optimum allocation of management resources, all on a business unit (BU) basis.

Improving Enterprise Value (EV) is beneficial for all stakeholders, enabling sustainable growth for the company, an improved work environment for employee satisfaction, good relationships with our suppliers, customer satisfaction, and return to our investors.

Sustainable Growth



Return to Investors and Shareholders

We will boost long-term enterprise value and shareholder value while offering dividends based on a medium- to long-term consolidated payout ratio benchmark of 30%, by ensuring that profits exceed capital costs and that we maintain a high level of cash flow from our operations.

Employee Satisfaction

A higher level of employee satisfaction, through an improved work environment including better pay, motivates employees in a direction conducive to realizing the Group Mission and leads to improved enterprise value.

Customer Satisfaction

Backed by superior technological capabilities and a vast expanse of business pursuits, we aim to utilize our conglomerate advantage to cultivate demand from our customers, and expand our businesses along with those of our customers.

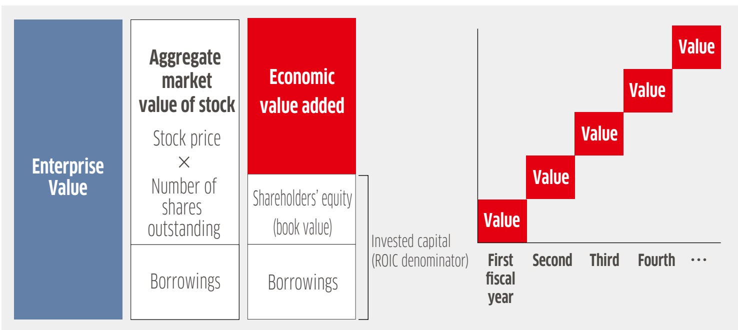
Good Relationships With Suppliers

We will mutually complement enterprise value and build a strong supply chain by promoting a keen reciprocal awareness of the win-win benefits of good business relationships with our business partners.

Tool for Improving Enterprise Value: Kawasaki-ROIC Management

Enterprise value is the sum total of capital invested in a business and the profit (economic value added) which that business generates into the future.

Therefore, the improvement of enterprise value rests on our ability to achieve higher economic value added.



Improving Enterprise Value Through the Strengthening of Core Competence and Internal Company Synergies

Our company defines core competence as the most effective asset of each BU that provides its competitive edge. In addition to its products, technology, and price competitiveness, core competence includes factors such as having diverse knowledge, and the strength of the organization. As a conglomerate, our company has the advantage of synergies built up between BUs.

Segment	Examples of Core Competence
Ship & Offshore Structure	- Ability to design and manufacture high value-added ships with technology derived from gas carriers and submarines - A global business structure positioning domestic factories as mother factories
Rolling Stock	- Ability to fulfil contracts in North America, which are said to have the strictest regulations in the world - Synergies as a conglomerate (development of carbon fiber technology, etc.) - A track record of more than 20 years for projects in Asia
Aerospace	- Advanced technology and system integration ability from rich experience in domestic development - Leading-edge manufacturing technology and equipment to prevent catching up of emerging countries
Gas Turbine & Machinery	- Component parts of commercial aircraft jet engines: High level of special process, quality and ability to respond to strict delivery periods - Energy & environment: Ability to provide solutions that combine products such as our gas engines, which have the highest efficiency in the world, gas turbines and steam turbines
Plant & Infrastructure	- Stable management through shifting of human resources within BU - Engineering ability that allows utilization of monozukuri (manufacturing) by in-house factory
Motorcycle & Engine	- A recognized brand image for high-performance, built through the [Ninja], [Z] and [KX] and race activities - Global supply chain system (procurement, manufacturing) - In-house development technology for supercharger engine
Precision Machinery	- Precision machinery: Leading-edge technology, brand power and systemization for excavator hydraulic equipment - Robots: Application development abilities and system solutions to respond to diverse needs of customers

Share technological synergy (Corporate Technology Division)

Synergistic Effects Across BUs

Below are examples of products realized through the synergistic effects across BUs, cultivated over the Group's extensive range of business sectors and global operating structure.

Going forward, we will continue to fulfill our Group Mission—"Kawasaki, working as one for the good of the planet" (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)—through our business activities.

efWING (Rolling Stock, Aerospace)

Applied CFRP (carbon-fiber-reinforced plastic) technology, which is often used in areas such as aerospace. The new efWING bogie developed by Kawasaki uses CFRP for part of its frame and springs. This highly efficient dual-function frame significantly reduces the overall weight of the bogie, which helps curb energy costs as well as minimize environmental footprint.The superior suspension functionality of the bogie results in improved passenger comfort as well as greater protection against derailment.

Ninja H2R (Motorcycle & Engine, Aerospace, Gas Turbine & Machinery)

The Ninja H2R is a high-performance model that offers both outstanding power and ease of riding for an ultimate "Fun to Ride" experience. The proprietary supercharged engine was built with the know-how in the design of gas turbines, realizing a powerful acceleration that is offered by no other existing model. The upper and lower wings, developed based on the flow analysis technology used in aircraft design, have provided a down force on the body, increasing stability at the high speed range.

Development of the technology and products of hydrogen infrastructure

We are working on activities aimed at realizing a society of the future where the use of hydrogen energy is widespread. Our emphasis is on the development of hydrogen liquefaction systems, liquefied hydrogen carriers, liquefied hydrogen storage systems, and hydrogen-fueled gas turbines.

Seeking Higher Enterprise Value

Group Management Model 2018

Group Management Model 2018 describes what we aspire to be by fiscal 2019. It paints the picture of an enterprise with high profitability and a solid financial footing as well as sufficient financial capacity to capitalize on growth-building opportunities, and it sets out concrete numerical targets based on segment-specific growth strategies and a clear-cut management perspective emphasizing cash flow.

Targets for Group Management Model 2018

	FY2015 Actual	FY2016 Forecast	Group Management Model 2018 (Released October 2014)
Before-tax ROIC	10.4%	11.8%	12% or higher
ROE	12.9%	15.0%	14% or higher
Operating income	¥87.2 billion	¥102.0 billion	–
Operating income margin	5.8%	6.1%	6% or higher
Operating cash flows	¥127.6 billion	¥110.0 billion or higher	¥110.0 billion or higher
Net debt-to-equity ratio	83.9%	80%-90%	70%-80%
Total asset turnover	0.89 times	1.00 times	1.00 times or more
(Reference: Net sales)	(¥1,486.1 billion)	(¥1,650.0 billion)	(¥1,800.0 billion)
Exchange Rates (actual & assumed)	¥109.51/$	¥118/$	¥100/$

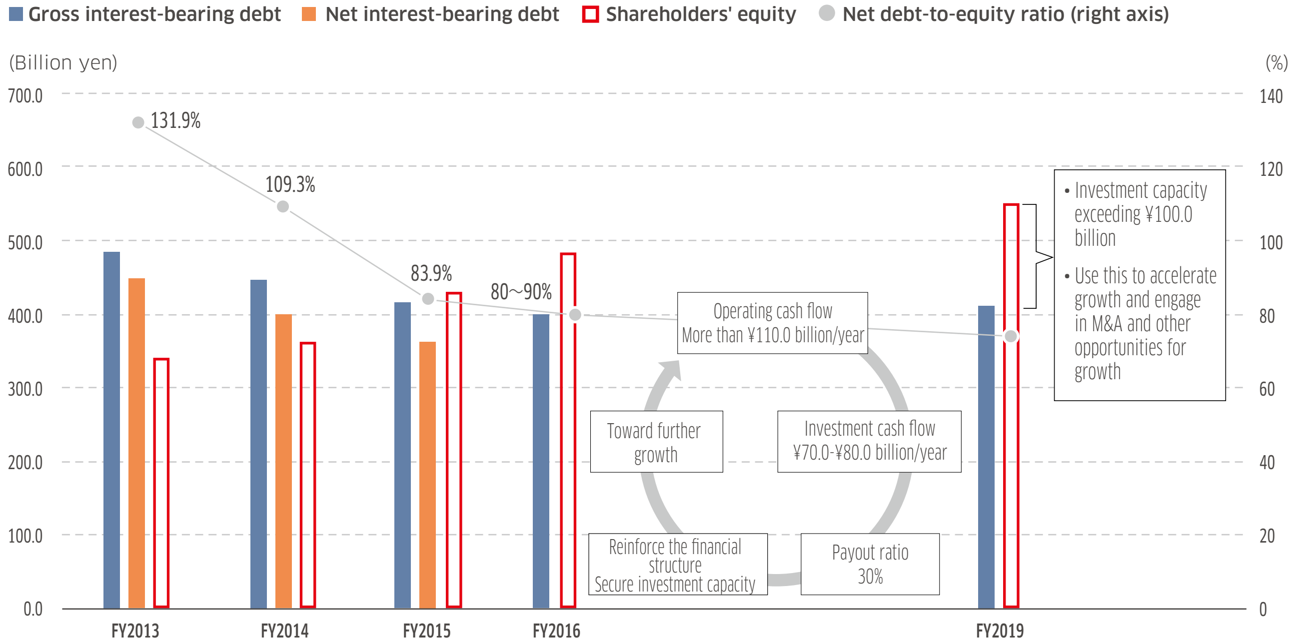
Notes:
- Before-tax ROIC = EBIT (income before income taxes + interest expense) / Invested capital
- ROE = Net income* / Shareholders' equity
- Total asset turnover = Net sales / Total assets

* "Profit attributable to owners of parent" after FY2016 forecast

* Group Management Model 2018 is reviewed as necessary, based on changes in the business environment.

Cash Flow Management

Operating cash flow is, to rephrase, a harvest of results from past investment, and investment cash flow is like sowing the seeds of future growth. We emphasize management practices that foster a good balance between the two. Kawasaki will make necessary investments for future growth, based on growth prospects identified in each BU, and ensure return to shareholders while maintaining a certain level of investment capacity to accelerate growth and take advantage of business opportunities such as M&As.



Growth Strategy by Business Sectors (Segment strategies are described on pages 23-36.)

Once medium- to long-term growth scenarios for each business unit were set, we categorized business segment content across four sectors—Air Transportation Systems, Land/Sea Transportation Systems, Energy & Environmental Engineering, and Industrial Equipment—attuned to respective business characteristics, and we then defined growth strategies for each and decided on an approach for allocating management resources.

	Business Sectors			
	Air Transportation Systems	Land/Sea Transportation Systems	Energy & Environmental Engineering	Industrial Equipment
Ship & Offshore Structure		○	○	
Rolling Stock		○		○
Aerospace	○			
Gas Turbine & Machinery	○	○	○	
Plant & Infrastructure			○	○
Motorcycle & Engine		○		○
Precision Machinery				○
Growth Strategy	•Priority investment looking 10 years or more down the road	•Enhanced global structure •Strategy for high added value	•Strengthen solutions business •Lay business foundation for the future	•Cultivating new fields •Greater sharing of management resources
	We envision stable market expansion through 2020-2030 and will therefore draw on technological strengths in both aircraft and aircraft engine fields, concentrating management resources into these fields, to grow associated businesses into core operations.	Assuming a self-sustaining cycle of investment and returns, we will achieve higher profitability through an enhanced global business operating structure and a strategy for high added value.	Against a backdrop of power system reform in Japan and heightened demand for electricity and other energy, particularly in emerging nations, we will roll out solutions that combine a diverse range of products and technologies with plant engineering capabilities. Furthermore, in the oil and gas business and the hydrogen energy field, we will not only provide a fusion of products and technologies but also enhance partnerships to grow Energy & Environmental Engineering into a core business of the future.	We will accelerate global expansion, underpinned by domestic mother factories. We will pursue synergies through greater sharing of management resources among the machinery and robot divisions and sustain ROIC at the top of the industry. Looking for further growth, we will seek to cultivate new markets, such as medical-use robots, where growth is likely.

Research and Development・Intellectual Property

We will use our integrated technological expertise to create values that point the way to the future

Seeking to strengthen core competence in each business segment and create new customer value, we are working to develop new products and new businesses, sharpen the competitive edge of our products, and cut production costs. In addition, under Kawasaki-ROIC management, we are making efficient progress on the development of new products and new businesses and pursuing synergies in technology that go beyond business segment boundaries. Through these efforts, we will raise the cohesive power of the Group and improve enterprise value.

Creating new businesses through anticipating the overall structure of tomorrow's society

Inferring from the dynamic trends that characterize the world today to anticipate what society will be like tomorrow, we are pushing R&D on innovative production technology and core competence indispensable to new products and new businesses that the society of tomorrow is likely to require.

R&D tackled with integrated expertise

To derive synergistic effects that extend beyond the boundaries of each business segment, the Corporate Technology Division acts as the medium through which activities flow and raises the cohesive power of the Group. This effort has yielded efWING, a next-generation rolling stock bogie with a mainframe structure made of a composite material, and the Ninja H2/H2R, with a supercharged engine, and is linked to the hydrogen energy supply chain concept we see for the future.

The Value Creation Chain

R&D

The Corporate Technology Division works as a team with each business segment, shares the same business vision for the future, and seeks to optimize capabilities to solve fundamental issues.

Manufacturing/ Production

By bridging design and manufacturing/production, we are making headway on concurrent development and production, designed to make development processes more effective.

Marketing and Sales

We select Kawasaki Green Products, boasting unrivaled environmental performance right from the production stage, and convey to customers the advantages of these products in easy-to-understand language.

Customers (Consumers in/ Contributors to Society)

We will cultivate demand from customers and search for approaches that support business expansion for customers while fueling growth of our businesses as well.

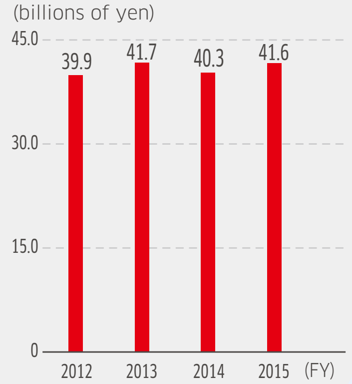
Developing new products and new businesses through enhanced core competence

Kawasaki Group is involved in a wide array of business activities and its core competence is appropriately diverse. Technologies–which underpin the core business and products of each business segment–are of particular importance, and we strive to reinforce and combine proprietary technologies to secure overwhelming competitive superiority in our fields of expertise.

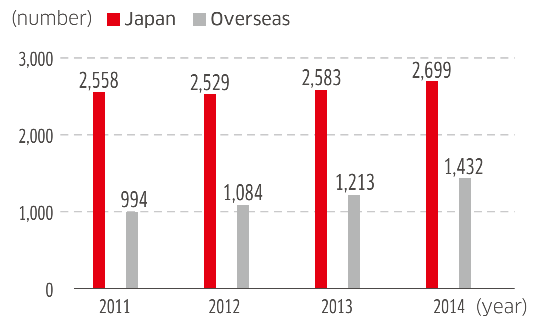
Intellectual property-oriented, strategic activities conscious of a three-point emphasis, combining business, R&D, and intellectual property

To raise enterprise value and effectively and efficiently secure and apply intellectual property, which is a vital management resource, we created a trinity of core competence by adding business and R&D to intellectual property. We promote a close and robust connection among these points while sharing useful information and drafting strategies to maximize inherent capabilities.

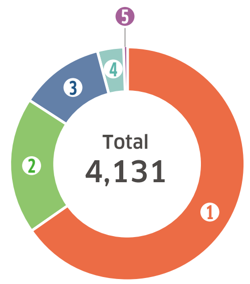
R&D Costs



Number of the Patent in Japan and Overseas



Patent Holding Ratio by Region, 2014



❶ Japan	2,699	65.3%
❷ North America	784	19.0%
❸ Asia	481	11.6%
❹ Europe*	149	3.6%
❺ Other	18	0.4%

* Patents that have been deployed in European countries counted as 1.

Kawasaki Green Product

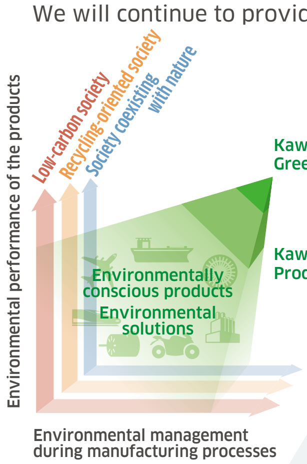
Kawasaki Green Products Lessen Environmental Impact

Kawasaki Green Product Promotion Activity

Kawasaki's approach to environmental issues, such as global warming and energy use and availability, is to lessen environmental impact through its products, and toward this end, the Company has supported a program, Kawasaki Green Product Promotion Activity, to address these issues, since 2014. Registered products receive an ISO 14021-compliant environmental label certifying that they are environment-friendly.

The Select "Second Set" of Kawasaki Green Products

Kawasaki selected 11 products in 2015 to be in the second set of Kawasaki Green Products.
Kawasaki Green Products are assessed for their contribution to the realization of a low-carbon society, a recycling-oriented society, and a society that coexists with nature, as well as conforming to established criteria, from two perspectives–environmental performance of the product and environmental management during manufacturing processes.
We will continue to provide customers with Kawasaki Green Products, boasting superior environmental performance.



Kawasaki Super Green Products: Products with some of the most outstanding environmental features in the industry.

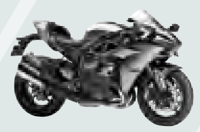
Kawasaki Green Products: Products with environmental features that exceed either the industry standard for environmental performance or the level reached by pre-existing models of our products.


LNG Fueled Pure Car and Truck Carriers


efWING


Straight Tube LED Lamps for Rail Cars

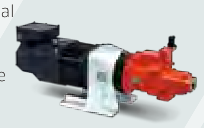

KC-MB-20, Multifunctional Controller for Construction Machinery

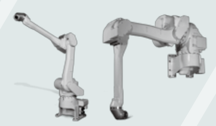

Ninja H2

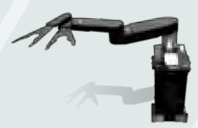

Versys 1000 / Versys 650

Pick Up!

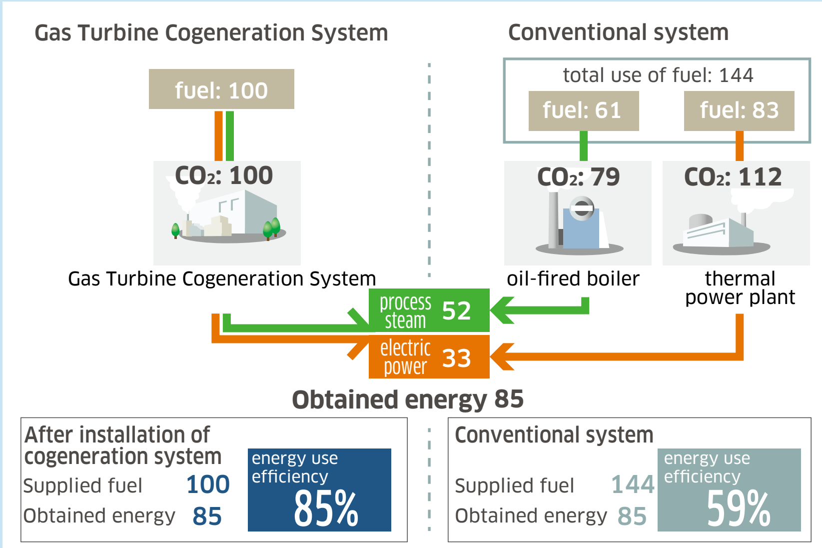

M7A-03D Gas Turbine


KAWASAKI ECO SERVO


Painting Robot KJ264/314


Clean Robot NT420

What is a Gas Turbine Cogeneration System?



A gas turbine cogeneration system produces electricity with a generator using a gas turbine as its main driver and utiliged the heat for additional applications, such as air conditioning, hot water, and factory heating, which derives the most efficient use of supplied energy. Cogeneration systems have also been designated by the government, which will lead to wider use of these systems as distributed energy systems using natural gas.


Photo provided by: Toray Industries, Inc., Okazaki Plant

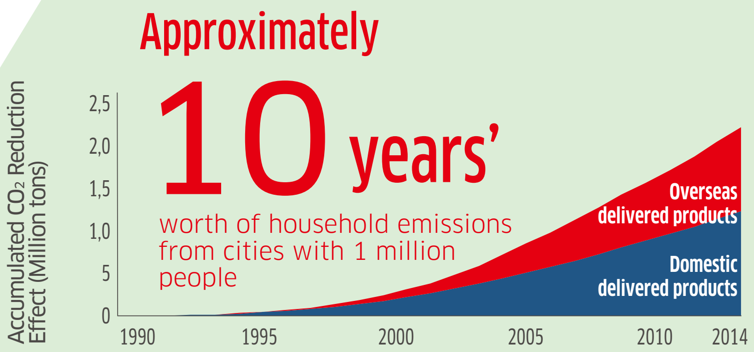
M7A-03D Gas Turbine Domestic Delivery (Customer Comment)

Electricity and steam obtained from the gas turbine cogeneration system that was installed at the factory are used on the production floor. Since the system was installed, we have achieved an annual reduction effect of about 12,000kl, on a crude oil equivalent basis, compared with the use of existing boiler (gas- and heavy oil-fired) facilities. Converted to CO_2, that works out to about 30,000 tons per year, equivalent to emissions from around 5,600 typical households in Japan. In addition, the system has contributed to overall plant energy savings of about 22%.

Utility Section, Engineering Department, Okazaki Plant, Toray Industries, Inc.

* Estimated annual CO_2 emissions from a single-family household are 5,270kg-CO_2. Source: Greenhouse Gas Inventory Office of Japan

CO_2 Reduction Effect Using Gas Turbine Cogeneration System



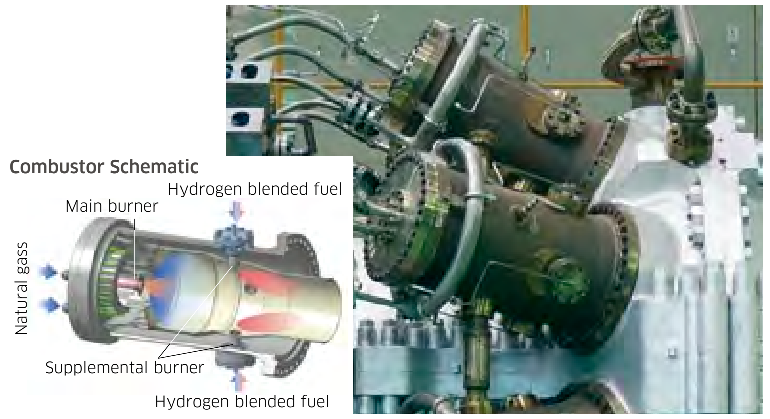
The use of Kawasaki gas turbine cogeneration systems significantly reduces the amount of CO_2 released into the atmosphere, and the CO_2 reduction effect based on actual deliveries of gas turbine cogeneration systems since 1989 is about 23 million tons–equivalent to approximately 10 years of CO_2 emitted in Japan from households in cities with one million people.

Development of Hydrogen Gas Turbine Technology to Further Reduce CO_2 Emissions

Hydrogen-fired gas turbine combustion technology

Hydrogen is characterized by its fast rate of combustion and because of this, when used with conventional gas turbines, it is problematic, generating higher NOx, exhibiting unstable combustion, and causing burner scaling. Seeking to solve these issues, Kawasaki has been working on the development of hydrogen combustion technology, which would make it possible to burn hydrogen-enriched natural gas in volumes from 0% to up to 100% (hydrogen only). Repeated combustion simulations and verification tests have been made at RWTH Aachen University in Germany with Kawasaki gas turbines, on the road to establishing proprietary hydrogen-fired gas turbine technology.

(Kawasaki welcomed the start of demonstration testing for a low-NOx, mixed hydrogen and gas-driven gas turbine system, commencing at its Akashi Works in May 2015.)



Combustor facilitating hydrogen-blend combustion

Business Review & Strategies

Ship & Offshore Structure

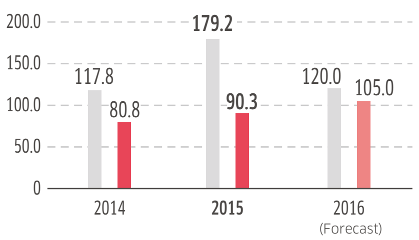

LPG carrier GALAXY RIVER

Akio Murakami
President, Ship & Offshore Structure Company

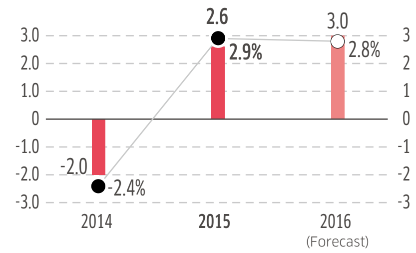
Before-tax ROIC

FY2014	FY2015	FY2016 (Forecast)
3.4%	6.0%	5.4%

■ Orders Received ■ Net sales
(billions of yen/FY)



■ Operating income
● Ratio of operating income to sales
(billions of yen/FY) (%)



Company President Message

Ships are expected to "contribute to efficient logistics" and "carry products and commodities in large volume but at low cost." It is a shipbuilder's job, therefore, to provide ships that can take on big cargoes but use less energy. Kawasaki-built ships are recognized for superior performance and quality, and the Ship & Offshore Structure segment will undoubtedly be expected to deliver higher levels of excellence going forward. Currently, the segment is pursuing business in line with its "GOOD strategy," which emphasizes Gas (gas carriers and carriers using gas as fuel), Offshore, Overseas, and Defense.

An issue for the future is to further enhance technological capabilities, including open innovation. For example, we will have to reinforce technology currently in possession for MOSS-type LNG and LPG carriers as well as technology related to systemization of propulsion plants, which are likely to transition to gas-fired engines in the future. We have three shipyards overseas, and I believe these operations will spur each other on while raising the overall capabilities of Kawasaki Group.

Approach to Social Issues

1 Contributing to the resolution of global issues including energy saving and environmental load reduction through marine transport solutions that support comfortable lifestyles around the world

2 Contributing to a materially secure future through participation in marine development to access a new store of natural resources

Business Results for Fiscal 2015 and Outlook for Fiscal 2016

Consolidated orders received increased by ¥61.3 billion year on year to ¥179.2 billion, as a result of booking orders for a submarine, a deep submergence rescue vehicle and five liquefied gas carriers (3 LNG carriers and 2 LPG carriers). Consolidated net sales increased by ¥9.4 billion year on year to ¥90.3 billion, as growth in the amount of construction of LNG carriers and other factors offset the decline in the amount of construction of LPG carriers, bulk carriers, and other vessels. The segment incurred a consolidated operating income of ¥2.6 billion, a ¥4.6 billion upturn from the previous fiscal year's consolidated operating income. The amelioration in profitability was chiefly by virtue of sales growth and the reversal of provision for losses on construction contracts.

For fiscal 2016, we expect the consolidated orders received to be ¥120 billion, net sales to be ¥105 billion and operating income to be ¥3 billion.

Business Environment and Strategies

Growth Strategy under Group Management Model 2018

Enhance "GOOD" strategy: Gas, Offshore, Overseas, Defense strategy

[Gas]
- Achieve differentiation through high value-added vessels such as LNG carriers and high value-added technologies such as LNG-fuelled vessels.

[Offshore]
- Promote projects for various types of offshore work vessels and offshore structures.

[Overseas]
- Improve the profitability of the joint ventures in China while expanding the businesses, and promote the joint venture in Brazil.

[Defense]
- Establish business foundations to meet the government's policy aimed at increasing the country's fleet of submarines, and expand such business.

Due to severe conditions in the shipping industry, the shipbuilding market has not fully recovered. However, driven notably by global environmental issues and needs for reduction of fuel cost, shipping companies are showing heightened interest in saving energy and reducing environmental load. Against this backdrop, in Japan we continue to reinforce the superiority of our technologies in LNG and LPG carriers and submarines, and fulfill our role as a center for advanced technology, specializing in energy saving, environmental load reduction, and other areas. In addition, we aim to achieve steady business expansion with products in new areas, such as large offshore work vessels, offshore structures, and LNG-fuelled vessels.

Turning to overseas operations, two joint ventures in China (NACKS*1 and DACKS*2) have established a steady track record of performance. In these projects, we are targeting further improvements in competitiveness, mainly through enhanced design capabilities and cost reductions. We are also engaged in a joint venture in Brazil centered on the construction of drillships. We launched the project to support the construction of a shipyard, the design and construction of drillships, and other activities.

*1 Nantong COSCO KHI Ship Engineering Co., Ltd.
*2 Dalian COSCO KHI Ship Engineering Co., Ltd.

Main Products

- LNG carriers
- LPG carriers
- Offshore work vessels
- VLCCs
- Bulk carriers
- Submarines

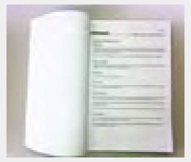

Handymax Bulk Carrier ORIENT IRIS


Submarine

FOCUS Initiatives for Product Quality Improvement

The Ship and Offshore Structure Company, the business segment that quite literally launched Kawasaki, has delivered more than a thousand ships. Here we highlight efforts to improve product quality by capitalizing on the many opportunities we have to interact with customers in the building of ships and the face-to-face relationships that are formed as the process unfolds.

❶ Development, contract


We accurately identify customer needs and determine ship specifications through numerous meetings.

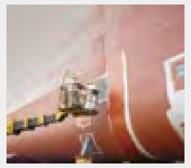
❷ Design


Even at the design stage, we frequently hold technical meetings with customers and confirm requirements by obtaining approval of drawings while putting forward reliable designs conforming to technical standards.

❸ Procurement


We order equipment and components from more than a hundred suppliers. We accompany customers to suppliers' shop test of critical equipment and confirm that the products meet the required specifications.

❹ Manufacturing, inspection


At the shipyard, the ship takes form over multiple stages, such as steel plate fabrication, welding, painting and installation of equipment. We ensure quality through various inspections with supervisors from customers.

❺ Sea trial, delivery


In the final stage of shipbuilding, the ship is actually put to sea and we, along with our customers, confirm performance. Later, the ship leaves the shipyard quay to ply the world's oceans, marking delivery to the customer.

❻ After-sales services


We take account of post-delivery customer feedback and quickly extend technical support to customers requiring repairs or supply of components. The information obtained through such activities is valuable and feedback to each department to improve quality.

Business Review & Strategies

Rolling Stock

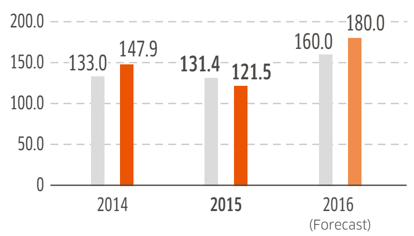
Series 7000 subway cars operated by Washington Metropolitan Area Transit Authority

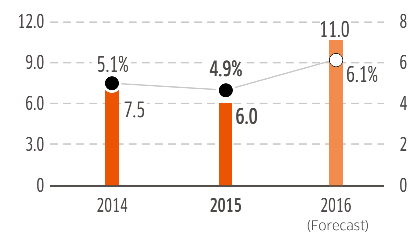
Yoshinori Kanehana

President, Rolling Stock Company

Before-tax ROIC

FY2014	FY2015	FY2016 (Forecast)
10.2%	8.7%	12.5%





Company President Message

The Rolling Stock segment really puts Kawasaki Group Mission, "Kawasaki, working as one for the good of the planet" (Enriching lifestyles and helping safeguard the environment: Global Kawasaki), into practice. With regard to the first part of the mission–enriching lifestyles–our support for the way people live and work is most noticeable in emerging nations, where we provide a vital means of transportation that also helps reduce air pollution from exhaust and eases the traffic congestion that typically exists prior to the building of a rolling stock system. The second part–helping safeguard the environment–refers to the fact that rolling stock has decidedly less impact on the environment than do cars and trucks and at the same time presents a means of transport with low energy costs. We will expand the scope of our mission in developed nations as well, because this commitment to society and the environment is what guides business activities in the Rolling Stock segment.

Approach to Social Issues

1 Provision of a safe and environment-friendly rolling stock system

2 Contributing to the construction of transport infrastructure that underpins economic development in emerging nations

Business Results for Fiscal 2015 and Outlook for Fiscal 2016

Consolidated orders received were ¥131.4 billion that were equivalent level of the previous fiscal year, as despite receiving an order from the Singapore Land Transport Authority for subway train cars for new lines, there was an absence of large orders from North America and from within Japan such as were received in the same period of the previous fiscal year. Consolidated net sales decreased by ¥26.4 billion year on year to ¥121.5 billion, as a result of a decline in overseas sales to customers in North America. Consolidated operating income decreased by ¥1.5 billion year on year to ¥6.0 billion, attributable to a decline in sales and profit margin.

For fiscal 2016, we expect the consolidated orders received to be ¥160 billion, net sales to be ¥180 billion and operating income to be ¥11 billion.

Business Environment and Strategies

Growth Strategy under Group Management Model 2018

- Increase trust with existing customers and acquire new customers through leading-edge technology, quality, and contract fulfillment capabilities in Japan and overseas, mainly in North America and Asia.
- Seek synergy with other business fields within the Kawasaki Group, including rolling stock bogie (efWING*) made of composite materials, and surpass competitors in technology and products.

* environmentally friendly Weight-Saving Innovative New Generation

Recent years have seen an upswing in infrastructure investment paralleling economic growth in emerging markets. At the same time, developed countries have planned projects such as the construction of high-speed railways and increased operating speeds and the modernization of existing railways. As a result, the global rolling stock market is expected to expand. Against this backdrop, we will establish a stronger presence in the domestic market by fully meeting customer needs and by expanding sales of high-performance, high-function products, such as efWING.
In North America, where we have a record of numerous successful projects and where demand is expected to grow, we are also maximizing the advantages of advanced technologies, quality, contract fulfillment capabilities, and two production facilities (KRC and KMM) in the United States to solidify our position as a top manufacturer of rolling stock in North America. In the Asian market, we work to maintain and develop local partnerships to establish optimal project delivery systems and strengthen system integration capabilities. In addition, we actively engage in entering new markets. With these measures, we aim at balanced growth in our three strategic markets of Japan, the United States, and Asia.

Main Products

- Electric train cars (including Shinkansen (bullet trains))
- Passenger coaches
- Electric and diesel locomotives
- Bogies
- Gigacell (High-Capacity, Full Sealed Ni-MH Battery)

Series W7 shinkansen(bullet train) operated by West Japan Railway Company

ALLEGRA Series 3000 train operated by Hakone Tozan Railway Company

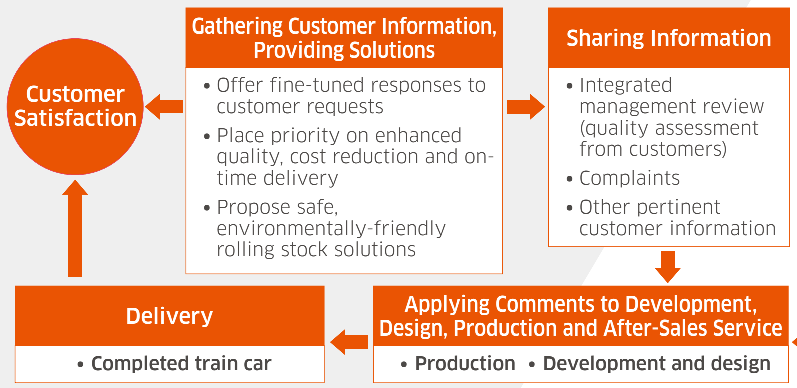
Focus Initiatives to Improve Customer Satisfaction Levels

The Rolling Stock Company manufactures high-quality rolling stock that meets all sorts of transportation requirements, from Shinkansen (bullet trains) to express trains, commuter trains, subway trains, locomotives and new transit systems, for customers in Japan and around the world, especially in the United States and Asia.

The technological capabilities accumulated since Kawasaki began manufacturing railway rolling stock back in 1906 have earned the company high marks from customers.

Customer Satisfaction Design Discussion Group

Raising Rolling Stock Customer Satisfaction



Campaign dubbed "Love & Affection. Put your Heart and Soul to Rolling Stock Manufacturing."

Questionnaire results, complaints and other comments from customers are shared internally and quickly reflected in after-sales service for delivered rolling stock and in the development of new train cars currently in production, as well as new models for the future, through a campaign dubbed "Love &Affection. Put your Heart and Soul to Rolling Stock Manufacturing." These efforts help to improve customer satisfaction levels and instill greater confidence in Kawasaki.

Business Review & Strategies

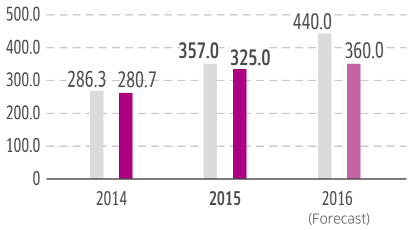
Aerospace

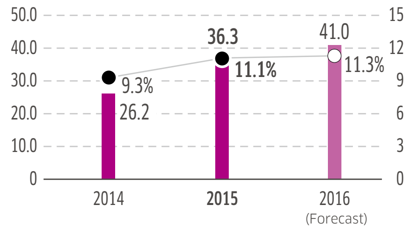
Boeing 787-9 Dreamliner

Munenori Ishikawa
President, Aerospace Company

Before-tax ROIC

FY2014	FY2015	FY2016 (Forecast)
19.6%	35.1%	29.0%





Company President Message

The Aerospace segment has always provided a wide variety of products that benefit society, including fixed-wing aircraft and helicopters for Japan Ministry of Defense, component parts for Boeing, Inc., and BK117 helicopters for emergency medical services and helicopters for use in fighting fires and in disaster situations. We take pride in these products and are confident of the in-house development and production capabilities that go into the realization of these products. We have amassed world-caliber expertise through successful development of many types of aircraft, including the T-4 intermediate trainer aircraft, the OH-1 light observation helicopter, and the P-1 maritime patrol aircraft, and currently, we are working to complete development of the XC-2 next-generation transport aircraft. At our production sites, we are extremely good at implementing improvements, pinpointing excess, and making adjustments on our own. This keeps our *monozukuri* spirit strong. Going forward, we will encourage opportunities to transfer technology to younger employees, on whose shoulders our future rests, and we will seek to expand our business horizons through new projects.

Approach to Social Issues

1 Contributing to reducing environmental load using carbon fiber composite technology

2 Contributing to development of the aerospace industry including human resources development and passing on technical skills to the next generation

Business Results for Fiscal 2015 and Outlook for Fiscal 2016

Consolidated orders received grew by ¥70.6 billion year on year to ¥357.0 billion, due to an increase in orders from Japan Ministry of Defense and for component parts for the Boeing 787.Consolidated net sales increased by ¥44.3 billion year on year to ¥325.0 billion, largely due to the growth in sales to Japan Ministry of Defense and of component parts for Boeing777 and 787.Consolidated operating income showed a sharp increase of ¥10.0 billion year on year to ¥36.3 billion, largely by virtue of sales growth and yen depreciation.

For fiscal 2016, we expect the consolidated orders received to be ¥440 billion, net sales to be ¥360 billion and operating income to be ¥41 billion.

Business Environment and Strategies

Growth Strategy under Group Management Model 2018

[Defense]
- Push ahead with the steady production of P-1 patrol aircraft and C-2 transport aircraft.
- Acquire demand for modernized, derivative, and successor models to current aircraft.

[Commercial]
- Increase production of component parts for the Boeing 787 and promote the development of derivative models.
- Expand profit bases through steady response to new project orders, such as components for the 777X.

In the defense aircraft business, we have already begun production of the P-1 patrol aircraft and the C-2 transport aircraft, which will be the core of our defense business going forward. To establish these two aircraft as the cornerstones of our sales and profit strategy and thereby place our defense business on an even firmer footing, we are steadily promoting production at the Gifu Works, which also covers repairs and spare parts supply, and we are working to expand the system to include derivative aircraft. Concurrently, we are targeting R&D in new projects and other forms of business expansion and will deploy our technological expertise as a system integrator to secure contracts and expand market share in the defense field.

In the commercial aircraft business, meanwhile, continuing expansion of demand is expected in the medium to long term. In response to increased production of component parts for the Boeing 787, we are further expanding our production capacity with the construction of a new plant at the Nagoya Works, among others. We are also upgrading our production systems including the Gifu Works for the development and production of the 777X. Going forward, we will draw on our record of performance and expertise we have built up so far, to be an energetic participant in the development and production of new aircraft models and a full range of derivative aircraft.

Main Products

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


Nagoya Works1 East Plant


BK117 C-2 Helicopter

Focus Initiatives to Improve Customer Satisfaction Levels

The Aerospace segment handles aircraft—fixed-wing and helicopters—for the Japan Ministry of Defense and for the commercial aircraft industry as well as missiles and space equipment, and undertakes regular maintenance of aircraft. The segment is very particular about product specifications, quality, and delivery times and provides customers with support after delivery to ensure proper operation. This commitment has earned Kawasaki a solid reputation among its aerospace customers.

To maintain market trust and lift it higher, the segment fleshes out its rules and regulations and enriches the content of manuals, promotes standardization of services, and takes a firm approach to training and skill improvement. In recent years, a trend toward umbrella agreements has emerged, where logistics support services for customers are bundled and outsourced for implementation on behalf of the customers, and the Aerospace segment is preparing a system to meet evolving market requirements. To gauge customer satisfaction, the segment collects opinions and requests through on-site interviews at customer offices and through questionnaires, and then implements a quantitative evaluation and analysis of the results. If necessary, improvement plans are drawn up. Reports are forwarded to the management team, and information is shared Company-wide. Through these activities, the segment ensures that the Kawasaki brand enjoys customer loyalty and appreciation over the long service life of the purchased products.

collect customer's evaluation and data
↓
evaluate•analyze
↓
Customer Satisfaction Report
↓
Report to management / Information shared among relevant divisions
↓ Feedback
Delivery•Maintenance / Various customer support


P-1 patrol aircraft
photo: from the Japan Maritime Self-Defense Force Web-site

Business Review & Strategies

Gas Turbine & Machinery

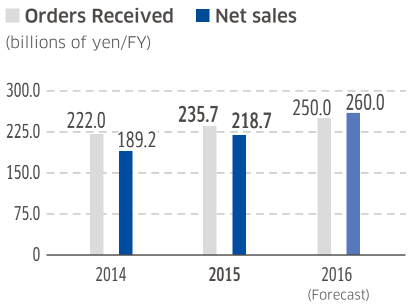

Kawasaki Green Gas Engine

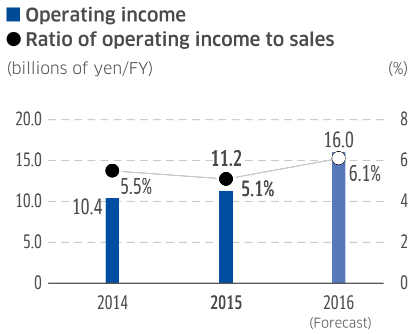

Gas turbine L30A

Toshiyuki Kuyama
President, Gas Turbine & Machinery Company

Before-tax ROIC

FY2014	FY2015	FY2016 (Forecast)
4.6%	5.7%	8.6%





Company President Message

The Gas Turbine & Machinery segment comprises two divisions—the Gas Turbine Division and the Machinery Division—and delivers to the market products that are at the core of plants and transport equipments. Our product line includes aircraft and marine engines, power-generating gas turbines and gas engines, steam turbines, compressors, and ship propulsion systems, for the energy and environment sector and the transportation sector.

Kawasaki-brand gas turbines and machinery require extremely sophisticated technology, and, with support primarily from the Corporate Technology Division, we seek to maintain and further enhance our technological expertise, already regarded as top level from a global perspective, by concentrating our efforts on products such as aircraft engines, L30A gasturbine, and gas engines. Indeed, efforts to hone our technological capabilities to a sharper edge are essential to sustain segment growth.

Approach to Social Issues

1 Contributing to the stable supply of clean energy

2 Delivery of solutions to diversifying energy and transportation needs

Business Results for Fiscal 2015 and Outlook for Fiscal 2016

Consolidated orders received increased by ¥13.7 billion year on year to ¥235.7 billion, attributable to the increase in orders for aircraft engine components, industrial gas turbines, natural gas compression modules, and other products. Consolidated net sales grew by ¥29.5 billion year on year to ¥218.7 billion, due to an increase in sales of aircraft engine components, marine propulsion systems, and other products. Despite the increase in amortization of development costs for the aircraft engine new program, R&D costs, and other factors, the increase in sales resulted in consolidated operating income of ¥11.2billion, a ¥0.7 billion year-on-year increase.

For fiscal 2016, we expect the consolidated orders received to be ¥250 billion, net sales to be ¥260 billion and operating income to be ¥16 billion.

Business Environment and Strategies

Growth Strategy under Group Management Model 2018

- Broaden the scope of participation in new aircraft engine projects, and enter into MRO* business and secure high profitability and growth in the long term.
  * MRO: Maintenance, Repair and Overhaul
- In the energy field, provide extensive product lineups through newly developed and improved models, and reinforce our ability to propose energy solutions to expand the business, centering on the overseas market.
- Develop technologies for next-generation marine propulsion machinery and systems for the offshore oil and gas markets, promoting commercialization.

In the energy field, to strengthen our response to increased energy demand from emerging nations, as well as to heightened demand for distributed power sources, reflecting revised energy policies in the wake of the Great East Japan Earthquake, we are enhancing our ability to propose energy solutions including the arrangement and integration of key hardware elements, such as gas turbines, gas engines, and steam turbines, to address the needs of a broad customer base.

In the transportation equipment field, where growing demand is expected, we are promoting the production of the Trent 1000 engine for the Boeing 787, the Trent XWB engine for the Airbus A350 XWB, and the PW1100G-JM engine for the Airbus A320neo. While putting in place an effective production system for these new projects, we will reduce costs to promote stable profits. Going forward, we will continue with our operations as a module supplier involved in joint international development from the basic design stage. Concurrently, in expectation of greater demand for energy worldwide, we are working to grow our business in marine propulsion systems with products such as shuttle tankers and offshore service vessels for use in the offshore oil and gas markets.

Main Products

- Jet engines
- Gas turbine cogeneration system
- Gas engines
- Diesel engines
- Gas turbines and steam turbines for marine and land
- Aerodynamic machinery / Marine propulsion system


IPC module of Trent XWB turbofan engine for Airbus A350XWB aircraft (IPC: Intermediate-pressure compressor)


Kawasaki side thruster(Cumulative domestic production reached 5,000 in January 2015)

Focus Initiatives to Improve Environment


Kawasaki-ECO System (K-ECOS)

For the energy sector, the Gas Turbine & Machinery segment offers gas turbines with high overall efficiency to meet electricity and heating needs and gas engines with the world's highest output efficiency—49.0%—as well as optimum solutions, from the perspective of a stable supply of clean energy to society, that combine various equipment with these gas turbines and gas engines. The segment is also working on gas turbines that run on hydrogen, dubbed the ultimate clean energy source. For the transportation sector, the segment plays a role in the development and production of such engines as the Trent1000 for the Boeing 787 Dreamliner passenger aircraft, which dramatically reduces CO_2 and NOx emissions; the Trent XWB for the Airbus A350 XWB; and the PW1100G-JM for the Airbus A320neo. As for the marine transport sector, the segment has expanded its lineup with dual-fuel, electronically controlled ME-GI engines and marine gas engines boasting dramatically higher environmental performance over conventional oil-fired diesel engines. In addition, the segment put Kawasaki at the leading edge of global competition with in-house development of the K-ECOS, a system that reduces NOx, CO_2, and other air-polluting emissions from marine diesel engines by combining multiple environmental technologies. Meanwhile, at production sites, the segment implements energy-saving measures, with an energy cost reduction target of 5% at the Seishin Works, and plans to expand measures to the Akashi Works and Kobe Works as well. Through these activities, the Gas Turbine & Machinery segment will make the most of limited natural resources, protect the environment, and contribute to the realization of a sustainable society.

Business Review & Strategies

Plant & Infrastructure

LNG Tank at Hachinohe LNG Terminal owned by JX Nippon Oil & Energy Corporation

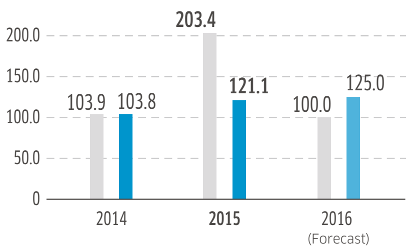
Eiji Inoue

President, Plant & Infrastructure Company

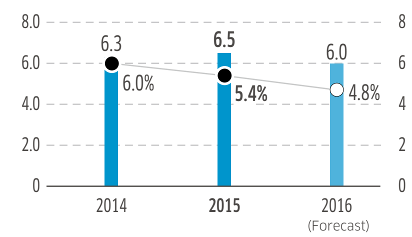
Before-tax ROIC

FY2014	FY2015	FY2016 (Forecast)
14.9%	14.3%	12.6%

■ Orders Received ■ Net sales
(billions of yen/FY)



■ Operating income
● Ratio of operating income to sales
(billions of yen/FY) (%)



Company President Message

The Plant & Infrastructure segment is engaged in various businesses, with its current emphasis on energy and the environment. Our product lineup is extensively diverse, from industrial plants and waste incineration plants to LNG tanks and further to large-diameter shield machines. The requests and requirements of our customers are also diverse, due to differences in social structure by country and region. We lend a ready ear to our customers' needs, consider combinations of products and technologies to achieve customers' objectives, and generate a constant stream of new value through this positive interaction. Case examples include Conch Kawasaki Kiln (CKK) Systems, which incorporate technology for waste gasification into cement kilns, and the Upgraded-Kawasaki Advanced Clean Combustion (U-KACC) boiler, which is compatible with solid fuel, such as asphalt pitch, which is flame-retardant material. Our ability to flexibly tackle business opportunities by embracing new technologies is our strong suit. Going forward, we will continue this proactive approach to enter new fields of activity.

Approach to Social Issues

1 Contributing to global environment conservation and CO_2 reduction through products and technology

2 Contributing to the creation of social infrastructure in emerging nations

Business Results for Fiscal 2015 and Outlook for Fiscal 2016

Consolidated orders received increased by ¥99.5 billion year on year to ¥203.4 billion as a result of booking orders for gas-to-gasoline plant, boiler power plants and other projects. Consolidated net sales increased by ¥17.2 billion year on year to ¥121.1 billion, due to progress in areas such as LNG storage tank plants and boiler power plants. The segment posted consolidated operating income of ¥6.5 billion, which was roughly on par with the previous year, as the increase in sales was partly offset by a deterioration in profitability and other factors.

For fiscal 2016, we expect the consolidated orders received to be ¥100 billion, net sales to be ¥125 billion and operating income to be ¥6 billion.

Business Environment and Strategies

Growth Strategy under Group Management Model 2018

- Capture domestic and overseas demand, mainly in the energy and environmental engineering fields.
- Create synergies with both internal companies and external affiliates of the Kawasaki Group.
- Develop engineering personnel and utilize them in a flexible manner.

We are engaged in a wide-ranging variety of businesses, including industrial plants, municipal waste incineration plants, and LNG tanks, and we deliver high-quality products with engineering capabilities built up over many years. We focus on the development of human resources as a high priority investment area to further improve our technological capabilities and strengthen project delivery systems.

On the technology front, in addition to improving the added value of our superior technologies, we standardize design across the board to achieve stable quality, shorter delivery lead times, and cost reductions. In the commercialization of new products and technologies, we work in coordination with our Corporate Technology Division, among other measures, to integrate intellectual property Group-wide and promote commercialization at an early stage.

To expand our market share in emerging nations and resource-rich countries against a background of rising worldwide energy demand, we seek active launches in overseas markets of product groups that have proven to be strongly competitive in the Japanese market. At the same time, we will enhance our product lineup and, through joint operations with overseas partners, improve our engineering, procurement, and construction (EPC) capabilities.

Main Products

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

SNNC Ferronickel Plant Capacity Expansion Project

Incineration Plant of Matsusaka City

Focus Initiatives to Improve Customer Satisfaction Levels

In the energy and environment sector, the Plant & Infrastructure segment solves customers' concerns through integrated engineering capabilities that organically interlink separate equipment and control-related technologies. An example of this is the Hofu Municipal Clean Center, Japan's first integrated waste treatment and biogas generation complex. It is a state-of-the-art waste treatment complex combining sorting, biogas generation, waste incineration, and recycling facilities.

The biogas generation facility appearance of the fermentation tank

The sorting facility separates out kitchen waste and other organic waste, which are then mixed with sewage sludge and human waste before undergoing a dry thermophilic methane fermentation process in the biogas generation facility. The methane gas generated is used to superheat the steam that is collected when the refuse and methane fermentation residue are burned in the incineration facility for highly efficient power generation. Since the generated electricity is used to run the complex and the surplus sold to the local power grid, it all adds up to reduced maintenance costs and fewer greenhouse gas emissions, resulting in superior environmental and energy-saving performance.

Business Review & Strategies

Motorcycle & Engine

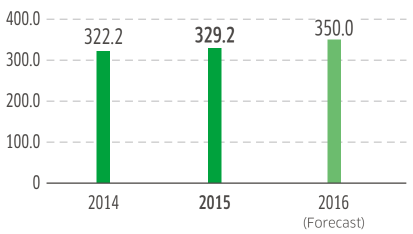

Ninja H2R

Kenji Tomida
President, Motorcycle & Engine Company

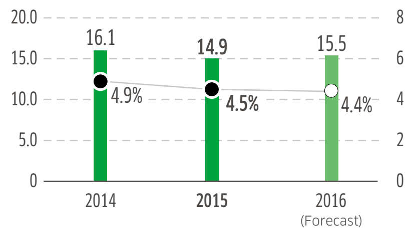
Before-tax ROIC

FY2014	FY2015	FY2016 (Forecast)
1.4%	7.3%	12.0%

■ Net sales
(billions of yen/FY)



■ Operating income
● Ratio of operating income to sales
(billions of yen/FY) (%)



Company President Message

The business activities of the Motorcycle & Engine segment center on development, production, and sale of B to C products, as typified by Kawasaki-brand motorcycles. The Group Mission, "Kawasaki, working as one for the good of the planet" (Enriching lifestyles and helping safeguard the environment: Global Kawasaki), is our foundation on which we will strive for superior environmental performance while infusing the Kawasaki brand with an expressive force, epitomized by the "Fun to Ride" spirit, which quite literally drives the brand and Kawasaki's stellar reputation worldwide. I am very sure of this. In terms of business scale, this segment is top-class, even when compared with other segments of Kawasaki Group, but an incredible number of variables affect our business and the growth scenario does not necessarily play out as planned. We will maximize our strengths, especially corporate insights, know-how, long-standing history, and solid reliability, to foster greater agility in our responsiveness to market changes and grow our business. In addition, we will practice the art of "*omotenashi*", in a business sense, which goes beyond the "hospitality" translation to a more "customer comes first" attitude, and "*kotozukuri*", which is like "value creation," to make Kawasaki a brand that is "A class apart" from the competition—a brand that inspires lifelong loyalty among customers around the world and makes them proud to own a Kawasaki product.

Approach to Social Issues

1 Fulfillment of both the requirements of a low-carbon society and delivery of " Fun to Ride", "Ease of Riding" to people

2 Product development to match the needs of emerging markets and branching out of production bases

Business Results for Fiscal 2015 and Outlook for Fiscal 2016

Consolidated net sales totaled ¥329.2 billion, a ¥6.9 billion year-on-year increase, as the decline in motorcycle sales to Latin America and Thailand was offset by the increase in vehicle sales and motorcycle sales to Europe. Consolidated operating income fell by ¥1.1 billion year-on-year to ¥14.9 billion, primarily due to factors such as intensifying competition in emerging countries and an increase in fixed costs.

For fiscal 2016, we expect the consolidated net sales to be ¥350 billion and operating income to be ¥15.5 billion.

Business Environment and Strategies

Growth Strategy under Group Management Model 2018

- Strengthen our presence as a premium brand by realizing "Kawasaki-ness."
- Achieve differentiation through a thorough understanding of customer needs and an enhancement of value chain.
- Improve the efficiency of global supply chain management.

In the developed countries market, we have continued to develop and launch strongly competitive models, thereby boosting our brand strength. A benefit from this is that our presence as a premium brand has also strengthened in emerging markets, where we have established a business base for achieving high profitability. In developed countries, where our focus is on profitability rather than on quantitative growth, based upon the policy "quality over quantity," we will concentrate on further improving our brand strength.

In emerging markets, where further expansion is expected on the back of economic growth, we aim to strengthen our position in the leisure motorcycle field, where we already enjoy a competitive lead through expansion of production capacity at local factories and continued launches of strategic new models. Recently, we have entered the Indian, Chinese, and Vietnamese markets in efforts to further develop emerging markets.

In the general-purpose gasoline engine business, we will strengthen our profit base through the development and launch of new engine models, an improvement in production efficiency in factories in the United States and China, and the establishment of a global logistics system.

In addition, we continue to develop power sport models, including high-speed utility vehicles and next-generation motorcycles. We are also working on supercharged engines with enhanced fuel efficiency and environmental performance.

Main Products

- Motorcycles
- All-Terrain Vehicles (ATVs)
- Utility Vehicles
- Personal Watercraft
- General-purpose Gasoline Engines


JET SKI ULTRA 310LX


MULE PRO-FXT

Focus Initiatives to Improve Customer Satisfaction Levels

The Motorcycle & Engine Company is the only Kawasaki business segment that deals directly with general consumers. Back in 1953, we began making motorcycle engines, marking our entry in the motorcycle business. Since then, we have developed products geared to customer needs, establishing a high priority on the Kawasaki brand, exemplified by several historically renowned motorcycles, including the "MACH", "Z" and "Ninja".

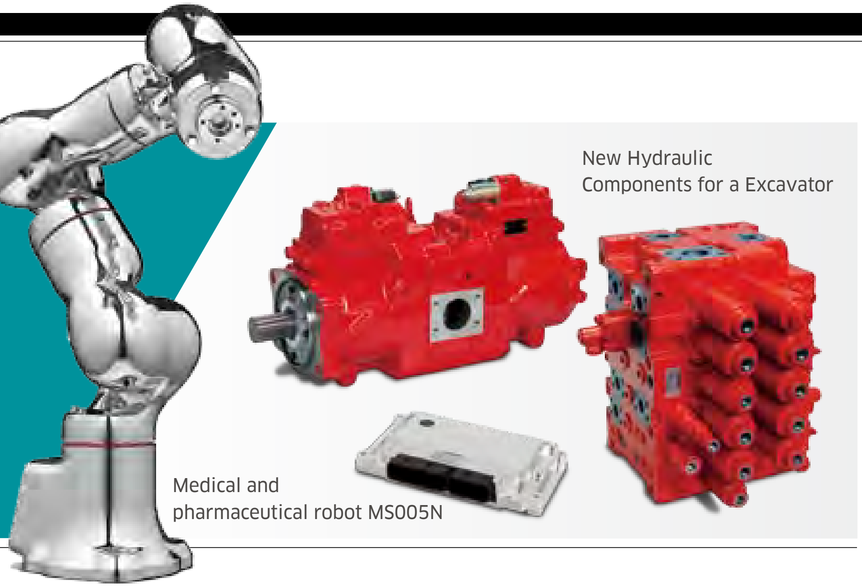
Not only motorcycle but also all-terrain vehicles (ATVs), recreation utility vehicles, utility vehicles, JET SKI personal watercraft, general-purpose gasoline engines and so on, we provide a wide variety of products to people around the world and have been received a high evaluation.

To ascertain an accurate picture of customer needs, in addition to the questionnaire survey of customers, we collect the information from our website and SNS. Furthermore we analyze combined sources, mainly the comments from motorcycle magazine readers and motor show visitors, and opinions from the dealers, and rapidly reflect them to design new products.


VULCAN S

Business Review & Strategies

Precision Machinery



New Hydraulic Components for a Excavator

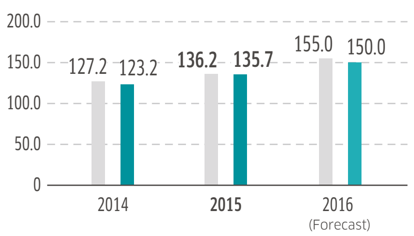
Medical and pharmaceutical robot MS005N

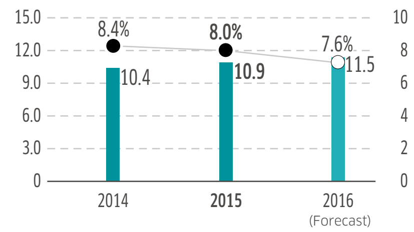
Kazuo Hida

President, Precision Machinery Company

Before-tax ROIC

FY2014	FY2015	FY2016 (Forecast)
17.5%	16.7%	12.9%





Company President Message

The primary function of both hydraulic machinery and robots is "to move something quickly, precisely and efficiently, at the will of the operator." Fulfilling this function would, of course, promote the development of industry and the establishment of infrastructure, but it would also lead to improved energy savings and, by extension, reduced CO_2 levels. In the Hydraulic Machinery business unit, we are contributing to enhanced energy-saving features and a better environment through the debut of hybrid products that operate by optimizing the use of hydraulic and electric power. Currently, we are working to not only maintain but increase the high share we have in the excavator market and expedite development of products for the mobile market,* as we seek to enter into new business fields.

Meanwhile, in the Industrial Robots business unit, we are also vigorously pursuing entry into new demand sectors, such as medical robots, where prospects for major growth are high. Robots are becoming intelligent, going beyond simple motion control functions, and we are applying this aspect to the development of robots for use in sectors where automation has not progressed as far as in other sectors. Going forward, we will integrate the Hydraulic Machinery business unit and the Industrial Robots business unit and strive to generate greater synergy between the two as we endeavor to make Kawasaki the top brand in the motion control sector.

* Mobile market: Construction machinery and agricultural machinery sectors other than excavators

Approach to Social Issues

1 Product development focused on energy saving and environmental adaptation

2 Contribution to provision of infrastructure in emerging markets

Business Results for Fiscal 2015 and Outlook for Fiscal 2016

Consolidated orders received increased by ¥8.9 billion year on year to ¥136.2 billion as a result of an increase in orders for industrial robots for the automotive industry and other applications. Consolidated net sales increased by ¥12.5 billion year on year to ¥135.7 billion, as although sales of hydraulic components were roughly flat year on year, there was an increase in sales of industrial robots, centered on robots for the automotive industry, along with other factors. The segment posted consolidated operating income of ¥10.9 billion, which was roughly on par with the previous year, as the increase in sales was offset by a deterioration in profitability and other factors.

For fiscal 2016, we expect the consolidated orders received to be ¥155 billion, net sales to be ¥150 billion and operating income to be ¥11.5 billion.

Business Environment and Strategies

Growth Strategy under Group Management Model 2018

[Hydraulic Components]

- Continue to maintain our high share in the hydraulic excavator field, with a view to further growth.
- Expand sales in the mobile field.

[Industrial Robots]

- Accelerate sales to emerging markets, especially China.
- Expand the line builder business by reinforcing system solution capabilities.
- Develop a new field through the application of human robot collaboration technology and enter into the field of medical robots.

In the hydraulic machinery business, to maintain our high market share in the hydraulic excavator sector, we are working to realize cutting-edge hydraulic equipment technology and improve systematization technology. We will also promote business diversification through expanded sales of hydraulic components and systems for the mobile field.

As a response to globalization, following our entry into China, we set up a new company in India, a major growth market, commencing production in 2012. As a result, we have established a system with six centers worldwide, in Japan, the United Kingdom, the United States, South Korea, China, and India, which meets the immediate needs of customers all over the world.

Meanwhile, in the industrial robots business, we expect the robot market to expand in the medium to long term, due to increasing demand for automation in developed and emerging markets. We will boost cost-competitiveness to facilitate expansion in emerging markets and reinforce the automotive and semiconductor sectors. In addition, we have just entered into the field of medical robots, which is expected to grow significantly. We are also actively moving ahead with the exploitation of new fields and markets by developing new technologies that differentiate us from other companies, such as friction spot joining systems for steel and human robot collaboration technology.

Main Products

- Hydraulic components (pumps, motors and valves)
- Hydraulic systems for industrial use
- Hydraulic marine machinery
- Precision Machinery / Electric-powered devices
- Industrial Robots

New Hydraulic Components for Construction Machinery

Palletizing robots CP180L

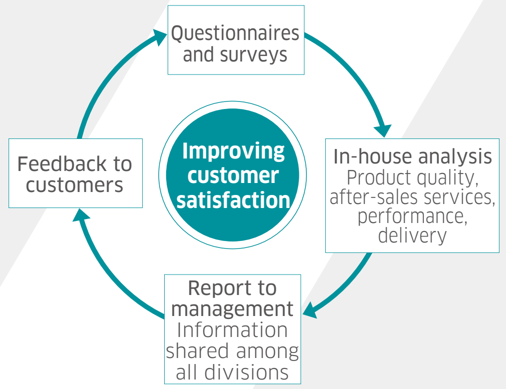
Focus Initiatives to Improve Customer Satisfaction Levels

The Precision Machinery segment markets hydraulic components and systems as well as industrial robots in countries around the world and has earned a stellar reputation from customers in all sectors. We have captured particularly large segments of the market for hydraulic components used in construction machinery, including hydraulic excavators, as well as robots for the automotive industry and the semiconductor industry, and customers in these industries are overwhelmingly loyal to the Kawasaki brand.

This is undoubtedly a reflection of technological capabilities that facilitate development and provision of products fine-tuned to the diverse needs of customers' right from the design stage.

In after-sales service, as well, we respond quickly to customers' requests through a global network with points in Japan, the United Kingdom, Germany, the United States, China, and South Korea, and strive to enhance our activities to ensure customer satisfaction.

Comments from customer questionnaires are categorized into themes: product quality, after-sales services, performance and delivery, and the information is shared among all divisions and with management. We take the results seriously and everyone strives daily to address issues that customers have noted so as to raise the level of customer satisfaction.

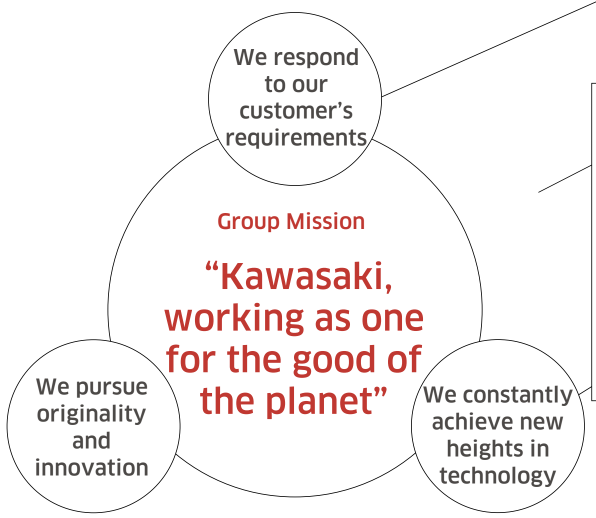


Training the people responsible for after-sales services

CSR Overview

Foundation of Value Creation

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



Five Themes

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

The Medium-term Business Plan and a "Action goals"

We collect and collate comments from customers along with results from surveys by nonprofits and other organizations as well as ISO 26000 core issues, and extract from this information specific CSR issues within each theme that we should address from a Group-wide perspective. For Medium-term Business Plan 2013 (MTBP 2013), which runs from fiscal 2014 through fiscal 2016, we review the CSR issues, including the evaluation items which are requested from the overseas SRI (socially responsible investment) index, then engage targets and the necessary measures that would unfold during MTBP 2013.

MTBP 2013 Goals/Approaches

Overall	Clarify Kawasaki Group's social responsibility, make employees fully aware that CSR is a Group-wide obligation, and cement a structure to promote relevant practices.
	Listen to stakeholders' opinions and reflect these comments in corporate activities and business operations.
	Respect the Global Compact, UN Millennium Development Goals, and ISO 26000 and other international CSR-related standards.
Value creation	Strive to contribute to a sustainable society through business activities and products.
	Create products that customers can trust and seek to further improve quality and product safety.
	Track customer satisfaction and strive to boost the level higher.
Management	Target further improvement in corporate governance.
	Familiarize all employees with Kawasaki code of corporate ethics and code of conduct.
	Target further improvement in all existing measures to protect information.
	Target further improvement in shareholder and investor communication practices.
	Promote cooperation in CSR management with business partners.

Employees	Ensure appropriate use and continuous improvement of occupational safety and health management system with due consideration to employee safety and health.
	Apply measures to maximize the personal value of employees.
	Implement initiatives to enhance employees' awareness of human rights issues.
	Look to utilize the long-term benefits of equal opportunity and diversity.
	Strengthen initiatives to create a pleasant work environment for employees.
Environment	Steadily reduce annual CO_2 emissions and energy consumption.
	Reduce amount of waste and promote reuse and recycling.
	Steadily reduce environmentally hazardous substances.
Social contribution	Clearly define Group-wide social contribution vision, basic policy and key areas, and implement activities.
	Encourage self-planned and self-sponsored social contribution initiatives.

CSR Promotion Organization

1 Corporate CSR Committee
The committee exists to deliberate, decide and monitoring on major CSR policies and important matters.

2 Company CSR Liaison Conference

3 Compliance department managers' meeting

2 Head Office CSR Planning Group

Company CSR Committees
Determine concrete measures of each internal company, implement and monitor them.

Head Office CSR Committees
Determine concrete measures of head office department, implement and monitor them.

1 The Corporate CSR Committee discusses CSR policies and implementation status as well as polices that underpin adherence to basic principles on corporate ethics applicable throughout the Group and their associated implementation status and also deliberates on compliance matters.

2 The Head Office CSR Planning Group acts in an advisory capacity to the Corporate CSR Committee and makes suggestions in cooperation with the Company CSR Liaison Conference, a joint meeting of people in departments in each internal company who are responsible for CSR to exchange information.

3 The compliance department managers' meeting acts in an advisory capacity to the Corporate CSR Committee on compliance activities.


Corporate CSR Committee

Message

Overview by Director in Charge of CSR

Kawasaki Group has a duty, encapsulated in the Group Mission, "Kawasaki, working as one for the good of the planet", and strives constantly to create new value that is of use to society on a global basis. Amid intense transformation of the social landscape, the issues and associated risks that we, as a corporate group, must address are also evolving. We will overcome perceived challenges as we pursue dialogue with our stakeholders, and thereby strengthen our business foundation.


Managing Executive Officer
Charge of CSR

Ikuhiro Narimatsu

Overview of FY2015 and assignment of FY2016

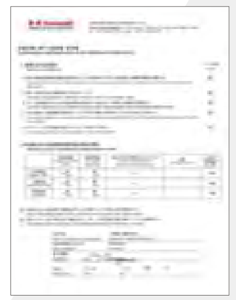
In fiscal 2015, segment-specific activities were implemented in Japan along with activities common to Group companies overseas.

In fiscal 2016, a wider range of activities will be rolled out at Group companies overseas, and we will step up collaborative efforts with business partners.

Please refer to the following for more details of Kawasaki CSR
http://global.kawasaki.com/en/corp/sustainability/

Focus Addressing Human Rights and Labor Issues

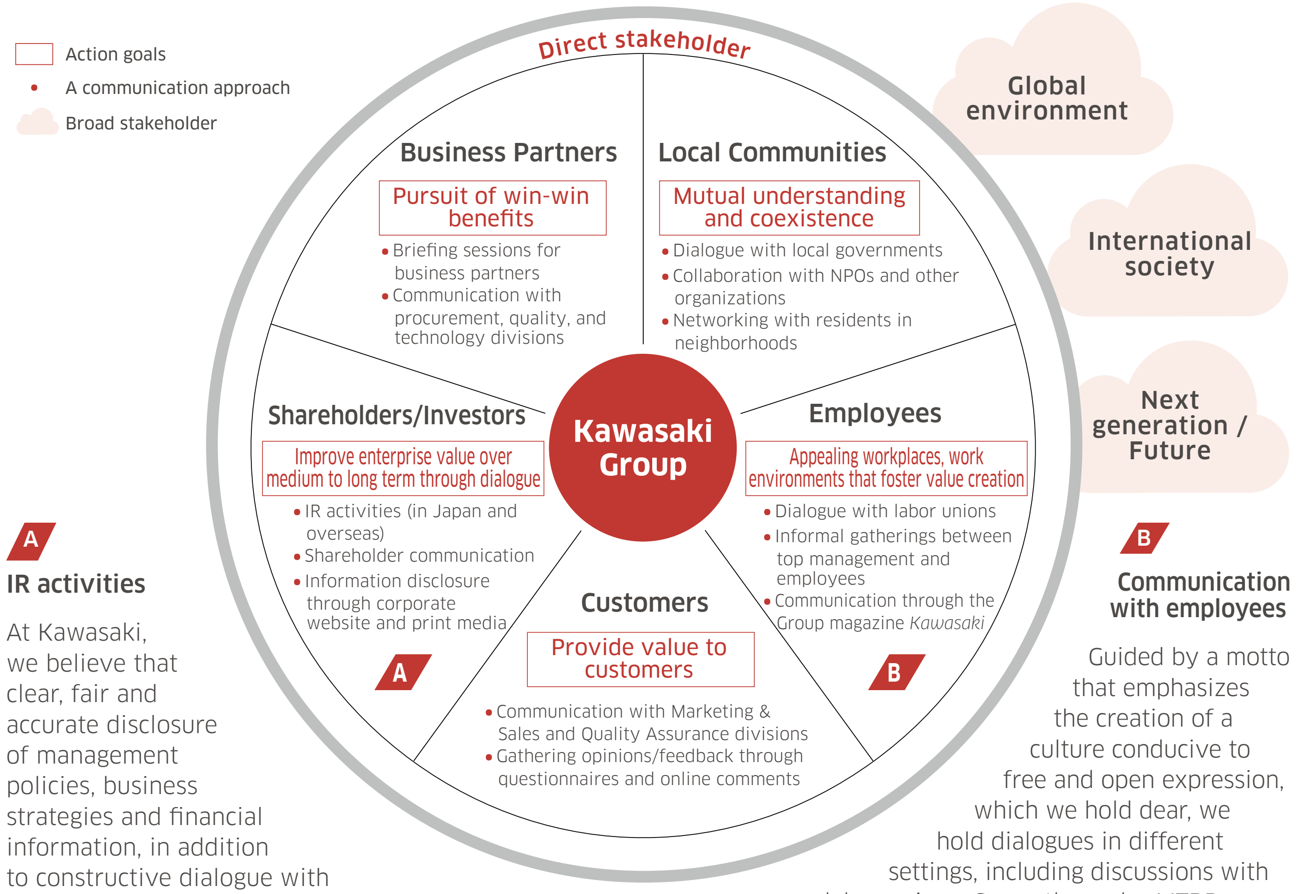
In fiscal 2015, we implemented an initiative targeting the global human rights and labor issues of child labor and forced labor to confirm that no company under the Group umbrella is involved in such practices and to declare that none will ever employ such practices. This style of confirmation and declaration, acknowledged and supported by the Global Compact Network Japan secretariat, was prepared in line with "Global Compact Labor Principles and Business Guidelines" and was signed by the presidents of all Group companies, including those overseas. In addition, all Group companies, including those overseas, prepared CSR Procurement Guidelines, which cover respect for human rights, and called on business partners to work as a team to uphold these guidelines.


Confirmation and Declaration of the Abolition of Child labour

Meeting Stakeholder Expectations

Stakeholder Communication

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



A IR activities

At Kawasaki, we believe that clear, fair and accurate disclosure of management policies, business strategies and financial information, in addition to constructive dialogue with investors, leads to long-term improvement in enterprise value of the Group as a whole. In fiscal 2015, we worked to promote a deeper understanding of the effort to improve enterprise value of the Group, including a presentation on Kawasaki-ROIC management by the president at the financial results briefing.

B Communication with employees

Guided by a motto that emphasizes the creation of a culture conducive to free and open expression, which we hold dear, we hold dialogues in different settings, including discussions with labor unions. Currently, under MTBP 2013, we have highlighted measures to create more opportunities for direct dialogue between management and employees, and we have integrated such dialogue opportunities more often into training programs, including sessions according to qualification level. These activities are set to continue in fiscal 2016.

IR activities in FY2015

Interviews with Institutional Investors	Japan: 230 times Overseas:50 times
Visiting overseas Institutional Investors	North America: 2 times Europe: 2 times Asia: 1 time
Financial results briefing	4 times (April / July / October, 2014 and January, 2015)
Participation in the conference sponsored by securities companies	1 time (March, 2015)
General Meeting of Shareholders	June, 2014 (773 people attended)
Factory tours for shareholders	Sakaide Works (November, 2014) Gifu Works (March, 2015)

We encourage communication with experts and international organizations –the voices of society– and apply the insights gained to future activities.

Communication

- In line with international codes of conduct (including ISO 26000)
- Meet demands of society through initiatives targeting higher SRI (socially responsible investment) ratings by institutions worldwide
- Dialogue with experts who represent the demands of society as a whole
- Awareness of social issues and risks, and solutions derived through business
- Communication with NGOs

Dialogue with Experts

–Business and CSR of Global Corporations–

Toshimune Yamaguchi, an economist and director at Caux Round Table Japan (CRT Japan), was invited to speak with the Corporate CSR Committee, which has the participation of all directors, full-time corporate auditors, and presidents of internal companies (Kawasaki's business segments), about CSR for global corporations.

NPO Caux Round Table – Japan Director

Toshimune Yamaguchi

- Global CSR–it is required of Japanese corporations today. Perceptions about CSR and international rules have evolved since 2010.
- The approach–not rule-based but principle-based. Companies must identify risks in their own businesses, through dialogue with stakeholders, determine the pros and cons of pursuing such businesses, and then deal with prevailing issues and provide updates as the activities unfold.
- Major social currents paint the backdrop, namely, global risk and megatrends. Management must be able to recognize these social issues independently and accurately judge their impact on the business.

The Corporate CSR Committee utilized the ideas presented by Mr. Yamaguchi to guide a discussion on issues specific to Kawasaki Group.

Communication with ESG Investment/ SRI Rating Agencies and International NGOs

Kawasaki keeps lines of communication open to global ESG investment/ SRI rating agencies,* such as the Dow Jones Sustainability Indices, and international NGOs, including Transparency International. We complement the examination and assessment of disclosed information through dialogue, and if we are told that the information is still insufficient, we revise our approach to disclosure or our activities.

* ESG investment/SRI rating agencies: Agencies that evaluate the world's leading companies in terms of environmental, social, and governance or social responsibility criteria to provide benchmarks for investors who integrate sustainability considerations into their portfolios.

Management

To ensure that Kawasaki Group remains a company able to meet the expectations of society, management is committed to operating with a high degree of transparency toward stakeholders and to promoting activities that integrate business operations in the spirit of our Mission Statement with CSR activities.

Please refer to the following for more details
Management ▸ http://global.kawasaki.com/en/corp/sustainability/mgmt/

Corporate Governance System

Basic Stance on Corporate Governance

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

Note: Regarding correspond to corporate governance code, we will introduce more on our websites.

Overview of the Corporate Governance System

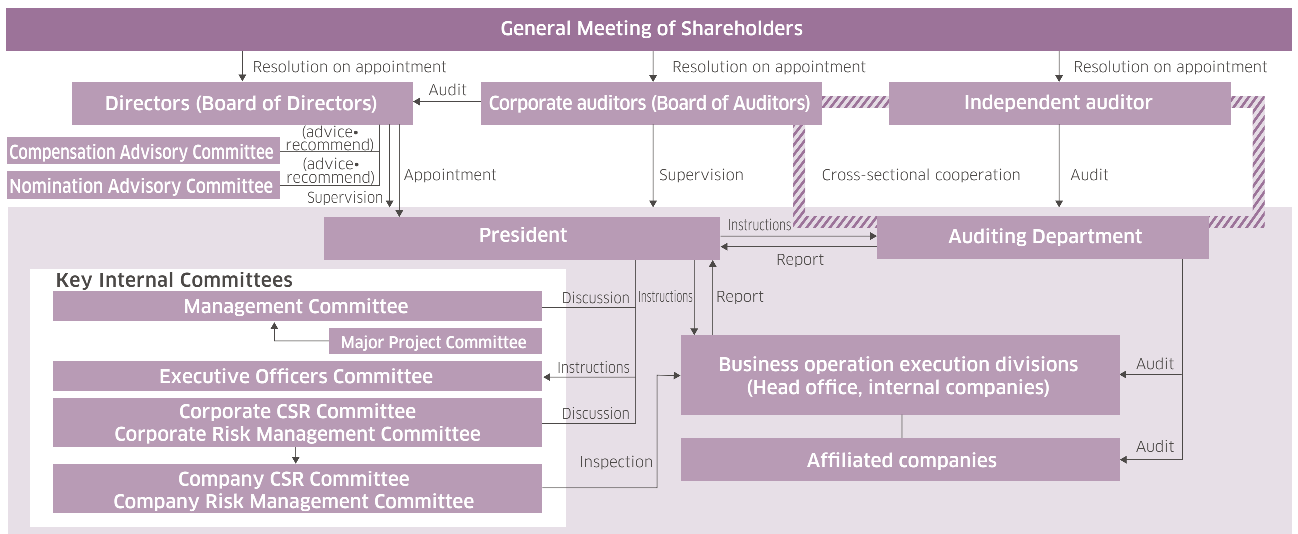
Kawasaki opted for the statutory auditor system with a Board of Auditors and appoints an independent accounting auditor. In addition to the Board of Directors and the Board of Auditors, the Company benefits from the Management Committee and the Executive Officers Committee, both comprising people of appropriate rank, such as representative directors, but the Executive Officer Committee also includes executive officers who have been appointed by the Board of Directors.

In addition, we have established Compensation Advisory Committee and Nomination Advisory Committee, that is consisted mainly of outside directors for conducting more improvement in recent corporate governance.

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

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

Kawasaki's Governance Structure (As of June 25, 2015)



Board of Directors

The Board of Directors comprises 12 directors (authorized number: 18), with the president serving as presiding officer due to a vacancy in the position of chairman. Seeking to strengthen the oversight function of the Board of Directors with regard to overall management, the Company appointed two outside directors (an independent officer, as required by the Tokyo Stock Exchange) who is independent from any role in the execution of business activities. As a way to clarify management responsibilities, all directors' terms of office are limited to one year and compensation for all directors except the outside director is incentive-based to reflect performance.

Number of Board of Directors' Meetings, and Directors' and Corporate Auditors' Attendance Rates (Includes Extraordinary Meetings)

	April 2012–March 2013	April 2013–March 2014	April 2014–March 2015
Number of meetings	13	14	18
Directors' attendance rate	98.2%	98.6%	98.6%
Outside director's attendance rate	N/A	100.0%	100.0%
Auditors' attendance rate	96.2%	100.0%	100.0%
Outside corporate auditors' attendance rate	100.0%	92.9%	100.0%

Corporate Auditors and Board of Auditors

The Board of Auditors comprises four corporate auditors (authorized number: 5). To ensure the reliability of financial reports, the Company appoints internal corporate auditors who have considerable knowledge of finance and accounting, and to ensure objectivity and neutrality in the management oversight function, the Company appoints two outside corporate auditors (independent officers, as required by the Tokyo Stock Exchange) with no business relationships or other vested interests in the Company. The internal corporate auditors and outside corporate auditors share information closely and work to enhance the management oversight function.

Number of Board of Auditors' Meetings, and Corporate Auditors' Attendance Rate

	April 2012–March 2013	April 2013–March 2014	April 2014–March 2015
Number of meetings	17	22	19
Corporate auditors' attendance rate	100.0%	98.7%	100.0%
Outside corporate auditors' attendance rate	100.0%	97.7%	100.0%

Internal Auditing

With regard to internal auditing, the Auditing Department, a unit under the direct authority of the president, maintains an independent position for monitoring all corporate business activity. The department targets management activities in all of the Group's business segments for audits. In this way, the department verifies and evaluates effectiveness and efficiency in the execution of operations, the reliability of financial reports, and conformity to standards of compliance (corporate ethics and laws), and offers suggestions for improvements.

Independent Auditing

With regard to independent auditing, Kawasaki undergoes audits of its financial statements by the independent auditor KPMG AZSA LLC. Corporate auditors and the Board of Auditors receive an outline of the audit plan and a report on important audit items from the independent auditor, and the Board of Auditors explains the Company's auditing plan to the independent auditor. Corporate auditors and the Board of Auditors periodically receive reports on the results of audits by the independent auditor, and conversely, the independent auditor receives reports on the results of audits by the corporate auditors and the Board of Auditors, who strive to keep lines of communication open with the independent auditor by also exchanging information and opinions. When necessary, corporate auditors take part in the audits performed by the independent auditor, and may also receive reports from the independent auditor concerning audits when appropriate.

Independent Auditor Compensation (Millions of yen)

Subject of audit	Fiscal 2015	
	Compensation based on audit certification services	Compensation based on non-audit services
Kawasaki Heavy Industries Ltd.	171	47
Consolidated subsidiaries	54	0
Total	226	47

Compensation to Corporate Officers

The compensation system for Kawasaki directors—which is designed to promote sustained improvement in corporate performance and enterprise value and to secure outstanding human resources—ensures a level of compensation in line with the duties of the individual officer. The level of compensation is determined by the president as delegated by the Board of Directors. Compensation for directors, except the outside director, is linked to corporate performance.

From the perspective of professional independence, compensation for corporate auditors is set at a fixed level and not linked to corporate performance. It is determined by the Board of Auditors. The system of compensation for directors and corporate auditors described above operates within a fixed compensation range approved by shareholders at the General Meeting of Shareholders.

Note: The Company has decided to form a compensation advisory committee, underpinned by the participation of independent outside directors, which will convene in fiscal 2016 to provide advice on the compensation system.

Amount of Corporate Officers' Compensation in Fiscal 2015 (Millions of yen)

Category	Fiscal 2015
Directors 14 people	¥662 million
Corporate auditors 5 people	¥89 million
Total 19 people	¥751 million (of which was paid to three outside directors/corporate auditors)

Note: The maximum amount of compensation for directors is ¥1,200 million per year (as resolved at the 189th Ordinary General Meeting of Shareholders held on June 27, 2012). The maximum amount of compensation for corporate auditors is ¥8 million per month (as resolved at the 170th Ordinary General Meeting of Shareholders held on June 29, 1993).

Compliance

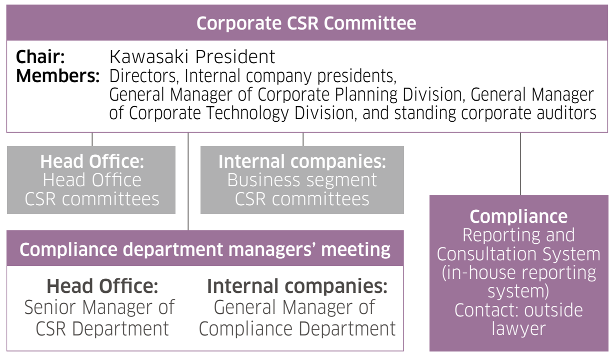
Basic Stance

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

Compliance Promotion Structure

The Corporate CSR Committee meets at least twice a year. All executives are members of this committee, which is chaired by Kawasaki president. Their goals are to discuss and determine approaches that enable Kawasaki Group to fulfill its corporate social responsibilities and to monitor the status of compliance efforts. This includes compliance with the basic philosophy of corporate ethics set forth in Kawasaki Code of Corporate Ethics. To ensure that the objectives of the Corporate CSR Committee extend to all corporate structures, business segments at the head office and internal companies hold "business segment CSR committee" meetings in their effort to promote compliance throughout the Group.

Compliance Promotion Structure



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

In certain situations, employees who suspect a violation of compliance practices in their department may find it difficult to report the situation or seek advice from superiors or a department that would normally address alleged misconduct. To address this problem, we established the Compliance Reporting and Consultation System.

Number of Report or Consultation (in fiscal 2015)

Nature of report or consultation	Number of cases
Power harassment	10
Personnel treatment	8
Illegal or dishonest acquisition of money	6
Others	7
Total	31

Employee Awareness Survey

In fiscal 2015, we conducted an employee awareness survey that added questions about employee satisfaction and brand strategy to questions about how well employees understand compliance issues.

Conducting this survey and making the results widely known leads to a deeper appreciation of compliance issues, and the results obtained can be applied to future initiatives.

Efforts to Prevent Corruption

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

Supply chain management

In accordance with Basic Policies for Material Procurement, the Code of Conduct for Dealing with Business Partners, and CSR Procurement Guidelines, which are published on Kawasaki website, the Company conducts procurement activities with a CSR perspective that starts with compliance and takes into account human rights, labor relations, occupational safety and health, and the global environment. Also, with the extended cooperation of its business partners, the Company aggressively promotes CSR activities throughout the supply chain.

In addition, in fiscal 2015 CSR procurement acquired a more global, Group-wide embrace, as domestic and overseas companies within Kawasaki Group that procure materials established supply chain management systems fine-tuned to respective corporate structures and published policies on their own websites.

Please refer to the following for the Basic Policy for Material Procurement
http://global.kawasaki.com/en/corp/sustainability/procurement/basic_policies.html

Risk Management

Basic Stance

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

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

Responding to Major Risk

To undertake risk management organized on a Group-wide basis, each year divisions responsible for different areas of operations identify major risk with the potential to exert a huge impact on operations (Group-level risk), specify risk that requires Group-wide response measures (risk requiring Group-wide action), implement appropriate measures, and monitor the results.

With regard to risk associated with management strategies, in accordance with Board of Directors Regulations, Management Committee Regulations, and Approval Regulations, the relevant divisions must analyze such risk in advance and consider appropriate responses. Then, in accordance with regulations, the Board of Directors or the Management Committee will pursue discussion and resolution.

Risk Identified as Group-Level Risk in Fiscal 2015

Name of risk	Head Office division responsible for monitoring
Foreign exchange risk	Finance Department/ Corporate Planning Department
Human risk	Personnel Department
Major disaster risk	Corporate Planning Department
Procurement risk	Procurement Devision
Quality management risk	Manufacturing Improvement Department
Information leakage risk	General Affairs Department/ Information Planning Department
Individual commissioned project management risk	Corporate Planning Department
Economic recession risk	Corporate Planning Department
Safety and health risk	Safety & Health Management Department
Development and design risk	Corporate Technology Division
Intellectual property risk	Intellectual Property Department
Production process management risk	Manufacturing Improvement Department
Country risk	Marketing Division
Competing product risk	Corporate Planning Department
Tax risk	Accounting Department
Compliance risk	CSR Department
Contract risk	Legal Department
Debt collection risk	Finance Department
Environmental contamination risk	Environmental Affairs Department
Revised law and regulation risk	Corporate Planning Department

Crisis Management

Kawasaki Group's Risk Management Regulations contain crisis management provisions set out in readiness for the emergence of a risk situation. These regulations set forth behavioral guidelines and response systems that serve to protect lives and preserve assets, minimize damage and loss, and expedite the resumption of business activities in the event of unplanned interruption. To prepare for crisis situations, we rely on the Crisis Management Organization, a horizontally integrated Group structure for crisis management, and have a structure in place to expedite the establishment of command centers at the Head Office and local works or offices, as necessary, to ensure a quick response in the event of a crisis.

Export Control

To ensure Group-wide compliance with export control laws and regulations, we have formulated a set of corporate export control regulations for goods and technologies relevant to security maintenance and have put in place an export control system in which a representative director acts as Chief Export Control Officer.

As a first measure, we set up the Export Control Laws and Regulations Compliance Screening Committee (hereafter the Screening Committee) at the Head Office chaired by the Chief Export Control Officer. The Screening Committee undertakes final assessment of all export transactions across the Group to confirm compliance with export control laws and regulations, and provides guidance and supervision to our internal companies to help them establish control systems that ensure legal and regulatory compliance. In addition, the Export Control Section was set up within the Head Office Marketing Division to provide secretariat services to the Screening Committee and to function as a Group-wide division to coordinate export control. Next, the Working Level Committee was instituted under the control of the Screening Committee to undertake preliminary screening ahead of the assessment by the Screening Committee, discuss matters delegated to it by the Screening Committee, report to the Screening Committee, and undertake horizontal rollout to internal companies of export control-related information.

Furthermore, each internal company and business center operates an Export Control Committee, which screens all the export transactions of the relevant company or business center and refers the screening results to the Screening Committee for discussion.

Information Security Management

Kawasaki Group provides products to a diverse range of customers, from general consumers and the public sector to the Self-Defense Forces, and promotes numerous information security measures suited precisely to the requirements of each customer sector.

We established a dedicated framework under the corporate risk management structure to handle information security management for Kawasaki Group. We promote a management cycle, emphasizing rules, training and technology measures to address information security risks that constantly change with the times, and we systematically implement, maintain and enhance information security measures.

Environment

The Kawasaki Group has undertaken business whose foundation calls for the advancement of society and the nation through manufacturing, and has sought to develop a global enterprise in key industries related to land, sea, and air. In doing so, we have worked to resolve global environmental problems by seeking to realize a low-carbon society, a recycling-oriented society, and a society coexisting with nature. We will contribute to the sustainable development of society through business activities that are in harmony with the environment as well as through products and services that show consideration for the global environment.

Please refer to the following for more details
Environment ▸ http://global.kawasaki.com/en/corp/sustainability/environment/index.html
Kawasaki Environmental Report (update in September 2015)
▸ http://global.kawasaki.com/en/corp/sustainability/environment/report/index.html

Promoting Environmental Management

Under the Group's environmental management structure, the Corporate Environment Committee, chaired by the chief environmental officer (director responsible for environmental management), discusses various key issues and determines measures related to the environment. In addition, an environmental management officer, an environmental protection officer, a senior manager responsible for environmental protection, and a manager responsible for environmental protection are appointed at each internal company, and measures decided by the Corporate Environment Committee are then implemented by each internal company. Each internal company undertakes a regular review of results and welcomes feedback on the status of ongoing measures, thereby underpinning Company-wide involvement in environment-related activities. Similarly, an energy management structure has been established to address energy use, which has a big impact on business, and each internal company has its own energy management officer who spearheads aggressive energy-saving activities matched to respective business scale.

Environmental Management Organization

President

Chief Environmental Officer (Director responsible for environmental issues)

Companies
- Environmental Management Officer (President or vice president)
- Environmental Protection Officer (Vice presidents, division general managers, factory general managers, site senior managers, or headquarters' senior managers)
- Senior Manager responsible for environmental protection (Division senior manager or a person in equivalent role)
- Manager responsible for environmental protection (Section manager or a person in equivalent role)

• Environmental Management Committee
This committee formulates three-year environmental management activity plans for each internal company and tracks the results achieved through company-specific activities.

Head Office
Environmental Management Division (Environmental Affairs Department)

• Corporate Environment Committee
This committee deliberates and decides the Environment Management Activities Plan (revised at triennial intervals) and the operation of priority initiatives of Environmental Management Activities (set annually).

Energy Management Organization

President

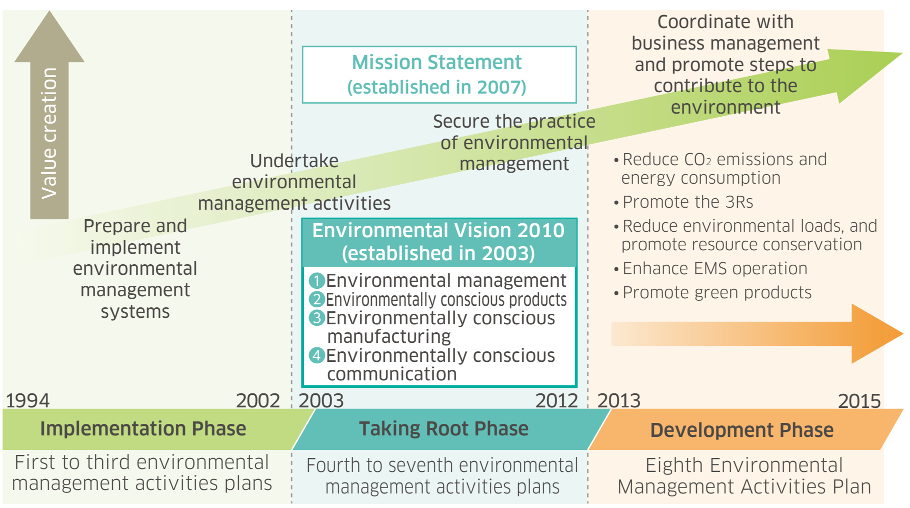
Energy Management Officer (Director responsible for environmental issues)

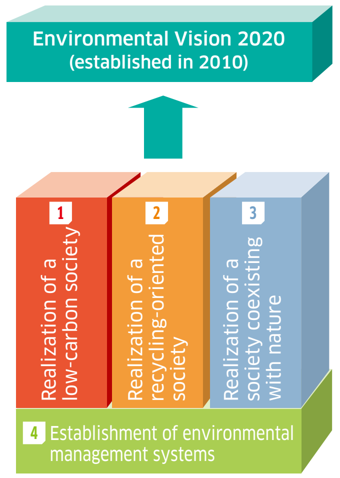
Companies
- Energy Management Officer (Vice-presidents, division general managers, factory general managers, or site senior managers or a person in equivalent role)
- Alternate Energy Management Officer (Division senior manager or a person in equivalent role)
- Energy Management Promoter (Section manager or a person in equivalent role)
- Energy Manager

Head Office
Energy Management Division (Environmental Affairs Department)

• Corporate Energy Management Committee
The function of this committee is primarily to discuss and draft yearly energy-saving polices and action plans applicable to the whole company as well as medium- to long-term energy-saving action plans.

Environmental Management Flow





2014 Summary

CO_2 emissions, a major catalyst of climate change, continued to decrease, substantiated by achievement of our reduction goal for fiscal 2015—a 2% drop on an annual basis—reflecting progress in energy- and resource-saving initiatives. The reduction in CO_2 emissions from products delivered in fiscal 2015 was lower than originally targeted. Waste was maintained at zero emissions, as the final disposal ratio stayed below 1%, and total waste decreased year on year on a unit basis through measures to restrict output. PCB treatment moved steadily along.

For chemicals, major VOCs* were down on a unit basis, but hexavalent chromium and dichloromethane were up, owing to operating activities. Forest protection activities were undertaken in Hyogo Prefecture, Miyagi Prefecture, and Kochi Prefecture as part of ongoing program. Water conservation and recycling efforts led to less use and reduced release, mainly through steps to save water and prevent leaks. In the establishment of environmental management systems, determining reasonable reduction targets for domestic affiliated companies will be an ongoing theme for fiscal 2016.

* Main VOCs: For Kawasaki Group, the major VOCs are toluene, xylene and ethyl benzene.

Material Balance of Business Activities for Fiscal 2015 (Overall Picture of the Environmental Impact)

Kawasaki has drawn up a summary of the impact of our business activities on the environment during fiscal 2015.

INPUT

Energy consumption	
Total amount (crude oil conversion)	152,000 kl
Fuel	2,309 TJ
Purchased electricity	368 GWh
Renewable energy	2 GWh
Materials (steel)	
Amount purchased as steel material	90,000 t
Water	5,990,000 m³

Kawasaki Heavy Industries
Business activities
Net sales
¥1,098.0 billion

OUTPUT

Air	
Greenhouse gases	318,000 t-CO_2
SOx	10 t
NOx	168 t
Waste	
Total waste	50,700 t
Recycled	49,500 t
Others	1,200 t
Water	
Total amount of wastewater	4,580,000 m³

Results of Activities in Fiscal 2015

Realization of a low-carbon society

Target

1 **Use the energy visualization system**
By fiscal 2016, reduce annual CO_2 emissions and energy consumption by at least 5%

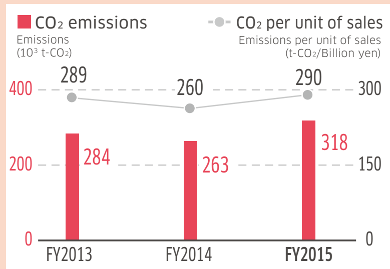
2 **Reduce CO_2 emissions through the contribution from products**
Cumulative values shall meet or exceed initial targets for each business segment.

Result

1 **Use the energy visualization system**
CO_2 emissions down 2%, thanks to improvement activities. (Expect to achieve 5% reduction in fiscal 2016)

2 **Reduce CO_2 emissions through the contribution from products**
CO_2 emission reduction through products reached 510 thousand t-CO_2, exceeding emissions from business activities, but the initial target was not met.

CO_2 Emissions and Emissions per Unit of Sales



Realization of a recycling-oriented society

Target

1 **Promoting reduction in waste generation, greater reuse and more recycling**
Reduce total waste emissions per unit of sales, and maintain zero emissions Boost recycling rate above previous years' level. The recycling ratio shall meet or exceed the level recorded in the previous fiscal year.

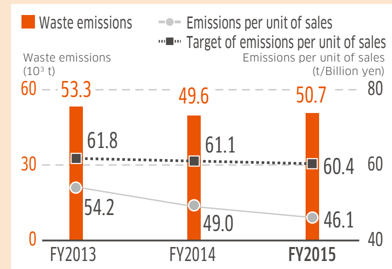
2 **Promoting PCB treatment**
Proceed steadily with proper treatment of low-concentration PCB waste.

Result

1 **Promoting reduction in waste generation, greater reuse and more recycling**
Total waste on a unit basis decreased 6% over the previous fiscal year, and the final disposal ratio was below 1%, maintaining zero emission status.

2 **Promoting PCB treatment**
Low-concentration PCBs were outsourced to the appropriate providers of waste treatment services.

Waste Emissions and Emissions per Unit of Sales



Realization of a society coexisting with nature

Target

1 **Reduce chemical substances**
Reduce the use of major VOCs, dichloromethane, and heavy metals*.

2 **Continue with forest conservation activity**
Carry out forest conservation activity more than twice a year

3 **Conserving Water**
Reduce water consumption and amount of wastewater

* Heavy metals: Total hexavalent chromium and lead

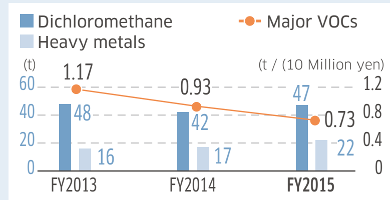
Result

1 **Reduce chemical substances**
Major VOCs decreased 23% on a unit basis, but dichloromethane emissions were up 13% and the amount of heavy metals handled jumped 47%.

2 **Continue with forest conservation activity**
Activities were undertaken a total of five times in Hyogo Prefecture, Miyagi Prefecture, and Kochi Prefecture.

3 **Conserving Water**
The amount of water used was down 8% from the previous fiscal year on a unit basis, while the amount of wastewater increased 19%.

Reduction-Targeted Chemicals Handled and Emitted (t)



Establishment of environmental management systems (EMS)

Target

1 **Reinforcing environmental management ability of affiliated companies in Japan**
Set reasonable reduction targets and invite feedback.

2 **Reinforcing environmental management ability of affiliated companies overseas**
Promote information-sharing, identify issues at sites, and offer support.

3 **Promoting Kawasaki Green Product Promotion Activity**
Conduct conformity assessment of product.

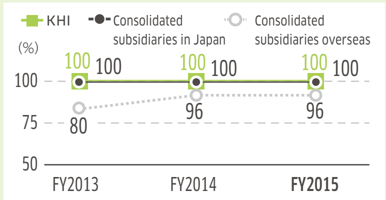
Result

1 **Reinforcing environmental management ability of affiliated companies in Japan**
Continued to discuss targets for fiscal 2016.

2 **Reinforcing environmental management ability of affiliated companies overseas**
Created new, standardized method for collecting information from overseas sites and began applying data laterally and identifying issues requiring action.

3 **Promoting Kawasaki Green Product Promotion Activity**
Registered 11 products as Kawasaki Green Products following conformity assessment.

EMS Completion Rate
(Number of companies with EMS in place as a percentage of all companies in the category, excluding newly established companies)



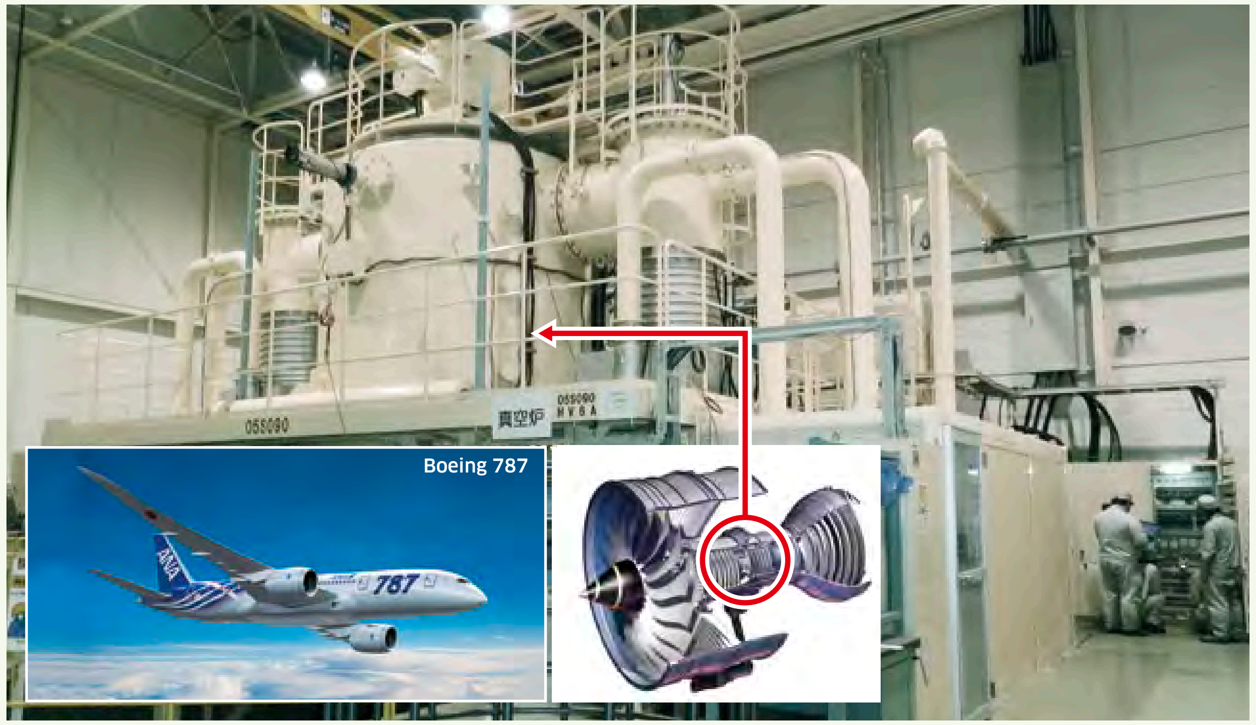
Note: Unless specifically noted, the environmental data pertain to Kawasaki on a non-consolidated basis.

Environment

Focus

Using the energy visualization system, employees are able to implement energy-saving improvements on their own.

Optimizing power application method for heat treatment furnace used in production of aircraft engines (Seishin Works)

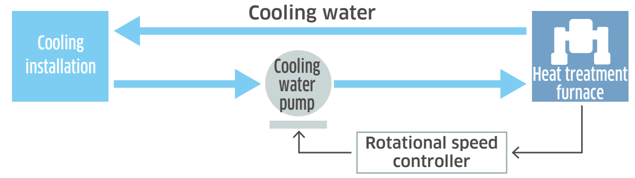


Power consumption

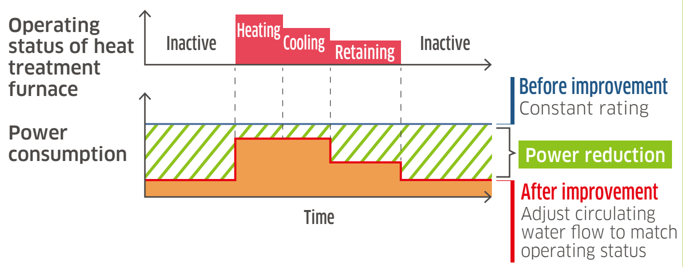
Down about 70%

Experts in heat treatment looked into the process and optimized the circulating load of the cooling water. Power consumption decreased by 70%.

Optimization of Cooling Water Circulating Load Matched to Heat Treatment Furnace Operation



Power Reduction by Optimizing Flow of Cooling Water



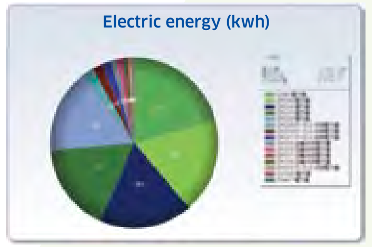
Promoting energy visualization system and energy-saving improvement know-how laterally across the organization

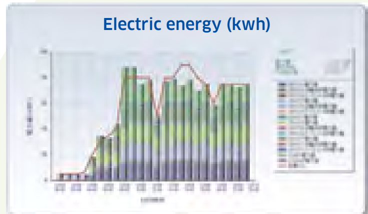
The production of products uses energy through various processes, from material handling to waste disposal.

To reduce energy consumption on the production stage, Kawasaki introduced an energy visualization system, dubbed K-SMILE, in all operating divisions in 2013.

When employees can see the flow of energy and water, they are able to draw on their own manufacturing knowledge to prevent wasted energy and incongruity. This will lead to a 5% reduction in energy costs.

K-SMILE is always evolving through feedback from users.





Proprietary energy visualization system–K-SMILE

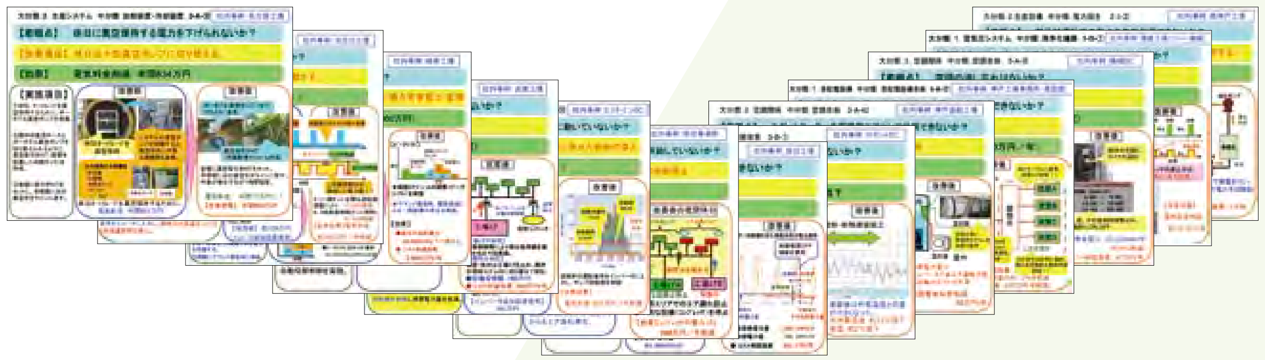
Promote self-directed energy-saving activities

Examples of energy-saving improvements in-house and elsewhere are compiled into a database. We are working to make the database available Company-wide to promote knowledge sharing.

Energy Cost Reduction Goal

5% down

Database for examples of energy-saving improvements



Study sessions on energy-saving methods

People in all operating divisions who promote energy-saving activities gather at facilities where energy-saving measures have been successful for study sessions. By promoting energy-saving technology, we accelerate associated activities throughout the organization.

Lecture on energy-saving methods

Lectures on approaches to successful energy-saving, presented by invited, an external consultant, enhance awareness and responsiveness throughout the Company.

Employees

We consider employees to be our most valuable resource—real assets—to fulfill the Group Mission and achieve business targets. We place great emphasis on cultivating a corporate atmosphere conducive to free and open dialogue and seek to build a pleasant workplace environment in which employees feel safe and comfortable and can demonstrate their full potential.

Please refer to the following for more details
Employees ▸ http://global.kawasaki.com/en/corp/sustainability/employee/

Creating a Safe, Comfortable Workplace

Over the last few years, Kawasaki has directed its efforts into policies to help employees deal with potential mental health issues and lifestyle diseases, which are recurring themes every year.

For mental health issues, we strive to reinforce consultation by offering guidance as required as well as opportunities to speak with an industrial physician. We also mandate a day of no overtime to ensure that employees go home on time, and endeavor to control long working hours by pinpointing workplaces where overtime is prevalent and making efforts to correct the situation. In addition, we encourage staff to take annual paid vacation to avoid health troubles, including mental fatigue due to overwork.

For lifestyle diseases control and prevention, we run classes on diet and exercise for young employees in cooperation with a health insurance association and promote the Kawasaki Kenko-Challenge (Health Challenge), a program designed to encourage healthier lifestyles.

We will continue to engage in these kinds of activities to help employees stay fit, if they already are, or become fitter, if they have some health issues to address.

Respect for Diversity

At Kawasaki, we believe that the establishment of a work environment where women can assume active roles and where the corporate culture sustains this ideal is essential for corporate growth. Therefore, we actively recruit women, promote the 4U (For You) Network for female employees, and offer career and communication seminars for young women. In addition, to help women achieve a good work-life balance, we provide financial assistance to offset some of the cost of daycare and run seminars for women returning to work after maternity leave as well as their supervisors.

We aim to triple the number of women in management positions (equivalent to section chief or higher) by 2020, compared with the current number. Going forward, we will maintain a good workplace atmosphere and further develop the skills of our female employees.

FOCUS Selected as the Health & Productivity Stock Selection and Nadeshiko Brand (March 2015)

Kawasaki was selected for the Health & Productivity Stock Selection in 2015. This program was developed jointly by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange(TSE). They chose 22 companies that set the management of employee health as a corporate management priority and actively implement strategic initiatives from this perspective, among TSE-listed about 3,500 companies. Selected companies – one from each industry – are introduced to investors as attractive stocks.

The Health & Productivity Stock Selection Logo

Nadeshiko Brand is another joint program by METI and TSE. Kawasaki was selected for this brand as one of 40 companies among TSE-listed about 1,800 major companies in 2015. These companies are scored on the basis of initiatives to support the career development of women and to balance work and life of employees, as well as on their superiority in their respective financial index. Selected companies are introduced as attractive stocks for investors who attach value to companies with excellent policies for women encouraging activities.

Nadeshiko Brand Logo

Social Contribution

In the field of social contribution activities beyond its business operations, Kawasaki Group focuses on dynamic activities designed to meet the expectations of society while drawing on strengths, in line with its Group Mission,"Kawasaki, working as one for the good of the planet."

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

Make Your Own Power Plant!

Kawasaki run a handicraft workshop for children at an elementary school in Minamisanriku, Miyagi Prefecture every year.

Interacting with the Community

Elementary and junior high school students from the area surrounding the Akashi Works and their families are invited to the site to promote positive interaction with the community every year. (Enjoying an activity at our corporate museum, Kawasaki Good Times World)

Kawasaki Good Times Foundation

We operate a social contribution fund in the United States and make various donations to such organizations as institutes for the arts and culture and also for charitable works.

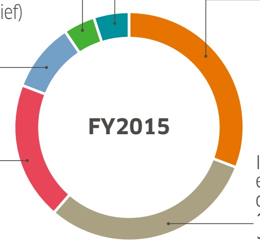
Working to Realize a Society That Coexists with Nature Through Forest Restoration Efforts

We take part in biodiversity conservation activities in three prefectures—Kochi, Hyogo, and Miyagi.

Expenditure on Social Contribution

(Millions of yen)

Category	FY2013	FY2014	FY2015
Local communities	223	239	**236**
Industrial/economic development	137	163	**231**
Education	194	131	**148**
Culture/sports	65	69	**73**
Welfare/charity (including disaster relief)	20	16	**34**
Others (including environment/ safety and accident prevention)	48	13	**37**
Total	687	631	**759**
Recurring profit for the fiscal year	39,328	60,505	**84,288**
Expenditure as a proportion of recurring profit	1.75%	1.04%	**0.90%**



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

Management Discussion & Analysis

OVERVIEW

In fiscal 2014 (the year ended March 31, 2015), the global economy on the whole continued to grow modestly in conjunction with the full-fledged recovery of the US economy. However, the situation will continue to bear watching, particularly with respect to the impacts of US monetary policy actions, concerns about economic stagnation in emerging countries, uncertainty with respect to the debt problem in Europe and other factors, as well as the impact of the decline in crude oil prices on resource-rich countries.

While there are concerns about the risk of a downturn in overseas economies negatively impacting the Japanese economy, the ongoing improvement in the employment and income environments as well as the decline in crude oil prices have led to an upturn in consumer sentiment. This, along with other factors, such as the improvement in exporters' earnings due to the weakening of the yen against other currencies, especially the US dollar, are helping the economy rise out of the malaise caused by the recoil decline following last April's consumption tax rate hike. Consequently, the economy is expected to continue to grow modestly going forward.

Amid such an operating environment, the Group achieved an increase in orders received during fiscal 2014, centered on order growth in segments such as Plant & Infrastructure, Aerospace, and Ship & Offshore Structure. Overall sales increased on growth in sales in segments such as Aerospace and Gas Turbine & Machinery. Operating income, recurring profit and net income also rose as a result of the increase in profit in Aerospace and most other segments.

The Group's consolidated orders received increased by ¥257.5 billion year on year to ¥1,712.9 billion. Consolidated net sales totaled ¥1,486.1 billion, a ¥100.6 billion year-on-year increase, and consolidated operating income increased by ¥14.9 billion year on year to ¥87.2 billion. As a result of operating income growth and decreasing foreign exchange losses, consolidated recurring profit increased by ¥23.6 billion year on year to ¥84.2 billion. Consolidated net income increased by ¥13.0 billion year on year to ¥51.6 billion.

RESULTS OF OPERATIONS

Net Sales

As noted, consolidated net sales increased ¥100.6 billion from the previous fiscal year to ¥1,486.1 billion.

Overseas sales totaled 855.1 billion. By region, sales in the United States were ¥356.8 billion, sales in Europe accounted for ¥115.1 billion, sales in Asia outside Japan contributed ¥252.3 billion, and sales in other areas added ¥130.7 billion. The ratio of overseas sales to consolidated net sales increased 1.2 percentage points, to 57.5%, compared to 56.3% in the previous fiscal year.

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

Ship & Offshore Structure

Consolidated orders received increased ¥61.3 billion year on year to ¥179.2 billion, as a result of booking orders for a submarine and five liquefied gas carriers (LNG carriers and LPG carrier).

Consolidated net sales increased ¥9.4 billion year on year to ¥90.3 billion, as growth in the amount of construction of LNG carriers and other factors offset the decline in the amount of construction of LPG carriers, bulk carriers, and other vessels.

The segment incurred a consolidated operating income of ¥2.6 billion, a ¥4.6 billion upturn from the previous fiscal year's consolidated operating income. The amelioration in profitability was chiefly by virtue of sales growth and the reversal of provision for losses on construction contracts.

Rolling Stock

Consolidated orders received were ¥131.4 billion, a level equal to the previous fiscal year. Despite receiving an order from the Singapore Land Transport Authority for subway train cars for new lines, there was an absence of large orders from North America and from within Japan as were received in the same period of the previous fiscal year.

Consolidated net sales decreased ¥26.4 billion year on year to ¥121.5 billion, as a result of a decline in overseas sales to customers in North America.

Consolidated operating income decreased ¥1.5 billion year on year to ¥6.0 billion, attributable to a decline in sales and profit margin.

Aerospace

Consolidated orders received grew ¥70.6 billion year on year to ¥357.0 billion, due to an increase in orders from Japan's Ministry of Defense and for component parts for the Boeing 787.

Consolidated net sales increased ¥44.3 billion year on year to ¥325.0 billion, largely due to the growth in sales to Japan's Ministry of Defense and of component parts for Boeing 777 and 787. Consolidated operating income showed a sharp increase of ¥10.0 billion year on year to ¥36.3 billion, largely by virtue of sales growth and yen depreciation.

Gas Turbine & Machinery

Consolidated orders received increased ¥13.7 billion year on year to ¥235.7 billion, attributable to the increase in orders for aircraft engine components, industrial gas turbines, natural gas compression modules, and other products. Consolidated net sales grew ¥29.5 billion year on year to ¥218.7 billion, due to an increase in sales of aircraft engine components, hydraulic machinery, and other products.

Despite the increase in amortization of development costs for the aircraft engine new program, R&D costs, and other factors, the increase in sales resulted in consolidated operating income of ¥11.2 billion, a ¥0.7 billion year-on-year increase.

Plant & Infrastructure

Consolidated orders received increased by ¥99.5 billion year on year to ¥203.4 billion as a result of booking orders for gas-to-gasoline plants, boiler power plants and other projects.

Consolidated net sales increased ¥17.2 billion year on year to ¥121.1 billion, due to progress in areas such as LNG storage tank plants and boiler power plants.

The segment posted consolidated operating income of ¥6.5 billion, which was roughly on par with the previous year, as the increase in sales was partly offset by a deterioration in profitability and other factors.

Motorcycle & Engine

Consolidated net sales totaled ¥329.2 billion, a ¥6.9 billion year-on-year increase, as the decline in motorcycle sales to Latin America and Thailand was offset by the increase in vehicle sales and motorcycle sales to Europe.

Consolidated operating income fell ¥1.1 billion year-on-year to ¥14.9 billion, primarily due to factors such as intensifying competition in emerging countries and an increase in fixed costs.

Precision Machinery

Consolidated orders received increased by ¥8.9 billion year on year to ¥136.2 billion as a result of an increase in orders for industrial robots for the automotive industry and other applications.

Consolidated net sales increased ¥12.5 billion year on year to ¥135.7 billion. Although sales of hydraulic components were roughly flat year on year, there was an increase in sales of industrial robots, centered on robots for the automotive industry, along with other factors.

The segment posted consolidated operating income of ¥10.9 billion, which was roughly on par with the previous year, as the increase in sales was offset by a deterioration in profitability and other factors.

Other

Consolidated net sales increased by ¥6.9 billion year on year to ¥144.2 billion.

Consolidated operating income was ¥3.9 billion that were equivalent level of the previous fiscal year.

Cost, Expenses, and Earnings

Cost of sales increased ¥76.3 billion from the previous fiscal year to ¥1,216.6 billion. As a result, gross profit increased ¥24.2 billion to ¥269.4 billion, while the gross profit margin edged up 0.5 percentage point to 18.1%, from 17.6% in the previous fiscal year.

Selling, general and administrative expenses grew ¥9.3 billion to ¥182.1 billion, primarily because of higher salaries and benefits, and R&D expenses. Operating income increased ¥14.9 billion to ¥87.2 billion. The large increase in operating income was due to increased profit in almost all the segments, mainly Aerospace. The ratio of operating income to net sales increased 0.6 percentage points, to 5.8%, from 5.2% in the previous fiscal year.

Other income (expenses) showed net expenses of ¥2.9 billion, compared with net expenses of ¥11.0 billion in the previous fiscal year. The principal reason for this was foreign exchange losses which decreased to ¥5.0 billion, compared with ¥14.7 billion in the previous fiscal year. As a result, after deduction of minority interests, net income increased ¥13.0 billion from the previous fiscal year to ¥51.6 billion. The ratio of net income to net sales edged up 0.7 percentage point to 3.4% from 2.7% in the previous fiscal year. ROE (calculated using average total shareholders' equity) edged up 1.9 percentage points to 12.9%, from 11.0% a year ago.

Capital expenditures in fiscal 2014 came to ¥80.0 billion, down from ¥87.7 billion in the previous fiscal year. R&D expenses were ¥41.6 billion, up from ¥40.3 billion a year ago.

FINANCIAL CONDITIONS

At March 31, 2015, consolidated assets totaled ¥1,662.2 billion, a 6.9% increase from March 31, 2014. Of this total, current assets accounted for ¥1,073.0 billion, a 6.6% year-on-year increase, chiefly attributable to an increase in inventories. Fixed assets totaled ¥589.2 billion at March 31, 2015, a 7.3% increase from March 31, 2014, mainly as a result of capital investments that added to holdings of property, plant and equipment.

Consolidated liabilities increased 3.1% year on year to ¥1,214.3 billion at March 31, 2015, mainly attributable to an increase in advances from customers, despite a decline in short-term debt and other factors.

Consolidated net assets at March 31, 2015, totaled ¥447.9 billion, an 18.9% increase from March 31, 2014. While dividend payments detracted from consolidated net assets, this was more than offset by net income, improvement in foreign currency translation adjustments due to yen depreciation, and other factors.

The ratio of shareholders' equity to total assets expanded 2.6 percentage points to 25.9% from 23.3% at the end of the previous fiscal year. In addition, the net debt-to-equity ratio improved 25.4 percentage points from 109.3% to 83.9% as of March 31, 2015.

CASH FLOWS

Operating activities provided net cash of ¥127.6 billion, a ¥24.0 billion decrease from the previous fiscal year. Major sources of operating cash flow included depreciation expense of ¥44.5 billion, a ¥29.4 billion increase in advances from customers, and a ¥28.9 billion increase in trade payables. Major uses of operating cash flow included expenditure of ¥22.5 billion due to the increase in inventories.

Investing activities used net cash of ¥67.3 billion, ¥10.1 billion less than in the previous fiscal year, mainly to acquire property, plant and equipment.

Free cash flow, which is the net amount of cash from operating and investing activities, showed a net inflow of ¥60.2 billion in fiscal 2014, down from net inflow of ¥74.1 billion in fiscal 2013.

Financing activities used net cash of ¥57.1 billion, ¥5.3 billion less than the previous fiscal year. The cash outflow was mainly due to debt repayments.

Given these changes in cash flows, cash and cash equivalents at the end of the term settled at ¥47.7 billion, up ¥2.2 billion from the beginning of the year.

MANAGEMENT OF LIQUIDITY RISK

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

MANAGEMENT INDICATOR

The Group has adopted profit targets (operating income, recurring profit, and net income) and ROIC (return on invested capital: earnings before interest and taxes (EBIT) ÷ invested capital), a measure of capital efficiency, as its target metrics of operating performance.

The Group applies ROIC for each of the Group's business units (BU), the smallest unit into which its operations are classified, and evaluates BU based on whether or not ROIC exceeds the weighted-average cost of capital (WACC).

Improving these management metrics ultimately results in higher ROE (net income ÷ shareholders' equity)

Calculated with this formula, ROIC increased 2.3 percentage points to 10.4%, from 8.1% in the previous fiscal year.

DIVIDENDS

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

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

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

In fiscal 2015, the Company intends to pay a dividend of ¥12 per share (¥5 interim dividend, ¥7 year-end dividend).

Consolidated Balance Sheets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
At March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
ASSETS			
Current assets:			
Cash on hand and in banks (Note 19)	¥51,645	¥47,949	$429,408
Receivables:			
Trade	421,890	415,664	3,507,857
Other	17,937	14,115	149,139
Allowance for doubtful receivables	(2,995)	(3,104)	(24,902)
	436,832	426,675	3,632,094
Inventories: (Note 5 and 9)	498,652	458,034	4,146,104
Deferred tax assets (Note 18)	33,292	33,046	276,810
Other current assets	52,642	40,050	437,702
Total current assets	1,073,063	1,005,754	8,922,118
Property, plant and equipment (Note 8):			
Land	64,708	62,866	538,022
Buildings and structures	394,123	368,582	3,276,985
Machinery and equipment	694,871	650,375	5,777,593
Construction in progress	18,356	29,330	152,623
	1,172,058	1,111,153	9,745,223
Accumulated depreciation	(751,504)	(727,241)	(6,248,475)
Net property, plant and equipment	420,554	383,912	3,496,748
Investments and intangible and other assets:			
Investments in securities (Notes 6, 7 and 8)	95,716	84,377	795,842
Long-term loans	363	424	3,018
Deferred tax assets (Note 18)	41,611	52,711	345,979
Goodwill and other intangible assets	16,409	17,262	136,434
Allowance for doubtful receivables	(823)	(710)	(6,842)
Net defined benefit assets (Note 10)	317	1,444	2,635
Other (Note 8)	15,073	9,256	125,328
Total investments and intangible and other assets	168,666	164,764	1,402,394
Total assets	¥1,662,283	¥1,554,430	$13,821,260

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt and current portion of long-term debt (Note 8)	¥142,615	¥191,161	$1,185,790
Trade payables (Note 8)	253,907	252,107	2,111,141
Electronically recorded obligations	85,453	53,923	710,509
Advances from customers	171,607	137,598	1,426,847
Income taxes payable (Note 18)	17,094	10,100	142,130
Accrued bonuses	26,440	22,118	219,838
Provision for product warranties	11,480	10,535	95,451
Provision for losses on construction contracts (Note 9)	5,873	13,560	48,831
Deferred tax liabilities (Note 18)	442	442	3,675
Asset retirement obligations	15	49	124
Other current liabilities	109,698	103,822	912,104
Total current liabilities	824,624	795,415	6,856,440
Long-term liabilities:			
Long-term debt, less current portion (Note 8)	271,761	253,482	2,259,590
Liability for retirement benefits (Note 10)	79,272	97,048	659,116
Deferred tax liabilities (Note 18)	8,199	6,630	68,171
Provision for losses on legal proceedings	-	395	-
Provision for environmental measures	2,535	3,669	21,077
Asset retirement obligations	464	487	3,857
Other	27,471	20,618	228,415
Total long-term liabilities	389,702	382,329	3,240,226
Contingent liabilities (Note 11)			
Net assets (Note 12):			
Sharehoders' equity:			
Common stock:			
Authorized - 3,360,000,000 shares			
Issued - 1,670,805,320 shares in 2015			
- 1,671,892,659 shares in 2014	104,484	104,484	868,745
Capital surplus	54,393	54,394	452,257
Retained earnings	253,606	217,449	2,108,640
Treasury stock -191,653 shares in 2015			
-141,710 shares in 2014	(67)	(43)	(557)
Total shareholders' equity	412,416	376,284	3,429,085
Accumulated other comprehensive income:			
Net unrealized gains on securities, net of tax	3,704	2,653	30,797
Deferred losses on hedges	(1,985)	(3,803)	(16,504)
Foreign currency translation adjustments	25,179	6,416	209,353
Accumulated adjustments for retirement benefits	(7,318)	(18,509)	(60,846)
Total accumulated other comprehensive income	19,580	(13,243)	162,800
Minority interests	15,961	13,645	132,709
Total net assets	447,957	376,686	3,724,594
Total liabilities and net assets	¥1,662,283	¥1,554,430	$13,821,260

Consolidated Statements of Income and Comprehensive Income

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2015, 2014 and 2013

Consolidated Statements of Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2015	2014	2013	2015
Net sales	¥1,486,123	¥1,385,482	¥1,288,881	$12,356,556
Cost of sales (Note 13)	1,216,680	1,140,293	1,085,469	10,116,238
Gross profit	269,443	245,189	203,412	2,240,318
Selling, general and administrative expenses (Note 14)	182,184	172,838	161,350	1,514,793
Operating income	87,259	72,351	42,062	725,525
Other income (expenses):				
Interest and dividend income	1,191	1,317	1,641	9,902
Equity in income of nonconsolidated subsidiaries and affiliates	6,208	7,016	8,530	51,617
Interest expense	(3,761)	(3,991)	(4,151)	(31,271)
Other expenses, net (Note 15)	(6,609)	(15,383)	(1,930)	(54,950)
Income before income taxes and minority interests	84,288	61,310	46,152	700,823
Income taxes (Note 18)				
Current	(23,563)	(15,903)	(10,591)	(195,917)
Deferred	(6,780)	(4,409)	(2,550)	(56,374)
Income before minority interests	53,945	40,998	33,011	448,532
Minority interests in net income of consolidated subsidiaries	(2,306)	(2,397)	(2,147)	(19,174)
Net income	¥51,639	¥38,601	¥30,864	$429,358

Consolidated Statements of Comprehensive Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2015	2014	2013	2015
Income before minority interests	¥53,945	¥40,998	¥33,011	$448,532
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities	783	(1,852)	541	6,510
Deferred gains (losses) on hedges	1,860	2,314	(6,381)	15,465
Foreign currency translation adjustments	12,384	11,996	11,713	102,968
Remeasurements of defined benefit plans	10,952	1,870	-	91,061
Share of other comprehensive income of associates accounted for using equity method	7,836	13,379	5,155	65,155
Total other comprehensive income (loss)	33,815	27,707	11,028	281,159
Comprehensive income	87,760	68,705	44,039	729,691
Comprehensive income attributable to:				
Owners of the parent company	84,462	64,908	40,940	702,270
Minority interests	3,298	3,797	3,099	27,421
	Yen			U.S. dollars (Note 1)
Per share amounts (Note 20)				
Net income per share - basic	¥30.8	¥23.0	¥18.4	$256.09
Net income per share - diluted	-	-	-	-
Cash dividends	7.0	6.0	5.0	58.20

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

Consolidated Statements of Changes In Net Assets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2015, 2014, and 2013

	Thousands	Millions of yen											
		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities, net of tax	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at March 31, 2012	¥1,671,892	¥104,484	¥54,394	¥176,414	¥(22)	¥335,270	¥3,989	¥246	¥(33,451)	¥-	¥(29,216)	¥9,868	¥315,922
Net income for the year	-	-	-	30,864	-	30,864	-	-	-	-	-	-	30,864
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	15,786	-	15,786	-	15,786
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	535	-	-	-	535	-	535
Treasury stock purchased, net	-	-	-	-	(5)	(5)	-	-	-	-	-	-	(5)
Cash dividends	-	-	-	(8,359)	-	(8,359)	-	-	-	-	-	-	(8,359)
Loss on sales of treasury stock	-	-	-	(1)	0	(1)	-	-	-	-	-	-	(1)
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary	-	-	-	(205)	-	(205)	-	-	-	-	-	-	(205)
Decrease resulting from increase in equity method affiliate	-	-	-	(185)	-	(185)	-	-	-	-	-	-	(185)
Other	-	-	-	-	-	-	-	(6,244)	-	-	(6,244)	1,773	(4,471)
Balance at March 31, 2013	¥1,671,892	¥104,484	¥54,394	¥198,528	¥(27)	¥357,379	¥4,524	¥(5,998)	¥(17,665)	¥-	¥(19,139)	¥11,641	¥349,881
Cumulative effect of changes in accounting policies	-	-	-	(11,523)	-	(11,523)	-	-	-	(20,410)	(20,410)	-	(31,933)
Restated balance	-	104,484	54,394	187,005	(27)	345,856	4,524	(5,998)	(17,665)	(20,410)	(39,549)	11,641	317,948
Net income for the year	-	-	-	38,601	-	38,601	-	-	-	-	-	-	38,601
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	24,081	-	24,081	-	24,081
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	(1,871)	-	-	-	(1,871)	-	(1,871)
Treasury stock purchased, net	-	-	-	-	(16)	(16)	-	-	-	-	-	-	(16)
Cash dividends	-	-	-	(8,358)	-	(8,358)	-	-	-	-	-	-	(8,358)
Loss on sales of treasury stock	-	-	0	-	0	0	-	-	-	-	-	-	0
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary	-	-	-	201	-	201	-	-	-	-	-	-	201
Other	-	-	-	-	-	-	-	2,195	-	1,901	4,096	2,004	6,100
Balance at March 31, 2014	¥1,671,892	¥104,484	¥54,394	¥217,449	¥(43)	¥376,284	¥2,653	¥(3,803)	¥6,416	¥(18,509)	¥(13,243)	¥13,645	¥376,686
Net income for the year	-	-	-	51,639	-	51,639	-	-	-	-	-	-	51,639
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	18,763	-	18,763	-	18,763
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	1,051	-	-	-	1,051	-	1,051
Treasury stock purchased, net	-	-	-	-	(684)	(684)	-	-	-	-	-	-	(684)
Cash dividends	-	-	-	(15,045)	-	(15,045)	-	-	-	-	-	-	(15,045)
Loss on sales of treasury stock	-	-	0	-	0	0	-	-	-	-	-	-	0
Retirement of treasury stock	(1,087)	-	(1)	(659)	660	-	-	-	-	-	-	-	-
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary	-	-	-	222	-	222	-	-	-	-	-	-	222
Other	-	-	-	-	-	-	-	1,818	-	11,191	13,009	2,316	15,325
Balance at March 31, 2015	¥1,670,805	¥104,484	¥54,393	¥253,606	¥(67)	¥412,416	¥3,704	¥(1,985)	¥25,179	¥(7,318)	¥19,580	¥15,961	¥447,957
Balance at March 31, 2014		$868,745	$452,265	$1,808,006	$(357)	$3,128,659	$22,058	$(31,620)	$53,346	$(153,895)	$(110,111)	$113,453	$3,132,001
Net income for the year		-	-	429,358	-	429,358	-	-	-	-	-	-	429,358
Adjustments from translation of foreign currency financial statements		-	-	-	-	-	-	-	156,007	-	156,007	-	156,007
Increase in net unrealized gains on securities, net of tax		-	-	-	-	-	8,739	-	-	-	8,739	-	8,739
Treasury stock purchased, net		-	-	-	(5,687)	(5,687)	-	-	-	-	-	-	(5,687)
Cash dividends		-	-	(125,093)	-	(125,093)	-	-	-	-	-	-	(125,093)
Loss on sales of treasury stock		-	0	-	0	0	-	-	-	-	-	-	0
Retirement of treasury stock		-	(8)	(5,479)	5,487	-	-	-	-	-	-	-	-
Increase (decrease) due to changes in fiscal period of a consolidated subsidiary		-	-	1,848	-	1,848	-	-	-	-	-	-	1,848
Other		-	-	-	-	-	-	15,116	-	93,049	108,165	19,256	127,421
Balance at March 31, 2015		$868,745	$452,257	$2,108,640	$(557)	$3,429,085	$30,797	$(16,504)	$209,353	$(60,846)	$162,800	$132,709	$3,724,594

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

Consolidated Statements of Cash Flows

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2015, 2014 and 2013

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2015	2014	2013	2015
Cash flows from operating activities:				
Income before income taxes and minority interests	¥84,288	¥61,310	¥46,152	$700,823
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by (used for) operating activities:				
Depreciation and amortization	44,572	37,838	48,385	370,599
Loss on impairment of fixed assets	-	476	363	-
Increase (decrease) in employees' retirement and severance benefits	-	-	(10,970)	-
Increase (decrease) in liability for retirement benefits	(2,521)	(2,830)	-	(20,961)
Increase (decrease) in accrued bonuses	4,255	1,839	(521)	35,378
Increase (decrease) in allowance for doubtful receivables	(160)	(129)	(653)	(1,330)
Increase (decrease) in provision for product warranties	666	4,117	(1,195)	5,537
Increase (decrease) in provision for losses on construction contracts	(7,957)	(5,345)	(12,617)	(66,159)
Increase (decrease) in provision for losses on damages suit	(467)	(102)	(340)	(3,882)
Increase (decrease) in provision for environmental measures	(1,134)	(915)	1,261	(9,428)
Interest and dividend income	(1,191)	(1,317)	(1,641)	(9,902)
Interest expense	3,761	3,991	4,151	31,271
Equity in income of nonconsolidated subsidiaries and affiliates	(6,208)	(7,016)	(8,530)	(51,617)
Loss (gain) on disposal of inventories	1,966	1,339	1,711	16,346
Gain on sales of marketable securities and investments in securities	(1,138)	(1,187)	(1,424)	(9,462)
Loss on valuation of securities	52	619	55	432
Loss on sales of property, plant, and equipment	1,428	1,043	1,032	11,873
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	630	17,750	10,601	5,238
Inventories	(22,583)	(1,295)	(10,711)	(187,769)
Advance payments	(11,086)	(6,927)	6,138	(92,175)
Other current assets	(623)	8,277	1,935	(5,180)
Increase (decrease) in:				-
Trade payables	28,933	20,059	(41,150)	240,567
Advances from customers	29,460	25,978	5,670	244,948
Other current liabilities	(62)	7,713	4,015	(515)
Other, net	1,391	2,973	(2,333)	11,564
Subtotal	146,272	168,258	39,384	1,216,196
Cash received for interest and dividends	6,099	6,018	8,668	50,710
Cash paid for interest	(4,012)	(4,210)	(4,194)	(33,358)
Cash paid for income taxes	(20,708)	(18,345)	(15,757)	(172,178)
Net cash provided by (used for) operating activities	¥127,651	¥151,721	¥28,101	$1,061,370

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2015	2014	2013	2015
Cash flows from investing activities:				
Decrease (increase) in time deposits with maturities over three months	(1,276)	(584)	(310)	(10,609)
Acquisition of property, plant and equipment	(73,917)	(77,396)	(65,517)	(614,592)
Proceeds from sales of property, plant and equipment	11,890	2,212	348	98,860
Acquisition of intangible assets	(3,443)	(2,778)	(4,898)	(28,627)
Proceeds from sales of intangible assets	23	595	33	191
Acquisition of investments in securities	(486)	(610)	(571)	(4,040)
Proceeds from sales of investments in securities	1,470	2,695	2,899	12,222
Acquisition of investments in subsidiaries and affiliates	(1,261)	(2,063)	(12,339)	(10,484)
Decrease (increase) in short-term loans	(1,164)	196	(11)	(9,678)
Additions to long-term loans	(63)	(64)	(44)	(523)
Proceeds from collection of long-term loans	141	84	101	1,172
Other	689	154	(851)	5,728
Net cash provided by (used for) investing activities	(67,397)	(77,559)	(81,160)	(560,380)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	(16,587)	(64,139)	42,129	(137,914)
Proceeds from long-term debt	62,456	80,430	64,327	519,298
Repayment of long-term debt	(86,233)	(68,749)	(38,837)	(716,995)
Acquisition of treasury stock	(25)	(17)	(4)	(207)
Proceeds from stock issuance to minority shareholders	1	-	217	8
Cash dividends paid	(15,675)	(8,363)	(8,351)	(130,331)
Cash dividends paid to minority shareholders	(986)	(1,532)	(1,326)	(8,198)
Other	(84)	(135)	(484)	(700)
Net cash provided by (used for) financing activities	(57,133)	(62,505)	57,671	(475,039)
Effect of exchange rate changes	(953)	(4,001)	(886)	(7,923)
Net increase (decrease) in cash and cash equivalents	2,168	7,656	3,726	18,028
Cash and cash equivalents at beginning of year	45,431	36,971	33,245	377,741
Increase (decrease) in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries	122	804	-	1,013
Cash and cash equivalents at end of year	¥47,721	¥45,431	¥36,971	$396,782
Supplemental information on cash flows:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheets	¥51,645	¥47,949	¥38,525	$429,408
Time deposits with maturities over three months	(3,924)	(2,518)	(1,554)	(32,626)
Total (Note 19)	¥47,721	¥45,431	¥36,971	$396,782

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

Notes to the Consolidated Financial Statements

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of presenting consolidated financial statements

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

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2015, which was ¥120.27 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

(a) Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control. The consolidated financial statements include the accounts of the Company and 97 subsidiaries (96 in the year ended March 31, 2014 and 95 in 2013). The aggregate amount of total assets, net sales, net income and retained earnings of the excluded subsidiaries would not have had a material effect on the consolidated financial statements if they had been included in the consolidation.

(b) Application of the equity method of accounting
Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. For the year ended March 31, 2015, 17 affiliates (18 in 2014 and 17 in 2013) were accounted for by the equity method. For the year ended March 31, 2015, investments in 10 affiliates (13 in 2014 and 13 in 2013) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end
The fiscal year-end of 25 consolidated subsidiaries (28 in 2014 and 30 in 2013) is December 31. These subsidiaries are consolidated as of December 31, and significant transactions for the period between December 31 and March 31, the Company's fiscal year-end, are adjusted for on consolidation. Four consolidated subsidiaries, PT. Kawasaki Motor Indonesia, Kawasaki Componentes da Amazonia Ltda., Kawasaki Motores do Brasil Ltda., and Kawasaki Motor Sales Indonesia, which previously had their fiscal year-end on December 31, have changed their fiscal year-end to March 31 to coincide with the consolidated fiscal year-end of the Company.

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

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

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

<Service revenues>
Service revenues are recognized when the services are rendered. Services include supervisory and installation services for products such as rail cars, machinery and plants. When the prices of such services are individually determined by the contract and the collectability of the revenue is reasonably assured, the service revenue is recognized on an accrual basis. Otherwise, the service revenue is recognized on a completion basis.

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

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

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

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

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

(k) Investments in securities
The Company and its consolidated subsidiaries classify securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) all other securities (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2015, 2014 or 2013. Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available market value are stated at moving average cost.

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

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

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

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

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

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

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

(q) Provision for losses on legal proceedings
The Provision for losses on legal proceedings in which the Company is a defendant in the suit is provided based on estimates of expected compensation and other associated expenses.

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

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

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

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

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

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

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

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

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

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

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

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

3. Additional information

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

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

<Assignment of shares of KCM Corporation>
On November 28, 2014, the Company had reached an agreement with Hitachi Construction Machinery Co., Ltd. (hereinafter "HCM") on the assignment to HCM of all of the shares of KCM Corporation (hereinafter "KCM").

(a) Outline of the assignment of the shares

(1) The entity which succeeds the assigned business
Hitachi Construction Machinery Co., Ltd.

(2) Details of the assigned business
Manufacturing and sale of construction machines, etc.

(3) Reason for the assignment
Since October 2008, the Company and HCM have had a business alliance covering wheel-loader operations, including joint research and development of new models of wheel loaders to meet the Tier 4 exhaust emission regulations. KCM was established in January 2009 and acquired the Company's wheel-loader operations by assignment in April of the same year. With HCM's capital investment in June 2010, it further accelerated joint research and development on new models of wheel loaders and on an efficient production system. The Company agreed to HCM's proposal, having judged that it would be effective to pursue synergies within the HCM group for the further development of KCM under a policy of investing management resources in a focused manner, in order to enhance enterprise value amidst intensifying global competition in the construction machine industry. Currently under discussion is the transfer of the businesses of KCMJ Corporation, which engages in sales and servicing operations for KCM products within Japan, to Hitachi Construction Machinery Japan Co., Ltd. at around the same time as the execution date of the assignment of shares of KCM.

(4) Date of the assignment
The execution of assignment of shares is scheduled for October 1, 2015.

(5) Outline of the transaction including legal form
Assignment of the shares with certain consideration such as cash

(b) Reportable segment which includes the assigned business
"Other" segment.

4. Accounting standards issued but not yet adopted

- Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013)
- Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013)
- Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013)
- Accounting Standard for Earnings Per Share (ASBJ Statement No. 2, September 13, 2013)
- Guidance on Accounting Standard for Business Combinations and Business Divestitures (ASBJ Guidance No. 10, September 13, 2013)
- Guidance on Accounting Standard for Earnings Per Share (ASBJ Guidance No. 4, September 13, 2013)

(Please also refer to the ASBJ homepage, which has a summary in English of the accounting standard.)

(a) Summary
Under the revised accounting statements, the followings have been predominantly amended.
(1) Accounting treatment for changes in equity of parent company to its subsidiary in case where parent company still controls its subsidiary in case of additional purchase of investment in subsidiary.
(2) Accounting treatment of acquisition related costs
(3) Presentation of net income and change from minority interests to non-controlling shareholders' interests
(4) Provisional accounting treatment

(b) Effective dates
Effective for the beginning of annual periods ending on or after March 31, 2016. Provisional accounting treatment is effective from the beginning of annual periods ending on or after March 31, 2016.

(c) Effect of application of the standard
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

5. Inventories

Inventories as of March 31, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Merchandise and finished products	**¥59,487**	¥56,673	**$494,612**
Work in progress (*)	**321,328**	302,513	**2,671,722**
Raw materials and supplies	**117,837**	98,848	**979,770**
Total	**¥498,652**	¥458,034	**$4,146,104**

(*) A trust was established for the Company's trade receivables generated in selling certain work in progress, using a self-settled trust. The Company has a beneficiary interest in the trade receivables as the trust asset. The work in progress related to the trust asset was ¥5,350 million ($44,483 thousand) as of March 31, 2015.

6. Securities

(a) Book values and market values of held-to-maturity securities with available market values as of March 31, 2015 and 2014 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2015			
	Book value	Market value	Unrealized losses	
Market values not exceeding book values:				
Bonds	**¥131**	**¥131**	**¥(0)**	**$(0)**

	Millions of yen		
	2014		
	Book value	Market value	Unrealized losses
Market values not exceeding book values:			
Bonds	¥132	¥128	¥(4)

(b) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2015 and 2014 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2015			
	Book value	Acquisition cost	Unrealized gains (losses)	
Securities with book values exceeding acquisition costs:				
Equity securities	**¥8,593**	**¥3,401**	**¥5,192**	**$43,169**
Other securities:				
Equity securities	**81**	**103**	**(22)**	**(183)**
Total	**¥8,674**	**¥3,504**	**¥5,170**	**$42,986**

	Millions of yen		
	2014		
	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:			
Equity securities	¥7,499	¥3,223	¥4,276
Other securities:			
Equity securities	168	187	(19)
Total	¥7,667	¥3,410	¥4,257

(c) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2015, 2014 and 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2015					
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities:	**¥1,440**	**¥1,138**	**¥-**	**$11,973**	**$9,462**	**$-**

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

	Millions of yen		
	2013		
	Sales amounts	Gains	Losses
Equity securities:	¥2,892	¥1,428	¥(3)

(d) Investments in securities subject to impairment

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

Investments in securities for which the market value as of the end of the fiscal year has fallen to below 50% of the acquisition costs are deemed to have no recovery potential and to be fully impaired. Investments in securities for which the market value has fallen to between 30% and 50% of the acquisition costs are deemed to be partially impaired by an amount that takes into consideration the likelihood of recovery and other factors. In the years ended March 31, 2014, the Company recognized an impairment loss on investments in securities in the amount of ¥619 million. For the year ended March 31, 2015 and 2013, the amount of impairment loss on investments was not disclosed because it was immaterial.

7. Investments in nonconsolidated subsidiaries and affiliates

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2015 and 2014 were ¥80,228 million ($667,065 thousand) and ¥70,208 million, respectively.

8. Short-term debt and long-term debt

Short-term debt and long-term debt as of March 31, 2015 and 2014 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Short-term debt:			
Short-term debt, principally bank loans, bearing average interest rates of 1.22 percent and 0.81 percent as of March 31, 2015 and 2014, respectively	**¥97,127**	¥105,004	**$807,576**
Current portion of long-term borrowings, bearing average interest rates of 0.94 percent and 0.75 percent as of March 31, 2015 and 2014.	**25,212**	85,753	**209,628**
Current portion of bonds, bearing average interest rates of 0.72~1.22 percent as of March 31, 2015 and 2014.	**20,000**	-	**166,292**
Lease obligations, current	**276**	404	**2,294**
Total short-term debt	**¥142,615**	¥191,161	**$1,185,790**
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2015 to 2037, bearing average interest rates of 0.58 percent and 0.74 percent as of March 31, 2015 and 2014, respectively	**¥184,962**	¥227,096	**$1,537,889**
Notes and bonds issued by the Company:			
0.72~1.22 percent notes due in 2015	**20,000**	20,000	**166,292**
0.58 percent notes due in 2016	**10,000**	10,000	**83,146**
1.06 percent notes due in 2017	**10,000**	10,000	**83,146**
0.33~0.57 percent notes due in 2018	**20,000**	20,000	**166,292**
0.68 percent notes due in 2019	**10,000**	10,000	**83,146**
0.98~0.99 percent notes due in 2020	**20,000**	20,000	**166,292**
0.45~1.41 percent notes due in 2021	**20,000**	10,000	**166,292**
1.10 percent notes due in 2022	**10,000**	10,000	**83,146**
0.79 percent notes due in 2024	**10,000**	-	**83,146**
Long-term lease obligations	**2,287**	2,543	**19,019**
	317,249	339,639	**2,637,806**
Less portion due within one year	**(45,488)**	(86,157)	**(378,216)**
Total long-term debt	**¥271,761**	¥253,482	**$2,259,590**

As of March 31, 2015 and 2014, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Buildings and structures	**¥78**	¥82	**$648**
Investments in securities	**14**	14	**116**
Other	**3,977**	854	**33,068**
Total	**¥4,069**	¥950	**$33,832**

As of March 31, 2015 and 2014, debt secured by the above pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Trade payables	**¥5**	¥4	**$41**
Short-term and long-term debt	**97**	140	**807**
Total	**¥102**	¥144	**$848**

In addition to the items shown above, the Company had pledged (on a long-term basis) shares of an affiliate company eliminated in the consolidation process in the amount of ¥30 million ($249 thousand).

ENSEADA INDUSTRIA NAVAL S.A., an affiliated company has had long-term debt from financial institutions. The Company has pledged (on a long-term basis) the shares. The corresponding long-term debt as of March 31, 2015 and 2014 were ¥45,500 million ($378,315 thousand) and ¥31,842 million, respectively.

The aggregate annual maturities of long-term debt as of March 31, 2015 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2016	**¥45,488**	**$378,215**
2017	**28,376**	**235,935**
2018	**55,691**	**463,049**
2019	**46,435**	**386,089**
2020 and thereafter	**141,259**	**1,174,518**
Total	**¥317,249**	**$2,637,806**

9. Provision for losses on construction contracts

Inventories for construction contracts with substantial anticipated losses and the provision for losses on construction contracts were not offset. As of March 31, 2015 and 2014, the inventories for the construction contracts for which the provision for losses on construction contracts were provided were ¥930 million ($7,732 thousand) and ¥2,754 million, respectively. These amounts were all included in work in process.

10. Employees' retirement and severance benefits

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

2. Defined benefit plans (including plans that apply a simplified method)
(1) Reconciliation of beginning-of-period and end-of-period balance of retirement benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Balance of retirement benefit obligations at beginning of period	**¥191,743**	¥166,867	**$1,594,271**
Effect of change to benefit formula at beginning of period	**-**	19,016	**-**
Service cost	**10,722**	9,700	**89,149**
Interest cost	**3,130**	3,252	**26,024**
Actuarial gains and losses	**7,514**	2,251	**62,476**
Retirement benefits paid	**(14,834)**	(13,281)	**(123,339)**
Prior service cost	**32**	958	**266**
Decrease due to transfer of benefit obligation relating to welfare pension fund	**(6,471)**	-	**(53,803)**
Other (foreign currency translation difference, etc.)	**4,378**	2,980	**36,401**
Balance of retirement benefit obligations at end of period	**¥196,214**	¥191,743	**$1,631,445**

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

Balance of plan assets at beginning of period	**¥96,139**	¥77,992	**$799,359**
Expected return on plan assets	**1,722**	2,031	**14,317**
Actuarial gains and losses	**21,842**	5,213	**181,608**
Contributions paid by the employer	**4,756**	10,542	**39,544**
Retirement benefits paid	**(2,650)**	(4,423)	**(22,033)**
Decrease due to transfer of benefit obligation relating to welfare pension fund	**(6,466)**	-	**(53,762)**
Other (foreign currency translation difference, etc.)	**1,916**	4,784	**15,931**
Balance of plan assets at end of period	**¥117,259**	¥96,139	**$974,964**

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

Retirement benefit obligations on funded plan	**¥172,486**	168,895	**$1,434,156**
Plan assets	**(117,259)**	(96,139)	**(974,965)**
	55,227	72,756	**459,191**
Retirement benefit obligations on unfunded plan	**23,728**	22,848	**197,290**
Net amount of liabilities and assets presented on the consolidated balance sheets	**¥78,955**	95,604	**$656,481**
Liability for retirement benefits	**¥79,272**	97,048	**659,116**
Asset for retirement benefits	**(317)**	(1,444)	**(2,635)**
Net amount of liabilities and assets presented on the consolidated balance sheets	**¥78,955**	95,604	**$656,481**

(4) Breakdown of retirement benefit expense

Service cost	**¥10,722**	9,700	**$89,149**
Interest cost	**3,130**	3,252	**26,024**
Expected return on plan assets	**(1,722)**	(2,031)	**(14,317)**
Amortization of actuarial gains and losses	**2,886**	2,079	**23,996**
Amortization of prior service costs	**(35)**	(1,093)	**(291)**
Retirement benefit expense related to defined benefit plan	**¥14,981**	11,907	**$124,561**
Profit due to transfer of benefit obligation relating to welfare pension fund	**¥4**	-	**$33**

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Prior service cost	**¥(63)**	(1,864)	**$(523)**
Actuarial gains and losses	**17,190**	4,874	**142,927**
Total	**¥17,127**	3,010	**$142,404**

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Unrecognized prior service cost	**¥(3,043)**	(2,980)	**$(25,301)**
Unrecognized actuarial gains and losses	**(8,769)**	(25,959)	**(72,911)**
Total	**¥(11,812)**	(28,939)	**$(98,212)**

(7) Plan assets
① Main breakdown of plan assets
The breakdown of main asset categories as a percentage of total plan assets is as follows:

	2015	2014
Bonds	**13%**	14%
Equities	**75%**	69%
Cash and deposits	**0%**	5%
Others	**12%**	12%
Total	**100%**	100%

Note: Employees' retirement benefit trust established as part of the retirement benefit plan is included in the plan assets whose potion is 65%.

② Method for setting long-term expected rate of return
To set the expected rate of return on plan assets, the Company takes into account the current and expected allocation of plan assets, and the expected present and future long-term rate of return on the diverse range of assets that makes up the plan assets.

(8) Underlying actuarial assumptions
Main underlying actuarial assumptions as of March 31, 2015 and 2014, respectively, were as follows: (presented as the compound average)

	2015	2014
Discount rate	**1.16 ~ 3.86%**	1.36 ~ 4.55%
Long-term expected rate of return on plan assets	**3.00 ~ 6.75%**	3.00 ~ 7.25%
Rate of compensation increase	**3.50 ~ 7.25%**	3.50 ~ 7.25%

3. Defined contribution plan
The required contribution by the Company and its consolidated subsidiaries to the defined contribution plan was ¥1,312 million ($10,908 thousand), ¥1,080 million respectively.

11. Contingent liabilities

Contingent liabilities as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	**¥21,779**	¥25,630	**$181,084**

12. Net assets

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

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

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

13. Cost of sales

The ending balance of inventories was measured at the lower of cost or market. Loss on the valuation of inventories included in the cost of sales for the year ended March 31, 2014 was ¥459 million. Gain on the valuation of inventories included in the cost of sales for the year ended March 31, 2015 and 2013 was ¥1,064 ($8,846 thousand) million and ¥361 million, respectively.

Provision for losses on construction contracts included in the cost of sales for the years ended March 31, 2015, 2014 and 2013 was ¥6,159 million ($51,209 thousand), ¥6,332 million and ¥5,929 million, respectively.

14. Research and development expenses

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

	Millions of yen			Thousands of U.S. dollars
	2015	2014	2013	**2015**
Research and development expenses	**¥41,606**	¥40,398	¥41,709	**$345,938**

15. Other expenses, net

"Other expenses, net" in "Other income (expenses)" in the consolidated statements of income for the years ended March 31, 2015, 2014 and 2013 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2015	2014	2013	**2015**
Foreign exchange gain (loss), net	**¥(5,097)**	¥(14,785)	¥(9,919)	**$(42,379)**
Gain on transfer of benefit obligation relating to employees' pension fund	**-**	-	8,624	**-**
Loss on environmental measures	**-**	-	(1,437)	**-**
Gain on sales of marketable securities and investments in securities	**1,138**	1,187	1,424	**9,462**
Loss on impairment of fixed assets (a)	**-**	(476)	(363)	**-**
Loss on valuation of securities	**(52)**	(619)	(55)	**(432)**
Gain on contribution of securities to retirement benefit trust (b)	**-**	3,323	-	**-**
Loss on disaster (c)	**-**	(2,142)	-	**-**
Other, net	**(2,598)**	(1,871)	(204)	**(21,601)**
Total	**¥(6,609)**	¥(15,383)	¥(1,930)	**$(54,950)**

(a) Loss on impairment of fixed assets

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

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

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

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

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

Asset groups for which the Company and its consolidated subsidiaries recognized impairment loss for the year ended March 31, 2013 were as follows:

Function or status	Location	Type of assets
Idle property	Funabashi City, Chiba	Buildings and structures, etc.
Idle property	Kobe City, Hyogo	Buildings and structures, land, etc.

Impairment loss for the year ended March 31, 2013 consisted of the following:

	Millions of yen
Buildings and structures	¥247
Land, etc.	116
Total	¥363

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

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

16. Consolidated statement of comprehensive income

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Unrealized gains (losses) on securities			
Increase (decrease) during the year	**¥1,833**	¥1,514	**$15,240**
Reclassification adjustments	**(834)**	(4,429)	**(6,934)**
Subtotal, before tax	**999**	(2,915)	**8,306**
Tax (expense) or benefit	**(216)**	1,063	**(1,796)**
Subtotal, net of tax	**783**	(1,852)	**6,510**
Deferred gains (losses) on hedges			
Increase (decrease) during the year	**(10,498)**	(10,331)	**(87,286)**
Reclassification adjustments	**13,432**	14,089	**111,681**
Subtotal, before tax	**2,934**	3,758	**24,395**
Tax (expense) or benefit	**(1,074)**	(1,444)	**(8,930)**
Subtotal, net of tax	**1,860**	2,314	**15,465**
Foreign currency translation adjustments			
Increase (decrease) during the year	**12,384**	11,996	**102,968**
Remeasurements of defined benefit plan			
Increase (decrease) during the year	**14,304**	2,010	**118,932**
Reclassification adjustments	**2,823**	1,000	**23,472**
Subtotal, before tax	**17,127**	3,010	**142,404**
Tax (expense) or benefit	**(6,175)**	(1,140)	**(51,343)**
Subtotal, net of tax	**10,952**	1,870	**91,061**
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	**7,836**	13,379	**65,155**
Total other comprehensive income	**¥33,815**	¥27,707	**$281,159**

17. Dividends

(a) Dividends paid

Year ended March 31, 2015

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2014 General Meeting of Shareholders	**Common stock**	**¥10,030 million ($83,395 thousand)**	**¥6.0 ($0.04)**	**March 31, 2014**	**June 27, 2014**
September 30, 2014 Board of Directors	**Common stock**	**¥5,015 million ($41,697 thousand)**	**¥3.0 ($0.02)**	**September 30, 2014**	**December 2, 2014**

Year ended March 31, 2014

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2013 General Meeting of Shareholders	Common stock	¥8,358 million	¥5.0	March 31, 2013	June 27, 2013

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

Year ended March 31, 2015

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 25, 2015 General Meeting of Shareholders	Common stock	Retained earnings	¥11,694 million ($97,231 thousand)	¥7.0 ($0.05)	March 31, 2015	June 26, 2015

Year ended March 31, 2014

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 26, 2014 General Meeting of Shareholders	Common stock	Retained earnings	¥10,030 million	¥6.0	March 31, 2014	June 27, 2014

18. Income taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporation tax (national tax) and enterprise and inhabitants taxes (local taxes), which, in the aggregate, resulted in a statutory tax rate of approximately 35.4 percent and 37.8 percent for the years ended March 31, 2015 and 2014, respectively.

The significant differences between the statutory and effective tax rates for the years ended March 31, 2015 and 2014 were as follows:

	2015	2014
Statutory tax rate	**35.4%**	37.8%
Valuation allowance	**1.0**	(6.3)
Equity in income of nonconsolidated subsidiaries and affiliates	**(2.5)**	(4.2)
Dividend from overseas consolidated subsidiaries	**2.1**	2.0
Changing tax rate	**5.4**	3.0
Tax credit for research and development expenses	**(4.3)**	(0.8)
Other	**(1.1)**	1.6
Effective tax rate	**36.0%**	33.1%

Significant components of deferred tax assets and liabilities as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Accrued bonuses	**¥9,781**	¥8,772	**$81,325**
Liability for retirement benefits	**37,786**	45,326	**314,176**
Allowance for doubtful receivables	**674**	666	**5,604**
Inventories – elimination of intercompany profits	**3,644**	1,560	**30,298**
Fixed assets – elimination of intercompany profits	**792**	435	**6,585**
Depreciation	**9,178**	11,100	**76,311**
Net operating loss carryforwards	**176**	3,893	**1,463**
Loss from inventory revaluation	**1,349**	1,965	**11,216**
Unrealized loss on marketable securities, investments in securities and other	**1,874**	2,044	**15,581**
Loss on valuation of land	**1,754**	1,927	**14,583**
Provision for product warranties	**2,904**	2,891	**24,145**
Provision for losses on construction contracts	**1,812**	4,477	**15,066**
Stock investment to subsidiary	**2,734**	2,952	**22,732**
Other	**19,791**	16,857	**164,560**
Gross deferred tax assets	**94,249**	104,865	**783,645**
Less valuation allowance	**(11,173)**	(8,926)	**(92,900)**
Total deferred tax assets	**83,076**	95,939	**690,745**
Deferred tax liabilities:			
Deferral of gain on sales of fixed assets	**3,935**	4,596	**32,718**
Net unrealized gain on securities	**1,504**	1,292	**12,505**
Retained earnings for foreign subsidiaries	**6,455**	4,626	**53,670**
Other	**4,920**	6,740	**40,909**
Total deferred tax liabilities	**16,814**	17,254	**139,802**
Net deferred tax assets	**¥66,262**	¥78,685	**$550,943**

On March 31, 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2015 to March 31, 2016 and on or after April 1, 2016 are changed from 35.4% for the fiscal year ended March 31, 2015 to 32.9% and 32.1%, respectively, as of March 31, 2015.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥4,666 million ($38,796 thousand) as of March 31, 2015, income taxes-deferred recognized for the fiscal year ended March 31, 2015 increased by ¥4,598 million ($38,230 thousand), net unrealized gains on securities, net of tax increased by ¥138 million ($1,147 thousand), deferred losses on hedges decreased by ¥71 million ($590 thousand), and accumulated adjustments for retirement benefits decreased by ¥135 million ($1,122 thousand).

19. Cash and cash equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2015, 2014 and 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2015	2014	2013	2015
Cash on hand and in banks:	**¥51,645**	¥47,949	¥38,525	**$429,408**
Time deposits with maturities over three months:	**(3,924)**	(2,518)	(1,554)	**(32,626)**
Total	**¥47,721**	¥45,431	¥36,971	**$396,782**

20. Net income per share

Per share amounts for the years ended March 31, 2015, 2014 and 2013 are set forth in the table below.

	Millions of yen			Thousands of U.S. dollars
	2015	2014	2013	2015
Basic net income per share:				
Net income	**¥51,639**	¥38,601	¥30,864	**$429,358**
Net income allocated to common stock	**51,639**	38,601	30,864	**429,358**
	(Number of shares in millions)			
Weighted average number of shares of common stock	**1,671**	1,671	1,671	

As the Company had no dilutive securities at March 31, 2015, 2014 and 2013, the Company has not disclosed diluted net income per share for the years ended March 31, 2015, 2014 and 2013.

21. Derivative transactions

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

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

	Millions of yen				Thousands of U.S. dollars
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)	Gain (loss)
Currency related contracts:					
Foreign exchange contracts:					
To sell					
USD	¥38,914	¥602	¥(2,402)	¥(2,402)	$(19,971)
EUR	1,456	-	93	93	773
Others	13,806	-	(1,208)	(1,208)	(10,044)
To purchase					
USD	8,595	4,677	111	111	922
EUR	921	-	(55)	(55)	(457)
Others	1,930	-	56	56	465
Interest rate and currency swaps					
U.S. dollars floating-rate receipt/ fixed-rate payment	6,993	6,993	3,765	3,765	31,305
Total	¥72,615	¥12,272	¥360	¥360	$2,993

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company applied hedge accounting)

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

Fair value is based on prices provided by financial institutions.

		Thousands of U.S. dollars		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables			
USD		$482,565	$50,835	$(35,901)
EUR		100,582	-	3,591
Others		34,780	-	(2,660)
To purchase	Trade payables			
USD		112,255	80,803	7,948
EUR		51,800	14,691	(357)
Others		67,564	1,114	2,477
Total		$849,546	$147,443	$(24,902)

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

Fair value is based on prices provided by financial institutions.

		Thousands of U.S. dollars		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Deferral hedge accounting Interest swap				
Floating-rate receipt/fixed-rate payment	Short-term debt	$16,629	$-	$(33)
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/fixed-rate payment	Short-term debt	58,144	58,144	556
		$74,773	$58,144	$523

(b) Outstanding positions and recognized gains and losses at March 31, 2014 were as follows:

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

	Millions of yen			
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)
Currency related contracts:				
Foreign exchange contracts:				
To sell				
USD	¥21,325	¥1,426	¥(517)	¥(517)
EUR	2,582	-	(363)	(363)
Others	1,321	-	(92)	(92)
To purchase				
USD	6,296	-	8	8
EUR	6	-	0	0
Others	1,377	-	21	21
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/fixed-rate payment	6,993	6,993	2,222	2,222
Total	¥43,900	¥8,419	¥1,279	¥1,279

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company applied hedge accounting)

		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables			
USD		¥46,498	¥3,546	¥(1,412)
EUR		9,254	-	(3,243)
Others		18,207	5,299	(2,331)
To purchase	Trade payables			
USD		4,872	852	294
EUR		2,621	1,062	652
Others		5,830	311	173
Total		¥87,282	¥11,070	¥(5,868)

Fair value is based on prices provided by financial institutions.

		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Interest swap Deferral hedge accounting				
Floating-rate receipt/fixed-rate payment	Short-term debt	¥12,000	¥2,000	¥(61)
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/fixed-rate payment	Long-term debt	6,993	6,993	91
		¥18,993	¥8,993	¥30

Fair value is based on prices provided by financial institutions.

22. Financial Instruments

Information related to financial instruments as of March 31, 2015 and 2014 were as follows.

(1) Matters related to the status of financial instruments

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

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

Almost all trade payables and electronically recorded obligations are due within one year. A portion of trade payables are denominated in foreign currency—specifically those related to payment for imported materials, etc.—and are exposed to the risk of foreign currency fluctuation. However, this risk is mitigated principally by the position of trade payables denominated in foreign currency being less than the position of receivables in the same currency. Loans payable, bonds payable and lease obligations under finance leases are mainly used to raise operating capital and carry out capital expenditure and are due in a maximum of ten years from March 31, 2015 (nine years from March 31, 2014). A portion of these instruments is exposed to the risk of interest rate fluctuation. However, such risk is hedged using derivatives (interest swaps and currency swaps) as necessary.

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

(c) Risk management system for financial instruments

(i) Management of credit risk, including customer default risk
The Company’s sales management functions and those of its consolidated subsidiaries regularly evaluate the financial circumstances of customers and monitor the due dates and balances by customer to identify and limit doubtful accounts.

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

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

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

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

(iii) Management of liquidity risk (risk of the Company being unable to meet its payment obligations by their due dates)
The Company manages liquidity risk through its finance department, maintaining and updating its finance plans based on reports from each business division. Liquidity risk is managed through the diversification of financing methods, taking into consideration the financing environment and balancing long- and short-term financing requirements, securing commitment lines, etc.

(d) Supplemental information on the fair value of financial instruments
The fair value of financial instruments includes values based on market price and reasonably estimated values when market price is not available. However, as variables are inherent in these value calculations, the resulting values may differ if different assumptions are used. With regard to the contract amounts, etc., of the derivatives described in Note 21 Derivative transactions, these amounts do not represent the market risk associated with the corresponding derivative transactions themselves.

(2) Fair values of financial instruments

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

	Millions of yen			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Cash on hand and in banks	**¥51,645**	**¥51,645**	**¥-**	**$-**
Trade receivables	**421,890**	**421,817**	**(73)**	**(606)**
Investments in securities	**8,808**	**8,807**	**(1)**	**(9)**
Total assets	**¥482,343**	**¥482,269**	**¥(74)**	**$(615)**
Trade payables	**253,907**	**253,907**	**-**	**-**
Electronically recorded obligations	**85,453**	**85,453**	**-**	**-**
Short-term debt and current portion of long-term debt (excluding lease obligations)	**142,338**	**142,338**	**-**	**-**
Long-term debt, less current portion (excluding lease obligations)	**269,752**	**272,313**	**(2,561)**	**(21,293)**
Total liabilities	**¥751,450**	**¥754,011**	**¥(2,561)**	**$(21,293)**
Derivative transactions (*)	**¥(2,575)**	**¥(2,575)**	**¥-**	**$-**

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

The book values, fair values and the differences between these values as of March 31, 2014 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	Millions of yen		
	Book value	Fair value	Unrealized gains (losses)
Cash on hand and in banks	¥47,949	¥47,949	¥-
Trade receivables	415,664	415,546	(118)
Investments in securities	7,800	7,795	(5)
Total assets	¥471,413	¥471,290	¥(123)
Trade payables	252,107	252,107	-
Electronically recorded obligations	53,923	53,923	-
Short-term debt and current portion of long-term debt (excluding lease obligations)	190,757	190,757	-
Long-term debt, less current portion (excluding lease obligations)	251,345	252,518	(1,173)
Total liabilities	¥748,132	¥749,305	¥(1,173)
Derivative transactions (*)	¥(4,558)	¥(4,558)	¥-

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

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

<Assets>

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

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

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

<Liabilities>

-Trade payables, electronically recorded obligations, short-term debt and current portion of long-term debt
Since the settlement periods of these items are short and their fair values are substantially the same as their book values, the relevant book values are used.

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

<Derivatives>

See Note 21, "Derivative Transactions."

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Unlisted equity securities and investments in partnerships	**¥6,681**	¥6,368	**$55,550**
Stocks of nonconsolidated subsidiaries and affiliates	**11,652**	10,078	**96,882**
Investments in affiliates	**68,576**	60,130	**570,183**
Total	**¥86,909**	¥76,576	**$722,615**

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

(iii) Planned redemption amounts after the balance sheet date for monetary receivables and investments in securities with maturity dates as of March 31, 2015 and 2014 were as follows:

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

	Thousands of U.S. dollars			
	2015			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**$429,408**	**$-**	**$-**	**$-**
Trade receivables	**3,361,728**	**146,129**	**-**	**-**
Investments in securities				
-Bonds	**-**	**1,089**	**-**	**-**
Total	**$3,791,136**	**$147,218**	**$-**	**$-**

	Millions of yen			
	2014			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	¥47,949	¥-	¥-	¥-
Trade receivables	389,410	26,255	-	-
Investments in securities				
-Bonds	-	132	-	-
Total	¥437,359	¥26,387	¥-	¥-

(iv) Planned repayment amounts after the balance sheet date for bonds payable and long-term debt

See Note 8, "Short-Term debt and Long-term debt."

23. Finance leases

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

(a) Lessee

The original costs of leased assets under non-capitalized finance leases and the related accumulated depreciation and amortization, assuming it was calculated by the straight-line method over the term of the respective lease, as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Property, plant and equipment	**¥16,054**	¥19,376	**$133,482**
Accumulated depreciation	**¥(11,662)**	(13,198)	**(96,965)**
	4,392	6,178	**36,517**
Intangible assets	**22**	22	**182**
Accumulated amortization	**(8)**	(3)	**(66)**
	¥14	¥19	**$116**

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Current portion	**¥1,490**	¥1,859	**$12,388**
Noncurrent portion	**3,100**	4,383	**25,776**
Total	**¥4,590**	¥6,242	**$38,164**

Lease payments, "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases for the years ended March 31, 2015, 2014 and 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2015	2014	2013	**2015**
Lease payments	**¥2,167**	¥2,713	¥3,702	**$18,017**
Depreciation and amortization	**1,919**	2,428	3,402	**15,955**
Interest	**¥144**	¥195	¥270	**$1,197**

24. Operating leases

The schedule of future minimum lease payments under non-cancellable operating leases as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Within one year	**¥1,821**	¥395	**$15,140**
Over one year	**6,314**	1,814	**52,499**
Total	**¥8,135**	¥2,209	**$67,639**

25. Segment information

(a) Overview of reportable segments

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

Year ended March 31, 2015 — Millions of yen

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

Year ended March 31, 2014 — Millions of yen

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

Year ended March 31, 2013 — Millions of yen

	Sales: External sales	Sales: Intersegment sales and transfers	Sales: Total	Segment income (loss)	Segment assets	Other items: Depreciation/ amortization	Other items: Impairment loss	Other items: Investment in equity-method affiliates	Other items: Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥90,343	¥1,999	¥92,342	¥4,162	¥112,612	¥1,364	¥-	¥35,434	¥1,781
Rolling Stock	129,973	2,888	132,861	2,215	163,528	3,536	-	99	2,808
Aerospace	239,172	2,289	241,461	14,827	311,659	10,769	-	-	17,171
Gas Turbines & Machinery	207,008	19,404	226,412	7,033	251,808	6,100	-	1,086	9,324
Plant & Infrastructure	115,813	15,115	130,928	9,772	115,470	1,861	-	11,768	4,376
Motorcycle & Engine	251,858	757	252,615	2,397	271,548	10,480	-	994	14,866
Precision Machinery	130,455	14,027	144,482	8,452	114,699	7,713	-	-	12,320
Other	124,259	32,873	157,132	1,273	144,211	2,427	363	2,521	2,149
Total	¥1,288,881	¥89,352	¥1,378,233	¥50,131	¥1,485,535	¥44,250	¥363	¥51,902	¥64,795
Adjustments	-	(89,352)	(89,352)	(8,069)	(19,245)	4,135	-	-	13,829
Consolidated total	¥1,288,881	¥-	¥1,288,881	¥42,062	¥1,466,290	¥48,385	¥363	¥51,902	¥78,624

Year ended March 31, 2015 — Thousands of U.S. dollars

	Sales: External sales	Sales: Intersegment sales and transfers	Sales: Total	Segment income (loss)	Segment assets	Other items: Depreciation/ amortization	Other items: Investment in equity-method affiliates	Other items: Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	**$751,035**	**$27,346**	**$778,381**	**$22,241**	**$1,427,920**	**$6,693**	**$471,846**	**$27,579**
Rolling Stock	**1,010,384**	**31,072**	**1,041,456**	**50,253**	**1,409,071**	**23,588**	**1,197**	**27,072**
Aerospace	**2,702,943**	**17,968**	**2,720,911**	**301,970**	**3,021,676**	**89,989**	**-**	**289,182**
Gas Turbines & Machinery	**1,819,190**	**146,653**	**1,965,843**	**93,697**	**2,464,114**	**32,535**	**11,939**	**58,643**
Plant & Infrastructure	**1,007,009**	**156,814**	**1,163,823**	**54,660**	**1,038,812**	**11,183**	**143,892**	**19,065**
Motorcycle & Engine	**2,737,507**	**6,718**	**2,744,225**	**124,079**	**2,259,466**	**110,127**	**10,077**	**131,271**
Precision Machinery	**1,128,976**	**119,922**	**1,248,898**	**90,695**	**1,121,376**	**42,920**	**58**	**51,342**
Other	**1,199,512**	**340,493**	**1,540,005**	**33,179**	**847,969**	**18,510**	**23,824**	**18,070**
Total	**$12,356,556**	**$846,986**	**$13,203,542**	**$770,774**	**$13,590,404**	**$335,545**	**$662,833**	**$622,224**
Adjustments	**-**	**(846,986)**	**(846,986)**	**(45,249)**	**230,856**	**35,054**	**-**	**43,744**
Consolidated total	**$12,356,556**	**$-**	**$12,356,556**	**$725,525**	**$13,821,260**	**$370,599**	**$662,833**	**$665,968**

(d) Reconciliation and the main components of differences between the total for reportable segments and amounts on the consolidated financial statement for the years ended March 31, 2015, 2014 and 2013

	Millions of yen			Thousands of U.S. dollars
	2015	2014	2013	**2015**
Net sales				
Total for reportable segments	**¥1,587,990**	¥1,475,557	¥1,378,233	**$13,203,542**
Intersegment transactions	**(101,867)**	(90,075)	(89,352)	**(846,986)**
Net sales reported on the consolidated financial statements	**¥1,486,123**	¥1,385,482	¥1,288,881	**$12,356,556**

	Millions of yen			Thousands of U.S. dollars
	2015	2014	2013	**2015**
Income				
Total for reportable segments	**¥92,701**	¥79,616	¥50,131	**$770,774**
Intersegment transactions	**(1,042)**	(79)	564	**(8,663)**
Corporate expenses (*)	**(4,400)**	(7,186)	(8,633)	**(36,586)**
Operating income (loss) on the consolidated financial statements	**¥87,259**	¥72,351	¥42,062	**$725,525**

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

	Millions of yen			Thousands of U.S. dollars
	2015	2014	2013	**2015**
Assets				
Total for reportable segments	**¥1,634,518**	¥1,525,202	¥1,485,535	**$13,590,404**
Corporate assets shared by all segments (*)	**117,990**	129,822	122,759	**981,042**
Intersegment transactions	**(90,225)**	(100,594)	(142,004)	**(750,186)**
Total assets on the consolidated financial statements	**¥1,662,283**	¥1,554,430	¥1,466,290	**$13,821,260**

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

	Millions of yen								
	Year ended March 31,			Year ended March 31,			Year ended March 31,		
	2015	2014	2013	**2015**	2014	2013	**2015**	2014	2013
Other items	Total for reportable segments			Adjustments(*)			Amounts reported on the consolidated financial statements		
Depreciation/amortization	**¥40,356**	¥34,531	¥44,250	**¥4,216**	¥3,306	¥4,135	**¥44,572**	¥37,838	¥48,385
Increase in property, plant and equipment and intangibles	**74,835**	72,670	64,795	**5,261**	15,055	13,829	**80,096**	87,726	78,624

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

	Thousands of U.S. dollars		
	Year ended March 31, 2015	Year ended March 31, 2015	Year ended March 31, 2015
Other items	Total for reportable segments	Adjustments	Amounts reported on the consolidated financial statements
Depreciation/amortization	**$335,545**	**$35,054**	**$370,599**
Increase in property, plant and equipment and intangibles	**622,224**	**43,744**	**665,968**

(e) Related information

(i) Sales by geographic region

Net sales for the years ended March 31, 2015, 2014 and 2013 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2015	2014	2013	**2015**
Japan	**¥631,018**	¥605,328	¥616,220	**$5,246,678**
United States	**356,806**	326,337	272,531	**2,966,708**
Europe	**115,145**	101,381	97,540	**957,387**
Asia	**252,371**	240,221	202,704	**2,098,370**
Other areas	**130,783**	112,215	99,886	**1,087,413**
Total	**¥1,486,123**	¥1,385,482	¥1,288,881	**$12,356,556**

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

Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Japan	**¥358,868**	¥324,502	**$2,983,852**
North America	**24,048**	26,059	**199,950**
Europe	**3,794**	3,704	**31,545**
Asia	**32,792**	28,363	**272,653**
Other areas	**1,052**	1,284	**8,748**
Total	**¥420,554**	¥383,912	**$3,496,748**

(ii) Information by major clients

	Net sales		
Clients	**2015**	2014	Related segments
Ministry of Defense	**220,745 million yen ($1,835,411 thousand)**	197,640 million yen	Ship & Offshore Structure, Aerospace, Gas Turbines & Machinery, etc.

26. Related party transactions

(a) Related party transactions for the years ended March 31, 2015 and 2014 were as follows:

	Year ended March 31, 2015
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million ($83 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥144,310 million ($1,199,883 thousand)
Account	Trade receivables
Ending balance	¥18,039 million ($149,987 thousand)
Account	Advances from customers
Ending balance	¥45,524 million ($378,515 thousand)

	Year ended March 31, 2014
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥108,684 million
Account	Trade receivables
Ending balance	¥16,209 million
Account	Advances from customers
Ending balance	¥29,214 million ($242,903 thousand)

(b) A summary of the total financial information of all affiliates (17 companies) (18 in 2014) which was the basis for calculating the equity in income of nonconsolidated affiliates, including that of Nantong COSCO KHI Ship Engineering Co., Ltd., which is a significant affiliate, for the years ended March 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Current assets	**¥228,547**	¥226,484	**$1,900,282**
Fixed assets	**335,498**	245,565	**2,789,539**
Current liabilities	**304,829**	247,603	**2,534,538**
Long-term liabilities	**76,195**	63,734	**633,532**
Net assets	**183,021**	160,712	**1,521,751**
Net sales	**364,687**	274,666	**3,032,235**
Income before income taxes and minority interests	**16,774**	19,338	**139,469**
Total net income	**12,777**	14,721	**106,235**

27. Subsequent events

On June 25, 2015, the following appropriation of nonconsolidated retained earnings was approved at the ordinary meeting of shareholders of the Company:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥7.0 per share)	¥11,694	$97,231

28. Other matters

(Quarterly financial information)

	Millions of yen			
Year ended March 31, 2015	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	¥304,154	¥633,422	¥1,016,447	¥1,486,123
Income before income taxes and minority interests	6,694	25,963	64,772	84,288
Net income	5,416	18,185	44,928	51,639
	Yen			
Net income per share - basic	¥3.2	¥10.8	¥26.8	¥30.8

	Thousands of U.S. dollars			
Year ended March 31, 2015	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$2,528,926	$5,266,666	$8,451,376	$12,356,556
Income before income taxes and minority interests	55,658	215,872	538,554	700,823
Net income	45,032	151,201	373,559	429,358
	U.S. dollars			
Net income per share - basic	$0.02	$0.08	$0.22	$0.25

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2015 and 2014, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2015 and 2014, and their financial performance and cash flows for each of the three years in the period ended March 31, 2015, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2015 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

24 June, 2015
Kobe, Japan

Directors, Corporate Auditors and Executive Officers

* Representative Director + Current Position

Directors

President

Shigeru Murayama

April 1974	Joined Kawasaki Heavy Industries, Ltd.
April 2003	Engineering Division, Aerospace Company
April 2005	Executive Officer Vice President, Aerospace Company
April 2008	Managing Executive Officer
April 2010	President, Aerospace Company
June 2010	Senior Vice President *
June 2013	President *+

Senior Exective Vice President *

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

Joji Iki

April 1977	Joined Kawasaki Heavy Industries, Ltd.
November 2002	Senior Manager, Aero-Dynamic Machinery Department, Machinery Division, Gas Turbine & Machinery Company
July 2006	Deputy General Manager, Machinery Division, Gas Turbine & Machinery Company
April 2009	Executive Officer, General Manager, Machinery Division, Gas Turbine & Machinery Company
April 2012	Managing Executive Officer President, Gas Turbine & Machinery Company
June 2012	Senior Vice President *
April 2015	Senior Executive Vice President *+

Senior Vice President *

President, Plant & Infrastructure Company

Eiji Inoue

April 1974	Joined Kawasaki Heavy Industries, Ltd.
April 2007	Head of Engineer, Senior manager, Industrial Plant Engineering Division, Kawasaki Plant Systems, Ltd.
June 2008	Director, Kawasaki Plant Systems, Ltd.
April 2010	Director, General Manager, Project Engineering Center, Kawasaki Plant Systems, Ltd.
June 2010	Senior Vice President, Kawasaki Plant Systems, Ltd.
October 2010	Executive Officer, General Manager, Project Engineering Center, in charge of Kobe Engineering Department, Plant & Infrastructure Company, Kawasaki Heavy Industries, Ltd.
April 2011	Vice President, Plant & Infrastructure Company
April 2012	Managing Executive Officer President, Plant & Infrastructure Company +
June 2012	Senior Vice President *+

Senior Vice President *

President, Rolling Stock Company

Yoshinori Kanehana

April 1976	Joined Kawasaki Heavy Industries, Ltd.
April 2007	General Manager, Project Management Division, Rolling Stock Company
December 2008	General Manager, Rolling Stock Division, Rolling Stock Company
April 2009	Executive Officer Vice President, Rolling Stock Company
April 2011	Managing Executive Officer
April 2012	General Manager, Marketing Division
June 2012	Senior Vice President
June 2013	Senior Vice President *+, President, Rolling Stock Company +

Senior Vice President *

President, Ship & Offshore Structure Company

Akio Murakami

April 1975	Joined Kawasaki Heavy Industries, Ltd.
April 2006	Senior Manager, Ship Design Department, Technology Division, Kawasaki Shipbuilding Corporation
June 2008	Director, General Manager, Technology Division, Kawasaki Shipbuilding Corporation
June 2010	Senior Vice President, Kawasaki Shipbuilding Corporation
October 2010	Executive Officer, General Manager, Planning & Control Division, Ship & Offshore Structure Company
April 2013	Managing Executive Officer, President, Ship & Offshore Structure Company +
June 2013	Senior Vice President *+

Senior Vice President *

President, Aerospace Company

Munenori Ishikawa

April 1975	Joined Kawasaki Heavy Industries, Ltd.
April 2005	Deputy General Manager, Engineering Division, Aerospace Company
April 2006	Senior Manager, QM Promoting Office, Aerospace Company
April 2009	General Manager, Manufacturing Division, Aerospace Company
April 2012	Executive Officer
April 2013	Vice President, Aerospace Company
June 2013	Managing Executive Officer President, Aerospace Company +
June 2014	Senior Vice President *+

Senior Vice President *

President, Precision Machinery Company

Kazuo Hida

April 1978	Joined Kawasaki Heavy Industries, Ltd.
June 2009	Director, Kawasaki Precision Machinery, Ltd. Seconded to Kawasaki Precision Machinery (UK) Ltd.
October 2010	Senior Associate Officer, Kawasaki Heavy Industries, Ltd.
April 2011	Executive Officer
September 2011	General Manager, Engineering Division, Precision Machinery Company
April 2013	Vice President, Precision Machinery Company
April 2014	Managing Executive Officer President, Precision Machinery Company +
June 2014	Senior Vice President *+

Senior Vice President *

President, Motorcycle & Engine Company

Kenji Tomida

April 1978	Joined Kawasaki Heavy Industries, Ltd.
April 2007	Deputy Senior Manager, Corporate Planning Department
April 2009	Deputy General Manager, Corporate Planning Division
April 2012	Executive Officer
April 2013	General Manager, Planning & Control Division, Ship & Offshore Structure Company
July 2013	General Manager, Corporate Planning Division
April 2014	Managing Executive Officer
June 2014	Senior Vice President
April 2015	Senior Vice President *+, President, Motorcycle & Engine Company +

Senior Vice President *

President, Gas Turbine & Machinery Company

Toshiyuki Kuyama

April 1980	Joined Kawasaki Heavy Industries, Ltd.
April 2008	Senior Manager, Quality Assurance Department, Gas Turbine Division, Gas Turbine & Machinery Company
April 2009	Deputy General Manager, Gas Turbine Division, Gas Turbine & Machinery Company
April 2012	Executive Officer, General Manager, Gas Turbine Division, Gas Turbine & Machinery Company
April 2015	Managing Executive Officer, President, Gas Turbine & Machinery Company +
June 2015	Senior Vice President *+

Senior Vice President

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

Kazuo Ota

April 1978	Joined Kawasaki Heavy Industries, Ltd.
April 2008	Deputy General Manager, Planning Division, Consumer Products & Machinery Company
January 2011	Deputy General Manager, Planning & Control Division, Aerospace Company
April 2012	General Manager, Planning & Control Division, Aerospace Company
April 2013	Executive Officer
April 2015	Managing Executive Officer General Manager, Corporate Planning Division +, in charge of Finance & Accounting and Personnel & Labor Administration department +
June 2015	Senior Vice President +

Outside Directors

Yoshihiko Morita

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

Reason for Appointment

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

* Japan Bank for International Cooperation, where Mr. Morita was once a director (until retirement in June 2011), and Sumitomo Mitsui Banking Corporation, where Mr. Morita was once an advisor (until retirement in June 2013) are business associates of Kawasaki. However, the Company conducts transactions with several financial institutions and reliance on both banks is low and neither bank exerts much of an influence on Kawasaki management. Consequently, we see nothing that would encroach upon Mr. Morita's independence, and therefore he is suitable as an independent officer.

Hideki Fukuda

April 1970	Joined Kaneka Corporation
October 1992	Head of Research Planning Department, General Research Laboratories, Kaneka Corporation
April 1994	Professor at the Faculty of Engineering, Kobe University
June 1994	Professor at Graduate School of Science and Technology , Kobe University
February 2003	Head of Graduate School of Science and Technology, Kobe University
April 2004	Professor at Graduate School of Science and Technology, Kobe University
April 2007	Professor at Core Research Teams, Organization of Advanced Science and Technology, Kobe University Head of Organization of Advanced Science and Technology, Kobe University
April 2009	President, Kobe University
April 2015	Professor Emeritus at Kobe University +
June 2015	Outside Director, Kawasaki Heavy Industries, Ltd. +

Reason for Appointment

The Company has judged that he is able to express useful opinions and give advice in determining important matters of the Company's management. The Company believes he can do so from a position independent from the Company's execution of duties in light of his substantial experience in the management of a university corporation as Director of Kobe University and his extensive knowledge and experience in the manufacturing industry. The Company believes he will be able to fully perform his roles as an Outside Director in supervising the execution of duties of the Company.

Managing Executive Officers

Masahiro Ibi
Ikuhiro Narimatsu
Koji Kadota

Executive Officers

Yukinobu Kono	Katsuhisa Yamada
Makoto Ogawara	Sukeyuki Namiki
Genichi Abe	Yoshinori Mochida
Hiroji Iwasaki	Toshifumi Kojima
Yasuhiko Hashimoto	Kenichi Fukushima
Tatsuya Watanabe	Hisashi Yamaji
Takeshi Ohata	Katsuya Yamamoto
Takeshi Asano	Eiichi Harada
Toshiyuki Mimura	Kazutoshi Honkawa
Akio Nekoshima	Yuji Horiuchi

Corporate Auditors

Yuji Murakami

April 1975	Joined Kawasaki Heavy Industries, Ltd.
June 2005	Deputy Senior Manager, Finance & Accounting Department
April 2009	Senior Manager, Auditing Department
April 2012	Staff Officer to Corporate Auditor
June 2012	Corporate Auditor +

Takafumi Shibahara

April 1976	Joined Kawasaki Heavy Industries, Ltd.
October 2003	Senior Manager, Personnel-Labor & General Administration Department, Planning & Control Division, Aerospace Company
October 2006	Senior Manager, Subsidiaries & Affiliates Control Department
April 2009	Executive Officer, Deputy General Manager, Corporate Planning Division
October 2010	General Manager, General Administration Division
October 2011	General Manager, General Administration Division General Manager, Personnel & Labor Administration Division
April 2012	General Manager, Personnel & Labor Administration Division
April 2014	Staff Officer to Corporate Auditor
June 2014	Corporate Auditor +

Outside Corporate Auditors

Nobuyuki Fujikake

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

Reason for Appointment

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

Takashi Torizumi

April 1975	Joined Kawasaki Kisen Kaisha, Ltd.
July 2001	Senior Manager, Accounting Group, Kawasaki Kisen Kaisha, Ltd.
April 2007	Executive Officer, Kawasaki Kisen Kaisha, Ltd.
June 2007	Director, Executive Officer, Kawasaki Kisen Kaisha, Ltd.
April 2009	Director, Managing Executive Officer, Kawasaki Kisen Kaisha, Ltd.
April 2011	Representative Director, Senior Managing Executive Officer, Kawasaki Kisen Kaisha, Ltd.
April 2015	Director, Kawasaki Kisen Kaisha, Ltd.
June 2015	Corporate Auditor, Kawasaki Heavy Industries, Ltd. +

Reason for Appointment

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

* Kawasaki Kisen Kaisha, Ltd., to which Mr. Torizumi once belonged, is a business partner of Kawasaki. However, there is essentially no capital relationship like that of a Group company and average transaction volumes between the Kawasaki Kisen Group and Kawasaki Group for the most recent five fiscal years account for less than 2% of the total annual average sales each for these two companies over the corresponding period. Consequently, the Company has determined that there is no issue as regards to the independence of Mr. Torizumi and he is therefore suitable as an independent officer.

Corporate Profile • Stock Information

(As of March 31, 2015)

Corporate Profile

Kawasaki Heavy Industries, Ltd.

Head Offices

Tokyo Head Office:
14-5, Kaigan 1-chome, Minato-ku, Tokyo 105-8315, Japan

Kobe Head Office:
Kobe Crystal Tower, 1-3, Higashikawasaki-cho 1-chome, Chuo-ku, Kobe, Hyogo 650-8680, Japan

President
Shigeru Murayama

Number of Shares Issued
1,670,805,320 (As of March 31, 2015)

Net Sales
¥1,486,123 million (Fiscal year ended March 31, 2015)

Number of Employees
35,471 (As of March 31, 2015)

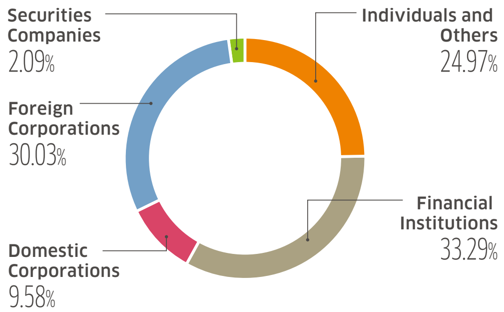
Stock Information

Stock Listings	Tokyo and Nagoya Stock Exchanges
Share Unit Number	1,000 shares
Total Number of Shares Authorized	3,360,000,000 shares
Total Number of Shares Issued	1,670,805,320 shares
Number of Shareholders	112,683 persons (As of March 31, 2015)
Annual General Meeting of Shareholders	June

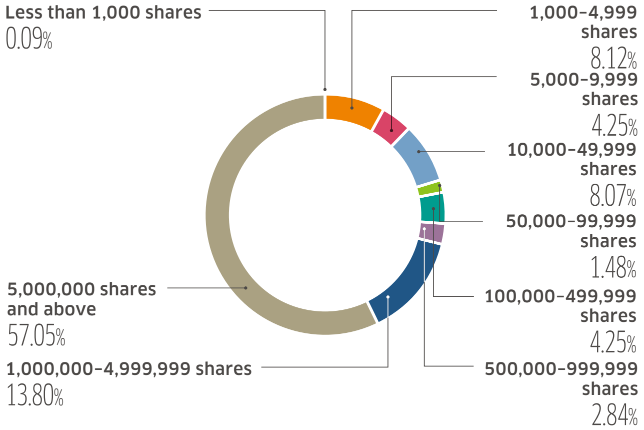
Major Shareholders

Shareholder	Number of Shares Owned	Percentage
The Master Trust Bank of Japan, Ltd. (Trust Account)	81,038,000	4.85%
Japan Trustee Services Bank, Ltd. (Trust Account)	61,006,000	3.65%
Mizuho Bank, Ltd.	59,207,773	3.54%
Nippon Life Insurance Company	57,516,659	3.44%
JFE Steel Corporation	56,174,400	3.36%
JP MORGAN CHASE BANK 380055	47,184,020	2.82%
Kawasaki Heavy Industries, Ltd. Kyoueikai	34,412,192	2.05%
Sompo Japan Nipponkoa Insurance Inc.	30,577,999	1.83%
Kawasaki Heavy Industries Employee Stock Ownership Association	28,805,217	1.72%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	28,089,000	1.68%
Total	484,011,260	28.94%

Classified by Type of Shareholder



Classified by Number of Holdings



Base / Major Subsidiaries Introduction

(As of March 31, 2015)

Offices in Japan

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

Production Bases in Japan

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

Overseas Offices

Beijing Office
Taipei Office
Bangkok Office
Delhi Office
Moscow Office

Major Subsidiaries in Japan

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

Overseas Subsidiaries & Affiliates

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