The Items Published on the Internet Website Concerning the Notice of the 193rd Ordinary General Meeting of Shareholders

Kawasaki Heavy Industries, Ltd.

Consolidated Statement of Changes in Net Assets

(April 1, 2015 - March 31, 2016)

(Unit: million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	104,484	54,393	253,605	(67)	412,416
Changes of items during the period					
Cash dividends			(20,047)		(20,047)
Net income attributable to owners of parent			46,043		46,043
Treasury stock purchased				(21)	(21)
Treasury stock disposed		0		1	2
Effect of changes in accounting periods of consolidated subsidiaries			25		25
Net changes of items other than shareholders' equity					
Total changes of items during the period	–	0	26,021	(19)	26,002
Balance at the end of the period	104,484	54,394	279,627	(86)	438,419

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Net unrealized gains on securities net of tax	Gains (losses) on hedging items	Foreign currency translation adjustments	Accumulated adjustment for retirement benefits	Total accumulated other comprehensive income		
Balance at the beginning of the period	3,704	(1,985)	25,179	(7,318)	19,579	15,961	447,957
Changes of items during the period							
Cash dividends							(20,047)
Net income attributable to owners of parent							46,043
Treasury stock purchased							(21)
Treasury stock disposed							2
Effect of changes in accounting periods of consolidated subsidiaries							25
Net changes of items other than shareholders' equity	(999)	2,678	(16,188)	(12,121)	(26,630)	(1,704)	(28,335)
Total changes of items during the period	(999)	2,678	(16,188)	(12,121)	(26,630)	(1,704)	(2,332)
Balance at the end of the period	2,705	692	8,990	(19,439)	(7,051)	14,257	445,625

Notes to the Consolidated Financial Statements

(Notes to the basis for preparation of consolidated financial statements)

1. Scope of consolidation

Number of consolidated subsidiaries and names of principal subsidiaries: 99 in total

(Domestic) Kawasaki Trading Co., Ltd., Kawasaki Machine Systems, Ltd., NIPPI Corporation, Kawasaki Thermal Engineering Co., Ltd., Kawasaki Motors Corporation Japan, EarthTechnica Co., Ltd.

(Overseas) Kawasaki Motors Corp., U.S.A., Kawasaki Motors Manufacturing Corp., U.S.A., Kawasaki Motors Enterprise (Thailand) Co., Ltd., Kawasaki Motors Europe N.V., Kawasaki Rail Car, Inc., PT. Kawasaki Motor Indonesia, Kawasaki Motors (Phils.) Corporation, Kawasaki Robotics (U.S.A.), Inc., Flutek, Ltd.

Five newly established subsidiaries were included in the scope of consolidation.

Three consolidated subsidiaries — KCM Corporation and two other companies — were eliminated due to transfer of shares and were excluded from the scope of consolidation.

2. Application of the equity method

(1) Number of non-consolidated subsidiaries and affiliates and names of principal companies which are subject to the equity method: 20 in total

Affiliates: 20, Nantong COSCO KHI Ship Engineering Co., Ltd.

Of the additional three affiliates which are accounted for using the equity method, MES-KHI Yura Dock Co., Ltd. received new investment and the other two companies were newly established. Accordingly, they have been included in the scope of accounting by the equity method from the current consolidated fiscal year.

(2) Names of principal companies of non-consolidated subsidiaries and affiliates not subject to the equity method

Affiliates: Commercial Airplane Co., Ltd., Asahi Aluminium Co., Ltd.

These affiliates are excluded from application of the equity method because they do not have any material impact on the consolidated financial statements with respect to net income and retained earnings.

3. Significant accounting policies

(1) Standards and methods for evaluation of assets

(i) Marketable securities

Bonds held to maturity

Principally stated by the amortized cost method

Other marketable securities

- Securities with market quotations

  Stated at market based on the market price on the settlement date of the accounting period (with all valuation differences charged to net assets and the cost of sale computed mainly by the moving average method).

- Securities without market quotations

  Stated at cost principally using the moving average method

  No trading securities are held by the Company.

(ii) Inventories

Stated at cost principally using the specific identification method, the moving-average method, and the first-in first-out method (a method for lowering the book value due to deterioration of profitability)

(iii) Net credit and net liability incurred by derivative transactions

Stated at market

(2) Depreciation methods for fixed assets

(i) Property, plant and equipment

- Other than leased assets

  The straight line method is principally used for depreciation.

- Leased assets

  The leased assets involved in finance lease transactions that do not involve transfer of ownership are subject to the straight-line method, whereby the leasing period is deemed to be the duration of useful life and the residual value as zero.

With respect to finance lease transactions not involving the transfer of ownership undertaken prior to the first year of implementation of the revision of the lease accounting standards, the Company continues to apply accounting treatment similar to that for ordinary operating leasing transactions.

(ii) Intangible assets

- Other than leased assets

  The straight line method is used. The Company's own software (used by the Company) is subject to amortization based on the period of internal use (generally five years).

- Leased assets

  The leased assets involved in finance lease transactions that do not involve transfer of ownership are subject to the straight-line method, whereby the leasing period is deemed to be the duration of useful life and the residual value as zero.

  With respect to finance lease transactions not involving transfer of ownership undertaken prior to the first year of the implementation of the revision of the lease accounting standards, the Company continues to apply an accounting treatment similar to that for ordinary operating leasing transactions.

(3) Standards for translation of assets and liabilities denominated in foreign currencies into yen

The Company applies the revised accounting standards for transactions denominated in foreign currencies (*Opinion Concerning the Revision of Accounting Standards for Transactions Denominated in Foreign Currencies* issued by Business Accounting Council on October 22, 1999).

(4) Methods of accounting for provisions

(i) Allowance for doubtful receivables

In order to provide losses due to doubtful receivables, an amount mainly based on the historical write-off rate is recorded for ordinary receivables, and the necessary amount based on the estimated recoverability of individual cases is recorded for specified receivables such as doubtful receivables.

(ii) Accrued bonuses

A provision is recorded based on estimated bonuses to employees.

(iii) Provision for product warranties

A provision is recorded for expenditures for warranties concerning construction contracts based on past experience or on estimations of individual cases.

(iv) Provision for losses on construction contracts

A provision for an estimated amount of losses is recorded for the next fiscal year and thereafter concerning construction works which are anticipated to incur significant losses and which allow reasonable estimation of the loss incurred at the end of fiscal year under review among those construction works that have not been delivered as of the end of the fiscal year.

(v) Provision for environmental measures

The Company provided an estimated amount to cover expenditures such as the disposal of PCB (poly chlorinated biphenyl) waste required under the "Law Concerning Special Measures for Promotion of Appropriate Disposal of PCB Waste."

(5) Method of accounting for retirement benefits

A provision is recorded for the amount deemed to have been incurred as of fiscal year-end under review based on the estimated retiree benefits and plan assets as of this fiscal year-end (including the retirement benefit trust) in order to cover employee retirement benefits.

Actuarial differences are expensed effective from the following consolidated fiscal year after the year of such recognition, mainly by the straight line method over a period of 10 years, and prior service costs are expensed effective from the fiscal year of such recognition chiefly by the straight line method for a period of 10 years.

Unrecognized actuarial differences and unrecognized prior service cost are recorded for accumulated other comprehensive income's cumulative adjustment for retirement benefits in the net assets section of the consolidated balance sheet after adjusting for a tax effect.

With regard to the method for attributing expected retirement benefits to this consolidated accounting period under review in calculating projected benefit obligations, the benefit formula basis is applicable.

(6) Hedge accounting policy

The Company employs deferred hedge accounting.

(7) Standards for revenue recognition

The standard applied for posting revenue for construction contracts is in accordance with the

Accounting Standard for Construction Contracts (Accounting Standards Board of Japan(ASBJ), Statement No. 15, December 27, 2007) and Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No. 18, December 27, 2007). However, with respect to posting of revenue for long-term or major construction works (principally those with a construction period longer than 1 year, and a contract amount of ¥3.0 billion or more) for which construction started prior to March 31, 2009, we apply the percentage-of-completion method (the estimate for the rate of construction progress is mainly according to the cost accounting method), and with respect to other construction we apply the completed-contract method.

With regard to contracts for which the amount of revenue from delivery is not determined and/or cost of sales is not finalized, both sales and cost of sales are estimated.

(8) Consumption tax and local consumption tax are subject to accounting treatment using the tax excluded method.

(9) The Company adopts a consolidated tax payment system.

(10) Amortization method and amortization period of goodwill

Goodwill is amortized over the relevant period by the straight line method based on an estimate of the effective duration. However, all goodwill that is monetarily insignificant is amortized at once in the fiscal year of incurrence.

(Changes in Accounting Policies)

(Application of the Accounting Standard for Business Combinations, etc.)

The "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013; hereinafter referred to as the "Accounting Standard for Business Combinations"), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013; hereinafter referred to as the "Accounting Standard for Consolidated Financial Statements"), and "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013; hereinafter referred to as the "Accounting Standard for Business Divestitures") have been applied from the fiscal year under review. Under these accounting standards, we recorded the differences caused by changes in our equity shares in subsidiaries that we continue to control as a capital surplus. In addition, we recorded acquisition-related costs as expenses in the fiscal year in which the costs were incurred. Regarding business combinations that are conducted after the beginning of the fiscal year under review, acquisition costs based on provisional estimates shall be reflected in the consolidated financial statements for the consolidated fiscal year in which the date of the business combination falls. We have also changed the presentation with respect to net income while changing the presentation from "minority interests" to "non-controlling interests."

The Accounting Standard for Business Combinations and others are applied retrospectively at the beginning of the current fiscal year, in accordance with transitional treatment stipulated in section 58-2(4) of the Accounting Standard for Business Combinations, section 44-5(4) of the Accounting Standard for Consolidated Financial Statements, and section 57-4(4) of the Accounting Standard for Business Divestitures.

There is no effect on the consolidated financial statements for the consolidated fiscal year under review.

(Additional Information)

(Effects of the change of corporate tax rate, etc.)

In accordance with the promulgation of the "Law for Partial Amendment of the Income Tax Law, Etc." (2016, Law No. 15) and the "Law for Partial Amendment of the Local Tax Law, Etc." (2016, Law No. 13) in the Diet on March 29, 2016, the income tax rates are to be reduced from the consolidated fiscal years beginning on or after April 1, 2016.

The statutory tax rate, which is used to calculate deferred tax assets and liabilities, has been reduced from the previous 32.1% to 30.7% and 30.5% for the temporary differences expected to be cleared in the consolidated fiscal years beginning on or after April 1, 2016 and April 1, 2017, and in the consolidated fiscal year beginning on or after April 1, 2018, respectively.

This tax rate change decreased net deferred tax assets (the amount obtained after deducting the amount of deferred tax liabilities) by ¥2,493 million, increased income taxes-deferred by ¥2,136 million, increased net unrealized gains on securities, net tax by ¥48 million, increased deferred gains (losses) on hedges by ¥13 million, and decreased accumulated adjustment for retirement benefits by ¥419 million.

(Change in Presentation Methods)

Consolidated statement of income

From this consolidated fiscal year, a "gain on sales of securities" (¥283 million in the current consolidated fiscal year) was included and presented in "other" under non-operating income as a result of the decline in the significance of the amount. "Subsidy income" (¥704 million in the previous consolidated fiscal year), in the meantime, is presented independently as a result of the increase in the significance of the amount.

(Notes to Consolidated Balance Sheet)

1. The amounts presented are rounded down to the nearest unit.
2. Accumulated depreciation of property, plant and equipment ¥754,658 million
3. Assets pledged as collateral

Buildings and structures	¥75 million
Investments in securities	¥14 million
Other	¥53 million

Stock of affiliates in the amount of ¥30 million, which are eliminated from consolidated financial statements, are offered in security (revolving pledge).

Liabilities relating to collateral

Short-term debt	¥9 million
Long-term debt	¥73 million
Other	¥4 million

4. Guarantee obligations for bank loans of subsidiaries and affiliates, etc. and employees ¥18,722 million
5. With respect to some work in process, a trust beneficiary right has been established with the expected trade receivables as a trust asset. Work in process related to the said trust asset amounts to ¥5,841 million.

(Notes to Consolidated Statement of Income)

1. The amounts presented are rounded down to the nearest unit.
2. Gain on transfer of business is attributable to the transfer of all shares of KCM Corporation and the transfer of business of KCMJ Corporation.
3. Loss on overseas business is attributable to the shipbuilding joint venture project in Brazil.

(Notes to Consolidated Statement of Changes in Net Assets)

1. The amounts presented are rounded down to the nearest unit.

2. Total number of shares outstanding as of end of the fiscal year under review
Common stock 1,670,805,320 shares

3. Dividends

Resolution	Total dividend (million yen)	Dividend per share (yen)	Record date	Effective date
General Meeting of Shareholders on June 25, 2015	11,694	7	March 31, 2015	June 26, 2015
Directors Meeting on October 29, 2015	8,352	5	September 30, 2015	December 1, 2015

Scheduled date of resolution	Total dividend (million yen)	Dividend per share (yen)	Record date	Effective date
General Meeting of Shareholders on June 24, 2016	11,694	7	March 31, 2016	June 27, 2016

(Notes to financial instruments)

1. Matters regarding financial instruments

KHI Group raises necessary funds, in light of its business plans; for long-term working capital and capital expenditure funds the Group predominantly raises funds through bank loans and issuance of corporate bonds, for short-term working capital it raises funds through bank loans and issuance of short-term bonds (electronic commercial paper), and so forth. Temporary surplus funds are invested in highly secure financial assets. We use derivatives to avoid risks described hereunder and do not engage in speculative transactions.

Operating receivables, namely, trade receivables are exposed to counterparty credit risk. The currency exchange risk of the debts and credits in foreign currencies which arise from global business operations is hedged by using foreign exchange forward contracts and currency swaps, and so forth in principle against the net amount of the debts and credits in the foreign currency. Investments in securities are mainly shares of corporations which we have business dealings with, and of these investments, those shares that are listed are exposed to the risk of market price fluctuations.

Most trade payables, which are operating liabilities, have maturities of less than one year. Some of those are denominated in foreign currencies due to the import of materials, and so forth, and although they are exposed to the risk of currency fluctuation, most are within the limit of the balance of accounts receivable in the same foreign currency. Debts payable that are composed of loans and corporate bonds are raised for the purpose of securing working capital and capital investments, and the longest maturity from the date of balance sheet is about ten years. Some of those instruments have floating interest and are denominated in foreign currencies and are therefore exposed to the risk of interest rate and currency exchange fluctuations, however we hedge those risks as required by using derivatives transactions (interest rate swaps and currency swaps).

Derivative transactions are transactions which include exchange forward contracts and currency options and currency swaps transactions for the purpose of hedging exchange fluctuation risks of the debts and credits in foreign currencies, and interest rates swap transactions and so forth for the purpose of hedging interest fluctuation risks of debts payable.

2. Matters concerning fair market value, etc. of financial instruments

The prices recorded in the consolidated balance sheet, fair market value and the difference between those as of the end of this consolidated fiscal year are as follows.

(Unit: million yen)

	Price recorded in the consolidated balance sheet(*)	Fair market value(*)	Difference
(1) Cash on hand and in banks	42,157	42,157	-
(2) Trade receivables	381,339	381,336	(2)
(3) Long-term investment securities	7,682	7,683	0
(4) Trade payables	[233,979]	[233,979]	-
(5) Electronically recorded obligations-operating	[87,798]	[87,798]	-
(6) Short-term debt	[105,891]	[105,891]	-
(7) Current bonds payable	[10,000]	[10,000]	-
(8) Bonds payable	[120,000]	[123,309]	(3,309)
(9) Long-term debt	[160,809]	[161,729]	(919)
(10) Derivative transactions	4,304	4,304	-

(*) Figures which are posted as liabilities are shown in [ ].

(Note 1) Matters concerning the method for calculating the fair market value of financial instruments and marketable securities and derivatives transactions

(1) Cash on hand and in banks

These instruments can be settled within short term and fair market value is roughly equal to book value, therefore the fair market value is stated at book value.

(2) Trade receivables

Trade receivables are grouped into a specified period, and are stated at present value calculated by the discount rate, which takes into account the respective period and credit risk.

(3) Long-term investment securities

The fair market value for these securities is stated at the price listed on the exchange.

(4) Trade payables, (5) Electronically recorded obligations-operating, (6) Short-term borrowings, (7) Current bonds payable

These instruments can be settled within short term and fair market value is roughly equal to book value, therefore the fair market value is stated at book value.

(8) Bonds payable

The fair market value of these instruments is stated at market price.

(9) Long-term debt

The fair market value of long-term debt is determined by discounting the total of principal and interest by the interest rate on similar new debt.

(10) Derivatives transactions

The fair market value of derivatives is stated at the forward exchange rate or the price offered by the trading financial institution.

(Note 2) Financial instruments whose fair market value is deemed extremely difficult to ascertain

Shares of affiliates, investments in affiliates and unlisted stocks, and investments in silent partnerships (amount recorded in the consolidated balance sheet was ¥81,552 million) are not included in the table above, as it is deemed to be extremely difficult to ascertain fair market value because those instruments have no market prices, and it is not possible to estimate their future cash flows.

(Notes to per share information)

1. Net assets per share ¥ 258.21
2. Net income per share ¥ 27.56

(Other)

(Damage caused to NIPPI Corporation by snowfall)

The heavy snowfall on February 15, 2014 caused a hanger roof in Atsugi Works of NIPPI Corporation, which is KHI's consolidated subsidiary, to collapse, causing damage to aircrafts of the Japan Maritime Self Defense Force that was undergoing regular maintenance. The Company and NIPPI Corporation are currently having discussions with the Japanese Ministry of Defense regarding the way to handle this case. Some discussion results could have a material impact on the KHI Group’s financial performance.

(Business divestiture)

On October 1, 2015, the Company transferred all shares of KCM Corporation (hereafter "KCM") (Hyogo Prefecture) to Hitachi Construction Machinery Co., Ltd. (Tokyo).

(1) Summary of the business divestiture

(i) Name of the assignee

Hitachi Construction Machinery Co., Ltd.

(ii) Business description of the separated business

Manufacture and sale of construction machinery

(iii) Principal reasons for carrying out the business divestiture

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 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 business field of 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 amid intensified global competition in the construction machine industry. The Company transferred the businesses of KCMJ Corporation, which engages in sales and servicing operations for KCM products in Japan, to Hitachi Construction Machinery Japan Co., Ltd. on the same date as the date of assigning shares of KCM.

(iv) Date of the business divestiture

October 1, 2015

(v) Overview of the transaction including legal form

Assignment of shares for which the consideration received is only cash assets and assignment of related assets

(2) Outline of the accounting implemented

(i) Amount of gain or loss on transfer

¥901 million

(ii) Fair book values of assets and liabilities pertaining to the transferred business, and the major breakdown thereof

Current assets	¥19,719 million
Noncurrent assets	¥5,727 million
Total assets	¥25,447 million
Current liabilities	¥16,047 million
Noncurrent liabilities	¥3,641 million
Total liabilities	¥19,689 million

(iii) Accounting procedure

For the transfer of shares, appropriate accounting procedures were applied in accordance with

“Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013).

(3) Estimated amount of profit or losses pertaining to the divested business, which is reported in the consolidated fiscal year under review

Net sales	¥18,777 million
Operating income	¥159 million

Non-consolidated Statement of Changes in Net Assets

(April 1, 2015 - March 31, 2016)

(Unit: million yen)

	Shareholders' equity							
		Capital surplus		Retained earnings				
				Other retained earnings				
	Common stock	Legal capital surplus	Other capital surplus	Reserve for special depreciation	Reserve for advanced depreciation of fixed assets	Retained earnings brought forward	Treasury stock	Total shareholders' equity
Balance at beginning of the period	104,484	52,210	-	369	7,629	128,951	(67)	293,578
Changes of items during the period								
Cash dividends						(20,047)		(20,047)
Net income for the year						30,796		30,796
Treasury stock purchased							(21)	(21)
Treasury stock disposed			0				1	2
Reserve for special depreciation				3		(3)		-
Reversal of provision for special depreciation				(210)		210		-
Reserve for advanced depreciation of fixed assets					182	(182)		-
Reversal of provision for advanced depreciation of fixed assets					(137)	137		-
Net changes of items other than shareholders' equity								
Total changes of items during the period	-	-	0	(206)	44	10,911	(19)	10,730
Balance at end of the period	104,484	52,210	0	162	7,674	139,863	(86)	304,308

	Valuation and translation adjustments			Total net assets
	Net unrealized gains on securities net of tax	Gains (losses) on hedging items	Total valuation and translation adjustments	
Balance at beginning of the period	2,686	(2,212)	473	294,052
Changes of items during the period				
Cash dividends				(20,047)
Net income for the year				30,796
Treasury stock purchased				(21)
Treasury stock disposed				2
Reserve for special depreciation				-
Reversal of provision for special depreciation				-
Reserve for advanced depreciation of fixed assets				-
Reversal of provision for advanced depreciation of fixed assets				-
Net changes of items other than shareholders' equity	(728)	2,845	2,116	2,116
Total changes of items during the period	(728)	2,845	2,116	12,847
Balance at end of the period	1,957	633	2,590	306,899

Notes to the Non-consolidated Financial Statements

(Notes to significant accounting policies)

1. Marketable securities are evaluated by the following methods. Trading securities and held-to-maturity bonds are not held by the Company.
   (1) Investment securities of subsidiaries and affiliates
   Stated at cost using the moving-average method
   (2) Other marketable securities
   ・ Securities with market quotations
   Stated at market based on the market price on the settlement date of the fiscal year.
   Evaluation differences are all charged to net assets, and the amount obtained by subtracting the amount of tax effect from the total amount of the evaluation difference is represented in the section of net assets as "Net unrealized gains on securities."
   The cost of sales is calculated chiefly by the moving average method.
   ・ Securities without market quotations
   Stated at cost using the moving average method

2. Inventories are stated at cost using the specific identification method and the moving-average method (a method for lowering the book value due to deterioration of profitability)

3. Derivatives are stated at market

4. Property, plant and equipment are subject to depreciation conducted by the following methods:
   (1) Other than leased assets
   The straight line method is used.
   (2) Leased assets
   The leased assets involved in finance lease transactions that do not involve transfer of ownership are subject to the straight-line method, whereby the leasing period is deemed to be the duration of useful life and the residual value as zero.
   With respect to finance lease transactions not involving the transfer of ownership undertaken prior to the first year of implementation of the revision of the lease accounting standards, the Company continues to apply accounting treatment similar to that for ordinary operating leasing transactions.

5. Intangible assets are subject to amortization conducted by the following methods:
   (1) Other than leased assets
   The straight line method is used. The Company's own software (used by the Company) is subject to amortization based on the period of internal use (five years).
   (2) Leased assets
   The leased assets involved in finance lease transactions that do not involve transfer of ownership are subject to the straight-line method, whereby the leasing period is deemed to be the duration of useful life and the residual value as zero.
   With respect to finance lease transactions not involving transfer of ownership undertaken prior to the first year of the implementation of the revision of the lease accounting standards, the Company continues to apply an accounting treatment similar to that for ordinary operating leasing transactions.

6. The Company applies the revised accounting standards for transactions denominated in foreign currencies (*Opinion Concerning the Revision of Accounting Standards for Transactions Denominated in Foreign Currencies* issued by the Business Accounting Deliberation Council on October 22, 1999) as standards for translation of assets and liabilities denominated in foreign currencies into yen.

7. Standards of accounting for provisions
   (1) Allowance for doubtful receivables
   In order to provide losses due to doubtful receivables, an amount based on the historical write-off rate is recorded for ordinary receivables, and the necessary amount based on the estimated recoverability of individual cases is recorded for specified receivables such as doubtful receivables.
   (2) Accrued bonuses
   The Company has recorded a provision based on the estimated amount of payments in order to cover the bonus payouts to employees in accordance with the Company's Rules for Bonus Payment.
   (3) Provision for product warranties
   A provision is recorded for expenditures for warranties concerning construction contracts based on past experience or on estimations of individual cases.
   (4) Provision for losses on construction contracts
   A provision for an estimated amount of losses is recorded for the next fiscal year and thereafter concerning construction works which are anticipated to incur significant losses and which allow reasonable estimation of the loss incurred at the end of this fiscal year among those construction works that have not been delivered as of the end of the fiscal year.
   (5) Employees' retirement and severance benefits
   A provision is recorded for the amount deemed to have been incurred as of this fiscal year-end based on the estimated retiree benefits and plan assets as of this fiscal year-end (including the pension trust) to cover employee retirement benefits. With regard to the method for attributing expected retirement benefits to this accounting period under review in calculating projected benefit obligations, the benefit formula basis is applied. Actuarial differences are expensed by the straight-line method over a period of ten years commencing from the following fiscal year after the year of such recognition, and past service costs are expensed by the straight-line method over a period of ten years commencing from the fiscal year of such recognition. Accounting procedures of unrecognized actuarial differences and unrecognized prior service cost on retirement benefits are different from those in the consolidated financial statements.
   (6) Provision for environmental measures
   The Company provided an estimated amount to cover expenditures such as the disposal of PCB waste required under the "Law Concerning Special Measures for Promotion of Appropriate Disposal of PCB (poly chlorinated biphenyl) Waste."

8. Hedge accounting policy
   The Company employs deferred hedge accounting.

9. Standards for revenue recognition
   The standard applied for posting revenue for construction contracts is in accordance with the Accounting Standard for Construction Contracts (ASBJ Statement No. 15, December 27, 2007) and Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No. 18, December 27, 2007). However, with respect to posting of revenue for long-term or major construction works (those with a construction period longer than 1 year, and a contract amount of ¥3.0 billion or more) for which construction started prior to March 31, 2009 we apply the percentage-of-completion method (the estimate for the rate of construction progress is mainly according to the cost accounting method), and with respect to other construction we apply the completed-contract method. With regard to contracts for which the amount of revenue from delivery is not determined and/or cost of sales is not finalized, both sales and cost of sales are estimated.

10. Consumption tax and local consumption tax are subject to the accounting treatment using the tax excluded method.

11. We adopt a consolidated tax payment system.

(Change in Presentation)

Statement of income

From this fiscal year, a "gain on sales of securities" (¥225 million in the current fiscal year) was included and presented in "other" under non-operating income as a result of the decline in the significance of the amount. "Subsidy income" (¥704 million in the previous fiscal year), in the meantime, is presented independently as a result of the increase in the significance of the amount.

(Notes to Non-Consolidated Balance Sheet)

1. The amounts presented are rounded down to the nearest unit.
2. Accumulated depreciation of property, plant and equipment ¥573,265 million
3. Monetary receivables from and payables to affiliates

Short-term monetary assets	¥129,100 million
Long-term monetary assets	¥24,132 million
Short-term monetary liabilities	¥77,584 million

4. Asset pledged as collateral and liability relating to collateral

(1) Assets pledged as collateral

Investments in securities	¥14 million
Shares of affiliates	¥67 million
Buildings	¥75 million
Total	¥156 million

(2) Liability relating to collateral

Long-term debt (due for repayment within one year)	¥9 million
Long-term debt	¥73 million

5. Guarantee liability for bank loans of subsidiaries and affiliates, etc. and employees ¥20,460 million
6. With respect to some work in process, a trust beneficiary right has been established with the expected trade receivables as a trust asset. Work in process related to the said trust asset amounts to ¥5,841 million.

(Notes to Non-consolidated Statement of Income)

1. The amounts presented are rounded down to the nearest unit.
2. Transactions with affiliates

Transaction from operating transactions	
Net sales	¥449,323 million
Purchases	¥198,669 million
Transaction from non-operating transactions	¥30,472 million

3. Gain on transfer of shares of subsidiaries is attributable to the transfer of all shares of KCM Corporation.
4. Loss on overseas business is attributable to the shipbuilding joint venture project in Brazil.

(Notes to Non-consolidated Statement of Changes in Net Assets)

1. The amounts presented are rounded down to the nearest unit.
2. Type of treasury shares and number of shares at the end of the current fiscal year
   Common stock 228,992 shares

(Notes to Tax Effect Accounting)

Among other factors, the main contributing factor to deferred tax assets is the disallowance of various provisions such as the employees' retirement and severance benefits and the losses on construction contracts, and the main contributing factor to the deferred tax liabilities incurred is net unrealized gain on securities.

(Additional Information)

(Effects of the change of corporate tax rate, etc.)

In accordance with the promulgation of the "Law for Partial Amendment of the Income Tax Law, Etc." (2016, Law No. 15) and the "Law for Partial Amendment of the Local Tax Law, Etc." (2016, Law No. 13) in the Diet on March 29, 2016, the income tax rates are to be reduced from the consolidated fiscal years beginning on or after April 1, 2016.

The statutory tax rate, which is used to calculate deferred tax assets and liabilities, has been reduced from the previous 32.1% to 30.7% and 30.5% for the temporary differences expected to be cleared in the consolidated fiscal years beginning on or after April 1, 2016 and April 1, 2017, and in the consolidated fiscal year beginning on or after April 1, 2018, respectively.

This tax rate change decreased net deferred tax assets (the amount obtained after deducting the amount of deferred tax liabilities) by ¥2,047 million, increased income taxes-deferred by ¥2,104 million, increased net unrealized gain on other securities by ¥44 million, and increased deferred gains or losses on hedges by ¥12 million.

(Notes to Leased Fixed Assets)

Other than the fixed assets recorded on the balance sheet, certain manufacturing facilities are used under finance lease contracts not involving the transfer of the ownership of the leased property.

(Notes for transactions with interested parties)

Unit: million yen

Attributes	Company name	Percentage of voting rights held	Relationship with interested party	Content of transaction	Amount of transaction	Item	Balance at fiscal year-end
Affiliate	Commercial Airplane Co., Ltd.	40% directly held	Sale of the company's products Directors concurrently serving	Sale of the company's products	159,683	Accounts receivable Advances from customers	11,621 46,015
Affiliate	Enseada Indústria Naval S.A.	31.09% directly held	Sale of the company's products Loan of funds Directors concurrently serving	Sale of the company's products Loan of funds	4,144 -	Investments and other assets "Other"	4,687

Terms and conditions of trade and policy, etc. on deciding terms and conditions of trade

(Note 1) The Company presents its preferred price in consideration of the overall cost and then decides the terms and conditions of trade through price negotiations.

(Note 2) The Company decides the loan of funds in consideration of market interest rates.

(Note 3) The year-end balance of receivables to Enseada Industria Naval S.A. is the amount after deducting an allowance for doubtful accounts. The balance of the said allowance and the provision therefor for the current fiscal year is ¥10,287 million.

(Note 4) Of the above amounts, consumption taxes are not included in the trade amount, but are included in the balance at the end of fiscal year.

(Notes to per Share Information)

1. Net assets per share ¥183.70
2. Net income per share ¥18.43

(Other)

(Damage caused to NIPPI Corporation by snowfall)

The heavy snowfall on February 15, 2014 caused a hanger roof in Atsugi Works of NIPPI Corporation, which is KHI's consolidated subsidiary, to fall. This disaster caused damage to a number of aircraft of the Japan Maritime Self Defense Force that were undergoing regular maintenance in the said Works by NIPPI Corporation under subcontract with the Company. The Company is currently having discussions with the Japanese Ministry of Defense regarding the way to handle this case. Some discussion results could have a material impact on the Company's financial performance.