Kawasaki
Powering your potential

Kawasaki Report 2018

Year ended March 31, 2018

Innovating
the Future...

on the land,
on and under the water
and in the air

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

The purpose of this report is to update all our various stakeholder groups on the status of our efforts to create value for society and to boost enterprise value, our management policies, our business environment and strategic responses, and major environmental, social and governance (ESG)-related content. We hope that this information will enable everyone to acquire a deeper understanding of what we do and what we aim to achieve as the Kawasaki Group.

For more information on many of the topics touched upon in this report, please visit our website and follow the appropriate links.

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

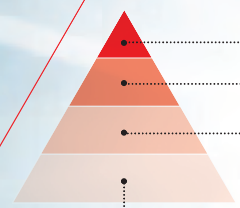
CSR information: https://global.kawasaki.com/en/corp/sustainability/

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

Period	This report covers fiscal 2018 (April 1, 2017 to March 31, 2018), but some fiscal 2019 content is also included.
Scope	The report covers Kawasaki Heavy Industries, Ltd., its 93 consolidated subsidiaries (41 in Japan and 52 overseas) and 17 equity-method non-consolidated subsidiaries. Some data, however, refer to the parent company alone.
Guidelines	In preparing the report, the editorial office referred to the Sustainability Reporting Standards issued by the Global Reporting Initiative (GRI), the International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC) and the Environmental Reporting Guidelines (2012 Edition) issued by the Ministry of the Environment.
Frequency of Publication	Annually, in general *Previous number* – Issued in August 2017 *Following number* – Expected to be issued in August 2019
Contact us	Please make inquiries through the inquiry form on our website https://global.kawasaki.com/en/corp/profile/contact/

Kawasaki Group Mission Statement

In 2007, Kawasaki formulated the Kawasaki Group Mission Statement as a compass directing the activities of the Kawasaki Group. The statement incorporates the social mission that the Group must fulfill in the 21st century, a shared sense of values to increase Kawasaki brand value, the underlying principles of management activities, and guidelines for daily conduct that each and every member of the organization is required to follow.



Group Mission

Kawasaki, working as one for the good of the planet

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

Kawasaki Value

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

The Kawasaki Group Management Principles

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

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

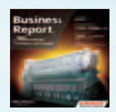
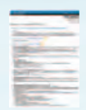
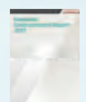
3 People The Kawasaki Group's corporate culture is built on integrity, vitality, organizational strength and mutual respect for people through all levels of the Group. We nurture a global team for a global era.

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

The Kawasaki Group Code of Conduct

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

Kawasaki Group's Information Disclosure

Information on how the Kawasaki Group creates value and achieves sustainable growth	Kawasaki Report 2018 
Publication of detailed information and the latest information	Corporate Website https://global.kawasaki.com/en/ Investors Corporate info Products R&D Sustainability Environment
Information for various stakeholders	 *Securities Report (Japanese only)*  *Business Report (Japanese only)*  *Corporate Governance Report (Japanese only)*  *Kawasaki Technical Review*  *Kawasaki Environmental Report*

Financial information ⟵ ⟶ Non-financial information

To Our Stakeholders

Kawasaki—and by extension, the Kawasaki Group—got its start in the shipbuilding business and, by responding to the needs of the day, has ventured into rolling stock and aircraft businesses and then a wide range of other pursuits, such as energy and environmental engineering, various kinds of industrial equipment, and motorcycles, inevitably becoming a comprehensive heavy industries enterprise. During this time, we have always endeavored to improve enterprise value, developing along with our stakeholders, shareholders, customers and local communities.

We see our role in society reflected in the Group Mission: "Kawasaki, working as one for the good of the planet (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)." It is our goal to provide products and services that meet the diverse requirements of people around the world while keeping in harmony with the global environment. Toward this end, we are on a quest for originality and innovation in technology and seek to achieve the pinnacle of technological excellence. Through our business activities, we will address social issues, such as the bustling movement of people and transport of things, which parallels rising global environmental risks and greater globalization, as well as insufficient social infrastructure particularly in emerging countries and an aging society and a consequent shortage of labor. We are also keen to contribute to the realization of the Sustainable Development Goals (SDGs) set by the United Nations.

This report—Kawasaki Report 2018—is filled with information on the underlying corporate ideas we have embraced to achieve the Group Mission as well as business strategies, daily activities that ensure we meet our social responsibilities as a good corporate citizen, and our relationship with stakeholders. We hope this report enables you to gain a better understanding of what we do as the Kawasaki Group.

Shigeru Murayama
Chairman of the Board

Shigeru Murayama

Yoshinori Kanehana
Representative Director,
President and Chief Executive Officer

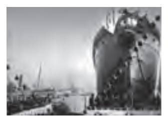
Yoshinori Kanehana

We will provide social value through our innovative technologies,
so as to push enterprise value higher.

Kawasaki Group's Value Creation Road

Provide comfortable movement of people and transportation of goods

1897
Launches Cargo-Passenger Ship *Iyomaru*, Kawasaki Dockyard's first ship as a publicly traded company.



1925
Completes construction of merchant ship *Florida Maru*, equipped with Hele-Shaw electro-hydraulic steering gear.

1964
Delivers Series 0 *Shinkansen* electric train to the Japanese National Railways.

1972
Unveils Z1 motorcycle.

1979
The BK117 helicopter's first flight.

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

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

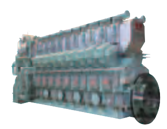
Improve social infrastructure

1991
Kawasaki-built shield machines successfully complete work on the Eurotunnel.

1998
Opening of Akashi Kaikyo Bridge, for which Kawasaki oversaw main tower construction.

Create clean energy

2007
Kawasaki Green Gas Engine tops world record with 48.5% generating efficiency.



2015
Develops low-NOx combustion technology for gas turbines running on 100% hydrogen.

Our Approach Towards Sustainable Value Creation

Realization of Group Mission

"Kawasaki, working as one for the good of the planet"

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

Contribute to solutions that address social issues

Global Social Issues

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

Kawasaki Group Management Resources
(as of fiscal 2018)

Financial capital
- Invested capital: ¥912.7 billion

Manufactured capital
Global production structure
- Capital investment: ¥82.1 billion
- Key production sites: in Japan, 18 overseas, 21

Intellectual capital
- 120 years of experience and know-how
- High-level technological capabilities across extensive domains
- R&D expenses: ¥45.4 billion

Human capital
Teams of engineers pursuing ultimate quality
- Number of employees: 35,805

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

Natural capital (non-consolidated)
- Energy consumption (crude oil equivalent) 161,000 kl
- Procured amount of raw materials (steel) 140,000 tons

Strategies and Business Vision

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

Details on page 11

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

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

Environmental management activities
Details on page 43

Corporate governance
Details on page 45

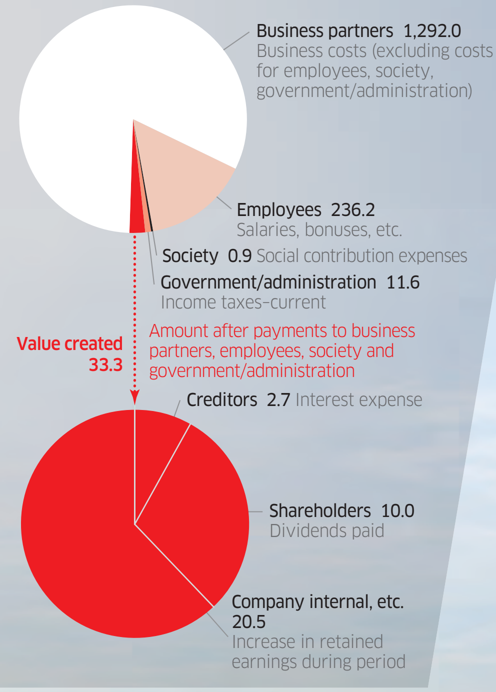
Developing and utilizing human resources
Promoting workstyle reform (K-Win Activities)
Details on pages 21 and 49

Key Output
(Actual figures in fiscal 2018)

- Before-tax ROIC 3.9%
- ROE 6.4%
- CO_2 emissions from business activities (non-consolidated) 328,000 tons
- Reduction of CO_2 emissions through product-based contributions (non-consolidated) 22,924,000 tons

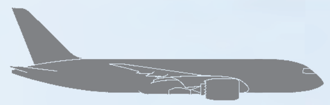
Value created and distribution of value to stakeholders
(Billions of yen)

Value delivered (net sales) 1,574.2

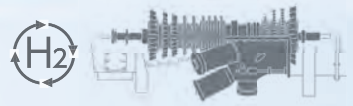


Creating Social Value

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



- Create clean energy



- Improve social infrastructure, especially in emerging countries

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

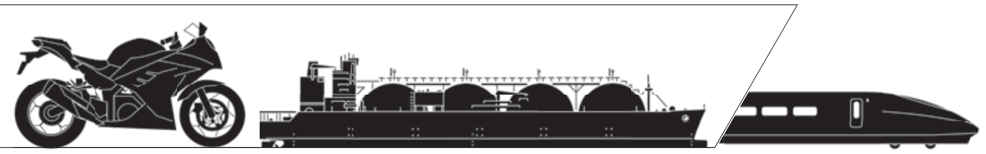
Accumulate and circulate management resources

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

Seeking to Solve Social Issues and Achieve Sustainable Growth

In fiscal 2018, management at Kawasaki reconfirmed social issues that require a Group-wide approach and clarified the social value that is derived through business activities. At the same time, management identified Sustainable Development Goals (SDGs) that the Group should contribute to and set non-financial targets to reach by 2030 for social value created through Kawasaki-brand products and services, namely, providing safe and secure, clean, comfortable movement of people and transportation of goods by land, sea and air; creating clean energy; improving social infrastructure, especially in emerging countries; and responding to needs of an aging society and shortage of labor through automation. Kawasaki will regularly disclose its progress toward targets while working to maximize social value and achieve sustainable growth, and also contributing to the realization of SDGs.

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



As a manufacturer of various modes of transportation, including ships, rolling stock, aerospace systems and motorcycles, Kawasaki seeks to respond to the greater movement of people and goods, paralleling globalization, while reducing risk to the environment.

Ships

2030 Target
- LNG- or hydrogen-fueled ships built annually: one

Fiscal 2018 Results
- LNG-fueled ships: at commercialization stage
- Hydrogen-fueled ships: Part of R&D efforts

Vision for 2030

Contributing to a significant decrease in emissions of nitrogen oxide (NOx), sulfur oxide (SOx) and carbon dioxide (CO_2) from ships through provision of marine vessels that run on LNG or hydrogen.

Activity snapshot

We are developing ships that use LNG for fuel to address restrictions on emissions of NOx and SOx from ships to prevent air pollution over the sea. The use of LNG presents a dramatic reduction in SOx compared with emissions released when heavy oil is used as fuel, while CO_2 emissions are 20 to 30% less. As a result, the use of LNG helps to prevent the worsening of global warming. LNG-fueled ships are a practical alternative now, as we have moved into the commercialization stage. We are also working on the development of ships that will use hydrogen—the ultimate in clean energy—as fuel. Ships powered by hydrogen can operate without emitting any CO_2 at all.

Rolling Stock

2030 Target
- Number of rolling stock units delivered: 1,000

Fiscal 2018 Results
- Number of rolling stock units delivered: 494 (excluding container cars: 262)

Vision for 2030

Helping to build a better global transportation infrastructure by manufacturing rolling stock that is safe and comfortable to ride in, highly reliable, excellent in terms of lifecycle cost efficiency, and saves energy, to minimize the burden on the environment.

Activity snapshot

We will promote participation in high-speed train projects at home and abroad and will continue to provide rolling stock to customers in Japan, North America and markets in Asia where we already have a solid presence, while raising our profile in emerging countries in Asia on projects to build new rolling stock infrastructures. In addition, we will look into technology for monitoring trains in operation that incorporates sensing capabilities, image analysis and IoT technology, to contribute to the realization of train systems boasting excellent cost efficiency over the entire lifecycle.

Aerospace Systems

777X-9 (Photo provided by The Boeing Company)

2030 Target
- Provide environmentally conscious aircraft, helicopters and engines to the market, and expand the scope of participation in development of these products

Fiscal 2018 Results
- Components for Boeing 787: 141 units sold
- Sales of BK117 units: Three finished units and component parts for 78 units
- Shared production of low fuel consumption engines
  Trent 1000, Trent XWB, and PW1100G-JM

Vision for 2030

Providing air transportation systems combining excellent environmental performance with high safety and reliability.

Activity snapshot

Through our participation in the development of Boeing 787 and 777X aircraft as well as engines, such as the Trent series for Rolls-Royce plc and Pratt & Whitney's PW1100G-JM, we will play a part in the steady supply of low fuel consumption aircraft and low fuel consumption engines. We will also focus on production and sale of the BK117 low-noise helicopter. We are keen to participate in joint international development of new, environmentally conscious aircraft and engines and thereby contribute to a better environment.

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Motorcycles

2030 Target

Provide motorcycles with advanced rider-support features, such as Cooperative Intelligent Transport Systems (C-ITS), as well as motorcycles powered by clean energy, including electric motorcycles and hybrid motorcycles.

Fiscal 2018 Results

Such models are under development

Vision for 2030

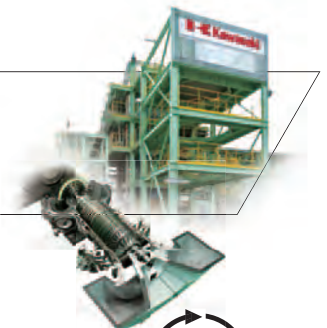
Developing, manufacturing and delivering environmentally friendly motorcycles, as well as models with "fun-to-ride" appeal and advanced rider-support features.

Activity snapshot

The underlying philosophy that drives product development at Kawasaki is built on "Fun to Ride," "Ease of Riding" and "Better Environmental Performance," and we are working to improve motorcycle performance, enhance rider-support features and respond to tougher standards on exhaust gas, noise and other environment-related regulations. With regard to C-ITS performance, Kawasaki joined the Connected Motorcycle Consortium, established by the motorcycle industry to focus on development, and a concerted effort is being directed toward putting C-ITS-compliant motorcycles on the market as soon as possible.

For electric motorcycles, hybrid motorcycles and other motorcycles powered by clean energy, we are building prototypes with future market potential and running tests to evaluate performance.

Creating clean energy



Kawasaki seeks to create clean energy by establishing a CO_2-free hydrogen energy supply chain designed to reduce environmental risk on a global scale.

2030 Targets

- **CO_2 reduction through use of hydrogen energy: 3 million tons**
- **Hydrogen transport volume: 225,000 tons per year**

Fiscal 2018 Results

Currently being verified

Vision for 2030

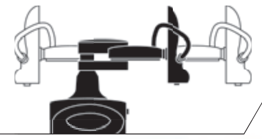
Providing equipment, such as hydrogen bases, liquefaction systems, carriers, and hydrogen-fuel gas turbines, and contributing to the development of a hydrogen society as a supplier of liquefied hydrogen transport infrastructure systems and packages.

Activity snapshot

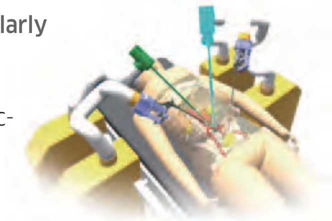
We are working with partner companies to develop strategic technology for a hydrogen energy supply chain. It is a journey that begins with hydrogen production and liquefaction (manufacturing) from Australian brown coal—an unused resource—and renewable energy, then moves to loading and unloading liquefied hydrogen at land depots and between ships and transporting the liquid in large quantities by sea (transport), stockpiling liquefied hydrogen (storage) and finally applying hydrogen in gas turbine power generation (use) perfectly optimized to the characteristics of this fuel. The application of carbon dioxide capture and storage—a process for capturing CO_2 generated when hydrogen is produced from fossil fuel—makes it possible to use hydrogen as a clean energy source that minimizes the output of CO_2 through all stages of the supply chain.

The hydrogen chain that Kawasaki and its partners seek to build will, if realized, do more than just ensure access to a stable form of clean energy in large quantities. It has the potential to greatly reduce CO_2 emissions.

Responding to needs of aging society and shortage of labor through automation



We will address issues related to an aging society and labor shortage, particularly evident in developed countries, through the use of robot technologies.



2030 Target

- **Number of robots delivered: 100,000**

Fiscal 2018 Results

- **Number of robots delivered: 20,000**

Vision for 2030

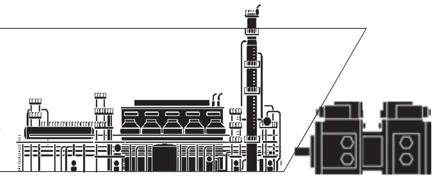
In developed countries where the aging of society is increasingly noticeable, making it easier for people to access high-quality medical care through the development of medical robots, and using robot technology to support prescription drug production, nursing and medical care and everyone in the field of healthcare who develops therapies and treatments that reduce the physical burden on patients.

Developing and manufacturing robots that collaborate with humans in work operations and making them intelligent enough to create solutions to the labor shortages that are particularly evident in developed countries.

Activity snapshot

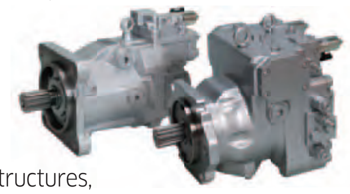
We positioned medical robots as a business that will support an aging society, established Medicaroid Corporation—a joint venture with Sysmex Corporation—and are now engaged in development of Robotically Assisted Surgical Device and applied robots using industrial robot technology with the goal of creating new businesses. We also seek to promote collaboration with humans in work operations, with an emphasis on *duAro*—our dual-armed SCARA robot—and cultivate demand for greater automation at manufacturing sites.

Improving social infrastructure, especially in emerging countries



We will help reduce environmental risk and lay a foundation for better social infrastructures, especially in emerging countries, by providing industrial-use gas turbines, waste incinerators, hydraulic machinery and systems, and other products.

Hydraulic Machinery



2030 Target

- **Hydraulic machinery production and delivery volume: 1 million units**

Fiscal 2018 Results

- **Hydraulic machinery production and delivery volume: 590,000 units**

Vision for 2030

Setting global standards for construction machinery, agricultural machinery and hydraulic machinery as well as systems for industrial vehicles with Kawasaki quality, and contributing to social infrastructure development through stable production and supply.

Combining new technologies, such as ICT, IoT and AI, with Kawasaki's own robot technology and hydraulic control technology to create new value. Vigorously supporting development of new-generation construction machinery that is friendly not only for the global environment but also for human well-being, and helping to build better social infrastructures, especially in emerging countries.

Promoting development and sale of energy-saving products, hydrogen-oriented products and renewable energy-oriented products that will ensure a future for the global environment.

Activity snapshot

We are increasing production capacity around the world in order to meet expanding global demand for excavators. We are working on R&D for next-generation hydraulic systems such as ICT-linked, automated and unmanned equipment, and we are also starting development and sale of strategic products in the pursuit of full-scale entry into agricultural machinery and industrial vehicle sectors. In addition, our high-pressure hydrogen regulator was adopted by a European automaker and we commenced operations for primary mass-production, with plans for secondary mass-production currently under development. Also of note, total sales of *Eco-Servo*, an energy-saving and low-noise hydraulic hybrid system, have reached 4,000 units, and we are working on a compact electro-hydraulic actuator for humanoid robots as well.

Energy System & Plant Engineering

2030 Targets

- **Expand share in distributed power generation market with the industry's most efficient, environmentally-friendly model**
- **Constantly provide highly efficient, energy-saving power generation facilities and devices, infrastructure-related facilities and environment-related facilities**

Fiscal 2018 Results

- **Deliveries of standard power generation facilities to overseas customers: 14 units**
- **Deliveries of waste incinerators: 2 units**

Vision for 2030

Contributing to protect the global environment through technology and quality based on high product development capabilities including manufacturing technology and engineering capabilities, especially in the field of energy and plant engineering. Providing products and services that improve customer satisfaction to global customers, as a distinguished equipment/system/plant manufacturer.

Activity snapshot

We aim to secure a balance between economic growth and environmental protection by providing energy-saving and highly resource-efficient equipment, such as gas turbines which supply the world's highest level of efficiency and environmental performance, and gas engines which supply the world's highest level of performance. To achieve the objective, we seek to combine existing equipment, incorporate in-house know-how, reinforce our ability to respond to overseas projects and create new solutions. In addition to our contribution to infrastructure projects through providing tunnel boring machines and cryogenic storage facilities, we will also contribute to environmental protection in urban areas through deliveries of energy-saving waste incinerators, water treatment facilities, desulfurization/denitrification devices and other systems.

Kawasaki will also contribute to fulfilling the SDGs shown to the right utilizing the capabilities of all our business segments. (For details, please look at page 42 of this report or go to the Sustainability section on our website.)

Delivering Value to Society Through Our Evolving Technology

Kawasaki Group's Basic Direction on R&D

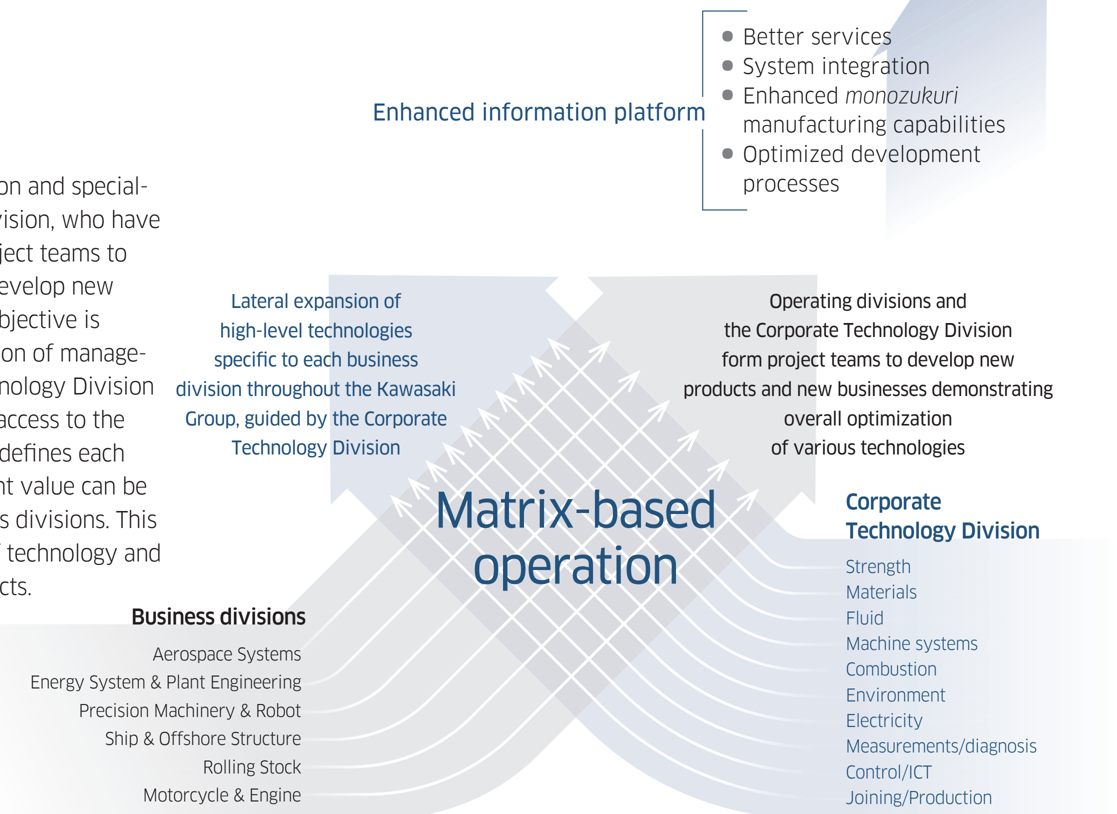
To ensure sustainable improvement in the enterprise value of the Kawasaki Group, business divisions and the Corporate Technology Division work as a cohesive unit, concentrating technologies available within the Group and utilizing technological synergies to develop new products and new businesses with a competitive edge. We also strive for balanced R&D through new product and new business development as well as activities geared toward the creation of new products and new business for the future in each business division in addition to training and upgrading on basic technologies needed to realize these new products and new businesses.

Through this approach to R&D, we are creating value to society in four areas: providing safe and secure, clean, comfortable movement of people and transportation of goods by land, sea and air; creating clean energy; improving social infrastructure, especially in emerging countries; and responding to the needs of an aging society and shortage of labor through automation.

Framework for Creating Technological Synergies *–Matrix-based Operation*

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

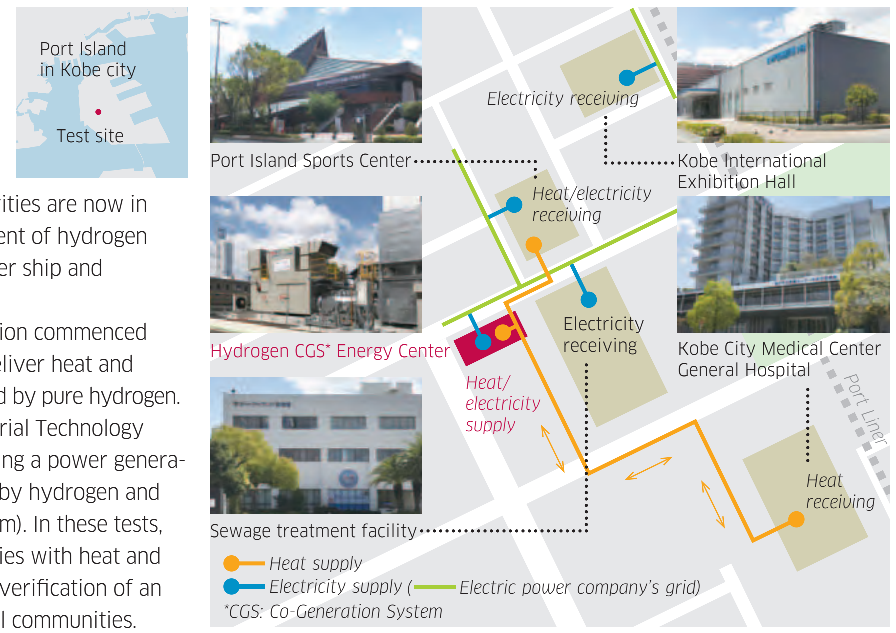
We will utilize this matrix-based operation to create technological synergies throughout the Kawasaki Group and raise enterprise value even higher.



Topics: Demonstration Project for Hydrogen Co-Generation System (in Kobe, Japan)

Tapping hydrogen projects as a core business of the future, the Kawasaki Group has been actively engaged in the projects since fiscal 2010. We have already completed development of a high-pressure hydrogen trailer, a liquefied hydrogen container and a gas turbine using a mixed hydrogen combustion system, and marketing activities are now in progress. In addition, we are promoting development of hydrogen liquefaction equipment, a liquefied hydrogen carrier ship and liquefied hydrogen bases.

Also of note, Kawasaki and Obayashi Corporation commenced demonstration of a system—the world's first—to deliver heat and electricity in an urban area using a gas turbine fueled by pure hydrogen. As part of a project by the New Energy and Industrial Technology Development Organization, we conducted tests using a power generation system with a 1-MW-class gas turbine fueled by hydrogen and natural gas flexibly (hydrogen co-generation system). In these tests, the system supplied four neighboring public facilities with heat and electricity. Our efforts will be directed toward the verification of an optimized energy management system within local communities.



Directors and Audit & Supervisory Board Members

(As of June 27, 2018)

Back row from the left

Outside Audit & Supervisory Board Member
Satoru Kohdera

Audit & Supervisory Board Member
Akio Nekoshima

Middle row from the left

Outside Director
Yoshiaki Tamura

Director, Managing Executive Officer
Yasuhiko Hashimoto

Director, Managing Executive Officer
Katsuya Yamamoto

Director, Managing Executive Officer
Kazuo Ota

Front row from the left

Representative Director, Vice President and Senior Executive Officer
Kenji Tomida

Chairman of the Board
Shigeru Murayama

Back row from the left

Audit & Supervisory Board Member
Katsuyoshi Fukuma

Outside Audit & Supervisory Board Member
Takashi Torizumi

Outside Audit & Supervisory Board Member
Atsuko Ishii

Middle row from the left

Director, Managing Executive Officer
Tatsuya Watanabe

Director, Managing Executive Officer
Sukeyuki Namiki

Outside Director
Michio Yoneda

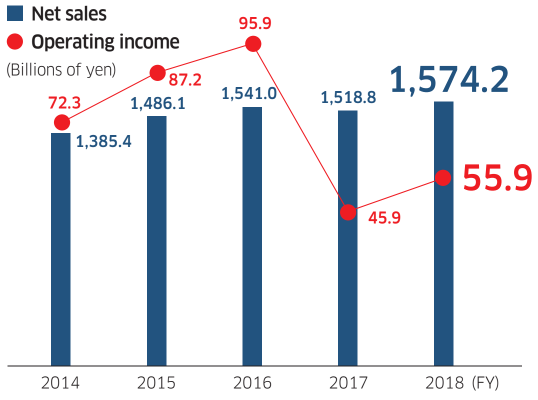
Outside Director
Jenifer Rogers

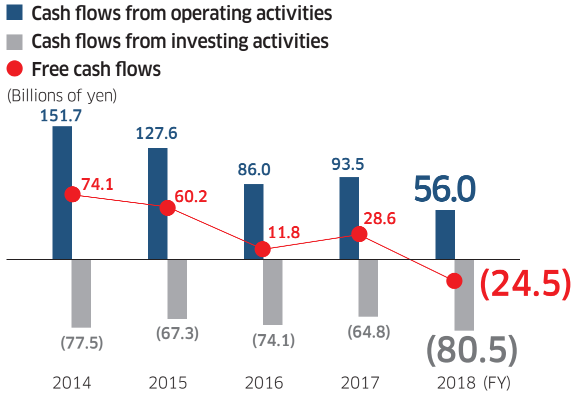
Front row from the left

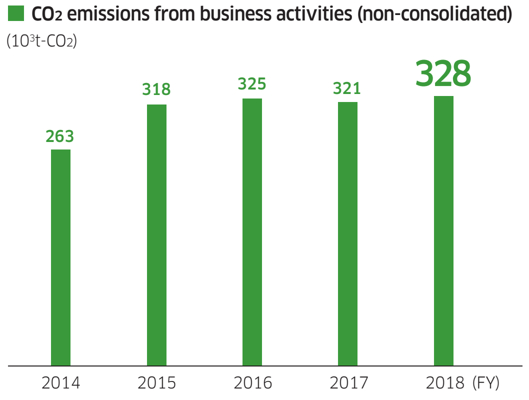
Representative Director, President and Chief Executive Officer
Yoshinori Kanehana

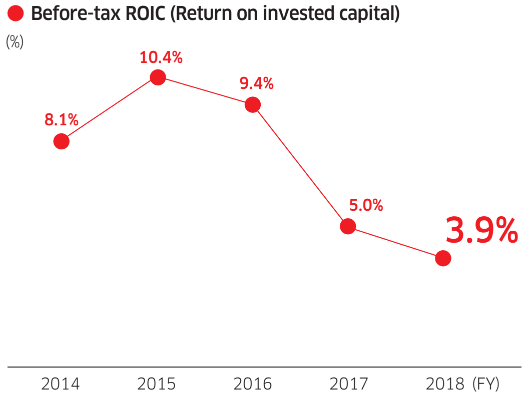
Representative Director, Vice President and Senior Executive Officer
Munenori Ishikawa

Performance Highlights

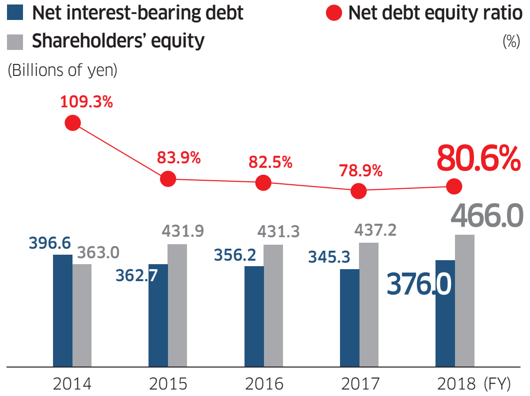




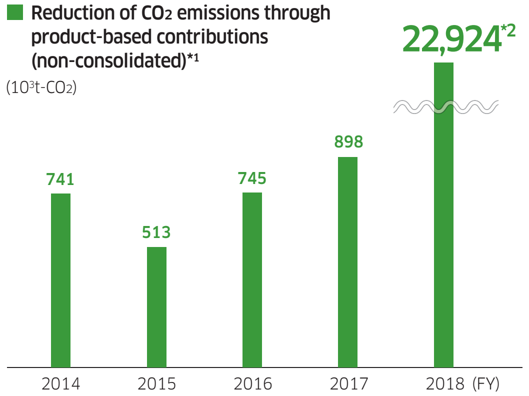




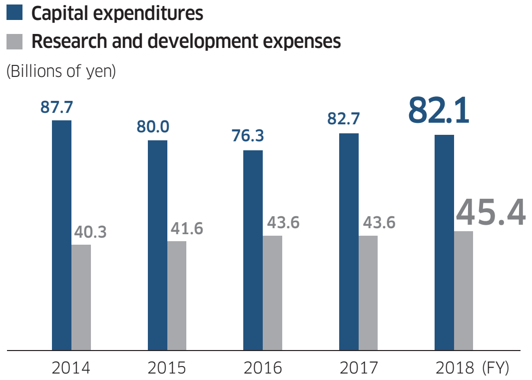
Before-tax ROIC = EBIT (Income before income taxes + interest expense) / Invested capital (Interest-bearing debt + Shareholders' equity)

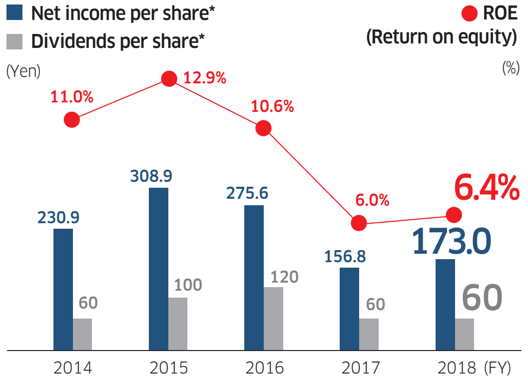


Net debt equity ratio = Net interest-bearing debt (Interest-bearing debt - Cash on hand and in banks) / Shareholders' equity

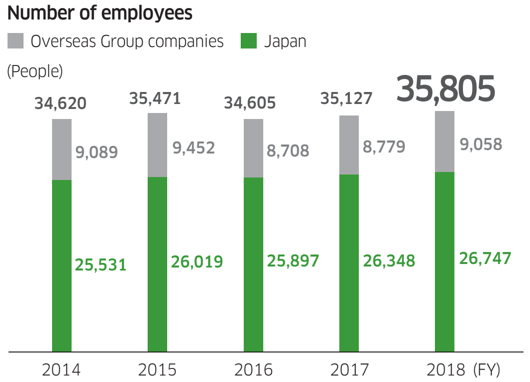


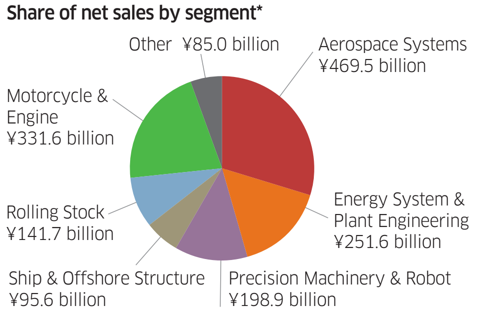
**1 Estimates based on actual delivery record*
**2 The calculation rule has been revised for fiscal 2018. For details, please see page 43.*

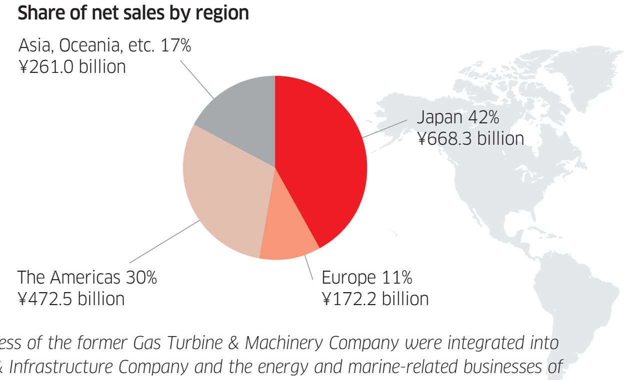


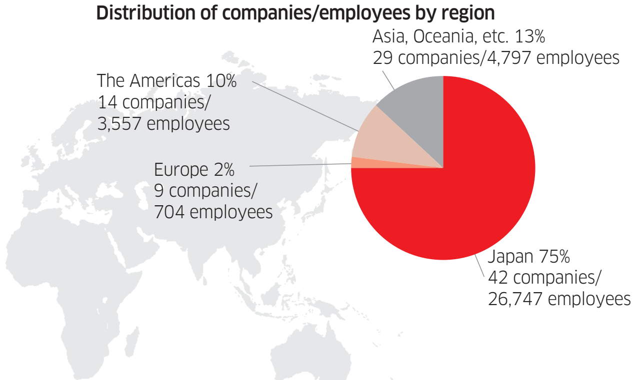


Return on equity = Profit attributable to owners of the parent / Shareholders' equity
**Effective as of October 1, 2017, a one-for-10 share consolidation was implemented for ordinary shares. The annual dividend per share for fiscal 2018 would be ¥6, in the event a share consolidation is not considered.*









**In April 2018, the former Aerospace Company and the jet engine business of the former Gas Turbine & Machinery Company were integrated into the newly established Aerospace Systems Company. The former Plant & Infrastructure Company and the energy and marine-related businesses of the former Gas Turbine & Machinery Company were integrated into the newly established Energy System & Plant Engineering Company. In addition, the former Precision Machinery Company was renamed to the Precision Machinery & Robot Company.*

ESG-Related External Evaluations

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

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

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

FTSE4Good

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

MSCI 2017 Constituent MSCI ESG Leaders Indexes

The Morningstar Socially Responsible Investment Index is the first index in Japan of socially responsible investment stock. The stock prices of socially responsible companies selected from all those listed in Japan by Morningstar Japan K.K. are converted into an index.

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

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

2018 健康経営優良法人 Health and productivity ホワイト500

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

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

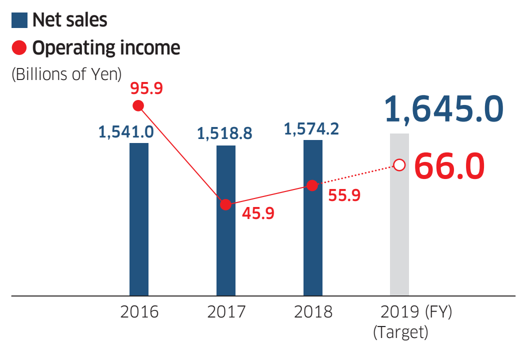
Yoshinori Kanehana
Representative Director,
President and Chief Executive Officer

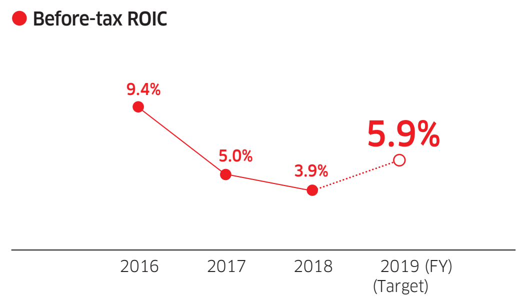
Let me take this opportunity to extend our deepest apologies to stakeholders for the considerable inconvenience and worry that arose due to manufacturing defects in Kawasaki-built *Shinkansen* (bullet train) bogie frames.

Manufacturing Defects in *Shinkansen* Bogie Frames

First of all, in regard to the manufacturing defects in the series N700 *Shinkansen* bogie frames, I would like to take this opportunity to reiterate our deepest apologies for the considerable inconvenience and worry that this incident caused. So that such defects do not occur again, we spent the past six months, since April 2018, in a concerted effort, hinging on the Companywide Quality Control Committee, which benefits from the exchange of opinions with outside experts, to uncover the root cause of the defects and explore corrective measures that will prevent recurrence. The results of the committee's investigation and subsequent discussions were announced on September 28, 2018*, and going forward, we will carefully apply corrective measures at all stages of production to recover stakeholder confidence and fulfill at a higher level our social responsibility as a manufacturing company. In these efforts, we ask for the support and understanding of our stakeholders. (Details on our initiatives are provided on pages 23-24 of this report.)

*URL: https://global.kawasaki.com/news_C3180928-1.pdf





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

Looking Back on Fiscal 2018

In fiscal 2018, we posted net sales of ¥1,574.2 billion, operating income of ¥55.9 billion and before-tax ROIC of 3.9%. Of note, operating income was up ¥9.9 billion year on year, despite a drop in profitability on commercial aircraft components in the Aerospace segment and the booking of provision for losses on construction contracts—specifically, a rolling stock project for a North American customer—in the Rolling Stock segment. It was good results from the Motorcycle & Engine and Precision Machinery segments that pushed sales and income higher. Even with the solid improvement in operating income, profit attributable to owners of the parent rose only ¥2.7 billion year on year, to ¥28.9 billion, held back from a larger increase due to the booking of an extraordinary loss in the Ship & Offshore Structure segment, incurred from the termination of a contract agreement to build an offshore service vessel for a customer in Norway.

Forecast for Fiscal 2019

We announced a performance forecast in April 2018, highlighting net sales of ¥1,650.0 billion, operating income of ¥75.0 billion and before-tax ROIC of 8.0%. But a review at the halfway point, based on potentially huge losses in the Rolling Stock segment and the unavoidable booking of losses on the engine business in the Aerospace Systems segment, led management to downgrade performance expectations. We now expect net sales of ¥1,645.0 billion, operating income of ¥66.0 billion and before-tax ROIC of 5.9%.

Loss on Major Project and Thorough Efforts to Prevent Recurrence

Key reasons for not reaching our initial targets in fiscal 2018 were the booking of an extraordinary loss of ¥12.8 billion in the Ship & Offshore Structure segment, as a sluggish natural resource development market led to the termination of a contract agreement to build an offshore service vessel for a customer in Norway, and the booking of provision for losses of ¥21.8 billion in the Rolling Stock segment over two years, because of worsening profitability on a local train contract for the Long Island Rail Road in North America. And in fiscal 2019, the Aerospace Systems segment will be impacted by a provision of ¥9.7 billion to cover Kawasaki's portion of costs in the event of engine failure.

To prevent huge project losses and to ensure seamless risk management through all stages of a project, from before order acceptance through contract execution to delivery, we established the Project Risk Management Committee last year. I chair this committee, which meets monthly to bring together corporate knowledge on projects with the potential to significantly impact operations and provide a venue for identifying risk, exploring responses and rolling out initiatives throughout the Group. In the Ship & Offshore Structure segment, we focused our attention on business restructuring, and our efforts showed positive results, including a return to profitability in this segment in the second half of fiscal 2018. Currently, we have before-tax ROIC of 8% in sight for fiscal 2021. The Rolling Stock segment has also struggled, with results continuing to deteriorate for a consecutive fiscal year. We take this situation very seriously, substantiated by the establishment of the Rolling Stock Business Restructuring Committee with myself as chairman to achieve drastic reinforcement in project management. This committee is also looking into policies that will enhance segment responsiveness to changes in market structure as well as improvements in the organizational structure. The goal is to announce final decisions by the end of the current fiscal year and then shift into implementation.

Desired Corporate Status Through MTBP 2016

Our targets for fiscal 2019, as described in MTBP 2016, are net sales of ¥1,740.0 billion, operating income of ¥100.0 billion and before-tax ROIC of 11.0%. But we are two years behind schedule, an unavoidable consequence of a delay in projects that were expected to contribute to business results sooner and the appearance of losses I mentioned earlier. Nevertheless, we believe qualitative business strategies are on track and no changes to the strategic blueprint are necessary. In addition, we anticipate higher net sales on a Group-wide basis from fiscal 2022 onward as well as a drastic improvement in profitability, paralleling increases in commercial aircraft components and after-sale services on jet engines in the Aerospace Systems segment.

By deepening Kawasaki-ROIC Management, we will achieve at minimum our hurdle rate of 8% before-tax ROIC from fiscal 2020 and ensure thorough hurdle rate management for all business units, which will lead to higher enterprise value.

Given this forecast, we find no reason to revise the picture we see for the Kawasaki Group in 2025, as described in MTBP 2016, which targets net sales of ¥2,400.0 billion, an operating income margin exceeding 9% and before-tax ROIC of at least 14%. We will forge ahead with the strategies laid out in MTBP 2016 toward realization of the corporation we seek to be by 2025.

Deepening Kawasaki-ROIC Management

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

Unfortunately, before-tax ROIC is expected to fall below the hurdle rate for three consecutive years, since fiscal 2017. On an accounting basis, we are in the black, but from a Kawasaki-ROIC Management perspective, failure to achieve the hurdle rate is like being in the red. In fiscal 2020, all employees will work as a single team, focusing on the approaches outlined over the next few pages to achieve at the very minimum a before-tax ROIC of 8%, which is our hurdle rate.

All Employees Involved in Efforts to Boost Enterprise Value

Employees throughout the Kawasaki Group are totally behind the effort to boost enterprise value and are fully engaged in the process in their own workplaces. We have set KPI having a favorable impact on enterprise value, based on the characteristics that define each business, so that employees throughout the Group are better able to grasp the "what" and "how" to contribute to higher enterprise value and thereby effectively and efficiently boost ROIC in the course of daily operations. Follow-up work is undertaken as necessary.

Management with Cash Flow Emphasis

Paralleling the approaches described above, we have made operating cash flow an issue of particular importance and maintain specific measures to enhance the efficiency of working capital, including better payment terms and asset reduction through shorter duration/stages up to delivery of products.

Thorough Hurdle Rate Management and Strategy for Possible Scale-Down/Withdrawal

Within the Group, there are 28 business units, and before-tax ROIC is calculated for each one to track business status. For any business unit that fails to achieve its hurdle rate, intermediate goals will be set at regular intervals with follow-up efforts designed to reach the stated hurdle rate. If the business unit finds it too difficult to meet its goals, we will consider scaling down the size of operations or withdraw completely. We will not be soft on a troubled business unit but rather encourage management with a sense of urgency.

Businesses that Drive Growth

Insufficient social infrastructure and rising environmental risks in emerging countries, the graying of society and an ensuing labor shortage in developed countries, increasingly active movement of people paralleling globalization—social issues such as these are becoming more serious and more prevalent worldwide. Against this backdrop, we have tapped four product and service categories from among all Kawasaki Group operations as drivers of growth: commercial aircraft and jet engines, energy, rolling stock for overseas markets, and robots. We will prioritize the allocation of resources into business activities related to these four categories, with the scale of business likely expanding from the current level of around ¥500.0 billion to somewhere near ¥1.2 trillion by 2025.

Commercial aircraft and jet engines By 2036, demand for commercial aircraft could be as high as 47,000 units on a global basis, which is double what it is today. Our commercial aircraft business as well as our jet engine business should benefit significantly from this demand situation. In the commercial aircraft business, we are involved in the development and production of the Boeing 777X, the U.S. company's most advanced aircraft, and as planned, we shipped out components for the first 777X in February 2018. In the jet engine business, we supply core components for the latest jet engines made by Rolls-Royce in the United Kingdom and Pratt & Whitney in the United States. Although these jet engine components require up-front investment, future parts and maintenance demand should generate sizable profits.

Also, with the integration of the aircraft and jet engine businesses, we will strive to identify new business opportunities through tie-ups and reinforce the business structure.

Energy In the energy business, we integrated our energy-related businesses into the newly created Energy System & Plant Engineering Company to accelerate our response to expanding energy demand overseas, especially in Asia. We will maximize the advantages afforded by restructuring to

*CCPP: Combined Cycle Power Plant (original power plant featuring all Kawasaki-built components with a basic configuration of two L30A gas turbines, two waste heat recovery boilers and one steam turbine)

**EPC: Engineering, procurement and construction

hone our ability to sell solutions that incorporate facilities and systems, such as an emphasis on 100MW-class CCPP* in Southeast Asia, and also to improve EPC** capabilities and expand our overseas presence. The scale of our energy business currently hovers around ¥100.0 billion, but we expect it to triple more or less, to ¥300.0 billion, by 2025.

Robots The robot business has grown considerably in the last few years, reflecting progress in technology that promotes collaboration with humans in working operations as well as simplified instruction during installation. Also, looking to address a shortage of expert engineers, we developed *Successor*, a robot system with the potential to convey skills to as-yet-untrained technicians. In other robotic pursuits, we have ventured into the market for medical robots. The market scale for medical robots could reach ¥1.5 trillion by 2020. Our involvement in this corner of the robotics world is through Medicaroid Corporation, a joint venture with Sysmex Corporation, which launched *Vercia*, a robot operating table for hybrid operating rooms. Medicaroid Corporation is also working toward the fiscal 2020 debut of Robotically Assisted Surgical Device, and development of this robot is moving steadily along.

Strengthening Technology and Promoting Synergies

The foundation of medium- to long-term growth is, without a doubt, technological capabilities. So what we want to do is develop products and services not easily copied by any other corporate group and build a high barrier to entry by rival companies. In addition, by combining the many world-class technologies in our corporate toolbox, particularly those under the oversight of the Corporate Technology Division, and demonstrating synergies derived from combinations of these technologies, we will create even more innovative products and services.

ESG Initiatives

Given the changing business environment and diversifying expectations and requests from stakeholders, in fiscal 2018, we identified material issues—materiality—based on fulfillment of CSR by the Kawasaki Group. We also undertook a review of the CSR activity matrix and decided to reinforce initiatives to address social issues and realize a low-carbon society through our businesses and to deal with CSR issues, such as governance, human resources development, human rights, compliance and supply chain management. We narrowed these issues down even further, pinpointing four—1) providing safe and secure, clean, comfortable movement of people and transportation of goods by land, sea and air, 2) creating clean energy, 3) improving social infrastructure, especially in emerging countries, and 4) responding to needs of an aging society and shortage of labor through automation— that derive value to society from our business activities. We defined these four issues as top priorities to be achieved over the long term. We also set new non-financial targets and will track progress. In addition, we see a connection between business and SDGs, and we have clarified goals and targets that we should contribute to as the Kawasaki Group. By increasing our value to society through business activities underpinned by the pursuit of Group synergies and innovation, we will contribute to the achievement of SDGs.

Promoting Workstyle Reform

For the Kawasaki Group to post stable profits over the long term, grow as a corporate group, and enhance enterprise value, it is vital that employees are able to demonstrate their capabilities, underpinned by a rich sense of awareness cultivated through a life that promotes fulfillment on a daily basis, and contribute to higher productivity in their respective workplace and, by extension, the Group. Toward this end, we have introduced K-Win (Kawasaki Workstyle Innovation) Activities throughout the Group to encourage new approaches to work.

These activities tie into evolving corporate culture, business restructuring and support by corporate systems and are intended to limit long working hours while raising productivity and fostering a good work-life balance. In fiscal 2019, we will set the stage for promoting activities and introduce a remote work (work from home) program. We will also run workstyle seminars and programs to enhance operating efficiency for employees.

Corporate Governance and Engagement

We constantly review the corporate governance system, as it applies to the Kawasaki Group, based on the gist of the Corporate Governance Code and the Stewardship Code. Recently, with approval at the General Meeting of Shareholders, we welcomed two new outside directors—Yoshiaki Tamura and Jenifer Rogers—to the team. Already, the majority of our audit & supervisory board members are from outside the Company, and outside directors comprise 25% of the director total. This reinforces governance at Kawasaki. We also keep an open channel to capital markets and actively encourage constructive dialogues with a purpose—engagement—that involve shareholders and companies to build higher enterprise value together.

Thoughts on Return to Shareholders

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

"Changing forward"

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

In recent years, the world has undergone incredible changes, and the speed of change is accelerating. In addition, a wave of innovation is building with full-scale use of information and communication technology (ICT) and the Internet of Things (IoT) as well as artificial intelligence (AI), which has the potential to significantly alter the way we do business and the content thereof. The atmosphere is charged with a critical feeling in this regard, and I believe we ourselves must evolve if we are to respond quickly to the new environment. Toward this end, in October 2017, we embraced a forward-looking perspective on change within the Group under the banner, "Changing forward." I will personally lead the way in this challenge and apply this banner as a motto in management of the Company and the Group.

As always, we will strive to realize our Group Mission "Kawasaki, working as one for the good of the planet" and continue to create value for all stakeholders.

The Kawasaki Group will tackle challenges without being afraid of changes under the banner, "Changing forward" to help solve social issues on a global scale and create new value for society.

Regarding the Defects during Manufacturing Process of Series N700 *Shinkansen* Train Bogie Frames

Background to and Purpose in Establishing Companywide Quality Control Committee

With reference to the crack*1 (structural failure) of the bogie (or truck) frame (hereinafter referred to as the "Failed Bogie Frame"), manufactured in February 2007 at Kawasaki's Rolling Stock Company, Hyogo Works, of the series N700 *Shinkansen* train that occurred at Nagoya Station on December 11, 2017, two defects during the manufacturing process were discovered during our investigation: a) grinding off of the bottom plate of the side frames, and b) provability that the residual stress was not relieved by annealing or some other process after the entire bottom surface of the primary spring seat was treated with deposit welding*2.

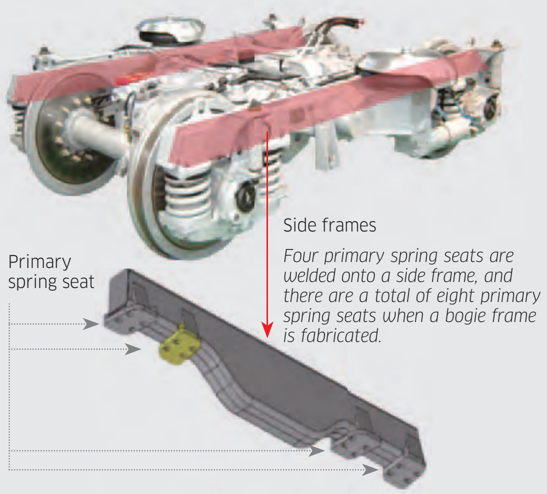
We established the Companywide Quality Control Committee (hereinafter referred to as the "Committee", Chairperson: Professor Takeshi Nakajyo of the Department of Industrial and System Engineering, Chuo University) in April 2018 as an internal committee to investigate and identify the root causes and examine corrective measures to prevent recurrence. The details of the investigation and examination by the Committee are as follows:

(1) Root causes of the defects during manufacturing process
(2) Appropriateness of corrective measures developed by the Quality Control Committee of the Rolling Stock Company with regard to the above root causes.
(3) Results of comprehensive audits of the entire quality management system in all business units. (currently underway as of September 2018)

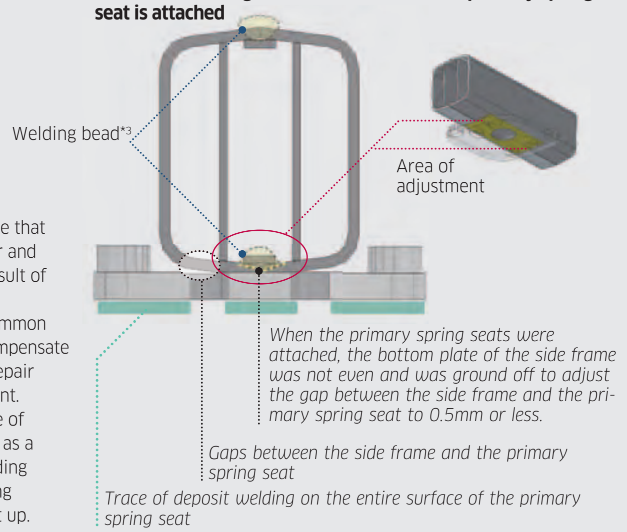
In addition, an investigation team was established as an organization under the Committee to investigate in detail the actual situation regarding the quality management system and report the investigation results to the Committee. Having received the results of the examination by the Committee, the President presented the corrective measures for preventing recurrence to the Board of Directors, which endorsed such corrective measures in the Rolling Stock Company. The implementation status will be regularly monitored at the Management Committee, and will be supervised by the Board of Directors.

Bogie side frame of rolling stock

Side frames are key parts which support the train carbody.

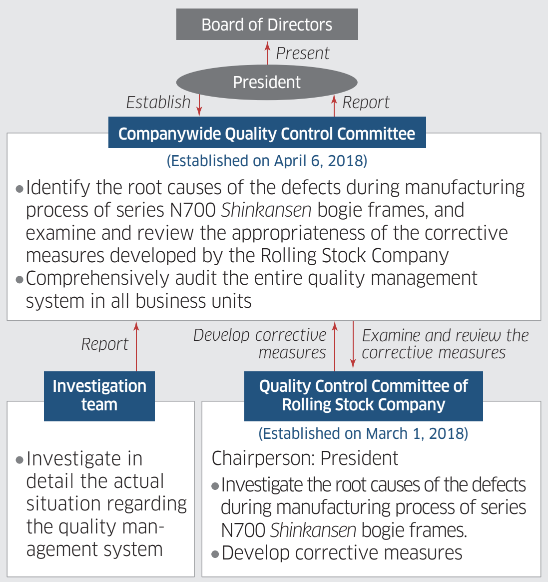


Cross-section image of a side frame where a primary spring seat is attached



*1 Crack: A flaw or fissure that has developed further and become larger as a result of fatigue.
*2 Deposit welding: A common procedure used to compensate for grinding off and repair dimensional adjustment.
*3 Welding bead: A bulge of welded metal created as a result of fusing a welding rod, etc., at the welding section and building it up.

Function of and correlation between Committees



We announced that on the basis of results from the Committee regarding the examination of the action/judgments that led to the manufacturing defects and their root causes, the Quality Control Committee of the Rolling Stock Company developed the corrective measures, and the Committee examined the appropriateness of such measures on September 28, 2018. (see our website: https://global.kawasaki.com/news_C3180928-1.pdf)

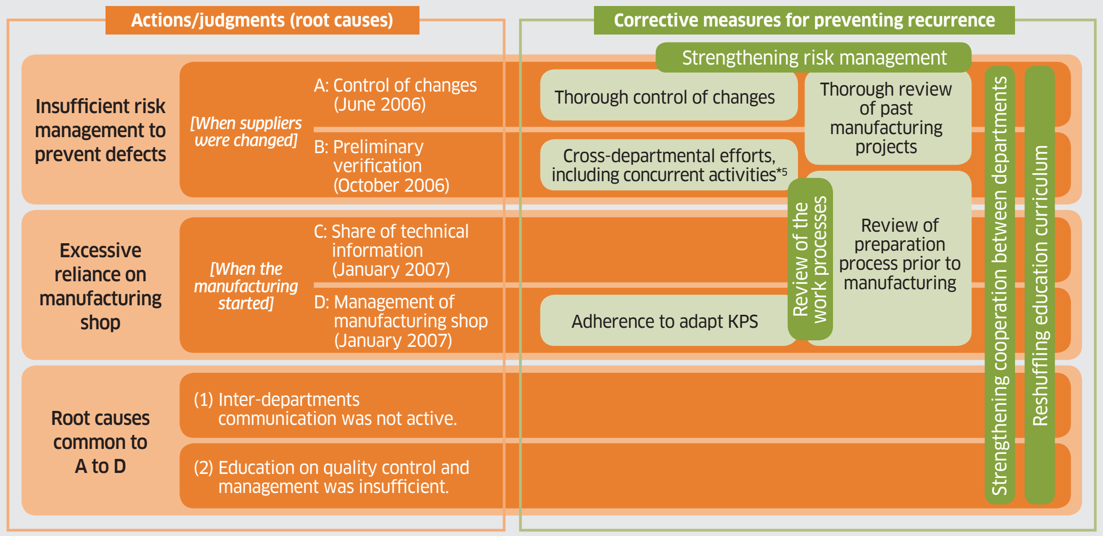
The actions/judgments that led to the manufacturing defects and their root causes, the corrective measures for preventing recurrence (Overview)

The result of the investigation conducted by the Committee revealed that the actions and judgments that caused the defects and the root causes which led to those actions and judgments, were: vulnerabilities in the quality control and management owing to **excess reliance on the manufacturing lines** when the manufacturing process of series N700 *Shinkansen* train began in 2007; and **insufficient risk management to prevent defects** when a supplier for the pressing of the side frames was changed in 2006.

At this juncture, we take the investigation results seriously, and will focus our actions on the following four points as corrective measures for quality management to prevent recurrence:

(1) In order to remove excessive reliance on the manufacturing lines and the technicians therein, we will develop a system whereby the related departments can share information on the key points in designs that are critical for ensuring quality of products, thoroughly introduce the KPS*4, which will facilitate to reveal issues by standardizing and visualizing the manufacturing process, and **review work processes**.
(2) In order to prevent manufacturing defects, in addition to reviewing work processes, we will thoroughly control in design, manufacturing, and other processes, identify any potential issue that might occur, and **tighten the risk management**.
(3) In order to remove excessive reliance on the manufacturing lines and the technicians therein and tighten the risk management, we will promote **close cooperation and communication between the related departments**.
(4) We will **review the internal education and training curriculum** including quality, safety, and so on, and enhance the contents of the curriculum.

Correlation between the actions/judgments that led to the manufacturing defects and their root causes, and the corrective measures for preventing recurrence



With regard to bogie frames for *Shinkansen* trains and conventional trains in Japan and overseas other than the series N700 *Shinkansen* train, construction, shape, and manufacturing method of those bogie frames are different from the ones of the series N700 *Shinkansen* train, and we have reconfirmed that the manufacturing process in the Manufacturing Department conformed to the work procedures and the drawings. Also, since the incident of the Failed Bogie Frame, we have reviewed the inspection checking method in the inspection process for the first product (or first train), and have included areas which cannot be assembled for inspection after completion of manufacturing, to inspection items.

Our group places "providing safe products and services of superior performance and quality for people all around the world" among its management principles, and, since regular audits of the quality management system are extremely effective to enhance and maintain the level of quality control and management, we will continue to audit the quality management system once a year, and thereby tighten the quality management system of the entire group across the board, and strive to provide products and services that can be used without any concern.

*4 KPS (Kawasaki Production System): A set of production control techniques that are unique to Kawasaki Heavy Industries, Ltd. The aim of the KPS is to establish the standardized work practices in order to achieve the same quality constantly whoever does the work; and shop rules to adhere to the standardized work practices.
*5 Concurrent activities: Activities whereby multiple processes in product development are conducted simultaneously in parallel. Design, Development and the other departments in the upstream processes, and Purchasing, Manufacturing, Quality Assurance, After-Sales Service and the other departments in the downstream processes share information, and work together through cross-departmental cooperation to achieve, for example, designs that take into consideration using structures that will be easy to manufacture, and cost effective product development.

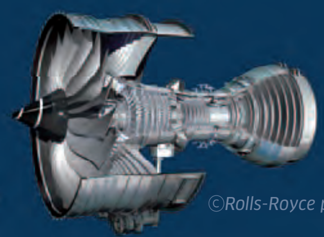
Leveraging Our Capabilities

Aerospace Systems

Approach to Social Issues

- Provide air transportation systems delivering excellent environmental performance, high safety and reliability
- Contribute to advances in aerospace industry, including human resources development and transfer of skills to the next generation

Net Sales
¥469.5 billion



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Ship & Offshore Structure

Approach to Social Issues

- Provide marine transport solutions that support comfortable lifestyles around the world
- Help mitigate issues of global scale, such as saving energy and reducing environmental load

Net Sales
¥95.6 billion

29.8% Aerospace Systems

16.0% Energy System & Plant Engineering

12.6% Precision Machinery & Robot

6.1% Ship & Offshore Structure

9.0% Rolling Stock

21.1% Motorcycle & Engine

5.4% Other
Net Sales
¥85.0 billion

Net Sales
¥251.6 billion

Energy System & Plant Engineering

Approach to Social Issues

- Pursue product development that contributes to global environmental conservation and CO_2 reduction
- Contribute to stable supply of clean energy
- Deliver solutions to meet diversifying energy/transportation needs
- Contribute to creation of social energy/industrial infrastructure in emerging nations

Net Sales
¥198.9 billion

Precision Machinery & Robot

Approach to Social Issues

- Develop products emphasizing energy-saving and eco-friendly features
- Contribute to infrastructure formation around the world
- Help offset issues of an aged society with a shrinking workforce

Net Sales
¥141.7 billion

Rolling Stock

Approach to Social Issues

- Provide safe and environment-friendly rolling stock systems
- Contribute to construction of transport infrastructure that supports economic development in emerging nations

Net Sales
¥331.6 billion

Motorcycle & Engine

Approach to Social Issues

- Fulfill requirements of "Fun to Ride" and "Ease of Riding" and contribute to low-carbon society
- Develop products matched to the needs of emerging markets and branch out production bases

C-2 transport aircraft

Aerospace Systems

Sukeyuki Namiki
President,
Aerospace Systems Company

Main Products

- Aircraft for the Japan Ministry of Defense
- Component parts for commercial aircraft
- Commercial helicopters
- Missiles/Space equipment
- Jet engines
- Aerospace gearboxes

Business Vision

A leading company that consistently creates new value for the world through excellent aerospace technologies and *monozukuri* manufacturing quality

Opportunities

Defense Aircraft
- Sustained domestic defense equipment development and production
- Prospects of defense equipment exports

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

Jet Engines
- More demand in line with expansion of commercial aircraft market

Risks

Commercial Aircraft
- Fiercely competitive environment, accelerated mainly by competition for market share between Boeing and Airbus
- Uncertainty regarding future of wide-body aircraft, due to the increased presence of LCCs*[1]
- Rise of manufacturers in emerging countries

Jet Engines
- Decreasing demand due to recession

*1 LCCs: Low-cost carriers

Core Competence

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

Jet Engines
- Sophisticated technological capabilities built through international joint development projects and engines for defense aircraft
- High quality and productivity through leading-edge production technology

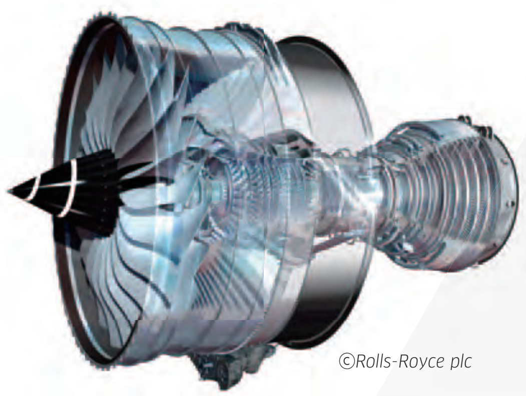
Business Direction in MTBP 2016

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

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

Jet Engines
- Enhance presence in jet engine sector by improving development capabilities

Trent XWB



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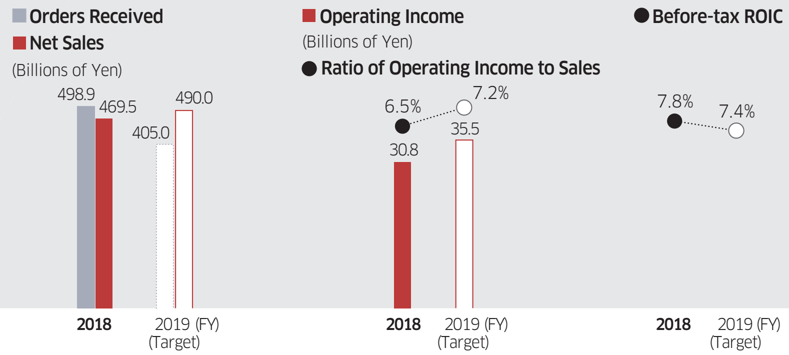


*Due to internal company reorganization, effective April 2018, only figures for fiscal 2018 (restated actual results) and fiscal 2019 (targets) are shown.

Business Summary

Despite a reduced development expenses burden on commercial aircraft components, business results are likely to remain flat for the next few years. This is mainly due to a decrease in the number of aircraft produced, in line with a shift from the Boeing 777 to the Boeing 777X, as well as an increased development expenses burden due to an increase in components of new aircraft jet engines.

Operating Environment and Strategies

We expect global air passenger and air freight volume to expand over the medium to long term due to economic growth in emerging countries, and this should spur considerable growth in our commercial aircraft and jet engine businesses. We will seek continuous productivity improvement and steady cost reduction.

In the defense aircraft sector, we will move steadily toward mass production of the P-1 patrol aircraft and C-2 transport aircraft while seeking to capture orders for modernized and derivative types of aircraft. We will also pursue exports of defense equipment in line with government policy.

In the commercial aircraft sector, we will strive to maintain a level of competitiveness that companies in emerging countries simply cannot match by providing high quality and production capabilities underpinned by world-class technological capabilities and leading-edge facilities. At the same time, we will strive to promote aggressive capital investment, boost productivity and create a structure primed for business expansion.

In the jet engine sector, we provide core components not as individual parts but as assembled modules, such as intermediate pressure compressors, to global engine manufacturers, and we enjoy a solid presence as an indispensable supplier. We are currently involved in several new-type engine projects, and we expect the scale of our business to expand rapidly as these projects shift into the substantial mass-production phase.

In April 2018, Kawasaki integrated the former Aerospace Company and the jet engine business of the former Gas Turbine & Machinery Company, creating the Aerospace Systems Company. The objectives behind this integration of aerospace-related businesses are to reinforce cost competitiveness, collaborate to expand business and develop new businesses.

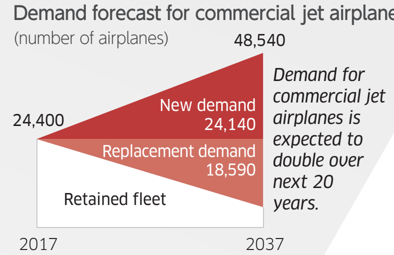
Key Driver

Expanding Commercial Aircraft Business

The commercial aircraft market is expected to more or less double over the next 20 years. Of this, demand for mid- and large-sized wide-body aircraft, such as the Boeing 777 and 787—models for which Kawasaki manufactures components—is estimated at about 8,200 deliveries over this same period. At the Paris Air Show in June 2017, Kawasaki announced an agreement to enhance its collaboration with Boeing, including joint exploration of advanced manufacturing techniques and potential future business activities. We are also concurrently involved in several projects to develop new-type engines, including the Trent 1000 for the Boeing 787, the Trent XWB for the Airbus A350 XWB, the PW1100G-JM for the Airbus A320neo and the Trent 7000 for the Airbus A330neo. Currently, efforts are directed toward boosting production capacity, with a significant contribution to profits anticipated from 2020 onward.

At our facilities, we are emphasizing automation of manufacturing processes, mainly through the installation of Kawasaki-built robots. In addition, by integrating automation and KPS experience accumulated to date, we will achieve high-quality, efficient production and prepare an infrastructure for ICT and IoT to create smart factories of the future. We will strive to improve profitability and pursue businesses presenting significant growth potential over the medium to long term.

Demand forecast for commercial jet airplanes
(number of airplanes)



Source: "COMMERCIAL MARKET OUTLOOK 2018–2037" by Boeing

Highly efficient 30MW-class gas turbine, L30A

Energy System & Plant Engineering

Tatsuya Watanabe
President,
Energy System & Plant Engineering Company

Main Products

Energy/Marine
- Industrial-use gas turbines/cogeneration systems
- Gas engines
- Diesel engines
- Steam turbines for marine and land
- Aerodynamic machineries/Marine propulsion systems

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

Business Vision

Emphasizing energy and the environment, be an equipment, system and plant manufacturer with distinctive capabilities to provide products and services globally that help protect the global environment and also earn high customer satisfaction through technologies and quality underpinned by high product development expertise and engineering know-how.

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

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

Core Competence

Energy/Marine
- Diverse product lineup and ability to provide solutions, including world-class gas turbines in terms of efficiency and environmental performance and gas engines with the world's best performance
- Environment-friendly technologies and development capabilities in core products and systems

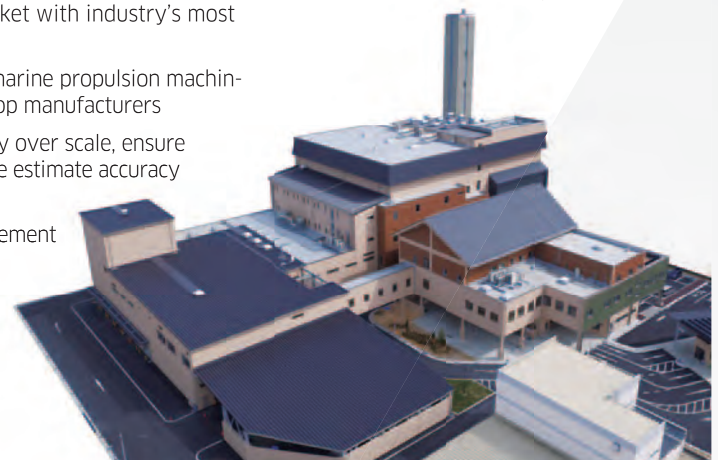
Plant
- Comprehensive engineering capabilities and product development expertise built on various types of projects
- *Monozukuri* manufacturing capabilities at our own production bases

Business Direction in MTBP 2016

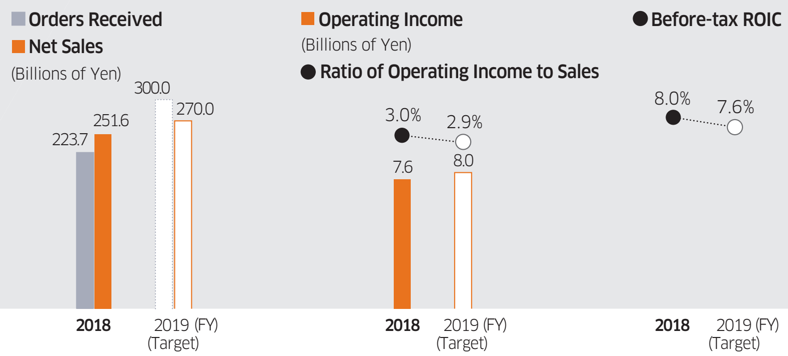
Energy/Marine
- Expand share in distributed power generation market with industry's most efficient, environment-friendly model
- Strive to expand share by developing next-generation marine propulsion machinery and systems, and take a position among the world's top manufacturers

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

*QCD: Quality, cost, delivery



Waste treatment facility (Heat-recovery facility/recycling center)



*Due to internal company reorganization, effective April 2018, only figures for fiscal 2018 (restated actual results) and fiscal 2019 (targets) are shown.

Business Summary

In fiscal 2018, segment earnings remained at a low level, mainly because progress on construction of a chemical plant for a customer in Turkmenistan passed its peak. But for fiscal 2019, we expect earnings to rise with an increase in energy projects, particularly industrial-use gas turbines as well as gas engines for power generation facilities.

Operating Environment and Strategies

In energy and marine sectors, demand for gas-fired power generation is expanding, and distributed power generation needs are also increasing, especially in Asia. In April 2018, Kawasaki integrated the former Plant & Infrastructure Company with the energy and marine-related businesses of the former Gas Turbine & Machinery Company to create the Energy System & Plant Engineering Company. The integration of energy-related businesses will accelerate business development through a stronger lineup of core products and system solutions combining these key products, and it will promote business growth, especially on the sales front in Southeast Asia.

In the plant sector, we anticipate a stable trend in domestic and overseas demand, reflecting infrastructure development and heightened interest in environmental protection, especially in emerging countries including those in Southeast Asia. But price wars will be fierce, and finding ways to sharpen cost-competitiveness is an issue that requires our attention.

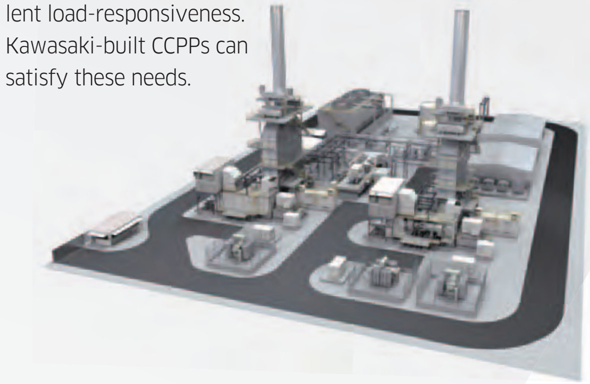
Kawasaki has the advantage of technology and quality underpinned by high product development expertise and engineering capabilities as well as *monozukuri* manufacturing capabilities made possible by its own production bases. We will draw on these strengths to provide unique, high-value-added products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

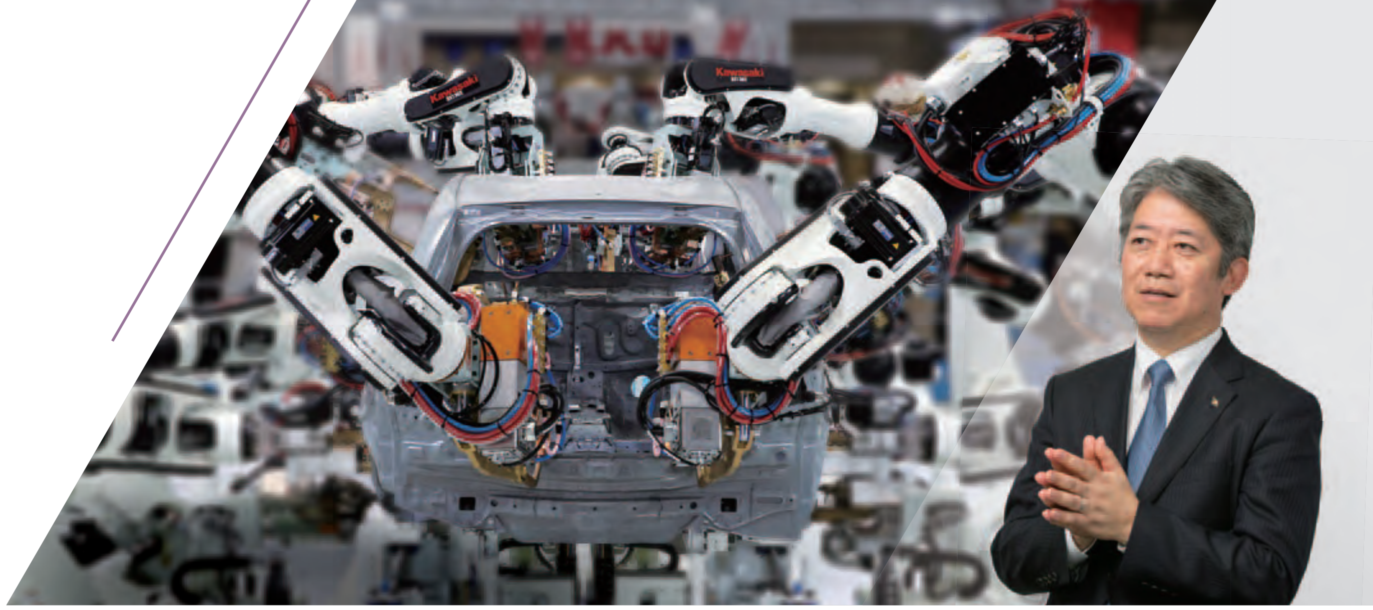
Seeking future business growth, we will aggressively pursue development of new products, including those used in hydrogen-related projects.

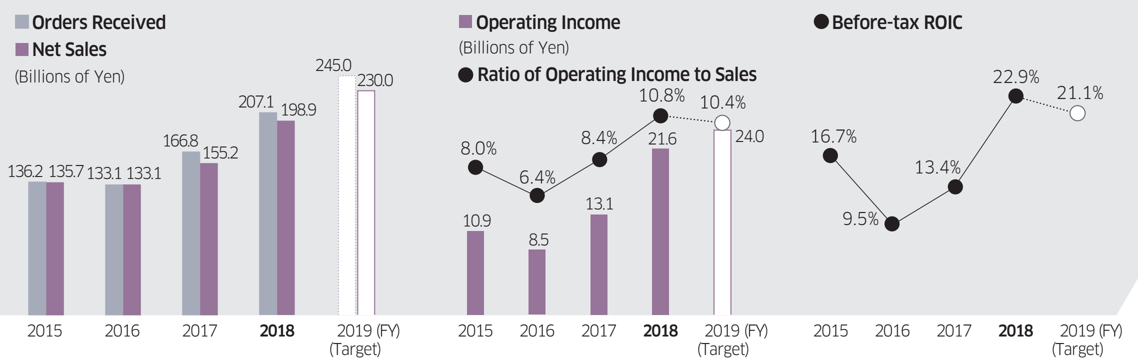
Key Driver

Expanding Sales of CCPP Standard Package

In March 2018, we began marketing a combined cycle power plant (CCPP) using the L30A, a highly efficient 30MW-class gas turbine produced entirely in Japan, boasting the world's highest power generating efficiency. The L30A offers the largest output of any gas turbine built by Kawasaki. With a basic configuration of two L30A gas turbines, two waste heat recovery boilers and one steam turbine, the CCPP is a Kawasaki Group original power plant featuring all Kawasaki-built components. The CCPP market is primed for expansion, given that the world's power consumption is predicted to increase, especially in Southeast Asia where economic progress is very evident. The greatest interest, however, still come from the distributed power generation market to meet particularly salient requirements for high-efficiency facilities and excellent load-responsiveness. Kawasaki-built CCPPs can satisfy these needs.







Precision Machinery & Robot

Yasuhiko Hashimoto
President,
Precision Machinery & Robot Company

Main Products

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

Business Vision

World's top brand in motion control, creating and providing total solutions for providers of medical and healthcare services and for various industries, including automobile, construction machinery and electronic equipment, with a focus on hydraulic components and robots boasting a level of performance and quality far surpassing that of rival companies.

Opportunities

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

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

Risks

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

Robots
- Increasingly fierce price wars with rival companies

Core Competence

Hydraulic machinery
- Accumulated world-class, leading-edge technology, ability of systemization and brand power for excavator hydraulic machinery

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

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

Business Direction in MTBP 2016

Hydraulic machinery
- Maintain and expand high share of excavator market, pursue bigger sales in construction and agricultural machinery sectors, and explore business potential in industrial machinery and marine machinery sectors

Robots
- Increase current market share, develop and debut new technologies and new types of robots to collaborate with humans in work operations, and actively promote innovative development of robots for medical applications

Both
- Pursue efficiency by creating synergistic effects as business segment

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

"duAro," coexistence-type, dual-armed SCARA robot

Business Summary

In fiscal 2018, profit was up year on year, reflecting growth in sales of robots and hydraulic machinery for construction equipment. We currently anticipate growth in both markets, which should spur sales and income from fiscal 2019 onward.

Operating Environment and Strategies

Sales of hydraulic machinery for the construction equipment market is expected to grow further in the coming years, due to greater infrastructure investment, especially in emerging countries, as well as favorable market conditions supported by booming excavator demand in China.

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

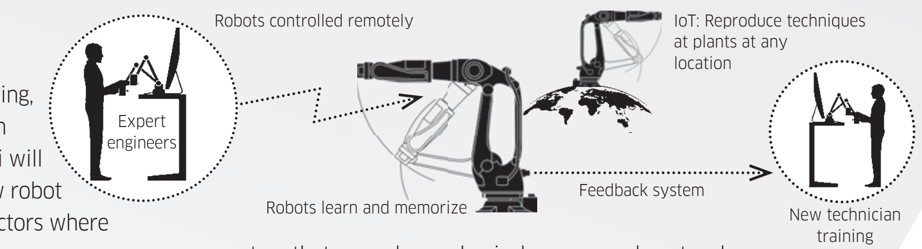
In the industrial robot business, we expect expanding demand to offset labor shortages and achieve higher quality. We also predict that robots will be used in a wider range of applications, including collaboration with humans in work operations and use in medical treatment and nursing care.

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

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

Key Driver

***Successor*—New Robot System**



The global robot market keeps expanding, but robotization remains a challenge in many sectors. In fiscal 2020, Kawasaki will begin general sales of *Successor*, a new robot system that offers new solutions in sectors where robotization has been difficult to achieve.

Successor is a robot system that learns movements made by expert engineers using remote control devices and converts these movements into automated operations. The system thus enables robots to reproduce delicate movements by expert engineers. In addition, the system can be used as a teaching tool, using a feedback system that reproduces physical senses, such as touch, force, sight and sound, to convey to untrained personnel the movements and techniques that a *Successor* robot has learned from expert engineers.

Successor technology has potential far beyond robots, including application to hydraulic technology, and we expect it to contribute to production activities in our own operations.

LNG carrier

Yoshinori Mochida
President,
Ship & Offshore Structure Company

Ship & Offshore Structure

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

Business Vision

One of the world's most prominent shipbuilding and offshore structure engineering groups pursuing business with a focus on low-temperature, high-pressure gas technology, submarine technology and overseas projects.

Opportunities

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

Risks

- Increasingly fierce competition with China and South Korea
- Prolonged slump in shipping market

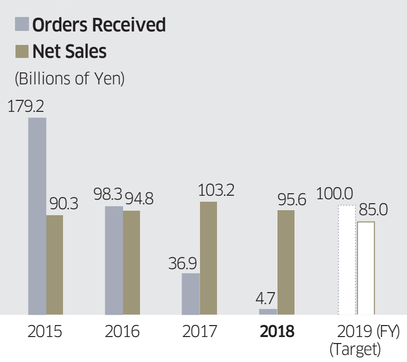
Core Competence

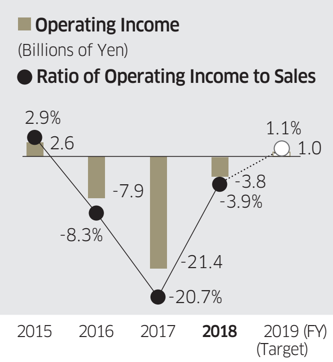
- Low-temperature, high-pressure gas-related technologies accumulated through development and construction of LNG and LPG carriers
- Quality and cost competitiveness of Group overall, including Chinese joint ventures (NACKS, DACKS*)
- Energy-saving, environmental load-reducing technologies, and ability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

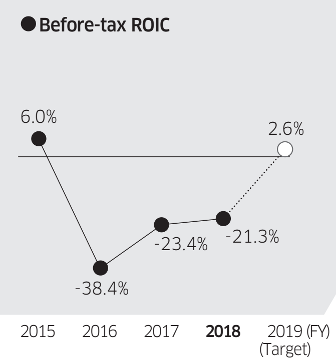
**NACKS, DACKS: Shipbuilding joint ventures established in Nantong, Jiangsu Province and Dalian, Liaoning Province, with China COSCO Shipping Corporation Limited (China COSCO)*

Business Direction in MTBP 2016

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







Business Summary

In fiscal 2018, the Ship & Offshore Structure Company showed an operating loss, largely due to reduced operations paralleling the termination of a contract agreement to build an offshore service vessel for a customer in Norway as well as an increase in construction costs on a new-type LNG carrier. However, this business segment should return to profitability in fiscal 2019, with improvement in the product mix for gas-related vessels.

Operating Environment and Strategies

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

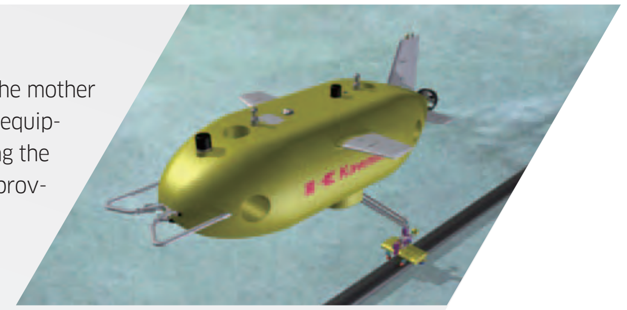
For two years– fiscal 2016 and fiscal 2017–this business segment booked sizable losses, prompting the creation of a restructuring execution committee, headed by the president, in April 2017 to undertake a fundamental revision of the business structure. Meetings were held monthly, and after deciding to withdraw from the problematic offshore service vessels business, we have freed up resources to focus on structural reforms. We are aiming for before-tax ROIC of 8%–assuming an exchange rate of ¥100 = US$1–by fiscal 2021 and will implement business strategies to achieve this target.

In the merchant ship business, we will cut back on the number of orders we accept and make gas-related vessels our main priority. We will concentrate domestic construction at the Sakaide Works and reinforce base functions, such as human resources development and engineering, while promoting greater integration of operations with our Chinese joint ventures NACKS and DACKS through such approaches as joint procurement and shared construction. These efforts will help sharpen our cost competitiveness and improve profitability. In addition, we will pursue development of a Ship Operation and Performance analysis support system (SOPass), which combines ship-related knowledge accumulated by Kawasaki with big data technology.

In the submarine business, we will stabilize the business platform by completing capital investment at the Kobe Works to handle more submarines. We will also apply submarine-related technologies collected over many years to development of such products as autonomous underwater vehicles (AUVs).

Key Driver

Efforts to Develop Autonomous Underwater Vehicles



In November 2017, Kawasaki successfully completed a verification test on an autonomous underwater vehicle (AUV) at The Underwater Centre, in Scotland. Noticing an increase in demand for pipeline maintenance services for offshore oil and gas fields, we have pursued development of leading-edge component technologies for AUVs under a subsidy program sponsored by the Ministry of Land, Infrastructure, Transport and Tourism. AUVs determine positioning status autonomously while carrying out preassigned missions, and thus differ from conventional cable-tethered, unmanned, remotely operated vehicles. They do not require dedicated operators on the mother ship or special on-board equipment, potentially reducing the burden on crews and improving safety while cutting maintenance costs. As a result, several oil and gas companies–the oil majors–and underwater equipment operators have expressed high hopes for AUVs. For our part, we intend to launch full-scale development of a seabed pipeline-inspection AUV, with a commercialization target of fiscal 2021.

Rolling stock for access to Taoyuan International Airport in Taiwan

Rolling Stock

Kazutoshi Honkawa
President,
Rolling Stock Company

Main Products

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

Business Vision

With strong teamwork and the highest level of technology and quality we provide dreams and emotions to customers worldwide in order to become the most reliable rolling stock system supplier.

Opportunities

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

Risks

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

Core Competence

- High-tech expertise built on comprehensive heavy industry strengths
- Ability to fulfill contracts, cultivated from extensive domestic and overseas results
- Partnership capabilities with other companies in execution of overseas projects

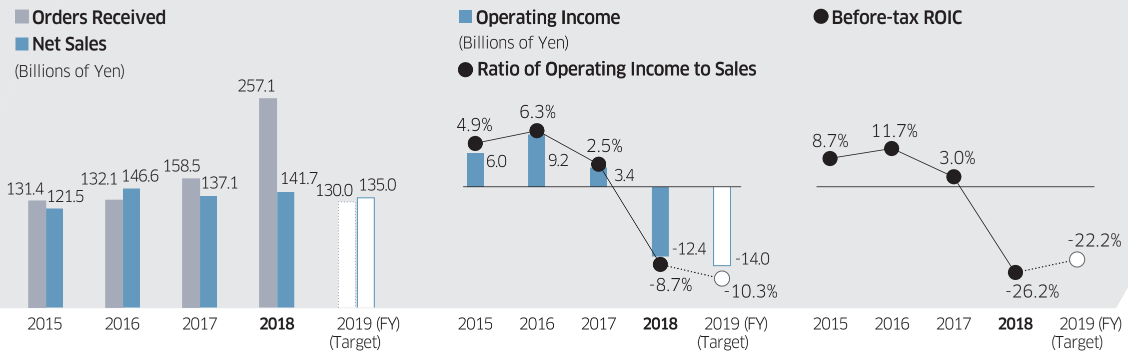
Business Direction in MTBP 2016

Domestic
- Differentiate with high-value-added products that leverage synergies and high-tech expertise built on comprehensive heavy industry strengths as well as ability to provide value across overall product lifecycle

North America
- Tap into constant order activity for new cars in high-share northeastern corridor, and actively promote high-profit stock-style business underpinned by delivery record exceeding 4,500 cars

Asia
- Maintain revenue base in markets, particularly Taiwan and Singapore, where the Kawasaki brand is known for excellence, and develop wider presence in emerging markets with growth potential

Series 2600 limited express diesel railcar for Shikoku Railway Company



Business Summary

In fiscal 2018, the Rolling Stock Company posted a significant operating loss, mainly due to the booking of provision for losses on construction contracts—specifically, a rolling stock project for a North American customer—as well as an expense burden related to replacement of a series N700 *Shinkansen* bogie frame. This situation is likely to persist in fiscal 2019, with additional booking of provision for losses on construction contracts, specifically the rolling stock project for a North American customer, as well as the appearance of losses on domestic rolling stock projects, leading to another year of significant operating loss. Management recognizes the seriousness of continued worsening performance and established the Rolling Stock Business Restructuring Committee chaired by the president to drastically reinforce project management and achieve performance recovery as soon as possible.

Operating Environment and Strategies

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

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

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

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

Key Driver

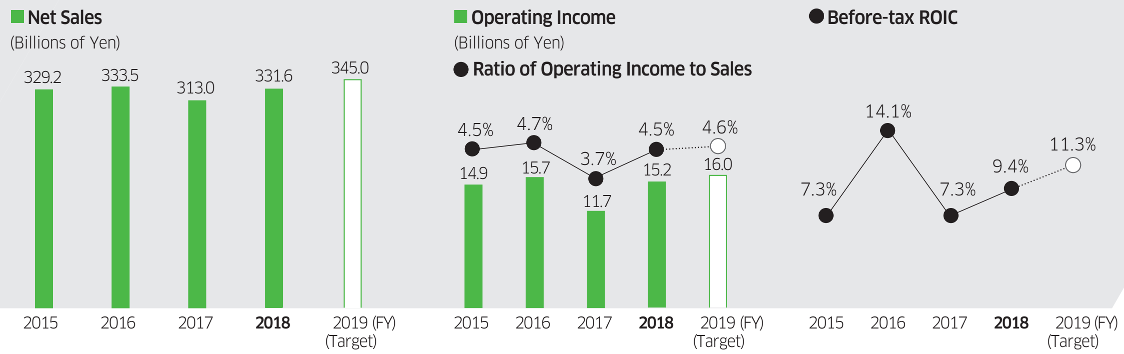
Expanding Business Activities in Asia

In August 2017, a joint bid by Kawasaki and Mitsubishi Corporation won an order from state-run Dhaka Mass Transit Company Limited in Bangladesh, to supply rolling stock and maintenance depot equipment for Dhaka MRT Line-6, the country's first mass rapid transit system. Construction of this project is being financed by ODA loans extended by the Japan International Cooperation Agency, under Japan's infrastructure export strategy, to the government of Bangladesh to support infrastructure development.

Going forward, many projects financed by ODA loans for emerging countries in Asia are in the works, and we anticipate an increase in business opportunities, including high-speed railway projects throughout the region, starting with India. Kawasaki will draw on a solid presence in Taiwan and Singapore and capabilities that facilitate production of all types of rolling stock to broaden the scope of our business activities in Asia.

Ninja ZX-10R

Kazuo Ota
President,
Motorcycle & Engine Company



Motorcycle & Engine

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

Business Vision

Guided by the "Kawasaki, working as one" philosophy, grow and endure as a manufacturer with primary focus on high-value-added domains in the power sports and general-purpose engine markets.

Opportunities

Motorcycles
- Medium- to long-term market expansion in emerging countries
- Stable demand for developed countries, and progress in development of technologies, such as IoT application and advanced safety features

Utility vehicles
- Expanding market in North America

General-purpose gasoline engines
- Brisk growth, reflecting bigger U.S. housing market

Risks

Motorcycles
- Intensifying price wars in emerging markets
- Tougher environmental regulations

Utility vehicles
- Intensifying price wars

Core Competence

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

Business Direction in MTBP 2016

Deepen demand-chain reforms
- "A Class Apart"
- Create brand that delivers high customer value a true cut above other companies

Deepen reforms to enhance competitive edge of products
- "Fun to Ride" and "Ease of Riding"
- Create structure for product development geared to customer requirements

Deepen supply chain reforms and promote change in overall management system
- Boost capital efficiency through improvements in supply chain, from production through to sales

Establish stronger financial platform
- Reinforce profitability and improve free cash flow to generate investment leeway and respond to future growth markets

MULE PRO-FXT

Business Summary

Despite a drop in sales of motorcycles to emerging countries, sales of motorcycles, utility vehicles and general-purpose gasoline engines to developed countries drove fiscal 2018 income up over the fiscal 2017 level. In fiscal 2019, higher sales of motorcycles and general-purpose gasoline engines to developed countries should neutralize the impact of yen appreciation and keep sales and operating income near fiscal 2018 levels.

Operating Environment and Strategies

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

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

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

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

CRM: Customer relationship management

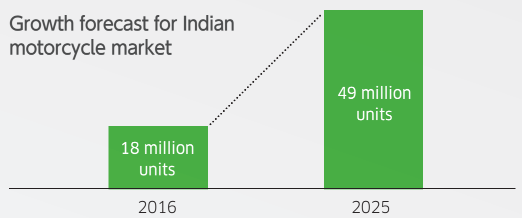
Key Driver

Motorcycle Business in India

The motorcycle market in India is rapidly expanding. It is already the largest motorcycle market in the world, with sales reaching about 20.19 million units in fiscal 2018. Of this amount, about 880,000 units were medium- and large-sized motorcycles with engine displacements of 250cc or higher.

At the end of June 2017, Kawasaki relocated the plant of India Kawasaki Motors Pvt. Ltd. (IKM), its subsidiary in India. In addition to the 250cc–650cc models previously manufactured by IKM, the new plant has started local production and sales of the *Ninja 1000*, the highest maximum engine displacement—1,043cc—of all Kawasaki-brand motorcycles manufactured in India.

Growth forecast for Indian motorcycle market



As the Indian economy grows, the market for medium- and high-displacement leisure-use motorcycles—an area where Kawasaki is particularly strong—is expected to continue to expand. With the start of operations at the new plant, the Company will meet local market demand and provide Kawasaki-brand motorcycles more extensively throughout India.

Growing with Society

Basic Policy on CSR

For the Kawasaki Group, the CSR priority of highest importance is, we believe, none other than realizing the Group Mission "Kawasaki, working as one for the good of the planet" (Enriching lifestyles and helping safeguard the environment: Global Kawasaki). Therefore, management actively identifies global social issues and emphasizes solutions utilizing products and services driven by innovation and the pursuit of synergies within the Group. In addition, to be a company—and a corporate group—that is always trusted by society, we will promote constructive dialogue with stakeholders* and reinforce approaches, including fair business practices, measures to prevent corruption and consideration of the environment and human rights.

*Stakeholders: People, organizations, etc., directly or indirectly affected by corporate activities

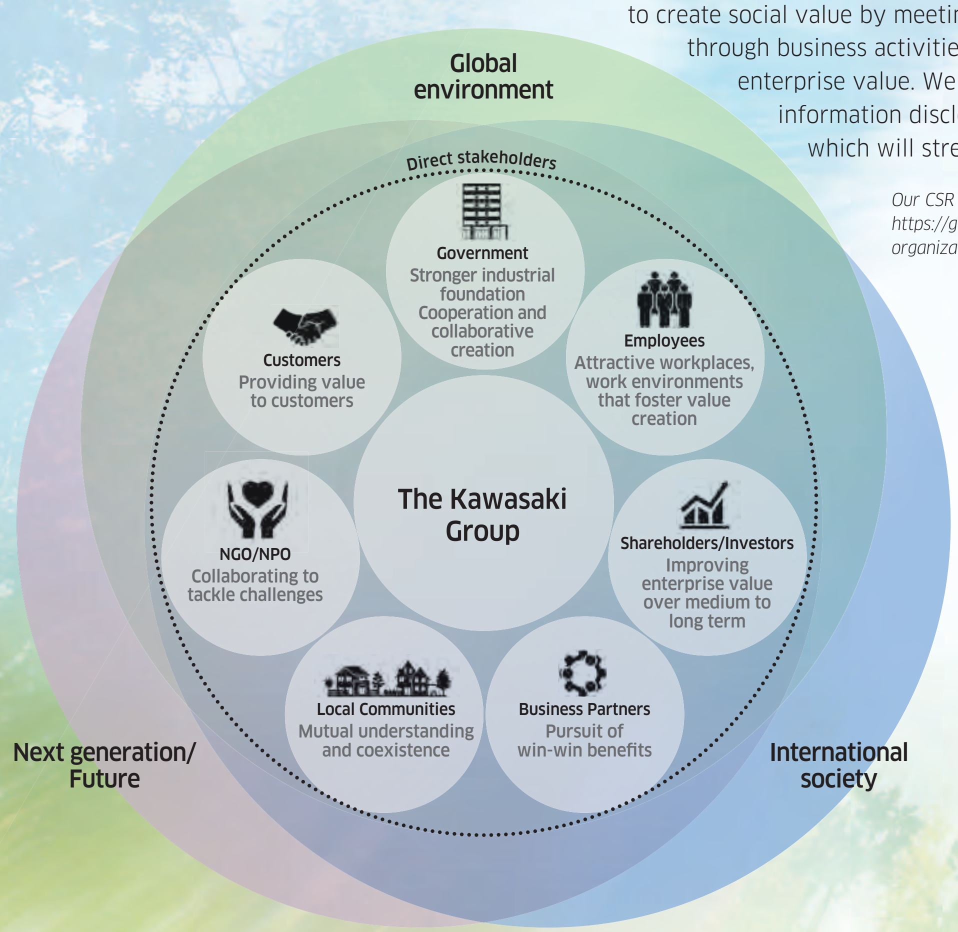
Medium-Term CSR Policy

In fiscal 2018, management defined CSR material issues—materiality—that the Kawasaki Group must address and also reviewed the CSR activity framework, placing the creation of social value through business as top priorities to be achieved over the long term and other issues as CSR issues that underpin the management foundation. From fiscal 2019, under a new framework, we will clarify the division and person responsible for key items, namely the creation of social value through business and environment, society and governance (ESG), as well as the image we seek to present and key performance indicators. We will disclose the status of progress toward targets and rotate through a plan-do-check-act (PDCA) cycle while working to enhance our CSR activities.

Stakeholder Dialogue

The Kawasaki Group actively acknowledges the expectations and requests of stakeholders, and strives to create social value by meeting those expectations and requests through business activities while concurrently working to raise enterprise value. We utilize stakeholder dialogue to enhance information disclosure and deepen communication, which will strengthen bonds of mutual trust.

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



Process for Identifying Materiality

Given diversifying stakeholder expectations and requests and a changing business environment, management took a fresh look at Group activities that impact society and then identified material issues—that is, materiality.

Step 1

Identify and narrow down CSR issues

We analyzed industry- and Kawasaki Group-specific survey criteria applied by international SRI/ESG (socially responsible investment/environment, social, governance) assessment organizations, including DJSI, FTSE, MSCI* and Sustainalytics, as well as content required under reporting guidelines set by SASB*, GRI and other standards organizations. We also drew on the opinions of external advisors and then identified and narrowed down CSR issues.

Step 2

Evaluate impact of issues and assign priorities

We made an internal evaluation of each CSR issue narrowed down through Step 1, from the perspective of importance to society and stakeholders as well as importance to Kawasaki, and created a provisional order of importance.

We also put responses to social issues of global scale that were identified under MTBP 2016 in a category—the social value we create—with our Group Mission "Kawasaki, working as one for the good of the planet" and placed this category as top priorities.

Step 3

Interview outside experts and decide on material issues (materiality)

To verify the appropriateness of priority placement determined in-house, we invited comments from outside experts through an interview process. Based on these comments, we reviewed the impact of CSR issues on society and stakeholders, and made revisions. (Please refer to the materiality matrix on page 42.)

Step 4

Formulate the plan and conduct a review

We will comply with the management approach defined under GRI standards*, establish concrete numerical targets, and through steady implementation of strategies and follow-up measures, move CSR programs toward realization of stated goals. In addition, the Corporate CSR Committee will periodically review material issues and other topics to ensure that CSR activities are in sync with changes in the business environment and evolving social expectations.

*DJSI, FTSE, MSCI: please refer to page 16.
*SASB: Sustainability Accounting Standards Board
*GRI Standards: Global Reporting Initiative Sustainability Reporting Standards

Comments from Experts Providing Opinions on Step 3

Please refer to page 40.

Keisuke Takegahara
Executive Officer, Development Bank of Japan Inc.

From an institutional investor and capital market perspective, a value creation scenario is of particular importance. The Four Outcomes reflect the Kawasaki Group's contribution to society through business activities, and you've made this the highest priority. But I'd like to know what KPIs will measure your efforts to contribute to solve social issues, over what timeline and under what scenario. For example, under the Group's growth strategy, the more the Group's business performance grows and its ROIC rises, the more social issues the Group will be able to help solve. The Group will also develop a solid management foundation. If investors see these tangible strategies, they will be able to invest with peace of mind.

Takeshi Mizuguchi
Professor, Takasaki City University of Economics

I think "creating clean energy" and "low-carbon society" are equivalent concepts, so both should go to the very top right on the materiality matrix. But they are, essentially, redundant, so I'd suggest consolidating them. Also, today, the world is shifting from "low-carbon" to "carbon-free." Maybe you should consider using the term "carbon-free society" instead of "low-carbon society."

An issue I think the Kawasaki Group should prioritize is climate change. I'd like you to realize a low-carbon society through technology, but you can't solve any issues at all through mere extension of current technology. Embrace a sense of crisis—a proactive awareness that pushes you to come up with revolutionary technology.

Masao Seki
Senior Advisor on CSR, Sompo Japan Nipponkoa Insurance Inc.
Professor, School of Business Administration, Meiji University

You should raise the priority ranking of human rights. Take a bird's-eye view of your value chain to pinpoint the kind of human rights risks that exist. Then engage in activities to prevent infringement of human rights, starting from high-risk issues.

The business structure appears male-dominated, so I'd suggest you give more attention to promoting women's participation in the workplace and addressing gender-related problems.

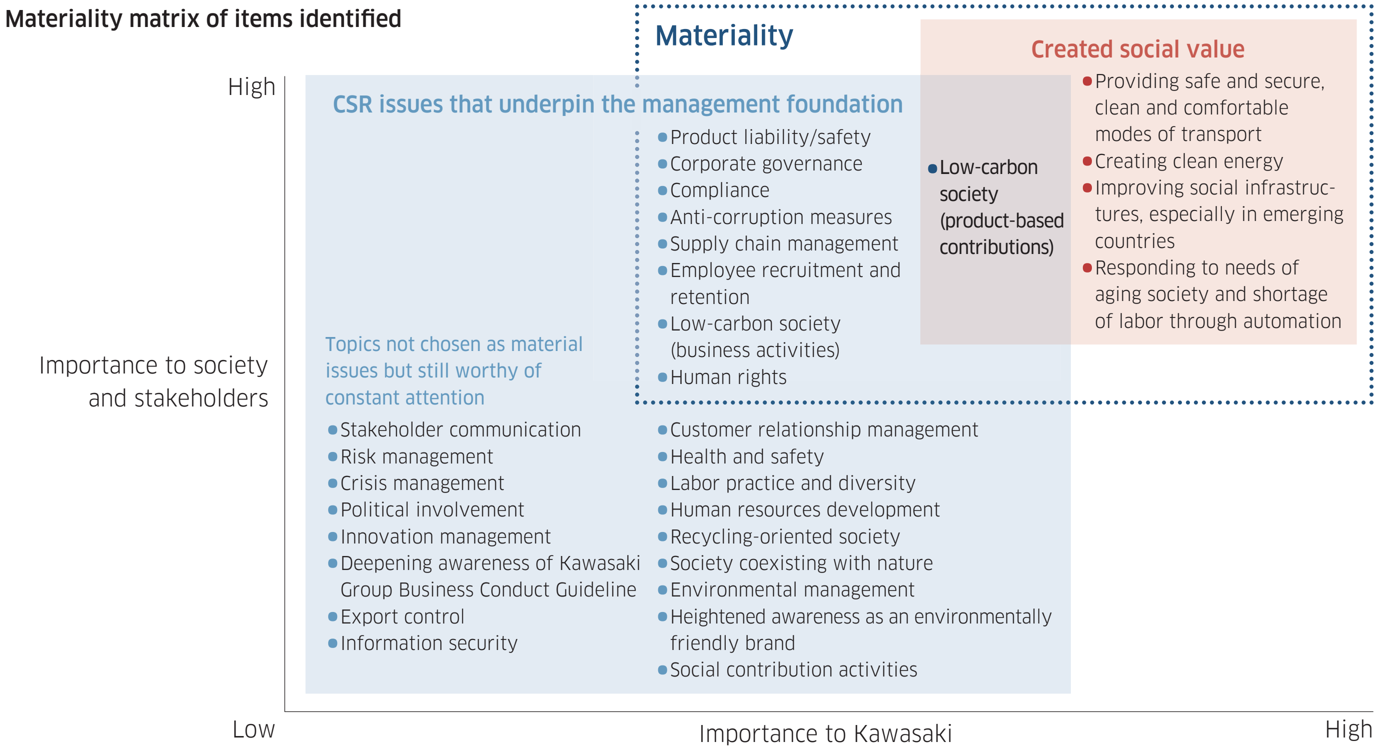
Points Taken

For the "low-carbon society," we split the category in two: "low-carbon society (product-based contributions)," for efforts to realize a low-carbon society by providing products that emit low levels of CO_2, and "low-carbon society (business activities)," for efforts to realize a low-carbon society through business processes by the Group. The revised categories are re-located in the matrix. "Human rights" was added to materiality categories.

We defined the creation of social value as top priorities to be achieved over the long term, and we added a category—CSR issues that underpin the management foundation—for other CSR issues that will enable us to create social value. For our follow-up approach, we changed the control method because the timeline for the creation of social value differs from that of CSR issues that underpin the management foundation.

The materiality matrix, which was revised to reflect input from outside experts, is presented on page 42.

Materiality matrix of items identified



*Details on the process used to identify materiality are introduced on our website.
http://global.kawasaki.com/en/corp/sustainability/materiality.html*

Kawasaki Group's Approach to SDGs

We believe our Group Mission—"Kawasaki, working as one for the good of the planet"—is extremely compatible with SDGs. And as we strive to provide solutions to social issues through our business activities, we will most certainly contribute significantly to the achievement of SDGs.

In the process of identifying materiality, we reconfirmed the social issues that we should address and positioned efforts to maximize the social value we create through our businesses as top priorities to be achieved over the long term.

As presented below, we determined our contribution to successful SDGs through an internal examination of the correlation between created social value and the 17 SDGs and 169 targets of the universal agenda and through discussion by the Corporate CSR Committee and the Management Committee, which are both chaired by the president. We set non-financial targets to achieve by 2030 for each type of created social value, and will regularly disclose the status of progress toward these targets.

Kawasaki Group's Approach to SDGs

Created Social Value	Responsible Division	Applicable SDGs		SDGs Common Throughout All Businesses
Providing safe and secure, clean, comfortable movement of people and transportation of goods by land, sea and air	●Ship & Offshore Structure Company ●Rolling Stock Company ●Aerospace Systems Company ●Motorcycle & Engine Company	3, 7, 11	×	12
Creating clean energy	●Corporate Technology Division ●Energy System & Plant Engineering Company	7, 8		9
Improving social infrastructure, especially in emerging countries	●Energy System & Plant Engineering Company ●Precision Machinery & Robot Company	7, 8, 11		13
Responding to needs of aging society and shortage of labor through automation	●Precision Machinery & Robot Company	3, 8		17

Toward Realizing a Low-carbon Society

Measures are required worldwide to deal with global warming, which has had a serious impact on the ecosystem and humans. It is vital to take measures to reduce CO_2 emissions through improvement of the products' environmental performance and promotion of efficiency of manufacturing processes.

In identifying materiality of CSR this time, we decided that both "the realization of a low-carbon society (product-based contributions)" that mitigates warming through improvement of environmental performance of products and "the realization of a low-carbon society (business activities)" which indicates CO_2 reduction in business activities including manufacturing processes, have a high level of importance from the perspectives of both "the level of importance for society and stakeholders" and "the level of importance for the Company."

Realization of a Low-carbon Society

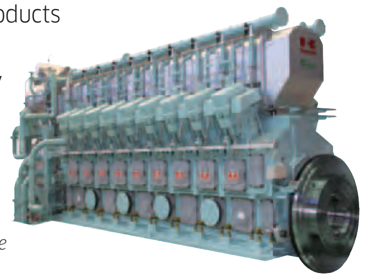
Product-based Contributions

Reduction of CO_2 Emissions Through **Product-based Contributions**

About 22.9 million tons of CO_2

About 90% of CO_2 emitted during the lifecycles of our products is released during the period of their use after they are sold. Thus, the Company seeks to realize a low-carbon society by providing products that produce only low CO_2 emissions during their use. We established a new rule for calculating the CO_2 emission reduction through product-based contributions, in order to quantify contributions of highly energy efficient products to the mitigation of global warming.

Calculations based on this rule showed that the CO_2 emission reduction through products we sold in fiscal 2018 was about 22.9 million tons. Large contributions were made mainly by the Green Gas Engine, which achieved the world's highest power-generation efficiency in its class, and the CKK System, which reduced cement calcination fuel by combining cement manufacturing with waste processing. We started the Kawasaki-brand Green Products* in-house registration program in 2013 for products that meet self-established standards such as high energy efficiency. The number of registered products has continued increasing every year, totaling 50 in 2018.



Green Gas Engine

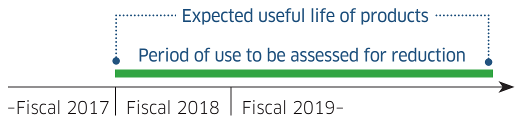
CKK System (a system combining cement manufacturing with waste processing)

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

Calculation Rule

We established a new calculation rule with reference to the Guideline for Quantifying Greenhouse Gas Emission Reduction Contribution (Ministry of Economy, Trade and Industry, March 2018).

- Products to be assessed: Kawasaki-brand Green Products, products that use renewable energy, waste and waste heat, as well as cogeneration systems and rolling stock pertaining to modal shift, etc., were selected for assessment.
- Period of assessment: The difference in CO_2 emissions between our products and industry standard class products over the period of use was calculated by newly adopting the Flow Base Approach. The period of assessment was the expected useful life of products sold in the fiscal year, instead of one-year period assessment used until fiscal 2017.



Realization of a Low-carbon Society

Business Activities

CO_2 Emissions

About 328,000 tons

CO_2 emissions from business activities (planning, development, design, production, etc.)

We are promoting various energy-saving activities to curb CO_2 emissions from business activities, with the view to realizing a low-carbon society. Emissions from business activities were about 328,000 tons in fiscal 2018, as a result of reducing about 15,000 tons of CO_2 mainly through energy-saving activities.

CO_2 Emission Reduction Effect Through **Energy-saving Activities**

About 15,000 tons of CO_2

The Company established an energy-saving promotion structure for each business segment and makes various energy-conservation improvements in an effort to reduce CO_2. These include a shift of pumps and fans to inverter types, raising the efficiency of lighting, air conditioning, production and other equipment, and making improvements in the production process.

One example is the improvement of the process of removing resin stuck inside a gear pump before the repair procedure (Nishi-Kobe Works, Precision Machinery Business Division).

Before the improvement, high-temperature incineration of resin in the furnace for many hours turned the resin into ashes, and then power tools and other equipment were used to polish them. After the improvement, a method was established to use solvents that are effective in removing stuck resin by immersing and cleaning. As a result of this, energy that had been used for heating and power tools was reduced, leading to a reduction of CO_2.

Before improvement: Heating incineration of resin

After improvement: Removal of resin using solvents

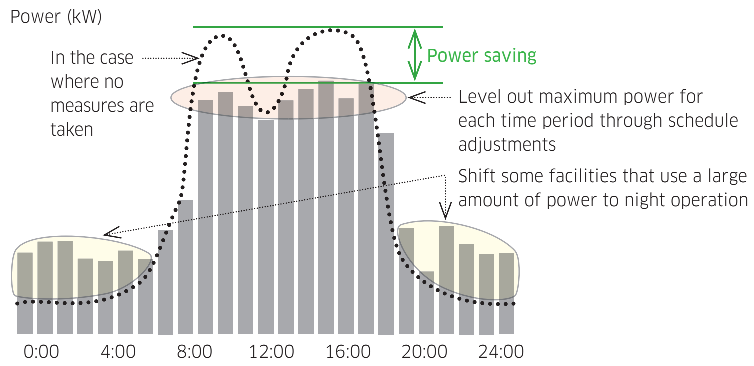
As part of our energy-saving activities, we started the **Energy-saving Awards Program** from fiscal 2018 with an eye to all staff members' participation in energy-saving activities. A characteristic of the Company's Energy-saving Awards Program is the two-tier awards consisting of the Intra-Division Award, which recognizes activities in each operating division of the Company, and the Company-wide Award, which is decided based on company-wide voting on each improvement recommended per division. As such, this program recognizes various energy-saving initiatives ranging from small improvements made by individuals to major ones by teams and plants.

The grand award of the Company-wide Award for fiscal 2018 was given to **"an improvement that 'prevented excess contract power' through implementation of 'measures to reduce peak power consumption' by 'full staff participation'** (Gifu Works/Nagoya Works, Aerospace Systems Company)." The winner was found to be outstanding in its improvement effect, return on investment, potential for horizontal development, and creativity and originality.

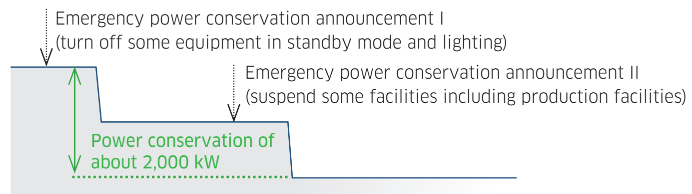
This improvement prevented excess power demand. It involved concerted efforts by plants through the implementation of the following four steps to curb about 4,000 kW of power in times of tight power supply-demand situations during summer.

1. Spreading out in advance the operation schedule for facilities that consume large amounts of power.
2. Staggering operation times, coordinating by telephone on that day, in cases where overlapping operations occur.
3. In times of tight power demand even after those arrangements, increasing the output of cogeneration power-generation facilities or stopping several air conditioners in rotation.
4. In times of further tightness of power demand, saving energy through full staff participation by issuing an emergency-power conservation announcement in the plant in two stages.

Change in Production Facility Power over Time (1 day)



Energy-saving Effect of Full Staff Participation by Emergency-power Conservation Announcements



Corporate Governance System

Basic Stance on Corporate Governance

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

Overview of the Corporate Governance System

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

● ***Board of Directors***

The Board of Directors comprises 12 directors (authorized number: 18), with the chairman serving as the presiding officer. The Company has increased the number of its outside directors (independent officers, as required by the Tokyo Stock Exchange) from two to three. These directors are independent of any role in the execution of business activities. As a result, eight of the 12 directors concurrently serve as executive officers. The Company is seeking to strengthen the supervisory function of the Board of Directors with regard to overall management, while paying attention to the balance with its business execution function. Furthermore, the Nomination Advisory Committee and Compensation Advisory Committee have been established as advisory bodies to the Board of Directors, in an effort to strengthen the transparency and objectivity of the Board of Directors. A majority of the committees' members are outside officers, and the presiding officers of each are outside directors.

In fiscal 2018, the Board of Directors' Meeting was held 15 times (including extraordinary meetings), and the attendance rate was 97% or above for internal and outside directors and audit & supervisory board members.

● ***Audit & Supervisory Board***

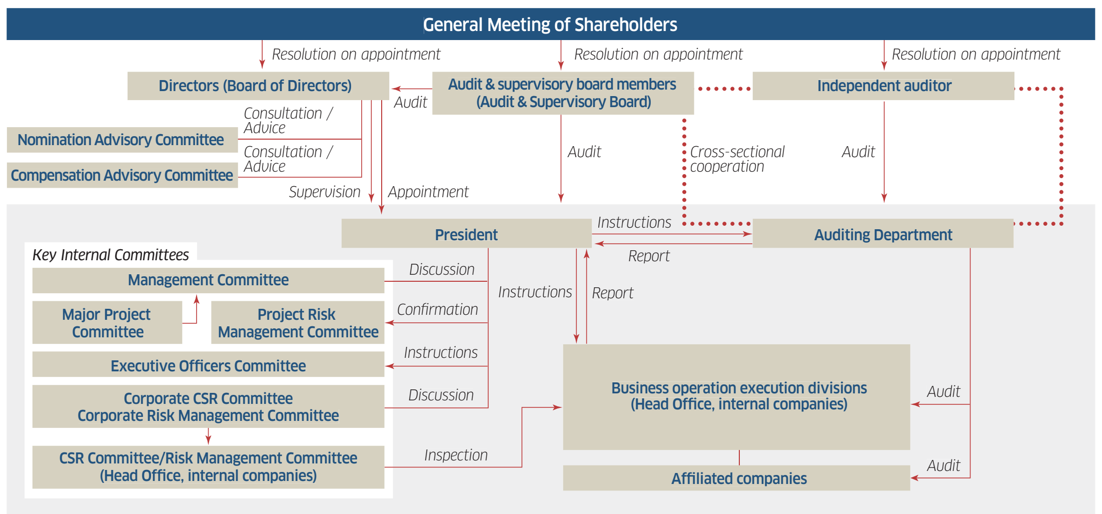
The Audit & Supervisory Board comprises five audit & supervisory board members (authorized number: five). To ensure the reliability of financial reports, the Company appoints internal audit & supervisory board members who have considerable knowledge of finance and accounting. Furthermore, to ensure the objectivity and neutrality of the supervisory function, the Company appoints three outside audit & supervisory board members (independent officers, as required by the Tokyo Stock Exchange) with no business relationships or other vested interests in the Company. The internal and outside audit & supervisory board members share information closely and work to enhance the supervisory function.

In fiscal 2018, the Audit & Supervisory Board's Meeting was held 17 times, and the attendance rate was 100% for internal and outside audit & supervisory board members.

Key Internal Committees Other than Board of Directors and Audit & Supervisory Board

Name	Activities
Nomination Advisory Committee	• An advisory body on nomination of directors and audit & supervisory board members
Compensation Advisory Committee	• An advisory body on compensation for directors
Management Committee	• Includes executive directors and internal company presidents • Assists the president as an advisory body with regard to Group management • Discusses important management policy, management strategy, management issues, and other matters from a Group perspective
Executive Officers Committee	• Comprises all executive officers appointed by the Board of Directors • Conveys business execution policy based on management policy and management plans determined mainly by the Board of Directors and the Management Committee • Venue for communicating necessary and important information regarding business execution and exchanging opinions
Corporate CSR Committee	• Discusses and decides on basic policy and important matters related to CSR for the Group as a whole and monitors implementation status
Corporate Risk Management Committee	• Discusses important issues pertaining to risk management for the Group as a whole and monitors implementation status
Major Project Committee	• Assesses risk and considers appropriate responses before acceptance of major projects
Project Risk Management Committee	• Regularly follows up on major projects during execution

Kawasaki Group's Governance Structure (As of June 27, 2018)



Reasons for Appointment of Outside Officers

The reasons for the appointment of outside officers (three outside directors and three outside audit & supervisory board members) are as follows:

● ***Outside Directors***

Michio Yoneda Mr. Yoneda has expressed useful opinions and given advice in determining important matters of the Company's management from a position independent of any role in the execution of business activities, based on his abundant management experience and high level of knowledge regarding corporate governance acquired over a career including President & CEO (Member of the Board) of Osaka Securities Exchange Co., Ltd., Director & Representative Executive Officer and Group COO of Japan Exchange Group, Inc., and other important positions. In consideration of these points, the Company believes he would be able to fully perform his roles as an Outside Director in supervising the execution of duties of the Company and increasing its enterprise value.

Yoshiaki Tamura (newly appointed) Mr. Tamura served as Representative Director and Executive Vice President, Asahi Glass Co., Ltd. (currently, AGC Inc.), GM of Technology General Division, Deputy Leader of AGC Group Improvement Activities and President of Glass Company and other important positions. He has extensive experience in corporate management and deep insights into manufacturing. In consideration of these points, the Company believes he would be able to fully perform his roles as an Outside Director in supervising the execution of duties of the Company and increasing its enterprise value.

Jenifer Rogers (newly appointed) Ms. Rogers has extensive international experience and deep insights into legal affairs, compliance, and risk management, having served as an in-house lawyer and counsel at international financial institutions for many years. In consideration of these points, the Company believes she would be able to fully perform her roles as an Outside Director in supervising the execution of duties of the Company and increasing its enterprise value.

● ***Outside Audit & Supervisory Board Members***

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

Satoru Kohdera The Company has judged that Mr. Kohdera would be able to fully perform his roles as outside audit & supervisory board member from an independent position, based on his abundant experience as an attorney and high level of knowledge of legal affairs.

Atsuko Ishii The Company has judged that Ms. Ishii would be able to fully perform her roles as outside audit & supervisory board member from an independent position, based on her abundant experience and high level of knowledge of labor administration.

Compensation to Corporate Officers

The compensation system for Kawasaki directors and audit & supervisory board members—which is designed to promote sustained improvement in corporate performance and enterprise value and to secure outstanding human resources—ensures a level of compensation in line with the duties of the individual officer. Compensation for directors, excluding outside directors consists of basic compensation, performance-based compensation, and a stock purchase fund. Among these, performance-based compensation is determined by linking corporate performance with the aim of using compensation as an incentive for achieving business goals. The stock purchase fund is distributed in fixed amounts each month for the purpose of sharing value with shareholders and incentivizing directors to enhance medium- to long-term enterprise value, with the entire amount contributed to the officers' stock ownership plan in order to purchase shares of the Company on a continuous basis. Compensation for outside directors is set at a fixed level not tied to corporate performance,

Topics

Efforts to Enhance the Supervisory Function of the Board of Directors

The Company modified the Board of Director and Executive Officer System effective April 1, 2018, in order to further strengthen corporate governance. This change has made it clear that business execution is carried out by executive officers to promote separation from the supervisory function of the Board of Directors.

Furthermore, seeking to strengthen the supervisory function of the Board of Directors with regard to overall management, the Company increased the number of outside directors by one. The Company appoints outside directors who are capable of providing appropriate opinions and advice from an objective perspective, independent of any role in the execution of business activities, based on abundant experience and specialized knowledge in fields different from the Company's business fields, while ensuring diversity of their professional background, nationality, gender, and so forth.

We will continue working to strengthen the supervisory function of the Board of Directors and establish the corporate governance system suitable for the Kawasaki Group.

from the perspective of professional independence. These types of compensation for directors are determined by the President as delegated by the Board of Directors, after consultation with the Compensation Advisory Committee. The compensation of audit & supervisory board members is set at a fixed level not tied to corporate performance, from the perspective of professional independence. This compensation is determined by the Audit & Supervisory Board.

Amount of Corporate Officers' Compensation in Fiscal 2018 *(Millions of yen)*

		Directors 13 people	Audit & supervisory board members 6 people	Total 19 people (including 6 people from outside)	
Total amount of compensation		675	103	778	(60)
Total amount of compensation, etc. by category (Fiscal 2018)	Basic compensation	473	103	576	(60)
	Performance-based compensation	134	–	134	(–)
	Stock purchase fund	67	–	67	(–)

Notes:
1. The number of officers includes four directors and one audit & supervisory board member who retired at the conclusion of the General Meeting of Shareholders held in June 2017.
2. The maximum amount of compensation for directors is ¥1,200 million per year (as resolved at the 189th Ordinary General Meeting of Shareholders held on June 27, 2012). The maximum amount of compensation for audit & supervisory board members is ¥120 million per year (as resolved at the 194th Ordinary General Meeting of Shareholders held on June 28, 2017).

Compliance

Basic Stance

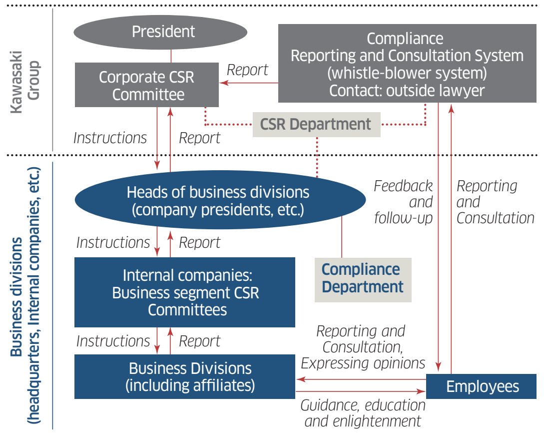
In the Kawasaki Group Management Principles, which target the entire Kawasaki Group, we set forth our corporate virtue of "recognizing social responsibility and coexisting harmoniously with the environment, society as a whole, local communities and individuals," and in the Kawasaki Group Code of Conduct,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

Furthermore, we have established the Kawasaki Heavy Industries Group Business Conduct Guideline and set ethical standards to be the basis of decisions. At the same time, our executives and employees are requested to comply with the content specified in the Conduct Guideline in the Regulations Concerning the Kawasaki Heavy Industries Group Business Conduct Guideline as a set of company regulations.

Compliance Promotion Structure

The Corporate CSR Committee comprises all executives as members and is chaired by the Kawasaki president. The committee meets at least twice a year (three meetings in fiscal 2018). Its goals are to discuss and determine various measures designed to allow the Kawasaki Group to fulfill its corporate social responsibilities and ensure thorough compliance, and to monitor the achievement levels and status of compliance efforts. To ensure that the objectives of the Corporate CSR Committee extend to all corporate structures, business segments at the head office and internal companies hold CSR committee meetings at least twice a year, in their effort to promote compliance throughout the Group.

Compliance Promotion Structure



Compliance Reporting and Consultation System (whistle-blower system)

In certain situations, employees (including contract employees, temporary staff, and retired employees) of the Company and domestic consolidated subsidiaries who suspect a violation of compliance practices relating to their operations may find it difficult to report the situation or seek advice from superiors or a department that would normally address alleged misconduct. To address this problem, we established the Compliance Reporting and Consultation System, with an outside lawyer acting as the contact.

There were 27 reports or consultations made through the Compliance Reporting and Consultation System in fiscal 2018.

Number of Reports or Consultations (in fiscal 2018)

Nature of report or consultation	Number of cases
Power harassment	7
Personnel matters	8
Financial fraud	1
Sexual harassment	3
Blackmail and harassment	1
Safety	2
Others	5
Total	27

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

Distribution of the Compliance Guidebook

The Compliance Guidebook, which describes necessary and useful knowledge in an easy-to-understand way for ensuring thorough compliance within the Company, is distributed to all executives, employees, and temporary staff at all Group companies in Japan.

The Compliance Guidebook outlines the Group's compliance system and activities as well as the Compliance Reporting and Consultation System. The Guidebook uses illustrations to present easy-to-understand examples that should be noted regarding compliance-related matters. It is divided into 20 sub-sections in total with six classified sections, "Matters concerning Securing the Trust of Customers and Business Partners," "Matters to Be Observed as a Corporate Citizen," "Matters concerning Data Protection," "Matters concerning Handling Financial Transactions," "Matters concerning the Workplace," and "Responsibilities of Managers."


Compliance Guidebook

Compliance with Competition Laws

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

Antimonopoly Law Compliance Guidebook

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

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

Efforts to Prevent Corruption

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

In fiscal 2018, we conducted Group-wide training activities on overseas competition laws and bribery prevention laws. Fourteen sessions of the training program were provided at the bases within the Group. Taking part were a total of 409 employees, including the Group's overseas sales staff and executives involved in overseas business operations.

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 appropriate risk-management strategies (avoidance, reduction, etc.) should be executed in accordance with the Risk Management Regulations as company regulations upon identifying and classifying risks and performing analysis and assessment of such risks.

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

Responding to Major Risks

To undertake integrated risk management on a Group-wide basis, divisions responsible for operations re-check for the presence of risks and identify major ones that have the potential to exert a significant impact on operations (Group-level risks), as well as monitor the status of responses to these risks each year. Furthermore, they specify two to three risk items from among the ones identified that require Group-wide response measures, and specifically confirm the status of risk responses as Group-wide action.

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

Developing and Utilizing Human Resources

Basic Stance

The Kawasaki Group considers its employees to be the most valuable resource to fulfill the Group Mission and achieve its business targets. In an effort to improve enterprise value in a sustainable manner by implementing the mission statement, it is very important for each and every one of the approximately 35,000 human resources who are active around the world, regardless of nationality, gender, age, religion and any disabilities, to understand and share the Group Mission and Kawasaki Value, and to diligently attend to daily business based on the Kawasaki Group Code of Conduct.

In particular, for us to "constantly achieve new heights in technology," as set forth in the Kawasaki Value, the development of human resources from a long-term perspective is essential. Accordingly, the Group's stance is that "the Kawasaki Group's corporate culture is built on integrity, vitality, organizational strength and mutual respect for people through all levels of the Group. We nurture a global team for a global era," as set forth in the Kawasaki Group Management Principles. With an aim of commitment to the principles of "human respect" and "health first" while achieving this stance, we focus on establishing workplaces that allow our diverse human resources to work securely, safely, and enthusiastically with a sense of pride, and on developing human resources that contribute to the achievement of our business strategy and the future of the global environment.

In order to increase enterprise value and promote employees' work-life balance, it is vital that diverse employees are able to demonstrate their capabilities and contribute to higher productivity. Toward this end, we have embraced "K-Win (Kawasaki Workstyle Innovation) Activities" throughout the Group to encourage new approaches to work.

Development of Global Human Resources

We have been implementing measures for global human resource development, with the aim of furthering the development of human resources in support of global business expansion. Specifically, we provide training designed to promote a readiness to deal with business from a global perspective and teach useful skills for overseas business. Furthermore, we dispatch young and mid-career employees to external institutions and the Group's affiliated companies through the overseas internship system that is aimed at globalizing domestic human resources. We will continue working to enhance measures toward global human resource development on a Group-wide basis through such means as supporting the development of local skilled employees at overseas sites.

Promotion of K-Win Activities

The Kawasaki Group has embraced K-Win Activities, which are an effort to promote workstyle reform in step with ongoing social trends. We set the objectives of the activities as "promotion of work-life balance," "increasing the productivity of administrative and technical personnel," and "reducing long working hours" to prepare for the aging of society with a declining birthrate and changes in the management environment.

Specifically, these activities are focused on business reform by strengthening management in the workplace and improving operational processes with a view to increasing productivity, organization climate reform by revitalizing the organization with the aim to promote creation of innovations in the future and enhancement of employees' motivation, and system reform through promotion of flexible approaches to work by placing emphasis on productivity evaluation and introducing a remote work (telecommuting) system to push forward the activities.

All the Kawasaki Group employees are working on these activities so that the Group will achieve its growth strategies over the medium to long term and increase enterprise value.

Promotion of Diversity

Diversity is an important management issue for the Company from the perspectives of making the best use of the capabilities of its diverse human resources, fairness, and risk avoidance. We are developing a working environment that makes it possible to mutually recognize and take advantage not only of nationalities and genders, but also differences in sexual orientation, values, lifestyles, and other factors.

We are actively committed to hiring and promoting the participation of female employees in the Group. We are also working on the development of female human resources. Our target is to increase the number of female managers (at the level of section manager and above) by three-fold by 2020, compared with the level in fiscal 2015.

"Eruboshi (Grade 2)" Certification

Awarded "Kurumin Mark"

We are also committed to recruiting more people with disabilities and are actively hiring such people. We established a special subsidiary (Kawasaki Heartfelt Service Co., Ltd.) to cultivate an environment in which they can develop their full potential.

Furthermore, we created an LGBT handbook and distributed it across the Group, in an effort to promote correct knowledge and deepen understanding among employees of sexual minorities. The aim is to foster a corporate culture that creates a comfortable working environment for diverse human resources.

Realizing a Safe, Comfortable Workplace

With the principles of "human respect" and "health first," the Company is conducting various safety and health management activities, in order to "create a workplace climate that gives top priority to safety and health and realize a safe and comfortable working environment that enables employees to work in good health both physically and mentally." We established corporate safety education facilities, referred to as the "safety *dojo*," and use them to promote safety awareness and provide basic knowledge of occupational safety to employees. In addition, the Company, jointly with the labor union and the health insurance association, carries out "Kawasaki Kenko-Challenge (Health Challenge)" yearly to promote the health of employees and their family members. As a result of various initiatives, the Company was recognized as an outstanding company that promotes health and productivity management and was certified as one of the "2018 Health and Productivity Management Outstanding Organizations (White 500)."

Certified as Health and Productivity Management Outstanding Organizations (White 500)

Training in the safety dojo

Topics

Kawasaki Heartfelt Service Co., Ltd. Obtained Certification of Outstanding Organization for Employment of People with Disabilities

Kawasaki Heartfelt Service Co., Ltd., a special subsidiary of the Company established in September 2013, obtained the Certification of Outstanding Organization for Employment of People with Disabilities on March 29, 2018. The company was the ninth in Japan to receive the certification. It recognizes that the company takes advanced approaches to provide a workplace environment that supports retention of people with disabilities; promotes active and continuous hiring of people with disabilities; and is both a reliable and prosocial enterprise that promotes active participation by people with disabilities.

The certification's administration is entrusted by the Ministry of Health, Labour and Welfare to the Japan Association of Employers of Persons with Severe Disabilities. The certification is granted to companies that take outstanding initiatives for promoting active participation of people with disabilities, including implementing employment management and reviewing employment patterns by taking into consideration the individual characteristics of disabilities. The company will continue providing a work environment where people with disabilities can work with job satisfaction and promoting business activities they can actively participate in.

People at work
Title: "Concentration" (Minister of Health, Labour and Welfare Award-winning Work [Photo Section])
Original photo for the campaign poster for people with disabilities employment promotion month for fiscal 2017
(Both the model and photographer are employees of Kawasaki Heartfelt Service Co., Ltd.)

Collaboration with Business Partners

Basic Policies for Material Procurement
The Kawasaki Group conducts procurement activities based on the following Basic Policies for Material Procurement.

Fair and Impartial Procurement We will provide broad and impartial opportunities for our business partners, and will make selections with integrity and good faith after conducting comprehensive and fair evaluations of quality, price, delivery schedule, technological development capabilities, and other such factors.

Relationships with Business Partners We seek to realize optimal quality, cost, and delivery schedule together with stable procurement by taking a long-term perspective to build relationships of trust with business partners with the aim of mutual enhancement of competitiveness and prosperity.

Compliance We will observe related statutes and regulations as well as social norms. We will place information gained through procurement under appropriate controls, and will take thoroughgoing measures to protect confidential information and prevent leaks.

Consideration for Human Rights, Labor and Occupational Safety and Health We will advance procurement activities that have consideration for human rights, the work environment and occupational safety and health.

Harmony with the Global Environment Through Green Procurement We will advance procurement that has consideration for the global environment with respect to the materials used in products.

In addition, the Basic Policies for Material Procurement as well as the Code of Conduct for Dealing with Business Partners and the Policy Regarding Procurement of Conflict Minerals, which are in line with the objectives of the Basic Policies, are disclosed on our website. The site informs business partners of our basic stance toward material procurement.

Basic Stance toward CSR Procurement
While conducting the Group's business activities, it is essential to conduct procurement activities in line with our stance toward CSR that includes consideration for human rights, labor issues, occupational safety and health, and the global environment, in addition to compliance.

Accordingly, we have to gain the cooperation of our business partners, in addition to the Group, and actively promote CSR activities throughout the supply chain.

CSR Procurement Initiatives
We have released the CSR Procurement Guidelines (originally published in 2012 and revised in 2018) on the website, where we describe our basic stance toward CSR procurement and our requests to our business partners. Additionally, we conducted a questionnaire-based survey with domestic business partners in fiscal 2017. About 1,400 business partners responded.

From fiscal 2019, we are going to have opportunities to explain our stance on CSR directly to our business partners and ask them to strengthen CSR efforts.

In addition, we pursue CSR procurement on a global and Group-wide basis by disclosing our policies, which conform to each business, through the websites of the Group's domestic and overseas companies.

The Group will continuously promote CSR efforts throughout its entire supply chain with our business partners.

Human Rights Initiatives

Respect for Human Rights and Policy on Prohibition of Discrimination
The Kawasaki Group is committed to respecting the human rights of all people, as stated in the Kawasaki Heavy Industries Group Business Conduct Guideline. We request our employees not to be complicit in not only any infringement of human rights in which companies are directly involved, but also those in which the Group is indirectly involved.

Initiatives for Human Rights and Labor
We have confirmed that no company under the Group umbrella is involved in child labor or forced labor. We have declared that none of the Group companies will ever employ such practices, with the signatures of the presidents of all Group companies, including those overseas, in the Declaration of the Abolition of Forced Labor and Child Labor. All Group companies, including those overseas, also prepared CSR Procurement Guidelines, which cover respect for human rights, and request business partners to have respect for human rights as well.

Recognizing that human rights constitute the Group's materiality (material issues), we plan to exercise due diligence in line with the United Nations Guiding Principles on Business and Human Rights from fiscal 2019 to further pursue human-rights initiatives.

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

The Kawasaki Group implements social contribution activities in various fields based on the Group Mission, "Kawasaki, working as one for the good of the planet." The emphasis is put on making contributions to local communities, nurturing the next generation, and environmental conservation. The Group takes advantage of its strengths and the capabilities of each of its employees for the activities.

Please refer to our website for details.

Nurturing Next Generation × Support for Recovery

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

Tohoku/Kobe Summer Rainbow Program
In cooperation with the Ashinaga charity, we invited children orphaned by the Great East Japan Earthquake to Kobe and implemented a program to make summer memories, in collaboration with local companies.

Local Communities × Nurturing Next Generation

Kawasaki Good Times World, a Corporate Museum
The goal of this museum is to allow many people to experience the "wonders of technology" and the "importance of craftsmanship," while they enjoy learning and playing.

Local Communities ×Philanthropy

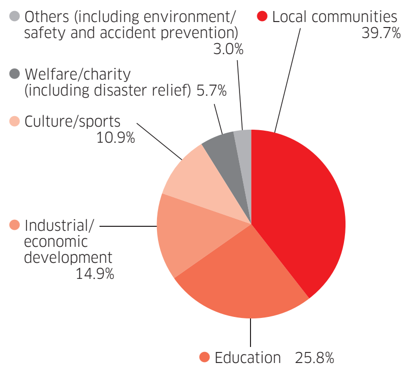
Kawasaki Good Times Foundation
We operate a social contribution fund in the United States and make various donations to institutes for the arts and culture, such as the Metropolitan Museum of Art in New York, as well as charitable works.

Expenditure on Social Contribution

(Millions of yen)

		FY2016	FY2017	FY2018
Category	Local communities	258	300	**266**
	Education	126	136	**173**
	Industrial/economic development	64	95	**100**
	Culture/sports	121	121	**73**
	Welfare/charity (including disaster relief)	20	22	**38**
	Others (including environment/ safety and accident prevention)	16	23	**20**
	Total	605	697	**670**
Recurring profit for the fiscal year		93,229	36,671	**43,225**
Expenditure as a proportion of recurring profit		0.65%	1.90%	**1.55%**

FY2018 composition ratio



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

Eleven-year Summary

Billions of yen

	(FY)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Operating results	Net sales	¥1,501.0	¥1,338.5	¥1,173.4	¥1,226.9	¥1,303.7	¥1,288.8	¥1,385.4	¥1,486.1	¥1,541.0	¥1,518.8	**¥1,574.2**
	Aerospace*1	237.3	200.4	188.8	196.8	206.5	239.1	280.7	325.0	351.8	329.9	**330.2**
	Gas Turbine & Machinery*1	185.4	195.1	191.3	202.6	194.6	207.0	189.2	218.7	236.4	241.9	**266.4**
	Plant & Infrastructure*1	142.5	105.1	107.5	89.0	122.8	115.8	103.8	121.1	135.6	160.8	**124.4**
	Precision Machinery*2	84.0	84.9	82.7	140.3	175.0	130.4	123.2	135.7	133.1	155.2	**198.9**
	Ship & Offshore Structure	141.3	126.4	151.8	118.4	113.5	90.3	80.8	90.3	94.8	103.2	**95.6**
	Rolling Stock*3	171.7	186.4	150.0	131.1	132.6	129.9	147.9	121.5	146.6	137.1	**141.7**
	Motorcycle & Engine*2	433.9	336.4	203.0	234.4	235.2	251.8	322.2	329.2	333.5	313.0	**331.6**
	Other*3	104.5	103.5	97.8	114.0	123.2	124.2	137.2	144.2	108.8	77.4	**85.0**
	Operating income [operating income margin]	76.9 [5.1%]	28.7 [2.1%]	(1.3) [–]	42.6 [3.4%]	57.4 [4.4%]	42.0 [3.2%]	72.3 [5.2%]	87.2 [5.8%]	95.9 [6.2%]	45.9 [3.0%]	**55.9 [3.5%]**
	Aerospace*1	10.8 [4.5%]	(4.1) [–]	3.7 [1.9%]	3.0 [1.5%]	7.8 [3.7%]	14.8 [6.1%]	26.2 [9.3%]	36.3 [11.1%]	45.6 [12.9%]	25.0 [7.5%]	**20.9 [6.3%]**
	Gas Turbine & Machinery*1	13.3 [7.2%]	11.0 [5.6%]	8.9 [4.6%]	9.5 [4.7%]	7.7 [3.9%]	7.0 [3.3%]	10.4 [5.5%]	11.2 [5.1%]	16.9 [7.1%]	15.2 [6.3%]	**14.7 [5.5%]**
	Plant & Infrastructure*1	10.8 [7.6%]	8.9 [8.5%]	7.9 [7.3%]	8.2 [9.3%]	14.1 [11.4%]	9.7 [8.4%]	6.3 [6.0%]	6.5 [5.4%]	8.5 [6.2%]	2.6 [1.6%]	**2.9 [2.3%]**
	Precision Machinery*2	9.1 [10.8%]	8.3 [9.8%]	3.4 [4.1%]	22.3 [15.9%]	26.6 [15.2%]	8.4 [6.4%]	10.4 [8.4%]	10.9 [8.0%]	8.5 [6.4%]	13.1 [8.4%]	**21.6 [10.8%]**
	Ship & Offshore Structure	3.2 [2.3%]	(1.0) [–]	1.5 [1.0%]	(1.0) [–]	3.9 [3.4%]	4.1 [4.6%]	(2.0) [–]	2.6 [2.9%]	(7.9) [–]	(21.4) [–]	**(3.8) [–]**
	Rolling Stock*3	7.1 [4.1%]	11.3 [6.0%]	8.7 [5.8%]	8.1 [6.2%]	5.1 [3.8%]	2.2 [1.7%]	7.5 [5.1%]	6.0 [4.9%]	9.2 [6.3%]	3.4 [2.5%]	**(12.4) [–]**
	Motorcycle & Engine*2	19.6 [4.5%]	(10.1) [–]	(27.0) [–]	(4.9) [–]	(2.9) [–]	2.3 [0.9%]	16.1 [4.9%]	14.9 [4.5%]	15.7 [4.7%]	11.7 [3.7%]	**15.2 [4.5%]**
	Other*3	2.3 [2.2%]	4.2 [4.1%]	(1.0) [–]	2.5 [2.2%]	3.8 [3.1%]	1.2 [1.0%]	4.4 [3.2%]	3.9 [2.7%]	2.8 [2.6%]	3.1 [4.0%]	**2.9 [3.4%]**
	Recurring profit	63.9	38.7	14.2	49.1	63.6	39.3	60.6	84.2	93.2	36.6	**43.2**
	EBIT*4	66.0	30.2	1.5	43.2	52.9	50.3	65.3	88.0	78.4	41.7	**35.7**
	Income before income taxes	58.0	23.6	(3.8)	38.5	48.7	46.1	61.3	84.2	74.8	38.8	**32.9**
	Profit attributable to owners of the parent	35.1	11.7	(10.8)	25.9	23.3	30.8	38.6	51.6	46.0	26.2	**28.9**
	Research and development expenses	36.2	38.2	38.0	37.0	39.9	41.7	40.3	41.6	43.6	43.6	**45.4**
	Capital expenditures	50.5	82.4	59.2	55.3	63.9	78.6	87.7	80.0	76.3	82.7	**82.1**
	Depreciation and amortization	37.4	44.3	51.4	50.2	48.9	48.3	37.8	44.5	49.0	51.5	**56.1**
Financial position (at year-end)	Total assets	1,378.7	1,399.7	1,352.4	1,354.2	1,362.1	1,466.2	1,554.4	1,662.2	1,620.4	1,687.3	**1,785.0**
	Interest-bearing debt	276.4	389.2	428.9	429.1	407.1	484.6	444.6	414.3	398.4	400.6	**446.6**
	Net assets	319.0	295.2	283.0	297.4	315.9	349.8	376.6	447.9	445.6	451.3	**481.3**
	Invested capital*5	589.6	679.7	705.9	718.2	713.2	822.8	807.6	846.3	829.7	837.9	**912.7**
Cash flows	Cash flows from operating activities	75.7	(41.2)	30.1	81.9	84.7	28.1	151.7	127.6	86.0	93.5	**56.0**
	Cash flows from investing activities	(49.0)	(72.2)	(63.2)	(52.9)	(65.9)	(81.1)	(77.5)	(67.3)	(74.1)	(64.8)	**(80.5)**
	Free cash flows	26.6	(113.5)	(33.0)	28.9	18.7	(53.0)	74.1	60.2	11.8	28.6	**(24.5)**
	Cash flows from financing activities	(27.3)	107.6	35.9	(18.8)	(26.8)	57.6	(62.5)	(57.1)	(23.4)	(15.8)	**37.7**
Key performance indicators	Before-tax ROIC (Return on invested capital)*6	11.2%	4.5%	0.2%	6.0%	7.4%	6.1%	8.1%	10.4%	9.4%	5.0%	**3.9%**
	Return on equity (ROE)	11.6%	3.8%	–	9.1%	7.8%	9.5%	11.0%	12.9%	10.6%	6.0%	**6.4%**
	Net D/E ratio	75.5%	123.0%	142.2%	132.1%	121.8%	131.9%	109.3%	83.9%	82.5%	78.9%	**80.6%**
	Net income per share*7	¥210.8	¥70.2	¥(65.1)	¥155.5	¥139.5	¥184.6	¥230.9	¥308.9	¥275.6	¥156.8	**¥173.0**
	Net assets per share*7	¥1,877.3	¥1,741.0	¥1,661.3	¥1,730.3	¥1,830.6	¥2,023.2	¥2,171.6	¥2,585.8	¥2,582.1	¥2,617.3	**¥2,789.9**
	Dividends per share*7	¥50.0	¥30.0	¥30.0	¥30.0	¥50.0	¥50.0	¥60.0	¥100.0	¥120.0	¥60.0	**¥60.0**
	Dividend payout ratio	23.7%	42.6%	–	19.3%	35.8%	27.0%	25.9%	32.3%	43.5%	38.2%	**34.6%**
	Number of employees (at year end)	30,563	32,266	32,297	32,706	33,267	34,010	34,620	35,471	34,605	35,127	**35,805**

**1 In fiscal 2019, reportable segments were reorganized: the Aerospace segment and the jet engine business of the Gas Turbine & Machinery segment became the Aerospace Systems segment, and the Plant & Infrastructure segment and the energy and marine-related businesses of the Gas Turbine & Machinery segment became the Energy System & Plant Engineering segment.*
The actual figures for fiscal 2018, which were reclassified according to the reorganized reportable segments, are as follows:
- *The Aerospace Systems segment: net sales ¥469.5 billion, operating income (operating income margin) ¥30.8 billion (6.5%)*
- *The Energy System & Plant Engineering segment: net sales ¥251.6 billion, operating income (operating income margin) ¥7.6 billion (3.0%)*

**2 Before fiscal 2009, the Motorcycle & Engine segment was the Consumer Products & Machinery segment and the Precision Machinery segment was the Hydraulic Machinery segment. The robot-related business was included in the Consumer Products & Machinery segment before fiscal 2009, but after fiscal 2010, it was included in the Precision Machinery segment, and from fiscal 2019, the segment name was changed to Precision Machinery & Robot segment.*

**3 The construction machinery business was included in the Rolling Stock segment before fiscal 2009, and it was included in the Other segment after fiscal 2010. However, this business was sold in fiscal 2016.*
**4 EBIT = Income before income taxes + interest expense*
**5 Invested capital = Interest-bearing debt + shareholders' equity*
**6 Before-tax ROIC = EBIT / Invested capital at year-end*
**7 Effective as of October 1, 2017, a one-for-10 share consolidation was implemented for ordinary shares. Before fiscal 2017, the figures shown are the figures after the share consolidation was implemented.*

Overview

In the fiscal year ended March 31, 2018, the global economy was relatively lacking in vigor overall due to the economic slowdown in emerging countries and resource-rich countries, along with other factors, despite the ongoing modest growth centered in the U.S., where the real economy remains strong, and in China, where foreign and domestic demand was robust. In addition, uncertainty about future prospects for the real economy persists, including influence on corporate activities due to Brexit, concerns about trade friction due to an expansion of protectionist policies in the U.S., and other factors. Going forward, these risks with the potential to drag down the global economy must continue to be watched.

The Japanese economy has been recovering modestly, due to the modest increase in capital investment, the improvement in corporate earnings, and other factors. Going forward, the economy is expected to grow modestly overall, but there is a possibility that economic policies enacted by countries around the world, especially the U.S., and geopolitical risks on the Korean Peninsula and in other regions, could result in rapid and significant fluctuations in foreign exchange rates. As a result, foreign exchange rates must continue to be watched carefully.

Amid such an operating environment, the Group's orders received in the fiscal year ended March 31, 2018, increased versus the previous fiscal year, mainly in the Aerospace, Rolling Stock and Precision Machinery segment. Net sales increased overall, due to increases in the Precision Machinery, Gas Turbine & Machinery, and Motorcycle & Engine segments, despite a decline in the Plant & Infrastructure segment. Operating income and recurring profit both increased, due to higher profit in the Precision Machinery segment, improvement in the Ship & Offshore Structure segment, and other factors, despite the deterioration in the Rolling Stock segment in conjunction with worsening profitability on passenger railcars for the U.S. and other factors, including decreased profit in the Aerospace segment. Net income attributable to owners of parent increased as a result of extraordinary income (gain on sale of fixed assets), reduced tax expenses due to the recognition of deferred tax assets related to losses in a shipbuilding joint venture project in Brazil, and other factors, despite the posting of extraordinary loss in conjunction with the termination of a shipbuilding contract for an offshore service vessel.

As a result, the Group's consolidated orders received increased ¥259.3 billion from the previous fiscal year to ¥1,608.0 billion, consolidated net sales increased ¥55.4 billion year on year to ¥1,574.2 billion, consolidated operating income increased ¥9.9 billion year on year to ¥55.9 billion, consolidated recurring profit rose by ¥6.5 billion year on year to ¥43.2 billion, and net income attributable to owners of parent increased ¥2.7 billion year on year to ¥28.9 billion. ROIC* was 3.9%, while ROE was 6.4%.

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

Results of Operations

Net Sales

As noted, consolidated net sales increased by ¥55.4 billion from the previous fiscal year to ¥1,574.2 billion. Overseas sales totaled ¥905.8 billion. By region, sales in the United States were ¥381.1 billion, sales in Europe accounted for ¥172.2 billion, sales in Asia outside Japan contributed ¥237.2 billion, and sales in other areas added ¥115.2 billion. The ratio of overseas sales to consolidated net sales increased by 0.2 percentage points to 57.5%, compared to 57.3% 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

With respect to the business environment surrounding the Ship & Offshore Structure segment, while new-build vessel prices are recovering after bottoming out and demand for gas-fueled vessels has been increasing in conjunction with the tightening of environmental regulations, competition remains intense due to factors including the pushing back of demand for LNG carriers due to a delay in LNG development projects and the continuation of policies by the Chinese and South Korean governments to support their domestic shipbuilding industries.

Amid such an operating environment, consolidated orders received were ¥4.7 billion, a ¥32.2 billion year on year decline from the previous fiscal year when orders for submarines were received, due to the termination of a shipbuilding contract for an offshore service vessel, despite receiving orders for LPG carriers and Kawasaki JETFOIL during the period.

Consolidated net sales fell ¥7.5 billion year on year to ¥95.6 billion, due to a decline in the volume of construction work related to submarines and other factors.

Consolidated operating loss was ¥3.8 billion, a ¥17.6 billion improvement from the previous fiscal year, when additional allowance for doubtful receivables was posted and there was an increase in provision for losses on construction contracts.

Rolling Stock

With respect to the business environment surrounding the Rolling Stock segment, there continues to be stable demand in Japan for the replacement of aging railcars. In North America, while there have been some changes to railcar order plans in the New York area, which is the core market, demand for new and replacement railcars have been increasing. Meanwhile, in Asia, demand in emerging markets is increasing in tandem with the Japanese government's efforts to promote infrastructure-related exports.

Amid such an operating environment, consolidated orders received rose by ¥98.5 billion from the previous fiscal year, when rolling stock for a domestic subway and other orders were received, to ¥257.1 billion, due to receiving large-scale orders, such as for new generation subway cars for New York City Transit and for rolling stock for a high-speed railway (MRT) in Bangladesh.

Consolidated net sales increased ¥4.6 billion year on year to ¥141.7 billion due to the increase of sales in the domestic market, despite a decline of overseas sales such as in North America, Asia and other countries.

Operating income declined ¥15.9 billion year on year to an operating loss of ¥12.4 billion due to a provision for losses on construction contracts for passenger railcars for the Long Island Railroad in the U.S., expenses for replacing the N700 series Shinkansen bogie frame and other factors.

Aerospace

Concerning the business environment surrounding the Aerospace segment, there is a certain level of demand from the Ministry of Defense in Japan despite the tight defense budget, while demand for new and replacement commercial aircraft is increasing in conjunction with a rise in the number of air passengers.

Amid such an operating environment, consolidated orders received increased ¥137.3 billion year on year to ¥374.4 billion due to the remaining high level of demand for component parts for commercial aircraft and an increase in demand from the Ministry of Defense.

Consolidated net sales increased ¥0.2 billion year on year to ¥330.2 billion, due to the increase in sales to the Ministry of Defense and other factors, despite a decline in sales of component parts for commercial aircraft.

Consolidated operating income fell ¥4.1 billion year on year to ¥20.9 billion due to the decline in profitability of component parts for commercial aircraft and other factors.

Gas Turbine & Machinery

Concerning the business environment surrounding the Gas Turbine & Machinery segment, in the aircraft field, demand for aircraft engines is increasing due to growth in demand for commercial aircraft based on the increase in the number of air passengers. In the energy and environmental field, although there is large potential demand for distributed power sources in Japan, investment plans are slightly delayed in connection with the liberalization of electricity. Meanwhile, overseas, demand for distributed power sources is increasing due to stronger interest in investment in the environment and energy conservation among other factors.

Amid such an operating environment, consolidated orders received declined ¥12.2 billion year on year to ¥248.1 billion due to a decline in gas engine power plants for the domestic market and other factors.

Consolidated net sales increased ¥24.5 billion year on year to ¥266.4 billion due to the increase in component parts of aircraft engines and other factors.

Operating income was ¥14.7 billion, a ¥0.5 billion decrease from the previous fiscal year due to a decrease in highly profitable orders in the energy segment, despite an increase in sales.

Plant & Infrastructure

In the business environment surrounding the Plant & Infrastructure segment, in addition to the recovery in resource development and oil and natural gas related investment overseas arising from the rise in crude oil prices, there is still a demand for energy infrastructure maintenance in Asia. In Japan, there is ongoing demand for the replacement of aging facilities of refuse incineration plants and industrial machinery.

Amid such an operating environment, consolidated orders received increased ¥5.0 billion year on year to ¥100.1 billion due to the increase in refuse incineration plants and operations, despite overseas orders decreasing.

Consolidated net sales fell ¥36.4 billion year on year to ¥124.4 billion due to the decline in the volume of construction work on a chemical plant for an overseas market and other factors.

Despite the drop in sales, operating income was ¥2.9 billion, a ¥0.3 billion increase from the previous year when there was an increase in provision for loss on construction contracts.

Motorcycle & Engine

Regarding the business environment surrounding the Motorcycle & Engine segment, the modest growth in motorcycle markets in developed countries continues, and the decline in demand for motorcycles in emerging countries is signaling a bottoming out. With respect to utility vehicles, the market continues to grow stably mainly in North America, and the general-purpose engine market is also growing steadily.

Amid such an operating environment, consolidated net sales increased ¥18.6 billion year on year to ¥331.6 billion due to the increase in motorcycles and vehicles for developed countries and general-purpose engines, despite the decline in motorcycles for emerging markets.

Consolidated operating income increased ¥3.5 billion year on year to ¥15.2 billion due to the increase in sales.

Precision Machinery

With respect to the business environment surrounding the Precision Machinery segment, the construction machinery market is brisk, centered on robust demand for heavy-duty excavators in China, and our construction machinery manufacturers, which are our customers, are competing to increase production. As for robots, in addition to increased demand in the automotive and semiconductor fields, demand is growing due to the expanded use of industrial robots caused by a shortage of workers.

Amid such an operating environment, consolidated orders received increased ¥40.2 billion year on year to ¥207.1 billion due to the increase in hydraulic components for construction machinery and various industrial robots.

Consolidated net sales increased ¥43.7 billion year on year to ¥198.9 billion due to an increase in sales of hydraulic components for construction machinery and various industrial robots.

Consolidated operating income increased ¥8.5 billion year on year to ¥21.6 billion due to the increase in sales.

Other

Consolidated net sales increased ¥7.6 billion year on year to ¥85.0 billion.

Consolidated net operating income decreased ¥0.2 billion year on year to ¥2.9 billion.

Cost, Expenses, and Earnings

Cost of sales increased by ¥40.8 billion from the previous fiscal year to ¥1,319.7 billion. As a result, gross profit increased by ¥14.6 billion to ¥254.5 billion and the gross profit margin increased by 0.3 percentage points to 16.1% from 15.8% in the previous fiscal year.

Selling, general and administrative expenses grew ¥4.6 billion to ¥198.6 billion, primarily because of higher salaries and benefits and R&D expenses.

Operating income, as noted, increased by ¥9.9 billion to ¥55.9 billion. The ratio of operating income to net sales increased by 0.5 percentage points to 3.5%, from 3.0% in the previous fiscal year.

Other expenses, net deteriorated to ¥22.9 billion from ¥7.0 billion in the previous fiscal year due to factors that included the posting of extraordinary loss with the termination of a shipbuilding contract for an offshore service vessel.

As a result, after deduction of profit attributable to non-controlling interests, profit attributable to owners of parent increased by ¥2.7 billion from the previous fiscal year to ¥28.9 billion. The ratio of profit attributable to owners of parent to net sales increased by 0.1 percentage points to 1.8% from 1.7% in the previous fiscal year. ROE (calculated using average total shareholders' equity) increased by 0.4 percentage points to 6.4% from 6.0% in the previous year.

Capital expenditures came to ¥82.1 billion, down from ¥82.7 billion in the previous fiscal year. R&D expenses were ¥45.4 billion, up from ¥43.6 billion in the previous fiscal year.

Financial Conditions

Total assets at March 31, 2018 were ¥1,785.0 billion, a ¥97.6 billion increase from March 31, 2017. Current assets increased ¥70.4 billion year on year to ¥1,148.3 billion, due to an increase in trade receivables. Fixed assets increased ¥27.1 billion year on year to ¥636.7 billion, primarily due to an increase in holdings of property, plant and equipment because of capital investment.

Consolidated liabilities increased ¥67.6 billion year on year to ¥1,303.6 billion at March 31, 2018, due to an increase in interest-bearing liabilities such as long-term debt and other factors. Interest-bearing liabilities increased ¥45.9 billion year on year to ¥446.6 billion.

Consolidated net assets increased ¥30.0 billion year on year to ¥481.3 billion, as the increase due to the posting of net income attributable to owners of parent was partly offset by dividend payments and other factors.

The ratio of shareholders' equity to total assets increased by 0.2 percentage points to 26.1% from 25.9% at the end of the previous fiscal year. In addition, the net debt-to-equity ratio deteriorated 1.7 percentage points from 78.9% to 80.6% as of March 31, 2018.

Cash Flows

Operating activities provided net cash of ¥56.0 billion, a ¥37.4 billion decrease from the previous fiscal year. Major sources of operating cash flow included income before income taxes of ¥32.9 billion and depreciation and amortization of ¥56.1 billion. Major uses of operating cash flow included expenditure of ¥35.5 billion due to an increase in trade receivables and expenditures of ¥26.4 billion due to an increase in inventories.

Investing activities used net cash of ¥80.5 billion, which is ¥15.7 billion more than in the previous fiscal year, due mainly to requisition of property, plant and equipment, as well as intangible assets.

Free cash flow, which is the net amount of cash from operating and investing activities, showed a net outflow of ¥24.5 billion, against a net inflow of ¥28.6 billion in the previous fiscal year.

Financing activities provided net cash of ¥37.7 billion, which is ¥53.6 billion more than in the previous fiscal year when ¥15.8 billion was used. This was due mainly to an increase in proceeds due to a net increase in short-term debt and the increase in proceeds from long-term debt.

Given these changes in cash flows, cash and cash equivalents at end of year settled at ¥64.3 billion, up ¥13.6 billion from the beginning of the year.

Management of Liquidity Risk

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

Management Indicators

As target management indicators, the Company has adopted Earnings (Operating income, Recurring profit, Profit attributable to owners of parent) and Return on Invested Capital [ROIC = EBIT (Income before income taxes + Interest expense) / Invested Capital (Interest-bearing debt + Shareholders' equity)] as indicators for measuring capital efficiency.

The Company's group-wide businesses are segmented and subdivided into Business Units (hereinafter referred to as "BUs"), and ROIC management is applied to each and every BU. Those BUs not clearing the ROIC hurdle rate (minimum required level) are required to take practical actions for clearing the hurdle rate early. On the other hand, those BUs already clearing the ROIC hurdle rate are encouraged to achieve the ROIC level for the top market leader and, while taking initiatives to enhance Economic Value Added (EVA), improve the enterprise value of the entire group.

With the improvement of these management indicators, the Company also seeks to improve its Return on Equity (ROE = Profit attributable to owners of parent / Shareholders' equity).

Dividends

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

In order to maintain a good balance between enhancing shareholder value and returning profits to shareholders through dividends, the Company has set a medium- to long-term consolidated payout ratio standard of 30% corresponding to the consolidated profit attributable to owners of parent and in light of both the outlook for future earnings and a comprehensive examination of its financial condition, including its free cash flow, 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, while year-end dividends are authorized at the general meetings of shareholders.

Consolidated Balance Sheets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
At March 31, 2018 and 2017

Assets

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Current assets:			
Cash on hand and in banks (Note 19)	¥ 70,632	¥ 55,388	$ 664,646
Receivables:			
Trade	470,110	444,633	4,423,732
Other	16,346	18,936	153,815
Allowance for doubtful receivables	(2,247)	(2,593)	(21,144)
	484,209	460,976	4,556,403
Inventories (Notes 5 and 9)	504,739	484,862	4,749,590
Deferred tax assets (Note 18)	32,546	26,566	306,257
Other current assets	56,196	50,043	528,806
Total current assets	1,148,322	1,077,835	10,805,702
Property, plant and equipment (Note 8):			
Land	62,694	64,743	589,950
Buildings and structures	431,466	420,590	4,060,092
Machinery, equipment and others	763,775	735,854	7,187,118
Construction in progress	25,724	21,133	242,062
	1,283,659	1,242,320	12,079,222
Accumulated depreciation	(803,861)	(780,438)	(7,564,325)
Net property, plant and equipment	479,798	461,882	4,514,897
Investments and intangible and other assets:			
Investments in securities (Notes 6, 7 and 8)	93,114	85,289	876,202
Deferred tax assets (Note 18)	37,086	36,499	348,979
Intangible assets	16,178	15,284	152,234
Allowance for doubtful receivables	(3,685)	(14,727)	(34,675)
Net defined benefit asset (Note 10)	88	86	828
Other (Note 8)	14,127	25,215	132,934
Total investments and intangible and other assets	156,908	147,646	1,476,502
Total assets	¥1,785,028	¥1,687,363	$16,797,101

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

Liabilities and Net Assets

	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Current liabilities:			
Short-term debt and current portion of long-term debt (Note 8)	¥ 129,261	¥ 121,648	$ 1,216,345
Trade payables (Note 8)	245,398	240,572	2,309,193
Electronically recorded obligations	117,772	101,449	1,108,233
Advances from customers	194,306	205,871	1,828,418
Income taxes payable (Note 18)	6,042	4,295	56,855
Accrued bonuses	19,903	20,288	187,287
Provision for product warranties	13,000	12,175	122,329
Provision for losses on construction contracts (Note 9)	18,258	18,103	171,807
Deferred tax liabilities (Note 18)	244	22	2,296
Other current liabilities	125,459	119,019	1,180,572
Total current liabilities	869,643	843,442	8,183,335
Long-term liabilities:			
Long-term debt, less current portion (Note 8)	317,382	279,043	2,986,562
Liability for retirement benefits (Note 10)	86,836	81,563	817,126
Deferred tax liabilities (Note 18)	8,942	8,476	84,144
Other	20,839	23,512	196,095
Total long-term liabilities	433,999	392,594	4,083,927
Contingent liabilities (Note 11)			
Net assets (Note 12):			
Shareholders' equity:			
Common stock:			
Authorized–336,000,000 shares			
Issued–167,080,532 shares in 2018			
–167,080,532 shares in 2017	104,484	104,484	983,193
Capital surplus	54,574	54,393	513,541
Retained earnings	308,011	287,448	2,898,382
Treasury stock–33,049 shares in 2018			
–25,910 shares in 2017	(124)	(95)	(1,166)
Total shareholders' equity	466,945	446,230	4,393,950
Accumulated other comprehensive income:			
Net unrealized gains on securities, net of tax	3,527	3,232	33,190
Deferred gains (losses) on hedges	403	(1,182)	3,792
Foreign currency translation adjustments	719	(341)	6,765
Accumulated adjustments for retirement benefits	(5,532)	(10,692)	(52,056)
Total accumulated other comprehensive income	(883)	(8,983)	(8,309)
Non-controlling interests	15,324	14,080	144,198
Total net assets	481,386	451,327	4,529,839
Total liabilities and net assets	¥1,785,028	¥1,687,363	$16,797,101

Consolidated Statements of Income and Comprehensive Income

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2018, 2017 and 2016

Consolidated Statements of Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	**2018**
Net sales	**¥ 1,574,242**	¥ 1,518,830	¥ 1,541,096	**$ 14,813,606**
Cost of sales (Note 13)	**(1,319,715)**	(1,278,907)	(1,253,691)	**(12,418,509)**
Gross profit	**254,527**	239,923	287,405	**2,395,097**
Selling, general and administrative expenses (Note 14)	**(198,602)**	(193,963)	(191,409)	**(1,868,844)**
Operating income	**55,925**	45,960	95,996	**526,253**
Other income (expenses):				
Interest and dividend income	**1,011**	1,100	1,164	**9,513**
Equity in income of nonconsolidated subsidiaries and affiliates	**4,492**	5,537	2,876	**42,269**
Interest expense	**(2,794)**	(2,859)	(3,637)	**(26,291)**
Other expenses, net (Note 15)	**(25,635)**	(10,865)	(21,567)	**(241,224)**
Income before income taxes	**32,999**	38,873	74,832	**310,520**
Income taxes (Note 18)				
Current	**(11,634)**	(7,471)	(20,154)	**(109,475)**
Deferred	**9,982**	(3,477)	(7,000)	**93,930**
Net income	**31,347**	27,925	47,678	**294,975**
Profit attributable to non-controlling interests	**2,432**	1,721	1,635	**22,886**
Profit attributable to owners of parent	**¥ 28,915**	¥ 26,204	¥ 46,043	**$ 272,089**

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

Consolidated Statements of Comprehensive Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	**2018**
Net income	**¥31,347**	¥27,925	¥ 47,678	**$294,975**
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities	**338**	559	(910)	**3,180**
Deferred gains (losses) on hedges	**1,616**	(1,844)	2,649	**15,206**
Foreign currency translation adjustments	**(1,085)**	(3,742)	(11,763)	**(10,209)**
Remeasurements of defined benefit plans	**5,171**	8,777	(12,155)	**48,659**
Share of other comprehensive income of associates accounted for using equity method	**2,296**	(6,340)	(5,269)	**21,605**
Total other comprehensive income (loss) (Note 16)	**8,336**	(2,590)	(27,448)	**78,441**
Comprehensive income	**39,683**	25,335	20,230	**373,416**
Comprehensive income attributable to:				
Owners of the parent company	**37,015**	24,273	19,412	**348,311**
Non-controlling interests	**¥ 2,668**	¥ 1,062	¥ 818	**$ 25,105**

	Yen			U.S. dollars (Note 1)
Per share amounts (Notes 17 and 20)				
Net income per share - basic	**¥173.1**	¥156.9	¥275.6	**$1.63**
Cash dividends	**5.0**	11.0	12.0	**0.05**

Consolidated Statements of Changes in Net Assets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2018, 2017 and 2016

Millions of yen

		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities, net of tax	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at March 31, 2015	167,080	¥104,484	¥54,393	¥253,606	¥ (67)	¥412,416	¥3,704	¥(1,985)	¥ 25,179	¥ (7,318)	¥ 19,580	¥15,961	¥447,957
Net income for the year	–	–	–	46,043	–	46,043	–	–	–	–	–	–	46,043
Treasury stock purchased, net	–	–	–	–	(21)	(21)	–	–	–	–	–	–	(21)
Cash dividends	–	–	–	(20,047)	–	(20,047)	–	–	–	–	–	–	(20,047)
Loss on sales of treasury stock	–	–	1	–	2	3	–	–	–	–	–	–	3
Increase (decrease) due to changes in fiscal period of consolidated subsidiary	–	–	–	25	–	25	–	–	–	–	–	–	25
Other	–	–	–	–	–	–	(999)	2,678	(16,189)	(12,121)	(26,631)	(1,704)	(28,335)
Balance at March 31, 2016	167,080	¥104,484	¥54,394	¥279,627	¥ (86)	¥438,419	¥2,705	¥ 693	¥ 8,990	¥(19,439)	¥ (7,051)	¥14,257	¥445,625
Net income for the year	–	–	–	26,204	–	26,204	–	–	–	–	–	–	26,204
Treasury stock purchased, net	–	–	–	–	(10)	(10)	–	–	–	–	–	–	(10)
Cash dividends	–	–	–	(18,376)	–	(18,376)	–	–	–	–	–	–	(18,376)
Loss on sales of treasury stock	–	–	(1)	–	1	0	–	–	–	–	–	–	0
Change in the scope of consolidation	–	–	–	(7)	–	(7)	–	–	–	–	–	–	(7)
Other	–	–	–	–	–	–	527	(1,875)	(9,331)	8,747	(1,932)	(177)	(2,109)
Balance at March 31, 2017	167,080	¥104,484	¥54,393	¥287,448	¥ (95)	¥446,230	¥3,232	¥(1,182)	¥ (341)	¥(10,692)	¥ (8,983)	¥14,080	¥451,327
Net income for the year	**–**	**–**	**–**	**28,915**	**–**	**28,915**	**–**	**–**	**–**	**–**	**–**	**–**	**28,915**
Treasury stock purchased, net	**–**	**–**	**–**	**–**	**(29)**	**(29)**	**–**	**–**	**–**	**–**	**–**	**–**	**(29)**
Cash dividends	**–**	**–**	**–**	**(8,352)**	**–**	**(8,352)**	**–**	**–**	**–**	**–**	**–**	**–**	**(8,352)**
Loss on sales of treasury stock	**–**	**–**	**(0)**	**–**	**0**	**0**	**–**	**–**	**–**	**–**	**–**	**–**	**0**
Capital increase of consolidated subsidiaries	**–**	**–**	**181**	**–**	**–**	**181**	**–**	**–**	**–**	**–**	**–**	**–**	**181**
Other	**–**	**–**	**–**	**–**	**–**	**–**	**295**	**1,585**	**1,060**	**5,160**	**8,100**	**1,244**	**9,344**
Balance at March 31, 2018	**167,080**	**¥104,484**	**¥54,574**	**¥308,011**	**¥(124)**	**¥466,945**	**¥3,527**	**¥ 403**	**¥ 719**	**¥ (5,532)**	**¥ (883)**	**¥15,324**	**¥481,386**

Thousands of U.S. dollars

	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities, net of tax	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Non–controlling interests	Total net assets
Balance at March 31, 2017	$983,193	$511,837	$2,704,884	$ (893)	$4,199,021	$30,412	$(11,122)	$(3,208)	$(100,611)	$(84,529)	$132,492	$4,246,984
Net income for the year	**–**	**–**	**272,089**	**–**	**272,089**	**–**	**–**	**–**	**–**	**–**	**–**	**272,089**
Treasury stock purchased, net	**–**	**–**	**–**	**(273)**	**(273)**	**–**	**–**	**–**	**–**	**–**	**–**	**(273)**
Cash dividends	**–**	**–**	**(78,591)**	**–**	**(78,591)**	**–**	**–**	**–**	**–**	**–**	**–**	**(78,591)**
Loss on sales of treasury stock	**–**	**(0)**	**–**	**0**	**0**	**–**	**–**	**–**	**–**	**–**	**–**	**0**
Capital increase of consolidated subsidiaries	**–**	**1,704**	**–**	**–**	**1,704**	**–**	**–**	**–**	**–**	**–**	**–**	**1,704**
Other	**–**	**–**	**–**	**–**	**–**	**2,778**	**14,914**	**9,973**	**48,555**	**76,220**	**11,706**	**87,926**
Balance at March 31, 2018	**$983,193**	**$513,541**	**$2,898,382**	**$(1,166)**	**$4,393,950**	**$33,190**	**$ 3,792**	**$ 6,765**	**$ (52,056)**	**$ (8,309)**	**$144,198**	**$4,529,839**

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, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	**2018**
Cash flows from operating activities:				
Income before income taxes	**¥ 32,999**	¥ 38,873	¥ 74,832	**$ 310,520**
Adjustments to reconcile net income before income taxes and non-controlling interests to net cash provided by (used for) operating activities:				
Depreciation and amortization	**56,137**	51,564	49,004	**528,248**
Increase (decrease) in liability for retirement benefits	**13,324**	3,537	(3,043)	**125,378**
Increase (decrease) in accrued bonuses	**(387)**	(4,852)	(935)	**(3,641)**
Increase (decrease) in allowance for doubtful receivables	**1,093**	4,872	(857)	**10,285**
Increase (decrease) in provision for product warranties	**814**	(385)	1,590	**7,659**
Increase (decrease) in provision for losses on construction contracts	**11,029**	10,185	2,228	**103,782**
Loss (gain) on sales of property, plant, and equipment	**(2,606)**	(3,077)	(3,155)	**(24,522)**
Equity in income of non-consolidated subsidiaries and affiliates	**(4,492)**	(5,537)	(2,876)	**(42,269)**
Interest and dividend income	**(1,011)**	(1,100)	(1,164)	**(9,513)**
Interest expense	**2,794**	2,859	3,637	**26,291**
Gain on transfer of business	**–**	–	(901)	**–**
Loss on overseas business	**–**	–	19,298	**–**
Losses from the termination of a shipbuilding contract for an offshore service vessel	**12,833**	–	–	**120,758**
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	**(35,516)**	(64,605)	(7,657)	**(334,205)**
Inventories	**(26,443)**	7,453	(19,719)	**(248,828)**
Advance payments	**6,103**	7,838	(5,860)	**57,429**
Other current assets	**(22,937)**	(1,272)	(2,670)	**(215,837)**
Increase (decrease) in:				
Trade payables	**21,569**	20,743	(5,441)	**202,964**
Advances from customers	**(10,092)**	35,565	7,433	**(94,965)**
Other current liabilities	**8,644**	1,468	5,003	**81,339**
Other, net	**(789)**	(557)	(444)	**(7,423)**
Subtotal	**63,066**	103,572	108,303	**593,450**
Cash received for interest and dividends	**4,166**	5,870	6,745	**39,202**
Cash paid for interest	**(2,795)**	(2,827)	(3,817)	**(26,300)**
Cash paid for income taxes	**(8,387)**	(13,101)	(25,172)	**(78,922)**
Net cash provided by operating activities	**¥ 56,050**	¥ 93,514	¥ 86,059	**$ 527,430**

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	**2018**
Cash flows from investing activities:				
Acquisition of property, plant and equipment and intangible assets	**¥(82,238)**	¥(69,341)	¥(79,463)	**$(773,859)**
Proceeds from sales of property, plant and equipment and intangible assets	**6,452**	4,810	1,202	**60,713**
Acquisition of investments in securities	**(512)**	(1,208)	(173)	**(4,817)**
Proceeds from sales of investments in securities	**342**	1,841	702	**3,218**
Acquisition of investments in subsidiaries and affiliates	**(3,408)**	(625)	(1,601)	**(32,069)**
Proceeds from sales of investments in subsidiaries and affiliates	**–**	966	–	**–**
Proceeds from sale of business (Note 19)	**–**	–	5,390	**–**
Other	**(1,226)**	(1,322)	(242)	**(11,537)**
Net cash used for investing activities	**(80,590)**	(64,879)	(74,185)	**(758,351)**
Cash flows from financing activities:				
Increase (decrease) in short-term debt	**16,363**	(20,843)	4,132	**153,975**
Proceeds from long-term debt	**64,363**	31,734	19,648	**605,656**
Repayment of long-term debt	**(42,694)**	(16,946)	(25,651)	**(401,751)**
Proceeds from issuance of bonds	**20,000**	20,000	20,000	**188,199**
Redemption of bonds payable	**(10,000)**	(10,000)	(20,000)	**(94,099)**
Cash dividends paid	**(8,375)**	(18,351)	(20,022)	**(78,808)**
Cash dividends paid to non-controlling shareholders	**(1,433)**	(765)	(1,527)	**(13,484)**
Other	**(454)**	(679)	20	**(4,273)**
Net cash used for financing activities	**37,770**	(15,850)	(23,400)	**355,415**
Effect of exchange rate changes	**410**	543	1,639	**3,858**
Net increase (decrease) in cash and cash equivalents	**13,640**	13,328	(9,887)	**128,352**
Cash and cash equivalents at beginning of year	**50,722**	37,832	47,721	**477,293**
Decrease in cash and cash equivalents arising from exclusion of consolidated subsidiaries	**–**	(438)	–	**–**
Increase (decrease) in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries	**–**	–	(2)	**–**
Cash and cash equivalents at end of year	**¥ 64,362**	¥ 50,722	¥ 37,832	**$ 605,645**
Supplemental information on cash flows:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheets	**¥ 70,632**	¥ 55,388	¥ 42,157	**$ 664,646**
Time deposits with maturities over three months	**(6,270)**	(4,666)	(4,325)	**(59,001)**
Total (Note 19)	**¥ 64,362**	¥ 50,722	¥ 37,832	**$ 605,645**

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, 2018, which was ¥106.27 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 93 subsidiaries (93 in the year ended March 31, 2017 and 99 in 2016). 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, 2018, 17 affiliates (18 in 2017 and 20 in 2016) were accounted for by the equity method. For the year ended March 31, 2018, investments in 13 affiliates (12 in 2017 and 11 in 2016) 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 29 consolidated subsidiaries (28 in 2017 and 26 in 2016) is December 31. These subsidiaries are consolidated as of December 31, and significant transactions for the period between December 31 and March 31, the Company's fiscal year-end, are adjusted for on consolidation.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

(h) Assets and liabilities arising from derivative transactions

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

(i) 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.

(j) 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, 2018, 2017 or 2016. 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.

(k) 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.

(l) 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.

(m) Accrued bonuses

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

(n) Provision for product warranties

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

(o) 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.

(p) 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.

(q) 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.

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

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

(t) Application of consolidated tax reporting
The Company and its wholly owned consolidated domestic subsidiaries file a consolidated tax return.

3. Accounting standards issued but not yet adopted

The following guidance was issued but not yet adopted.
- "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018)
- "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 (revised 2018), February 16, 2018)

(a) Overview
The above guidance was revised in regard to the treatment of taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements and to clarify the treatment in determining the recoverability of deferred tax assets in a company categorized by the guidance as 'Type 1'.

(b) Effective date
Effective from the beginning of the fiscal year ending March 31, 2019.

(c) Effects of application of the standards
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.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

(a) Overview
The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) initiated a joint project to develop a comprehensive accounting standard for revenue recognition. In May 2014, the Boards published "Revenue from Contracts with Customers" (IFRS 15 for the IASB; Topic 606 for the FASB). IFRS 15 is effective from January 1, 2018, and Topic 606 is applied from fiscal years beginning after December 15, 2017. In response to these developments, the ASBJ developed a comprehensive accounting standard relating to revenue recognition, and published this standard together with its implementation guidance.

(b) Effective date
Effective from the beginning of the fiscal year ending March 31, 2022.

(c) Effects of application of the standards
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.

4. Additional information

<Snow disaster at NIPPI Corporation>
Due to the heavy snowfall on February 15, 2014, an aircraft hangar's roof at a consolidated subsidiary's NIPPI Corporation's Atsugi Plant collapsed, causing damage to aircraft of the Japan Maritime Self-Defense Force under regular maintenance in the hangar. The Company and NIPPI Corporation entered into discussions with the Japan Ministry of Defense regarding how this matter should be handled. However, in July 2017, the Ministry of Defense, based on the contention that it had suffered losses totaling ¥1,900 million ($17,878 thousand), executed an offset for the same amount in relation to a payment claim held by the Company vis-à-vis the Ministry of Defense (central government). The Company did not accept the Ministry of Defense's contention or its execution of the offset and, consequently, demanded payment from the Ministry of Defense of the ¥1.9 billion that had been subject to the offset. However, the Ministry of Defense did not comply with the Company's demand, leading the Company to institute legal proceedings in October 2017 at the Tokyo District Court seeking payment of the amount in question. The future outcome of this legal action may affect the operating performance of the KHI Group.

5. Inventories

Inventories as of March 31, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Merchandise and finished products	**¥ 62,385**	¥ 49,850	**$ 587,042**
Work in progress (*)	**326,460**	323,434	**3,071,987**
Raw materials and supplies	**115,894**	111,578	**1,090,561**
Total	**¥504,739**	¥484,862	**$4,749,590**

(*) A trust was established for the Company's trade receivables generated in selling certain work in progress using a self-settled trust. The Company has a beneficiary interest in the trade receivables as trust assets. The work in progress related to the trust assets as of March 31, 2018 and 2017 was ¥2,468 million ($23,223 thousand) and ¥7,373 million, respectively.

6.

Securities

(a) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2018 and 2017 were as follows:

2018				
	Millions of yen			Thousands of U.S. dollars
	Book value	Acquisition cost	Unrealized gains (losses)	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:				
Equity securities	**¥8,998**	**¥3,208**	**¥5,790**	**$54,483**
Other securities:				
Equity securities	**390**	**407**	**(17)**	**(160)**
Total	**¥9,388**	**¥3,615**	**¥5,773**	**$54,323**

2017			
	Millions of yen		
	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:			
Equity securities	¥8,143	¥3,054	¥5,089
Other securities:			
Equity securities	389	539	(150)
Total	¥8,532	¥3,593	¥4,939

(b) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2018, 2017 and 2016 were as follows:

2018						
	Millions of yen			Thousands of U.S. dollars		
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities:	**¥ 324**	**¥ 48**	**¥(1)**	**$3,048**	**$451**	**$(9)**

2017			
	Millions of yen		
	Sales amounts	Gains	Losses
Equity securities:	¥1,014	¥304	¥ –

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

(c) Investments in securities subject to impairment

Although impairment loss on other securities was recorded for the years ended March 31, 2018, 2017 and 2016, disclosure was omitted as the amounts were immaterial.

Impairment loss on investments in securities is recognized when there has been a significant decline in the market value. Investments in securities for which the market value as of the end of the fiscal year has fallen to below 50% of the acquisition costs are deemed to have no recovery potential and to be impaired. Investments in securities for which the market value has fallen to between 30% and 50% of the acquisition costs are deemed to be partially impaired by an amount that takes into consideration the likelihood of recovery and other factors.

7.

Investments in Nonconsolidated Subsidiaries and Affiliates

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2018 and 2017 were ¥78,314 million ($736,934 thousand) and ¥71,371 million, respectively.

8.

Short-term Debt and Long-term Debt

Short-term debt and long-term debt as of March 31, 2018 and 2017 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Short-term debt:			
Short-term debt, principally bank loans, bearing average interest rates of 1.02% and 1.24% as of March 31, 2018 and 2017, respectively	**¥ 82,799**	¥ 66,912	**$ 779,139**
Current portion of long-term borrowings, bearing average interest rates of 0.40% and 0.23% as of March 31, 2018 and 2017, respectively	**26,179**	44,544	**246,344**
Current portion of bonds, bearing average interest rates of 0.34-0.57% and 1.06% as of March 31, 2018 and 2017, respectively.	**20,000**	10,000	**188,199**
Lease obligations, current	**283**	192	**2,663**
Total short-term debt	**¥129,261**	¥121,648	**$1,216,345**
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2018 to 2027, bearing average interest rates of 0.49% and 0.55% as of March 31, 2018 and 2017, respectively.	**¥211,864**	¥192,037	**$1,993,638**
Notes and bonds issued by the Company:			
1.06% notes due in 2017	**–**	10,000	**–**
0.34–0.57% notes due in 2018	**20,000**	20,000	**188,200**
0.68% notes due in 2019	**10,000**	10,000	**94,100**
0.32–0.99% notes due in 2020	**20,000**	20,000	**188,200**
0.10–1.42% notes due in 2021	**30,000**	30,000	**282,300**
0.15-1.10% notes due in 2022	**20,000**	10,000	**188,200**
0.99% notes due in 2023	**10,000**	10,000	**94,100**
0.79% notes due in 2024	**10,000**	10,000	**94,100**
0.85% notes due in 2025	**10,000**	10,000	**94,100**
0.82% notes due in 2036	**10,000**	10,000	**94,100**
0.90% notes due in 2037	**10,000**	–	**94,100**
Long-term lease obligations	**1,980**	1,742	**18,630**
	363,844	333,779	**3,423,768**
Less portion due within one year	**(46,462)**	(54,736)	**(437,206)**
Total long-term debt	**¥317,382**	¥279,043	**$2,986,562**

As of March 31, 2018 and 2017, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Buildings and structures	**¥ 65**	¥ 69	**$ 612**
Investments in securities	**17**	14	**159**
Other	**80**	83	**753**
Total	**¥162**	¥166	**$1,524**

As of March 31, 2018 and 2017, debt secured by the above pledged assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Trade payables	¥ 3	¥ 5	$ 28
Short-term and long-term debt	53	70	498
Total	¥56	¥75	$526

The aggregate annual maturities of long-term debt as of March 31, 2018 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2019	¥ 46,462	$ 437,206
2020	38,997	366,961
2021	43,330	407,735
2022	47,106	443,267
2023 and thereafter	187,949	1,768,599
Total	¥363,844	$3,423,768

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, 2018 and 2017, the inventories for the construction contracts for which the provision for losses on construction contracts were provided were ¥15,590 million ($146,701 thousand) and ¥1,368 million, respectively. These amounts were all included in work in process.

In a certain liquefied natural gas (LNG) tank construction project carried out by the Company overseas, the total cost has increased to a level higher than the original estimate. The causes of this cost increase include the nonfulfillment of a contract by an overseas construction subcontractor. The Company has calculated a provision for losses on construction contracts after deducting a part of the future damages claim amount in relation to losses sustained by the Company owing to the breach of contract by the aforementioned subcontractor from the total cost estimate for the project.

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). A portion of the existing retirement and severance benefits are funded. Certain consolidated subsidiaries have a retirement pension plan. The Company has an employees' retirement benefit trust. The Company and certain consolidated subsidiaries made changes to their system of retirement and severance lump-sum payments for employees. As a result, the Company incurred prior service cost (increase in obligation).

   The gain on contribution of securities to the employees' retirement benefit trust was attributable to the contribution of holdings of investments in securities to the employees'.

2. Defined benefit plans (including plans that apply a simplified method)

(1) Reconciliation of beginning-of-period and end-of-period balances of retirement benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance of retirement benefit obligations at beginning of period	¥191,472	¥189,742	$1,801,750
Service cost	10,773	10,475	101,373
Interest cost	1,943	2,020	18,283
Actuarial gains and losses	1,391	2,494	13,089
Retirement benefits paid	(9,399)	(11,421)	(88,444)
Prior service cost	55	12	518
Other (foreign currency translation difference, etc.)	(1,287)	(1,850)	(12,110)
Balance of retirement benefit obligations at end of period	¥194,948	¥191,472	$1,834,459

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance of plan assets at beginning of period	¥109,995	¥ 99,027	$1,035,052
Expected return on plan assets	1,167	1,523	10,981
Actuarial gains and losses	2,539	8,808	23,891
Contributions paid by the employer	3,797	3,853	35,729
Retirement benefits paid	(7,541)	(1,727)	(70,960)
Other (foreign currency translation difference, etc.)	(1,757)	(1,489)	(16,532)
Balance of plan assets at end of period	¥108,200	¥109,995	$1,018,161

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligations on funded plan	¥ 169,362	¥ 167,297	$ 1,593,695
Plan assets	(108,200)	(109,995)	(1,018,161)
	61,162	57,302	575,534
Retirement benefit obligations on unfunded plan	25,586	24,175	240,764
Net amount of liabilities and assets presented on the consolidated balance sheets	86,748	81,477	816,298
Liability for retirement benefits	86,836	81,563	817,126
Asset for retirement benefits	(88)	(86)	(828)
Net amount of liabilities and assets presented on the consolidated balance sheets	¥ 86,748	¥ 81,477	$ 816,298

(4) Breakdown of retirement benefit expense

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥10,773	¥10,475	$101,373
Interest cost	1,943	2,020	18,283
Expected return on plan assets	(1,167)	(1,523)	(10,981)
Amortization of actuarial gains and losses	6,791	6,069	63,904
Amortization of prior service costs	353	353	3,322
Retirement benefit expense related to defined benefit plan	¥18,693	¥17,394	$175,901

(5) Adjustments for retirement benefits

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Prior service cost	**¥ 298**	¥ 341	**$ 2,804**
Actuarial gains and losses	**7,939**	12,383	**74,706**
Total	**¥8,237**	¥12,724	**$77,510**

(6) Accumulated adjustments for retirement benefits

Accumulated adjustments for retirement benefits (before tax effects) comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unrecognized prior service cost	**¥(1,864)**	¥ (2,162)	**$(17,540)**
Unrecognized actuarial gains and losses	**(5,847)**	(13,786)	**(55,020)**
Total	**¥(7,711)**	¥(15,948)	**$(72,560)**

(7) Plan assets

(i) Main breakdown of plan assets

The breakdown of main asset categories as a percentage of total plan assets is as follows:

	2018	2017
Bonds	**18%**	13%
Equities	**70%**	75%
Cash and deposits	**1%**	2%
Others	**11%**	10%
Total	**100%**	100%

Note: As of March 31, 2018 and 2017, the employees' retirement benefit trust established as part of the retirement benefit plan is included in the plan assets and represents a 60% and 71% portion of the plan assets, respectively.

(ii) Method for setting long-term expected rate of return

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

(8) Underlying actuarial assumptions

The main underlying actuarial assumptions as of March 31, 2018 and 2017, respectively, were as follows:

(presented as the compound average)

	2018	2017
Discount rate	**0.40–3.87%**	0.48–4.00%
Long-term expected rate of return on plan assets	**0.00–6.00%**	0.00–6.75%
Rate of compensation increase	**6.50–7.20%**	6.50–7.20%

3. Defined contribution plan

As of March 31, 2018 and 2017, the required contribution by the Company and its consolidated subsidiaries to the defined contribution plan was ¥2,212 million ($20,814 thousand) and ¥2,183 million, respectively.

11. Contingent Liabilities

Contingent liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	**¥21,786**	¥18,252	**$205,006**

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. Gain on the valuation of inventories included in the cost of sales for the year ended March 31, 2018 was ¥3,434 million ($32,313 thousand). Loss on the valuation of inventories included in the cost of sales for the years ended March 31, 2017 and 2016 was ¥3,010 million and ¥876 million, respectively.

Provision for losses on construction contracts included in the cost of sales for the years ended March 31, 2018, 2017 and 2016 was ¥23,718 million ($223,186 thousand), ¥20,631 million and ¥10,586 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
	2018	2017	2016	**2018**
Research and development expenses	**¥45,434**	¥43,627	¥43,611	**$427,533**

15. Other Expenses, Net

"Other expenses, net" in "Other income (expenses)" in the consolidated statements of income for the years ended March 31, 2018, 2017 and 2016 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	**2018**
Foreign exchange gain (loss), net	**¥ (7,017)**	¥ (7,724)	¥ (6,532)	**$ (66,029)**
Gain on sales of property, plant and equipment (a)	**2,606**	3,077	3,155	**24,522**
Gain on transfer of business (b)	**–**	–	901	**–**
Loss on overseas business (c)	**–**	–	(19,298)	**–**
Payments for contract adjustment for commercial aircraft jet engines (d)	**(2,505)**	–	–	**(23,572)**
Losses from the termination of a shipbuilding contract for an offshore service vessel (e)	**(12,833)**	–	–	**(120,758)**
Loss on disposal of fixed assets	**(2,107)**	(2,233)	(1,119)	**(19,826)**
Other, net	**(3,779)**	(3,985)	1,326	**(35,561)**
Total	**¥(25,635)**	¥(10,865)	¥(21,567)	**$(241,224)**

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

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

Gain on sales of property, plant and equipment for the fiscal year ended March 31, 2018 was due to the sale of the land and building of the company dormitories and houses, etc.

(b) Gain on transfer of business
This gain was due to the assignment of all the shares of consolidated subsidiary KCM Corporation and all the businesses of KCMJ Corporation.

(c) Loss on overseas business
Enseada Indústria Naval S.A. (hereinafter 'Enseada'), a joint venture for shipbuilding in which the Company holds a 30% stake, has received no payments for drill ship construction work in progress for more than a year due to corruption problems in Brazil. This situation has seriously eroded Enseada's financial and cash flow positions. As a result, Enseada has fallen behind in its payments to the Company for the transfer of technology and for the construction of drill ship hull parts at KHI Sakaide Works. Enseada has also been unable to make progress on the repayment of loans extended by the Company.

Despite this adverse business situation, Enseada remains a going concern, and the Company continues to cooperate with Enseada in line with the underlying joint venture agreement. However, considering the asset value of investment in and loans to Enseada as well as the recoverability of trade receivables, the Company has decided to implement the necessary accounting treatment based on its revaluation under relevant accounting principles.

Accounting treatment of losses on a consolidated basis for the fiscal year ended March 31, 2016 is presented below.

1. Setting of allowance for doubtful receivables on trade receivables from Enseada and loss on valuation of inventories (work in process) destined for Enseada
   ¥19,298 million (Other expenses, net)
2. Losses on valuation of investments in and loans receivable from Enseada
   ¥2,847 million (Equity in income of nonconsolidated subsidiaries and affiliates)
3. Total
   ¥22,145 million

(d) Payments for contract adjustment for commercial aircraft jet engines
The Company faced one-time expenses in connection with contracts with customers related to engine programs in which the Company was participating. These expenses arose from the new requirement to allocate a portion of the engines planned to be delivered to customers for use as spare engines for operational supports. Accordingly, the Company recorded these program expenses as non-operating expenses.

(e) Losses from the termination of a shipbuilding contract for an offshore service vessel
These are losses in conjunction with the termination of a shipbuilding contract for an offshore service vessel (losses recognized on valuation of inventories and trade receivables, etc.).

In November 2013, with the intention of entering the offshore development industry, which is a promising market over the medium to long term, the Company entered into a shipbuilding agreement for an offshore service vessel with a subsidiary* of Island Offshore Shipholding LP (hereinafter, "Island Offshore"). This was the first vessel of its type to be constructed by the Company, and certain problems during the engineering stage arose along with an increase in the cost of materials and other issues.

From the time the order for this vessel was received, the stagnation in crude oil prices led to a very difficult business environment for offshore service providers in general, and Island Offshore began negotiating financial restructuring with its banking partners from November 2016.

Given the above circumstances, the Company proceeded cautiously, including temporarily suspending the construction of the vessel, while paying close attention to the progress of the financial restructuring of Island Offshore. During this time, the Company was holding discussions with Island Offshore regarding the handling of the vessel. Based on the shared understanding that the environment surrounding the offshore service business remained challenging and that uncertainty about the future could not be eliminated, the Company and Island Offshore agreed to terminate the shipbuilding agreement, and the Company therefore carried out the necessary accounting treatment.

*Island Navigator I KS (100% subsidiary company of Island Offshore Shipholding LP)

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
	2018	2017	2018
Unrealized gains (losses) on securities			
Increase (decrease) during the year	¥ 450	¥ 910	$ 4,234
Reclassification adjustments	110	(119)	1,035
Subtotal, before tax	560	791	5,269
Tax (expense) or benefit	(222)	(232)	(2,089)
Subtotal, net of tax	338	559	3,180
Deferred gains (losses) on hedges			
Increase (decrease) during the year	114	(12,414)	1,072
Reclassification adjustments	2,121	9,864	19,959
Subtotal, before tax	2,235	(2,550)	21,031
Tax (expense) or benefit	(619)	706	(5,825)
Subtotal, net of tax	1,616	(1,844)	15,206
Foreign currency translation adjustments			
Increase (decrease) during the year	(1,085)	(3,517)	(10,209)
Reclassification adjustments	-	(225)	-
Subtotal, before tax	(1,085)	(3,742)	(10,209)
Tax (expense) or benefit	-	–	-
Subtotal, net of tax	(1,085)	(3,742)	(10,209)
Remeasurements of defined benefit plan			
Increase (decrease) during the year	1,092	6,301	10,275
Reclassification adjustments	7,145	6,423	67,235
Subtotal, before tax	8,237	12,724	77,510
Tax (expense) or benefit	(3,066)	(3,947)	(28,851)
Subtotal, net of tax	5,171	8,777	48,659
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	2,296	(6,340)	21,605
Total other comprehensive income	¥ 8,336	¥ (2,590)	$ 78,441

17.

Dividends

(a) Dividends paid

Year ended March 31, 2018

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 28, 2017 General Meeting of Shareholders	Common stock	¥3,341 million ($31,438 thousand)	¥2.0 ($0.01)	March 31, 2017	June 29, 2017
September 20, 2017 Board of Directors Meeting (*)	Common stock	¥5,011 million ($47,153 thousand)	¥3.0 ($0.02)	September 30, 2017	December 1, 2017

(*) Dividends per share indicate the amount before a share consolidation with a 10:1 ratio of common shares with an effective date of October 1, 2017 as the date of record is September 30, 2017.

Year ended March 31, 2017

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

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

Year ended March 31, 2018

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 27, 2018 General Meeting of Shareholders	Common stock	Retained earnings	¥5,011 million ($47,153 thousand)	¥30.0 ($0.28)	March 31, 2018	June 28, 2018

Year ended March 31, 2017

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

18.

Income Taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporate tax (national tax) and enterprise and inhabitants' taxes (local taxes), which, in the aggregate, resulted in a statutory tax rate of approximately 30.7% for the years ended March 31, 2018 and 2017.

(a) The significant differences between the statutory and effective tax rates for the years ended March 31, 2018 and 2017 were as follows:

	2018	2017
Statutory tax rate	30.7%	30.7%
Valuation allowance	(25.7)	(2.7)
Equity in income of nonconsolidated subsidiaries and affiliates	(3.7)	(4.4)
Changing tax rate	3.5	–
Tax credit for research and development expenses	(1.8)	(0.9)
Elimination of unrealized profits	(1.2)	3.0
Other	3.2	2.5
Effective tax rate	5.0%	28.2%

(b) Significant components of deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Deferred tax assets:			
Accrued bonuses	**¥ 6,887**	¥ 7,043	**$ 64,807**
Liability for retirement benefits	**36,945**	37,130	**347,653**
Allowance for doubtful receivables	**1,437**	5,315	**13,522**
Inventories – elimination of intercompany profits	**1,848**	1,015	**17,389**
Fixed assets – elimination of intercompany profits	**559**	524	**5,260**
Depreciation	**7,995**	6,396	**75,233**
Net operating loss carryforwards	**1,443**	698	**13,578**
Loss from inventory revaluation	**3,072**	2,402	**28,908**
Unrealized loss on marketable securities, investments in securities and other	**1,550**	1,527	**14,585**
Loss on valuation of land	**758**	1,552	**7,132**
Provision for product warranties	**3,337**	3,138	**31,402**
Provision for losses on construction contracts	**5,651**	5,470	**53,176**
Other	**14,015**	14,115	**131,881**
Gross deferred tax assets	**85,497**	86,325	**804,526**
Less valuation allowance	**(7,179)**	(15,701)	**(67,554)**
Total deferred tax assets	**78,318**	70,624	**736,972**
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	**4,341**	3,946	**40,849**
Reserve for special depreciation	**1,374**	562	**12,930**
Net unrealized gain on securities	**1,509**	1,288	**14,199**
Retained earnings for foreign subsidiaries	**7,039**	6,595	**66,237**
Other	**3,609**	3,666	**33,961**
Total deferred tax liabilities	**17,872**	16,057	**168,176**
Net deferred tax assets	**¥60,446**	¥ 54,567	**$568,796**

(c) Revision of deferred tax assets and deferred tax liabilities due to change in tax rate of corporation tax, etc.

The United States enacted the Tax Cuts and Jobs Act on December 22, 2017. Consequently, from fiscal years commencing on or after January 1, 2018, the federal corporate income tax rate has been reduced. As a result of the enactment of the Tax Cuts and Jobs Act, the federal corporate income tax rate applicable to the Company's consolidated subsidiaries in the United States was reduced from 35% to 21%.

Based on this change in tax rate, net deferred tax assets decreased ¥1,639 million ($15,422 thousand), income taxes-deferred increased ¥1,163 million ($10,943 thousand), and accumulated adjustments for retirement benefits increased ¥476 million ($4,479 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, 2018, 2017 and 2016 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	**2018**
Cash on hand and in banks:	**¥70,632**	¥55,388	¥42,157	**$664,646**
Time deposits with maturities over three months:	**(6,270)**	(4,666)	(4,325)	**(59,001)**
Total	**¥64,362**	¥50,722	¥37,832	**$605,645**

<Breakdown of main assets and liabilities of former consolidated subsidiaries excluded from the scope of consolidation due to the sale of shares during the fiscal year ended March 31, 2016.>

Accompanying the exclusion of KCM Corporation and two other former consolidated subsidiaries from the scope of consolidation due to the sale of shares, the relationship between the breakdown of assets and liabilities at the time of the sales, the share sale amounts and proceeds from these sales were as follows:

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

20. Net Income per Share

Per share amounts for the years ended March 31, 2018, 2017 and 2016 are set forth in the table below.

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	**2018**
Basic net income per share:				
Net income	**¥28,915**	¥26,204	¥46,043	**$272,089**
Net income allocated to common stock	**28,915**	26,204	46,043	**272,089**
	Number of shares in millions			
Weighted average number of shares of common stock	**167**	167	167	

Note: As the Company carried out a share consolidation with a 10:1 ratio of common shares with an effective date of October 1, 2017, net income per share has been calculated with the assumption that this share consolidation was carried out at the beginning of the fiscal year ended March 31, 2016.

As the Company had no dilutive securities at March 31, 2018, 2017 and 2016, the Company has not disclosed diluted net income per share for the years ended March 31, 2018, 2017 and 2016.

21. Derivative Transactions

(a) Outstanding positions and recognized gains and losses at March 31, 2018 were as follows:

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

	2018				
	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	¥49,034	¥ –	¥1,188	¥1,188	$11,179
EUR	7,754	–	145	145	1,364
Others	13,616	3,942	(59)	(59)	(555)
To purchase					
USD	473	–	(8)	(8)	(75)
EUR	386	–	9	9	84
Others	1,152	–	(16)	(16)	(150)
Interest rate and currency swaps					
U.S. dollars floating-rate receipt/fixed-rate payment	–	–	–	–	–
Total	¥72,415	¥3,942	¥1,259	¥1,259	$11,847

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

(Derivative transactions to which the Company applied hedge accounting)

	2018			
		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Currency-related contracts:				
Foreign exchange contracts:				
To sell	Trade receivables			
USD		¥36,717	¥ –	¥1,016
EUR		1,743	404	27
Others		4,199	2,085	(3)
To purchase	Trade payables			
USD		9,879	153	(312)
EUR		3,518	388	(19)
Others		5,497	316	(48)
Total		¥61,553	¥3,346	¥ 661

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

	2018			
		Thousands of U.S. dollars		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Currency-related contracts:				
Foreign exchange contracts:				
To sell	Trade receivables			
USD		$345,507	$ –	$ 9,558
EUR		16,401	3,801	254
Others		39,512	19,620	(28)
To purchase	Trade payables			
USD		92,962	1,439	(2,935)
EUR		33,104	3,652	(178)
Others		51,727	2,973	(451)
Total		$579,213	$31,485	$ 6,220

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

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

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

	2017			
	Millions of yen			
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)
Currency-related contracts:				
Foreign exchange contracts:				
To sell				
USD	¥51,860	¥ –	¥(1,696)	¥(1,696)
EUR	1,168	–	10	10
Others	11,235	–	(195)	(195)
To purchase				
USD	12,027	–	(101)	(101)
EUR	180	5	3	3
Others	1,283	6	7	7
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/fixed-rate payment	4,306	–	1,835	1,835
Total	¥82,059	¥11	¥ (137)	¥ (137)

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

(Derivative transactions to which the Company applied hedge accounting)

	2017			
		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Currency-related contracts:				
Foreign exchange contracts:				
To sell	Trade receivables			
USD		¥ 63,349	¥1,715	¥(1,236)
EUR		9,748	–	16
Others		7,170	–	(174)
To purchase	Trade payables			
USD		11,078	460	(57)
EUR		5,155	917	(82)
Others		3,630	165	42
Total		¥100,130	¥3,257	¥(1,491)

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

	2017			
		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest-related contracts:				
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/fixed-rate payment	Short-term debt	¥4,306	¥–	¥32
Total		¥4,306	¥–	¥32

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

22.

Financial Instruments

Information related to financial instruments as of March 31, 2018 and 2017 was as follows.

(1) Matters related to the status of financial instruments

(a) Policies on the use of financial instruments

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

(b) Details of financial instruments and risks associated with those instruments

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

Almost all trade payables and electronically recorded obligations are due within one year. A portion of trade payables are denominated in foreign currency—specifically those related to payment for imported materials, etc., and are exposed to the risk of foreign currency fluctuation. However, this risk is mitigated principally by the position of trade payables denominated in foreign currency being less than the position of receivables in the same currency. Loans payable and bonds payable are mainly used to raise operating capital and carry out capital expenditure and are due in a maximum of twenty years from March 31, 2018 (twenty years in 2017). A portion of these instruments is exposed to the risk of interest rate fluctuation. However, such risk is hedged using derivatives (interest rate and currency swaps) as necessary.

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

(c) Risk management system for financial instruments

(i) Management of credit risk, including customer default risk

The Company's sales management functions and those of its consolidated subsidiaries regularly evaluate the financial circumstances of customers and monitor the due dates and balances by customer to identify and limit doubtful accounts.

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

(ii) Management of market risk (related to foreign currency exchange rates, interest rates, etc.)

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

With regard to investments in securities, the Company reviews its holding policies through periodic analysis of market prices and the financial condition of the issuers, taking into consideration the relationships with its 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, 2018 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	2018			
	Millions of yen			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Cash on hand and in banks	¥ 70,632	¥ 70,632	¥ –	$ –
Trade receivables	470,110	470,049	(61)	(574)
Investments in securities	9,388	9,388	–	–
Total assets	¥550,130	¥550,069	¥(61)	$(574)
Trade payables	245,398	245,398	–	–
Electronically recorded obligations	117,772	117,772	–	–
Short-term debt and current portion of long-term debt (excluding lease obligations)	128,978	128,978	–	–
Long-term debt, less current portion (excluding lease obligations)	315,685	315,686	1	10
Total liabilities	¥807,833	¥807,834	¥ 1	$ 10
Derivative transactions (*)	¥ 1,920	¥ 1,920	¥ –	$ –

(*) 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, 2017 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

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

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

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

<Assets>

- Cash on hand and in banks
The fair value of cash on hand and in banks is stated at the relevant book value since the settlement periods are short and the fair values are substantially the same as the book values.
- Trade Receivables
The fair value of trade receivables is stated at present value computed by applying a discount rate reflecting the settlement period and the credit risk.
- Investments in securities
Equity securities are stated at the fair value, and bonds are stated at market price or the asking price of financial institutions. See Note 2(j), "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
	2018	2017	**2018**
Unlisted equity securities and investments in partnerships	**¥ 5,411**	¥ 5,356	**$ 50,917**
Stocks of nonconsolidated subsidiaries and affiliates	**13,005**	10,600	**122,376**
Investments in affiliates	**65,310**	60,770	**614,568**
Total	**¥83,726**	¥76,726	**$787,861**

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, 2018 and 2017 were as follows:

	2018			
	Millions of yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**¥ 70,632**	**¥ –**	**¥–**	**¥–**
Trade receivables	**453,462**	**16,648**	**–**	**–**
Investments in securities				
-Bonds	**–**	**–**	**–**	**–**
Total	**¥524,094**	**¥16,648**	**¥–**	**¥–**

	2018			
	Thousands of U.S. dollars			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**$ 664,646**	**$ –**	**$–**	**$–**
Trade receivables	**4,267,075**	**156,657**	**–**	**–**
Investments in securities				
-Bonds	**–**	**–**	**–**	**–**
Total	**$4,931,721**	**$156,657**	**$–**	**$–**

	2017			
	Millions of yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	¥ 55,388	¥ –	¥–	¥–
Trade receivables	435,271	9,362	–	–
Investments in securities				
-Bonds	30	–	–	–
Total	¥490,689	¥9,362	¥–	¥–

(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

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

<Lessee>

The original costs of leased assets under non-capitalized finance leases and the related accumulated depreciation and amortization, assuming it was calculated by the straight-line method over the term of the respective lease, as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Property, plant and equipment	**¥ 5,224**	¥10,710	**$ 49,157**
Accumulated depreciation	**(4,415)**	(9,103)	**(41,545)**
	809	1,607	**7,612**
Intangible assets	**22**	22	**207**
Accumulated amortization	**(21)**	(17)	**(198)**
	¥ 1	¥ 5	**$ 9**

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Current portion	**¥355**	¥ 872	**$3,340**
Noncurrent portion	**547**	907	**5,147**
Total	**¥902**	¥1,779	**$8,487**

Lease payments, "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases for the years ended March 31, 2018, 2017 and 2016 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	**2018**
Lease payments	**¥905**	¥1,364	¥1,656	**$8,516**
Depreciation and amortization	**794**	1,205	1,469	**7,471**
Interest	**35**	62	97	**329**

24. Operating Leases

The schedule of future minimum lease payments under non-cancellable operating leases as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Within one year	**¥ 2,796**	¥ 2,204	**$ 26,310**
Over one year	**12,023**	12,706	**113,136**
Total	**¥14,819**	¥14,910	**$139,446**

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 business in Japan or overseas. The Company's operations are, therefore, segmented based on each internal company's product categories. The Company's eight reportable segments are the Ship & Offshore Structure segment, the Rolling Stock segment, the Aerospace segment, the Gas Turbine & Machinery segment, the Plant & Infrastructure segment, the Motorcycle & Engine segment, the Precision Machinery segment and the Other segment.

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

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

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

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

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

	Year ended March 31, 2018							
	Millions of yen							
	Sales					Other items		
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangible assets
Ship & Offshore Structure	¥ 95,610	¥ 3,786	¥ 99,396	¥ (3,821)	¥ 147,963	¥ 1,444	¥49,749	¥ 4,774
Rolling Stock	141,760	105	141,865	(12,440)	180,792	2,567	138	2,505
Aerospace	330,211	1,829	332,040	20,922	424,110	17,485	–	28,876
Gas Turbine & Machinery	266,471	11,988	278,459	14,703	373,640	5,018	–	7,785
Plant & Infrastructure	124,465	11,024	135,489	2,938	136,130	1,508	19,118	1,689
Motorcycle & Engine	331,659	669	332,328	15,253	266,550	14,164	1,474	20,543
Precision Machinery	198,996	15,891	214,887	21,649	188,155	7,166	411	10,975
Other	85,070	41,508	126,578	2,929	85,062	1,580	3,338	697
Total	¥1,574,242	¥ 86,800	¥1,661,042	¥ 62,133	¥1,802,402	¥50,932	¥74,228	¥77,844
Adjustments	–	(86,800)	(86,800)	(6,208)	(17,374)	5,205	–	4,319
Consolidated total	¥1,574,242	¥ –	¥1,574,242	¥ 55,925	¥1,785,028	¥56,137	¥74,228	¥82,163

	Year ended March 31, 2017							
	Millions of yen							
	Sales					Other items		
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangible assets
Ship & Offshore Structure	¥ 103,204	¥ 2,447	¥ 105,651	¥(21,424)	¥ 168,577	¥ 1,277	¥47,643	¥ 3,705
Rolling Stock	137,159	76	137,235	3,486	164,413	2,626	129	2,729
Aerospace	329,915	1,615	331,530	25,033	433,241	15,023	–	33,273
Gas Turbine & Machinery	241,953	12,823	254,776	15,294	347,454	4,764	–	8,945
Plant & Infrastructure	160,877	7,928	168,805	2,610	119,158	1,456	16,899	2,207
Motorcycle & Engine	313,030	683	313,713	11,749	243,412	13,140	1,350	18,292
Precision Machinery	155,278	15,873	171,151	13,104	157,502	6,471	297	7,228
Other	77,414	40,041	117,455	3,140	86,465	1,673	3,175	1,174
Total	¥1,518,830	¥ 81,486	¥1,600,316	¥ 52,992	¥1,720,222	¥46,430	¥69,493	¥77,553
Adjustments	–	(81,486)	(81,486)	(7,032)	(32,859)	5,134	–	5,191
Consolidated total	¥1,518,830	¥ –	¥1,518,830	¥ 45,960	¥1,687,363	¥51,564	¥69,493	¥82,744

Note: From the first quarter of the fiscal year ending March 31, 2019, the Company's reportable segments will be changed to the Aerospace Systems segment, the Energy System & Plant Engineering segment, the Precision Machinery & Robot segment, the Ship & Offshore Structure segment, the Rolling Stock segment, the Motorcycle & Engine segment and the Other segment.

	Year ended March 31, 2016							
	Millions of yen							
	Sales					Other items		
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangible assets
Ship & Offshore Structure	¥ 94,888	¥ 2,792	¥ 97,680	¥ (7,926)	¥ 155,063	¥ 995	¥52,063	¥ 2,672
Rolling Stock	146,646	1,230	147,876	9,299	171,323	2,914	153	2,536
Aerospace	351,858	1,727	353,585	45,657	378,982	13,435	–	28,760
Gas Turbine & Machinery	236,445	16,634	253,079	16,961	314,549	4,333	745	7,918
Plant & Infrastructure	135,668	14,205	149,873	8,515	120,741	1,473	17,276	1,444
Motorcycle & Engine	333,595	1,117	334,712	15,769	243,733	13,159	1,332	14,513
Precision Machinery	133,175	15,518	148,693	8,542	142,960	6,034	371	8,130
Other	108,821	38,927	147,748	2,899	71,372	1,617	3,004	3,933
Total	¥1,541,096	¥ 92,150	¥1,633,246	¥99,716	¥1,598,723	¥43,960	¥74,944	¥69,906
Adjustments	–	(92,150)	(92,150)	(3,720)	21,735	5,044	–	6,404
Consolidated total	¥1,541,096	¥ –	¥1,541,096	¥95,996	¥1,620,458	¥49,004	¥74,944	¥76,310

	Year ended March 31, 2018							
	Thousands of U.S. dollars							
	Sales					Other items		
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangible assets
Ship & Offshore Structure	**$ 899,689**	**$ 35,626**	**$ 935,315**	**$ (35,956)**	**$ 1,392,330**	**$ 13,588**	**$468,137**	**$ 44,923**
Rolling Stock	**1,333,960**	**988**	**1,334,948**	**(117,061)**	**1,701,251**	**24,155**	**1,298**	**23,572**
Aerospace	**3,107,284**	**17,210**	**3,124,494**	**196,875**	**3,990,873**	**164,534**	**–**	**271,723**
Gas Turbine & Machinery	**2,507,490**	**112,808**	**2,620,298**	**138,356**	**3,515,950**	**47,219**	**–**	**73,256**
Plant & Infrastructure	**1,171,214**	**103,735**	**1,274,949**	**27,645**	**1,280,982**	**14,190**	**179,900**	**15,893**
Motorcycle & Engine	**3,120,910**	**6,295**	**3,127,205**	**143,531**	**2,508,234**	**133,284**	**13,870**	**193,310**
Precision Machinery	**1,872,551**	**149,534**	**2,022,085**	**203,717**	**1,770,537**	**67,432**	**3,867**	**103,275**
Other	**800,508**	**390,591**	**1,191,099**	**27,563**	**800,433**	**14,867**	**31,412**	**6,559**
Total	**$14,813,606**	**$ 816,787**	**$15,630,393**	**$584,670**	**$16,960,590**	**$479,269**	**$698,484**	**$732,511**
Adjustments	**–**	**(816,787)**	**(816,787)**	**(58,417)**	**(163,489)**	**48,979**	**–**	**40,642**
Consolidated total	**$14,813,606**	**$ –**	**$14,813,606**	**$526,253**	**$16,797,101**	**$528,248**	**$698,484**	**$773,153**

(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, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	**2018**
Net sales				
Total for reportable segments	**¥1,661,042**	¥1,600,316	¥1,633,246	**$15,630,393**
Intersegment transactions	**(86,800)**	(81,486)	(92,150)	**(816,787)**
Net sales reported on the consolidated financial statements	**¥1,574,242**	¥1,518,830	¥1,541,096	**$14,813,606**

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	**2018**
Income				
Total for reportable segments	**¥62,133**	¥52,992	¥99,716	**$584,670**
Intersegment transactions	**(95)**	(34)	(22)	**(893)**
Corporate expenses (*)	**(6,113)**	(6,998)	(3,698)	**(57,524)**
Operating income (loss) on the consolidated financial statements	**¥55,925**	¥45,960	¥95,996	**$526,253**

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

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	**2018**
Assets				
Total for reportable segments	**¥1,802,402**	¥1,720,222	¥1,598,723	**$16,960,590**
Intersegment transactions	**(82,212)**	(80,391)	(86,409)	**(773,614)**
Corporate assets shared by all segments (*)	**64,838**	47,532	108,144	**610,125**
Total assets on the consolidated financial statements	**¥1,785,028**	¥1,687,363	¥1,620,458	**$16,797,101**

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

Other items	Total for reportable segments 2018	2017	2016	Adjustments(*) 2018	2017	2016	Amounts reported on the consolidated financial statements 2018	2017	2016
	Millions of yen — Year ended March 31,								
Depreciation/amortization	**¥50,932**	¥46,430	¥43,960	**¥5,205**	¥5,134	¥5,044	**¥56,137**	¥51,564	¥49,004
Increase in property, plant and equipment and intangible assets	**77,844**	77,553	69,906	**4,319**	5,191	6,404	**82,163**	82,744	76,310

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

	Thousands of U.S. dollars		
	Year ended March 31, 2018		
Other items	Total for reportable segments	Adjustments	Amounts reported on the consolidated financial statements
Depreciation/amortization	**$479,269**	**$48,979**	**$528,248**
Increase in property, plant and equipment and intangible assets	**732,511**	**40,642**	**773,153**

(e) Related information

(i) Sales by geographic region

Net sales for the years ended March 31, 2018, 2017 and 2016 were as follows:

	Millions of yen 2018	2017	2016	Thousands of U.S. dollars 2018
Japan	**¥ 668,369**	¥ 648,166	¥ 636,565	**$ 6,289,348**
United States	**381,156**	371,249	396,697	**3,586,675**
Europe	**172,203**	177,900	144,894	**1,620,429**
Asia	**237,298**	220,901	241,424	**2,232,972**
Other areas	**115,216**	100,614	121,516	**1,084,182**
Total	**¥1,574,242**	¥1,518,830	¥1,541,096	**$14,813,606**

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

Property, plant and equipment

	Millions of yen 2018	2017	Thousands of U.S. dollars 2018
Japan	**¥420,299**	¥401,309	**$3,955,010**
North America	**28,030**	27,750	**263,762**
Europe	**3,239**	3,054	**30,478**
Asia	**27,424**	28,865	**258,059**
Other areas	**806**	904	**7,588**
Total	**¥479,798**	¥461,882	**$4,514,897**

(ii) Information by major clients

Year ended March 31, 2018

Clients	Net sales	Related segments
Ministry of Defense	¥237,737 million ($2,237,103 thousand)	Ship & Offshore Structure, Aerospace, Gas Turbine & Machinery, etc.

Year ended March 31, 2017

Clients	Net sales	Related segments
Ministry of Defense	¥236,861 million	Ship & Offshore Structure, Aerospace, Gas Turbine & Machinery, etc.

26. Related Party Transactions

(a) Related party transactions for the years ended March 31, 2018 and 2017 were as follows:

	Year ended March 31, 2018 — 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 ($94 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Sales of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥116,936 million ($1,100,366 thousand)
Account	Trade receivables
Ending balance	¥43,820 million ($412,345 thousand)
Account	Advances from customers
Ending balance	¥72,515 million ($682,365 thousand)

	Year ended March 31, 2017 — Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Sales of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥130,785 million
Account	Trade receivables
Ending balance	¥37,320 million
Account	Advances from customers
Ending balance	¥46,476 million

	Year ended March 31, 2017 — Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Enseada Indústria Naval S.A.
Location	Bahia, Brazil
Capital or investment	¥12,219 million
Business or position	Ship & Offshore Structure
Rate of ownership (%)	Directly 31.09%
Description of relationship	Sales of Company products, loan of cash and board members
Details of transactions	Sales of Company products
Amount of transactions	¥–
Details of transactions	Loans of cash
Amount of transactions	¥–
Account	Other and Allowance for doubtful receivables in Investments and intangible other assets
Ending balance (*)	¥–

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

(b) A summary of the total financial information of affiliates which was the basis for calculating the equity in income of the nonconsolidated affiliates, including that of Nantong COSCO KHI Ship Engineering Co., Ltd., which is a significant affiliate, for the years ended March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Current assets	**¥158,821**	¥147,214	**$1,494,504**
Fixed assets	**156,573**	153,411	**1,473,350**
Current liabilities	**116,751**	114,899	**1,098,626**
Long-term liabilities	**33,738**	24,814	**317,474**
Net assets	**164,905**	160,912	**1,551,754**
Net sales	**171,376**	180,925	**1,612,647**
Income before income taxes and non-controlling interests	**10,675**	15,913	**100,451**
Total net income	**8,446**	12,806	**79,476**

27. Subsequent Events

On June 27, 2018, 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 (¥30.0 per share)	¥5,011	$47,153

28. Other Matters

(a) Quarterly financial information

	Millions of yen			
Year ended March 31, 2018	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	¥335,329	¥709,721	¥1,092,369	¥1,574,242
Income before income taxes	5,433	15,116	27,166	32,999
Net income (loss)	3,278	10,853	14,520	28,915
	Yen			
Net income (loss) per share—basic	¥19.6	¥65.0	¥86.9	¥173.1

	Thousands of U.S. dollars			
Year ended March 31, 2018	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$3,155,443	$6,678,469	$10,279,185	$14,813,606
Income before income taxes	51,124	142,241	255,631	310,520
Net income (loss)	30,845	102,126	136,633	272,089
	U.S. dollars			
Net income (loss) per share—basic	$0.18	$0.61	$0.81	$1.62

Note: As the Company carried out a share consolidation with a 10:1 ratio of common shares with an effective date of October 1, 2017, net income per share has been calculated with the assumption that this share consolidation was carried out at the beginning of the fiscal year ended March 31, 2018.

(b) Material lawsuits, etc.

KAWASAKI MOTORS ENTERPRISE (THAILAND) CO., LTD. (hereinafter, "KMT"), a consolidated subsidiary of the Company in the Kingdom of Thailand, received a reassessment notification of customs duties for 4,029 million baht (equivalent to approximately 13,698 million yen ($ 128,898 thousand) when converted at a rate of 0.29 yen to 1 baht) from the Revenue Department of Thailand. KMT had until that time filed its customs duties in accordance with guidance from the Revenue Department. Since the content of the notification of reassessment lacked a legitimate basis and was extremely unreasonable, KMT could not accept it and submitted an appeal of the reassessment to the Commission of Appeal, the appeals body for tax assessments received from the Revenue Department of Thailand.

Based on the opinion of attorneys consulted regarding this matter, the Company maintains that there is a strong possibility KMT's assertion will be upheld.

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, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and their financial performance and cash flows for each of the three years in the period ended March 31, 2018, 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, 2018 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

26 June, 2018
Kobe, Japan

Executives

(As of October 1, 2018)

+Current Position

Directors

Chairman of the Board

Shigeru Murayama

Apr. 1974 Joined Kawasaki Heavy Industries, Ltd.
Apr. 2010 President, Aerospace Company
Jun. 2013 President
Jun. 2016 Chairman+

Representative Director, President and Chief Executive Officer

Yoshinori Kanehana

Chief Executive Officer

Apr. 1976 Joined Kawasaki Heavy Industries, Ltd.
Oct. 2007 General Manager, Project Management Division, Rolling Stock Company
Jun. 2013 Senior Vice President
President, Rolling Stock Company
Apr. 2016 Senior Executive Vice President
Jun. 2016 President
Apr. 2018 President and Chief Executive Officer+

Representative Director, Vice President and Senior Executive Officer

Kenji Tomida

Assistant to the President, in charge of Finance & Accounting, Head Office administration, and Ship & Offshore Structure Company

Apr. 1978 Joined Kawasaki Heavy Industries, Ltd.
Jul. 2013 General Manager, Corporate Planning Division
Jun. 2014 Senior Vice President
Apr. 2015 President, Motorcycle & Engine Company
Dec. 2016 General Manager, Corporate Planning Division
Apr. 2017 Senior Executive Vice President
Apr. 2018 Director, Vice President and Senior Executive Officer+

Munenori Ishikawa

Assistant to the President, in charge of Technology, Production, Procurement, Quality Assurance, and Rolling Stock Company

Apr. 1975 Joined Kawasaki Heavy Industries, Ltd.
Apr. 2009 General Manager, Manufacturing Division, Aerospace Company
Jun. 2013 President, Aerospace Company
Jun. 2014 Senior Vice President
Apr. 2016 Senior Executive Vice President
Apr. 2018 Director
May 2018 Director, Vice President and Senior Executive Officer+

Director, Managing Executive Officer

Kazuo Ota

President, Motorcycle & Engine Company

Apr. 1978 Joined Kawasaki Heavy Industries, Ltd.
Apr. 2012 General Manager, Planning & Control Division, Aerospace Company
Apr. 2015 General Manager, Corporate Planning Division
Jun. 2015 Senior Vice President
Dec. 2016 President, Motorcycle & Engine Company+
Apr. 2018 Director, Managing Executive Officer+

Tatsuya Watanabe

President, Energy System & Plant Engineering Company

Apr. 1981 Joined Kawasaki Heavy Industries, Ltd.
Apr. 2013 Senior Manager, Energy Plant Engineering Division, Plant & Infrastructure Company
Apr. 2016 President, Plant & Infrastructure Company
Jun. 2016 Senior Vice President
Apr. 2018 Director, Managing Executive Officer+
President, Energy System & Plant Engineering Company+

Katsuya Yamamoto

General Manager, Corporate Planning Division, in charge of Risk Management

Apr. 1981 Joined Kawasaki Heavy Industries, Ltd.
Apr. 2011 Senior Manager, Planning Department, Precision Machinery Company
Apr. 2017 General Manager, Corporate Planning Division+
Jun. 2017 Senior Vice President
Apr. 2018 Director, Managing Executive Officer+

Sukeyuki Namiki

President, Aerospace Systems Company

Apr. 1980 Joined Kawasaki Heavy Industries, Ltd.
Apr. 2015 Executive Officer
Vice President, Aerospace Company
Apr. 2016 Managing Executive Officer
President, Aerospace Company
Apr. 2018 Managing Executive Officer
President, Aerospace Systems Company+
Jun. 2018 Director, Managing Executive Officer+

Yasuhiko Hashimoto

President, Precision Machinery & Robot Company

Apr. 1981 Joined Kawasaki Heavy Industries, Ltd.
Apr. 2013 General Manager, Robot Business Division, Precision Machinery Company
Apr. 2018 President, Precision Machinery & Robot Company+
Jun. 2018 Director, Managing Executive Officer+

Outside Directors

Michio Yoneda

Apr. 1973 Joined Bank of Japan
May 1998 General Manager, Sapporo Branch, Bank of Japan
Apr. 2001 Executive Director (Member of the Board), Osaka Securities Exchange Co., Ltd.
Dec. 2003 President & CEO (Member of the Board), Osaka Securities Exchange Co., Ltd.
Jan. 2013 Director & Representative Executive Officer, Group COO, Japan Exchange Group, Inc.
Director, Tokyo Stock Exchange, Inc.
Jun. 2015 Outside Corporate Auditor, The Resolution and Collection Corporation+
Jun. 2016 Outside Director, Kawasaki Heavy Industries, Ltd.+

Yoshiaki Tamura

Apr. 1979 Joined Asahi Glass Co., Ltd. (At present: AGC Inc.)
Mar. 2013 Representative Director and Executive Vice President, AGC Inc. Overall Business Management, GM of Technology General Division, Deputy Leader of AGC Group Improvement Activities
Jan. 2014 President of Glass Company, AGC Inc.
Mar. 2014 Executive Vice President, President of Glass Company, AGC Inc.
Jan. 2017 Assistant to CEO, AGC Inc.
Mar. 2017 Executive Fellow, AGC Inc.+
Mar. 2018 Outside Director, DIC Corporation+
Jun. 2018 Outside Director, Kawasaki Heavy Industries, Ltd.+

Jenifer Rogers

Sep. 1989 Joined Haight Gardner Poor & Havens (At present: Holland & Knight LLP)
Dec. 1990 Registered as Attorney at Law admitted in New York
Feb. 1991 Joined Industrial Bank of Japan Limited (At present: Mizuho Bank, Ltd.)
Dec. 1994 Joined Merrill Lynch Japan Securities Co., Ltd.
Nov. 2000 Merrill Lynch Europe Plc
Jul. 2006 Bank of America Merrill Lynch (Hong Kong)
Nov. 2012 General Counsel Asia, Asurion Japan Holdings G.K.+
Jun. 2015 Outside Director, Mitsui & Co., Ltd.+
Jun. 2018 Outside Director, Kawasaki Heavy Industries, Ltd.+

Audit & Supervisory Board Members

Katsuyoshi Fukuma

Apr. 1981 Joined Kawasaki Heavy Industries, Ltd.
Apr. 2014 Deputy General Manager, Corporate Planning Division
Jun. 2016 Audit & Supervisory Board Member+

Akio Nekoshima

Apr. 1982 Joined The Dai-Ichi Kangyo Bank, Limited (At present: Mizuho Bank, Ltd.)
May 2012 Joined Kawasaki Heavy Industries, Ltd.
Apr. 2013 Senior Manager, Overseas, Marketing Division
Jul. 2013 General Manager, Finance & Accounting Division
Apr. 2016 General Manager, Marketing Division
Jun. 2018 Audit & Supervisory Board Member+

Outside Audit & Supervisory Board Members

Takashi Torizumi

Apr. 1975 Joined Kawasaki Kisen Kaisha, Ltd.
Jul. 2001 Senior Manager, Accounting Group, Kawasaki Kisen Kaisha, Ltd.
Jun. 2007 Director, Executive Officer, Kawasaki Kisen Kaisha, Ltd.
Apr. 2009 Director, Managing Executive Officer, Kawasaki Kisen Kaisha, Ltd.
Apr. 2011 Representative Director, Senior Managing Executive Officer, Kawasaki Kisen Kaisha, Ltd.
Apr. 2015 Director, Kawasaki Kisen Kaisha, Ltd.
Jun. 2015 Audit & Supervisory Board Member, Kawasaki Heavy Industries, Ltd.+

Satoru Kohdera

Apr. 1991 Admitted to Bar in Japan
Joined Ohshiro Law Office (At present: Higashimachi LPC)
Apr. 1993 Partner of Higashimachi Law Office
Jun. 2010 Partner of Higashimachi LPC
Jun. 2013 Substitute Auditor, Kawasaki Heavy Industries, Ltd.
Apr. 2015 President, Hyogo-ken Bar Association
Dec. 2015 Managing Partner of Higashimachi LPC
Apr. 2016 Vice President, Japan Federation of Bar Associations
Jun. 2017 Audit & Supervisory Board Member, Kawasaki Heavy Industries, Ltd.+

Atsuko Ishii

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

Managing Executive Officers

Ikuhiro Narimatsu

In charge of General Administration Division, CSR Division, Legal Division, and Compliance

Koji Kadota

General Manager, Corporate Technology Division

Yoshinori Mochida

President, Ship & Offshore Structure Company

Takeshi Ohata

Vice President, Energy System & Plant Engineering Company

Kazutoshi Honkawa

President, Rolling Stock Company

Executive Officers

Hiroji Iwasaki

Deputy General Manager, Marketing Division

Toshiyuki Mimura

General Manager, Planning & Control Division, Energy System & Plant Engineering Company

Eiichi Harada

Deputy General Manager, Corporate Technology Division

Yuji Horiuchi

Vice President, Motorcycle & Engine Company

Yoshihiro Uetake

Vice President, Aerospace Systems Company

Ichiro Kono

Vice President, Ship & Offshore Structure Company

Akihisa Yamamoto

In charge of Plant Engineering Division, Energy System & Plant Engineering Company

Akira Matsufuji

Vice President, Rolling Stock Company

Hiroshi Nakatani

Deputy General Manager, Corporate Technology Division

Mitsumasa Sato

General Manager, Defense and Aerospace Project Division, Aerospace Systems Company

Makoto Shiota

General Manager, Marketing Division

Hiroyoshi Shimokawa

Vice President, Aerospace Systems Company

Keigo Imamura

General Manager, Planning & Control Division, Ship & Offshore Structure Company

Nobuhisa Kato

General Manager, Finance & Accounting Division

Hidehiko Shimamura

General Manager, Precision Machinery Business Division, Precision Machinery & Robot Company

Shinji Fujita

General Manager, Robot Business Division, Precision Machinery & Robot Company

Kouzou Tomiyama

General Manager, Personnel & Labor Administration Division

Hiroshi Ito

General Manager, Planning Division, Motorcycle & Engine Company

Yu Koshiyama

General Manager, Commercial Engine Project Division, Aerospace Systems Company

Fellows

Toshimi Taki

In charge of Structural Engineering, Aerospace Systems Company

Shinji Koga

In charge of Production Improvement, Corporate Technology Division

Toru Nohisa

In charge of Aircraft Engineering, Aerospace Systems Company

Tsutomu Fujigaki

In charge of Helicopter Projects, Aerospace Systems Company

Tatsuhiko Goi

In charge of Gear System Technology, Aerospace Systems Company

Tetsuji Yuasa

In charge of Submarine & AUV Technology, Ship & Offshore Structure Company

*For reasons for appointment of Outside Directors and Outside Audit & Supervisory Board Members, please refer to page 46.

Corporate Profile/Stock Information

(As of March 31, 2018)

Corporate Profile

Trade Name	Kawasaki Heavy Industries, Ltd.	
Head Offices	Tokyo Head Office:	14-5, Kaigan 1-chome, Minato-ku, Tokyo 105-8315, Japan
	Kobe Head Office:	Kobe Crystal Tower, 1-3, Higashikawasaki-cho 1-chome, Chuo-ku, Kobe, Hyogo 650-8680, Japan
Incorporated	October 15, 1896	
President	Yoshinori Kanehana	
Paid-in Capital	¥104,484 million	
Net Sales	●Consolidated:	¥1,574,242 million (Fiscal year ended March 31, 2018)
	●Non-consolidated:	¥1,213,607 million (Fiscal year ended March 31, 2018)
Number of Employees	●Consolidated:	35,805
	●Non-consolidated:	16,423

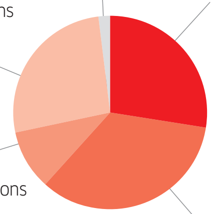
Stock Information

Securities Code	7012
Stock Listings	Tokyo and Nagoya Stock Exchanges
Share Unit Number	100 shares
Total Number of Shares Authorized	336,000,000 shares
Total Number of Shares Issued	167,080,532 shares
Number of Shareholders	113,908 persons
Fiscal Year	From April 1 to March 31
Year-end Dividend Record Date	March 31
Interim Dividend Record Date	September 30
Annual General Meeting of Shareholders	June

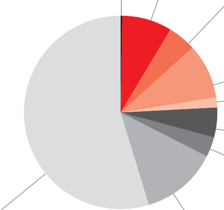
Major Shareholders

Shareholder	Number of Shares Owned	Percentage
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,268,500	5.54%
Japan Trustee Services Bank, Ltd. (Trust Account)	6,388,400	3.82%
Nippon Life Insurance Company	5,751,661	3.44%
JFE Steel Corporation	4,578,240	2.74%
Mizuho Bank, Ltd.	4,176,412	2.49%
Kawasaki Heavy Industries, Ltd. Kyoueikai	3,607,319	2.15%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	3,488,000	2.08%
Sompo Japan Nipponkoa Insurance Inc.	3,057,799	1.83%
Kawasaki Heavy Industries Employee Stock Ownership Association	2,980,821	1.78%
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,973,400	1.77%

Classified by Type of Shareholder



Classified by Number of Holdings



Base/Major Subsidiaries Introduction

(As of July 1, 2018)

Offices in Japan

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

Production Bases in Japan

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

Overseas Offices

- Taipei Office
- Bangkok Office

Major Subsidiaries in Japan

- Kawaju Support Co., Ltd.
- Kawasaki Marine Engineering Co., Ltd.
- KHI JPS Co., Ltd.
- MES-KHI YURA DOCK CO., LTD.
- Alna Yusoki-Yohin Co., Ltd.
- Kawasaki Rolling Stock Component Co., Ltd.
- Kawasaki Rolling Stock Technology Co., Ltd.
- Kansai Engineering Co., Ltd.
- Sapporo Kawasaki Rolling Stock Engineering Co., Ltd.
- NICHIJO CORPORATION
- NIPPI Corporation
- Nippi Skill Corporation
- Kawaju Gifu Engineering Co., Ltd.
- Kawaju Gifu Service Co., Ltd.
- KGM Co., Ltd.
- Kawaju Akashi Engineering Co., Ltd.
- KEE Environmental Construction Co., Ltd.
- Kawasaki Environmental Plant Engineering Co., Ltd.
- Kawasaki Engineering Co., Ltd.
- Kawaju Facilitech Co., Ltd.
- EarthTechnica Co., Ltd.
- EarthTechnica M&S Co., Ltd.
- JP Steel Plantech Co.
- Kawasaki Thermal Engineering Co., Ltd.
- Kawasaki Machine Systems, Ltd.
- Kawasaki Prime Mover Engineering Co., Ltd.
- Kawasaki Naval Engine Service, Ltd.
- Kawasaki Motors Corporation Japan
- K-Tec Corporation
- Technica Corp.
- Autopolis
- Union Precision Die Co., Ltd.
- Kawasaki Robot Service, Ltd.
- Kawasaki Hydromechanics Corporation
- Medicaroid Corporation
- Kawasaki Trading Co., Ltd.
- Kawaju Service Co., Ltd.
- Kawasaki Technology Co., Ltd.
- Kawasaki Heartfelt Service Co., Ltd.
- K Career Partners Corp.
- Benic Solution Corporation
- Kawasaki Life Corporation
- Nippi Kosan Co., Ltd

Overseas Subsidiaries & Affiliates

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

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

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Kawasaki Heavy Industries, Ltd.

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