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(Securities Code: 7012)

June 6, 2017

Dear Shareholders:

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

NOTICE OF THE 194th ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 194th Ordinary General Meeting of Shareholders of Kawasaki Heavy Industries, Ltd. (the "Company" or "KHI"). The meeting will be held as described below.

If you are unable to attend on the day of the meeting, we kindly ask you to review the "Reference Documents for the General Meeting of Shareholders" (described hereinafter), and exercise your voting right in writing or via the Internet, etc., by 5:00 p.m. on Tuesday, June 27, 2017 (JST).

- 1. Date and Time:** **Wednesday, June 28, 2017 at 10:00 a.m. (JST) (Door opens at 9 a.m.)**
- 2. Place:** **Kokusai Hall at The Kobe International House**
1-6 Gokoudori 8-chome, Chuo-ku, Kobe

3. Meeting Agenda:

Matters to be reported:

1. The Business Report, Consolidated Financial Statements for the Company's 194th Fiscal Year (from April 1, 2016 to March 31, 2017) and results of audits of the Consolidated Financial Statements by the Accounting Auditor and the Board of Corporate Auditors
2. Non-Consolidated Financial Statements for the Company's 194th Fiscal Year (from April 1, 2016 to March 31, 2017)

Matters to be resolved:

- Proposal No. 1:** Appropriation of Surplus
- Proposal No. 2:** Share Consolidation
- Proposal No. 3:** Partial Amendments to the Articles of Incorporation
- Proposal No. 4:** Election of Twelve Directors
- Proposal No. 5:** Election of Two Corporate Auditors
- Proposal No. 6:** Revision of Remuneration Amount for Corporate Auditors
(Please refer to the "Reference Documents for the General Meeting of Shareholders" hereinafter for information on each of the proposals.)

4. Other matters regarding procedures of the General Meeting of Shareholders:

(1) Concerning web disclosure

Among the documents to be submitted when sending the Notice, "System to ensure that Directors' execution of duties complies with laws, regulations, and the Articles of Incorporation, other systems to ensure proper execution of business and overview of operation status of such systems" in the Business Report, "Consolidated Statement of Changes in Net Assets" "Notes to the Consolidated Financial Statements" and "Non-consolidated Statement of Changes in Net Assets" "Notes to the Non-consolidated Financial Statements" are posted on the Company's Website (<http://global.kawasaki.com/en/corp/ir/>) pursuant to laws and regulations as well as Article 16 of the Company's Articles of Incorporation, and they are not included in the Appendix regarding matters to be reported. "Consolidated Statement of Changes in Net Assets" "Notes to the Consolidated Financial Statements" "Non-consolidated Statement of Changes in Net Assets" and "Notes to the Non-consolidated Financial Statements" have been combined with the Consolidated Financial Statements and the Non-Consolidated Financial Statements for the auditing process when preparing the results of audits by the Accounting Auditor and the Board of Corporate Auditors.

(2) Concerning amendments on the web

Any amendments to the Business Report, the Consolidated Financial Statements, the Non-Consolidated Financial Statements and the Reference Documents for the General Meeting of Shareholders, will be posted on the Company's Website at the following URL: (<http://global.kawasaki.com/en/corp/ir/>).

(3) Concerning entrance of persons other than shareholders

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

(4) Concerning photography, video and audio recording inside the General Meeting of Shareholders

Photography, video and audio recording inside the General Meeting of Shareholders is prohibited as a general rule. We appreciate your cooperation.

(5) Abolition of presents

Please kindly accept abolition of presents this year to the shareholders on the day of the General Meeting of Shareholders. We greatly appreciate your understanding.

Exercise of Voting Rights in Writing

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

Exercise of Voting Rights via the Internet, etc.

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

Notes:

1. If you duplicate your vote, i.e., if you exercise your voting rights both in writing and via the Internet, we will consider only the Internet vote to be valid. Also, if you vote a number of times, we will consider the final vote to be the valid one.
2. Shareholders who intend to diversely exercise voting rights are requested to give written notification to that effect, and the reason(s) thereof, no later than three days prior to the day of the General Meeting of Shareholders.
3. When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk at the venue on the day of the meeting.

Reference Documents for the General Meeting of Shareholders

Proposals and References

Proposal No. 1: Appropriation of Surplus

The Company considers the improvement of enterprise value, i.e., creating stable profit that exceeds capital costs over the future, as being a fundamental policy, and return of profits to shareholders by enhancing shareholder value over the long term through continuous, advanced research and development and innovative capital investment, which is necessary for future growth, as being an important management issue. In order to keep a balance between enhancing shareholder value and returning profits to shareholders, the Company takes its overall financial position into consideration, such as free cash flow and debt-equity ratio (D/E ratio), in addition to future earnings trends and has 30% as the basis for the medium- to long-term dividend payout ratio with respect to net income attributable to owners of parent. The Company's basic policy is to distribute dividend surplus twice a year as an interim dividend and a year-end dividend. The Board of Directors determines the amount of the interim dividend and the shareholders determine the year-end dividend at a General Meeting of Shareholders.

Based on the policy above, the year-end dividend for the 194th term will amount to ¥2 per ordinary share of the Company for a total distribution of ¥3,341,092,424. As a result, annual dividend will be ¥6 per ordinary share of the Company, including interim dividend.

In addition, the effective date for the dividends from surplus shall be June 29, 2017.

Type of dividend property	Cash
Dividend per share	¥2
Total amount of dividend	¥3,341,092,424
Effective date of dividends of surplus	June 29, 2017

Proposal No. 2: Share Consolidation

1. Reason for conducting share consolidation

Based on the "Action Plan for Consolidating Trading Units," Japan's securities exchanges aim to standardize the trading unit (the number of shares constituting one unit of stock) for ordinary shares for listed companies in Japan at 100 shares per unit.

As a company listed on the Tokyo Stock Exchange, Inc. and the Nagoya Stock Exchange, Inc., the Company respects the intent of this and has decided to change the number of shares constituting one unit of stock of the Company from 1,000 shares to 100 shares.

Therefore, we propose to consolidate every 10 shares into 1 share in consideration of our share price level per trading unit to be taking into account the minimum investment unit considered desirable by the securities exchanges (minimum of ¥50,000 and up to, but not including, ¥500,000).

2. Consolidation ratio

With regard to ordinary shares issued by the Company, 10 shares will be consolidated into 1 share.

For shareholders who will have fractional shares of less than 1 share in the number of shares to be held as a result of share consolidation, the Company will, pursuant to the provisions of the Companies Act, sell the total sum of the fractions and deliver the sales proceeds to each of the shareholders in proportion to the number of fractional shares attributed to them.

3. Effective date of share consolidation

October 1, 2017

4. Aggregate number of issuable shares on the effective date of share consolidation

336,000,000 shares

5. Others

Share consolidation pertaining to this proposal will be effective provided that Proposal No. 3 "Partial Amendments to the Articles of Incorporation" is approved and adopted in its original form.

For share consolidation and changes in the number of shares constituting one unit of stock, please refer to the explanatory material on pages 7–8.

Proposal No. 3: Partial Amendments to the Articles of Incorporation

1. Reasons for amendments

On condition that Proposal No. 2 "Share Consolidation" is approved and adopted, to reduce the aggregate number of shares which the Company shall have the authority to issue stipulated by Article 6 of the current Articles of Incorporation according to the proportion of share consolidation. In addition, to reduce the number of shares constituting one unit of stock as stipulated by Article 8 of the current Articles of Incorporation from 1,000 shares to 100 shares, with respect to the purport of Japan's Security Exchanges' "Action Plan for Consolidating Trading Units".

2. Contents of proposed amendments

The contents of the proposed amendments are as follows:

(Underline indicates amendments.)

Current Articles of Incorporation	Proposed provisions after amendments
(Aggregate Number of Issuable Shares) Art. 6: The aggregate number of shares which the Corporation shall have the authority to issue is <u>3,360,000,000 shares</u> .	(Aggregate Number of Issuable Shares) Art. 6: The aggregate number of shares which the Corporation shall have the authority to issue is <u>336,000,000 shares</u> .
(The Number of Shares Constituting One Unit of Stock (tangen-kabu)) Art. 8: The number of shares constituting one unit of stock of the Corporation is <u>one thousand</u> .	(The Number of Shares Constituting One Unit of Stock (tangen-kabu)) Art. 8: The number of shares constituting one unit of stock of the Corporation is <u>one hundred</u> .
(Newly established)	<p style="text-align: center;"><u>Supplementary Provision</u></p> <p><u>Amendments to Article 6 and Article 8 shall be effective on the effective date of share consolidation pertaining to Proposal No. 2 of the 194th Ordinary General Meeting of Shareholders. This supplementary provision will be removed after the effective date of share consolidation.</u></p>

(Reference) Q&A Regarding the Change in the Number of Shares Constituting One Unit of Stock and Share Consolidation

Q1. What are the change in the number of shares constituting one unit of stock and the share consolidation?

The change in the number of shares constituting one unit of stock means **to change the unit of voting rights at a general meeting of shareholders and the number of shares to make up the trading unit at the securities exchange**. This time, the Company will be changing the number of shares constituting one unit of stock from 1,000 to 100.

Also, the share consolidation means **to merge multiple shares together to create fewer total shares**. This time, the Company will be merging every 10 shares into 1 share.

Q2. What is the purpose of the share consolidation and changing the number of shares constituting one unit of stock?

Based on the "Action Plan for Consolidating Trading Units," Japan's securities exchanges aim to standardize the trading unit at 100 shares per unit. Respecting the intent of this, the Company has decided to change the number of shares constituting one unit of stock of the Company from current 1,000 to 100.

In line with this, the Company will **consolidate every 10 shares into 1 share in consideration of its share price level per trading unit to be taking into account the minimum investment unit considered desirable by the securities exchanges (minimum of ¥50,000 and up to, but not including, ¥500,000)**.

Q3. What will happen to the number of shares and the voting rights of shareholders?

The number of shares held by each shareholder after the consolidation of shares will be **the number of shares obtained by multiplying the number of shares held by the shareholder recorded in the latest register of shareholders as of September 30, 2017 by one-tenth (rounded down to the nearest whole share)**. The voting rights of shareholders will be 1 per 100 shares to be held after the share consolidation. **Shareholders who currently have voting rights will not have the number of their voting rights affected by this change**. The table below shows the specific number of shares and voting rights held before and after the effective date of changes in the number of shares constituting one unit of stock and the share consolidation.

	Before the share consolidation takes effect		After the share consolidation takes effect		
	Number of the Company's shares held	Number of voting rights	Number of the Company's shares held	Number of voting rights	Fractional shares
Example 1	2,000 shares	2	200 shares	2	None
Example 2	1,500 shares	1	150 shares	1	None
Example 3	999 shares	None	99 shares	None	0.9 shares
Example 4	8 shares	None	None	None	0.8 shares

- * Shareholders who qualify for Examples 1 & 2 are not required to make special arrangements.
- * In the case that fractional shares (shares of less than 1 share: Examples 3 & 4 above) are created, the Company will sell the total sum of the fractional shares and pay the proceeds to the shareholders in proportion to the number of fractional shares they hold.
- * Shareholders holding less than 10 shares before the effective date of the share consolidation (Example 4) will lose their status as shareholders of the Company, as they will have no shares after the share consolidation.

Q4. Will the reduction of the number of shares after share consolidation affect asset value?

The share consolidation will divide the shareholder's amount of shares by a factor of 10, but it will multiply the asset value of each share 10 times, as neither the Company's assets nor its status of capital will be affected. Therefore, aside from such factors as fluctuations in the stock market, **the share consolidation will have no influence on asset value of the shareholder's shares of the Company.** Furthermore, the share price will logically increase by 10 times after the share consolidation, specifically, as follows.

	Before the share consolidation takes effect	After the share consolidation takes effect	Notes
Number of the Company's shares held	1,000 shares	100 shares	One-tenth
Share price	400 yen	4,000 yen	10 times
Asset value	400,000 yen	400,000 yen	No changes

Q5. Will this affect dividends?

Although this share consolidation will divide the shareholder's shares by 10, following the effective date of the share consolidation, dividend payments will be adjusted according to the consolidation ratio. Therefore, aside from factors such as fluctuations in performance, **the total amount of dividends received by the shareholder will not be affected** by the share consolidation.

However, dividend payments will not be made for fractional shares resulting from the share consolidation.

Q6. Are there any procedures that shareholders will need to undertake?

No special procedures will be required.

Q7. What will the future schedule be?

The specific schedule is planned to be as follows:

June 28, 2017	Resolution at the Ordinary General Meeting of Shareholders
September 26, 2017	Last day of trading in units of 1,000 shares
September 27, 2017	First day of trading in units of 100 shares
October 1, 2017	Effective date for share consolidation and the partial amendments to the Articles of Incorporation
Early December 2017	Payment of proceeds from sales of fractional shares

* The above schedule assumes that the related proposal will be adopted at the 194th Ordinary General Meeting of Shareholders to be held on June 28, 2017.

* The effective date for the change in the number of shares constituting one unit of stock, the share consolidation, and the partial amendments to the Articles of Incorporation is October 1, 2017. However, because of post-transaction share transfer procedures, the number of one trading unit of the Company's shares at the securities exchanges will be changed to 100 shares from 1,000 shares and the effect of the share consolidation will be reflected to share prices as of September 27, 2017.

Proposal No. 4: Election of Twelve Directors

The terms of office of all twelve Directors will expire at the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, we propose to elect twelve Directors (eleven Directors to be reappointed (including two Outside Directors) and one Director to be newly appointed) to establish corporate governance at a higher level and further improve the enterprise value. Candidates for Directors were nominated by the Board of Directors in accordance with "Qualifications Expected of Directors," which is described on page 21. The Company has obtained a report to the effect that this nomination is appropriate from the Nomination Advisory Committee, which consists mainly of independent outside officers.

The candidates for Directors are as follows:

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
1	(Reappointed) Shigeru Murayama (February 27, 1950)	<p>Apr. 1974 Joined Kawasaki Heavy Industries, Ltd. Jun. 2010 Senior Vice President President, Aerospace Company Jun. 2013 President Jun. 2016 Chairman of the Board (current position)</p> <p>[Significant concurrent positions] President (representative director) of Commercial Airplane Company Chairman of The Shipbuilders' Association of Japan</p> <p>Reasons for nomination as candidate for Director Mr. Murayama has been mainly engaged in business related to technology and development of the aerospace segment of the Company for many years. He assumed the office of its Senior Vice President in 2010 and its President in 2013. He has served as Chairman of the Board since 2016. Presently, as Chairman of the Board, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable for a Director and nominated him again as a candidate for Director.</p>	161,000 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
2	(Reappointed) Yoshinori Kanehana (February 19, 1954)	<p>Apr. 1976 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2012 Managing Executive Officer General Manager, Marketing Division</p> <p>Jun. 2012 Senior Vice President General Manager, Marketing Division</p> <p>Jun. 2013 Senior Vice President President, Rolling Stock Company</p> <p>Apr. 2016 Senior Executive Vice President Assistant to the President</p> <p>Jun. 2016 President (current position)</p> <p>Reasons for nomination as candidate for Director Mr. Kanehana has been mainly engaged in business related to technology and development of the rolling stock segment of the Company and its overseas business for many years. He assumed the office of its Senior Vice President in 2012 and its Senior Executive Vice President in April 2016. He has served as President since June 2016. Presently, as President, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable for a Director and nominated him again as a candidate for Director.</p>	95,000 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
3	(Reappointed) (Outside Director Candidate) (Independent Officer) Yoshihiko Morita (March 7, 1947)	<p>Apr. 1969 Joined Export-Import Bank of Japan (At present: Japan Bank for International Cooperation)</p> <p>Oct. 2008 Representative Director and Senior Managing Executive Officer, Deputy CEO of Japan Bank for International Cooperation, Japan Finance Corporation</p> <p>Jun. 2011 Resigned Representative Director and Senior Managing Executive Officer, Deputy CEO of Japan Bank for International Cooperation, Japan Finance Corporation</p> <p>Dec. 2011 Advisor, Sumitomo Mitsui Banking Corporation</p> <p>Jun. 2012 President, Japan Institute for Overseas Investment Outside Corporate Auditor, TOKYO GAS Co., Ltd.</p> <p>Jun. 2013 Outside Director, Kawasaki Heavy Industries, Ltd.</p> <p>Jun. 2013 Resigned Advisor, Sumitomo Mitsui Banking Corporation</p> <p>Dec. 2014 Resigned President, Japan Institute for Overseas Investment (current position)</p> <p>[Significant concurrent positions] Outside Corporate Auditor, TOKYO GAS Co., Ltd.</p> <p>Reasons for nomination as candidate for Director Mr. Morita previously served as Deputy CEO of Japan Bank for International Cooperation, Representative Director and Senior Managing Executive Officer of Japan Finance Corporation and other important positions. By utilizing his substantial overseas experience and expertise acquired in those institutions, he has provided the Company with useful opinions and advice in determining important matters of the Company's management from a position independent from the Company's execution of duties. Considering these points, we have nominated him again as a candidate for Director as we have judged that he will be able to fully perform his roles as an Outside Director in the supervision of execution of duties and enhancement of its enterprise value.</p>	2,000 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
4	(Reappointed) Munenori Ishikawa (February 26, 1953)	<p>Apr. 1975 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2012 Executive Officer General Manager, Manufacturing Division of Aerospace Company</p> <p>Apr. 2013 Executive Officer Vice President, Aerospace Company</p> <p>Jun. 2013 Managing Executive Officer President, Aerospace Company</p> <p>Jun. 2014 Senior Vice President President, Aerospace Company</p> <p>Apr. 2016 Senior Executive Vice President Assistant to the President, in charge of Production and Procurement Department and in charge of Aerospace Company</p> <p>Apr. 2017 Senior Executive Vice President Assistant to the President, in charge of Technology, Production, Sales and Procurement Department (current position)</p> <p>Reasons for nomination as candidate for Director Mr. Ishikawa has been mainly engaged in business related to technology, development and production of the aerospace segment of the Company for many years. He was appointed as its Senior Vice President in 2014 and has served as its Senior Executive Vice President since 2016. Presently, as Senior Executive Vice President in charge of Technology, Production, Sales and Procurement department, he has been making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable for a Director and nominated him again as a candidate for Director.</p>	63,000 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
5	(Reappointed) Kazuo Hida (February 1, 1954)	<p>Apr. 1978 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Sep. 2011 Executive Officer General Manager, Engineering Division of Precision Machinery Company</p> <p>Apr. 2013 Executive Officer Vice President and General Manager, Engineering Division of Precision Machinery Company</p> <p>Apr. 2014 Managing Executive Officer President, Precision Machinery Company</p> <p>Jun. 2014 Senior Vice President President, Precision Machinery Company (current position)</p> <p>Reasons for nomination as candidate for Director Mr. Hida has been mainly engaged in business related to technology and development of the precision machinery segment of the Company and its overseas business for many years. He has served as its Senior Vice President since 2014. Presently, as President of Precision Machinery Company, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable for a Director and nominated him again as a candidate for Director.</p>	56,000 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
6	(Reappointed) Kenji Tomida (August 7, 1955)	<p>Apr. 1978 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2012 Executive Officer Deputy General Manager, Corporate Planning Division Marketing Division</p> <p>Apr. 2013 Executive Officer General Manager, Planning & Control Division of Ship & Offshore Structure Company</p> <p>Jul. 2013 Executive Officer General Manager, Corporate Planning Division</p> <p>Apr. 2014 Managing Executive Officer General Manager, Corporate Planning Division</p> <p>Jun. 2014 Senior Vice President General Manager, Corporate Planning Division</p> <p>Apr. 2015 Senior Vice President President of Motorcycle & Engine Company</p> <p>Dec. 2016 General Manager, Corporate Planning Division, in charge of Finance & Accounting and Personnel & Labor Administration Department</p> <p>Apr. 2017 Senior Executive Vice President Assistant to the President, in charge of Head Office Administration Department (current position)</p> <p>Reasons for nomination as candidate for Director Mr. Tomida has been mainly engaged in business related to finance & accounting and corporate planning of the Company and its overseas business for many years. He was appointed as its Senior Vice President in 2014 and has served as its Senior Executive Vice President since 2017. Presently, as Senior Executive Vice President in charge of Head Office Administration department, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable for a Director and nominated him again as a candidate for Director.</p>	51,000 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
7	(Reappointed) Toshiyuki Kuyama (November 12, 1953)	<p>Apr. 1980 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2012 Executive Officer General Manager, Gas Turbine Division of Gas Turbine & Machinery Company</p> <p>Apr. 2015 Managing Executive Officer President, Gas Turbine & Machinery Company</p> <p>Jun. 2015 Senior Vice President President, Gas Turbine & Machinery Company (current position)</p> <p>Reasons for nomination as candidate for Director Mr. Kuyama has been mainly engaged in business related to technology and development of the gas turbine & machinery segment of the Company for many years. He has served as its Senior Vice President since 2015. Presently, as President of Gas Turbine & Machinery Company, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable for a Director and nominated him again as a candidate for Director.</p>	45,000 shares
8	(Reappointed) Kazuo Ota (January 13, 1955)	<p>Apr. 1978 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2012 General Manager of Planning & Control Division, Aerospace Company</p> <p>Apr. 2013 Executive Officer General Manager of Planning & Control Division, Aerospace Company</p> <p>Apr. 2015 Managing Executive Officer General Manager, Corporate Planning Division, in charge of Finance & Accounting and Personnel & Labor Administration department</p> <p>Jun. 2015 Senior Vice President General Manager, Corporate Planning Division, in charge of Finance & Accounting and Personnel & Labor Administration department</p> <p>Dec. 2016 Senior Vice President President, Motorcycle & Engine Company (current position)</p> <p>Reasons for nomination as candidate for Director Mr. Ota has been mainly engaged in business related to corporate planning and finance & accounting of the Company and its overseas business for many years. He has served as its Senior Vice President since 2015. Presently, as President of Motorcycle & Engine Company, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable for a Director and nominated him again as a candidate for Director.</p>	60,000 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
9	(Reappointed) Makoto Ogawara (April 10, 1955)	<p>Apr. 1978 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2012 Executive Officer Vice President, Rolling Stock Company</p> <p>Apr. 2016 Managing Executive Officer President, Rolling Stock Company</p> <p>Jun. 2016 Senior Vice President President, Rolling Stock Company (current position)</p> <hr/> <p>Reasons for nomination as candidate for Director Mr. Ogawara has been mainly engaged in business related to technology and development of the rolling stock segment of the Company for many years. He has served as its Senior Vice President since 2016. Presently, as President of Rolling Stock Company, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable for a Director and nominated him again as a candidate for Director.</p>	67,000 shares
10	(Reappointed) Tatsuya Watanabe (September 30, 1957)	<p>Apr. 1981 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2011 Vice Senior Manager, Industrial Plant Engineering Division, Plant & Infrastructure Company</p> <p>Apr. 2013 Executive Officer Senior Manager, Energy Plant Engineering Division of Plant & Infrastructure Company</p> <p>Apr. 2015 Executive Officer Vice President, Plant & Infrastructure Company</p> <p>Apr. 2016 Managing Executive Officer President, Plant & Infrastructure Company</p> <p>Jun. 2016 Senior Vice President President, Plant & Infrastructure Company (current position)</p> <hr/> <p>Reasons for nomination as candidate for Director Mr. Watanabe has been mainly engaged in business related to technology and development of the plant & infrastructure segment of the Company for many years. He has served as Senior Vice President since 2016. Presently, as President of Plant & Infrastructure Company, he has been demonstrating his outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable for a Director and nominated him again as a candidate for Director.</p>	21,000 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
11	(Reappointed) (Outside Director Candidate) (Independent Officer) Michio Yoneda (June 14, 1949)	<p>Apr. 1973 Joined Bank of Japan</p> <p>May 1998 General Manager, Sapporo Branch of Bank of Japan</p> <p>Apr. 2000 Resigned General Manager, Sapporo Branch of Bank of Japan</p> <p>Apr. 2000 Executive Director, Osaka Securities Exchange</p> <p>Apr. 2001 Executive Director (Member of the Board), Osaka Securities Exchange Co., Ltd.</p> <p>Dec. 2003 President & CEO (Member of the Board), Osaka Securities Exchange Co., Ltd.</p> <p>Jan. 2013 Director & Representative Executive Officer, Group COO, Japan Exchange Group, Inc. Director, Tokyo Stock Exchange, Inc.</p> <p>Jun. 2015 Resigned Director & Representative Executive Officer, Group COO of Japan Exchange Group, Inc. Resigned Director of Tokyo Stock Exchange, Inc.</p> <p>Jun. 2016 Outside Director, Kawasaki Heavy Industries, Ltd. (current position)</p> <p>[Significant concurrent positions] Outside Corporate Auditor, The Resolution and Collection Corporation</p> <p>Reasons for nomination as candidate for Director Mr. Yoneda previously served as President & CEO (Member of the Board) of Osaka Securities Exchange Co., Ltd., and Director & Representative Executive Officer and Group COO of Japan Exchange Group, Inc., and other important positions. We have received helpful opinions and advice on important management decisions based on his deep insight for corporate governance and abundant management experience cultivated in those positions from a standpoint independent from the Company's execution of duties. Considering these points, we have nominated him again as a candidate for Director as we have judged that he will be able to fully perform his roles as an Outside Director in the supervision of execution of duties and enhancement of its enterprise value.</p>	1,000 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
12	(Newly-appointed) Katsuya Yamamoto (November 21, 1957)	<p>Apr. 1981 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2011 General Manager, Planning & Control Division, and Senior Manager, Planning Department, Precision Machinery Company</p> <p>Jul. 2013 General Manager, Planning & Control Division, Precision Machinery Company</p> <p>Apr. 2015 Executive Officer General Manager, Planning & Control Division, Precision Machinery Company</p> <p>Apr. 2017 Managing Executive Officer General Manager, Corporate Planning Division</p> <p>Reasons for nomination as candidate for Director Mr. Yamamoto has been mainly engaged in business related to corporate planning and finance & accounting of the plant & infrastructure segment and the precision machinery segment of the Company for many years. He was appointed as its Executive Officer in 2015 and has served as Managing Executive Officer since 2017. Presently, as General Manager of the Corporate Planning Division, he exercises control over the operations including business planning and investor's relations, thereby making a significant contribution to the Company's business growth and enhancement of its enterprise value. Considering these points, we have determined that he is suitable for a Director and newly nominated him as a candidate for Director.</p>	20,000 shares

- (Notes)
1. Mr. Shigeru Murayama also serves as President (representative director) of Commercial Airplane Co., Ltd. which engages in the following transaction with the Company as well as a business that is the same type as the Company's Aerospace segment:
- Sales, etc. of aircraft component parts for The Boeing Company.
 2. There is no special interest relationship between the other candidates and the Company.
 3. Contents of the matter stipulated regarding candidates for Outside Director pursuant to Article 74, Paragraph 4 of the Ordinance for Enforcement of the Companies Act
 - (1) Mr. Yoshihiko Morita and Mr. Michio Yoneda are candidates for Outside Director.
 - (2) Mr. Yoshihiko Morita's tenure as Outside Director of the Company will have been four years at the conclusion of this Ordinary General Meeting of Shareholders.
 - (3) Mr. Michio Yoneda's tenure as Outside Director of the Company will have been one year at the conclusion of this Ordinary General Meeting of Shareholders.
 4. Mr. Yoshihiko Morita and Mr. Michio Yoneda have entered into a limited liability agreement pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, and the liability under said agreement shall be limited to either an amount of ¥10 million, or an amount specified by laws and regulations, whichever is higher. Should the appointment of Mr. Yoshihiko Morita and Mr. Michio Yoneda be approved, the Company will extend the above agreement with them.
 5. Mr. Yoshihiko Morita and Mr. Michio Yoneda satisfy the requirements of Independent Officer stipulated by the Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc.

Proposal No. 5: Election of Two Corporate Auditors

The term of office of outside Corporate Auditor Mr. Nobuyuki Fujikake will expire at the conclusion of this Ordinary General Meeting of Shareholders. In addition, the Company proposes to increase the number of outside Corporate Auditors by one to further enhance the corporate governance system. Accordingly, we propose to elect two Corporate Auditors. Candidates for Corporate Auditor were nominated by the Board of Directors in accordance with "Qualifications Expected of Corporate Auditors," which is described on page 21. The Company has obtained a report to the effect that this nomination is appropriate from the Nomination Advisory Committee, which consists mainly of independent outside officers.

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

The candidates for Corporate Auditors are as follows.

No.	Name (Date of Birth)	Carrier Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
1	(Newly-appointed) (Outside Corporate Auditor Candidate) (Independent Officer) Satoru Kohdera (December 30, 1958)	<p>Apr. 1991 Admitted to Bar in Japan Joined Ohshiro Law Office (At present: Higashimachi LPC)</p> <p>Apr. 1993 Partner of Higashimachi Law Office</p> <p>Jun. 2010 Partner of Higashimachi LPC</p> <p>Jun. 2013 Substitute Auditor, Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2015 President, Hyogo-ken Bar Association</p> <p>Dec. 2015 Managing Partner of Higashimachi LPC</p> <p>Mar. 2016 Resigned President, Hyogo-ken Bar Association</p> <p>Apr. 2016 Vice President, Japan Federation of Bar Associations</p> <p>Mar. 2017 Resigned Vice President, Japan Federation of Bar Associations (current position)</p> <p>Reasons for nomination as candidate for Corporate Auditor Mr. Kohdera, has abundant experience and deep insight as an attorney, having served as President of the Hyogo Bar Association, Vice President of the Japan Federation of Bar Associations, and other important positions. Considering these points, we have determined that he will be suitable for an Outside Corporate Auditor who play a sufficient role in our audits from an independent standpoint and newly nominated him as a candidate for Corporate Auditor.</p>	1,000 shares

No.	Name (Date of Birth)	Carrier Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
2	(Newly-appointed) (Outside Corporate Auditor Candidate) (Independent Officer) Atsuko Ishii (November 17, 1957)	<p>Apr. 1980 Joined Ministry of Labour (At present: Ministry of Health, Labour and Welfare)</p> <p>Jul. 2009 Director-General, Osaka Labour Bureau, Ministry of Health, Labour and Welfare</p> <p>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</p> <p>Sep. 2012 Director-General, Equal Employment, Child and Family Policy Bureau, Ministry of Health Labour and Welfare</p> <p>Jul. 2014 Director-General for General Policy and Evaluation (in charge of labor), Ministry of Health Labour and Welfare</p> <p>Oct. 2015 Director-General, Social Welfare and War Victims' Relief Bureau, Ministry of Health Labour and Welfare</p> <p>Jun. 2016 Resigned Director-General, Social Welfare and War Victims' Relief Bureau, Ministry of Health Labour and Welfare (current position)</p> <p>Reasons for nomination as candidate for Corporate Auditor Ms. Ishii served in the Ministry of Health, Labour and Welfare as Director-General of Osaka Labour Bureau, Deputy Director-General, Director-General of Equal Employment, Child and Family Policy Bureau, Director-General for General Policy and Evaluation, and Director-General of Social Welfare and War Victims' Relief Bureau, and other important positions. She has abundant experience and deep insight on labor administration. Considering these points, we have determined that she will be suitable for an Outside Corporate Auditor who play a sufficient role in our audits from an independent standpoint and newly nominated her as a candidate for Corporate Auditor.</p>	0 shares

- (Notes)
1. There is no special conflict of interest between the Company and Mr. Satoru Kohdera and Ms. Atsuko Ishii.
 2. Matters regarding candidates for outside Corporate Auditor defined in Article 76, paragraph 4 of the Ordinance for Enforcement of the Companies Act
Mr. Satoru Kohdera and Ms. Atsuko Ishii are candidates for outside Corporate Auditor.
 3. After the proposed election, Mr. Satoru Kohdera and Ms. Atsuko Ishii will enter into a limited liability agreement pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act with the Company on condition that Proposal No. 5 is adopted in its original form. The liability under said agreement shall be limited to either an amount of ¥10 million, or an amount specified by laws and regulations, whichever is higher.
 4. Mr. Satoru Kohdera and Ms. Atsuko Ishii satisfy the requirements of Independent Officer stipulated by the Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc.

(Reference)

[Qualifications Expected of Directors]

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

[Qualifications Expected of Corporate Auditors]

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

[Independence Standards for Officers]

When the outside officer does not fall under all the following items, Outside Officer is deemed to satisfy the independence requirements:

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

Proposal No. 6: Revision of Remuneration Amount for Corporate Auditors

The maximum remuneration for Corporate Auditors was set at ¥8 million per month (¥96 million per year) by a resolution of the 170th Ordinary General Meeting of Shareholders held on June 29, 1993.

In order to further enhance our corporate governance, taking into account the addition of one Outside Corporate Auditor and the various circumstances including the growing role of each Corporate Auditor, we propose to set the remuneration amount for Corporate Auditors to be ¥120 million or less per fiscal year, after revising from a monthly remuneration to annual remuneration system.

The Company currently has four Corporate Auditors (including two outside Corporate Auditors). If Proposal No. 5 is approved and adopted, the number of Corporate Auditors will be five (including three outside Corporate Auditors).

Attachment:

Business Report
(April 1, 2016 - March 31, 2017)

1. Overview concerning the Current Situation of Company Group

(1) Business Progress and Results

(i) General Conditions

While the global economy, primarily the U.S., continues to grow moderately, sufficient attention must be paid to the slump in crude oil prices, the economic slowdown of emerging countries and resource-rich countries, turmoil in the international financial markets caused by U.K. withdrawal from the EU, and the risk of global economic downturn due to factors such as the expansion of protectionist policies.

The Japanese economy remains stagnant due to the effect of a worsening external environment and so forth. It is expected to see mild growth owing to the steady improvement in income and employment environment. Meanwhile, close attention must be paid to foreign exchange rates which are expected to fluctuate sharply and drastically due to economic policies and geopolitical risks in countries around the world.

Amid this business environment, the overall orders received of the KHI Group for the fiscal year under review amounted to ¥1,348.7 billion, 20% lower than the previous fiscal year. This was mainly because of decreases of orders in the Aerospace segment, Ship & Offshore Structure segment and Plant & Infrastructure segment. Net sales were ¥1,518.8 billion, 1% lower than the previous fiscal year due to the impact of the yen's appreciation, while sales increased in the Plant & Infrastructure segment and Precision Machinery segment.

In terms of profit, operating income was ¥45.9 billion, 52% lower than the previous fiscal year due to business deterioration of the Ship & Offshore Structure segment and decrease of profit in the Aerospace segment, etc. Recurring profit was ¥36.6 billion, 61% lower than the previous fiscal year, and net income attributable to owners of parent was ¥26.2 billion, 43% lower than the previous fiscal year.

(ii) Operating conditions by business segment
Ship & Offshore Structure segment

The Ship & Offshore Structure segment received orders amounting to ¥36.9 billion, a decrease by ¥61.4 billion from the previous fiscal year due to the downturn in demand for newly-built ships.

Net sales were ¥103.2 billion, an increase of ¥8.3 billion from the previous fiscal year, mainly due to an increase in construction and repair of ships for the Japan's Ministry of Defense (MOD).

Operating income decreased ¥13.4 billion from the previous fiscal year, resulting in an operating loss of ¥21.4 billion due to an increase in amount of allowance for doubtful accounts on trade receivables from the joint venture in Brazil, and an increase in provision for loss on construction contracts resulting from the appreciation of the yen, increase in cost, and other factors.

Rolling Stock segment

In the Rolling Stock segment, orders received were ¥158.5 billion, an increase of ¥26.4 billion from the previous fiscal year, mainly due to orders for linear-motor subway cars from the Tokyo Metropolitan Bureau of Transportation (Toei) and other factors, although overseas orders decreased.

Net sales decreased ¥9.4 billion from the previous fiscal year to ¥137.1 billion, primarily due to decreased sales in Asian countries like Taiwan and Singapore.

Operating income decreased ¥5.8 billion from the previous fiscal year to ¥3.4 billion, due to the drop in profitability accompanying decreased income and the decline in highly profitable projects, cost increases, and other factors.

Aerospace segment

In the Aerospace segment, orders received were ¥237.0 billion, a decrease of ¥227.2 billion from the previous fiscal year when we received a bulk order for patrol aircrafts from the Japan's Ministry of Defense (MOD).

Net sales decreased ¥21.9 billion from the previous fiscal year to ¥329.9 billion, primarily due to the impact of yen's appreciation and other factors, while there was an increase of sales to MOD.

Operating income decreased ¥20.6 billion from the previous fiscal year to ¥25.0 billion, mainly attributable to such factors as the impact of the yen's appreciation and decreased profitability of component parts for commercial aircrafts.

Gas Turbine & Machinery segment

In the Gas Turbine & Machinery segment, orders received were ¥260.3 billion, a decrease of ¥28.5 billion from the previous fiscal year. This was mainly attributable to taking a lump sum order of component parts of commercial aircraft jet engines in the previous fiscal year for a new project, in addition to a decrease in orders for such products as marine propulsion systems and compressors.

Net sales increased ¥5.5 billion from the previous fiscal year to ¥241.9 billion, mainly due to increased sales of component parts of commercial aircraft jet engines and increased amount of construction of gas engine power generation systems and other factors, despite the impact of the yen's appreciation.

Operating income decreased ¥1.6 billion from the previous fiscal year to ¥15.2 billion, primarily attributable to such factors as yen appreciation and an increase in amortization of development costs for a new project related to commercial aircraft jet engine component parts, and other factors.

Plant & Infrastructure segment

In the Plant & Infrastructure segment, orders received were ¥95.0 billion, a decrease of ¥43.7 billion from the previous fiscal year, mainly due to decreased orders for municipal refuse incineration plants for the domestic market.

Net sales increased ¥25.2 billion from the previous fiscal year to ¥160.8 billion, mainly due to an increased volume of construction works of a chemical plants for overseas market, etc.

Operating income decreased ¥5.9 billion from the previous fiscal year to ¥2.6 billion, mainly due to the provisioning of additional reserves against losses on construction contracts for LNG tanks for overseas market and other factors, although there were increased sales.

Motorcycle & Engine segment

Net sales of the Motorcycle & Engine segment decreased ¥20.5 billion from the previous fiscal year to ¥313.0 billion. This was attributable to the yen's appreciation and decreased sales of general-purpose gasoline engines and motorcycles for emerging market, and other factors, while sales of motorcycles and utility vehicles in developed countries increased.

Operating income decreased ¥4.0 billion from the previous fiscal year to ¥11.7 billion due to sales decrease.

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

Precision Machinery segment

In the Precision Machinery segment, orders received were ¥166.8 billion, an increase of ¥33.6 billion from the previous fiscal year due to the increase in hydraulic components for construction machinery and various industrial robots, along with other factors.

Net sales increased ¥22.1 billion from the previous fiscal year to ¥155.2 billion, mainly due to the increase in hydraulic components for construction machinery and various industrial robots, along with other factors.

Operating income increased ¥4.5 billion from the previous fiscal year to ¥13.1 billion partly due to sales increase.

Others segment

In the Others segment, net sales decreased ¥31.4 billion from the previous fiscal year to ¥77.4 billion due to the assignment of the construction machinery business in the previous fiscal year.

Operating income increased ¥0.2 billion from the previous fiscal year to ¥3.1 billion.

[Major businesses]

Kawasaki Trading Co., Ltd.

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

Kawasaki Life Corporation

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

(iii) Reference

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

(Billions of yen)

Segment	Orders Received		Net Sales		Operating Income/Loss	
	Amount	Year-on-Year Change	Amount	Year-on-Year Change	Amount	Year-on-Year Change
Ship & Offshore Structure	36.9	(61.4)	103.2	8.3	(21.4)	(13.4)
Rolling Stock	158.5	26.4	137.1	(9.4)	3.4	(5.8)
Aerospace	237.0	(227.2)	329.9	(21.9)	25.0	(20.6)
Gas Turbine & Machinery	260.3	(28.5)	241.9	5.5	15.2	(1.6)
Plant & Infrastructure	95.0	(43.7)	160.8	25.2	2.6	(5.9)
Motorcycle & Engine	313.0	(20.5)	313.0	(20.5)	11.7	(4.0)
Precision Machinery	166.8	33.6	155.2	22.1	13.1	4.5
Others	80.9	(23.4)	77.4	(31.4)	3.1	0.2
Adjustment	-	-	-	-	(7.0)	(3.3)
Total	1,348.7	(344.9)	1,518.8	(22.2)	45.9	(50.0)

- (Notes) 1. Net sales recorded are for sales to external customers.
2. The net sales figure for Motorcycle & Engine segment is also used as the figure for orders received.

ii) ROIC and ROE

	FY2015 (193rd fiscal year)	FY2016 (194th fiscal year)
ROIC	9.4%	5.0%
ROE	10.6%	6.0%

- (Notes) 1. ROIC (return on invested capital) = EBIT (income before income taxes + interest expense) ÷ Invested capital at the end of the period (debt obligation + shareholders' equity)
2. ROE (return on equity) = Net income attributable to owners of the parent ÷ {(shareholders' equity at the end of the previous period + shareholders' equity at the end of the current period) ÷ 2}

iii) Cash flows

(Billions of yen)

	FY2015 (193rd fiscal year)	FY2016 (194th fiscal year)
Cash flows from sales activities	86.0	93.5
Cash flows from investing activities	(74.1)	(64.8)
Cash flows from financing activities	(23.4)	(15.8)

(2) Capital Investments, etc.

In the KHI Group, capital investments were made predominantly for the development of facilities to handle new models and products in the Aerospace segment and the Motorcycle & Engine segment, and for the development of facilities to increase the production capacity and the streamlining of production especially in the Gas Turbine & Machinery segment. As a result, the KHI Group spent a total of ¥82.7 billion (including spending on intangible assets) on capital investments in the consolidated fiscal year under review. The investments were covered by internally generated funds and borrowed money.

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

(Billions of yen)		
Segment	Major investments	Investment amounts in the consolidated fiscal year under review
Ship & Offshore Structure	Facilities for streamlining ship construction, etc.	3.7
Rolling Stock	Facilities for streamlining rolling stock production, etc.	2.7
Aerospace	Facilities for streamlining aircraft production and facilities for handling new models and products, etc.	33.2
Gas Turbine & Machinery	Facilities for increasing jet engine and other productions and facilities for streamlining production, etc.	8.9
Plant & Infrastructure	Facilities for streamlining production of industrial machinery, etc.	2.2
Motorcycle & Engine	Facilities for handling new models and products of motorcycles and facilities for streamlining production, etc.	18.2
Precision Machinery	Facilities for increasing industrial robot production and facilities for handling new models and products, etc.	7.2
Others	Facilities for research and development and welfare facilities, etc.	6.3
Total		82.7

(3) Financing

Funds of ¥31.7 billion from long-term debt, ¥20.0 billion from domestic unsecured straight bonds and short-term debts and other funds from various sources were raised in the current consolidated fiscal year. The funds were allocated to such items as the scheduled payment for long-term debt, capital investments and working capital.

(4) Assignment of businesses, absorption-type company split and incorporation-type company split

Not applicable.

- (5) Transfer of business from other companies**
Not applicable.
- (6) Succession of rights and obligations pertaining to the business of another juridical person, etc., due to absorption-type merger or absorption-type company split**
Not applicable.
- (7) Acquisition or disposal of other company's shares or other holdings, or share options, etc.**
Not applicable.
- (8) Corporate Management Strategies in the Medium- to Long-Term and Issues to be Addressed**
- (i) ROIC Management (improvement of enterprise value)**
The basic policy in the medium-term business plan "MTBP2016," is to further deepen ROIC Management. We will make aggressive investments in growing areas (air transportation, robots, energy, etc.) and differentiate ourselves in terms of technologies with an eye toward future new products and businesses by increasing synergies with the combined use of our internal technologies. Furthermore, we will seek to improve our enterprise value through ROIC Management in which all the Officers and employees participate, and establish target indicators closely aligned with daily operations of the KHI Group's employees in accordance with the business characteristics of the respective segments.
- (ii) Cash flow-oriented management**
We aim to boost our earnings power and create free cash flows, while steadily making developments and capital investments toward future growth. We have outlined the challenge of acquiring cash flows especially from operating activities. We will continue to implement concrete policies to enhance the efficiency of working capital, such as by improving conditions on money reception and reduction of assets by shortening the process and time to deliver the product.
- (iii) Strengthen project risk management**
We will strengthen risk management in large-scale projects based on reflection over substantial losses in fiscal years 2015 and 2016. In addition to minimizing risks by strengthening the risk check function prior to order-reception, we established a Project Risk Management Committee to analyze the progress of on-going projects, prevent occurrence of loss, and respond promptly to situational changes through early understanding of them. In this way, we will continue to strengthen risk management and strive for sustainable growth.
- (iv) Enhancement of manufacturing and service businesses with the use of information and communications technologies**
We will continue to use information and communication technologies to visualize production conditions, and in the future, we will strengthen our manufacturing capabilities by enhancing cooperation between factories. In addition, we will establish a high-profit business structure by developing and providing products and services that meet the expanding and diversifying needs of customers, such as a motor cycle utilizing artificial intelligence,

remote monitoring and fault diagnosis technologies for electric power generation plants, etc.

(v) Enhancement of corporate governance system and emphasis on engagement

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

- (Notes)
1. Corporate Governance Code: Principles for companies to establish a structure to make decisions in a transparent, fair, speedy and decisive manner from the standpoint of different parties such as shareholders, customers, employees and local communities
 2. Stewardship Code: Principles for institutional investors to carry out their fiduciary responsibilities to enhance the company's medium- to long-term growth through dialogue

(vi) Reforms in the way of working and respect for diversity

We will raise productivity by initiating reforms in the way of working, called "Kawasaki Workstyle Innovation Activities (K-Win Activities)", which center around administrative and technical employees to develop their sensitivities and maximize their capabilities. In addition, at a special subsidiary we have established, we are creating an environment in which people with disabilities find more accessible, as well as jobs matching their respective abilities. We are also working to establish a work environment that reflects respect for diversity, including promotion of women's participation in the workplace.

The issues to be undertaken by each business segment are as follows:

- i) Ship & Offshore Structure:** Aggregate domestic ship constructions in KHI Sakaide Works and selectively accept orders for gas-related ships construction, strengthen cost competitiveness through thorough efforts to improve productivity, further deepen integrated management such as joint purchases and shared construction with Nantong COSCO KHI Ship Engineering Co, Ltd. and Dalian COSCO KHI Ship Engineering Co., Ltd., reduce the cost of building offshore work vessels
- ii) Rolling Stock:** Enhance competitiveness through technologies and products that meet customer needs including cutting-edge technological development and new rolling stock, further enhance system integration capability through strengthening of human resources, expand stock-type business for maintenance and remodeling etc., and construct a global optimal business execution system including overseas production and procurement and effective use of partnerships
- iii) Aerospace:** Establish a mass production system and develop derivative products for P-1 patrol aircraft and C-2 transport aircraft including repair and component support, boost production of component parts for the Boeing 787, and develop and start mass-producing 777X
- iv) Gas Turbine & Machinery:** Develop the energy solution business based on high-efficiency industrial gas turbines and gas engines, promote overseas operations, and promote the development of new models of jet engines for commercial aircraft and respond to needs for mass-production of these models

- v) Plant & Infrastructure:** Enhance competitiveness through sophistication of existing products and achieve early commercialization of new products and technologies, expand the overseas business to emerging countries and resource-producing countries through strengthening of overseas partnerships, further enhance engineering capability by strengthening human resources development, and fully complete the large projects

- vi) Motorcycle & Engine:** Continue to launch strong, attractive models as expected with the “Kawasaki” brand, achieve the development of strong brands that are rooted in customer value, further improve our presence in the markets of emerging countries which are showing signs of recovery, further boost the brand power and develop new markets in emerging countries, and thoroughly enhance the efficiency of consolidation-based management

- vii) Precision Machinery:** Maintain and increase a high market share in the area of hydraulic equipment for excavator systems while expanding sales of other construction/agricultural machinery products, enhance our ability to make system proposals and develop and expand overseas production systems in the robot business, and make continuous efforts toward the future in such new fields as the medical robot business

(9) Trends in Assets and Income

(i) Company Group Assets and Income

(Billions of yen)

Item	The 191st fiscal year	The 192nd fiscal year	The 193rd fiscal year	The 194th fiscal year (under review)
Orders received	1,455.4	1,712.9	1,693.6	1,348.7
Net sales	1,385.4	1,486.1	1,541.0	1,518.8
Operating income	72.3	87.2	95.9	45.9
Recurring profit	60.6	84.2	93.2	36.6
Net income attributable to owners of parent	38.6	51.6	46.0	26.2
Net income per share (yen)	¥23.09	¥30.89	¥27.56	¥15.68
Total assets	1,554.4	1,662.2	1,620.4	1,687.3
Net assets	376.6	447.9	445.6	451.3

(ii) Company Assets and Income

(Billions of yen)

Item	The 191st fiscal year	The 192nd fiscal year	The 193rd fiscal year	The 194th fiscal year (under review)
Orders received	1,089.5	1,344.5	1,309.0	1,005.0
Net sales	1,011.6	1,098.0	1,161.0	1,172.4
Operating income	36.1	46.4	56.8	4.7
Recurring profit	35.9	55.5	68.5	12.5
Net income attributable to owners of parent	32.0	36.4	30.7	17.4
Net income per share (yen)	¥19.20	¥21.81	¥18.43	¥10.47
Total assets	1,243.5	1,301.1	1,300.7	1,388.0
Net assets	273.1	294.0	306.8	304.7

(10) Major Parent Companies and Subsidiaries

(i) Parent Companies

Not applicable.

(ii) Major Subsidiaries

i) Japan

Company name (Location)	Capital	The Company's percentage of equity participation	Main business
Kawasaki Trading Co., Ltd. (Kobe, Hyogo)	¥600 million	70%	Sale of various types of industrial machinery, petroleum, steel stock, and air conditioning equipment, etc.
Kawasaki Machine Systems, Ltd. (Osaka, Osaka)	¥350 million	100%	Sale, repair and after-sales service of general-purpose gas turbine generators and other industrial machinery
NIPPI Corporation (Yokohama, Kanagawa)	¥6,048 million	100%	Manufacture of aircraft components, targeting systems, rocket components, aerospace equipment and marine equipment; repair and maintenance of aircraft
Kawasaki Thermal Engineering Co., Ltd. (Kusatsu, Shiga)	¥1,460 million	83%	Manufacture, sales, installation and after-sales service for boilers, air-conditioning equipment and absorption-style heat pumps, etc.
Kawasaki Motors Corporation Japan (Akashi, Hyogo)	¥100 million	100%	Sole distributor of motorcycles, personal water craft ("JET SKI®"), general-purpose gasoline engines and engine components in Japan
EarthTechnica Co., Ltd. (Chiyoda-ku, Tokyo)	¥1,200 million	100%	Design, manufacture, and sale of crushers, grinders, castings, and other equipment; design, execution and supervision of engineering, construction, installation of machinery and appliances
Kawasaki Life Corporation (Kobe, Hyogo)	¥400 million	100%	Sale, rental and management of real estate; insurance agency business and building management

(Note) "JET SKI®" is a registered trademark of Kawasaki Heavy Industries, Ltd.

ii) Overseas

Company name (Location)	Capital	The Company's percentage of equity participation	Main business
Kawasaki Motors Corp., U.S.A. (United States)	US\$165 million	100%	Sales of motorcycles, ATV, RUV, utility vehicles, personal water craft "JET SKI®" and general-purpose gasoline engines in the U.S. and South and Central America
Kawasaki Motors Manufacturing Corp., U.S.A. (United States)	US\$170 million	100%	Manufacture of ATV, RUV, utility vehicles, personal water craft "JET SKI®" and general-purpose gasoline engines; manufacture, servicing and engineering of rolling stock
Kawasaki Motors Enterprise (Thailand) Co., Ltd. (Thailand)	THB 1,900 million	100%	Manufacture and sale of motorcycles in Thailand
Kawasaki Rail Car, Inc. (United States)	US\$60 million	Note 1	Manufacture, sale, servicing and engineering of rolling stock
Kawasaki Motors Europe N.V. (Netherlands)	EUR 64 million	100%	Sales of motorcycles, ATV, RUV, utility vehicles, personal water craft "JET SKI®" and general-purpose gasoline engines in Europe
PT. Kawasaki Motor Indonesia (Indonesia)	US\$40 million	83%	Manufacture and sale of motorcycles in Indonesia
Kawasaki Motors (Phils.) Corporation (Philippines)	PHP 101 million	50%	Manufacture and sale of motorcycles in the Philippines
Kawasaki Robotics (U.S.A.), Inc. (United States)	US\$ 1 million	Note 2	Sale and service of industrial robots in North America
Flutek, Ltd. (South Korea)	KRW 1,310 million	50%	Manufacture, sale and servicing of hydraulic equipment products for construction machinery and marine hydraulic products in South Korea

- (Notes)
1. Kawasaki Rail Car, Inc. is a wholly-owned subsidiary of Kawasaki Motors Manufacturing Corp., U.S.A.
 2. Kawasaki Robotics (U.S.A.), Inc. is a wholly-owned subsidiary of Kawasaki Motors Corp., U.S.A.
 3. There are 93 consolidated subsidiaries, including 16 companies (7 in Japan and 9 overseas) as major subsidiaries, and there are 18 companies which are accounted for using the equity method.

(iii) Status of Business Combinations

Not applicable.

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

Segment	Main Business	Number of Employees
Ship & Offshore Structure	Manufacture and sale of ships, etc.	2,606
Rolling Stock	Manufacture and sale of rolling stock, and snow removal machinery, etc.	3,333
Aerospace	Manufacture and sale of aircraft, etc.	6,231
Gas Turbine & Machinery	Manufacture and sale of jet engines, industrial gas turbines, prime movers, etc.	4,257
Plant & Infrastructure	Manufacture and sale of industrial machinery, boilers, environmental equipment, steel structures and crushing machines, etc.	3,101
Motorcycle & Engine	Manufacture and sale of motorcycles, All Terrain Vehicles (ATVs), utility vehicles, personal water craft ("JET SKI®"), general purpose gasoline engines, etc.	8,581
Precision Machinery	Manufacture and sale of hydraulic components and industrial robots, etc.	3,067
Others	Commerce, brokerage and mediation for sale and order reception and administration of welfare facilities, etc.	2,875
Company-wide common areas	(Head Office Administration Department, Research & Development Department, etc.)	1,076
Total	-	35,127 (Japan 26,348 Overseas 8,779)

(Note) The Company has 16,162 employees (average age: 38.1 years old; average years of service: 13.3 years).

(12) Company Group's Principal Offices and Plants

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

Location of principal offices of major subsidiaries are provided in "(10) Major Parent Companies and Subsidiaries."

(13) Principal lenders

(Billions of yen)

Lenders	Balance of borrowings		
	Long term	Short term	Total
Mizuho Bank, Ltd.	7.0	23.4	30.4
Sumitomo Mitsui Banking Corporation	7.0	11.3	18.3
Development Bank of Japan Inc.	18.0	0.1	18.2
Sumitomo Mitsui Trust Bank, Ltd.	15.0	1.0	16.0
Bank of Tokyo-Mitsubishi UFJ, Ltd.	0	11.9	11.9

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

Not applicable.

2. Status of Shares (as of March 31, 2017)

- (1) **Aggregate number of issuable shares** 3,360,000,000 shares
- (2) **Total number of shares issued** 1,670,805,320 shares
(including 259,108 shares of treasury stock)
- (3) **Number of shareholders** 129,890 persons

(4) Major shareholders (top 10)

Shareholder name	Shareholders' investment in the Company	
	Number of shares held	Shareholding ratio
	thousand shares	%
The Master Trust Bank of Japan, Ltd. (Trust Account)	83,081	4.9
Nippon Life Insurance Company	57,516	3.4
JFE Steel Corporation	56,174	3.3
Japan Trustee Services Bank, Ltd. (Trust Account)	54,773	3.2
Mizuho Bank, Ltd.	41,764	2.4
Japan Trustee Services Bank, Ltd. (Trust Account 9)	35,616	2.1
Kawasaki Heavy Industries, Ltd. Kyoeikai	35,354	2.1
Sompo Japan Nipponkoa Insurance Inc.	30,577	1.8
Kawasaki Heavy Industries, Ltd. Employees Shareholder Association	28,900	1.7
Japan Trustee Services Bank, Ltd. (Trust Account 5)	28,587	1.7

(Note) The shareholding ratio is calculated after subtracting treasury stock (259,108 shares).

3. Company Share Options

(1) Share options held by company officers at the end of the fiscal year under review

Not applicable.

(2) Share options delivered to employees, etc. during the fiscal year under review

Not applicable.

(3) Other important issues concerning share options, etc.

Not applicable.

4. Company Officers

(1) Directors and Corporate Auditors (As of March 31, 2017)

Position	Name	Areas of Responsibility within the Company and Other Significant Concurrent Positions
* Chairman of the Board	Shigeru Murayama	President (representative director) of Commercial Airplane Company, Chairman of The Shipbuilders' Association of Japan
* President	Yoshinori Kanehana	
* Senior Executive Vice President	Joji Iki	Assistant to the President, in charge of Technology, Sales Department, in charge of Ship & Offshore Structure Company
* Senior Executive Vice President	Munenori Ishikawa	Assistant to the President, in charge of Production and Procurement Department, in charge of Aerospace Company
Senior Vice President	Kazuo Hida	President, Precision Machinery Company
Senior Vice President	Kenji Tomida	General Manager, Corporate Planning Division, in charge of Corporate Communications, Finance & Accounting and Personnel & Labor Administration Department
Senior Vice President	Toshiyuki Kuyama	President, Gas Turbine & Machinery Company
Senior Vice President	Kazuo Ota	President, Motorcycle & Engine Company
Senior Vice President	Makoto Ogawara	President, Rolling Stock Company
Senior Vice President	Tatsuya Watanabe	President, Plant & Infrastructure Company
Director (Outside)	Yoshihiko Morita	Outside Corporate Auditor, TOKYO GAS Co., Ltd.
Director (Outside)	Michio Yoneda	Outside Corporate Auditor, The Resolution and Collection Corporation
Full-Time Corporate Auditor	Takafumi Shibahara	
Full-Time Corporate Auditor	Katsuyoshi Fukuma	
Corporate Auditor (Outside)	Nobuyuki Fujikake	Attorney at law
Corporate Auditor (Outside)	Takashi Torizumi	

- (Notes)
- * means a Representative Director.
 - Directors Yoshihiko Morita and Michio Yoneda and Corporate Auditors Nobuyuki Fujikake and Takashi Torizumi are Independent Officers.
 - Mr. Hayashi, formerly Senior Vice President of the Company, has been appointed as Outside Corporate Auditor of Kawasaki Kisen Kaisha, Ltd. ("Kawasaki Kisen"), to which Mr. Torizumi belonged. Kawasaki Kisen owns 1.03% of total number of shares issued in the Company. Meanwhile, the Company owns voting rights of 3.61% of total number of shares issued in Kawasaki Kisen, which are held by Trust & Custody Services Bank, Ltd. (Kawasaki Heavy Industries, Ltd. retirement benefit trust account re-entrusted by Mizuho Trust and Banking Co., Ltd.). However, Kawasaki Kisen is not a company of the KHI Group. In addition, although Kawasaki Kisen is a business partner of the Company mainly in ship-related transactions, the annual average transactions between the Kawasaki Kisen Group and KHI Group for the most recent five fiscal years account for less than 2% of the total annual average net sales each for the Kawasaki Kisen Group and KHI Group over the corresponding period. Consequently, we have determined that

there is no issue as regards to the independence of Mr. Torizumi and he is therefore suitable for an Independent Officer.

4. Directors Eiji Inoue, Akio Murakami and Hideki Fukuda and Corporate Auditor Yuji Murakami resigned during the fiscal year under review at the conclusion of the 193rd Ordinary General Meeting of Shareholders.
5. As of April 1, 2017, the Director positions have changed:
Joji Iki, formerly Senior Executive Vice President (Representative Director), has become Director, and Kenji Tomida, formerly Senior Vice President, has become Senior Executive Vice President (Representative Director).
6. Corporate Auditor Katsuyoshi Fukuma, who has many years of experience with administration and accounting operations at the Company, has substantial knowledge about finance and accounting.

(2) Executive Officers (as of April 1, 2017)

Position	Name	Areas of Responsibility within the Company
President	Yoshinori Kanehana	
Senior Executive Vice President	Munenori Ishikawa	Assistant to the President, in charge of Technology, Manufacturing, Sales and Procurement Department
Senior Executive Vice President	Kenji Tomida	Assistant to the President, in charge of Head Office Administration Department
Senior Vice President	Kazuo Hida	President, Precision Machinery Company
Senior Vice President	Toshiyuki Kuyama	President, Gas Turbine & Machinery Company
Senior Vice President	Kazuo Ota	President, Motorcycle & Engine Company
Senior Vice President	Makoto Ogawara	President, Rolling Stock Company
Senior Vice President	Tatsuya Watanabe	President, Plant & Infrastructure Company
Managing Executive Officer	Ikuhiro Narimatsu	General Manager, General Administration Division, In charge of CSR Department and Legal Department
Managing Executive Officer	Koji Kadota	General Manager, Corporate Technology Division
Managing Executive Officer	Yoshinori Mochida	President, Ship & Offshore Structure Company
Managing Executive Officer	Sukeyuki Namiki	President, Aerospace Company
Managing Executive Officer	Yasuhiko Hashimoto	In charge of promoting automation, General Manager, Robot Division, Precision Machinery Company
Managing Executive Officer	Katsuya Yamamoto	General Manager, Corporate Planning Division
Executive Officer	Hiroji Iwasaki	In charge of North America Business management, staff officer to Rolling Stock Company
Executive Officer	Takeshi Ohata	General Manager, Machinery Division and Energy System Division, Gas Turbine & Machinery Company
Executive Officer	Takeshi Asano	Vice President, Motorcycle & Engine Company
Executive Officer	Toshiyuki Mimura	General Manager, Planning & Control Division, Plant & Infrastructure Company
Executive Officer	Akio Nekoshima	General Manager, Marketing Division

Position	Name	Areas of Responsibility within the Company
Executive Officer	Katsuhisa Yamada	General Manager, Gas Turbine Division, Gas Turbine & Machinery Company
Executive Officer	Kenichi Fukushima	General Manager, Personnel & Labor Administration Division
Executive Officer	Eiichi Harada	General Manager, Hydrogen Project Development Center and Deputy General Manager, Corporate Technology Division
Executive Officer	Kazutoshi Honkawa	General Manager, Business Planning & Control Division, Rolling Stock Company
Executive Officer	Yuji Horiuchi	General Manager, Research & Development Division and staff officer to Corporate Planning Division, Motorcycle & Engine Company
Executive Officer	Keiji Matsumura	Deputy General Manager, Marketing Division, Senior Manager, Osaka Office, Senior Manager, Project Marketing Department and Deputy General Manager, Hydrogen Project Development Center, Corporate Technology Division
Executive Officer	Yoshihiro Uetake	In charge of Supply Chain, staff officer to Gas Turbine & Machinery Company
Executive Officer	Ichiro Kono	General Manager, Sakaide Shipyard and Vice President, Ship & Offshore Structure Company
Executive Officer	Akihisa Yamamoto	In charge of technology department, staff officer to Plant & Infrastructure Company
Executive Officer	Akira Matsufuji	Vice President, Rolling Stock Company
Executive Officer	Hiroshi Nakatani	Deputy General Manager, Corporate Technology Division and General Manager, Technical Institute
Executive Officer	Mitsumasa Sato	General Manager, Engineering Division Aerospace Company
Executive Officer	Makoto Shiota	In charge of special matters, staff officer to Corporate Planning Division
Executive Officer	Hiroyoshi Shimokawa	Vice President and General Manager, Manufacturing Division, Aerospace Company
Executive Officer	Keigo Imamura	General Manager, Planning & Control Division, Ship & Offshore Structure Company
Executive Officer	Nobuhisa Kato	General Manager, Finance & Accounting Division
Executive Officer	Hidehiko Shimamura	Staff officer to Precision Machinery Company (Seconded to Wipro Kawasaki Precision Machinery Private Limited)

(3) Remuneration to Directors and Corporate Auditors

(Thousands of yen)

Directors 15 persons	¥763,785
Corporate Auditors 5 persons	¥90,180
Total 20 persons	¥853,965 (of which ¥46,080 to five Outside Directors/Corporate Auditors)

(Note) The amount of remuneration for the Directors is ¥1,200,000 thousand per year (which was resolved at the 189th Ordinary General Meeting of Shareholders held on June 27, 2012). The amount of remuneration for the Corporate Auditors is ¥8,000 thousand per month (which was resolved at the 170th Ordinary General Meeting of Shareholders held on June 29, 1993).

(4) Outside Officers

(i) Concurrent Managing Officer positions at other companies and the relationship between the Company and said companies

Not applicable.

(ii) Concurrent Outside Officer positions at other companies and the relationship between the Company and said companies

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

Director Michio Yoneda concurrently holds a position as Outside Corporate Auditor of the Resolution and Collection Corporation. The Company does not have any important dealing or other special relationship with the said company.

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

Not applicable.

(iv) Main activities during the fiscal year under review

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

Director Yoshihiko Morita attended all of the 14 Board of Directors meetings held during the business year, and made comments based on his substantial overseas experience and knowledge as a specialist, acquired in the Japan Bank for International Cooperation and other institutions.

Director Michio Yoneda attended all of the 11 Board of Directors meetings held following his appointment as Director on June 24, 2016, and made comments mainly based on his substantial management experience at Japan Exchange Group, Inc. and his professional knowledge of corporate governance.

Corporate Auditor Nobuyuki Fujikake attended all of the 14 Board of Directors meetings, and all of the 17 Board of Corporate Auditors meetings held during the business year, and mainly made comments based on his expert standpoint as an attorney at law.

Corporate Auditor Takashi Torizumi attended all of the 14 Board of Directors meetings, and all of the 17 Board of Corporate Auditors meetings held during the business year. He mainly made comments based on his experience as a corporate manager.

(v) Overview of limited liability agreement

The Company has concluded limited liability agreement with Directors Yoshihiko Morita and Michio Yoneda and Corporate Auditors Nobuyuki Fujikake and Takashi Torizumi, pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act. The liability under said agreement shall be limited to either an amount of ¥10,000 thousand, or an amount specified by laws and regulations, whichever is higher.

5. Accounting Auditor

(1) Accounting Auditor's Name

KPMG AZSA LLC

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

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

¥186,070 thousand

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

¥232,150 thousand

- (Notes)
1. The Board of Corporate Auditors verifies the reasonableness of audit plans, audit performance and progress, and estimate and calculation of remuneration regarding its Accounting Auditor in accordance with the "Practical Guidelines for Cooperation with Accounting Auditors" issued by Japan Audit & Supervisory Board Members Association. Following such verification, the Board of Corporate Auditors determines whether it agrees to the amount of remuneration and other related costs payable to the Accounting Auditor.
 2. Under the audit agreement between the Company and its Accounting Auditor, remuneration, etc., for audits pursuant to the Companies Act and audits pursuant to the Financial Instruments and Exchange Act are not separated, and they cannot be separated in a practical way. Consequently, the above amounts reflect total remuneration.
 3. Of the Company's material subsidiaries, some overseas subsidiaries have been audited by certified public accountants or audit corporations (including those who possess equivalent qualifications in foreign countries) other than the Company's Accounting Auditor.

(3) Details of Non-audit Services

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

(4) Policy Regarding Determination of Dismissal or Non-reappointment of Accounting Auditors

The Board of Corporate Auditors determines matters related to the dismissal or non-reappointment of Accounting Auditors by fully taking into consideration the independence ordered by laws and regulations etc., and reliability and other conditions regarding the performance of duties of Accounting Auditors.

When the Board of Corporate Auditors recognizes that the Accounting Auditor faces a difficulty in executing his/her duties or deems it necessary to do so for other reasons, it shall prepare and submit a proposal of dismissal or non-reappointment of the Accounting Auditor at a General Meeting of Shareholders. Moreover, when it judges that the Accounting Auditor has performed an activity falling under any of the items set forth in Article 340, Paragraph 1 of the Companies Act, it shall consider whether to dismiss the Accounting Auditor based on the facts. As a result, if the dismissal is deemed to be reasonable, it shall dismiss the Accounting Auditor with the consent of all the Corporate Auditors. In this case, a Corporate Auditor, who is selected by the Board of Corporate Auditors, shall report the dismissal of the Accounting Auditor and the reason for the dismissal at the first General Meeting of Shareholders convened after the termination.

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

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

## Consolidated Balance Sheet

(As of March 31, 2017)

(Unit: Millions of yen)

| Description                        | Amount           | Description                                           | Amount           |
|------------------------------------|------------------|-------------------------------------------------------|------------------|
| (Assets)                           |                  | (Liabilities)                                         |                  |
| <b>Current assets</b>              | <b>1,077,835</b> | <b>Current liabilities</b>                            | <b>843,441</b>   |
| Cash on hand and in banks          | 55,388           | Trade payables                                        | 240,572          |
| Trade receivables                  | 444,633          | Electronically recorded obligations                   | 101,449          |
| Merchandise and finished products  | 49,850           | Short-term debt and current portion of long-term debt | 111,456          |
| Work in process                    | 323,433          | Current portion of bonds                              | 10,000           |
| Raw materials and supplies         | 111,577          | Current portion of lease obligations                  | 192              |
| Deferred tax assets                | 26,566           | Income taxes payable                                  | 4,295            |
| Other current assets               | 68,978           | Deferred tax liabilities                              | 22               |
| Allowance for doubtful receivables | (2,593)          | Accrued bonuses                                       | 20,288           |
|                                    |                  | Provision for product warranties                      | 12,175           |
|                                    |                  | Provision for losses on construction contracts        | 18,103           |
|                                    |                  | Advances from customers                               | 205,871          |
|                                    |                  | Other current liabilities                             | 119,013          |
| <b>Fixed assets</b>                | <b>609,527</b>   | <b>Long-term liabilities</b>                          | <b>392,594</b>   |
| Net property, plant and equipment  | 461,881          | Bonds payable                                         | 130,000          |
| Buildings and structures, net      | 180,070          | Long-term debt, less current portion                  | 147,492          |
| Machinery and equipment, net       | 134,071          | Lease obligations                                     | 1,550            |
| Land                               | 64,743           | Deferred tax liabilities                              | 8,476            |
| Leased assets, net                 | 1,955            | Provision for environmental measures                  | 1,113            |
| Construction in progress           | 21,133           | Liabilities for retirement benefits                   | 81,563           |
| Other, net                         | 59,906           | Asset retirement obligations                          | 619              |
|                                    |                  | Other                                                 | 21,778           |
|                                    |                  | <b>Total liabilities</b>                              | <b>1,236,035</b> |
| Intangible assets                  | 15,284           | (Net assets)                                          |                  |
| Investments and other assets       | 132,362          | <b>Shareholders' equity</b>                           | <b>446,230</b>   |
| Investments in securities          | 13,917           | Common stock                                          | 104,484          |
| Long-term loans                    | 301              | Capital surplus                                       | 54,393           |
| Net defined benefit assets         | 86               | Retained earnings                                     | 287,448          |
| Deferred tax assets                | 36,499           | Treasury stock                                        | (96)             |
| Other investments and other assets | 96,284           | <b>Accumulated other comprehensive income</b>         | <b>(8,983)</b>   |
| Allowance for doubtful receivables | (14,727)         | Net unrealized gains on securities, net tax           | 3,232            |
|                                    |                  | Deferred gains (losses) on hedges                     | (1,182)          |
|                                    |                  | Foreign currency translation adjustments              | (341)            |
|                                    |                  | Accumulated adjustment for retirement benefits        | (10,692)         |
|                                    |                  | <b>Non-controlling interests</b>                      | <b>14,080</b>    |
|                                    |                  | <b>Total net assets</b>                               | <b>451,327</b>   |
| <b>Total assets</b>                | <b>1,687,363</b> | <b>Total liabilities and net assets</b>               | <b>1,687,363</b> |

## Consolidated Statement of Income

(April 1, 2016 - March 31, 2017)

(Unit: Millions of yen)

| Description                                                      | Amount       |                  |
|------------------------------------------------------------------|--------------|------------------|
| <b>Net sales</b>                                                 |              | <b>1,518,830</b> |
| <b>Cost of sales</b>                                             |              | <b>1,278,906</b> |
| Gross profit                                                     |              | <b>239,923</b>   |
| <b>Selling, general and administrative expenses</b>              |              | <b>193,963</b>   |
| Operating income                                                 |              | <b>45,960</b>    |
| <b>Non-operating income</b>                                      |              | <b>12,394</b>    |
| Interest income                                                  | 845          |                  |
| Dividend income                                                  | 254          |                  |
| Equity in income of non-consolidated subsidiaries and affiliates | 5,537        |                  |
| Gain on sales of fixed assets                                    | 875          |                  |
| Other non-operating income                                       | 4,881        |                  |
| <b>Non-operating expenses</b>                                    |              | <b>21,684</b>    |
| Interest expense                                                 | 2,859        |                  |
| Foreign exchange losses, net                                     | 7,724        |                  |
| Loss on retirement of non-current assets                         | 2,233        |                  |
| Other non-operating expenses                                     | 8,866        |                  |
| <b>Recurring profit</b>                                          |              | <b>36,671</b>    |
| <b>Extraordinary income</b>                                      |              | <b>2,202</b>     |
| Gain on sale of fixed assets                                     | 2,202        |                  |
| <b>Income before income taxes</b>                                |              | <b>38,873</b>    |
| <b>Income taxes-current</b>                                      | <b>7,470</b> |                  |
| <b>Income taxes-deferred</b>                                     | <b>3,477</b> | <b>10,948</b>    |
| <b>Net income</b>                                                |              | <b>27,925</b>    |
| <b>Net income attributable to non-controlling interests</b>      |              | <b>1,721</b>     |
| <b>Net income attributable to owners of parent</b>               |              | <b>26,204</b>    |

## Non-consolidated Balance Sheet

(As of March 31, 2017)

(Unit: Millions of yen)

| Description                                                                | Amount           | Description                                         | Amount           |
|----------------------------------------------------------------------------|------------------|-----------------------------------------------------|------------------|
| <b>(Assets)</b>                                                            |                  | <b>(Liabilities)</b>                                |                  |
| <b>Current assets</b>                                                      | <b>855,769</b>   | <b>Current liabilities</b>                          | <b>748,546</b>   |
| Cash on hand and in banks                                                  | 28,878           | Notes payable-trade                                 | 13,555           |
| Notes receivable-trade                                                     | 8,894            | Electronically recorded obligations                 | 89,239           |
| Accounts receivable-trade                                                  | 358,663          | Accounts payable-trade                              | 192,283          |
| Raw materials and supplies                                                 | 85,196           | Short-term debt                                     | 124,299          |
| Work in process                                                            | 274,946          | Accounts payable-other                              | 18,380           |
| Advance payments                                                           | 41,994           | Accrued expenses                                    | 38,486           |
| Prepaid expenses                                                           | 2,348            | Income taxes payable                                | 816              |
| Deferred tax assets                                                        | 19,952           | Advances from customers                             | 177,833          |
| Other current assets                                                       | 35,362           | Deposits received                                   | 15,888           |
| Allowance for doubtful receivables                                         | (466)            | Accrued bonuses                                     | 13,200           |
|                                                                            |                  | Provision for product warranties                    | 9,595            |
|                                                                            |                  | Provision for losses on construction contracts      | 16,922           |
| <b>Fixed assets</b>                                                        | <b>532,278</b>   | Unearned revenue                                    | 25               |
| Net property, plant and equipment                                          | 332,531          | Lease obligations                                   | 184              |
| Buildings                                                                  | 108,330          | Other current liabilities                           | 37,835           |
| Structures                                                                 | 18,731           | <b>Noncurrent liabilities</b>                       | <b>334,776</b>   |
| Docks and building berths                                                  | 466              | Bonds payable, less current portion                 | 130,000          |
| Machinery and equipment                                                    | 100,116          | Long-term debt, less current portion                | 147,489          |
| Vessels                                                                    | 174              | Lease obligations                                   | 1,527            |
| Aircraft                                                                   | 710              | Provision for environmental measures                | 950              |
| Vehicles                                                                   | 1,709            | Employees' retirement and severance benefits        | 37,585           |
| Tools, Furniture and fixtures                                              | 51,888           | Asset retirement obligations                        | 528              |
| Land                                                                       | 37,368           | Other long-term liabilities                         | 16,694           |
| Leased assets                                                              | 1,850            |                                                     |                  |
| Construction in progress                                                   | 11,184           | <b>Total liabilities</b>                            | <b>1,083,323</b> |
| Intangible assets                                                          | 11,638           | <b>(Net assets)</b>                                 |                  |
| Software                                                                   | 7,898            | <b>Shareholders' equity</b>                         | <b>303,416</b>   |
| Other intangible assets                                                    | 3,739            | Common stock                                        | 104,484          |
| Investments and other assets                                               | 188,107          | Capital surplus                                     | 52,210           |
| Investments in securities                                                  | 11,848           | Legal capital surplus                               | 52,210           |
| Stock of affiliates                                                        | 99,671           | Other capital surplus                               | 0                |
| Investments in capital of affiliates                                       | 37,962           | Retained earnings                                   | 146,817          |
| Long-term loans receivable from subsidiaries and associates                | 12,099           | Other retained earnings                             | 146,817          |
| Long-term loans receivable from employees                                  | 134              | Provision for special depreciation                  | 1,215            |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | 15,334           | Provision for advanced depreciation of fixed assets | 8,697            |
| Prepaid pension cost                                                       | 876              | Retained earnings brought forward                   | 136,904          |
| Deferred tax assets                                                        | 22,495           | Treasury stock                                      | (96)             |
| Other investments and other assets                                         | 3,196            | <b>Valuation and translation adjustments</b>        | <b>1,308</b>     |
| Allowance for doubtful receivables                                         | (15,510)         | Net unrealized gains on securities, net tax         | 2,353            |
|                                                                            |                  | Deferred gains (losses) on hedges                   | (1,044)          |
|                                                                            |                  | <b>Total net assets</b>                             | <b>304,725</b>   |
| <b>Total assets</b>                                                        | <b>1,388,048</b> | <b>Total liabilities and net assets</b>             | <b>1,388,048</b> |

## Non-consolidated Statement of Income

(April 1, 2016 - March 31, 2017)

(Unit: Millions of yen)

| Description                                         | Amount         |                  |
|-----------------------------------------------------|----------------|------------------|
| <b>Net sales</b>                                    |                | <b>1,172,427</b> |
| <b>Cost of sales</b>                                |                | <b>1,058,496</b> |
| Gross profit                                        |                | <b>113,930</b>   |
| <b>Selling, general and administrative expenses</b> |                | <b>109,143</b>   |
| Operating income                                    |                | <b>4,786</b>     |
| <b>Non-operating income</b>                         |                | <b>27,391</b>    |
| Interest income                                     | 446            |                  |
| Dividend income                                     | 23,467         |                  |
| Other non-operating income                          | 3,476          |                  |
| <b>Non-operating expenses</b>                       |                | <b>19,672</b>    |
| Interest expense                                    | 1,366          |                  |
| Foreign exchange losses                             | 7,501          |                  |
| Loss on retirement of non-current assets            | 2,092          |                  |
| Other non-operating expenses                        | 8,712          |                  |
| Recurring profit                                    |                | <b>12,504</b>    |
| <b>Extraordinary income</b>                         |                | <b>2,202</b>     |
| Gain on sale of fixed assets                        | 2,202          |                  |
| <b>Income before income taxes</b>                   |                | <b>14,706</b>    |
| <b>Income taxes-current</b>                         | <b>(2,666)</b> |                  |
| <b>Income taxes-deferred</b>                        | <b>(120)</b>   | <b>(2,786)</b>   |
| <b>Net income</b>                                   |                | <b>17,493</b>    |

**Audit Report**  
(English Translation)

Regarding the performance of duties by the Directors for the 194th fiscal year from April 1, 2016 to March 31, 2017, the Board of Corporate Auditors hereby submits its audit report, which has been prepared upon careful consideration based on the audit report prepared by each Corporate Auditor.

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

- (1) The Board of Corporate Auditors established auditing policies, audit plans and other relevant matters, and received reports from each Corporate Auditor regarding his/her audits and results thereof, as well as received reports from the Directors, and the Accounting Auditor regarding performance of their duties, and sought explanations as necessary.
- (2) Each Corporate Auditor complied with the auditing standards of the Corporate Auditors established by the Board of Corporate Auditors, followed the auditing policies, audit plans and other relevant matters, communicated with the Directors, internal control development division, Auditing Department (Internal Audit Department) and other employees, and any other relevant personnel, as well as making efforts to prepare the environment for information collection and audit, and conducted the audit by the following methods.
  - (i) Participated in the Board of Directors meetings and other important meetings, received reports from the Directors, Executive Officers, employees and other relevant personnel regarding performance of their duties, sought explanations as necessary, examined important authorized documents and associated information, and studied the operations and financial positions at the head office and principal business offices.

As for subsidiaries, each Corporate Auditor communicated and exchanged information with Directors, Corporate Auditors and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary.
  - (ii) Received reports from the Directors, employees and other relevant personnel regarding the structure and operation status of the system for ensuring that the performance of duties by the Directors, described in the Business Report, conforms to the related laws and regulations and the Articles of Incorporation, and the system prepared based on the contents of the resolutions of the Board of Directors and such resolutions regarding preparation of the system stipulated in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act (internal control systems), which system is necessary for ensuring that a joint stock corporation's business is proper, and sought explanations as necessary.

Furthermore, with respect to internal controls on financial reporting under the Financial Instruments and Exchange Act, each Corporate Auditor received reports from the Directors and other relevant personnel as well as KPMG AZSA LLC regarding the assessment of the internal controls concerned and the status of auditing thereof, and sought explanations as necessary.
  - (iii) Audited whether the Accounting Auditor maintained their independence and implemented appropriate audits, as well as received reports from the Accounting Auditor regarding the performance of their duties and sought explanations as necessary. Also, each Corporate Auditor received notice from the Accounting Auditor that "the system for ensuring that duties are performed properly" (matters set forth in each item of Article 131 of the Ordinance on

Company Accounting) has been prepared in accordance with the "Product Quality Management Standards Regarding Audits" (issued by the Business Accounting Deliberation Council (BACD) on October 28, 2005) and other relevant standards, and sought explanations as necessary.

Based on the above methods, we examined the Business Report and supplementary schedules, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, and notes to the non-consolidated financial statements) and their supplementary schedules, as well as consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets, and notes to the consolidated financial statements) related to the relevant fiscal year.

## 2. Results of Audit

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

- (i) In our opinion, the business report and the supplementary schedules are in accordance with the related laws and regulations and the Articles of Incorporation, and fairly represent the Company's condition.
- (ii) We have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation, related to performance of duties by the Directors.
- (iii) In our opinion, the contents of the resolutions of the Board of Directors related to the internal controls system are fair and reasonable. We have found no matters on which to remark regarding the information contained in this Business Report and the performance of duties by the Directors related to such internal controls system.

In addition, with respect to internal controls over financial reporting, at the time of preparation of this audit report, we received report from the directors and other relevant personnel that states that the said controls were effective, and also received report from KPMG AZSA LLC that states that no material weakness requiring disclosure in the said controls.

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

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

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

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

May 22, 2017

Board of Corporate Auditors, Kawasaki Heavy Industries, Ltd.

|                             |                    |
|-----------------------------|--------------------|
| Full-Time Corporate Auditor | Takafumi Shibahara |
| Full-Time Corporate Auditor | Katsuyoshi Fukuma  |
| Outside Corporate Auditor   | Nobuyuki Fujikake  |
| Outside Corporate Auditor   | Takashi Torizumi   |