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(Securities Code: 7012)

June 5, 2018

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 195th ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 195th 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 26, 2018 (JST).

- 1. Date and Time:** **Wednesday, June 27, 2018 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 195th Fiscal Year (from April 1, 2017 to March 31, 2018) 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 195th Fiscal Year (from April 1, 2017 to March 31, 2018)

Matters to be resolved:

Proposal No. 1: Appropriation of Surplus

Proposal No. 2: Election of Twelve Directors

Proposal No. 3: Election of One Corporate Auditor

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

4. Other 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 and 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 (<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. We appreciate your cooperation.

(5) Concerning proceedings on the day of the General Meeting of Shareholders

Please note that the proceedings on the day of the General Meeting of Shareholders will be conducted in the Japanese language. Please kindly accept that we will not be preparing any interpreters.

(6) Abolition of presents

Please kindly accept abolition of presents from last 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 (<https://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 addition, in order to keep a balance between shareholder value and returning profits to shareholders through dividends, the Company takes its overall financial position into consideration, including free cash flow and debt-equity ratio (D/E ratio) etc., in addition to future earnings trends, and, with stable dividends in mind, has established 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 195th term will amount to ¥30 per ordinary share of the Company for a total distribution of ¥5,011,424,490. As a result, annual dividend will be ¥33 per ordinary share of the Company, including interim dividend (¥3 yen per ordinary share of the Company (equivalent to ¥30 after the share consolidation)).

(Note) The Company consolidated 10 ordinary shares into 1 ordinary share as of October 1, 2017, based on a resolution passed at the 194th Ordinary General Meeting of Shareholders held on June 28, 2017.

In addition, the effective date for the dividends from surplus shall be June 28, 2018.

Type of dividend property	Cash
Dividend per share	¥30
Total amount of dividend	¥5,011,424,490
Effective date of dividends of surplus	June 28, 2018

Proposal No. 2: 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 (eight Directors to be reappointed (including one Outside Director) and four Directors to be newly appointed (including two Outside Directors)) 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 19. 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	Duties, Significant concurrent positions etc.
1	Reappointed	Shigeru Murayama	
2	Reappointed	Yoshinori Kanehana	Chief Executive Officer
3	Reappointed	Munenori Ishikawa	Assistant to the President, with overall responsibility for technology, production and procurement, and, in charge of Quality Control and Rolling Stock Company
4	Reappointed	Kenji Tomida	Assistant to the President, with overall responsibility for finance and accounting, and, in charge of Head Office Administration Department and Ship & Offshore Structure Company
5	Reappointed	Kazuo Ota	President, Motorcycle & Engine Company
6	Reappointed	Tatsuya Watanabe	President, Energy System & Plant Engineering Company
7	Reappointed Outside Independent	Michio Yoneda	Outside Corporate Auditor, The Resolution and Collection Corporation
8	Reappointed	Katsuya Yamamoto	General Manager, Corporate Planning Division, in charge of Risk Management
9	New	Sukeyuki Namiki	President, Aerospace Systems Company
10	New	Yasuhiko Hashimoto	President, Precision Machinery & Robot Company, in charge of promoting automation
11	New Outside Independent	Yoshiaki Tamura	Outside Director, DIC Corporation
12	New Outside Independent	Jenifer Rogers	Outside Director, Mitsui & Co., Ltd.

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.</p> <p>Jun. 2010 Senior Vice President President, Aerospace Company</p> <p>Jun. 2013 President</p> <p>Jun. 2016 Chairman of the Board (current position)</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 outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancing 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>	19,200 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>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</p> <p>Apr. 2018 President and Chief Executive Officer (current position)</p> <hr/> <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 its President since June 2016. Presently, as President and Chief Executive Officer, he has been demonstrating outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancing 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>	12,600 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
3	(Reappointed) Munenori Ishikawa (February 26, 1953)	<p>Apr. 1975 Joined Kawasaki Heavy Industries, Ltd.</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</p> <p>Apr. 2018 Director</p> <p>May 2018 Director, Vice President and Senior Executive Officer Assistant to the President, with overall responsibility for technology, production and procurement, and, in charge of Quality Control and Rolling Stock Company (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 Director, Vice President and Senior Executive Officer, he has an overall responsibility for technology, production and procurement, while also being in charge of Quality Control and Rolling Stock Company, making a significant contribution to the Company's business growth and enhancing 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>	8,800 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
4	(Reappointed) Kenji Tomida (August 7, 1955)	<p>Apr. 1978 Joined Kawasaki Heavy Industries, Ltd.</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 Senior Vice President 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</p> <p>Apr. 2018 Director, Vice President and Senior Executive Officer Assistant to the President, with overall responsibility for finance and accounting, in charge of Head Office Administration Department</p> <p>May 2018 Director, Vice President and Senior Executive Officer Assistant to the President, with overall responsibility for finance and accounting, in charge of Head Office Administration Department and Ship & Offshore Structure Company (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 Director, Vice President and Senior Executive Officer, he has an overall responsibility for corporate finance and accounting, while also being in charge of the Head Office Administration Department and Ship & Offshore Structure Company, making a significant contribution to the Company's business growth and enhancing 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>	7,100 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
5	(Reappointed) Kazuo Ota (January 13, 1955)	<p>Apr. 1978 Joined Kawasaki Heavy Industries, Ltd.</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</p> <p>Apr. 2018 Director, Managing Executive Officer 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 Director, Managing Executive Officer and President of Motorcycle & Engine Company, he has been demonstrating outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancing 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>	7,500 shares
6	(Reappointed) Tatsuya Watanabe (September 30, 1957)	<p>Apr. 1981 Joined Kawasaki Heavy Industries, Ltd.</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</p> <p>Apr. 2018 Director, Managing Executive Officer President, Energy System & Plant Engineering Company (current position)</p> <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 Director, Managing Executive Officer and President of Energy System & Plant Engineering Company, he has been demonstrating outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancing 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>	3,700 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
7	(Reappointed) (Outside Director Candidate) (Independent Officer) Michio Yoneda (June 14, 1949)	<p>Apr. 1973 Joined Bank of Japan</p> <p>Apr. 2000 Resigned 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. 2015 Outside Corporate Auditor, The Resolution and Collection Corporation</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 supervising the execution of duties and enhancing its enterprise value.</p>	200 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
8	(Reappointed) 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>Jun. 2017 Senior Vice President General Manager, Corporate Planning Division</p> <p>Apr. 2018 Director, Managing Executive Officer General Manager, Corporate Planning Division, in charge of Risk Management (current position)</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 has served as Senior Vice President since 2017. Presently, as Director, Managing Executive Officer and General Manager of Corporate Planning Division, he exercises control over operations including corporate planning and investor relations, and companywide risk management, thereby making a significant contribution to the Company's business growth and enhancing 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>	3,300 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
9	(Newly-appointed) Sukeyuki Namiki (June 6, 1955)	<p>Apr. 1980 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2009 Staff officer to Engineering Division, Aerospace Company (In charge of P-X, C-X Project)</p> <p>Apr. 2014 Staff officer to Aerospace Company (In charge of Next-Generation Wide-Body Project Promotion Department)</p> <p>Apr. 2015 Executive Officer Vice President, Aerospace Company</p> <p>Apr. 2016 Managing Executive Officer President, Aerospace Company</p> <p>Apr. 2018 Managing Executive Officer President, Aerospace Systems Company, with overall responsibility for production</p> <p>May 2018 Managing Executive Officer President, Aerospace Systems Company (current position)</p> <p>Reasons for nomination as candidate for Director Mr. Namiki has been mainly engaged in businesses related to technology and developing the aerospace segment of the Company for many years. He was appointed Executive Officer of the Company in 2015 and Managing Executive Officer of the Company in 2016. Presently, as Managing Executive Officer and President of Aerospace Systems Company, he has demonstrated outstanding leadership, thereby making a significant contribution to the Company's business growth and enhancing 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>	3,900 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
10	(Newly-appointed) Yasuhiko Hashimoto (May 15, 1957)	<p>Apr. 1981 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2013 Executive Officer General Manager, Robot Business Division, Precision Machinery Company</p> <p>Apr. 2016 Managing Executive Officer In charge of promoting automation, General Manager, Robot Business Division, Precision Machinery Company</p> <p>Apr. 2018 Managing Executive Officer President, Precision Machinery & Robot Company, in charge of promoting automation (current position)</p> <p>Reasons for nomination as candidate for Director Mr. Hashimoto has been mainly engaged in businesses related to technology and developing of the industrial robots business unit of the Company for many years. He was appointed Executive Officer of the Company in 2013 and has served as Managing Executive Officer of the Company since 2016. Presently, as Managing Executive Officer and President of Precision Machinery & Robot Company, he has demonstrated outstanding leadership, while also having overall responsibility for promoting companywide automation, thereby making a significant contribution to the Company's business growth and enhancing 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>	2,700 shares

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
11	<p data-bbox="252 622 475 766">(Newly-appointed) (Outside Director Candidate) (Independent Officer)</p> <p data-bbox="252 801 475 855">Yoshiaki Tamura (October 3, 1954)</p>	<p data-bbox="491 286 1225 743"> Apr. 1979 Joined Asahi Glass Co., Ltd. Mar. 2013 Representative Director and Executive Vice President, Asahi Glass Co., Ltd. Overall Business Management, GM of Technology General Division, Deputy Leader of AGC Group Improvement Activities Jan. 2014 President of Glass Company, Asahi Glass Co., Ltd. Mar. 2014 Executive Vice President, President of Glass Company, Asahi Glass Co., Ltd. Jan. 2017 Assistant to CEO, Asahi Glass Co., Ltd. Mar. 2017 Executive Fellow, Asahi Glass Co., Ltd. Mar. 2018 Outside Director, DIC Corporation (current position) </p> <p data-bbox="491 750 949 810"> [Significant concurrent positions] Outside Director, DIC Corporation </p> <p data-bbox="491 817 1225 1191"> Reasons for nomination as candidate for Director Mr. Tamura served as Representative Director and Executive Vice President, Asahi Glass Co., Ltd., Overall Business Management, GM of Technology General Division, Deputy Leader of AGC Group Improvement Activities and Executive Vice President, President of Glass Company and other important positions. He has extensive experience in corporate management and deep insights into manufacturing. Considering these points, we have judged that he will be able to fulfill his role as an Outside Director supervising the execution of duties of the Company and enhancing its enterprise value, and newly nominated him as a candidate for Director. </p>	<p data-bbox="1289 712 1369 766">0 shares</p>

No.	Name (Date of Birth)	Career Summary, Positions and Duties [Significant concurrent positions]	Number of the Company's shares held
12	(Newly-appointed) (Outside Director Candidate) (Independent Officer) Jenifer Rogers (June 22, 1963)	<p>Sep. 1989 Joined Haight Gardner Poor & Havens (At present: Holland & Knight LLP)</p> <p>Dec. 1990 Registered as Attorney at Law admitted in New York</p> <p>Feb. 1991 Joined Industrial Bank of Japan Limited (At present: Mizuho Bank, Ltd.)</p> <p>Nov. 1994 Retired from Industrial Bank of Japan Limited (At present: Mizuho Bank, Ltd.)</p> <p>Dec. 1994 Joined Merrill Lynch Japan Securities Co., Ltd.</p> <p>Nov. 2000 Merrill Lynch Europe Plc</p> <p>Jul. 2006 Bank of America Merrill Lynch (Hong Kong)</p> <p>Nov. 2012 General Counsel Asia, Asurion Japan Holdings G.K.</p> <p>Jun. 2015 Outside Director, Mitsui & Co., Ltd. (current position)</p> <p>[Significant concurrent positions] Outside Director, Mitsui & Co., Ltd.</p> <p>Reasons for nomination as candidate for Director Ms. Rogers has extensive international experience and deep insights into legal affairs, compliance, and risk management, having served as an in-house lawyer and counsel at international financial institutions for many years. Considering these points, we have judged that she will be able to fulfill her role as an Outside Director supervising the execution of duties of the Company and enhancing its enterprise value, and newly nominated her as a candidate for Director.</p>	0 shares

- (Notes)
- There is no special interest relationship between each candidate and the Company.
 - 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
 - Mr. Michio Yoneda, Mr. Yoshiaki Tamura and Ms. Jenifer Rogers are candidates for Outside Director.
 - Mr. Michio Yoneda's tenure as Outside Director of the Company will have been two years at the conclusion of this Ordinary General Meeting of Shareholders.
 - Mr. Michio Yoneda has entered into a limited liability agreement pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, and the liability under said agreement shall be limited to either an amount of ¥10 million, or an amount specified by laws and regulations, whichever is higher. Should the appointment of Mr. Michio Yoneda be approved, the Company will extend the above agreement with him.
 - Mr. Yoshiaki Tamura and Ms. Jenifer Rogers will enter into a limited liability agreement after their election pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act with the Company on condition that Proposal No. 2 is adopted in its original form. Liability under the said agreement shall be limited to either ¥10 million or an amount specified by laws and regulations, whichever is higher.
 - Mr. Michio Yoneda, Mr. Yoshiaki Tamura and Ms. Jenifer Rogers satisfy the requirements of Independent Officer stipulated by Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc.
 - The Company has no special transactional relationship, with the exception of transactions based on the listing agreement between Tokyo Stock Exchanges, Inc., where Mr. Michio Yoneda served as Director, and the Company. Because a conflict of interest is not likely to be caused with general shareholders, we have judged that he will be able to fulfill his role as an Independent Officer.
 - Although Asahi Glass Co., Ltd., where Mr. Yoshiaki Tamura served as a Director, is a business partner of the Company, the annual average transactions between the Group of Asahi Glass Co., Ltd and the KHI Group for the most recent five fiscal years account for less than 1% of the annual average net sales each for the said Group and the KHI Group over the

- corresponding period. Consequently, we have determined that there is no issue as to the independence of Mr. Tamura and he will be able to fulfill his role as an Independent Officer.
8. Although Mitsui Co. & Ltd., where Ms. Jenifer Rogers serves as Director, is a business partner of the Company, the annual average transactions between the Group of Mitsui Co. & Ltd. and the KHI Group for the most recent five fiscal years account for less than 1% of the annual average net sales each for the said Group and the KHI Group over the corresponding period. Consequently, we have determined that there is no issue as to the independence of Ms. Rogers and she will be able to fulfill her role as an Independent Officer.

Proposal No. 3: Election of One Corporate Auditor

The term of office of Corporate Auditor Mr. Takafumi Shibahara will expire at the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, we propose to elect one Corporate Auditor. Candidate for Corporate Auditor was nominated by the Board of Directors in accordance with "Qualifications Expected of Corporate Auditors," which is described on page 19. 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 candidate for Corporate Auditor is as follows:

No.	Name (Date of Birth)	Carrier Summary and Positions [Significant concurrent positions]	Number of the Company's shares held
	(Newly-appointed) Akio Nekoshima (September 30, 1958)	<p>Apr. 1982 Joined The Dai-Ichi Kangyo Bank, Limited (At present: Mizuho Bank, Ltd.)</p> <p>Apr. 2012 Retired from The Dai-Ichi Kangyo Bank, Limited (At present: Mizuho Bank, Ltd.)</p> <p>May 2012 Joined Kawasaki Heavy Industries, Ltd.</p> <p>Apr. 2013 Senior Manager, Europe, the Middle East and Africa, and Senior Manager, Overseas, Marketing Division</p> <p>Jul. 2013 General Manager, Finance & Accounting Division</p> <p>Apr. 2014 Executive Officer General Manager, Finance & Accounting Division</p> <p>Apr. 2016 Executive Officer General Manager, Marketing Division</p> <p>Apr. 2018 Executive Officer Staff officer to Corporate Auditor (current position)</p> <p>Reasons for nomination as candidate for Corporate Auditor Mr. Nekoshima has been engaged in business related to finance and accounting and sales promotion, and overseas business, and has served as Executive Officer of the Company since 2014. He has an intimate knowledge of the business of the Company and substantial knowledge of finance and accounting, having served as General Manager of Finance & Accounting Division and General Manager of Marketing Division and other important positions. Considering these points, we have determined that he is suitable for a Corporate Auditor and newly nominated him as a candidate for Corporate Auditor.</p>	2,900 shares

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

(Reference)

[Qualifications Expected of Directors]

1. Deeply understand and agree to the management philosophy and vision of the KHI Group
2. Be able to contribute to sustainable growth and enhancement of enterprise value in the medium- to long-term
3. Hold companywide 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.

Attachment:

Business Report
(April 1, 2017 - March 31, 2018)

1. Overview concerning the Current Situation of Company Group

Prior to reporting on Business Progress and Results, we would like to sincerely apologize to our shareholders and other stakeholders for causing significant inconvenience and concern over “Notice of Series N700 Shinkansen Train Bogie Frames matter” (announced on February 28, 2018).

We established the Companywide Quality Control Committee chaired by Professor Takeshi Nakajo of Chuo University’s Faculty of Science and Engineering (announced on March 30, 2018). We are working on identifying the causes of the bogie frames’ manufacturing defects and devising measures to prevent their recurrence. We are also conducting a comprehensive inspection of companywide quality management systems. We will respond appropriately based on these initiatives’ outcomes. We request your understanding on this matter.

(1) Business Progress and Results

(i) General conditions

While the global economy, primarily the US and China, continues to grow moderately, sufficient attention must be paid to the risk of a global economic downturn due to the impacts of the UK’s departure from the EU, concerns over the expansion of protectionist policies in the US and other issues, in addition to an economic slowdown in emerging countries and resource-rich countries.

The Japanese economy is recovering moderately, mainly due to improvements in corporate earnings, but sufficient attention must be paid to the foreign exchange markets where exchange rates can fluctuate sharply and drastically, mainly due to economic policies and geopolitical risks in countries around the world.

Amid such an operating environment, the KHI Group achieved growth in orders received, mainly in the Aerospace, Rolling Stock and Precision Machinery segments, with total orders received increasing 19% year on year to ¥1,608.0 billion in the fiscal year ended March 31, 2018. Net sales, as a whole, were ¥1,574.2 billion, 3% higher than the previous fiscal year, due to increased sales primarily in the Precision Machinery segment, the Gas Turbine & Machinery segment, and the Motorcycle & Engine segment, while sales of the Plant & Infrastructure segment decreased. In terms of profit, operating income was ¥55.9 billion, 21% higher than the previous fiscal year, due to increased profit in the Precision Machinery segment and an improvement in the Ship & Offshore Structure segment and others, while the Rolling Stock segment experienced a deterioration and the Aerospace segment suffered a profit decrease. Recurring profit was ¥43.2 billion, 17% higher than the previous fiscal year. Net income attributable to owners of parent was ¥28.9 billion, 10% higher than the previous fiscal year, mainly due to extraordinary income (gain

on sale of fixed asset) and a reduction in the burden of taxes accompanying the recording of deferred tax assets related to losses from a joint operations for the construction of ships in Brazil, while losses on the cancellation of a contract for the construction of offshore service vessels were recorded as an extraordinary loss.

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

The Ship & Offshore Structure segment received orders amounting to ¥4.7 billion, a decrease of ¥32.2 billion from the previous fiscal year, due to the cancellation of an agreement for the construction of ships related to offshore service vessels, while orders were received for LPG carriers, jet foils, and others.

Net sales were ¥95.6 billion, a decrease of ¥7.5 billion from the previous fiscal year, mainly due to a decrease in construction related to submarines.

Operating income improved ¥17.6 billion, with an operating loss of ¥3.8 billion due to an increase in the allowance for doubtful receivables and an increase in the provision for losses on construction contracts.

Rolling Stock segment

In the Rolling Stock segment, orders received were ¥257.1 billion, an increase of ¥98.5 billion from the previous fiscal year, due to orders received for large projects including new subway cars for New York City Transit and city high-speed train cars (MRT) for Bangladesh.

Net sales increased ¥4.6 billion from the previous fiscal year to ¥141.7 billion, primarily due to increased sales in the domestic market, while overseas sales to North America and Asia declined.

Operating income decreased ¥15.9 billion from the previous fiscal year, resulting in an operating loss of ¥12.4 billion, mainly due to a provision for losses on construction contracts in a commuter train car project for the Long Island Rail Road, U.S.A. and the cost of changing the N700 Shinkansen train bogie frames.

Aerospace segment

In the Aerospace segment, orders received were ¥374.4 billion, an increase of ¥137.3 billion from the previous fiscal year, when component parts for commercial aircraft remained high, in addition to an increase in orders received from the Japan's Ministry of Defense (MOD).

Net sales increased ¥0.2 billion from the previous fiscal year to ¥330.2 billion, primarily due to increased sales to MOD, while sales of component parts for commercial aircraft decreased.

Operating income decreased ¥4.1 billion from the previous fiscal year to ¥20.9 billion, which was mainly attributable to the decreased profitability of component parts for commercial aircraft.

Gas Turbine & Machinery segment

In the Gas Turbine & Machinery segment, orders received were ¥248.1 billion, a decrease of ¥12.2 billion from the previous fiscal year. This was mainly attributable to a decrease in gas engine power plant projects for the domestic market.

Net sales increased ¥24.5 billion from the previous fiscal year to ¥266.4 billion, which was mainly due to increased sales of component parts of commercial aircraft jet engines.

Operating income decreased ¥0.5 billion from the previous fiscal year to ¥14.7 billion, which was primarily attributable to a decrease in profitable projects in the energy business, while sales increased.

Plant & Infrastructure segment

In the Plant & Infrastructure segment, orders received were ¥100.1 billion, an increase of ¥5.0 billion from the previous fiscal year, which was mainly due to increases in the construction of municipal waste treatments facilities and in the plant operation and management business in the domestic market, while projects in overseas markets decreased.

Net sales decreased ¥36.4 billion from the previous fiscal year to ¥124.4 billion yen, which was mainly due to a decrease in the volume of construction works for chemical plants in overseas markets.

Operating income increased ¥0.3 billion from the previous fiscal year, when there was an increase in the provision for losses on construction contracts, to ¥2.9 billion, although sales decreased.

Motorcycle & Engine segment

Net sales of the Motorcycle & Engine segment increased ¥18.6 billion from the previous fiscal year to ¥331.6 billion. This was attributable to increased sales of motorcycles, utility vehicles, and general-purpose gasoline engines in developed countries, while sales of motorcycles for emerging markets decreased.

Operating income increased ¥3.5 billion from the previous fiscal year to ¥15.2 billion due to increased sales.

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

Precision Machinery segment

In the Precision Machinery segment, orders received were ¥207.1 billion, an increase of ¥40.2 billion from the previous fiscal year, due to increased sales of hydraulic components for the construction machinery market and various industrial robots.

Net sales increased ¥43.7 billion from the previous fiscal year to ¥198.9 billion due to an increase in sales of hydraulic components for the construction machinery market and various industrial robots.

Operating income increased ¥8.5 billion from the previous fiscal year to ¥21.6 billion due to increased sales.

Others segment

In the Others segment, net sales increased ¥7.6 billion from the previous fiscal year to ¥85.0 billion.

Operating income decreased ¥0.2 billion from the previous fiscal year to ¥2.9 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	4.7	(32.2)	95.6	(7.5)	(3.8)	17.6
Rolling Stock	257.1	98.5	141.7	4.6	(12.4)	(15.9)
Aerospace	374.4	137.3	330.2	0.2	20.9	(4.1)
Gas Turbine & Machinery	248.1	(12.2)	266.4	24.5	14.7	(0.5)
Plant & Infrastructure	100.1	5.0	124.4	(36.4)	2.9	0.3
Motorcycle & Engine	331.6	18.6	331.6	18.6	15.2	3.5
Precision Machinery	207.1	40.2	198.9	43.7	21.6	8.5
Others	84.8	3.8	85.0	7.6	2.9	(0.2)
Adjustment	-	-	-	-	(6.2)	0.8
Total	1,608.0	259.3	1,574.2	55.4	55.9	9.9

- (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

	FY2016 (194th fiscal year)	FY2017 (195th fiscal year)
ROIC	5.0%	3.9%
ROE	6.0%	6.4%

- (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)

	FY2016 (194th fiscal year)	FY2017 (195th fiscal year)
Cash flows from operating activities	93.5	56.0
Cash flows from investing activities	(64.8)	(80.5)
Cash flows from financing activities	(15.8)	37.7

(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 for the development of facilities to increase the streamlining of production and the production capacity especially in the Motorcycle & Engine segment and the Precision Machinery segment. As a result, the KHI Group spent a total of ¥82.1 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.	4.7
Rolling Stock	Facilities for increasing rolling stock production, etc.	2.5
Aerospace	Facilities for streamlining aircraft production and facilities for handling new models and products, etc.	28.8
Gas Turbine & Machinery	Facilities for increasing jet engine and other productions and facilities for streamlining production, etc.	7.7
Plant & Infrastructure	Facilities for streamlining production of industrial machinery, etc.	1.6
Motorcycle & Engine	Facilities for handling new models and products of motorcycles and facilities for streamlining production, etc.	20.5
Precision Machinery	Facilities for increasing hydraulic components and industrial robot production, etc.	10.9
Others	Welfare facilities, etc.	5.0
Total		82.1

(3) Financing

Funds of ¥64.0 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) Comprehensive Inspection of Quality Management System**
We set up the Companywide Quality Management Committee, which consists mainly of outside experts, and are seeking to identify the causes of production defects in the N700 Shinkansen train bogie frames and to develop measures to prevent their recurrence. Besides, we will strive to regain customers' trust by thoroughly inspecting the companywide quality management system.
- (ii) ROIC Management (improvement of enterprise value)**
We will make aggressive investments in growth areas (aerospace system, energy, robots, etc.) and, at the same time, make efforts to create synergies through the combined use of our internal technologies, and differentiate ourselves in terms of technologies and products with an eye toward future, thereby strengthening profitability and competitiveness. Besides, we aim to create free cash flows by improving cash flows from operating activities through measures that include improving the conditions on money reception and reducing assets. Furthermore, we will work on measures such as cutting costs and strengthening the global supply chain, and build a business operating system that is unaffected by exchange rate fluctuations in a way that secures a stable ROIC of a minimum of 8% in the medium- to long-term, even with a significant appreciation of the yen.
- (iii) Strengthen project risk management**
We will strengthen the risk check function prior to order-reception in an effort to thoroughly remove risks. Besides, in the Project Risk Management Committee, we will identify the progress of on-going projects to prevent losses and respond promptly to situational changes. By strengthening these activities, we will continue to take up the challenge of achieving 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 throughout product lifecycles by developing and providing products and services that meet the expanding and diversifying needs of customers, such as motorcycles using artificial intelligence, remote monitoring and fault diagnosis technologies for electric power generation plants, etc.

(v) Reforms in the way of working and promotion of diversity

We will raise productivity by pushing ahead with reforms in the way of working, called “Kawasaki Workstyle Innovation Activities (K-Win Activities),” which center around administrative and technical employees to maximize their capabilities. In addition, we will respect for diversity and improve our employees’ work-life balance through the promotion of women’s participation in the work place and the support for child-rearing, etc., and promote the creation of an environment in which people with disabilities find more accessible, as well as the securing of jobs matching their respective abilities.

(9) Trends in Assets and Income

(i) Company Group Assets and Income

(Billions of yen)

Item	The 192nd fiscal year	The 193rd fiscal year	The 194th fiscal year	The 195th fiscal year (under review)
Orders received	1,712.9	1,693.6	1,348.7	1,608.0
Net sales	1,486.1	1,541.0	1,518.8	1,574.2
Operating income	87.2	95.9	45.9	55.9
Recurring profit	84.2	93.2	36.6	43.2
Net income attributable to owners of parent	51.6	46.0	26.2	28.9
Net income per share (yen)	¥308.91	¥275.61	¥156.85	¥173.09
Total assets	1,662.2	1,620.4	1,687.3	1,785.0
Net assets	447.9	445.6	451.3	481.3

(Note) The Company consolidated 10 ordinary shares into 1 ordinary share as of October 1, 2017, based on a resolution passed at the 194th Ordinary General Meeting of Shareholders held on June 28, 2017. Net income per share was calculated on the assumption that the share consolidation took place at the beginning of the 192nd term.

(ii) Company Assets and Income

(Billions of yen)

Item	The 192nd fiscal year	The 193rd fiscal year	The 194th fiscal year	The 195th fiscal year (under review)
Orders received	1,344.5	1,309.0	1,005.0	1,184.6
Net sales	1,098.0	1,161.0	1,172.4	1,213.6
Operating income	46.4	56.8	4.7	13.6
Recurring profit	55.5	68.5	12.5	23.0
Net income attributable to owners of parent	36.4	30.7	17.4	24.6
Net income per share (yen)	¥218.14	¥184.34	¥104.71	¥147.70
Total assets	1,301.1	1,300.7	1,388.0	1,469.9
Net assets	294.0	306.8	304.7	322.7

(Note) The Company consolidated 10 ordinary shares into 1 ordinary share as of October 1, 2017, based on a resolution passed at the 194th Ordinary General Meeting of Shareholders held on June 28, 2017. Net income per share was calculated on the assumption that the share consolidation took place at the beginning of the 192nd term.

(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 Motors Corporation Japan (Akashi, Hyogo)	¥100 million	100%	Sole distributor of motorcycles, personal watercraft ("JET SKI®"), general-purpose gasoline engines and engine components in Japan
Kawasaki Thermal Engineering Co., Ltd. (Kusatsu, Shiga)	¥1,460 million	83%	Manufacture, sale, installation and after-sales service for boilers, air-conditioning equipment and absorption-style heat pumps, etc.
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%	Sale of motorcycles, ATVs (all-terrain vehicles), utility vehicles, personal watercraft "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 ATVs (all-terrain vehicles), utility vehicles, personal watercraft "JET SKI®" and general-purpose gasoline engines; manufacture, servicing and engineering of rolling stock; manufacture of aircraft components
Kawasaki Motors Enterprise (Thailand) Co., Ltd. (Thailand)	THB 1,900 million	100%	Manufacture and sale of motorcycles in Thailand
Kawasaki Motors Europe N.V. (Netherlands)	EUR 64 million	100%	Sale of motorcycles, ATVs (all-terrain vehicles), utility vehicles, personal watercraft "JET SKI®" and general-purpose gasoline engines in Europe
Kawasaki Rail Car, Inc. (United States)	US\$60 million	Note 1	Manufacture, sale, servicing and engineering of rolling stock
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 servicing of industrial robots in North America
PT. Kawasaki Motor Indonesia (Indonesia)	US\$80 million	90%	Manufacture and sale of motorcycles in Indonesia
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
Kawasaki Robotics (Kunshan) Co., Ltd. (China)	JPY 1,680 million	100%	Procurement of parts and components of robots and related equipment in China
Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd. (China)	JPY 400 million	100%	Sale and servicing of precision machinery in China
Kawasaki Robotics (Tianjin) Co., Ltd. (China)	JPY 200 million	100%	Sale and servicing of industrial robots in China

- (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 19 companies (7 in Japan and 12 overseas) as major subsidiaries, and there are 17 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.	2,542
Rolling Stock	Manufacture and sale of rolling stock, and snow removal machinery, etc.	3,297
Aerospace	Manufacture and sale of aircraft, etc.	6,178
Gas Turbine & Machinery	Manufacture and sale of jet engines, industrial gas turbines, prime movers, etc.	4,353
Plant & Infrastructure	Manufacture and sale of industrial machinery, boilers, environmental equipment, steel structures and crushing machines, etc.	3,163
Motorcycle & Engine	Manufacture and sale of motorcycles, All-Terrain Vehicles (ATVs), utility vehicles, personal watercraft ("JET SKI®"), general purpose gasoline engines, etc.	8,816
Precision Machinery	Manufacture and sale of hydraulic components and industrial robots, etc.	3,420
Others	Commerce, brokerage and mediation for sale and order reception and administration of welfare facilities, etc.	2,902
Companywide common areas	(Head Office Administration Department, Research & Development Department, etc.)	1,134
Total	-	35,805 (Japan 26,747) (Overseas 9,058)

(Note) The Company has 16,423 employees (average age: 38.4 years old; average years of service: 13.5 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.	5.3	29.3	34.7
Sumitomo Mitsui Banking Corporation	6.5	14.3	20.8
Development Bank of Japan Inc.	18.7	0.1	18.9
Sumitomo Mitsui Trust Bank, Ltd.	11.0	7.0	18.0
Nippon Life Insurance Company	8.0	0.0	8.0
Mitsubishi UFJ Trust and Banking Corporation	4.5	3.5	8.0

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

Not applicable.

2. Status of Shares (as of March 31, 2018)

(1) Aggregate number of issuable shares 336,000,000 shares

(Note) The Company consolidated 10 ordinary shares into 1 ordinary share as of October 1, 2017, based on a resolution passed at the 194th Ordinary General Meeting of Shareholders held on June 28, 2017. Accordingly, the aggregate number of issuable shares decreased by 3,024,000,000 shares compared to that at the end of the previous fiscal term (3,360,000,000 shares).

(2) Total number of shares issued 167,080,532 shares (including 33,049 shares of treasury stock)

(Note) Due to the above share consolidation, the total number of shares issued decreased by 1,503,724,788 shares compared to that at the end of the previous term (1,670,805,320 shares).

(3) Number of shareholders 113,908 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)	9,268	5.5
Japan Trustee Services Bank, Ltd. (Trust Account)	6,388	3.8
Nippon Life Insurance Company	5,751	3.4
JFE Steel Corporation	4,578	2.7
Mizuho Bank, Ltd.	4,176	2.5
Kawasaki Heavy Industries, Ltd. Kyoueikai	3,607	2.1
Japan Trustee Services Bank, Ltd. (Trust Account 9)	3,488	2.0
Sompo Japan Nipponkoa Insurance Inc.	3,057	1.8
Kawasaki Heavy Industries, Ltd. Employees Shareholder Association	2,980	1.7
Japan Trustee Services Bank, Ltd. (Trust Account 5)	2,973	1.7

(Note) The shareholding ratio is calculated after subtracting treasury stock (33,049 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, 2018)

Position	Name	Areas of Responsibility within the Company and Other Significant Concurrent Positions
Chairman of the Board	Shigeru Murayama	
* President	Yoshinori Kanehana	
* Senior Executive Vice President	Munenori Ishikawa	Assistant to the President, in charge of Technology, Production, 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
Senior Vice President	Katsuya Yamamoto	General Manager, Corporate Planning Division
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)	Takashi Torizumi	
Corporate Auditor (Outside)	Satoru Kohdera	Attorney at law
Corporate Auditor (Outside)	Atsuko Ishii	Auditor of the Board (Outside), Mitsui Sumitomo Insurance Company, Limited

- (Notes)
- * means a Representative Director.
 - Directors Yoshihiko Morita and Michio Yoneda and Corporate Auditors Takashi Torizumi, Satoru Kohdera and Atsuko Ishii 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 1% 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. Director Joji Iki and Corporate Auditor Nobuyuki Fujikake resigned during the fiscal year under review at the conclusion of the 194th Ordinary General Meeting of Shareholders.
5. 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.

(Reference) Executive Officers (as of May 22, 2018)

Position	Name	Areas of Responsibility within the Company
President and Chief Executive Officer	Yoshinori Kanehana	Chief Executive Officer
Vice President and Senior Executive Officer	Kenji Tomida	Assistant to the President, with overall responsibility for finance and accounting, and in charge of Head Office Administration Department and Ship & Offshore Structure Company
Vice President and Senior Executive Officer	Munenori Ishikawa	Assistant to the President, with overall responsibility for technology, production and procurement, and, in charge of Quality Control and Rolling Stock Company
Managing Executive Officer	Kazuo Ota	President, Motorcycle & Engine Company
Managing Executive Officer	Tatsuya Watanabe	President, Energy System & Plant Engineering Company
Managing Executive Officer	Katsuya Yamamoto	General Manager, Corporate Planning Division, in charge of Risk Management
Managing Executive Officer	Ikuhiro Narimatsu	In charge of General Administration Department, CSR Department and Legal Department, in charge of compliance
Managing Executive Officer	Koji Kadota	General Manager, Corporate Technology Division and Manufacturing Improvement Center, in charge of IT Strategy
Managing Executive Officer	Yoshinori Mochida	President, Ship & Offshore Structure Company
Managing Executive Officer	Sukeyuki Namiki	President, Aerospace Systems Company
Managing Executive Officer	Yasuhiko Hashimoto	President, Precision Machinery & Robot Company, in charge of promoting automation
Managing Executive Officer	Takeshi Ohata	Vice President, Energy System & Plant Engineering Company
Managing Executive Officer	Kazutoshi Honkawa	President, Rolling Stock Company
Executive Officer	Hiroji Iwasaki	In charge of North America Business management, staff officer to Rolling Stock Company
Executive Officer	Toshiyuki Mimura	General Manager, Planning & Control Division, Energy System & Plant Engineering Company
Executive Officer	Akio Nekoshima	Staff officer to Corporate Auditor
Executive Officer	Eiichi Harada	General Manager, Hydrogen Project Development Center and Deputy General Manager, Corporate Technology Division
Executive Officer	Yuji Horiuchi	Vice President, Motorcycle & Engine Company
Executive Officer	Yoshihiro Uetake	Vice President, Aerospace Systems Company (in

Position	Name	Areas of Responsibility within the Company
		charge of Engine Business)
Executive Officer	Ichiro Kono	General Manager, Sakaide Shipyard and Vice President, Ship & Offshore Structure Company
Executive Officer	Akihisa Yamamoto	In charge of Plant Technology Department, staff officer to Energy System & Plant Engineering 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, Defense and Aerospace Project Division, Aerospace Systems Company
Executive Officer	Makoto Shiota	General Manager, Marketing Division
Executive Officer	Hiroyoshi Shimokawa	Vice President, Aerospace Systems Company (in charge of Aerospace segment)
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	Senior Manager, Project Division and General Manager, Precision Machinery Business Division, Precision Machinery & Robot Company
Executive Officer	Shinji Fujita	General Manager, Robot Business Division, Precision Machinery & Robot Company
Executive Officer	Kouzou Tomiyama	General Manager, Personnel & Labor Administration Division
Executive Officer	Hiroshi Ito	Senior Manager, New Business Promotion Department, Senior Manager, Business Planning Office, and General Manager, Planning Division, Motorcycle & Engine Company
Executive Officer	Takeshi Koshiyama	General Manager, Commercial Engine Project Division, Aerospace Systems Company

(2) Remuneration to Directors and Corporate Auditors

(Millions of yen)

	Total amount of remuneration	Total amount of remuneration, etc. by category		
		Basic remuneration	Performance-based remuneration	Stock purchase fund
Directors 13 persons	675	473	134	67
Corporate Auditors 6 persons	103	103	-	-
Total 19 persons (including 6 persons from outside)	778 (60)	576 (60)	134 (-)	67 (-)

- (Notes)
1. The amount of remuneration for the Directors is ¥1,200 million per year (which was resolved at the 189th Ordinary General Meeting of Shareholders held on June 27, 2012).
 2. The amount of remuneration for the Corporate Auditors is ¥120 million per year (which was resolved at the 194th Ordinary General Meeting of Shareholders held on June 28, 2017).

(3) Policy concerning the Amount of Remuneration and others to officers or its Calculation Method

With respect to remuneration for Directors and Corporate Auditors of the Company, a remuneration scheme that corresponds to the duties of individual officers has been adopted for the purpose of sustainably enhancing corporate performance and enterprise value, and securing competent human resources.

Remuneration for Directors, excluding outside Directors, consists of basic remuneration, performance-based remuneration, and stock purchase fund. Among these, performance-based remuneration is determined by linking profits and ROIC of the Company overall and Business Companies with the aim of using remuneration as an incentive for achieving business goals. The stock purchase fund is distributed in fixed amounts each month for the purpose of sharing value with shareholders and incentivizing Directors to enhance medium- to long-term corporate value, with the entire amount contributed to the officers' stock ownership plan in order to purchase shares of the Company on a continuous basis.

Remuneration for outside Directors is fixed compensation that is not linked to performance from the perspective of the independence of their duties.

Remuneration for each Director is deliberated by the Remuneration Advisory Committee, which consists mainly of independent outside officers, and is decided by the President, who is delegated by the Board of Directors.

Remuneration for corporate auditors is fixed compensation that is not linked to performance from the perspective of the independence of their duties, and is

decided by the Board of Corporate Auditors. The above remuneration for Directors and Corporate Auditors is set and operated in such a way as to fall within the range of remuneration approved at the General Meeting of Shareholders.

(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

Position	Name	Significant concurrent positions	Relationships with the Company
Director	Yoshihiko Morita	Outside Corporate Auditor, TOKYO GAS Co., Ltd.	The Company does not have any important dealing or other special relationship with the said companies.
	Michio Yoneda	Outside Corporate Auditor, The Resolution and Collection Corporation	
Corporate Auditor	Atsuko Ishii	Auditor of the Board (Outside), Mitsui Sumitomo Insurance Company, Limited	

(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**

Position	Name	Attendance		Main activities
		Board of Directors meetings	Board of Corporate Auditors meetings	
Director	Yoshihiko Morita	15/15 meetings	-	He made comments mainly based on his substantial overseas experience and knowledge as a specialist acquired at the Japan Bank for International Cooperation and other institutions.
	Michio Yoneda	15/15 meetings	-	He made comments mainly based on his substantial corporate management experience acquired at Japan Exchange Group, Inc. and his professional knowledge.
Corporate Auditor	Takashi Torizumi	14/15 meetings	17/17 meetings	He made comments mainly based on his vast experience and expertise in corporate management.
	Satoru Kohdera	13/13 meetings	13/13 meetings	He made comments mainly based on his vast experience and expert perspective as an attorney.
	Atsuko Ishii	13/13 meetings	13/13 meetings	She made comments mainly based on her vast governmental experience and expertise in the fields of welfare and labor.

(Note) With respect to the Corporate Auditors Satoru Kohdera and Atsuko Ishii, the description refers to attendance at Board of Directors meetings and Board of Corporate Auditors meetings, which were held after they assumed their positions of Corporate Auditors on June 28, 2017.

(v) Overview of limited liability agreement

The Company has concluded limited liability agreement with Directors Yoshihiko Morita and Michio Yoneda and Corporate Auditors Takashi Torizumi, Satoru Kohdera and Atsuko Ishii, 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 million, 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

¥185 million

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

¥240 million

- (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 major 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

When it is recognized that the Accounting Auditor has engaged in an activity falling under any of causes for dismissal set forth in Article 340, Paragraph 1 of the Companies Act, the Board of Corporate Auditors shall dismiss the Accounting Auditor with the approval 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 dismissal at the first General Meeting of Shareholders convened after dismissal.

Besides, when the Board of Corporate Auditors assesses independence in accordance with laws and regulations etc., auditing system, status of executing duties, and others in a comprehensive manner, and judges that there is a need for change, it shall determine the contents of the proposal concerning dismissal and non-reappointment of the Accounting Auditor to submit 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, 2018)

(Unit: Millions of yen)

| Description                        | Amount           | Description                                           | Amount           |
|------------------------------------|------------------|-------------------------------------------------------|------------------|
| (Assets)                           |                  | (Liabilities)                                         |                  |
| <b>Current assets</b>              | <b>1,148,322</b> | <b>Current liabilities</b>                            | <b>869,643</b>   |
| Cash on hand and in banks          | 70,632           | Trade payables                                        | 245,398          |
| Trade receivables                  | 470,110          | Electronically recorded obligations                   | 117,772          |
| Merchandise and finished products  | 62,385           | Short-term debt and current portion of long-term debt | 108,978          |
| Work in process                    | 326,459          | Current portion of bonds                              | 20,000           |
| Raw materials and supplies         | 115,893          | Current portion of lease obligations                  | 283              |
| Deferred tax assets                | 32,546           | Income taxes payable                                  | 6,042            |
| Other current assets               | 72,542           | Deferred tax liabilities                              | 244              |
| Allowance for doubtful receivables | (2,247)          | Accrued bonuses                                       | 19,903           |
|                                    |                  | Provision for product warranties                      | 13,000           |
|                                    |                  | Provision for losses on construction contracts        | 18,258           |
|                                    |                  | Advances from customers                               | 194,306          |
|                                    |                  | Other current liabilities                             | 125,454          |
| <b>Fixed assets</b>                | <b>636,705</b>   | <b>Long-term liabilities</b>                          | <b>433,999</b>   |
| Net property, plant and equipment  | 479,797          | Bonds payable                                         | 130,000          |
| Buildings and structures, net      | 186,623          | Long-term debt, less current portion                  | 185,685          |
| Machinery and equipment, net       | 144,399          | Lease obligations                                     | 1,697            |
| Land                               | 62,694           | Deferred tax liabilities                              | 8,942            |
| Leased assets, net                 | 2,199            | Liabilities for retirement benefits                   | 86,836           |
| Construction in progress           | 25,724           | Other                                                 | 20,837           |
| Other, net                         | 58,155           |                                                       |                  |
| Intangible assets                  | 16,178           | <b>Total liabilities</b>                              | <b>1,303,642</b> |
| Investments and other assets       | 140,730          | (Net assets)                                          |                  |
| Investments in securities          | 14,798           | <b>Shareholders' equity</b>                           | <b>466,944</b>   |
| Net defined benefit assets         | 88               | Common stock                                          | 104,484          |
| Deferred tax assets                | 37,086           | Capital surplus                                       | 54,573           |
| Other investments and other assets | 92,441           | Retained earnings                                     | 308,010          |
| Allowance for doubtful receivables | (3,685)          | Treasury stock                                        | (124)            |
|                                    |                  | <b>Accumulated other comprehensive income</b>         | <b>(883)</b>     |
|                                    |                  | Net unrealized gains on securities, net tax           | 3,526            |
|                                    |                  | Deferred gains (losses) on hedges                     | 403              |
|                                    |                  | Foreign currency translation adjustments              | 719              |
|                                    |                  | Accumulated adjustment for retirement benefits        | (5,532)          |
|                                    |                  | <b>Non-controlling interests</b>                      | <b>15,324</b>    |
|                                    |                  | <b>Total net assets</b>                               | <b>481,386</b>   |
| <b>Total assets</b>                | <b>1,785,028</b> | <b>Total liabilities and net assets</b>               | <b>1,785,028</b> |

## Consolidated Statement of Income

(April 1, 2017 - March 31, 2018)

(Unit: Millions of yen)

| Description                                                                           | Amount         |                  |
|---------------------------------------------------------------------------------------|----------------|------------------|
| <b>Net sales</b>                                                                      |                | <b>1,574,242</b> |
| <b>Cost of sales</b>                                                                  |                | <b>1,319,715</b> |
| Gross profit                                                                          |                | 254,527          |
| <b>Selling, general and administrative expenses</b>                                   |                | <b>198,602</b>   |
| Operating income                                                                      |                | 55,925           |
| <b>Non-operating income</b>                                                           |                | <b>9,131</b>     |
| Interest income                                                                       | 720            |                  |
| Dividend income                                                                       | 291            |                  |
| Equity in income of non-consolidated subsidiaries and affiliates                      | 4,492          |                  |
| Other non-operating income                                                            | 3,626          |                  |
| <b>Non-operating expenses</b>                                                         |                | <b>21,830</b>    |
| Interest expense                                                                      | 2,794          |                  |
| Foreign exchange losses, net                                                          | 7,017          |                  |
| Payments for contract adjustment for commercial aircraft jet engines                  | 2,505          |                  |
| Other non-operating expenses                                                          | 9,513          |                  |
| <b>Recurring profit</b>                                                               |                | <b>43,225</b>    |
| <b>Extraordinary income</b>                                                           |                | <b>2,606</b>     |
| Gain on sale of fixed assets                                                          | 2,606          |                  |
| <b>Extraordinary losses</b>                                                           |                | <b>12,833</b>    |
| Losses from the termination of a shipbuilding contract for an offshore service vessel | 12,833         |                  |
| <b>Income before income taxes</b>                                                     |                | <b>32,999</b>    |
| <b>Income taxes-current</b>                                                           | <b>11,634</b>  |                  |
| <b>Income taxes-deferred</b>                                                          | <b>(9,982)</b> | <b>1,652</b>     |
| <b>Net income</b>                                                                     |                | <b>31,347</b>    |
| <b>Net income attributable to non-controlling interests</b>                           |                | <b>2,431</b>     |
| <b>Net income attributable to owners of parent</b>                                    |                | <b>28,915</b>    |

## Non-consolidated Balance Sheet

(As of March 31, 2018)

(Unit: Millions of yen)

| Description                                                                | Amount           | Description                                         | Amount           |
|----------------------------------------------------------------------------|------------------|-----------------------------------------------------|------------------|
| <b>(Assets)</b>                                                            |                  | <b>(Liabilities)</b>                                |                  |
| <b>Current assets</b>                                                      | <b>906,257</b>   | <b>Current liabilities</b>                          | <b>764,800</b>   |
| Cash on hand and in banks                                                  | 41,720           | Notes payable-trade                                 | 11,380           |
| Notes receivable-trade                                                     | 11,332           | Electronically recorded obligations                 | 101,789          |
| Accounts receivable-trade                                                  | 380,994          | Accounts payable-trade                              | 189,187          |
| Raw materials and supplies                                                 | 84,181           | Short-term debt                                     | 123,988          |
| Work in process                                                            | 278,625          | Accounts payable-other                              | 22,328           |
| Advance payments                                                           | 24,638           | Accrued expenses                                    | 45,685           |
| Prepaid expenses                                                           | 1,299            | Income taxes payable                                | 1,175            |
| Deferred tax assets                                                        | 26,523           | Advances from customers                             | 169,232          |
| Other current assets                                                       | 57,080           | Deposits received                                   | 3,339            |
| Allowance for doubtful receivables                                         | (139)            | Accrued bonuses                                     | 12,804           |
|                                                                            |                  | Provision for product warranties                    | 10,410           |
|                                                                            |                  | Provision for losses on construction contracts      | 17,796           |
| <b>Fixed assets</b>                                                        | <b>563,701</b>   | Lease obligations                                   | 276              |
| Net property, plant and equipment                                          | 350,882          | Other current liabilities                           | 55,404           |
| Buildings                                                                  | 110,525          | <b>Noncurrent liabilities</b>                       | <b>382,366</b>   |
| Structures                                                                 | 18,479           | Bonds payable, less current portion                 | 130,000          |
| Docks and building berths                                                  | 2,618            | Long-term debt, less current portion                | 185,302          |
| Machinery and equipment                                                    | 108,150          | Lease obligations                                   | 1,678            |
| Vessels                                                                    | 157              | Employees' retirement and severance benefits        | 49,299           |
| Aircraft                                                                   | 545              | Other long-term liabilities                         | 16,085           |
| Vehicles                                                                   | 1,622            |                                                     |                  |
| Tools, Furniture and fixtures                                              | 49,417           |                                                     |                  |
| Land                                                                       | 35,472           |                                                     |                  |
| Leased assets                                                              | 1,849            |                                                     |                  |
| Construction in progress                                                   | 22,041           |                                                     |                  |
| Intangible assets                                                          | 12,468           | <b>Total liabilities</b>                            | <b>1,147,166</b> |
| Software                                                                   | 7,767            | <b>(Net assets)</b>                                 |                  |
| Other intangible assets                                                    | 4,700            | <b>Shareholders' equity</b>                         | <b>319,710</b>   |
| Investments and other assets                                               | 200,351          | Common stock                                        | 104,484          |
| Investments in securities                                                  | 12,417           | Capital surplus                                     | 52,210           |
| Stock of affiliates                                                        | 105,448          | Legal capital surplus                               | 52,210           |
| Investments in capital of affiliates                                       | 40,022           | Other capital surplus                               | 0                |
| Long-term loans receivable from subsidiaries and associates                | 12,296           | Retained earnings                                   | 163,139          |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | 3,603            | Other retained earnings                             | 163,139          |
| Prepaid pension cost                                                       | 44               | Reserve for special depreciation                    | 2,630            |
| Deferred tax assets                                                        | 26,505           | Provision for advanced depreciation of fixed assets | 9,599            |
| Other investments and other assets                                         | 3,282            | Retained earnings brought forward                   | 150,909          |
| Allowance for doubtful receivables                                         | (3,268)          | Treasury stock                                      | (124)            |
|                                                                            |                  | <b>Valuation and translation adjustments</b>        | <b>3,082</b>     |
|                                                                            |                  | Net unrealized gains on securities, net tax         | 2,688            |
|                                                                            |                  | Deferred gains (losses) on hedges                   | 393              |
|                                                                            |                  | <b>Total net assets</b>                             | <b>322,792</b>   |
| <b>Total assets</b>                                                        | <b>1,469,959</b> | <b>Total liabilities and net assets</b>             | <b>1,469,959</b> |

## Non-consolidated Statement of Income

(April 1, 2017 - March 31, 2018)

(Unit: Millions of yen)

| Description                                                                           | Amount          |                  |
|---------------------------------------------------------------------------------------|-----------------|------------------|
| <b>Net sales</b>                                                                      |                 | <b>1,213,607</b> |
| <b>Cost of sales</b>                                                                  |                 | <b>1,090,104</b> |
| Gross profit                                                                          |                 | 123,502          |
| <b>Selling, general and administrative expenses</b>                                   |                 | <b>109,844</b>   |
| Operating income                                                                      |                 | 13,658           |
| <b>Non-operating income</b>                                                           |                 | <b>28,295</b>    |
| Interest income                                                                       | 412             |                  |
| Dividend income                                                                       | 25,744          |                  |
| Other non-operating income                                                            | 2,139           |                  |
| <b>Non-operating expenses</b>                                                         |                 | <b>18,950</b>    |
| Interest expense                                                                      | 1,368           |                  |
| Foreign exchange losses                                                               | 5,969           |                  |
| Loss on retirement of non-current assets                                              | 1,940           |                  |
| Payments for contract adjustment for commercial aircraft jet engines                  | 2,505           |                  |
| Other non-operating expenses                                                          | 7,167           |                  |
| <b>Recurring profit</b>                                                               |                 | <b>23,003</b>    |
| <b>Extraordinary income</b>                                                           |                 | <b>2,606</b>     |
| Gain on sale of fixed assets                                                          | 2,606           |                  |
| <b>Extraordinary losses</b>                                                           |                 | <b>12,833</b>    |
| Losses from the termination of a shipbuilding contract for an offshore service vessel | 12,833          |                  |
| <b>Income before income taxes</b>                                                     |                 | <b>12,776</b>    |
| <b>Income taxes-current</b>                                                           | <b>(619)</b>    |                  |
| <b>Income taxes-deferred</b>                                                          | <b>(11,277)</b> | <b>(11,897)</b>  |
| <b>Net income</b>                                                                     |                 | <b>24,674</b>    |

**Audit Report**  
(English Translation)

Regarding the performance of duties by the Directors for the 195th fiscal year from April 1, 2017 to March 31, 2018, 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, including internal controls on financial reporting.

As noted in the Business Report, the Company established the Companywide Quality Control Committee and is conducting a comprehensive inspection of its quality management systems in response to the discovery of defects in Shinkansen train bogie frames in 2017. We will continue to closely monitor the status of the Companywide Quality Control Committee's activities and the results of its investigations.

### (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 21, 2018

Board of Corporate Auditors, Kawasaki Heavy Industries, Ltd.

|                             |                    |
|-----------------------------|--------------------|
| Full-Time Corporate Auditor | Takafumi Shibahara |
| Full-Time Corporate Auditor | Katsuyoshi Fukuma  |
| Outside Corporate Auditor   | Takashi Torizumi   |
| Outside Corporate Auditor   | Satoru Kohdera     |
| Outside Corporate Auditor   | Atsuko Ishii       |