1. Basis of Presenting Consolidated Financial Statements

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

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112.20 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control. The consolidated financial statements include the accounts of the Company and 93 subsidiaries (99 in the year ended March 31, 2016 and 97 in 2015). The aggregate amount of total assets, net sales, net income and retained earnings of the excluded subsidiaries would not have had a material effect on the consolidated financial statements if they had been included in the consolidation.

(b) Application of the equity method of accounting

Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. For the year ended March 31, 2017, 18 affiliates (20 in 2016 and 17 in 2015) were accounted for by the equity method. For the year ended March 31, 2017, investments in 12 affiliates (11 in 2016 and 10 in 2015) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end

The fiscal year-end of 28 consolidated subsidiaries (26 in 2016 and 25 in 2015) is December 31. These subsidiaries are consolidated as of December 31, and significant transactions for the period between December 31 and March 31, the Company's fiscal year-end, are adjusted for on consolidation.

(d) Elimination of intercompany transactions and accounts

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

(e) Foreign currency translation

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

(f) Revenue recognition

<Sales of products and construction contracts>

The percentage-of-completion method is applied to construction contracts if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the completed contract method is applied.

(g) Cash and cash equivalents

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

(h) Allowance for doubtful receivables

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

(i) Assets and liabilities arising from derivative transactions

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

(j) Inventories

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

(k) Investments in securities

The Company and its consolidated subsidiaries classify securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) all other securities (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2017, 2016 or 2015. Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available market value are stated at moving average cost.

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

(l) Property, plant and equipment

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

(m) Intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Additional Information

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

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

<Adoption of Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Implementation Guidance No. 26, March 28, 2016)>
Effective from the fiscal year ended March 31, 2017, the Company has adopted the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Implementation Guidance No. 26, March 28, 2016).

4. Inventories

Inventories as of March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Merchandise and finished products	**¥ 49,850**	¥ 57,092	**$ 444,295**
Work in progress (*)	**323,434**	324,916	**2,882,656**
Raw materials and supplies	**111,578**	110,957	**994,457**
Total	**¥484,862**	¥492,965	**$4,321,408**

(*) A trust was established for the Company's trade receivables generated in selling certain work in progress using a self-settled trust. The Company has a beneficiary interest in the trade receivables as trust assets. The work in progress related to the trust assets as of March 31, 2017 and 2016 was ¥7,373 million ($65,713 thousand) and ¥5,841 million, respectively.

5. Securities

(a) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2017 and 2016 were as follows:

	2017			
	Millions of yen			Thousands of U.S. dollars
	Book value	Acquisition cost	Unrealized gains (losses)	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:				
Equity securities	**¥8,143**	**¥3,054**	**¥5,089**	**$45,356**
Other securities:				
Equity securities	**389**	**539**	**(150)**	**(1,337)**
Total	**¥8,532**	**¥3,593**	**¥4,939**	**$44,019**

	2016		
	Millions of yen		
	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:			
Equity securities	¥7,029	¥2,876	¥4,153
Other securities:			
Equity securities	522	657	(135)
Total	¥7,551	¥3,533	¥4,018

(b) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2017, 2016 and 2015 were as follows:

	2017					
	Millions of yen			Thousands of U.S. dollars		
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities:	**¥1,014**	**¥ 304**	**¥ –**	**$9,037**	**$2,709**	**$–**

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

	2015		
	Millions of yen		
	Sales amounts	Gains	Losses
Equity securities:	¥1,440	¥1,138	¥ –

(c) Investments in securities subject to impairment

Although impairment loss on other securities was recorded for the years ended March 31, 2017, 2016 and 2015, disclosure was omitted as the amounts were immaterial.

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

6. Investments in Nonconsolidated Subsidiaries and Affiliates

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2017 and 2016 were ¥71,371 million ($636,105 thousand) and ¥75,453 million, respectively.

7. Short-term Debt and Long-term Debt

Short-term debt and long-term debt as of March 31, 2017 and 2016 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Short-term debt:			
Short-term debt, principally bank loans, bearing average interest rates of 1.24% and 1.40% as of March 31, 2017 and 2016, respectively	**¥ 66,912**	¥ 88,044	**$ 596,363**
Current portion of long-term borrowings, bearing average interest rates of 0.23% and 0.94% as of March 31, 2017 and 2016, respectively	**44,544**	17,846	**397,005**
Current portion of bonds, bearing average interest rates of 1.06% and 0.58% as of March 31, 2017 and 2016.	**10,000**	10,000	**89,126**
Lease obligations, current	**192**	157	**1,712**
Total short-term debt	**¥121,648**	¥116,047	**$1,084,206**
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2017 to 2027, bearing average interest rates of 0.55% and 0.55% as of March 31, 2017 and 2016, respectively.	**¥192,037**	¥178,657	**$1,711,559**
Notes and bonds issued by the Company:			
0.58% notes due in 2016	**–**	10,000	**–**
1.06% notes due in 2017	**10,000**	10,000	**89,127**
0.34–0.57% notes due in 2018	**20,000**	20,000	**178,253**
0.68% notes due in 2019	**10,000**	10,000	**89,127**
0.32–0.99% notes due in 2020	**20,000**	30,000	**178,253**
0.10–1.42% notes due in 2021	**30,000**	20,000	**267,379**
1.10% notes due in 2022	**10,000**	10,000	**89,127**
0.99% notes due in 2023	**10,000**	–	**89,127**
0.79% notes due in 2024	**10,000**	10,000	**89,127**
0.85% notes due in 2025	**10,000**	10,000	**89,127**
0.82% notes due in 2036	**10,000**	–	**89,127**
Long-term lease obligations	**1,742**	1,723	**15,524**
	333,779	310,380	**2,974,857**
Less portion due within one year	**(54,736)**	(28,003)	**(487,843)**
Total long-term debt	**¥279,043**	¥282,377	**$2,487,014**

As of March 31, 2017 and 2016, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Buildings and structures	**¥ 69**	¥ 75	**$ 615**
Investments in securities	**14**	14	**124**
Other	**83**	53	**740**
Total	**¥166**	¥142	**$1,479**

As of March 31, 2017 and 2016, debt secured by the above pledged assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Trade payables	**¥ 5**	¥ 4	**$ 45**
Short-term and long-term debt	**70**	83	**623**
Total	**¥75**	¥87	**$668**

The aggregate annual maturities of long-term debt as of March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2018	¥ 54,736	$ 487,844
2019	46,372	413,297
2020	33,398	297,664
2021	48,372	431,123
2022 and thereafter	150,901	1,344,929
Total	¥333,779	$2,974,857

8. Provision for Losses on Construction Contracts

Inventories for construction contracts with substantial anticipated losses and the provision for losses on construction contracts were not offset. As of March 31, 2017 and 2016, the inventories for the construction contracts for which the provision for losses on construction contracts were provided were ¥1,368 million ($12,192 thousand) and ¥3,090 million, respectively. These amounts were all included in work in process.

9. Employees' Retirement and Severance Benefits

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

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance of retirement benefit obligations at beginning of period	¥189,742	¥196,214	$1,691,105
Service cost	10,475	10,219	93,360
Interest cost	2,020	2,773	18,003
Actuarial gains and losses	2,494	2,768	22,228
Retirement benefits paid	(11,421)	(15,416)	(101,791)
Prior service cost	12	189	106
Decrease due to business divestiture	–	(3,730)	–
Other (foreign currency translation difference, etc.)	(1,850)	(3,275)	(16,487)
Balance of retirement benefit obligations at end of period	¥191,472	¥189,742	$1,706,524

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance of plan assets at beginning of period	¥ 99,027	¥117,259	$882,593
Expected return on plan assets	1,523	1,698	13,573
Actuarial gains and losses	8,808	(16,956)	78,502
Contributions paid by the employer	3,853	3,645	34,340
Retirement benefits paid	(1,727)	(2,599)	(15,392)
Decrease due to business divestiture	–	(1,199)	–
Other (foreign currency translation difference, etc.)	(1,489)	(2,821)	(13,269)
Balance of plan assets at end of period	¥109,995	¥ 99,027	$980,347

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligations on funded plan	¥ 167,297	¥166,662	$1,491,060
Plan assets	(109,995)	(99,027)	(980,347)
	57,302	67,635	510,713
Retirement benefit obligations on unfunded plan	24,175	23,080	215,463
Net amount of liabilities and assets presented on the consolidated balance sheets	¥ 81,477	¥ 90,715	$ 726,176
Liability for retirement benefits	¥ 81,563	¥ 90,789	$ 726,942
Asset for retirement benefits	(86)	(74)	(766)
Net amount of liabilities and assets presented on the consolidated balance sheets	¥ 81,477	¥ 90,715	$ 726,176

(4) Breakdown of retirement benefit expense

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥10,475	¥10,219	$ 93,360
Interest cost	2,020	2,773	18,003
Expected return on plan assets	(1,523)	(1,698)	(13,573)
Amortization of actuarial gains and losses	6,069	2,325	54,090
Amortization of prior service costs	353	728	3,146
Retirement benefit expense related to defined benefit plan	¥17,394	¥14,347	$155,026

(5) Adjustments for retirement benefits

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Prior service cost	¥ 341	¥ 538	$ 3,039
Actuarial gains and losses	12,383	(17,399)	110,365
Total	¥12,724	¥(16,861)	$113,404

(6) Accumulated adjustments for retirement benefits

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrecognized prior service cost	**¥ (2,162)**	¥ (2,504)	**$ (19,270)**
Unrecognized actuarial gains and losses	**(13,786)**	(26,169)	**(122,869)**
Total	**¥(15,948)**	¥(28,673)	**$(142,139)**

(7) Plan assets

1 Main breakdown of plan assets

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

	2017	2016
Bonds	**13%**	19%
Equities	**75%**	72%
Cash and deposits	**2%**	1%
Others	**10%**	8%
Total	**100%**	100%

Note: As of March 31, 2017 and 2016, the employees' retirement benefit trust established as part of the retirement benefit plan is included in the plan assets and represents a 71% and 61% portion of the plan assets, respectively.

2 Method for setting long-term expected rate of return

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

(8) Underlying actuarial assumptions

The main underlying actuarial assumptions as of March 31, 2017 and 2016, respectively, were as follows:

(presented as the compound average)

	2017	2016
Discount rate	**0.48–4.00%**	0.60–3.86%
Long-term expected rate of return on plan assets	**3.00–6.75%**	3.00–6.75%
Rate of compensation increase	**6.50–7.20%**	5.80–7.30%

3. Defined contribution plan

As of March 31, 2017 and 2016, the required contribution by the Company and its consolidated subsidiaries to the defined contribution plan were ¥2,183 million ($19,456 thousand) and ¥1,925 million, respectively.

10. Contingent Liabilities

Contingent liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	**¥18,252**	¥18,722	**$162,673**

11. Net Assets

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

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

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

12. Cost of Sales

The ending balance of inventories was measured at the lower of cost or market. Loss on the valuation of inventories included in the cost of sales for the years ended March 31, 2017 and 2016 was ¥3,010 million ($26,827 thousand) and ¥876 million, respectively. Gain on the valuation of inventories included in the cost of sales for the year ended March 31, 2015 was ¥1,064 million.

Provision for losses on construction contracts included in the cost of sales for the years ended March 31, 2017, 2016 and 2015 was ¥20,631 million ($183,877 thousand), ¥10,586 million and ¥6,159 million, respectively.

13. Research and Development Expenses

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

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Research and development expenses	**¥43,627**	¥43,611	¥41,606	**$388,832**

14. Other Expenses, Net

"Other expenses, net" in "Other income (expenses)" in the consolidated statements of income for the years ended March 31, 2017, 2016 and 2015 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Foreign exchange gain (loss), net	**¥ (7,724)**	¥ (6,532)	¥(5,097)	**$(68,841)**
Gain on sales of marketable securities and investments in securities	**1,091**	283	1,138	**9,723**
Gain on sales of property, plant and equipment (a)	**3,077**	3,155	–	**27,424**
Gain on transfer of business (b)	**–**	901	–	**–**
Loss on overseas business (c)	**–**	(19,298)	–	**–**
Loss on disposal of fixed assets	**(2,233)**	(1,119)	(1,428)	**(19,901)**
Other, net	**(5,076)**	1,043	(1,222)	**(45,241)**
Total	**¥(10,865)**	¥(21,567)	¥(6,609)	**$(96,836)**

(a) Gain on sales of property, plant and equipment

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

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

(b) Gain on transfer of business

This gain was due to assignment of all shares of consolidated subsidiary KCM Corporation and all businesses of KCMJ Corporation.

(c) Loss on overseas business

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

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

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

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

15. Consolidated Statement of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrealized gains (losses) on securities			
Increase (decrease) during the year	**¥ 910**	¥ (1,303)	**$ 8,109**
Reclassification adjustments	**(119)**	(48)	**(1,060)**
Subtotal, before tax	**791**	(1,351)	**7,049**
Tax (expense) or benefit	**(232)**	441	**(2,067)**
Subtotal, net of tax	**559**	(910)	**4,982**
Deferred gains (losses) on hedges			
Increase (decrease) during the year	**(12,414)**	(2,271)	**(110,641)**
Reclassification adjustments	**9,864**	6,183	**87,914**
Subtotal, before tax	**(2,550)**	3,912	**(22,727)**
Tax (expense) or benefit	**706**	(1,263)	**6,293**
Subtotal, net of tax	**(1,844)**	2,649	**(16,434)**
Foreign currency translation adjustments			
Increase (decrease) during the year	**(3,517)**	(11,592)	**(31,345)**
Reclassification adjustments	**(225)**	(171)	**(2,006)**
Subtotal, before tax	**(3,742)**	(11,763)	**(33,351)**
Tax (expense) or benefit	**–**	–	**–**
Subtotal, net of tax	**(3,742)**	(11,763)	**(33,351)**
Remeasurements of defined benefit plan			
Increase (decrease) during the year	**6,301**	(19,913)	**56,158**
Reclassification adjustments	**6,423**	3,052	**57,246**
Subtotal, before tax	**12,724**	(16,861)	**113,404**
Tax (expense) or benefit	**(3,947)**	4,706	**(35,178)**
Subtotal, net of tax	**8,777**	(12,155)	**78,226**
Share of other comprehensive income of associates accounted for using equity method			
Increase (decrease) during the year	**(6,340)**	(5,269)	**(56,506)**
Total other comprehensive income	**¥ (2,590)**	¥(27,448)	**$ (23,083)**

16.

Dividends

(a) Dividends paid

Year ended March 31, 2017

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 24, 2016 General Meeting of Shareholders	Common stock	¥11,694 million ($104,224 thousand)	¥7.0 ($0.06)	March 31, 2016	June 27, 2016
September 30, 2016 Board of Directors Meeting	Common stock	¥6,682 million ($59,554 thousand)	¥4.0 ($0.03)	September 30, 2016	December 1, 2016

Year ended March 31, 2016

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 25, 2015 General Meeting of Shareholders	Common stock	¥11,694 million	¥7.0	March 31, 2015	June 26, 2015
October 29, 2015 Board of Directors Meeting	Common stock	¥8,352 million	¥5.0	September 30, 2015	December 1, 2015

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

Year ended March 31, 2017

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 28, 2017 General Meeting of Shareholders	Common stock	Retained earnings	¥3,341 million ($29,777 thousand)	¥2.0 ($0.01)	March 31, 2017	June 29, 2017

Year ended March 31, 2016

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 24, 2016 General Meeting of Shareholders	Common stock	Retained earnings	¥11,694 million	¥7.0	March 31, 2016	June 27, 2016

17.

Income Taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporate tax (national tax) and enterprise and inhabitants' taxes (local taxes), which, in the aggregate, resulted in a statutory tax rate of approximately 30.7% and 32.9% for the years ended March 31, 2017 and 2016, respectively.

The significant differences between the statutory and effective tax rates for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016
Statutory tax rate	**30.7%**	32.9%
Valuation allowance	**(2.7)**	9.3
Equity in income of nonconsolidated subsidiaries and affiliates	**(4.4)**	(2.6)
Changing tax rate	**–**	2.9
Tax credit for research and development expenses	**(0.9)**	(3.6)
Elimination of unrealized profits	**3.0**	0.3
Other	**2.5**	(2.9)
Effective tax rate	**28.2%**	36.3%

Significant components of deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Deferred tax assets:			
Accrued bonuses	**¥ 7,043**	¥ 8,863	**$ 62,771**
Liability for retirement benefits	**37,130**	40,091	**330,926**
Allowance for doubtful receivables	**5,315**	3,863	**47,370**
Inventories–elimination of intercompany profits	**1,015**	2,881	**9,046**
Fixed assets–elimination of intercompany profits	**524**	529	**4,670**
Depreciation	**6,396**	7,834	**57,005**
Net operating loss carryforwards	**698**	34	**6,221**
Loss from inventory revaluation	**2,402**	1,457	**21,408**
Unrealized loss on marketable securities, investments in securities and other	**888**	1,224	**7,914**
Loss on valuation of land	**1,552**	1,552	**13,832**
Provision for product warranties	**3,138**	3,260	**27,967**
Provision for losses on construction contracts	**5,470**	2,338	**48,752**
Stock investment to subsidiary	**639**	2,180	**5,695**
Other	**14,115**	18,102	**125,808**
Gross deferred tax assets	**86,325**	94,208	**769,385**
Less valuation allowance	**(15,701)**	(16,739)	**(139,938)**
Total deferred tax assets	**70,624**	77,469	**629,447**
Deferred tax liabilities:			
Reserve for advanced depreciation of non-current assets	**4,508**	3,572	**40,178**
Net unrealized gain on securities	**1,288**	1,056	**32,675**
Retained earnings for foreign subsidiaries	**6,595**	6,425	**11,479**
Other	**3,666**	4,717	**58,778**
Total deferred tax liabilities	**16,057**	15,770	**143,110**
Net deferred tax assets	**¥54,567**	¥61,699	**$486,337**

<Revision of deferred tax assets and deferred tax liabilities due to change in tax rate of corporation tax, etc.>

The Act for Partial Revision to the Partial Revision, etc. of the Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security (Act No. 85, 2016) and the Act for Partial Revision to the Partial Revision, etc. of the Local Tax Act and the Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources, etc. for Social Security (Act No. 86, 2016) were enacted by the National Diet on November 18, 2016. In addition, the timing of the increase in the consumption tax rate to 10% was postponed from April 1, 2017 to October 1, 2019.

Pursuant to these acts, execution of the following taxation reform measures was postponed from fiscal years commencing on or after April 1, 2017 to fiscal years commencing on or after October 1, 2019: abolition of the local corporation special tax; accompanying restoration of the corporate enterprise tax; change in tax rates for local corporation tax; and change in tax rates for corporate inhabitant tax.

Although the effective statutory tax rate used to calculate the Company's deferred tax assets and deferred tax liabilities was unchanged, there was a rearrangement of tax rates between national taxes and local taxes.

The effect of these changes in tax rates on the consolidated financial statements was immaterial.

18. Cash and Cash Equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2017, 2016 and 2015 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Cash on hand and in banks:	**¥55,388**	¥42,157	¥51,645	**$493,654**
Time deposits with maturities over three months:	**(4,666)**	(4,325)	(3,924)	**(41,587)**
Total	**¥50,722**	¥37,832	¥47,721	**$452,067**

<Breakdown of main assets and liabilities of former consolidated subsidiaries excluded from the scope of consolidation due to the sale of shares during the fiscal year ended March 31, 2016.>
Accompanying the exclusion of KCM Corporation and two other former consolidated subsidiaries from the scope of consolidation due to the sale of shares, the relationship between the breakdown of assets and liabilities at the time of the sales, the share sale amounts and proceeds from these sales are as follows:

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

19. Net Income per Share

Per share amounts for the years ended March 31, 2017, 2016 and 2015 are set forth in the table below.

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Basic net income per share:				
Net income	**¥26,204**	¥46,043	¥51,639	**$233,547**
Net income allocated to common stock	**26,204**	46,043	51,639	**233,547**
	Number of shares in millions			
Weighted average number of shares of common stock	**1,670**	1,670	1,671	

As the Company had no dilutive securities at March 31, 2017, 2016 and 2015, the Company has not disclosed diluted net income per share for the years ended March 31, 2017, 2016 and 2015.

20. Derivative Transactions

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

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

	2017				
	Millions of yen				Thousands of U.S. dollars
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)	Gain (loss)
Currency-related contracts:					
Foreign exchange contracts:					
To sell					
USD	¥51,860	¥ –	¥(1,696)	¥(1,696)	$(15,115)
EUR	1,168	–	10	10	89
Others	11,235	–	(195)	(195)	(1,737)
To purchase					
USD	12,027	–	(101)	(101)	(900)
EUR	180	5	3	3	26
Others	1,283	6	7	7	62
Interest rate and currency swaps					
U.S. dollars floating-rate receipt/fixed-rate payment	4,306	–	1,835	1,835	16,354
Total	¥82,059	¥11	¥ (137)	¥ (137)	$ (1,221)

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

(Derivative transactions to which the Company applied hedge accounting)

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

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

	2017			
		Thousands of U.S. dollars		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Currency-related contracts:				
Foreign exchange contracts:				
To sell	Trade receivables			
USD		$564,607	$15,285	$(11,016)
EUR		86,880	–	142
Others		63,905	–	(1,550)
To purchase	Trade payables			
USD		98,734	4,099	(508)
EUR		45,944	8,172	(730)
Others		32,354	1,472	374
Total		$892,424	$29,028	$(13,288)

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

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

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

	2017			
		Thousands of U.S. dollars		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest-related contracts:				
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/fixed-rate payment	Short-term debt	**$38,377**	**$–**	**$285**
		$38,377	**$–**	**$285**

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

(b) Outstanding positions and recognized gains and losses at March 31, 2016 were as follows:

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

	2016			
	Millions of yen			
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)
Currency-related contracts:				
Foreign exchange contracts:				
To sell				
USD	¥14,147	¥ –	¥ 360	¥ 360
EUR	329	–	20	20
Others	8,844	–	96	96
To purchase				
USD	7,819	–	(260)	(260)
EUR	255	–	(8)	(8)
Others	780	–	(11)	(11)
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/fixed-rate payment	6,993	4,305	3,066	3,066
Total	¥39,167	¥4,305	¥3,263	¥3,263

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

(Derivative transactions to which the Company applied hedge accounting)

	2016			
		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Currency-related contracts:				
Foreign exchange contracts:				
To sell	Trade receivables			
USD		¥28,063	¥3,065	¥ 935
EUR		12,163	–	223
Others		765	–	(13)
To purchase	Trade payables			
USD		13,745	4,144	(178)
EUR		4,658	514	27
Others		4,711	756	(9)
Total		¥64,105	¥8,479	¥ 985

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

	2016			
		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest-related contracts:				
Interest rate and currency swaps				
U.S. dollars floating-rate receipt/fixed-rate payment	Long-term debt	¥6,993	¥4,305	¥56
Total		¥6,993	¥4,305	¥56

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

21. Financial Instruments

Information related to financial instruments as of March 31, 2017 and 2016 was as follows:

(1) Matters related to the status of financial instruments

(a) Policies on the use of financial instruments

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

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

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

Almost all trade payables and electronically recorded obligations are due within one year. A portion of trade payables are denominated in foreign currency—specifically those related to payment for imported materials, etc., and are exposed to the risk of foreign currency fluctuation. However, this risk is mitigated principally by the position of trade payables denominated in foreign currency being less than the position of receivables in the same currency. Loans payable and bonds payable are mainly used to raise operating capital and carry out capital expenditure and are due in a maximum of twenty years from March 31, 2017 (ten years in 2016). A portion of these instruments is exposed to the risk of interest rate fluctuation. However, such risk is hedged using derivatives (interest rate and currency swaps) as necessary.

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

(c) Risk management system for financial instruments

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

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

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

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

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

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

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

(d) Supplemental information on the fair value of financial instruments

The fair value of financial instruments includes values based on market price and reasonably estimated values when market price is not available. However, as variables are inherent in these value calculations, the resulting values may differ if different assumptions are used. With regard to the contract amounts, etc., of the derivatives described in Note 20, "Derivative transactions," these amounts do not represent the market risk associated with the corresponding derivative transactions themselves.

(2) Fair values of financial instruments

The book values, the fair values and the differences between these values as of March 31, 2017 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	2017			
	Millions of yen			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Cash on hand and in banks	**¥ 55,388**	**¥ 55,388**	**¥ –**	**$ –**
Trade receivables	**444,633**	**444,588**	**(45)**	**(401)**
Investments in securities	**8,563**	**8,563**	**–**	**–**
Total assets	**¥508,584**	**¥508,539**	**¥ (45)**	**$ (401)**
Trade payables	**240,572**	**240,572**	**–**	**–**
Electronically recorded obligations	**101,449**	**101,449**	**–**	**–**
Short-term debt and current portion of long-term debt (excluding lease obligations)	**121,456**	**121,456**	**–**	**–**
Long-term debt, less current portion (excluding lease obligations)	**277,494**	**279,014**	**1,520**	**13,547**
Total liabilities	**¥740,971**	**¥742,491**	**¥1,520**	**$13,547**
Derivative transactions (*)	**¥ (1,595)**	**¥ (1,595)**	**¥ –**	**$ –**

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

The book values, fair values and the differences between these values as of March 31, 2016 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	2016		
	Millions of yen		
	Book value	Fair value	Unrealized gains (losses)
Cash on hand and in banks	¥ 42,157	¥ 42,157	¥ –
Trade receivables	381,339	381,337	(2)
Investments in securities	7,683	7,683	0
Total assets	431,179	431,177	(2)
Trade payables	233,979	233,979	–
Electronically recorded obligations	87,798	87,798	–
Short-term debt and current portion of long-term debt (excluding lease obligations)	115,892	115,892	–
Long-term debt, less current portion (excluding lease obligations)	280,810	285,039	4,229
Total liabilities	¥718,479	¥722,708	¥4,229
Derivative transactions (*)	¥ 4,304	¥ 4,304	¥ –

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

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

<Assets>

- Cash on hand and in banks
The fair value of cash on hand and in banks is stated at the relevant book value since the settlement periods are short and the fair values are substantially the same as the book values.
- Trade Receivables
The fair value of trade receivables is stated at present value computed by applying a discount rate reflecting the settlement period and the credit risk.
- Investments in securities
Equity securities are stated at the fair value, and bonds are stated at market price or the asking price of financial institutions. See Note 2(k), "Investments in securities," for the detailed information by classification.

<Liabilities>

- Trade payables, electronically recorded obligations, short-term debt and current portion of long-term debt
Since the settlement periods of these items are short and their fair values are substantially the same as their book values, the relevant book values are used.
- Long-term debt, less current portion
The fair value of bonds payable is calculated based on trading reference data. The fair value of long-term debt is calculated by applying a discount rate to the total principal and interest. That discount rate is based on the interest rates of similar new loans.

<Derivatives>

See Note 20, "Derivative Transactions."

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unlisted equity securities and investments in partnerships	**¥ 5,356**	¥ 6,099	**$ 47,736**
Stocks of nonconsolidated subsidiaries and affiliates	**10,600**	9,070	**94,474**
Investments in affiliates	**60,770**	66,383	**541,622**
Total	**¥76,726**	¥81,552	**$683,832**

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

(iii) Planned redemption amounts after the balance sheet date for monetary receivables and investments in securities with maturity dates as of March 31, 2017 and 2016 were as follows:

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

	2017			
	Thousands of U.S. dollars			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**$ 493,654**	**$ –**	**$–**	**$–**
Trade receivables	**3,879,421**	**83,440**	**–**	**–**
Investments in securities				
-Bonds	**267**	**–**	**–**	**–**
Total	**$4,373,342**	**$83,440**	**$–**	**$–**

	2016			
	Millions of yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	¥ 42,157	¥ –	¥–	¥–
Trade receivables	376,416	4,923	–	–
Investments in securities				
-Bonds	101	30	–	–
Total	¥418,674	¥4,953	¥–	¥–

(iv) Planned repayment amounts after the balance sheet date for bonds payable and long-term debt. See Note 7, "Short-term debt and Long-term debt."

22. Finance Leases

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

<Lessee>

The original costs of leased assets under non-capitalized finance leases and the related accumulated depreciation and amortization, assuming it was calculated by the straight-line method over the term of the respective lease, as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Property, plant and equipment	**¥10,710**	¥ 13,845	**$ 95,454**
Accumulated depreciation	**(9,103)**	(11,034)	**(81,132)**
	1,607	2,811	**14,322**
Intangible assets	**22**	22	**196**
Accumulated amortization	**(17)**	(12)	**(152)**
	¥ 5	¥ 10	**$ 44**

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Current portion	**¥ 872**	¥1,303	**$ 7,771**
Noncurrent portion	**907**	1,782	**8,084**
Total	**¥1,779**	¥3,085	**$15,855**

Lease payments, "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases for the years ended March 31, 2017, 2016 and 2015 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Lease payments	**¥1,364**	¥1,656	¥2,167	**$12,156**
Depreciation and amortization	**1,205**	1,469	1,919	**10,739**
Interest	**62**	97	144	**552**

23. Operating Leases

The schedule of future minimum lease payments under non-cancellable operating leases as of March 31, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Within one year	**¥ 2,204**	¥ 2,219	**$ 19,643**
Over one year	**12,706**	8,249	**113,244**
Total	**¥14,910**	¥10,468	**$132,887**

24. Segment Information

(a) Overview of reportable segments

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

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

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

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

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

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

Year ended March 31, 2017

Millions of yen

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

Year ended March 31, 2016

Millions of yen

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

Year ended March 31, 2015

Millions of yen

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

Year ended March 31, 2017

Thousands of U.S. dollars

	Sales					Other items		
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangible assets
Ship & Offshore Structure	**$ 919,821**	**$ 21,809**	**$ 941,630**	**$(190,945)**	**$ 1,502,468**	**$ 11,381**	**$424,625**	**$ 33,022**
Rolling Stock	**1,222,450**	**677**	**1,223,127**	**31,069**	**1,465,356**	**23,405**	**1,149**	**24,322**
Aerospace	**2,940,419**	**14,393**	**2,954,812**	**223,109**	**3,861,328**	**133,895**	**–**	**296,551**
Gas Turbine & Machinery	**2,156,444**	**114,287**	**2,270,731**	**136,310**	**3,096,738**	**42,460**	**–**	**79,723**
Plant & Infrastructure	**1,433,841**	**70,660**	**1,504,501**	**23,263**	**1,062,014**	**12,976**	**150,614**	**19,671**
Motorcycle & Engine	**2,789,929**	**6,087**	**2,796,016**	**104,714**	**2,169,448**	**117,113**	**12,032**	**163,031**
Precision Machinery	**1,383,940**	**141,471**	**1,525,411**	**116,792**	**1,403,761**	**57,674**	**2,647**	**64,420**
Other	**689,965**	**356,872**	**1,046,837**	**27,987**	**770,633**	**14,910**	**28,300**	**10,463**
Total	**$13,536,809**	**$ 726,256**	**$14,263,065**	**$ 472,299**	**$15,331,746**	**$413,814**	**$619,367**	**$691,203**
Adjustments	**–**	**(726,256)**	**(726,256)**	**(62,674)**	**(292,861)**	**45,758**	**–**	**46,265**
Consolidated total	**$13,536,809**	**$ –**	**$13,536,809**	**$ 409,625**	**$15,038,885**	**$459,572**	**$619,367**	**$737,468**

(d) Reconciliation and the main components of differences between the total for reportable segments and amounts on the consolidated financial statement for the years ended March 31, 2017, 2016 and 2015

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Net sales				
Total for reportable segments	**¥1,600,316**	¥1,633,246	¥1,587,990	**$14,263,065**
Intersegment transactions	**(81,486)**	(92,150)	(101,867)	**(726,256)**
Net sales reported on the consolidated financial statements	**¥1,518,830**	¥1,541,096	¥1,486,123	**$13,536,809**

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Income				
Total for reportable segments	**¥52,992**	¥99,716	¥92,701	**$472,299**
Intersegment transactions	**(34)**	(22)	(1,042)	**(303)**
Corporate expenses (*)	**(6,998)**	(3,698)	(4,400)	**(62,371)**
Operating income (loss) on the consolidated financial statements	**¥45,960**	¥95,996	¥87,259	**$409,625**

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

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Assets				
Total for reportable segments	**¥1,720,222**	¥1,598,723	¥1,634,518	**$15,331,746**
Intersegment transactions	**(80,391)**	(86,409)	(90,225)	**(716,497)**
Corporate assets shared by all segments (*)	**47,532**	108,144	117,990	**423,636**
Total assets on the consolidated financial statements	**¥1,687,363**	¥1,620,458	¥1,662,283	**$15,038,885**

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

	Millions of yen								
	Year ended March 31,								
	2017	2016	2015	**2017**	2016	2015	**2017**	2016	2015
Other items	Total for reportable segments			Adjustments(*)			Amounts reported on the consolidated financial statements		
Depreciation/amortization	**¥46,430**	¥43,960	¥40,356	**¥5,134**	¥5,044	¥4,216	**¥51,564**	¥49,004	¥44,572
Increase in property, plant and equipment and intangible assets	**77,553**	69,906	74,835	**5,191**	6,404	5,261	**82,744**	76,310	80,096

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

	Thousands of U.S. dollars		
	Year ended March 31,		
	2017		
Other items	Total for reportable segments	Adjustments	Amounts reported on the consolidated financial statements
Depreciation/amortization	**$413,814**	**$45,758**	**$459,572**
Increase in property, plant and equipment and intangible assets	**691,203**	**46,265**	**737,468**

(e) Related information

(i) Sales by geographic region

Net sales for the years ended March 31, 2017, 2016 and 2015 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2017	2016	2015	**2017**
Japan	**¥ 648,166**	¥ 636,565	¥ 631,018	**$ 5,776,881**
United States	**371,249**	396,697	356,806	**3,308,815**
Europe	**177,900**	144,894	115,145	**1,585,561**
Asia	**220,901**	241,424	252,371	**1,968,814**
Other areas	**100,614**	121,516	130,783	**896,738**
Total	**¥1,518,830**	¥1,541,096	¥1,486,123	**$13,536,809**

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

Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Japan	**¥401,309**	¥378,381	**$3,576,729**
North America	**27,750**	23,566	**247,326**
Europe	**3,054**	3,692	**27,219**
Asia	**28,865**	30,090	**257,263**
Other areas	**904**	829	**8,058**
Total	**¥461,882**	¥436,558	**$4,116,595**

(ii) Information by major clients

Year ended March 31, 2017

Clients	Net sales	Related segments
Ministry of Defense	¥236,861 million ($2,111,060 thousand)	Ship & Offshore Structure, Aerospace, Gas Turbine & Machinery, etc.

Year ended March 31, 2016

Clients	Net sales	Related segments
Ministry of Defense	¥227,333 million	Ship & Offshore Structure, Aerospace, Gas Turbine & Machinery, etc.
Commercial Airplaine Co., Ltd.	¥159,683 million	Aerospace

25. Related Party Transactions

(a) Related party transactions for the years ended March 31, 2017 and 2016 were as follows:

	Year ended March 31, 2017
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million ($89 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Sales of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥130,785 million ($1,165,641 thousand)
Account	Trade receivables
Ending balance	¥37,320 million ($332,620 thousand)
Account	Advances from customers
Ending balance	¥46,476 million ($414,224 thousand)

	Year ended March 31, 2017
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Enseada Indústria Naval S.A.
Location	Bahia, Brazil
Capital or investment	¥12,219 million ($108,903 thousand)
Business or position	Ship & Offshore Structure
Rate of ownership (%)	Directly 31.09%
Description of relationship	Sales of Company products, loan of cash and board members
Details of transactions	Sales of Company products
Amount of transactions	¥– ($–)
Details of transactions	Loan of cash
Amount of transactions	¥– ($–)
Account	Other and Allowance for doubtful receivables in Investments and intangible and other assets
Ending balance (*)	¥– ($–)

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

	Year ended March 31, 2016
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥159,683 million
Account	Trade receivables
Ending balance	¥11,621 million
Account	Advances from customers
Ending balance	¥46,015 million

	Year ended March 31, 2016
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Enseada Indústria Naval S.A.
Location	Bahia, Brazil
Capital or investment	¥12,219 million
Business or position	Ship & Offshore Structure
Rate of ownership (%)	Directly 31.09%
Description of relationship	Order of Company products, loan of cash and board members
Details of transactions	Sales of Company products
Amount of transactions	¥4,144 million
Details of transactions	Loan of cash
Amount of transactions	¥–
Account	Other and Allowance for doubtful receivables in Investments and intangible and other assets
Ending balance	¥4,687 million

(b) A summary of the total financial information of affiliates which was the basis for calculating the equity in income of nonconsolidated affiliates, including that of Nantong COSCO KHI Ship Engineering Co., Ltd., which is a significant affiliate, for the years ended March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Current assets	**¥147,214**	¥187,324	**$1,312,067**
Fixed assets	**153,411**	328,698	**1,367,299**
Current liabilities	**114,899**	226,410	**1,024,055**
Long-term liabilities	**24,814**	122,746	**221,158**
Net assets	**160,912**	166,866	**1,434,153**
Net sales	**180,925**	282,477	**1,612,522**
Income before income taxes and non-controlling interests	**15,913**	5,722	**141,827**
Total net income	**12,806**	563	**114,135**

26. Subsequent Events

(a) Cash dividends

On June 28, 2017, the following appropriation of nonconsolidated retained earnings was approved at the ordinary meeting of shareholders of the Company:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥2.0 per share)	¥3,341	$29,777

(b) Change in share unit number, consolidation of shares

On May 23, 2017, the Board of Directors passed a resolution to submit proposals for a consolidation of shares and a change in the share unit number to the 194th Ordinary General Meeting of Shareholders, convened on June 28, 2017. The two proposals were approved by the Ordinary General Meeting of Shareholders.

1. Change in share unit number

(1) Reason for change

Based on the Action Plan for Consolidating Trading Units, Japan's stock exchanges are working toward a uniform share trading unit (share unit number) of 100 shares for common stock issued by domestic listed companies.

As a company listed on the Tokyo Stock Exchange (TSE) and Nagoya Stock Exchange (NSE), the Company respects the intent of this plan, and hence made the decision to change its share unit number from 1,000 shares to 100 shares.

(2) Details of change

The share unit number will change from 1,000 shares to 100 shares.

2. Consolidation of shares

(1) Purpose of the consolidation of shares

As described in "1. Change in share unit number" above, the Company will change the share unit number from 1,000 shares to 100 shares. In addition, with regard to the price level per share trading unit, the Company took into consideration the investment unit range seen as desirable by stock exchanges (50,000–500,000 yen) when deciding on a consolidation of shares ratio of 10 shares to 1 share. With regard to the total number of shares authorized, in accordance with the consolidation of shares ratio, the total number of shares authorized will change from the current 3,360,000,000 shares to 336,000,000 shares.

(2) Details of consolidation of shares

(i) Type of shares subject to consolidation of shares
Common stock

(ii) Consolidation of shares ratio
A consolidation of shares will be carried out at the ratio of 10 shares to 1 share

(iii) Effective date of consolidation of shares
October 1, 2017

(iv) Total number of shares authorized as of the effective date
336,000,000
Pursuant to provisions in the Corporation Law, the article of incorporation that establishes the total number of shares authorized will be deemed to have changed from the current 3,360,000,000 shares to 336,000,000 shares on the effective date of October 1, 2017.

(v) Decrease in number of shares due to the consolidation of shares

Total number of shares issued prior to the consolidation (as of March 31, 2017)	1,670,805,320
Decrease in number of shares due to the consolidation	1,503,724,788
Total number of shares issued following the consolidation	167,080,532

Note: Figures for the "Decrease in number of shares due to the consolidation" and the "Total number of shares issued following the consolidation" shown above are theoretical values calculated based on the total number of shares issued prior to the consolidation of shares and the consolidation of shares ratio.

(vi) Measure to deal with cases in which a fractional share less than one share arises
For shareholders holding a fractional share less than one share due to the consolidation of shares, pursuant to provisions in the Corporation Law, the Company will dispose of all such fractional shares at once and make payment for the share sale to affected shareholders in accordance with the share fraction held.

3. Schedule

Date of Board of Directors resolution	May 23, 2017
Date of Ordinary General Meeting of Shareholders resolution	June 28, 2017
Effective date of change in share unit number	October 1, 2017 (planned)
Effective date of consolidation of shares	October 1, 2017 (planned)
Effective date of change in total number of shares authorized	October 1, 2017 (planned)

4. Impact on per Share Information
If the consolidation of shares were assumed to have been executed at the start of the previous fiscal year (April 1, 2015), per share information for the years ended March 31, 2016 and 2017 would have been as follows.

	Previous fiscal year (April 1, 2015– March 31, 2016)	Fiscal year under review (April 1, 2016– March 31, 2017)
Net assets per share (yen)	2,582.15	2,617.38
Net income per share (yen)	275.61	156.85

Note: As the Company has no dilutive securities, the Company has not disclosed diluted net income per share.

27. Other Matters

(Quarterly financial information)

	Millions of yen			
Year ended March 31, 2017	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	¥339,859	¥697,299	¥1,043,052	¥1,518,830
Income before income taxes	7,940	476	25,210	38,873
Net income (loss)	4,797	(242)	17,974	26,204
	Yen			
Net income (loss) per share—basic	¥2.9	¥(0.1)	¥10.8	¥15.7

	Thousands of U.S. dollars			
Year ended March 31, 2017	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	$3,029,046	$6,214,786	$9,296,363	$13,536,809
Income before income taxes	70,766	4,242	224,688	346,461
Net income (loss)	42,754	(2,156)	160,196	233,547
	U.S. dollars			
Net income (loss) per share—basic	$0.03	$(0.00)	$0.10	$0.14

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2017, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for each of the three years in the period ended March 31, 2017, in accordance with accounting principles generally accepted in Japan.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

28 June, 2017
Kobe, Japan