1. Basis of presenting consolidated financial statements

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

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018, which was ¥106.27 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant Accounting Policies

(a) Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control. The consolidated financial statements include the accounts of the Company and 93 subsidiaries (93 in the year ended March 31, 2017 and 99 in 2016). The aggregate amount of total assets, net sales, net income and retained earnings of the excluded subsidiaries would not have had a material effect on the consolidated financial statements if they had been included in the consolidation.

(b) Application of the equity method of accounting
Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. For the year ended March 31, 2018, 17 affiliates (18 in 2017 and 20 in 2016) were accounted for by the equity method. For the year ended March 31, 2018, investments in 13 affiliates (12 in 2017 and 11 in 2016) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end
The fiscal year-end of 29 consolidated subsidiaries (28 in 2017 and 26 in 2016) is December 31. These subsidiaries are consolidated as of December 31, and significant transactions for the period between December 31 and March 31, the Company's fiscal year-end, are adjusted for on consolidation.

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

(e) Revenue recognition
<Sales of products and construction contracts>
The percentage-of-completion method is applied to construction contracts if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the completed contract method is applied.

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

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

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

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

(j) Investments in securities
The Company and its consolidated subsidiaries classify securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) all other securities (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2018, 2017 or 2016. Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available market value are stated at moving average cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Accounting standards issued but not yet adopted

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

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

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

(c) Effects of application of the standards
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

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

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

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

(c) Effects of application of the standards
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

4. Additional information

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

5. Inventories

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

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

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

6. Securities

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

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

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

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

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

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

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

(c) Investments in securities subject to impairment

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

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

7. Investments in Nonconsolidated Subsidiaries and Affiliates

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

8. Short-term Debt and Long-term Debt

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

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

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

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

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

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

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

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

9. Provision for Losses on Construction Contracts

Inventories for construction contracts with substantial anticipated losses and the provision for losses on construction contracts were not offset. As of March 31, 2018 and 2017, the inventories for the construction contracts for which the provision for losses on construction contracts were provided were ¥15,590 million ($146,701 thousand) and ¥1,368 million, respectively. These amounts were all included in work in process.

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

10. Employees' Retirement and Severance Benefits

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

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

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

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

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

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

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

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

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

(4) Breakdown of retirement benefit expense

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

(5) Adjustments for retirement benefits

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

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

(6) Accumulated adjustments for retirement benefits

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

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

(7) Plan assets

(i) Main breakdown of plan assets

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

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

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

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

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

(8) Underlying actuarial assumptions

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

(presented as the compound average)

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

3. Defined contribution plan

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

11. Contingent Liabilities

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

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

12. Net Assets

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

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

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

13. Cost of Sales

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

Provision for losses on construction contracts included in the cost of sales for the years ended March 31, 2018, 2017 and 2016 was ¥23,718 million ($223,186 thousand), ¥20,631 million and ¥10,586 million, respectively.

14. Research and Development Expenses

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

	Millions of yen			Thousands of U.S. dollars
	2018	2017	2016	2018
Research and development expenses	¥45,434	¥43,627	¥43,611	$427,533

15. Other Expenses, Net

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

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

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

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

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

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

(b) Gain on transfer of business

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

(c) Loss on overseas business

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

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

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

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

(d) Payments for contract adjustment for commercial aircraft jet engines

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

(e) Losses from the termination of a shipbuilding contract for an offshore service vessel

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

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

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

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

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

16.

Consolidated Statement of Comprehensive Income

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

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

17.

Dividends

(a) Dividends paid

Year ended March 31, 2018

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

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

Year ended March 31, 2017

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

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

Year ended March 31, 2018

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

Year ended March 31, 2017

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

18.

Income Taxes

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

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

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

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

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

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

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

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

19. Cash and Cash Equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2018, 2017 and 2016 were as follows:

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

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

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

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

20. Net Income per Share

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

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

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

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

21. Derivative Transactions

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

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

	2018				
	Millions of yen				Thousands of U.S. dollars
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)	Gain (loss)
Currency-related contracts:					
Foreign exchange contracts:					
To sell					
USD	¥49,034	¥ –	¥1,188	¥1,188	$11,179
EUR	7,754	–	145	145	1,364
Others	13,616	3,942	(59)	(59)	(555)
To purchase					
USD	473	–	(8)	(8)	(75)
EUR	386	–	9	9	84
Others	1,152	–	(16)	(16)	(150)
Interest rate and currency swaps					
U.S. dollars floating-rate receipt/fixed-rate payment	–	–	–	–	–
Total	¥72,415	¥3,942	¥1,259	¥1,259	$11,847

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

(Derivative transactions to which the Company applied hedge accounting)

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

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

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

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

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

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

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

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

(Derivative transactions to which the Company applied hedge accounting)

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

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

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

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

22. Financial Instruments

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

(1) Matters related to the status of financial instruments

(a) Policies on the use of financial instruments

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

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

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

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

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

(c) Risk management system for financial instruments

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

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

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

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

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

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

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

(iii) Management of liquidity risk (risk of the Company being unable to meet its payment obligations by their due dates)

The Company manages liquidity risk through its finance department, maintaining and updating its finance plans based on reports from each business division. Liquidity risk is managed through the diversification of financing methods, taking into consideration the financing environment and balancing long- and short-term financing requirements, securing commitment lines, etc.

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

The fair value of financial instruments includes values based on market price and reasonably estimated values when market price is not available. However, as variables are inherent in these value calculations, the resulting values may differ if different assumptions are used. With regard to the contract amounts, etc., of the derivatives described in Note 21, "Derivative transactions," these amounts do not represent the market risk associated with the corresponding derivative transactions themselves.

(2) Fair values of financial instruments

The book values, the fair values and the differences between these values as of March 31, 2018 were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

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

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

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

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

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

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

<Assets>

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

<Liabilities>

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

<Derivatives>

See Note 21, “Derivative Transactions.”

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unlisted equity securities and investments in partnerships	**¥ 5,411**	¥ 5,356	**$ 50,917**
Stocks of nonconsolidated subsidiaries and affiliates	**13,005**	10,600	**122,376**
Investments in affiliates	**65,310**	60,770	**614,568**
Total	**¥83,726**	¥76,726	**$787,861**

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

(iii) Planned redemption amounts after the balance sheet date for monetary receivables and investments in securities with maturity dates as of March 31, 2018 and 2017 were as follows:

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

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

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

(iv) Planned repayment amounts after the balance sheet date for bonds payable and long-term debt. See Note 8, “Short-term debt and long-term debt.”

23.

Finance Leases

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

<Lessee>

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

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

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

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

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

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

24.

Operating Leases

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

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

25.

Segment Information

(a) Overview of reportable segments

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

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

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

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

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

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

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

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

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

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

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

(d) Reconciliation and the main components of differences between the total for reportable segments and amounts on the consolidated financial statement for the years ended March 31, 2018, 2017 and 2016

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

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

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

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

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

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

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

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

(e) Related information

(i) Sales by geographic region

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

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

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

Property, plant and equipment

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

(ii) Information by major clients

Year ended March 31, 2018

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

Year ended March 31, 2017

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

26. Related Party Transactions

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

	Year ended March 31, 2018 Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million ($94 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Sales of Company products and board members
Details of transactions	Sales of Company products
Amount of transactions	¥116,936 million ($1,100,366 thousand)
Account	Trade receivables
Ending balance	¥43,820 million ($412,345 thousand)
Account	Advances from customers
Ending balance	¥72,515 million ($682,365 thousand)

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

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

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

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

27.

Subsequent Events

On June 27, 2018, the following appropriation of nonconsolidated retained earnings was approved at the ordinary meeting of shareholders of the Company:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥30.0 per share)	¥5,011	$47,153

28.

Other Matters

(a) Quarterly financial information

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

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

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

(b) Material lawsuits, etc.

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

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

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2018, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for each of the three years in the period ended March 31, 2018, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

26 June, 2018
Kobe, Japan