

Consolidated Balance Sheets

Kawasaki Heavy Industries, Ltd. and consolidated subsidiaries
As of March 31, 1999 and 1998

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	1999
Current assets:			
Cash on hand and in banks (Note 5)	¥ 55,306	¥ 76,265	\$ 458,781
Marketable securities (Notes 3 and 5)	47,785	48,834	396,392
Receivables (Notes 5 and 9):			
Trade	403,423	410,644	3,346,520
Other	13,173	9,918	109,274
Allowance for doubtful receivables	(3,041)	(2,959)	(25,226)
	<u>413,555</u>	<u>417,603</u>	<u>3,430,568</u>
Inventories (Notes 4 and 5)	347,765	351,236	2,884,820
Deferred tax assets (Note 8)	5,507	-	45,682
Other current assets	14,481	14,493	120,124
Total current assets	<u>884,399</u>	<u>908,431</u>	<u>7,336,367</u>
Investments and long-term loans:			
Investments in securities (Notes 3 and 9)	38,967	38,604	323,243
Long-term loans	1,784	3,940	14,799
Other	13,264	14,293	110,030
Allowance for doubtful receivables	(3,009)	(2,289)	(24,961)
Total investments and long-term loans	<u>51,006</u>	<u>54,548</u>	<u>423,111</u>
Property, plant and equipment (Note 5):			
Land	50,070	46,524	415,346
Buildings	238,406	229,287	1,977,652
Machinery and equipment	429,758	420,536	3,564,977
Construction in progress	5,115	7,837	42,431
	<u>723,349</u>	<u>704,184</u>	<u>6,000,406</u>
Accumulated depreciation	(478,483)	(461,749)	(3,969,166)
Net property, plant and equipment	<u>244,866</u>	<u>242,435</u>	<u>2,031,240</u>
Intangible and other assets			
Deferred tax assets (Note 8)	2,956	-	24,521
Intangible and other assets	6,989	5,699	57,976
	<u>9,945</u>	<u>5,699</u>	<u>82,497</u>
Foreign currency translation adjustments	14,641	11,793	121,451
Total assets	<u>¥1,204,857</u>	<u>¥1,222,906</u>	<u>\$9,994,666</u>

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

Liabilities and shareholders' equity	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	1999
Current liabilities:			
Short-term borrowings and current portion of long-term debt (Note 5)	¥ 238,265	¥ 239,252	\$1,976,482
Trade payables	321,830	327,176	2,669,681
Advances from customers	81,409	97,703	675,313
Accrued income taxes (Note 8)	3,424	19,904	28,403
Accrued expenses	22,761	41,721	188,810
Deferred tax liabilities (Note 8)	5,162	-	42,820
Other current liabilities	49,836	20,591	413,406
Total current liabilities	722,687	746,347	5,994,915
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	208,763	198,135	1,731,755
Retirement and severance benefits	54,024	52,182	448,146
Deferred tax liabilities (Note 8)	2,573	-	21,344
Other	10,894	11,466	90,369
Total long-term liabilities	276,254	261,783	2,291,614
Contingent liabilities (Note 10)			
Minority interests	6,279	5,736	52,086
Shareholders' equity (Note 6):			
Common stock of ¥50 par value :			
Authorized—3,360,000,000 shares			
Issued—1,390,595,964 shares	81,427	81,427	675,462
Capital surplus	24,682	24,682	204,745
Retained earnings	93,528	102,931	775,844
Total shareholders' equity	199,637	209,040	1,656,051
Total liabilities and shareholders' equity	¥1,204,857	¥1,222,906	\$9,994,666

Consolidated Statements of Operations

Kawasaki Heavy Industries, Ltd. and consolidated subsidiaries
For the three years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1999	1998	1997	1999
Net sales	¥1,202,189	¥1,297,212	¥1,224,259	\$9,972,534
Cost of sales	1,045,143	1,114,693	1,041,697	8,669,788
Gross profit	157,046	182,519	182,562	1,302,746
Selling, general and administrative expenses	135,380	131,440	120,351	1,123,020
Operating income	21,666	51,079	62,211	179,726
Other income (expenses):				
Interest and dividend income	5,495	5,122	5,424	45,583
Interest expense	(12,646)	(11,907)	(12,578)	(104,903)
Other, net (Note 7)	(15,723)	(3,815)	(5,148)	(130,427)
Income (loss) before income taxes and minority interests and other	(1,208)	40,479	49,909	(10,021)
Income taxes (Note 8)				
Current	(9,358)	(22,618)	(27,128)	(77,627)
Deferred	2,943	-	-	24,413
Minority interests in net (income) loss of consolidated subsidiaries	808	(541)	(529)	6,702
Equity in income of unconsolidated subsidiaries and affiliates	683	1,236	320	5,666
Net income (loss)	¥ (6,132)	¥ 18,556	¥ 22,572	\$ (50,867)
		Yen		U.S. dollars (Note 1)
Per share amounts (Note 2 (u)):				
Net income (loss)	¥(4.4)	¥13.3	¥16.4	\$(0.04)
Net income—diluted	-	12.0	14.8	-
Cash dividends	6.0	6.0	7.0	0.05

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

Consolidated Statements of Shareholders' Equity

Kawasaki Heavy Industries, Ltd. and consolidated subsidiaries
For the three years ended March 31, 1999, 1998 and 1997

	Thousands	Millions of yen		
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings
Balance at March 31, 1996	1,350,038	¥71,108	¥14,375	¥ 77,502
Net income for the year	-	-	-	22,572
Adjustment for changes of interests in consolidated subsidiaries and in affiliates accounted for by the equity method	-	-	-	22
Increase in retained earnings arising from a newly consolidated subsidiary	-	-	-	57
Cash dividends	-	-	-	(8,211)
Bonuses to directors and statutory auditors	-	-	-	(214)
Issue of new shares	30,000	7,890	7,890	-
Conversion of convertible bonds	9,085	2,090	2,080	-
Balance at March 31, 1997	1,389,123	81,088	24,345	91,728
Net income for the year	-	-	-	18,556
Adjustment for changes of interests in consolidated subsidiaries	-	-	-	23
Increase in retained earnings arising from newly consolidated subsidiaries	-	-	-	2,727
Decrease in retained earnings arising from affiliates newly accounted for by the equity method	-	-	-	(83)
Cash dividends	-	-	-	(9,728)
Bonuses to directors and statutory auditors	-	-	-	(292)
Conversion of convertible bonds	1,473	339	337	-
Balance at March 31, 1998	1,390,596	81,427	24,682	102,931
Net loss for the year	-	-	-	(6,132)
Cumulative effect of adopting tax effect accounting	-	-	-	5,652
Increase in retained earnings arising from affiliates newly accounted for by the equity method	-	-	-	65
Merger of unconsolidated subsidiaries with consolidated subsidiary	-	-	-	24
Adjustment for changes of interests in affiliates accounted for by the equity method	-	-	-	(406)
Cash dividends	-	-	-	(8,344)
Bonuses to directors and statutory auditors	-	-	-	(262)
Balance at March 31, 1999	1,390,596	¥81,427	¥24,682	¥ 93,528
		Thousands of U.S. dollars (Note 1)		
Balance at March 31, 1998		\$675,462	\$204,745	\$853,845
Net loss for the year		-	-	(50,867)
Cumulative effect of adopting tax effect accounting		-	-	46,885
Increase in retained earnings arising from affiliates newly accounted for by the equity method		-	-	539
Merger of unconsolidated subsidiaries with consolidated subsidiary		-	-	199
Adjustment for changes of interests in affiliates accounted for by the equity method		-	-	(3,368)
Cash dividends		-	-	(69,216)
Bonuses to directors and statutory auditors		-	-	(2,173)
Balance at March 31, 1999		\$675,462	\$204,745	\$775,844

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

Consolidated Statements of Cash Flows

Kawasaki Heavy Industries, Ltd. and consolidated subsidiaries
For the three years ended March 31, 1999, 1998 and 1997

	Millions of yen			Thousands of U.S. dollars (Note 1)
	1999	1998	1997	1999
Cash flows from operating activities:				
Net income (loss)	¥ (6,132)	¥18,556	¥ 22,572	\$ (50,867)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	34,607	32,416	31,245	287,076
Provision for retirement and severance benefits	1,842	1,667	1,866	15,280
(Gain) loss on disposal of property, plant and equipment	1,382	993	(1,064)	11,464
Provision for allowance for doubtful receivables	876	352	507	7,267
Minority interests in net income (loss) of consolidated subsidiaries	(808)	541	529	(6,702)
Equity in undistributed earnings of unconsolidated subsidiaries and affiliates	(370)	(838)	(390)	(3,069)
Provision for estimated loss on uncompleted contract	5,784	2,694	-	47,980
(Gain) loss on sale of marketable securities and investments in securities	1,077	(799)	(442)	8,934
Deferred income taxes	(2,943)	-	-	(24,413)
Changes in assets and liabilities:				
Decrease (increase) in				
Receivables	5,127	(18,951)	(48,209)	42,530
Inventories	3,471	88,306	1,805	28,793
Other current assets	2,537	3,342	(2,438)	21,045
Increase (decrease) in				
Payables	(5,346)	(37,464)	19,999	44,347
Advances received	(16,294)	(48,065)	(21,745)	135,164
Accrued income taxes	(8,534)	(4,379)	6,049	(70,792)
Other liabilities	3,164	3,908	3,608	26,246
Other, net	772	1,378	2,335	6,404
Net cash provided by operating activities	20,212	43,657	16,227	167,665
Cash flows from investing activities:				
Acquisition of property, plant and equipment	(40,428)	(42,928)	(35,130)	(335,363)
Proceeds from sale of property, plant and equipment	1,333	325	3,644	11,058
Decrease (increase) in marketable securities	(50)	835	(3,125)	(415)
Increase in intangible and other investments	(2,453)	(406)	(230)	(20,349)
Proceeds from sales and redemption of investments in securities	73	1,088	485	606
Additions to investments in securities	(1,544)	(3,266)	(5,734)	(12,808)
Payments received on long-term loans receivable	1,215	930	861	10,079
Additions to long-term loans receivable	(406)	(404)	(673)	(3,368)
Other	(292)	23	65	(2,422)
Net cash used for investing activities	(42,552)	(43,803)	(39,837)	(352,982)
Cash flows from financing activities:				
Proceeds from long-term debt	54,894	37,796	43,902	455,363
Proceeds from issuance of common stock	-	-	15,780	-
Repayment of long-term debt	(37,681)	(36,287)	(28,182)	(312,576)
Cash dividends paid	(8,310)	(9,694)	(8,207)	(68,934)
Cash dividends paid to minority interests	(62)	(522)	(138)	(514)
Decrease in short-term borrowings	(6,514)	(10,528)	(5,821)	(54,036)
Net cash provided by (used for) financing activities	2,327	(19,235)	17,334	19,303
Effect of exchange rate changes	(946)	(971)	2,759	(7,847)
Net decrease in cash on hand and in banks	(20,959)	(20,352)	(3,517)	(173,861)
Cash on hand and in banks at beginning of year	76,265	96,617	100,134	632,642
Cash on hand and in banks at end of year	¥55,306	¥76,265	¥96,617	\$458,781
Supplemental information on cash flows:				
Cash paid during the year for				
Interest	¥12,380	¥12,617	¥ 12,224	\$102,696
Income taxes	17,181	27,048	21,129	142,522
Convertible bonds converted into common stock	-	676	4,170	-

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

Notes to the Consolidated Financial Statements

1. Basis of presenting consolidated financial statements

Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Minister of Finance ("MOF") as

required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements are not customarily prepared in Japan and are not required to be filed with MOF.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 1999, which was ¥120.55 to U.S. \$1.00. The convenience 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) Consolidation

The consolidated financial statements include the accounts of the Company and 65 (62 in 1998 and 51 in 1997) majority-owned subsidiaries.

For the years ended March 31, 1999, 1998 and 1997, respectively, 58, 59 and 72 subsidiaries are excluded from the consolidation. The amounts of total assets, net sales, net income and retained earnings of these excluded subsidiaries, in the aggregate, would not have had a material effect on the consolidated financial statements.

(b) Application of the equity method of accounting

For the years ended March 31, 1999 and 1998, 12 (3 unconsolidated subsidiaries and 15 affiliates in 1997) affiliates (20 percent to 50 percent owned) are accounted for by the equity method.

For the years ended March 31, 1999, 1998 and 1997, investments in 58, 59 and 69 unconsolidated subsidiaries and 22, 23 and 22 affiliates, respectively, are stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the amounts of 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-ends

Fiscal year-ends of 20 (17 in 1998 and 19 in 1997) consolidated subsidiaries end on December 31. The Company consolidates such subsidiaries' financial statements as of each subsidiary's latest year-end. Unusual significant transactions for the period between each subsidiary's year-end and the Company's year-end are adjusted on consolidation.

(d) Elimination of inter-company transactions and accounts

All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated on consolidation, and the portion thereof attributable to minority interests is credited to minority interests.

When the excess of equity in net assets over the cost of an investment is considered significant, it is amortized to income by the straight-line method over five years. Otherwise, it is credited directly to retained earnings in the year of acquisition or the year newly included in consolidation.

(e) Translation of foreign currency statements

The financial statements of the overseas consolidated subsidiaries are translated into yen as stated below, in accordance with a regulation issued by the Financial Accounting Deliberation Council.

- (1) Assets and liabilities are translated at the fiscal year-end exchange rates.
- (2) Share capital accounts and retained earnings are translated at historical rates.
- (3) Revenue and expense accounts are translated at average rates prevailing during the fiscal year.

Differences arising from the application of the process stated above are shown as foreign currency translation adjustments in the accompanying consolidated balance sheet.

(f) Appropriations of retained earnings

Appropriations of retained earnings are recorded in the fiscal year when the proposed appropriations are approved.

(g) Revenue recognition

Sales are principally recognized at the time of completion of the contracts. However, the percentage-of-completion method is applied to long-term contracts exceeding ¥5,000 million.

Effective April 1, 1997, the method of accounting for revenue from long term construction contracts was changed from the completed-contract method to the percentage-of-completion method for long-term contracts exceeding ¥5,000 million.

Under the previous completed-contract method, sales of materials and equipment for plant construction projects, contract prices of which exceeded ¥10,000 million, were recognized at the time of shipment.

The application of the percentage-of-completion method to these contracts improves the quality of financial disclosures and more fairly presents the results of operations. As a result of this change, net sales, operating income and income before income taxes, minority interests and other for the year ended March 31, 1998 increased ¥79,590 million, ¥15,203 million and ¥15,203 million respectively, compared with the amounts which would have been recognized if the former method had been applied consistently.

(h) Cash on hand and in banks

Cash on hand and in banks includes time deposits maturing within one year.

(i) Allowance for doubtful receivables

Possible losses from notes and accounts receivable, loans and other receivables are provided for based on relevant income tax laws and the Companies' estimates of losses on collection.

(j) Inventories

Inventories are stated at cost, as determined principally by the specific identification cost method, the first-in, first-out method or the moving-average method.

(k) Marketable securities

Marketable securities are stated principally at cost, as determined by the moving-average method. When significant impairment of value has been deemed permanent, cost has been appropriately reduced.

(l) Investments in securities

Investments in securities are stated at cost, as determined by the moving-average method, except for those accounted for by the equity method as explained in Note 2 (b). When significant impairment of value has been deemed permanent, cost has been appropriately reduced.

(m) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed principally by the declining-balance method over estimated useful lives.

(n) Intangible assets

Amortization of intangible assets is computed by the straight-line method.

(o) Research and development expenses

Research and development expenses are charged to income as incurred.

(p) Bond issue expenses

Bond issue expenses are charged to income as incurred.

(q) Foreign currency translation

Foreign currency accounts of the Company and its domestic subsidiaries are translated into yen as stated below, in accordance with a regulation issued by the Financial Accounting Deliberation Council.

- (1) Foreign currencies and short-term monetary accounts are translated at the rates of exchange prevailing at the balance sheet date. The resulting translation gain or loss is included in the determination of net income for the year.
- (2) Long-term monetary accounts and non-monetary accounts are translated at historical exchange rates prevailing at the time of transactions.
- (3) Monetary accounts which are hedged by forward exchange contracts are translated into yen at the contracted rates of exchange.

Notes denominated in foreign currencies and hedged by long-term forward exchange contracts are translated at the contracted exchange rates. The exchange gain on the transaction is deferred and amortized to income over the period from the date of the contract to the date of settlement.

If long-term monetary items were translated at exchange rates in effect at March 31, 1999, net translation losses of ¥458 million (\$3,799 thousand) would have been recorded.

(r) Income taxes

Income taxes were principally provided for based on taxable income for the period, determined in accordance with applicable tax laws, for the years ended March 31, 1998 and 1997. Effective April 1, 1998, the Company adopted the new accounting standard, which recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting.

Under the new accounting standard, the asset and liability approach is used to recognize deferred tax assets and liabilities for 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.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1998 is reflected as an adjustment to the retained earnings brought forward from the previous year. Prior year's financial statements have not been restated. The cumulative effect of adopting the new accounting standard is ¥5,652 million and the effect for the year ended March 31, 1999 was to decrease net loss by ¥2,741 million.

(s) Retirement and severance benefits

Employees who terminate their services with the Company and its domestic consolidated subsidiaries are generally entitled to lump-sum payments, the amounts of which are determined by reference to their current basic rates of pay and length of service. The Company and its domestic consolidated subsidiaries provide for 40 percent of the amount which would be required to be paid if all eligible employees voluntarily terminated their services at the balance sheet date.

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 country of incorporation.

In addition, the Company and some of its domestic consolidated subsidiaries provide for retirement and severance benefits for directors and statutory auditors principally at 50 percent of the amount required if they retired at the balance sheet date.

(t) Finance leases

For the Company and its domestic consolidated subsidiaries, finance leases which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases in accordance with generally accepted accounting principles in Japan.

(u) Per share amounts of net income (loss) and cash dividends

The computations of per share amounts of net income (loss) shown in the consolidated statements of operations are based upon the weighted average number of issued shares outstanding during each period. Diluted income per share, is computed based on the assumption that all diluted convertible bonds were converted at the beginning of year.

Per share amounts of cash dividends for each period represent dividends declared as applicable to the respective year.

(v) Reclassifications

Certain prior year amounts have been reclassified to conform to 1999 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Market value information for securities - the Company only

Market values, book values and unrealized gains of quoted securities as of March 31, 1999 and 1998 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Market values:			
Marketable securities	¥75,488	¥81,360	\$626,197
Investments in securities:			
Subsidiaries and affiliates	17,870	14,802	148,237
Other	157	201	1,302
	<u>93,515</u>	<u>96,363</u>	<u>775,736</u>
Book values (unconsolidated basis):			
Marketable securities	47,038	47,511	390,195
Investments in securities:			
Subsidiaries and affiliates	6,517	6,517	54,061
Other	104	104	863
	<u>53,659</u>	<u>54,132</u>	<u>445,119</u>
Unrealized gains (unconsolidated basis)	<u>¥39,856</u>	<u>¥42,231</u>	<u>\$330,617</u>

4. Inventories

Inventories as of March 31, 1999 and 1998 are comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Finished products	¥ 37,950	¥ 34,788	\$ 314,807
Work in process	268,027	275,272	2,223,368
Raw materials and supplies	41,788	41,176	346,645
Total	<u>¥347,765</u>	<u>¥351,236</u>	<u>\$2,884,820</u>

5. Short-term borrowings and long-term debt

Short-term borrowings and long-term debt as of March 31, 1999 and 1998 are comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Short-term borrowings:			
Short-term debt, principally bank loans and commercial paper	¥198,093	¥204,814	\$1,643,243
Current portion of long-term debt	40,172	34,438	333,239
Total short-term debt	¥238,265	¥239,252	\$1,976,482
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 1999 to 2032, bearing interest ranging from 0.694 percent to 7.5 percent and from 1.05 percent to 8.125 percent as of March 31, 1999 and 1998, respectively	¥ 82,601	¥ 76,304	\$ 685,202
6.15 percent notes due 1999	15,000	15,000	124,430
2.10 percent notes due 1999	10,000	10,000	82,953
2.50 percent notes due 2000	10,000	10,000	82,953
2.55 percent notes due 2001	10,000	10,000	82,953
2.00 percent notes due 2003	10,000	10,000	82,953
2.775 percent notes due 2008	10,000	10,000	82,953
1.94 percent notes due 2004	20,000	-	165,906
2.51 percent notes due 2008	10,000	-	82,953
0.50 percent convertible bonds due 1998	-	17,960	-
0.80 percent convertible bonds due 2001	8,573	8,573	71,116
0.90 percent convertible bonds due 2003	9,105	9,105	75,529
1.10 percent convertible bonds due 2006	17,118	17,118	141,999
0.65 percent convertible bonds due 2003	9,974	9,974	82,737
0.75 percent convertible bonds due 2005	9,609	9,642	79,710
0.90 percent convertible bonds due 2008	8,977	9,812	74,467
1.00 percent convertible bonds due 2011	7,978	9,085	66,180
	248,935	232,573	2,064,994
Less portion due within one year	(40,172)	(34,438)	(333,239)
Total long-term debt	¥208,763	¥198,135	\$1,731,755

The convertible bonds due 2001 through 2011 as of March 31, 1999 were convertible into 136,908,609 shares of common stock at the option of the holders at a price of ¥459 (\$3.81) or ¥598 (\$4.96) per share. The conversion prices are subject to adjustments under specified conditions.

As of March 31, 1999 and 1998, the following assets were pledged as collateral for short-term borrowing and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Time deposits	¥ 63	¥ 157	\$ 523
Marketable securities	180	-	1,493
Trade receivables	-	20,526	-
Inventories	5,091	3,773	42,231
Property, plant and equipment (at net book value)	11,517	12,439	95,537
Total	¥16,851	¥36,895	\$139,784

The aggregate annual maturities of long-term debt as of March 31, 1999 are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2000	¥ 40,172	\$ 333,239
2001	33,313	276,342
2002	25,364	210,402
2003	16,591	137,628
2004 and thereafter	133,495	1,107,383
Total	¥248,935	\$2,064,994

6. Shareholders' equity

(a) Capital surplus

The Commercial Code of Japan provides that the entire issue price of new shares must be credited to common stock, provided that, by resolution of the Board of Directors, up to one-half of such issue price may be credited to capital surplus so long as the common stock is equal to at least the aggregate par value of the shares issued.

(b) Legal reserve

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, legal reserve is included in retained earnings for 1999. Previously it was presented as a separate component of the stockholders' equity. The accompanying consolidated financial statements for the years ended March 31, 1997 and 1998 have been reclassified to conform to the 1999 presentation.

(c) Dividends

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Commercial Code of Japan.

(d) Restrictions on dividends

Under the terms of indentures for certain notes and convertible bonds due through 2006, cumulative cash dividends payments by the Company are not to exceed an amount equivalent to accumulated net income of the Company earned during the years such securities are outstanding plus ¥10,000 million (for certain indentures ¥10,100 million).

7. Other income (expenses): other, net

Other income (expenses): other, net in the consolidated statements of operations is comprised as follows:

	Millions of yen		Thousands of U.S. dollars	
	1999	1998	1997	1999
Gain (loss) on disposal of property, plant and equipment	¥ (1,382)	¥ (993)	¥ 1,064	\$ (11,464)
Gain (loss) on sales of marketable securities and investments in securities	(1,077)	799	442	(8,934)
Foreign exchange gain (loss), net	(11,411)	(1,654)	(1,971)	(94,658)
Other, net	(1,853)	(1,967)	(4,683)	(15,371)
Total	¥(15,723)	¥(3,815)	¥(5,148)	\$(130,427)

8. Income taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax (national tax) and enterprise tax and inhabitants taxes (local taxes) which, in the aggregate, result in normal statutory tax rate of approximately 47.5 percent for the year ended March 31, 1999 and 50 percent for prior year.

The following table summarizes the significant differences between the statutory tax rate and effective tax rate in the consolidated financial statements for the year ended March 31, 1999:

Statutory tax rate	47.5%
Current operating losses of subsidiaries	494.2
Non-deductible expenses	137.8
Effect of tax rate change	70.9
Other	(124.3)
	<u>578.6</u>
Effective tax rate	<u>(531.1)%</u>

Significant components of deferred tax assets and liabilities as of March 31, 1999 are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets		
Excess bonuses accrued	¥ 1,471	\$ 12,202
Retirement benefits	2,684	22,265
Estimated loss on uncompleted contracts	3,692	30,626
Inventory - intercompany profits	2,563	21,261
Fixed assets - intercompany profits	1,127	9,349
Accrued enterprise tax	1,020	8,461
Net operating loss carryforwards	3,262	27,059
Other	6,197	51,406
	<u>22,016</u>	<u>182,629</u>
Gross deferred tax assets		
Less - valuation allowances	(7,193)	(59,668)
Total deferred tax assets	<u>14,823</u>	<u>122,961</u>
Deferred tax liabilities		
Deferral of gain on sale of fixed assets	2,028	16,823
Unrealized gain on uncompleted contracts	7,565	62,754
Other	4,502	37,345
	<u>14,095</u>	<u>116,922</u>
Total deferred tax liabilities		
Net deferred tax assets	<u>728</u>	<u>6,039</u>

9. Account balances with unconsolidated subsidiaries and affiliates

Account balances with unconsolidated subsidiaries and affiliates as of March 31, 1999 and 1998 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Investments in securities and other investments	¥24,570	¥24,354	\$203,816

10. Contingent liabilities

Contingent liabilities as of March 31, 1999 and 1998 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
As a drawer of trade notes discounted	¥ 721	¥ 307	\$ 5,981
As an endorser of trade notes	60	24	498
As a guarantor of indebtedness of employees, unconsolidated subsidiaries and affiliates, and others	46,647	47,058	386,951

11. Finance leases

Finance lease information, as required to be disclosed in Japan, for the respective years is as follows:

(a) As lessee

The original cost of leased assets under non-capitalized finance leases and accumulated depreciation, assuming it is calculated on the straight-line method over lease terms, as of March 31, 1999 is as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Property, plant and equipment	¥13,582		\$112,667
Accumulated depreciation	(6,309)		(52,335)
	¥ 7,273		\$ 60,332
Intangible assets	¥ 438		\$ 3,633
Accumulated amortization	(240)		(1,991)
	¥ 198		\$ 1,642

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 1999 and 1998 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Current portion	¥2,654	¥2,540	\$22,016
Non-current portion	5,006	4,880	41,526
Total	¥7,660	¥7,420	\$63,542

Lease payments and "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases are as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Lease payments	¥3,094	¥3,419	\$25,666
Depreciation and amortization	3,058	-	25,367
Interest	277	-	2,298

(b) As lessor

The original cost of leased assets under finance leases and accumulated depreciation, as of March 31, 1999 is as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment	¥2,069	\$17,163
Accumulated depreciation	(1,025)	(8,503)
	<u>¥1,044</u>	<u>\$ 8,660</u>

The present values of future minimum lease payments to be received under finance leases as of March 31, 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Current portion	¥ 288	¥ 249	\$2,389
Non-current portion	811	656	6,728
Total	<u>¥1,099</u>	<u>¥ 905</u>	<u>\$9,117</u>

Lease payments received on finance leases for the years ended March 31, 1999 and 1998, depreciation and amortization and interest on finance leases for the year ended March 31, 1999 are as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Lease payments received	¥ 325	¥334	\$ 2,696
Depreciation and amortization	276	-	2,290
Interest	50	-	415

12. Operating leases

The present value of future minimum lease payments under operating leases as of March 31, 1999 and 1998 is as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Current portion	¥ 302	¥ 306	\$ 2,505
Non-current portion	517	965	4,289
Total	<u>¥ 819</u>	<u>¥1,271</u>	<u>\$ 6,794</u>

13. Derivative transactions - the Company only

Since the Company operates internationally and has a substantial volume of export and import transactions, it enters into foreign currency exchange and option transactions in order to manage risk of fluctuations in exchange rates in relation to foreign currency denominated assets and liabilities.

The Company also enters into interest swap and option transactions to hedge against future fluctuations in interest rates on borrowings, primarily to fix, cap or collar interest rates on variable rate debt.

The Company's purpose for purchasing derivatives is to hedge against risks of fluctuations in currency exchange rates and interest rates rather than be exposed to such risks through dealing or speculation. In order to minimize credit risk, the Company uses only highly-rated international financial institutions as counterparty to derivative transactions.

The Company has established policies that restrict the use of derivative instruments, including limits as to the purpose, nature, type and amount, and that require reporting and review in order to control the use of derivatives and manage risk.

Outstanding positions and unrealized gains and losses at March 31, 1999 and 1998 are as follows:

		Millions of yen				Thousands of U.S. dollars
		1999		1998		1999
		Contract amount	Unrealized gain (loss)	Contract amount	Unrealized gain (loss)	Unrealized gain (loss)
Currency related contracts:						
Foreign exchange contracts						
Sell	U.S. dollars	¥ 1,257	¥ 3	¥10,984	¥ (779)	\$ 25
	Other currencies	27	-	1,255	(26)	-
Purchase	U.S. dollars	1,318	68	1,676	76	564
	Swiss Francs	2,839	(155)	185	14	(1,286)
	German Marks	373	(1)	2,003	102	(8)
	Other currencies	666	1	-	-	8
Option contracts						
Sell options						
Call	U.S. dollars	-	-	1,796	(196)	-
Purchase options						
Put	U.S. dollars	-	-	1,796	(13)	-
Total			¥ (84)		¥ (822)	\$ (697)
Interest rate related contracts:						
Option contracts						
Cap	Purchase	¥ -	¥ -	¥60,000	¥ (28)	\$ -
Collar	Purchase	43,000	(60)	50,000	6	(498)
Swap contracts						
	Receive fixed for variable rates	3,000	66	3,000	170	548
	Receive variable for fixed rates	74,000	(1,856)	55,000	(1,500)	(15,396)
Total			¥ (1,850)		¥(1,352)	\$ (15,346)

14. Segment information

Industry segments of the Company and its consolidated subsidiaries are classified into Transportation equipment, Aerospace, Industrial equipment and Other.

The Transportation equipment segment manufactures and sells ships, rolling stock and consumer products such as motorcycles. Operations within the Aerospace segment include the production and sale of airplanes, helicopters and airplane engines. Products manufactured and sold by the Industrial equipment segment include boilers, prime movers, gas turbines, hydraulic, crushing, construction

and factory automation machines, chemical and steel making plants, steel bridges and hospital respiration equipment. Operations in the Other segment involve trade, mediation of overseas sales and orders and other activities.

For the purpose of industry segment classification, gas turbine generator systems, hydraulic and construction machinery, which are under the Consumer Products and Machinery product group in the Company's organizational structure, are included in the Industrial equipment segment.

(a) Information by industry segment

	Millions of yen							
	1999							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets	Depreciation and amortization	Capital expenditures
Transportation equipment	¥ 454,061	¥ 6,960	¥ 461,021	¥ 460,481	¥ 540	¥ 369,719	¥13,584	¥ 21,263
Aerospace	228,618	6,152	234,770	216,392	18,378	227,397	4,602	4,596
Industrial equipment	436,030	53,178	489,208	488,522	686	434,453	11,312	8,239
Other	83,480	44,138	127,618	125,461	2,157	192,349	5,134	8,046
Total	1,202,189	110,428	1,312,617	1,290,856	21,761	1,223,918	34,632	42,144
Eliminations and corporate	-	(110,428)	(110,428)	(110,333)	95	(19,061)	(25)	(1)
Consolidated total	¥1,202,189	¥ -	¥1,202,189	¥1,180,523	¥21,666	¥1,204,857	¥34,607	¥42,143

	Millions of yen							
	1998							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets	Depreciation and amortization	Capital expenditures
Transportation equipment	¥ 472,525	¥ 5,318	¥ 477,843	¥ 466,977	¥10,866	¥ 362,189	¥12,347	¥13,613
Aerospace	255,328	6,173	261,501	240,962	20,539	218,618	4,695	3,823
Industrial equipment	485,353	53,608	538,961	521,358	17,603	444,083	10,592	9,787
Other	84,006	43,341	127,347	125,346	2,001	196,322	4,810	7,830
Total	1,297,212	108,440	1,405,652	1,354,643	51,009	1,221,212	32,444	35,053
Eliminations and corporate	-	(108,440)	(108,440)	(108,510)	70	1,694	(28)	(23)
Consolidated total	¥1,297,212	¥ -	¥1,297,212	¥1,246,133	¥51,079	¥1,222,906	¥32,416	¥35,030

The effects of the accounting change for long-term contracts, as explained in Note 2 (g), for the year ended March 31, 1998 are included above in the following amounts:

	Millions of yen		
	External sales	Total sales	Operating income
Transportation equipment	¥ 54,037	¥54,037	¥10,087
Industrial equipment	25,553	25,553	5,116
Total	¥ 79,590	¥79,590	¥15,203

	Millions of yen							
	1997							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets	Depreciation and amortization	Capital expenditures
Transportation equipment	¥ 407,977	¥ 4,599	¥ 412,576	¥ 396,967	¥15,609	¥ 360,894	¥12,088	¥ 15,093
Aerospace	194,973	5,951	200,924	185,308	15,616	246,440	4,775	3,784
Industrial equipment	541,030	44,694	585,724	556,760	28,964	476,867	9,984	13,288
Other	80,279	38,745	119,024	117,045	1,979	184,143	4,429	4,836
Total	1,224,259	93,989	1,318,248	1,256,080	62,168	1,268,344	31,276	37,001
Eliminations and corporate	-	(93,989)	(93,989)	(94,032)	43	34,824	(31)	(9)
Consolidated total	¥1,224,259	¥ -	¥1,224,259	¥1,162,048	¥62,211	¥1,303,168	¥31,245	¥36,992

	Thousands of U.S. dollars							
	1999							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets	Depreciation and amortization	Capital expenditures
Transportation equipment	\$ 3,766,578	\$ 57,735	\$ 3,824,313	\$ 3,819,834	\$ 4,479	\$ 3,066,935	\$ 112,684	\$ 176,383
Aerospace	1,896,458	51,033	1,947,491	1,795,040	152,451	1,886,329	38,175	38,125
Industrial equipment	3,617,005	441,128	4,058,133	4,052,443	5,690	3,603,924	93,836	68,345
Other	692,493	366,139	1,058,632	1,040,738	17,894	1,595,595	42,588	66,744
Total	9,972,534	916,035	10,888,569	10,708,055	180,514	10,152,783	287,283	349,597
Eliminations and corporate	-	(916,035)	(916,035)	(915,247)	(788)	(158,117)	(207)	(8)
Consolidated total	\$ 9,972,534	\$ -	\$ 9,972,534	\$ 9,792,808	\$ 179,726	\$ 9,994,666	\$ 287,076	\$ 349,589

(b) Information by geographic area

Segment information by geographic area, as required to be disclosed in Japan, for the respective years is as follows:

Millions of yen						
1999						
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets
Japan	¥ 982,857	¥ 154,699	¥ 1,137,556	¥ 1,110,276	¥ 27,280	¥ 1,106,765
North America	155,635	11,869	167,504	172,780	(5,276)	112,105
Europe	46,287	6,252	52,539	51,224	1,315	25,736
Asia	12,881	2,855	15,736	16,611	(875)	17,036
Other Areas	4,529	-	4,529	4,482	47	1,777
Total	1,202,189	175,675	1,377,864	1,355,373	22,491	1,263,419
Eliminations and corporate	-	(175,675)	(175,675)	(174,850)	(825)	(58,562)
Consolidated total	¥ 1,202,189	¥ -	¥ 1,202,189	¥ 1,180,523	¥ 21,666	¥ 1,204,857

Millions of yen						
1998						
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets
Japan	¥ 1,105,123	¥ 125,662	¥ 1,230,785	¥ 1,183,543	¥ 47,242	¥ 1,096,854
North America	127,613	9,830	137,443	136,519	924	120,853
Europe	36,922	6,194	43,116	41,810	1,306	20,830
Asia	23,056	682	23,738	21,398	2,340	5,987
Other Areas	4,498	-	4,498	4,353	145	1,669
Total	1,297,212	142,368	1,439,580	1,387,623	51,957	1,246,193
Eliminations and corporate	-	(142,368)	(142,368)	(141,490)	(878)	(23,287)
Consolidated total	¥ 1,297,212	¥ -	¥ 1,297,212	¥ 1,246,133	¥ 51,079	¥ 1,222,906

The effects of the accounting change for long-term contracts, as explained in Note 2 (g), for the year ended March 31, 1998 are included above in the following amounts:

Millions of yen			
	External sales	Total sales	Operating income
Japan	¥ 79,590	¥ 79,590	¥ 15,203
Total	¥ 79,590	¥ 79,590	¥ 15,203

Millions of yen						
1997						
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets
Japan	¥ 1,059,821	¥ 110,163	¥ 1,169,984	¥ 1,109,940	¥ 60,044	¥ 1,157,328
Overseas Areas	164,438	11,351	175,789	171,455	4,334	131,054
Total	1,224,259	121,514	1,345,773	1,281,395	64,378	1,288,382
Eliminations and corporate	-	(121,514)	(121,514)	(119,347)	(2,167)	14,786
Consolidated total	¥ 1,224,259	¥ -	¥ 1,224,259	¥ 1,162,048	¥ 62,211	¥ 1,303,168

Thousands of U.S. dollars						
1999						
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income	Total assets
Japan	\$ 8,153,107	\$ 1,283,277	\$ 9,436,384	\$ 9,210,087	\$ 226,297	\$ 9,180,962
North America	1,291,041	98,457	1,389,498	1,433,264	(43,766)	929,946
Europe	383,965	51,862	435,827	424,919	10,908	213,488
Asia	106,852	23,683	130,535	137,793	(7,258)	141,319
Other Areas	37,569	-	37,569	37,180	389	14,741
Total	9,972,534	1,457,279	11,429,813	11,243,243	186,570	10,480,456
Eliminations and corporate	-	(1,457,279)	(1,457,279)	(1,450,435)	(6,844)	(485,790)
Consolidated total	\$ 9,972,534	\$ -	\$ 9,972,534	\$ 9,792,808	\$ 179,726	\$ 9,994,666

(c) Corporate assets

Included in eliminations and corporate in (a) and (b) above under total assets are corporate assets of ¥34,540 million (\$286,520 thousand), ¥59,245 million and ¥77,896 million at March 31, 1999, 1998 and 1997, respectively, which are mainly comprised of cash and time deposits of the Company.

(d) Overseas sales

Overseas sales consist of the total sales of the Company and its consolidated subsidiaries made outside of Japan. Overseas sales information, as required to be disclosed in Japan, for the respective years is as follows:

	Millions of yen		Millions of yen		Millions of yen		Thousands of U.S. dollars
	1999	%	1998	%	1997	%	1999
	Overseas sales	% against net sales	Overseas sales	% against net sales	Overseas sales	% against net sales	Overseas sales
North America	¥231,159	19.2%	¥179,235	13.8%	¥ N/A	N/A	\$1,917,536
Europe	87,683	7.3%	66,806	5.1%	N/A	N/A	727,358
Asia	70,845	5.9%	99,413	7.7%	N/A	N/A	587,682
Other Areas	81,453	6.8%	102,599	7.9%	N/A	N/A	675,678
Total	¥471,140	39.2%	¥448,053	34.5%	¥401,472	32.7%	\$3,908,254

The effects of the accounting change for long-term contracts, as explained in Note 2 (g), for the year ended March 31, 1998 are included above in the following amounts:

	Millions of yen
	Increase in overseas sales
North America	¥ 7,244
Asia	4,823
Other Areas	10,405
Total	¥22,472

15. Subsequent events

(a) On June 29, 1999, the following appropriations of retained earnings were approved at the general meeting of shareholders of the Company:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3 per share)	¥4,172	\$34,608
Directors' and statutory auditors' bonuses	110	912

(b) On April 28, 1999, the Company issued ¥20,000 million notes in Japan due April 30, 2002 and April 28, 2005 in accordance with a resolution made by the Board of Directors on January 28, 1999.

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Kawasaki Heavy Industries, Ltd. (a Japanese corporation) and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1999, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Kawasaki Heavy Industries, Ltd. and subsidiaries as of March 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1999 in conformity with accounting principles generally accepted in Japan which, except for the change in the method of accounting for revenue referred to in Note 2 (g), effective April 1, 1997, were applied on a consistent basis.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.



Asahi & Co.
(Member Firm of Anderson Worldwide SC)

Kobe, Japan
June 29, 1999

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles auditing standards and their application in practice.

Board of Directors

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Kenjiro Ogata
Executive Vice President

Shuzo Susei
Executive Vice President

Yasuhiko Ono
Executive Vice President

Junji Hayashi
Vice Chairman

Hiroshi Ohba
Chairman and CEO

Toshio Kamei
President

Chairman and CEO

Hiroshi Ohba *

Vice Chairman

Junji Hayashi *

President

Toshio Kamei *

Executive Vice Presidents

Shuzo Susei *

Senior General Manager of Technology Group

Kenjiro Ogata *

Overall Administration of Market Development Department, International Operations Department, Domestic and Overseas Offices and Plant Engineering Group

Yasuhiko Ono *

Senior General Manager of Ship & Rolling Stock Group

Executive Managing Directors

Masayuki Yokoyama *

Overall Administration of Subsidiary Company Control Office, Legal Department, Finance Department and Accounting Department

Masamoto Tazaki *

Senior General Manager of Consumer Products & Machinery Group

Hiromichi Takawa *

Senior General Manager of Plant Engineering Group

Yoshiro Inoue *

Overall Administration of General Administration Department, Personnel Department, Labor Department, Procurement Department and Environmental Management Department

Shigeji Yamada *

Senior General Manager of Machinery & Steel Structure Group

Toshiaki Ouchida *

Senior General Manager of Aerospace Group

* Representative Director

Managing Directors

Tadashi Nishimura

Deputy Senior General Manager of Consumer Products & Machinery Group

Toru Ohmae

Deputy Senior General Manager of Consumer Products & Machinery Group
General Manager of Consumer Products Division

Masaru Ohira

Senior Manager of Corporate Planning Office

Takashi Sugoh

Deputy Senior General Manager of Aerospace Group

Hironobu Hashiguchi

Deputy Senior General Manager of Technology Group

Directors

Takehiko Saeki

Minoru Sakasai

General Manager of Plant Sales Division

Kazuo Nishino

Deputy Senior General Manager of Ship & Rolling Stock Group

Kosaku Kuwata

General Manager of Power Plant Division

Shinzaburo Ani

Senior Manager of Public Relations Department

Yoshimasa Tanaka

Deputy Senior General Manager of Ship & Rolling Stock Group

Kazuo Mizuno

General Manager of Steel Structure & Industrial Equipment Division

Toshio Atsuta

Deputy Senior General Manager of Technology Group

Takuya Maeda

General Manager of Industrial Plant Engineering Division

Tadao Katoh

Senior Manager of General Administration Department

Shuichi Tadokoro

General Manager of Ship Division

Kosuke Sakano

Deputy Senior General Manager of Plant Engineering Group

Koumei Kawaji

General Manager of Aerospace Division

Yousuke Fujii

Deputy General Manager of Consumer Products Division

Corporate Auditors

Akio Sera

Toshiaki Tatsuki

Takeshi Miyakoshi

Rokuro Kitayama

(As of June 29, 1999)

Consolidated Subsidiaries

Name	Paid-In Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI, unless otherwise noted)	Principal Businesses
K-GES Co., Ltd.	100 <small>(20.00% owned by Kawasaki Motors Corporation Japan)</small>	100.00	Domestic wholesale of small gasoline engines
Ishihara Dockyard Co., Ltd.	96	97.11	Manufacture and sale of various ships for public agency/gov't use and rescue boats; repair of small-sized ships
Uji Kanko Co., Ltd.	240	100.00	Management of a golf course
Kawasaki Helicopter System Ltd.	200	100.00	Transportation of passengers or cargo by helicopter; maintenance and repair of helicopters and flight training services; research, design and construction of heliports
Osaka Power Engineering Co., Ltd.	90	100.00	Design, production, installation and construction of boilers and refuse incineration plants; sale of crushing machinery
Kawasaki Prime Mover Engineering Co., Ltd.	20	100.00	Installation, inspection and repair of prime mover products; importing and sale of air compressors
Kawasaki Motors Corporation Japan	560	100.00	Domestic wholesale of motorcycles and Jet Ski® watercraft
Kawasaki Environmental Plant Engineering Co., Ltd.	30	100.00	Operation and maintenance of waste treatment facilities
Kawaju Yachiyo Engineering Ltd.	30	100.00	Installation of crushing machinery and various pulverization testing
Kawasaki Hydraulic Co., Ltd.	70	100.00	Inspection and repair of hydraulic products; manufacture and sale of commercial fishing boat machinery
Kawasaki Akashi Engineering Co., Ltd.	60	100.00	Design and production of machinery and tools; overhaul of engines and turbines
Kawaju Gifu Engineering Co., Ltd.	70	100.00	Design and production of parts and equipment for aircraft; technical testing and assistance
Kawasaki Construction Co., Ltd.	300	100.00	Installation of steel structures
Kawajyu Steel Works & Engineering Co., Ltd.	80 <small>(40.00% owned by Kawasaki Construction Co., Ltd.)</small>	80.00	Manufacture and installment of steel structures and bridges
Kawasaki Plant Assistance & Service Co., Ltd.	20	100.00	Procurement, packaging and transportation of parts and components for plant construction
Kawaju Real Estate Co., Ltd.	300	100.00	Administration of Company welfare facilities; real estate sales, leasing and construction
Kawasaki Rolling Stock Engineering Co., Ltd.	140	100.00	Manufacture and repair of parts and components for rolling stock; design of rolling stock
Kawaju Kobe Support Co., Ltd.	50	100.00	Repair and maintenance services for plant and office buildings; construction and processing of parts for shipbuilding; security services
Kawasaki Industrial Co., Ltd.	125	98.71	Construction of arcades; manufacture and inspection of high-pressure containers; maintenance and repair of rolling stock
Kawaju Shoji Co., Ltd.	600	70.00	Trading
Kawasaki Safety Service Industries, Ltd.	1,708	74.06	Manufacture, sale and installation of hospital respiration, fire-extinguishing and medical equipment
Kawasaki Inspection Service Co., Ltd.	50	100.00	Inspection and measuring
Kawaju Marine Engineering Co., Ltd.	40	100.00	Ship design; design, construction, and sale of steel rigging for large vessels
Kawaju Techno Service Corporation	60	100.00	Chemical analysis; environmental measurement; materials testing

Name	Paid-In Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI, unless otherwise noted)	Principal Businesses
Kawasaki Thermal Engineering Co., Ltd.	1,461	83.01	Manufacture, sale and installation of general purpose boilers and air-conditioning equipment
Kawasaki Engineering Co., Ltd.	100	100.00	Design and engineering of plant facilities; manufacture and sale of pool and high pressure oxygen medical equipment
Kawasaki Kosan Co., Ltd.	300	100.00	Insurance representation; real estate leasing, administration and maintenance; leasing and provision of loans
Kawasaki Foods Co., Ltd.	160	100.00	Food supply to Company facilities; operation of dining facilities
Kawasaki Metal Industries, Ltd.	350	100.00	Manufacture, processing and assembly of various steel products
Kawasaki Hydromechanics Corporation	272	99.71	Manufacture, sale and installation of hydraulic presses and various hydraulic equipment
KHI JPS Co., Ltd.	30	100.00	Parts supply, repairs and overhaul of gas turbines for high speed vessels such as the Jetfoil and Jet Piercer
Kawasaki Construction Machinery, Kanto Ltd.	68	68.68	Sale and repair of construction machinery
Kawasaki Gas Turbine Research Center	30	100.00	Research and testing of gas turbine generator sets; sale of surplus electric power
Kawasaki Gasturbine Technologies Co., Ltd.	50	100.00	Inspection and repair of cogeneration and standby systems and industrial gas turbines
Kawasaki Construction Machinery, Kyushu Ltd.	50	100.00	Sale and repair of construction machinery
Kawaju Gifu Manufacturing Co., Ltd.	70	100.00	Processing and assembly of parts and components for aircraft and the maintenance of tools and equipment
Kawaju Harima Tech Inc.	50	100.00	Manufacture, maintenance and inspection of machinery, equipment and watergates
Kawasaki Construction Machinery, Nishi-Nihon Ltd.	54	100.00	Sale and repair of construction machinery
Kawaju Tomakomai Kanko Kaihatsu Co., Ltd.	300	100.00	Management of a golf course
Kawasaki Construction Machinery, Tohoku Ltd.	57	54.39	Sale and repair of construction machinery
Nichijo Manufacturing Co., Ltd.	120	50.04	Manufacture and sale of snow removal equipment
Kawasaki Construction Machinery, Kinki Ltd.	70	88.57	Sale and repair of construction machinery
Kawasaki Construction Machinery, Chubu Ltd.	60	95.00	Sale and repair of construction machinery
Union Precision Die Co., Ltd.	50	100.00	Manufacture, sale and repair of die-casting parts
Kawasaki Motors Corp., U.S.A.	US\$65,900*	100.00	Distribution of motorcycles, all-terrain vehicles (ATVs), Jet Ski® watercraft and small gasoline engines in the United States
Kawasaki Motors (UK) Ltd.	£2,000*	100.00	Distribution of motorcycles, all-terrain vehicles (ATVs) and Jet Ski® watercraft in the United Kingdom
Kawasaki Motoren GmbH	DM12,300*	100.00	Distribution of motorcycles, all-terrain vehicles (ATVs) and Jet Ski® watercraft in Germany
Kawasaki Motors Pty. Ltd.	A\$2,000*	100.00	Distribution of motorcycles, all-terrain vehicles (ATVs) and Jet Ski® watercraft in Australia

Name	Paid-In Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI, unless otherwise noted)	Principal Businesses
Kawasaki Precision Machinery (UK) Limited	£5,000*	100.00	Manufacture and sale of hydraulic products
P.T. Kawasaki Motor Indonesia	US\$10,000*	51.00	Manufacture and distribution of motorcycles in Indonesia
Kawasaki Heavy Industries (H.K.) Ltd.	HK\$2,820*	100.00	Product sales, mediation of orders and procurement of materials in Southeast Asia and Oceania
Kawasaki Heavy Industries (Europe) B.V.	DGL500*	100.00	Product sales, mediation of orders and procurement of materials in Europe (mainly Benelux countries), the Middle East, and Africa
Kawasaki Heavy Industries (U.S.A.), Inc.	US\$600*	100.00	Product sales, mediation of orders and provision of various engineering support services in North America
Kawasaki Motors (Phils.) Corporation	P101,430*	50.001	Manufacture and distribution of motorcycles in the Philippines
Kawasaki Motors Manufacturing Corp., U.S.A.	US\$30,000*	100.00	Manufacture of motorcycles, all-terrain vehicles (ATVs), Jet Ski® watercraft, small gasoline engines and industrial robots
Kawasaki Construction Machinery Corp. of America	US\$8,000* <small>(owned by Kawasaki Motors Corp., U.S.A.)</small>	100.00	Manufacture and sale of construction machinery in the United States
Kawasaki Motors Enterprise (Thailand) Co., Ltd.	฿1,202,816*	71.48	Manufacture and distribution of motorcycles in Thailand
KM Receivables Corporation	US\$100*	100.00 <small>(owned by KMFC)</small>	Management of accounts receivables of Kawasaki Motors Finance Corporation
Canadian Kawasaki Motors Inc.	C\$2,000*	100.00	Distribution of motorcycles, all-terrain vehicles (ATVs) and Jet Ski® watercraft in Canada
Kawasaki Engines Europe N.V.	BF2,500* <small>(owned by Kawasaki Motors Netherlands N.V.)</small>	100.00	Sale of electricity generators and all-purpose gasoline engines in Europe
Green River Insurance Company	US\$100* <small>(owned by Kawasaki Motors Corp., U.S.A.)</small>	100.00	Insurance services in the United States
Kawasaki Motors Netherlands N.V.	DGL1,000*	100.00	Wholesale of Jet Ski® watercraft in Europe; distribution of motorcycles in the Netherlands
Kawasaki Motors Finance Corporation	US\$10,000* <small>(owned by Kawasaki Motors Corp., U.S.A.)</small>	100.00	Inventory financing for dealers of Kawasaki Motors Corp., U.S.A.
Kawasaki Rail Car, Inc.	US\$60,600*	100.00	Engineering, manufacture, sales and after-sales service of rolling stock in the United States
Kawasaki Robotics (U.S.A.), Inc.	US\$1,000* <small>(owned by Kawasaki Motors Corp., U.S.A.)</small>	100.00	Sales and after-sales service of industrial robots in the United States

*Monetary unit in thousands

(As of March 31, 1999)

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Fax: 1-212-759-6421

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Phone: 1-713-654-8981
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Kawasaki Rail Car, Inc.

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Kawasaki Robotics (U.S.A.), Inc.

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Building Foreign Specialist
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Chiba Works

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Gifu Works

1, Kawasaki-cho, Kakamigahara
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Nagoya Works 2

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Hyogo Works

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Fax: 81-78-992-1910

Akashi Works

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Fax: 81-78-913-1366

Banshu Works

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Kako-gun, Hyogo 675-1113, Japan
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Kawasaki Corporate Data

(As of March 31, 1999)

Kawasaki Heavy Industries, Ltd.

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Founded: 1878

Incorporated: 1896

Paid-in Capital:

¥81,426,590,792

Number of Shares Outstanding:

1,390,595,964 shares

Number of Shareholders:

118,367

Number of Employees:

26,486

Stock Exchange Listings:

Tokyo, Osaka, Nagoya, Kyoto,
Hiroshima, Fukuoka, Niigata, Sapporo

Newspapers in which public notices are made:

The Nihon Keizai Shimbun
The Kobe Shimbun

Transfer Agent:

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Chuo-ku, Tokyo 104-0031, Japan

Handling Office

The Chuo Trust & Banking Company, Limited
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ADR Facility:

KHI has a sponsored American Depository Receipt (ADR) facility. ADRs are traded in the over-the-counter (OTC) market in the United States under cusip number 486 359 20 1 with each ADR representing four ordinary shares.

ADR Depository:

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U.S. Toll Free: 888-269-2377
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<http://www.bankofny.com/adr>

KHI Home Page at:

<http://www.khi.co.jp>