

The Items Published on the Internet Website  
Concerning the Notice of the 194<sup>th</sup> Ordinary  
General Meeting of Shareholders



6. System to ensure that Directors' execution of duties complies with laws and the Articles of Incorporation, other systems to ensure proper execution of business and overview of operation status of such systems

At the Board of Directors Meeting of May 24, 2006, the Company made a resolution regarding the basic policies on the establishment of internal control systems pursuant to the Companies Act and confirmed the status of established internal control systems. Henceforth, whenever there are organizational changes or changes to internal regulations, resolutions are made at Board of Directors Meetings with regard to the revision of the basic policies. The details of resolutions regarding the basic policies as of the end of the fiscal year under review and an overview of the operation status of internal control systems for the fiscal year under review are as follows:

I. Basic policy for developing a system for internal controls

The KHI Group develops and maintains systems for internal controls to establish systems to ensure formation of proper organizational structures, development of company rules and regulations, dissemination of information and proper execution of operations. KHI's management philosophy is indicated in the Group Mission (missions and roles which must be carried out) "Kawasaki, working as one for the good of the planet" (Enriching lifestyles and helping safeguard the environment: Global Kawasaki), "Kawasaki Value," "The Kawasaki Group Management Principles" and "The Kawasaki Group Code of Conduct." KHI strives to improve its internal controls by constantly reviewing them, and in doing so improves the efficiency and lawfulness of company systems which contribute to the Group's sound and sustained growth.

More specifically, a resolution was made at the Board of Directors Meeting with resTJ 0 -od rnanh Company eos to

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means the corporate group consisting of the Company and its subsidiaries). We continue to improve understanding and awareness of compliance through ongoing education and training activities for various types of legal compliance and also monitor operational status.

- (iv) We work to enhance compliance systems by establishing the internal whistleblower system to report information regarding compliance breaches.
- (v) Executive Officers who are delegated to execute business operations within an appropriate scope are appointed at Board of Directors Meetings. And by appointing outside directors (independent officers stipulated in the Regulations of the Tokyo Stock Exchange) who are not likely to have any conflict of interest with any general shareholder, the Company enhances the supervisory and monitoring functions of the Board of Directors for overall

large-scale earthquakes and pandemic diseases, we predetermine important operations to which priority should be given to ensure the continuation or recovery of the operations in order to minimize the impact on KHI's business. We also formulate a business continuity plan to shorten the length of time until recovery.

- (4) Systems to ensure efficient execution of duties by the Company's Directors
  - (i) Based on the KHI Group's role and objectives as articulated in the Kawasaki Group Mission Statement, we share final goals for the future by setting forth a long-term vision for the whole group and each business division.
  - (ii) To attain the goals set forth in the long-term vision, we have formulated specific action plans, including the Medium-Term Business Plan and

through the execution of voting rights at the General Meeting of Shareholders, and also carries out management supervision and monitoring over the operation thereof by dispatching non-full-time Directors or non-full-time Corporate Auditors, or both (collectively referred to as "Non-Full-Time Officer"), to Group Companies, on an as-needed basis. In addition, we secure appropriate Group business management systems by establishing a department which presides over subsidiaries' operation.

(iv) The Auditing Department, which presides over the Group's internal audits, ensures the appropriateness of operations and reliability of financial reports through business audits and assessment of internal controls over financial reporting at Group Companies.

(2) Systems with regard to reporting to the Company on execution of duties by Directors of Group Companies

(i) The Company receives reports regarding the status of execution of duties by Directors of Group Companies through a Non-Full-Time Officer who is dispatched thereto.

(ii) Group Companies regularly report on the status of business operation as a management report and have discussions in advance with the relevant department of the Company with regard to important matters subject to decision-making on corporate management in accordance with applicable internal regulations.

(3) Regulations for management of risk of loss of Group Companies and other systems

(i) The Company promotes group-wide risk management, striving to prevent or minimize risk or losses caused by such risk.

(ii) As a measure to be taken when a risk becomes evident at Group Companies, the Company instructs Group Companies to formulate crisis handling measures and policies to establish the crisis management system.

(iii) When a material risk becomes evident, reports are immediately given to the Company, in accordance with the reporting route specified in advance.

(4) Systems to ensure efficient execution of duties by Directors of Group Companies

(i) With respect to the management at each Group Company, while respecting the autonomy thereof, the Company establishes a system in which execution of duties is ensured in a fair and efficient manner by sharing the basic philosophy and vision indicated in the Kawasaki Group Mission Statement, long-term vision, the Medium-Term Business Plan, and so forth, and clarifying group-wide final goals.

(ii) The Company instructs Group Companies to establish Approval Regulations to ensure efficient execution of duties.

3. Necessary matters for the Company's Corporate Auditors to execute duties

(1) Policies regarding employees in cases where the Company's Corporate Auditor requests appointment of employees to assist with his/her duties

We allocate the required staff according to the Corporate Auditors' requests.

(2) Policies regarding independence of employees who assist with the duties of the Company's Corporate Auditors from the Company's Directors and matters regarding ensuring efficiency in directions given to employees who assist with the duties of the Company's Corporate Auditors

The employee who assists with the duties of the Corporate Auditor shall follow the Corporate Auditor's directions and orders. For personal transfer,

personnel performance evaluation and disciplinary punishment, prior consent of the Board of Corporate Auditors is required.

- (3) Systems for the Company's Directors and employees to report to the Company's Corporate Auditors and systems for Directors and employees of Group Companies and those who receive reports from the said Directors and employees of Group Companies to give reports to the Company's Corporate Auditors
  - (i) The Company's Corporate Auditors attend Board of Directors Meetings, the Management Committee, Executive Officers Committee and company-wide meetings, including Company-wide CSR Committees and Company-wide Risk Management Committees. At these meetings, the Company's Directors and employees shall provide the Company's Board of Corporate Auditors with reports concerning important matters about group management and business operations, including matters regarding compliance, risk management and internal controls, and the status of execution of duties.
  - (ii) The Company's Directors and employees shall immediately report to the Company's Board of Corporate Auditors when discovering that there is a risk of the KHI Group suffering significant damage.
  - (iii) Directors and employees of Group Companies shall immediately report to the relevant department of the Company when discovering that there is a risk of the KHI Group suffering significant damage. Upon receiving reports, the said department shall report the details to the Company's Board of Corporate Auditors.
  - (iv) The Company's employees shall, in accordance with applicable internal regulations, report to the Company's Board of Corporate Auditors regarding

regarding execution of duties by the Company's Directors.

- appropriate measures for each business environment through compliance activities performed by each business division.
- (ii) In an effort to eliminate anti-social forces, we distribute the Guidebook to all



- the systems according to business contents, size, region and significance of each Group Company.
- (ii) We carry out management supervision and monitoring over the operation of Group Companies by dispatching Non-Full-Time Officers to Group Companies to attend meetings of the Board of Directors thereof. We regularly receive reports on the status of business operation from Group Companies and have discussions in advance with the relevant department of the Company with regard to important matters subject to decision-making on corporate management in accordance with applicable internal regulations.
6. Efforts on ensuring appropriateness of audits performed by Corporate Auditors
- (i) We assign two employees who are dedicated to assist with the duties of the Company's Corporate Auditor. For personnel transfer, personnel performance evaluation and disciplinary punishment of these employees, we obtain prior consent of the Board of Corporate Auditors.
  - (ii) The Company's Corporate Auditor attends the Company's important meetings. The Company's Directors and employees provide the Company's Board of Corporate Auditors with reports concerning important matters about corporate management and business operations as well as the status of execution of duties through the said meetings, and report to the Company's Board of Corporate Auditors regarding the execution of business operations by circulation of internal memos.
  - (iii) We establish regulations that prohibit unfair and unfavorable treatment of



## Notes to the Consolidated Financial Statements

(Notes to the basis for preparation of consolidated financial statements)

### 1. Scope of consolidation

(1) Number of consolidated subsidiaries and names of principal consolidated subsidiaries 93 in total

(Domestic) Kawasaki Trading Co., Ltd., Kawasaki Machine Systems, Ltd., NIPPI Corporation, Kawasaki Thermal Engineering Co., Ltd., Kawasaki Motors Corporation Japan, EarthTechnica Co., Ltd.

(Overseas) Kawasaki Motors Corp., U.S.A., Kawasaki Motors Manufacturing Corp., U.S.A., Kawasaki Motors Enterprise (Thailand) Co., Ltd., Kawasaki Rail Car, Inc., Kawasaki Motors Europe N.V., PT. Kawasaki Motor Indonesia, Kawasaki Motors (Phils.) Corporation, Kawasaki Robotics (U.S.A.), Inc., Flutek, Ltd.

Two newly established subsidiaries have been included in the scope of consolidation. Of the eight consolidated subsidiaries excluded from the scope of consolidation, KCMJ Corporation was excluded from the scope of consolidation following the completion of its liquidation. Green Park Chiba New Port and six other subsidiaries have been excluded from the scope of consolidation due to the decrease of significance.

(2) Names of principal non-consolidated subsidiaries, etc.

Green Park Chiba New Port and other companies

(Reason for exclusion from scope of consolidation)

The non-consolidated subsidiaries were excluded from the scope of consolidation because they are small in size, and its accounts, such as total assets, net sales, net income (for the Company's equity interest) and retained earnings (for the Company equity interest), have no significant effects on the Company's consolidated financial statements.

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### 2. Application of the equity method

(1) Number of affiliates which are subject to application of the equity method 18 in total

Name of principal company Nantong COSCO KHI Ship Engineering Co., Ltd.

Of the two affiliates excluded from the scope of application of the equity method from the current consolidated fiscal year, Tongfang Kawasaki Energy Saving Equipment Co., Ltd. was excluded from the scope of application of the equity method due to the transfer of shares, and other company was excluded from the scope of application of the equity method due to the decrease of significance.

(2) Non-consolidated subsidiaries not subject to application of the equity method (Green Park Chiba Shin-Minato and other companies) and affiliates (Commercial Airplane Co., Ltd. and other companies) are excluded from the scope of application of the equity method, because they only have minimal effects on the Company's consolidated financial statements with respect to net income (for the Company's equity interest) and retained earnings (for the Company equity interest), and they have no significance as a whole.

3. Significant accounting policies

(1) Standards and methods for evaluation of significant assets

(i) Marketable securities

a. Bonds held to maturity

Amortized cost method (straight-line method) is principally applied.

b. Other marketable securities

Securities with market quotations

Market value method based on the market value as of the account closing date (with all valuation differences charged to net assets and the cost of sale computed mainly by the moving-average method) is applied.

Securities without market quotations

The cost method based on the moving-average method is principally

- construction contracts based on past experience or on estimations of individual cases.
- (iv) Provision for losses on construction contracts  
A provision for an estimated amount of losses is recorded for the next fiscal

differences arising from the translation are calculated as gains or losses. The Company translates assets and liabilities of foreign consolidated subsidiaries into yen at the foreign exchange spot rate on the date of the balance sheet of each of those subsidiaries. Revenues and expenses are translated using the average foreign exchange rate of the statement of income's period. Translation

(Additional Information)

Application of ASBJ Guidance on Recoverability of Deferred Tax Assets

Effective from the consolidated fiscal year ended March 31, 2017, the Company has applied the “Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016).

(Change in Presentation Methods)

### 3. Dividends

Resolution	Total dividend (million yen)	Dividend per share (yen)	Record date	Effective date
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consolidated financial statements” described above.

2. Matters concerning market value, etc. of financial instruments

The prices recorded in the consolidated balance sheet, market values and the difference between those as of the end of this consolidated fiscal year are as follows.

(Unit: Millions of yen)

	Price recorded in the consolidated balance sheet (*)	Market value (*)	Difference
(1) Cash on hand and in banks	55,388	55,388	-
(2)			

(Notes to per share information)

1. Net assets per share           ¥ 261.73
2. Net income per share         ¥ 15.68

(Other)

(Damage caused to NIPPI Corporation by snowfall)

The heavy snowfall on February 15, 2014 caused a hangar roof in Atsugi Works of NIPPI Corporation, which is KHI's consolidated subsidiary, to collapse, causing damage to aircrafts of the Japan Maritime Self-Defense Force that was undergoing regular maintenance. The Company and NIPPI Corporation are currently having discussions with the Japan Ministry of Defense regarding the way to handle this case. Some discussion results could have a material impact on the KHI Group's financial performance.

## Non-consolidated Statement of Changes in Net Assets

(From April 1, 2016 to March 31, 2017)

(Unit: Millions of yen)

	Shareholders' equity					Total shareholders' equity	
	Common stock	Capital surplus		Retained earnings			Treasury stock
		Legal capital surplus	Other capital surplus	Other retained earnings			
			Provision for special depreciation	4,479.98	3,409.6	9,096.6	

Notes to the Non-consolidated Financial Statements

(Significant accounting policies)

1. Valuation standards and methods of assets

(1) Valuation standards and methods of marketable securities

- (i) Shares of su(Sh)-3tkas-1.48(idi13( a-1.48()-5.2(e)1.16e)6161(s)1-.8( )]1.4(a))7.27d maf10.86ficlirtSheu  
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(5) Provision for environmental measures

The Company provided an estimated amount to cover expenditures such as the disposal of polychlorinated biphenyl (PCB) waste required under the “Law Concerning Special Measures for Promotion of Appropriate Disposal of PCB Waste.

(6) Employees’ retirement and severance benefits

Employees’ retirement and severance benefits is recorded based on the estimated amount of retirement benefit obligations and plan assets as of the end of the fiscal year under review (including the retirement benefit trust) in order to cover employee retirement benefits.

(i) Allocation of expected retirement benefit payments

When calculating retirement benefit obligations, the benefit formula basis is used to allocate expected retirement benefit payments to the period as of the end of the fiscal year.

(ii) Method of recognizing actuarial differences and prior service costs

past service cost for retirement benefits are different from accounting treatment for them in the consolidated financial statements.

(4) Accounting treatment for consumption taxes

Consumption tax and local consumption tax are accounted for by the tax-exclusion method.

(5) Application of the consolidated taxation system

The consolidated taxation system is applied.

(Change in Presentation)

Non-consolidated statement of income

From the fiscal year under review, a “subsidy income” (¥1,028 million in the fiscal year under review) was included and presented in “other” under non-operating income as a

(Notes to Non-consolidated Statement of Income)

1. The amounts presented are rounded down to the nearest unit.

2. Transactions with affiliates

Transaction from operating transactions

Net sales ¥406,153 million

Purchases ¥191,758 million

Transaction from non-operating transactions ¥23,533 million

3. Gain on sales of fixed assets as extraordinary income was generated by the sale of land and buildings of Tokyo Office of the Company.

(Notes to Non-consolidated Statement of Changes in Net Assets)

1. The amounts presented are rounded down to the nearest unit.

2. Type of treasury shares and number of shares at the end of the current fiscal year

Common stock 259,108 shares

(Notes to Tax Effect Accounting)

Among other factors, the main contributing factor to deferred tax assets is the disallowance of various provisions such as the employees' retirement and severance benefits and the losses on construction contracts, and the main contributing factor to the deferred tax liabilities incurred is net unrealized gain on securities.

(Additional information)

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

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

(Notes to Leased Fixed Assets)

Other than the fixed assets recorded on the balance sheet, certain manufacturing facilities are used under finance lease contracts not involving the transfer of the ownership of the leased property.

(Notes to transactions with interested parties)

Unit: Millions of yen

Attributes	Company name	Percentage of voting rights held	Relationship with interested party	Content of transaction	Amount of transaction	Item	Balance at fiscal year-end
Affiliate	Commercial Airplane Co., Ltd.	40% directly held	Sale of the company's products Directors concurrently serving	Sale of the company's products	130,785	Accounts receivable	37,320
						Advances from customers	46,476
Affiliate	Enseada Indústria Naval S.A.	31.09% directly held	Sale of the company's products Loan of funds	Sale of the company's products Loan of funds		Claims provable in bankruptcy, claims provable in rehabilitation and other	

Terms and conditions of trade and policy, etc. on deciding terms and conditions of trade

(Note 1) The Company presents its preferred price in consideration of the overall cost and then decides the terms and conditions of trade through price negotiations.

(Note 2) The Company decides the loan of funds in consideration of market interest rates.

(Note 3) The year-end balance of receivables to Enseada Industria Naval S.A. is the amount after deducting an allowance for doubtful receivables. The balance of allowance for doubtful receivables is ¥14,871 million and the provision therefor for the current fiscal year is ¥4,583 million.

(Note 4) Of the above amounts, consumption taxes are not included in the trade amount, but are included in the balance at the end of fiscal year.

(Notes to per Share Information)

1. Net assets per share ¥182.41
2. Net income per share ¥10.47

(Other)

(Damage caused to NIPPI Corporation by snowfall)

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