The Items Published on the Internet Website Concerning the Notice of the 195th Ordinary General Meeting of Shareholders

Kawasaki Heavy Industries, Ltd.

6. System to ensure that Directors' execution of duties complies with laws and regulations and the Articles of Incorporation, other

ongoing education and training activities for various types of legal compliance and also monitor operational status.

(5) Policies on prepaid expenses for the execution of the duties of the Company's Corporate Auditors, or expenses for procedures for repayment and the execution of other relevant duties, or on debt processing

When Corporate Auditors request the Company to make prepayment on execution of duties pursuant to the Companies Act, the Company shall promptly proceed with payment of appropriate expenses and debt settlement, except where the expense or debt whose payment is requested is deemed unnecessary to execute their duties.

(6) Other systems to ensure the effective conduct of audits by the Company's Corporate Auditors

(i) Directors and Corporate Auditors regularly hold meetings to ensure mutual understanding, and Corporate Auditors also attend important meetings such as Board of Directors meeting and Management Committee meeting, and directly express their opinion regarding execution of duties by Directors.

(ii) The Company's Directors and Group Companies' Directors promote collaboration between the Company's Corporate Auditors, the Company's Internal Audit Department and Group Companies' Corporate Auditors, and cooperate to establish systems which enable greater effectiveness in the conduct of audits.

(iii) The Company and Group Companies obtain the consent of the Corporate

II. Overview of the operation status of internal control systems

An overview of the operation status of internal control systems for the fiscal year under review is as follows. The said operating status is assessed at the end of every fiscal period and the assessment results are reported to the Board of Directors Meeting.

1. Efforts on internal control systems in general

(i) In response to increasingly strong worldwide requests for enhancement of structures and systems associated with corporate ethics and compliance and information disclosure, and others, we have newly established the “Kawasaki Heavy Industries Group Business Conduct Guideline” as ethical standards to serve as the basis for decisions when the KHI Group’s Officers and employees that have significantly deteriorated and do the mean level development of other projects to bring stronger risk management.

(iii) In anticipation of the occurrence of large-scale disasters and pandemic diseases, we proactively formulate a business continuity plan for each business division, and conduct annual assessment and review thereof. We also establish and build a system to minimize losses in case we suffer damage in disasters.

During the fiscal period under review, we reviewed estimates of damage by disasters in major areas in Japan, performed disaster prevention drills and BCP drills, and conducted safety confirmation drills for all the employees.

4. Efforts to ensure efficient execution of duties

(i) Based on the companywide policies and strategies determined with reference to the contents of the Kawasaki Group Mission Statement, which stipulates the KHI Group’s role and objectives, we determine the ideal way to be in each business area as well as the medium-term business plan and the short-term business plan to clearly show our final goals and share them. In addition, each

6. Efforts on ensuring appropriateness of audits performed by the Company's Corporate Auditors

(i) We assign two employees who are dedicated to assist with the duties of Corporate Auditors. For personnel transfer, personnel performance evaluation and disciplinary punishment of these employees, we obtain prior consent of the Board of Corporate Auditors.

(ii) Corporate Auditors attend the Company's important meetings. 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 those who cooperate with Corporate Auditors to perform audits and give reports r

Consolidated Statement of Changes in Net Assets

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.

One newly established subsidiary has been included in the scope of consolidation. One consolidated subsidiary was excluded from the scope of consolidation following its completion of liquidation.

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

Green Park Chiba Shin-Minato 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's equity interest), have no significant effects on the Company's consolidated financial statements.

2. Application of the equity method

(1) Number of affiliates which are subject to application of the equity method — 17 in total

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

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 value

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 value

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

(ii) Inventories

Stated at cost principally using the specific identification method, the moving-average method and the first-in first-out method (balance sheet amounts are determined based on the method of lowering the book value in accordance with the deterioration of profitability).

(iii) Derivatives

Stated at market value.

(iii) Provision for product warranties

A provision is recorded for expenditures for warranties concerning construction contracts based on past experience or on estimations of individual cases.

(iv) Provision for losses on construction contracts

(6) Standards for the translation of major assets or liabilities denominated in foreign currencies

3. Dividends

Resolution

(7) Method of significant hedge accounting” of “Notes to the basis for preparation of 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	70,632	70,632	–
(2) Trade receivables	470,110	470,049	(60)
(3) Investments in securities	9,387	9,387	–
(4) Trade payables	[245,398]	[245,398]	–
(5) Electronically recorded obligations	[117,772]	[117,772]	–
(6) Short-term debt and current portion of long-term debt	[108,978]	[108,978]	–
(7) Current portion of bonds	[20,000]	[20,000]	–
(8) Bonds payable	[130,000]	[131,769]	(1,769)
(9) Long-term debt, less current portion	[185,685]	[183,917]	1,767
(10) Derivative transactions	1,920	1,920	–

(*) Figures which are posted as liabilities are shown in [ ].

(Note 1) Matters concerning the method for calculating the marT(t)-meththrarori(rre)9n(r)-.2(t)-r

Non-consolidated Statement of Changes in Net Assets
(From April 1, 2017 to March 31, 2018)

(Unit: Millions of yen)

	Shareholders' equity							
		Capital surplus		Retained earnings				
				Other retained earnings				
	Common stock	Legal capital surplus	Other capital surplus	Provision for special depreciation	Provision for advanced depreciation of fixed assets	Retained earnings brought forward	Treasury stock	Total shareholders' equity
Balance at beginning								

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 subsidiaries and affiliates
      Stated at cost using the moving-average method.
      (ii) Other marketable securities
      Securities with market value
      Stated at market value based on the market price on the account closing date (net unrealized gains or losses on these securities are reported as a separate item in the net assets on a net-of-tax basis. Cost of securities sold is determined by the moving-average method).
      Securities without market value
      Stated at cost using the moving-average method.
   (2) Valuation standards and methods of inventories
      Stated at cost using the specific identification method and the moving-average method (balance sheet amounts are determined based on the method of writing down book value in accordance with decreased profitability of assets).
   (3) Valuation standards and methods of derivatives
      Stated at market value.

2. Method of depreciation of fixed assets
   (1) Net property, plant and equipment (other than leased assets)
   The straight-line method is used.
   (2) Intangible assets (other than leased assets)
   The straight-line method is used.
   Software for internal use is amortized by the straight-line method over the internally estimated useful lives (within 5 years).
   (3) Leased assets
   Finance lease transactions not involving the transfer of ownership
   The leased assets involved in finance lease transactions that do not involve transfer of ownership are subject to the straight-line method, whereby the leasing period is deemed to be the duration of useful life and the residual value as zero.
   In addition, out of the finance lease transactions that do not transfer ownership, lease transactions whose lease transaction commencement date was on or prior to March 31, 2008 are accounted for on a basis similar to ordinary rental transactions.

3. Standards of accounting for provisions
   (1) Allowance for doubtful receivables
   In order to provide for losses due to doubtful accounts from trade receivables and loan receivables, allowance for doubtful receivables is provided principally based on the historical default rate of normal receivables and with reference to the collectability of receivables from companies in financial difficulty.
   (2) Accrued bonuses
   To prepare for the bonus payments to employees, provision for bonuses is provided in the amount based on the estimated amount of bonus payment.
   (3) Provision for product warranties
   A provision is recorded for expenditures for warranties concerning construction contracts based on past experience or on estimations of individual cases.
   (4) Provision for losses on construction contracts
   A provision for an estimated amount of losses is recorded for the next fiscal year and thereafter concerning construction works which are anticipated to incur significant losses and which allow reasonable estimation of the loss incurred at the end of the fiscal year under review among those construction works that have not

(Note) The Company consolidated 10 ordinary shares into 1 ordinary share effective October 1, 2017. The number of treasury shares is accordingly presented based on the number of shares after the consolidation.

(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 provision for advanced depreciation of fixed assets.

(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)

Not applicable.

(Notes to Per Share Information)

1. Net assets per share ¥1,932.34
2. Net income per share ¥147.70

(Note) The Company consolidated 10 ordinary shares into 1 ordinary share effective October 1, 2017. Net assets per share and net income per share were calculated on the assumption that the share consolidation took place at the beginning of the consolidated fiscal year under review.

(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 pursued discussions on handling of this matter with the Ministry of Defense. Nevertheless, in July 2017, the Ministry of Defense set off ¥1.9 billion against the Company's right to charge to the ministry (government), claiming that the ministry sustained losses of the same amount. Since the Company cannot accept the claim of the Ministry of Defense and the offsetting, the Company pressed the ministry for payment of 1.9 billion yen, which was set off. However, the Ministry of Defense refused the payment, and therefore the Company filed a lawsuit seeking s s stsymr ent of th(a)-5.1mruntw ith theoTk