Kawasaki

Annual Report 2012

Year ended March 31, 2012

KAWASAKI HEAVY INDUSTRIES, LTD.

Mission

In 2007, the Kawasaki Group established the Kawasaki Group Mission Statement to orient the Group as a whole. It incorporates the Kawasaki Group's social mission for the 21st century, commonly shared values to increase Kawasaki brand value, core principles to guide business activities, and actions regularly expected of each individual employee.

φ6.63m Slurry Type Tunnel Boring Machine

Kawasaki Group Mission Statement

We respond to our customers' requirements

Group Mission

Kawasaki, working as one for the good of the planet

We pursue originality and innovation

We constantly achieve new heights in technology

Global

The Kawasaki Group manufactures a variety of products overseas and markets them around the globe through an extensive global network. These products include motorcycles, rolling stock, aircraft, construction machinery, hydraulic equipment, ships and marine machinery.

R160 subway train to MTA New York City Transit (NYC Transit)

Overseas Production Bases

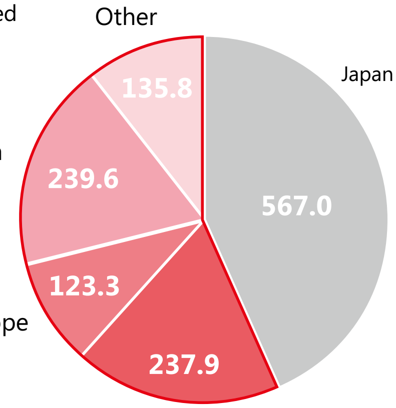
In 2002, we set up a rolling stock production base in Lincoln, Nebraska, U.S.A. that is capable of handling the entire production process, from train car body fabrication through final assembly. Much earlier, in 1975, we had become the first Japanese company in the motorcycle/auto industry to commence production in the U.S. It continues to exhibit the same pioneering spirit as it pursues overseas operations in other segments.

Net Sales by Geographical Region in FY2012

(Billions of yen)

The ratio of overseas sales to consolidated net sales

56.5%



Energy Solutions

Energy should be efficient, environment- and resource-conscious, and most certainly reliable. As a company whose role includes the building of infrastructures worldwide, The Kawasaki Group provides new value, with energy and the environment, both present and future, integral to the development of safe and comfortable lifestyles.

Green Gas Engine

- World-best 49% electrical efficiency
- Minimum impact on environment less than 200ppm (0.8g/kWh) @ 0% O_2 NO_x emission

The Kawasaki Group provides customers with products and services that use energy efficiently, and thereby contributes to reduced emissions of greenhouse gases on a global scale.

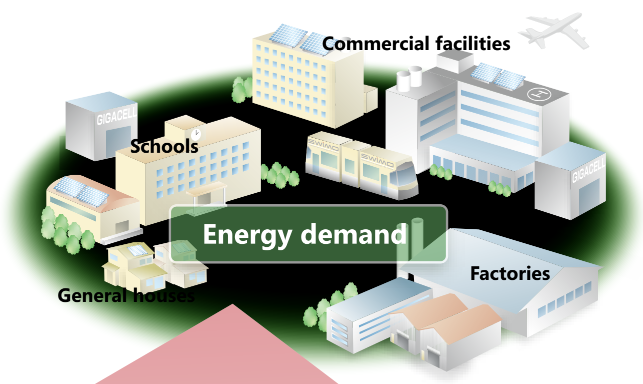
The Kawasaki Group's Conceived Distributed Energy Systems

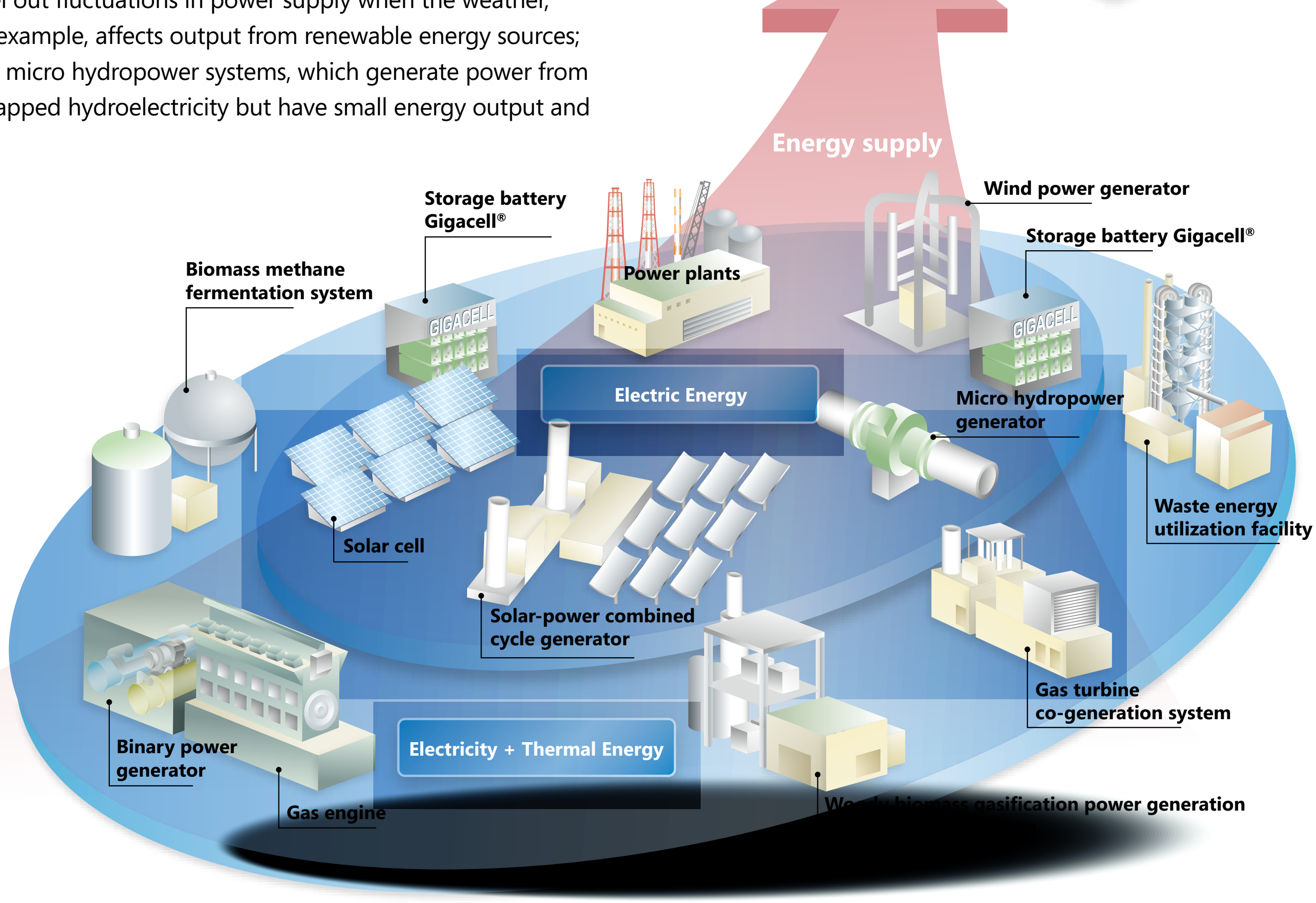
The Kawasaki Group strives to develop and promote widespread use of technologies that facilitate efficient use of environment-conscious clean energy.

We contribute to the highly efficient use of electricity and heat energy through such solutions as gas co-generation systems, which generate power using gas turbines or gas engines running on natural gas and effectively utilize the heat that is released during power generation to make steam and hot water for room heating and hot water applications. Other solutions include the Kawasaki Green Gas Engine, which boasts the world's highest electricity-generating efficiency, and a green binary turbine, which uses waste heat to produce power.

In addition, we are working on technologies that provide commercial facilities and general houses with clean electricity made from renewable energy. Our emphasis is on power generation systems using familiar renewable energy such as wind and solar power; integrated solar combined cycle systems; Gigacell®, a storage battery with the capacity to level out fluctuations in power supply when the weather, for example, affects output from renewable energy sources; and micro hydropower systems, which generate power from untapped hydroelectricity but have small energy output and have yet to be utilized.

We have installed a combined cycle system at a new facility at Kobe Works, as a demonstration model showcasing the efficient application of renewable energy in on-site offices and factories and reduced power consumption. This will contribute to a smaller carbon footprint.





Founded in 1878, Kawasaki Heavy Industries, Ltd. (KHI), is a leading global comprehensive manufacturer of transportation equipment and industrial goods. With a broad technological base that encompasses mastery of the land, sea, and air, the KHI Group manufactures ships, rolling stock, aircraft and jet engines, gas turbine power generators, environmental and industrial plants, and a wide range of manufacturing equipment and systems. KHI also produces such world-famous consumer products as Kawasaki-brand motorcycles and personal watercraft.

Contents

Forward-Looking Statements

Figures recorded in the business forecasts are forecasts that reflect the judgment of the Company based on the information available at the time of release and include risks and uncertainties. Accordingly, the Company cautions investors not to make investment decisions solely on the basis of these forecasts.

Actual business results may differ materially from these business forecasts due to various important factors resulting from changes in the external environment and internal environment. Important factors that may affect actual business results include, but are not limited to, economic conditions, the yen exchange rate against the U.S. dollar and other currencies, the tax system, and laws and regulations.

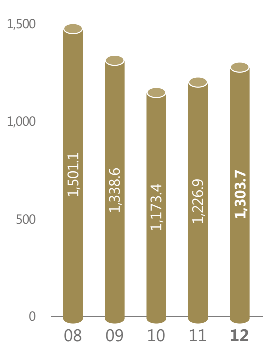
Consolidated Financial Highlights

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31

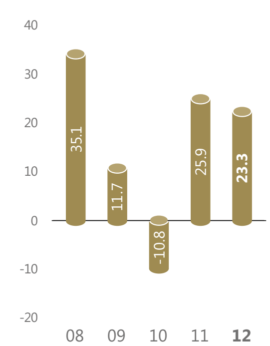
	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	**2012**
For the year:				
Net sales	**¥1,303,778**	¥1,226,949	¥1,173,473	**$15,872,632**
Operating income (loss)	**57,484**	42,628	(1,316)	**699,829**
Net income (loss)	**23,323**	25,965	(10,860)	**283,942**
Net cash provided by operating activities	**84,737**	81,929	30,178	**1,031,616**
Capital expenditures	**63,919**	55,334	59,272	**778,171**
Per share (in yen and U.S. dollars):				
Net income (loss) per share—basic	**¥13.9**	¥15.5	¥(6.5)	**$0.16**
Net income per share—diluted	**13.8**	15.3	–	**0.16**
Cash dividends	**5.0**	3.0	3.0	**0.06**
At year-end:				
Total assets	**¥1,362,139**	¥1,354,278	¥1,352,439	**$16,583,138**
Total net assets	**315,922**	297,433	283,053	**3,846,140**
Orders received and outstanding:				
Orders received during the fiscal year	**¥1,311,878**	¥1,270,652	¥1,001,290	**$15,971,244**
Order backlog at fiscal year-end	**1,494,116**	1,495,349	1,507,057	**18,189,870**

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥82.14 to US$1, the approximate rate of exchange at March 31, 2012.

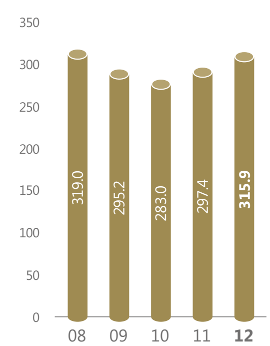
Net Sales
(Billions of yen)



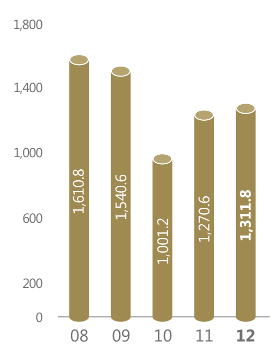
Net Income (Loss)
(Billions of yen)



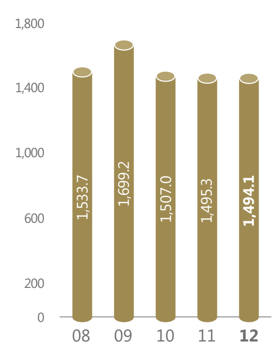
Total Net Assets
(Billions of yen)



Orders Received
(Billions of yen)



Order Backlog
(Billions of yen)



An Interview with Satoshi Hasegawa, President

Fiscal 2012, ended March 31, 2012, marked a second straight year of major increases in the KHI Group's business results. This progress enabled the Group to achieve certain performance targets stated in its Medium-term Business Plan 2010 (FY2011-2013), MTBP2010, a year ahead of schedule. Moving forward, we will continually strengthen policies and measures to "return to a growth path" and "strengthen the business foundation for future growth" and realize "Kawasaki Business Vision 2020."

In this interview, Satoshi Hasegawa, president of Kawasaki Heavy Industries, Ltd. (KHI), provides an overview of fiscal 2012 business results and discusses the business execution strategies for fiscal 2013, the last year of MTBP2010, and efforts to achieve "Kawasaki Business Vision 2020."

Q1 To start, what is the operating environment like for the KHI Group and how did the Group perform in fiscal 2012?

A1 The operating environment shows promising albeit gradual signs of improvement, including indications of recovery in the U.S. employment market and a less ominous probability that Europe's debt crisis would wreak havoc in financial markets.

Although China's economic growth appears to be hitting a plateau, other emerging countries, particularly India, Brazil and ASEAN, are achieving expansion and will remain drivers of global economic growth.

In Japan, the operating environment is marked by restoration work, which is moving into full swing in the area devastated by the Great East Japan Earthquake, and by heightened interest nationally in an attainable

Summary of Financial Results

(Billions of yen)

	FY2011	FY2012	Change
Orders received	1,270.6	1,311.8	41.2
Net sales	1,226.9	1,303.7	76.8
Operating income	42.6	57.4	14.8
Ratio to sales	3.4%	4.4%	1.0%
Recurring profit	49.1	63.6	14.4
Ratio to sales	4.0%	4.8%	0.8%
Net income	25.9	23.3	-2.6
Ratio to sales	2.1%	1.7%	-0.4%
Exchange rate	¥86=US$1	¥79=US$1	

Business Vision

Kawasaki, working as one for the good of the planet

(Enriching lifestyles and helping safeguard the environment: Global Kawasaki)

A company that provides products and services suited to the diverse needs of people around the world through advanced technological capabilities in three principal business sectors: Land, Sea, and Air Transportation Systems, Energy & Environmental Engineering, and Industrial Equipment

Transportation Systems
Shipbuilding, rolling stock, aircraft, aircraft engine, ship machinery, motorcycle, etc.

Energy & Environmental Engineering
Gigacells, industrial gas turbines, gas engines, steam turbines, compressors, energy and environmental plant engineering, etc.

Industrial Equipment
Industrial plants, tunneling equipment, hydraulic equipment, robots, construction machinery, crushers, etc.

Improvement of the global environment
A company that creates products that incorporate the ultimate in low environmental impact technologies in each business sector

Reinforcement of the earnings structure
A company that establishes an earnings structure that makes possible sustainable growth investment and provides stable shareholder returns

Global business development and emphasis on *monozukuri* (manufacturing)
A company that upgrades plants in Japan and actively pursues business development overseas

Emphasis on CSR
A company trusted wherever it does business around the world

Workplace environment development
A company whose employees have hopes and dreams and work with vigor and enthusiasm

and sustainable energy policy for the future, which is prompted by the post-disaster nuclear power plant accident. With the necessary expertise to address these issues, an increasingly larger role played by KHI is expected in the execution of associated projects.

In fiscal 2012, on a consolidated basis, orders won by the KHI Group rose ¥41.2 billion from the previous fiscal year to a value of ¥1,311.8 billion, and net sales climbed ¥76.8 billion to ¥1,303.7 billion. Operating income grew ¥14.8 billion, to ¥57.4 billion, and recurring profit* jumped ¥14.4 billion, to ¥63.6 billion. Net income decreased ¥2.6 billion, to ¥23.3 billion, mainly because of partial reversal on deferred tax assets, following a reduction in the corporate tax rate.

All told, despite yen appreciation exceeding the assumed rate used to calculate initial targets as well as the profit-squeezing impact of the floods in Thailand on operations, the KHI Group reached certain of its targets—operating income of ¥52.0 billion and recurring profit of ¥56.0 billion—set for the final year of MTBP2010. Hitting these targets a year ahead of schedule under difficult circumstances is highly commendable.

* Recurring profit is used in accounting standards generally accepted in Japan. It is the sum of operating income, net interest income (expense), dividend income, and other non-operating and recurring income items.

Q2 What led to the early achievement of these targets, and what is in store for fiscal 2013?

A2 Achieving MTBP2010 performance targets ahead of schedule was mainly a reflection of the solid improvements in productivity and profitability in all

Quantitative Vision (FY2021)

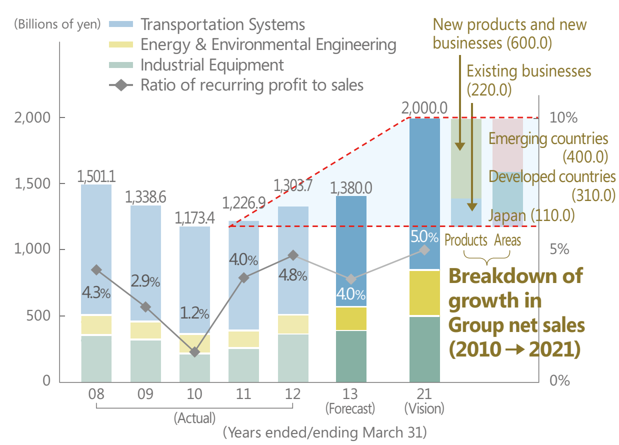
Consolidated net sales

¥2 trillion

Ratio of recurring profit to sales

5.0% or higher

Net Sales by Business Sectors



business segments amid the inescapable pressure of yen appreciation, along with well-received responses, especially by the Precision Machinery, Plant & Infrastructure and Motorcycle & Engine segments, to expanding demand in emerging markets, particularly China, Brazil and ASEAN. Moving forward, we must leverage these results across the Group to further reinforce consolidated profitability.

However, in fiscal 2013, which is the last year of MTBP2010, we face a certain reality. Even though the business plans for all business segments are essentially continuations from fiscal 2012, we will have to factor in the possibility of lower profits from the Ship & Offshore Structure segment, which is plagued by persistently lackluster conditions in the shipping market. In addition, as China's decelerating economic growth becomes more pronounced, we cannot expect our business in China, such as the Precision Machinery and Plant & Infrastructure segments, to deliver the sizable year-on-year increase that we have seen recently.

Although we dropped the assumed exchange rate to ¥80 to the U.S. dollar, from the ¥90 used at the start of MTBP2010, we will manage to achieve the original targets—operating income of ¥52.0 billion and recurring profit of ¥56.0 billion— in fiscal 2013. We will direct concerted efforts toward reaching these quantitative targets.

Q3 A dividend of ¥5 per share is proposed for fiscal 2013 as well as fiscal 2012. What prompted the increase of ¥2 per share over fiscal 2011?

A3 Operating income and recurring profit in fiscal 2013 are likely to decrease below the levels posted in fiscal 2012. But during the next medium-term business plan that runs from fiscal 2014 through fiscal 2016, we anticipate strong demand for commercial aircraft, commercial aircraft engines, industrial gas turbines, gas engines, new energy-related businesses and aerodynamics expertise—positive business conditions that will generally pave the growth path toward "Kawasaki Business Vision 2020," with net sales of ¥2 trillion and recurring profit of ¥100.0 billion. Confident in our future, we set the year-end dividend for our 189th business year (fiscal 2012) at ¥5 per share. The next medium-term business plan is being drafted now, and we will disclose the details in due time.

Q4 What led to the impairment loss in the Ship & Offshore Structure segment in fiscal 2012, and, looking ahead, what is the business operating policy in this segment?

A4 In addition to persistently sluggish conditions in the shipping market, prolonged yen appreciation is eroding the price competitiveness of the Ship & Offshore Structure segment. Consequently, we felt it necessary to brace for a difficult road ahead and report impairment losses of ¥13.4 billion for this segment in fiscal 2012.

With global demand for natural gas trending upward, we expect the marine development and gas transport markets to grow, and efforts will be made to strengthen the positions of Ship & Offshore Structure domestic facilities, to become "mother factories"—that is, manufacturing bases—for high-value-added products to meet anticipated demand. The segment is already involved in joint ventures in China, and a decision was recently made to participate in a joint project in Brazil to construct drilling ships. These are the building blocks of an optimum global structure that will keep business going, and this is the primary direction for business activities under the Ship & Offshore Structure segment.

Q5 The impact of an economic slowdown in China is a concern. Moving forward, what measures will be taken in the Precision Machinery segment?

A5 China's construction machinery industry is a key market for the Precision Machinery segment. Growth in this market has reached a plateau but should gradually recover its upward trend, and the segment will continue to work to expand its business by boosting capacity at its domestic core parts plant and reinforcing its supply chain in China. Also, to meet wider market potential in India, KHI initiated joint operations with India's Wipro Limited, and efforts are being directed into building an enhanced structure that will enable the segment to capitalize on higher demand in emerging markets.

Q6 How is the Motorcycle & Engine segment doing in its effort to turn a profit?

A6 The Motorcycle & Engine segment is likely to encounter persistently lackluster demand in developed countries for some time yet. But, a growing demographic of high income earners in Brazil and in the ASEAN region is fueling steady sales of leisure motorcycles bigger than the 250cc class. A similar trend is seen in China as well, and the segment is accelerating its efforts to establish a sales network for leisure motorcycles to capitalize on ever-increasing demand. Unfortunately, the segment was unable to return to a profit position in fiscal 2012 because the floods in Thailand interrupted supply operations, mainly of parts.

However, the segment should certainly turn a profit from fiscal 2013 onward.

Q7 What is happening with new businesses and products, that is, R&D activities?

A7 MTBP2010 calls for efforts to "strengthen the business foundation for future growth" as well as to "return to a growth path" as priorities. The development of new businesses and products is a key strategy and progress is being made as planned, with an emphasis on the development of LNG-Fueled propulsion ships, geothermal binary power generation systems, waste processing facilities for use at cement kilns combined with water processing facilities, automated cell culture systems and the Gigacell® for electrical power systems.

The Group is also directing concerted effort into the realization of a CO_2-free hydrogen chain concept in pursuit of both CO_2 reduction and stable energy supply in the future. As a first step, KHI aims to build a small-scale demonstration chain and is pursuing activities, mainly R&D and feasibility studies on the concept while working with outside partners, including Japanese and Australian government agencies and leading companies that run hydrogen businesses.

Furthermore, anticipating growth in the future-focused ocean energy market, KHI is tackling the development of a tidal power generation system. A feasibility study prior to demonstration tests on the coast of Japan's island prefecture of Okinawa has already been started, and demonstration tests in Scotland are being planned.


Tidal Power Generation System

Q8 What is the capital investment plan for fiscal 2013?

A8 Capital investment, on a construction basis, is set to rise, from ¥63.9 billion in fiscal 2012 to ¥79.0 billion in fiscal 2013. Funds will be applied primarily to reinforce production facilities to meet higher future demand for hydraulic components for construction machinery in China, and to respond to increased production of the component parts for the Boeing 787 and mass production of component parts for commercial aircraft jet engines, as well as to expand production capacity for motorcycles in Thailand and Indonesia.

Q9 What is KHI's response to energy concerns?

A9 The nuclear power plant accident and community rebuilding in the wake of last year's Great East Japan Earthquake brought underlying concerns about power supply in Japan to the surface. Against this backdrop, national interest in in-house power generation and decentralized power supply has reached a level so high that demand is actually palpable.

The KHI Group has a variety of products, including a Green Gas Engine that boasts the world's highest electricity generating efficiency and a dual-fuel (oil and gas) Green Gas Turbine with a solid track record as well as power generation machinery and equipment using natural—that is, renewable—energy, such as wind power, solar power, micro hydropower and biomass, and a storage battery—Gigacell®—that levels out fluctuations in power supply. Furthermore, the application of microgrid technology to combine these products into systems and packages could contribute greatly to solutions for Japan's energy issues. In addition, energy and environmental issues will become more noticeable on a global level, paralleling growth in emerging markets, and Kawasaki-brand in-house power generation and decentralized power will surely play a wider role in infrastructures in emerging markets.

Consolidated Quantitative Forecast

(Billions of yen)

	FY2012		FY2013	Reference
	Original Forecast	Actual	(Forecast)	FY2021 (Vision)
Net sales	1,360.0	1,303.7	1,380.0	2,000.0
Operating income	50.0	57.4	52.0	
Ratio to sales	3.6%	4.4%	3.7%	
Recurring profit	52.0	63.6	56.0	100.0
Ratio to sales	3.8%	4.8%	4.0%	5.0%
Before-tax ROIC	7.8%	7.4%	8.2%	
Exchange rate	¥83=US$1	¥79=US$1	¥80=US$1	¥90=US$1

Q10 What brought about the establishment of the Marketing Division in April 2012?

A10 The Marketing Division was established this past April to facilitate the integration of diverse "intellectual assets" cultivated in each product category of the KHI Group into systems, with an emphasis on infrastructure, such as energy and environment as well as transportation business, and to promote the total solutions business in global markets.

In addition, access to the system engineering capabilities of the Plant & Infrastructure segment is absolutely essential to the solutions business. Therefore, the Tokyo Head Office will relocate to Takeshiba, scheduled for December 1, 2012 and the Plant & Infrastructure segment now at the Tokyo Office in Toyo-cho, will be integrated into the new Tokyo Head Office. Through these moves, we will bring out the full effect of group-wide synergies and pave the way to wider business content in the years ahead.

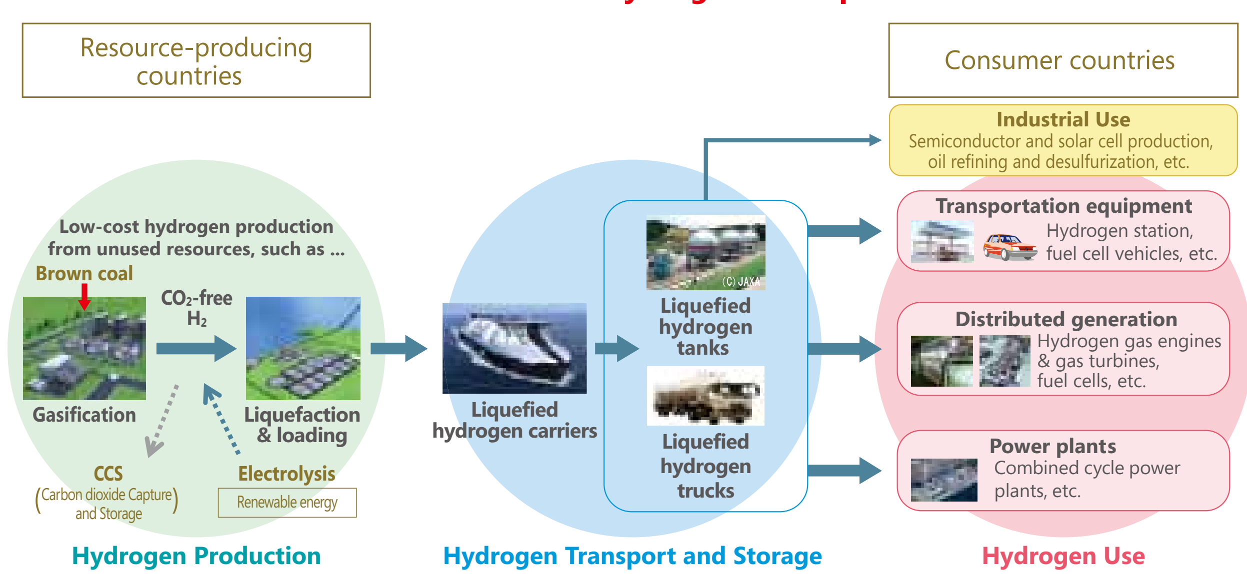
Q11 What is the status of corporate governance at KHI?

A11 Headlines in Japan these days have made big news of accounting scandals, such as investment losses being concealed by entire companies and personal use of business resources by executives.

KHI maintains a statutory auditor system as set forth in Japan's Companies Act, and corporate auditors with the authority to audit business activities track the execution of duties by directors to ensure objectivity and neutrality in the management oversight function. One of the two outside corporate auditors is an independent auditor as required by the Tokyo Stock Exchange for all listed companies, which ensures fair and impartial decision making with the interests of general shareholders in mind. To reinforce the oversight and monitoring function of the Board of Directors with respect to management overall, the Company appoints directors who do not have roles in the execution of operations, and the Chairman serves as the presiding officer.

In addition, KHI maintains an internal company system through which the seven business segments serving different product markets are each responsible for profits and business management. Company presidents are responsible for the execution of business activities in their respective business segment, and also provide reciprocal supervision of company management from a corporate perspective as members of the Board of Directors. As president of KHI, I strive to promote internal controls as chief executive of internal controls, and with the internal auditing unit under my direct control, I check the effectiveness of the internal control system itself.

KHI's CO_2-free Hydrogen Concept



Q12 Where is KHI's emphasis in crisis management and CSR?

A12 The Great East Japan Earthquake last year was a wakeup call for KHI to reassess its business continuity plan. We already had a Group structure for crisis management in place to ensure the safety of employees and their families in the event of an emergency and to resume production activities as quickly as possible if a situation were to interrupt normal operations. In addition, we provide society with products, such as helicopters for emergency relief operations and standby power generators for nuclear power plants, that must operate reliably for extended periods of time, and the March 2011 disasters prompted us to immediately undertake verification of the structure that ensures support for these products. Of note, with the exception of one unit that had not undergone a regular maintenance check, all standby power generators delivered by KHI to customers in the area of devastation functioned when commercial power failed. Backed by field-proven performance, we are pursuing CSR-based business activities, such as offering local governments and corporations at home and abroad solutions for establishing disaster-prevention bases equipped with in-house power-generating facilities.

Q13 Lastly, what would you like to emphasize to KHI's shareholders?

A13

Group Mission:
Kawasaki, working as one for the good of the planet
(Enriching lifestyles and helping safeguard the environment: Global Kawasaki)

As the final year of MTBP2010, fiscal 2013 will be a crucial year for the KHI Group to achieve its goal of "returning to a growth path." In addition, we will move smoothly ahead with efforts to "strengthen the business foundation for future growth," with an emphasis on investment and R&D investment. We will do our utmost to realize the targets stated in "Kawasaki Business Vision 2020" and to realize "Group Mission: Kawasaki, working as one for the good of the planet (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)," and the continuing support and cooperation of our shareholders will be integral to our success.

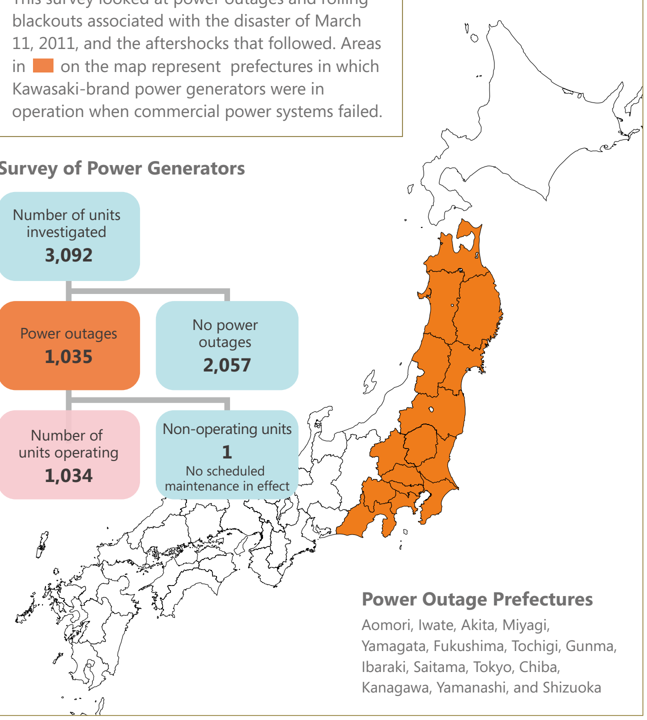
Power outages associated with the Great East Japan Earthquake and operating status of Kawasaki-brand standby gas turbine power generators

Operating Rate (Actual): 100% *Excluding one unit that was not maintained regularly.

This survey looked at power outages and rolling blackouts associated with the disaster of March 11, 2011, and the aftershocks that followed. Areas in ■ on the map represent prefectures in which Kawasaki-brand power generators were in operation when commercial power systems failed.

Survey of Power Generators

- Number of units investigated **3,092**
  - Power outages **1,035**
    - Number of units operating **1,034**
    - Non-operating units **1** No scheduled maintenance in effect
  - No power outages **2,057**



Power Outage Prefectures
Aomori, Iwate, Akita, Miyagi, Yamagata, Fukushima, Tochigi, Gunma, Ibaraki, Saitama, Tokyo, Chiba, Kanagawa, Yamanashi, and Shizuoka

Review of Operations

The KHI Group at a Glance

Composition of Consolidated Net Sales of FY2012 | **Main Products**

Ship & Offshore Structure

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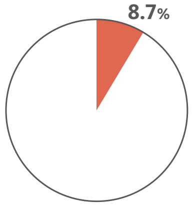

8.7%

- LNG carriers
- LPG carriers
- Container ships
- VLCCs and other types of tankers
- Bulk carriers
- High-speed vessels
- Submarines
- Maritime application equipment
- Offshore structures

Rolling Stock

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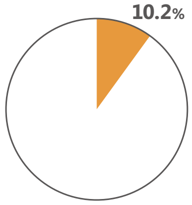
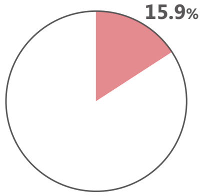


10.2%

- Electric train cars (including *Shinkansen*)
- Electric and diesel locomotives
- Passenger coaches
- Integrated transit systems
- Monorail cars
- Platform screen doors
- Gigacell®(high-capacity, full sealed Ni-MH battery)

Aerospace

P. 20



15.9%

- P-1 patrol aircraft and C-2 transport aircraft
- Component parts for the Boeing 787, 777, and 767 commercial airplanes
- Component parts for the Embraer 170 and 190 commercial aircraft
- CH-47, OH-1, and BK117 helicopters
- Missiles
- Electronic equipment
- Space equipment

Gas Turbine & Machinery

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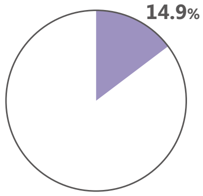
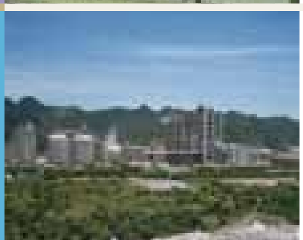


14.9%

- Jet engines
- Small and medium-sized gas turbine generators
- Gas turbine co-generation systems
- Gas turbines for naval vessels
- Steam turbines for marine and industrial applications
- Diesel engines and marine propulsion systems
- Gas engines
- Gas compression modules



Plant & Infrastructure

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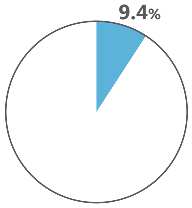
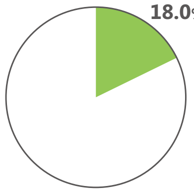


9.4%

- Cement, chemical, and other industrial plants
- Power plants
- Municipal refuse incineration plants
- LNG and LPG tanks
- Shield machines and tunnel-boring machines
- Crushing machines

Motorcycle & Engine

P. 26

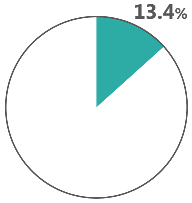


18.0%

- Motorcycles
- All-terrain vehicles (ATVs)
- Utility vehicles
- Personal watercraft
- General-purpose gasoline engines

Precision Machinery

P. 28

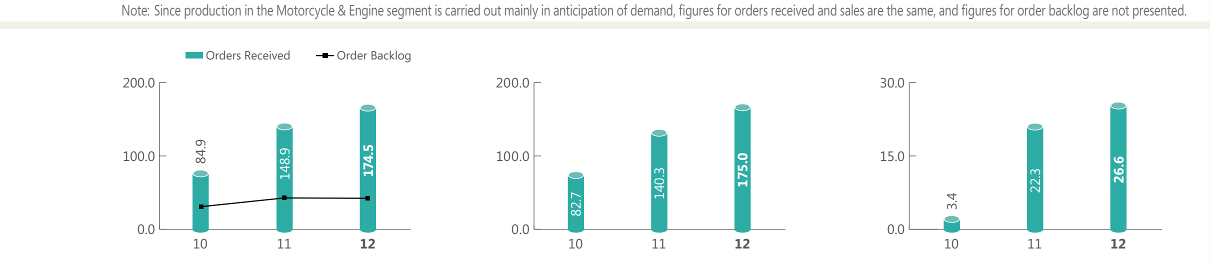


13.4%

- Hydraulic components (pumps, motors, and valves)
- Hydraulic systems for industrial use
- Hydraulic marine machinery
- Industrial robots

Orders Received/ Order Backlog (Billions of yen) | **Sales** (Billions of yen) | **Operating Income (Loss)** (Billions of yen)

Note: Since production in the Motorcycle & Engine segment is carried out mainly in anticipation of demand, figures for orders received and sales are the same, and figures for order backlog are not presented.



Changes in Industry Segments and Segment Names

Attendant on the spin-off of the construction machinery business unit as a separate company, the change of industry segmentation for internal reporting of the crushing machine business unit and the Industrial Robots business unit, and reorganization of the Shipbuilding segment, industry segments, and/or segment names have been changed as follows.

Changes in Industry Segments

Effective April 2009:

construction machinery business unit:
Transferred from the Rolling Stock segment to the “Other” segment

Effective April 2010:

crushing machine business unit:
Transferred from the Rolling Stock segment to the Plant & Infrastructure segment

Industrial Robots business unit:
Transferred from the Consumer Products & Machinery segment to the Precision Machinery segment

Changes in Segment Names

Effective April 2009:

Rolling Stock & Construction Machinery (previous)
⇨Rolling Stock (current)

Effective April 2010:

Consumer Products & Machinery (previous)
⇨Motorcycle & Engine (current)

Hydraulic Machinery (previous)
⇨Precision Machinery (current)

Effective October 2010:

Shipbuilding (previous)
⇨Ship & Offshore Structure (current)

Submarine *KENRYU*

Ship & Offshore Structure

We will strengthen our ability to fulfill its leadership role in marine transport and achieve sustainable growth.

LNG carrier *ENERGY HORIZON*

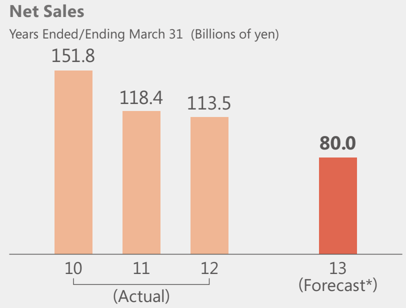
Business Results

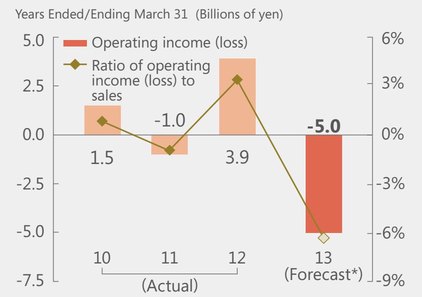
The operating environment remained challenging for the Ship & Offshore Structure segment, as the newbuilding market has been sluggish, mainly due to a drop in ship prices as a result of lower shipbuilding demand, which was caused by lingering lackluster conditions in the shipping market and a widening gap in supply and demand. The situation was exacerbated even more, by an aggressive push for orders by South Korean shipyards based on the South Korean Won's depreciation against the Yen's appreciation, and the difference in the price of steel materials between domestic and international markets. Consequently, in fiscal 2012 the segment posted orders received worth ¥39.9 billion, down ¥39.0 billion from the previous fiscal year.

Sales also decreased, coming in at ¥113.5 billion, or ¥4.8 billion less than in fiscal 2011, when the segment still managed to record sales of large vessels. However, on the profit front, the segment returned to the black with operating income of ¥3.9 billion, up ¥4.9 billion from the previous fiscal year, reflecting such factors as a decrease in provision for losses on construction contracts.

In newbuilding activity, the segment delivered 15 vessels in fiscal 2012: one large LNG (liquefied natural gas) carrier; one small LNG carrier: one LPG (liquefied petroleum gas) carrier; 11 bulk carriers and one submarine.

Financial Highlights





*As of April 26, 2012

Analysis and Outlook

Despite deteriorating profitability on newbuilding construction due to yen appreciation, the segment returned to an operating income position, largely supported by lower costs of marine materials due to easing supply-and-demand conditions and by a decrease in provision for losses on construction contracts. Nevertheless, the segment booked impairment loss on fixed assets after assessing recoverability of operating assets at the Sakaide Works, where the profitability outlook has worsened.

In overseas operations, which KHI considers a key pillar of its business, Nantong COSCO KHI Ship Engineering Co., Ltd. (NACKS), established by KHI and China Ocean Shipping (Group) Company in 1995 as a 50:50 joint venture, has been in operation for more than 15 years and has become one of the leading shipbuilding companies in China. NACKS continues to deliver favorable business results. At Dalian COSCO KHI Shipbuilding Engineering Co., Ltd. (DACKS), following KHI's recent acquisition of a 34% stake in a subsidiary of the COSCO Group, KHI will make the most of this direct investment to operate DACKS as a joint venture and will strive to expand the company's operations while enhancing competitiveness.

A challenging business environment has persisted for some time now, highlighted by lackluster shipping and shipbuilding market conditions and the impact of yen appreciation on operations. But by focusing on submarines, LNG and LPG carriers for which demand is expected to grow, the Ship & Offshore Structure segment will prevent achievements from slipping in fiscal 2013 and onward, and strive to return to a net income position. In addition, with its R&D emphasis on themes such as energy-saving, environmental load-reducing solutions to issues of priority on a global scale, the segment will accelerate efforts to develop new propulsion systems for LNG carriers as well as LNG-Fueled propulsion ships, and also work toward establishing a presence in offshore development-related sectors.

Furthermore, KHI recently decided on a new direction by participating in a joint project in Brazil to construct a new shipyard and drilling ships for Petrobras (Petróleo Brasileiro S.A.), and will utilize this opportunity to cultivate this operation as its third overseas hub through investment of capital and transfer of technology.

The Ship & Offshore Structure segment will make the best effort to achieve continuous growth in its businesses through steady implementation of measures and strategies outlined in MTBP2010.

OEDO LINE Series 12-600

Rolling Stock

We are emphasizing technologies and quality of the highest standard worldwide with projects from high-speed trains to light rail transit.

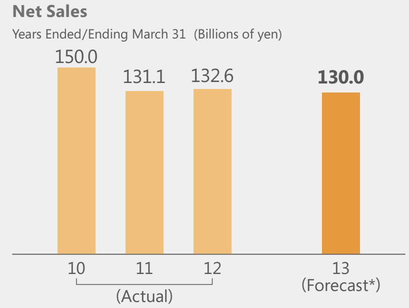
Land Transport Authority of Singapore Contract 151A Trains for North-South / East-West Lines

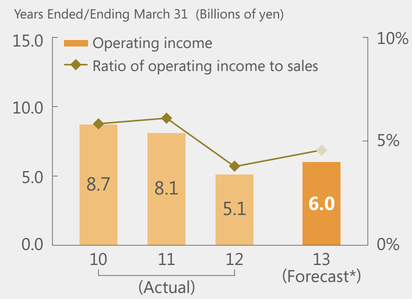
Business Results

Domestic orders for the Rolling Stock segment in fiscal 2012 came from the Japan Railways (JR) companies, public railway companies and private ones, and included freight cars, locomotives and train cars for new transportation systems. Overseas orders included commuter train cars for the New York Metropolitan Transportation Authority's Metro-North Railroad and for subway train cars for Singapore's Mass Rapid Transit system. All told, orders received amounted to a value of ¥66.0 billion, down ¥121.0 billion from the previous fiscal year, when there were more large-scale orders for overseas customers.

Despite a drop in sales to customers in Japan, sales to customers in the rest of Asia and in North America rose supporting a ¥1.5 billion increase in segment sales, to ¥132.6 billion. Operating income retreated ¥3.0 billion, to ¥5.1 billion, mainly owing to the impact of yen appreciation as well as provision for losses on construction contracts.

Financial Highlights





*As of April 26, 2012

Analysis and Outlook

Despite the impact of declining profits on exported projects in fiscal 2012, due to yen appreciation, the Rolling Stock segment was able to post ¥5.1 billion in operating income based on contributions from projects, such as the full-scale production of the *Shinkansen* bullet train for JR companies and subway lines in Taiwan and Singapore, as well as keeping fixed costs low. Seeking to reach the ¥6.0 billion mark in fiscal 2013 and sustain the growth pattern thereafter, this segment will steadily execute large-scale projects at home and abroad, exemplified by the *Shinkansen* project for JR companies as well as New York City Transit's subway project and the subway project in Taiwan, which will drive volume production. In addition, the segment will enhance and promote the Environmentally Friendly Advanced Commuter & Express (efACE) train already being offered and increase our competitive edge and will strengthen supply chain management with the introduction of a logistics improvement program.

In recent years, increasingly brisk infrastructure investment in both emerging countries and in developed countries, against a backdrop highlighting environmental concerns, economic stimuli and job creation, have prompted the planning of many projects, including construction of high-speed railways and upgrades of existing networks to facilitate faster speeds and to modernize, as well as new or expanded urban transport systems. Some projects include high-speed rail projects in North America, construction and expansion of urban transport systems in cities all over Asia, and a new section for the new Dedicated Freight Corridor in India. Accordingly, the rolling stock business should benefit from long-term expansion in demand. As a business unit, KHI's Rolling Stock segment is Japan's largest manufacturer of rolling stock, and with a four-point production structure consisting of two facilities in Japan—Hyogo and Harima—and two in the United States—Lincoln, Nebraska and Yonkers, New York—the segment is well-positioned to respond vigorously to the aforementioned demand and secure balanced growth from its three primary markets—Japan, the United States and Asia.

The Rolling Stock segment has set its sights on establishing a world-class presence in rolling stock system manufacturing with technologies and quality of the highest standard worldwide to execute an extensive range of projects, from high-speed trains to light rail transit (LRT). The segment will strive to realize its objective through product line expansion using aggressive new product development, such as efSET® (Environmentally Friendly Super Express Train), a new high-speed train for overseas markets, and K-Star Express®, a new high-speed interurban commuter train for the U.S. market, and through activities on railway system projects that spotlight the new market in orders for full turnkey E&M (Electrical and Mechanical) systems and the reliable execution of large-scale overseas projects.

Aerospace

XP-1 next-generation patrol aircraft

We have successfully secured orders for the mass production of C-2 transport aircraft and the development of UH-X. Also, the mass production of component parts for the Boeing 787 is expected to increase.

Boeing 787 *Dreamliner*

Business Results

Orders received in the Aerospace segment climbed ¥120.5 billion, to ¥327.2 billion, reflecting orders for mass production of the P-1 next-generation patrol aircraft and the C-2 next-generation transport aircraft for Japan's Ministry of Defense (MOD), and also reflecting higher commercial aircraft orders, including component parts for the Boeing 777 and 787.

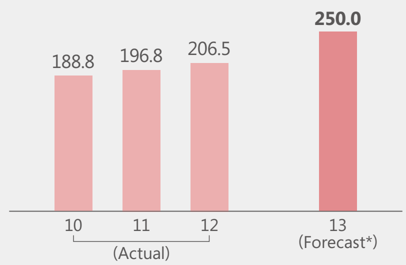
Sales rose ¥9.7 billion, to ¥206.5 billion, mainly owing to an increase in sales of component parts for the Boeing 777 and 787.

Despite the impact of yen appreciation, operating income jumped ¥4.7 billion, to ¥7.8 billion, primarily because of higher sales and cost reduction activities.

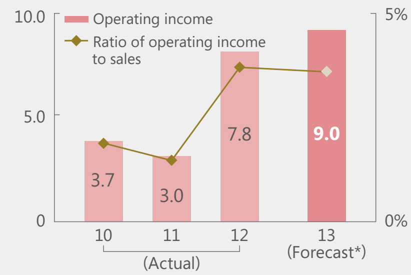
Financial Highlights

Net Sales

Years Ended/Ending March 31 (Billions of yen)



Years Ended/Ending March 31 (Billions of yen)



*As of April 26, 2012

Analysis and Outlook

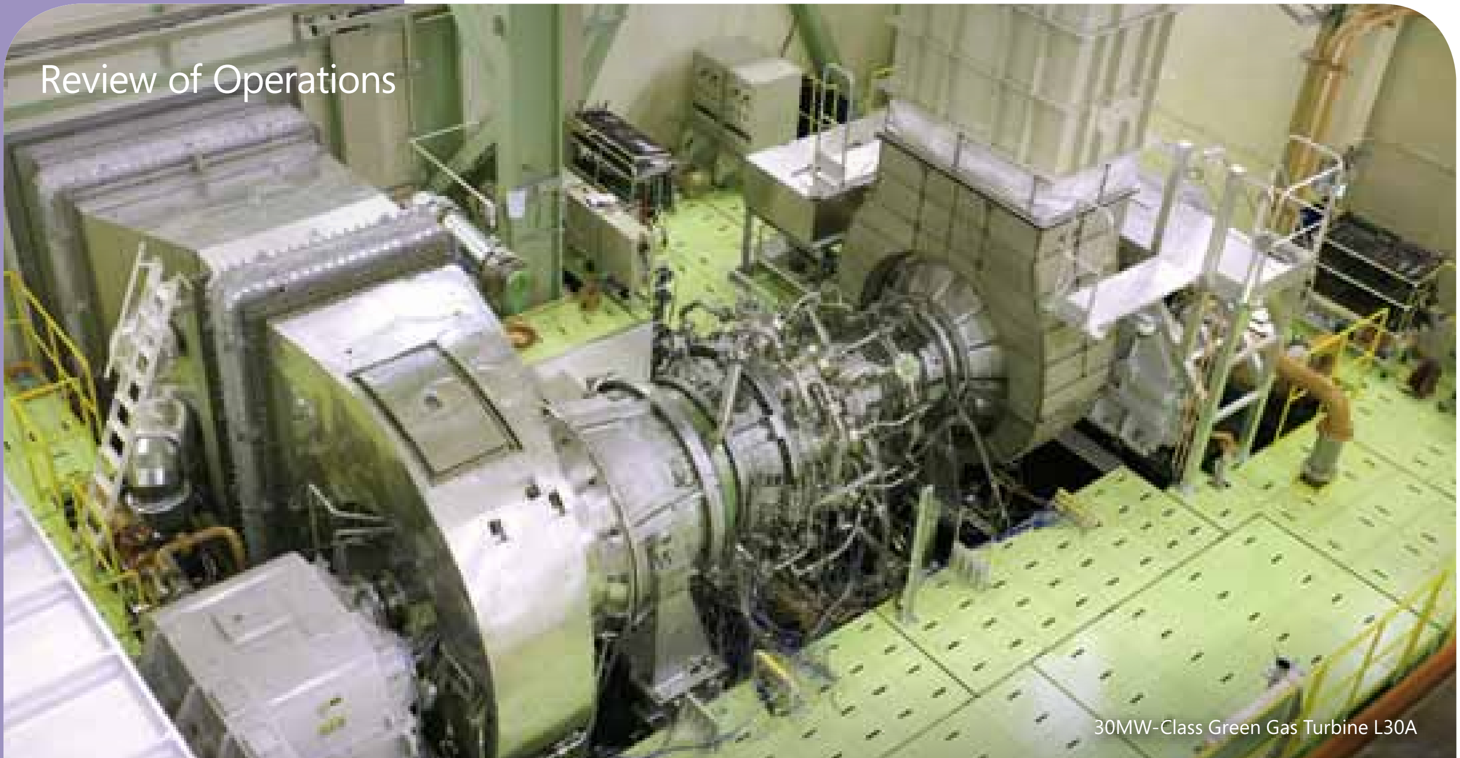
Fiscal 2012 was notable in that the Aerospace segment successfully secured extremely important orders from MOD, namely, mass production of the C-2 transport aircraft and development of the UH-X, a new utility helicopter. From a profit perspective, prolonged yen appreciation has created a very difficult operating environment, but efforts throughout the segment to curb costs led to a year-on-year improvement in profit. On the foreign exchange front, the yen is likely to remain at high levels, but the segment will strive to promote further cost reduction to yield higher profits.

In the defense aircraft business, KHI expects the C-2 transport aircraft, for which the segment secured a production order in fiscal 2012, to become a core product in the future. The segment is prepared to implement a full-scale production of this aircraft, along the same lines as that for the P-1 patrol aircraft, which is already being mass produced. In addition, the segment will utilize experience acquired through development and mass production of the OH-1 light observation helicopter to move development of the new UH-X utility helicopter forward, while striving to expand the helicopter business.

In the commercial aircraft business, the first delivery of the Boeing 787 from Boeing to an airline company took place in September 2011. On expectations that demand for mass production of component parts for the Boeing 787 will increase, the segment is moving steadily ahead with higher capacity preparations, such as hiring more workers and installing more equipment. A production increase for component parts for the Boeing 777 is also expected, which should contribute to increased sales in the commercial aircraft business.

In the commercial helicopter business, the use of helicopters for emergency medical service in remote areas or on islands, or in the event of road traffic congestion, is gaining widespread appeal and should generate demand for BK117 helicopters. The Aerospace segment will actively promote sales.

As outlined above, exchange rates are a major cause of performance fluctuation. Nevertheless, sales among businesses in the Aerospace segment are charting an upward path, with the prospect of growth in profits.



30MW-Class Green Gas Turbine L30A

Gas Turbine & Machinery

KHI intends to expand its global business of industrial gas turbines and gas engines by taking advantage of in-house capabilities, enabling it to propose total solutions.

Kawasaki Green Gas Engine

Business Results

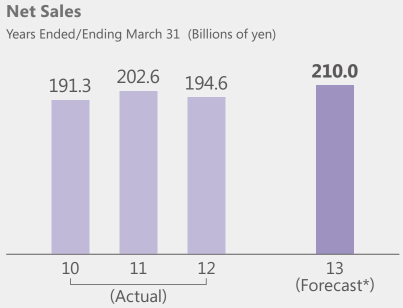
Orders in the Gas Turbine & Machinery segment reached ¥227.2 billion, up ¥39.6 billion, owing to an increase in orders for component parts for commercial aircraft jet engine and construction of Kawasaki Green Gas Engine-equipped power plant.

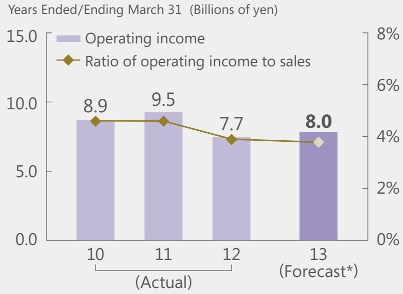
Sales decreased ¥8.0 billion, to ¥194.6 billion, mainly due to a drop in sales of marine diesel engines and gas compression modules.

Operating income declined ¥1.7 billion, to ¥7.7 billion, largely because of lower sales and the impact of yen appreciation.

The operating environment remains challenging, not only because of delayed recovery of the global economy but also because of the prolonged yen appreciation against the U.S. dollar and the euro. The Gas Turbine & Machinery segment will continue working toward higher profitability by further cost reduction efforts and by promoting approaches to attract more orders.

Financial Highlights





*As of April 26, 2012

Analysis and Outlook

The Gas Turbine & Machinery segment has a wide range of products mainly for the energy and transportation equipment sectors that offer potential for growth. Therefore, the segment continues to invest in R&D and production systems and strengthen marketing capabilities. In addition, the segment is making every possible effort to assist in the reconstruction activities in areas affected by the Great East Japan Earthquake, with a particular emphasis on power generation equipment.

In the energy sector, co-generation has become an increasingly popular choice because it supports global environmental protection and energy-saving strategies. The March 2011 disasters in Japan served to highlight the merits of distributed power sources still further. Given heightened interest, demand for gas turbine power generators and gas engines can be expected to grow.

As Japan's top manufacturer of small to medium-sized gas turbine power generators, KHI plays a significant role in standby power generator market for anti-disaster measures. On the other hand, regarding gas engines in fiscal 2012, KHI received an order for construction of Japan's first 110MW gas engine-equipped power plant. It features a gas engine developed in-house and boasts the world's highest electric generating efficiency—49%. In Japan, this gas engine offers a solution to the pressing domestic issue of electricity shortages, while overseas, it addresses rising demand for electricity due to economic development. Consequently, inquiries and orders have both increased. KHI intends to expand its global business by taking advantage of in-house development capabilities, enabling it to propose total solutions covering after-service and maintenance. Another promising field is oil and gas, where recent offshore development activity has spurred demand for natural gas compression modules used on offshore platforms and for propulsion systems installed on offshore support vessels.

In the transportation equipment sector, demand for commercial aircraft is showing signs of recovery after a temporary downturn. In response, KHI is pushing ahead on mass production of the Trent 1000 engine for the Boeing 787 and pursuing development of the Trent XWB engine for the Airbus A350XWB. In addition, the decision has been made to take part in a project to develop and produce of the PW1100G-JM engine that will power the Airbus A320neo aircraft, and design work on the component parts KHI is responsible for is progressing.

Meanwhile, in the marine field, KHI will strengthen development of propulsion systems that will contribute to the reduction of NOx emissions, in the anticipation of future growth in this market sector.

The Gas Turbine & Machinery segment offers a diverse range of products over and above those described on this page and all will continue to meet the expectations of stakeholders by widely applying our knowhow to land, sea and air applications.

Plant & Infrastructure

We will strive to establish a stable revenue base by sharpening our advantage in product categories which contribute to energy and environmental policy.

Cement plant for But Son Cement Joint Stock Company

SINGAPORE DOWNTOWN LINE STAGE2 C915 φ6.63m Slurry Type Tunnel Boring Machine

Business Results

Orders received in the Plant & Infrastructure segment were on a par with the previous fiscal year, settling at ¥119.2 billion. Orders included municipal refuse incineration plants and LNG tanks for customers in Japan and boilers for the floating LNG facility overseas.

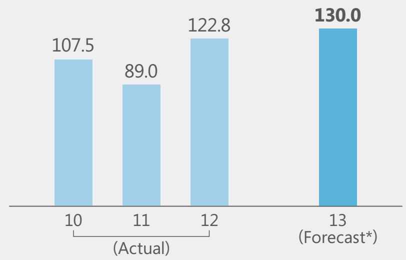
Sales rose ¥33.7 billion from the previous fiscal year, to ¥122.8 billion, largely because of an increase in sales based on the percentage-of-completion method, paralleling progress on construction of several plants overseas.

Operating income climbed ¥5.8 billion from the previous fiscal year, to ¥14.1 billion, reflecting a favorable turnaround in profit accompanying higher sales and brisk progress on projects already on order.

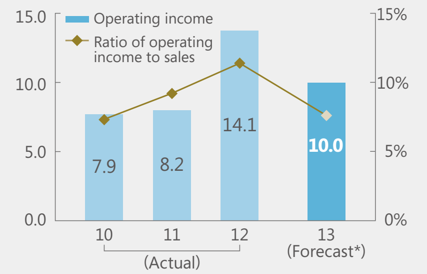
Financial Highlights

Net Sales

Years Ended/Ending March 31 (Billions of yen)



Years Ended/Ending March 31 (Billions of yen)



*As of April 26, 2012

Analysis and Outlook

In fiscal 2012, orders hovered at the level recorded in the previous fiscal year, but sales and operating income showed dramatic year-on-year increases. As always, the segment adhered to the motto "management prioritizing the soundness of business structures over quantitative expansion," and meticulous efforts to lower the break-even point were rewarded.

The most noteworthy news of the year was an order from Technip for seven boiler units to be installed on Shell's floating LNG facility. The order is a testament to the proven track record KHI has built on delivery of boilers for land and marine use as well as on highly respected technological capabilities that ensure reliable boiler operation even in the harsh environment of the open sea. The floating LNG market holds immense promise, and for KHI to take part in the world's first LNG terminal of this kind carries significant weight. The project is extremely challenging due to short lead times and also in terms of technology, but all efforts will be made to ensure quality, cost efficiency and on-schedule delivery and thereby solidify KHI's position in the floating LNG facility market as a boiler manufacturer.

In fiscal 2013, sales are likely to stay at a high level, owing to the booking of sales on large-scale projects already on order, but the order outlook will not necessarily remain favorable. In Japan, domestic demand is supposed to get a boost from disaster reconstruction measures, but sluggish fiscal results among exporting companies and restrictions on power supply will probably hold the pace of recovery in business conditions to a gradual improvement. Overseas, as well, capital investment needs are strong, mainly to ensure stable supply of LNG, but yen appreciation has stalled at an unprecedented level and economic uncertainty in Europe and China hinder corporate spending plans for the immediate future. Under these conditions, the Plant & Infrastructure segment will strive to establish a stable revenue base by sharpening its competitive advantage in product categories which contribute to energy and environmental policy and steadily capturing orders for high-value-added projects.

Key business activities overseas will highlight expansion of joint operations with the CONCH Group, which includes Anhui Conch Cement Company Limited, one of China's biggest cement makers, and involvement in the manufacture and marketing of waste heat recovery power generation systems for cement plants and high-efficiency vertical mills as well as a waste gasification system that can be integrated with cement kilns. In fiscal 2013, the lineup may be augmented with consumables, such as cast parts for cement plants, and equipment essential to the operation of cement plants. KHI will continue to fully demonstrate synergistic excellence with the CONCH Group and contribute to energy-saving, environment-protecting activities in China through the provision of products.

Ninja ZX-14R

Motorcycle & Engine

We will introduce competitive new models in existing markets and in emerging markets to build wider demand and cultivate new demand.

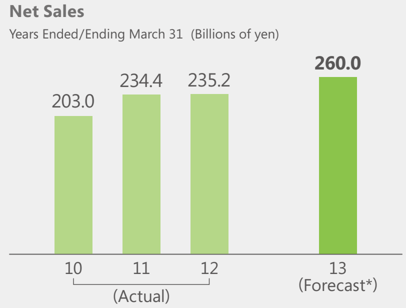
VERSYS 1000

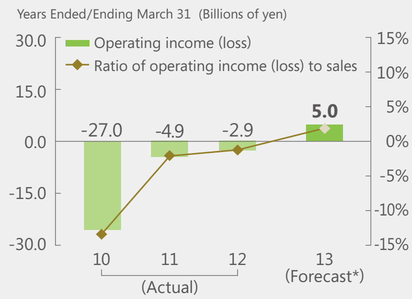
Business Results

Sales by the Motorcycle & Engine segment rose ¥0.7 billion, to ¥235.2 billion, hovering around the level posted in the previous fiscal year. The main reason segment sales did not decrease, despite the impact of the floods in Thailand on production and sales and a drop in sales of motorcycles to the European market, is due to higher sales of motorcycles in emerging markets, particularly Southeast Asia and Brazil. Meanwhile, amid unabated yen appreciation and having to address the consequences of the floods in Thailand, the segment was unable to return to a profit position and incurred an operating loss of ¥2.9 billion. However, the segment was able to improve its loss position, shrinking the loss by ¥2.0 billion year-on-year, thanks to progress on cost reduction and expanded sales in emerging markets.

Total worldwide unit sales of motorcycles, ATVs (all-terrain vehicles), utility vehicles and personal watercraft reached 501,000 units, up 30,000 units from the previous fiscal year. By region, sales in Japan held steady at 14,000 units; sales in North America reached 121,000 units, up 3,000 units; sales in Europe settled at 57,000 units, down 10,000 units; and sales in emerging countries and other regions hit 309,000 units, up 37,000 units.

Financial Highlights





*As of April 26, 2012

Analysis and Outlook

Since the collapse of Lehman Brothers in 2008, the Company has done its utmost to improve its business structure. Measures have been implemented to deal with the rapidly shrinking market scale in developed countries, that is, in North America and Europe, amid unprecedented yen appreciation.

In fiscal 2012, with the markets of North America and Europe still sluggish and the yen still strong, the segment vigorously promoted earnings structural reforms, such as applying additional cost-cutting and fixed cost reductions to lower the breakeven point and improving profitability in emerging markets. Through these efforts, the segment has established a business structure capable of turning a profit even in today's foreign exchange environment. Focusing on actions in the core motorcycle business, the segment aggressively introduced new models in developed countries, mainly in North America and Europe, premised upon an improved cost structure that can withstand the stress of the current foreign exchange environment, and worked to maintain and then enhance market presence. In emerging markets, such as Southeast Asia and Brazil, where the leisure motorcycle market is growing at a tremendous rate, robust marketing activity was rewarded with a greater number of units sold.

In fiscal 2013, the difficult business environment is likely to continue in developed countries. Against this backdrop, the segment will introduce a competitive new model and strive to polish brand image in the markets of developed countries, especially in North America and Europe. This will underpin efforts to at least maintain but most likely expand sales of motorcycles, ATVs, utility vehicles and personal watercraft on a combined unit basis and to boost profitability. Emerging markets, as well, will see new models. In existing markets, especially Southeast Asia and Brazil, this will help build wider demand, while in new territory, including India, these models will help cultivate demand. Additionally, the segment will actively respond to increased production needs, including new factory construction in Indonesia and factory expansion in Thailand.

Using the success of structural reforms undertaken to date as a platform for growth in fiscal 2013, the segment will aim to achieve further improvement in business activities in developed markets and strive to take profitability in emerging markets to another level, which should not only lead to a profit position at year-end but also build a solid foundation for growth into the future.

Precision Machinery

We will enhance profitability through the reinforcement of the production structure from a medium to long-term perspective.

BX series BX 200L

Hydraulic components for large-sized excavators (K5V200DPH, M5X250, KMX32NA, Pilot valve)

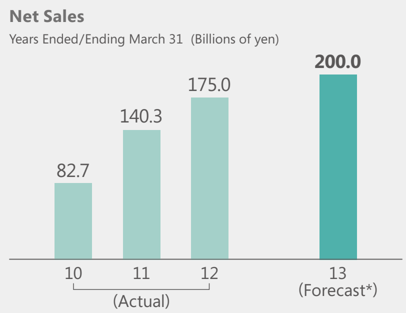
Business Results

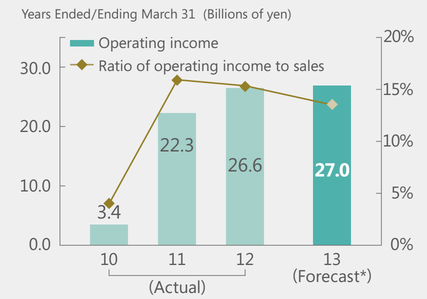
The consolidated value of orders in the Precision Machinery segment grew ¥25.6 billion over the previous fiscal year, to ¥174.5 billion, thanks in large part to more orders for hydraulic components from the construction machinery market.

Sales reached ¥175.0 billion, up ¥34.7 billion, reflecting an increase in sales of hydraulic components for construction machinery and higher sales of painting robots.

Operating income rose ¥4.3 billion, to ¥26.6 billion, mainly because of higher sales.

Financial Highlights





*As of April 26, 2012

Analysis and Outlook

Taking advantage of the opportunity afforded by the October 2010 reintegration of Kawasaki Precision Machinery Ltd., which is involved in the hydraulic machinery business, KHI created the Precision Machinery segment with a Hydraulic Machinery business unit and an Industrial Robots business unit.

In the Hydraulic Machinery business unit, the first half of fiscal 2012 was characterized by rapidly accelerating demand from the makers of excavators in China, reflecting brisk expansion in demand for infrastructure in that country. The number of customer orders ballooned to a level that greatly exceeded KHI's production capacity. In the second half, the optimistic production plans of Chinese excavator makers seemed to fade, and the expanding supply-and-demand gap was eliminated.

The downturn in the Chinese market may persist longer than initially forecasted. But the Chinese hydraulic excavator market is already the largest in the world, and with construction of housing for low-income families and energy- and transportation-related infrastructure projects still likely to go forward, the outlook for continued growth over the medium- to long-term remains unchanged.

Under these conditions, the Hydraulic Machinery business unit must prioritize efforts to meet stable order demand if it is to sustain a high share of the market serving excavator makers in China. As planned, in fiscal 2013, the emphasis will be on preparations to reinforce the production structure from a medium- to long-term perspective. At the same time, it is important to seize the opportunity now when the market is in a temporary lull to pursue additional cost-cutting options through review/recheck of the production structure, which will underpin enhanced profitability.

In the Industrial Robots business unit, demand from emerging markets, particularly China, expanded, and markets in developed countries began to recover. This led to an increase in consolidated sales compared with the previous fiscal year. The market outlook is for continued expansion in emerging markets, complemented by a growing need for automation even in developed countries in such sectors as the food industry (picking & placing robot) where automation has not made obvious inroads so far. Demand for industrial robots could therefore sustain a steady recovery.

Under these conditions, the Industrial Robots business unit will strive to sharpen cost competitiveness and enhance technology proposal capabilities while reinforcing its approach to customers in expanding emerging markets, and thereby boost market shares. Another area of focus is future-oriented development, such as the new technology to facilitate the coexistence of humans and robots. Such technology has the potential to significantly magnify demand for industrial robots.

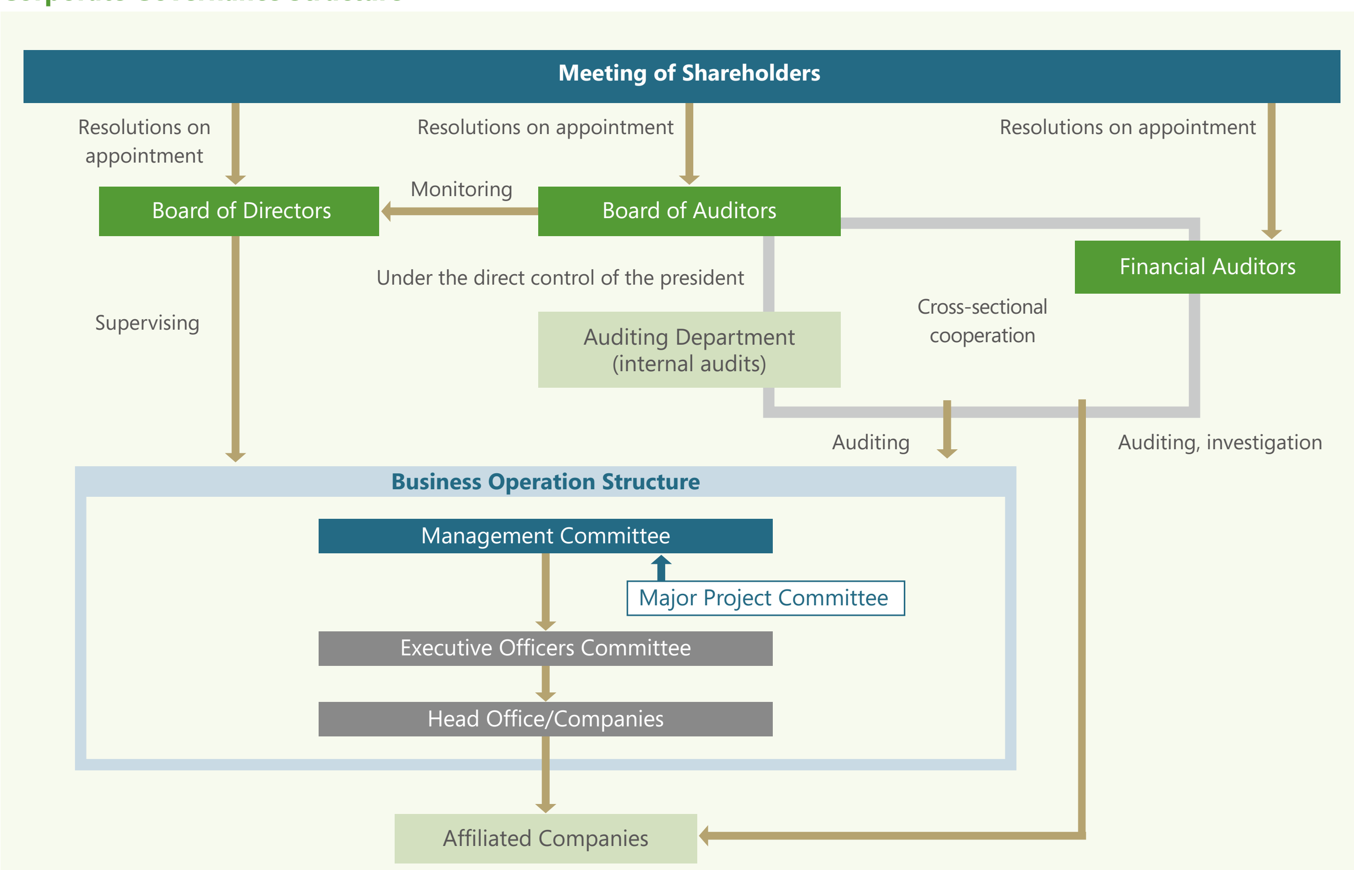
Q1 What kind of corporate governance system has Kawasaki Heavy Industries, Ltd. (KHI), embraced?

A1 KHI's corporate governance system mainly consists of directors and auditors, with content appropriate for the activities that the Group undertakes, and efforts are made to further improve the system. The basic premise regarding corporate governance for the Group as a whole emphasizes highly transparent management practices and the formation of solid relationships with all stakeholders, including shareholders, customers, employees and the community, while raising corporate value through effective and sound business activities.

The Company maintains a statutory auditor system for corporate governance and appoints an independent auditor. The Chairman serves as the presiding officer of the Board of Directors, which consists of 13 directors (authorized number: 18 directors). The Company has four corporate auditors and a Board of Auditors. In addition to the Board of Directors, the Company has a Management Committee and an Executive Officers Committee, both of which are composed of representative directors and managing executive officers, while the Executive Officers Committee also includes executive officers.

The Company appoints individuals to upper management positions that are not directly involved in the execution of operations. With regard to corporate auditors, the Company appoints two outside corporate auditors with no business relationships or other vested interests in the Company. One of these outside corporate auditors is an independent auditor as required by the Tokyo Stock Exchange for all listed companies. To ensure the reliability of financial reports, the Company appoints

Corporate Governance Structure



internal corporate auditors who have considerable knowledge of finance and accounting.

The Board of Directors appoints executive officers to conduct business operations. Basic objectives and policies for the execution of operations under the management plan are decided on by the Board of Directors, which promptly issues directives for implementation to all executive officers. The Executive Officers Committee ensures that the objectives and policies are implemented. The Management Committee, which consists of representative directors and managing executive officers, and the Board of Directors periodically follow up on the implementation status of the management plan.

The Company clearly defines the management responsibility of directors by means of incentive-based compensation that reflects business performance and a one-year term of office for directors.

The Management Committee thoroughly discusses important management issues and confers with the Board of Directors concerning prescribed matters. As a rule, the Management Committee meets three times a month to discuss management policy, management strategy, important management issues, and other matters from the perspective of the consolidated management.

Q2 What are the internal control systems in place?

A2 KHI's internal control systems are described below. The Company reviews these systems as necessary, in light of changes in its operating environment and other factors. The status of internal control system operation is assessed at the end of each fiscal year to ensure that systems are being applied as intended.

a) Internal control systems governing directors and employees

- i) System to ensure that the execution of duties by directors and employees comply with laws and the Company's Articles of Incorporation
- ii) System related to the storage and maintenance of information pertaining to the execution of duties by directors
- iii) System of rules and regulations related to managing the risk of losses
- iv) System to ensure that the execution of duties by directors are effectively executed

b) Internal control systems governing the corporate group

- i) System to ensure the appropriateness of business activities undertaken as a corporate group, which encompasses the Company and its subsidiaries

c) Internal control systems to ensure that corporate auditors conduct audits appropriately

- i) System pertaining to employees who are asked to assist auditors in their auditing activities
- ii) System pertaining to the independence of employees who are asked to assist in corporate audits from the influence of directors
- iii) System for directors and employees to report to the Board of Auditors or individual corporate auditors, and other systems for reporting to corporate auditors
- iv) Other systems to ensure that corporate auditors undertake audits effectively

d) Basic premise and status of measures to eliminate dealings with anti-social forces

Q3 What measures are taken to ensure effectiveness of the auditing function?

A3 Two of the four corporate auditors are from outside the Company, which serves to reinforce objectivity. In addition, various approaches, including cooperation between the Company's independent auditor and the internal auditing unit promote effective execution of the auditing function.

Internal Auditing

The Auditing Department, an internal auditing unit with a staff of 12 (as of March 31, 2012), strives to improve internal control functions by such means as the periodic conducting of audits to confirm whether operations are executed appropriately in accordance with laws, regulations and the Company's internal rules in all of the Group's management activities. Also, the corporate auditors and the Auditing Department share information on the results and findings of their respective audits.

Statutory Auditing

Concerning statutory auditing, corporate auditors attend executive-level meetings, such as those of the Board of Directors and the Management Committee, examine important documents, and pursue various activities, including investigations into the status of business operations and financial assets through regular meetings with representative directors, through business audits of KHI's divisions and through audits of subsidiaries. In addition, two outside corporate auditors ensure the objectivity and neutrality of the management oversight function, and full-time corporate auditors and outside corporate auditors share information in an effort to further enhance the management oversight function.

Of note, newly appointed corporate auditor Yuji Murakami brings considerable knowledge concerning finance and accounting to his new position, owing to the 38 years he has spent in the accounting unit and the internal auditing unit of the KHI Group between 1975 and 2012, where he was involved in such tasks as settlement procedures, preparation of financial statements and execution of internal audits.

Independent Auditor

The Company's independent auditor, KPMG AZSA LLC, audits the financial statements. The corporate auditors and the Board of Auditors receive an outline of the audit plan and a report on important audit items from the independent auditor, and the Board of Auditors explains the Company's auditing plan to the independent auditor.

The corporate auditors and the Board of Auditors periodically receive reports on the results of independent auditing and strive to keep lines of communication open with the independent auditor by exchanging information and opinions. Also, the corporate auditors take part in the audits performed by the independent auditor as necessary and receive reports from the independent auditor concerning audits as appropriate.

Q4 What is the status of outside corporate auditors?

A4 The Company has two outside corporate auditors whose fair and independent opinions serve to enhance auditing functions.

The Company has two outside corporate auditors.

Kenzo Doi, one of the outside corporate auditors, has no vested interest in the Company other than a retainer agreement between the Company and Kobe Kyobashi Law Office, where he serves as a representative. Mr. Doi holds shares in the Company through the Company's Officers' Shareholder Association, but he has not acquired the Company's shares through any other means. The Company draws on Mr. Doi's extensive knowledge and diverse experience as an attorney and welcomes his fair and independent opinions to enhance the auditing function.

Michio Oka, the other outside corporate auditor, also contributes to an enhanced auditing function through extensive knowledge and diverse experience as a corporate officer and through his fair and independent opinions. Although Mr. Oka used to serve as a corporate officer of Kawasaki Kisen Kaisha, Ltd., and its affiliated companies, there is essentially no capital relationship between Kawasaki Kisen and the KHI Group, and Kawasaki Kisen accounts for an insignificant portion of the KHI Group's net sales, so Mr. Oka has no vested interest in the Company.

In accordance with Article 427, Paragraph 1, of Japan's Companies Act and Article 43 of the Company's Articles of Incorporation, the Company has entered into contracts with the outside corporate auditors that limit the scope of liability for the outside corporate auditors to ¥10 million or the amount stipulated in Article 425, Paragraph 1, of Japan's Companies Act (an amount equal to two years' compensation paid to the corporate auditors), whichever is higher.

Q5 How is compensation set for directors and corporate auditors?

A5 The Company has a compensation system for directors and corporate auditors that matches remuneration to corporate performance and stays within the limits approved by shareholders.

KHI seeks to achieve sustainable increases in corporate performance and corporate value and to attract and retain human resources with excellent skills. Therefore, the Company maintains a compensation system for directors and corporate auditors that matches remuneration to the duties performed. Compensation for directors is based on a policy that links remuneration to corporate performance. Amounts are discussed by the Board of Directors, with the president having final say.

Note that the aforementioned directors' compensation as well as compensation for corporate auditors are set and applied within the limits approved by shareholders at the General Shareholders' Meeting.

The total amount of compensation, the total amount of compensation by type, and the number of corporate officers eligible for compensation are shown in the table below.

Category	Total amount of compensation (Millions of yen)	Total amount of compensation by type (Millions of yen)	Number of corporate officers eligible for compensation
		Annual compensation	
Directors (excluding outside directors)	666	666	12
Corporate auditors (excluding outside corporate auditors)	70	70	2
Outside corporate officers	17	17	2

Note: The Company abolished retirement benefits and does not pay bonuses or offer stock options to directors, corporate auditors, or outside corporate officers.

Q6 Describe the compliance framework.

A6 As part of efforts to enhance overall CSR activities within the Group, KHI maintains a framework for raising compliance awareness.

Specifically, the Compliance Guidebook is distributed to employees throughout the Group, and access to enriched compliance education through e-learning and other means enable employees to acquire a newfound appreciation for compliance. In addition, a scheme is in place that allows employees to obtain advice discreetly through the Compliance Reporting and Consultation System, which utilizes the expertise of an outside attorney.

Enterprise Risk Management System

The KHI Group has established a group-wide enterprise risk management system to identify risk and to ensure an overall level of effectiveness with regard to managing risk. This enables the Group to effectively deal with critical risks that have an impact on management, thereby enhancing risk management as set forth in the Kawasaki Group Management Principles. Under the enterprise risk management system, from fiscal 2011 the KHI Group is implementing risk assessment following a risk management process—screening and evaluating risk, identifying major risk and determining risk treatment, and formulating, executing, and monitoring risk-hedging policy—to pinpoint any major risks having a significant impact on business according to enterprise risk criteria, and is controlling such risks with reasonable and appropriate methods from the perspective of enterprise management.

Business Risk

(1) Political and Economic Conditions

The KHI Group conducts its business activities not only in Japan but also elsewhere in North America, Asia, Europe, and other areas, and is affected by political and economic conditions in each of these regions. For example, trends in personal consumption may have an impact on the sales of the Motorcycle & Engine segment, while trends in private-sector capital investment and public works investment may affect the orders of the Gas Turbine & Machinery and the Plant & Infrastructure segments. Moreover, conditions in shipping markets and demand for passenger air travel may affect the orders and sales of the Ship & Offshore Structure, Aerospace, and Gas Turbine & Machinery segments.

Furthermore, disputes, political turmoil, and other factors may affect the Company's overseas projects.

(2) Fluctuations in Foreign Exchange Rates

Overseas sales accounted for 56.5% of consolidated net sales in fiscal 2012, and the Group has a substantial volume of transactions denominated in U.S. dollars, euros, and other currencies. With respect to transactions denominated in foreign currencies, the Group strives to reduce foreign exchange risk by such means as increasing the proportion of overall costs denominated in foreign currencies and engages in hedging techniques such as flexible forward contracts, taking into account trends in foreign exchange rates. Nevertheless, the majority of the Group's manufacturing facilities are located in Japan, and sales to overseas markets are subject to foreign exchange fluctuation risk.

(3) Large-Scale Natural Disasters

To minimize losses arising from natural disasters such as typhoons, earthquakes, floods, and pandemics, the KHI Group takes a proactive approach that includes drafting business continuity plans, establishing emergency contact systems, performing periodic inspections and training. However, such factors as injuries and property damage caused by natural disasters, as well as slower-than-usual distribution of materials, could affect the business activities of the KHI Group, especially factory-based production activities. In addition, losses caused by natural disasters would not be fully covered by casualty insurance or other means of compensation.

(4) Securing Human Resources

In all workplaces, retirement is creating a shortage of personnel with excellent capabilities cultivated over many years, which might impede the business activities of the KHI Group and hinder its ability to remain competitive. Consequently, the KHI Group strives to attract top-caliber individuals through aggressive hiring activities each year and emphasizes the transfer of technologies and techniques from one generation of employee to another as well as skill development. Nevertheless, if the KHI Group is unable to retain a sufficient number of employees, its business results may be adversely affected.

(5) Intellectual Property

The KHI Group strives to ensure appropriate protection of such intellectual property as utility model rights and patent rights in possession. However, because intellectual property in possession is so extensive, the KHI Group might not be able to completely prevent third parties from infringing upon its intellectual property rights. In addition, if any products or technologies of the KHI Group were to infringe upon the intellectual property rights of other companies and the Group were subsequently sued for damages, such legal action could have an effect on the business results of the Group.

(6) Information Leaks

In the course of business, the KHI Group acquires confidential information about its business partners as well as confidential information related to operating activities, such as designs and technologies. To safeguard this information, the KHI Group has established management systems and training programs and has created information security systems to prevent information leaks. However, in the event confidential information were to leak out, due to incidents such as computer viruses that attack the KHI Group's systems, unauthorized access, or theft, the business results of the KHI Group might be affected.

(7) Laws and Regulations

The Group conducts its business activities in compliance with the laws, regulations, and other controls in the countries and regions where it operates. However, if its responses to the revisions to the laws and regulations are not correctly implemented, the KHI Group might be assessed fines or penalties for violating the law, which could lead to losses, and lose order opportunities due to administrative disposition. Moreover, such events may tarnish the reputation of the KHI Group, which could impact business results.

(8) Environmental Protection

The KHI Group has many manufacturing facilities, and some operations use hazardous substances subject to environmental restrictions. The management of such hazardous substances requires due diligence and efforts to prevent harmful outflow. The KHI Group strives to undertake such efforts, and countermeasures have been formulated to minimize impact from the diffusion of hazardous substances. Nevertheless, were such a situation to occur, the reputation of the KHI Group would undoubtedly be tarnished and the affected facility would suffer from a prompt work stoppage, with the KHI Group potentially subject to compensatory damages. Such events could impact business results.

(9) Order Agreements

For the KHI Group, most projects are for products based on individual agreements with the customers. Major projects, including construction projects with big contract amounts, go through a thorough internal examination, with risk analysis and risk treatment by the Major Project Committee before the order agreements. However, unforeseen changing political or economic circumstances, costs ballooning due to changes in design or confusion at the production stage, such events could have an impact on the business results of the KHI Group.

(10) Quality Assurance

The KHI Group strives to comply with laws and regulations on product quality and safety and also strives to enhance product reliability through quality assurance and product and equipment safety risk assessment. However, if accidents, complaints, or recalls attributed to product quality were to occur, costs of a considerable amount might arise due to compensation for losses, litigation expenses, and other payments, and this could have an effect on the business results of the KHI Group. Furthermore, compensation amounts paid by the Company would not be fully covered by product liability insurance.

(11) Research and Development

The KHI Group's research and development (R&D) activities require a considerable amount of effort in terms of research and funding. Consequently, if commercialization opportunities are lost owing to delays in the R&D plan, or if commercialization is not realized because of failure to meet market needs, or if commercialization is executed but does not generate sufficient success, the business results of the KHI Group could be affected.

(12) Country Risk

The KHI Group not only exports products and services but also carries out production at sites overseas and is involved in construction projects, such as plants, in locations overseas. Smooth execution of operations may be prevented by various circumstances, including political unrest, trade sanctions, religious or cultural differences, and complex labor relations, in product destinations and countries and regions where production and projects are undertaken, and such circumstances could affect the business results of the KHI Group.

(13) Procurement of Materials

The KHI Group procures raw materials, parts, and equipment from many suppliers. To sustain stable procurement, the KHI Group relies on careful tracking of market trends, especially for raw materials and parts, and while striving to ensure that suppliers adhere to strict quality control, it avoids overuse of any particular supplier and uses multiple suppliers for required materials. However, if procurement of specialty raw materials and parts available through limited suppliers were to stall, the situation could hinder the production activities of the KHI Group. In addition, skyrocketing prices on raw materials, parts, and other procured items could affect the business results of the KHI Group.

Directors, Corporate Auditors, and Executive Officers

DIRECTORS

Tadaharu Ohashi
Chairman

Satoshi Hasegawa*
President

Masashi Segawa*
Senior Executive Vice President

Mitsutoshi Takao*
Senior Executive Vice President

Nobumitsu Kambayashi*
Senior Vice President

Kyohei Matsuoka*
Senior Vice President

Hiroshi Takata*
Senior Vice President

Shigeru Murayama*
Senior Vice President

Makoto Sonoda*
Senior Vice President

Joji Iki*
Senior Vice President

Masahiko Hirohata
Senior Vice President

Eiji Inoue*
Senior Vice President

Yoshinori Kanehana
Senior Vice President

CORPORATE AUDITORS

Tatsuyoshi Ogushi

Yuji Murakami

Kenzo Doi**

Michio Oka**

*Representative Director

**Outside Coporate Auditor

EXECUTIVE OFFICERS

President

Satoshi Hasegawa

Senior Executive Vice Presidents

Masashi Segawa
Mitsutoshi Takao

Senior Vice Presidents

Nobumitsu Kambayashi
President,
Ship & Offshore Structure Company

Kyohei Matsuoka
President,
Rolling Stock Company

Hiroshi Takata
President,
Motorcycle & Engine Company

Shigeru Murayama
President,
Aerospace Company

Makoto Sonoda
President,
Precision Machinery Company

Joji Iki
President,
Gas Turbine & Machinery Company

Masahiko Hirohata
General Manager,
Corporate Planning Division

Eiji Inoue
President,
Plant & Infrastructure Company

Yoshinori Kanehana
General Manager,
Marketing Division

Managing Executive Officer

Minoru Makimura

Executive Officers

Takeshi Sugawara
Tamaki Miyatake
Shuichi Yamanaka
Shinsuke Tanaka
Masatoshi Yamaguchi
Naomi Sera
Yoshizumi Hashimoto
Masahiro Ibi
Takafumi Shibahara
Nobuyoshi Kobayashi
Minoru Akioka
Yukinobu Kono
Masafumi Nakagawa
Mitsuo Kadoya
Hiroshi Hidaka
Hideki Sasaki
Atsuhiko Yamanaka
Akio Murakami
Kaoru Kawabe
Kazuo Hida
Makoto Ogawara
Yugo Nakagami
Hirokazu Komaki
Shiro Nakabayashi
Munenori Ishikawa
Toshiyuki Kuyama
Shigehiko Kiyama
Kenji Tomida

(As of June 27, 2012)

KHI Group CSR

The Kawasaki Heavy Industries, Ltd. (KHI) Group's mission is "Kawasaki, working as one for the good of the planet: (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)." Each and every employee puts this statement into practice as he or she goes about individually assigned daily business activities. To this we added a broader view of CSR and action goals, as we seek to realize the Group Mission at ever-higher levels.

Group Mission and CSR

Basic Concept

The KHI Group's CSR activities are an ongoing effort to realize the Group Mission at increasingly higher levels. We know that contributing to the future of human society and the global environment will raise the value of the Kawasaki brand, and we promote activities in the five themes described below to realize our goal.

Five Themes

(1) Business	We will use our integrated technological expertise to create value that points the way to the future.
(2) Management	We will always act with integrity and good faith to merit society's trust.
(3) Employees	We will all create a workplace where everyone wants to continue working.
(4) Environment	We will pursue manufacturing that makes the Earth smile.
(5) Social contribution	We will expand the circle of contribution that links us to society and the future.

Kawasaki Values

- We respond to our customers' requirements
- We constantly achieve new heights in technology
- We pursue originality and innovation

The Kawasaki Group Management Principles

1. **Trust :** As an integrated technology leader, the Kawasaki Group is committed to providing high-performance products and services of superior safety and quality. By doing so, we will win the trust of our customers and the community.
2. **Harmonious coexistence :** The importance of corporate social responsibility (CSR) permeates all aspects of our business. This stance reflects the Kawasaki Group's corporate ideal of harmonious coexistence with the environment, society as a whole, local communities and individuals.
3. **People :** The Kawasaki Group's corporate culture is built on integrity, vitality, organizational strength and mutual respect for people through all levels of the Group. We nurture a global team for a global era.
4. **Strategy :** The Kawasaki Group pursues continuous enhancement of profitability and corporate value based on three guiding principles-selectively focusing resources on strategic businesses; emphasizing quality over quantity; and employing prudent risk management.

The Kawasaki Group Code of Conduct

1. Always look at the bigger picture. Think and act from a long-term, global perspective.
2. Meet difficult challenges head-on. Aim high and never be afraid to try something new.
3. Be driven by your aspirations and goals. Work toward success by always dedicating yourself to your tasks.
4. Earn the trust of the community through high ethical standards and the example you set for others.
5. Keep striving for self-improvement. Act on your own initiative as a confident professional.
6. Be a part of Team Kawasaki. Share your pride and sense of fulfillment in a job well done.

Creating the Group's CSR Framework

The Group's CSR activities fall into five themes.
Categories are established for each theme and action goals are set for each one of these.

Various social expectations are placed upon companies. We collected and consolidated feedback from different sources, including requests from customers, points in CSR surveys conducted by third-party organizations, and ISO 26000 core subjects, and then selected specific CSR issues that we, as a corporate group, should address. These issues have been positioned as items of focused activity during the MTBP2010 (FY2011–2013) that will enable the KHI Group to achieve its ideal.

The divisions assigned to these items self-assess the current status of their efforts and draft action plans highlighting measures to compensate for shortcomings and to reinforce existing strengths. This PDCA (Plan-Do-Check-Act) cycle is repeated.

However, the social expectations placed on companies gradually change as the years go by, and the scope of issues that must be addressed starts to expand. Fiscal 2013 will be a year of preparation for the new medium-term business plan that will begin in fiscal 2014. During fiscal 2013, we will review our CSR issues and be ready to implement activities over the term of the new plan that perfectly reflect the changing times.

TOPICS

Support for Victims of the Floods (Thailand)

Kawasaki Motors Enterprise (Thailand) Co., Ltd. (KMT), the local manufacturing and marketing base for Kawasaki-brand motorcycles in Thailand, was not directly affected by the severe floods that inundated Thailand in autumn of 2011. But the KHI Group supported relief and recovery efforts with cash and 10 Kawasaki MULE™ utility vehicles—a total donation value of ¥30 million.

A total of 40 Kawasaki motorcycle-riding volunteers took advantage of the mobility afforded by motorcycles to expedite relief efforts to the people affected by this disaster. In addition to providing spare parts, oil, gasoline and other motorcycle-related necessities at no cost, KMT dispatched three repair specialists to the area to support the volunteers riding through the flooded region.

For customers affected by the floods, KMT undertook free motorcycle repairs and offered discounts on spare parts.

Volunteer riders

Consideration Given to Culture and Traditions of Employees (Indonesia)

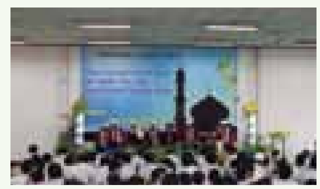
Various considerations are extended to Muslim employees at PT. Kawasaki Motor Indonesia (KMI), the local manufacturing and marketing base for Kawasaki-brand motorcycles in Indonesia.

- **Onsite *mushola* (prayer room for Muslims)**
- **Female employees allowed to wear a headscarf during working hours**
- **No dishes made with pork served in the cafeteria**
- **Office hours for employees in administrative and marketing divisions start 30 minutes earlier during Ramadan**
- ***Halal bi halal** event held after Ramadan***

But not all people in Indonesia are Muslim. Since the constitution guarantees religious freedom, there are minorities of Christians and Hindus, as well. The Company therefore extends considerations to employees of the Christian and Hindu faiths as well, and holds events, such as Christmas celebrations for Christian employees. Thus KMI strives to execute business activities that respect the local religions, culture and customs of the land.

Scarf-clad female employee

Mushola (prayer room)



Halal bi halal

* *Halal bi halal*: A gathering held after the holiday (*Eid Al-Fitr*) to mark the end of Ramadan.

Group CSR Themes: Categories and Action Goals

Themes	Categories	Action Goals
Overall	CSR Overall	Realize the Group Mission (KHI's duty to society) at a higher level.
Business	Product Development	Draw on comprehensive Group capabilities and apply sophisticated technologies to the development of high-performance, high-quality products.
	Product Liability	Provide products and services that are reliable and safe from a customer's perspective.
	Customer Satisfaction	Provide products and services that meet customer needs and leave a great impression.
Management	Corporate Governance	Pursue sound, transparent management, enable each business segment to operate independently, and demonstrate the combined strengths of the Group.
	Compliance	Build an organization that is open and self-regulating to underpin a corporate culture with credibility.
	Risk Management	Pinpoint major risks that threaten the achievement of business targets and establish a system capable of providing the most appropriate responses.
	Information Security	Institute reliable information security measures and maintain the safety and security of information.
	Information Disclosure, IR Activities	Provide timely, accurate corporate information and further enrich the contents of disclosure.
	Business Partners	Coexist with business partners and maintain fair partnerships while promoting collaboration in CSR activities.
Employees	Occupational Safety and Health	Create a safe, pleasant working environment where employees can perform their jobs in good health and in a positive state of mind.
	Human Resources Development	Consistently cultivate the skills of employees, refine acquired talents, and raise the value of personnel assets to the highest level.
	Human Rights	Respect the diversity of employees and strive to create a workplace that embraces wide-ranging values and abilities and utilizes them.
	Labor	Endeavor to create a workplace that provides motivation and satisfaction and one in which employees are treated fairly and appropriately.
Environment	Global Environment	Strive to realize a low-carbon society, a recycling-oriented society, and a society that coexists with nature.
Social Contribution	Local Communities and Japanese Society	Coexist and cooperate with local communities and help nurture new generations that will develop future dream technologies.
	International Community	Respect the myriad cultures of countries around the world and contribute to their vibrancy by cultivating technology and human resources in these countries.

2020 Environmental Vision

In 2010, the Kawasaki Heavy Industries, Ltd. (KHI) Group established 2020 Environmental Vision, which defines what the Group should be in 2020 from an environmental perspective under Group Mission: "Kawasaki, working as one for the good of the planet: (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)."

Taking into account the environmental trends in Japan and abroad, we will pursue the 2020 Environmental Vision on the basis of four basic guidelines. These are "the establishment of EMS (environmental management system)," which will provide a foundation for three social aims namely, "realization of a low-carbon society," "realization of a recycling-oriented society," and "realization of a society coexisting with nature." We are committed to working from these guidelines to contribute to the formation of a sustainable society.

Environmental Philosophy

The KHI Group has undertaken business with the advancement of a society and the nation through "manufacturing" as our foundation, and has sought to develop a global enterprise in "key industries related to land, sea, and air." In doing so, we have worked toward resolution of global environmental problems by seeking the "realization of a low-carbon society," the "realization of a recycling-oriented society," and the "realization of a society coexisting with nature." We will contribute to "the sustainable development of a society" through business activities that are in harmony with the environment and through the KHI Group's own products and services that show consideration for the global environment.

Three Points of Entry onto the Path Toward Realization of a Sustainable Society

Low-carbon society

Contribute to the prevention of global warming through our products and manufacturing that use energy without waste

(1) We are reducing greenhouse gas emissions in accordance with the national targets for 2020.
(2) We are providing customers with products and services that use energy effectively, thereby reducing greenhouse gas emissions on a global scale.
(3) We are promoting energy conservation in production and distribution processes, further reducing greenhouse gas emissions.

Recycling-oriented society

Engage in manufacturing that uses resources without waste in order to reduce and fully utilize limited resources

(1) We promote design of our products that makes effective use of resources and improves weight reduction, durability and recyclability in our products.
(2) We promote 3R activities (reduce, reuse, and recycle) in production, and have achieved zero waste emission in all of our plants.
(3) We have completed the proper disposal of all PCB waste and equipment containing PCBs.

Society coexisting with nature

Contribute to reduced environmental impact and conservation of ecosystems through manufacturing that is in harmony with the global environment

(1) We provide customers with products and services that prevent air pollution and water pollution in order to improve the environment and preserve the ecosystem.
(2) We are reducing the use of chemical substances in our products and in our manufacturing activities.
(3) We are cooperating with local communities in local forest conservation programs and other such activities to protect the ecosystem.

Building a Foundation for Environmental Management

Building a foundation for environmental management that will support the realization of the 2020 Environmental Vision

(1) All of KHI's consolidated subsidiaries in Japan and abroad have created EMS at each site and environmental management throughout the KHI Group.
(2) We observe environmental laws and regulations and conduct periodic follow-ups of compliance status.
(3) We disseminate environmental information inside and outside the KHI Group, and engage in interactive dialogue while conducting environment conservation activities.

The 7th Environmental Management Activities Plan (FY2011–2013)

Our 2020 Environmental Vision, which establishes goals for the KHI Group's environmental management for the year 2020, addresses the "realization of a low-carbon society," "realization of a recycling-oriented society," and "realization of a society coexisting with nature" as new points of entry in our commitment to the Group Mission through business activities that are in harmony with the environment and through KHI Group's own products and services that show consideration for the environment.

The 7th Environmental Management Activities Plan (FY2011-2013) serves as a starting point for our implementation of environmental management that properly discerns and balances different forms of business. The substance of the plan is divided into four topics: "the realization of a low-carbon society," "the realization of a recycling-oriented society," and "the realization of a society coexisting with nature" as well as "the establishment of EMS" to serve as a foundation for environmental management. We maintain company-wide objectives in all of these, and are taking action accordingly.

Realization of a low-carbon society	We are aiming to achieve our company-wide FY2013 objective for greenhouse gases, which is to reduce the average basic unit of emissions (meaning CO_2 emissions/sales) for FY2009-2013 by 10% compared with the level of FY2008. This objective represents a specific initiative to counter global warming.
Realization of a recycling-oriented society	We focus on promoting resource conservation and 3R activities, as measures for reducing waste emission.
Realization of a society coexisting with nature	We have engaged in measures to reduce chemical substances, and make environmental contributions through our products and technology, and the like.
Establishment of EMS	We have committed ourselves to promoting the establishment of EMS in all consolidated subsidiaries in Japan and overseas.

Examples of Measures Taken to Realize a Sustainable Society

Low-carbon society

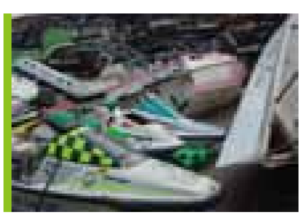
Utilize renewable energy

We have installed photovoltaic power generation equipment in 11 main domestic plants and are promoting the use of green power.

Reduce CO_2 and energy consumption

We are further eliminating wasteful use of energy, by encouraging practices such as cutting standby power for machine tools and turning off unnecessary lighting, at all the plants and offices.

Recycling-oriented society



Promote the 3Rs

Old discarded Jet Ski® are collected, dismantled and processed through the FRP Boat Recycling System, and the reusable materials are used as recycled resources.

Separate and sort the collected waste

We carefully separate and sort various industrial waste generated at our factories to facilitate material and thermal recycling efforts.

Society coexisting with nature

Coexist with the environment

We have completed the eco-friendly new building at Kobe Works, which features natural lighting, photovoltaic power generation, wind power, rooftop greenery and high-performance double-glazed windows.

Forest conservation activities

We participate in forest conservation activities, such as "the corporate reforestation project" promoted by Hyogo Prefecture, to coexist with local communities and protect biodiversity.

Financial Section

Six-Year Summary

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

	Millions of yen					
	2012	2011	2010	2009	2008	2007
Operating results:						
Net sales	**¥1,303,778**	¥1,226,949	¥1,173,473	¥1,338,597	¥1,501,097	¥1,438,619
Cost of sales	**1,088,918**	1,037,079	1,023,610	1,146,944	1,262,032	1,213,524
Gross profit	**214,860**	189,870	149,863	191,653	239,065	225,095
Selling, general and administrative expenses	**157,375**	147,242	151,179	162,940	162,155	155,953
Operating income (loss)	**57,484**	42,628	(1,316)	28,713	76,910	69,142
Net income (loss)	**23,323**	25,965	(10,860)	11,728	35,141	29,772
Capital expenditures	**63,919**	55,334	59,272	82,450	50,538	39,269
Depreciation and amortization	**48,901**	50,276	51,423	44,334	37,455	30,279
R&D expenses	**39,940**	37,090	38,057	38,256	36,228	33,819
Financial position at year-end:						
Working capital	**¥ 271,183**	¥ 247,992	¥ 238,755	¥ 165,791	¥ 157,741	¥ 155,412
Net property, plant and equipment	**274,750**	275,780	284,408	284,118	259,927	253,819
Total assets	**1,362,139**	1,354,278	1,352,439	1,399,771	1,378,770	1,357,980
Long-term debt, less current portion	**259,243**	254,447	270,110	181,933	138,766	165,754
Total net assets	**315,922**	297,433	283,053	295,246	319,038	295,378
Per share amounts (yen):						
Net income (loss) per share—basic	**¥ 13.9**	¥ 15.5	¥ (6.5)	¥ 7.0	¥ 21.1	¥ 18.9
Net income per share—diluted	**13.8**	15.3	–	6.9	20.6	17.2
Cash dividends	**5.0**	3.0	3.0	3.0	5.0	5.0
Net assets	**183.0**	173.0	166.1	174.1	187.7	175.0
Other data:						
Number of shares issued (millions)	**1,671**	1,670	1,670	1,670	1,670	1,660
Number of employees (persons)	**33,267**	32,706	32,297	32,266	30,563	29,211
Orders received	**¥1,311,878**	¥1,270,652	¥1,001,290	¥1,540,590	¥1,610,757	¥1,592,688
Order backlog	**1,494,116**	1,495,349	1,507,057	1,699,163	1,533,663	1,465,155

OVERVIEW

In fiscal 2012, ended March 31, 2012, the Japanese economy began to show signs of gradual recovery, despite the ongoing possibility of a slowdown. The concerns were prompted by the disruption to supply chains after the Great East Japan Earthquake and persistent yen appreciation at historically high levels, and compounded by such factors as the impact of the floods in Thailand on corporate activities. Moving forward, with demand related to disaster reconstruction activity reaching a peak and an attainable and sustainable energy policy for the future attracting greater attention, the Kawasaki Heavy Industries, Ltd. (KHI) Group must take on a role that will become increasingly larger in the execution of various basic infrastructure projects.

Globally, the prolonged European sovereign debt crisis is a continuing cause for concern that overshadows an improving employment situation in the United States. Against this backdrop, China still enjoys high growth despite an impending deceleration, and demand for infrastructure development remains firm in emerging markets, especially Brazil and parts of Asia. It is markets such as these that will be drivers of growth and thus keep the global economy on a gradual uptrend overall. Of note, concerns about energy, water and waste treatment in particular, have become critical issues accompanying growth in emerging markets, and the ability of the KHI Group to contribute solutions to these issues is fueling expansion of its business sphere worldwide.

In this operating environment, a few business segments of the KHI Group showed either lower sales or lower income year on year, but overall results were favorable, with higher sales and higher income compared with the previous fiscal year. The value of orders increased overall, as contributions from the Aerospace, Gas Turbine & Machinery and Precision Machinery segments offset shrinking order value in the Rolling Stock, Ship & Offshore Structure and Plant & Infrastructure segments. Sales also grew overall, as solid performances by the Precision Machinery, Plant & Infrastructure and Aerospace segments in particular, compensated for decreases in the Gas Turbine & Machinery and Ship & Offshore Structure segments. On the profit front, the Rolling Stock and Gas Turbine & Machinery segments faltered, but the Plant & Infrastructure and Ship & Offshore Structure segments achieved good results, delivering a significant boost that reinforced profitability overall.

Consequently, on a consolidated basis, orders won by the KHI Group in fiscal 2012 rose ¥41.2 billion from the previous fiscal year, to a value of ¥1,311.8 billion, and net sales climbed ¥76.8 billion, to ¥1,303.7 billion. Operating income grew ¥14.8 billion, to ¥57.4 billion, and recurring profit jumped ¥14.4 billion, to ¥63.6 billion. Net income decreased ¥2.6 billion, to ¥23.3 billion, reflecting a partial reversal of deferred tax assets, following a reduction in the corporate tax rate.

RESULTS OF OPERATIONS

Net Sales

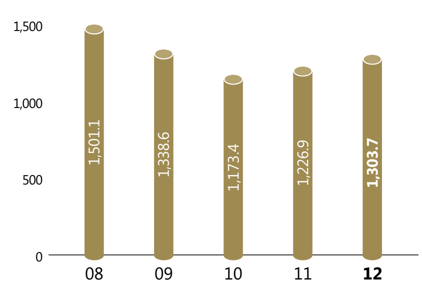
As noted above, consolidated net sales increased ¥76.8 billion to ¥1,303.7 billion.

The principal factors accounting for this increase were a) a ¥34.7 billion increase in sales by the Precision Machinery segment, reflecting solid demand for hydraulic components for the construction machinery in emerging countries; b) a ¥33.7 billion gain in sales by the Plant & Infrastructure segment, owing to an increase in sales in overseas markets; and c) a ¥9.7 billion increase in sales by the Aerospace segment, pegged to an increase in sales of component parts for the Boeing 777 and 787.

Overseas sales expanded to ¥736.7 billion. By region, sales in United States represented ¥237.9 billion; sales in Europe accounted for ¥123.3 billion; sales in Asia outside Japan contributed ¥239.6 billion; and sales in other areas added ¥135.8 billion. The ratio of overseas sales to consolidated net sales edged up 2.0 percentage

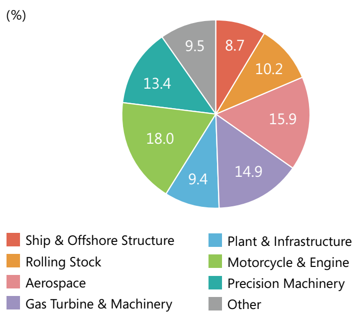
Net Sales

(Billions of yen)



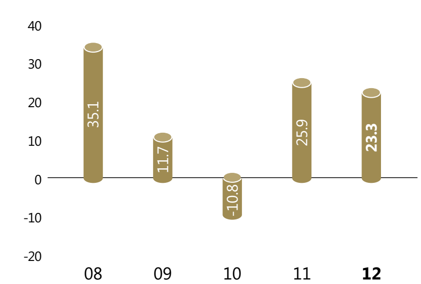
Sales by Industry Segment

(%)



Net Income (Loss)

(Billions of yen)



points, to 56.5%, compared with 54.5% in the previous fiscal year.

The following sections provide additional detail regarding the consolidated performance of each business segment. Please note that operating income or loss includes intersegment transactions.

Ship & Offshore Structure

The segment won contracts for eight vessels, including bulk carriers, but in the end, the value of orders received fell ¥39.0 billion from the previous fiscal year, to ¥39.9 billion. Sales also decreased, coming in at ¥113.5 billion or ¥4.8 billion less than in fiscal 2011, when the segment still managed to record sales of large vessels. However, on the profit front, the segment returned to an operating income position, rebounding ¥4.9 billion from the previous fiscal year, to ¥3.9 billion, mainly due to a decrease in provision for losses on construction contracts.

Rolling Stock

Orders received reached ¥66.0 billion, down ¥121.0 billion from the previous fiscal year, when there were more large-scale orders for overseas customers. The decrease also reflects a delay in projects expected to come in during fiscal 2012. While sales to customers in Japan were down, sales to customers overseas were up, which buoyed segment sales to ¥132.6 billion, on a par with the previous fiscal year. Operating income retreated ¥3.0 billion, to ¥5.1 billion, mainly owing to the impact of yen appreciation and provision for losses on construction contracts.

Aerospace

Orders received climbed ¥120.5 billion, to ¥327.2 billion, boosted mainly by orders from Japan's Ministry of Defense (MOD). Sales rose ¥9.7 billion, to ¥206.5 billion, largely owing to an increase in sales of component parts for the Boeing 777 and 787. Operating income jumped ¥4.7 billion, to ¥7.8 billion, primarily because of higher sales and cost reduction activities.

Gas Turbine & Machinery

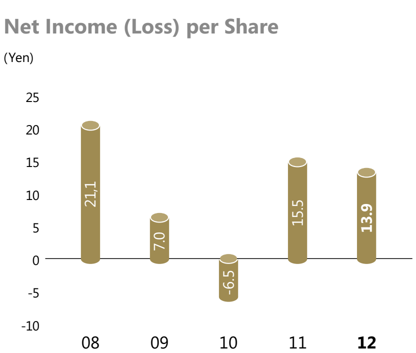
Orders in the Gas Turbine & Machinery segment reached ¥227.2 billion, up ¥39.6 billion, owing to an increase in orders for component parts for commercial aircraft jet engines and construction of Kawasaki Green Gas Engine-equipped power plants. Sales decreased ¥8.0 billion, to ¥194.6 billion, mainly due to a drop in sales of marine diesel engines and gas compression modules. Operating income declined ¥1.7 billion, to ¥7.7 billion, largely because of lower sales.

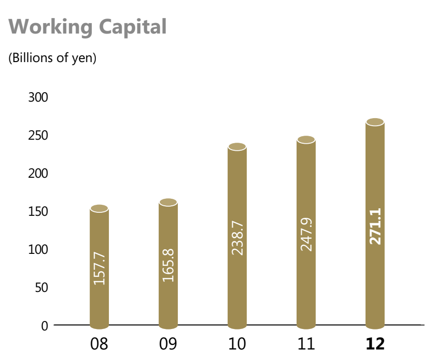
Plant & Infrastructure

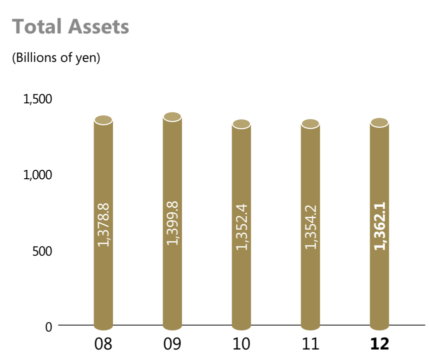
Orders received in the Plant & Infrastructure segment were on a par with the previous fiscal year, settling at ¥119.2 billion. Orders included municipal refuse incineration plants for customers in Japan. Sales rose ¥33.7 billion from the previous fiscal year, to ¥122.8 billion, largely because of an increase in sales of plants for customers overseas. Operating income climbed ¥5.8 billion from the previous fiscal year, to ¥14.1 billion, reflecting higher sales.

Motorcycle & Engine

Sales by the Motorcycle & Engine segment reached ¥235.2 billion, hovering around the level posted in the previous fiscal year, as an increase in sales of motorcycles to emerging markets offset a drop in sales of motorcycles to developed countries caused mainly by yen appreciation. The segment was unable to return to a profit position, due to the impact of such factors as the floods in Thailand and yen appreciation, and incurred an operating loss of ¥2.9 billion. However, the loss position shrank ¥2.0 billion year on year, reflecting higher sales of motorcycles to emerging markets and cost-cutting results, such as lower fixed costs.







Precision Machinery

Orders received in the Precision Machinery segment grew ¥25.6 billion over the previous fiscal year, to ¥174.5 billion, thanks in large part to more orders for hydraulic components from the construction machinery market. Sales reached ¥175.0 billion, up ¥34.7 billion, reflecting an increase in sales of hydraulic components for construction machinery and higher sales of painting robots. Operating income rose ¥4.3 billion, to ¥26.6 billion, mainly because of higher sales.

Other

Sales in this segment were up ¥9.1 billion, to ¥123.2 billion. Operating income jumped ¥1.2 billion, to ¥3.8 billion.

Cost Expenses and Earnings

Cost of sales increased ¥51.8 billion from the previous fiscal year, to ¥1,088.9 billion. As a result, gross profit was limited to a ¥24.9 billion improvement and settled at ¥214.8 billion, while the gross profit margin edged up 1.0 percentage point to 16.4%, from 15.4% in the previous fiscal year.

Selling, general and administrative expenses grew ¥10.1 billion, to ¥157.3 billion, primarily because of higher R&D expenses. Operating income jumped ¥14.8 billion, to ¥57.4 billion. This upward movement is largely due to particularly good performances by the Precision Machinery, Plant & Infrastructure and Aerospace segments, which more than compensated for performances elsewhere that were adversely affected by yen appreciation. In the end, the ratio of operating income to net sales inched up 1.0 percentage point, to 4.4%, from 3.4% in the previous fiscal year.

Other income (expenses) showed net expenses of ¥8.7 billion, compared with net expenses of ¥4.0 billion in the previous fiscal year. The principal reason for a continued net expense position was higher "other expences, net," which leveled off at ¥15.3 billion, compared with ¥10.8 billion in the previous fiscal year. The main component of this change was a ¥4.9 billion increase in impairment losses, which came in at ¥14.9 billion.

Income before income taxes and minority interests amounted to ¥48.7 billion, up ¥10.1 billion from the previous fiscal year. The significant year-on-year increase in operating income was the main reason for this welcome result. After deducting minority interests in net income of consolidated subsidiaries, the Company posted net income of ¥23.3 billion, down ¥2.6 billion. The decrease reflects the partial reversal of deferred tax assets following a reduction in the corporate tax rate. The ratio of net income to net sales dipped 0.4 percentage point, to 1.7%, from 2.1% in the previous fiscal year. ROE (calculated using average total shareholders' equity) edged down 1.3 percentage points, to 7.8%, from 9.1% a year ago.

Capital expenditures in fiscal 2012 came to ¥63.9 billion, up from ¥55.3 billion in the previous fiscal year. R&D expenses were ¥39.9 billion, up from ¥37.0 billion a year ago.

FINANCIAL CONDITION

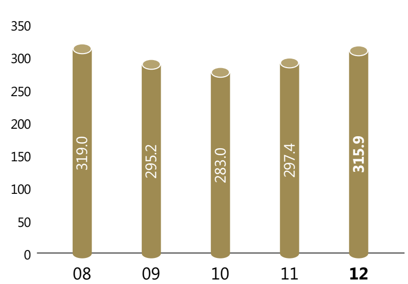
Total assets at March 31, 2012, stood at ¥1,362.1 billion, up ¥7.8 billion from the end of the previous fiscal year. Of this amount, current assets accounted for ¥967.1 billion, up ¥15.4 billion. The upward change is mainly due to an increase in receivables–trade accompanying the booking of sales and an increase in inventories associated with work in progress. Combined investments, net property, plant and equipment, and intangible and other assets came to ¥394.9 billion, down ¥7.6 billion from the previous fiscal year, largely reflecting the booking of impairment losses on fixed assets and the partial reversal of deferred tax assets.

Total liabilities stood at ¥1,046.2 billion, down ¥10.6 billion from the end of the previous fiscal year. The change is primarily due to a ¥21.9 billion decrease in interest-bearing liabilities, which totaled ¥407.1 billion. Current liabilities accounted for ¥696.0 billion, down ¥7.7 billion, and total long-term liabilities dropped ¥2.9 billion year on year, to ¥350.2 billion.

Net assets rose ¥18.4 billion, to ¥315.9 billion, reflecting such

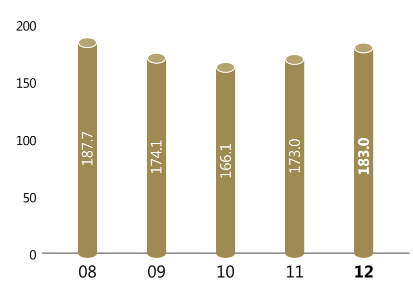
Total Net Assets

(Billions of yen)



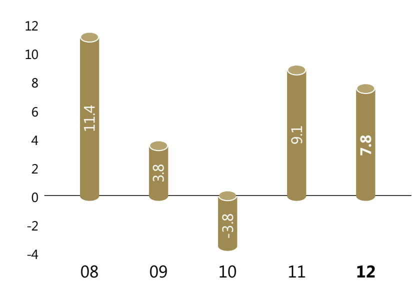
Net Assets per Share

(Yen)



Return on Equity

(%)



events as the payment of dividends and the booking of net income.

The ratio of shareholders' equity to total assets expanded 1.1 percentage points, to 22.4%, from 21.3% at the end of the previous fiscal year. In addition, the net debt-to-equity ratio improved again, moving 10.3%, from 132.1% to 121.8%, as of March 31, 2012.

CASH FLOWS

Net cash provided by operating activities in fiscal 2012 amounted to ¥84.7 billion, a net increase of ¥2.8 billion from fiscal 2011. Principal cash inflow items were depreciation and amortization of ¥48.9 billion, loss on impairment of fixed assets of ¥14.9 billion, and an ¥18.9 billion increase in advances from customers. Principal cash outflow items were an ¥18.7 billion increase in inventories and ¥18.2 billion payment for income taxes.

Net cash used for investing activities amounted to ¥65.9 billion in fiscal 2012, up ¥13.0 billion from fiscal 2011. The cash was applied primarily toward the acquisition of property, plant and equipment.

Free cash flow, which is the net amount of cash from operating and investing activities, showed a net inflow of ¥18.7 billion in fiscal 2012, down from net inflow of ¥28.9 billion in fiscal 2011.

Net cash used for financing activities amounted to ¥26.8 billion in fiscal 2012, up ¥7.9 billion from fiscal 2011. The cash was applied primarily to repay debt.

Given these changes in cash flows, cash and cash equivalents at the end of the term settled at ¥33.2 billion, down ¥11.3 billion from the beginning of the year.

MANAGEMENT OF LIQUIDITY RISK
(THE RISK THAT THE COMPANY DEFAULTS)

The Company manages liquidity risk through the timely preparation and updating of financial plans by the Finance Department, based on information from each business segment. Managing liquidity risk includes diversifying methods of financing, adjusting financial periods of long- and short-term debt based on the prevailing financing environment, and securing commitment lines (maximum financing amount of ¥54.0 billion) and issuing commercial paper (maximum issuing amount of ¥120.0 billion).

MANAGEMENT INDICATORS

Seeking a level of profitability that meets the expectations of investors, the Company has adopted before-tax return on invested capital (ROIC), a management indicator that measures how efficiently the Company uses its capital. To strengthen its financial position while striving to maximize ROIC, the Company will emphasize enhanced efficiency of invested capital. The Company uses the following formula to calculate ROIC.

Before-tax ROIC: The ratio of EBIT (earnings before interest and taxes) to the sum of interest-bearing debt and total shareholders' equity.

ROIC calculated using this formula edged up 1.4 percentage points, from 6.0% in fiscal 2011 to 7.4% in fiscal 2012.

DIVIDENDS

The Company's basic dividend policy is to sustain stable cash dividends in line with performance, while giving careful consideration to retained earnings to strengthen and expand the KHI Group's business base in preparation for future growth.

The Company's basic policy regarding cash dividends from retained earnings is to pay dividends twice annually—an interim dividend and a year-end dividend. The decision-making structures with the final say on dividends are the Board of Directors for the interim dividend and the General Meeting of Shareholders for the year-end dividend.

Upon consideration of business performance, the level of retained earnings and other factors, with these policies in mind, the decision was made to pay an annual dividend of ¥5 per share (an interim dividend of ¥0 and a year-end dividend of ¥5) for fiscal 2012. This is an increase of ¥2 per share over the previous fiscal year. Retained earnings after the dividend payout will be appropriated for investments in the Company's businesses, the repayment of borrowings and other uses.

Please note that the Company's Articles of Incorporation provides for the distribution of an interim dividend as stipulated in Article 454, Paragraph 5, of Japan's Companies Act.

Consolidated Balance Sheets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
At March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
ASSETS			
Current assets:			
Cash on hand and in banks (Note 19)	**¥ 34,316**	¥ 47,233	**$ 417,774**
Receivables:			
Trade (Note 8)	**404,054**	401,753	**4,919,089**
Other	**15,680**	17,526	**190,893**
Allowance for doubtful receivables	**(3,255)**	(2,829)	**(39,627)**
	416,479	416,450	**5,070,355**
Inventories:			
Merchandise and finished products	**53,558**	50,528	**652,033**
Work in process	**300,226**	285,977	**3,655,053**
Raw materials and supplies	**88,113**	88,817	**1,072,717**
	441,897	425,322	**5,379,803**
Deferred tax assets (Note 18)	**33,007**	35,887	**401,838**
Other current assets	**41,487**	26,827	**505,077**
Total current assets	**967,186**	951,719	**11,774,847**
Property, plant and equipment (Note 8):			
Land	**61,942**	64,107	**754,102**
Buildings and structures	**327,877**	321,650	**3,991,684**
Machinery and equipment	**537,959**	517,554	**6,549,295**
Construction in progress	**11,782**	12,651	**143,438**
	939,560	915,962	**11,438,519**
Accumulated depreciation	**(664,810)**	(640,182)	**(8,093,620)**
Net property, plant and equipment	**274,750**	275,780	**3,344,899**
Investments and intangible and other assets:			
Investments in securities (Notes 6, 7 and 8)	**53,257**	50,291	**648,368**
Long-term loans	**432**	458	**5,259**
Deferred tax assets (Note 18)	**37,614**	47,193	**457,925**
Goodwill and other intangible assets	**18,786**	19,249	**228,707**
Allowance for doubtful receivables	**(940)**	(986)	**(11,443)**
Other (Note 8)	**11,054**	10,574	**134,576**
Total investments and intangible and other assets	**120,203**	126,779	**1,463,392**
Total assets	**¥1,362,139**	¥1,354,278	**$16,583,138**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	**2012**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt and current portion of long-term debt (Note 8)	**¥ 147,924**	¥ 174,697	**$ 1,800,877**
Trade payables (Note 8)	**310,775**	319,272	**3,783,479**
Advances from customers	**99,051**	80,816	**1,205,880**
Income taxes payable (Note 18)	**4,627**	5,988	**56,330**
Accrued bonuses	**20,582**	15,692	**250,572**
Provision for product warranties	**7,128**	7,288	**86,778**
Provision for losses on construction contracts (Note 9)	**30,977**	33,068	**377,124**
Provision for restructuring charges	**-**	1,077	**-**
Provision for environmental measures	**-**	499	**-**
Deferred tax liabilities (Note 18)	**1,465**	765	**17,835**
Asset retirement obligations	**150**	10	**1,826**
Other current liabilities	**73,324**	64,555	**892,674**
Total current liabilities	**696,003**	703,727	**8,473,375**
Long-term liabilities:			
Long-term debt, less current portion (Note 8)	**259,243**	254,447	**3,156,111**
Employees' retirement and severance benefits (Note 10)	**75,052**	80,556	**913,708**
Deferred tax liabilities (Note 18)	**4,060**	3,990	**49,427**
Provision for losses on legal proceedings (Note 29)	**910**	5,868	**11,078**
Provision for environmental measures	**3,282**	3,333	**39,956**
Asset retirement obligations	**611**	440	**7,438**
Other	**7,056**	4,484	**85,905**
Total long-term liabilities	**350,214**	353,118	**4,263,623**
Contingent liabilities (Note 11)			
Net assets (Note 12):			
Shareholders' equity:			
Common stock:			
Authorized - 3,360,000,000 shares			
Issued - 1,671,892,659 shares in 2012 - 1,670,646,460 shares in 2011	**104,484**	104,340	**1,272,023**
Capital surplus	**54,394**	54,251	**662,210**
Retained earnings	**176,414**	158,615	**2,147,723**
Treasury stock - 77,126 shares in 2012 - 100,288 shares in 2011	**(22)**	(30)	**(267)**
Total shareholders' equity	**335,270**	317,176	**4,081,689**
Accumulated other comprehensive income:			
Net unrealized gains on securities, net of tax	**3,989**	3,876	**48,563**
Deferred gains (losses) on hedges	**246**	(990)	**2,995**
Foreign currency translation adjustments	**(33,451)**	(31,006)	**(407,243)**
Total accumulated other comprehensive income	**(29,216)**	(28,120)	**(355,685)**
Minority interests	**9,868**	8,377	**120,136**
Total net assets	**315,922**	297,433	**3,846,140**
Total liabilities and net assets	**¥1,362,139**	¥1,354,278	**$16,583,138**

Consolidated Statements of Operations and Comprehensive Income

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2012, 2011 and 2010

Consolidated Statements of Operations

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2011	2010	**2012**
Net sales	**¥1,303,778**	¥1,226,949	¥1,173,473	**$15,872,632**
Cost of sales (Note 13)	**1,088,918**	1,037,079	1,023,610	**13,256,855**
Gross profit	**214,860**	189,870	149,863	**2,615,777**
Selling, general and administrative expenses (Note 14)	**157,376**	147,242	151,179	**1,915,948**
Operating income (loss)	**57,484**	42,628	(1,316)	**699,829**
Other income (expenses):				
Interest and dividend income	**2,331**	2,306	3,615	**28,378**
Equity in income of nonconsolidated subsidiaries and affiliates	**8,567**	9,205	6,522	**104,297**
Interest expense	**(4,282)**	(4,677)	(5,399)	**(52,130)**
Other expenses, net (Note 15)	**(15,394)**	(10,867)	(7,243)	**(187,411)**
Income (loss) before income taxes and minority interests	**48,706**	38,595	(3,821)	**592,963**
Income taxes (Note 18)				
Current	**(9,932)**	(14,340)	(8,805)	**(120,915)**
Deferred	**(12,899)**	3,503	2,822	**(157,038)**
Income before minority interests	**25,875**	27,758	-	**315,010**
Minority interests in net income of consolidated subsidiaries	**(2,552)**	(1,793)	(1,056)	**(31,068)**
Net income (loss)	**¥ 23,323**	¥ 25,965	¥ (10,860)	**$ 283,942**

Consolidated Statements of Comprehensive Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2011	2010	**2012**
Income before minority interests	**¥25,875**	¥27,758	¥ -	**$315,010**
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities	**106**	(1,437)	-	**1,290**
Deferred gains (losses) on hedges	**1,281**	(480)	-	**15,595**
Foreign currency translation adjustments	**(2,924)**	(5,422)	-	**(35,596)**
Share of other comprehensive income of associates accounted for using equity method	**231**	(2,167)	-	**2,812**
Total other comprehensive income	**(1,306)**	(9,506)	-	**(15,899)**
Comprehensive income	**24,569**	18,252	-	**299,111**
Comprehensive income attributable to:				
Owners of the parent company	**22,228**	16,506	-	**270,611**
Minority interests	**2,341**	1,746	-	**28,500**

	Yen			U.S. dollars (Note 1)
Per share amounts (Note 20)				
Net income per share - basic	**¥ 13.9**	¥ 15.5	¥ (6.5)	**$ 0.16**
Net income per share - diluted	**13.8**	15.3	-	**0.16**
Cash dividends	**5.0**	3.0	3.0	**0.06**

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

Consolidated Statements of Changes in Net Assets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2012, 2011 and 2010

	Thousands	Millions of yen										
		Shareholders' equity					Accumulated other comprehensive income					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities, net of tax	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at March 31, 2009	1,669,629	¥104,329	¥54,282	¥ 154,273	¥(468)	¥ 312,416	¥ 3,140	¥(264)	¥ (24,851)	¥ (21,975)	¥ 4,805	¥ 295,246
Net loss for the year	-	-	-	(10,860)	-	(10,860)	-	-	-	-	-	(10,860)
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	1,048	1,048	-	1,048
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	2,165	-	-	2,165	-	2,165
Treasury stock purchased, net	-	-	-	-	(107)	(107)	-	-	-	-	-	(107)
Cash dividends	-	-	-	(5,004)	-	(5,004)	-	-	-	-	-	(5,004)
Loss on sales of treasury stock	-	-	(7)	-	23	16	-	-	-	-	-	16
Other	-	-	-	(720)	-	(720)	-	102	-	102	1,167	549
Balance at March 31, 2010	1,669,629	¥104,329	¥54,275	¥ 137,689	¥(552)	¥ 295,741	¥ 5,305	¥(162)	¥ (23,803)	¥ (18,660)	¥ 5,972	¥ 283,053
Net income for the year	-	-	-	25,965	-	25,965	-	-	-	-	-	25,965
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	(7,203)	(7,203)	-	(7,203)
Decrease in net unrealized gains on securities, net of tax	-	-	-	-	-	-	(1,429)	-	-	(1,429)	-	(1,429)
Treasury stock purchased, net	-	-	-	-	(15)	(15)	-	-	-	-	-	(15)
Cash dividends	-	-	-	(5,003)	-	(5,003)	-	-	-	-	-	(5,003)
Loss on sales of treasury stock	-	-	(0)	-	1	1	-	-	-	-	-	1
Conversion of convertible bonds	1,017	11	(24)	(17)	536	506	-	-	-	-	-	506
Other	-	-	-	(19)	-	(19)	-	(828)	-	(828)	2,405	1,558
Balance at March 31, 2011	1,670,646	¥104,340	¥54,251	¥ 158,615	¥ (30)	¥ 317,176	¥ 3,876	¥(990)	¥ (31,006)	¥ (28,120)	¥ 8,377	¥ 297,433
Net income for the year	-	-	-	**23,323**	-	**23,323**	-	-	-	-	-	**23,323**
Adjustments from translation of foreign currency financial statements	-	-	-	-	-	-	-	-	**(2,445)**	**(2,445)**	-	**(2,445)**
Increase in net unrealized gains on securities, net of tax	-	-	-	-	-	-	**113**	-	-	**113**	-	**113**
Treasury stock purchased, net	-	-	-	-	**(6)**	**(6)**	-	-	-	-	-	**(6)**
Cash dividends	-	-	-	**(5,011)**	-	**(5,011)**	-	-	-	-	-	**(5,011)**
Loss on sales of treasury stock	-	-	**(0)**	**(3)**	**1**	**(2)**	-	-	-	-	-	**(2)**
Conversion of convertible bonds	**1,246**	**144**	**143**	-	**13**	**300**	-	-	-	-	-	**300**
Increase (decrease) due to changes in fiscal period of consolidated subsidiaries	-	-	-	**(510)**	-	**(510)**	-	-	-	-	-	**(510)**
Other	-	-	-	-	-	-	-	**1,236**	-	**1,236**	**1,491**	**2,727**
Balance at March 31, 2012	**1,671,892**	**¥104,484**	**¥54,394**	**¥176,414**	**¥ (22)**	**¥335,270**	**¥3,989**	**¥ 246**	**¥(33,451)**	**¥(29,216)**	**¥9,868**	**¥315,922**
		(Thousands of U.S. dollars) (Note 1)										
Balance at March 31, 2011		$ 1,270,270	$ 660,469	$ 1,931,032	$ (364)	$ 3,861,407	$ 47,187	$(12,052)	$ (377,477)	$ (342,342)	$ 101,984	$ 3,621,049
Net income for the year		-	-	**283,942**	-	**283,942**	-	-	-	-	-	**283,942**
Adjustments from translation of foreign currency financial statements		-	-	-	-	-	-	-	**(29,766)**	**(29,766)**	-	**(29,766)**
Increase in net unrealized gains on securities, net of tax		-	-	-	-	-	**1,376**	-	-	**1,376**	-	**1,376**
Treasury stock purchased, net		-	-	-	**(73)**	**(73)**	-	-	-	-	-	**(73)**
Cash dividends		-	-	**(61,005)**	-	**(61,005)**	-	-	-	-	-	**(61,005)**
Loss on sales of treasury stock		-	**(0)**	**(36)**	**12**	**(24)**	-	-	-	-	-	**(24)**
Conversion of convertible bonds		**1,753**	**1,741**	-	**158**	**3,652**	-	-	-	-	-	**3,652**
Increase (decrease) due to changes in fiscal period of consolidated subsidiaries		-	-	**(6,210)**	-	**(6,210)**	-	-	-	-	-	**(6,210)**
Other		-	-	-	-	-	-	**15,047**	-	**15,047**	**18,152**	**33,199**
Balance at March 31, 2012		**$1,272,023**	**$662,210**	**$2,147,723**	**$ (267)**	**$4,081,689**	**$48,563**	**$ 2,995**	**$(407,243)**	**$(355,685)**	**$120,136**	**$3,846,140**

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 years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2011	2010	**2012**
Cash flows from operating activities:				
Income (loss) before income taxes and minority interests	**¥48,706**	¥38,595	¥(3,821)	**$592,963**
Adjustments to reconcile net income (loss) before income taxes and minority interests to net cash provided by (used for) operating activities:				
Depreciation and amortization	**48,901**	50,276	51,423	**595,337**
Loss on impairment of fixed assets	**14,921**	9,923	3,132	**181,653**
Increase (decrease) in employees' retirement and severance benefits	**(5,257)**	(8,159)	9,317	**(64,000)**
Increase (decrease) in accrued bonuses	**4,885**	1,489	(38)	**59,471**
Increase (decrease) in allowance for doubtful receivables	**449**	514	(615)	**5,466**
Increase (decrease) in provision for product warranties	**(750)**	794	(1,013)	**(9,130)**
Increase (decrease) in provision for losses on construction contracts	**(2,016)**	15,349	(2,916)	**(24,543)**
Increase (decrease) in provision for restructuring charges	**(1,077)**	(5,249)	6,326	**(13,111)**
Increase (decrease) in provision for losses on legal proceedings	**(4,957)**	(837)	4,461	**(60,348)**
Increase (decrease) in provision for environmental measures	**(545)**	(658)	510	**(6,635)**
Loss (gain) on disposal of inventories	**(70)**	1,336	1,992	**(852)**
Gain on sales of marketable securities and investments in securities	**(591)**	(0)	(1,739)	**(7,195)**
Loss on valuation of securities	**918**	1,577	32	**11,176**
Loss on sales of property, plant, and equipment	**1,177**	552	784	**14,329**
Equity in income of nonconsolidated subsidiaries and affiliates	**(8,567)**	(9,205)	(6,522)	**(104,297)**
Interest and dividend income	**(2,331)**	(2,306)	(3,615)	**(28,378)**
Interest expense	**4,282**	4,677	5,399	**52,130**
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	**(942)**	14,910	(3,792)	**(11,468)**
Inventories	**(18,705)**	(17,775)	56,241	**(227,720)**
Other current assets	**(2,139)**	8,590	(2,966)	**(26,040)**
Increase (decrease) in:				
Trade payables	**(7,332)**	25,114	(56,396)	**(89,262)**
Advances from customers	**18,973**	(15,552)	(27,179)	**230,983**
Other current liabilities	**8,708**	(17,156)	12,165	**106,014**
Other, net	**4,134**	1,897	(406)	**50,325**
Subtotal	**100,775**	98,696	40,764	**1,226,868**
Cash received for interest and dividends	**6,656**	6,407	7,698	**81,032**
Cash paid for interest	**(4,455)**	(4,762)	(5,408)	**(54,236)**
Cash paid for income taxes	**(18,239)**	(13,245)	(12,876)	**(222,048)**
Payment of levies	**-**	(5,167)	-	**-**
Net cash provided by operating activities	**84,737**	81,929	30,178	**1,031,616**

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2012	2011	2010	**2012**
Cash flows from investing activities:				
Decrease (increase) in time deposits with maturities over three months	**1,446**	(2,138)	21	**17,604**
Acquisition of property, plant and equipment	**(61,126)**	(47,408)	(61,198)	**(744,168)**
Proceeds from sales of property, plant and equipment	**535**	616	993	**6,513**
Acquisition of intangible assets	**(4,921)**	(4,886)	(4,764)	**(59,909)**
Proceeds from sales of intangible assets	**16**	37	48	**194**
Acquisition of investments in securities	**(47)**	(350)	(123)	**(572)**
Proceeds from sales of investments in securities	**663**	12	1,913	**8,071**
Acquisition of investments in subsidiaries or affiliates	**(1,761)**	-	(1,331)	**(21,439)**
Decrease (increase) in short-term loans	**(11)**	287	518	**(133)**
Additions to long-term loans	**(70)**	(40)	(65)	**(852)**
Proceeds from collection of long-term loans	**89**	102	115	**1,083**
Other	**(772)**	826	596	**(9,399)**
Net cash used for investing activities	**(65,959)**	(52,942)	(63,277)	**(803,007)**
Cash flows from financing activities:				
Increase (decrease) in short-term debt	**(569)**	(53,670)	(21,463)	**(6,927)**
Proceeds from long-term debt	**39,963**	44,000	94,793	**486,523**
Repayment of long-term debt	**(59,887)**	(4,836)	(31,518)	**(729,084)**
Acquisition of treasury stock	**(8)**	(14)	(90)	**(97)**
Proceeds from stock issuance to minority shareholders	**-**	1,209	230	**-**
Cash dividends paid	**(5,014)**	(5,000)	(5,004)	**(61,042)**
Cash dividends paid to minority shareholders	**(1,070)**	(476)	(741)	**(13,026)**
Other	**(246)**	(75)	(296)	**(2,996)**
Net cash provided by (used for) financing activities	**(26,831)**	(18,862)	35,911	**(326,649)**
Effect of exchange rate changes	**(1,823)**	367	(89)	**(22,194)**
Net increase (decrease) in cash and cash equivalents	**(9,876)**	10,492	2,723	**(120,234)**
Cash and cash equivalents at beginning of year	**44,629**	34,137	31,414	**543,328**
Decrease in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries	**(1,508)**	-	-	**(18,359)**
Cash and cash equivalents at end of year	**¥33,245**	¥44,629	¥34,137	**$404,735**
Supplemental information on cash flows:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheets	**¥34,316**	¥47,233	¥34,745	**$417,774**
Time deposits with maturities over three months	**(1,071)**	(2,604)	(608)	**(13,039)**
Total (Note 19)	**¥33,245**	¥44,629	¥34,137	**$404,735**

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

1. Basis of presenting consolidated financial statements

Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting and disclosure records in Japanese yen. The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (Japanese GAAP), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of changes in net assets from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2012, which was ¥82.14 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Effective from the year ended March 31, 2010, the Company has adopted a new implementation guidance, "Guidance on Determining a Subsidiary and an Affiliate" (Financial Accounting Standard Implementation Guidance No. 22, issued by the Accounting Standards Board of Japan (ASBJ) on May 13, 2008). This change did not have a material effect on net loss for the year ended March 31, 2010.

2. Significant accounting policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control (together, the "Companies"). The consolidated financial statements include the accounts of the Company and 97 subsidiaries (96 in the years ended March 31, 2011 and 97 in 2010). The aggregate amount of total assets, net sales, net income and retained earnings of the excluded subsidiaries would not have had a material effect on the consolidated financial statements if they had been included in the consolidation.

(b) Application of the equity method of accounting

Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. For the year ended March 31, 2012, 14 affiliates (14 in 2011 and 14 in 2010) were accounted for by the equity method. For the year ended March 31, 2012, investments in 14 affiliates (14 in 2011 and 14 in 2010) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(Adoption of accounting standards related to equity method accounting)
Effective from the fiscal year ended March 31, 2011, the Company and its consolidated subsidiaries have adopted a new accounting standard, “Accounting Standard for Equity Method of Accounting for Investments” (Statement No. 16, issued by ASBJ on March 10, 2008) and “Practical Issues on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (ASBJ Practical Issues Task Force (PITF) No. 24, issued by ASBJ on March 10, 2008). The impact of this change on net income was minor.

(c) Consolidated subsidiaries' fiscal year-end
The fiscal year-end of 30 consolidated subsidiaries (33 in 2011 and 31 in 2010) is December 31. These subsidiaries are consolidated as of December 31, and significant transactions for the period between December 31 and March 31, the Company's fiscal year-end, are adjusted for on consolidation.

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

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

(f) Revenue recognition
<Sales of products and construction contracts>
Effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Accounting Standard for Construction Contracts" (Statement No. 15, issued by ASBJ on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (Financial Accounting Standard Implementation Guidance No. 18, issued by ASBJ on December 27, 2007). The new accounting standards require that the percentage-of-completion method be applied for construction contracts commenced on and after April 1, 2009, if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the completed-contract method should be applied. As a result of this change, sales were ¥32,214 million more, operating loss and loss before income tax and minority interests ¥3,088 million less, and recurring profit ¥3,088 million more for the year ended March 31, 2010 than the amounts that would have been recorded with the previous standard.

<Service revenues>
Service revenues are recognized when the services are rendered. Services include supervisory and installation services for products such as rail cars, machinery and plants. When the prices of such services are individually determined by the contract and the collectability of the revenue is reasonably assured, the service revenue is recognized on an accrual basis. Otherwise, the service revenue is recognized on a completion basis.

Sales and cost of sales in finance leases transactions are mainly recognized when the Company receives the lease payments.

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

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

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

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

(k) Investments in securities

The Company and its consolidated subsidiaries classify securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) all other securities (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2012, 2011 or 2010. Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available market value are stated at moving average cost.

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

(l) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is mainly computed on a declining balance basis over the estimated useful life of the asset. Depreciation of buildings acquired after April 1998 in Japan is computed on a straight-line basis over the building's estimated useful life.

(m) Intangible assets

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

Goodwill is amortized on a straight-line basis over the period the Company benefits from its use. If the amount is not significant, it is expensed when incurred.

(n) Accrued bonuses

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

(o) Provision for product warranties

The provision for product warranties is based on past experience and provided separately when it can be reasonably estimated.

(p) Provision for losses on construction contracts

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

(q) Provision for restructuring charges

The provision for restructuring charges is based on the estimated charges for restructuring in the Motorcycle & Engine business in North America.

(r) Provision for losses on legal proceedings

The Provision for losses on legal proceedings in which the company is a defendant in the suit is provided based on estimates of expected compensation and other associated expenses.

(s) Provision for environmental measures

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

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

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

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

The excess of the projected benefit obligation over liabilities for retirement and severance benefits recorded as of April 1, 2000 (the "net transition obligation") is being recognized in expenses in equal amounts primarily over 10 years commencing with the year ended March 31, 2001. Actuarial gains and losses and prior service costs are recognized in expenses in equal amounts primarily over 10 years commencing with the following period and the current period, respectively.

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

Effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Statement No. 19, issued by ASBJ on July 31, 2008). This change did not have any effect on net loss for the year ended March 31, 2010.

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

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

(x) Net income per share
The computations of net income per share shown in the consolidated statements of operations are based upon net income available to common stockholders and the weighted average number of shares outstanding during each period. Diluted net income per share is computed based on the assumption that all dilutive convertible bonds were converted at the beginning of the year.

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

(z) Application of consolidated tax reporting
Effective from the year ended March 31, 2012, the Company and wholly owned consolidated domestic subsidiaries have adopted a consolidated tax return.

3. Changes in accounting policies

(a) Application of Accounting Standard for Asset Retirement Obligations

Effective from the year ended March 31, 2011, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Asset Retirement Obligations" (Statement No. 18, issued by ASBJ on March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (Guidance No. 21, issued by ASBJ on March 31, 2008). As a result of this change, operating income was ¥16 million less and income before income taxes ¥313 million less than the amounts that would have been recorded without the change.

(b) Application of Accounting Standard for Business Combinations

Effective from the year ended March 31, 2011, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Business Combinations" (Statement No. 21, issued by ASBJ on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (Statement No. 22, issued by ASBJ on December 26, 2008), "Amendments to Accounting Standard for Research and Development Costs" (Statement No. 23, issued by ASBJ on December 26, 2008), "Revised Accounting Standard for Business Divestitures" (Statement No. 7, issued by ASBJ on December 26, 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments" (Statement No. 16, issued by ASBJ on December 26, 2008), and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Guidance No. 10, issued by ASBJ on December 26, 2008).

4. Change in presentation

Effective from the year ended March 31, 2011, the Company and its consolidated subsidiaries have adopted the Cabinet Office Ordinance, which partially amended the regulations on consolidated financial statements (Cabinet Office Ordinance No. 5, March 24, 2009), based on "Accounting Standard for Consolidated Financial Statements" (Statement No. 22, issued by ASBJ on December 26, 2006). As a result, in the financial statements for the year ended March 31, 2011, "Income before minority interests" was presented in the consolidated statements of operations.

5. Additional information

(a) Application of Accounting Standards for Accounting Changes and Error Corrections

The Company and its consolidated subsidiaries have adopted "Accounting Standard for Accounting Changes and Error Corrections" (Statement No. 24, issued by ASBJ on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (Guidance No. 24, issued by ASBJ on December 4, 2009) for accounting changes and prior period error corrections made on or after April 1, 2011.

(b) Revision of accounting treatment for the liquidation of claims accompanying the application of Accounting Standards Codification (ASC) Topic 860 Transfers and Servicing

Effective from the year ended March 31, 2011 and accompanying the adoption of ASC Topic 860 Transfers and Servicing, Kawasaki Motors Corp., U.S.A. and other subsidiaries of the Company in the United States have revised their accounting treatment for transfers of financial assets. As a result, the Consolidated Balance Sheets for the fiscal year ended March 31, 2011, includes U.S. $343 million (¥28,520 million) of additional Receivables: Trade and Short-term debt.

Since this change had no substantive impact on cash flow, the impact was excluded from the consolidated statements of cash flow for the year ended Mach 31, 2011.

(c) Application of Accounting Standard for Presentation of Comprehensive Income

Effective from the fiscal year ended March 31, 2011, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Presentation of Comprehensive Income" (Statement No. 25, issued by ASBJ on June 30, 2010). However, amounts for "Accumulated other comprehensive income" and "Total accumulated comprehensive income" in previous fiscal years are currently stated in the amounts for "Valuation difference on available-for-sale securities," "Deferred gains or losses on hedges" and "Foreign currency translation adjustment."

(d) Application of Disclosures about Fair Value of Investment and Rental Property

Effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (Statement No. 20, issued by ASBJ on November 28, 2008), and the "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (the Finance Accounting Standard Implementation Guidance No. 23, issued by ASBJ on November 28, 2008). With the application of the new accounting standards, there were no significant investments or rental properties for which the fair value was required to be disclosed for the year ended March 31, 2010.

6. Securities

(a) Book values and market values of held-to-maturity securities with available market values as of March 31, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2012			
	Book value	Market value	Unrealized losses	Unrealized losses
Market values not exceeding book values:				
Bonds	**¥ 404**	**¥ 376**	**¥ (28)**	**$ (340)**

	Millions of yen		
	2011		
	Book value	Market value	Unrealized losses
Market values exceeding book values:			
Bonds	¥ 406	¥ 394	¥ (12)

(b) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2012 and 2011 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2012			
	Book value	Acquisition cost	Unrealized gains (losses)	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:				
Equity securities	**¥13,362**	**¥6,164**	**¥7,198**	**$87,630**
Other securities:				
Equity securities	**2,660**	**3,485**	**(825)**	**(10,043)**
Total	**¥16,022**	**¥9,649**	**¥6,373**	**$77,587**

	Millions of yen		
	2011		
	Book value	Acquisition cost	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 13,606	¥ 5,972	¥ 7,634
Other securities:			
Equity securities	2,527	3,642	(1,115)
Total	¥ 16,133	¥ 9,614	¥ 6,519

(c) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2012, 2011 and 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2012					
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities	**¥ 611**	**¥ 593**	**¥ (1)**	**$7,438**	**$7,219**	**$ (12)**

	Millions of yen		
	2011		
	Sales amounts	Gains	Losses
Equity securities	¥ 3	¥ 1	¥ (0)

	Millions of yen		
	2010		
	Sales amounts	Gains	Losses
Equity securities	¥1,913	¥1,793	¥ (52)

(d) Investments in securities subject to impairment

Impairment loss on investments in securities is recognized when there has been a significant decline in the market value.

Investments in securities for which market value as of the end of the fiscal year has fallen to below 50% of the acquisition costs are deemed to have no recovery potential and are to be fully impaired. Investments in securities for which market value has fallen to between 30% and 50% of the acquisition costs are deemed to be partially impaired by an amount that takes into consideration the likelihood of recovery and other factors. In the year ended March 31, 2012, the Company recognized an impairment loss on investments in securities in the amount of ¥918 million ($11,176 thousand), consisting of available-for-sale equity securities in the amount of ¥23 million ($280 thousand) and available-for-sale investments in anonymous associations in the amount of ¥895 million ($10,896 thousand). In the years ended March 31, 2011 and 2010, the Company recognized an impairment loss on investments in securities in the amount of ¥1,577 million and ¥32 million, respectively.

7. Investments in nonconsolidated subsidiaries and affiliates

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2012 and 2011 were ¥30,007 million ($365,315 thousand) and ¥25,649 million, respectively.

8. Short-term debt and long-term debt

Short-term debt and long-term debt as of March 31, 2012 and 2011 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Short-term debt:			
Short-term debt, principally bank loans, bearing average interest rates of 0.81 percent and 0.78 percent as of March 31, 2012 and 2011, respectively	**¥112,806**	¥114,497	**$1,373,339**
Current portion of long-term debt, bearing average interest rates of 1.12 percent and 0.80 percent as of March 31, 2012 and 2011, respectively	**34,763**	59,958	**423,216**
Lease obligations, current	**355**	242	**4,322**
Total short-term debt	**¥147,924**	¥174,697	**$1,800,877**

Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2011 to 2035, bearing average interest rates of 0.90 percent and 0.65 percent as of March 31, 2012 and 2011, respectively	**¥223,500**	¥233,277	**$2,720,965**
Notes and bonds issued by the Company:			
1.52~1.60 percent notes due in 2011	**-**	20,000	**-**
0.81 percent notes due in 2012	**10,000**	10,000	**121,743**
1.84 percent notes due in 2013	**10,000**	10,000	**121,743**
0.72~1.22 percent notes due in 2015	**20,000**	20,000	**243,487**
0.58 percent notes due in 2016	**10,000**	-	**121,743**
1.06 percent notes due in 2017	**10,000**	10,000	**121,743**
1.41 percent notes due in 2021	**10,000**	-	**121,743**
1.00 percent convertible bonds due in 2011	**-**	7,038	**-**
Zero coupon convertible bonds due in 2011	**-**	3,445	**-**
Long-term lease obligations	**861**	887	**10,482**
	294,361	314,647	**3,583,649**
Less portion due within one year	**(35,118)**	(60,200)	**(427,538)**
Total long-term debt	**¥259,243**	¥254,447	**$3,156,111**

As of March 31, 2012 and 2011, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Receivables: Trade	**¥44,935**	¥40,453	**$547,054**
Buildings and structures	**3,981**	4,222	**48,466**
Land	**6**	6	**73**
Investments in securities	**418**	420	**5,089**
Other	**13**	13	**158**
Total	**¥49,353**	¥45,114	**$600,840**

In addition to the items shown above, the Company had pledged (on a long-term basis) shares of an affiliate company eliminated from the scope of consolidation in the amount of ¥30 million ($365 thousand).

As of March 31, 2012 and 2011, debt secured by the above pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Trade payables	**¥ 59**	¥ 507	**$ 718**
Short-term and long-term debt	**29,652**	29,033	**360,993**
Total	**¥29,711**	¥29,540	**$361,711**

The aggregate annual maturities of long-term debt as of March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31		
2013	**¥ 35,118**	**$ 427,538**
2014	**68,946**	**839,372**
2015	**85,772**	**1,044,217**
2016	**45,305**	**551,558**
2017 and thereafter	**59,220**	**720,964**
Total	**¥294,361**	**$3,583,649**

9. Provision for losses on construction contracts

Inventories for construction contracts with anticipated substantial losses and the provision for losses on construction contracts were not offset. As of March 31, 2012 and 2011, the inventories for the construction contracts for which the provision for losses on construction contracts was provided were ¥10,994 million ($133,844 thousand) and ¥12,493 million, respectively. These amounts were all included in work in process.

10. Employees' retirement and severance benefits

Upon terminating employment, employees of the Company and its consolidated domestic subsidiaries are entitled, under most circumstances, to lump-sum indemnities. For an employee who voluntarily retires under normal circumstances, a minimum payment amount is calculated based on the rate of pay at the time of retirement, length of service and conditions under which the employee retires. The Company and certain consolidated subsidiaries have a defined contribution pension plan and a cash balance plan, and certain consolidated foreign subsidiaries have a retirement pension system. The cash balance plan is linked to market interest rates and treated as a defined benefit pension plan. The plan assets of the company are generally held in a separately administered trust as a proportion of a general fund.

The liability for employees' retirement and severance benefits included in the long-term liability section of the consolidated balance sheets as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Projected benefit obligation	**¥(177,268)**	¥(178,101)	**$(2,158,119)**
Fair value of plan assets	**63,743**	67,005	**776,028**
Unrecognized prior service costs	**(5,857)**	(7,199)	**(71,305)**
Unrecognized actuarial gains and losses	**48,553**	41,525	**591,100**
Prepaid pension cost	**(4,223)**	(3,786)	**(51,412)**
Liability for retirement and severance benefits	**¥ (75,052)**	¥ (80,556)	**$ (913,708)**

Retirement and severance benefit expenses in the consolidated statements of operations for the years ended March 31, 2012, 2011 and 2010 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	**2012**
Service costs - benefits earned during the year	**¥ 8,882**	¥ 9,338	¥ 9,274	**$108,132**
Interest cost on projected benefit obligation	**3,675**	3,821	3,945	**44,740**
Expected return on plan assets	**(1,061)**	(1,046)	(871)	**(12,916)**
Amortization of prior service costs	**(2,409)**	(2,304)	(2,265)	**(29,327)**
Amortization of actuarial gains and losses	**4,715**	3,849	4,978	**57,401**
Amortization of net transition obligation	**-**	-	12,342	**-**
Contribution to the defined contribution pension plans	**712**	667	614	**8,668**
Retirement and severance benefit expenses	**¥14,514**	¥14,325	¥28,017	**$176,698**

Basic assumptions and information used to calculate retirement and severance benefits were as follows:

	2012	2011	2010
Discount rate	**mainly 2.0%**	mainly 2.0%	mainly 2.0%
Expected rate of return on plan assets			
(For the Company and consolidated domestic subsidiaries)	**3.0 to 3.5%**	3.0 to 3.5%	3.0 to 3.5%
(For consolidated overseas subsidiaries)	**6.18 to 7.75%**	6.64 to 7.75%	5.67 to 7.75%
Amortization period for prior service costs	**mainly 10 years**	mainly 10 years	mainly 10 years
Amortization period for actuarial gains and losses	**mainly 10 years**	mainly 10 years	mainly 10 years
Amortization period for transition obligation	**-**	-	mainly 10 years

11. Contingent liabilities

Contingent liabilities as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	**¥29,496**	¥33,409	**$359,094**

12. Net assets

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

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

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

13. Cost of sales

The ending balance of inventories was measured at the lower of cost or market. Gain on the valuation of inventories included in the cost of sales for the year ended March 31, 2011 was ¥49 million. Loss on the valuation of inventories included in the cost of sales for the year ended March 31, 2012 and 2010 was ¥1,246 million ($15,169 thousand) and ¥297 million, respectively.

Provision for losses on construction contracts included in the cost of sales for the years ended March 31, 2012, 2011 and 2010 were ¥14,980 million ($182,371 thousand), ¥20,948 million and ¥8,270 million, respectively.

14. Research and development expenses

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

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	**2012**
Research and development expenses	**¥39,940**	¥37,090	¥38,057	**$486,242**

15. "Other expenses, net" in "Other income (expenses)"

"Other expenses, net" in "Other income (expenses)" in the consolidated statements of operations for the years ended March 31, 2012, 2011 and 2010 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	**2012**
Foreign exchange gain, net	**¥ 206**	¥ 1,491	¥10,955	**$ 2,507**
Reversal of provision for environmental measures (a)	**-**	-	1,077	**-**
Reversal of allowance for doubtful receivables of affiliates (b)	**-**	-	460	**-**
Loss on impairment of fixed assets (c)	**(14,921)**	(9,923)	(3,132)	**(181,653)**
Loss on valuation of securities	**(918)**	(1,577)	(32)	**(11,176)**
Provision for doubtful receivables of affiliates (d)	**-**	(325)	-	**-**
Loss on adjustment for changes in accounting standard for asset retirement obligations	**-**	(291)	-	**-**
Restructuring charges (e)	**-**	-	(7,648)	**-**
Loss on legal proceedings (f)	**-**	-	(6,983)	**-**
Loss on environmental measures (g)	**-**	-	(1,489)	**-**
Loss on liquidation of subsidiary (h)	**-**	-	(399)	**-**
Other, net	**239**	(242)	(52)	**2,911**
Total	**¥(15,394)**	¥(10,867)	¥ (7,243)	**$ (187,411)**

(Change in presentation)

In the year ended March 31, 2011, “Gain on sales of marketable securities and investment securities” was reported as a separate item. However, owing to a decline in the materiality of this item, in the year ended March 31, 2012, it is reported as part of “Other, net.” To reflect this change in presentation, amounts shown for the years ended March 31, 2011 and 2010 have been adjusted. As a result, “Gain on sales of marketable securities and investment securities” of ¥0 million and ¥1,739 million that were previously shown for the years ended March 31, 2011 and 2010, respectively, within "Other expenses, net" in "Other income (expenses)" have been included in “Other, net.”

(a) "Reversal of provision for environmental measures" is due to the re-estimation of expenses for the environmental measures.

(b) "Reversal of allowance for doubtful receivables for affiliates" is due to the collection on loans for Shanghai COSCO Kawasaki Heavy Industries Steel Structure Co., Ltd., an affiliate of the Company.

(c) Loss on impairment of fixed assets
Owing to a decline in the profitability or the market prices of certain asset groups, the Company and its consolidated subsidiaries reduced the book value of certain assets to the recoverable amounts. Assets are grouped mainly by units of business. However, significant assets for rent or those that are idle are treated separately. Recoverable amounts were determined by the net salable value or value in use, and net salable value was estimated by appraisal or property tax assessment.

Asset groups for which the Company and its consolidated subsidiaries recognized impairment loss for the year ended March 31, 2012 were as follows:

Function or status	Location	Type of assets
Operating property	Sakaide City, Kagawa	Buildings and structures, machinery and equipment, etc.
Operating property	Minato-ku and Koto-ku, Tokyo	Buildings.
Idle property	Kakamigahara City, Gifu	Buildings and structures, etc.
Idle property	Akashi City, Hyogo	Buildings and structures, etc.
Idle property	Takeda City, Oita	Land, etc.

Impairment loss for the year ended March 31, 2012 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	**¥ 7,091**	**$ 86,328**
Machinery and equipment	**4,315**	**52,532**
Land	**2,587**	**31,495**
Other	**928**	**11,298**
Total	**¥14,921**	**$181,653**

Asset groups for which the Company and its subsidiaries recognized impairment loss for the year ended March 31, 2011 were as follows:

Function or status	Location	Type of assets
Operating property	Akashi City, Hyogo	Buildings and structures, machinery and equipment, etc.
Operating property	Kobe City, Hyogo	Buildings and structures, machinery and equipment, etc.

Impairment loss for the year ended March 31, 2011 consisted of the following:

	Millions of yen
Buildings and structures	¥3,731
Machinery and equipment	2,300
Other	3,892
Total	¥9,923

Asset groups for which the Company and its subsidiaries recognized impairment loss for the year ended March 31, 2010 were as follows:

Function or status	Location	Type of assets
Operating property	Inami-cho, Kako-gun, Hyogo	Buildings and structures, machinery and equipment, etc.
Operating property	Yokkaichi City, Mie	Buildings and structures, machinery and equipment, etc.

Impairment loss for the year ended March 31, 2010 consisted of the following:

	Millions of yen
Buildings and structures	¥1,199
Machinery and equipment	1,556
Other	377
Total	¥3,132

(d) “Provision for doubtful receivables of affiliates” is an allowance for doubtful receivables to Tonfang Kawasaki Air-Conditioning Co., Ltd., an affiliate of the Company.

(e) "Restructuring charges” is the sum of the estimated ¥6,327 million for the liquidation of excess inventories in the Motorcycle & Engine business in North America and ¥1,321 million for early retirement expenses of the subsidiaries of the business.

(f) "Loss on legal proceedings" is a provision for compensation in the event the Company is required to pay monetary damages in connection with legal action.

(g) "Loss on environmental measures" is a provision for the disposal of PCB waste in accordance with the "Law Concerning Special Measures for Promotion of Appropriate Disposal of PCB (polychlorinated biphenyl) Waste" and soil improvement.

(h) "Loss on liquidation of subsidiary" represents the expenses associated with the liquidation of Kawasaki Oita Manufacturing Co., Ltd., a consolidated subsidiary of the Company.

16. Consolidated statement of comprehensive income

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

	Millions of yen	Thousands of U.S. dollars
	2012	**2012**
Unrealized gains (losses) on securities		
Increase (decrease) during the year	**¥ (231)**	**$ (2,812)**
Reclassification adjustments	**2**	**24**
Subtotal, before tax	**(229)**	**(2,788)**
Tax (expense) or benefit	**335**	**4,078**
Subtotal, net of tax	**106**	**1,290**
Deferred gains (losses) on hedges		
Increase (decrease) during the year	**2,351**	**28,621**
Reclassification adjustments	**(243)**	**(2,958)**
Asset acquisition cost adjustments	**(12)**	**(146)**
Subtotal, before tax	**2,096**	**25,517**
Tax (expense) or benefit	**(815)**	**(9,922)**
Subtotal, net of tax	**1,281**	**15,595**
Foreign currency translation adjustments		
Increase (decrease) during the year	**(2,924)**	**(35,596)**
Share of other comprehensive income of associates accounted for using equity method		
Increase (decrease) during the year	**231**	**2,812**
Total other comprehensive income	**¥(1,306)**	**$(15,899)**

17. Dividends

(a) Dividends paid

Year ended March 31, 2012

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 28, 2011 General Meeting of Shareholders	**Common stock**	**¥5,011 million ($61,005 thousand)**	**¥ 3.0 ($0.03)**	**March 31, 2011**	**June 29, 2011**

Year ended March 31, 2011

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 25, 2010 General Meeting of Shareholders	Common stock	¥5,003 million	¥ 3.0	March 31, 2010	June 28, 2010

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

Year ended March 31, 2012

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 27, 2012 General Meeting of Shareholders	**Common stock**	**Retained earnings**	**¥8,359 million ($101,765 thousand)**	**¥ 5.0 ($0.06)**	**March 31, 2012**	**June 28, 2012**

Year ended March 31, 2011

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 28, 2011 General Meeting of Shareholders	Common stock	Retained earnings	¥5,011 million	¥ 3.0	March 31, 2011	June 29, 2011

18. Income taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporation tax (national tax) and enterprise and inhabitants taxes (local taxes), which, in the aggregate, resulted in a statutory tax rate of approximately 40.5 percent for each of the years ended March 31, 2012 and 2011.

The significant differences between the statutory and effective tax rates for the years ended March 31, 2012 and 2011 are as follows:

	2012	2011
Statutory tax rate	**40.5%**	40.5%
Valuation allowance	**2.1**	(14.5)
Equity in income of nonconsolidated subsidiaries and affiliates	**(7.0)**	(9.5)
Organization restructuring	**-**	7.3
Dividend from overseas consolidated subsidiaries	**1.7**	7.9
Changing tax rate	**12.7**	-
Other	**(3.2)**	(3.7)
Effective tax rate	**46.8%**	28.0%

Significant components of deferred tax assets and liabilities as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Deferred tax assets:			
Accrued bonuses	**¥ 8,579**	¥ 7,049	**$104,443**
Retirement benefits	**36,163**	43,104	**440,260**
Allowance for doubtful receivables	**900**	675	**10,956**
Inventories – elimination of intercompany profits	**654**	182	**7,962**
Fixed assets – elimination of intercompany profits	**373**	448	**4,541**
Depreciation	**9,874**	6,058	**120,209**
Net operating loss carryforwards	**801**	6,950	**9,751**
Unrealized loss on marketable securities, investments in securities and other	**3,472**	4,224	**42,269**
Provision for losses on construction contracts	**11,196**	11,301	**136,303**
Other	**25,946**	28,760	**315,879**
Gross deferred tax assets	**97,958**	108,751	**1,192,573**
Less valuation allowance	**(16,759)**	(16,437)	**(204,030)**
Total deferred tax assets	**81,199**	92,314	**988,543**
Deferred tax liabilities:			
Deferral of gain on sale of fixed assets	**4,914**	5,610	**59,824**
Net unrealized gain on securities	**1,993**	2,363	**24,263**
Other	**9,198**	6,016	**111,980**
Total deferred tax liabilities	**16,105**	13,989	**196,067**
Net deferred tax assets	**¥65,094**	¥78,325	**$792,476**

(Impact of changes in tax rates)

The Law to Revise the Income Tax, etc. in Order to Construct a Tax System Addressing Changes in the Socio-Economic Structure (Law No. 114 of 2011) and The Law on Special Measures to Secure Financial Resources for Reconstruction Following the Great East Japan Earthquake (Law No. 117 of 2011) were promulgated on December 2, 2011, thereby mandating the reduction of the corporate tax rate and the levy of a special reconstruction corporate tax for fiscal years commencing on and after April 1, 2012. Pursuant to these laws, the statutory effective tax rate used in calculating deferred tax assets and deferred tax liabilities (limited to items eliminated on or after April 1, 2012) has been reduced from the 40.5% previously used to 37.8% for items expected to be collected or paid in the period from April 1, 2012, to March 31, 2015, and to 35.5% for items expected to be collected or paid on or after April 1, 2015. As a result, deferred tax assets (net of deferred tax liabilities) decreased ¥5,917 million ($72,035 thousand), and income taxes—deferred recorded in the year ended March 31, 2012, valuation difference on available-for-sale securities, and deferred gains and losses on hedges increased by ¥6,188 million ($75,334 thousand), ¥252 million ($3,067 thousand) and ¥18 million ($219 thousand), respectively.

19. Cash and cash equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2012, 2011 and 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	**2012**
Cash on hand and in banks:	**¥34,316**	¥47,233	¥34,745	**$417,774**
Time deposits with maturities over three months:	**(1,071)**	(2,604)	(608)	**(13,039)**
Total	**¥33,245**	¥44,629	¥34,137	**$404,735**

20. Net income per share

Per share amounts for the years ended March 31, 2012, 2011 and 2010 are set forth in the table below. While there were residual securities, a diluted net income per share for the year ended March 31, 2010 was not disclosed because the Company posted a net loss.

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	**2012**
Basic net income per share:				
Net income (loss)	**¥23,323**	¥25,965	¥(10,860)	**$ 283,942**
Net income (loss) allocated to common stock	**23,323**	25,965	(10,860)	**283,942**
	Number of shares in millions			
Weighted average number of shares of common stock	**1,671**	1,669	1,668	

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	**2012**
Diluted net income per share				
Net income adjustment	**¥ 22**	¥ 44	¥ –	**$ 267**
(Interest expenses, etc.)	**(22)**	(44)	(–)	**(267)**
	Number of shares in millions			
Increase in shares of common stocks	**13**	28	–	
(Convertible bonds)	**(5)**	(11)	(–)	
(Zero coupon convertible bonds)	**(8)**	(17)	(–)	

21. Derivative transactions

(a) Outstanding positions and recognized gains and losses at March 31, 2012 were as follows:

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

	Millions of yen				Thousands of U.S. dollars
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)	Gain (loss)
Currency related contracts:					
Foreign exchange contracts:					
To sell	**¥135,398**	**¥ -**	**¥(3,023)**	**¥(3,022)**	**$(36,791)**
To purchase	**441**	**-**	**(1)**	**(1)**	**(12)**
Option contracts:					
To sell	**76,480**	**-**	**(2,209)**	**(1,212)**	**(14,756)**
To purchase	**44,720**	**-**	**(87)**	**(848)**	**(10,323)**
Total	**¥257,039**	**¥ -**	**¥(5,320)**	**¥(5,083)**	**$(61,882)**

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company applied hedge accounting)

		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables	**¥ 88,798**	**¥33,629**	**¥ (334)**
To purchase	Trade payables	**45,608**	**1,624**	**1,027**
Option contracts				
To sell	Trade receivables	**-**	**-**	**-**
To purchase	Trade payables	**-**	**-**	**-**
Alternative method (*)				
Foreign exchange contracts				
To sell	Trade receivables	**1,388**	**-**	**19**
To purchase	Trade payables	**1,388**	**-**	**(19)**
Total		**¥137,182**	**¥35,253**	**¥ 693**

Fair value is based on prices provided by financial institutions.

(*) For certain trade accounts receivable and payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the risk of foreign currency fluctuation, the fair value of the derivative financial instrument is included in the fair value of "Trade receivables" and "Trade payables" as hedge items.

	Subject of hedge	Thousands of U.S. dollars		
		Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables	**$1,081,056**	**$409,410**	**$(4,066)**
To purchase	Trade payables	**555,247**	**19,771**	**12,502**
Option contracts				
To sell	Trade receivables	**-**	**-**	**-**
To purchase	Trade payables	**-**	**-**	**-**
Alternative method				
Foreign exchange contracts				
To sell	Trade receivables	**16,898**	**-**	**231**
To purchase	Trade payables	**16,898**	**-**	**(231)**
Total		**$1,670,099**	**$429,181**	**$ 8,436**

	Subject of hedge	Millions of yen		
		Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Interest swap				
Deferral hedge accounting				
Floating-rate receipt/fixed-rate payment	Short-term debt and long-term debt	**¥20,000**	**¥15,000**	**¥ (259)**
Special treatment (*)				
Floating-rate receipt/fixed-rate payment	Long-term debt	**15,000**	**12,000**	**-**
Interest rate and currency swaps treated as single item (special treatment, hedge accounting treatment)	Long-term debt	**2,688**	**2,688**	**-**
		¥37,688	**¥29,688**	**¥ (259)**

Fair value is based on prices provided by financial institutions.

(*) As interest rate swaps subject to special treatment for interest rate swaps are accounted for as a single item with the underlying long-term debt, which comprises the hedged items, the fair value is included in that of the long-term debt.

	Subject of hedge	Thousands of U.S. dollars		
		Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Interest swap				
Deferral hedge accounting				
Floating-rate receipt/fixed-rate payment	Short-term debt and long term debt	**$243,487**	**$182,615**	**$(3,153)**
Special treatment				
Floating-rate receipt/fixed-rate payment	Long-term debt	**182,615**	**146,092**	**-**
Interest rate and currency swaps treated as single item (special treatment, hedge accounting treatment)	Long-term debt	**32,724**	**32,724**	**-**
		$458,826	**$361,431**	**$(3,153)**

(b) Outstanding positions and recognized gains and losses at March 31, 2011 were as follows:

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

	Millions of yen			
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)
Currency related contracts:				
Foreign exchange contracts:				
To sell	¥ 48,551	¥ -	¥ 1,009	¥ 1,009
To purchase	1,247	-	(20)	(20)
Option contracts:				
To sell	67,223	-	(1,334)	(315)
To purchase	64,642	-	369	(171)
Total	¥ 181,663	¥ -	¥ 24	¥ 503

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company applied hedge accounting)

		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Trade receivables	¥22,301	¥ 299	¥ (636)
To purchase	Trade payables	32,510	168	(593)
Option contracts				
To sell	Trade receivables	2,580	-	(20)
To purchase	Trade payables	1,290	-	61
Alternative method (*)				
Foreign exchange contracts				
To sell	Trade receivables	4,211	-	0
Total		¥62,892	¥ 467	¥(1,188)

Fair value is based on prices provided by financial institutions.

(*) For certain trade accounts receivable and payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the risk of foreign currency fluctuation, the fair value of the derivative financial instrument is included in the fair value of "Trade receivables" and "Trade payables" as hedge items.

		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Interest swap				
Deferral hedge accounting				
Floating-rate receipt/fixed-rate payment	Short-term debt and long-term debt	¥30,000	¥20,000	¥ (495)
Special treatment (*)				
Floating-rate receipt/fixed-rate payment	Long-term debt	15,000	15,000	–
		¥45,000	¥35,000	¥ (495)

Fair value is based on prices provided by financial institutions.

(*) As interest rate swaps subject to special treatment for interest rate swaps are accounted for as a single item with the underlying long-term debt, which comprises the hedged items, the fair value is included in that of the long-term debt.

22. Financial Instruments

Effective from the fiscal year ended March 31, 2010, the Company has adopted a revised accounting standard, "Accounting Standard for Financial Instruments" (Statement No. 10, issued by ASBJ on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Investments" (Financial Accounting Standard Implementation Guidance No. 19, issued by ASBJ on March 10, 2008). This change did not have a material effect on net income (loss) for the fiscal years ended March 31, 2011 or 2010, but mandates more detailed disclosure of information on financial instruments held by the Company than in prior years. Information for the fiscal years ended March 31, 2012 and 2011, required pursuant to the aforementioned accounting standards is as follows.

(1) Matters related to the status of financial instruments

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

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

Almost all trade payables are due within one year. A portion of trade payables are denominated in foreign currency—specifically those related to payment for imported materials, etc.—and are exposed to the risk of foreign currency fluctuation. However, this risk is mitigated principally by the position of trade payables denominated in foreign currency being less than the position of receivables in the same currency. Loans payable, bonds payable and lease obligations under finance leases are mainly used to raise operating capital and carry out capital expenditure and are due in a maximum of ten years from March 31, 2012 (nine and a half years from March 31, 2011). A portion of these instruments is exposed to the risk of interest rate fluctuation. However, such risk is hedged using derivatives (interest swaps) as necessary.

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

(c) Risk management system for financial instruments

(i) Management of credit risk, including customer default risk
The Company's sales management functions and those of its consolidated subsidiaries regularly evaluate the financial circumstances of customers and monitor the due dates and balances by customer to identify and limit doubtful accounts.
With regard to derivative transactions, the Company enters into contracts with highly rated financial institutions to reduce counterparty risk. The amount presented in the balance sheet is the maximum credit risk at the fiscal year end of the financial instruments that are exposed to credit risk.

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

and certain of its consolidated subsidiaries hedge interest rate risk on debt using interest swap contracts.

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

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

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

(d) Supplemental information on the fair value of financial instruments
The fair value of financial instruments includes values based on market price and reasonably estimated values when market price is not available. However, as variables are inherent in these value calculations, the resulting values may differ if different assumptions are used. With regard to the contract amounts, etc., of the derivatives described below in "(2) Fair values of financial instruments," these amounts do not represent the market risk associated with the corresponding derivative transactions themselves.

(2) Fair values of financial instruments

The book values, the fair values and the differences between these values as of March 31, 2012, were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	Millions of yen			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Cash on hand and in banks	**¥ 34,316**	**¥ 34,316**	**¥ -**	**$ -**
Trade receivables	**404,054**	**403,847**	**(207)**	**(2,520)**
Investments in securities	**16,427**	**16,399**	**(28)**	**(340)**
Total assets	**¥454,797**	**¥454,562**	**¥ (235)**	**$ (2,860)**
Trade payables	**310,775**	**310,775**	**-**	**-**
Short-term debt and current portion of long-term debt (excluding lease obligations)	**147,568**	**147,568**	**-**	**-**
Long-term debt, less current portion (excluding lease obligations)	**258,738**	**260,672**	**1,934**	**23,545**
Total liabilities	**¥717,081**	**¥719,015**	**¥ 1,934**	**$ 23,545**
Derivative transactions (*)	**¥ (4,886)**	**¥ (4,886)**	**¥ -**	**$ -**

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

The book values, fair values and the differences between these values as of March 31, 2011, were as follows (Financial instruments for which the fair value was extremely difficult to determine were not included, as described in remark (ii)):

	Millions of yen		
	Book value	Fair value	Unrealized gains (losses)
Cash on hand and in banks	¥ 47,233	¥ 47,233	¥ -
Trade receivables	401,753	401,625	(128)
Investments in securities	16,540	16,527	(13)
Total assets	¥465,526	¥465,385	¥ (141)
Trade payables	319,272	319,272	-
Short-term debt and current portion of long-term debt (excluding lease obligations)	174,455	174,455	-
Long-term debt, less current portion (excluding lease obligations)	253,801	255,377	1,576
Total liabilities	¥747,528	¥749,104	¥ 1,576
Derivative transactions (*)	¥ (1,660)	¥ (1,660)	¥ -

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

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

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

<Liabilities>
- Trade payables, short-term debt and current portion of long-term debt
  Since the settlement periods of these items are short and their fair values are substantially the same as their book values, the relevant book values are used.
- Long-term debt, less current portion
  The fair value of bonds payable is calculated based on trading reference data. The fair value of long-term debt is calculated by applying a discount rate to the total of principal and interest. That discount rate is based on the assumed interest rate if a similar new loan was entered into.

<Derivatives>
  See Note 21, "Derivative Transactions."

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

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Unlisted equity securities and investments in partnerships	**¥ 7,122**	¥ 8,102	**$ 86,705**
Stocks of nonconsolidated subsidiaries and affiliates	**6,917**	7,335	**84,209**
Investments in affiliates	**23,090**	18,314	**281,106**
Total	**¥37,129**	¥33,751	**$452,020**

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

(iii) Planned redemption amounts after the balance sheet date for monetary receivables and investments in securities with maturity dates as of March 31, 2012 and 2011 were as follows:

	Millions of yen			
	2012			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**¥ 34,316**	**¥ -**	**¥ -**	**¥ -**
Trade receivables	**368,419**	**35,635**	**-**	**-**
Investments in securities				
-Bonds	**300**	**104**	**-**	**-**
Total	**¥403,035**	**¥35,739**	**¥ -**	**¥ -**

	Thousands of U.S. dollars			
	2012			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**$ 417,774**	**$ -**	**$ -**	**$ -**
Trade receivables	**4,485,257**	**433,832**	**-**	**-**
Investments in securities				
-Bonds	**3,652**	**1,266**	**-**	**-**
Total	**$4,906,683**	**$435,098**	**$ -**	**$ -**

	Millions of yen			
	2011			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	¥ 47,233	¥ -	¥ -	¥ -
Trade receivables	385,662	16,091	-	-
Investments in securities				
-Bonds	-	300	105	-
Total	¥432,895	¥16,391	¥ 105	¥ -

(iv) Planned repayment amounts after the balance sheet date for bonds payable, convertible bonds and long-term debt

See Note 8, "Short-Term debt and Long-term debt."

23. Finance leases

As discussed in Note 2(w), finance leases commenced prior to April 1, 2008 which do not transfer ownership of the leased assets to the lessee are accounted for as operating leases. Information regarding such leases, as required to be disclosed in Japan, is as follows:

(a) Lessee

The original costs of leased assets under non-capitalized finance leases and the related accumulated depreciation and amortization, assuming it was calculated by the straight-line method over the term of the respective lease, as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Property, plant and equipment	**¥31,691**	¥35,520	**$385,816**
Accumulated depreciation	**(19,888)**	(20,072)	**(242,123)**
	11,803	15,448	**143,693**
Intangible assets	**284**	543	**3,457**
Accumulated amortization	**(238)**	(416)	**(2,897)**
	¥ 46	¥ 127	**$ 560**

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Current portion	**¥ 3,150**	¥ 4,156	**$ 38,349**
Noncurrent portion	**9,081**	11,413	**110,555**
Total	**¥12,231**	¥15,569	**$148,904**

Lease payments, "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases for the years ended March 31, 2012, 2011 and 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	**2012**
Lease payments	**¥4,911**	¥5,038	¥6,033	**$59,788**
Depreciation and amortization	**4,531**	4,669	5,642	**55,161**
Interest	**388**	486	590	**4,723**

(b) Lessor

The original costs of leased assets under finance leases and the related accumulated depreciation and amortization as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Property, plant and equipment	**¥1,429**	¥1,559	**$17,396**
Accumulated depreciation	**(1,107)**	(1,030)	**(13,476)**
	322	529	**3,920**
Intangible assets	**45**	55	**547**
Accumulated amortization	**(45)**	(48)	**(547)**
	¥ 0	¥ 7	**$ 0**

The present values of future minimum lease payments to be received under finance leases as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Current portion	**¥ 195**	¥ 297	**$2,374**
Noncurrent portion	**181**	377	**2,203**
Total	**¥ 376**	¥ 674	**$4,577**

Lease payments received, depreciation and amortization and interest on finance leases for the years ended March 31, 2012, 2011 and 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	**2012**
Lease payments received	**¥ 241**	¥ 282	¥ 338	**$2,934**
Depreciation and amortization	**213**	257	324	**2,593**
Interest	**24**	35	55	**292**

24. Operating leases

The present values of future minimum lease payments under operating leases as lessee as of March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Current portion	**¥ -**	¥ 295	**$ -**
Noncurrent portion	**-**	-	**-**
Total	**¥ -**	¥ 295	**$ -**

25. Business combinations

Year ended March 31, 2011
(Transactions under common control)
Pursuant to resolutions passed by the Board of Directors on September 30, 2009, Kawasaki Shipbuilding Corporation, Kawasaki Precision Machinery Ltd. (KPM), and Kawasaki Plant Systems, Ltd. (K Plant) were merged with the Company on October 1, 2010.

(a) Name and outline of business of constituent companies, date of business combination, legal form of business combination, name of company after business combination and outline of transactions, including purpose of transactions

(i) Name and outline of business of constituent companies

Company surviving in absorption-type merger

Name:	Kawasaki Heavy Industries, Ltd. (KHI)
Outline of business:	Production and sale of ships and vessels, rolling stock, construction machinery, crushers, aircraft, jet engines, general-purpose gas turbine generators, motors and engines, various types of industrial plant and industrial equipment, boilers, environmental equipment, steel structures, motorcycles, all-terrain vehicles (ATV), industrial robots, and various industrial hydraulic products

Company absorbed in absorption-type merger

Name:	Kawasaki Shipbuilding Corporation
Outline of business:	Design, production, sale and maintenance of ships, naval vessels, marine equipment, other transportation equipment, and accompanying equipment and parts
Name:	Kawasaki Precision Machinery Ltd. (KPM)
Outline of business:	Design, procurement, production, installation, maintenance, and sale of industrial hydraulic products, hydraulic systems, electronic control equipment and systems, and accompanying devices, parts, and accessories
Name:	Kawasaki Plant Systems, Ltd. (K Plant)
Outline of business:	Design, production, installation, and sale of various types of plant machinery and equipment

(ii) Date of business combination
October 1, 2010

(iii) Legal form of business combination
The merger was an absorption-type merger whereby the Company (KHI) is the surviving entity and the three subsidiaries were dissolved.

(iv) Name of company after business combination
Kawasaki Heavy Industries, Ltd.

(v) Outline of transactions, including purpose of transactions
Guided by the mission statement it adopted in 2007, the Company is working to create new value that will contribute to a better environment and brighter future by leveraging its advanced technological capability across a broad range of fields. Creating new value involves making existing products smarter through innovation and developing brand new products in totally new fields. To achieve this, it is essential that KHI work quickly to efficiently integrate and maximize the entire KHI Group’s intellectual assets. For these reasons, KHI decided to merge Kawasaki Shipbuilding, KPM and K Plant with the Company to facilitate maximum efficiency in leveraging the Group’s technological assets and human resources while removing any barriers that may have existed under a subsidiary structure.

In addition to the pursuit of greater competitiveness in existing businesses, the *Kawasaki Business Vision 2020,* formulated in April 2011, designates the development of new products and businesses as a key measure for accelerating sustained Group growth. The Company will use this merger to draw together technological expertise and knowhow across conventional organizational and product boundaries to develop new products in the transportation systems, energy and environment and industrial equipment sectors. The Company also intends to pursue research and development of core technologies in new business fields such as CO_2-free hydrogen technologies and ocean energy.

By accelerating initiatives aimed at facilitating the Group-wide use and maximization of intellectual assets amassed by KHI Group companies such as those related to sales expertise, technology, procurement, and human resources, the Company seeks to realize its Group Mission Statement, "Kawasaki, working as one for the good of the planet (Enriching lifestyles and helping safeguard the environment: Global Kawasaki). "

(b) Outline of accounting procedure used

The merger was accounted for as a transaction under common control based on "Accounting Standard for Business Combinations" (Statement No. 21, issued by ASBJ on December 26, 2008) and the associated "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Guidance No. 10, revised by ASBJ on December 26, 2008).

26. Segment information

(a) Overview of reportable segments

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

In conjunction with its October 2010 organizational restructuring, the Group renamed its Shipbuilding segment the Ship & Offshore Structure segment.

Main segment businesses are listed below

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

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

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

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

	Year ended March 31, 2012								
	Millions of yen								
	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥ 113,532	¥ 1,636	¥ 115,168	¥ 3,964	¥ 102,102	¥ 3,819	¥13,554	¥15,278	¥ 2,297
Rolling Stock	132,684	2,105	134,789	5,154	157,487	3,693	-	92	2,266
Aerospace	206,580	1,846	208,426	7,815	295,668	9,633	33	-	10,208
Gas Turbine & Machinery	194,655	20,438	215,093	7,775	223,649	6,680	-	576	7,310
Plant & Infrastructure	122,800	13,150	135,950	14,118	109,395	1,703	64	10,171	3,277
Motorcycle & Engine	235,243	1,033	236,276	(2,959)	222,515	11,151	-	967	11,770
Precision Machinery	175,077	14,245	189,322	26,622	110,578	6,647	-	-	16,221
Other	123,207	35,281	158,488	3,838	183,396	2,539	1,270	2,412	3,384
Total	¥1,303,778	¥89,734	¥1,393,512	¥66,327	¥1,404,790	¥45,865	¥14,921	¥29,496	¥56,733
Adjustments	-	(89,734)	(89,734)	(8,843)	(42,651)	3,036	-	-	7,186
Consolidated total	¥1,303,778	¥ -	¥1,303,778	¥57,484	¥1,362,139	¥48,901	¥14,921	¥29,496	¥63,919

	Year ended March 31, 2011								
	Millions of yen								
	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥ 118,416	¥ 1,895	¥ 120,311	¥ (1,013)	¥ 115,800	¥ 4,264	¥ -	¥13,125	¥ 3,183
Rolling Stock	131,104	2,079	133,183	8,173	151,212	3,634	-	123	2,416
Aerospace	196,876	1,811	198,687	3,030	288,495	9,402	-	-	7,121
Gas Turbine & Machinery	202,692	20,783	223,475	9,545	211,369	6,550	67	61	5,659
Plant & Infrastructure	89,012	12,017	101,029	8,281	95,115	1,554	141	8,603	2,033
Motorcycle & Engine	234,479	1,211	235,690	(4,961)	216,559	15,294	9,520	946	11,340
Precision Machinery	140,328	13,277	153,605	22,318	99,612	4,872	-	-	9,822
Other	114,042	34,340	148,382	2,577	159,618	2,477	195	2,308	8,017
Total	¥1,226,949	¥87,413	¥1,314,362	¥47,950	¥1,337,780	¥48,047	¥9,923	¥25,166	¥49,591
Adjustments	-	(87,413)	(87,413)	(5,322)	16,498	2,229	-	-	5,743
Consolidated total	¥1,226,949	¥ -	¥1,226,949	¥42,628	¥1,354,278	¥50,276	¥9,923	¥25,166	¥55,334

	Year ended March 31, 2010							
	Millions of yen							
	Sales					Other items		
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	¥ 151,893	¥ 1,565	¥ 153,458	¥ 1,550	¥ 128,948	¥ 4,350	¥13,133	¥ 6,693
Rolling Stock	150,071	1,755	151,826	8,726	161,648	3,165	77	4,843
Aerospace	188,892	2,005	190,897	3,766	304,371	8,192	-	9,142
Gas Turbine & Machinery	191,379	22,765	214,144	8,941	215,874	6,222	190	10,278
Plant & Infrastructure	107,580	11,122	118,702	7,944	115,408	1,478	7,719	1,533
Motorcycle & Engine	203,084	1,550	204,634	(27,005)	219,150	18,483	998	16,335
Precision Machinery	82,715	10,261	92,976	3,415	75,066	4,683	-	3,052
Other	97,859	32,551	130,410	(1,078)	154,655	3,066	2,210	5,553
Total	¥1,173,473	¥83,574	¥1,257,047	¥ 6,259	¥1,375,120	¥49,639	¥24,327	¥57,429
Adjustments	-	(83,574)	(83,574)	(7,575)	(22,681)	1,784	-	1,843
Consolidated total	¥1,173,473	¥ -	¥1,173,473	¥(1,316)	¥1,352,439	¥51,423	¥24,327	¥59,272

	Year ended March 31, 2012								
	Thousands of U.S. dollars								
	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	**$ 1,382,177**	**$ 19,917**	**$ 1,402,094**	**$ 48,259**	**$ 1,243,024**	**$ 46,493**	**$165,011**	**$186,000**	**$ 27,964**
Rolling Stock	**1,615,340**	**25,627**	**1,640,967**	**62,747**	**1,917,300**	**44,959**	**-**	**1,120**	**27,587**
Aerospace	**2,514,974**	**22,474**	**2,537,448**	**95,142**	**3,599,562**	**117,275**	**402**	**-**	**124,276**
Gas Turbine & Machinery	**2,369,795**	**248,819**	**2,618,614**	**94,655**	**2,722,778**	**81,324**	**-**	**7,012**	**88,994**
Plant & Infrastructure	**1,495,009**	**160,092**	**1,655,101**	**171,877**	**1,331,811**	**20,732**	**779**	**123,825**	**39,895**
Motorcycle & Engine	**2,863,927**	**12,576**	**2,876,503**	**(36,024)**	**2,708,972**	**135,756**	**-**	**11,773**	**143,292**
Precision Machinery	**2,131,446**	**173,423**	**2,304,869**	**324,105**	**1,346,214**	**80,922**	**-**	**-**	**197,480**
Other	**1,499,964**	**429,523**	**1,929,487**	**46,726**	**2,232,725**	**30,914**	**15,461**	**29,364**	**41,198**
Total	**$15,872,632**	**$1,092,451**	**$16,965,083**	**$807,487**	**$17,102,386**	**$558,375**	**$181,653**	**$359,094**	**$690,686**
Adjustments	**-**	**(1,092,451)**	**(1,092,451)**	**(107,658)**	**(519,248)**	**36,962**	**-**	**-**	**87,485**
Consolidated total	**$15,872,632**	**$ -**	**$15,872,632**	**$699,829**	**$16,583,138**	**$595,337**	**$181,653**	**$359,094**	**$778,171**

(d) Reconciliation and the main components of differences between the total for reportable segments and amounts on the consolidated financial statement for the years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	**2012**
Net sales				
Total for reportable segments	**¥1,393,512**	¥1,314,362	¥1,257,047	**$16,965,083**
Intersegment transactions	**(89,734)**	(87,413)	(83,574)	**(1,092,451)**
Net sales reported on the consolidated financial statements	**¥1,303,778**	¥1,226,949	¥1,173,473	**$15,872,632**

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	**2012**
Income				
Total for reportable segments	**¥66,327**	¥47,950	¥ 6,259	**$807,487**
Intersegment transactions	**(131)**	(3)	9	**(1,594)**
Corporate expenses (*)	**(8,712)**	(5,319)	(7,584)	**(106,064)**
Operating income (loss) on the consolidated financial statements	**¥57,484**	¥42,628	¥(1,316)	**$699,829**

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

	Millions of yen			Thousands of U.S. dollars
	2012	2011	2010	**2012**
Assets				
Total for reportable segments	**¥1,404,790**	¥1,337,780	¥1,375,120	**$17,102,386**
Corporate assets shared by all segments (*)	**112,985**	141,029	114,487	**1,375,517**
Intersegment transactions	**(155,636)**	(124,531)	(137,168)	**(1,894,765)**
Total assets on the consolidated financial statements	**¥1,362,139**	¥1,354,278	¥1,352,439	**$16,583,138**

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

	Millions of yen								
	Year ended March 31,			Year ended March 31,			Year ended March 31,		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010
Other items	Total for reportable segments			Adjustments (*)			Amounts reported on the consolidated financial statements		
Depreciation/amortization	**¥45,865**	¥48,047	¥49,639	**¥3,036**	¥2,229	¥1,784	**¥48,901**	¥50,276	¥51,423
Increase in property, plant and equipment and intangibles	**56,733**	49,591	57,429	**7,186**	5,743	1,843	**63,919**	55,334	59,272

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

	Thousands of U.S. dollars		
	Year ended March 31, **2012**	Year ended March 31, **2012**	Year ended March 31, **2012**
Other items	Total for reportable segments	Adjustments	Amounts reported on the consolidated financial statements
Depreciation/amortization	**$558,375**	**$36,962**	**$595,337**
Increase in property, plant and equipment and intangibles	**690,686**	**87,485**	**778,171**

(e) Related information

(i) Sales by geographic region

Net sales in the years ended March 31, 2012, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Japan	**¥ 567,044**	¥ 558,126	**$ 6,903,384**
United States	**237,941**	236,572	**2,896,774**
Europe	**123,317**	87,162	**1,501,303**
Asia	**239,627**	224,685	**2,917,300**
Other areas	**135,849**	120,404	**1,653,871**
Total	**¥1,303,778**	¥1,226,949	**$15,872,632**

Note: Geographic region classifications were revised from the fiscal year ended March 31, 2011, and a classification was added for Japan.

	Millions of yen
	2010
North America	¥226,859
Europe	93,035
Asia	141,577
Other areas	100,124
Total	¥561,595

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

Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Japan	**¥238,733**	¥241,132	**$2,906,415**
North America	**19,450**	20,611	**236,790**
Europe	**2,104**	2,304	**25,614**
Asia	**13,610**	10,945	**165,692**
Other areas	**853**	788	**10,387**
Total	**¥274,750**	¥275,780	**$3,344,898**

(ii) Information by major clients

	Net sales		
Clients	**2012**	2011	Related segments
Ministry of Defense	**179,786 million yen ($2,188,755 thousand)**	182,633 million yen	Ship & Offshore Structure, Aerospace, Gas Turbine & Machinery, etc.

27. Related party transactions

(a) Related party transactions for the years ended March 31, 2012 and 2011 were as follows:

	Year ended March 31, 2012
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million ($121 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of the Company products
Details of transactions	Sales of the Company products
Amount of transactions	¥59,265 million ($721,512 thousand)
Account	Trade receivables
Ending balance	¥26,229 million ($319,320 thousand)

	Year ended March 31, 2011
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Description of relationship	Order of the Company products
Details of transactions	Sales of the Company products
Amount of transactions	¥33,982 million
Account	Trade receivables
Ending balance	¥13,741 million

(b) A summary of the total financial information of all affiliates (14 companies) (14 in 2011), which was the basis for calculating the equity in income of nonconsolidated affiliates, including that of Nantong COSCO KHI Ship Engineering Co., Ltd., which is a significant affiliate, for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Current assets	**¥102,806**	¥106,381	**$1,251,594**
Fixed assets	**71,760**	70,227	**873,630**
Current liabilities	**84,489**	93,208	**1,028,597**
Long-term liabilities	**11,710**	12,174	**142,561**
Net assets	**78,367**	71,225	**954,066**
Net sales	**161,212**	166,935	**1,962,649**
Minority interests in net income of consolidated subsidiaries	**19,387**	25,200	**236,023**
Total net income	**16,188**	19,483	**197,078**

28. Subsequent events

(a) Investment in Chinese shipbuilding company

The Company resolved to acquire a stake in Dalian COSCO Shipbuilding Industry Co., Ltd. (DACOS)*, a shipbuilding company based in Dalian, China, and completed payment for this acquisition on April 12, 2012.

* Its name changed to Dalian COSCO KHI Ship Engineering CO., Ltd. (DACKS) on May 30, 2012.

1. Purpose

DACOS is a joint venture company established in the Lushun Economic Development Zone in Dalian. It was co-founded in 2007 by COSCO Shipbuilding Industry Company (COSIC)—a wholly owned subsidiary of the COSCO Group, which is one of the largest shipping companies in the world—and Nantong COSCO KHI Ship Engineering Co., Ltd. (NACKS), a 50-50 joint venture operated by the Company and COSIC. DACOS is 70% owned by COSIC and 30% by NACKS. DACOS owns a 1.8 million square meter shipyard complete with two building docks, and the ships built by DACOS have earned high marks from ship owners both in terms of timely delivery and quality.

Through this transaction, the Company acquired a 34% stake in DACOS from COSIC, which had been searching for a new partner with more advanced shipbuilding technology to make DACOS more competitive and further expand its operations. After the share transfer, DACOS is 36% owned by COSIC, 34% by the Company and 30% by NACKS.

By becoming a direct investor in DACOS, the Company aims to build a stronger cooperative relationship based on the successes of NACKS, its first joint venture with COSIC. The Company will also work toward enhancing DACOS' capacity to develop, design and build ships, while improving its production and management system, to lay a firm foundation for DACOS' long-term growth.

2. Overview of Dalian COSCO Shipbuilding Industry Co., Ltd. (DACOS)

(1) Location:	No. 1 Shunda Street, Lushun Economic Development Zone, Dalian, Liaoning, China
(2) Representative:	Xu Kai (Chairman and COSIC General Manager)
(3) Foundation date:	July 18, 2007
(4) Operation:	Design, manufacture, sales and maintenance of ships
(5) Capital:	2,620 million yuan
(6) Investment amount:	1,165 million yuan
(7) Ownership after the investment:	COSCO Shipbuilding Industry Company (COSIC) 36% Kawasaki Heavy Industries, Ltd. 34% Nantong COSCO KHI Ship Engineering Co., Ltd. (NACKS) 30% *NACKS is a 50-50 joint venture co-founded by COSIC and the Company.

(b) On June 27, 2012, the following appropriation of nonconsolidated retained earnings was approved at the ordinary meeting of shareholders of the Company:

	Millions of yen
Cash dividends (¥5.0 per share)	¥8,359

29. Other matters

(a) Quarterly financial information

	Millions of yen			
Year ended March 31, 2012	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	**¥ 291,579**	**¥ 584,990**	**¥ 906,314**	**¥ 1,303,778**
Income (loss) before income taxes and minority interests	**14,104**	**26,312**	**57,186**	**48,706**
Net income (loss)	**9,558**	**17,813**	**33,679**	**23,323**
	yen			
Net income (loss) per share - basic	**¥ 5.7**	**¥ 10.6**	**¥ 20.1**	**¥ 13.9**

	Thousands of U.S. dollars			
Year ended March 31, 2012	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	**$ 3,549,780**	**$ 7,121,865**	**$11,033,771**	**$15,872,632**
Income (loss) before income taxes and minority interests	**171,706**	**320,331**	**696,201**	**592,963**
Net income (loss)	**116,362**	**216,861**	**410,019**	**283,942**
	U.S. dollars			
Net income (loss) per share - basic	**$ 0.06**	**$ 0.12**	**$ 0.24**	**$ 0.16**

(b) On November 16, 2006, the Company received a judgment from the Kobe District Court requiring reimbursement of ¥530 million jointly with Hitachi Zosen Corporation and four other companies in a suit brought by citizens of Amagasaki City claiming that the Company unfairly bid on a construction contract for a waste incineration facility in Amagasaki City that Hitachi Zosen Corporation was awarded in 1996. On November 29, 2006, the Company appealed the judgment to the Osaka High Court and won the case on November 30, 2007. On December 7, 2007, citizens of Amagasaki City, the complainants, appealed the judgment to the Supreme Court. The Supreme Court reversed the Osaka High Court decision and remanded the case back to the Osaka High Court on April 28, 2009. On July 23, 2010, the Company was ordered by the Osaka High Court to jointly reimburse, along with the other defendants, ¥335 million, an amount corresponding to 4% of the cost of the facilities (excluding the construction costs). On July 30, 2010, the plaintiffs sought review of this decision by filing an appeal with the Supreme Court. However, on July 7, 2011, the Supreme Court issued a decision not to accept the application for appeal sought by the plaintiffs, thereby finalizing the outcome of this case.

(c) On December 8, 2009, the Company received a judgment from the Nagoya District Court requiring reimbursement of ¥1,215 million jointly with JFE Engineering Corporation (former NKK) and three other companies in a suit brought by Ichinomiya City claiming that the Company unfairly bid on a construction contract for a waste incineration facility in Ichinomiya City that JFE Engineering Corporation (former NKK) was awarded in 1994. The Company appealed the judgment to the Nagoya High Court on December 25, 2009. However, on August 27, 2010, the Nagoya District Court upheld its decision and granted the claim against the five defendants, including the Company. This outcome was finalized since neither the plaintiffs nor the defendants appealed this decision.

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2012, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2012, in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2(f) to the consolidated financial statements, effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Accounting Standard for Construction Contracts" and the "Guidance on Accounting Standard for Construction Contracts."

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 26, 2012
Kobe, Japan

Major Consolidated Subsidiaries and Affiliates

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
SHIP & OFFSHORE STRUCTURE				
Nantong COSCO KHI Ship Engineering Co., Ltd. †	China	CNY1,462,200*	50.00	Manufacture and sale of ships
ROLLING STOCK				
Alna Yusoki-Yohin Co., Ltd.	Japan	400	100.00	Manufacturing and sales of doors/window frames for train cars and buses, signs for bus stops, advertising materials, bus shelters, automobile sign lights, various types of panels, and waiting rooms
Nichijo Manufacturing Co., Ltd.	Japan	120	75.02	Manufacture and sale of snowplows
Kawasaki Rail Car, Inc.	U.S.A.	US$60,600*	100.00	Engineering, manufacture, sale, and after-sales service of rolling stock in the United States
AEROSPACE				
NIPPI Corporation	Japan	6,048	100.00	Manufacture, maintenance, and modification of aircraft and components; manufacture of rocket components, aerospace equipment, targeting systems, nondestructive testing systems, and industrial fans
GAS TURBINE & MACHINERY				
Kawasaki Thermal Engineering Co., Ltd.	Japan	1,460	83.53	Manufacture, sale, and installation of general-purpose boilers and air-conditioning equipment
Kawasaki Gas Turbine Asia Sdn. Bhd.	Malaysia	MYR5,000*	100.00	Engine testing facility, etc.
Wuhan Kawasaki Marine Machinery Co., Ltd.	China	1,100	55.00	Manufacture, sale, and after-sales service of Kawasaki-brand azimuth thrusters, side thrusters, and other machinery
Kawasaki Machine Systems, Ltd. ✽	Japan	350	100.00	Sale and repair of gas turbine generators, and industrial robots
Tonfang Kawasaki Air-Conditioning Co., Ltd. †	China	US$158,405*	50.00	Manufacture, sale, and maintenance of absorption cooling and heating machinery and refrigeration equipment

Major Consolidated Subsidiaries and Affiliates

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
PLANT & INFRASTRUCTURE				
EarthTechnica Co., Ltd.	Japan	1,200	100.00	Design, manufacture, and sale of crushers, grinders, sorters, and other equipment
Fukae Powtec Corporation	Japan	300	100.00	Manufacture and sale of crushers and related plants
JP Steel Plantech Co. †	Japan	1,995	24.81	Sale of and engineering services for steelworks plants and equipment
Anhui Conch Kawasaki Engineering Co., Ltd. †	China	CNY100,000*	50.00	Design, equipment procurement, sales, installation, technical instruction for trial operation, and after-service for environmentally friendly, energy-efficient equipment
Anhui Conch Kawasaki Equipment Manufacturing Co., Ltd. †	China	CNY348,000*	50.00	Design, production, sales, maintenance, after-service, and supply of spare parts for cement plants
Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd. †	China	CNY60,000*	50.00	Research and development, production, equipment procurement and sales for environmentally friendly, energy-efficient equipment
Shanghai COSCO Kawasaki Heavy Industries China Steel Structure Co., Ltd. †	China	US$29,800*	45.00	Manufacture and sale of steel structures
MOTORCYCLE & ENGINE				
Kawasaki Motors Corp., U.S.A.	U.S.A.	US$165,900*	100.00	Distribution of motorcycles, ATVs, utility vehicles, personal watercraft, and small gasoline engines in the United States
Kawasaki Motors Finance Corporation	U.S.A.	US$10,000*	100.00	Inventory financing for dealers of Kawasaki Motors Corp., U.S.A.
KM Receivables Corporation	U.S.A.	US$100	100.00	Management of accounts receivable of Kawasaki Motors Finance Corporation
Kawasaki Motors Pty. Ltd.	Australia	A$2,000*	100.00	Distribution of motorcycles, ATVs, utility vehicles, and personal watercraft, and small gasoline engines in Australia
P.T. Kawasaki Motor Indonesia	Indonesia	US$40,000*	83.00	Manufacture and distribution of motorcycles in Indonesia
KHITKAN Co., Ltd.	Thailand	B182,000*	100.00	Manufacture and sale of parts for motorcycles in Thailand
Kawasaki Motores Do Brasil Ltda.	Brazil	R16,742*	100.00	Manufacture and sale of motorcycles, ATVs, utility vehicles, and personal watercraft in Brazil
Kawasaki Motors Europe N.V.	Netherlands	EUR64,093*	100.00	Sole distribution of motorcycles, ATVs, utility vehicles, personal watercraft, and small gasoline engines in Europe
Kawasaki Motors (Phils.) Corporation	Philippines	P101,430*	50.001	Manufacture and distribution of motorcycles in the Philippines
Kawasaki Motors Enterprise (Thailand) Co., Ltd.	Thailand	B1,900,000*	100.00	Manufacture and distribution of motorcycles in Thailand
Canadian Kawasaki Motors Inc.	Canada	C$2,000*	100.00	Distribution of motorcycles, ATVs, utility vehicles, and personal watercraft in Canada
Kawasaki Motors Manufacturing Corp., U.S.A. ●	U.S.A.	US$120,000*	100.00	Manufacture of ATVs, utility vehicles, personal watercraft, small gasoline engines, and rolling stock

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
PRECISION MACHINERY				
Kawasaki Precision Machinery (Suzhou) Ltd.	China	1,500	100.00	Assembly of hydraulic pumps and motors for construction machinery
Kawasaki Precision Machinery (U.S.A.), Inc.	U.S.A.	US$5,000*	100.00	Manufacture and sale of hydraulic products
Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.	China	400	100.00	Procurement and sale of hydraulic components and equipment, technical assistance, and quality assurance services
Kawasaki Precision Machinery (U.K.) Ltd.	U.K.	£5,000*	100.00	Manufacture and sale of hydraulic products
Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd.	China	1,000	54.00	Manufacture and sale of hydraulic pumps for construction machinery
Wipro Kawasaki Precision Machinery Private Limited	Indea	Rs. 500 **	74.00	Manufacture, sale, and servicing of hydraulic pumps for construction machinery
Flutek, Ltd.	Korea	W1,310**	50.38	Manufacturing, sales, and repair of hydraulic products, marine machinery, and other machinery
Kawasaki Robotics (UK) Ltd.	U.K.	£917*	100.00	Sale and after-sales service of industrial robots in the U.K. and Ireland
Kawasaki Robotics (Tianjin) Co., Ltd.	China	CNY13,174*	100.00	Sale and after-sales service of industrial robots in China
Kawasaki Machine Systems Korea, Ltd.	Korea	W1,500**	100.00	Sale and after-sales service of industrial robots and robot systems
Kawasaki Robotics (U.S.A.), Inc.	U.S.A.	US$1,000*	100.00	Sale and after-sales service of industrial robots in the United States
OTHER				
KCM Corporation	Japan	4,825	65.99	Design, manufacture, sale, and maintenance of construction machinery
KCMJ Corporation	Japan	300	100.00	Sale and repair of construction machinery
KCMA Corporation	U.S.A.	US$8,000*	100.00	Manufacture and sale of construction machinery in the United States
Kawasaki Trading Co., Ltd.	Japan	600	70.00	Sale of various industrial machinery, petroleum, steel, air conditioning equipment, etc.
Kawasaki Life Corporation	Japan	400	100.00	Administration of Company welfare facilities; real estate sales, leasing, and construction; insurance representation, administration and maintenance, leasing, and provision of loans
Kawasaki Hydromechanics Corporation	Japan	436	100.00	Manufacture, sale, and installation of hydraulic presses and other hydraulic equipment
Nippi Kosan Co., Ltd.	Japan	120	100.00	Design and supervision of building construction work, sale of herbicidal soil, manufacturing and sale of rust-resistant packaging materials, and insurance agency business
Kawasaki do Brasil Industria e Comercio Ltda.	Brazil	R1,136*	100.00	Responsible for sales and acting as intermediary in Brazil and the rest of Latin America for orders of KHI products and for providing various types of engineering business services
Kawasaki Heavy Industries (U.S.A.), Inc.	U.S.A.	US$600*	100.00	Responsible for sales and acting as intermediary in North America for orders of KHI products and for providing various types of engineering support
Kawasaki Heavy Industries (U.K.) Ltd.	U.K.	£500*	100.00	Sale of KHI products in various countries in Europe (principally the U.K.), the Middle East, and Africa; provision of order intermediation services

* Monetary unit in thousands
** Monetary unit in millions
† Affiliate accounted for using equity method

Partially included in: ● Rolling Stock
✽ Precision Machinery

(As of March 31, 2012)

Network

JAPAN

1 Kobe Head Office
Kobe Crystal Tower,
1-3, Higashikawasaki-cho 1-chome,
Chuo-ku, Kobe, Hyogo 650-8680, Japan
Phone: 81-78-371-9530
Fax: 81-78-371-9568

2 Tokyo Head Office (Note)
World Trade Center Bldg.,
4-1, Hamamatsu-cho 2-chome,
Minato-ku, Tokyo 105-6116, Japan
Phone: 81-3-3435-2111
Fax: 81-3-3436-3037

3 Tokyo Office (Note)
11-1, Minamisuna 2-chome,
Koto-ku, Tokyo 136-8588, Japan
Phone: 81-3-3615-5111
Fax: 81-3-3615-4883

4 Sapporo Office
8-3 Square Kita Bldg., 32, Kita 8-jo Nishi
3-chome, Kita-ku,
Sapporo, Hokkaido 060-0808, Japan
Phone: 81-11-727-3131
Fax: 81-11-727-3132

5 Sendai Office
Tokyo Tatemono Sendai Bldg., 6-35, Chuo
1-chome,
Aoba-ku, Sendai, Miyagi 980-0021, Japan
Phone: 81-22-261-3611
Fax: 81-22-265-2736

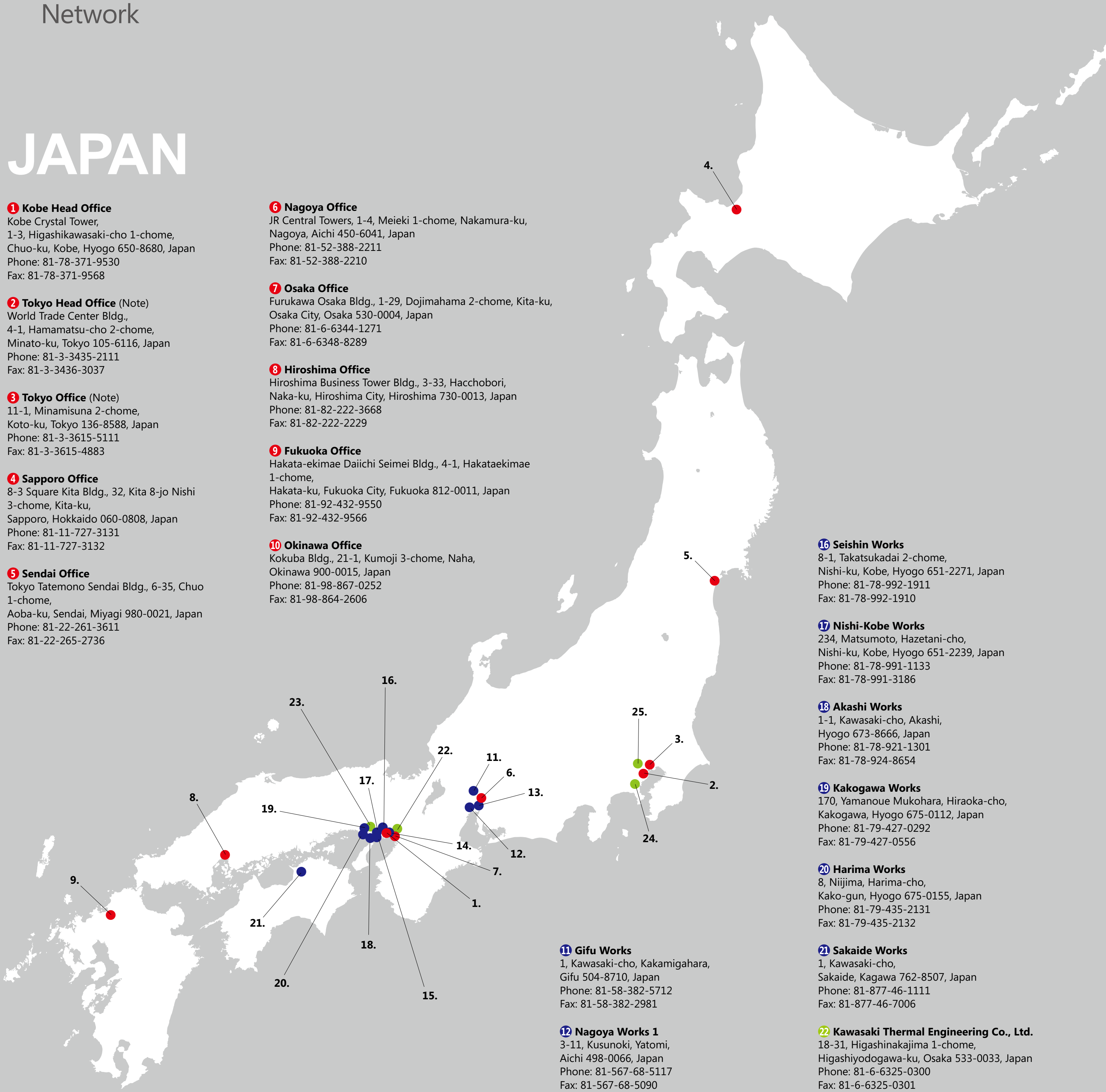
6 Nagoya Office
JR Central Towers, 1-4, Meieki 1-chome, Nakamura-ku,
Nagoya, Aichi 450-6041, Japan
Phone: 81-52-388-2211
Fax: 81-52-388-2210

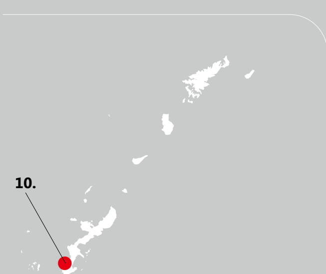
7 Osaka Office
Furukawa Osaka Bldg., 1-29, Dojimahama 2-chome, Kita-ku,
Osaka City, Osaka 530-0004, Japan
Phone: 81-6-6344-1271
Fax: 81-6-6348-8289

8 Hiroshima Office
Hiroshima Business Tower Bldg., 3-33, Hacchobori,
Naka-ku, Hiroshima City, Hiroshima 730-0013, Japan
Phone: 81-82-222-3668
Fax: 81-82-222-2229

9 Fukuoka Office
Hakata-ekimae Daiichi Seimei Bldg., 4-1, Hakataekimae
1-chome,
Hakata-ku, Fukuoka City, Fukuoka 812-0011, Japan
Phone: 81-92-432-9550
Fax: 81-92-432-9566

10 Okinawa Office
Kokuba Bldg., 21-1, Kumoji 3-chome, Naha,
Okinawa 900-0015, Japan
Phone: 81-98-867-0252
Fax: 81-98-864-2606





11 Gifu Works
1, Kawasaki-cho, Kakamigahara,
Gifu 504-8710, Japan
Phone: 81-58-382-5712
Fax: 81-58-382-2981

12 Nagoya Works 1
3-11, Kusunoki, Yatomi,
Aichi 498-0066, Japan
Phone: 81-567-68-5117
Fax: 81-567-68-5090

13 Nagoya Works 2
7-4, Kanaoka, Tobishima-mura,
Ama-gun, Aichi 490-1445, Japan
Phone: 81-567-55-0800
Fax: 81-567-55-0803

14 Kobe Works
1-1, Higashikawasaki-cho 3-chome,
Chuo-ku, Kobe, Hyogo 650-8670, Japan
Phone: 81-78-682-5001
Fax: 81-78-682-5503

15 Hyogo Works
1-18, Wadayama-dori 2-chome,
Hyogo-ku, Kobe, Hyogo 652-0884, Japan
Phone: 81-78-682-3111
Fax: 81-78-671-5784

16 Seishin Works
8-1, Takatsukadai 2-chome,
Nishi-ku, Kobe, Hyogo 651-2271, Japan
Phone: 81-78-992-1911
Fax: 81-78-992-1910

17 Nishi-Kobe Works
234, Matsumoto, Hazetani-cho,
Nishi-ku, Kobe, Hyogo 651-2239, Japan
Phone: 81-78-991-1133
Fax: 81-78-991-3186

18 Akashi Works
1-1, Kawasaki-cho, Akashi,
Hyogo 673-8666, Japan
Phone: 81-78-921-1301
Fax: 81-78-924-8654

19 Kakogawa Works
170, Yamanoue Mukohara, Hiraoka-cho,
Kakogawa, Hyogo 675-0112, Japan
Phone: 81-79-427-0292
Fax: 81-79-427-0556

20 Harima Works
8, Niijima, Harima-cho,
Kako-gun, Hyogo 675-0155, Japan
Phone: 81-79-435-2131
Fax: 81-79-435-2132

21 Sakaide Works
1, Kawasaki-cho,
Sakaide, Kagawa 762-8507, Japan
Phone: 81-877-46-1111
Fax: 81-877-46-7006

22 Kawasaki Thermal Engineering Co., Ltd.
18-31, Higashinakajima 1-chome,
Higashiyodogawa-ku, Osaka 533-0033, Japan
Phone: 81-6-6325-0300
Fax: 81-6-6325-0301

23 KCM Corporation
2680, Oka, Inami-cho,
Kako-gun, Hyogo 675-1113, Japan
Phone: 81-79-495-1211
Fax: 81-79-495-1226

24 NIPPI Corporation
3175 Showa-machi, Kanazawa-ku,
Yokohama, Kanagawa 236-8540, Japan
Phone: 81-45-773-5100
Fax: 81-45-773-5101

25 EarthTechnica Co., Ltd.
2-4, Kanda, Jimbocho, Chiyoda-ku,
Tokyo 101-0051, Japan
Phone: 81-3-3230-7151
Fax: 81-3-3230-7158

Sales bases
Production bases
Subsidiaries

(Note)
Tokyo Head Office and a portion of the Tokyo office will relocate to the following address effective December 1, 2012.
New address: 1-14-5, Kaigan, Minato-ku, Tokyo

ASIA, MIDDLE EAST AND OCEANIA

1 Beijing Office
Room No. 2602, China World Tower 1, China World Trade Center, No. 1, Jian Guo Men Wai Avenue,
Beijing 100004,
People's Republic of China
Phone: 86-10-6505-1350
Fax: 86-10-6505-1351

2 Taipei Office
15th Floor, Fu-key Bldg.,
99 Jen-Ai Road, Section 2,
Taipei, Taiwan
Phone: 886-2-2322-1752
Fax: 886-2-2322-5009

3 Delhi Office
5th Floor, Meridien Commercial Tower,
8 Windsor Place, Janpath,
New Delhi, 100 001, India
Phone: 91-11-4358-3531
Fax: 91-11-4358-3532

4 Kawasaki Machine Systems Korea,Ltd.
69BL 1LT, 638, Gojan-Dong, Namdong-Gu,
Incheon, 405-817, Korea
Phone: 82-32-821-6941
Fax: 82-32-821-6947

5 Flutek, Ltd.
192-11 Shin Chon-Dong,
Changwon, Kyung Nam, 641-370, Korea
Phone: 82-55-570-5700
Fax: 82-55-574-5747

6 Dalian COSCO KHI Shipbuilding Engineering Co., Ltd.
No.20 Haiyan Road Dalian Lushun Economic Development Zone, Dalian City Liaoning Province,
People's Republic of China
Phone: 86-411-3936-8115
Fax: 86-411-3936-8118

7 Kawasaki Robotics (Tianjin) Co., Ltd.
C-1-9, No. 41, 5th Avenue, TEDA,
Tianjin 300457,
People's Republic of China
Phone: 86-22-5983-1888
Fax: 86-22-5983-1889

8 Nantong COSCO KHI Ship Engineering Co., Ltd.
117, Linjiang Road, Nantong City,
Jiangsu Province, People's Republic of China
Phone: 86-513-8516-8888
Fax: 86-513-8351-4349

9 Anhui Conch Kawasaki Engineering Co., Ltd.
3F, Conch International Conference Center,
1007 South Jiuhua Road, Wuhu, Anhui 241136,
People's Republic of China
Phone: 86-553-839-8606
Fax: 86-553-839-8676

10 Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd.
1F, Conch International Conference Center,
1007 South Jiuhua Road, Wuhu, Anhui 241136,
People's Republic of China
Phone: 86-553-839-8015
Fax: 86-553-839-9553

11 Anhui Conch Kawasaki Equipment Manufacturing Co., Ltd.
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Phone: 86-553-839-9692
Fax: 86-553-839-9560

12 Changzhou Kawasaki and Kwang Yang Engine Co., Ltd.
No. 380 Hang Jiang Road, Xinbei District,
Changzhou City, Jiangsu Province,
People's Republic of China
Phone: 86-519-8308-9001
Fax: 86-519-8308-9029

13 Kawasaki Precision Machinery (Suzhou) Ltd.
668 Jianlin Road, New District, Suzhou, China
Phone: 86-512-6616-0365
Fax: 86-512-6616-0366

14 Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.
30F, Chong Hing Finance Center 288 Nanjing Road West,
Huangpu District, Shanghai 200003,
People's Republic of China
Phone: 86-21-3366-3800
Fax: 86-21-3366-3808

15 Kawasaki Trading (Shanghai) Co., Ltd.
10F, Chong Hing Finance Center,
288 Nanjing Road West, Huangpu District,
Shanghai 200003, People's Republic of China
Phone: 86-21-3366-3700
Fax: 86-21-3366-3701

16 Shanghai COSCO Kawasaki Heavy Industries Steel Structure Co., Ltd.
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Phone: 86-21-3119-0999
Fax: 86-21-3119-0538

17 Kawasaki Heavy Industries Consulting & Service (Shanghai) Company, Ltd.
10F, Chong Hing Finance Center,
288 Nanjing Road West, Huangpu District,
Shanghai 200003, People's Republic of China
Phone: 86-21-3366-3200
Fax: 86-21-3366-3205

18 Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd.
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Shansyu, Zhejiang, 312300,
People's Republic of China
Phone: 86-575-8215-6999
Fax: 86-575-8215-8699

19 Wuhan Kawasaki Marine Machinery Co., Ltd.
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Qingshan, Wuhan, Hubei, People's Republic of China
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Fax: 86-27-8641-0136

20 Kawasaki Heavy Industries (H.K.) Ltd.
Room 3710-14, Sun Hong Kai Center,
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Fax: 852-2845-2905

21 KHI Design & Technical Service Inc.
20F 6788 Ayala Avenue,
Olden Square, Makati,
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Fax: 63-2-816-1222

22 Kawasaki Motors (Phils.) Corporation
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Bo. Cupang, Alabang, Muntinlupa City,
Metro Manila 1771, The Philippines
Phone: 63-2-842-3140
Fax: 63-2-842-2730

23 Kawasaki Motors Enterprise (Thailand) Co., Ltd.
119/10 Moo 4, Tam bon Pluak Daeng, Amphur Pluak Daeng, Rayong 21140, Thailand
Phone: 66-2-246-1510
Fax: 66-2-246-1517

24 Kawasaki Gas Turbine Asia Sdn Bhd
No. 40, Jalan Pemberita U1/49
Temasya Industrial Park, Glenmarie,
40150 Shah Alam, Selangore,
Malaysia
Phone: 60-3-5569-2882
Fax: 60-3-5569-3093

25 Kawasaki Heavy Industries (Singapore) Pte. Ltd.
6 Battery Road, #23-01, Singapore 049909
Phone: 65-6225-5133~4
Fax: 65-6224-9029

26 P.T. Kawasaki Motor Indonesia
Jl. Perintis Kemerdekaan, Kelapa Gading,
Jakarta Utara 14250, Indonesia
Phone: 62-21-452-3322
Fax: 62-21-452-3566

27 Kawasaki Heavy Industries Middle East FZE
Dubai Airport Free Zone, Bldg. 6W Block-A,
Office No. 709, P.O. Box 54878, Dubai, U.A.E.
Phone: 971-4-214-6730
Fax: 971-4-214-6729

28 Kawasaki Motors Pty. Ltd.
Unit Q, 10-16 South Street,
Rydalmere, N.S.W. 2116, Australia
Phone: 61-2-9684-2585
Fax: 61-2-9684-4580

- Overseas Office
- Sales Office (subsidiary)
- Manufacturing Base (subsidiary)
- Sales/Manufacturing Base (affiliate accounted for using equity method)

AMERICA

1 Canadian Kawasaki Motors Inc.
101 Thermos Rd.,
Toronto, Ontario, M1L 4W8, Canada
Phone: 1-416-445-7775
Fax: 1-416-445-0391

2 Kawasaki Heavy Industries (U.S.A.), Inc.
60 East 42nd Street, Suite 2501,
New York, NY 10165, U.S.A.
Phone: 1-212-759-4950
Fax: 1-212-759-6421

3 Houston Branch
333 Clay Street, Suite 4310,
Houston, TX 77002-4109, U.S.A.
Phone: 1-713-654-8981
Fax: 1-713-654-8187

4 Kawasaki Rail Car, Inc.
29 Wells Avenue, Building #4,
Yonkers, NY 10701, U.S.A.
Phone: 1-914-376-4700
Fax: 1-914-376-4779

5 Kawasaki Robotics (U.S.A.), Inc.
28140 Lakeview Drive,
Wixom, MI 48393, U.S.A.
Phone: 1-248-446-4100
Fax: 1-248-446-4200

6 San Jose Office
3081 N. 1st Street,
San Jose, CA 95134, U.S.A.
Phone: 1-408-432-0990
Fax: 1-408-432-0996

7 Kawasaki Precision Machinery (U.S.A.), Inc.
3838 Broadmoor Avenue SE,
Grand Rapids, MI 49512, U.S.A.
Phone: 1-616-975-3110
Fax: 1-616-975-3103

8 KCMA Corporation
2140 Barrett Park Drive, Suite 101,
Kennesaw, GA 30144, U.S.A.
Phone: 1-770-499-7000
Fax: 1-770-421-6842

9 Kawasaki Motors Manufacturing Corp., U.S.A.
6600 Northwest 27th Street,
Lincoln, NE 68524, U.S.A.
Phone: 1-402-476-6600
Fax: 1-402-476-6672

10 Maryville Plant
28147 Business Highway 71,
Maryville, MO 64468, U.S.A.
Phone: 1-660-582-5829
Fax: 1-660-582-5826

11 Kawasaki Motors Corp., U.S.A.
9950 Jeronimo Road,
Irvine, CA 92618, U.S.A.
Phone: 1-949-770-0400
Fax: 1-949-460-5600

12 Grand Rapids Office
5080 36th Street S.E.,
Grand Rapids, MI 49512, U.S.A.
Phone: 1-616-949-6500
Fax: 1-616-954-3031

13 Kawasaki do Brasil Indústria e Comércio Ltda.
Avenida Paulista, 542-6 Andar,
Bela Vista, 01310-000, São Paulo, S.P., Brazil
Phone: 55-11-3289-2388
Fax: 55-11-3289-2788

14 Kawasaki Motores do Brasil Ltda.
Rua das Arraias, 286, Colônia Antônio Aleixo, CEP 69008-448 Manaus-AM, Brazil
Phone: 55-92-3305-5800
Fax: 55-92-3305-5810

■ Sales Office (subsidiary)
■ Manufacturing Base (subsidiary)

EUROPE

1 Moscow Office
Office 432 (4F), Entrance 6,
Krasnopresnenskaya nab. 12,
123610, Moscow, Russian Federation
Phone: 7-495-258-2115
Fax: 7-495-258-2116

2 Kawasaki Gas Turbine Europe G.m.b.H.
Nehring Strasse 15,
61352 Bad Homburg, Germany
Phone: 49-6172-7363-0
Fax: 49-6172-7363-55

3 Kawasaki Robotics G.m.b.H.
29 Sperberweg, 41468 Neuss, Germany
Phone: 49-2131-34260
Fax: 49-2131-3426-22

4 Kawasaki Heavy Industries (Europe) B.V.
7th Floor, Riverstaete,
Amsteldijk 166,
1079 LH Amsterdam,
The Netherlands
Phone: 31-20-6446869
Fax: 31-20-6425725

5 Kawasaki Motors Europe N.V.
Jacobus Spijkerdreef 1-3,
2132 PZ Hoofddorp,
The Netherlands
Phone: 31-23-567-0500
Fax: 31-23-563-9884

6 Sweden Branch
Haradsvagen 255S-14172,
Huddinge, Sweden
Phone: 46-8-464-0200
Fax: 46-8-464-0240

7 Germany Branch
Max-Planck-Strasse 26,
61381 Friedrichsdorf, F.R. Germany
Phone: 49-6172-7340
Fax: 49-6172-734160

8 Benelux Branch
t Hofveld 6 C2, 1702 Groot-Bijgaarden,
RPR 0876.824.570-Arroundissement Brussels,
Belgium
Phone: 32-2-481-7820
Fax: 32-2-481-7829

9 U.K. Branch
1 Dukes Meadow,
Millboard Road, Bourne End,
Buckinghamshire SL8 5XF, U.K.
Phone: 44-1628-856600
Fax: 44-1628-856799

10 Italy Branch
Via Meraviglia 31,
20020 Lainate, Italy
Phone: 39-02-93-28-521
Fax: 39-02-93-28-5284

11 France Branch
Parc d'activité de la clef de Saint Pierre,
Rond point de l'Epine des champs,
78996 Elancourt Cedex, France
Phone: 33-1-30-69-0000
Fax: 33-1-30-69-5001

12 Spain Branch
Calle José Agustin Goytisolo,
29-31, 08908 L'Hopitalet,
de Llobregat (Barcelona), Spain
Phone: 34-93-264-26-00
Fax: 34-93-263-53-67

13 Kawasaki Heavy Industries (U.K.) Ltd.
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London EC3A 6AB, U.K.
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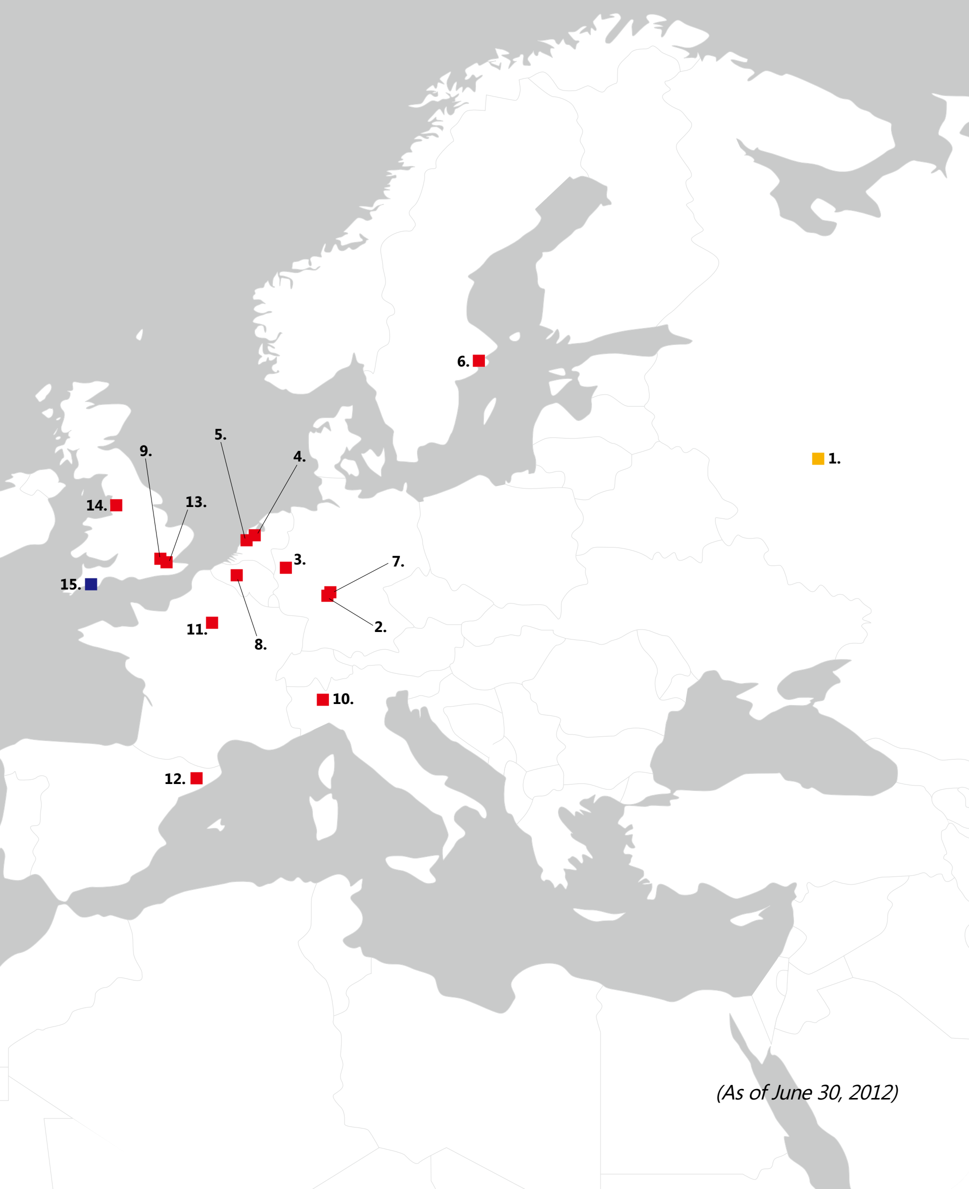
Fax: 44-20-7588-5333

14 Kawasaki Robotics (UK) Ltd.
Unit 4 Easter Court, Europa Boulevard, Westbrook,
Warrington WA5 7ZB, U.K.
Phone: 44-1925-713000
Fax: 44-1925-713001

15 Kawasaki Precision Machinery (U.K.) Limited
Ernesettle Lane, Ernesettle, Plymouth,
Devon PL5 2SA, U.K.
Phone: 44-1752-364394
Fax: 44-1752-364816

- Overseas Office
- Sales Office (subsidiary)
- Manufacturing Base (subsidiary)



(As of June 30, 2012)

Kawasaki Heavy Industries, Ltd.

Kobe Head Office:
Kobe Crystal Tower,
1-3, Higashikawasaki-cho 1-chome,
Chuo-ku, Kobe, Hyogo 650-8680, Japan

Tokyo Head Office (Note)**:**
World Trade Center Bldg.,
4-1, Hamamatsu-cho 2-chome,
Minato-ku, Tokyo 105-6116, Japan

Founded:	1878
Incorporated:	1896
Paid-in Capital:	¥104,484,658,872
Number of Shares Issued:	1,671,892,659 shares
Number of Shareholders:	153,843
Number of Employees:	33,267
Stock Exchange Listings:	Tokyo, Osaka, Nagoya

Method of Publication of Notices:
http://www.khi.co.jp
The method of publication of notices of the Corporation shall be made electronically. Provided, if the Corporation is unable to make an electronic publication of notice due to an accident or other unavoidable reason, the notice shall be inserted in the *Nihon Keizai Shimbun.*

(Note)
Tokyo Head Office will relocate to the following address effective December 1, 2012.
New address: 1-14-5, Kaigan, Minato-ku, Tokyo

Transfer Agent:
Sumitomo Mitsui Trust Bank, Limited
1-4-1, Marunouchi, Chiyoda-ku,
Tokyo 100-8233, Japan (As of April 1, 2012)

Handling Office:
Sumitomo Mitsui Trust Bank, Limited
Stock Transfer Agency Business Planning Department
4-5-33 Kitahama, Chuo-ku,
Osaka 540-8639, Japan (As of April 1, 2012)

Independent Auditors:
KPMG AZSA LLC
1-1, Kumoi-dori, 7 chome, Chuo-ku,
Kobe, Hyogo 651-0096, Japan

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 486359201, with each ADR representing four ordinary shares.

ADR Depository:
The Bank of New York Mellon
101 Barclay St., 22 West,
New York, NY 10286, U.S.A.
Phone: 1-201-680-6825
U.S. Toll Free: 888-269-2377
(888-BNY-ADRS)
http://adrbnymellon.com

KHI Web Site at: http://www.khi.co.jp

(As of March 31, 2012)

This annual report was created using environment-friendly waterless printing that does not produce toxic fluids.
We selected vegetable oil ink and used FSC®-certified paper produced from well-managed forests to create this report.

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