Annual Report 2009

Year ended March 31, 2009

KAWASAKI HEAVY INDUSTRIES, LTD.

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

Forecasts regarding the Company's plans and strategies contained in this publication were prepared based on information available at the time the forecasts were prepared. The Company's actual performance may differ from the forecasted figures due to a range of factors.

On the Cover

The photograph on the cover shows KHI's next-generation light rail vehicle (LRV), dubbed SWIMO®, which is powered by KHI-developed onboard nickel-metal hydride Gigacell® batteries. SWIMO® is capable of running for more than 10 kilometers on battery power without a supply of electricity from overhead lines. In addition, the SWIMO® has features that are friendly to human beings and the natural environment. These include a spacious, barrier-free configuration with a low floor and substantial energy conservation through the use of a regenerative electric power system that accumulates the power generated when the LRV's brakes are used. In April 2009, Gigacell® and SWIMO® were recognized as innovative industrial technologies and received the Judges' Committee Special Award of the Japan Industrial Technology Grand Prize, sponsored by the *Nikkan Kogyo Shimbun Newspaper.*

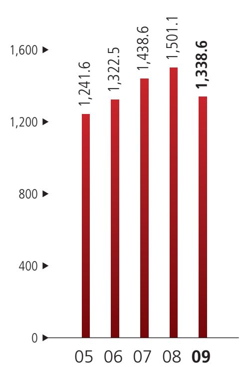
Consolidated Financial Highlights

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

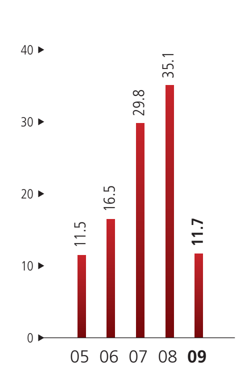
	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
For the year:				
Net sales	**¥1,338,597**	¥1,501,097	¥1,438,619	**$13,623,010**
Operating income	**28,713**	76,910	69,142	**292,215**
Net income	**11,728**	35,141	29,772	**119,357**
Net cash provided by (used for) operating activities	**(41,257)**	75,766	45,859	**(419,876)**
Capital expenditures	**82,450**	50,538	39,269	**839,100**
Per share (in yen and U.S. dollars):				
Earnings per share—basic	**¥7.0**	¥21.1	¥18.9	**$0.07**
Earnings per share—diluted	**6.9**	20.6	17.2	**0.07**
Cash dividends	**3.0**	5.0	5.0	**0.03**
At year-end:				
Total assets	**¥1,399,771**	¥1,378,770	¥1,357,980	**$14,245,583**
Total net assets	**295,246**	319,038	295,378	**3,004,743**
Orders received and outstanding:				
Orders received during the fiscal year	**¥1,540,590**	¥1,610,757	¥1,592,688	**$15,678,710**
Order backlog at fiscal year-end	**1,699,163**	1,533,663	1,465,155	**17,292,520**

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥98.26 to US$1, the approximate rate of exchange at March 31, 2009.

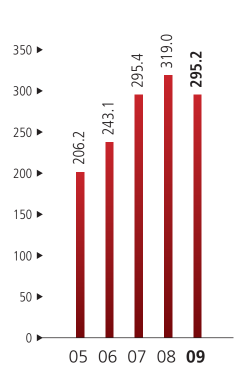
Net Sales
(Billions of yen)



Net Income
(Billions of yen)



Total Net Assets
(Billions of yen)



Our Mission:

Creating New Value for a Brighter Future and a Better Environment

Review of Fiscal 2009

During fiscal 2009, ended March 31, 2009, the yen appreciated substantially against the U.S. dollar and the euro as well as other currencies in the third quarter, and the Japanese economy moved into a sharp downturn as a result of a range of factors, such as weakening in personal consumption, declines in private capital investments, a slowdown in exports, and deterioration in the employment situation. Thereafter, although there were signs of a bottoming out over the end of fiscal 2009, economic conditions still remain lackluster. In the world economy also, trends toward deceleration and recession became increasingly apparent, even in the rapidly developing economies.

Amid these economic conditions, orders won by the Kawasaki Heavy Industries (KHI) Group on a consolidated basis amounted to ¥1,540.6 billion, ¥70.2 billion, or 4.4% lower than in the previous fiscal year. This was because orders in the Shipbuilding and Consumer Products & Machinery segments decreased, while orders in the Gas Turbines & Machinery and Rolling Stock & Construction Machinery segments increased. Consolidated net sales declined to ¥1,338.6 billion, which was ¥162.5 billion, or 10.8% lower, than for the previous fiscal year, due especially to declines in sales in the Consumer Products & Machinery segment.

Profit was adversely affected, especially in the second half of the fiscal year, by the appreciation of the yen and the drop in sales, principally of mass-produced products. As a consequence, operating income decreased ¥48.2 billion, or 62.7%, to ¥28.7 billion, and net income was down ¥23.4 billion, or 66.6%, to ¥11.7 billion.

Our basic dividend policy is to continue to pay stable cash dividends that are appropriate to our performance while giving careful attention to increasing retained earnings to strengthen and expand the KHI Group's management base in preparation for our future growth. Based on this policy, and after an overall appraisal of performance and other factors, we proposed and received approval from shareholders to pay an annual cash dividend of ¥3.0 per share for fiscal 2009.

Management Policies and Objectives

The Kawasaki Group Mission Statement begins with the statement:

Kawasaki, working as one for the good of the planet

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

- We are the Kawasaki Group, a global technology leader with diverse integrated strengths.
- We create new value—for a better environment and a brighter future for generations to come.

Based on this Mission Statement, our fundamental management policies are to increase customer satisfaction through offering superior products and services that are differentiated by technology and the Kawasaki brand, increase the corporate value of the KHI Group, and meet the expectations of our shareholders as well as customers, employees, and the community.

Target Management Indicators

With the aim of satisfying the expectations of investors for profitability, the principal management target indicator we have adopted is before tax ROIC, which is a measure of capital efficiency and is defined as earnings before interest and taxes (EBIT) divided by invested capital. As we work to

Tadaharu Ohashi
Chairman

Satoshi Hasegawa
President

maximize ROIC, we are aiming to expand profits and, at the same time, to strengthen our financial position. Moreover, under our Medium-Term Business Plan "Global K," we are striving to strengthen profitability and have added the ratio of recurring profit* to net sales as another key management indicator.

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

Medium-Term Management Strategy

The KHI Group is currently implementing its Medium-Term Business Plan entitled "Global K," which began in September 2006, and will continue through the end of fiscal 2011. Since the beginning of the plan, we have aimed to make the leap to a highly profitable global enterprise focusing on land, sea, and air transportation systems and the energy and environmental engineering fields. At present, we are unexpectedly facing difficult operating conditions as a result of the worst economic crisis in a century. However, even during these times, we have been realizing our corporate development, and in each of our business segments, we have been steadily implementing various measures for future growth based on a long-term perspective under our Medium-Term Business Plan.

Currently, nations around the world are adopting fiscal policies of unprecedented magnitude to stimulate their real economies. Among these, the energy and environmental fields, such measures as the "Green New Deal" are rapidly attracting attention around the world. At KHI, we have focused on the energy and environmental fields since the time we prepared our Global K plan and implemented measures to nurture businesses related to these fields. This is because we strongly believed that we would be able to expand significantly the relevant businesses by making use of our wide range of technological assets, and we have already accumulated a track record of accomplishments in the rapidly developing economies through the delivery of industrial and other plants, rolling stock, and other products. We are convinced that the energy and environment fields will continue to grow throughout the world.

However, on the other hand, as a result of the economic crisis, it appears that the world economy might be making a transition to a new stage that will differ from the frameworks that existed when the United States was the focal point of the world economy. The fiscal policy initiatives of countries around the world, such as those that involve bringing forward infrastructure investments in the rapidly developing economies, including China, are expected to promote economic growth. In the developed countries, however, although such policies will have the positive effect of providing a one-time stimulus for demand, we believe recovery in the real economies of those countries will require additional time. In our businesses also, we must be aware that in the developed countries, recovery in the fields of consumer products, hydraulic machinery, and industrial robots and other mass-produced items will be delayed. Therefore, we will have to review and revise our business plans not only for mass-produced items but also our overall plans for the Group.

So, in view of these considerations, during the first half of the current fiscal year, we will be monitoring carefully the economic environment. In the second half, if future trends in the real economy become somewhat clearer, we will begin to review our Medium-Term Business Plan, and, in April 2010, we will announce a revised medium-term business plan that will start from fiscal 2011. In conducting this review of the existing plan, we will maintain the corporate vision of the Global K plan, but will review the competitive position and growth potential of our wide range of businesses and products in the light of the current market environment. We will then revise our road maps for reaching our objectives in these businesses and product areas.

Operating Policy for Fiscal 2010

In fiscal 2010, ending in March 2010, we are assuming that we will have to conduct our business activities under even severer operating conditions. We have, therefore, positioned fiscal 2010 as a year for taking emergency measures and will implement the following policies aimed at thoroughly and aggressively consolidating our business and financial positions in all aspects of our operations.

- Since business risk will rise significantly, we will implement thoroughgoing risk management measures throughout the Group. In taking orders and in sales activities, we will fully analyze and consider profitability and carry out thorough cost control.

- We will move ahead with measures to strengthen our financial position. These will include increasing the efficiency of cash through recovering receivables as quickly as possible, reviewing investments and other measures, taking initiatives to improve cash flow, and working to restrain the rise in interest-bearing debt, which turned for increase.
- In businesses where demand is trending downward, we will assess risks more carefully and screen order bookings and investment proposals more selectively. At the same time, we will give priority to lowering our breakeven point, improving cash flow, and streamlining our balance sheets. In particular, in businesses where we engage in mass production, including consumer products, we will implement drastic measures in the overall management of these businesses. These will include shrinking the scale of operations to a level appropriate to the current market size, implementing thorough cost-cutting initiatives, and taking other measures to generate profit with a smaller scale of operations.

On the other hand, however, even in this challenging operating environment, we will continue to make strategic investments as follows.

- R&D, human resource development, and capital equipment investment in growth businesses fields, such as energy and the environment, and the future technological base of the KHI Group
- Continued investments of human and other resources in the key markets

Strengthening Systems for Compliance and Internal Control

To conduct successfully the business activities previously mentioned, we must emphasize that compliance with applicable laws and regulations will be a major precondition. We of the KHI Group declare that "We will absolutely not engage in illegal activities" as our basic guidelines for our business activities. To promote the maintenance of high compliance standards, our CSR Department has taken a leadership role in preparing internal rules and regulations regarding corporate ethics and in conducting compliance training activities for various levels of management and staff. The CSR Department has also engaged in other related activities, including the distribution of various types of guidebooks and the creation of autonomous inspection committees within each of our organizational units.

In addition, based on our Group mission, as set forth in the Kawasaki Mission Statement, we will strive to create management systems that meet the highest standards for efficiency and compliance as we work to maintain and enhance our internal control systems.

During fiscal 2009, in view of the implementation of internal control reporting systems based on the Financial Instruments & Exchange Law in Japan, we established a specialist unit that is responsible for implementing necessary measures for ensuring the appropriateness of financial reporting.

Going forward, we will continue to take thoroughgoing organizational initiatives to promote compliance and enhance internal controls. Along with these initiatives, we will work to create a corporate culture that places highest priority at all times on information disclosure and its transparency.

The KHI Group will continue to endeavor to increase its corporate value by strengthening profitability throughout its business operations and emphasizing maintenance of high standards in compliance and internal controls, with the aim of building further trust in the Kawasaki brand. We of the KHI Group look forward to the continuing support and cooperation of our shareholders.

June 2009

T. Ohashi

Tadaharu Ohashi
Chairman

S. Hasegawa

Satoshi Hasegawa
President

Fiscal 2010 will be a year requiring staying power, but a year that will separate the winners from the losers. We will be preparing to seize new growth opportunities.

On June 25, 2009, Mr. Satoshi Hasegawa became the 14th president of Kawasaki Heavy Industries, Ltd. (KHI). We asked him about KHI's management objectives and the issues the Group must confront.

Q: After receiving the baton from Mr. Tadaharu Ohashi, who is now KHI's Chairman, what are some of the issues you decided to address as President?

The most important issue for shareholders and for all stakeholders is that companies continue to grow. I believe that increasing profitability is required as the wellspring of this growth. Under our current Global K Medium-Term Business Plan, my understanding is that KHI's profitability has increased steadily. However, the operating environment is constantly changing, and I want to tighten our grip and be in a position to manage KHI to deal with changes in such an environment responsively. We have already begun to respond to the changes in the operating environment, starting at the end of last year, and I want to follow through on these initiatives for the time being. On the other hand, I intend to conduct our operations from a long-term perspective and make "indispensable investments for the future growth." The Kawasaki Group Mission Statement, which we adopted in May 2007, begins with a statement of KHI's mission in global society. That mission is "Kawasaki, working as one for the good of the planet" (Enriching lifestyles and helping safeguard the environment: Global Kawasaki). It is especially in such times as these today, when the world situation is in turmoil, that I am convinced that I should examine our Mission Statement, which should be the compass for the KHI Group, and do my utmost to bring the members of the Group together to do our very best to fulfill our mission to society and increase KHI's corporate value.

Q: To attain its Group mission, what will KHI need to do?

Our Group Mission Statement, as I mentioned, is "Kawasaki, working as one for the good of the planet" (Enriching lifestyles and helping safeguard the environment: Global Kawasaki). However, the world is not a single market. The desires of people around the world for "enriching lifestyles" are far more diverse that those in Japan. Also, to grow in the world economy requires substantially more "market participation" than in the past.

Moreover, to strive for "harmony between human affluence and the earth's environment," I believe one of our missions will be to go beyond our current business fields and make contributions by using sophisticated technological capabilities in the fields of energy and the environment. To fulfill this mission, we must be tenacious.

When I was engaged in KHI's V2500 jet aircraft engine business, one of the things that impressed me was that, although we had major difficulties in getting a start in this business, today, after 20 years of efforts, this business has grown and developed to become a mainstay of KHI's profitability. What I learned from being directly involved in the jet engine business was that, over the past 20 years, the heroes of this business have not been just one set of faces. The important thing is that KHI should continue to be tenacious as an organization and continue to have the will and determination to establish and maintain its position. What I would like to do is to promote growth by encouraging the development of this kind of corporate culture throughout the KHI Group.

Q: Amid the difficult operating conditions KHI faces this fiscal year, what measures are you thinking of implementing in individual businesses?

As basic policies, we have adopted two concepts: namely, "quality followed by quantity" and "thoroughness of risk management". To increase profitability, we are implementing the following measures in individual businesses.

1. Rolling Stock: Strengthen our operating systems in the three major regions of Japan, North America, and the rest of Asia, while having an abundant backlog of orders in North America and other regions

2. Aerospace: Move ahead with major projects, including moving into the mass production of the next fixed-wing maritime patrol aircraft, completing the development of the next transport aircraft, and responding to mass production requirements for supplying components for the Boeing 787

3. Gas Turbines & Machinery: Proceed with the development of new jet engines for commercial aircraft as well as strengthen our position in the energy and environment-related businesses by proceeding with the development of new products and new models, including industrial gas turbines and high-efficiency gas engines and other products, and strengthening our competitiveness by boosting our overall productivity

4. Consumer Products: In the midst of challenging operating conditions because of the world economic downturn, increase the profitability of motorcycles supplied to the developed countries (the highest priority field in this business) and strengthen our development and production systems on a global basis in the aim of boosting the competitiveness of our products

5. Plant & Infrastructure Engineering: Accelerate the development of our energy and environment-related businesses, designated in the Global K Medium-Term Business Plan, with KHI Group company Kawasaki Plant Systems, Ltd., as the focal point in these initiatives

6. Shipbuilding: Solidify the improvement in earnings through such means as optimizing the Kawasaki Shipbuilding Corporation's production systems, including our Chinese operations, with our sights set on winning new orders

7. Hydraulic Machinery: Make flexible investments of corporate resources while lowering the breakeven point for these operations, and strengthen the global pentapolar system (covering Japan, the United States, Europe, China, and South Korea) for these business activities

8. Industrial Robots: Strengthen development capabilities and develop new customers

9. Construction Machinery: Improve development and sales capabilities through the alliances with Hitachi Construction Machinery Co., Ltd., and TCM Corporation

Q: There is a possibility that challenging operating conditions may continue in your businesses that are engaged in mass production. What policies will you be taking in response?

In our businesses that are engaged in mass production, such as Industrial Robots, Consumer Products, Hydraulic Machinery, and Construction Machinery, concerns remain that market conditions may show even further deterioration. Therefore, we will take thoroughgoing measures to lower fixed costs wherever possible and thereby minimize the risks of a further downturn. At the same time, we will watch market trends carefully, and we believe that it is important to proceed with contingency planning to be prepared in the event that conditions deteriorate further.

In addition, in our businesses engaged in mass production, we have found it necessary to temporarily suspend operations at some business locations because of the diminished volume of work. We are working to assign workers, who have been idled by these suspensions, to productive positions elsewhere in the Group.

In any event, we have positioned fiscal 2010 as a time for bolstering our operating and financial positions as well as making preparations for future growth. We are managing these business operations with the awareness that this year will separate the winners from the losers.

Q: What is the status of your R&D aimed at future development?

To realize Kawasaki Value (including value creation, originality, and top quality) in the KHI Group's many product lines, the R&D departments of individual businesses and the headquarters R&D department are working together to conduct the R&D activities necessary for the new products, new technologies and product improvements, and the creation and nurturing of new businesses for "tomorrow and the day after tomorrow (candidates for the next wave of products)." In addition, KHI is nurturing and strengthening future basic technologies (platform innovation technologies) based on a long-term perspective.

Moreover, by strengthening teamwork with outside research institutes, such as universities, KHI is working to speed up the acquisition of sophisticated technologies that will lead to the creation of new products and new businesses.

The following paragraphs summarize some of the specific R&D activities under way in major business areas.

TRANSPORTATION

In the rolling stock business: Development of the SWIMO®, a low-floor streetcar without overhead wires, and the high-speed railcar efSET

In the aerospace business: Development of the new-type BK117 helicopter and research on the development of future fixed-wing commercial aircraft based on the results of the development of the next fixed-wing maritime patrol aircraft and the next transport aircraft

In the motorcycle business: Development of new models in the motorcycles business and new engines that combine our high performance standards with eco-friendly features, research on improvement of driving performance and safety

In the shipbuilding business: Research on environmentally friendly ships and high-performance propulsion systems

ENERGY AND ENVIRONMENT

In the gas turbines and machinery business: Research on improving the efficiency and realizing high-performance features of industrial gas turbines, incineration equipment with low NO*x* combustors that have superior environmental features, high-efficiency and large-scale gas engines, and high-efficiency middle-class steam turbines

In the energy and environmental engineering business: Development of bio-ethanol process technology and development of biomass gasification power generation systems and oil coke fired boilers

Other areas of focus in R&D: Development of Gigacell®, large-scale metal-nickel hydride batteries and other new products and businesses

INDUSTRIAL INFRASTRUCTURE

In the industrial robot business: Development of intelligent, high-performance industrial robot systems with new controllers and vision sensors

In the industrial facilities and tunneling equipment business: Development of new-type shield machines
In the hydraulic machinery business: Development of new types of pumps and technologies for increasing the efficiency of hydraulic pump motors and electronic control technologies
In the construction machinery business: Development of medium-sized to large wheel loaders meeting emission and noise restrictions

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In addition to the above R&D activities, among basic technologies, we are placing priority on such fields as heat transmission/combustion, power electronics, electronic controls, energy/environment, manufacturing technology, and certain other areas. In addition to these priority areas, we are nurturing and strengthening our position in a wide range of areas, including materials strength, materials, vibration and acoustics, fluid dynamics, mechanical elements, chemicals, light, electronic/power electronics, measurement/sensors, control/information, mechatronics, production systems, and simulation technologies. The KHI Group is working to build top-level positions in these fields, especially in technologies that are linked to its products.

Q: What kinds of capital investments are you thinking of making during this period of economic downturn?

In view of the deterioration in the operating environment in fiscal 2010, we plan to restrain increases in fixed costs and interest-bearing debt. We have not placed any orders for equipment for the expansion of capacity, with the exception of what is indispensable for new projects. Plans for investments in aging facilities and other capital investments are being held to an absolute minimum. However, investments will be made for equipment and facilities that are extremely old, such as production facilities that have exceeded their useful lifetimes, and employee welfare facilities, such as company housing and dormitories.

Regarding capital investment in fiscal 2011 and later, contents of investment proposals will be reviewed in detail, and careful consideration will be given to such investment plans and their timing.

Investment plans for fiscal 2010 include equipment for increasing productivity in rolling stock manufacturing, facilities related to component supply for the Boeing 787, facilities for the development of new gas turbines, facilities for manufacturing new motorcycle models and improving productivity, the replacement of aging shipbuilding facilities, and the installation of equipment to enhance productivity in shipbuilding operations. Many of these investments are already in progress and will be completed by the end of this fiscal year, but we intend to reduce capital expenditures compared with the previous fiscal year.

Q: Is there a special message you would like to give to KHI shareholders?

As I mentioned before, fiscal 2010 will be a year requiring staying power, but it will also be a year that will separate the winners from the losers. In other words, we are at a critical moment that will decide whether we can make a smooth transition to the next stage in growth. While we are facing further deterioration in the business environment, our objective should be to substantially increase the KHI Group's growth potential and work toward fulfilling our Group mission in KHI's Mission Statement: "Kawasaki, working as one for the good of the planet." As we of the KHI Group work toward these objectives, we look forward to the continuing support and cooperation of our shareholders.

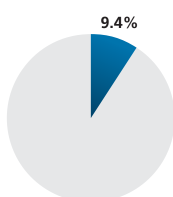
LNG carrier *Energy Navigator*

Shipbuilding

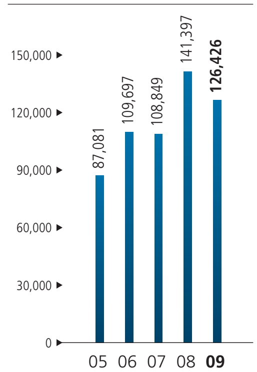
Main Products

- LNG carriers
- LPG carriers
- Container ships
- VLCCs (Very Large Crude Carriers) and other types of tankers
- Bulk carriers
- High-speed vessels
- Submarines
- Maritime application equipment

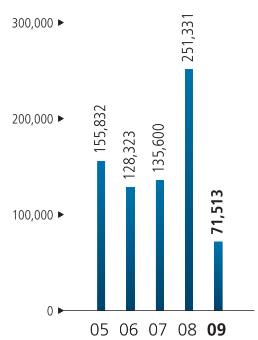
Percentage of Net Sales



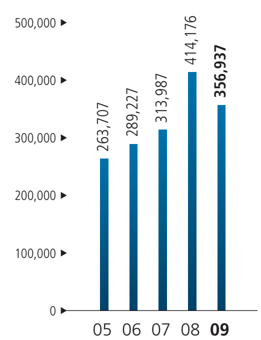
Sales
(Millions of yen)



Orders Received
(Millions of yen)



Order Backlog
(Millions of yen)



Business Results

In fiscal 2009, the shipping market, which had been active for several years, experienced a major decline as a result of the global recession. This, combined with a credit crunch in shipping finance in the wake of the Lehman Brothers bankruptcy, led to a complete halt in new vessel deals. Against this backdrop, the Shipbuilding segment secured orders for 6 vessels: namely, one LPG carrier and five bulk carriers. As a consequence, total orders received decreased ¥179.8 billion, or 71.5%, to ¥71.5 billion.

Reflecting a drop in sales of large vessels and other factors, sales reported in fiscal 2009 fell ¥15.0 billion, or 10.6%, to ¥126.4 billion. This decrease—together with the impact of such factors as a sharp rise in steel prices and the trend of appreciation of the yen against the U.S. dollar—caused the segment to record an operating loss of ¥1.0 billion, which represented a ¥4.3 billion deterioration from the ¥3.3 billion operating income reported in fiscal 2008.

Submarine *Unryu*

In newbuilding activity, the segment delivered 15 vessels in all: namely, five LNG carriers, two LPG carriers, one VLCC, and seven bulk carriers.

Outlook

Kawasaki Shipbuilding Corporation, which is the core company of this segment, has an extensive track record in building gas carriers and submarines, which require advanced design and construction technologies. The vessels built at that company's Kobe and Sakaide shipyards continue to win high marks from customers for their performance and quality. Following the delivery in 1981 of the first LNG carrier built in Japan, we have established ourselves as a pioneer in this field. We offer a wide-ranging lineup of LNG carriers, extending from small carriers with cargo tank capacities of 19,000m^3 to newly developed large carriers with capacities of 177,000m^3. We have also developed and offer in our lineup a pressure build-up type LNG carrier for short-distance and small-volume transportation. Looking ahead, to respond to customer needs, we will draw on cutting-edge technologies to develop new-type LNG carriers.

Nantong COSCO KHI Ship Engineering Co., Ltd. (NACKS), which Kawasaki Shipbuilding Corporation established as a joint venture with China Ocean Shipping (Group) Company, has now marked the 14th year of operations since its founding and has become one of the leading shipbuilding companies in China. NACKS completed its second expansionary phase—involving the construction of a second shipbuilding dock and augmentation of fabrication, assembly, and painting facilities—in October 2008. This expansion has considerably increased NACKS's shipbuilding capacity, and this upgraded capacity is expected to make a full-scale contribution to its performance during fiscal 2010.

Kawasaki Shipbuilding Corporation and its group of companies, including NACKS, are endeavoring to enhance their technologies related to ship design, manufacturing, and quality assurance to reinforce their ability to compete globally in terms of both quality and costs and thus sustain their development into the future.

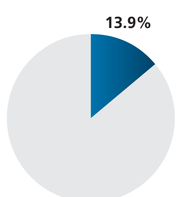
E3 Series 2000 *Shinkansen*

Rolling Stock & Construction Machinery

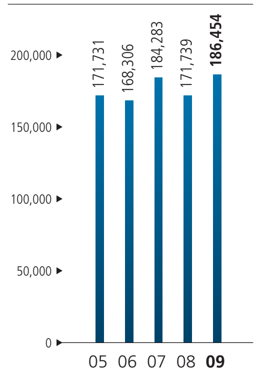
Main Products

- Electric train cars (including for Shinkansen bullet trains)
- Electric and diesel locomotives
- Passenger coaches
- Integrated transit systems
- Monorail cars
- Platform screen doors
- Wheel loaders

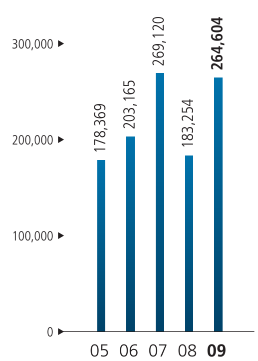
Percentage of Net Sales



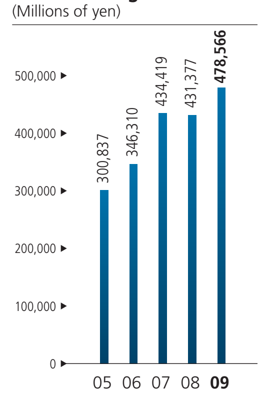
Sales
(Millions of yen)



Orders Received
(Millions of yen)



Order Backlog
(Millions of yen)



Business Results

During fiscal 2009, demand for rolling stock remained strong in North America, Japan, and elsewhere in Asia. In Japan, orders were received from the Japan Railways Group for *Shinkansen* trains, commuter train cars, locomotives, freight cars, and other rolling stock. Orders were also obtained from both public and private railway companies for subway cars, commuter train cars, and other rolling stock. Additional orders from overseas customers included those from the New York City Transit Authority and other sources.

Reflecting considerable rises in domestic orders for various types of products, orders during the fiscal year under review grew ¥81.4 billion, or 44.4%, from a year earlier, to ¥264.6 billion.

Owing to a rise in deliveries to overseas customers, overall sales of this segment grew ¥14.7 billion, or 8.6%, to ¥186.5 billion. However, sales of construction machinery fell below the level in the previous fiscal year due to the impact of the global recession. As a consequence of the overall rise in sales of this segment, operating income increased ¥4.2 billion, or 58.5%, to ¥11.4 billion.

135ZV-2 Wheel Loader

Outlook

In recent years in the industrialized countries, there has been a pronounced "modal shift" to the use of railways as the principal means for mass transportation because of the lower burden on the natural environment. In addition, the number of new projects for the construction of urban transport and interurban transport systems has shown a trend of increase in the newly industrializing countries, while such policies as the "Green New Deal Policy" in the United States are stimulating active moves toward railway-related investments. Expansion in demand for rolling stock is expected to continue on a global basis in the long term.

As Japan's largest manufacturer of rolling stock, KHI is working aggressively to meet this rising demand and is working to expand and upgrade its production systems, which are located in Hyogo and Harima in Japan and in Lincoln, Nebraska, and Yonkers, New York, in the United States. Of special note is the segment's Lincoln plant, which originally went into operation as a fully integrated rolling stock production facility in 2002. At present, work on a new facility that will double the production capacity of the Lincoln plant is under way and is scheduled for completion in the near future. In Japan, along with the Hyogo Works, which is the "mother factory" for Kawasaki's worldwide rolling stock operations, the Harima Works is manufacturing a portion of Kawasaki's rolling stock.

In new product development, Kawasaki completed its next-generation light rail vehicle (LRV), dubbed SWIMO®, in fall 2007, and work is currently under way to introduce this leading-edge LRV to the market. In addition, in September 2008, the Company announced that it has decided to embark on the development of the newly named "efSET" (Environmentally Friendly Super Express Train) high-speed train, which will achieve a service speed of 350km/h. In addition, this innovative vehicle will draw on the technologies that Kawasaki has developed through the design of a number of *Shinkansen* train series and will feature an improved level of passenger comfort and reduce the burden on neighboring environments.

Regarding the construction machinery business, because Kawasaki has arranged a business alliance with Hitachi Construction Machinery Co., Ltd., and TCM Corporation, the Company split off its construction machinery business as a wholly owned subsidiary of KHI, KCM Corporation, as of April 1, 2009, and established an integrated structure for production and sales of construction machinery. Although market conditions are projected to remain harsh, KCM will optimize the effects of this business alliance through increasing efficiency and the co-development of next-generation models as well as other measures taken in cooperation with the Company's new business allies. Also, since the construction machinery business unit is now a wholly owned subsidiary of KHI, this segment will be included in the "Others" segment beginning from fiscal 2010.

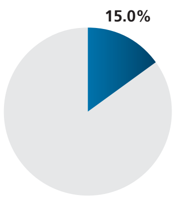
Next fixed-wing maritime patrol aircraft (XP-1)

Aerospace

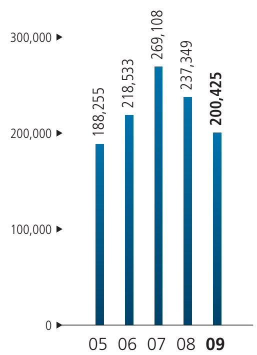
Main Products

- CH-47, OH-1, and BK117 helicopters
- Component parts for the Boeing 777 and 767 passenger airplanes
- Component parts for the Embraer 170 and 190 jet aircraft
- Missiles
- Electronic equipment
- Space equipment

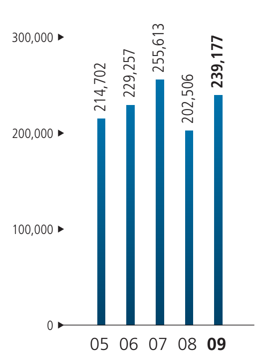
Percentage of Net Sales



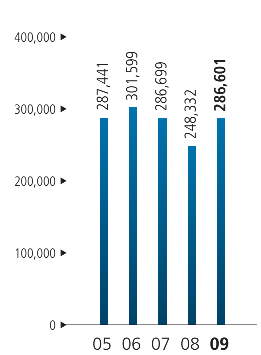
Sales
(Millions of yen)



Orders Received
(Millions of yen)



Order Backlog
(Millions of yen)



Business Results

Due to the receipt of such orders as those for component parts for the B777 of Boeing and the P-1 fixed-wing maritime patrol aircraft of Japan's Ministry of Defense (MOD), orders received in the Aerospace segment were ¥36.7 billion, or 18.1%, higher than for the previous fiscal year, and amounted to ¥239.2 billion.

As a result of a decrease in sales to the MOD and in sales related to the B777, together with such factors as the appreciation of the yen against the U.S. dollar, this segment's sales declined ¥36.9 billion, or 15.6%, to ¥200.4 billion. Because of the decline in sales and a rise in such expenses as those associated with changes in the accounting method for valuation of inventories, this segment recorded an operating loss of ¥4.2 billion, which represented a ¥15.1 billion decline from the operating income reported in the previous fiscal year.

KHI BK117C-2 type helicopter

Outlook

KHI is the prime contractor for the development of the MOD's large-scale XP-1 and C-X aircraft, which have been ongoing since 2001. KHI has acted as the core company and spearheaded the simultaneous development of these two aircraft types. These are the largest aircraft projects being implemented currently in Japan. Regarding the XP-1, the next fixed-wing maritime patrol aircraft, the static test plane and the flight test plane have been delivered to the MOD on schedule. Development of the C-X, the next transport aircraft, is proceeding with the objectives of quickly conducting the maiden flight and the delivery of the flight test plane #1.

In the commercial aircraft field, KHI delivered a test model of Boeing's cutting-edge 787 Dreamliner passenger aircraft, which features advanced design and employs revolutionary production technology, by June 2008, and is proceeding with the mass production of this plane. KHI is a partner corporation in the development and production of the 787 Dreamliner and is responsible for the forward section of the composite, one-piece-structure fuselage, which is the world's first to be used in a commercial aircraft, as well as other key components. To be prepared for an increase in the scale of 787 Dreamliner production, KHI is currently building the second new facility on the south side of its Nagoya Works 1.

Accompanying progress on these major defense and commercial aircraft development projects in the Aerospace segment, up-front capital expenditures and development expenses are expected to run ahead of revenue streams. However, KHI is committed to successfully executing these projects and the creation of a production structure for both MOD-commissioned and commercial aircraft that will reinforce its operational foundation for the long term and thereby ensure sustained growth.

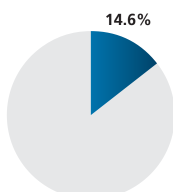
GPB180D regional energy supply system in Gwanmyon, South Korea

Gas Turbines & Machinery

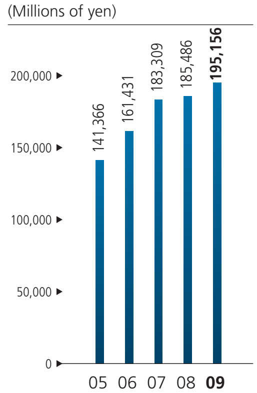
Main Products

- Jet engines
- Small and medium-sized gas turbine generators
- Gas turbine cogeneration systems
- Gas turbines for naval vessels
- Steam turbines for marine and industrial applications
- Diesel engines and marine propulsion systems
- Gas engines
- Aerodynamic machinery

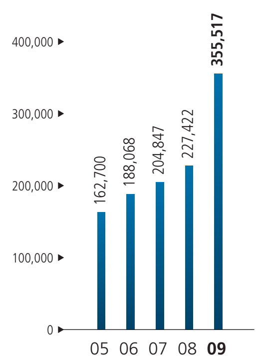
Percentage of Net Sales



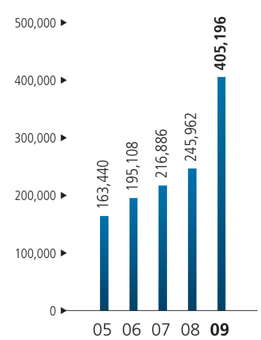
Sales
(Millions of yen)



Orders Received
(Millions of yen)



Order Backlog
(Millions of yen)



Business Results

Total orders of this segment rose to a level considerably higher than in the previous fiscal year, reflecting such factors as new orders for components for Trent XWB commercial aircraft engines, an order for a diesel generator set, and orders for marine propulsion systems. Orders received increased ¥128.1 billion, or 56.3%, from the previous year, to ¥355.5 billion.

Owing to a rise in sales of diesel engines and other factors, sales of this segment expanded ¥9.7 billion, or 5.2%, to ¥195.2 billion. Despite the rise in sales, operating income declined ¥2.4 billion, or 17.7%, to ¥11.0 billion, as a result of such factors as the appreciation of yen against the U.S. dollar and changes in the accounting method for valuation of inventories.

Outlook

The Gas Turbines & Machinery segment has a wide range of products for the energy and transportation equipment field, and although demand for some of

Azimuth thruster Rexpeller®

these products is temporarily weak due to such factors as the global recession, the markets for many of the products are expected to grow over the medium-to-long term. Because of this, this segment is continuing R&D and development of manufacturing systems and strengthening total operations for future market expansion, while effectively responding to the short-term weakness in demand.

In the energy field, it is anticipated that the deregulation of electric power industry along with rising interest in preserving the global environment and conserving energy will expand demand for gas turbine generators and gas engines that offer high and total thermal efficiency and environment-friendliness.

As Japan's largest manufacturer of small to medium-sized gas turbine power generators, KHI intends to expand its global business by offering comprehensive solutions for its customers that include a strong lineup of in-house developed gas turbines together with product support and maintenance.

At the end of 2008, the 8MW-class power-generating capacity Kawasaki Green Gas Engine had completed one year (4,000 hours) of operational testing. Through this one-year test of the Green Gas Engine, we have confirmed the engine's stable performance capabilities and other outstanding features, including the world's highest electric generating efficiency (48.5%), the lowest NO*x* emissions, and superior reliability and durability. Based on this proven performance, KHI plans to progressively expand related business centered on overseas markets with developed natural gas infrastructures.

Also, in the oil and gas field, KHI has extensive experience as a world-leading manufacturer of natural gas compression modules for offshore platforms. Along with the rise in demand for natural gas, needs for these gas compression modules are increasing as a key component for gas field development.

In the transportation equipment field, the commercial aircraft market is temporarily depressed, but KHI has been moving forward with preparations for the production of the Trent 1000, which is designed to power the Boeing 787. Moreover, KHI has recently decided to participate in the Trent XWB project for the Airbus A350XWB.

In the field of marine propulsion systems, KHI is preparing to expand the scope of its business, which currently centers on merchant ships and ferries, by expanding operations related to oil and gas development, a market that is projected to offer increasing demand in the future. Accordingly, the Company is continually working to increase manufacturing efficiency and manufacturing capacity at a new Harima Works that began operating from October 2008.

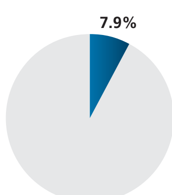
Coal-fired boiler delivered to Nippon Paper Chemicals Co., Ltd.

Plant & Infrastructure Engineering

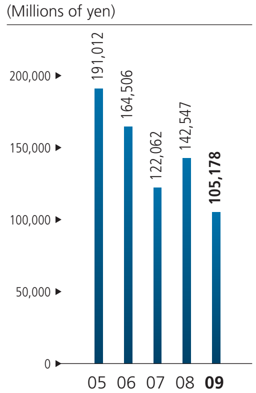
Main Products

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

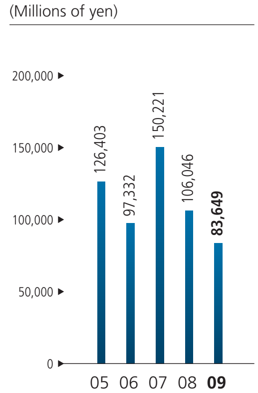
Percentage of Net Sales



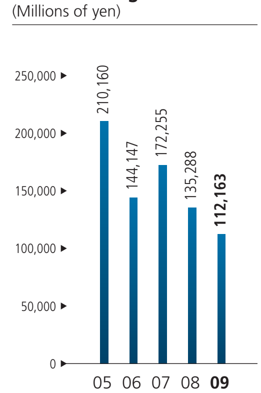
Sales
(Millions of yen)



Orders Received
(Millions of yen)



Order Backlog
(Millions of yen)



Business Results

During fiscal 2009, although restraints on capital investments accompanying the worldwide recession caused a slackening of orders for various types of industrial plants, orders were obtained for waste heat recovery boilers, equipment for nuclear plants, small-lot facilities, and maintenance services. As a result, orders for the year under review declined ¥22.4 billion, or 21.1%, from the previous fiscal year, to ¥83.6 billion.

Overseas sales of nonferrous metal refining plants increased, but a drop in sales of municipal incineration waste treatment plants and other factors caused segment sales to fall considerably below the level of sales in fiscal 2008, when sales for numerous overseas projects were recorded. Thus, sales of this segment declined ¥37.4 billion, or 26.2%, to ¥105.2 billion. Reflecting the decrease in sales, the operating income of this segment declined ¥1.9 billion, or 17.2%, to ¥9.0 billion.

Ferronickel production delivered to SNNC in South Korea

Outlook

This business segment encompasses the operations of Kawasaki Plant Systems, Ltd. (K Plant)—which undertakes projects to supply energy-related, industrial infrastructure, and environmental preservation systems and equipment—and the operations of the parent company's Industrial Facilities and Tunneling Equipment Division—which mainly focuses on LNG tanks and diverse other storage tanks along with shield machines and tunnel-boring machines. This segment is aggressively working to further develop its business activities based on the sophisticated technologies it has accumulated.

Especially, in energy-related business, K-Plant has strengthened its partnership in China with the Anhui Conch Group—this group includes Anhui Conch Cement Company Limited, China's largest cement maker and the fourth largest cement maker in the world. In 2006, K-Plant established Anhui Conch Kawasaki Engineering Co., Ltd. (ACK), as a joint venture company with the Auhui Conch Group. ACK is engaged in the design of, procurement of parts for, and sales of waste heat recovery power generation systems for cement plants. Following the establishment of ACK, K-Plant established Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd. (CKM), which is engaged in the manufacturing of PH boiler parts that are employed in waste heat power plants. To expand the scope of its business operations, CKM has now commenced the manufacturing and sales of environmental preservation related products, including cement plant components, such as high-efficiency vertical mills, boilers for waste heat recovery power generation systems, and waste gasification systems and sewage treatment systems that can be integrated with cement kilns to enable municipal waste recycling.

Under its current Global K Medium-Term Business Plan, the KHI Group is endeavoring to strengthen its position in the energy and environmental engineering business, where major growth in demand is anticipated in the years to come. This business segment is aiming to become the top engineering company in the fields of clean energy and environmental preservation by fusing a broad range of technologies and further stepping up the development of new technologies and products.

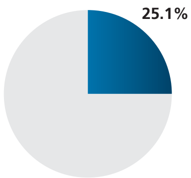
Ninja ZX-6R

Consumer Products & Machinery

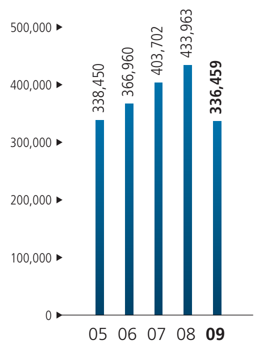
Main Products

- Motorcycles
- ATVs
- Utility vehicles
- Personal watercraft
- General-purpose gasoline engines
- Industrial robots

Percentage of Net Sales



Sales
(Millions of yen)



Business Results

Sales by this segment in the fiscal year under review decreased ¥97.5 billion, or 22.5%, to ¥336.5 billion. Sales of motorcycles increased in Asian markets but declined in the United States and Europe, and sales of industrial robots to the semiconductor and automobile industries were down. Due to such factors as the lower level of sales—particularly a slump in sales of large motorcycles—and the rapid appreciation of the yen against the U.S. dollar, the euro, and other currencies, this segment recorded an operating loss of ¥10.1 billion, which represented a ¥29.8 billion deterioration from the ¥19.7 billion of operating income reported in fiscal 2008.

Worldwide sales of motorcycles, ATVs, utility vehicles, and personal watercraft amounted to 523,000 units, 4,000 units, or 0.8% higher than in the previous fiscal year. By geographical region, sales in Japan amounted to 19,000 units, 1,000 units, or 5.0% lower than in the previous year. Sales in North America fell


Teryx 750 FI 4x4 Sport

RS20N

33,000 units, or 14.3%, to 197,000 units, and sales in Europe dropped 21,000 units, or 17.8%, to 97,000 units. However, sales in other regions surged 59,000 units, or 39.1%, to 210,000 units.

New Models

Principal new models introduced in fiscal 2009 included the following items. In the motorcycle line, Kawasaki launched the ZRX1200 DAEG, a flagship model for the Japanese market, that has been exclusively engineered to meet the needs of Japanese riders; and the Ninja ZX-6R, developed through a full model change to its predecessor mid-size supersport model based on technical feedback from a wide range of racing activities. Kawasaki also undertook a full model change for the ER-6f and the ER-6n, two mid-size sport models that are highly acclaimed in Europe. In the cruiser segment, Kawasaki launched its Vulcan 1700 series with newly developed engine and chassis. This series includes the Vulcan 1700 Voyager, a full-dress V-twin engine tourer with a full load of long-distance touring equipment. In the utility vehicle category, we equipped the Teryx 750 series with an electronic fuel injection system, mainly for recreational use; and our MULE utility-oriented vehicle series was restyled with the launch of the MULE 4010 series. Among personal watercraft, Kawasaki introduced the Jet Ski Ultra 260X series which features a supercharger and improved engine performance.

Outlook

Regarding fiscal 2010 unit sales of motorcycles, ATVs, utility vehicles, and personal watercraft, we project that a rise in Southeast Asia will be offset by a large drop in other regions centered on North America and Europe owing to the impact of a drop in purchasing power and a credit contraction that have accompanied the continued deterioration of economic conditions that began in fiscal 2009. Amid this harsh business environment, we will strengthen this segment's global development and manufacturing systems while also taking measures aimed at improving the profit structure by boosting the profit margin ratio, reducing fixed costs, and making other business improvements. With respect to industrial robots, in preparation for a recovery in demand, we are placing top priority on developing new models for automobile welding and painting applications as well as for semiconductor manufacturing processes.

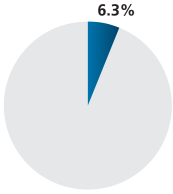
Hydraulic components

Hydraulic Machinery

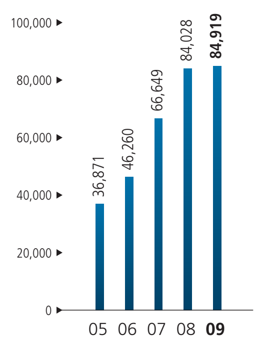
Main Products

• Industrial hydraulic products

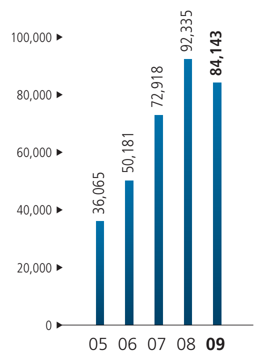
Percentage of Net Sales



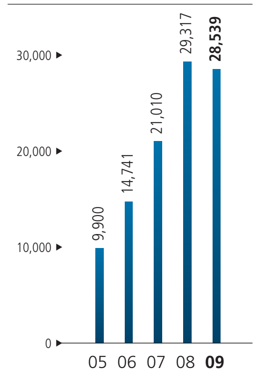
Sales
(Millions of yen)



Orders Received
(Millions of yen)



Order Backlog
(Millions of yen)



Business Results

Orders in the Hydraulic Machinery segment decreased ¥8.2 billion, or 8.9% from the previous fiscal year, to ¥84.1 billion, mainly because of a drop in orders from the construction machinery industry.

Reflecting strong sales to the construction machinery industry during the first half of the fiscal year, segment sales for the fiscal year as a whole were up ¥0.9 billion, or 1.1%, to ¥84.9 billion, although operating income declined ¥0.7 billion, or 8.0%, to ¥8.4 billion.

Outlook

Regarding markets, a decrease in demand accompanying the global recession has led to slack conditions in the construction machinery markets of principal industrialized countries, and while market growth is still projected in the NICs over the long term, the NIC markets are currently in the process of rapidly decelerating. Market conditions for industrial equipment are showing a similar slackening, and while marine vessel-use equipment markets are relatively strong, the impact of

Hydraulic products for construction machinery

the recession is projected to hit those markets going forward.

Amid these conditions, the core company in this segment, Kawasaki Precision Machinery Ltd. (KPM), is implementing various measures in accordance with its Medium-Term Business Plan objective of becoming one of the world's top five hydraulic equipment makers, with outstanding technologies and product quality as well as its longer-term goal of becoming the world's top brand in the hydraulic machinery industry by 2020. In particular, KPM is shifting away from its previous expansion policy centered on moves to strengthen manufacturing capabilities and adopting a corporate organization strengthening policy that emphasizes the strengthening of such corporate characteristics as profit-earning capacity and financial standing as a means of building a more-solid management base.

Specifically, KPM is striving to increase the precision of its information regarding order taking and manufacturing activities while moving forward with steps to increase automation and reduce staffing requirements at manufacturing lines. In these ways, the company is seeking to increase the efficiency of its cycle of order taking, manufacturing, and shipping operations and to improve its productivity and inventory turnover ratio so that it can bolster its business profit-earning capacity and reinforce its financial standing. KPM is also proactively endeavoring to upgrade such product differentiation technologies as those associated with energy conservation, noise reduction, and electronic controls as well as to develop and promote sales of environment-friendly products as a means of increasing the power of its product lineup. These efforts are designed to promote the strengthening of the company's business base in the future. To facilitate these various initiatives, KPM is steadily advancing with such business base-building measures as those involving capital investments for rationalization and renewal objectives, the promotion of R&D programs, the introduction and enhancement of information systems, and the development of human resources.

KPM is strengthening its international network of five manufacturing and marketing facilities, which comprises KPM's headquarters plant and the facilities of Kawasaki Precision Machinery (U.K.) Limited; Kawasaki Precision Machinery (U.S.A.), Inc.; China-based Kawasaki Precision Machinery (Suzhou) Ltd.; and Korea-based Flutek, Ltd. KPM is focusing especially on increasing overall customer satisfaction by developing and supplying high-quality, high-performance products, responding quickly and accurately to customer needs, and providing strong after-sales services.

	Millions of yen					
	2009	2008	2007	2006	2005	2004
Operating results:						
Net sales	**¥1,338,597**	¥1,501,097	¥1,438,619	¥1,322,487	¥1,241,592	¥1,160,252
Cost of sales	**1,146,944**	1,262,032	1,213,524	1,148,547	1,088,219	998,416
Gross profit	**191,653**	239,065	225,095	173,940	153,373	161,836
Selling, general and administrative expenses	**162,940**	162,155	155,953	132,145	128,629	139,586
Operating income	**28,713**	76,910	69,142	41,795	24,744	22,250
Net income	**11,728**	35,141	29,772	16,467	11,479	6,333
Capital expenditures	**82,450**	50,538	39,269	41,724	29,692	41,502
Depreciation and amortization	**44,334**	37,455	30,279	30,551	31,555	32,590
R&D expenses	**38,256**	36,228	33,819	27,040	13,183	14,741
Financial position at year-end:						
Working capital	**¥ 165,791**	¥ 157,741	¥ 155,412	¥ 113,240	¥ 138,523	¥ 121,941
Net property, plant and equipment	**284,118**	259,927	253,819	246,219	243,166	248,922
Total assets	**1,399,771**	1,378,770	1,357,980	1,284,085	1,194,473	1,156,904
Long-term debt, less current portion	**181,933**	138,766	165,754	157,057	207,279	210,819
Total net assets	**295,246**	319,038	295,378	243,096	206,156	194,030
Per share amounts (yen):						
Earnings per share—basic	**¥ 7.0**	¥ 21.1	¥ 18.9	¥ 11.2	¥ 7.9	¥ 4.4
Earnings per share—diluted	**6.9**	20.6	17.2	9.4	6.8	4.2
Cash dividends	**3.0**	5.0	5.0	3.0	2.5	2.0
Net assets	**176.8**	191.1	178.0	156.1	142.8	134.4
Other data:						
Number of shares issued (millions)	**1,670**	1,670	1,660	1,558	1,443	1,443
Number of employees	**32,266**	30,563	29,211	28,922	28,682	29,306
Orders received	**¥1,540,590**	¥1,610,757	¥1,592,688	¥1,351,631	¥1,301,845	¥1,226,728
Order backlog	**1,699,163**	1,533,663	1,465,155	1,310,444	1,254,409	1,189,374

OVERVIEW

During fiscal 2009, ended March 31, 2009, the Japanese economy slipped into a sharp downturn beginning in the third quarter as a result of a range of factors, such as the sudden appreciation of the yen against the U.S. dollar, euro, and other currencies, a slump in personal consumption, a decline in private capital investment, a slowing of exports, and deterioration in employment conditions. Thereafter, although there were signs of a bottoming out over the end of fiscal 2009, the economy still remains lackluster. In the world economy as well, trends toward deceleration and a downturn became increasingly apparent, even in the rapidly developing economies.

Amid this economic environment, the Kawasaki Heavy Industries (KHI) Group reported a decline in orders on a consolidated basis of ¥70.2 billion, or 4.4%, from the previous fiscal year, to ¥1,540.6 billion. This was because orders in the Shipbuilding and Consumer Products & Machinery segments decreased, while orders in the Gas Turbines & Machinery and Rolling Stock & Construction Machinery segments increased. Consolidated net sales decreased ¥162.5 billion, or 10.8%, to ¥1,338.6 billion, as a decline in sales was posted in the Consumer Products & Machinery segment.

Profitwise, consolidated operating income dropped ¥48.2 billion, or 62.7%, to ¥28.7 billion, and net income decreased ¥23.4 billion, or 66.6%, to ¥11.7 billion. This deterioration in profitability was a consequence of the appreciation of the yen in the second half of the fiscal year and persistence of high prices of raw materials.

RESULTS OF OPERATIONS

Net Sales

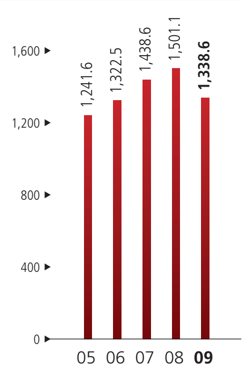
As mentioned, consolidated net sales decreased ¥162.5 billion, or 10.8%, to ¥1,338.6 billion.

The principal factors accounting for this decline were (a) a drop in sales of ¥36.9 billion in the Aerospace segment because of lower sales to Japan's Ministry of Defense (MOD) and to Boeing combined with such factors as the appreciation of the yen against the U.S. dollar, (b) a decline of ¥37.4 billion in the sales of the Plant & Infrastructure Engineering segment owing to lower sales of municipal incineration waste treatment plants and other facilities, and (c) a decrease in sales of ¥97.5 billion in the Consumer Products & Machinery segment because of a significant downturn in sales of motorcycles and the adverse impact of the rapid appreciation of the yen against other currencies.

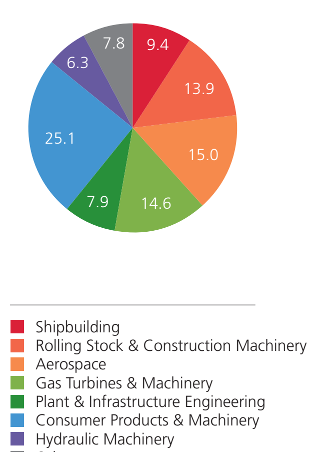
Overseas sales were down ¥91.9 billion, or 11.2%, to ¥730.6 billion. By region, sales in North America decreased ¥48.7 billion, or 13.6%, to ¥310.0 billion; sales in Europe fell ¥37.3 billion, or 24.3%, to ¥116.3 billion; sales in Asia outside Japan rose ¥12.4 billion, or 7.7%, to ¥174.3 billion; and sales in other areas decreased ¥18.3 billion, or 12.3%, to ¥130.1 billion. The ratio of overseas sales to consolidated net sales declined 0.2 percentage point, to 54.5%, compared with 54.7% in the previous fiscal year.

The following sections provide additional details regarding performance by business segment. Operating income or loss includes intersegment transactions.

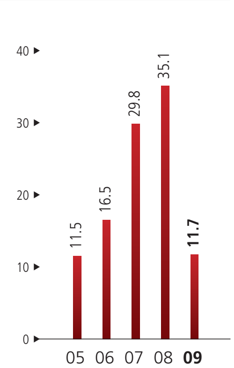
Net Sales
(Billions of yen)



Sales by Segment
(%)



Net Income
(Billions of yen)



Shipbuilding

On a consolidated basis, this segment received orders for one LPG carrier and five bulk carriers. In value terms, orders fell ¥179.8 billion, or 71.5%, to ¥71.5 billion, a marked drop from the previous year when a large number of orders for bulk carriers were received.

Consolidated sales decreased ¥15.0 billion, or 10.6%, to ¥126.4 billion, mainly due to lower sales of large-scale vessels. The segment reported an operating loss of ¥1.0 billion, as a result of a decline of ¥4.3 billion from the previous fiscal year because of the decline in sales combined with high costs of raw materials and the appreciation of the yen against the U.S. dollar.

Rolling Stock & Construction Machinery

Reflecting considerable rises in domestic orders for various types of products, orders on a consolidated basis rose ¥81.4 billion, or 44.4%, to ¥264.6 billion. Orders received included those for *Shinkansen* trains for the Japan Railways Group, commuter trains, locomotives, and other rolling stock as well as orders for subway cars from the New York City Transit Authority and other sources.

Consolidated sales rose ¥14.7 billion, or 8.6%, to ¥186.5 billion, despite lower sales of construction machinery, as deliveries to overseas customers increased. Operating income expanded ¥4.2 billion, or 58.5%, to ¥11.4 billion.

Aerospace

On a consolidated basis, orders of this segment rose ¥36.7 billion, or 18.1%, to ¥239.2 billion, on the strength of new orders for component parts for the B777 of Boeing and orders for the P-1 fixed-wing maritime patrol aircraft of Japan's Ministry of Defense (MOD).

Sales of this segment decreased ¥36.9 billion, or 15.6%, to ¥200.4 billion, because sales to the MOD and sales of component parts for the Boeing 777 both declined and the appreciation of the yen against the U.S. dollar had an adverse impact. The segment reported an operating loss of ¥4.2 billion, a decrease of ¥15.1 billion from the previous fiscal year caused by lower sales, increasing costs including the effects of changes in accounting methods for valuation of inventories and other factors.

Gas Turbines & Machinery

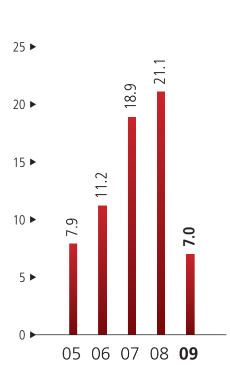
Orders on a consolidated basis received by this segment rose a substantial ¥128.1 billion, or 56.3%, to ¥355.5 billion, and were on a level considerably higher than in the previous fiscal year. This was because of the receipt of new orders for components for Trent XWB commercial aircraft engines, and an increase in orders for diesel generator set and marine propulsion systems.

Sales rose ¥9.7 billion, or 5.2%, to ¥195.2 billion, supported by higher sales of diesel engines and other equipment. Operating income, however, declined ¥2.4 billion, or 17.7%, to ¥11.0 billion, despite the increase in sales because of the impact of the appreciation of the yen against the U.S. dollar, the adverse impact of changes in accounting methods for valuation of inventories, and other factors.

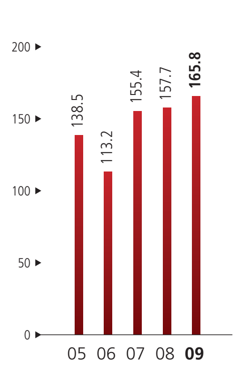
Plant & Infrastructure Engineering

On a consolidated basis, orders declined ¥22.4 billion, or 21.1%, to ¥83.6 billion, despite the receipt of orders for various types of plants and LNG storage tanks. Sales were down ¥37.4 billion, or 26.2%, to ¥105.2 billion, owing to increases in overseas sales of nonferrous refining plants, but a drop in sales of municipal incineration waste treatment plants, and

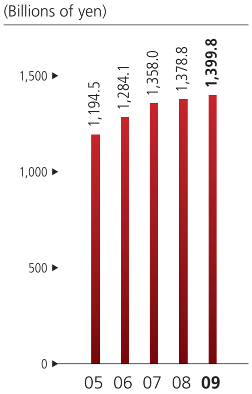
Net Income per Share
(Yen)



Working Capital
(Billions of yen)



Total Assets
(Billions of yen)



other factors. Operating income slipped ¥1.9 billion, or 17.2%, to ¥9.0 billion, accompanying the drop in sales.

Consumer Products & Machinery

Consolidated sales of this segment decreased ¥97.5 billion, or 22.5%, to ¥336.5 billion. Although sales of motorcycles in Asian markets increased, sales in Europe and the United States declined, and sales of robots to the automobile and semiconductor industries decreased. This segment reported an operating loss of ¥10.1 billion, a decrease of ¥29.8 billion from operating income of ¥19.7 billion in the previous fiscal year. This decline in profitability resulted from lower sales, especially sales of large motorcycles, the averse impact of the appreciation of the yen against the U.S. dollar, euro, and other currencies, and other factors.

Please note that since production in this segment is carried out mainly in anticipation of demand, figures for orders and sales are the same.

Hydraulic Machinery

Orders of this segment on a consolidated basis, principally from the construction machinery industry, decreased ¥8.2 billion, or 8.9%, to ¥84.1 billion. Consolidated sales rose ¥0.9 billion, or 1.1%, to ¥84.9 billion, because of strong sales to the construction machinery industry in the first six months of the fiscal year and other factors. Operating income decreased ¥0.7 billion, or 8.0%, to ¥8.4 billion.

Other

Sales on a consolidated basis declined ¥1.0 billion, or 1.0%, to ¥103.6 billion. Operating income increased ¥1.9 billion, or 80.9%, to ¥4.3 billion.

The following sections summarize performance by geographic segment.

Japan

Sales in Japan decreased ¥84.0 billion, or 7.9% from the previous fiscal year, to ¥974.5 billion, mainly because of declines in sales in the Shipbuilding and Aerospace segments. Operating income dropped ¥61.5 billion, or 82.1%, to ¥13.4 billion, due principally to the decrease in sales and the adverse impact of changes in accounting methods for valuation of inventories.

North America

Sales in North America were down ¥46.7 billion, or 17.5%, to ¥220.9 billion, as a consequence of lower sales of motorcycles and other products, and the segment reported an operating loss of ¥1.4 billion.

Europe

Sales in Europe decreased ¥40.7 billion, or 30.9%, to ¥90.9 billion, because of lower sales of motorcycles and other products. Operating income dropped ¥3.8 billion, or 84.2%, to ¥0.7 billion.

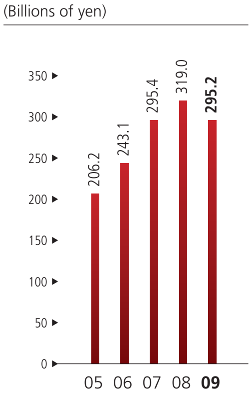
Asia

Sales in Asia outside Japan rose ¥10.0 billion, or 30.1%, to ¥43.3 billion, and operating income jumped ¥3.1 billion, or 213.5%, to ¥4.6 billion.

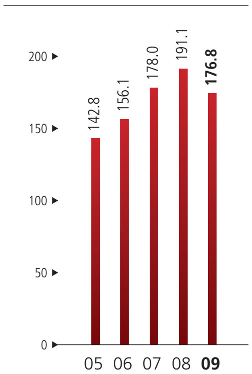
Other Areas

In other areas, sales decreased ¥1.1 billion, or 10.7%, to ¥9.1 billion, but operating income expanded ¥0.1 billion, or 34.4%, to ¥0.4 billion.

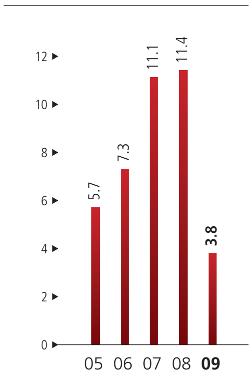
Total Net Assets
(Billions of yen)



Net Assets per Share
(Yen)



Return on Equity
(%)



Cost, Expenses, and Earnings

The cost of sales decreased 9.1%, to ¥1,146.9 billion, and the rate of decrease in cost of sales was 1.7 percentage points lower than the 10.8% drop in net sales. As a result, gross profit decreased ¥47.4 billion, or 19.8%, to ¥191.7 billion, and the gross profit margin fell 1.6 percentage points, to 14.3%, compared with 15.9% in the previous fiscal year.

Selling, general and administrative expenses were up ¥0.8 billion, or 0.5%, to ¥162.9 billion, owing to an increase in R&D expenses and other items. Operating income fell ¥48.2 billion, or 62.7%, to ¥28.7 billion. The principal factors accounting for this decrease included (a) substantial declines in sales of mass-produced items, principally those in the Consumer Products & Machinery segment, (b) the rapid appreciation of the yen against the U.S. dollar, euro, and other currencies in the latter half of the fiscal year, and (c) the persistence of high prices of raw materials. As a consequence, the ratio of operating income to net sales fell 3.0 percentage points, to 2.1%, compared with 5.1% in the previous fiscal year.

Other income (expenses) for fiscal 2009 amounted to expenses of ¥5.1 billion, compared with expenses of ¥18.9 billion for the previous fiscal year. The principal cause of this decline was a decrease of expenses in "other, net" from ¥23.5 billion in the previous fiscal year to ¥11.5 billion for the fiscal year under review. The main factors influencing this outcome were (a) an increase in the provision for loss on damages suit from ¥2.2 billion in the prior fiscal year to ¥5.2 billion for fiscal 2009 and (b) the movement of the loss (gain) on contribution of securities to the pension trust from a gain of ¥1.4 billion in the previous fiscal year to a loss of ¥4.5 billion for the fiscal year under review as well as increases in certain other expense items. However, a foreign exchange gain of ¥10.4 billion (compared with a foreign exchange loss of ¥11.5 billion for the previous fiscal year) offset (a) and (b) above.

Primarily as a result of the considerable decline in operating income from the previous fiscal year, income before income taxes and minority interests declined ¥34.4 billion, or 59.3%, to ¥23.6 billion. The ratio of net current and deferred income taxes to income before income taxes and minority interests was 45.6%, versus 37.9% for the previous year and higher than the statutory tax rate of 40.5%. This difference was mainly due to provisions to reserves for valuation allowance with deferred tax assets. As a result of these factors, after the deduction of minority interests in net income of consolidated subsidiaries, net income for the fiscal year decreased ¥23.4 billion, or 66.6%, to ¥11.7 billion. The ratio of net income to net sales declined 1.4 percentage points, to 0.9%, compared with 2.3% for the previous fiscal year. ROE (calculated using average total net assets) decreased 7.6 percentage points, to 3.8%, versus 11.4% for the previous fiscal year.

Capital expenditures for the fiscal year under review amounted to ¥82.5 billion, compared with ¥50.5 billion in the previous fiscal year, and R&D expenses were ¥38.3 billion, versus ¥36.2 billion in the previous fiscal year.

FINANCIAL CONDITION

Total assets at the end of the fiscal year were ¥21.0 billion, or 1.5%, higher than at the end of the previous fiscal year and amounted to ¥1,399.8 billion. Of this total, current assets were ¥13.5 billion, or 1.4%, higher than at the end of the previous fiscal year and amounted to ¥995.8 billion. This increase was primarily due to an increase in work in process, reflecting progress toward the completion of orders received. Investments and long-term loans decreased ¥25.4 billion from the previous fiscal year as a result of the decrease in the value of investments in securities accompanying the drop in stock prices. Net property, plant and equipment rose ¥24.2 billion over the previous fiscal year-end as a result of active capital investment. Deferred tax assets, intangible and other assets were up ¥8.7 billion over the previous fiscal year.

Liabilities increased ¥44.8 billion, or 4.2%, to ¥1,104.5 billion. This overall balance of liabilities was influenced mainly by (a) a decrease of ¥72.5 billion, or 16.8% in trade payables and (b) an increase of ¥112.8 billion, or 40.8% in interest-bearing debt, such as borrowings, bonds payable, and other factors.

Current liabilities were up ¥5.5 billion, or 0.7%, to ¥830.0 billion, and long-term liabilities increased ¥39.3 billion, or 16.7%, to ¥274.5 billion.

Net assets declined ¥23.8 billion, or 7.5%, to ¥295.2 billion. This was mainly because of a decrease in foreign currency translation adjustments due to the appreciation of the yen and other factors.

The ratio of shareholders' equity to total assets fell 2.0 percentage points, to 20.7%, compared with 22.7% at the end of the previous fiscal year. In addition, the net debt-to-equity ratio rose substantially from 75.5% at the previous fiscal year-end to 122.9% at the end of the fiscal year under review.

MANAGEMENT INDICATORS

The Company's objective is to meet and exceed the expectations of investors for profitability. The management indicator we have adopted is before-tax return on invested capital (ROIC), which measures how efficiently the Company uses its capital. As it works to maximize before-tax ROIC, the Company is working to strengthen its financial position by implementing measures to expand profit and simultaneously improve the efficiency of invested capital. Before-tax ROIC is computed by calculating the ratio of earnings before interest and taxes (EBIT) to the sum of interest-bearing debt and total shareholders' equity. (Shareholders' equity is defined as net assets minus minority interests.)

Applying this formula, before-tax ROIC for the year under review was 4.5%, which was 6.7 percentage points lower than the figure of 11.2% for the previous fiscal year.

In addition, under the Group's Medium-Term Business Plan "Global K," announced in September 2006, the Group is aiming to strengthen its earning power and has therefore also adopted the ratio of recurring profit to net sales as a key management indicator. Recurring profit is used in accounting standards generally accepted in Japan. It is the sum of operating income, net interest income (expenses), dividend income, and other non-operating and recurring items.

For the fiscal year under review, the Group's ratio of recurring profit to net sales was 2.9%, which was 1.4 percentage points lower than the 4.3% reported for the previous fiscal year.

CASH FLOWS

During fiscal 2009, net cash used for operating activities was ¥41.3 billion, ¥117.0 billion more than in the previous fiscal year. Principal cash inflow items were depreciation and amortization of ¥44.3 billion and income before income taxes and minority interests of ¥23.6 billion. Among cash outflow items were the decline in trade payables of ¥55.1 billion, the increase in inventories of ¥54.7 billion, and income taxes of ¥25.1 billion.

Net cash used for investing activities amounted to ¥72.3 billion, ¥23.2 billion higher than in the previous fiscal year. The principal use of this cash was for the acquisition of property, plant and equipment.

Free cash flow, which is the net amount of cash from operating and investing activities, amounted to an outflow of ¥113.5 billion, compared with an inflow of ¥26.7 billion for the previous fiscal year.

Net cash provided by financing activities was ¥107.7 billion, ¥135.1 billion more than in the previous fiscal year. This increase was mainly due to a rise in borrowings.

As a result of these cash flows, cash and cash equivalents at the end of fiscal 2009 amounted to ¥31.4 billion, which was ¥6.8 billion less than in the previous fiscal year.

DIVIDENDS

The Company's policy is to pay stable cash dividends to its shareholders, giving due consideration to increasing retained earnings to strengthen and expand its business foundations for future growth.

The Company's basic policy regarding cash dividends from retained earnings is to pay two dividends, one for the interim period and the other at the end of the fiscal period. The entity making final decisions on dividends is the meeting of the Board of Directors for the interim dividend and the general meeting of shareholders for the year-end dividend.

In view of the Company's policy of paying stable cash dividends, the decision was made to pay a dividend of ¥3 per share (an interim dividend of ¥0 and a year-end dividend of ¥3). The remainder of retained earnings will be used to make investments related to the Company's businesses, the repayment of borrowings, and for other uses.

Please note that the Company's Articles of Incorporation provide for paying an interim dividend as stipulated in Article 454-5 of the Japanese Corporate Law.

BUSINESS RISK

External factors that may have an effect on the KHI Group's performance and financial position include the following:

(1) Political and Economic Conditions

The Group conducts its business activities not only in Japan but also elsewhere in Asia, North America, Europe, and other areas and is subject to the consequences of political and economic developments in these regions. For example, trends in personal consumption may have an impact on the sales of the Consumer Products & Machinery segment, while trends in private-sector capital investment and public works investment may have an influence on orders of the Gas Turbines & Machinery and the Plant & Infrastructure Engineering segments. Moreover, demand for passenger air travel and conditions in shipping markets may have an impact on the Aerospace and Shipbuilding segments, respectively. Disputes and political changes may have an effect on the Company's overseas projects.

(2) Fluctuations in Foreign Exchange Rates
During fiscal 2009, overseas sales accounted for 54.5% of consolidated net sales. Accordingly, the Group has a substantial volume of transactions denominated in U.S. dollars, euros, and other currencies. To reduce foreign exchange risk, the Group is working to increase the ratio of the total cost of goods sold that is denominated in foreign currencies and, while taking into due account trends in foreign exchange rates, endeavors to take flexible measures to hedge the effect of exchange rate fluctuations through the use of forward contracts and other hedging techniques. However, the majority of the Group's manufacturing facilities are located in Japan, and its sales to overseas markets are, therefore, subject to foreign exchange fluctuation risk.

(3) Fluctuations in Prices of Raw Materials
Since the Group has many projects that require considerable time for completion, from the receipt of orders to final delivery, fluctuations in the prices of steel and other raw materials may have an impact on the profitability of such projects. Accordingly, the Group is subject to the risk of fluctuations in prices of raw materials.

(4) Government Regulations
The Group conducts its business activities in compliance with the restrictions in effect, including laws and regulations, in the countries and regions where it operates. However, the Group's operations may be affected if such restrictions are subject to unpredictable changes and if new restrictions are put into effect.

CORPORATE GOVERNANCE

(1) Basic Stance toward Corporate Governance— Enhancing Internal Control Systems
KHI has created a corporate governance structure appropriate for its operations, with members of the Board of Directors and auditors playing central roles, and is working to enhance and improve its internal control systems. Specific aspects of this system are as follows. Regarding the decision making and the conduct of operations of directors and employees, the scope of authority, responsibilities, and duties of directors and employees is clearly stated in the Company's internal rules. In addition, those responsible are required to keep records of actual decisions made and the conduct of operations, and an auditing system has been established to check on whether the content and form of these decisions and conduct of operations are in accordance with the Company's internal rules. As a result, the basic stance of the KHI Group as a whole regarding corporate governance is to endeavor to increase its corporate value through the highly transparent, efficient, and sound management of its operations as the Group works to build smooth relationships with all its stakeholders, including shareholders, customers, employees, and the community.

(2) KHI's Corporate Governance Framework
1. Conduct of Operations
KHI has established a Board of Directors with ten members who are responsible for formulating management strategy and supervising the conduct of operations. In addition, to create a management system that can respond quickly to changes in the operating environment, executive officers are appointed by the Board of Directors to be responsible for the day-to-day conduct of business operations.

The Board of Directors decides on the basic objectives and policies for the conduct of operations as it formulates management plans. These objectives and policies are then transmitted to all the executive officers and reviewed in detail to ensure full understanding at the meeting of the Group Executive Officer Committee. Subsequently, the Management Committee, which is composed of representative directors and management responsible for major subsidiaries, and the Board of Directors follow up on the implementation of management plans. To make the responsibility for management clear, the compensation of directors is incentive-based, reflecting corporate performance, and directors must stand for re-election annually. For major management issues, the Management Committee discusses such issues in detail, and then designated matters are decided by the Board of Directors. The Management Committee, in principle, meets three times a month, and discusses management policy, management strategy, important management issues, and other matters from the perspective of the Group as a whole.

2. Auditing Functions
KHI has formed a Board of Auditors with four members (two of whom are outside auditors), and, under the provisions of Japanese Corporate Law, the Board of Auditors conducts examinations of business operations and audits the financial accounts. Accordingly, the corporate auditors examine and monitor the state of operations and Group assets through a number of activities. These include attending the meetings of the Board of Directors and the Management Committee,

examining important documents, holding periodic meetings with the representative directors, and auditing KHI's divisions and subsidiaries. In addition, the two outside corporate auditors on the Board of Auditors, who have no transactions or other relationships that represent a conflict of interest, perform their surveillance duties as neutral and objective third parties. The internal corporate auditors share information with the outside corporate auditors and work to enhance the effectiveness of their management surveillance functions.

Please note that the contracts signed between the Company and the outside corporate auditors, the scope of whose authority is based on Article 427-1 of the Japanese Corporate Law and Article 43 of KHI's Articles of Incorporation, provide for a limit on compensation to the outside auditors of the higher of ¥10 million or the amount stipulated in Article 425-1 of the Corporate Law (the equivalent of two years' compensation paid to the corporate auditors).

Moreover, KHI has appointed KPMG AZSA & Co. as its independent public accounting firm, and this firm conducts audits of the Company's financial statements. The corporate auditors and the Board of Auditors receive reports regarding the accounting audit, including the outline of the audit plans of the independent accounting firm, the items the accounting firm selects for particular focus, and other matters. In addition, the Board of Auditors explains the Company's auditing plans to the independent public accounting firm. Reports on the results of audits by the accounting firm are presented periodically (twice annually), and the corporate auditors and the accounting firm work closely together, exchanging information and opinions. As deemed necessary, the corporate auditors attend the audits conducted by the independent accounting firm and receive reports from time to time from the accounting firm.

Moreover, separately from the auditing activities previously mentioned, which are based on the Corporate Law, KHI's Auditing Department, which acts as the internal auditing unit, monitors the overall conduct of management activities within the KHI Group and carries out audits on a continuing basis of whether operations are being conducted appropriately and in compliance with laws and internal rules as well as other matters while endeavoring to upgrade internal control functions. In addition, to raise the level of auditing activities, the corporate auditors and the Auditing Department exchange information on a monthly basis and share information regarding the results of their auditing activities and items they have singled out for attention.

3. Compliance Systems

Along with updating and improving internal regulations related to ethical matters, in addition to the CSR Committee, KHI has formed compliance committees in each of its organizational units in Japan to take the initiative in promoting the self-assessment and verification of compliance. In addition, a Compliance Guidebook has been prepared and distributed to employees, not only of the parent company but also to those of virtually all subsidiaries and affiliates in Japan, and measures are being implemented to conduct various forms of compliance training, along with concerted efforts to raise the level of awareness of compliance matters within the Group. In addition to these initiatives, a Compliance Reporting and Consultation System has been created through an outside legal office to enable employees to receive advice without being concerned about being observed by other employees.

(3) Compensation Paid to Directors and Corporate Auditors

During the fiscal year under review, the amounts of compensation paid to the Company's directors and corporate auditors were as follows.

	Amounts Paid (Millions of yen)		
	Directors	Corporate Auditors	Total
Compensation based on the Articles of Incorporation and decisions of the General Meeting of Shareholders	¥575	¥75	¥650
Retirement payments based on decisions of the General Meeting of Shareholders	35	6	41
Total	¥610	¥81	¥691

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
As of March 31, 2009 and 2008

ASSETS	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars (Note 1) 2009
Current assets:			
Cash on hand and in banks	¥ 31,956	¥ 39,875	$ 325,219
Receivables:			
Trade	402,342	417,934	4,094,667
Other	19,406	19,361	197,497
Allowance for doubtful receivables	(3,112)	(4,140)	(31,671)
	418,636	433,155	4,260,493
Inventories	476,441	439,310	4,848,779
Deferred tax assets (Note 12)	33,232	25,250	338,205
Other current assets	35,532	44,692	361,611
Total current assets	995,797	982,282	10,134,307
Investments and long-term loans:			
Investments in securities (Notes 3 and 4)	45,852	70,052	466,640
Long-term loans	560	2,006	5,699
Other (Note 6)	9,064	8,962	92,245
Allowance for doubtful receivables	(1,187)	(1,345)	(12,080)
Total investments and long-term loans	54,289	79,675	552,504
Property, plant and equipment (Note 6):			
Land	64,287	64,457	654,254
Buildings and structures	302,033	293,150	3,073,814
Machinery and equipment	494,938	468,065	5,037,024
Construction in progress	19,573	9,938	199,197
	880,831	835,610	8,964,289
Accumulated depreciation	(596,713)	(575,683)	(6,072,797)
Net property, plant and equipment	284,118	259,927	2,891,492
Deferred tax, intangible and other assets:			
Deferred tax assets (Note 12)	42,773	38,337	435,304
Intangible and other assets (Note 5)	22,794	18,549	231,976
	65,567	56,886	667,280
Total assets	¥1,399,771	¥1,378,770	$14,245,583

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

LIABILITIES AND NET ASSETS	Millions of yen 2009	2008	Thousands of U.S. dollars (Note 1) 2009
Current liabilities:			
Short-term borrowings and current portion of long-term debt (Note 6)	¥ 207,355	¥ 137,681	$ 2,110,269
Trade payables (Note 6)	358,478	431,000	3,648,260
Advances from customers	125,763	124,679	1,279,900
Income taxes payable (Note 12)	8,710	16,836	88,642
Accrued bonuses	14,242	19,263	144,942
Provision for product warranties	7,638	6,734	77,733
Provision for losses on construction contracts	20,931	8,836	213,016
Provision for losses on damages suit	7,411	2,245	75,422
Deferred tax liabilities (Note 12)	932	270	9,485
Other current liabilities	78,546	76,997	799,369
Total current liabilities	830,006	824,541	8,447,038
Long-term liabilities:			
Long-term debt, less current portion (Note 6)	181,933	138,766	1,851,547
Employees' retirement and severance benefits (Note 7)	79,969	81,928	813,851
Deferred tax liabilities (Note 12)	2,938	5,433	29,900
Provision for environmental measures	3,981	2,168	40,515
Other	5,698	6,896	57,989
Total long-term liabilities	274,519	235,191	2,793,802
Contingent liabilities (Note 8)			
Net assets (Note 9):			
Common stock:			
Authorized—3,360,000,000 shares			
Issued—1,669,629,122 shares in 2009 —1,669,629,122 shares in 2008	104,329	104,329	1,061,765
Capital surplus	54,282	54,291	552,432
Retained earnings	154,273	151,401	1,570,049
Net unrealized gains on securities	3,140	10,292	31,957
Gains/losses on hedging items	(264)	5,217	(2,687)
Foreign currency translation adjustments	(24,851)	(11,878)	(252,911)
Treasury stock—1,394,288 shares in 2009 —1,324,199 shares in 2008	(468)	(460)	(4,763)
Minority interests	4,805	5,846	48,901
Total net assets	295,246	319,038	3,004,743
Total liabilities and net assets	¥1,399,771	¥1,378,770	$14,245,583

Consolidated Statements of Income

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	**2009**
Net sales	**¥1,338,597**	¥1,501,097	¥1,438,619	**$13,623,010**
Cost of sales	**1,146,944**	1,262,032	1,213,524	**11,672,542**
Gross profit	**191,653**	239,065	225,095	**1,950,468**
Selling, general and administrative expenses (Note 10)	**162,940**	162,155	155,953	**1,658,253**
Operating income	**28,713**	76,910	69,142	**292,215**
Other income (expenses):				
Interest and dividend income	**4,352**	5,005	3,807	**44,291**
Equity in income of nonconsolidated subsidiaries and affiliates	**8,709**	7,642	2,694	**88,632**
Interest expense	**(6,658)**	(7,980)	(6,650)	**(67,759)**
Other, net (Note 11)	**(11,491)**	(23,522)	(23,725)	**(116,945)**
Income before income taxes and minority interests	**23,625**	58,055	45,268	**240,434**
Income taxes (Note 12):				
Current	**(16,783)**	(23,271)	(16,623)	**(170,802)**
Deferred	**6,022**	1,260	1,337	**61,286**
Minority interests in net income of consolidated subsidiaries	**(1,136)**	(903)	(210)	**(11,561)**
Net income	**¥ 11,728**	¥ 35,141	¥ 29,772	**$ 119,357**

	Yen			U.S. dollars (Note 1)
Per share amounts (Note 16):				
Earnings per share—basic	**¥7.0**	¥21.1	¥18.9	**$0.07**
Earnings per share—diluted	**6.9**	20.6	17.2	**0.07**
Cash dividends	**3.0**	5.0	5.0	**0.03**

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, 2009, 2008 and 2007

	Thousands	Millions of yen							
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Gains/ losses on hedging items	Foreign currency translation adjustments	Treasury stock	Minority interests
Balance at March 31, 2006	1,557,715	¥ 92,085	¥42,094	¥100,776	¥14,097	¥ —	¥(11,426)	¥ (38)	¥ —
Net income for the year	—	—	—	29,772	—	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	2,009	—	—
Increase in net unrealized gains on securities	—	—	—	—	5,245	—	—	—	—
Treasury stock purchased, net	—	—	—	—	—	—	—	(17)	—
Cash dividends	—	—	—	(4,673)	—	—	—	—	—
Gain on sales of treasury stock	—	—	1	—	—	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(14)	—	—	—	—	—
Conversion of convertible bonds	101,911	11,103	11,084	—	—	—	—	—	—
Other	—	—	—	(62)	—	(1,608)	—	—	4,950
Balance at March 31, 2007	1,659,626	103,188	53,179	125,799	19,342	(1,608)	(9,417)	(55)	4,950
Net income for the year	—	—	—	35,141	—	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(2,461)	—	—
Decrease in net unrealized gains on securities	—	—	—	—	(9,050)	—	—	—	—
Treasury stock purchased, net	—	—	—	—	—	—	—	(410)	—
Cash dividends	—	—	—	(8,298)	—	—	—	—	—
Loss on sales of treasury stock	—	—	(1)	—	—	—	—	—	—
Conversion of convertible bonds	10,003	1,141	1,113	—	—	—	—	—	—
Other (Note 13)	—	—	—	(1,241)	—	6,825	—	5	896
Balance at March 31, 2008	1,669,629	104,329	54,291	151,401	10,292	5,217	(11,878)	(460)	5,846
Net income for the year	—	—	—	11,728	—	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(12,973)	—	—
Decrease in net unrealized gains on securities	—	—	—	—	(7,152)	—	—	—	—
Treasury stock purchased, net	—	—	—	—	—	—	—	(8)	—
Cash dividends	—	—	—	(8,342)	—	—	—	—	—
Loss on sales of treasury stock	—	—	(9)	—	—	—	—	—	—
Other	—	—	—	(514)	—	(5,481)	—	—	(1,041)
Balance at March 31, 2009	**1,669,629**	**¥104,329**	**¥54,282**	**¥154,273**	**¥ 3,140**	**¥ (264)**	**¥(24,851)**	**¥(468)**	**¥4,805**

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Gains/ losses on hedging items	Foreign currency translation adjustments	Treasury stock	Minority interests
Balance at March 31, 2008	$1,061,765	$552,524	$1,540,820	$104,743	$53,094	$(120,883)	$(4,681)	$59,495
Net income for the year	—	—	119,357	—	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(132,028)	—	—
Decrease in net unrealized gains on securities	—	—	—	(72,786)	—	—	—	—
Treasury stock purchased, net	—	—	—	—	—	—	(82)	—
Cash dividends	—	—	(84,897)	—	—	—	—	—
Loss on sales of treasury stock	—	(92)	—	—	—	—	—	—
Other	—	—	(5,231)	—	(55,781)	—	—	(10,594)
Balance at March 31, 2009	**$1,061,765**	**$552,432**	**$1,570,049**	**$ 31,957**	**$ (2,687)**	**$(252,911)**	**$(4,763)**	**$48,901**

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, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	**2009**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥23,625**	¥58,055	¥45,268	**$ 240,434**
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	**44,334**	37,455	30,279	**451,191**
Loss on impairment of fixed assets	**1,399**	2,764	—	**14,238**
Provision for retirement and severance benefits	**2,315**	7,124	8,460	**23,560**
Reversal of allowance for doubtful receivables	**(849)**	(406)	(2,224)	**(8,640)**
Provision for product warranties	**1,162**	—	—	**11,826**
Provision for losses on construction contracts	**12,202**	(3,498)	(247)	**124,181**
Provision for restructuring charges on commercial aircraft manufacturing business	**—**	—	(9,557)	**—**
Provision for loss on damages suit	**5,165**	(153)	2,398	**52,565**
Provision for environmental measures	**1,812**	2,168	—	**18,441**
Loss on disposal of inventories	**2,382**	1,350	1,025	**24,242**
Gain on sale of marketable and investment securities	**(620)**	(349)	(889)	**(6,310)**
Loss on sale of property, plant, and equipment	**164**	1,397	1,414	**1,669**
Loss (gain) on contribution of securities to pension trust	**4,492**	(1,376)	—	**45,715**
Investment gain on equity method	**(8,709)**	(7,642)	—	**(88,632)**
Interest and dividend income	**(4,352)**	(5,005)	(3,807)	**(44,291)**
Interest expense	**6,658**	7,980	6,650	**67,759**
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	**5,398**	(11,102)	(2,867)	**54,936**
Inventories	**(54,709)**	(19,046)	(40,608)	**(556,778)**
Other current assets	**(2,709)**	(10,723)	5,157	**(27,570)**
Increase (decrease) in:				
Trade payables	**(55,077)**	26,870	(1,248)	**(560,523)**
Advances received	**8,274**	1,849	25,285	**84,205**
Accrued bonuses	**(5,335)**	1,451	2,634	**(54,295)**
Other current liabilities	**(8,867)**	7,758	223	**(90,240)**
Other, net	**4,794**	(3,314)	2,887	**48,788**
Subtotal	**(17,051)**	93,607	70,233	**(173,529)**
Cash received for interest and dividends	**8,926**	9,608	5,393	**90,841**
Cash paid for interest	**(6,481)**	(8,035)	(6,438)	**(65,958)**
Cash paid for income taxes	**(25,064)**	(19,414)	(23,329)	**(255,078)**
Cash paid for suspension of activities for participation in MotoGP	**(1,587)**	—	—	**(16,152)**
Net cash provided by (used for) operating activities	**(41,257)**	75,766	45,859	**(419,876)**

(Continues to next page)

(Continued from previous page)	Millions of yen 2009	2008	2007	Thousands of U.S. dollars (Note 1) 2009
Cash flows from investing activities:				
Decrease (increase) in time deposits with maturities over three months	**706**	(1,635)	27	**7,185**
Acquisition of property, plant and equipment	**(68,059)**	(45,598)	(31,651)	**(692,642)**
Proceeds from sales of property, plant, and equipment	**2,903**	469	2,301	**29,544**
Acquisition of intangible assets	**(6,400)**	(5,238)	(3,625)	**(65,133)**
Proceeds from sales of intangible assets	**15**	55	176	**153**
Acquisition of investments in securities	**(3,043)**	(1,183)	(10,089)	**(30,969)**
Acquisition of investments in affiliates	**(1,241)**	—	—	**(12,630)**
Proceeds from sale of investments in securities	**1,796**	5,731	1,589	**18,278**
Decrease (increase) in short-term loans receivable	**(33)**	(278)	254	**(336)**
Additions to long-term loans receivable	**(165)**	(990)	(88)	**(1,679)**
Proceeds from collection of long-term loans receivable	**1,475**	94	18	**15,011**
Other	**(238)**	(517)	(2,224)	**(2,422)**
Net cash used for investing activities	**(72,284)**	(49,090)	(43,312)	**(735,640)**
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	**67,881**	13,099	(9,958)	**690,830**
Proceeds from long-term debt	**73,551**	3,328	62,061	**748,535**
Repayment of long-term debt	**(25,017)**	(34,817)	(48,586)	**(254,600)**
Acquisition of treasury stock	**(17)**	(479)	(68)	**(173)**
Cash dividends paid	**(8,321)**	(8,262)	(4,577)	**(84,684)**
Cash dividends paid to minority interests	**(362)**	(261)	(179)	**(3,684)**
Other	**(22)**	—	—	**(224)**
Net cash provided by (used for) financing activities	**107,693**	(27,392)	(1,307)	**1,096,000**
Effect of exchange rate changes	**(907)**	(501)	482	**(9,230)**
Net increase (decrease) in cash and cash equivalents	**(6,755)**	(1,217)	1,724	**(68,746)**
Cash and cash equivalents at beginning of year	**38,169**	39,228	37,506	**388,449**
Increase in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries	**—**	158	—	**—**
Cash and cash equivalents at end of year	**¥31,414**	¥38,169	¥39,228	**$ 319,703**
Supplemental information on cash flows:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheets	**¥31,956**	¥39,875	¥39,351	**$ 325,219**
Time deposits with maturities over three months	**(542)**	(1,706)	(123)	**(5,516)**
Total (Note 14)	**¥31,414**	¥38,169	¥39,228	**$ 319,703**

The accompanying notes to the consolidated financial statements are an integral part of these statements.
See Note 15 for significant noncash transactions.

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, 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, 2009, which was ¥98.26 to US$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies (together, the "Companies") over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control.

The consolidated financial statements include the accounts of the Company and 97 subsidiaries (95 in 2008 and 96 in 2007).

For the year ended March 31, 2009, 5 subsidiaries (3 in 2008 and 3 in 2007) were excluded from the consolidation. The amount of total assets, net sales, net income and retained earnings of these excluded subsidiaries, in the aggregate, would not have had a material effect on the consolidated financial statements if they were 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, 2009, 12 affiliates (18 in 2008 and 19 in 2007) were accounted for by the equity method.

For the year ended March 31, 2009, investments in 0 nonconsolidated subsidiaries (2 in 2008 and 3 in 2007) and 14 affiliates (14 in 2008 and 13 in 2007) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end

The fiscal year-end of 28 consolidated subsidiaries (28 in 2008 and 29 in 2007) is December 31.

These subsidiaries are consolidated as of December 31, and unusual significant transactions for the period between December 31 and March 31, the Company's year-end, are adjusted 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 rate.

The balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at year-end rate, except for shareholders' equity accounts, which are translated at historical rates. The income statements of consolidated overseas subsidiaries are translated at average rates, except for transactions with the Company, which are translated at the rates used by the Company.

The Company and its domestic subsidiaries report foreign currency translation adjustments in net assets.

(f) Appropriations of retained earnings

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

(g) Revenue recognition

Sales of products and construction contracts

Sales of products such as ships, rail cars, airplanes, machinery and motorcycles are principally recognized upon delivery. Contract revenue for the construction of plants, machinery, bridges, etc. is principally recognized on a customer acceptance basis. When prices for components or contract amounts for nearly completed contracts are not finalized, sales and cost of sales are estimated. The percentage-of-completion method is applied to long-term contracts such as those for ships, airplanes and plants exceeding ¥3,000 million. The stage of completion is normally determined based on the proportion of costs incurred to date to the estimated total costs of the contract. The completed contract method is applied to long-term contracts not exceeding ¥3,000 million.

Service revenues

Service revenues are recognized when the services have been rendered. Services include supervisory or installation services for products such as rail cars, machinery and plants. When the price of such services is 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.

(h) 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.

(i) Allowance for doubtful receivables

The 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.

(j) Inventories

Prior to April 1, 2008, inventories of the Company and its consolidated domestic subsidiaries were stated at cost determined principally by the specific identification cost method, the moving average method and the first-in, first-out method. However, if the market value of inventories had declined significantly and was not expected to recover to cost, cost was reduced to net realizable value. Effective April 1, 2008, the Company and its consolidated domestic subsidiaries adopted a new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006), for the measurement of inventories and have stated the inventories at March 31, 2009 at the lower of cost determined principally by the specific identification cost method, the moving average method and the first-in, first-out method or net realizable value. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2009 were ¥4,074 million ($41,461 thousand) less than they would have been without the change.

(k) Assets and liabilities arising from derivative transactions

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

(l) Investments in securities

The Company and its consolidated domestic 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, 2009 or 2008.

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 fair 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 fair market value, and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair 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 fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(m) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation, except for buildings acquired after April 1998 in Japan, 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.

(n) 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 its effect lasts. If the amount is not significant, it is expensed when incurred.

(o) Accrued bonuses

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

(p) Provision for product warranty

The provision for product warranty is based on past experience and separately provided when able to be reasonably estimated.

(q) Provision for losses on construction contracts

The provision for losses on uncompleted 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.

(r) Provision for environmental measures

The Company reserved an estimated amount to cover expenditures for environmental measure expenses 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.

(s) 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.

(t) 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 provided 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 within the average of the estimated remaining service years of the employees commencing with the following 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 country of domicile.

(u) Accounting standard for statement of changes in net assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with the Additional New Accounting Standards.

(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

Prior to April 1, 2008, the Company and its consolidated domestic subsidiaries accounted for finance leases which did not transfer ownership of the leased property to the lessee as operating leases, with the disclosure of certain "as if capitalized" information in the notes to the consolidated financial statements. Effective April 1, 2008, the Company and its consolidated domestic subsidiaries adopted the new accounting standard, "Accounting Standard for Lease Transactions" (Statement No. 13 issued by the Accounting Standards Board of Japan on March 30, 2007), and the implementation guidance for the accounting standard for lease transactions (the Financial Accounting Standard Implementation Guidance No. 16 issued by the Accounting Standards Board of Japan on March 30, 2007) for finance leases commencing after March 31, 2008. The new accounting standards require that all finance lease transactions be treated as capital leases, and that the Company and its consolidated domestic subsidiaries capitalize assets used under such leases, except for certain immaterial or short-term finance leases accounted for as operating leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases, with the disclosure of certain "as if capitalized" information. This change had minor effect on net income for the year ended March 31, 2009.

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

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

(z) Accounting changes in method of depreciation
Effective from the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries changed the method of depreciation for fixed assets acquired after April 1, 2007 in accordance with the revised corporation tax law in Japan. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2008 were ¥1,162 million less than what they would have been without the change.
In addition, effective from the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries started to depreciate the 5% residual value of fixed assets acquired before March 31, 2007 over 5 years on a straight line basis to 1 yen from the year after the year when the book value of each asset reached 5% of the acquisition cost, in accordance with the revised Corporation Tax Law in Japan. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2008 were ¥2,761 million less than they would have been without the change.
Effective from the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries reviewed and changed the useful life of machinery and equipment in accordance with the revision of the tax law. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2009 were ¥1,690 million ($17,199 thousand) less than they would have been without the change.

(aa) Application of the practical solutions on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements
Effective from the year ended March 31, 2009, the Company applied the Practical Solutions on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (Practical Issues Task Force No. 18 issued by the Accounting Standards Board of Japan on May 17, 2006). This change did not have any effect on net income for the year ended March 31, 2009.

3. Securities

(a) Acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2009 and 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2009			
	Acquisition cost	Book value	Difference	Difference
Securities with book values exceeding acquisition costs:				
Equity securities	**¥5,263**	**¥11,833**	**¥6,570**	**$66,863**
Other securities:				
Equity securities	**4,432**	**3,275**	**(1,157)**	**(11,774)**
Total	**¥9,695**	**¥15,108**	**¥5,413**	**$55,089**

	Millions of yen		
	2008		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥15,982	¥33,990	¥18,008
Other securities:			
Equity securities	3,878	2,732	(1,146)
Total	¥19,860	¥36,722	¥16,862

(b) Acquisition costs and book values of held-to-maturity debt securities with available fair values as of March 31, 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2009			
	Acquisition cost	Book value	Difference	Difference
Securities with book values exceeding acquisition costs:				
Bonds	¥301	¥302	¥1	$10

	Millions of yen		
	2008		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Bonds	¥301	¥303	¥2

(c) Book values of investments in securities with no available fair values as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
	Book value	Book value	Book value
Held-to-maturity debt securities:			
Public corporation bond	¥ 2	¥ 2	$ 20
Total	¥ 2	¥ 2	$ 20
Available-for-sale securities:			
Equity securities	¥7,732	¥ 8,445	$78,689
Other	1,721	1,717	17,514
Total	¥9,453	¥10,162	$96,203

See Note 4 for investments in nonconsolidated subsidiaries and affiliates.

(d) Sales amounts of available-for-sale securities and related gains and losses for the years ended March 31, 2009, 2008 and 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2009					
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities	¥1,397	¥886	¥(34)	$14,217	$9,016	$(346)

	Millions of yen		
	2008		
	Sales amounts	Gains	Losses
Equity securities	¥729	¥465	¥—

	Millions of yen		
	2007		
	Sales amounts	Gains	Losses
Equity securities	¥1,493	¥880	¥(0)

For the years ended March 31, 2009, other than above, the Company has contributed investment securities of ¥6,930 million (fair value) ($70,527 thousand) to the pension trust and recorded loss on contribution of securities to the pension trust of ¥4,492 million ($45,715 thousand).

4. Investments in Nonconsolidated Subsidiaries and Affiliates

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2009 and 2008 were ¥20,985 million ($213,566 thousand) and ¥22,862 million, respectively.

5. Goodwill

Goodwill included in intangible and other assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
	¥1,106	¥41	$11,255

6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings and long-term debt as of March 31, 2009 and 2008 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Short-term borrowings:			
Short-term debt, principally bank loans, bearing average interest rates of 1.964 percent and 2.904 percent as of March 31, 2009 and 2008, respectively	¥176,924	¥112,654	$1,800,570
Current portion of long-term debt, bearing average interest rates of 1.375 percent and 1.274 percent as of March 31, 2009 and 2008, respectively	30,158	25,027	306,921
Lease obligations, current	273		2,778
Total short-term debt	¥207,355	¥137,681	$2,110,269
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2008 to 2035, bearing average interest rates of 1.306 percent and 1.487 percent as of March 31, 2009 and 2008, respectively	¥150,874	¥ 85,285	$1,535,457
Notes and bonds issued by the Company:			
2.51–2.775 percent notes due 2008	—	10,000	—
1.07–2.33 percent notes due 2009	20,000	20,000	203,542
1.52–1.60 percent notes due 2011	20,000	20,000	203,542
1.84 percent notes due 2013	10,000	10,000	101,770
0.90 percent convertible bonds due 2008	—	7,518	—
1.00 percent convertible bonds due 2011	7,038	7,038	71,627
Zero coupon convertible bonds due 2010*	477	477	4,854
Zero coupon convertible bonds due 2011*	3,475	3,475	35,366
Long-term lease obligation	500	—	5,088
	212,364	163,793	2,161,246
Less portion due within one year	(30,431)	(25,027)	(306,699)
Total long-term debt	¥181,933	¥138,766	$1,851,547

*As of March 31, 2009, convertible bonds due from 2010 through 2011 were convertible into shares of common stock at the option of the holder at prices of ¥598 ($6.09), ¥182 ($1.85) and ¥230.3 ($2.34) per share. The conversion prices are subject to adjustments under specified conditions.

As of March 31, 2009 and 2008, the following assets were pledged as collateral for short-term borrowings and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Land	¥ 818	¥ 940	$ 8,324
Buildings	4,789	5,522	48,739
Other investments	314	315	3,195
Total	¥5,921	¥6,777	$60,258

As of March 31, 2009 and 2008, debt secured by the above pledged assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Trade payables	**¥ 53**	¥ 79	**$ 539**
Short-term and long-term debt	**1,703**	2,698	**17,331**
Total	**¥1,756**	¥2,777	**$17,870**

The aggregate annual maturities of long-term debt as of March 31, 2009 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥ 30,431	$ 306,699
2011	6,655	67,728
2012	59,771	608,295
2013	21,412	217,911
2014 and thereafter	94,095	957,613
Total	¥212,364	$2,161,246

7. Employees' Retirement and Severance Benefits

The liability for employees' retirement and severance benefits included in the liability section of the consolidated balance sheets as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Projected benefit obligation	**¥185,597**	¥182,766	**$1,888,835**
Unrecognized prior service costs	**11,273**	14,162	**114,726**
Unrecognized actuarial differences	**(46,541)**	4,682	**(473,651)**
Less fair value of plan assets	**(61,066)**	(96,979)	**(621,473)**
Less unrecognized net transition obligation	**(12,243)**	(25,029)	**(124,598)**
Prepaid pension cost	**2,949**	2,326	**30,012**
Liability for retirement and severance benefits	**¥ 79,969**	¥ 81,928	**$ 813,851**

Retirement and severance benefit expenses in the consolidated statements of income for the years ended March 31, 2009, 2008 and 2007 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Service costs—benefits earned during the year	**¥ 8,497**	¥ 8,556	¥ 8,722	**$ 86,474**
Interest cost on projected benefit obligation	**4,745**	4,625	4,676	**48,290**
Expected return on plan assets	**(1,250)**	(945)	(974)	**(12,721)**
Amortization of prior service costs	**(2,266)**	(2,285)	(2,214)	**(23,061)**
Amortization of actuarial differences	**(137)**	(1,983)	(782)	**(1,394)**
Amortization of net transition obligation	**12,784**	12,514	12,516	**130,104**
Contribution to the defined contribution pension plans	**598**	483	420	**6,085**
Retirement and severance benefit expenses	**¥22,971**	¥20,965	¥22,364	**$233,777**

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

	2009	2008	2007
Discount rate	**mainly 2.0%**	mainly 2.5%	mainly 2.5%
Expected rate of return on plan assets			
(For the Company and consolidated domestic subsidiaries)	**3.0 to 3.5%**	0.0 to 3.5%	0.0 to 3.5%
(For consolidated overseas subsidiaries)	**7.75%**	7.75%	7.75%
Amortization period for prior service costs	**mainly 10 years**	mainly 10 years	10 to 15 years
Amortization period for actuarial gains and losses	**mainly 10 years**	mainly 10 years	10 to 15 years
Amortization period for transition obligation	**mainly 10 years**	mainly 10 years	mainly 10 years

8. Contingent Liabilities

Contingent liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	**¥36,391**	¥38,393	**$370,354**

9. Net Assets

As described in Note 2 (u), net assets comprises four subsections: owners' equity, accumulated gains (losses) from valuation and translation adjustments, share subscription rights and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code").

The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date. 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 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 could 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.

10. Research and Development Expenses

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

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Research and development expenses	**¥38,256**	¥36,228	¥33,819	**$389,334**

Throughout the year ended March 31, 2006, expenses to develop new models in the consumer products and machinery business were included in cost of sales as production costs. However, as expenditures having research and development characteristics such as the development of new techniques or the adaptation of new materials increased, the Company decided to include the expenditures in selling and general administrative expenses from the year ended March 31, 2007 to improve the usefulness and comparability of the financial statements. This change has had little impact on net income. However as a result of this change, cost of sales was ¥18,008 million less and selling and general administrative expenses the same amount more for the year ended March 31, 2007 than what they would have been with the previous method.

11. "Other, Net" in "Other Income (Expenses)"

"Other, net" in "other income (expenses)" in the consolidated statements of income comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Foreign exchange gain (loss), net	**¥ 10,373**	¥(11,549)	¥(13,391)	**$ 105,566**
Gain on sales of marketable securities and investments in securities	**620**	465	884	**6,309**
Gain on sales of business (a)	**594**	—	—	**6,045**
Loss on damages suit (b)	**(5,165)**	(2,245)	(2,398)	**(52,564)**
Loss (gain) on contribution of securities to the pension trust (c)	**(4,492)**	1,375	—	**(45,715)**
Loss on suspension of activities for participation in MotoGP	**(2,818)**	—	—	**(28,679)**
Loss on valuation of securities	**(1,875)**	—	—	**(19,082)**
Loss on environmental measures (d)	**(1,812)**	(2,167)	—	**(18,440)**
Loss on impairment of fixed assets (e)	**(1,399)**	(2,763)	—	**(14,237)**
Gain on sales of investments in affiliates	**—**	292	—	**—**
Loss on sales of investments in affiliates	**—**	(408)	—	**—**
Loss on breach of the Antimonopoly Act (f)	**—**	—	(1,387)	**—**
Other, net	**(5,517)**	(6,522)	(7,433)	**(56,148)**
Total	**¥(11,491)**	¥(23,522)	¥(23,725)	**$(116,945)**

(a) "Gain on sales of business" is attributable to the transfer of the golf course operation business of Kawasaki Life Corporation, a consolidated subsidiary of the Company.
(b) "Loss on damages suit" is a provision for compensation in case the Company faces a payout of monetary damages.
(c) "Loss (gain) on contribution of securities to the pension trust" resulted from additional contributions of investment securities to the pension trust.
(d) "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 (poly chlorinated biphenyl) Waste" and soil improvement.
(e) Loss on impairment of fixed assets
Because the profitability or market prices of some asset groups declined, the Company and its consolidated domestic subsidiaries reduced the book value of such assets to the recoverable amounts. Assets are grouped mainly by units of business. However significant assets for rent or those which are idle are treated separately. Recoverable amounts were determined by net sales value, and net sales value was estimated by appraisal or property tax assessment.

Asset groups for which the Company and its subsidiaries recognized impairment loss for the year ended March 31, 2008 were as follows:

Function or status	Location	Type of asset
Operating property	Sodegaura City, Chiba	Land
Idle assets	Sodegaura City, Chiba	Land, etc.
Operating property	Inami-cho, Kako-gun, Hyogo	Land

Impairment loss for the year ended March 31, 2008 consisted of the following:

	Millions of yen
Land	¥2,277
Buildings, etc.	486
	¥2,763

Asset groups for which the Company and its subsidiary recognized impairment loss for the year ended March 31, 2009 were as follows:

Function or status	Location	Type of asset
Operating property	Sodegaura City, Chiba	Machinery and equipment, etc.

Impairment loss for the year ended March 31, 2009 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Machinery and equipment, etc.	¥1,399	$14,237
	¥1,399	$14,237

(f) "Loss on breach of the Antimonopoly Act" is due to assessments, etc., that the Japan Fair Trade Commission imposed on the Company with regard to bids for steel bridges, tunnel ventilations and water gates.

12. 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 normal statutory tax rate of approximately 40.5 percent for each of the years ended March 31, 2009 and 2008.

The significant differences between the statutory and effective tax rates for the years ended March 31, 2009 and 2008 were as follows:

	2009	2008
Statutory tax rate	**40.5%**	40.5%
Valuation allowance	**19.7**	—
Equity in income of nonconsolidated subsidiaries and affiliates	**(12.8)**	—
Research and development tax credit	**(1.2)**	(3.4)
Other	**(0.7)**	0.8
Effective tax rate	**45.5%**	37.9%

Significant components of deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Deferred tax assets:			
Accrued bonuses	**¥ 6,378**	¥ 8,655	**$ 64,909**
Retirement benefits	**40,130**	44,835	**408,406**
Provision for losses on uncompleted contracts	**8,164**	3,285	**83,085**
Allowance for doubtful receivables	**1,164**	894	**11,846**
Inventories—elimination of intercompany profits	**646**	6,246	**6,574**
Fixed assets—elimination of intercompany profits	**449**	566	**4,569**
Depreciation	**1,699**	1,702	**17,290**
Net operating loss carry forwards	**4,803**	1,038	**48,880**
Unrealized loss of marketable securities, investments in securities and other	**841**	1,599	**8,558**
Other	**33,023**	21,437	**336,082**
Gross deferred tax assets	**97,297**	90,257	**990,199**
Less valuation allowance	**(11,618)**	(7,825)	**(118,237)**
Total deferred tax assets	**85,679**	82,432	**871,962**
Deferred tax liabilities:			
Deferral of gain on sale of fixed assets	**5,374**	5,222	**54,691**
Net unrealized gain on securities	**2,060**	6,590	**20,964**
Unrealized gain on contribution of securities to the pension trust	**—**	6,552	**—**
Other	**6,110**	6,184	**62,183**
Total deferred tax liabilities	**13,544**	24,548	**137,838**
Net deferred tax assets	**¥72,135**	¥57,884	**$734,124**

13. Retained Earnings ("Others")

The decrease in retained earnings for the year ended March 31, 2008, mainly resulted from the cumulative effect of a new accounting standard in the United States for the unrecognized pension liability of subsidiaries, Kawasaki Motors Manufacturing Corp., U.S.A. and Kawasaki Motors Corp., U.S.A.

14. Cash and Cash Equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2009, 2008 and 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Cash on hand and in banks	**¥31,956**	¥39,875	¥39,351	**$325,219**
Time deposits with maturities over three months	**(542)**	(1,706)	(123)	**(5,516)**
Total	**¥31,414**	¥38,169	¥39,228	**$319,703**

15. Significant Noncash Transactions

The increases in common stock and capital surplus and the decrease in convertible bonds due to conversion of convertible bonds in the year ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Increase in common stock due to conversion	**¥—**	¥1,141	**$—**
Increase in capital surplus due to conversion	**—**	1,113	**—**
Decrease in convertible bonds due to conversion	**—**	2,318	**—**

The sum of the increases in common stock and capital surplus differed from the decrease in convertible bonds because the Company provided bondholders with treasury stock instead of issuing new shares.

16. Earnings per Share

The basis of per share amount calculations for the years ended March 31, 2009, 2008 and 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Basic earnings per share:				
Net income	**¥11,728**	¥35,141	¥29,772	**$119,357**
Earnings not attributable to common shareholders	**—**	—	—	**—**
Net income allocated to common stocks	**11,728**	35,141	29,772	**119,357**
	Number of shares in millions			
Weighted average number of common stocks	**1,668**	1,667	1,571	

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Diluted earnings per share:				
Net income adjustment	**¥77**	¥97	¥186	**$783**
(Interest expenses etc.)	**(77)**	(97)	(186)	**(783)**
	Number of shares in millions			
Increase in common stocks	**35**	45	167	
(Convertible bonds)	**(18)**	(24)	(43)	
(Zero coupon convertible bonds)	**(17)**	(21)	(124)	

17. Derivative Transactions

Since the Company and its consolidated subsidiaries operate internationally and have a substantial volume of export and import transactions, they enter into foreign currency exchange and option transactions in order to manage the risks of fluctuations in exchange rates in relation to foreign currency denominated assets, liabilities and future transactions.

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

The Company and its consolidated subsidiaries purchase derivatives to hedge against risks of fluctuations in currency exchange rates and interest rates rather than for dealing or speculation.

For derivative transactions that meet the conditions for hedge accounting, the Company and its consolidated subsidiaries apply hedge accounting principles, and are excluded from the tables below.

In order to minimize credit risk, the Company and its consolidated subsidiaries use only highly rated international financial institutions as counterparties to derivative transactions.

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

(a) Outstanding positions and recognized gains and losses at March 31, 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars
	Contract amount	Market value	Gain (loss)	Gain (loss)
Currency related contracts:				
Foreign exchange contracts:				
To sell	**¥82,692**	**¥78,259**	**¥4,433**	**$45,115**
To purchase	**4,396**	**4,294**	**(102)**	**(1,038)**
Total			**¥4,331**	**$44,077**

(b) Outstanding positions and recognized gains and losses at March 31, 2008 were as follows:

	Millions of yen		
	Contract amount	Market value	Gain (loss)
Currency related contracts:			
Foreign exchange contracts:			
To sell	¥91,794	¥85,381	¥6,413
To purchase	1,865	1,854	(11)
Option contracts:			
To sell	3,320	4	32
To purchase	3,040	34	(2)
Total			¥6,432

Method of calculating market value: The market value of exchange contracts is calculated using the forward exchange rate. The market value of options is calculated based on the prices provided by client financial institutions.

Derivative transactions are valued at fair market value at the year-end rate. Receivables and payables denominated in foreign currency are translated into Japanese yen at the year-end rate. Gain or loss from the translation and from changes in the fair market value of derivative transactions are recognized separately. They are offset on the statements of income, and the effects of derivative transactions are realized.

Derivative transactions for forecasted transactions which are accounted for by hedge accounting are excluded from disclosure.

The Company and its consolidated subsidiaries do not use derivatives for speculative or trading purposes but use derivatives only for managing the risks of fluctuations in exchange rates.

Interest rate swaps which were accounted for by the hedge accounting are excluded.

18. 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) As 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, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Property, plant and equipment	**¥41,241**	¥39,178	**$419,712**
Accumulated depreciation	**(16,489)**	(12,845)	**(167,809)**
	¥24,752	¥26,333	**$251,903**
Intangible assets	**¥ 758**	¥ 1,110	**$ 7,714**
Accumulated amortization	**(356)**	(425)	**(3,623)**
	¥ 402	¥ 685	**$ 4,091**

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Current portion	**¥ 5,572**	¥ 5,737	**$ 56,706**
Noncurrent portion	**21,088**	22,691	**214,614**
Total	**¥26,660**	¥28,428	**$271,320**

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

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Lease payments	**¥6,273**	¥6,028	¥5,349	**$63,840**
Depreciation and amortization	**5,869**	5,671	4,956	**59,729**
Interest	**680**	644	444	**6,920**

(b) As lessor

The original costs of leased assets under finance leases and the related accumulated depreciation and amortization as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Property, plant and equipment	**¥2,038**	¥2,250	**$20,740**
Accumulated depreciation	**(933)**	(827)	**(9,495)**
	¥1,105	¥1,423	**$11,245**
Intangible assets	**¥ 63**	¥ 88	**$ 641**
Accumulated amortization	**(34)**	(47)	**(346)**
	¥ 29	¥ 41	**$ 295**

The present values of future minimum lease payments to be received under finance leases as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Current portion	**¥ 516**	¥ 638	**$ 5,251**
Noncurrent portion	**1,056**	1,500	**10,747**
Total	**¥1,572**	¥2,138	**$15,998**

Lease payments received, depreciation and amortization and interest on finance leases were as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Lease payments received	**¥402**	¥379	¥285	**$4,091**
Depreciation and amortization	**335**	307	244	**3,409**
Interest	**69**	65	32	**702**

19. Operating Leases

The present values of future minimum lease payments under operating leases as lessee as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Current portion	**¥310**	¥330	**$3,154**
Noncurrent portion	**621**	143	**6,320**
Total	**¥931**	¥473	**$9,474**

20. Segment Information

(a) Information by industry segment

Industry segments of the Company and its consolidated subsidiaries are classified based on an internal company system as follows:
1) Shipbuilding, 2) Rolling Stock & Construction Machinery, 3) Aerospace, 4) Gas Turbines & Machinery, 5) Plant & Infrastructure Engineering, 6) Consumer Products & Machinery, 7) Hydraulic Machinery and 8) Other.

The Shipbuilding segment manufactures and sells ships, submarines and maritime application equipment. Operations within the Rolling Stock & Construction Machinery segment include the production and sale of rolling stock and construction machines. Products manufactured and sold by the Aerospace segment include airplanes and helicopters. The Gas Turbines & Machinery segment manufactures and sells gas turbines, airplane engines and prime movers. Operations within the Plant & Infrastructure Engineering segment include the production and sale of boilers, chemical and cement plants and refuse incineration plants. Products manufactured and sold by the Consumer Products & Machinery segment include motorcycles, ATVs (All-Terrain Vehicles) and Jet Ski® watercrafts. Operations within the Hydraulic Machinery segment include the production and sale of hydraulic machines. Operations within the Other segment include the production and sale of merchandise, etc. The operations also involve trade, mediation of overseas sales and orders and other activities.

The Hydraulic Machinery segment, which had been included in "Other" until the year 2007, is presented separately from the year 2008 as its materiality has increased. The information for the year 2007 below has been retroactively restated based on the new industry segment categories.

	Millions of yen							
	2009							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Shipbuilding	**¥ 126,426**	**¥ 1,762**	**¥ 128,188**	**¥ 129,207**	**¥ (1,019)**	**¥ 139,017**	**¥ 3,987**	**¥ 7,116**
Rolling Stock & Construction Machinery	**186,454**	**1,368**	**187,822**	**176,453**	**11,369**	**200,482**	**5,140**	**6,147**
Aerospace	**200,425**	**1,873**	**202,298**	**206,476**	**(4,178)**	**331,671**	**6,659**	**20,380**
Gas Turbines & Machinery	**195,156**	**18,316**	**213,472**	**202,446**	**11,026**	**203,902**	**4,607**	**10,176**
Plant & Infrastructure Engineering	**105,178**	**13,853**	**119,031**	**110,060**	**8,971**	**113,158**	**1,716**	**1,270**
Consumer Products & Machinery	**336,459**	**4,038**	**340,497**	**350,640**	**(10,143)**	**268,013**	**14,957**	**24,298**
Hydraulic Machinery	**84,919**	**8,524**	**93,443**	**85,054**	**8,389**	**60,430**	**3,729**	**10,539**
Other	**103,580**	**42,142**	**145,722**	**141,466**	**4,256**	**149,478**	**1,847**	**1,174**
Total	**1,338,597**	**91,876**	**1,430,473**	**1,401,802**	**28,671**	**1,466,151**	**42,642**	**81,100**
Eliminations and corporate	**—**	**(91,876)**	**(91,876)**	**(91,918)**	**42**	**(66,380)**	**1,692**	**1,350**
Consolidated total	**¥1,338,597**	**¥ —**	**¥1,338,597**	**¥1,309,884**	**¥28,713**	**¥1,399,771**	**¥44,334**	**¥82,450**

	Millions of yen							
	2008							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Shipbuilding	¥ 141,397	¥ 1,568	¥ 142,965	¥ 139,712	¥ 3,253	¥ 134,577	¥ 2,459	¥ 4,161
Rolling Stock & Construction Machinery	171,739	727	172,466	165,293	7,173	161,585	3,579	6,454
Aerospace	237,349	1,644	238,993	228,117	10,876	281,517	6,232	6,154
Gas Turbines & Machinery	185,486	16,940	202,426	189,034	13,392	188,133	3,765	5,392
Plant & Infrastructure Engineering	142,547	13,747	156,294	145,455	10,839	132,174	1,926	1,318
Consumer Products & Machinery	433,963	8,244	442,207	422,537	19,670	315,309	13,517	19,367
Hydraulic Machinery	84,028	8,724	92,752	83,635	9,117	53,348	2,659	4,801
Other	104,588	40,234	144,822	142,469	2,353	164,445	1,699	1,674
Total	1,501,097	91,828	1,592,925	1,516,252	76,673	1,431,088	35,836	49,321
Eliminations and corporate	—	(91,828)	(91,828)	(92,065)	237	(52,318)	1,619	1,217
Consolidated total	¥1,501,097	¥ —	¥1,501,097	¥1,424,187	¥76,910	¥1,378,770	¥37,455	¥50,538

	Millions of yen							
	2007							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Shipbuilding	¥ 108,849	¥ 1,861	¥ 110,710	¥ 112,958	¥ (2,248)	¥ 117,832	¥ 2,169	¥ 1,194
Rolling Stock & Construction Machinery	184,283	500	184,783	171,613	13,170	172,615	2,660	8,253
Aerospace	269,108	1,687	270,795	257,395	13,400	279,574	5,291	3,029
Gas Turbines & Machinery	183,309	14,410	197,719	187,882	9,837	165,412	3,076	5,354
Plant & Infrastructure Engineering	122,062	19,670	141,732	144,163	(2,431)	141,472	1,816	996
Consumer Products & Machinery	403,702	9,184	412,886	385,323	27,563	303,730	10,539	12,828
Hydraulic Machinery	66,649	8,598	75,247	69,185	6,062	46,788	1,631	4,955
Other	100,657	40,434	141,091	137,546	3,545	159,432	1,519	1,177
Total	1,438,619	96,344	1,534,963	1,466,065	68,898	1,386,855	28,701	37,786
Eliminations and corporate	—	(96,344)	(96,344)	(96,588)	244	(28,875)	1,578	1,483
Consolidated total	¥1,438,619	¥ —	¥1,438,619	¥1,369,477	¥69,142	¥1,357,980	¥30,279	¥39,269

	Thousands of U.S. dollars							
	2009							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Shipbuilding	**$ 1,286,648**	**$ 17,932**	**$ 1,304,580**	**$ 1,314,950**	**$ (10,370)**	**$ 1,414,787**	**$ 40,576**	**$ 72,420**
Rolling Stock & Construction Machinery	**1,897,558**	**13,922**	**1,911,480**	**1,795,777**	**115,703**	**2,040,322**	**52,310**	**62,559**
Aerospace	**2,039,742**	**19,062**	**2,058,804**	**2,101,323**	**(42,519)**	**3,375,443**	**67,769**	**207,409**
Gas Turbines & Machinery	**1,986,118**	**186,403**	**2,172,521**	**2,060,309**	**112,212**	**2,075,127**	**46,886**	**103,562**
Plant & Infrastructure Engineering	**1,070,405**	**140,983**	**1,211,388**	**1,120,090**	**91,298**	**1,151,618**	**17,464**	**12,925**
Consumer Products & Machinery	**3,424,170**	**41,095**	**3,465,265**	**3,568,492**	**(103,227)**	**2,727,590**	**152,219**	**247,283**
Hydraulic Machinery	**864,228**	**86,749**	**950,977**	**865,601**	**85,376**	**615,001**	**37,950**	**107,256**
Other	**1,054,141**	**428,884**	**1,483,025**	**1,439,711**	**43,314**	**1,521,250**	**18,797**	**11,947**
Total	**13,623,010**	**935,030**	**14,558,040**	**14,266,253**	**291,787**	**14,921,138**	**433,971**	**825,361**
Eliminations and corporate	**—**	**(935,030)**	**(935,030)**	**(935,458)**	**428**	**(675,555)**	**17,220**	**13,739**
Consolidated total	**$13,623,010**	**$ —**	**$13,623,010**	**$13,330,795**	**$292,215**	**$14,245,583**	**$451,191**	**$839,100**

As discussed in Note 2 (j), prior to April 1, 2008, inventories of the Company and its consolidated domestic subsidiaries were stated at cost determined principally by the specific identification cost method, the moving average method and the first-in, first-out method. However, if the market value of inventories had declined significantly and was not expected to recover to cost, cost was reduced to net realizable value. Effective April 1, 2008, the Company and its consolidated domestic subsidiaries adopted a new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006), for the measurement of inventories and have stated the inventories at March 31, 2009 at the lower of cost determined principally by the specific identification cost method, the moving average method and the first-in, first-out method or net realizable value. As a result of this change, operating income for the year ended March 31, 2009 in the Rolling Stock & Construction Machinery segment decreased by ¥516 million ($5,251 thousand), in the Gas Turbines & Machinery segment by ¥1,677 million ($17,067 thousand), in the Plant & Infrastructure Engineering segment by ¥29 million ($295 thousand), in the Hydraulic Machinery segment by ¥103 million ($1,048 thousand) and in the Other segment by ¥34 million ($346 thousand), and operating loss in the Aerospace segment increased by ¥1,226 million ($12,477 thousand) and in the Consumer Products & Machinery segment by ¥486 million ($4,946 thousand) compared to amounts that would have been recorded with the previous standard.

As discussed in Note 2 (z), effective from the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries reviewed and revised the useful life of machinery and equipment in accordance with the revision of the tax law. As a result of this change, operating income for the year ended March 31, 2009 in the Rolling Stock & Construction Machinery segment decreased by ¥473 million ($4,814 thousand), in the Gas Turbines & Machinery segment by ¥260 million ($2,646 thousand), in the Plant & Infrastructure Engineering segment by ¥53 million ($539 thousand), in the Other segment by ¥48 million ($488 thousand), and in the Hydraulic Machinery segment increased by ¥166 million ($1,689 thousand) and operating loss in the Shipbuilding segment increased by ¥543 million ($5,526 thousand), in the Aerospace segment by ¥271 million ($2,758 thousand) and in the Consumer Products & Machinery segment by ¥205 million ($2,086 thousand) compared to amounts that would have been recorded with the previous standard.

(b) Information by geographic area

	Millions of yen					
	2009					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	**¥ 974,454**	**¥247,020**	**¥1,221,474**	**¥1,208,067**	**¥13,407**	**¥1,169,702**
North America	**220,856**	**24,500**	**245,356**	**246,742**	**(1,386)**	**182,269**
Europe	**90,898**	**4,563**	**95,461**	**94,753**	**708**	**59,217**
Asia	**43,328**	**41,818**	**85,146**	**80,594**	**4,552**	**38,421**
Other areas	**9,061**	**251**	**9,312**	**8,945**	**367**	**2,970**
Total	**1,338,597**	**318,152**	**1,656,749**	**1,639,101**	**17,648**	**1,452,579**
Eliminations and corporate	**—**	**(318,152)**	**(318,152)**	**(329,217)**	**11,065**	**(52,808)**
Consolidated total	**¥1,338,597**	**¥ —**	**¥1,338,597**	**¥1,309,884**	**¥28,713**	**¥1,399,771**

	Millions of yen					
	2008					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	¥1,058,487	¥ 307,546	¥1,366,033	¥1,291,102	¥74,931	¥1,103,514
North America	267,560	25,202	292,762	293,276	(514)	191,075
Europe	131,608	5,321	136,929	132,449	4,480	83,928
Asia	33,297	24,752	58,049	56,597	1,452	37,917
Other areas	10,145	247	10,392	10,119	273	3,335
Total	1,501,097	363,068	1,864,165	1,783,543	80,622	1,419,769
Eliminations and corporate	—	(363,068)	(363,068)	(359,356)	(3,712)	(40,999)
Consolidated total	¥1,501,097	¥ —	¥1,501,097	¥1,424,187	¥76,910	¥1,378,770

	Millions of yen					
	2007					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	¥1,042,993	¥ 278,960	¥1,321,953	¥1,256,538	¥65,415	¥1,093,598
North America	261,254	18,017	279,271	277,533	1,738	202,539
Europe	98,842	4,320	103,162	100,783	2,379	70,360
Asia	22,690	18,737	41,427	40,728	699	26,081
Other areas	12,840	187	13,027	12,808	219	2,869
Total	1,438,619	320,221	1,758,840	1,688,390	70,450	1,395,447
Eliminations and corporate	—	(320,221)	(320,221)	(318,913)	(1,308)	(37,467)
Consolidated total	¥1,438,619	¥ —	¥1,438,619	¥1,369,477	¥69,142	¥1,357,980

	Thousands of U.S. dollars					
	2009					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	$ 9,917,097	$2,513,943	$12,431,040	$12,294,596	$136,444	$11,904,152
North America	2,247,669	249,338	2,497,007	2,511,113	(14,106)	1,854,966
Europe	925,076	46,438	971,514	964,309	7,205	602,656
Asia	440,953	425,585	866,538	820,212	46,326	391,014
Other areas	92,215	2,555	94,770	91,034	3,736	30,226
Total	13,623,010	3,237,859	16,860,869	16,681,264	179,605	14,783,014
Eliminations and corporate	—	(3,237,859)	(3,237,859)	(3,350,469)	112,610	(537,431)
Consolidated total	$13,623,010	$ —	$13,623,010	$13,330,795	$292,215	$14,245,583

North America includes mainly the U.S.A. and Canada. Europe includes mainly the Netherlands, the United Kingdom and Germany. Asia includes Thailand, Indonesia, the Philippines and Korea. Other areas include mainly Australia and Brazil.

As discussed in Note 2 (j), prior to April 1, 2008, inventories of the Company and its consolidated domestic subsidiaries were stated at cost determined principally by the specific identification cost method, the moving average method and the first-in, first-out method. However, if the market value of inventories had declined significantly and was not expected to recover to cost, cost was reduced to net realizable value. Effective April 1, 2008, the Company and its consolidated domestic subsidiaries adopted a new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006), for the measurement of inventories and have stated the inventories at March 31, 2009 at the lower of cost determined principally by the specific identification cost method, the moving average method and the first-in, first-out method or net realizable value. As a result of this change, operating income in Japan for the year ended March 31, 2009 was ¥4,074 million ($41,461 thousand) less than they would have been without the change.

As discussed in Note 2 (z), effective from the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries reviewed and revised the useful life of machinery and equipment in accordance with the revision of the tax law. As a result of this change, operating income in Japan for the year ended March 31, 2009 was ¥1,690 million ($17,199 thousand) less than they would have been without the change.

(c) Corporate assets

Included in eliminations and corporate under total assets in (a) and (b) above are corporate assets of ¥96,934 million ($986,505 thousand), ¥115,076 million and ¥124,152 million at March 31, 2009, 2008 and 2007, respectively, which mainly comprised cash and time deposits of the Company and property, plant, equipment and intangible assets of the Company's head office.

(d) Overseas sales

Overseas sales consist of the total sales of the Company and its consolidated subsidiaries made outside of Japan. Overseas sales information for the years ended March 31, 2009, 2008 and 2007 were as follows:

	Millions of yen	%	Millions of yen	%	Millions of yen	%	Thousands of U.S. dollars
	2009		2008		2007		2009
	Overseas sales	Against net sales	Overseas sales	Against net sales	Overseas sales	Against net sales	Overseas sales
North America	¥309,979	23.1%	¥358,717	23.9%	¥336,765	23.4%	$3,154,681
Europe	116,298	8.7	153,613	10.2	119,408	8.3	1,183,574
Asia	174,310	13.0	161,906	10.7	186,066	12.9	1,773,967
Other areas	130,051	9.7	148,315	9.9	135,506	9.4	1,323,540
Total	¥730,638	54.5%	¥822,551	54.7%	¥777,745	54.0%	$7,435,762

North America includes mainly the U.S.A. and Canada. Europe includes mainly the United Kingdom, France, the Netherlands, Germany and Italy. Asia includes China, Korea, the Philippines, Taiwan and Indonesia. Other areas include mainly Panama, the Bahamas, Brazil, and Australia.

21. Additional Information

(a) Effective April 1, 2007, the Company changed the accounting periods for consolidation of 2 subsidiaries, Kawasaki Robotics (USA) Inc. and Kawasaki Construction Machinery Corp. of America, from the 12 months ended December 31 to the 12 months ended March 31 to improve transparency and quality of the consolidated financial statements.

(b) Accounting Standards Board of Japan Statement No. 11, "Accounting Standard for Related Party Disclosures" and Accounting Standards Board of Japan Guidance No. 13, "Guidance on Accounting Standard for Related Party Disclosures" issued by the Accounting Standards Board of Japan on October 17, 2006, require certain additional related party disclosures effective for years beginning on or after April 1, 2008. Pursuant to the new accounting standards, there was no information which was necessary to disclose for the year ended March 31, 2009.

(c) A summary of the total financial information of all affiliates (15 companies) which was the basis for calculating of equity in income of nonconsolidated affiliates, including of ANHUI CONCH KAWASAKI ENERGY CONSERVATION EQUIPMENT MANUFACTURING CO., LTD. which is a significant affiliate, for the year ended March 31, 2009 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2009	2009
Total current assets	¥116,719	$1,187,859
Total fixed assets	65,741	669,051
Total current liabilities	111,588	1,135,640
Total long-term liabilities	14,574	148,321
Total net assets	56,298	572,949
Total net sales	176,380	1,795,034
Total minority interests in net income of consolidated subsidiaries	22,815	232,190
Total net income	17,730	180,440

22. Subsequent Events

On June 25, 2009, the following appropriation of nonconsolidated retained earnings was approved at the ordinary meeting of shareholders of the Company:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3.0 per share)	¥5,004	$50,926

23. Other Matters

(a) On June 27, 2006, the Company received a decision from the Japan Fair Trade Commission ordering correction of unfair bids that the Company may have committed on construction contracts for garbage incineration facilities from 1994 through 1998. On July 27, 2007, the Company appealed the decision to the Tokyo High Court demanding revocation of the decision. On April 17, 2007, the Company also sought an inquiry objecting to an order to pay penalties of ¥5,165 million ($52,565 thousand) which the Fair Trade Commission imposed on March 28, 2007.

In addition, the Company reserved an amount for the reimbursement payment as provision for losses on a damages suit in the year ended March 31, 2009.

(b) On November 16, 2007, the Company received a judgment from the Kobe District Court requiring reimbursement of ¥1,364 million ($13,882 thousand) to Kobe City in a suit brought by citizens of the city claiming that the Company unfairly bid on a construction contract for a garbage incineration facility in Kobe City which the Company was awarded in 1995. On November 29, 2007, the Company appealed the judgment to the Osaka High Court, but the Company received a judgment requiring reimbursement of ¥1,637 million ($16,660 thousand), which was equivalent to 6% of the order price to Kobe City on October 30, 2007. On November 10, 2007, the Company appealed the judgment to the Supreme Court, but the Court dismissed the appeal on April 23, 2009.

(c) On April 25, 2007, the Company received a judgment from the Fukuoka District Court requiring reimbursement of ¥2,088 million ($21,250 thousand) jointly with Hitachi Zosen Corporation and 3 other companies to Fukuoka City in a suit brought by citizens of the city claiming that the Company unfairly bid on a construction contract for a garbage incineration facility in Fukuoka City which Hitachi Zosen Corporation was awarded in 1996. On May 9, 2007, the Company appealed the judgment to the Fukuoka High Court, but the Court dismissed the appeal on November 30, 2007. On December 12, 2007, the Company appealed the judgment to the Supreme Court, but the Court dismissed the appeal on April 23, 2009.

(d) On November 16, 2007, the Company received a judgment from the Kobe District Court requiring reimbursement of ¥530 million ($5,394 thousand) jointly with Hitachi Zosen Corporation and 4 other companies in a suit brought by citizens of the city claiming that the Company unfairly bid on a construction contract for a garbage incineration facility in Amagasaki City which Hitachi Zosen Corporation was awarded in 1996. On November 29, 2007, the Company appealed the judgment to the Osaka High Court and won the case on November 30, 2007. On December 7, 2007, the 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 Osaka High Court on April 28, 2009.

(e) On September 25, 2008, the Company received a judgment from the Otsu District Court requiring reimbursement of ¥409 million ($4,162 thousand) jointly with Mitsubishi Heavy industries, Ltd. and 3 other companies to Kohoku Greater Area Administrative Affairs Centre in a suit brought by them claiming that the Company unfairly bid on a construction contract for a garbage incineration facility in Otsu City which Mitsubishi Heavy Industries, Ltd. was awarded in 1996. On October 10, 2008, the Company appealed the judgment to the Osaka High Court, but the Company and other 4 companies lost the case on June 18, 2009.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2009, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

(1) As discussed in Note 2(u) to the consolidated financial statements, effective April 1, 2006, the Company and its consolidated subsidiaries adopted a new accounting standard for the presentation of net assets in the balance sheet.
(2) As discussed in Note 10 to the consolidated financial statements, effective April 1, 2006, the Company changed its method of accounting for expenses to develop new models in the consumer products and machinery business.
(3)As discussed in Note 2(j) to the consolidated financial statements, effective April 1, 2008, the Company and its consolidated domestic subsidiaries adopted a new accounting standard for the measurement of inventories.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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 & Co.

Kobe, Japan
June 23, 2009

DIRECTORS

Tadaharu Ohashi*
Chairman

Satoshi Hasegawa*
President

Shuji Mihara*
Senior Executive Vice President

Masashi Segawa*
Senior Executive Vice President

Chikashi Motoyama*
Senior Vice President

Mitsutoshi Takao*
Senior Vice President

Yuichi Asano*
Senior Vice President

Nobumitsu Kambayashi*
Senior Vice President

Kyohei Matsuoka*
Senior Vice President

Hiroshi Takata*
Senior Vice President

CORPORATE AUDITORS

Nobuyuki Okazaki
Tatsuyoshi Ogushi
Kenzo Doi**
Michio Oka**

* Representative Director
** Outside Auditor

EXECUTIVE OFFICERS

President

Satoshi Hasegawa

Senior Executive Vice Presidents

Shuji Mihara

Masashi Segawa

Senior Vice Presidents

Chikashi Motoyama
President
Aerospace Company

Mitsutoshi Takao
Senior Manager
Corporate Planning Division

Yuichi Asano
President
Gas Turbines & Machinery Company

Nobumitsu Kambayashi
Senior Manager
Corporate Business Development Division

Kyohei Matsuoka
President
Rolling Stock Company

Hiroshi Takata
President
Consumer Products & Machinery Company

Managing Executive Officer

Shigeru Murayama

Executive Officers

Akira Hattori

Toru Yamaguchi

Sosuke Kinouchi

Seiji Yamashita

Takeshi Sugawara

Sumihiro Ueda

Wataru Kanamori

Takeshi Watanabe

Yasuo Murata

Minoru Makimura

Tamaki Miyatake

Shuichi Yamanaka

Masahiko Hirohata

Shinsuke Tanaka

Yutaka Shimomura

Masatoshi Yamaguchi

Naomi Sera

Joji Iki

Yoshizumi Hashimoto

Yukio Hayano

Masahiro Ibi

Takafumi Shibahara

Yoshinori Kanehana

(As of June 25, 2009)

Major Consolidated Subsidiaries and Affiliates

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
SHIPBUILDING				
Kawasaki Shipbuilding Corporation	Japan	10,000	100.00	Design, manufacture, sale, and maintenance of commercial and naval vessels and marine application equipment
Nantong COSCO KHI Ship Engineering Co., Ltd.†	China	CNY1,462,200*	50.00	Manufacture and sale of ships
ROLLING STOCK & CONSTRUCTION MACHINERY				
Kawasaki Machine Systems, Ltd. ★ ❊	Japan	1,093	100.00	Sale and repair of construction machinery, gas turbine generators, and industrial robots
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
Kawasaki Construction Machinery Corp. of America (Note)	U.S.A.	US$8,000*	100.00	Manufacture and sale of construction machinery in the United States
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
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
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
GAS TURBINES & MACHINERY				
Kawasaki Thermal Engineering Co., Ltd.	Japan	1,460	83.07	Manufacture, sale, and installation of general-purpose boilers and air-conditioning equipment
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
Tonfang Kawasaki Air-Conditioning Co., Ltd.†	China	US$9,673*	50.00	Manufacture, sale, and maintenance of absorption cooling and heating machinery and refrigeration equipment

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
PLANT & INFRASTRUCTURE ENGINEERING				
Kawasaki Plant Systems, Ltd.	Japan	8,500	100.00	Design, manufacture, installation, maintenance, and sale of various types of industrial plants
JP Steel Plantech Co.†	Japan	1,995	24.81	Sale of and engineering services for steelworks plants and equipment
Shanghai COSCO Kawasaki Heavy Industries Steel Structure Co., Ltd.†	China	US$29,800*	45.00	Manufacture and sale of steel structures
CONSUMER PRODUCTS & MACHINERY				
Kawasaki Metal Industries, Ltd.	Japan	350	100.00	Manufacture, processing, and assembly of various steel products
Kawasaki Motors Manufacturing Corp., U.S.A. ●	U.S.A.	US$70,000*	100.00	Manufacture of motorcycles, ATVs, personal watercraft, small gasoline engines, industrial robots, and rolling stock
Kawasaki Motors Corp., U.S.A.	U.S.A.	US$65,900*	100.00	Distribution of motorcycles, ATVs, 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
Canadian Kawasaki Motors Inc.	Canada	C$2,000*	100.00	Distribution of motorcycles, ATVs, and personal watercraft in Canada
Kawasaki Motors Europe N.V.	Netherlands	€34,093*	100.00	Sole distribution of motorcycles, ATVs, personal watercraft, and small gasoline engines in Europe
Kawasaki Motors Pty. Ltd.	Australia	A$2,000*	100.00	Distribution of motorcycles, ATVs, and personal watercraft in Australia
P.T. Kawasaki Motor Indonesia	Indonesia	US$40,000*	83.00	Manufacture and distribution of motorcycles in Indonesia
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
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
Kawasaki Robotics (UK) Ltd.	U.K.	£917*	100.00	Sale and after-sales service of industrial robots in the U.K. and Ireland
Kawasaki Machine Systems Korea, Ltd.	Korea	W1,500**	100.00	Sale and after-sales service of industrial robots and robot systems
Kawasaki Robotics (Tianjin) Co., Ltd.	China	CNY13,174*	100.00	Sale and after-sales service of industrial robots in China

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
HYDRAULIC MACHINERY				
Kawasaki Precision Machinery Ltd.	Japan	3,000	100.00	Design, manufacture, sale, after-sales service, and maintenance for hydraulic machinery and equipment, electric-powered devices, and control systems
Kawasaki Precision Machinery (U.S.A.), Inc.	U.S.A.	US$5,000*	100.00	Manufacture and sale of hydraulic products
Kawasaki Precision Machinery (U.K.) Limited	U.K.	£5,000*	100.00	Manufacture and sale of hydraulic products
Flutek, Ltd.	Korea	W1,310**	50.38	Manufacturing, sales, and repair of hydraulic equipment, marine equipment, and other machinery
Kawasaki Precision Machinery (Suzhou) Ltd.	China	500	100.00	Assembly of hydraulic pumps and motors for construction machinery
OTHER				
Kawasaki Trading Co., Ltd.	Japan	600	70.00	Trading
Kawasaki Hydromechanics Corporation	Japan	436	100.00	Manufacture, sale, and installation of hydraulic presses and other hydraulic equipment
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 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
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 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

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

Partially included in:
- ● Rolling Stock & Construction Machinery
- ★ Gas Turbines & Machinery
- ❊ Consumer Products & Machinery

Note: In April 2009, the corporate name of Kawasaki Construction Machinery Corp. of America was changed to KCMA Corporation.

(As of March 31, 2009)

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(As of August 1, 2009)

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Founded:	1878
Incorporated:	1896
Paid-in Capital:	¥104,328,628,664
Number of Shares Issued:	1,669,629,122 shares
Number of Shareholders:	171,908
Number of Employees:	32,266
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*.

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

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(As of March 31, 2009)

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