Kawasaki

Annual Report 2011

Year ended March 31, 2011

KAWASAKI HEAVY INDUSTRIES, LTD.

Kawasaki, working as one for the good of the planet

The Kawasaki Heavy Industries, Ltd. (KHI) Group provides products and services suited to the diverse needs of people around the world through advanced technological capabilities in three principal business sectors: Land, Sea, and Air Transportation Systems; Energy & Environmental Engineering; and Industrial Equipment. Through such expertise, the KHI Group will pursue greater competitiveness in existing businesses, nurture new products and new businesses, and enter new markets.

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

Contents

Forward-Looking Statements

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

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

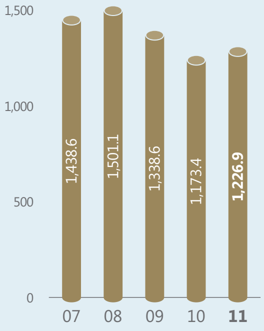
Consolidated Financial Highlights

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

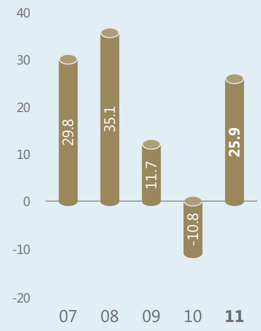
	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	2011
For the year:				
Net sales	**¥1,226,949**	¥1,173,473	¥1,338,597	**$14,755,850**
Operating income (loss)	**42,628**	(1,316)	28,713	**512,663**
Net income (loss)	**25,965**	(10,860)	11,728	**312,266**
Net cash provided by (used for) operating activities	**81,929**	30,178	(41,257)	**985,315**
Capital expenditures	**55,334**	59,272	82,450	**665,472**
Per share (in yen and U.S. dollars):				
Earnings per share—basic	**¥15.5**	¥(6.5)	¥7.0	**$0.18**
Earnings per share—diluted	**15.3**	–	6.9	**0.18**
Cash dividends	**3.0**	3.0	3.0	**0.03**
At year-end:				
Total assets	**¥1,354,278**	¥1,352,439	¥1,399,771	**$16,287,167**
Total net assets	**297,433**	283,053	295,246	**3,577,065**
Orders received and outstanding:				
Orders received during the fiscal year	**¥1,270,652**	¥1,001,290	¥1,540,590	**$15,281,443**
Order backlog at fiscal year-end	**1,495,349**	1,507,057	1,699,163	**17,983,752**

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥83.15 to US$1, the approximate rate of exchange at March 31, 2011.

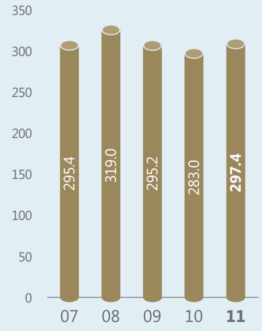
Net Sales
(Billions of yen)



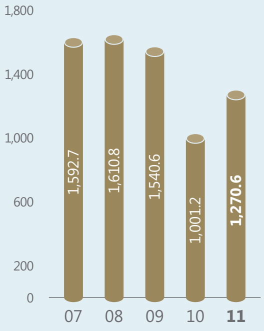
Net Income (Loss)
(Billions of yen)



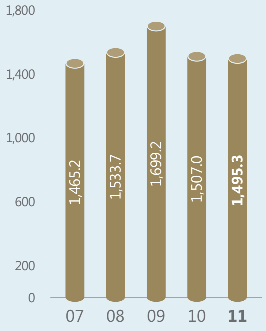
Total Net Assets
(Billions of yen)



Orders Received
(Billions of yen)



Order Backlog
(Billions of yen)



Fiscal 2011, ended March 31, 2011, marked tremendous improvement in the KHI Group's business results. Moving forward, we will continually strengthen policies and measures to "return to a growth path" and "strengthen the business foundation for future growth" and to realize "Kawasaki Business Vision 2020".

In this interview, Satoshi Hasegawa, president of Kawasaki Heavy Industries, Ltd. (KHI), provides an overview of fiscal 2011 business results and discusses the business execution strategies for fiscal 2012, the middle year of Medium-term Business Plan 2010 (FY2011–2013), MTBP2010, and efforts to achieve "Kawasaki Business Vision 2020".

Q1 First of all, what was the operating environment like for the KHI Group in fiscal 2011 and how did the Group perform?

A1 The KHI Group achieved higher profit than initially forecast in an operating environment characterized by persistent uncertainty.

In fiscal 2011, robust growth in emerging countries, such as China, India, and Brazil, drove the global economy forward. Developed countries, such as the United States and those in Europe, also fared well, sustaining gradual recovery. In Japan, as well, signs of improved exports and consumer spending indicated that the country was breaking free from the recession's hold. But on March 11, 2011, the Great East Japan Earthquake struck, plunging Japan back into an uncertain economic direction. While high global economic growth will support the domestic economy overall, the disaster's impact on supply is a concern for the short term although restoration demand in the area of devastation will become more noticeable.

In this operating environment, the value of orders won by the KHI Group in fiscal 2011 on a consolidated basis rebounded ¥269.3 billion from fiscal 2010 to ¥1,270.6 billion, and net sales rose ¥53.4 billion to ¥1,226.9 billion. On the profit front, the KHI Group recorded operating income, bouncing back from an operating loss in fiscal 2010, with an increase of ¥43.9 billion over the previous fiscal year, to ¥42.6 billion. Recurring profit* soared ¥34.8 billion to ¥49.1 billion. The KHI Group returned to a net income position, posting a ¥36.8 billion turnaround from the previous fiscal year, to ¥25.9 billion. Although the KHI Group did not reach its net sales target of ¥1,280.0 billion, as stated

Business Vision

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

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

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

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

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

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

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

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

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

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

Quantitative Vision (FY2021)

Consolidated net sales
¥2 trillion

Ratio of recurring profit to sales
5.0% or higher

in MTBP2010, drafted last year, it surpassed the ¥32.0 billion level set for both operating income and recurring profit.

*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.

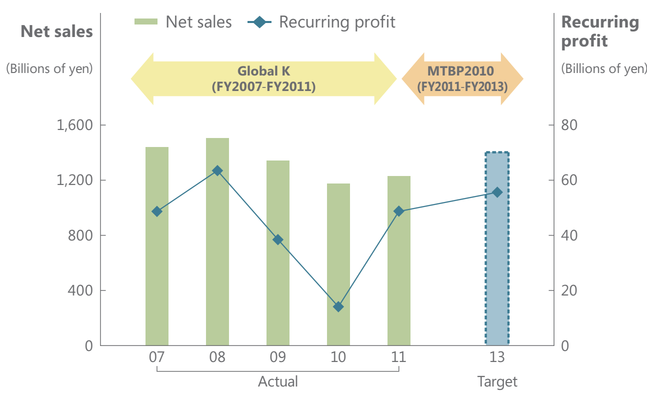
The massive earthquake and tsunami had a limited impact on the Group’s activities and performance. Key operations are concentrated in Western Japan, so except for losses at offices and service points in the Tohoku region in Northeastern Japan, the KHI Group’s production facilities, including factories, escaped major damage. From a performance perspective, the KHI Group's fiscal 2011 profits were only slightly affected. Some sales were pushed back to fiscal 2012, and the Motorcycle & Engine segment had to halt production somewhat because of supply chain disruptions in Japan, but that situation no longer exists.

Summary of Financial Results

(Billions of yen)

	FY2010	FY2011	Change
Orders received	1,001.2	1,270.6	269.3
Net sales	1,173.4	1,226.9	53.4
Operating income/loss	-1.3	42.6	43.9
Ratio to sales	-0.1%	3.4%	3.5%
Recurring profit	14.2	49.1	34.8
Ratio to sales	1.2%	4.0%	2.8%
Net income/loss	-10.8	25.9	36.8
Ratio to sales	-0.9%	2.1%	3.0%
Exchange rate	¥93=US$1	¥86=US$1	

Consolidated Net Sales and Recurring Profit

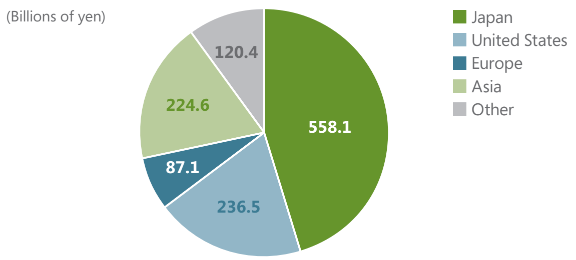


Q2 How did profits improve so dramatically in fiscal 2011?

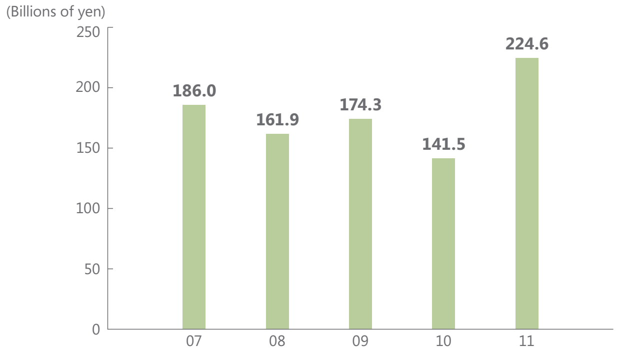
A2 The improvement stems largely from higher productivity as well as business expansion in China and the positive impact of various measures.

In fiscal 2011, the appreciation of the yen exceeded projections, topping the assumed exchange rate of ¥90 to the U.S. dollar set at the start of the fiscal year, but the KHI Group was able to achieve tremendous improvement in profit despite the challenges caused by yen appreciation. The list of reasons for improvement is mainly due to the result of four factors: 1) all business segments have steadily built up better earnings, primarily underpinned by enhanced productivity; 2) the Precision Machinery segment successfully expanded sales of hydraulic components for construction machinery in China, while the Plant & Infrastructure segment marked brisk development through joint operations with China's CONCH Group; 3) enhanced responsiveness to exchange rate fluctuations through a global production structure that encompasses overseas procurement; and 4) wider implementation of measures such as meticulous risk management on large-scale projects. The KHI Group is continually directing its efforts to leverage the results of these measures through the Group to reinforce consolidated profitability.

Net Sales by Geographical Region in FY2011



Net Sales in Asia



Q3 What is the business operating policy for the Motorcycle & Engine segment?

A3 This segment will emphasize the establishment of a global, optimized production and procurement structure, which will underpin a return to operating income for the segment in fiscal 2012.

In the Motorcycle & Engine segment, business structure reforms are yielding steady results. Notably, the segment recorded an impairment loss of about ¥9.5 billion on property, plant and equipment in fiscal 2011, upon assessing the recoverability of related domestic fixed assets on the basis of a production shift to an overseas subsidiary. The segment will strive to enhance its cost competitiveness still further through an optimized production and procurement structure implemented on a global scale. In addition, it will enter into new markets such as India, while expanding sales in emerging markets, such as Brazil and Southeast Asia, where KHI already has a presence. Through these steps, the Motorcycle & Engine segment will make sure and steady progress toward returning to a profit position in fiscal 2012.

Q4 What are the quantitative targets in fiscal 2012 and 2013?

A4 The Group is heading toward achieving the targets in both fiscal years, because the plan got off to a good start in fiscal 2011.

As far as business results are concerned, the KHI Group secured profits above initial targets for fiscal 2011, the first year of MTBP2010, marking a favorable start to the plan.

Consolidated quantitative targets for fiscal 2013, the final year of MTBP2010, are net sales of ¥1,400.0 billion, operating income of ¥52.0 billion, and recurring profit of ¥56.0 billion. The current yen–U.S. dollar exchange rate is hovering in the low 80s, compared with the assumed exchange rate—¥90 to the U.S. dollar—used at the time the plan was established in April 2010. In addition, high prices for materials could rise even higher, mainly due to brisk demand in emerging countries. Given this scenario, I would have to say that fiscal 2013 performance targets are not particularly easy hurdles to clear. Nevertheless, the KHI Group has steadily realized results from efforts already taken in fiscal 2011, such as measures to enhance its ability to increase productivity, to resist yen appreciation, to capitalize on demand in emerging countries, and to implement risk management on large-scale projects—so the original performance targets set for fiscal 2013 stand as is.

The performance targets established for fiscal 2012, the middle year of MTBP2010, are net sales of ¥1,360.0 billion, operating income of ¥50.0 billion, and recurring profit of ¥52.0 billion with the assumed exchange rate of ¥83 to the U.S. dollar. In fiscal 2012, an emphasis will be placed first on achieving results that surpass those posted in fiscal 2011, and this will surely raise confidence in the basic policy of MTBP2010—to "return to a growth path."

Management has allocated ¥76.0 billion for capital investment in fiscal 2012. Spending in the Precision Machinery segment will be increased to meet brisk demand for hydraulic components for construction machinery in China. In addition, funds will be used to reinforce joint operations with China's CONCH Group and also earmarked for production facilities making commercial aircraft engines. Other efforts include a reorganization of the production structure and execution of required maintenance and upgrades for the combined factories such as Kobe Works and Akashi Works. By accelerating these activities, the KHI Group will expedite achievement of the quantitative targets stated in MTBP 2010.

Q5 What is the KHI Group's policy regarding energy issues in the wake of the Great East Japan Earthquake?

A5 The KHI Group is accelerating its activities in the Energy & Environmental Engineering business sector, particularly involving distributed power generation and renewable energy.

The recent disaster in Japan put the problem of power shortages here in a spotlight and has prompted an increase in requests for "in-house power generation systems" and "standby power generation systems" when unexpected power outages occur. To address increasing demand, the KHI Group's first priority will be to boost production of gas turbine and gas engine power generation systems.

Consolidated Quantitative Targets

(Billions of yen)

	FY2011 Original Forecast	FY2011 Actual	FY2013 (Target)	Reference FY2021 (Vision)
Net sales	1,280.0	1,226.9	1,400.0	2,000.0
Operating income	32.0	42.6	52.0	
Ratio to sales	2.5%	3.4%	3.7%	
Recurring profit	32.0	49.1	56.0	100.0
Ratio to sales	2.5%	4.0%	4.0%	5.0%
Before-tax ROIC	5.6%	6.0%	8.5%	
Debt-to-equity ratio	1.55	1.48	1.30	
Equity ratio	20.8%	21.3%	24.0%	
Exchange rate	¥90=US$1	¥83=US$1	¥90=US$1	¥90=US$1

Also, given the direction of Japan's medium- to long-term electric power energy strategy, it is quite likely that distributed power generation and renewable energy as well as systems with high-efficiency, energy-saving features will attract more attention than they have in the past. "Kawasaki Business Vision 2020", which KHI established in 2010, lists many products related to various distributed power generation and renewable energy sources, including power generation gas turbines and gas engines; high-efficiency co-generation systems; Gigacell®; high-capacity, fully sealed Ni-MH batteries; gas cooling systems; binary-cycle power generation systems; biomass power generation; bioethanol production; micro hydropower generation facilities; integrated solar combined cycle power generation systems; and ocean energy systems. The KHI Group will accelerate efforts to promote and enhance these products and will also pursue development of new high-efficiency products.

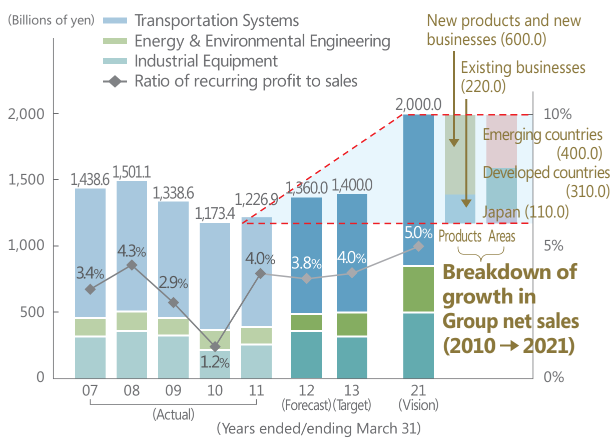
Of note, in promoting widespread use of distributed power generation and renewable energy options in Japan, many issues must be addressed at the national and local level, such as regional city planning and next-generation transmission networks like a smart grid system. To facilitate the process, the KHI Group will actively collaborate with industry, government, and academia.

The right way to address tomorrow's energy needs is not to dwell on prevailing problems in Japan after the disastrous earthquake and tsunami but rather consider what is best for the environment protection on a global scale.

From this perspective, the KHI Group is already a step ahead with a proposal to realize a "CO_2-free hydrogen society" as a long-term solution to energy-related issues. This concept hinges on an energy chain linking hydrogen production, transport, storage, and use. The KHI Group will strive to apply its wealth of technologies to realizing this concept and steadily develop the products to support a "CO_2-free hydrogen infrastructure".

Consequently, in the medium- to long-term, demand for KHI products is sure to increase, especially in the Energy & Environmental Engineering business sector, and the KHI Group will rapidly pursue activities, such as R&D aimed at realizing "Kawasaki Business Vision 2020".

Net Sales by Business Sectors



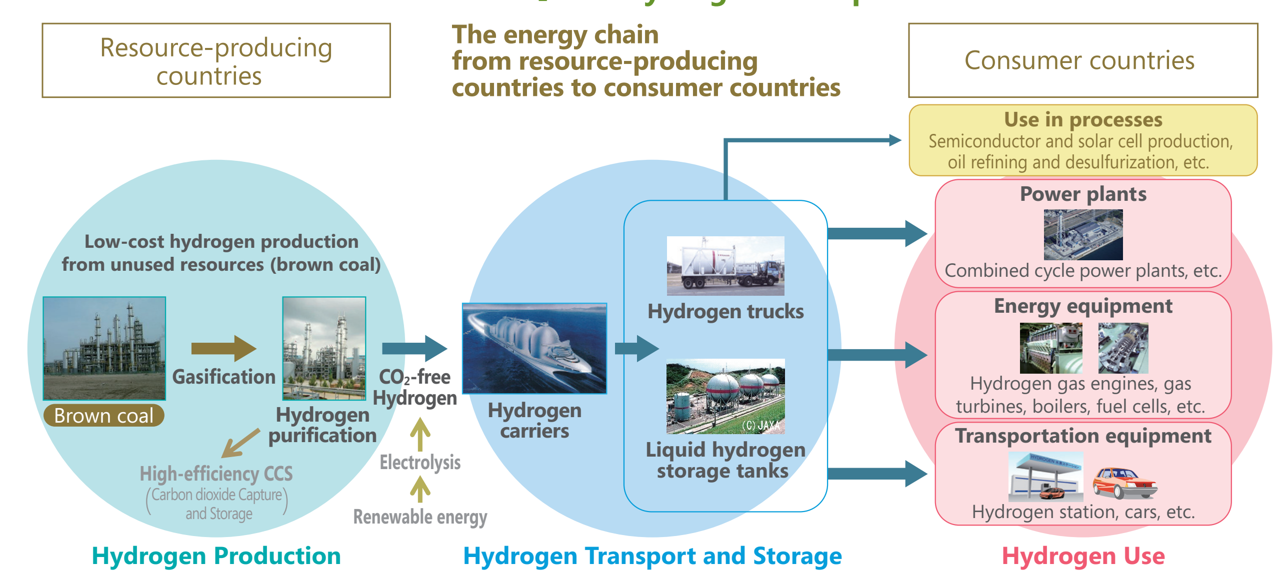
Q6 What activities will the integration of Group companies facilitate?

A6 Shared access to and use of "intellectual assets" will enhance the solutions business in new businesses and new markets.

In October 2010, Kawasaki Shipbuilding Corporation, Kawasaki Plant Systems, Ltd., and Kawasaki Precision Machinery Ltd., were merged into KHI, and their respective operations became the pillars of business segments Ship & Offshore Structure Company, Plant & Infrastructure Company, and Precision Machinery Company, respectively. The greatest incentive for integrating these companies into KHI was to remove the barriers within the organization and facilitate access to "intellectual assets" specific to each business segment.

"Intellectual assets" possessed by different business segments have always been shared and utilized within the KHI Group, such as expertise in the application of fluid dynamics, accumulated through high-speed wind tunnel tests on aircraft, as well as in the design of high-speed trains and motorcycles. And this process continues even after last year's reunification of these Group Companies, through new product and business development jointly executed by all business segments and including such themes as ocean energy and high-efficiency propulsion systems.

KHI's CO_2-free hydrogen concept



Looking to the global market, we see rapidly expanding demand in KHI's three principal business demand sectors—Transportation Systems; Energy & Environmental Engineering; and Industrial Equipment—especially in emerging markets. For example, heightened awareness of global environmental issues has encouraged a wider embrace of a highly efficient energy value chain and greater use of rolling stock around the world, and the trend toward solutions built around entire systems, in addition to the individual products, is getting stronger. To meet these needs, the Group will take advantage of the reunification of Group Companies to promote access to and use of "intellectual assets" specific to each business sector, and thereby strengthen the solutions business in new businesses and new markets and underpin the realization of "Kawasaki Business Vision 2020".

Q7 What kind of support has the KHI Group directed toward the disaster area and the people affected by the Great East Japan Earthquake?

A7 The KHI Group is contributing to reconstruction through its business activities.

We would like to express our deepest condolences to all those affected by the Great East Japan Earthquake of March 11, 2011. Immediately after the disasters, the KHI Group got involved in various relief efforts to assist our customers and business partners in the area of devastation and also donated money and KHI products to local governments. Right after the catastrophe, KHI provided a helicopter, motorcycles, and other machinery to support disaster rescue and relief operations. Then, with the enormous of debris left in the wake of the earthquake and tsunami creating a huge obstacle to reconstruction in the disaster zone, KHI provided wheel loaders and a crushing machine to local authorities to expedite the daunting process of debris removal. The KHI Group, which supports infrastructures, will continue to respond to reconstruction demand in the disaster zone and to provide range of products needed to prepare for unanticipated disasters anywhere and in any form. These efforts exemplify the contributions that the KHI Group makes to society through its business activities.

Q8 Lastly, what would you like to emphasize to KHI's shareholders?

A8 The KHI Group is working to "return to a growth path" and "strengthen the business foundation for future growth," and every effort will be made to realize "Kawasaki Business Vision 2020".

Group Mission:

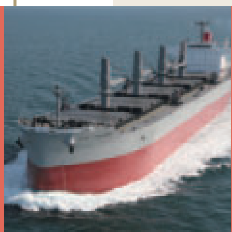
Kawasaki, working as one for the good of the planet

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

As the middle year of MTBP 2010, fiscal 2012 will be a pivotal year for the KHI Group in its efforts to achieve its management goals for fiscal 2013, that is, to achieve the business performance that surpasses that posted in fiscal 2011, and to ensure that the process of "returning to a growth path" is on track.

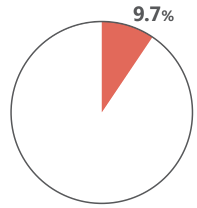
Also, the KHI Group will steadily carry out aggressive R&D investment and capital investment to "strengthen the business foundation for future growth." Through these initiatives, the KHI Group will do its utmost to achieve the targets stated in "Kawasaki Business Vision 2020" and to realize "Group Mission: Kawasaki, working as one for the good of the planet (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)." So we look forward to the continuing support and cooperation of our shareholders.

Composition of Consolidated Net Sales of FY2011 | Main Products



Ship & Offshore Structure

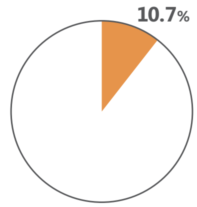
P. 12



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

Rolling Stock

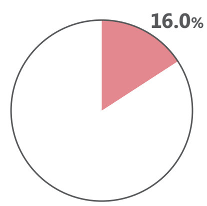
P. 14



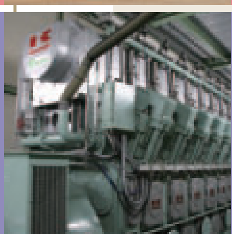
- Electric train cars (including *Shinkansen*)
- Electric and diesel locomotives
- Passenger coaches
- Integrated transit systems
- Monorail cars
- Platform screen doors
- Gigacell®(high-capacity, full sealed Ni-MH battery)

Aerospace

P. 16



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



Gas Turbine & Machinery

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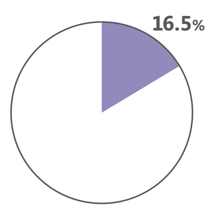
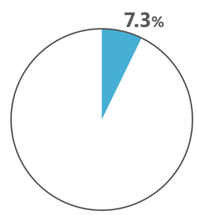


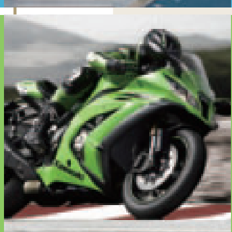
- Jet engines
- Small and medium-sized gas turbine generators
- Gas turbine co-generation systems
- Gas turbines for naval vessels
- Steam turbines for marine and industrial applications
- Diesel engines and marine propulsion systems
- Gas engines
- Gas compression modules

Plant & Infrastructure

P. 20

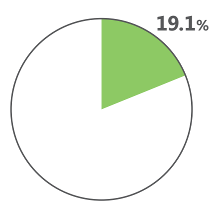


- Cement, chemical, and other industrial plants
- Power plants
- Municipal refuse incineration plants
- LNG and LPG tanks
- Shield machines and tunnel-boring machines
- Crushing machines



Motorcycle & Engine

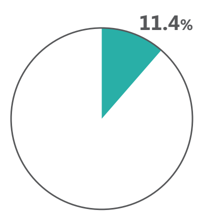
P. 22



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

Precision Machinery

P. 24



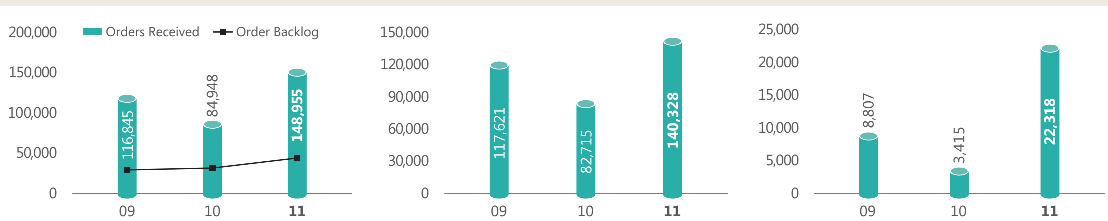
- Hydraulic components (pumps, motors, and valves)
- Hydraulic systems for industrial use
- Hydraulic marine machinery
- Industrial robots

Orders Received/ Order Backlog (Millions of yen)

Sales (Millions of yen)

Operating Income (Loss) (Millions of yen)

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



Changes in Industry Segments and Segment Names

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

Changes in Industry Segments

Effective April 2009:
construction machinery business unit:
Transferred from the Rolling Stock segment to the "Other" segment

Effective April 2010:
crushing machine business unit:
Transferred from the Rolling Stock segment to the Plant & Infrastructure segment

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

Changes in Segment Names

Effective April 2010:
Consumer Products & Machinery (previous)
⇨Motorcycle & Engine (current)
Hydraulic Machinery (previous)
⇨Precision Machinery (current)

Effective April 2009:
Rolling Stock & Construction Machinery (previous)
⇨Rolling Stock (current)

Effective October 2010:
Shipbuilding (previous)
⇨Ship & Offshore Structure (current)

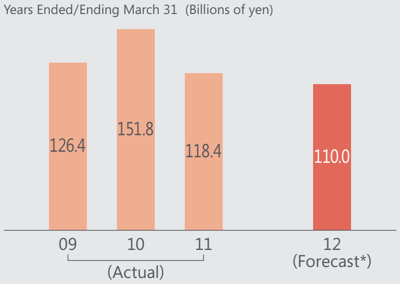
Ship & Offshore Structure

LNG carrier *TAITAR NO. 4*

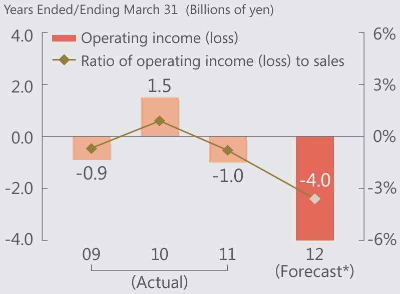
Financial Highlights

Net Sales

Years Ended/Ending March 31 (Billions of yen)



Years Ended/Ending March 31 (Billions of yen)



*As of April 28, 2011

Business Results

The difficulties that characterized fiscal 2010 carried over into fiscal 2011, creating an extremely challenging operating environment for the Ship & Offshore Structure segment. Notably, the newbuilding market didn't recover in full scale, the yen remained strong against the won, and the price of steel materials continued to rise.

In these circumstances, the Ship & Offshore Structure segment posted orders received worth ¥78.9 billion, soaring ¥62.8 billion year-on-year, as a result of a substantial increase in newbuilding orders, including one submarine order, compared with fiscal 2010 results, which stalled at just one newbuilding order overall.

Sales decreased ¥33.4 billion to ¥118.4 billion, owing to a decline in sales of large vessels from the previous fiscal year.

On the profit front, the segment showed an operating loss of ¥1.0 billion, a ¥2.5 billion reversal from operating income in fiscal 2010, due to an increase in the provision for losses on construction contracts.

In newbuilding activity, the segment delivered 13 vessels: one LNG (liquefied natural gas) carrier, two LPG (liquefied petroleum gas) carriers and 10 bulk carriers.

> **We will strengthen our ability to fulfill its leadership role in marine transport and achieve sustainable growth.**
>
> President, Ship & Offshore Structure Company **Nobumitsu Kambayashi**

Analysis and Outlook

In fiscal 2011, the Ship & Offshore Structure segment faced highly daunting issues, particularly lackluster conditions in the shipping and shipbuilding market as well as yen appreciation and high material costs. This brought about an increase in the provision for losses on construction contracts, which in turn caused the segment to fall into the red. However, the segment successfully attracted orders, thanks to a temporary upturn in demand, and has thus been able to sustain the current level of construction volume for a few years.

In addition, Nantong COSCO KHI Ship Engineering Co., Ltd. (NACKS), established by KHI and China Ocean Shipping (Group) Company in 1995 as a 50:50 joint venture, has now marked its 16th year of operation and has become one of the leading shipbuilding companies in China. NACKS has achieved expanded business scale and improved profits due to the start of full-capacity operations in 2010, underpinned by the completion of its second expansionary phase, involving the construction of the second shipbuilding dock in the autumn of 2008, and additional investment thereafter.

KHI has accumulated sophisticated technologies and an extensive track record, especially in building gas carriers and submarines. The Ship & Offshore Structure segment will continue to make the most of this expertise and experience, complemented by a solid reputation earned from customers around the world for reliable performance, quality and delivery, and strive to take advantage of its shipyard in China by expanding production scale and enhancing its international competitiveness. Through these activities, the company will move steadily toward the stated goals of the medium-term business plan and Kawasaki Business Vision 2020.

In addition, amid growing worldwide interest in energy-saving, environmental load-reducing options and marine-resource development, KHI has identified three key issues that the Ship & Offshore Structure segment must emphasize: 1) orders and construction of LNG carriers, a shipbuilding sector where KHI has established a position as a pioneer in Japan and where demand is expected to grow; 2) differentiation, through the development of new technologies and new ship designs featuring its advanced techniques; and 3) entry into offshore development-related fields where the KHI Group can join forces for maximum effect. Successful results will strengthen the Group's ability to fulfill its leadership role in marine transport, a critical part of the world's economic infrastructure, and achieve sustainable growth in its business.


Bulk carrier *STENIA COLOSSUS*

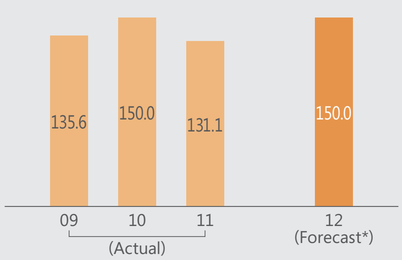

Submarine *KENRYU*

Rolling Stock

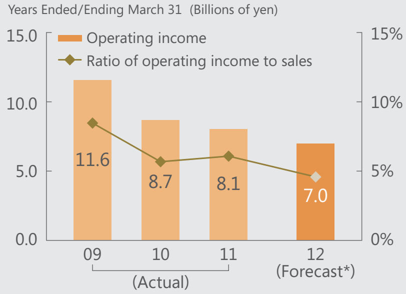
N700 Series 7000 *Shinkansen*

Financial Highlights

Net Sales
Years Ended/Ending March 31 (Billions of yen)



Years Ended/Ending March 31 (Billions of yen)



*As of April 28, 2011

Business Results

In fiscal 2011, orders in Japan in the Rolling Stock segment were received from the Japan Railways Group, primarily for *Shinkansen*, commuter trains, locomotives, and other rolling stock, as well as from both public and private railway companies, for commuter train cars, train cars for new transportation systems, and other rolling stock. Orders from overseas customers included new subway car models for the Washington Metropolitan Area Transit Authority and also for New York City Transit. All told, orders received amounted to a value of ¥187.1 billion, up ¥120.8 billion from the previous fiscal year, in which we had few large-scale projects.

Sales declined ¥18.9 billion to ¥131.1 billion, because a slight improvement in sales of rolling stock to domestic customers was offset by a drop in sales of rolling stock to overseas customers.

Operating income fell ¥0.5 billion to ¥8.1 billion, resulting from lower sales.

> **We are committed to earning an excellent reputation as a world-leading rolling stock manufacturer by successfully completing large-scale overseas projects while strengthening our product line.**
>
> President, Rolling Stock Company **Kyohei Matsuoka**

Analysis and Outlook

Despite declining profits on projects exported in fiscal 2011, due to yen appreciation, the Rolling Stock segment was able to record ¥8.1 billion in operating income because of successful measures to cut fixed costs and contributions from projects in Asia, including subway projects in Singapore and Taiwan now underway.

With targets of ¥7.0 billion and ¥8.0 billion in fiscal 2012 and fiscal 2013, respectively, KHI will consistently strive to enhance its capabilities in rolling stock design and manufacturing as well as associated project management. The segment will also reinforce low-cost rolling stock development activities already in progress and further sharpen its competitive edge.

Recent years have brought a pronounced "modal shift" in developed countries from the use of automobiles and aircraft as the principal means of transporting freight and passengers to the use of railways, which place a lower burden on the natural environment. In addition, the number of new projects for construction of urban and interurban transport systems in emerging countries is on the rise. Specific projects include high-speed rail projects in North America and the new Dedicated Freight Corridor in India. Accordingly, long-term expansion in demand is expected in the rolling stock business.

As Japan's largest manufacturer of rolling stock, KHI is taking proactive measures to cope with the increase in demand by expanding and upgrading its production systems, which are located in Hyogo and Harima in Japan and in Lincoln, Nebraska and Yonkers, New York in the United States.

The Rolling Stock segment has set forth a vision of becoming a world-class rolling stock systems manufacturer that takes advantage of world-class technologies and quality to engage in wide-ranging businesses, from high-speed trains to light rail transit (LRT).

The company will achieve this vision through product line expansion and enhancement made possible by aggressive new product development, such as efSET®, (Environmentally Friendly Super Express Train), a new high-speed train for overseas markets, and K-Star Express®, a new high-speed interurban commuter train for the U.S. market, and through the reliable execution of large-scale overseas projects.


Tokyo Metro Series 16000


Xinyi-Songshan Line MRT for Taipei City Government

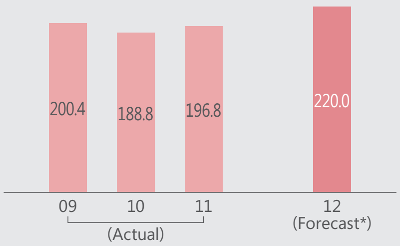
Aerospace

XC-2 next-generation cargo aircraft

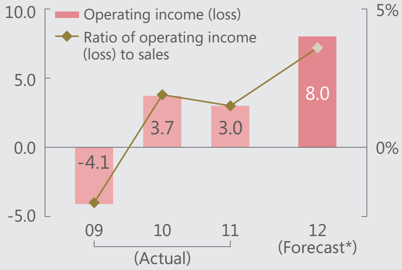
Financial Highlights

Net Sales

Years Ended/Ending March 31 (Billions of yen)



Years Ended/Ending March 31 (Billions of yen)



*As of April 28, 2011

Business Results

Orders received in the Aerospace segment increased ¥35.3 billion from the previous fiscal year, to ¥206.7 billion, due to an increase in orders for component parts for the Boeing 777 (B777) and 787 (B787).

Sales also rallied, up ¥7.9 billion to ¥196.8 billion, thanks to higher sales to Japan's Ministry of Defense (MOD) and to Boeing for component parts for the B787.

Despite better sales results, operating income declined ¥0.7 billion to ¥3.0 billion, mainly owing to the profit-eroding impact of yen appreciation.

> We will seek to obtain orders for mass production of the XC-2 succeeding the XP-1, and will also ramp up production of the Boeing 787.
>
> President, Aerospace Company **Shigeru Murayama**

Analysis and Outlook

From a profit perspective, sharp appreciation of the yen was a major obstacle in fiscal 2011. But cost reduction efforts and other strategies enabled the segment to achieve operating income close to the fiscal 2010 level. In fact, orders received in fiscal 2011 were 20% higher in value terms over fiscal 2010, a sign that business results may trend upward in fiscal 2012 and beyond.

In the defense aircraft field, KHI delivered the flight test plane #2 of the XC-2 model to MOD in March 2011. With this delivery, the company has fulfilled its contractual obligations for Japan's largest aircraft development project started in 2001, to simultaneously develop the XP-1 next-generation patrol aircraft and XC-2 next-generation cargo aircraft. As with the XP-1, which has shifted to the full-scale mass production phase, KHI will seek to obtain orders for mass production of the recently developed XC-2 in fiscal 2012. Budget cuts have been a persistent thorn in MOD's side, but KHI anticipates increased output, including production of the new aircraft, and is working to boost production capacity at the Gifu Works to capitalize on promising opportunities.

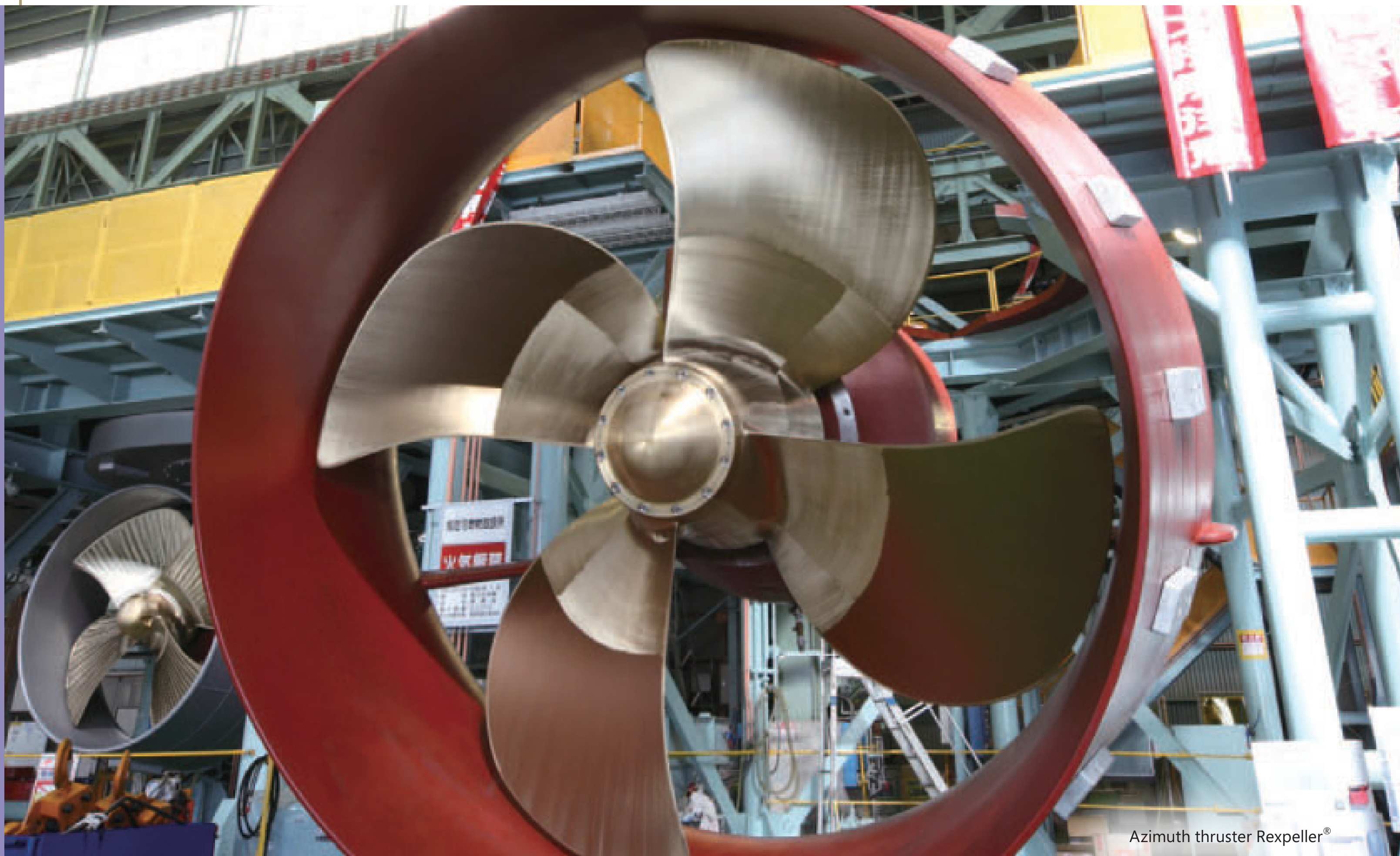
In the commercial aircraft field, economic growth in emerging markets will be a major catalyst generating brisk demand for passenger and freighter aircraft over the medium term. On Boeing projects, order and production rates for the B777 remain favorable, and the first delivery of the B787 from Boeing to the airlines is expected in the third quarter of 2011. KHI is a partner corporation in the development and production of the B787. To support its position in the B787 program, the company built a new facility at the Nagoya Works 1 and installed state-of-the-art equipment, highlighting composite component fabrication. In addition, the company is preparing for the possibility of a production increase with various moves, such as hiring more workers. The B787 business is expected to make a significant contribution to segment results one day.

In the helicopter business in Japan, the use of helicopters for emergency medical service in remote areas or on islands, or in the event of road traffic congestion, is gaining widespread appeal and spurring demand for KHI's BK117 helicopter. The company will resourcefully promote sales and strive to capture top share in this market.

BK117 C-2 helicopter

Boeing 787 *Dreamliner*

Gas Turbine & Machinery

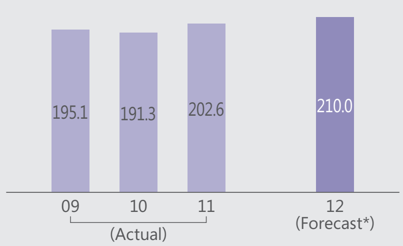


Azimuth thruster Rexpeller®

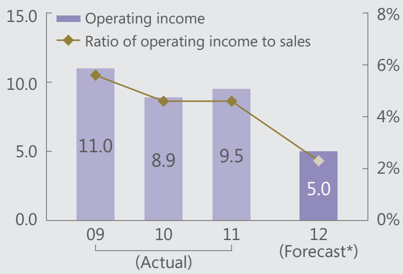
Financial Highlights

Net Sales

Years Ended/Ending March 31 (Billions of yen)



Years Ended/Ending March 31 (Billions of yen)



*As of April 28, 2011

Business Results

Orders in the Gas Turbine & Machinery segment decreased ¥38.6 billion from the previous fiscal year to ¥187.5 billion, in contrast to large orders achieved in the previous fiscal year, particularly for component parts for commercial aircraft jet engine components and gas compression modules.

Sales edged up ¥11.3 billion to ¥202.6 billion, mainly from higher sales of gas compression modules and diesel generator sets.

Operating income climbed ¥0.6 billion to ¥9.5 billion, due to increased sales.

In this segment, we are continuing with our R&D activities and furthering our development of manufacturing systems. In addition, ongoing efforts to improve productivity and boost sales activity will lay a solid foundation for higher profitability.

> **Our utmost efforts will be directed into products, especially power generation machinery and equipment, needed for reconstruction in the areas affected by the Great East Japan Earthquake.**
>
> **President, Gas Turbine & Machinery Company** **Yuichi Asano**

Analysis and Outlook

The Gas Turbine & Machinery segment has a wide range of products for the energy and transportation equipment sector. Although demand for some of these products is temporarily weak due to the global recession, KHI has a variety of products for which markets are expected to grow over the medium- to long-term.

In the energy sector, co-generation has become an increasingly popular choice keen to embrace approaches that promote global environmental protection and energy conservation. In addition, the recent disasters in Japan are drawing further attention to the merits of distributed power sources to mitigate the risk of reliance on centralized power sources. Under these circumstances, growing demand for gas turbine power generators and gas engines can be expected.

As Japan's largest manufacturer of small to medium-sized gas turbine power generators, KHI plays a significant role in the standby power generator market with products crucial to preparing for disasters. KHI intends to expand its global business by taking advantage of in-house development capabilities, enabling it to propose total solutions covering after-service and maintenance.

KHI developed a gas engine that boasts the world's highest electric generating efficiency—49%—and was awarded its first order in fiscal 2011. The company plans to use this opportunity as a seed from which new businesses can grow. KHI intends to expand this business through market penetration overseas where natural gas infrastructures are established, and by addressing heightened demand in Japan, primarily the reconstruction efforts in the areas devastated by the Great East Japan Earthquake and tsunami.

Another promising field is oil and gas, where recent offshore development activity has spurred demand for natural gas compression modules used on offshore platforms and for propulsion systems installed on offshore support vessels.

In the transportation equipment sector, demand for commercial aircraft appears to be recovering after a temporary downturn. In response, KHI is manufacturing the V2500 engine for the Airbus A320, making preparations for mass production of the Trent 1000 engine for the Boeing 787 and pursuing development of the Trent XWB engine for the Airbus A350XWB.

In the marine field, the downturn in demand is likely to continue. Nevertheless, KHI will strengthen the development of propulsion systems that make ships more energy efficient, expecting future growth of this market sector.

The Gas Turbine & Machinery segment offers a diverse range of products over and above those described here, and we regret that all of our products cannot be mentioned, but you can rest assured we will continue to improve the reliability of our products serving the land, sea, and air, where our expertise lies and thus meets the expectations of our stakeholders.

Kawasaki Green Gas Engine


Gas turbine co-generation system for RIKEN Kobe Institute (PUC60x2)

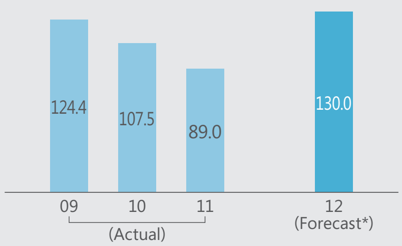
Plant & Infrastructure

Cement plant for But Son Cement Joint Stock Company

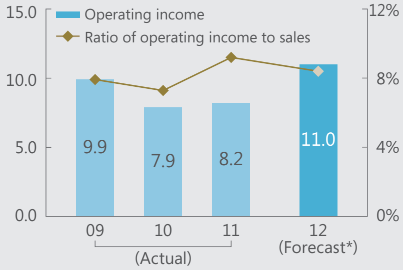
Financial Highlights

Net Sales

Years Ended/Ending March 31 (Billions of yen)



Years Ended/Ending March 31 (Billions of yen)



*As of April 28, 2011

Business Results

Orders received in the Plant & Infrastructure segment decreased ¥15.6 billion, to ¥119.9 billion, from the previous fiscal year, when orders received included an order for a large-scale overseas project, specifically, a fertilizer production facility for Turkmenistan.

Sales declined ¥18.5 billion to ¥89.0 billion, as the tendency to restrict capital investment in the wake of the Lehman Brothers bankruptcy led to fewer orders for large-scale projects.

Operating income increased ¥0.3 billion to ¥8.2 billion, as a positive turn in revenue paralleling favorable progress on projects already under order covered the shortfall caused by lower sales.

> **We aim to establish a stable revenue base with the development of new products, highlighting the energy and environmental fields. Also, we will expand joint operations in China.**
>
> President, Plant & Infrastructure Company **Toshikazu Hayashi**

Analysis and Outlook

The Plant & Infrastructure segment recorded sizable decreases in orders received and sales during fiscal 2011, but the business was able to generate satisfactory operating income. Higher profit is a testament to the success of efforts to shrink period expenses while executing meticulous project management and cutting costs.

The challenges that characterized the fiscal 2011 operating environment are likely to persist in fiscal 2012, particularly the yen's appreciation against other major currencies, soaring material costs, and intensifying order competition. However, KHI aims to establish a stable revenue base by emphasizing steady orders for projects in emerging countries and for small projects, such as conversions and maintenance of baseload supply facilities; by expanding its joint operations in China; and by sharpening its competitive edge with the development of new products, highlighting energy and environmental engineering expertise.

In China, KHI is developing joint operations with the CONCH Group, which includes Anhui Conch Cement Company Limited, a major cement maker in China and the fourth-largest in the world. Joint operations also include three companies: Anhui Conch Kawasaki Engineering Co., Ltd. (ACK), an engineering firm, Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd. (CKM), a manufacturing company, and Anhui Conch Kawasaki Equipment Manufacturing Co., Ltd. (CKE), which manufactures and repairs major equipment used at cement plants. In China, KHI's efforts at these joint operations are being directed toward building a stronger revenue base through expansion of their line of products. Also, these joint operations not only make and market waste heat recovery power generation systems for cement plants and high-efficiency vertical mills, they also handle a waste gasification system that can be integrated with cement kilns and a membrane sewage treatment system.

Sakaide LNG Terminal

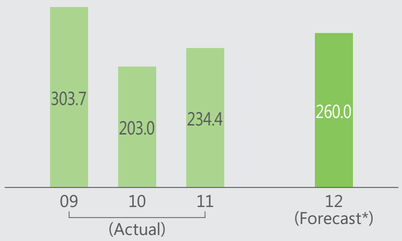
SINGAPORE DOWNTOWN LINE STAGE2 C915
φ6.63m Slurry Type Tunnel Boring Machine

Motorcycle & Engine

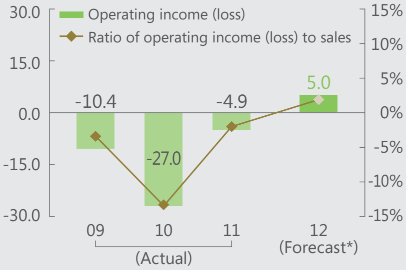
Ninja ZX-10R

Financial Highlights

Net Sales
Years Ended/Ending March 31 (Billions of yen)



Years Ended/Ending March 31 (Billions of yen)



*As of April 28, 2011

Business Results

Sales by the Motorcycle & Engine segment increased ¥31.3 billion from the previous year, to ¥234.4 billion. Key factors leading to this result were an increase in sales of motorcycles to North America, on a unit basis, paralleling progress in the liquidation of excess inventory, and brisk motorcycle sales expansion in emerging markets, especially Brazil and Southeast Asia.

With regard to profit and loss, although the segment failed to turn a profit against the backdrop of sharp yen appreciation, fixed cost reductions, and an increase in sales, the loss position was vastly improved, resulting in a decrease of ¥22.0 billion in operating loss from the previous fiscal year, to ¥4.9 billion.

Total worldwide unit sales of motorcycles, ATVs (all-terrain vehicles), utility vehicles, and personal watercraft were 471,000 units, an increase of 74,000 units from the previous fiscal year. By region, sales in Japan declined by 3,000 units to 14,000 units; sales in North America increased by 38,000 units to 118,000 units; sales in Europe fell by 5,000 units to 67,000 units; and sales in emerging countries and others were up 44,000 units to 272,000 units.

> **We will achieve a strong business platform for the future and work toward our goal of returning to a solid profit position in fiscal 2012.**
>
> President, Motorcycle & Engine Company **Hiroshi Takata**

Analysis and Outlook

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

In fiscal 2011, with markets still shrinking and the yen still strong, our company aggressively moved forward on reforming its earnings structure through further cost-cutting and fixed cost reductions. In the core motorcycle business, our company made headway in the liquidation of excess inventory in markets of the developed countries, especially in North America and Europe, and achieved higher sales on a unit basis in emerging markets, especially Brazil and Southeast Asia. Meanwhile, in the general-purpose gasoline engine business, the launch of new models underpinned an increase in sales on a unit basis, particularly in the United States. These events were integral steps on the road toward an improved business restructure and took the segment to a point just shy of turning a profit.

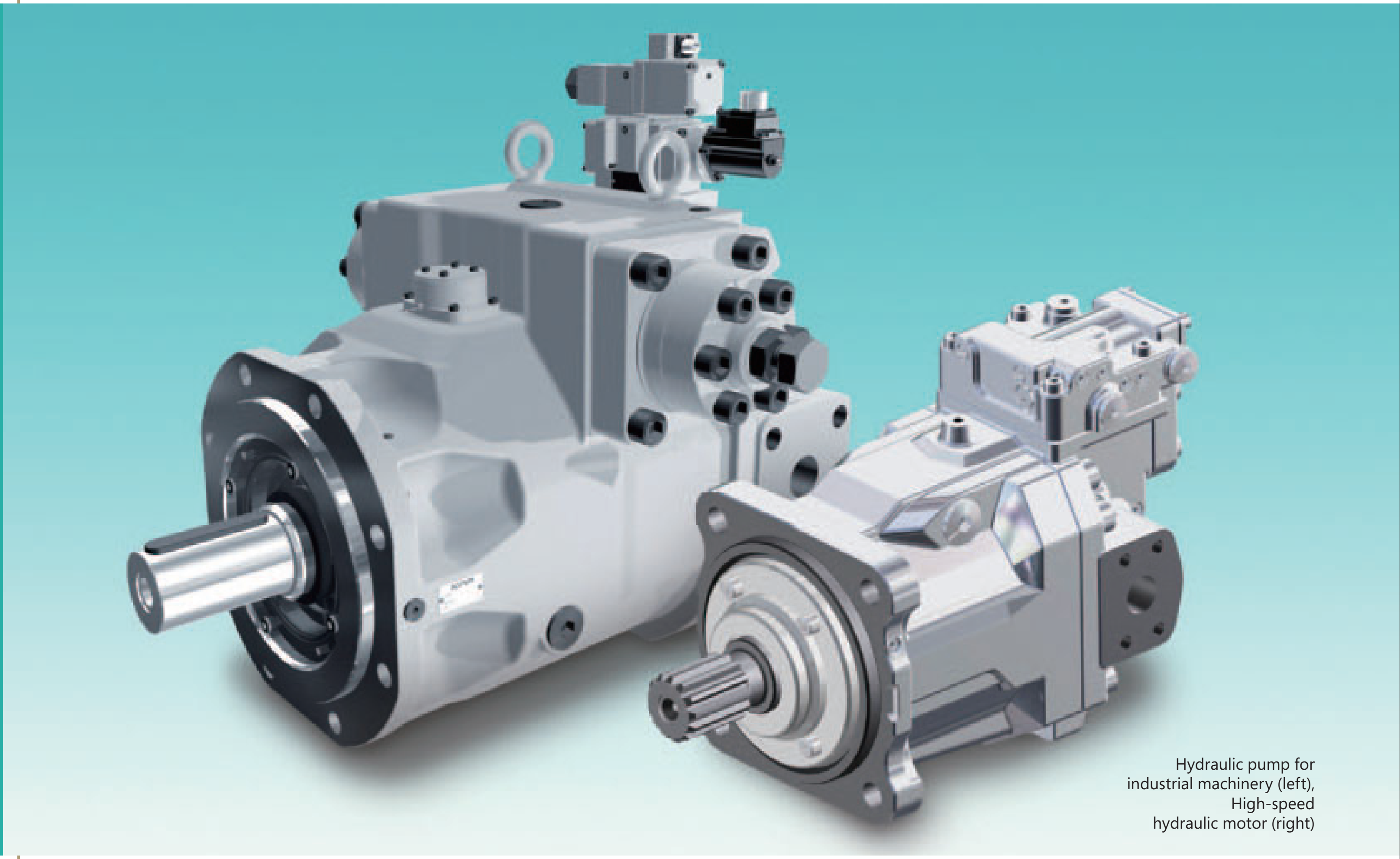
Business conditions are likely to remain challenging for the Motorcycle & Engine segment in fiscal 2012. However, the introduction of new models and the implementation of effective sales campaigns in markets of the developed countries, such as North America and Europe, should buoy sales of motorcycles, ATVs, utility vehicles, and personal watercraft to at least the fiscal 2011 level on a combined unit basis. The segment will also emphasize sales activities in emerging markets, such as Brazil, India, and Southeast Asia, while applying measures to further enhance the earnings structure, such as an improvement in the profit margin ratio based on progress in cost-cutting and proven results in reducing fixed costs. In addition, the segment will resourcefully pursue development of cutting-edge technology from a forward-looking perspective that anticipates the necessary responses to tomorrow's environmental issues.

Through these activities, the Motorcycle & Engine Company will achieve a strong business platform for the future and, with the steadfast determination of everyone in our company, will work steadily toward our goal of returning to a solid profit position in fiscal 2012.

TERYX 750 FI 4x4 SPORT

JET SKI ULTRA 300LX

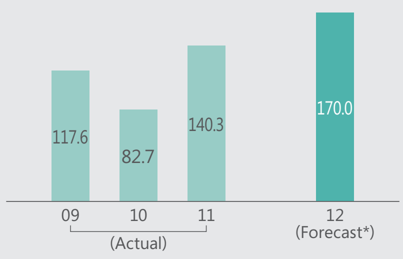
Precision Machinery



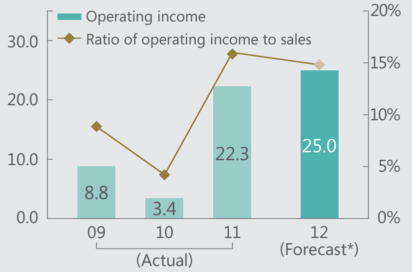
Hydraulic pump for industrial machinery (left), High-speed hydraulic motor (right)

Financial Highlights

Net Sales
Years Ended/Ending March 31 (Billions of yen)



Years Ended/Ending March 31 (Billions of yen)



*As of April 28, 2011

Business Results

Orders in the Precision Machinery segment increased ¥64.0 billion from the previous fiscal year to ¥148.9 billion, thanks in large part to expanded orders for hydraulic components for the construction machinery market.

Sales jumped ¥57.6 billion, to ¥140.3 billion, owing to an increase in sales of hydraulic components for the construction machinery market and for clean robots used in the semiconductor industry.

Operating income soared ¥18.9 billion to ¥22.3 billion, reflecting a favorable turn in revenues underpinned by an increase in sales and a boost to operating capacity.

> In the Hydraulic Machinery business unit, we are making progress toward the early realization of our business vision for 2020. In the Industrial Robots business unit, we will strive to boost our share in the semiconductor industry and increase our competitive advantage in the automotive industry.
>
> President, Precision Machinery Company **Makoto Sonoda**

Analysis and Outlook

Kawasaki Precision Machinery Ltd., which is involved in the Hydraulic Machinery business unit, was reintegrated into KHI in October 2010. Utilizing this change as a restructuring opportunity, the Precision Machinery segment was established with two business units, one for the Hydraulic Machinery business unit and the other for the Industrial Robots business unit.

Fiscal 2011 was an extremely active year for the Hydraulic Machinery business unit, with a focus on the construction machinery market, where flourishing demand for excavators, particularly in China, boosted sales. The Great East Japan Earthquake had a limited impact on the business, and demand should expand again in fiscal 2012.

To fulfill the customer demand for a stable supply for products, Hydraulic Machinery business unit has been establishing to set its No. 1 basic objectives for fiscal 2012 as to increase its production capacity. In addition to expansion plans for the Nishi-Kobe Works, a hub facility, efforts will be made to boost production capacity on a global scale, with an emphasis on production sites in China.

Other objectives—to establish an earnings structure for the future and to reinforce the management structure—remain in the spotlight. Projects are already under way to deal with new business creation and expansion of the after-service business as well as to improve quality and logistics.

Steady implementation of these measures will speed KHI's progress toward early realization of a business vision for 2020 aimed at becoming a manufacturer of top brands in the global motion control sector, as underscored by the theme "What Kawasaki Should Be in the Year 2020."

The Industrial Robots business unit experienced a sharp drop in demand in the wake of the collapse of Lehman Brothers. But demand rallied in fiscal 2011, especially for products for the semiconductor industry, and consolidated sales rose significantly over fiscal 2010.

In fiscal 2012, demand from the semiconductor industry is expected to remain high, and demand from the automotive industry should also grow, with the spotlight on customers in emerging economies. Armed with sophisticated technology proposal capabilities and ready to capitalize on this favorable demand environment, the Industrial Robots business unit will strive to boost its share in the semiconductor industry and increase its competitive advantage in the automotive industry.

In addition, the Industrial Robots business unit will implement measures to open up new markets with growth potential, such as the solar panel manufacturing sector and the food distribution sector.

Hydraulic valves

R-series RS20N

High-speed picking robot YF03N

Corporate Governance

Kawasaki Heavy Industries, Ltd. (KHI) has established a corporate governance system that accommodates the KHI Group's operations, with the Board of Directors and auditors playing central roles in governance, as they continuously work to improve this system. The basic stance of the KHI Group as a whole regarding corporate governance is to endeavor to increase the Group's corporate value through the highly transparent, efficient, and sound management of its operations as the Group works to build solid relationships with all of its stakeholders, including shareholders, customers, employees, and the community.

Overview of the Corporate Governance System

The Company adopts a statutory auditor system of corporate governance and has appointed an independent auditor. The Chairman serves as the presiding officer of the Board of Directors, which consists of 11 directors (authorized number: 15 directors). The Company has four corporate auditors and has established a Board of Auditors. In addition to the Board of Directors, the Company has established a Management Committee and an Executive Officers Committee, both of which are composed of representative directors and managing executive officers, while the Executive Officers Committee also includes executive officers.

To reinforce the oversight and monitoring function of the Board of Directors with respect to management overall, the Company appoints directors who do not have roles in the execution of operations. Also, with regard to corporate auditors, to ensure objectivity and neutrality in the management oversight function, the Company appoints two outside corporate auditors with no business relationships or other vested interests in the Company. One of these outside corporate auditors is an independent auditor as required by the Tokyo Stock Exchange for all listed companies. To ensure the reliability of financial reports, the Company appoints internal corporate auditors who have considerable knowledge of finance and accounting. The internal corporate auditors and outside corporate auditors share information and work to enhance the management oversight function. For these reasons, the Company does not appoint outside directors.

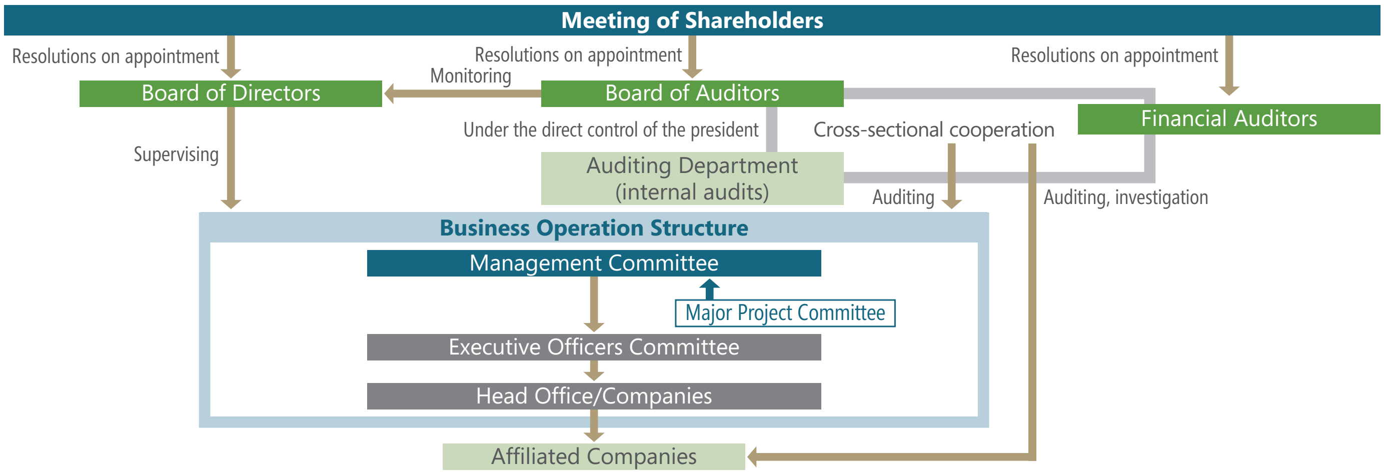
The Board of Directors appoints executive officers to conduct business operations. The Board of Directors decides the basic objectives and policies for the execution of operations under the management plan and promptly issues directives for implementation to all executive officers. The Executive Officers Committee ensures that the objectives and policies are implemented. The Management Committee, which consists of representative directors and managing executive officers, and the Board of Directors periodically follow up on the status of implementation of the management plan. The Company clearly defines the management responsibility of directors by means of incentive-based compensation that reflects business performance and a one-year term of office for directors.

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

Internal Auditing, Statutory Auditing, and Independent Auditing

The Auditing Department, an internal auditing unit with a staff of 13, strives to improve internal control functions by such means as the periodic conducting of audits to confirm whether

Governance Structure of Kawasaki Heavy Industries, Ltd.



operations are executed appropriately in accordance with laws, regulations, and the Company's internal rules in all of the Group's management activities. Also, the corporate auditors and the Auditing Department share information on the results and findings of their respective audits.

Concerning statutory auditing, the corporate auditors attend meetings of the Board of Directors and the Management Committee, examine important documents, and examine the state of business operations and financial assets through periodic meetings with the representative directors, business audits of KHI's divisions, and investigations of subsidiaries. In addition, two outside corporate auditors ensure the objectivity and neutrality of the management oversight function. The full-time corporate auditors and outside corporate auditors share information and strive to enhance the management oversight function.

With regard to independent auditing, the Company undergoes audits of its financial statements conducted by the Company's independent auditor, KPMG AZSA LLC. The corporate auditors and the Board of Auditors receive an outline of the audit plan and a report on important audit items from the independent auditor, and the Board of Auditors explains the Company's auditing plan to the independent auditor. The corporate auditors and the Board of Auditors periodically receive reports on the results of independent auditing and collaborate with the independent auditor by exchanging information and opinions. Also, the corporate auditors take part in the audits performed by the independent auditor as necessary and receive reports from the independent auditor concerning audits as appropriate.

Outside Corporate Auditors

The Company has two outside corporate auditors.

Kenzo Doi, an outside corporate auditor, has no vested interest in the Company other than a retainer agreement between the Company and Kobe Kyobashi Law Office, where he serves as a representative. Mr. Doi holds shares in the Company through the Company's Officers' Shareholder Association, but he has not acquired the Company's shares through any other means. The Company enhances the auditing function by taking advantage of Mr. Doi's deep knowledge and diverse experience as an attorney, and obtaining his fair and independent opinions.

The Company enhances the auditing function by taking advantage of Michio Oka's profound knowledge and diverse experience as a corporate officer, and obtaining his fair and independent opinions as an outside corporate auditor. Although in the past Mr. Oka served as a corporate officer of Kawasaki Kisen Kaisha, Ltd. and its affiliated companies, since there is essentially no capital relationship between Kawasaki Kisen and the KHI Group, and Kawasaki Kisen accounts for an insignificant portion of the KHI Group's net sales, Mr. Oka has no vested interest in the Company.

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

Enhancement of Internal Control Systems

The Company is enhancing its internal control systems as described below and plans to review internal control systems as necessary, in light of changes in the environment surrounding the Company and other considerations.

- Internal control systems governing directors and employees
- Internal control systems governing the corporate group
- Internal control systems to ensure that corporate auditors conduct audits appropriately

Compensation Paid to Directors and Corporate Auditors

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

Category	Total amount of compensation (Millions of yen)	Total amount of compensation by type (Millions of yen)	Number of eligible corporate officers
		Annual compensation	
Directors (excluding outside directors)	575	575	13
Corporate auditors (excluding outside corporate auditors)	68	68	2
Outside corporate officers	16	16	2

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

Compliance Framework

TIn April 2010, the KHI Group reorganized the compliance committees in each business segment into CSR committees and put in place a framework for raising compliance awareness as part of efforts to enhance overall CSR activities. We are working to increase compliance awareness throughout the KHI Group by distributing the Compliance Guidebook to employees and enhancing compliance education using e-learning and other means. In addition, we have put in place a mechanism by which employees can obtain advice discreetly through the establishment of the Compliance Reporting and Consultation System as a point of contact with an outside attorney.

Enterprise Risk Management System

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

Business Risk

(1) Political and Economic Conditions

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

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

(2) Fluctuations in Foreign Exchange Rates

Overseas sales accounted for 54.5% of consolidated net sales in fiscal 2011, and the Group has a substantial volume of transactions denominated in U.S. dollars, euros, and other currencies. With respect to transactions denominated in foreign currencies, the Group strives to reduce foreign exchange risk by such means as increasing the proportion of overall costs denominated in foreign currencies and engages in hedging techniques such as flexible forward contracts, taking into account trends in foreign exchange rates. Nevertheless, the majority of the Group's manufacturing facilities are located in Japan, and sales to overseas markets are subject to foreign exchange fluctuation risk.

(3) Large-Scale Natural Disasters

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

(4) Securing Human Resources

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

(5) Intellectual Property

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

(6) Information Leaks

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

(7) Laws and Regulations

The Group conducts its business activities in compliance with the laws, regulations, and other controls in the countries and regions where it operates. However, if its responses to the revisions to the laws and regulations are not correctly implemented, the KHI

Group might be assessed fines or penalties for violating the law, which could lead to losses, and lose order opportunities due to administrative disposition. Moreover, such events may tarnish the reputation of the KHI Group, which could adversely impact business results.

(8) Environmental Protection

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

(9) Order Agreements

For the KHI Group, most projects are for products that are made once the orders are received, based on individual agreements with the customers who have placed the orders. Major projects, including construction projects with big contract amounts, go through a thorough internal examination, with risk analysis and possible risk responses, by the Major Project Committee before the order agreements are signed. However, if the profitability of certain projects deteriorates because unforeseen circumstances, such as changing political or economic circumstances, cause costs to exceed initial estimates, or costs balloon due to changes in design or confusion at the production stage, such events could have an impact on the business results of the KHI Group.

(10) Quality Assurance

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

(11) Research and Development

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

(12) Country Risk

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

(13) Procurement of Materials

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

Directors, Corporate Auditors, and Executive Officers

DIRECTORS

Tadaharu Ohashi
Chairman

Satoshi Hasegawa*
President

Masashi Segawa*
Senior Executive Vice President

Mitsutoshi Takao*
Senior Vice President

Yuichi Asano*
Senior Vice President

Nobumitsu Kambayashi*
Senior Vice President

Kyohei Matsuoka*
Senior Vice President

Hiroshi Takata*
Senior Vice President

Shigeru Murayama*
Senior Vice President

Toshikazu Hayashi*
Senior Vice President

Makoto Sonoda*
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 President

Masashi Segawa

Senior Vice Presidents

Mitsutoshi Takao
Corporate Business Administration

Yuichi Asano
President
Gas Turbine & Machinery Company

Nobumitsu Kambayashi
President
Ship & Offshore Structure Company

Kyohei Matsuoka
President
Rolling Stock Company

Hiroshi Takata
President
Motorcycle & Engine Company

Shigeru Murayama
President
Aerospace Company

Toshikazu Hayashi
President
Plant & Infrastructure Company

Makoto Sonoda
President
Precision Machinery Company

Managing Executive Officers

Minoru Makimura
Masahiko Hirohata
Yoshinori Kanehana

Executive Officers

Seiji Yamashita
Takeshi Sugawara
Tamaki Miyatake
Shuichi Yamanaka
Shinsuke Tanaka
Masatoshi Yamaguchi
Naomi Sera
Joji Iki
Yoshizumi Hashimoto
Yukio Hayano
Masahiro Ibi
Takafumi Shibahara
Nobuyoshi Kobayashi
Minoru Akioka
Yukinobu Kono
Masafumi Nakagawa
Mitsuo Kadoya
Hiroshi Hidaka
Hideki Sasaki
Atsuhiko Yamanaka
Eiji Inoue
Akio Murakami
Kaoru Kawabe
Kazuo Hida
Makoto Ogawara

(As of June 28, 2011)

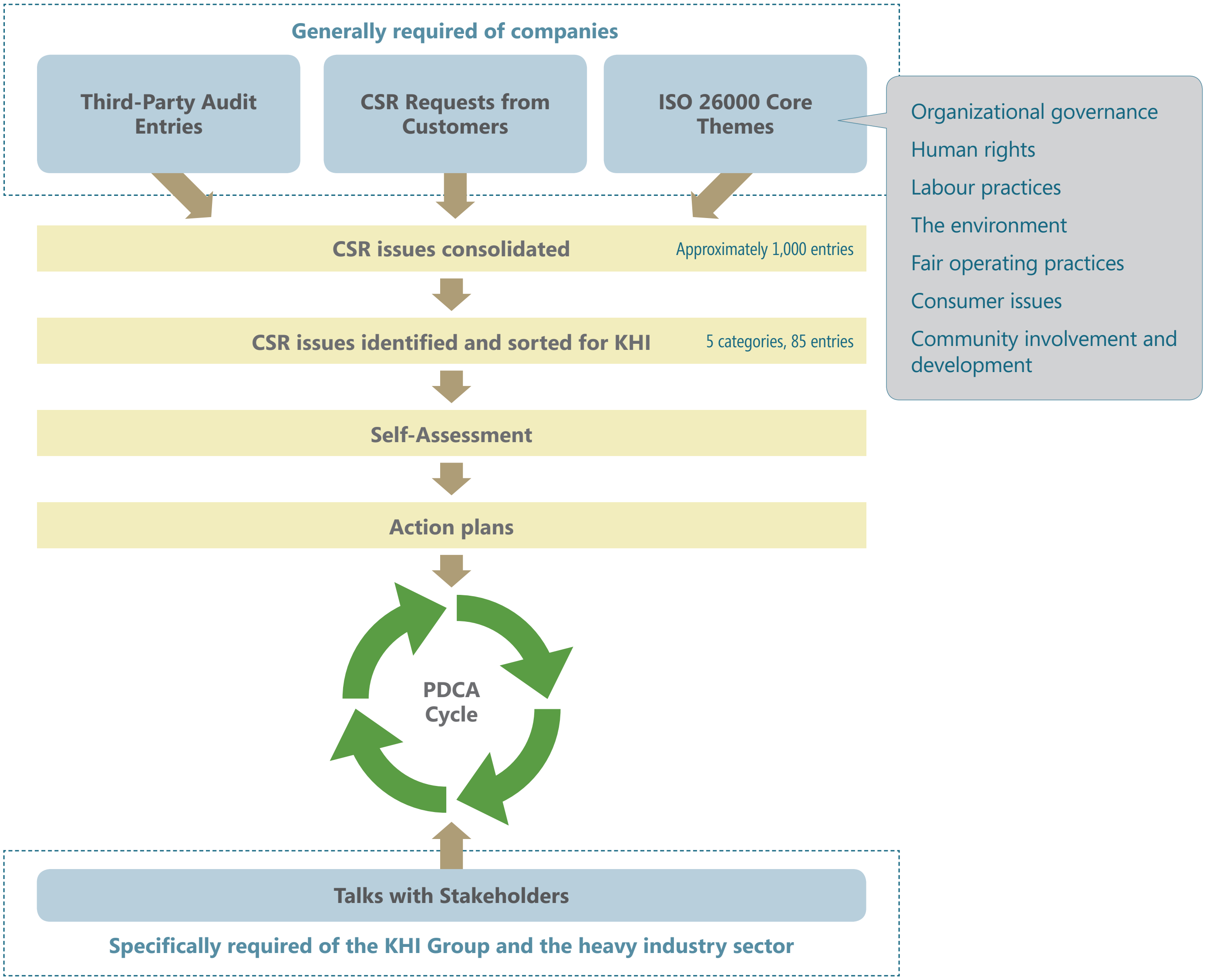
The Group Mission of the Kawasaki Heavy Industries, Ltd. (KHI) Group is "Kawasaki, working as one for the good of the planet (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)."

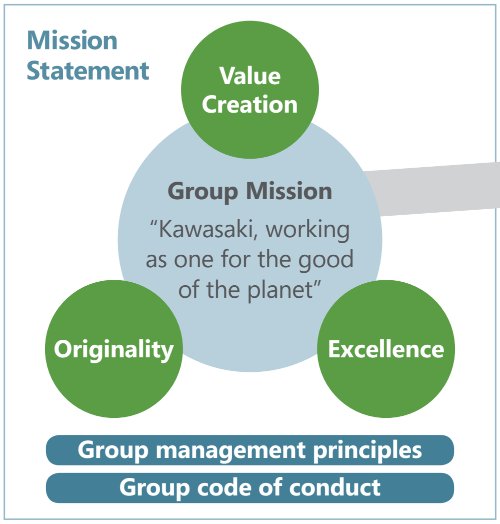
Each and every employee puts this statement into practice as he or she goes about individually assigned daily business activities. To this we added a broader view of corporate social responsibility (CSR) and action goals as we seek to realize the Group Mission at ever higher levels.

KHI Group CSR Activity Flow

We used various methods to collect and consolidate social expectations placed upon us; selected from this information CSR issues for the KHI Group; and sorted data into five themes: 1) value creation through Business; 2) Management; 3) Employees; 4) Environmental activities; and 5) Social contribution. Assigned divisions self-assess the current status for each entry and draft action plans highlighting efforts to compensate for shortcomings and reinforce strengths. This PDCA (Plan-Do-Check-Act) cycle is repeated.

In fiscal 2012, we will provide opportunities to talk with stakeholders so that we can ascertain with greater clarity the position that is specifically required of the KHI Group and the heavy industry sector. We will incorporate open comments made by our stakeholders into our CSR activities so that we may respond to social expectations even better than we do now.





Realization of the Group Mission at ever higher levels

Five Themes

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

CSR Activity Structure

CSR Committee

Corporate CSR Committee
- Company CSR Committee
- Head Office CSR Committee
- CSR Liaison Conference
- Compliance Manager Conference
- Head Office CSR Planning Group

CSR Cross-Group Organizations

Corporate Environmental Committee
Human Capital Development Committee
Risk Management Committee
Export Examination Committee
Crisis Management Organization

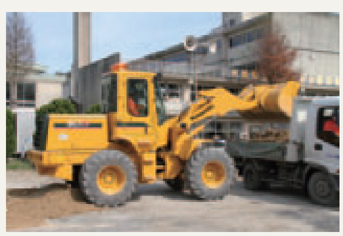
Social Contribution through KHI Products and Resources

In the event of a major natural disaster, we will certainly extend financial support through charitable donations. But if products and resources can be of use, we provide them as well, as circumstances demand, to support relief and restoration efforts in the disaster area. We believe this is part of any corporate citizen's social responsibility.

On March 11, 2011, the Great East Japan Earthquake struck with unprecedented force. Immediately after the catastrophic earthquake and tsunami, the KHI Group jumped into action with assistance geared to demand in the disaster area, which included a donation of ¥120 million and relief supplies worth approximately ¥100 million. We knew what to do because we had experienced the destruction wrought by the Great Hanshin Earthquake in 1995 in Kobe, where our headquarters is located.

Motorcycles
Donated so that support teams could reach people, get to places, and transport goods over bad roads and narrow paths

Crushing machine
Donated to crush rubble and debris



Wheel loaders
Donated to clear and carry away rubble

Helicopter
Loaned Company-owned helicopter to replace local government-owned craft that was destroyed in the disaster

2020 Environmental Vision

In 2010, Kawasaki Heavy Industries, Ltd. (KHI) Group established 2020 Environmental Vision: "What Kawasaki Should Be in the Year 2020" to formulate our environmental aims for the year 2020, under the Group Mission "Kawasaki, working as one for the good of the planet (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)."

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

Environmental Philosophy

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

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

Realization of a low-carbon society

Contribute to the prevention of global warming by means of products and manufacturing that use energy without waste

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

Realization of a sound material-cycle society

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

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

Realization of a society coexisting with nature

Through manufacturing that is in harmony with the global environment

(1) We provide customers with products and services that prevent pollution of the atmosphere and degradation of water quality in order to promote improvement of the environment and conservation of the ecosystem.
(2) We are reducing the use of chemical substances in our products as well as in our manufacturing activities.
(3) We are cooperating with local forest conservation programs and other such activities to protect the ecosystem.

Building a Foundation for Environmental Management

Building a foundation for environmental management that will realize the 2020 Environmental Vision

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

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

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

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

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

Measures to Reach Objectives for Reduction of Greenhouse Gases

We have been pursuing a variety of initiatives to reduce greenhouse gas emissions, which is our highest-priority environmental management activity.

Company-wide Engagement in CO_2 Reduction Activities

In order to realize further reductions in greenhouse gas emissions from our production activities, it will be necessary to establish an analytical method for company-wide implementation of reduction activities. For this purpose, we began reviewing the energy consumption of all our plants and have been implementing a project to investigate CO_2 emission reduction factors.

We are identifying possible points of improvement according to the business form adopted by each of KHI's individual business segments, which engage in production across a wide range of business areas, while also considering CO_2 reduction measures that can be realized across varying business forms. In this way, we will realize optimal measures for the Group as a whole.

In fiscal 2011, we turned the Kakogawa Works into a pilot site, installed automatic energy readers, and began identifying specific areas for effective CO_2 reduction through analysis of automatic measuring data.

Promoting Installation of Energy-Saving Equipment

The three-year business plan that runs until fiscal 2013 calls for efforts to invest in energy-saving equipment, such as lighting systems, at our factories.

In fiscal 2011, we began switching to metal-halide bulbs for factory illumination and inverter-type bulbs for office lighting and started installing energy-saving hydraulic inverters in machine tools. The upgrades target all factories and approximately 33,000 units overall.

In addition, we are promoting the installation of photovoltaic power generation equipment in newly built structures at factories, and in fiscal 2011, we installed photovoltaic power generation equipment at the Nagoya Works 1 and the Akashi Works. At the Nagoya Works 1, we introduced 750kW photovoltaic power generation equipment, which supplies about 5% of power consumed at this site. At the Akashi Works, we introduced 100kW equipment, and all power generated is used at this site. Consequently, we expect a combined-factory CO_2 reduction effect of about 400 tons per year. This equipment was installed using financial assistance provided by the New Energy Promotion Council.

Photovoltaic power generation equipment installed at Nagoya Works 1

Forest Conservation Activities and the Use of Green Power

- We are engaging in forest conservation projects that make use of corporate reforestation systems, and we will promote CO_2 reduction by absorption in forests. We are taking part in corporate reforestation operations in the prefectures of Hyogo and Kochi.
- Electric power generated from renewable energy resources (wind power, solar power, biomass, etc.) will be included in the KHI Group's CO_2 reduction amount.

These activities are also intended to raise awareness among our employees of global warming countermeasures.

Financial Section

Six-Year Summary

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

	Millions of yen					
	2011	2010	2009	2008	2007	2006
Operating results:						
Net sales	**¥1,226,949**	¥1,173,473	¥1,338,597	¥1,501,097	¥1,438,619	¥1,322,487
Cost of sales	**1,037,079**	1,023,610	1,146,944	1,262,032	1,213,524	1,148,547
Gross profit	**189,870**	149,863	191,653	239,065	225,095	173,940
Selling, general and administrative expenses	**147,242**	151,179	162,940	162,155	155,953	132,145
Operating income (loss)	**42,628**	(1,316)	28,713	76,910	69,142	41,795
Net income (loss)	**25,965**	(10,860)	11,728	35,141	29,772	16,467
Capital expenditures	**55,334**	59,272	82,450	50,538	39,269	41,724
Depreciation and amortization	**50,276**	51,423	44,334	37,455	30,279	30,551
R&D expenses	**37,090**	38,057	38,256	36,228	33,819	27,040
Financial position at year-end:						
Working capital	**¥ 247,992**	¥ 238,755	¥ 165,791	¥ 157,741	¥ 155,412	¥ 113,240
Net property, plant and equipment	**275,780**	284,408	284,118	259,927	253,819	246,219
Total assets	**1,354,278**	1,352,439	1,399,771	1,378,770	1,357,980	1,284,085
Long-term debt, less current portion	**254,447**	270,110	181,933	138,766	165,754	157,057
Total net assets	**297,433**	283,053	295,246	319,038	295,378	243,096
Per share amounts (yen):						
Earnings per share—basic	**¥15.5**	¥ (6.5)	¥ 7.0	¥ 21.1	¥ 18.9	¥ 11.2
Earnings per share—diluted	**15.3**	–	6.9	20.6	17.2	9.4
Cash dividends	**3.0**	3.0	3.0	5.0	5.0	3.0
Net assets	**178.0**	169.5	176.8	191.1	178.0	156.1
Other data:						
Number of shares issued (millions)	**1,670**	1,670	1,670	1,670	1,660	1,558
Number of employees	**32,706**	32,297	32,266	30,563	29,211	28,922
Orders received	**¥1,270,652**	¥1,001,290	¥1,540,590	¥1,610,757	¥1,592,688	¥1,351,631
Order backlog	**1,495,349**	1,507,057	1,699,163	1,533,663	1,465,155	1,310,444

OVERVIEW

In fiscal 2011, ended March 31, 2011, the Japanese economy remained plagued by persistently sluggish conditions, and the environment in which Kawasaki Heavy Industries, Ltd. (KHI), operates remained harsh, mainly because the yen appreciated against most foreign currencies and prices for materials soared. In addition, the Great East Japan Earthquake, which struck on March 11, 2011, deepened an underlying sense of uncertainty over the direction that the domestic economy would take.

The world economy appears to have sustained gradual recovery overall despite a slight slowdown in the robust growth of emerging markets. Nevertheless, a hazy economic outlook in the United States and lingering financial system instability in some European countries were risks of concern.

In this operating environment, most of the business segments of the KHI Group posted favorable results over the previous fiscal year. The value of orders increased in all segments except the Gas Turbine & Machinery and the Plant & Infrastructure segments, and it increased in particular due to large orders for the Rolling Stock and the Aerospace segments, which led to higher order value overall. On the other hand, sales fell in some business segments, but rallied in the end, thanks to better results from the Precision Machinery, the Motorcycle & Engine, the Gas Turbine & Machinery, and the Aerospace segments. On the profit front, some business segments came in lower year-on-year, but the substantially improved loss position for the Motorcycle & Engine segment and the solid increase by the Precision Machinery segment provided a major boost spurring the KHI Group to a tremendous improvement in profits.

Consequently, on a consolidated basis, orders won by the KHI Group in the fiscal year in review rebounded ¥269.3 billion from the previous fiscal year to a value of ¥1,270.6 billion, and net sales rose ¥53.4 billion to ¥1,226.9 billion. Also on a consolidated basis, the KHI Group recorded operating income, bouncing back from an operating loss in the previous fiscal year, with a year-on-year increase of ¥43.9 billion, to ¥42.6 billion. The KHI Group also returned to a net income position, with a ¥36.8 billion turnaround from the previous fiscal year, to ¥25.9 billion.

RESULTS OF OPERATIONS

Net Sales

As mentioned above, consolidated net sales rose ¥53.4 billion to ¥1,226.9 billion.

The principal factors accounting for this increase were a) a ¥57.6 billion jump in Precision Machinery segment sales, mainly owing to wider demand for hydraulic components for construction machinery and industrial robots for the manufacture of semiconductor production equipment; b) a ¥31.3 billion improvement in Motorcycle & Engine segment sales, due to demand growth in Asian and other emerging countries and higher sales in North America, paralleling progress in the liquidation of excess inventory; and c) an ¥11.3 billion gain in Gas Turbine & Machinery segment sales, primarily reflecting higher sales of gas compression modules and diesel generator sets.

Overseas sales reached ¥668.8 billion. By region, sales in North America accounted for ¥236.5 billion; sales in Europe were ¥87.1 billion; sales in Asia outside Japan contributed ¥224.6 billion; and sales in other areas added ¥120.4 billion. The ratio of overseas sales to consolidated net sales grew 6.6 percentage points, to 54.5%, compared with 47.8% in the previous fiscal year.

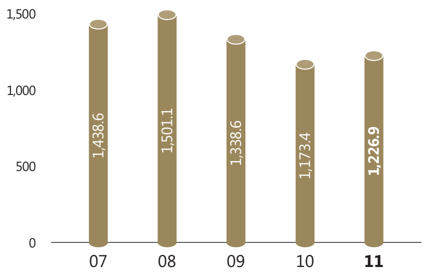
The following sections provide additional details regarding consolidated performance by business segment. Please note that operating income or loss includes intersegment transactions.

Ship & Offshore Structure

The Ship & Offshore Structure segment posted orders received worth ¥78.9 billion, soaring ¥62.8 billion year-on-year, as a result of an increase in newbuilding orders, including for 11 bulk carriers and one submarine, compared with results in the previous fiscal year, which stalled at just one newbuilding order overall. Sales

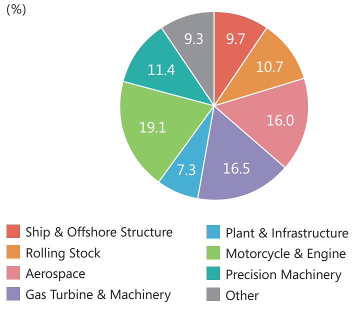
Net Sales

(Billions of yen)



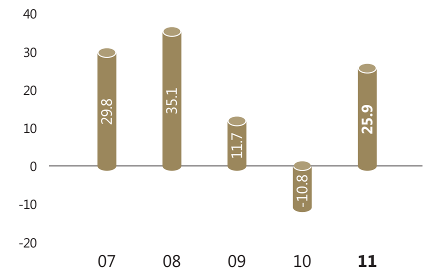
Sales by Industry Segment

(%)



Net Income (Loss)

(Billions of yen)



decreased ¥33.4 billion to ¥118.4 billion, owing to a decline in sales of large vessels from the previous fiscal year. On the profit front, the segment showed an operating loss of ¥1.0 billion, a ¥2.5 billion reversal from operating income in fiscal 2010, due to an increase in provision for losses on construction contracts.

Rolling Stock

Orders received by the Rolling Stock segment in the fiscal year in review surged ¥120.8 billion from the previous fiscal year, to ¥187.1 billion, underpinned by favorable ordering activity overseas that included subway cars for the Washington Metropolitan Area Transit Authority. Sales fell ¥18.9 billion to ¥131.1 billion, mainly because of a drop in sales of rolling stock to overseas customers. Operating income fell ¥0.5 billion to ¥8.1 billion, largely due to lower sales.

Aerospace

Orders received by the Aerospace segment in the fiscal year in review rebounded ¥35.3 billion from the previous fiscal year to ¥206.7 billion, reflecting an increase in orders for component parts for such passenger aircraft as the Boeing 777 (B777) and 787 (B787). Sales also rallied, up ¥7.9 billion to ¥196.8 billion, mainly due to higher sales to Japan's Ministry of Defense (MOD) and to Boeing for component parts for the B787. Despite better sales results, operating income retreated ¥0.7 billion to ¥3.0 billion, primarily because of the profit-eroding impact of yen appreciation.

Gas Turbine & Machinery

Orders received by the Gas Turbine & Machinery segment in the fiscal year in review came to ¥187.5 billion, down ¥38.6 billion, in contrast to large orders achieved in the previous fiscal year, particularly for component parts for commercial aircraft jet engine components and gas compression modules. Sales edged up ¥11.3 billion to ¥202.6 billion, mainly from higher sales of gas compression modules and diesel generator sets. Operating income climbed ¥0.6 billion to ¥9.5 billion, due to increased sales.

Plant & Infrastructure

Orders received by the Plant & Infrastructure segment in the fiscal year in review amounted to ¥119.9 billion, down ¥15.6 billion from the previous fiscal year, when orders received included a large-scale overseas project. Despite sales of various types of plants to domestic and overseas customers, sales declined ¥18.5 billion to ¥89.0 billion. Operating income increased ¥0.3 billion to ¥8.2 billion, as a positive turn in revenue paralleling favorable progress on projects already under order covered the shortfall caused by lower sales.

Motorcycle & Engine

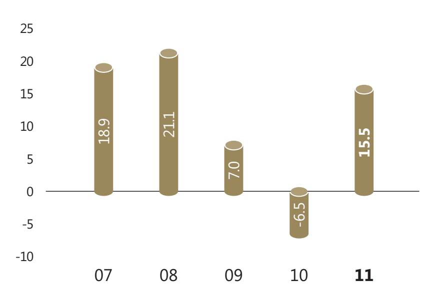
Sales by the Motorcycle & Engine segment reached ¥234.4 billion in the fiscal year in review, up ¥31.3 billion from the previous fiscal year, mainly due to sales expansion in emerging markets. The segment showed an operating loss of ¥4.9 billion. Despite adverse circumstances, such as sharp yen appreciation and delayed market recovery in developed countries, the segment succeeded in reducing fixed costs and improved its marginal profit ratio in addition to realizing an increase in sales, which led to a loss position that was actually a vast improvement—¥22.0 billion less—compared with the loss suffered in the previous fiscal year.

Note: Since production in this segment is carried out mainly in anticipation of demand, figures for orders and sales are the same.

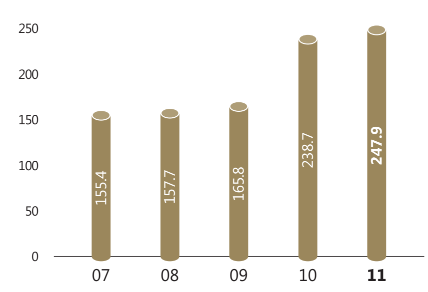
Precision Machinery

Orders received by the Precision Machinery segment amounted to ¥148.9 billion in the fiscal year in review, jumping ¥64.0 billion over the previous fiscal year, thanks in large part to expanded orders for hydraulic components for the construction machinery market. Sales jumped ¥57.6 billion to ¥140.3 billion, owing to the aforementioned increase in sales of hydraulic components for the construction machinery market and also because of higher sales of clean robots used in the semiconductor industry. Operating income soared ¥18.9 billion to ¥22.3 billion, reflecting the favorable turn in revenues underpinned by sales growth and expanded operating capacity.

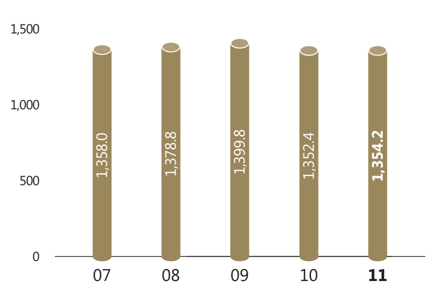
Net Income (Loss) per Share



Working Capital



Total Assets



Other

Sales in this segment grew ¥16.1 billion from the previous fiscal year, to ¥114.0 billion. Profitability improved, substantiated by a ¥3.6 billion turnaround from the operating loss posted in the previous fiscal year to operating income of ¥2.5 billion in the fiscal year in review.

Cost, Expenses, and Earnings

Cost of sales increased ¥13.4 billion from the previous fiscal year to ¥1,037.0 billion. As a result, gross profit was held to a ¥40.0 billion increase, reaching ¥189.8 billion, and the gross profit margin edged up 2.7 percentage points, to 15.4%, from 12.7% in the previous fiscal year.

Selling, general and administrative expenses totaled ¥147.2 billion, down ¥3.9 billion, largely reflecting a decrease in R&D expenses. With earnings of ¥43.9 billion, the KHI Group returned to the black with operating income of ¥42.6 billion. The principal factors supporting this positive turnaround included a) a significant improvement in profitability for the Motorcycle & Engine segment, which was able to increase sales despite sharp yen appreciation while reducing fixed costs and improving its marginal profit ratio; and b) a dramatic increase in earnings for the Precision Machinery segment, largely due to a favorable trend in profitability through sales growth and increased capacity utilization. Consequently, the ratio of operating income to net sales rebounded 3.5 percentage points, from negative 0.1% in the previous fiscal year to 3.4% in the fiscal year in review.

Other income (expenses) showed net expenses of ¥4.0 billion, compared with net expenses of ¥2.5 billion in the previous fiscal year. The principal reason for this change was an increase in "other, net," to ¥10.8 billion, from ¥7.2 billion in the previous fiscal year. This increase was primarily due to the fact that a) the absence of certain expenses booked in the previous fiscal year, namely, restructuring charges and provision for losses on legal proceedings, at ¥7.6 billion and ¥6.9 billion, respectively, was overshadowed by b) a ¥9.4 billion decrease in foreign exchange gains, to ¥1.4 billion, and c) a ¥6.7 billion increase in impairment losses, to ¥9.9 billion.

The significant improvement in operating income provided a ¥42.4 billion boost in income (loss) before income taxes and minority interests that brought the Company back into the black at ¥38.5 billion. After deducting minority interests in net income of consolidated subsidiaries, the Company posted net income of ¥25.9 billion, a ¥36.8 billion turnaround from the net loss recorded in the previous fiscal year. The ratio of net income to net sales rebounded 3.0 percentage points, to 2.1%, from negative 0.9%. ROE (calculated using average total shareholders' equity) also recovered, moving up 12.9 percentage points, to 9.1%, from negative 3.8% in the previous fiscal year.

Capital expenditures in the fiscal year in review amounted to ¥55.3 billion, compared with ¥59.2 billion in the previous fiscal year. R&D expenses were ¥37.0 billion, compared with ¥38.0 billion.

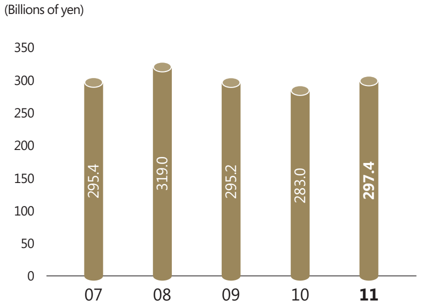
FINANCIAL CONDITION

Total assets at March 31, 2011, stood at ¥1,354.2 billion, up ¥1.8 billion from the previous fiscal year. Of this total, current assets accounted for ¥951.7 billion, up ¥20.0 billion. The upward change is primarily attributable to increases in deferred tax assets, Receivables: Trade accompanying the booking of sales, and inventories associated with work in progress. Investments and intangible and other assets was down ¥9.5 billion from the previous fiscal year, and net property, plant and equipment was down ¥8.6 billion.

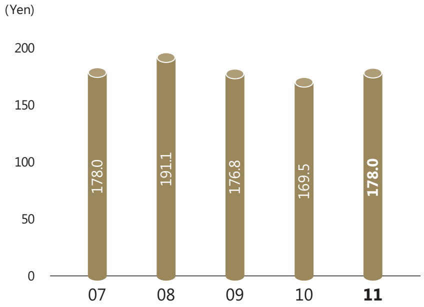
Liabilities decreased ¥12.5 billion to ¥1,056.8 billion. Principal factors contributing to the change included an increase of ¥15.0 billion in provision for losses on construction contracts and declines of ¥18.7 billion in advances from customers and ¥8.6 billion in employees' retirement and severance benefits.

Current liabilities amounted to ¥703.7 billion, up ¥10.8 billion, while total long-term liabilities reached ¥353.1 billion, down ¥23.3 billion.

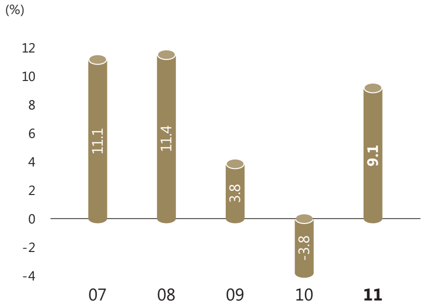
Total Net Assets



Net Assets per Share



Return on Equity



Net assets rose ¥14.3 billion to ¥297.4 billion, mainly due to the payment of dividends and the booking of net income.

The ratio of shareholders' equity to total assets edged up 0.8 percentage point, to 21.3%, from 20.5% at the end of the previous fiscal year. In addition, the net debt-to-equity ratio improved 10.1 percentage points from the previous fiscal year, moving from 142.3% to 132.1%.

CASH FLOWS

Net cash provided by operating activities in fiscal 2011 amounted to ¥81.9 billion, an increase of ¥51.7 billion over fiscal 2010. Principal cash inflow items were depreciation and amortization of ¥50.2 billion, an increase of ¥15.3 billion in provision for losses on construction contracts, ¥9.9 billion in loss on impairment of fixed assets, and an increase of ¥25.1 billion in trade payables. Principal cash outflow items were an increase of ¥17.7 billion in inventories, a decrease of ¥15.5 billion in advances from customers, and ¥13.2 billion in cash paid for income taxes.

Net cash used for investing activities came to ¥52.9 billion in fiscal 2011, down ¥10.3 billion from fiscal 2010. The cash was mainly used for the acquisition of property, plant and equipment.

Free cash flow, which is the net amount of cash from operating and investing activities, showed a net inflow of ¥28.9 billion in fiscal 2011, compared with a net outflow of ¥33.0 billion in fiscal 2010.

Net cash used for financing activities was ¥18.8 billion in fiscal 2011, a change of ¥54.7 billion from the net cash provided by position in fiscal 2010. The cash was used primarily to repay debt.

As a result, cash and cash equivalents at the end of fiscal 2011 were ¥44.6 billion, up ¥10.4 billion from the previous fiscal year.

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

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

MANAGEMENT INDICATORS

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

Before-tax ROIC: The ratio of EBIT (earnings before interest and taxes) to the sum of interest-bearing debt and total shareholders' equity. (Shareholders' equity is defined as net assets minus minority interests.)

ROIC calculated using this formula grew 5.7 percentage points, from 0.2% in fiscal 2010 to 6.0% in fiscal 2011.

DIVIDENDS

The Company's basic dividend policy is to continue to pay stable cash dividends that are in line with performance, while giving careful attention to increasing retained earnings to strengthen and expand the KHI Group's management base in preparation for future growth.

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

While this remains the basic dividend policy, with regard to the dividend for fiscal 2011, upon consideration of the outlook for business performance, the level of retained earnings, and other factors, the decision was made to pay an annual dividend of ¥3 per share (an interim dividend of ¥0 and a year-end dividend of ¥3) for fiscal 2011. Retained earnings after the dividend payout are appropriated for investments in the Company's businesses, the repayment of borrowings, and other uses.

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

Consolidated Balance Sheets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
ASSETS			
Current assets:			
Cash on hand and in banks (Note 19)	**¥ 47,233**	¥ 34,745	**$ 568,045**
Receivables:			
Trade (Note 8)	**401,753**	400,264	**4,831,665**
Other	**17,526**	20,159	**210,775**
Allowance for doubtful receivables	**(2,829)**	(2,424)	**(34,022)**
	416,450	417,999	**5,008,418**
Inventories:			
Merchandise and finished products	**50,528**	56,807	**607,672**
Work in process	**285,977**	281,025	**3,439,291**
Raw materials and supplies	**88,817**	80,392	**1,068,154**
	425,322	418,224	**5,115,117**
Deferred tax assets (Note 18)	**35,887**	25,204	**431,593**
Other current assets	**26,827**	35,506	**322,635**
Total current assets	**951,719**	931,678	**11,445,808**
Property, plant and equipment (Note 8):			
Land	**64,107**	64,282	**770,980**
Buildings and structures	**321,650**	317,684	**3,868,310**
Machinery and equipment	**517,554**	507,926	**6,224,342**
Construction in progress	**12,651**	9,744	**152,146**
	915,962	899,636	**11,015,778**
Accumulated depreciation	**(640,182)**	(615,228)	**(7,699,122)**
Net property, plant and equipment	**275,780**	284,408	**3,316,656**
Investments and intangible and other assets:			
Investments in securities (Notes 6, 7 and 8)	**50,291**	53,285	**604,822**
Long-term loans	**458**	515	**5,508**
Deferred tax assets (Note 18)	**47,193**	51,503	**567,564**
Goodwill and other intangible assets	**19,249**	20,719	**231,497**
Allowance for doubtful receivables	**(986)**	(1,270)	**(11,858)**
Other (Note 8)	**10,574**	11,601	**127,170**
Total investments and intangible and other assets	**126,779**	136,353	**1,524,703**
Total assets	**¥1,354,278**	¥1,352,439	**$16,287,167**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt and current portion of long-term debt (Note 8)	**¥ 174,697**	¥ 158,799	**$ 2,100,986**
Trade payables (Note 8)	**319,272**	302,739	**3,839,711**
Advances from customers	**80,816**	99,532	**971,931**
Income taxes payable (Note 18)	**5,988**	4,833	**72,014**
Accrued bonuses	**15,692**	14,202	**188,719**
Provision for product warranties	**7,288**	6,640	**87,648**
Provision for losses on construction contracts (Note 9)	**33,068**	17,991	**397,690**
Provision for restructuring charges	**1,077**	6,326	**12,952**
Provision for losses on legal proceedings (Note 29)	**–**	5,165	**–**
Provision for environmental measures	**499**	778	**6,001**
Deferred tax liabilities (Note 18)	**765**	859	**9,200**
Asset retirement obligations	**10**	–	**120**
Other current liabilities	**64,555**	75,059	**776,372**
Total current liabilities	**703,727**	692,923	**8,463,344**
Long-term liabilities:			
Long-term debt, less current portion (Note 8)	**254,447**	270,110	**3,060,096**
Employees' retirement and severance benefits (Note 10)	**80,556**	89,240	**968,803**
Deferred tax liabilities (Note 18)	**3,990**	2,526	**47,985**
Provision for environmental measures	**3,333**	3,713	**40,084**
Provision for losses on legal proceedings (Note 29)	**5,868**	6,706	**70,571**
Asset retirement obligations	**440**	–	**5,291**
Other	**4,484**	4,168	**53,928**
Total long-term liabilities	**353,118**	376,463	**4,246,758**
Contingent liabilities (Note 11)			
Net assets (Note 12):			
Shareholders' equity:			
Common stock:			
Authorized - 3,360,000,000 shares			
Issued - 1,670,646,460 shares in 2011 - 1,669,629,122 shares in 2010	**104,340**	104,329	**1,254,840**
Capital surplus	**54,251**	54,275	**652,447**
Retained earnings	**158,615**	137,689	**1,907,576**
Treasury stock - 100,288 shares in 2011 - 1,780,388 shares in 2010	**(30)**	(552)	**(360)**
Total shareholders' equity	**317,176**	295,741	**3,814,503**
Accumulated other comprehensive income:			
Net unrealized gains on securities, net of tax	**3,876**	5,305	**46,614**
Deferred losses on hedges	**(990)**	(162)	**(11,906)**
Foreign currency translation adjustments	**(31,006)**	(23,803)	**(372,892)**
Total accumulated other comprehensive income	**(28,120)**	(18,660)	**(338,184)**
Minority interests	**8,377**	5,972	**100,746**
Total net assets	**297,433**	283,053	**3,577,065**
Total liabilities and net assets	**¥1,354,278**	¥1,352,439	**$16,287,167**

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2011, 2010 and 2009

Consolidated Statements of Operations

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	**2011**
Net sales	**¥1,226,949**	¥1,173,473	¥1,338,597	**$14,755,850**
Cost of sales (Note 13)	**1,037,079**	1,023,610	1,146,944	**12,472,387**
Gross profit	**189,870**	149,863	191,653	**2,283,463**
Selling, general and administrative expenses (Note 14)	**147,242**	151,179	162,940	**1,770,800**
Operating income (loss)	**42,628**	(1,316)	28,713	**512,663**
Other income (expenses):				
Interest and dividend income	**2,306**	3,615	4,352	**27,733**
Equity in income of nonconsolidated subsidiaries and affiliates	**9,205**	6,522	8,709	**110,703**
Interest expense	**(4,677)**	(5,399)	(6,658)	**(56,247)**
Other, net (Note 15)	**(10,867)**	(7,243)	(11,491)	**(130,691)**
Income (loss) before income taxes and minority interests	**38,595**	(3,821)	23,625	**464,161**
Income taxes (Note 18)				
Current	**(14,340)**	(8,805)	(16,783)	**(172,459)**
Deferred	**3,503**	2,822	6,022	**42,128**
Income before minority interests	**27,758**	–	–	**333,830**
Minority interests in net income of consolidated subsidiaries	**(1,793)**	(1,056)	(1,136)	**(21,564)**
Net income (loss)	**¥ 25,965**	¥ (10,860)	¥ 11,728	**$ 312,266**

	Yen			U.S. dollars (Note 1)
Per share amounts (Note 20)				
Net income per share - basic	**¥ 15.5**	¥ (6.5)	¥ 7.0	**$ 0.18**
Net income per share - diluted	**15.3**	–	6.9	**0.18**
Cash dividends	**3.0**	3.0	3.0	**0.03**

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

Consolidated Statements of Comprehensive Income

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	**2011**
Income before minority interests	**¥ 27,758**	¥ –	¥ –	**$ 333,830**
Other comprehensive loss:				
Net unrealized losses on securities	**(1,437)**	–	–	**(17,282)**
Deferred losses on hedges	**(480)**	–	–	**(5,772)**
Foreign currency translation adjustments	**(5,422)**	–	–	**(65,209)**
Share of other comprehensive loss of associates accounted for using equity method	**(2,167)**	–	–	**(26,061)**
Total other comprehensive loss	**(9,506)**	–	–	**(114,324)**
Comprehensive income	**18,252**	–	–	**219,506**
Comprehensive income attributable to:				
Owners of the parent company	**16,506**	–	–	**198,508**
Minority interests	**1,746**	–	–	**20,998**

Consolidated Statements of Changes in Net Assets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2011, 2010 and 2009

	Thousands	Millions of yen										
		Shareholders' equity					Accumulated other comprehensive income					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on securities, net of tax	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at March 31, 2008	1,669,629	¥104,329	¥54,291	¥151,401	¥(460)	¥309,561	¥10,292	¥5,217	¥(11,878)	¥ 3,631	¥5,846	¥319,038
Net income for the year	–	–	–	11,728	–	11,728	–	–	–	–	–	11,728
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	–	(12,973)	(12,973)	–	(12,973)
Decrease in net unrealized gains on securities, net of tax	–	–	–	–	–	–	(7,152)	–	–	(7,152)	–	(7,152)
Treasury stock purchased, net	–	–	–	–	(8)	(8)	–	–	–	–	–	(8)
Cash dividends	–	–	–	(8,342)	–	(8,342)	–	–	–	–	–	(8,342)
Loss on sales of treasury stock	–	–	(9)	–	–	(9)	–	–	–	–	–	(9)
Other	–	–	–	(514)	–	(514)	–	(5,481)	–	(5,481)	(1,041)	(7,036)
Balance at March 31, 2009	1,669,629	¥104,329	¥54,282	¥154,273	¥(468)	¥312,416	¥ 3,140	¥ (264)	¥(24,851)	¥(21,975)	¥4,805	¥295,246
Net loss for the year	–	–	–	(10,860)	–	(10,860)	–	–	–	–	–	(10,860)
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	–	1,048	1,048	–	1,048
Increase in net unrealized gains on securities, net of tax	–	–	–	–	–	–	2,165	–	–	2,165	–	2,165
Treasury stock purchased, net	–	–	–	–	(107)	(107)	–	–	–	–	–	(107)
Cash dividends	–	–	–	(5,004)	–	(5,004)	–	–	–	–	–	(5,004)
Loss on sales of treasury stock	–	–	(7)	–	23	16	–	–	–	–	–	16
Other	–	–	–	(720)	–	(720)	–	102	–	102	1,167	549
Balance at March 31, 2010	1,669,629	¥104,329	¥54,275	¥137,689	¥(552)	¥295,741	¥ 5,305	¥ (162)	¥(23,803)	¥(18,660)	¥5,972	¥283,053
Net income for the year	**–**	**–**	**–**	**25,965**	**–**	**25,965**	**–**	**–**	**–**	**–**	**–**	**25,965**
Adjustments from translation of foreign currency financial statements	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,203)**	**(7,203)**	**–**	**(7,203)**
Decrease in net unrealized gains on securities, net of tax	**–**	**–**	**–**	**–**	**–**	**–**	**(1,429)**	**–**	**–**	**(1,429)**	**–**	**(1,429)**
Treasury stock purchased, net	**–**	**–**	**–**	**–**	**(15)**	**(15)**	**–**	**–**	**–**	**–**	**–**	**(15)**
Cash dividends	**–**	**–**	**–**	**(5,003)**	**–**	**(5,003)**	**–**	**–**	**–**	**–**	**–**	**(5,003)**
Loss on sales of treasury stock	**–**	**–**	**(0)**	**–**	**1**	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Conversion of convertible bonds	**1,017**	**11**	**(24)**	**(17)**	**536**	**506**	**–**	**–**	**–**	**–**	**–**	**506**
Other	**–**	**–**	**–**	**(19)**	**–**	**(19)**	**–**	**(828)**	**–**	**(828)**	**2,405**	**1,558**
Balance at March 31, 2011	**1,670,646**	**¥104,340**	**¥54,251**	**¥158,615**	**¥ (30)**	**¥317,176**	**¥ 3,876**	**¥ (990)**	**¥(31,006)**	**¥(28,120)**	**¥8,377**	**¥297,433**
		Thousands of U.S. dollars (Note 1)										
Balance at March 31, 2010		$1,254,708	$652,736	$1,655,911	$(6,638)	$3,556,717	$63,800	$ (1,948)	$(286,265)	$(224,413)	$ 71,822	$3,404,126
Net income for the year		**–**	**–**	**312,266**	**–**	**312,266**	**–**	**–**	**–**	**–**	**–**	**312,266**
Adjustments from translation of foreign currency financial statements		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(86,627)**	**(86,627)**	**–**	**(86,627)**
Decrease in net unrealized gains on securities, net of tax		**–**	**–**	**–**	**–**	**–**	**(17,186)**	**–**	**–**	**(17,186)**	**–**	**(17,186)**
Treasury stock purchased, net		**–**	**–**	**–**	**(180)**	**(180)**	**–**	**–**	**–**	**–**	**–**	**(180)**
Cash dividends		**–**	**–**	**(60,168)**	**–**	**(60,168)**	**–**	**–**	**–**	**–**	**–**	**(60,168)**
Loss on sales of treasury stock		**–**	**(0)**	**–**	**12**	**12**	**–**	**–**	**–**	**–**	**–**	**12**
Conversion of convertible bonds		**132**	**(289)**	**(204)**	**6,446**	**6,085**	**–**	**–**	**–**	**–**	**–**	**6,085**
Other		**–**	**–**	**(229)**	**–**	**(229)**	**–**	**(9,958)**	**–**	**(9,958)**	**28,924**	**18,737**
Balance at March 31, 2011		**$1,254,840**	**$652,447**	**$1,907,576**	**$ (360)**	**$3,814,503**	**$46,614**	**$(11,906)**	**$(372,892)**	**$(338,184)**	**$100,746**	**$3,577,065**

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

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	**2011**
Cash flows from operating activities:				
Income (loss) before income taxes and minority interests	**¥ 38,595**	¥ (3,821)	¥ 23,625	**$ 464,161**
Adjustments to reconcile net income (loss) before income taxes and minority interests to net cash provided by (used for) operating activities:				
Depreciation and amortization	**50,276**	51,423	44,334	**604,642**
Loss on impairment of fixed assets	**9,923**	3,132	1,399	**119,338**
Increase (decrease) in employees' retirement and severance benefits	**(8,159)**	9,317	2,315	**(98,123)**
Increase (decrease) in accrued bonuses	**1,489**	(38)	(5,335)	**17,907**
Increase (decrease) in allowance for doubtful receivables	**514**	(615)	(849)	**6,181**
Increase (decrease) in provision for product warranties	**794**	(1,013)	1,162	**9,549**
Increase (decrease) in provision for losses on construction contracts	**15,349**	(2,916)	12,202	**184,594**
Increase (decrease) in provision for restructuring charges	**(5,249)**	6,326	–	**(63,126)**
Increase (decrease) in provision for losses on legal proceedings	**(837)**	4,461	5,165	**(10,066)**
Increase (decrease) in provision for environmental measures	**(658)**	510	1,812	**(7,913)**
Loss on disposal of inventories	**1,336**	1,992	2,382	**16,067**
Gain on sales of marketable securities and investments in securities	**(0)**	(1,739)	(620)	**(0)**
Loss on valuation of securities	**1,577**	32	1,875	**18,965**
Loss on sales of property, plant and equipment	**552**	784	164	**6,638**
Loss on contribution of securities to pension trust	**–**	–	4,492	**–**
Equity in income of nonconsolidated subsidiaries and affiliates	**(9,205)**	(6,522)	(8,709)	**(110,703)**
Interest and dividend income	**(2,306)**	(3,615)	(4,352)	**(27,733)**
Interest expense	**4,677**	5,399	6,658	**56,247**
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	**14,910**	(3,792)	5,398	**179,314**
Inventories	**(17,775)**	56,241	(54,709)	**(213,770)**
Other current assets	**8,590**	(2,966)	(2,709)	**103,307**
Increase (decrease) in:				
Trade payables	**25,114**	(56,396)	(55,077)	**302,032**
Advances from customers	**(15,552)**	(27,179)	8,274	**(187,035)**
Other current liabilities	**(17,156)**	12,165	(8,867)	**(206,325)**
Other, net	**1,897**	(406)	2,919	**22,815**
Subtotal	**98,696**	40,764	(17,051)	**1,186,963**
Cash received for interest and dividends	**6,407**	7,698	8,926	**77,053**
Cash paid for interest	**(4,762)**	(5,408)	(6,481)	**(57,269)**
Cash paid for income taxes	**(13,245)**	(12,876)	(25,064)	**(159,290)**
Payment of levies	**(5,167)**	–	–	**(62,142)**
Cash paid for suspension of activities for participation in MotoGP	**–**	–	(1,587)	**–**
Net cash provided by (used for) operating activities	**81,929**	30,178	(41,257)	**985,315**

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	**2011**
Cash flows from investing activities:				
Decrease (increase) in time deposits with maturities over three months	**(2,138)**	21	706	**(25,712)**
Acquisition of property, plant and equipment	**(47,408)**	(61,198)	(68,059)	**(570,150)**
Proceeds from sales of property, plant and equipment	**616**	993	2,903	**7,408**
Acquisition of intangible assets	**(4,886)**	(4,764)	(6,400)	**(58,761)**
Proceeds from sales of intangible assets	**37**	48	15	**444**
Acquisition of investments in securities	**(350)**	(123)	(3,043)	**(4,209)**
Proceeds from sales of investments in securities	**12**	1,913	1,796	**144**
Acquisition of investments in subsidiaries or affiliates	**–**	(1,331)	(1,241)	**–**
Decrease (increase) in short-term loans	**287**	518	(33)	**3,451**
Additions to long-term loans	**(40)**	(65)	(165)	**(481)**
Proceeds from collection of long-term loans	**102**	115	1,475	**1,226**
Other	**826**	596	(238)	**9,936**
Net cash used for investing activities	**(52,942)**	(63,277)	(72,284)	**(636,704)**
Cash flows from financing activities:				
Increase (decrease) in short-term debt	**(53,670)**	(21,463)	67,881	**(645,460)**
Proceeds from long-term debt	**44,000**	94,793	73,551	**529,164**
Repayment of long-term debt	**(4,836)**	(31,518)	(25,017)	**(58,159)**
Acquisition of treasury stock	**(14)**	(90)	(17)	**(168)**
Proceeds from stock issuance to minority shareholders	**1,209**	230	–	**14,539**
Cash dividends paid	**(5,000)**	(5,004)	(8,321)	**(60,132)**
Cash dividends paid to minority shareholders	**(476)**	(741)	(362)	**(5,724)**
Other	**(75)**	(296)	(22)	**(903)**
Net cash provided by (used for) financing activities	**(18,862)**	35,911	107,693	**(226,843)**
Effect of exchange rate changes	**367**	(89)	(907)	**4,413**
Net increase (decrease) in cash and cash equivalents	**10,492**	2,723	(6,755)	**126,181**
Cash and cash equivalents at beginning of year	**34,137**	31,414	38,169	**410,547**
Cash and cash equivalents at end of year	**¥ 44,629**	¥ 34,137	¥ 31,414	**$ 536,728**
Supplemental information on cash flows:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheets	**¥ 47,233**	¥ 34,745	¥ 31,956	**$ 568,045**
Time deposits with maturities over three months	**(2,604)**	(608)	(542)	**(31,317)**
Total (Note 19)	**¥ 44,629**	¥ 34,137	¥ 31,414	**$ 536,728**

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

1. Basis of presenting consolidated financial statements

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

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

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2011, which was ¥83.15 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

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

2. Significant accounting policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control (together, the "Companies"). The consolidated financial statements include the accounts of the Company and 96 subsidiaries (97 in the years ended March 31, 2010 and 2009). The aggregate amount of total assets, net sales, net income and retained earnings of these excluded subsidiaries would not have had a material effect on the consolidated financial statements if they had been included in the consolidation.

(b) Application of the equity method of accounting

Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. For the year ended March 31, 2011, 14 affiliates (14 in 2010 and 12 in 2009) were accounted for by the equity method. For the year ended March 31, 2011, investments in 14 affiliates (14 in 2010 and 14 in 2009) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

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

(c) Consolidated subsidiaries' fiscal year-end

The fiscal year-end of 33 consolidated subsidiaries (31 in 2010 and 28 in 2009) is December 31. These subsidiaries are consolidated as of

December 31, and significant transactions for the period between December 31 and March 31, the Company's fiscal year-end, are adjusted for on consolidation.

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

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

(f) Appropriations of retained earnings
Appropriations of retained earnings are recorded in the fiscal year in which the proposed appropriations are approved.

(g) Revenue recognition
<Sales of products and construction contracts>
Prior to April 1, 2009, sales of products such as ships, rail cars, airplanes, machinery and motorcycles were principally recognized upon delivery. Contract revenue from the construction of plants, machinery, bridges, etc. was principally recognized on a customer acceptance basis. When prices for components or contract amounts for nearly completed contracts were not finalized, sales and cost of sales were estimated. The percentage-of-completion method was applied to long-term contracts such as those for ships, airplanes and plants exceeding ¥3,000 million. The stage of completion was normally determined based on the proportion of costs incurred to date to the estimated total costs of the contract. The completed contract method was applied to long-term contracts not exceeding ¥3,000 million.

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

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

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

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

(j) Inventories

Effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9, issued by ASBJ on July 5, 2006), for the measurement of inventories and 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 less than the amounts that would have been recorded 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 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, 2011, 2010 or 2009. Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available market value are stated at moving average cost.

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

(m) Property, plant and equipment

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

(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 the Company benefits from its use. If the amount is not significant, it is expensed when incurred.

(o) Accrued bonuses

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

(p) Provision for product warranties

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

(q) Provision for losses on construction contracts

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

(r) Provision for restructuring charges

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

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

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

(u) 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.

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

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

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

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

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

(w) 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.

(x) Finance leases
Effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Accounting Standard for Lease Transactions" (Statement No. 13, issued by ASBJ on March 30, 2007), and the "Guidance on Accounting Standard for Lease Transactions" (Financial Accounting Standard Implementation Guidance No. 16, issued by ASBJ 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 subsidiaries capitalize assets 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 no significant effect on net income for the year ended March 31, 2009.

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

(y) Net income per share

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

(z) Cash dividends

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

(aa) Accounting changes in methods of depreciation

In the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries reviewed and changed the useful life of certain machinery and equipment in accordance with a 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 less than they would have been without the change.

(bb) Application of 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 and its consolidated subsidiaries have adopted "Practical Solutions on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No. 18, May 17, 2006). This change had no impact on net income for the fiscal year ended March 31, 2009.

3. Changes in accounting policies

(a) Application of Accounting Standard for Asset Retirement Obligations

Effective from the year ended March 31, 2011, the Company and its consolidated subsidiaries have adopted “Accounting Standard for Asset Retirement Obligations” (Statement No. 18, issued by ASBJ on March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (Guidance No. 21, issued by ASBJ on March 31, 2008). As a result of this change, operating income was ¥16 million ($192 thousand) less and income before income taxes ¥313 million ($3,764 thousand) less than the amounts that would have been recorded without the change.

(b) Application of Accounting Standard for Business Combinations

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

4. Change in presentation

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

5. Additional information

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

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

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

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

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

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

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

6. Securities

(a) Book values and market values of held-to-maturity securities with available market values as of March 31, 2011 and 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2011			
	Book value	Market value	Unrealized losses	Unrealized losses
Market values not exceeding book values:				
Bonds	**¥406**	**¥394**	**¥(12)**	**$(144)**

	Millions of yen		
	2010		
	Book value	Market value	Unrealized gains
Market values exceeding book values:			
Bonds	¥300	¥305	¥ 5

(b) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2011 and 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2011			
	Acquisition cost	Book value	Unrealized gains (losses)	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:				
Equity securities	**¥5,972**	**¥13,606**	**¥7,634**	**$91,809**
Other securities:				
Equity securities	**3,642**	**2,527**	**(1,115)**	**(13,409)**
Total	**¥9,614**	**¥16,133**	**¥6,519**	**$78,400**

	Millions of yen		
	2010		
	Acquisition cost	Book value	Unrealized gains (losses)
Securities with book values exceeding acquisition costs:			
Equity securities	¥6,138	¥15,566	¥9,428
Other securities:			
Equity securities	3,421	3,142	(279)
Total	¥9,559	¥18,708	¥9,149

(c) Sales amounts of available-for-sale securities and related realized gains and losses for the years ended March 31, 2011, 2010 and 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2011					
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities	**¥ 3**	**¥ 1**	**¥ (0)**	**$36**	**$12**	**$(0)**

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

	Millions of yen		
	2009		
	Sales amounts	Gains	Losses
Equity securities	¥1,397	¥ 886	¥(34)

(d) Investments in securities subject to impairment
Impairment loss on investments in securities is recognized when these has been a significant decline in the market value.

Investments in securities for which market value as of the end of the fiscal year, has fallen to below 50% of the acquisition costs are deemed to have no recovery potential and are to be fully impaired. Investments in securities for which market value has fallen to between 30% and 50% of the acquisition costs are deemed to be partially impaired by an appropriate amount after taking into consideration the likelihood of recovery and other factors. In the years ended March 31, 2011 and 2010, the Company recognized a loss from impairment of investments in securities (available-for-sale equity securities) in the amount of ¥1,577 million ($18,965 thousand) and ¥32 million, respectively.

7. Investments in nonconsolidated subsidiaries and affiliates

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2011 and 2010 were ¥25,649 million ($308,466 thousand) and ¥24,835 million, respectively.

8. Short-term debt and long-term debt

Short-term debt and long-term debt as of March 31, 2011 and 2010 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Short-term debt:			
Short-term debt, principally bank loans, bearing average interest rates of 0.78 percent and 0.93 percent as of March 31, 2011 and 2010, respectively	**¥114,497**	¥152,801	**$1,376,994**
Current portion of long-term debt, bearing average interest rates of 0.80 percent and 1.32 percent as of March 31, 2011 and 2010, respectively	**59,958**	5,290	**721,082**
Lease obligations, current	**242**	708	**2,910**
Total short-term debt	**¥174,697**	¥158,799	**$2,100,986**
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2009 to 2035, bearing average interest rates of 0.90 percent and 0.63 percent as of March 31, 2011 and 2010, respectively	**¥233,277**	¥214,174	**$2,805,496**
Notes and bonds issued by the Company:			
1.52~1.60 percent notes due in 2011	**20,000**	20,000	**240,529**
0.81 percent notes due in 2012	**10,000**	10,000	**120,264**
1.84 percent notes due in 2013	**10,000**	10,000	**120,264**
0.72~1.22 percent notes due in 2015	**20,000**	10,000	**240,529**
1.06 percent notes due in 2017	**10,000**	–	**120,264**
1.00 percent convertible bonds due in 2011	**7,038**	7,038	**84,643**
Zero coupon convertible bonds due in 2010	**–**	477	**–**
Zero coupon convertible bonds due in 2011	**3,445**	3,475	**41,432**
Long-term lease obligations	**887**	944	**10,667**
	314,647	276,108	**3,784,088**
Less portion due within one year	**(60,200)**	(5,998)	**(723,992)**
Total long-term debt	**¥254,447**	¥270,110	**$3,060,096**

As of March 31, 2011, convertible bonds due in 2011 were convertible into shares of common stock at the option of the holder at prices of ¥598 ($7.19), and ¥230.3 ($2.76) per share. The conversion prices are subject to adjustments under specified conditions.

As of March 31, 2011 and 2010, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Receivables: Trade	**¥40,453**	¥ –	**$486,507**
Buildings and Structures	**4,222**	4,482	**50,775**
Land	**6**	291	**72**
Investments in securities	**420**	300	**5,051**
Other	**13**	13	**156**
Total	**¥45,114**	¥5,086	**$542,561**

Accompanying the adoption of ASC, Topic 860 Transfers and Servicing, Kawasaki Motors Corp., U.S.A. and other subsidiaries of the Company in the United States have revised their accounting treatment for transfers of financial assets. As a result, assets were pledged as collateral for the fiscal year ended March 31, 2011 includes ¥40,453 million ($486,507 thousand) of Receivables: Trade. And debts secured by the above pledged assets were U.S. $343 million (¥28,520 million) of Short-term debt.

In addition to the items shown above, the Company has pledged (on a long-term basis) shares of an affiliate company eliminated from the scope of consolidation in the amount of ¥30 million ($360 thousand).

As of March 31, 2011 and 2010, debt secured by the above pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Trade payables	**¥ 507**	¥ 34	**$ 6,097**
Short-term and long-term debt	**29,033**	715	**349,164**
Total	**¥29,540**	¥749	**$355,261**

The aggregate annual maturities of long-term debt as of March 31, 2011 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2012	¥ 60,200	**$ 723,992**
2013	34,610	**416,235**
2014	68,522	**824,077**
2015	84,973	**1,021,925**
2016 and thereafter	66,342	**797,859**
Total	¥314,647	**$3,784,088**

9. Provision for losses on construction contracts

Inventories for construction contracts with anticipated substantial losses and the provision for losses on construction contracts were not offset. As of March 31, 2011 and 2010, the inventories for the construction contracts for which the provision for losses on construction contracts was provided were ¥12,493 million ($150,246 thousand) and ¥12,485 million, respectively. These amounts were all included in work in process.

10. Employees' retirement and severance benefits

The liability for employees' retirement and severance benefits included in the long-term liability section of the consolidated balance sheets as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Projected benefit obligation	**¥(178,101)**	¥(183,229)	**$(2,141,923)**
Fair value of plan assets	**67,005**	77,916	**805,832**
Unrecognized prior service costs	**(7,199)**	(9,605)	**(86,578)**
Unrecognized actuarial gains and losses	**41,525**	29,004	**499,398**
Prepaid pension cost	**(3,786)**	(3,326)	**(45,532)**
Liability for retirement and severance benefits	**¥ (80,556)**	¥ (89,240)	**$ (968,803)**

Retirement and severance benefit expenses in the consolidated statements of operations for the years ended March 31, 2011, 2010 and 2009 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	**2011**
Service costs - benefits earned during the year	**¥ 9,338**	¥ 9,274	¥ 8,497	**$112,303**
Interest cost on projected benefit obligation	**3,821**	3,945	4,745	**45,953**
Expected return on plan assets	**(1,046)**	(871)	(1,250)	**(12,579)**
Amortization of prior service costs	**(2,304)**	(2,265)	(2,266)	**(27,708)**
Amortization of actuarial gains and losses	**3,849**	4,978	(137)	**46,289**
Amortization of net transition obligation	**–**	12,342	12,784	**–**
Contribution to the defined contribution pension plans	**667**	614	598	**8,021**
Retirement and severance benefit expenses	**¥14,325**	¥28,017	¥22,971	**$172,279**

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

	2011	2010	2009
Discount rate	**mainly 2.0%**	mainly 2.0%	mainly 2.0%
Expected rate of return on plan assets			
(For the Company and consolidated domestic subsidiaries)	**3.0 to 3.5%**	3.0 to 3.5%	3.0 to 3.5%
(For consolidated overseas subsidiaries)	**6.64 to 7.75%**	5.67 to 7.75%	7.75%
Amortization period for prior service costs	**mainly 10 years**	mainly 10 years	mainly 10 years
Amortization period for actuarial gains and losses	**mainly 10 years**	mainly 10 years	mainly 10 years
Amortization period for transition obligation	**–**	mainly 10 years	mainly 10 years

11. Contingent liabilities

Contingent liabilities as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	**¥33,409**	¥34,409	**$401,791**

12. Net assets

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

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

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

13. Cost of sales

The ending balance of inventories was measured at the lower of cost or market, and the gain on the valuation of inventories included in the cost of sales for the year ended March 31, 2011 was ¥49 million ($589 thousand) and the loss on the valuation of inventories included in the cost of sales for the year ended March 31 2010 was ¥297 million.

Provision for losses on construction contracts included in the cost of sales for the years ended March 31, 2011 and 2010 were ¥20,948 million ($251,930 thousand) and ¥8,270 million, respectively.

14. Research and development expenses

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

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	**2011**
Research and development expenses	**¥37,090**	¥38,057	¥38,256	**$446,061**

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

"Other, net" in "other income (expenses)" in the consolidated statements of operations for the years ended March 31, 2011, 2010, and 2009 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	**2011**
Foreign exchange gain, net	**¥ 1,491**	¥10,955	¥ 10,373	**$ 17,931**
Gain on sales of marketable securities and investments in securities	**0**	1,739	620	**0**
Reversal of provision for environmental measures (a)	**–**	1,077	–	**–**
Reversal of allowance for doubtful receivables for affiliates (b)	**–**	460	–	**–**
Gain on sales of businesses (c)	**–**	–	594	**–**
Loss on impairment of fixed assets (d)	**(9,923)**	(3,132)	(1,399)	**(119,338)**
Loss on valuation of securities	**(1,577)**	(32)	(1,875)	**(18,965)**
Provision for doubtful receivables of affiliates (e)	**(325)**	–	–	**(3,908)**
Loss on adjustment for changes of accounting standard for asset retirement obligations	**(291)**	–	–	**(3,499)**
Restructuring charges (f)	**–**	(7,648)	–	**–**
Loss on legal proceedings (g)	**–**	(6,983)	(5,165)	**–**
Loss on environmental measures (h)	**–**	(1,489)	(1,812)	**–**
Loss on liquidation of subsidiary (i)	**–**	(399)	–	**–**
Loss on contribution of securities to the pension trust (j)	**–**	–	(4,492)	**–**
Loss on suspension of activities for participation in Moto GP	**–**	–	(2,818)	**–**
Other, net	**(242)**	(1,791)	(5,517)	**(2,912)**
Total	**¥(10,867)**	¥(7,243)	¥(11,491)	**$(130,691)**

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

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

(c) "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.

(d) Loss on impairment of fixed assets
Because the profitability or market prices of some asset groups declined, the Company and its consolidated subsidiaries reduced the book value of certain assets to the recoverable amounts. Assets are grouped mainly by units of business. However, significant assets for rent or those which are idle are treated separately. Recoverable amounts were determined by net sales value or value in use, 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, 2011 were as follows (the value in use was determined by discounted cash flow applying a discount rate of 4.0%.):

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

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

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	**¥3,731**	**$ 44,870**
Machinery and equipment	**2,300**	**27,660**
Other	**3,892**	**46,808**
Total	**¥9,923**	**$119,338**

Asset groups for which the Company and its subsidiaries recognized impairment loss for the year ended March 31, 2010 were as follows (the value in use was determined by discounted cash flow applying a discount rate of 5.0%.):

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

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

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

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 assets
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
Machinery and equipment, etc	¥1,399

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

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

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

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

(i) "Loss on liquidation of subsidiary" is due to liquidation expenses of Kawasaki Oita Manufacturing Co., Ltd., a consolidated subsidiary of the Company.

(j) "Loss on contribution of securities to the pension trust" resulted from additional contributions of investment securities to the pension trust.

16. Consolidated statement of comprehensive income

Comprehensive income (loss) for the year ended March 31, 2010 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Attributable to shareholders' of the parent company	¥(7,545)	$(90,739)
Attributable to minority interests	2,081	25,027
Total	¥(5,464)	$(65,712)

Other comprehensive income for the year ended March 31, 2010 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Net unrealized gains on securities, net of tax	¥2,216	$26,651
Deterred gains on hedges	833	10,018
Foreign currency translation adjustments	860	10,342
Share of other comprehensive income of associates accounted for using equity method	431	5,183
Total	¥4,340	$52,194

17. Dividends

(a) Dividends paid

Year ended March 31, 2011

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 25, 2010 General Meeting of the Shareholders	**Common stock**	**¥5,003 million ($60,168 thousand)**	**¥3.0 ($0.03)**	**March 31, 2010**	**June 28, 2010**

Year ended March 31, 2010

Resolution	Kind of shares	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 25, 2009 General Meeting of the Shareholders	Common stock	¥5,004 million	¥3.0	March 31, 2009	June 26, 2009

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

Year ended March 31, 2011

Resolution	Kind of shares	Source of dividends	Total amount of dividends paid	Dividends per share	Date of record	Effective date
June 28, 2011 General Meeting of the Shareholders	**Common stock**	**Retained earnings**	**¥5,011 million ($60,264 thousand)**	**¥3.0 ($0.03)**	**March 31, 2011**	**June 29, 2011**

Year ended March 31, 2010

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

18. Income taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporation tax (national tax) and enterprise and inhabitants taxes (local taxes) ,which, in the aggregate, resulted in a statutory tax rate of approximately 40.5 percent for each of the years ended March 31, 2011 and 2010.

The significant differences between the statutory and effective tax rates for the year ended March 31, 2010 were not disclosed because the Company posted a loss. The differences for the year ended March 31, 2011 were as follows:

	2011
Statutory tax rate	**40.5%**
Valuation allowance	**(14.5)**
Equity in income of nonconsolidated subsidiaries and affiliates	**(9.5)**
Organization restructuring	**7.3**
Dividend from overseas consolidated subsidiaries	**7.9**
Other	**(3.7)**
Effective tax rate	**28.0%**

Significant components of deferred tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Deferred tax assets:			
Accrued bonuses	**¥ 7,049**	¥ 6,222	**$ 84,774**
Retirement benefits	**43,104**	46,401	**518,388**
Allowance for doubtful receivables	**675**	1,278	**8,117**
Inventories – elimination of intercompany profits	**182**	151	**2,188**
Fixed assets – elimination of intercompany profits	**448**	399	**5,387**
Depreciation	**6,058**	1,851	**72,856**
Net operating loss carryforwards	**6,950**	9,917	**83,583**
Unrealized loss on marketable securities, investments in securities and other	**4,224**	3,432	**50,799**
Provision for losses on construction contracts	**11,301**	6,084	**135,911**
Other	**28,760**	34,237	**345,886**
Gross deferred tax assets	**108,751**	109,972	**1,307,889**
Less valuation allowance	**(16,437)**	(22,949)	**(197,679)**
Total deferred tax assets	**92,314**	87,023	**1,110,210**
Deferred tax liabilities:			
Deferral of gain on sale of fixed assets	**5,610**	5,601	**67,468**
Net unrealized gain on securities	**2,363**	3,562	**28,418**
Other	**6,016**	4,538	**72,352**
Total deferred tax liabilities	**13,989**	13,701	**168,238**
Net deferred tax assets	**¥ 78,325**	¥ 73,322	**$ 941,972**

19. Cash and cash equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2011, 2010 and 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	**2011**
Cash on hand and in banks	**¥47,233**	¥34,745	¥31,956	**$568,045**
Time deposits with maturities over three months	**(2,604)**	(608)	(542)	**(31,317)**
Total	**¥44,629**	¥34,137	¥31,414	**$536,728**

20. Net income per share

Per share amount for the years ended March 31, 2011, 2010 and 2009 are set forth in the table below. While there were residual securities, a diluted net income per share for the year ended March 31, 2010 was not disclosed because the Company posted a loss.

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	**2011**
Basic net income per share:				
Net income (loss)	**¥25,965**	¥(10,860)	¥11,728	**$312,266**
Net income (loss) allocated to common stock	**25,965**	(10,860)	11,728	**312,266**
	Number of shares in millions			
Weighted average number of shares of common stock	**1,669**	1,668	1,668	

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	**2011**
Diluted net income per share				
Net income adjustment	**¥ 44**	¥ –	¥ 77	**$ 529**
(Interest expenses, etc.)	**(44)**	(–)	(77)	**(529)**
	Number of shares in millions			
Increase in shares of common stocks	**28**	–	35	
(Convertible bonds)	**(11)**	(–)	(18)	
(Zero coupon convertible bonds)	**(17)**	(–)	(17)	

21. Derivative transactions

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

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

	Millions of yen				Thousands of U.S. dollars
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)	Gain (loss)
Currency related contracts:					
Foreign exchange contracts:					
To sell	**¥ 48,551**	**¥ –**	**¥1,009**	**¥1,009**	**$12,134**
To purchase	**1,247**	**–**	**(20)**	**(20)**	**(240)**
Option contracts:		**–**			
To sell	**67,223**	**–**	**(1,334)**	**(315)**	**(3,789)**
To purchase	**64,642**	**–**	**369**	**(171)**	**(2,056)**
Total	**¥181,663**	**¥ –**	**¥ 24**	**¥ 503**	**$ 6,049**

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company applied hedge accounting)

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

Fair value is based on prices provided by financial institutions.

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

	Subject of hedge	Thousands of U.S. dollars Contract amount	 Contract amount over 1 year	 Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Receivables: Trade	**$268,202**	**$3,596**	**$ (7,649)**
To purchase	Trade payables	**390,981**	**2,020**	**(7,131)**
Option contracts				
To sell	Receivables: Trade	**31,028**	**–**	**(240)**
To purchase	Trade payables	**15,514**	**–**	**733**
Alternative method				
Foreign exchange contracts				
To sell	Receivables: Trade	**50,643**	**–**	**0**
Total		**$756,368**	**$5,616**	**$(14,287)**

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

Fair value is based on prices provided by financial institutions.

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

	Subject of hedge	Thousands of U.S. dollars Contract amount	 Contract amount over 1 year	 Fair value
Interest related contracts:				
Interest swap				
Deferral hedge accounting				
Received flowing-fixed payment	Short-term debt and long-term debt	**$360,794**	**$240,530**	**$(5,953)**
Special treatment				
Received flowing-fixed payment	Long-term debt	**180,396**	**180,396**	**–**
		$541,190	**$420,926**	**$(5,953)**

(b) Outstanding positions and recognized gains and losses at March 31, 2010 were as follows:

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

	Millions of yen			
	Contract amount	Contract amount over 1 year	Fair value	Gain (loss)
Currency related contracts:				
Foreign exchange contracts:				
To sell	¥65,247	¥19	¥2,779	¥2,779
To purchase	4,784	17	63	63
Total	¥70,031	¥36	¥2,842	¥2,842

Fair value is based on prices provided by financial institutions.

(Derivative transactions to which the Company applied hedge accounting)

		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Deferral hedge accounting:				
Foreign exchange contracts				
To sell	Receivables: Trade	¥ 80,292	¥3,565	¥(913)
To purchase	Trade payables	27,180	1,590	1,106
Alternative method (*)				
Foreign exchange contracts				
To sell	Receivables: Trade	8,642	–	(65)
To purchase	Trade payables	1,575	–	48
Total		¥117,689	¥5,155	¥ 176

Fair value is based on prices provided by financial institutions.

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

		Millions of yen		
	Subject of hedge	Contract amount	Contract amount over 1 year	Fair value
Interest related contracts:				
Interest swap				
Deferral hedge accounting				
Received flowing-fixed payment	Short-term debt and long-term debt	¥30,000	¥30,000	¥(705)
Special treatment (*)				
Received flowing-fixed payment	Long-term debt	14,249	13,000	–
		¥44,249	¥43,000	¥(705)

Fair value is based on prices provided by financial institutions.

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

22. Financial Instruments

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

(1) Matters related to the status of financial instruments

(a) Policies on the use of financial instruments

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

(b) Details of financial instruments and risks associated with those instruments

Receivables: Trade are exposed to the credit risk of customers. The Company operates internationally, giving rise to significant exposure to market risks arising from changes in foreign exchange rates. However, risk is hedged using forward exchange contracts, etc., against the net position of foreign currency exposure. Investments in securities mainly comprise equity securities of companies with which the Company conducts business and are held to maintain relationships with such business partners. With such securities, listed stocks are exposed to market fluctuation risk.

Almost all trade payables are due within one year. A portion of trade payables are denominated in foreign currency—specifically those related to payment for imported materials, etc.—and are exposed to the risk of foreign currency fluctuation. However, this risk is mitigated principally by the position of trade payables denominated in foreign currency being less than the position of receivables in the same currency. Loans payable, bonds payable and lease obligations under finance leases are mainly used to raise operating capital and carry out capital expenditure and are due in a maximum of nine and a half years from March 31, 2011 (ten and a half years from March 31, 2010). A portion of these instruments is exposed to the risk of interest rate fluctuation. However, such risk is hedged using derivatives (interest swaps) as necessary.

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

(c) Risk management system for financial instruments

(i) Management of credit risk, including customer default risk

The Company's sales management functions and those of its consolidated subsidiaries regularly evaluate the financial circumstances of customers and monitor the due dates and balances by customer to identify and reduce doubtful debts.

With regard to derivative transactions, the Company enters into contracts with highly rated financial institutions to reduce counterparty risk. The amount presented in the balance sheet is the maximum credit risk at the fiscal year end of the financial instruments that are exposed to credit risk.

(ii) Management of market risk (related to foreign currency exchange rates, interest rates, etc.)

The Company and certain of its consolidated subsidiaries hedge foreign currency fluctuation risk on receivables and payables in foreign currencies using forward exchange contracts, which are categorized by the type of currency and the monthly due date. In principle, the net position of receivables less payables in foreign currency is hedged with forward exchange contracts. The Company and certain of its consolidated subsidiaries hedge interest rate risk on debt using interest swap contracts.

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

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

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

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

(2) Fair values of financial instruments

The book values, the fair values and the differences between these values as of March 31, 2011, were as follows (Financial instruments for which the fair value is extremely difficult to determine are not included, as described in remark 2.):

	Millions of yen			Thousands of U.S. dollars
	Book value	Fair value	Unrealized gains (losses)	Unrealized gains (losses)
Cash on hand and in banks	**¥ 47,233**	**¥ 47,233**	**¥ –**	**$ –**
Receivables: Trade	**401,753**	**401,625**	**(128)**	**(1,539)**
Investments in securities	**16,540**	**16,527**	**(13)**	**(156)**
Total assets	**¥465,526**	**¥465,385**	**¥(141)**	**$ (1,695)**
Trade payables	**319,272**	**319,272**	**–**	**–**
Short-term debt and current portion of long-term debt (excluding lease obligations)	**174,455**	**174,455**	**–**	**–**
Long-term debt, less current portion (excluding lease obligations)	**253,801**	**255,377**	**1,576**	**18,953**
Total liabilities	**¥747,528**	**¥749,104**	**¥1,576**	**$18,953**
Derivative transactions (*)	**¥ (1,660)**	**¥ (1,660)**	**¥ –**	**$ –**

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

The book values, fair values and the differences between these values as of March 31, 2010, were as follows (Financial instruments for which the fair value is extremely difficult to determine are not included, as described in remark 2.):

	Millions of yen		
	Book value	Market value	Unrealized gains (losses)
Cash on hand and in banks	¥ 34,745	¥ 34,745	¥ –
Receivables: Trade	400,264	400,130	(134)
Investments in securities	19,010	19,015	5
Total assets	¥454,019	¥453,890	(129)
Trade payables	302,739	302,739	–
Short-term debt and current portion of long-term debt (excluding lease obligations)	158,091	158,091	–
Long-term debt, less current portion (excluding lease obligations)	269,874	272,099	(2,225)
Total liabilities	¥730,704	¥732,929	¥ (2,225)
Derivative transactions (*)	¥2,313	¥ 2,313	¥ –

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

(i) : Methods used to calculate market values of financial instruments and details of securities and derivative instruments

<Assets>

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

<Liabilities>

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

<Derivatives>

See Note 21, "Derivative Transactions."

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Unlisted equity securities and investments in partnerships	**¥ 8,102**	¥ 9,440	**$ 97,438**
Stocks of nonconsolidated subsidiaries and affiliates	**7,335**	6,670	**88,214**
Investments in affiliates	**18,314**	18,165	**220,252**
Total	**¥33,751**	¥34,275	**$405,904**

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

(iii) : Planned redemption amounts after the balance sheet date for monetary receivables and investments in securities with maturity dates as of March 31, 2011 and 2010 are as follows:

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

	Thousands of U.S. dollars			
	2011			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	**$ 568,045**	**$ –**	**$ –**	**$ –**
Receivables: Trade	**4,638,148**	**193,518**	**–**	**–**
Investments in securities				
-Bonds	**–**	**3,607**	**1,262**	**–**
Total	**$5,206,193**	**$197,125**	**$1,262**	**$ –**

	Millions of yen			
	2010			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	¥ 34,745	¥ –	¥ –	¥ –
Receivables: Trade	376,835	23,430	–	–
Investments in securities				
-Bonds	–	300	–	–
Total	¥411,580	¥23,730	¥ –	¥ –

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

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

23. Finance leases

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

(a) Lessee

The original costs of leased assets under non-capitalized finance leases and the related accumulated depreciation and amortization, assuming it was calculated by the straight-line method over the term of the respective lease, as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Property, plant and equipment	**¥35,520**	¥39,053	**$427,179**
Accumulated depreciation	**(20,072)**	(19,014)	**(241,395)**
	15,448	20,039	**185,784**
Intangible assets	**543**	727	**6,530**
Accumulated amortization	**(416)**	(469)	**(5,003)**
	¥ 127	¥ 258	**$ 1,527**

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Current portion	**¥ 4,156**	¥ 5,413	**$ 49,981**
Noncurrent portion	**11,413**	16,289	**137,258**
Total	**¥15,569**	¥21,702	**$187,239**

Lease payments, "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases for the years ended March 31, 2011, 2010 and 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	**2011**
Lease payments	**¥5,038**	¥6,033	¥6,273	**$60,589**
Depreciation and amortization	**4,669**	5,642	5,869	**56,151**
Interest	**486**	590	680	**5,844**

(b) Lessor

The original costs of leased assets under finance leases and the related accumulated depreciation and amortization as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Property, plant and equipment	**¥1,559**	¥1,800	**$18,748**
Accumulated depreciation	**(1,030)**	(1,023)	**(12,387)**
	529	777	**6,361**
Intangible assets	**55**	60	**661**
Accumulated amortization	**(48)**	(45)	**(577)**
	¥ 7	¥ 15	**$ 84**

The present values of future minimum lease payments to be received under finance leases as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Current portion	**¥297**	¥ 370	**$3,571**
Noncurrent portion	**377**	659	**4,534**
Total	**¥674**	¥1,029	**$8,105**

Lease payments received, depreciation and amortization and interest on finance leases for the years ended March 31, 2011, 2010 and 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2011	2010	2009	**2011**
Lease payments received	**¥282**	¥338	¥402	**$3,391**
Depreciation and amortization	**257**	324	335	**3,090**
Interest	**35**	55	69	**420**

24. Operating leases

The present values of future minimum lease payments under operating leases as lessee as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Current portion	**¥295**	¥306	**$3,547**
Noncurrent portion	**–**	308	**–**
Total	**¥295**	¥614	**$3,547**

25. Business combination

Year ended March 31, 2011

(Transactions under common control)

Pursuant to resolutions passed by the Board of Directors on September 30, 2009, Kawasaki Shipbuilding Corporation, Kawasaki Precision Machinery Ltd. (KPM), and Kawasaki Plant Systems, Ltd. (K Plant) were merged with the Company on October 1, 2010.

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

(i) Name and outline of business of constituent companies

Company surviving in absorption-type merger

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

Company absorbed in absorption-type merger

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

(ii) Date of business combination

October 1, 2010

(iii) Legal form of business combination

The merger was an absorption-type merger whereby the Company (KHI) is the surviving entity and the three subsidiaries were dissolved.

(iv) Name of company after business combination

Kawasaki Heavy Industries, Ltd.

(v) Outline of transactions, including purpose of transactions

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

In addition to the pursuit of greater competitiveness in existing businesses, the *Kawasaki Business Vision 2020*, formulated in April 2010, designates the development of new products and businesses as a key measure for accelerating sustained Group growth. The Company will use this merger to draw together technological expertise and knowhow across conventional organizational and product boundaries to develop new products in the transportation systems, energy and environment, and industrial equipment sectors. The Company also intends to pursue research and development of core technologies in new business fields, such as CO_2-free hydrogen technologies and ocean energy.

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

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

26. Segment information

The Company reorganized certain of its business which resulted in a change in segment presentation. The disclosure in section (a) below is based on the segment classification prior to the business reorganization, while sections (e), (f), and (g) are based on the new segment classification.

(a) Information by business segment
Business segments of the Company and its consolidated subsidiaries are classified based on an internal company system as follows: 1) Shipbuilding, 2) Rolling Stock, 3) Aerospace, 4) Gas Turbine & 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. The Rolling Stock segment produces and sells rolling stock. Products manufactured and sold by the Aerospace segment include airplanes and helicopters. The Gas Turbine & 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.

	Millions of yen							
	2010							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Shipbuilding	¥ 151,893	¥ 1,565	¥ 153,458	¥ 151,968	¥ 1,490	¥ 128,948	¥ 4,350	¥ 6,693
Rolling Stock	167,156	2,414	169,570	161,811	7,759	172,420	3,668	5,264
Aerospace	188,892	2,005	190,897	189,148	1,749	304,371	8,192	9,142
Gas Turbine & Machinery	191,379	22,765	214,144	207,450	6,694	215,874	6,222	10,278
Plant & Infrastructure Engineering	90,495	11,076	101,571	95,294	6,277	104,851	975	1,111
Consumer Products & Machinery	216,990	3,974	220,964	252,613	(31,649)	236,306	19,283	17,105
Hydraulic Machinery	68,809	7,320	76,129	69,168	6,961	57,901	3,883	2,282
Other	97,859	32,550	130,409	130,824	(415)	154,655	3,066	5,554
Total	1,173,473	83,669	1,257,142	1,258,276	(1,134)	1,375,326	49,639	57,429
Eliminations and corporate	–	(83,669)	(83,669)	(83,487)	(182)	(22,887)	1,784	1,843
Consolidated total	¥1,173,473	¥ –	¥1,173,473	¥1,174,789	¥ (1,316)	¥1,352,439	¥51,423	¥59,272

	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 Turbine & 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

In October 2008, the Company, Hitachi Construction Machinery Co., Ltd. and TCM Corporation agreed that the three companies would jointly carry out research and development, that the Company would spin off the construction machinery business and that Hitachi Construction Machinery Co., Ltd. would invest in the newly established subsidiary spun off from the Company. According to the agreement, because the relationship between the rolling stock business and the construction machinery business had become weakened, the construction machinery business would be excluded from the Rolling Stock segment and included in the Other segment from the year ended March 31, 2010. The name of segment was also changed from "Rolling Stock & Construction Machinery" to "Rolling Stock."

As a result of this change, sales for the year ended March 31, 2010 decreased in the Rolling Stock segment by ¥20,625 million (external sales decreased by ¥22,207 million), and increased in the Other segment by ¥21,622 million (external sales increased by ¥22,207 million). Operating income for the year ended March 31, 2010 increased in the Rolling Stock segment by ¥3,321 million, and operating loss increased in the Other segment by ¥3,322 compared to the amounts that would have been recorded with the previous segmentation.

As discussed in Note 2(g), prior to April 2009, the percentage-of-completion method was applied to long-term contracts such as those for ships, airplanes and plants exceeding ¥3,000 million. The completed contract method was applied to long-term contracts not exceeding ¥3,000 million. Effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Accounting Standard for Construction Contracts" (Statement No. 15, issued by ASBJ on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (the Finance Accounting Standard Implementation Guidance No. 18, issued by ASBJ on December 27, 2007). The new accounting standards require that the percentage-of-completion method be applied for construction contracts commenced on an after April 1, 2009, if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the completed-contract method should be applied.

As a result of this change, sales for the year ended March 31, 2010 increased in the Shipbuilding segment by ¥15,609 million, in the Rolling Stock segment by ¥702 million, in the Aerospace segment by ¥5,663 million, in the Gas Turbine & Machinery segment by ¥7,247 million and in the Plant & Infrastructure Engineering segment by ¥2,991 million, and operating income for the year ended March 31, 2010 increased in the Shipbuilding segment by ¥1,374 million, in the Rolling Stock segment by ¥65 million, in the Aerospace segment by ¥494 million, in the Gas Turbine & Machinery segment by ¥649 million and in the Plant & Infrastructure Engineering segment by ¥504 million compared to amounts that would have been recorded with the previous standard.

As discussed in Note 2(j), effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9, issued by ASBJ 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 decreased in the Rolling Stock & Construction Machinery segment by ¥516 million, in the Gas Turbine & Machinery segment by ¥1,677 million, in the Plant & Infrastructure Engineering segment by ¥29 million, in the Hydraulic Machinery segment by ¥103 million, and in the Other segment by ¥34 million, and operating loss increased in the Aerospace segment by ¥1,226 million and in the Consumer Products & Machinery segment by ¥486 million compared to amounts that would have been recorded with the previous standard.

As discussed in Note 2(aa), in the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries reviewed and revised the useful life of certain machinery and equipment in accordance with a revision of the Tax Law. As a result of this change, operating income for the year ended March 31, 2009 decreased in the Rolling Stock & Construction Machinery segment by ¥473 million, in the Gas Turbine & Machinery segment by ¥260 million, in the Plant & Infrastructure Engineering segment by ¥53 million, in the Other segment by ¥48 million, and in the Hydraulic Machinery segment increased by ¥166 million, and operating loss increased in the Shipbuilding segment by ¥543 million, in the Aerospace segment by ¥271 million and in the Consumer Products & Machinery by ¥205 million compared to amounts that would have been recorded with the previous standard.

(b) Information by geographic segment

	Millions of yen					
	2010					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	¥ 917,366	¥154,200	¥1,071,566	¥1,072,556	¥ (990)	¥1,130,537
North America	135,306	16,764	152,070	160,240	(8,170)	159,335
Europe	66,865	1,792	68,657	67,809	848	47,042
Asia	42,909	37,842	80,751	74,676	6,075	39,328
Other areas	11,027	190	11,217	10,290	927	6,871
Total	1,173,473	210,788	1,384,261	1,385,571	(1,310)	1,383,113
Eliminations and corporate	–	(210,788)	(210,788)	(210,782)	(6)	(30,674)
Consolidated total	¥1,173,473	¥ –	¥1,173,473	¥1,174,789	¥(1,316)	¥1,352,439

	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

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(g), prior to April 1, 2009, sales of products such as ships, rail cars, airplanes, machinery and motorcycles were principally recognized upon delivery. Contract revenue for the construction of plants, machinery, bridges, etc. was principally recognized on a customer acceptance basis. When prices for components or contract amounts for nearly completed contracts were not finalized, sales and cost of sales were estimated. The percentage-of-completion method was applied to long-term contracts such as those for ships, airplanes and plants exceeding ¥3,000 million. The stage of completion was normally determined based on the proportion of costs incurred to date to the estimated total costs of the contract. The completed contract method was applied to long-term contracts not exceeding ¥3,000 million. Effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Accounting Standard for Construction Contracts" (Statement No. 15, issued by ASBJ on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (Financial Accounting Standard Implementation Guidance No. 18, issued by ASBJ on December 27, 2007). The new accounting standards require that the percentage-of-completion method shall be applied for the construction contracts commenced on and after April 1, 2009, if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise the completed-contract method should be applied. As a result of this change, sales in Japan for the year ended March 31, 2010 were ¥32,214 million more than they would have been without the change, and operating loss in Japan for the year ended March 31, 2010 was ¥3,088 million less than it would have been without the change.

As discussed in Note 2(j), effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9, issued by ASBJ 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 less than it would have been without the change.

As discussed in Note 2(aa), in the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries reviewed and revised the useful life of certain machinery and equipment in accordance with a 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 less than it 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 ¥114,487 million and ¥96,934 million at March 31, 2010 and 2009 respectively, consisting mainly of surplus funds (cash and time deposits) of the Company and property, plant and equipment, and investments, intangible other assets of the Company's head office.

(d) Overseas sales

Overseas sales consists of the total sales of the Company and its consolidated subsidiaries made outside of Japan. Overseas sales information for the years ended March 31, 2010 and 2009 was as follows:

	2010		2009	
	Millions of yen	%	Millions of yen	%
	Overseas sales	Against net sales	Overseas sales	Against net sales
North America	¥226,859	19.3	¥309,979	23.1
Europe	93,035	7.9	116,298	8.7
Asia	141,577	12.0	174,310	13.0
Other areas	100,124	8.6	130,051	9.7
Total	¥561,595	47.8	¥730,638	54.5

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

(e) Overview of reportable segment

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

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

Main segment businesses are listed below

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

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

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

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

Year ended March 31, 2011 — Millions of yen

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

Year ended March 31, 2010 — Millions of yen

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

Year ended March 31, 2011 — Thousands of U.S. dollars

	Sales					Other items			
	External sales	Intersegment sales and transfers	Total	Segment income (loss)	Segment assets	Depreciation/ amortization	Impairment loss	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	$ 1,424,125	$ 22,790	$ 1,446,915	$ (12,182)	$ 1,392,663	$ 51,280	$ –	$ 157,847	$ 38,280
Rolling Stock	1,576,716	25,003	1,601,719	98,292	1,818,544	43,704	–	1,479	29,055
Aerospace	2,367,720	21,780	2,389,500	36,440	3,469,573	113,072	–	–	85,640
Gas Turbine & Machinery	2,437,666	249,946	2,687,612	114,792	2,542,020	78,773	805	733	68,057
Plant & Infrastructure	1,070,499	144,522	1,215,021	99,591	1,143,896	18,689	1,695	103,463	24,449
Motorcycle & Engine	2,819,951	14,564	2,834,515	(59,663)	2,604,437	183,932	114,491	11,377	136,380
Precision Machinery	1,687,648	159,676	1,847,324	268,406	1,197,979	58,592	–	–	118,123
Other Operations	1,371,525	412,988	1,784,513	30,992	1,919,643	29,793	2,347	27,758	96,420
Total	$14,755,850	$1,051,269	$15,807,119	$ 576,668	$16,088,755	$577,835	$119,338	$ 302,657	$ 596,404
Adjustments	–	(1,051,269)	(1,051,269)	(64,005)	198,412	26,807	–	–	69,068
Consolidated total	$14,755,850	$ –	$14,755,850	$ 512,663	$16,287,167	$604,642	$119,338	$ 302,657	$ 665,472

(h) Reconciliation and main components of differences between the total for reportable segments and amounts on the consolidated financial statement

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Net sales			
Total for reportable segments	**¥1,314,362**	¥1,257,047	**$15,807,119**
Intersegment transactions	**(87,413)**	(83,574)	**(1,051,269)**
Net sales reported on the consolidated financial statements	**¥1,226,949**	¥1,173,473	**$14,755,850**

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Income			
Total for reportable segments	**¥47,950**	¥6,259	**$576,668**
Intersegment transactions	**(3)**	9	**(36)**
Corporate expense (*)	**(5,319)**	(7,584)	**(63,969)**
Operating income (loss) on the consolidated financial statements	**¥42,628**	¥(1,316)	**$512,663**

(*) Corporate expense mainly comprises general and administrative expense not attributed to reportable segment.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Assets			
Total for reportable segments	**¥1,337,780**	¥1,375,120	**$16,088,755**
Corporate assets shared by all segments (*)	**141,029**	114,487	**1,696,078**
Intersegment transactions	**(124,531)**	(137,168)	**(1,497,666)**
Total assets on the consolidated financial statements	**¥1,354,278**	¥1,352,439	**$16,287,167**

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

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

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

	Thousands of U.S. dollars		
	Year ended March 31, **2011**	Year ended March 31, **2011**	Year ended March 31, **2011**
Other items	Total for reportable segments	Adjustments	Amounts reported on the consolidated financial statements
Depreciation/amortization	**$577,835**	**$26,807**	**$604,642**
Increase in property, plant and equipment and intangibles	**596,404**	**69,068**	**665,472**

(Additional information)
Effective from the year ended March 31, 2011, the Company has adopted the Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (Statement No. 17, issued by ASBJ and revised on March 27, 2009) and its associated Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (Guidance No. 20, issued by ASBJ on March 21, 2008).

(i) Related information

(i) Information by geographic segment

Net sales

	Millions of yen	Thousands of U.S. dollars
	2011	**2011**
Japan	**¥ 558,126**	**$ 6,712,279**
United States	**236,572**	**2,845,123**
Europe	**87,162**	**1,048,250**
Asia	**224,685**	**2,702,164**
Other areas	**120,404**	**1,448,034**
Total	**¥1,226,949**	**$14,755,850**

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

Property, plant and equipment

	Millions of yen	Thousands of U.S. dollars
	2011	**2011**
Japan	**¥241,132**	**$2,899,963**
United States	**20,611**	**247,877**
Europe	**2,304**	**27,708**
Asia	**10,945**	**131,629**
Other areas	**788**	**9,479**
Total	**¥275,780**	**$3,316,656**

(ii) Information by major clients

Clients	Net sales	Related segments
Ministry of Defense	182,633 million yen ($2,196,428 thousand)	Ship & Offshore Structure, Aerospace, Gas Turbine & Machinery, etc.

27. Related parties

(a) ASBJ Statement No. 11, "Accounting Standard for Related Party Disclosures" and ASBJ Guidance No. 13, "Guidance on Accounting Standard for Related Party Disclosures," issued by ASBJ on October 17, 2006, require certain additional related party disclosures effective from the year ended March 31, 2009. Related Party transactions for the years ended March 31, 2011 and 2010 were as follows:

	Year ended March 31, 2011
	Nonconsolidated subsidiaries and affiliates of the Company
Type	Affiliate of the Company
Name	Commercial Airplane Co., Ltd.
Location	Chiyoda-ku, Tokyo
Capital or investment	¥10 million ($120 thousand)
Business or position	Sales of transportation machinery
Rate of ownership (%)	Directly 40%
Relation of related party	Order of the Company products
Details of transactions	Sales of the Company products
Amount of transactions	¥33,982 million ($408,683 thousand)
Account	Receivables: Trade
Ending balance	¥13,741 million ($165,255 thousand)

	Year ended March 31, 2010	
	Nonconsolidated subsidiaries and affiliates of the Company	Directors and principle shareholders of the Company
Type	Affiliate of the Companyy	Director
Name	Commercial Airplane Co., Ltd.	Tadaharu Ohashi
Location	Chiyoda-ku, Tokyo	–
Capital or investment	¥10 million	–
Business or position	Sales of transportation machinery	Chairperson and Representative Director of the Company Administrative Director of Japan Aircraft Development Corporation (JADC)
Rate of ownership (%)	Directly 40%	Directly 0%
Relation of related party	Order of the Company products	Concurrent Director
Details of transactions	Sales of the Company products	Guarantee of indebtedness JADC
Amount of transactions	¥39,337 million	¥14,196 million
Account	Receivables: Trade	–
Ending balance	¥14,101 million	–

(b) A summary of the total financial information of all affiliates (14 companies) (14 in 2010) which was the basis for calculating the equity in income of nonconsolidated affiliates, including that of Nantong COSCO KHI Ship Engineering Co., Ltd., which is a significant affiliate, for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Current assets	**¥106,381**	¥117,441	**$1,279,386**
Fixed assets	**70,227**	74,798	**844,582**
Current liabilities	**93,208**	116,405	**1,120,962**
Long-term liabilities	**12,174**	11,597	**146,410**
Net assets	**71,225**	64,237	**856,584**
Net sales	**166,935**	161,625	**2,007,636**
Minority interests in net income of consolidated subsidiaries	**25,200**	20,332	**303,066**
Total net income	**19,483**	15,017	**234,311**

28. Subsequent events

On June 25, 2010, the following appropriation of nonconsolidated retained earnings was approved at the ordinary meeting of shareholders of the Company:

	Millions of yen
Cash dividends (¥3.0 per share)	¥5,003

In accordance with the resolution of Board of Directors as of May 25, 2010, the Company issued notes which are due on June 19, 2015 and June 21, 2017.

	0.722 percent notes due in 2015	1.062 percent notes due in 2017
Date of issue	June 21, 2010	June 21, 2010
Amount of issue	¥10,000 million	¥10,000 million
Issue price	¥100 par value ¥100	¥100 par value ¥100
Rate (%)	Annual rate of interest 0.722% on per value	Annual rate of interest 1.062% on per value
Redemption date	June 19, 2015	June 21, 2017
Security	Unsecured	Unsecured
Purpose of funds raised	Redemption of bonds	Redemption of bonds
Bond subscription	Public offering	Public offering

29. Other matters

(a) Quarterly financial information

	Millions of yen			
Year ended March 31, 2011	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	**¥277,387**	**¥294,321**	**¥298,831**	**¥356,410**
Income (loss) before income taxes and minority interests	**10,901**	**9,811**	**23,929**	**(6,046)**
Net income (loss)	**5,883**	**6,450**	**15,825**	**(2,193)**
	yen			
Net income (loss) per share - basic	**¥ 3.52**	**¥ 3.86**	**¥ 9.47**	**¥ (1.31)**

	Thousands of U.S. dollars			
Year ended March 31, 2011	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net sales	**$3,335,983**	**$3,539,639**	**$3,593,878**	**$4,286,350**
Income (loss) before income taxes and minority interests	**131,100**	**117,991**	**287,781**	**(72,711)**
Net income (loss)	**70,751**	**77,570**	**190,318**	**(26,373)**
	U.S. dollars			
Net income (loss) per share - basic	**$ 0.04**	**$ 0.04**	**$ 0.11**	**$ (0.01)**

(b) On June 27, 2006, the Company received a decision from the Japan Fair Trade Commission ordering remediation of unfair bids that the Company may have committed on construction contracts for waste incineration facilities from 1994 through 1998. The Company appealed the decision to the Tokyo High Court demanding revocation of the decision, but the Court dismissed the appeal on September 26, 2008. The Company appealed the judgment to the Supreme Court, but the Court dismissed the appeal on October 6, 2009. The Company also sought an inquiry objecting to an order to pay penalties of ¥5,165 million which the Fair Trade Commission imposed on March 23, 2007. However, on November 10, 2010, the Fair Trade Commission issued a formal decision ordering the Company to pay the penalties in full. On January 11, 2011, the Company paid the penalties in full without appealing to the Tokyo High Court for the annulment of the decision. In addition, the Company made a provision for losses on damages suit in relation to the estimated amount of monetary damages payable arising from suits filed against the Company by contracting parties.

(c) On November 16, 2006, the Company received a judgment from the Kobe District Court requiring reimbursement of ¥530 million jointly with Hitachi Zosen Corporation and four other companies in a suit brought by citizens of the city claiming that the Company unfairly bid on a construction contract for a waste incineration facility in Amagasaki City that Hitachi Zosen Corporation was awarded in 1996. On November 29, 2006, the Company appealed the judgment to the Osaka High Court and won the case on November 30, 2007. On December 7, 2007, citizens of Amagasaki City, the complainants, appealed the judgment to the Supreme Court. The Supreme Court reversed the Osaka High Court decision and remanded the case back to the Osaka High Court on April 28, 2009. On July 23, 2010, the Company was ordered by the Osaka High Court to jointly reimburse, along with the other defendants, ¥335 million, an amount corresponding to 4% of the cost of the facilities (excluding the construction costs). On July 30, 2010, the plaintiffs sought review of this decision by filing an appeal with the Supreme Court.

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

KPMG

Independent 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, 2011 and 2010, and the related consolidated statements of operations, comprehensive income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2011, 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, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2011, 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(j) to the consolidated financial statements, effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Accounting Standard for Measurement of Inventories."
(2) As discussed in Note 2(g) to the consolidated financial statements, effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries have adopted a new accounting standard, "Accounting Standard for Construction Contracts" and the "Guidance on Accounting Standard for Construction Contracts."

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

Kobe, Japan
June 27, 2011

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
SHIP & OFFSHORE STRUCTURE				
Nantong COSCO KHI Ship Engineering Co., Ltd. †	China	CNY1,462,200*	50.00	Manufacture and sale of ships
ROLLING STOCK				
Alna Yusoki-Yohin Co., Ltd.	Japan	400	100.00	Manufacturing and sales of doors/window frames for train cars and buses, signs for bus stops, advertising materials, bus shelters, automobile sign lights, various types of panels, and waiting rooms
Nichijo Manufacturing Co., Ltd.	Japan	120	75.02	Manufacture and sale of snowplows
Kawasaki Rail Car, Inc.	U.S.A.	US$60,600*	100.00	Engineering, manufacture, sale, and after-sales service of rolling stock in the United States
AEROSPACE				
NIPPI Corporation	Japan	6,048	100.00	Manufacture, maintenance, and modification of aircraft and components; manufacture of rocket components, aerospace equipment, targeting systems, nondestructive testing systems, and industrial fans
Nippi Kosan Co., Ltd.	Japan	120	100.00	Design and supervision of building construction work, sale of herbicidal soil, manufacture and sale of rust-resistant packaging materials, and insurance agency business
GAS TURBINE & MACHINERY				
Kawasaki Thermal Engineering Co., Ltd.	Japan	1,460	83.59	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
Kawasaki Machine Systems, Ltd. ❉	Japan	796	100.00	Sale and repair of gas turbine generators and industrial robots
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				
EarthTechnica Co., Ltd.	Japan	1,200	100.00	Design, manufacture, and sale of crushers, grinders, sorters, and other equipment
Fukae Powtec Corporation	Japan	300	100.00	Manufacture and sale of crushers and related plants
JP Steel Plantech Co. †	Japan	1,995	24.81	Sale of and engineering services for steelworks plants and equipment
Shanghai COSCO Kawasaki Heavy Industries China Steel Structure Co., Ltd. †	China	US$29,800*	45.00	Manufacture and sale of steel structures
Anhui Conch Kawasaki Engineering Co., Ltd. †	China	CNY100,000*	50.00	Design, equipment procurement, sales, installation, technical instruction for trial operation, and after-service for environmentally friendly, energy-efficient equipment
Anhui Conch Kawasaki Equipment Manufacturing Co., Ltd. †	China	CNY148,000*	50.00	Design, production, sales, maintenance, after-service, and supply of spare parts for cement plants
Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd. †	China	CNY60,000*	50.00	Research and development, production, equipment procurement and sales for environmentally friendly, energy-efficient equipment
MOTORCYCLE & ENGINE				
Kawasaki Motors Manufacturing Corp., U.S.A. ●	U.S.A.	US$120,000*	100.00	Manufacture of ATVs, utility vehicles, personal watercraft, small gasoline engines, and rolling stock
Kawasaki Motors Corp., U.S.A.	U.S.A.	US$165,900*	100.00	Distribution of motorcycles, ATVs, utility vehicles, personal watercraft, and small gasoline engines in the United States
Kawasaki Motors Finance Corporation	U.S.A.	US$10,000*	100.00	Inventory financing for dealers of Kawasaki Motors Corp., U.S.A.
KM Receivables Corporation	U.S.A.	US$100	100.00	Management of accounts receivable of Kawasaki Motors Finance Corporation
Canadian Kawasaki Motors Inc.	Canada	C$2,000*	100.00	Distribution of motorcycles, ATVs, utility vehicles, and personal watercraft in Canada
Kawasaki Motors Europe N.V.	Netherlands	EUR64,093*	100.00	Sole distribution of motorcycles, ATVs, utility vehicles, personal watercraft, and small gasoline engines in Europe
Kawasaki Motors Pty. Ltd.	Australia	A$2,000*	100.00	Distribution of motorcycles, ATVs, utility vehicles, and personal watercraft, and small gasoline engines in Australia
P.T. Kawasaki Motor Indonesia	Indonesia	US$40,000*	83.00	Manufacture and distribution of motorcycles in Indonesia
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
KHITKAN Co., Ltd.	Thailand	B182,000*	100.00	Manufacture and sale of parts for motorcycles in Thailand
Kawasaki Motores Do Brasil Ltda.	Brazil	R16,742*	100.00	Manufacture and sale of motorcycles, ATVs, utility vehicles, and personal watercraft in Brazil

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
PRECISION MACHINERY				
Kawasaki Precision Machinery (U.S.A.), Inc.	U.S.A.	US$5,000*	100.00	Manufacture and sale of hydraulic products
Kawasaki Precision Machinery (U.K.) Ltd.	U.K.	£5,000*	100.00	Manufacture and sale of hydraulic products
Flutek, Ltd.	Korea	W1,310**	50.38	Manufacture, sale, and repair of hydraulic products, marine machinery, and other machinery
Kawasaki Precision Machinery (Suzhou) Ltd.	China	800	100.00	Assembly of hydraulic pumps and motors for construction machinery
Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd.	China	1,000	54.00	Manufacture and sale of hydraulic pumps for construction machinery
Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.	China	400	100.00	Procurement and sale of hydraulic components and equipment, technical assistance, and quality assurance services
Kawasaki 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
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
KCM Corporation	Japan	4,825	65.99	Design, manufacture, sale, and maintenance of construction machinery
KCMJ Corporation	Japan	300	100.00	Sale and repair of construction machinery
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
KCMA Corporation	U.S.A.	US$8,000*	100.00	Manufacture and sale of construction machinery in the United States
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
★ Gas Turbine & Machinery
✲ Precision Machinery

(As of March 31, 2011)

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(As of June 30, 2011)

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Founded:	1878
Incorporated:	1896
Paid-in Capital:	¥104,340,099,788
Number of Shares Issued:	1,670,646,460 shares
Number of Shareholders:	147,498
Number of Employees:	32,706
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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ADR Facility:
KHI has a sponsored American Depository Receipt (ADR) facility. ADRs are traded in the over-the-counter (OTC) market in the United States under CUSIP number 486359201, with each ADR representing four ordinary shares.

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The Bank of New York Mellon
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(888-BNY-ADRS)
http://adrbnymellon.com

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

(As of March 31, 2011)

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