The Items Published on the Internet Website Concerning the Notice of the 188th Ordinary General Meeting of Shareholders

KAWASAKI HEAVY INDUSTRIES, LTD.

Notes to the Consolidated Financial Statements

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

1. Scope of consolidation

   Number of consolidated subsidiaries and names of principal subsidiaries: 96 in total

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

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

   Five newly established subsidiaries were included in the scope of consolidation.

   Meanwhile, six consolidated subsidiaries were excluded from the scope of consolidation: Kawasaki Shipbuilding Corporation, Kawasaki Precision Machinery Ltd. and Kawasaki Plant Systems, Ltd. were absorbed into KHI, one subsidiary was absorbed into another consolidated subsidiary, and the other two subsidiaries were liquidated.

2. Application of the equity method

   (1) Number of non-consolidated subsidiaries and affiliates and names of principal companies which are subject to the equity method: 14 in total

   Affiliates: 14, Nantong COSCO KHI Ship Engineering Co., Ltd.

   (2) Names of principal companies of non-consolidated subsidiaries and affiliates not subject to the equity method

   Affiliates: Commercial Airplane Co., Ltd., Asahi Aluminium Co., Ltd.

   These affiliates are excluded from application of the equity method because they do not have any material impact on the consolidated financial statements with respect to net income and retained earnings.

3. Significant accounting policies

   (1) Standards and methods for evaluation of assets

   (i) Marketable securities

   Bonds held to maturity

   Principally stated by the amortized cost method

   Other marketable securities

   - Securities with market quotations

     Stated at market based on the market price on the settlement date of the accounting period (with all valuation differences charged to net assets and the cost of sale computed mainly by the moving average method).

   - Securities without market quotations

     Stated at cost principally using the moving average method

     No trading securities are held by the Company.

   (ii) Inventories

   Stated at cost principally using the specific identification method, the moving-average method, and the first-in first-out method (a method for lowering the book value due to deterioration of profitability)

   (iii) Net credit and net liability incurred by derivative transactions

   Stated at market

   (2) Depreciation methods for fixed assets

   (i) Property, plant and equipment

   - Other than leased assets

     The declining balance method is principally used for depreciation. However, the straight line method is used for buildings acquired on or after April 1, 1998 (excluding buildings fixtures).

- Leased assets

  The leased assets involved in finance lease transactions that do not involve transfer of ownership are subject to the straight-line method, whereby the leasing period is deemed to be the duration of useful life and the residual value as zero.

  With respect to finance lease transactions not involving the transfer of ownership undertaken prior to the first year of implementation of the revision of the lease accounting standards, the Company continues to apply accounting treatment similar to that for ordinary operating leasing transactions.

(ii) Intangible assets

- Other than leased assets

  The straight line method is used. The Company’s own software (used by the Company) is subject to amortization based on the period of internal use (generally five years).

- Leased assets

  The leased assets involved in finance lease transactions that do not involve transfer of ownership are subject to the straight-line method, whereby the leasing period is deemed to be the duration of useful life and the residual value as zero.

  With respect to finance lease transactions not involving transfer of ownership undertaken prior to the first year of the implementation of the revision of the lease accounting standards, the Company continues to apply an accounting treatment similar to that for ordinary operating leasing transactions.

(3) Standards for translation of assets and liabilities denominated in foreign currencies into yen

The Company applies the revised accounting standards for transactions denominated in foreign currencies (*Opinion Concerning the Revision of Accounting Standards for Transactions Denominated in Foreign Currencies* issued by Business Accounting Council on October 22, 1999).

(4) Methods of accounting for provisions

(i) Allowance for doubtful receivables

In order to provide losses due to doubtful receivables, an amount mainly based on the historical write-off rate is recorded for ordinary receivables, and the necessary amount based on the estimated recoverability of individual cases is recorded for specified receivables such as doubtful receivables.

(ii) Accrued bonuses

A provision is recorded based on estimated bonuses to employees.

(iii) Provision for product warranties

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

(iv) Provision for losses on construction contracts

A provision for an estimated amount of losses is recorded for the next fiscal year and thereafter concerning construction works which are anticipated to incur significant losses and which allow reasonable estimation of the loss incurred at the end of fiscal year under review among those construction works that have not been delivered as of the end of the fiscal year.

(v) Employees’ retirement and severance benefits

A provision is recorded for the amount deemed to have been incurred as of fiscal year-end under review based on the estimated retiree benefits and plan assets as of this fiscal year-end (including the retirement benefit trust) in order to cover employee retirement benefits.

Actuarial differences are expensed effective from the next fiscal year mainly by the straight line method over a period of ten years, and past service liabilities are expensed effective from this fiscal year chiefly by the straight line method for a period of ten years.

(vi) Provision for losses on damages suit

In preparedness for litigation losses, we have estimated future potential losses, and have posted an amount deemed necessary.

(vii) Provision for environmental measures

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

(viii)Provision for business structure improvement

We have posted estimated expenses for business structure improvements of the Motorcycle & Engine Business in North America.

(5) Hedge accounting policy

The Company employs deferred hedge accounting and defers recognition of unrealized losses, unrealized gains, and evaluation differences incurred by the marking to market of hedges such as derivative transactions as net assets until losses and gains due to the target of hedging are recognized.

(6) Standards for revenue recognition

The standard applied for posting revenue for construction contracts is in accordance with the Accounting Standard for Construction Contracts (Accounting Standards Board of Japan(ASBJ), Statement No. 15, December 27, 2007) and Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No. 18, December 27, 2007). However, with respect to posting of revenue for long-term or major construction works (principally those with a construction period longer than 1 year, and a contract amount of ¥3 billion or more) for which construction started prior to March 31, 2009, we apply the construction progress standard (the estimate for the rate of construction progress is mainly according to the cost accounting method), and with respect to other construction we apply the completed-contract method.

With regard to contracts for which the amount of revenue from delivery is not determined and/or cost of sales is not finalized, both sales and cost of sales are estimated.

The standard for posting revenues related to finance lease transactions is principally done by the method of posting the net sales and cost of sales at the time the lease fees are received.

(7) Consumption tax and local consumption tax are subject to accounting treatment using the tax excluded method.

(8) Method for amortizing goodwill and negative goodwill

Goodwill and negative goodwill are amortized over the relevant period by the straight line method based on an estimate of their effective duration. However, all goodwill that is monetarily insignificant is amortized at the same time in the fiscal year under review.

(Notes to changes in accounting policies)

Accounting Standard for Asset Retirement Obligations

From the current consolidated fiscal year, we adopted the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008).

Accordingly, for the current consolidated fiscal year, operating income decreased by ¥16 million, and recurring profit decreased ¥21 million. Income before income taxes and minority interests decreased ¥313 million.

Accounting Standard for Equity Method of Accounting for Investments

From the current consolidated fiscal year, we adopted the “Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, March 10, 2008) and the “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (ASBJ Practical Solution Report No. 24, March 10, 2008) and made adjustments required for consolidation. The effect of adoption on our income/loss is minimal.

Accounting Standard for Business Combinations

From the current consolidated fiscal year, we adopted the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, December 26, 2008), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008), the “Partial Amendments to Accounting Standard for Research and Development Costs” (ASBJ Statement No. 23, December 26, 2008), the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, December 26, 2008), the “Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, issued on December 26, 2008) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, December 26, 2008).

(Change in presentation methods)

Consolidated statement of income

1. From the current consolidated fiscal year, “gain on sales of securities” (¥0 million in the current consolidated fiscal year) is included and presented in “Other” under non-operating expenses as a result of the decline in the significance of the amount. “Loss on valuation of securities” (¥32 million in the previous consolidated fiscal year) is presented independently as a result of the increase in the significance of the amount.
2. From the current consolidated fiscal year, we adopted the “Ministry Ordinance on Partial Amendments to the Ordinance for Enforcement of the Companies Act and Company Accounting Regulations” (2009 Ministry of Justice Ordinance No. 7, March 27, 2009) based on the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008) and present in the account of “Income before minority interests”.

(Additional information)

Revision of accounting treatment of the liquidation of claims accompanying the application of United States Statement of Financial Accounting Standards (SFAS) 166

Effective from the fiscal year ended March 31, 2011, accompanying the adoption of United States SFAS 166, Kawasaki Motors Corp., U.S.A. and other subsidiaries of the Company in the United States revised their accounting treatment of the liquidation of claims. As a result, the Consolidated Balance Sheets for the fiscal year ended March 31, 2011, recognize U.S.$343 million (¥28,520 million) for each of Receivables-trade and Short-term debt.

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

(Notes regarding the Consolidated Balance Sheet)

1. The amounts presented are rounded down to the nearest unit.
2. Accumulated depreciation of property, plant and equipment ¥640,182 million
3. Assets pledged as collateral

Accounts receivable-trade	¥40,452 million
Buildings and structures	¥4,222 million
Land	¥6 million
Securities held for investment purpose	¥420 million
Other	¥13 million

Besides those mentioned above, shares of affiliates in the amount of ¥30 million, which are eliminated in consolidated financial statements, are offered in security (revolving pledge).

Liabilities relating to collateral

Short-term borrowings	¥28,704 million
Long-term debt	¥328 million
Other	¥507 million

4. Guarantee obligations for bank loans of subsidiaries and affiliates, etc. and employees ¥33,409 million

(Notes regarding the Consolidated Statement of Income)

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

2. Provision of allowance for doubtful receivables for subsidiaries and affiliates was provision of allowance for doubtful receivables set up for the receivable from Tongfang Kawasaki Air-Conditioning Co., Ltd.

3. Loss on impairment of fixed assets

(1) Outline of the asset group that recognized an impairment loss

Use	Place	Type
Assets used for business operations	Akashi City, Hyogo	Buildings and structures, Machinery and equipment
Assets used for business operations	Kobe City, Hyogo	Buildings and structures, Machinery and equipment

(2) Method for classifying individual asset groups

Classification of individual asset groups is conducted principally on the basis of operating activities, and significant leasing assets and idle assets are treated individually as a specific asset group.

(3) Developments that led to the recognition of an impairment loss
Certain assets experienced a deterioration of operating results, decline of market price, and loss of usability. Accordingly, the Company lowered the book values of the relevant assets to recoverable amounts.

(4) Method for computation of recoverable amount
A recoverable amount is estimated by the net sale price or the use value. The net sale price is determined based on the real estate appraisal or the assessed value for real estate tax, and the use value is computed based on future cash flow.

(5) Amount of impairment loss
The amount of ¥9,923 million for impairment loss was posted under extraordinary losses as impairment loss, and the breakdown of the types of fixed assets is as follows.

Buildings and structures	¥3,731 million
Machinery and equipment	¥2,300 million
Others	¥3,891 million
Total	¥9,923 million

(Notes regarding Consolidated Statement of Changes in Net Assets)

1. Total number of shares outstanding as of end of the fiscal year under review
Common stock 1,670,646,460 shares

2. Dividends

Resolution	Total dividend (million yen)	Dividend per share (yen)	Record date	Effective date
General Meeting of Shareholders on June 25, 2010	5,003	3	March 31, 2010	June 28, 2010

Scheduled date of resolution	Total dividend (million yen)	Dividend per share (yen)	Record date	Effective date
General Meeting of Shareholders on June 28, 2011	5,011	3	March 31, 2011	June 29, 2011

3. Type and number of stock for share options
Common stock 14,958,749 shares

(Notes regarding financial instruments)

1. Matters regarding financial instruments

KHI Group raises necessary funds, in light of its business plans; for long-term working capital and capital expenditure funds the Group predominantly raises funds through bank loans and issuance of corporate bonds, for short-term working capital it raises funds through bank loans and issuance of short-term bonds (electronic commercial paper), etc. Temporary surplus funds are invested in highly secure financial assets. We use derivatives to avoid risks described hereunder and do not engage in speculative transactions.

Operating receivables, namely, trade receivables are exposed to counterparty credit risk. The currency exchange risk of the debts and credits in foreign currencies which arise from global business operations is hedged by using foreign exchange forward contracts and currency swaps etc. in principle against the net amount of the debts and credits in the foreign currency. Investments in securities are mainly shares of corporations which we have business dealings with, and of these investments, those shares that are listed are exposed to the risk of market price fluctuations.

Most trade payables, which are operating liabilities, have maturities of less than one year. Some of those are denominated in foreign currencies due to the import of materials, etc., and although they are exposed to the risk of currency fluctuation, most are within the limit of the balance of accounts receivable in the same foreign currency. Debts payable composed of loans, corporate bonds, and lease obligations related to finance lease transactions are raised for the purpose of securing working capital and capital expenditure funds, and the longest maturity from the date of settlement is about 9 years. Some of those instruments have floating interest and are therefore exposed to the risk of interest rate fluctuations, however we hedge those risks as required by using derivatives transactions (interest rate swaps).

Derivative transactions are transactions which include exchange forward contracts and currency options for the purpose of hedging exchange fluctuation risks of the debts and credits in foreign currencies, and interest rates swap transactions etc. for the purpose of hedging interest fluctuation risks of debts payable.

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

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

(Unit: million yen)

	Price recorded in the consolidated balance sheet(*)	Fair market value(*)	Difference
(1) Cash on hand and in banks	47,233	47,233	-
(2) Trade receivables	401,753	401,625	(128)
(3) Investments in securities	16,539	16,526	(12)
(4) Trade payables	[319,271]	[319,271]	-
(5) Short-term borrowings	[143,972]	[143,972]	-
(6) Current bonds payable	[20,000]	[20,000]	-
(7) Current convertible bonds	[7,038]	[7,038]	-
(8) Current portion of bonds with stock acquisition rights	[3,445]	[3,445]	-
(9) Bonds payable	[50,000]	[50,603]	(603)
(10) Long-term debt	[203,801]	[204,775]	(973)
(11) Derivative transactions	[1,660]	[1,660]	-

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

(Note 1) Matters concerning the method for calculating the fair market value of financial instruments and marketable securities and derivatives transactions

(1) Cash on hand and in banks
These instruments can be settled within short term and fair market value is roughly equal to book value, therefore the fair market value is stated at book value.

(2) Trade receivables
Trade receivables are grouped into a specified period, and are stated at present value calculated by the discount rate, which takes into account the respective period and credit risk.

(3) Investments in securities
The fair market value for these securities is stated at the price listed on the exchange.

(4) Trade payables, (5) Short-term borrowings, (6) Current bonds payable, (7) Current convertible bonds and (8) Current portion of bonds with stock acquisition rights
These instruments can be settled within short term and fair market value is roughly equal to book value, therefore the fair market value is stated at book value.

(9) Bonds payable
The fair market value of these instruments is stated at market price.

(10) Long-term debt
The fair market value of long-term debt is determined by discounting the total of principal and interest by the interest rate on similar new debt.

(11) Derivatives transactions
The fair market value of derivatives is stated at the forward exchange rate or the price offered by the trading financial institution. Of instruments subject to hedge accounting, those which are subject to appropriation of forward exchange contracts are stated in association with hedged trade receivables, and trade payables. Their fair market value is therefore included in the fair market value of the relevant trade receivables, and trade payables. Instruments subject to special treatment such as interest rate swaps are stated in association with hedged long-term debt and their fair market value is therefore included in the fair market value of the relevant long-term debt.

(Note 2) Shares of affiliates, investments in affiliates and unlisted stocks, and investments in silent partnerships (amount recorded in the consolidated balance sheet was ¥33,751 million) are not included in the table above, as it is deemed to be extremely difficult to ascertain fair market value because those instruments have no market prices, and it is not possible to estimate their future cash flows

(Notes regarding per share information)

1. Net assets per share ¥ 173.03
2. Net income per share ¥ 15.55

(Notes regarding business combinations)

Transactions under common control

1. Name and business of the companies being combined, date of combination, legal method of business combination, name of the company after combination, and summary of transaction including its purpose

(1) Name and business of the companies being combined

Merging company (surviving company)

Name: Kawasaki Heavy Industries, Ltd.

Business: Manufacture and sale of ships, rolling stock, construction machinery, crushers, aircraft, jet engines, general-purpose gas turbines, prime movers, various plant and industry machineries, boilers, environmental equipment, steel structures, motorcycles, 4-wheel buggies (ATVs), industrial robots, and various hydraulic equipment

Merged Companies

Name: Kawasaki Shipbuilding Corporation

Business: Design, manufacture, sale and repair of ships, vessels, marine equipment, other transportation equipment and facilities, and parts thereof

Name: Kawasaki Precision Machinery Ltd.

Business: Design, procurement, manufacture, installation, repair and sale of hydraulic machineries, hydraulic equipment, electronic control equipment/systems and accompanying devices, parts, and accessories thereof

Name: Kawasaki Plant Systems Ltd.

Business: Design, manufacture, installation, and sale of various plant machinery and equipment

(2) Date of combination

October 1, 2010

(3) Legal method of business combination

Absorption-type merger with KHI as a surviving company

(4) Name of the company after combination

Kawasaki Heavy Industries, Ltd.

(5) Summary of transactions including purpose

We operate based on the management principle established in 2007 “To create new values toward the establishment of an enriched and beautiful society in the future, while harmonizing with the world environment by leveraging the sophisticated technological capabilities in a wide range of areas.” To create such new value, innovations to existing products and development of products in new areas are required, and it is essential to merge and use the intellectual properties of the entire group efficiently and promptly.

We therefore merged Kawasaki Shipbuilding Corporation, Kawasaki Precision Machinery Ltd., and Kawasaki Plant Systems Ltd. to eliminate restrictions that developed due to the fact they were independent companies, and use their technological expertise and human resources as a Group to the fullest extent.

2. Summary of accounting

We processed this combination as a transaction under common control based on the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, December 26, 2008) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, December 26, 2008).

Notes to the Non-consolidated Financial Statements

(Notes to significant accounting policies)

1. Marketable securities are evaluated by the following methods:
   (1) Investment securities of subsidiaries and affiliates
   Stated at cost using the moving-average method
   (2) Other marketable securities
   ・ Securities with market quotations
   Stated at market based on the market price on the settlement date of the fiscal year.
   Evaluation differences are all charged to net assets, and the amount obtained by subtracting the amount of tax effect from the total amount of the evaluation difference is represented in the section of net assets as "Net unrealized gains on securities."
   The cost of sales is calculated chiefly by the moving average method.
   ・ Securities without market quotations
   Stated at cost using the moving average method
   Trading securities and held-to-maturity bonds are not held by the Company.

2. Inventories are stated at cost using the specific identification method and the moving-average method (a method for lowering the book value due to deterioration of profitability)

3. Derivatives are stated at market

4. Property, plant and equipment are subject to depreciation conducted by the following methods:
   (1) Other than leased assets
   The Company mainly employs the declining balance method for depreciation. However, the straight line method is used for buildings acquired on April 1, 1998, or thereafter (excluding buildings fixtures).
   (2) Leased assets
   The leased assets involved in finance lease transactions that do not involve transfer of ownership are subject to the straight-line method, whereby the leasing period is deemed to be the duration of useful life and the residual value as zero.
   With respect to finance lease transactions not involving the transfer of ownership undertaken prior to the first year of implementation of the revision of the lease accounting standards, the Company continues to apply accounting treatment similar to that for ordinary operating leasing transactions.

5. Intangible assets are subject to amortization conducted by the following methods:
   (1) Other than leased assets
   The straight line method is used. The Company's own software (used by the Company) is subject to amortization based on the period of internal use (five years).
   (2) Leased assets
   The leased assets involved in finance lease transactions that do not involve transfer of ownership are subject to the straight-line method, whereby the leasing period is deemed to be the duration of useful life and the residual value as zero.
   With respect to finance lease transactions not involving transfer of ownership undertaken prior to the first year of the implementation of the revision of the lease accounting standards, the Company continues to apply an accounting treatment similar to that for ordinary operating leasing transactions.

6. The Company applies the revised accounting standards for transactions denominated in foreign currencies (*Opinion Concerning the Revision of Accounting Standards for Transactions Denominated in Foreign Currencies* issued by the Business Accounting Deliberation Council on October 22, 1999) as standards for translation of assets and liabilities denominated in foreign currencies into yen.

7. Standards of accounting for provisions
   (1) Allowance for doubtful receivables
   In order to provide losses due to doubtful receivables, an amount based on the historical write-off rate is recorded for ordinary receivables, and the necessary amount based on the estimated recoverability of individual cases is recorded for specified receivables such as doubtful receivables.

(2) Accrued bonuses
The Company has recorded a provision based on the estimated amount of payments in order to cover the bonus payouts to employees in accordance with the Company's Rules for Bonus Payment

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

(4) Provision for losses on construction contracts
A provision for an estimated amount of losses is recorded for the next fiscal year and thereafter concerning construction works which are anticipated to incur significant losses and which allow reasonable estimation of the loss incurred at the end of this fiscal year among those construction works that have not been delivered as of the end of the fiscal year.

(5) Employees' retirement and severance benefits
A provision is recorded for the amount deemed to have been incurred as of this fiscal year-end based on the estimated retiree benefits and plan assets as of this fiscal year-end (including the pension trust) to cover employee retirement benefits. Actuarial differences are expensed by the straight-line method over a period of ten years commencing from the following fiscal year, and past service liabilities are expensed by the straight-line method over a period of ten years commencing from the current fiscal year.

(6) In preparedness for litigation losses, we have estimated future potential losses, and have posted an amount deemed necessary.

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

(8) In a provision for business structure improvement, we posted estimated expenses for restructuring the Motorcycle & Engine Business in North America.

8. Hedge accounting policy
The Company employs deferred hedge accounting and defers recognition of unrealized losses, unrealized gains, and evaluation differences incurred by the marking to market of hedges such as derivative transactions as net assets until losses and gains due to the target of hedging are recognized.

9. Standards for revenue recognition
The standard applied for posting revenue for construction contracts is in accordance with the Accounting Standard for Construction Contracts (ASBJ Statement No. 15, December 27, 2007) and Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No. 18, December 27, 2007). However, with respect to posting of revenue for long-term or major construction works (those with a construction period longer than 1 year, and a contract amount of ¥3 billion or more) for which construction started prior to March 31, 2009 we apply the construction progress standard (the estimate for the rate of construction progress is mainly according to the cost accounting method), and with respect to other construction we apply the completed-contract method. With regard to contracts for which the amount of revenue from delivery is not determined and/or cost of sales is not finalized, both sales and cost of sales are estimated.

10. Consumption tax and local consumption tax are subject to the accounting treatment using the tax excluded method.

(Notes to changes in accounting policies)

Accounting Standard for Asset Retirement Obligations

From this fiscal year, we adopt the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008).

Accordingly, for this fiscal year, operating income decreased by ¥9 million and recurring profit decreased by ¥14 million. Income before income taxes decreased by ¥206 million.

(Change in presentation methods)

Non-consolidated statement of income

From this fiscal year, "gain on sales of securities" (¥0 million in this fiscal year) is included and presented in "Other" under non-operating expenses as a result of the decline in the significance of the amount. "Loss on valuation of securities” (¥22 million in the previous fiscal year) is presented independently as a result of the increase in the significance of the amount.

(Notes to Non-Consolidated Balance Sheet)

1. The amounts presented are rounded down to the nearest unit.
2. Accumulated depreciation of property, plant and equipment ¥ 491,300 million
3. Monetary receivables from and payables to affiliates

Short-term monetary assets	¥ 124,798 million
Long-term monetary assets	¥ 7,511 million
Short-tem monetary liabilities	¥ 90,643 million

4. Asset pledged as collateral and liability relating to collateral

(1) Assets pledged as collateral

Investment securities	¥ 41 million
Buildings	¥ 96 million
Total	¥ 137 million

(2) Liability relating to collateral

Long-term debt (due for repayment within one year)	¥ 17 million
Long-term debt	¥ 195 million

5. Guarantee liability for bank borrowings by affiliates and employees ¥ 47,397 million

(Notes to the Non-consolidated Statement of Income)

1. The amounts presented are rounded down to the nearest unit.
2. Transactions with affiliates

Net sales	¥ 262,205 million
Purchases	¥ 126,710 million
Transactions other than operating transactions	¥ 43,933 million

3. Gain on extinguishment of tie-in shares is the difference recorded as extraordinary gain between the book value of shares of the following three subsidiaries and increased shareholders’ equity, with the merger with Kawasaki Shipbuilding Corporation, Kawasaki Precision Machinery Ltd. and Kawasaki Plant Systems Ltd.
4. Loss on impairment of fixed assets

(1) Outline of the asset group that recognized an impairment loss

Use	Place	Type
Assets used for business operations	Akashi City, Hyogo	Buildings and structures, Machinery and equipment
Assets used for business operations	Kobe City, Hyogo	Buildings and structures, Machinery and equipment

(2) Method for classifying individual asset groups
Classification of individual asset groups is conducted principally on the basis of operating activities, and significant leasing assets and idle assets are treated individually as a specific asset group.

(3) Developments that led to the recognition of an impairment loss
Certain assets experienced a deterioration of operating results, decline of market price, and loss of usability. Accordingly, the Company lowered the book values of the relevant assets to recoverable amounts.

(4) Method for computation of recoverable amount
A recoverable amount is estimated by the net sale price or the use value. The net sale price is determined based on the real estate appraisal or the assessed value for real estate tax, and the use value is computed based on future cash flow.

(5) Amount of impairment loss
The amount of ¥9,923 million for impairment loss was posted under extraordinary losses as impairment loss, and the breakdown of the types of fixed assets is as follows.

Buildings	¥3,364 million
Structures	¥367 million
Machinery and equipment	¥2,300 million

Others	¥3,891 million
Total	¥9,923 million

(Notes to Non-consolidated Statement of Changes in Net Assets)
Number of treasury stock at the end of fiscal year under review
Common stock 100,288 shares

(Notes to Tax Effect Accounting)
Among other factors, the main contributing factor to deferred tax assets is the disallowance of various provisions such as the employees' retirement and severance benefits and the accrued bonuses, and the main contributing factor to the deferred tax liabilities incurred is net unrealized gain on securities.

(Notes to Leased Fixed Assets)
Other than the fixed assets recorded on the balance sheet, certain manufacturing facilities are used under finance lease contracts not involving the transfer of the ownership of the leased property.

(Notes for transactions with interested parties)

Unit: million yen

Attributes	Company name	Percentage of voting rights held	Relationship with interested party	Content of transaction	Amount of transaction	Item	Balance at fiscal year-end
Subsidiary	Kawasaki Motors Corp., U.S.A.	100% directly held	Sale of the company's products	Loan guarantees	13,666	-	-
Subsidiary	Kawasaki Shipbuilding Corporation	100% directly held	Sale of the company's products	Money lending	17,017	-	-
Subsidiary	Kawasaki Plant Systems, Ltd.	100% directly held	Sale of the company's products	Money borrowing	24,366	-	-
Subsidiary	Kawaju Finance, Ltd.	100% directly held	Businesses related to factoring with business partners	Money lending	17,555	-	-
Companies, etc. in which the officers have significant influence	Japan Aircraft Development Corporation	Ownership 0% directly	Directors concurrently serving	Loan guarantees	12,666	-	-
Affiliate	Nantong COSCO KHI Ship Engineering Co., Ltd.	50% directly held	Directors concurrently serving	Loan guarantees	7,192	-	-

(Note 1) For debt guarantees we charge a certain ratio for guarantee fees, and perform guarantee of debts for bank loans, etc. when requested by financial institutions.

(Note 2) With respect to lending and borrowing money, we reasonably decide the interest rate taking into consideration market interest rates. The transaction amount stated is the average balance in this fiscal year. Because we implemented an absorption-type merger with Kawasaki Shipbuilding Corporation and Kawasaki Plant Systems Ltd. as of October 1, 2010, transaction amounts stated with these two companies are the average balance during the period between April 1, 2010 and September 30, 2010.

(Notes to per Share Information)
1. Net assets per share ¥ 147.78
2. Net income per share ¥ 19.97