

The Items Published on the Internet Website
Concerning the Notice of the 189th 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 97 in total

- (Domestic) Kawasaki Trading Co., Ltd., Kawasaki Machine Systems, Ltd., KCM Corporation, NIPPI 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 Motors Europe N.V., Kawasaki Motors Enterprise (Thailand) Co., Ltd., Kawasaki Rail Car, Inc., P.T. Kawasaki Motor Indonesia, Flutek, Ltd. Kawasaki Motors (Phils.) Corporation, Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd., Kawasaki Motores do Brasil Ltda., Kawasaki Precision Machinery (U.K.) Ltd.

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

Three consolidated subsidiaries were excluded from the scope of consolidation because they were merged into another consolidated subsidiary through an absorption-type merger.

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."

(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) From the 189th fiscal year, the Company adopt a consolidated tax payment system.

(9) Amortization method and amortization period of goodwill

Goodwill is 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.

(Additional information)

Application of accounting standard relating to accounting changes and error corrections

In terms of accounting changes and corrections of errors contained in previous reports after the beginning of the 189th fiscal year, we adopted “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24, December 4, 2009) and “Guidance for Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24, December 4, 2009).

Impact of changes in tax rates

The Law to Revise the Income Tax, etc. in Order to Construct a Tax System Addressing Changes in the Socio-Economic Structure (Law No. 114 of 2011) and The Law on Special Measures to Secure Financial Resources for Reconstruction Following the Great East Japan Earthquake (Law No. 117 of 2011) were promulgated on December 2, 2011, thereby mandating the reduction of the corporate tax rate and the levy of a special reconstruction corporate tax for fiscal years commencing on or after April 1, 2012. Pursuant to these laws, the statutory effective tax rate used in calculating deferred tax assets and deferred tax liabilities (limited to items eliminated on or after April 1, 2012) has been reduced from the 40.5% previously used to 37.8% for items expected to be collected or paid in the period from April 1, 2012, to March 31, 2015, and to 35.5% for items expected to be collected or paid on or after April 1, 2015.

As a result, deferred tax assets (net of deferred tax liabilities) decreased ¥5,917 million, and income taxes-deferred recorded in the year ended March 31, 2012, valuation difference on available-for-sale securities, and deferred gains or losses on hedges increased by ¥6,188 million, ¥252 million and ¥18 million, respectively.

(Notes to Consolidated Balance Sheet)

1. The amounts presented are rounded down to the nearest unit.	
2. Accumulated depreciation of property, plant and equipment	¥664,810million
3. Assets pledged as collateral	
Accounts receivable-trade	¥44,932 million
Buildings and structures	¥3,981 million
Land	¥6 million
Securities held for investment purpose	¥418 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	¥29,473 million
Long-term debt	¥178 million
Other	¥59 million
4. Guarantee obligations for bank loans of subsidiaries and affiliates, etc. and employees	¥29,496 million

(Notes to Consolidated Statement of Income)

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

2. 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	Sakaide City, Kagawa	Buildings and structures, Machinery and equipment
Assets used for business operations	Minato-ku and Koto-ku, Tokyo	Buildings and structures
Idle assets	Kakamigahara City, Gifu	Buildings and structures
Idle assets	Akashi City, Hyogo	Buildings and structures
Idle assets	Takeda City, Oita	Lands, etc.

(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 ¥14,921 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	¥7,091 million
Machinery and equipment	¥4,315 million
Land	¥2,587 million
Others	¥926 million
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Total	¥14,921 million

(Notes to Consolidated Statement of Changes in Net Assets)

1. Total number of shares outstanding as of end of the fiscal year under review

Common stock 1,671,892,659 shares

2. Dividends

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

Scheduled date of resolution	Total dividend (million yen)	Dividend per share (yen)	Record date	Effective date
General Meeting of Shareholders on June 27, 2012	8,359	5	March 31, 2012	June 28, 2012

(Notes to 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 10 years. Some of those instruments have floating interest and are denominated in foreign currencies and are therefore exposed to the risk of interest rate and currency exchange fluctuations, however we hedge those risks as required by using derivatives transactions (interest rate swaps and currency swaps).

Derivative transactions are transactions which include exchange forward contracts and currency options and currency swaps transactions 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	34,316	34,316	-
(2) Trade receivables	404,054	403,847	(206)
(3) Short-term and long term investment securities	16,427	16,398	(28)
(4) Trade payables	[310,775]	[310,775]	-
(5) Short-term borrowings	[137,568]	[137,568]	-
(6) Current bonds payable	[10,000]	[10,000]	-
(7) Bonds payable	[60,000]	[61,042]	(1,042)

(8) Long-term debt	[198,737]	[199,629]	(892)
(9) Derivative transactions	[4,886]	[4,886]	-

(*) 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) Short-term and long term investment 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

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.

(7) Bonds payable

The fair market value of these instruments is stated at market price.

(8) 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.

(9) 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 ¥37,129 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 to per share information)

1. Net assets per share	¥ 183.06
2. Net income per share	¥ 13.95

(Other important subsequent events of the Company)

Investment in Chinese shipbuilding company

KHI decided to acquire a stake in Dalian COSCO Shipbuilding Industry Co., Ltd. (DACOS), a shipbuilding company based in Dalian, China, and completed the appropriate payment on April 12, 2012.

1. Purpose

DACOS is a joint venture company established in the Lushun Economic Development Zone in Dalian. It was co-founded in 2007 by COSCO Shipbuilding Industry Company (COSIC)—a wholly-owned subsidiary of the COSCO Group, which is one of the largest shipping companies worldwide—and Nantong COSCO KHI Ship Engineering Co., Ltd. (NACKS), a 50-50 joint venture operated by KHI and COSIC. DACOS was initially 70% under the ownership of COSIC and 30% under that of NACKS. At its 1.8-million-m2 shipyard complete with two building docks, DACOS's carriers have earned high marks from the shipowners both in terms of timely delivery and quality.

Through the transaction, KHI acquired a 34% stake in DACOS from COSIC, which has accepted the investment of KHI with its more advanced shipbuilding technology in order to make DACOS more competitive and further expand its operations. After the share transfer, DACOS is 36% owned by COSIC, 34% by KHI and 30% by NACKS.

As a direct investor in DACOS, KHI will aim to build a stronger cooperative relationship based on the successes of NACKS, its first joint venture with COSIC. KHI will also work toward enhancing DACOS's capacity to develop, design and build ships, while improving its production and management system to lay a firm foundation, thereby contributing to DACOS's long-term growth.

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

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

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. 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.
 11. From 189th fiscal year, we adopt a consolidated tax payment system.

(Additional information)

Application of accounting standard relating to accounting changes and error corrections

In terms of accounting changes and corrections of errors contained in previous reports after the beginning of the 189th fiscal year, we adopted "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, December 4, 2009) and "Guidance for Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, December 4, 2009).

(Change in presentation methods)

Non-consolidated statement of income

"Loss on disposal of fixed assets" (¥429 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	¥ 511,935 million
3.	Monetary receivables from and payables to affiliates	
	Short-term monetary assets	¥ 187,660 million
	Long-term monetary assets	¥ 7,848 million
	Short-term monetary liabilities	¥ 148,030 million
4.	Asset pledged as collateral and liability relating to collateral	
	(1) Assets pledged as collateral	
	Investment securities	¥ 41 million
	Buildings	¥ 88 million
	Total	¥ 129 million
	(2) Liability relating to collateral	
	Long-term debt (due for repayment within one year)	¥ 16 million
	Long-term debt	¥ 178 million
5.	Guarantee liability for bank borrowings by affiliates and employees	¥ 43,598 million

(Notes to Non-consolidated Statement of Income)

1.	The amounts presented are rounded down to the nearest unit.	
2.	Transactions with affiliates	
	Net sales	¥ 306,334 million
	Purchases	¥ 141,597 million
	Transactions other than operating transactions	¥ 29,573 million
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	Sakaide City, Kagawa	Buildings and structures, Machinery and equipment
Assets used for business operations	Minato-ku and Koto-ku, Tokyo	Buildings
Idle assets	Kakamigahara City, Gifu	Buildings and structures
Idle assets	Akashi City, Hyogo	Buildings and structures
Idle assets	Takeda City, Oita	Lands, etc.

- (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 ¥14,856 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	¥4,495 million
Structures	¥1,743 million
Machinery and equipment	¥4,315 million
Land	¥2,587 million

Others	¥1,714 million
Total	¥14,856 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 77,126 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.

(Additional information)

Impact of changes in tax rates

The Law to Revise the Income Tax, etc. in Order to Construct a Tax System Addressing Changes in the Socio-Economic Structure (Law No. 114 of 2011) and The Law on Special Measures to Secure Financial Resources for Reconstruction Following the Great East Japan Earthquake (Law No. 117 of 2011) were promulgated on December 2, 2011, thereby mandating the reduction of the corporate tax rate and the levy of a special reconstruction corporate tax for fiscal years commencing on or after April 1, 2012. Pursuant to these laws, the statutory effective tax rate used in calculating deferred tax assets and deferred tax liabilities (limited to items eliminated on or after April 1, 2012) has been reduced from the 40.5% previously used to 37.8% for items expected to be collected or paid in the period from April 1, 2012, to March 31, 2015, and to 35.5% for items expected to be collected or paid on or after April 1, 2015.

As a result, deferred tax assets (net of deferred tax liabilities) decreased ¥5,152 million, and income taxes-deferred recorded in the year ended March 31, 2012, valuation difference on available-for-sale securities, and deferred gains or losses on hedges increased by ¥5,433 million, ¥263 million and ¥18 million, respectively.

(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	13,252	-	-
Subsidiary	Kawasaki Trading Co., Ltd.	70% directly held	Sale of the company's products	Purchase of fixed assets	9,362	Accounts payable	1,590
Subsidiary	Kawaju Finance, Ltd.	100% directly held	Businesses related to factoring with business partners	Money lending	27,325	Short-term loans receivable	30,231
Affiliate	Commercial Airplane Co., Ltd.	40% directly held	Sale of the company's products	Loan guarantees	12,721	-	-
Affiliate	Nantong COSCO KHI Ship Engineering Co., Ltd.	50% directly held	Directors concurrently serving	Loan guarantees	6,838	-	-

(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 the purchase of fixed assets, the price is determined through negotiation in each case, based on market prices and other related factors.

(Note 3) 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.

(Note 4) Consumption tax is not included in the amount of transaction, but is included in the balance at fiscal year-end.

(Notes to per Share Information)

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|-------------------------|----------|
| 1. Net assets per share | ¥ 152.55 |
| 2. Net income per share | ¥ 6.87 |

(Other important subsequent events of the Company)

Investment in a Chinese shipbuilding company

KHI decided to acquire a stake in Dalian COSCO Shipbuilding Industry Co., Ltd. (DACOS), a shipbuilding company based in Dalian, China, and completed the appropriate payment on April 12, 2012.

1. Purpose

DACOS is a joint venture company established in the Lushun Economic Development Zone in Dalian. It was co-founded in 2007 by COSCO Shipbuilding Industry Company (COSIC)—a wholly-owned subsidiary of the COSCO Group, which is one of the largest shipping companies worldwide—and Nantong COSCO KHI Ship Engineering Co., Ltd. (NACKS), a 50-50 joint venture operated by KHI and COSIC. DACOS was initially 70% under the ownership of COSIC and 30% under that of NACKS. At its 1.8-million-m² shipyard complete with two building docks, DACOS's carriers have earned high marks from the shipowners both in terms of timely delivery and quality.

Through the transaction, KHI acquired a 34% stake in DACOS from COSIC, which has accepted the investment of KHI with its more advanced shipbuilding technology in order to make DACOS more competitive and further expand its operations. After the share transfer, DACOS is 36% owned by COSIC, 34% by KHI and 30% by NACKS.

As a direct investor in DACOS, KHI will aim to build a stronger cooperative relationship based on the successes of NACKS, its first joint venture with COSIC. KHI will also work toward enhancing DACOS's capacity to develop, design and build ships, while improving its production and management system to lay a firm foundation, thereby contributing to DACOS's long-term growth.

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

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

*NACKS is a 50-50 joint venture co-founded by COSIC and KHI.