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(Securities Code 7012)
June 5, 2012

Dear Shareholders

Satoshi Hasegawa
President
Kawasaki Heavy Industries, Ltd.
1-1 Higashikawasaki-cho 3chome,
Chuo-ku, Kobe
(Registered Office)
1-3 Higashikawasaki-cho 1chome,
Chuo-ku, Kobe

**NOTICE OF
THE 189TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

You are cordially invited to attend the 189th Ordinary General Meeting of Shareholders of Kawasaki Heavy Industries, Ltd. (“the Company” or “KHI”). The meeting will be held for the purposes as described below.

If you are unable to attend on the day of the meeting we kindly ask you to review the “Reference Documents for the General Meeting of Shareholders” (described hereinafter), and exercise your voting right in writing or electronically (via the Internet, etc.) by 5:00 p.m. on June 26, 2012.

Exercise of Voting Rights in Writing

Please indicate your vote for or against the proposals on the enclosed Voting Rights Exercise Form, and return it so that it is delivered by the above-mentioned exercise date.

Exercise of Voting Rights via the Internet

Please exercise your voting right by logging on to the Internet website (<http://www.web54.net>) and entering the voting right exercise code and password stated on the enclosed Voting Rights Exercise Form, and follow the online instructions to submit your vote.

- 1. Date and Time:** **Wednesday, June 27, 2012 at 10:00 a.m. (Door opens at 9 a.m.)**
- 2. Place:** **Kokusai Hall at The Kobe International House, located at 1-6, Gokoudori 8-chome, Chuo-ku, Kobe**

3. Meeting Agenda:

- Matters to be reported:**
1. The Business Report, Consolidated Financial Statements for the Company's 189th Fiscal Year (April 1, 2011 - March 31, 2012) and results of audits by the Accounting Auditor and the Board of Corporate Auditors of the Consolidated Financial Statements
 2. Non-Consolidated Financial Statements for the Company's 189th Fiscal Year (April 1, 2011 - March 31, 2012)

Proposal No. 1: Appropriation of Retained Earnings

Proposal No. 2: Partial Amendments to the Articles of Incorporation

Proposal No. 3: Election of Thirteen Directors

Proposal No. 4: Election of One Corporate Auditor

Proposal No. 5: Revision of Amount of Compensation Payable to Directors

(Please refer to the "Reference Documents for the General Meeting of Shareholders" hereinafter for information on each of the proposals.)

4. Other decisions regarding the General Meeting of Shareholders:

- (1) When voting rights have been exercised twice in writing or electronically, the latter vote received shall be deemed valid, however when votes are received on the same day, the voting right exercised electronically shall be deemed valid.

Shareholders who intend to diversely exercise voting rights are requested to give written notification to that effect, and the reason(s) thereof, no later than three (3) days prior to the day of the General Meeting of Shareholders.

- (2) Because the "Notes to the Consolidated Financial Statements" and "Notes to the Non-consolidated Financial Statements" among the documents to be submitted when sending the Notice are posted on our Website (<http://www.khi.co.jp/english/ir/>) according to laws and the Article 16 of the Articles of Incorporation, they are not included in the Appendix regarding matters to be reported. In addition, the "Notes to the Consolidated Financial Statements" and "Notes to the Non-consolidated Financial Statements" have been combined with the Consolidated Financial Statements and the Non-Consolidated Financial Statements for the auditing process, in order for the preparation of the results of audits by the Accounting Auditor and the Board of Corporate Auditors.

Notes:

1. When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk at the venue on the day of the meeting. Please note that persons other than shareholders who are able to exercise voting rights, including representatives and their companions who are not shareholders, are not permitted to enter the venue.
In order to save resources, please bring this Notice with you to the Meeting.
2. Any updates to the Appendix and the Reference Documents for the General Meeting of Shareholders, will be posted on the Company's Website at the following URL: (<http://www.khi.co.jp/english/ir/>).

Business Report

(April 1, 2011 - March 31, 2012)

1. Overview of the Company Group

(1) Business Progress and Results

(i) General Conditions

During the current consolidated fiscal year, the Japanese economy started showing signs of gradual recovery, though there was a concern of economic slowdown due to the impact of the 2011 Thailand Floods as well as the disruption of the supply chain caused by the Great East Japan Earthquake and the continued historic appreciation of the yen. As the post-earthquake reconstruction will boost future demand and concerns about the concept future energy are growing, the social role of KHI Group, which is engaged in the development of various key infrastructures, is becoming more significant.

With respect to the global economy, while employment conditions in the U.S. were gradually improving, the protracted issue of debtor nations in Europe persisted as a cause for concern. In the midst of such circumstances, China has slowed somewhat and yet still maintained its high growth rate. Emerging countries, including Asian nations and Brazil, also showed steady demand for infrastructure. Driven by these nations, the global economy was on a track for a modest growth overall. At the same time, the growth of emerging countries particularly has posed an urgent issue in terms of energy, water and waste disposal, leading to the global expansion of the business areas in which KHI Group can give contributions.

Amid this operating environment, the operations of KHI Group's business segments achieved an overall increase in both revenue and profit compared to the previous fiscal year, except for some business segments which marked revenue or profit decreases. A decrease in orders in the Rolling Stock segment, the Ship & Offshore Structure segment and the Plant & Infrastructure segment were made up for by an increase in the Aerospace segment, the Gas Turbine & Machinery segment and the Precision Machinery segment, resulting in overall orders received amounting to ¥1,311.8 billion, 3% higher than the previous fiscal year.

Net sales were ¥1,303.7 billion, 6% higher than the previous fiscal year. That is because a decrease in the Gas Turbine & Machinery segment and the Ship & Offshore Structure segment was made up for by revenue increases in the Precision Machinery segment, the Plant & Infrastructure segment and the Aerospace segment.

In terms of profit, although the Rolling Stock segment and the Gas Turbine & Machinery segment reported decreased profit, increased profits and improvement in performance of the Plant & Infrastructure segment and the Ship & Offshore Structure segment contributed greatly to overall profit, resulting in operating income of ¥57.4 billion, 35% higher than the previous fiscal year. Recurring profit was ¥63.6 billion, 29% higher than the previous fiscal year.

However, the reversal of deferred tax asset brought about by the amendment of the taxation system resulted in current net income of ¥23.3 billion, 10% lower than the previous fiscal year.

(ii) Operating conditions by business segment

The **Ship & Offshore Structure segment** orders received were ¥39.9 billion, which was significantly lower than the previous fiscal year, in spite of orders for eight bulk carriers and others.

Net sales were ¥113.5 billion, which was lower than the previous fiscal year, in which sales of large vessels were recorded.

Operating income was ¥3.9 billion, which significantly improved from the previous fiscal year in which a loss was posted, due to a decrease in the provision for losses on construction contracts.

The **Rolling Stock segment** orders received were ¥66.0 billion, which was significantly lower than the previous fiscal year. This is mainly attributable to large-scale orders received in the previous fiscal year and deferrals of orders expected in this fiscal year.

Despite decreased sales of rolling stock to the Japanese market, net sales were ¥132.6 billion, which was higher than the previous fiscal year, due to increased sales of rolling stock to overseas markets.

Operating income declined ¥3.0 billion from the previous fiscal year to ¥5.1 billion, due to the effects of the strong yen and the provision for losses on construction contracts.

The **Aerospace segment** orders received were ¥327.2 billion, which was significantly higher than

the previous fiscal year, due to an increase in orders received from Japan's Ministry of Defense (MOD).

Net sales were ¥206.5 billion, an increase from the previous fiscal year, due in part to an increase in sales to The Boeing Company for component parts for the Boeing 777 and Boeing 787 aircrafts.

Operating income increased ¥4.7 billion from the previous fiscal year to ¥7.8 billion, due in part to increased sales and cost reduction.

The **Gas Turbine & Machinery segment** orders received were ¥227.2 billion, which was significantly higher than the previous fiscal year, due in part to an increase in orders for component parts of commercial aircraft jet engines and an order for construction of Kawasaki Green Gas Engine-equipped power plants.

Net sales were ¥194.6 billion, which was lower than the previous fiscal year, due to a decrease in sales of such items as marine diesel engines and gas compression modules.

Operating income decreased ¥1.7 billion from the previous fiscal year to ¥7.7 billion, due in part to decreased sales.

The **Plant & Infrastructure segment** orders received were ¥119.2 billion, which was lower than the previous fiscal year, despite orders for municipal refuse incineration plants for domestic customers and other projects.

Net sales were ¥122.8 billion, which was significantly higher than the previous fiscal year, due in part to increased sales of plants to overseas customers.

Operating income increased ¥5.8 billion from the previous fiscal year to ¥14.1 billion, due in part to increased sales.

Despite a decrease in sales of motorcycles to developed countries because of the effects of the strong yen, net sales of the **Motorcycle & Engine segment** were ¥235.2 billion, which was higher than the previous fiscal year, due in part to increased sales of motorcycles in emerging countries.

Although the deterioration caused by the 2011 Thailand Floods and the effects of the strong yen were made up for by an increase in sales of motorcycles in emerging countries and a reduction of fixed expenses, operating loss was ¥2.9 billion, an improvement of ¥2.0 billion from the previous fiscal year.

The **Precision Machinery segment** orders received were ¥174.5 billion, which was higher than the previous fiscal year, predominantly due to an increase in orders for hydraulic components for the construction machinery market.

Net sales were significantly higher than the previous fiscal year at ¥175.0 billion, due in part to an increase in sales of hydraulic components for the construction machinery market and painting robots.

Operating income increased ¥4.3 billion from the previous fiscal year to ¥26.6 billion, due in part to increased sales.

In the **Others segment** net sales were higher than the previous fiscal year at ¥123.2 billion.

Operating income increased ¥1.2 billion from the previous fiscal year to ¥3.8 billion.

(Orders Received, Net Sales and Operating Income/Loss by Segment)

Unit: 100 million yen

Segment	Orders Received		Net Sales		Operating Income/Loss	
	Amount	Year-on-Year Change	Amount	Year-on-Year Change	Amount	Year-on-Year Change
Ship & Offshore Structure	399	(390)	1,135	(48)	39	49
Rolling Stock	660	(1,210)	1,326	15	51	(30)
Aerospace	3,272	1,205	2,065	97	78	47
Gas Turbine & Machinery	2,272	396	1,946	(80)	77	(17)
Plant & Infrastructure	1,192	(7)	1,228	337	141	58
Motorcycle & Engine	2,352	7	2,352	7	(29)	20
Precision Machinery	1,745	256	1,750	347	266	43
Others	1,222	153	1,232	91	38	12
Eliminations and corporate	—	—	—	—	(88)	(35)
Total	13,118	412	13,037	768	574	148

- (Notes) 1. Net sales recorded are for sales to external customers.
2. The net sales figure for Motorcycle & Engine segment is also used as the figure for orders received.

(2) Capital Investments, etc.

In the current consolidated fiscal year, KHI Group's total amount of capital investment was ¥63.9 billion, predominantly for the renewal of aging equipment and facilities for streamlining production and necessary facilities to handle new model and products, as well as facilities to increase the production capacity of the Precision Machinery segment and the Aerospace segment.

Main capital investments completed and/or acquired during the current consolidated fiscal year, and main capital investments under construction as at the end of the current consolidated fiscal year are listed below.

(i) Main capital investments completed and/or acquired during the consolidated fiscal year under review

- Hydraulic components production facilities (Precision Machinery segment)
- Aircraft production facilities (Aerospace segment)
- Rolling stock production management systems (Rolling Stock segment)
- Kobe Works General Office (company-wide)

(ii) Main capital investments under construction as at the end of the consolidated fiscal year under review

- Production facilities for jet engines (Gas Turbine & Machinery segment)
- Assembly Plant, Harima Works (Plant & Infrastructure segment)
- Renovation of office building, Kobe Works (company-wide)

(3) Financing

Funds of ¥19.9 billion from long-term loans and ¥20.0 billion from domestic unsecured straight bonds and other funds from various sources were raised in the current consolidated fiscal year. The funds were allocated to such items as redemption of bonds, long-term loan repayments, capital investments and working capital.

(4) Assignment of businesses, absorption-type splits and incorporation-type corporate splits

Not applicable.

(5) Transfer of business from other companies

Not applicable.

(6) Succession of rights and obligations pertaining to the business of another juridical person, etc. due to absorption-type merger or absorption-type company split

Not applicable.

(7) Acquisition or disposal of another company's stocks or other holdings, or share options, etc.

Not applicable.

(8) Issues to be addressed

As for the performance of KHI Group for FY2011, the Motorcycle & Engine segment was affected by the strong yen and the disruption of the supply chain caused by the 2011 Thailand Floods. KHI, however, was able to attain the target goal for FY2012, the final year of the "MTBP2010" (operating income of ¥52.0 billion and recurring profit of ¥56.0 billion) one year earlier. We believe that this is because of all business segments have steadily built up better earnings, primarily underpinned by enhanced productivity, wider implementation of measures such as meticulous risk management on large-scale projects, enhanced a global production structure that encompasses overseas procurement and the expansion of the Precision Machinery segment against the backdrop of the steady growth of the Chinese economy.

We will continue to work on thoroughly implementing "selectively focusing resources on strategic businesses," "emphasizing quality over quantity" and "employing prudent risk management," steadily satisfying demand from emerging countries and enhancing measures to respond to exchange fluctuations in order to reinforce our revenue base. To strengthen our management position, we will focus on enhancing our financial strength and fixed cost reduction. In particular, we will conduct global

reviews on production and sales systems of the shipbuilding business and the motorcycle business to developed countries, an area which continues to suffer from stagnant markets, and concentrate our energies on allocation of management resources on a priority basis from the standpoint of selectively focusing resources on strategic businesses.

Moreover, due to nationwide concerns of a limited power supply following the Great East Japan Earthquake, there has been an increasing interest in Japan on in-house and decentralized power generation as well as renewable energy. In this area, KHI Group offers various products, including the world highest efficiency Kawasaki Green Gas Engine, a well-proven gas turbine for dual fuel (oil and gas), power generators using wind power, solar power, micro hydro power and biomass, as well as storage batteries to smooth over the power situation. At the same time, according to demands of society, from here on we are expected to develop these products with systemization and in packages.

In April 2012, we established the Marketing Division in our Head Office. In addition, we will unite the Plant & Infrastructure section with the new Tokyo Head Office, which will be established in December through relocation of the current Tokyo Head Office. With this move, we will further promote the communization of the Group's intellectual properties and strengthen our system solution business in the areas of Transportation equipment, Energy & Environmental Engineering and Industrial Equipment.

The initiatives to be undertaken by each business segment are as follows.

- (i) Ship & Offshore Structure: Expand the segment scale and strengthen the competitiveness of the business in China, strengthen technological development and reform the structure centering on the "mother factory" system in the domestic segments, and enter into the ocean development field
- (ii) Rolling Stock: Develop new products and reinforce our project management to respond to Enhance competitiveness in domestic and overseas markets through highly versatile standard rolling stock, satisfy demands for railroading and upgrade of rolling stock in North America, and overseas rolling stock system projects, etc.
- (iii) Aerospace: Enhance the mass production of the P-1 patrol aircraft and C-2 transport aircraft, further develop the new utility helicopter (UH-X), enhance the mass production of the Boeing 787, and develop derivative products
- (iv) Gas Turbine & Machinery: Develop the energy solution business, promote the development of new models, including industrial gas turbines and high-efficiency gas engines, and expand these models in the overseas markets, and promote the development of new models of jet engines for commercial aircraft and improve the productivity of these models
- (v) Plant & Infrastructure: Bolster research and development in order to expand in the Energy & Environmental Engineering business sector, accelerate efforts to commercialize new products and new businesses, and expand the infrastructure business mainly for resource-rich countries
- (vi) Motorcycle & Engine: Enhance cost competitiveness through optimized production and expansion of overseas procurement on a global basis, expand sales channels and develop new markets in emerging countries we have already entered (Southeast Asia and Brazil, etc.), and develop leading technologies to respond to environmental requirements
- (vii) Precision Machinery: Strengthen the global production system of hydraulic equipment for construction machinery, establish distinctive production technology through the introduction of mass robots, enhance cost competitiveness in the robot business, and develop technologies to expand the appropriate fields
- (viii) Others: Improve development and sales capabilities with respect to the construction machinery business unit by deepening our alliance with Hitachi Construction Machinery Co., Ltd. and enhance profitability by lowering break-even points

Needless to say, compliance is a fundamental premise in carrying out business activities such as those above. KHI Group places an emphasis on enhancing the monitoring functions of management, including the selection of directors who do not have roles in the executions of operations, the appointment of outside corporate auditors with no business relationships or other vested interests in the Company, and the election of corporate auditors who have substantial knowledge about finance and accounting. Furthermore, KHI Group strives to ensure that employees are made thoroughly aware of the provisions of the various laws and regulations which apply to them, by implementing such measures as establishing internal regulations concerning corporate ethics, carrying out staff training for each position level, distributing compliance guidebooks, and setting up CSR committees in each organization. Furthermore, we have continued to take thoroughgoing organizational compliance initiatives by setting up a department which presides over internal controls, compliance, and CSR promotion, and creating

units in charge of compliance within each business unit, while also striving to create a corporate culture that places the highest priority at all times on information disclosure and transparency.

(9) Trends in Assets and Income

(i) Company Group Assets and Income

Unit: 100 million yen

Item	The 186th fiscal year	The 187th fiscal year	The 188th fiscal year	The 189th fiscal year (under review)
Orders received	15,405	10,012	12,706	13,118
Net sales	13,385	11,734	12,269	13,037
Recurring profit	387	142	491	636
Net income (loss)	117	(108)	259	233
Net income (loss) per share (yen)	¥7.02	(¥6.51)	¥15.55	¥13.95
Total assets	13,997	13,524	13,542	13,621
Net assets	2,952	2,830	2,974	3,159

(ii) Company Assets and Income

Unit: 100 million yen

Item	The 186th fiscal year	The 187th fiscal year	The 188th fiscal year	The 189th fiscal year (under review)
Orders received	10,545	5,786	8,160	10,181
Net sales	7,714	6,441	8,174	10,033
Recurring profit	26	86	328	380
Net income (loss)	(61)	(54)	333	114
Net income (loss) per share (yen)	(¥3.66)	(¥3.24)	¥19.97	¥6.87
Total assets	9,779	9,764	11,160	11,446
Net assets	2,307	2,207	2,468	2,550

(10) Major Parent Companies and Subsidiaries

(i) Parent Companies

Not applicable.

(ii) Major Subsidiaries

Company name	Capital	The Company's percentage of equity participation	Main business
Kawasaki Trading Co., Ltd.	¥ 600 million	70%	Sale of various industrial machinery, petroleum, steel, air conditioning equipment, etc.
Kawasaki Machine Systems, Ltd.	¥ 350 million	100%	Sale and repair of gas turbine generators, industrial robots, and other industrial machinery (Note 2)
KCM Corporation	¥ 4,825 million	66%	Design, manufacture, sale, repair, etc. of construction machinery
NIPPI Corporation	¥ 6,048 million	100%	Manufacture, maintenance, and modification of aircraft; manufacture of rocket components, aerospace equipment, targeting systems, nondestructive testing systems, and industrial fans
Kawasaki Thermal Engineering Co., Ltd.	¥ 1,460 million	83%	Manufacture, sales, installation and after-sales service for boilers, air-conditioning equipment and absorption-style heat pumps, etc.

Company name	Capital	The Company's percentage of equity participation	Main business
EarthTechnica Co., Ltd.	¥ 1,200 million	100%	Design, execution and supervision of engineering, construction, installation of machinery and appliances; design, manufacture, and sale of crushers, grinders, sorters, and other equipment
KCMJ Corporation	¥ 300 million	Note 3	Sale and repair of construction machinery, hydraulic components, and other industrial machinery
Kawasaki Motors Corporation Japan	¥ 100 million	100%	Sole distributor of motorcycles and JET SKI® in Japan
Kawasaki Motors Corp., U.S.A.	U.S.\$ 165 million	100%	Sales of motorcycles, 4-wheel buggies, JET SKI®, general purpose gasoline engines in the U.S.
Kawasaki Motors Manufacturing Corp., U.S.A.	U.S.\$ 120 million	100%	Manufacture of motorcycles, 4-wheel buggies, JET SKI®, general purpose gasoline engines, rolling stock, and industrial robots in the U.S.
Kawasaki Rail Car, Inc.	U.S.\$60 million	Note 4	Manufacture, sale and after-sales service for rolling stock and related products, various engineering services
Kawasaki Motores do Brasil Ltda.	R\$16 million	100%	Manufacture and sale of motorcycles and 4-wheel buggies in Brasil
Kawasaki Precision Machinery (U.K.) Ltd.	£5 million	100%	Manufacture and sale of hydraulic pumps and motors
Kawasaki Motors Europe N.V.	€64 million	100%	Sole distributorship of motorcycles, 4-wheel buggies, JET SKI®, general purpose gasoline engines in Europe
Kawasaki Motors Enterprise (Thailand) Co., Ltd.	1,900 million baht	100%	Manufacture and sale of motorcycles in Thailand
P.T. Kawasaki Motor Indonesia	U.S.\$ 40 million	83%	Manufacture and sale of motorcycles in Indonesia
Kawasaki Motors (Phils.) Corporation	101 million peso	50%	Manufacture and sale of motorcycles in the Philippines
Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.	¥ 400 million	100%	Customer service, sales and CS activities relating to precision machinery products in China
Flutek, Ltd.	1,310 million won	50%	Assembly and after-sales services for hydraulic equipment in Korea

(Notes)

- From this current consolidated fiscal year, the following changes were made in relation to companies classified as major subsidiaries: Three companies: Kawasaki Motores do Brasil Ltda., Kawasaki Precision Machinery (U.K.) Ltd. and Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd. were added.
- As of April 1, 2012, Kawasaki Machine Systems, Ltd. carried out an absorption-type company split of the department related to industrial robots with Kawasaki Robot Service, Ltd., KHI's wholly-owned subsidiary.
- KCMJ Corporation is a wholly-owned subsidiary of KCM Corporation.
- Kawasaki Rail Car, Inc. is a wholly-owned subsidiary of Kawasaki Motors Manufacturing Corp., U.S.A.

(iii) Progress of Business Combinations

There are 97 consolidated subsidiaries, including 19 companies which are cited in (ii) above as major subsidiaries, and there are 14 companies which are accounted for using the equity method.

(iv) Results of Business Combinations

As stated above in "Business Progress and Results", for the current consolidated fiscal year net sales increased ¥76.8 billion (6%) compared to the previous fiscal year, to ¥1,303.7 billion, and consolidated current net income was ¥23.3 billion.

(11) Company Group's Main Business and Number of Employees

Segment	Main Business	Number of Employees
Ship & Offshore Structure	Manufacture and sale of ships, etc.	2,735
Rolling Stock	Manufacture and sale of rolling stock, and snow removal machinery, etc.	3,111
Aerospace	Manufacture and sale of aircraft, etc.	5,428
Gas Turbine & Machinery	Manufacture and sale of jet engines, industrial gas turbines, prime movers, etc.	3,675
Plant & Infrastructure	Manufacture and sale of industrial machinery, boilers, environmental equipment, steel structures and crushing machines, etc.	2,913
Motorcycle & Engine	Manufacture and sale of motorcycles, four-wheel buggies (ATVs), multi-purpose four-wheel vehicles, personal water craft ("JET SKI®"), general purpose gasoline engines, etc.	8,839
Precision Machinery	Manufacture and sale of hydraulic components and industrial robots, etc.	2,426
Other	Manufacture and sale of construction machinery, commerce, brokerage and mediation for sale and order reception and administration of welfare facilities, etc.	3,194
Company-wide common areas	(Head Office Administration Department, Research & Development Department, etc.)	946
Total	-	33,267 { Japan 24,770 } Overseas 8,497

(Note) This company has 14,825 employees (average age: 41.7 years; average years of service: 16.4 years)

(12) Company Group's Principal Offices and Plants

(i) The Company

		Name and location
Principal offices	Head office	Kobe Head Office, Tokyo Head Office 2 Head Offices
	Branches	Sapporo Office, Sendai Office, Nagoya Office, Osaka Office, Hiroshima Office, Fukuoka Office, Okinawa Office 7 Offices
Plants, etc.		Gifu Works (Kakamigahara), Nagoya Works 1 (Yatomi, Aichi), Nagoya Works 2 (Ama-gun, Aichi), Kobe Works, Hyogo Works, Seishin Works, Nishi Kobe Works (Kobe), Akashi Works (Akashi), Kakogawa Works (Kakogawa), Harima Works (Kako-gun, Hyogo), Sakaide Works (Sakaide, Kagawa), Tokyo Office (Koto-ku, Tokyo), Technical Institute (Akashi) 13 Works (including a Technical Institute)

(ii) Material Subsidiaries

i) Domestic

Company name	Location of principal offices	Location of plants
Kawasaki Trading Co., Ltd.	Kobe, Chiyoda-ku, Tokyo	-
Kawasaki Machine Systems, Ltd.	Osaka	-
KCM Corporation	Kako-gun, Hyogo	Kako-gun, Hyogo
NIPPI Corporation	Yokohama	Yokohama, Yamato
Kawasaki Thermal Engineering Co., Ltd.	Kusatsu, Osaka, Koto-ku, Tokyo	Kusatsu
EarthTechnica Co., Ltd.	Chiyoda-ku, Tokyo	Yachiyo
KCMJ Corporation	Kakogawa	-
Kawasaki Motors Corporation Japan	Akashi	-

ii) Overseas

Company name	Location
Kawasaki Motors Corp., U.S.A.	U.S.
Kawasaki Motors Manufacturing Corp., U.S.A.	U.S.
Kawasaki Rail Car, Inc.	U.S.
Kawasaki Motores do Brasil Ltda.	Brasil
Kawasaki Precision Machinery (U.K.) Ltd.	U.K.
Kawasaki Motors Europe N.V.	The Netherlands
Kawasaki Motors Enterprise (Thailand) Co., Ltd.	Thailand
P.T. Kawasaki Motor Indonesia	Indonesia
Kawasaki Motors (Phils.) Corporation	Philippines
Kawasaki Precision Machinery Trading (Shanghai) Co., Ltd.	China
Flutek, Ltd.	Korea

(13) Principal lenders

(Unit: 100 million yen)

Lenders	Balance of Loans		
	Long term	Short term	Total
Mizuho Corporate Bank, Ltd.	139	328	467
Sumitomo Mitsui Banking Corporation	175	148	323
The Sumitomo Trust and Banking Co., Ltd.	170	50	220
Development Bank of Japan Inc.	173	5	179
Nippon Life Insurance Company	40	80	120

(Note) The Sumitomo Trust and Banking Co., Ltd. merged with The Chuo Mitsui Trust and Banking Company, Limited and Chuo Mitsui Asset Trust and Banking Company, Limited effective April 1, 2012 and became Sumitomo Mitsui Trust Bank, Limited. Accordingly, the amount of loans from Sumitomo Mitsui Trust Bank, Limited as of April 1, 2012 is 23.0 billion yen.

(14) Other important issues concerning the current situation of corporate groups

Important law suits cases etc

The Japan Fair Trade Commission issued on June 27, 2006 a cease and desist order against our company on the grounds that there was illegal conduct (bid rigging) in violation of the Antimonopoly Act in relation to the construction of refuse incineration plants ordered by municipal governments etc. We have, however, lodged an appeal with the Tokyo High Court to seek for the cancellation of the decision. In that appeal, the Tokyo High Court ruled against our company (i.e. not agreeing to cancel the decision). We therefore appealed to the Supreme Court on October 9, 2008, however, on October 6, 2009, the appeal was declined, which confirms our company lost the suit.

The Japan Fair Trade Commission issued a surcharge payment order on March 23, 2007 for the amount of ¥5,165 million against our company. We have appealed the decision to the Japan Fair Trade Commission and demanded a trial. However, since the same payment order for the amount of ¥5,165 million was issued in the decision made on November 10, 2010, we decided not to challenge the decision. We paid the surcharge in full on January 11, 2011, which closed this case.

Meanwhile, in relation to this matter, law suits have been filed against our company individually or severally with other companies as follows as of the end of March 2012, in order to seek damages from us on the grounds that we caused damage to the ordering parties due to bid rigging. Lawsuits settled during FY2011 are also included.

Municipalities, etc.	Status of the law suits
Atami City	The Supreme Court ruled in favor of our company and others on April 13, 2009 (i.e. declined the appeal of citizens seeking damages of ¥1,357 million against seven companies including our company), which confirmed that our company won the suit. However, an action for damages of ¥512 million has been brought against five companies including our company by Atami City at Tokyo High Court on August 19, 2010. The case is currently under dispute.

Amagasaki City (Civil lawsuits)	Osaka High Court ruled in favor of our company and others on November 30, 2007 (i.e. declined the demand by citizens for the payment of ¥848 million against the six companies including our company). The citizens' group appealed to the Supreme Court. The Supreme Court reversed the High Court decision and sent the case back to Osaka High Court on April 28, 2009. Osaka High Court ruled against our company and others on July 23, 2010 (i.e. ordered the six companies including our company to pay ¥336 million). Although the six companies, including our company, did not appeal to the Supreme Court, the citizen's group did so. The Supreme Court did not accept the appeal from the citizen's group on July 7, 2011, which confirmed the above rule of Osaka High Court. The case is now closed.
Sado City	An action for damages of ¥621 million was brought against our company at Niigata District Court on May 26, 2009. The District Court ruled against our company and ordered KHI to pay ¥273 million on October 14, 2011. However, both Sado City and our company filed an appeal. The case is currently under dispute in Tokyo High Court.
Greater Chichibu Municipal Association	An action for damages of ¥952 million was brought against five companies including our company at Tokyo District Court on June 18, 2009. A settlement was reached between the Greater Chichibu Municipal Association and all the defendant companies with Hitachi Zosen Corporation, a party receiving the order, agreeing to pay a settlement in the amount of ¥744 million to the Association. The case is now closed.
Tama River Health Association	An action for damages of ¥3,105 million was brought against our company at Tokyo High Court on June 24, 2010. A settlement was reached on April 5, 2012, with our company agreeing to pay a settlement in the amount of ¥2,550 million to the Tama River Health Association based on advice to settle issued by Tokyo High Court and the Association agreeing to the condition. The case is now closed.
Yugawara Town and Manazuru Town Health Association	An action for damages of ¥256 million was brought against our company at Tokyo High Court on October 31, 2011. The case is currently under dispute.
Sasebo City	An action for damages of ¥463 million was brought against our company at Sasebo Branch of Nagasaki District Court on November 30, 2011. The case is currently under dispute.

2. Status of Shares (as of March 31, 2012)

- (1) **Total number of shares authorized to be issued** 3,360,000,000 shares
- (2) **Total number of shares issued** 1,671,892,659 shares
(including 77,126 shares of treasury stock)
- (3) **Number of shareholders** 153,843 persons
- (4) **Major shareholders (top 10)**

Shareholder name	Shareholders' investment in the company	
	Number of shares held	Shareholding ratio
	thousand shares	%
Japan Trustee Services Bank, Ltd. (Trust Account)	91,310	5.4
The Master Trust Bank of Japan, Ltd. (Trust Account)	74,319	4.4
Mizuho Bank, Ltd.	57,443	3.4
JFE Steel Corporation	56,174	3.3
Nippon Life Insurance Company	54,016	3.2
Japan Trustee Services Bank, Ltd. (Trust Account 9)	40,886	2.4
Kawasaki Heavy Industries, Ltd. Kyoueikai	33,991	2.0
Kawasaki Heavy Industries, Ltd. Employees Shareholder Association	31,939	1.9
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	30,703	1.8
Tokio Marine & Nichido Fire Insurance Co., Ltd.	27,838	1.6

(Note) The shareholding ratio is calculated after subtracting treasury stock (77,126 shares).

3. Company Share Options

- (1) **Share options held by company officers at the end of the fiscal year under review**
Not applicable.
- (2) **Share options delivered to employees, etc. during the fiscal year under review**
Not applicable.
- (3) **Other important matters concerning share options, etc.**
Not applicable.

4. Company Officers

(1) Directors and Corporate Auditors

Position	Name	Areas of Responsibility within the Company and other significant concurrent positions
Chairman of the Board	Tadaharu Ohashi	Chairman, The Kobe Chamber of Commerce and Industry Vice Chairman, Kansai Economic Federation
* President	Satoshi Hasegawa	
* Senior Executive Vice President	Masashi Segawa	Assistant to the President, in charge of technology, marketing and procurement, Infrastructure Strategy Office
* Senior Vice President	Mitsutoshi Takao	In charge of the Head Office administrative departments
* Senior Vice President	Yuichi Asano	President, Gas Turbine & Machinery Company
* Senior Vice President	Nobumitsu Kambayashi	President, Ship & Offshore Structure Company, Chairman, Nantong COSCO KHI Ship Engineering Co., Ltd.
* Senior Vice President	Kyohei Matsuoka	President, Rolling Stock Company
* Senior Vice President	Hiroshi Takata	President, Motorcycle & Engine Company
* Senior Vice President	Shigeru Murayama	President, Aerospace Company
* Senior Vice President	Toshikazu Hayashi	President, Plant & Infrastructure Company
* Senior Vice President	Makoto Sonoda	President, Precision Machinery Company
Corporate Auditor	Nobuyuki Okazaki	(Standing)
Corporate Auditor	Tatsuyoshi Ogushi	(Standing)
Corporate Auditor	Kenzo Doi	Attorney, Outside Corporate Auditor of World Co., Ltd.
Corporate Auditor	Michio Oka	

- (Notes)
- * means a Representative Director.
 - Corporate Auditors Kenzo Doi and Michio Oka are both Outside Corporate Auditors.
 - Corporate Auditor Michio Oka is an Independent Officer. He previously assumed a position as an officer of Kawasaki Kisen Kaisha, Ltd. and its affiliates. KHI, however does not have a capital relationship with Kawasaki Kisen Kaisha, Ltd.; that is, Kawasaki Kisen is not a company of KHI Group, and the proportion of its sales to KHI's consolidated sales is minimal. We have determined that the above fact would not cause any issues as regards independence, and he is therefore suitable as an independent officer.
 - Shuji Mihara, Director, has resigned during the relevant business year with the conclusion of the 188th Ordinary General Meeting of Shareholders.
 - As of April 1, 2012, the Director positions have changed: Yuichi Asano and Toshikazu Hayashi, formerly Senior Vice Presidents (Representative Directors), have become Directors, and Mitsutoshi Takao, formerly a Senior Vice President (Representative Director), has become Senior Executive Vice President (Representative Director).
 - Nobuyuki Okazaki, Corporate Auditor, who has many years of experience with administration and accounting operations at our company and its subsidiaries, has substantial knowledge about finance and accounting matters.
 - Executive Officers as of April 1, 2012 are as follows.

Position	Name	Areas of Responsibility within the Company
President	Satoshi Hasegawa	

Position	Name	Areas of Responsibility within the Company
Senior Executive Vice President	Masashi Segawa	Assistant to the President, in charge of Marketing Division, Procurement Division and Corporate Technology Division
Senior Executive Vice President	Mitsutoshi Takao	Assistant to the President, in charge of Corporate Planning Division, Finance & Accounting Division, CSR Division, Personnel & Labor Administration Division and General Administration Division
Senior Vice President	Nobumitsu Kambayashi	President, Ship & Offshore Structure Company
Senior Vice President	Kyohei Matsuoka	President, Rolling Stock Company
Senior Vice President	Hiroshi Takata	President, Motorcycle & Engine Company
Senior Vice President	Shigeru Murayama	President, Aerospace Company
Senior Vice President	Makoto Sonoda	President, Precision Machinery Company
Managing Executive Officer	Minoru Makimura	General Manager, Corporate Technology Division and Senior Manager, Technical Institute
Managing Executive Officer	Masahiko Hirohata	General Manager, Corporate Planning Division
Managing Executive Officer	Yoshinori Kanehana	General Manager, Marketing Division
Managing Executive Officer	Joji Iki	President, Gas Turbine & Machinery Company
Managing Executive Officer	Eiji Inoue	President, Plant & Infrastructure Company
Executive Officer	Takeshi Sugawara	Deputy General Manager, Corporate Technology Division (in charge of Manufacturing Improvement)
Executive Officer	Tamaki Miyatake	General Manager, Planning Division, Motorcycle & Engine Company
Executive Officer	Shuichi Yamanaka	In charge of special matters, Rolling Stock Company
Executive Officer	Shinsuke Tanaka	Deputy General Manager, Corporate Planning Division. (In charge of special matters)
Executive Officer	Masatoshi Yamaguchi	In charge of robot business, Precision Machinery Company
Executive Officer	Naomi Sera	Vice President, Aerospace Company
Executive Officer	Yoshizumi Hashimoto	General Manager, CSR Division
Executive Officer	Masahiro Ibi	Vice President, Gas Turbine & Machinery Company Deputy General Manager, Marketing Division
Executive Officer	Takafumi Shibahara	General Manager, Personnel & Labor Administration Division
Executive Officer	Nobuyoshi Kobayashi	General Manager, Production Center, Plant & Infrastructure Company, in charge of Chemical Plant & Cryogenic Storage System Engineering Division, Plant & Infrastructure Company
Executive Officer	Minoru Akioka	General Manager, Finance & Accounting Division
Executive Officer	Yukinobu Kono	Deputy General Manager, Corporate Technology Division and General Manager, System Technology Development Center
Executive Officer	Masafumi Nakagawa	General Manager, Marketing & Sales Division, Motorcycle & Engine Company
Executive Officer	Mitsuo Kadoya	General Manager, Project Division Ship & Offshore Structure Company
Executive Officer	Hiroshi Hidaka	In charge of planning and overseas business, Precision

Position	Name	Areas of Responsibility within the Company
Executive Officer	Hideki Sasaki	Machinery Company In charge of Tokyo Office, Plant & Infrastructure Company
Executive Officer	Atsuhiko Yamanaka	General Manager, Procurement Division
Executive Officer	Akio Murakami	General Manager, Planning & Control Division, Ship & Offshore Structure Company
Executive Officer	Kaoru Kawabe	General Manager, Kobe Shipyard, Ship & Offshore Structure Company
Executive Officer	Kazuo Hida	General Manager, Engineering Division, Precision Machinery Company
Executive Officer	Makoto Ogawara	Vice President, Rolling Stock Company
Executive Officer	Yugo Nakagami	Overall administration of Marketing & Sales Division, Quality Assurance Department, Corporate Technology Department and Project Engineering Center, Plant & Infrastructure Company
Executive Officer	Hirokazu Komaki	General Manager, Engineering Division, Aerospace Company
Executive Officer	Shiro Nakabayashi	General Manager, General Administration Division
Executive Officer	Munenori Ishikawa	General Manager, Manufacturing Division, Aerospace Company
Executive Officer	Toshiyuki Kuyama	General Manager, Gas Turbine Division, Gas Turbine & Machinery Company
Executive Officer	Shigehiko Kiyama	General Manager, Supply Chain Division, Motorcycle & Engine Company
Executive Officer	Kenji Tomida	Deputy General Manager, Corporate Planning Division, and Marketing Division

(2) Compensation to Directors and Corporate Auditors

Directors 12 persons	¥ 666,118 thousand
Corporate Auditors 4 persons	¥ 88,080 thousand (of which ¥ 17,280 thousand to two Outside Corporate Auditors)

(Notes) The maximum amount of remuneration for the Directors is ¥60 million per month (as resolved at the 178th Ordinary General Meeting of Shareholders held on June 28, 2001). The maximum amount of remuneration for the Corporate Auditors is ¥8 million (which was resolved at the 170th Ordinary General Meeting of Shareholders held on June 29, 1993).

(3) Outside Officers

(i) Concurrent Director positions at other companies and the relationship between our company and said companies

Not applicable.

(ii) Concurrent positions held as Outside Officer at other companies and the relationship between our company and said companies

Corporate Auditor, Kenzo Doi concurrently holds a position as an Outside Corporate Auditor at World Co., Ltd. Our company does not have any dealings or other special relationship with this company.

(iii) Relationships between the company or specific related business operators and Directors and employees, etc.

Not applicable.

(iv) Main activities during the business year

Attendance and comments at Board of Directors Meetings and Board of Corporate Auditors meetings

Kenzo Doi, Corporate Auditor, attended all of the 14 Board of Directors Meetings, and all of the 17 Board of Corporate Auditors meetings held during the business year, and mainly made comments based on his expert standpoint as an attorney.

Michio Oka, Corporate Auditor, attended all of the 14 Board of Directors Meetings, and all of the 17 Board of Corporate Auditors meetings held during the business year, and mainly made comments based on his experience as a company manager.

(v) Overview of provisions in contracts for limitation of liability

The company has concluded contracts for limitation of liability with Corporate Auditors Kenzo Doi and Michio Oka, pursuant to the provisions of Article 427 Paragraph 1 of Japan's Companies Act. The liability under said contract shall be limited to either an amount of ¥ 10 million, or an amount specified by law, whichever is higher.

5. Accounting Auditors

(1) Accounting Auditor's Name

KPMG AZSA LLC

(2) Accounting Auditors' Compensation, etc., for the fiscal year under review

(i) Accounting Auditors' Compensation, etc., for the fiscal year under review

¥ 161,595 thousand

(ii) Cash and Other Profits Payable by the Company or its Subsidiaries to Accounting Auditors

¥ 223,045 thousand

(Note) Under the audit agreement between the Company and its Accounting Auditors, compensation for audits pursuant to the Companies Act and audits pursuant to the Financial Instruments and Exchange Act are not separated, and otherwise cannot be separated. Consequently, the above amounts reflect total compensation.

(3) Details of Non-audit Services

Operations such as procedures relating to the confirmation of balances of certain accounts issued to customers when orders are received for overseas projects and IFRS advisory, etc.

(4) Policy Regarding Determination of Termination or Nonrenewal of Appointment of Accounting Auditors

Where the Accounting Auditor violates or contravenes laws such as the Companies Act and Certified Public Accountant Act, and where it is determined acts have been committed which go against public order and morality, the Board of Corporate Auditors shall consider whether to terminate or not renew the Accounting Auditors based on those facts, and make a decision in accordance with the Board of Corporate Auditors Regulations. Where the Board of Corporate Auditors determines that it is appropriate to terminate or not renew the appointment of Accounting Auditors, it will request the Board of Directors to terminate the Accounting Auditors' appointment, or put forward a proposal at the General Meeting of Shareholders to not renew the appointment of the Accounting Auditors, and the Board of Directors shall discuss the matter.

6. System to ensure that Directors' execution of duties complies with laws and the Articles of Incorporation and other systems to ensure proper execution of business

A resolution was made with respect to the company's internal control systems, pursuant to the Companies Act, at the Board of Directors Meeting of May 24, 2006 regarding confirmation of the basic policies and status of established internal control systems, and henceforth whenever there are organizational changes or changes to internal regulations, resolutions are made again at Board of Directors Meetings. The overview thereof is as follows. In addition, KHI conducts year-end assessment of the operation status of resolved internal control systems to ensure proper operation and provides reports to the Board of Directors.

I. Basic policy for developing a system for internal controls

KHI Group develops and maintains systems for internal controls to establish systems to ensure formation of proper organizational structures, development of company rules and regulations, dissemination of information and proper execution of operations; since KHI's management philosophy, which is indicated in our Group Mission (missions and roles which must be carried out) **"Kawasaki, working as one for the good of the planet"** (Enriching lifestyles and helping safeguard the environment: Global Kawasaki), "Kawasaki Value", the "The Kawasaki Group Management Principles" and "The Kawasaki Group Code of Conduct"; is embodied in each and every officer and employee of our Group. KHI strives to improve its internal controls by constantly reviewing them, and in doing so improves the efficiency and lawfulness of company systems which contribute to the Group's sound and sustained growth.

II. Development of internal control systems

KHI has established the following internal control systems and is streamlining, maintaining, and improving them. Going forward, KHI will review them as necessary, taking into account such factors as changes in the company's operating environment.

1. Internal control systems concerning Directors and employees

(1) Systems to ensure that Directors' and employees' execution of duties are compliant with laws and the Articles of Incorporation

- 1) We established KHI Corporate Ethics Regulations, and are thoroughgoing in ensuring compliance with laws and the Articles of Incorporation and other KHI regulations and policies, and bind KHI's directors and employees to: "put ethics regulations into practice as corporate citizens", "respect individuals and individual rights and prohibit discrimination", "promote protection of the environment", "comply with laws and social rules", and "use proper accounting practices and ensure reliability of financial reports" (hereinafter, "Fundamental Principles of Corporate Ethics").
- 2) According to the Internal Controls Management Regulations, we appropriately manage the system to promote measures, with the President as the chief executive of internal controls and General Manager of each division as the manager in charge of internal controls, and deliberate and make decisions on policies and measures at Management Committee, which are designed to streamline, maintain, and improve internal control systems, in order to ensure the appropriateness of business operations by achieving objectives such as effective and efficient business operations, reliable financial reporting, compliance with laws, and safeguarding of assets. Based on the roles and responsibilities given to Executive Officers, officers, and employees, we manage internal control systems in a unified way.
- 3) According to the Company-wide CSR Committee Regulations and the CSR Committee Rules for Business Divisions, we deliberate and make decisions on policies and measures, under the governance of the President, for the Company-wide CSR Committee and the CSR Committee for Business Divisions (consisting of officers and employees) to comply with the Fundamental Principles of Corporate Ethics stipulated in KHI Corporate Ethics Regulations, and to take thoroughgoing compliance initiatives for the KHI Group. We continue to improve understanding and awareness of compliance and also monitor operational status through ongoing education and training activities for various types of legal compliance.
- 4) According to the Compliance Reporting and Consultation System Regulations, we work to enhance compliance systems by managing the internal whistleblower system to report information regarding compliance breaches in cases where it is difficult to correct compliance breaches through ladders or concerned divisions.

- 5) Executive Officers who are delegated to execute business operations are appointed at Board of Directors Meetings, and while Executive Officers are delegated to execute business operations, a Director who does not concurrently serve as an Executive Officer and an Independent Officer established by the Tokyo Stock Exchange are appointed to enhance the supervisory and monitoring functions of the Board of Directors for overall management.
 - 6) According to the Internal Controls Regulations, we ensure the appropriateness of business operations through business audits conducted by the Auditing Department.
 - 7) Based on our Basic Policy on Internal Controls over Financial Reporting, we establish internal controls over financial reporting and appropriately carry out evaluation and assessment thereof to ensure the reliability of financial reporting.
- (2) Systems for storage and management of information related to Directors' execution of duties
- 1) Information pertaining to Directors' execution of duties (meeting minutes, decision making records and appurtenant materials, account books, account invoices and other information) shall be appropriately stored and managed in accordance with Document Handling Regulations and other related policies and regulations. The information shall be made accessible at any time to Directors, Corporate Auditors and employees nominated thereby.
 - 2) With respect to protection of confidential information, we have established a Rules for Handling Corporate Secrets, and with respect to personal information we have established Regulations for Protecting Personal Information to ensure appropriate handling is thoroughly observed, and we ensure enforcement thereof through such measures as inspections and business audits, which are carried out according to methods stipulated in the regulations.
- (3) Systems for management of risk of loss
- 1) According to the Risk Management Regulations, we grasp the assumed risk in detail using a unit of measurement common to the entire Group, with the President as the chief executive of risk management and General Manager of each division as manager in charge of risk management, and appropriately manage the risk management system, which is designed to avoid or minimize risk or losses caused by such risk.
 - 2) With respect to risks pertaining to management strategies, risk analysis and consideration of countermeasures shall be conducted in advance by the concerned divisions in accordance with the Regulations of Board of Directors, the Management Committee Regulations and the Approval Regulations, and deliberations and decision making regarding those risks shall be carried out at Board of Directors Meetings or Management Committees in accordance with those regulations. We also implement appropriate risk management for major projects that have a significant impact on business operations, in accordance with the Major Project Risk Management Regulations particularly.
 - 3) As a measure to be taken when risk becomes evident, according to the Crisis Management Regulations, we articulate codes of conduct in event of emergencies, and also appoint persons in charge of crisis management at each place of business to appropriately manage the system, which is designed to minimize losses. In particular, in anticipation of the occurrence of disasters, including large-scale earthquake and pandemic diseases, we specify important operations to which priority should be given to ensure the continuation or recovery of the operations in order to minimize the impact on business and formulate a business continuity plan to shorten the length of time until recovery.
- (4) Systems to ensure efficient execution of Directors' duties
- 1) Based on KHI Group's role and objectives as articulated in the Kawasaki Group Mission Statement, we share final goals for the future by setting forth a long-term vision for each business division in the Medium-Term Business Plan.
 - 2) To attain the goals set forth in the Kawasaki Group Mission Statement and the long-term vision ("Kawasaki Business Vision 2020"), we have formulated a Medium-Term Business Plan and a Short-Term Business Plan, and have determined goals at an organization level based on these plans. We have also established performance goals for each officer and employee, and work on activities that articulate goals to be achieved. Furthermore, by conducting regular reviews of these respective plans and goals, we aim to secure a system that enables more appropriate and efficient execution of business operations.
 - 3) We have stipulated matters such as division of roles and authority for executing business operations and lines of responsibility and chains of command, etc., in the Rules for

Managing Segregation of Business Operations and the Approval Regulations, etc., in order to clarify the authority and limits of discretion of officers and employees. According to the Executive Officers Regulations, Executive Officers are appointed based on a resolution passed at Board of Directors Meetings, and we clarify the “Systems for Execution of Business Operations.” As a result of appropriately managing these systems, we aim to efficiently execute business operations in each business and function area.

- 4) We have established Management Committee, which act as a deliberative organ to support the Board of Directors Meetings’ resolutions and the President’s decision making, to ensure efficient execution of duties by Board Members through discussions at Management Committees. Furthermore, we hold Executive Officers Committee for all Executive Officers to ensure familiarity with and a common understanding of management strategies and plans.
 - 5) According to the company system, each business division makes decisions on its own under delegated authority and responsibility, and executes flexible business operations that adapt to changes in the environment.
2. Internal controls systems in the company group
- Systems to ensure proper business execution within the company group which is composed of the company and subsidiaries
 - 1) With respect to the management at each company within our Group, while respecting the autonomy thereof, we ensure the appropriateness of business operations as a whole by KHI and each company within our Group sharing the basic philosophy and vision indicated in the Kawasaki Group Mission Statement and the Medium-Term Business Plan, etc.
 - 2) According to the Internal Controls Management Regulations, we govern internal controls of our subsidiaries and affiliates from the perspective of the parent company and appropriately manage the system to ensure the appropriateness of business operations by achieving objectives such as the effectiveness and efficiency of business operations, reliability of financial reporting, compliance with laws and safeguarding of assets as a whole group.
 - 3) We implement controls as shareholders of subsidiaries and affiliates through the execution of voting rights at the General Meeting of Shareholders, and also implement controls over important decisions, etc., concerning the operation of subsidiaries and affiliates through the Subsidiaries and Affiliates Regulations and the Approval Regulations. Specifically, we carry out management supervision and monitoring by dispatching non-full-time Directors and non-full-time Corporate Auditors to subsidiaries, and also through the establishment of the Subsidiaries & Affiliates Control Department which presides over subsidiaries, and clarification of the roles of each company, we secure appropriate Group business management systems. Furthermore, according to the Internal Regulations for Non-full-Time Officers of Subsidiaries and Affiliates, we also carry out education and training for non-full-time officers dispatched from KHI.
 - 4) The Auditing Department, which presides over Group internal audits, ensures the appropriateness of operations and prevents unfair transactions between Group companies through business audits and assessment of internal controls over financial reporting at KHI and subsidiaries.
 - 5) According to the Company-wide CSR Committee Regulations, we deliberate strategies and policies and measures concerning the Fundamental Principles of Corporate Ethics and compliance as the entire KHI Group, and secure systems to check operational status.
3. Internal controls systems for ensuring appropriate audits by Corporate Auditors
- (1) Systems for employees in cases where the Corporate Auditor requests appointment of employees to assist with the Corporate Auditor’s duties
 - We allocate the required staff (to the Corporate Auditor) according to the Corporate Auditors’ requests.
 - (2) Systems to ensure employees who assist with the Corporate Auditors duties are independent from Directors.
 - The person employed to assist with the duties of the Corporate Auditor (assistant of the Corporate Auditor) shall follow the Corporate Auditor’s directions and orders, and the consent of the Corporate Auditor is required in relation to the hiring or firing of the staff.
 - (3) Systems for Directors and employees to report to the Board of Corporate Auditors and other systems for reports to the Board of Corporate Auditors.

- 1) Corporate Auditors attend Board of Directors Meetings, Management Committee, Executive Officers Committee and company-wide meetings, including Company-wide CSR Committees and Company-wide Risk Management Committees; at these meetings, Directors and employees provide reports concerning important matters about company management and business operations, including matters regarding compliance, risk management and internal controls, and the status of execution of duties. Furthermore, Directors shall immediately report to the Board of Corporate Auditors when discovering that there is a risk of the company suffering significant damages.
 - 2) Employees shall, in accordance with the Approval Regulations, report to the Corporate Auditor regarding the execution of business operations by circulation of internal memos.
 - 3) The Auditing Department and Accounting Auditors from time to time report to, and exchange information with Corporate Auditors regarding the status of audits on each place of business and Group companies.
- (4) Other systems to ensure the effective conduct of audits by the Board of Corporate Auditors
- 1) Directors and Corporate Auditors regularly hold meetings to ensure mutual understanding, and the Corporate Auditor also attends important meetings such as Board of Directors Committee and Management Committee, and directly expresses his/her opinion regarding Directors' execution of duties.
 - 2) Directors promote collaboration between Corporate Auditors and the Auditing Department, and cooperate to establish systems which enable greater effectiveness in the conduct of audits.
 - 3) Matters concerning the election of Corporate Auditors and their remuneration etc. are determined in accordance with laws and the Articles of Incorporation, by obtaining the consent of Corporate Auditors, or approval of the Board of Corporate Auditors.
4. Basic stance on expulsion of anti-social forces and countermeasures

Because our Group resolutely refuses to comply with any unreasonable demands from anti-social forces, and works to cut off all relations with anti-social forces, we distribute the "Compliance Guidebook" to all employees. Paragraph 1 of the Guidebook prohibits "giving favors to anti-social forces," and lists specific examples of prohibited acts. We work to ensure that employees are thoroughly familiar with the matters contained in the Compliance Guidebook by conducting training, etc., and do not merely distribute the guidebook.

Furthermore, with respect to internal systems, we have established a department in headquarters which is responsible for overseeing handling of expulsion of anti-social forces, established close cooperation with external specialized organizations such as the police force, and in collaboration with concerned departments we systematically handle unreasonable requests from anti-social forces.

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 (Note) Amounts in this Business Report are rounded down to the nearest unit.

**Consolidated Balance Sheet**  
(As of March 31, 2012)

(Unit: million yen)

| Description                        | Amount    | Description                                    | Amount    |
|------------------------------------|-----------|------------------------------------------------|-----------|
| (Assets)                           |           | (Liabilities)                                  |           |
| Current assets                     | 967,186   | Current liabilities                            | 696,002   |
| Cash on hand and in banks          | 34,316    | Trade payables                                 | 310,775   |
| Trade receivables                  | 404,054   | Short-term borrowings                          | 137,568   |
| Merchandise and finished products  | 53,558    | Current bonds payable                          | 10,000    |
| Work in process                    | 300,224   | Current portion of lease obligations           | 355       |
| Raw materials and supplies         | 88,113    | Income taxes payable                           | 4,627     |
| Deferred tax assets                | 33,007    | Deferred tax liabilities                       | 1,465     |
| Other current assets               | 57,166    | Advances from customers                        | 99,050    |
| Allowance for doubtful receivables | (3,255)   | Accrued bonuses                                | 20,582    |
| Fixed assets                       | 394,953   | Provision for product warranties               | 7,128     |
| Net property, plant and equipment  | 274,750   | Provision for losses on construction contracts | 30,977    |
| Buildings and structures           | 113,632   | Asset retirement obligations                   | 150       |
| Machinery and equipment            | 74,529    | Other current liabilities                      | 73,321    |
| Land                               | 61,942    | Long-term liabilities                          | 350,214   |
| Leased assets                      | 323       | Bonds payable                                  | 60,000    |
| Construction in progress           | 11,782    | Long-term debt                                 | 198,737   |
| Other                              | 12,540    | Lease obligations                              | 506       |
| Intangible assets                  | 18,786    | Deferred tax liabilities                       | 4,060     |
| Investments and other assets       | 101,416   | Provision for losses on damages suit           | 910       |
| Investments in securities          | 23,249    | Provision for environmental measures           | 3,282     |
| Long-term loans                    | 432       | Employees' retirement and severance benefits   | 75,052    |
| Deferred tax assets                | 37,614    | Asset retirement obligations                   | 611       |
| Other investments and other assets | 41,060    | Other                                          | 7,053     |
| Allowance for doubtful receivables | (940)     | Total liabilities                              | 1,046,216 |
|                                    |           | (Net assets)                                   |           |
|                                    |           | Shareholders' equity                           | 335,270   |
|                                    |           | Common stock                                   | 104,484   |
|                                    |           | Capital surplus                                | 54,393    |
|                                    |           | Retained earnings                              | 176,414   |
|                                    |           | Treasury stock                                 | (22)      |
|                                    |           | Accumulated other comprehensive income         | (29,215)  |
|                                    |           | Net unrealized gains on securities             | 3,989     |
|                                    |           | Gains (losses) on hedging items                | 246       |
|                                    |           | Foreign currency translation adjustments       | (33,451)  |
|                                    |           | Minority interests                             | 9,868     |
|                                    |           | Total net assets                               | 315,922   |
| Total assets                       | 1,362,139 | Total liabilities and net assets               | 1,362,139 |

## Consolidated Statement of Income

(April 1, 2011 - March 31, 2012)

(Unit: million yen)

| Description                                                      | Amount |           |
|------------------------------------------------------------------|--------|-----------|
| Net sales                                                        |        | 1,303,778 |
| Cost of sales                                                    |        | 1,088,918 |
| Gross profit                                                     |        | 214,860   |
| Selling, general and administrative expenses                     |        | 157,375   |
| Operating income                                                 |        | 57,484    |
| Non-operating income                                             |        | 19,146    |
| Interest income                                                  | 1,672  |           |
| Dividend income                                                  | 658    |           |
| Equity in income of non-consolidated subsidiaries and affiliates | 8,567  |           |
| Foreign exchange gains, net                                      | 206    |           |
| Other, net                                                       | 8,041  |           |
| Non-operating expenses                                           |        | 13,003    |
| Interest expense                                                 | 4,282  |           |
| Loss on valuations of securities                                 | 918    |           |
| Other, net                                                       | 7,802  |           |
| Recurring profit                                                 |        | 63,627    |
| Extraordinary losses                                             |        | 14,921    |
| Impairment loss                                                  | 14,921 |           |
| Income before income taxes                                       |        | 48,706    |
| Income taxes-current                                             |        | 9,932     |
| Income taxes-deferred                                            |        | 12,899    |
| Income before minority interests                                 |        | 25,875    |
| Minority interests in income                                     |        | 2,551     |
| Net income                                                       |        | 23,323    |

## Consolidated Statement of Changes in Net Assets

(April 1, 2011 - March 31, 2012)

(Unit: million yen)

|                                                                      | Shareholders' equity |                 |                   |                |                            |
|----------------------------------------------------------------------|----------------------|-----------------|-------------------|----------------|----------------------------|
|                                                                      | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of the period                               | 104,340              | 54,251          | 158,615           | (30)           | 317,176                    |
| Changes of items during the period                                   |                      |                 |                   |                |                            |
| Conversion of convertible-type bonds with stock acquisition rights   | 144                  | 142             |                   | 13             | 300                        |
| Cash dividends                                                       |                      |                 | (5,011)           |                | (5,011)                    |
| Net income for the year                                              |                      |                 | 23,323            |                | 23,323                     |
| Treasury stock purchased                                             |                      |                 |                   | (6)            | (6)                        |
| Treasury stock disposed                                              |                      | (0)             | (3)               | 1              | (2)                        |
| Effect of changes in accounting periods of consolidated subsidiaries |                      |                 | (509)             |                | (509)                      |
| Net changes of items other than shareholders' equity                 |                      |                 |                   |                |                            |
| Total changes of items during the period                             | 144                  | 142             | 17,798            | 7              | 18,093                     |
| Balance at the end of the period                                     | 104,484              | 54,393          | 176,414           | (22)           | 335,270                    |

|                                                                      | Accumulated other comprehensive income |                                 |                                          |                                              | Minority interests | Total net assets |
|----------------------------------------------------------------------|----------------------------------------|---------------------------------|------------------------------------------|----------------------------------------------|--------------------|------------------|
|                                                                      | Net unrealized gains on securities     | Gains (losses) on hedging items | Foreign currency translation adjustments | Total accumulated other comprehensive income |                    |                  |
| Balance at the beginning of the period                               | 3,876                                  | (990)                           | (31,006)                                 | (28,119)                                     | 8,376              | 297,433          |
| Changes of items during the period                                   |                                        |                                 |                                          |                                              |                    |                  |
| Conversion of convertible-type bonds with stock acquisition rights   |                                        |                                 |                                          |                                              |                    | 300              |
| Cash dividends                                                       |                                        |                                 |                                          |                                              |                    | (5,011)          |
| Net income for the year                                              |                                        |                                 |                                          |                                              |                    | 23,323           |
| Treasury stock purchased                                             |                                        |                                 |                                          |                                              |                    | (6)              |
| Treasury stock disposed                                              |                                        |                                 |                                          |                                              |                    | (2)              |
| Effect of changes in accounting periods of consolidated subsidiaries |                                        |                                 |                                          |                                              |                    | (509)            |
| Net changes of items other than shareholders' equity                 | 112                                    | 1,236                           | (2,444)                                  | (1,095)                                      | 1,491              | 395              |
| Total changes of items during the period                             | 112                                    | 1,236                           | (2,444)                                  | (1,095)                                      | 1,491              | 18,489           |
| Balance at the end of the period                                     | 3,989                                  | 246                             | (33,451)                                 | (29,215)                                     | 9,868              | 315,922          |

## Non-consolidated Balance Sheet

(As of March 31, 2012)

(Unit: million yen)

| Description                                       | Amount    | Description                                         | Amount    |
|---------------------------------------------------|-----------|-----------------------------------------------------|-----------|
| <b>(Assets)</b>                                   |           | <b>(Liabilities)</b>                                |           |
| <b>Current assets</b>                             | 777,442   | <b>Current liabilities</b>                          | 583,001   |
| Cash on hand and in banks                         | 17,291    | Notes payable-trade                                 | 33,202    |
| Notes receivable-trade                            | 7,204     | Accounts payable-trade                              | 260,422   |
| Accounts receivable-trade                         | 310,567   | Short-term borrowings                               | 77,433    |
| Raw materials and supplies                        | 61,359    | Current portion of long-term debt                   | 24,592    |
| Work in process                                   | 252,788   | Current bonds payable                               | 10,000    |
| Advance payments                                  | 14,327    | Notes payable-facilities                            | 741       |
| Prepaid expenses                                  | 3,205     | Lease obligations                                   | 9         |
| Deferred tax assets                               | 25,110    | Accumulated impairment loss on leased assets        | 360       |
| Short-term loans                                  | 52,580    | Accounts payable-other                              | 20,921    |
| Accounts receivable-other                         | 21,567    | Accrued expenses                                    | 30,217    |
| Accrued income                                    | 124       | Income taxes payable                                | 138       |
| Other current assets                              | 13,173    | Advances from customers                             | 68,900    |
| Allowance for doubtful receivables                | (1,859)   | Deposits received                                   | 2,246     |
|                                                   |           | Unearned revenue                                    | 23        |
| <b>Fixed assets</b>                               | 367,175   | Accrued bonuses                                     | 14,272    |
| <b>Net property, plant and equipment</b>          | 178,444   | Provision for product warranties                    | 4,705     |
| Buildings                                         | 61,332    | Provision for losses on construction contracts      | 28,331    |
| Structures                                        | 13,086    | Asset retirement obligations                        | 150       |
| Docks and building berths                         | 696       | Other current liabilities                           | 6,331     |
| Machinery and equipment                           | 53,035    | <b>Noncurrent liabilities</b>                       | 306,576   |
| Vessels                                           | 4         | Bonds payable                                       | 60,000    |
| Aircraft                                          | 97        | Long-term debt                                      | 198,342   |
| Vehicles                                          | 476       | Lease obligations                                   | 3         |
| Tools, Furniture and fixtures                     | 7,988     | Accumulated impairment loss on leased assets        | 693       |
| Land                                              | 35,630    | Long-term accounts payable-other                    | 2,509     |
| Leased assets                                     | 226       | Provision for losses on damages suit                | 910       |
| Construction in progress                          | 5,869     | Provision for environmental measures                | 3,130     |
| <b>Intangible assets</b>                          | 15,498    | Employees' retirement and severance benefits        | 40,203    |
| Software                                          | 11,441    | Asset retirement obligations                        | 543       |
| License production and licensee's execution right | 665       | Other long-term liabilities                         | 239       |
| Other intangible assets                           | 3,391     | <b>Total liabilities</b>                            | 889,578   |
| <b>Investments and other assets</b>               | 173,232   | <b>Net assets</b>                                   |           |
| Investments in securities                         | 21,660    | Shareholders' equity                                | 251,366   |
| Stock of affiliates                               | 88,388    | Common stock                                        | 104,484   |
| Investments in capital of affiliates              | 18,941    | Capital surplus                                     | 52,210    |
| Long-term loans                                   | 7,377     | Legal capital surplus                               | 52,210    |
| Deferred tax assets                               | 30,004    | Retained earnings                                   | 94,694    |
| Other investments and other assets                | 7,408     | Other retained earnings                             | 94,694    |
| Allowance for doubtful receivables                | (547)     | Provision for special depreciation                  | 1,085     |
|                                                   |           | Provision for advanced depreciation of fixed assets | 7,363     |
|                                                   |           | Retained earnings brought forward                   | 86,245    |
|                                                   |           | Treasury stock                                      | (22)      |
|                                                   |           | Valuation and translation adjustments               | 3,672     |
|                                                   |           | Net unrealized gains on securities                  | 3,410     |
|                                                   |           | Gains (losses) on hedging items                     | 262       |
|                                                   |           | <b>Total net assets</b>                             | 255,039   |
| <b>Total assets</b>                               | 1,144,618 | <b>Total liabilities and net assets</b>             | 1,144,618 |

## Non-consolidated Statement of Income

(April 1, 2011 - March 31, 2012)

(Unit: million yen)

| Description                                  | Amount |           |
|----------------------------------------------|--------|-----------|
| Net sales                                    |        | 1,003,390 |
| Cost of sales                                |        | 889,083   |
| Gross profit                                 |        | 114,307   |
| Selling, general and administrative expenses |        | 89,235    |
| Operating income                             |        | 25,072    |
| Non-operating income                         |        | 23,411    |
| Interest income                              | 631    |           |
| Dividend income                              | 16,353 |           |
| Foreign exchange gains                       | 545    |           |
| Other                                        | 5,881  |           |
| Non-operating expenses                       |        | 10,455    |
| Interest expense                             | 2,939  |           |
| Interest on bonds                            | 871    |           |
| Loss on valuation of securities              | 905    |           |
| Loss on disposal of fixed assets             | 979    |           |
| Other                                        | 4,758  |           |
| Recurring profit                             |        | 38,029    |
| Extraordinary losses                         |        | 14,856    |
| Impairment losses                            | 14,856 |           |
| Income before income taxes                   |        | 23,172    |
| Income taxes-current                         | (686)  |           |
| Income taxes-deferred                        | 12,367 |           |
|                                              |        | 11,680    |
| Net income                                   |        | 11,491    |

## Non-consolidated Statement of Changes in Net Assets

(April 1, 2011 - March 31, 2012)

(Unit: million yen)

|                                                                 | Shareholders' equity |                       |                       |                                  |                                                   |                                   |      | Treasury stock | Total shareholders' equity |
|-----------------------------------------------------------------|----------------------|-----------------------|-----------------------|----------------------------------|---------------------------------------------------|-----------------------------------|------|----------------|----------------------------|
|                                                                 | Common stock         | Capital surplus       |                       | Retained earnings                |                                                   |                                   |      |                |                            |
|                                                                 |                      | Legal capital surplus | Other capital surplus | Other retained earnings          |                                                   |                                   |      |                |                            |
|                                                                 |                      |                       |                       | Reserve for special depreciation | Reserve for advanced depreciation of fixed assets | Retained earnings brought forward |      |                |                            |
| Balance at beginning of period                                  | 104,340              | 52,067                | 0                     | 942                              | 6,959                                             | 80,316                            | (30) | 244,595        |                            |
| Changes of items during the period                              |                      |                       |                       |                                  |                                                   |                                   |      |                |                            |
| Conversion of convertible bonds with stock acquisition rights   | 144                  | 142                   |                       |                                  |                                                   |                                   | 13   | 300            |                            |
| Cash dividends                                                  |                      |                       |                       |                                  |                                                   | (5,011)                           |      | (5,011)        |                            |
| Net income for the year                                         |                      |                       |                       |                                  |                                                   | 11,491                            |      | 11,491         |                            |
| Treasury stock purchased                                        |                      |                       |                       |                                  |                                                   |                                   | (6)  | (6)            |                            |
| Treasury stock disposed                                         |                      |                       | (0)                   |                                  |                                                   |                                   | 1    | (2)            |                            |
| Provision for special depreciation                              |                      |                       |                       | 350                              |                                                   | (350)                             |      | -              |                            |
| Reversal of provision for special depreciation                  |                      |                       |                       | (207)                            |                                                   | 207                               |      | -              |                            |
| Provision for advanced depreciation of fixed assets             |                      |                       |                       |                                  | 556                                               | (556)                             |      | -              |                            |
| Reversal of provision for advanced depreciation of fixed assets |                      |                       |                       |                                  | (152)                                             | 152                               |      | -              |                            |
| Net changes of items other than shareholders' equity            |                      |                       |                       |                                  |                                                   |                                   |      |                |                            |
| Total changes of items during the period                        | 144                  | 142                   | (0)                   | 143                              | 403                                               | 5,929                             | 7    | 6,771          |                            |
| Balance at end of period                                        | 104,484              | 52,210                | -                     | 1,085                            | 7,363                                             | 86,245                            | (22) | 251,366        |                            |

|                                                                 | Valuation and translation adjustments |                                 |                                             | Total net assets |
|-----------------------------------------------------------------|---------------------------------------|---------------------------------|---------------------------------------------|------------------|
|                                                                 | Net unrealized gains on securities    | Gains (losses) on hedging items | Total valuation and translation adjustments |                  |
| Balance at beginning of period                                  | 3,219                                 | (925)                           | 2,293                                       | 246,888          |
| Changes of items during the period                              |                                       |                                 |                                             |                  |
| Conversion of convertible bonds with stock acquisition rights   |                                       |                                 |                                             | 300              |
| Cash dividends                                                  |                                       |                                 |                                             | (5,011)          |
| Net income for the year                                         |                                       |                                 |                                             | 11,491           |
| Treasury stock purchased                                        |                                       |                                 |                                             | (6)              |
| Treasury stock disposed                                         |                                       |                                 |                                             | (2)              |
| Provision for special depreciation                              |                                       |                                 |                                             | -                |
| Reversal of provision for special depreciation                  |                                       |                                 |                                             | -                |
| Provision for advanced depreciation of fixed assets             |                                       |                                 |                                             | -                |
| Reversal of provision for advanced depreciation of fixed assets |                                       |                                 |                                             | -                |
| Net changes of items other than shareholders' equity            | 190                                   | 1,188                           | 1,379                                       | 1,379            |
| Total changes of items during the period                        | 190                                   | 1,188                           | 1,379                                       | 8,150            |
| Balance at end of period                                        | 3,410                                 | 262                             | 3,672                                       | 255,039          |

## **Audit Report**

(English Translation)

Regarding the performance of duties by the Directors for the 189th fiscal year from April 1, 2011 to March 31, 2012, the Board of Corporate Auditors hereby submits its audit report, which has been prepared upon careful consideration based on the audit report prepared by each Corporate Auditor.

### 1. Summary of Auditing Methods by the Corporate Auditors and Board of Corporate Auditors

The Board of Corporate Auditors established auditing policies, allocation of duties, and other relevant matters, and received reports from each Corporate Auditor regarding his audits and results thereof, as well as received reports from the Directors, other relevant personnel, and the Accounting Auditor regarding performance of their duties, and sought explanations as necessary.

Each Corporate Auditor complied with the auditing standards of the Corporate Auditors established by the Board of Corporate Auditors, followed the auditing policies, allocation of duties, and other relevant matters, communicated with the Directors, internal control development division, Auditing Department (internal audit dept.) and other employees, and any other relevant personnel, and made efforts to prepare the environment for information collection and audit, as well as participated in meetings of the Board of Directors and other important meetings, received reports from the Directors, Executive Officers, employees, and other relevant personnel regarding performance of their duties, sought explanations as necessary, examined important authorized documents and associated information, and studied the operations and financial positions at the head office and principal business offices.

In addition, regarding the system for ensuring that the performance of duties by the Directors conforms to the related laws and regulations and Articles of Incorporation, and the system prepared based on the contents of the resolutions of the Board of Directors and such resolutions regarding preparation of the system stipulated in Article 100, Paragraphs 1 and 3, of the Ordinance for Enforcement of the Companies Act (internal control system), which system is necessary for ensuring that a joint stock corporation's business is proper, we received reports from the Directors, employees, and other relevant personnel regarding the structure of the system and the status of its operation, and sought explanations as necessary.

Furthermore, with respect to internal controls on financial reporting under the Financial Instruments and Exchange Act, we received reports from the Directors as well as KPMG AZSA LLC regarding the assessment of the internal controls concerned and the status of auditing thereof, and sought explanations as necessary.

With respect to subsidiaries, we communicated and exchanged information with Directors, Corporate Auditors, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary.

Based on the above methods, we examined the business report and annexed specifications related to the relevant fiscal year.

Furthermore, we audited whether the Accounting Auditor maintained their independence and implemented appropriate audits, as well as received reports from the Accounting Auditor regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the Accounting Auditor that "the system for ensuring that duties are performed properly" (matters set forth in each item of Article 131 of the Ordinance for Corporate Accounting) has been prepared in accordance with the Product Quality Management Standards Regarding Audits (issued by the Business Accounting Deliberation Council (BACD) on October 28, 2005) and other relevant standards, and sought explanations as necessary.

Based on the above methods, we examined the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, and non-consolidated notes) and their annexed specifications, as well as consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets, and consolidated notes) related to the relevant fiscal year.

## 2. Results of Audit

### (1) Results of Audit of Business Report and Other Relevant Documents

- (i) In our opinion, the business report and the supplementary schedules are in accordance with the related laws and regulations and Articles of Incorporation, and fairly represent the Company's condition.
- (ii) We have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation, related to performance of duties by the Directors.
- (iii) In our opinion, the contents of the resolutions of the Board of Directors related to the internal controls system are fair and reasonable. In addition, we have found no matters on which to remark regarding the information contained in this Business Report and the performance of duties by the Directors related to such internal controls system.

In addition, with respect to internal controls over financial reporting, at the time of preparation of this audit report, we received report from the directors that states that the said controls were effective, and also received report from KPMG AZSA LLC that states that no material weakness in the said controls.

### (2) Results of Audit of Non-consolidated Financial Statements and Supplementary Schedules

In our opinion, the methods and results employed and rendered by KPMG AZSA LLC are fair and reasonable.

### (3) Results of Audit of Consolidated Financial Statements

In our opinion, the methods and results employed and rendered by KPMG AZSA LLC are fair and reasonable.

May 24, 2012

Board of Corporate Auditors, Kawasaki Heavy Industries, Ltd.

|                             |                   |
|-----------------------------|-------------------|
| Full-Time Corporate Auditor | Nobuyuki Okazaki  |
| Full-Time Corporate Auditor | Tatsuyoshi Ogushi |
| Outside Corporate Auditor   | Kenzo Doi         |
| Outside Corporate Auditor   | Michio Oka        |

# Reference Documents for the General Meeting of Shareholders

## Proposals and References

### Proposal No. 1: Appropriation of Retained Earnings

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

Taking into consideration the earnings forecasts and the level of retained earnings etc., the annual cash dividend will amount to ¥5 per ordinary share for a total of ¥8,359,077,665.

In addition, the Company's year-end dividend distribution is June 28, 2012.

### Proposal No. 2 Proposed Amendments to the Articles of Incorporation

#### 1. Reasons for amendment

We believe that for the purpose of achieving the targets of "Kawasaki Business Vision 2020," which was formulated in 2010 (net sales of ¥2 trillion, recurring profit of ¥100 billion), it is essential to strengthen and expand the management foundation. In order to do so, the Company proposes an increase in the number of Directors from fifteen or less (current) to eighteen or less.

#### 2. Contents of proposed amendments

The contents of the proposed amendments are as follows:

(Underline indicates amendment)

| Current Articles of Incorporation                                                                                   | Proposed provisions after amendment                                                                                 |
|---------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| (Number of Directors)<br>Art.21: The authorized number of Directors of the Corporation shall not exceed <u>15</u> . | (Number of Directors)<br>Art.21: The authorized number of Directors of the Corporation shall not exceed <u>18</u> . |

### Proposal No. 3 Election of Thirteen Directors

The term of office of all eleven Directors will expire at the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, we propose to elect thirteen Directors to promote various efforts toward the enhancement of our corporate value, in initiatives such as the new appointment of a Director responsible for the Marketing Division, which was established in April 2012, in the aim of developing the integrated solution business in the global market.

The candidates for Director are as follows:

| No. | Name<br>(Date of Birth)           | Abridged Personal Records, Positions and Duties<br>[Significant concurrent positions]                                                                                                                                                                                                                                                                      | Shares of the<br>Company |
|-----|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| 1   | Tadaharu Ohashi<br>(Nov. 9, 1944) | Apr. 1969 Joined Kawasaki Heavy Industries, Ltd.<br>Jun. 2003 Senior Vice President<br>Apr. 2005 Senior Executive Vice President<br>Jun. 2005 President<br>Jun. 2009 Chairman of the Board<br>(current position)<br>[Significant concurrent positions]<br>Chairman, The Kobe Chamber of Commerce and Industry<br>Vice Chairman, Kansai Economic Federation | 126,000<br>shares        |
| 2   | Masashi Segawa<br>(Nov. 22, 1947) | Apr. 1970 Joined Kawasaki Heavy Industries, Ltd.<br>Jun. 2005 Senior Vice President<br>Apr. 2009 Senior Executive Vice President<br>Apr. 2012 Senior Executive Vice President<br>Assistant to the President, In charge of Marketing Division,<br>Procurement Division and Corporate Technology Division<br>(current position)                              | 120,000<br>shares        |

| No. | Name<br>(Date of Birth)                   | Abridged Personal Records, Positions and Duties<br>[Significant concurrent positions]      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Shares of the<br>Company |
|-----|-------------------------------------------|--------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| 3   | Satoshi Hasegawa<br>(Aug. 16, 1947)       | Apr. 1972<br>Jun. 2007<br>Apr. 2009<br>Jun. 2009                                           | Joined Kawasaki Heavy Industries, Ltd.<br>Senior Vice President<br>Senior Executive Vice President<br>President<br>(current position)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 113,000<br>shares        |
| 4   | Mitsutoshi Takao<br>(Apr. 1, 1950)        | Apr. 1972<br>Jun. 2008<br>Apr. 2012                                                        | Joined Kawasaki Heavy Industries, Ltd.<br>Senior Vice President<br>Senior Executive Vice President<br>Assistant to the President, In charge of Corporate Planning<br>Division, Finance & Accounting Division, CSR Division,<br>Personnel & Labor Administration Division and General<br>Administration Division<br>(current position)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 92,000<br>shares         |
| 5   | Nobumitsu<br>Kambayashi<br>(May 28, 1948) | Apr. 1971<br>Jun. 2005<br><br>Apr. 2008<br><br>Jun. 2009<br><br>Apr. 2010<br><br>Oct. 2010 | Joined Kawasaki Heavy Industries, Ltd.<br>Senior Vice President<br>General Manager, Marketing & Sales Division,<br>Kawasaki Shipbuilding Corporation<br>Managing Executive Officer<br>General Manager, Corporate Business Development Division,<br>Kawasaki Heavy Industries, Ltd.<br>Senior Vice President,<br>Kawasaki Shipbuilding Corporation<br>Senior Vice President<br>General Manager, Corporate Business Development Division,<br>Kawasaki Heavy Industries, Ltd.<br>Senior Executive Vice President,<br>Kawasaki Shipbuilding Corporation<br>Senior Vice President<br>Kawasaki Heavy Industries, Ltd.<br>President, Kawasaki Shipbuilding Corporation<br>Senior Vice President<br>President, Ship & Offshore Structure Company<br>(current position)<br>[Significant concurrent position]<br>Chairman,<br>Nantong COSCO KHI Ship Engineering Co., Ltd. (note) | 44,000<br>shares         |
| 6   | Kyohei Matsuoka<br>(Sep. 16, 1949)        | Apr. 1973<br>Apr. 2008<br><br>Apr. 2009<br><br>Jun. 2009                                   | Joined Kawasaki Heavy Industries, Ltd.<br>Managing Executive Officer<br>Vice President, Rolling Stock Company<br>Managing Executive Officer<br>President, Rolling Stock Company<br>Senior Vice President<br>President, Rolling Stock Company<br>(current position)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 71,000<br>shares         |
| 7   | Hiroshi Takata<br>(Jan. 5, 1950)          | Apr. 1972<br>Apr. 2007<br><br>Apr. 2009<br><br>Jun. 2009<br><br>Apr. 2010                  | Joined Kawasaki Heavy Industries, Ltd.<br>General Manager, Research & Development Division, Consumer<br>Products & Machinery Company<br>Managing Executive Officer<br>President, Consumer Products & Machinery Company<br>Senior Vice President<br>President, Consumer Products & Machinery Company<br>Senior Vice President<br>President, Motorcycle & Engine Company<br>(current position)                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 47,000<br>shares         |
| 8   | Makoto Sonoda<br>(Dec. 7, 1948)           | Apr. 1971<br>Jun. 2007<br>Jun. 2010<br><br>Oct. 2010                                       | Joined Kawasaki Heavy Industries, Ltd.<br>President, Kawasaki Precision Machinery, Limited.<br>Director, Kawasaki Heavy Industries, Ltd.<br>President, Kawasaki Precision Machinery, Limited.<br>Senior Vice President<br>President, Precision Machinery Company<br>(current position)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 44,000<br>shares         |

| No. | Name<br>(Date of Birth)                  | Abridged Personal Records, Positions and Duties<br>[Significant concurrent positions]   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Shares of the<br>Company |
|-----|------------------------------------------|-----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| 9   | Shigeru Murayama<br>(Feb. 27, 1950)      | Apr. 1974<br>Apr. 2008<br>Apr. 2010<br>Jun. 2010                                        | Joined Kawasaki Heavy Industries, Ltd.<br>Managing Executive Officer<br>Vice President, Aerospace Company<br>Managing Executive Officer<br>President, Aerospace Company<br>Senior Vice President<br>President, Aerospace Company<br>(current position)                                                                                                                                                                                                                                                                                                                                                                                           | 94,000<br>shares         |
| 10  | Joji Iki<br>(Sep. 5, 1951)               | Apr. 1977<br>July. 2006<br>Apr. 2009<br>Apr. 2012                                       | Joined Kawasaki Heavy Industries, Ltd.<br>Deputy General Manger, Machinery Division, Gas Turbine &<br>Machinery Company<br>Executive Officer<br>General Manager, Machinery Division, Gas Turbine &<br>Machinery Company<br>Managing Executive Officer<br>President, Gas Turbine & Machinery Company<br>(current position)                                                                                                                                                                                                                                                                                                                        | 7,000<br>shares          |
| 11  | Masahiko Hirohata<br>(Sep. 20, 1951)     | Apr. 1975<br>Apr. 2007<br>Apr. 2008<br>Apr. 2011<br>Apr. 2012                           | Joined Kawasaki Heavy Industries, Ltd.<br>General Manager, Planning & Control Division, Gas Turbine &<br>Machinery Company<br>Executive Officer<br>General Manager, Planning & Control Division, Gas Turbine &<br>Machinery Company<br>Managing Executive Officer<br>General Manager, Corporate Planning Division<br>Senior Manager, Infrastructure Strategy Office<br>Managing Executive Officer<br>General Manager, Corporate Planning Division<br>(current position)                                                                                                                                                                          | 48,000<br>shares         |
| 12  | Eiji Inoue<br>(Feb. 22, 1952)            | Apr. 1974<br>Apr. 2005<br>Jun. 2008<br>Jun. 2010<br>Oct. 2010<br>Apr. 2011<br>Apr. 2012 | Joined Kawasaki Heavy Industries, Ltd.<br>Senior Manager, Industrial Plant Engineering Division,<br>Kawasaki Plant Systems, Ltd.<br>Director, Kawasaki Plant Systems, Ltd.<br>Senior Vice President<br>General Manager, Project Engineering Center, Kawasaki Plant<br>Systems, Ltd.<br>Executive Officer<br>General Manager, Project Engineering Center, In charge of Kobe<br>Engineering Department, Plant & Infrastructure Company,<br>Kawasaki Heavy Industries, Ltd.<br>Executive Officer<br>Vice President, Plant & Infrastructure Company<br>Managing Executive Officer<br>President, Plant & Infrastructure Company<br>(current position) | 21,000<br>shares         |
| 13  | Yoshinori<br>Kanehana<br>(Feb. 19, 1954) | Apr. 1976<br>Oct. 2007<br>Dec. 2008<br>Jan. 2009<br>Apr. 2009<br>Apr. 2011<br>Apr. 2012 | Joined Kawasaki Heavy Industries, Ltd.<br>General Manager, Project Management Division, Rolling Stock<br>Company<br>General Manager, Rolling Stock Division,<br>General Manager, Project Management Center, Rolling Stock<br>Division, Rolling Stock Company<br>General Manager, Rolling Stock Division, Rolling Stock<br>Company<br>Executive Officer<br>Vice President, Rolling Stock Company<br>Managing Executive Officer<br>Vice President, Rolling Stock Company<br>Managing Executive Officer<br>General Manager, Marketing Division<br>(current position)                                                                                | 21,000<br>Shares         |

(Note) Nobumitsu Kambayashi is concurrently Chairman of Nantong COSCO KHI Ship Engineering Co., Ltd., and we have transactions with this corporation in the following businesses.

- Guaranteeing borrowings from the bank to Nantong COSCO KHI Ship Engineering Co., Ltd.
- Sales of steering gear , etc.

There is no special conflict of interest between the Company and the other candidates.

#### **Proposal No. 4 Election of One Corporate Auditor**

As the term of office of the concurrent Corporate Auditor, Mr. Nobuyuki Okazaki will expire at the conclusion of this Ordinary General Meeting of Shareholders, we propose to elect one Corporate Auditor.

We have obtained the prior approval of the Board of Corporate Auditors on this proposal.

The candidate for Corporate Auditor is as follows.

| Name<br>(Date of Birth)          | Abridged Personal Records, Positions and Duties<br>[Significant concurrent positions] |                                                          | Shares of the<br>Company |
|----------------------------------|---------------------------------------------------------------------------------------|----------------------------------------------------------|--------------------------|
| Yuji Murakami<br>(Oct. 30, 1952) | Apr. 1975                                                                             | Joined Kawasaki Heavy Industries, Ltd.                   | 10,000<br>shares         |
|                                  | Apr. 2005                                                                             | Deputy Senior Manager, Finance & Accounting Department   |                          |
|                                  | Jun. 2009                                                                             | Senior Manager, Auditing Department                      |                          |
|                                  | Apr. 2012                                                                             | Staff Officer to Corporate Auditor<br>(current position) |                          |

(Notes) There is no special conflict of interest between the Company and the candidate for Corporate Auditor.

#### **Proposal No. 5 Revision of Amount of Compensation Payable to Directors**

At the 178th Ordinary General Meeting of Shareholders held on June 28, 2001, it was approved that the amount of compensation for Directors would be ¥60 million or less per month (¥720 million or less per year).

The Company proposes to determine an amount of compensation per year, instead of an amount of compensation per month and then revise the amount of compensation for Directors to ¥1.2 billion per year (for each fiscal year) for the following main reasons:

- (1) With the aim of strengthening and expanding the management foundation to attain the targets of “Kawasaki Business Vision 2020,” the Company has proposed to increase the authorized number of Directors by 3 (from the current fifteen to eighteen) in Proposal No. 2; and
- (2) The Company has further increased the proportion of corporate performance-linked compensation, and has revised the compensation system in which the maximum compensation is the amount of compensation to be received in the case that the targets of “Kawasaki Business Vision 2020” are attained.

With respect to Directors concurrently serving as employees, their employee salaries are not included in compensation payable to Directors as before.

The number of Directors is currently eleven and will be thirteen if Proposal No. 3 is approved and adopted.