The Items Published on the Internet Website Concerning the Notice of the 191st Ordinary General Meeting of Shareholders

Kawasaki Heavy Industries, Ltd.

Notes to the Consolidated Financial Statements

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

1. Scope of consolidation

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

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

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

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

One consolidated subsidiary was eliminated due to an absorption-type merger with another consolidated subsidiary and was excluded from the scope of consolidation.

2. Application of the equity method

(1) Number of non-consolidated subsidiaries and affiliates and names of principal companies which are subject to the equity method — 18 in total

Affiliates — 18, Nantong COSCO KHI Ship Engineering Co., Ltd.

One additional company which is accounted for by the equity method was newly established. Accordingly, it has been included in the scope of accounting by the equity method from the start of the current consolidated fiscal year.

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

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

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

3. Significant accounting policies

(1) Standards and methods for evaluation of assets

(i) Marketable securities

Bonds held to maturity

Principally stated by the amortized cost method

Other marketable securities

- Securities with market quotations
  Stated at market based on the market price on the settlement date of the accounting period (with all valuation differences charged to net assets and the cost of sale computed mainly by the moving average method).
- Securities without market quotations
  Stated at cost principally using the moving average method
  No trading securities are held by the Company.

(ii) Inventories

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

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

Stated at market

(2) Depreciation methods for fixed assets

(i) Property, plant and equipment

- Other than leased assets
  The straight line method is principally used for depreciation.

- Leased assets

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

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

(ii) Intangible assets

- Other than leased assets

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

- Leased assets

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

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

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

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

(4) Methods of accounting for provisions

(i) Allowance for doubtful receivables

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

(ii) Accrued bonuses

A provision is recorded based on estimated bonuses to employees.

(iii) Provision for product warranties

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

(iv) Provision for losses on construction contracts

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

(v) Provision for losses on damages suit

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

(vi) Provision for environmental measures

The Company provided an estimated amount to cover expenditures such as the disposal of PCB (poly chlorinated biphenyl) waste required under the "Law Concerning Special Measures for Promotion of Appropriate Disposal of PCB Waste."

(5) Hedge accounting policy

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

(6) Standards for revenue recognition

The standard applied for posting revenue for construction contracts is in accordance with the Accounting Standard for Construction Contracts (Accounting Standards Board of Japan(ASBJ), Statement No. 15, December 27, 2007) and Guidance on Accounting Standard for Construction

Contracts (ASBJ Guidance No. 18, December 27, 2007). However, with respect to posting of revenue for long-term or major construction works (principally those with a construction period longer than 1 year, and a contract amount of ¥3.0 billion or more) for which construction started prior to March 31, 2009, we apply the construction progress standard (the estimate for the rate of construction progress is mainly according to the cost accounting method), and with respect to other construction we apply the completed-contract method.

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

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

(8) The Company adopts a consolidated tax payment system.

(9) Amortization method and amortization period of goodwill

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

(10) Other important matters in preparing the consolidated financial statements

Standards of accounting for retirement and severance benefit liabilities

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

Actuarial differences are expensed effective from the next consolidated fiscal year mainly by the straight line method over a period of 10 years, and prior service costs are expensed effective from this fiscal year chiefly by the straight line method for a period of 10 years.

Unrecognized actuarial differences and unrecognized prior service cost are recorded for accumulated other comprehensive income’s cumulative adjustment for retirement benefits in the net assets section of the consolidated balance sheet after adjusting for a tax effect.

With regard to the method for attributing expected retirement benefits to this consolidated accounting period under review in calculating projected benefit obligations, the benefit formula basis is applicable.

(Changes in accounting policies)

(Changes in accounting policies)

(Adoption of new accounting standard for retirement benefits)

Effective from the consolidated fiscal year under review, the Company adopted the Accounting Standards Board of Japan’s new Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and its accompanying implementation guidelines, “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012), both of which take effect from the start of the consolidated fiscal year beginning on or after April 1, 2013. The Company has switched to recognizing the excess of retirement benefit obligations over pension assets as retirement and severance benefit liabilities and booked previously unrecognized actuarial losses and unrecognized prior service costs as retirement and severance benefit liabilities. Additionally, the Company revised its method of calculating retirement benefit obligations and service costs and changed its method of attributing projected retirement and severance benefit obligations to accounting periods from a straight line basis to a benefit formula basis.

When recognizing a retirement benefit liability in the amount of the excess of retirement benefit obligations over pension assets as of the start of the consolidated fiscal year under review, the Company debited accumulated other comprehensive income’s cumulative adjustment for retirement benefits to reflect recognition of the liability in accordance with the transitional measures provided in Paragraph 37 of the Accounting Standard for Retirement Benefits. The Company also debited its capital surplus account as of the beginning of the consolidated fiscal year under review, to reflect the effect of the change in its method of calculating retirement benefit obligations and service costs.

These debits reduced accumulated other comprehensive income and retained earnings as of the beginning of the consolidated fiscal year under review, by ¥20,410 million and ¥11,125 million, respectively. The effect on income is minimal.

(Treatment of FIA)

When the Company's main partners sell jet engines to airlines, the airlines demand a type of discount called fleet introductory assistance (FIA). The Company is charged a share of this FIA in proportion to its involvement in projects. The Company has previously included these FIA charges in cost of sales. Effective from the consolidated fiscal year under review, the Company has switched to reporting FIA charges as a deduction from sales.

After reassessing its FIA transactions in light of the Japanese Institute of Certified Public Accountants' Accounting Practice Committee Research Report No. 13, "Research Report on Revenue Recognition in Japan (Interim Report)," issued in July 2009, the Company decided that this revised treatment results in a more appropriate presentation of its operating performance.

The Company deducted FIA charges from sales in the consolidated fiscal year under review, and because the impact of this accounting policy change on the consolidated financial statements as a whole is minimal, the Company did not apply the change retrospectively.

The change reduced both sales and cost of sales for the consolidated fiscal year under review, by ¥37,499 million, relative to what they would have been in the absence of the change, but it had no effect on operating income, recurring profit, or income before income taxes and minority interests.

(Treatment of specialized jigs and tools for civilian aircraft)

Effective from the consolidated fiscal year under review, the Company and some of its consolidated subsidiaries have reclassified jigs and tools used in the Aerospace segment's civilian aircraft manufacturing operations from inventory (work in process) to property, plant and equipment as a result of a reassessment of the balance sheet classification of these jigs and tools in light of their growing size and functionality.

The Company and its applicable consolidated subsidiaries reclassified the jigs and tools as of the previous consolidated fiscal year-end and carried the revised asset balances over as beginning balances for the consolidated fiscal year under review. Since the impact of this reclassification on the consolidated financial statements as a whole is minimal, they did not apply the reclassification retrospectively.

The reclassification reduced work in process as of the beginning of the consolidated fiscal year under review, by ¥26,781 million and increased property, plant and equipment and intangible assets by ¥26,555 million and ¥226 million relative to what they would have been in the absence of the reclassification.

Previously, the book value of the specialized jigs and tools was transferred from work in process to cost of sales upon the sale of the aircraft components for which the jigs and tools were used. From now on, the jigs and tools will be depreciated as fixed assets and their depreciation will be allocated between cost of sales and work in process. The impact of this change on earnings is minimal.

(Treatment of subsidies related to aircraft development)

In developing aircraft and jet engines, the Company receives development-related subsidies pursuant to the Aircraft Industry Promotion Act. The Company previously placed priority on the subsidy transactions' legal form by recognizing the subsidies as revenue received in consideration for development deliverables, charging the revenues' corresponding development expenses to cost of sales, and recognizing projected future obligations related to the subsidies as warranty obligations. From the consolidated fiscal year under review, the Company has been placing more priority on the subsidy transactions' economic substance and has revised its accounting treatment accordingly. Specifically, the Company no longer recognizes the subsidies as revenue and, on its balance sheet, it now recognizes projected future obligations as liabilities and capitalizes development expenses as inventory.

After reassessing the subsidy transactions by placing priority on their substance in light of the Japanese Institute of Certified Public Accountants' Accounting Practice Committee Research Report No. 13, "Research Report on Revenue Recognition in Japan (Interim Report)," issued in July 2009, the Company decided that this revised treatment results in a more appropriate presentation of its operating performance and financial condition.

At the end of the consolidated fiscal year under review, the Company capitalized the development expenses as inventory and recognized a liability as described above. Since the impact of these changes on the consolidated financial statements as a whole is minimal, the Company did not apply the changes retrospectively. The impact of the changes on earnings is minimal.

As a result, the work in process, accounts payable-other and long-term accounts payable-other balance at the end of the consolidated fiscal year under review increased by ¥14,409 million, ¥1,160 million and ¥13,249 million, respectively. The impact of the changes on earnings was minimal.

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates, and changes in accounting estimates)

(Changes in depreciation method and depreciable lives)

The Company and its domestic consolidated subsidiaries have previously used the declining balance method to depreciate their property, plant and equipment (except for buildings (excluding fixtures) acquired on or after April 1, 1998, which have been depreciated by the straight line method). Effective from the consolidated fiscal year under review, they have switched to using the straight line method for all property, plant and equipment.

In accordance with Kawasaki Business Vision 2020, the Company and its consolidated subsidiaries actively conduct overseas operations ranging from production to sales while treating their domestic plants as development and production hubs where advanced technological capabilities are concentrated. Given this configuration, overseas capital investment is expected to become even more important than before.

As a result of the change in the depreciation method in response to such a change in the capital investment environment, the Group production facilities are expected to operate stably and the economic benefits of capital investments will accordingly accrue evenly over time. The Company therefore decided that switching to the straight line method of depreciation would more accurately reflect the state of its operations from the standpoint of appropriately reporting quarterly and annual income and losses.

Additionally, the Company and its domestic consolidated subsidiaries have previously depreciated their machinery and tools based mainly on depreciable lives prescribed in the Corporation Tax Act. In conjunction with the change in depreciation method, they have revised the depreciable lives of their machinery and tools effective from the consolidated fiscal year under review. They did so based on a comprehensive reassessment of the physical and economic lives of the machinery and tools, taking into account various factors including product life spans and the risk of production process obsolescence.

As a result of these changes, consolidated operating income, recurring profit, and income before income taxes and minority interests for the consolidated fiscal year under review were ¥13,602 million higher than they would have been in the absence of the changes.

(Additional Information)

(Effects of the change of corporate tax rate, etc.)

In accordance with the promulgation of the “Law for Partial Amendment of the Income Tax Law, Etc.” (2014, Law No. 10) on March 31, 2014, the Special Reconstruction Corporation Tax will no longer be imposed from the consolidated fiscal year beginning on or after April 1, 2014.

The statutory tax rate, which is used to calculate deferred tax assets and liabilities, has been reduced from previous 37.8% to 35.4% for the temporary differences expected to be cleared in the consolidated fiscal year beginning on or after April 1, 2014.

This tax rate change decreased net deferred tax assets by ¥2,040 million, increased income taxes-deferred by ¥1,896 million, and decreased deferred gains or losses on hedges by ¥143 million.

(Notes to Consolidated Balance Sheet)

1. The amounts presented are rounded down to the nearest unit.
2. Accumulated depreciation of property, plant and equipment ¥727,241 million
3. Assets pledged as collateral

Buildings and structures	¥82 million
Securities held for investment purpose	¥14 million
Other	¥854 million

Shares of ENSEADA INDUSTRIA NAVAL S.A., an affiliate accounted for using the equity method, are offered in security for loans from financial institutions. Relevant liabilities as of the end of the fiscal year include long-term debt of ¥31,842 million.

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

Liabilities relating to collateral

Short-term borrowings	¥13 million
Long-term debt	¥127 million
Other	¥4 million

4. Guarantee obligations for bank loans of subsidiaries and affiliates, etc. and employees ¥25,630 million

(Notes to Consolidated Statement of Income)

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

2. Loss on impairment of fixed assets
   (1) Outline of the asset group that recognized an impairment loss

Use	Place	Type
Operating property	Wakamatsu-ku, Kitakyushu City	Land, buildings and structures, etc.

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

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

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

   (5) Amount of impairment loss
   The amount of ¥476 million for impairment loss was posted under extraordinary losses as impairment loss, and the breakdown of the types of fixed assets is as follows.

Land	¥381 million
Buildings and structures	¥63 million
Other	¥30 million
Total	¥476 million

3. Gain on contribution of securities to the pension trust is attributable to the additional contribution of investment securities held by the Company to the pension trust.

4. Loss on disaster is mainly attributable to building removal costs and loss of fixed assets and inventories due to the collapse of a hangar roof in Atsugi Works of NIPPI Corporation caused by the heavy snowfall on February 15, 2014.

(Notes to Consolidated Statement of Changes in Net Assets)

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

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

   Common stock 1,671,892,659 shares

3. Dividends

Resolution	Total dividend (million yen)	Dividend per share (yen)	Record date	Effective date
General Meeting of Shareholders on June 26, 2013	8,358	5	March 31, 2013	June 27, 2013

Scheduled date of resolution	Total dividend (million yen)	Dividend per share (yen)	Record date	Effective date
General Meeting of Shareholders on June 26, 2014	10,030	6	March 31, 2014	June 27, 2014

(Notes to financial instruments)

1. Matters regarding financial instruments

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

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

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

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

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

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

(Unit: million yen)

	Price recorded in the consolidated balance sheet(*)	Fair market value(*)	Difference
(1) Cash on hand and in banks	47,949	47,949	-
(2) Trade receivables	415,664	415,545	(118)
(3) Long-term investment securities	7,799	7,795	(4)
(4) Trade payables	[252,107]	[252,107]	-
(5) Electronically recorded obligations-operating	[53,923]	[53,923]	-
(6) Short-term borrowings	[190,757]	[190,757]	-
(7) Bonds payable	[110,000]	[111,898]	(1,898)
(8) Long-term debt	[141,343]	[140,618]	725
(9) Derivative transactions	[4,558]	[4,558]	-

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

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

(1) Cash on hand and in banks

These instruments can be settled within short term and fair market value is roughly equal to book value, therefore the fair market value is stated at book value.

(2) Trade receivables

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

(3) Long-term investment securities

The fair market value for these securities is stated at the price listed on the exchange.

(4) Trade payables, (5) Electronically recorded obligations-operating, (6) Short-term borrowings

These instruments can be settled within short term and fair market value is roughly equal to book value, therefore the fair market value is stated at book value.

(7) Bonds payable

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

(8) Long-term debt

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

(9) Derivatives transactions

The fair market value of derivatives is stated at the forward exchange rate or the price offered by the trading financial institution. Of instruments subject to hedge accounting, those which are subject to appropriation of forward exchange contracts are stated in association with hedged trade receivables, and trade payables. Their fair market value is therefore included in the fair market value of the relevant trade receivables, and trade payables.

(Note 2) Shares of affiliates, investments in affiliates and unlisted stocks, and investments in silent partnerships (amount recorded in the consolidated balance sheet was ¥76,576 million) are not included in the table above, as it is deemed to be extremely difficult to ascertain fair market value because those instruments have no market prices, and it is not possible to estimate their future cash flows.

(Notes to per share information)

1. Net assets per share	¥ 217.16
2. Net income per share	¥ 23.09

(Other)

The heavy snowfall on February 15, 2014 caused a hanger roof in Atsugi Works of NIPPI Corporation to collapse, causing damage to aircrafts of the Japan Maritime Self Defense Force and US military that were undergoing regular maintenance. The Company and NIPPI Corporation are currently having discussions with the Japanese Ministry of Defense and U.S. military regarding the way to handle this case. Some discussion results could have a material impact on KHI Group’s financial performance.

Notes to the Non-consolidated Financial Statements

(Notes to significant accounting policies)

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

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

3. Derivatives are stated at market

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

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

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

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

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

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

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

(5) Employees' retirement and severance benefits
A provision is recorded for the amount deemed to have been incurred as of this fiscal year-end based on the estimated retiree benefits and plan assets as of this fiscal year-end (including the pension trust) to cover employee retirement benefits. With regard to the method for attributing expected retirement benefits to this accounting period under review in calculating projected benefit obligations, the benefit formula basis is applied. Actuarial differences are expensed by the straight-line method over a period of ten years commencing from the following fiscal year, and past service costs are expensed by the straight-line method over a period of ten years commencing from the current fiscal year. Accounting procedures of unrecognized actuarial differences and unrecognized prior service cost on retirement benefits are different from those in the consolidated financial statements.

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

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

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

9. Standards for revenue recognition
The standard applied for posting revenue for construction contracts is in accordance with the Accounting Standard for Construction Contracts (ASBJ Statement No. 15, December 27, 2007) and Guidance on Accounting Standard for Construction Contracts (ASBJ Guidance No. 18, December 27, 2007). However, with respect to posting of revenue for long-term or major construction works (those with a construction period longer than 1 year, and a contract amount of ¥3.0 billion or more) for which construction started prior to March 31, 2009 we apply the construction progress standard (the estimate for the rate of construction progress is mainly according to the cost accounting method), and with respect to other construction we apply the completed-contract method. With regard to contracts for which the amount of revenue from delivery is not determined and/or cost of sales is not finalized, both sales and cost of sales are estimated.

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

11. We adopt a consolidated tax payment system.

(Changes in accounting policies)

(Changes in accounting policies)

(Adoption of new accounting standard for retirement benefits)

Effective from the fiscal year under review, the Company adopted the Accounting Standards Board of Japan's new Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012; hereinafter, the "Retirement Benefits Accounting Standard") and its accompanying implementation guidelines, "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012), both of which take effect from the start of the fiscal year beginning on or after April 1, 2013. The Company revised its method of calculating retirement benefit obligations and service costs and changed its method of attributing projected retirement and severance benefit obligations to accounting periods from a straight line basis to a benefit formula basis.

As of the start of the fiscal year under review, in accordance with the transitional measures provided in Paragraph 37 of the Retirement Benefits Accounting Standard, the Company debited its retained earnings brought forward as of beginning of the fiscal year under review, to reflect the effect of the change in its method of calculating retirement benefit obligations and service costs.

This debit reduced retained earnings as of the beginning of the fiscal year under review by ¥10,516 million. The effect on income is minimal.

(Treatment of FIA)

When the Company's main partners sell jet engines to airlines, the airlines demand a type of discount called fleet introductory assistance (FIA). The Company is charged a share of this FIA in proportion to its involvement in projects. The Company has previously included these FIA charges in cost of sales. Effective from the fiscal year under review under review, the Company has switched to reporting FIA charges as a deduction from sales.

After reassessing its FIA transactions in light of the Japanese Institute of Certified Public Accountants' Accounting Practice Committee Research Report No. 13, "Research Report on Revenue Recognition in Japan (Interim Report)," issued in July 2009, the Company decided that this revised treatment results in a more appropriate presentation of its operating performance.

The Company deducted FIA charges from sales in the fiscal year under review, and because the impact of this accounting policy change on the non-consolidated financial statements as a whole is minimal, the Company did not apply the change retrospectively.

The change reduced both sales and cost of sales for the fiscal year under review, by ¥37,499 million, relative to what they would have been in the absence of the change, but it had no effect on operating income, recurring profit, or income before income taxes and minority interests.

(Treatment of specialized jigs and tools for civilian aircraft)

Effective from the fiscal year under review, the Company has reclassified jigs and tools used in the Aerospace segment's civilian aircraft manufacturing operations from inventory (work in process) to property, plant and equipment as a result of a reassessment of the balance sheet classification of these jigs and tools in light of their growing size and functionality.

The Company reclassified the jigs and tools as of the previous fiscal year-end and carried the revised asset balances over as beginning balances for the fiscal year under review. Since the impact of the reclassification on the non-consolidated financial statements as a whole is minimal, they did not apply the reclassification retrospectively.

The reclassification reduced work in process as of the beginning of the fiscal year under review, by ¥26,781 million and increased property, plant and equipment and intangible assets by ¥26,555 million and ¥226 million relative to what they would have been in the absence of the reclassification.

Previously, the book value of the specialized jigs and tools was transferred from work in process to cost of sales upon the sale of the aircraft components for which the jigs and tools were used. From now on, the jigs and tools will be depreciated as fixed assets and their depreciation will be allocated between cost of sales and work in process. The impact of this change on earnings is minimal.

(Treatment of subsidies related to aircraft development)

In developing aircraft and jet engines, the Company receives development-related subsidies pursuant to the Aircraft Industry Promotion Act. The Company previously placed priority on the subsidy transactions' legal form by recognizing the subsidies as revenue received in consideration for development deliverables, charging the revenues' corresponding development expenses to cost of sales, and recognizing projected future obligations related to the subsidies as warranty obligations. From the fiscal year under review, the Company is placing more priority on the subsidy transactions' economic substance and has revised its accounting treatment accordingly. Specifically, the Company no longer recognizes the subsidies as revenue and, on its balance sheet, it now recognizes projected future obligations as liabilities and capitalizes development expenses as inventory.

After reassessing the subsidy transactions by placing priority on their substance in light of the Japanese Institute of Certified Public Accountants' Accounting Practice Committee Research Report No. 13, "Research Report on Revenue Recognition in Japan (Interim Report)," issued in July 2009, the Company decided that this revised treatment results in a more appropriate presentation of its operating performance and financial condition.

At the end of the fiscal year under review, the Company capitalized the development expenses as inventory and recognized a liability as described above. Since the impact of these changes on the consolidated financial statements as a whole is minimal, the Company did not apply the changes retrospectively. The impact of the changes on earnings is minimal.

As a result, the work in process, accounts payable-other and long-term accounts payable-other balance at the end of the fiscal year under review increased by ¥14,409 million, ¥1,160 million and ¥13,249 million, respectively. The impact of the changes on earnings was minimal.

(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates and changes in accounting estimates)

(Changes in depreciation method and depreciable lives)

The Company and its domestic consolidated subsidiaries have previously used the declining balance method to depreciate their property, plant and equipment (except for buildings (excluding fixtures) acquired on or after April 1, 1998, which have been depreciated by the straight line method). Effective from the fiscal year under review, they have switched to using the straight line method for all property, plant and equipment.

In accordance with Kawasaki Business Vision 2020, the Company and its consolidated subsidiaries actively conduct overseas operations ranging from production to sales while treating their domestic plants as development and production hubs where advanced technological capabilities are concentrated. Given this configuration, overseas capital investment is expected to become even more important than before.

As a result of the change in the depreciation method in response to such a change in the capital investment environment, the Company’s production facilities are expected to operate stably and the economic benefits of capital investments will accordingly accrue evenly over time. The Company therefore decided that switching to the straight line method of depreciation would more accurately reflect the state of its operations from the standpoint of appropriately reporting quarterly and annual income and losses.

Additionally, the Company has previously depreciated its machinery and tools based mainly on depreciable lives prescribed in the Corporation Tax Act. In conjunction with the change in depreciation method, it has revised the depreciable lives of its machinery and tools effective from the fiscal year under review. It did so based on a comprehensive reassessment of the physical and economic lives of the machinery and tools, taking into account various factors including product life spans and the risk of production process obsolescence.

As a result of these changes, consolidated operating income, recurring profit, and income before income taxes and minority interests for the fiscal year under review were ¥12,573 million higher than they would have been in the absence of the changes.

(Notes to Non-Consolidated Balance Sheet)

1. The amounts presented are rounded down to the nearest unit.
2. Accumulated depreciation of property, plant and equipment ¥542,584 million
3. Monetary receivables from and payables to affiliates

Short-term monetary assets	¥170,217 million
Long-term monetary assets	¥6,438 million
Short-term monetary liabilities	¥94,516 million

4. Asset pledged as collateral and liability relating to collateral

(1) Assets pledged as collateral

Investment securities	¥14 million
Shares of affiliates	¥868 million
Buildings	¥82 million
Total	¥964 million

Shares of ENSEADA INDUSTRIA NAVAL S.A., an affiliate accounted for using the equity method, are offered in security for loans from financial institutions. Relevant liabilities as of the end of the fiscal year include long-term debt of ¥31,842 million.

(2) Liability relating to collateral

Long-term debt (due for repayment within one year)	¥13 million
Long-term debt	¥127 million

5. Guarantee liability for bank borrowings by affiliates and employees ¥31,554 million

(Notes to Non-consolidated Statement of Income)

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

Net sales	¥ 421,772 million
Purchases	¥ 183,165 million
Transactions other than operating transactions	¥ 34,650 million
Extraordinary losses	¥ 2,624 million

3. Gain on contribution of securities to the pension trust is attributable to the additional contribution of investment securities held by the Company to the pension trust.
4. Loss on disaster is mainly attributable to building removal costs and loss of fixed assets and inventories due to the collapse of a hangar roof in Atsugi Works of NIPPI Corporation, which is KHI’s consolidated subsidiary, caused by the heavy snowfall on February 15, 2014.
5. Transfer pricing adjustments is based on the agreement of Advance Pricing Arrangement with overseas subsidiaries.

(Notes to Non-consolidated Statement of Changes in Net Assets)

1. The amounts presented are rounded down to the nearest unit.
2. Number of treasury stock at the end of fiscal year under review Common stock 141,710 shares

(Notes to Tax Effect Accounting)

Among other factors, the main contributing factor to deferred tax assets is the disallowance of various provisions such as the employees’ retirement and severance benefits and the losses on construction contracts, and the main contributing factor to the deferred tax liabilities incurred is net unrealized gain on securities.

(Additional Information)

(Effects of the change of corporate tax rate, etc.)

In accordance with the promulgation of the “Law for Partial Amendment of the Income Tax Law, Etc.” (2014, Law No. 10) on March 31, 2014, the Special Reconstruction Corporation Tax will no longer be imposed from the fiscal year beginning on or after April 1, 2014.

The statutory tax rate, which is used to calculate deferred tax assets and liabilities, has been reduced from the previous 37.8% to 35.4% for the temporary differences expected to be cleared during the fiscal year beginning on or after April 1, 2014.

This tax rate change decreased net deferred tax assets by ¥1,563 million, increased income taxes-deferred, which is expensed for the fiscal year under review, by ¥1,496 million, and decreased deferred gains or losses on hedges by ¥66 million.

(Notes to Leased Fixed Assets)

Other than the fixed assets recorded on the balance sheet, certain manufacturing facilities are used under finance lease contracts not involving the transfer of the ownership of the leased property.

(Notes for transactions with interested parties)

Unit: million yen

Attributes	Company name	Percentage of voting rights held	Relationship with interested party	Content of transaction	Amount of transaction	Item	Balance at fiscal year-end
Affiliate	Commercial Airplane Co., Ltd.	40% directly held	Sale of the company's products Directors concurrently serving	Sale of the company's products	108,684	Accounts receivable	16,209
Subsidiary	Kawaju Finance, Ltd.	100% directly held	Businesses related to factoring with business partners	Money lending	20,167	Short-term loans receivable	4,900

(Note 1) With respect to sale of products, the price is determined based on the same conditions as those of parties that are not related to the Company.

(Note 2) With respect to lending money, we reasonably decide the interest rate taking into consideration market interest rates. The transaction amount stated is the average balance in this fiscal year.

(Note 3) Consumption tax is not included in the amount of transaction, but is included in the balance at fiscal year-end.

(Notes to per Share Information)

1. Net assets per share ¥163.41
2. Net income per share ¥19.20