

Annual Report 2010

Year ended March 31, 2010




KAWASAKI HEAVY INDUSTRIES, LTD.

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

Contents

Forward-Looking Statements

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

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

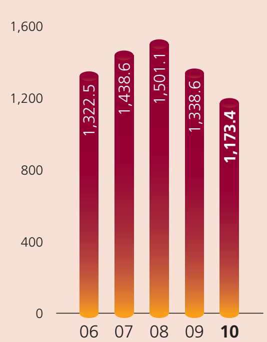
Consolidated Financial Highlights

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

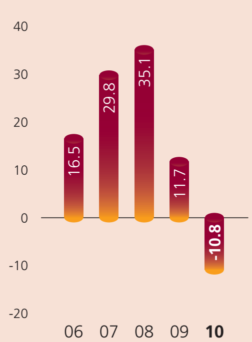
	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
For the year:				
Net sales	**¥1,173,473**	¥1,338,597	¥1,501,097	**$12,612,564**
Operating income (loss)	**(1,316)**	28,713	76,910	**(14,144)**
Net income (loss)	**(10,860)**	11,728	35,141	**(116,723)**
Net cash provided by (used for) operating activities	**30,178**	(41,257)	75,766	**324,355**
Capital expenditures	**59,272**	82,450	50,538	**637,059**
Per share (in yen and U.S. dollars):				
Earnings per share—basic	**¥(6.5)**	¥7.0	¥21.1	**$(0.06)**
Earnings per share—diluted	**–**	6.9	20.6	**–**
Cash dividends	**3.0**	3.0	5.0	**0.03**
At year-end:				
Total assets	**¥1,352,439**	¥1,399,771	¥1,378,770	**$14,536,102**
Total net assets	**283,053**	295,246	319,038	**3,042,272**
Orders received and outstanding:				
Orders received during the fiscal year	**¥1,001,290**	¥1,540,590	¥1,610,757	**$10,761,930**
Order backlog at fiscal year-end	**1,507,057**	1,699,163	1,533,663	**16,197,947**

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥93.04 to US$1, the approximate rate of exchange at March 31, 2010.

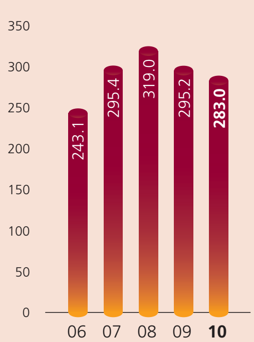
Net Sales
(Billions of yen)



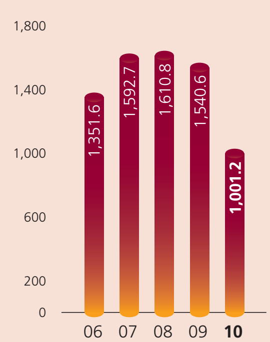
Net Income (Loss)
(Billions of yen)



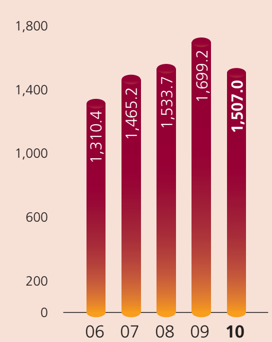
Total Net Assets
(Billions of yen)



Orders received
(Billions of yen)



Order backlog
(Billions of yen)



Returning to a growth path and laying the foundation for future growth

Operating Environment and Business Overview

Fiscal 2010, ended March 31, 2010, was a transition period that marked the bottoming out of the deep worldwide recession and subsequent gradual progress toward recovery. However, the degree of recovery has varied according to country and region. Compared with robust growth in developing countries such as China, India, and Brazil, recovery in developed countries has been sluggish. In addition, uncertainties such as the financial problems emerging in some European countries remain.

Under these circumstances, the Kawasaki Heavy Industries (KHI) Group faced continued adversity in its business operations and experienced sharp declines in revenues and earnings from some of its businesses engaged in mass production, as a result of a sudden decline in the markets of developed countries. The situation necessitated a review of the policies and measures set forth in the previous Global K medium-term business plan. Even businesses engaged in custom manufacturing, which have maintained relatively stable revenues, have experienced a slump in orders for new projects, particularly the Shipbuilding segment. Accordingly, the KHI Group's businesses have not yet reached the stage of full-scale recovery.

As a result, in fiscal 2010 orders won by the KHI Group on a consolidated basis fell ¥539.3 billion, or 35.0%, from the previous fiscal year, to ¥1,001.2 billion. Consolidated net sales declined ¥165.1 billion, or 12.3%, to ¥1,173.4 billion. Operating income decreased ¥30.0 billion, resulting in an operating loss of ¥1.3 billion, while net income was down ¥22.6 billion, resulting in a net loss of ¥10.8 billion.

Our basic dividend policy is to continue to pay stable cash dividends that are in line with our performance, while giving careful attention to increasing retained earnings to strengthen and expand the KHI Group's management base in preparation for our future growth. While this remains the basic dividend policy, with regard to the dividend for fiscal 2010, upon consideration of the outlook for business performance, the level of retained earnings, and other factors, we proposed a cash dividend payment of ¥3.0 per share, which was approved by our shareholders.

Establishment of a New Medium-Term Business Plan to Prepare for Sustained Growth

The KHI Group established the Medium-Term Business Plan (FY2011–2013), MTBP2010, which covers the years from fiscal 2011 to fiscal 2013. The principal goals of MTBP2010 are the return to a growth path through rebuilding of the earnings structure and investment for sustained growth into the future.

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

At the time of preparation of MTBP2010, we conceived Kawasaki Business Vision 2020—Strategic Moves toward the Future as a vision for the KHI Group, to realize our Group mission of meeting the needs of society by around 2030. We thus devised MTBP2010 as a concrete action plan to not only rebuild our earnings structure but to also return to a growth path—realizing our mission of solving the problems of future generations, through key technologies and innovations.

The KHI Group will implement initiatives to ensure a better environment and a brighter future for generations to come, even as we address the issue of returning to a growth path in these harsh economic conditions.

Note: For details about MTBP2010, please refer to the president's interview in this report.

Integration of Group Companies

Kawasaki Shipbuilding Corporation, Kawasaki Precision Machinery Ltd., and Kawasaki Plant Systems, Ltd. are operating companies responsible for the KHI Group's core businesses. Each of these companies has built a powerful business base through expeditious decision making as an independent organization. On October 1, 2010, these companies will be integrated with Kawasaki Heavy Industries, Ltd. We will take advantage of the integration to reinforce the knowledge management of these companies, including technological knowledge, human resources, and other assets. We will also implement various measures to accelerate growth under the new business structure, including reinforcement of the Energy & Environmental Engineering business sector and promotion of high added value in existing products.

To Our Shareholders

The continued support and cooperation of our shareholders are essential to the KHI Group's efforts to achieve sustained growth into the future. To earn this support, we will continue to reinforce corporate governance and enhance our internal control systems and strive to meet the expectations of our shareholders through effective corporate social responsibility.

June 2010
Satoshi Hasegawa
President

The KHI Group will steadily implement the policies and measures set forth in MTBP2010 in order to achieve Kawasaki Business Vision 2020

We interviewed Mr. Satoshi Hasegawa, president of Kawasaki Heavy Industries, Ltd. (KHI). Mr. Hasegawa provided an overview of the previous Global K medium-term business plan, and discussed Kawasaki Business Vision 2020 and MTBP2010, the action plan to achieve the vision.

Q1 Which aspects of the previous Global K medium-term business plan received the greatest emphasis?

In the previous Global K medium-term business plan, we set forth the following basic policies for the KHI Group—"Emphasizing quality over quantity," "Selectively focusing resources on strategic businesses," and "Strengthening non-price competitiveness"—to become a globally recognized enterprise, and have sought to increase profitability on the basis of these policies. As a result, by expanding businesses in China, with a focus on the Shipbuilding, Plant & Infrastructure Engineering, and Precision Machinery segments, expanding the Rolling Stock segment's business in North America, and establishing manufacturing and marketing systems for motorcycles in Southeast Asia for the Motorcycle & Engine segment, we achieved record-high recurring profit* for two consecutive years: ¥49.1 billion in fiscal 2007 and ¥64.0 billion in fiscal 2008. We have also dramatically improved our financial position by reducing interest-bearing debt from ¥491.3 billion (debt-to-equity ratio of 293%) in fiscal 2002 to ¥276.4 billion in fiscal 2008 (debt-to-equity ratio of 87%) and have actively engaged in capital investment.

* Recurring profit is used in accounting standards generally accepted in Japan. It is the sum of operating income, net interest income (expenses), dividend income, and other non-operating and recurring income items.

At the same time, however, we acknowledge that our risk management with regard to the break-even point was inadequate during the favorable period of global economic growth and yen weakness that continued until the first half of fiscal 2009. In business segments in which fixed costs came to exceed appropriate levels as sales increased, primarily businesses engaged in mass production, we experienced major delays in responding to the worldwide recession that began in the second half of fiscal 2009. From now on, we must engage in management that reflects keen awareness of the break-even point and business operations geared toward ensuring a rapid response to changes in the business environment.

Under the Global K plan, we also achieved solid results from new product and new technology development linked to future growth, including large aircraft (the XP-1 and XC-2), aircraft manufacturing using composite materials (B787), Gigacell®, the Trent 1000 engine, biomass, the MDX, small-scale hydropower, and the reheat cycle plant.

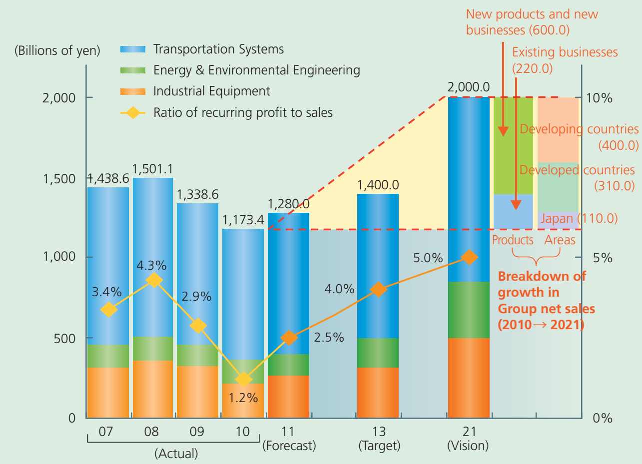
Nevertheless, we were unable to achieve significant growth in the Energy & Environmental Engineering business sector, which the KHI Group has positioned as a fifth business pillar, and we must reinforce effective incubation initiatives in this business sector.

As a result of rapid deterioration in business performance, interest-bearing debt reached ¥428.9 billion and the debt-to-equity ratio exceeded 150% at the end of fiscal 2010. Improvement of the financial position is an urgent issue.

Q2 What is the vision set forth in Kawasaki Business Vision 2020, the premise for MTBP2010?

In Kawasaki Business Vision 2020, we aim to become a company that provides products and services suited to the diverse needs of people around the world through advanced technological

Net Sales by Business Sectors



(Years ended March 31)

Quantitative Vision (FY2021)

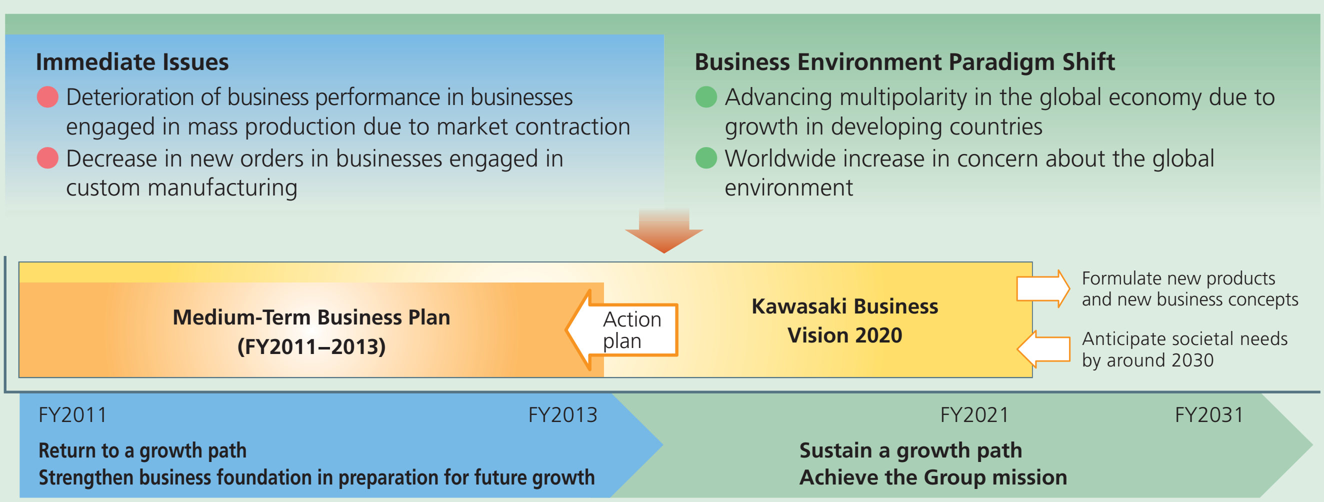
Consolidated net sales

¥2 trillion

Ratio of recurring profit to sales

5.0% or higher

Background to and Key Features of the Medium-Term Business Plan



Business Vision

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

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

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

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

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

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

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

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

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

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

capabilities in three principal business sectors—Land, Sea, and Air Transportation Systems, Energy & Environmental Engineering, and Industrial Equipment—to achieve the Group Mission: Kawasaki, working as one for the good of the planet (Enriching lifestyles and helping safeguard the environment: Global Kawasaki).

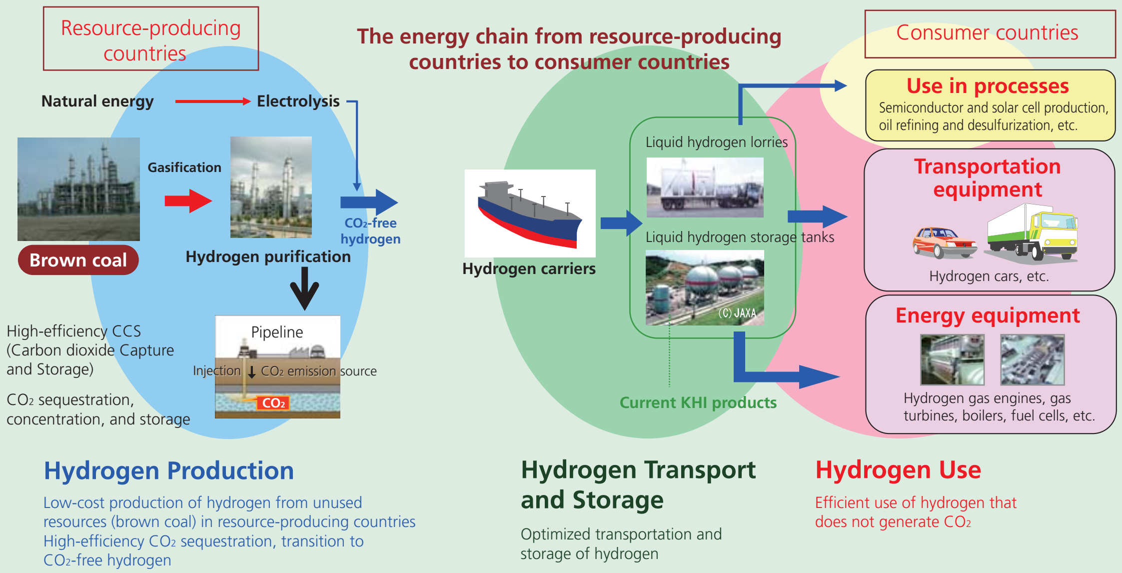
Our quantitative vision for fiscal 2021 is to achieve consolidated net sales of ¥2 trillion and a ratio of recurring profit to sales of 5.0% or higher. Compared to fiscal 2010, this represents an increase in net sales of ¥820.0 billion, consisting of ¥220.0 billion from existing products and ¥600.0 billion from new products. By geographical region, we forecast increases of ¥400.0 billion from developing countries, ¥310.0 billion from developed countries, and ¥110.0 billion from Japan.

We have set an average annual base for capital investment of ¥60.0 billion. In addition to steadily making capital investments for new projects, we plan to proceed with capital investments in overseas facilities in line with overseas sales expansion. We will expand R&D investment to the level of ¥60.0 billion per year on average, with the aim of developing numerous new products. An area of particular emphasis will be initiatives to develop products and businesses to realize a low-carbon society, an effort in which we intend to take a long-term perspective that extends beyond 2020 and anticipate societal needs by around 2030.

Q3 Could you describe the basic strategy within Kawasaki Business Vision 2020?

There are two key features of the basic strategy. The first is reinforcement of initiatives in the Energy & Environmental Engineering business sector, a focus of international concern. We are implementing concrete CO_2 reduction measures, including the development of new and more efficient gas turbines derived from existing models, the development of facilities that use waste heat, and the enhancement of our line of natural energy products through means including the commercialization of facilities that use biomass. Furthermore, we will conduct research and development to help realize a society that uses CO_2-free hydrogen in the manufacture, transport, or utilization of products.

KHI's CO_2-free hydrogen concept



Note: Visuals are for illustration purposes only.

Furthermore, in the Transportation Systems business sector, an area in which the KHI Group has an advantage, we will reinforce our proposals for an environment-friendly society by taking full advantage of a key strength of the KHI Group: an extensive line of products that help reduce environmental burden even in existing business fields. These proposals include high-speed trains, which are expected to calculate on universal prevalence, and eco-friendly large commercial aircraft that have lighter fuselages for improved fuel consumption efficiency and engines with sharply reduced CO_2 emissions, NOx emissions, and noise.

The second key feature of the basic strategy is the reinforcement of business development in markets around the world, with an emphasis on developing countries, in addition to our long-established businesses targeting developed countries. Diversification and multipolarity are advancing in the world's markets, and it is imperative that we respond to the needs of globalization.

With this in mind, we will win the trust of our customers and the community by demonstrating deep understanding of the history and culture of each individual country and region, and by developing and providing products and services adapted to the needs of each market.

At the same time, we will utilize the talents of global human resources, increase cooperative relationships with overseas business partners, and otherwise strengthen our ties with people around the world.

Q4 What are the objectives and issues in MTBP2010—the action plan for the first three years of the Kawasaki Business Vision 2020?

We have set forth two major objectives in MTBP2010. The first objective is to rebuild the earnings structure and return to a growth path. Our approach to this differs for businesses engaged in mass production and for businesses engaged in custom manufacturing. For businesses engaged in mass production, we must implement fixed cost reductions and lower the break-even point in response to changes in the business environment, as well as maintain inventory levels optimized to market fluctuations. In particular, we have made attaining profitability in the Motorcycle & Engine segment our most important priority. At the same time, businesses engaged in custom manufacturing that have stable order backlogs will be required to support the KHI Group's earnings structure during the term of MTBP2010—and we will make every effort to improve the profitability of large-scale projects and promptly respond to foreseeable risks.

Also, to improve profitability across all KHI Group products, we will incorporate the design-to-cost principle from the development and estimate stage to increase the accuracy of estimated costs, improve cash flow through the reinforcement of profitability, and improve the financial position by reducing interest-bearing debt.

The second objective in MTBP2010 is to strengthen our business foundation in preparation for future sustained growth. We will continue to focus efforts on R&D to nurture new products and new businesses and upgrade existing products, and we will accelerate global business development.

With vigorous growth in China, India, Brazil, and other developing countries expecting to spur greater demand for energy and transportation, the KHI Group plans to expand global production and engineering bases through alliances with local companies, M&A, and a number of other business activities.

In the developed countries of North America and Europe, we will respond to increased demand for aircraft, as well as demand for rolling stock that is expected due to a pronounced modal shift in these countries.

We believe that it is essential to continuously strengthen the business foundation to secure the KHI Group's sustained growth into the future even as we undertake the rebuilding of our earnings structure under the current harsh economic conditions. We look forward to the understanding and support of our stakeholders for the goals we have set forth in MTBP2010.

▶ Quantitative Targets and Plan

Consolidated quantitative targets for fiscal 2013, the final year of MTBP2010, are net sales of ¥1,400.0 billion, operating income of ¥52.0 billion, recurring profit of ¥56.0 billion, and before-tax ROIC of 8.5%. The level of these targets represent a

Key Policies and Measures

1) Reinforcement and nurturing of businesses that will constitute the future earnings structure

- The business units and headquarters collaborate in the nurturing and reinforcement of new products and businesses, taking a perspective that extends to 2030.
- Put in place mechanisms to create linkage from R&D to commercialization.
- Engage in M&A to acquire new businesses and strengthen existing businesses.

2) Acceleration of global business development

- Engage in product development and market development that take into account the individual market characteristics of China, India, Brazil, and other developing countries in addition to developed countries.
- In response to overseas business expansion, develop an optimal business structure at the global level through means including the upgrading and expansion of overseas production.

3) Group-wide sharing and utilization of intellectual assets

- Put in place mechanisms to promote group-wide sharing and utilization of intellectual assets such as technology and marketing information.
- Efficiently and rapidly merge intellectual assets held by individual companies through the reintegration of four Group companies.

4) Strengthen technological capabilities

- Expand R&D investment at business units and headquarters and reinforce the upgrading existing products and the development of new products.
- At the Corporate Technology Division, engage in anticipatory research into core technologies for future businesses and reinforce R&D of basic technologies shared throughout the Group.
- The Corporate Technology Division supports technology development at the business units and cross-implements technologies within the Group.

5) Strengthen *monozukuri* capabilities

- Pursue optimization of all development, design, procurement, and manufacturing processes and implement radical cost reduction and productivity improvement.
- Headquarters provides priority support for model businesses, focusing on procurement, manufacturing, and logistics, and cross-implements results within the Group.

6) Effective utilization of plants and business sites

- Responding to changes in the business environment, restructure the plants and business sites, focusing on plant complexes where multiple business units are located.

7) Development of human resources and the workplace environment

- Implement policies and measures to reinforce management capabilities, business execution capabilities, and autonomy and develop global human resources.
- Develop a balanced performance-based compensation system and personnel systems that increase employee motivation and the desire to develop skills.
- Create a workplace culture of putting safety first and implement policies that place importance on work-life balance and diversity.

8) The practice of environmental management

- Establish the seventh Environmental Management Activities Plan and reduce greenhouse gas and waste emissions in business activities.

9) IT strategy and systems development

- Strengthen the capability at headquarters to formulate and implement a Group information strategy and develop and reinforce systems at information departments throughout the Group.

10) Implementation of group-wide risk management

- In addition to risk management implemented at the business units, strengthen systematic management of critical risks from a group-wide perspective.

11) Qualitative improvement of headquarters departments

- Enhance specialized skills and implement initiatives to increase the corporate value from the medium-term and long-term perspective of total optimization.

return to the growth path we set in Global K. We have established ¥58.0 billion as the average annual allocation for capital investment and will steadily implement new project-related investments and upgrade key facilities. We have established ¥42.0 billion as the average annual allocation for R&D investment and will focus on R&D to foster new products and new businesses. With regard to the number of employees, we anticipate a workforce of 33,000 employees at the end of fiscal 2013. Although it is necessary to adjust employment in accordance with changes in business performance, we aim to secure key personnel and develop human resources.

▶ Key Policies and Measures in MTBP2010

To realize the goals set in MTBP2010, we have established 11 key policies and measures common to all KHI Group companies with the aim of demonstrating synergies as the KHI Group, while the individual business segments implement policies and measures. Details of these policies and measures are shown in the table on page 08. By steadily implementing these policies and measures, we intend to achieve the quantitative targets in MTBP2010 and link that success to the sustained growth envisioned in Kawasaki Business Vision 2020.

Q5 Do you have a concluding message for KHI's shareholders?

I consider the current fiscal year to be an important starting point for the realization of the basic objectives and quantitative targets in MTBP2010, and by extension, the objectives set forth in Kawasaki Business Vision 2020. The management and employees will make every effort to return to a growth path and strengthen the business foundation in preparation for future growth, further increase the medium- to long-term growth potential of the KHI Group, and accomplish the Group Mission: Kawasaki, working as one for the good of the planet (Enriching lifestyles and helping safeguard the environment: Global Kawasaki). We look forward to the continuing support and cooperation of our shareholders.

Consolidated Quantitative Targets

(Billions of yen)

	FY2010 (actual)	FY2011 (forecast)	FY2013 (target)	Reference FY2021 (vision)
Net sales	1,173.4	1,280.0	1,400.0	2,000.0
Operating income	-1.3	32.0	52.0	
(Ratio to sales)	-0.1%	2.5%	3.7%	
Recurring profit	14.2	32.0	56.0	100.0
(Ratio to sales)	1.2%	2.5%	4.0%	5.0%
Before-tax ROIC	0.2%	5.6%	8.5%	
Debt-to-equity ratio	1.55	1.55	1.30	
Equity ratio	20.4%	20.8%	24.0%	
Exchange rate assumption	–	¥90=US$1	¥90=US$1	¥90=US$1

Management Resource Allocation Plan

(Billions of yen)

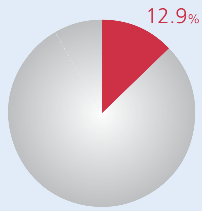
	FY2007–FY2010 average (actual)	FY2011–FY2013 (plan)	Reference FY2011–FY2021 (vision)
Capital investment (purchase order basis)	70.3/year	58.0/year	60.0/year
R&D investment	36.6/year	42.0/year	60.0/year
	FY2010 year-end (actual)	FY2013 year-end (plan)	FY2021 year-end (vision)
No. of employees	32,297	33,000	35,000

Review of Operations

The KHI Group at a Glance

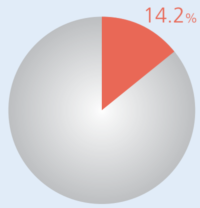
Composition of Consolidated Net Sales of FY2010 | **Main Products**

Shipbuilding



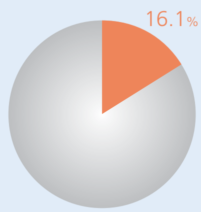
- LNG carriers
- LPG carriers
- Container ships
- VLCCs and other types of tankers
- Bulk carriers
- High-speed vessels
- Submarines
- Maritime application equipment

Rolling Stock



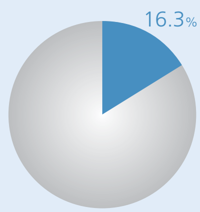
- Electric train cars (including for *Shinkansen* bullet trains)
- Electric and diesel locomotives
- Passenger coaches
- Integrated transit systems
- Monorail cars
- Platform screen doors
- Gigacell®

Aerospace



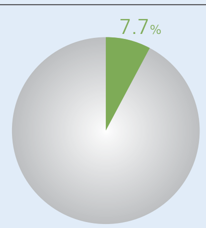
- CH-47, OH-1, and BK117 helicopters
- Component parts for the Boeing 787,777 and 767 passenger airplanes
- Component parts for the Embraer 170 and 190 jet aircraft
- Missiles
- Electronic equipment
- Space equipment

Gas Turbines & Machinery



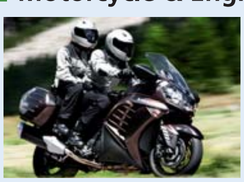
- Jet engines
- Small and medium-sized gas turbine generators
- Gas turbine cogeneration systems
- Gas turbines for naval vessels
- Steam turbines for marine and industrial applications
- Diesel engines and marine propulsion systems
- Gas engines
- Gas compression modules

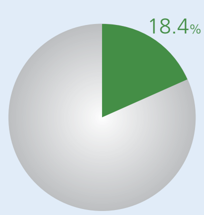
Plant & Infrastructure Engineering



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

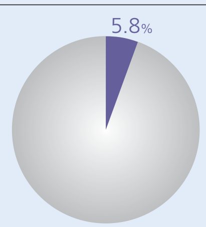
Motorcycle & Engine





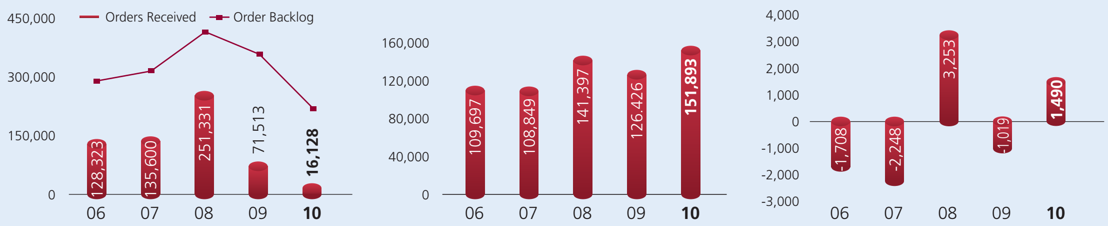
- Motorcycles
- ATVs
- Utility vehicles
- Personal watercraft
- General-purpose gasoline engines

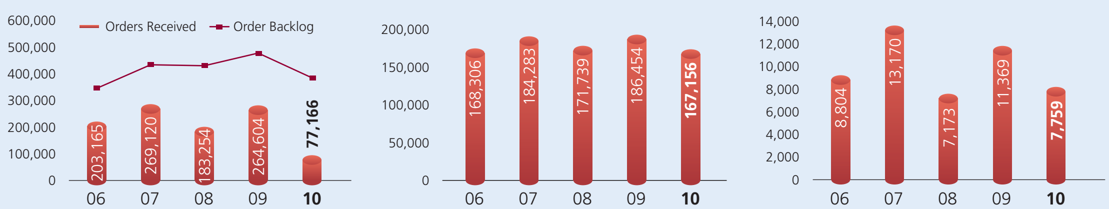
Precision Machinery

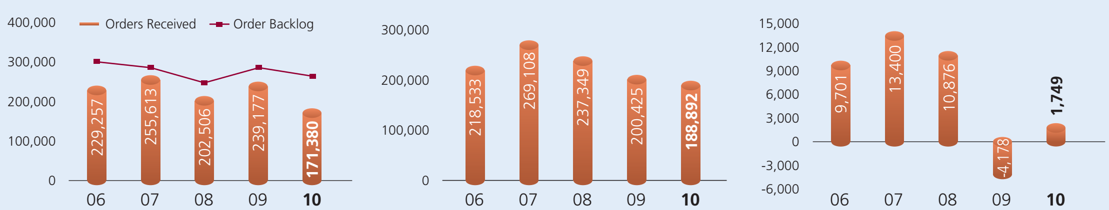


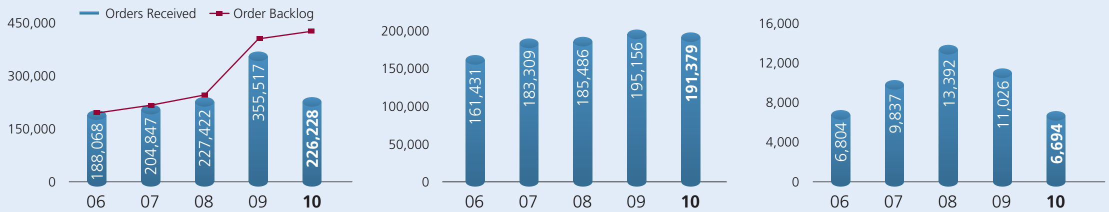
- Industrial hydraulic products
- Industrial robots

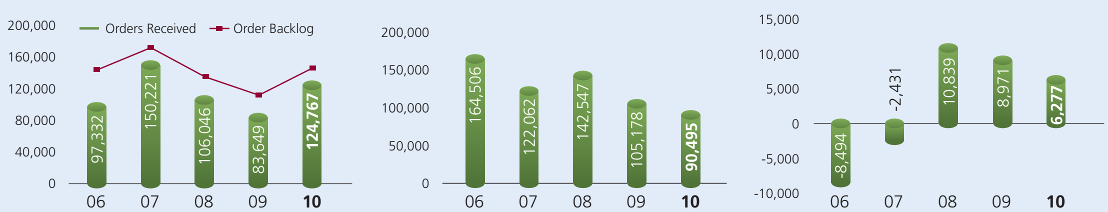
Orders Received/ Order Backlog (Millions of yen) | Sales (Millions of yen) | Operating Income (Loss) (Millions of yen)

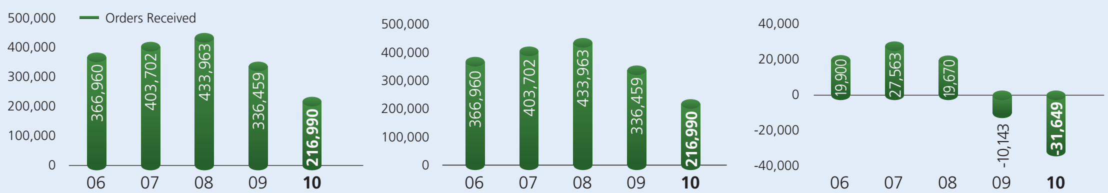




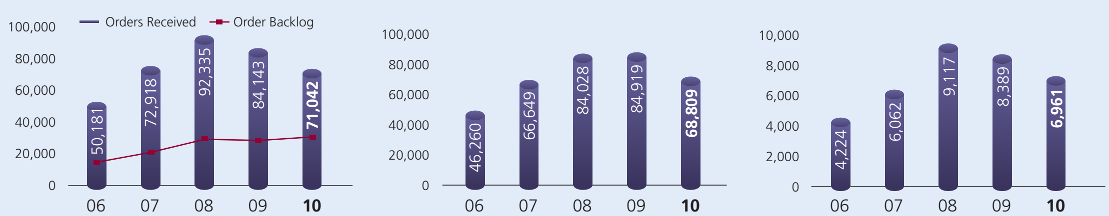








Note: Since production in the Motorcycle & Engine segment is carried out mainly in anticipation of demand, figures for orders received and sales are the same, and figures for order backlog are not presented.



Changes in Industry Segments and Segment Names

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

■ Changes in Industry Segments

Effective April 2009:

construction machinery business unit:

Transferred from the Rolling Stock segment to the "Other" segment

Effective April 2010:

crushing machine business unit:

Transferred from the Rolling Stock segment to the Plant & Infrastructure Engineering segment

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

■ Changes in Segment Names

Effective April 2009:

Rolling Stock & Construction Machinery (previous)

⇓

Rolling Stock (current)

Effective April 2010:

Consumer Products & Machinery (previous)

⇓

Motorcycle & Engine (current)

Hydraulic Machinery (previous)

⇓

Precision Machinery (current)

Shipbuilding

Business Results

The worldwide recession that began in 2008 caused dramatic deterioration of conditions in the marine freight market, and recovery in the newbuilding market, including price recovery, remains a distant prospect. In these circumstances, in fiscal 2010, the Shipbuilding segment experienced a sharp decline in orders for new vessels. Total orders received decreased by ¥55.4 billion year-on-year, or 77.4%, to ¥16.1 billion. Because of the increase in large vessels, sales surged by ¥25.5 billion, or 20.1%, from the previous fiscal year, to ¥151.8 billion. Reflecting the increase in sales and improved profitability due to lower material costs, operating income was ¥1.4 billion, an improvement of ¥2.5 billion from the operating loss of ¥1.0 billion in the previous fiscal year.

In newbuilding activity, the segment delivered a total of 14 vessels: three LNG (liquefied natural gas) carriers, one LPG (liquefied petroleum gas) carrier, one VLCC (very large crude oil carrier), eight bulk carriers, and one submarine.

Outlook

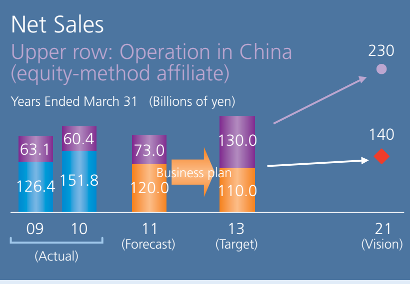
Kawasaki Shipbuilding Corporation, which is the core company of this segment, has an extensive track record in building gas carriers and submarines, which require advanced design and construction technologies. The vessels built at the company's Kobe and Sakaide shipyards continue to win high marks from customers for their performance and quality. Following the delivery in 1981 of the first LNG carrier built in Japan, we have established a position as a pioneer in this field. We offer a wide-ranging lineup of LNG carriers, extending from small carriers with cargo tank capacities of 19,000m^3 to newly developed large carriers with capacities of 177,000m^3. We have also developed, and offer in our lineup, a pressure build-up type LNG carrier for short-distance and small-volume transportation. To satisfy customer needs for energy saving and environmental load mitigation, we have completed development of the Kawasaki Advanced Reheat Steam Turbine System, SEA-Arrow (Sharp Entrance Angle bow as an Arrow), Kawasaki RBS-F (Rudder Bulb System with Fins), and Kawasaki OLP (Overlapping Propeller) System. We will continue to engage in technology development that draws on leading-edge technologies.

Nantong COSCO KHI Ship Engineering Co., Ltd. (NACKS), which Kawasaki Shipbuilding Corporation established as a joint venture with China Ocean Shipping (Group) Company, has now marked its 15th year of operations since its founding and has become one of the leading shipbuilding companies in China. In 2008, NACKS completed its second expansionary phase, involving the construction of the second shipbuilding dock and augmentation of its fabrication, assembly, and painting facilities. This expansion has considerably increased NACKS's shipbuilding capacity and further boosted its competitive advantage.

Kawasaki Shipbuilding Corporation and its group of companies, including NACKS, will continue to strive for sustained business development by enhancing technologies related to ship design, manufacturing, and quality assurance to reinforce their ability to compete globally in terms of both quality and costs.

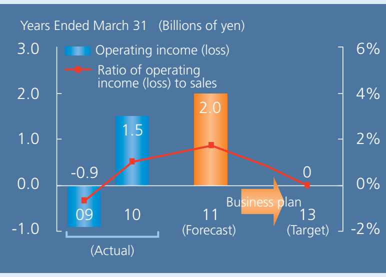
2020 Vision

One of the world's leading shipbuilding groups and an enterprise that plays a key role in marine transport, a critical part of the world's economic infrastructure, and contributes to solving global environmental issues through energy conservation, low environmental impact products, and other measures



Business Vision for 2020

- Steady increase in seaborne cargo movement volume due to sustained global economic growth
- Seek further growth of the business operation in China while maintaining the quality of the operation in Japan



Key Points in the Medium-Term Business Plan

- Profits until FY2012 are assured owing to an order backlog of almost two years.
- Securing orders from 2012 onward is a key task. KHI will await market recovery while implementing an operating slowdown and fixed cost reductions.
- Maintain stable operations in FY2013 benefiting from our Chinese business.

Note: The figures for operating income (loss) for FY09 and FY10 have been calculated in accordance with new accounting standards applied in FY11. Accordingly, they differ from the figures in the actual operating results.


LNG carrier TAITAR NO. 2


Submarine *UNRYU*

Rolling Stock

Business Results

In fiscal 2010, orders were received in Japan from the Japan Railways Group for commuter train cars, locomotives, and other rolling stock, as well as from both public and private railway companies for commuter train cars, train cars for new transportation systems, and other rolling stock. Orders from overseas customers included subway cars for Singapore Land Transport Authority. Orders received amounted to ¥77.1 billion, down ¥187.4 billion, or 70.8%, from the previous fiscal year, when the Company obtained orders for large-scale projects. Despite increases in sales of rolling stock to the Japan Railways Group and overseas customers, sales declined ¥19.3 billion, or 10.4%, to ¥167.1 billion, due to factors including the transfer of the construction machinery business unit to the "Other" segment. Operating income fell ¥3.6 billion, or 31.8%, to ¥7.7 billion, as a result of a decline in the profitability of export projects due to appreciation of the yen.

Outlook

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

As Japan's largest manufacturer of rolling stock, KHI is taking proactive measures to cope with the increase in demand by expanding and upgrading its production systems, which are located in Hyogo and Harima in Japan and in Lincoln, Nebraska and Yonkers, New York in the United States. Of special note is the segment's Lincoln plant, which originally went into operation as a fully integrated rolling stock production facility in 2002, where we have completed construction of a new facility that has doubled production capacity. In Japan, along with the "mother factory" Hyogo Works, the Harima Works manufactures a portion of Kawasaki's rolling stock.

In new product development, to satisfy demand for high-speed trains in North America and Vietnam, KHI has completed basic engineering of efSET® (Environmentally Friendly Super Express Train), a new high-speed train that will achieve the service speed of 350km/h. This innovative train will draw on the technologies that Kawasaki has developed through the design of a number of *Shinkansen* train series and feature improved passenger comfort and lower impact on the surrounding environment. Also, we have completed development of the SWIMO®—a next-generation light rail vehicle (LRV) that incorporates Gigacell®; high-capacity, sealed nickel hydrogen batteries—and we are now developing LRVs for North America. We are also proceeding with the development of K-Star Express, passenger trains designed for the purpose of achieving greater speeds than those of existing railways and replacing aging trains in North America.

The Rolling Stock Company has set forth a vision of becoming a world-class rolling stock systems manufacturer that takes advantage of world-class technologies and quality to engage in wide-ranging businesses, from high-speed trains to light rail transit (LRT). The company will achieve this vision through product line expansion and enhancement made possible by new product development, and through the reliable execution of large-scale overseas projects.

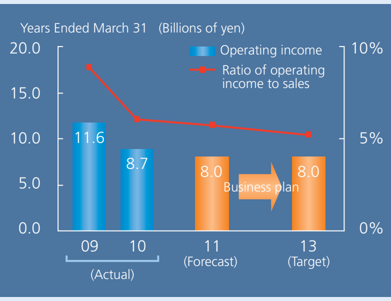
2020 Vision

To become a global rolling stock systems manufacturer that takes advantage of its world-class technologies and quality to engage in a broad spectrum of businesses that range from high speed rail (HSR) to light rail transit (LRT)

Net Sales

Business Vision for 2020

- Develop businesses such as HSR, systems projects, and LRT in expanding markets worldwide
- Expand Gigacells® business in the railway and renewable energy sectors



Key Points in the Medium-Term Business Plan

- Almost all sales during the medium-term business plan have been secured
- Execute major overseas projects successfully
- Establish a foundation for increasing profit

Note: The figures for net sales and operating income for FY09 and FY10 have been calculated in accordance with new business segments (excluding the construction machinery and crushing machine business units) and new accounting standards applied in FY11. Accordingly, they differ from the figures in the actual operating results.

E5 Series *Shinkansen*

M-8 railcar for the Metro-North Railroad in the United States

Aerospace

Business Results

Orders received in the Aerospace segment decreased ¥67.8 billion, or 28.3%, from the previous fiscal year to ¥171.3 billion, due to factors including a decline in orders for aircraft for Japan's Ministry of Defense (MOD) and for component parts for the Boeing 777 (B777). Sales fell ¥11.5 billion, or 5.8%, to ¥188.8 billion, as a result of lower sales to the MOD. Despite the sales decline, the profit situation improved by ¥5.9 billion, from an operating loss in the previous fiscal year to operating income of ¥1.7 billion, owing to factors including a review of the timing of expense recognition attendant on a change in the Boeing 787 (B787) development schedule.

Outlook

The MOD has been simultaneously developing the large-scale XP-1 and XC-2 aircraft since 2001, in Japan's largest aircraft development project. KHI has acted as the core company for the project, spearheading development of these aircraft. We delivered to the MOD on schedule the static test plane and flight test plane of the XP-1 next-generation patrol aircraft, and are shifting to the full-scale mass production phase. We completed a successful first flight of the XC-2 next-generation cargo aircraft in January 2010 and delivered the flight test plane #1 in March. We plan to deliver test plane #2 in fiscal 2011 and anticipate an early decision for mass production.

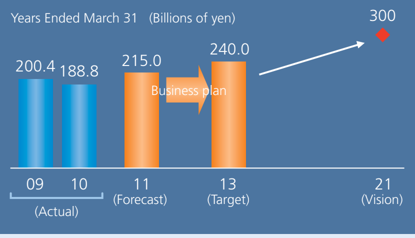
In the commercial aircraft field, Boeing completed a successful first flight of the cutting-edge B787 Dreamliner passenger aircraft in December 2009 and aims to commence delivery to customers in the fourth quarter of calendar year 2010. KHI is a partner corporation in the development and production of the B787 Dreamliner and is responsible for the forward section of the composite one-piece fuselage, which is the first of its kind to be used in commercial aircraft, as well as other key components. To prepare for a future production increase, in March 2010 KHI completed construction and commenced operation of a new facility on the south side of the Nagoya Works 1.

In the Aerospace business, as defense and commercial aircraft development projects progress, capital expenditures, development expenses, and other up-front investments will precede revenues for some time. Nevertheless, KHI is committed to reinforce its long-term business foundation and ensure sustained growth by successfully executing these projects and putting in place a production structure for defense and commercial aircraft.

2020 Vision

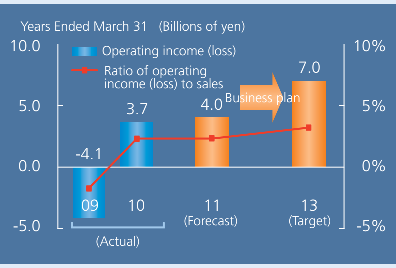
A leader in Japan's aerospace industry and an aircraft manufacturer with solid international competitiveness in terms of quality, cost, and delivery speed

Net Sales



Business Vision for 2020

- Develop the commercial aircraft sector and grow it into a ¥300.0 billion business
- Enter the global market as a systems integrator



Key Points in the Medium-Term Business Plan

- Defense: Securing of stable orders for XP-1/XC-2 projects etc.
- Commercial: Supporting mass production of the Boeing 787 and improving productivity

Note: The figures for operating income (loss) for FY09 and FY10 have been calculated in accordance with new accounting standards applied in FY11. Accordingly, they differ from the figures in the actual operating results.

XC-2 next-generation cargo aircraft

Boeing 787 Dreamliner

Gas Turbines & Machinery

Business Results

Total orders in the Gas Turbines & Machinery segment decreased ¥129.3 billion, or 36.4%, from the previous fiscal year, to ¥226.2 billion, due to decreases in orders for commercial aircraft engine components, for which large orders were received in the previous fiscal year, and for marine propulsion systems. Sales fell ¥3.8 billion yen, or 1.9%, to ¥191.3 billion, due to lower sales of diesel engines and other products, despite an increase in sales of gas turbines and steam turbines for land. Operating income fell ¥4.3 billion, or 39.3%, to ¥6.6 billion, as a result of the impact of yen appreciation.

Outlook

The Gas Turbines & Machinery segment has a wide range of products for the energy and transportation equipment sector. Although demand for some of these products is temporarily weak due to the global recession, KHI has a variety of products for which markets are expected to grow over the medium to long term. For this reason, this segment is continuing R&D, development of manufacturing systems and strengthening operations, with a view to future market expansion while appropriately responding to the current slump in demand.

In the energy sector, concerns over global environmental protection, energy conservation and deregulation of the electric power industry can be expected to bring increased demand for gas turbine generators and gas engines, which offer high total thermal efficiency and environment-friendliness.

As Japan's largest manufacturer of small to medium-sized gas turbine power generators, KHI intends to expand its global business by taking advantage of in-house development capabilities, enabling it to propose total solutions covering after-service and maintenance.

An in-house power generation system driven by a 5MW-class Kawasaki Green Gas Engine began operation in January of this year at the Kobe Works. The system delivers stable performance, the world's highest electric generating efficiency (48.5%), and the world's lowest NOx emissions, echoing the 8MW-class's power generating capacity. Future plans for using this new system call for development of the gas engine business, targeting overseas markets where natural gas infrastructure is available, by publicizing the Kawasaki Green Gas Engine to customers and further improving performance.

Also, in the oil and gas sector, KHI has extensive experience as a world-leading manufacturer of natural gas compression modules for offshore platforms. Along with the rise in demand for natural gas, needs for these gas compression modules are increasing as a key component for gas field development.

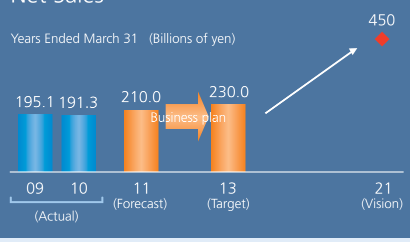
In the transportation equipment sector, regardless of a temporary slump in demand for commercial aircraft, KHI has completed preparations for mass production of the Trent 1000, a new engine designed to power the Boeing 787, and is proceeding with development of the Trent XWB, a new engine for the Airbus A350XWB.

In the field of marine propulsion systems, KHI is working to improve manufacturing efficiency and is converting to in-house production of key materials in order to expand the scope of its business, which currently centers on merchant ships and ferries, by expanding operations related to oil and natural gas development, a market in which demand is increasing.

2020 Vision

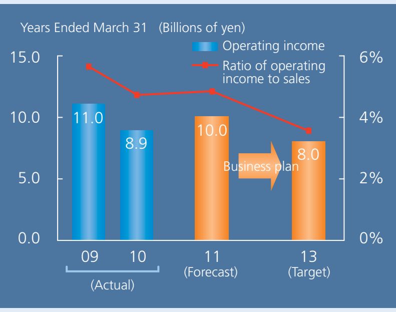
An equipment and system manufacturer that doing business globally in the transport equipment and energy & environmental engineering sectors

Net Sales



Business Vision for 2020

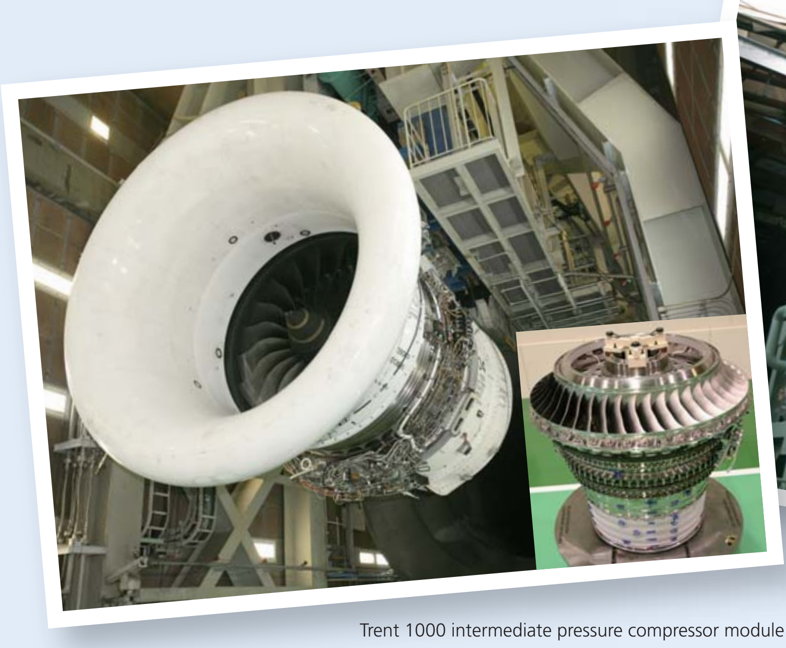
- Business scale expansion primarily on civil aero engines and energy & environmental engineering sectors



Key Points in the Medium-Term Business Plan

- Net sales stable
- Despite an increase of R&D investment for civil aero engines, financial stability to be maintained through productivity improvement

Note: The figures for operating income for FY09 and FY10 have been calculated in accordance with new accounting standards applied in FY11. Accordingly, they differ from the figures in the actual operating results.



Trent 1000 intermediate pressure compressor module

Kawasaki Green Gas Engine

Plant & Infrastructure Engineering

Business Results

Despite the impact of capital investment restraint accompanying the worldwide recession, orders received in the year under review increased ¥41.1 billion, or 49.2%, from the previous fiscal year, to ¥124.7 billion, due in part to an order for a large-scale overseas project (a fertilizer production facility for Turkmenistan). Sales declined ¥14.7 billion, or 14.0%, to ¥90.4 billion, as a result of lower sales from large-scale overseas projects, among other factors. Reflecting the decrease in sales, operating income declined ¥2.7 billion, or 30.0%, to ¥6.2 billion.

Outlook

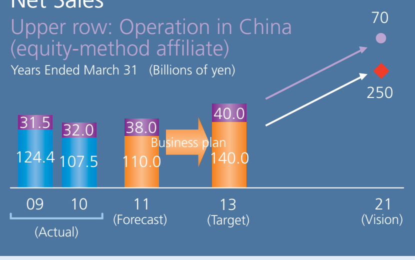
This business segment encompasses the operations of Kawasaki Plant Systems, Ltd. (K Plant)—which undertakes projects to supply energy-related, industrial infrastructure, mechatronics, and environmental preservation systems and equipment—and the operations of the parent company's Industrial Facilities and Tunneling Equipment Division, which mainly focuses on LNG tanks and various other storage tanks, along with shield machines and tunnel-boring machines. This segment is aggressively working to further develop its business activities based on the sophisticated technologies it has accumulated through years of research.

K Plant has made special efforts to establish joint operations in China with the Anhui Conch Group, which includes Anhui Conch Cement Company Limited, China's largest cement maker and the fourth-largest cement maker in the world. The joint operations also include Anhui Conch Kawasaki Engineering Co., Ltd. (ACK), as the engineering firm, and Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd. (CKM), as the manufacturer of pH boiler parts, which are employed in waste heat power plants, and Anhui Conch Kawasaki Equipment Manufacturing Co., Ltd. (CKE), which was established in 2009 to manufacture and repair major equipment used at cement plants. These joint companies have expanded their line of products, and not only deal in waste heat recovery power generation systems for cement plants but also in high-efficiency vertical mills, a waste gasification system that can be integrated with cement kilns to facilitate municipal waste treatment, and a membrane sewage treatment system.

The KHI Group has positioned the Energy and Environmental Engineering business as a developing business in Kawasaki Business Vision 2020. For this segment, KHI will strive to achieve its 2020 vision of being "A distinctive plant engineering enterprise that provides products and technologies that can contribute to global environment protection and CO_2 reduction, with a focus on energy conservation, resource conservation, and resource recycling" by responding to economic growth in Asia and reinforcing competitiveness through new products, with a focus on energy and environmental engineering. We will also secure technological superiority over competitors and provide high-quality products by offering new products and new technologies that meet the needs of markets and customers and by improving existing products and technologies.

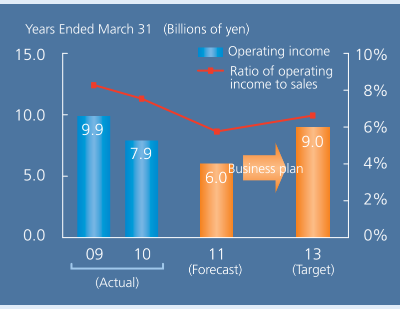
2020 Vision

A distinctive plant engineering enterprise that provides products and technologies that can contribute to global environment protection and CO_2 reduction, with a focus on energy conservation, resource conservation, and resource recycling



Business Vision for 2020

- Initiatives for growth in Asia and reinforcement of competitiveness by means of new products, with a focus on energy and environmental engineering



Key Points in the Medium-Term Business Plan

- Reliable execution of large overseas projects
- Orders for new municipal waste treatment facility business
- Steady efforts to win orders for small projects

Note: The figures for net sales and operating income for FY09 and FY10 have been calculated in accordance with new business segments and new accounting standards applied in FY11. Accordingly, they differ from the figures in the actual operating results.

2,300t/d cement plant to Lafarge Ciments' Tetouan factory in Morocco

Sakaide LNG Terminal

Motorcycle & Engine

Business Results

Sales from the Motorcycle & Engine segment for the year under review fell ¥119.5 billion, or 35.5%, from the previous fiscal year, to ¥216.9 billion. An increase in sales of motorcycles to Asia was offset by a decrease in sales to North America and Europe, and sales of industrial robots also declined. With regard to profit and loss, notwithstanding an increase in the marginal profit ratio and fixed cost reductions, the decline in sales, coupled with the impact of yen appreciation, resulted in an increase of ¥10.1 billion in operating loss, from ¥21.5 billion in the previous fiscal year, to ¥31.6 billion.

Total worldwide unit sales of motorcycles, ATVs (all-terrain vehicles), utility vehicles, and personal watercraft were 397,000 units, a decrease of 126,000 units, or 24.1%, from the previous fiscal year. By region, sales in Japan declined by 2,000 units, or 10.5%, to 17,000 units; sales in North America fell by 117,000 units, or 59.4%, to 80,000 units; sales in Europe decreased by 25,000 units, or 25.8%, to 72,000 units; and sales in other regions increased by 18,000 units, or 8.6%, to 228,000 units.

New Models

Principal new models introduced in fiscal 2010 were as follows.

In the motorcycle line, Kawasaki implemented a model change of the 1400 GTR sport tourer to further increase touring capability and improve environmental performance. Kawasaki also completed a full model change of the Z1000 large-displacement sport model, which is highly popular in Europe for its striking design. With regard to mid-displacement models, Kawasaki implemented a styling change for the VERSYS, which has won favor among a wide range of customers for its ability to cope with any number of street riding situations. Kawasaki also introduced two new small-displacement models in the 125cc class, for which demand is high in Europe and Japan: the dual-purpose KLX125 and the motard-style D-TRACKER 125. Regarding utility vehicles, Kawasaki made minor changes to the Teryx 750 series of recreational utility vehicles and introduced the MULE 610 XC, which offers improved off-road performance, in the MULE utility-oriented vehicle series.

Outlook

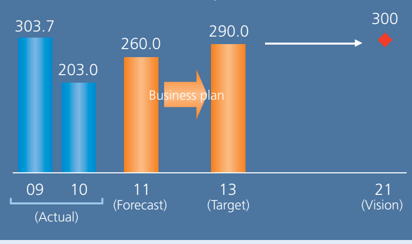
Regarding fiscal 2011 unit sales of motorcycles, ATVs, utility vehicles, and personal watercraft, we project an increase in North America and Southeast Asia and flat sales in Europe. Amid projections for continued adversity in the business environment, we will work to increase sales in Asia and Brazil, enter the market in India, and enhance development of advanced environmental technologies. At the same time, we will implement measures to improve the earnings structure, such as inventory adjustment and lowering the break-even point through fixed cost reduction and improvement of the marginal profit ratio.

The name of this segment has been changed from the Consumer Products & Machinery segment to the Motorcycle & Engine segment, and the Industrial Robots business unit has been transferred to the Precision Machinery segment in fiscal 2011.

2020 Vision

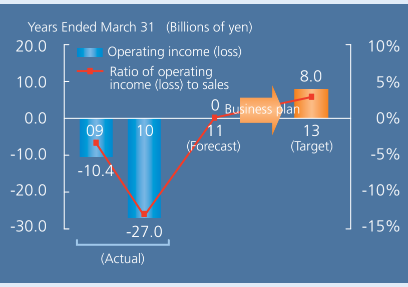
A world-class personal vehicle and engine manufacturer focused on motorcycles that leverages further penetration of Fun to ride, supported by advanced environmental technologies

Net Sales



Business Vision for 2020

- Reinforcement of the earnings structure of businesses in developed countries
- Growth of the motorcycle business for developing countries



Key Points in the Medium-Term Business Plan

- Improved profitability through rigorous break-even point management
- Recovery in production and wholesale unit sales through rapid inventory level adjustment in developed countries
- Expansion of sales of products for developing countries

Note: The figures for net sales and operating income (loss) for FY09 and FY10 have been calculated in accordance with new business segments and new accounting standards applied in FY11. Accordingly, they differ from the figures in the actual operating results.

1400 GTR

JET SKI ULTRA 260X

Precision Machinery

Business Results

Orders in the Precision Machinery segment declined ¥13.1 billion, or 15.6%, from the previous fiscal year, to ¥71.0 billion, mainly because of a drop in orders from the construction machinery industry. Sales for the fiscal year fell ¥16.1 billion, or 19.0%, to ¥68.8 billion, as a result of a decrease in sales to the construction machinery industry. Operating income fell ¥1.4 billion, or 17.0%, to ¥6.9 billion, reflecting the sales decline.

Outlook

The name of this segment has been changed from the Hydraulic Machinery segment to the Precision Machinery segment in fiscal 2011. The new segment consists of the Hydraulic Machinery business unit and the Industrial Robots business unit.

With regard to the market environment for the hydraulic machinery business unit, the core construction machinery market saw a sharp decline in demand until the middle of 2009, owing to the impact of the worldwide financial crisis that began in the autumn of 2008. However, market conditions in developing countries, notably China, began to recover in the second half of the fiscal year, and a clear recovery trend has taken hold since the end of last year. Conditions were severe in the marine machinery market as well, where a slack period for new vessel deals and delivery postponements occurred frequently. However, the cancellation situation at emerging shipyards in South Korea and China has begun to stabilize. In the industrial equipment market, capital investment-related demand in Japan for injection molding machines, machine tools, and other equipment remains slack.

Kawasaki Precision Machinery Ltd. (KPM), the core company in the new Precision Machinery segment, has set forth a business vision for 2020 of being a manufacturer of top brands in the global motion control sector. The company aims to provide customers around the world with drive and control systems and engineering and services centered on fluid power technologies, with high performance and state-of-the-art quality offered at competitive prices and delivered in a timely manner. In fiscal 2011, as the first step toward the realization of this business vision, KPM has set a basic objective of "Focusing on the reinforcement of business profitability and the development and reinforcement of a business foundation for future growth, and building a more flexible and robust business structure unaffected by demand fluctuation or peaks and valleys in the business cycle."

Specifically, KPM will sharply reduce inventories, markedly increase productivity, establish world-class quality, and reinforce business profitability by increasing the performance and quality of key components while lowering their costs and increasing after-service sales.

Concerning the development and strengthening of a business foundation for future growth, KPM will increase its competitive advantage in the excavator market (through the development and introduction of a high-efficiency, low-noise pump/motor and the Electro-Hydraulic Hybrid Motor), increasing sales in Asia of marine machinery and industrial equipment products, and further developing the business in China, the most important market for KPM now and in the foreseeable future.

With regard to the market environment for the Industrial Robots business unit, on the whole, a full-scale recovery in demand is taking shape. Although market conditions remain challenging for products for the automotive industry in developed countries, there has been a noticeable recovery in the market for products for the semiconductor industry.

The Robot Division, the organization responsible for the Industrial Robots business unit, has set forth a business vision for 2020 of being a robot manufacturer that has established a position as a top provider of quality and total solutions in the automotive, semiconductor, and solar panel manufacturing sectors, opening up new market sectors with latent automation needs.

To achieve this vision, the division will meet increased demand for robots for the semiconductor industry and steadily implement measures to open up new markets.

2020 Vision

Industrial Hydraulic Products

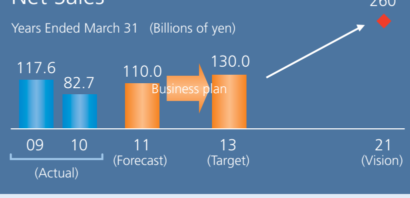
A manufacturer of top brands in the global motion control sector that provides customers around the world with drive and control systems, engineering, and services centered on hydraulics technologies

Industrial Robots

A robot manufacturer that has established a position as a top provider of quality and total solutions in the automotive, semiconductor, and solar panel manufacturing sectors and opens up new market sectors with latent automation needs

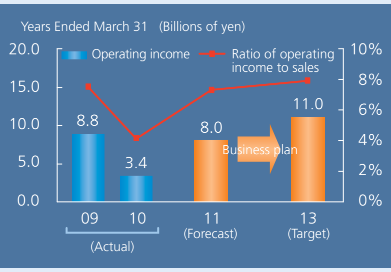
- Combining of these businesses into a single segment beginning in FY2011
- Pursuit of synergies in precision processing, electronic control, and other areas

Net Sales



Business Vision for 2020

- Building up position as No. 1 hydraulic equipment manufacturer for construction machinery
- Business expansion due to recovery in the automotive market, increased use for manufacturing lines in other industries, and other factors



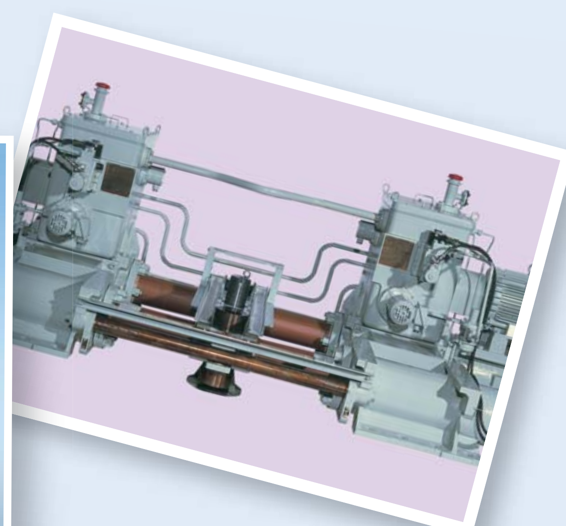
Key Points in the Medium-Term Business Plan

- Increased hydraulic equipment sales to developing countries
- Increased demand for robots for semiconductor production. Steady implementation of measures to develop new market sectors

Note: The figures for net sales and operating income for FY09 and FY10 have been calculated in accordance with new business segments and new accounting standards applied in FY11. Accordingly, they differ from the figures in the actual operating results.


Valves for construction machinery

RS20N


Electro-hydraulic steering gear

Corporate Governance

Corporate Governance

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

Overview of the Corporate Governance System

The Company adopts a statutory auditor system of corporate governance and has appointed an independent auditor. The Chairman serves as the presiding officer of the Board of Directors, which consists of 12 directors (authorized number: 15 directors). The Company has four corporate auditors and has established a Board of Auditors. In addition to the Board of Directors, the Company has established a Management Committee and a Group Executive Officer Committee, both of which are composed of representative directors and managers responsible for major subsidiaries, while the Group Executive Officer Committee also includes executive officers.

To reinforce the oversight and monitoring function of the Board of Directors with respect to management overall, the Company appoints directors who do not have roles in the execution of operations. With regard to corporate auditors, to ensure objectivity and neutrality in the management oversight function, the Company appoints two outside corporate auditors with no business relationships or other vested interests in the Company. To ensure the reliability of financial reports, the Company appoints internal corporate auditors who have considerable knowledge of finance and accounting. The internal corporate auditors and outside corporate auditors share information and work to enhance the management oversight function. For these reasons, the company does not appoint outside directors.

The Board of Directors appoints executive officers to conduct business operations.

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

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

Internal Auditing, Statutory Auditing, and Independent Auditing

The Auditing Department, an internal auditing unit with a staff of 10, strives to improve internal control functions by such means as the periodic conducting of audits to confirm whether operations are executed appropriately in accordance with laws, regulations, and the Company's internal rules in all of the Group's management activities. Also, the corporate auditors and the Auditing Department have monthly meetings and share information on the results and findings of their respective audits.

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

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

Outside Corporate Auditors

The Company has two outside corporate auditors.

Kenzo Doi, an outside corporate auditor, has no vested interest in the Company other than a retainer agreement between the Company and Kobe Kyobashi Law Office, where he serves as a representative. The Company enhances the auditing function by taking advantage of Mr. Doi's deep knowledge and diverse experience as an attorney, and obtaining his fair and independent opinions.

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

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

Enhancement of Internal Control Systems

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

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

Compensation Paid to Directors and Corporate Auditors

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

Category	Total amount of compensation by type (Millions of yen)	Total amount of compensation (Millions of yen)	Number of eligible corporate officers
		Annual compensation	
Directors (excluding outside directors)	575	575	13
Corporate auditors (excluding outside corporate auditors)	61	61	3
Outside corporate officers	13	13	3

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

Enterprise of Risk Management System

To ensure a uniform level of risk management throughout the Group, the KHI Group has established a group-wide risk enterprise management system, which identifies and deals with critical risks that have a material impact on management, thereby enhancing risk management as set forth in the Kawasaki Group Management Principles.

Compliance Framework

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

Directors, Corporate Auditors, and Executive Officers

DIRECTORS


Tadaharu Ohashi
Chairman


Satoshi Hasegawa*
President


Shuji Mihara*
Senior Executive Vice President


Masashi Segawa*
Senior Executive Vice President


Mitsutoshi Takao*
Senior Vice President


Yuichi Asano*
Senior Vice President


Nobumitsu Kambayashi†
Senior Vice President


Kyohei Matsuoka*
Senior Vice President


Hiroshi Takata*
Senior Vice President


Shigeru Murayama*
Senior Vice President


Toshikazu Hayashi†
Director


Makoto Sonoda†
Director

CORPORATE AUDITORS

Nobuyuki Okazaki
Tatsuyoshi Ogushi
Kenzo Doi**
Michio Oka**

*Representative Director
**Outside Auditor
†Part-time

EXECUTIVE OFFICERS

President

Satoshi Hasegawa

Senior Executive Vice Presidents

Shuji Mihara

Masashi Segawa

Senior Vice Presidents

Mitsutoshi Takao
Senior Manager
Corporate Planning Division

Yuichi Asano
President
Gas Turbines & Machinery Company

Kyohei Matsuoka
President
Rolling Stock Company

Hiroshi Takata
President
Motorcycle & Engine Company

Shigeru Murayama
President
Aerospace Company

Executive Officers

Toru Yamaguchi

Sosuke Kinouchi

Seiji Yamashita

Takeshi Sugawara

Takeshi Watanabe

Yasuo Murata

Minoru Makimura

Tamaki Miyatake

Shuichi Yamanaka

Masahiko Hirohata

Shinsuke Tanaka

Masatoshi Yamaguchi

Naomi Sera

Joji Iki

Yoshizumi Hashimoto

Yukio Hayano

Masahiro Ibi

Takafumi Shibahara

Yoshinori Kanehana

Nobuyoshi Kobayashi

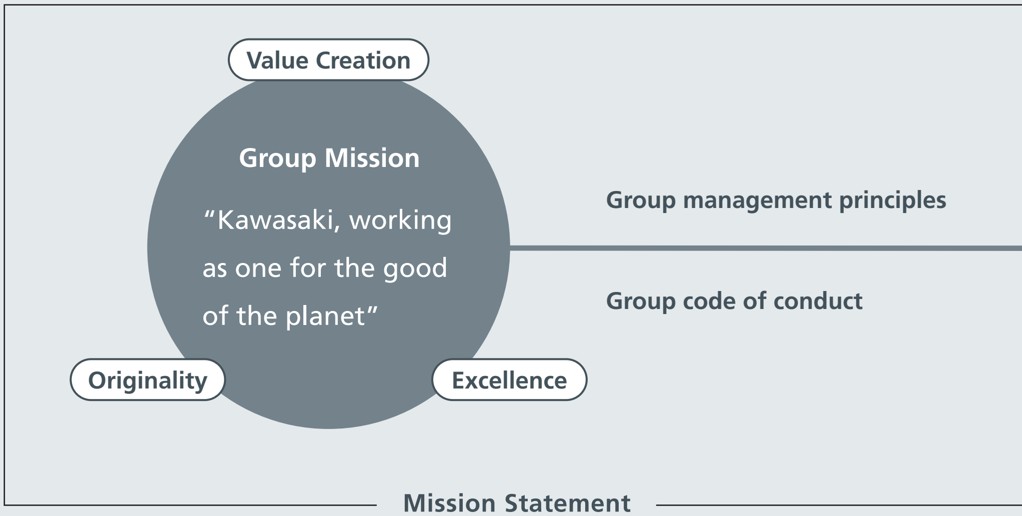
Minoru Akioka

Yukinobu Kono

Masafumi Nakagawa

(As of June 25, 2010)

Corporate Social Responsibility



The Kawasaki Group has defined its role and mission in society in the Group Mission, "Kawasaki, working as one for the good of the planet" (Enriching lifestyles and helping safeguard the environment: Global Kawasaki), and we are engaging in the cumulative effort to realize that mission.

The world is always undergoing rapid change in such areas as societies, economies, and the environment, and that is why the contribution demanded of the Kawasaki Group is also constantly changing its appearance.

Making effective use of the integrated technological expertise Kawasaki has accumulated to the present, we will propose businesses, products, and services that further address the issues that are borne out of change.

The Kawasaki Group's CSR is not defined solely by the improvement of its business. We are committed to the ongoing effort to conduct sound, transparent management, to ensure compliance, and to further make proactive provisions for risk. As we pursue business in this spirit, we will strive to build a future with all points of contact with society, specifically our customers, local and international communities, our employees, our shareholders, and other stakeholders.

Through the CSR activities shown in the table at the right, we will ascertain the changes taking place in the world, and in order to respond appropriately to society's needs, we will engage in activities and efforts to realize innovations that are useful to society. In so doing, we will continue to enhance the value of the Kawasaki Group.

Companywide Crosscutting CSR Organization in the Kawasaki Group

- Corporate CSR Committee
- Compliance Manager Conference
- CSR Manager Conference
- Corporate Environmental Committee
- Human Capital Development Committee
- Risk Management Committee
- Export Examination Committee
- Crisis Management Organization

Fundamental Approach

The Kawasaki Group's CSR is our continuous effort to realize the Group Mission at ever higher levels. We consider the future of human society and the global environment to be situated on the same line of extension as the increase of value in the Kawasaki brand, and in that light we promote the following five themes.

Realization of the Group Mission at ever higher levels

Five Themes

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

Individual Fields and What Kawasaki Aims to Be

Individual Field		Envisioned Aim
CSR Overall		We will realize the Group Mission (Kawasaki's duty to society) at ever higher levels.
(1) Business	Product development	We will make use of the integrated expertise of the Group to develop products that have advanced functionality and high quality from our advanced technological abilities.
	Product responsibility	We will provide products and services that are reliable and safe from our customers' perspective.
	Customer satisfaction	We will fulfill our customers' needs with products and services that are impressive as well as exciting.
(2) Management	Corporate governance	Pursuing sound, transparent management we will realize the independent operation of each business division and the application of the combined strengths of the Group.
	Compliance	We will build an organization that is open and self-regulating in order to establish a corporate culture with credibility.
	Risk management	We will discern major risks that threaten the achievement of our business goals and create a system capable of providing the most appropriate response.
	Information security	We will institute rigid information security measures and maintain the safety and security of our information.
	Information disclosure and IR activities	We will disseminate corporate information in the appropriate manner and at the appropriate time, while further improving the substance of disclosure.
	Business partners	Coexisting with our business partners and sustaining equitable partnerships with them, we will also encourage their cooperation with CSR activities.
(3) Employees	Safety and health	We will create a safe, pleasant work environment where employees can thrive in good physical and mental health.
	Human resource development	We will provide consistent fostering and strengthening of our employees, and enhance their human value to the maximum extent.
	Human rights	We will respect the diversity of our employees and aim to create a workplace that accepts their various values and abilities and makes use of them.
	Labor	We will endeavor to create a workplace that provides motivation and satisfaction in fair and impartial working conditions.
(4) Environment	Global environment	We aim to realize a low-carbon society, a recycling society, and a society coexisting with nature.
(5) Social contribution	Local communities and Japanese society	We will coexist and cooperate with local communities and help foster the coming generations that will develop and handle future dream technologies.
	International community	We will respect the cultures of the various countries of the world and contribute to their prosperity by fostering their technology and human resources.

2020 Environmental Vision

In 2003, Kawasaki Heavy Industries, Ltd. (KHI) Group established its 2010 Environmental Vision: “What Kawasaki Should Be in the Year 2010” to seek improvement in environmental management. Now we have established our new 2020 Environmental Vision: “What Kawasaki Should Be in the Year 2020” to formulate our environmental aims for the year 2020, under the Group Mission “Kawasaki, working as one for the good of the planet.” (Enriching lifestyles and helping safeguard the environment: Global Kawasaki)

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

Environmental Philosophy

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

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

Realization of a low-carbon society

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

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

Realization of a sound material-cycle society

We engage in manufacturing that uses resources without waste in order to recycle and fully utilize limited resources.

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

Realization of a society coexisting with nature

Through manufacturing that is in harmony with the global environment, we are contributing to minimization of environmental impact and conservation of the ecosystem.

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

Building a Foundation for Environmental Management

Building a foundation for environmental management that will realize the 2020 Environmental Vision
(1) All of KHI’s consolidated subsidiaries in Japan and abroad have created an EMS and are promoting environmental management throughout the KHI Group.
(2) We observe environmental laws and regulations and conduct periodic follow-up of compliance statuses.
(3) We disseminate environmental information inside and outside the Company, and engage in dialogue while conducting environmental conservation activities.

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

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

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

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

Measures to Reach Objectives for Reduction of Greenhouse Gases

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

Companywide Engagement in CO_2 Reduction Activities

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

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

Promoting the introduction of photovoltaic systems

We are positively considering and advancing capital investments that reduce greenhouse gas emissions from a companywide perspective. We are making a practice of installing the photovoltaic power generation equipment in newly built plants, and we are scheduled to introduce 750kW equipment in our Nagoya Works 1 in FY2011.

The photovoltaic power generation equipment installed at the KPM (Kawasaki Precision Machinery Ltd.) main plant

Determine the credit of emissions from KHI Group products, technology, and the like

Initiate a clean development mechanism (CDM) project using KHI Group products and technology, and determine the credit of emissions that accompanied reductions in CO_2 from our products and technology.

Forest conservation activities and the use of green power

(1) We are engaging in forest conservation projects that make use of afforestation and corporate forest restoration systems abroad, and we will promote CO_2 reduction by absorption in forests.

(2) Electric power generated from renewable energy resources (wind power, solar power, biomass, etc.) will be included in the KHI Group's CO_2 reduction amount.

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

Financial Section

Contents

Six-Year Summary

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

	Millions of yen					
	2010	2009	2008	2007	2006	2005
Operating results:						
Net sales	**¥1,173,473**	¥1,338,597	¥1,501,097	¥1,438,619	¥1,322,487	¥1,241,592
Cost of sales	**1,023,610**	1,146,944	1,262,032	1,213,524	1,148,547	1,088,219
Gross profit	**149,863**	191,653	239,065	225,095	173,940	153,373
Selling, general and administrative expenses	**151,179**	162,940	162,155	155,953	132,145	128,629
Operating income (loss)	**(1,316)**	28,713	76,910	69,142	41,795	24,744
Net income (loss)	**(10,860)**	11,728	35,141	29,772	16,467	11,479
Capital expenditures	**59,272**	82,450	50,538	39,269	41,724	29,692
Depreciation and amortization	**51,423**	44,334	37,455	30,279	30,551	31,555
R&D expenses	**38,057**	38,256	36,228	33,819	27,040	13,183
Financial position at year-end:						
Working capital	**¥ 238,755**	¥ 165,791	¥ 157,741	¥ 155,412	¥ 113,240	¥ 138,523
Net property, plant and equipment	**284,408**	284,118	259,927	253,819	246,219	243,166
Total assets	**1,352,439**	1,399,771	1,378,770	1,357,980	1,284,085	1,194,473
Long-term debt, less current portion	**270,110**	181,933	138,766	165,754	157,057	207,279
Total net assets	**283,053**	295,246	319,038	295,378	243,096	206,156
Per share amounts (yen):						
Earnings per share—basic	**¥ (6.5)**	¥ 7.0	¥ 21.1	¥ 18.9	¥ 11.2	¥ 7.9
Earnings per share—diluted	**–**	6.9	20.6	17.2	9.4	6.8
Cash dividends	**3.0**	3.0	5.0	5.0	3.0	2.5
Net assets	**169.5**	176.8	191.1	178.0	156.1	142.8
Other data:						
Number of shares issued (millions)	**1,670**	1,670	1,670	1,660	1,558	1,443
Number of employees	**32,297**	32,266	30,563	29,211	28,922	28,682
Orders received	**¥1,001,290**	¥1,540,590	¥1,610,757	¥1,592,688	¥1,351,631	¥1,301,845
Order backlog	**1,507,057**	1,699,163	1,533,663	1,465,155	1,310,444	1,254,409

Management's Discussion & Analysis

OVERVIEW

During fiscal 2010, ended March 31, 2010, the Japanese economy began to show signs of recovery owing to an increase in external demand from developing countries and the bottoming out of domestic demand.

Nevertheless, the economic situation remained adverse, as appreciation of the yen against the U.S. dollar prolonged the slump in capital investment and improvement in employment and personal consumption failed to materialize.

In the world economy, although there were signs of growth in some developing countries, recovery in North America and Europe was sluggish. Under these business circumstances, the Kawasaki Heavy Industries (KHI) Group faced continued adversity in its business operation at each business segment, and orders declined in every segment except Plant & Infrastructure Engineering segment. Sales also declined in nearly all segments, especially the Consumer Products & Machinery segment. Profits declined in all segments except the Aerospace and Shipbuilding segments owing to strong impact from the appreciation of the yen and a decline in business in North America and Europe. As a result, consolidated orders fell ¥539.3 billion from the previous fiscal year, or 35.0%, to ¥1,001.2 billion, and consolidated net sales declined ¥165.1 billion, or 12.3%, to ¥1,173.4 billion. Consolidated operating income or loss fell ¥30.0 billion, resulting in an operating loss of ¥1.3 billion, while net income or loss was down ¥22.6 billion, resulting in a net loss of ¥10.8 billion.

RESULTS OF OPERATIONS

Net Sales

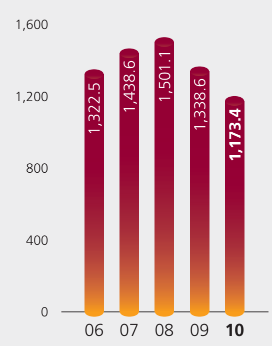
As mentioned, consolidated net sales decreased ¥165.1 billion, or 12.3%, to ¥1,173.4 billion.

The principal factors accounting for this decline were a) a decrease of ¥14.7 billion in the sale of the Plant & Infrastructure Engineering segment, as a result of lower sales of large-scale projects for overseas customers; b) a decline of ¥119.5 billion in the Consumer Products & Machinery segment owing to lower sales of motorcycles to North America and Europe, coupled with lower sales of industrial robots; and c) a decrease of ¥16.1 billion in the Hydraulic Machinery segment, due to factors including demand decline for hydraulic components for construction machinery in Japan, North America, and Europe, despite in Asia and other developing countries, where demand is robust.

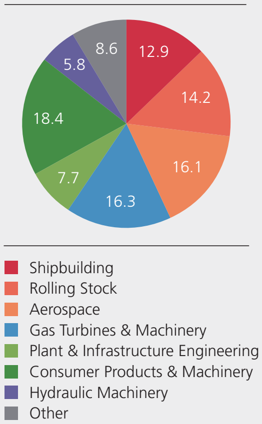
Overseas sales were down ¥169.0 billion, or 23.1%, to ¥561.5 billion. By region, sales in North America declined ¥83.1 billion, or 26.8%, to ¥226.8 billion; sales in Europe fell ¥23.3 billion, or 20.0%, to ¥93.0 billion; sales in Asia outside Japan decreased ¥32.7 billion, or 18.8%, to ¥141.5 billion; and sales in other areas declined ¥29.9 billion, or 23.0%, to ¥100.1 billion. The ratio of overseas sales to consolidated net sales dropped 6.7 percentage points, to 47.8%, compared with 54.5% in the previous fiscal year.

The following sections provide additional details regarding performance by business segment. Operating income or loss includes intersegment transactions.

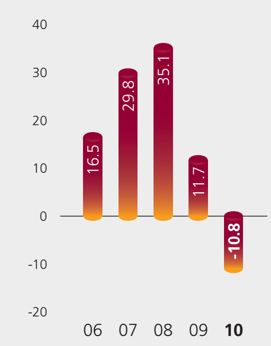
Net Sales
(Billions of yen)



Sales by Industry Segment
(%)



Net Income (Loss)
(Billions of yen)



Shipbuilding

On a consolidated basis, total orders received decreased ¥55.4 billion from the previous fiscal year, or 77.4%, to ¥16.1 billion, owing to a sharp decline in orders for new vessels. Sales rose ¥25.5 billion, or 20.1%, to ¥151.8 billion, because of the increase in sales of large vessels. Operating income was ¥1.4 billion, an improvement of ¥2.5 billion from the operating loss of ¥1.0 billion in the previous fiscal year, reflecting the increase in sales and improved profitability due to lower material costs.

Rolling Stock

Although orders were received during fiscal 2010, including an order for subway cars for Singapore Land Transport Authority, consolidated orders received amounted to ¥77.1 billion, down ¥187.4 billion, or 70.8%, from the previous fiscal year, when the Company obtained orders for large-scale projects. Despite increases in sales of rolling stock to the Japan Railways Group and overseas customers, sales declined ¥19.3 billion, or 10.4%, to ¥167.1 billion, due to factors including the transfer of the construction machinery business unit to the "Other" segment. Operating income fell ¥3.6 billion, or 31.8%, to ¥7.7 billion, as a result of a decline in the profitability of export projects due to appreciation of the yen.

Aerospace

On a consolidated basis, orders received in the Aerospace segment decreased ¥67.8 billion from the previous fiscal year, or 28.3%, to ¥171.3 billion, due to factors including a decline in orders for aircraft for Japan's Ministry of Defense (MOD) and for component parts for the Boeing 777. Sales fell ¥11.5 billion, or 5.8%, to ¥188.8 billion, as a result of lower sales to the MOD.

Despite the sales decline, the profit situation improved by ¥5.9 billion, from an operating loss in the previous fiscal year to operating income of ¥1.7 billion, owing to factors including a review of the timing of expense recognition attendant on a change in the Boeing 787 development schedule.

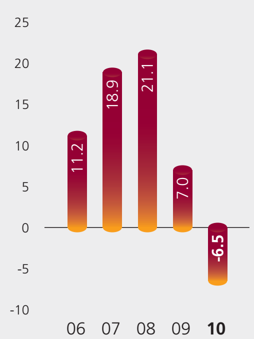
Gas Turbines & Machinery

On a consolidated basis, orders received in the Gas Turbines & Machinery segment decreased ¥129.3 billion from the previous fiscal year, or 36.4%, to ¥226.2 billion, due to decreases in orders for commercial aircraft engine components, for which large orders were received in the previous fiscal year, and for marine propulsion systems. Sales fell ¥3.8 billion, or 1.9%, to ¥191.3 billion, due to lower sales of diesel engines and other products, despite an increase in sales of gas turbines and steam turbines for land. Operating income fell ¥4.3 billion, or 39.3%, to ¥6.6 billion, as a result of the impact of yen appreciation.

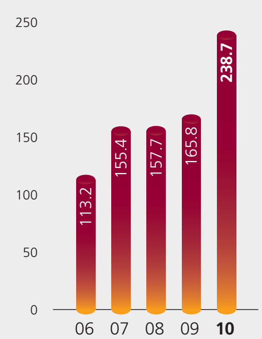
Plant & Infrastructure Engineering

Consolidated orders received rose ¥41.1 billion, or 49.2%, from the previous fiscal year, to ¥124.7 billion, due in part to an order for a fertilizer production facility. Sales declined ¥14.7 billion, or 14.0%, to ¥90.4 billion, as a result of lower sales of large-scale overseas plants. Reflecting the decrease in sales, operating income declined ¥2.7 billion, or 30.0%, to ¥6.2 billion.

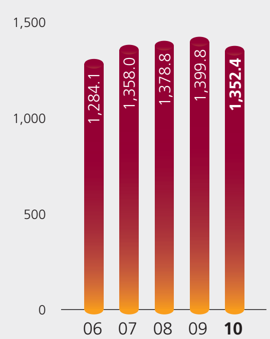
Net Income (Loss) per Share
(Yen)



Working Capital
(Billions of yen)



Total Assets
(Billions of yen)



Consumer Products & Machinery

Sales in the Consumer Products & Machinery segment fell ¥119.5 billion, or 35.5%, from the previous fiscal year, to ¥216.9 billion. Contributing factors included a drop in sales to North America and Europe, and a decline in sales of industrial robots. With regard to profit and loss, notwithstanding an increase in the marginal profit ratio and fixed cost reductions, the decline in sales, coupled with the impact of yen appreciation, resulted in an increase of ¥10.1 billion in operating loss, from ¥21.5 billion in the previous fiscal year, to ¥31.6 billion.

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

Hydraulic Machinery

Consolidated orders in the Hydraulic Machinery segment declined ¥13.1 billion, or 15.6%, from the previous fiscal year, to ¥71.0 billion, mainly because of a drop in orders from the construction machinery industry. Sales fell ¥16.1 billion, or 19.0%, to ¥68.8 billion, as a result of a decrease in sales to the construction machinery industry. Operating income fell ¥1.4 billion, or 17.0%, to ¥6.9 billion, reflecting the sales decline.

Other

Sales declined ¥5.7 billion, or 5.5%, to ¥97.8 billion. Profitability deteriorated ¥4.7 billion, from an operating income of ¥4.3 billion in the previous fiscal year to an operating loss of ¥0.4 billion, reflecting factors including the transfer of segments for construction machinery business unit.

The following sections summarize performance by geographic segment.

Japan

Sales in Japan decreased ¥57.1 billion from the previous fiscal year, or 5.9%, to ¥917.3 billion, mainly because of a decline in sales in the Consumer Products & Machinery segment. Profitability deteriorated ¥14.4 billion, from an operating income of ¥13.4 billion in the previous fiscal year to an operating loss of ¥0.9 billion, principally due to a decline in sales.

North America

Sales in North America were down ¥85.6 billion, or 38.7%, to ¥135.3 billion, as a consequence of lower sales of motorcycles and other products. Operating loss increased ¥6.8 billion to ¥8.1 billion.

Europe

Sales in Europe decreased ¥24.0 billion, or 26.4%, to ¥66.8 billion, also because of factors including lower sales of motorcycles and other products. Operating income rose ¥0.1 billion, or 19.8%, to ¥0.8 billion.

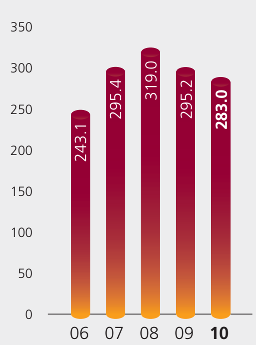
Asia

Sales in Asia outside Japan fell ¥0.4 billion, or 1.0%, to ¥42.9 billion, and operating income rose ¥1.5 billion, or 33.5%, to ¥6.0 billion.

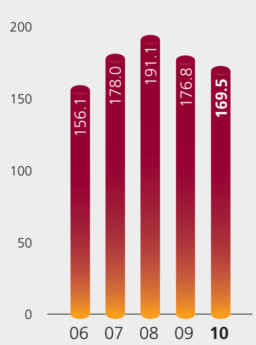
Other Areas

Sales in other areas increased ¥2.0 billion, or 21.7%, to ¥11.0 billion, and operating income rose ¥0.6 billion, or 152.6%, to ¥0.9 billion.

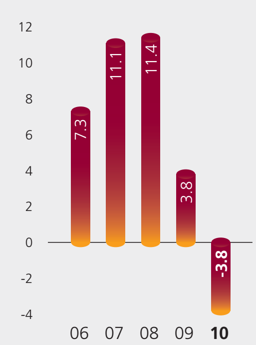
Total Net Assets
(Billions of yen)



Net Assets per Share
(Yen)



Return on Equity
(%)



Cost, Expenses, and Earnings

The cost of sales decreased 10.8%, to ¥1,023.6 billion. The rate of decrease in the cost of sales was 1.5 percentage points lower than the 12.3% drop in net sales. As a result, gross profit declined ¥41.8 billion, or 21.8%, to ¥149.8 billion, and the gross profit margin fell 1.6 percentage points, to 12.7%, compared with 14.3% in the previous fiscal year.

Selling, general and administrative expenses declined ¥11.8 billion year on year, or 7.2%, to ¥151.1 billion, primarily owing to a decrease in capital expenditures. Operating income decreased ¥30.0 billion, resulting in an operating loss of ¥1.3 billion. The principal factors accounting for this decrease included a) the impact of the decline in sales of motorcycles to North America and Europe on operating loss, which exceeded the effects of such initiatives as an increase in the marginal profit ratio and fixed cost reductions in the Consumer Products & Machinery segment; b) the impact of yen appreciation on the Rolling Stock, Gas Turbines & Machinery, and Consumer Products & Machinery segments; and c) lower sales in the Plant & Infrastructure Engineering and Hydraulic Machinery segments. As a consequence, the ratio of operating income to net sales fell 2.3 percentage points, from 2.1% in the previous year to negative 0.1%.

In the results for other income (expenses), the Company recorded expenses of ¥2.5 billion, compared with expenses of ¥5.1 billion in the previous fiscal year. The principal reason for the change was a decrease of expenses in "other, net," to ¥7.2 billion from ¥11.5 billion in the previous fiscal year. The main factors influencing this outcome were a) the recording of ¥7.6 billion in restructuring charges in the fiscal year under review, as well as increases in certain other expense items. However, a) above was offset by b) a change in the loss (gain) on contribution of securities to the pension trust, from a loss of ¥4.5 billion in the previous fiscal year to zero; c) a change in the loss on valuation of securities, from ¥1.9 billion in the previous fiscal year to zero; and d) an increase in gain on sales of marketable and investment securities, from ¥0.6 billion in the previous fiscal year to ¥1.7 billion.

Income (loss) before income taxes and minority interests declined ¥27.4 billion from the previous fiscal year, primarily due to the sharp deterioration in operating income, and the Company recorded a loss before income taxes and minority interests of ¥3.8 billion. After the deduction of minority interests in net income of consolidated subsidiaries, net income for the fiscal year decreased ¥22.6 billion from the previous fiscal year, resulting in a net loss of ¥10.8 billion. The ratio of net income to net sales declined 1.8 percentage points, from 0.9% in the previous fiscal year to negative 0.9%. ROE (calculated using average total shareholders' equity) decreased 7.6 percentage points, from 3.8% in the previous fiscal year to negative 3.8%.

Capital expenditures for the fiscal year under review were ¥59.2 billion, compared with ¥82.5 billion in the previous fiscal year. R&D expenses were ¥38.0 billion, compared with ¥38.2 billion in the previous fiscal year.

FINANCIAL CONDITION

Total assets at the end of the fiscal year were ¥1,352.4 billion, down ¥47.3 billion, or 3.4%, from the previous fiscal year. Of this total, current assets were ¥931.6 billion, down ¥64.1 billion, or 6.4%, from the previous fiscal year. The decrease is primarily attributable to lower inventories, reflecting an increase in sales of large vessels and a contraction of channel inventories in the Consumer Products & Machinery segment. Investments, intangible and other assets rose ¥16.5 billion from the previous fiscal year, owing to factors including an increase in deferred tax assets, while net property, plant and equipment increased ¥0.3 billion from the previous fiscal year.

Liabilities decreased ¥35.1 billion, or 3.2%, to ¥1,069.3 billion. Principal factors contributing to the change were an increase of ¥39.6 billion, or 10.2%, in interest-bearing debt, such as debt and bonds payable, which was offset by a decrease of ¥55.7 billion, or 15.5%, in trade payables, and a decrease of ¥26.2 billion, or 20.9%, in advances from customers.

Current liabilities decreased ¥137.1 billion, or 16.5%, to ¥692.9 billion, while long-term liabilities increased ¥101.9 billion, or 37.1%, to ¥376.4 billion.

Net assets declined ¥12.2 billion, or 4.1%, to ¥283.0 billion. The principal reason for the change was a decrease in retained earnings.

The ratio of shareholders' equity to total assets fell 0.3 percentage point, from 20.7% at the end of the previous fiscal year to 20.5%. In addition, the net debt-to-equity ratio rose from 122.9% at the previous fiscal year-end to 142.3% at the end of the fiscal year under review.

MANAGEMENT INDICATORS

The Company's objective is to earn profits that not only meet but exceed the expectations of investors. The management indicator we have adopted is before-tax return on invested capital (ROIC), which measures how efficiently the Company uses its capital. To maximize ROIC, the Company will strengthen its financial position through efforts to increase profit and improve the efficiency of invested capital. The Company uses the following formula to calculate ROIC.

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

ROIC calculated using this formula decreased by 4.2 percentage points, from 4.5% in the previous fiscal year to 0.2%.

CASH FLOWS

For fiscal 2010, net cash provided by operating activities was ¥30.1 billion, an increase of ¥71.4 billion from the previous fiscal year. Principal cash inflow items were a decrease in inventories of ¥56.2 billion and depreciation and amortization of ¥51.4 billion, while principal cash outflow items were a decrease in trade payables of ¥56.3 billion, a decrease in advances from customers of ¥27.1 billion, and cash paid for income taxes of ¥12.8 billion.

Net cash used for investing activities was ¥63.2 billion, a decrease of ¥9.0 billion from the previous fiscal year. The cash was mainly used for the acquisition of property, plant and equipment.

Free cash flow, which is the net amount of cash from operating and investing activities, amounted to an outflow of ¥33.0 billion, compared with an outflow of ¥113.5 billion in the previous fiscal year.

Net cash provided by financing activities was ¥35.9 billion, a decrease of ¥71.8 billion from the previous fiscal year. The change is mainly attributable to an increase in debt.

As a result of these cash flows, cash and cash equivalents at the end of fiscal 2010 were ¥34.1 billion, ¥2.7 billion higher than in the previous fiscal year.

DIVIDENDS

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

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

While this remains the basic dividend policy, with regard to the dividend for fiscal 2010, upon consideration of the outlook for business performance, the level of retained earnings, and other factors, the decision was made to pay an annual dividend of ¥3 per share (an interim dividend of ¥0 and a year-end dividend of ¥3). Retained earnings after the dividend payout are appropriated for investments in the Company's businesses, the repayment of borrowings, and other uses.

Note: The Company's Articles of Incorporation provide for paying an interim dividend as stipulated in Article 454, Paragraph 5 of the Japanese Corporate Law.

BUSINESS RISK

External factors that may have an effect on the KHI Group's performance and financial position include the following.

(1) Political and Economic Conditions

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

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

(2) Fluctuations in Foreign Exchange Rates

Overseas sales accounted for 47.8% of consolidated net sales in fiscal 2010, and the Group has a substantial volume of transactions denominated in U.S. dollars, euros, and other currencies. With respect to transactions denominated in foreign currencies, the Group strives to reduce foreign exchange risk by such means as increasing the proportion of overall costs denominated in foreign currencies and engages in hedging techniques such as flexible forward contracts, taking into account trends in foreign exchange rates. Nevertheless, the majority of the Group's manufacturing facilities are located in Japan, and sales to overseas markets are subject to foreign exchange fluctuation risk.

(3) Fluctuations in Prices of Raw Materials

Since the Group has many projects that require considerable time from the receipt of orders to final delivery, fluctuations in the prices of steel and other raw materials during the course of projects may have an impact on profitability. Accordingly, the Group is exposed to the risk of raw material price fluctuations.

(4) Government Regulations

The Group conducts its business activities in compliance with the laws, regulations, and other controls in the countries and regions where it operates. The Group's operations may be affected by unforeseen changes in such controls or the application of new controls.

Consolidated Balance Sheets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
ASSETS			
Current assets:			
Cash on hand and in banks (Note 16)	¥ 34,745	¥ 31,956	$ 373,441
Receivables:			
Trade	400,264	402,342	4,302,063
Other	20,159	19,406	216,670
Allowance for doubtful receivables	(2,424)	(3,112)	(26,053)
	417,999	418,636	4,492,680
Inventories:			
Merchandise and finished products	56,807	69,609	610,565
Work in process	281,025	325,579	3,020,475
Raw materials and supplies	80,392	81,253	864,058
	418,224	476,441	4,495,098
Deferred tax assets (Note 14)	25,204	33,232	270,895
Other current assets	35,506	35,532	381,622
Total current assets	931,678	995,797	10,013,736
Property, plant and equipment (Note 6):			
Land	64,282	64,287	690,907
Buildings and structures	317,684	302,033	3,414,488
Machinery and equipment	507,926	494,938	5,459,222
Construction in progress	9,744	19,573	104,729
	899,636	880,831	9,669,346
Accumulated depreciation	(615,228)	(596,713)	(6,612,511)
Net property, plant and equipment	284,408	284,118	3,056,835
Investments, intangible and other assets:			
Investments in securities (Notes 3 and 4)	53,285	45,852	572,710
Long-term loans	515	560	5,535
Deferred tax assets (Note 14)	51,503	42,773	553,557
Goodwill and other intangible assets (Note 5)	20,719	19,574	222,689
Allowance for doubtful receivables	(1,270)	(1,187)	(13,650)
Other (Note 6)	11,601	12,284	124,690
Total investments, intangible and other assets	136,353	119,856	1,465,531
Total assets	¥1,352,439	¥1,399,771	$ 14,536,102

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term debt and current portion of long-term debt (Note 6)	**¥ 158,799**	¥ 207,355	**$ 1,706,782**
Trade payables (Note 6)	**302,739**	358,478	**3,253,858**
Advances from customers	**99,532**	125,763	**1,069,776**
Income taxes payable (Note 14)	**4,833**	8,710	**51,945**
Accrued bonuses	**14,202**	14,242	**152,644**
Provision for product warranties	**6,640**	7,638	**71,367**
Provision for losses on construction contracts (Note 7)	**17,991**	20,931	**193,368**
Provision for restructuring charges	**6,326**	–	**67,992**
Provision for losses on damages suit (Note 26)	**5,165**	7,411	**55,513**
Provision for environmental measures	**778**	–	**8,361**
Deferred tax liabilities (Note 14)	**859**	932	**9,232**
Other current liabilities	**75,059**	78,546	**806,744**
Total current liabilities	**692,923**	830,006	**7,447,582**
Long-term liabilities:			
Long-term debt, less current portion (Note 6)	**270,110**	181,933	**2,903,159**
Employees' retirement and severance benefits (Note 8)	**89,240**	79,969	**959,157**
Deferred tax liabilities (Note 14)	**2,526**	2,938	**27,149**
Provision for environmental measures	**3,713**	3,981	**39,907**
Provision for losses on damages suit (Note 26)	**6,706**	–	**72,076**
Other	**4,168**	5,698	**44,800**
Total long-term liabilities	**376,463**	274,519	**4,046,248**
Contingent liabilities (Note 9)			
Net assets (Note 10):			
Common stock:			
Authorized - 3,360,000,000 shares			
Issued - 1,669,629,122 shares in 2010			
- 1,669,629,122 shares in 2009	**104,329**	104,329	**1,121,334**
Capital surplus	**54,275**	54,282	**583,351**
Retained earnings	**137,689**	154,273	**1,479,890**
Treasury stock - 1,780,388 shares in 2010			
- 1,394,288 shares in 2009	**(552)**	(468)	**(5,932)**
Net unrealized gains on securities, net of tax	**5,305**	3,140	**57,018**
Gains/losses on hedging items	**(162)**	(264)	**(1,741)**
Foreign currency translation adjustments	**(23,803)**	(24,851)	**(255,836)**
Minority interests	**5,972**	4,805	**64,188**
Total net assets	**283,053**	295,246	**3,042,272**
Total liabilities and net assets	**¥1,352,439**	¥1,399,771	**$14,536,102**

Consolidated Statements of Operations

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	**2010**
Net sales	**¥1,173,473**	¥1,338,597	¥1,501,097	**$ 12,612,564**
Cost of sales (Note 11)	**1,023,610**	1,146,944	1,262,032	**11,001,827**
Gross profit	**149,863**	191,653	239,065	**1,610,737**
Selling, general and administrative expenses (Note 12)	**151,179**	162,940	162,155	**1,624,881**
Operating income (loss)	**(1,316)**	28,713	76,910	**(14,144)**
Other income (expenses):				
Interest and dividend income	**3,615**	4,352	5,005	**38,854**
Equity in income of nonconsolidated subsidiaries and affiliates	**6,522**	8,709	7,642	**70,098**
Interest expense	**(5,399)**	(6,658)	(7,980)	**(58,028)**
Other, net (Note 13)	**(7,243)**	(11,491)	(23,522)	**(77,848)**
Income (loss) before income taxes and minority interests	**(3,821)**	23,625	58,055	**(41,068)**
Income taxes (Note 14)				
Current	**(8,805)**	(16,783)	(23,271)	**(94,636)**
Deferred	**2,822**	6,022	1,260	**30,331**
Minority interests in net income of consolidated subsidiaries	**(1,056)**	(1,136)	(903)	**(11,350)**
Net income (loss)	**¥ (10,860)**	¥ 11,728	¥ 35,141	**$ (116,723)**

	Yen			U.S. dollars (Note 1)
Per share amounts (Note 18)				
Earnings per share - basic	**¥ (6.5)**	¥ 7.0	¥ 21.1	**$ (0.06)**
Earnings per share - diluted	**–**	6.9	20.6	**–**
Cash dividends	**3.0**	3.0	5.0	**0.03**

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

Consolidated Statements of Changes in Net Assets

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2010, 2009 and 2008

	Thousands	Millions of yen							
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized gains on securities, net of tax	Gains/ losses on hedging items	Foreign currency translation adjustments	Minority interests
Balance at March 31, 2007	1,659,626	¥103,188	¥53,179	¥125,799	¥ (55)	¥19,342	¥(1,608)	¥ (9,417)	¥ 4,950
Net income for the year	–	–	–	35,141	–	–	–	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	(2,461)	–
Decrease in net unrealized gains on securities, net of tax	–	–	–	–	–	(9,050)	–	–	–
Treasury stock purchased, net	–	–	–	–	(410)	–	–	–	–
Cash dividends	–	–	–	(8,298)	–	–	–	–	–
Loss on sales of treasury stock	–	–	(1)	–	–	–	–	–	–
Conversion of convertible bonds	10,003	1,141	1,113	–	–	–	–	–	–
Other (Note 15)	–	–	–	(1,241)	5	–	6,825	–	896
Balance at March 31, 2008	1,669,629	¥104,329	¥54,291	¥151,401	¥(460)	¥10,292	¥ 5,217	¥(11,878)	¥ 5,846
Net income for the year	–	–	–	11,728	–	–	–	–	–
Adjustments from translation of foreign currency financial statements	–	–	–	–	–	–	–	(12,973)	–
Decrease in net unrealized gains on securities, net of tax	–	–	–	–	–	(7,152)	–	–	–
Treasury stock purchased, net	–	–	–	–	(8)	–	–	–	–
Cash dividends	–	–	–	(8,342)	–	–	–	–	–
Loss on sales of treasury stock	–	–	(9)	–	–	–	–	–	–
Other	–	–	–	(514)	–	–	(5,481)	–	(1,041)
Balance at March 31, 2009	1,669,629	¥104,329	¥54,282	¥154,273	¥(468)	¥ 3,140	¥ (264)	¥(24,851)	¥ 4,805
Net loss for the year	**–**	**–**	**–**	**(10,860)**	**–**	**–**	**–**	**–**	**–**
Adjustments from translation of foreign currency financial statements	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,048**	**–**
Increase in net unrealized gains on securities, net of tax	**–**	**–**	**–**	**–**	**–**	**2,165**	**–**	**–**	**–**
Treasury stock purchased, net	**–**	**–**	**–**	**–**	**(84)**	**–**	**–**	**–**	**–**
Cash dividends	**–**	**–**	**–**	**(5,004)**	**–**	**–**	**–**	**–**	**–**
Loss on sales of treasury stock	**–**	**–**	**(7)**	**–**	**–**	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**(720)**	**–**	**–**	**102**	**–**	**1,167**
Balance at March 31, 2010	**1,669,629**	**¥104,329**	**¥54,275**	**¥137,689**	**¥(552)**	**¥ 5,305**	**¥ (162)**	**¥(23,803)**	**¥ 5,972**

	Thousands of U.S. dollars (Note 1)							
Balance at March 31, 2009	$1,121,334	$583,426	$1,658,136	$(5,030)	$33,748	$(2,837)	$(267,100)	$51,644
Net loss for the year	**–**	**–**	**(116,723)**	**–**	**–**	**–**	**–**	**–**
Adjustments from translation of foreign currency financial statements	**–**	**–**	**–**	**–**	**–**	**–**	**11,264**	**–**
Increase in net unrealized gains on securities, net of tax	**–**	**–**	**–**	**–**	**23,270**	**–**	**–**	**–**
Treasury stock purchased, net	**–**	**–**	**–**	**(902)**	**–**	**–**	**–**	**–**
Cash dividends	**–**	**–**	**(53,783)**	**–**	**–**	**–**	**–**	**–**
Loss on sales of treasury stock	**–**	**(75)**	**–**	**–**	**–**	**–**	**–**	**–**
Other	**–**	**–**	**(7,740)**	**–**	**–**	**1,096**	**–**	**12,544**
Balance at March 31, 2010	**$1,121,334**	**$583,351**	**$1,479,890**	**$(5,932)**	**$57,018**	**$(1,741)**	**$(255,836)**	**$64,188**

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

Consolidated Statements of Cash Flows

KAWASAKI HEAVY INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES
For the years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	**2010**
Cash flows from operating activities:				
Income (loss) before income taxes and minority interests	**¥ (3,821)**	¥ 23,625	¥ 58,055	**$ (41,068)**
Adjustments to reconcile net income (loss) before income taxes and minority interests to net cash provided by (used for) operating activities:				
Depreciation and amortization	**51,423**	44,334	37,455	**552,697**
Loss on impairment of fixed assets	**3,132**	1,399	2,764	**33,662**
Employees' retirement and severance benefits	**9,317**	2,315	7,124	**100,139**
Accrued bonuses	**(38)**	(5,335)	1,451	**(408)**
Allowance for doubtful receivables	**(615)**	(849)	(406)	**(6,610)**
Provision for product warranties	**(1,013)**	1,162	–	**(10,887)**
Provision for losses on construction contracts	**(2,916)**	12,202	(3,498)	**(31,341)**
Provision for restructuring charges	**6,326**	–	–	**67,992**
Provision for losses on damages suit	**4,461**	5,165	(153)	**47,947**
Provision for environmental measures	**510**	1,812	2,168	**5,481**
Loss on disposal of inventories	**1,992**	2,382	1,350	**21,410**
Gain on sales of marketable and investment securities	**(1,739)**	(620)	(349)	**(18,690)**
Loss on sales of property, plant and equipment	**784**	164	1,397	**8,426**
Loss (gain) on contribution of securities to pension trust	**–**	4,492	(1,376)	**–**
Equity in income of nonconsolidated subsidiaries and affiliates	**(6,522)**	(8,709)	(7,642)	**(70,098)**
Interest and dividend income	**(3,615)**	(4,352)	(5,005)	**(38,854)**
Interest expense	**5,399**	6,658	7,980	**58,028**
Changes in assets and liabilities:				
Decrease (increase) in:				
Receivables: Trade	**(3,792)**	5,398	(11,102)	**(40,756)**
Inventories	**56,241**	(54,709)	(19,046)	**604,481**
Other current assets	**(2,966)**	(2,709)	(10,723)	**(31,878)**
Increase (decrease) in:				
Trade payables	**(56,396)**	(55,077)	26,870	**(606,147)**
Advances from customers	**(27,179)**	8,274	1,849	**(292,121)**
Other current liabilities	**12,165**	(8,867)	7,758	**130,750**
Other, net	**(374)**	4,794	(3,314)	**(4,021)**
Subtotal	**40,764**	(17,051)	93,607	**438,134**
Cash received for interest and dividends	**7,698**	8,926	9,608	**82,738**
Cash paid for interest	**(5,408)**	(6,481)	(8,035)	**(58,125)**
Cash paid for income taxes	**(12,876)**	(25,064)	(19,414)	**(138,392)**
Cash paid for suspension of activities for participation in MotoGP	**–**	(1,587)	–	**–**
Net cash provided by (used for) operating activities	**30,178**	(41,257)	75,766	**324,355**

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	**2010**
Cash flows from investing activities:				
Decrease (increase) in time deposits with maturities over three months	**21**	706	(1,635)	**225**
Acquisition of property, plant and equipment	**(61,198)**	(68,059)	(45,598)	**(657,760)**
Proceeds from sales of property, plant and equipment	**993**	2,903	469	**10,672**
Acquisition of intangible assets	**(4,764)**	(6,400)	(5,238)	**(51,203)**
Proceeds from sales of intangible assets	**48**	15	55	**515**
Acquisition of investments in securities	**(123)**	(3,043)	(1,183)	**(1,322)**
Proceeds from sales of investments in securities	**1,913**	1,796	5,731	**20,561**
Acquisition of investments in subsidiaries or affiliates	**(1,331)**	(1,241)	–	**(14,305)**
Decrease (increase) in short-term loans	**518**	(33)	(278)	**5,567**
Additions to long-term loans	**(65)**	(165)	(990)	**(698)**
Proceeds from collection of long-term loans	**115**	1,475	94	**1,236**
Other	**596**	(238)	(517)	**6,407**
Net cash used for investing activities	**(63,277)**	(72,284)	(49,090)	**(680,105)**
Cash flows from financing activities:				
Increase (decrease) in short-term debt	**(21,463)**	67,881	13,099	**(230,685)**
Proceeds from long-term debt	**94,793**	73,551	3,328	**1,018,841**
Repayment of long-term debt	**(31,518)**	(25,017)	(34,817)	**(338,757)**
Acquisition of treasury stock	**(90)**	(17)	(479)	**(967)**
Proceeds from stock issuance to minority shareholders	**230**	–	–	**2,472**
Cash dividends paid	**(5,004)**	(8,321)	(8,262)	**(53,783)**
Cash dividends paid to minority shareholders	**(741)**	(362)	(261)	**(7,964)**
Other	**(296)**	(22)	–	**(3,184)**
Net cash provided by (used for) financing activities	**35,911**	107,693	(27,392)	**385,973**
Effect of exchange rate changes	**(89)**	(907)	(501)	**(956)**
Net increase (decrease) in cash and cash equivalents	**2,723**	(6,755)	(1,217)	**29,267**
Cash and cash equivalents at beginning of year	**31,414**	38,169	39,228	**337,639**
Increase in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries	**–**	–	158	**–**
Cash and cash equivalents at end of year	**¥ 34,137**	¥ 31,414	¥ 38,169	**$ 366,906**
Supplemental information on cash flows:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheets	**¥ 34,745**	¥ 31,956	¥ 39,875	**$ 373,441**
Time deposits with maturities over three months	**(608)**	(542)	(1,706)	**(6,535)**
Total (Note 16)	**¥ 34,137**	¥ 31,414	¥ 38,169	**$ 366,906**

The accompanying notes to the consolidated financial statements are an integral part of these statements.
See Note 17 for significant noncash transactions.

1. Basis of presenting consolidated financial statements

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

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

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2010, which was ¥93.04 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

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

2. Significant accounting policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control (together, the "Companies"). The consolidated financial statements include the accounts of the Company and 97 subsidiaries (97 in 2009 and 95 in 2008). For the year ended March 31, 2010, 0 subsidiaries (0 in 2009 and 2 in 2008) were excluded from the consolidation. The amount of total assets, net sales, net income and retained earnings of these excluded subsidiaries, in the aggregate, would not have had a material effect on the consolidated financial statements if they had been included in the consolidation.

(b) Application of the equity method of accounting

Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method. For the year ended March 31, 2010, 14 affiliates (12 in 2009 and 18 in 2008) were accounted for by the equity method. For the year ended March 31, 2010, investments in 0 nonconsolidated subsidiaries (0 in 2009 and 2 in 2008) and 14 affiliates (14 in 2009 and 14 in 2008) were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, the net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end

The fiscal year-end of 31 consolidated subsidiaries (28 in 2009 and 28 in 2008) is December 31. These subsidiaries are consolidated as of December 31, and significant transactions for the period between December 31 and March 31, the Company's year-end, are adjusted for on consolidation.

(d) Elimination of intercompany transactions and accounts

All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation, and the portion attributable to minority interests is credited to minority interests.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

(e) Foreign currency translation

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

(f) Appropriations of retained earnings

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

(g) Revenue recognition

<Sales of products and construction contracts>

Prior to April 1, 2009, sales of products such as ships, rail cars, airplanes, machinery and motorcycles were principally recognized upon delivery. Contract revenue for the construction of plants, machinery, bridges, etc. was principally recognized on a customer acceptance basis. When prices for components or contract amounts for nearly completed contracts were not finalized, sales and cost of sales were estimated. The percentage-of-completion method was applied to long-term contracts such as those for ships, airplanes and plants exceeding ¥3,000 million. The stage of completion was normally determined based on the proportion of costs incurred to date to the estimated total costs of the contract. The completed contract method was applied to long-term contracts not exceeding ¥3,000 million. Effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries adopted a new accounting standard, "Accounting Standard for Construction Contracts" (Statement No. 15 issued by the Accounting Standards Board of Japan on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (the Financial Accounting Standard Implementation Guidance No. 18 issued by the Accounting Standards Board of Japan on December 27, 2007). The new accounting standards require that the percentage-of-completion method be applied for construction contracts commenced on and after April 1, 2009, if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the completed-contract method should be applied.

As a result of this change, sales increased by ¥32,214 million ($346,238 thousand), operating loss and loss before income tax and minority interests decreased, and recurring profit increased by ¥3,088 million ($33,190 thousand) for the year ended March 31, 2010 compared with the amounts that would have been recorded with the previous standard.

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

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

(h) Cash and cash equivalents

Cash on hand, readily available deposits and short-term highly liquid and low risk investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents in preparing the consolidated statements of cash flows.

(i) Allowance for doubtful receivables

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

(j) Inventories

Prior to April 1, 2008, inventories of the Company and its consolidated domestic subsidiaries were stated at cost determined principally by the specific identification cost method, the moving average method and the first-in, first-out method. However, if the market value of inventories had declined significantly and was not expected to recover to cost, cost was reduced to net realizable value. Effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted a new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006), for the measurement of inventories and have stated the inventories at March 31, 2009 at the lower of cost determined principally by the specific identification cost method, the moving average method and the first-in, first-out method or net realizable value. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2009 were ¥4,074 million less than they would have been without the change.

(k) Assets and liabilities arising from derivative transactions

Assets and liabilities arising from derivative transactions are stated at fair value.

(l) Investments in securities

The Company and its consolidated subsidiaries classify securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) all other securities (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2010 or 2009. Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available market value are stated at moving average cost.

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

(m) Property, plant and equipment

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

(n) Intangible assets

Amortization of intangible assets, including software for the Company's own use, is computed by the straight-line method over the estimated useful life of the asset.

Goodwill is amortized on a straight-line basis over the period its effect lasts. If the amount is not significant, it is expensed when incurred.

(o) Accrued bonuses

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

(p) Provision for product warranties

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

(q) Provision for losses on construction contracts

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

(r) Provision for restructuring charges

The provision for restructuring charges is based on the estimated charges for restructuring in Consumer Products & Machinery business in North America.

(s) Provision for losses on damages suit

The Provision for losses on damages suit is provided based on estimates of damages compensation and other expenses for the damages suit.

(t) Provision for environmental measures

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

(u) Income taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(v) Employees' retirement and severance benefits

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

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

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

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

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

(w) Hedge accounting

The Company and its consolidated subsidiaries employ deferred hedge accounting. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gain or loss resulting from a change in the market value of the derivative financial instrument until the related loss or gain on the hedged item is recognized.

(x) Finance leases

Prior to April 1, 2008, the Company and its consolidated domestic subsidiaries accounted for finance leases which did not transfer ownership of the leased property to the lessee as operating leases, with the disclosure of certain "as if capitalized" information in the notes to the consolidated financial statements. Effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted a new accounting standard, "Accounting Standard for Lease Transactions" (Statement No. 13 issued by the Accounting Standards Board of Japan on March 30, 2007), and the "Guidance on Accounting Standard for Lease Transactions" (the Financial Accounting Standard Implementation Guidance No. 16 issued by the Accounting Standards Board of Japan on March 30, 2007) for finance leases commencing after March 31, 2008. The new accounting standards require that all finance lease transactions be treated as capital leases and that the Company and its consolidated subsidiaries capitalize assets used under such leases, except for certain immaterial or short-term finance leases accounted for as operating leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases, with the disclosure of certain "as if capitalized" information. This change had minor effect on net income for the year ended March 31, 2009.

Leased assets under finance leases that transfer ownership rights to the lessees are amortized under the same method as that used for property, plant and equipment or intangible assets.

(y) Earnings per share

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

(z) Cash dividends

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

(aa) Accounting changes in methods of depreciation

In accordance with the revised Corporation Tax Law in Japan and effective from the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries have changed the method of depreciation for fixed assets acquired after April 1, 2007. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2008 were ¥1,162 million less than what they would have been without the change.

Also in accordance with the revised law and effective from the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries started to depreciate the 5% residual value of fixed assets acquired before March 31, 2007 over 5 years on a straight-line basis to 1 yen from the year after the year when the book value of each asset was depreciated to 5% of the acquisition cost. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2008 were ¥2,761 million less than they would have been without the change.

In addition, effective from the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries reviewed and changed the useful life of machinery and equipment in accordance with the revision of the Tax Law. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2009 were ¥1,690 million less than they would have been without the change.

(bb) Application of the Practical Solutions on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Effective from the year ended March 31, 2009, the Company adopted "Practical Solutions on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18 issued by the Accounting Standards Board of Japan on May 17, 2006). This change did not have any effect on net income for the year ended March 31, 2009.

3. Securities

(a) Acquisition costs and book values (market values) of available-for-sale securities with available market values as of March 31, 2010 and 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2010			
	Acquisition cost	Book value	Difference	Difference
Securities with book values exceeding acquisition costs:				
Equity securities	**¥6,138**	**¥15,566**	**¥9,428**	**$101,332**
Other securities:				
Equity securities	**3,421**	**3,142**	**(279)**	**(2,998)**
Total	**¥9,559**	**¥18,708**	**¥9,149**	**$ 98,334**

	Millions of yen		
	2009		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥5,263	¥11,833	¥ 6,570
Other securities:			
Equity securities	4,432	3,275	(1,157)
Total	¥9,695	¥15,108	¥ 5,413

(b) Book values and market values of held-to-maturity debt securities with available market values as of March 31, 2010 and 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2010			
	Book value	Market value	Difference	Difference
Securities with book values exceeding acquisition costs:				
Bonds	**¥300**	**¥305**	**¥5**	**$53**

	Millions of yen		
	2009		
	Book value	Market value	Difference
Securities with book values exceeding acquisition costs:			
Bonds	¥301	¥302	¥1

(c) Book values of investments in securities with no available fair values as of March 31, 2009 were as follows:

	Millions of yen
	2009
	Book value
Held-to-maturity debt securities:	
Public corporation bond	¥2
Total	¥2
Available-for-sale securities:	
Equity securities	¥7,732
Other	1,721
Total	¥9,453

See Note 4 for investments in nonconsolidated subsidiaries and affiliates.

(d) Sales amounts of available-for-sale securities and related gains and losses for the years ended March 31, 2010, 2009 and 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2010					
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities	**¥1,913**	**¥1,793**	**¥(52)**	**$20,561**	**$19,271**	**$(558)**

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

	Millions of yen		
	2008		
	Sales amounts	Gains	Losses
Equity securities	¥729	¥465	¥ –

For the year ended March 31, 2009, other than above, the Company has contributed investment securities of ¥6,930 million (market value) to the pension trust and recorded loss on contribution of securities to the pension trust of ¥4,492 million.

4. Investments in nonconsolidated subsidiaries and affiliates

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2010 and 2009 were ¥24,835 million ($266,928 thousand) and ¥20,985 million, respectively.

5. Goodwill

Goodwill included in intangible and other assets as of March 31, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
	¥866	¥1,106	**$9,307**

6. Short-term debt and long-term debt

Short-term debt and long-term debt as of March 31, 2010 and 2009 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Short-term debt:			
Short-term debt, principally bank loans, bearing average interest rates of 0.937 percent and 1.964 percent as of March 31, 2010 and 2009, respectively	**¥152,801**	¥176,924	**$1,642,315**
Current portion of long-term debt, bearing average interest rates of 1.325 percent and 1.375 percent as of March 31, 2010 and 2009, respectively	**5,290**	30,158	**56,858**
Lease obligations, current	**708**	273	**7,609**
Total short-term debt	**¥158,799**	¥207,355	**$1,706,782**
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2008 to 2035, bearing average interest rates of 0.631 percent and 1.306 percent as of March 31, 2010 and 2009, respectively	**¥214,174**	¥150,874	**$2,301,956**
Notes and bonds issued by the Company:			
1.07〜2.33 percent notes due in 2009	**–**	20,000	**–**
1.52〜1.60 percent notes due in 2011	**20,000**	20,000	**214,961**
0.81 percent notes due in 2012	**10,000**	–	**107,481**
1.84 percent notes due in 2013	**10,000**	10,000	**107,481**
1.22 percent notes due in 2015	**10,000**	–	**107,481**
1.00 percent convertible bonds due in 2011	**7,038**	7,038	**75,645**
Zero coupon convertible bonds due in 2010	**477**	477	**5,126**
Zero coupon convertible bonds due in 2011	**3,475**	3,475	**37,349**
Long-term lease obligations	**944**	500	**10,146**
	276,108	212,364	**2,967,626**
Less portion due within one year	**(5,998)**	(30,431)	**(64,467)**
Total long-term debt	**¥270,110**	¥181,933	**$2,903,159**

As of March 31, 2010, convertible bonds due from 2010 through 2011 were convertible into shares of common stock at the option of the holder at prices of ¥598 ($6.42), ¥182 ($1.95) and ¥230.3 ($2.47) per share. The conversion prices are subject to adjustments under specified conditions.

As of March 31, 2010 and 2009, the following assets were pledged as collateral for short-term debt and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Land	**¥ 291**	¥ 818	**$ 3,127**
Buildings	**4,482**	4,789	**48,173**
Other investments	**313**	314	**3,364**
Total	**¥5,086**	¥5,921	**$54,664**

As of March 31, 2010 and 2009, debt secured by the above pledged assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Trade payables	**¥ 34**	¥ 53	**$ 365**
Short-term and long-term debt	**715**	1,703	**7,685**
Total	**¥749**	¥1,756	**$8,050**

The aggregate annual maturities of long-term debt as of March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2011	**¥ 5,998**	**$ 64,467**
2012	**59,784**	**642,562**
2013	**34,145**	**366,992**
2014	**68,385**	**735,006**
2015 and thereafter	**107,796**	**1,158,599**
Total	**¥276,108**	**$2,967,626**

7. Provision for losses on construction contracts

Inventories for construction contracts with anticipated substantial losses and provision for losses on construction contracts were not offset. The amount of the inventories based on the construction contracts, for which provision for losses on construction contracts was provided, was ¥12,485 million ($134,189 thousand) (This amount was all included in work in process).

8. Employees' retirement and severance benefits

The liability for employees' retirement and severance benefits included in the long-term liability section of the consolidated balance sheets as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Projected benefit obligation	**¥(183,229)**	¥(185,597)	**$(1,969,356)**
Unrecognized prior service costs	**(9,605)**	(11,273)	**(103,235)**
Unrecognized actuarial differences	**29,004**	46,541	**311,736**
Less fair value of plan assets	**77,916**	61,066	**837,446**
Less unrecognized net transition obligation	**–**	12,243	**–**
Prepaid pension cost	**(3,326)**	(2,949)	**(35,748)**
Liability for retirement and severance benefits	**¥ (89,240)**	¥ (79,969)	**$ (959,157)**

Retirement and severance benefit expenses in the consolidated statements of income for the years ended March 31, 2010, 2009 and 2008 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Service costs - benefits earned during the year	**¥ 9,274**	¥ 8,497	¥ 8,556	**$ 99,677**
Interest cost on projected benefit obligation	**3,945**	4,745	4,625	**42,401**
Expected return on plan assets	**(871)**	(1,250)	(945)	**(9,361)**
Amortization of prior service costs	**(2,265)**	(2,266)	(2,285)	**(24,344)**
Amortization of actuarial differences	**4,978**	(137)	(1,983)	**53,503**
Amortization of net transition obligation	**12,342**	12,784	12,514	**132,653**
Contribution to the defined contribution pension plans	**614**	598	483	**6,599**
Retirement and severance benefit expenses	**¥28,017**	¥22,971	¥20,965	**$301,128**

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

	2010	2009	2008
Discount rate	**mainly 2.0%**	mainly 2.0%	mainly 2.5%
Expected rate of return on plan assets			
(For the Company and consolidated domestic subsidiaries)	**3.0 to 3.5%**	3.0 to 3.5%	0.0 to 3.5%
(For consolidated overseas subsidiaries)	**5.67 to 7.75%**	7.75%	7.75%
Amortization period for prior service costs	**mainly 10 years**	mainly 10 years	mainly 10 years
Amortization period for actuarial gains and losses	**mainly 10 years**	mainly 10 years	mainly 10 years
Amortization period for transition obligation	**mainly 10 years**	mainly 10 years	mainly 10 years

9. Contingent liabilities

Contingent liabilities as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	**¥34,409**	¥36,391	**$369,830**

10. Net assets

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

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

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

11. Cost of sales

The ending balance of inventories was measured at the lower of cost or market, and loss on valuation of inventories included in the cost of sales for the year ended March 31, 2010 was ¥297 million ($3,192 thousand).

Provision for losses on construction contracts included in the cost of sales for the year ended March 31, 2010 was ¥8,270 million ($88,886 thousand).

12. Research and development expenses

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

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Research and development expenses	**¥38,057**	¥38,256	¥36,228	**$409,039**

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

"Other, net" in “other income (expenses)" in the consolidated statements of operations for the year ended March 31, 2010, 2009, and 2008 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Foreign exchange gain (loss), net	**¥10,955**	¥ 10,373	¥(11,549)	**$117,745**
Gain on sales of marketable securities and investments in securities	**1,739**	620	465	**18,690**
Reversal of provision for environmental measures (a)	**1,077**	–	–	**11,575**
Reversal of allowance for doubtful receivables for affiliates (b)	**460**	–	–	**4,944**
Gain on sales of business (c)	**–**	594	–	**–**
Restructuring charges (d)	**(7,648)**	–	–	**(82,201)**
Loss on damages suit (e)	**(6,983)**	(5,165)	(2,245)	**(75,053)**
Loss on impairment of fixed assets (f)	**(3,132)**	(1,399)	(2,763)	**(33,662)**
Loss on environmental measures (g)	**(1,489)**	(1,812)	(2,167)	**(16,003)**
Loss on liquidation of subsidiary (h)	**(399)**	–	–	**(4,288)**
Loss (gain) on contribution of securities to the pension trust (i)	**–**	(4,492)	1,375	**–**
Loss on suspension of activities for participation in MotoGP	**–**	(2,818)	–	**–**
Loss on valuation of securities	**–**	(1,875)	–	**–**
Gain on sales of investments in affiliates	**–**	–	292	**–**
Loss on sales of investments in affiliates	**–**	–	(408)	**–**
Other, net	**(1,823)**	(5,517)	(6,522)	**(19,595)**
Total	**¥ (7,243)**	¥(11,491)	¥(23,522)	**$ (77,848)**

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

(b) "Reversal of allowance for doubtful receivables for affiliates" is due to collection on loans for Shanghai COSCO Kawasaki Heavy Industries Steel Structure Co., Ltd, an affiliate of the Company.
(c) "Gain on sales of business" is attributable to the transfer of the golf course operation business of Kawasaki Life Corporation, a consolidated subsidiary of the Company.
(d) "Restructuring charges" is the sum of the estimated ¥6,326 million ($67,992 thousand) for the liquidation of excess inventories in the Consumer Products & Machinery business in North America and early retirement expenses of ¥1,321 million ($14,198 thousand) of the subsidiaries of the business.
(e) "Loss on damages suit" is a provision for compensation in the event the Company is required to pay monetary damages in connection with legal action.
(f) Loss on impairment of fixed assets
Because the profitability or market prices of some asset groups declined, the Company and its consolidated subsidiaries reduced the book value of certain assets to the recoverable amounts. Assets are grouped mainly by units of business. However, significant assets for rent or those which are idle are treated separately. Recoverable amounts were determined by net sales value or value in use, and net sales value was estimated by appraisal or property tax assessment. The value in use was evaluated by discounted cash flow applying a discount rate of 5%.

Asset groups for which the Company and its subsidiaries recognized impairment loss for the year ended March 31, 2010 were as follows:

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

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

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	**¥1,199**	**$12,886**
Machinery and equipment	**1,556**	**16,723**
Other	**377**	**4,053**
	¥3,132	**$33,662**

Asset groups for which the Company and its subsidiary recognized impairment loss for the year ended March 31, 2009 were as follows:

Function or status	Location	Type of asset
Operating property	Sodegaura City, Chiba	Machinery and equipment, etc.

Impairment loss for the year ended March 31, 2009 consisted of the following:

	Millions of yen
Machinery and equipment, etc.	¥1,399
	¥1,399

(g) "Loss on environmental measures" is a provision for the disposal of PCB waste in accordance with the "Law Concerning Special Measures for Promotion of Appropriate Disposal of PCB (polychlorinated biphenyl) Waste" and soil improvement.
(h) "Loss on liquidation of subsidiary" is due to liquidation expenses of Kawasaki Oita Manufacturing Co., Ltd., a consolidated subsidiary of the Company.
(i) "Loss (gain) on contribution of securities to the pension trust" resulted from additional contributions of investment securities to the pension trust.

14. Income taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporation tax (national tax) and enterprise and inhabitants taxes (local taxes) which, in the aggregate, resulted in a normal statutory tax rate of approximately 40.5 percent for each of the years ended March 31, 2010 and 2009.

The significant differences between the statutory and effective tax rates for the year ended March 31, 2010 were not disclosed because the Company posted a loss. The differences for the year ended March 31, 2009 were as follows:

	2009
Statutory tax rate	40.5%
Valuation allowance	19.7
Equity in income of nonconsolidated subsidiaries and affiliates	(12.8)
Research and development tax credit	(1.2)
Other	(0.7)
Effective tax rate	45.5%

Significant components of deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Accrued bonuses	**¥ 6,222**	¥ 6,378	**$ 66,874**
Retirement benefits	**46,401**	40,130	**498,720**
Provision for losses on construction contracts	**6,084**	8,164	**65,391**
Allowance for doubtful receivables	**1,278**	1,164	**13,736**
Inventories – elimination of intercompany profits	**151**	646	**1,622**
Fixed assets – elimination of intercompany profits	**399**	449	**4,288**
Depreciation	**1,851**	1,699	**19,894**
Net operating loss carryforwards	**9,917**	4,803	**106,588**
Unrealized loss of marketable securities, investments in securities and other	**3,432**	841	**36,887**
Other	**34,237**	33,023	**367,986**
Gross deferred tax assets	**109,972**	97,297	**1,181,986**
Less valuation allowance	**(22,949)**	(11,618)	**(246,658)**
Total deferred tax assets	**87,023**	85,679	**935,328**
Deferred tax liabilities:			
Deferral of gain on sale of fixed assets	**5,601**	5,374	**60,199**
Net unrealized gain on securities	**3,562**	2,060	**38,284**
Other	**4,538**	6,110	**48,774**
Total deferred tax liabilities	**13,701**	13,544	**147,257**
Net deferred tax assets	**¥ 73,322**	¥ 72,135	**$ 788,071**

15. Retained earnings ("Other")

The decrease in retained earnings for the year ended March 31, 2008, mainly resulted from the cumulative effect of a new accounting standard in the United States for the unrecognized pension liability of subsidiaries, Kawasaki Motors Manufacturing Corp., U.S.A. and Kawasaki Motors Corp., U.S.A..

16. Cash and cash equivalents

Cash and cash equivalents reconciled to the accounts reported in the consolidated balance sheets in the years ended March 31, 2010, 2009 and 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Cash on hand and in banks	**¥34,745**	¥31,956	¥39,875	**$373,441**
Time deposits with maturities over three months	**(608)**	(542)	(1,706)	**(6,535)**
Total	**¥34,137**	¥31,414	¥38,169	**$366,906**

17. Significant noncash transactions

The increases in common stock and capital surplus and the decrease in convertible bonds due to the conversion of convertible bonds in the years ended March 31, 2010, 2009 and 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Increase in common stock due to conversion	**¥ –**	¥ –	¥1,141	**$ –**
Increase in capital surplus due to conversion	**–**	–	1,113	**–**
Decrease in convertible bonds due to conversion	**–**	–	2,318	**–**

The sum of the increases in common stock and capital surplus differed from the decrease in convertible bonds because the Company provided bondholders with treasury stock instead of issuing new shares.

18. Earnings per share

Per share amount calculations for the years ended March 31, 2010, 2009 and 2008 are set forth in the table below. While there were residual securities, a diluted earnings per share for the year ended March 31, 2010 was not disclosed because the Company posted a loss.

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Basic earnings per share:				
Net income (loss)	**¥(10,860)**	¥11,728	¥35,141	**$(116,723)**
Net income (loss) allocated to common stocks	**(10,860)**	11,728	35,141	**(116,723)**
	Number of shares in millions			
Weighted average number of common stocks	**1,668**	1,668	1,667	

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Diluted earnings per share				
Net income adjustment	**¥ –**	¥77	¥97	**$ –**
(Interest expenses etc.)	**(–)**	(77)	(97)	**(–)**
	Number of shares in millions			
Increase in common stocks	**–**	35	45	
(Convertible bonds)	**(–)**	(18)	(24)	
(Zero coupon convertible bonds)	**(–)**	(17)	(21)	

19. Derivative transactions

Since the Company and its consolidated subsidiaries operate internationally and have a substantial volume of export and import transactions, they enter into foreign currency exchange and option transactions in order to manage the risks of fluctuations in exchange rates in relation to foreign currency denominated assets, liabilities and future transactions.

The Company and its consolidated subsidiaries also enter into interest swap and option transactions to hedge against future fluctuations in interest rates on debt, primarily to fix, cap or collar interest rates on variable rate debt.

The Company and its consolidated subsidiaries purchase derivatives to hedge against risks of fluctuations in currency exchange rates and interest rates rather than for dealing or speculation.

In order to minimize credit risk, the Company and its consolidated subsidiaries use only highly rated international financial institutions as counterparties to derivative transactions.

The Company and its consolidated subsidiaries have established policies that restrict the use of derivative instruments, including limits as to the purpose, nature, type and amount and that require reporting and review in order to control the use of derivatives and manage risk.

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

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

	Millions of yen				Thousands of U.S. dollars
	Contract amount	Contract amount (Over 1 year)	Market value	Gain (loss)	Gain (loss)
Currency related contracts:					
Foreign exchange contracts:					
To sell	**¥65,247**	**¥19**	**¥2,779**	**¥2,779**	**$29,869**
To purchase	**4,784**	**17**	**63**	**63**	**677**
Total	**¥70,031**	**¥36**	**¥2,842**	**¥2,842**	**$30,546**

(Derivative transactions to which the Company applied hedge accounting)

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

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

	Subject of hedge	Thousands of U.S. dollars Contract amount	 Contract amount (Over 1 year)	 Market value
Foreign exchange contracts:				
Deferral hedge accounting				
To sell	Receivables: Trade	**$ 862,985**	**$38,317**	**$(9,812)**
To purchase	Trade payables	**292,132**	**17,089**	**11,886**
Alternative method				
To sell	Receivables: Trade	**92,884**	**–**	**(698)**
To purchase	Trade payables	**16,928**	**–**	**515**
Total		**$1,264,929**	**$55,406**	**$ 1,891**

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

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

	Subject of hedge	Thousands of U.S. dollars Contract amount	 Contract amount (Over 1 year)	 Market value
Interest related contracts:				
Interest swap				
Deferral hedge accounting				
Received flowing-fixed payment	Short-term debt and Long-term debt	**$322,442**	**$322,442**	**$(7,577)**
Special treatment				
Received flowing-fixed payment	Long-term debt	**153,149**	**139,724**	**–**
		$475,591	**$462,166**	**$(7,577)**

(b) Outstanding positions and recognized gains and losses at March 31, 2009 were as follows:

	Millions of yen		
	Contract amount	Market value	Gain (loss)
Currency related contracts:			
Foreign exchange contracts:			
To sell	¥82,692	¥78,259	¥4,433
To purchase	4,396	4,294	(102)
Total			¥4,331

The market value of exchange contracts is calculated using the forward exchange rate. The market value of options is calculated based on the prices provided by client financial institutions.

Derivative transactions are valued at market value at the year-end rate. Receivables and payables denominated in foreign currency are translated into Japanese yen at the year-end rate. Gain or loss from the translation and from changes in the market value of derivative transactions are recognized separately. They are offset on the statements of income, and the effects of derivative transactions are realized.

Derivative transactions for forecasted transactions which are accounted for by hedge accounting are excluded from disclosure.

The Company and its consolidated subsidiaries do not use derivatives for speculative or trading purposes but use derivatives only for managing the risks of fluctuations in exchange rates.

20. Financial Instruments

Effective from the year ended March 31, 2010, the Company adopted a revised accounting standard, "Accounting Standard for Financial Instruments" (Statement No. 10 issued by the Accounting Standards Board of Japan on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Investments" (The Financial Accounting Standard Implementation Guidance No. 19 issued by the Accounting Standards Board of Japan on March 10, 2008). This change did not have any effect on net loss for the year ended March 31, 2010 but requires more information on the financial instruments than in prior years. The information for the year ended March 31, 2010 required pursuant to the accounting standards was as follows:

(1) Circumstances on financial instruments

(a) Policies on dealing financial instruments

The Company finances long-term operating capital and capital expenditure by debt from banks and the issuance of bonds and its short-term operating capital by debt from banks and the issuance of short-term bonds (electronic commercial paper). Temporary surplus funds are managed by financial assets that have a high level of safety. The Company applies derivative instruments to hedge the risks described below and does not deal in speculative transactions as a matter of policy.

(b) Details and risk of financial instruments

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

Almost all trade payables are due within 1 year. Some are denominated in foreign currency because of import of materials etc., and are exposed to the risk of foreign currency fluctuation. However, the risk is considered mitigated because almost the entire position of the trade payables denominated in foreign currency is less than the position of receivables in the same currency. Debt, bonds payable and lease obligations in accordance with finance leases are mainly borrowed to raise operating capital and make capital expenditures and are due in a maximum of ten and a half years from the fiscal year end. Some are exposed to the risk of interest rate fluctuation. However, such risk is hedged by derivatives (interest swaps) as necessary.

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

(c) Risk management on financial instruments

(i) Management of credit risk such as customers' default risk
The sales management sections in the Company's and its consolidated subsidiaries' regularly evaluate the circumstances of their customers and monitor the dues and balances by customer to detect and reduce doubtful debts.

With derivative transactions, the Company makes contracts with highly rated financial institutions to reduce counterparty risk.

The maximum credit risk at the fiscal year end is presented as the balance sheet amount of the financial instruments which are exposed to credit risk.

(ii) Management of market risk (in foreign currency exchange rates or interest rates, etc.)
The Company and some consolidated subsidiaries hedge foreign currency fluctuation risk on receivables and payables in foreign currencies with forward exchange contracts, which are the categorized by the type of currency and the monthly due date. Basically, the net position of receivables less payables in foreign currency is hedged with forward exchange contracts. The Company and some consolidated subsidiaries hedge interest rate risk on debts with interest swap contracts.

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

With regard to derivatives, according to rules providing transaction authorization, the finance departments of the Company and its consolidated subsidiaries manage transactions according to the basic policies such as those on the limitations on transaction amounts under the authority of the director who is in charge of finance. Monthly transactions are reported to the director in charge of finance.

(iii) Management of liquidity risk (The risk that the Company defaults)
The Company manages liquidity risk by maintaining and updating its finance plan with the finance department based on the reports from each section of the business. Managing liquidity risk includes diversifying financing methods, adjusting terms of debt by taking into account the financing circumstances, securing commitment lines, etc.

(d) Supplemental information on market values of financial instruments
Market values of financial instruments include values based on market price and reasonably estimated values when market price is not available. Because a change factor is counted in the estimation, the estimated price may be changed by adopting different assumptions. With regard to the below mentioned contract prices etc. of derivatives described in "Market values of financial instruments," the prices themselves do not present the market risk on the derivative transactions.

(2) Market values of financial instruments

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

	Millions of yen			Thousands of U.S. dollars
	Book value	Market value	Difference	Difference
Cash on hand and in banks	**¥ 34,745**	**¥ 34,745**	**¥ –**	**$ –**
Receivables: Trade	**400,264**	**400,130**	**(134)**	**(1,439)**
Investments in securities	**19,010**	**19,015**	**5**	**53**
Total assets	**¥454,019**	**¥453,890**	**¥ (129)**	**$ (1,386)**
Trade payables	**302,739**	**302,739**	**–**	**–**
Short-term debt and current portion of long-term debt (excluding lease obligations)	**158,091**	**158,091**	**–**	**–**
Long-term debt, less current portion (excluding lease obligations)	**269,874**	**272,098**	**(2,224)**	**(23,903)**
Total liabilities	**¥730,704**	**¥732,929**	**¥(2,224)**	**$ 23,903**
Derivative transactions (*)	**¥ 2,313**	**¥ 2,313**	**¥ –**	**$ –**

(*) Net receivables/payables from derivative transactions are stated at the net amount, and the net payable item is presented with ( ).

Remark 1. Methods used to calculate market values of financial instruments and the details of securities and derivative instruments

<Assets>

-Cash on hand and in banks

Cash on hand and in banks are stated at the relevant book value because the settlement periods are short and the market values are almost the same as the book value.

-Receivables

Receivables are stated at present value computed by applying a discount rate reflecting the settlement period and the credit risk.

-Investment in securities

Equity securities are stated at market value, and bonds are stated at market price or asking price by financial institutions. See (l) "Investment in securities" for the detailed information by classification.

<Liabilities>

-Trade payables, short-term debt and current portion of long-term debt

Because the settlement periods of the above items are short and their market values are almost the same as their book values, the relevant book values are used.

-Long-term debt, less current portion

The market value of bonds payable is calculated based on trading reference data. The market value of long-term debt is calculated by applying a discount rate to the total of principal and interest. That discount rate is based on the assumed interest rate if a similar new loan was entered into.

<Derivatives>

See Note 19, "Derivative Transactions."

Remark 2. Financial instruments for which the market value is extremely difficult to determine

Description	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities and investments in partnership	¥ 9,440	$101,462
Stocks of nonconsolidated subsidiaries and affiliates	6,670	71,689
Investments in affiliates	18,165	195,238
Total	¥34,275	$368,389

Because these items have no market values and it is extremely difficult to determine their market values, they are not included in investment in securities above.

Remark 3. Planned redemption amounts after the balance sheet date for monetary receivables and investment in securities with maturity dates are as follows:

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

	Thousands of U.S. dollars			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash on hand and in banks	$ 373,441	$ –	$ –	$ –
Receivables: Trade	4,050,247	251,827	–	–
Investment in securities				
-Bonds	–	3,224	–	–
Total	$4,423,688	$255,051	$ –	$ –

Remark 4. Planned repayment amounts after the balance sheet date for bonds payable, convertible bonds and long-term debt

See Note 6, "Short-Term debt and Long-term debt."

21. Finance leases

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

(a) As lessee

The original costs of leased assets under non-capitalized finance leases and the related accumulated depreciation and amortization, assuming it was calculated by the straight-line method over the term of the respective lease, as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Property, plant and equipment	**¥ 39,053**	¥ 41,241	**$ 419,744**
Accumulated depreciation	**(19,014)**	(16,489)	**(204,363)**
	20,039	24,752	**215,381**
Intangible assets	**727**	758	**7,813**
Accumulated amortization	**(469)**	(356)	**(5,040)**
	¥ 258	¥ 402	**$ 2,773**

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Current portion	**¥ 5,413**	¥ 5,572	**$ 58,179**
Noncurrent portion	**16,289**	21,088	**175,075**
Total	**¥21,702**	¥26,660	**$233,254**

Lease payments, "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases for the year ended March 31, 2010, 2009 and 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Lease payments	**¥6,033**	¥6,273	¥6,028	**$64,843**
Depreciation and amortization	**5,642**	5,869	5,671	**60,640**
Interest	**590**	680	644	**6,341**

(b) As lessor

The original costs of leased assets under finance leases and the related accumulated depreciation and amortization as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Property, plant and equipment	**¥ 1,800**	¥2,038	**$ 19,346**
Accumulated depreciation	**(1,023)**	(933)	**(10,995)**
	777	1,105	**8,351**
Intangible assets	**60**	63	**644**
Accumulated amortization	**(45)**	(34)	**(483)**
	¥ 15	¥ 29	**$ 161**

The present values of future minimum lease payments to be received under finance leases as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Current portion	**¥ 370**	¥ 516	**$ 3,976**
Noncurrent portion	**659**	1,056	**7,083**
Total	**¥1,029**	¥1,572	**$11,059**

Lease payments received, depreciation and amortization and interest on finance leases for the year ended March 31, 2010, 2009 and 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Lease payments received	**¥338**	¥402	¥379	**$3,632**
Depreciation and amortization	**324**	335	307	**3,482**
Interest	**55**	69	65	**591**

22. Operating leases

The present values of future minimum lease payments under operating leases as lessee as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Current portion	**¥306**	¥310	**$3,288**
Noncurrent portion	**308**	621	**3,311**
Total	**¥614**	¥931	**$6,599**

23. Segment information

(a) Information by industry segment

Industry segments of the Company and its consolidated subsidiaries are classified based on an internal company system as follows: 1) Shipbuilding, 2) Rolling Stock, 3) Aerospace, 4) Gas Turbines & Machinery, 5) Plant & Infrastructure Engineering, 6) Consumer Products & Machinery, 7) Hydraulic Machinery and 8) Other.

The Shipbuilding segment manufactures and sells ships, submarines and maritime application equipment. The Rolling Stock segment produces and sells rolling stock. Products manufactured and sold by the Aerospace segment include airplanes and helicopters. The Gas Turbines & Machinery segment manufactures and sells gas turbines, airplane engines and prime movers. Operations within the Plant & Infrastructure Engineering segment include the production and sale of boilers, chemical and cement plants and refuse incineration plants. Products manufactured and sold by the Consumer Products & Machinery segment include motorcycles, ATVs (All-Terrain Vehicles) and Jet Ski® watercrafts. Operations within the Hydraulic Machinery segment include the production and sale of hydraulic machines. Operations within the Other segment include the production and sale of merchandise, etc. The operations also involve trade, mediation of overseas sales and orders and other activities.

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

	Millions of yen							
	2009							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Shipbuilding	¥ 126,426	¥ 1,762	¥ 128,188	¥ 129,207	¥ (1,019)	¥ 139,017	¥ 3,987	¥ 7,116
Rolling Stock & Construction Machinery	186,454	1,368	187,822	176,453	11,369	200,482	5,140	6,147
Aerospace	200,425	1,873	202,298	206,476	(4,178)	331,671	6,659	20,380
Gas Turbines & Machinery	195,156	18,316	213,472	202,446	11,026	203,902	4,607	10,176
Plant & Infrastructure Engineering	105,178	13,853	119,031	110,060	8,971	113,158	1,716	1,270
Consumer Products & Machinery	336,459	4,038	340,497	350,640	(10,143)	268,013	14,957	24,298
Hydraulic Machinery	84,919	8,524	93,443	85,054	8,389	60,430	3,729	10,539
Other	103,580	42,142	145,722	141,466	4,256	149,478	1,847	1,174
Total	1,338,597	91,876	1,430,473	1,401,802	28,671	1,466,151	42,642	81,100
Eliminations and corporate	–	(91,876)	(91,876)	(91,918)	42	(66,380)	1,692	1,350
Consolidated total	¥1,338,597	¥ –	¥1,338,597	¥1,309,884	¥ 28,713	¥1,399,771	¥44,334	¥82,450

	Millions of yen							
	2008							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Shipbuilding	¥ 141,397	¥ 1,568	¥ 142,965	¥ 139,712	¥ 3,253	¥ 134,577	¥ 2,459	¥ 4,161
Rolling Stock & Construction Machinery	171,739	727	172,466	165,293	7,173	161,585	3,579	6,454
Aerospace	237,349	1,644	238,993	228,117	10,876	281,517	6,232	6,154
Gas Turbines & Machinery	185,486	16,940	202,426	189,034	13,392	188,133	3,765	5,392
Plant & Infrastructure Engineering	142,547	13,747	156,294	145,455	10,839	132,174	1,926	1,318
Consumer Products & Machinery	433,963	8,244	442,207	422,537	19,670	315,309	13,517	19,367
Hydraulic Machinery	84,028	8,724	92,752	83,635	9,117	53,348	2,659	4,801
Other	104,588	40,234	144,822	142,469	2,353	164,445	1,699	1,674
Total	1,501,097	91,828	1,592,925	1,516,252	76,673	1,431,088	35,836	49,321
Eliminations and corporate	–	(91,828)	(91,828)	(92,065)	237	(52,318)	1,619	1,217
Consolidated total	¥1,501,097	¥ –	¥1,501,097	¥1,424,187	¥76,910	¥1,378,770	¥37,455	¥50,538

	Thousands of U.S. dollars							
	2010							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Shipbuilding	**$ 1,632,556**	**$ 16,821**	**$ 1,649,377**	**$ 1,633,363**	**$ 16,014**	**$ 1,385,941**	**$ 46,754**	**$ 71,936**
Rolling Stock	**1,796,604**	**25,945**	**1,822,549**	**1,739,155**	**83,394**	**1,853,181**	**39,423**	**56,577**
Aerospace	**2,030,223**	**21,550**	**2,051,773**	**2,032,975**	**18,798**	**3,271,399**	**88,048**	**98,258**
Gas Turbines & Machinery	**2,056,953**	**244,680**	**2,301,633**	**2,229,686**	**71,947**	**2,320,227**	**66,874**	**110,468**
Plant & Infrastructure Engineering	**972,646**	**119,045**	**1,091,691**	**1,024,226**	**67,465**	**1,126,945**	**10,479**	**11,941**
Consumer Products & Machinery	**2,332,222**	**42,713**	**2,374,935**	**2,715,100**	**(340,165)**	**2,539,832**	**207,254**	**183,845**
Hydraulic Machinery	**739,564**	**78,676**	**818,240**	**743,423**	**74,817**	**622,323**	**41,734**	**24,527**
Other	**1,051,796**	**349,850**	**1,401,646**	**1,406,104**	**(4,458)**	**1,662,245**	**32,957**	**59,698**
Total	**12,612,564**	**899,280**	**13,511,844**	**13,524,032**	**(12,188)**	**14,782,093**	**533,523**	**617,250**
Eliminations and corporate	**–**	**(899,280)**	**(899,280)**	**(897,324)**	**(1,956)**	**(245,991)**	**19,174**	**19,809**
Consolidated total	**$12,612,564**	**$ –**	**$12,612,564**	**$12,626,708**	**$ (14,144)**	**$14,536,102**	**$552,697**	**$637,059**

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

As a result of this change, sales for the year ended March 31, 2010 decreased in the Rolling Stock segment by ¥20,625 million ($221,678 thousand) (external sales decreased by ¥22,207 million ($238,682 thousand)), and increased in the Other segment by ¥21,622 million ($232,394 thousand) (external sales increased by ¥22,207 million ($238,682 thousand)). Operating income for the year ended March 31, 2010 increased in the Rolling Stock segment by ¥3,321 million ($35,694 thousand), and operating loss increased in the Other segment by ¥3,322 ($35,705) compared to the amounts that would have been recorded with the previous segmentation.

As discussed in Note 2(g), prior to April 2009, the percentage-of-completion method was applied to long-term contracts such as those for ships, airplanes and plants exceeding ¥3,000 million. The completed contract method was applied to long-term contracts not exceeding ¥3,000 million. Effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries adopted a new accounting standard, "Accounting Standard for Construction Contracts" (Statement No. 15 issued by the Accounting Standards Board of Japan on

December 27, 2007) and the “Guidance on Accounting Standard for Construction Contracts” (the Finance Accounting Standard Implementation Guidance No. 18 issued by the Accounting Standard Board of Japan on December 27, 2007). The new accounting standards require that the percentage-of-completion method be applied for the construction contracts commenced on and after April 1, 2009, if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise, the completed-contract method should be applied.

As a result of this change, sales for the year ended March 31, 2010 increased in the Shipbuilding segment by ¥15,609 million ($167,766 thousand), in the Rolling Stock segment by ¥702 million ($7,545 thousand), in the Aerospace segment by ¥5,663 million ($60,866 thousand), in the Gas Turbines & Machinery segment by ¥7,247 million ($77,891 thousand) and in the Plant & Infrastructure Engineering segment by ¥2,991 million ($32,147 thousand), and operating income for the year ended March 31, 2010 increased in the Shipbuilding segment by ¥1,374 million ($14,767 thousand), in the Rolling Stock segment by ¥65 million ($698 thousand), in the Aerospace segment by ¥494 million ($5,309 thousand), in the Gas Turbines & Machinery segment by ¥649 million ($6,975 thousand) and in the Plant & Infrastructure Engineering segment by ¥504 million ($5,417 thousand) compared to amounts that would have been recorded with the previous standard.

As discussed in Note 2(j), prior to April 1, 2008, inventories of the Company and its consolidated domestic subsidiaries were stated at cost determined principally by the specific identification cost method, the moving average method and the first-in, first-out method. However, if the market value of inventories had declined significantly and was not expected to recover to cost, cost was reduced to net realizable value. Effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted a new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006), for the measurement of inventories and have stated the inventories at March 31, 2009 at the lower of cost determined principally by the specific identification cost method, the moving average method and the first-in, first-out method or net realizable value. As a result of this change, operating income for the year ended March 31, 2009 decreased in the Rolling Stock & Construction Machinery segment by ¥516 million, in the Gas Turbines & Machinery segment by ¥1,677 million, in the Plant & Infrastructure Engineering segment by ¥29 million, in the Hydraulic Machinery segment by ¥103 million, and in the Other segment by ¥34 million, and operating loss increased in the Aerospace segment by ¥1,226 million and in the Consumer Products & Machinery segment by ¥486 million compared to amounts that would have been recorded with the previous standard.

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

(b) Information by geographic area

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

	Millions of yen					
	2009					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	¥ 974,454	¥ 247,020	¥1,221,474	¥1,208,067	¥13,407	¥1,169,702
North America	220,856	24,500	245,356	246,742	(1,386)	182,269
Europe	90,898	4,563	95,461	94,753	708	59,217
Asia	43,328	41,818	85,146	80,594	4,552	38,421
Other areas	9,061	251	9,312	8,945	367	2,970
Total	1,338,597	318,152	1,656,749	1,639,101	17,648	1,452,579
Eliminations and corporate	–	(318,152)	(318,152)	(329,217)	11,065	(52,808)
Consolidated total	¥1,338,597	¥ –	¥1,338,597	¥1,309,884	¥28,713	¥1,399,771

	Millions of yen					
	2008					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	¥1,058,487	¥ 307,546	¥1,366,033	¥1,291,102	¥74,931	¥1,103,514
North America	267,560	25,202	292,762	293,276	(514)	191,075
Europe	131,608	5,321	136,929	132,449	4,480	83,928
Asia	33,297	24,752	58,049	56,597	1,452	37,917
Other areas	10,145	247	10,392	10,119	273	3,335
Total	1,501,097	363,068	1,864,165	1,783,543	80,622	1,419,769
Eliminations and corporate	–	(363,068)	(363,068)	(359,356)	(3,712)	(40,999)
Consolidated total	¥1,501,097	¥ –	¥1,501,097	¥1,424,187	¥76,910	¥1,378,770

	Thousands of U.S. dollars					
	2010					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	**$ 9,859,909**	**$ 1,657,352**	**$11,517,261**	**$11,527,901**	**$(10,640)**	**$12,151,085**
North America	**1,454,277**	**180,181**	**1,634,458**	**1,722,269**	**(87,811)**	**1,712,542**
Europe	**718,669**	**19,260**	**737,929**	**728,815**	**9,114**	**505,610**
Asia	**461,188**	**406,729**	**867,917**	**802,623**	**65,294**	**422,699**
Other areas	**118,521**	**2,041**	**120,562**	**110,598**	**9,964**	**73,852**
Total	**12,612,564**	**2,265,563**	**14,878,127**	**14,892,206**	**(14,079)**	**14,865,788**
Eliminations and corporate	**–**	**(2,265,563)**	**(2,265,563)**	**(2,265,498)**	**(65)**	**(329,686)**
Consolidated total	**$12,612,564**	**$ –**	**$12,612,564**	**$12,626,708**	**$(14,144)**	**$14,536,102**

North America includes mainly the U.S.A. and Canada. Europe includes mainly the Netherlands, the United Kingdom and Germany. Asia includes Thailand, Indonesia, the Philippines and Korea. Other areas include mainly Australia and Brazil.

As discussed in Note 2(g), prior to April 1, 2009, sales of products such as ships, rail cars, airplanes, machinery and motorcycles were principally recognized upon delivery. Contract revenue for the construction of plants, machinery, bridges, etc. was principally recognized on a customer acceptance basis. When prices for components or contract amounts for nearly completed contracts were not finalized, sales and cost of sales were estimated. The percentage-of-completion method was applied to long-term contracts such as those for ships, airplanes and plants exceeding ¥3,000 million. The stage of completion was normally determined based on the proportion of costs incurred to date to the estimated total costs of the contract. The completed contract method was applied to long-term contracts not exceeding ¥3,000 million. Effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries adopted a new accounting standard, "Accounting Standard for Construction Contracts" (Statement No. 15 issued by the Accounting Standards Board of Japan on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (the Financial Accounting Standard Implementation Guidance No. 18 issued by the Accounting Standards Board of Japan on December 27, 2007). The new accounting standards require that the percentage-of-completion method shall be applied for the construction contracts commenced on and after April 1, 2009, if the outcome of the construction activity is deemed certain during the course of the activity. Otherwise the completed-contract method should be applied.

As a result of this change, sales in Japan for the year ended March 31, 2010 were ¥32,214 million ($346,238 thousand) more than they would have been without the change, and operating loss in Japan for the year ended March 31, 2010 was ¥3,088 million ($33,190 thousand) less than it would have been without the change.

As discussed in Note 2(j), prior to April 1, 2008, inventories of the Company and its consolidated domestic subsidiaries were stated at cost determined principally by the specific identification cost method, the moving average method and the first-in, first-out method. However, if the market value of inventories had declined significantly and was not expected to recover to cost, cost was reduced to net realizable value. Effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted a new accounting standard, "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Board of Japan on July 5, 2006), for the measurement of inventories and have stated the inventories at March 31, 2009 at the lower of cost determined principally by the specific identification cost method, the moving average method and the first-in, first-out method or net realizable value. As a result of this change, operating income in Japan for the year ended March 31, 2009 was ¥4,074 million less than it would have been without the change.

As discussed in Note 2(aa), effective from the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries reviewed and revised the useful life of machinery and equipment in accordance with the revision of the Tax Law. As a result of this change, operating income in Japan for the year ended March 31, 2009 was ¥1,690 million less than it would have been without the change.

(c) Corporate assets

Included in eliminations and corporate under total assets in (a) and (b) above are corporate assets of ¥114,487 million ($1,230,513 thousand), ¥96,934 million and ¥115,076 million at March 31, 2010, 2009 and 2008, respectively, consisting mainly of surplus funds (cash and time deposits) of the Company and property, plant and equipment, and investments, intangible other assets of the Company's head office.

(d) Overseas sales

Overseas sales consists of the total sales of the Company and its consolidated subsidiaries made outside of Japan. Overseas sales information for the years ended March 31, 2010, 2009 and 2008 was as follows:

	Millions of yen	%	Millions of yen	%	Millions of yen	%	Thousands of U.S. dollars
	2010		2009		2008		2010
	Overseas sales	Against net sales	Overseas sales	Against net sales	Overseas sales	Against net sales	Overseas sales
North America	**¥226,859**	**19.3**	¥309,979	23.1	¥358,717	23.9	$2,438,295
Europe	**93,035**	**7.9**	116,298	8.7	153,613	10.2	999,946
Asia	**141,577**	**12.0**	174,310	13.0	161,906	10.7	1,521,678
Other areas	**100,124**	**8.6**	130,051	9.7	148,315	9.9	1,076,140
Total	**¥561,595**	**47.8**	¥730,638	54.5	¥822,551	54.7	$6,036,059

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

24. Additional information

(a) Effective from the year ended March 31, 2008, the Company changed the accounting periods for consolidation of two subsidiaries, Kawasaki Robotics (USA) Inc. and Kawasaki Construction Machinery Corp. of America, from the 12 months ended December 31 to the 12 months ended March 31 to improve transparency and quality of the consolidated financial statements.

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

	Directors and principle shareholders of the Company	Nonconsolidated subsidiaries and affiliates of the Company
Type	Director	Affiliate of the Company
Name	Tadaharu Ohashi	Commercial Airplane Co., Ltd.
Location	–	Chiyoda-ku, Tokyo
Capital or investment	–	¥10 million ($107 thousand)
Business or position	Chairperson and representative director of the Company Administrative director of Japan Aircraft Development Corporation (JADC)	Sales of transportation machinery
Rate of ownership (%)	–	Directly 40%
Relation of related party	Concurrent director	Order of the Company products
Details of transactions	Guarantee of indebtedness JADC	Sales of the Company products
Amount of transactions	¥14,196 million ($152,579 thousand)	¥39,337 million ($422,796 thousand)
Account	–	Receivables: Trade
Ending balance	–	¥14,101 million ($151,558 thousand)

(c) A summary of the total financial information of all affiliates (14 companies) (15 in 2009) which was the basis for calculating the equity in income of nonconsolidated affiliates, including that of Nantong COSCO KHI Ship Engineering Co., Ltd. which is a significant affiliate, for the year ended March 31, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Total current assets	**¥117,441**	¥116,719	**$1,262,263**
Total fixed assets	**74,798**	65,741	**803,933**
Total current liabilities	**116,405**	111,588	**1,251,128**
Total long-term liabilities	**11,597**	14,574	**124,645**
Total net assets	**64,237**	56,298	**690,423**
Total net sales	**161,625**	176,380	**1,737,156**
Total minority interests in net income of consolidated subsidiaries	**20,332**	22,815	**218,529**
Total net income	**15,017**	17,730	**161,403**

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

25. Subsequent events

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

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3.0 per share)	¥5,003	$53,772

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

	0.722 percent notes due in 2015	1.062 percent notes due in 2017
Date of issue	June 21, 2010	June 21, 2010
Amount of issue	¥10,000 million ($107,480 thousand)	¥10,000 million ($107,480 thousand)
Issue price	¥100 ($1.07) per value ¥100 ($1.07)	¥100 ($1.07) per value ¥100 ($1.07)
Rate (%)	Annual rate of interest 0.722% in per value	Annual rate of interest 1.062% in per value
Redemption date	June 19, 2015	June 21, 2017
Security	Unsecured	Unsecured
Purpose of fund raised	Redemption of bonds	Redemption of bonds
Bond subscription	Public offering	Public offering

26. Other matters

(a) On June 27, 2006, the Company received a decision from the Japan Fair Trade Commission ordering correction of unfair bids that the Company may have committed on construction contracts for garbage incineration facilities from 1994 through 1998. The Company appealed the decision to the Tokyo High Court demanding revocation of the decision, but the Court dismissed the appeal on September 26, 2008. The Company appealed the judgment to the Supreme Court, but the Court dismissed the appeal on October 6, 2009. As a result, the Company reserved ¥6,983 million ($75,053 thousand) for the reimbursement payment as provision for losses on a damages suit. The Company also sought an inquiry objecting to an order to pay penalties of ¥5,165 million ($55,513 thousand) which the Fair Trade Commission imposed on March 28, 2007. The inquiry is continuing.

In addition, the Company reserved an amount for the reimbursement payment as provision for losses on a damages suit in the year ended March 31, 2009.

(b) On November 16, 2007, the Company received a judgment from the Kobe District Court requiring reimbursement of ¥1,364 million ($14,660 thousand) to Kobe City in a suit brought by citizens of the city claiming that the Company unfairly bid on a construction contract for a garbage incineration facility in Kobe City that the Company was awarded in 1995. On November 29, 2007, the Company appealed the judgment to the Osaka High Court, but the Company received a judgment requiring reimbursement of ¥1,637 million ($17,594 thousand), which was equivalent to 6% of the order price, to Kobe City on October 30, 2007. On November 10, 2007, the Company appealed the judgment to the Supreme Court, but the Court dismissed the appeal on April 23, 2009.

(c) On April 25, 2007, the Company received a judgment from the Fukuoka District Court requiring reimbursement of ¥2,088 million ($22,441 thousand) jointly with Hitachi Zosen Corporation and three other companies to Fukuoka City in a suit brought by citizens of the city claiming that the Company unfairly bid on a construction contract for a garbage incineration facility in Fukuoka City that Hitachi Zosen Corporation was awarded in 1996. On May 9, 2007, the Company appealed the judgment to the Fukuoka High Court, but the Court dismissed the appeal on November 30, 2007. On December 12, 2007, the Company appealed the judgment to the Supreme Court, but the Court dismissed the appeal on April 23, 2009.

(d) On November 16, 2007, the Company received a judgment from the Kobe District Court requiring reimbursement of ¥530 million ($5,696 thousand) jointly with Hitachi Zosen Corporation and four other companies in a suit brought by citizens of the city claiming that the Company unfairly bid on a construction contract for a garbage incineration facility in Amagasaki City that Hitachi Zosen Corporation was awarded in 1996. On November 29, 2007, the Company appealed the judgment to the Osaka High Court and won the case on November 30, 2007. On December 7, 2007, the citizens of Amagasaki City, the complainants, appealed the judgment to the Supreme Court. The Supreme Court reversed the Osaka High Court decision and remanded the case back to Osaka High Court on April 28, 2009.

(e) On September 25, 2008, the Company received a judgment from the Otsu District Court requiring reimbursement of ¥409 million ($4,395 thousand) jointly with Mitsubishi Heavy industries, Ltd. and three other companies to Kohoku Greater Area Administrative Affairs Centre in a suit brought by them claiming that the Company unfairly bid on a construction contract for a garbage incineration facility in Otsu City that Mitsubishi Heavy Industries, Ltd. was awarded in 1996. On October 10, 2008, the Company appealed the judgment to the Osaka High Court, but the Company and the other four companies lost the case on June 18, 2009 and the judgment was finalized on July 8, 2009.

(f) On December 8, 2009, the Company received a judgment from the Nagoya District Court requiring reimbursement of ¥1,215 million ($13,058 thousand) jointly with JFE Engineering Corporation (former NKK) and four other companies in a suit brought by Ichinomiya City claiming that the Company unfairly bid on a construction contract for a garbage incineration facility in Ichinomiya City that JFE Engineering Corporation (former NKK) was awarded in 1994 on December 8, 2009. The Company appealed the judgment to the Nagoya High Court on December 25, 2009.

KPMG

Independent Auditors' Report

To the Board of Directors of
Kawasaki Heavy Industries, Ltd.:

We have audited the accompanying consolidated balance sheets of Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended March 31, 2010, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

(1) As discussed in Note 2(j) to the consolidated financial statements, effective from the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted a new accounting standard, "Accounting Standard for Measurement of Inventories."
(2) As discussed in Note 2(g) to the consolidated financial statements, effective from the year ended March 31, 2010, the Company and its consolidated subsidiaries adopted a new accounting standard, "Accounting Standard for Construction Contracts" and the "Guidance on Accounting Standard for Construction Contracts."

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Kobe, Japan
June 24, 2010

Major Consolidated Subsidiaries and Affiliates

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
SHIPBUILDING				
Kawasaki Shipbuilding Corporation	Japan	10,000	100.00	Design, manufacture, sale, and maintenance of commercial and naval vessels and marine application equipment
Nantong COSCO KHI Ship Engineering Co., Ltd.†	China	CNY1,462,200*	50.00	Manufacture and sale of ships
ROLLING STOCK				
Alna Yusoki-Yohin Co., Ltd.	Japan	400	100.00	Manufacturing and sales of doors/window frames for train cars and buses, signs for bus stops, advertising materials, bus shelters, automobile sign lights, various types of panels, and waiting rooms
Nichijo Manufacturing Co., Ltd.	Japan	120	75.02	Manufacture and sale of snowplows
Kawasaki Rail Car, Inc.	U.S.A.	US$60,600*	100.00	Engineering, manufacture, sale, and after-sales service of rolling stock in the United States
EarthTechnica Co., Ltd.	Japan	1,200	100.00	Design, manufacture, and sale of crushers, grinders, sorters, and other equipment
Fukae Powtec Corporation	Japan	300	100.00	Manufacture and sale of crushers and related plants
AEROSPACE				
NIPPI Corporation	Japan	6,048	100.00	Manufacture, maintenance, and modification of aircraft and components; manufacture of rocket components, aerospace equipment, targeting systems, nondestructive testing systems, and industrial fans
Nippi Kosan Co., Ltd.	Japan	120	100.00	Design and supervision of building construction work, sale of herbicidal soil, manufacturing and sale of rust-resistant packaging materials, and insurance agency business
GAS TURBINES & MACHINERY				
Kawasaki Thermal Engineering Co., Ltd.	Japan	1,460	83.59	Manufacture, sale, and installation of general-purpose boilers and air-conditioning equipment
Wuhan Kawasaki Marine Machinery Co., Ltd.	China	1,100	55.00	Manufacture, sale, and after-sales service of Kawasaki-brand azimuth thrusters, side thrusters, and other machinery
Kawasaki Machine Systems, Ltd. ❊	Japan	796	100.00	Sale and repair of gas turbine generators, and industrial robots
Tonfang Kawasaki Air-Conditioning Co., Ltd.†	China	US$9,673*	50.00	Manufacture, sale, and maintenance of absorption cooling and heating machinery and refrigeration equipment

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
PLANT & INFRASTRUCTURE ENGINEERING				
Kawasaki Plant Systems, Ltd.	Japan	8,500	100.00	Design, manufacture, installation, maintenance, and sale of various types of industrial plants
JP Steel Plantech Co.†	Japan	1,995	24.81	Sale of and engineering services for steelworks plants and equipment
Shanghai COSCO Kawasaki Heavy Industries Steel Structure Co., Ltd.†	China	US$29,800*	45.00	Manufacture and sale of steel structures
Anhui Conch Kawasaki Engineering Co., Ltd.†	China	CNY100,000*	50.00	Design, equipment procurement, sales, installation, technical instruction for trial operation, and after-service for environmentally friendly, energy-efficient equipment
Anhui Conch Kawasaki Equipment Manufacturing Co., Ltd.†	China	CNY148,000*	50.00	Design, production, sales, maintenance, after-service, and supply of spare parts for cement plants
CONSUMER PRODUCTS & MACHINERY				
Kawasaki Motors Manufacturing Corp., U.S.A. ●	U.S.A.	US$120,000*	100.00	Manufacture of motorcycles, ATVs, personal watercraft, small gasoline engines, industrial robots, and rolling stock
Kawasaki Motors Corp., U.S.A.	U.S.A.	US$165,900*	100.00	Distribution of motorcycles, ATVs, personal watercraft, and small gasoline engines in the United States
Kawasaki Motors Finance Corporation	U.S.A.	US$10,000*	100.00	Inventory financing for dealers of Kawasaki Motors Corp., U.S.A.
KM Receivables Corporation	U.S.A.	US$100	100.00	Management of accounts receivable of Kawasaki Motors Finance Corporation
Canadian Kawasaki Motors Inc.	Canada	C$2,000*	100.00	Distribution of motorcycles, ATVs, and personal watercraft in Canada
Kawasaki Motors Europe N.V.	Netherlands	€64,093*	100.00	Sole distribution of motorcycles, ATVs, personal watercraft, and small gasoline engines in Europe
Kawasaki Motors Pty. Ltd.	Australia	A$2,000*	100.00	Distribution of motorcycles, ATVs, and personal watercraft in Australia
P.T. Kawasaki Motor Indonesia	Indonesia	US$40,000*	83.00	Manufacture and distribution of motorcycles in Indonesia
Kawasaki Motors (Phils.) Corporation	Philippines	P101,430*	50.001	Manufacture and distribution of motorcycles in the Philippines
Kawasaki Motors Enterprise (Thailand) Co., Ltd.	Thailand	B1,900,000*	100.00	Manufacture and distribution of motorcycles in Thailand
KHITKAN Co., Ltd.	Thailand	B182,000*	100.00	Manufacture and sale of parts for motorcycles in Thailand
Kawasaki Motores Do Brasil Ltda.	Brazil	R16,742*	100.00	Distribution of motorcycles in Brazil
Kawasaki Robotics (U.S.A.), Inc.	U.S.A.	US$1,000*	100.00	Sale and after-sales service of industrial robots in the United States
Kawasaki Robotics (UK) Ltd.	U.K.	£917*	100.00	Sale and after-sales service of industrial robots in the U.K. and Ireland
Kawasaki Machine Systems Korea, Ltd.	Korea	W1,500**	100.00	Sale and after-sales service of industrial robots and robot systems
Kawasaki Robotics (Tianjin) Co., Ltd.	China	CNY13,174*	100.00	Sale and after-sales service of industrial robots in China

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
HYDRAULIC MACHINERY				
Kawasaki Precision Machinery Ltd.	Japan	3,000	100.00	Design, manufacture, sale, after-sales service, and maintenance for hydraulic machinery and equipment, electric-powered devices, and control systems
Kawasaki Precision Machinery (U.S.A.), Inc.	U.S.A.	US$5,000*	100.00	Manufacture and sale of hydraulic products
Kawasaki Precision Machinery (U.K.) Ltd.	U.K.	£5,000*	100.00	Manufacture and sale of hydraulic products
Flutek, Ltd.	Korea	W1,310**	50.38	Manufacturing, sales, and repair of hydraulic equipment, marine equipment, and other machinery
Kawasaki Precision Machinery (Suzhou) Ltd.	China	500	100.00	Assembly of hydraulic pumps and motors for construction machinery
Kawasaki Chunhui Precision Machinery (Zhejiang) Ltd.	China	CNY38,468*	54.00	Manufacture and sale of hydraulic pumps for construction machinery
OTHER				
Kawasaki Trading Co., Ltd.	Japan	600	70.00	Trading
Kawasaki Hydromechanics Corporation	Japan	436	100.00	Manufacture, sale, and installation of hydraulic presses and other hydraulic equipment
Kawasaki Life Corporation	Japan	400	100.00	Administration of Company welfare facilities; real estate sales, leasing, and construction; insurance representation, administration and maintenance, leasing, and provision of loans
KCM Corporation	Japan	3,000	100.00	Design, manufacture, sale, and maintenance of construction machinery
KCMJ Corporation	Japan	300	100.00	Sale and repair of construction machinery
Kawasaki Heavy Industries (U.K.) Ltd.	U.K.	£500*	100.00	Sale of KHI products in various countries in Europe (principally the U.K.), the Middle East, and Africa; provision of order intermediation services
Kawasaki Heavy Industries (U.S.A.), Inc.	U.S.A.	US$600*	100.00	Responsible for sales and acting as intermediary in North America for orders of KHI products and for providing various types of engineering support
KCMA Corporation	U.S.A.	US$8,000*	100.00	Manufacture and sale of construction machinery in the United States
Kawasaki do Brasil Industria e Comercio Ltda.	Brazil	R1,136*	100.00	Responsible for sales and acting as intermediary in Brazil and the rest of Latin America for orders of KHI products and for providing various types of engineering business services

* Monetary unit in thousands

** Monetary unit in millions

† Affiliate accounted for using equity method

Partially included in:

- ● Rolling Stock
- ★ Gas Turbines & Machinery
- ❊ Consumer Products & Machinery

(As of March 31, 2010)

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(As of June 1, 2010)

Corporate Data

Kawasaki Heavy Industries, Ltd.

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1-3, Higashikawasaki-cho 1-chome,
Chuo-ku, Kobe, Hyogo 650-8680, Japan

Tokyo Head Office:
World Trade Center Bldg.,
4-1, Hamamatsu-cho 2-chome,
Minato-ku, Tokyo 105-6116, Japan

Founded: 1878

Incorporated: 1896

Paid-in Capital: ¥104,328,628,664

Number of Shares Issued: 1,669,629,122 shares

Number of Shareholders: 167,090

Number of Employees: 32,297

Stock Exchange Listings: Tokyo, Osaka, Nagoya

Method of Publication of Notices:
http://www.khi.co.jp
The method of publication of notices of the Corporation shall be made electronically. Provided, if the Corporation is unable to make an electronic publication of notice due to an accident or other unavoidable reason, the notice shall be inserted in the *Nihon Keizai Shimbun*.

Transfer Agent:
The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome,
Minato-ku, Tokyo 105-8574, Japan

Handling Office:
The Chuo Mitsui Trust and Banking Company, Limited
Osaka Branch Office
2-21, Kitahama 2-chome,
Chuo-ku, Osaka 541-0041, Japan

Independent Auditors:
KPMG AZSA & Co.
1-1, Kumoi-dori, 7 chome, Chuo-ku,
Kobe, Hyogo 651-0096, Japan

ADR Facility:
KHI has a sponsored American Depository Receipt (ADR) facility. ADRs are traded in the over-the-counter (OTC) market in the United States under CUSIP number 486359201, Each ADR representing four ordinary shares.

ADR Depository:
The Bank of New York Mellon
101 Barclay St., 22 West,
New York, NY 10286, U.S.A.
Phone: 1-866-680-6825
U.S. Toll Free: 888-269-2377
(888-BNY-ADRS)
http://adrbnymellon.com

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

(As of March 31, 2010)

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