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

Notes to the Consolidated Financial Statements

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

1. Scope of consolidation

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

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

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

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

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

2. Application of the equity method

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

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

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

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

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

3. Significant accounting policies

(1) Standards and methods for evaluation of assets

(i) Marketable securities

Bonds held to maturity

Principally stated by the amortized cost method

Other marketable securities

- Securities with market quotations

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

- Securities without market quotations

  Stated at cost principally using the moving average method

  No trading securities are held by the Company.

(ii) Inventories

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

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

Stated at market

(2) Depreciation methods for fixed assets

(i) Property, plant and equipment

- Other than leased assets

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

- Leased assets

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

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

(ii) Intangible assets

- Other than leased assets

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

- Leased assets

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

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

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

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

(4) Methods of accounting for provisions

(i) Allowance for doubtful receivables

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

(ii) Accrued bonuses

A provision is recorded based on estimated bonuses to employees.

(iii) Provision for product warranties

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

(iv) Provision for losses on construction contracts

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

(v) Employees' retirement and severance benefits

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

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

(vi) Provision for losses on damages suit

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

(vii) Provision for environmental measures

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

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

(5) Hedge accounting policy

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

(6) Standards for revenue recognition

The standard applied for posting revenue for construction contracts is in accordance with the Accounting Standard for Construction Contracts (Accounting Standards Board of Japan(ASBJ),

(Change in presentation methods)

Consolidated statement of income

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

(Additional information)

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

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

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

(Notes regarding the Consolidated Balance Sheet)

1. The amountd

and significant leasing assets and idle assets are treated individually as a specific asset group.

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

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

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

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

(Notes regarding Consolidated Statement of Changes in Net Assets)

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

Common stock 1,670,646,460 shares

2. Dividends

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

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

transactions are raised for the purpose of securing working capital and capital expenditure funds, and the longest maturity from the date of settlement is about 9 years. Some of those instruments have floating interest and are therefore exposed to the risk of interest rate fluctuations, however we hedge those risks as required by using derivatives transactions (interest rate swaps).

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

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

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

(Unit: million yen)

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

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

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

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

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

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

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

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

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

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

Notes to the Non-consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

(Notes to changes in accounting policies)

Accounting Standard for Asset Retirement Obligations

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

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

(Change in presentation methods)

Non-consolidated statement of income

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

(Notes to Non-Consolidated Balance Sheet)

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

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

4. Asset pledged as collateral and liability relating to collateral

(1) Assets pledged as collateral

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

(2) Liability relating to collateral

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

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

(Notes to the Non-consolidated Statement of Income)

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

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

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

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

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

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

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

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

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

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

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

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

Number of treasury stock at the end of fiscal year under review

Common stock 100,288 shares

(Notes to Tax Effect Accounting)

Among other factors, the main contributing factor to deferred tax assets is the disallowance of various provisions such as the employees' retirement and severance benefits and the accrued bonuses, and the main