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(Securities Code 7012)

June 4, 2009

**Dear Shareholders**

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

**NOTICE OF  
THE 186TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

### **3. Meeting Agenda:**

- Matters to be reported:**
1. The Business Report, Consolidated Financial Statements for the Company's 186th Fiscal Year (April 1, 2008 - March 31, 2009) and results of audits by the Accounting Auditor and the Board of Corporate Auditors of the Consolidated Financial Statements
  2. Non-Consolidated Financial Statements for the Company's 186th Fiscal Year (April 1, 2008 - March 31, 2009)

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

**Proposal No. 2:** Proposed Amendments to the Articles of Incorporation

**Proposal No. 3:** Election of Ten Directors

**Proposal No. 4:** Election of Three Corporate Auditors

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

### **4. Other decisions regarding the General Meeting of Shareholders:**

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

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

#### Notes:

1. When attending the meeting, please submit the enclosed Voting Right Exercise Form at the Company's head office reception desk on the day of the meeting. Please note that persons other than shareholders who are able to exercise voting rights, including representatives and their companions who are not shareholders, are not permitted to enter the venue.
2. Any updates to the Appendix and the Reference Materials for the General Meeting of Shareholders, will be posted on the Company's website at the following URL: <http://www.khi.co.jp>.

### **Information Concerning Characters Used in Shareholders' Names and Addresses**

(Appendix)

## **Business Report**

(April 1, 2008 - March 31, 2009)

### **1. Overview of the Company Group**

#### **(1) Business Progress and Results**

##### **(i) General Conditions**

The Japanese economy suffered a rapid downturn in the consolidated fiscal year under review, due to such factors as the sharp appreciation of the yen against the dollar, euro and other currencies in 3Q, a fall in consumer spending and reduced capital expenditure, slowing exports and deterioration of the employment situation. Subsequently, there have been signs of a bottoming out around the end of the fiscal year, however the economy still remains weak.

The global economy, including developing countries, is also clearly in the midst of a global economic downturn and slowdown.

In the face of such an operating environment, our Group orders received overall were ¥1,540.5 billion, a decline of 4% over the previous fiscal year, despite an increase in orders received for Gas Turbines & Machinery and Rolling Stock & Construction Machinery.

Net sales were ¥1,338.5 billion, a decline of 10% over the previous fiscal year, due to decreased sales of Consumer Products & Machinery, etc.

Profits were impacted by exchange rates moving in support of a strong yen predominantly in the second half of the year, and continued high cost of raw materials, resulting in operating income of ¥28.7 billion, a decline of 62% over the previous fiscal year, and recurring profit of ¥38.7 billion, a decline of 39% over the previous fiscal year.

Current net income was ¥11.7 billion, a decline of 66% over the previous fiscal year, due to an extraordinary loss of ¥15.6 billion from a loss on contribution of securities to the pension trust, etc.

##### **(ii) Operating conditions by business division**

The **Shipbuilding segment** orders received were ¥71.5 billion attributable to orders for one LPG carrier, and five Bulk carriers; however the result was a significant decline on the previous fiscal year in which numerous orders were received for bulk carriers.

Net sales were ¥126.4 billion, a decline on the previous year due to a decrease in sales of large carriers.

Operating income/loss declined by ¥4.2 billion on the previous year, resulting in a loss of ¥1 billion; this was due to the effects of declined net sales, soaring costs of materials and the appreciation of the yen against the dollar.

The **Rolling Stock & Construction Machinery segment** received orders from JR Group companies for Shinkansen trains, commuter trains, locomotives, etc., and overseas orders included subway cars for New York. Orders received were ¥264.6 billion, a significant increase over the previous year, due to a large in

and an increase in orders for diesel power generating units and propulsion systems for ships.

Net sales increased over the previous fiscal year to ¥195.1 billion, due to growth in sales of such items as marine diesel engines.

Operating income declined ¥2.3 billion from the previous fiscal year to ¥11 billion, led by the impact of the strong yen as well as losses posted for such items as inventory valuation losses, despite increased net sales.

The **Plant & Infrastructure Engineering segment** received orders to the value of ¥83.6 billion, which was a significant drop from the previous fiscal year, despite having received orders for various plants and LNG tanks.

Net sales declined significantly from the previous fiscal year to ¥105.1 billion. Despite increased sales for overseas nonferrous metals smelting plants, lower sales of municipal refuse incineration plants and others led the decline.

Operating income decreased ¥1.8 billion over the previous fiscal year to ¥8.9 billion, accompanied by decreased net sales.

Although the **Consumer Products & Machinery segment's** sales of motorcycles for the Asian market increased, sales of motorcycles to Europe and the U.S. declined, and sales of industrial robots used in the automotive industry and semiconductor-related industries also declined.

Net sales declined significantly from the previous fiscal year to ¥336.4 billion due to such factors as the ongoing appreciation of the yen against the U.S. dollar and Euro.

Operating income/loss declined by ¥29.8 billion from the previous fiscal year to post a loss of ¥10.1 billion, due to decreased net sales, particularly from sluggish sales of large-sized motorcycles.

The **Hydraulic Machinery segment's** orders received, predominantly for the construction machinery industry, declined from the previous fiscal year to ¥84.1 billion.

Net sales were higher than the previous fiscal year at ¥84.9 billion, owing to the high level of sales for the construction machinery industry in the first six months of the fiscal year.

Operating income declined by ¥700 million from the previous fiscal year to ¥8.3 billion.

In the **Other** business segment net sales were lower than the previous fiscal year at ¥103.5 billion.

Operating income increased by ¥1.9 billion from the previous fiscal year to ¥4.2 billion.

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

Unit: 100 million yen

Segment	Orders Received	Net Sales	Operating Income/Loss
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**(2) Capital Investments, etc.**

In the consolidated fiscal year under review, a total of ¥82.4 billion was spent on capital investments, predominantly for facilities to handle new machine types and new products, and facilities for streamlining production.

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

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

Facilities for streamlining ship production	(Shipbuilding segment)
Aircraft production facilities	(Aerospace segment)
Marine machinery production facilities	(Gas Turbines & Machinery segment)
Facilities for streamlining motorcycle production	(Consumer Products & Machinery segment)
Hydraulic machinery plant	(Hydraulic Machinery segment)

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

Rolling stock production management systems	(Rolling Stock & Construction machinery segment)
Aircraft production facilities, production management systems	(Aerospace segment)
Facilities for development of new motorcycle models, production streamlining facilities	(Consumer Products & Machinery segment)

**(3) Financing**

Funds of ¥73.5 billion from long-term loans and other funds from various sources were raised in the current consolidated fiscal year. The funds were allocated to such items as redemption of bonds, long-term loan repayments, capital funds and working capital.

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

Not applicable.

On April 1, 2009 we carried out a corporate split by succeeding our Construction and Machinery business to KCM Corporation, which is a wholly-owned subsidiary of our company.

**(5) Transfer of business from other companies**

On July 1, 2008 Kawasaki Plant Systems, Ltd., a wholly-owned subsidiary of our company, acquired the Cement Plant business from IHI Corporation.

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

Not applicable.

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

On April 1, 2008 we acquired all of the shares in EarthTechnica Co. Ltd., a joint-venture company with Kobe Steel, Ltd., making it into a wholly-owned subsidiary.

Also, on April 17, 2008 stocks of Kawasaki Setsubi Kogyo Co. Ltd., were partially disposed of, and the company was precluded as an equity method affiliate.

**(8) Issues to be Addressed**

KHI Group on the whole has been on target until fiscal 2007 in achieving the profit goals aimed at realizing the vision set out in the "Global K" medium-term business plan through growth and expansion of our businesses. However, the effects on the actual economy of the financial market turmoil and the credit crunch caused by the U.S. subprime loan crisis are intensifying, and making the business environment in which KHI Group operates even harsher; particularly as the Japanese economy is expected to have the worst negative growth among developed countries. Even in the midst of such conditions, KHI Group will continue to uphold sound operations as a manufacturer.

To that end, while adhering to the policies of the "Global K" medium-term business plan, we understand that it is important to conduct business operations which vigilantly uphold the philosophy of "quality followed by quantity", and "risk management", since it is likely that business risk will further



**(9) Trends in Assets and Income**  
**(i) Company Group Assets and Income**

Unit: 100 million yen

Item	The 183rd fiscal year	The 184th fiscal year	The 185th fiscal year	The 186th fiscal year (under review)
Orders received	13,516	15,926	16,107	15,405
Net sales	13,224	14,386	15,010	13,385
Income before income taxes and extraordinary items	308	490	639	387
Net income	164	297	351	117
Net income per share (yen)	¥11.2	¥18.94	¥21.08	¥7.02
Total assets	12,840	13,579	13,787	13,997
Net assets	2,375	2,953	3,190	2,952

**(ii) Company Assets and Income**

Unit: 100 million yen

Item	The 183rd fiscal year	The 184th fiscal year	The 185th fiscal year	The 186th fiscal year (under review)
Orders received	8,768	9,595	8,913	10,545

Company name	Capital	The Company's percentage of equity participation	Main business
Kawasaki Machine Systems, Ltd.	¥ 1,444 million (Note 4)	100%	Sale and repair of construction machinery, general purpose gas turbines, industrial robots, and other industrial machinery
NIPPI Corporation	¥ 6,048 million	100%	Manufacture, maintenance, and modification of aircrafts; manufacture of rocket components, aerospace equipment, targeting systems, nondestructive testing systems, and industrial fans
EarthTechnica Co., Ltd.	¥ 1,200 million	100%	Design, execution and supervision of engineering , construction, installation of machinery and appliances; design, manufacture, and sale of crushers, grinders, sorters, and other equipment



**(iii) Progress of Business Combinations**

There are 97 consolidated subsidiaries, including 19 companies whic

**(ii) Material Subsidiaries**

**i) Domestic**

Company name	Location of principal offices	Location of plants
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**(14) Important issues concerning the current situation of other corporate groups**

**Important law suits cases etc**

The Japan Fair Trade Commission issued on June 27, 2006 a cease and desist order against our company on the grounds that there was illegal conduct (bid rigging) in violation of the Antimonopoly Act in relation to the construction of waste incineration facilities ordered by municipal governments etc. We have, however, lodged an appeal with the Tokyo High Court to seek for the

## 2. Status of Shares (as of March 31, 2009)

- (1) **Total number of shares authorized to be issued** 3,360,000,000 shares
- (2) **Total number of shares outstanding** 1,669,629,122 shares  
(including 1,394,288 shares of treasury stock)
- (3) **Number of shareholders** 171,908 persons
- (4) **Shareholders who own one tenth or more of total shares outstanding (excluding treasury stock)**  
Not applicable; however major shareholders are listed below.

Shareholder name	Shareholders' investment in the company	
	Number of shares held	Shareholding ratio
	thousand shares	
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	97,554	5.8
Mizuho Bank, Ltd.	57,443	3.4
Japan Trustee Services Bank, Ltd. (Trust Account)	56,503	3.3
JFE Steel Corporation	56,174	3.3
The Master Trust Bank of Japan, Ltd. (Trust Account)	54,552	3.2
Nippon Life Insurance Company	54,016	3.2
Tokio Marine & Nichido Fire Insurance Co., Ltd.	46,397	2.7
Kawasaki Heavy Industries, Ltd. Employees Shareholder Association	31,728	1.9
Kawasaki Heavy Industries, Ltd. Kyoeikai	30,788	1.8
NIPPONKOA Insurance CO., LTD.	27,521	1.6

### 3. Company Share Options

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

Type	Euro Yen convertible bonds due 2010 with stock acquisition rights
Number of share options	477

## 4. Company Officers

### (1) Directors and Corporate Auditors

Position	Name	Areas of Responsibility within the Company, representation of other corporations, etc., and other material concurrent positions
Chairman	Masamoto Tazaki	Chairman, The New Industry Research Organization (NIRO) Chairman, The Shipbuilders' Association of Japan (SAJ)
* President	Tadaharu Ohashi	Chairman, Japan Aircraft Development Corporation
* Senior Executive Vice President	Akira Matsuzaki	Assistant to the President, Corporate Technology Division General Manager, Technology Division Head
* Senior Vice President	Chikashi Motoyama	President, Aerospace Company
* Senior Vice President	Masashi Segawa	President, Rolling Stock Company

7. Executive Officers as of April 1, 2009 are as follows.

Position	Name	Areas of Responsibility within the Company
President	Tadaharu Ohashi	





**(2) Compensation to Directors and Corporate Auditors**

Directors	11 persons	¥ 574,889 thousand
Corporate Auditors	5 persons	¥ 75,120 thousand OI To of which 713,90 thousand Ad

## **5. Accounting Auditors**

**(1) Accounting Auditor's Name**  
KPMG AZSA & Co.

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

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

A resolution was made with respect to the company's internal control systems, pursuant to the Companies Act, at the Board of Directors Meeting of May 24, 2006 regarding confirmation of the basic policies and status of established internal control systems, and henceforth whenever there are organizational changes or changes to internal regulations, resolutions are made again at Board of Directors Meetings.

### Basic Policy

KHI Group's mission is to contribute to the development of society, and has articulated the below group missions (missions and roles which must be carried out) in the "Kawasaki Group Mission Statement".

### **Group Mission**

**"Enriching lifestyles and helping safeguard the natural environment: Global Kawasaki."**

In order to realize this Group Mission it is crucial that we enhance our value offering for stakeholders and win the trust of customers, capital markets and society by living up to their expectations by acting out our mission statement. With this in mind, KHI Group will continue to maintain the internal control systems established to date and also strive to create company systems which are even more efficient and lawful by improving them through ongoing revision.

### Development of Internal Controls

On March 1, 2008 we revised and established new internal regulations concerning internal controls based on the establishment of "Internal Control Management Regulations" to ensure our internal controls are more systematic and robust. As a result, as at the time of this resolution we have established the following internal control systems, however going forward we will review them as necessary, taking into account such factors as changes in the company's operating environment.

#### **(1) Systems for storage and management of information related to Directors' execution of duties**

- We have established, in accordance with laws, systems for storage of records regarding business decisions and operations, and other information is also stored and managed in accordance with our Document Management Policy.
- Confidential information contained in meeting materials and personal information are handled appropriately according to their respective internal regulations, and we ensure enforcement thereof through such measures as inspections and business audits, which are carried out according to methods stipulated in the regulations.

#### **(2) Systems for management of risk of loss**

- Key management policies and other matters discussed at Board of Directors Meetings are made compulsory by regulations.
- Rules for approval of important matters are articulated in the Approval Regulations.
- The basic principles concerning identification, evaluation and handling of risk are articulated in the Risk Management Regulations.
- We have systemized implementation of appropriate risk management for major projects through

and support organ for the President.

- We formulate management plans and conduct regular follow-up to ensure company-wide efficiency of business operations.
- We hold Group business operations meetings to ensure employees throughout the KHI Group are familiar with management strategies and plans, and share a unified purpose.
- We have implemented a company system and operations as a pseudo-company system to ensure agility of our business operations.
- We implement budgetary controls over manufacturing costs, capital investments and indirect expenses, etc. to ensure efficient allocation of business resources.

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

- We have appointed a Director who is independent of execution of business operations to enhance supervisory and monitoring functions of the Board of Directors for overall management.
- We apply the measures for compliance risk management described in (2) above.
- Directors, in addition to being obliged themselves to comply with the fundamental principles of corporate ethics, they are also obliged to make all employees comply with laws and regulations; and KHI's Corporate Ethics Regulations contains provisions to that effect.
- We ensure employees, in executing their duties, are compliant with laws and the company's Articles of Incorporation through the application of Executive Directors Regulations and Rules of Employment.
- We continuously strive to improve understanding and awareness of compliance by ongoing education and training activities for various types of legal compliance. With respect to compliance with the Anti-monopoly Law in particular, we have established the Board of Directors Management Bylaws and Anti-Monopoly Law Compliance Regulations in relation to compliance with the Anti-monopoly Law, and we carry out education and training to ensure Directors and employees comply with those laws and regulations.
- Through the CSR Department we implement compliance systems, carry out compliance education and training, and have a compliance reporting and consultation system (whistleblower system), and ensure enforcement through monitoring of each of those systems.
- To cut off relations with anti-social forces we have established a department responsible for overseeing handling of such matters and have also established close cooperation with external specialized organizations such as the police force.

**(5) Systems to ensure proper business execution wi**

- In addition to attending Board of Directors meetings, Corporate Auditors also attend company-wide meetings, including management meetings and CSR committees.
  - Corporate Auditors regularly exchange opinions with Directors.
  - Directors and Corporate Auditors decide through mutual discussion which matters Directors should report to Corporate Auditors.
- (9) Other systems to ensure the effective conduct of audits by the Board of Corporate Auditors**
- Accounting Auditors and the Internal Audit Department closely collaborate with Corporate Auditors.
  - Matters concerning the election of Corporate Auditors and their remuneration etc. are determined in accordance with laws and the Articles of Incorporation, with the consent of Corporate Auditors.

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



## Consolidated Statement of Income

(April 1, 2008 - March 31, 2009)

(Unit: million yen)

| Description                                         | Amount           |
|-----------------------------------------------------|------------------|
| <b>Net sales</b>                                    | <b>1,338,597</b> |
| <b>Cost of sales</b>                                | <b>1,146,944</b> |
| Gross profit                                        | 191,652          |
| <b>Selling, general and administrative expenses</b> | <b>162,939</b>   |
| Operating income                                    | <b>28,713</b>    |

## Consolidated Statement of Changes in Net Assets

(April 1, 2008 - March 31, 2009)

(Unit: million yen)

|                           | Shareholders' equity |                 |                   |                |                            |
|---------------------------|----------------------|-----------------|-------------------|----------------|----------------------------|
|                           | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at March 31, 2008 | 104,328              | 54,290          | 151,401           | (459)          | 309,560                    |



## **Notes to the Consolidated Financial Statements**

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

1. Scope of consolidation

- 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

- 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, and any difference at the time of change in accounting standards is expensed by the amount computed on a pro rata basis for a ten year period, with the exception of certain consolidated subsidiaries. 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  
A provision is recorded for estimated amounts to cover any losses from the verdicts of any litigation.
  - (vii) 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.”
- (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 percentage of completion method is applied with respect to revenues from large-scale long-term construction contracts (mainly those with construction periods in excess of one year and with contract amounts of not less than ¥3 billion), and the completed contract method is employed for other contracts. With regard to contracts for which the amount of revenue from delivery is not determined and/or cost of sales is not finalized, both sales and cost of sales are estimated
- (7) Consumption tax and local consumption tax are subject to accounting treatment using the tax excluded method.
- (8) Evaluation method for assets and liabilities of consolidated subsidiaries

This change does not have any impact on net income for this fiscal year.

(3) Application of accounting standards for lease transactions

With respect to finance lease transactions not involving transfer of ownership, the Company previously applied an accounting treatment using a method similar to that for ordinary operating lease contracts, but the accounting treatment has been changed to the treatment for ordinary trading transactions in accordance with implementation from the fiscal year that started on or after April 1, 2008 of the Accounting Standards for Le

**(Notes regarding the consolidated Statement of Income)**

- The amounts presented are rounded down to the nearest unit.
- Gain on the sale of business is attributable to the transfer of the golf course operation business of Kawasaki Life Corporation, a consolidated subsidiary of the Company.
- Loss on contribution of securities to the pension trust is attributable to the additional contribution of investment securities held by the Company to the pension trust.

## 4. Loss on impairment of fixed assets

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

| Use                                 | Place            | Type                    |
|-------------------------------------|------------------|-------------------------|
| Assets used for business operations | Sodegaura, Chiba | 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 loss on impairment of fixed assets

The amount of loss on impairment of fixed assets of ¥1,399 million was recorded as an extraordinary loss which is mainly attributable to machines and equipment.

- Other extraordinary losses are attributable to losses resulting from the suspension of activities for the participation in the FIM Road Racing World Championship Grand Prix.

**(Notes regarding consolidated Statement of Changes in Net Assets)**

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

Common stock 1,669,629,122 shares

## 2. Dividends

| Resolution                                       | Total dividend<br>(million yen) | Dividend per share<br>(yen) | Record date    | Effective date |
|--------------------------------------------------|---------------------------------|-----------------------------|----------------|----------------|
| General Meeting of Shareholders on June 25, 2008 | 8,341                           | 5                           | March 31, 2008 | June 26, 2008  |

| Scheduled date of resolution                     | Total dividend<br>(million yen) | Dividend per share<br>(yen) | Record date | Effective date |
|--------------------------------------------------|---------------------------------|-----------------------------|-------------|----------------|
| General Meeting of Shareholders on June 25, 2009 |                                 |                             |             |                |

## Non-consolidated Balance Sheet

(As of March 31, 2009)

(Unit: million yen)

| Description                        | Amount         | Description                                    | Amount         |
|------------------------------------|----------------|------------------------------------------------|----------------|
| <b>(Assets)</b>                    |                | <b>(Liabilities)</b>                           |                |
| <b>Current assets</b>              | <b>652,956</b> | <b>Current liabilities</b>                     | <b>546,455</b> |
| Cash on hand and in banks          | 9,607          | Notes payable-trade                            | 25,797         |
| Notes receivable-trade             | 1,595          | Accounts payable-trade                         | 214,072        |
| Accounts receivable-trade          | 266,188        | Short-term borrowings                          | 118,968        |
| Raw materials and supplies         | 50,006         | Current portion of long-term debt              | 8,974          |
| Work in process                    | 238,757        | Commercial papers                              | 30,000         |
| Advance payments                   | 20,318         | Current portion of bonds                       | 20,000         |
| Prepaid expenses                   | 442            | Notes payable-facilities                       | 2,080          |
| Deferred tax assets                | 16,536         | Current portion of lease obligations           | 119            |
| Short-term loans                   | 26,417         | Accounts payable-other                         | 18,851         |
| Accounts receivable-other          | 11,096         | Accrued expenses                               | 26,954         |
| Accrued income                     | 33             | Income taxes payable                           | 983            |
| Other current assets               | 12,903         | Advances from customers                        | 48,373         |
| Allowance for doubtful receivables | (947)          | Deposits received                              | 1,792          |
| <b>Fixed assets</b>                | <b>325,031</b> | Unearned revenue                               | 18             |
| Net property, plant and equipment  | 155,389        | Accrued bonuses                                | 6,756          |
| Buildings                          | 48,646         | Provision for product warranties               | 1,007          |
| Structures                         | 9,389          | Provision for losses on construction contracts | 10,985         |
| Machinery and equipment            | 35,497         | Provision for losses on damages suit           | 7,410          |
| Vessels                            | 1              | Other current liabilities                      | 3,301          |
| Aircraft                           | 137            |                                                |                |
| Vehicles                           | 666            |                                                |                |

## Non-consolidated Statement of Income

(April 1, 2008 - March 31, 2009)

(Unit: million yen)

| Description                                         | Amount            |
|-----------------------------------------------------|-------------------|
| <b>Net sales</b>                                    | <b>771,428</b>    |
| <b>Cost of sales</b>                                | <b>718,187</b>    |
| Gross profit                                        | <b>53,241</b>     |
| <b>Selling, general and administrative expenses</b> | <b>65,302</b>     |
| Operating loss                                      | <b>(12,061)</b>   |
| <br><b>Non-operating income</b>                     | <br><b>25,534</b> |
| Interest income                                     | 1,002             |
| Dividend income                                     | 12,077            |
| Foreign exchange gains                              | 11,213            |
| Other                                               | 1,241             |
| <b>Non-operating expenses</b>                       | <b>10,859</b>     |

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## **Non-consolidated Statement of Changes in Net Assets**



## Notes to the Non-consolidated Financial Statements

### (Notes to significant accounting policies)

1. Marketable securities are evaluated by the following methods:

(1) Investment securities of subsidiaries and affiliates

Stated at cost using the moving-average method

(2) Other marketable securities

Securities with market quotations

Stated at market based on the market price on the settlement date of the fiscal year

Evaluation differences are all charged to net assets, and the amount obtained by subtracting the amount of tax effect from the total amount of the evaluation difference is represented in the section of net assets as "evaluation difference on other marketable securities."

The cost of sales is calculated chiefly by the moving average method.

Securities without market quotations

Stated at cost using the moving average methodhe w[(Se -1.1429 TD.022 Tc-.005.1(d)7A)1edhe8t7.58tu(ons )]TJ

A provision for an estimated amount of losses is recorded for the next fiscal year and thereafter

for ordinary operating lease contracts with regard to finance lease transactions not involving the transfer of ownership that commenced prior to the first year of the implementation of the above standards.

This change has a negligible effect on net income for this fiscal year.

**(Change in presentation methods)**

Non-consolidated statement of income

Starting with this fiscal year, “loss on valuation of securities” is listed separately as its monetary importance





## 2. Results of Audit

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

- (i) In our opinion, the business report and the supplementary schedules are in accordance with the related laws and regulations and Articles of Incorporation, and fairly represent the Company's condition.
- (ii) We have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation, related to performance of duties by the Directors.
- (iii) In our opinion, the contents of the resolutions of the Board of Directors related to the internal controls system are fair and reasonable. In addition, we have found no matters on which to remark regarding the performance of duties by the Directors related to such internal controls system. In addition, with respect to internal controls over financial reporting, at the time of preparation of this audit report, we received report from the Directors that states that the said controls were effective, and also received report from KPMG AZSA & Co., that states that there was no material defect in the said controls.

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

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

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

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

May 22, 2009

Board of Corporate Auditors, Kawasaki Heavy Industries, Ltd.

Full-Time Corporate Auditor  
Full-Time

Akira Tanoue



(Underline indicate amendment)

| Current Articles of Incorporation                                                                                                                                                       | Proposed provisions after amendment                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| <u>Art.8:</u> <del>(Deleted)</del>                                                                                                                                                      | (Deleted)                                                                                             |
| <u>(Class of Share Certificate)</u>                                                                                                                                                     | (Deleted)                                                                                             |
| <u>Art.9:</u> <u>The class of share certificates issued by the Corporation shall be governed by the regulations the handling of shares to be promulgated by the Board of Directors.</u> |                                                                                                       |
| <u>(The Number of Shares Constituting One Unit of Stock (tangen-kabu) and Non-issuance of Share Certificate of Share Certificates of the Number of Odd-Lot Shares)</u>                  | <u>(The Number of Shares Constituting One Unit of Stock (tangen-kabu) )</u>                           |
| <u>Art.10:</u> The number of shares constituting one unit of stock of the Corporation is one thousand.                                                                                  | <u>Art.8:</u> The number of shares constituting one unit of stock of the Corporation is one thousand. |



| Current Articles of Incorporation                                                         | Proposed provisions after amendment                                                                                                                                                      |
|-------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (Chairman)<br>Art.19: The President shall be the Chairman of the Meeting of Shareholders. | (Chairman)<br>Art.17: <u>Either The President or Chairman of the Board shall be the Chairman of the Meeting of Shareholders pursuant to the determination by the Board of Directors.</u> |

**Proposal No. 3 Election of Ten Directors**

As the term of office of all nine Directors will expire at the conclusion of this Ordinary General Meeting of Shareholders, we propose to elect ten Directors.

The candidates for Director are as follows:

| No. | Name<br>(Date of Birth) | Abridged Personal Records, Positions and Duties |
|-----|-------------------------|-------------------------------------------------|
|-----|-------------------------|-------------------------------------------------|

No.            Name  
                  (Date of Birth)

Abridged Personal Records, Positions and Duties  
[Representation in other companies]

**Proposal No. 4 Election of Three Corporate Auditors**

As the term of office of the Corporate Auditors, Mr. Akira Tanoue, Mr. Hiroshi Kawamoto, and Mr. Kenzo Doi, will expire at the conclusion of this Ordinary General Meeting of Shareholders, we propose to elect three Corporate Auditors.

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

The candidates for Corporate Auditor are as follows:

| No. | Name<br>(Date of Birth) | Abridged Personal Records, Positions and Duties<br>[Representation in other companies]<br>(Unimportant details excluded) | Shares of the<br>Company |
|-----|-------------------------|--------------------------------------------------------------------------------------------------------------------------|--------------------------|
|     | Apr. 1975               | Admitted to Bar in Japan<br>Joined Kitayama Law Office (At present Kobe-Kyobashi Law<br>Office)                          |                          |
|     |                         | pres.Department0037.0009                                                                                                 | Tc0 Tw552                |