

Financial Results for Second Quarter FY2015 (for the year ending March 31, 2016)

October 29, 2015

Kawasaki Heavy Industries, Ltd.

 **Kawasaki**
Powering your potential

Table of Contents

I. Consolidated Results for Second Quarter FY2015

◇ Summary of Financial Results	3
◇ Financial Results by Segment	4
◇ Summary of Income Statement	5
◇ Financial Results by Segment	
Ship & Offshore Structure	6
Rolling Stock	7
Aerospace	8
Gas Turbine & Machinery	9
Plant & Infrastructure	10
Motorcycle & Engine	11
Precision Machinery	12
◇ Summary of Balance Sheet	13
◇ Summary of Cash Flows	14

II. Forecast for FY2015

◇ Consolidated Operating Performance	15
◇ Forecast by Segment	16
◇ Before-tax ROIC by Segment	17
◇ R&D/CAPEX/Number of Employees	18
<Appendix> Historical Data	19

Summary of Financial Results

(Billion Yen)

	FY2014.2Q	FY2015.2Q		Change	
	Actual	Forecast in July	Actual	vs. FY2014.2Q	vs. Forecast in July
Orders Received	706.5	-	738.8	+32.2	-
Net Sales	633.4	785.0	708.1	+74.7	-76.9
Operating Income	23.1	39.0	42.3	+19.1	+3.3
Recurring Profit	25.9	37.0	40.2	+14.3	+3.2
Net Income Attributable to Owners of Parent ※	18.1	26.0	26.8	+8.6	+0.8

vs. FY2014.2Q

< Orders Received >

Increased in Gas Turbine & Machinery, Aerospace and other segments

< Net Sales >

Increased in Aerospace, Gas Turbine & Machinery, Ship & Offshore Structure and other segments

< Profits >

Increased in operating income, recurring profit and net income attributable to owners of parent due to increased profit in Aerospace, Gas Turbine & Machinery and other segments

※ "Net Income" as for FY2014.2Q

Weighted-average exchange rates

Yen / US\$	102.50	118	120.65
Yen / EUR	138.66	128	134.45

(For Reference)

Net Sales in Foreign Currencies for FY2015.2Q (Billion)

US\$	EUR
0.70	0.14

Financial Results by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2014 2Q	FY2015 2Q	Change	FY2014 2Q	FY2015 2Q	Change	FY2014 2Q	FY2015 2Q	Change
Ship & Offshore Structure	77.1	67.4	-9.6	34.8	51.8	+16.9	-0.7	-3.1	-2.4
Rolling Stock	91.5	65.7	-25.8	56.9	62.7	+5.8	1.2	3.5	+2.3
Aerospace	114.4	134.6	+20.1	144.8	166.8	+21.9	13.5	25.6	+12.0
Gas Turbine & Machinery	85.9	115.8	+29.8	83.8	103.3	+19.4	1.4	8.1	+6.6
Plant & Infrastructure	66.9	75.0	+8.0	47.2	55.8	+8.5	1.0	2.6	+1.6
Motorcycle & Engine	137.7	143.0	+5.3	137.7	143.0	+5.3	1.0	0.5	-0.5
Precision Machinery	64.8	64.0	-0.7	63.7	63.9	+0.1	5.1	3.8	-1.2
Others	67.8	72.8	+5.0	64.1	60.5	-3.6	1.2	1.2	+0.0
Eliminations and corporate※	-	-	-	-	-	-	-0.7	-0.3	+0.4
Total	706.5	738.8	+32.2	633.4	708.1	+74.7	23.1	42.3	+19.1

※ "Eliminations and corporate" includes some expenses incurred at Head Office which were not allocated to each industry segment for internal reporting

Summary of Income Statement

(Billion Yen)

< Operating Income > **+19.1 (FY2014.2Q 23.1 → FY2015.2Q 42.3)**

Net sales	+	74.7	(	633.4	→	708.1)
Cost of sales	+	48.6	(	526.5	→	575.2)
Selling, general & administrative expenses	+	6.9	(	83.6	→	90.6)
- Salaries and benefits	+	2.1	(	23.6	→	25.8)
- R&D expenses	+	1.1	(	18.0	→	19.2)

< Non-operating Income/Expenses > **-4.7 (FY2014.2Q 2.7 → FY2015.2Q -2.0)**

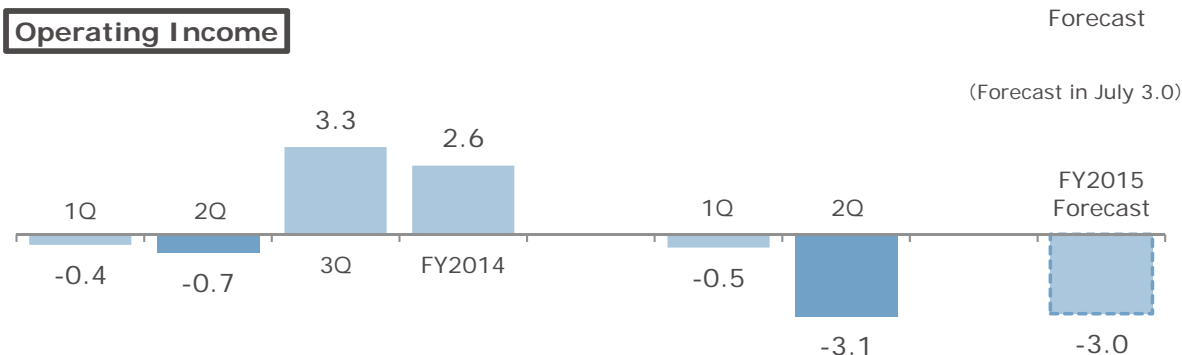
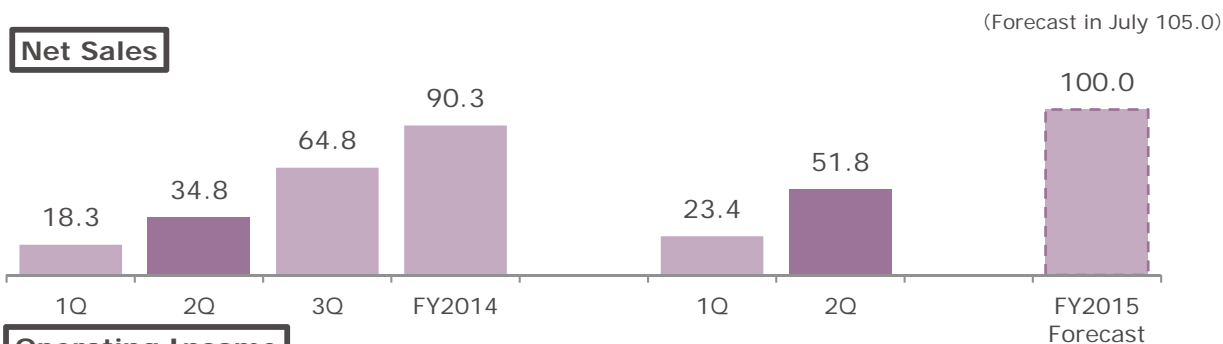
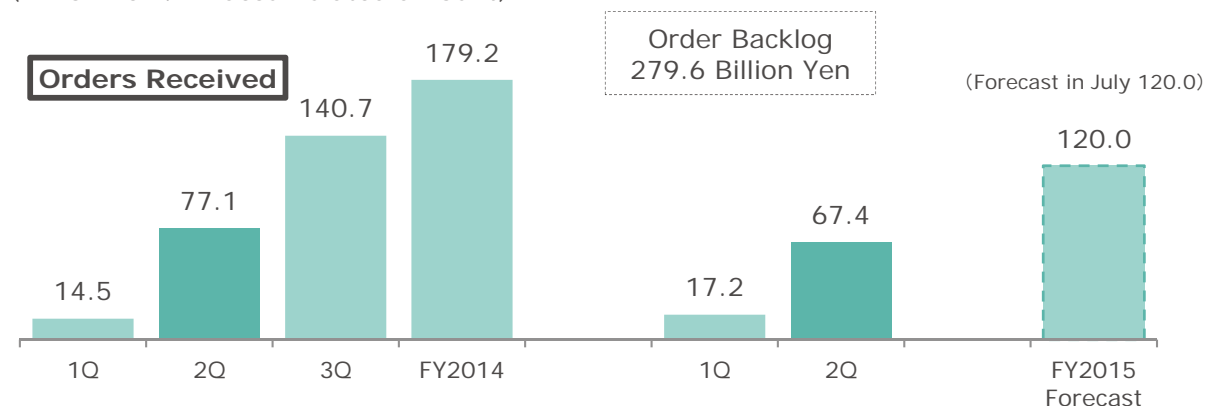
Net Interest expense (incl. dividend income)	+	0.0	(	-1.4	→	-1.3)
Equity in income of unconsolidated subsidiaries and affiliates	-	4.3	(	5.7	→	1.3)
Gain and loss on foreign exchange	-	3.9	(	-0.6	→	-4.5)
Others	+	3.4	(	-0.8	→	2.5)

< Extraordinary Income/Losses > **0 (FY2014.2Q 0 → FY2015.2Q 0)**

Ship & Offshore Structure

Main Products: LNG carriers, LPG carriers, Offshore structures, VLCCs, Bulk carriers, Submarines

(Billion Yen / In accumulated amount)



FY2015.2Q

(vs. FY2014.2Q)

Orders Received: Decreased compared to the previous same period where hull parts of drilling ships were received despite orders received for 2 LNG carriers, 2 LPG carriers and 1 bulk carrier

Net Sales: Increased due to increase in amount of shipbuilding of LNG carriers, LPG carriers and others

Operating Income: Deteriorated due to provision for loss on construction contracts and other factors

FY2015 Forecast

(vs. Forecast in July)

Orders Received: No Change

Net Sales : Revised down due to revision of assumed delivery date of hull parts of drilling ships

Operating Income: Revised down due to increased cost resulting from revision of assumed delivery date of offshore support vessel and hull parts of drilling ships and other factors

<Units of Orders Received and Sales of New Building Ships> (unit)

	Orders Received		Sales			
	FY2014.2Q	FY2015.2Q	FY2014.2Q		FY2015.2Q	
			Completed	In Process ※	Completed	In Process ※
LNG carriers	2	2		3		5
Small-sized LNG carriers						
LPG carriers	1	2	1			3
Offshore service vessel						
Bulk carriers		1	1	2	1	2
Submarines				2		2
Deep submergence rescue vehicle						1
Total	3	5	2	7	1	13

※ Sales units by percentage-of-completion method

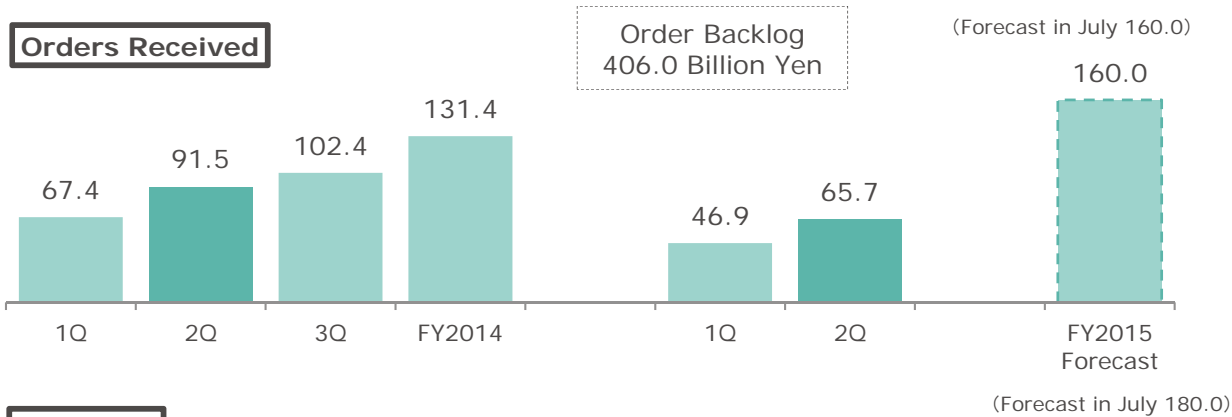
	FY2014 Actual	FY2015 Forecast	
		In July	In October
Before-tax ROIC	6.0%	5.4%	-0.8%

Rolling Stock

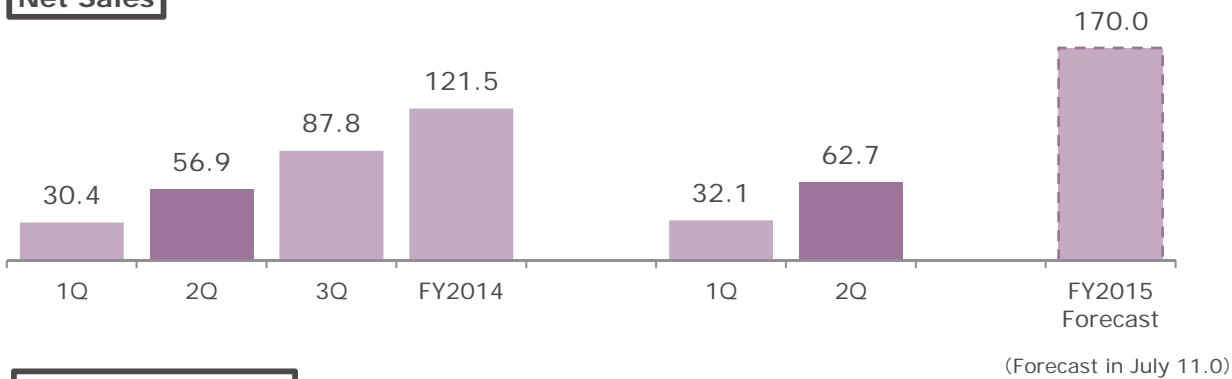
Main Products : Electric train cars (incl. Shinkansen), Electric and diesel locomotives, Passenger coaches, Bogies, Gigacell® (High-Capacity, Full Sealed Ni-MH Battery)

(Billion Yen / In accumulated amount)

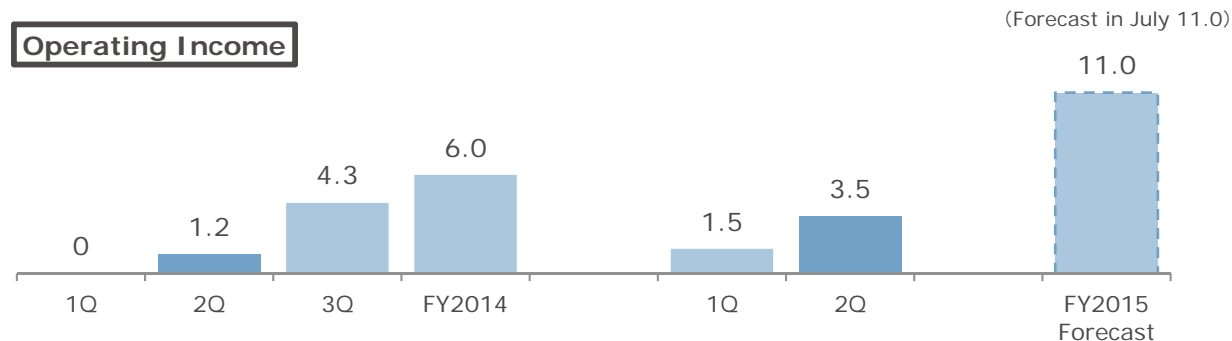
Orders Received



Net Sales



Operating Income



FY2015.2Q

(vs. FY2014.2Q)

Orders Received: Decreased compared to the previous same period where orders for a large-scale overseas project was received

Net Sales: Increased due to sales increase in overseas markets including Singapore and Taiwan, despite sales decrease in domestic market

Operating Income: Increased due to sales increase and other factors

FY2015 Forecast

(vs. Forecast in July)

Orders Received: No Change

Net Sales: Revised down due to deferrals in some projects and other factors

Operating Income: Remains unchanged due to cost reduction and other factors despite there being the effect of downward revision of net sales forecast

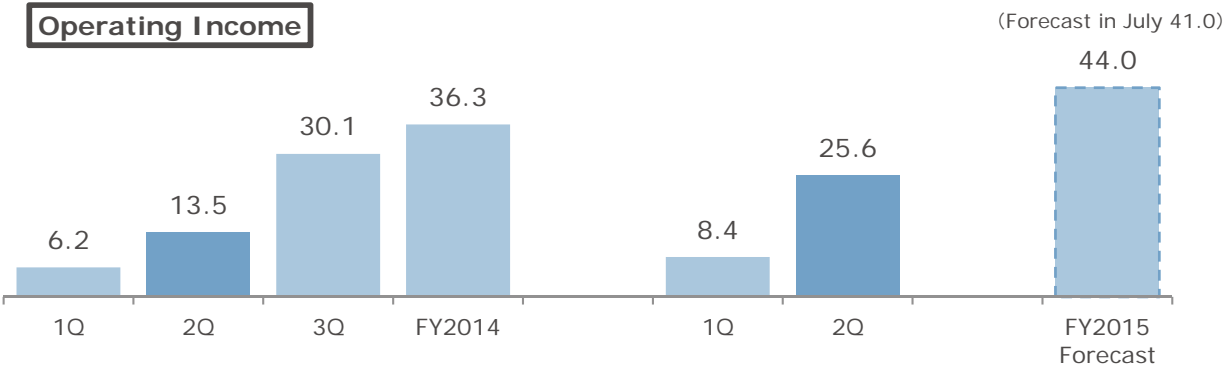
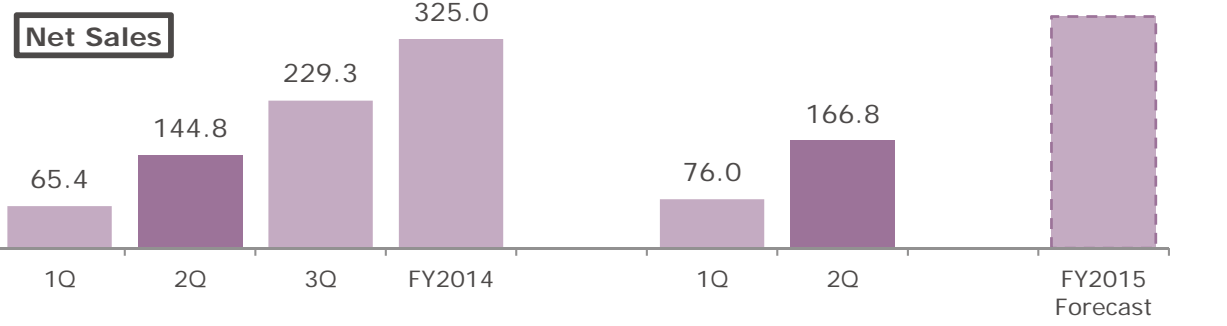
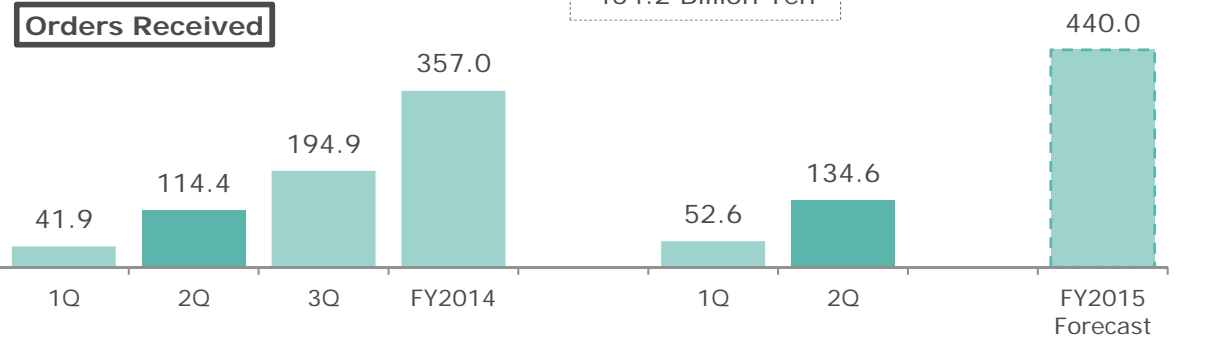
	FY2014 Actual	FY2015 Forecast	
		In July	In October
Before-tax ROIC	8.7%	12.5%	12.5%

Aerospace

Main Products : Aircrafts for Japan Ministry of Defense, Component parts for commercial aircrafts, Commercial helicopters, Missiles, Space equipment

(Billion Yen / In accumulated amount)

Order Backlog
454.2 Billion Yen



FY2015.2Q

(vs. FY2014.2Q)

Orders Received: Increased due to continued high level of orders received for component parts for commercial aircrafts, the effect of the depreciation of the yen and other factors

Net Sales: Increased due to increase in sales to the Japan Ministry of Defense (MOD), continued high level of sales for component parts for commercial aircrafts and the effect of the depreciation of the yen and other factors

Operating Income: Increased due to sales increase, profitable projects being accounted for in this quarter and other factors

FY2015 Forecast

(vs. Forecast in July)

Orders Received & Net Sales: No Change

Operating Income: Revised up due to revision of assumed exchange rate, cost reduction resulting from improving productivity in component parts for commercial aircrafts and other factors

< Sales units of component parts for commercial aircrafts > (units)

	FY2014.2Q	FY2015.2Q
Boeing 777	53	51
Boeing 767	8	8
Boeing 787	62	61
Embraer170/175	43	40
Embraer190/195	14	5

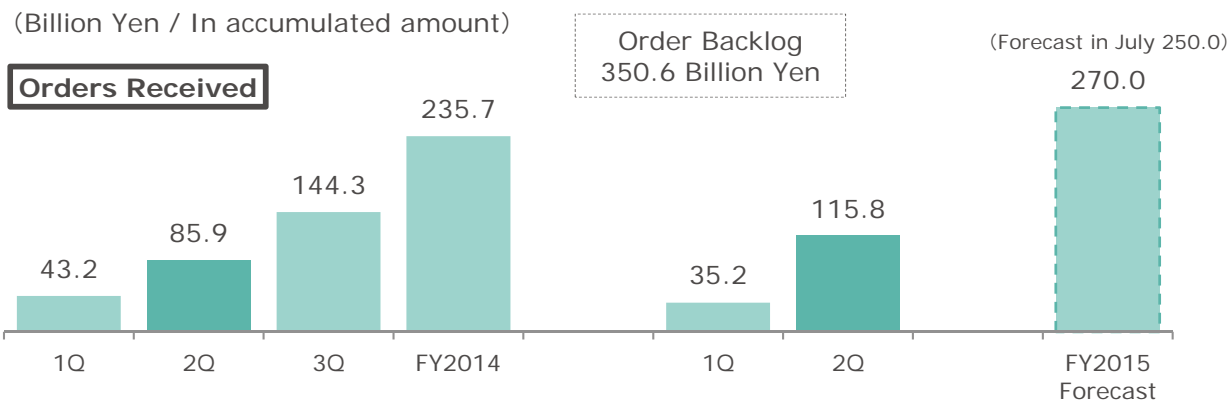
	FY2014 Actual	FY2015 Forecast	
		In July	In October
Before-tax ROIC	35.1%	29.0%	31.6%

Gas Turbine & Machinery

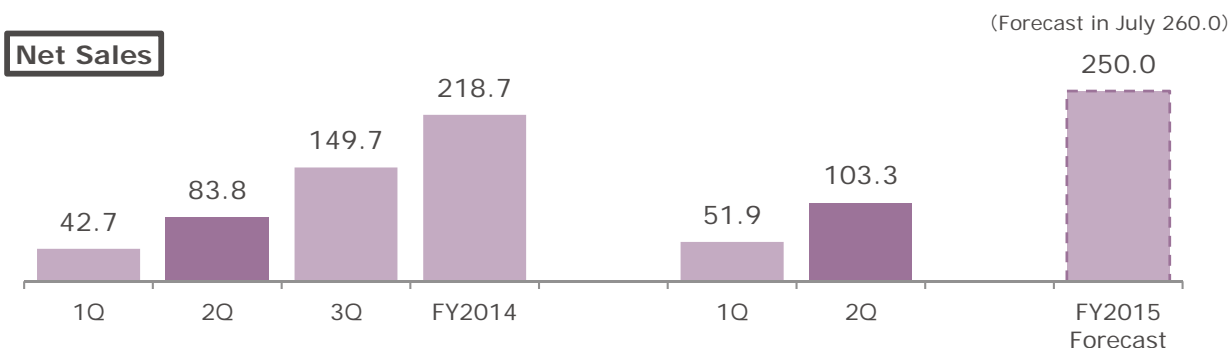
Main Products : Jet engines, Gas turbine co-generation system, Gas engines, Diesel engines, Gas turbines & steam turbines for marine & land, Marine propulsion system, Aero-dynamic machinery

(Billion Yen / In accumulated amount)

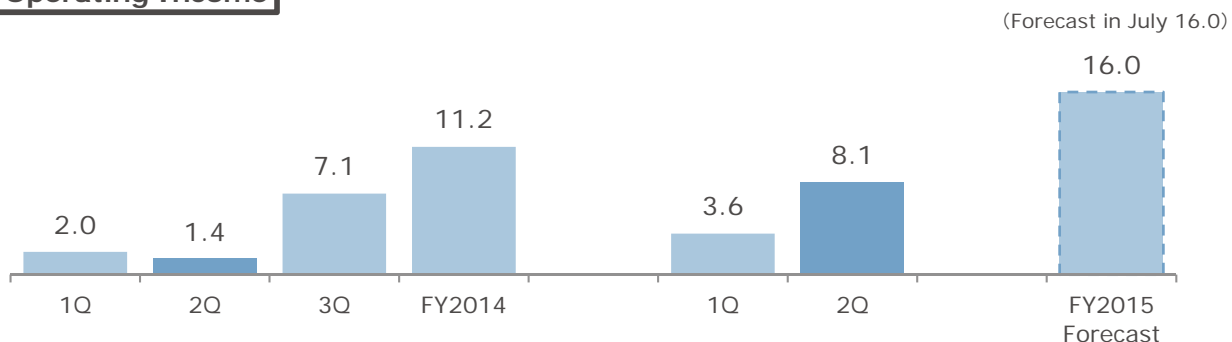
Orders Received



Net Sales



Operating Income



FY2015.2Q

(vs. FY2014.2Q)

Orders Received & Net Sales: Increased due to increase of orders received for component parts of commercial aircraft jet engines and other factors

Operating Income: Increased due to sales increase and other factors

FY2015 Forecast

(vs. Forecast in July)

Orders Received: Revised up due to increase in component parts of commercial aircraft jet engines

Net Sales: Revised down due to decrease in marine propulsion system and deferral in some projects

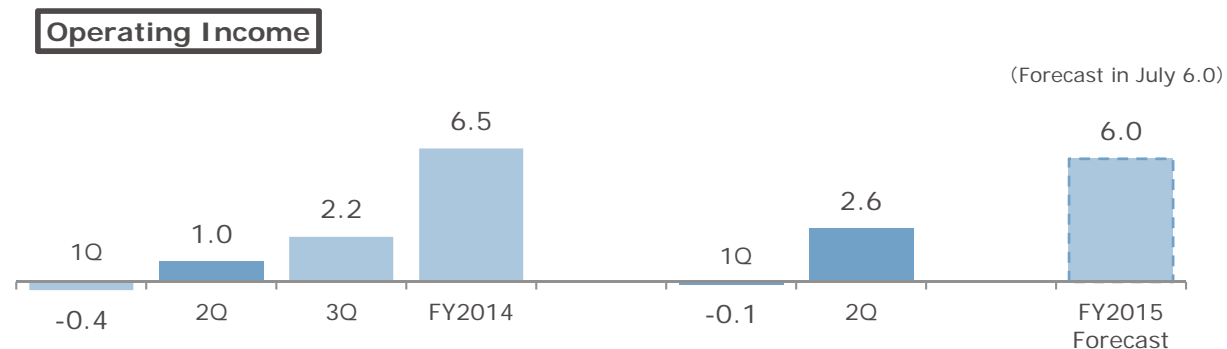
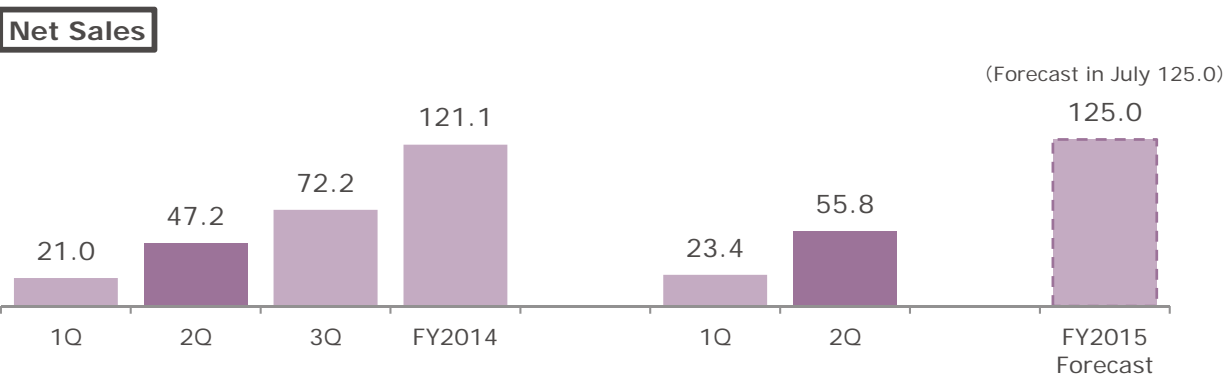
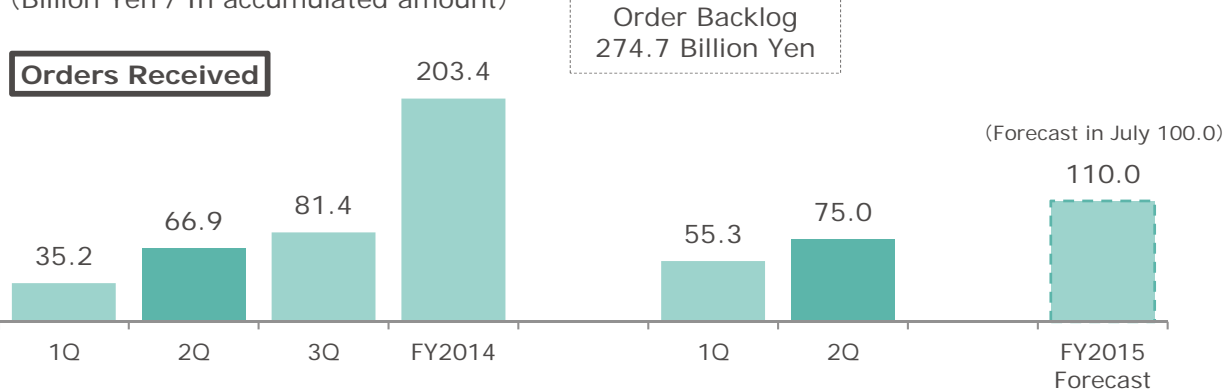
Operating Income: Remains unchanged due to revision of assumed exchange rate and other factors despite there being the effect of downward revision of net sales forecast

	FY2014 Actual	FY2015 Forecast	
		In July	In October
Before-tax ROIC	5.7%	8.6%	8.6%

Plant & Infrastructure

Main Products: Industrial plants (cement, fertilizer and others), Power plants, LNG tanks, Municipal refuse incineration plants, Tunnel boring machines, Crushing machines

(Billion Yen / In accumulated amount)



FY2015.2Q

(vs. FY2014.2Q)

Orders Received: Increased due to orders received for domestic refuse incineration plants and other projects

Net Sales: Increased due to increase in sales for overseas chemical plants and other factors

Operating Income: Increased due to sales increase and other factors

FY2015 Forecast

(vs. Forecast in July)

Orders Received: Revised up due to orders received for domestic refuse incineration plants and other projects

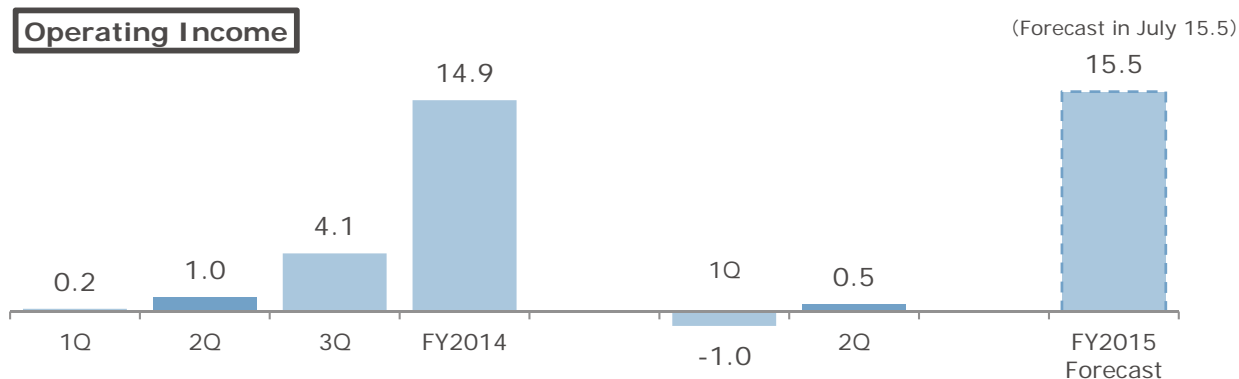
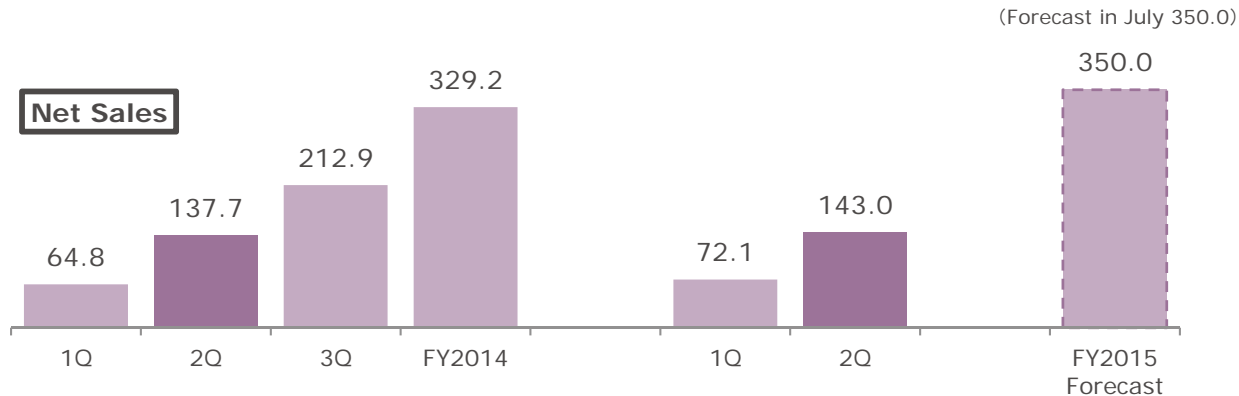
Net Sales & Operating Income: No Change

	FY2014 Actual	FY2015 Forecast	
		In July	In October
Before-tax ROIC	14.3%	12.6%	12.6%

Motorcycle & Engine

Main Products: Motorcycles, All-Terrain Vehicles(ATVs), Utility Vehicles, Personal Watercraft, General-purpose Gasoline Engines

(Billion Yen / In accumulated amount)



FY2015.2Q

(vs. FY2014.2Q)

Net Sales: Increased due to sales increase in motorcycles and utility vehicles for developed countries, despite decrease in motorcycles for emerging markets mainly Indonesia

Operating Income: Decreased due to sales decrease in emerging markets despite sales increase in developed countries

FY2015 Forecast

(vs. Forecast in July)

Net Sales & Operating Income: Remain unchanged due to change in assumed foreign exchange rate and other factors despite sales decrease in emerging markets

<Wholesales by Geographic Area for Consumer Products> (Thousands of units / Billion Yen)

	FY2014.2Q		FY2014		FY2015.2Q		FY2015 Forecast	
	Unit	Amount	Unit	Amount	Unit	Amount	Unit	Amount
Domestic	9	7.5	15	13.2	9	7.8	16	12.9
North America (incl. Canada)	36(16)	32.9	100(49)	97.0	40(19)	42.1	104(51)	111.3
Europe	21	20.1	57	50.1	26	23.7	60	53.3
Emerging Countries & Others	201	56.0	409	122.1	146	46.9	351	116.3
Total	267	116.5	581	282.4	221	120.5	531	293.8

Note: 1) Sales units and amount include the following products.

Units: Motorcycles, All-Terrain Vehicles(ATVs), Utility Vehicles and Personal Watercraft(Jet Ski®)

Amount: The products mentioned above and parts for those products.

2) Figures in the parenthesis () represent motorcycle sales units.

	FY2014 Actual	FY2015 Forecast	
		In July	In October
Before-tax ROIC	7.3%	12.0%	13.6%

Precision Machinery

Main Products: Hydraulic components (pumps, motors & valves), Hydraulic systems for industrial use, Hydraulic marine machinery, Precision Machinery / Electric-powered devices, Industrial Robots

(Billion Yen / In accumulated amount)

Order Backlog
26.4 Billion Yen

(Forecast in July 155.0)

FY2015.2Q

(vs. FY2014.2Q)

Orders Received: Decreased due to decrease in hydraulic components and other factors despite increase in industrial robots mainly for semiconductor industries

Net Sales: Remained at the same level due to decrease in hydraulic components and other factors despite increase in industrial robots mainly for semiconductor industries

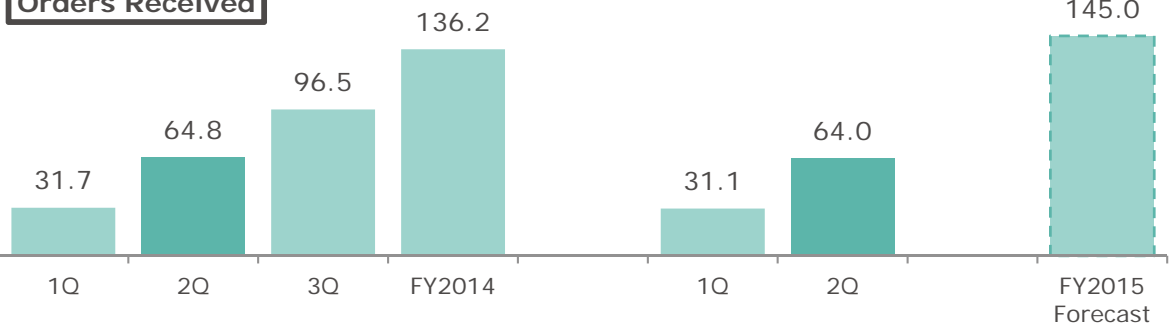
Operating Income: Decreased due to sales decrease in hydraulic components and other factors

FY2015 Forecast

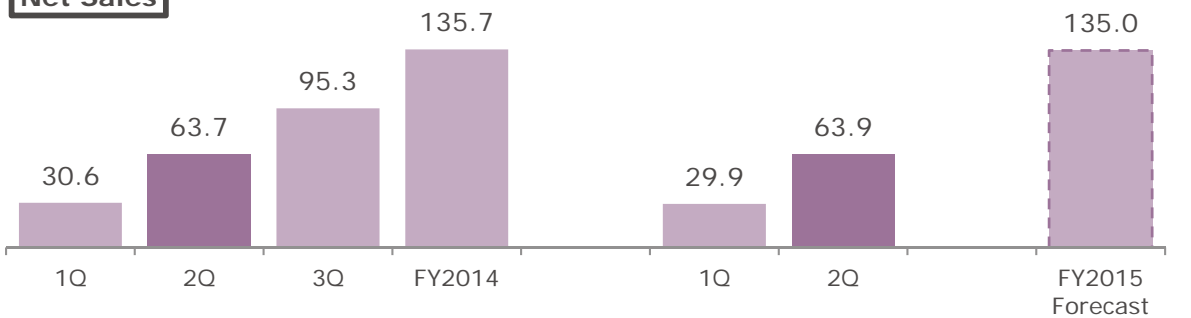
(vs. Forecast in July)

Orders Received, Net Sales & Operating Income: Revised down due to decrease in hydraulic components for construction machinery for emerging countries

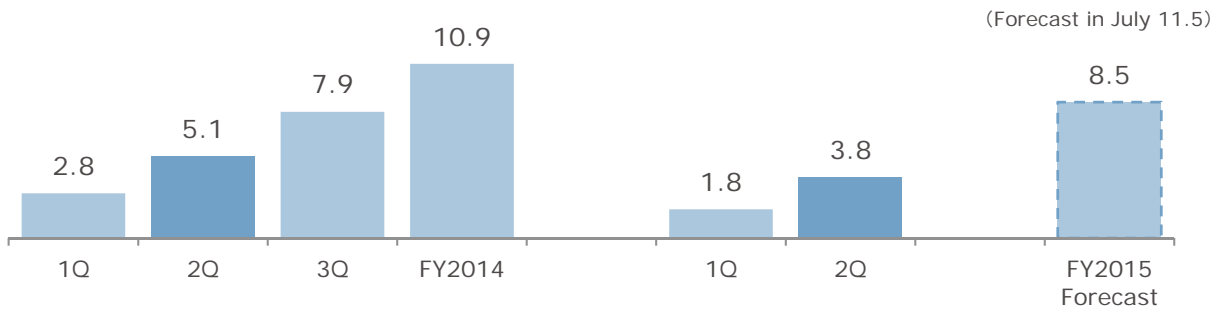
Orders Received



Net Sales



Operating Income



	FY2014 Actual	FY2015 Forecast	
		In July	In October
Before-tax ROIC	16.7%	12.9%	10.8%

Summary of Balance Sheet

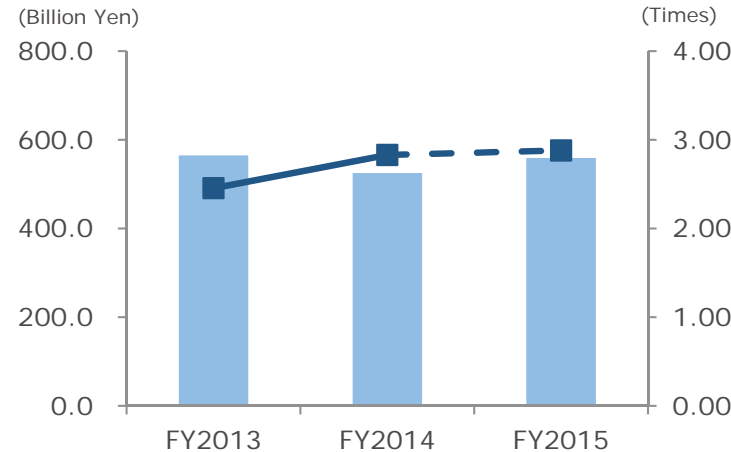
(Billion Yen)

	End of Mar. 2015	End of Sep. 2015	Change
Cash on hand and in banks	51.6	45.8	-5.7
Trade receivables	421.8	422.6	+0.7
Inventories	498.6	547.9	+49.3
Total fixed assets	436.9	447.0	+10.0
Other assets	253.1	264.1	+11.0
Total assets	1,662.2	1,727.7	+65.4
Trade payables	339.3	290.3	-48.9
Interest-bearing debt	414.3	560.4	+146.1
Advances from customers	171.6	167.0	-4.5
Other liabilities	288.9	247.8	-41.1
Total liabilities	1,214.3	1,265.7	+51.3
Total shareholders' equity	412.4	427.6	+15.1
Other net assets	35.5	34.4	-1.1
Total net assets	447.9	462.0	+14.0
Total liabilities and net assets	1,662.2	1,727.7	+65.4

Ratio of shareholders' equity to total assets	25.9%	25.8%
Net Debt Equity Ratio	83.9%	115.4%

< Changes in working capital >

Working capital(2Q) (left axis) Working capital turnover* (right axis)

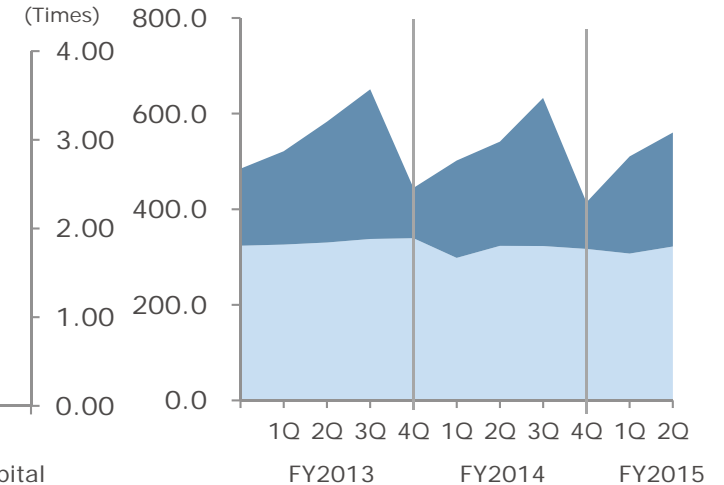


*Turnover=Sales(12months)/working capital
*Sales for FY2015 is a forecast number

[Changes in interest-bearing debt]

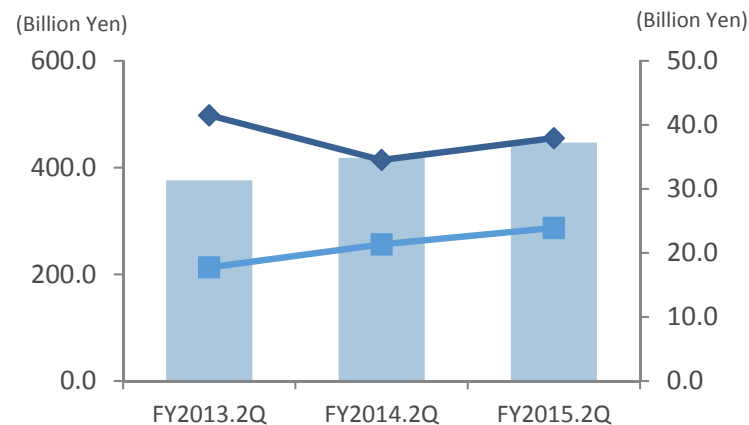
Long-term debt Short-term debt

(Billion Yen)



< Changes in CAPEX and others >

Fixed Asset (left axis) CAPEX (right axis) DA* (right axis)



*Depreciation & Amortization

< Overview of Balance Sheet >

On September 30, 2015, total assets increased from March 31, 2015, due to increase in inventories, advance payments and fixed assets and others. Liabilities on September 30, 2015, increased due to increase in interest-bearing debt despite decrease in trade payables. Net assets increased due to net income attributable to owners of parent being accounted for and dividend payments.

Summary of Cash Flows

(Billion Yen)

	FY2014 2Q	FY2015 2Q	Change
Cash flows from operating activities	-60.8	-100.8	-40.0
Cash flows from investing activities	-29.7	-40.7	-11.0
Free Cash Flows	-90.5	-141.6	-51.1
Cash flows from financing activities	78.3	135.5	+57.1

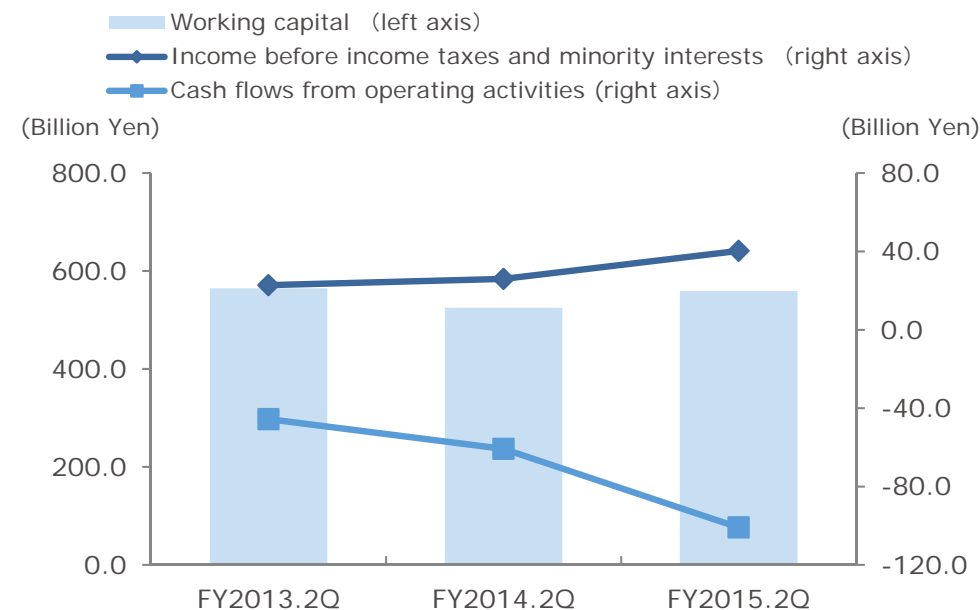
< Overview of Cash Flows > (vs.FY2014.2Q)

Cash flows from operating activities decreased, due to an increase in working capital in Aerospace segment, production increase related to commercial aircraft jet engines in Gas Turbine & Machinery segment and other factors.

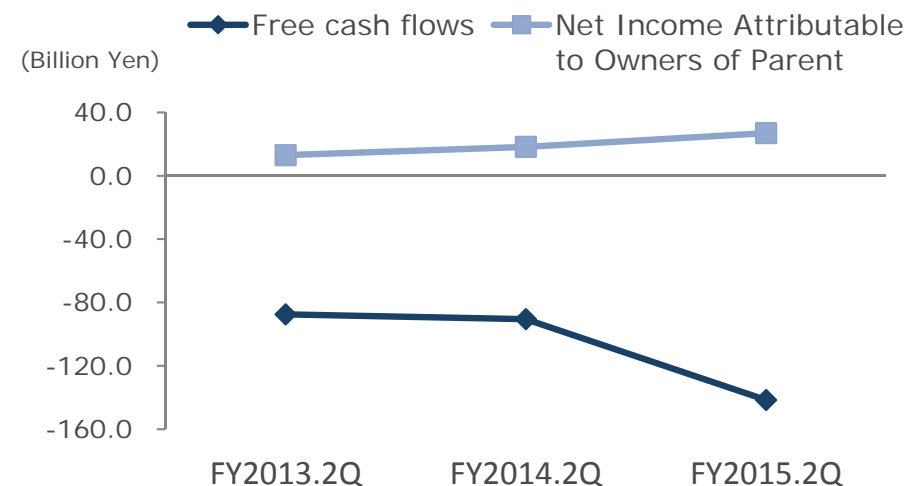
Cash outflows from investing activities increased due to expenditures for CAPEX having concentrated.

Given the above mentioned changes, free cash flows decreased.

< Changes in cash flows from operating activities and others >



< Changes in free cash flows and Net Income attributable to Owners of Parent >



Consolidated Operating Performance

(Billion Yen)

	FY2014 Actual	FY2015 Forecast		Change	
		In July	In October	vs. FY2014	vs. Forecast in July
Orders Received	1,712.9	1,680.0	1,700.0	-12.9	+20.0
Net Sales	1,486.1	1,650.0	1,610.0	+123.9	-40.0
Operating Income	87.2	102.0	96.0	+8.8	-6.0
Recurring Profit	84.2	100.0	100.0	+15.8	0.0
Net Income Attributable to Owners of Parent ※	51.6	69.0	69.0	+17.4	0.0
Before-tax ROIC	10.4%	11.8%	11.8%	+1.4%	0%
ROE	12.9%	15.0%	15.0%	+2.1%	0%

Reasons for the Revision

< Orders Received >

Revised up due to increase in Gas Turbine & Machinery and Plant & Infrastructure segments despite decrease in Precision Machinery segment

< Net Sales >

Revised down due to decrease in Ship & Offshore Structures, Rolling Stock, Gas Turbine & Machinery and Precision Machinery segments

< Profits >

- Operating income was revised down due to cost increase resulting from revision of assumed delivery date of offshore support vessel and hull parts of drilling ships and decreased profit in Precision Machinery segment due to downward revision of net sales forecast, despite cost reduction resulting from improving productivity in Aerospace segment

- Recurring profit and net income attributable to owners of parent remain unchanged due to sales of fixed assets resulting from the relocation of an overseas office and other factors

※ "Net Income" as for FY2014

Exchange Rates (actual & assumed)

Yen / US\$	109.51	118	120
Yen / EUR	139.34	128	135

(For Reference)

Impact on profit by FX fluctuation of 1 Yen

	(Billion Yen)	
	Operating Income	Recurring Profit
US\$	1.41 (1.81)	1.47 (1.74)
EUR	0.09 (0.14)	0.13 (0.18)

* Figures in the parenthesis () represent impact as of July 31, 2015

Note : Assumed rates are applied to the outstanding foreign exchange exposure as of October 29, 2015

Forecast by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2014 Actual	FY2015 Forecast		FY2014 Actual	FY2015 Forecast		FY2014 Actual	FY2015 Forecast	
		In July	In October		In July	In October		In July	In October
Ship & Offshore Structure	179.2	120.0	120.0	90.3	105.0	100.0	2.6	3.0	-3.0
Rolling Stock	131.4	160.0	160.0	121.5	180.0	170.0	6.0	11.0	11.0
Aerospace	357.0	440.0	440.0	325.0	360.0	360.0	36.3	41.0	44.0
Gas Turbine & Machinery	235.7	250.0	270.0	218.7	260.0	250.0	11.2	16.0	16.0
Plant & Infrastructure	203.4	100.0	110.0	121.1	125.0	125.0	6.5	6.0	6.0
Motorcycle & Engine	329.2	350.0	350.0	329.2	350.0	350.0	14.9	15.5	15.5
Precision Machinery	136.2	155.0	145.0	135.7	150.0	135.0	10.9	11.5	8.5
Others	140.5	105.0	105.0	144.2	120.0	120.0	3.9	3.0	3.0
Eliminations and corporate ※	-	-	-	-	-	-	-5.4	-5.0	-5.0
Total	1,712.9	1,680.0	1,700.0	1,486.1	1,650.0	1,610.0	87.2	102.0	96.0

※: "Eliminations and corporate" includes some expenses incurred at Head Office which are not allocated to each industry segment for internal reporting

Before-tax ROIC by Segment

	Before-tax ROIC (EBIT / Invested Capital)			Operating Income Margin (Operating Income / Net Sales)			Asset Turnover (Times) (Net Sales / Total Assets)		
	FY2014 Actual	FY2015 Forecast		FY2014 Actual	FY2015 Forecast		FY2014 Actual	FY2015 Forecast	
		In July	In October		In July	In October		In July	In October
Ship & Offshore Structure	6.0%	5.4%	-0.8%	2.9%	2.8%	-3.0%	0.52	0.70	0.60
Rolling Stock	8.7%	12.5%	12.5%	4.9%	6.1%	6.4%	0.71	1.00	0.90
Aerospace	35.1%	29.0%	31.6%	11.1%	11.3%	12.2%	0.89	0.90	0.90
Gas Turbine & Machinery	5.7%	8.6%	8.6%	5.1%	6.1%	6.4%	0.73	0.80	0.80
Plant & Infrastructure	14.3%	12.6%	12.6%	5.4%	4.8%	4.8%	0.96	1.00	1.00
Motorcycle & Engine	7.3%	12.0%	13.6%	4.5%	4.4%	4.4%	1.21	1.30	1.30
Precision Machinery	16.7%	12.9%	10.8%	8.0%	7.6%	6.2%	1.00	1.00	0.90
Total	10.4%	11.8%	11.8%	5.8%	6.1%	5.9%	0.89	1.00	1.00

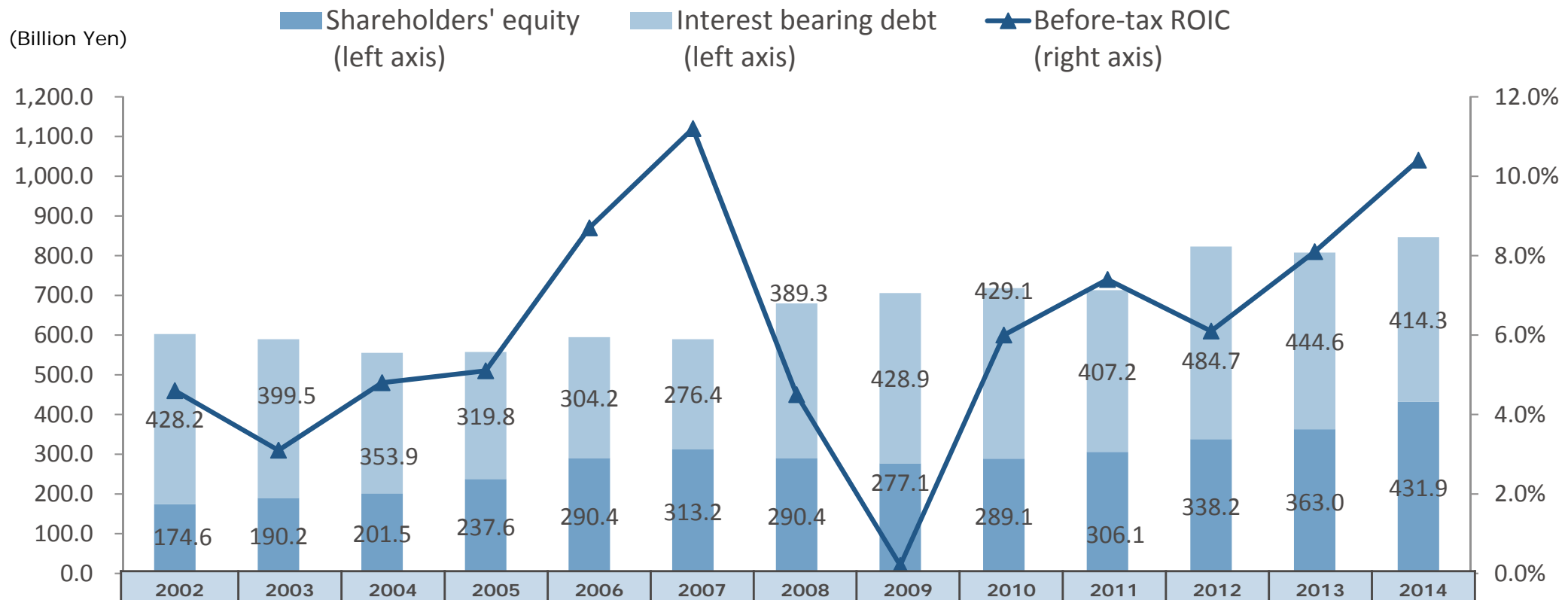
R&D/CAPEX/Number of Employees

(Billion Yen / Persons)

	FY2014 Actual	FY2015 Forecast		
		In July	In October	vs. Forecast in July
R&D Expenses	41.6	46.0	46.0	0.0
CAPEX (Construction Base)	80.0	92.0	92.0	0.0
Depreciation & Amortization	44.5	54.0	52.0	-2.0
Domestic	26,019	26,200	26,200	0
Overseas	9,452	9,200	9,100	-100
Number of Employees	35,471	35,400	35,300	-100

· Capital expenditures represent the total of newly recorded property, plant and equipment and newly recorded intangible assets.
Depreciation/amortization represents depreciation/amortization expenses for property, plant and equipment and intangible assets.

Historical Data



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Before-tax ROIC	4.6%	3.1%	4.8%	5.1%	8.7%	11.2%	4.5%	0.2%	6.0%	7.4%	6.1%	8.1%	10.4%
Invested Capital	602.7	589.6	555.3	557.3	594.6	589.6	679.7	705.9	718.2	713.2	822.8	807.6	846.3
Net Sales	1,239.5	1,160.2	1,241.5	1,322.4	1,438.6	1,501.0	1,338.5	1,173.4	1,226.9	1,303.7	1,288.8	1,385.4	1,486.1
Operating Profit	30.5	22.2	24.7	41.7	69.1	76.9	28.7	-1.3	42.6	57.4	42.0	72.3	87.2
Recurring Profit	16.2	12.1	21.0	30.8	49.0	63.9	38.7	14.2	49.1	63.6	39.3	60.6	84.2
Net Income	13.0	6.3	11.4	16.4	29.7	35.1	11.7	-10.8	25.9	23.3	30.8	38.6	51.6

Yen / US\$	120	113	108	112	117	115	101	93	86	79	82	99	109

Kawasaki, Working as one for the good of the planet

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.