

Financial Results for Second Quarter FY2013 (for the year ending March 31, 2014)

October 29, 2013

Kawasaki Heavy Industries, Ltd.

 **Kawasaki**
Powering your potential

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Summary of Financial Results

(Billion Yen)

	FY2012.2Q	FY2013.2Q		Change	
	Actual	Forecast in July	Actual	vs. FY2012.2Q	vs. Forecast in July
Orders Received	530.4	-	592.8	+ 62.3	-
Net Sales	574.9	610.0	595.0	+ 20.0	- 15.0
Operating Income	10.3	24.0	26.8	+ 16.4	+ 2.8
Recurring Profit	20.1	18.0	22.7	+ 2.6	+ 4.7
Net Income	12.4	11.5	13.0	+ 0.5	+ 1.5

vs. FY2012.2Q

< Orders Received >

Increased as a whole due to increase in orders received in Gas Turbine & Machinery and Rolling Stock segments, despite decrease in orders received in Ship & Offshore Structure and Plant & Infrastructure segments

< Net Sales >

Increased as a whole due to increase in Motorcycle & Engine and Aerospace segments, despite decrease in Precision Machinery and Plant & Infrastructure segments

< Profits >

Increased due to increased profits in Rolling Stock and Aerospace segments, and improvement in Motorcycle & Engine segment

Weighted-average exchange rates (actual & assumed)

Yen / US\$	79.92	95	97.77
Yen / EUR	101.79	120	127.73

Financial Results by Segment

(Billion Yen)

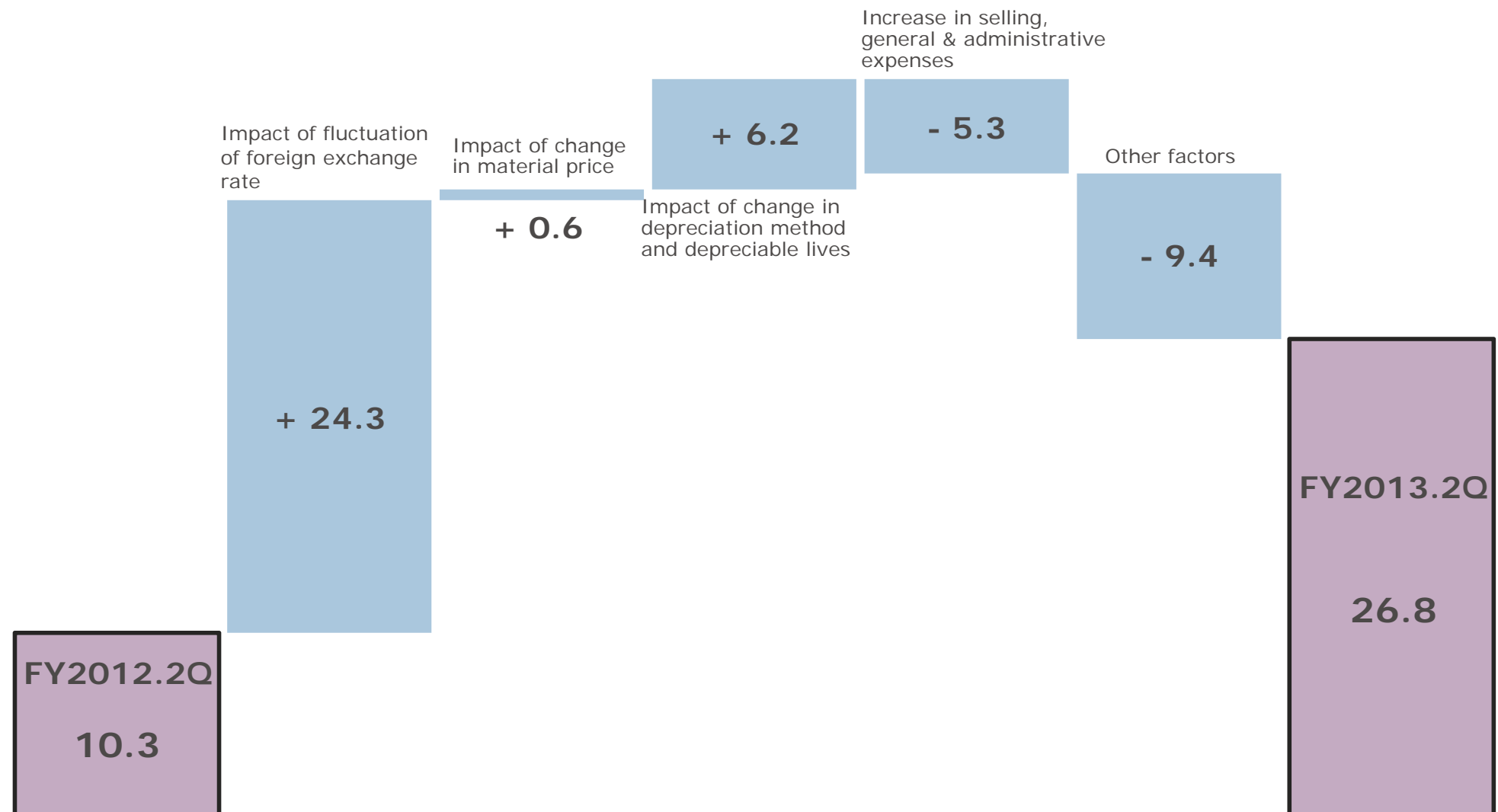
	Orders Received			Net Sales			Operating Income		
	FY2012 2Q	FY2013 2Q	Change	FY2012 2Q	FY2013 2Q	Change	FY2012 2Q	FY2013 2Q	Change
Ship & Offshore Structure	37.8	30.7	- 7.1	45.8	39.5	- 6.2	1.0	1.5	+ 0.5
Rolling Stock	66.9	75.0	+ 8.1	51.4	59.9	+ 8.5	- 3.1	3.7	+ 6.8
Aerospace	91.0	96.1	+ 5.1	109.1	122.3	+ 13.1	4.3	10.2	+ 5.8
Gas Turbine & Machinery	65.4	84.1	+ 18.6	93.2	77.3	- 15.8	3.2	3.5	+ 0.2
Plant & Infrastructure	51.3	46.1	- 5.1	46.4	39.2	- 7.1	3.1	1.7	- 1.4
Motorcycle & Engine	103.9	139.7	+ 35.7	103.9	139.7	+ 35.7	- 2.2	2.5	+ 4.8
Precision Machinery	55.6	61.7	+ 6.1	67.0	55.6	- 11.4	4.9	4.2	- 0.7
Others	58.1	59.0	+ 0.8	57.9	61.2	+ 3.2	0.6	1.3	+ 0.6
Eliminations and corporate	-	-	-	-	-	-	- 1.7	- 2.1	- 0.4
Total	530.4	592.8	+ 62.3	574.9	595.0	+ 20.0	10.3	26.8	+ 16.4

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

Details of Change in Profit I

- FY2013.2Q vs. FY2012.2Q -

【Operating Income】 + 16.4 (FY2012.2Q 10.3 → FY2013.2Q 26.8) (Billion Yen)



Details of Change in Profit II

- FY2013.2Q vs. FY2012.2Q -

(Billion Yen)

【Non-operating Income/Expenses】 - 13.8 (FY2012.2Q 9.7 → FY2013.2Q - 4.0)

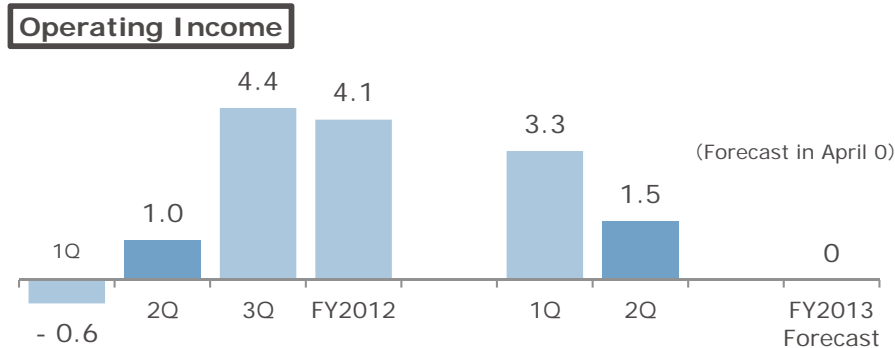
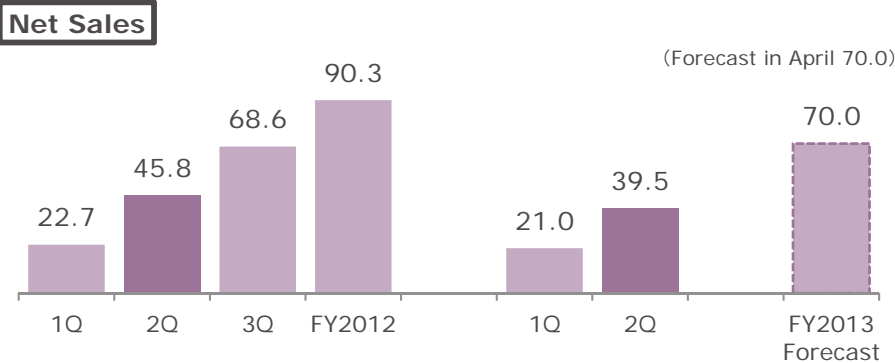
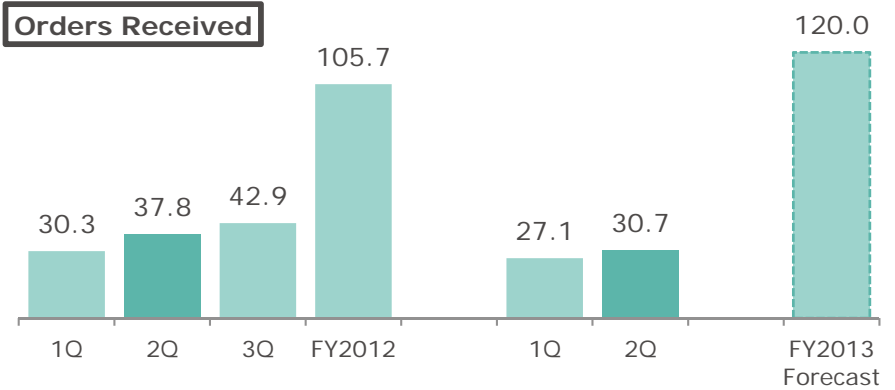
Net Interest expense (incl. dividend income)	- 0.3 (- 0.9 → - 1.2)
Equity in income of unconsolidated subsidiaries and affiliates	- 0.9 (5.9 → 5.0)
Gain and loss on foreign exchange	- 11.1 (3.5 → - 7.5)
Others	- 1.4 (1.2 → - 0.2)

【Extraordinary Income/Losses】 0 (FY2012.2Q 0 → FY2013.2Q 0)

Ship & Offshore Structure

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

(Billion Yen / In accumulated amount)



◇ FY2013.2Q (vs. FY2012.2Q)

Orders Received: Decreased despite orders received for 1 LNG carrier and 1 bulk carrier

Net Sales: Decreased due to decrease in amount of shipbuilding of bulk carriers, despite increase in amount of shipbuilding of gas carriers

Operating Income: Increased due to the effect of the depreciation of the yen, reversal of provision for loss on construction contracts accompanying yen depreciation and other factors, despite sales decrease

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

	Orders Received		Sales	
	FY2012.2Q	FY2013.2Q	FY2012.2Q	FY2013.2Q
LNG carriers	1	1	1(1)	2(1)
Small-sized LNG carriers			1(1)	1(1)
LPG carriers	1		1(1)	2(2)
Bulk carriers	2	1	18(10)	6(4)
Submarines			1(1)	2(2)
Total	4	2	22(14)	13(10)

Note: () = Sales units by percentage-of-completion method

◇ FY2013 Forecast (vs. Forecast in April)

Orders Received, Net Sales & Operating Income: No change

<For Reference> Overseas Business Development

NACKS was established in December 1995, as a fifty-fifty joint venture between KHI and China Ocean Shipping (Group) Company (COSCO), one of the world's largest shipping companies, and its capacity was expanded in 2008. At NACKS, various types of commercial vessels are built for domestic shipping companies such as COSCO, as well as for Japanese and European customers.

As a parent company of NACKS, KHI has also supported DACKS since its establishment in July 2007, which was initiated by NACKS and COSCO Group. In order to increase DACKS' competitiveness and further expand its operations, KHI acquired a 34% stake in DACKS in April 2012. As a result, KHI's actual ratio of investment in DACKS (including indirect investment) is 49%.

Meanwhile, KHI decided to participate in a joint venture project for building drill ships etc. in Brazil, where the demand for the drill ships & FPSO for the drilling and production of offshore oil is rapidly increasing, and executed a shareholders agreement with Estaleiro Enseada do Paraguaçu S.A. (EEP) in May 2012, acquiring a 30% stake in EEP.

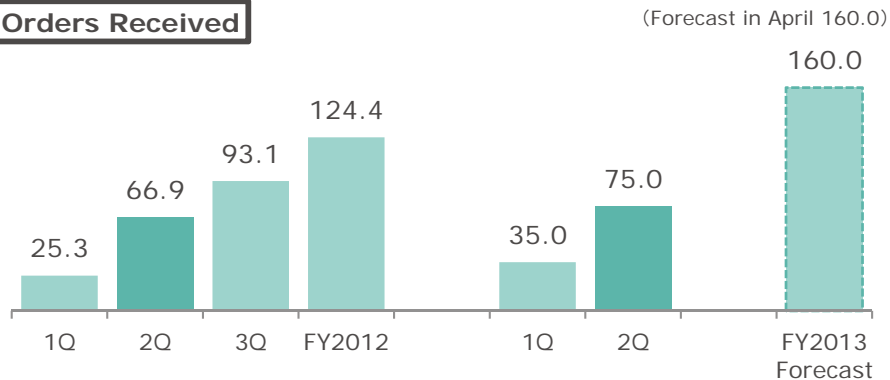
To expand operations and boost profitability at the two shipyards in China and develop the new shipyard in Brazil as a third overseas shipyard, KHI will further strengthen ties between our bases at home and these three overseas shipyards, and will actively take advantage of the features of each shipyard for shipbuilding.

Rolling Stock

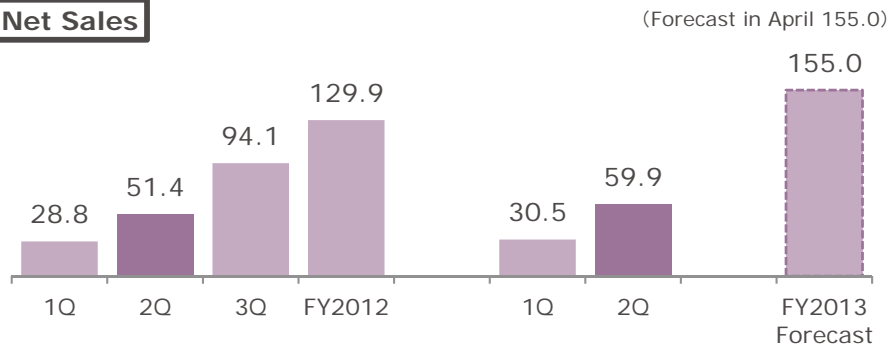
Main Products : Electric train cars (incl. Shinkansen), Electric and diesel locomotives, Passenger coaches, Gigacell® (High-Capacity, Full Sealed Ni-MH Battery)

(Billion Yen / In accumulated amount)

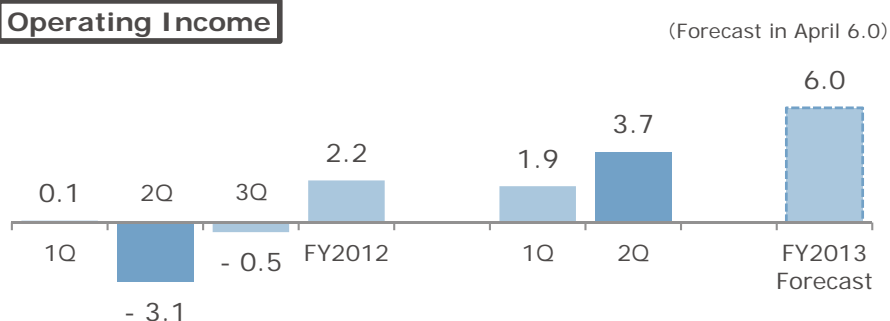
Orders Received



Net Sales



Operating Income



◇ FY2013.2Q (vs. FY2012.2Q)

Orders Received: Increased due to orders received for commuter train cars for the Long Island Rail Road and Metro-North Railroad, subway cars for the Washington Metropolitan Area Transit Authority and subway cars for the Sapporo City Transportation Bureau

Net Sales: Increased due to sales increase in overseas markets including Singapore and North America, despite a sales decrease in the domestic market

Operating Income: Improved due to increase in projects of high profitability and the effect of the depreciation of the yen

◇ FY2013 Forecast (vs. Forecast in April)

Orders Received, Net Sales & Operating Income: No change

<For Reference> Present Status of Overseas Projects

North America

- Working to win a wide range of orders, mainly heavy rails, commuter rails and high-speed rails.
- Expansion of product lineup with new rolling stock such as the efSET® and the K-Star Express® to meet demand for semi high-speed and high-speed rail projects.
- Working to win orders for high-speed rail for California, and semi high-speed rail for Amtrak (The National Railroad Passenger Corporation).

Asia

With construction and expansion plans for urban transport systems in several Asian cities, and High-speed railways projects in India. We will:

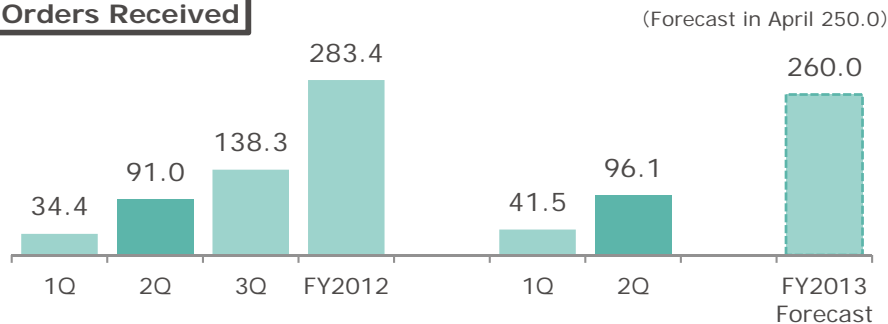
- Win new projects in markets such as Taiwan and Singapore, where we have a solid track record.
- Work to receive orders for electric locomotives and maintenance base facilities for Western Dedicated Freight Corridor (Delhi – Mumbai) (Japanese ODA project).

Aerospace

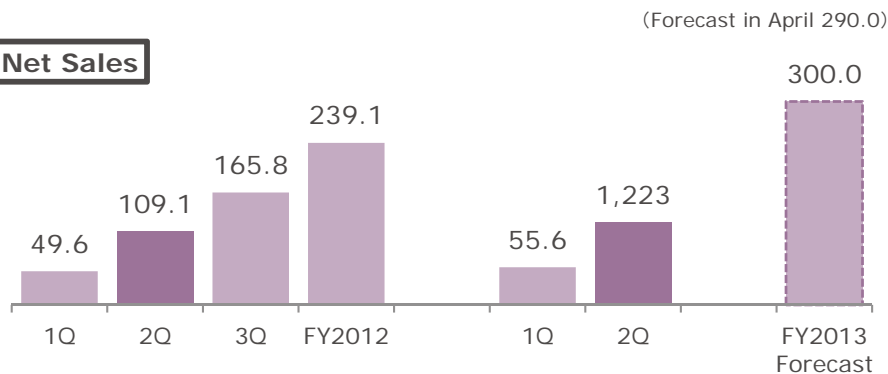
Main Products : Aircrafts for Japan Ministry of Defense, Component parts for commercial aircrafts, Commercial helicopter, Missiles, Space equipment

(Billion Yen / In accumulated amount)

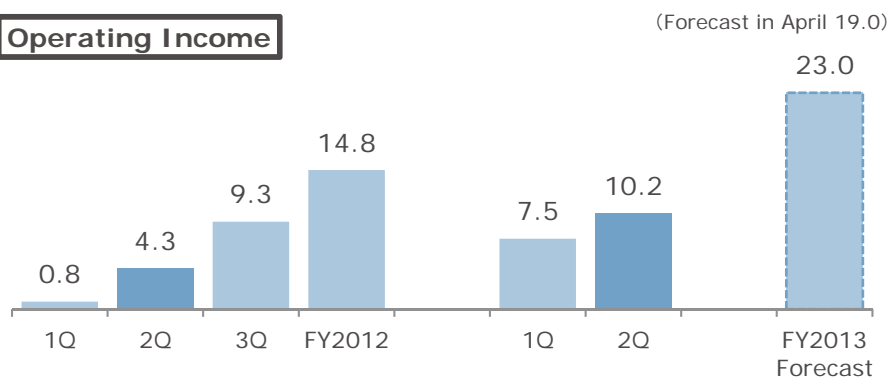
Orders Received



Net Sales



Operating Income



◇ FY2013.2Q (vs. FY2012.2Q)

Orders Received: Increased due to orders received for component parts for Boeing 787

Net Sales: Increased due to sales for the Japan Ministry of Defense (MOD) remaining constant to the previous same period and an increase in component parts for Boeing 777 and 787

Operating Income: Increased significantly due to increase in sales and the effect of the depreciation of the yen

< Sales units of component parts for commercial aircrafts >

	(unit)	
	FY2012.2Q	FY2013.2Q
Boeing 777	42	50
Boeing 767	13	7
Boeing 787	26	32
Embraer170/175	9	22
Embraer190/195	35	23

◇ FY2013 Forecast (vs. Forecast in April)

Orders Received & Net Sales: Revised up due to increase in orders received and sales for component parts for Boeing

Operating Income: Revised up due to sales increase, cost reduction and other factors

<For Reference> Present Status of Major Projects

Aircrafts for MOD

In March 2013, KHI delivered the first P-1 patrol aircraft to MOD. KHI is steadily working on the mass production of P-1, as well as C-2 transport aircraft.

Commercial aircrafts

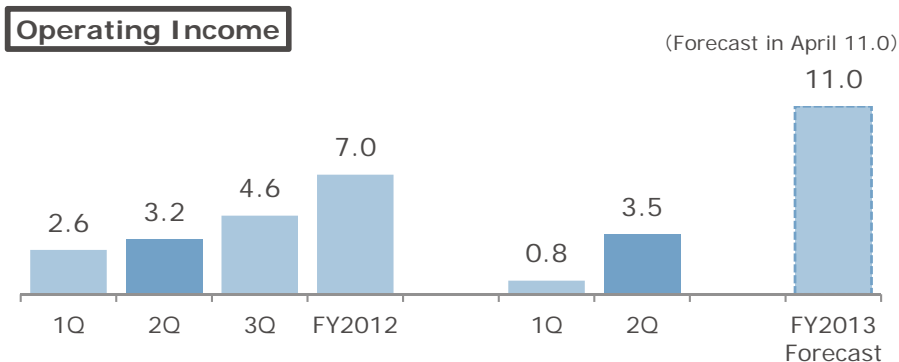
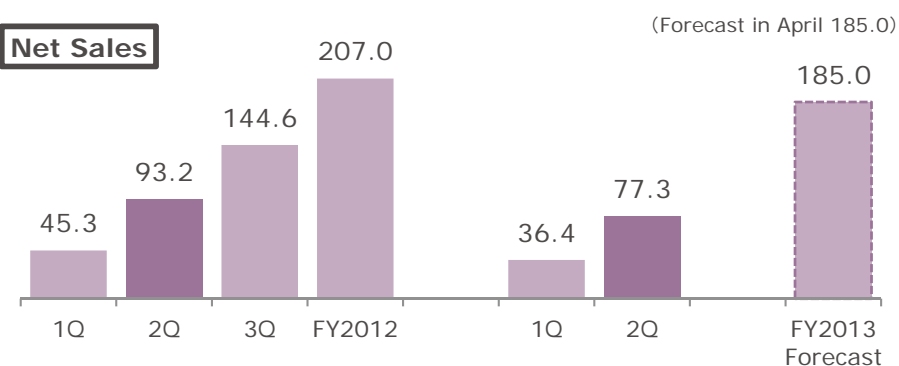
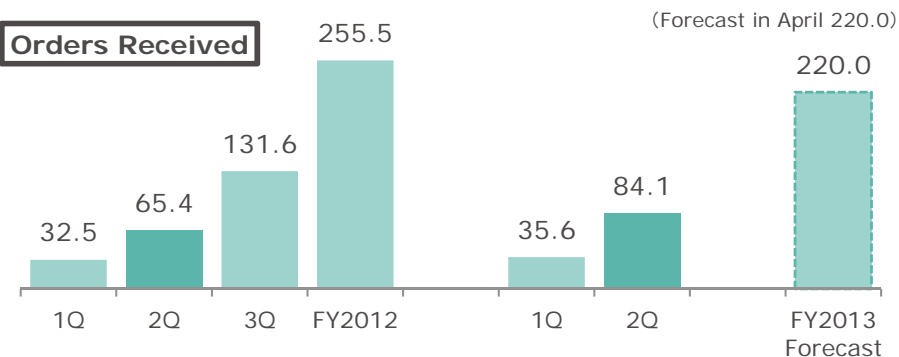
Component parts for Boeing 777- KHI's production rate for the 777 program has increased from 7 to 8.3 units per month, in correspondence to the increased production rate of the Boeing Company.

Component parts for Boeing 787- KHI has achieved delivery of the 100th component part to Boeing in August 2012 since the first delivery of it in January 2007. KHI is working to complete the production system at Kawasaki's Nagoya Works I for ramp-up production.

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)



◇ FY2013.2Q (vs. FY2012.2Q)

Orders Received: Increased due to increase in orders received for gas engines and hydraulic machinery, despite decrease due to the effect of change in accounting methodology regarding commercial aircraft jet engines

Net Sales: Excluding the decrease due to change in accounting methodology regarding commercial aircraft jet engines, and despite sales decrease in marine diesel engines, sales remained the same as in the previous same period due to sales increase in component parts of commercial aircraft jet engines and gas engines

Operating Income: Remained at the same level as in the previous same period due to substantial sales remaining unchanged from the previous same period

◇ FY2013 Forecast (vs. Forecast in April)

Orders Received, Net Sales & Operating Income: No change

<For Reference>

Major Projects for Commercial Aircraft Jet Engines

	Trent1000	TrentXWB	PW1100G - JM
Aircraft	Boeing 787	Airbus A350	Airbus A320neo
Participation Type	RRSP(※)	RRSP(※)	International Collaboration Program
Share	Approx. 8.5%	Approx. 7%	Approx. 6%
Responsible Components	Intermediate pressure compressor (IPC) module	Intermediate pressure compressor (IPC) module	Primary parts of the engine's fan and low-pressure compressor
Present Status	Development was completed and mass production started in FY2010. To be delivered in accordance with production schedule of airplanes.	First flight test was performed in June 2013, and flight tests are currently ongoing.	Made decision to collaborate in a program for development and production. Design work in progress.

(※)Risk & Revenue Sharing Partner

In July 2007, KHI has reached a formal agreement with Rolls-Royce plc. to participate in the development and production of the Trent 1000-TEN and Trent XWB-97 engines as a RRSP.

Energy and Environmental Products

The L30A, a 30MW class Gas Turbine, for which KHI completed development in February 2012, has been operating very successfully at its first commercial plant. Also, KHI is enhancing its after-sales services through start of operations of a gas turbine overhaul facility in Malaysia.

Furthermore, KHI is building a track record in overseas markets including the first delivery of a gas engine to India in June 2013 and two gas engines to the United States. KHI is also reinforcing the overseas promotion of our gas engines, such as by establishing a sales division in Malaysia.

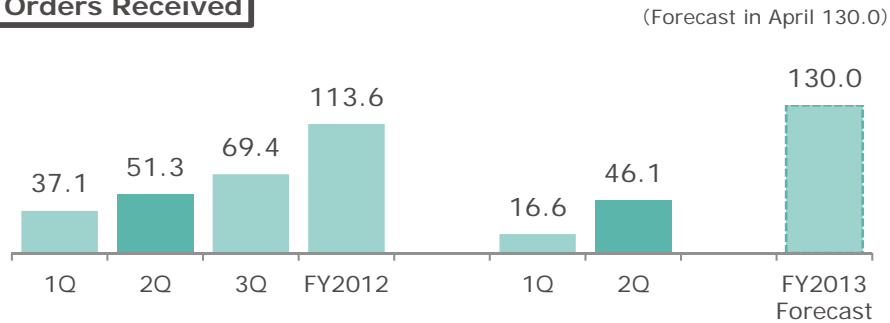
In addition, KHI established a new department in April 2013 to enhance its energy solution business. KHI will actively develop our Energy and Environmental business in domestic and overseas markets.

Plant & Infrastructure

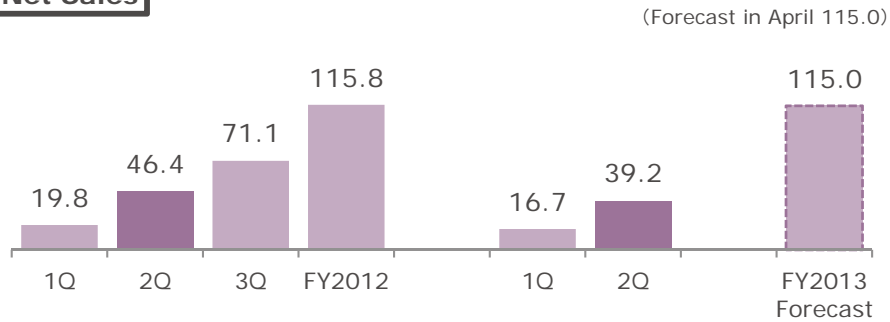
Main Products: Industrial plants (cement, fertilizer and others), Power plants, LNG tanks, Municipal refuse incineration plants, Tunnel boring machines, Crushing machines

(Billion Yen / In accumulated amount)

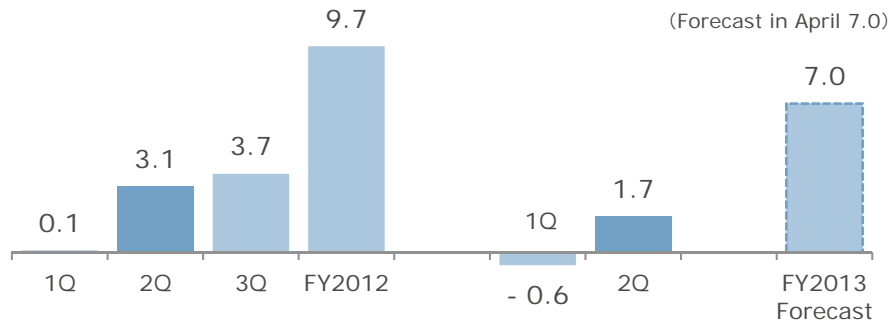
Orders Received



Net Sales



Operating Income



◇ FY2013.2Q (vs. FY2012.2Q)

Orders Received: Decreased from the previous same period, which was marked by a large-scale overseas project

Net Sales: Decreased due to sales decrease of material handling systems and a large-scale overseas project, despite sales increase of shield machines and environmental equipment projects

Operating Income: Decreased due to decrease in sales and a lower profit margin

◇ FY2013 Forecast (vs. Forecast in April)

Orders Received, Net Sales & Operating Income: No change

<For Reference>

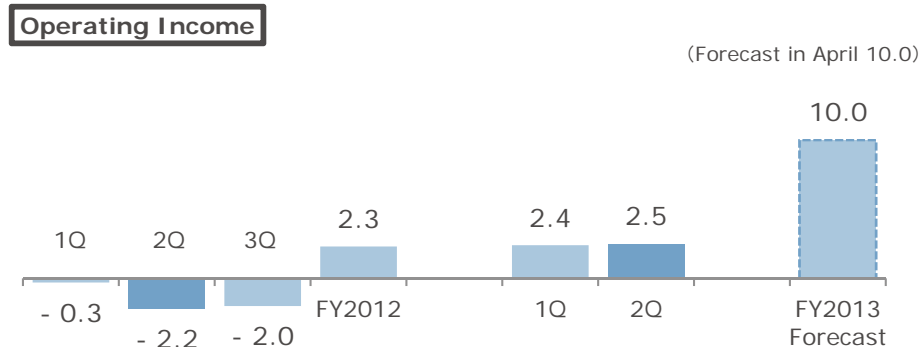
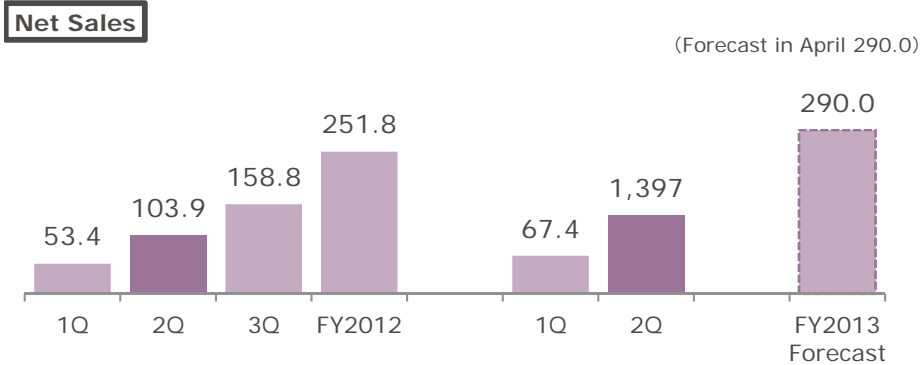
Orders Received of Energy and Environmental Projects

- With the expected increase in energy consumption worldwide, there are a growing number of projects to construct floating LNG facilities. Under these circumstances, KHI has a proven track record of boilers for land and marine use (over 1,200 units), and has achieved appraisal for reliable and robust boilers that are suitable for even severe offshore conditions. And in July 2011, KHI won a contract with Technip to supply 7 units of boilers for Shell's floating LNG facility, "Prelude", the world's first floating LNG facility.
- In April 2012, KHI won a contract for 4 massive cryogenic tanks for the Ichthys LNG Project in Australia. This project is very important for Japan, in terms of providing a stable supply of energy and the decentralization of natural gas supply, as approximately 70% of the Ichthys LNG to be delivered to Japan. KHI will support this project with its proven track record and EPC technologies.

Motorcycle & Engine

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

(Billion Yen / In accumulated amount)



◇ **FY2013.2Q** (vs. FY2012.2Q)

Net Sales: Increased due to sales increase of motorcycles in the United States and emerging markets, mainly Thailand and Indonesia

Operating Income: Improved due to sales increase, improvement in profitability and other factors

◇ **FY2013 Forecast** (vs. Forecast in April)

Net Sales & Operating Income: No change

<For Reference>

Businesses Development in Emerging Countries

KHI will capture the steadily growing demand for leisure motorcycles in the market of emerging countries.

- In order to respond to market growth and to further reinforce business operations in emerging countries, KHI is constructing a new plant in Indonesia and expanding the plant in Thailand to boost production capacity.
- Of the 2013 models, Ninja 250/300 is a success all over the world including emerging markets.
- KHI has worked on the "Pulsar 200NS" with India's Bajaj to make a number of improvements for the Indonesian market. The new Pulsar 200NS is being released under the "Kawasaki Bajaj" brand.
- Kawasaki Heavy Industries Management (Shanghai), Ltd. started import and sales of motorcycles for the Chinese market.

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

	FY2012.2Q		FY2012		FY2013.2Q		FY2013 Forecast	
	Unit	Amount	Unit	Amount	Unit	Amount	Unit	Amount
Domestic	8	6.7	14	12.1	10	7.8	14	12.1
North America (incl. Canada)	45 (28)	28.3	118 (74)	79.7	52 (30)	41.6	117 (68)	89.5
Europe	21	14.8	55	38.5	19	17.1	56	41.2
Emerging Countries & Others	168	39.0	357	86.2	186	54.5	433	107.9
Total	242	88.8	544	216.5	267	121.0	620	250.7

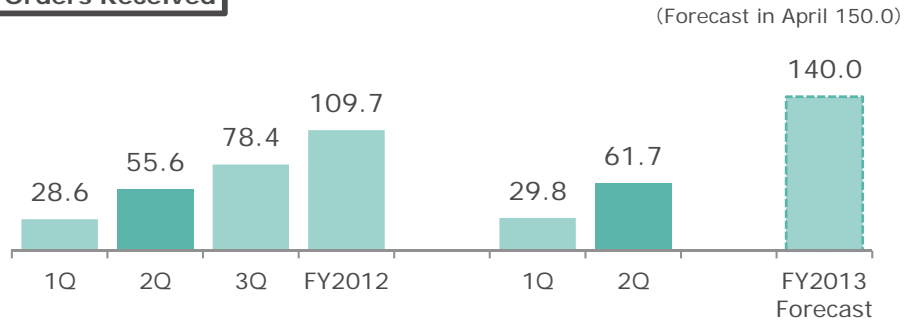
Note: 1) Sales units and amount include the following products.
 Units: Motorcycles, All-Terrain Vehicles (ATVs), Utility Vehicles and Personal Watercraft (Jet Ski®)
 Amount: The products mentioned above and parts for those products.
 2) Figures in the parenthesis () represent motorcycle sales units.

Precision Machinery

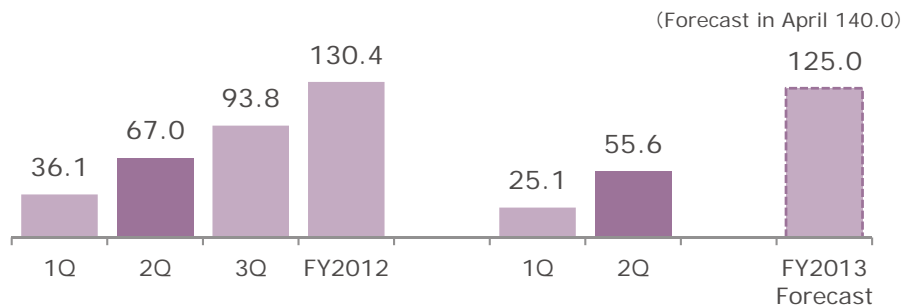
Main Products: Hydraulic components (pumps, motors & valves), Hydraulic systems for industrial use, Hydraulic marine machinery, Precision Machinery / Electric-powered devices, Industrial Robots

(Billion Yen / In accumulated amount)

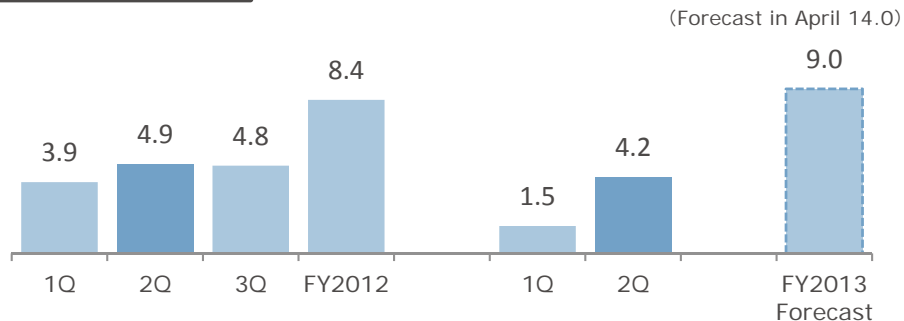
Orders Received



Net Sales



Operating Income



◇ FY2013.2Q (vs. FY2012.2Q)

Orders Received: Increased due to increase in orders received for industrial robots for automotive industries and clean robots for semiconductor production equipment

Net Sales: Decreased due to sales decrease of hydraulic components for construction machinery in emerging countries, mainly China

Operating Income: Decreased due to sales decrease and other factors

◇ FY2013 Forecast (vs. Forecast in April)

Orders Received & Net Sales: Revised down due to expected recovery of construction machinery market in emerging countries, mainly China, being slower than initially envisioned

Operating Income: Revised down due to sales decrease

<For Reference> Businesses Development in Emerging Countries

Hydraulic sector

In August 2006, production of hydraulic pumps started at a Chinese subsidiary in Suzhou. Also, in Zhejiang, a joint venture of hydraulic machinery manufacturing was established with a Chinese company and production started in April 2010, while a sales subsidiary in Shanghai provides the products manufactured at the above mentioned manufacturing companies to customers throughout China.

Demand remains at a low level in the Chinese construction machinery market though it has bottomed out. However, the continued growth of this market over the medium- to long-term is expected as construction of housing for low-income families and energy-and transportation-related infrastructure projects are still likely to go forward.

Meanwhile, spurred by a rapidly growing economy, India's hydraulic excavator market is booming. In order to cater to the growing demand for local production, KHI has set up a joint venture for manufacturing, sales, and servicing of hydraulic components for construction machinery in February 2012.

Robot sector

In China, as the demand for automated manufacturing grows due to rising labor and other costs, a new production plant for robots, on the site of our hydraulic components plant in Suzhou, China, is planned to start operations in 2015.

Financial Condition and Cash Flows

【Financial Condition】

(Billion Yen)

	FY2012		FY2013 End of September 2013
	End of September 2012	End of March 2013	
Total Assets	1,380.8	1,466.2	1,557.4
Shareholders' Equity (Ratio of shareholders' equity to total assets)	306.4 (22.1%)	338.2 (23.0%)	326.4 (20.9%)
Interest-bearing debt (Net Interest-bearing debt)	472.3 (443.5)	484.6 (446.1)	583.1 (551.0)
Net Debt Equity Ratio	144.7%	131.9%	168.7%

Note: Interest-bearing debt includes lease obligations

【Cash Flows】

(Billion Yen)

	FY2012.2Q	FY2013.2Q
Cash flows from operating activities	- 19.4	- 45.6
Cash flows from investing activities	- 46.1	- 41.9
Free Cash Flows	- 65.6	- 87.5
Cash flows from financing activities	59.2	80.9

Consolidated Operating Performance

(Billion Yen)

	FY2012 Actual	FY2013 Forecast		Change	
		in April	in October	vs. FY2012	vs. Forecast in April
Orders Received	1,369.5	1,450.0	1,450.0	+ 80.5	0
Net Sales	1,288.8	1,380.0	1,380.0	+ 91.2	0
Operating Income	42.0	60.0	60.0	+ 18.0	0
Recurring Profit	39.3	53.0	53.0	+ 13.7	0
Net Income	30.8	34.0	34.0	+ 3.2	0

vs. Forecast in April

< Orders Received >

Remains unchanged due to increase in Aerospace segment due to increase in orders received for component parts for Boeing, despite decrease in Precision Machinery segment, where recovery of the construction machinery market in emerging countries, mainly China, are expected to be slower than initially envisioned

< Net Sales & Profits >

Remain unchanged due to increase in sales and profits in Aerospace segment due to sales increase for component parts for Boeing, cost reduction and other factors, despite sales and profits decrease in Precision Machinery segment due to decrease in sales of hydraulic components for construction machinery in emerging countries, mainly China

Exchange Rates (actual & assumed)

Yen / US\$	82.86	95	95
Yen / EUR	107.76	120	130

Note : Assumed rates are applied to the outstanding foreign exchange exposure as of October 29, 2013

(For Reference)
Impact on profit by FX fluctuation of 1 Yen
(Billion Yen)

	Operating Income	Recurring Profit
US\$	1.3(1.7)	1.1(0.8)
EUR	0.2(0.2)	0(0)

* Figures in the parenthesis () represent impact as of July 30, 2013

Forecast by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2012 Actual	FY2013 Forecast		FY2012 Actual	FY2013 Forecast		FY2012 Actual	FY2013 Forecast	
		in April	in October		in April	in October		in April	in October
Ship & Offshore Structure	105.7	120.0	120.0	90.3	70.0	70.0	4.1	0	0
Rolling Stock	124.4	160.0	160.0	129.9	155.0	155.0	2.2	6.0	6.0
Aerospace	283.4	250.0	260.0	239.1	290.0	300.0	14.8	19.0	23.0
Gas Turbine & Machinery	255.5	220.0	220.0	207.0	185.0	185.0	7.0	11.0	11.0
Plant & Infrastructure	113.6	130.0	130.0	115.8	115.0	115.0	9.7	7.0	7.0
Motorcycle & Engine	251.8	290.0	290.0	251.8	290.0	290.0	2.3	10.0	10.0
Precision Machinery	109.7	150.0	140.0	130.4	140.0	125.0	8.4	14.0	9.0
Others	125.1	130.0	130.0	124.2	135.0	140.0	1.2	3.0	4.0
Eliminations and corporate	-	-	-	-	-	-	- 8.0	- 10.0	- 10.0
Total	1,369.5	1,450.0	1,450.0	1,288.8	1,380.0	1,380.0	42.0	60.0	60.0

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

R&D/CAPEX/Number of Employees

(Billion Yen / Persons)

	FY2012 Actual	FY2013 Forecast		
		in April	in October	Change
R&D Expenses	41.7 (18.2)	44.0 -	43.0 (18.1)	- 1.0
CAPEX ^{※2}	78.6 (35.4)	84.0 -	101.0 (41.5)	+ 17.0
Depreciation & Amortization	48.3 (21.9)	43.0 -	40.0 (17.9)	- 3.0
Domestic	25,222	25,700	25,700	0
Overseas	8,788	9,200	9,200	0
Number of Employees	34,010	34,900	34,900	0

※1: Figures in parenthesis () represent the results of the second quarter

※2: Increase in property, plant and equipment and intangibles

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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.