

**Report of Earnings and Financial Statements for the  
Six Months Ended September 30, 2014 (Consolidated)**  
(Prepared pursuant to Japanese GAAP)

October 29, 2014

Listed company's name: **Kawasaki Heavy Industries, Ltd.**  
 Listed on: 1st sections of the TSE, and NSE  
 Stock code: 7012  
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Scheduled dates:

Submission of quarterly securities filing: November 10, 2014

Commencement of dividend payments: December 2, 2014

Supplementary materials to quarterly earnings: Available

Quarterly earnings presentation: Conducted (for institutional investors and analysts)

**1. Consolidated Financial Results for the Six Months ended September 30, 2014**  
(April 1 – September 30, 2014)

(Amounts in millions of yen rounded down to the nearest million yen)

(1) Operating Results

(Percentage figures represent changes versus the year-ago period)

|  | Net sales   |     | Operating income |        | Recurring profit |      | Net income  |      |
|--|-------------|-----|------------------|--------|------------------|------|-------------|------|
|  | million yen | %   | million yen      | %      | million yen      | %    | million yen | %    |
| Six Months Ended<br>September 30, 2014 | 633,422     | 6.4 | 23,189           | (13.6) | 25,963           | 13.9 | 18,185      | 39.8 |
| Six Months Ended<br>September 30, 2013 | 595,077     | 3.4 | 26,840           | 158.2  | 22,788           | 13.0 | 13,001      | 4.6  |

Note: Comprehensive income September 30, 2014: 21,181million yen (29.2%)

September 30, 2013: 29,949million yen 190.7%

|  | Earnings per share | Earnings per share<br>– diluted |
|--|--------------------|---------------------------------|
|  | yen                | yen                             |
| Six Months Ended<br>September 30, 2014 | 10.87              | -                               |
| Six Months Ended<br>September 30, 2013 | 7.77               | -                               |

(2) Financial Condition

|                    | Total assets | Net assets  | Equity Ratio |
|--------------------|--------------|-------------|--------------|
|                    | million yen  | million yen | %            |
| September 30, 2014 | 1,630,986    | 382,542     | 22.5         |
| March 31, 2014     | 1,554,430    | 376,686     | 23.3         |

Note: Shareholders' equity: September 30, 2014 : 368,194 million yen

March 31, 2014 : 363,041 million yen

## 2. Dividends

| Record date or term                   | Dividend per share   |                       |                      |                       |             |
|---------------------------------------|----------------------|-----------------------|----------------------|-----------------------|-------------|
|                                       | End of first quarter | End of second quarter | End of third quarter | End of financial year | Full year   |
| Year ended March 31, 2014             | yen<br>-             | yen<br>0.00           | yen<br>-             | yen<br>6.00           | yen<br>6.00 |
| Year ending March 31, 2015            | -                    | 3.00                  |                      |                       |             |
| Year ending March 31, 2015 (forecast) |                      |                       | -                    | 5.00                  | 8.00        |

Note: Revisions to the most recently announced dividend forecast: Yes

## 3. Forecast of Consolidated Earnings for the Year Ending March 31, 2015 (April 1, 2014 – March 31, 2015)

(Percentage figures represent changes versus the year-ago period)

|           | Net sales   |     | Operating income |     | Recurring profit |      | Net income  |      | Earnings per share |
|-----------|-------------|-----|------------------|-----|------------------|------|-------------|------|--------------------|
|           | million yen | %   | million yen      | %   | million yen      | %    | million yen | %    | yen                |
| Full year | 1,510,000   | 8.9 | 77,000           | 6.4 | 72,000           | 18.8 | 48,000      | 24.3 | 28.71              |

Note: Revision to the most recently announced earnings forecast: Yes

## 4. Notes

- 1) Changes affecting the status of material subsidiaries (scope of consolidation): None
- 2) Accounting procedures specific to preparation of quarterly consolidated financial statements: Yes  
\*For further details, see “Accounting procedures specific to preparation of quarterly consolidated financial statements” on page 10 in the Accompanying Materials.
- 3) Changes in accounting policies, changes in accounting estimates, and correction of errors
  - (1) Changes in accounting policies in accord with revisions to accounting standards: None
  - (2) Changes in accounting policies other than (1): None
  - (3) Changes in accounting estimates: None
  - (4) Correction of errors: None
- 4) Number of shares issued and outstanding (common stock)
  - (1) Number of shares issued as of period-end (including treasury stock)
    - September 30, 2014: 1,671,892,659 shares
    - March 31, 2014: 1,671,892,659 shares
  - (2) Number of shares held in treasury as of period-end
    - September 30, 2014: 163,053 shares
    - March 31, 2014: 141,710 shares
  - (3) Average number of shares during respective periods
    - Six months ended September 30, 2014: 1,671,741,376 shares
    - Six months ended September 30, 2013: 1,671,782,411 shares

### **Quarterly review status**

This report is exempt from the quarterly review of accounts conducted in accord with Japan's Financial Instruments and Exchange Act. As of this report's publication, the quarterly review of the quarterly financial results had not been completed.

### **\*Appropriate Use of Financial Forecasts and Other Important Matters**

#### *Forward-Looking Statements*

These materials contain various forward-looking statements and other forecasts regarding performance and other matters. Such statements are based on information available at the time of preparation, and do not mean that the Company promises to achieve these figures. Actual results may differ from those expressed or implied by forward-looking statements due to a range of factors. For assumptions underlying earnings forecasts and other information regarding the use of such forecasts, refer to "Consolidated earnings outlook" on page 9 in the Accompanying Materials.

#### *How to Obtain Supplementary Briefing Material on Quarterly Financial Results and Details of the Quarterly Financial Results Briefing*

The Company plans to conduct a briefing for institutional investors and analysts on Wednesday October 29, 2014, and to post the briefing material on quarterly financial results to be used for the briefing on TDnet and the Company's website simultaneously with the announcement of financial results.

## Accompanying Materials – Contents

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## **1. Qualitative Information and Financial Statements**

### **(1) Consolidated operating results**

In the first half of the fiscal year ending March 31, 2015, the global economy was expected to grow moderately, particularly the US economy, which is on a recovery track, but the situation now bears watching as there are risks of an economic downturn stemming from factors such as concerns about economic stagnation in the eurozone and emerging countries, the tapering of monetary easing in the US, as well as heightened geopolitical tensions.

The prospects for the Japanese economy are somewhat opaque, as the recovery in personal consumption has been materializing slowly due to the recoil drop in spending in the wake of the demand surge preceding the consumption tax hike, as well as the impacts of inclement summer weather. However, the economy is forecast to gradually head towards a recovery, underpinned by the high level of public investment and the improvement in employment and income environment. Still, an eye must be kept on any impacts from sudden foreign exchange rate movements and the situation with the follow-on consumption tax increase.

Amid such an economic environment, the Group achieved an overall significant increase in orders received in the fiscal first half, centered on order growth in segments such as Ship & Offshore Structure and Plant & Infrastructure. First-half sales also increased overall, as despite a decline in sales in segments such as Ship & Offshore Structure and Rolling Stock, there was a considerable increase in sales in the Aerospace segment, along with other factors. First-half operating income declined on the whole, as the drop in operating income in segments including Rolling Stock, Ship & Offshore Structure, and Gas Turbine & Machinery offset the increase in operating income in the Aerospace and Precision Machinery segments.

The Group's first half consolidated orders received increased ¥113.7 billion year on year to ¥706.5 billion. Consolidated net sales totaled ¥633.4 billion, a ¥38.3 billion year-on-year increase, but consolidated operating income decreased ¥3.6 billion year on year to ¥23.1 billion, due to the decline in profit margin caused by changes to the sales mix, among other factors. Consolidated recurring profit increased ¥3.1 billion to ¥25.9 billion, largely due to the narrowing of foreign exchange losses, while consolidated net income grew ¥5.1 billion year on year to ¥18.1 billion, as there was also a decline in tax expense.

Consolidated operating performance in the first half of fiscal year is summarized by segment below.

### Segment Information

Segment net sales, operating income, and orders received (billions of yen)

|                           | Six months ended September 30 |                  |           |                  |                |                  | Orders received               |          |                |
|---------------------------|-------------------------------|------------------|-----------|------------------|----------------|------------------|-------------------------------|----------|----------------|
|                           | 2014 (A)                      |                  | 2013 (B)  |                  | Change (A – B) |                  | Six months ended September 30 |          |                |
|                           | Net sales                     | Operating income | Net sales | Operating income | Net sales      | Operating income | 2014 (A)                      | 2013 (B) | Change (A – B) |
| Ship & Offshore Structure | 34.8                          | (0.7)            | 39.5      | 1.5              | (4.6)          | (2.2)            | 77.1                          | 30.7     | 46.4           |
| Rolling Stock             | 56.9                          | 1.2              | 59.9      | 3.7              | (3.0)          | (2.5)            | 91.5                          | 75.0     | 16.5           |
| Aerospace                 | 144.8                         | 13.5             | 122.3     | 10.2             | 22.4           | 3.3              | 114.4                         | 96.1     | 18.3           |
| Gas Turbine & Machinery   | 83.8                          | 1.4              | 77.3      | 3.5              | 6.5            | (2.0)            | 85.9                          | 84.1     | 1.8            |
| Plant & Infrastructure    | 47.2                          | 1.0              | 39.2      | 1.7              | 8.0            | (0.7)            | 66.9                          | 46.1     | 20.7           |
| Motorcycle & Engine       | 137.7                         | 1.0              | 139.7     | 2.5              | (1.9)          | (1.5)            | 137.7                         | 139.7    | (1.9)          |
| Precision Machinery       | 63.7                          | 5.1              | 55.6      | 4.2              | 8.1            | 0.8              | 64.8                          | 61.7     | 3.0            |
| Other                     | 64.1                          | 1.2              | 61.2      | 1.3              | 2.9            | (0.1)            | 67.8                          | 59.0     | 8.7            |
| Adjustments               | -                             | (0.7)            | -         | (2.1)            | -              | 1.3              | -                             | -        | -              |
| Total                     | 633.4                         | 23.1             | 595.0     | 26.8             | 38.3           | (3.6)            | 706.5                         | 592.8    | 113.7          |

Notes: 1. Net sales include only sales to external customers.

2. The Motorcycle & Engine segment's orders received are equal to its net sales as production is based mainly on estimated demand.

### Ship & Offshore Structure

Consolidated orders received increased ¥46.4 billion year on year to ¥77.1 billion, as a result of booking orders for two LNG carriers and an LPG carrier.

Consolidated net sales decreased ¥4.6 billion year on year to ¥34.8 billion, as growth in the amount of construction of LNG carriers was overshadowed by a decline in the amount of construction of other vessels, most notably LPG carriers and bulk carriers.

As a result of the decline in sales, the segment posted a consolidated operating loss of ¥0.7 billion, a ¥2.2 billion deterioration year on year.

## **Rolling Stock**

Consolidated orders received grew ¥16.5 billion to ¥91.5 billion, largely as a result of an order from the Singapore Land Transport Authority for subway train cars for new lines.

Consolidated net sales decreased ¥3.0 billion year on year to ¥56.9 billion, as a result of a decline in overseas sales to customers in North America and Asia.

Consolidated operating income decreased ¥2.5 billion year on year to ¥1.2 billion, attributable to a decline in sales and profit margin.

## **Aerospace**

Consolidated orders received grew ¥18.3 billion year on year to ¥114.4 billion, due to an increase in orders from Japan's Ministry of Defense and for component parts for the Boeing 787.

Consolidated net sales increased ¥22.4 billion year on year to ¥144.8 billion, largely due to the growth in sales to Japan's Ministry of Defense and of component parts for Boeing 787.

Consolidated operating income increased ¥3.3 billion year on year to ¥13.5 billion largely as a result of the increase in sales.

## **Gas Turbine & Machinery**

Consolidated orders received increased ¥1.8 billion year on year to ¥85.9 billion, attributable to the increase in orders for industrial gas turbines, natural gas compression modules, and other products.

Consolidated net sales grew ¥6.5 billion year on year to ¥83.8 billion, due to an increase in sales of hydraulic machinery, aircraft engine components, and other products.

Despite the increase in sales, consolidated operating income fell ¥2.0 billion year on year to ¥1.4 billion, due to the amortization of development costs for the aircraft engine new program, R&D costs, and other factors.

## **Plant & Infrastructure**

Consolidated orders received totaled ¥66.9 billion, a ¥20.7 billion increase year on year, due to an increase in orders for boiler power plant projects and earth-moving machinery.

Consolidated net sales grew ¥8.0 billion year on year to ¥47.2 billion, attributable to the increase in overseas plant projects and other factors.

Despite the increase in sales, consolidated operating income declined ¥0.7 billion year on year to ¥1.0 billion, due to the decline in profit margin, among other factors.

### **Motorcycle & Engine**

Consolidated net sales decreased ¥1.9 billion year on year to ¥137.7 billion, as the decline in motorcycle sales in countries in Latin America and Thailand negated the increase in motorcycle sales to Indonesia and countries in Europe.

Consolidated operating income totaled ¥1.0 billion, a ¥1.5 billion year-on-year decline, largely attributable to the drop in sales and profit margin.

### **Precision Machinery**

Consolidated orders received grew ¥3.0 billion to ¥64.8 billion. The increase was due to growth in orders for industrial robots for the automotive industry, a rise in orders of hydraulic components for the construction machinery market in Japan, and other factors.

Consolidated net sales increased ¥8.1 billion year on year to ¥63.7 billion, attributable to the growth in sales for industrial robots for the automotive industry, a rise in sales of hydraulic components for the construction machinery market in Japan, and other factors.

Consolidated operating income was up ¥0.8 billion year on year to ¥5.1 billion, due to the growth in sales and other factors.

### **Other Operations**

Consolidated net sales increased ¥2.9 billion year on year to ¥64.1 billion.

Consolidated operating income decreased ¥0.1 billion year on year to ¥1.2 billion.

## **(2) Consolidated financial position**

At September 30, 2014, consolidated assets totaled ¥1,630.9 billion, a ¥76.5 billion increase from March 31, 2014. The increase was largely attributable to inventory growth stemming from progress toward completion of construction jobs and capital expenditure that added to property, plant and equipment. Consolidated liabilities at September 30, 2014, were ¥1,248.4 billion, a ¥70.6 billion increase from March 31, 2014. The rise was largely due to the increase in commercial paper and other interest-bearing debt, which offset the decline in trade payables. At September 30, 2014, interest-bearing debt totaled ¥541.2 billion, an increase of ¥96.6 billion from March 31, 2014. At September 30, 2014, consolidated net assets totaled ¥382.5 billion, a ¥5.8 billion increase from March 31, 2014, largely attributable to the posting of quarterly net income despite the payment of dividends.

### **(3) Consolidated earnings outlook**

Despite the opaque economic prospects in the eurozone and emerging countries, the economic environment surrounding the Group's business remains solid. This, in tandem with the fact that the yen has been weaker than initially expected, has prompted us to revise our consolidated earnings outlook for the current fiscal year ending March 31, 2015. We have increased our consolidated net sales forecast to ¥1,510.0 billion, up by ¥20.0 billion from our previous forecast. We have similarly raised our profit forecasts, as despite a drop in profits in the motorcycle business attributable to lower profit margins in emerging countries, higher overall profits are expected as a result of the yen's depreciation, and other factors. Consequently, we now expect consolidated operating income of ¥77.0 billion (up ¥4.0 billion versus the previous forecast), consolidated recurring profit of ¥72.0 billion (up ¥6.0 billion), and consolidated net income of ¥48.0 billion (up ¥5.5 billion).

Due to an unofficial order for a large overseas project in the Plant & Infrastructure segment, we are forecasting consolidated orders received of ¥1,640.0 billion, up by ¥50.0 billion versus our previous forecast.

The Company's earnings forecasts assume exchange rates of ¥105 to the US dollar and ¥135 to the euro.

In conjunction with these upward revisions to consolidated operating results, we have increased our forecast annual dividend by 1 yen per share versus our previous forecast. As a result, we are now planning to pay an annual dividend of 8 yen per share (3 yen interim dividend, 5 yen year-end dividend).

#### *Note regarding consolidated earnings outlook*

The above earnings outlook is based on information available at the time of preparation, and includes risks and uncertainties. We therefore discourage making investment decisions depending solely on this outlook. Actual earnings may differ materially from this outlook, due to a variety of important factors stemming from changes the external environment and/or the Company's internal environment. Important factors that impact actual operating performance include, but are not limited to, the economic situation surrounding the Company's scope of business, foreign exchange rates, in particular the yen/dollar exchange rate, tax codes and other regulatory system-related issues.

## **2. Summary Information (Notes)**

### **(1) Changes affecting the status of material subsidiaries (scope of consolidation)**

Not applicable

### **(2) Accounting procedures specific to preparation of quarterly consolidated financial statements**

The Company calculates tax expense by rationally estimating its effective tax rate after application of deferred-tax accounting to pretax net income for the fiscal year, which includes the second quarter under review, and multiplying quarterly pretax net income by said estimated effective tax rate. If unable to use the estimated effective tax rate, the Company calculates tax expense by multiplying the statutory effective tax rate by quarterly pretax net income adjusted to reflect material differences other than temporary differences.

Income taxes are reported inclusive of income tax adjustments.

### 3. Consolidated Financial Statements

#### (1) Consolidated balance sheets

|  |                                    | Millions of yen         |                             |
|--|------------------------------------|-------------------------|-----------------------------|
|  |                                    | As of<br>March 31, 2014 | As of<br>September 30, 2014 |
| <b>Assets</b>                                  |                                    |                         |                             |
| Current assets                                 |                                    |                         |                             |
| Cash on hand and in banks                      |                                    | 47,949                  | 37,187                      |
| Trade receivables                              |                                    | 415,664                 | 410,291                     |
| Merchandise and finished products              |                                    | 56,673                  | 58,844                      |
| Work in process                                |                                    | 302,511                 | 343,607                     |
| Raw materials and supplies                     |                                    | 98,848                  | 106,999                     |
| Other current assets                           |                                    | 87,211                  | 107,264                     |
| Allowance for doubtful receivables             |                                    | (3,104)                 | (2,939)                     |
|  | Total current assets               | 1,005,754               | 1,061,255                   |
| Fixed assets                                   |                                    |                         |                             |
| Net property, plant and equipment              |                                    | 383,912                 | 401,304                     |
| Intangible assets                              |                                    | 17,262                  | 16,824                      |
| Investments and other assets                   |                                    |                         |                             |
| Other  |                                    | 148,210                 | 152,460                     |
| Allowance for doubtful receivables             |                                    | (710)                   | (858)                       |
|  | Total investments and other assets | 147,500                 | 151,601                     |
|  | Total fixed assets                 | 548,675                 | 569,730                     |
| <b>Total assets</b>                            |                                    | 1,554,430               | 1,630,986                   |
| <b>Liabilities</b>                             |                                    |                         |                             |
| Current liabilities                            |                                    |                         |                             |
| Trade payables                                 |                                    | 252,107                 | 209,887                     |
| Electronically recorded obligations-operating  |                                    | 53,923                  | 72,500                      |
| Short-term debt                                |                                    | 190,757                 | 154,688                     |
| Income taxes payable                           |                                    | 10,100                  | 6,481                       |
| Accrued bonuses                                |                                    | 22,118                  | 17,637                      |
| Provision for losses on construction contracts |                                    | 13,560                  | 9,364                       |
| Other provisions                               |                                    | 10,535                  | 9,708                       |
| Advances from customers                        |                                    | 137,598                 | 151,777                     |
| Other  |                                    | 104,714                 | 200,737                     |
|  | Total current liabilities          | 795,415                 | 832,782                     |
| Long-term liabilities                          |                                    |                         |                             |
| Bonds payable                                  |                                    | 110,000                 | 120,000                     |
| Long-term debt                                 |                                    | 141,343                 | 165,117                     |
| Provisions                                     |                                    | 4,064                   | 3,355                       |
| Net defined benefit liability                  |                                    | 97,048                  | 95,746                      |
| Other  |                                    | 29,871                  | 31,441                      |
|  | Total long-term liabilities        | 382,328                 | 415,661                     |
| <b>Total liabilities</b>                       |                                    | 1,177,744               | 1,248,443                   |

**Net assets**

|  |                  |                  |
|--|------------------|------------------|
| Shareholders' equity                           |                  |                  |
| Common stock                                   | 104,484          | 104,484          |
| Capital surplus                                | 54,393           | 54,393           |
| Retained earnings                              | 217,449          | 220,811          |
| Treasury stock                                 | (43)             | (51)             |
| Total shareholders' equity                     | <u>376,284</u>   | <u>379,637</u>   |
| Accumulated other comprehensive income         |                  |                  |
| Net unrealized gains on securities, net of tax | 2,652            | 3,058            |
| Deferred gains (losses) on hedges              | (3,803)          | (2,883)          |
| Foreign currency translation adjustments       | 6,416            | 5,902            |
| Remeasurements of defined benefit plans        | (18,509)         | (17,520)         |
| Total accumulated other comprehensive income   | <u>(13,243)</u>  | <u>(11,443)</u>  |
| Minority interests                             | <u>13,645</u>    | <u>14,348</u>    |
| <b>Total net assets</b>                        | <u>376,686</u>   | <u>382,542</u>   |
| <b>Total liabilities and net assets</b>        | <u>1,554,430</u> | <u>1,630,986</u> |

## (2) Consolidated statements of income and comprehensive income

### Consolidated statements of income

|  | Millions of yen                        |  |
|--|--|--|
|  | Six months ended<br>September 30, 2013 | Six months ended<br>September 30, 2014 |
| Net sales  | 595,077                                | 633,422                                |
| Cost of sales  | 486,913                                | 526,539                                |
| Gross profit   | 108,164                                | 106,883                                |
| Selling, general and administrative expenses                     |  |  |
| Salaries and benefits  | 22,290                                 | 23,689                                 |
| R&D expenses   | 18,187                                 | 18,016                                 |
| Provision for doubtful accounts                                  | 332                                    | -                                      |
| Other  | 40,512                                 | 41,987                                 |
| Total selling, general and administrative expenses               | 81,323                                 | 83,693                                 |
| Operating income   | 26,840                                 | 23,189                                 |
| Non-operating income   |  |  |
| Interest income  | 475                                    | 292                                    |
| Dividend income  | 275                                    | 176                                    |
| Equity in income of non-consolidated subsidiaries and affiliates | 5,016                                  | 5,739                                  |
| Other  | 1,850                                  | 2,214                                  |
| Total non-operating income                                       | 7,617                                  | 8,422                                  |
| Non-operating expenses   |  |  |
| Interest expense   | 2,018                                  | 1,894                                  |
| Foreign exchange loss, net                                       | 7,583                                  | 646                                    |
| Other  | 2,067                                  | 3,108                                  |
| Total non-operating expenses                                     | 11,669                                 | 5,648                                  |
| Recurring profit   | 22,788                                 | 25,963                                 |
| Income before income taxes and minority interests                | 22,788                                 | 25,963                                 |
| Income taxes   | 8,777                                  | 6,511                                  |
| Income before minority interests                                 | 14,010                                 | 19,451                                 |
| Minority interests in net income of consolidated subsidiaries    | 1,008                                  | 1,266                                  |
| Net income (loss)  | 13,001                                 | 18,185                                 |

### Consolidated statements of comprehensive income

|  | Millions of yen                        |  |
|--|--|--|
|  | Six months ended<br>September 30, 2013 | Six months ended<br>September 30, 2014 |
| Income before minority interests   | 14,010                                 | 19,451                                 |
| Other comprehensive income   |  |  |
| Net unrealized gains on securities   | 1,231                                  | 429                                    |
| Deferred gains (losses) on hedges  | (817)                                  | 959                                    |
| Foreign currency translation adjustments   | 7,084                                  | 3,555                                  |
| Remeasurements of defined benefit plans  | 320                                    | 802                                    |
| Share of other comprehensive income of associates accounted for<br>using equity method | 8,119                                  | (4,016)                                |
| Total other comprehensive income   | 15,938                                 | 1,730                                  |
| Comprehensive Income attributable to:  | 29,949                                 | 21,181                                 |
| Owners of the parent company   | 28,181                                 | 19,985                                 |
| Minority interests   | 1,767                                  | 1,196                                  |

### (3) Consolidated cash flow statements

|   | Millions of yen                        |  |
|---|--|--|
|   | Six months ended<br>September 30, 2013 | Six months ended<br>September 30, 2014 |
| <b>Cash flow from operating activities</b>  |  |  |
| Income before income taxes and minority interests   | 22,788                                 | 25,963                                 |
| Depreciation and amortization   | 17,931                                 | 21,530                                 |
| Increase (decrease) in provision  | (7,672)                                | (10,717)                               |
| Increase (decrease) in net defined benefit liability  | (4,067)                                | (603)                                  |
| Interest and dividend income  | (750)                                  | (468)                                  |
| Interest expense  | 2,018                                  | 1,894                                  |
| Equity in income non-consolidated subsidiaries and affiliates   | (5,016)                                | (5,739)                                |
| (Increase) decrease in trade receivables  | 24,269                                 | 4,990                                  |
| (Increase) decrease in inventories  | (40,461)                               | (40,597)                               |
| Increase (decrease) in trade payables   | (37,953)                               | (37,713)                               |
| Increase (decrease) in advances from customers  | 12,165                                 | 12,514                                 |
| (Increase) decrease in other current assets   | (11,457)                               | (18,523)                               |
| Increase (decrease) in other current liabilities  | (10,961)                               | (16,628)                               |
| Other   | 825                                    | 2,665                                  |
| Subtotal  | <u>(38,342)</u>                        | <u>(47,433)</u>                        |
| Cash received for interest and dividends  | 740                                    | 486                                    |
| Cash paid for interest  | (2,134)                                | (2,071)                                |
| Cash paid for income taxes  | (5,868)                                | (11,788)                               |
| Net cash provided by operating activities   | <u>(45,605)</u>                        | <u>(60,807)</u>                        |
| <b>Cash flow from investing activities</b>  |  |  |
| Acquisition of property, plant, equipment and intangible assets   | (41,576)                               | (28,757)                               |
| Proceeds from sales of property, plant, equipment and intangible assets                                       | 541                                    | 471                                    |
| Acquisition of investments in securities  | (36)                                   | (49)                                   |
| Proceeds from sales of investments in securities  | 86                                     | 2                                      |
| Acquisition of investments in subsidiaries and affiliate  | (721)                                  | (472)                                  |
| Decrease (Increase) in short-term loans receivable  | (527)                                  | (42)                                   |
| Additions to long-term loans receivable   | (28)                                   | (33)                                   |
| Proceeds from collection of long-term loans receivable  | 46                                     | 94                                     |
| Other   | 308                                    | (919)                                  |
| Net cash used for investing activities  | <u>(41,907)</u>                        | <u>(29,707)</u>                        |
| <b>Cash flow from financing activities</b>  |  |  |
| Net increase (decrease) in short-term debt  | 86,616                                 | 105,340                                |
| Proceeds from long-term debt  | 7,000                                  | 37,019                                 |
| Repayment of long-term debt   | (23,652)                               | (73,379)                               |
| Proceeds from issuance of bonds   | 20,000                                 | 20,000                                 |
| Acquisition of treasury stock   | (7)                                    | (9)                                    |
| Cash dividends paid   | (8,344)                                | (10,006)                               |
| Cash dividends paid to minority shareholders  | (436)                                  | (487)                                  |
| Other   | (192)                                  | (79)                                   |
| Net cash used for financing activities  | <u>80,983</u>                          | <u>78,398</u>                          |
| Effect of exchange rate changes   | (699)                                  | 227                                    |
| Net increase (decrease) in cash and cash equivalents  | <u>(7,229)</u>                         | <u>(11,889)</u>                        |
| Cash and cash equivalents at beginning of period  | 36,971                                 | 45,431                                 |
| Increase (decrease) in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries | 804                                    | 122                                    |
| Cash and cash equivalents at end of period  | <u>30,546</u>                          | <u>33,664</u>                          |

#### (4) Notes on financial statements

##### Notes on the going-concern assumption

Not applicable

##### Notes on significant changes in the amount of shareholders' equity

Not applicable

##### Segment information and others

##### Segment information

#### 1. Six months ended September 30, 2013 (April 1, 2013 – September 30, 2013)

##### (1) Sales and income (loss) by reportable segment

|                           | External sales | Intersegment sales | Total sales | Operating income (loss) |
|---------------------------|----------------|--------------------|-------------|-------------------------|
| Ship & Offshore Structure | 39,550         | 921                | 40,471      | 1,543                   |
| Rolling Stock             | 59,990         | 1,455              | 61,445      | 3,752                   |
| Aerospace                 | 122,354        | 1,035              | 123,389     | 10,279                  |
| Gas Turbine & Machinery   | 77,368         | 8,457              | 85,826      | 3,509                   |
| Plant & Infrastructure    | 39,241         | 8,083              | 47,325      | 1,705                   |
| Motorcycle & Engine       | 139,705        | 313                | 140,018     | 2,592                   |
| Precision Machinery       | 55,636         | 5,615              | 61,252      | 4,244                   |
| Other                     | 61,229         | 16,472             | 77,701      | 1,382                   |
| Reportable segment total  | 595,077        | 42,354             | 637,431     | 29,009                  |
| Adjustments*1             | -              | (42,354)           | (42,354)    | (2,169)                 |
| Consolidated total        | 595,077        | -                  | 595,077     | 26,840                  |

Notes: 1. Breakdown of adjustments:

| Income                    | Amount  |
|---------------------------|---------|
| Intersegment transactions | (125)   |
| Corporate expenses*       | (2,044) |
| Total                     | (2,169) |

\*Corporate expenses mainly comprise general and administrative expenses not attributed to reportable segments.

2. Segment income adjustments are based on operating income reported on the quarterly consolidated statements of income for the corresponding period.

##### (2) Impairment loss on fixed assets and goodwill by reportable segment

Not applicable

2. Six months ended September 30, 2014 (April 1, 2014 – September 30, 2014)

(1) Sales and income (loss) by reportable segment

| Millions of yen           |                |                    |             |                         |
|---------------------------|----------------|--------------------|-------------|-------------------------|
|                           | External sales | Intersegment sales | Total sales | Operating income (loss) |
| Ship & Offshore Structure | 34,876         | 909                | 35,786      | (708)                   |
| Rolling Stock             | 56,915         | 923                | 57,839      | 1,201                   |
| Aerospace                 | 144,842        | 1,181              | 146,024     | 13,593                  |
| Gas Turbine & Machinery   | 83,896         | 4,917              | 88,814      | 1,495                   |
| Plant & Infrastructure    | 47,245         | 7,534              | 54,779      | 1,005                   |
| Motorcycle & Engine       | 137,728        | 349                | 138,077     | 1,052                   |
| Precision Machinery       | 63,774         | 6,878              | 70,652      | 5,129                   |
| Other                     | 64,143         | 15,727             | 79,870      | 1,218                   |
| Reportable segment total  | 633,422        | 38,422             | 671,844     | 23,988                  |
| Adjustments*1             | -              | (38,422)           | (38,422)    | (799)                   |
| Consolidated total        | 633,422        | -                  | 633,422     | 23,189                  |

Notes: 1. Breakdown of adjustments:

| Millions of yen           |        |
|---------------------------|--------|
| Income                    | Amount |
| Intersegment transactions | (25)   |
| Corporate expenses*       | (774)  |
| Total                     | (799)  |

\* Corporate expenses mainly comprise general and administrative expenses not attributed to reportable segments.

2. Segment income adjustments are based on operating income reported on the quarterly consolidated statements of income for the corresponding period.

(2) Impairment loss on fixed assets and goodwill by reportable segment

Not applicable

#### 4. Supplementary information

##### (1) Orders and sales (consolidated)

###### Orders received

| Segment                   | Six months ended<br>September 30, 2013 |              | Six months ended<br>September 30, 2014 |              | Year ended March 31,<br>2014 |              |
|---------------------------|--|--------------|--|--------------|------------------------------|--------------|
|                           | million yen                            | % of total   | million yen                            | % of total   | million yen                  | % of total   |
| Ship & Offshore Structure | 30,732                                 | 5.1          | 77,192                                 | 10.9         | 117,872                      | 8.0          |
| Rolling Stock             | 75,073                                 | 12.6         | 91,598                                 | 12.9         | 133,049                      | 9.1          |
| Aerospace                 | 96,168                                 | 16.2         | 114,489                                | 16.2         | 286,383                      | 19.6         |
| Gas Turbine & Machinery   | 84,157                                 | 14.1         | 85,964                                 | 12.1         | 222,013                      | 15.2         |
| Plant & Infrastructure    | 46,185                                 | 7.7          | 66,954                                 | 9.4          | 103,912                      | 7.1          |
| Motorcycle & Engine       | 139,705                                | 23.5         | 137,728                                | 19.4         | 322,248                      | 22.1         |
| Precision Machinery       | 61,724                                 | 10.4         | 64,801                                 | 9.1          | 127,297                      | 8.7          |
| Other                     | 59,056                                 | 9.9          | 67,848                                 | 9.6          | 142,684                      | 9.8          |
| <b>Total</b>              | <b>592,804</b>                         | <b>100.0</b> | <b>706,576</b>                         | <b>100.0</b> | <b>1,455,462</b>             | <b>100.0</b> |

Note: The Motorcycle & Engine segment's orders received are equal to its net sales as production is based mainly on estimated demand.

###### Net sales

| Segment                   | Six months ended<br>September 30, 2013 |              | Six months ended<br>September 30, 2014 |              | Year ended March 31,<br>2014 |              |
|---------------------------|--|--------------|--|--------------|------------------------------|--------------|
|                           | million yen                            | % of total   | million yen                            | % of total   | million yen                  | % of total   |
| Ship & Offshore Structure | 39,550                                 | 6.6          | 34,876                                 | 5.5          | 80,863                       | 5.8          |
| Rolling Stock             | 59,990                                 | 10.0         | 56,915                                 | 8.9          | 147,951                      | 10.6         |
| Aerospace                 | 122,354                                | 20.5         | 144,842                                | 22.8         | 280,737                      | 20.2         |
| Gas Turbine & Machinery   | 77,368                                 | 13.0         | 83,896                                 | 13.2         | 189,241                      | 13.6         |
| Plant & Infrastructure    | 39,241                                 | 6.5          | 47,245                                 | 7.4          | 103,898                      | 7.4          |
| Motorcycle & Engine       | 139,705                                | 23.4         | 137,728                                | 21.7         | 322,248                      | 23.2         |
| Precision Machinery       | 55,636                                 | 9.3          | 63,774                                 | 10.0         | 123,276                      | 8.8          |
| Other                     | 61,229                                 | 10.2         | 64,143                                 | 10.1         | 137,264                      | 9.9          |
| <b>Total</b>              | <b>595,077</b>                         | <b>100.0</b> | <b>633,422</b>                         | <b>100.0</b> | <b>1,385,482</b>             | <b>100.0</b> |

###### Order backlog

| Segment                   | Year ended March 31,<br>2014 |              | Six months ended<br>September 30, 2014 |              | Six months ended<br>September 30, 2013 |              |
|---------------------------|------------------------------|--------------|--|--------------|--|--------------|
|                           | million yen                  | % of total   | million yen                            | % of total   | million yen                            | % of total   |
| Ship & Offshore Structure | 161,134                      | 10.7         | 209,135                                | 13.0         | 113,830                                | 8.1          |
| Rolling Stock             | 364,654                      | 24.3         | 409,981                                | 25.5         | 383,117                                | 27.5         |
| Aerospace                 | 450,581                      | 30.0         | 425,571                                | 26.5         | 413,478                                | 29.7         |
| Gas Turbine & Machinery   | 295,100                      | 19.6         | 305,877                                | 19.0         | 248,670                                | 17.9         |
| Plant & Infrastructure    | 170,737                      | 11.3         | 191,287                                | 11.9         | 176,711                                | 12.7         |
| Motorcycle & Engine       | -                            | -            | -                                      | -            | -                                      | -            |
| Precision Machinery       | 25,821                       | 1.7          | 26,848                                 | 1.6          | 27,887                                 | 2.0          |
| Other                     | 32,234                       | 2.1          | 35,934                                 | 2.2          | 24,626                                 | 1.7          |
| <b>Total</b>              | <b>1,500,264</b>             | <b>100.0</b> | <b>1,604,637</b>                       | <b>100.0</b> | <b>1,388,323</b>                       | <b>100.0</b> |

**(2) Net sales by geographic area (consolidated)**

**Six months ended September 30, 2013 (April 1, 2013 – September 30, 2013)**

Millions of yen

|               |         |        |
|---------------|---------|--------|
| Japan         | 263,067 | 44.2%  |
| United States | 131,578 | 22.1%  |
| Europe        | 40,393  | 6.7%   |
| Asia          | 106,470 | 17.8%  |
| Other areas   | 53,567  | 9.0%   |
| Total         | 595,077 | 100.0% |

**Six months ended September 30, 2014 (April 1, 2014 – September 30, 2014)**

Millions of yen

|               |         |        |
|---------------|---------|--------|
| Japan         | 258,659 | 40.8%  |
| United States | 153,779 | 24.2%  |
| Europe        | 48,525  | 7.6%   |
| Asia          | 115,455 | 18.2%  |
| Other areas   | 57,002  | 8.9%   |
| Total         | 633,422 | 100.0% |

**(3) Supplementary information on earnings forecasts for the fiscal year ending March 31, 2015**

**1) Consolidated earnings outlook**

Billions of yen

|                     | Outlook for the year ending March 31, 2015 (fiscal 2014) |                                   |                | Fiscal 2013 (ended March 31, 2014) (actual) |
|---------------------|--|-----------------------------------|----------------|---|
|                     | Revised forecast (A)                                     | Forecast issued July 30, 2014 (B) | Change (A – B) |   |
| Net sales           | 1,510.0  | 1,490.0                           | 20.0           | 1,385.4                                     |
| Operating income    | 77.0   | 73.0                              | 4.0            | 72.3  |
| Recurring profit    | 72.0   | 66.0                              | 6.0            | 60.6  |
| Net income          | 48.0   | 42.5                              | 5.5            | 38.6  |
| Orders received     | 1,640.0  | 1,590.0                           | 50.0           | 1,455.4                                     |
| Before-tax ROIC (%) | 9.3%   | 8.6%                              | 0.7%           | 8.1%  |

Notes: 1. Outlook's assumed foreign exchange rates: ¥105 = US\$1, ¥135= 1 euro

2. Before-tax ROIC = (income before income taxes + interest expense) / invested capital.

**2) Outlook by reportable segment**

(a) Net sales and operating income (loss)

Billions of yen

| Segment                   | Outlook for the year ending March 31, 2015 (fiscal 2014) |                         |                                   |                         |                |                         | Fiscal 2013 (ended March 31, 2014) (actual) |                         |
|---------------------------|--|-------------------------|-----------------------------------|-------------------------|----------------|-------------------------|---|-------------------------|
|                           | Revised forecast (A)                                     |                         | Forecast issued July 30, 2014 (B) |                         | Change (A – B) |                         | Net sales                                   | Operating income (loss) |
|                           | Net sales  | Operating income (loss) | Net sales                         | Operating income (loss) | Net sales      | Operating income (loss) |   |                         |
| Ship & Offshore Structure | 95.0   | 2.0                     | 85.0                              | 0.0                     | 10.0           | 2.0                     | 80.8  | (2.0)                   |
| Rolling Stock             | 135.0  | 6.0                     | 135.0                             | 6.0                     | -              | -                       | 147.9                                       | 7.5                     |
| Aerospace                 | 330.0  | 30.0                    | 320.0                             | 27.0                    | 10.0           | 3.0                     | 280.7                                       | 26.2                    |
| Gas Turbine & Machinery   | 230.0  | 10.0                    | 230.0                             | 9.0                     | -              | 1.0                     | 189.2                                       | 10.4                    |
| Plant & Infrastructure    | 120.0  | 6.0                     | 120.0                             | 6.0                     | -              | -                       | 103.8                                       | 6.3                     |
| Motorcycle & Engine       | 320.0  | 13.0                    | 320.0                             | 16.0                    | -              | (3.0)                   | 322.2                                       | 16.1                    |
| Precision Machinery       | 140.0  | 12.0                    | 140.0                             | 12.0                    | -              | -                       | 123.2                                       | 10.4                    |
| Other                     | 140.0  | 5.0                     | 140.0                             | 4.0                     | -              | 1.0                     | 137.2                                       | 4.4                     |
| Adjustments               |  | (7.0)                   |                                   | (7.0)                   |                | -                       |   | (7.2)                   |
| Total                     | 1,510.0  | 77.0                    | 1,490.0                           | 73.0                    | 20.0           | 4.0                     | 1,385.4                                     | 72.3                    |

## (b) Orders received

Billions of yen

| Segment                   | Outlook for the year ending March 31, 2015 (fiscal 2014) |                                      |                   | Fiscal 2013 (ended March 31, 2014)<br>(actual) |
|---------------------------|--|--------------------------------------|-------------------|--|
|                           | Revised outlook<br>(A)                                   | Forecast issued<br>July 30, 2014 (B) | Change<br>(A – B) |  |
| Ship & Offshore Structure | 150.0  | 150.0                                | -                 | 117.8  |
| Rolling Stock             | 150.0  | 180.0                                | (30.0)            | 133.0  |
| Aerospace                 | 310.0  | 300.0                                | 10.0              | 286.3  |
| Gas Turbine & Machinery   | 240.0  | 230.0                                | 10.0              | 222.0  |
| Plant & Infrastructure    | 190.0  | 130.0                                | 60.0              | 103.9  |
| Motorcycle & Engine       | 320.0  | 320.0                                | -                 | 322.2  |
| Precision Machinery       | 140.0  | 140.0                                | -                 | 127.2  |
| Other                     | 140.0  | 140.0                                | -                 | 142.6  |
| Total                     | 1,640.0  | 1,590.0                              | 50.0              | 1,455.4  |

## (c) Before-tax ROIC

(%)

|                           | Outlook for the year ending March 31, 2015 (fiscal 2014) |                                      |                   | Fiscal 2013 (ended March 31, 2014)<br>(actual) |
|---------------------------|--|--------------------------------------|-------------------|--|
|                           | Revised outlook<br>(A)                                   | Forecast issued<br>July 30, 2014 (B) | Change<br>(A – B) |  |
| Ship & Offshore Structure | 5.4  | 0.2                                  | 5.2               | 3.4  |
| Rolling Stock             | 7.9  | 7.9                                  | -                 | 10.2   |
| Aerospace                 | 20.8   | 17.7                                 | 3.1               | 19.6   |
| Gas Turbine & Machinery   | 5.2  | 5.1                                  | 0.1               | 4.6  |
| Plant & Infrastructure    | 13.5   | 13.5                                 | -                 | 14.9   |
| Motorcycle & Engine       | 7.0  | 9.2                                  | (2.2)             | 1.4  |
| Precision Machinery       | 17.9   | 16.8                                 | 1.1               | 17.5   |
| Total                     | 9.3  | 8.6                                  | 0.7               | 8.1  |