

KAWASAKI HEAVY INDUSTRIES, LTD.

Semiannual Report 2007

For the six months ended September 30, 2007

Consolidated Financial Highlights

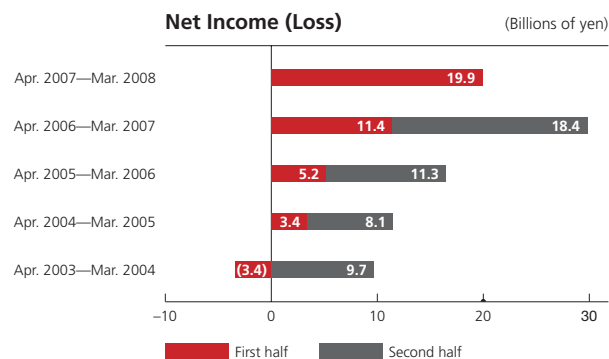
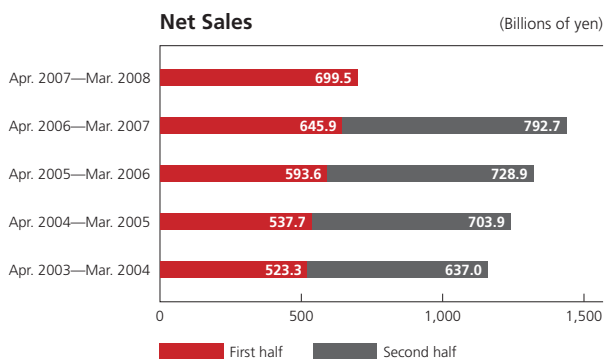
Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries

For the six months ended September 30, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
For the period:			
Net sales	¥ 699,540	¥ 645,852	\$ 6,060,296
Operating income	39,050	25,562	338,300
Net income	19,878	11,414	172,208
Research and development expenses.....	16,400	14,300	142,077
Depreciation and amortization	17,642	14,879	152,837
Net cash provided by (used for) operating activities	24,010	(10,767)	208,005
Per share (in yen and U.S. dollars):			
Net income	¥ 11.91	¥ 7.33	\$ 0.10
Cash dividends	—	—	—
At end of the period:			
Total assets	¥1,322,779	¥1,319,100	\$11,459,577
Total net assets	317,627	244,170	2,751,685
Orders received and outstanding:			
Orders received during the period	¥ 724,836	¥ 763,844	\$ 6,279,442
Order backlog at end of the period	1,492,433	1,424,960	12,929,334
Number of employees	30,382	29,461	

Notes: 1. This semiannual report has been prepared in conformity with generally accepted accounting principles and practices in Japan.

2. All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥115.43 to \$1.00, the approximate rate of exchange at September 30, 2007.



To Our Shareholders

Performance during the Interim Period

The Japanese economy remained on an expansionary trend during the interim period under review, despite a slowdown in domestic personal consumption and other signs of deterioration in economic conditions, as exports and private-sector capital investment expanded. Outside Japan, conditions continued to be generally strong, especially in Europe, China, and the rest of Asia. However, as the fluctuations in foreign exchange rates and stock prices set off by the subprime mortgage loan issues in the United States suggested, concern about a deterioration in economic conditions increased and made it necessary for the Kawasaki Heavy Industries (KHI) Group to give careful attention to the business environment for its operations.

Amid these conditions, the KHI Group maintained its policy of aggressively pursuing market opportunities, and, as a consequence, obtained new orders for rolling stock in the North American market and other products; however, the total orders received for the interim period amounted to ¥724.8 billion, which was ¥39.0 billion, or 5.1%, lower than for the interim period of the previous fiscal year.

Net sales amounted to ¥699.5 billion, ¥53.7 billion, or 8.3%, higher year on year, principally because of increased revenues in the Shipbuilding and Consumer Products & Machinery segments. Profitability showed further improvement, as the KHI Group continued to implement aggressive measures to enhance profitability in all aspects of its operations. Operating income rose ¥13.5 billion, or 52.8%, from the same period of the previous year, to ¥39.1 billion. In addition, net income for the interim period expanded ¥8.5 billion, or 74.2%, to ¥19.9 billion.

Our basic policy is to pay stable dividends appropriate to earnings performance, while giving careful attention to increasing retained earnings. After giving due consideration to the uncertainties in the operating environment for the full

fiscal year ending March 31, 2008, we have decided not to pay a cash dividend for the interim period under review.

Medium-Term Business Plan "Global K"

We passed the middle of the second fiscal year under KHI Group's medium-term business plan "Global K," which we announced in September last year, and the Group is moving steadily toward the attainment of its objectives. However, on the other hand, as mentioned previously, there are conditions in the world economy and destabilizing factors in the environments for our individual businesses. During the coming fiscal year, we will move into the middle year since the announcement of the "Global K" plan and are planning to make the necessary mid-course corrections. At present, in view of these circumstances, we are in the process of analyzing and identifying issues to be addressed, aimed at reviewing and revising the plan next year. Going forward, we are looking at our vision for the Group 10 years from the starting date of Global K, and moving steadily toward attaining our objectives by implementing measures and action plans under our strategies that respond to changes in the social environment.

Kawasaki Group Mission Statement

The KHI Group has adopted a vision of becoming "a leading global enterprise that enriches lifestyles and helps safeguard the natural environment through drawing on its sophisticated technological capabilities" by the 10th year following the commencement of the Global K plan. Amid today's fast-changing social and economic environment, the Group prepared its Kawasaki Group Mission Statement in May this year to provide a compass for the Group as a whole to realize the potential of its technological capabilities to the maximum extent possible.

This mission statement positions the Group's social perspective and mission in society as its highest-priority missions, followed by the Kawasaki Group Core Values, which are

the values that the Group will emphasize. These will become the starting point when formulating and making decisions on management strategy and product development policies. They will also form the basis for the Group Management Principles and the Group Code of Conduct.

The Kawasaki Group Mission Statement aims to create a higher-level corporate culture in the Group and enhance corporate and brand value through the revitalization of the corporate organization by encouraging each and every member of the Group to share the missions and values advocated in the mission statement and conduct daily business activities based on the guidelines for action.

Members of the Group will share the Kawasaki Group Mission Statement in common, and, by putting it into action, work to create new value for all KHI's stakeholder groups, including shareholders, customers, and the communities we serve. Accordingly, we would like to request your renewed support and cooperation going forward.

December 2007



Tadaharu Ohashi
President

Kawasaki Group Mission Statement

Group Mission:

Kawasaki, working as one for the good of the planet

- We are the Kawasaki Group, a global technology leader with diverse integrated strengths.
- We create new value—for a better environment and a brighter future for generations to come.

The Kawasaki Group Core Values

Value creation

We are globally driven to create new value—both for our customers and for the benefit of society as a whole.

Originality

We thrive on originality, innovation and leadership.

Excellence

What we produce is of exceptionally high quality and functionality, as we constantly strive to be at the global cutting edge.

The Kawasaki Group Management Principles

1. Trust

As an integrated technology leader, the Kawasaki Group is committed to providing high-performance products and services of superior safety and quality. By doing so, we will win the trust of our customers and the community.

2. Harmonious coexistence

The importance of corporate social responsibility (CSR) permeates all aspects of our business. This stance reflects the Kawasaki Group's corporate ideal of harmonious coexistence with the environment, society as a whole, local communities and individuals.

3. People

The Kawasaki Group's corporate culture is built on integrity, vitality, organizational strength and mutual respect for people through all levels of the Group. We nurture a global team for a global era.

4. Strategy

The Kawasaki Group pursues continuous enhancement of profitability and corporate value based on three guiding principles—selectively focusing resources on strategic businesses; emphasizing quality over quantity; and employing prudent risk management.

The Kawasaki Group Code of Conduct

1. Always look at the bigger picture. Think and act from a long-term, global perspective.
2. Meet difficult challenges head-on. Aim high and never be afraid to try something new.
3. Be driven by your aspirations and goals. Work toward success by always dedicating yourself to your tasks.
4. Earn the trust of the community through high ethical standards and the example you set for others.
5. Keep striving for self-improvement. Act on your own initiative as a confident professional.
6. Be a part of Team Kawasaki. Share your pride and sense of fulfillment in a job well done.

Review of Operations

Shipbuilding

The Shipbuilding segment secured orders amounting to ¥85.6 billion, up ¥16.1 billion, or 23.2% from the interim period of the previous year. Orders were received for two LPG carriers and 11 bulk carriers.

Sales rose ¥35.4 billion, or 84.0% year on year, to ¥77.5 billion, mainly due to the fact that the segment delivered one

LPG carrier, one VLCC, and two bulk carriers, for a total of four vessels. Operating income amounted to ¥2.3 billion compared with an operating loss of ¥2.1 billion in the same period of the previous year. This major improvement in profitability was due to higher sales and improvement in margins.



Rolling Stock & Construction Machinery

Orders received during the interim period included those for Shinkansen trains for Japan Railways companies and additional orders for subway cars from North American customers. However, the total value of orders declined ¥34.5 billion, or 22.1% from the interim period of the previous fiscal year, to ¥121.6 billion, reflecting the large orders for commuter

trains from North America during the same period of the previous fiscal year.

Sales were down ¥16.7 billion, or 19.2% year on year, to ¥70.2 billion, despite an increase in domestic sales, as sales to overseas customers declined. Operating income fell ¥5.0 billion, or 81.1% from the same period of the previous year, to ¥1.2 billion, reflecting the decline in sales.



Aerospace

Orders received increased ¥3.6 billion, or 5.1% year on year, to ¥73.7 billion, because of new orders from the Boeing Company for component parts for Boeing 777 and 787 passenger aircraft.

billions, because of an increase in sales of component parts for the Boeing 777 passenger aircraft and other factors. Operating income leapt ¥5.6 billion, or 109.7% year on year, to ¥10.7 billion, because of an improvement in margins due to a weaker yen against the U.S. dollar and other developments.

Sales rose ¥3.8 billion, or 3.3% from the same period a year earlier, to ¥118.2



Gas Turbines & Machinery

Compared with the interim period of the previous fiscal year, orders obtained by this segment declined ¥5.8 billion, or 5.8%, to ¥93.5 billion. Although orders were received for components for commercial aircraft engines, including the V2500 and Trent, diesel engines for ships, gas turbine power generation systems, and natural gas compression modules, orders for certain other products, including

marine steam turbines, declined.

Sales, however, were up ¥3.8 billion, or 4.7% over a year earlier, to ¥84.3 billion, as revenues from the sale of components for commercial aircraft engines expanded. Operating income rose ¥0.9 billion, or 18.1%, to ¥5.7 billion, as segment sales expanded.



Plant & Infrastructure Engineering

Orders for the interim period under review fell ¥53.5 billion, or 56.3% from the previous year, to ¥41.6 billion, reflecting the absence of major orders for cement plants, ferronickel refining plants, and other project orders that were received during the interim period of the previous fiscal year.

Sales declined ¥2.5 billion, or 4.7% from a year earlier, to ¥49.6 billion, because of

lower sales from municipal refuse incineration plants. Profitwise, operating income for the interim period amounted to ¥1.4 billion, a major improvement from an operating loss of ¥3.7 billion a year earlier. This improvement was due to the improvements in efficiency resulting from the merger of the Group's plant and environmental engineering companies and the reduction in the number of loss-making projects.



Consumer Products & Machinery

Sales increased ¥22.6 billion, or 11.9% year on year, to ¥212.5 billion. Although sales of motorcycles in North America decreased, sales of motorcycles in Europe expanded, and sales of industrial robots

to automotive-related and semiconductor-related manufacturers rose. Operating income climbed ¥1.4 billion, or 13.0%, to ¥12.3 billion, accompanying the growth in sales.



Other

Sales of this segment rose ¥7.3 billion, or 9.2%, to ¥87.1 billion, as sales of the hydraulics products for construction

machinery continued at a high level. Operating income rose ¥0.8 billion, or 17.4%, to ¥5.2 billion.



Review by Geographic Segment

Sales in Japan rose ¥31.3 billion, or 6.8% compared with the interim period of the previous fiscal year, to ¥491.0 billion, mainly owing to an increase in sales of the parent company. Operating income climbed ¥18.4 billion, or 89.4%, to ¥38.9 billion.

In North America, sales decreased ¥1.4 billion, or 1.2%, to ¥118.2 billion, as a result of lower sales of motorcycles and other factors. The segment showed an operating loss of ¥3.5 billion, compared with operating income of ¥1.1 billion for the interim period of the previous fiscal year.

Financial Position

Total assets at the end of the interim period were ¥1,322.8 billion, 2.6% lower than at the end of the previous fiscal year (March 31, 2007). Although inventories rose ¥16.6 billion accompanying the rise in the order backlog and active capital investment resulted in an increase in net property, plant and equipment of ¥4.7 billion, receivables, less allowance declined ¥52.8 billion as progress was made in the recovery of operating receivables.

Total liabilities declined 5.4%, to ¥1,005.2 billion. Although advances from customers increased ¥14.2 billion, notes payable and accounts payable declined ¥40.3 billion, and interest-bearing debt dropped ¥13.0 billion.

Net assets rose 7.5%, to ¥317.6 billion, mainly because of the interim net income.

Among cash flows, cash and cash equivalents (hereinafter, cash) declined ¥16.4 billion compared with the end of the previous fiscal year (March 31, 2007), to ¥22.8 billion. The condition of cash flows and the principal factors influencing

Sales in Europe expanded ¥21.0 billion, or 41.2%, to ¥72.0 billion, because of strong sales of motorcycles. Operating income posted a gain of ¥1.2 billion, or 65.3%, to ¥2.9 billion.

In Asia, sales jumped ¥4.7 billion, or 51.2%, to ¥13.9 billion. Operating income increased ¥0.4 billion, or 101.0%, to ¥0.8 billion.

In other areas, sales dropped ¥1.8 billion, or 28.9%, to ¥4.5 billion, while operating income amounted to ¥0.1 billion, approximately the same as for the interim period of the prior year.

their movements were as follows.

Net cash provided by operating activities amounted ¥24.0 billion, ¥34.8 billion higher than for the interim period of the previous fiscal year. Principal operating cash inflows were income before income taxes and minority interests amounting to ¥31.8 billion, depreciation and amortization of ¥17.6 billion, and a decrease in trade receivables of ¥58.5 billion. A major operating cash outflow was a decrease in accounts payable of ¥41.9 billion.

Net cash used for investing activities amounted to ¥20.2 billion, ¥6.5 billion lower than for the interim period of the previous year. The principal investment outflow was for the acquisition of property, plant and equipment.

Net cash used for financing activities was ¥20.8 billion. The principal outflow items were the repayment of long-term debt and cash dividends paid.

Condensed Consolidated Balance Sheets

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
As of September 30 and March 31, 2007 and September 30, 2006

	Millions of yen			Thousands of U.S. dollars
	September 30, 2007 (unaudited)	March 31, 2007	September 30, 2006 (unaudited)	September 30, 2007 (unaudited)
Assets:				
Current assets:				
Cash on hand and in banks	¥ 23,177	¥ 39,351	¥ 25,006	\$ 200,788
Receivables, less allowance	389,823	442,577	429,542	3,377,138
Inventories	444,517	427,934	425,754	3,850,966
Other current assets	61,236	52,056	57,832	530,503
Total current assets	918,753	961,918	938,134	7,959,395
Investments and long-term loans, less allowance	103,417	96,994	86,015	895,928
Net property, plant and equipment	258,527	253,819	249,200	2,239,686
Intangible and other assets	42,082	45,249	45,751	364,568
Total assets	¥1,322,779	¥1,357,980	¥1,319,100	\$11,459,577
Liabilities and net assets:				
Current liabilities:				
Short-term borrowings and current portion of long-term debt	¥ 147,888	¥ 138,463	¥ 182,746	\$ 1,281,192
Payables	372,216	412,501	404,909	3,224,604
Advances from customers	138,683	124,445	111,846	1,201,447
Other current liabilities	110,133	131,097	122,631	954,110
Total current liabilities	768,920	806,506	822,132	6,661,353
Long-term liabilities:				
Long-term debt, less current portion	143,356	165,754	167,003	1,241,930
Others	92,876	90,342	85,795	804,609
Total long-term liabilities	236,232	256,096	252,798	2,046,539
Net assets:				
Common stock	104,265	103,188	92,106	903,275
Capital surplus	54,252	53,179	42,110	469,999
Retained earnings	137,454	125,799	107,457	1,190,800
Net unrealized gains on securities	23,148	19,342	12,720	200,537
Gains/losses on hedging items	(150)	(1,608)	(3,698)	(1,299)
Foreign currency translation adjustments	(7,041)	(9,417)	(11,620)	(60,998)
Treasury stock	(55)	(55)	(43)	(476)
Minority interests	5,754	4,950	5,138	49,847
Total net assets	317,627	295,378	244,170	2,751,685
Total liabilities and net assets	¥1,322,779	¥1,357,980	¥1,319,100	\$11,459,577

Condensed Consolidated Statements of Income

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the six months ended September 30, 2007 and 2006 (unaudited)

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net sales	¥699,540	¥645,852	\$6,060,296
Cost of sales	582,117	555,715	5,043,030
Gross profit	117,423	90,137	1,017,266
Selling, general and administrative expenses	78,373	64,575	678,966
Operating income	39,050	25,562	338,300
Other income (expenses):			
Interest and dividend income	2,468	1,891	21,381
Equity in income of unconsolidated subsidiaries and affiliates	2,331	855	20,195
Interest expense	(3,859)	(2,912)	(33,432)
Other, net	(8,153)	(5,156)	(70,632)
Income before income taxes and minority interests	31,837	20,240	275,812
Income taxes	(11,470)	(8,577)	(99,368)
Minority interests in net income of consolidated subsidiaries	(489)	(249)	(4,236)
Net income	¥ 19,878	¥ 11,414	\$ 172,208

Condensed Consolidated Statements of Cash Flows

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the six months ended September 30, 2007 and 2006 (unaudited)

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥31,837	¥20,240	\$ 275,812
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	17,642	14,879	152,837
Increase (decrease) in assets	33,312	(34,449)	288,590
Increase (decrease) in liabilities	(30,659)	12,935	(265,607)
Other	(28,122)	(24,372)	(243,627)
Net cash provided by (used for) operating activities	24,010	(10,767)	208,005
Cash flows from investing activities:			
Acquisition of tangible and intangible assets	(23,964)	(15,909)	(207,606)
Acquisition of investments in securities	(1,111)	(11,850)	(9,625)
Other	4,885	1,024	42,320
Net cash used for investing activities	(20,190)	(26,735)	(174,911)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	(5,369)	39,513	(46,513)
Proceeds from long-term debt	3,220	18,355	27,896
Repayment of long-term debt	(10,108)	(28,289)	(87,568)
Other	(8,544)	(4,807)	(74,019)
Net cash provided by (used for) financing activities	(20,801)	24,772	(180,204)
Effect of exchange rate changes	413	118	3,577
Net decrease in cash and cash equivalents	(16,568)	(12,612)	(143,533)
Cash and cash equivalents at beginning of the period	39,229	37,506	339,851
Increase in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries	158	—	1,369
Cash and cash equivalents at end of the period	¥22,819	¥24,894	\$ 197,687

Consolidated Statements of Changes in Net Assets

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries

For the six months ended September 30, 2007 and 2006 (unaudited)

	Thousands	Millions of yen							
	Number of shares of common stock	2007							
		Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Gain (loss) on hedging items	Foreign currency translation adjustments	Treasury stock	Minority interests
Balance at March 31, 2007	1,659,626	¥103,188	¥53,179	¥125,799	¥19,342	¥(1,608)	¥(9,417)	¥(55)	¥4,950
Net income for the interim period	—	—	—	19,878	—	—	—	—	—
Conversion of convertible bonds	9,286	1,077	1,052	—	—	—	—	—	—
Cash dividends	—	—	—	(8,298)	—	—	—	—	—
Treasury stock purchased, net	—	—	20	—	—	—	—	0	—
Other	—	—	—	75	3,806	1,458	2,376	—	805
Balance at September 30, 2007	1,668,912	¥104,265	¥54,251	¥137,454	¥23,148	¥ (150)	¥(7,041)	¥(55)	¥5,755

	Thousands	Millions of yen							
	Number of shares of common stock	2006							
		Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Gain (loss) on hedging items	Foreign currency translation adjustments	Treasury stock	Minority interests
Balance at March 31, 2006	1,557,715	¥92,085	¥42,094	¥100,776	¥14,097	¥ —	¥(11,426)	¥(38)	¥5,508
Net income for the interim period	—	—	—	11,414	—	—	—	—	—
Conversion of convertible bonds	224	21	15	—	—	—	—	—	—
Cash dividends	—	—	—	(4,673)	—	—	—	—	—
Treasury stock purchased, net	—	—	1	—	—	—	—	(5)	—
Bonuses to directors and statutory auditors	—	—	—	(14)	—	—	—	—	—
Other	—	—	—	(46)	(1,377)	(3,698)	(194)	—	(370)
Balance at September 30, 2006	1,557,939	¥92,106	¥42,110	¥107,457	¥12,720	¥(3,698)	¥(11,620)	¥(43)	¥5,138

	Thousands of U.S. dollars							
	2007							
	Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Gain (loss) on hedging items	Foreign currency translation adjustments	Treasury stock	Minority interests
Balance at March 31, 2007	\$893,941	\$460,704	\$1,089,828	\$167,567	\$(13,927)	\$(81,583)	\$(478)	\$42,882
Net income for the interim period	—	—	172,205	—	—	—	—	—
Conversion of convertible bonds	9,334	9,120	—	—	—	—	—	—
Cash dividends	—	—	(71,884)	—	—	—	—	—
Treasury stock purchased, net	—	175	—	—	—	—	2	—
Other	—	—	651	32,970	12,628	20,585	—	6,965
Balance at September 30, 2007	\$903,275	\$469,999	\$1,190,800	\$200,537	\$ (1,299)	\$(60,998)	\$(476)	\$49,847

Segment Information

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the six months ended September 30, 2007 and 2006 (unaudited)

(a) Information by industry segment

	Millions of yen				
	2007				
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income
Shipbuilding	¥ 77,480	¥ 932	¥ 78,412	¥ 76,111	¥ 2,301
Rolling Stock & Construction Machinery	70,244	591	70,835	69,674	1,161
Aerospace	118,247	868	119,115	108,422	10,693
Gas Turbines & Machinery	84,289	6,322	90,611	84,917	5,694
Plant & Infrastructure Engineering	49,647	6,802	56,449	55,043	1,406
Consumer Products & Machinery	212,512	2,577	215,089	202,769	12,320
Other	87,121	18,486	105,607	100,407	5,200
Total.....	699,540	36,578	736,118	697,343	38,775
Eliminations.....	—	(36,578)	(36,578)	(36,853)	275
Consolidated total	¥699,540	¥ —	¥699,540	¥660,490	¥39,050

	Millions of yen				
	2006				
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)
Shipbuilding	¥ 42,107	¥ 1,296	¥ 43,403	¥ 45,456	¥ (2,053)
Rolling Stock & Construction Machinery	86,925	260	87,185	81,040	6,145
Aerospace	114,452	614	115,066	109,968	5,098
Gas Turbines & Machinery	80,509	7,941	88,450	83,629	4,821
Plant & Infrastructure Engineering	52,114	9,068	61,182	64,910	(3,728)
Consumer Products & Machinery	189,928	4,318	194,246	183,342	10,904
Other	79,817	20,224	100,041	95,611	4,430
Total.....	645,852	43,721	689,573	663,956	25,617
Eliminations.....	—	(43,721)	(43,721)	(43,666)	(55)
Consolidated total	¥645,852	¥ —	¥645,852	¥620,290	¥25,562

	Thousands of U.S. dollars				
	2007				
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income
Shipbuilding	\$ 671,229	\$ 8,074	\$ 679,303	\$ 659,369	\$ 19,934
Rolling Stock & Construction Machinery	608,542	5,120	613,662	603,604	10,058
Aerospace	1,024,404	7,520	1,031,924	939,288	92,636
Gas Turbines & Machinery	730,217	54,769	784,986	735,658	49,328
Plant & Infrastructure Engineering	430,105	58,927	489,032	476,852	12,180
Consumer Products & Machinery	1,841,047	22,325	1,863,372	1,756,640	106,732
Other	754,752	160,150	914,902	869,852	45,050
Total.....	6,060,296	316,885	6,377,181	6,041,263	335,918
Eliminations.....	—	(316,885)	(316,885)	(319,267)	2,382
Consolidated total	\$6,060,296	\$ —	\$6,060,296	\$5,721,996	\$338,300

(b) Information by geographic area

	<i>Millions of yen</i>				
	2007				
	<i>External sales</i>	<i>Intersegment sales</i>	<i>Total sales</i>	<i>Operating expenses</i>	<i>Operating income (loss)</i>
Japan	¥491,024	¥143,302	¥634,326	¥595,440	¥38,886
North America	118,166	12,691	130,857	134,404	(3,547)
Europe	72,010	2,334	74,344	71,413	2,931
Asia	13,863	11,683	25,546	24,724	822
Other areas	4,477	118	4,595	4,493	102
Total.....	699,540	170,128	869,668	830,474	39,194
Eliminations.....	—	(170,128)	(170,128)	(169,984)	(144)
Consolidated total	¥699,540	¥ —	¥699,540	¥660,490	¥39,050

	<i>Millions of yen</i>				
	2006				
	<i>External sales</i>	<i>Intersegment sales</i>	<i>Total sales</i>	<i>Operating expenses</i>	<i>Operating income</i>
Japan	¥459,768	¥ 120,560	¥580,328	¥559,793	¥20,535
North America	119,598	8,130	127,728	126,669	1,059
Europe	51,015	2,049	53,064	51,291	1,773
Asia	9,171	8,685	17,856	17,447	409
Other areas	6,300	77	6,377	6,254	123
Total.....	645,852	139,501	785,353	761,454	23,899
Eliminations.....	—	(139,501)	(139,501)	(141,164)	1,663
Consolidated total	¥645,852	¥ —	¥645,852	¥620,290	¥25,562

	<i>Thousands of U.S. dollars</i>				
	2007				
	<i>External sales</i>	<i>Intersegment sales</i>	<i>Total sales</i>	<i>Operating expenses</i>	<i>Operating income (loss)</i>
Japan	\$4,253,868	\$1,241,462	\$5,495,330	\$5,158,451	\$336,879
North America	1,023,703	109,945	1,133,648	1,164,377	(30,729)
Europe	623,841	20,220	644,061	618,669	25,392
Asia	120,099	101,213	221,312	214,190	7,122
Other areas	38,785	1,023	39,808	38,924	884
Total.....	6,060,296	1,473,863	7,534,159	7,194,611	339,548
Eliminations.....	—	(1,473,863)	(1,473,863)	(1,472,615)	(1,248)
Consolidated total	\$6,060,296	\$ —	\$6,060,296	\$5,721,996	\$338,300

(c) Overseas sales

	<i>Millions of yen</i>		<i>Millions of yen</i>		<i>Thousands of</i>
		<i>%</i>		<i>%</i>	<i>U.S. dollars</i>
	2007		2006		2007
	<i>Overseas sales</i>	<i>% of net sales</i>	<i>Overseas sales</i>	<i>% of net sales</i>	<i>Overseas sales</i>
North America	¥162,065	23.1%	¥155,019	24.0%	\$1,404,011
Europe	81,694	11.6%	57,932	8.9%	707,736
Asia	64,742	9.3%	96,354	15.0%	560,877
Other areas.....	77,624	11.1%	60,221	9.3%	672,477
Total.....	¥386,125	55.1%	¥369,526	57.2%	\$3,345,101

Net Sales, Orders and Order Backlog by Industry Segment

For the six months ended September 30, 2007 and 2006 (unaudited)

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net sales:			
Shipbuilding.....	¥ 77,480	¥ 42,107	\$ 671,229
Rolling Stock & Construction Machinery.....	70,244	86,925	608,542
Aerospace.....	118,247	114,452	1,024,404
Gas Turbines & Machinery	84,289	80,509	730,217
Plant & Infrastructure Engineering.....	49,647	52,114	430,105
Consumer Products & Machinery	212,512	189,928	1,841,047
Other.....	87,121	79,817	754,752
Total.....	¥699,540	¥645,852	\$6,060,296

Orders received:			
Shipbuilding.....	¥ 85,631	¥ 69,507	\$ 741,844
Rolling Stock & Construction Machinery.....	121,605	156,102	1,053,496
Aerospace.....	73,726	70,175	638,707
Gas Turbines & Machinery	93,527	99,313	810,249
Plant & Infrastructure Engineering.....	41,557	95,093	360,019
Consumer Products & Machinery	212,512	189,928	1,841,047
Other.....	96,278	83,726	834,080
Total.....	¥724,836	¥763,844	\$6,279,442

	Millions of yen			Thousands of U.S. dollars
	As of September 30, 2007	As of March 31, 2007	As of September 30, 2006	As of September 30, 2007
Order backlog:				
Shipbuilding	¥ 320,643	¥ 313,987	¥ 315,263	\$ 2,777,813
Rolling Stock & Construction Machinery	492,077	434,419	412,985	4,262,991
Aerospace	241,623	286,699	256,954	2,093,243
Gas Turbines & Machinery	224,028	216,886	214,002	1,940,813
Plant & Infrastructure Engineering.....	163,996	172,255	187,030	1,420,740
Consumer Products & Machinery	—	—	—	—
Other.....	50,066	40,909	38,726	433,734
Total.....	¥1,492,433	¥1,465,155	¥1,424,960	\$12,929,334



Kawasaki Corporate Data

(As of September 30, 2007)

Kawasaki Heavy Industries, Ltd.

Kobe Head Office:

Kobe Crystal Tower,
1-3, Higashikawasaki-cho 1-chome,
Chuo-ku, Kobe, Hyogo 650-8680, Japan

Tokyo Head Office:

World Trade Center Bldg.,
4-1, Hamamatsu-cho 2-chome,
Minato-ku, Tokyo 105-6116, Japan

Founded: 1878

Incorporated: 1896

Paid-in Capital: ¥104,265,062,978

Number of Shares Issued: 1,668,911,902

Number of Shareholders: 158,330

Number of Employees: 30,382

Stock Exchange Listings:

Tokyo, Osaka, Nagoya

Method of Publication of Notices:

<http://www.khi.co.jp>

The method of publication of notices of the Corporation shall be made electronically. Provided, if the Corporation is unable to make an electronic publication of notice due to an accident or other unavoidable reason, the notice shall be inserted in the *Nihon Keizai Shimbun*.

Transfer Agent:

The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome,
Minato-ku, Tokyo 105-8574, Japan

Handling Office:

The Chuo Mitsui Trust and Banking Company, Limited
Osaka Branch Office
2-21, Kitahama 2-chome,
Chuo-ku, Osaka 541-0041, Japan

Independent Auditors:

KPMG AZSA & Co.
Kobe Crystal Tower,
1-3, Higashikawasaki-cho 1-chome,
Chuo-ku, Kobe, Hyogo 650-8680, Japan

ADR Facility:

KHI has a sponsored American Depository Receipt (ADR) facility. ADRs are traded in the over-the-counter (OTC) market in the United States under CUSIP number 486 359 20 1 with each ADR representing four ordinary shares.

ADR Depository:

The Bank of New York
101 Barclay St., 22 West,
New York, NY 10286, U.S.A.
Phone: 1-212-815-2042
U.S. Toll Free: 888-269-2377
(888-BNY-ADRS)

<http://adrbny.com>

KHI Web Site at: <http://www.khi.co.jp>



This report was printed on 100% recycled paper with a whiteness degree of 85% using the waterless printing process, which emits no harmful chemicals, and soy-based ink, which is made from plant material that emits only low levels of volatile organic chemicals.