

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

January 30, 2014

Kawasaki Heavy Industries, Ltd.

 **Kawasaki**
Powering your potential

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Summary of Financial Results

(Billion Yen)

| | FY2012.3Q | FY2013.3Q | Change |
|------------------|-----------|--------------|---------|
| Orders Received | 802.4 | 953.7 | + 151.3 |
| Net Sales | 885.8 | 920.8 | + 34.9 |
| Operating Income | 22.9 | 46.0 | + 23.1 |
| Recurring Profit | 31.4 | 38.7 | + 7.2 |
| Net Income | 19.3 | 23.2 | + 3.9 |

vs. FY2012.3Q

< Orders Received >

Increased due to increase in orders received in all segments, with the largest increase in the Aerospace and Rolling Stock segments

< Net Sales >

Increased as a whole due to increase in Motorcycle & Engine and Aerospace segments, despite decrease in Plant & Infrastructure and Ship & Offshore Structure segments

< Profits >

Increased due to increase in the Aerospace, and improvement in the Rolling Stock and Motorcycle & Engine segments

Exchange Rates (weighted-average)

| | | |
|------------|--------|---------------|
| Yen / US\$ | 80.10 | 98.40 |
| Yen / EUR | 103.00 | 131.43 |

Financial Results by Segment

(Billion Yen)

| | Orders Received | | | Net Sales | | | Operating Income | | |
|----------------------------|-----------------|--------------|---------|--------------|--------------|--------|------------------|--------------|--------|
| | FY2012 3Q | FY2013 3Q | Change | FY2012 3Q | FY2013 3Q | Change | FY2012 3Q | FY2013 3Q | Change |
| Ship & Offshore Structure | 42.9 | 54.6 | + 11.7 | 68.6 | 58.6 | - 9.9 | 4.4 | 0 | - 4.4 |
| Rolling Stock | 93.1 | 108.2 | + 15.2 | 94.1 | 97.9 | + 3.7 | - 0.5 | 6.2 | + 6.8 |
| Aerospace | 138.3 | 162.0 | + 23.6 | 165.8 | 187.1 | + 21.2 | 9.3 | 20.9 | + 11.5 |
| Gas Turbine & Machinery | 131.6 | 140.9 | + 9.3 | 144.6 | 125.3 | - 19.2 | 4.6 | 6.8 | + 2.2 |
| Plant & Infrastructure | 69.4 | 83.5 | + 14.0 | 71.1 | 58.4 | - 12.6 | 3.7 | 0.8 | - 2.8 |
| Motorcycle & Engine | 158.8 | 213.0 | + 54.1 | 158.8 | 213.0 | + 54.1 | - 2.0 | 4.0 | + 6.0 |
| Precision Machinery | 78.4 | 92.4 | + 13.9 | 93.8 | 84.9 | - 8.9 | 4.8 | 7.1 | + 2.3 |
| Others | 89.5 | 98.8 | + 9.2 | 88.7 | 95.3 | + 6.5 | 1.5 | 2.3 | + 0.8 |
| Eliminations and corporate | - | - | - | - | - | - | - 2.9 | - 2.5 | + 0.4 |
| Total | 802.4 | 953.7 | + 151.3 | 885.8 | 920.8 | + 34.9 | 22.9 | 46.0 | + 23.1 |

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

Summary of Income Statement

(Billion Yen)

【 Operating Income 】 + 23.1 (FY2012.3Q 22.9 → FY2013.3Q 46.0)

| | |
|--|-----------------------------|
| Net Sales | + 34.9 (885.8 → 920.8) |
| Cost of Sales | - 2.5 (- 748.3 → - 750.8) |
| Selling, general and administrative expenses | - 9.2 (- 114.6 → - 123.9) |
| Salaries and benefits | - 2.5 (- 31.3 → - 33.9) |
| R&D expenses | - 0.1 (- 27.2 → - 27.3) |

【Non-operating Income/Expenses】 - 15.8 (FY2012.3Q 8.5 → FY2013.3Q - 7.3)

| | |
|--|-------------------------|
| Net Interest expense (incl. dividend income) | - 0.7 (- 1.2 → - 1.9) |
| Equity in income of unconsolidated subsidiaries and affiliates | - 3.0 (7.0 → 4.0) |
| Gain and loss on foreign exchange | - 10.8 (1.7 → - 9.1) |
| Others | - 1.2 (0.9 → - 0.2) |

【Extraordinary Income/Losses】 - 1.6 (FY2012.3Q - 1.6 → FY2013.3Q 0)

| | |
|--------------------------------------|----------------------------------|
| Provision for environmental measures | + 1.3 (- 1.3 → 0) |
| Loss on impairment of fixed assets | + 0.2 (- 0.2 [※] → 0) |

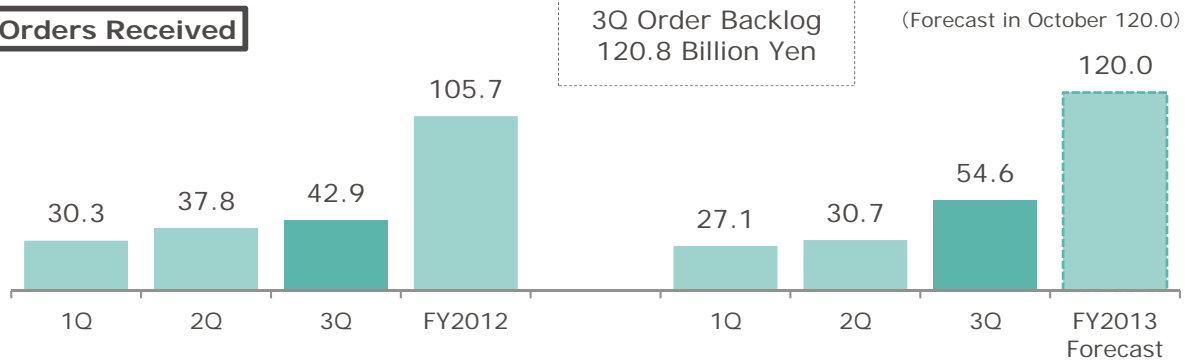
※ Loss on impairment of idle assets whose book values were written down to the recoverable amounts

Ship & Offshore Structure

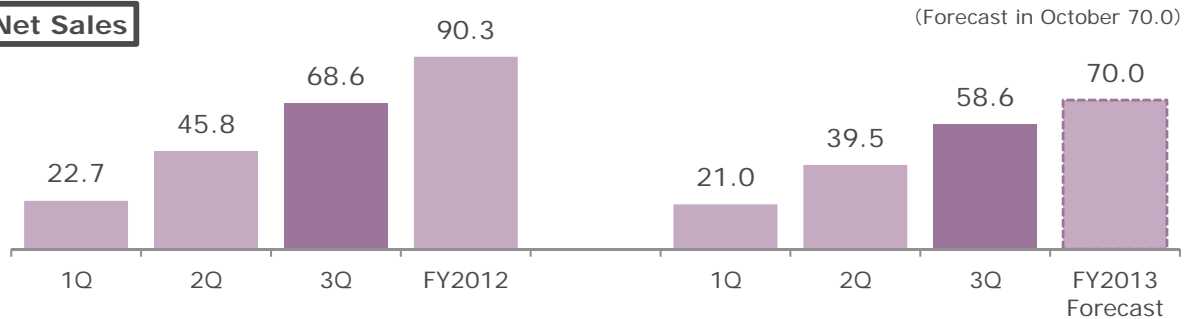
Main Products: LNG carriers, LPG carriers, VLCCs, Bulk carriers, Submarines, Offshore structures

(Billion Yen / In accumulated amount)

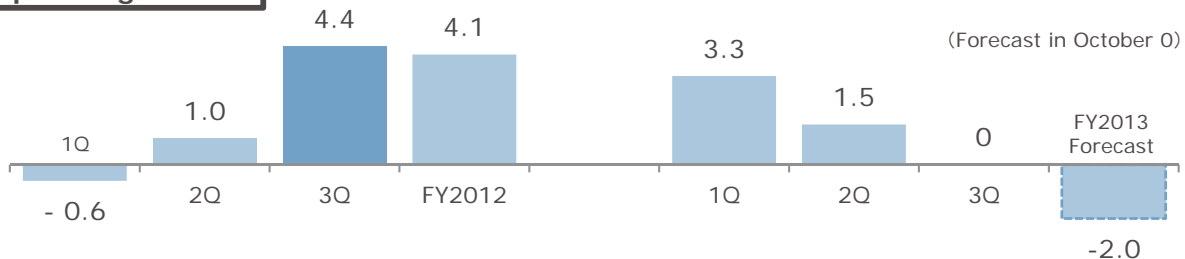
Orders Received



Net Sales



Operating Income



FY2013.3Q

(vs. FY2012.3Q)

Orders Received: Increased due to orders received for 1 LNG carrier, 2 LPG carriers and 2 bulk carriers

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

Operating Income: Decreased due to provision for loss, sales decrease from ship repairing and other factors

FY2013 Forecast

(vs. Forecast in October)

Orders Received & Net Sales: No change

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

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

| | Orders Received | | Sales | |
|--------------------------|-----------------|-----------|-----------|-----------|
| | FY2012.3Q | FY2013.3Q | FY2012.3Q | FY2013.3Q |
| LNG carriers | 1 | 1 | 1(1) | 3(2) |
| Small-sized LNG carriers | | | 1(1) | 1(0) |
| LPG carriers | 1 | 2 | 2(2) | 2(1) |
| Bulk carriers | 2 | 2 | 19(7) | 6(2) |
| Submarines | | | 1(1) | 2(2) |
| Total | 4 | 5 | 24(12) | 14(7) |

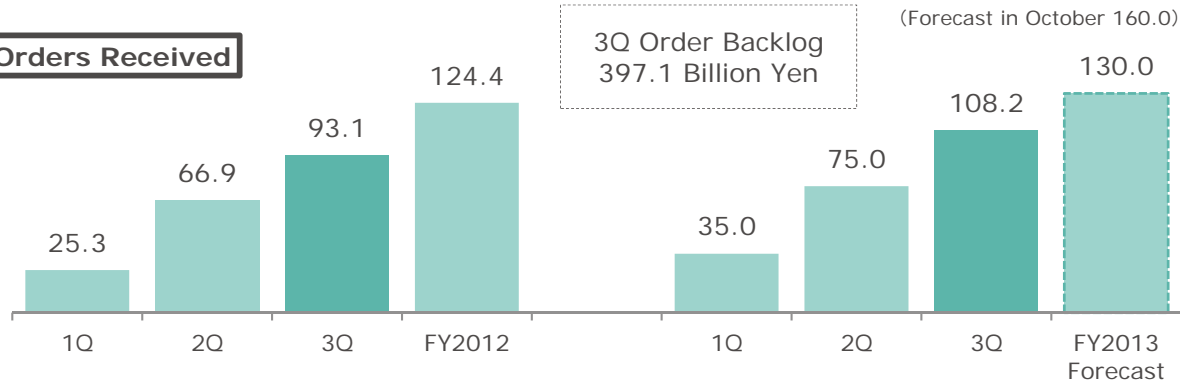
Note: () = Sales units by percentage-of-completion method

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



FY2013.3Q

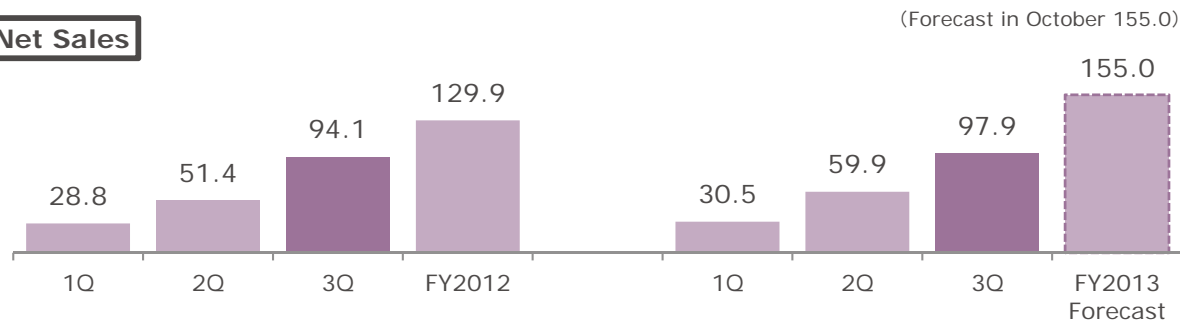
(vs. FY2012.3Q)

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

Net Sales



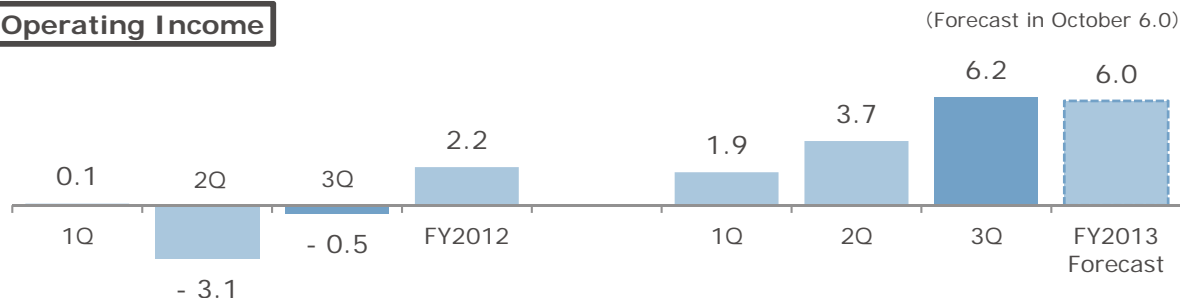
FY2013 Forecast

(vs. Forecast in October)

Orders Received: Revised down due to order deferrals

Net Sales & Operating Income:
No change

Operating Income

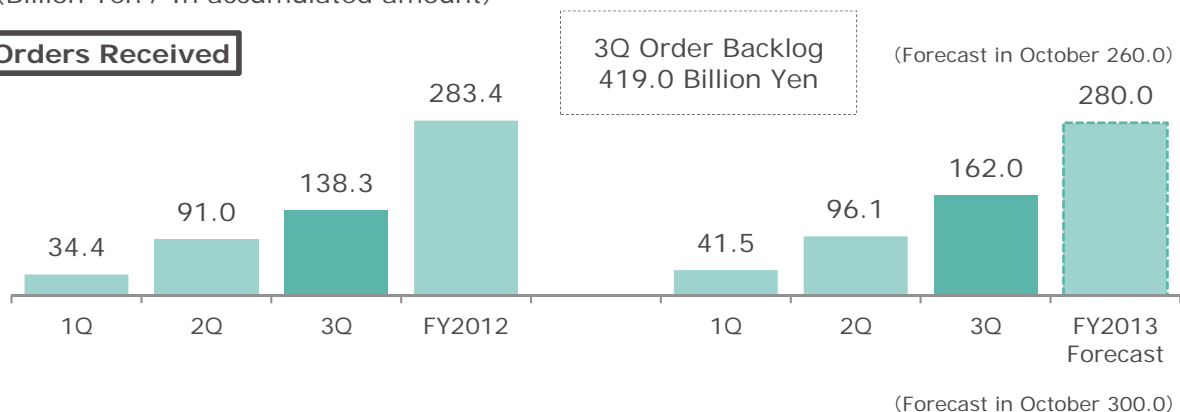


Aerospace

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



FY2013.3Q

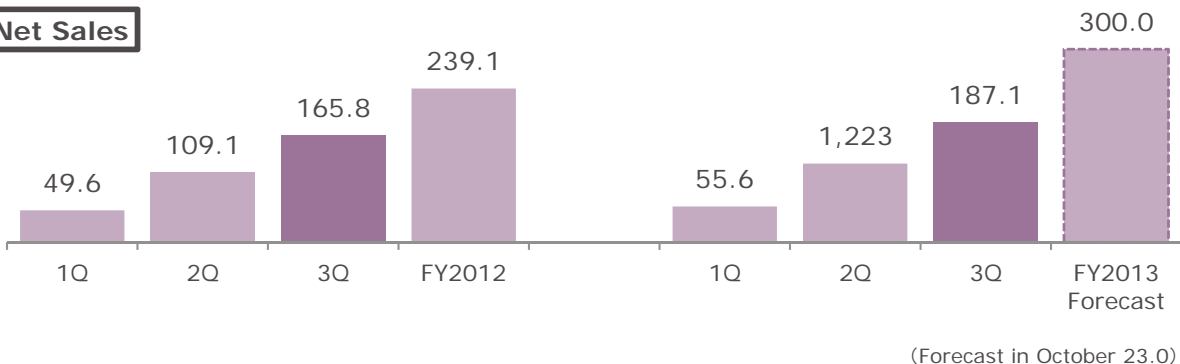
(vs. FY2012.3Q)

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

Net Sales: Increased due to sales increase for component parts for Boeing 777 and 787, and the Japan Ministry of Defense (MOD)

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

Net Sales



FY2013 Forecast

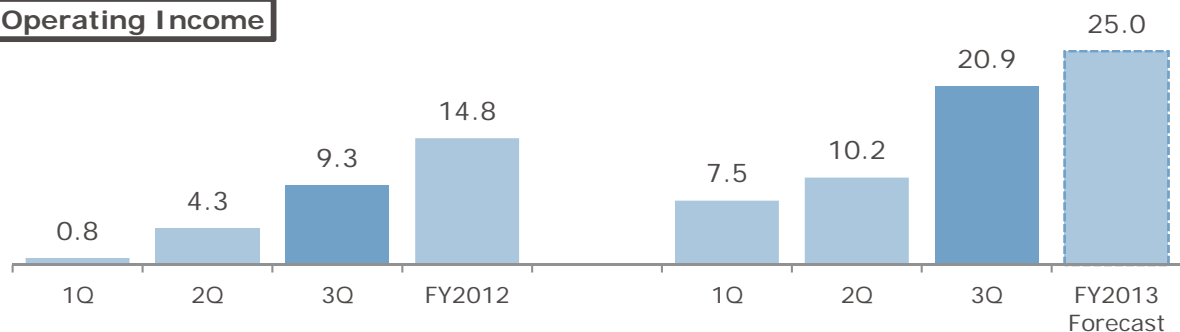
(vs. Forecast in October)

Orders Received: Revised up due to increase in orders received for MOD

Net Sales: No change

Operating Income: Revised up due to change in assumed foreign exchange rate and other factors

Operating Income



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

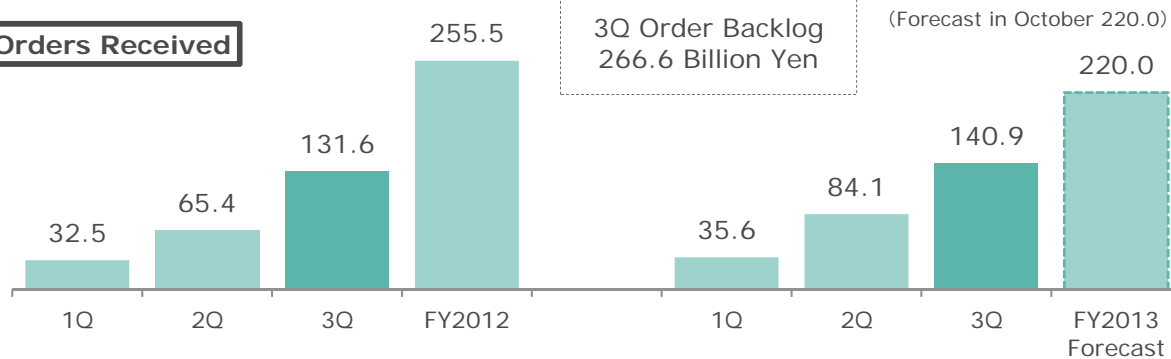
| | FY2012.3Q | FY2013.3Q |
|----------------|-----------|-----------|
| Boeing 777 | 66 | 75 |
| Boeing 767 | 19 | 9 |
| Boeing 787 | 41 | 55 |
| Embraer170/175 | 11 | 35 |
| Embraer190/195 | 55 | 32 |

Gas Turbine & Machinery

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

(Billion Yen / In accumulated amount)

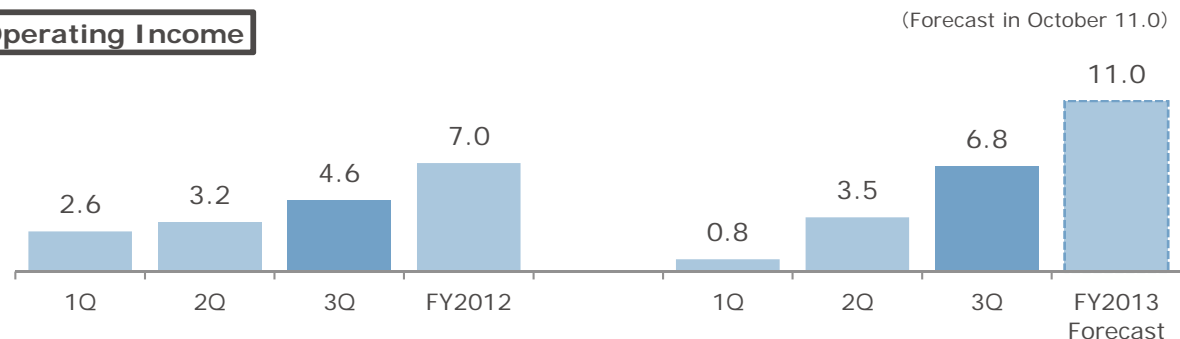
Orders Received



Net Sales



Operating Income



FY2013.3Q

(vs. FY2012.3Q)

Orders Received: Increased due to increase in orders received for gas engines, hydraulic machinery, and when excluding the decrease due to a change in accounting methodology, commercial aircraft jet engines

Net Sales: When effects of above mentioned change in accounting methodology are excluded, net sales increased in actuality due to increase in sales of component parts of commercial aircraft jet engines and gas engines, despite sales decrease in marine diesel engines

Operating Income: Increased due to factual sales increase

FY2013 Forecast

(vs. Forecast in October)

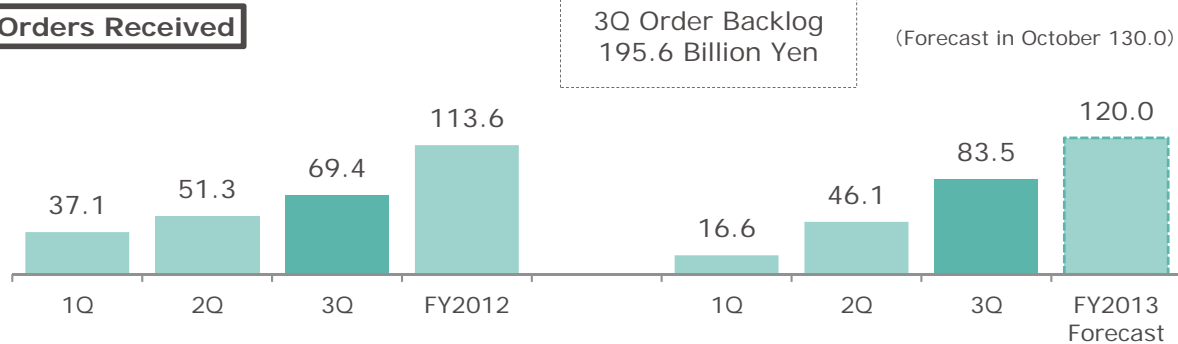
Orders Received, Net Sales & Operating Income: No change

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



FY2013.3Q

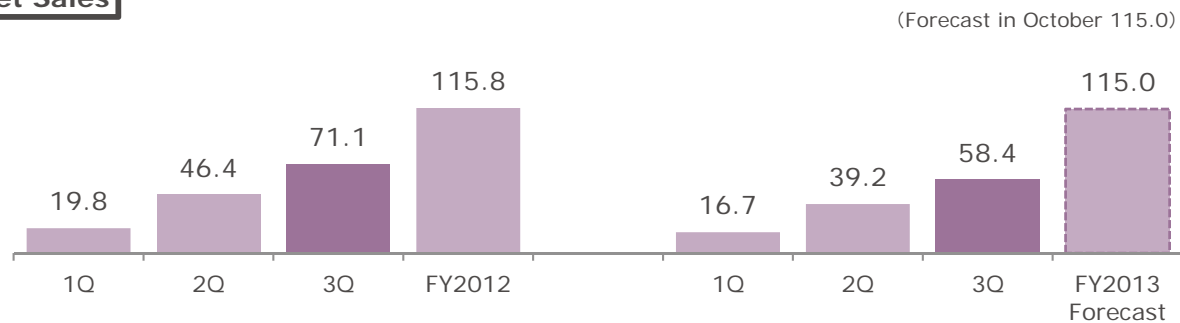
(vs. FY2012.3Q)

Orders Received: Increased due to orders received for LNG tanks for the expansion of the Taichung LNG terminal of CPC Corporation, Taiwan

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

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

Net Sales



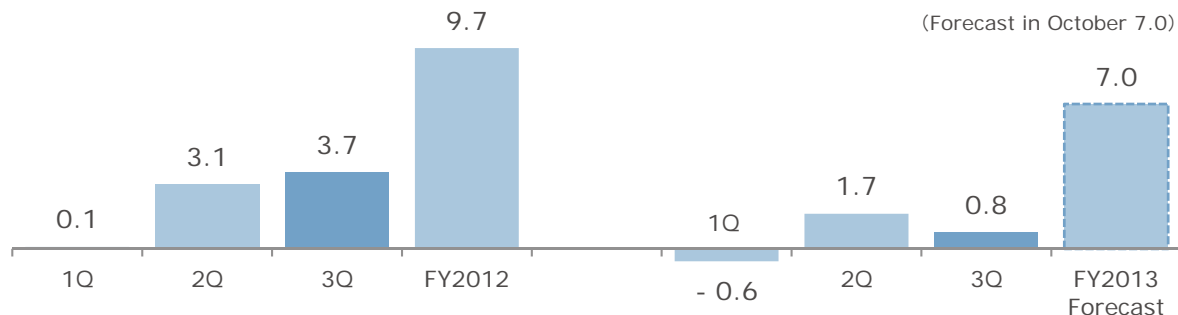
FY2013 Forecast

(vs. Forecast in October)

Orders Received: Revised down due to order deferrals

Net Sales & Operating Income: No change

Operating Income

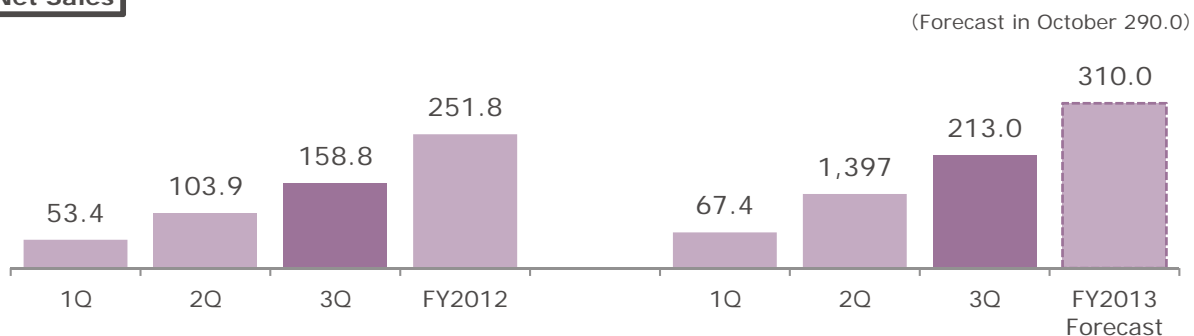


Motorcycle & Engine

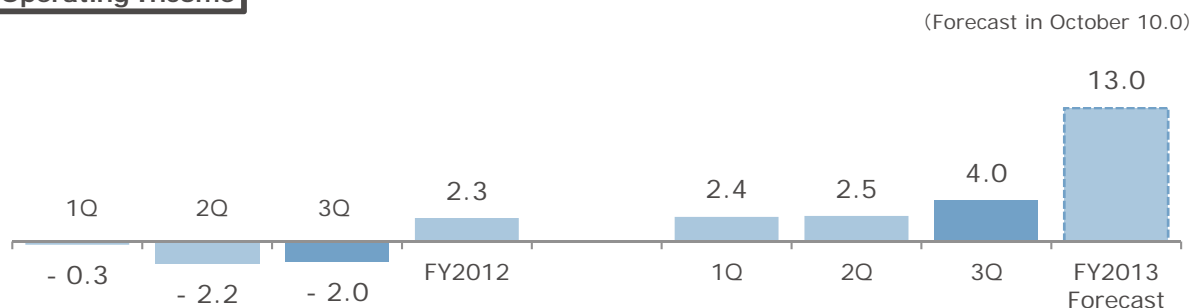
Main Products: Motorcycles, All-Terrain Vehicles(ATVs), Utility Vehicles, Personal Watercraft, General-purpose Gasoline Engines

(Billion Yen / In accumulated amount)

Net Sales



Operating Income



FY2013.3Q

(vs. FY2012.3Q)

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 October)

Net Sales & Operating Income: Revised up due to change in assumed foreign exchange rate and other factors

<Wholesales by Geographic Area for Consumer Products>

(Thousands of unit / Billion Yen)

| | FY2012.3Q | | FY2012 | | FY2013.3Q | | FY2013 Forecast | |
|------------------------------|------------|--------------|------------|--------------|------------|--------------|-----------------|--------------|
| | Unit | Amount | Unit | Amount | Unit | Amount | Unit | Amount |
| Domestic | 10 | 9.1 | 14 | 12.1 | 14 | 10.8 | 18 | 14.0 |
| North America (incl. Canada) | 73 (46) | 46.5 | 118 (74) | 79.7 | 80(47) | 65.4 | 126(74) | 97.4 |
| Europe | 30 | 21.2 | 55 | 38.5 | 27 | 24.7 | 52 | 43.6 |
| Emerging Countries & Others | 257 | 59.5 | 357 | 86.2 | 282 | 83.8 | 407 | 110.9 |
| Total | 370 | 136.3 | 544 | 216.5 | 403 | 184.7 | 603 | 265.9 |

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

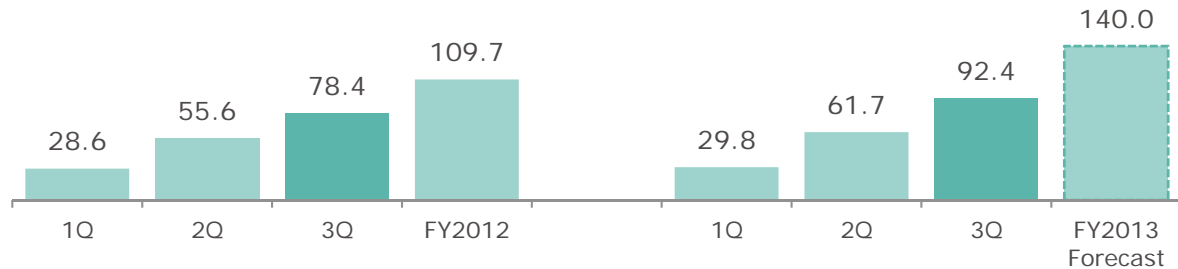
Main Products: Hydraulic components (pumps, motors & valves), Hydraulic systems for industrial use, Hydraulic marine machinery, Precision Machinery / Electric-powered devices, Industrial Robots

(Billion Yen / In accumulated amount)

Orders Received

3Q Order Backlog
29.2 Billion Yen

(Forecast in October 140.0)



FY2013.3Q

(vs. FY2012.3Q)

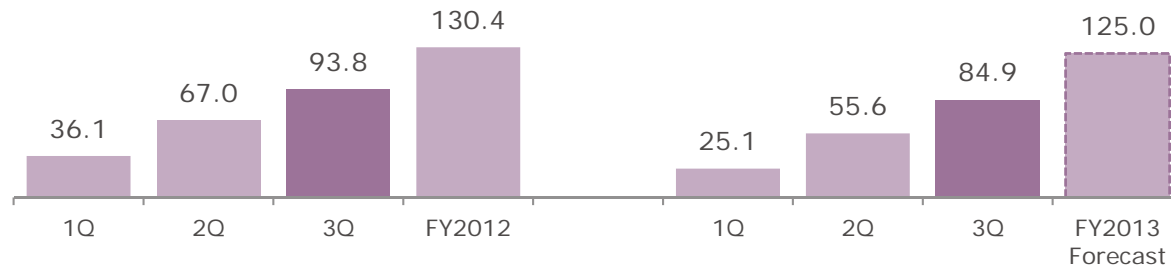
Orders Received: Increased due to increase in orders received for industrial robots for automotive industries and clean robots for semiconductor production equipment

Net Sales: Decreased due to sales decrease of hydraulic components for construction machinery, despite increase in sales for industrial robots for automotive industries and clean robots for semiconductor production equipment

Operating Income: Increased due to increase in sales for industrial robots for automotive industries and clean robots for semiconductor production equipment, and the effect of the depreciation of the yen

Net Sales

(Forecast in October 125.0)

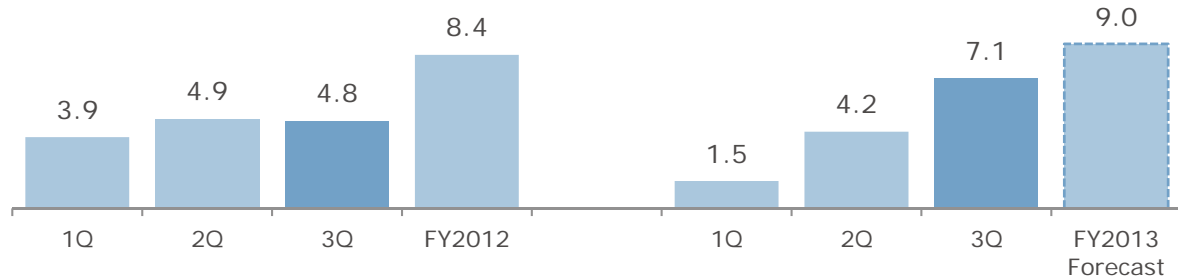


FY2013 Forecast

(vs. Forecast in October)

Operating Income

(Forecast in October 9.0)



Orders Received, Net Sales & Operating Income: No change

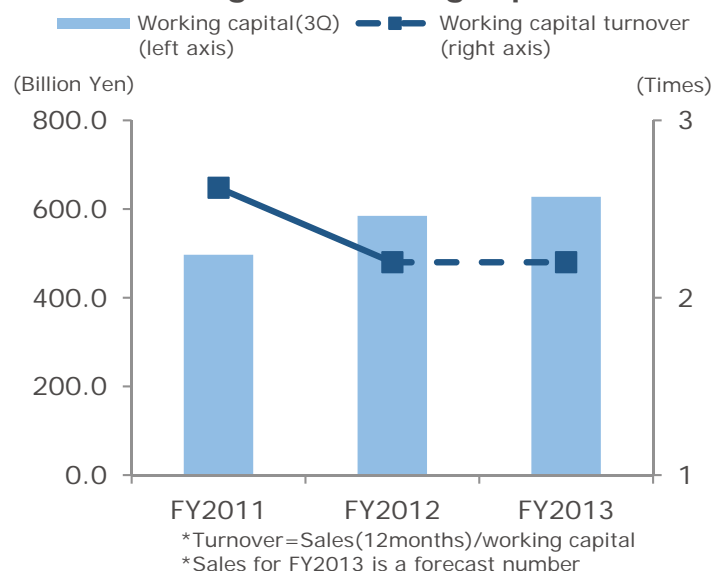
Summary of Consolidated Balance Sheet

(Billion Yen)

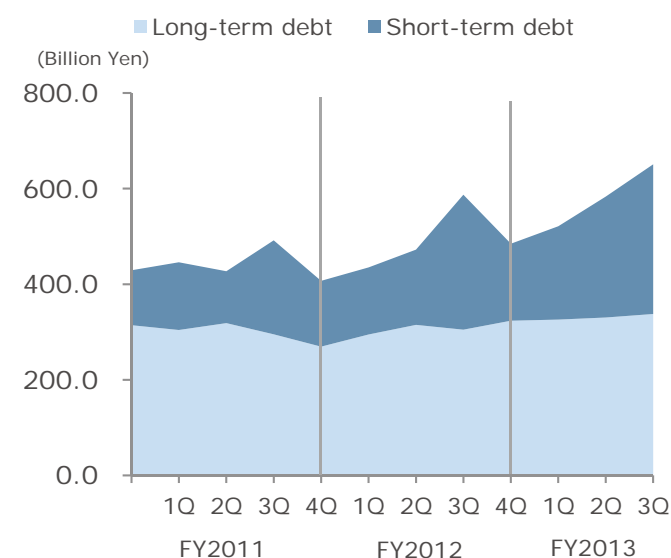
| | End of Mar. 2013 | End of Dec. 2013 | Change |
|---|---------------------|---------------------|---------|
| Cash on hand and in banks | 38.5 | 32.9 | - 5.5 |
| Trade receivables | 432.6 | 475.4 | + 42.8 |
| Inventories | 460.1 | 527.5 | + 67.4 |
| Total fixed assets | 325.2 | 386.0 | + 60.8 |
| Other assets | 209.7 | 251.3 | + 41.5 |
| Total assets | 1,466.2 | 1,673.3 | + 207.1 |
| Trade payables | 281.0 | 269.6 | - 11.4 |
| Interest-bearing debt | 484.6 | 650.8 | + 166.2 |
| Advances from customers | 108.2 | 132.5 | + 24.3 |
| Other liabilities | 242.4 | 268.0 | + 25.5 |
| Total liabilities | 1,116.4 | 1,321.1 | + 204.7 |
| Total shareholders' equity | 357.3 | 361.0 | + 3.6 |
| Other net assets | - 7.4 | - 8.7 | - 1.2 |
| Total net assets | 349.8 | 352.2 | + 2.3 |
| Total liabilities and net assets | 1,466.2 | 1,673.3 | + 207.1 |

| | | |
|---|--------|---------------|
| Ratio of shareholders' equity to total assets | 23.0% | 20.2% |
| Net Debt Equity Ratio | 131.9% | 182.4% |

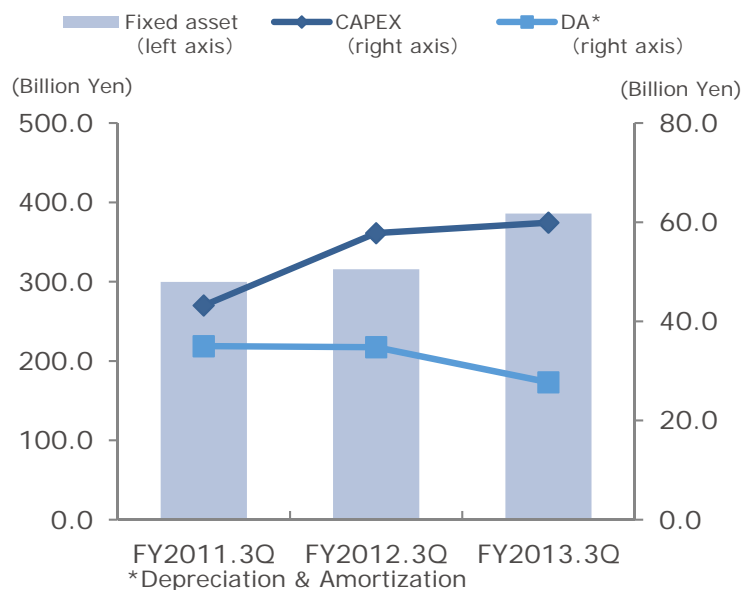
【Changes in working capital】



【Changes in interest-bearing debt】



【Changes in CAPEX and others】



【Overview of consolidated B/S】

On December 31, 2013, total assets increased from March 31, 2013, attributing to inventory growth stemming from progress toward completion of construction jobs and capital investments that added to property, plant and equipment. Liabilities on December 31, 2013, increased due to increase in interest-bearing debt and recognition of previously unrecognized retirement and severance benefit liabilities, partially offset by a reduction in notes and accounts payable-trade. Net assets increased mainly due to net income, partially offset by dividend payments and recognition of the previously unrecognized retirement and severance benefit liabilities.

Summary of Cash Flows

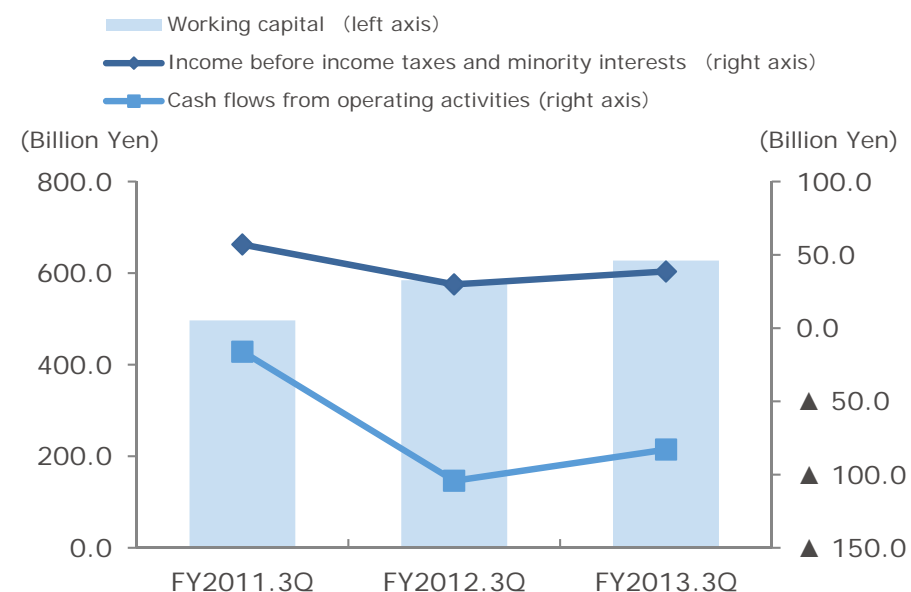
(Billion Yen)

| | FY2012 3Q | FY2013 3Q | Change |
|--------------------------------------|--------------|----------------|--------|
| Cash flows from operating activities | - 104.2 | - 82.9 | + 21.3 |
| Cash flows from investing activities | - 66.1 | - 62.7 | + 3.3 |
| Free Cash Flows | - 107.3 | - 145.6 | + 24.7 |
| Cash flows from financing activities | 168.4 | 141.8 | - 26.6 |

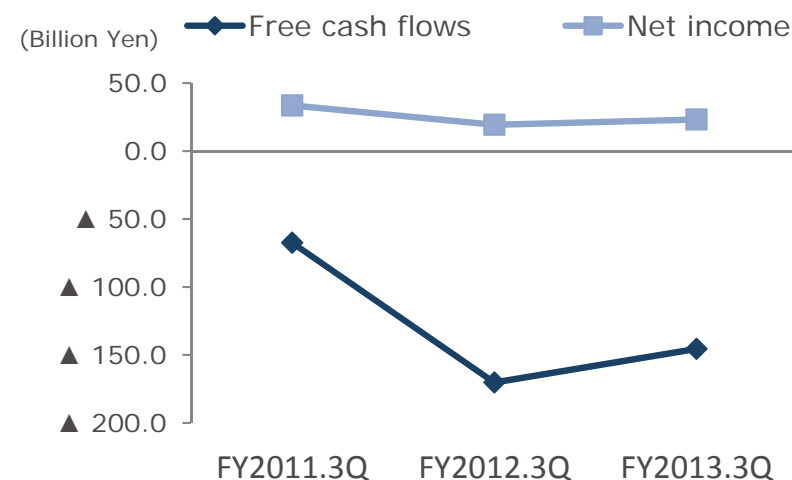
【Overview of consolidated cash flows】

Net cash used for operating activities decreased from the previous same period due to increase in advances from customers for new orders received and progress towards completion of construction jobs, partially offset by increase in trade receivables. Net cash used for investing activities decreased from the previous same period, which was marked by acquisition of investments in affiliates, despite an increase in capital investments that added to property, plant and equipment. Given the above mentioned changes in cash flows, free cash flows increased from the previous same period.

【Changes in cash flows from operating activities and others】



【Changes in free cash flows and net income】



Consolidated Operating Performance

(Billion Yen)

| | FY2012 Actual | FY2013 Forecast | | Change | |
|------------------|------------------|--------------------|----------------|------------|----------------------------|
| | | in October | in January | vs. FY2012 | vs. Forecast in October |
| Orders Received | 1,369.5 | 1,450.0 | 1,450.0 | + 80.5 | 0 |
| Net Sales | 1,288.8 | 1,380.0 | 1,400.0 | + 111.2 | + 20.0 |
| Operating Income | 42.0 | 60.0 | 63.0 | + 21.0 | + 3.0 |
| 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 October

< Orders Received >

Remains unchanged due to increase in Aerospace segment, despite decrease in Rolling Stock and Plant & Infrastructure segments

< Net Sales >

Revised up due to increase in Motorcycle & Engine segment

< Profits >

- Operating income is revised up due to increase in Aerospace and Motorcycle and Engine segments, despite decrease in Ship & Offshore Structure segment

- Recurring profit and net income remain unchanged due to effects of the depreciation of the yen being limited by FX hedging.

Exchange Rates (actual & assumed)

| | | | |
|------------|--------|-----|------------|
| Yen / US\$ | 82.86 | 95 | 100 |
| Yen / EUR | 107.76 | 130 | 130 |

Note : Assumed rates are applied to the outstanding foreign exchange exposure as of January 30, 2014

(For Reference)

Impact on profit by FX fluctuation of 1 Yen

(Billion Yen)

| | Operating Income | Recurring Profit |
|------|---------------------|---------------------|
| US\$ | 1.0(1.3) | 0.5(1.1) |
| EUR | 0.1(0.2) | 0(0) |

* Figures in the parenthesis () represent impact as of October 29, 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 October | in January | | in October | in January | | in October | in January |
| Ship & Offshore Structure | 105.7 | 120.0 | 120.0 | 90.3 | 70.0 | 70.0 | 4.1 | 0 | -2.0 |
| Rolling Stock | 124.4 | 160.0 | 130.0 | 129.9 | 155.0 | 155.0 | 2.2 | 6.0 | 6.0 |
| Aerospace | 283.4 | 260.0 | 280.0 | 239.1 | 300.0 | 300.0 | 14.8 | 23.0 | 25.0 |
| 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 | 120.0 | 115.8 | 115.0 | 115.0 | 9.7 | 7.0 | 7.0 |
| Motorcycle & Engine | 251.8 | 290.0 | 310.0 | 251.8 | 290.0 | 310.0 | 2.3 | 10.0 | 13.0 |
| Precision Machinery | 109.7 | 140.0 | 140.0 | 130.4 | 125.0 | 125.0 | 8.4 | 9.0 | 9.0 |
| Others | 125.1 | 130.0 | 130.0 | 124.2 | 140.0 | 140.0 | 1.2 | 4.0 | 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 | 1,400.0 | 42.0 | 60.0 | 63.0 |

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

* No changes in the forecast for FY2013 from October 29, 2013.

(Billion Yen / Persons)

| | FY2012 Actual | FY2013 Forecast | Change |
|------------------------------|------------------|--------------------|--------|
| R&D Expenses | 41.7 | 43.0 | + 1.3 |
| CAPEX (Construction Base) | 78.6 | 101.0 | + 22.4 |
| Depreciation & Amortization | 48.3 | 40.0 | - 8.3 |
| Domestic | 25,222 | 25,700 | + 478 |
| Overseas | 8,788 | 9,200 | + 412 |
| Number of Employees | 34,010 | 34,900 | + 890 |

<For Reference>

By-Segment Quantitative Plan of MTBP 2013 (FY2015 Target)

(Billion Yen)

| | Net sales | Operating income | Operating margin | Before-tax ROIC |
|---------------------------|-----------|------------------|------------------|-----------------|
| Ship & Offshore Structure | 135.0 | 6.0 | 4.4% | 10.0% |
| Rolling Stock | 180.0 | 13.0 | 7.2% | 15.3% |
| Aerospace | 270.0 | 20.0 | 7.4% | 12.7% |
| Gas Turbine & Machinery | 250.0 | 13.0 | 5.2% | 7.5% |
| Plant & Infrastructure | 140.0 | 8.0 | 5.7% | 15.0% |
| Motorcycle & Engine | 300.0 | 15.0 | 5.0% | 14.3% |
| Precision Machinery | 190.0 | 22.0 | 11.6% | 26.3% |
| Others | 135.0 | - 7.0 | - 5.2% | - |
| Total | 1,600.0 | 90.0 | 5.6% | 11.0% |

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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.