

**Report of Earnings and Financial Statements for the  
Three Months Ended June 30, 2011 (Consolidated)**  
(Prepared pursuant to Japanese GAAP)

July 29, 2011

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

Submission of quarterly securities filing: August 11, 2011

Commencement of dividend payments: -

Supplementary materials to quarterly earnings: Available

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

**1. Consolidated Financial Results for the Three Months ended June 30, 2011**  
(April 1 – June 30, 2011)

(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	%
Three Months Ended June 30, 2011	291,579	5.1	12,373	6.1	14,669	28.8	9,558	62.4
Three Months Ended June 30, 2010	277,387	8.0	11,657	-	11,386	-	5,883	-

Note: Comprehensive income June 30, 2011: 11,036 million yen (153.0%)  
 June 30, 2010: 4,361 million yen (- %)

	Earnings per share	Earnings per share – diluted
	yen	yen
Three Months Ended June 30, 2011	5.72	5.63
Three Months Ended June 30, 2010	3.52	3.47

(2) Financial Condition

	Total assets	Net assets	Ratio of shareholders' equity to total assets
	million yen	million yen	%
June 30, 2011	1,312,595	302,526	22.3
March 31, 2011	1,354,278	297,433	21.3

Note: Shareholders' equity: June 30, 2011: 293,818 million yen  
 March 31, 2011: 289,056 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, 2011	yen -	yen 0.00	yen -	yen 3.00	yen 3.00
Year ending March 31, 2012	-				
Year ending March 31, 2012 (forecast)		0.00	-	4.00	4.00

Note: Revisions to the most recently announced dividend forecast: None

## 3. Forecast of Consolidated Earnings for the Year Ending March 31, 2012

(April 1, 2011 – March 31, 2012)

(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
For six months ending September 30, 2011	650,000	13.6	20,000	(4.3)	21,000	(1.1)	12,000	(2.7)	7.18
Full year	1,360,000	10.8	50,000	17.2	52,000	5.8	32,000	23.2	19.15

Note: Revision to the most recently announced earnings forecast: None

## 4. Other Information

1) Changes affecting the status of material subsidiaries (scope of consolidation): None

\*This refers to additions and removals of material subsidiaries to and from the consolidated group during the period. For further details, see “Changes affecting the status of material subsidiaries (scope of consolidation)” on page 7 in the Accompanying Materials.

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 8 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

\*For further details, see “Changes in accounting policies, changes in accounting estimates, and correction of errors” on page 8 in the Accompanying Materials.

4) Number of shares issued and outstanding (common stock)

(1) Number of shares issued as of period-end (including treasury stock)

June 30, 2011: 1,670,820,146 shares

March 31, 2011: 1,670,646,460 shares

(2) Number of shares held in treasury as of period-end

June 30, 2011: 61,970 shares

March 31, 2011: 100,288 shares

(3) Average number of shares during respective periods

Three months ended June 30, 2011:	1,670,759,373 shares
Three months ended June 30, 2010:	1,667,836,934 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. 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 7 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 by conference call on Friday July 29, 2011, 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.

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

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

In the three months to June 30, 2011 (first quarter of the fiscal year ending March 31, 2012), Japan's economy continued to tread water, and the business environment facing the KHI Group remained adverse due to factors including the yen appreciation trend and sharply rising materials prices. The economic outlook for Japan remains uncertain due to a slump in personal consumption and the impact on production activities of electricity supply constraints in the aftermath of the Great East Japan Earthquake of March 11.

The global economy showed a general recovery trend supported by vigorous growth in China and other emerging markets, despite concerns about prolonged balance sheet adjustments in the US and sovereign debt risk in some European countries. In these circumstances, a key challenge will be suppression of inflationary pressure against a backdrop of robust demand, principally in emerging markets.

In this operating environment, the Group achieved higher overall sales and profits in the fiscal first quarter, despite year-on-year decreases in sales or profits in some businesses. Overall orders received decreased, as large order increases in the Ship & Offshore Structure and Precision Machinery segments failed to compensate for a decrease in orders in the Rolling Stock segment, a business in which large orders were booked in the previous first quarter. Overall sales rose on increases in the Precision Machinery, Aerospace, and Plant & Infrastructure segments, despite decreases in other segments. Overall profits increased, albeit slightly, due to higher profits and improvement in the Precision Machinery and Aerospace segments, which offset decreases in other segments.

As a result, in the first quarter of the fiscal year, orders received fell ¥78.3 billion year on year to ¥251.1 billion on a consolidated basis. Net sales increased ¥14.1 billion year on year to ¥291.5 billion. Operating income edged up ¥0.7 billion to ¥12.3 billion, ordinary income rose ¥3.2 billion to ¥14.6 billion, and net income increased ¥3.6 billion to ¥9.5 billion.

Consolidated segment information for the first quarter of the fiscal year is summarized below.

### **Segment Information**

#### **Ship & Offshore Structure**

Consolidated orders received totaled ¥17.0 billion on orders for 5 bulk carriers, a ¥15.3 billion increase from the year-earlier period, when no newbuild orders were received.

Consolidated net sales totaled ¥27.7 billion, down ¥0.9 billion from the year-earlier period.

Consolidated operating income decreased ¥2.3 billion year on year to ¥0.9 billion due to factors including an increase in provision for losses on construction contracts.

### **Rolling Stock**

Consolidated orders received decreased ¥78.9 billion year on year to ¥22.6 billion in the absence of a large order from overseas received in the previous fiscal first quarter.

Consolidated net sales were down ¥0.8 billion year on year to ¥25.8 billion.

Consolidated operating income fell ¥1.7 million year on year to ¥0.0 billion due to factors including the impact of yen appreciation.

### **Aerospace**

Consolidated orders received were down ¥5.9 billion year on year to ¥30.6 billion, largely as a result of lower orders from Japan's Ministry of Defense.

Consolidated net sales rose ¥5.8 billion year on year to ¥40.0 billion. The increase is largely attributable to higher sales to the Ministry of Defense and an increase in sales of Boeing 777 component parts.

Consolidated operating loss was ¥0.8 billion, an improvement of ¥0.9 billion year on year largely attributable to sales growth. Yen appreciation had a severe negative impact on profitability.

### **Gas Turbine & Machinery**

Consolidated orders received totaled ¥31.3 billion, a ¥1.7 billion decrease from the year-earlier period, due to factors including a decrease in orders for marine diesel engines.

Consolidated net sales fell ¥4.3 billion year on year to ¥45.5 billion, reflecting lower sales of gas compression module and other factors.

Consolidated operating income decreased ¥0.6 billion year on year to ¥3.3 billion, largely as a result of lower sales.

### **Plant & Infrastructure**

Consolidated orders received decreased ¥12.9 billion year on year to ¥19.1 billion, largely due to lower orders for plants for Japan.

Consolidated net sales rose ¥3.3 billion year on year to ¥23.8 billion, an increase mainly attributable to higher sales of overseas plants.

Consolidated operating income rose ¥0.7 billion year on year to ¥0.9 billion due to higher sales and other factors.

### **Motorcycle & Engine**

Consolidated net sales fell ¥5.5 billion year on year to ¥59.6 billion due to factors including lower motorcycle sales to emerging markets.

Consolidated operating income fell ¥0.4 billion to ¥0.3 billion, largely as a result of lower sales.

### **Precision Machinery**

Consolidated orders received increased ¥8.4 billion year on year to ¥43.4 billion, mainly due to growth in orders for hydraulic equipment from construction machinery makers.

Consolidated net sales rose ¥12.6 billion year on year to ¥40.4 billion, driven largely by growth in hydraulic equipment sales to construction machinery makers and sales of clean robots for semiconductor production facilities.

Consolidated operating income grew ¥3.1 billion year on year to ¥7.1 billion, largely as a result of higher sales.

### **Other Operations**

Consolidated net sales increased ¥3.9 billion year on year to ¥28.4 billion.

Consolidated operating income rose ¥0.8 billion year on year to ¥0.9 billion.

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

At June 30, 2011, consolidated assets totaled ¥1,312.5 billion, an increase of ¥41.6 billion from March 31, 2011. The increase is largely attributable to a decrease in trade receivables in conjunction with collection of sales receipts. Consolidated liabilities decreased from March 31, 2011 by ¥46.7 billion to ¥1,010.0 billion due to a decrease in trade payables. Interest-bearing debt as of June 30 was ¥445.8 billion, a ¥16.6 billion increase from March 31, 2011. Consolidated net assets increased ¥5.0 billion from March 31, 2011 to ¥302.5 billion at June 30. Principal factors contributing to the change were distribution of dividends and the recording of quarterly net income.

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

Since business performance has developed generally according to plan, the Company has left unchanged the consolidated earnings forecasts for the fiscal year ending March 31, 2012 (announced April 28, 2011).

The Company's earnings forecasts assume exchange rates of ¥83 to the US dollar and ¥115 to the euro.

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

### **(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 first 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) Changes in accounting policies, changes in accounting estimates, and correction of errors**

Not applicable

### 3. Consolidated Financial Statements

#### (1) Consolidated balance sheets

	Millions of yen	
	As of March 31, 2011	Three months ended June 30, 2011
<b>Assets</b>		
Current assets		
Cash on hand and in banks	47,233	28,870
Trade receivables	401,753	355,500
Merchandise and finished products	50,528	42,566
Work in process	285,977	311,544
Raw materials and supplies	88,817	87,241
Other current assets	80,239	80,830
Allowance for doubtful receivables	(2,829)	(3,015)
Total current assets	951,719	903,537
Fixed assets		
Net property, plant and equipment	275,780	278,283
Intangible assets		
Goodwill	626	548
Other	18,622	18,595
Total intangible assets	19,249	19,144
Investments and other assets		
Other	108,515	112,604
Allowance for doubtful receivables	(986)	(974)
Total investments and other assets	107,529	111,629
Total fixed assets	402,558	409,057
<b>Total assets</b>	1,354,278	1,312,595
<b>Liabilities</b>		
Current liabilities		
Trade payables	319,271	249,077
Short-term debt	143,972	160,646
Income taxes payable	5,988	3,977
Accrued bonuses	15,692	16,108
Provision for losses on construction contracts	33,068	33,964
Other provisions	8,865	8,381
Advances from customers	80,815	95,207
Other	96,051	94,108
Total current liabilities	703,726	661,472
Long-term liabilities		
Bonds payable	50,000	50,000
Long-term debt	203,801	199,843
Employees' retirement and severance benefits	80,556	79,693
Other provisions	9,202	9,233
Other	9,557	9,825
Total long-term liabilities	353,117	348,596
<b>Total liabilities</b>	1,056,844	1,010,068
<b>Net assets</b>		
Shareholders' equity		
Common stock	104,340	104,360
Capital surplus	54,251	54,271
Retained earnings	158,615	162,649
Treasury stock	(30)	(18)
Total shareholders' equity	317,176	321,262

Accumulated other comprehensive income		
Net unrealized gains (losses) on securities	3,876	3,652
Deferred gains (losses) on hedges	(990)	(421)
Foreign currency translation adjustment	(31,006)	(30,674)
Total accumulated other comprehensive income	(28,119)	(27,443)
Minority interests	8,376	8,707
<b>Total net assets</b>	<b>297,433</b>	<b>302,526</b>
<b>Total net assets and liabilities</b>	<b>1,354,278</b>	<b>1,312,595</b>

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

### Consolidated statements of income

	Millions of yen	
	Three months ended June 30, 2010	Three months ended June 30, 2011
Net sales	277,387	291,579
Cost of sales	231,766	244,360
Gross profit	45,620	47,218
Selling, general and administrative expenses		
Salaries and benefits	9,311	9,668
R&D expenses	7,329	7,009
Provision for doubtful accounts	-	195
Other	17,322	17,971
Total selling, general and administrative expenses	33,963	34,844
Operating income (loss)	11,657	12,373
Non-operating income		
Interest income	506	367
Dividend income	342	321
Equity in income of non-consolidated subsidiaries and affiliates	2,275	2,098
Foreign exchange gain, net	-	313
Other	1,298	1,218
Total non-operating income	4,423	4,318
Non-operating expenses		
Interest expense	1,202	1,104
Foreign exchange loss, net	952	-
Loss on valuation of securities	1,547	7
Other	991	910
Total non-operating expenses	4,694	2,022
Recurring profit (loss)	11,386	14,669
Extraordinary losses		
Loss on impairment of fixed assets	-	564
Loss on adjustment for changes of accounting standard for asset retirement obligations	270	-
Provision for doubtful accounts of affiliates	215	-
Total extraordinary losses	485	564
Income (loss) before income taxes and minority interests	10,901	14,104
Income taxes	4,579	3,946
Income before minority interests	6,322	10,158
Minority interests in net income of consolidated subsidiaries	438	599
Net income (loss)	5,883	9,558

### Consolidated statements of comprehensive income

	Millions of yen	
	Three months ended June 30, 2010	Three months ended June 30, 2011
Income before minority interests	6,322	10,158
Other comprehensive income		
Net unrealized gains (losses) on securities	(1,179)	(251)
Deferred gains (losses) on hedges	131	614
Foreign currency translation adjustment	(1,154)	(488)
Share of other comprehensive income of associates	241	1,003
Total other comprehensive income	(1,960)	878
Comprehensive Income attributable to:	4,361	11,036
Owners of the parent company	3,659	10,235
Minority interests	701	801

### (3) Notes on the going-concern assumption

Not applicable

### (4) Segment information and others

#### Segment information

#### 1. Three months ended June 30, 2010 (April 1, 2010 – June 30, 2010)

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

	External sales	Intersegment sales	Total sales	Operating income (loss)
Ship & Offshore Structure	28,659	342	29,001	3,318
Rolling Stock	26,680	93	26,773	1,779
Aerospace	34,211	390	34,601	(1,857)
Gas Turbine & Machinery	49,906	5,937	55,843	4,057
Plant & Infrastructure	20,456	785	21,242	285
Motorcycle & Engine	65,169	321	65,490	774
Precision Machinery	27,854	2,818	30,672	3,958
Other	24,449	7,012	31,462	35
Reportable segment total	277,387	17,701	295,088	12,352
Adjustments*1	-	(17,701)	(17,701)	(695)
Consolidated total	277,387	-	277,387	11,657

Notes: 1. Breakdown of adjustments:

Millions of yen	
Income	Amount
Intersegment transactions	(299)
Corporate expenses*	(396)
Total	(695)

\*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. Three months ended June 30, 2011 (April 1, 2011 – June 30, 2011)

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

	External sales	Intersegment sales	Total sales	Operating income (loss)
Ship & Offshore Structure	27,751	101	27,853	950
Rolling Stock	25,878	63	25,941	48
Aerospace	40,029	442	40,471	(898)
Gas Turbine & Machinery	45,569	3,896	49,466	3,386
Plant & Infrastructure	23,825	1,919	25,744	999
Motorcycle & Engine	59,611	209	59,820	353
Precision Machinery	40,481	3,219	43,700	7,125
Other	28,432	7,670	36,102	922
Reportable segment total	291,579	17,522	309,101	12,889
Adjustments*1	-	(17,522)	(17,522)	(515)
Consolidated total	291,579	-	291,579	(12,373)

Notes: 1. Breakdown of adjustments:

Millions of yen	
Income	Amount
Intersegment transactions	47
Corporate expenses*	(563)
<b>Total</b>	<b>(515)</b>

\* 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

**(5) Notes on significant changes in the amount of shareholders' equity**

Not applicable

#### 4. Supplementary information

**(1) Condensed consolidated cash flow statements**

	Millions of yen	
	Three months ended June 30, 2010	Three months ended June 30, 2011
Cash flow from operating activities	182	(10,239)
Cash flow from investing activities	(12,310)	(14,869)
Cash flow from financing activities	1,902	11,189
Cash and cash equivalents at end of period	24,283	27,538

**(2) Orders and sales (consolidated)**

##### Orders received

	Three months ended June 30, 2010		Three months ended June 30, 2011		Year ended March 31, 2011	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	1,662	0.5	17,003	6.7	78,953	6.2
Rolling Stock	101,583	30.8	22,646	9.0	187,122	14.7
Aerospace	36,594	11.1	30,610	12.1	206,730	16.2
Gas Turbine & Machinery	33,080	10.0	31,377	12.4	187,582	14.7
Plant & Infrastructure	32,061	9.7	19,143	7.6	119,987	9.4
Motorcycle & Engine	65,169	19.7	59,611	23.7	234,479	18.4
Precision Machinery	35,065	10.6	43,490	17.3	148,955	11.7
Other	24,271	7.3	27,297	10.8	106,841	8.4
<b>Total</b>	<b>329,488</b>	<b>100.0</b>	<b>251,181</b>	<b>100.0</b>	<b>1,270,652</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**

	Three months ended June 30, 2010		Three months ended June 30, 2011		Year ended March 31, 2011	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	28,659	10.3	27,751	9.5	118,416	9.6
Rolling Stock	26,680	9.6	25,878	8.8	131,104	10.6
Aerospace	34,211	12.3	40,029	13.7	196,876	16.0
Gas Turbine & Machinery	49,906	17.9	45,569	15.6	202,692	16.5
Plant & Infrastructure	20,456	7.3	23,825	8.1	89,012	7.2
Motorcycle & Engine	65,169	23.4	59,611	20.4	234,479	19.1
Precision Machinery	27,854	10.0	40,481	13.8	140,328	11.4
Other	24,449	8.8	28,432	9.7	114,038	9.2
Total	277,387	100.0	291,579	100.0	1,226,949	100.0

**Order backlog**

	Year ended March 31, 2011		Three months ended June 30, 2011		Three months ended June 30, 2010	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	177,254	11.8	165,306	11.4	190,840	12.3
Rolling Stock	411,560	27.5	412,178	28.4	450,531	29.1
Aerospace	269,470	18.0	257,654	17.7	264,565	17.1
Gas Turbine & Machinery	382,269	25.5	360,192	24.8	396,484	25.6
Plant & Infrastructure	185,414	12.3	180,677	12.4	165,354	10.7
Motorcycle & Engine	-	-	-	-	-	-
Precision Machinery	42,790	2.8	45,800	3.1	41,375	2.6
Other	26,589	1.7	25,709	1.7	34,457	2.2
Total	1,495,349	100.0	1,447,519	100.0	1,543,609	100.0

**(2) Net sales by geographic area (consolidated)****Three months ended June 30, 2010 (April 1, 2010 – June 30, 2010)**

Millions of yen

Japan	116,903	42.1%
United States	61,558	22.1%
Europe	25,163	9.0%
Asia	47,603	17.1%
Other areas	26,158	9.4%
Total	277,387	100.0%

**Three months ended June 30, 2011 (April 1, 2011 – June 30, 2011)**

Millions of yen

Japan	117,989	40.4%
United States	55,427	19.0%
Europe	33,279	11.4%
Asia	53,583	18.3%
Other areas	31,299	10.7%
Total	291,579	100.0%