

Financial Results for Second Quarter FY2014 (for the year ending March 31, 2015)

October 29, 2014

Kawasaki Heavy Industries, Ltd.

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Powering your potential

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Summary of Financial Results

(Billion Yen)

	FY2013.2Q	FY2014.2Q		Change	
	Actual	Forecast in July	Actual	vs. FY2013.2Q	vs. Forecast in July
Orders Received	592.8	-	706.5	+113.7	-
Net Sales	595.0	650.0	633.4	+38.3	-16.6
Operating Income	26.8	22.0	23.1	-3.6	+1.1
Recurring Profit	22.7	17.0	25.9	+3.1	+8.9
Net Income	13.0	12.5	18.1	+5.1	+5.6

vs. FY2013.2Q

< Orders Received >

Increased largely as a whole, with the largest increase in Ship & Offshore Structure and Plant & Infrastructure segments

< Net Sales >

Increased as a whole due to significant sales increase in Aerospace segment, despite decrease in Ship & Offshore Structure and Rolling Stock and other segments

< Profits >

- Operating income decreased as a whole due to decrease in Rolling Stock, Ship & Offshore Structure, Gas Turbine & Machinery and other segments, despite increase in Aerospace and Precision Machinery segments
- Recurring profit increased due to an improvement in loss on foreign exchange and other factors
- Net income increased due to decrease in tax expense and above mentioned impact of foreign exchange

Weighted-average exchange rates

Yen / US\$	97.77	100	102.50
Yen / EUR	127.73	135	138.66

(For Reference)

Net Sales in Foreign Currencies for FY2014.2Q (Billion)

US\$	EUR
0.96	0.15

Financial Results by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2013 2Q	FY2014 2Q	Change	FY2013 2Q	FY2014 2Q	Change	FY2013 2Q	FY2014 2Q	Change
Ship & Offshore Structure	30.7	77.1	+46.4	39.5	34.8	-4.6	1.5	-0.7	-2.2
Rolling Stock	75.0	91.5	+16.5	59.9	56.9	-3.0	3.7	1.2	-2.5
Aerospace	96.1	114.4	+18.3	122.3	144.8	+22.4	10.2	13.5	+3.3
Gas Turbine & Machinery	84.1	85.9	+1.8	77.3	83.8	+6.5	3.5	1.4	-2.0
Plant & Infrastructure	46.1	66.9	+20.7	39.2	47.2	+8.0	1.7	1.0	-0.7
Motorcycle & Engine	139.7	137.7	-1.9	139.7	137.7	-1.9	2.5	1.0	-1.5
Precision Machinery	61.7	64.8	+3.0	55.6	63.7	+8.1	4.2	5.1	+0.8
Others	59.0	67.8	+8.7	61.2	64.1	+2.9	1.3	1.2	-0.1
Eliminations and corporate※	-	-	-	-	-	-	-2.1	-0.7	+1.3
Total	592.8	706.5	+113.7	595.0	633.4	+38.3	26.8	23.1	-3.6

※ "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 > **-3.6 (FY2013.2Q 26.8 → FY2014.2Q 23.1)**

Net sales	+	38.3	(	595.0	→	633.4)
Cost of sales	+	39.6	(	486.9	→	526.5)
Selling, general & administrative expenses	+	2.3	(	81.3	→	83.6)
- Salaries and benefits	+	1.3	(	22.2	→	23.6)
- R&D expenses	-	0.1	(	18.1	→	18.0)

< Non-operating Income/Expenses > **+6.8 (FY2013.2Q -4.0 → FY2014.2Q 2.7)**

Net Interest expense (incl. dividend income)	-	0.1	(	-1.2	→	-1.4)
Equity in income of unconsolidated subsidiaries and affiliates	+	0.7	(	5.0	→	5.7)
Gain and loss on foreign exchange	+	6.9	(	-7.5	→	-0.6)
Others	-	0.6	(	-0.2	→	-0.8)

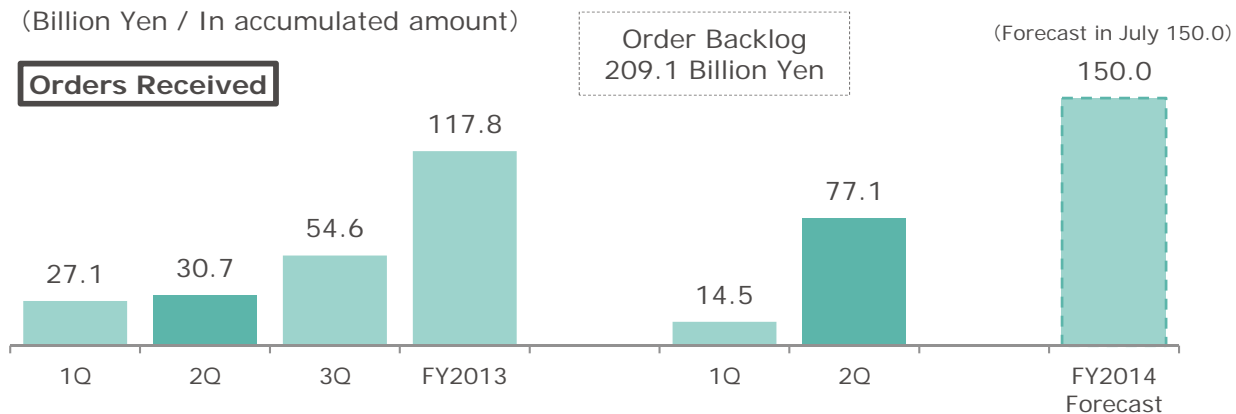
< Extraordinary Income/Losses > **0 (FY2013.2Q 0 → FY2014.2Q 0)**

Ship & Offshore Structure

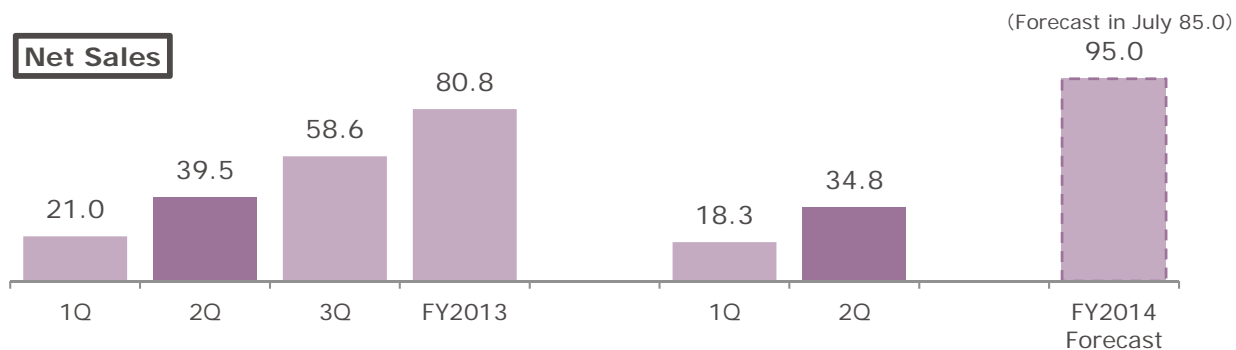
Main Products: LNG carriers, LPG carriers, Offshore structures, VLCCs, Bulk carriers, Submarines

(Billion Yen / In accumulated amount)

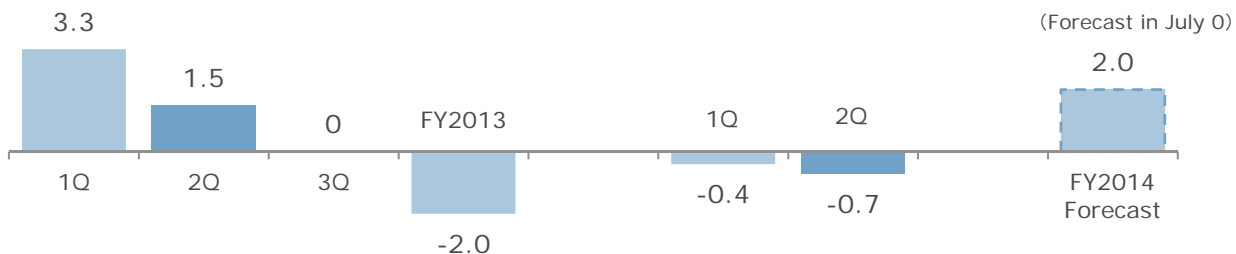
Orders Received



Net Sales



Operating Income



FY2014.2Q

(vs. FY2013.2Q)

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

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

Operating Income: Deteriorated to an operating loss due to sales decrease and other factors

FY2014 Forecast

(vs. Forecast in July)

Orders Received: No Change

Net Sales : Revised up due to revision of assumed exchange rate, and changes in percentage-of-completion

Operating Income: Revised up due to revision of assumed exchange rate

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

	Orders Received		Sales	
	FY2013.2Q	FY2014.2Q	FY2013.2Q	FY2014.2Q
LNG carriers	1	2	2(1)	3(3)
Small-sized LNG carriers			1(1)	
LPG carriers		1	2(2)	1(0)
Offshore service vessel				
Bulk carriers	1		6(4)	3(2)
Submarines			2(2)	2(2)
Total	2	3	13(10)	9(7)

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

	FY2013 Actual	FY2014 Forecast		FY2015 Target*
		In July	In October	
Before-tax ROIC	3.4%	0.2%	5.4%	10.0%

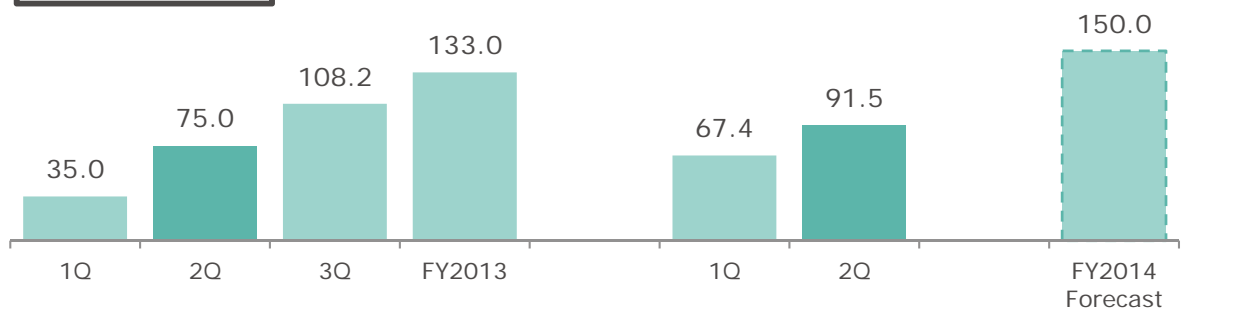
* Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

Rolling Stock

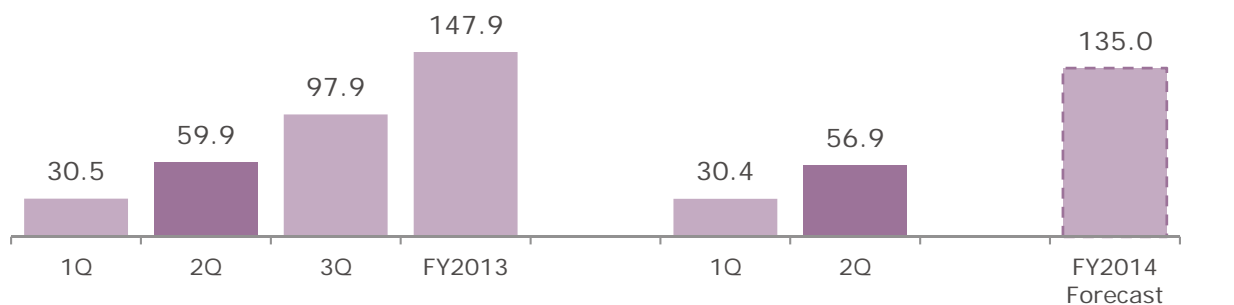
Main Products : Electric train cars (incl. Shinkansen), Electric and diesel locomotives, Passenger coaches, Gigacell® (High-Capacity, Full Sealed Ni-MH Battery)

(Billion Yen / In accumulated amount)

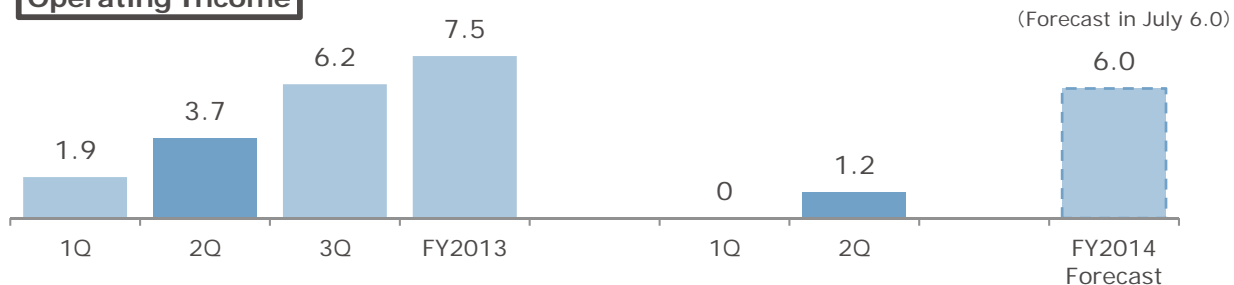
Orders Received



Net Sales



Operating Income



FY2014.2Q

(vs. FY2013.2Q)

Orders Received: Increased due to MRT car orders received from the Singapore Land Transport Authority for new railway lines and other factors

Net Sales: Decreased due to sales decrease in overseas markets, including North America and Asia, and other factors

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

FY2014 Forecast

(vs. Forecast in July)

Orders Received: Revised down due to order deferrals

Net Sales & Operating Income: No Change

	FY2013 Actual	FY2014 Forecast		FY2015 Target*
		In July	In October	
Before-tax ROIC	10.2%	7.9%	7.9%	15.3%

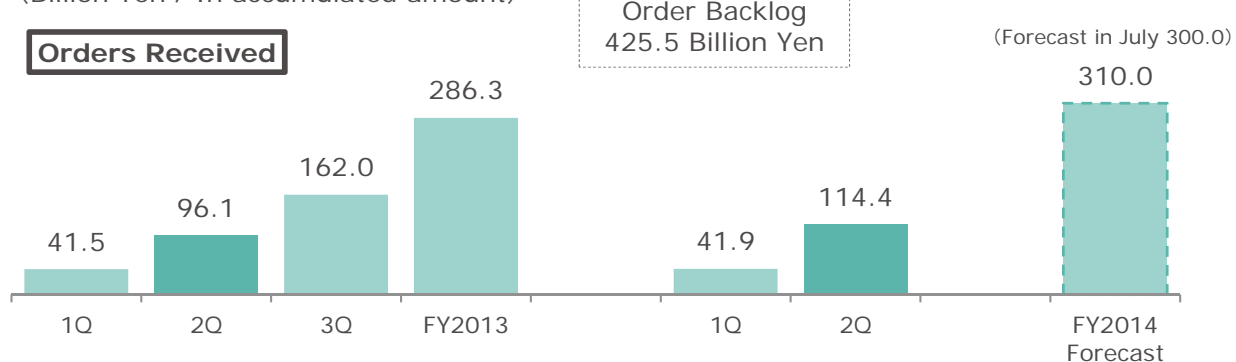
* Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

Aerospace

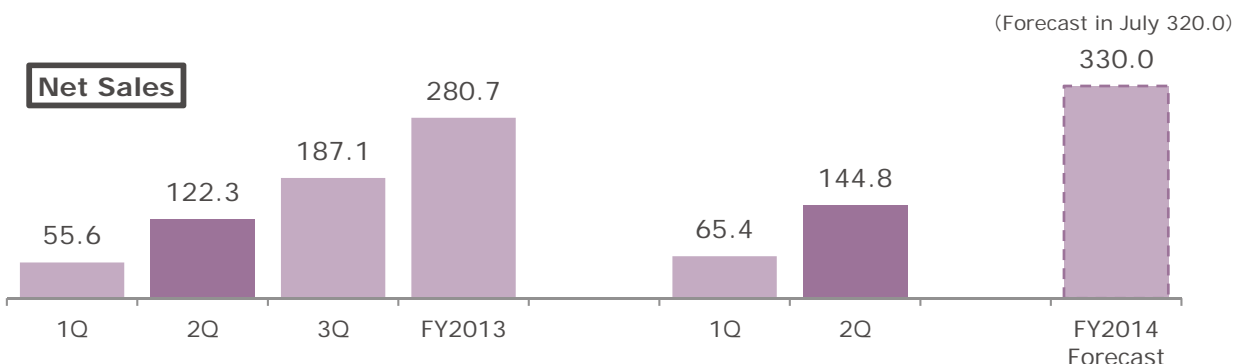
Main Products : Aircrafts for Japan Ministry of Defense, Component parts for commercial aircrafts, Commercial helicopters, Missiles, Space equipment

(Billion Yen / In accumulated amount)

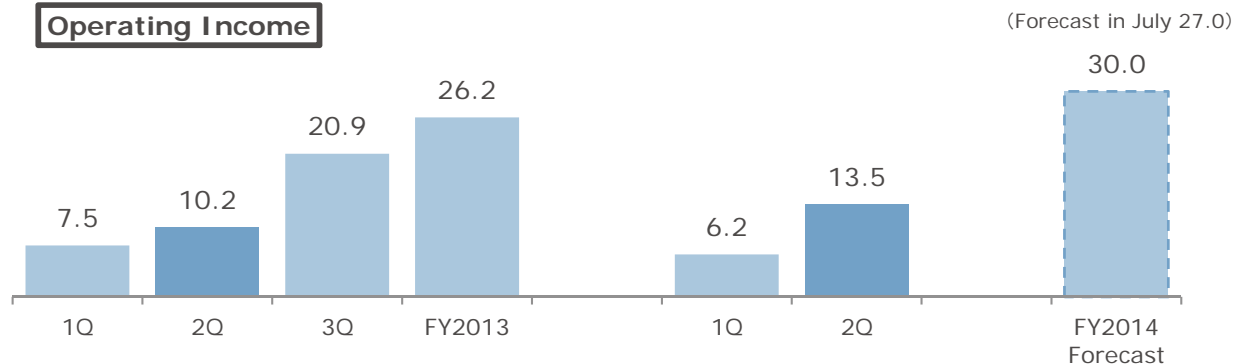
Orders Received



Net Sales



Operating Income



FY2014.2Q

(vs. FY2013.2Q)

Orders Received: Increased due to increase in orders received for the Japan Ministry of Defense (MOD) and component parts for Boeing 787

Net Sales: Increased due to increase in sales to the MOD, component parts for Boeing 787 and other factors

Operating Income: Increased due to sales increase

FY2014 Forecast

(vs. Forecast in July)

Orders Received, Net Sales & Operating Income: Revised up due to revision of assumed exchange rate

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

	FY2013.2Q	FY2014.2Q
Boeing 777	50	53
Boeing 767	7	8
Boeing 787	32	62
Embraer170/175	22	43
Embraer190/195	23	14

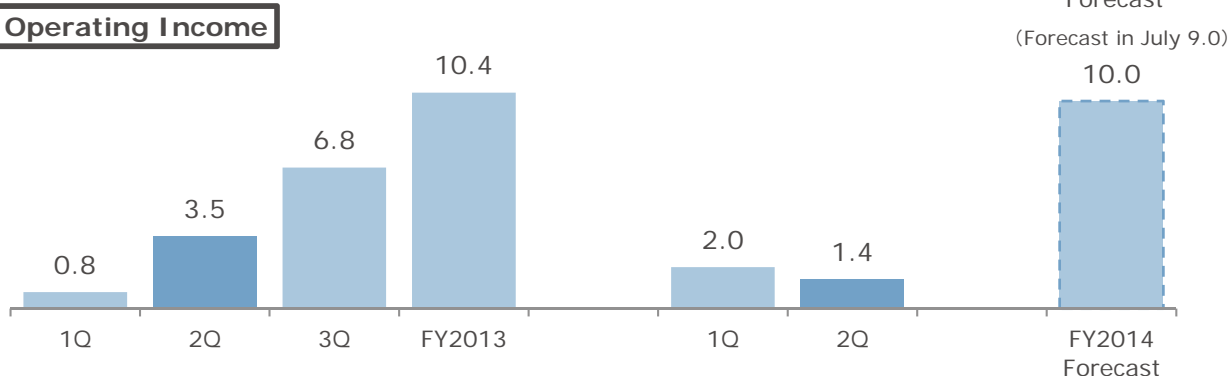
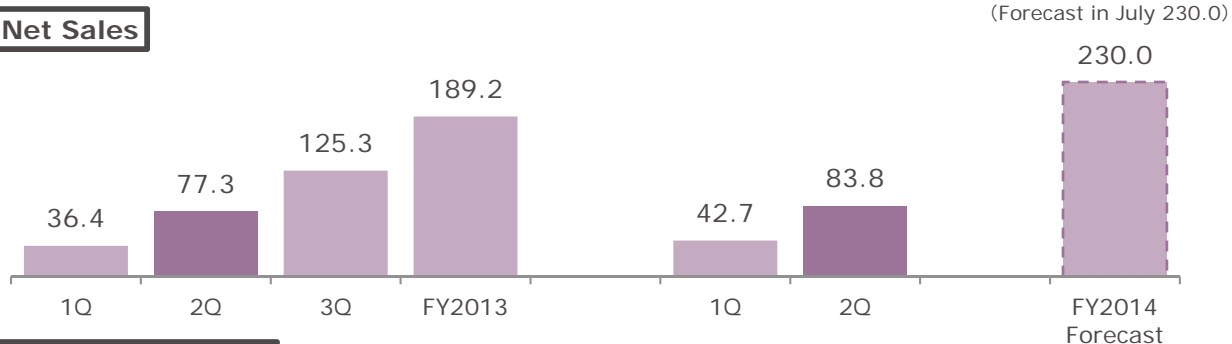
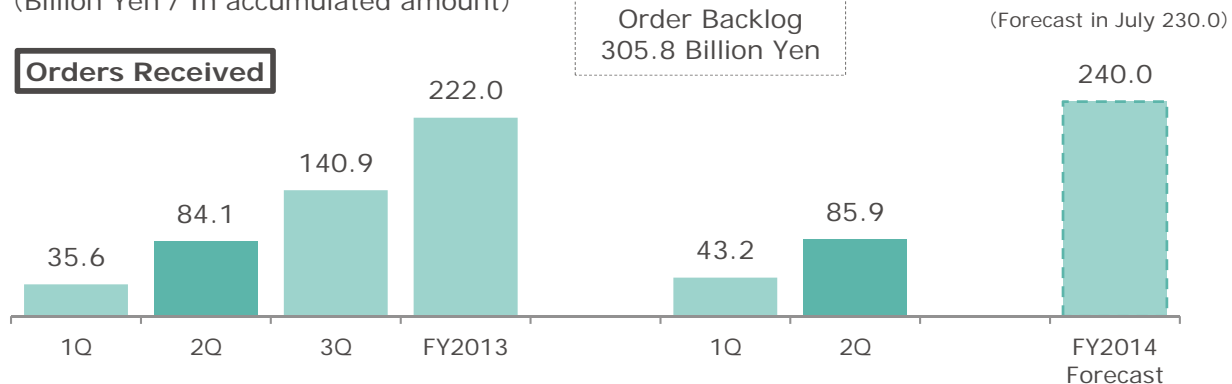
	FY2013 Actual	FY2014 Forecast		FY2015 Target*
		In July	In October	
Before-tax ROIC	19.6%	17.7%	20.8%	12.7%

* Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

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)



FY2014.2Q

(vs. FY2013.2Q)

Orders Received: Increased due to increase of orders for industrial gas turbines and gas compression modules

Net Sales: Increased due to increase in marine propulsion systems and component parts of commercial aircraft jet engines

Operating Income: Decreased due to increased depreciation of development costs and an increase in R&D costs for new commercial aircraft jet engine programs, despite sales increase

FY2014 Forecast

(vs. Forecast in July)

Orders Received: Revised up due to participation in a new commercial aircraft jet engine programs and revision of assumed exchange rate

Net Sales: No Change

Operating Income: Revised up due to revision of assumed exchange rate

	FY2013 Actual	FY2014 Forecast		FY2015 Target*
		In July	In October	
Before-tax ROIC	4.6%	5.1%	5.2%	7.5%

* Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

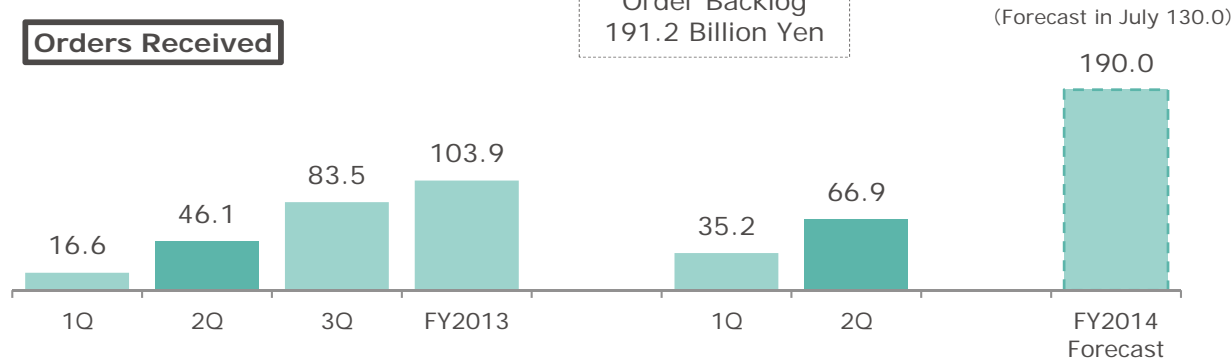
Plant & Infrastructure

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

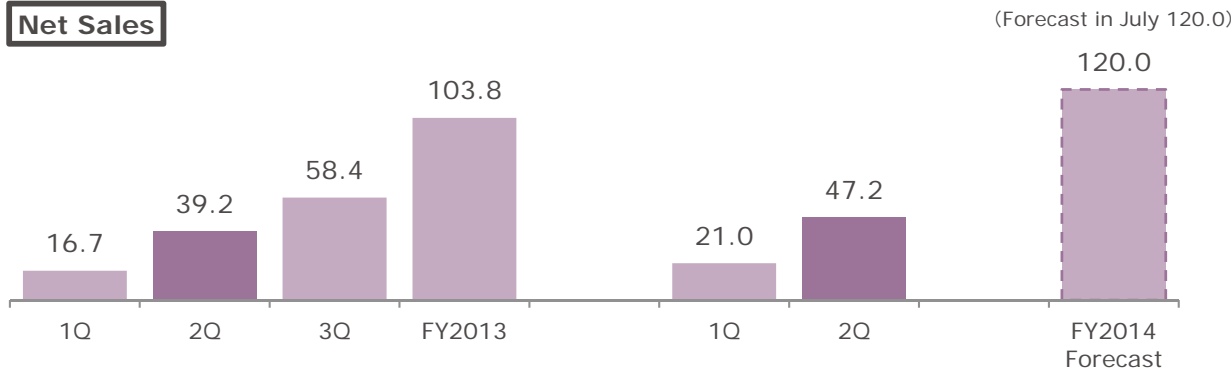
(Billion Yen / In accumulated amount)

Order Backlog
191.2 Billion Yen

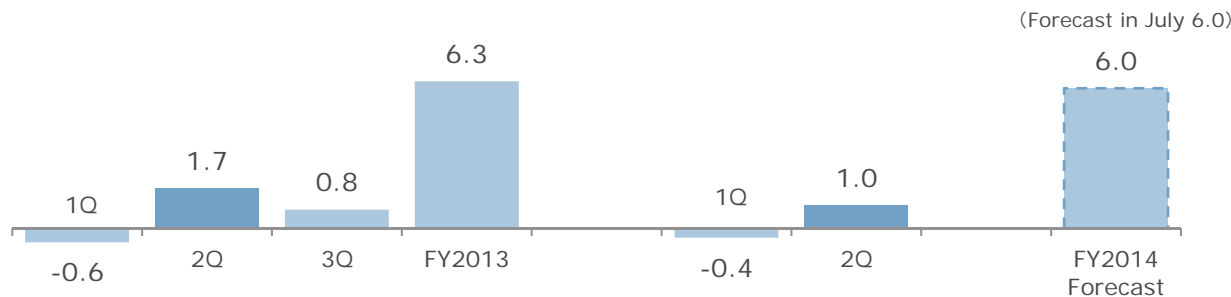
Orders Received



Net Sales



Operating Income



FY2014.2Q

(vs. FY2013.2Q)

Orders Received: Increased due to increase in orders for power generation boiler projects and civil engineering machinery

Net Sales: Increased due to increase in sales for overseas plants

Operating Income: Decreased due to lower profit margin, despite sales increase

FY2014 Forecast

(vs. Forecast in July)

Orders Received: Revised up due to contract for gas-to-gasoline (GTG) plant for Turkmenistan

Net Sales & Operating Income: No Change

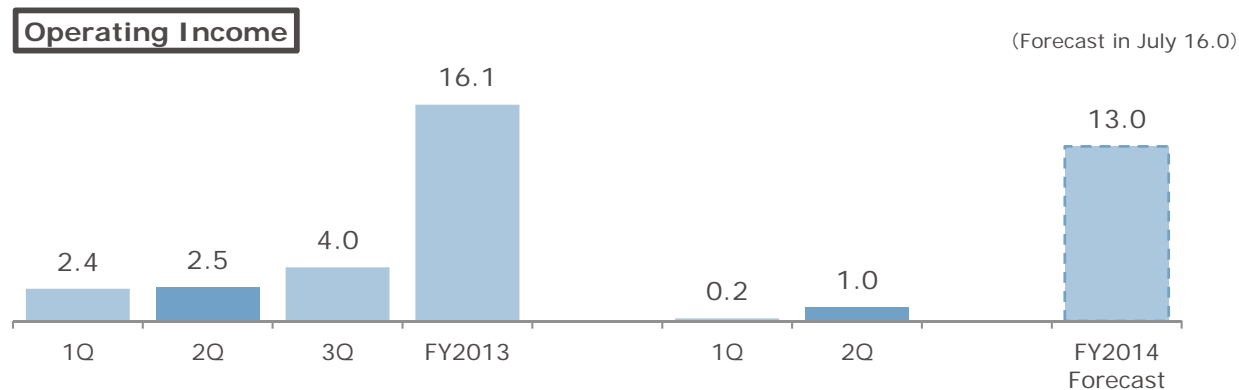
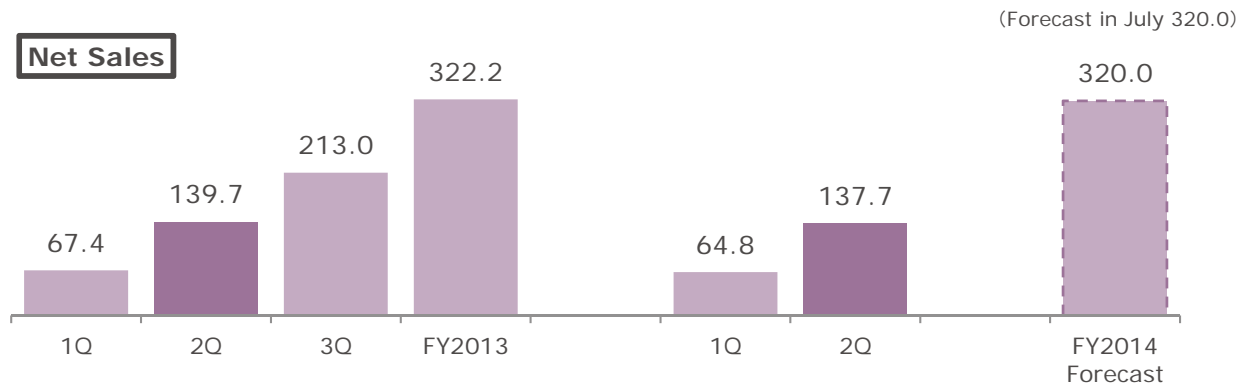
	FY2013 Actual	FY2014 Forecast		FY2015 Target*
		In July	In October	
Before-tax ROIC	14.9%	13.5%	13.5%	15.0%

* Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

Motorcycle & Engine

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

(Billion Yen / In accumulated amount)



FY2014.2Q

(vs. FY2013.2Q)

Net Sales: Decreased due to sales decrease of motorcycles in Latin America and Thailand, despite increase in Indonesia and Europe

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

FY2014 Forecast

(vs. Forecast in July)

Net Sales: No change due to sale increase stemming from the revision of assumed exchange rate covering the sales decrease of motorcycles in Latin America and other emerging markets

Operating Income: Revised down due to increase in costs in emerging markets and a lower profit margin due to severe competition

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

	FY2013.2Q		FY2013		FY2014.2Q		FY2014 Forecast	
	Unit	Amount	Unit	Amount	Unit	Amount	Unit	Amount
Domestic	10	7.8	19	14.8	9	7.5	16	14.0
North America (incl. Canada)	36(16)	32.4	99(51)	87.2	36(16)	32.9	99(51)	89.3
Europe	19	17.1	53	45.8	21	20.1	56	48.3
Emerging Countries & Others	202	63.7	419	130.4	201	56.0	455	122.3
Total	267	121.0	590	278.2	267	116.5	626	273.9

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.

3) Sales to Latin America have been moved from "North America" to "Emerging Countries & Others".

	FY2013 Actual	FY2014 Forecast		FY2015 Target*
		In July	In October	
Before-tax ROIC	1.4%	9.2%	7.0%	14.3%

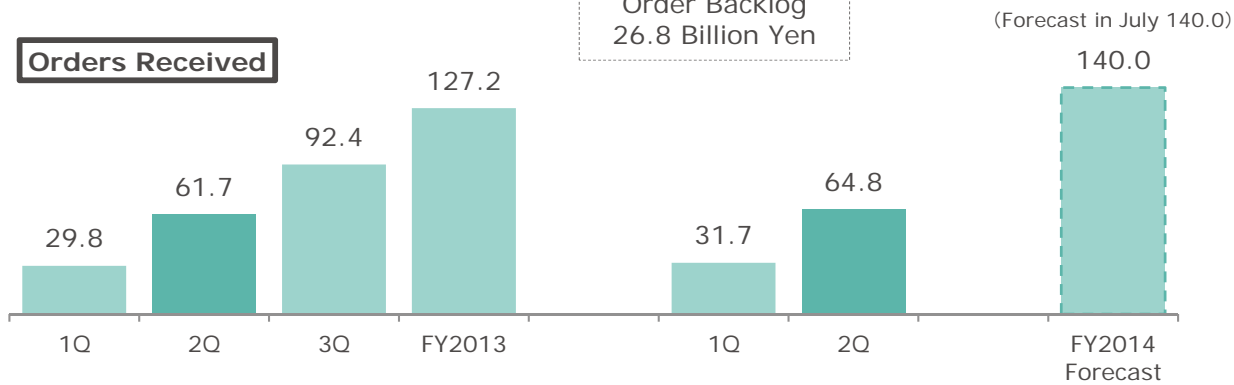
* Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

Precision Machinery

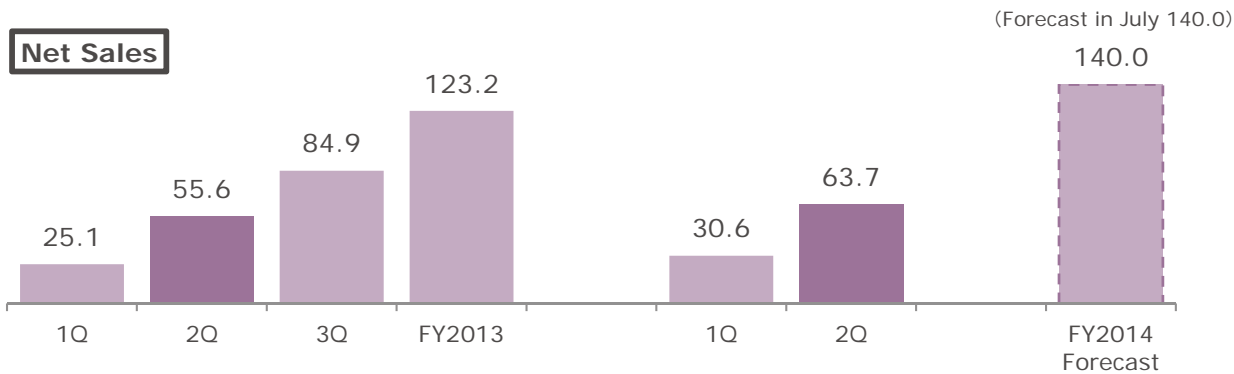
Main Products: Hydraulic components (pumps, motors & valves), Hydraulic systems for industrial use, Hydraulic marine machinery, Precision Machinery / Electric-powered devices, Industrial Robots

(Billion Yen / In accumulated amount)

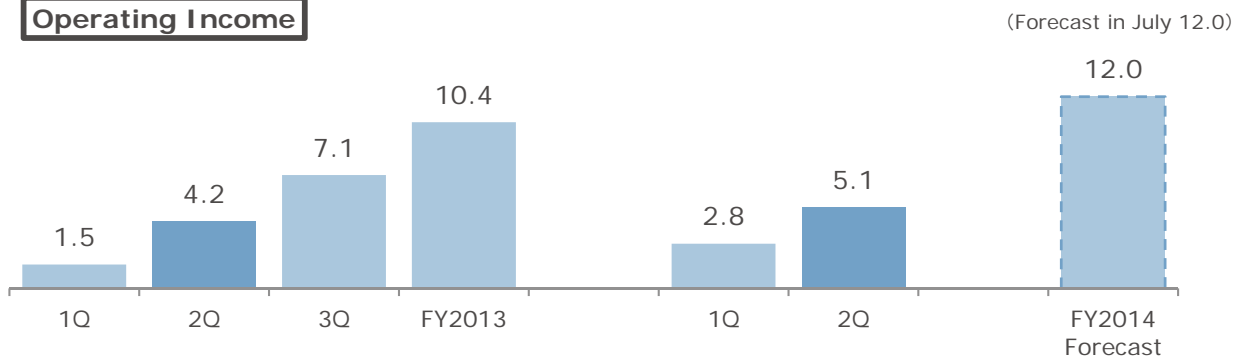
Orders Received



Net Sales



Operating Income



FY2014.2Q

(vs. FY2013.2Q)

Orders Received: Increased due to increase in industrial robots for automotive industries and hydraulic components for construction machinery for domestic market

Net Sales: Increased due to increase in industrial robots for automotive industries and hydraulic components for construction machinery for domestic market

Operating Income: Increased due to sales increase and other factors

FY2014 Forecast

(vs. Forecast in July)

Orders Received, Net Sales & Operating Income: No Change

	FY2013 Actual	FY2014 Forecast		FY2015 Target*
		In July	In October	
Before-tax ROIC	17.5%	16.8%	17.9%	26.3%

* Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

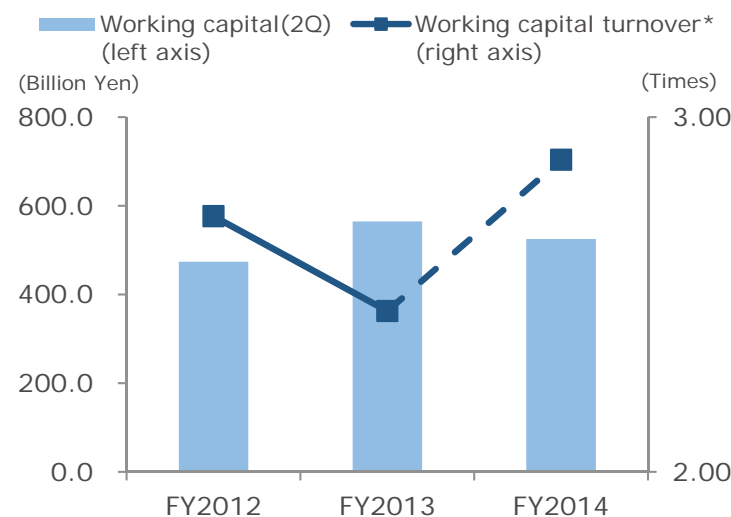
Summary of Balance Sheet

(Billion Yen)

	End of Mar. 2014	End of Sep. 2014	Change
Cash on hand and in banks	47.9	37.1	-10.7
Trade receivables	415.6	410.2	-5.3
Inventories	458.0	509.4	+51.4
Total fixed assets	401.1	418.1	+16.9
Other assets	231.6	255.9	+24.3
Total assets	1,554.4	1,630.9	+76.5
Trade payables	306.0	282.3	-23.6
Interest-bearing debt	444.6	541.2	+96.6
Advances from customers	137.5	151.7	+14.1
Other liabilities	289.4	273.0	-16.4
Total liabilities	1,177.7	1,248.4	+70.6
Total shareholders' equity	376.2	379.6	+3.3
Other net assets	0.4	2.9	+2.5
Total net assets	376.6	382.5	+5.8
Total liabilities and net assets	1,554.4	1,630.9	+76.5

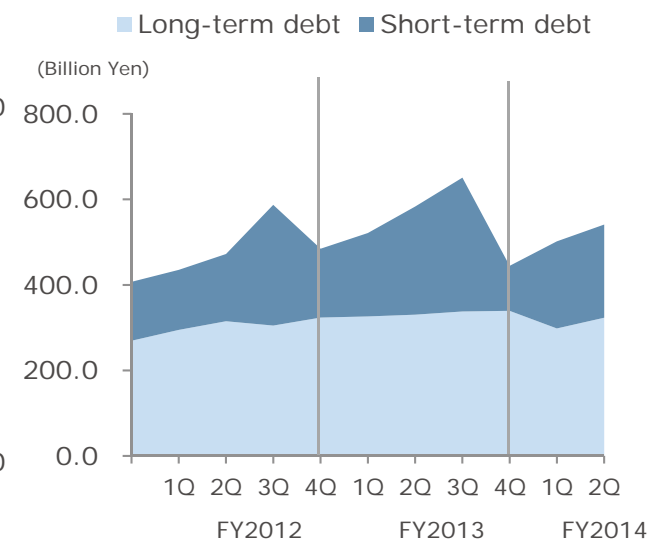
Ratio of shareholders' equity to total assets	23.3%	22.5%
Net Debt Equity Ratio	109.3%	136.9%

< Changes in working capital >

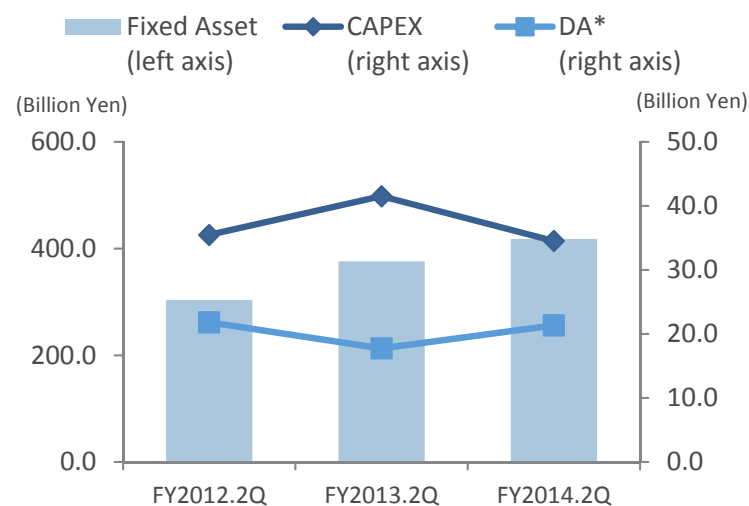


*Turnover = Sales(12 months) / working capital
*Sales for FY2014 is a forecast number

< Changes in interest-bearing debt >



< Changes in CAPEX and others >



*Depreciation & Amortization

< Overview of Balance Sheet >

On September 30, 2014, total assets increased from March 31, 2014, attributing to inventory growth stemming from progress in construction works, and increase in fixed assets due to CAPEX.

Liabilities on September 30, 2014, increased due to increase in interest-bearing debt, such as commercial papers, despite decrease in trade payables.

Net assets increased due to recognition of net income, despite decrease due to dividend payments.

Summary of Cash Flows

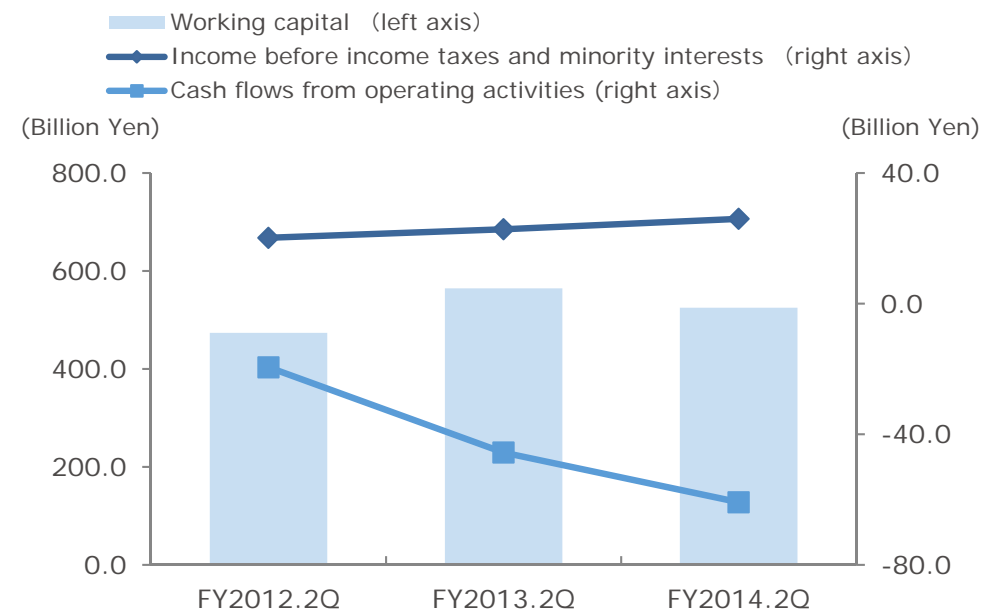
(Billion Yen)

	FY2013 2Q	FY2014 2Q	Change
Cash flows from operating activities	-45.6	-60.8	-15.2
Cash flows from investing activities	-41.9	-29.7	+12.2
Free Cash Flows	-87.5	-90.5	-3.0
Cash flows from financing activities	80.9	78.3	-2.5

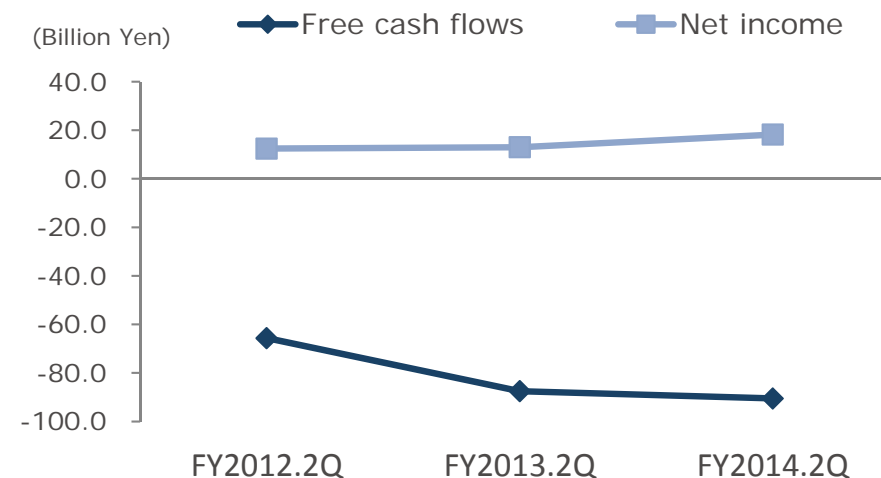
< Overview of Cash Flows > (vs.FY2013.2Q)

Cash flows from operating activities decreased, due to a decrease in cash inflows from collection of trade receivables, and an increase in cash outflows in the Gas Turbine & Machinery segment, due to production increase of component parts of current commercial aircraft jet engines, and increased development costs for component parts of new commercial aircraft jet engines. Due to a decrease in CAPEX, cash outflows from investing activities decreased. Given the above mentioned changes, free cash flows decreased.

< Changes in cash flows from operating activities and others >



< Changes in free cash flows and net income >



Consolidated Operating Performance

(Billion Yen)

	FY2013 Actual	FY2014 Forecast		Change	
		In July	In October	Vs. FY2013	Vs. Forecast in July
Orders Received	1,455.4	1,590.0	1,640.0	+184.6	+50.0
Net Sales	1,385.4	1,490.0	1,510.0	+124.6	+20.0
Operating Income	72.3	73.0	77.0	+4.7	+4.0
Recurring Profit	60.6	66.0	72.0	+11.4	+6.0
Net Income	38.6	42.5	48.0	+9.4	+5.5
Before-tax ROIC	8.1%	8.6%	9.3%	+1.2%	+0.7%

Reasons for the Revision

< Orders Received >

Revised up due to increase in Aerospace, Gas Turbine & Machinery, and Plant & Infrastructure segments

< Net Sales >

Revised up due to increase in Ship & Offshore Structures and Aerospace segments

< Profits >

- Operating income was revised up as a whole, due to increase in Ship & Offshore Structures, Aerospace and Gas Turbine & Machinery segments, stemming from the revision of assumed exchange rate, despite the decrease in Motorcycle & Engine segment, stemming from lower profit margin of motorcycles in emerging markets

- Recurring profit and net income were revised up due to increase in operating income

Exchange Rates (actual & assumed)

Yen / US\$	99.63	100	105
Yen / EUR	134.56	135	135

(For Reference)

Impact on profit by FX fluctuation of 1 Yen

	(Billion Yen)	
	Operating Income	Recurring Profit
US\$	1.38 (1.99)	1.12 (2.17)
EUR	0.06 (0.15)	0.19 (0.18)

Note : Assumed rates are applied to the outstanding foreign exchange exposure as of October 29, 2014

* Figures in the parenthesis () represent impact as of July 30, 2014

Forecast by Segment

(Billion Yen)

	Orders Received				Net Sales				Operating Income			
	FY2013 Actual	FY2014 Forecast		FY2015 Target ^{※1}	FY2013 Actual	FY2014 Forecast		FY2015 Target ^{※1}	FY2013 Actual	FY2014 Forecast		FY2015 Target ^{※1}
		In July	In October			In July	In October			In July	In October	
Ship & Offshore Structure	117.8	150.0	150.0		80.8	85.0	95.0	135.0	-2.0	0	2.0	6.0
Rolling Stock	133.0	180.0	150.0		147.9	135.0	135.0	180.0	7.5	6.0	6.0	13.0
Aerospace	286.3	300.0	310.0		280.7	320.0	330.0	270.0	26.2	27.0	30.0	20.0
Gas Turbine & Machinery	222.0	230.0	240.0		189.2	230.0	230.0	250.0	10.4	9.0	10.0	13.0
Plant & Infrastructure	103.9	130.0	190.0		103.8	120.0	120.0	140.0	6.3	6.0	6.0	8.0
Motorcycle & Engine	322.2	320.0	320.0		322.2	320.0	320.0	300.0	16.1	16.0	13.0	15.0
Precision Machinery	127.2	140.0	140.0		123.2	140.0	140.0	190.0	10.4	12.0	12.0	22.0
Others	142.6	140.0	140.0		137.2	140.0	140.0	135.0	4.4	4.0	5.0	
Eliminations and corporate ^{※2}	-	-	-		-	-	-	-	-7.2	-7.0	-7.0	-7.0
Total	1,455.4	1,590.0	1,640.0		1,385.4	1,490.0	1,510.0	1,600.0	72.3	73.0	77.0	90.0

※1: Figures of FY2015 (Target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

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

Before-tax ROIC by Segment

	Before-tax ROIC ($(\text{EBIT} + \text{Interest Expense}) / \text{Invested Capital}$)				Operating Income Margin ($\text{Operating Income} / \text{Net Sales}$)				Asset Turnover (Times) ($\text{Net Sales} / \text{Total Assets}$)			
	FY2013 Actual	FY2014 Forecast		FY2015 Target [※]	FY2013 Actual	FY2014 Forecast		FY2015 Target [※]	FY2013 Actual	FY2014 Forecast		FY2015 Target [※]
		In July	In October			In July	In October			In July	In October	
Ship & Offshore Structure	3.4%	0.2%	5.4%	10.0%	-2.4%	0.0%	2.1%	4.4%	0.62	0.70	0.70	
Rolling Stock	10.2%	7.9%	7.9%	15.3%	5.1%	4.4%	4.4%	7.2%	0.92	1.00	1.00	
Aerospace	19.6%	17.7%	20.8%	12.7%	9.3%	8.4%	9.1%	7.4%	0.80	0.90	0.90	
Gas Turbine & Machinery	4.6%	5.1%	5.2%	7.5%	5.5%	3.7%	4.3%	5.2%	0.67	0.80	0.80	
Plant & Infrastructure	14.9%	13.5%	13.5%	15.0%	6.0%	5.0%	5.0%	5.7%	0.94	1.10	1.10	
Motorcycle & Engine	1.4%	9.2%	7.0%	14.3%	4.9%	5.0%	4.1%	5.0%	1.27	1.40	1.40	
Precision Machinery	17.5%	16.8%	17.9%	26.3%	8.4%	8.5%	8.5%	11.6%	0.98	1.10	1.10	
Total	8.1%	8.6%	9.3%	11.0%	5.2%	4.9%	5.1%	5.6%	0.89	0.90	0.90	

※ Figures of FY2015 (Target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

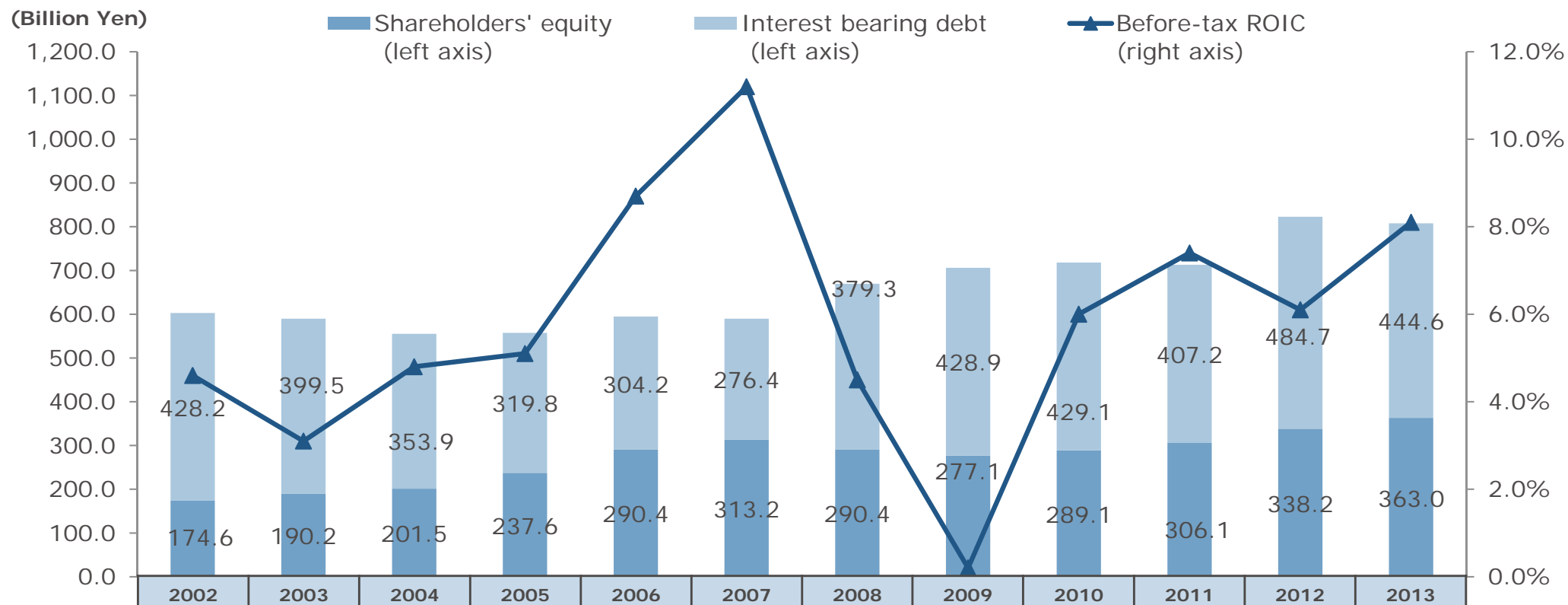
R&D/CAPEX/Number of Employees

(Billion Yen / Persons)

	FY2013 Actual	FY2014 Forecast		
		In July	In October	Vs. Forecast in July
R&D Expenses	40.3	46.0	47.0	+1.0
CAPEX (Construction Base)	87.7	91.0	95.0	+4.0
Depreciation & Amortization	37.8	47.0	46.0	-1.0
Domestic	25,531	26,200	26,200	0
Overseas	9,089	8,900	9,200	+300
Number of Employees	34,620	35,100	35,400	+300

· Capital expenditures represent the total of newly recorded property, plant and equipment and newly recorded intangible assets.
Depreciation/amortization represents depreciation/amortization expenses for property, plant and equipment and intangible assets.

Historical Data



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Before-tax ROIC	4.6%	3.1%	4.8%	5.1%	8.7%	11.2%	4.5%	0.2%	6.0%	7.4%	6.1%	8.1%
Invested Capital	602.7	589.6	555.3	557.3	594.6	589.6	669.7	705.9	718.2	713.2	822.8	807.6
Net Sales	1,239.5	1,160.2	1,241.5	1,322.4	1,438.6	1,501.0	1,338.5	1,173.4	1,226.9	1,303.7	1,288.8	1,385.4
Operating Income	31.3	22.2	24.7	41.7	69.1	76.9	28.7	-1.3	42.6	57.4	42.0	72.3
Recurring Profit	16.2	12.1	21.0	30.8	49.0	63.9	38.7	14.2	49.1	63.6	39.3	60.6
Net Income	13.0	6.3	11.4	16.4	29.7	35.1	11.7	-10.8	25.9	23.3	30.8	38.6

Yen / US\$	120	113	108	112	117	115	101	93	86	79	82	99
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Kawasaki, Working as one for the good of the planet

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.