

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

January 29, 2015

Kawasaki Heavy Industries, Ltd.

 **Kawasaki**
Powering your potential

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Summary of Financial Results

(Billion Yen)

	FY2013.3Q	FY2014.3Q	Change
Orders Received	953.7	1,079.4	+125.6
Net Sales	920.8	1,016.4	+95.5
Operating Income	46.0	60.3	+14.2
Recurring Profit	38.7	64.7	+26.0
Net Income	23.2	44.9	+21.6

vs. FY2013.3Q

< Orders Received >

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

< Net Sales >

Increased as a whole due to increase in Aerospace and Gas Turbine & Machinery segments, despite decrease in Rolling Stock segment

< Profits >

Increased significantly in operating income, recurring profit and net income, resulting from increased profit in almost all the segments, mainly Aerospace and Ship & Offshore Structure segments

Weighted-average exchange rates

Yen / US\$	98.40	106.24
Yen / EUR	131.43	139.85

(For Reference)

Net Sales in Foreign Currencies for FY2014.3Q (Billion)

US\$	EUR
1.58	0.24

Financial Results by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2013 3Q	FY2014 3Q	Change	FY2013 3Q	FY2014 3Q	Change	FY2013 3Q	FY2014 3Q	Change
Ship & Offshore Structure	54.6	140.7	+86.0	58.6	64.8	+6.2	0	3.3	+3.3
Rolling Stock	108.2	102.4	-5.8	97.9	87.8	-10.0	6.2	4.3	-1.9
Aerospace	162.0	194.9	+32.8	187.1	229.3	+42.2	20.9	30.1	+9.2
Gas Turbine & Machinery	140.9	144.3	+3.3	125.3	149.7	+24.3	6.8	7.1	+0.2
Plant & Infrastructure	83.5	81.4	-2.1	58.4	72.2	+13.7	0.8	2.2	+1.4
Motorcycle & Engine	213.0	212.9	-0.1	213.0	212.9	-0.1	4.0	4.1	+0.0
Precision Machinery	92.4	96.5	+4.1	84.9	95.3	+10.4	7.1	7.9	+0.7
Others	98.8	106.0	+7.2	95.3	104.0	+8.7	2.3	2.8	+0.4
Eliminations and corporate*	-	-	-	-	-	-	-2.5	-1.8	+0.6
Total	953.7	1,079.4	+125.6	920.8	1,016.4	+95.5	46.0	60.3	+14.2

* "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 > +14.2 (FY2013.3Q 46.0 → FY2014.3Q 60.3)

Net sales	+	95.5	(	920.8	→	1,016.4)
Cost of sales	+	76.7	(	750.8	→	827.6)
Selling, general & administrative expenses	+	4.5	(	123.9	→	128.4)
- Salaries and benefits	+	2.4	(	33.9	→	36.3)
- R&D expenses	-	0.2	(	27.3	→	27.1)

< Non-operating Income/Expenses > +11.7 (FY2013.3Q -7.3 → FY2014.3Q 4.4)

Net Interest expense (incl. dividend income)	-	0.1	(	-1.9	→	-2.0)
Equity in income of unconsolidated subsidiaries and affiliates	+	4.1	(	4.0	→	8.1)
Gain and loss on foreign exchange	+	8.6	(	-9.1	→	-0.4)
Others	-	0.9	(	-0.2	→	-1.2)

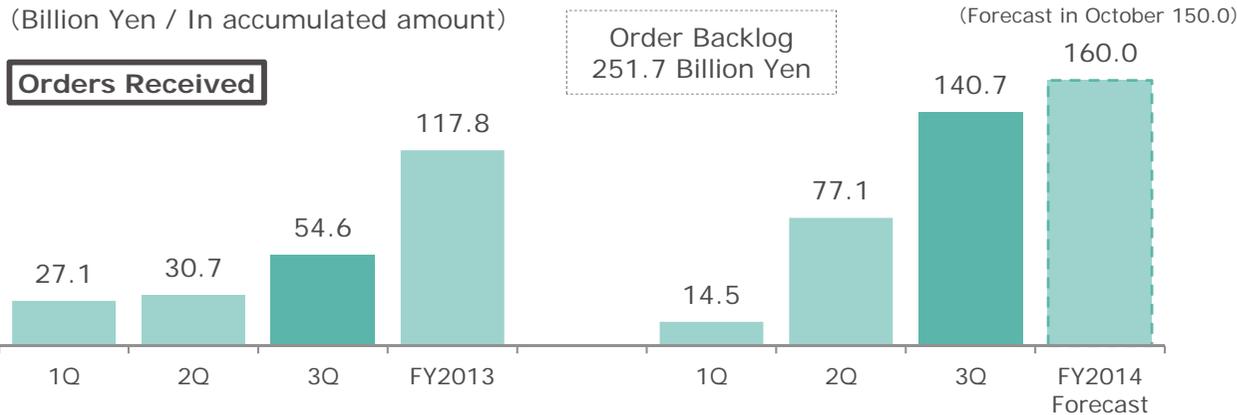
< Extraordinary Income/Losses > 0 (FY2013.3Q 0 → FY2014.3Q 0)

Ship & Offshore Structure

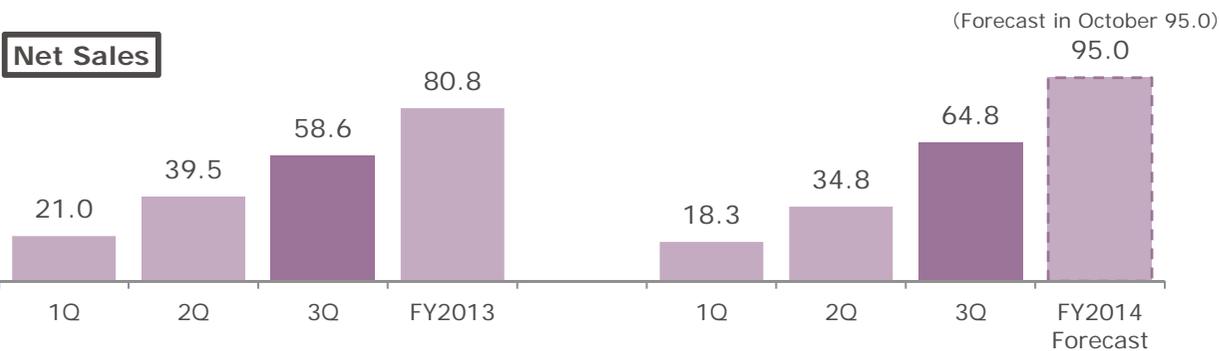
Main Products: LNG carriers, LPG carriers, Offshore structures, VLCCs, Bulk carriers, Submarines

(Billion Yen / In accumulated amount)

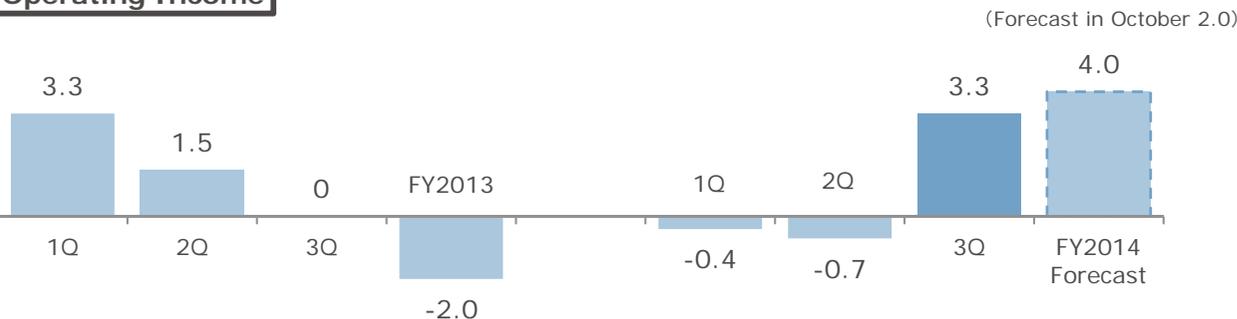
Orders Received



Net Sales



Operating Income



FY2014.3Q

(vs. FY2013.3Q)

Orders Received: Increased due to orders received for a submarine and 3 LNG carriers and a LPG carrier

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

Operating Income: Increased due to sales increase, reversal of provision for loss on construction contracts and other factors

FY2014 Forecast

(vs. Forecast in October)

Orders Received: Revised up due to increase in orders received for new building ships and other factors

Net Sales : No Change due to changes in percentage-of-completion despite revision of assumed exchange rate

Operating Income: Revised up due to revision of assumed exchange rate covering changes in percentage-of-completion and increase in partial costs

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

	Orders Received		Sales	
	FY2013.3Q	FY2014.3Q	FY2013.3Q	FY2014.3Q
LNG carriers	1	3	3(2)	4(4)
Small-sized LNG carriers			1(0)	
LPG carriers	2	1	2(1)	2(1)
Offshore service vessel				
Bulk carriers	2		6(2)	3(2)
Submarines		1	2(2)	2(2)
Total	5	5	14(7)	11(9)

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

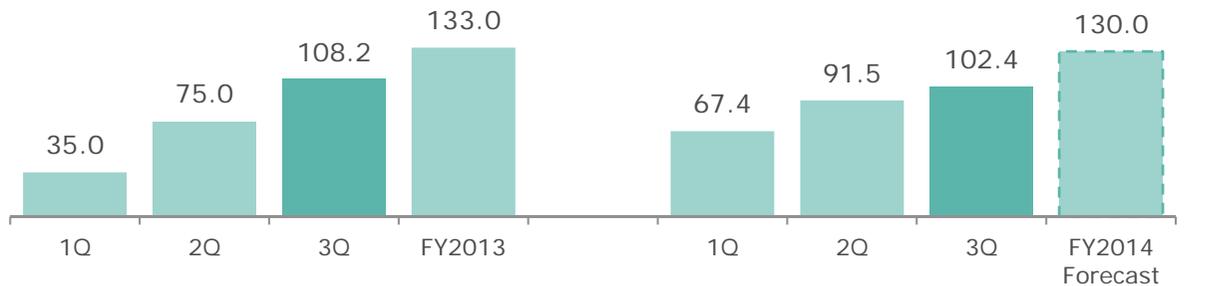
	FY2013 Actual	FY2014 Forecast	
		In October	In January
Before-tax ROIC	3.4%	5.4%	8.0%

Rolling Stock

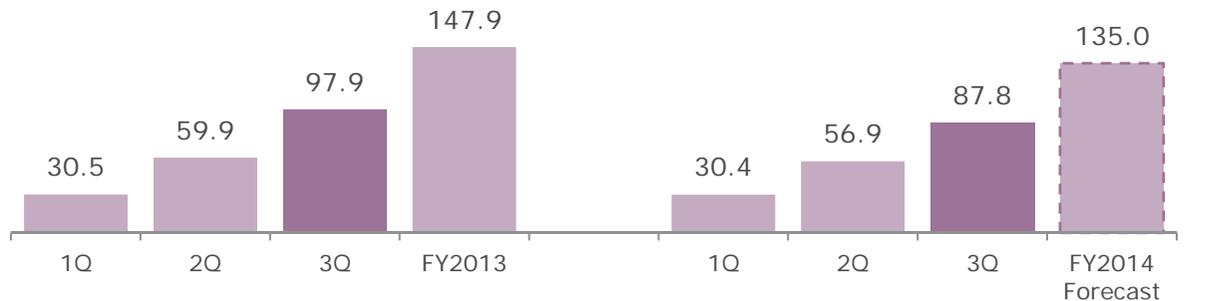
Main Products : Electric train cars (incl. Shinkansen), Electric and diesel locomotives, Passenger coaches, Gigacell® (High-Capacity, Full Sealed Ni-MH Battery)

(Billion Yen / In accumulated amount)

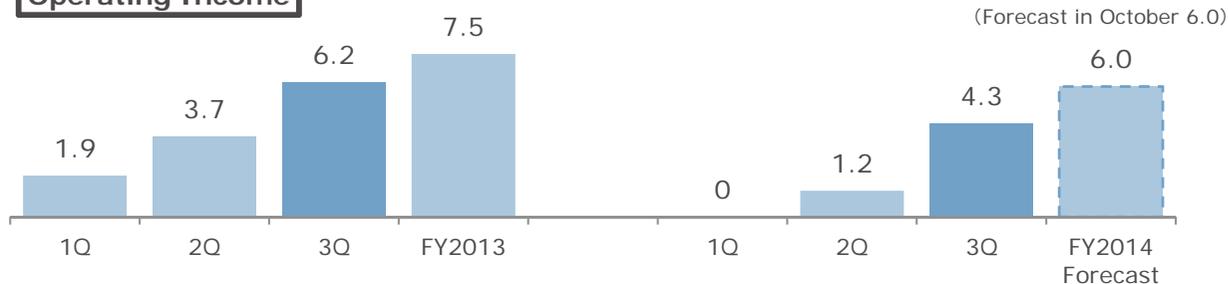
Orders Received



Net Sales



Operating Income



FY2014.3Q

(vs. FY2013.3Q)

Orders Received: Decreased compared to the previous same period where a large-scale orders for North America and domestic market were received, despite 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 October)

Orders Received: Revised down due to revision of expected orders

Net Sales & Operating Income: No Change

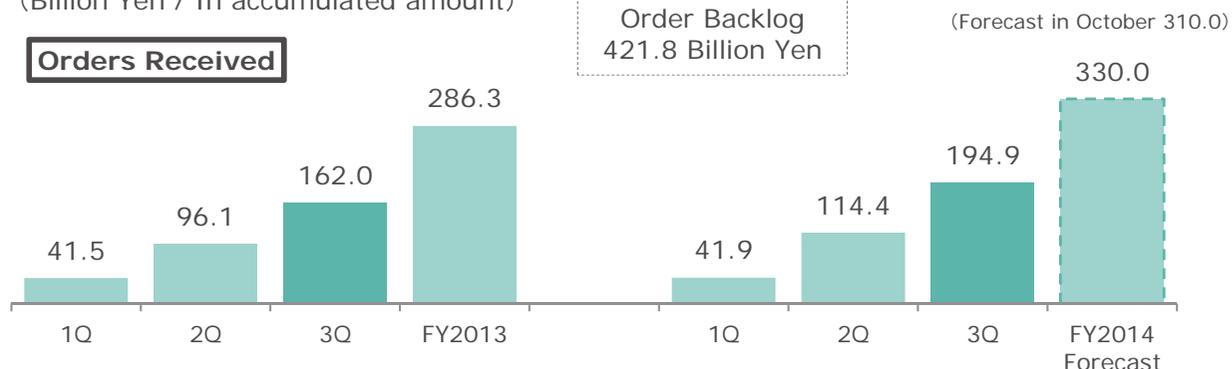
	FY2013 Actual	FY2014 Forecast	
		In October	In January
Before-tax ROIC	10.2%	7.9%	7.3%

Aerospace

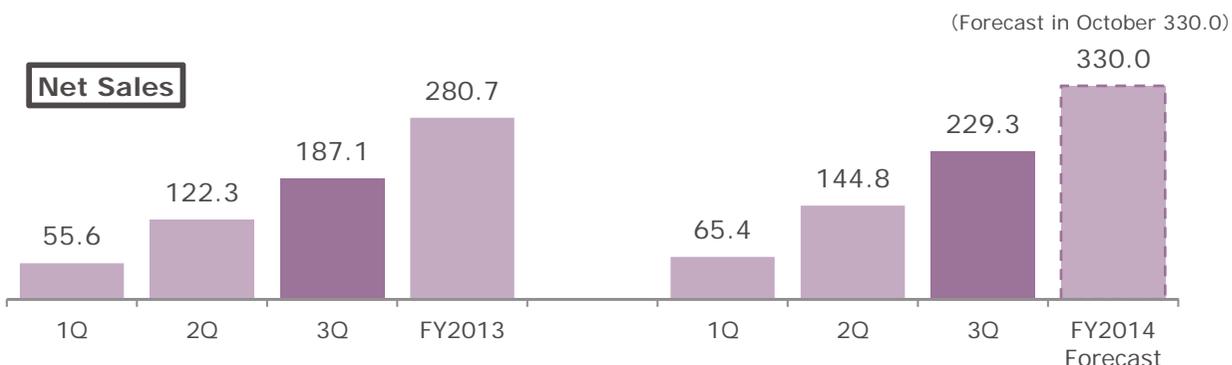
Main Products : Aircrafts for Japan Ministry of Defense, Component parts for commercial aircrafts, Commercial helicopters, Missiles, Space equipment

(Billion Yen / In accumulated amount)

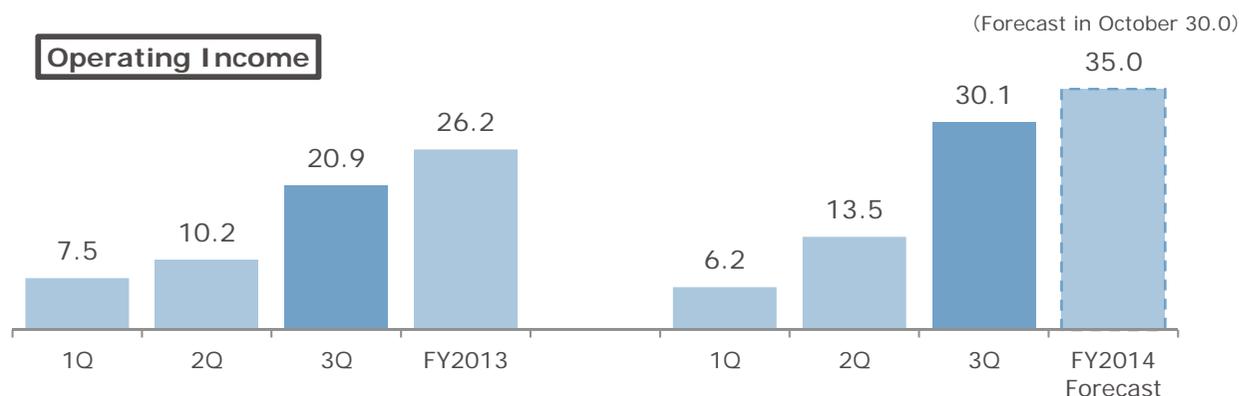
Orders Received



Net Sales



Operating Income



FY2014.3Q

(vs. FY2013.3Q)

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 777 and 787 and other factors

Operating Income: Increased significantly due to sales increase and profitable projects being accounted for in this quarter

FY2014 Forecast

(vs. Forecast in October)

Orders Received: Revised up due to revision of assumed exchange rate and increase in orders from the MOD

Net Sales: No Change

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

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

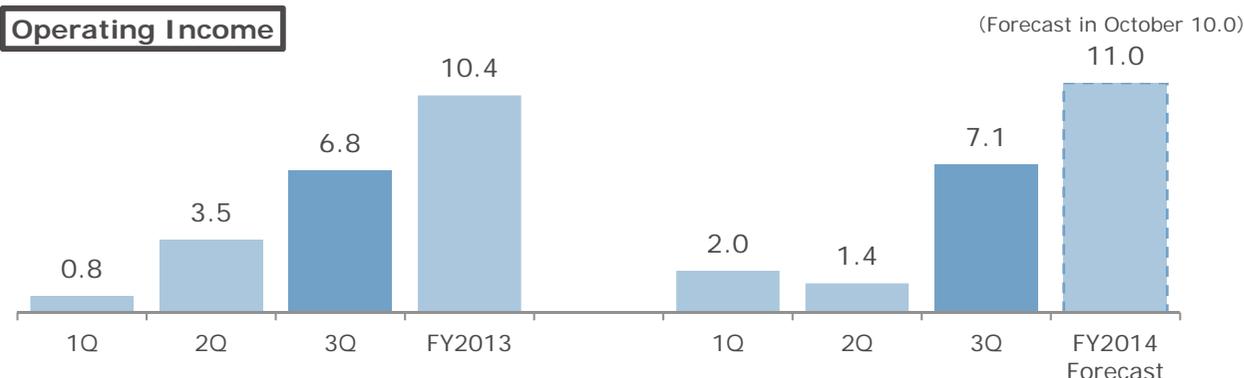
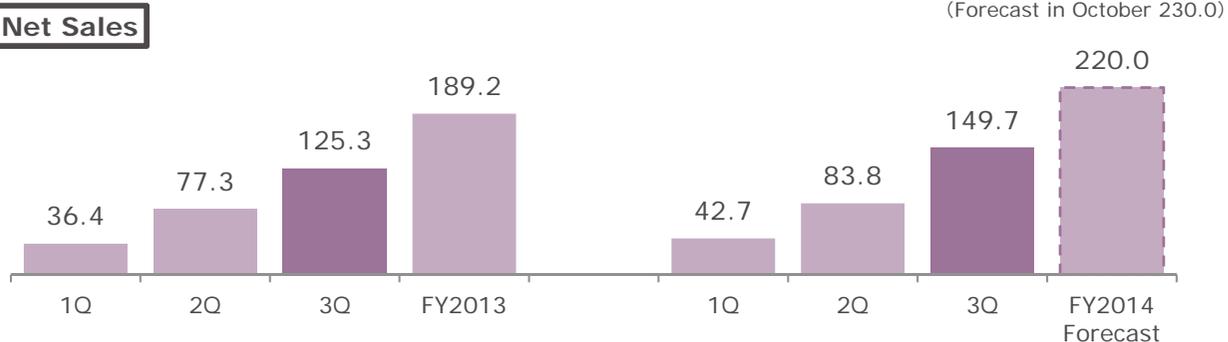
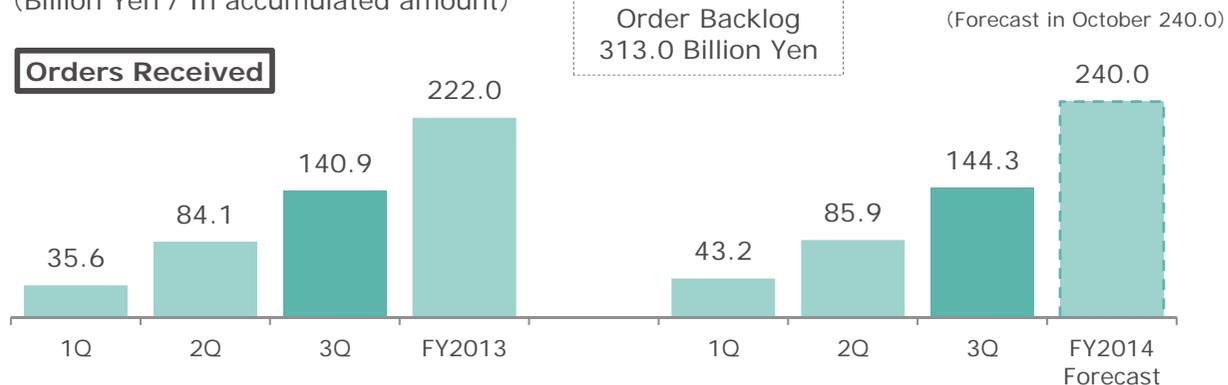
	FY2013.3Q	FY2014.3Q
Boeing 777	75	77
Boeing 767	9	12
Boeing 787	55	90
Embraer170/175	35	63
Embraer190/195	32	21

	FY2013 Actual	FY2014 Forecast	
		In October	In January
Before-tax ROIC	19.6%	20.8%	25.6%

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)



FY2014.3Q

(vs. FY2013.3Q)

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

FY2014 Forecast

(vs. Forecast in October)

Orders Received: No Change

Net Sales: Revised down due to decrease in component parts of commercial aircraft jet engines and sales deferrals in industrial gas turbines

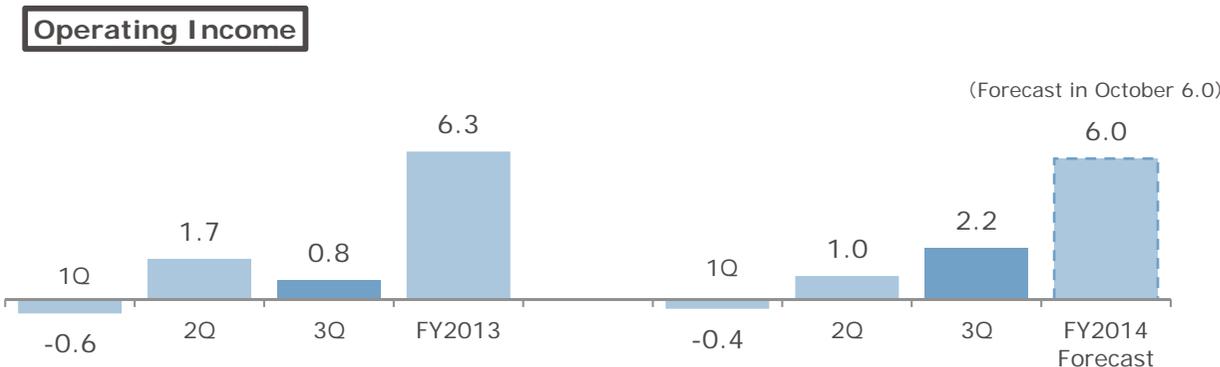
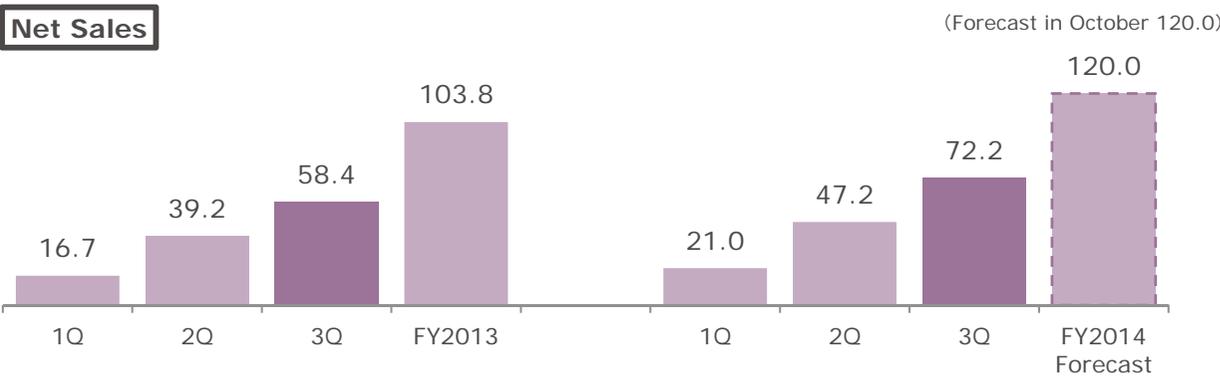
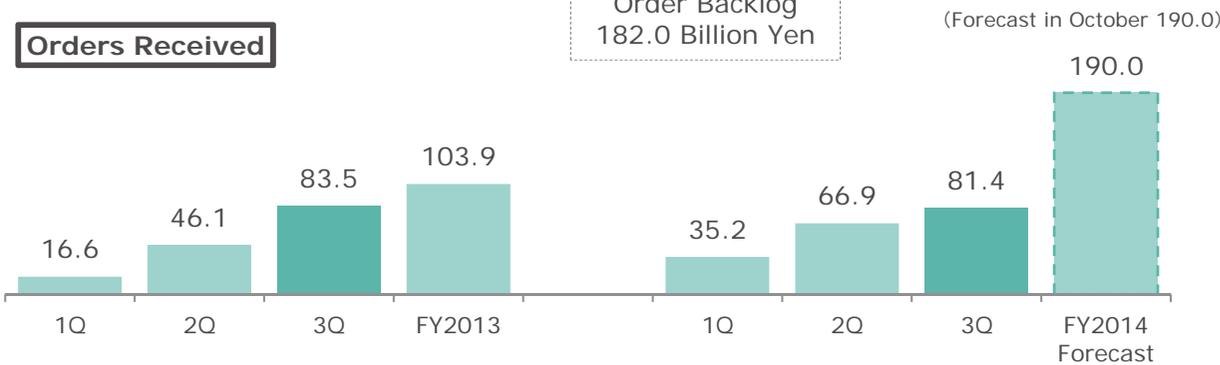
Operating Income: Revised up due to revision of assumed exchange rate covering the impact of the downward revision of sales forecast

	FY2013 Actual	FY2014 Forecast	
		In October	In January
Before-tax ROIC	4.6%	5.2%	5.3%

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)



FY2014.3Q

(vs. FY2013.3Q)

Orders Received: Slightly decreased despite orders for power generation boiler projects and shield machines being received

Net Sales: Increased due to increase in sales for overseas projects including LNG tanks

Operating Income: Increased due to sales increase and other factors

FY2014 Forecast

(vs. Forecast in October)

Orders Received, Net Sales & Operating Income: No Change

	FY2013 Actual	FY2014 Forecast	
		In October	In January
Before-tax ROIC	14.9%	13.5%	13.3%

Motorcycle & Engine

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

(Billion Yen / In accumulated amount)

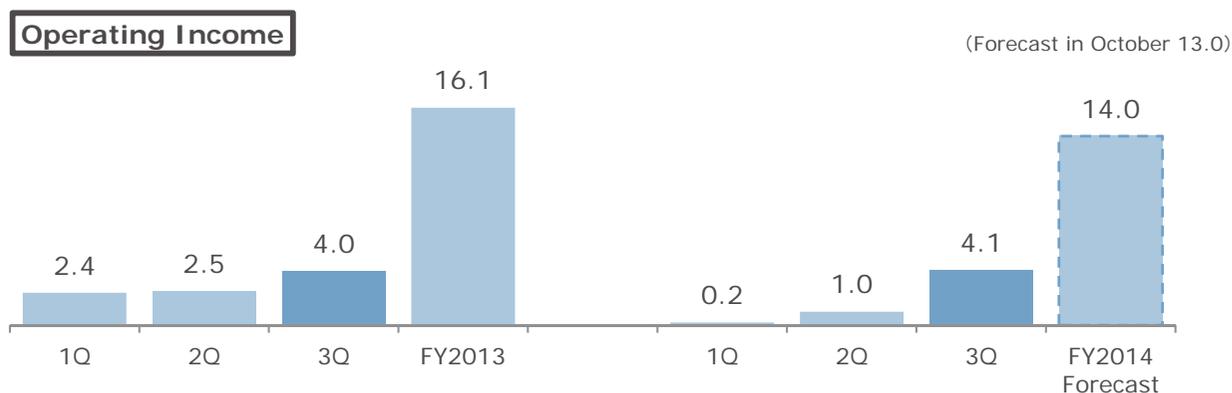


FY2014.3Q

(vs. FY2013.3Q)

Net Sales: Remained the same as the previous same period resulting from sales decrease of motorcycles in Latin America and Thailand, despite increase in Indonesia and Europe

Operating Income: Remained the same as the previous same period due to remaining the same level of sales and profit margin



FY2014 Forecast

(vs. Forecast in October)

Net Sales: Revised up due to sales increase of utility vehicles, revision of assumed exchange rate and other factors covering decrease of motorcycles in Indonesia and Thailand

Operating Income : Revised up due to the upward revision of sales forecast and revision of assumed exchange rate and other factors

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

	FY2013.3Q		FY2013		FY2014.3Q		FY2014 Forecast	
	Unit	Amount	Unit	Amount	Unit	Amount	Unit	Amount
Domestic	14	10.8	19	14.8	12	10.0	15	12.9
North America (incl. Canada)	60(30)	53.8	99(51)	87.2	60(28)	56.8	102(51)	93.6
Europe	27	24.7	53	45.8	31	29.6	56	50.5
Emerging Countries & Others	302	95.4	419	130.4	294	85.2	427	123.8
Total	403	184.7	590	278.2	397	181.6	600	280.8

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	
		In October	In January
Before-tax ROIC	1.4%	7.0%	8.0%

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)

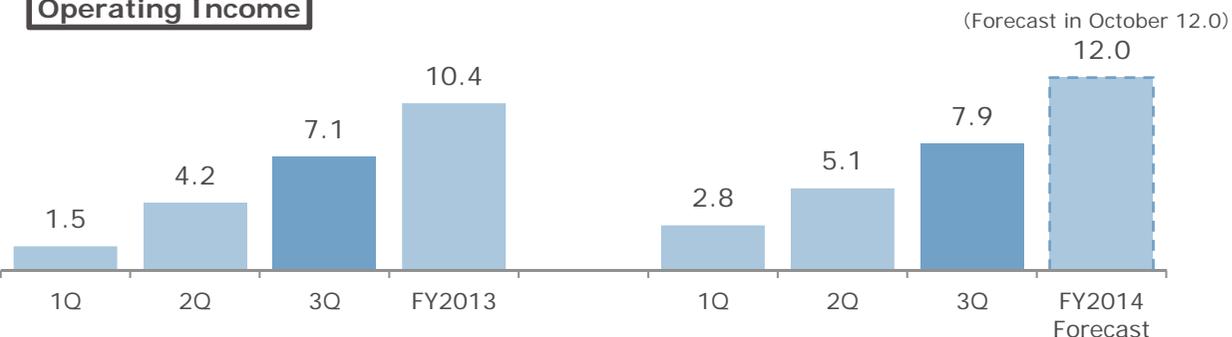
Orders Received



Net Sales



Operating Income



FY2014.3Q

(vs. FY2013.3Q)

Orders Received: Increased due to increase in robots mainly for automotive industries

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 October)

Orders Received, Net Sales & Operating Income: No Change due to increase in industrial robots for automotive industries covering decrease in hydraulic components for construction machinery

	FY2013 Actual	FY2014 Forecast	
		In October	In January
Before-tax ROIC	17.5%	17.9%	16.6%

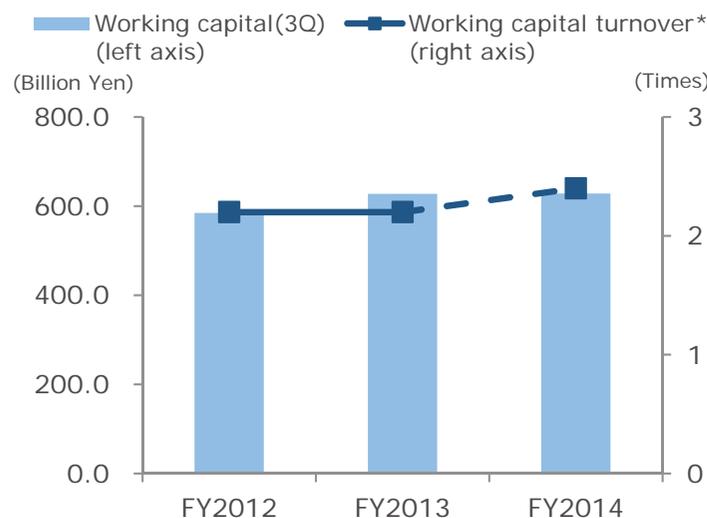
Summary of Balance Sheet

(Billion Yen)

	End of Mar. 2014	End of Dec. 2014	Change
Cash on hand and in banks	47.9	45.5	-2.3
Trade receivables	415.6	509.0	+93.3
Inventories	458.0	540.9	+82.8
Total fixed assets	401.1	430.7	+29.5
Other assets	231.6	274.5	+42.9
Total assets	1,554.4	1,800.7	+246.3
Trade payables	306.0	316.0	+10.0
Interest-bearing debt	444.6	632.8	+188.2
Advances from customers	137.5	145.6	+8.0
Other liabilities	289.4	281.9	-7.5
Total liabilities	1,177.7	1,376.5	+198.7
Total shareholders' equity	376.2	406.3	+30.0
Other net assets	0.4	17.8	+17.4
Total net assets	376.6	424.2	+47.5
Total liabilities and net assets	1,554.4	1,800.7	+246.3

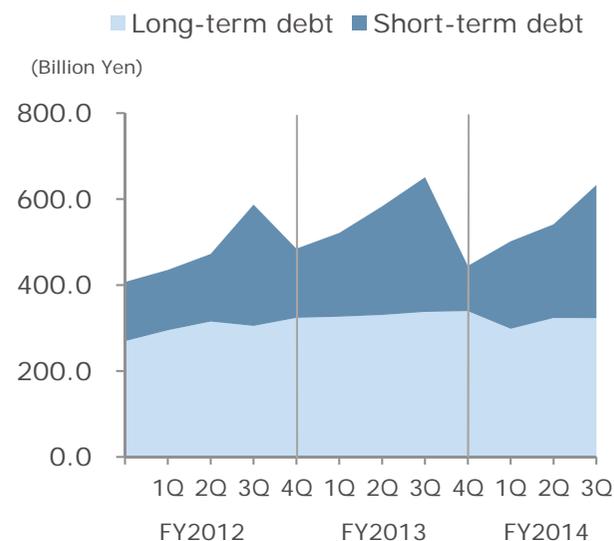
Ratio of shareholders' equity to total assets	23.3%	22.6%
Net Debt Equity Ratio	109.3%	143.7%

< Changes in working capital >

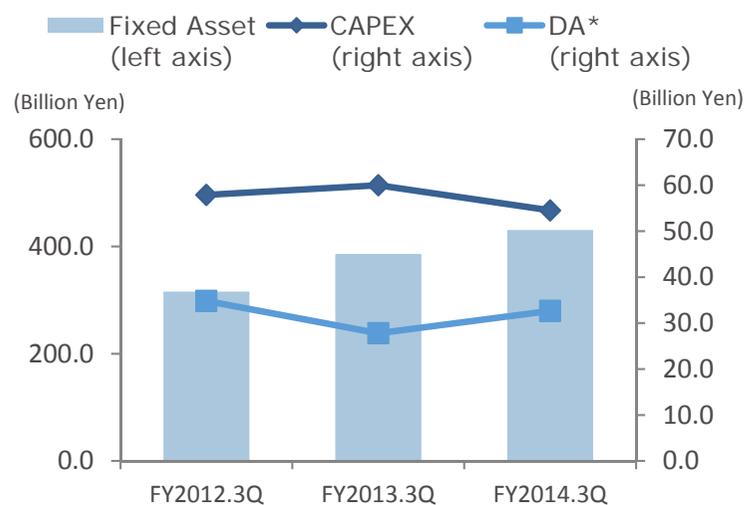


*Turnover=Sales(12months)/working capital
*Sales for FY2014 is a forecast number

< Changes in interest-bearing debt >



< Changes in CAPEX and others >



*Depreciation & Amortization

< Overview of Balance Sheet >

On December 31, 2014, total assets increased from March 31, 2014, attributing to increase in trade receivable resulting from recording of sales, inventory growth stemming from progress in construction works, and increase in fixed assets due to CAPEX.

Liabilities on December 31, 2014, increased due to increase in interest-bearing debt such as commercial papers.

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

Summary of Cash Flows

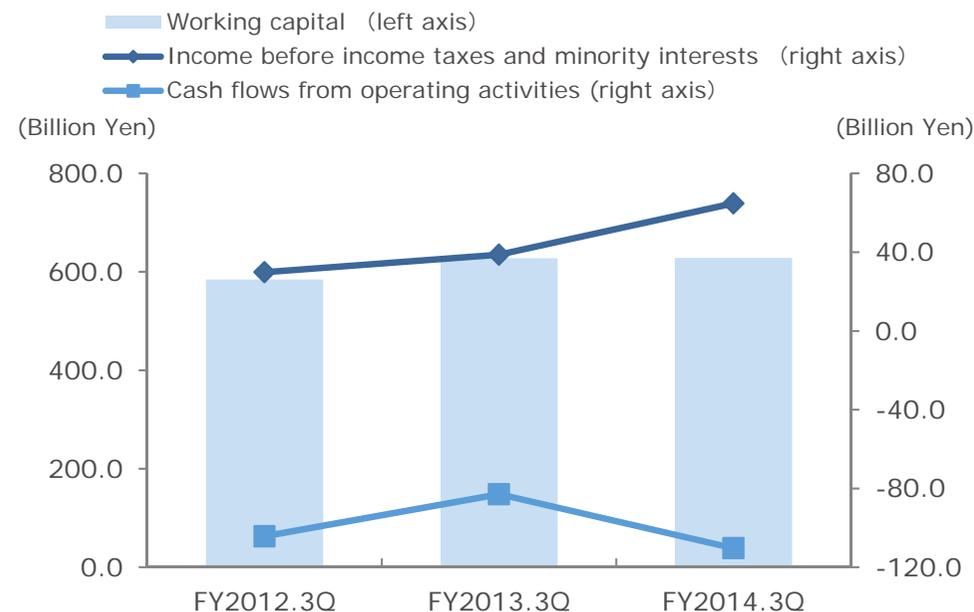
(Billion Yen)

	FY2013 3Q	FY2014 3Q	Change
Cash flows from operating activities	-82.9	-110.3	-27.4
Cash flows from investing activities	-62.7	-52.4	+10.2
Free Cash Flows	-145.6	-162.8	-17.1
Cash flows from financing activities	141.8	+161.0	+19.2

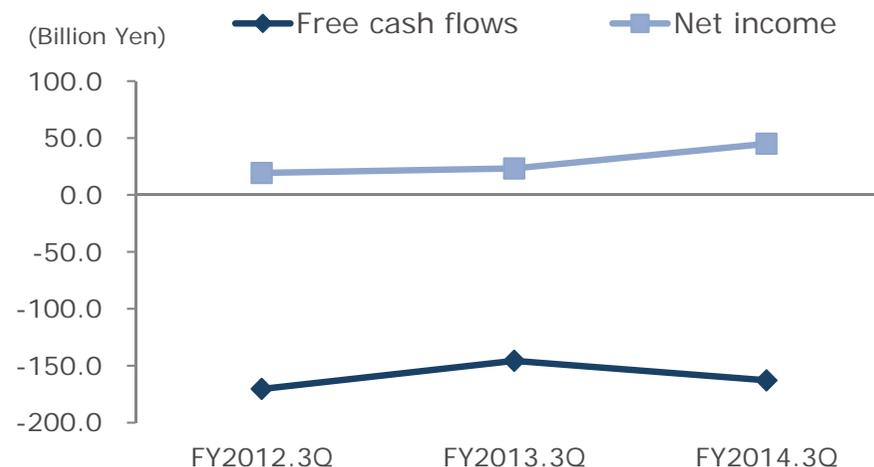
< Overview of Cash Flows > (vs.FY2013.3Q)

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 and expenditures for CAPEX having concentrated in the previous same period, 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		"MTBP 2013" FY2015 Target (As of April 2013)
		In October	In January	vs. FY2013	vs. Forecast in October	
Orders Received	1,455.4	1,640.0	1,660.0	+204.6	+20.0	-
Net Sales	1,385.4	1,510.0	1,510.0	+124.6	0	1,600.0
Operating Income	72.3	77.0	86.0	+13.7	+9.0	90.0
Recurring Profit	60.6	72.0	84.0	+23.4	+12.0	85.0
Net Income	38.6	48.0	56.0	+17.4	+8.0	-
Before-tax ROIC	8.1%	9.3%	10.0%	+1.9%	+0.7%	11.0%

Reasons for the Revision

< Orders Received >

Revised up due to increase in Aerospace, Ship & Offshore Structure and Motorcycle & Engine segments

< Net Sales >

No change due to sales increase in Motorcycle & Engine segment covering the decrease in Gas Turbine & Machinery segment

< Profits >

- Operating income was revised up due to increase in Ship & Offshore Structure, Aerospace, Gas Turbine & Machinery and Motorcycle & Engine segments, stemming from the revision of assumed exchange rate
- Recurring profit and net income were revised up due to increase in operating income
- The impact of the future changes in tax system is not included in the forecast

Exchange Rates (actual & assumed)

Yen / US\$	99.63	105	115
Yen / EUR	134.56	135	135

	95
	-

(For Reference)

Impact on profit by FX fluctuation of 1 Yen

	(Billion Yen)	
	Operating Income	Recurring Profit
US\$	0.69 (1.38)	0.62 (1.12)
EUR	0.04 (0.06)	0.10 (0.19)

* Figures in the parenthesis () represent impact as of October 29, 2014

Note : Assumed rates are applied to the outstanding foreign exchange exposure as of January 29, 2015

Forecast by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2013 Actual	FY2014 Forecast		FY2013 Actual	FY2014 Forecast		FY2013 Actual	FY2014 Forecast	
		In October	In January		In October	In January		In October	In January
Ship & Offshore Structure	117.8	150.0	160.0	80.8	95.0	95.0	-2.0	2.0	4.0
Rolling Stock	133.0	150.0	130.0	147.9	135.0	135.0	7.5	6.0	6.0
Aerospace	286.3	310.0	330.0	280.7	330.0	330.0	26.2	30.0	35.0
Gas Turbine & Machinery	222.0	240.0	240.0	189.2	230.0	220.0	10.4	10.0	11.0
Plant & Infrastructure	103.9	190.0	190.0	103.8	120.0	120.0	6.3	6.0	6.0
Motorcycle & Engine	322.2	320.0	330.0	322.2	320.0	330.0	16.1	13.0	14.0
Precision Machinery	127.2	140.0	140.0	123.2	140.0	140.0	10.4	12.0	12.0
Others	142.6	140.0	140.0	137.2	140.0	140.0	4.4	5.0	5.0
Eliminations and corporate*	-	-	-	-	-	-	-7.2	-7.0	-7.0
Total	1,455.4	1,640.0	1,660.0	1,385.4	1,510.0	1,510.0	72.3	77.0	86.0

* "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		FY2013 Actual	FY2014 Forecast		FY2013 Actual	FY2014 Forecast	
		In October	In January		In October	In January		In October	In January
Ship & Offshore Structure	3.4%	5.4%	8.0%	-2.4%	2.1%	4.2%	0.62	0.70	0.70
Rolling Stock	10.2%	7.9%	7.3%	5.1%	4.4%	4.4%	0.92	1.00	1.00
Aerospace	19.6%	20.8%	25.6%	9.3%	9.1%	10.6%	0.80	0.90	0.90
Gas Turbine & Machinery	4.6%	5.2%	5.3%	5.5%	4.3%	5.0%	0.67	0.80	0.80
Plant & Infrastructure	14.9%	13.5%	13.3%	6.0%	5.0%	5.0%	0.94	1.10	1.10
Motorcycle & Engine	1.4%	7.0%	8.0%	4.9%	4.1%	4.2%	1.27	1.40	1.40
Precision Machinery	17.5%	17.9%	16.6%	8.4%	8.5%	8.5%	0.98	1.10	1.10
Total	8.1%	9.3%	10.0%	5.2%	5.1%	5.7%	0.89	0.90	0.90

R&D/CAPEX/Number of Employees

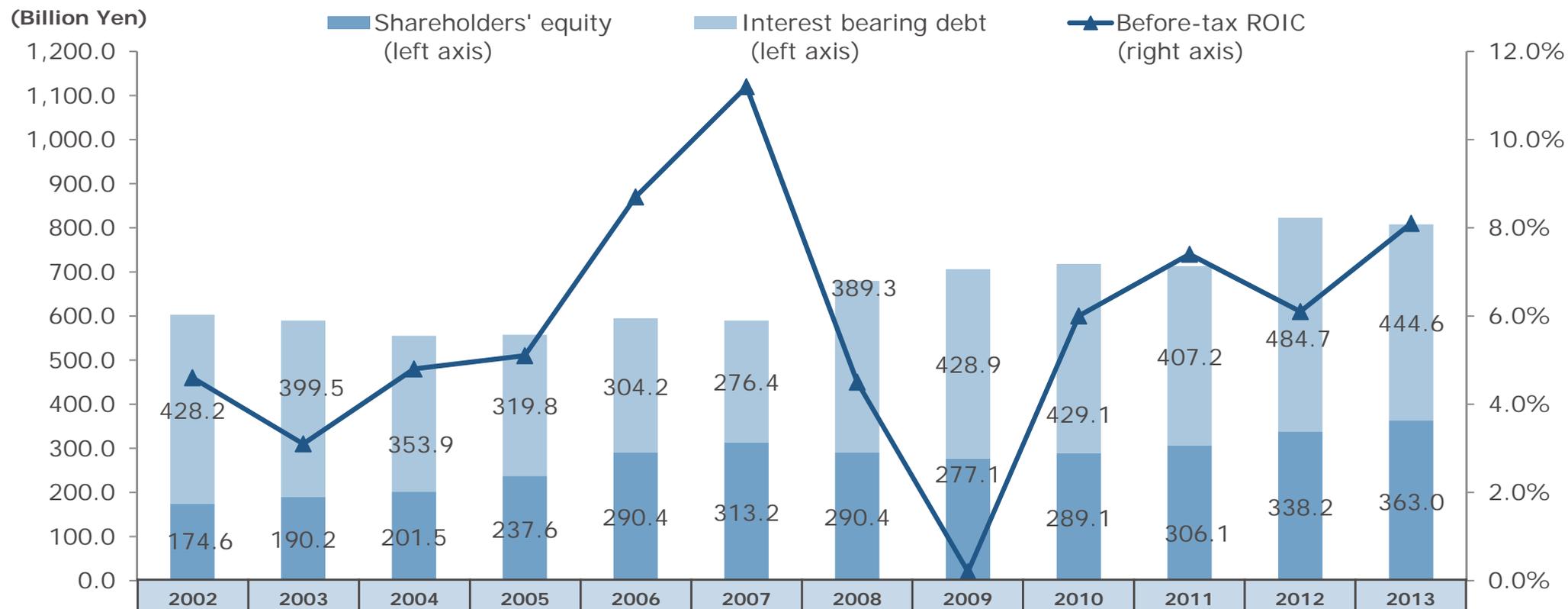
* No changes in the forecast for FY2014 from October 29, 2014.

(Billion Yen / Persons)

	FY2013 Actual	FY2014 Forecast	Change
R&D Expenses	40.3	47.0	+6.7
CAPEX (Construction Base)	87.7	95.0	+7.3
Depreciation & Amortization	37.8	46.0	+8.2
Domestic	25,531	26,200	+669
Overseas	9,089	9,200	+111
Number of Employees	34,620	35,400	+780

· Capital expenditures represent the total of newly recorded property, plant and equipment and newly recorded 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	679.7	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	30.5	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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Group Management Model 2018

	Group Management Model 2018	FY2014 Forecast	FY2013 Actual
Before-tax ROIC	12% or higher	10.0%	8.1%
Operating Income Margin	6% or higher	5.7%	5.2%
Net Debt Equity Ratio	70%-80%	-	109.3%
Total Asset Turnover	1.00 times or more	0.90 times	0.89 times
(Reference: Net sales)	(¥1,800.0 billion)	(¥1,510.0 billion)	(¥1,385.4 billion)
Yen / US\$ FX Rates (actual & assumed)	100	1-3Q(actual): 106.24 4Q(assumed): 115	99.63

Notes:

- Before-tax ROIC = $\frac{\text{EBIT (Income before income taxes + Interest expense)}}{\text{Invested capital at year-end (Interest-bearing debt + Shareholders' equity)}}$
- Total Asset Turnover = Net sales / Total assets at year-end

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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.