

**Report of Earnings and Financial Statements for the
Three Months Ended June 30, 2014 (Consolidated)**
(Prepared pursuant to Japanese GAAP)

July 30, 2014

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

Submission of quarterly securities filing: August 7, 2014

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, 2014
(April 1 – June 30, 2014)

(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, 2014	304,154	7.6	10,904	(34.9)	6,694	(28.7)	5,416	20.4
Three Months Ended June 30, 2013	282,509	(0.3)	16,752	148.4	9,400	(19.8)	4,496	(25.4)

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First-quarter consolidated operating performance is summarized by segment below.

Segment Information

Segment net sales, operating income, and orders received (billions of yen)

	Three months ended June 30						Orders received		
	2014 (A)		2013 (B)		Change (A – B)		Three months ended June 30		
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	2014 (A)	2013 (B)	Change (A – B)

Rolling Stock

Consolidated orders received grew ¥32.3 billion to ¥67.4 billion, largely as a result of an order from the Singapore Land Transport Authority for subway train cars for new lines.

Consolidated net sales were roughly flat year on year at ¥30.4 billion, due to a continued high level of sales to overseas customers and other factors.

Consolidated operating income decreased ¥1.8 billion year on year to ¥0.0 billion, attributable to a decline in profit margin and other factors.

Aerospace

Consolidated orders received grew ¥0.4 billion year on year to ¥41.9 billion, as despite the decline in orders from Japan's Ministry of Defense, there was an increase in orders for component parts for the Boeing 787.

Consolidated net sales increased ¥9.7 billion year on year to ¥65.4 billion, largely as a result of growth in Boeing 787 component parts sales coupled with sales to Japan's Ministry of Defense on par with the year-earlier period .

Despite the increase in sales, consolidated operating income declined ¥1.2 billion year on year to ¥6.2 billion as a result of the reversal of reserves for losses on construction contracts posted in the year-earlier period.

Gas Turbine & Machinery

Consolidated orders received increased ¥7.5 billion year on year to ¥43.2 billion, attributable to growth in orders for aircraft engine components and other products.

Consolidated net sales grew ¥6.3 billion year on year to ¥42.7 billion, due to an increase in sales of aircraft engine components, hydropower systems, and other products.

Consolidated operating income rose ¥1.2 billion year on year to ¥2.0 billion in response to the increase in sales, among other factors.

Plant & Infrastructure

Consolidated orders received totaled ¥35.2 billion, an ¥18.6 billion increase year on year, due to an increase in orders for earth-moving machinery and environmental infrastructure projects.

Consolidated net sales grew ¥4.3 billion year on year to ¥21.0 billion, mainly attributable to the increase in sales of LNG storage tanks and environmental infrastructure contracts.

Despite the increase in sales, a consolidated operating loss of ¥0.4 billion was posted, similar to the consolidated operating loss in the year-earlier period.

Motorcycle & Engine

Consolidated net sales decreased ¥2.6 billion year on year to ¥64.8 billion, as the decline in motorcycle sales in the US and Thailand negated the increase in motorcycle sales to Indonesia and countries in Europe.

Consolidated operating income totaled ¥0.2 billion, a ¥2.2 billion year-on-year decline, largely attributable to the drop in sales.

Precision Machinery

Consolidated orders received grew ¥1.8 billion year on year to ¥31.7 billion. The increase was the result of a growth in orders of hydraulic components for the construction machinery market in Japan, among other factors.

Consolidated net sales grew ¥5.5 billion year on year to ¥30.6 billion, largely due to the increase in sales of hydraulic components for the construction machinery market in Japan, as well as the increase in sales of industrial robots for the automotive industry.

Consolidated operating income was up ¥1.2 billion year on year to ¥2.8 billion, largely in response to the growth in sales.

Other Operations

Consolidated net sales increased ¥1.0 billion yen year on year to ¥30.5 billion. Consolidated operating income increased ¥0.2 billion year on year to ¥0.5 billion.

(2) Consolidated financial position

At June 30, 2014, consolidated assets totaled ¥1,570.6 billion, a ¥16.2 billion increase from March 31, 2014. The increase was chiefly attributable to inventory growth stemming from progress toward completion of construction jobs and capital expenditure that added to property, plant and equipment, which offset the decline in trade receivables. Consolidated liabilities at June 30, 2014, were ¥1,199.8 billion, a ¥22.1 billion increase from March 31, 2014. The rise was largely attributable to the increase in commercial paper and other interest-bearing debt, which offset the dang (en-US)paper

(3) Consolidated earnings outlook

The Company has raised its consolidated recurring profit forecast for the first half of the fiscal year ending March 31, 2015, to ¥17.0 billion, a ¥3.0 billion increase from the initial forecast announced on April 25, 2014. This upward revision is based on the fact that investment gains on equity method are expected to improve due to the larger-than-expected concentration of relatively high-profit projects in the first half of the fiscal year. On the net income, the Company raised its initial first-half forecast by ¥4.0 billion to ¥12.5 billion, reflecting the improvement in recurring profit and the revision of tax effects.

The Company has left its full-year recurring profit forecast unchanged from its initial forecast, given the limited change in full-year gains or losses on equity method. Meanwhile, the full-year net income forecast was raised by ¥1.5 billion to ¥42.5 billion, in light of the revision of tax effects.

The Company's earnings forecasts assume exchange rates of ¥100 to the US dollar and ¥135 to the euro.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

Millions of yen	
As of March 31, 2014	As of June 30, 2014

Net assets

Shareholders' equity		
Common stock	104,484	104,484
Capital surplus	54,393	54,393
Retained earnings	217,449	212,824
Treasury stock	(43)	(45)
Total shareholders' equity	<u>376,284</u>	<u>371,657</u>
Accumulated other comprehensive income		
Net unrealized gains (losses) on securities, net of tax	2,652	2,755
Deferred gains (losses) on hedges	(3,803)	(629)
Foreign currency translation adjustment	6,416	1,463
Remeasurements of defined benefit plans	(18,509)	(17,915)
Total accumulated other comprehensive income	<u>(13,243)</u>	<u>(14,327)</u>
Minority interests	<u>13,645</u>	<u>13,430</u>
Total net assets	<u>376,686</u>	<u>370,760</u>
Total net assets and liabilities	<u>1,554,430</u>	<u>1,570,651</u>

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

Millions of yen

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(3) Notes on financial statements

Notes on the going concern assumption

Not applicable

Notes on significant related parties

Not applicable

Segment information and others

Segment information

1. Three months ended June 30, 2013 (April 1, 2013 – June 30, 2013)

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

	Millions of yen			
	External sales	Intersegment sales	Total sales	Operating income (loss)
Ship & Offshore Structure	21,073	564	21,638	3,381
Rolling Stock	30,562	192	30,754	1,910
Aerospace	55,624	461	56,086	7,551
Gas Turbine & Machinery	36,452	3,898	40,350	844
Plant & Infrastructure	16,712	3,225	19,937	(606)
Motorcycle & Engine	67,493	144	67,637	2,482
Precision Machinery	25,124	2,456	27,580	1,562
Other	29,466	8,304	37,771	344
Reportable segment total	282,509	19,247	301,756	17,472
Adjustments*1	-	(19,247)	(19,247)	(719)
Consolidated total	282,509	-	282,509	16,752

Notes: 1. Breakdown of adjustments:

Millions of yen	
Income	Amount

2. Three months ended June 30, 2014 (April 1, 2014 – June 30, 2014)

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

	External sales	Intersegment sales	Total sales	Millions of yen Operating income (loss)
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(2) Orders and sales (consolidated)

Orders received

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(3) Net sales by geographic area (consolidated)

Three months ended June 30, 2013 (April 1, 2013 – June 30, 2013)

Millions of yen

Japan	118,426	41.9%
United States	66,615	23.5%
Europe	19,742	6.9%
Asia	51,700	18.3%
Other areas	26,024	9.2%
Total	282,509	100.0%

Three months ended June 30, 2014 (April 1, 2014 – June 30, 2014)

(4) Supplementary information on earnings forecasts for the fiscal year ending March 31, 2015

1. Consolidated earnings outlook

(Billions of yen)

	Outlook for the year ending March 31, 2015 (fiscal 2014)		Fiscal 2013 (ended March 31, 2014)
	Revised forecast (A)	Forecast issued April 25, 2014 (B)	(actual)

(c) Before-tax ROIC

(%) 300.48y3

	Outlook for the year ending March 31, 2015 (fiscal 2014)			Fiscal 2013 (ended March 31, 2014) (actual)
	Revised outlook (A)	Forecast issued April 25, 2014 (B)	Change (A – B)	
Ship & Offshore Structure	0.2	0.2	-	3.4
Rolling Stock	7.9	7.9	-	10.2
Aerospace	17.7	17.7	-	19.6
Gas Turbine & Machinery Plant	5.1	5.1	-	4.6