## Consolidated Financial Highlights

*Ka a a H a I , L . a C a S b a*
*F S b 30, 2004 a 2003*

| | *M* | | *T a U.S. a* |
|---|---|---|---|
| | **2004** | *2003* | **2004** |
| **For the period:** | | | |
| Net sales | **¥ 537,715** | ¥ 523,270 | **$ 4,842,098** |
| Operating income | **6,945** | 1,616 | **62,539** |
| Net income (loss) | **3,365** | (3,396) | **30,302** |
| Research and development expenses | **5,300** | 6,100 | **47,726** |
| Depreciation and amortization | **15,130** | 15,796 | **136,245** |
| Net cash provided by operating activities | **19,816** | 11,000 | **178,442** |
| **Per share** (in yen and U.S. dollars): | | | |
| Net income (loss) | **¥ 2.30** | ¥ (2.40) | **$ 0.02** |
| Cash dividends | **—** | — | **—** |
| **At end of the period:** | | | |
| Total assets | **¥1,114,029** | ¥1,160,291 | **$10,031,778** |
| Total shareholders' equity | **194,127** | 180,880 | **1,748,104** |
| **Orders received and outstanding:** | | | |
| Orders received during the period | **503,090** | 521,255 | **4,530,302** |
| Order backlog at end of the period | **1,173,053** | 1,154,122 | **10,563,287** |
| **Number of employees** | **29,126** | 29,651 | |

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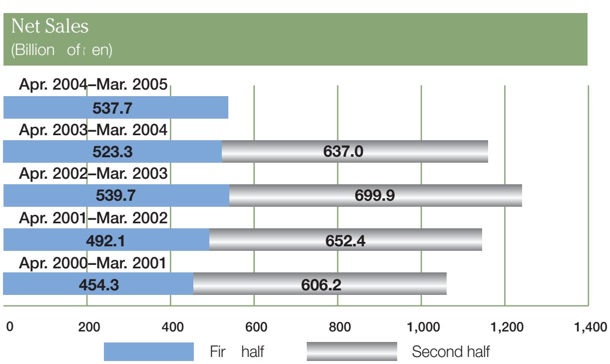
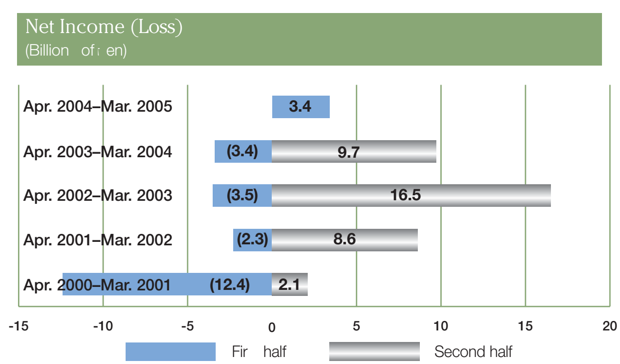
*2. A a U.S. . Y a a b a a , , a 111.05 $1.00, a a a a a*
*S b 30, 2004.*



**Steadily Implementing Business Reforms and Creating a High-Margin Earnings Structure**

The Japanese economy continued on a recovery trend during the interim period under review as a result of firm consumer spending, expansion in exports, and growth in private-sector capital investment supported by improvement in corporate profitability. For Kawasaki Heavy Industries, Ltd. (KHI), however, the operating environment was generally made difficult mainly by cutbacks in government public works investment and higher prices of steel and other raw materials.

In this operating environment, the KHI Group reported total orders received of ¥503.1 billion, a fall of ¥18.2 billion, or 3.5% from the interim period of the previous fiscal year. This was chiefly due to a decline in orders secured by the Rolling Stock, Construction Machinery & Crushing Plant segment, which had experienced a surge of overseas orders in the previous interim period. Net sales for the interim period rose ¥14.4 billion, or 2.8%, to ¥537.7 billion, supported by increases in sales of the Rolling Stock, Construction Machinery & Crushing Plant, Plant & Infrastructure Engineering, and other segments, which more than offset declines, mainly in the Shipbuilding and Consumer Products & Machinery segments.

Profitability improved, with operating income rising a sharp ¥5.3 billion, or 329.8%, to ¥6.9 billion, as a result of recovery in the Consumer Products & Machinery and other segments. Net income also rebounded, to ¥3.4 billion for the interim period, versus a net loss of ¥3.4 billion for the interim period of the previous fiscal year.

KHI's basic policy regarding the allocation of earnings is to pay stable dividends to shareholders. However, in consideration of the importance of expanding retained earnings, we regret that we have decided to suspend the payment of cash dividends for the interim period under review.

The KHI Group defines its corporate mission as drawing fully on its broad base of advanced technologies to create new value through products that work modern-day wonders on land, at sea, and in the air, while endeavoring to contribute to the development of societies around the world. To fulfill this mission, KHI strives to increase customer satisfaction by providing products and services that are differentiated from those of competitors through technology and brand equity. By pursuing these activities, we of the KHI Group work to increase our enterprise value and respond to the expectations of shareholders, customers, employees, and the communities we serve.

In implementing these basic policies, we have set a specific target of attaining a 9% or higher before-tax return on invested capital (ROIC) under our medium-term business plan. To reach this target of creating a high-margin earnings structure, we are carrying out structural reforms in keeping with our policy of "Quality followed by Quantity" and are exercising selectivity and concentration in the allocation of our resources while working to improve our business model.

Under our policy of selectivity and concentration, we have positioned Consumer Products & Machinery and Aerospace as core businesses and classified Rolling Stock and Gas Turbines & Machinery as developing businesses for further investment. We are allocating our resources to these businesses on a priority basis to strengthen our earnings structure.

On the other hand, we have positioned Shipbuilding and Plant & Infrastructure Engineering as segments targeted for structural reform. These reforms have been wide-ranging and included the establishment of Kawasaki Shipbuilding Corporation as a wholly owned subsidiary and consolidating our four plants for the fabrication of steel structures into a single facility. Nevertheless, the operating environment, especially for our industrial plant business in the Plant & Infrastructure Engineering segment, remains challenging because of the cutbacks in government public works investment and price competition. These circumstances have made it difficult for the business to return to profitability. We therefore plan to implement major structural reforms by setting up our industrial plant division as a wholly owned subsidiary in April 2005. Operating as a subsidiary, this business is expected to strengthen its performance and create a stable operating base by managing its activities more flexibly and efficiently and focusing on products and areas where it has a competitive advantage.

Along with these activities, all of KHI's operating divisions are continuing to improve their earnings power by taking the initiatives needed to lower their break-even points through continued cost-cutting and other measures. In addition, we are focusing on substantially improving our non-price related competitiveness by offering high-value-added products and services backed by our sophisticated technology and brand reliability. We are also taking steps to minimize the impact of foreign exchange rate fluctuations through the flexible use of hedging schemes and, from a cost perspective, significantly diversifying currencies.

Within today's fast-changing business environment, KHI is steadily implementing structural reforms in line with its medium-term plan to create a stronger, higher-margin earnings base. As we proceed with these initiatives to make KHI a stronger and more profitable enterprise, we look forward to the continuing support and advice of our shareholders.

December 2004

Masamoto Tazaki
President and CEO

## Financial Position

As a result of the efficient management of assets, total assets at the end of the interim period amounted to ¥1,114.0 billion, ¥46.3 billion lower than at the end of the interim period of the previous year, and interest-bearing debt was down ¥43.0 billion.

Among cash flows, net cash provided by operating activities during the interim period under review amounted to ¥19.8 billion, compared with ¥11.0 billion for the same period of the previous year. Net cash used in investing activities was ¥11.3 billion, compared with ¥14.3 billion in the same period of the previous year. Acquisitions of property, plant and equipment accounted for the largest portion of these cash outlays. Free cash flow was ¥8.5 billion. Net cash used in financing activities during the interim period amounted to ¥14.8 billion, compared with ¥4.6 billion in the same period of the previous year, as the Company made two bond issues in June and

| | M | | | T a U.S. a |
|---|---|---|---|---|
| | **September 30, 2004** ( a ) | Ma 31, 2004 | S b 30, 2003 ( a ) | **September 30, 2004** ( a ) |
| **Assets:** | | | | |
| Current assets: | | | | |
| Cash on hand and in banks | **¥ 36,520** | ¥ 43,064 | ¥ 54,111 | **$ 328,861** |
| Receivables, less allowance | **313,005** | 376,807 | 313,103 | **2,818,595** |
| Inventories | **358,127** | 335,064 | 392,741 | **3,224,917** |
| Other current assets | **47,824** | 44,545 | 46,907 | **430,653** |
| Total current assets | **755,476** | 799,480 | 806,862 | **6,803,026** |
| Investments and long-term loans, less allowance | **82,777** | 77,839 | 72,783 | **745,403** |
| Net property, plant and equipment | **246,763** | 248,922 | 261,884 | **2,222,089** |
| Intangible and other assets | **29,013** | 30,663 | 18,762 | **261,260** |
| Total assets | **¥1,114,029** | ¥1,156,904 | ¥1,160,291 | **$10,031,778** |
| | | | | |
| **Liabilities and shareholders' equity:** | | | | |
| Current liabilities: | | | | |
| Short-term borrowings and current portion of long-term debt | **¥ 167,793** | ¥ 188,652 | ¥ 229,708 | **$ 1,510,968** |
| Payables | **269,656** | 286,117 | 241,502 | **2,428,240** |
| Advances from customers | **103,097** | 110,900 | 140,441 | **928,384** |
| Other current liabilities | **73,011** | 91,870 | 79,680 | **657,460** |
| Total current liabilities | **613,557** | 677,539 | 691,331 | **5,525,052** |
| Long-term liabilities: | | | | |

928,384 Long-term debtoans, less allowa7N Tf.27,793

# Condensed Consolidated Statements of Operations and Retained Earnings

*Ka aa Ha I , L .a C a S b a*
*F S b 30, 2004 a 2003 ( a )*

| | M | | T a U.S. a |
|---|---|---|---|
| | **2004** | 2003 | **2004** |
| Net sales | **¥537,715** | ¥523,270 | **$4,842,098** |
| Cost of sales | **467,661** | 452,815 | **4,211,265** |
| Gross profit | **70,054** | 70,455 | **630,833** |
| Selling, general and administrative expenses | **63,109** | 68,839 | **568,294** |
| Operating income | **6,945** | 1,616 | **62,539** |
| Other income (expenses): | | | |
| Interest and dividend income | **1,790** | 1,106 | **16,119** |
| Equity in income of unconsolidated subsidiaries and affiliates | **452** | 326 | **4,070** |
| Interest expense | **(3,138)** | (3,941) | **(28,258)** |
| Other, net | **894** | (55) | **8,051** |
| Income (loss) before income taxes and minority interests | **6,943** | (948) | **62,521** |
| Income taxes | **(3,391)** | (2,511) | **(30,536)** |
| Minority interests in net income of consolidated subsidiaries | **(187)** | 63 | **(1,683)** |
| Net income (loss) | **¥ 3,365** | ¥ (3,396) | **$ 30,302** |
| Retained earnings: | | | |
| Balance at beginning of the period | **¥ 80,469** | ¥ 77,069 | **$ 724,620** |
| Net income (loss) for the period | **3,365** | (3,396) | **30,302** |
| Cash dividends | **(2,885)** | (2,781) | **(25,979)** |
| Bonuses to directors and statutory auditors | **(39)** | (71) | **(351)** |
| Reduction due to change of consolidation period of subsidiaries | **(222)** | — | **(1,999)** |
| Other | **(97)** | (79) | **(873)** |
| Balance at end of the period | **¥ 80,591** | ¥ 70,742 | **$ 725,718** |

| | *M* | | *T a U.S. a* |
|---|---|---|---|
| | ***2004*** | *2003* | ***2004*** |

1. Previously, the Company applied the percentage of completion accounting method to projects requiring more than one year for completion and with a contract amount of ¥5,000 million or more. Beginning with the interim period under review, the Company has begun to apply this method to projects requiring more than one year for completion and with a contract amount of ¥3,000 million or more. The Company made this change because of the seasonality of its business performance, which is characterized by a higher percentage of completions in the second half of the fiscal year than in the first half. By expanding the scope of projects where the percentage of completion method is applied, the financial statements now present a significantly more accurate view of Company performance. As a result of this change in accounting policy, net sales for the interim period under review were ¥31,360 million higher and operating income was ¥3,394 million higher than they would have been without this change.

As a result of this change, the segment information on pages 10 to 12 for the interim period under review has been altered as follows:

(a) Information by industry segment: Compared with the previous method of reporting, sales of the Aerospace segment are ¥18,5d wit a resull of the

### (b) Information by geographic area

| | M | | | | |
|---|---|---|---|---|---|
| | **2004** | | | | |
| | E a a | I a | T a a | O a | O a ( ) |
| Japan | **¥401,293** | **¥ 83,699** | **¥484,992** | **¥481,348** | **¥3,644** |
| North America | **81,000** | **7,556** | **88,556** | **89,620** | **(1,064)** |
| Europe | **40,822** | **2,032** | **42,854** | **41,965** | **889** |
| Asia | **11,993** | **7,729** | **19,722** | **18,707** | **1,015** |
| Other areas | **2,607** | **49** | **2,656** | **2,791** | **(135)** |
| Total | **537,715** | **101,065** | **638,780** | **634,431** | **4,349** |
| Eliminations | **—** | **(101,065)** | **(101,065)** | **(103,661)** | **2,596** |
| Consolidated total | **¥537,715** | **¥ —** | **¥537,715** | **¥530,770** | **¥6,945** |

| | M | | | | |
|---|---|---|---|---|---|
| | 2003 | | | | |
| | E a a | I a | T a a | O a | O a ( ) |
| Japan | ¥366,350 | ¥68,812 | ¥435,162 | ¥435,661 | ¥ (499) |
| North America | 101,934 | 8,057 | 109,991 | 110,870 | (879) |
| Europe | 44,119 | 2,263 | 46,382 | 45,652 | 730 |
| Asia | 8,385 | 4,819 | 13,204 | 13,514 | (310) |
| Other areas | 2,482 | 41 | 2,523 | 2,472 | 51 |
| Total | 523,270 | 83,992 | 607,262 | 608,169 | (907) |
| Eliminations | — | (83,992) | (83,992) | (86,515) | 2,523 |
| Consolidated total | ¥523,270 | ¥ — | ¥523,270 | ¥521,654 | ¥1,616 |

| | T a U.S. a | | | | |
|---|---|---|---|---|---|
| | **2004** | | | | |
| | E a a | I a | T a a | O a | O a ( ) |
| Japan | **$3,613,625** | **$753,706** | **$4,367,331** | **$4,334,516** | **$32,815** |
| North America | **729,401** | **68,042** | **797,443** | **807,024** | **(9,581)** |
| Europe | **367,600** | **18,298** | **385,898** | **377,893** | **8,005** |
| Asia | **107,996** | **69,599** | **177,595** | **168,455** | **9,140** |
| Other areas | **23,476** | **441** | **23,917** | **25,133** | **(1,216)** |
| Total | **4,842,098** | **910,086** | **5,752,184** | **5,713,021** | **39,163** |
| Eliminations | **—** | **(910,086)** | **(910,086)** | **(933,462)** | **23,376** |
| Consolidated total | **$4,842,098** | **$ —** | **$4,842,098** | **$4,779,559** | **$62,539** |

**(c) Overseas sales**

| | M | % | M | % | T a U.S. a |
|---|---|---|---|---|---|
| | **2004** | | 2003 | | **2004** |
| | *O a a* | *% a a a* | *O a a* | *% a a a* | *O a a* |
| North America | **¥ 99,135** | **18.4%** | ¥123,223 | 23.5% | **$ 892,706** |
| Europe | **51,794** | **9.6** | 70,313 | 13.4 | **466,403** |
| Asia | **69,083** | **12.8** | 29,624 | 5.7 | **622,089** |
| Other areas | **48,835** | **9.0** | 34,291 | 6.6 | **439,757** |
| Total | **¥268,847** | **49.9%** | ¥257,451 | 49.2% | **$2,420,955** |

# Net Sales, Orders and Order Backlog by Industry Segment

*F S b 30, 2004 a 2003 ( a )*

| | *M* | | *T a U.S. a* |
|---|---|---|---|
| | ***2004*** | *2003* | ***2004*** |
| **Net sales:** | | | |
| Shipbuilding | **¥ 44,471** | ¥ 51,683 | **$ 400,459** |
| Rolling Stock, Construction Machinery & Crushing Plant | **67,600** | 57,885 | **608,735** |
| Aerospace | **73,460** | 69,815 | **661,504** |
| Gas Turbines & Machinery | **68,170** | 65,799 | **613,868** |
| Plant & Infrastructure Engineering | **67,463** | 50,530 | **607,501** |
| Consumer Products & Machinery | **156,490** | 165,651 | **1,409,185** |
| Other | **60,061** | 61,907 | **540,846** |
| Total | **¥537,715** | ¥523,270 | **$4,842,098** |
| **Orders received:** | | | |
| Shipbuilding | **¥ 73,031** | ¥ 46,676 | **$ 657,641** |
| Rolling Stock, Construction Machinery & Crushing Plant | **37,080** | 102,748 | **333,904** |
| Aerospace | **34,236** | 31,277 | **308,294** |
| Gas Turbines & Machinery | **84,548** | 53,364 | **761,351** |
| Plant & Infrastructure Engineering | **57,443** | 57,318 | **517,271** |
| Consumer Products & Machinery | **156,490** | 165,651 | **1,409,185** |
| Other | **60,262** | 64,221 | **542,656** |
| Total | **¥503,090** | ¥521,255 | **$4,530,302** |

| | *M* | | | *T a U.S. a* |
|---|---|---|---|---|
| | ***As of September 30, 2004*** | *A Ma 31, 2004* | *A S b 30, 2003* | ***As of September 30, 2004*** |
| **Order backlog:** | | | | |
| Shipbuilding | **¥ 226,441** | ¥ 193,705 | ¥ 162,497 | **$ 2,038,820** |
| Rolling Stock, Construction Machinery & Crushing Plant | **269,932** | 294,017 | 317,760 | **2,430,725** |
| Aerospace | **223,039** | 260,321 | 180,363 | **2,008,456** |
| Gas Turbines & Machinery | **160,254** | 140,327 | 136,379 | **1,443,080** |
| Plant & Infrastructure Engineering | **266,059** | 273,837 | 331,829 | **2,395,849** |
| Consumer Products & Machinery | **—** | — | — | **—** |
| Other | **27,358** | 27,167 | 25,294 | **246,357** |
| Total | **¥1,173,053** | ¥1,189,374 | ¥1,154,122 | **$10,563,287** |

# Kawasaki Corporate Data

*(A S b 30, 2004)*

**Kawasaki Heavy Industries, Ltd.**

**Kobe Head Office:**
Kobe Crystal Tower,
1-3, Higashikawasaki-cho 1-chome,
Chuo-ku, Kobe, Hyogo 650-8680, Japan

**Tokyo Head Office:**
World Trade Center Bldg.,
4-1, Hamamatsu-cho 2-chome,
Minato-ku, Tokyo 105-6116, Japan

**Founded:** 1878

**Incorporated:** 1896

**Paid-in Capital:** ¥81,427,090,720

**Number of Shares Issued:** 1,443,394,172 shares

**Number of Shareholders:** 129,841

**Number of Employees:** 29,126

**Stock Exchange Listings:**
Tokyo, Osaka, Nagoya

**Newspapers in Which Public Notices Are Made:**
*Nihon Keizai Shimbun*
*Kobe Shimbun*

**Transfer Agent:**
The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome,
Minato-ku, Tokyo 105-8574, Japan

**Handling Office:**
The Chuo Mitsui Trust and Banking Company, Limited
Osaka Branch Office
2-21, Kitahama 2-chome,
Chuo-ku, Osaka 541-0041, Japan

**Independent Auditors:**
KPMG AZSA & Co.
Kobe Crystal Tower,
1-3, Higashikawasaki-cho 1-chome,
Chuo-ku, Kobe, Hyogo 650-8680, Japan

**ADR Facility:**
KHI has a sponsored American Depository Receipt (ADR) facility. ADRs are traded on the over-the-counter market in the United States under CUSIP number 486 359 20 1 with each ADR representing four ordinary shares.

**ADR Depository:**
The Bank of New York
101 Barclay St., 22 West,
New York, NY 10286, U.S.A.
Phone: 1-212-815-8161
U.S. Toll-Free: 888-269-2377
(888-BNY-ADRS)
http://www.bankofny.com/adr

KHI Web Site at: http://www.khi.co.jp