



# Consolidated Financial Highlights

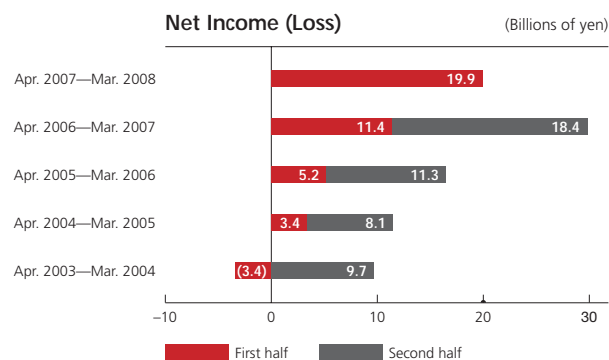
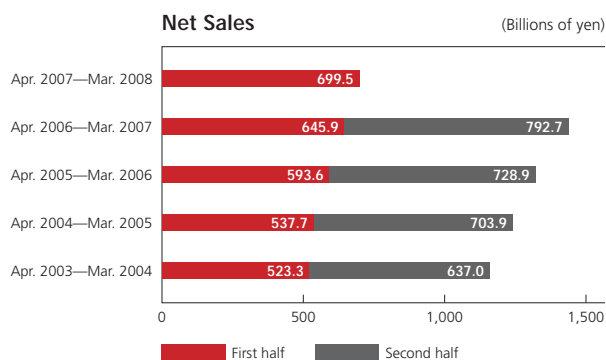
Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries

For the six months ended September 30, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
<b>For the period:</b>			
Net sales .....	¥ 699,540	¥ 645,852	\$ 6,060,296
Operating income .....	39,050	25,562	338,300
Net income .....	19,878	11,414	172,208
Research and development expenses.....	16,400	14,300	142,077
Depreciation and amortization .....	17,642	14,879	152,837
Net cash provided by (used for) operating activities .....	24,010	(10,767)	208,005
<b>Per share (in yen and U.S. dollars):</b>			
Net income .....	¥ 11.91	¥ 7.33	\$ 0.10
Cash dividends .....	—	—	—
<b>At end of the period:</b>			
Total assets .....	¥1,322,779	¥1,319,100	\$11,459,577
Total net assets .....	317,627	244,170	2,751,685
<b>Orders received and outstanding:</b>			
Orders received during the period .....	¥ 724,836	¥ 763,844	\$ 6,279,442
Order backlog at end of the period .....	1,492,433	1,424,960	12,929,334
<b>Number of employees</b> .....	<b>30,382</b>	<b>29,461</b>	

Notes: 1. This semiannual report has been prepared in conformity with generally accepted accounting principles and practices in Japan.

2. All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥115.43 to \$1.00, the approximate rate of exchange at September 30, 2007.



## Performance during the Interim Period

The Japanese economy remained on an expansionary trend during the interim period under review, despite a slowdown in domestic personal consumption and other signs of deterioration in economic conditions, as exports and private-sector capital investment expanded. Outside Japan, conditions continued to be generally strong, especially in Europe, China, and the rest of Asia. However, as the fluctuations in foreign exchange rates and stock prices set off by the subprime mortgage loan issues in the United States suggested, concern about a deterioration in economic conditions increased and made it necessary for the Kawasaki Heavy Industries (KHI) Group to give careful attention to the business environment for its operations.

Amid these conditions, the KHI Group maintained its policy of aggressively pursuing market opportunities, and, as a consequence, obtained new orders for rolling stock in the North American market and other products; however, the total orders received for the interim period amounted to ¥724.8 billion, which was ¥39.0 billion, or 5.1%, lower than for the interim period of the previous fiscal year.

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fiscal year ending March 31, 2008, we have decided not to pay a cash dividend for the interim period under review.

## Medium-Term Business Plan “Global K”

We passed the middle of the second fiscal year under KHI Group’s medium-term business plan “Global K,” which we announced in September last year, and the Group is moving steadily toward the attainment of its objectives. However, on the other hand, as mentioned previously, there are conditions in the world economy and destabilizing factors in the environments for our individual businesses. During the coming fiscal year, we will move into the middle year since the announcement of the “Global K” plan and are planning to make the necessary mid-course corrections. At present, in view of these circumstances, we are in the process of analyzing and identifying issues to be addressed, aimed at reviewing and revising the plan next year. Going forward, we are looking at our vision for the Group 10 years from the starting date of Global K, and moving steadily toward attaining our objectives by implementing measures and action plans under our strategies that respond to changes in the social environment.

## Kawasaki Group Mission Statement

The KHI Group has adopted a vision of becoming “a leading global enterprise that enriches lifestyles and helps safeguard the natural environment through drawing on its sophisticated technological capabilities” by the 10th year following the commencement of the Global K plan. Amid today’s fast-changing social and economic environment, the Group prepared its Kawasaki Group Mission Statement in May this year to provide a compass for the Group as a whole to realize the potential of its technological capabilities to the maximum extent possible.


This mission statement positions the Group’s social perspective and mission in society as its highest-priority missions, followed by the Kawasaki Group Core Values, which are

the values that the Group will emphasize. These will become the starting point when formulating and making decisions on management strategy and product development policies. They will also form the basis for the Group Management Principles and the Group Code of Conduct.

The Kawasaki Group Mission Statement aims to create a higher-level corporate culture in the Group and enhance corporate and brand value through the revitalization of the corporate organization by encouraging each and every member of the Group to share the missions and values advocated in the mission statement and conduct daily business activities based on the guidelines for action.

Members of the Group will share the Kawasaki Group Mission Statement in common, and, by putting it into action, work to create new value for all KHI's stakeholder groups, including shareholders, customers, and the communities we serve. Accordingly, we would like to request your renewed support and cooperation going forward.

December 2007



Tadaharu Ohashi  
President

## G M n:

### Kawasaki, working as one for the good of the planet

- We are the Kawasaki Group, a global technology leader with diverse integrated strengths.
- We create new value—for a better environment and a brighter future for generations to come.

## h K V G C

### Value creation

We are globally driven to create new value—both for our customers and for the benefit of society as a whole.

### Originality

We thrive on originality, innovation and leadership.

### Excellence

What we produce is of exceptionally high quality and functionality, as we constantly strive to be at the global cutting edge.

## h K V G M n n P n

### 1. Trust

As an integrated technology leader, the Kawasaki Group is committed to providing high-performance products and services of superior safety and quality. By doing so, we will win the trust of our customers and the community.

### 2. Harmonious coexistence

The importance of corporate social responsibility (CSR) permeates all aspects of our business. This stance reflects the Kawasaki Group's corporate ideal of harmonious coexistence with the environment, society as a whole, local communities and individuals.

### 3. People

The Kawasaki Group's corporate culture is built on integrity, vitality, organizational strength and mutual respect for people through all levels of the Group. We nurture a global team for a global era.

### 4. Strategy

The Kawasaki Group pursues continuous enhancement of profitability and corporate value based on three guiding principles—selectively focusing resources on strategic businesses; emphasizing quality over quantity; and employing prudent risk management.

## h K V G C C n

1. Always look at the bigger picture. Think and act from a long-term, global perspective.
2. Meet difficult challenges head-on. Aim high and never be afraid to try something new.
3. Be driven by your aspirations and goals. Work toward success by always dedicating yourself to your tasks.
4. Earn the trust of the community through high ethical standards and the example you set for others.
5. Keep striving for self-improvement. Act on your own initiative as a confident professional.
6. Be a part of Team Kawasaki. Share your pride and sense of fulfillment in a job well done.

## Review of Operations

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The Shipbuilding segment secured orders amounting to ¥85.6 billion, up ¥16.1 billion, or 23.2% from the interim period of the previous year. Orders were received for two LPG carriers and 11 bulk carriers.

Sales rose ¥35.4 billion, or 84.0% year on year, to ¥77.5 billion, mainly due to the fact that the segment delivered one

LPG carrier, one VLCC, and two bulk carriers, for a total of four vessels. Operating income amounted to ¥2.3 billion compared with an operating loss of ¥2.1 billion in the same period of the previous year. This major improvement in profitability was due to higher sales and improvement in margins.



### R n & C n

Orders received during the interim period included those for Shinkansen trains for Japan Railways companies and additional orders for subway cars from North American customers. However, the total value of orders declined ¥34.5 billion, or 22.1% from the interim period of the previous fiscal year, to ¥121.6 billion, reflecting the large orders for commuter

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trains from North America during the same period of the previous fiscal year.

Sales were down ¥16.7 billion, or 19.2% year on year, to ¥70.2 billion, despite an increase in domestic sales, as sales to overseas customers declined. Operating income fell ¥5.0 billion, or 81.1% from the same period of the previous year, to ¥1.2 billion, reflecting the decline in sales.



### A

Orders received increased ¥3.6 billion, or 5.1% year on year, to ¥73.7 billion, because of new orders from the Boeing Company for component parts for Boeing 777 and 787 passenger aircraft.

Sales rose ¥3.8 billion, or 3.3% from the same period a year earlier, to ¥118.2

billion, because of an increase in sales of component parts for the Boeing 777 passenger aircraft and other factors. Operating income leapt ¥5.6 billion, or 109.7% year on year, to ¥10.7 billion, because of an improvement in margins due to a weaker yen against the U.S. dollar and other developments.



## General Machinery

Compared with the interim period of the previous fiscal year, orders obtained by this segment declined ¥5.8 billion, or 5.8%, to ¥93.5 billion. Although orders were received for components for commercial aircraft engines, including the V2500 and Trent, diesel engines for ships, gas turbine power generation systems, and natural gas compression modules, orders for certain other products, including

marine steam turbines, declined.

Sales, however, were up ¥3.8 billion, or 4.7% over a year earlier, to ¥84.3 billion, as revenues from the sale of components for commercial aircraft engines expanded. Operating income rose ¥0.9 billion, or 18.1%, to ¥5.7 billion, as segment sales expanded.



## Power & Environment

Orders for the interim period under review fell ¥53.5 billion, or 56.3% from the previous year, to ¥41.6 billion, reflecting the absence of major orders for cement plants, ferronickel refining plants, and other project orders that were received during the interim period of the previous fiscal year.

Sales declined ¥2.5 billion, or 4.7% from a year earlier, to ¥49.6 billion, because of

## Environment

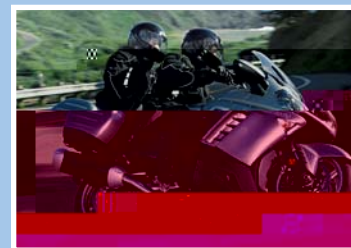
lower sales from municipal refuse incineration plants. Profitwise, operating income for the interim period amounted to ¥1.4 billion, a major improvement from an operating loss of ¥3.7 billion a year earlier. This improvement was due to the improvements in efficiency resulting from the merger of the Group's plant and environmental engineering companies and the reduction in the number of loss-making projects.



## Consumer Products & Machinery

Sales increased ¥22.6 billion, or 11.9% year on year, to ¥212.5 billion. Although sales of motorcycles in North America decreased, sales of motorcycles in Europe expanded, and sales of industrial robots

to automotive-related and semiconductor-related manufacturers rose. Operating income climbed ¥1.4 billion, or 13.0%, to ¥12.3 billion, accompanying the growth in sales.



## Other

Sales of this segment rose ¥7.3 billion, or 9.2%, to ¥87.1 billion, as sales of the hydraulics products for construction

machinery continued at a high level. Operating income rose ¥0.8 billion, or 17.4%, to ¥5.2 billion.



## R y G h n

Sales in Japan rose ¥31.3 billion, or 6.8% compared with the interim period of the previous fiscal year, to ¥491.0 billion, mainly owing to an increase in sales of the parent company. Operating income climbed ¥18.4 billion, or 89.4%, to ¥38.9 billion.

In North America, sales decreased ¥1.4 billion, or 1.2%, to ¥118.2 billion, as a result of lower sales of motorcycles and other factors. The segment showed an operating loss of ¥3.5 billion, compared with operating income of ¥1.1 billion for the interim period of the previous fiscal year.

## F n n P n

Total assets at the end of the interim period were ¥1,322.8 billion, 2.6% lower than at the end of the previous fiscal year (March 31, 2007). Although inventories rose ¥16.6 billion accompanying the rise in the order backlog and active capital investment resulted in an increase in net property, plant and equipment of ¥4.7 billion, receivables, less allowance declined ¥52.8 billion as progress was made in the recovery of operating receivables.

Total liabilities declined 5.4%, to ¥1,005.2 billion. Although advances from customers increased ¥14.2 billion, notes payable and accounts payable declined ¥40.3 billion, and interest-bearing debt dropped ¥13.0 billion.

Net assets rose 7.5%, to ¥317.6 billion, mainly because of the interim net income.

Among cash flows, cash and cash equivalents (hereinafter, cash) declined ¥16.4 billion compared with the end of the previous fiscal year (March 31, 2007), to ¥22.8 billion. The condition of cash flows and the principal factors influencing

Sales in Europe expanded ¥21.0 billion, or 41.2%, to ¥72.0 billion, because of strong sales of motorcycles. Operating income posted a gain of ¥1.2 billion, or 65.3%, to ¥2.9 billion.

In Asia, sales jumped ¥4.7 billion, or 51.2%, to ¥13.9 billion. Operating income increased ¥0.4 billion, or 101.0%, to ¥0.8 billion.

In other areas, sales dropped ¥1.8 billion, or 28.9%, to ¥4.5 billion, while operating income amounted to ¥0.1 billion, approximately the same as for the interim period of the prior year.

their movements were as follows.

Net cash provided by operating activities amounted ¥24.0 billion, ¥34.8 billion higher than for the interim period of the previous fiscal year. Principal operating cash inflows were income before income taxes and minority interests amounting to ¥31.8 billion, depreciation and amortization of ¥17.6 billion, and a decrease in trade receivables of ¥58.5 billion. A major operating cash outflow was a decrease in accounts payable of ¥41.9 billion.

Net cash used for investing activities amounted to ¥20.2 billion, ¥6.5 billion lower than for the interim period of the previous year. The principal investment outflow was for the acquisition of property, plant and equipment.

Net cash used for financing activities was ¥20.8 billion. The principal outflow items were the repayment of long-term debt and cash dividends paid.

	Millions of yen			Thousands of U.S. dollars
	<b>September 30, 2007</b> <i>(unaudited)</i>	March 31, 2007	September 30, 2006 <i>(unaudited)</i>	<b>September 30, 2007</b> <i>(unaudited)</i>
<b>Assets:</b>				
Current assets:				
Cash on hand and in banks .....	¥ 23,177	¥ 39,351	¥ 25,006	\$ 200,788
Receivables, less allowance .....	389,823	442,577	429,542	3,377,138
Inventories .....	444,517	427,934	425,754	3,850,966
Other current assets .....	61,236	52,056	57,832	530,503
Total current assets .....	<b>918,753</b>	961,918	938,134	<b>7,959,395</b>
Investments and long-term loans, less allowance .....	103,417	96,994	86,015	895,928
Net property, plant and equipment .....	258,527	253,819	249,200	2,239,686
Intangible and other assets .....	42,082	45,249	45,751	364,568
Total assets .....	<b>¥1,322,779</b>	¥1,357,980	¥1,319,100	<b>\$11,459,577</b>
<b>Liabilities and net assets:</b>				
Current liabilities:				
Short-term borrowings and current portion of long-term debt .....	¥ 147,888	¥ 138,463	¥ 182,746	\$ 1,281,192
Payables .....	372,216	412,501	404,909	3,224,604
Advances from customers .....	138,683	124,445	111,846	1,201,447
Other current liabilities .....	110,133	131,097	122,631	954,110
Total current liabilities .....	<b>768,920</b>	806,506	822,132	<b>6,661,353</b>
Long-term liabilities:				
Long-term debt, less current portion .....	143,356	165,754	167,003	1,241,930
Others .....	92,876	90,342	85,795	804,609
Total long-term liabilities .....	<b>236,232</b>	256,096	252,798	<b>2,046,539</b>
Net assets:				
Common stock .....	104,265	103,188	92,106	903,275
Capital surplus .....	54,252	53,179	42,110	469,999
Retained earnings .....	137,454	125,799	107,457	1,190,800
Net unrealized gains on securities .....	23,148	19,342	12,720	200,537
Gains/losses on hedging items .....	(150)	(1,608)	(3,698)	(1,299)
Foreign currency translation adjustments .....	(7,041)	(9,417)	(11,620)	(60,998)
Treasury stock .....	(55)	(55)	(43)	(476)
Minority interests .....	5,754	4,950	5,138	49,847
Total net assets .....	<b>317,627</b>	295,378	244,170	<b>2,751,685</b>
Total liabilities and net assets .....	<b>¥1,322,779</b>	¥1,357,980	¥1,319,100	<b>\$11,459,577</b>



*Thousands of*

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	<i>Millions of yen</i>		<i>Thousands of</i>
	<b>2007</b>	<i>2006</i>	<i>U.S. dollars</i>
<b>Cash flows from operating activities:</b>			<b>2007</b>
Income before income taxes and minority interests .....	<b>¥31,837</b>	¥20,240	<b>\$ 275,812</b>
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization .....	<b>17,642</b>	14,879	<b>152,837</b>
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## Segment Information

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries  
For the six months ended September 30, 2007 and 2006 (unaudited)

### (a) Information by industry segment

	<i>Millions of yen</i>				
	<b>2007</b>				
	<i>External sales</i>	<i>Intersegment sales</i>	<i>Total sales</i>	<i>Operating expenses</i>	<i>Operating income</i>
Shipbuilding .....	¥ 77,480	¥ 932	¥ 78,412	¥ 76,111	¥ 2,301
Rolling Stock & Construction Machinery .....	70,244	591	70,835	69,674	1,161
Aerospace .....	118,247	868	119,115	108,422	10,693
Gas Turbines & Machinery .....	84,289	6,322	90,611	84,917	5,694
Plant & Infrastructure Engineering .....	49,647	6,802	56,449	55,043	1,406
Consumer Products & Machinery .....	212,512	2,577	215,089	202,769	12,320
Other .....	87,121	18,486	105,607	100,407	5,200
Total.....	699,540	36,578	736,118	697,343	38,775
Eliminations.....	—	(36,578)	(36,578)	(36,853)	275
Consolidated total .....	¥699,540	¥ —	¥699,540	¥660,490	¥39,050

	<i>Millions of yen</i>				
	<b>2006</b>				
	<i>External sales</i>	<i>Intersegment sales</i>	<i>Total sales</i>	<i>Operating expenses</i>	<i>Operating income (loss)</i>
Shipbuilding .....	¥ 42,107	¥ 1,296	¥ 43,403	¥ 45,456	¥ (2,053)
Rolling Stock & Construction Machinery .....	86,925	260	87,185	81,040	6,145
Aerospace .....	114,452	614	115,066	109,968	5,098
Gas Turbines & Machinery .....	80,509	7,941	88,450	83,629	4,821
Plant & Infrastructure Engineering .....	52,114	9,068	61,182	64,910	(3,728)
Consumer Products & Machinery .....	189,928	4,318	194,246	183,342	10,904
Other .....	79,817	20,224	100,041	95,611	4,430
Total.....	645,852	43,721	689,573	663,956	25,617
Eliminations.....	—	(43,721)	(43,721)	(43,666)	(55)
Consolidated total .....	¥645,852	¥ —	¥645,852	¥620,290	¥25,562

	<i>Thousands of U.S. dollars</i>				
	<b>2007</b>				
	<i>External sales</i>	<i>Intersegment sales</i>	<i>Total sales</i>	<i>Operating expenses</i>	<i>Operating income</i>
Shipbuilding .....	\$ 671,229	\$ 8,074	\$ 679,303	\$ 659,369	\$ 19,934
Rolling Stock & Construction Machinery .....	608,542	5,120	613,662	603,604	10,058
Aerospace .....	1,024,404	7,520	1,031,924	939,288	92,636
Gas Turbines & Machinery .....	730,217	54,769	784,986	735,658	49,328
Plant & Infrastructure Engineering .....	430,105	58,927	489,032	476,852	12,180
Consumer Products & Machinery .....	1,841,047	22,325	1,863,372	1,756,640	106,732
Other .....	754,752	160,150	914,902	869,852	45,050
Total.....	6,060,296	316,885	6,377,181	6,041,263	335,918
Eliminations.....	—	(316,885)	(316,885)	(319,267)	2,382
Consolidated total .....	\$6,060,296	\$ —	\$6,060,296	\$5,721,996	\$338,300



(c) Overseas sales

	<i>Millions of yen</i>		<i>Millions of yen</i>		<i>Thousands of</i>
		<i>%</i>		<i>%</i>	<i>U.S. dollars</i>
	<b>2007</b>		<i>2006</i>		<b>2007</b>
	<i>Overseas sales</i>	<i>% of net sales</i>	<i>Overseas sales</i>	<i>% of net sales</i>	<i>Overseas sales</i>
North America .....	<b>¥162,065</b>	<b>23.1%</b>	¥155,019	24.0%	<b>\$1,404,011</b>
Europe .....	<b>81,694</b>	<b>11.6%</b>	57,932	8.9%	<b>707,736</b>
Asia .....	<b>64,742</b>	<b>9.3%</b>	96,354	15.0%	<b>560,877</b>
Other areas.....	<b>77,624</b>	<b>11.1%</b>	60,221	9.3%	<b>672,477</b>
Total.....	<b>¥386,125</b>	<b>55.1%</b>	¥369,526	57.2%	<b>\$3,345,101</b>

## Net Sales, Orders and Order Backlog by Industry Segment

For the six months ended September 30, 2007 and 2006 (unaudited)

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
<b>Net sales:</b>			
Shipbuilding.....	¥ 77,480	¥ 42,107	\$ 671,229
Rolling Stock & Construction Machinery.....	70,244	86,925	608,542
Aerospace.....	118,247	114,452	1,024,404
Gas Turbines & Machinery .....	84,289	80,509	730,217
Plant & Infrastructure Engineering.....	49,647	52,114	430,105
Consumer Products & Machinery .....	212,512	189,928	1,841,047
Other.....	87,121	79,817	754,752
Total.....	¥699,540	¥645,852	\$6,060,296

<b>Orders received:</b>			
Shipbuilding.....	¥ 85,631	¥ 69,507	\$ 741,844
Rolling Stock & Construction Machinery.....	121,605	156,102	1,053,496
Aerospace.....	73,726	70,175	638,707
Gas Turbines & Machinery .....	93,527	99,313	810,249
Plant & Infrastructure Engineering.....	41,557	95,093	360,019
Consumer Products & Machinery .....	212,512	189,928	1,841,047
Other.....	96,278	83,726	834,080
Total.....	¥724,836	¥763,844	\$6,279,442

	Millions of yen			Thousands of U.S. dollars
	As of September 30, 2007	As of March 31, 2007	As of September 30, 2006	As of September 30, 2007
<b>Order backlog:</b>				
Shipbuilding .....	¥ 320,643	¥ 313,987	¥ 315,263	\$ 2,777,813
Rolling Stock & Construction Machinery .....	492,077	434,419	412,985	4,262,991
Aerospace .....	241,623	286,699	256,954	2,093,243
Gas Turbines & Machinery .....	224,028	216,886	214,002	1,940,813
Plant & Infrastructure Engineering.....	163,996	172,255	187,030	1,420,740
Consumer Products & Machinery .....	—	—	—	—
Other.....	50,066	40,909	38,726	433,734
Total.....	¥1,492,433	¥1,465,155	¥1,424,960	\$12,929,334

**Exchange Listings:**

Nagoya

**Publication of Notices:**

o.jp

Publication of notices of the Corporation shall be made on the Corporation's website. Provided, if the Corporation is unable to make publication of notice due to an accident or other reasons, the notice shall be inserted in the *Nihon Keizai*

and Banking Company, Limited

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Company (K.S.)  
Company

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