

**Report of Earnings and Financial Statements for the  
Three Months Ended June 30, 2011 (Consolidated)**  
(Prepared pursuant to Japanese GAAP)

July 29, 2011

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

## 2. Dividends

Record date or term	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	End of financial year	Full year
Year ended March 31, 2011	yen -	yen 0.00	yen -	yen 3.00	yen 3.00
Year ending March 31, 2012	-				
Year ending March 31, 2012 (forecast)		0.00	-	4.00	4.00

Note: Revisions to the most recently announced dividend forecast: None

## 3. Forecast of Consolidated Earnings for the Year Ending March 31, 2012

(April 1, 2011 – March 31, 2012)

(Percentage figures represent changes versus the year-ago period)

	Net sales		Operating income		Recurring profit		Net income		Earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
For six months ending September 30, 2011	650,000	13.6	20,000	(4.3)	21,000	(1.1)	12,000	(2.7)	7.18
Full year	1,360,000	10.8	50,000	17.2	52,000	5.8	32,000	23.2	19.15

Note: Revision to the most recently announced earnings forecast: None

## 4. Other Information

1) Changes affecting the status of material subsidiaries (scope of consolidation): None

\*This refers to additions and removals of material subsidiaries to and from the consolidated group during the period. For further details, see “Changes affecting the status of material subsidiaries (scope of consolidation)” on page 7 in the Accompanying Materials.





## **1. Qualitative Information and Financial Statements**

### **(1) Consolidated operating results**

In the three months to June 30, 2011 (first quarter of the fiscal year ending March 31, 2012), Japan's economy continued to tread water, and the business environment facing the KHI Group remained adverse due to factors including the yen appreciation trend and sharply rising materials prices. The economic outlook for Japan remains uncertain due to a slump in personal consumption and the impact on production activities of electricity supply constraints in the aftermath of the Great East Japan Earthquake of March 11.

The global economy showed a general recovery trend supported by vigorous growth in China and other emerging markets, despite concerns about prolonged balance sheet adjustments in the US and sovereign debt risk in some European countries. In these circumstances, a key challenge will be suppression of inflationary pressure against a backdrop of robust demand, principally in emerging markets.

In this operating environment, the Group achieved higher overall sales and profits in the fiscal first quarter, despite year-on-year decreases in sales or profits in some businesses. Overall orders received decreased, as large order increases in the Ship & Offshore Structure and Precision Machinery segments failed to compensate for a decrease in orders in the Rolling Stock segment, a business in which large orders were booked in the previous first quarter. Overall sales rose on increases in the Precision Machinery, Aerospace, and Plant & Infrastructure segments, despite decreases in other segments. Overall profits increased, albeit slightly, due to higher profits and improvement in the Precision Machinery and Aerospace segments, which offset decreases in other segments.

As a result, in the first quarter of the fiscal year, orders received fell ¥78.3 billion year on year to ¥251.1 billion on a consolidated basis. Net sales increased ¥14.1 billion year on year to ¥291.5 billion. Operating income edged up ¥0.7 billion to ¥12.3 billion, ordinary income rose ¥3.2 billion to ¥14.6 billion, and net income increased ¥3.6 billion to ¥9.5 billion.

Consolidated segment information for the first quarter of the fiscal year is summarized below.

### **Segment Information**

#### **Ship & Offshore Structure**

Consolidated orders received totaled ¥17.0 billion on orders for 5 bulk carriers, a ¥15.3 billion increase from the year-earlier period, when no newbuild orders were received.

Consolidated net sales totaled ¥27.7 billion, down ¥0.9 billion from the year-earlier period.

Consolidated operating income decreased ¥2.3 billion year on year to ¥0.9 billion due to factors including an increase in provision for losses on construction contracts.

### **Rolling Stock**

Consolidated orders received decreased ¥78.9 billion year on year to ¥22.6 billion in the absence of a large order from overseas received in the previous fiscal first quarter.

Consolidated net sales were down ¥0.8 billion year on year to ¥25.8 billion.

Consolidated operating income fell ¥1.7 million year on year to ¥0.0 billion due to factors including the impact of yen appreciation.

### **Aerospace**

Consolidated orders received were down ¥5.9 billion year on year to ¥30.6 billion, largely as a result of lower orders from Japan's Ministry of Defense.

Consolidated net sales rose ¥5.8 billion year on year to ¥40.0 billion. The increase is largely attributable to higher sales to the Ministry of Defense and an increase in sales of Boeing 777 component parts.

Consolidated operating loss was ¥0.8 billion, an improvement of ¥0.9 billion year on year largely attributable to sales growth. Yen appreciation had a severe negative impact on profitability.

### **Gas Turbine & Machinery**

Consolidated orders received totaled ¥31.3 billion, a ¥1.7 billion decrease from the year-ear2 Mini38 TD6s(1 Tf0 Tw[Conso Tw(1 Tw4(someted orders r)5.5b totaled7432illion )T

Consolidated operating income fell ¥0.4 billion to ¥0.3 billion, largely as a result of lower sales.

### **Precision Machinery**

Consolidated orders received increased ¥8.4 billion year on year to ¥43.4 billion, mainly due to growth in orders for hydraulic equipment from construction machinery makers.

Consolidated net sales rose ¥12.6 billion year on year to ¥40.4 billion, driven largely by growth in hydraulic equipment sales to construction machinery makers and sales of clean robots for semiconductor production facilities.

Consolidated operating income grew ¥3.1 billion year on year to ¥7.1 billion, largely as a result of higher sales.

### **Other Operations**

Consolidated net sales increased ¥3.9 billion year on year to ¥28.4 billion.

Consolidated operating income rose ¥0.8 billion year on year to ¥0.9 billion.

## **(2) Consolidated financial position**

At June 30, 2011, consolidated assets totaled ¥1,312.5 billion, an increase of ¥41.6 billion from March 31, 2011. The increase is largely attributable to a decrease in trade receivables in conjunction with collection of sales receipts. Consolidated liabilities decreased from March 31, 2011 by ¥46.7 billion to ¥1,010.0 billion due to a decrease in trade payables. Interest-bearing debt as of June 30 was ¥445.8 billion, a ¥16.6 billion increase from March 31, 2011. Consolidated net assets increased ¥5.0 billion from March 31, 2011 to ¥302.5 billion at

**(2) Accounting procedures specific to preparation of quarterly consolidated financial statements**

The Company calculates tax expense by rationally estimating its effective tax rate after application of deferred-tax accounting to pretax net income for the fiscal year, which includes the first quarter under review, and multiplying quarterly pretax net income by said estimated effective tax rate. If unable to use the estimated effective tax rate, the Company calculates tax expense by multiplying the statutory effective tax rate by quarterly pretax net income adjusted to reflect material differences other than temporary differences.

Income taxes are reported inclusive of income tax adjustments.

**(3) Changes in accounting policies, changes in accounting estimates, and correction of errors**

Not applicable



### 3. Consolidated Financial Statements

#### (1) Consolidated balance sheets

	Millions of yen	
	As of March 31, 2011	Three months ended June 30, 2011
<b>Assets</b>		
Current assets		
Cash on hand and in banks	47,233	28,870
Trade receivables	401,753	355,500
Merchandise and finished products	50,528	42,566
Work in process	285,977	311,544
Raw materials and supplies	88,817	87,241
Other current assets	80,239	80,830
Allowance for doubtful receivables	(2,829)	(3,015)
	<b>Total current assets</b>	<b>903,537</b>
Fixed assets		

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Accumulated other comprehensive income		
Net unrealized gains (losses) on securities	3,876	3,652
Deferred gains (losses) on hedges	(990)	(421)
Foreign currency translation adjustment	(31,006)	(30,674)
Total accumulated other comprehensive income	(28,119)	(27,443)

## (2) Consolidated statements of income and comprehensive income

### Consolidated statements of income

	Millions of yen	
	Three months ended June 30, 2010	Three months ended June 30, 2011
Net sales	277,387	291,579
Cost of sales	231,766	244,360
Gross profit	45,620	47,218
Selling, general and administrative expenses		
Salaries and benefits	9,311	9,668
R&D expenses	7,329	7,009
Provision for doubtful accounts	-	195
Other	17,322	17,971
Total selling, general and administrative expenses	33,963	34,844
Operating income (loss)	11,657	12,373
Non-operating income		
Interest income	506	367
Dividend income	342	321
Equity in income of non-consolidated subsidiaries and affiliates	2,275	2,098
Foreign exchange gain, net		313
Other	1,298	1,218
Total non-operating income	4,423	4,318
Non-operating expenses		
Interest expense	1,202	1,104
Foreign exchange loss, net	952	
Loss on valuation of securities	1,547	7
Other	991	910
Total non-operating expenses	4,694	2,022
Recurring profit (loss)	11,386	14,669
Extraordinary losses		
Loss on impairment of fixed assets	-	564
Loss on adjustment for changes of accounting standard for asset retirement obligations	270	-
Provision for doubtful accounts of affiliates	215	-
Total extraordinary losses	485	564
Income (loss) before income taxes and minority interests	10,901	14,104
Income taxes	4,579	3,946
Income before minority interests	6,322	10,158
Minority interests in net income of consolidated subsidiaries	438	599
Net income (loss)	5,883	9,558

### Consolidated statements of comprehensive income

Millions of yen  
Three months ended  
438 599

**(3) Notes on the going-concern assumption**

Not applicable

**(4) Segment information and others**

Notes: 1. Breakdown of adjustments:

	Millions of yen
Income	Amount
Intersegment transactions	47
Corporate expenses*	(563)
Total	(515)

\* Corporate expenses mainly comprise general and administrative expenses not attributed to reportable segments.

2. Segment income adjustments are based on operating income reported on the quarterly consolidated statements of income for the corresponding period.

(2) Impairment loss on fixed assets and goodwill by reportable segment

Not applicable

**(5) Notes on significant changes in the amount of shareholders' equity**

Not applicable

#### **4. Supplementary information**

**(1) Condensed consolidated cash flow statements**

	Millions of yen	
	Three months ended June 30, 2010	Three months ended June 30, 2011
Cash flow from ope		

**Net sales**

	Three months ended June 30, 2010		Three months ended June 30, 2011		Year ended March 31, 2011	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	28,659	10.3	27,751	9.5	118,416	9.6
Rolling Stock	26,680	9.6	25,878	8.8	131,104	10.6
Aerospace	34,211	12.3	40,029	13.7	196,876	16.0