

**Financial Results for Third Quarter FY 2010
(for the year ending March 31, 2011)**

January 31, 2011

Kawasaki Heavy Industries, Ltd.



Table of Contents

I. Consolidated Results for Third Quarter FY2010		II. Forecast for FY2010	
◇ Summary of Financial Results	1	◇ Consolidated Operating Performance	13
◇ Details of Change in Profit I	2	◇ Forecast by Segment	14
◇ Details of Change in Profit II	3	◇ R&D/CAPEX/Number of Employees	15
◇ Financial Results by Segment	4	(Note) Change in Segment Information	16
Ship & Offshore Structure	5	Disclosure	
Rolling Stock	6		
Aerospace	7		
Gas Turbine & Machinery	8		
Plant & Infrastructure	9		
Motorcycle & Engine	10		
Precision Machinery	11		
◇ Financial Condition and Cash Flows	12		

I. Consolidated Results for Third Quarter FY2010

Summary of Financial Results

(Billion Yen / In accumulated amount)

	FY2009 3Q	FY2010 3Q	Change
Orders Received	649.9	874.0	+ 224.1
Net Sales	798.0	870.5	+ 72.4
Operating Income/Loss	- 14.0	38.7	+ 52.7
Recurring Profit/Loss	- 5.5	45.2	+ 50.7
Net Income/Loss	- 10.3	28.1	+ 38.4

vs. FY2009 3Q

< Orders Received >

Significant increase as a whole mainly due to large-scale orders received in Rolling Stock Segment

< Net Sales >

Increase as a whole due to a significant sales increase in Precision Machinery segment with growth in hydraulic components sales to emerging construction machinery markets

< Profits >

Profit improved significantly as a whole due to the effects of sales increase in Precision Machinery segment and the measures to improve profitability, such as fixed cost reduction, in Motorcycle & Engine segment and other factors, despite the adverse impact of the appreciation of the yen

Exchange Rates (weighted-average)

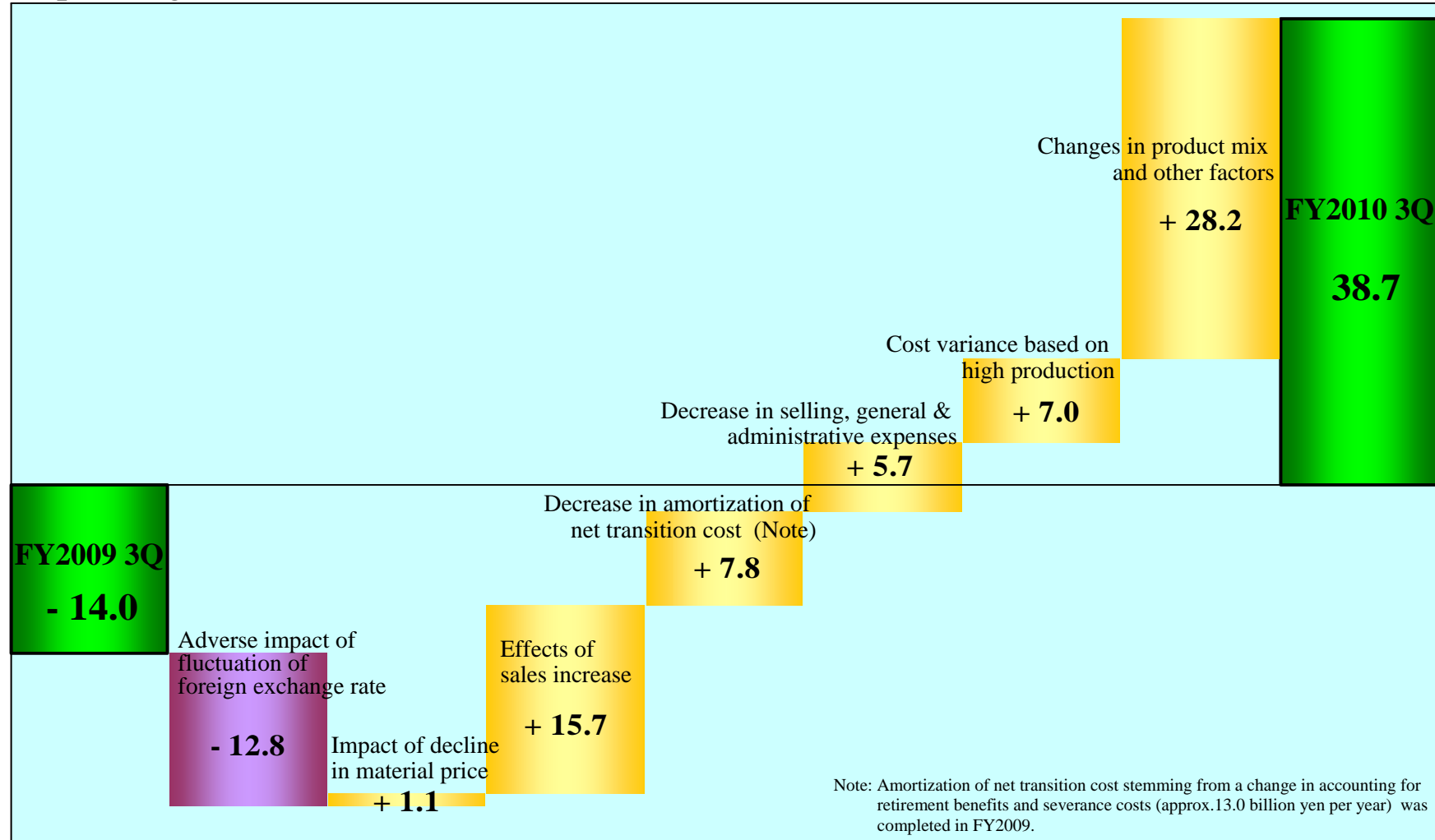
Yen / US\$	95	88
Yen / EUR	132	115

Details of Change in Profit I

- FY2010 3Q vs. FY2009 3Q -

(Billion Yen / In accumulated amount)

【Operating Income/Loss】 + 52.7 (FY2009 3Q - 14.0 → FY2010 3Q 38.7)



Details of Change in Profit II

- FY2010 3Q vs. FY2009 3Q -

(Billion Yen / In accumulated amount)

【Non-operating Income/Expenses】 - 2.0 (FY2009 3Q 8.5 → FY2010 3Q 6.4)

Net Interest expense (incl. dividend income)	- 0.4 (- 1.2 → - 1.6)
Equity in income of unconsolidated subsidiaries and affiliates	+ 2.7 (4.3 → 7.0)
Gain and loss on foreign exchange	- 6.1 (6.7 → 0.5)
Others	+ 1.8 (- 1.3 → 0.5)

【Extraordinary Income/Losses】 + 6.6 (FY2009 3Q - 7.1 → FY2010 3Q - 0.5)

Provision for losses on damages suit	+ 6.9 (- 6.9 → 0)
Others	- 0.3 (- 0.2 → - 0.5)

Financial Results by Segment

(Billion Yen / In accumulated amount)

	Orders Received			Net Sales			Operating Income/Loss		
	FY2009 3Q	FY2010 3Q	Change	FY2009 3Q	FY2010 3Q	Change	FY2009 3Q	FY2010 3Q	Change
Ship & Offshore Structure	10.4	67.2	+ 56.7	111.7	93.2	- 18.5	0.8	4.9	+ 4.1
Rolling Stock	55.5	124.1	+ 68.6	110.5	95.5	- 14.9	5.2	5.9	+ 0.6
Aerospace	79.9	123.7	+ 43.7	119.3	135.0	+ 15.6	0.3	2.0	+ 1.6
Gas Turbine & Machinery	138.5	113.6	- 24.9	128.8	149.6	+ 20.7	3.9	9.6	+ 5.6
Plant & Infrastructure	98.7	105.4	+ 6.7	59.0	56.4	- 2.5	0.7	4.6	+ 3.9
Motorcycle & Engine	144.0	159.2	+ 15.1	144.0	159.2	+ 15.1	- 21.1	- 2.6	+ 18.4
Precision Machinery	54.8	106.7	+ 51.8	55.4	99.0	+ 43.5	0.7	14.6	+ 13.9
Others	67.6	73.8	+ 6.2	69.0	82.2	+ 13.2	- 0.9	1.6	+ 2.6
Eliminations and corporate	-	-	-	-	-	-	- 3.8	- 2.3	+ 1.5
Total	649.9	874.0	+ 224.1	798.0	870.5	+ 72.4	- 14.0	38.7	+ 52.7

Note I: FY2009 figures are the recalculated figures based on the new industry segmentation and the new accounting standard which have been adopted since FY2010 → [Refer to Page 16](#)

Note II: "Eliminations and corporate" includes some expenses incurred at Head Office which were not allocated to each industry segment for internal reporting

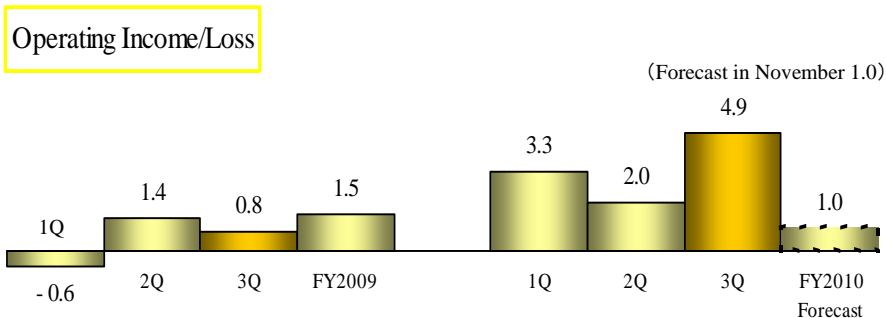
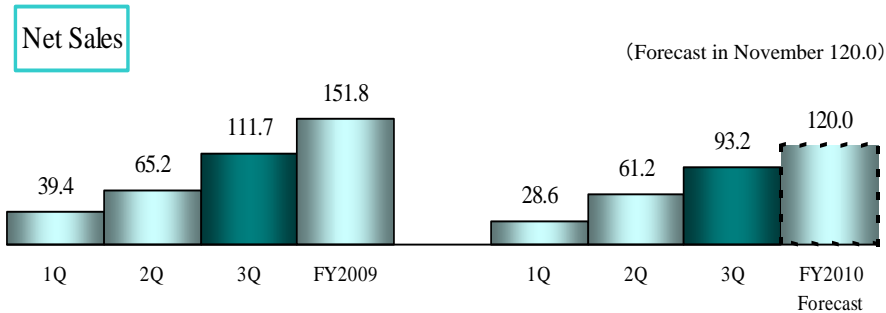
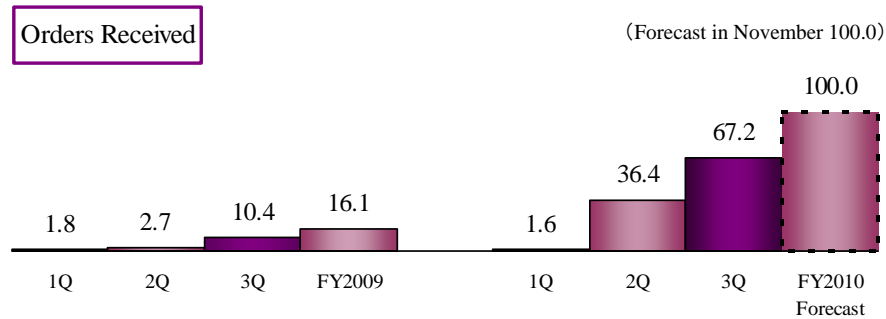
Ship & Offshore Structure

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

Note I : Segment denomination has changed from “Shipbuilding” to “Ship & Offshore Structure” in accordance with reorganization of company structure as of October 1, 2010

Note II: FY2009 Operating Income is the recalculated figures based on the new accounting standard which has been adopted since FY2010 → **Refer to Page 16**

(Billion Yen / In accumulated amount)



◇ **FY2010 3Q** (vs. FY2009 3Q)

Orders Received: Significant increase due to orders received of a submarine and 10 bulk carriers

Net Sales: Decrease in sales of large-scale vessels

Operating Income/Loss: Income improved due to profitability improvement and other factors, despite increase in provision for losses on construction contracts

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

	Orders Received		Sales	
	FY2009 3Q	FY2010 3Q	FY2009 3Q	FY2010 3Q
LNG carriers			5(2)	3(2)
Small-sized LNG carriers	1			1(1)
LPG carriers			2(2)	4(3)
VLCCs			1(0)	
Bulk carriers		10	10(6)	22(16)
Submarines		1	2(2)	2(2)
Total	1	11	20(12)	32(24)

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

◇ **FY2010 Forecast** (vs. Forecast in November)

Orders received, net sales and operating income remain unchanged

◇ **(For Reference) Joint Venture in China**

NACKS was established in Nantong in December 1995, as a joint venture between KHI and China Ocean Shipping(Group) Company, the biggest shipping company in China and its capacity was expanded in 2008.

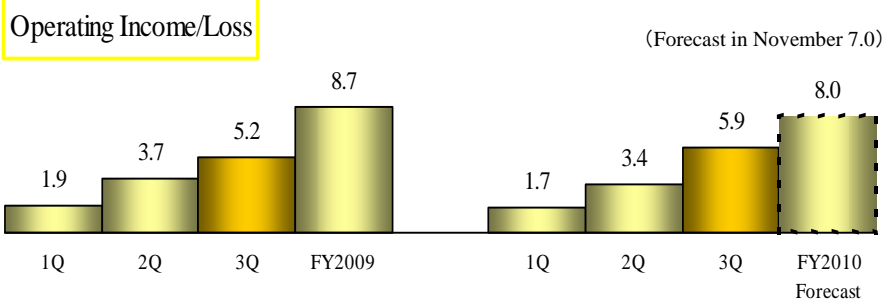
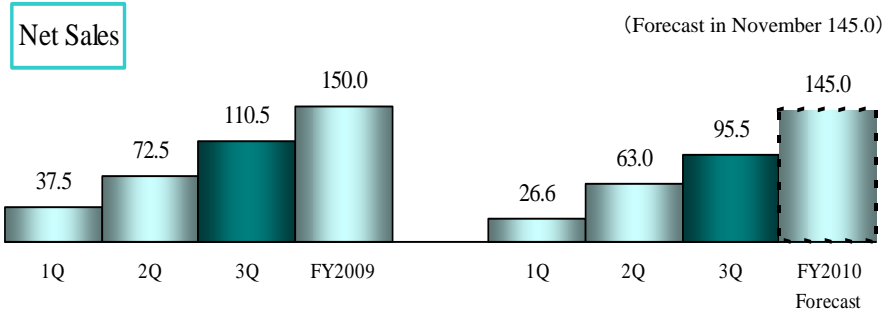
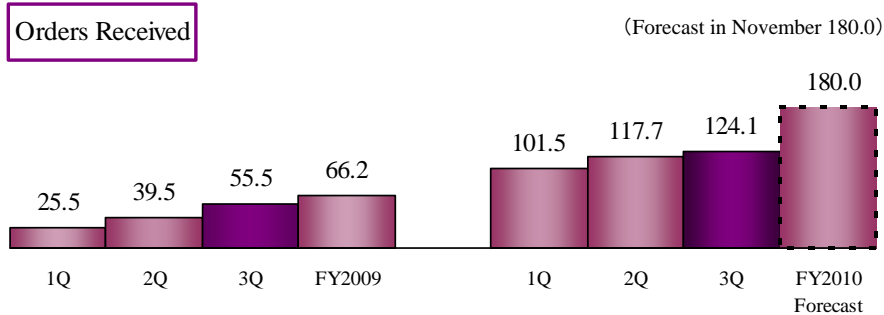
At NACKS, various types of commercial vessels such as very large-size container ships, VLCCs, bulk carriers and car carriers are built by utilizing two large-scale docks for both domestic and overseas customers under the technical support from KHI. (NACKS is an equity method affiliate.)

Rolling Stock

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

Note: FY2009 figures are the recalculated figures based on the new industry segmentation (excl. crushing machine) and the new accounting standard which have been adopted since FY2010 → [Refer to Page 16](#)

(Billion Yen / In accumulated amount)



◇ **FY2010 3Q** (vs. FY2009 3Q)

Orders Received: Significant increase due to large-scale orders received of subway cars for Washington Metropolitan Area Transit Authority

Net Sales: Decrease in sales for overseas market

Operating Income/Loss: Income increased due to profitability improvement and other factors, despite the adverse impact of sales decrease

◇ **FY2010 Forecast** (vs. Forecast in November)

- Orders received and net sales remain unchanged
- Operating income was revised up due to improvement in profitability by cost reduction, and other factors

◇ **(For Reference) The Present Status of New Overseas Projects**

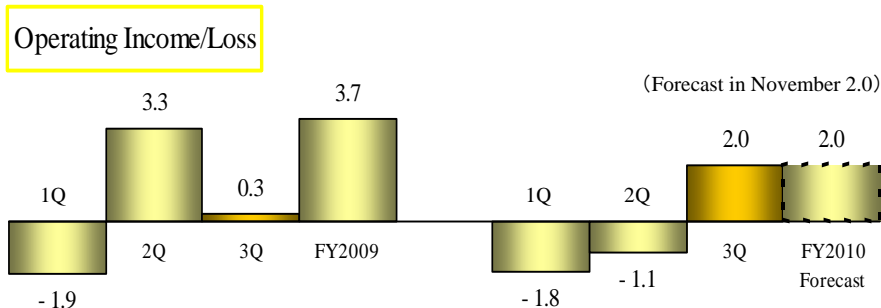
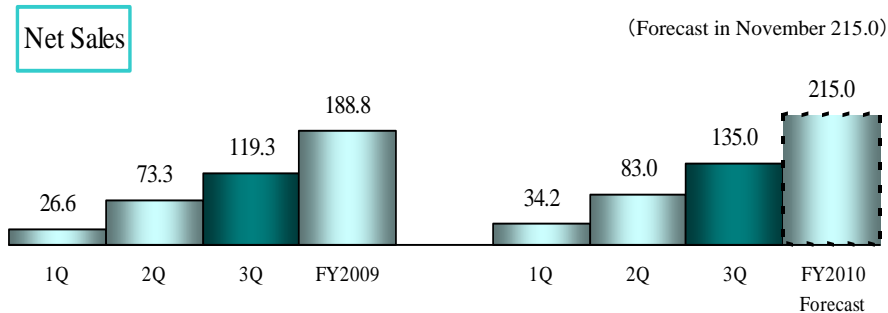
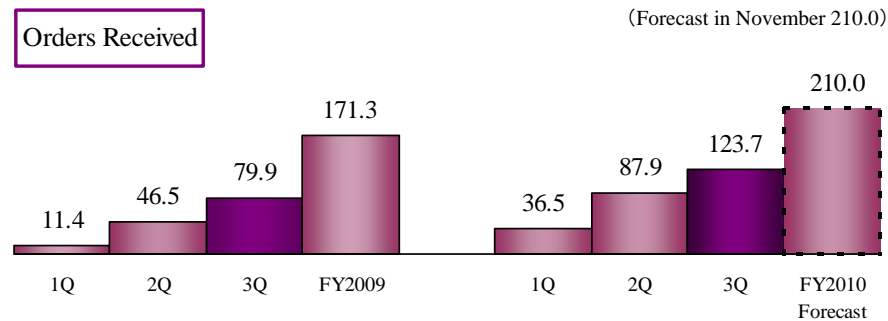
- ✓ North America
 - Working to win orders mainly for heavy rails and commuter rails
 - Light Rail Vehicles (LRVs) for U.S. market is currently under development
- ✓ High-speed railways
 - There are plans in U.S., Vietnam and other countries
- ✓ Dedicated Freight Corridor - Western Corridor Phase I (Delhi – Mumbai)
 - Japanese ODA project, working to win orders for electric locomotives
- ✓ E&M system projects in Asian region
 - Working with other companies

Aerospace

Main Products : Aircrafts for Japan Ministry of Defense, Component parts for commercial aircrafts (BOEING , Embraer), Missiles

Note: FY2009 Operating Income is the recalculated figures based on the new accounting standard which has been adopted since FY2010 → **Refer to Page 16**

(Billion Yen / In accumulated amount)



◇ **FY2010 3Q** (vs. FY2009 3Q)

Orders Received: Increase in orders received for component parts for BOEING including B777 and B787

Net Sales: Increase in sales for Japan Ministry of Defense (MOD) and sales of component parts for BOEING B787

Operating Income/Loss: Income increased due to sales increase and other factors, despite the adverse impact of the appreciation of the yen

◇ **FY2010 Forecast** (vs. Forecast in November)

Orders received, net sales and operating income remain unchanged

◇ **For Reference**

✓ **Aircrafts for Japan Ministry of Defense :** The #1 test XC-2 transport aircraft manufactured at Kawasaki's Gifu Works completed a successful first flight in January 2010, and was delivered to MOD on March 30, 2010 at the Works after a series of in-house testing. Also, the #2 test XC-2 transport aircraft manufactured at the Works completed a successful first flight on January 27, 2011.

✓ **Component parts for commercial aircrafts :** A new production facility (the South Plant) was completed in Kawasaki's Nagoya Works 1 in March, 2010 to support increasing production demands for the Boeing 787 Dreamliner. The South Plant is furnished with the same kind of state-of-the-art equipment that is used in the North Plant which an extension was completed in July 2006. The new facility will enable Kawasaki to perform integrated production that includes everything from composite component fabrication to forward fuselage assembly.

✓ **Space systems :** A payload fairing* for the H-IIB Launch Vehicle No.2 was shipped in November 2010.

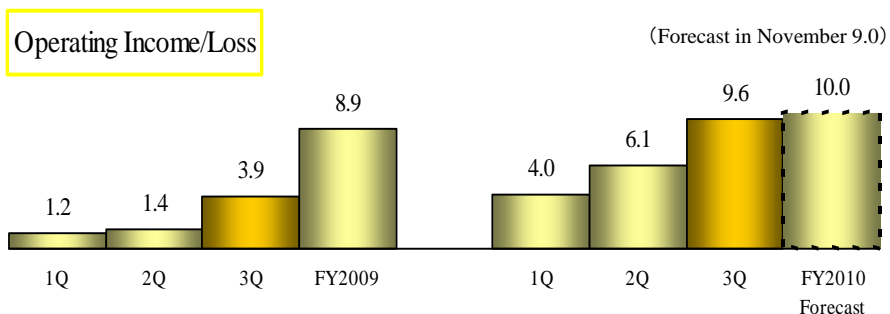
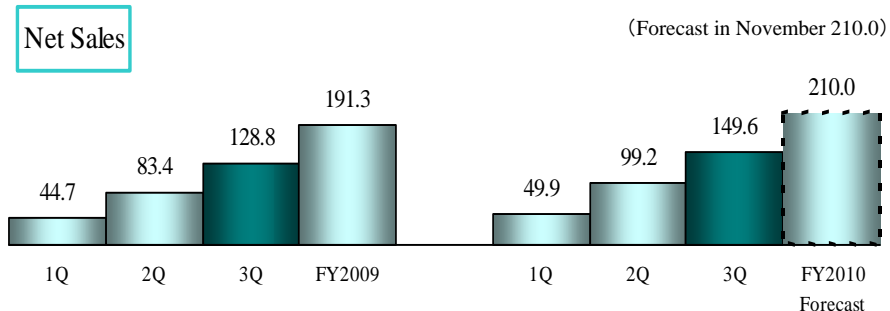
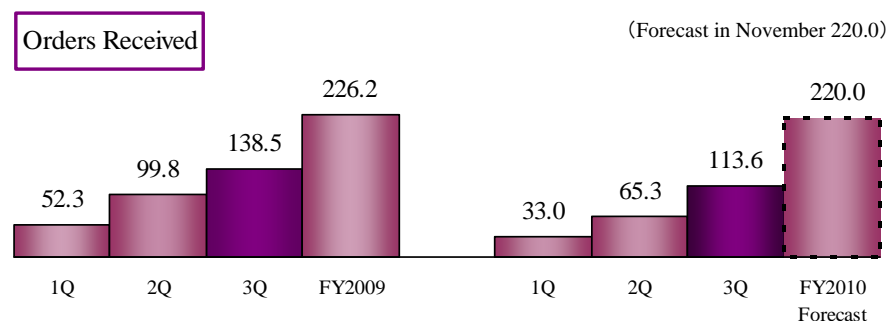
* Payload fairing is the enclosure for KOUNOTORI-2, unmanned cargo spacecraft loaded on H-IIB which was successfully launched on January 22, 2011.

Gas Turbine & Machinery

Main Products : Jet engines, Gas turbine co-generation system, Gas turbines & steam turbines for marine & land, Diesel engines, Marine propulsion system, Aero-dynamic machinery

Note: FY2009 Operating Income is the recalculated figures based on the new accounting standard which has been adopted since FY2010 → **Refer to Page 16**

(Billion Yen / In accumulated amount)



◇ **FY2010 3Q** (vs. FY2009 3Q)

Orders Received: Decrease in orders received for component parts for commercial aircraft jet engines that had a large order received in the same period last year, and for gas turbine-driven natural gas compressors

Net Sales: Increase in sales of gas turbine-driven natural gas compressors and sales for Japan Ministry of Defense

Operating Income/Loss: Income increased due to sales increase, and other factors

◇ **FY2010 Forecast** (vs. Forecast in November)

- Orders received and net sales remain unchanged
- Operating income was revised up due to cost reduction, and other factors

<Summary of Major Projects for Commercial Aircraft Jet Engines>

	V2500	Trent1000	TrentXWB
Aircraft	A320 and others	B787	A350
Participation Type	Full Partner	RRSP(※)	RRSP(※)
Share	Approx. 6%	Approx. 8.5%	Approx. 7%
Responsible Components	Fan case, vane, disc, low-pressure compressor blade	Intermediate pressure compressor (IPC) module	Intermediate pressure compressor (IPC) module

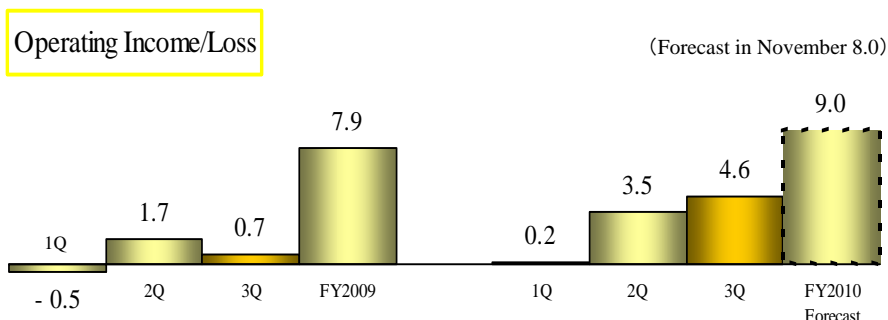
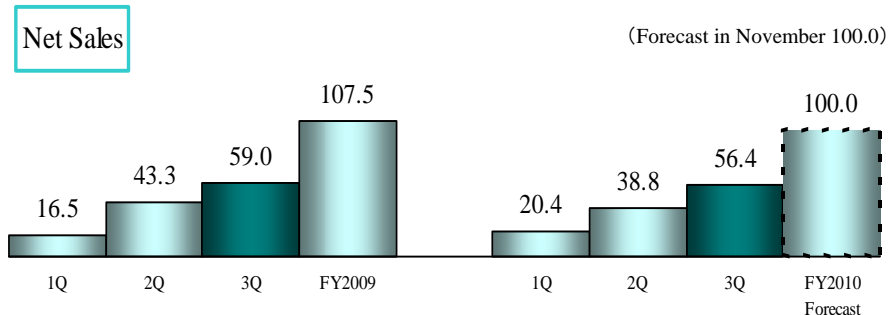
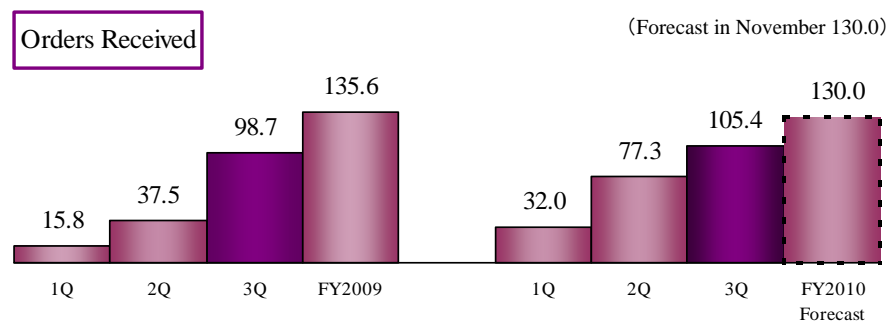
(※) Risk & Revenue Sharing Partner

Plant & Infrastructure

Main Products: Industrial plants (cement, chemical and others), Power plants, LNG & LPG tanks, Municipal refuse incineration plants, Shield machines, Crushing machines

Note: FY2009 figures are the recalculated figures based on the new industry segmentation (incl. crushing machine) and the new accounting standard which have been adopted since FY2010 → **Refer to Page 16**

(Billion Yen / In accumulated amount)



◇ **FY2010 3Q** (vs. FY2009 3Q)

Orders Received: Increase in orders received for various types of plants in both domestic and overseas markets

Net Sales: Decrease in large-scale projects for overseas customers

Operating Income/Loss: Income increased due to steady progress in some projects

◇ **FY2010 Forecast** (vs. Forecast in November)

- Orders received and net sales remain unchanged

- Operating income was revised up due to improvement in profitability by steady progress in some projects

◇ **(For Reference) Joint Ventures in China**

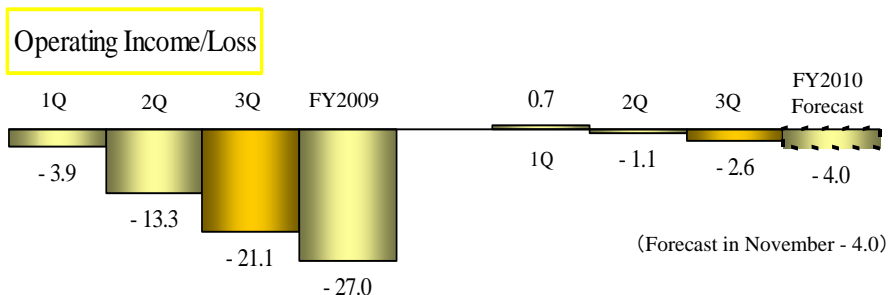
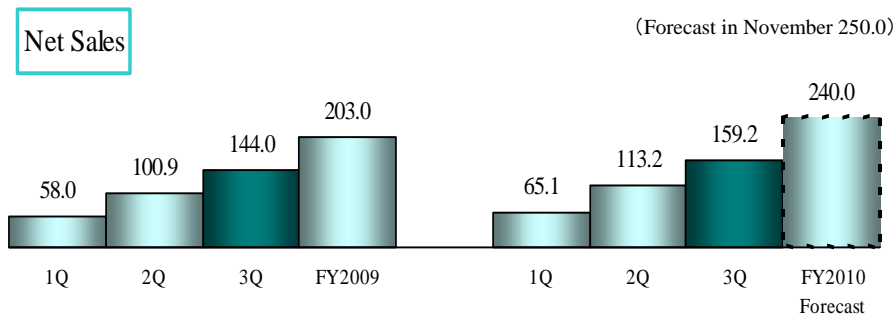
In 2006, KHI started a joint venture with Anhui Conch Cement Company Ltd., China's largest cement manufacturer. KHI has established three joint ventures for the time being and set up an integrated system in China encompassing the design, production, sales and after-sale services of waste heat recovery power generation systems for cement plants and cement producing facilities (Pre-heaters, Rotary Kilns and Roller Mills) with sophisticated technologies it has accumulated. KHI will contribute further to bring technologies such as a waste gasification system that can be integrated with cement kilns and a membrane sewage treatment system, for environment and energy conservation in China.

Motorcycle & Engine

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

Note: FY2009 figures are the recalculated figures based on the new industry segmentation (excl. industrial robots) and the new accounting standard which have been adopted since FY2010 → **Refer to Page 16**

(Billion Yen / In accumulated amount)



◇ **FY2010 3Q** (vs. FY2009 3Q)

Net Sales: Sales increase in Asian and other emerging countries, and other factors

Operating Income/Loss: Losses reduced significantly due to sales increase and the effects of business restructuring measures implemented through the previous fiscal year and other factors, despite the adverse impact of the appreciation of the yen

◇ **FY2010 Forecast** (vs. Forecast in November)

- Net sales was revised down due to slower-than-expected recovery of motorcycle demand in U.S. and European markets and the adverse impact of the appreciation of the yen

- Operating income/loss remains unchanged because the effects of improvement in profitability in Asian and other emerging markets offset the adverse impact of sales decrease in U.S. and European markets and the appreciation of the yen

<Wholesales by Geographic Area for Consumer Products>

(Thousands of unit / Billion Yen)

	FY2009 3Q		FY2009		FY2010 3Q		FY2010 Forecast	
	Unit	Amount	Unit	Amount	Unit	Amount	Unit	Amount
Domestic	13	10.2	17	12.9	10	8.2	16	12.4
North America (incl. Canada)	60(37)	42.1	80(49)	56.3	73(37)	53.2	121(70)	77.4
Europe	49	39.1	72	56.2	43	30.0	67	46.9
Emerging Countries & Others	159	31.9	228	45.1	195	43.8	284	62.1
Total	281	123.3	397	170.5	321	135.2	488	198.8

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.

◇ **For Reference**

- A joint venture, CK&K, was established in China with Kwang Yang Motor Co., Ltd.(KYMCO) of Taiwan for production and sales of general-purpose gasoline engines. Production started in January 2010. (CK&K is an equity method affiliate.)

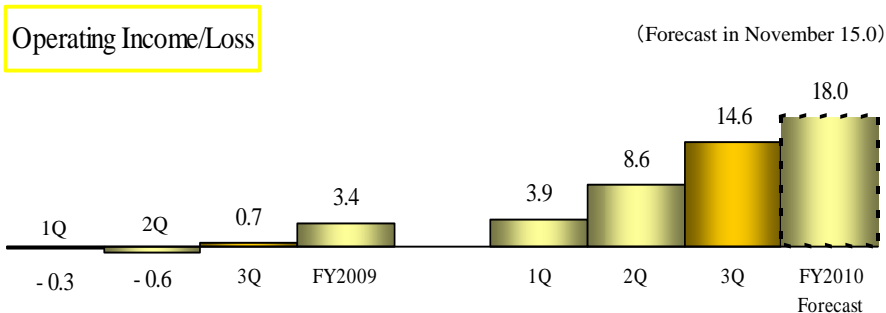
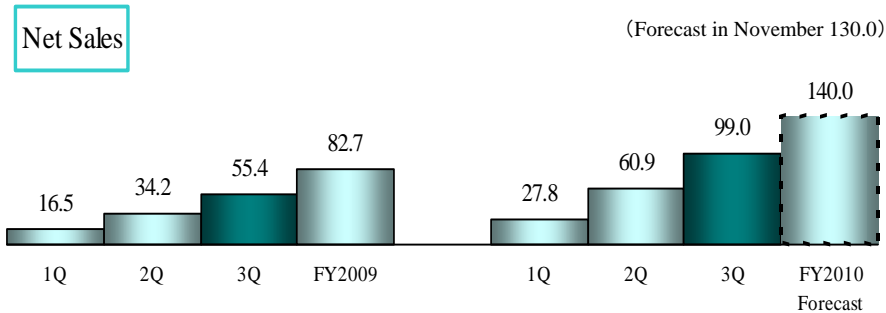
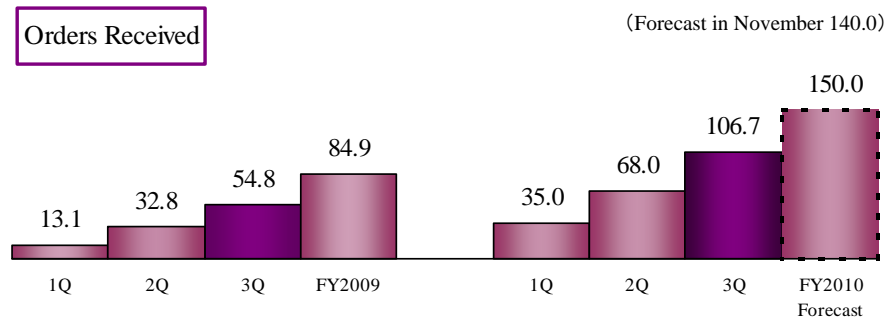
- New subsidiary, IKM, was established in India on July 1, 2010 to import and sell motorcycles.

Precision Machinery

Main Products: Hydraulic components (pumps, motors & valves), Hydraulic systems for industrial use, Hydraulic marine machinery, Industrial Robots

Note: FY2009 figures are the recalculated figures based on the new industry segmentation (incl. industrial robots) and the new accounting standard which have been adopted since FY2010 → **Refer to Page 16**

(Billion Yen / In accumulated amount)



◇ **FY2010 3Q** (vs. FY2009 3Q)

Orders Received : Increase in orders received for hydraulic components for construction machinery in emerging countries

Net Sales: Increase in sales of hydraulic components for construction machinery and industrial robots for manufacturers of semiconductor production equipments

Operating Income/Loss: Income improved due to improvement in profitability by sales growth and increased capacity utilization

◇ **FY2010 Forecast** (vs. Forecast in November)

- Orders received and net sales were revised up due to increase in hydraulic components for construction machinery in emerging countries

- Operating income was revised up due to the effects of sales increase and cost reduction, and other factors

◇ **(For Reference) Businesses Development in China**

In August 2006, production of hydraulic pumps started at Chinese subsidiary in Suzhou to meet the increasing demand in China. Also, in Zhejiang, a joint venture of hydraulic machinery manufacturing was established with a Chinese company and production started in April 2010. In order to provide the products manufactured at the above two manufacturing companies to customers throughout China, a sales subsidiary was established in Shanghai and its operation started in April 2010. Through establishment of the subsidiaries and a joint venture, we have consolidated our operating system to enhance our presence in Chinese construction machinery market in which a tremendous growth potential is expected, and to further expand and deepen our business operations.

Financial Condition and Cash Flows

【Financial Condition】

(Billion Yen)

	FY2009 End of March 2010	FY2010 End of December 2010
Total Assets	1,352.4	1,399.9
Shareholders' Equity (Ratio of shareholders' equity to total assets)	277.0 (20.4%)	291.1 (20.7%)
Interest-bearing debt (Net Interest-bearing debt)	428.9 (394.1)	525.0 (486.9)
Net Debt Equity Ratio	142%	167%

Note: Interest-bearing debt includes lease obligations

【Cash Flows】

(Billion Yen / In accumulated amount)

	FY2009 3Q	FY2010 3Q
Cash flows from operating activities	- 98.7	- 33.5
Cash flows from investing activities	- 52.6	- 41.5
Free Cash Flows	- 151.3	- 75.0
Cash flows from financing activities	151.6	78.0

II. Forecast for FY2010

Consolidated Operating Performance

(Billion Yen)

	FY2009	FY2010 Forecast		Change	
	Actual	in November	in January	vs. FY2009	vs. Forecast in November
Orders Received	1,001.2	1,340.0	1,340.0	+ 338.7	0
Net Sales	1,173.4	1,280.0	1,280.0	+ 106.5	0
Operating Income/Loss	- 1.3	32.0	40.0	+ 41.3	+ 8.0
Recurring Profit/Loss	14.2	32.0	46.0	+ 31.7	+ 14.0
Net Income/Loss	- 10.8	20.0	29.0	+ 39.8	+ 9.0

vs. Forecast in November

< Orders Received & Net Sales >

Orders received and net sales remain unchanged because the amount of decrease in Motorcycle & Engine segment that is affected by slow recovery of motorcycle demand in U.S. and European markets offsets the increased amount in Precision Machinery segment with growth in hydraulic components sales to emerging construction machinery markets

< Profits >

- Profits were revised up due to the effects of sales increase in Precision Machinery segment by active business development, and the company-wide measures to improve profitability, such as fixed cost reduction and improvement in productivity

- The amount of increase in recurring profit exceeds that of operating income due to the increase in equity in income of unconsolidated subsidiaries and affiliates, decrease in interest expense and other factors

Exchange Rates (actual & assumed)

Yen / US\$	93	83	83
Yen / EUR	130	115	110

Note : Assumed rates are applied to the outstanding foreign exchange exposure as of the respective disclosure date

(For Reference)

Impact on profit by FX fluctuation of 1 yen

(Billion Yen)

	Operating Income	Recurring Profit
US\$	2.0	2.0
EUR	0.3	0.1

Forecast by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income/Loss		
	FY2009	FY2010 Forecast		FY2009	FY2010 Forecast		FY2009	FY2010 Forecast	
	Actual	in November	in January	Actual	in November	in January	Actual	in November	in January
Ship & Offshore Structure	16.1	100.0	100.0	151.8	120.0	120.0	1.5	1.0	1.0
Rolling Stock	66.2	180.0	180.0	150.0	145.0	145.0	8.7	7.0	8.0
Aerospace	171.3	210.0	210.0	188.8	215.0	215.0	3.7	2.0	2.0
Gas Turbine & Machinery	226.2	220.0	220.0	191.3	210.0	210.0	8.9	9.0	10.0
Plant & Infrastructure	135.6	130.0	130.0	107.5	100.0	100.0	7.9	8.0	9.0
Motorcycle & Engine	203.0	250.0	240.0	203.0	250.0	240.0	- 27.0	- 4.0	- 4.0
Precision Machinery	84.9	140.0	150.0	82.7	130.0	140.0	3.4	15.0	18.0
Other	97.5	110.0	110.0	97.8	110.0	110.0	- 1.0	1.0	2.0
Eliminations and corporate	-	-	-	-	-	-	- 7.5	- 7.0	- 6.0
Total	1,001.2	1,340.0	1,340.0	1,173.4	1,280.0	1,280.0	- 1.3	32.0	40.0

Note I: FY2009 figures are the recalculated figures based on the new industry segmentation and the new accounting standard which have been adopted since FY2010 → **Refer to Page 16**

Note II: "Eliminations and corporate" includes some expenses incurred at Head Office which are not allocated to each industry segment for internal reporting

R&D/CAPEX/Number of Employees

(Billion Yen / Persons)

	FY2009 Actual	FY2010 Forecast	Change
R&D Expenses	38.0	40.5	+ 2.4
CAPEX (Construction Base)	59.2	70.0	+ 10.8
Depreciation & Amortization	51.4	51.0	- 0.4
Domestic	24,396	24,600	+ 204
Overseas	7,901	8,100	+ 199
Number of Employees	32,297	32,700	+ 403

(Note) Change in Segment Information Disclosure

<Change in Industry Segment and Segment Denomination>

Industry segment and segment denomination have been changed as stated below, in accordance with the new industry segmentation for internal reporting which has been adopted since April 2010.

Change in Industry Segment

Crushing Machine business unit :

(Previous) “Rolling Stock segment” → (Current) “Plant & Infrastructure Engineering segment”

* “Plant & Infrastructure segment” as of October 1, 2010

Industrial Robots business unit :

(Previous) “Consumer Products & Machinery segment” → (Current) “Precision Machinery segment”

Change in Segment Denomination

(Previous) “Consumer Products & Machinery segment” → (Current) “Motorcycle & Engine segment”

(Previous) “Hydraulic Machinery segment” → (Current) “Precision Machinery segment”

<Application of New Financial Accounting Standard for Segment Information Disclosure>

With the previous accounting standard, operating income by industry segment was presented with reflecting re-allocation of some expenses incurred at Head Office which were not allocated to each segment for internal reporting.

However, as a new accounting standard adopting "Management Approach" has applied since FY 2010 in Japan, such expenses will not have been re-allocated to each segment.

Accordingly, for the readers' convenience, recalculated FY2009 operating income based on the new accounting standard is presented on certain pages of this material to easily compare with the financial results for the previous fiscal year.

Kawasaki, Working as One for the Good of the Planet

Cautionary Statement

The performance outlook and the forecasts stated in this material were prepared by Kawasaki Heavy Industries, Ltd. (hereinafter, KHI) based on the circumstances at the release point, and include potential risks and uncertain factors that relate to economic conditions, foreign currency exchange rates, tax rules, regulations and other factors. Accordingly, please note that the actual operating results, financial position, and business deployment of KHI may sometimes differ considerably from the descriptions in the present projections.