

Financial Results for First Quarter FY2014 (for the year ending March 31, 2015)

July 30, 2014

Kawasaki Heavy Industries, Ltd.

 **Kawasaki**
Powering your potential

Table of Contents

I. Consolidated Results for First Quarter FY2014

◇ Summary of Financial Results	3
◇ Financial Results by Segment	4
◇ Summary of Income Statement	5
◇ Financial Results by Segment	
Ship & Offshore Structure	6
Rolling Stock	7
Aerospace	8
Gas Turbine & Machinery	9
Plant & Infrastructure	10
Motorcycle & Engine	11
Precision Machinery	12
◇ Summary of Balance Sheet	13
◇ Summary of Cash Flows	14

II. Forecast for FY2014

◇ Revision of Forecast for the Second Quarter (Accumulated) of FY2014	15
◇ Consolidated Operating Performance	16
◇ Forecast by Segment	17
◇ R&D/CAPEX/Number of Employees	18

III. Before-tax ROIC by Segment

◇ Before-tax ROIC by Segment	19
<Appendix 1> Historical Data	20
<Appendix 2> Supplementary Explanation about Kawasaki ROIC Management	21

Summary of Financial Results

(Billion Yen)

	FY2013.1Q	FY2014.1Q	Change
Orders Received	283.1	333.8	+50.7
Net Sales	282.5	304.1	+21.6
Operating Income	16.7	10.9	-5.8
Recurring Profit	9.4	6.6	-2.7
Net Income	4.4	5.4	+0.9

vs. FY2013.1Q

< Orders Received >

Increased as a whole due to increase in orders received in Rolling Stock and Plant & Infrastructure segments, despite decrease in Ship & Offshore and other segments

< Net Sales >

Increased as a whole due to increase in Aerospace and Gas Turbine & Machinery segments, despite decrease in Ship & Offshore, Motorcycle & Engine and other segments

< Profits >

- Operating income decreased compared to the previous same period where there was a large increase due to the reversal of provision for loss on construction contracts accompanying yen depreciation. Recurring profit decreased due to decrease in operating income, despite improvement in gain and loss on foreign exchange and other factors

- Net income increased due to decrease in tax expense

Weighted-average exchange rates

Yen / US\$	97.46	102.17
Yen / EUR	125.95	140.44

(For Reference)

Net Sales in Foreign Currencies for FY2014.1Q (Billion)

US\$	EUR
0.50	0.07

Financial Results by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2013 1Q	FY2014 1Q	Change	FY2013 1Q	FY2014 1Q	Change	FY2013 1Q	FY2014 1Q	Change
Ship & Offshore Structure	27.1	14.5	-12.5	21.0	18.3	-2.7	3.3	-0.4	-3.7
Rolling Stock	35.0	67.4	+32.3	30.5	30.4	-0	1.9	0	-1.8
Aerospace	41.5	41.9	+0.4	55.6	65.4	+9.7	7.5	6.2	-1.2
Gas Turbine & Machinery	35.6	43.2	+7.5	36.4	42.7	+6.3	0.8	2.0	+1.2
Plant & Infrastructure	16.6	35.2	+18.6	16.7	21.0	+4.3	-0.6	-0.4	+0.1
Motorcycle & Engine	67.4	64.8	-2.6	67.4	64.8	-2.6	2.4	0.2	-2.2
Precision Machinery	29.8	31.7	+1.8	25.1	30.6	+5.5	1.5	2.8	+1.2
Others	29.6	34.7	+5.0	29.4	30.5	+1.0	0.3	0.5	+0.2
Eliminations and corporate※	-	-	-	-	-	-	-0.7	-0.3	+0.4
Total	283.1	333.8	+50.7	282.5	304.1	+21.6	16.7	10.9	-5.8

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

Summary of Income Statement

(Billion Yen)

【 Operating Income 】 -5.8 (FY2013.1Q 16.7 → FY2014.1Q 10.9)

Net sales	+	21.6	(	282.5	→	304.1)
Cost of sales	+	26.3	(	226.8	→	253.1)
Selling, general & administrative expenses	+	1.1	(	38.9	→	40.0)
- Salaries and benefits	+	0.5	(	10.8	→	11.3)
- R&D expenses	-	0	(	8.0	→	8.0)

【 Non-operating Income/Expenses 】 +3.1 (FY2013.1Q -7.3 → FY2014.1Q -4.2)

Net Interest expense (incl. dividend income)	-	0.1	(	-0.5	→	-0.7)
Equity in income of unconsolidated subsidiaries and affiliates	+	0.9	(	1.5	→	2.4)
Gain and loss on foreign exchange	+	2.1	(	-7.9	→	-5.8)
Others	+	0.2	(	-0.3	→	-0)

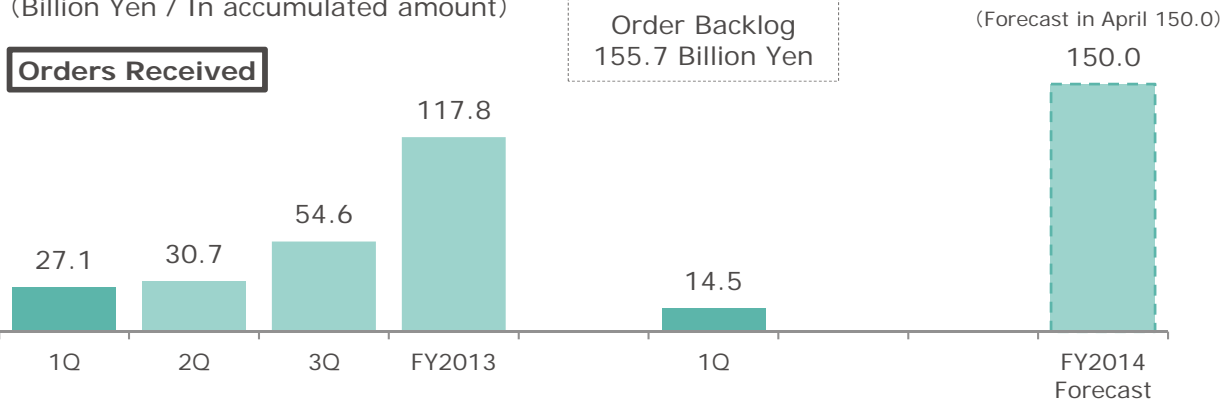
【 Extraordinary Income/Losses 】 0 (FY2013.1Q 0 → FY2014.1Q 0)

Ship & Offshore Structure

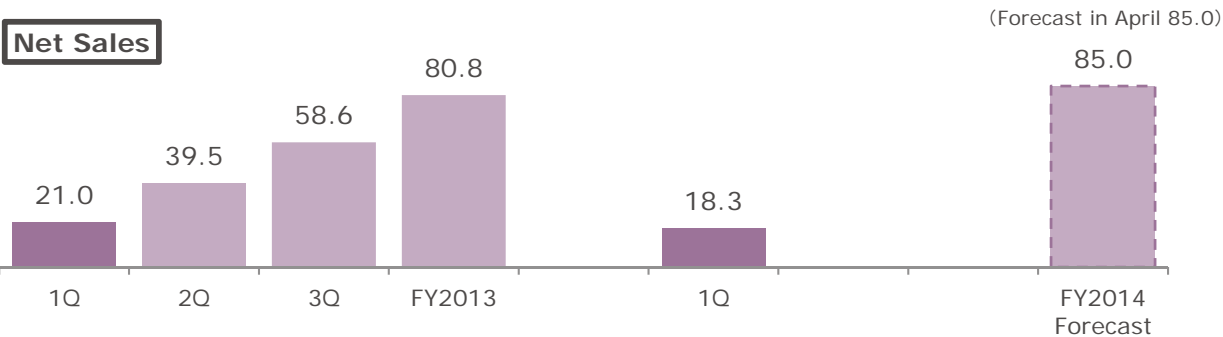
Main Products: LNG carriers, LPG carriers, Offshore structures, VLCCs, Bulk carriers, Submarines

(Billion Yen / In accumulated amount)

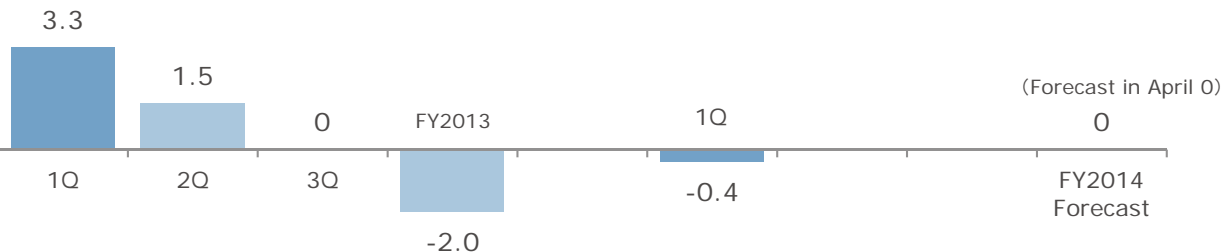
Orders Received



Net Sales



Operating Income



FY2014.1Q

(vs. FY2013.1Q)

Orders Received: Decreased despite orders received for 1 LPG carrier, in comparison to the previous same period where orders for 2 ships including an LNG carrier were received

Net Sales: Decreased due to decrease in amount of shipbuilding of bulk carriers, despite an increase in amount of shipbuilding of LNG carriers

Operating Income: Deteriorated to an operating loss in comparison to the previous same period where there was a reversal of provision for loss on construction contracts accompanying yen depreciation, due to sales decrease

FY2014 Forecast

(vs. Forecast in April)

Orders Received, Net Sales & Operating Income: No change

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

	Orders Received		Sales	
	FY2013.1Q	FY2014.1Q	FY2013.1Q	FY2014.1Q
LNG carriers	1		2(2)	3 (3)
Small-sized LNG carriers			1(1)	
LPG carriers		1	2(2)	1 (0)
Offshore service vessel				
Bulk carriers	1		6(4)	3 (2)
Submarines			1(1)	2 (2)
Total	2	1	12(10)	9 (7)

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

	FY2012	FY2013	FY2014	FY2015※
Before-tax ROIC	17.3%	3.4%	0.2%	10.0%

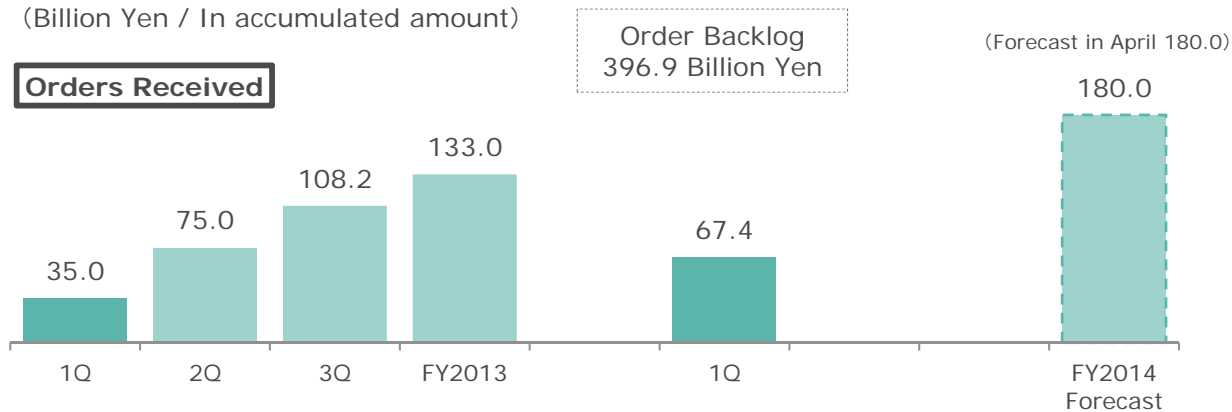
※ Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

Rolling Stock

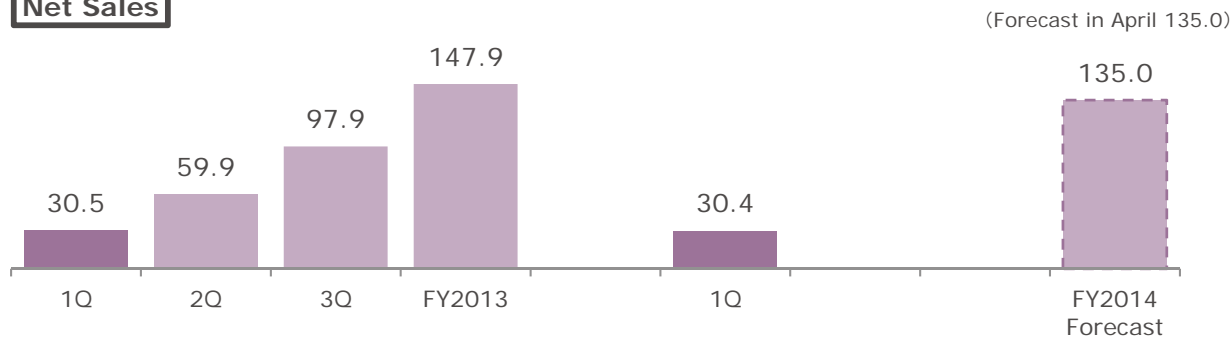
Main Products : Electric train cars (incl. Shinkansen), Electric and diesel locomotives, Passenger coaches, Gigacell® (High-Capacity, Full Sealed Ni-MH Battery)

(Billion Yen / In accumulated amount)

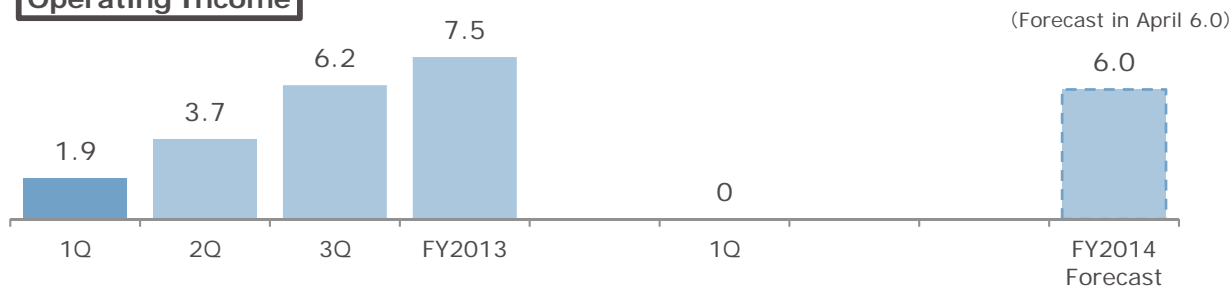
Orders Received



Net Sales



Operating Income



FY2014.1Q

(vs. FY2013.1Q)

Orders Received: Increased due to MRT car orders received from the Singapore Land Transport Authority for new railway lines and other factors

Net Sales: Remained the same as the previous same period due to continued high level of overseas sales

Operating Income: Decreased due to decrease in profitability and other factors

FY2014 Forecast

(vs. Forecast in April)

Orders Received, Net Sales & Operating Income: No change

	FY2012	FY2013	FY2014	FY2015*
Before-tax ROIC	4.6%	10.2%	7.9%	15.3%

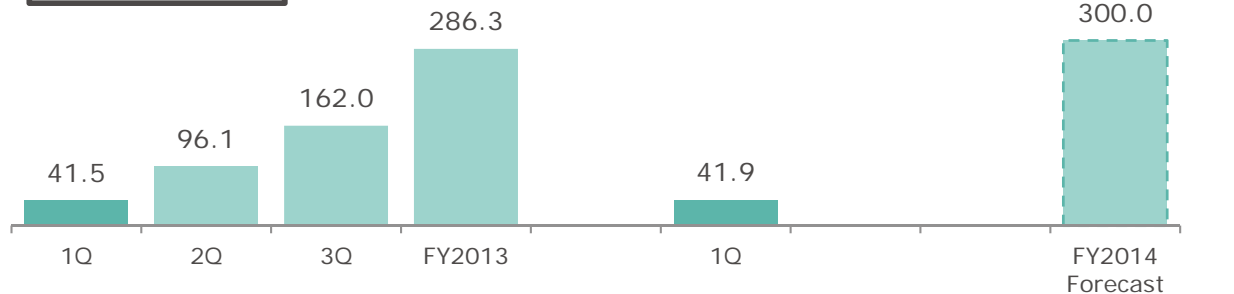
* Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

Aerospace

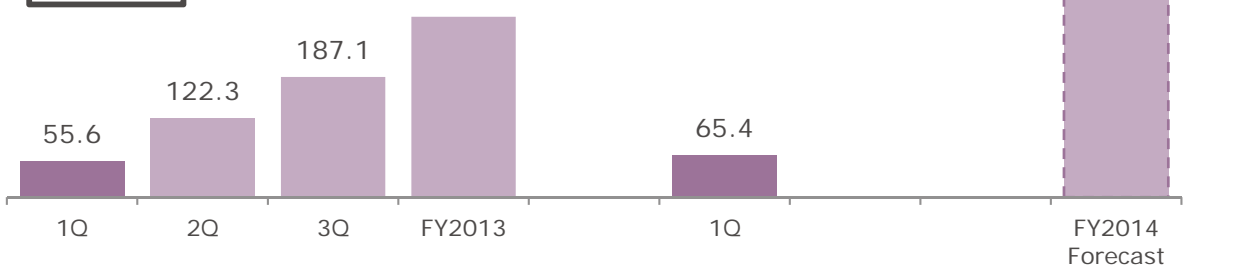
Main Products : Aircrafts for Japan Ministry of Defense, Component parts for commercial aircrafts, Commercial helicopters, Missiles, Space equipment

(Billion Yen / In accumulated amount)

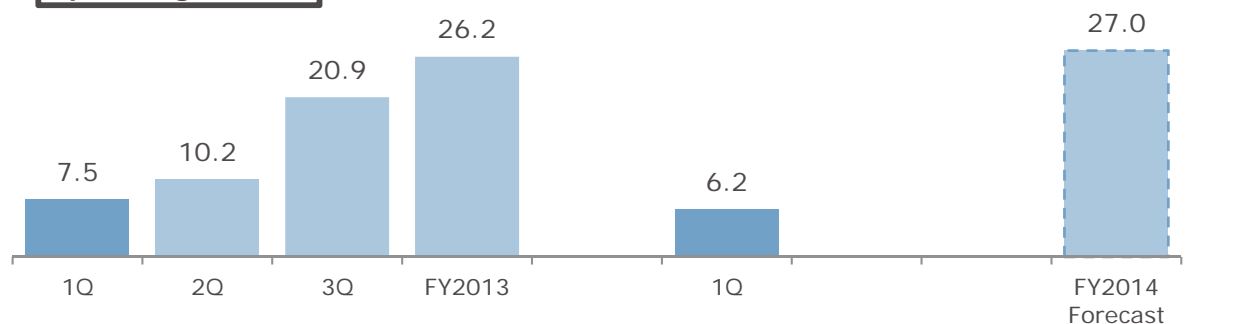
Orders Received



Net Sales



Operating Income



FY2014.1Q

(vs. FY2013.1Q)

Orders Received: Increased due to increase in orders received for component parts for Boeing 787, despite decrease in orders received from the Japan Ministry of Defense (MOD)

Net Sales: Increased due to orders received for component parts for Boeing 787, in addition to maintaining the same level of sales to the MOD as the previous same period

Operating Income: Decreased in comparison to the previous same period where there was a reversal of provision for loss on construction contracts accompanying yen depreciation, despite sales increase

FY2014 Forecast

(vs. Forecast in April)

Orders Received: Revised up due to increase in orders received for MOD

Net Sales & Operating Income: No change

< Sales units of component parts for commercial aircrafts > (units)

	FY2013.1Q	FY2014.1Q
Boeing 777	26	27
Boeing 767	5	4
Boeing 787	13	31
Embraer170/175	8	21
Embraer190/195	11	7

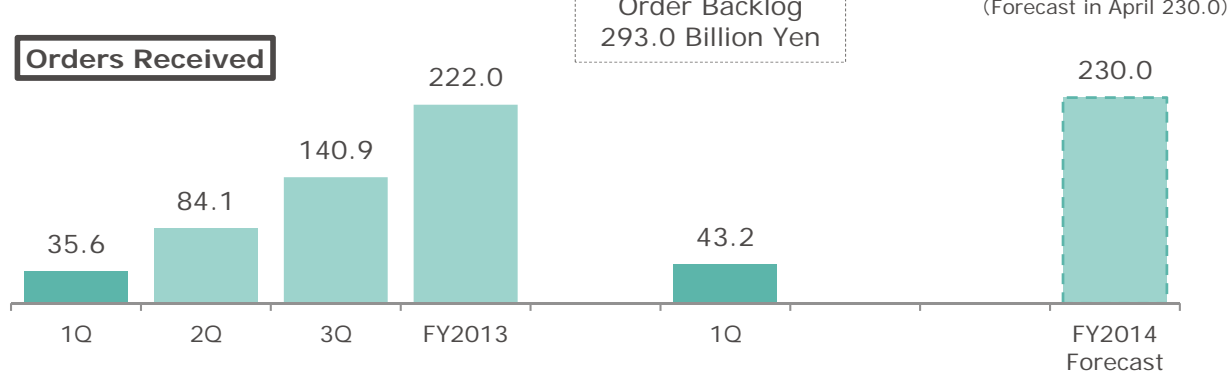
	FY2012	FY2013	FY2014	FY2015*
Before-tax ROIC	15.9%	19.6%	17.7%	12.7%

* Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

Gas Turbine & Machinery

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

(Billion Yen / In accumulated amount)



FY2014.1Q

(vs. FY2013.1Q)

Orders Received: Increased due to orders received for component parts of commercial aircraft jet engines

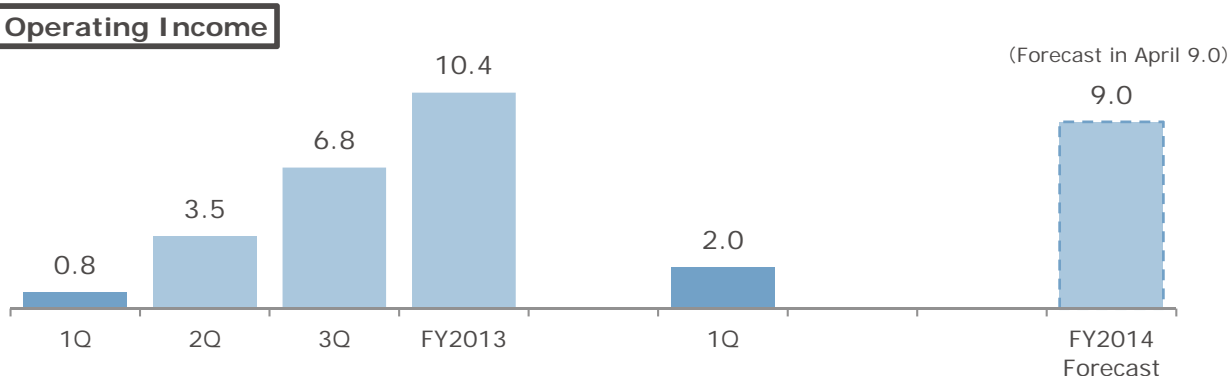
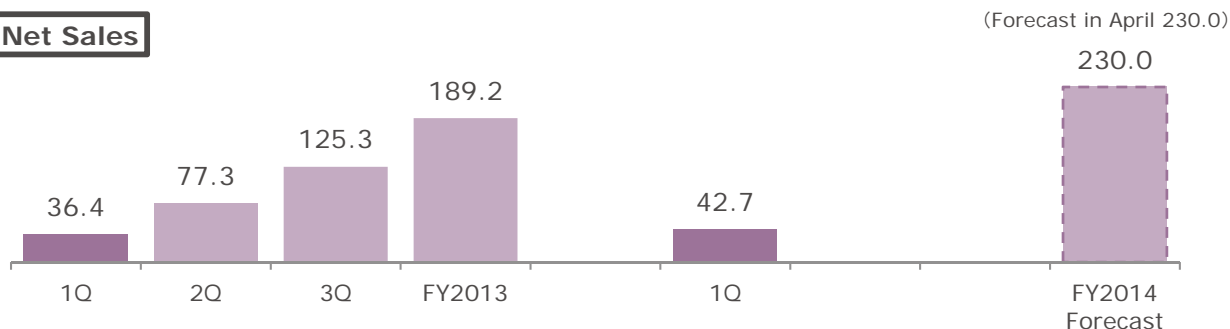
Net Sales: Increased due to increase in sales for component parts of commercial aircraft jet engines and marine propulsion system

Operating Income: Increased due to sales increase and other factors

FY2014 Forecast

(vs. Forecast in April)

Orders Received, Net Sales & Operating Income: No change



	FY2012	FY2013	FY2014	FY2015*
Before-tax ROIC	5.3%	4.6%	5.1%	7.5%

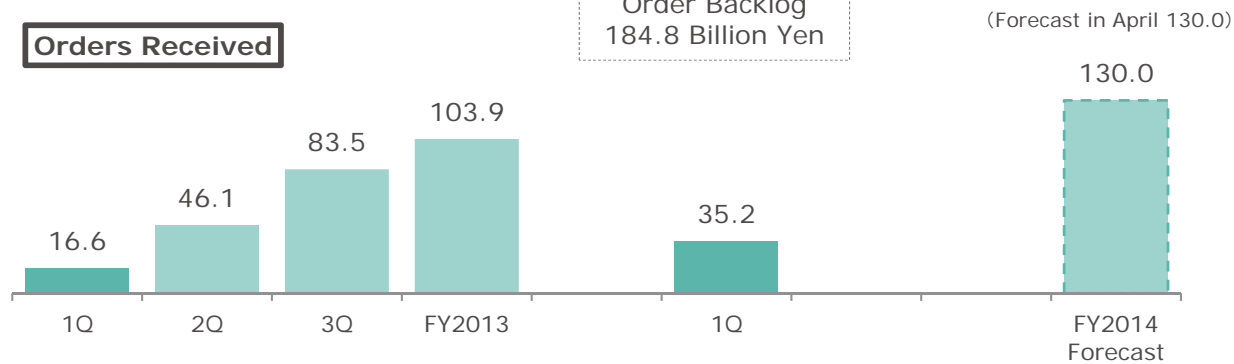
* Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

Plant & Infrastructure

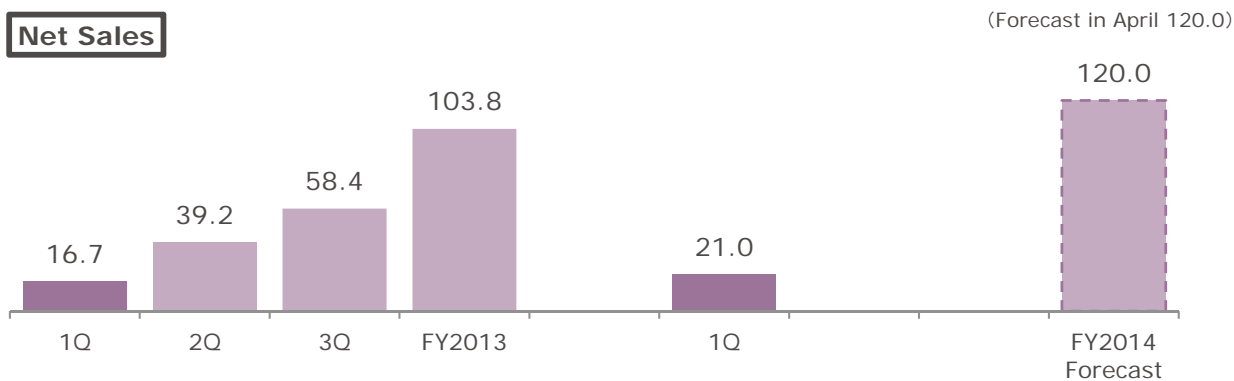
Main Products: Industrial plants (cement, fertilizer and others), Power plants, LNG tanks, Municipal refuse incineration plants, Tunnel boring machines, Crushing machines

(Billion Yen / In accumulated amount)

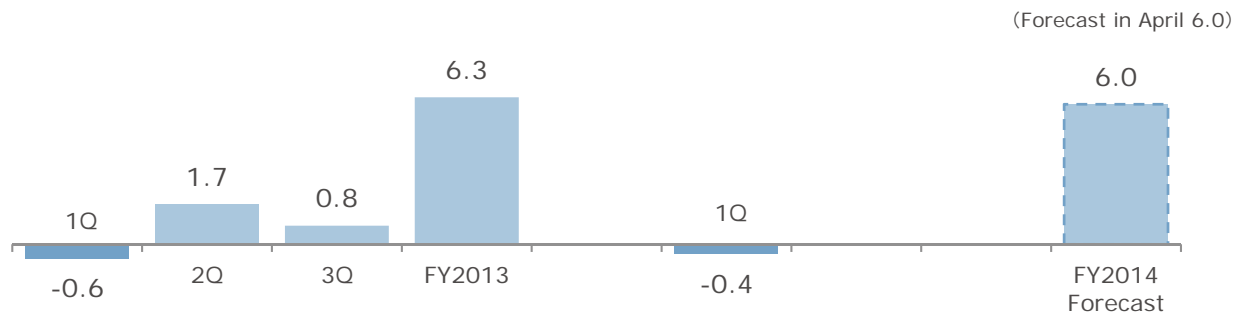
Orders Received



Net Sales



Operating Income



FY2014.1Q

(vs. FY2013.1Q)

Orders Received: Increased due to increase in civil engineering machinery and environmental equipment projects

Net Sales: Increased due to sales increase in LNG tanks and environmental equipment projects

Operating Income: Remained at the same level of operating loss as previous same period, despite sales increase

FY2014 Forecast

(vs. Forecast in April)

Orders Received, Net Sales & Operating Income: No change

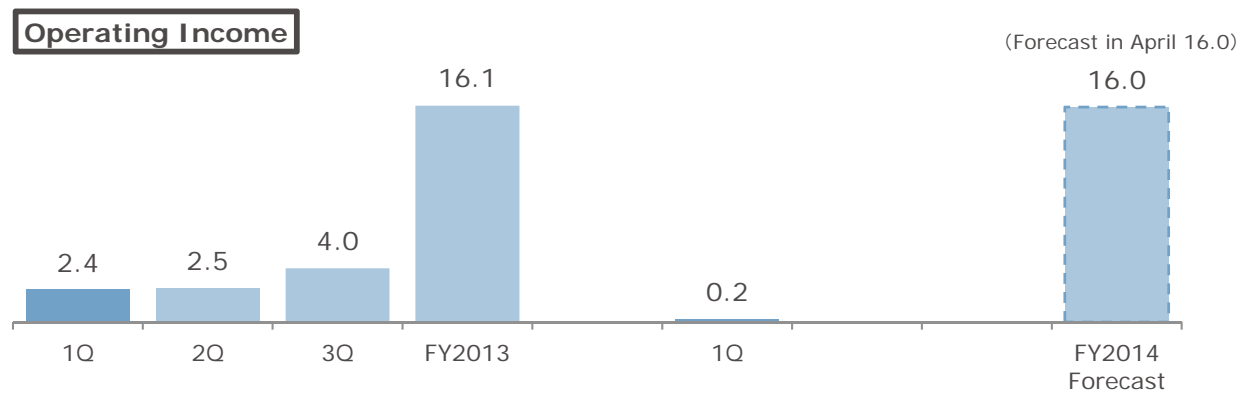
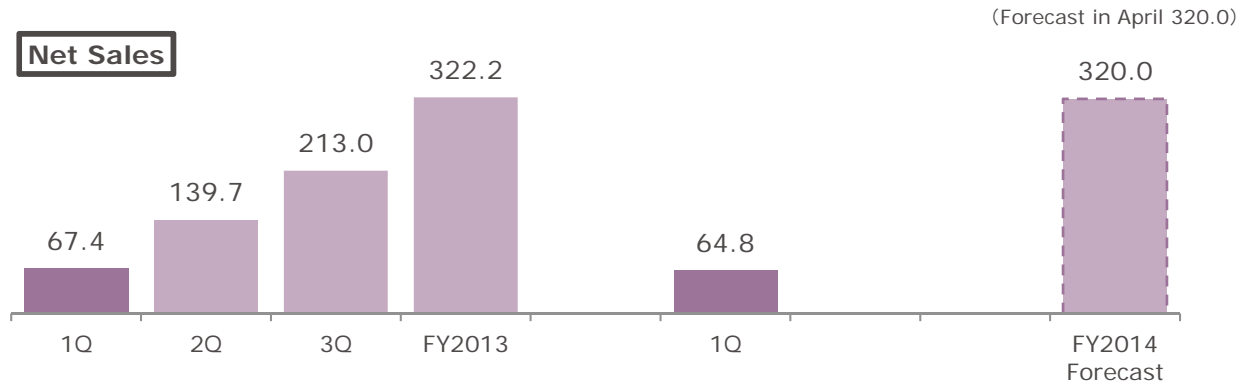
	FY2012	FY2013	FY2014	FY2015*
Before-tax ROIC	21.2%	14.9%	13.5%	15.0%

* Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

Motorcycle & Engine

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

(Billion Yen / In accumulated amount)



FY2014.1Q

(vs. FY2013.1Q)

Net Sales: Decreased due to sales decrease of motorcycles in the United States and Thailand, despite increase in Indonesia and Europe

Operating Income: Decreased due to sales decrease and other factors

FY2014 Forecast

(vs. Forecast in April)

Net Sales & Operating Income: No change

<Wholesales by Geographic Area for Consumer Products> (Thousands of units / Billion Yen)

	FY2013.1Q		FY2013		FY2014.1Q		FY2014 Forecast	
	Unit	Amount	Unit	Amount	Unit	Amount	Unit	Amount
Domestic	5	4.3	19	14.8	5	4.1	16	12.9
North America (incl. Canada)	20(13)	17.3	121(70)	100.7	* 11(6)	9.9	119(70)	96.2
Europe	11	9.6	53	45.8	12	11.4	56	47.3
Emerging Countries & Others	91	25.3	397	116.9	101	26.9	472	120.8
Total	127	56.5	590	278.2	129	52.3	663	277.2

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.

※ The large decrease in sales units and amount for North America are mainly due to a temporary stop in exports to Latin America, via our sales subsidiary in the United States, due to import regulations

	FY2012	FY2013	FY2014	FY2015※
Before-tax ROIC	3.4%	1.4%	9.2%	14.3%

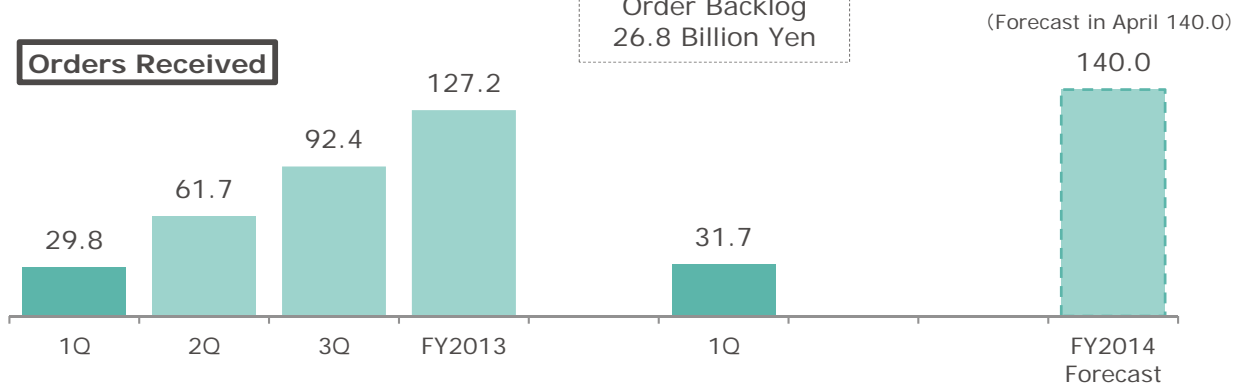
※ Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

Precision Machinery

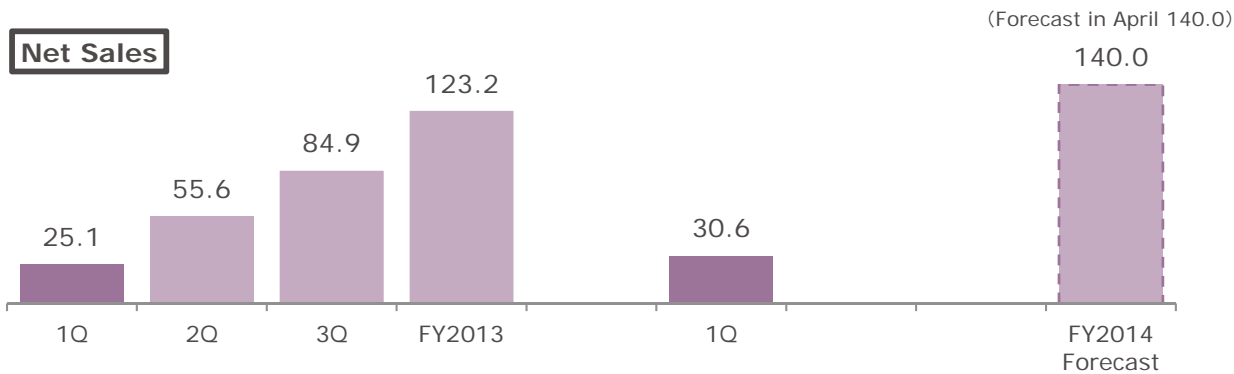
Main Products: Hydraulic components (pumps, motors & valves), Hydraulic systems for industrial use, Hydraulic marine machinery, Precision Machinery / Electric-powered devices, Industrial Robots

(Billion Yen / In accumulated amount)

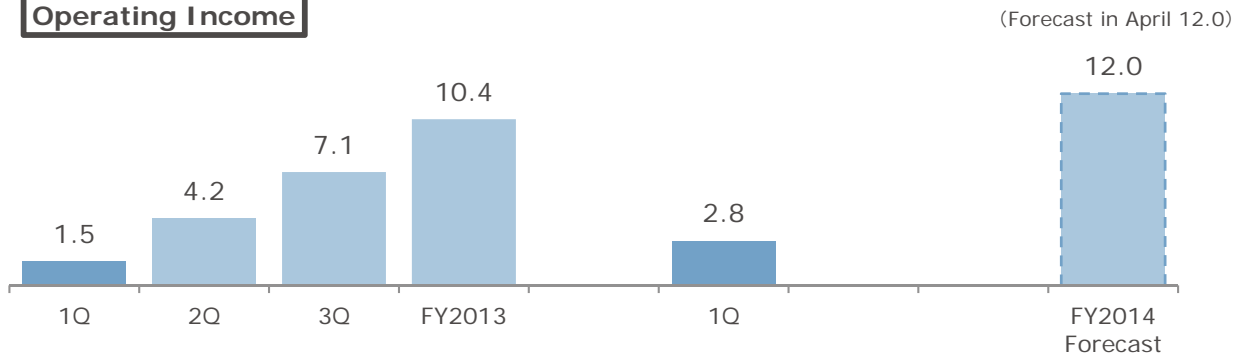
Orders Received



Net Sales



Operating Income



FY2014.1Q

(vs. FY2013.1Q)

Orders Received: Increased due to hydraulic components for construction machinery for domestic market

Net Sales: Increased due to increase in hydraulic components for construction machinery for domestic market and industrial robots for automotive industries

Operating Income: Increased due to sales increase and other factors

FY2014 Forecast

(vs. Forecast in April)

Orders Received, Net Sales & Operating Income: No change

	FY2012	FY2013	FY2014	FY2015*
Before-tax ROIC	14.0%	17.5%	16.8%	26.3%

* Figures of FY2015 (target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

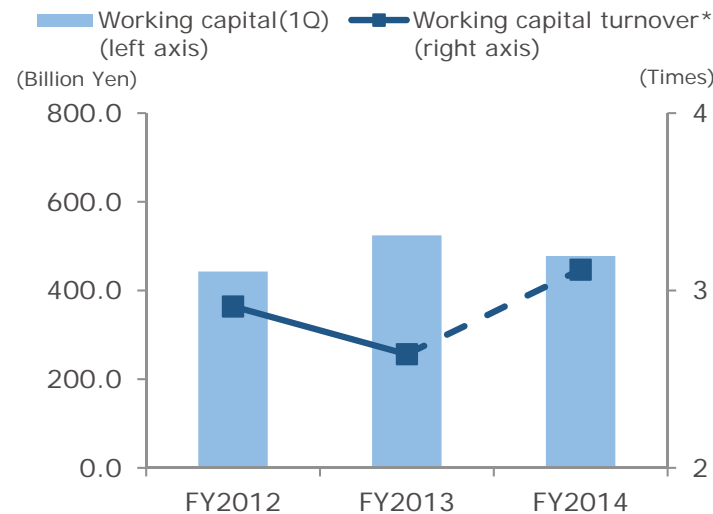
Summary of Balance Sheet

(Billion Yen)

	End of Mar. 2014	End of Jun. 2014	Change
Cash on hand and in banks	47.9	43.3	-4.6
Trade receivables	415.6	388.3	-27.3
Inventories	458.0	478.1	+20.0
Total fixed assets	401.1	405.6	+4.4
Other assets	231.6	255.2	+23.6
Total assets	1,554.4	1,570.6	+16.2
Trade payables	306.0	273.8	-32.1
Interest-bearing debt	444.6	501.7	+57.1
Advances from customers	137.5	156.5	+18.9
Other liabilities	289.4	267.7	-21.7
Total liabilities	1,177.7	1,199.8	+22.1
Total shareholders' equity	376.2	371.6	-4.6
Other net assets	0.4	-0.8	-1.2
Total net assets	376.6	370.7	-5.9
Total liabilities and net assets	1,554.4	1,570.6	+16.2

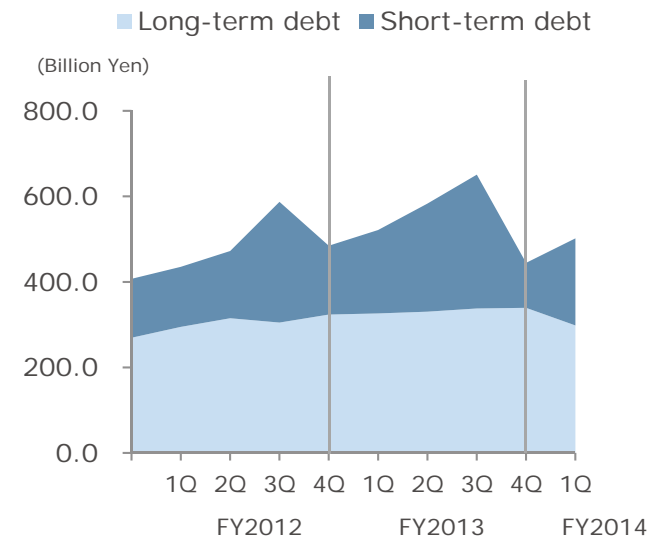
Ratio of shareholders' equity to total assets	23.3%	22.7%
Net Debt Equity Ratio	109.3%	128.3%

【Changes in working capital】

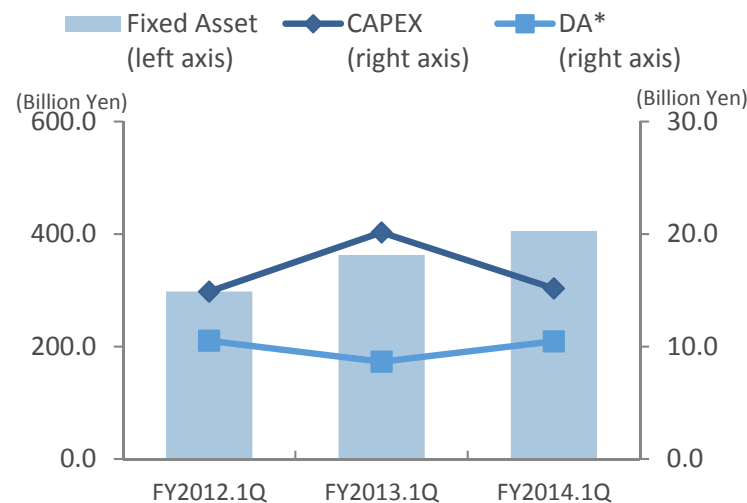


*Turnover=Sales(12months)/working capital
*Sales for FY2014 is a forecast number

【Changes in interest-bearing debt】



【Changes in CAPEX and others】



*Depreciation & Amortization

【Overview of Balance Sheet】

On June 30, 2014, total assets increased from March 31, 2014, attributing to inventory growth stemming from progress in construction works, and increase in plant, property and equipment by capital investments, despite a decrease in trade receivables.

Liabilities on June 30, 2014, increased due to increase in interest-bearing debt such as commercial papers, despite a decrease in trade payables.

Net assets decreased mainly due to dividend payments and other factors.

Summary of Cash Flows

(Billion Yen)

	FY2013 1Q	FY2014 1Q	Change
Cash flows from operating activities	-1.1	-38.0	-36.9
Cash flows from investing activities	-18.3	-11.7	+6.5
Free Cash Flows	-19.4	-49.8	-30.3
Cash flows from financing activities	20.1	49.9	+29.8

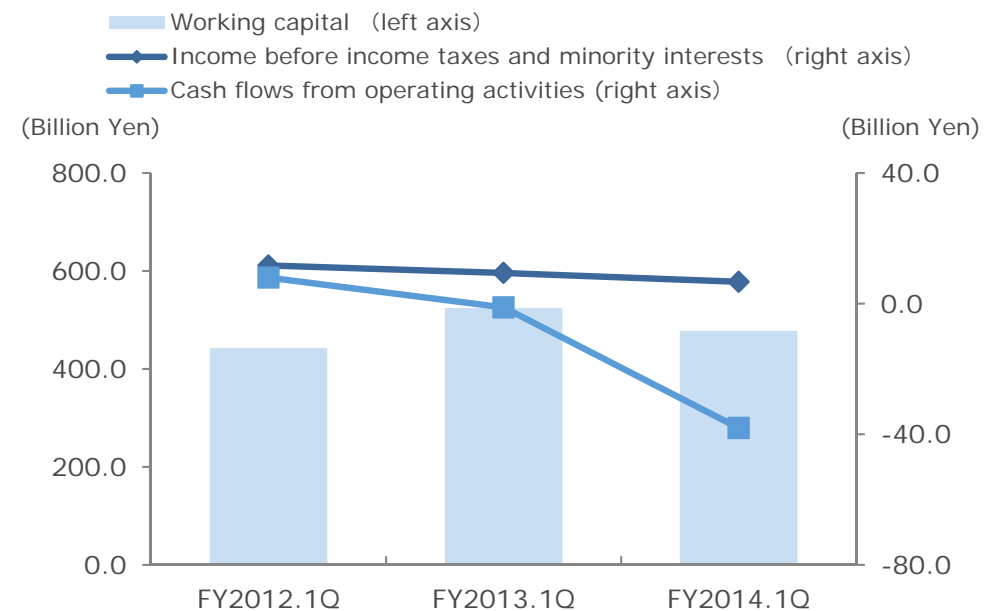
【Overview of Cash Flows】 (vs.FY2013.1Q)

Cash flows from operating activities decreased, due to a decrease in cash inflows from collection of trade receivables and an increase in advance payments.

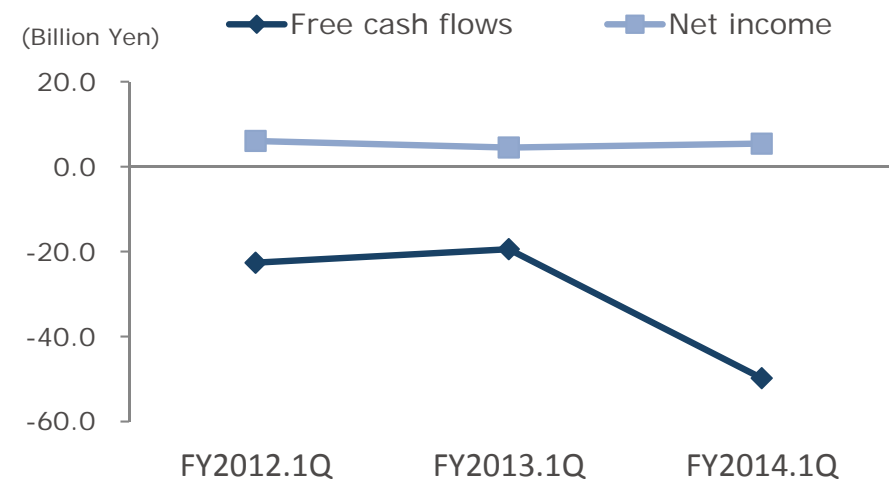
Due to a decrease in expenditures for CAPEX, cash outflows from investing activities decreased.

Given the above mentioned changes, free cash flows decreased.

【Changes in cash flows from operating activities and others】



【Changes in free cash flows and net income】



Revision of Forecast for the Second Quarter (Accumulated) of FY2014

(Billion Yen)

	FY2014.2Q Forecast		
	Forecast in April	Forecast in July	Change
Net Sales	650.0	650.0	0
Operating Income	22.0	22.0	0
Recurring Profit	14.0	17.0	+3.0
Net Income	8.5	12.5	+4.0

(FYI) FY2013.2Q
Actual
595.0
26.8
22.7
13.0

Reasons for the Revision

- **Recurring profit** was revised up 3.0 billion yen to 17.0 billion yen, due to improvement expected in affiliated companies accounted for by the equity-method that have profitable projects concentrating in the first half of the fiscal year
- **Net income** was revised up 4.0 billion yen to 12.5 billion yen, due to the improvement in recurring profit and a revision of tax effects

Exchange Rates (actual & assumed)

Yen / US\$	100	100
Yen / EUR	135	135

97.77
127.73

Consolidated Operating Performance

(Billion Yen)

	FY2013 Actual	FY2014 Forecast		Change	
		In April	In July	Vs. FY2013	Vs. Forecast in April
Orders Received	1,455.4	1,580.0	1,590.0	+134.6	+10.0
Net Sales	1,385.4	1,490.0	1,490.0	+104.6	0
Operating Income	72.3	73.0	73.0	+0.7	0
Recurring Profit	60.6	66.0	66.0	+5.4	0
Net Income	38.6	41.0	42.5	+3.9	+1.5
Before-tax ROIC	8.1%	8.6%	8.6%	+0.5%	0

Reasons for the Revision

Orders Received: Revised up due to increase in Aerospace, which was revised up due to increase in orders received for MOD

Net Income: Revised up due to a revision of tax effects

Exchange Rates (actual & assumed)

Yen / US\$	99.63	100	100
Yen / EUR	134.56	135	135

(For Reference)

Impact on profit by FX fluctuation of 1 Yen

	(Billion Yen)	
	Operating Income	Recurring Profit
US\$	1.99 (2.22)	2.17 (2.33)
EUR	0.15 (0.21)	0.18 (0.20)

Note : Assumed rates are applied to the outstanding foreign exchange exposure as of July 30, 2014

* Figures in the parenthesis () represent impact as of April 25, 2014

Forecast by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2013 Actual	FY2014 Forecast	FY2015 Target ^{※1}	FY2013 Actual	FY2014 Forecast	FY2015 Target ^{※1}	FY2013 Actual	FY2014 Forecast	FY2015 Target ^{※1}
Ship & Offshore Structure	117.8	150.0		80.8	85.0	135.0	-2.0	0	6.0
Rolling Stock	133.0	180.0		147.9	135.0	180.0	7.5	6.0	13.0
Aerospace	286.3	300.0		280.7	320.0	270.0	26.2	27.0	20.0
Gas Turbine & Machinery	222.0	230.0		189.2	230.0	250.0	10.4	9.0	13.0
Plant & Infrastructure	103.9	130.0		103.8	120.0	140.0	6.3	6.0	8.0
Motorcycle & Engine	322.2	320.0		322.2	320.0	300.0	16.1	16.0	15.0
Precision Machinery	127.2	140.0		123.2	140.0	190.0	10.4	12.0	22.0
Others	142.6	140.0		137.2	140.0	135.0	4.4	4.0	
Eliminations and corporate ^{※2}	-	-		-	-	-	-7.2	-7.0	-7.0
Total	1,455.4	1,590.0		1,385.4	1,490.0	1,600.0	72.3	73.0	90.0

※1: Figures of FY2015 (Target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

※2: "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

* No changes in the forecast for FY2014 from April 25, 2014.

(Billion Yen / Persons)

	FY2012 Actual	FY2013 Actual	FY2014 Forecast
R&D Expenses	41.7	40.3	46.0
CAPEX (Construction Base)	78.6	87.7	91.0
Depreciation & Amortization	48.3	37.8	47.0
Domestic	25,222	25,531	26,200
Overseas	8,788	9,089	8,900
Number of Employees	34,010	34,620	35,100

· Capital expenditures represent the total of newly recorded property, plant and equipment and newly recorded intangible assets.
Depreciation/amortization represents depreciation/amortization expenses for property, plant and equipment and intangible assets.

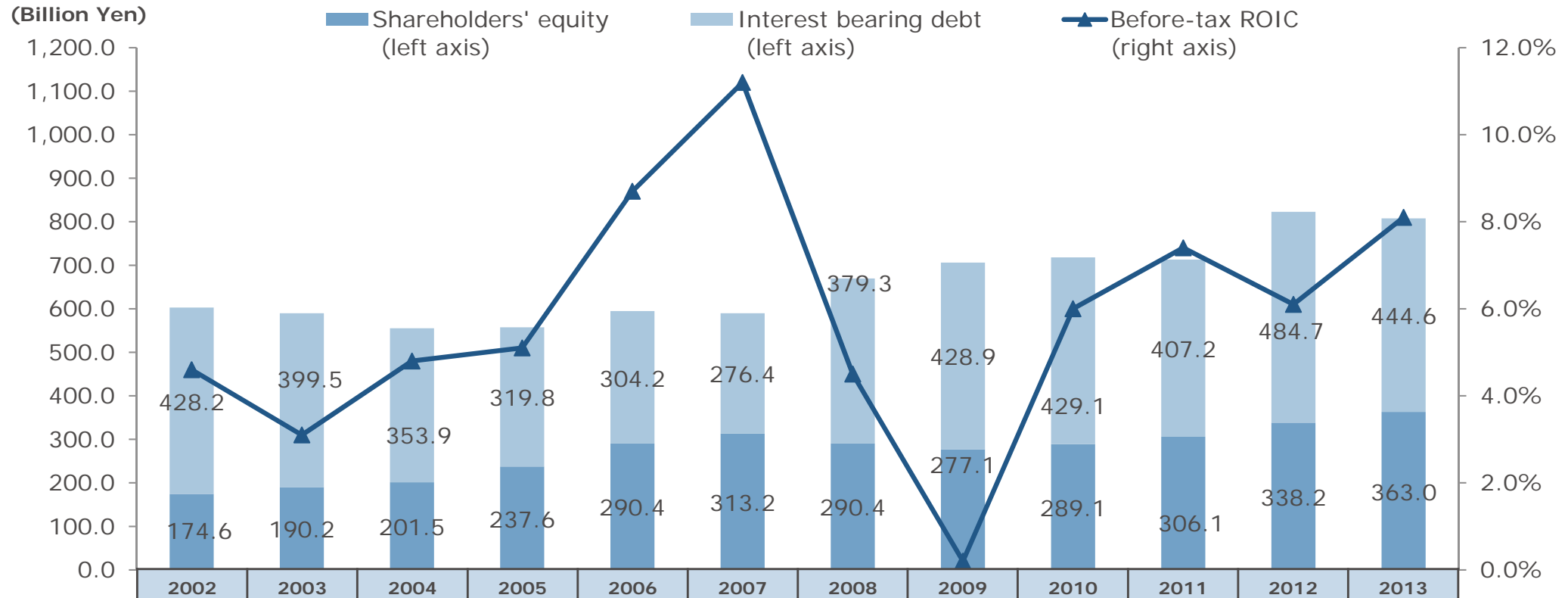
Before-tax ROIC by Segment

* No changes in the forecast for FY2014 from April 25, 2014.

	Before-tax ROIC ((EBIT+ Interest Expense)/ Invested Capital)				Operating Income Margin (Operating Income / Net Sales)				Asset Turnover (Times) (Net Sales / Total Assets)			
	FY2012 Actual	FY2013 Actual	FY2014 Forecast	FY2015 Target [※]	FY2012 Actual	FY2013 Actual	FY2014 Forecast	FY2015 Target [※]	FY2012 Actual	FY2013 Actual	FY2014 Forecast	FY2015 Target [※]
Ship & Offshore Structure	17.3%	3.4%	0.2%	10.0%	4.6%	-2.4%	0.0%	4.4%	0.80	0.62	0.70	
Rolling Stock	4.6%	10.2%	7.9%	15.3%	1.7%	5.1%	4.4%	7.2%	0.79	0.92	1.00	
Aerospace	15.9%	19.6%	17.7%	12.7%	6.1%	9.3%	8.4%	7.4%	0.76	0.80	0.90	
Gas Turbine & Machinery	5.3%	4.6%	5.1%	7.5%	3.3%	5.5%	3.7%	5.2%	0.82	0.67	0.80	
Plant & Infrastructure	21.2%	14.9%	13.5%	15.0%	8.4%	6.0%	5.0%	5.7%	1.00	0.94	1.10	
Motorcycle & Engine	3.4%	1.4%	9.2%	14.3%	0.9%	4.9%	5.0%	5.0%	0.92	1.27	1.40	
Precision Machinery	14.0%	17.5%	16.8%	26.3%	6.4%	8.4%	8.5%	11.6%	1.13	0.98	1.10	
Total	6.1%	8.1%	8.6%	11.0%	3.2%	5.2%	4.9%	5.6%	0.87	0.89	0.90	

※ Figures of FY2015 (Target) is as of April 25, 2013, with assumed exchange rate of 95Yen = US\$

Historical Data



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Before-tax ROIC	4.6%	3.1%	4.8%	5.1%	8.7%	11.2%	4.5%	0.2%	6.0%	7.4%	6.1%	8.1%
Invested Capital	602.7	589.6	555.3	557.3	594.6	589.6	669.7	705.9	718.2	713.2	822.8	807.6
Net Sales	1,239.5	1,160.2	1,241.5	1,322.4	1,438.6	1,501.0	1,338.5	1,173.4	1,226.9	1,303.7	1,288.8	1,385.4
Operating Profit	31.3	22.2	24.7	41.7	69.1	76.9	28.7	-1.3	42.6	57.4	42.0	72.3
Recurring Profit	16.2	12.1	21.0	30.8	49.0	63.9	38.7	14.2	49.1	63.6	39.3	60.6
Net Income	13.0	6.3	11.4	16.4	29.7	35.1	11.7	-10.8	25.9	23.3	30.8	38.6

Yen / US\$	120	113	108	112	117	115	101	93	86	79	82	99
------------	-----	-----	-----	-----	-----	-----	-----	----	----	----	----	----

About Kawasaki ROIC Management

This material provides further explanation about the purpose and characteristics of Kawasaki ROIC management and introduces the new ranks for our business unit (BU) classification.

Firstly, the ultimate goal of Kawasaki ROIC management is the **improvement of enterprise value**, through the increase of capital efficiency, and planning and execution of strategies for future growth. The realization of Kawasaki ROIC management comprises of 5 Actions.

Action 1	Plan and execute growth strategies through the strengthening of core competence in each BU
Action 2	Set our optimal financial indicator , with a focus on ROIC, and create specific action plans for achievement
Action 3	Create new value through internal company synergies generated by our conglomerate advantage
Action 4	Define scale-down or withdrawal strategies broken down to each Sub-BU and product
Action 5	Create a portfolio focusing on profitability, stability and growth

Establishment of BUs In Each Segment

The concept behind the establishment of BUs in each section is as follows, although we do not disclose the details of each BU as we carries our management by segment.

Segment	BU Area	Business Strategy
Ship & Offshore Structure	By segment	Form a global business structure positioning domestic factories as mother factories, with strategies planned according to factory (Grouped into sub-BUs by factory)
Rolling Stock	By market and product	Customize strategies to accommodate the different regulations and railway situations of each country and region
Aerospace	By product	Customize strategies to accommodate the characteristics of each market and product (e.g. life cycle, etc.)
Gas Turbine & Machinery	By usage	Plan strategies according to usage of products, such as propulsion systems and energy systems, while sharing technology of products such as rotary machines and reciprocating engines within the segment
Plant & Infrastructure	By product	Plan strategies according to the original or underlying technology of each product, while sharing human engineering resources within the segment
Motorcycle & Engine	By market	Customize strategies to accommodate the tastes of customers of each region (Grouped into sub-BUs by product, e.g. motorcycles, All-Terrain Vehicles (ATVs), etc.)
Precision Machinery	By market and product	With high shares in existing fields, further strengthen underlying and systemization technologies, and plan strategies to develop new businesses

About Core Competence

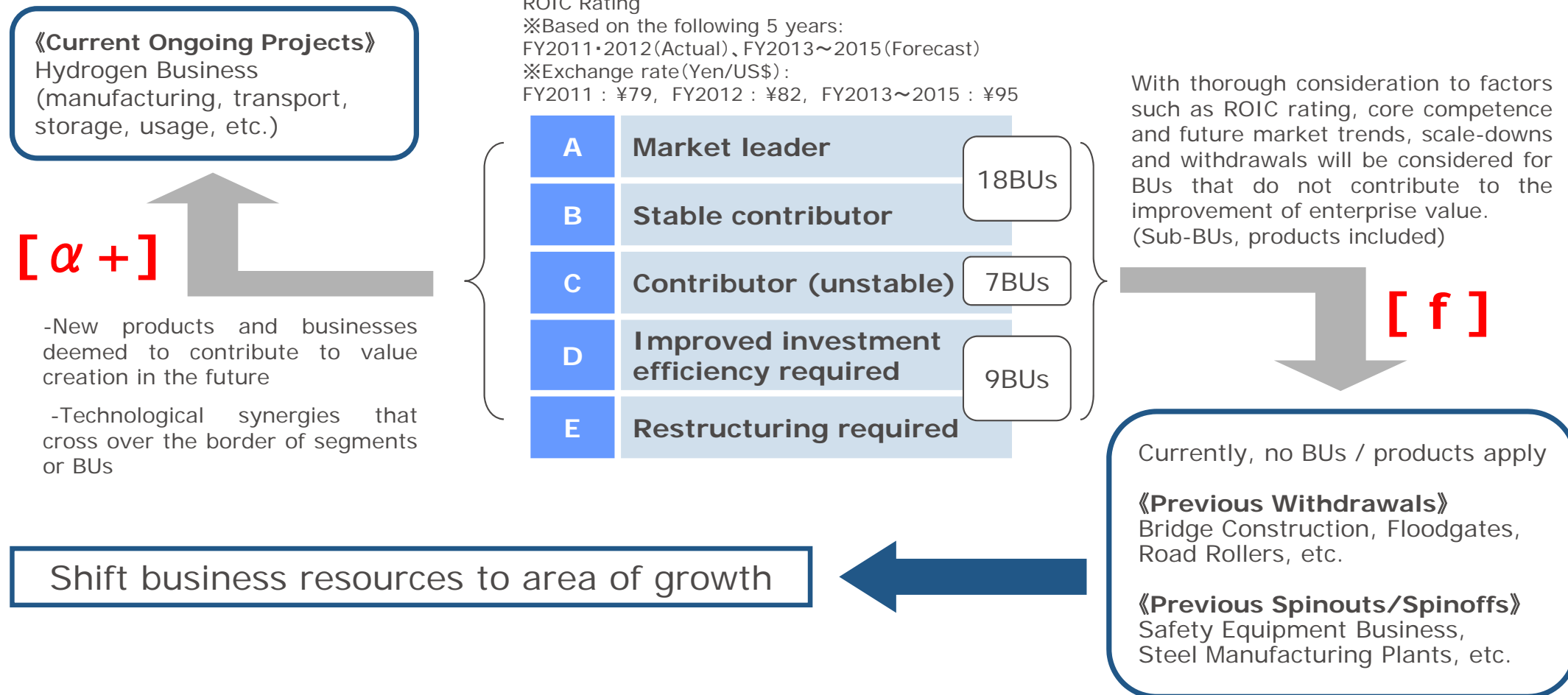
Our company defines core competence as the most effective asset of each BU that provides its competitive edge. In addition to its products, technology, and price competitiveness, core competence includes factors such as having diverse knowledge, and the strength of the organization. As a conglomerate, our company has the advantage of synergies built up between BUs. Below are some examples of our core competence.

Segment	Examples of Core Competence
Ship & Offshore Structure	<ul style="list-style-type: none"> - Ability to design and manufacture high value-added ships with technology derived from gas carriers and submarines - A global business structure positioning domestic factories as mother factories
Rolling Stock	<ul style="list-style-type: none"> - Ability to fulfil contracts in North America, which are said to have the strictest regulations in the world - Synergies as a conglomerate (development of carbon fiber technology, etc.) - A track record of more than 20 years for projects in Asia
Aerospace	<ul style="list-style-type: none"> - Advanced technology and system integration ability from rich experience in domestic development - Leading-edge manufacturing technology and equipment to prevent catching up of emerging countries
Gas Turbine & Machinery	<ul style="list-style-type: none"> - Component parts of commercial aircraft jet engines: High level of special process, quality and ability to respond to strict delivery periods - Energy & environment: Ability to provide solutions that combine products such as our gas engines, which have the highest efficiency in the world, gas turbines and steam turbines
Plant & Infrastructure	<ul style="list-style-type: none"> - Stable management through shifting of human resources within BU - Engineering ability that allows utilization of monozukuri (manufacturing) by in-house factory
Motorcycle & Engine	<ul style="list-style-type: none"> - A recognized brand image for high-performance, built through the [Ninja], [Z] and [KX] and race activities - Global supply chain system (procurement, manufacturing) - In-house development technology for supercharger engine
Precision Machinery	<ul style="list-style-type: none"> - Precision machinery: Leading-edge technology, brand power and systemization for excavator hydraulic equipment - Robots: Application development abilities and system solutions to respond to diverse needs of customers

Share technological synergy
(Corporate Technological Division)

Setting New Ranks for BU Classification

Our company has continuously carried out scale-downs, withdrawals, and spinouts/spinoffs of BUs and products. As a result, no BUs or products were deemed as such targets in the FY2013 rating. However, as an indication of our stance to continue with scale-downs, withdrawals, and spinouts/spinoffs when necessary, we have set the new **[f] (small f)** rank for BU classification. Furthermore, a new **[α +] (alpha plus)** rank has been set to set apart products and businesses deemed to contribute to value creation in the future.



Creating Our Optimal Business Portfolio

Our Company focuses on the simultaneous pursuance of **profitability, stability and growth**, and are seeking for our optimal business portfolio from various viewpoints.

Profitability

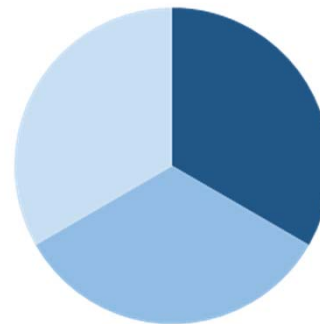
$$\text{ROIC} = \frac{\text{EBIT}}{\text{Invested Capital}}$$

Cash flows from operating activities > Cash flows from investing activities

《Reinforce ROIC Management》

- Focus on capital efficiency
- Focus also on absolute amount of profits
- Selectively focus resources on strategic BUs
- Secure Free Cash Flows while continuing CAPEX for growth

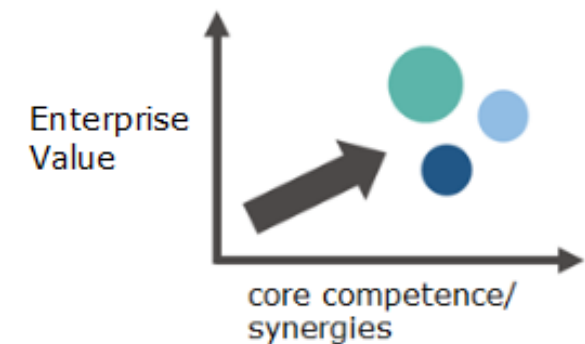
Stability



《Pursue Balance》

- 7 Segments
- Advanced, Emerging and Domestic Markets
- Public sector demand and private sector demand, production on order and mass production
- Transportation Systems, Energy & Environmental Engineering, Industrial Equipment

Growth



《Improve Enterprise Value》

- Strengthen core competence
- Strengthen synergies between internal companies
- M&A

We will continue to inform stakeholders about the progress of Kawasaki ROIC management.

Kawasaki, Working as one for the good of the planet

Figures recorded in the business forecasts are forecasts that reflect the judgment of the Company based on the information available at the time of release and include risks and uncertainties. Accordingly, the Company cautions investors not to make investment decisions solely on the basis of these forecasts.

Actual business results may differ materially from these business forecasts due to various important factors resulting from changes in the external environment and internal environment. Important factors that may affect actual business results include, but are not limited to, economic conditions, the yen exchange rate against the U.S. dollar and other currencies, the tax system, and laws and regulations.