

**Financial Results for Third Quarter FY 2009  
(for the year ending March 31, 2010)**

**January 29, 2010**

**Kawasaki Heavy Industries, Ltd**



# Table of Contents

## **I. Consolidated Results for Third Quarter FY2009**

◇ Summary of Financial Results	1
◇ Details of Change in Profit ①	2
◇ Details of Change in Profit ②	3
◇ Financial Results by Segment	4
Shipbuilding	5
Rolling Stock	6
Aerospace	7
Gas Turbines & Machinery	8
Energy & Environmental Engineering	9
Consumer Products & Machinery	10
Hydraulic Machinery	11
Others	12
◇ Financial Condition and Cash Flows	13

## **II. Forecast for FY2009**

◇ Consolidated Operating Performance	14
◇ Forecast by Segment	15
◇ R&D/CAPEX/Number of Employees	16

# **I. Consolidated Results for Third Quarter FY2009**

# Summary of Financial Results

(¥ Billion / In accumulated amount)

	FY2008 3Q	FY2009 3Q	Change
Orders Received	1087.2	<b>649.9</b>	- 437.3
Net Sales	954.9	<b>798.0</b>	- 156.9
Operating Income	14.7	<b>- 14.0</b>	- 28.7
Recurring Profit	21.5	<b>- 5.5</b>	-27.0
Net income	7.4	<b>- 10.3</b>	- 17.7

Exchange Rates ( weighted-average )

¥/US\$	104	<b>95</b>
¥/EUR	146	<b>132</b>

## 【Orders Received】

Decrease in all segments except Energy & Environmental Engineering segment

## 【Net Sales】

Decrease especially in mass production businesses such as Consumer Products & Machinery and Hydraulic Machinery segments, despite an increase in Shipbuilding segment

## 【Profits】

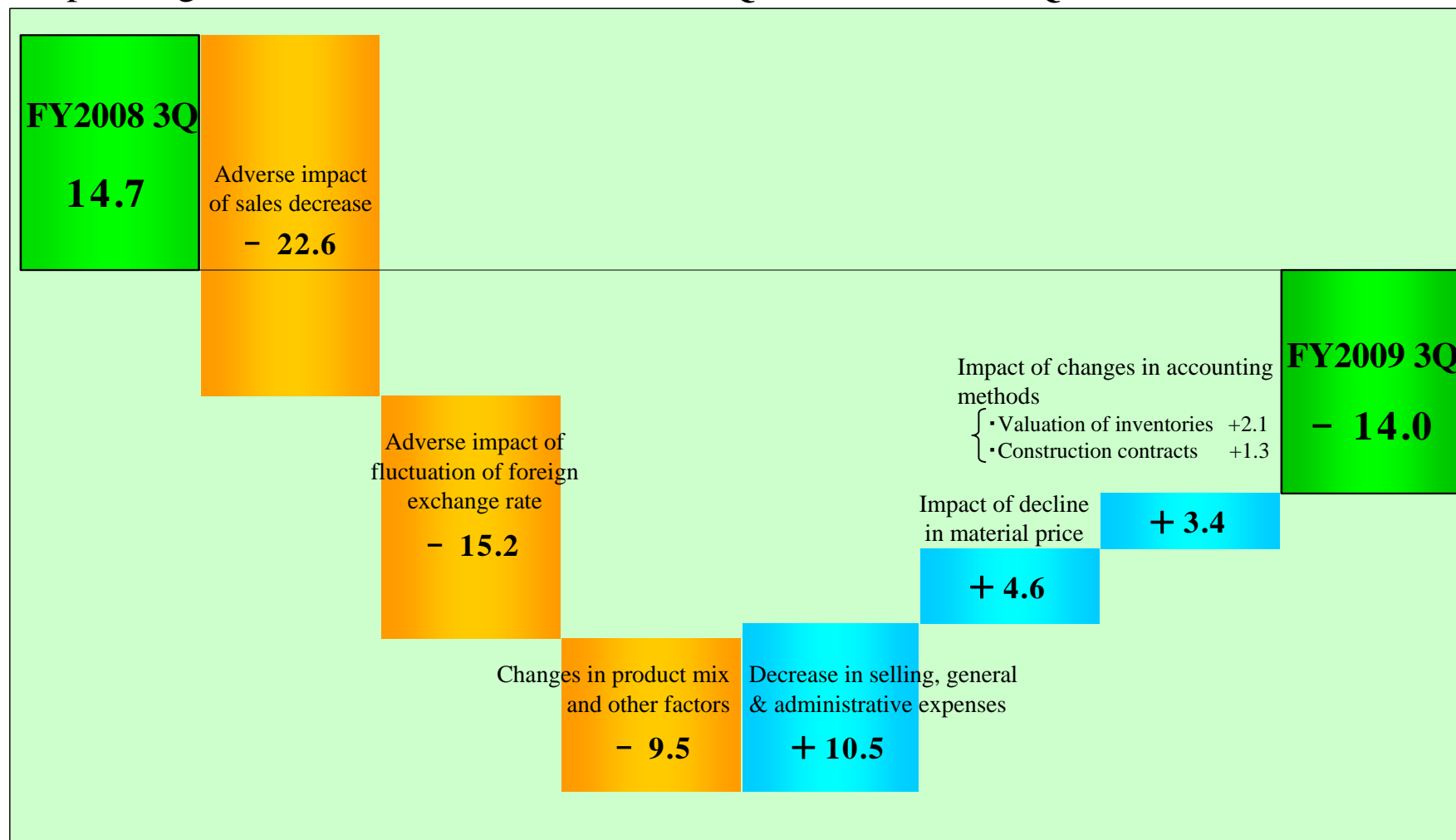
Profit declined in all segments except Aerospace and Shipbuilding segments, due to the adverse impact of sales decrease in U.S. and European markets, and also of the appreciation of the yen, despite implementation of fixed cost reduction especially in mass production businesses

# Details of Change in Profit ①

- FY2009 3Q vs. FY2008 3Q -

(¥ Billion / In accumulated amount)

【Operating Income/loss】 - 28.7 ( FY2008 3Q 14.7 ⇒ FY2009 3Q - 14.0 )



# Details of Change in Profit ②

## - FY2009 3Q vs. FY2008 3Q-

(¥ Billion / In accumulated amount)

### 【Non-operating Income/Expenses】 + 1.6 ( FY2008 3Q 6.8 ⇒ FY2009 3Q 8.5 )

Net Interest expense ( incl. dividend income )	+ 0.1	( - 1.4 ⇒ - 1.2 )
Equity in income of unconsolidated subsidiaries and affiliates	- 2.1	( 6.5 ⇒ 4.3 )
Gain and loss on foreign exchange	+ 4.1	( 2.6 ⇒ 6.7 )
Others	- 0.4	( - 0.8 ⇒ - 1.3 )

### 【Extraordinary Income/Losses】 - 2.6 ( FY2008 3Q - 4.5 ⇒ FY2009 3Q - 7.1)

Provision for losses on damages suit	- 1.8	※1 ( (- 5.1) ⇒ (- 6.9) )	※2
Others	- 0.7	( 0.5 ⇒ - 0.2 )	

※1 Amount equivalent to fine claimed by Japan Fair Trade Commission in relation to refuse incineration plants

※2 Estimated loss for the company in case of losing a suit for damages by owner of refuse incineration plants

# Financial Results by Segment

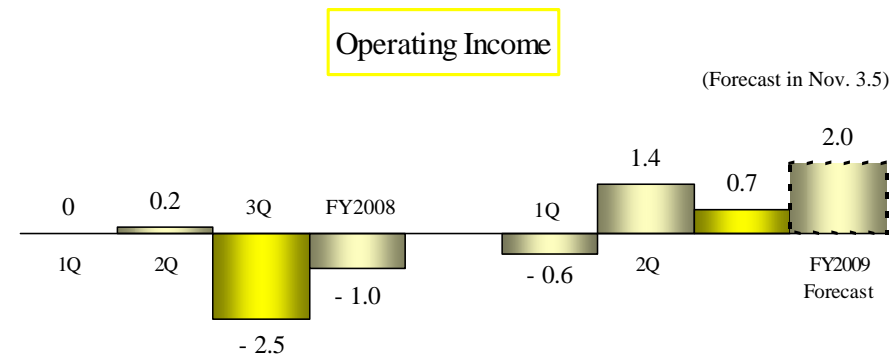
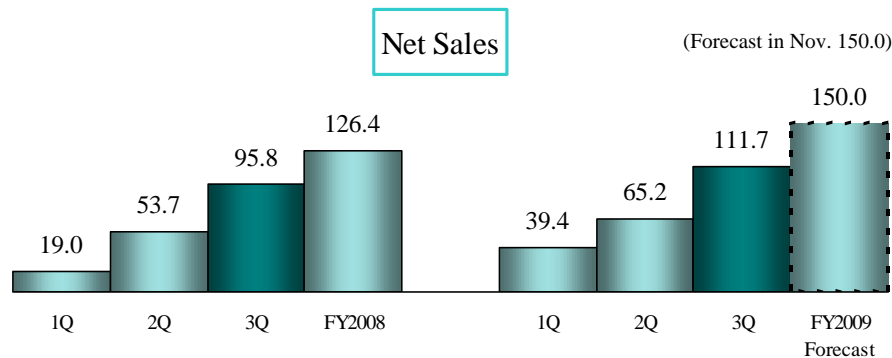
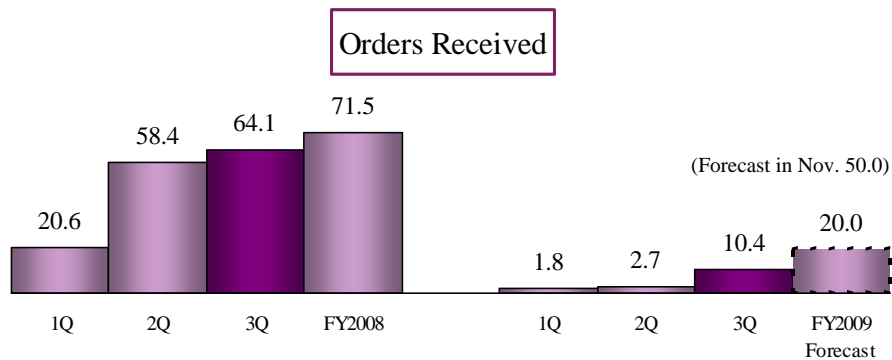
(¥ Billion / In accumulated amount)

	Orders Received			Net Sales			Operating Income		
	FY2008 3Q	<b>FY2009 3Q</b>	Change	FY2008 3Q	<b>FY2009 3Q</b>	Change	FY2008 3Q	<b>FY2009 3Q</b>	Change
Shipbuilding	64.1	<b>10.4</b>	- 53.6	95.8	<b>111.7</b>	15.9	- 2.5	<b>0.7</b>	3.3
Rolling Stock	186.4	<b>63.0</b>	- 123.4	131.8	<b>122.3</b>	- 9.4	7.7	<b>4.6</b>	- 3.0
Aerospace	87.7	<b>79.9</b>	- 7.7	126.4	<b>119.3</b>	- 7.1	- 4.3	<b>- 0.6</b>	3.7
Gas Turbines & Machinery	279.3	<b>138.5</b>	- 140.7	138.8	<b>128.8</b>	- 9.9	6.7	<b>2.7</b>	- 3.9
Energy & Environmental Engineering	61.6	<b>91.2</b>	29.6	66.1	<b>47.1</b>	- 18.9	5.3	<b>- 0.1</b>	- 5.4
Consumer Products & Machinery	247.8	<b>152.3</b>	- 95.4	247.8	<b>152.3</b>	- 95.4	- 7.7	<b>- 25.6</b>	- 17.9
Hydraulic Machinery	71.5	<b>46.5</b>	- 25.0	68.2	<b>47.1</b>	- 21.0	7.0	<b>4.3</b>	- 2.6
Others	88.6	<b>67.6</b>	- 20.9	79.8	<b>69.0</b>	- 10.8	2.6	<b>- 0.2</b>	- 2.8
Eliminations and Corporate	—	—	—	—	—	—	—	—	—
Total	1,087.2	<b>649.9</b>	- 437.3	954.9	<b>798.0</b>	- 156.9	14.7	<b>- 14.0</b>	- 28.7

# Shipbuilding

Main Products: LNG Carriers, LPG Carriers, VLCCs, Bulk Carriers, Submarines and others

(¥ Billion / In accumulated amount)



## ◇ **FY2009 3Q** ( vs. FY2008 3Q )

### **Orders Received:**

Significant decline in orders received of new building ships due to downturn of shipping market

**Net Sales:** Increase in sales units and sales of large-scale vessels

### **Operating Income:**

Income increased due to sales increase and improvement of profitability by decline of material price, and other factors

<Unit of Orders Received and Sales of New Building Ships>

	Orders Received		Sales	
	FY2008 3Q	FY2009 3Q	FY2008 3Q	FY2009 3Q
LNG carriers		1	8(6)	5(5)
LPG carriers	1		3(2)	2(2)
VLCC			1(0)	1(0)
Bulk carriers	5		4(0)	10(6)
Submarines			1(1)	2(2)
Total	6	1	17(9)	20(15)

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

## ◇ **FY2009 Forecast** ( vs. Forecast in Nov. )

- Orders received was revised down due to weak demand for new building ships
- No change in net sales
- Operating income was revised down due to the following reasons;
  - Revision of the progress status of material cost reduction measures
  - Fluctuations in the degree of operations caused by delivery schedule adjustment

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

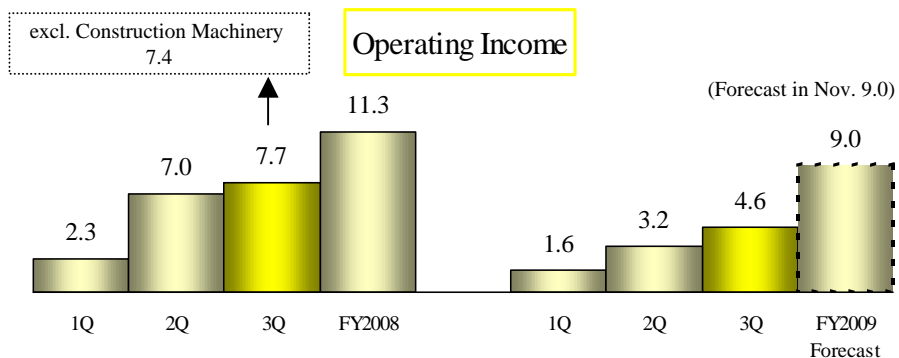
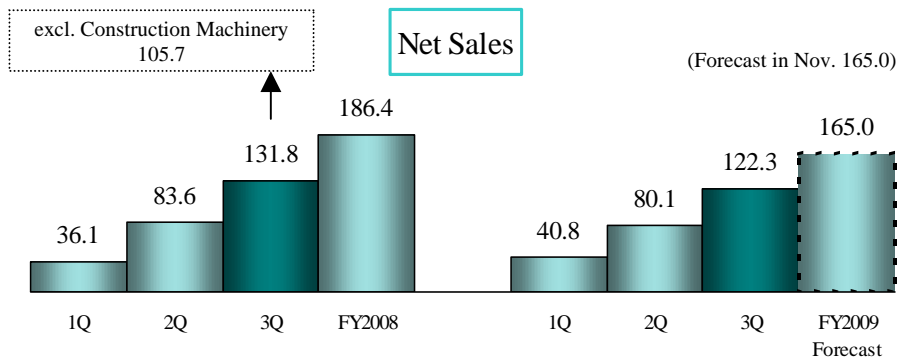
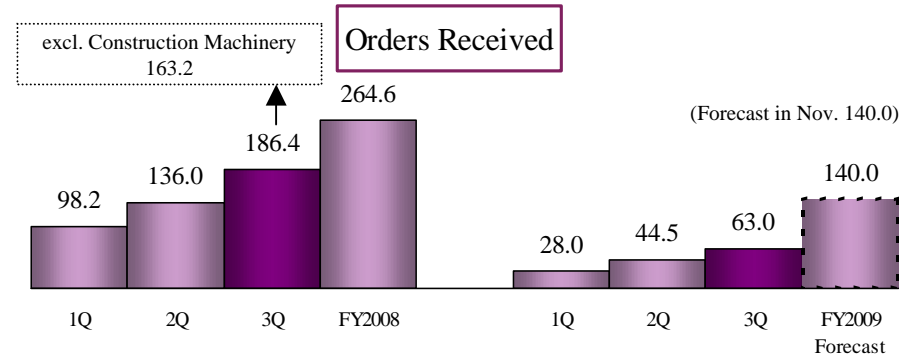
NACKS was established in Nantong in Dec. 1995, as a joint venture between KHI and China Ocean Shipping(Group) Company, the biggest shipping company in China. At NACKS, various types of commercial vessels are built for both domestic and overseas customers under the technical support from Kawasaki Shipbuilding Corporation. (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)

(¥ Billion / In accumulated amount)



## ◇ **FY2009 3Q**

※ vs. FY2008 3Q which excludes figures of Construction Machinery business unit

### **Orders Received :**

- 132 cars for Singapore Land Transport Authority
- Decrease in large-scale orders received for Japan Railways

### **Net Sales :**

Increase in sales for Japan Railways and overseas market

### **Operating Income :**

Income decreased due to deterioration in profitability for overseas projects by the appreciation of the yen, and other factors

## ◇ **FY2009 Forecast** ( vs. Forecast in Nov. )

No change in orders received, net sales and operating income

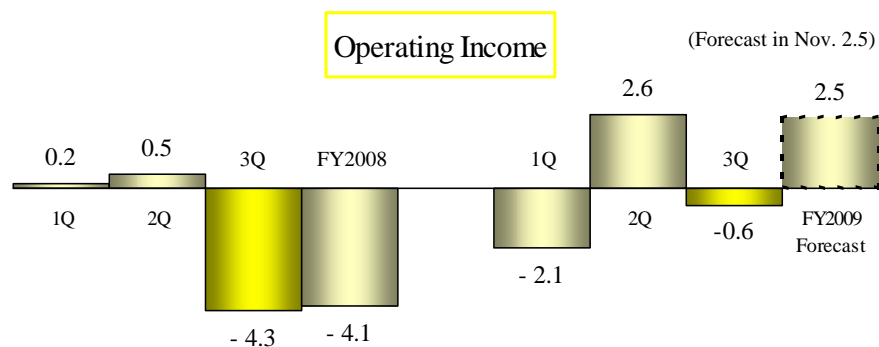
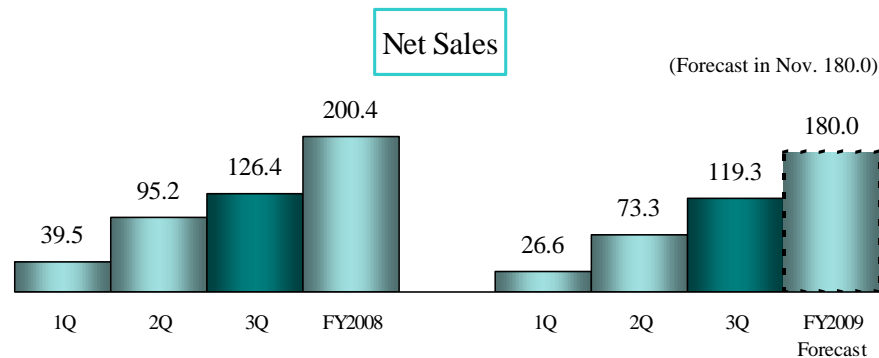
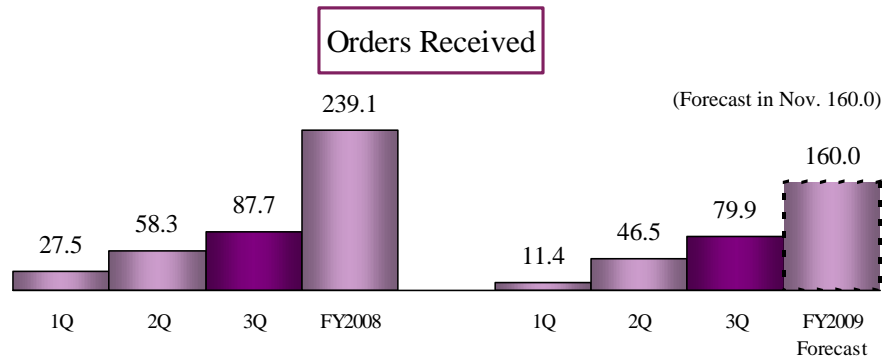
## ◇ **(For Reference) The Present Status of New Overseas Projects**

- Dedicated Freight Corridor - Western Corridor (Delhi – Mumbai)
  - Japanese ODA project, working to receive orders for electric locomotives
- Ho Chi Minh City Urban Railway Line 1
  - Japanese ODA project, working with other companies for a bid scheduled in Jul. 2010
- North America
  - Working to receive 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., Brazil, India, Vietnam and other countries

# Aerospace

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

(¥ Billion / In accumulated amount)



◇ **FY2009 3Q** ( vs. FY2008 3Q )

**Orders Received :**

Decrease in orders received for component parts for BOEING including B777

**Net Sales :**

Decrease in sales for Japan Ministry of Defense and others

**Operating Income :**

Income improved due to expenses deferrals regarding B787 project with the revision of development schedule of the said aircraft, and other factors

◇ **FY2009 Forecast** ( vs. Forecast in Nov. )

No change in orders received, net sales and operating income

◇ **(For Reference) First Flight of XC-2 Test Aircraft**

On Jan. 26, 2010, the first test XC-2 transport aircraft completed a successful first flight at Kawasaki's Gifu Works.

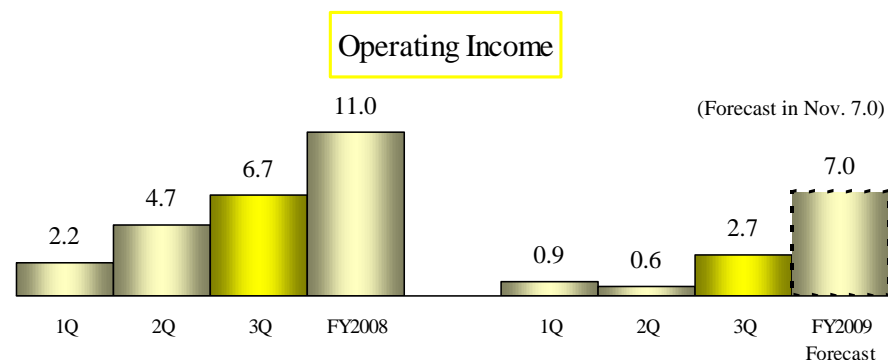
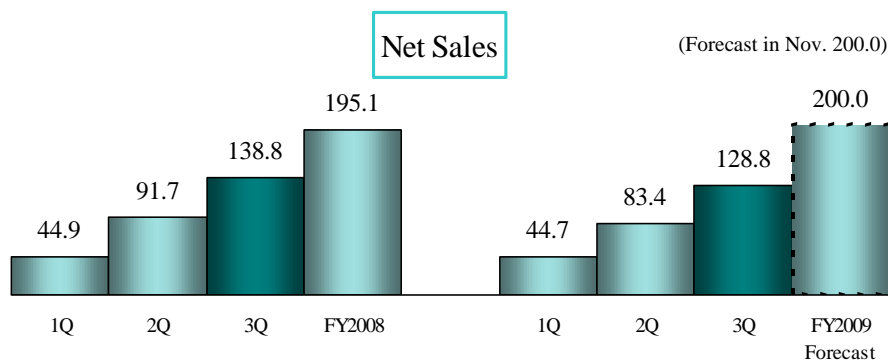
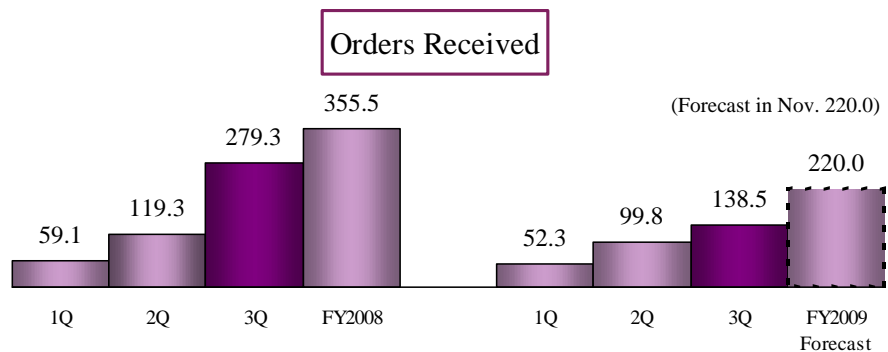
The Ministry of Defense began development of the XC-2 in 2001 as a replacement of the current C-1, and in Nov. 2001, Kawasaki was nominated as a prime-contractor for developing the airplane with aircraft manufacturers and other participating companies.

Kawasaki will continue in-house flight tests for the XC-2 at its Gifu Works and the aircraft is scheduled for delivery to the Ministry of Defense by the end of Mar. 2010.

# Gas Turbines & Machinery

Main Products : Jet engines, Gas turbine co-generation system, Gas turbines & Steam turbines for marines & land, Diesel engines, Marine propulsion system

(¥ Billion / In accumulated amount)



◇ **FY2009 3Q** ( vs. FY2008 3Q )

**Orders Received :**

Decrease in orders received for component parts for commercial aircraft jet engines that had no such a large order received as there was in the same period last year, marine diesel engines and marine propulsion systems

**Net Sales :**

Decrease in sales of component parts for commercial aircraft jet engines and marine diesel engines

**Operating Income :**

Income decreased due to the adverse impact of sales decrease and the appreciation of the yen, and other factors

◇ **FY2009 Forecast** ( vs. Forecast in Nov. )

No change in orders received, net sales and operating income

<Summary of Major Projects for Commercial Aircraft Jet Engines>

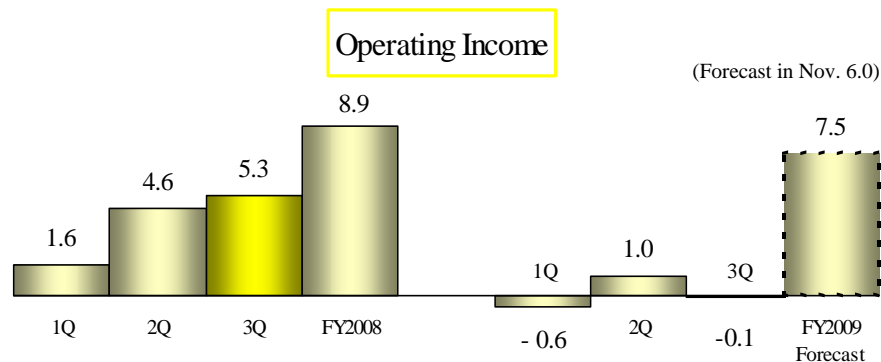
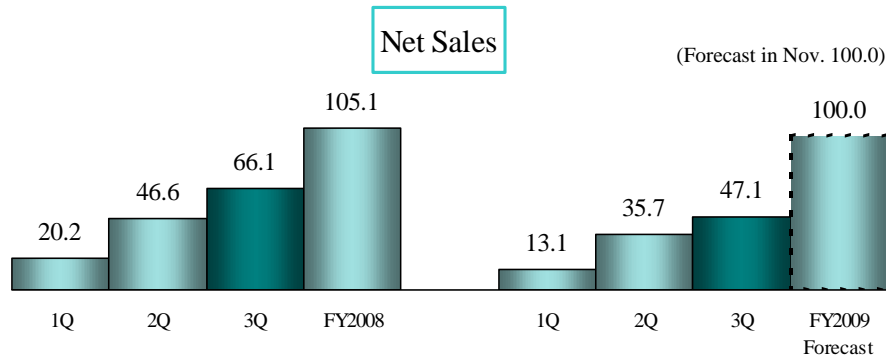
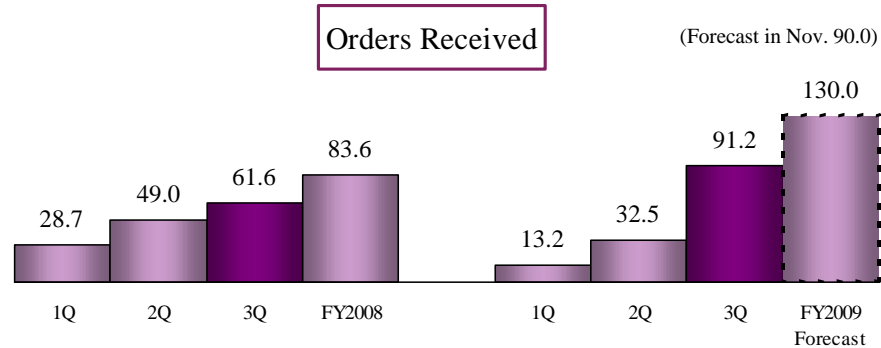
	V2500	Trent1000	TrentXWB
Aircraft	A320 and others	B787	A350
Participation Type	Full Partner	RRSP(※)	RRSP(※)
Share	Approx. 6%	Approx. 8.5%	Approx. 7%
Responsible Components	Fan case, vane, disc, low-pressure compressor blade	Intermediate pressure compressor (IPC) module	Intermediate pressure compressor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

(※) Risk & Revenue Sharing Partner

# Energy & Environmental Engineering

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

(¥ Billion / In accumulated amount)



◇ **FY2009 3Q** ( vs. FY2008 3Q )

## Orders Received :

Orders received increased due to a large-scale order received of fertilizer production facility for overseas customer

## Net Sales :

Decrease in large-scale projects for overseas customers

Overseas large-scale projects for FY2008

( Ferronickel plant / Korea  
Urea production facility / Pakistan  
Cement plant / Vietnam )

## Operating Income :

Income decreased due to the adverse impact of sales decline

◇ **FY2009 Forecast** ( vs. Forecast in Nov. )

- Orders received was revised up due to a large-scale order received for overseas customer, and other factors
- No change in net sales
- Operating income was revised up due to an improvement in profitability of some projects

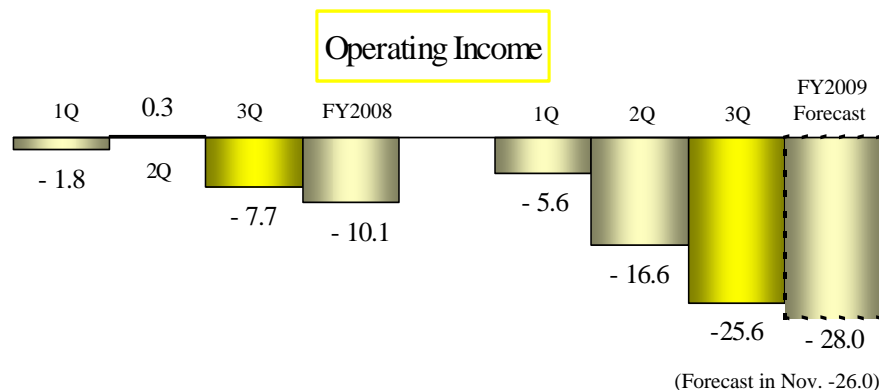
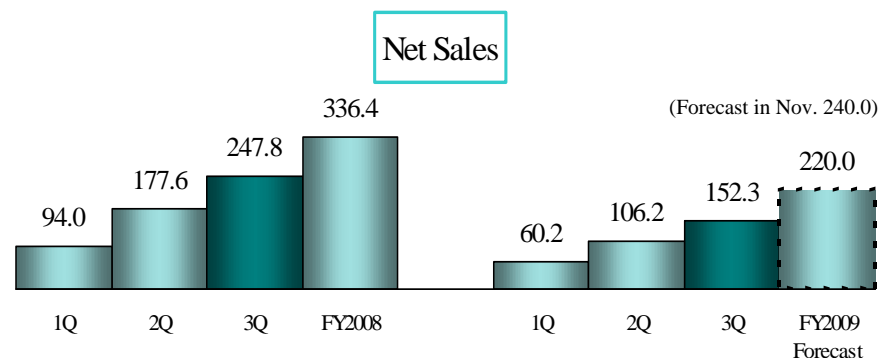
◇ **(For Reference) Joint Ventures in China**

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 for environment and energy conservation in China.

# Consumer Products & Machinery

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

(¥ Billion / In accumulated amount)



<Sales by Geographic Segment for Consumer Products> (Thousands of unit/ ¥ Billion)

	FY2008 3Q		FY2008		FY2009 3Q		FY2009 Forecast	
	Unit	Amount	Unit	Amount	Unit	Amount	Unit	Amount
Domestic	17	11.8	19	14.7	13	10.2	17	13.0
North America	134(73)	95.6	197(118)	134.3	60(37)	42.1	94(60)	60.0
Europe	68	55.0	97	73.2	49	39.1	73	56.2
Other	151	34.3	210	44.9	159	31.9	230	44.8
<b>Total</b>	<b>370</b>	<b>196.7</b>	<b>523</b>	<b>267.1</b>	<b>281</b>	<b>123.3</b>	<b>414</b>	<b>174.0</b>

Note: 1) Sales units and amount include the following products.

Units: Motorcycles, All-Terrain Vehicles(ATV), Utility Vehicles and Personal Water Craft(Jet Ski)

Amount: The products mentioned above and parts for those products.

2) Figures in the Parenthesis( ) represent motorcycle sales units.

## ◇ FY2009 3Q ( vs. FY2008 3Q)

### Net Sales:

- Decrease in sales of motorcycles due to shrinking of U.S. and European markets
- Decrease in sales of industrial robots

### Operating Income:

Loss expanded due to the adverse impact of sales decrease and the appreciation of the yen and other factors, while improvement of marginal profitability and fixed cost reduction and other measures were implemented

## ◇ FY2009 Forecast ( vs. Forecast in Nov. )

- Net sales was revised down due to larger-than-expected decrease in sales of motorcycles in the U.S. market
- Larger loss is expected due to decrease in net sales, while overall cost reduction, including fixed cost reduction, is strongly pursued

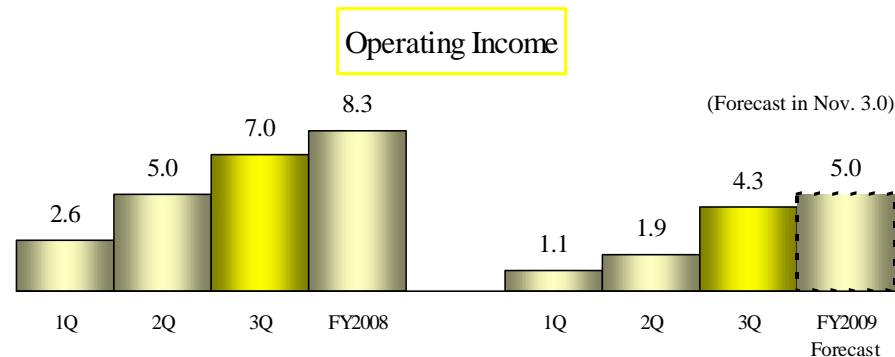
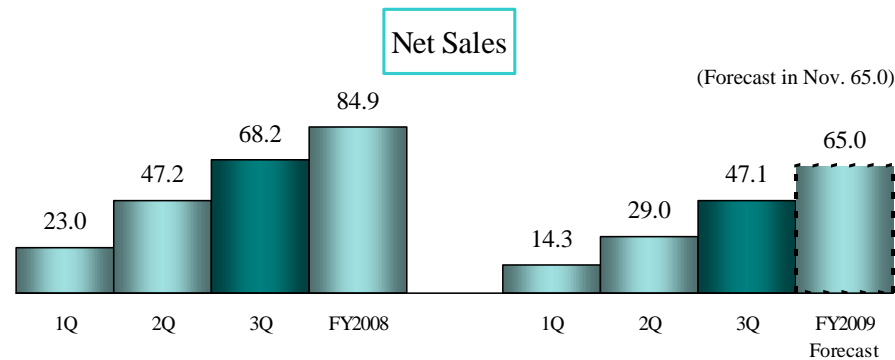
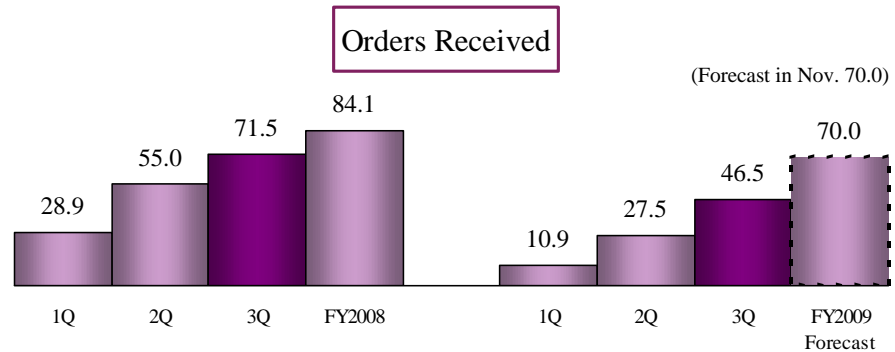
## ◇ For Reference

- A joint venture 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 Jan. 2010.
- New motorcycle production plant started up at Kawasaki's Brazilian subsidiary in Oct. 2009.

# Hydraulic Machinery

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

(¥ Billion / In accumulated amount)



◇ **FY2009 3Q** ( vs. FY2008 3Q )

**Orders Received :**

Decrease in orders received due to demand decline for hydraulic components for construction machinery in Japanese, U.S. and European markets

**Net Sales :**

Decrease in sales of hydraulic components for construction machinery

**Operating Income :**

Income decreased due to the adverse impact of sales decline

◇ **FY2009 Forecast** ( vs. Forecast in Nov. )

- No change in orders received and net sales
- Operating income was revised up due to stable sales to the emerging markets in Asia, and other factors

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

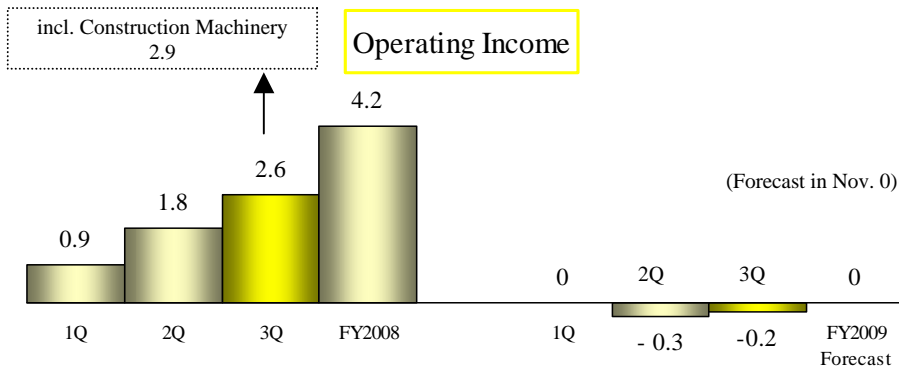
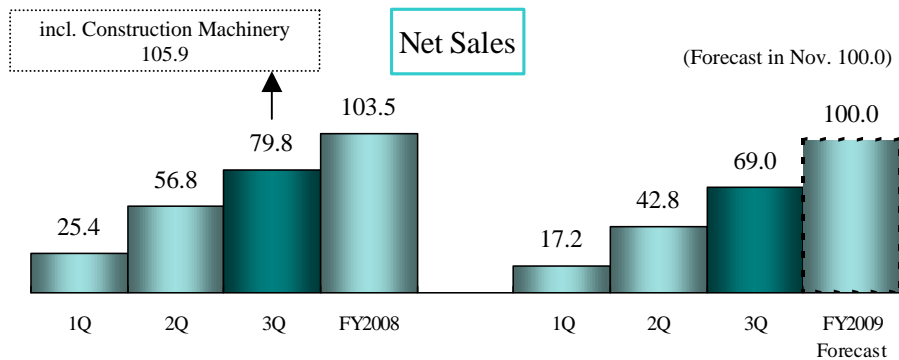
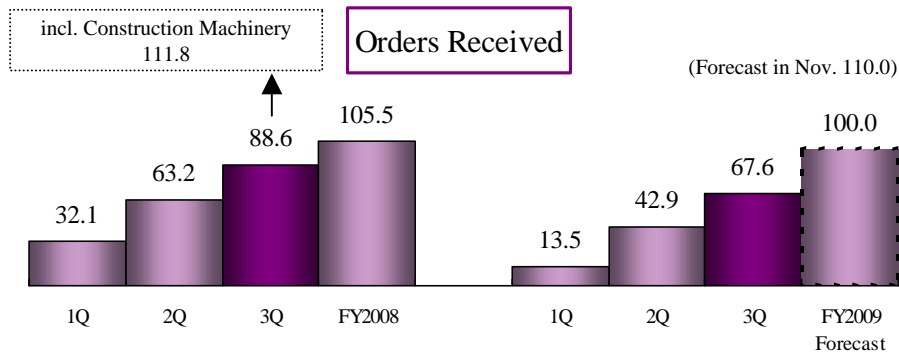
In Aug. 2006, production of hydraulic pumps started at Chinese subsidiary in Suzhou to meet the increasing demand in China.

In Sep. 2008, the production facility was expanded, and in Jan. 2009, production of hydraulic marine machinery started at the same facility.

# Others

Main Products: Construction Machinery and others

(¥ Billion / In accumulated amount)



◇ **For Reference**

As of Apr. 1, 2009, Construction Machinery business unit was separated and its operations were taken over by a new company named "KCM Corporation".

→ From FY2009, Construction Machinery business unit is included in "Others" segment.

# Financial Condition and Cash Flows

## 【Financial Condition】

(¥ Billion)

	FY2008 End of Mar.2009	FY2009 End of Dec.2009
Total Assets	1,399.7	1,422.8
Shareholders' Equity (Ratio of shareholders' equity to total assets)	290.4 (20.7%)	277.9 (19.5%)
Interest-bearing debt (Net Interest-bearing debt)	389.2 (357.3)	544.2 (511.3)
Net Debt Equity Ratio	123%	183%

Note) Interest-bearing debt includes lease obligations

## 【Cash Flows】

(¥ Billion / In accumulated amount)

	FY2008 3Q	FY2009 3Q
Cash flows from operating activities	- 73.2	- 98.7
Cash flows from investing activities	- 46.8	- 52.6
Free Cash Flows	-120.1	- 151.3
Cash flows from financing activities	135.3	151.6



## **II. Forecast for FY2009**

# Consolidated Operating Performance

(¥ Billion)

	FY2008	FY2009 Forecast		Change	
		in Nov.	in Jan. (Revised)	vs. FY2008	vs. Forecast in Nov.
Orders Received	1,540.5	1,080.0	<b>1,060.0</b>	- 480.5	- 20.0
Net Sales	1,338.5	1,200.0	<b>1,180.0</b>	- 158.5	- 20.0
Operating Income	28.7	5.0	<b>5.0</b>	- 23.7	0
Recurring Profit	38.7	10.0	<b>10.0</b>	- 28.7	0
Net Income	11.7	3.0	<b>3.0</b>	- 8.7	0

## 【Orders Received】

Energy & Environmental Engineering segment was revised up due to a large-scale order received, while Shipbuilding and Consumer Products & Machinery segments were revised down due to weak demand

## 【Net Sales】

Consumer Products & Machinery segment was revised down due to sales decrease in U.S. market

## 【Profits】

Profits remain unchanged because the adverse impact of sales decrease is offset by the effects of sales increase in Asian and other emerging markets and the measures to improve profitability such as fixed cost reduction and improvement in productivity

Exchange Rates (actual & assumed)

¥/US\$	101	90	<b>90</b>
¥/EUR	142	130	<b>130</b>

Note) Assumed rate is applied to the foreign exchange exposure as of Jan. 29, 2010

(For Reference)

Impact on profit by FX fluctuation of 1 yen

(¥ Billion)

	Operating Income	Recurring Profit
US\$	0.9	0.7
EUR	0.1	0

# Forecast by Segment

(¥ Billion)

	Orders Received			Net Sales			Operating Income		
	FY2008	FY2009 Forecast		FY2008	FY2009 Forecast		FY2008	FY2009 Forecast	
		in Nov.	in Jan. (Revised)		in Nov.	in Jan. (Revised)		in Nov.	in Jan. (Revised)
Shipbuilding	71.5	50.0	20.0	126.4	150.0	150.0	- 1.0	3.5	2.0
Rolling Stock	264.6	140.0	140.0	186.4	165.0	165.0	11.3	9.0	9.0
Aerospace	239.1	160.0	160.0	200.4	180.0	180.0	- 4.1	2.5	2.5
Gas Turbines & Machinery	355.5	220.0	220.0	195.1	200.0	200.0	11.0	7.0	7.0
Energy & Environmental Engineering	83.6	90.0	130.0	105.1	100.0	100.0	8.9	6.0	7.5
Consumer Products & Machinery	336.4	240.0	220.0	336.4	240.0	220.0	- 10.1	- 26.0	- 28.0
Hydraulic Machinery	84.1	70.0	70.0	84.9	65.0	65.0	8.3	3.0	5.0
Others	105.5	110.0	100.0	103.5	100.0	100.0	4.2	0	0
<b>Total</b>	<b>1,540.5</b>	<b>1,080.0</b>	<b>1,060.0</b>	<b>1,338.5</b>	<b>1,200.0</b>	<b>1,180.0</b>	<b>28.7</b>	<b>5.0</b>	<b>5.0</b>

# R&D/CAPEX/Number of Employees

(¥ Billion / Persons)

	FY2008 Actual	FY2009 Forecast
R&D Expenses	38.2	38.0
CAPEX (Construction Base)	82.4	71.0
Depreciation and Amortization	44.3	52.0
Domestic	24,311	24,400
Overseas	7,955	7,700
Number of Employees	32,266	32,100

# **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.