KAWASAKI HEAVY INDUSTRIES, LTD.

2004

Semiannual Report

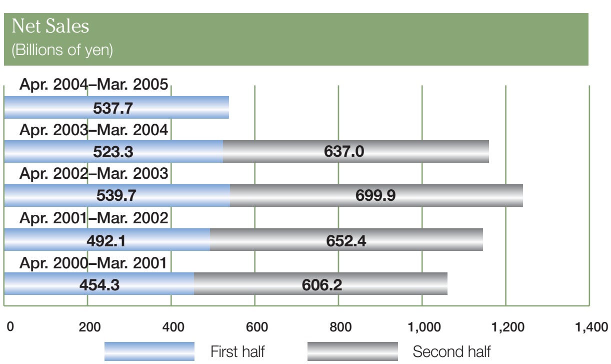
For the six months ended September 30, 2004

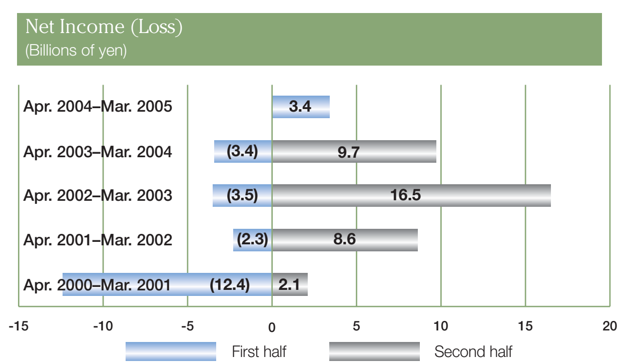
Consolidated Financial Highlights

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the six months ended September 30, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
For the period:			
Net sales	**¥ 537,715**	¥ 523,270	**$ 4,842,098**
Operating income	**6,945**	1,616	**62,539**
Net income (loss)	**3,365**	(3,396)	**30,302**
Research and development expenses	**5,300**	6,100	**47,726**
Depreciation and amortization	**15,130**	15,796	**136,245**
Net cash provided by operating activities	**19,816**	11,000	**178,442**
Per share (in yen and U.S. dollars):			
Net income (loss)	**¥ 2.30**	¥ (2.40)	**$ 0.02**
Cash dividends	**—**	—	**—**
At end of the period:			
Total assets	**¥1,114,029**	¥1,160,291	**$10,031,778**
Total shareholders' equity	**194,127**	180,880	**1,748,104**
Orders received and outstanding:			
Orders received during the period	**503,090**	521,255	**4,530,302**
Order backlog at end of the period	**1,173,053**	1,154,122	**10,563,287**
Number of employees	**29,126**	29,651	

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 ¥111.05 to $1.00, the approximate rate of exchange at September 30, 2004.





Steadily Implementing Business Reforms and Creating a High-Margin Earnings Structure

The Japanese economy continued on a recovery trend during the interim period under review as a result of firm consumer spending, expansion in exports, and growth in private-sector capital investment supported by improvement in corporate profitability. For Kawasaki Heavy Industries, Ltd. (KHI), however, the operating environment was generally made difficult mainly by cutbacks in government public works investment and higher prices of steel and other raw materials.

In this operating environment, the KHI Group reported total orders received of ¥503.1 billion, a fall of ¥18.2 billion, or 3.5% from the interim period of the previous fiscal year. This was chiefly due to a decline in orders secured by the Rolling Stock, Construction Machinery & Crushing Plant segment, which had experienced a surge of overseas orders in the previous interim period. Net sales for the interim period rose ¥14.4 billion, or 2.8%, to ¥537.7 billion, supported by increases in sales of the Rolling Stock, Construction Machinery & Crushing Plant, Plant & Infrastructure Engineering, and other segments, which more than offset declines, mainly in the Shipbuilding and Consumer Products & Machinery segments.

Profitability improved, with operating income rising a sharp ¥5.3 billion, or 329.8%, to ¥6.9 billion, as a result of recovery in the Consumer Products & Machinery and other segments. Net income also rebounded, to ¥3.4 billion for the interim period, versus a net loss of ¥3.4 billion for the interim period of the previous fiscal year.

KHI's basic policy regarding the allocation of earnings is to pay stable dividends to shareholders. However, in consideration of the importance of expanding retained earnings, we regret that we have decided to suspend the payment of cash dividends for the interim period under review.

The KHI Group defines its corporate mission as drawing fully on its broad base of advanced technologies to create new value through products that work modern-day wonders on land, at sea, and in the air, while endeavoring to contribute to the development of societies around the world. To fulfill this mission, KHI strives to increase customer satisfaction by providing products and services that are differentiated from those of competitors through technology and brand equity. By pursuing these activities, we of the KHI Group work to increase our enterprise value and respond to the expectations of shareholders, customers, employees, and the communities we serve.

In implementing these basic policies, we have set a specific target of attaining a 9% or higher before-tax return on invested capital (ROIC) under our medium-term business plan. To reach this target of creating a high-margin earnings structure, we are carrying out structural reforms in keeping with our policy of "Quality followed by Quantity" and are exercising selectivity and concentration in the allocation of our resources while working to improve our business model.

Under our policy of selectivity and concentration, we have positioned Consumer Products & Machinery and Aerospace as core businesses and classified Rolling Stock and Gas Turbines & Machinery as developing businesses for further investment. We are allocating our resources to these businesses on a priority basis to strengthen our earnings structure.

On the other hand, we have positioned Shipbuilding and Plant & Infrastructure Engineering as segments targeted for structural reform. These reforms have been wide-ranging and included the establishment of Kawasaki Shipbuilding Corporation as a wholly owned subsidiary and consolidating our four plants for the fabrication of steel structures into a single facility. Nevertheless, the operating environment, especially for our industrial plant business in the Plant & Infrastructure Engineering segment, remains challenging because of the cutbacks in government public works investment and price competition. These circumstances have made it difficult for the business to return to profitability. We therefore plan to implement major structural reforms by setting up our industrial plant division as a wholly owned subsidiary in April 2005. Operating as a subsidiary, this business is expected to strengthen its performance and create a stable operating base by managing its activities more flexibly and efficiently and focusing on products and areas where it has a competitive advantage.

Along with these activities, all of KHI's operating divisions are continuing to improve their earnings power by taking the initiatives needed to lower their break-even points through continued cost-cutting and other measures. In addition, we are focusing on substantially improving our non-price related competitiveness by offering high-value-added products and services backed by our sophisticated technology and brand reliability. We are also taking steps to minimize the impact of foreign exchange rate fluctuations through the flexible use of hedging schemes and, from a cost perspective, significantly diversifying currencies.

Within today's fast-changing business environment, KHI is steadily implementing structural reforms in line with its medium-term plan to create a stronger, higher-margin earnings base. As we proceed with these initiatives to make KHI a stronger and more profitable enterprise, we look forward to the continuing support and advice of our shareholders.

December 2004

Masamoto Tazaki
President and CEO

Shipbuilding

During the interim period under review, this segment received orders amounting to ¥73.0 billion, ¥26.4 billion, or 56.5%, higher than for the interim period of the previous year. In total, orders were won for six new vessels: two LNG carriers, one LPG carrier, one bulk carrier, and two VLCCs (Very Large Crude Carriers).

Segment sales declined ¥7.2 billion, or 14.0%, to ¥44.5 billion, due mainly to decreased sales of newbuildings.

Operating income totaled ¥2.9 billion, ¥1.0 billion, or 25.2%, lower than for the interim period of the previous year, owing mainly to the decline in sales and adverse impact of foreign exchange rate movements.

Four vessels were delivered during the interim period: one LNG carrier, one LPG carrier, and two bulk carriers.

Rolling Stock, Construction Machinery & Crushing Plant

Although this segment succeeded in winning orders for *Shinkansen* train cars from the JR companies, subway cars to be delivered to Sapporo City, and other products, new orders dropped ¥65.7 billion, or 63.9%, to ¥37.1 billion, reflecting the receipt of large-scale overseas orders during the interim period of the previous year.

Segment sales rose ¥9.7 billion, or 16.8%, to ¥67.6 billion. This increase was due to the commencement of train car deliveries and the expansion of railway construction work, both for the Taiwan high-speed train project, and firm sales of the segment's construction machinery and crushing plant divisions.

Operating income rose ¥1.7 billion, or 116.8%, to ¥3.2 billion, boosted by the increase in sales.

Aerospace

Orders received were up ¥3.0 billion, or 9.5%, to ¥34.2 billion. Although orders from the Japan Defense Agency (JDA) for spare parts for aircraft declined slightly, orders from customers in the commercial aircraft sector advanced, led mainly by orders from The Boeing Company that were principally for component parts for its 767 and 777 passenger aircraft.

Segment sales rose ¥3.6 billion, or 5.2%, to ¥73.5 billion.

Operating income was down ¥1.0 billion, or 48.4%, to ¥1.1 billion, reflecting a decline in sales of higher-margin items and the effect of unfavorable foreign currency fluctuations.

Gas Turbines & Machinery

Orders won were up ¥31.2 billion, or 58.4%, to ¥84.5 billion, owing to higher demand for component parts manufactured by the gas turbine division for the V2500, Trent, and other jet engines for commercial aircraft. Other contributing factors were new orders for turbines/boilers for vessels secured by the machinery division of this segment.

Segment sales were up ¥2.4 billion, or 3.6%, to ¥68.2 billion, as a result of gains in revenues from aerodynamic equipment manufactured by the machinery division and other items.

This segment reported an operating loss of ¥0.4 billion, reflecting a decline of ¥1.1 billion in operating income. This was primarily due to increased development expenses for commercial aircraft engines.

Plant & Infrastructure Engineering

Orders received amounted to ¥57.4 billion, approximately the same as for the interim period of the previous fiscal year. Although new orders for the industrial plant division were down because of a surge in large projects in the previous year, new orders were obtained by the environmental plant division for municipal refuse incineration plants, while new orders for the steel structures division held firm.

Segment sales expanded ¥16.9 billion, or 33.5%, to ¥67.5 billion. Principal components of segment sales included a fertilizer and urea plant to Iran by the industrial plant division, municipal refuse incineration plants by the environmental plant division, and LPG tanks by the steel structures division.

The segment reported an operating loss of ¥7.1 billion, an increase of ¥2.1 billion, or 42.8%, from the same period of the previous fiscal year. Factors accounting for this included major cost overruns as a result of delays in construction work and additional construction work.

Consumer Products & Machinery

Sales of motorcycles in the U.S. and European markets as well as sales of industrial robots were robust, but segment sales were down ¥9.2 billion, or 5.5%, to ¥156.5 billion, because of a change in the accounting period of subsidiaries to match that of the parent company.

Operating income amounted to ¥4.8 billion, an improvement from the operating loss of ¥2.6 billion reported for the interim period a year earlier. Factors contributing to better profitability included lower promotional expenses.

Other

Orders received by this segment decreased 6.2%, or ¥4.0 billion, to ¥60.3 billion. Sales declined ¥1.8 billion, or 3.0%, to ¥60.1 billion, principally due to the fact that Kawasaki Safety Services Industries, Ltd. (KSSI), was excluded from among consolidated subsidiaries as a result of the sale by KHI of a portion of its interest in KSSI. Operating income rose ¥1.3 billion, or 105.5%, to ¥2.6 billion, owing to strong shipments by the hydraulic equipment division to customers in China.

Review by Geographic Segment

Sales in Japan for the interim period under review rose ¥34.9 billion, or 9.5% in comparison with the interim period of the previous year, to ¥401.3 billion, primarily because of an increase in sales recorded by the parent company. Operating income was ¥3.6 billion, compared with an operating loss of ¥0.5 billion in the previous interim period.

In North America, sales were down ¥20.9 billion, or 20.5%, to ¥81.0 billion. This was because of a decline in rolling stock deliveries that followed a relatively high volume of deliveries in the interim period of the previous year and a change in accounting policy for KHI's regional sales subsidiaries in the consumer products business to align those companies' accounting periods with that of the parent company. A decrease in sales in the rolling stock business adversely affected the segment's results; however, this was partly offset by a decline in sales promotion expenses in the consumer products business. As a result, the segment's operating loss increased ¥0.2 billion, or 21.0%, to ¥1.1 billion.

Sales in Europe declined ¥3.3 billion, or 7.5%, to ¥40.8 billion, owing to the effect of a change in accounting policy for KHI's regional sales subsidiary in the consumer products business that aligned that company's accounting period with that of the parent company. Operating income amounted to ¥0.9 billion, up from the interim period of the previous year.

In Asia, sales rose ¥3.6 billion, or 43.0%, to ¥12.0 billion, mainly because of higher motorcycle business revenues. Also, compared with an operating loss of ¥0.3 billion in the interim period of the previous fiscal year, KHI recorded operating income in Asia of ¥1.0 billion.

In other areas, sales increased ¥0.1 billion, or 5.0%, to ¥2.6 billion. In comparison with operating income of ¥0.1 billion for the interim period of the previous year, the operating loss for the interim period under review was ¥0.1 billion.

Financial Position

As a result of the efficient management of assets, total assets at the end of the interim period amounted to ¥1,114.0 billion, ¥46.3 billion lower than at the end of the interim period of the previous year, and interest-bearing debt was down ¥43.0 billion.

Among cash flows, net cash provided by operating activities during the interim period under review amounted to ¥19.8 billion, compared with ¥11.0 billion for the same period of the previous year. Net cash used in investing activities was ¥11.3 billion, compared with ¥14.3 billion in the same period of the previous year. Acquisitions of property, plant and equipment accounted for the largest portion of these cash outlays. Free cash flow was ¥8.5 billion. Net cash used in financing activities during the interim period amounted to ¥14.8 billion, compared with ¥4.6 billion in the same period of the previous year, as the Company made two bond issues in June and September but repaid borrowings and redeemed outstanding bonds. As a result of these factors, cash and cash equivalents at the end of the interim period were ¥36.1 billion, ¥6.2 billion lower than at the end of the previous fiscal year on March 31, 2004.

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
As of September 30 and March 31, 2004 and September 30, 2003

	Millions of yen			Thousands of U.S. dollars
	September 30, 2004 (unaudited)	March 31, 2004	September 30, 2003 (unaudited)	**September 30, 2004** (unaudited)
Assets:				
Current assets:				
Cash on hand and in banks	**¥ 36,520**	¥ 43,064	¥ 54,111	**$ 328,861**
Receivables, less allowance	**313,005**	376,807	313,103	**2,818,595**
Inventories	**358,127**	335,064	392,741	**3,224,917**
Other current assets	**47,824**	44,545	46,907	**430,653**
Total current assets	**755,476**	799,480	806,862	**6,803,026**
Investments and long-term loans, less allowance	**82,777**	77,839	72,783	**745,403**
Net property, plant and equipment	**246,763**	248,922	261,884	**2,222,089**
Intangible and other assets	**29,013**	30,663	18,762	**261,260**
Total assets	**¥1,114,029**	¥1,156,904	¥1,160,291	**$10,031,778**
Liabilities and shareholders' equity:				
Current liabilities:				
Short-term borrowings and current portion of long-term debt	**¥ 167,793**	¥ 188,652	¥ 229,708	**$ 1,510,968**
Payables	**269,656**	286,117	241,502	**2,428,240**
Advances from customers	**103,097**	110,900	140,441	**928,384**
Other current liabilities	**73,011**	91,870	79,680	**657,460**
Total current liabilities	**613,557**	677,539	691,331	**5,525,052**
Long-term liabilities:				
Long-term debt, less current portion	**224,095**	210,819	205,178	**2,017,965**
Others	**78,319**	74,516	79,155	**705,259**
Total long-term liabilities	**302,414**	285,335	284,333	**2,723,224**
Minority interests	**3,931**	3,855	3,747	**35,398**
Shareholders' equity:				
Common stock	**81,427**	81,427	81,427	**733,246**
Capital surplus	**31,389**	31,388	31,388	**282,656**
Retained earnings	**80,591**	80,469	70,742	**725,718**
Net unrealized gains on securities	**16,565**	13,266	9,326	**149,167**
Foreign currency translation adjustments	**(15,747)**	(16,283)	(11,918)	**(141,801)**
Treasury stock	**(98)**	(92)	(85)	**(882)**
Total shareholders' equity	**194,127**	190,175	180,880	**1,748,104**
Total liabilities and shareholders' equity	**¥1,114,029**	¥1,156,904	¥1,160,291	**$10,031,778**

Condensed Consolidated Statements of Operations and Retained Earnings

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the six months ended September 30, 2004 and 2003 (unaudited)

	Millions of yen		*Thousands of U.S. dollars*
	2004	*2003*	***2004***
Net sales	**¥537,715**	¥523,270	**$4,842,098**
Cost of sales	**467,661**	452,815	**4,211,265**
Gross profit	**70,054**	70,455	**630,833**
Selling, general and administrative expenses	**63,109**	68,839	**568,294**
Operating income	**6,945**	1,616	**62,539**
Other income (expenses):			
Interest and dividend income	**1,790**	1,106	**16,119**
Equity in income of unconsolidated subsidiaries and affiliates	**452**	326	**4,070**
Interest expense	**(3,138)**	(3,941)	**(28,258)**
Other, net	**894**	(55)	**8,051**
Income (loss) before income taxes and minority interests	**6,943**	(948)	**62,521**
Income taxes	**(3,391)**	(2,511)	**(30,536)**
Minority interests in net income of consolidated subsidiaries	**(187)**	63	**(1,683)**
Net income (loss)	**¥ 3,365**	¥ (3,396)	**$ 30,302**
Retained earnings:			
Balance at beginning of the period	**¥ 80,469**	¥ 77,069	**$ 724,620**
Net income (loss) for the period	**3,365**	(3,396)	**30,302**
Cash dividends	**(2,885)**	(2,781)	**(25,979)**
Bonuses to directors and statutory auditors	**(39)**	(71)	**(351)**
Reduction due to change of consolidation period of subsidiaries	**(222)**	—	**(1,999)**
Other	**(97)**	(79)	**(873)**
Balance at end of the period	**¥ 80,591**	¥ 70,742	**$ 725,718**

Condensed Consolidated Statements of Cash Flows

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the six months ended September 30, 2004 and 2003 (unaudited)

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	**¥ 6,943**	¥ (948)	**$ 62,521**
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**15,130**	15,796	**136,245**
Decrease in assets	**50,229**	31,470	**452,310**
Decrease in liabilities	**(38,645)**	(27,312)	**(347,996)**
Other	**(13,841)**	(8,006)	**(124,638)**
Net cash provided by operating activities	**19,816**	11,000	**178,442**
Cash flows from investing activities:			
Acquisition of tangible and intangible assets	**(14,437)**	(17,146)	**(130,005)**
Acquisition of investments in securities	**(1,006)**	(406)	**(9,059)**
Other	**4,133**	3,237	**37,218**
Net cash used for investing activities	**(11,310)**	(14,315)	**(101,846)**
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	**(18,503)**	13,682	**(166,619)**
Proceeds from long-term debt	**49,563**	15,675	**446,313**
Repayment of long-term debt	**(42,920)**	(31,007)	**(386,493)**
Other	**(2,958)**	(2,937)	**(26,636)**
Net cash used for financing activities	**(14,818)**	(4,587)	**(133,435)**
Effect of exchange rate changes	**105**	366	**945**
Net decrease in cash and cash equivalents	**(6,207)**	(7,536)	**(55,894)**
Cash and cash equivalents at beginning of the period	**42,375**	59,837	**381,585**
Decrease in cash and cash equivalents by change of consolidation period of subsidiaries	**(39)**	—	**(351)**
Increase in cash and cash equivalents arising from newly consolidated subsidiaries	**—**	1,330	**—**
Decrease in cash and cash equivalents arising from exclusion of consolidated subsidiaries	**—**	(999)	**—**
Cash and cash equivalents at end of the period	**¥36,129**	¥52,632	**$325,340**

1. Previously, the Company applied the percentage of completion accounting method to projects requiring more than one year for completion and with a contract amount of ¥5,000 million or more. Beginning with the interim period under review, the Company has begun to apply this method to projects requiring more than one year for completion and with a contract amount of ¥3,000 million or more. The Company made this change because of the seasonality of its business performance, which is characterized by a higher percentage of completions in the second half of the fiscal year than in the first half. By expanding the scope of projects where the percentage of completion method is applied, the financial statements now present a significantly more accurate view of Company performance. As a result of this change in accounting policy, net sales for the interim period under review were ¥31,360 million higher and operating income was ¥3,394 million higher than they would have been without this change.

   As a result of this change, the segment information on pages 10 to 12 for the interim period under review has been altered as follows:

   (a) Information by industry segment: Compared with the previous method of reporting, sales of the Aerospace segment are ¥18,637 million higher and operating income is up ¥1,852 million. Sales of the Gas Turbines & Machinery segment are ¥3,764 million higher and the operating loss is ¥272 million lower. Sales of the Plant & Infrastructure Engineering segment are ¥8,959 million higher and the operating loss is ¥1,270 million smaller.

   (b) Information by geographic area: Compared with the previous method of reporting, sales in Japan are ¥31,360 million higher and operating income is up ¥3,394 million.

2. The closing dates for the interim accounting periods of 32 consolidated subsidiaries of the KHI Group differ from the closing date of the Company's financial statements (September 30). Previously, the Company used the interim financial statements of these companies to prepare its consolidated financial statements. Beginning with the interim period under review, the Company has prepared a provisional settlement of accounts for the five consolidated subsidiaries that close their interim accounting periods on June 30, including Kawasaki Motors Corporation Japan, Kawasaki Motors Corp., U.S.A., and Kawasaki Motors Europe N.V., and other two subsidiaries, and used these provisional accounts in preparing the Company's consolidated financial statements. Retained earnings were adjusted for profits (losses) for the three-month period. The Company made this change, along with the commencement of quarterly financial reporting, with the aim of presenting its earnings more accurately and thereby increasing the transparency of its disclosure. As a result, retained earnings at the beginning of the period were reduced by ¥222 million.

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the six months ended September 30, 2004 and 2003 (unaudited)

(a) Information by industry segment

	Millions of yen				
	2004				
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)
Shipbuilding	**¥ 44,471**	**¥ 507**	**¥ 44,978**	**¥ 42,092**	**¥2,886**
Rolling Stock, Construction Machinery & Crushing Plant	**67,600**	**715**	**68,315**	**65,117**	**3,198**
Aerospace	**73,460**	**831**	**74,291**	**73,222**	**1,069**
Gas Turbines & Machinery	**68,170**	**8,803**	**76,973**	**77,345**	**(372)**
Plant & Infrastructure Engineering	**67,463**	**5,655**	**73,118**	**80,259**	**(7,141)**
Consumer Products & Machinery	**156,490**	**2,531**	**159,021**	**154,219**	**4,802**
Other	**60,061**	**19,730**	**79,791**	**77,232**	**2,559**
Total	**537,715**	**38,772**	**576,487**	**569,486**	**7,001**
Eliminations	**—**	**(38,772)**	**(38,772)**	**(38,716)**	**(56)**
Consolidated total	**¥537,715**	**¥ —**	**¥537,715**	**¥530,770**	**¥6,945**

	Millions of yen				
	2003				
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)
Shipbuilding	¥ 51,683	¥ 780	¥ 52,463	¥ 48,606	¥3,857
Rolling Stock, Construction Machinery & Crushing Plant	57,885	1,585	59,470	57,995	1,475
Aerospace	69,815	983	70,798	68,727	2,071
Gas Turbines & Machinery	65,799	5,269	71,068	70,333	735
Plant & Infrastructure Engineering	50,530	5,566	56,096	61,096	(5,000)
Consumer Products & Machinery	165,651	1,661	167,312	169,950	(2,638)
Other	61,907	19,605	81,512	80,267	1,245
Total	523,270	35,449	558,719	556,974	1,745
Eliminations	—	(35,449)	(35,449)	(35,320)	(129)
Consolidated total	¥523,270	¥ —	¥523,270	¥521,654	¥1,616

	Thousands of U.S. dollars				
	2004				
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)
Shipbuilding	**$ 440,459**	**$ 4,566**	**$ 405,025**	**$ 379,037**	**$25,988**
Rolling Stock, Construction Machinery & Crushing Plant	**608,735**	**6,438**	**615,173**	**586,375**	**28,798**
Aerospace	**661,504**	**7,483**	**668,987**	**659,361**	**9,626**
Gas Turbines & Machinery	**613,868**	**79,270**	**693,138**	**696,488**	**(3,350)**
Plant & Infrastructure Engineering	**607,501**	**50,923**	**658,424**	**722,728**	**(64,304)**
Consumer Products & Machinery	**1,409,185**	**22,792**	**1,431,977**	**1,388,735**	**43,242**
Other	**540,846**	**177,668**	**718,514**	**695,470**	**23,044**
Total	**4,842,098**	**349,140**	**5,191,238**	**5,128,194**	**63,044**
Eliminations	**—**	**(349,140)**	**(349,140)**	**(348,635)**	**(505)**
Consolidated total	**$4,842,098**	**$ —**	**$4,842,098**	**$4,779,559**	**$62,539**

(b) Information by geographic area

	Millions of yen				
	2004				
	External sales	*Intersegment sales*	*Total sales*	*Operating expenses*	*Operating income (loss)*
Japan	**¥401,293**	**¥ 83,699**	**¥484,992**	**¥481,348**	**¥3,644**
North America	**81,000**	**7,556**	**88,556**	**89,620**	**(1,064)**
Europe	**40,822**	**2,032**	**42,854**	**41,965**	**889**
Asia	**11,993**	**7,729**	**19,722**	**18,707**	**1,015**
Other areas	**2,607**	**49**	**2,656**	**2,791**	**(135)**
Total	**537,715**	**101,065**	**638,780**	**634,431**	**4,349**
Eliminations	**—**	**(101,065)**	**(101,065)**	**(103,661)**	**2,596**
Consolidated total	**¥537,715**	**¥ —**	**¥537,715**	**¥530,770**	**¥6,945**

	Millions of yen				
	2003				
	External sales	*Intersegment sales*	*Total sales*	*Operating expenses*	*Operating income (loss)*
Japan	¥366,350	¥68,812	¥435,162	¥435,661	¥ (499)
North America	101,934	8,057	109,991	110,870	(879)
Europe	44,119	2,263	46,382	45,652	730
Asia	8,385	4,819	13,204	13,514	(310)
Other areas	2,482	41	2,523	2,472	51
Total	523,270	83,992	607,262	608,169	(907)
Eliminations	—	(83,992)	(83,992)	(86,515)	2,523
Consolidated total	¥523,270	¥ —	¥523,270	¥521,654	¥1,616

	Thousands of U.S. dollars				
	2004				
	External sales	*Intersegment sales*	*Total sales*	*Operating expenses*	*Operating income (loss)*
Japan	**$3,613,625**	**$753,706**	**$4,367,331**	**$4,334,516**	**$32,815**
North America	**729,401**	**68,042**	**797,443**	**807,024**	**(9,581)**
Europe	**367,600**	**18,298**	**385,898**	**377,893**	**8,005**
Asia	**107,996**	**69,599**	**177,595**	**168,455**	**9,140**
Other areas	**23,476**	**441**	**23,917**	**25,133**	**(1,216)**
Total	**4,842,098**	**910,086**	**5,752,184**	**5,713,021**	**39,163**
Eliminations	**—**	**(910,086)**	**(910,086)**	**(933,462)**	**23,376**
Consolidated total	**$4,842,098**	**$ —**	**$4,842,098**	**$4,779,559**	**$62,539**

(c) Overseas sales

	Millions of yen	*%*	*Millions of yen*	*%*	*Thousands of U.S. dollars*
	2004		*2003*		***2004***
	Overseas sales	*% against net sales*	*Overseas sales*	*% against net sales*	*Overseas sales*
North America	**¥ 99,135**	**18.4%**	¥123,223	23.5%	**$ 892,706**
Europe	**51,794**	**9.6**	70,313	13.4	**466,403**
Asia	**69,083**	**12.8**	29,624	5.7	**622,089**
Other areas	**48,835**	**9.0**	34,291	6.6	**439,757**
Total	**¥268,847**	**49.9%**	¥257,451	49.2%	**$2,420,955**

Net Sales, Orders and Order Backlog by Industry Segment

For the six months ended September 30, 2004 and 2003 (unaudited)

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Net sales:			
Shipbuilding	**¥ 44,471**	¥ 51,683	**$ 400,459**
Rolling Stock, Construction Machinery & Crushing Plant	**67,600**	57,885	**608,735**
Aerospace	**73,460**	69,815	**661,504**
Gas Turbines & Machinery	**68,170**	65,799	**613,868**
Plant & Infrastructure Engineering	**67,463**	50,530	**607,501**
Consumer Products & Machinery	**156,490**	165,651	**1,409,185**
Other	**60,061**	61,907	**540,846**
Total	**¥537,715**	¥523,270	**$4,842,098**
Orders received:			
Shipbuilding	**¥ 73,031**	¥ 46,676	**$ 657,641**
Rolling Stock, Construction Machinery & Crushing Plant	**37,080**	102,748	**333,904**
Aerospace	**34,236**	31,277	**308,294**
Gas Turbines & Machinery	**84,548**	53,364	**761,351**
Plant & Infrastructure Engineering	**57,443**	57,318	**517,271**
Consumer Products & Machinery	**156,490**	165,651	**1,409,185**
Other	**60,262**	64,221	**542,656**
Total	**¥503,090**	¥521,255	**$4,530,302**

	Millions of yen			Thousands of U.S. dollars
	As of September 30, 2004	As of March 31, 2004	As of September 30, 2003	**As of September 30, 2004**
Order backlog:				
Shipbuilding	**¥ 226,441**	¥ 193,705	¥ 162,497	**$ 2,038,820**
Rolling Stock, Construction Machinery & Crushing Plant	**269,932**	294,017	317,760	**2,430,725**
Aerospace	**223,039**	260,321	180,363	**2,008,456**
Gas Turbines & Machinery	**160,254**	140,327	136,379	**1,443,080**
Plant & Infrastructure Engineering	**266,059**	273,837	331,829	**2,395,849**
Consumer Products & Machinery	**—**	—	—	**—**
Other	**27,358**	27,167	25,294	**246,357**
Total	**¥1,173,053**	¥1,189,374	¥1,154,122	**$10,563,287**

Kawasaki

Kawasaki Corporate Data

(As of September 30, 2004)

Kawasaki Heavy Industries, Ltd.

Kobe Head Office:
Kobe Crystal Tower,
1-3, Higashikawasaki-cho 1-chome,
Chuo-ku, Kobe, Hyogo 650-8680, Japan

Tokyo Head Office:
World Trade Center Bldg.,
4-1, Hamamatsu-cho 2-chome,
Minato-ku, Tokyo 105-6116, Japan

Founded: 1878

Incorporated: 1896

Paid-in Capital: ¥81,427,090,720

Number of Shares Issued: 1,443,394,172 shares

Number of Shareholders: 129,841

Number of Employees: 29,126

Stock Exchange Listings:
Tokyo, Osaka, Nagoya

Newspapers in Which Public Notices Are Made:
Nihon Keizai Shimbun
Kobe Shimbun

Transfer Agent:
The Chuo Mitsui Trust and Banking Company, Limited
33-1, Shiba 3-chome,
Minato-ku, Tokyo 105-8574, Japan

Handling Office:
The Chuo Mitsui Trust and Banking Company, Limited
Osaka Branch Office
2-21, Kitahama 2-chome,
Chuo-ku, Osaka 541-0041, Japan

Independent Auditors:
KPMG AZSA & Co.
Kobe Crystal Tower,
1-3, Higashikawasaki-cho 1-chome,
Chuo-ku, Kobe, Hyogo 650-8680, Japan

ADR Facility:
KHI has a sponsored American Depository Receipt (ADR) facility. ADRs are traded on the over-the-counter market in the United States under CUSIP number 486 359 20 1 with each ADR representing four ordinary shares.

ADR Depository:
The Bank of New York
101 Barclay St., 22 West,
New York, NY 10286, U.S.A.
Phone: 1-212-815-8161
U.S. Toll-Free: 888-269-2377
(888-BNY-ADRS)
http://www.bankofny.com/adr

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

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