

March 31, 2017

## Restructuring of the Ship & Offshore Structure Segment (Shift of merchant ship construction to China)

Kawasaki Heavy Industries, Ltd. (hereinafter, “KHI”) has experienced a slump in the Ship & Offshore Structure segment in the past few years and has also recorded large losses in the past two years. For this reason, a restructuring committee headed by the Company’s president was established in October 2016 for the purpose of a fundamental revision of the business structure of Ship & Offshore Structure segment. This committee has considered the operation policy from now onward, including the continuity of the business. As a result of the consideration, the implementation of the following restructuring was decided at the Board of Directors meeting held today.

With regards to the business environment surrounding the Ship & Offshore Structure segment, although there is still no resolution of the excessive construction capacity in sight, we have judged that the growth in the demand for LNG and LPG and the strengthening of environmental regulations is a good opportunity for KHI. Based on this recognition of the situation, we considered all options and judged that the most rational and feasible option to increase enterprise value is to shift merchant ship construction from Japan to China at the current time.

### <Fundamental strategies>

- We will reduce invested capital through the reduction of inventories and fixed assets as the scale of the domestic business is reduced by approximately 30%, in addition to concentrating domestic merchant ship construction in Sakaide Works.
- Regarding Sakaide Works, we will utilize gas related technology and environmental load reduction technology and will reduce the number of orders accepted with a focus on gas related ships(\*1). Also, we will strengthen function of bases such as the human resource cultivation and technological development.
- We will maximize EBIT (Income before income taxes + Interest expense) through the increase in equity in income of unconsolidated subsidiaries and affiliates due to the completion of DACKS(\*2) expansion (two docks capacity) and through improvements to the profitability of domestic works through measures such as fixed expense reduction and productivity improvements, in addition to deepening the integrated operation with NACKS(\*3) and DACKS such as joint procurement and sharing construction.
- We will withdraw from the offshore structure sector with the construction of the offshore service vessel currently in progress as the final construction.

(\*1) LNG and LPG carriers, dual fuel ships, LNG fueled ships, etc.

(\*2) Dalian COSCO KHI Ship Engineering Co., Ltd.

(\*3) Nantong COSCO KHI Ship Engineering Co., Ltd.

Based on the aforementioned fundamental strategies, we will aim for the achievement of Before-tax ROIC (Return on Invested Capital) of 8% or higher (with the assumption of ¥100/US\$)

as the target for FY2020. In addition, we will use the full capacity of the entire Company to complete the ships already ordered.

Furthermore, with the purpose of increasing enterprise value, a project risk management committee will be established to cover the entire Company and in addition to providing continuing follow-up support for projects, it will strengthen the checking function for orders before they are accepted. Through these initiatives, we will actively take on the challenges of the projects whilst also eliminating the risks as much as possible and will also make an effort to reinforce risk management with a focus on prevention of the occurrence of losses, the early detection of any change in the situation and the prompt action.

In order to promote the restructuring of the Ship & Offshore Structure segment, from April we will start up a restructuring execution committee headed by the Company's president. It will carry out a periodical evaluation of the progress by the end of FY2018, and supervise promotion of management reform measures such as introduction of KPS (\*4) productivity improvement activities and reduction of material costs etc.

(\*4) Kawasaki Production System

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