

Extraordinary losses due to the termination by consent of the shipbuilding contract for
“ISLAND NAVIGATOR”

Tokyo, December 26, 2017—Kawasaki Heavy Industries, Ltd. (hereinafter “KHI”) has decided at its Board of Directors meeting held today, to terminate by agreement its shipbuilding contract for the top hole drilling/light well intervention vessel, “ISLAND NAVIGATOR”. This contract was concluded with a subsidiary of Island Offshore Shipholding LP (hereinafter “Island Offshore”), a major Norwegian operator of offshore service vessels. As a consequence of this, KHI hereby announces that KHI will declare extraordinary losses in the consolidated settlement of accounts for the third quarter of the fiscal year ending 31 March, 2018.

1. Background on the extraordinary losses

With the intention of entering into the offshore development industry expected to be a potential market in mid- and long-term, KHI signed a shipbuilding contract for a top hole drilling/light well intervention vessel (hereinafter “Vessel”) with a subsidiary company* of Island Offshore in November 2013. Since the Vessel was the first vessel of this type to be constructed by KHI, it had been facing difficulties in its engineering process as well as increases in the material costs etc.

On the other hand, Island Offshore has been negotiating on financial restructuring with its finance providers since November 2016 in the circumstances where many offshore service providers are facing a severe business environment due to the stagnation of oil prices.

Under the circumstances, KHI suspended temporarily the construction of the Vessel while paying close attention to the progress of the financial restructuring of Island Offshore. In the meantime KHI had been having discussions with Island Offshore regarding how this project should be progressed. In the common understanding that the environment surrounding the offshore development industry is, and will be, severe and unpredictable in the period of the Vessel’s remaining construction, KHI and Island Offshore reached a mutual agreement to terminate the shipbuilding contract for the Vessel.

In consequence, KHI recognizes ¥13 billion in extraordinary losses on revaluation of inventories (work-in-progress) in relation to the Vessel in its consolidated settlement of accounts for the third quarter of the fiscal year ending March 31, 2018.

* Island Navigator I KS (100% subsidiary company of Island Offshore Shipholding LP)

2. Future prospects

With the termination of the shipbuilding contract of the Vessel, the disposition of losses related to the offshore development industry including the Brazilian project has been completed. KHI will reallocate the operational resources such as human resources etc. from the offshore development industry to the merchant ship business focusing on gas carriers and submarine business in order to advance its structural reforms ahead of schedule. For the consolidated financial forecast for the fiscal year ending March 31, 2018, please refer to “Revision of the Outlook for performance for the fiscal year ending March 31, 2018” which was announced today.

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