

For Release: October 19, 2018

Recording of the Losses of the Rolling Stock Business

Tokyo, October 19, 2018-Kawasaki Heavy Industries, Ltd. (hereinafter "KHI") hereby announces the recording of the losses of the Rolling Stock Business as follows.

1. Deterioration of results for FY2018 in the Rolling Stock Business

In the Rolling Stock Business, we expect a decline in earnings of approximately 16.5 billion yen overall compared to the forecast announced in July, mainly due to losses in North American operations.

(1) Deterioration of the performance result of the Long Island Rail Road Project

KHI, through its US subsidiary, Kawasaki Rail Car, Inc., secured the contract for commuter cars in 2013, with Long Island Rail Road and Metro North Railroad, affiliated organizations of the Metropolitan Transportation Authority, and KHI has been carrying out this project assuming that, in addition to the firm order for 92 cars (the base contract), options on additional cars are to be exercised. KHI started manufacturing mass production cars of the base contract at the US plants.

1) Costs increase in the base contract

As KHI expects a further increase of costs in the base contract due to non-achievement of revenue improvement targets, increases in material costs for procured goods higher than anticipated and lower-than-expected improvements in production efficiency at our North America plants, KHI recorded a provision for loss on construction contracts in the financial results for the second quarter FY2018. As the result, KHI expects a decline in earnings of approximately 2.5 billion yen in FY2018. Cost deterioration attributable to these events was not included in the provision for loss on construction contracts recorded at the end of FY2017.

2) Loss associated with acceptance of the option contract (110 cars)

KHI has been negotiating with Long Island Rail Road on the terms of its exercise of options, including KHI's request for a price increase. In the option contract, while a certain price increase for change orders of the specification was agreed to, the cost for the option contract will also increase corresponding to the cost increase of the base contract and KHI intends to record a loss of about 6.0 billion yen in FY2018. As the option contract with Long Island Rail Road is scheduled to be executed in the third quarter FY2018 onwards, KHI did not record a provision for loss on construction contracts in the second quarter FY2018.

- (2) Additional costs for the Washington Metropolitan Area Transit Authority project, etc.

KHI, through its US subsidiary, Kawasaki Rail Car, Inc., secured the contract for subway cars from the Washington Metropolitan Area Transit Authority in 2010. In May 2018, as a result of quality inspections of the cars in production, defects in the wiring process were revealed, and some delivered cars also required rectification of the wiring. KHI has confirmed with the customer that there are no adverse implications to the operational safety of the delivered cars in the revenue service.

In the financial results for the second quarter FY2018, KHI estimated the rectification costs incurred for the reason above and the rectification costs for the delivered cars to other railway operators in North America. As a result, KHI expects a decline in earnings of approximately 5.0 billion yen in FY2018.

- (3) Losses on domestic projects

In several projects for railway operators in Japan, KHI decided to record a provision for loss on construction contracts in the financial results for the second quarter FY2018 due to the non-achievement of cost reduction targets, higher-than-expected increases in material costs and disapproval of change orders for specifications resulting from a difference in the perception to the specifications of the customers. As the result, we expect a decline in earnings of approximately 3.0 billion yen in FY2018.

2. Restructuring of the Rolling Stock Business

KHI takes very seriously the significant deterioration in the performance of the Rolling Stock Business continuing on from last fiscal year and will work on structural reform of its business.

KHI will establish a Rolling Stock Business Restructuring Committee with the President as chairman to work on the fundamental strengthening of project management.

Further, the Committee will consider what this business should be including responding to changes in market structure and organizational structure, concluding the discussion and implementing a due actions phase.