

Financial Results for Third Quarter FY2015 (for the year ending March 31, 2016)

January 28, 2016

Kawasaki Heavy Industries, Ltd.

 **Kawasaki**
Powering your potential

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Summary of Financial Results

(Billion Yen)

	FY2014.3Q	FY2015.3Q	Change
Orders Received	1,079.4	1,075.3	-4.1
Net Sales	1,016.4	1,065.5	+49.1
Operating Income	60.3	66.8	+6.4
Recurring Profit	64.7	66.0	+1.2
Net Income Attributable to Owners of Parent ※	44.9	29.5	-15.3

※ "Net Income" as for FY2014.3Q

Weighted-average exchange rates

Yen / US\$	106.24	120.68
Yen / EUR	139.85	133.38

vs. FY2014.3Q

< Orders Received >

Orders Received was on par with the previous same period due to decrease in Ship & Offshore Structure and other segments and assignment of Construction Machinery business despite of increase in Gas Turbine & Machinery and other segments

< Net Sales >

Increased due to increase in mainly Aerospace, Rolling Stock and Plant & Infrastructure segments

< Profits >

- Increased in operating income and recurring profit due to increased profit in Aerospace, Gas Turbine & Machinery and other segments, but net income attributable to owners of parent decreased due to recognizing losses on a joint shipbuilding venture in Brazil as losses on overseas business under extraordinary losses

- Regarding the joint shipbuilding venture in Brazil, KHI recognized 2.8 billion yen in non-operating expenses as losses on valuation of investments in and loans receivable from Enseada, and 19.2 billion yen in extraordinary losses as setting of allowance for doubtful receivables on trade receivables from Enseada and losses on valuation of inventories (work in process) destined for Enseada for third quarter FY2015

(For Reference)

Net Sales in Foreign Currencies for FY2015.3Q (Billion)

US\$	EUR
1.31	0.27

Financial Results by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2014 3Q	FY2015 3Q	Change	FY2014 3Q	FY2015 3Q	Change	FY2014 3Q	FY2015 3Q	Change
Ship & Offshore Structure	140.7	92.7	-48.0	64.8	72.9	+8.1	3.3	-2.5	-5.9
Rolling Stock	102.4	87.4	-15.0	87.8	104.5	+16.7	4.3	7.7	+3.3
Aerospace	194.9	184.9	-9.9	229.3	250.5	+21.2	30.1	35.6	+5.4
Gas Turbine & Machinery	144.3	212.7	+68.4	149.7	159.1	+9.4	7.1	11.1	+4.0
Plant & Infrastructure	81.4	100.2	+18.7	72.2	83.2	+11.0	2.2	3.6	+1.3
Motorcycle & Engine	212.9	218.8	+5.9	212.9	218.8	+5.9	4.1	4.3	+0.2
Precision Machinery	96.5	95.0	-1.4	95.3	94.0	-1.2	7.9	5.3	-2.5
Others	106.0	83.2	-22.7	104.0	82.0	-21.9	2.8	2.1	-0.6
Eliminations and corporate※	-	-	-	-	-	-	-1.8	-0.6	+1.1
Total	1,079.4	1,075.3	-4.1	1,016.4	1,065.5	+49.1	60.3	66.8	+6.4

※ "Eliminations and corporate" includes some expenses incurred at Head Office which were not allocated to each industry segment for internal reporting

Summary of Income Statement

(Billion Yen)

< Operating Income > +6.4 (FY2014.3Q 60.3 → FY2015.3Q 66.8)

Net sales	+	49.1	(	1,016.4	→	1,065.5)
Cost of sales	+	34.1	(	827.6	→	861.7)
Selling, general & administrative expenses	+	8.4	(	128.4	→	136.9)
- Salaries and benefits	+	2.5	(	36.3	→	38.9)
- R&D expenses	+	1.6	(	27.1	→	28.7)

< Non-operating Income/Expenses > -5.2 (FY2014.3Q 4.4 → FY2015.3Q -0.7)

Net Interest expense (incl. dividend income)	+	0.1	(	-2.0	→	-1.9)
Equity in income of unconsolidated subsidiaries and affiliates	-	6.0	(	8.1	→	2.1)
Gain and loss on foreign exchange	-	4.7	(	-0.4	→	-5.2)
Others	+	5.5	(	-1.2	→	4.3)

< Extraordinary Income/Losses > -18.3 (FY2014.3Q 0 → FY2015.3Q -18.3)

Gain on transfer of business	+	0.9	(	0	→	0.9	)^{※1}
Overseas business-related loss	-	19.2	(	0	→	-19.2	)^{※2}

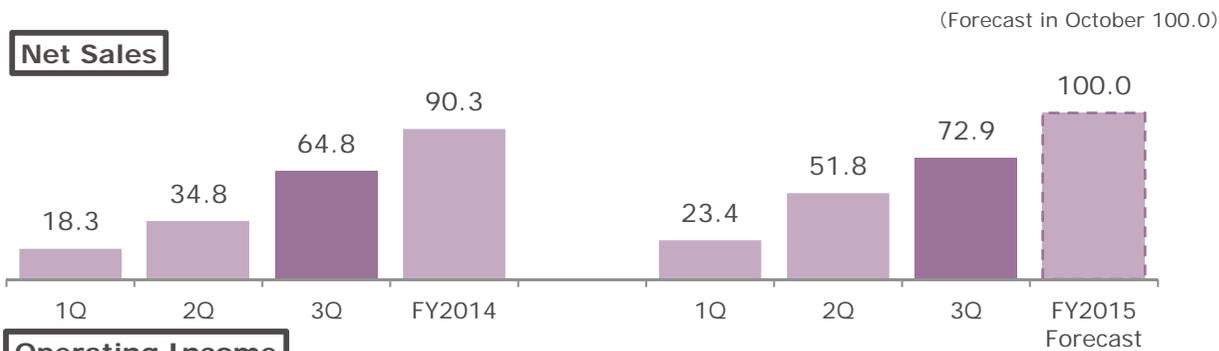
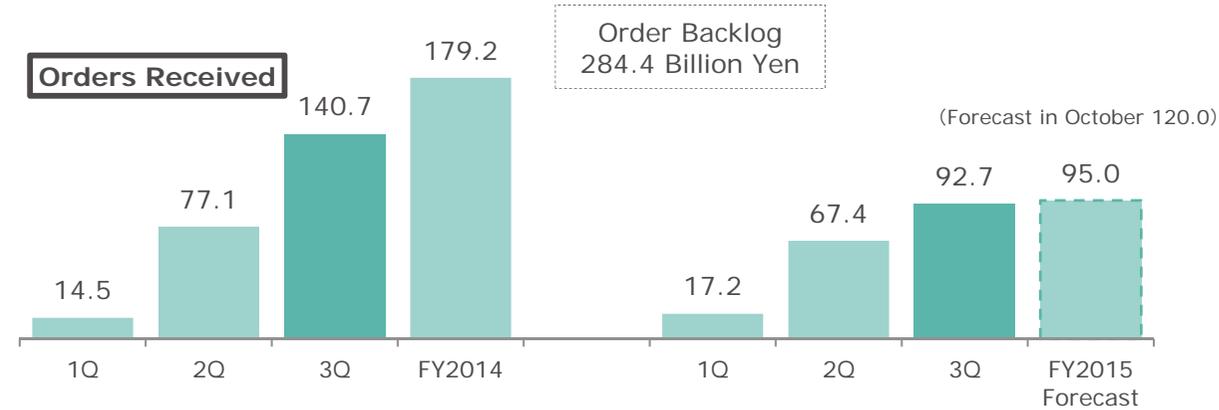
※1 Due to assignment of all of shares of KCM Corporation and all businesses of KCMJ Corporation

※2 Considering the asset value of investment in and loans as well as the collectability of trade receivables to Enseada, in which KHI holds a 30% stake, KHI has decided to implement the necessary accounting treatment based on its revaluation under generally accepted accounting principles in Japan (JGAAP)

Ship & Offshore Structure

Main Products: LNG carriers, LPG carriers, Offshore structures, VLCCs, Bulk carriers, Submarines

(Billion Yen / In accumulated amount)



FY2015.3Q

(vs. FY2014.3Q)

Orders Received: Decreased compared to the previous same period where submarine was received

Net Sales: Increased due to increase in amount of shipbuilding of LNG carriers, LPG carriers and others

Operating Income: Deteriorated due to provision for loss on construction contracts and other factors

FY2015 Forecast

(vs. Forecast in October)

Orders Received: Revised down due to the effect of order deferrals of LNG carrier

Net Sales : No change

Operating Income: Revised down due to the effect of increase in cost of some LNG carriers and revision of assumed exchange rate and other factors

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

(unit)

	Orders Received		Sales			
	FY2014.3Q	FY2015.3Q	FY2014.3Q		FY2015.3Q	
			Completed	In Process*	Completed	In Process*
LNG carriers	3	2		4		9
Small-sized LNG carriers						
LPG carriers	1	4	1	1		5
Offshore service vessel						
Bulk carriers		1	1	2	1	3
Submarines	1			2		2
Deep submergence rescue vehicle						1
Total	5	7	2	9	1	20

* Sales units by percentage-of-completion method

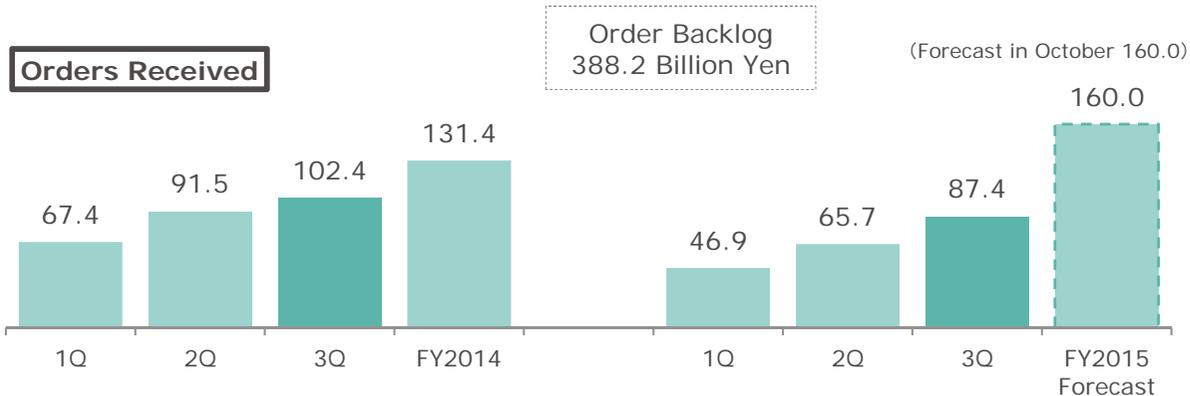
	FY2014 Actual	FY2015 Forecast	
		In October	In January
Before-tax ROIC	6.0%	-0.8%	-26.3%

Rolling Stock

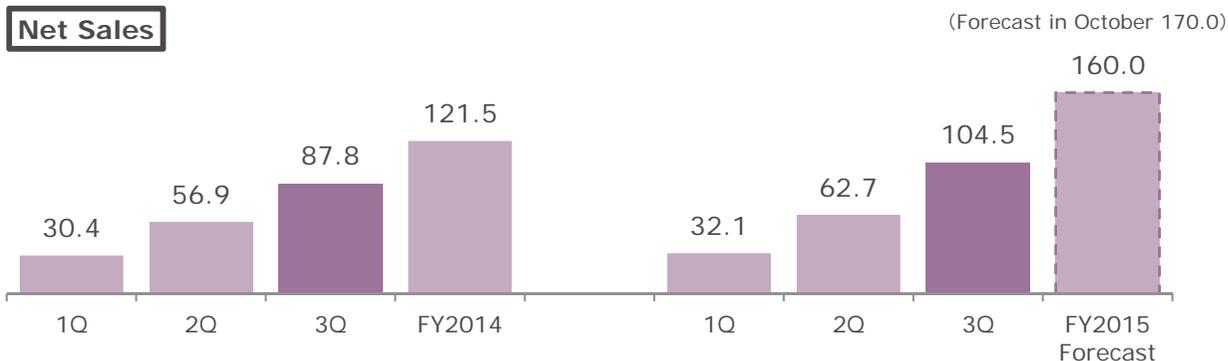
Main Products : Electric train cars (incl. Shinkansen), Electric and diesel locomotives, Passenger coaches, Bogies, Gigacell® (High-Capacity, Full Sealed Ni-MH Battery)

(Billion Yen / In accumulated amount)

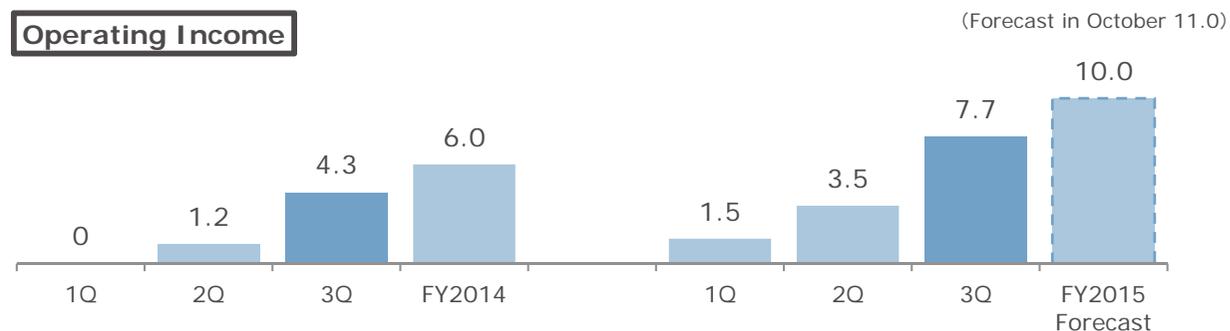
Orders Received



Net Sales



Operating Income



FY2015.3Q

(vs. FY2014.3Q)

Orders Received: Decreased compared to the previous same period where orders for a large-scale overseas project was received

Net Sales: Increased due to sales increase in overseas markets including Singapore and Taiwan, despite sales decrease in domestic market

Operating Income: Increased due to sales increase and other factors

FY2015 Forecast

(vs. Forecast in October)

Orders Received: No Change

Net Sales: Revised down due to deferral in some projects and other factors

Operating Income: Revised down due to the effect of downward revision of net sales forecast

	FY2014 Actual	FY2015 Forecast	
		In October	In January
Before-tax ROIC	8.7%	12.5%	10.9%

Aerospace

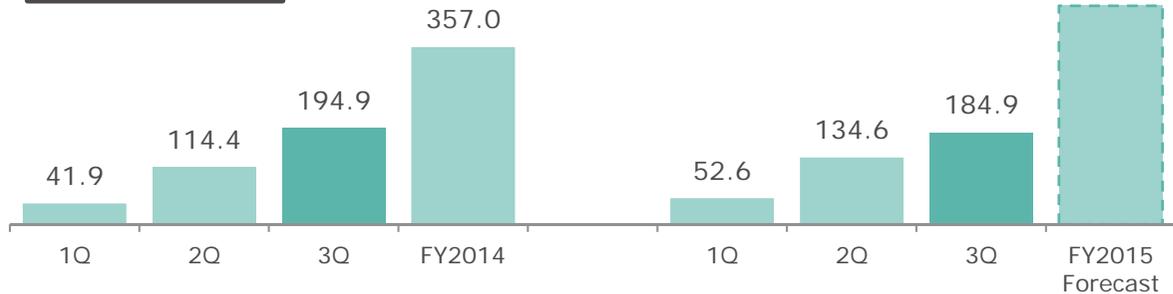
Main Products : Aircrafts for Japan Ministry of Defense, Component parts for commercial aircrafts, Commercial helicopters, Missiles, Space equipment

(Billion Yen / In accumulated amount)

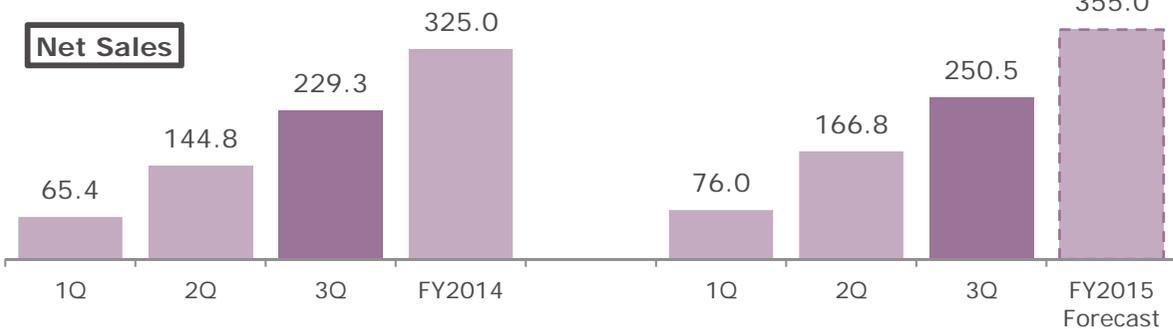
Order Backlog
428.1 Billion Yen

(Forecast in October 440.0)

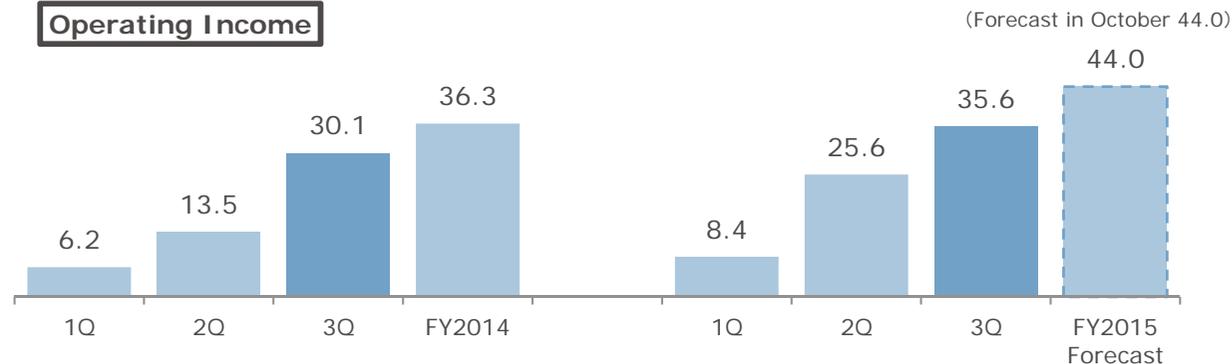
Orders Received



Net Sales



Operating Income



FY2015.3Q

(vs. FY2014.3Q)

Orders Received: Decreased due to decrease in orders received for the Japan Ministry of Defense (MOD)

Net Sales: Increased due to increase in sales to the MOD, continued high level of sales for component parts for commercial aircrafts and the effect of the depreciation of the yen and other factors

Operating Income: Increased due to sales increase and other factors

FY2015 Forecast

(vs. Forecast in October)

Orders Received: No change

Net Sales: Revised down due to decrease in sales to MOD

Operating Income: Remains unchanged due to revision of assumed exchange rate, cost reduction resulting from improving productivity in component parts for commercial aircrafts and other factors despite there being the effect of downward revision of net sales forecast

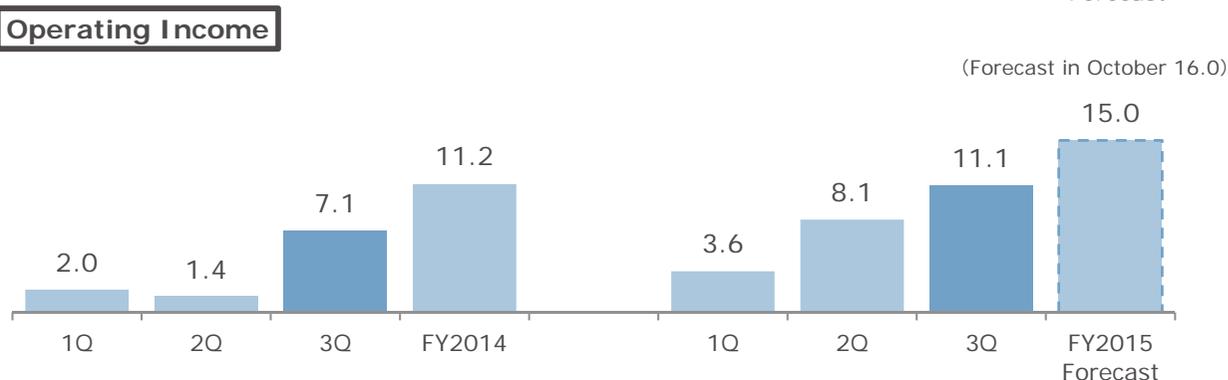
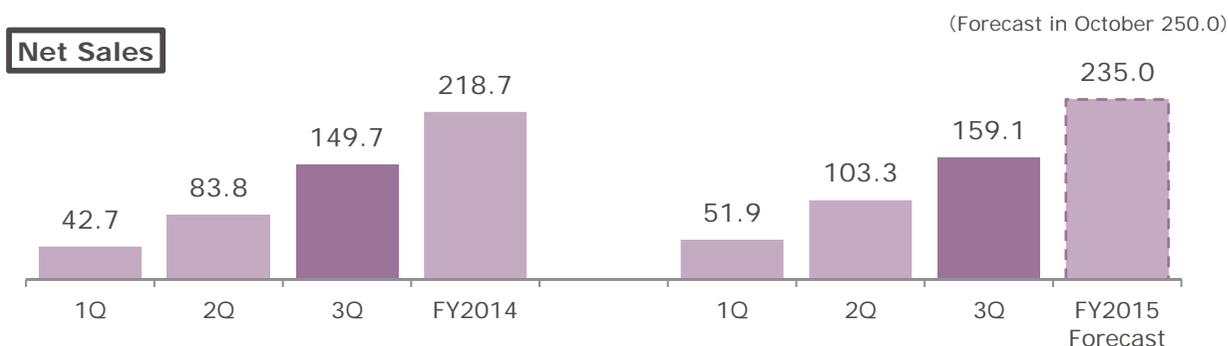
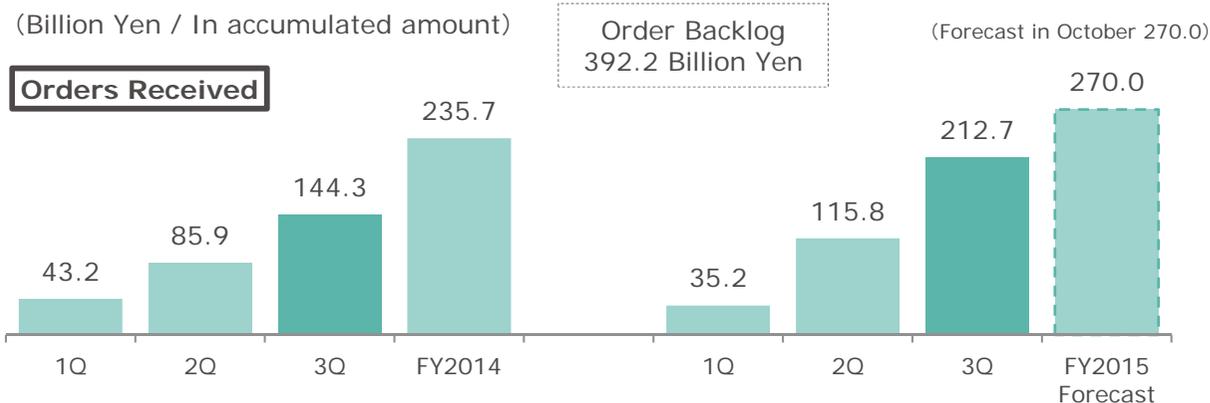
< Sales units of component parts for commercial aircrafts > (units)

	FY2014.3Q	FY2015.3Q
Boeing 777	77	75
Boeing 767	12	8
Boeing 787	90	90
Embraer170/175	63	60
Embraer190/195	21	8

	FY2014 Actual	FY2015 Forecast	
		In October	In January
Before-tax ROIC	35.1%	31.6%	32.8%

Gas Turbine & Machinery

Main Products : Jet engines, Gas turbine co-generation system, Gas engines, Diesel engines, Gas turbines & steam turbines for marine & land, Marine propulsion system, Aero-dynamic machinery



FY2015.3Q

(vs. FY2014.3Q)

Orders Received: Increased due to increase in orders received for component parts of commercial aircraft jet engines and gas engines

Net Sales: Increased due to increase in component parts of commercial aircraft jet engines and other factors

Operating Income: Increased due to sales increase and other factors

FY2015 Forecast

(vs. Forecast in October)

Orders Received: No change

Net Sales: Revised down due to deferral in sales of component parts of commercial aircraft jet engines and aero-dynamic machineries

Operating Income: Revised down due to the effect of downward revision of net sales forecast of aero-dynamic machineries and revision of assumed exchange rate and other factors

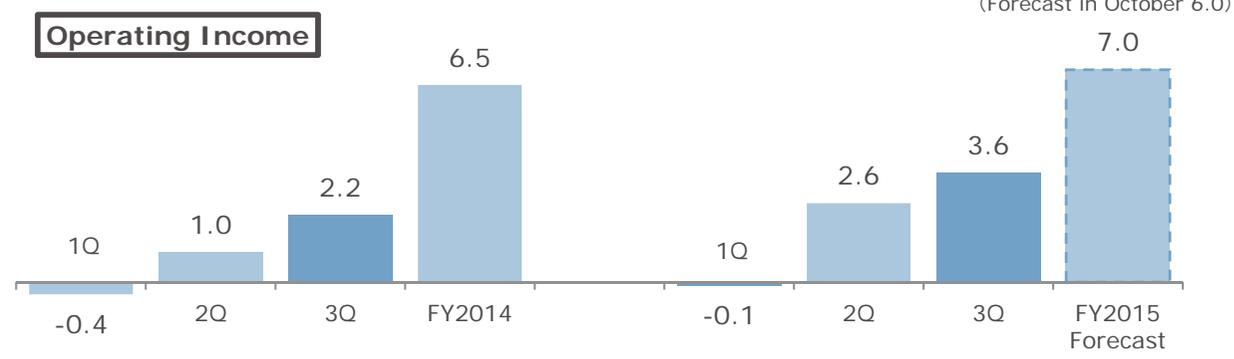
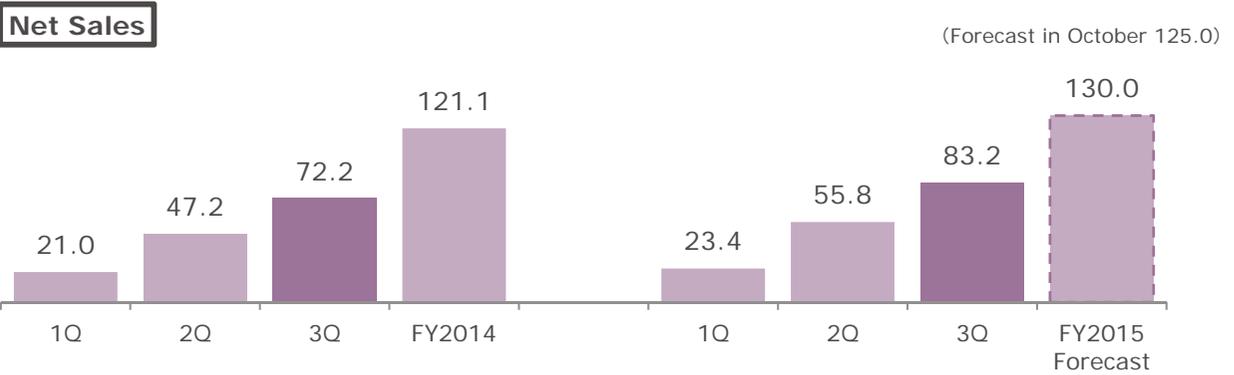
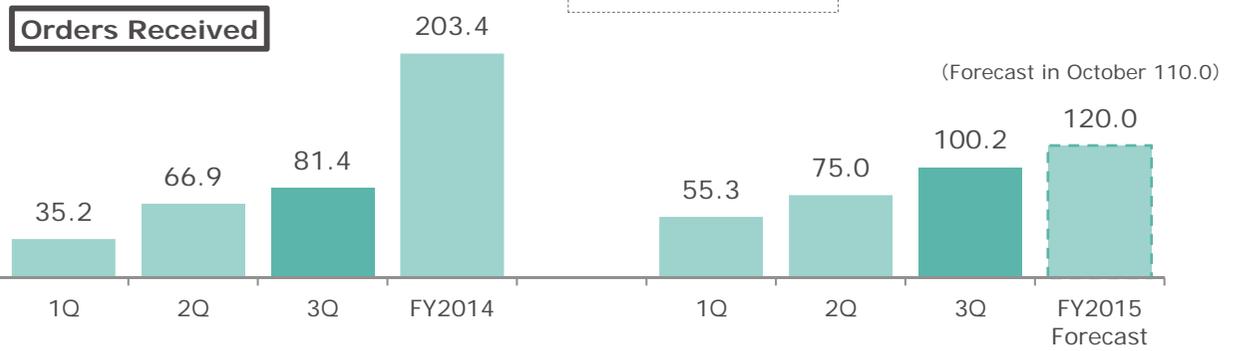
	FY2014 Actual	FY2015 Forecast	
		In October	In January
Before-tax ROIC	5.7%	8.6%	6.8%

Plant & Infrastructure

Main Products: Industrial plants (cement, fertilizer and others), Power plants, LNG tanks, Municipal refuse incineration plants, Tunnel boring machines, Crushing machines

(Billion Yen / In accumulated amount)

Order Backlog
272.5 Billion Yen



FY2015.3Q

(vs. FY2014.3Q)

Orders Received: Increased due to increase in orders received for ash handling systems for domestic coal-fired power plant and domestic refuse incineration plants

Net Sales: Increased due to increase in sales for overseas chemical plants and other factors

Operating Income: Increased due to sales increase and other factors

FY2015 Forecast

(vs. Forecast in October)

Orders Received: Revised up due to increase in orders received for ash handling systems for domestic coal-fired power plant

Net Sales: Revised up due to the progress in LNG tanks for Taiwan and other factors

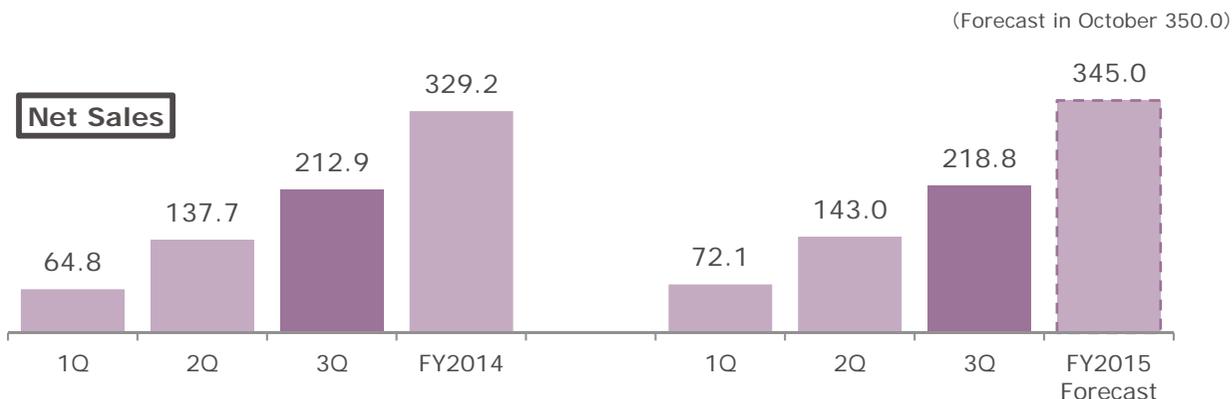
Operating Income: Revised up due to sales increase and cost reduction

	FY2014 Actual	FY2015 Forecast	
		In October	In October
Before-tax ROIC	14.3%	12.6%	14.7%

Motorcycle & Engine

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

(Billion Yen / In accumulated amount)

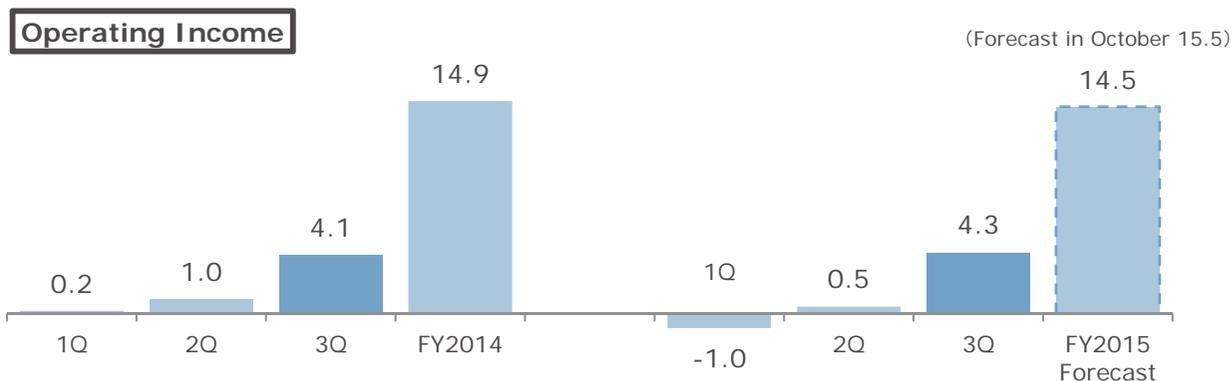


FY2015.3Q

(vs. FY2014.3Q)

Net Sales: Increased due to sales increase in motorcycles and utility vehicles for developed countries, despite decrease in motorcycles for emerging markets mainly Indonesia

Operating Income: Increased due to sales increase and other factors



FY2015 Forecast

(vs. Forecast in October)

Net Sales: Revised down due to the effect of revision of assumed exchange rate, sales decrease resulting from severe competition in emerging and other markets and other factors

Operating Income: Revised down due to the effect of revision of assumed exchange rate, downward revision of net sales forecast and other factors

<Wholesales by Geographic Area for Consumer Products> (Thousands of units / Billion Yen)

	FY2014.3Q		FY2014		FY2015.3Q		FY2015 Forecast	
	Unit	Amount	Unit	Amount	Unit	Amount	Unit	Amount
Domestic	12	10.0	15	13.2	12	10.3	16	12.9
North America (incl. Canada)	60(28)	56.8	100(49)	97.0	66(32)	68.4	101(49)	108.4
Europe	31	29.6	57	50.1	37	32.2	60	52.3
Emerging Countries & Others	294	85.2	409	122.1	230	74.0	348	115.2
Total	397	181.6	581	282.4	345	184.9	525	288.8

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

Units: Motorcycles, Utility Vehicles, All-Terrain Vehicles(ATVs) and Personal Watercraft(Jet Ski®)

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

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

	FY2014 Actual	FY2015 Forecast	
		In October	In January
Before-tax ROIC	7.3%	13.6%	13.3%

Precision Machinery

Main Products: Hydraulic components for construction machineries, Hydraulic components and systems for industrial machines, Marine application machines, Deck cranes and other marine deck equipment, Industrial robots, Medical and pharmaceutical robot

(Billion Yen / In accumulated amount)

Order Backlog
27.3 Billion Yen

FY2015.3Q

(vs. FY2014.3Q)

Orders Received & Net Sales: Remained the same as the previous same period due to decrease in hydraulic components and other factors despite increase in various industrial robots

Operating Income: Decreased due to sales decrease in hydraulic components, decrease in profitability and other factors

FY2015 Forecast

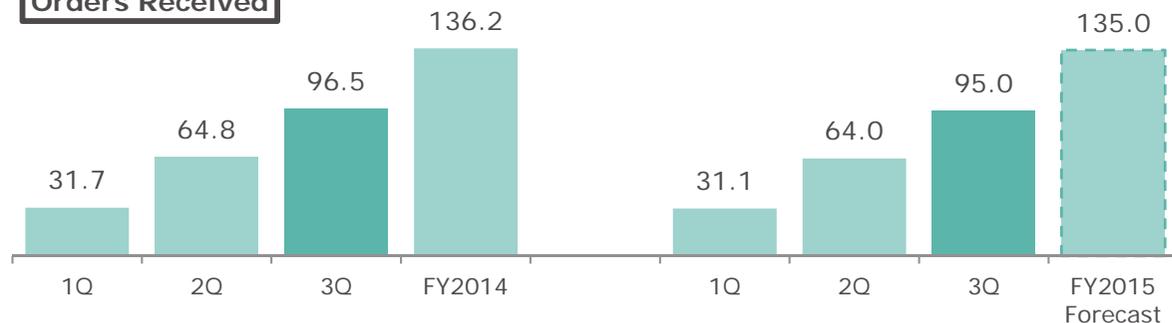
(vs. Forecast in October)

Orders Received: Revised down due to decrease in hydraulic components for construction machinery for emerging and other countries

Net Sales & Operating Income: No change

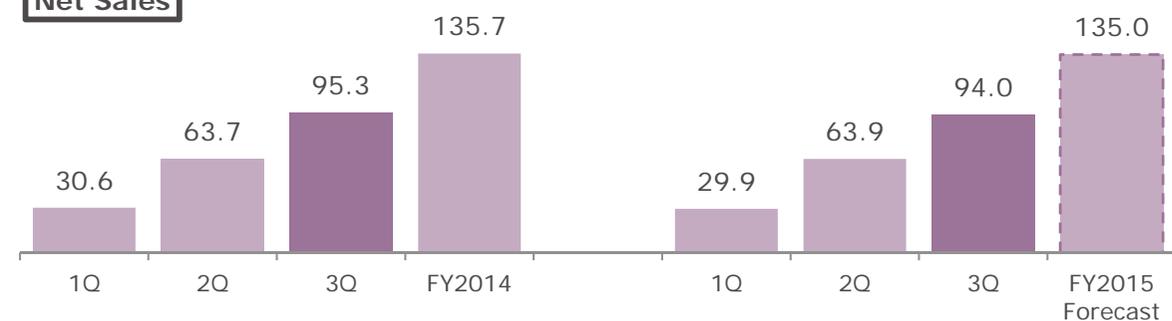
Orders Received

(Forecast in October 145.0)



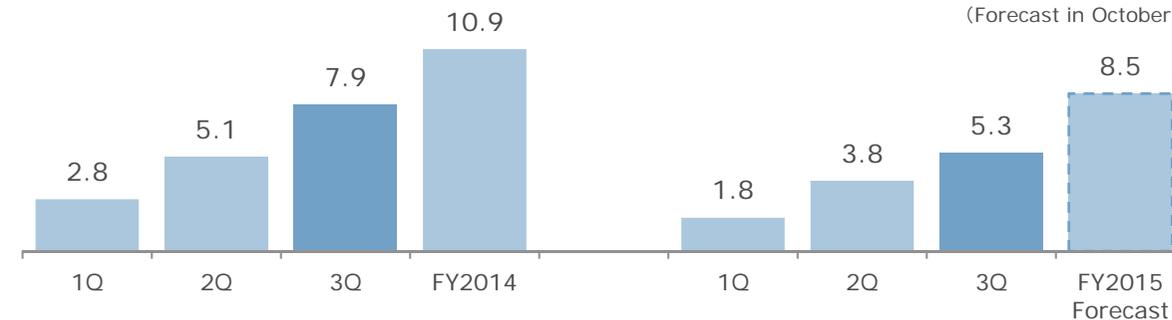
Net Sales

(Forecast in October 135.0)



Operating Income

(Forecast in October 8.5)



	FY2014 Actual	FY2015 Forecast	
		In October	In January
Before-tax ROIC	16.7%	10.8%	9.4%

Summary of Balance Sheet

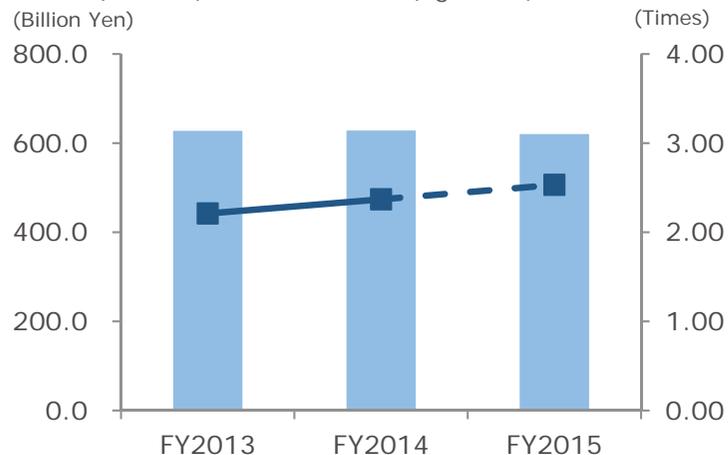
(Billion Yen)

	End of Mar. 2015	End of Dec. 2015	Change
Cash on hand and in banks	51.6	44.4	-7.1
Trade receivables	421.8	476.5	+54.6
Inventories	498.6	558.0	+59.4
Total fixed assets	436.9	446.6	+9.6
Other assets	253.1	286.5	+33.4
Total assets	1,662.2	1,812.3	+150.0
Trade payables	339.3	306.2	-33.0
Interest-bearing debt	414.3	657.8	+243.4
Advances from customers	171.6	161.2	-10.3
Other liabilities	288.9	228.7	-60.2
Total liabilities	1,214.3	1,354.0	+139.7
Total shareholders' equity	412.4	421.9	+9.5
Other net assets	35.5	36.2	+0.7
Total net assets	447.9	458.2	+10.2
Total liabilities and net assets	1,662.2	1,812.3	+150.0

Ratio of shareholders' equity to total assets	25.9%	24.4%
Net Debt Equity Ratio	83.9%	138.3%

< Changes in working capital >

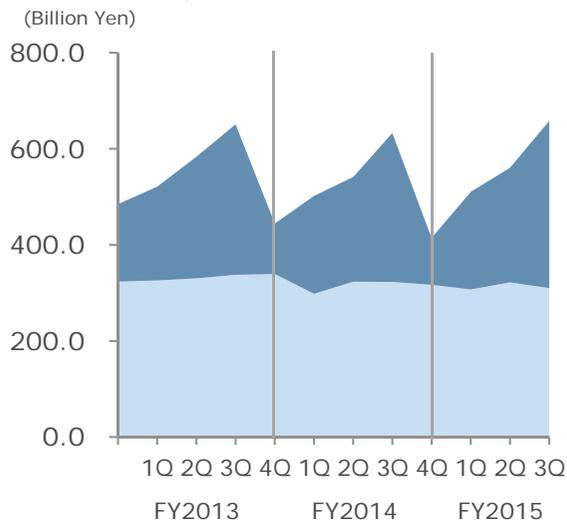
Working capital(3Q) (left axis) Working capital turnover* (right axis)



*Turnover=Sales(12months)/working capital
*Sales for FY2015 is a forecast number

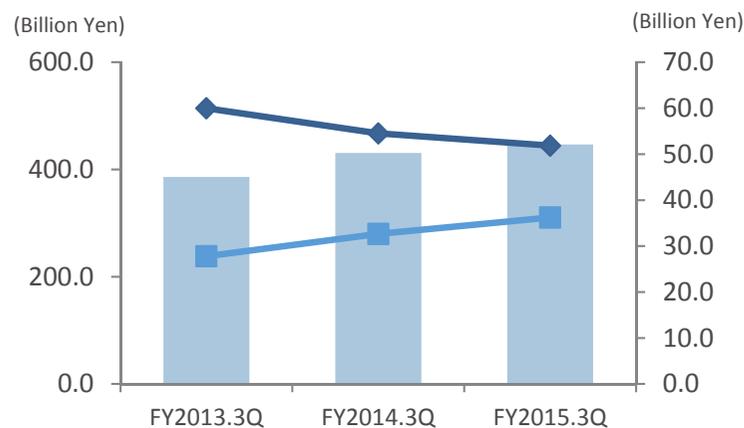
[Changes in interest-bearing debt]

Long-term debt Short-term debt



< Changes in CAPEX and others >

Fixed Asset (left axis) CAPEX (right axis) DA* (right axis)



*Depreciation & Amortization

< Overview of Balance Sheet >

On December 31, 2015, total assets increased from March 31, 2015, due to increase in trade receivables, inventories, other assets including advance payments and others. Liabilities on December 31, 2015, increased due to increase in interest-bearing debt despite decrease in trade payables and other liabilities including accrued bonuses. Net assets increased due to net income attributable to owners of parent being accounted for and dividend payments.

Summary of Cash Flows

	(Billion Yen)		
	FY2014 3Q	FY2015 3Q	Change
Cash flows from operating activities	-110.3	-190.7	-80.3
Cash flows from investing activities	-52.4	-52.5	-0.0
Free Cash Flows	-162.8	-243.2	-80.4
Cash flows from financing activities	+161.0	235.6	+74.5

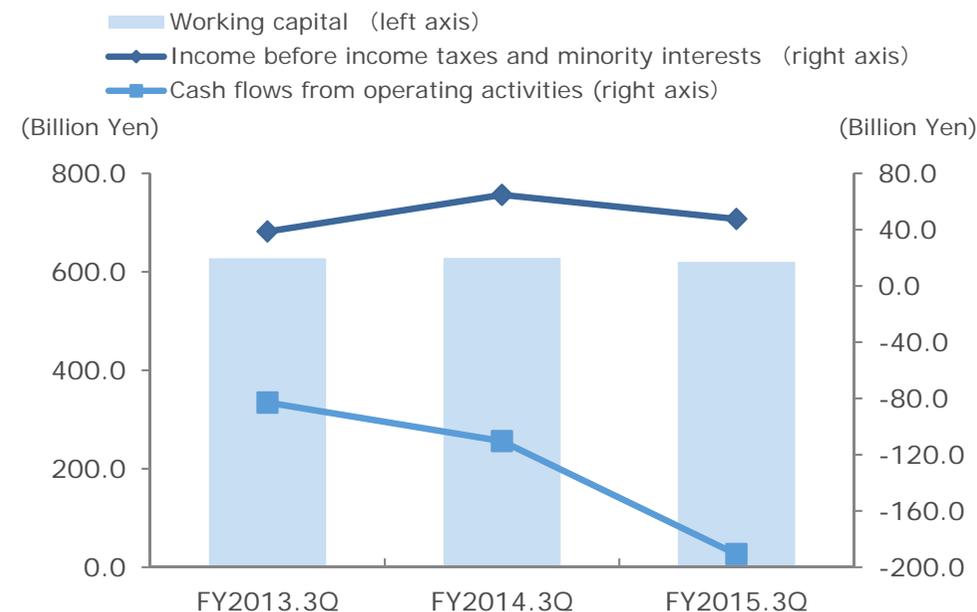
< Overview of Cash Flows > (vs.FY2014.3Q)

Cash flows from operating activities decreased, due to an increase in working capital in Aerospace segment, production increase related to commercial aircraft jet engines in Gas Turbine & Machinery segment and other factors.

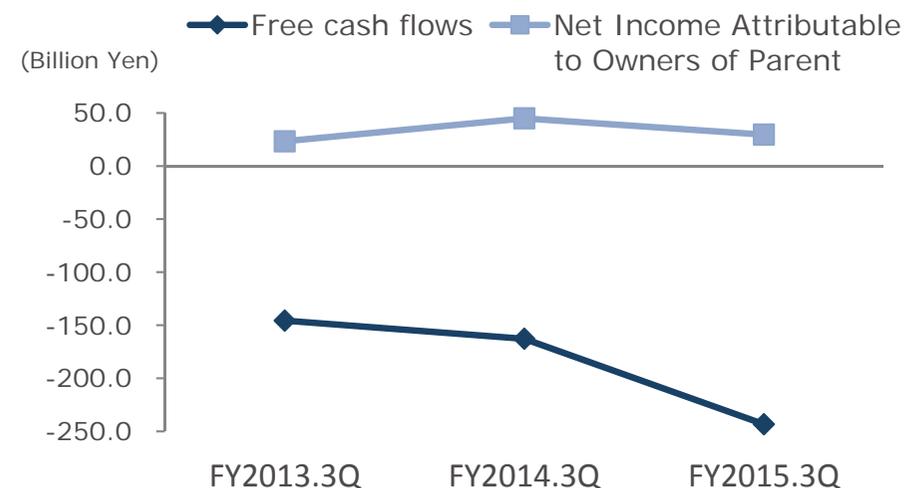
Cash outflows from investing activities remained the same as the previous same period.

Given the above mentioned changes, free cash flows decreased.

< Changes in cash flows from operating activities and others >



< Changes in free cash flows and Net Income attributable to Owners of Parent >



Consolidated Operating Performance

(Billion Yen)

	FY2014 Actual	FY2015 Forecast		Change		Reasons for the Revision
		In October	In January	vs. FY2014	vs. Forecast in October	
Orders Received	1,712.9	1,700.0	1,670.0	-42.9	-30.0	<p>< Orders Received > Revised down due to order deferrals in Ship & Offshore Structure segment and decrease in Precision Machinery segment resulting from stagnation of market environment</p> <p>< Net Sales > Revised down due to sales deferrals in Rolling Stock and Gas Turbine & Machinery segments</p> <p>< Profits, Before-tax ROIC, ROE > - Operating income was revised down due to downward revision of net sales forecast, the effect of revision of assumed exchange rate and other factors</p> <p>- Recurring profit, net income attributable to owners of parent, before-tax ROIC and ROE was revised down due to recognizing losses on a joint shipbuilding venture in Brazil as losses on overseas business</p>
Net Sales	1,486.1	1,610.0	1,570.0	+83.9	-40.0	
Operating Income	87.2	96.0	91.0	+3.8	-5.0	
Recurring Profit	84.2	100.0	89.0	+4.8	-11.0	
Net Income Attributable to Owners of Parent ※	51.6	69.0	45.0	-6.6	-24.0	
Before-tax ROIC	10.4%	11.8%	8.7%	-1.7%	-3.1%	
ROE	12.9%	15.0%	10.3%	-2.6%	-4.7%	

※ "Net Income" as for FY2014

Exchange Rates (actual & assumed)

Yen / US\$	109.51	120	117
Yen / EUR	139.34	135	127

Note : Assumed rates are applied to the outstanding foreign exchange exposure as of January 28, 2016

(For Reference)

Impact on profit by FX fluctuation of 1 Yen

(Billion Yen)

	Operating Income	Recurring Profit
US\$	0.97 (1.41)	1.11 (1.47)
EUR	0.07 (0.09)	0.10 (0.13)

* Figures in the parenthesis () represent impact as of October 29, 2015

Forecast by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2014 Actual	FY2015 Forecast		FY2014 Actual	FY2015 Forecast		FY2014 Actual	FY2015 Forecast	
		In October	In January		In October	In January		In October	In January
Ship & Offshore Structure	179.2	120.0	95.0	90.3	100.0	100.0	2.6	-3.0	-5.5
Rolling Stock	131.4	160.0	160.0	121.5	170.0	160.0	6.0	11.0	10.0
Aerospace	357.0	440.0	440.0	325.0	360.0	355.0	36.3	44.0	44.0
Gas Turbine & Machinery	235.7	270.0	270.0	218.7	250.0	235.0	11.2	16.0	15.0
Plant & Infrastructure	203.4	110.0	120.0	121.1	125.0	130.0	6.5	6.0	7.0
Motorcycle & Engine	329.2	350.0	345.0	329.2	350.0	345.0	14.9	15.5	14.5
Precision Machinery	136.2	145.0	135.0	135.7	135.0	135.0	10.9	8.5	8.5
Others	140.5	105.0	105.0	144.2	120.0	110.0	3.9	3.0	2.5
Eliminations and corporate ※	-	-	-	-	-	-	-5.4	-5.0	-5.0
Total	1,712.9	1,700.0	1,670.0	1,486.1	1,610.0	1,570.0	87.2	96.0	91.0

※: "Eliminations and corporate" includes some expenses incurred at Head Office which are not allocated to each industry segment for internal reporting

Before-tax ROIC by Segment

	Before-tax ROIC (EBIT / Invested Capital)			Operating Income Margin (Operating Income / Net Sales)			Asset Turnover (Times) (Net Sales / Total Assets)		
	FY2014 Actual	FY2015 Forecast		FY2014 Actual	FY2015 Forecast		FY2014 Actual	FY2015 Forecast	
		In October	In January		In October	In January		In October	In January
Ship & Offshore Structure	6.0%	-0.8%	-26.3%	2.9%	-3.0%	-5.5%	0.52	0.60	0.60
Rolling Stock	8.7%	12.5%	10.9%	4.9%	6.4%	6.2%	0.71	0.90	0.90
Aerospace	35.1%	31.6%	32.8%	11.1%	12.2%	12.3%	0.89	0.90	0.90
Gas Turbine & Machinery	5.7%	8.6%	6.8%	5.1%	6.4%	6.3%	0.73	0.80	0.70
Plant & Infrastructure	14.3%	12.6%	14.7%	5.4%	4.8%	5.3%	0.96	1.00	1.00
Motorcycle & Engine	7.3%	13.6%	13.3%	4.5%	4.4%	4.2%	1.21	1.30	1.30
Precision Machinery	16.7%	10.8%	9.4%	8.0%	6.2%	6.2%	1.00	0.90	0.90
Total	10.4%	11.8%	8.7%	5.8%	5.9%	5.7%	0.89	1.00	0.90

R&D/CAPEX/Number of Employees

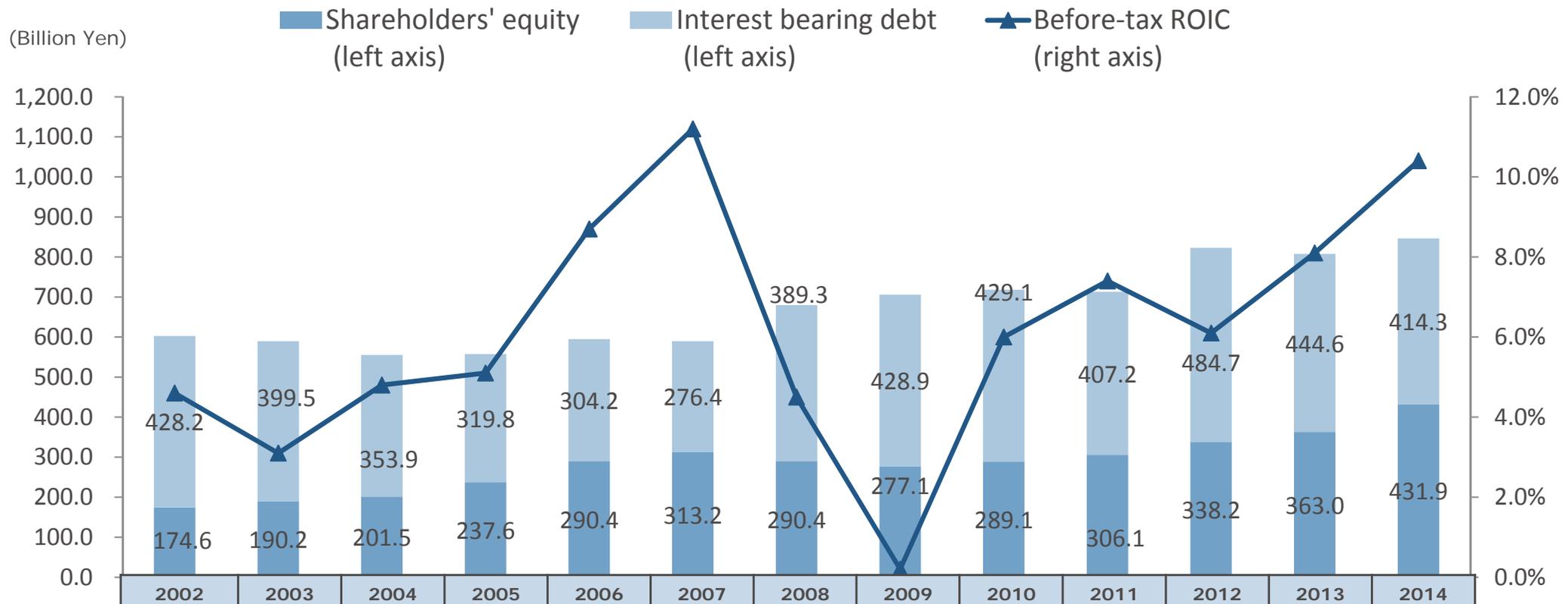
* No changes in the forecast for FY2015 from October 29, 2015.

(Billion Yen / Persons)

	FY2014 Actual	FY2015 Forecast	Change
R&D Expenses	41.6	46.0	+4.4
CAPEX (Construction Base)	80.0	92.0	+12.0
Depreciation & Amortization	44.5	52.0	+7.5
Domestic	26,019	26,200	+181
Overseas	9,452	9,100	-352
Number of Employees	35,471	35,300	-171

• CAPEX represent the total of newly recorded property, plant and equipment and newly recorded intangible assets.
Depreciation & amortization represents depreciation/amortization expenses for property, plant and equipment and intangible assets.

Historical Data



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Before-tax ROIC	4.6%	3.1%	4.8%	5.1%	8.7%	11.2%	4.5%	0.2%	6.0%	7.4%	6.1%	8.1%	10.4%
Invested Capital	602.7	589.6	555.3	557.3	594.6	589.6	679.7	705.9	718.2	713.2	822.8	807.6	846.3
Net Sales	1,239.5	1,160.2	1,241.5	1,322.4	1,438.6	1,501.0	1,338.5	1,173.4	1,226.9	1,303.7	1,288.8	1,385.4	1,486.1
Operating Profit	30.5	22.2	24.7	41.7	69.1	76.9	28.7	-1.3	42.6	57.4	42.0	72.3	87.2
Recurring Profit	16.2	12.1	21.0	30.8	49.0	63.9	38.7	14.2	49.1	63.6	39.3	60.6	84.2
Net Income	13.0	6.3	11.4	16.4	29.7	35.1	11.7	-10.8	25.9	23.3	30.8	38.6	51.6

Yen / US\$	120	113	108	112	117	115	101	93	86	79	82	99	109

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Figures recorded in the business forecasts are forecasts that reflect the judgment of the Company based on the information available at the time of release and include risks and uncertainties. Accordingly, the Company cautions investors not to make investment decisions solely on the basis of these forecasts.

Actual business results may differ materially from these business forecasts due to various important factors resulting from changes in the external environment and internal environment. Important factors that may affect actual business results include, but are not limited to, economic conditions, the yen exchange rate against the U.S. dollar and other currencies, the tax system, and laws and regulations.