Financial Results for Second Quarter FY2017
(for the year ending March 31, 2018)

October. 27, 2017

Kawasaki Heavy Industries, Ltd.

Kawasaki
Powering your potential

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Summary of Financial Results

(Billion Yen)

	FY2016.2Q	**FY2017.2Q**	Change
Orders Received	538.4	**666.9**	+128.4
Net Sales	697.2	**709.7**	+12.4
Operating Income	8.4	**16.1**	+7.6
Recurring Profit	-1.7	**15.1**	+16.8
Net Income attributable to owners of parent	-0.2	**10.8**	+11.0

Weighted-average exchange rates

Yen / US$	105.94	**110.50**
Yen / EUR	122.63	**125.12**

vs. FY2016.2Q

< Orders Received >
Increased mainly in Aerospace, Precision Machinery and Plant & Infrastructure segments

< Net Sales >
Increased as a whole, due to increase in Precision Machinery, Gas Turbine & Machinery segments, and other factors, despite decrease in Plant & Infrastructure segment and other factors

< Profits >
- Operating income increased as a whole, due to improvement in Ship & Offshore Structure segment, sales increase in Precision Machinery segment and other factors, despite decrease in Aerospace segment and other factors
- Recurring Profit and Net Income attributable to owners of parent increased, due to increase in operating income and the change of foreign exchange gain or loss

(For Reference)
Net Sales in Foreign Currencies for FY2017.2Q (Billion)

US$	EUR
1.10	0.09

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Financial Results by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2016 2Q	**FY2017 2Q**	Change	FY2016 2Q	**FY2017 2Q**	Change	FY2016 2Q	**FY2017 2Q**	Change
Ship & Offshore Structure	8.6	**16.3**	+7.7	51.6	**45.0**	-6.5	-16.4	**-5.1**	+11.2
Rolling Stock	57.7	**68.4**	+10.6	62.3	**63.6**	+1.3	-0.6	**-0.9**	-0.2
Aerospace	98.9	**151.3**	+52.4	168.9	**168.5**	-0.4	20.1	**11.7**	-8.3
Gas Turbine & Machinery	102.6	**109.4**	+6.8	106.6	**116.2**	+9.5	2.9	**4.3**	+1.3
Plant & Infrastructure	34.3	**53.6**	+19.2	78.5	**53.7**	-24.8	1.7	**-0.2**	-1.9
Motorcycle & Engine	128.5	**136.9**	+8.4	128.5	**136.9**	+8.4	-2.4	**-2.0**	+0.3
Precision Machinery	71.4	**92.4**	+21.0	65.7	**86.9**	+21.2	3.9	**9.0**	+5.1
Others	36.2	**38.2**	+2.0	34.9	**38.5**	+3.6	1.3	**1.4**	+0.0
Eliminations and corporate*	-	-	-	-	-	-	-2.0	**-2.1**	-0.0
Total	538.4	**666.9**	+128.4	697.2	**709.7**	+12.4	8.4	**16.1**	+7.6

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

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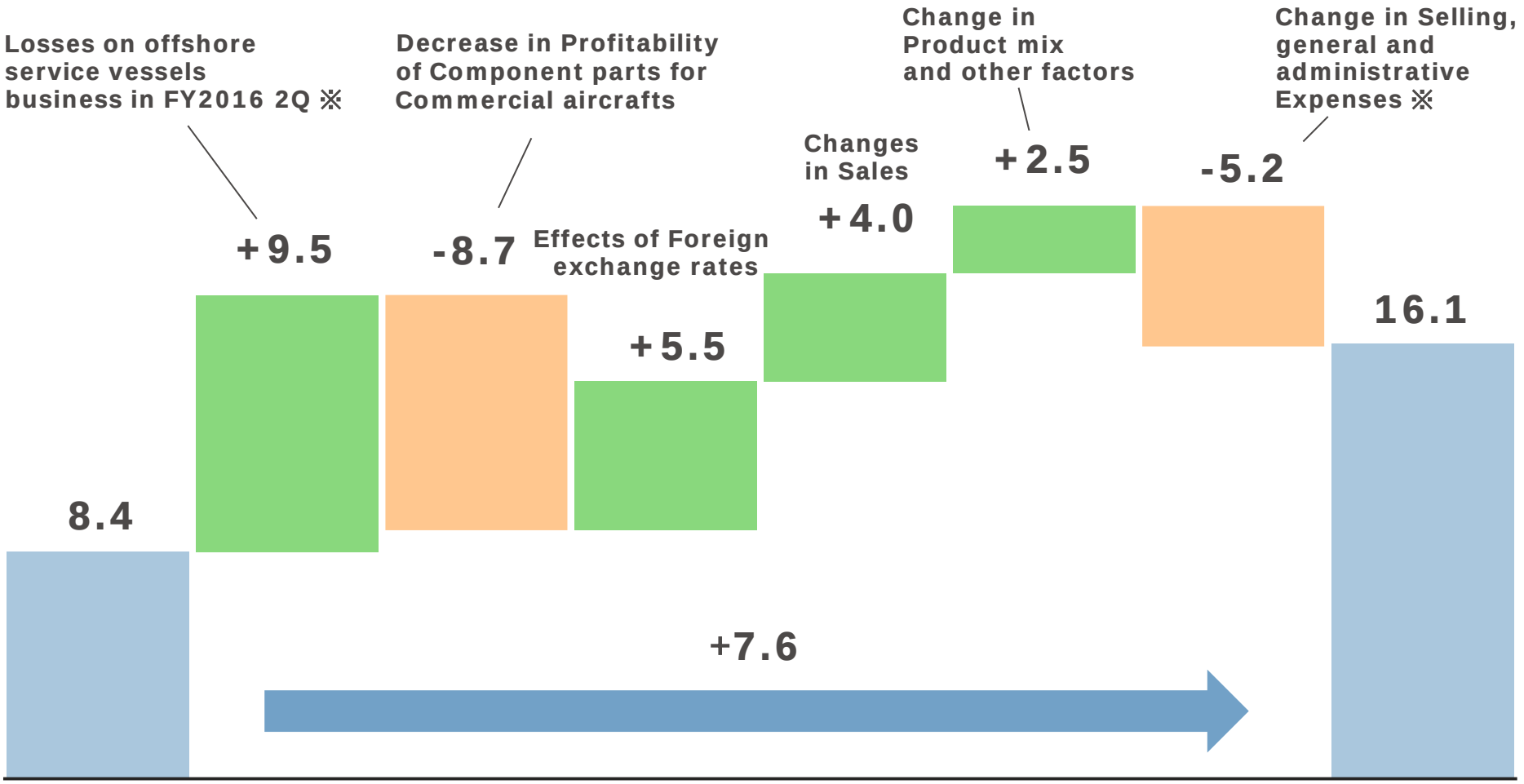
Details of change in profit – FY20162Q vs. FY20172Q -

【Operating Profit】 +7.6 （FY2016 2Q 8.4 ⇒ FY2017 2Q 16.1 ）(Billion Yen)



※ 4.7Billion Yen of allowance for doubtful accounts on trade receivables from the joint venture in Brazil is included in "Losses on offshore service vessels business in FY2016 2Q".

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Summary of Income Statement

(Billion Yen)

		FY2016.2Q		FY2017.2Q
< Operating Income >	**+**	**7.6**	**(8.4 → 16.1)**	
Net sales	+	12.4	(697.2 → 709.7)	
Cost of sales	+	4.2	(595.2 → 599.5)	
Selling, general & administrative expenses	+	0.5	(93.5 → 94.0)	
- Salaries and benefits	+	0.4	(25.0 → 25.5)	
- R&D expenses	-	0.0	(20.6 → 20.6)	
< Non-operating Income/Expenses >	**+**	**9.2**	**(-10.2 → -0.9)**	
Net Interest expense (incl. dividend income)	+	0.0	(-0.8 → -0.7)	
Equity in income of unconsolidated subsidiaries and affiliates	-	0.3	(2.9 → 2.5)	
Gain and loss on foreign exchange	+	12.1	(-10.6 → 1.4)	
Others	-	2.5	(-1.6 → -4.2)	
< Extraordinary Income/Losses >	**-**	**2.2**	**(2.2 → -)**	
Gain on sales of fixed assets	-	2.2	(2.2 → -)	

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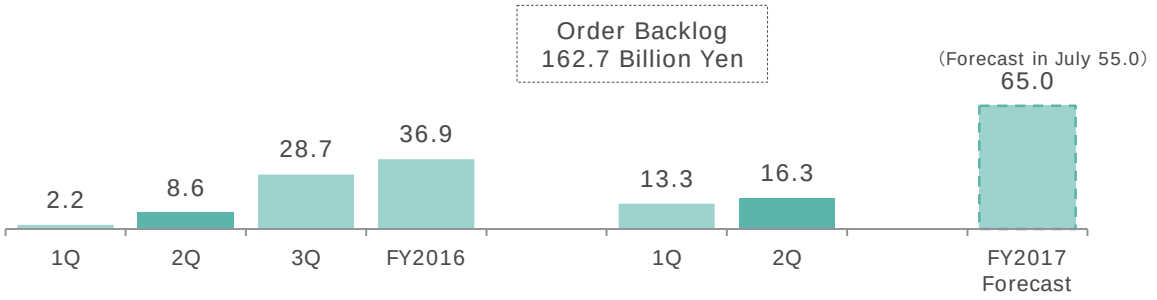
Ship & Offshore Structure

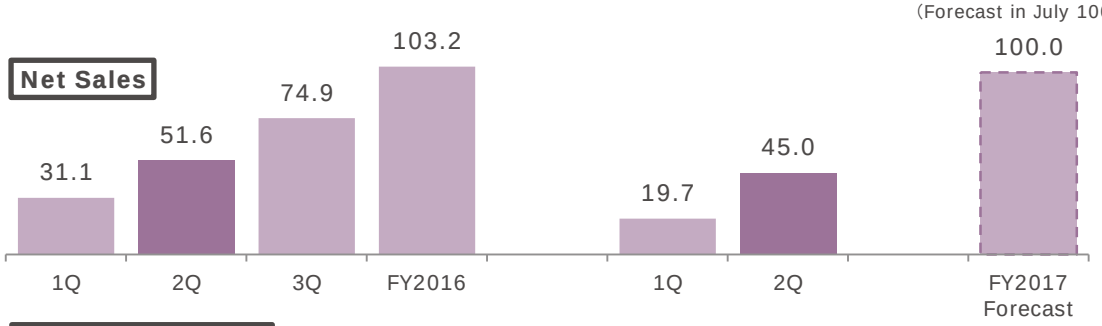
Main Products: LNG carriers, LPG carriers, Offshore structures, Bulk carriers, Submarines

(Billion Yen / In accumulated amount)

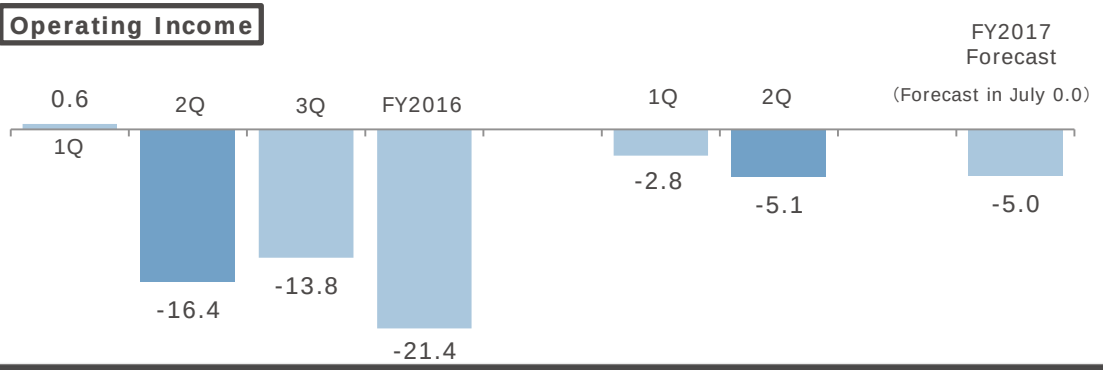
Orders Received



Net Sales



Operating Income



FY2017.2Q

(vs. FY2016.2Q)

Orders Received: Increased due to orders received for LPG carrier and Kawasaki JETFOIL

Net Sales: Decreased due to decrease in repairing of vessels, and other factors

Operating Income: Improved compared to the previous same period when there were increase of the amount of allowance for doubtful accounts on trade receivables , and increase in provision for loss on construction contracts

FY2017 Forecast

(vs. Forecast in July)

Orders Received: Revised up due to revision of plan of orders received for gas carriers

Net Sales : No Change

Operating Income: Revised down due to increase in cost of gas carriers and other factors

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

(unit)

	Orders Received		Sales ※		Orders Backlog
	FY2016.2Q	FY2017.2Q	FY2016.2Q	FY2017.2Q	FY2017.2Q
LNG carriers			9	8	8
LPG carriers		1	4	6	5
Submarines			2	2	2
Others		1	2	3	4
Total	0	2	17	19	19

※ Sales includes units by percentage-of-completion method

	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In July	In October
Before-tax ROIC	-38.4%	-23.4%	0.5%	-5.0%

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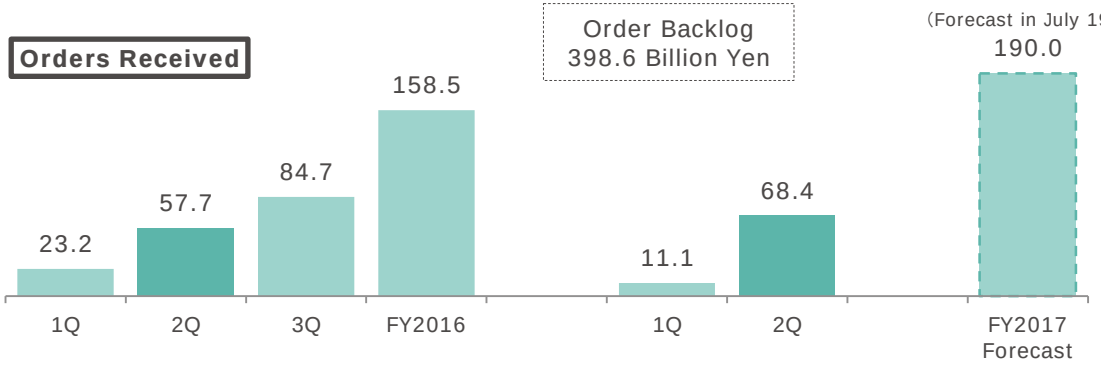
Rolling Stock

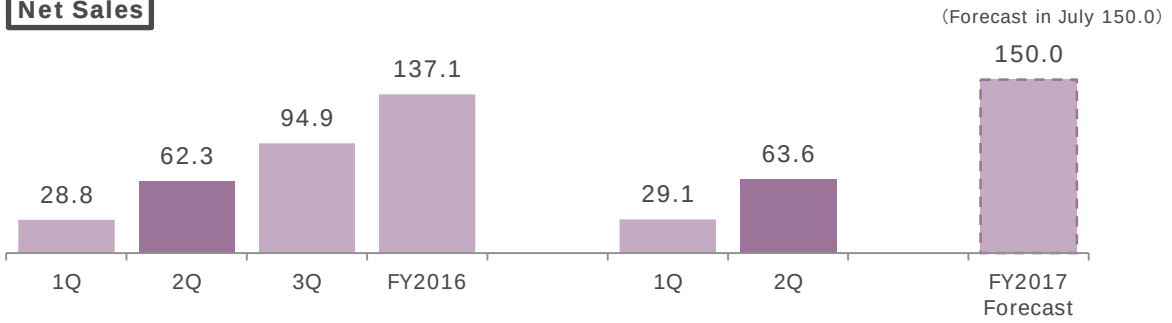
Main Products : Electric train cars (incl. Shinkansen), Electric and diesel locomotives, Passenger coaches, Bogies

(Billion Yen / In accumulated amount)

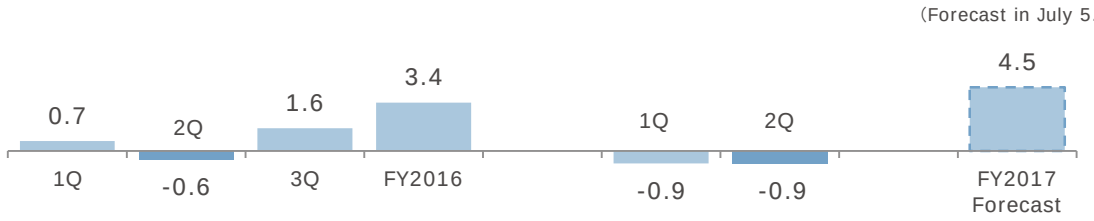
Orders Received



Net Sales



Operating Income



FY2017.2Q

(vs. FY2016.2Q)

Orders Received: Increased due to orders received for MRT System in Bangladesh

Net Sales: Remained the same level as the previous same period, due to increase in domestic market and other factors, despite decrease in Asia including Singapore

Operating Income: Deteriorated due to decrease of profitable projects, and other factors

FY2017 Forecast

(vs. Forecast in July)

Orders Received, Net Sales & Operating Income : No Change

Operating Income: Revised down due to revision of cost in some projects

	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In July	In October
Before-tax ROIC	11.7%	3.0%	6.9%	5.2%

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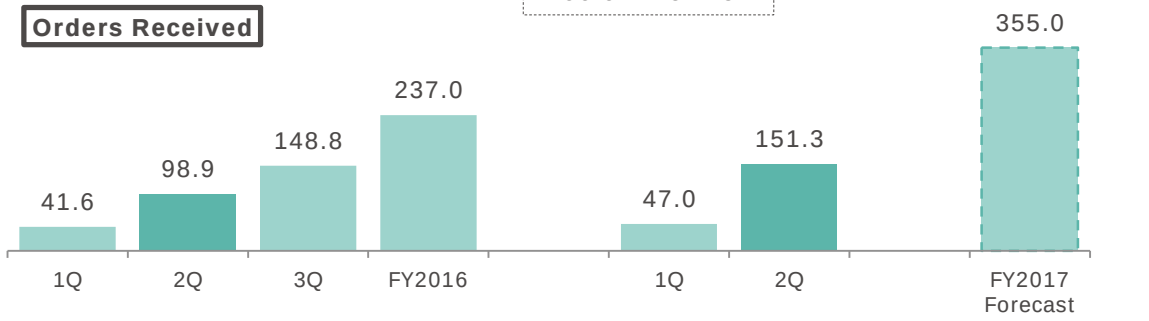
Aerospace

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

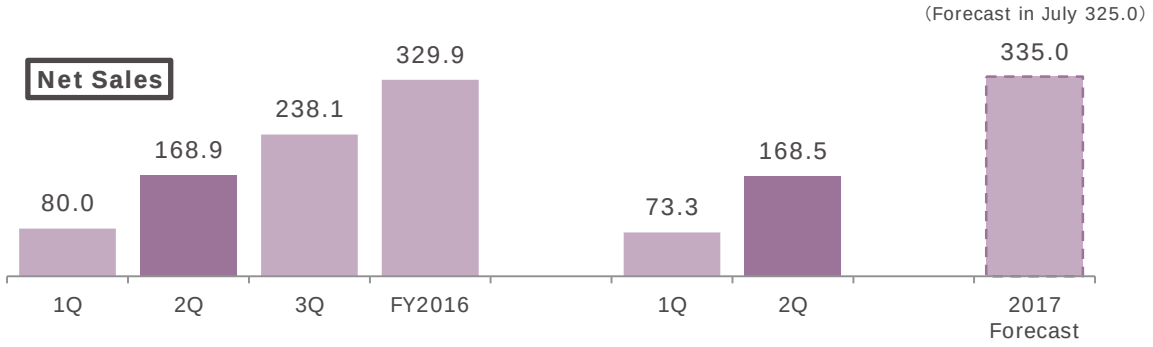
(Billion Yen / In accumulated amount)

Order Backlog
490.0 Billion Yen

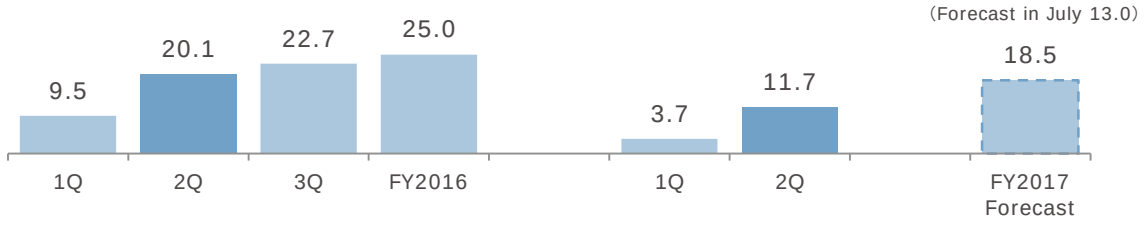
Orders Received



Net Sales



Operating Income



FY2017.2Q

(vs. FY2016.2Q)

Orders Received: Increased due to increase in orders received for Ministry of Defense (MOD), and other factors

Net Sales: Remained the same level as the previous same period, due to increase in sales to the MOD and other factors, despite decrease in component parts for commercial aircrafts

Operating Income: Decreased due decrease in profitability of component parts for commercial aircrafts, and other factors

FY2017 Forecast

(vs. Forecast in July)

Orders Received, Net Sales & Operating Income : Revised up due to the effect of the depreciation of the yen, increase in component parts for commercial aircrafts, and other factors

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

	FY2016.2Q	FY2017.2Q
Boeing 777	51	33
Boeing 767	13	15
Boeing 787	65	73

	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In July	In October
Before-tax ROIC	33.9%	15.1%	5.5%	9.1%

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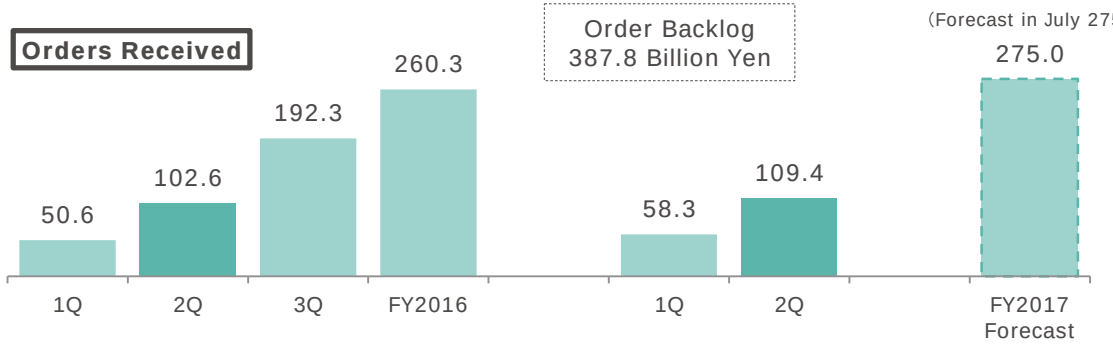
Gas Turbine & Machinery

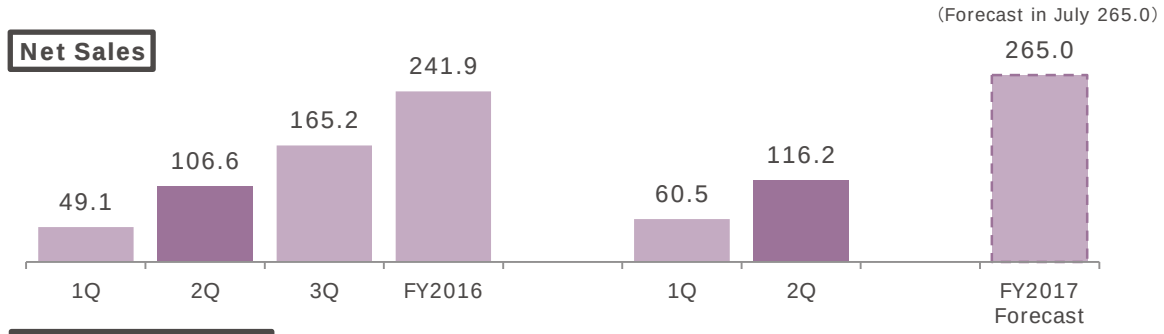
Main Products : Jet engines, Gas turbine co-generation system, Gas engines, Diesel engines, Gas turbines & steam turbines for marine & land, Marine propulsion system, Aero-dynamic machinery

(Billion Yen / In accumulated amount)

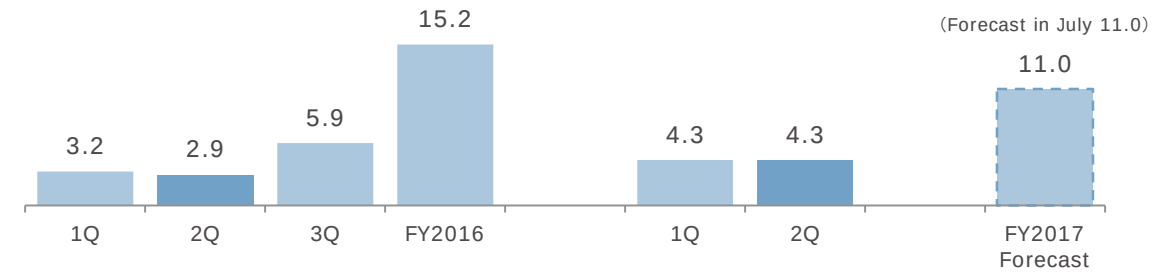
Orders Received



Net Sales



Operating Income



FY2017.2Q

(vs. FY2016.2Q)

Orders Received: Increased due to increase in gas compression modules and other factors

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

Operating Income: Increased due to sales increase

FY2017 Forecast

(vs. Forecast in July)

Orders Received, Net Sales & Operating Income : No Change

	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In July	In October
Before-tax ROIC	8.8%	7.1%	4.9%	4.6%

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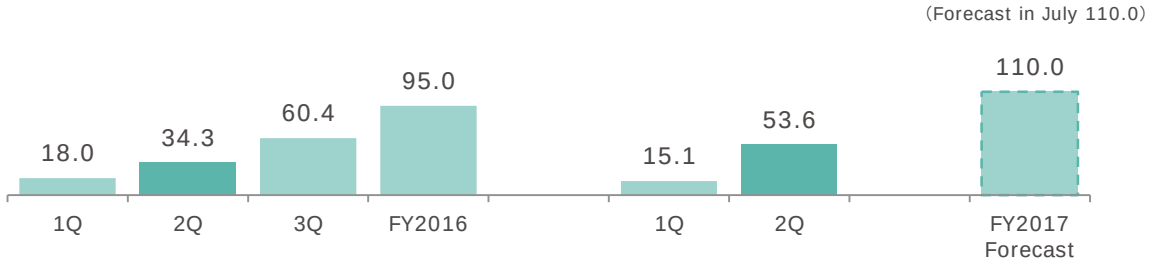
Plant & Infrastructure

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

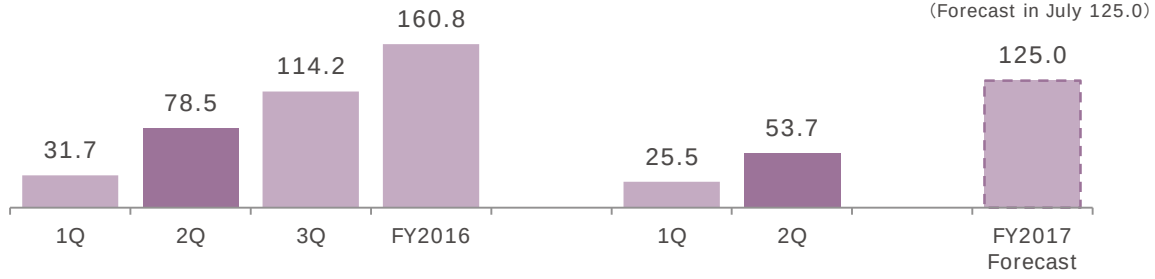
(Billion Yen / In accumulated amount)

Orders Received

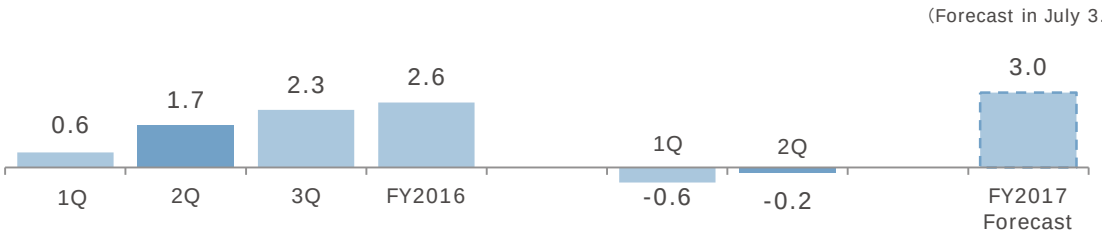
Order Backlog
215.2 Billion Yen



Net Sales



Operating Income



FY2017.2Q

(vs. FY2016.2Q)

Orders Received: Increased due to increase in Operation of Waste Treatment Facility, and other factors

Net Sales: Decreased due to decrease in construction works of a chemical plant for overseas market, and other factors

Operating Income: Deteriorated due to sales decrease

FY2017 Forecast

(vs. Forecast in July)

Orders Received & Net Sales : No Change

Operating Income : Revised down due to revision of cost in some projects

	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In July	In October
Before-tax ROIC	17.5%	8.9%	9.0%	5.4%

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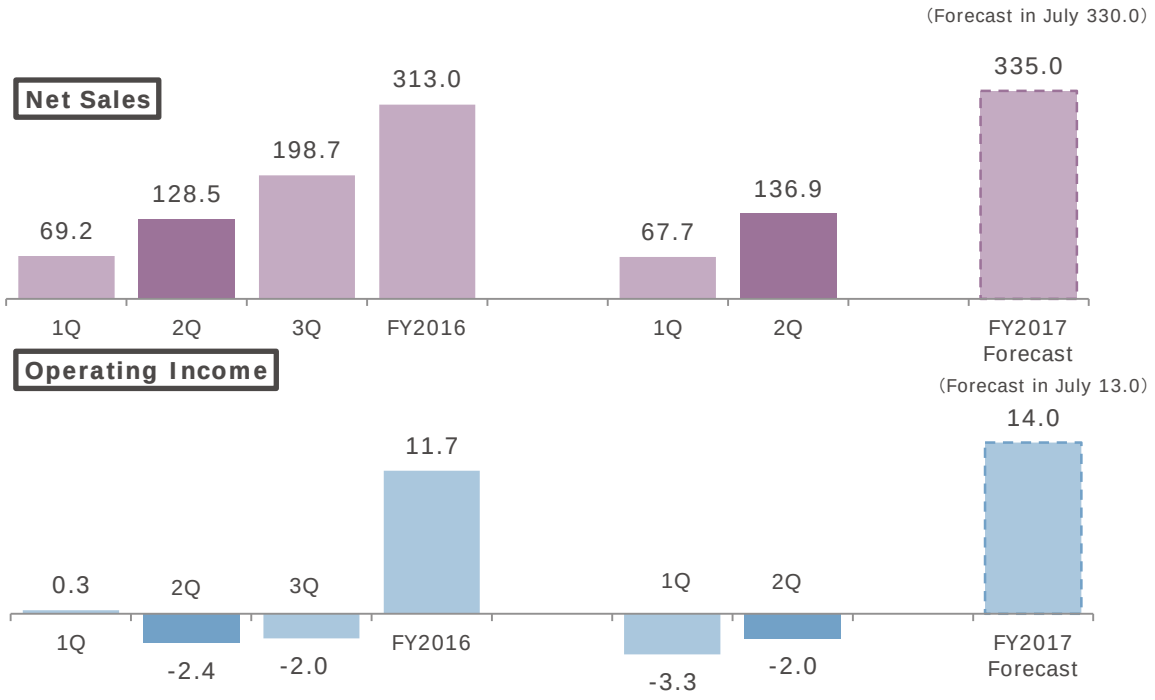
Motorcycle & Engine

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

(Billion Yen / In accumulated amount)



FY2017.2Q

(vs. FY2016.2Q)

Net Sales: Increased due to increase in motorcycles for developed countries and general-purpose gasoline Engines, despite decrease in motorcycles for emerging market

Operating Income: Improved due to sales increase

FY2017 Forecast

(vs. Forecast in July)

Net Sales & Operating Income : Revised up due to revision of assumed exchange rate

＜Wholesales by Product＞ (Thousands of units / Billion Yen)

	FY20162Q		FY20172Q	
	Unit	Amount	Unit	Amount
Motorcycles for developed countries	61	44.0	64	48.5
Motorcycles for emerging market	151	38.3	143	35.8
Utility Vehicles, ATVs & PWC	27	29.6	27	31.2
General-purpose gasoline Engines		16.5		21.2
Total	239	128.5	234	136.9

	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In July	In October
Before-tax ROIC	14.1%	7.3%	9.5%	10.9%

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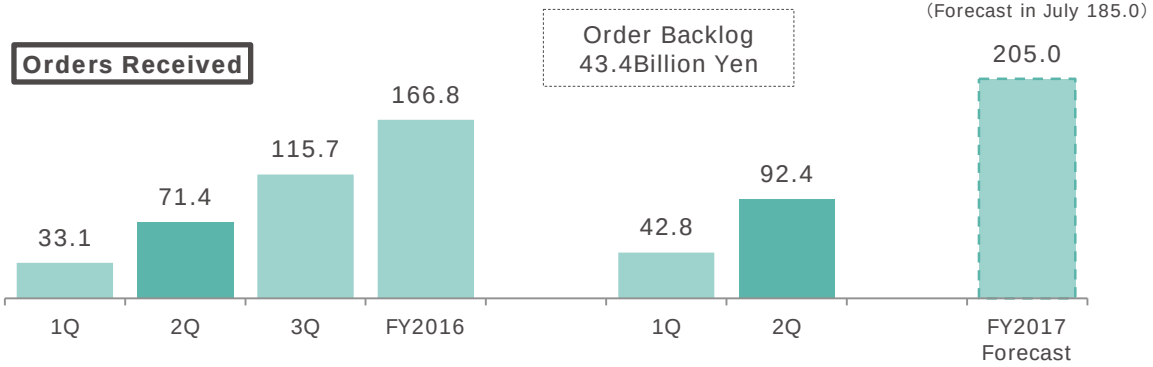
Precision Machinery

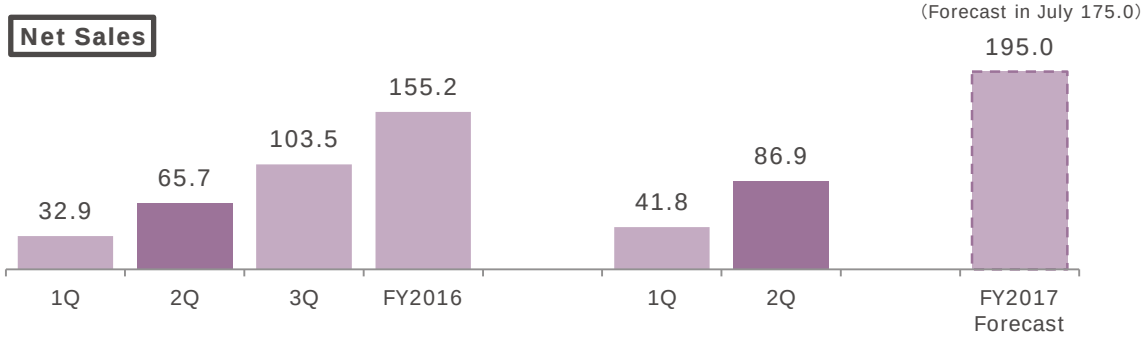
Main Products: Hydraulic components for construction machineries, Hydraulic components and systems for industrial machines, Marine application machines, Deck cranes and other marine deck equipment, Industrial robots, Medical and pharmaceutical robot

(Billion Yen / In accumulated amount)

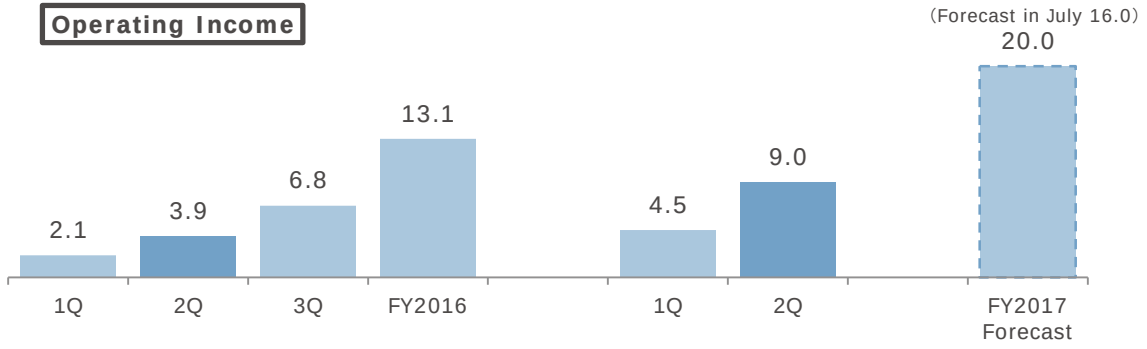
Orders Received



Net Sales



Operating Income



FY2017.2Q

(vs. FY2016.2Q)

Orders Received : Increased due to increase in hydraulic components for construction machinery

Net Sales : Increased due to increase in hydraulic components for construction machinery and various industrial robots, and other factors

Operating Income: Increased due to sales increase

FY2017 Forecast

(vs. Forecast in July)

Orders Received, Net Sales & Operating Income : Revised up due to increase in demand for hydraulic components for construction machinery in China

	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In July	In October
Before-tax ROIC	9.5%	13.4%	15.8%	19.6%

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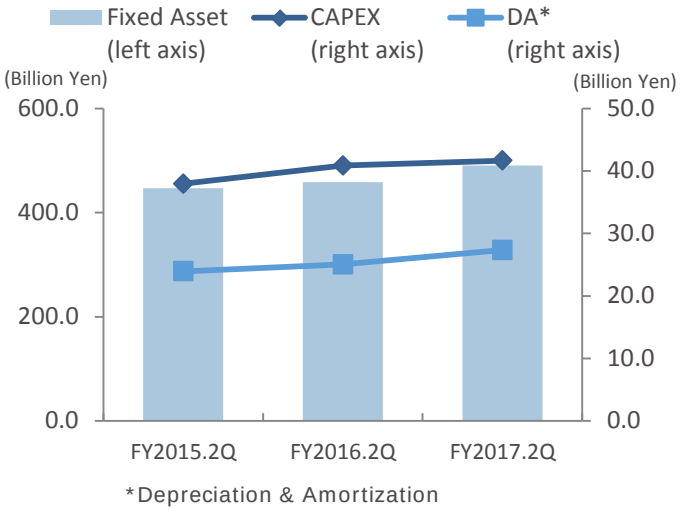
Summary of Balance Sheet

(Billion Yen)

	End of Mar. 2017	End of Oct. 2017	Change
Cash on hand and in banks	55.3	**45.4**	-9.9
Trade receivables	444.6	**489.3**	+44.7
Inventories	484.8	**518.5**	+33.6
Total fixed assets	477.1	**490.6**	+13.4
Other assets	225.3	**251.4**	+26.0
Total assets	1,687.3	**1,795.3**	+108.0
Trade payables	342.0	**331.3**	-10.6
Interest-bearing debt	400.6	**559.4**	+158.7
Advances from customers	205.8	**165.6**	-40.2
Other liabilities	287.4	**282.6**	-4.8
Total liabilities	1,236.0	**1,339.1**	+103.1
Total shareholders' equity	446.2	**448.7**	+2.4
Other net assets	5.0	**7.5**	+2.4
Total net assets	451.3	**456.2**	+4.9
Total liabilities and net assets	1,687.3	**1795.3**	+108.0

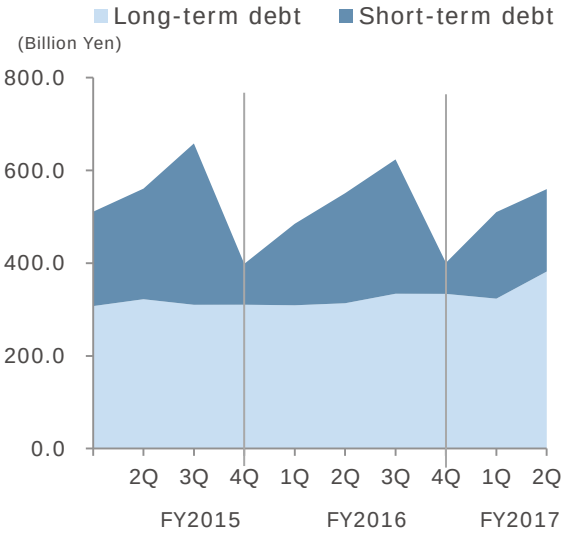
Ratio of shareholders' equity to total assets	25.9%	**24.6%**
Net Debt Equity Ratio	78.9%	**116.3%**

【Changes in CAPEX and others】



*Depreciation & Amortization

【Changes in interest-bearing debt】



< Overview of Balance Sheet >

On September 30, 2017, total assets increased from March 31, 2017, due to increase in trade receivables and inventories, and other factors.

Total liabilities increased, due to increase in interest-bearing debt and other factors, despite decrease in advances form customers and trade payables, and other factors.

Total net assets remained the same level as March 31, 2017, due to decrease resulting from dividend payments and other factors, despite recognition of net income attributable to owners of parent.

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Summary of Cash Flows

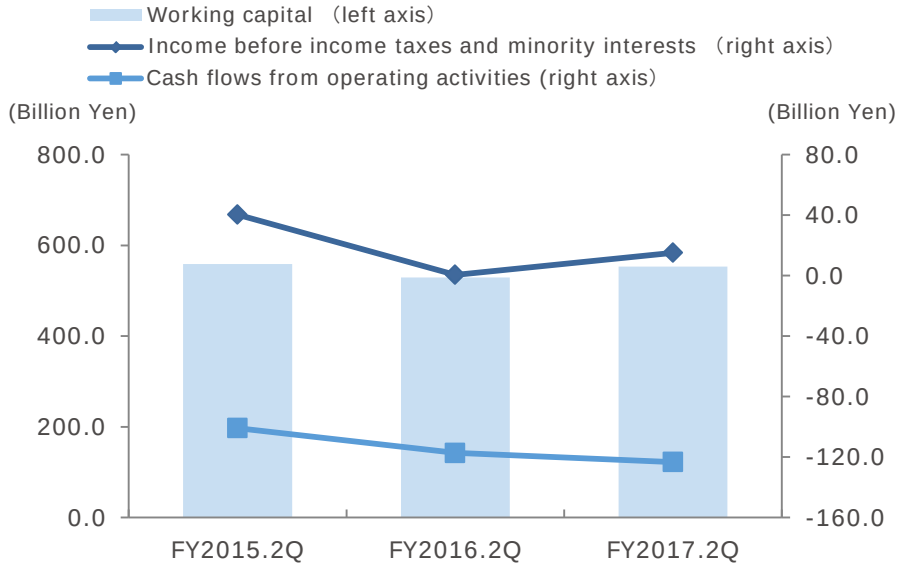
(Billion Yen)

	FY2016 2Q	**FY2017 2Q**	Change
Cash flows from operating activities	-117.2	**-123.3**	-6.0
Cash flows from investing activities	-31.6	**-40.2**	-8.6
Free Cash Flows	-148.8	**-163.6**	-14.7
Cash flows from financing activities	143.9	**155.6**	+11.6

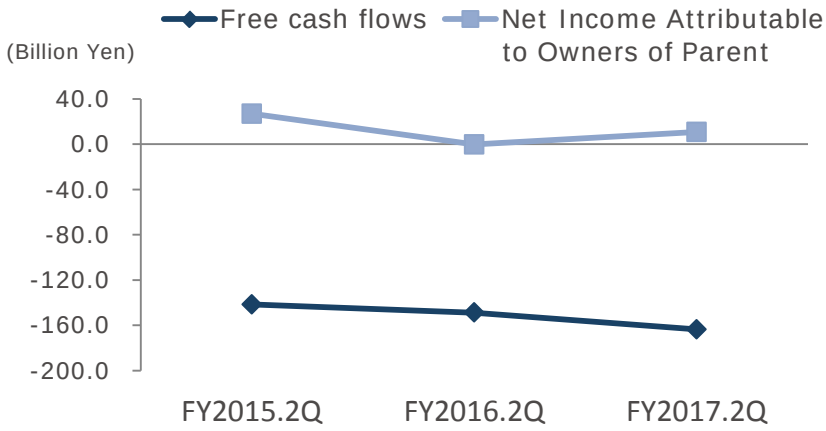
< Overview of Cash Flows >
(vs.FY2016.2Q)

Cash flows from operating activities deteriorated due to increase in working capital, and other factors.
Cash outflows from investing activities deteriorated, because expenditures for CAPEX increased. Income from sale of fixed assets in the previous same period and other factors also affected.
Given the above mentioned changes, free cash flows deteriorated compared to the previous same period.

< Changes in cash flows from operating activities and others >



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



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Consolidated Operating Performance

(Billion Yen)

	FY2016 Actual	FY2017 Forecast		Change	
		In July	**In October**	vs. FY2016	vs. Forecast in July
Orders Received	1,348.7	1,560.0	**1,620.0**	+271.3	+60.0
Net Sales	1,518.8	1,555.0	**1,590.0**	+71.2	+35.0
Operating Income	45.9	58.0	**62.0**	+16.1	+4.0
Recurring Profit	36.6	51.5	**55.5**	+18.9	+4.0
Net Income Attributable to Owners of Parent *	26.2	36.0	**38.0**	+11.8	+2.0
Before-tax ROIC	5.0%	6.0%	**6.4%**	+1.4%	+0.4%
ROE	6.0%	8.0%	**8.4%**	+2.4%	+0.4%
Dividend(per share)	6.0yen	6.0yen	(※) 60.0yen Equivalent to 6.0 yen before consolidation of stocks		

※KHI consolidates 10 common stocks into one stock on October. 1, 2017

Reasons for the Revision

< Orders Received >

Revised up mainly in Aerospace and Precision Machinery segments

< Net Sales >

Revised up due to sales increase in Precision Machinery and Aerospace segments, revision of assumed exchange rate, and other factors

< Profits >

- Operating income was revised up, due to sales increase in Precision Machinery and Aerospace segments and other factors, despite increase of cost in Ship & Offshore Structure segment
- Recurring profit and net income attributable to owners of parent were revised up due to increase in operating income

Exchange Rates (actual & assumed)

Yen / US$	108.98	108	**110**
Yen / EUR	120.24	114	**130**

* Assumed rates are applied to the outstanding foreign exchange exposure as of October 27, 2017

(For Reference)

Impact on profit by FX fluctuation of 1 Yen

(Billion Yen)

	Operating Income	Recurring Profit
US$	1.15	1.35
EUR	0.09	0.13

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Forecast by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2016 Actual	FY2017 Forecast		FY2016 Actual	FY2017 Forecast		FY2016 Actual	FY2017 Forecast	
		In July	**In October**		In July	**In October**		In July	**In October**
Ship & Offshore Structure	36.9	55.0	**65.0**	103.2	100.0	**100.0**	-21.4	0.0	**-5.0**
Rolling Stock	158.5	190.0	**190.0**	137.1	150.0	**150.0**	3.4	5.5	**4.5**
Aerospace	237.0	330.0	**355.0**	329.9	325.0	**335.0**	25.0	13.0	**18.5**
Gas Turbine & Machinery	260.3	275.0	**275.0**	241.9	265.0	**265.0**	15.2	11.0	**11.0**
Plant & Infrastructure	95.0	110.0	**110.0**	160.8	125.0	**125.0**	2.6	3.5	**3.0**
Motorcycle & Engine	313.0	330.0	**335.0**	313.0	330.0	**335.0**	11.7	13.0	**14.0**
Precision Machinery	166.8	185.0	**205.0**	155.2	175.0	**195.0**	13.1	16.0	**20.0**
Others	80.9	85.0	**85.0**	77.4	85.0	**85.0**	3.1	4.0	**4.0**
Eliminations and corporate*	-	-	**-**	-	-	**-**	-7.0	-8.0	**-8.0**
Total	1,348.7	1,560.0	**1620.0**	1,518.8	1,555.0	**1,590.0**	45.9	58.0	**62.0**

* “Eliminations and corporate” includes some expenses incurred at Head Office which are not allocated to each industry segment for internal reporting

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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)		
	FY2016 Actual	FY2017 Forecast		FY2016 Actual	FY2017 Forecast		FY2016 Actual	FY2017 Forecast	
		In July	**In October**		In July	**In October**		In July	**In October**
Ship & Offshore Structure	-23.4%	0.5%	**-5.0%**	-20.7%	0.0%	**-5.0%**	0.61	0.57	**0.62**
Rolling Stock	3.0%	6.9%	**5.2%**	2.5%	3.6%	**3.0%**	0.83	0.88	**0.85**
Aerospace	15.1%	5.5%	**9.1%**	7.5%	4.0%	**5.5%**	0.76	0.74	**0.77**
Gas Turbine & Machinery	7.1%	4.9%	**4.6%**	6.3%	4.1%	**4.1%**	0.69	0.72	**0.73**
Plant & Infrastructure	8.9%	9.0%	**5.4%**	1.6%	2.8%	**2.4%**	1.35	1.02	**0.93**
Motorcycle & Engine	7.3%	9.5%	**10.9%**	3.7%	3.9%	**4.1%**	1.28	1.37	**1.34**
Precision Machinery	13.4%	15.8%	**19.6%**	8.4%	9.1%	**10.2%**	0.98	1.06	**1.18**
Total	5.0%	6.0%	**6.4%**	3.0%	3.7%	**3.8%**	0.88	0.89	**0.90**

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R&D / CAPEX / Number of Employees

(Billion Yen / Persons)

	FY20156 Actual	FY2017 Forecast		
		In July	**In October**	vs. Forecast in July
R&D Expenses	43.6	48.0	**48.0**	-
CAPEX (Construction Base)	82.7	99.0	**94.0**	-5.0
Depreciation & Amortization	51.5	53.0	**52.0**	-1.0
Domestic	26,348	27,300	**27,300**	-
Overseas	8,779	9,100	**9,100**	-
Number of Employees	35,127	36,400	**36,400**	-

・Capital expenditures 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.

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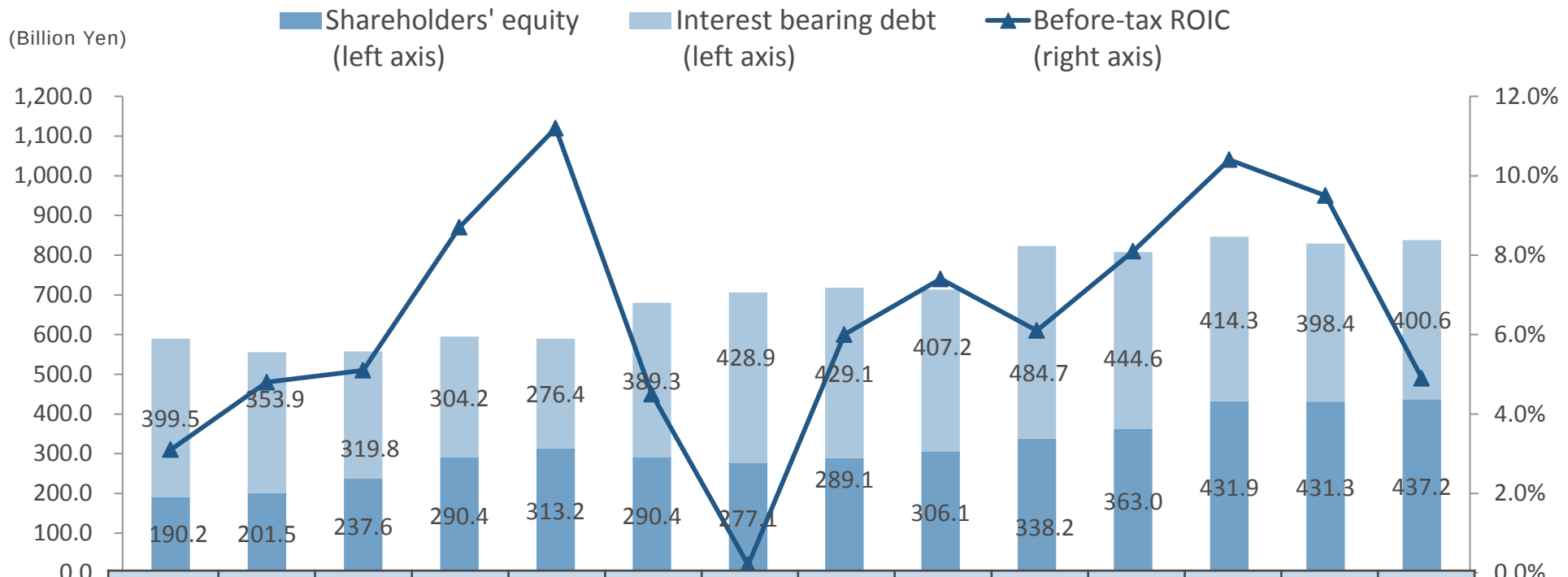
Historical Data



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Before-tax ROIC	3.1%	4.8%	5.1%	8.7%	11.2%	4.5%	0.2%	6.0%	7.4%	6.1%	8.1%	10.4%	9.4%	5.0%
Invested Capital	589.6	555.3	557.3	594.6	589.6	679.7	705.9	718.2	713.2	822.8	807.6	846.3	829.7	837.9
Net Sales	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	1,541.0	1,518.8
Operating Profit	22.2	24.7	41.7	69.1	76.9	28.7	-1.3	42.6	57.4	42.0	72.3	87.2	95.9	45.9
Recurring Profit	12.1	21.0	30.8	49.0	63.9	38.7	14.2	49.1	63.6	39.3	60.6	84.2	93.2	36.6
Net Income Attributable to Owners of Parent	6.3	11.4	16.4	29.7	35.1	11.7	-10.8	25.9	23.3	30.8	38.6	51.6	46.0	26.2
Yen / US$	113	108	112	117	115	101	93	86	79	82	99	109	118	108

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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.

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