

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

January. 31, 2018

Kawasaki Heavy Industries, Ltd.

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Summary of Financial Results

	[Billion Yen]		
	FY2016 3Q	FY2017 3Q	Change
Orders Received	885.3	1,002.0	+ 116.7
Net Sales	1,043.0	1,092.3	+ 49.3
Operating Income	22.8	44.6	+ 21.7
Recurring Profit	23.0	39.9	+ 16.9
Net Income attributable to owners of parent	17.9	14.5	− 3.4

vs. FY2016.3Q

• 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, Motorcycle & Engine segments, and other factors, despite decrease in Plant & Infrastructure segment and other factors

• Profits

- Operating income and recurring profit 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
- Net income attributable to owners of parent decreased, due to recognition of extraordinary losses related to the termination of a shipbuilding contract for an offshore service vessel

<Weighted-average exchange rates>

Yen/US\$	107.27	111.31
Yen/EUR	120.01	128.22

(Appendix)

Net Sales in Foreign Currencies for FY2017.3Q [Billion]

US\$	EUR
1.61	0.20

Financial Results by Segment

[Billion Yen]

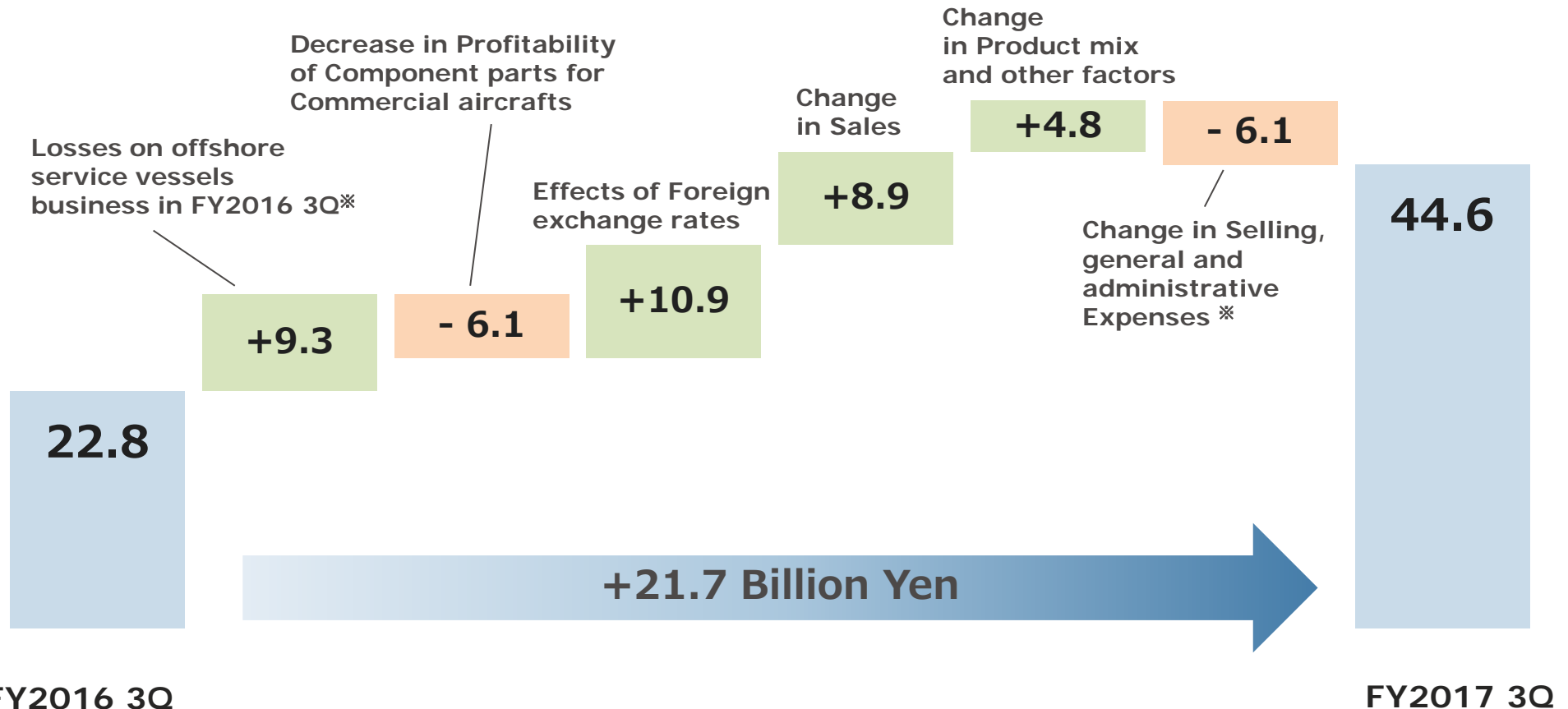
	Orders Received			Net Sales			Operating Income		
	FY2016 3Q	FY2017 3Q	Change	FY2016 3Q	FY2017 3Q	Change	FY2016 3Q	FY2017 3Q	Change
Ship & Offshore Structure	28.7	-2.4	- 31.2	74.9	69.9	- 5.0	-13.8	-4.3	+ 9.4
Rolling Stock	84.7	79.7	- 4.9	94.9	99.8	+ 4.8	1.6	2.3	+ 0.7
Aerospace	148.8	251.2	+ 102.4	238.1	246.6	+ 8.5	22.7	17.3	- 5.3
Gas Turbine & Machinery	192.3	168.0	- 24.2	165.2	185.7	+ 20.5	5.9	11.9	+ 5.9
Plant & Infrastructure	60.4	86.4	+ 26.0	114.2	80.0	- 34.2	2.3	0.0	- 2.4
Motorcycle & Engine	198.7	214.9	+ 16.2	198.7	214.9	+ 16.2	-2.0	3.2	+ 5.2
Precision Machinery	115.7	144.7	+ 29.0	103.5	136.3	+ 32.7	6.8	14.7	+ 7.9
Others	55.7	59.2	+ 3.4	53.2	58.7	+ 5.5	2.3	2.3	- 0.0
Eliminations and corporate [※]	-	-	-	-	-	-	-3.1	-2.9	+ 0.2
Total	885.3	1,002.0	+ 116.7	1,043.0	1,092.3	+ 49.3	22.8	44.6	+ 21.7

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

Details of change in profit

• Operating Profit

+21.7Billion yen (FY2016 3Q 22.8 Billion yen ⇒ FY2017 3Q 44.6 Billion Yen)



※5.1Billion 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 3Q".

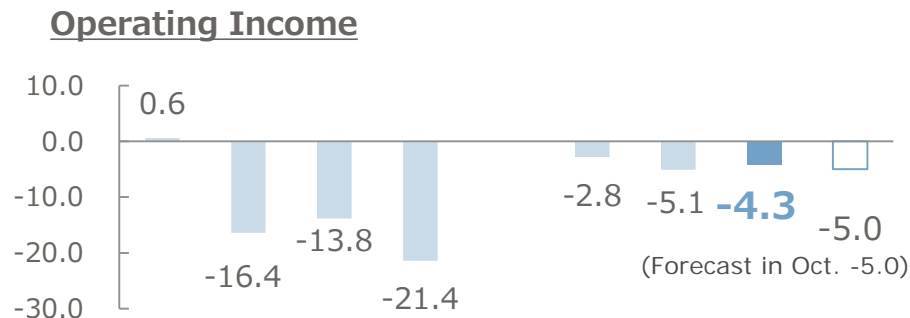
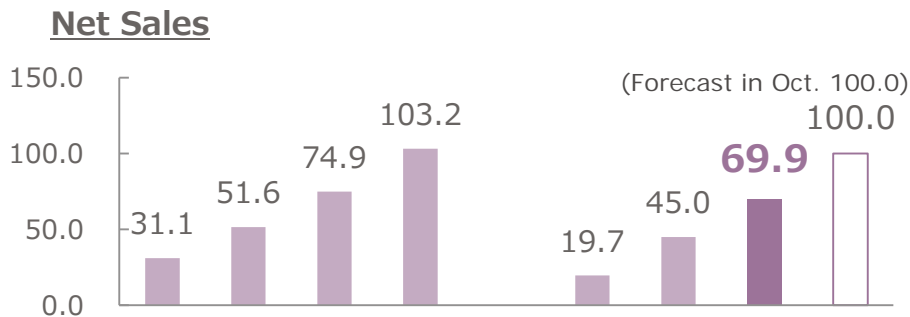
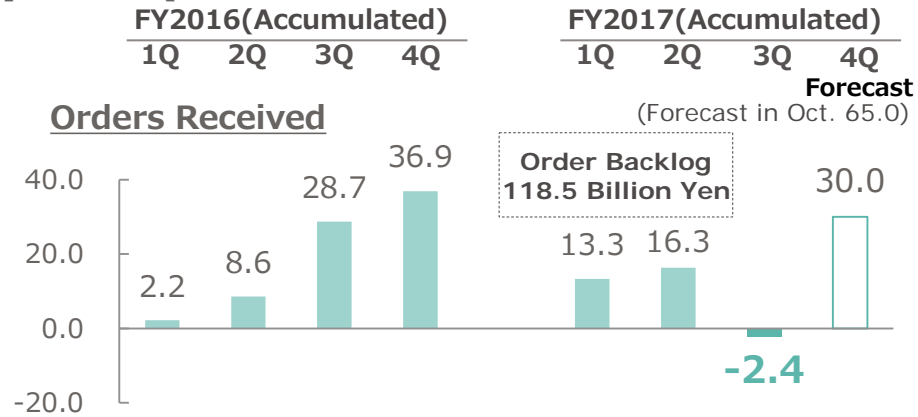
Summary of Income Statement

			(FY2016.3Q	⇒	FY2017.3Q)
[Billion Yen]					
Operating Income	+	21.7	(22.8	⇒	44.6)
• Net Sales	+	49.3	(1,043.0	⇒	1,092.3)
• Cost of sales	+	26.5	(877.7	⇒	904.2)
• Selling, general & administrative expenses	+	1.0	(142.4	⇒	143.4)
- Salaries and benefits	+	1.0	(37.6	⇒	38.6)
- R&D expenses	+	0.2	(30.8	⇒	31.0)
Non-operating Income / Expenses	-	4.7	(0.1	⇒	-4.6)
• Net Interest expense (incl. dividend income)	+	0.0	(-1.3	⇒	-1.2)
• Equity in income of unconsolidated subsidiaries & affiliates	-	1.7	(4.8	⇒	3.0)
• Gain and loss on foreign exchange	+	1.7	(-1.8	⇒	0.0)
• Payments for contract adjustments for commercial aircraft jet engines	-	2.5	(-	⇒	-2.5)
• Others	-	2.4	(-1.5	⇒	-3.9)
Extraordinary Income / Losses	-	15.0	(2.2	⇒	-12.8)
• Gain on sales of fixed assets	-	2.2	(2.2	⇒	-)
• Loss from termination of a shipbuilding contract for an offshore service vessel	-	12.8	(-	⇒	-12.8)

Ship & Offshore Structure

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

[Billion Yen]



FY2017.3Q (vs. FY2016.3Q)

- **Orders Received:** Decreased compared to the previous same period when orders for submarines were received, due to termination of a shipbuilding contract for an offshore service vessel, despite 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 Oct.)

- **Orders Received:** Revised down due to termination of a shipbuilding contract for an offshore service vessel
- **Net Sales:** No change
- **Operating Income:** No change

Units of Orders Received and Sales of New Building Ships [Unit]

	Orders Received		Sales*		Orders Backlog
	FY2016 3Q	FY2017 3Q	FY2016 3Q	FY2017 3Q	FY2017 3Q
LNG carriers			9	8	7
LPG carriers		2	7	6	6
Submarines	1		2	2	2
Others		1	2	3	3
Total	1	3	20	19	18

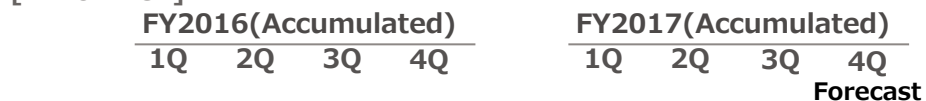
*Sales includes units by percentage-of-completion method

	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In Oct.	In Jan.
Before-tax ROIC	-38.4%	-23.4%	-5.0%	-20.8%

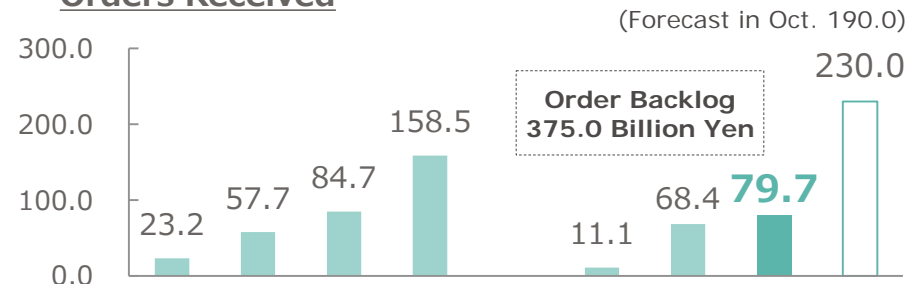
Rolling Stock

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

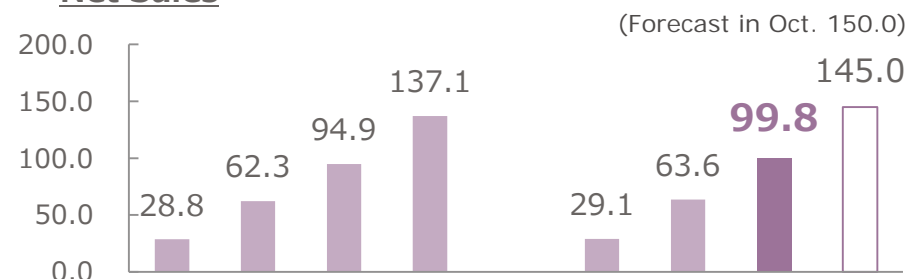
[Billion Yen]



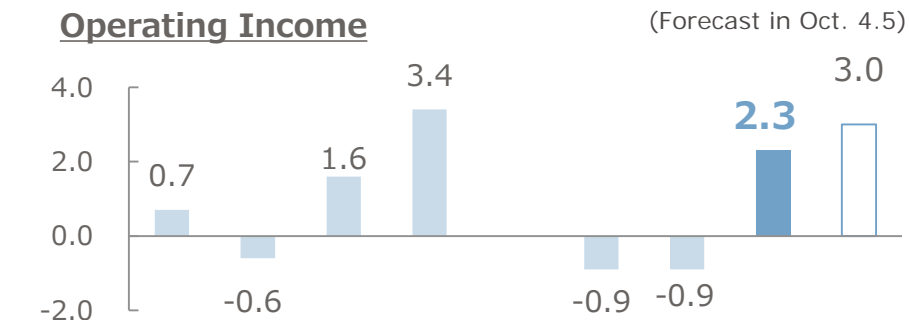
Orders Received



Net Sales



Operating Income



FY2017.3Q (vs. FY2016.3Q)

- **Orders Received:** Decreased due to decrease in domestic market and other factors, despite orders received for MRT System in Bangladesh
- **Net Sales:** Increased due to increase in domestic market and other factors, despite decrease in Asia including Singapore
- **Operating Income:** Increased due to sales increase

FY2017 Forecast (vs. Forecast in Oct.)

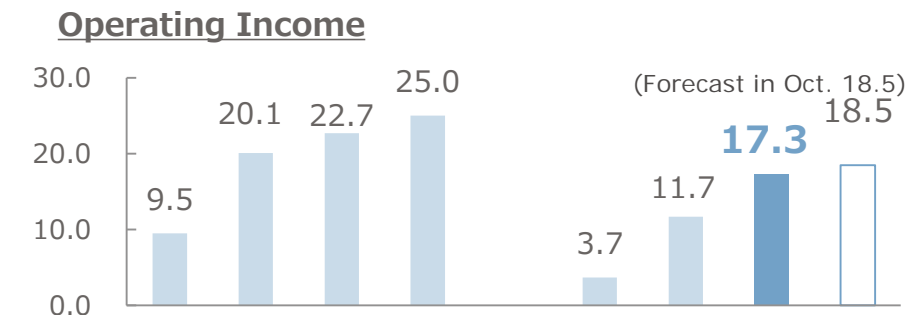
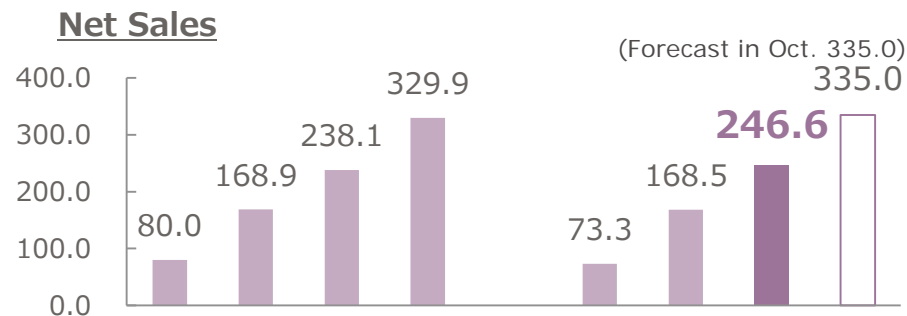
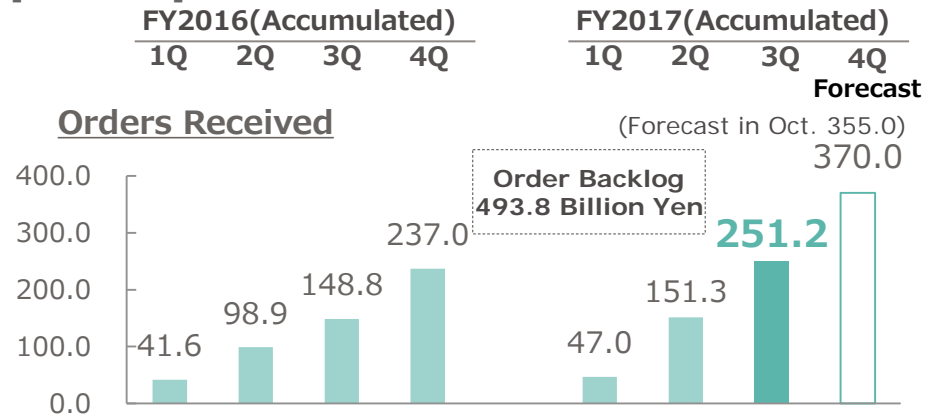
- **Orders Received:** Revised up due to orders for subway cars in North America
- **Net Sales:** Revised down due to decrease of after sales orders and maintenance
- **Operating Income:** Revised down due to sales decrease

	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In Oct.	In Jan.
Before-tax ROIC	11.7%	3.0%	5.2%	3.3%

Aerospace

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

[Billion Yen]



FY2017.3Q (vs. FY2016.3Q)

- **Orders Received:** Increased due to increase in orders received for the Ministry of Defense(MOD), and other factors
- **Net Sales:** Increased due to increase in sales to the MOD and other factors, despite decrease in component parts for commercial aircrafts
- **Operating Income:** Decreased due to decrease in profitability of component parts for commercial aircrafts, and other factors

FY2017 Forecast (vs. Forecast in Oct.)

- **Orders Received:** Revised up due to increase in sales to the MOD, component parts for commercial aircrafts, and other factors
- **Net Sales:** No change
- **Operating Income:** No change

Sales units of component parts for commercial aircraft

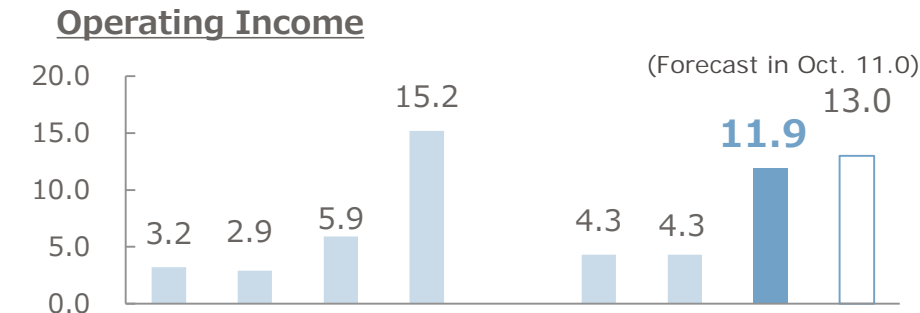
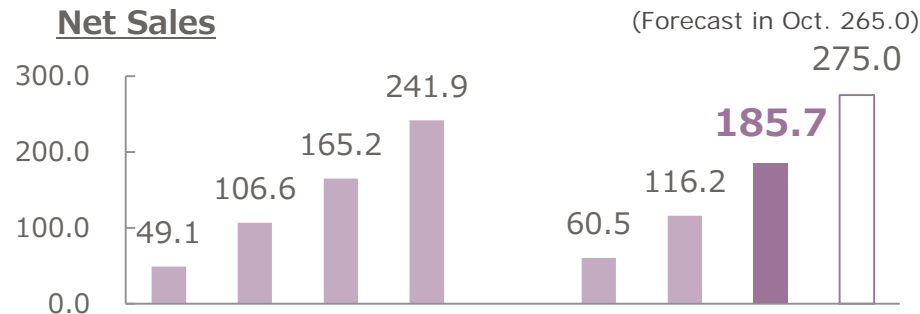
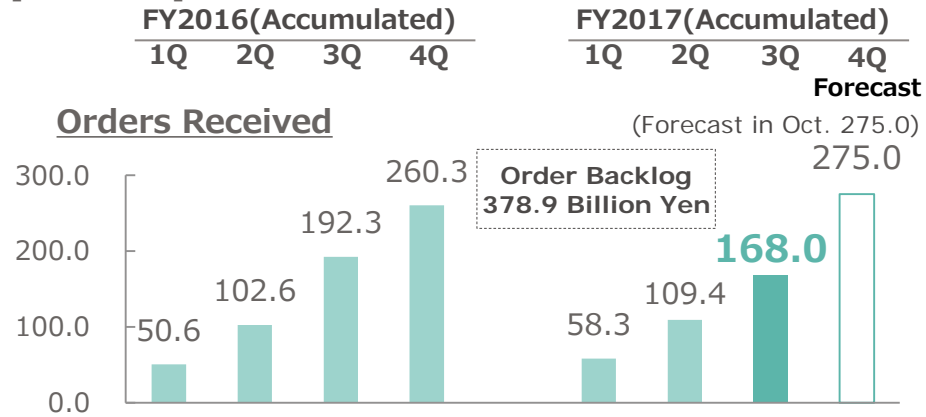
	[Unit]	
	FY2016.3Q	FY2017.3Q
Boeing 767	18	22
Boeing 777	71	49
Boeing 787	92	105

	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In Oct.	In Jan.
Before-tax ROIC	33.9%	15.1%	9.1%	9.1%

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]



FY2017.3Q (vs. FY2016.3Q)

- **Orders Received:** Decreased due to decrease in gas engine power plants for domestic market, 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 Oct.)

- **Orders Received:** No change
- **Net Sales:** Revised up due to increase in component parts of commercial aircraft jet engines
- **Operating Income:** Revised up due to sales increase and other factors

	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In Oct.	In Jan.
Before-tax ROIC	8.8%	7.1%	4.6%	3.9%

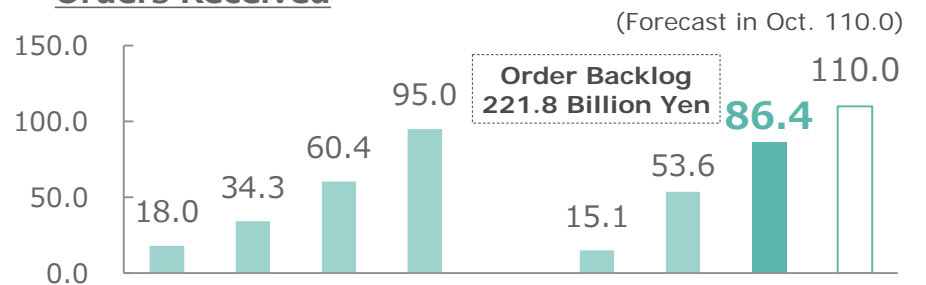
Plant & Infrastructure

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

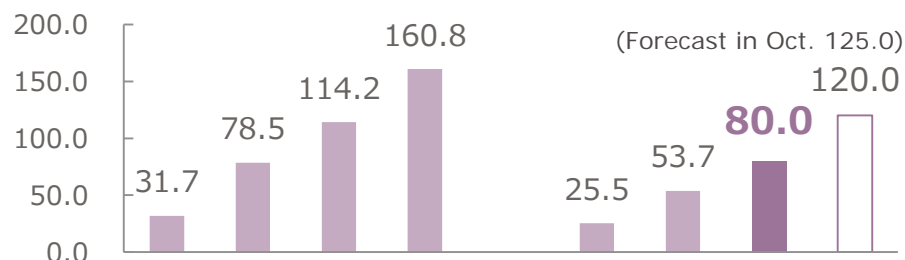
[Billion Yen]

FY2016(Accumulated)				FY2017(Accumulated)			
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q

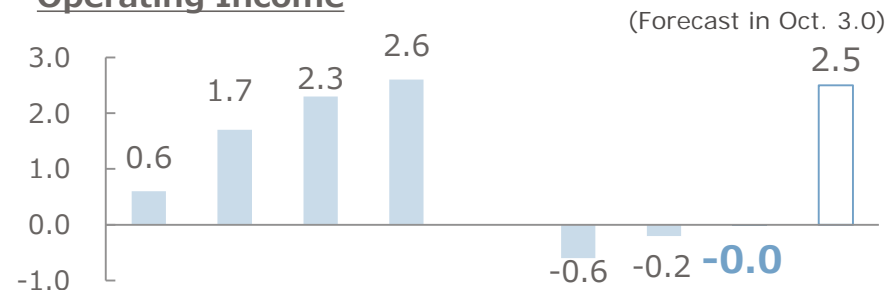
Orders Received



Net Sales



Operating Income



FY2017.3Q (vs. FY2016.3Q)

- **Orders Received:** Increased due to increase in construction and 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 Oct.)

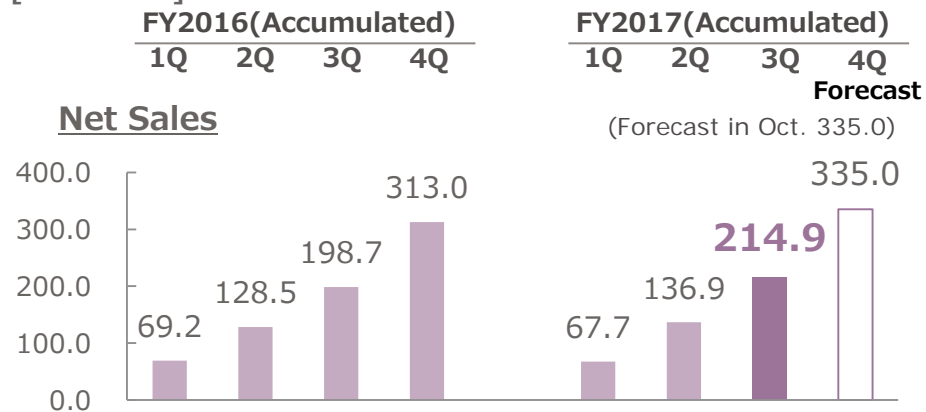
- **Orders Received:** No change
- **Net Sales:** Revised down due to decrease in construction works of a chemical plant for overseas market, and other factors
- **Operating Income:** Revised down due to sales decrease

	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In Oct.	In Jan.
Before-tax ROIC	17.5%	8.9%	5.4%	5.3%

Motorcycle & Engine

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

[Billion Yen]

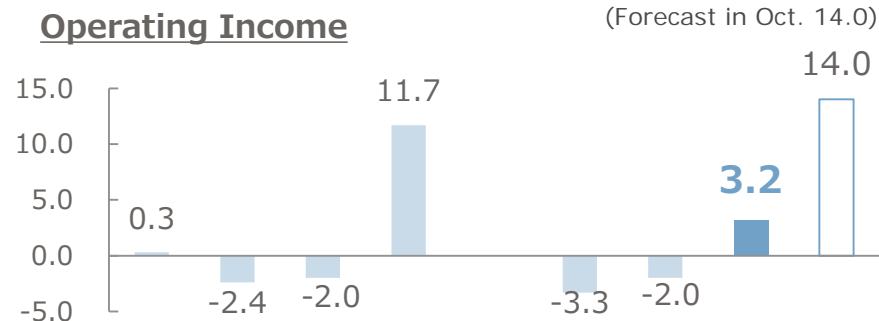


FY2017.3Q (vs. FY2016.3Q)

- **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 Oct.)

- **Net Sales:** No change
- **Operating Income:** No change



Wholesales by Product [Thousands of units, Billion Yen]

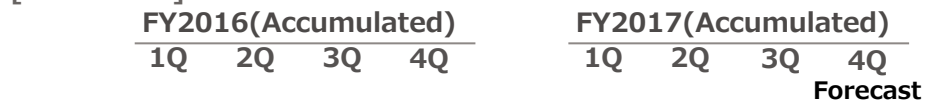
	FY2016.3Q		FY2017.3Q	
	Unit	Amount	Unit	Amount
Motorcycles for developed countries	92	65.6	96	74.8
Motorcycles for emerging market	231	58.8	228	56.6
Utility Vehicles, ATVs & PWC	44	48.0	43	50.5
General-purpose gasoline engines		26.3		32.9
Total	367	198.7	366	214.9

	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In Oct.	In Jan.
Before-tax ROIC	14.1%	7.3%	10.9%	10.9%

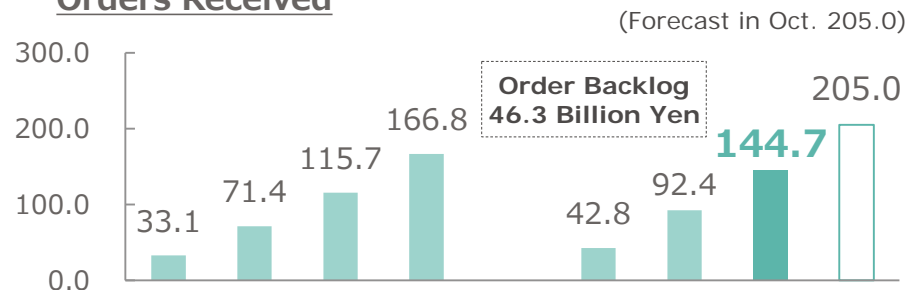
Precision Machinery

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

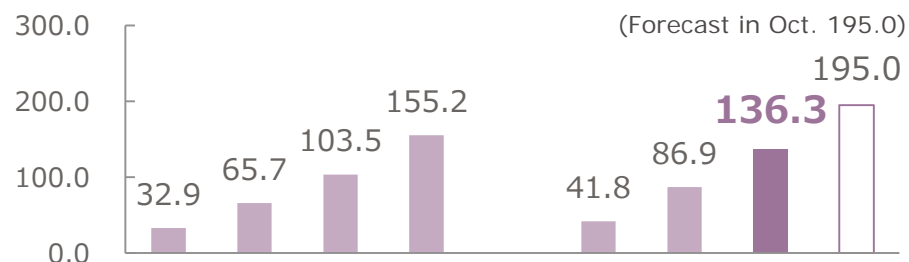
[Billion Yen]



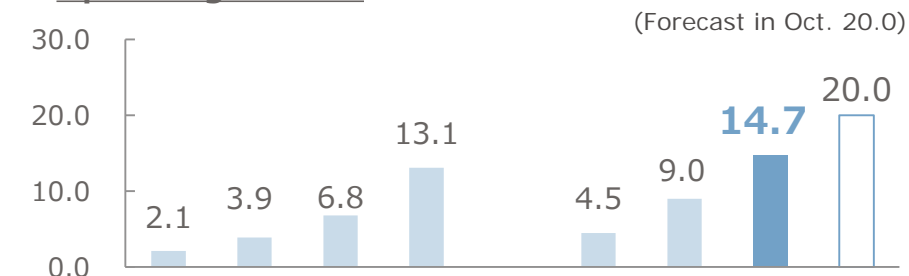
Orders Received



Net Sales



Operating Income



FY2017.3Q (vs. FY2016.3Q)

- **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 Oct.)

- **Orders Received:** No change
- **Net Sales:** No change
- **Operating Income:** No change

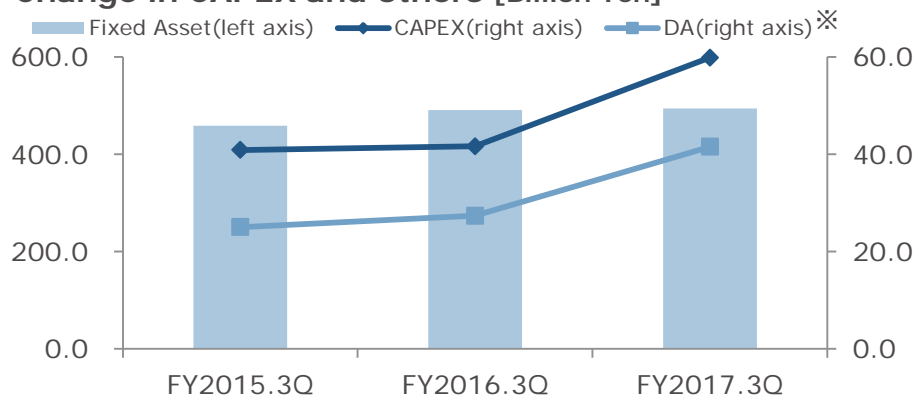
	FY2015 Actual	FY2016 Actual	FY2017 Forecast	
			In Oct.	In Jan.
Before-tax ROIC	9.5%	13.4%	19.6%	19.6%

Summary of Balance Sheet

- On December 31, 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 from customers and other factors.
- Total net assets increased due to recognition of net income attributable to owners of parent, despite decrease resulting from dividend payments and other factors.

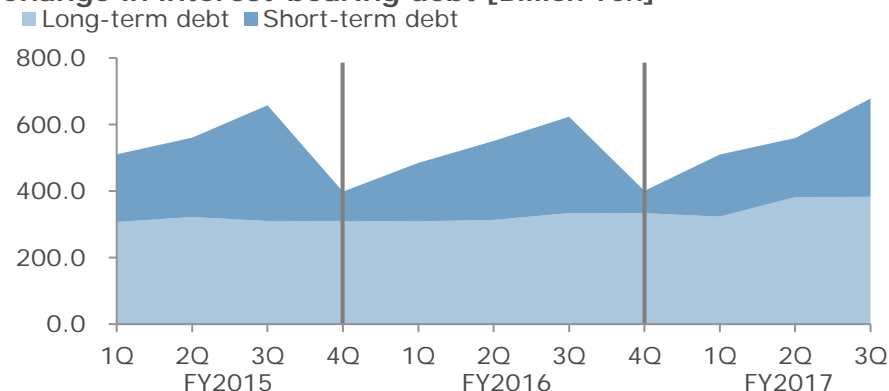
	[Billion Yen]		
	End of Mar. 2017	End of Dec. 2017	Change
Cash on hand and in banks	55.3	50.4	- 4.9
Trade receivables	444.6	558.5	+ 113.9
Inventories	484.8	558.7	+ 73.9
Total fixed assets	477.1	494.4	+ 17.2
Others assets	225.3	241.2	+ 15.9
Total assets	1,687.3	1,903.4	+ 216.0
Trade payables	342.0	345.1	+ 3.1
Interest-bearing debt	400.6	678.2	+ 277.5
Advances from customers	205.8	164.1	- 41.7
Other liabilities	287.4	249.3	- 38.1
Total liabilities	1,236.0	1,436.8	+ 200.8
Total shareholders' equity	446.2	452.5	+ 6.3
Other net assets	5.0	13.9	+ 8.8
Total net assets	451.3	466.5	+ 15.1
Total liabilities & net assets	1,687.3	1,903.4	+ 216.0
Ratio of shareholders' equity to total assets	25.9%	23.6%	
Net D/E Ratio	78.9%	139.1%	

Change in CAPEX and others [Billion Yen]



※Depreciation & Amortization

Change in interest-bearing debt [Billion Yen]

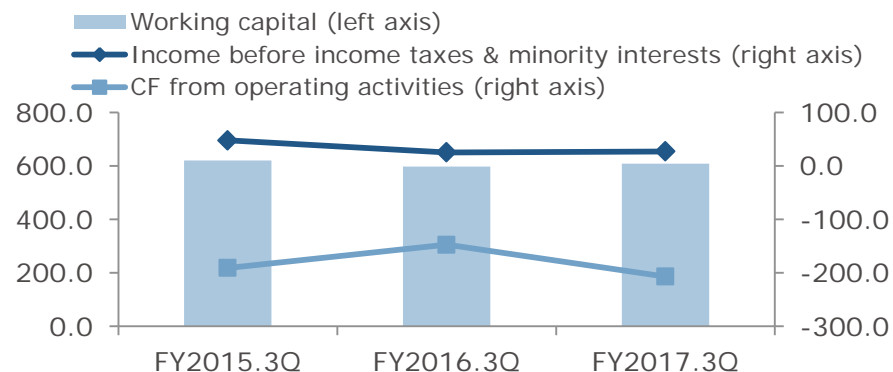


Summary of Cash Flows

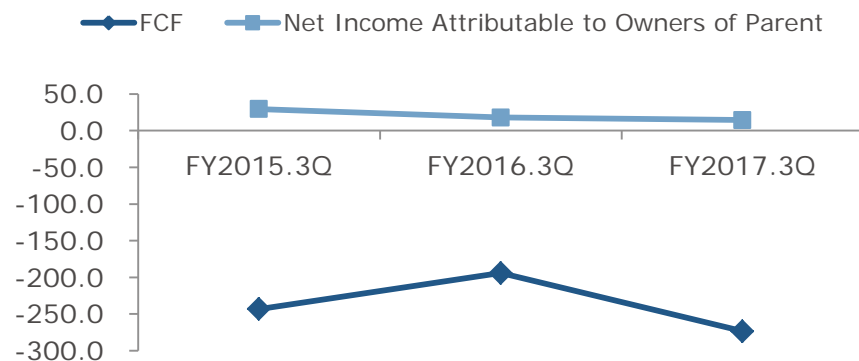
	[Billion Yen]		
	FY2016 3Q	FY2017 3Q	Change
Cash flows from operating activities	-147.2	-206.7	- 59.4
Cash flows from investing activities	-46.8	-66.4	- 19.6
Free Cash Flows	-194.1	-273.2	- 79.1
Cash flows from financing activities	206.2	269.5	+ 63.2

- Cash flows from operating activities deteriorated due to increase in expenditure for overseas projects and inventories, decrease in advances from customers due to being behind schedule, and other factors.
- Cash flows from investing activities deteriorated compared to the previous same period where proceeds from sales of fixed income were recognized, due to increase in payments for purchases of fixed assets, and other factors.
- Given the above mentioned changes, free cash flows deteriorated compared to the previous same period.

Change in CF from operating activities & others [Billion Yen]



Change in FCF & Net Income attributable to Owners of Parent [Billion Yen]



Consolidated Operating Performance

	[Billion Yen]				
	FY2016 Actual	FY2017 Forecast		Change	
		In Dec. ^{※1}	In. Jan	vs. FY2016	vs. Forecast in Dec.
Orders Received	1,348.7	1,620.0	1,640.0	+ 291.3	+ 20.0
Net Sales	1,518.8	1,590.0	1,590.0	+ 71.2	-
Operating Income	45.9	62.0	62.0	+ 16.1	-
Recurring Profit	36.6	55.5	55.5	+ 18.9	-
Net Income Attributable to Owners of Parent	26.2	35.0	33.5	+ 7.3	- 1.5
Before-tax ROIC	5.0%	6.4%	4.9%	- 0.1%	- 1.5%
ROE	6.0%	8.4%	7.3%	+ 1.3%	- 1.1%
Dividend(per share)	6.0yen	^{※2} 60.0yen	^{※2} 60.0yen	-	-

※1 The figures of Orders Received, Before-tax ROIC, ROE and Divided (per share) announced on Oct. 27, 2017

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

<Exchange Rates: Actual & Assumed^{※3}>

Yen/US\$	108.98	110	110
Yen/EUR	120.24	130	130

※3 Assumed rates are applied to the outstanding foreign exchange exposure as of Jan. 31, 2018

Reasons for the Revision

• Orders Received

- Revised up in Rolling Stock and Aerospace segments

• Net Sales

- Remains unchanged due to sales increase in Gas Turbine & Machinery segment, despite sales decrease in Rolling Stock and Plant & Infrastructure segments

• Profits

- Operating income and recurring profit remain unchanged due to sales increase in Gas Turbine & Machinery segment, and other factors, despite sales decrease in Rolling Stock and Plant & Infrastructure segments
- Net income attributable to owners of parent was revised down due to increase of tax expenses related to US tax reform act, and other factors

(Appendix)

Impact on profit by FX fluctuation of 1 Yen

	[Billion Yen]	
	Operating Income	Recurring Profit
US\$	0.53	0.82
EUR	0.08	0.13

Forecast by Segment

[Billion Yen]

	Orders Received			Net Sales			Operating Income		
	FY2016 Actual	FY2017 Forecast		FY2016 Actual	FY2017 Forecast		FY2016 Actual	FY2017 Forecast	
		In Oct.	In Jan.		In Oct.	In Jan.		In Oct.	In Jan.
Ship & Offshore Structure	36.9	65.0	30.0	103.2	100.0	100.0	-21.4	-5.0	-5.0
Rolling Stock	158.5	190.0	230.0	137.1	150.0	145.0	3.4	4.5	3.0
Aerospace	237.0	355.0	370.0	329.9	335.0	335.0	25.0	18.5	18.5
Gas Turbine & Machinery	260.3	275.0	275.0	241.9	265.0	275.0	15.2	11.0	13.0
Plant & Infrastructure	95.0	110.0	110.0	160.8	125.0	120.0	2.6	3.0	2.5
Motorcycle & Engine	313.0	335.0	335.0	313.0	335.0	335.0	11.7	14.0	14.0
Precision Machinery	166.8	205.0	205.0	155.2	195.0	195.0	13.1	20.0	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	1,620.0	1,640.0	1,518.8	1,590.0	1,590.0	45.9	62.0	62.0

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

Before-tax ROIC by Segment

	Before-tax ROIC (EBIT/Invested Capital)			Operating 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 Oct.	In Jan.		In Oct.	In Jan.		In Oct.	In Jan.
Ship & Offshore Structure	-23.4%	-5.0%	-20.8%	-20.7%	-5.0%	-5.0%	0.61	0.62	0.65
Rolling Stock	3.0%	5.2%	3.3%	2.5%	3.0%	2.0%	0.83	0.85	0.80
Aerospace	15.1%	9.1%	9.1%	7.5%	5.5%	5.5%	0.76	0.77	0.77
Gas Turbine & Machinery	7.1%	4.6%	3.9%	6.3%	4.1%	4.7%	0.69	0.73	0.75
Plant & Infrastructure	8.9%	5.4%	5.3%	1.6%	2.4%	2.0%	1.35	0.93	0.93
Motorcycle & Engine	7.3%	10.9%	10.9%	3.7%	4.1%	4.1%	1.28	1.34	1.35
Precision Machinery	13.4%	19.6%	19.6%	8.4%	10.2%	10.2%	0.98	1.18	1.15
Total	5.0%	6.4%	4.9%	3.0%	3.8%	3.8%	0.88	0.90	0.89

R&D/CAPEX/Number of Employees

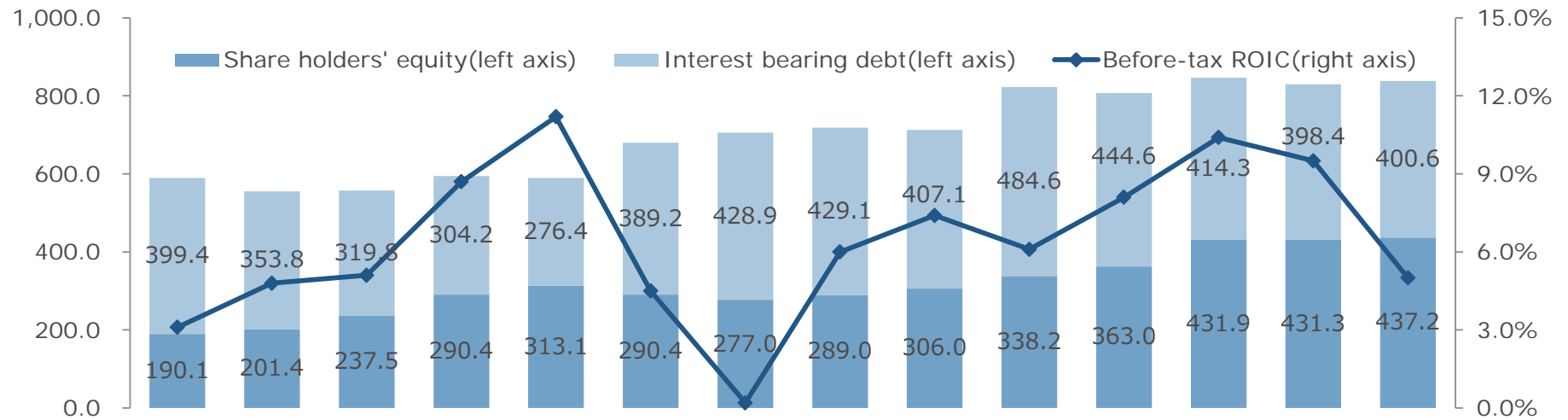
[Billion Yen/Persons]

	FY2016	FY 2017 Forecast		
	Actual	In Oct.	In Jan.	vs. Forecast in Oct.
R&D Expenses	43.6	48.0	48.0	-
CAPEX (Construction Base) [※]	82.7	94.0	94.0	-
Depreciation & Amortization [※]	51.5	52.0	52.0	-
Domestic	26,348	27,300	27,300	-
Overseas	8,779	9,100	9,100	-
Number of Employees	35,127	36,400	36,400	-

※Capex represents 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



[Billion yen]	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Before-tax ROIC	3.10%	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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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.