

Financial Results for FY2018 (for the year ended March 31, 2019)

Apr. 25, 2019

Kawasaki Heavy Industries, Ltd.



MEMBERSHIP

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Summary of Financial Results

[Billion Yen]

	FY2017 Actual	FY2018		Change	
		Forecast in January	Actual	vs. FY2017	vs. Forecast in January
Orders Received	1,608.0	1,590.0	1,585.9	- 22.0	- 4.1
Net Sales	1,574.2	1,620.0	1,594.7	+ 20.5	- 25.3
Operating Income	55.9	66.0	64.0	+ 8.0	- 2.0
Recurring Profit	43.2	49.5	37.8	- 5.3	- 11.7
Net Income Attributable to Owners of Parent	28.9	31.0	27.4	- 1.4	- 3.6
Before-tax ROIC	3.9%	5.9%	4.5%	+ 0.6%	- 1.4%
ROE	6.4%	6.5%	5.8%	- 0.6%	- 0.7%

vs. FY2017

• Orders Received

- Decreased mainly in Rolling Stock and Aerospace Systems segments, despite increase due to Ship & Offshore Structure and other factors

• Net Sales

- Increased as a whole due to increase in Precision Machinery & Robot, Motorcycle & Engine segment and other factors, despite decrease in Rolling Stock segments and other factors

• Profits

- Operating income increased as a whole due to increase in Energy System & Plant Engineering and improvement in Ship & Offshore Structure segments and other factors
- Recurring profit and Net income attributable to owners of parent decreased due to payments for the in-service issues of commercial aircraft jet engines and other factors

<Weighted-average exchange rates>

Yen/US\$	110.62	110.00	110.77
Yen/EUR	129.84	125.00	128.33

(Appendix)

Net Sales in Foreign Currencies for FY2018

[Billion]

US\$	EUR
1.90	0.44

Financial Results by Segment

[Billion Yen]

	Orders Received			Net Sales			Operating Income		
	FY2017	FY2018	Change	FY2017	FY2018	Change	FY2017	FY2018	Change
Aerospace Systems ^{※1}	498.9	431.6	- 67.2	469.5	463.9	- 5.5	30.8	32.6	+ 1.7
Energy System & Plant Engineering ^{※1}	223.6	263.5	+ 39.8	251.6	253.0	+ 1.4	7.6	11.6	+ 3.9
Precision Machinery & Robot	207.1	222.4	+ 15.3	198.9	222.0	+ 23.0	21.6	21.3	- 0.2
Ship & Offshore Structure	4.7	81.1	+ 76.4	95.6	78.9	- 16.6	-3.8	1.0	+ 4.9
Rolling Stock	257.1	136.0	- 121.0	141.7	124.6	- 17.0	-12.4	-13.7	- 1.3
Motorcycle & Engine	331.6	356.8	+ 25.1	331.6	356.8	+ 25.1	15.2	14.3	- 0.8
Others	84.8	94.2	+ 9.4	85.0	95.1	+ 10.0	2.9	2.5	- 0.4
Eliminations and corporate ^{※2}	-	-	-	-	-	-	-6.2	-5.7	+ 0.4
Total	1,608.0	1,585.9	- 22.0	1,574.2	1,594.7	+ 20.5	55.9	64.0	+ 8.0

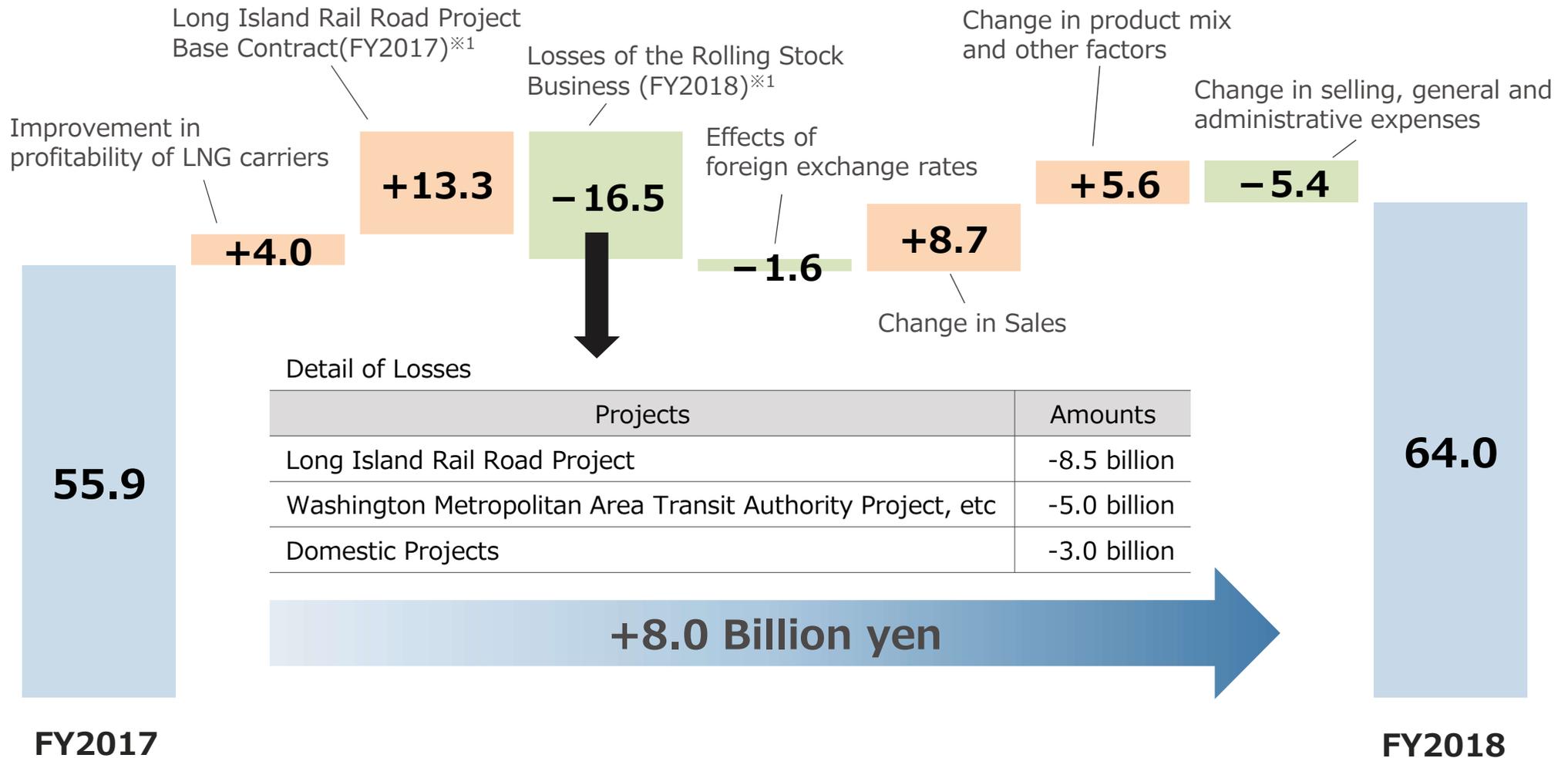
※1 Changed reporting segments from FY 2018. Results for FY2017 in Aerospace Systems and Energy System & Plant Engineering segments have been restated in order to reflect this change

※2 "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

+8.8Billion yen (FY2017 55.9 Billion yen ⇒ FY2018 64.0 Billion yen)



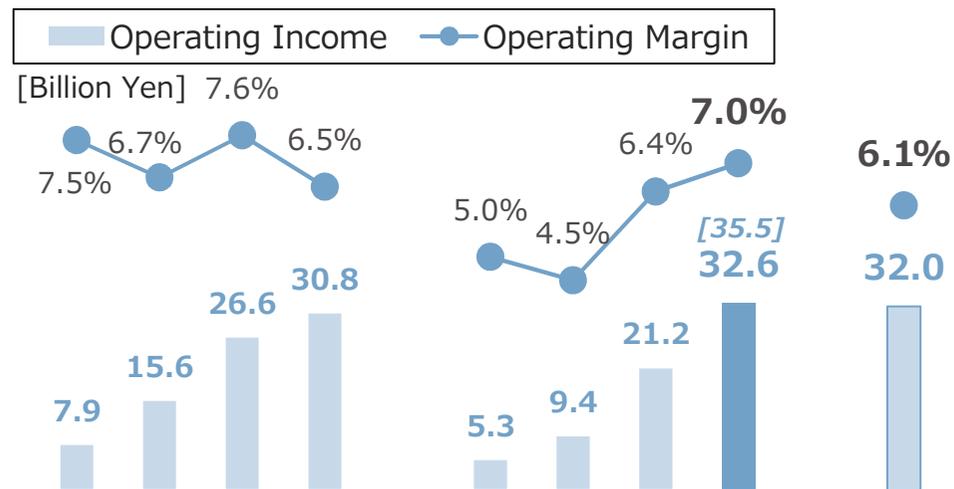
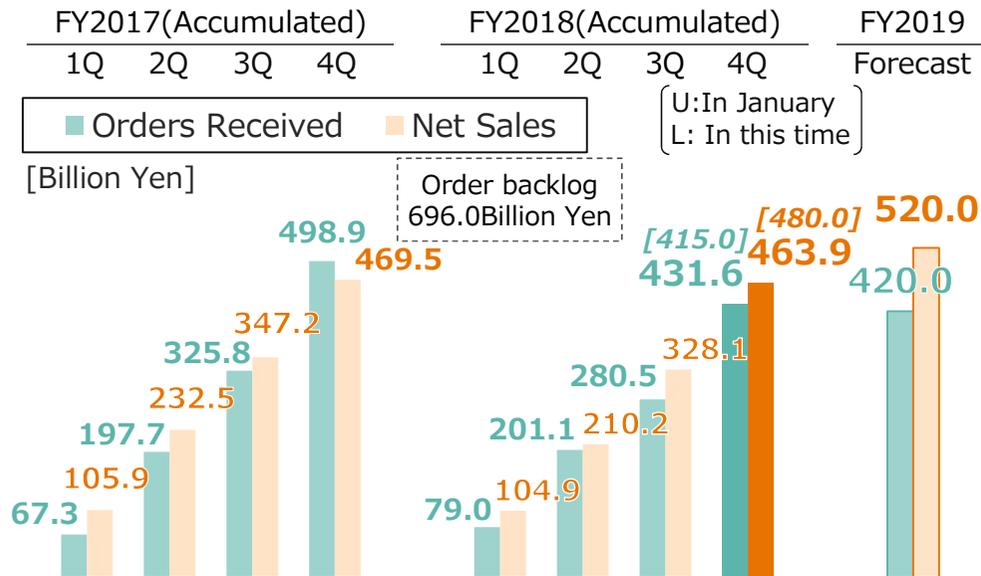
※1. Losses of the Rolling Stock Business

Summary of Income Statement

			(FY2017)	⇒	(FY2018)
					[Billion Yen]
Operating Income	+	8.0	(55.9)	⇒	(64.0)
• Net Sales	+	20.5	(1,574.2)	⇒	(1,594.7)
• Cost of sales	+	6.9	(1,319.7)	⇒	(1,326.6)
• Selling, general & administrative expenses	+	5.4	(198.6)	⇒	(204.0)
- Salaries and benefits	+	2.4	(52.5)	⇒	(54.9)
- R&D expenses	+	3.3	(45.4)	⇒	(48.7)
Non-operating Income / Expenses	-	13.4	(-12.6)	⇒	(-26.1)
• Net Interest expense (incl. dividend income)	-	0.4	(-1.7)	⇒	(-2.2)
• Equity in income of unconsolidated subsidiaries and affiliates	-	2.9	(4.4)	⇒	(1.5)
• Gain and loss on foreign exchange	+	2.2	(-7.0)	⇒	(-4.7)
• Payments for contract adjustments for commercial aircraft jet engines	+	2.5	(-2.5)	⇒	(-)
• Payments for the in-service issues of commercial aircraft jet engines	-	14.8	(-)	⇒	(-14.8)
• Others	-	0.0	(-5.8)	⇒	(-5.9)
Extraordinary Income / Losses	+	10.2	(-10.2)	⇒	(-)
• Gain on sales of fixed assets	-	2.6	(2.6)	⇒	(-)
• Loss from termination of a shipbuilding contract for an offshore service vessel	+	12.8	(▲ 12.8)	⇒	(-)

Aerospace Systems

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



FY2018 (vs. FY2017)

- **Orders Received:** Decreased due to decrease in aircrafts for Ministry of Defense, MOD, and component parts for commercial aircraft jet engines, despite increase in component parts for commercial aircraft jet engines
- **Net Sales:** Same as above
- **Operating Income:** Increased due to profit improvement of component parts for commercial aircrafts

FY2019 Forecast (vs. FY2018)

- **Orders Received:** Decreased due to decrease aircrafts for MOD, despite increase in component parts for commercial aircraft jet engines
- **Net Sales:** Increased due to increase in sales of aircrafts for MOD and component parts for commercial aircrafts jet engines
- **Operating Income:** Remained at the same level due to decrease in profitability of component parts for commercial aircraft, despite profit improvement

Sales units of component parts for commercial aircraft

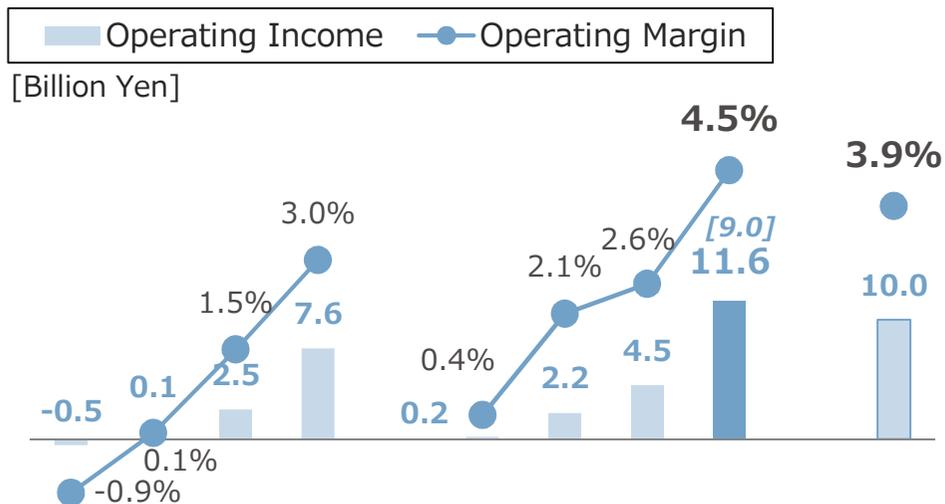
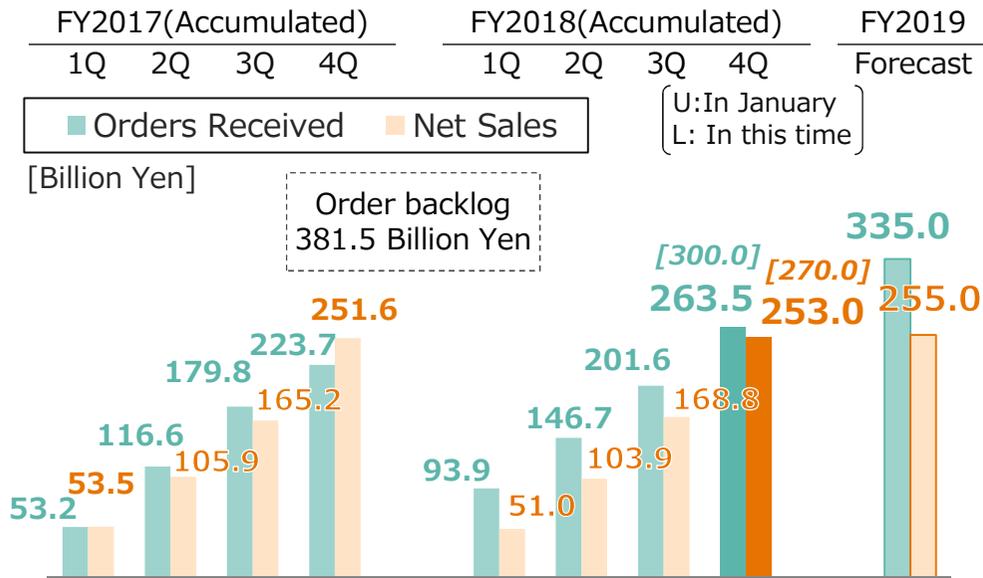
	FY2017	FY2018
Boeing 767	29	31
Boeing 777	58	41
Boeing 777X	1	7
Boeing 787	141	146

[Unit]

	FY2017 Actual	FY2018 Actual	FY2018 Forecast
Before-tax ROIC	7.8%	5.0%	8.0%

Energy System & Plant Engineering

Main Products: Industrial plants(cement, fertilizer and others), Power plants, LNG tanks, Municipal waste incineration plants, Tunnel boring machines, Crushing machines, Gas turbine co-generation system, Gas engines, Diesel engines, Gas turbines & steam turbines for marine & land, Marine propulsion system, Aero-dynamic machinery



FY2018 (vs. FY2017)

- **Orders Received:** Increased due to order received for CCPP*1 and LNG tanks in domestic market and other factors
- **Net Sales:** Increased due to profit improvement of construction works of energy business and other factors, despite decrease construction works of a municipal waste incineration plant in domestic market and construction works of a chemical plant for overseas market
- **Operating Income:** Increased due to increase in profitability of energy business and other factors

FY2019 Forecast (vs. FY2018)

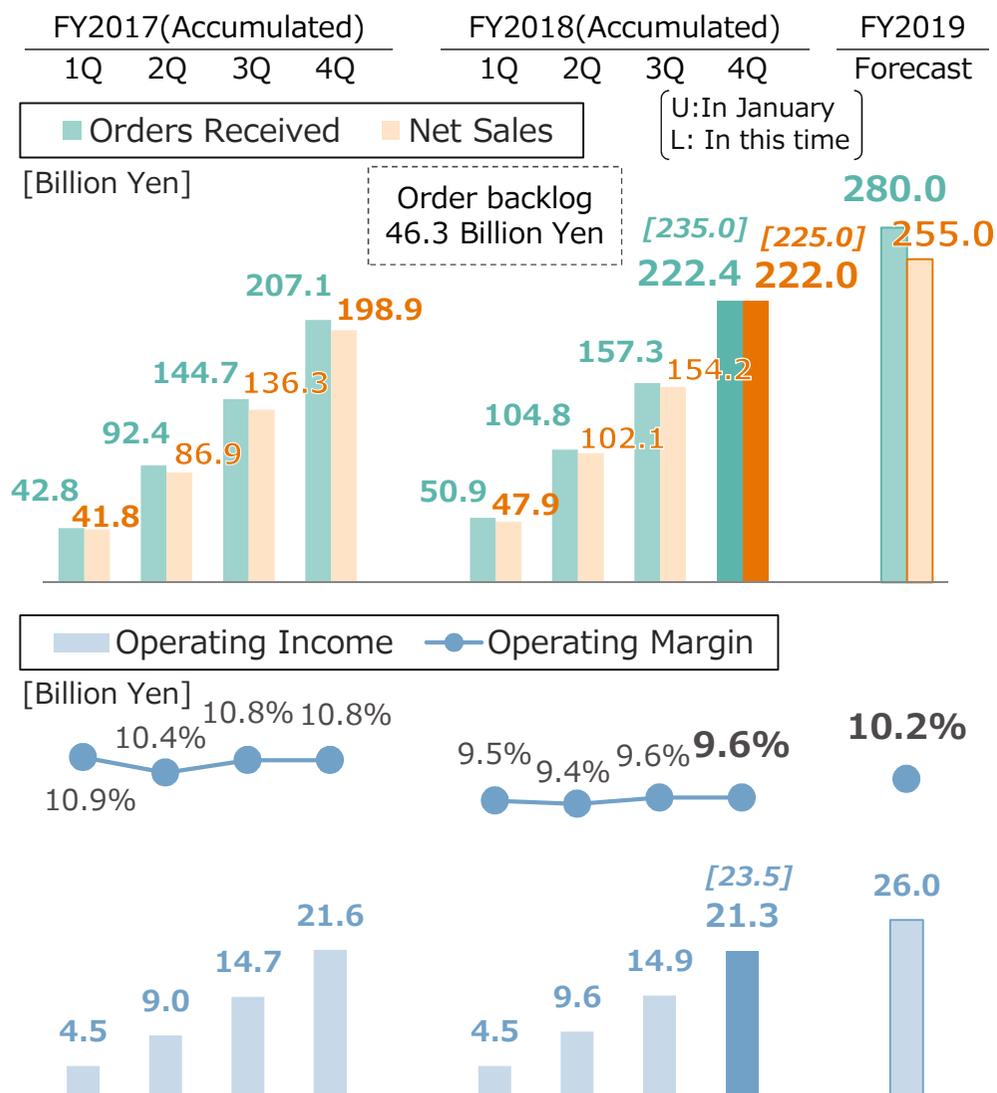
- **Orders Received:** Increased due to increase in projects of a municipal waste incineration plant in domestic market and projects of a energy business both in domestic and overseas market
- **Net Sales:** Increased due to increase in projects of industrial-gas turbines and progress of CCPP*1
- **Operating Income:** Decreased due to decrease in number of high profitability projects and other factors

	FY2017 Actual	FY2018 Actual	FY2018 Forecast
Before-tax ROIC	8.0%	9.3%	7.6%

※1. CCPP = Combined Cycle Power Plant

Precision Machinery & Robot

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



FY2018 (vs. FY2017)

- **Orders Received:** Increased due to increase in hydraulic components for construction machinery, despite decrease in robots for semiconductor manufacturing equipment
- **Net Sales:** Same as above
- **Operating Income:** Remained at the same level due to increase in cost to increase production capacity, SG&A, ex. R&D, and other factors, despite sales increase

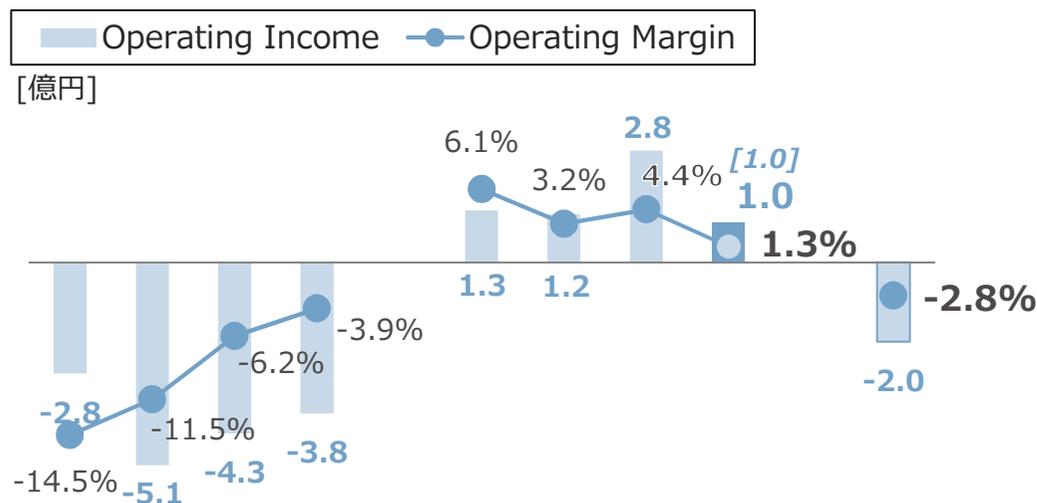
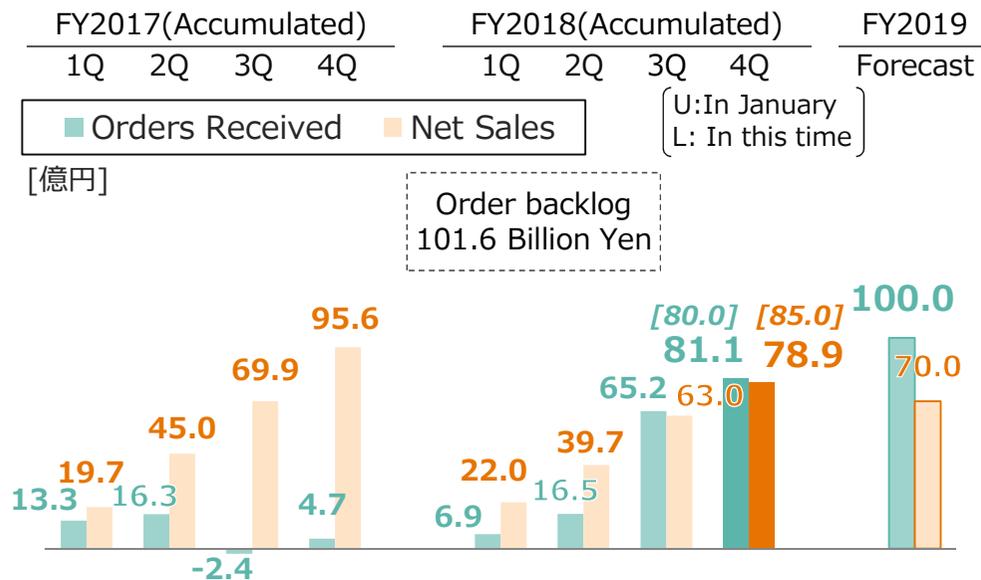
FY2019 Forecast (vs. FY2018)

- **Orders Received:** Increased due to increase in hydraulic components for construction machinery and industrial robots and other factors
- **Net Sales:** Same as above
- **Operating Income:** Increased due to sales increase

	FY2017 Actual	FY2018 Actual	FY2018 Forecast
Before-tax ROIC	22.9%	19.8%	20.4%

Ship & Offshore Structure

Main Products: LNG carriers, LPG carriers, Bulk carriers, Submarines, JETFOIL



FY2018 (vs. FY2017)

- Orders Received:** Increased due to orders received for a submarine for MOD, and other factors instead of FY 2017, cancelled of a contract agreement to build an offshore service vessel
- Net Sales:** Decreased due to a change in sales mix between LNG carriers and LPG carriers, and other factors
- Operating Income:** Improved due to cost reduction and other factors, despite sales decrease

FY2019 Forecast (vs. FY2018)

- Orders Received:** Increased due to increase in LNG carriers, LPG carriers and other factors
- Net Sales:** Decreased due to decrease in LNG carriers, LPG carriers and other factors
- Operating Income:** Decreased due to decrease of rate of capacity utilization operations

Units of Orders Received and Sales of New Building Ships

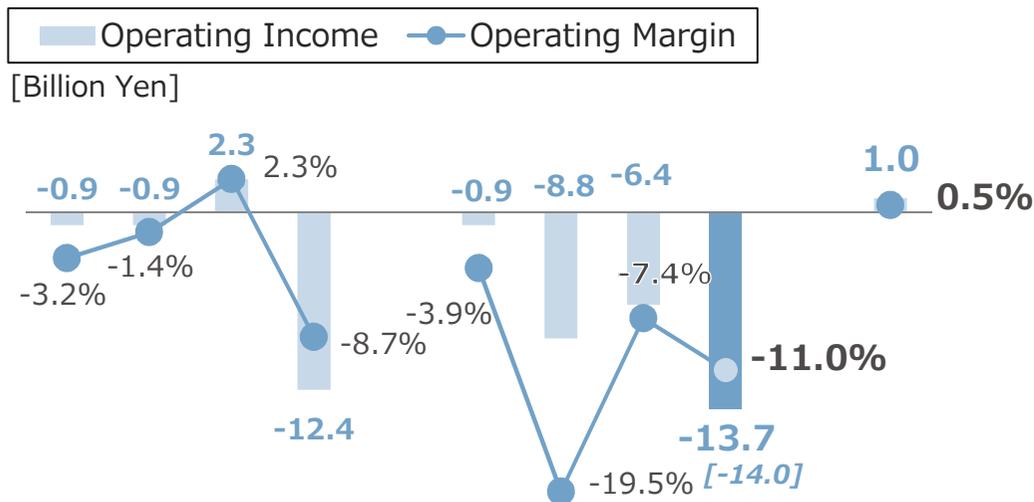
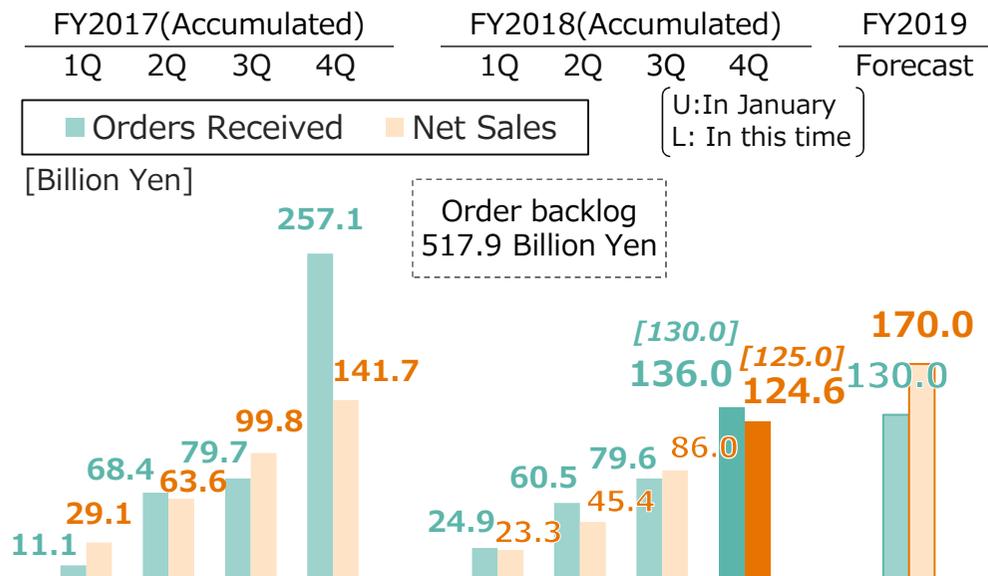
	Orders Received		Sales*		Orders Backlog
	FY2017	FY2018	FY2017	FY2018	FY2018
LNG carriers			8	5	2
LPG carriers	2	1	6	6	5
Submarines		1	2	2	2
Others	1	3	3	2	4
Total	3	5	19	15	13

*Sales includes units by percentage-of-completion method

	FY2017 Actual	FY2018 Actual	FY2018 Forecast
Before-tax ROIC	-21.3%	3.2%	-1.4%

Rolling Stock

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



FY2018 (vs. FY2017)

- Orders Received:** Decreased from FY 2017, received an order for new generation subway cars from the New York City Transit Authority, despite received an order for passenger cars from the Port Authority Trans-Hudson Corporation.
- Net Sales:** Decreased due to decrease in sales for overseas market including US and Asia
- Operating Income:** Deteriorated due to deterioration of profitability of US projects and other factors from FY 2017

FY2019 Forecast (vs. FY2018)

- Orders Received:** Decreased due to decrease in orders received in the US
- Net Sales:** Increased due to increase in sales in the US
- Operating Income:** Improved compared to FY2017 when provision for loss on construction contracts in passenger cars for Long Island Rail Road was recognized

	FY2017 Actual	FY2018 Actual	FY2018 Forecast
Before-tax ROIC	-26.2%	-26.4%	1.6%

Motorcycle & Engine

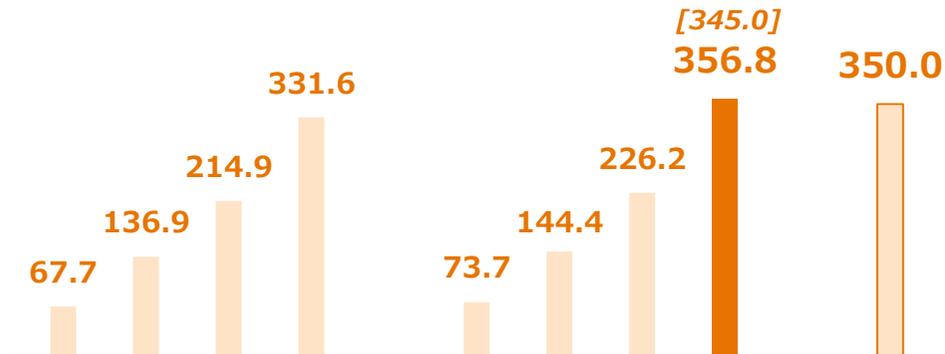
Main Products: Motorcycles, Utility Vehicles, All-Terrain Vehicles(ATVs), Personal Watercraft, General-purpose Gasoline Engines

FY2017(Accumulated)				FY2018(Accumulated)				FY2019
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	Forecast

Legend: Net Sales (Orange bar)

[Billion Yen]

U: In January
L: In this time



Legend: Operating Income (Blue bar), Operating Margin (Blue line)

[Billion Yen]



FY2018 (vs. FY2017)

- Net Sales:** Increased due to increase in motorcycles for developed countries and utility vehicles
- Operating Income:** Deteriorated due to increase in SG&A and sales promotion expenses, high prices of steel and other materials cost, weakness of emerging market currency and other factors, despite sales increase

FY2019 Forecast (vs. FY2018)

- Net Sales:** Decreased due to effect of appreciation of the yen against the EUR
- Operating Income:** Decreased due to high prices of steel and other materials cost in US, less sales and other factors

Wholesales by Product

[Thousands of units, Billion Yen]

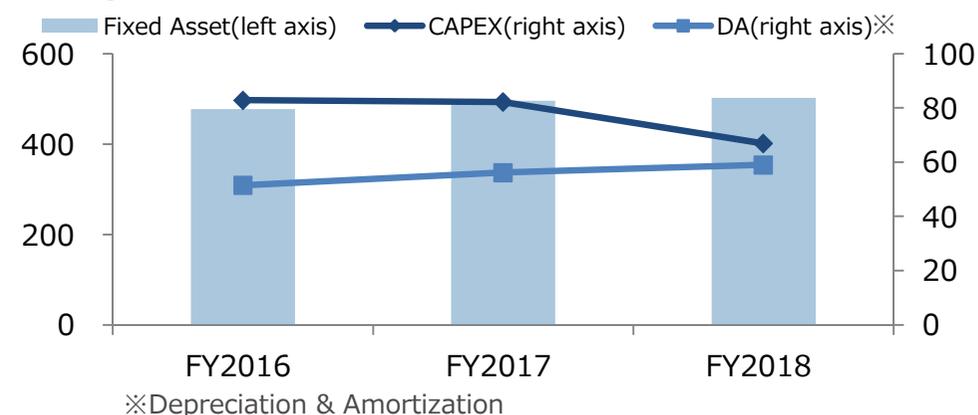
	FY2017		FY2018	
	Unit	Amount	Unit	Amount
Motorcycles for developed countries	152	121.8	165	131.7
Motorcycles for emerging market	342	84.5	385	92.2
Utility Vehicles, ATVs & PWC	66	77.8	70	80.9
General-purpose gasoline engines		47.5		52.0
Total	560	331.6	620	356.8

	FY2017 Actual	FY2018 Actual	FY2018 Forecast
Before-tax ROIC	9.4%	8.4%	8.4%

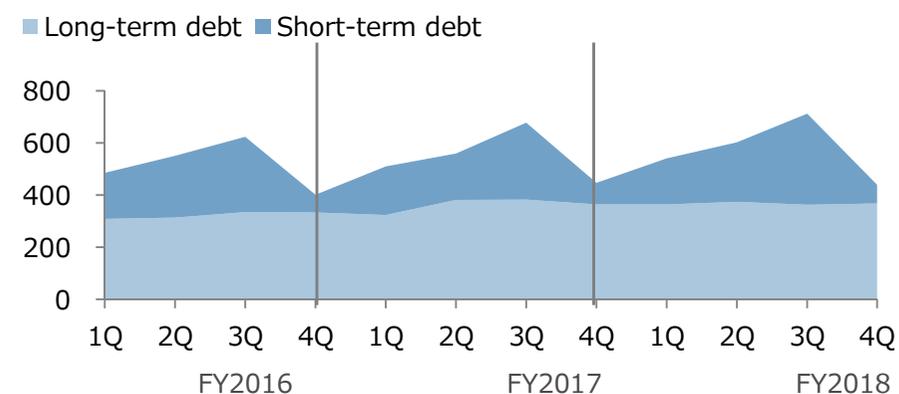
Summary of Balance Sheet

	[Billion Yen]		
	End of Mar. 2017	End of Mar. 2018	Change
Cash on hand and in banks	70.6	74.3	+ 3.6
Trade receivables	470.1	427.6	- 42.4
Inventories	504.7	592.8	+ 88.0
Total fixed assets	495.9	502.4	+ 6.4
Others assets	243.5	241.5	- 1.9
Total assets	1,785.0	1,838.8	+ 53.8
Trade payables	363.1	370.2	+ 7.1
Interest-bearing debt	446.6	439.4	- 7.2
Advances from customers	194.3	181.4	- 12.8
Other liabilities	299.5	355.4	+ 55.9
Total liabilities	1,303.6	1,346.5	+ 42.9
Total shareholders' equity	466.9	483.5	+ 16.5
Other net assets	14.4	8.7	- 5.6
Total net assets	481.3	492.2	+ 10.8
Total liabilities & net assets	1,785.0	1,838.8	+ 53.8
Ratio of shareholders' equity to total assets	26.1%	25.9%	
Net D/E Ratio	80.6%	76.6%	

Change in CAPEX and others [Billion Yen]



Change in interest-bearing debt [Billion Yen]



• Capitalization of amount claimed as damages to overseas subcontractor

- On a certain overseas LNG tanks construction project, overall costs increased from initially expected due to a breach of contract by the overseas subcontractor
- We claimed compensation for the part of damages totaling approximately 46 billion yen, caused by the breach of contract by the end of March 2019 and we are carrying out the process in order to recover the claimed amount

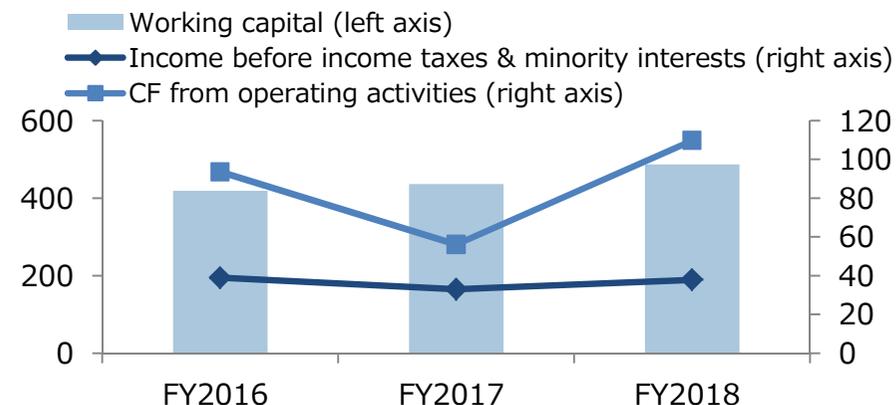
Summary of Cash Flows

[Billion Yen]

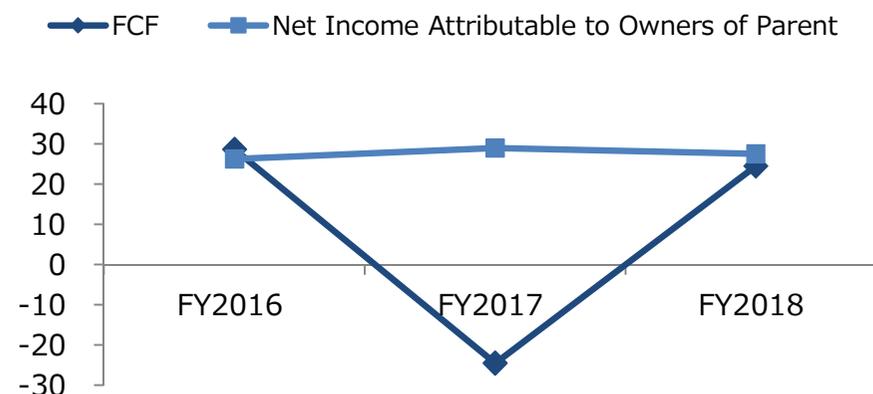
	FY2017	FY2018	Change
Cash flows from operating activities	56.0	109.7	+ 53.7
Cash flows from investing activities	-80.5	-85.3	- 4.7
Free Cash Flows	-24.5	24.4	+ 48.9
Cash flows from financing activities	37.7	-19.7	- 57.5

- Cash flows from operating activities improved due to decrease in trade receivables and expenditure for overseas projects in Energy System & Plant Engineering segment and other factors, despite increase in inventories in Rolling Stock segment
- Cash flows from investing activities declined due to increase in expenditure for CAPEX
- Given the above mentioned changes, free cash flows improved

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]

	FY2018 Actual	FY2019 Forecast	Change vs. FY2018
Orders Received	1,585.9	1,700.0	+ 114.1
Net Sales	1,594.7	1,700.0	+ 105.3
Operating Income	64.0	72.0	+ 8.0
Recurring Profit	37.8	61.0	+ 23.2
Net Income Attributable to Owners of Parent	27.4	38.0	+ 10.6
Before-tax ROIC	4.5%	6.7%	+ 0.2%
ROE	5.8%	7.8%	+ 0.2%
Dividend(per share)	70 yen	70 yen	-

vs. 2018

• Orders Received

- Increased a whole due to Energy System & Plant Engineering and Precision Machinery & Robot segments and other factors, despite decrease in Aerospace Systems and Rolling Stock segments

• Net Sales

- Increased a whole due to Aerospace Systems, Rolling Stock and Precision Machinery & Robot segments and other factors, despite decrease in Ship & Offshore Structure and Motorcycle & Engine segments

• Profit

- Operating income increased due to improve in Rolling Stock and increase in Precision Machinery & Robot segments and other factors, despite decrease in Ship & Offshore Structure and Motorcycle & Engine segments

• Before-tax ROIC, ROE

- Increased due to increase in profit

<Exchang Rates: Actual and Assumed* >

Yen/US\$	110.77	110.00
Yen/EUR	128.33	125.00

*Assumed rates are applied to the outstanding foreign exchange exposure as of April 25, 2019

(Appendix)

Impact on profit by FX fluctuation of 1 yen

[Billion Yen]

	Operating Income	Recurring Profit
US\$	2.09	2.14
EUR	0.31	0.36

Forecast by Segment

[Billion Yen]

	Orders Received			Net Sales			Operating Income		
	FY2018 Actual	FY2019 Forecast	Change	FY2018 Actual	FY2019 Forecast	Change	FY2018 Actual	FY2019 Forecast	Change
Aerospace Systems	431.6	420.0	- 11.6	463.9	520.0	+ 56.1	32.6	32.0	- 0.6
Energy System & Plant Engineering	263.5	335.0	+ 71.5	253.0	255.0	+ 2.0	11.6	10.0	- 1.6
Precision Machinery & Robot	222.4	280.0	+ 57.6	222.0	255.0	+ 33.0	21.3	26.0	+ 4.7
Ship & Offshore Structure	81.1	100.0	+ 18.9	78.9	70.0	- 8.9	1.0	-2.0	- 3.0
Rolling Stock	136.0	130.0	- 6.0	124.6	170.0	+ 45.4	-13.7	1.0	+ 14.7
Motorcycle & Engine	356.8	350.0	- 6.8	356.8	350.0	- 6.8	14.3	12.0	- 2.3
Others	94.2	85.0	- 9.2	95.1	80.0	- 15.1	2.5	1.0	- 1.5
Eliminations and corporate [※]	-	-	-	-	-	-	-5.7	-8.0	- 2.3
Total	1,585.9	1,700.0	+ 114.1	1,594.7	1,700.0	+ 105.3	64.0	72.0	+ 8.0

※1 Changed reporting segments from FY 2018. Results for FY2017 in Aerospace Systems and Energy System & Plant Engineering segments have been restated in order to reflect this change

※2 "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)		
	FY2017 Actual	FY2018 Forecast	Change	FY2017 Actual	FY2018 Forecast	Change	FY2017 Actual	FY2018 Forecast	Change
Aerospace Systems	5.0%	8.0%	+ 3.0%	7.0%	6.1%	- 0.9%	0.71	0.72	+ 0.01
Energy System & Plant Engineering	9.3%	7.6%	- 1.7%	4.5%	3.9%	- 0.6%	0.83	0.80	- 0.03
Precision Machinery & Robot	19.8%	20.4%	+ 0.6%	9.6%	10.2%	+ 0.6%	1.08	1.20	+ 0.12
Ship & Offshore Structure	3.2%	-1.4%	- 4.6%	1.3%	-2.8%	- 4.1%	0.64	0.51	- 0.13
Rolling Stock	-26.4%	1.6%	+ 28.0%	-11.0%	0.5%	+ 11.5%	0.59	0.97	+ 0.38
Motorcycle & Engine	8.4%	8.4%	-	4.0%	3.4%	- 0.6%	1.25	1.29	+ 0.04
Total	4.5%	6.7%	+ 2.2%	4.0%	4.2%	+ 0.2%	0.86	0.92	+ 0.06

R&D/CAPEX/Number of Employees

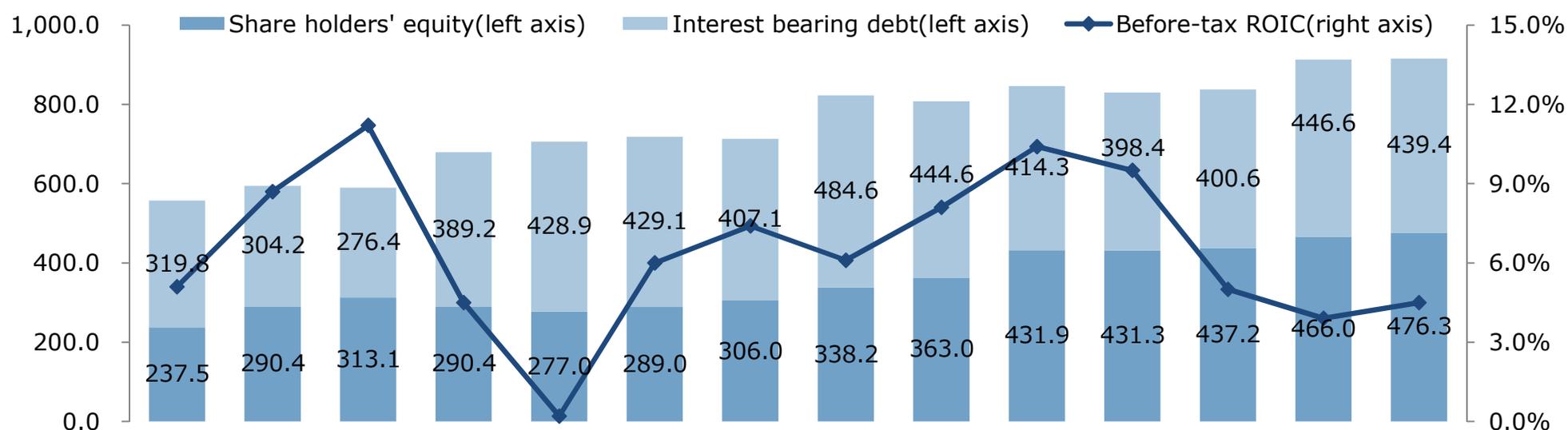
[Billion Yen/Persons]

	FY2018 Actual	FY2019 Forecast	Change
R&D Expenses	48.7	60.0	+ 11.3
CAPEX (Construction Base) [※]	66.9	83.0	+ 16.1
Depreciation and Amortization [※]	59.0	62.0	+ 3.0
Domestic	26,171	27,170	+ 999
Overseas	9,520	9,910	+ 390
Number of Employees	35,691	37,080	+ 1,389

※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]	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Before-tax ROIC	5.1%	8.7%	11.2%	4.5%	0.2%	6.0%	7.4%	6.1%	8.1%	10.4%	9.4%	5.0%	3.9%	4.5%
Invested Capital	557.3	594.6	589.6	679.7	705.9	718.2	713.2	822.8	807.6	846.3	829.7	837.9	912.7	915.8
Net Sales	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	1,574.2	1,594.7
Operating Profit	41.7	69.1	76.9	28.7	-1.3	42.6	57.4	42.0	72.3	87.2	95.9	45.9	55.9	64.0
Recurring Profit	30.8	49.0	63.9	38.7	14.2	49.1	63.6	39.3	60.6	84.2	93.2	36.6	43.2	37.8
Net Income Attributable to Owners of Parent	16.4	29.7	35.1	11.7	-10.8	25.9	23.3	30.8	38.6	51.6	46.0	26.2	28.9	27.4
Yen/US\$	112	117	115	101	93	86	79	82	99	109	118	108	110	110

Market Overview (1/2)

Aerospace Systems

- In military aircraft business, there is a certain demand within tight defense budget.
- In commercial aircraft business, the demand for component parts of aircrafts and aircraft jet engines increases along with the increased number of air passengers.

Energy System & Plant Engineering

- Overseas, resource developments and investing in oil and natural gas are on the path of recovery.
- In Asia, There is still a demand for energy infrastructure maintenance and the demand for distributed generations increases due to increased willingness to invest in environmental energy and energy conservation
- In Japan, there is still a replacement demand for aging equipment and others of incineration plants and industrial machineries. In terms of distributed generations, there is a large potential demand, but the investment plans are slightly behind schedule in view of the electricity deregulation.

Precision Machinery & Robot

- The sales promotions for hydraulic components for construction machinery market is become more competitive day by day in China, therefor overseas construction machinery companies which dropping market share especially in small and middle size of excavator market have anxiety and uncertainty about the future.
- However, KHI increase production capacity by observing the Chinese market because demands from our customer still excess our production capacity
- Robots markets has deteriorated temporary due to holding over capital expenditures by semiconductor manufactures because of the US-China trade friction.
- Overseas, capital expenditures by semiconductor manufactures and demands will recover in second half of FY 2019, although expecting unstable situations for a while
- Domestic, increase whole demands for robots to collaborate with humans in work operations and industrial robots fields.

Market Overview (2/2)

Ship & Offshore Structure

- New-build vessel price is on the path of moderate recovery and the demand for LNG fueled vessels increases along with strengthening environmental regulations.
- However, the competition is still intense due to stagnant demand for LNG transport vessels along with the LNG projects delay, continuation of assistance programs by South Korean Government, and other factors.

Rolling Stock

- In Japan, there is a steady replacement demand for aging railcars.
- In US, there is a growing new and replacement demand, including New York, which is our focus market.
- In Asia, the demand in emerging market increases along with promoting infrastructure exports by Japanese Government.

Motorcycle & Engine

- In motorcycle market, moderate growth continues mainly in Europe and decreased demand in emerging countries is signing bottoming out.
- In utility vehicle market, stable growth continues mainly in North America. In addition, general purpose engine market also increases steadily.

Kawasaki, Working as one for the good of the planet

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.