

Explanation Regarding Losses on Overseas Business

January 14, 2016

Kawasaki Heavy Industries, Ltd.

Background on the Brazilian joint venture

- In 2012, with the intention of entering the Brazilian shipbuilding market, collecting technology and know-how in the offshore structure business, and helping the local shipbuilding industry grow, KHI signed a joint venture agreement and acquired 30% equity in Enseada, which had been established by the large Brazilian construction companies Odebrecht S.A., OAS S.A., and UTC S.A.
- Later, in line with the joint venture agreement, KHI provided technological support to Enseada, accepted trainee engineers, and sent instructors over to assist in skill-improvement efforts.
- KHI signed two agreements with Enseada, one to construct hull parts for the first and second drill ships and another to provide azimuth thrusters (marine propulsion systems). Steady progress has been made on the construction.
- Unfortunately, following the launch of Operation Lava Jato, payments to Enseada from Sete Brasil, the investment company ordering the construction of the drill ships, were suspended, causing Enseada's cash flow situation to deteriorate.
- Enseada has been able to deal with the challenges it is facing thanks to various initiatives, including restructuring, undertaken at its own discretion and through outside support, primarily from Odebrecht, a lead partner in the business on the Brazil side. KHI has also contributed, with stop-gap funds and assistance in line with the joint venture agreement.

Current Status of the Brazilian Joint Venture

- ① Enseada has received no payments from Sete Brasil for drill ship construction since November 2014, a situation that has thus persisted for more than a year. This has caused Enseada's financial position to deteriorate.
- ② Since circumstances leave no hope of a quick resumption in payments for drill ship construction, KHI and Enseada convened a meeting and reached a consensus in November 2015 that work on the construction of hull parts for the first and second drill ships would be suspended.
- ③ In addition, trade receivables—payments to KHI from Enseada for work in process—and loans extended by KHI to Enseada, were unpaid by the due date in December 2015.



Although Enseada remains a going concern, given the challenges outlined above, KHI has decided to reassess the asset value of investments in and the work in progress for Enseada as well as the collectability of trade receivables and loans receivable, and then applied accounting treatment appropriate to the results of this revaluation. In accordance with this treatment, KHI will recognize ¥22.1 billion in losses for the nine months ended December 31, 2015

Loss Amounts of Joint venture in Brazil (Consolidated)

(Billion Yen)

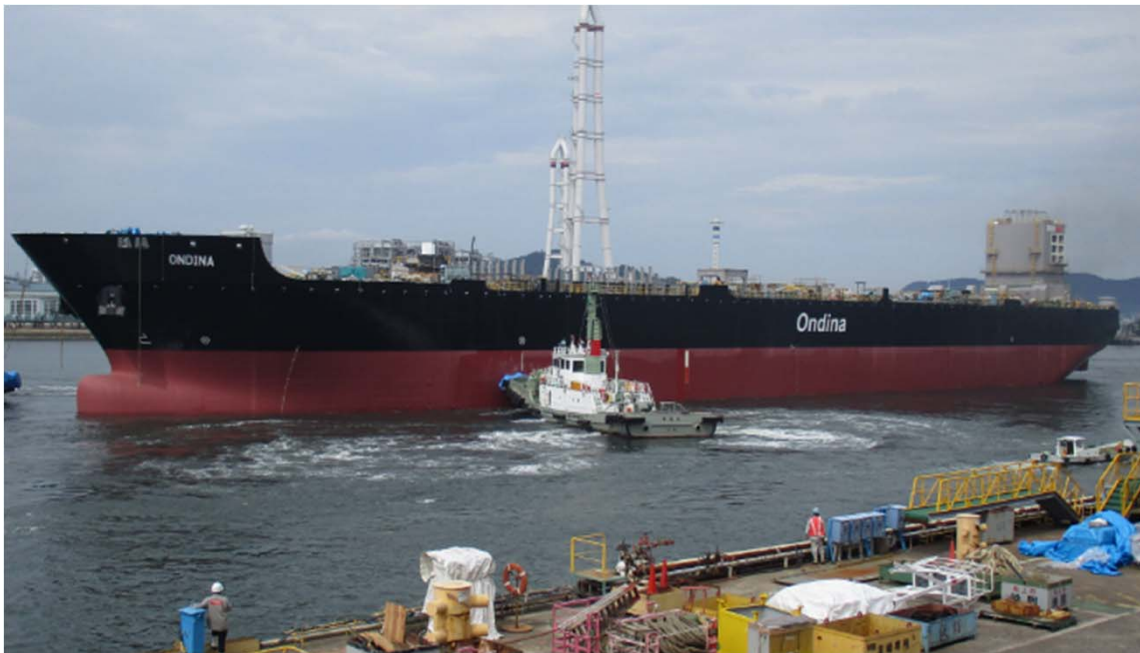
Items	Loss amounts			Notes
	Non-operating expenses	Extraordinary losses	Total	
Investment in and loans to Enseada	2.8	0	2.8	Wrote off total amount of investment on a consolidated book value basis, and all loans receivable as of December 31, 2015.
Hull parts for drill ships	0	15.8	15.8	Wrote off amount after deducting advance payments from trade receivables and work in process. Possible collection of about ¥5 billion has been factored into the calculation of loss amount.
Azimuth thrusters and others	0	3.4	3.4	Wrote off entire amount, including trade receivables and work in process relating to azimuth thrusters as well as technical instruction fees and small transactions.
Total	2.8	19.2	22.1	

※ With differing opinions to Nippon Export and Investment Insurance (NEXI) on insurance criteria, the possibility of successfully claiming compensation is low. Consequently, we have not taken the amount covered by export insurance into account in estimating the loss amount related to Enseada.

Policies for Dealing with Brazilian Joint Venture

- Construction activities on hull parts for the first and second drill ships, and the azimuth thrusters have been suspended.
- Any decision on the resumption of hull parts construction for the first and second drill ships and the azimuth thrusters will be made with a keen eye on the situation in Brazil and conditioned upon no greater risk of loss to KHI.
- Notwithstanding the above, KHI will continue its cooperative relationship with Enseada and provide assistance, such as technical instruction and the acceptance of trainee engineers, in line with the joint venture agreement.

(For Reference) Picture of Drill Ship No.1



FY2015 Performance Forecast and Year-End Dividend forecast

- The current performance forecast for fiscal 2015 is likely to be revised downward, mainly because of recognition of losses related to Enseada. However, management is still reviewing the details and will announce the revised forecast at the time that results for the nine months ended December 31, 2015 are scheduled for disclosure, on January 28, 2016.
- Despite this, no changes will be made to the year-end dividend forecast (¥7 per share) due to the recognizing of Enseada-related losses.

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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.