

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

July 31, 2017

Kawasaki Heavy Industries, Ltd.

Table of Contents

I. Consolidated Results for First Quarter FY2017

◇ Summary of Financial Results	3
◇ Financial Results by Segment	4
◇ Details of Change in Profit	5
◇ Summary of Income Statement	6
◇ Financial Results by Segment	
Ship & Offshore Structure	7
Rolling Stock	8
Aerospace	9
Gas Turbine & Machinery	10
Plant & Infrastructure	11
Motorcycle & Engine	12
Precision Machinery	13
◇ Summary of Balance Sheet	14
◇ Summary of Cash Flows	15

II. Forecast for FY2017

◇ Consolidated Operating Performance	16
◇ Forecast by Segment	17
◇ Before-tax ROIC by Segment	18
◇ R&D/CAPEX/Number of Employees	19

<Appendix>

Historical Data	20
-----------------	----

Summary of Financial Results

(Billion Yen)

	FY2016.1Q	FY2017.1Q	Change
Orders Received	258.6	272.5	+13.9
Net Sales	339.8	335.3	-4.5
Operating Income	15.9	4.9	-11.0
Recurring Profit	5.7	5.4	-0.3
Net Income attributable to owners of parent	4.7	3.2	-1.5

Weighted-average exchange rates

Yen / US\$	110.58	110.75
Yen / EUR	126.57	121.29

vs. FY2016.1Q

< Orders Received >

Increased mainly in Ship & Offshore Structure and Precision Machinery segments

< Net Sales >

Remained the same level as the previous same period as a whole, due to increase in Gas Turbine & Machinery and Precision Machinery segments, despite decrease in Ship & Offshore Structure, Aerospace and Plant & Infrastructure segments, and other factors

< Profits >

- Operating income decreased as a whole, due to decrease in Aerospace, Motorcycle & Engine, Ship & Offshore Structure, and other segments
- Recurring Profit remained the same level as the previous same period, due to the change of foreign exchange gain or loss, and other factors
- Net Income attributable to owners of parent decreased, mainly because there was an extraordinary gain in the previous same period

(For Reference)

Net Sales in Foreign Currencies for FY2017.1Q (Billion)

US\$	EUR
0.48	0.04

Financial Results by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2016 1Q	FY2017 1Q	Change	FY2016 1Q	FY2017 1Q	Change	FY2016 1Q	FY2017 1Q	Change
Ship & Offshore Structure	2.2	13.3	+11.0	31.1	19.7	-11.4	0.6	-2.8	-3.4
Rolling Stock	23.2	11.1	-12.1	28.8	29.1	+0.3	0.7	-0.9	-1.6
Aerospace	41.6	47.0	+5.3	80.0	73.3	-6.7	9.5	3.7	-5.7
Gas Turbine & Machinery	50.6	58.3	+7.6	49.1	60.5	+11.4	3.2	4.3	+1.0
Plant & Infrastructure	18.0	15.1	-2.8	31.7	25.5	-6.2	0.6	-0.6	-1.2
Motorcycle & Engine	69.2	67.7	-1.5	69.2	67.7	-1.5	0.3	-3.3	-3.6
Precision Machinery	33.1	42.8	+9.7	32.9	41.8	+8.8	2.1	4.5	+2.4
Others	20.2	16.9	-3.3	16.7	17.4	+0.6	0.7	0.6	-0.0
Eliminations and corporate*	-	-	-	-	-	-	-1.9	-0.6	+1.3
Total	258.6	272.5	+13.9	339.8	335.3	-4.5	15.9	4.9	-11.0

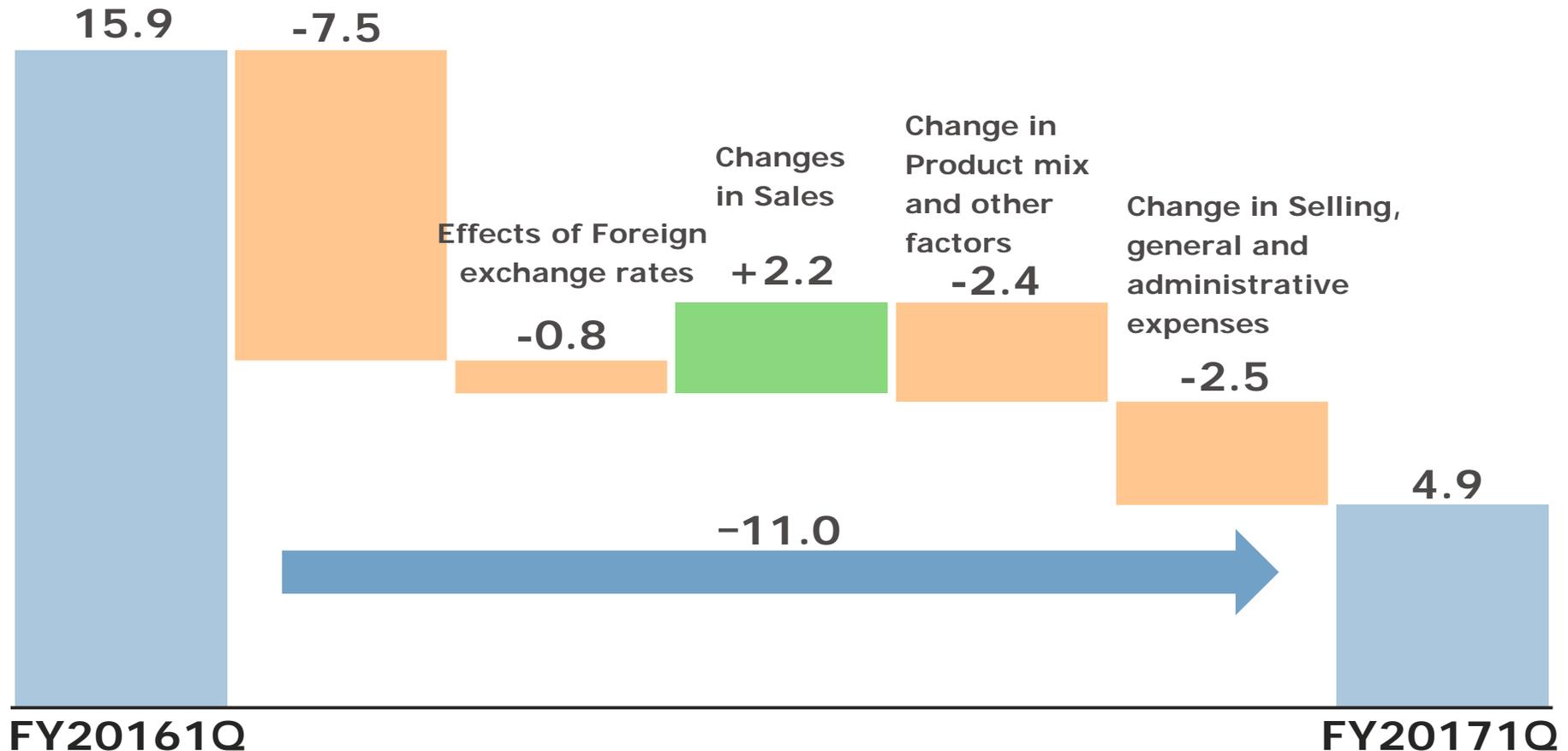
* "Eliminations and corporate" includes some expenses incurred at Head Office which were not allocated to each industry segment for internal reporting

Details of change in profit – FY20161Q vs. FY20171Q -

【Operating Profit】 -11.0 (FY20161Q 15.9 ⇒ FY20171Q 4.9)

Decrease in Profitability
of Component parts for
Commercial aircrafts and
Increase in Cost of LNG
carriers

(Billion Yen)



Summary of Income Statement

(Billion Yen)

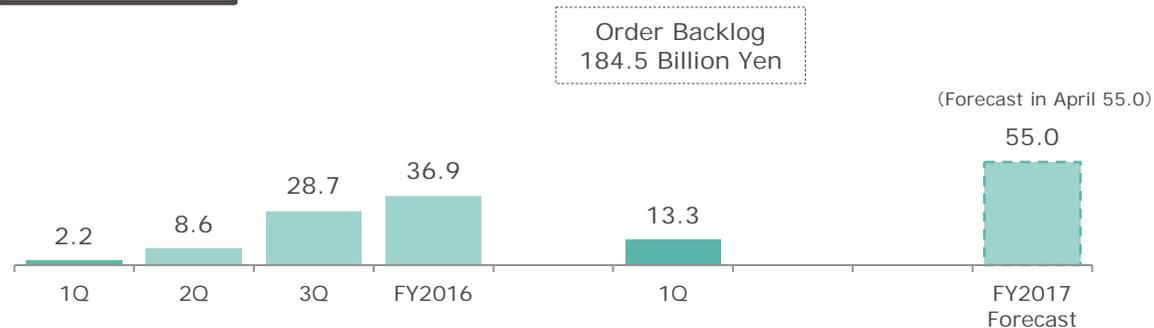
			FY2016.1Q		FY2017.1Q
< Operating Income >	-	11.0	(15.9	→	4.9)
Net sales	-	4.5	(339.8	→	335.3)
Cost of sales	+	3.9	(280.2	→	284.1)
Selling, general & administrative expenses	+	2.5	(43.7	→	46.2)
- Salaries and benefits	+	0.5	(12.0	→	12.6)
- R&D expenses	+	0.0	(9.4	→	9.4)
< Non-operating Income/Expenses >	+	10.7	(-10.2	→	0.5)
Net Interest expense (incl. dividend income)	+	0.1	(-0.4	→	-0.3)
Equity in income of unconsolidated subsidiaries and affiliates	+	0.4	(0.9	→	1.3)
Gain and loss on foreign exchange	+	11.9	(-11.3	→	0.5)
Others	-	1.7	(0.6	→	-1.0)
< Extraordinary Income/Losses >	-	2.2	(2.2	→	-)
Gain on sales of fixed assets	-	2.2	(2.2	→	-)

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



FY2017.1Q

(vs. FY2016.1Q)

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: Deteriorated due to sales decrease, increase in cost and other factors. Reversal of allowance for doubtful accounts in the previous same period affected.

FY2017 Forecast

(vs. FY2016)

Orders Received: Expected to increase due to orders received for liquefied gas carriers

Net Sales : Expected to remain the same level as the previous fiscal year

Operating Income: Expected to improve from the previous fiscal year when there were increase of the amount of allowance for doubtful accounts on trade receivables, and provision for loss on construction contracts for offshore service vessels business

<Units of Orders Received and Sales of New Building Ships> (unit)

	Orders Received		Sales ※		Orders Backlog
	FY2016.1Q	FY2017.1Q	FY2016.1Q	FY2017.1Q	FY2017.1Q
LNG carriers			9	8	8
LPG carriers		1	4	6	6
Submarines			2	2	2
Others		1	2	3	4
Total	0	2	17	19	20

※ Sales includes units by percentage-of-completion method

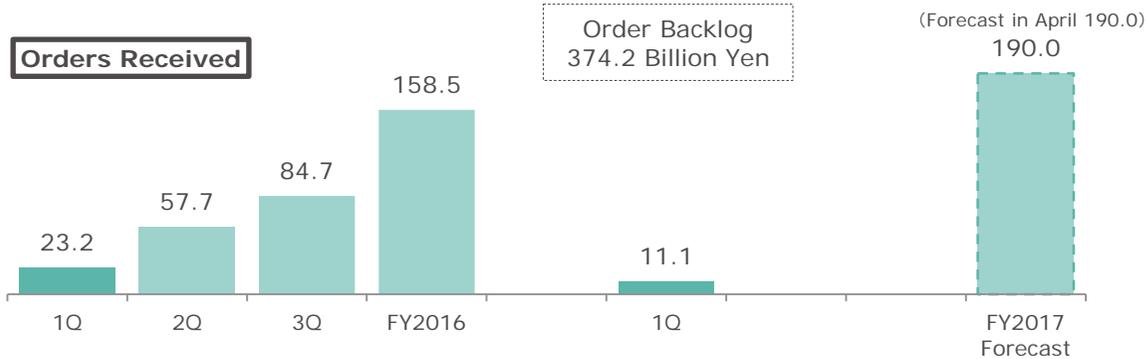
	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	-38.4%	-23.4%	0.5%

Rolling Stock

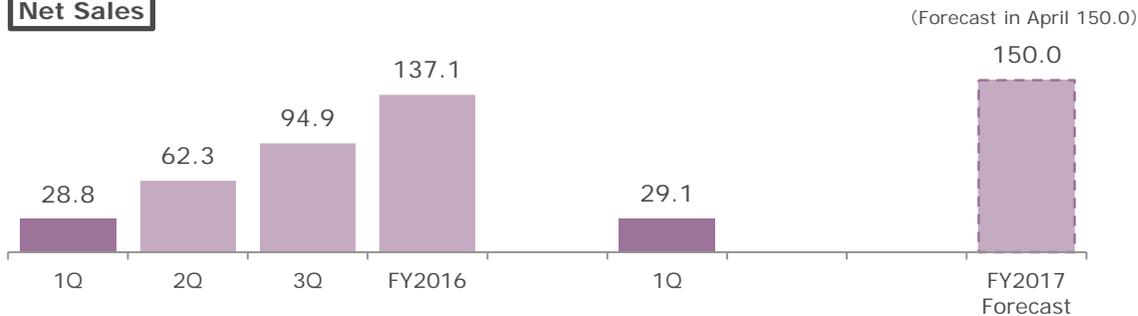
Main Products : Electric train cars (incl. Shinkansen), Electric and diesel locomotives, Passenger coaches, Bogies

(Billion Yen / In accumulated amount)

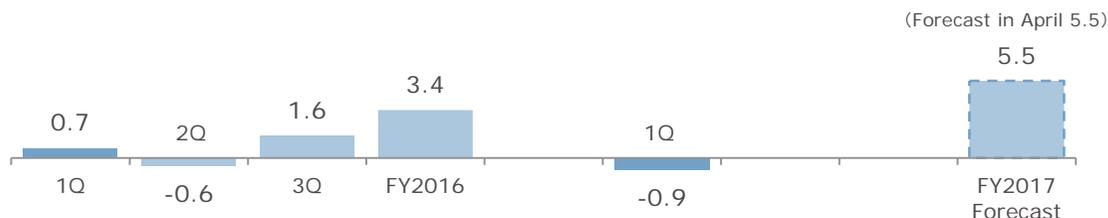
Orders Received



Net Sales



Operating Income



FY2017.1Q

(vs. FY2016.1Q)

Orders Received: Decreased compared to the previous same period when linear-motor subway car order was received from the Tokyo Metropolitan Bureau of Transportation (Toei)

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

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

FY2017 Forecast

(vs. FY2016)

Orders Received: Expected to increase due to increase in orders received for overseas market

Net Sales: Expected to increase due to increase in sales to domestic and overseas market

Operating Income: Expected to increase due to sales increase

	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	11.7%	3.0%	6.9%

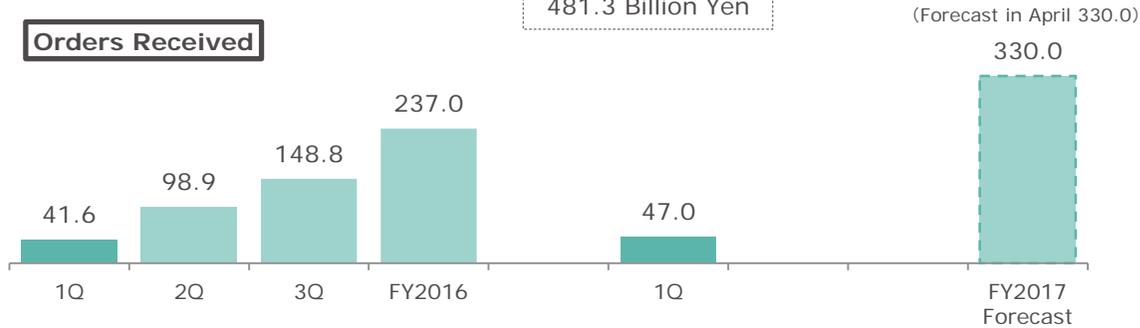
Aerospace

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

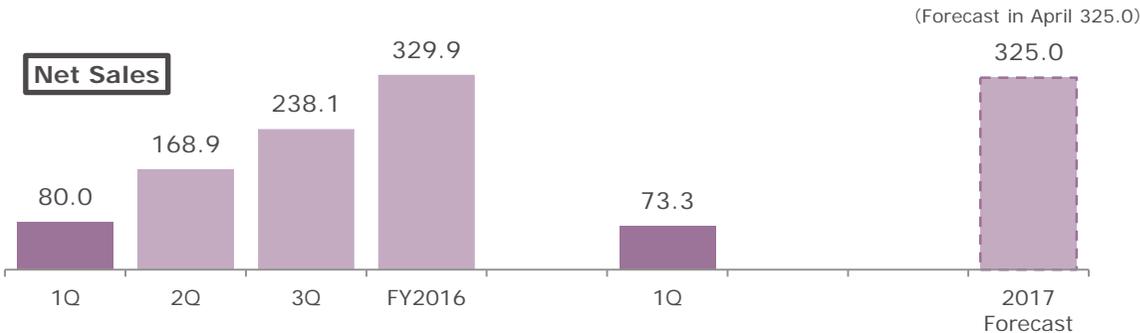
(Billion Yen / In accumulated amount)

Order Backlog
481.3 Billion Yen

Orders Received



Net Sales



Operating Income



FY2017.1Q

(vs. FY2016.1Q)

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

Net Sales: Decreased due to decrease in component parts for commercial aircrafts and other factors, despite increase in sales to MOD

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

FY2017 Forecast

(vs. FY2016)

Orders Received: Expected to increase due to increase in orders received for MOD

Net Sales: Expected to remain the same level as the previous fiscal year, due to decrease in component parts for commercial aircrafts, despite increase in sales to MOD

Operating Income: Expected to decrease due to decrease in sales of component parts for commercial aircrafts

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

	FY2016.1Q	FY2017.1Q
Boeing 777	26	18
Boeing 767	6	7
Boeing 787	33	37

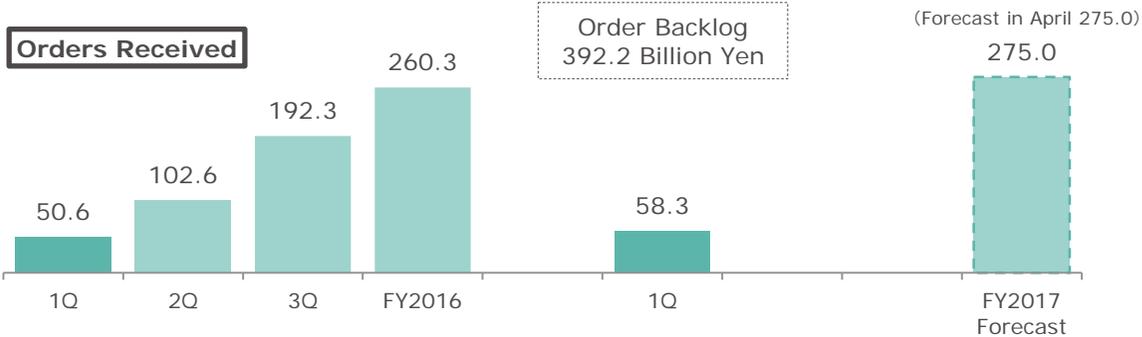
	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	33.9%	15.1%	5.5%

Gas Turbine & Machinery

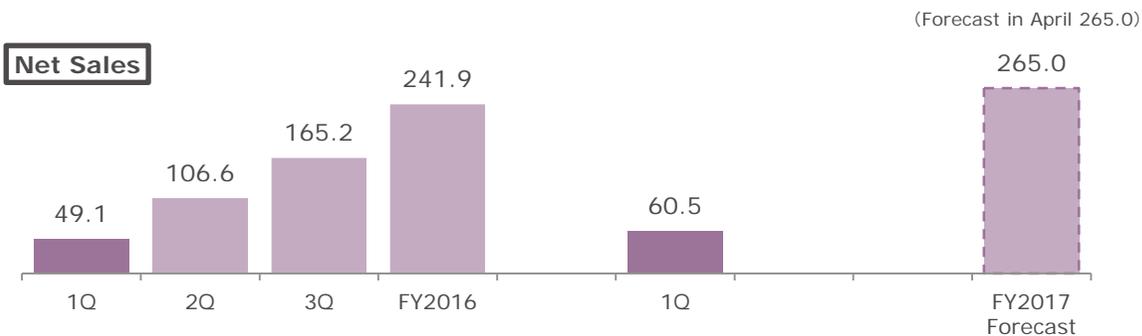
Main Products : Jet engines, Gas turbine co-generation system, Gas engines, Diesel engines, Gas turbines & steam turbines for marine & land, Marine propulsion system, Aero-dynamic machinery

(Billion Yen / In accumulated amount)

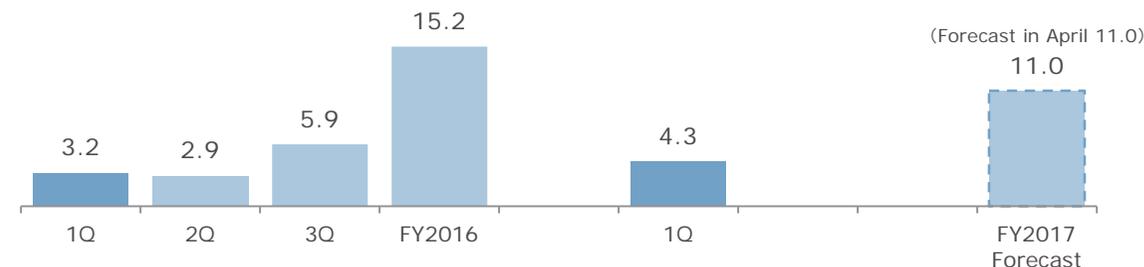
Orders Received



Net Sales



Operating Income



FY2017.1Q

(vs. FY2016.1Q)

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

Net Sales: Increased due to increase in component parts of commercial aircraft jet engines, increase in construction works of gas engine power generation systems, and other factors

Operating Income: Increased due to sales increase

FY2017 Forecast

(vs. FY2016)

Orders Received: Expected to increase due to increase in industrial gas turbines, and other factors

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

Operating Income: Expected to decrease due to increase in depreciation of development costs of new commercial aircraft jet engine projects, and other factors

	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	8.8%	7.1%	4.9%

Plant & Infrastructure

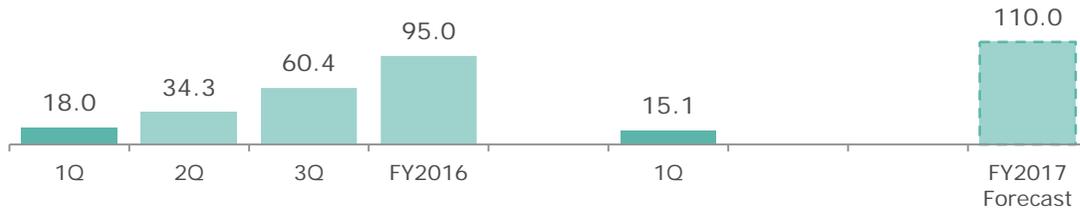
Main Products: Industrial plants (cement, fertilizer and others), Power plants, LNG tanks, Municipal refuse incineration plants, Tunnel boring machines, Crushing machines

(Billion Yen / In accumulated amount)

Orders Received

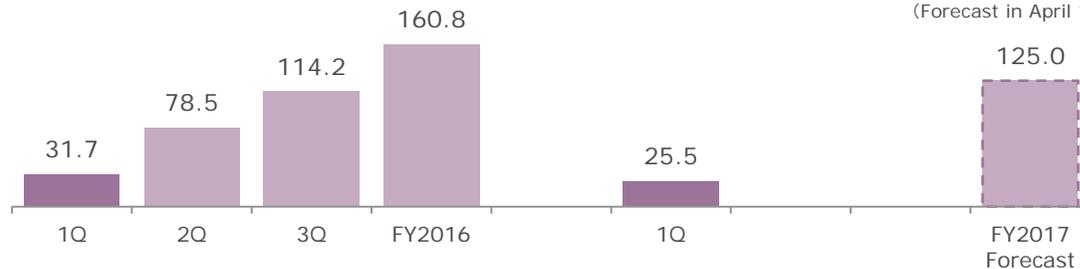
Order Backlog
204.8 Billion Yen

(Forecast in April 110.0)



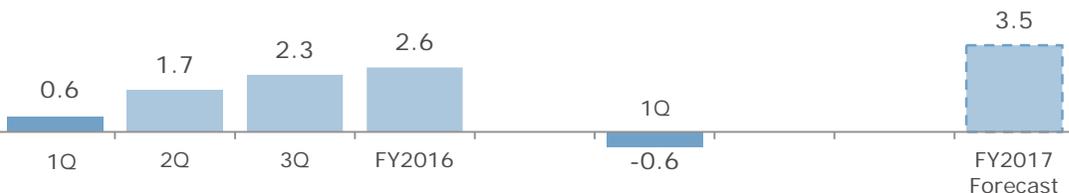
Net Sales

(Forecast in April 125.0)



Operating Income

(Forecast in April 3.5)



FY2017.1Q

(vs. FY2016.1Q)

Orders Received: Decreased compared to the previous same period when orders including shield machines for domestic market were received

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.2016)

Orders Received: Expected to increase due to increase in plants for overseas market and others

Net Sales: Expected to decrease due to decrease in a chemical plant for overseas market, and other factors

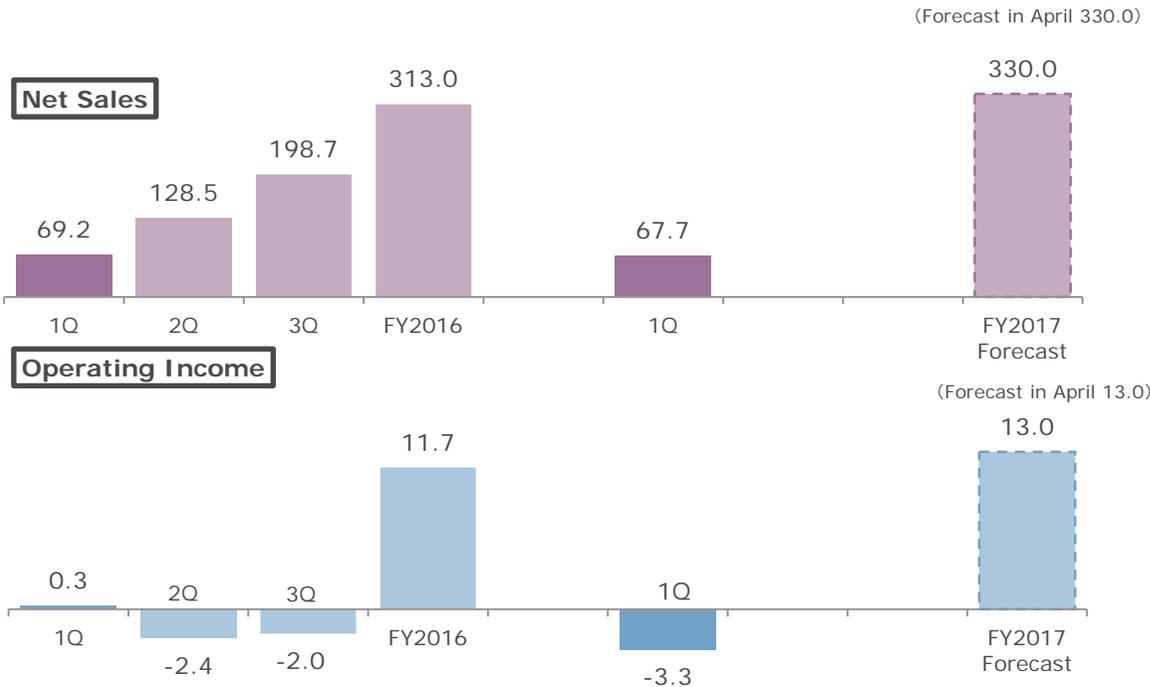
Operating Income: Expected to remain the same level as the previous fiscal year, due to sales decrease, despite improvement from the previous fiscal year when there was provision for loss on construction contracts in LNG tanks for overseas market

	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	17.5%	8.9%	9.0%

Motorcycle & Engine

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

(Billion Yen / In accumulated amount)



FY2017.1Q

(vs. FY2016.1Q)

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

Operating Income: Deteriorated due to sales decrease, change in model mix, and other factors

FY2017 Forecast

(vs.2016)

Net Sales: Expected to increase due to increase in motorcycles and utility vehicles for developed countries, recovery of motorcycles for emerging market, and other factors

Operating Income: Expected to increase due to sales increase

<Wholesales by Product>

(Thousands of units / Billion Yen)

	FY20161Q		FY20171Q	
	Unit	Amount	Unit	Amount
Motorcycles for developed countries	34	24.6	34	26.2
Motorcycles for emerging market	69	19.0	68	16.6
Utility Vehicles, ATVs & PWC	15	15.7	11	12.3
General-purpose gasoline Engines		9.9		12.6
Total	118	69.2	113	67.7

	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	14.1%	7.3%	9.5%

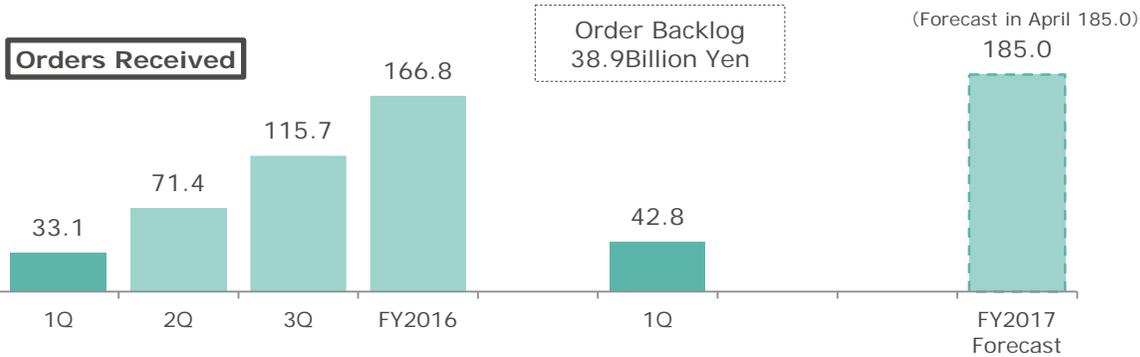
Precision Machinery

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

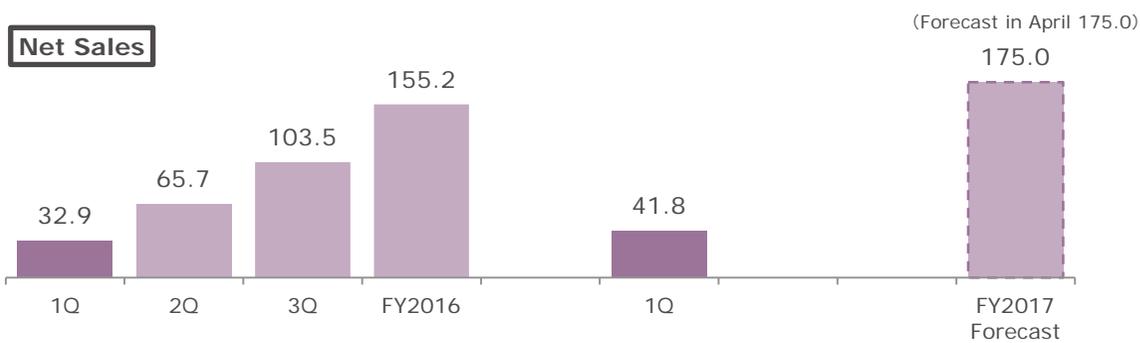
(Billion Yen / In accumulated amount)

Orders Received

Order Backlog
38.9Billion Yen



Net Sales



Operating Income



FY2017.1Q

(vs. FY2016.1Q)

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.2016)

Orders Received & Net Sales : Expected to increase due to increase in hydraulic components for construction machinery, and various industrial robots, and other factors

Operating Income: Expected to increase due to sales increase

	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	9.5%	13.4%	15.8%

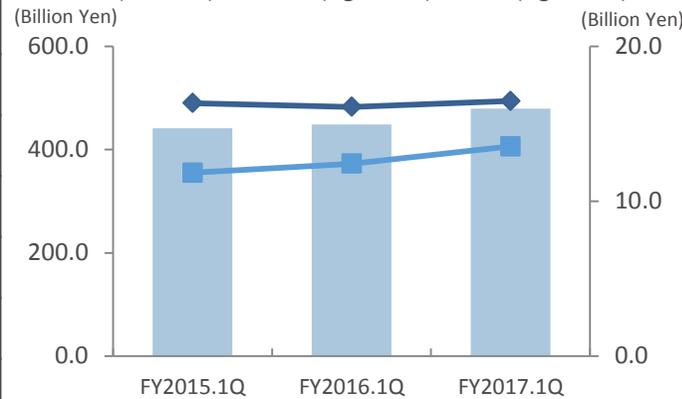
Summary of Balance Sheet

(Billion Yen)

	End of Mar. 2017	End of Jun. 2017	Change
Cash on hand and in banks	55.3	48.2	-7.1
Trade receivables	444.6	445.7	+1.1
Inventories	484.8	504.3	+19.5
Total fixed assets	477.1	479.4	+2.2
Other assets	225.3	254.1	+28.8
Total assets	1,687.3	1,731.9	+44.6
Trade payables	342.0	309.1	-32.9
Interest-bearing debt	400.6	509.8	+109.1
Advances from customers	205.8	192.3	-13.4
Other liabilities	287.4	269.8	-17.5
Total liabilities	1,236.0	1,281.2	+45.1
Total shareholders' equity	446.2	446.1	-0.0
Other net assets	5.0	4.5	-0.5
Total net assets	451.3	450.7	-0.5
Total liabilities and net assets	1,687.3	1731.9	+44.6

Ratio of shareholders' equity to total assets	25.9%	25.2%
Net Debt Equity Ratio	78.9%	105.7%

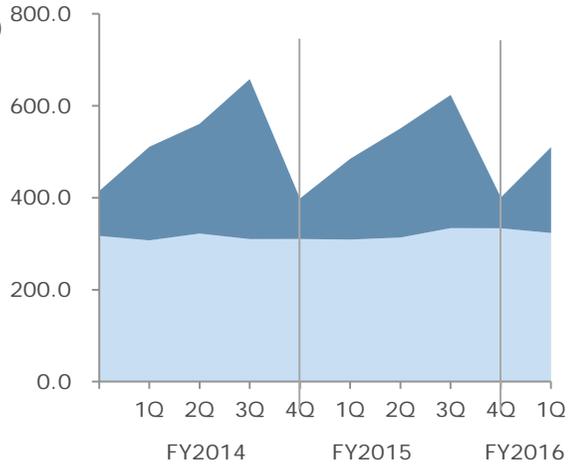
【Changes in CAPEX and others】
 Fixed Asset (left axis) CAPEX (right axis) DA* (right axis)



*Depreciation & Amortization

【Changes in interest-bearing debt】

Long-term debt Short-term debt
(Billion Yen)



< Overview of Balance Sheet >

On June 30, 2017, total assets increased from March 31, 2017, due to increase in inventories and advance payments, and other factors.

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

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.

Summary of Cash Flows

(Billion Yen)

	FY2016 1Q	FY2017 1Q	Change
Cash flows from operating activities	-70.3	-86.6	-16.3
Cash flows from investing activities	-13.0	-27.5	-14.5
Free Cash Flows	-83.3	-114.2	-30.9
Cash flows from financing activities	78.4	105.6	27.2

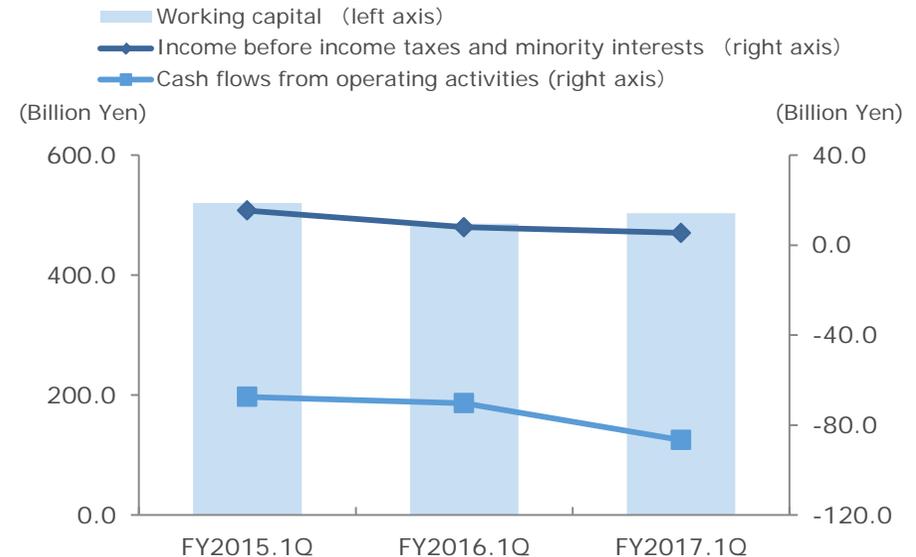
【Overview of Cash Flows】 (vs.FY2016.1Q)

Cash flows from operating activities deteriorated due to increase in working capital, and other factors.

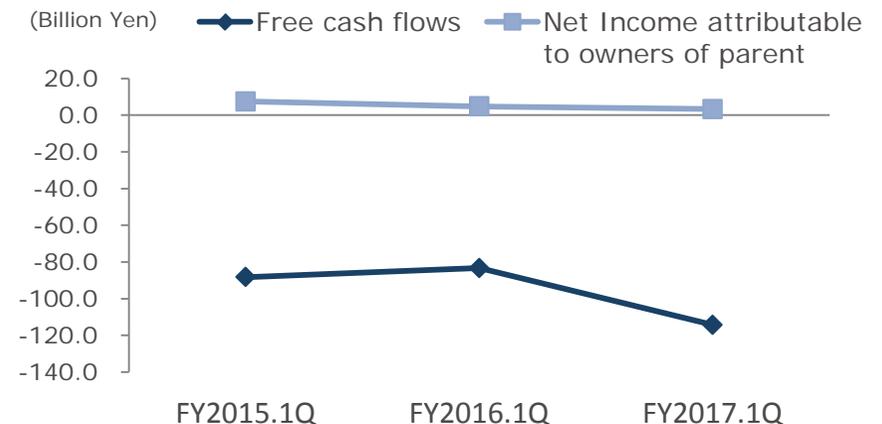
Cash outflows from investing activities deteriorated, because expenditures for CAPEX concentrated. Income from sale of fixed assets in the previous same period and other factors also affected.

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】



Consolidated Operating Performance

• No changes in the forecast for FY2017 from April 27, 2017.

(Billion Yen)

	FY2016 Actual	FY2017 Forecast	Change
Orders Received	1,348.7	1,560.0	+211.3
Net Sales	1,518.8	1,550.0	+36.2
Operating Income	45.9	58.0	+12.1
Recurring Profit	36.6	51.5	+14.9
Net Income Attributable to Owners of Parent	26.2	36.0	+9.8
Before-tax ROIC	5.0%	6.0%	+1.0%
ROE	6.0%	8.0%	+2.0%
Dividend(per share)	6.0yen	6.0yen	

vs. FY2016

< Orders Received >

Expected to increase, due to increase in orders received for domestic and overseas market in Rolling Stock segment, increase in orders received for MOD in Aerospace segment, and other factors

< Net Sales >

Expected to increase as a whole, due to increase in Gas Turbine & Machinery and Precision Machinery Segments, and other factors, despite decrease in Plant & Infrastructure segment

< Profits >

Expected to increase, due to recovery in Ship & Offshore Structure segment where a large loss on offshore service vessels business was recorded in the previous fiscal year and other factors, despite decrease in Aerospace segment

< Before-tax ROIC, ROE >

Expected to increase due to increase in profit

Exchange Rates (actual & assumed)

Yen / US\$	108.98	108
Yen / EUR	120.24	114

(For Reference)

Impact on profit by FX fluctuation of 1 Yen

(Billion Yen)

	Operating Income	Recurring Profit
US\$	1.57	1.58
EUR	0.14	0.20

Note : Assumed rates are applied to the outstanding foreign exchange exposure as of April 27, 2017

Forecast by Segment

• No changes in the forecast for FY2017 from April 27, 2017.

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2016 Actual	FY2017 Forecast	Change	FY2016 Actual	FY2017 Forecast	Change	FY2016 Actual	FY2017 Forecast	Change
Ship & Offshore Structure	36.9	55.0	+18.1	103.2	100.0	-3.2	-21.4	0.0	+21.4
Rolling Stock	158.5	190.0	+31.5	137.1	150.0	+12.9	3.4	5.5	+2.1
Aerospace	237.0	330.0	+93.0	329.9	325.0	-4.9	25.0	13.0	-12.0
Gas Turbine & Machinery	260.3	275.0	+14.7	241.9	265.0	+23.1	15.2	11.0	-4.2
Plant & Infrastructure	95.0	110.0	+15.0	160.8	125.0	-35.8	2.6	3.5	+0.9
Motorcycle & Engine	313.0	330.0	+17.0	313.0	330.0	+17.0	11.7	13.0	+1.3
Precision Machinery	166.8	185.0	+18.2	155.2	175.0	+19.8	13.1	16.0	+2.9
Others	80.9	85.0	+4.1	77.4	85.0	+7.6	3.1	4.0	+0.9
Eliminations and corporate [※]	-	-	-	-	-	-	-7.0	-8.0	-1.0
Total	1,348.7	1,560.0	+211.3	1,518.8	1,555.0	+36.2	45.9	58.0	+12.1

※ "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

- No changes in the forecast for FY2017 from April 27, 2017.

	Before-tax ROIC (EBIT/ Invested Capital)		
	FY2016 Actual	FY2017 Forecast	Change
Ship & Offshore Structure	-23.4%	0.5%	+23.9%
Rolling Stock	3.0%	6.9%	+3.9%
Aerospace	15.1%	5.5%	-9.6%
Gas Turbine & Machinery	7.1%	4.9%	-2.2%
Plant & Infrastructure	8.9%	9.0%	+0.1%
Motorcycle & Engine	7.3%	9.5%	+2.2%
Precision Machinery	13.4%	15.8%	+2.4%
Total	5.0%	6.0%	+1.0%

	Operating Income Margin (Operating Income / Net Sales)			Asset Turnover (Times) (Net Sales / Total Assets)		
	FY2016 Actual	FY2017 Forecast	Change	FY2016 Actual	FY2017 Forecast	Change
	-20.7%	0.0%	+20.7%	0.61	0.57	-0.04
	2.5%	3.6%	+1.1%	0.83	0.88	+0.05
	7.5%	4.0%	-3.5%	0.76	0.74	-0.02
	6.3%	4.1%	-2.2%	0.69	0.72	+0.03
	1.6%	2.8%	+1.2%	1.35	1.02	-0.33
	3.7%	3.9%	+0.2%	1.28	1.37	+0.09
	8.4%	9.1%	+0.7%	0.98	1.06	+0.08
	3.0%	3.7%	+0.7%	0.88	0.89	+0.01

R&D/CAPEX/Number of Employees

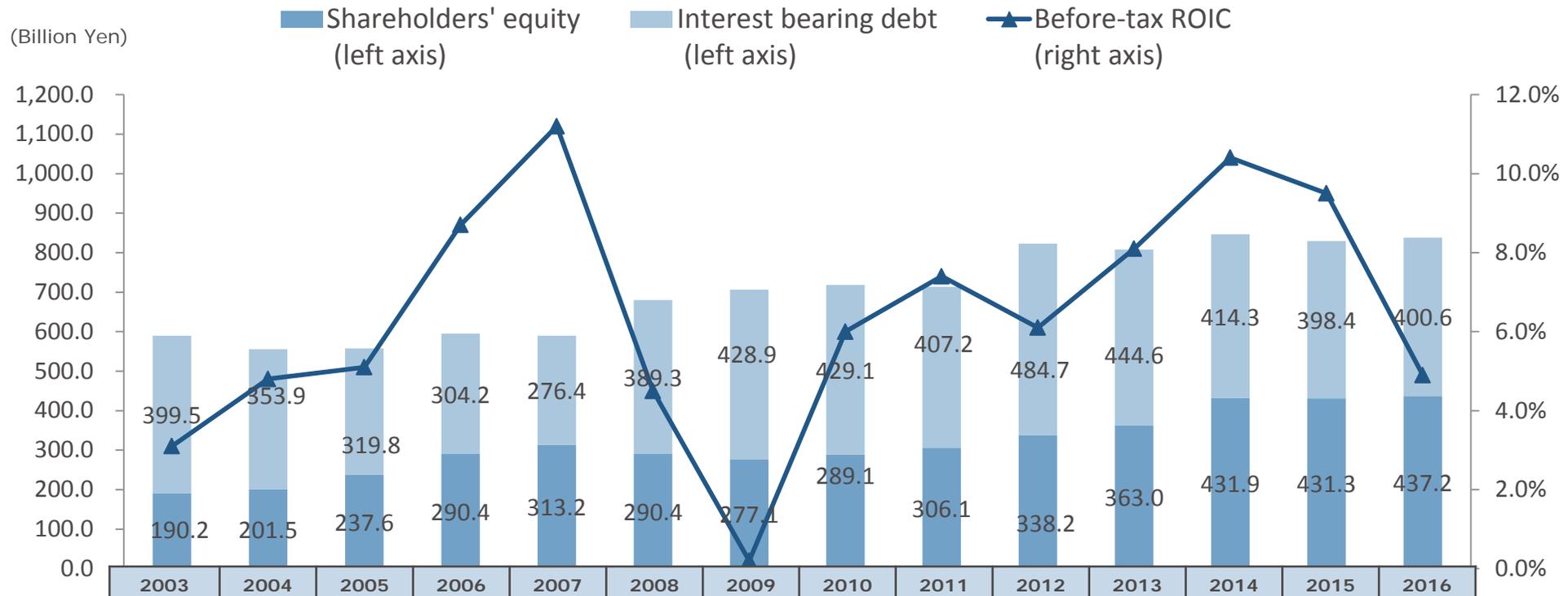
• No changes in the forecast for FY2017 from April 27, 2017.

(Billion Yen / Persons)

	FY2015 Actual	FY2016 Actual	FY2017 Forecast
R&D Expenses	43.6	43.6	48.0
CAPEX (Construction Base)	76.3	82.7	99.0
Depreciation & Amortization	49.0	51.5	53.0
Domestic	25,897	26,348	27,300
Overseas	8,708	8,779	9,100
Number of Employees	34,605	35,127	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.

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
------------	-----	-----	-----	-----	-----	-----	----	----	----	----	----	-----	-----	-----

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.