

# Financial Results for First Quarter FY2018 (for the year ending March 31, 2019)

July 31, 2018

Kawasaki Heavy Industries, Ltd.

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# Summary of Financial Results

[Billion Yen]

	FY2017 1Q	FY2018 1Q	Change	
Orders Received	272.5	<b>353.7</b>	+	81.1
Net Sales	335.3	<b>343.7</b>	+	8.4
Operating Income	4.9	<b>7.1</b>	+	2.1
Recurring Profit	5.4	<b>8.5</b>	+	3.1
Net Income Attributable to Owners of Parent	3.2	<b>2.5</b>	-	0.7

## vs. FY2017.1Q

### • Orders Received

- Increased mainly in Energy System & Plant Engineering and Rolling Stock segments

### • Net Sales

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

### • Profits

- Operating income increased as a whole due to improvement in Ship & Offshore Structure segment despite lower profit in Aerospace Systems segment
- Recurring profit increased due to increase in gains on foreign exchange
- Net income attributable to owners of parent decreased due to increase in tax expenses

## <Weighted-average exchange rates>

Yen/US\$	110.75	<b>108.13</b>
Yen/EUR	121.29	<b>129.07</b>

## (Appendix)

### Net Sales in Foreign Currencies for FY2018.1Q [Billion]

US\$	EUR
0.49	0.04

# Financial Results by Segment

[Billion Yen]

	Orders Received			Net Sales			Operating Income		
	FY2017 1Q	<b>FY2018 1Q</b>	Change	FY2017 1Q	<b>FY2018 1Q</b>	Change	FY2017 1Q	<b>FY2018 1Q</b>	Change
Aerospace Systems <sup>※1</sup>	67.3	<b>79.0</b>	+ 11.7	105.9	<b>104.9</b>	- 0.9	7.9	<b>5.3</b>	- 2.6
Energy System & Plant Engineering <sup>※1</sup>	53.2	<b>93.9</b>	+ 40.6	53.5	<b>51.0</b>	- 2.5	-0.5	<b>0.2</b>	+ 0.7
Precision Machinery & Robot	42.8	<b>50.9</b>	+ 8.0	41.8	<b>47.9</b>	+ 6.1	4.5	<b>4.5</b>	+ 0.0
Ship & Offshore Structure	13.3	<b>6.9</b>	- 6.4	19.7	<b>22.0</b>	+ 2.3	-2.8	<b>1.3</b>	+ 4.2
Rolling Stock	11.1	<b>24.9</b>	+ 13.7	29.1	<b>23.3</b>	- 5.7	-0.9	<b>-0.9</b>	+ 0.0
Motorcycle & Engine	67.7	<b>73.7</b>	+ 5.9	67.7	<b>73.7</b>	+ 5.9	-3.3	<b>-3.3</b>	+ 0.0
Others	16.9	<b>24.2</b>	+ 7.3	17.4	<b>20.6</b>	+ 3.1	0.6	<b>0.3</b>	- 0.3
Eliminations and corporate <sup>※2</sup>	-	-	-	-	-	-	-0.6	<b>-0.5</b>	+ 0.1
Total	272.5	<b>353.7</b>	+ 81.1	335.3	<b>343.7</b>	+ 8.4	4.9	<b>7.1</b>	+ 2.1

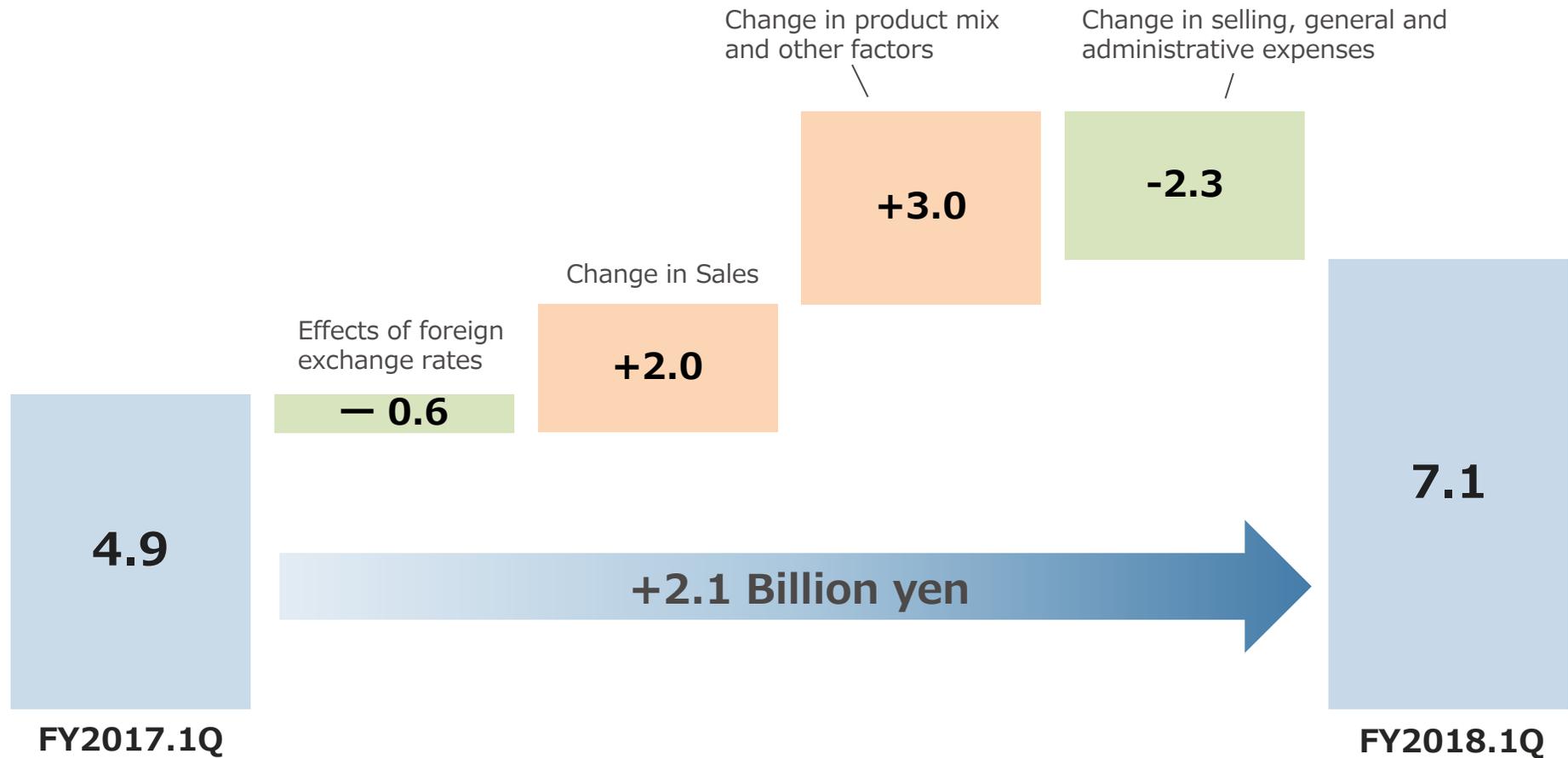
※1 Changed reporting segments from FY 2018. Results for FY2017 1Q in Aerospace Systems and Energy System & Plant Engineering segments have been restated in order to reflect this change

※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**

+2.1Billion yen (FY2017.1Q 4.9 Billion yen ⇒ FY2018.1Q 7.1 Billion yen)

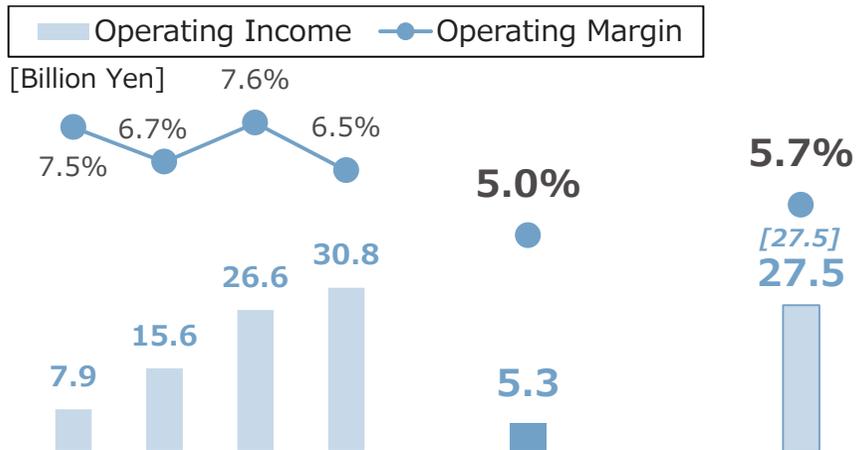
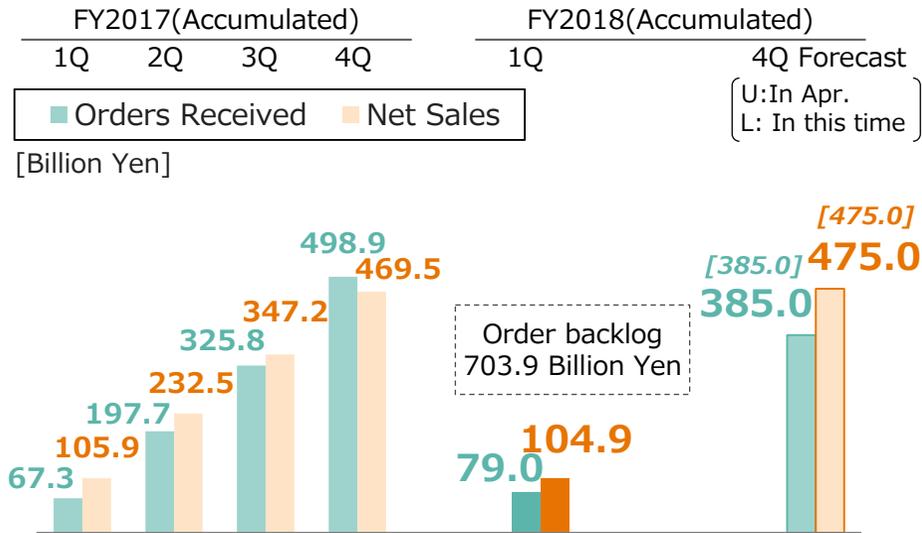


# Summary of Income Statement

			(	FY2017.1Q	⇒	FY2018.1Q	)
[Billion Yen]							
<b>Operating Income</b>	<b>+</b>	<b>2.1</b>	<b>(</b>	<b>4.9</b>	<b>⇒</b>	<b>7.1</b>	<b>)</b>
• Net Sales	+	8.4	(	335.3	⇒	343.7	)
• Cost of sales	+	3.8	(	284.1	⇒	288.0	)
• Selling, general & administrative expenses	+	2.3	(	46.2	⇒	48.6	)
- Salaries and benefits	+	0.3	(	12.6	⇒	12.9	)
- R&D expenses	+	0.8	(	9.4	⇒	10.3	)
<b>Non-operating Income / Expenses</b>	<b>+</b>	<b>0.9</b>	<b>(</b>	<b>0.5</b>	<b>⇒</b>	<b>1.4</b>	<b>)</b>
• Net Interest expense (incl. dividend income)	-	0.2	(	-0.3	⇒	-0.5	)
• Equity in income of unconsolidated subsidiaries and affiliates	-	1.0	(	1.3	⇒	0.3	)
• Gain and loss on foreign exchange	+	1.4	(	0.5	⇒	2.0	)
• Others	+	0.6	(	-1.0	⇒	-0.3	)
<b>Extraordinary Income / Losses</b>		<b>-</b>	<b>(</b>	<b>-</b>	<b>⇒</b>	<b>-</b>	<b>)</b>

# 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



## FY2018.1Q (vs. FY2017.1Q)

- **Orders Received:** Increased due to maintain high level of orders received of component parts for commercial aircrafts and increase in component parts of commercial aircraft jet engines
- **Net Sales:** Remained at the same level, due to maintain high level of sales of component parts for commercial aircrafts and increase in component parts of commercial aircraft jet engines, despite the decrease in sales for the MOD
- **Operating Income:** Decreased due to increase in depreciation of development costs of new commercial aircraft jet engine projects and other factors

## FY2018 Forecast (vs. FY2017)

- **Orders Received:** Decreased due to decrease in component parts for commercial aircrafts and no bulk orders, compared to FY2017 when a bulk order for helicopters was received from the MOD
- **Net Sales:** Increased due to increase in component parts of commercial aircraft jet engines, despite the impact of the strong yen and decrease in sales for the MOD
- **Operating Income:** Decreased due to the impact of the strong yen and increase in depreciation of development costs of new commercial aircraft jet engine projects and other factors, despite improved profitability in component parts for commercial aircrafts

## Sales units of component parts for commercial aircraft

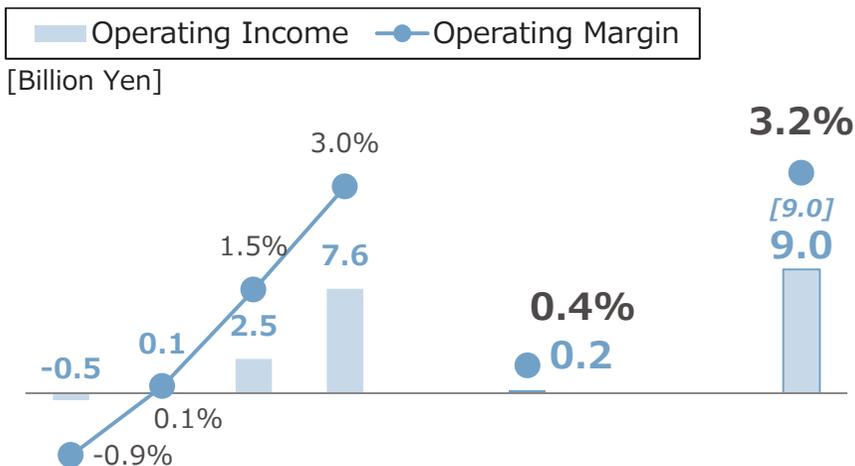
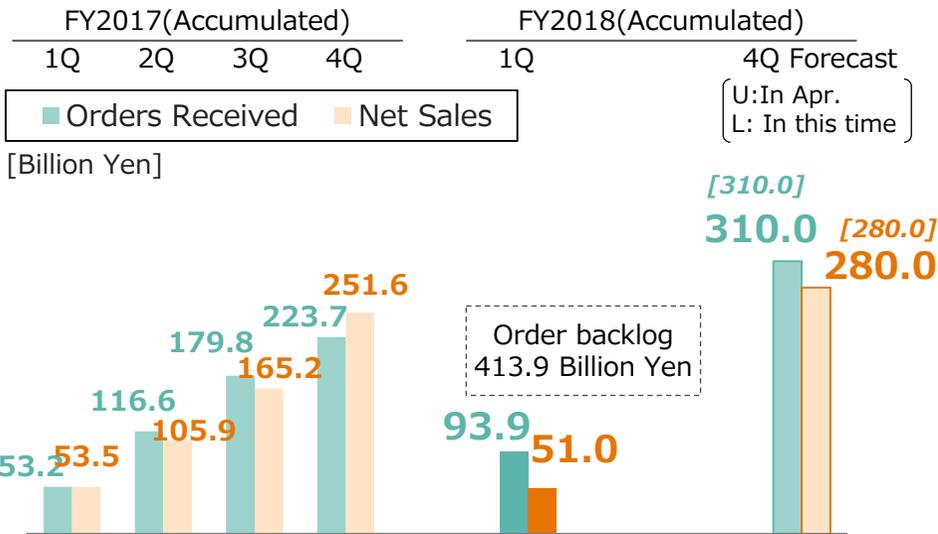
	FY2017 1Q	FY2018 1Q
Boeing 767	7	8
Boeing 777	18	9
Boeing 787	37	36

	FY2017 Actual	FY2018 Forecast
Before-tax ROIC	7.8%	7.7%

# Energy System & Plant Engineering

Main Products: Industrial plants(cement, fertilizer and others), Power plants, LNG tanks, Municipal refuse 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



## FY2018.1Q (vs. FY2017.1Q)

- **Orders Received:** Increased due to order received for LNG tanks and industrial gas turbines for domestic market and other factors
- **Net Sales:** Decreased due to decrease in construction works of a chemical plant for overseas market and other factors
- **Operating Income:** Improved due to profitability improvement of energy business and other factors, despite sales decrease

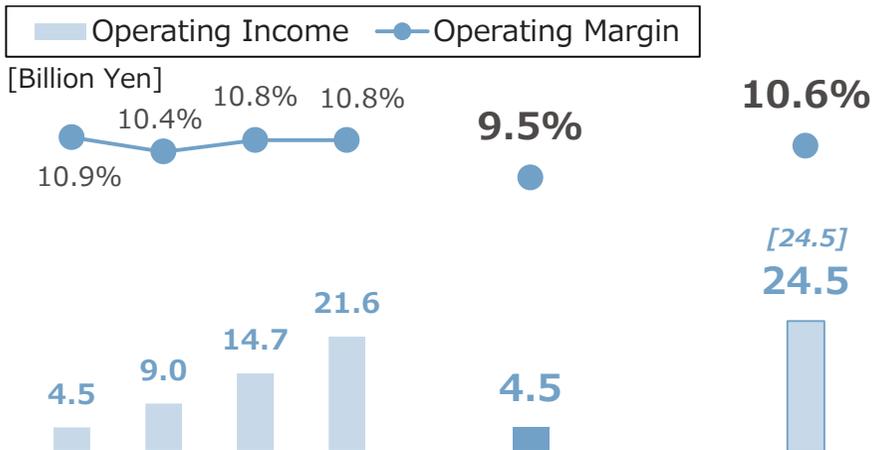
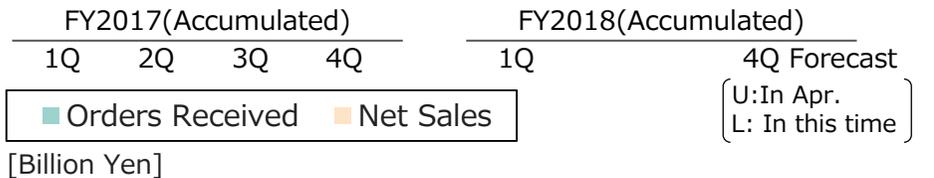
## FY2018 Forecast (vs. FY2017)

- **Orders Received:** Increased due to increase in energy business and industrial equipment for domestic market
- **Net Sales:** Increased due to increase in energy projects, such as industrial gas turbine and gas engines
- **Operating Income:** Increased due to sales increase

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

# 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



## FY2018.1Q (vs. FY2017.1Q)

- **Orders Received:** Increased due to increase in hydraulic components for construction machinery and various robots
- **Net Sales:** Increased due to increase in hydraulic components for construction machinery and maintain high level of sales of various robots
- **Operating Income:** Remained at the same level due to increase in cost for the increased production volume and other factors, despite sales increase

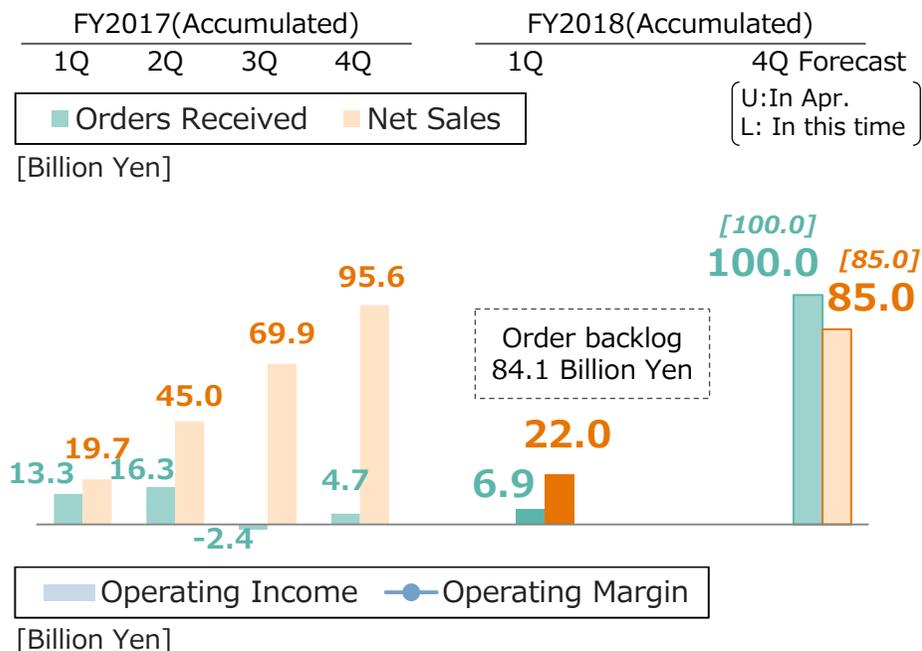
## FY2018 Forecast (vs. FY2017)

- **Orders Received:** Increased due to increase in energy projects, such as industrial gas turbine and gas engines
- **Net Sales:** Same as above
- **Operating Income:** Increased due to sales increase

	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Before-tax ROIC	13.4%	22.9%	21.1%

# Ship & Offshore Structure

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



## FY2018.1Q (vs. FY2017.1Q)

- **Orders Received:** Decreased compared to the previous same period when orders for LPG carrier and Kawasaki JETFOIL were received
- **Net Sales:** Increased due to increase in repairing of vessels and other factors
- **Operating Income:** Improved due to sales increase, cost reduction, and other factors

## FY2018 Forecast (vs. FY2017)

- **Orders Received:** Increased due to orders for submarines and liquid gas carriers and other factors, compared to FY2017 when shipbuilding contract for an offshore service vessel was terminated
- **Net Sales:** Decreased due to decrease in construction works of liquid gas carrier
- **Operating Income:** Increased due to decrease in low-profitability projects

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

	Orders Received		Sales*		Orders Backlog
	FY2017 1Q	FY2018 1Q	FY2017 1Q	FY2018 1Q	FY2018 1Q
LNG carriers			8	5	5
LPG carriers	1		6	4	6
Submarines			2	2	2
Others	1		3	1	2
Total	2	0	19	12	15

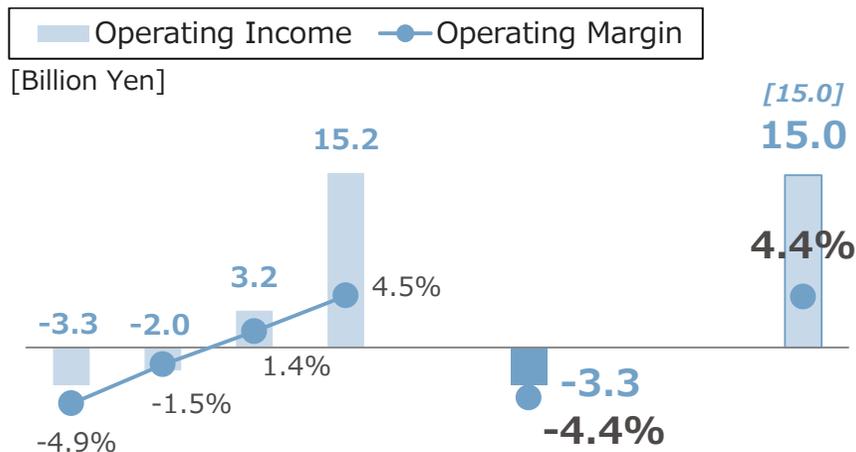
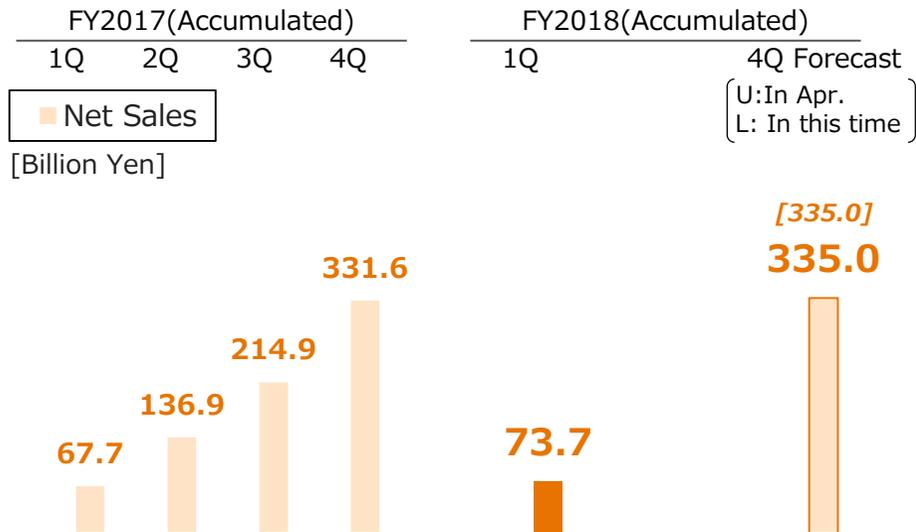
\*Sales includes units by percentage-of-completion method

	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Before-tax ROIC	-23.4%	-21.3%	2.9%



# Motorcycle & Engine

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



## FY2018.1Q (vs. FY2017.1Q)

- **Net Sales:** Increased due to increase in motorcycles for developed countries, utility vehicles, despite decrease in motorcycles for emerging countries
- **Operating Income:** Remained at the same level due to temporary increase in SG&A expenses, despite sales increase

## FY2018 Forecast (vs. FY2017)

- **Net Sales:** Remained at the same level due to increase in motorcycles for developed countries, general-purpose gasoline engines, and other factors, despite the impact of the strong yen
- **Operating Income:** Same as above

## Wholesales by Product

[Thousands of units, Billion Yen]

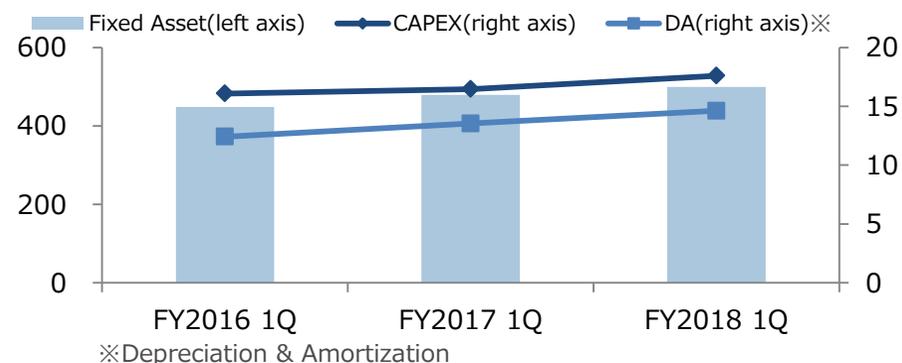
	FY2017 1Q		FY2018 1Q	
	Unit	Amount	Unit	Amount
Motorcycles for developed countries	34	26.2	35	29.4
Motorcycles for emerging market	68	16.6	71	16.4
Utility Vehicles, ATVs & PWC	11	12.3	14	15.3
General-purpose gasoline engines		12.6		12.6
Total	113	67.7	120	73.7

	FY2016 Actual	FY2017 Actual	FY2018 Forecast
Before-tax ROIC	7.3%	9.4%	11.3%

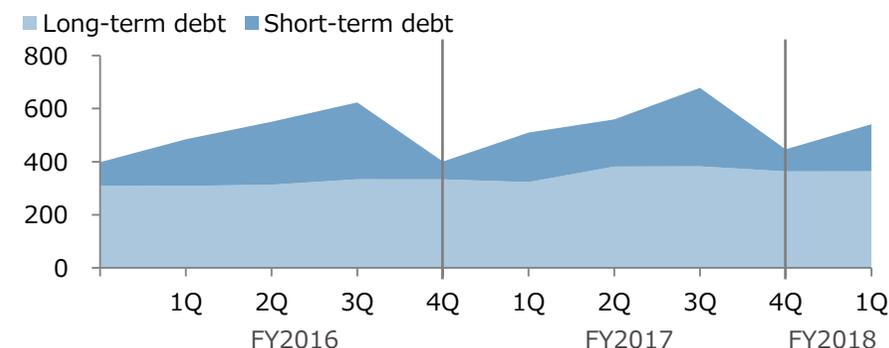
# Summary of Balance Sheet

	[Billion Yen]		
	End of Mar. 2017	End of Jun. 2018	Change
Cash on hand and in banks	70.6	58.0	- 12.5
Trade receivables	470.1	483.8	+ 13.7
Inventories	504.7	560.7	+ 56.0
Total fixed assets	495.9	499.1	+ 3.1
Others assets	243.5	246.0	+ 2.4
<b>Total assets</b>	<b>1,785.0</b>	<b>1,847.8</b>	<b>+ 62.8</b>
Trade payables	363.1	335.8	- 27.3
Interest-bearing debt	446.6	541.1	+ 94.5
Advances from customers	194.3	186.1	- 8.1
Other liabilities	299.5	307.1	+ 7.6
<b>Total liabilities</b>	<b>1,303.6</b>	<b>1,370.3</b>	<b>+ 66.6</b>
Total shareholders' equity	466.9	464.4	- 2.4
Other net assets	14.4	13.0	- 1.3
<b>Total net assets</b>	<b>481.3</b>	<b>477.5</b>	<b>- 3.8</b>
<b>Total liabilities &amp; net assets</b>	<b>1,785.0</b>	<b>1,847.8</b>	<b>+ 62.8</b>
Ratio of shareholders' equity to total assets	26.1%	25.1%	
Net D/E Ratio	80.6%	104.4%	

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
- In July 2018, we claimed compensation for the part of damages totaling approximately 40 billion yen, caused by the breach of contract
- Part of the claimed amount is recorded as "other current assets", which is deducted from estimated overall costs

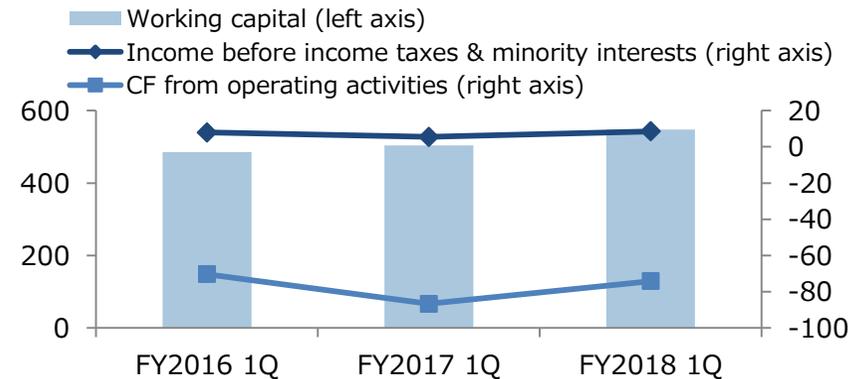
# Summary of Cash Flows

[Billion Yen]

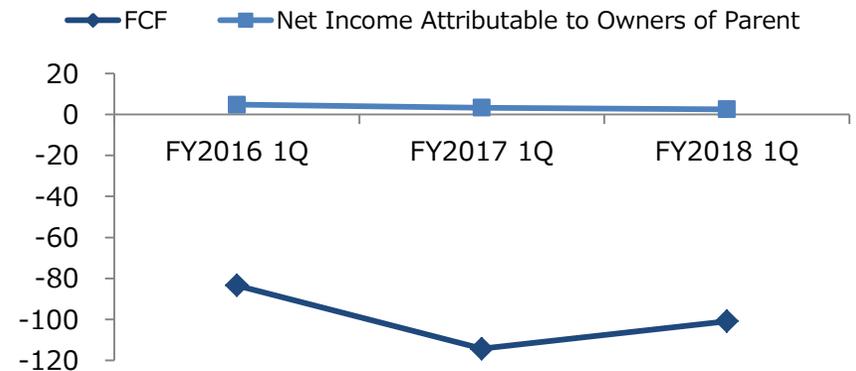
	FY2017 1Q	FY2018 1Q	Change
Cash flows from operating activities	-86.6	-74.1	+ 12.4
Cash flows from investing activities	-27.5	-26.6	+ 0.9
Free Cash Flows	-114.2	-100.8	+ 13.4
Cash flows from financing activities	105.6	89.2	- 16.3

- Cash flows from operating activities improved due to increase in payment received in Energy System & Plant Engineering segment and other factors, despite increase in working capital in line with business expansion
- Cash flows from investing activities remained at the same level due to remained at high level of capital investment mainly into Aerospace systems segment
- 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

No changes in the forecast for FY2018 from April 26, 2018.

	[Billion Yen]		
	FY2017 Actual	FY2018 Forecast	Change vs. FY2017
Orders Received	1,608.0	<b>1,590.0</b>	- 18.0
Net Sales	1,574.2	<b>1,650.0</b>	+ 75.8
Operating Income	55.9	<b>75.0</b>	+ 19.1
Recurring Profit	43.2	<b>70.0</b>	+ 26.8
Net Income Attributable to Owners of Parent	28.9	<b>47.0</b>	+ 18.1
Before-tax ROIC	3.9%	<b>8.0%</b>	+ 4.1%
ROE	6.4%	<b>9.7%</b>	+ 3.3%
Dividend(per share)	60 yen	<b>70 yen</b>	+ 10 yen

<Exchang Rates: Actual and Assumed<sup>※</sup>>

Yen/US\$	110.62	<b>107.00</b>
Yen/EUR	129.84	<b>130.00</b>

※Assumed rates are applied to the outstanding foreign exchange exposure as of April 26, 2018

## vs. FY2017

### • Orders Received

- Remained at the same level as FY2017 due to increase in Ship & Offshore Structure and Energy System & Plant Engineering segments, despite decrease in Rolling Stock segment that large orders for overseas market were received in FY2017, and Aerospace Systems segment that a bulk order for helicopters was received from the MOD in FY2017

### • Net Sales

- Increased as a whole due to sales increase in Precision Machinery and Energy System & Plant Engineering segments, and other factors, despite sales decrease in Ship & Offshore Structure segment

### • Profits

- Increased due to recovery in Rolling Stock segment that a large loss on passenger cars for Long Island Rail Road was recognized in FY2017 and other factors, despite decrease in Aerospace Systems segment

### • Before-tax ROIC, ROE

- Increased due to increase in profit

## (Appendix)

### Impact on profit by FX fluctuation of 1 yen

	[Billion Yen]	
	Operating Income	Recurring Profit
US\$	1.68	1.92
EUR	0.23	0.29

# Forecast by Segment

No changes in the forecast for FY2018 from April 26, 2018.

[Billion Yen]

	Orders Received			Net Sales			Operating Income		
	FY2017 Actual	FY2018 Forecast	Change	FY2017 Actual	FY2018 Forecast	Change	FY2017 Actual	FY2018 Forecast	Change
Aerospace Systems <sup>※1</sup>	498.9	385.0	- 113.9	469.5	475.0	+ 5.5	30.8	27.5	- 3.3
Energy System & Plant Engineering <sup>※1</sup>	223.6	310.0	+ 86.4	251.6	280.0	+ 28.4	7.6	9.0	+ 1.4
Precision Machinery & Robot	207.1	245.0	+ 37.9	198.9	230.0	+ 31.1	21.6	24.5	+ 2.9
Ship & Offshore Structure	4.7	100.0	+ 95.3	95.6	85.0	- 10.6	-3.8	1.0	+ 4.8
Rolling Stock	257.1	130.0	- 127.1	141.7	160.0	+ 18.3	-12.4	2.5	+ 14.9
Motorcycle & Engine	331.6	335.0	+ 3.4	331.6	335.0	+ 3.4	15.2	15.0	- 0.2
Others	84.8	85.0	+ 0.2	85.0	85.0	0.0	2.9	3.0	+ 0.1
Eliminations and corporate <sup>※2</sup>	-	-	-	-	-	-	-6.2	-7.5	1.3
<b>Total</b>	<b>1,608.0</b>	<b>1,590.0</b>	<b>- 18.0</b>	<b>1,574.2</b>	<b>1,650.0</b>	<b>+ 75.8</b>	<b>55.9</b>	<b>75.0</b>	<b>+ 19.1</b>

※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

No changes in the forecast for FY2018 from April 26, 2018.

	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	7.8%	7.7%	- 0.1%	6.5%	5.7%	- 0.8%	0.72	0.70	- 0.02
Energy System & Plant Engineering	8.0%	7.8%	- 0.2%	3.0%	3.2%	+ 0.2%	0.87	0.98	+ 0.11
Precision Machinery & Robot	22.9%	21.1%	- 1.8%	10.8%	10.6%	- 0.2%	1.05	1.19	+ 0.14
Ship & Offshore Structure	-21.3%	2.9%	+ 24.2%	-3.9%	1.1%	+ 5.0%	0.64	0.68	+ 0.04
Rolling Stock	-26.2%	3.4%	+ 29.6%	-8.7%	1.5%	+ 10.2%	0.78	0.85	+ 0.07
Motorcycle & Engine	9.4%	11.3%	+ 1.9%	4.5%	4.4%	- 0.1%	1.24	1.32	+ 0.08
Total	3.9%	8.0%	+ 4.1%	3.5%	4.5%	+ 1.0%	0.88	0.94	+ 0.06

# R&D/CAPEX/Number of Employees

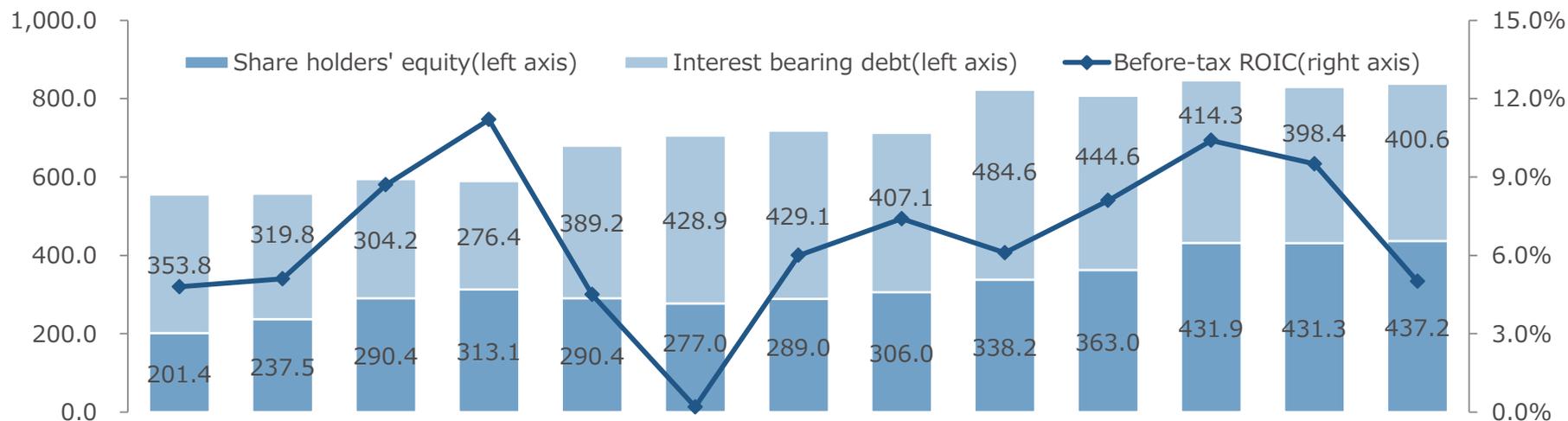
No changes in the forecast for FY2018 from April 26, 2018.

		[Billion Yen/Persons]		
		FY2016 Actual	FY2017 Actual	FY2018 Forecast
R&D Expenses		43.6	45.4	51.0
CAPEX (Construction Base)*		82.7	82.1	80.0
Depreciation and Amortization*		51.5	56.1	62.5
	Domestic	26,348	26,747	27,480
	Overseas	8,779	9,058	9,470
Number of Employees		35,127	35,805	36,950

\*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]	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Before-tax ROIC	4.80%	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%
Invested Capital	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	912.7
Net Sales	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	1,574.2
Operating Profit	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	55.9
Recurring Profit	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	43.2
Net Income Attributable to Owners of Parent	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	28.9
Yen/US\$	108	112	117	115	101	93	86	79	82	99	109	118	108	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 due to a rise in crude oil prices.
- 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

- Hydraulic components for construction machinery market is brisk, mainly by strong demand for excavators in China. Construction equipment manufactures which are our customers eagerly increase productions.
- The demand for robots increases due to increased demand in automotive and semiconductor industries and the expansion of the application coverage of industrial robots on the back of staffing shortages.

## 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 Chinese and South Korean Government, and other factors.

# Market Overview (2/2)

## Rolling Stock

- In Japan, there is a steady replacement demand for aging railcars.
- In North America, 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.