

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

Oct. 30, 2018

Kawasaki Heavy Industries, Ltd.

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Summary of Financial Results

	[Billion Yen]		
	FY2017 2Q	FY2018 2Q	Change
Orders Received	666.9	719.8	+ 52.9
Net Sales	709.7	688.1	- 21.6
Operating Income	16.1	8.4	- 7.6
Recurring Profit	15.1	0.2	- 14.9
Net Income (Loss) Attributable to Owners of Parent	10.8	▲ 3.5	- 14.4

<Weighted-average exchange rates>

Yen/US\$	110.50	109.80
Yen/EUR	125.12	128.93

vs. FY2017.2Q

• Orders Received

- Increased mainly in Energy System & Plant Engineering segment

• Net Sales

- Decreased as a whole due to decrease in Aerospace Systems and Rolling Stock segments and other factors, despite increase in Precision Machinery & Robot segment and other factors

• Profits

- Operating income decreased as a whole due to decrease in Rolling Stock and Aerospace Systems segments despite improvement in Ship & Offshore Structure segment
- Recurring profit and Net income attributable to owners of parent decreased due to decrease in operating income, payments for the in-service issues of commercial aircraft jet engines and other factors

(Appendix)

Net Sales in Foreign Currencies
for FY2018.2Q [Billion]

US\$	EUR
0.98	0.02

Financial Results by Segment

[Billion Yen]

	Orders Received			Net Sales			Operating Income		
	FY2017 2Q	FY2018 2Q	Change	FY2017 2Q	FY2018 2Q	Change	FY2017 2Q	FY2018 2Q	Change
Aerospace Systems ^{※1}	197.7	201.1	+ 3.4	232.5	210.2	- 22.3	15.6	9.4	- 6.2
Energy System & Plant Engineering ^{※1}	116.6	146.7	+ 30.0	105.9	103.9	- 1.9	0.1	2.2	+ 2.0
Precision Machinery & Robot	92.4	104.8	+ 12.3	86.9	102.1	+ 15.2	9.0	9.6	+ 0.5
Ship & Offshore Structure	16.3	16.5	+ 0.1	45.0	39.7	- 5.3	-5.1	1.2	+ 6.4
Rolling Stock	68.4	60.5	- 7.8	63.6	45.4	- 18.2	-0.9	-8.8	- 7.9
Motorcycle & Engine	136.9	144.4	+ 7.4	136.9	144.4	+ 7.4	-2.0	-4.6	- 2.5
Others	38.2	45.6	+ 7.3	38.5	42.1	+ 3.6	1.4	1.0	- 0.4
Eliminations and corporate ^{※2}	-	-	-	-	-	-	-2.1	-1.6	+ 0.4
Total	666.9	719.8	+ 52.9	709.7	688.1	- 21.6	16.1	8.4	- 7.6

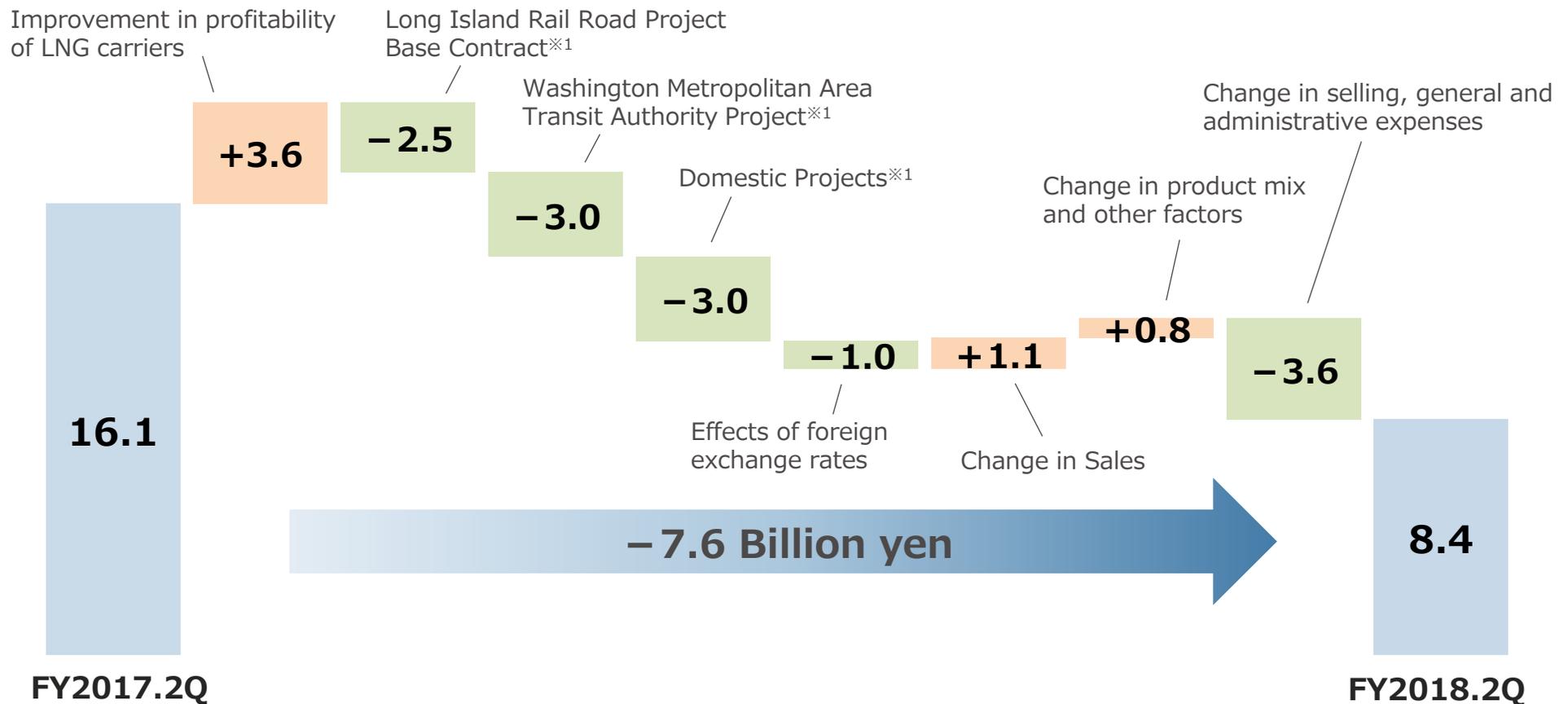
※1 Changed reporting segments from FY 2018. Results for FY2017 2Q in Aerospace Systems and Energy System & Plant Engineering segments have been restated in order to reflect this change

※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

– 7.6 Billion yen (FY2017.2Q 16.1 Billion yen ⇒ FY2018.2Q 8.4 Billion yen)



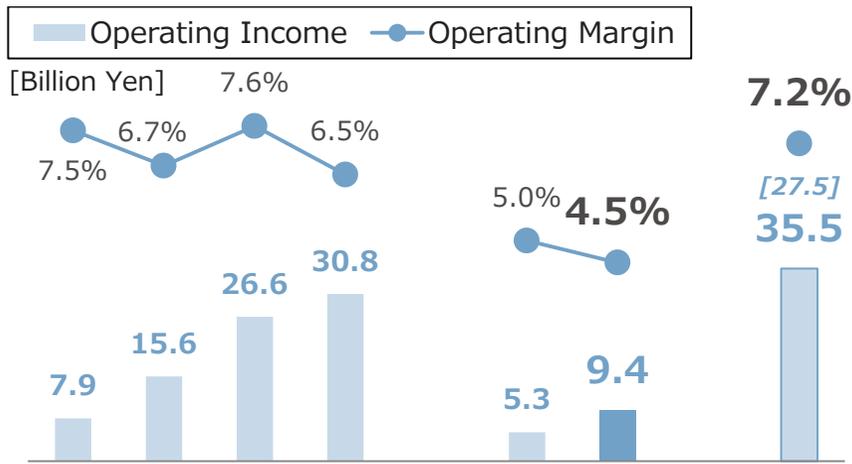
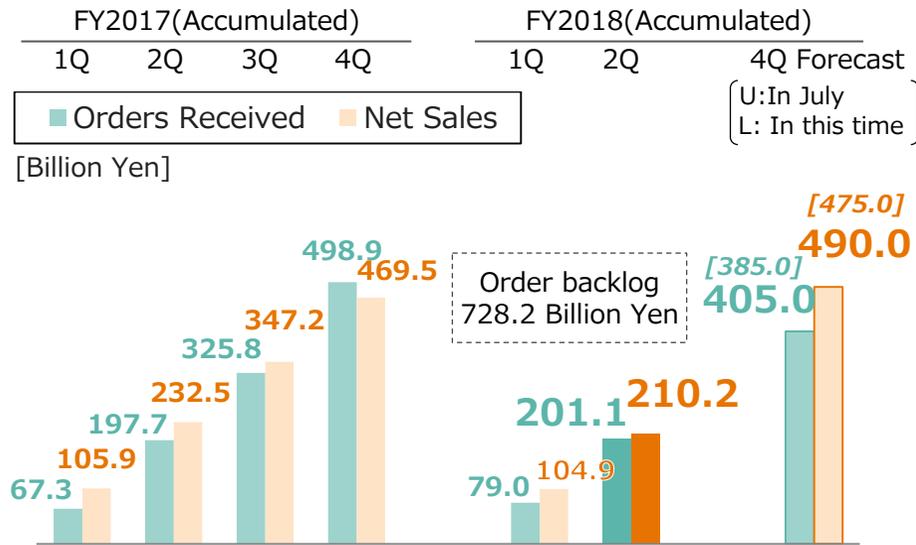
※1. Losses of the Rolling Stock Business

Summary of Income Statement

			(	FY2017.2Q	⇒	FY2018.2Q)
			(⇒)
						[Billion Yen]	
Operating Income	-	7.6	(	16.1	⇒	8.4)
• Net Sales	-	21.6	(	709.7	⇒	688.1)
• Cost of sales	-	17.5	(	599.5	⇒	581.9)
• Selling, general & administrative expenses	+	3.6	(	94.0	⇒	97.6)
- Salaries and benefits	+	0.9	(	25.5	⇒	26.5)
- R&D expenses	+	0.5	(	20.6	⇒	21.2)
Non-operating Income / Expenses	-	7.2	(	-0.9	⇒	-8.2)
• Net Interest expense (incl. dividend income)	-	0.3	(	-0.7	⇒	-1.1)
• Equity in income of unconsolidated subsidiaries and affiliates	-	1.7	(	2.5	⇒	0.8)
• Gain and loss on foreign exchange	+	1.6	(	1.4	⇒	3.1)
• Payments for the in-service issues of commercial aircraft jet engines	-	9.7	(	-	⇒	-9.7)
• Others	+	2.9	(	-4.2	⇒	-1.2)
Extraordinary Income / Losses	-	-	(-	⇒	-)

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



FY2018.2Q (vs. FY2017.2Q)

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

FY2018 Forecast (vs. Forecast in July)

- **Orders Received:** Revised up due to revision of assumed exchange rate and increase in component parts for commercial aircraft jet engines
- **Net Sales:** Same as above
- **Operating Income:** Revised up due to revision of assumed exchange rate, improved profitability in component parts for commercial aircraft jet engines and promotion of cost reduction

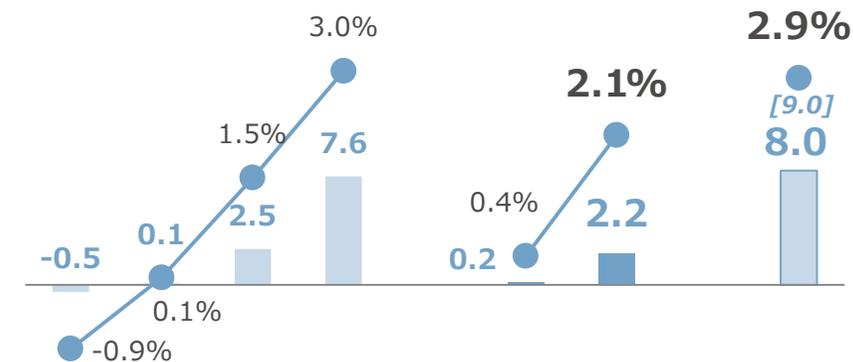
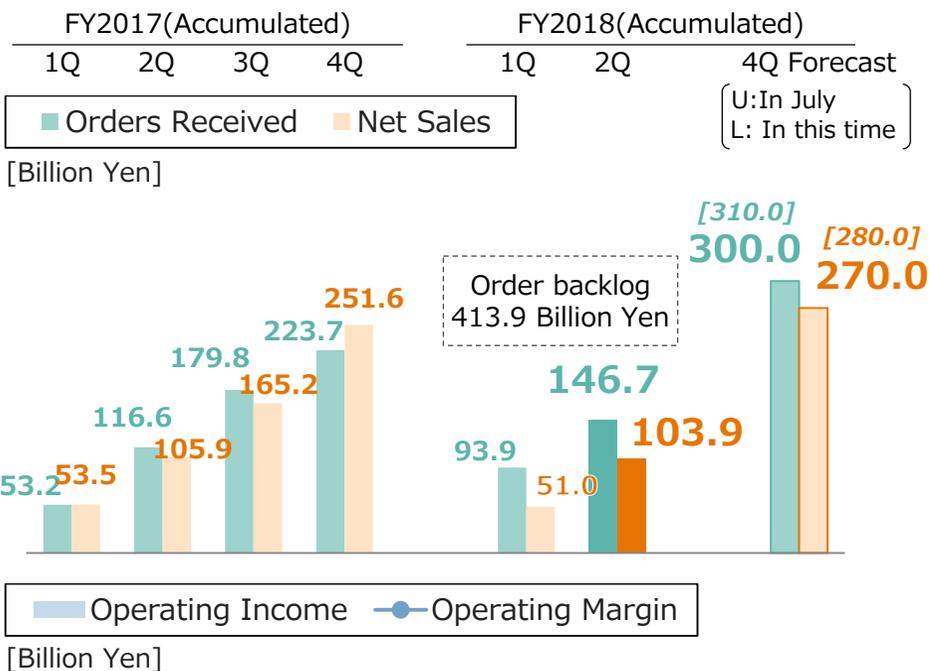
Sales units of component parts for commercial aircraft

	FY2017 2Q	FY2018 2Q
Boeing 767	15	16
Boeing 777	33	19
Boeing 787	73	70

	FY2017 Actual	FY2018 Forecast	
		In July	In This Time
Before-tax ROIC	7.8%	7.7%	7.4%

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



※1. CCPP = Combined Cycle Power Plant

FY2018.2Q (vs. FY2017.2Q)

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

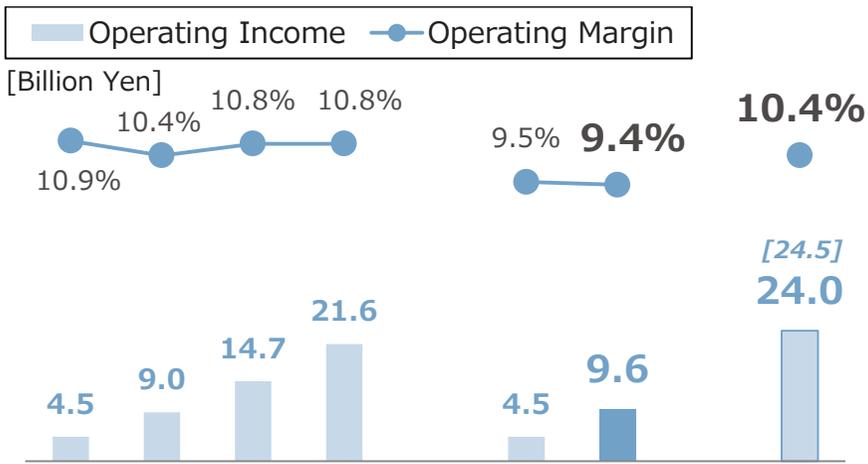
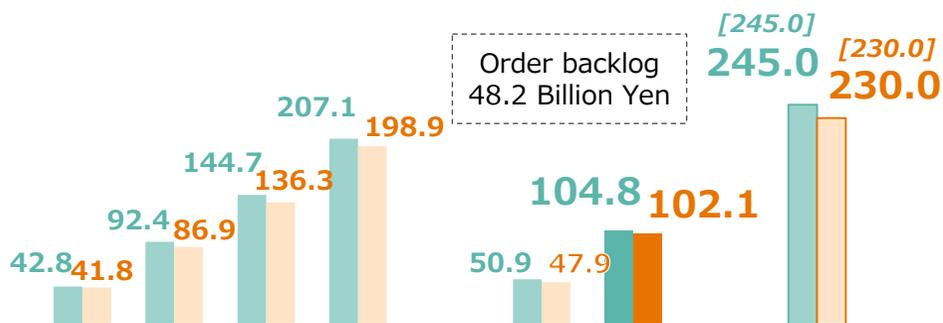
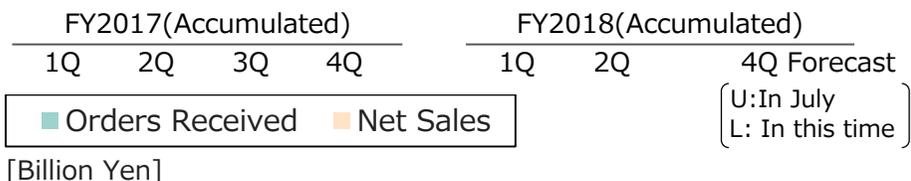
FY2018 Forecast (vs. Forecast in July)

- **Orders Received:** Revised down due to being behind schedule of plant project and other factors
- **Net Sales:** Revised down due to decrease in industrial gas turbines and other factors
- **Operating Income:** Revised down due to sales decrease

	FY2017 Actual	FY2018 Forecast	
		In July	In This Time
Before-tax ROIC	8.0%	7.8%	7.6%

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



FY2018.2Q (vs. FY2017.2Q)

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

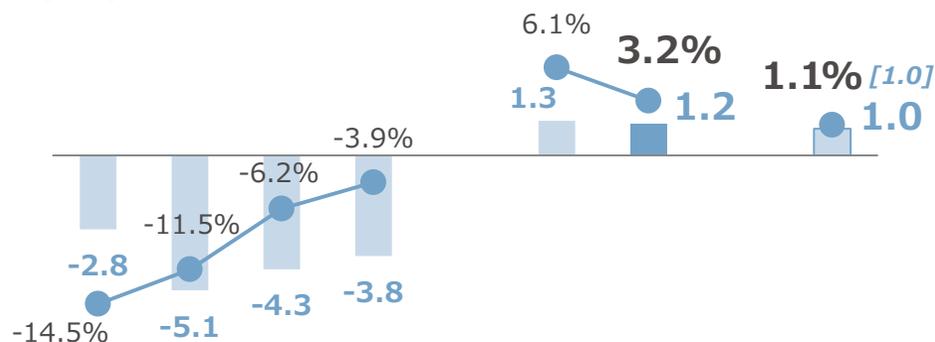
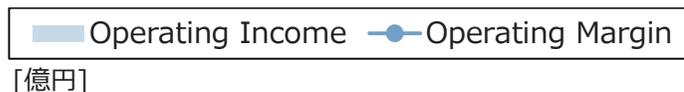
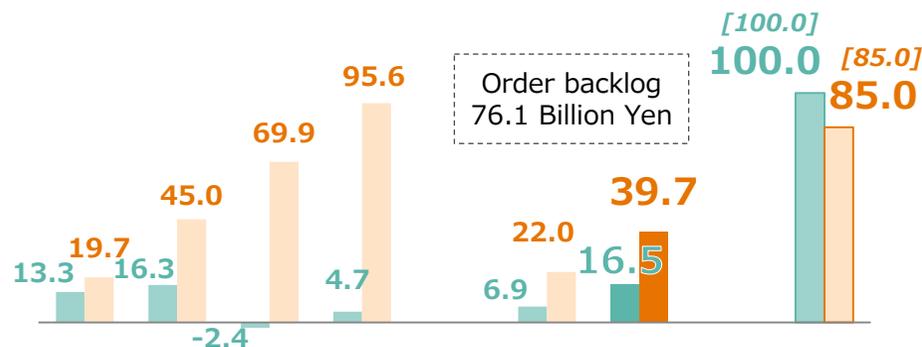
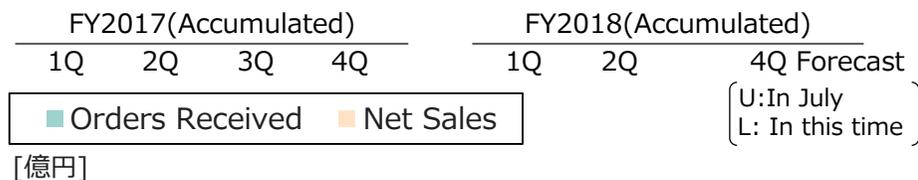
FY2018 Forecast (vs. Forecast in July)

- **Orders Received:** Remained unchanged due to decrease in various robots, despite increase in hydraulic components for construction machinery
- **Net Sales:** Same as above
- **Operating Income:** Revised down due to a change in sales mix

	FY2016 Actual	FY2017 Actual	FY2018 Forecast	
			In July	In This Time
Before-tax ROIC	13.4%	22.9%	21.1%	21.1%

Ship & Offshore Structure

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



FY2018.2Q (vs. FY2017.2Q)

- **Orders Received:** Remained at the same level due to orders for a LNG bunkering vessel and other factors
- **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

FY2018 Forecast (vs. Forecast in July)

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

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

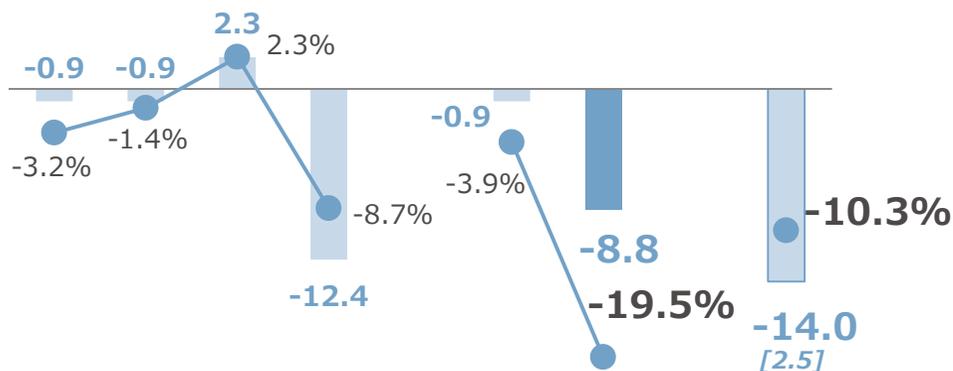
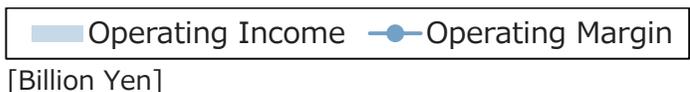
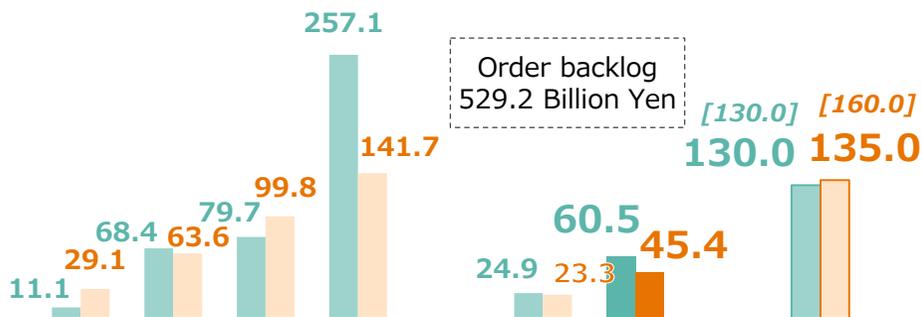
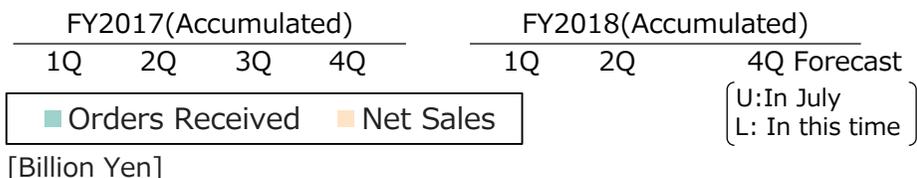
	Orders Received		Sales*		Orders Backlog
	FY2017 2Q	FY2018 2Q	FY2017 2Q	FY2018 2Q	FY2018 2Q
LNG carriers			8	5	4
LPG carriers	1		6	6	6
Submarines			2	2	2
Others	1	1	3	2	2
Total	2	1	19	15	14

*Sales includes units by percentage-of-completion method

	FY2016	FY2017	FY2018 Forecast	
	Actual	Actual	In July	In This Time
Before-tax ROIC	-23.4%	-21.3%	2.9%	2.6%

Rolling Stock

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



FY2018.2Q (vs. FY2017.2Q)

- **Orders Received:** Decreased from the previous same period when orders for MRT System in Bangladesh were received, despite order received for passenger cars and refurbishments for US market
- **Net Sales:** Decreased due to decrease in sales for overseas market including US
- **Operating Income:** Deteriorated due to deterioration of profitability of US projects and other factors

FY2018 Forecast (vs. Forecast in July)

- **Orders Received:** No change
- **Net Sales:** Revised down due to being behind schedule of US projects and other factors
- **Operating Income:** Revised down due to cost increase in the base contract for LIRR^{※1}, loss on acceptance of the option contract for LIRR, additional costs for the WMATA^{※2} Project, losses on domestic projects and other factors

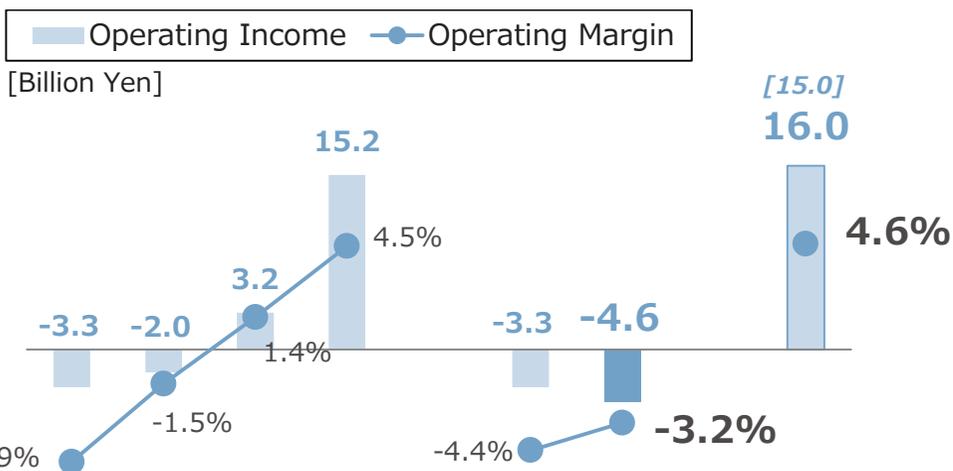
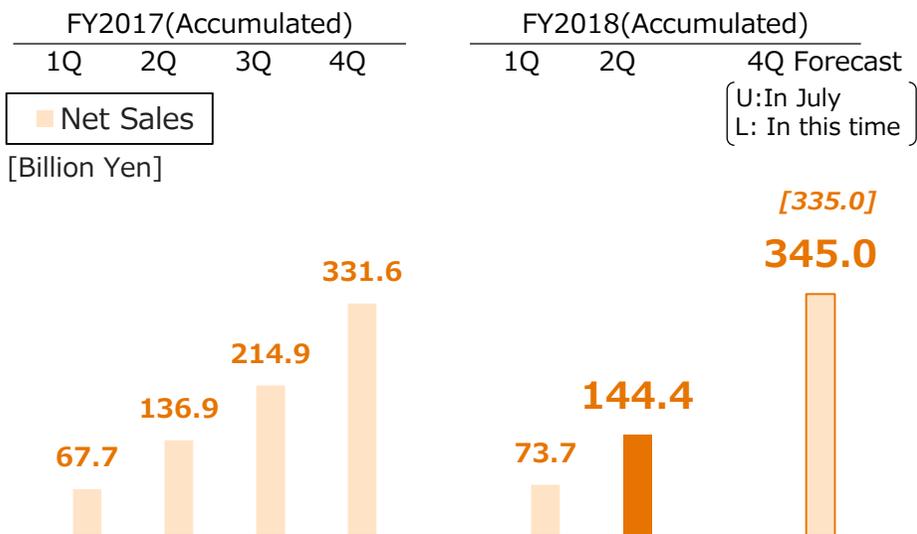
	FY2016 Actual	FY2017 Actual	FY2018 Forecast	
			In July	In This Time
Before-tax ROIC	3.0%	-26.2%	3.4%	-22.2%

※1. LIRR = Long Island Rail Road

※2. WMATA = Washington Metropolitan Area Transit Authority

Motorcycle & Engine

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



FY2018.2Q (vs. FY2017.2Q)

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

FY2018 Forecast (vs. Forecast in July)

- **Net Sales:** Revised up due to revision of assumed exchange rate and other factors
- **Operating Income:** Same as above

Wholesales by Product

[Thousands of units, Billion Yen]

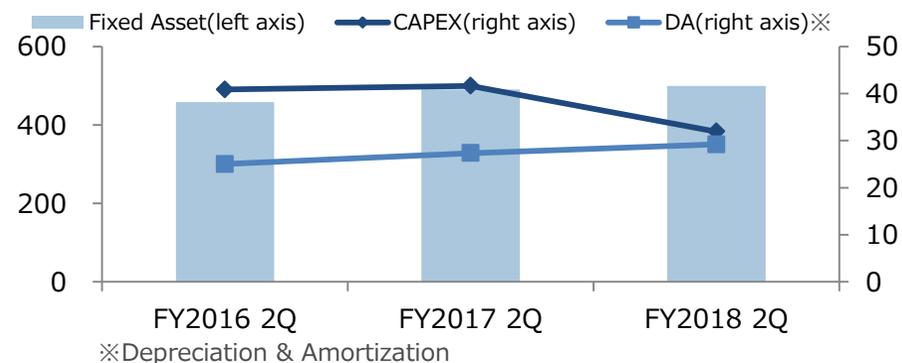
	FY2017 2Q		FY2018 2Q	
	Unit	Amount	Unit	Amount
Motorcycles for developed countries	64	48.5	64	50.7
Motorcycles for emerging market	143	35.8	163	39.1
Utility Vehicles, ATVs & PWC	27	31.2	30	33.2
General-purpose gasoline engines		21.2		21.4
Total	234	136.9	257	144.4

	FY2016 Actual	FY2017 Actual	FY2018 Forecast	
			In July	In This Time
Before-tax ROIC	7.3%	9.4%	11.3%	11.3%

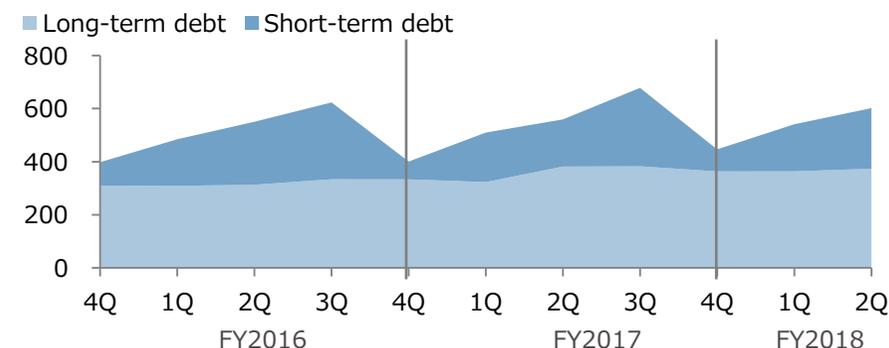
Summary of Balance Sheet

	[Billion Yen]		
	End of Mar. 2017	End of Sep. 2018	Change
Cash on hand and in banks	70.6	57.4	- 13.2
Trade receivables	470.1	491.5	+ 21.3
Inventories	504.7	606.5	+ 101.8
Total fixed assets	495.9	499.4	+ 3.5
Others assets	243.5	245.5	+ 1.9
Total assets	1,785.0	1,900.5	+ 115.5
Trade payables	363.1	335.4	- 27.7
Interest-bearing debt	446.6	601.8	+ 155.2
Advances from customers	194.3	185.8	- 8.5
Other liabilities	299.5	304.8	+ 5.3
Total liabilities	1,303.6	1,427.9	+ 124.3
Total shareholders' equity	466.9	458.3	- 8.6
Other net assets	14.4	14.2	- 0.1
Total net assets	481.3	472.5	- 8.8
Total liabilities & net assets	1,785.0	1,900.5	+ 115.5
Ratio of shareholders' equity to total assets	26.1%	24.0%	
Net D/E Ratio	80.6%	119.1%	

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 48 billion yen, caused by the breach of contract by the end of September 2018 and we are carrying out the process in order to recover the claimed amount
- Part of the claimed amount is recorded as "other current assets", which is deducted from estimated overall costs

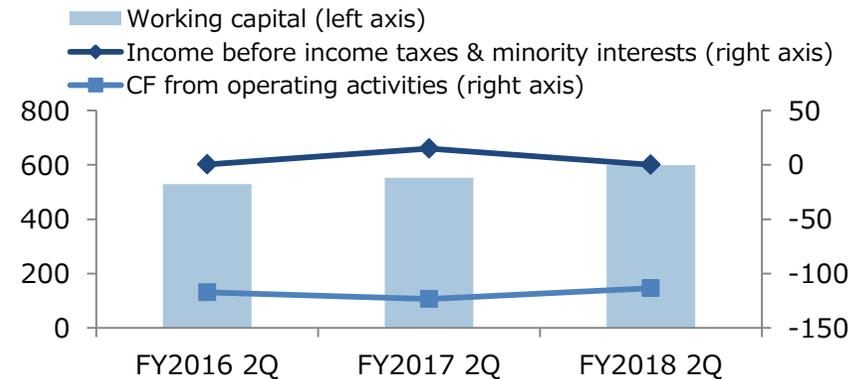
Summary of Cash Flows

[Billion Yen]

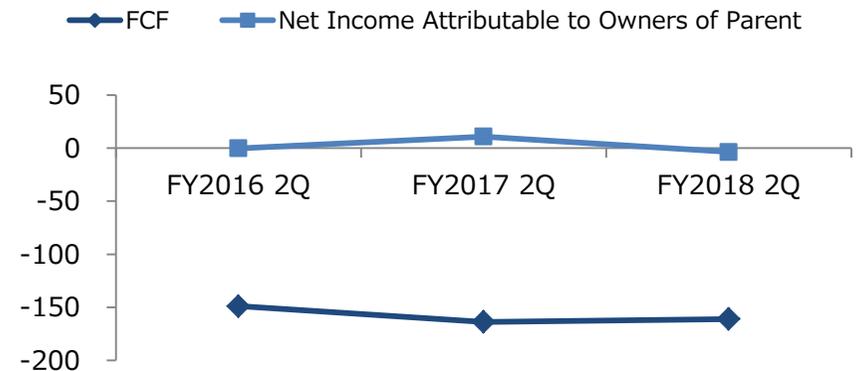
	FY2017 2Q	FY2018 2Q	Change
Cash flows from operating activities	-123.3	-113.4	+ 9.9
Cash flows from investing activities	-40.2	-47.5	- 7.2
Free Cash Flows	-163.6	-160.9	+ 2.6
Cash flows from financing activities	155.6	149.3	- 6.3

- Cash flows from operating activities improved compared to the previous same period when expenditure for overseas projects increased in Energy System & Plant Engineering segment
- Cash flows from investing activities deteriorated due to increase in payments for purchases of PP&E and other factors
- Given the above mentioned changes, free cash flows remained at the same level

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]				
	FY2017 Actual	FY2018 Forecast		Change	
		In July	In This Time	vs. FY2017	vs. In July
Orders Received	1,608.0	1,590.0	1,610.0	+ 2.0	+ 20.0
Net Sales	1,574.2	1,650.0	1,645.0	+ 70.8	- 5.0
Operating Income	55.9	75.0	66.0	+ 10.1	- 9.0
Recurring Profit	43.2	70.0	49.5	+ 6.3	- 20.5
Net Income Attributable to Owners of Parent	28.9	47.0	31.0	+ 2.1	- 16.0
Before-tax ROIC	3.9%	8.0%	5.9%	+ 2.0%	- 2.1%
ROE	6.4%	9.7%	6.5%	+ 0.1%	- 3.2%
Dividend(per share)	60 yen	70 yen	70 yen	+ 10 yen	-

<Exchange Rates: Actual and Assumed[※]>

Yen/US\$	110.62	107.00	110.00
Yen/EUR	129.84	130.00	130.00

※Assumed rates are applied to the outstanding foreign exchange exposure as of Oct. 30, 2018

Reasons for the Revision

• Orders Received

- Revised up as a whole due to increase in Aerospace Systems segment and other factors, despite decrease in Energy System & Plant Engineering segment

• Net Sales

- Revised down as a whole due to decrease in Rolling Stock and Energy System & Plant Engineering segments, despite increase in Aerospace Systems and Motorcycle & Engine segments

• Profits

- Operating income revised down as a whole due to decrease in Rolling Stock segment and other factors, despite increase in Aerospace Systems and Motorcycle & Engine segments
- Recurring profit and Net income attributable to owners of parent revised down due to decrease in operating income, payments for the in-service issues of commercial aircraft jet engines and other factors

(Appendix)

Impact on profit by FX fluctuation of 1 yen

	[Billion Yen]	
	Operating Income	Recurring Profit
US\$	1.13	1.23
EUR	0.12	0.18

Forecast by Segment

[Billion Yen]

	Orders Received				Net Sales				Operating Income			
	FY2017 Actual	FY2018 Forecast			FY2017 Actual	FY2018 Forecast			FY2017 Actual	FY2018 Forecast		
		In July	In this time	Change vs. In July		Forecast In July	In this time	Change vs. In July		Forecast In July	In this time	Change vs. In July
Aerospace Systems ^{※1}	498.9	385.0	405.0	+ 20.0	469.5	475.0	490.0	+ 15.0	30.8	27.5	35.5	+ 8.0
Energy System & Plant Engineering ^{※1}	223.6	310.0	300.0	- 10.0	251.6	280.0	270.0	- 10.0	7.6	9.0	8.0	- 1.0
Precision Machinery & Robot	207.1	245.0	245.0	-	198.9	230.0	230.0	-	21.6	24.5	24.0	- 0.5
Ship & Offshore Structure	4.7	100.0	100.0	-	95.6	85.0	85.0	-	-3.8	1.0	1.0	-
Rolling Stock	257.1	130.0	130.0	-	141.7	160.0	135.0	- 25.0	-12.4	2.5	-14.0	- 16.5
Motorcycle & Engine	331.6	335.0	345.0	+ 10.0	331.6	335.0	345.0	+ 10.0	15.2	15.0	16.0	+ 1.0
Others	84.8	85.0	85.0	-	85.0	85.0	90.0	+ 5.0	2.9	3.0	3.0	-
Eliminations and corporate ^{※2}	-	-	-	-	-	-	-	-	-6.2	-7.5	-7.5	-
Total	1,608.0	1,590.0	1,610.0	+ 20.0	1,574.2	1,650.0	1,645.0	- 5.0	55.9	75.0	66.0	- 9.0

※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			FY2017 Actual	FY2018 Forecast			FY2017 Actual	FY2018 Forecast		
		In July	In this time	Change vs. In July		In July	In this time	Change vs. In July		In July	In this time	Change vs. In July
Aerospace Systems	7.8%	7.7%	7.4%	- 0.3%	6.5%	5.7%	7.2%	+ 1.5%	0.72	0.70	0.71	+ 0.01
Energy System & Plant Engineering	8.0%	7.8%	7.6%	- 0.2%	3.0%	3.2%	2.9%	- 0.3%	0.87	0.98	0.93	- 0.05
Precision Machinery & Robot	22.9%	21.1%	21.1%	-	10.8%	10.6%	10.4%	- 0.2%	1.05	1.19	1.15	- 0.04
Ship & Offshore Structure	-21.3%	2.9%	2.6%	- 0.3%	-3.9%	1.1%	1.1%	-	0.64	0.68	0.69	+ 0.01
Rolling Stock	-26.2%	3.4%	-22.2%	- 25.6%	-8.7%	1.5%	-10.3%	- 11.8%	0.78	0.85	0.69	- 0.16
Motorcycle & Engine	9.4%	11.3%	11.3%	-	4.5%	4.4%	4.6%	+ 0.2%	1.24	1.32	1.31	- 0.01
Total	3.9%	8.0%	5.9%	- 2.1%	3.5%	4.5%	4.0%	- 0.5%	0.88	0.94	0.92	- 0.02

R&D/CAPEX/Number of Employees

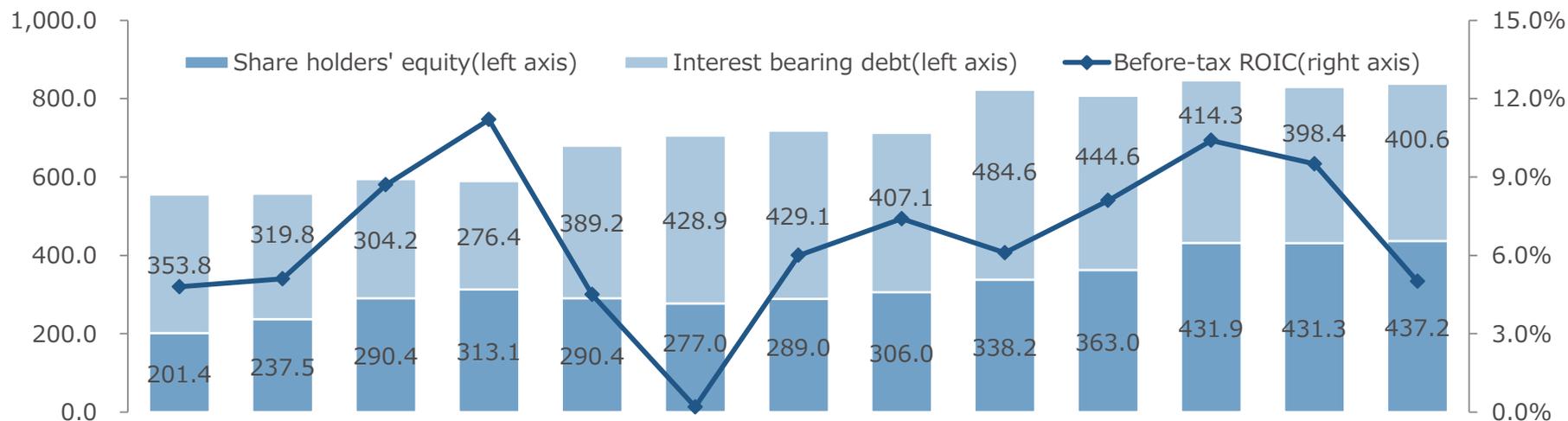
[Billion Yen/Persons]

	FY2017 Actual	FY2018 Forecast		
		In July	In This Time	Change vs. In July
R&D Expenses	45.4	51.0	51.0	-
CAPEX (Construction Base) [※]	82.1	80.0	75.0	-5.0
Depreciation and Amortization [※]	56.1	62.5	59.0	-3.5
Domestic	26,747	27,480	27,480	-
Overseas	9,058	9,470	9,470	-
Number of Employees	35,805	36,950	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.
- Robots performs strongly in China, emerging and developed countries but there are negative factors such as restrictions on capital expenditures by semiconductor manufacturers, shrinking market due to US-China trade war, and so on. Therefore, the outlook became unclear.

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 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.