

**Notice Regarding Losses on Overseas Business**

Tokyo, January 14, 2016—Kawasaki Heavy Industries, Ltd. (hereinafter, “KHI”), hereby announces that it will be recognizing losses on its joint shipbuilding venture in Brazil as losses on overseas business under extraordinary losses and equity in loss of non-consolidated subsidiaries and affiliates as non-operating expenses for the nine months ended December 31, 2015, as follows.

**1. Losses on joint shipbuilding venture in Brazil**

KHI will recognize ¥22.1 billion in losses on its joint shipbuilding venture in Brazil for the nine months ended December 31, 2015.

Enseada Indústria Naval S.A. (hereinafter, “Enseada”), in which KHI holds a 30% stake, has received no payments for drill ship construction work currently in progress for more than a year due to unforeseeable changes in the financing for this project caused by the launch of Operation Lava Jato in Brazil in 2014. The delay in anticipated payments has seriously eroded Enseada’s financial position and cash flow situation. As a result, the company has fallen behind in its payments to KHI for the transfer of technology and for the construction of drill ship hull parts currently under construction at KHI Sakaide Works. The company has also been unable to make progress on the repayment of loans extended by KHI.

Enseada remains a going concern, and KHI continues to cooperate with the company in line with the underlying joint venture agreement. However, considering the asset value of investment in and loans to Enseada as well as the collectability of trade receivables, KHI has decided to implement the necessary accounting treatment based on its revaluation under generally accepted accounting principles in Japan (JGAAP).

**2. Accounting treatment of losses**

Accounting treatment of losses on a consolidated basis for the nine months ended December 31, 2015, is presented below.

1) Setting of allowance for doubtful receivables on trade receivables from Enseada and loss on valuation of inventories (work in process) destined for Enseada	¥19.2 billion (extraordinary losses)
2) Losses on valuation of investments in and loans receivable from Enseada	¥2.8 billion (non-operating expenses)
Total	¥22.1 billion

Losses on a non-consolidated basis are presented below.

1) Setting of allowance for doubtful receivables on trade receivables from Enseada and loss on valuation of inventories (work in process) destined for Enseada	¥19.1 billion (extraordinary losses)
2) Losses on valuation of investments in and loans receivable from Enseada	¥6.0 billion (extraordinary losses)
Total	¥25.2 billion

The difference in the amount between the losses on a consolidated basis and a non-consolidated basis arose mainly because the consolidated subsidiaries booked trade receivables amounting to ¥0.1 billion, and equity in loss of non-consolidated subsidiaries and affiliates were already included in consolidated accounting.

**3. Fiscal 2015 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.

### **Supplementary information**

#### **1. Background on the Brazilian joint venture**

- 1) 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.
- 2) 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.
- 3) 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.
- 4) 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.
- 5) 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.

#### **2. 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.
- 4) 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 for the nine months ended December 31, 2015.

#### **3. Policies for dealing with Brazilian joint venture**

- 1) The first drill ship was launched from the shipyard and construction of hull parts is nearly finished. Work on the second drill ship has reached the block-mounting stage, but in line with the agreement reached with Enseada in November 2015, construction activities have been suspended.
- 2) Any decision on the resumption of hull parts construction for the first and second drill ships will be made with a keen eye on the situation in Brazil and conditioned upon no greater risk of loss to KHI.
- 3) Work on the azimuth thrusters has also been suspended, and any decision to resume work will be made with a keen eye on the situation in Brazil.
- 4) 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.