Report of Earnings and Financial Statements for the Nine Months Ended December 31, 2015 (Consolidated)
(Prepared pursuant to Japanese GAAP)

January 28, 2016

Listed company's name:	**Kawasaki Heavy Industries, Ltd.**
Listed on:	1st sections of the TSE, and NSE
Stock code:	7012
URL:	http://www.khi.co.jp/
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Scheduled dates:

Submission of quarterly securities filing:	February 12, 2016
Commencement of dividend payments:	-
Supplementary materials to quarterly earnings:	Available
Quarterly earnings presentation:	Conducted (for institutional investors and analysts)

1. Consolidated Financial Results for the Nine Months ended December 31, 2015 (April 1, 2015 – December 31, 2015)

(Amounts in millions of yen rounded down to the nearest million yen)

(1) Operating Results

(Percentage figures represent changes versus the year-ago period)

	Net sales		Operating income		Recurring profit		Net income attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Nine Months Ended December 31, 2015	1,065,556	4.8	66,838	10.7	66,046	1.9	29,574	(34.1)
Nine Months Ended December 31, 2014	1,016,447	10.3	60,357	30.9	64,772	67.2	44,928	92.8

Note: Comprehensive income: Nine Months Ended December 31, 2015: 31,934million yen (49.2%)
Nine Months Ended December 31, 2014: 62,927million yen 46.0%

	Earnings per share	Earnings per share – diluted
	yen	yen
Nine Months Ended December 31, 2015	17.70	-
Nine Months Ended December 31, 2014	26.87	-

(2) Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
December 31, 2015	1,812,315	458,222	24.4
March 31, 2015	1,662,283	447,957	25.9

Note: Shareholders' equity: December 31, 2015 : 443,239 million yen
March 31, 2015 : 431,996 million yen

2. Dividends

Record date or term	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Full year
	yen	yen	yen	yen	yen
Year ended March 31, 2015	-	3.00	-	7.00	10.00
Year ending March 31, 2016	-	5.00			
Year ending March 31, 2016 (forecast)			-	7.00	12.00

Note: Revisions to the most recently announced dividend forecast: None

3. Forecast of Consolidated Earnings for the Year Ending March 31, 2016
(April 1, 2015 – March 31, 2016)

(Percentage figures represent changes versus the year-ago period)

	Net sales		Operating income		Recurring profit		Net income attributable to owners of parent		Earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	1,570,000	5.6	91,000	4.2	89,000	5.5	45,000	(12.8)	26.93

Note: Revision to the most recently announced earnings forecast: Yes

Notes

1) Changes affecting the status of material subsidiaries (scope of consolidation): None

2) Accounting procedures specific to preparation of quarterly consolidated financial statements: Yes

*For further details, see “2. Summary Information (Notes) (2)Accounting procedures specific to preparation of quarterly consolidated financial statements” on page 10 in the Accompanying Materials.

3) Changes in accounting policies, changes in accounting estimates, and correction of errors

(1) Changes in accounting policies in accord with revisions to accounting standards: Yes

(2) Changes in accounting policies other than (1): None

(3) Changes in accounting estimates: None

(4) Correction of errors: None

* For details, please refer to “2. Summary Information (Notes) (3) Changes in accounting policies, changes in accounting estimates, and correction of errors” on page 10 of the Accompanying Materials.

4) Number of shares issued and outstanding (common stock)

(1) Number of shares issued as of period-end (including treasury stock)

December 31, 2015: 1,670,805,320 shares
March 31, 2015: 1,670,805,320 shares

(2) Number of shares held in treasury as of period-end

December 31, 2015: 224,725 shares
March 31, 2015: 191,653 shares

(3) Average number of shares during respective periods

Nine months ended December 31, 2015: 1,670,596,710 shares
Nine months ended December 31, 2014: 1,671,734,829 shares

Quarterly review status

This report is exempt from the quarterly review of accounts conducted in accord with Japan’s Financial Instruments and Exchange Act. As of this report’s publication, the quarterly review of the quarterly financial results had not been completed.

Appropriate Use of Financial Forecasts and Other Important Matters

Forward-Looking Statements

These materials contain various forward-looking statements and other forecasts regarding performance and other matters. Such statements are based on information available at the time of preparation, and do not mean that the Company promises to achieve these figures. Actual results may differ from those expressed or implied by forward-looking statements due to a range of factors. For assumptions underlying earnings forecasts and other information regarding the use of such forecasts, refer to “1. Qualitative Information and Financial Statements (3) Consolidated earnings outlook” on page 8 in the Accompanying Materials.

How to Obtain Supplementary Briefing Material on Quarterly Financial Results and Details of the Quarterly Financial Results Briefing

The Company plans to conduct a briefing on conference call for institutional investors and analysts on Thursday January 28, 2016, and to post the briefing material on quarterly financial results to be used for the briefing on TDnet and the Company’s website simultaneously with the announcement of financial results.

Accompanying Materials – Contents

1. Qualitative Information and Financial Statements

(1) Consolidated operating results

In the first nine months of the fiscal year ending March 31, 2016, the global economy continued to grow modestly, centered on developed countries and driven by the US economy which continues on a recovery track. However, future prospects are becoming increasingly uncertain as a result of factors including the impact of the normalization of US monetary policy, the trend in crude oil prices, and concerns about economic slowdowns in China and other emerging countries and resource-rich countries. Going forward, modest economic growth is expected, but risks possessing the potential to drag down the global economy must be watched.

The Japanese economy is expected to grow modestly on the whole due to the steady improvement in the income and employment environments. However, certain parts of the economy are at a standstill as a result of the decline in exports caused by the deterioration in the overseas demand environment as well as the impact of continued sluggish personal consumption and other factors.

Amid such an economic environment, in the first nine months of the fiscal year ending March 31, 2016, the Group's orders received were overall on par with the same period of the previous fiscal year, as orders received in segments including Gas Turbine & Machinery increased while there were decreases in segments such as Ship & Offshore Structure along with the transfer of the construction machinery business. Net sales during the period increased, centered on the Aerospace, Rolling Stock, and Plant & Infrastructure segments. Profits increased in segments such as Aerospace and Gas Turbine & Machinery, and there was an increase in operating income and recurring profit. On the other hand, there was a decline in net income attributable to owners of parent due to the posting of losses on overseas business as extraordinary losses.

The losses on overseas business are related to Enseada Indústria Naval S.A. (hereafter "Enseada"), a joint shipbuilding venture in which KHI holds a 30% stake. KHI made the decision to implement the necessary accounting treatment based on its revaluation under relevant accounting principles considering the asset value of inventory and the recoverability of trade receivables to Enseada.

The Group's consolidated orders received decreased by ¥4.1 billion year on year to ¥1,075.3 billion. Consolidated net sales totaled ¥1,065.5 billion, a ¥49.1 billion year-on-year increase, and consolidated operating income increased by ¥6.4 billion year on year to ¥66.8 billion. Consolidated recurring profit increased by ¥1.2 billion year on year to ¥66.0 billion. Net income attributable to owners of parent decreased by ¥15.3 billion year on year to ¥29.5 billion.

Consolidated operating performance for the nine months ended December 31, 2015, is summarized by segment below.

Segment Information

Segment net sales, operating income, and orders received (billion yen)

	Nine months ended December 31						Orders received		
	2014 (A)		2015 (B)		Change (B – A)		Nine months ended December 31		
	Net Sales	Operating income	Net sales	Operating income	Net sales	Operating income	2014 (A)	2015 (B)	Change (B – A)
Ship & Offshore Structure	64.8	3.3	72.9	(2.5)	8.1	(5.9)	140.7	92.7	(48.0)
Rolling Stock	87.8	4.3	104.5	7.7	16.7	3.3	102.4	87.4	(15.0)
Aerospace	229.3	30.1	250.5	35.6	21.2	5.4	194.9	184.9	(9.9)
Gas Turbine & Machinery	149.7	7.1	159.1	11.1	9.4	4.0	144.3	212.7	68.4
Plant & Infrastructure	72.2	2.2	83.2	3.6	11.0	1.3	81.4	100.2	18.7
Motorcycle & Engine	212.9	4.1	218.8	4.3	5.9	0.2	212.9	218.8	5.9
Precision Machinery	95.3	7.9	94.0	5.3	(1.2)	(2.5)	96.5	95.0	(1.4)
Other	104.0	2.8	82.0	2.1	(21.9)	(0.6)	106.0	83.2	(22.7)
Adjustments	-	(1.8)	-	(0.6)	-	1.1	-	-	-
Total	1,016.4	60.3	1,065.5	66.8	49.1	6.4	1,079.4	1,075.3	(4.1)

Notes: 1. Net sales include only sales to external customers.
2. The Motorcycle & Engine segment's orders received are equal to its net sales as production is based mainly on estimated demand.

Ship & Offshore Structure

Consolidated orders received declined ¥48.0 billion year on year to ¥92.7 billion, due to the fact that a submarine order was received from Japan's Ministry of Defense in the same period of the previous fiscal year.

Consolidated net sales increased ¥8.1 billion year on year to ¥72.9 billion due to an increase in the amount of shipbuilding of LNG carriers, LPG carriers, and other vessels.

Operating income deteriorated ¥5.9 billion year on year due to provision for losses on construction contracts and other factors, resulting in an operating loss of ¥2.5 billion.

Rolling Stock

Consolidated orders received declined ¥15.0 billion to ¥87.4 billion, largely due to the fact that a large order was received overseas in the same period of the previous year.

Consolidated net sales increased ¥16.7 billion to ¥104.5 billion, as despite the decline in domestic net sales, there was an increase in overseas sales, including sales to customers in Singapore and Taiwan.

Consolidated operating income increased ¥3.3 billion year on year to ¥7.7 billion, attributable to the increase in sales and other factors.

Aerospace

Consolidated orders received totaled ¥184.9 billion, a ¥9.9 billion year-on-year decrease, due to the order to Japan’s Ministry of Defense decrease and other facilities.

Consolidated net sales increased ¥21.2 billion year on year to ¥250.5 billion, due to the increase in sales to Japan’s Ministry of Defense and the continued high level of sales of component parts for the Commercial Airplane Company, coupled with the impact of the depreciation of the yen and other factors.

Consolidated operating income increased ¥5.4 billion year on year to ¥35.6 billion, due to factors including the increase in sales.

Gas Turbine & Machinery

Consolidated orders received grew ¥68.4 billion year on year to ¥212.7 billion, attributable to the increase in orders for aircraft engine components, Gas engines and other products.

Consolidated net sales grew ¥9.4 billion to ¥159.1 billion, due to an increase in sales of aircraft engine components, and other products.

Consolidated operating income increased ¥4.0 billion year on year to ¥11.1 billion in response to the increase in sales, among other factors.

Plant & Infrastructure

Consolidated orders received totaled ¥100.2 billion, a ¥18.7 billion year-on-year increase, due to an increase in orders for the ash handling plants to Japan's commercial coal-fired power plants and refuse incineration plants for the domestic market and other facilities.

Consolidated net sales grew ¥11.0 billion year on year to ¥83.2 billion, due to the increase in sales of chemical plants for overseas customers and other factors.

Consolidated operating income increased ¥1.3 billion year on year to ¥3.6 billion, attributable to the increase in sales and other factors.

Motorcycle & Engine

Consolidated net sales increased ¥5.9 billion year on year to ¥218.8 billion, as the decline in motorcycle sales to Indonesia and other emerging countries was offset by the increase in automobile and motorcycle sales to developed countries.

Consolidated operating income increased ¥0.2 billion year on year to ¥4.3 billion, attributable to the increase in sales and other factors.

Precision Machinery

Consolidated orders received totaled ¥95.0 billion, which was on par with the same period of the previous year. The increase in orders for various types of robots, centered on industrial robots, was offset by the decline in orders for hydraulic components, among other factors.

Consolidated net sales received totaled ¥94.0 billion, which was on par with the same period of the previous year. The increase in orders for various types of robots, centered on industrial robots, was offset by the decline in orders for hydraulic components, among other factors.

Consolidated operating income declined ¥2.5 billion year on year to ¥5.3 billion, attributable to the decrease in sales and profit ratio of hydraulic components, and other factors.

Other Operations

Consolidated net sales declined ¥21.9 billion year on year to ¥82.0 billion due to the sale of the construction machinery business and other factors.

Operating income declined ¥0.6 billion year on year to ¥2.1 billion, due to the sale of the construction machinery business and other factors.

(2) Consolidated financial position

At December 31, 2015, consolidated assets totaled ¥1,812.3 billion, an increase of ¥150.0 billion from March 31, 2015. The increase was attributable to a rise in trade receivables in conjunction with the posting of sales along with inventory growth stemming from progress toward completion of construction jobs, as well as capital expenditure that added to property, plant and equipment, among other factors. Liabilities increased ¥139.7 billion from March 31, 2015, to ¥1,354.0 billion, due to factors including an increase in commercial paper and other interest-bearing debt. Interest-bearing debt increased ¥243.4 billion to ¥657.8 billion. Net assets increased ¥10.2 billion to ¥458.2 billion, due to the posting of net income attributable to owners of parent, the payment of dividends, and other factors.

(3) Consolidated earnings outlook

The future outlook for the Group’s operating environment is uncertain, as despite expectations for modest economic growth in developed countries, there are concerns about the impact of economic slowdowns in emerging countries, the decline in crude oil prices, US monetary policy developments, and other factors.

Amid this business environment, we have made a downward revision of ¥40.0 billion to our consolidated net sales outlook for the fiscal year ending March 31, 2016, from the previously announced forecast (October 29), and we now expect consolidated net sales of ¥1,570.0 billion. This downward revision reflects the revision of the timing of sales accounting in both the Rolling Stock and Gas Turbine & Machinery segments, and other factors. The consolidated operating income forecast has been revised downward ¥5.0 billion from the previously announced forecast to ¥91.0 billion, due to factors including the impact in conjunction with the revision in net sales and a revision of the assumed exchange rate.

Due to the posting of losses on a joint shipbuilding venture in Brazil and other factors for the first nine months of the fiscal year ending March 31, 2016, the consolidated recurring profit forecast has been revised downward by ¥11.0 billion to ¥89.0 billion, while net income attributable to owners of parent has been revised downward by ¥24.0 billion to ¥45.0 billion. In addition, forecasts for both ROIC and ROE have been revised to 8.7% and 10.3%, respectively.

The forecast for consolidated orders received has been revised downward by ¥30.0 billion from the previously announced forecast to ¥1,670.0 billion, as although we expect an increase in the Plant & Infrastructure segment, we have revised the expected timing of receiving orders in the Ship & Offshore Structure segment and expect a decline in the Precision Machinery segment resulting from stagnation in the market environment.

Assumed exchange rates of ¥117/US$ and ¥127/Euro were used for the above consolidated operating results forecasts, and the forecasts do not factor in the impacts of tax code changes that are anticipated in the future.

Note regarding consolidated earnings outlook

The above earnings outlook is based on information available at the time of preparation, and includes risks and uncertainties. We therefore discourage making investment decisions depending solely on this outlook. Actual earnings may differ materially from this outlook, due to a variety of important factors stemming from changes the external environment and/or the Company’s internal environment. Important factors that impact actual operating performance include, but are not limited to, the economic situation surrounding the Company’s scope of business, foreign exchange rates, in particular the yen/dollar exchange rate, tax codes and other regulatory system-related issues.

2. Summary Information (Notes)

(1) Changes affecting the status of material subsidiaries (scope of consolidation)

Not applicable.

(2) Accounting procedures specific to preparation of quarterly consolidated financial statements

(Calculation of tax expense)

The Company calculates tax expense by rationally estimating its effective tax rate after application of deferred-tax accounting to pretax net income for the fiscal year, which includes the third quarter under review, and multiplying quarterly pretax net income by said estimated effective tax rate. If unable to use the estimated effective tax rate, the Company calculates tax expense by multiplying the statutory effective tax rate by quarterly pretax net income adjusted to reflect material differences other than temporary differences.

Income taxes are reported inclusive of income tax adjustments.

(3) Changes in accounting policies, changes in accounting estimates, and correction of errors

(Application of accounting standard for business combinations, etc.)

The Company has applied the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21 issued on September 13, 2013), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued on September 13, 2013) and the "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 issues on September 13, 2013) from the first quarter of the current fiscal year. As a result, the accounting method was changed to record the difference arising from changes in the equity in subsidiaries under ongoing control of the Company as capital surplus, and acquisition-related costs as expenses for the fiscal year in which they are incurred. In addition, with respect to any business combination entered into on or after the beginning of the first quarter under review, the accounting method was changed to reflect adjustments to the allocation of acquisition cost under provisional accounting treatment on the consolidated financial statements of the financial period in which the relevant business combinations became or will become effective. Furthermore, the presentation of net income, etc., was changed, and minority interests are now presented as non-controlling interests. In order to reflect the changes in the presentation, certain reclassifications have been made to the consolidated financial statements for the third quarter of the previous fiscal year as well as the previous full fiscal year.

The Company has applied the Accounting Standard for Business Combinations, etc. in accordance with transitional provisions in paragraph 58-2(4) of the Accounting Standard for Business Combinations, paragraph 44-5(4) of the Accounting Standard for Consolidated Financial Statements and paragraph 57-4(4) of the Accounting Standard for Business Divestitures, prospectively at the beginning of the first quarter under review.

For the third quarter under review, there are no impact on the consolidated financial statements.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

	Million yen	
	As of March 31, 2015	As of December 31, 2015
Assets		
Current assets		
Cash on hand and in banks	51,645	44,456
Trade receivables	421,890	476,560
Merchandise and finished products	59,487	72,707
Work in process	321,326	371,052
Raw materials and supplies	117,837	114,322
Other	103,869	131,634
Allowance for doubtful receivables	(2,995)	(2,202)
Total current assets	1,073,062	1,208,531
Fixed assets		
Net property, plant and equipment	420,554	431,760
Intangible assets	16,409	14,873
Investments and other assets		
Other	153,080	167,685
Allowance for doubtful receivables	(823)	(10,534)
Total investments and other assets	152,257	157,151
Total fixed assets	589,220	603,784
Total assets	1,662,283	1,812,315
Liabilities		
Current liabilities		
Trade payables	253,907	222,604
Electronically recorded obligations-operating	85,453	83,665
Short-term debt	122,338	214,911
Income taxes payable	17,094	13,375
Accrued bonuses	26,440	12,085
Provision for product warranties	11,480	11,463
Provision for losses on construction contracts	5,873	5,634
Advances from customers	171,607	161,242
Other	130,425	242,511
Total current liabilities	824,623	967,494
Long-term liabilities		
Bonds payable	110,000	120,000
Long-term debt	159,749	161,151
Provision for environmental measures	2,535	2,111
Net defined benefit liability	79,272	68,617
Other	38,144	34,718
Total long-term liabilities	389,702	386,599
Total liabilities	1,214,326	1,354,093

Net assets		
Shareholders' equity		
Common stock	104,484	104,484
Capital surplus	54,393	54,394
Retained earnings	253,605	263,158
Treasury stock	(67)	(85)
Total shareholders' equity	412,416	421,952
Accumulated other comprehensive income		
Net unrealized gains (losses) on securities	3,704	3,250
Deferred gains (losses) on hedges	(1,985)	56
Foreign currency translation adjustment	25,179	18,066
Remeasurements of defined benefit plans	(7,318)	(86)
Total accumulated other comprehensive income	19,579	21,286
Non-controlling interests	15,961	14,983
Total net assets	447,957	458,222
Total liabilities and net assets	1,662,283	1,812,315

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

	Million yen	
	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Net sales	1,016,447	1,065,556
Cost of sales	827,638	861,785
Gross profit	188,808	203,771
Selling, general and administrative expenses		
Salaries and benefits	36,322	38,917
R&D expenses	27,146	28,776
Other	64,982	69,238
Total selling, general and administrative expenses	128,450	136,932
Operating income	60,357	66,838
Non-operating income		
Interest income	474	523
Dividend income	305	274
Share of profit of entities accounted for using equity method	8,199	2,124
Gain on sale of fixed assets	-	1,832
Other	2,776	4,670
Total non-operating income	11,756	9,425
Non-operating expenses		
Interest expense	2,872	2,756
Foreign exchange loss, net	468	5,261
Other	4,000	2,198
Total non-operating expenses	7,341	10,217
Recurring profit	64,772	66,046
Extraordinary profits		
Gain on transfer of business	-	(*1) 901
Total extraordinary profits	-	901
Extraordinary losses		
Losses on Overseas Business	-	(*2) 19,298
Total extraordinary losses	-	19,298
Income before income taxes	64,772	47,649
Income taxes	17,798	16,766
Net income	46,974	30,882
Net income attributable to non-controlling interests	2,045	1,307
Net income attributable to owners of parent	44,928	29,574

Consolidated statements of comprehensive income

	Million yen	
	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Net income	46,974	30,882
Other comprehensive income		
Net unrealized gains (losses) on securities	892	(341)
Deferred gains (losses) on hedges	(394)	2,041
Foreign currency translation adjustment	12,926	(5,186)
Remeasurements of defined benefit plans	1,174	7,219
Share of other comprehensive income of associates accounted for using equity method	1,354	(2,681)
Total other comprehensive income	15,952	1,052
Comprehensive Income attributable to:	62,927	31,934
(details)		
Owners of the parent company	60,230	31,282
Non-controlling interests	2,696	652

(3) Notes on financial statements

Notes on the going-concern assumption

Not applicable.

Notes on significant changes in the amount of shareholders' equity

Not applicable.

Related to Consolidated Statements of Income

Nine Months Ended December 31, 2015

(*1)Gain on Transfer of Business

Due to assignment of all shares of consolidated subsidiary KCM Corporation and all businesses of KCMJ Corporation.

(*2)Losses on Overseas Business

Loss on a joint shipbuilding venture in Brazil. Please refer to Page 17 for details (additional information).

Related to Corporate Combinations, etc.

Business Divestment

On October 1, 2015, KHI assigned all shares of consolidated subsidiary KCM Corporation (hereafter "KCM") (Hyogo Prefecture) to Hitachi Construction Machinery Co., Ltd. (Tokyo).

(1) Overview of Business Divestment

1. Name of company to which shares were assigned

    Hitachi Construction Machinery Co., Ltd. (hereafter "HCM")

2. Details of divested business

    Manufacturing and sale of construction machines, etc.

3. Reason for business divestment

    Since October 2008, KHI and HCM have had a business alliance covering wheel-loader operations, including joint research and development of new models of wheel loaders to meet the Tier 4 exhaust emission regulations. KCM was established in January 2009 and acquired KHI's wheel-loader operations by assignment in April of the same year. With HCM's capital investment in June 2010, KCM further accelerated joint research and development on new models of wheel loaders and on an efficient production system. KHI agreed to HCM's proposal, having judged that it would be effective to pursue synergies within the HCM Group for the further development of KCM under a policy of investing management resources in a focused manner, in order to enhance enterprise value amidst intensifying global competition in the construction machine industry. The businesses of KCMJ Corporation, which engages in sales and servicing operations for KCM products within Japan, were transferred to Hitachi

Construction Machinery Japan Co., Ltd. on the same date as the execution of the transfer of KCM shares.

4. Date of business divestment

October 1, 2015

5. Overview of transaction including legal format

Transfer of shares and transfer of related assets for which compensation received is solely in the form of assets such as cash.

(2) Overview of Accounting Treatment

1. Amount of transferred income and loss

¥901 million

2. Fair book value assets and liabilities related to the transferred business and breakdown of each

Current assets	¥19,719 million
Fixed assets	¥5,727 million
Total assets	¥25,447 million
Current liabilities	¥16,047 million
Long-term liabilities	¥3,641 million
Total liabilities	¥19,689 million

3. Accounting Treatment

In the transfer of the shares, accounting treatment was implemented pursuant to “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013).

(3) Name of reporting segment to which divested businesses belonged

Other Operations

(4) Estimated operating performance of divested businesses posted in consolidated statements of income for the nine months ended December 31, 2015

Net sale	¥18,777 million
Operating income	¥159 million

Additional information

Posting Losses on Overseas Business (Joint Shipbuilding Venture in Brazil)

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 the impact of corruption problems in Brazil, and this has seriously eroded Enseada’s financial position and cash flow situation. As a result, Enseada 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. Enseada has also been unable to make progress on the repayment of loans extended by KHI.

Despite this adverse business situation, Enseada remains a going concern, and KHI continues to cooperate with Enseada in line with the underlying joint venture agreement. However, considering the asset value of investment in and loans to Enseada as well as the recoverability of trade receivables, KHI has decided to implement the necessary accounting treatment based on its revaluation under relevant accounting principles.

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

Segment information and others

Segment information

1. Nine months ended December 31, 2014 (April 1, 2014 – December 31, 2014)

(1) Sales and income (loss) by reportable segment

Million yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Ship & Offshore Structure	64,890	1,686	66,576	3,347
Rolling Stock	87,884	3,061	90,945	4,374
Aerospace	229,364	1,736	231,101	30,173
Gas Turbine & Machinery	149,734	9,861	159,595	7,113
Plant & Infrastructure	72,248	14,475	86,723	2,285
Motorcycle & Engine	212,925	522	213,448	4,134
Precision Machinery	95,314	10,183	105,497	7,951
Other	104,086	26,140	130,226	2,834
Reportable segment total	1,016,447	67,667	1,084,114	62,215
Adjustments*1	-	(67,667)	(67,667)	(1,858)
Consolidated total	1,016,447	-	1,016,447	60,357

Notes: 1. Breakdown of adjustments:

Million yen

Income	Amount
Intersegment transactions	(600)
Corporate expenses*	(1,258)
Total	(1,858)

*Corporate expenses mainly comprise general and administrative expenses not attributed to reportable segments.

2. Segment income adjustments are based on operating income reported on the consolidated statements of income for the corresponding period.

(2) Impairment loss on fixed assets and goodwill by reportable segment

Not applicable.

2. Nine months ended December 31, 2015 (April 1, 2015 – December 31, 2015)

(1) Sales and income (loss) by reportable segment

Million yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Ship & Offshore Structure	72,999	2,157	75,156	(2,580)
Rolling Stock	104,594	1,217	105,812	7,758
Aerospace	250,575	1,041	251,617	35,607
Gas Turbine & Machinery	159,150	10,833	169,983	11,195
Plant & Infrastructure	83,249	10,277	93,527	3,606
Motorcycle & Engine	218,851	618	219,469	4,379
Precision Machinery	94,036	10,063	104,100	5,365
Other	82,099	26,623	108,723	2,195
Reportable segment total	1,065,556	62,832	1,128,389	67,528
Adjustments*1	-	(62,832)	(62,832)	(689)
Consolidated total	1,065,556	-	1,065,556	66,838

Notes: 1. Breakdown of adjustments:

Million yen

Income	Amount
Intersegment transactions	(134)
Corporate expenses*	(554)
Total	(689)

* Corporate expenses mainly comprise general and administrative expenses not attributed to reportable segments.

2. Segment income adjustments are based on operating income reported on the consolidated statements of income for the corresponding period.

(2) Impairment loss on fixed assets and goodwill by reportable segment

Not applicable.

4. Supplementary information

(1) Consolidated cash flow statements (condensed)

	Million yen	
	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Cash flow from operating activities	(110,348)	(190,735)
Cash flow from investing activities	(52,480)	(52,523)
Cash flow from financing activities	161,068	235,658
Cash and cash equivalents at end of period	41,468	40,247

(2) Orders and sales (consolidated)

Orders received

Reportable segment	Nine months ended December 31, 2014		Nine months ended December 31, 2015		Year ended March 31, 2015	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	140,773	13.0	92,746	8.6	179,221	10.4
Rolling Stock	102,457	9.4	87,449	8.1	131,428	7.6
Aerospace	194,939	18.0	184,994	17.2	357,031	20.8
Gas Turbine & Machinery	144,318	13.3	212,733	19.7	235,722	13.7
Plant & Infrastructure	81,465	7.5	100,218	9.3	203,473	11.8
Motorcycle & Engine	212,925	19.7	218,851	20.3	329,240	19.2
Precision Machinery	96,519	8.9	95,023	8.8	136,286	7.9
Other	106,052	9.8	83,288	7.7	140,558	8.2
Total	1,079,453	100.0	1,075,305	100.0	1,712,963	100.0

Note: The Motorcycle & Engine segment’s orders received are equal to its net sales as production is based mainly on estimated demand.

Net sales

Reportable segment	Nine months ended December 31, 2014		Nine months ended December 31, 2015		Year ended March 31, 2015	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	64,890	6.3	72,999	6.8	90,327	6.0
Rolling Stock	87,884	8.6	104,594	9.8	121,519	8.1
Aerospace	229,364	22.5	250,575	23.5	325,083	21.8
Gas Turbine & Machinery	149,734	14.7	159,150	14.9	218,794	14.7
Plant & Infrastructure	72,248	7.1	83,249	7.8	121,113	8.1
Motorcycle & Engine	212,925	20.9	218,851	20.5	329,240	22.1
Precision Machinery	95,314	9.3	94,036	8.8	135,782	9.1
Other	104,086	10.2	82,099	7.7	144,261	9.7
Total	1,016,447	100.0	1,065,556	100.0	1,486,123	100.0

Order backlog

Reportable segment	Year ended March 31, 2015		Nine months ended December 31, 2015		Nine months ended December 31, 2014	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	264,281	14.6	284,428	15.6	251,730	15.3
Rolling Stock	405,999	22.4	388,235	21.3	411,147	25.0
Aerospace	488,431	27.0	428,141	23.5	421,862	25.7
Gas Turbine & Machinery	336,441	18.6	392,274	21.5	313,075	19.0
Plant & Infrastructure	255,522	14.1	272,598	15.0	182,082	11.0
Motorcycle & Engine	-	-	-	-	-	-
Precision Machinery	26,325	1.4	27,330	1.5	27,027	1.6
Other	28,531	1.5	23,485	1.2	34,199	2.0
Total	1,805,533	100.0	1,816,495	100.0	1,641,124	100.0

(3) Net sales by geographic area (consolidated)

Nine months ended December 31, 2014 (April 1, 2014 – December 31, 2014)

Million yen

Japan	430,930	42.3%
United States	246,440	24.2%
Europe	74,730	7.3%
Asia	171,983	16.9%
Other areas	92,361	9.0%
Total	1,016,447	100.0%

Nine months ended December 31, 2015 (April 1, 2015 – December 31, 2015)

Million yen

Japan	430,093	40.3%
United States	275,104	25.8%
Europe	95,990	9.0%
Asia	172,856	16.2%
Other areas	91,511	8.5%
Total	1,065,556	100.0%

(4) Supplementary information on earnings forecasts for the fiscal year ending March 31, 2016

1) Consolidated earnings outlook

Billion yen

	Outlook for the year ending March 31, 2016 (fiscal 2015)			Fiscal 2014 (ended March 31, 2015) (actual)
	Revised forecast (A)	Forecast issued October 29, 2015 (B)	Change (A – B)	
Net sales	1,570.0	1,610.0	(40.0)	1,486.1
Operating income	91.0	96.0	(5.0)	87.2
Recurring profit	89.0	100.0	(11.0)	84.2
Net income attributable to owners of parent	45.0	69.0	(24.0)	51.6
Orders received	1,670.0	1,700.0	(30.0)	1,712.9
Before-tax ROIC (%)	8.7%	11.8%	(3.1%)	10.4%

Notes: 1. Outlook's assumed foreign exchange rates: ¥117 = US$1, ¥127= 1 euro

2. Before-tax ROIC = (income before income taxes + interest expense) / invested capital.

2) Outlook by reportable segment

(a) Net sales and operating income (loss)

Billion yen

	Outlook for the year ending March 31, 2016 (fiscal 2015)						Fiscal 2014 (ended March 31, 2015) (actual)	
	Revised forecast (A)		Forecast issued October 29, 2015 (B)		Change (A – B)			
Reportable segment	Net sales	Operating income (loss)	Net sales	Operating income (loss)	Net sales	Operating income (loss)	Net sales	Operating income (loss)
Ship & Offshore Structure	100.0	(5.5)	100.0	(3.0)	-	(2.5)	90.3	2.6
Rolling Stock	160.0	10.0	170.0	11.0	(10.0)	(1.0)	121.5	6.0
Aerospace	355.0	44.0	360.0	44.0	(5.0)	-	325.0	36.3
Gas Turbine & Machinery	235.0	15.0	250.0	16.0	(15.0)	(1.0)	218.7	11.2
Plant & Infrastructure	130.0	7.0	125.0	6.0	5.0	1.0	121.1	6.5
Motorcycle & Engine	345.0	14.5	350.0	15.5	(5.0)	(1.0)	329.2	14.9
Precision Machinery	135.0	8.5	135.0	8.5	-	-	135.7	10.9
Other	110.0	2.5	120.0	3.0	(10.0)	(0.5)	144.2	3.9
Adjustments		(5.0)		(5.0)		-		(5.4)
Total	1,570.0	91.0	1,610.0	96.0	(40.0)	(5.0)	1,486.1	87.2

(b) Orders received

Billion yen

Reportable segment	Outlook for the year ending March 31, 2016 (fiscal 2015)			Fiscal 2014 (ended March 31, 2015) (actual)
	Revised outlook (A)	Forecast issued October 29, 2015 (B)	Change (A – B)	
Ship & Offshore Structure	95.0	120.0	(25.0)	179.2
Rolling Stock	160.0	160.0	-	131.4
Aerospace	440.0	440.0	-	357.0
Gas Turbine & Machinery	270.0	270.0	-	235.7
Plant & Infrastructure	120.0	110.0	10.0	203.4
Motorcycle & Engine	345.0	350.0	(5.0)	329.2
Precision Machinery	135.0	145.0	(10.0)	136.2
Other	105.0	105.0	-	140.5
Total	1,670.0	1,700.0	(30.0)	1,712.9

(c) Before-tax ROIC

(%)

Reportable segment	Outlook for the year ending March 31, 2016 (fiscal 2015)			Fiscal 2014 (ended March 31, 2015) (actual)
	Revised outlook (A)	Forecast issued October 29, 2015 (B)	Change (A – B)	
Ship & Offshore Structure	(26.3)	(0.8)	(25.5)	6.0
Rolling Stock	10.9	12.5	(1.6)	8.7
Aerospace	32.8	31.6	1.2	35.1
Gas Turbine & Machinery	6.8	8.6	(1.8)	5.7
Plant & Infrastructure	14.7	12.6	2.1	14.3
Motorcycle & Engine	13.3	13.6	(0.3)	7.3
Precision Machinery	9.4	10.8	(1.4)	16.7
Total	8.7	11.8	(3.1)	10.4