FOR RELEASE: September 30, 2016

Notice Regarding Revised Forecast of Operating Results for First Half and Full Year of Fiscal 2016, Determination of Dividends from Retained Earnings (Interim Dividends), and Revised Forecast of Year-End Dividends

Tokyo, September 30, 2016—Kawasaki Heavy Industries, Ltd. (hereinafter, "KHI"), hereby announces that the Board of Directors resolved, at a meeting held today, to revise its forecast of operating results for the first half (April 1, 2016 – September 30, 2016) and full year (April 1, 2016 – March 31, 2017) of fiscal 2016 and its forecast of year-end dividends announced on July 29, 2016, and determined its interim dividends for fiscal 2016, as outlined below.

1. Revised forecast of operating results

(1) Revised forecast of consolidated operating results for the first half of fiscal 2016

(April 1, 2016 – September 30, 2016)

	Net sales	Operating income	Recurring profit	Net income attributable to owners of parent	Earnings per share
Previous forecast (A) (announced July 29, 2016)	Millions of yen 700,000	Millions of yen 22,000	Millions of yen 22,000	Millions of yen 14,500	Yen 8.67
Revised forecast (B)	680,000	4,000	(6,000)	(5,000)	(2.99)
Amount of revision (B – A)	-20,000	-18,000	-28,000	-19,500	—
Increase / decrease	-2.8%	-81.8%	—	—	—
(Reference) Result for previous first half (April 1, 2015 – September 30, 2015)	708,194	42,305	40,292	26,878	16.08

(2) Revised forecast of consolidated operating results for fiscal 2016

(April 1, 2016 – March 31, 2017)

	Net sales	Operating income	Recurring profit	Net income attributable to owners of parent	Earnings per share
Previous forecast (A) (announced July 29, 2016)	Millions of yen 1,570,000	Millions of yen 70,000	Millions of yen 69,000	Millions of yen 49,000	Yen 29.33
Revised forecast (B)	1,510,000	34,000	25,000	16,500	9.87
Amount of revision (B – A)	-60,000	-36,000	-44,000	-32,500	—
Increase / decrease	-3.8%	-51.4%	-63.7%	-66.3%	—
(Reference) Result for previous fiscal year (April 1, 2015 – March 31, 2016)	1,541,096	95,996	93,229	46,043	27.56

2. Determination of dividends from retained earnings and revised forecast of year-end dividends

(1) Dividends from retained earnings (interim dividends)

	Amount determined (interim dividends for fiscal 2016)	Most recent forecast (announced July 29, 2016)	Previous result (interim dividends for fiscal 2015)
Record date	September 30, 2016	Same as the left	September 30, 2015
Dividend per share (yen)	4.00	Same as the left	5.00
Total dividend payment (million yen)	6,682	—	8,352
Effective date	December 1, 2016	—	December 1, 2015
Source of dividends	Retained earnings	—	Retained earnings

Note: The total dividend payment shown is an estimated amount as the number of treasury stock shares was not determined as of the record date.

(2) Revised forecast of year-end dividends

	Dividend per share (yen)		
Record date	September 30, 2016	March 31, 2017	Full-year
Previous forecast (announced July 29, 2016)	4.00	6.00	10.00
Revised forecast	—	2.00	6.00
Actual result	4.00	—	—
Previous result for fiscal 2015	5.00	7.00	12.00

(3) Reasons for determination of dividends from retained earnings (interim dividends) and revised forecast of year-end dividends

To ensure an appropriate balance of increases in shareholder value and return of profit to shareholders through distribution of dividends, KHI comprehensively takes into account its financial position in terms of factors including free cash flow and debt-to-equity ratio as well as the forecast of its operating results. As a result, it established a benchmark of 30% for the consolidated dividend payout ratio in the medium to long term. The dividend forecast announced on July 29, 2016, was for a full-year dividend of ¥10 per share (consisting of a ¥4 interim dividend and a ¥6 year-end dividend), but this has been adjusted based on the revised forecast of operating results for fiscal 2016 while keeping in mind the maintenance of stable return of profit to shareholders.

3. Reasons for revised forecast of operating results

(1) Effect of fluctuations in foreign exchange rates

KHI has been working to realign its business composition to be able to absorb the effect of fluctuations in foreign exchange rates, but the yen’s sharp appreciation against all major currencies since the beginning of the current fiscal year is expected to have a significantly negative impact on both sales and profit. Taking into account the fluctuations in foreign exchange rates of developing market currencies in addition to the U.S. dollar and euro, we are forecasting a negative impact of approximately ¥26.0 billion in operating income for fiscal 2016. This amount includes roughly ¥3.0 billion in provision for losses on construction contracts associated with revisions to our exchange rate assumptions.

These forecasts are based on exchange rate assumptions of ¥102/USD and ¥114/euro for fiscal 2016.

(2) Adverse impact of losses in the Ship & Offshore Structure segment

Excluding the effect of fluctuations in foreign exchange rates, operating income in the Ship & Offshore Structure segment is expected to be negatively impacted by approximately ¥13.0 billion in fiscal 2016 for the following reasons:

(i) With regard to the drillship construction work for Enseada Indústria Naval S.A. (hereinafter, “Enseada”), our local joint venture in Brazil, approximately ¥5.0 billion in trade receivables were not recognized as a loss in the third quarter of fiscal 2015. However, the entire amount will be recorded as a loss in the second quarter of fiscal 2016 due to the following factors:

- Under the judicial reorganization (hereinafter, “JR,” similar to proceedings in Japan under the Corporate Reorganization Act) plan announced on August 12 by Sete Brasil, the investment company that is effectively placing drillship orders with Enseada, there was no clear indication of specific measures regarding additional fund procurement for the continuation of construction, and considering the outlook for Brazil’s economy and the faltering crude oil prices, we have determined that more time will be required to gain approval for the plan.
- Conditions for the Marine-related market have weakened further compared with the third quarter of fiscal 2015, and we have determined that the asset value of the ships themselves has significantly declined.

(ii) As for the offshore work vessel destined for Norway, we are currently moving to the detailed design stage based on the basic design, but we expect a negative effect of approximately ¥6.0 billion in operating income for fiscal 2016 for the following reasons:

- Flaws emerged during the design stage as this was the first order we received for this type of ship, resulting in design expenses exceeding our initial estimate.
- Accordingly, expenses related to adjustments in delivery dates for equipment and other construction expenses will increase.

(iii) Newly designed LNG carriers are being simultaneously constructed at the Sakaide Works, but construction costs are now expected to exceed the initial estimate by a significant amount, and this is expected to have a negative effect of approximately ¥2.0 billion in operating income for fiscal 2016.

We have lowered our forecast of operating results for the first half of fiscal 2016 mainly due to the effect of fluctuations in foreign exchange rates of approximately ¥12.0 billion and the negative impact on earnings of roughly ¥11.0 billion for the Ship & Offshore Structure segment.

4. Restructuring of the Ship & Offshore Structure segment

In light of the significant deterioration in performance in the Ship & Offshore Structure segment, the segment will undergo the following restructuring:

(1) A restructuring committee, headed by the Company's president, will be established immediately to conduct a thorough review of the segment's business structure and discuss a policy for the segment's future direction, including business continuity. The committee will announce its conclusion of the discussion and advance to the implementation phase by the end of fiscal 2016.

(2) Ships for which orders have been already received will be completed on a Groupwide basis (with deliveries for contracted orders to be made by mid-2019).

5. Strengthening of the Groupwide risk management structure

To prevent a reoccurrence of these events, the management structure will be strengthened to check for comprehensive risk at each stage from design to manufacturing during the estimation phase, and this risk management structure will be applied across the entire Group.

In addition to these initiatives, we will pursue measures to improve earnings, including increased productivity, fixed cost reductions, and sales growth. We will continue to pursue capital efficiency and growth strategies, and instill Kawasaki-ROIC Management with the participation of all employees, with the aim of continuously enhancing corporate value.

6. Voluntary forfeiture of compensation by corporate officers

KHI considers these significant revisions to the forecast of operating results and full-year dividends to be a serious matter, and thereby its corporate officers intend to forfeit their compensation voluntarily.

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