

**Report of Earnings and Financial Statements
for the Fiscal Year Ended March 31, 2017 (Consolidated)**
(Prepared pursuant to Japanese GAAP)

April 27, 2017

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/>
Representative: Yoshinori Kanehana, President
Contact: Hajime Asano, Senior Manager, Accounting Department
Tel: +81 3-3435-2130

Scheduled dates:

Ordinary general meeting of shareholders June 28, 2017
Commencement date of dividend payments June 29, 2017
Submission of financial statements June 28, 2017

Supplementary materials to financial results Available
Earnings presentation Conducted (for institutional investors and analysts)

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2017
(April 1, 2016 – March 31, 2017)

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

(1) Operating Results

Years ended March 31 (Million yen) (Percentage figures indicate change compared with the previous fiscal year)

	Net sales		Operating income		Recurring profit		Net income attributable to owners of parent	
		%		%		%		%
2017	1,518,830	(1.4)	45,960	(52.1)	36,671	(60.6)	26,204	(43.0)
2016	1,541,096	3.6	95,996	10.0	93,229	10.6	46,043	(10.8)

Note: Comprehensive income Fiscal year ended March 31, 2017: ¥ 25,335 million 25.2%
Fiscal year ended March 31, 2016: ¥ 20,230 million (76.9%)

Years ended March 31

	Earnings per share	Earnings per share – diluted	Return on equity	Return on assets	Operating income to net sales
	Yen	Yen	%	%	%
2017	15.68	-	6.0	2.2	3.0
2016	27.56	-	10.6	5.6	6.2

For reference: Equity in income of non consolidated subsidiaries and affiliates
Fiscal year ended March 31, 2017: ¥ 5,537 million
Fiscal year ended March 31, 2016: ¥ 2,876 million

(2) Financial Condition

March 31 (Million yen)

	Total assets	Net assets	Equity ratio	Net assets per share
			%	Yen
2017	1,687,363	451,327	25.9	261.73
2016	1,620,458	445,625	26.6	258.21

For reference: Shareholders' equity March 31, 2017: ¥ 437,247 million
March 31, 2016: ¥ 431,368 million

(3) Cash Flow Position

Years ended March 31

(Million yen)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
2017	93,514	(64,879)	(15,850)	50,722
2016	86,059	(74,185)	(23,400)	37,832

2. Dividends

Years ended/ending March 31

Record date or term	Dividend per share					Total dividends paid (annual) million yen	Payout ratio (consolidated) %	Dividends / Net assets (consolidated) %
	1Q	2Q	3Q	Year-end	Full year			
	Yen	Yen	Yen	Yen	Yen	million yen	%	%
2016	-	5.00	-	7.00	12.00	20,047	43.5	4.6
2017	-	4.00	-	2.00	6.00	10,023	38.2	2.3
2018 (forecast)	-	-	-	-	6.00		27.8	

Notes: The interim dividend and year-end dividend for the fiscal year ending March 31, 2018, have not been determined.

3. Forecast of Consolidated Earnings for the Fiscal Year Ending March 31, 2018

(April 1, 2017 – March 31, 2018)

(Million yen)(Percentage figures indicate change compared with the previous fiscal year)

	Net sales		Operating income		Recurring profit		Net income attributable to owners of parent		Earnings per share
		%		%		%		%	Yen
Full year	1,555,000	2.3	58,000	26.1	51,500	40.4	36,000	37.3	21.54

Notes: The company has decided not to disclose an earnings outlook for the fiscal second quarter, beginning with the fiscal year ending March 31, 2018. This decision is based on the fact that the Group manages operating performance mainly on a fiscal year basis.

*Notes

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

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

(i) Changes in accounting policies in accord with revisions to accounting standards: None

(ii) Changes in accounting policies other than (i): None

(iii) Changes in accounting estimates: None

(iv) Correction of errors: None

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

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

March 31, 2017: 1,670,805,320 shares

March 31, 2016: 1,670,805,320 shares

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

March 31, 2017: 259,108 shares

March 31, 2016: 228,992 shares

(iii) Average number of shares during respective periods

March 31, 2017: 1,670,561,157 shares

March 31, 2016: 1,670,591,977 shares

***Report of Earnings and Financial Statements are not subject to audit.**

***Appropriate Use of Financial Forecasts and Other Important Matters**

Forward-Looking Statements

These materials contain earnings forecast and other forward-looking statements based on information available to the company at the time of disclosure and the company makes no assurances as to the actual results and/or other outcomes, which may differ from those expressed or implied herein due to various factors. For assumptions underlying earnings forecasts and other information regarding the use of such forecasts, refer to “(4) Consolidated earnings outlook” on page 5 in section “1. Overview of operating results” in the Accompanying Materials.

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

The Company plans to conduct a briefing for institutional investors and analysts on Thursday April 27, 2017, and to post the briefing material on 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. Overview of operating results	5
(1) Consolidated operating results	5
(2) Consolidated financial condition	8
(3) Cash flows	8
(4) Consolidated earnings outlook	9
2. Basic rationale for selecting accounting standards	10
3. Consolidated Financial Statements	11
(1) Consolidated balance sheets	11
(2) Consolidated statements of income and comprehensive income	13
(3) Consolidated statement of changes in net assets	15
(4) Consolidated statements of cash flows	17
(5) Notes on financial statements	18
Notes on the going-concern assumption	18
Related to consolidated statements of income	18
Segment information and others	20
Per share data	24
Material subsequent events	24
4. Others	25
(1) Consolidated orders and sales	25
(2) Supplementary information on earnings forecasts for the fiscal year ending March 31, 2018	26

1. Overview of operating results

(1) Consolidated operating results

(i) Overview of consolidated operating results

In fiscal 2016 (the twelve months ended March 31, 2017), the global economy continued to grow modestly, with growth centered on the U.S., where the real economy remains strong. On the other hand, the global economy is relatively lacking in vigor due to languishing crude oil prices, the economic slowdown in emerging countries and resource-rich countries, and other factors. In addition, future prospects for the real economy have become increasingly uncertain as a result of factors including turmoil in international financial markets due to Brexit, concerns about an expansion of protectionist policies, and other factors. Going forward, these risks with the potential to drag down the global economy must continue to be watched.

The Japanese economy remains at a standstill due to the deterioration in the external demand environment, lackluster personal consumption, and other factors. Going forward, the economy is expected to grow modestly overall due to steady improvement in the income and employment environments, but there is a possibility that economic policies enacted by countries around the world, especially the U.S., geopolitical risks in the Middle East, the Korean Peninsula, and other factors, could result in both rapid and significant fluctuations in foreign exchange rates. As a result, foreign exchange rates must continue to be watched carefully.

Amid such an operating environment, the Group's orders received in fiscal 2016 declined versus the previous fiscal year, mainly in the Aerospace, Ship & Offshore Structure and Plant & Infrastructure segments. Net sales during fiscal 2016 were on par with the same period of the previous fiscal year overall, as the increase in sales in the Plant & Infrastructure and Precision Machinery segments was offset by the impact of the yen's appreciation, the assignment of the construction machinery business during the previous fiscal year, and other factors. There was a decline in operating income, recurring profit, and net income attributable to owners of parent due to a deterioration in the Ship & Offshore Structure segment and a decline in profits in the Aerospace segment and other segments.

As a result, the Group's consolidated orders received declined ¥344.9 billion versus the same period of the previous fiscal year to ¥1,348.7 billion, consolidated net sales declined ¥22.2 billion year on year to ¥1,518.8 billion, consolidated operating income declined ¥50.0 billion year on year to ¥45.9 billion, consolidated recurring profit dropped ¥56.5 billion year on year to ¥36.6 billion, while net income attributable to owners of parent declined ¥19.8 billion year on year to ¥26.2 billion. ROIC* was 5.0%, while ROE was 6.0%.

* Before-tax ROIC = $\text{EBIT}(\text{income before income taxes} + \text{interest expense}) / \text{invested capital}$
(interest-bearing debt + shareholders' equity).

Consolidated operating performance in the fiscal year ended March 31, 2017, is summarized by segment below.

(ii) Segment information

Segment net sales, operating income, and orders received

(billion yen)

	Fiscal year ended March 31						Orders received		
	2016(A)		2017(B)		Change (B – A)		Fiscal year ended March 31		
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	2016 (A)	2017 (B)	Change (B – A)
Ship & Offshore Structure	94.8	(7.9)	103.2	(21.4)	8.3	(13.4)	98.3	36.9	(61.4)
Rolling Stock	146.6	9.2	137.1	3.4	(9.4)	(5.8)	132.1	158.5	26.4
Aerospace	351.8	45.6	329.9	25.0	(21.9)	(20.6)	464.2	237.0	(227.2)
Gas Turbine & Machinery	236.4	16.9	241.9	15.2	5.5	(1.6)	288.9	260.3	(28.5)
Plant & Infrastructure	135.6	8.5	160.8	2.6	25.2	(5.9)	138.7	95.0	(43.7)
Motorcycle & Engine	333.5	15.7	313.0	11.7	(20.5)	(4.0)	333.5	313.0	(20.5)
Precision Machinery	133.1	8.5	155.2	13.1	22.1	4.5	133.1	166.8	33.6
Other	108.8	2.8	77.4	3.1	(31.4)	0.2	104.4	80.9	(23.4)
Adjustments	-	(3.7)	-	(7.0)	-	(3.3)	-	-	-
Total	1,541.0	95.9	1,518.8	45.9	(22.2)	(50.0)	1,693.6	1,348.7	(344.9)

Note: 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 fell ¥61.4 billion year on year to ¥36.9 billion, due to the downturn in demand for newly-built ships.

Consolidated net sales increased ¥8.3 billion to ¥103.2 billion, due to increase in the amount of shipbuilding and repairing of vessels for the Ministry of Defense, and other factors.

Consolidated operating income declined ¥13.4 billion year on year to an operating loss of ¥21.4 billion, attributable to an increase in amount of allowance for doubtful accounts on trade receivables from the joint venture in Brazil, an increase in provision for losses on construction contracts resulting from the appreciation of the yen, an increase in costs, and other factors.

Rolling Stock

Consolidated orders received increased ¥26.4 billion year on year to ¥158.5 billion, as despite the decline for overseas markets, orders for linear-motor subway cars were received from the Tokyo

Metropolitan Bureau of Transportation, along with other factors.

Consolidated net sales declined ¥9.4 billion year on year to ¥137.1 billion, due to a decline in sales to Asia including Taiwan and Singapore, and other factors.

Consolidated operating income declined ¥5.8 billion year on year to ¥3.4 billion, due to the drop in sales, the decline in highly-profitable projects, an increase in costs, and other factors.

Aerospace

Consolidated orders received declined ¥227.2 billion to ¥237.0 billion. The year-on-year decline was due to the fact that a bulk order for patrol aircraft was received from the Ministry of Defense in the previous fiscal year.

Consolidated net sales declined ¥21.9 billion year on year to ¥329.9 billion, due to the effect of the appreciation of the yen and other factors, despite the increase in sales to the Ministry of Defense.

Consolidated operating income fell ¥20.6 billion year on year to ¥25.0 billion, due to the appreciation of the yen and a decline in profitability of component parts for commercial aircraft, along with other factors.

Gas Turbine & Machinery

Consolidated orders received declined ¥28.5 billion year on year to ¥260.3 billion. This decline was attributable to a drop in orders for items such as hydraulic machinery and compressors, as well as due to the fact that a bulk order was received in the previous fiscal year for a new project for aircraft engine components.

Consolidated net sales increased ¥5.5 billion year on year to ¥241.9 billion, due to the increase in sales of commercial aircraft jet engine component parts, an increase in work on gas engine power generation systems, and other factors, despite the impact of the yen's appreciation.

Consolidated operating income declined ¥1.6 billion year on year to ¥15.2 billion, due to the effect of the appreciation of the yen, an increase in depreciation of development costs of new commercial aircraft jet engine projects, and other factors.

Plant & Infrastructure

Consolidated orders received fell ¥43.7 billion year on year to ¥95.0 billion, due to the decline in municipal refuse incineration plants for the domestic market, along with other factors.

Consolidated net sales increased ¥25.2 billion year on year to ¥160.8 billion, due to an increase in construction work volume on a chemical plant for an overseas market.

Consolidated operating income declined ¥5.9 billion year on year to ¥2.6 billion, due to the provision for losses on construction contracts in LNG tanks for overseas markets and other factors, despite an increase in sales.

Motorcycle & Engine

Consolidated net sales declined ¥20.5 billion year on year to ¥313.0 billion, due to the impact of the yen's appreciation, the decline in general-purpose gasoline engines and motorcycles to emerging countries, and other factors, despite the increase in sales of motorcycles and automobiles for

developed countries.

Consolidated operating income declined ¥4.0 billion year on year to ¥11.7 billion, due to a drop in sales.

Precision Machinery

Consolidated orders received increased ¥33.6 billion year on year to ¥166.8 billion, due to the increase in hydraulic components for construction machinery and various industrial robots, along with other factors.

Consolidated net sales increased ¥22.1 billion year on year to ¥155.2 billion, due to the increase in hydraulic components for construction machinery and various industrial robots, along with other factors.

Consolidated operating income increased ¥4.5 billion year on year to ¥13.1 billion, due to the increase in sales.

Other Operations

Consolidated net sales fell ¥31.4 billion year on year to ¥77.4 billion, due to the assignment of the construction machinery business in the same period of the previous fiscal year.

Consolidated operating income increased ¥0.2 billion year on year to ¥3.1 billion.

(2) Consolidated financial condition

(i) Assets

Total assets at March 31, 2017, were ¥1,687.3 billion, a 4.1% increase from March 31, 2016. Current assets increased 5.8% year on year to ¥1,077.8 billion, mainly attributable to an increase in trade receivables. Fixed assets increased 1.1% year on year to ¥609.5 billion, primarily due to an increase in holdings of property, plant and equipment due to capital investment.

(ii) Liabilities

Consolidated liabilities increased 5.2% year on year to ¥1,236.0 billion at March 31, 2017. The increase was mainly attributable to an increase in advances from customers and other factors.

(iii) Net assets

Consolidated net assets increased 1.2% year on year to ¥451.3 billion, as the increase due to the posting of net income attributable to owners of parent was partly offset by dividend payments and other factors.

(3) Cash flows

(i) Cash flows from operating activities

Operating activities provided net cash of ¥93.5 billion, a ¥7.4 billion increase from the previous fiscal year. Major sources of operating cash flow included income before income taxes of ¥38.8 billion and depreciation and amortization of ¥51.5 billion. Major uses of operating cash flow included expenditure of ¥13.1 billion for cash paid for income taxes and expenditure of ¥64.6

billion due to an increase in trade receivables.

(ii) Cash flows from investing activities

Investing activities used net cash of ¥64.8 billion, ¥9.3 billion less than in the previous fiscal year, mainly to acquire property, plant and equipment, as well as intangible assets.

(iii) Cash flows from financing activities

Financing activities used net cash of ¥15.8 billion, ¥7.5 billion less than in the previous fiscal year. The cash outflow was mainly the result of cash dividends paid.

(4) Consolidated earnings outlook

For the fiscal year ending March 31, 2018, we are expecting consolidated net sales of ¥1,555.0 billion, a ¥36.2 billion year-on-year increase, due to expected increases in the Rolling Stock, Gas Turbine & Machinery, Motorcycle & Engine, Precision Machinery and other segments. In terms of profit, we are forecasting consolidated operating income of ¥58.0 billion, recurring profit of ¥51.5 billion, and net income attributable to owners of parent of ¥36.0 billion. Furthermore, we are expecting ROIC of 6.0% and ROE of 8.0%. These forecasts are based on the expectation for an increase in profits in conjunction with a rise in sales, a recovery in the Ship & Offshore Structure segment which posted a large loss in the previous fiscal year, and other factors, despite a drop in production of component parts for commercial aircraft in the Aerospace segment and other factors.

Consolidated orders received are expected to increase ¥211.3 billion year on year to ¥1,560.0 billion, due to expected increases in the Rolling Stock and Aerospace segments.

Assumed exchange rates of ¥108/US\$ and ¥114/Euro were used for the above consolidated earnings outlook.

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 in 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 (the yen/dollar exchange rate in particular), tax codes and other regulatory system-related issues.

2. Basic rationale for selecting accounting standards

In the near term, the Group plans to continue to use Japanese accounting standards to prepare consolidated financial statements. The Group will continue to study the possible adoption of IFRS from the standpoint of increasing corporate value over the medium- to long-term horizon as well as promoting constructive dialogue with investors, all while taking the situation surrounding the Group both in Japan and overseas into consideration.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

March 31	Million yen	
	2016	2017
Assets		
Current assets		
Cash on hand and in banks	42,157	55,388
Trade receivables	381,339	444,633
Merchandise and finished products	57,092	49,850
Work in process	324,915	323,433
Raw materials and supplies	110,956	111,577
Deferred tax assets	27,275	26,566
Other	76,743	68,978
Allowance for doubtful receivables	(2,578)	(2,593)
Total current assets	1,017,903	1,077,835
Fixed assets		
Net property, plant and equipment		
Buildings and structures,	166,345	180,070
Machinery and equipment,	128,814	134,071
Land	64,237	64,743
Leased assets,	2,192	1,955
Construction in progress	17,772	21,133
Other,	57,195	59,906
Total property, plant and equipment	436,557	461,881
Intangible assets	15,475	15,284
Investments and other assets		
Investments in securities	13,781	13,917
Long-term loans	337	301
Net defined benefit assets	74	86
Deferred tax assets	43,842	36,499
Other	102,387	96,284
Allowance for doubtful receivables	(9,902)	(14,727)
Total investments and other assets	150,521	132,362
Total fixed assets	602,554	609,527
Total assets	1,620,458	1,687,363

Liabilities

Current liabilities

Trade payables	233,979	240,572
Electronically recorded obligations-operating	87,798	101,449
Short-term debt	105,891	111,456
Current portion of bonds	10,000	10,000
Lease obligations, current	156	192
Income taxes payable	10,889	4,295
Deferred tax liabilities	979	22
Accrued bonuses	25,138	20,288
Provision for product warranties	12,642	12,175
Provision for losses on construction contracts	7,926	18,103
Advances from customers	170,454	205,871
Other	101,854	119,013
Total current liabilities	<u>767,711</u>	<u>843,441</u>

Long-term liabilities

Bonds payable	120,000	130,000
Long-term debt	160,809	147,492
Lease obligations	1,566	1,550
Deferred tax liabilities	8,439	8,476
Provision for environmental measures	1,693	1,113
Net defined benefit liability	90,789	81,563
Asset retirement obligations	650	619
Other	23,170	21,778
Total long-term liabilities	<u>407,120</u>	<u>392,594</u>

Total liabilities1,174,832 1,236,035**Net assets**

Shareholders' equity		
Common stock	104,484	104,484
Capital surplus	54,394	54,393
Retained earnings	279,627	287,448
Treasury stock	(86)	(96)
Total shareholders' equity	<u>438,419</u>	<u>446,230</u>

Accumulated other comprehensive income

Net unrealized gains (losses) on securities, net of tax	2,705	3,232
Deferred gains (losses) on hedges	692	(1,182)
Foreign currency translation adjustments	8,990	(341)
Remeasurements of defined benefit plans	(19,439)	(10,692)
Total accumulated other comprehensive income	<u>(7,051)</u>	<u>(8,983)</u>

Non-controlling interests

Non-controlling interests	<u>14,257</u>	<u>14,080</u>
Total net assets	<u>445,625</u>	<u>451,327</u>
Total liabilities and net assets	<u>1,620,458</u>	<u>1,687,363</u>

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

Years ended March 31	Million yen	
	2016	2017
Net sales	1,541,096	1,518,830
Cost of sales	1,253,691	1,278,906
Gross profit	287,405	239,923
Selling, general and administrative expenses		
Salaries and benefits	52,683	51,436
Advertising expenses	12,067	11,241
R&D expenses	43,611	43,627
Other	83,045	87,657
Total selling, general and administrative expenses	191,408	193,963
Operating income	95,996	45,960
Non-operating income		
Interest income	748	845
Dividend income	415	254
Equity in income of non-consolidated subsidiaries and affiliates	(*1)2,876	5,537
Gain on sale of fixed assets	(*2)3,155	(*2)875
Other	7,914	4,881
Total non-operating income	15,111	12,394
Non-operating expenses		
Interest expense	3,637	2,859
Foreign exchange losses	6,532	7,724
Loss on disposal of fixed assets	1,119	2,233
Other	6,589	8,866
Total non-operating expenses	17,878	21,684
Recurring profit	93,229	36,671
Extraordinary income		
Gain on sale of fixed assets	-	(*4)2,202
Gain on transfer of business	(*3)901	-
Total extraordinary income	901	2,202
Extraordinary losses		
Loss on overseas business	(*1)19,298	-
Total extraordinary losses	19,298	-
Income before income taxes	74,832	38,873
Income taxes		
Current	20,153	7,470
Deferred	7,000	3,477
Total income taxes	27,153	10,948
Net income	47,678	27,925
Net income attributable to non-controlling interests	1,635	1,721
Net income attributable to owners of parent	46,043	26,204

Consolidated statements of comprehensive income

Years ended March 31	Million yen	
	2016	2017
Net income	47,678	27,925
Other comprehensive income		
Net unrealized gains (losses) on securities	(910)	559
Deferred gains (losses) on hedges	2,649	(1,844)
Foreign currency translation adjustments	(11,763)	(3,742)
Remeasurements of defined benefit plans	(12,154)	8,777
Share of other comprehensive income of entities accounted for using equity method	(5,269)	(6,340)
Total other comprehensive income	(27,448)	(2,590)
Comprehensive Income attributable to:	20,230	25,335
Owners of parent	19,412	24,272
Non-controlling interests	817	1,062

(3) Consolidated statements of changes in net assets

Years ended March 31	Million yen	
	2016	2017
Shareholders' equity		
Common stock		
Balance at end of previous year	104,484	104,484
Total changes during the period	-	-
Balance at end of year	104,484	104,484
Capital surplus		
Balance at end of previous year	54,393	54,394
Treasury stock disposed	0	(0)
Total changes during the period	0	(0)
Balance at end of year	54,394	54,393
Retained earnings		
Balance at end of previous year	253,605	279,627
Changes during the period		
Cash dividend	(20,047)	(18,376)
Net income attributable to owners of parent	46,043	26,204
Change in the scope of consolidation	-	(7)
Increase (decrease) by change of consolidation period of subsidiaries	25	-
Total changes during the period	26,021	7,820
Balance at end of year	279,627	287,448
Treasury stock		
Balance at end of previous year	(67)	(86)
Changes during the period		
Treasury stock purchased	(21)	(10)
Treasury stock disposed	1	0
Total changes during the period	(19)	(9)
Balance at end of year	(86)	(96)
Total shareholders' equity		
Balance at end of previous year	412,416	438,419
Changes during the period		
Cash dividend	(20,047)	(18,376)
Net income attributable to owners of parent	46,043	26,204
Change in the scope of consolidation	-	(7)
Treasury stock purchased	(21)	(10)
Treasury stock disposed	2	(0)
Increase (decrease) by change of consolidation period of subsidiaries	25	-
Total changes during the period	26,002	7,810
Balance at end of year	438,419	446,230
Comprehensive income		
Net unrealized gain (loss) on securities		
Balance at end of previous year	3,704	2,705
Changes during the period		
Net changes in items other than shareholders' equity	(999)	527
Total changes during the period	(999)	527
Balance at end of year	2,705	3,232
Deferred gains (losses) on hedges		
Balance at end of previous year	(1,985)	692
Changes during the period		
Net changes in items other than shareholders' equity	2,678	(1,874)

Total changes during the period	2,678	(1,874)
Balance at end of year	692	(1,182)
Foreign currency translation adjustments		
Balance at end of previous year	25,179	8,990
Changes during the period		
Net changes in items other than shareholders' equity	(16,188)	(9,331)
Total changes during the period	(16,188)	(9,331)
Balance at end of year	8,990	(341)
Remeasurements of defined benefit plans		
Balance at end of previous year	(7,318)	(19,439)
Changes during the period		
Net changes in items other than shareholders' equity	(12,121)	8,747
Total changes during the period	(12,121)	8,747
Balance at end of year	(19,439)	(10,692)
Total comprehensive income		
Balance at end of previous year	19,579	(7,051)
Changes during the period		
Net changes in items other than shareholders' equity	(26,630)	(1,931)
Total changes during the period	(26,630)	(1,931)
Balance at end of year	(7,051)	(8,983)
Non-controlling interests		
Balance at end of previous year	15,961	14,257
Changes during the period		
Net changes in items other than shareholders' equity	(1,704)	(176)
Total changes during the period	(1,704)	(176)
Balance at end of year	14,257	14,080
Total net assets		
Balance at end of previous year	447,957	445,625
Changes during the period		
Cash dividend	(20,047)	(18,376)
Net income attributable to owners of parent (loss)	46,043	26,204
Change in the scope of consolidation	-	(7)
Treasury stock purchased	(21)	(10)
Treasury stock disposed	2	0
Increase (decrease) by change of consolidation period of subsidiaries	25	-
Net changes in items other than shareholders' equity	(28,335)	(2,108)
Total changes during the period	(2,332)	5,702
Balance at end of year	445,625	451,327

(4) Consolidated statements of cash flows

Years ended March 31	Million yen	
	2016	2017
Cash flows from operating activities		
Income before income taxes	74,832	38,873
Depreciation and amortization	49,004	51,564
Increase (decrease) in allowance for doubtful receivables	(857)	4,872
Increase (decrease) in accrued bonuses	(935)	(4,852)
Increase (decrease) in provision for product warranties	1,590	(385)
Increase (decrease) in provision for losses on construction contracts	2,228	10,185
Increase (decrease) in provision for environmental measures	(840)	(579)
Increase (decrease) in net defined benefit liability	(3,043)	3,537
Interest and dividend income	(1,164)	(1,100)
Interest expense	3,637	2,859
Equity in income non-consolidated subsidiaries and affiliates	(2,876)	(5,537)
(Gain) loss on sale of property, plant, and equipment	(3,155)	(3,077)
(Gain) loss on sale of business	(901)	-
Loss on overseas business	19,298	-
(Increase) decrease in trade receivables	(7,657)	(64,605)
(Increase) decrease in inventories	(19,719)	7,453
Increase (decrease) in trade payables	(5,441)	20,743
(Increase) decrease in advance payments	(5,860)	7,838
Increase (decrease) in advances from customers	7,433	35,565
(Increase) decrease in other current assets	(2,670)	(1,272)
Increase (decrease) in other current liabilities	5,003	1,468
Other	397	20
Subtotal	<u>108,303</u>	<u>103,572</u>
Cash received for interest and dividends	6,745	5,870
Cash paid for interest	(3,817)	(2,827)
Cash paid for income taxes	(25,172)	(13,100)
Net cash provided by operating activities	<u>86,059</u>	<u>93,514</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(79,463)	(69,341)
Proceeds from sales of property, plant and equipment and intangible assets	1,202	4,810
Acquisition of investments in securities	(173)	(1,208)
Proceeds from sales of investments in securities	702	1,841
Purchase of stocks of subsidiaries and affiliates	-	(625)
Proceeds from sales of stocks of subsidiaries and affiliates	-	966
Acquisition of investments in subsidiaries of affiliate	(1,601)	-
Proceeds from sale of business	5,390	-
Decrease (increase) in short-term loans receivable, net	(7)	178
Additions to long-term loans receivable	(87)	(70)
Proceeds from collection of long-term loans receivable	92	94
Other	(239)	(1,525)
Net cash used for investing activities	<u>(74,185)</u>	<u>(64,879)</u>
Cash flows from financing activities		
Increase (decrease) in short-term debt, net	4,132	(20,843)
Proceeds from long-term debt	19,648	31,734
Repayment of long-term debt	(25,651)	(16,946)
Proceeds from issuance of bonds	20,000	20,000
Redemption of bonds payable	(20,000)	(10,000)
Cash dividends paid	(20,022)	(18,351)
Cash dividends paid to non-controlling interests	(1,527)	(765)
Other	20	(679)
Net cash used for financing activities	<u>(23,400)</u>	<u>(15,850)</u>
Effect of exchange rate changes	1,639	543
Net increase (decrease) in cash and cash equivalents	<u>(9,886)</u>	<u>13,327</u>
Cash and cash equivalents at beginning of period	47,721	37,832
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	-	(438)
Increase (decrease) in cash and cash equivalents by change of consolidation period of subsidiaries	(1)	-
Cash and cash equivalents at end of period	<u>37,832</u>	<u>50,722</u>

(5) Notes on financial statements

Notes on the going-concern assumption

Not applicable.

Related to consolidated statements of income

(*1) Losses on Overseas Business

Fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)

Posting Losses on Joint Shipbuilding Venture in Brazil

(Additional information)

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

Enseada Indústria Naval S.A.(hereinafter called ‘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 fiscal year ended March 31, 2016, 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	¥19,298 million	(extraordinary losses)
2.	Losses on valuation of investments in and loans receivable from Enseada	¥2,847 million	(non-operating expenses)
	Total	¥22,145 million	

(*2) Gain on sale of fixed assets

Fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)

Realized gains of deferred revenue in conjunction with the sale-and-leaseback related to fixed assets of a North American subsidiary.

Fiscal year ended March 31, 2017 (April 1, 2016 – March 31, 2017)

Realized gains of deferred revenue in conjunction with the sale-and-leaseback related to fixed

assets of a North American subsidiary.

(*3) Gain on Transfer of Business

Fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)

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

(*4) Gain on sale of fixed assets

Fiscal year ended March 31, 2017 (April 1, 2016 – March 31, 2017)

In conjunction with the sale of the land and building of the Company's Tokyo office.

Segment information and others

1. Overview of reportable segments

The Company's reportable segments are components of the company about which separate financial information is available. These segments are subject to periodic reviews by the Company's board of directors to decide how to allocate resources and assess performance. The Company's operations are divided into internal companies based on product categories. Certain authority is delegated to each of the internal companies, based on which they conduct businesses in Japan and overseas. The Company's operations are therefore segmented based on each internal company's product categories. The Company's eight reportable segments are the Ship & Offshore Structure segment, the Rolling Stock segment, the Aerospace segment, the Gas Turbine & Machinery segment, the Plant & Infrastructure segment, the Motorcycle & Engine segment, the Precision Machinery segment, and the Other segment.

Main segment businesses are listed below.

Industry segment	Major products
Ship & Offshore Structure	Construction and sale of ships and other vessels, etc.
Rolling Stock	Production and sale of rolling stock, snow plows, etc.
Aerospace	Production and sale of aircraft, etc.
Gas Turbines & Machinery	Production and sale of jet engines, general-purpose gas turbine generators, prime movers, etc.
Plant & Infrastructure	Production and sale of industrial equipment, boilers, environmental equipment, steel structures, crushers, etc.
Motorcycle & Engine	Production and sale of motorcycles, all-terrain vehicles (ATV), utility vehicles, personal watercraft ("JET SKI"), general-purpose gasoline engines, etc.
Precision Machinery	Production and sale of industrial hydraulic products, industrial robots, etc.
Other	commercial activities, sales/order agency and intermediary activities, administration of welfare facilities, etc.

2. Method for calculating sales, profit/loss, assets, liabilities, and other items for reportable segments

The accounting methods applied to the reported business segments generally follow the accounting policies used to prepare the consolidated financial statements. The income of reporting segments is based on operating income. Inter-segment earnings and transfers are based on market prices.

3. Sales, income (loss), assets, liabilities, and other items by reportable segment

Fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)

(Million yen)

	Sales			Segment income (loss)	Segment assets	Other items		
	External sales	Intersegment sales or transfer	Total			Depreciation/amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	94,888	2,791	97,679	(7,926)	155,063	994	52,063	2,672
Rolling Stock	146,646	1,230	147,877	9,299	171,322	2,914	153	2,535
Aerospace	351,858	1,727	353,586	45,657	378,982	13,435	-	28,760
Gas Turbines & Machinery	236,445	16,634	253,079	16,962	314,548	4,332	745	7,917
Plant & Infrastructure	135,668	14,205	149,874	8,516	120,740	1,472	17,276	1,444
Motorcycle & Engine	333,595	1,116	334,711	15,769	243,733	13,158	1,332	14,513
Precision Machinery	133,175	15,518	148,694	8,542	142,959	6,034	371	8,129
Other Operations	108,817	38,926	147,743	2,894	71,372	1,616	3,002	3,933
Total	1,541,096	92,150	1,633,246	99,716	1,598,723	43,960	74,944	69,906
Adjustments	-	(92,150)	(92,150)	(3,719)	21,734	5,044	-	6,404
Consolidated total	1,541,096	-	1,541,096	95,996	1,620,458	49,004	74,944	76,310

Fiscal year ended March 31, 2017 (April 1, 2016 – March 31, 2017)

(Million yen)

	Sales			Segment income (loss)	Segment assets	Other items		
	External sales	Intersegment sales or transfer	Total			Depreciation/amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	103,204	2,447	105,651	(21,423)	168,577	1,277	47,643	3,705
Rolling Stock	137,159	75	137,235	3,485	164,412	2,626	129	2,728
Aerospace	329,915	1,614	331,530	25,034	433,241	15,022	-	33,273
Gas Turbines & Machinery	241,953	12,823	254,776	15,294	347,453	4,764	-	8,944
Plant & Infrastructure	160,877	7,928	168,806	2,610	119,157	1,456	16,899	2,207
Motorcycle & Engine	313,030	682	313,713	11,749	243,412	13,139	1,350	18,292
Precision Machinery	155,278	15,872	171,151	13,104	157,501	6,471	297	7,227
Other Operations	77,410	40,041	117,452	3,137	86,465	1,672	3,173	1,174
Total	1,518,830	81,486	1,600,317	52,992	1,720,222	46,430	69,493	77,553
Adjustments	-	(81,486)	(81,486)	(7,031)	(32,858)	5,134	-	5,191
Consolidated total	1,518,830	-	1,518,830	45,960	1,687,363	51,564	69,493	82,744

4. Reconciliation and main components of difference between total for reportable segments and amounts on the consolidated financial statements

Fiscal year ended March 31 (Million yen)

Sales	2016	2017
Total for reportable segments	1,633,246	1,600,317
Intersegment transactions	(92,150)	(81,486)
Net sales reported on the consolidated financial statements	1,541,096	1,518,830

Fiscal year ended March 31 (Million yen)

Income	2016	2017
Total for reportable segments	99,716	52,992
Intersegment transactions	(22)	(34)
Corporate expenses*	(3,697)	(6,997)
Operating income (loss) on consolidated financial statements	95,996	45,960

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

Fiscal year ended March 31 (Million yen)

Assets	2016	2017
Total for reportable segments	1,598,723	1,720,222
Intersegment transactions etc.	(86,409)	(80,391)
Corporate assets shared by all segments*	108,144	47,532
Total assets on consolidated financial statements	1,620,458	1,687,363

*Note: Corporate assets shared by all segments mainly comprise fixed assets not attributed to reportable segments.

Fiscal year ended March 31 (Million yen)

Other items	Total for reportable segments		Adjustments*		Amounts reported on the consolidated financial statements	
	2016	2017	2016	2017	2016	2017
Depreciation/amortization	43,960	46,430	5,044	5,134	49,004	51,564
Increase in property, plant and equipment and intangibles	69,906	77,553	6,404	5,191	76,310	82,744

*Note: Adjustments are mainly due to fixed assets not attributed to reportable segments.

Related information

Fiscal year ended March 31, 2016 (April 1, 2015 – March 31, 2016)

1. Information by product and service

Information by product and service is omitted here as segmentation is equivalent to that used for reportable segments.

2. Information by geographic area

(a) Net sales

(Million yen)

Japan	USA	Europe	Asia	Other areas	Total
636,565	396,697	144,894	241,424	121,514	1,541,096

Note: Net sales are classified by country or region based on the location of customers.

(b) Property, plant and equipment

(Million yen)

Japan	North America	Europe	Asia	Other areas	Total
378,380	23,566	3,691	30,090	828	436,557

3. Information by major clients

(Million yen)

Clients	Net sales	Related segments
Ministry of Defense	227,333	Ship & Offshore Structure, Aerospace, Gas Turbines & Machinery
The Commercial Airplane Company	159,683	Aerospace

Fiscal year ended March 31, 2017 (April 1, 2016 – March 31, 2017)

1. Information by product and service

Information by product and service is omitted here as segmentation is equivalent to that used for reportable segments.

2. Information by geographic area

(a) Net sales

(Million yen)

Japan	USA	Europe	Asia	Other areas	Total
648,166	371,249	177,900	220,901	100,611	1,518,830

Note: Net sales are classified by country or region based on the location of customers.

(b) Property, plant and equipment

(Million yen)

Japan	North America	Europe	Asia	Other areas	Total
401,309	27,750	3,054	28,865	901	461,881

3. Information by major clients

(Million yen)

Clients	Net sales	Related segments
Ministry of Defense	236,861	Ship & Offshore Structure, Aerospace, Gas Turbines & Machinery

Impairment loss on fixed assets by reportable segment

Not applicable.

Amortization amount for and unamortized balance of goodwill

Not applicable.

Gain on negative goodwill by reportable segment

Not applicable.

Per share data

Years ended March 31 (Yen)

2016		2017	
Net assets per share	258.21	Net assets per share	261.73
Earnings per share - basic	27.56	Earnings per share - basic	15.68

Notes:

1. Diluted net earnings per share is not stated because there are no potential shares.
2. Net income/loss per share and net income per share (diluted) were calculated based on the following:

Years ended March 31 (Million yen)

	2016	2017
Earnings per share - basic		
Net income attributable to owners of parent	46,043	26,204
Earnings not attributable to common shareholders	-	-
Net income allocated to the common shares	46,043	26,204
Average number of common shares outstanding(Thousands of shares)	1,670,591	1,670,561

Material subsequent events

Not applicable.

4. Others

(1) Consolidated orders and sales

Orders received

Years ended March 31					(Million yen)	
	2016 (A)		2017 (B)		Change (B-A)	
		% of total		% of total		%
Ship & Offshore Structure	98,394	5.8	36,979	2.7	(61,414)	(62.4)
Rolling Stock	132,133	7.8	158,597	11.7	26,463	20.0
Aerospace	464,286	27.4	237,016	17.5	(227,270)	(48.9)
Gas Turbine & Machinery	288,903	17.0	260,354	19.3	(28,548)	(9.8)
Plant & Infrastructure	138,775	8.1	95,012	7.0	(43,762)	(31.5)
Motorcycle & Engine	333,595	19.6	313,030	23.2	(20,564)	(6.1)
Precision Machinery	133,191	7.8	166,832	12.3	33,641	25.2
Other	104,407	6.1	80,948	6.0	(23,458)	(22.4)
Total	1,693,687	100.0	1,348,773	100.0	(344,914)	(20.3)

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

Net sales

Years ended March 31					(Million yen)	
	2016 (A)		2017 (B)		Change (B-A)	
		% of total		% of total		%
Ship & Offshore Structure	94,888	6.1	103,204	6.7	8,315	8.7
Rolling Stock	146,646	9.5	137,159	9.0	(9,487)	(6.4)
Aerospace	351,858	22.8	329,915	21.7	(21,943)	(6.2)
Gas Turbine & Machinery	236,445	15.3	241,953	15.9	5,507	2.3
Plant & Infrastructure	135,668	8.8	160,877	10.5	25,208	18.5
Motorcycle & Engine	333,595	21.6	313,030	20.6	(20,564)	(6.1)
Precision Machinery	133,175	8.6	155,278	10.2	22,102	16.5
Other	108,817	7.0	77,410	5.0	(31,406)	(28.8)
Total	1,541,096	100.0	1,518,830	100.0	(22,266)	(1.4)

Order backlog

Years ended March 31					(Million yen)	
	2016 (A)		2017 (B)		Change (B-A)	
		% of total		% of total		%
Ship & Offshore Structure	259,921	13.4	191,604	10.8	(68,317)	(26.2)
Rolling Stock	375,729	19.5	392,224	22.2	16,494	4.3
Aerospace	608,352	31.5	508,759	28.8	(99,593)	(16.3)
Gas Turbine & Machinery	381,787	19.8	394,977	22.4	13,190	3.4
Plant & Infrastructure	255,944	13.2	214,926	12.1	(41,017)	(16.0)
Motorcycle & Engine	-	-	-	-	-	-
Precision Machinery	26,358	1.3	37,912	2.1	11,553	43.8
Other	17,863	0.9	21,401	1.2	3,538	19.8
Total	1,925,957	100.0	1,761,806	100.0	(164,151)	(8.5)

(2) Supplementary information on earnings forecasts for the fiscal year ending March 31, 2018

1. Consolidated earnings outlook

(Billion yen)

	Outlook for the fiscal year ending March 31, 2018 (A)	Fiscal year ended March 31, 2017(actual) (B)	Change (A – B)
Net sales	1,555.0	1,518.8	36.2
Operating income	58.0	45.9	12.1
Recurring profit	51.5	36.6	14.9
Net income attributable to owners of parent	36.0	26.2	9.8

Orders received	1,560.0	1,348.7	211.3
Before-tax ROIC (%)	6.0%	5.0%	1.0%
R&D expenses	48.0	43.6	4.4
Capital expenditures	99.0	82.7	16.3
Depreciation/ amortization	53.0	51.5	1.5
Number of employees at end of period	36,400	35,127	1,273
*Number of employees outside of Japan included therein	*9,100	*8,779	*(321)

Notes: 1. Outlook's assumed foreign exchange rates: ¥108= US\$1, ¥114 = 1 euro

2. Before-tax ROIC = EBIT(income before income taxes + interest expense) / invested capital (interest-bearing debt + shareholders' equity).

3. Capital expenditures represent 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.

2. Outlook by reportable segment

(a) Net sales and operating income (loss)

(Billion yen)

	Outlook for the fiscal year ending March 31, 2018 (A)		Fiscal year ended March 31, 2017 (actual) (B)		Change (A – B)	
	Net sales	Operating Income (loss)	Net sales	Operating Income (loss)	Net sales	Operating Income (loss)
Ship & Offshore Structure	100.0	0	103.2	(21.4)	(3.2)	21.4
Rolling Stock	150.0	5.5	137.1	3.4	12.9	2.1
Aerospace	325.0	13.0	329.9	25.0	(4.9)	(12.0)
Gas Turbine & Machinery	265.0	11.0	241.9	15.2	23.1	(4.2)
Plant & Infrastructure	125.0	3.5	160.8	2.6	(35.8)	0.9
Motorcycle & Engine	330.0	13.0	313.0	11.7	17.0	1.3
Precision Machinery	175.0	16.0	155.2	13.1	19.8	2.9
Other	85.0	4.0	77.4	3.1	7.6	0.9
Adjustments		(8.0)		(7.0)		(1.0)
Total	1,555.0	58.0	1,518.8	45.9	36.2	12.1

(b) Orders received

(Billion yen)

	Outlook for the fiscal year ending March 31, 2018 (A)	Fiscal year ended March 31, 2017 (actual) (B)	Change (A – B)
Ship & Offshore Structure	55.0	36.9	18.1
Rolling Stock	190.0	158.5	31.5
Aerospace	330.0	237.0	93.0
Gas Turbine & Machinery	275.0	260.3	14.7
Plant & Infrastructure	110.0	95.0	15.0
Motorcycle & Engine	330.0	313.0	17.0
Precision Machinery	185.0	166.8	18.2
Other	85.0	80.9	4.1
Total	1,560.0	1,348.7	211.3

(c) Before-tax ROIC

(%)

	Outlook for the fiscal year ending March 31, 2018 (A)	Fiscal year ended March 31, 2017 (actual) (B)	Change (A – B)
Ship & Offshore Structure	0.5	(23.4)	23.9
Rolling Stock	6.9	3.0	3.9
Aerospace	5.5	15.1	(9.6)
Gas Turbine & Machinery	4.9	7.1	(2.2)
Plant & Infrastructure	9.0	8.9	0.1
Motorcycle & Engine	9.5	7.3	2.2
Precision Machinery	15.8	13.4	2.4
Total	6.0	5.0	1.0