

Financial Results for FY2016 (for the year ended March 31, 2017)

April 27, 2017

Kawasaki Heavy Industries, Ltd.

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Summary of Financial Results

(Billion Yen)

	FY2015 Actual	FY2016		Change	
		Forecast* in January	Actual	vs. FY2015	vs. Forecast in January
Orders Received	1,693.6	1,320.0	1,348.7	-344.9	+28.7
Net Sales	1,541.0	1,520.0	1,518.8	-22.2	-1.2
Operating Income	95.9	40.0	45.9	-50.0	+5.9
Recurring Profit	93.2	33.0	36.6	-56.5	+3.6
Net Income Attributable to Owners of Parent	46.0	21.0	26.2	-19.8	+5.2
Before-tax ROIC	9.4%	4.7%	5.0%	-4.4%	+0.3%
ROE	10.6%	4.9%	6.0%	-4.6%	+1.1%

vs. FY2015

< Orders Received >

Decreased as a whole, mainly due to decrease in Aerospace segment where a bulk order received from Ministry of Defense (MOD) was won in the previous fiscal year, and decrease in demand for newly built ships in Ship & Offshore Structure segment

< Net Sales >

Net sales was on par with the previous fiscal year as a whole, due to sales increase in Plant & Infrastructure and Precision Machinery segments, and other factors, despite the effect of the appreciation of the yen and assignment of Construction Machinery business in the previous fiscal year

< Profits >

- Decreased in operating income due to the effect of the appreciation of the yen, decrease in profit in Ship & Offshore Structure and Aerospace segments and other factors

- Decreased in recurring profit and net income attributable to owners of parent due to decrease in operating income

Weighted-average exchange rates

Yen / US\$	118.99
Yen / EUR	132.43

(For Reference)

Net Sales in Foreign Currencies for FY2016 (Billion)

108.98
120.24

US\$	EUR
2.44	0.31

*Assumed exchange rates for forecast in January : 110Yen = US\$ 120Yen = EUR

Financial Results by Segment

(Billion Yen)

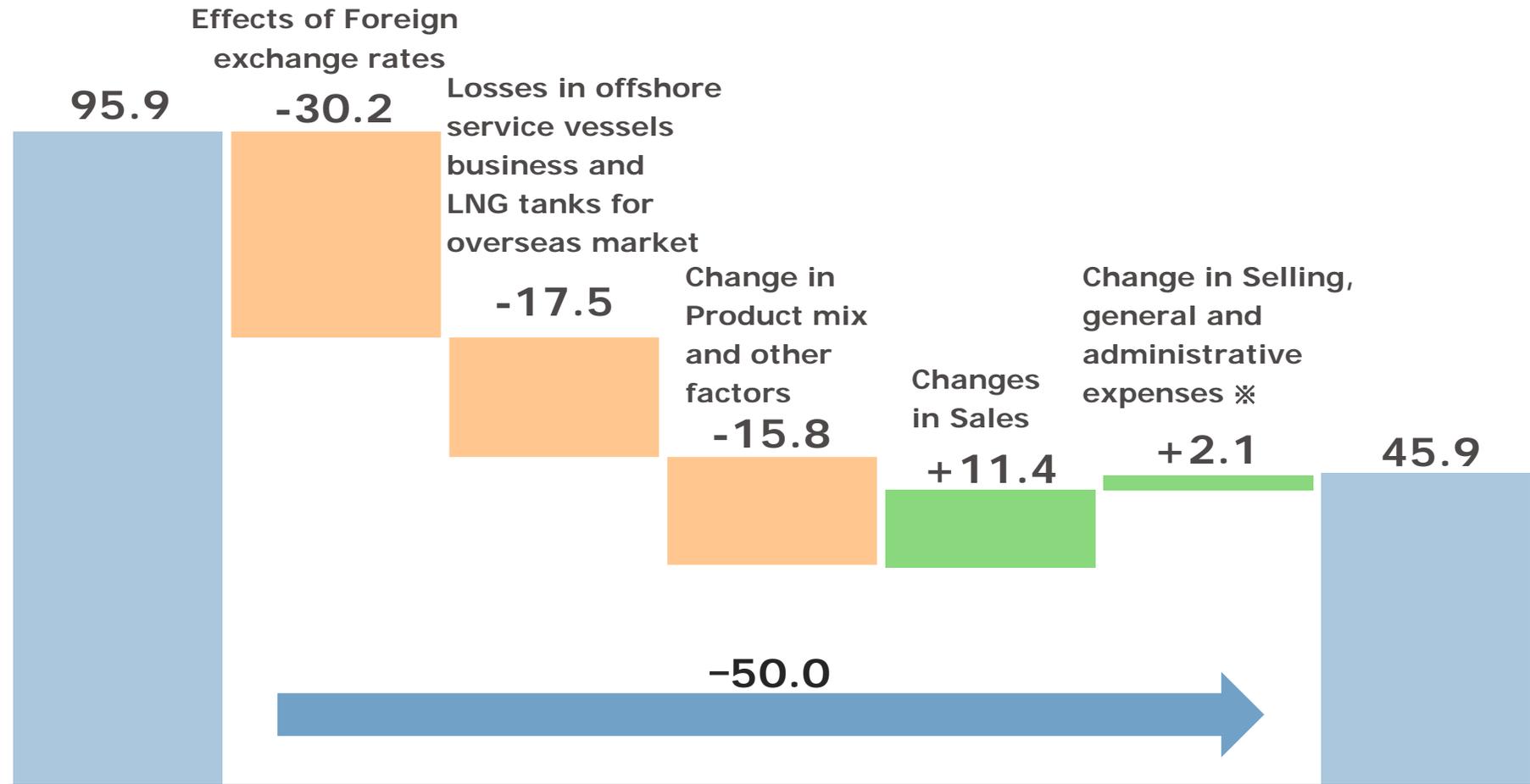
	Orders Received			Net Sales			Operating Income		
	FY2015	FY2016	Change	FY2015	FY2016	Change	FY2015	FY2016	Change
Ship & Offshore Structure	98.3	36.9	-61.4	94.8	103.2	+8.3	-7.9	-21.4	-13.4
Rolling Stock	132.1	158.5	+26.4	146.6	137.1	-9.4	9.2	3.4	-5.8
Aerospace	464.2	237.0	-227.2	351.8	329.9	-21.9	45.6	25.0	-20.6
Gas Turbine & Machinery	288.9	260.3	-28.5	236.4	241.9	+5.5	16.9	15.2	-1.6
Plant & Infrastructure	138.7	95.0	-43.7	135.6	160.8	+25.2	8.5	2.6	-5.9
Motorcycle & Engine	333.5	313.0	-20.5	333.5	313.0	-20.5	15.7	11.7	-4.0
Precision Machinery	133.1	166.8	+33.6	133.1	155.2	+22.1	8.5	13.1	+4.5
Others	104.4	80.9	-23.4	108.8	77.4	-31.4	2.8	3.1	+0.2
Eliminations and corporate*	-	-	-	-	-	-	-3.7	-7.0	-3.3
Total	1,693.6	1,348.7	-344.9	1,541.0	1,518.8	-22.2	95.9	45.9	-50.0

* "Eliminations and corporate" includes some expenses incurred at Head Office which were not allocated to each industry segment for internal reporting

Details of change in profit – FY2015 vs. FY2016 –

(Billion Yen)

【Operating Profit】 -50.0 (FY2015 95.9 ⇒ FY2016 45.9)



FY2015 ※ ¥ 4.6 billion of allowance for doubtful accounts on trade receivables from the joint venture in Brazil is included in "Losses in offshore service vessels business".

FY2016

Summary of Income Statement

			(Billion Yen)	
			FY2015	FY2016
< Operating Income >	-	50.0	(95.9	→ 45.9)
Net sales	-	22.2	(1,541.0	→ 1,518.8)
Cost of sales	+	25.2	(1,253.6	→ 1,278.9)
Selling, general & administrative expenses	+	2.5	(191.4	→ 193.9)
- Salaries and benefits	-	1.2	(52.6	→ 51.4)
- R&D expenses	+	0.0	(43.6	→ 43.6)
< Non-operating Income/Expenses >	-	6.5	(-2.7	→ -9.2)
Net Interest expense (incl. dividend income)	+	0.7	(-2.4	→ -1.7)
Equity in income of unconsolidated subsidiaries and affiliates	+	2.6	(2.8	→ 5.5)
Gain and loss on foreign exchange	-	1.1	(-6.5	→ -7.7)
Others	-	8.7	(3.3	→ -5.3)
< Extraordinary Income/Losses >	+	20.5	(-18.3	→ 2.2)
Gain on sales of fixed assets	+	2.2	(-	→ 2.2)
Gain on transfer of business ^{※1}	-	0.9	0.9	→ -
Overseas business-related loss ^{※2}	+	19.2	(-19.2	→ -)

※1 Due to assignment of all of shares of KCM Corporation and all businesses of KCMJ Corporation

※2 Considering the valuation of inventories and the collectability of trade receivables to Enseada, in which KHI holds a 30% stake, KHI has decided to implement the necessary accounting treatment based on its revaluation under generally accepted accounting principles in Japan (JGAAP)

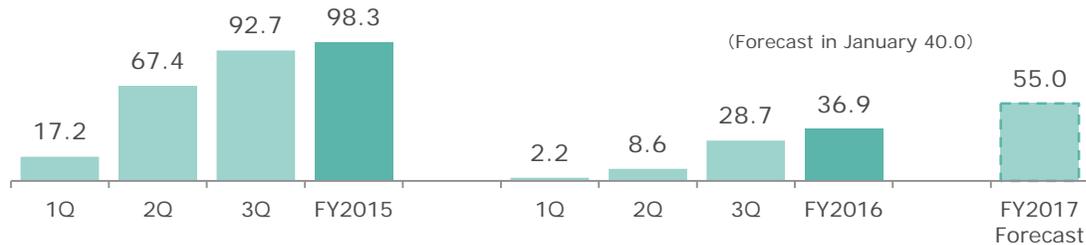
Ship & Offshore Structure

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

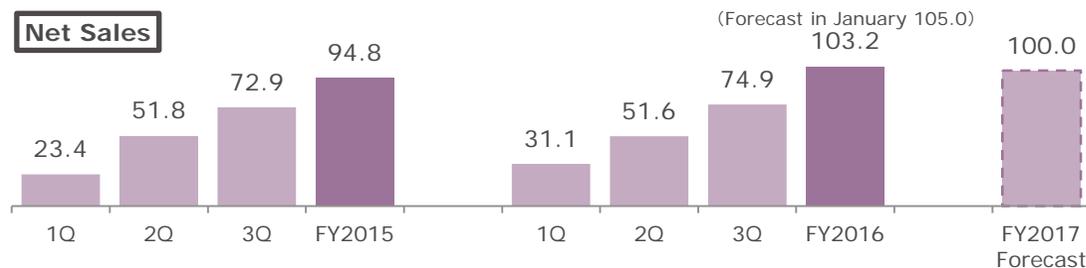
(Billion Yen / In accumulated amount)

Orders Received

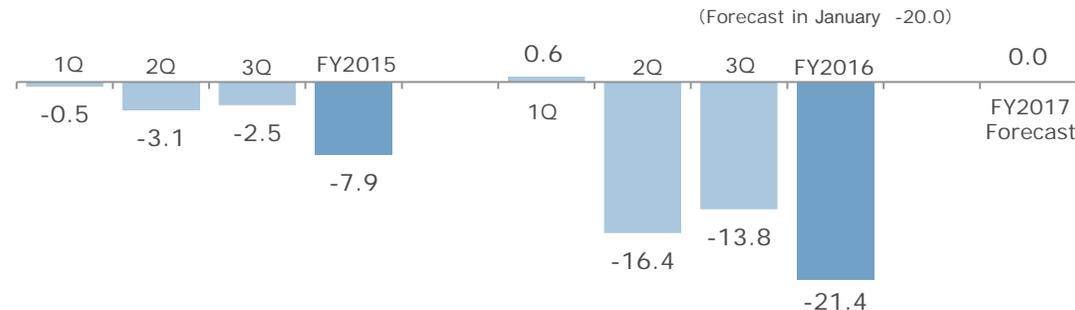
Order Backlog
191.6 Billion Yen



Net Sales



Operating Income



FY2016

(vs. FY2015)

Orders Received: Decreased due to decrease in demand for newly built ships

Net Sales: Increased due to increase in amount of shipbuilding and repairing of vessels for Ministry of Defense(MOD), and other factors

Operating Income: Deteriorated due to increase of the amount of allowance for doubtful accounts on trade receivables from the joint venture in Brazil, increase in provision for loss on construction contracts resulting from the effect of the appreciation of the yen and increase in cost, and other factors

FY2017 Forecast

(vs. FY2016)

Orders Received: Expected to increase with orders received for liquefied gas carriers

Net Sales : Expected to remain at the same level as the previous fiscal year

Operating Income: Expected to improve from the previous fiscal year when there were increase of the amount of allowance for doubtful accounts on trade receivables, and provision for loss on construction contracts for offshore service vessels business

	Orders Received		Sales (unit)			
	FY2015	FY2016	FY2015		FY2016	
			Completed	In Process*	Completed	In Process*
LNG carriers	2			9	1	8
Small-sized LNG carriers						
LPG carriers	4		1	4	1	6
Offshore service vessel						1
Bulk carriers	1		3	1		1
Submarines		1		2	1	2
Deep submergence rescue vehicle				1		1
Total	7	1	4	17	3	19

* Sales units by percentage-of-completion method

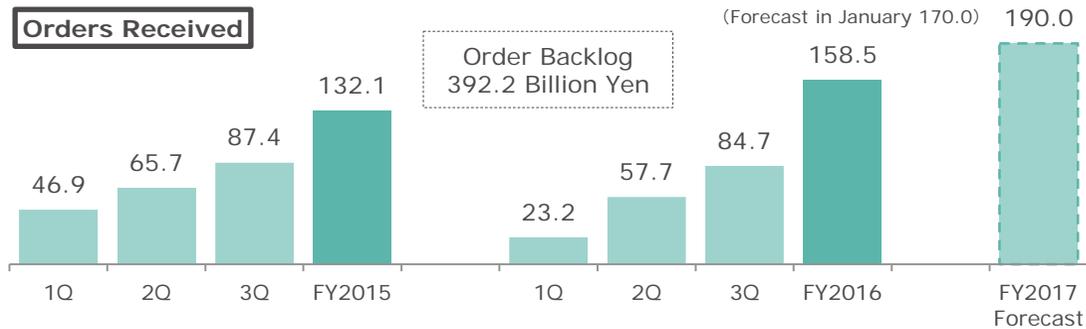
	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	-38.4%	-23.4%	0.5%

Rolling Stock

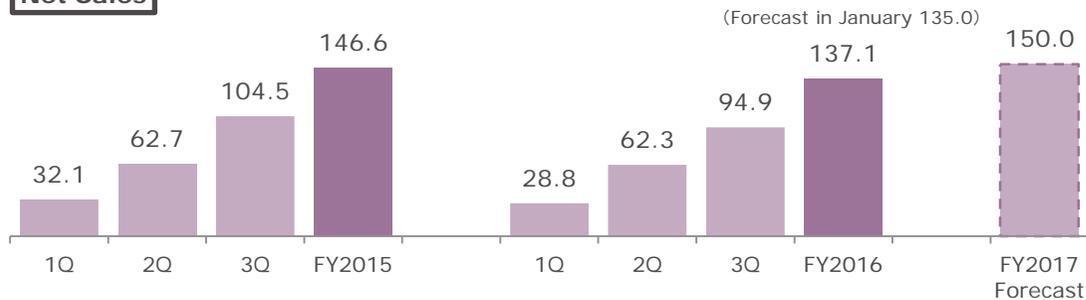
Main Products : Electric train cars (incl. Shinkansen), Electric and diesel locomotives, Passenger coaches, Bogies, Gigacell® (High-Capacity, Full Sealed Ni-MH Battery)

(Billion Yen / In accumulated amount)

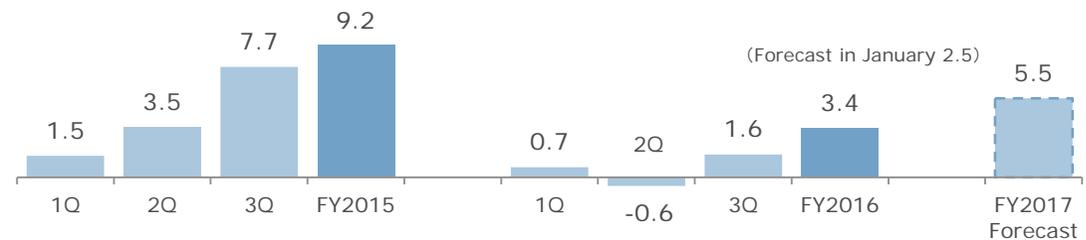
Orders Received



Net Sales



Operating Income



FY2016

(vs. FY2015)

Orders Received: Increased due to linear-motor subway car orders received from the Tokyo Metropolitan Bureau of Transportation (Toei) and other factors, despite decrease for overseas market

Net Sales: Decreased due to decrease in sales to Asia including Singapore and Taiwan, and other factors

Operating Income: Decreased due to sales decrease, decrease of profitable projects, increase in cost and other factors

FY2017 Forecast

(vs. FY2016)

Orders Received: Expected to increase due to increase in orders received for overseas market

Net Sales: Expected to increase due to increase in sales to domestic and overseas market

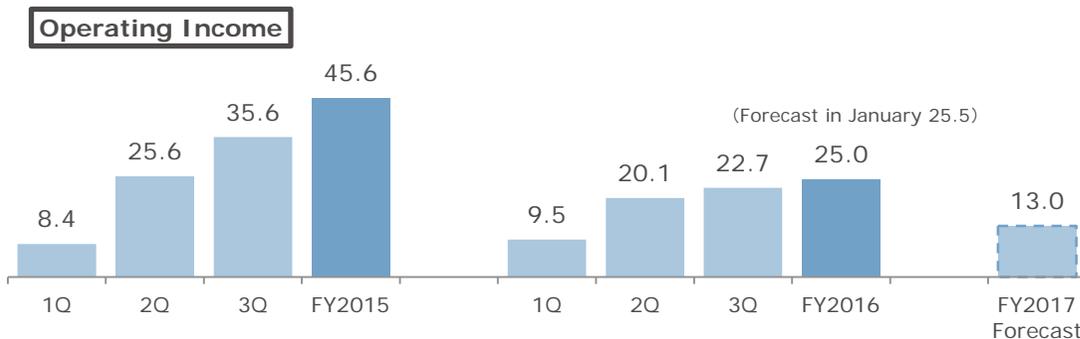
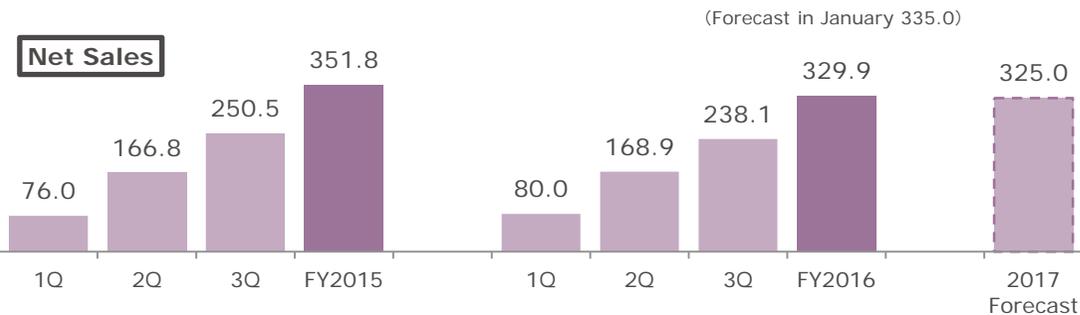
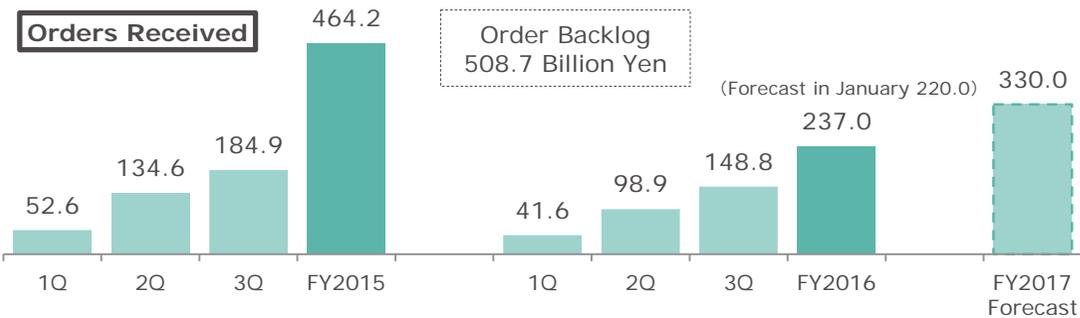
Operating Income: Expected to increase due to sales increase

	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	11.7%	3.0%	6.9%

Aerospace

Main Products : Aircrafts for Japan Ministry of Defense, Component parts for commercial aircrafts, Commercial helicopters, Missiles, Space equipment

(Billion Yen / In accumulated amount)



FY2016

(vs. FY2015)

Orders Received: Decreased from the previous fiscal year when a bulk order received from Ministry of Defense (MOD) was won

Net Sales: Decreased due to the effect of the appreciation of the yen and other factors, despite increase in sales to MOD

Operating Income: Decreased due to the effect of the appreciation of the yen and decrease in profitability of component parts for commercial aircrafts and other factors

FY2017 Forecast

(vs. FY2016)

Orders Received: Expected to increase due to increase in orders received for MOD

Net Sales: Expected to remain at the same level as the previous fiscal year due to decrease in component parts for commercial aircrafts, despite increase in sales to the MOD

Operating Income: Expected to decrease due to decrease in sales of component parts for commercial aircrafts

< Sales units of component parts for commercial aircrafts > (units)

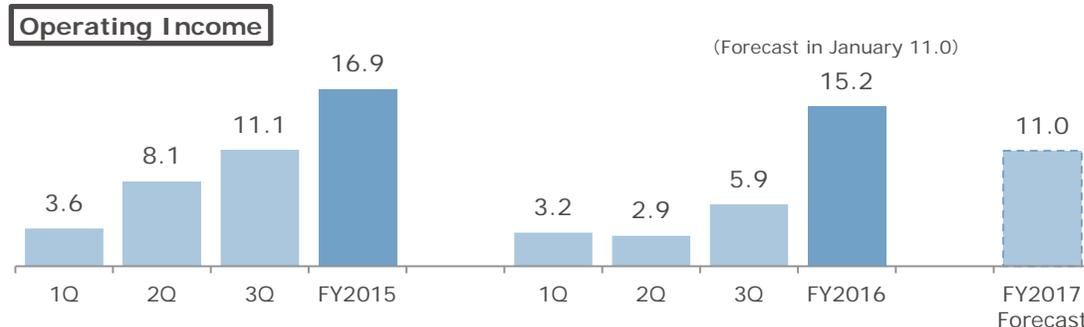
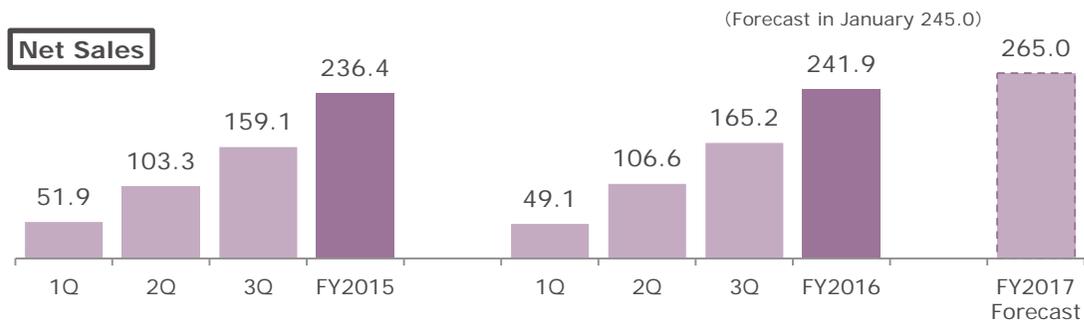
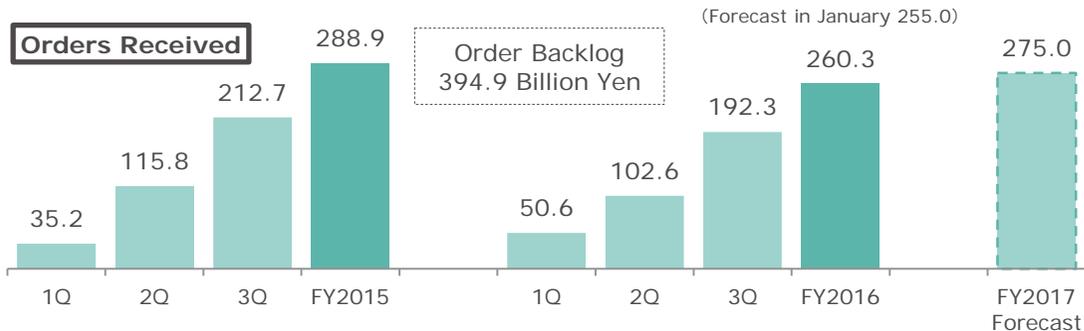
	FY2015	FY2016
Boeing 777	100	91
Boeing 767	19	25
Boeing 787	124	124

	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	33.9%	15.1%	5.5%

Gas Turbine & Machinery

Main Products : Jet engines, Gas turbine co-generation system, Gas engines, Diesel engines, Gas turbines & steam turbines for marine & land, Marine propulsion system, Aero-dynamic machinery

(Billion Yen / In accumulated amount)



FY2016

(vs. FY2015)

Orders Received: Decreased from the previous fiscal year when large order for the new commercial aircraft jet engine was received. Decrease in orders for marine propulsion systems and compressors affected.

Net Sales: Increased due to increase in component parts of commercial aircraft jet engines, increase in amount of construction of gas engine power generation systems and other factors, despite the effect of the appreciation of the yen

Operating Income: Decreased due to the effect of the appreciation of the yen, increase in depreciation of development costs of new commercial aircraft jet engine projects and other factors

FY2017 Forecast

(vs. FY2016)

Orders Received: Expected to increase due to increase in industrial gas turbines and other factors

Net Sales: Expected to increase due to increase in component parts of commercial aircraft jet engines and other factors

Operating Income: Expected to decrease due to increase in depreciation of development costs of new commercial aircraft jet engine projects and other factors

	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	8.8%	7.1%	4.9%

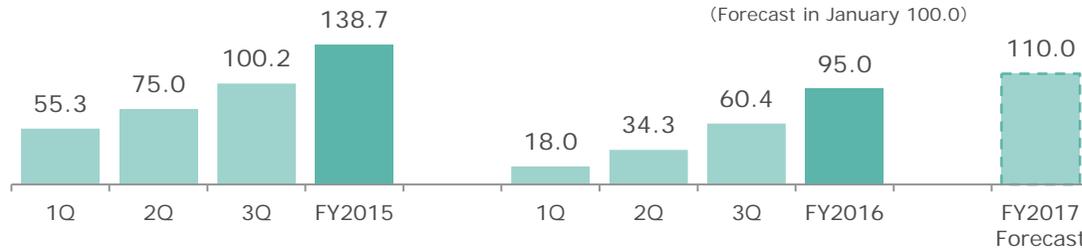
Plant & Infrastructure

Main Products: Industrial plants (cement, fertilizer and others), Power plants, LNG tanks, Municipal refuse incineration plants, Tunnel boring machines, Crushing machines

(Billion Yen / In accumulated amount)

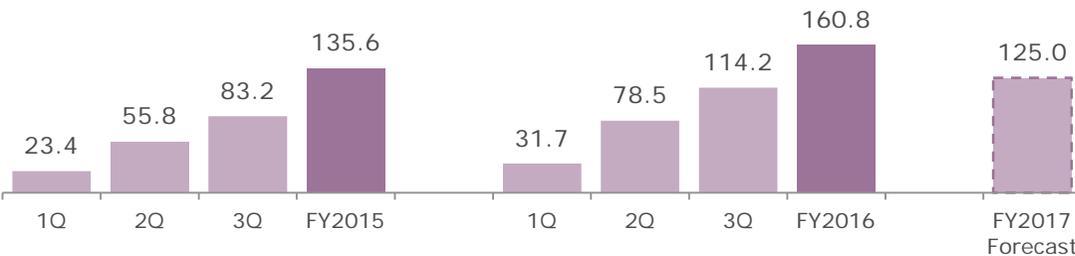
Orders Received

Order Backlog
214.9 Billion Yen



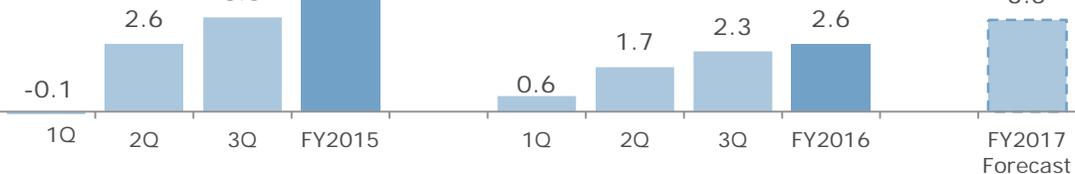
Net Sales

(Forecast in January 165.0)



Operating Income

(Forecast in January 3.5)



FY2016

(vs. FY2015)

Orders Received: Decreased due to decrease in municipal refuse incineration plants and other factors

Net Sales: Increased due to increase in construction works of a chemical plant for overseas market and other factors

Operating Income: Decreased due to provision for loss on construction contracts in LNG tanks for overseas market and other factors, despite sales increase

FY2017 Forecast

(vs.2016)

Orders Received: Expected to increase due to increase in plants for overseas market and others

Net Sales: Expected to decrease due to decrease in a chemical plant for overseas market

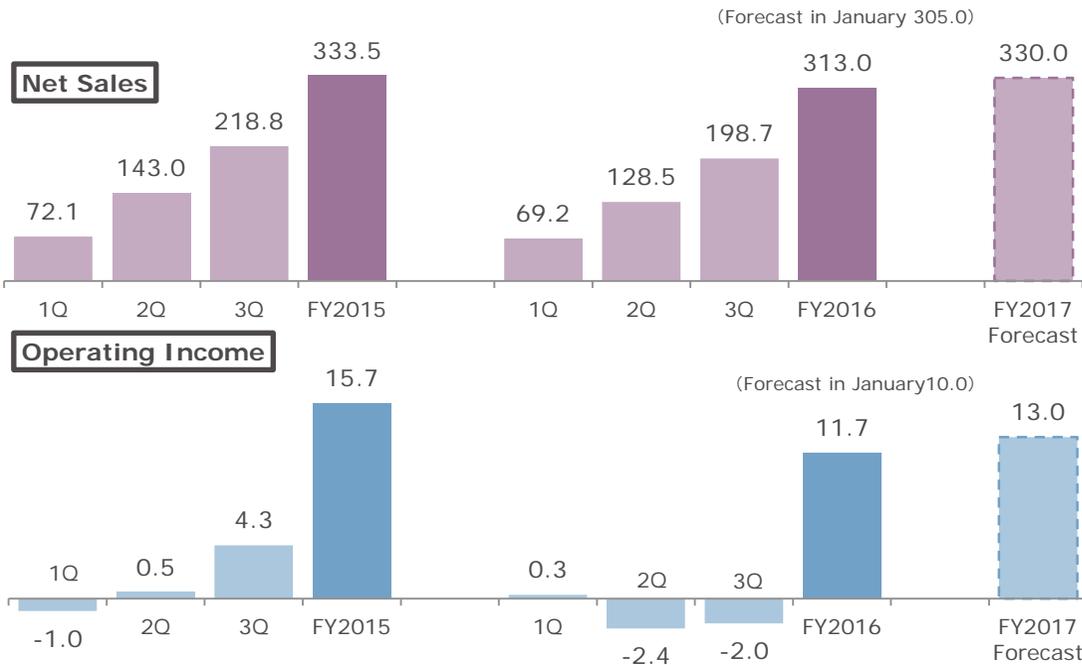
Operating Income: Expected to remain at the same level as the previous fiscal year, due to sales decrease, despite improvement from the previous fiscal year when there was provision for loss on construction contracts in LNG tanks for overseas market

	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	17.5%	8.9%	9.0%

Motorcycle & Engine

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

(Billion Yen / In accumulated amount)



<Wholesales by Product>

(Thousands of units / Billion Yen)

	FY2014		FY2015		FY2016	
	Unit	Amount	Unit	Amount	Unit	Amount
Motorcycles for developed countries	127	107.8	135	117.4	153	112.6
Motorcycles for emerging market	396	112.8	328	97.1	321	86.9
Utility Vehicles, ATVs & PWC	58	64.8	61	74.6	66	73.3
General-purpose gasoline Engines		43.8		44.4		40.2
Total	581	329.2	524	333.5	540	313.0

FY2016

(vs. FY2015)

Net Sales: Decreased due to the effect of the appreciation of the yen, decrease in general-purpose gasoline engines and motorcycles for emerging market, and other factors, despite increase in motorcycles and utility vehicles for developed countries

Operating Income: Decreased due to sales decrease

FY2017 Forecast

(vs.2016)

Net Sales: Expected to increase due to increase in motorcycles and utility vehicles for developed countries, recovery of motorcycles for emerging market, and other factors

Operating Income: Expected to increase due to sales increase

	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	14.1%	7.3%	9.5%

Precision Machinery

Main Products: Hydraulic components for construction machineries, Hydraulic components and systems for industrial machines, Marine application machines, Deck cranes and other marine deck equipment, Industrial robots, Medical and pharmaceutical robot

(Billion Yen / In accumulated amount)

FY2016

(vs. FY2015)

Orders Received & Net Sales : Increased due to increase in hydraulic components for construction machinery and various industrial robots, and other factors

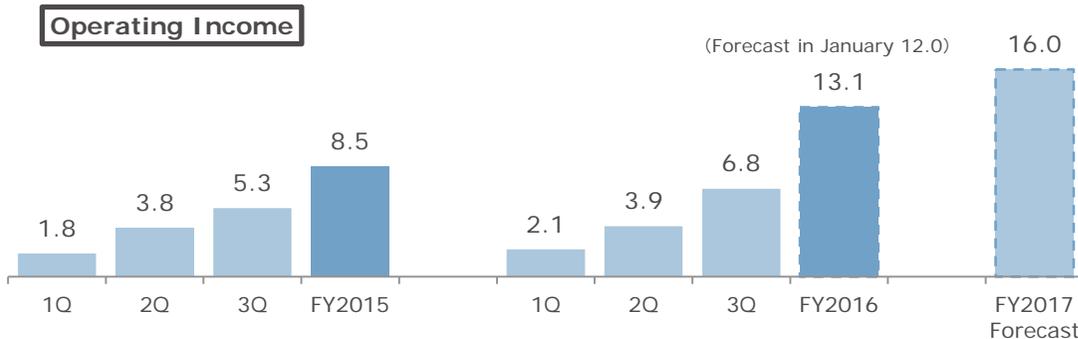
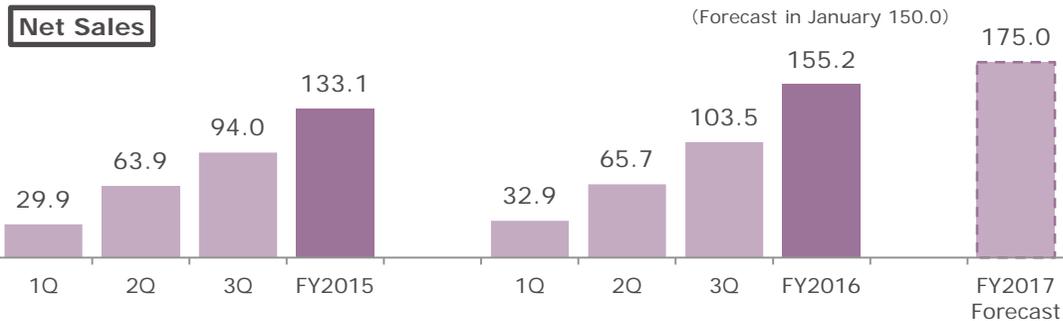
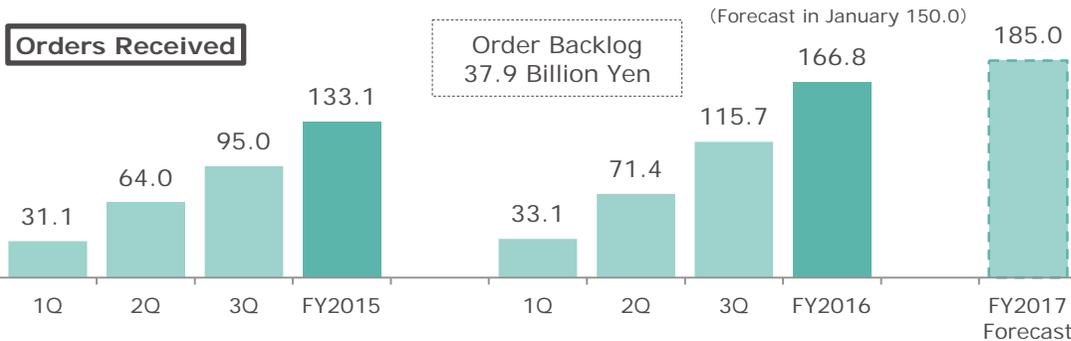
Operating Income: Increased due to sales increase

FY2017 Forecast

(vs.2016)

Orders Received & Net Sales : Expected to increase due to increase in hydraulic components for construction machinery and various industrial robots and other factors

Operating Income: Expected to increase due to sales increase



	FY2015 Actual	FY2016 Actual	FY2017 Forecast
Before-tax ROIC	9.5%	13.4%	15.8%

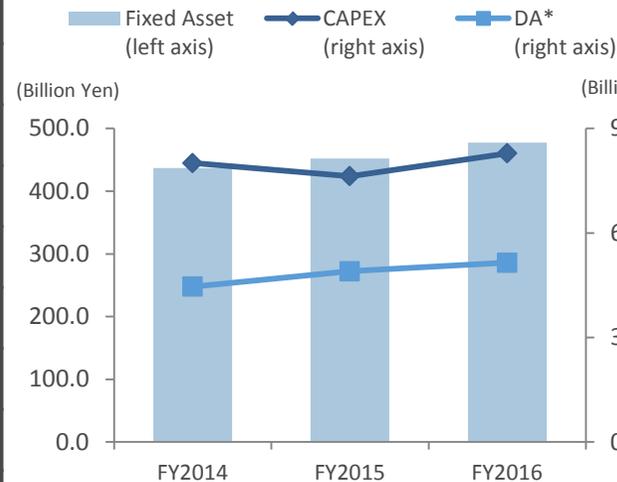
Summary of Balance Sheet

(Billion Yen)

	End of Mar. 2016	End of Mar. 2017	Change
Cash on hand and in banks	42.1	55.3	+13.2
Trade receivables	381.3	444.6	+63.2
Inventories	492.9	484.8	-8.1
Total fixed assets	452.0	477.1	+25.1
Other assets	251.9	225.3	-26.6
Total assets	1,620.4	1,687.3	+66.9
Trade payables	321.7	342.0	+20.2
Interest-bearing debt	398.4	400.6	+2.2
Advances from customers	170.4	205.8	+35.4
Other liabilities	284.1	287.4	+3.2
Total liabilities	1,174.8	1,236.0	+61.2
Total shareholders' equity	438.4	446.2	+7.8
Other net assets	7.2	5.0	-2.1
Total net assets	445.6	451.3	+5.7
Total liabilities and net assets	1,620.4	1,687.3	+66.9

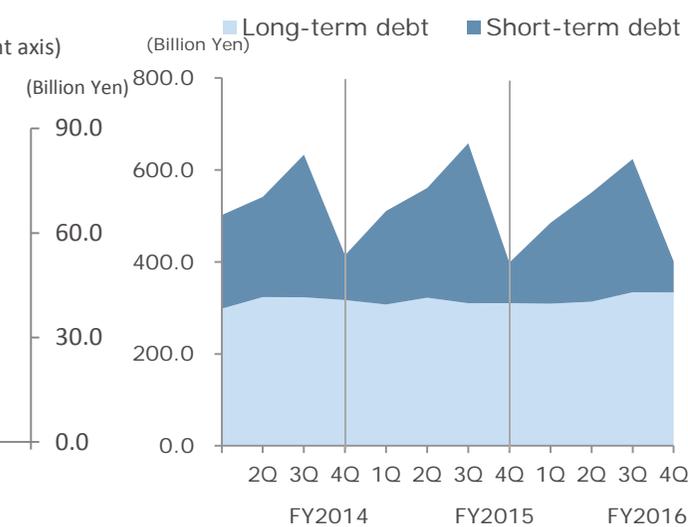
Ratio of shareholders' equity to total assets	26.6%	25.9%
Net Debt Equity Ratio	82.5%	78.9%

< Changes in CAPEX and others >



*Depreciation & Amortization

[Changes in interest-bearing debt]



< Overview of Balance Sheet >

On March 31, 2017, total assets increased from March 31, 2016, due to increase in trade receivables, increase in fixed assets resulting from CAPEX, and other factors.

Total liabilities increased due to increase in advances from customers and other factors.

Total net assets increased due to increase in retained earnings and other factors, despite decrease in foreign currency translation adjustments due to appreciation of the yen, and other factors.

Summary of Cash Flows

(Billion Yen)

	FY2015	FY2016	Change
Cash flows from operating activities	86.0	93.5	+7.4
Cash flows from investing activities	-74.1	-64.8	+9.3
Free Cash Flows	11.8	28.6	+16.7
Cash flows from financing activities	-23.4	-15.8	+7.5

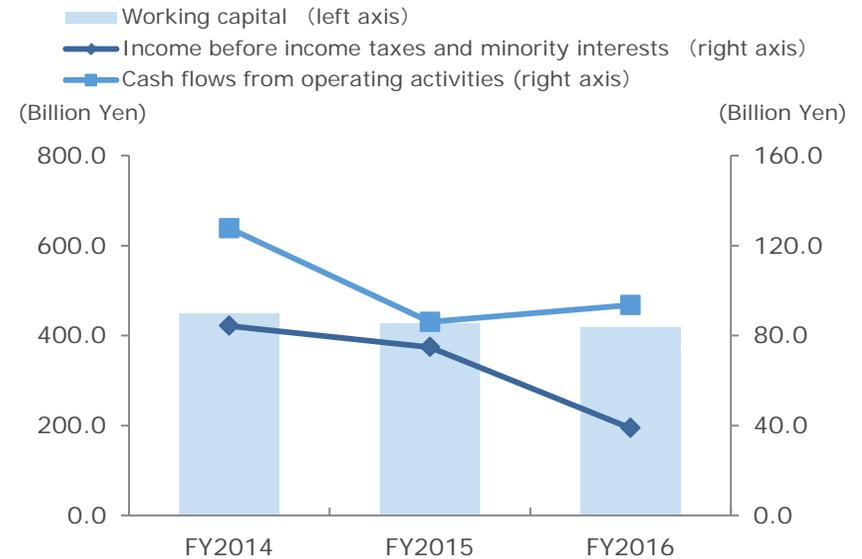
< Overview of Cash Flows >

Cash flows from operating activities improved from the previous fiscal year, due to decrease in working capital in Rolling Stock segment, increase in money received in Precision Machinery segment, and other factors.

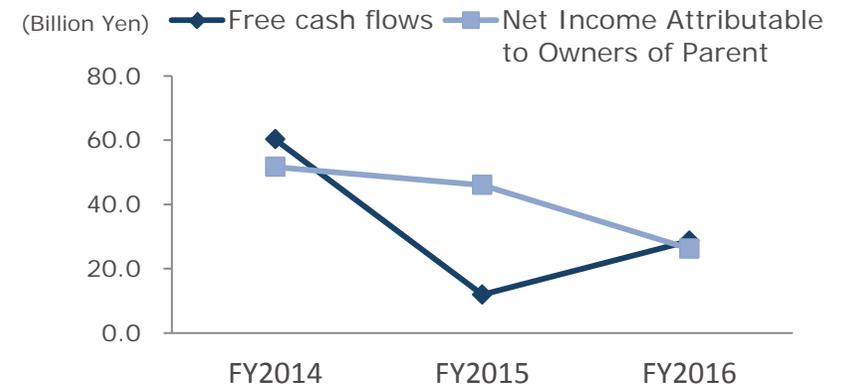
Cash flows from investing activities improved from the previous fiscal year, due to decrease in payments for CAPEX and other factors.

Given the above mentioned changes, free cash flows improved from previous fiscal year.

< Changes in cash flows from operating activities and others >



< Changes in free cash flows and Net Income attributable to Owners of Parent >



Consolidated Operating Performance

(Billion Yen)

	FY2016 Actual	FY2017 Forecast	Change
Orders Received	1,348.7	1,560.0	+211.3
Net Sales	1,518.8	1,550.0	+36.2
Operating Income	45.9	58.0	+12.1
Recurring Profit	36.6	51.5	+14.9
Net Income Attributable to Owners of Parent	26.2	36.0	+9.8
Before-tax ROIC	5.0%	6.0%	+1.0%
ROE	6.0%	8.0%	+2.0%
Dividend(per share)	6.0yen	6.0yen	

Exchange Rates (actual & assumed)

Yen / US\$	108.98	108
Yen / EUR	120.24	114

Note : Assumed rates are applied to the outstanding foreign exchange exposure as of April 27, 2017

vs. FY2016**< Orders Received >**

Expected to increase, due to increase in orders received for domestic and overseas market in Rolling Stock segment, increase in orders received for MOD in Aerospace segment and other factors

< Net Sales >

Expected to increase as a whole, due to sales increase in Gas Turbine & Machinery and Precision Machinery segment and other factors, despite decrease in Plant & Infrastructure segment

< Profits >

Expected to increase, due to recovery in Ship & Offshore Structure segment where a large loss on offshore service vessels business was recorded in the previous fiscal year and other factors, despite decrease in Aerospace segment

< Before-tax ROIC, ROE >

Expected to increase due to increase in profit

(For Reference)

Impact on profit by FX fluctuation of 1 Yen

(Billion Yen)

	Operating Income	Recurring Profit
US\$	2.21	2.13
EUR	0.21	0.25

Forecast by Segment

(Billion Yen)

	Orders Received			Net Sales			Operating Income		
	FY2016 Actual	FY2017 Forecast	Change	FY2016 Actual	FY2017 Forecast	Change	FY2016 Actual	FY2017 Forecast	Change
Ship & Offshore Structure	36.9	55.0	+18.1	103.2	100.0	-3.2	-21.4	0.0	+21.4
Rolling Stock	158.5	190.0	+31.5	137.1	150.0	+12.9	3.4	5.5	+2.1
Aerospace	237.0	330.0	+93.0	329.9	325.0	-4.9	25.0	13.0	-12.0
Gas Turbine & Machinery	260.3	275.0	+14.7	241.9	265.0	+23.1	15.2	11.0	-4.2
Plant & Infrastructure	95.0	110.0	+15.0	160.8	125.0	-35.8	2.6	3.5	+0.9
Motorcycle & Engine	313.0	330.0	+17.0	313.0	330.0	+17.0	11.7	13.0	+1.3
Precision Machinery	166.8	185.0	+18.2	155.2	175.0	+19.8	13.1	16.0	+2.9
Others	80.9	85.0	+4.1	77.4	85.0	+7.6	3.1	4.0	+0.9
Eliminations and corporate [※]	-	-	-	-	-	-	-7.0	-8.0	-1.0
Total	1,348.7	1,560.0	+211.3	1,518.8	1,555.0	+36.2	45.9	58.0	+12.1

※ "Eliminations and corporate" includes some expenses incurred at Head Office which were not allocated to each industry segment for internal reporting

Before-tax ROIC by Segment

	Before-tax ROIC (EBIT/ Invested Capital)		
	FY2016 Actual	FY2017 Forecast	Change
Ship & Offshore Structure	-23.4%	0.5%	+23.9%
Rolling Stock	3.0%	6.9%	+3.9%
Aerospace	15.1%	5.5%	-9.6%
Gas Turbine & Machinery	7.1%	4.9%	-2.2%
Plant & Infrastructure	8.9%	9.0%	+0.1%
Motorcycle & Engine	7.3%	9.5%	+2.2%
Precision Machinery	13.4%	15.8%	+2.4%
Total	5.0%	6.0%	+1.0%

Operating Income Margin (Operating Income / Net Sales)			Asset Turnover (Times) (Net Sales / Total Assets)		
FY2016 Actual	FY2017 Forecast	Change	FY2016 Actual	FY2017 Forecast	Change
-20.7%	0.0%	+20.7%	0.61	0.57	-0.04
2.5%	3.6%	+1.1%	0.83	0.88	+0.05
7.5%	4.0%	-3.5%	0.76	0.74	-0.02
6.3%	4.1%	-2.2%	0.69	0.72	+0.03
1.6%	2.8%	+1.2%	1.35	1.02	-0.33
3.7%	3.9%	+0.2%	1.28	1.37	+0.09
8.4%	9.1%	+0.7%	0.98	1.06	+0.08
3.0%	3.7%	+0.7%	0.88	0.89	+0.01

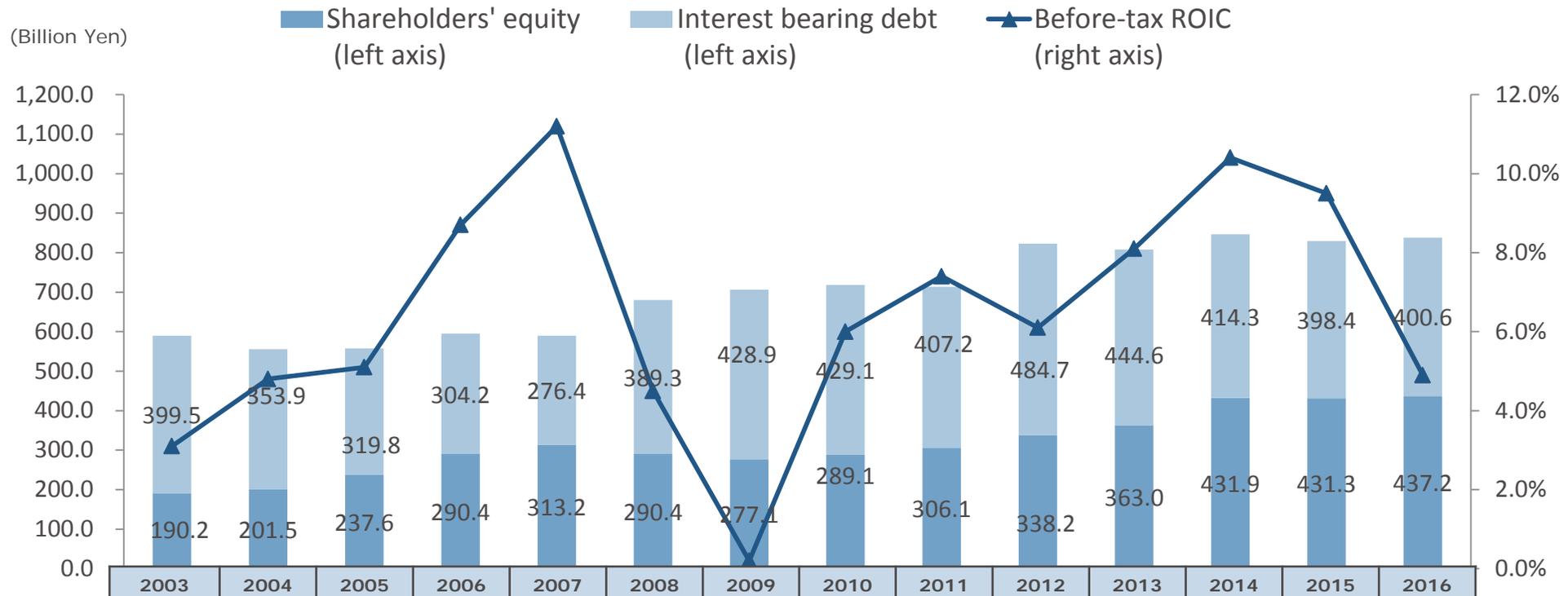
R&D/CAPEX/Number of Employees

(Billion Yen / Persons)

	FY2015 Actual	FY2016 Actual	FY2017 Forecast
R&D Expenses	43.6	43.6	48.0
CAPEX (Construction Base)	76.3	82.7	99.0
Depreciation & Amortization	49.0	51.5	53.0
Domestic	25,897	26,348	27,300
Overseas	8,708	8,779	9,100
Number of Employees	34,605	35,127	36,400

• 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.

Historical Data



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Before-tax ROIC	3.1%	4.8%	5.1%	8.7%	11.2%	4.5%	0.2%	6.0%	7.4%	6.1%	8.1%	10.4%	9.4%	5.0%
Invested Capital	589.6	555.3	557.3	594.6	589.6	679.7	705.9	718.2	713.2	822.8	807.6	846.3	829.7	837.9
Net Sales	1,160.2	1,241.5	1,322.4	1,438.6	1,501.0	1,338.5	1,173.4	1,226.9	1,303.7	1,288.8	1,385.4	1,486.1	1,541.0	1,518.8
Operating Profit	22.2	24.7	41.7	69.1	76.9	28.7	-1.3	42.6	57.4	42.0	72.3	87.2	95.9	45.9
Recurring Profit	12.1	21.0	30.8	49.0	63.9	38.7	14.2	49.1	63.6	39.3	60.6	84.2	93.2	36.6
Net Income Attributable to Owners of Parent	6.3	11.4	16.4	29.7	35.1	11.7	-10.8	25.9	23.3	30.8	38.6	51.6	46.0	26.2

Yen / US\$	113	108	112	117	115	101	93	86	79	82	99	109	118	108
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Change of ROIC Rating

(Numbers of BU)

ROIC rating		As of April 2016	As of April 2017(※)
A	Market leader	7	5
B	Stable contributor	7	11
C	Reduced variation in performance required	11	6
D	Improved investment efficiency required	4	4
E	Restructuring required	2	4
Year covered		Actual :FY2014-2015 Assumed:FY2016-2018	Actual :FY2015-2016 Assumed:FY2017-2019
Actual & assumed exchange rate (¥/\$)		FY2014 :¥109/\$ FY2015 :¥118/\$ FY2016-2018:¥110/\$	FY2014 :¥118/\$ FY2015 :¥108/\$ FY2016-2018:¥105/\$

(※)ROIC rating of each BU as of April 2017 is complied with reclassification of some BUs after April, 2016.

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Figures recorded in the business forecasts are forecasts that reflect the judgment of the Company based on the information available at the time of release and include risks and uncertainties. Accordingly, the Company cautions investors not to make investment decisions solely on the basis of these forecasts.

Actual business results may differ materially from these business forecasts due to various important factors resulting from changes in the external environment and internal environment. Important factors that may affect actual business results include, but are not limited to, economic conditions, the yen exchange rate against the U.S. dollar and other currencies, the tax system, and laws and regulations.