

Notice Regarding Losses on Overseas Business

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

1. Losses on joint shipbuilding venture in Brazil

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

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

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

2. Accounting treatment of losses

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

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

Losses on a non-consolidated basis are presented below.

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

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

3. Fiscal 2015 performance forecast and year-end dividend forecast

