

**Report of Earnings and Financial Statements for the
Six Months Ended September 30, 2017 (Consolidated)**
(Prepared pursuant to Japanese GAAP)

October 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:

Submission of quarterly securities filing: November 8, 2017

Commencement of dividend payments: December 1, 2017

Supplementary materials to quarterly earnings: Available

Quarterly earnings presentation: Conducted (for institutional investors, analysts and the press)

1. Consolidated Financial Results for the Six Months ended September 30, 2017
(April 1, 2017 – September 30, 2017)

(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	%
Six Months Ended September 30, 2017	709,721	1.7	16,115	89.7	15,116	-	10,853	-
Six Months Ended September 30, 2016	697,299	(1.5)	8,491	(79.9)	(1,725)	-	(242)	-

Note: Comprehensive income: Six months ended September 30, 2017: 13,893 million yen -%
 Six months ended September 30, 2016: (24,643) million yen -%

	Earnings per share	Earnings per share – diluted
	yen	yen
Six Months Ended September 30, 2017	64.97	-
Six Months Ended September 30, 2016	(1.45)	-

※As the Company carried out a share consolidation with a 10:1 ratio of common shares with an effective date of October 1, 2017, earnings per share has been calculated assuming this share consolidation was carried out at the beginning of the fiscal year ended March 31, 2017.

(2) Financial Condition

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
September 30, 2017	1,795,393	456,251	24.6
March 31, 2017	1,687,363	451,327	25.9

Note: Shareholders' equity: September 30, 2017: 441,746 million yen
March 31, 2017: 437,247 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, 2017	-	4.00	-	2.00	6.00
Year ending March 31, 2018	-	3.00			
Year ending March 31, 2018 (forecast)			-	30.00	-

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

※The Company conducted a share consolidation with a 10:1 ratio of common shares, with an effective date of October 1, 2017. The expected dividend per share as of March 31, 2018 factoring in the impact of the share consolidation is shown. The total annual dividend for the fiscal year ending March 31, 2018 is denoted with the “-” mark. If the share consolidation was excluded from consideration, the expected dividend per share as of March 31, 2018 would be ¥3 per share, and the total annual dividend for the fiscal year ending March 31, 2018 would be ¥6 per share.

3. Forecast of Consolidated Earnings for the Year Ending March 31, 2018 (April 1, 2017 – March 31, 2018)

(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	1,590,000	4.6	62,000	34.8	55,500	51.3	38,000	45.0	227.47

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

※As the Company carried out a share consolidation with a 10:1 ratio of common shares with an effective date of October 1, 2017, the calculation of earnings per share factors the impact of this share consolidation in consideration.

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. Consolidated Financial Statements (4) Notes on financial statements” on page 15 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: None
 - (2) Changes in accounting policies other than (1): None
 - (3) Changes in accounting estimates: None
 - (4) Correction of errors: None
- 4) Number of shares issued and outstanding (common stock)
 - (1) Number of shares issued as of period-end (including treasury stock)

September 30, 2017:	167,080,532 shares
March 31, 2017:	167,080,532 shares
 - (2) Number of shares held in treasury as of period-end

September 30, 2017:	26,942 shares
March 31, 2017:	25,910 shares
 - (3) Average number of shares during respective periods

Six months ended September 30, 2017:	167,054,136 shares
Six months ended September 30, 2016:	167,057,007 shares

※As the Company carried out a share consolidation with a 10:1 ratio of common shares with an effective date of October 1, 2017, the number of shares issued as of period-end, the number of shares held in treasury as of period-end, and the average number of shares during respective periods have been calculated assuming that this share consolidation was carried out at the beginning of the fiscal year ended March 31, 2017.

The quarterly report of earnings and financial statements is exempted from quarterly review procedures based on the Financial Instruments and Exchange act.

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 their 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 10 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 for institutional investors, analysts and the press on Friday October 27, 2017, 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.

Dividend and earnings forecasts after share consolidation

At the 194th Ordinary General Meeting of Shareholders held on June 28, 2017, the shareholders approved the share consolidation, and effective October 1, 2017, every 10 common shares issued by the Company was consolidated into 1 share. Both the fiscal year-end dividend forecast and earnings per share in the full-year consolidated earnings forecasts for the fiscal year ending March 31, 2018, factor in this share consolidation.

Accompanying Materials – Contents

1. Qualitative Information and Financial Statements	6
(1) Consolidated operating results	6
(2) Consolidated financial position	9
(3) Consolidated earnings outlook	10
2. Consolidated Financial Statements	11
(1) Consolidated balance sheets	11
(2) Consolidated statements of income and comprehensive income	13
(3) Consolidated cash flow statements	14
(4) Notes on financial statements	15
(Notes on the going-concern assumption)	15
(Notes on significant changes in the amount of shareholders' equity)	15
(Accounting procedures specific to preparation of quarterly consolidated financial statements)	15
(Related to consolidated statements of income)	15
(Segment information)	16
3. Supplementary Information	17
(1) Orders and sales (consolidated)	17
(2) Net sales by geographic area (consolidated)	18
(3) Supplementary information on earnings forecasts for the fiscal year ending March 31, 2018	19

1. Qualitative Information and Financial Statements

(1) Consolidated operating results

In the first six months of the fiscal year ending March 31, 2018, despite modest growth centered on the U.S., where the real economy remains strong, the global economy was relatively lacking in vigor overall due to languishing crude oil prices, the economic slowdown in emerging countries and resource-rich countries, as well as other factors. In addition, uncertainty about future prospects for the real economy persists, 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 has been recovering modestly, due to the impacts of the moderate turnaround in personal consumption, the pickup in capital investment, and other factors. Going forward, the economy is expected to grow modestly overall due to steady improvements in the income and employment environments, but there is a possibility that economic policies enacted by countries around the world, especially the U.S., and geopolitical risks on the Korean Peninsula and in other regions, 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 the fiscal first half increased versus the same period of the previous fiscal year, mainly in the Aerospace, Precision Machinery and Plant & Infrastructure segments. Net sales in the fiscal first half rose slightly overall versus the same period of the previous fiscal year, due to the increase in sales in the Precision Machinery and Gas Turbine & Machinery segments, as well as the decline in sales in the Plant & Infrastructure segment, along with other factors. Operating income, recurring profit, and net income attributable to owners of parent all increased compared to the same period of the previous fiscal year, due to the increase in profit in the Precision Machinery segment, the improvement in the Ship & Offshore Structure segment, and other factors.

As a result, consolidated orders received increased ¥128.4 billion versus the same period of the previous fiscal year to ¥666.9 billion, consolidated sales increased ¥12.4 billion year on year to ¥709.7 billion, operating income increased ¥7.6 billion to ¥16.1 billion, recurring profit rose ¥16.8 billion in comparison to the same period of the previous fiscal year to ¥15.1 billion, while net income attributable to owners of parent improved ¥11.0 billion to ¥10.8 billion.

Consolidated operating performance in the first half of fiscal year is summarized by segment below.

Segment Information

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

	Six months ended September 30						Orders received		
	2016 (A)		2017 (B)		Change (B – A)		Six months ended September 30		
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	2016 (A)	2017 (B)	Change (B – A)
Ship & Offshore Structure	51.6	(16.4)	45.0	(5.1)	(6.5)	11.2	8.6	16.3	7.7
Rolling Stock	62.3	(0.6)	63.6	(0.9)	1.3	(0.2)	57.7	68.4	10.6
Aerospace	168.9	20.1	168.5	11.7	(0.4)	(8.3)	98.9	151.3	52.4
Gas Turbine & Machinery	106.6	2.9	116.2	4.3	9.5	13	102.6	109.4	6.8
Plant & Infrastructure	78.5	1.7	53.7	(0.2)	(24.8)	(1.9)	34.3	53.6	19.2
Motorcycle & Engine	128.5	(2.4)	136.9	(2.0)	8.4	0.3	128.5	136.9	8.4
Precision Machinery	65.7	3.9	86.9	9.0	21.2	5.1	71.4	92.4	21.0
Other	34.9	1.3	38.5	1.4	3.6	0.0	36.2	38.2	2.0
Adjustments	-	(2.0)	-	(2.1)	-	(0.0)	-	-	-
Total	697.2	8.4	709.7	16.1	12.4	7.6	538.4	666.9	128.4

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 increased ¥7.7 billion year on year to ¥16.3 billion, due to orders received for LPG carriers and Kawasaki JETFOIL.

Consolidated net sales fell ¥6.5 billion year on year to ¥45.0 billion, due to a decline in the volume of vessel repair work.

Consolidated operating loss was ¥5.1 billion, a ¥11.2 billion improvement from the same period of the previous fiscal year, when additional allowance for doubtful receivables was posted and there was an increase in provision for losses on construction contracts.

Rolling Stock

Consolidated orders received increased ¥10.6 billion versus the same period of the previous fiscal year, when rolling stock for a domestic subway and other orders were received, to ¥68.4 billion, due to an order received for rolling stock for a high-speed railway (MRT) in Bangladesh.

Consolidated net sales increased ¥1.3 billion year on year to ¥63.6 billion, due to the increase in the domestic market, despite a decline in Asia, including Singapore and other factors.

Consolidated operating income fell ¥0.2 billion year on year to an operating loss of ¥0.9 billion, due to the decline in profitable projects, and other factors.

Aerospace

Consolidated orders received increased ¥52.4 billion year on year to ¥151.3 billion, due to the increase in orders received from the Ministry of Defense, and other factors.

Consolidated net sales fell ¥0.4 billion year on year to ¥168.5 billion, due to the decline in sales of component parts for commercial aircraft and other factors, despite the increase in sales to the Ministry of Defense.

Consolidated operating income fell ¥8.3 billion year on year to ¥11.7 billion, due to the decline in profitability of component parts for commercial aircraft, and other factors.

Gas Turbine & Machinery

Consolidated orders received increased ¥6.8 billion year on year to ¥109.4 billion, due to the increase in natural gas compression modules, and other factors.

Consolidated net sales increased ¥9.5 billion year on year to ¥116.2 billion, due to the increase in component parts of aircraft engines, and other factors.

Consolidated operating income increased ¥1.3 billion year on year to ¥4.3 billion, due to the increase in sales.

Plant & Infrastructure

Consolidated orders received increased ¥19.2 billion year on year to ¥53.6 billion, due to the increase in waste treatment facility operations, and other factors.

Consolidated net sales fell ¥24.8 billion year on year to ¥53.7 billion, due to the decline in construction work volume on a chemical plant for an overseas market, and other factors.

Consolidated operating income fell ¥1.9 billion year on year to an operating loss of ¥0.2 billion, due to the decrease in sales.

Motorcycle & Engine

Consolidated net sales increased ¥8.4 billion year on year to ¥136.9 billion, due to the increase in motorcycles and general-purpose engines for developed countries, despite the decline in motorcycles for emerging markets.

Consolidated operating income increased ¥0.3 billion year on year to an operating loss of ¥2.0 billion, due to the profit growth by the increase in sales and other factors.

Precision Machinery

Consolidated orders received increased ¥21.0 billion year on year to ¥92.4 billion, due to the increase in hydraulic components for construction machinery.

Consolidated net sales increased ¥21.2 billion year on year to ¥86.9 billion, due to an increase in sales of hydraulic components for construction machinery and various industrial robots, as well as other factors.

Consolidated operating income increased ¥5.1 billion year on year to ¥9.0 billion, due to the increase in sales.

Other Operations

Consolidated net sales increased ¥3.6 billion year on year to ¥38.5 billion.

Consolidated operating income was ¥1.4 billion, on par with the same period of the previous fiscal year.

(2) Consolidated financial position

On September 30, 2017, consolidated assets totaled ¥1,795.3 billion, an increase of ¥108.0 billion from March 31, 2017, due to an increase in trade receivables in conjunction with the posting of sales, and an increase in inventories in association with progress on construction projects. Liabilities totaled ¥1,339.1 billion, a ¥103.1 billion increase versus March 31, 2017, due to the increase in long-term debt and other interest-bearing debts along with other factors, despite the decline in advances from customers. Interest-bearing debts increased ¥158.7 billion to ¥559.4 billion. Net assets increased ¥4.9 billion to ¥456.2 billion, due to the posting of net income attributable to owners of parent, dividend payments, and other factors.

(3) Consolidated earnings outlook

Concerning consolidated financial performance for the fiscal year ending March 31, 2018, consolidated net sales are expected to be ¥1,590.0 billion, an increase of ¥35.0 billion from the previous announcement (July 31, 2017). This upward revision is due to the increase in component parts for commercial aircraft in the Aerospace segment, the increase in hydraulic equipment for the construction machinery market in the Precision Machinery segment, the revision in assumed foreign exchange rates, and other factors.

In terms of profits, consolidated operating income is expected to be ¥62.0 billion, consolidated recurring profit is expected to be ¥55.5 billion, and net income attributable to owners of parent is expected to be ¥38.0 billion, due to the increase in profits in conjunction with higher sales in the Precision Machinery and Aerospace segments, progress in profitability improvements, and other factors, despite the expected deterioration in profit due to revisions to delivery deadlines and costs of LNG carriers in the Ship & Offshore Structure segment, along with other factors.

The Company expects consolidated orders received increasing ¥60.0 billion from the value previously announced to ¥1,620 billion, ROIC of 6.4% and ROE of 8.4% billion due to the increase of orders in Aerospace segment and Precision Machinery segment.

The Company's earnings forecasts assume exchange rates of ¥110 to the US dollar and ¥130 to the euro.

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. Please note that 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. Consolidated Financial Statements

(1) Consolidated balance sheets

		Million yen	
		As of March 31, 2017	As of September 30, 2017
Assets			
Current assets			
Cash on hand and in banks		55,388	45,442
Trade receivables		444,633	489,342
Merchandise and finished products		49,850	59,249
Work in process		323,433	342,778
Raw materials and supplies		111,577	116,521
Other		95,544	117,934
Allowance for doubtful receivables		(2,593)	(2,400)
	Total current assets	1,077,835	1,168,868
Fixed assets			
Net property, plant and equipment			
Buildings and structures		180,070	186,413
Other		281,810	288,669
	Total property, plant and equipment	461,881	475,083
Intangible assets		15,284	15,567
Investments and other assets			
Other		147,090	150,731
Allowance for doubtful receivables		(14,727)	(14,857)
	Total investments and other assets	132,362	135,873
	Total fixed assets	609,527	626,525
Total assets		1,687,363	1,795,393
Liabilities			
Current liabilities			
Trade payables		240,572	218,476
Electronically recorded obligations - operating		101,449	112,900
Short-term debt		111,456	107,983
Income taxes payable		4,295	4,555
Accrued bonuses		20,288	16,816
Provision for product warranties		12,175	11,262
Provision for losses on construction contracts		18,103	17,376
Advances from customers		205,871	165,648
Other		129,228	224,595
	Total current liabilities	843,441	879,615
Long-term liabilities			
Bonds payable		130,000	140,000
Long-term debt		147,492	200,400
Net defined benefit liability		81,563	85,850
Other		33,538	33,277
	Total long-term liabilities	392,594	459,527
Total liabilities		1,236,035	1,339,142

Net assets		
Shareholders' equity		
Common stock	104,484	104,484
Capital surplus	54,393	54,393
Retained earnings	287,448	289,949
Treasury stock	(96)	(100)
Total shareholders' equity	<u>446,230</u>	<u>448,727</u>
Accumulated other comprehensive income		
Net unrealized gains (losses) on securities, net of tax	3,232	3,781
Deferred gains (losses) on hedges	(1,182)	(1,462)
Foreign currency translation adjustment	(341)	(610)
Remeasurements of defined benefit plans	(10,692)	(8,689)
Total accumulated other comprehensive income	<u>(8,983)</u>	<u>(6,981)</u>
Non-controlling interests	<u>14,080</u>	<u>14,504</u>
Total net assets	<u>451,327</u>	<u>456,251</u>
Total net assets and liabilities	<u>1,687,363</u>	<u>1,795,393</u>

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

	Million yen	
	Six months ended September 30, 2016	Six months ended September 30, 2017
Net sales	697,299	709,721
Cost of sales	595,267	599,529
Gross profit	102,031	110,191
Selling, general and administrative expenses		
Salaries and benefits	25,047	25,542
R&D expenses	20,671	20,659
Other	47,820	47,874
Total selling, general and administrative expenses	93,539	94,076
Operating income	8,491	16,115
Non-operating income		
Interest income	378	358
Dividend income	171	185
Equity in income of non-consolidated subsidiaries and affiliates	2,945	2,553
Foreign exchange gains	-	1,442
Other	1,985	1,376
Total non-operating income	5,480	5,916
Non-operating expenses		
Interest expense	1,433	1,338
Foreign exchange losses	10,666	-
Other	3,598	5,577
Total non-operating expenses	15,698	6,915
Recurring profit	(1,725)	15,116
Extraordinary income		
Gain on sale of fixed assets	(*1) 2,202	-
Total extraordinary income	2,202	-
Income before income taxes	476	15,116
Income taxes	(16)	3,250
Net income	493	11,865
Net income attributable to non-controlling interests	736	1,011
Net income (loss) attributable to owners of parent	(242)	10,853

Consolidated statements of comprehensive income

	Million yen	
	Six months ended September 30, 2016	Six months ended September 30, 2017
Net income	493	11,865
Other comprehensive income		
Net unrealized gains (losses) on securities	(458)	576
Deferred gains (losses) on hedges	729	(272)
Foreign currency translation adjustment	(15,623)	831
Remeasurements of defined benefit plans	1,999	2,009
Share of other comprehensive income of associates accounted for using equity method	(11,784)	(1,116)
Total other comprehensive income	(25,137)	2,028
Comprehensive Income attributable to:	(24,643)	13,893
Owners of parent	(23,959)	12,855
Non-controlling interests	(683)	1,038

(3) Consolidated cash flow statements

	Million yen	
	Six months ended September 30, 2016	Six months ended September 30, 2017
Cash flows from operating activities		
Income before income taxes	476	15,116
Depreciation and amortization	25,121	27,442
Increase (decrease) in allowance for doubtful receivables	3,077	(115)
Increase (decrease) in accrued bonuses	(6,794)	(3,491)
Increase (decrease) in provision for product warranties	(1,034)	(933)
Increase (decrease) in provision for losses on construction contracts	8,685	(727)
Increase (decrease) in net defined benefit liability	1,970	7,197
Interest and dividend income	(549)	(543)
Interest expense	1,433	1,338
Share of (profit) loss of entities accounted for using equity method	(2,945)	(2,553)
(Increase) decrease in trade receivables	(58,251)	(43,312)
(Increase) decrease in inventories	(16,045)	(31,518)
Increase (decrease) in trade payables	(26,623)	(11,014)
Increase (decrease) in advance payments	3,945	(4,386)
Increase (decrease) in advances received from customers	(21,022)	(40,403)
(Increase) decrease in other current assets	2,671	(19,133)
Increase (decrease) in other current liabilities	(17,154)	(12,149)
Other	(2,998)	(1,203)
Subtotal	<u>(106,036)</u>	<u>(117,983)</u>
Cash received for interest and dividends	576	524
Cash paid for interest	(1,432)	(1,338)
Cash paid for income taxes	(10,354)	(4,536)
Net cash provided by operating activities	<u>(117,247)</u>	<u>(123,333)</u>
Cash flows from investing activities		
Acquisition of property, plant, equipment and intangible assets	(33,752)	(38,595)
Proceeds from sales of property, plant, equipment and intangible assets	4,200	566
Acquisition of investments in securities	(610)	(222)
Proceeds from sales of investments in securities	165	54
Acquisition of investments in subsidiaries and affiliate	(625)	(1,791)
Net decrease (increase) in short-term loans receivable	(338)	25
Payments of long-term loans receivable	(40)	(57)
Proceeds from collection of long-term loans receivable	31	45
Other	(650)	(309)
Net cash used for investing activities	<u>(31,618)</u>	<u>(40,285)</u>
Cash flows from financing activities		
Net increase (decrease) in short-term debt	151,460	110,375
Proceeds from long-term debt	4,503	56,355
Repayment of long-term debt	(9,338)	(16,599)
Proceeds from issuance of bonds	20,000	20,000
Redemption of bonds	(10,000)	(10,000)
Cash dividends paid	(11,674)	(3,375)
Cash dividends paid to non-controlling interests	(443)	(662)
Other	(570)	(462)
Net cash used for financing activities	<u>143,936</u>	<u>155,631</u>
Effect of exchange rate changes	3,223	(2,457)
Net increase (decrease) in cash and cash equivalents	<u>(1,705)</u>	<u>(10,445)</u>
Cash and cash equivalents at beginning of period	37,832	50,722
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(438)	-
Cash and cash equivalents at end of period	<u>35,689</u>	<u>40,277</u>

(4) Notes on financial statements

Notes on the going-concern assumption

Not applicable

Notes on significant changes in the amount of shareholders' equity

Not applicable

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 tax effect accounting to pretax net income for the fiscal year which includes the second 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.

Related to consolidated statements of income

(*1) Gain on sale of fixed assets

Six months ended September 30, 2016 (April 1, 2016 – September 30, 2016)

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

Segment information

1. Six months ended September 30, 2016 (April 1, 2016 – September 30, 2016)

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

Million yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Ship & Offshore Structure	51,622	1,579	53,201	(16,428)
Rolling Stock	62,346	12	62,359	(671)
Aerospace	168,917	921	169,839	20,113
Gas Turbine & Machinery	106,622	6,199	112,821	2,977
Plant & Infrastructure	78,567	3,627	82,195	1,700
Motorcycle & Engine	128,567	417	128,984	(2,455)
Precision Machinery	65,728	6,869	72,598	3,943
Other	34,926	17,983	52,909	1,397
Reportable segment total	697,299	37,610	734,909	10,576
Adjustments*1	-	(37,610)	(37,610)	(2,084)
Consolidated total	697,299	-	697,299	8,491

Notes: 1. Breakdown of adjustments:

Million yen

Income	Amount
Intersegment transactions	30
Corporate expenses*	(2,115)
Total	(2,084)

*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. Six months ended September 30, 2017 (April 1, 2017 – September 30, 2017)

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

Million yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Ship & Offshore Structure	45,075	1,301	46,377	(5,199)
Rolling Stock	63,690	52	63,742	(922)
Aerospace	168,517	669	169,186	11,735
Gas Turbine & Machinery	116,215	5,172	121,388	4,340
Plant & Infrastructure	53,737	5,021	58,759	(200)
Motorcycle & Engine	136,980	305	137,286	(2,058)
Precision Machinery	86,967	6,758	93,725	9,070
Other	38,537	19,673	58,210	1,458
Reportable segment total	709,721	38,955	748,676	18,223
Adjustments*1	-	(38,955)	(38,955)	(2,108)
Consolidated total	709,721	-	709,721	16,115

Notes: 1. Breakdown of adjustments:

Million yen

Income	Amount
Intersegment transactions	(77)
Corporate expenses*	(2,031)
Total	(2,108)

* 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

3. Supplementary information

(1) Orders and sales (consolidated)

Orders received

Reportable segment	Six months ended September 30, 2016		Six months ended September 30, 2017		Year ended March 31, 2017	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	8,645	1.6	16,339	2.4	36,979	2.7
Rolling Stock	57,716	10.7	68,416	10.2	158,597	11.7
Aerospace	98,904	18.3	151,327	22.6	237,016	17.5
Gas Turbine & Machinery	102,658	19.0	109,466	16.4	260,354	19.3
Plant & Infrastructure	34,325	6.3	53,600	8.0	95,012	7.0
Motorcycle & Engine	128,567	23.8	136,980	20.5	313,030	23.2
Precision Machinery	71,403	13.2	92,484	13.8	166,832	12.3
Other	36,209	6.7	38,254	5.7	80,948	6.0
Total	538,430	100.0	666,930	100.0	1,348,773	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	Six months ended September 30, 2016		Six months ended September 30, 2017		Year ended March 31, 2017	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	51,622	7.4	45,075	6.3	103,204	6.7
Rolling Stock	62,346	8.9	63,690	8.9	137,159	9.0
Aerospace	168,917	24.2	168,517	23.7	329,915	21.7
Gas Turbine & Machinery	106,622	15.2	116,215	16.3	241,953	15.9
Plant & Infrastructure	78,567	11.2	53,737	7.5	160,877	10.5
Motorcycle & Engine	128,567	18.4	136,980	19.3	313,030	20.6
Precision Machinery	65,728	9.4	86,967	12.2	155,278	10.2
Other	34,926	5.0	38,537	5.4	77,410	5.0
Total	697,299	100.0	709,721	100.0	1,518,830	100.0

Order backlog

Reportable segment	Year ended March 31, 2017		Six months ended September 30, 2017		Six months ended September 30, 2016	
	million yen	% of total	million yen	% of total	million yen	% of total
Ship & Offshore Structure	191,604	10.8	162,785	9.4	206,523	11.9
Rolling Stock	392,224	22.2	398,697	23.2	349,143	20.1
Aerospace	508,759	28.8	490,082	28.5	527,726	30.5
Gas Turbine & Machinery	394,977	22.4	387,871	22.5	360,802	20.8
Plant & Infrastructure	214,926	12.1	215,266	12.5	233,601	13.5
Motorcycle & Engine	-	-	-	-	-	-
Precision Machinery	37,912	2.1	43,439	2.5	32,033	1.8
Other	21,401	1.2	20,324	1.1	19,146	1.1
Total	1,761,806	100.0	1,718,468	100.0	1,728,978	100.0

(2) Net sales by geographic area (consolidated)

Six months ended September 30, 2016 (April 1, 2016 – September 30, 2016)

	Million yen	
Japan	292,700	41.9%
United States	170,784	24.4%
Europe	90,460	12.9%
Asia	98,477	14.1%
Other areas	44,876	6.4%
Total	697,299	100.0%

Six months ended September 30, 2017 (April 1, 2017 – September 30, 2017)

	Million yen	
Japan	300,733	42.3%
United States	176,841	24.9%
Europe	77,978	10.9%
Asia	102,039	14.3%
Other areas	52,127	7.3%
Total	709,721	100.0%

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

1) Consolidated earnings outlook

Billion yen

	Outlook for the year ending March 31, 2018 (fiscal 2017)			Year ended March 31, 2017 (Fiscal 2016)(actual)
	Revised forecast (A)	Forecast issued July 31, 2017 (B)	Change (A – B)	
Net sales	1,590.0	1,555.0	35.0	1,518.8
Operating income	62.0	58.0	4.0	45.9
Recurring profit	55.5	51.5	4.0	36.6
Net income attributable to owners of parent	38.0	36.0	2.0	26.2
Orders received	1,620.0	1,560.0	60.0	1,348.7
Before-tax ROIC (%)	6.4%	6.0%	0.4%	5.0%
R&D expenses	48.0	48.0	-	43.6
Capital Expenditures	94.0	99.0	(5.0)	82.7
Depreciation/Amortization	52.0	53.0	(1.0)	51.5
Number of employees at end of fiscal year				
*Number of employees outside of Japan included therein	36,400 *9,100	36,400 *9,100	- *-	35,127 *8,779

Notes: 1. Outlook's assumed foreign exchange rates: ¥110 = US\$1, ¥130= 1 euro

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

3. Capital expenditures represent the total of newly recorded property, plant and equipment and newly recorded intangible assets. Depreciation/amortization represents depreciation and amortization expenses on property, plant and equipment and intangible assets.

2) Outlook by reportable segment

(a) Net sales and operating income (loss)

Billion yen

Reportable segment	Outlook for the year ending March 31, 2018 (fiscal 2017)						Year ended March 31, 2017 (Fiscal 2016)(actual)	
	Revised forecast (A)		Forecast issued July 31, 2017 (B)		Change (A – B)		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	(5.0)	100.0	0	-	(5.0)	103.2	(21.4)
Rolling Stock	150.0	4.5	150.0	5.5	-	(1.0)	137.1	3.4
Aerospace	335.0	18.5	325.0	13.0	10.0	5.5	329.9	25.0
Gas Turbine & Machinery	265.0	11.0	265.0	11.0	-	-	241.9	15.2
Plant & Infrastructure	125.0	3.0	125.0	3.5	-	(0.5)	160.8	2.6
Motorcycle & Engine	335.0	14.0	330.0	13.0	5.0	1.0	313.0	11.7
Precision Machinery	195.0	20.0	175.0	16.0	20.0	4.0	155.2	13.1
Other	85.0	4.0	85.0	4.0	-	-	77.4	3.1
Adjustments		(8.0)		(8.0)		-		(7.0)
Total	1,590.0	62.0	1,555.0	58.0	35.0	4.0	1,518.8	45.9

(b) Orders received

Billion yen

Reportable segment	Outlook for the year ending March 31, 2018 (fiscal 2017)			Year ended March 31, 2017 (Fiscal 2016) (actual)
	Revised outlook (A)	Forecast issued July 31, 2017 (B)	Change (A – B)	
Ship & Offshore Structure	65.0	55.0	10.0	36.9
Rolling Stock	190.0	190.0	-	158.5
Aerospace	355.0	330.0	25.0	237.0
Gas Turbine & Machinery	275.0	275.0	-	260.3
Plant & Infrastructure	110.0	110.0	-	95.0
Motorcycle & Engine	335.0	330.0	5.0	313.0
Precision Machinery	205.0	185.0	20.0	166.8
Other	85.0	85.0	-	80.9
Total	1,620.0	1,560.0	60.0	1,348.7

(c) Before-tax ROIC

(%)

Reportable segment	Outlook for the year ending March 31, 2018 (fiscal 2017)			Year ended March 31, 2017 (Fiscal 2016) (actual)
	Revised outlook (A)	Forecast issued July 31, 2017 (B)	Change (A – B)	
Ship & Offshore Structure	(5.0)	0.5	(5.5)	(23.4)
Rolling Stock	5.2	6.9	(1.7)	3.0
Aerospace	9.1	5.5	3.6	15.1
Gas Turbine & Machinery	4.6	4.9	(0.3)	7.1
Plant & Infrastructure	5.4	9.0	(3.6)	8.9
Motorcycle & Engine	10.9	9.5	1.4	7.3
Precision Machinery	19.6	15.8	3.8	13.4
Total	6.4	6.0	0.4	5.0