

**Report of Earnings and Financial Statements for the
Six Months Ended September 30, 2018 (Consolidated)**
(Prepared pursuant to Japanese GAAP)

October 30, 2018

Listed company's name: **Kawasaki Heavy Industries, Ltd.**
 Listed on: 1st sections of the TSE, and NSE
 Stock code: 7012
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Scheduled dates:
 Submission of quarterly securities filing: November 7, 2018
 Commencement of dividend payments: December 3, 2018
 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, 2018
(April 1, 2018 – September 30, 2018)**

(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, 2018	688,107	(3.0)	8,454	(47.5)	207	(98.6)	(3,592)	-
Six Months Ended September 30, 2017	709,721	1.7	16,115	89.7	15,116	-	10,853	-

Note: Comprehensive income: Six months ended September 30, 2018: (3,628) million yen -%
 Six months ended September 30, 2017: 13,893 million yen -%

	Earnings per share	Earnings per share – diluted
	yen	yen
Six Months Ended September 30, 2018	(21.50)	-
Six Months Ended September 30, 2017	64.97	-

Note: 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 have 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, 2018	1,900,544	472,569	24.0
March 31, 2018	1,785,028	481,386	26.1

Note: Shareholders' equity: September 30, 2018: 456,913 million yen
 March 31, 2018 : 466,061 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, 2018	-	3.00	-	30.00	-
Year ending March 31, 2019	-	35.00			
Year ending March 31, 2019 (forecast)			-	35.00	70.00

Notes: 1. Revisions to the most recently announced dividend forecast: None

2. The Company conducted a share consolidation with a 10:1 ratio of common shares, with an effective date of October 1, 2017. The dividend per share for the fiscal year ended March 31, 2018 factoring in the impact of the share consolidation is shown. The total annual dividend for the fiscal year ended March 31, 2018 is denoted with the “-“ mark. Without the impact of the share consolidation factored in, the dividend per share for the fiscal year ended March 31, 2018 would be ¥3 per share, and the total annual dividend would be ¥6 per share.

**3. Forecast of Consolidated Earnings for the Year Ending March 31, 2019
 (April 1, 2018 – March 31, 2019)**

(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	1,645,000	4.4	66,000	18.0	49,500	14.5	31,000	7.2	185.57

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

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, 2018:	167,080,532 shares
March 31, 2018:	167,080,532 shares
 - (2) Number of shares held in treasury as of period-end

September 30, 2018:	33,962 shares
March 31, 2018:	33,049 shares
 - (3) Average number of shares during respective periods

Six months ended September 30, 2018:	167, 046,946 share
Six months ended September 30, 2017:	167, 054,136 share

*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 average number of shares during respective periods has 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 by conference call on Tuesday October 30, 2018, 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.

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1. Qualitative Information and Financial Statements

(1) Consolidated operating results

In the first six months of the fiscal year ending March 31, 2019, the global economy is relatively lacking in vigor overall due to the economic slowdown in emerging countries and resource-rich countries, along with other factors, despite the ongoing modest growth centered on the U.S., where the real economy remains strong. In addition, uncertainty about future prospects for the real economy persists, including concerns about economic downturn caused by the trade friction between the U.S. and China, influences to corporate activities due to Brexit 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 modest increasing of capital investment, the improvement in corporate earnings, and other factors. Although overall modest growth is expected to continue, it is necessary to continue to closely watch foreign exchange rates since the economic policies of the U.S. and other countries or other factors may trigger a swing to yen appreciation.

Amid such an operating environment, the Group's orders received in the first six months of the fiscal year ending March 31, 2019, increased versus the previous fiscal year, mainly in the Energy System & Plant Engineering. Net sales decreased overall, due to decreases in the Aerospace System and the Rolling Stock segments, despite increase in the Precision Machinery & Robot segment. Operating income decreased overall, due to the deterioration in the Rolling Stock and the Aerospace Systems and other segments, despite improvement in the Ship & Offshore Structure segment. Recurring profit decreased due to the decrease of operating income, the payments for the in-service issues of commercial aircraft jet engines and other factors. Net income attributable to owners of parent decreased as a result of the decrease of recurring profit.

As a result, the Group's consolidated orders received increased ¥52.9 billion versus the same period of the previous fiscal year to ¥719.8 billion, consolidated net sales decreased ¥21.6 billion year on year to ¥688.1 billion, consolidated operating income decreased ¥7.6 billion year on year to ¥8.4 billion, consolidated recurring profit fell by ¥14.9 billion year on year to ¥0.2 billion, and net income attributable to owners of parent decreased ¥14.4 billion year on year to a loss of ¥3.5 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		
	2017 (A)		2018 (B)		Change (B – A)		Six months ended September 30		
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	2017 (A)	2018 (B)	Change (B – A)
Aerospace Systems	232.5	15.6	210.2	9.4	(22.3)	(6.2)	197.7	201.1	3.4
Energy System & Plant Engineering	105.9	0.1	103.9	2.2	(1.9)	2.0	116.6	146.7	30.0
Precision Machinery & Robot	86.9	9.0	102.1	9.6	15.2	0.5	92.4	104.8	12.3
Ship & Offshore Structure	45.0	(5.1)	39.7	1.2	(5.3)	6.4	16.3	16.5	0.1
Rolling Stock	63.6	(0.9)	45.4	(8.8)	(18.2)	(7.9)	68.4	60.5	(7.8)
Motorcycle & Engine	136.9	(2.0)	144.4	(4.6)	7.4	(2.5)	136.9	144.4	7.4
Other	38.5	1.4	42.1	1.0	3.6	(0.4)	38.2	45.6	7.3
Adjustments	-	(2.1)	-	(1.6)	-	0.4	-	-	-
Total	709.7	16.1	688.1	8.4	(21.6)	(7.6)	666.9	719.8	52.9

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.

3. The Company has reviewed the method of business segment classification from the first three months of the fiscal year ending March 31, 2019 and has changed its reportable segments from the previous Ship & Offshore Structure, Rolling Stock, Aerospace, Gas Turbine & Machinery, Plant & Infrastructure, Motorcycle & Engine, Precision Machinery, and Other Operations to Aerospace Systems, Energy System & Plant Engineering, Precision Machinery & Robot, Ship & Offshore Structure, Rolling Stock, Motorcycle & Engine, and Other Operations .

Consolidated segment information for the first six months of the fiscal year ended March 31, 2018 has been prepared using the revised segment classification method.

Aerospace Systems

Concerning the business environment surrounding the Aerospace Systems segment, there is a certain level of demand from the Ministry of Defense in Japan amid the tight defense budget, while demand for commercial aircraft airframes and jet engines is increasing in conjunction with the rise in the number of air passengers.

Amid such an operating environment, consolidated orders increased ¥3.4 billion year on year to ¥201.1 billion thanks to continued strong demand for component parts for commercial aircraft and increased demand for component parts for commercial aircraft jet engines, despite a reduction in orders from the Ministry of Defense.

Consolidated net sales decreased ¥22.3 billion year on year to ¥210.2 billion due to decrease of demand of component parts for the Ministry of Defense and commercial aircraft, despite increase of demand of component parts for commercial aircraft jet engines.

Consolidated operating income fell by ¥6.2 billion year on year to ¥9.4 billion due to factors including an increase in amortization of new program development costs of component parts for commercial aircraft jet engines.

Energy System & Plant Engineering

Regarding the business environment surrounding the Energy System & Plant Engineering segment, in addition to the recovery in resources development and oil and natural gas-related investment overseas due to the rise in crude oil prices, there is still demand for energy infrastructure maintenance in Asia. Besides, demand for distributed power sources is increasing due to stronger interest in investment to the environment and energy conservation, among other factors. In Japan, there is ongoing demand for replacing aging facilities for refuse incineration plants and industrial machinery. Meanwhile, in the energy and environmental field, although there is large potential demand for distributed power sources in Japan, investment plans are slightly delayed in light of the liberalization of electricity.

Amid such an operating environment, consolidated orders received increased ¥30.0 billion year on year to ¥146.7 billion, due to the order received of a LNG tank and Combined Cycle Power Plant (CCPP) for the Japanese market among other factors.

Consolidated net sales were ¥103.9 billion on par with the same period of the previous fiscal year ended March 31, 2018 due to increase in construction work volume in the Energy System segment and the other factors, despite the decline in construction work volume on a chemical plant for overseas market.

Consolidated operating income was ¥2.2 billion, a ¥2.0 billion increase compared to the previous year, due to the profitability improvement in the Energy System segment and the other factors.

Precision Machinery & Robot

With respect to the business environment surrounding the Precision Machinery & Robot segment, the construction machinery market is brisk, centered on robust demand for vigorous excavators in China, and the construction machinery manufacturers, which are our customers, are competing to increase production each other. Robot market demand remained solid in China and other emerging markets, as well as in developed markets. There are, however, some negative factors, including market contraction caused by semiconductor manufacturers' efforts to restrain capital investment as well as the trade war between the U.S. and China, and the outlook has therefore started to take on a certain amount of uncertainty.

Amid such an operating environment, consolidated orders received increased ¥12.3 billion year on year to ¥104.8 billion, due to the increase in hydraulic components for construction machinery and various industrial robots.

Consolidated net sales increased ¥15.2 billion year on year to ¥102.1 billion, due to an increase in sales of hydraulic components for construction machinery and various industrial robots.

Consolidated operating income was ¥9.6 billion, a ¥0.5 billion increase compared to the same period of the previous fiscal year ended March 31, 2018, due to increase of sales.

Ship & Offshore Structure

With respect to the business environment surrounding the Ship & Offshore Structure segment, while new-build vessel prices are recovering after bottoming out and demand for gas-fueled vessels has been increasing in conjunction with the tightening of environmental regulations, competition remains intense due to factors including the pushing back of demand for LNG carriers because of the delay in LNG development projects and the continuation of policies by the Chinese and South Korean governments to support their domestic shipbuilding industries.

Amid such an operating environment, consolidated orders received were ¥16.5 billion on par with the same period of the previous fiscal year ended March 31, 2018, due to an order received for a LNG bunkering vessel and other factors.

Consolidated net sales fell ¥5.3 billion year on year to ¥39.7 billion, due to a change in the sales mix between LNG carriers and LPG carriers, and other factors.

Consolidated operating income was ¥1.2 billion, a ¥6.4 billion improvement from the same period of the previous fiscal year due to improvement of shipbuilding cost and other factors, despite decrease of sales.

Rolling Stock

With respect to the business environment surrounding the Rolling Stock segment, there continues to be stable demand in Japan for the replacement of aging railcars. In North America, demand for new and replacement railcars have been increasing in the New York area, which is our core market, and the other areas. Meanwhile, in Asia, demand in emerging markets is increasing in tandem with the Japanese government's efforts to promote infrastructure-related exports.

In this business environment, consolidated orders received was ¥60.5 billion, a ¥7.8 billion decrease compared to the same period of the previous fiscal year ended March 31, 2018 when the order for the rolling stocks for high-speed railway (MRT) in Bangladesh was received, despite the received order for new and replacement railcars for the U.S.

Consolidated net sales decreased ¥18.2 billion year on year to ¥45.4 billion, due to the decrease of sales for overseas market, the U.S. and other countries.

Consolidated operating income decreased ¥7.9 billion year on year to ¥8.8 billion of the operating loss due to a deterioration of profitability in orders for the U.S.

Motorcycle & Engine

Regarding the business environment surrounding the Motorcycle & Engine segment, the modest growth in motorcycle markets mainly in Europe is continuing, and the decline in demand for motorcycles in emerging countries is signaling a bottoming out. With respect to utility vehicles, the market continues to grow stably mainly in North America, and the general-purpose engine market is also growing steadily.

Amid such an operating environment, consolidated net sales increased ¥7.4 billion year on year to ¥144.4 billion, due to the increase in motorcycles and vehicles for developed countries.

Consolidated operating income deteriorated ¥2.5 billion year on year, resulting in an operating loss of ¥4.6 billion, as, despite the increase in sales, there was a temporary increase in SG&A and sales promotion expenses, a rise in prices of steel and other materials in the U.S., and other factors.

Other Operations

Consolidated net sales increased ¥3.6 billion year on year to ¥42.1 billion.

Consolidated net operating income was ¥1.0 billion on per with the same period in the previous fiscal year.

(2) Consolidated financial position

(i) Assets

Total assets at September 30, 2018, were ¥1,900.5 billion, ¥115.5 billion increase from March 31, 2018. Current assets increased ¥117.7 billion year on year to ¥1,233.5 billion, due to increasing of works in process and so on. Fixed assets decreased ¥2.2 billion year on year to ¥667.0 billion, due to decrease of deferred tax assets and other factors.

(ii) Liabilities

Liabilities increased ¥124.3 billion year on year to ¥1,427.9 billion due to the increasing of interest bearing liabilities and other factors.

Interest bearing liabilities increased ¥155.2 billion year on year to ¥601.8 billion.

(iii) Net assets

Consolidated net assets decreased ¥8.8 billion year on year to ¥472.5 billion due to the decrease of dividends and other factors.

(3) Consolidated earnings outlook

Regarding the earnings forecasts for the fiscal year ending March 31, 2019, the Company has made no changes to the figures announced on October 19 for consolidated net sales, consolidated operating income, consolidated recurring profit, and net income attributable to owners of parent.

The outlook for orders received was increased by ¥20.0 billion from the previously announced (July 31) figure to ¥1.61 trillion. This upward revision was based on expectations for higher orders in both the Aerospace Systems segment and the Motorcycle & Engine segment, despite a projected decline in orders in the Energy System & Plant Engineering segment. ROIC is forecasted to be 5.9%, while ROE is expected to be 6.5%.

The Company's earnings forecasts assume exchange rates of ¥110 to the U.S. 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, 2018	As of September 30, 2018
Assets		
Current assets		
Cash on hand and in banks	70,632	57,414
Trade receivables	470,110	491,502
Merchandise and finished products	62,385	74,609
Work in process	326,459	412,644
Raw materials and supplies	115,893	119,331
Other	72,542	81,948
Allowance for doubtful receivables	(2,247)	(3,906)
Total current assets	1,115,776	1,233,543
Fixed assets		
Net property, plant and equipment		
Buildings and structures	186,623	195,701
Other	293,173	287,661
Total property, plant and equipment	479,797	483,362
Intangible assets		
	16,178	16,124
Investments and other assets		
Other	176,961	171,031
Allowance for doubtful receivables	(3,685)	(3,519)
Total investments and other assets	173,276	167,512
Total fixed assets	669,252	667,000
Total assets	1,785,028	1,900,544
Liabilities		
Current liabilities		
Trade payables	245,398	216,735
Electronically recorded obligations - operating	117,772	118,720
Short-term debt	108,978	136,094
Income taxes payable	6,042	4,372
Accrued bonuses	19,903	16,969
Provision for product warranties	13,000	11,651
Provision for losses on construction contracts	18,258	20,690
Advances from customers	194,306	185,802
Other	145,737	264,657
Total current liabilities	869,398	975,694
Long-term liabilities		
Bonds payable	130,000	140,000
Long-term debt	185,685	165,807
Net defined benefit liability	86,836	89,699
Provision for the in-service issues of commercial aircraft jet engines	-	(*1) 9,745
Other	31,721	47,028
Total long-term liabilities	434,244	452,279
Total liabilities	1,303,642	1,427,974

Net assets		
Shareholders' equity		
Common stock	104,484	104,484
Capital surplus	54,573	54,542
Retained earnings	308,010	299,406
Treasury stock	(124)	(127)
Total shareholders' equity	<u>466,944</u>	<u>458,306</u>
Accumulated other comprehensive income		
Net unrealized gains on securities, net of tax	3,526	4,064
Deferred gains (losses) on hedges	403	(1,715)
Foreign currency translation adjustment	719	221
Remeasurements of defined benefit plans	(5,532)	(3,963)
Total accumulated other comprehensive income	<u>(883)</u>	<u>(1,393)</u>
Non-controlling interests	<u>15,324</u>	<u>15,656</u>
Total net assets	<u>481,386</u>	<u>472,569</u>
Total net assets and liabilities	<u>1,785,028</u>	<u>1,900,544</u>

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

	Million yen	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	709,721	688,107
Cost of sales	599,529	581,972
Gross profit	110,191	106,135
Selling, general and administrative expenses		
Salaries and benefits	25,542	26,537
R&D expenses	20,659	21,240
Other	47,874	49,903
Total selling, general and administrative expenses	94,076	97,680
Operating income	16,115	8,454
Non-operating income		
Interest income	358	239
Dividend income	185	180
Equity in income of non-consolidated subsidiaries and affiliates	2,553	802
Foreign exchange gains	1,442	3,102
Other	1,376	1,398
Total non-operating income	5,916	5,724
Non-operating expenses		
Interest expense	1,338	1,546
payments for the in-service issues of commercial aircraft jet engines	-	(*1) 9,745
Other	5,577	2,680
Total non-operating expenses	6,915	13,971
Recurring profit	15,116	207
Income before income taxes	15,116	207
Income taxes	3,250	2,940
Net income (loss)	11,865	(2,733)
Net income attributable to non-controlling interests	1,011	859
Net income (loss) attributable to owners of parent	10,853	(3,592)

Consolidated statements of comprehensive income

	Million yen	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Net income (loss)	11,865	(2,733)
Other comprehensive income		
Net unrealized gains on securities	576	572
Deferred gains (losses) on hedges	(272)	(2,148)
Foreign currency translation adjustment	831	1,723
Remeasurements of defined benefit plans	2,009	1,572
Share of other comprehensive income of associates accounted for using equity method	(1,116)	(2,615)
Total other comprehensive income	2,028	(895)
Comprehensive Income attributable to:	13,893	(3,628)
Owners of parent	12,855	(4,102)
Non-controlling interests	1,038	473

(3) Consolidated cash flow statements

	Million yen	
	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Income before income taxes	15,116	207
Depreciation and amortization	27,442	29,342
Increase (decrease) in allowance for doubtful receivables	(115)	1,465
Increase (decrease) in accrued bonuses	(3,491)	(2,968)
Increase (decrease) in provision for product warranties	(933)	(1,367)
Increase (decrease) in provision for losses on construction contracts	(727)	2,409
Increase (decrease) in net defined benefit liability	7,197	4,868
payments for the in-service issues of commercial aircraft jet engines	-	9,745
Interest and dividend income	(543)	(420)
Interest expense	1,338	1,546
Share of (profit) loss of entities accounted for using equity method	(2,553)	(802)
(Increase) decrease in trade receivables	(43,312)	(9,526)
(Increase) decrease in inventories	(31,518)	(78,347)
Increase (decrease) in trade payables	(11,014)	(28,770)
Increase (decrease) in advance payments	(4,386)	(1,939)
Increase (decrease) in advances received from customers	(40,403)	(12,247)
(Increase) decrease in other current assets	(19,133)	(7,059)
Increase (decrease) in other current liabilities	(12,149)	(17,295)
Other	1,203	3,434
Subtotal	<u>(117,983)</u>	<u>(107,727)</u>
Cash received for interest and dividends	524	477
Cash paid for interest	(1,338)	(1,541)
Cash paid for income taxes	(4,536)	(4,630)
Net cash provided by operating activities	<u>(123,333)</u>	<u>(113,421)</u>
Cash flows from investing activities		
Acquisition of property, plant, equipment and intangible assets	(38,595)	(43,587)
Proceeds from sales of property, plant, equipment and intangible assets	566	334
Acquisition of investments in securities	(222)	(557)
Proceeds from sales of investments in securities	54	136
Acquisition of investments in subsidiaries and affiliate	(1,791)	(2,081)
Net decrease (increase) in short-term loans receivable	25	(51)
Payments of long-term loans receivable	(57)	(91)
Proceeds from collection of long-term loans receivable	45	82
Other	(309)	(1,717)
Net cash used for investing activities	<u>(40,285)</u>	<u>(47,533)</u>
Cash flows from financing activities		
Net increase (decrease) in short-term debt	110,375	144,642
Proceeds from long-term debt	56,355	7,779
Repayment of long-term debt	(16,599)	(7,617)
Proceeds from issuance of bonds	20,000	20,000
Redemption of bonds	(10,000)	(10,000)
Cash dividends paid	(3,375)	(5,032)
Cash dividends paid to non-controlling interests	(662)	(679)
Other	(462)	218
Net cash used for financing activities	<u>155,631</u>	<u>149,311</u>
Effect of exchange rate changes	(2,457)	(2,250)
Net increase (decrease) in cash and cash equivalents	<u>(10,445)</u>	<u>(13,893)</u>
Cash and cash equivalents at beginning of period	<u>50,722</u>	<u>64,362</u>
Cash and cash equivalents at end of period	<u>40,277</u>	<u>50,468</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 balance sheets

(*1) The provision for the in-service issues of commercial aircraft jet engines

We participate as a risk and revenue sharing partner on the Rolls-Royce Trent 1000 engine program, which has been impacted by the challenge of managing significant in-service issues. Rolls-Royce continues to work hard to remedy this situation and has made further substantial progress on the implementation of long-term solutions and mitigation of the near-term impact on customers.

In the FY2018 2nd quarterly financial results, we have made a provision of the abnormal cost related to in-service issues which we would cover as a member of this program.

Related to consolidated statements of income

(*1) The payments for the in-service issues of commercial aircraft jet engines

We participate as a risk and revenue sharing partner on the Rolls-Royce Trent 1000 engine program, which has been impacted by the challenge of managing significant in-service issues. Rolls-Royce continues to work hard to remedy this situation and has made further substantial progress on the implementation of long-term solutions and mitigation of the near-term impact on customers.

In the FY2018 2nd quarterly financial results, we have made a provision of the abnormal cost related to in-service issues which we would cover as a member of this program. The provision was included within the non-operating expenses.

Segment information

1. 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)
Aerospace Systems	232,568	2,073	234,641	15,688
Energy System & Plant Engineering	105,902	8,825	114,728	186
Precision Machinery & Robot	86,967	6,758	93,725	9,070
Ship & Offshore structure	45,075	1,301	46,377	(5,199)
Rolling stock	63,690	52	63,742	(922)
Motorcycle & Engine	136,980	305	137,286	(2,058)
Other	38,537	19,673	58,210	1,458
Reportable segment total	709,721	38,991	748,712	18,223
Adjustments*1	-	(38,991)	(38,991)	(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

2. Six months ended September 30, 2018 (April 1, 2018 – September 30, 2018)

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

Million yen				
	External sales	Intersegment sales	Total sales	Operating income (loss)
Aerospace Systems	210,222	6,105	216,327	9,471
Energy System & Plant Engineering	103,926	10,113	114,039	2,203
Precision Machinery & Robot	102,178	7,682	109,861	9,635
Ship & Offshore structure	39,739	1,685	41,424	1,289
Rolling stock	45,426	13	45,440	(8,878)
Motorcycle & Engine	144,425	313	144,739	(4,656)
Other	42,188	19,588	61,777	1,022
Reportable segment total	688,107	45,502	733,610	10,086
Adjustments*1	-	(45,502)	(45,502)	(1,631)
Consolidated total	688,107	-	688,107	8,454

Notes: 1. Breakdown of adjustments:

Million yen	
Income	Amount
Intersegment transactions	(60)
Corporate expenses*	(1,571)
Total	(1,631)

* 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) Review of reportable segment

The Company has reviewed the method of business segment classification from the first three months of the fiscal year ending March 31, 2019 and has changed its reportable segments from the previous Ship & Offshore Structure, Rolling Stock, Aerospace, Gas Turbine & Machinery, Plant & Infrastructure, Motorcycle & Engine, Precision Machinery, and Other Operations to Aerospace Systems, Energy System & Plant Engineering, Precision Machinery & Robot, Ship & Offshore Structure, Rolling Stock, Motorcycle & Engine, and Other Operations.

Consolidated segment information for the first six months of the fiscal year ended March 31, 2018 has been prepared using the revised segment classification method.

(3) Impairment loss on fixed assets and goodwill by reportable segment

Not applicable

3. Other

(1) Claim for damages in overseas LNG tank construction work

On a certain overseas LNG tanks construction project, overall costs increased from initially expected due to a breach of contract by the overseas subcontractor. In response, the Company has claimed compensation for damages (approximately ¥48.0 billion) as of September 30, 2018, with respect to a portion of the damages incurred by the Company as a result of the breach of contract by the aforementioned subcontractor, and the Company is proceeding with procedures to recover the claimed amount.

Part of the claimed amount is recorded as “Other” in current assets, which is deducted from estimated overall costs.

4. Supplementary information on consolidated earnings forecasts for the fiscal year ending March 31, 2019

(1) Net sales and operating income (loss)

Billion yen

Reportable segment	Outlook for the year ending March 31, 2019 (fiscal 2018)						Year ended March 31, 2018 (Fiscal 2017) (actual)	
	Revised forecast (A)		Forecast issued October 19, 2018 (B)		Change (A – B)		Net sales	Operating income (loss)
	Net sales	Operating income (loss)	Net sales	Operating income (loss)	Net sales	Operating income (loss)		
Aerospace Systems	490.0	35.5	490.0	35.5	-	-	469.5	30.8
Energy System & Plant Engineering	270.0	8.0	270.0	8.0	-	-	251.6	7.6
Precision Machinery & Robot	230.0	24.0	230.0	24.0	-	-	198.9	21.6
Ship & Offshore Structure	85.0	1.0	85.0	1.0	-	-	95.6	(3.8)
Rolling Stock	135.0	(14.0)	135.0	(14.0)	-	-	141.7	(12.4)
Motorcycle & Engine	345.0	16.0	345.0	16.0	-	-	331.6	15.2
Other	90.0	3.0	90.0	3.0	-	-	85.0	2.9
Adjustments		(7.5)		(7.5)		-		(6.2)
Total	1,645.0	66.0	1,645.0	66.0	-	-	1,574.2	55.9

(2) Orders received

Billion yen

Reportable segment	Outlook for the year ending March 31, 2019 (fiscal 2018)			Year ended March 31, 2018 (Fiscal 2017) (actual)
	Revised forecast (A)	Forecast issued July 31, 2018 (B)	Change (A – B)	
Aerospace Systems	405.0	385.0	20.0	498.9
Energy System & Plant Engineering	300.0	310.0	(10.0)	223.6
Precision Machinery & Robot	245.0	245.0	-	207.1
Ship & Offshore Structure	100.0	100.0	-	4.7
Rolling Stock	130.0	130.0	-	257.1
Motorcycle & Engine	345.0	335.0	10.0	331.6
Adjustments	85.0	85.0	-	84.8
Total	1,610.0	1,590.0	20.0	1,608.0

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

(3) Before-tax ROIC

(%)

Reportable segment	Outlook for the year ending March 31, 2019 (fiscal 2018)			Year ended March 31, 2018 (Fiscal 2017) (actual)
	Revised forecast (A)	Forecast issued July 31, 2018 (B)	Change (A – B)	
Aerospace Systems	7.4	7.7	(0.3)	7.8
Energy System & Plant Engineering	7.6	7.8	(0.2)	8.0
Precision Machinery & Robot	21.1	21.1	-	22.9
Ship & Offshore Structure	2.6	2.9	(0.3)	(21.3)
Rolling Stock	(22.2)	3.4	(25.6)	(26.2)
Motorcycle & Engine	11.3	11.3	-	9.4
Total	5.9	8.0	(2.1)	3.9

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

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