Report of Earnings and Financial Statements for the Nine Months Ended December 31, 2018 (Consolidated)
(Prepared pursuant to Japanese GAAP)

January 31, 2019

Listed company's name:	**Kawasaki Heavy Industries, Ltd.**
Listed on:	1st sections of the TSE, and NSE
Stock code:	7012
URL:	https://www.khi.co.jp/
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Scheduled dates:

Submission of quarterly securities filing:	February 7, 2019
Commencement of dividend payments:	-
Supplementary materials to quarterly earnings:	Available
Quarterly earnings presentation:	Conducted (for institutional investors, analysts and the press)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2018 (April 1, 2018 – December 31, 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	%
Nine Months Ended December 31, 2018	1,094,583	0.2	36,849	(17.4)	19,865	(50.3)	11,385	(21.5)
Nine Months Ended December 31, 2017	1,092,369	4.7	44,644	95.1	39,999	73.8	14,520	(19.2)

Note: Comprehensive income: Nine months ended December 31, 2018: 10,916 million yen (54.6)%
Nine months ended December 31, 2017: 24,057 million yen -%

	Earnings per share	Earnings per share – diluted
	yen	yen
Nine Months Ended December 31, 2018	68.15	-
Nine Months Ended December 31, 2017	86.92	-

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 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	%
December 31, 2018	2,001,345	481,256	23.2
March 31, 2018	1,785,028	481,386	26.1

Note: Shareholders' equity: December 31, 2018: 464,615 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

Note: 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 expected dividend per share for end of the fiscal year ended March 31, 2018 factoring in the impact of the share consolidation is shown. The total annual dividend for the end of the fiscal year ended March 31, 2018 is denoted with the "-" mark. Without the impact of the share consolidation factored in, the year-end 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	1,620,000	2.9	66,000	18.0	49,500	14.5	31,000	7.2	185.57

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

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 (3) 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)

December 31, 2018:	167,080,532 shares
March 31, 2018:	167,080,532 shares

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

December 31, 2018:	34,380 shares
March 31, 2018:	33,049 shares

(3) Average number of shares during respective periods

Nine months ended December 31, 2018:	167,046,730 shares
Nine months ended December 31, 2017:	167,052,397 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 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, 2018.

These quarterly financial results are outside the scope of quarterly review conducted by a certified public accountant or an audit corporation.

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 11 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 on conference call for institutional investors, analysts and the press on Thursday January 31, 2019, 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.

Accompanying Materials – Contents

1. Qualitative Information and Financial Statements

(1) Consolidated operating results

In the first nine 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 has increased because of concerns about a downturn in corporate earnings stemming from U.S.-China trade friction as well as other factors including an increasing possibility of a U.K. split from the EU without an agreement. There is a continued need for such risks with the potential to drag down the global economy to be watched sufficiently closely.

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 nine months of the fiscal year ending March 31, 2019, increased versus the previous fiscal year, mainly in the Ship & Offshore Structure segment and the Energy System & Plant Engineering segment. Net sales remained unchanged overall compared with the same period of the previous fiscal year, due to increasing in the Precision Machinery & Robot and other segments, despite decrease in the Aerospace Systems segment and the Rolling Stock 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 ¥79.9 billion versus the same period of the previous fiscal year to ¥1081.9 billion, consolidated net sales increased ¥2.2 billion year on year to ¥1094.5 billion, consolidated operating income decreased ¥7.7 billion year on year to ¥36.8 billion, consolidated recurring profit fell by ¥20.1 billion year on year to ¥19.8 billion, and net income attributable to owners of parent decreased ¥3.1 billion year on year to ¥11.3 billion.

Consolidated operating performance in the nine months of the fiscal year is summarized by segment below.

Segment Information

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

	Nine months ended December 31						Orders received		
	2017 (A)		2018 (B)		Change (B – A)		Nine months ended December 31		
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	2017 (A)	2018 (B)	Change (B – A)
Aerospace Systems	347.2	26.6	328.1	21.2	(19.1)	(5.3)	325.8	280.5	(45.3)
Energy System & Plant Engineering	165.2	2.5	168.8	4.5	3.6	1.9	179.8	201.6	21.7
Precision Machinery & Robot	136.3	14.7	154.2	14.9	17.9	0.1	144.7	157.3	12.6
Ship & Offshore Structure	69.9	(4.3)	63.0	2.8	(6.9)	7.1	(2.4)	65.2	67.7
Rolling Stock	99.8	2.3	86.0	(6.4)	(13.7)	(8.8)	79.7	79.6	(0.0)
Motorcycle & Engine	214.9	3.2	226.2	(0.0)	11.3	(3.2)	214.9	226.2	11.3
Other	58.7	2.3	67.8	2.4	9.1	0.0	59.2	71.1	11.9
Adjustments	-	(2.9)	-	(2.6)	-	0.2	-	-	-
Total	1,092.3	44.6	1,094.5	36.8	2.2	(7.7)	1,002.0	1,081.9	79.9

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 nine 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 decreased ¥45.3 billion year on year to ¥280.5 billion due to the decrease of demand for component parts for the Ministry of Defense and commercial aircraft, despite increase of demand for the component part for commercial aircraft jet engines.

Consolidated net sales decreased ¥19.1 billion year on year to ¥328.1 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 ¥5.3 billion year on year to ¥21.2 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, 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 ¥21.7 billion year on year to ¥201.6 billion, due to the order received of a Combined Cycle Power Plant (CCPP) for the Japanese market among other factors.

Consolidated net sales were ¥168.8 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 ¥4.5 billion, ¥1.9 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. Demand in the robot market was solid in Japan, North America, and Europe, but it has become clear that the Chinese market is contracting due to semiconductor manufacturers' efforts to curb capital investment as well as the impact of the trade war between the U.S. and China.

Amid such an operating environment, consolidated orders received increased ¥12.6 billion year on year to ¥157.3 billion, due to the increase in hydraulic components for construction machinery, despite the decrease in various industrial robots.

Consolidated net sales was ¥154.2 billion, a ¥17.9 billion increase compared to the same period of the previous fiscal year ended March 31, 2018, due to the increase in hydraulic components for construction machinery, despite the decrease in various industrial robots.

Consolidated operating income was ¥14.9 billion, roughly the same level as the year-earlier period, due to the increase in SG&A expenses and other factors, despite the increase in net 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 South Korean governments to support their domestic shipbuilding industries.

Amid such an operating environment, consolidated orders received increased ¥67.7 billion year on year to ¥65.2 billion due to receiving the order of submarine for the Ministry of Defense.

Consolidated net sales fell ¥6.9 billion year on year to ¥63.0 billion, due to a change in the sales mix between LNG carriers and LPG carriers, and other factors.

Consolidated operating income was ¥2.8 billion, a ¥7.1 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.

amid this business environment, consolidated orders received was ¥79.6 billion on par with the same period of the previous fiscal year ended March 31, 2018 due to the received order for new and replacement railcars for the U.S. and other factors.

Consolidated net sales decreased ¥13.7 billion year on year to ¥86.0 billion, due to the decrease of sales for overseas market in the U.S., Asia and other countries and other factors.

Consolidated operating income decreased ¥8.8 billion year on year to ¥6.4 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 ¥11.3 billion year on year to ¥226.2 billion, due to the increase in motorcycles and vehicles for developed countries.

Consolidated operating income deteriorated ¥3.2 billion year on year, resulting in an operating loss of ¥0.0 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., the impact of weakness of currencies in emerging countries and other factors.

Other Operations

Consolidated net sales increased ¥9.1 billion year on year to ¥67.8 billion.

Consolidated net operating income was ¥2.4 billion on per with the same period in the previous fiscal year.

(2) Consolidated financial position

(i) Assets

Total assets at December 31, 2018, were ¥2,001.3 billion, ¥216.3 billion increase from March 31, 2018. Current assets increased ¥219.5 billion year on year to ¥1,335.3 billion, due to increasing of works in process and so on. Fixed assets decreased ¥3.2 billion year on year to ¥665.9 billion, due to decrease of deferred tax assets and other factors.

(ii) Liabilities

Liabilities increased ¥216.4 billion year on year to ¥1,520.0 billion due to the increasing of interest bearing liabilities and other factors.

Interest bearing liabilities increased ¥265.3 billion year on year to ¥711.9 billion.

(iii) Net assets

Consolidated net assets declined ¥0.1 billion year-on-year to ¥481.2 billion, due to factors including the increase from the posting of net income attributable to owners of parent and the decline due to dividend payments.

(3) Consolidated earnings outlook

Regarding the earnings forecasts for the fiscal year ending March 31, 2019, the Company has lowered its forecast for consolidated net sales by ¥25.0 billion from the previously announced (October 30) figure to ¥1,620.0 billion, based on expected declines in the Aerospace Systems segment, the Rolling Stock segment, and other segments.

The forecasts for consolidated operating income, consolidated recurring profit, and net income attributable to owners of parent were left unchanged from the previously announced values.

The outlook for orders received was lowered by ¥20.0 billion from the previously announced figure to ¥1,590.0 billion, due to expected declines in the Ship & Offshore Structure segment as well as the Precision Machinery & Robot segment and other factors. ROIC is forecast 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 ¥125 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 in the external environment and/or the Company's internal environment. Important factors that impact actual operating performance include, but are not limited to, the economic situation surrounding the Company's scope of business, foreign exchange rates, 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 December 31, 2018
Assets		
Current assets		
Cash on hand and in banks	70,632	50,161
Trade receivables	470,110	563,358
Merchandise and finished products	62,385	89,216
Work in process	326,459	426,291
Raw materials and supplies	115,893	123,530
Other	72,542	86,450
Allowance for doubtful receivables	(2,247)	(3,636)
Total current assets	1,115,776	1,335,372
Fixed assets		
Net property, plant and equipment		
Buildings and structures	186,623	195,879
Other	293,173	287,487
Total property, plant and equipment	479,797	483,367
Intangible assets	16,178	16,241
Investments and other assets		
Other	176,961	169,826
Allowance for doubtful receivables	(3,685)	(3,462)
Total investments and other assets	173,276	166,363
Total fixed assets	669,252	665,972
Total assets	1,785,028	2,001,345
Liabilities		
Current liabilities		
Trade payables	245,398	222,911
Electronically recorded obligations - operating	117,772	122,291
Short-term debt	108,978	232,777
Income taxes payable	6,042	4,720
Accrued bonuses	19,903	10,659
Provision for product warranties	13,000	11,631
Provision for losses on construction contracts	18,258	20,190
Advances from customers	194,306	179,084
Other	145,737	254,217
Total current liabilities	869,398	1,058,484
Long-term liabilities		
Bonds payable	130,000	140,000
Long-term debt	185,685	177,312
Net defined benefit liability	86,836	90,185
Provision for the in-service issues of commercial aircraft jet engines	-	(*1) 8,061
Other	31,721	46,044
Total long-term liabilities	434,244	461,603
Total liabilities	1,303,642	1,520,088

Net assets		
Shareholders' equity		
Common stock	104,484	104,484
Capital surplus	54,573	54,542
Retained earnings	308,010	308,538
Treasury stock	(124)	(128)
Total shareholders' equity	466,944	467,437
Accumulated other comprehensive income		
Net unrealized gains on securities, net of tax	3,526	2,380
Deferred gains on hedges	403	42
Foreign currency translation adjustment	719	(2,069)
Remeasurements of defined benefit plans	(5,532)	(3,175)
Total accumulated other comprehensive income	(883)	(2,821)
Non-controlling interests	15,324	16,641
Total net assets	481,386	481,256
Total net assets and liabilities	1,785,028	2,001,345

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

	Million yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net sales	1,092,369	1,094,583
Cost of sales	904,289	910,113
Gross profit	188,079	184,469
Selling, general and administrative expenses		
Salaries and benefits	38,661	40,325
R&D expenses	31,069	33,427
Other	73,704	73,867
Total selling, general and administrative expenses	143,435	147,620
Operating income	44,644	36,849
Non-operating income		
Interest income	523	648
Dividend income	259	263
Equity in income of non-consolidated subsidiaries and affiliates	3,097	1,014
Other	2,400	2,585
Total non-operating income	6,280	4,512
Non-operating expenses		
Interest expense	2,014	2,505
Foreign exchange losses	17	4,620
Payments for the in-service issues of commercial aircraft jet engines	-	(*1) 9,745
Payments for contract adjustment for commercial aircraft jet engines	(*2) 2,505	-
Other	6,388	4,625
Total non-operating expenses	10,925	21,496
Recurring profit	39,999	19,865
Extraordinary loss		
Losses from the termination of a shipbuilding contract for an offshore service vessel	(*3) 12,833	-
Total extraordinary loss	12,833	-
Income before income taxes	27,166	19,865
Income taxes	10,850	6,721
Net income	16,315	13,144
Net income attributable to non-controlling interests	1,794	1,758
Net income attributable to owners of parent	14,520	11,385

Consolidated statements of comprehensive income

	Million yen	
	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net income	16,315	13,144
Other comprehensive income		
Net unrealized gains (losses) on securities	1,117	(1,182)
Deferred gains (losses) on hedges	135	(387)
Foreign currency translation adjustment	2,422	313
Remeasurements of defined benefit plans	3,225	2,363
Share of other comprehensive income of associates accounted for using equity method	841	(3,332)
Total other comprehensive income	7,742	(2,227)
Comprehensive Income attributable to:	24,057	10,916
Owners of parent	22,050	9,446
Non-controlling interests	2,007	1,469

(3) 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 third 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.

(*2) Payments for contract adjustment for commercial aircraft jet engines

The Company faces one-time expenses in connection with contracts with customers relating to engine programs in which the Company is participating. These expenses arose from the new requirement to allocate a portion of the engines planned to be delivered to customers for use as spare engines for operational supports. Accordingly, the Company recorded these program expenses as non-operating expenses.

(*3) Losses from the termination of a shipbuilding contract for an offshore service vessel

These are losses in conjunction with the termination of a shipbuilding contract for an offshore service vessel (losses recognized on valuation of inventories and trade receivables, etc.)

(Additional information)

Concerning the posting of losses in conjunction with the termination of a shipbuilding contract for an offshore service vessel.

With the intention of entering the offshore development industry, which is a promising market over the medium to long term, in November 2013 the Company entered into a shipbuilding agreement for an offshore service vessel (hereinafter, “vessel”) with a subsidiary* of Island Offshore Shipholding LP (hereinafter, “Island Offshore”). This was the first vessel of its type to be constructed by the Company, and certain problems during the engineering stage arose along with an increase in materials costs and other issues.

Meanwhile, the stagnation in crude oil prices led to a very difficult business environment for offshore service providers in general ever since the order for this vessel was received, and Island Offshore negotiated financial restructuring with its banking partners since November 2016.

Given the above circumstances, the Company proceeded cautiously, including temporarily suspending the construction of the vessel, while paying close attention to the progress of the financial restructuring of Island Offshore. During this time, the Company was holding discussions with Island Offshore regarding the handling of the vessel. Based on the shared understanding that the environment surrounding the offshore service business remained challenging, and that uncertainty about the future would not be eliminated, the Company and Island Offshore agreed to terminate the shipbuilding agreement, and the Company therefore carried out the necessary accounting treatment.

*Island Navigator I KS (100% subsidiary company of Island Offshore Shipholding LP)

Segment information

1. Nine months ended December 31, 2017 (April 1, 2017 – December 31, 2017)

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

Million yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Aerospace Systems	347,295	3,296	350,591	26,646
Energy System & Plant Engineering	165,205	13,093	178,298	2,538
Precision Machinery & Robot	136,349	10,802	147,152	14,793
Ship & Offshore structure	69,977	2,173	72,151	(4,374)
Rolling stock	99,829	99	99,929	2,383
Motorcycle & Engine	214,960	463	215,423	3,210
Other	58,750	29,062	87,812	2,364
Reportable segment total	1,092,369	58,991	1,151,360	47,561
Adjustments*1	-	(58,991)	(58,991)	(2,916)
Consolidated total	1,092,369	-	1,092,369	44,644

Notes: 1. Breakdown of adjustments:

Million yen

Income	Amount
Intersegment transactions	(42)
Corporate expenses*	(2,874)
Total	(2,916)

*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. Nine months ended December 31, 2018 (April 1, 2018 – December 31, 2018)

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

Million yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Aerospace Systems	328,137	8,536	336,674	21,295
Energy System & Plant Engineering	168,844	14,285	183,129	4,534
Precision Machinery & Robot	154,282	11,777	166,059	14,942
Ship & Offshore structure	63,066	2,665	65,732	2,803
Rolling stock	86,088	16	86,105	(6,452)
Motorcycle & Engine	226,298	496	226,795	(33)
Other	67,865	29,035	96,900	2,456
Reportable segment total	1,094,583	66,813	1,161,397	39,545
Adjustments*1	-	(66,813)	(66,813)	(2,696)
Consolidated total	1,094,583	-	1,094,583	36,849

Notes: 1. Breakdown of adjustments:

Million yen

Income	Amount
Intersegment transactions	(60)
Corporate expenses*	(2,635)
Total	(2,696)

* 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 nine 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 ¥46.0 billion) as of December 31, 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.

4. Supplementary information

(1) Consolidated cash flow statements (condensed)

Million yen

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Cash flow from operating activities	(206,775)	(207,489)
Cash flow from investing activities	(66,461)	(67,409)
Cash flow from financing activities	269,564	254,463
Cash and cash equivalents at end of period	44,148	43,259

(2) Supplementary information on consolidated earnings forecasts for the fiscal year ending March 31, 2019

(i) 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 30, 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	480.0	35.5	490.0	35.5	(10.0)	-	469.5	30.8
Energy System & Plant Engineering	270.0	9.0	270.0	8.0	-	1.0	251.6	7.6
Precision Machinery & Robot	225.0	23.5	230.0	24.0	(5.0)	(0.5)	198.9	21.6
Ship & Offshore Structure	85.0	1.0	85.0	1.0	-	-	95.6	(3.8)
Rolling Stock	125.0	(14.0)	135.0	(14.0)	(10.0)	-	141.7	(12.4)
Motorcycle & Engine	345.0	15.0	345.0	16.0	-	(1.0)	331.6	15.2
Other	90.0	3.0	90.0	3.0	-	-	85.0	2.9
Adjustments		(7.0)		(7.5)		0.5		(6.2)
Total	1,620.0	66.0	1,645.0	66.0	(25.0)	-	1,574.2	55.9

(ii) Orders received

Billion yen

Reportable segment	Outlook for the year ending March 31, 2019 (fiscal 2018) Revised forecast (A)	Forecast issued October 30, 2018 (B)	Change (A – B)	Year ended March 31, 2018 (Fiscal 2017) (actual)
Aerospace Systems	415.0	405.0	10.0	498.9
Energy System & Plant Engineering	300.0	300.0	-	223.6
Precision Machinery & Robot	235.0	245.0	(10.0)	207.1
Ship & Offshore Structure	80.0	100.0	(20.0)	4.7
Rolling Stock	130.0	130.0	-	257.1
Motorcycle & Engine	345.0	345.0	-	331.6
Adjustments	85.0	85.0	-	84.8
Total	1,590.0	1,610.0	(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.

(iii) Before-tax ROIC

(%)

Reportable segment	Outlook for the year ending March 31, 2019 (fiscal 2018) Revised forecast (A)	Forecast issued October 30, 2018 (B)	Change (A – B)	Year ended March 31, 2018 (Fiscal 2017) (actual)
Aerospace Systems	7.4	7.4	-	7.8
Energy System & Plant Engineering	7.7	7.6	0.1	8.0
Precision Machinery & Robot	21.0	21.1	(0.1)	22.9
Ship & Offshore Structure	2.6	2.6	-	(21.3)
Rolling Stock	(22.2)	(22.2)	-	(26.2)
Motorcycle & Engine	9.8	11.3	(1.5)	9.4
Total	5.9	5.9	-	3.9

Notes: 1. Forecast's assumed foreign exchange rates: ¥110 = US$1, ¥125= 1 euro

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