

**Report of Earnings and Financial Statements for the
Three Months Ended June 30, 2019 (Consolidated)**
(Prepared pursuant to Japanese GAAP)

July 30, 2019

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: August 6, 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 Three Months ended June 30, 2019
(April 1, 2019 – June 30, 2019)

(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	%
Three Months Ended June 30, 2019	350,778	2.0	1,088	(84.6)	(4,391)	-	(8,249)	-
Three Months Ended June 30, 2018	343,785	2.5	7,103	44.6	8,550	57.3	2,561	(21.8)

Note: Comprehensive income: Three months ended June 30, 2019: ¥(6,232) million -%
 Three months ended June 30, 2018: ¥1,672 million (46.5)%

	Earnings per share	Earnings per share – diluted
	yen	yen
Three Months Ended June 30, 2019	(49.38)	-
Three Months Ended June 30, 2018	15.33	-

(2) Financial Condition

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
June 30, 2019	1,911,544	474,712	24.0
March 31, 2019	1,838,855	492,261	25.9

Note: Shareholders' equity: June 30, 2019: ¥459,144 million
 March 31, 2019: ¥476,387 million

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, 2019	-	35.00	-	35.00	70.00
Year ending March 31, 2020	-				
Year ending March 31, 2020 (forecast)		35.00	-	35.00	70.00

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

3. Forecast of Consolidated Earnings for the Year Ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(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	1,700,000	6.6	72,000	12.4	61,000	61.1	38,000	38.4	227.48

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 (3)Notes on financial statements” on page 14 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: Yes
 - (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)

June 30, 2019:	167,080,532 shares
March 31, 2019:	167,080,532 shares
 - (2) Number of shares held in treasury as of period-end

June 30, 2019:	35,463 shares
March 31, 2019:	35,196 shares
 - (3) Average number of shares during respective periods

June 30, 2019:	167,045,137 shares
June 30, 2018:	167,047,117 shares

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 July 30, 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.

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1. Qualitative Information about Financial Statements

(1) Consolidated operating results

The global economy continues to grow at a moderate pace overall, but concerns are increasing about an economic downturn stemming from U.S.-China trade friction. Given the possibility of an intensification of U.S.-China trade frictions if future trade talks do not go well, and the remaining possibility of a U.K. exit from the EU without an agreement, there is a continued need to closely monitor the downward risks to the global economy.

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 monitor foreign exchange trends and watch out for deterioration in corporate earnings caused by the economic policies, etc. of the United States and other countries.

Amid such an operating environment, the Group's orders received in the first three months of the fiscal year ending March 31, 2020, decreased versus the previous fiscal year, mainly in the Energy System & Plant Engineering segment. Net sales increased overall, due to an increase in the Aerospace Systems and other segments, despite a decline in the Energy System & Plant Engineering segment and Motorcycle & Engine segment. Operating income decreased overall, due to the deterioration in the Precision Machinery & Robot segment and Rolling Stock segment and other factors, despite the improvement in the Energy System & Plant Engineering segment and Motorcycle & Engine segment. Recurring profit and net income attributable to owners of parent fell into the red mainly owing to an increase in loss on foreign exchange.

As a result, the Group's consolidated orders received decreased ¥31.7 billion versus the same period of the previous fiscal year to ¥328.2 billion, consolidated net sales increased ¥6.9 billion year on year to ¥350.7 billion, operating income decreased ¥6.0 billion year on year to ¥1.0 billion, recurring loss deteriorated ¥12.9 billion year on year to ¥4.3 billion, and net loss attributable to owners of parent deteriorated ¥10.8 billion year on year to ¥8.2 billion.

First-quarter consolidated operating performance is summarized by segment below.

Segment Information

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

	Three months ended June 30						Orders received		
	2018(A)		2019 (B)		Change (B – A)		Three months ended June 30		
	Net sales	Net sales	Net sales	Operating income	Net Sales	Operating income	2018 (A)	2019 (B)	Change (B – A)
Aerospace Systems	104.9	5.3	122.1	4.8	17.2	(0.4)	79.0	69.7	(9.3)
Energy System & Plant Engineering	51.0	0.2	45.0	0.8	(5.9)	0.5	93.9	69.8	(24.0)
Precision Machinery & Robot	47.9	4.5	48.3	1.7	0.3	(2.8)	57.1	52.9	(4.1)
Ship & Offshore Structure	22.0	1.3	22.8	(0.3)	0.8	(1.7)	6.9	21.5	14.6
Rolling Stock	23.3	(0.9)	20.4	(3.5)	(2.9)	(2.6)	24.9	16.0	(8.9)
Motorcycle & Engine	73.7	(3.3)	68.3	(2.8)	(5.4)	0.4	73.7	68.3	(5.4)
Other	20.6	0.3	23.5	0.4	2.9	0.1	24.2	29.7	5.5
Adjustments	-	(0.5)	-	(0.0)	-	0.5	-	-	-
Total	343.7	7.1	350.7	1.0	6.9	(6.0)	359.9	328.2	(31.7)

Notes: 1. Net sales include only sales to external customers.

2. The method for calculating orders received in the Precision Machinery & Robot segment was changed in the first quarter of FY2019 from the previous simple method to a method based on more detailed order values. The value for orders received in the first quarter of the previous fiscal year has been recalculated in accordance with the new calculation method.

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

Aerospace Systems

Regarding 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. 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 received decreased ¥9.3 billion year on year to ¥69.7 billion due to an increase in demand for component parts of commercial aircraft airframes and commercial aircraft jet engines.

Consolidated net sales increased ¥17.2 billion year on year to ¥122.1 billion due to an increase in demand for component parts of commercial aircraft airframes and commercial aircraft jet engines.

Operating income of ¥4.8 billion was on par with the previous year's result, as increased sales of component parts to the Ministry of Defense and for commercial aircraft offset an increase in depreciation of development costs of a new program relating to component parts for commercial aircraft 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 in 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 decreased ¥24.0 billion year on year to ¥69.8 billion. Although new orders were relatively strong, including an order for major refurbishments of domestic waste disposal facilities, the year-on-year result reflects the non-recurrence of orders received for large projects in the previous fiscal year, including orders for a Combined Cycle Power Plant and an LNG tank for the Japanese market.

Consolidated net sales decreased ¥5.9 billion year on year to ¥45.0 billion, due to a decline in construction work volume on Energy system segment and refuse incineration plants and other factors.

Operating income increased ¥0.5 billion year on year to ¥0.8 billion, due to the profitability improvement in the Energy System segment and the other factors, despite a drop in sales.

Precision Machinery & Robot

Regarding the business environment for the Precision Machinery & Robot segment, there continues to be robust demand in China's construction machinery market for hydraulic components used in hydraulic excavators. However, some construction machinery makers have started preparing for inventory adjustments. For that and other reasons, we continue to closely monitor conditions in the Chinese market. In the robot market, the current market situation is deteriorating due to the postponement of capital investment and the putting off of investment by semiconductor manufacturers in the Chinese market due to the U.S.-China trade friction. While the overseas market is expected to remain unstable for some time, demand in the domestic market is expected to steadily expand in the industrial sector as a whole, including in the human-robot coexistence field.

Amid such an operating environment, consolidated orders received decreased ¥4.1 billion year on year to ¥52.9 billion, due to a decrease in various robots.

Consolidated net sales were ¥48.3 billion, nearly unchanged year on year, due to an increase in hydraulic components for construction machinery market, despite the drop in robot sales for semiconductor.

Operating income decreased ¥2.8 billion year on year to ¥1.7 billion, as a result of factors including the drop in robot sales, increases in costs of hydraulic components and research and development.

Ship & Offshore Structure

While demand for gas-fueled vessels is being driven higher by tighter environmental regulations and LNG development projects are beginning to take shape, the Ship & Offshore Structure segment's operating environment remains adverse due to the prolonged slump in the marine transport market, the continuation of the South Korean government's support policies for its shipbuilding industry, and other issues.

Amid such an operating environment, consolidated orders received increased ¥14.6 billion year on year to ¥21.5 billion, due to orders for LPG carriers and the other factors.

Consolidated net sales increased ¥0.8 billion year on year to ¥22.8 billion, due to an increase in sales of vessel repair, despite the decreases in volume of construction of LNG carrier and LPG carrier.

The segment posted a consolidated operating loss of ¥0.3 billion, a ¥1.7 billion deterioration from operating income a year earlier. The main factors dragging down earnings were lower revenue from newly built ships and the posting of losses from operations.

Rolling Stock

Regarding the business environment surrounding the Rolling Stock segment, there continues to be stable demand in Japan for the replacement of aging railcars. Overseas, demand for new and replacement railcars is expected to increase in the U.S., including in the core New York area market. Meanwhile, in Asia, we are planning the formation of projects for emerging markets in tandem with the Japanese government's efforts to promote infrastructure-related exports.

In this operating environment, we received new orders for passenger cars for the domestic market but consolidated orders received totaled only ¥16.0 billion, ¥8.9 billion less than a year earlier when we received a large order for passenger cars and refurbishments from the North American market.

Consolidated net sales decreased ¥2.9 billion year on year to ¥20.4 billion, due to a decrease in sales of rolling stocks for Japan and components for overseas.

Operating income resulted in an operating loss of ¥3.5 billion, a ¥2.6 billion deterioration from the result a year earlier, primarily due to the decrease in sales and cost fluctuations for some projects.

Motorcycle & Engine

Regarding the business environment surrounding the Motorcycle & Engine segment, while the modest growth in motorcycle markets mainly in Europe is continuing, some emerging markets are weak. 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.

In this operating environment, consolidated net sales decreased ¥5.4 billion year on year to ¥68.3 billion, due to the impact from yen appreciation and delayed recording of wholesale sales.

Although sales decreased, operating loss improved ¥0.4 billion year on year to ¥2.8 billion loss, as a result of factors including a temporary increase in selling, general, and administrative expenses.

Other Operations

Consolidated net sales increased ¥2.9 billion year on year to ¥23.5 billion.

Operating income increased ¥0.1 billion year on year to ¥0.4 billion.

(2) Consolidated financial position

(i) Assets

Current assets were ¥1,204.9 billion, ¥68.5 billion increase from March 31, 2019 due to an increase in trade receivables.

Fixed assets were ¥706.6 billion, ¥4.1 billion increase from March 31, 2019 due to capital expenditure and the other factors.

As a result, total assets were ¥1,911.5 billion, ¥72.6 billion increase from March 31, 2019.

(ii) Liabilities

Interest bearing liabilities were ¥595.4 billion, ¥155.9 billion increase from March 31, 2019.

Liabilities were ¥1,436.8 billion, ¥90.2 billion increase from March 31, 2019 due to an increase in interest bearing liabilities such as Short-term debt and other factors.

(iii) Net assets

Consolidated net assets were ¥474.7 billion, ¥17.5 billion decrease from March 31, 2019 due to posting of net loss attributable to owners of parent and payment of dividends.

(3) Consolidated earnings outlook

The Company has left its earnings forecasts for the fiscal year ending March 31, 2020, unchanged from the figures previously announced on April 25, 2019.

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 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, 2019	As of June 30, 2019
Assets			
Current assets			
Cash on hand and in banks		74,311	44,433
Trade receivables		427,665	467,593
Merchandise and finished products		68,176	73,968
Work in process		405,087	435,790
Raw materials and supplies		119,558	122,061
Other		45,333	64,639
Allowance for doubtful receivables		(3,792)	(3,577)
	Total current assets	1,136,340	1,204,908
Fixed assets			
Net property, plant and equipment			
Buildings and structures		194,939	192,775
Other		290,729	293,815
	Total property, plant and equipment	485,669	486,591
Intangible assets			
		16,797	17,845
Investments and other assets			
Other		201,471	203,602
Allowance for doubtful receivables		(1,422)	(1,402)
	Total investments and other assets	200,048	202,200
	Total fixed assets	702,514	706,636
Total assets		1,838,855	1,911,544
Liabilities			
Current liabilities			
Trade payables		247,191	210,560
Electronically recorded obligations - operating		123,083	127,350
Short-term debt		100,023	140,529
Income taxes payable		10,390	5,239
Provision for sales promotion expenses		497	5,198
Accrued bonuses		21,168	23,589
Provision for product warranties		13,096	12,567
Provision for losses on construction contracts		27,609	29,766
Advances from customers		181,419	173,567
Other		139,800	229,234
	Total current liabilities	864,280	957,604
Long-term liabilities			
Bonds payable		140,000	140,000
Long-term debt		187,568	187,086
Net defined benefit liability		97,602	97,027
Provision for the in-service issues of commercial aircraft jet engines		(*1)11,468	(*1)10,333
Other		45,674	44,781
	Total long-term liabilities	482,313	479,228
Total liabilities		1,346,593	1,436,832

Net assets		
Shareholders' equity		
Common stock	104,484	104,484
Capital surplus	54,542	54,542
Retained earnings	324,606	305,561
Treasury stock	(130)	(130)
Total shareholders' equity	<u>483,502</u>	<u>464,457</u>
Accumulated other comprehensive income		
Net unrealized gains (losses) on securities, net of tax	2,682	2,654
Deferred gains (losses) on hedges	(227)	426
Foreign currency translation adjustment	(4,556)	(4,719)
Remeasurements of defined benefit plans	(5,014)	(3,674)
Total accumulated other comprehensive income	<u>(7,115)</u>	<u>(5,313)</u>
Non-controlling interests	<u>15,874</u>	<u>15,568</u>
Total net assets	<u>492,261</u>	<u>474,712</u>
Total net assets and liabilities	<u>1,838,855</u>	<u>1,911,544</u>

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

	Million yen	
	Three months ended June 30, 2018	Three months ended June 30, 2019
Net sales	343,785	350,778
Cost of sales	288,048	301,426
Gross profit	55,737	49,351
Selling, general and administrative expenses		
Salaries and benefits	12,960	13,344
R&D expenses	10,323	11,118
Other	25,349	23,799
Total selling, general and administrative expenses	48,634	48,262
Operating income	7,103	1,088
Non-operating income		
Interest income	93	135
Dividend income	142	223
Equity in income of non-consolidated subsidiaries and affiliates	323	338
Foreign exchange gain	2,038	-
Other	601	732
Total non-operating income	3,198	1,430
Non-operating expenses		
Interest expense	753	911
Foreign exchange losses	-	5,039
Other	998	959
Total non-operating expenses	1,751	6,910
Recurring profit(loss)	8,550	(4,391)
Income(loss) before income taxes	8,550	(4,391)
Income taxes	5,636	3,578
Net income(loss)	2,913	(7,969)
Net income attributable to non-controlling interests	352	279
Net income(loss) attributable to owners of parent	2,561	(8,249)

Consolidated statements of comprehensive income

	Million yen	
	Three months ended June 30, 2018	Three months ended June 30, 2019
Net income(loss)	2,913	(7,969)
Other comprehensive income		
Net unrealized gains (losses) on securities	175	(30)
Deferred gains (losses) on hedges	(1,127)	695
Foreign currency translation adjustment	536	(1,685)
Remeasurement of defined benefit plans	777	1,342
Share of other comprehensive income(loss) of associates accounted for using equity method	(1,604)	1,414
Total other comprehensive income(loss)	(1,241)	1,737
Comprehensive Income(loss) attributable to:	1,672	(6,232)
Owners of parent	1,651	(6,446)
Non-controlling interests	20	214

(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 first 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.

Changes in accounting policies

Consolidated subsidiaries applying U.S. accounting standards began applying Topic 606, "Revenue from Contracts with Customers" from the first quarter of the year under review.

With the application of this standard, when contracted goods or services are transferred to the customer, revenue is recognized at an amount that reflects the consideration expected to be received in exchange for the goods or services. In applying this standard, the Company adopted the method, as is permitted as a transitional measure, of recognizing the cumulative effect of a retroactive adjustment from the date at which the standard was applied and accordingly reducing retained earnings at the beginning of the current consolidated fiscal year.

As a result, retained earnings at the beginning of the first quarter of the year under review decreased by ¥4,948 million. In addition, income before income taxes for the first quarter of current fiscal year increased by ¥3,890 million over the amount that would have been recorded if the previous accounting standard had been applied.

Related to consolidated statements of income

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

The Company participates 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 FY2019 1st quarterly financial results, the Company has made a provision of the abnormal cost related to in-service issues which the Company would cover as a member of this program.

Segment information

1. Three months ended June 30, 2018 (April 1, 2018 – June 30, 2018)

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

Million yen				
	External sales	Intersegment sales	Total sales	Operating income (loss)
Aerospace Systems	104,946	3,886	108,832	5,325
Energy System & Plant Engineering	51,004	4,248	55,253	233
Precision Machinery & Robot	47,992	3,734	51,726	4,596
Ship & Offshore structure	22,085	663	22,748	1,358
Rolling stock	23,392	3	23,395	(915)
Motorcycle & Engine	73,757	160	73,917	(3,308)
Other	20,607	8,988	29,595	359
Reportable segment total	343,785	21,684	365,470	7,649
Adjustments*1	-	(21,684)	(21,684)	(546)
Consolidated total	343,785	-	343,785	7,103

Notes: 1. Breakdown of adjustments:

Million yen	
Income	Amount
Intersegment transactions	13
Corporate expenses*	(560)
Total	(546)

*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. Three months ended June 30, 2019 (April 1, 2019 – June 30, 2019)

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

	Million yen			
	External sales	Intersegment sales	Total sales	Operating income (loss)
Aerospace Systems	122,188	2,383	124,572	4,869
Energy System & Plant Engineering	45,017	5,407	50,425	828
Precision Machinery & Robot	48,347	3,253	51,600	1,760
Ship & Offshore structure	22,895	2,100	24,996	(398)
Rolling stock	20,424	8	20,433	(3,548)
Motorcycle & Engine	68,356	138	68,494	(2,849)
Other	23,546	9,162	32,709	472
Reportable segment total	350,778	22,454	373,232	1,134
Adjustments*1	-	(22,454)	(22,454)	(45)
Consolidated total	350,778	-	350,778	1,088

Notes: 1. Breakdown of adjustments:

Million yen	
Income	Amount
Intersegment transactions	92
Corporate expenses*	(138)
Total	(45)

* 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) Consolidated cash flow statements (condensed)

	Million yen	
	Three months ended June 30, 2018	Three months ended June 30, 2019
Cash flow from operating activities	(74,195)	(163,712)
Cash flow from investing activities	(26,661)	(17,138)
Cash flow from financing activities	89,264	150,583
Cash and cash equivalents at end of period	52,487	39,326