Report of Earnings and Financial Statements for the Fiscal Year Ended March 31, 2018 (Consolidated)

(Prepared pursuant to Japanese GAAP)

April 26, 2018

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

Ordinary general meeting of shareholders	June 27, 2018
Commencement date of dividend payments	June 28, 2018
Submission of financial statements	June 27, 2018
Supplementary materials to financial results	Available
Earnings presentation	Conducted (for institutional investors, analysts and the press)

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2018 (April 1, 2017 – March 31, 2018)

(Amounts in million yen rounded down to the nearest million yen)

(1) Operating Results

Years ended March 31 (Million yen) (Percentage figures indicate change compared with the previous fiscal year)

	Net sales		Operating income		Recurring profit		Net income attributable to owners of parent	
		%		%		%		%
2018	1,574,242	3.6	55,925	21.6	43,225	17.8	28,915	10.3
2017	1,518,830	(1.4)	45,960	(52.1)	36,671	(60.6)	26,204	(43.0)

Note: Comprehensive income Fiscal year ended March 31, 2018: ¥39,683 million 56.6%
Fiscal year ended March 31, 2017: ¥25,335 million 25.2%

Years ended March 31

	Earnings per share	Earnings per share – diluted	Return on equity	Return on assets	Operating income to net sales
	Yen	Yen	%	%	%
2018	173.09	-	6.4	2.4	3.5
2017	156.85	-	6.0	2.2	3.0

For reference: Equity in income of non consolidated subsidiaries and affiliates
Fiscal year ended March 31, 2018: ¥4,492 million
Fiscal year ended March 31, 2017: ¥5,537 million

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

March 31 (Million yen)

	Total assets	Net assets	Equity ratio	Net assets per share
			%	Yen
2018	1,785,028	481,386	26.1	2,789.99
2017	1,687,363	451,327	25.9	2,617.38

For reference: Shareholders' equity March 31, 2018: ¥466,061 million
March 31, 2017: ¥437,247 million

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, net assets per share has been calculated assuming this share consolidation was carried out at the beginning of the fiscal year ended March 31, 2017.

(3) Cash Flow Position

Years ended March 31 (Million yen)

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at end of year
2018	56,050	(80,590)	37,770	64,362
2017	93,514	(64,879)	(15,850)	50,722

2. Dividends

Years ended/ending March 31

Record date or term	Dividend per share					Total dividends paid (annual)	Payout ratio (consolidated)	Dividends / Net assets (consolidated)
	1Q	2Q	3Q	Year-end	Full year			
	Yen	Yen	Yen	Yen	Yen	million yen	%	%
2017	-	4.00	-	2.00	6.00	10,023	38.2	2.3
2018	-	3.00	-	30.00	-	10,023	34.6	2.2
2019 (forecast)	-	35.00	-	35.00	70.00		24.8	

Note: 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 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 expected 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 Fiscal Year Ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(Million yen)(Percentage figures indicate change compared with the previous fiscal year)

	Net sales		Operating income		Recurring profit		Net income attributable to owners of parent		Earnings per share
		%		%		%		%	Yen
Full year	1,650,000	4.8	75,000	34.1	70,000	61.9	47,000	62.5	281.35

***Notes**

(1) Changes affecting the status of material subsidiaries (scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates, and correction of errors

(i) Changes in accounting policies in accord with revisions to accounting standards: None

(ii) Changes in accounting policies other than (i): None

(iii) Changes in accounting estimates: None

(iv) Correction of errors: None

(3) Number of shares issued and outstanding (common stock)

(i) Number of shares issued as of period-end (including treasury stock)

March 31, 2018:	167,080,532 shares
March 31, 2017:	167,080,532 shares

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

March 31, 2018:	33,049 shares
March 31, 2017:	25,910 shares

(iii) Average number of shares during respective periods

March 31, 2018:	167,051,224 shares
March 31, 2017:	167,056,115 shares

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

***Report of Earnings and Financial Statements are not subject to audit.**

***Appropriate Use of Financial Forecasts and Other Important Matters**

Forward-Looking Statements

These materials contain earnings forecast and other forward-looking statements based on information available to the company at the time of disclosure and the company makes no assurances as to the actual results and/or other outcomes, which may differ from those expressed or implied herein due to various factors. For assumptions underlying earnings forecasts and other information regarding the use of such forecasts, refer to “(4) Consolidated earnings outlook” on page 11 in section “1. Overview of operating results” in the Accompanying Materials.

How to Obtain Supplementary Briefing Material on Financial Results and Details of the Financial Results Briefing

The Company plans to conduct a briefing for institutional investors, analysts and the press on Thursday April 26, 2018, and to post the briefing material on 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. Overview of operating results

(1) Consolidated operating results

In the fiscal year ended March 31, 2018, 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, as well as China, where foreign and domestic demand is robust. In addition, uncertainty about future prospects for the real economy persists, including influence to corporate activities due to Brexit, concerns about a trade friction due to an expansion of protectionist policies in the U.S., 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. Going forward, the economy is expected to grow modestly overall, but there is a possibility that economic policies enacted by countries around the world, especially the U.S., and geopolitical risks on the Korean Peninsula and in other regions, could result in both rapid and significant fluctuations in foreign exchange rates. As a result, foreign exchange rates must continue to be watched carefully.

Amid such an operating environment, the Group's orders received in the fiscal year ended March 31, 2018, increased versus the previous fiscal year, mainly in the Aerospace, Rolling Stock and Precision Machinery segment. Net sales increased overall, due to increases in the Precision Machinery, Gas Turbine & Machinery, and Motorcycle & Engine segments, despite a decline in the Plant & Infrastructure segment. Operating income and recurring profit both increased, due to higher profit in the Precision Machinery segment, improvement in the Ship & Offshore Structure segment, and other factors, despite the deterioration in the Rolling Stock segment in conjunction with worsening profitability on passenger railcars for the U.S. and other factors, along with decreased profit in the Aerospace segment. Net income attributable to owners of parent increased as a result of extraordinary income (gain on sale of fixed assets), reduced tax expenses due to the recognition of deferred tax assets related to losses in a shipbuilding joint venture project in Brazil, and other factors, despite the posting of extraordinary loss in conjunction with the termination of a shipbuilding contract for an offshore service vessel.

As a result, the Group's consolidated orders received increased ¥259.3 billion versus the same period of the previous fiscal year to ¥1,608.0 billion, consolidated net sales increased ¥55.4 billion year on year to ¥1,574.2 billion, consolidated operating income increased ¥9.9 billion year on year to ¥55.9 billion, consolidated recurring profit rose by ¥6.5 billion year on year to ¥43.2 billion, and net income attributable to owners of parent increased ¥2.7 billion year on year to ¥28.9 billion. ROIC* was 3.9%, while ROE was 6.4%.

* Before-tax ROIC = EBIT (income before income taxes + interest expense) ÷ invested capital (interest-bearing debt + shareholders' equity)

Consolidated operating performance in the fiscal year ended March 31, 2018, is summarized by segment below.

Segment information

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

	Fiscal year ended March 31						Orders received		
	2017(A)		2018(B)		Change (B – A)		Fiscal year ended March 31		
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	2017 (A)	2018 (B)	Change (B – A)
Ship & Offshore Structure	103.2	(21.4)	95.6	(3.8)	(7.5)	17.6	36.9	4.7	(32.2)
Rolling Stock	137.1	3.4	141.7	(12.4)	4.6	(15.9)	158.5	257.1	98.5
Aerospace	329.9	25.0	330.2	20.9	0.2	(4.1)	237.0	374.4	137.3
Gas Turbine & Machinery	241.9	15.2	266.4	14.7	24.5	(0.5)	260.3	248.1	(12.2)
Plant & Infrastructure	160.8	2.6	124.4	2.9	(36.4)	0.3	95.0	100.1	5.0
Motorcycle & Engine	313.0	11.7	331.6	15.2	18.6	3.5	313.0	331.6	18.6
Precision Machinery	155.2	13.1	198.9	21.6	43.7	8.5	166.8	207.1	40.2
Other	77.4	3.1	85.0	2.9	7.6	(0.2)	80.9	84.8	3.8
Adjustments	-	(7.0)	-	(6.2)	-	0.8	-	-	-
Total	1,518.8	45.9	1,574.2	55.9	55.4	9.9	1,348.7	1,608.0	259.3

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

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

Ship & Offshore Structure

With respect to the business environment surrounding the Ship & Offshore Structure segment, while new-build vessel prices are recovering after bottoming out, 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 due to 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 ¥4.7 billion, a ¥32.2 billion year on year decline versus the same period of the previous fiscal year when orders for submarines were received, due to the termination of a shipbuilding contract for an offshore service vessel, despite receiving orders for LPG carriers and Kawasaki JETFOIL during the period.

Consolidated net sales fell ¥7.5 billion year on year to ¥95.6 billion, due to the decline in construction work volume relation to submarines, and other factors.

Consolidated operating loss was ¥3.8 billion, a ¥17.6 billion improvement from the same period of the previous fiscal year, when additional allowance for doubtful receivables was posted and there was an increase in provision for losses on construction contracts.

Rolling Stock

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, while there have been some changes to railcar order plans in the New York area, which is the core market, demand for new and replacement railcars have been increasing. Meanwhile, in Asia, demand in emerging markets is increasing in tandem with the Japanese government's efforts to promote infrastructure-related exports.

Amid such an operating environment, consolidated orders received rose by ¥98.5 billion versus the same period of the previous fiscal year, when rolling stock for a domestic subway and other orders were received, to ¥257.1 billion, due to receiving large-scale orders, such an order received for new generation subway cars for New York City Transit, and an order received for rolling stock for a high-speed railway (MRT) in Bangladesh.

Consolidated net sales increased ¥4.6 billion year on year to ¥141.7 billion, due to the increase of sales in the domestic market, despite a decline of overseas sales such as in North America, Asia and other countries.

Operating income declined ¥15.9 billion year on year to an operating loss of ¥12.4 billion, due to a provision for losses on construction contracts for passenger railcars for the Long Island Railroad in the U.S., expenses for replacing the N700 series Shinkansen bogie frame, and other factors.

Aerospace

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

Amid such an operating environment, consolidated orders received increased ¥137.3 billion year on year to ¥374.4 billion due to remains for a high level of demand of component parts for commercial aircraft in addition to the increase of the demand from the Ministry of Defense.

Consolidated net sales increased ¥0.2 billion year on year to ¥330.2 billion, due to the increase in sales to the Ministry of Defense and other factors, despite the decline in sales of component parts for commercial aircraft.

Consolidated operating income fell ¥4.1 billion year on year to ¥20.9 billion, due to the decline in profitability of component parts for commercial aircraft, and other factors.

Gas Turbine & Machinery

Concerning the business environment surrounding the Gas Turbine & Machinery segment, in the aircraft sector demand for aircraft engines is increasing due to growth in demand for commercial aircraft based on the increase in the number of air passengers. 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. Meanwhile, overseas, demand for distributed power sources is increasing due to stronger interest in investment in the environment and energy conservation, among other factors.

Amid such an operating environment, consolidated orders received declined ¥12.2 billion year on year to ¥248.1 billion, due to the decline in gas engine power plants for the domestic market, and other factors.

Consolidated net sales increased ¥24.5 billion year on year to ¥266.4 billion, due to the increase in component parts of aircraft engines, and other factors.

Operating income was ¥14.7 billion, a ¥0.5 billion decrease compared to the previous fiscal year due to the decrease of highly profitable orders in energy segment, despite the sales increased.

Plant & Infrastructure

Regarding the business environment surrounding the Plant & Infrastructure 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. In Japan, there is ongoing demand for replacing aging facilities for refuse incineration plants and industrial machinery.

Amid such an operating environment, consolidated orders received increased ¥5.0 billion year on year to ¥100.1 billion, due to the increase in refuse incineration plants and operations, despite overseas orders decreasing.

Consolidated net sales fell ¥36.4 billion year on year to ¥124.4 billion, due to the decline in construction work volume on a chemical plant for an overseas market, and other factors.

Despite the drop in sales, operating income was ¥2.9 billion, a ¥0.3 billion increase compared to the previous year when there was an increase in provision for loss on construction contracts.

Motorcycle & Engine

Regarding the business environment surrounding the Motorcycle & Engine segment, the modest growth in motorcycle markets in developed countries continues, 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 ¥18.6 billion year on year to ¥331.6 billion, due to the increase in motorcycles and vehicles for developed countries and general-purpose engines, despite the decline in motorcycles for emerging markets.

Consolidated operating income increased ¥3.5 billion year on year to ¥15.2 billion, due to the increase in sales.

Precision Machinery

With respect to the business environment surrounding the Precision Machinery segment, the construction machinery market is brisk, centered on robust demand for vigorous excavators in China, and our construction machinery manufacturers, which are our customers, are competing to increase production. As for robots, in addition to increased demand in the automotive and semiconductor fields, demand is growing due to the expansion of the application coverage of industrial robots caused by the shortage of workers.

Amid such an operating environment, consolidated orders received increased ¥40.2 billion year on year to ¥207.1 billion, due to the increase in hydraulic components for construction machinery and various industrial robots.

Consolidated net sales increased ¥43.7 billion year on year to ¥198.9 billion, due to an increase in sales of hydraulic components for construction machinery and various industrial robots.

Consolidated operating income increased ¥8.5 billion year on year to ¥21.6 billion, due to the increase in sales.

Other Operations

Consolidated net sales increased ¥7.6 billion year on year to ¥85.0 billion.

Consolidated net operating income decreased ¥0.2 billion year on year to ¥2.9 billion.

(2) Consolidated financial condition

(i) Assets

Total assets at March 31, 2018, were ¥1,785.0 billion, ¥97.6 billion increase from March 31, 2017. Current assets increased ¥70.4 billion year on year to ¥1,148.3 billion, due to increasing of trade receivables. Fixed assets increased ¥27.1 billion year on year to ¥636.7 billion, primarily due to an increase in holdings of property, plant and equipment because of capital investment.

(ii) Liabilities

Consolidated liabilities increased ¥67.6 year on year to ¥1,303.6 billion at March 31, 2018, due to the increasing of interest bearing liabilities such as Long-term debt and other factors.
Interest bearing liabilities increased ¥45.9 billion year on year to ¥446.6 billion.

(iii) Net assets

Consolidated net assets increased ¥30.0 billion year on year to ¥481.3 billion, as the increase due to the posting of net income attributable to owners of parent was partly offset by dividend payments and other factors.

(3) Cash flows

(i) Cash flows from operating activities

Operating activities provided net cash of ¥56.0 billion, a ¥37.4 billion decrease from the previous fiscal year. Major sources of operating cash flow included income before income taxes of ¥32.9 billion and depreciation and amortization of ¥56.1 billion. Major uses of operating cash flow included expenditure of ¥35.5 billion due to an increase in trade receivables and expenditure of ¥26.4 billion due to an increase in inventory asset.

(ii) Cash flows from investing activities

Investing activities used net cash of ¥80.5 billion which is ¥15.7 billion more than in the previous fiscal year, mainly due to requisition of property, plant and equipment, as well as intangible assets.

(iii) Cash flows from financing activities

Financing activities provided net cash of ¥37.7 billion which is ¥53.6 billion more than in the previous fiscal year when ¥15.8 billion was used. This was mainly due to an increase in proceeds due to a net increase in short-term debt, and the increase in proceeds from long-term debt.

(4) Consolidated earnings outlook

For the fiscal year ending March 31, 2019, we are expecting consolidated net sales of ¥1,650.0 billion, a ¥75.8 billion year-on-year increase, due to expected increases mainly in the Precision Machinery & Robot and Energy System & Plant Engineering segment. In terms of profit, we are forecasting consolidated operating income of ¥75.0 billion, recurring profit of ¥70.0 billion, and net income attributable to owners of parent of ¥47.0 billion. Furthermore, we are expecting ROIC of 8.0% and ROE of 9.7%. These forecasts are based on the expectation for an increase in profits in conjunction with a rise in sales of Precision Machinery & Robot segment, a recovery in Rolling Stock and Ship & Offshore Structure segment which posted a large loss in the previous fiscal year, and other factors, although we expect the yen to be stronger than in the previous fiscal year.

Consolidated orders received are expected to decrease ¥18.0 billion year on year to ¥1,590.0 billion.

Assumed exchange rates of ¥107/US$ and ¥130/Euro were used for the above consolidated earnings outlook.

Note: The company will change its reportable segments to “Aerospace System”, “Energy System & Plant Engineering”, “Precision Machinery & Robot”, “Ship & Offshore Structure”, “Rolling Stock”, ”Motorcycle & Engine” and “Other” from the fiscal year ending March 31, 2019.

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. Basic rationale for selecting accounting standards

In the near term, KHI Group plans to continue to use Japanese accounting standards to disclose consolidated financial statements. The Group will continue to study the possible adoption of IFRS from the standpoint of increasing corporate value over the medium- to long-term horizon as well as promoting constructive dialogue with investors, all while taking the situation surrounding the Group both in Japan and overseas into consideration.

3. Consolidated Financial Statements

(1) Consolidated balance sheets

March 31	Million yen	
	2017	2018
Assets		
Current assets		
Cash on hand and in banks	55,388	70,632
Trade receivables	444,633	470,110
Merchandise and finished products	49,850	62,385
Work in process	323,433	326,459
Raw materials and supplies	111,577	115,893
Deferred tax assets	26,566	32,546
Other	68,978	72,542
Allowance for doubtful receivables	(2,593)	(2,247)
Total current assets	1,077,835	1,148,322
Fixed assets		
Net property, plant and equipment		
Buildings and structures,	180,070	186,623
Machinery and equipment,	134,071	144,399
Land	64,743	62,694
Leased assets,	1,955	2,199
Construction in progress	21,133	25,724
Other,	59,906	58,155
Total property, plant and equipment	461,881	479,797
Intangible assets	15,284	16,178
Investments and other assets		
Investments in securities	13,917	14,798
Net defined benefit assets	86	88
Deferred tax assets	36,499	37,086
Other	96,585	92,441
Allowance for doubtful receivables	(14,727)	(3,685)
Total investments and other assets	132,362	140,730
Total fixed assets	609,527	636,705
Total assets	1,687,363	1,785,028

Liabilities		
Current liabilities		
Trade payables	240,572	245,398
Electronically recorded obligations - operating	101,449	117,772
Short-term debt	111,456	108,978
Current portion of bonds	10,000	20,000
Lease obligations, current	192	283
Income taxes payable	4,295	6,042
Deferred tax liabilities	22	244
Accrued bonuses	20,288	19,903
Provision for product warranties	12,175	13,000
Provision for losses on construction contracts	18,103	18,258
Advances from customers	205,871	194,306
Other	119,013	125,454
Total current liabilities	843,441	869,643
Long-term liabilities		
Bonds payable	130,000	130,000
Long-term debt	147,492	185,685
Lease obligations	1,550	1,697
Deferred tax liabilities	8,476	8,942
Net defined benefit liability	81,563	86,836
Other	23,511	20,837
Total long-term liabilities	392,594	433,999
Total liabilities	1,236,035	1,303,642
Net assets		
Shareholders' equity		
Common stock	104,484	104,484
Capital surplus	54,393	54,573
Retained earnings	287,448	308,010
Treasury stock	(96)	(124)
Total shareholders' equity	446,230	466,944
Accumulated other comprehensive income		
Net unrealized gains (losses) on securities, net of tax	3,232	3,526
Deferred gains (losses) on hedges	(1,182)	403
Foreign currency translation adjustments	(341)	719
Remeasurements of defined benefit plans	(10,692)	(5,532)
Total accumulated other comprehensive income	(8,983)	(883)
Non-controlling interests	14,080	15,324
Total net assets	451,327	481,386
Total liabilities and net assets	1,687,363	1,785,028

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

Years ended March 31	Million yen	
	2017	2018
Net sales	1,518,830	1,574,242
Cost of sales	1,278,906	1,319,715
Gross profit	239,923	254,527
Selling, general and administrative expenses		
Salaries and benefits	51,436	52,502
Advertising expenses	11,241	11,953
R&D expenses	43,627	45,434
Other	87,657	88,712
Total selling, general and administrative expenses	193,963	198,602
Operating income	45,960	55,925
Non-operating income		
Interest income	845	720
Dividend income	254	291
Equity in income of non-consolidated subsidiaries and affiliates	5,537	4,492
Other	5,757	3,626
Total non-operating income	12,394	9,131
Non-operating expenses		
Interest expense	2,859	2,794
Foreign exchange losses	7,724	7,017
Payments for contract adjustment for commercial aircraft jet engines	-	(*1)2,505
Other	11,100	9,513
Total non-operating expenses	21,684	21,830
Recurring profit	36,671	43,225
Extraordinary income		
Gain on sale of fixed assets	(*2)2,202	(*2)2,606
Total extraordinary income	2,202	2,606
Extraordinary losses		
Losses from the termination of a shipbuilding contract for an offshore service vessel	-	(*3)12,833
Total extraordinary losses	-	12,833
Income before income taxes	38,873	32,999
Income taxes		
Current	7,470	11,634
Deferred	3,477	(9,982)
Total income taxes	10,948	1,652
Net income	27,925	31,347
Net income attributable to non-controlling interests	1,721	2,431
Net income attributable to owners of parent	26,204	28,915

Consolidated statements of comprehensive income

Years ended March 31	Million yen	
	2017	2018
Net income	27,925	31,347
Other comprehensive income		
Net unrealized gains (losses) on securities	559	338
Deferred gains (losses) on hedges	(1,844)	1,616
Foreign currency translation adjustments	(3,742)	(1,085)
Remeasurements of defined benefit plans	8,777	5,170
Share of other comprehensive income of entities accounted for using equity method	(6,340)	2,296
Total other comprehensive income	(2,590)	8,336
Comprehensive Income attributable to:	25,335	39,683
Owners of parent	24,272	37,015
Non-controlling interests	1,062	2,668

(3) Consolidated statements of changes in net assets

Years ended March 31	Million yen	
	2017	2018
Shareholders' equity		
Common stock		
Balance at end of previous year	104,484	104,484
Total changes during the period	-	-
Balance at end of year	104,484	104,484
Capital surplus		
Balance at end of previous year	54,394	54,393
Treasury stock disposed	(0)	(0)
Capital increase of consolidated subsidiaries	-	179
Total changes during the period	(0)	179
Balance at end of year	54,393	54,573
Retained earnings		
Balance at end of previous year	279,627	287,448
Changes during the period		
Cash dividend	(18,376)	(8,352)
Net income attributable to owners of parent	26,204	28,915
Change in the scope of consolidation	(7)	-
Total changes during the period	7,820	20,562
Balance at end of year	287,448	308,010
Treasury stock		
Balance at end of previous year	(86)	(96)
Changes during the period		
Treasury stock purchased	(10)	(28)
Treasury stock disposed	0	0
Total changes during the period	(9)	(27)
Balance at end of year	(96)	(124)
Total shareholders' equity		
Balance at end of previous year	438,419	446,230
Changes during the period		
Cash dividend	(18,376)	(8,352)
Net income attributable to owners of parent	26,204	28,915
Change in the scope of consolidation	(7)	-
Treasury stock purchased	(10)	(28)
Treasury stock disposed	0	0
Capital increase of consolidated subsidiaries	-	179
Total changes during the period	7,810	20,714
Balance at end of year	446,230	466,944

Comprehensive income		
Net unrealized gain (loss) on securities		
Balance at end of previous year	2,705	3,232
Changes during the period		
Net changes in items other than shareholder's equity	527	293
Total changes during the period	527	293
Balance at end of year	3,232	3,526
Deferred gains (losses) on hedges		
Balance at end of previous year	692	(1,182)
Changes during the period		
Net changes in items other than shareholders' equity	(1,874)	1,585
Total changes during the period	(1,874)	1,585
Balance at end of year	(1,182)	403
Foreign currency translation adjustments		
Balance at end of previous year	8,990	(341)
Changes during the period		
Net changes in items other than shareholders' equity	(9,331)	1,060
Total changes during the period	(9,331)	1,060
Balance at end of year	(341)	719
Remeasurements of defined benefit plans		
Balance at end of previous year	(19,439)	(10,692)
Changes during the period		
Net changes in items other than shareholders' equity	8,747	5,160
Total changes during the period	8,747	5,160
Balance at end of year	(10,692)	(5,532)
Total comprehensive income		
Balance at end of previous year	(7,051)	(8,983)
Changes during the period		
Net changes in items other than shareholders' equity	(1,931)	8,099
Total changes during the period	(1,931)	8,099
Balance at end of year	(8,983)	(883)
Non-controlling interests		
Balance at end of previous year	14,257	14,080
Changes during the period		
Net changes in items other than shareholders' equity	(176)	1,244
Total changes during the period	(176)	1,244
Balance at end of year	14,080	15,324
Total net assets		
Balance at end of previous year	445,625	451,327
Changes during the period		
Cash dividend	(18,376)	(8,352)
Net income attributable to owners of parent (loss)	26,204	28,915
Change in the scope of consolidation	(7)	-
Treasury stock purchased	(10)	(28)
Treasury stock disposed	0	0
Capital increase of consolidated subsidiaries	-	179
Net changes in items other than shareholders' equity	(2,108)	9,344
Total changes during the period	5,702	30,058
Balance at end of year	451,327	481,386

(4) Consolidated statements of cash flows

Years ended March 31	Million yen	
	2017	2018
Cash flows from operating activities		
Income before income taxes	38,873	32,999
Depreciation and amortization	51,564	56,137
Increase (decrease) in allowance for doubtful receivables	4,872	1,093
Increase (decrease) in accrued bonuses	(4,852)	(387)
Increase (decrease) in provision for product warranties	(385)	814
Increase (decrease) in provision for losses on construction contracts	10,185	11,029
Increase (decrease) in net defined benefit liability	3,537	13,324
Interest and dividend income	(1,100)	(1,011)
Interest expense	2,859	2,794
Equity in income non-consolidated subsidiaries and affiliates	(5,537)	(4,492)
(Gain) loss on sale of property, plant, and equipment	(3,077)	(2,606)
Losses from the termination of a shipbuilding contract for an offshore service vessel	-	12,833
(Increase) decrease in trade receivables	(64,605)	(35,516)
(Increase) decrease in inventories	7,453	(26,443)
Increase (decrease) in trade payables	20,743	21,569
(Increase) decrease in advance payments	7,838	6,103
Increase (decrease) in advances from customers	35,565	(10,092)
(Increase) decrease in other current assets	(1,272)	(22,937)
Increase (decrease) in other current liabilities	1,468	8,644
Other	(558)	(789)
Subtotal	103,572	63,066
Cash received for interest and dividends	5,870	4,166
Cash paid for interest	(2,827)	(2,795)
Cash paid for income taxes	(13,100)	(8,386)
Net cash provided by operating activities	93,514	56,050
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(69,341)	(82,238)
Proceeds from sales of property, plant and equipment and intangible assets	4,810	6,452
Acquisition of investments in securities	(1,208)	(512)
Proceeds from sales of investments in securities	1,841	342
Purchase of stocks of subsidiaries and affiliates	(625)	(3,408)
Proceeds from sales of stocks of subsidiaries and affiliates	966	-
Other	(1,323)	(1,226)
Net cash used for investing activities	(64,879)	(80,590)
Cash flows from financing activities		
Increase (decrease) in short-term debt, net	(20,843)	16,363
Proceeds from long-term debt	31,734	64,363
Repayment of long-term debt	(16,946)	(42,694)
Proceeds from issuance of bonds	20,000	20,000
Redemption of bonds payable	(10,000)	(10,000)
Cash dividends paid	(18,351)	(8,375)
Cash dividends paid to non-controlling interests	(765)	(1,433)
Other	(679)	(454)
Net cash used for financing activities	(15,850)	37,770
Effect of exchange rate changes	543	410
Net increase (decrease) in cash and cash equivalents	13,327	13,640
Cash and cash equivalents at beginning of period	37,832	50,722
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	(438)	-
Cash and cash equivalents at end of period	50,722	64,362

(5) Notes on financial statements

Notes on the going-concern assumption

Not applicable.

Related to consolidated statements of income

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

Fiscal year ended March 31 2018 (April 1, 2017 – March 31, 2018)

The company faced one-time expenses in connection with contracts with customers relating to aircraft engine programs in which the company was 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.

(*2) Gain on sale of fixed assets

Fiscal year ended March 31, 2017 (April 1, 2016 – March 31, 2017)

Gain on sale of fixed assets occurred in relation to the sale of the land and building of the company's Tokyo office. The gain was mainly the sale of the land.

Fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)

Gain on sale of fixed assets occurred in relation to the sale of the land and building of the company-offered dormitory and houses. The gain was mainly the sale of the land.

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

Fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)

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. Overview of reportable segments

The Company's reportable segments are components of the company about which separate financial information is available. These segments are subject to periodic reviews by the Company's board of directors to decide how to allocate resources and assess performance. The Company's operations are divided into internal companies based on product categories. Certain authority is delegated to each of the internal companies, based on which they conduct businesses in Japan and overseas. The Company's operations are therefore segmented based on each internal company's product categories. The Company's eight reportable segments are the Ship & Offshore Structure segment, the Rolling Stock segment, the Aerospace segment, the Gas Turbine & Machinery segment, the Plant & Infrastructure segment, the Motorcycle & Engine segment, the Precision Machinery segment, and the Other segment.

Main segment businesses are listed below.

Industry segment	Major products
Ship & Offshore Structure	Construction and sale of ships and other vessels, etc.
Rolling Stock	Production and sale of rolling stock, snow plows, etc.
Aerospace	Production and sale of aircraft, etc.
Gas Turbines & Machinery	Production and sale of jet engines, general-purpose gas turbine generators, prime movers, etc.
Plant & Infrastructure	Production and sale of industrial equipment, boilers, environmental equipment, steel structures, crushers, etc.
Motorcycle & Engine	Production and sale of motorcycles, all-terrain vehicles (ATV), utility vehicles, personal watercraft ("JET SKI"), general-purpose gasoline engines, etc.
Precision Machinery	Production and sale of industrial hydraulic products, industrial robots, etc.
Other	commercial activities, sales/order agency and intermediary activities, administration of welfare facilities, etc.

2. Method for calculating sales, profit/loss, assets, liabilities, and other items for reportable segments

The accounting methods applied to the reported business segments generally follow the accounting policies used to prepare the consolidated financial statements. The income of reporting segments is based on operating income. Inter-segment earnings and transfers are based on market prices.

3. Sales, income (loss), assets, liabilities, and other items by reportable segment

Fiscal year ended March 31, 2017 (April 1, 2016 – March 31, 2017)

(Million yen)

	Sales			Segment income (loss)	Segment assets	Other items		
	External sales	Intersegment sales or transfer	Total			Depreciation/ amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	103,204	2,447	105,651	(21,423)	168,577	1,277	47,643	3,705
Rolling Stock	137,159	75	137,235	3,485	164,412	2,626	129	2,728
Aerospace	329,915	1,614	331,530	25,034	433,241	15,022	-	33,273
Gas Turbines & Machinery	241,953	12,823	254,776	15,294	347,453	4,764	-	8,944
Plant & Infrastructure	160,877	7,928	168,806	2,610	119,157	1,456	16,899	2,207
Motorcycle & Engine	313,030	682	313,713	11,749	243,412	13,139	1,350	18,292
Precision Machinery	155,278	15,872	171,151	13,104	157,501	6,471	297	7,227
Other Operations	77,410	40,041	117,452	3,137	86,465	1,672	3,173	1,174
Total	1,518,830	81,486	1,600,317	52,992	1,720,222	46,430	69,493	77,553
Adjustments	-	(81,486)	(81,486)	(7,031)	(32,858)	5,134	-	5,191
Consolidated total	1,518,830	-	1,518,830	45,960	1,687,363	51,564	69,493	82,744

Fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)

(Million yen)

	Sales			Segment income (loss)	Segment assets	Other items		
	External sales	Intersegment sales or transfer	Total			Depreciation/ amortization	Investment in equity-method affiliates	Increase in property, plant and equipment and intangibles
Ship & Offshore Structure	95,610	3,786	99,397	(3,820)	147,963	1,444	49,749	4,774
Rolling Stock	141,760	105	141,866	(12,438)	180,792	2,567	138	2,505
Aerospace	330,211	1,829	332,041	20,923	424,109	17,484	-	28,875
Gas Turbines & Machinery	266,471	11,987	278,458	14,703	373,639	5,018	-	7,785
Plant & Infrastructure	124,465	11,023	135,488	2,936	136,130	1,508	19,118	1,689
Motorcycle & Engine	331,659	669	332,329	15,255	266,550	14,163	1,474	20,542
Precision Machinery	198,996	15,890	214,887	21,648	188,155	7,165	411	10,974
Other Operations	85,066	41,507	126,573	2,925	85,061	1,579	3,336	696
Total	1,574,242	86,800	1,661,042	62,132	1,802,402	50,932	74,228	77,844
Adjustments	-	(86,800)	(86,800)	(6,207)	(17,374)	5,205	-	4,319
Consolidated total	1,574,242	-	1,574,242	55,925	1,785,028	56,137	74,228	82,163

Note: The company will change its reportable segments to “Aerospace System”, “Energy System & Plant Engineering”, “Precision Machinery & Robot”, “Ship & Offshore Structure”, “Rolling Stock”, “Motorcycle & Engine” and “Other” from the fiscal year ending March 31, 2019.

4. Reconciliation and main components of difference between total for reportable segments and amounts on the consolidated financial statements

Fiscal year ended March 31 (Million yen)

Sales	2017	2018
Total for reportable segments	1,600,317	1,661,042
Intersegment transactions	(81,486)	(86,800)
Net sales reported on the consolidated financial statements	1,518,830	1,574,242

Fiscal year ended March 31 (Million yen)

Income	2017	2018
Total for reportable segments	52,992	62,132
Intersegment transactions	(34)	(95)
Corporate expenses*	(6,997)	(6,112)
Operating income (loss) on consolidated financial statements	45,960	55,925

Note: Corporate expenses mainly comprise general and administrative expenses not attributed to reportable segments.

Fiscal year ended March 31 (Million yen)

Assets	2017	2018
Total for reportable segments	1,720,222	1,802,402
Intersegment transactions etc.	(80,391)	(82,213)
Corporate assets shared by all segments*	47,532	64,838
Total assets on consolidated financial statements	1,687,363	1,785,028

Note: Corporate assets shared by all segments mainly comprise fixed assets not attributed to reportable segments.

Fiscal year ended March 31 (Million yen)

Other items	Total for reportable segments		Adjustments*		Amounts reported on the consolidated financial statements	
	2017	2018	2017	2018	2017	2018
Depreciation/amortization	46,430	50,932	5,134	5,205	51,564	56,137
Increase in property, plant and equipment and intangibles	77,553	77,844	5,191	4,319	82,744	82,163

Note: Adjustments are mainly due to fixed assets not attributed to reportable segments.

Per share data

Years ended March 31 (Yen)

	2017	2018
Net assets per share	2,617.38	2,789.99
Earnings per share - basic	156.85	173.09

Notes:
1. Diluted net earnings per share is not stated because there are no potential shares.
2. Net income/loss per share and net income per share (diluted) were calculated based on the following:

Years ended March 31 (Million yen)

	2017	2018
Earnings per share - basic		
Net income attributable to owners of parent	26,204	28,915
Earnings not attributable to common shareholders	-	-
Net income allocated to the common shares	26,204	28,915
Average number of common shares outstanding (Thousands of shares)	167,056	167,051

3. 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.

Material subsequent events

Not applicable.

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

(1) Net sales and operating income (loss)

(Billion yen)

	Outlook for the fiscal year ending March 31, 2019 (A)		Fiscal year ended March 31, 2018 (actual) (B)		Change (A – B)	
	Net sales	Operating Income (loss)	Net sales	Operating Income (loss)	Net sales	Operating Income (loss)
Aerospace System	475.0	27.5	469.5	30.8	5.5	(3.3)
Energy System & Plant Engineering	280.0	9.0	251.6	7.6	28.4	1.4
Precision Machinery & Robot	230.0	24.5	198.9	21.6	31.1	2.9
Ship & Offshore structure	85.0	1.0	95.6	(3.8)	(10.6)	4.8
Rolling Stock	160.0	2.5	141.7	(12.4)	18.3	14.9
Motorcycle & Engine	335.0	15.0	331.6	15.2	3.4	(0.2)
Other	85.0	3.0	85.0	2.9	-	0.1
Adjustments		(7.5)		(6.2)		(1.3)
Total	1,650.0	75.0	1,574.2	55.9	75.8	19.1

(2) Orders received

(Billion yen)

	Outlook for the fiscal year ending March 31, 2019 (A)	Fiscal year ended March 31, 2018 (actual) (B)	Change (A – B)
Aerospace System	385.0	498.9	(113.9)
Energy System & Plant Engineering	310.0	223.6	86.4
Precision Machinery & Robot	245.0	207.1	37.9
Ship & Offshore structure	100.0	4.7	95.3
Rolling Stock	130.0	257.1	(127.1)
Motorcycle & Engine	335.0	331.6	3.4
Other	85.0	84.8	0.2
Total	1,590.0	1,608.0	(18.0)

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

(%)

	Outlook for the fiscal year ending March 31, 2019 (A)	Fiscal year ended March 31, 2018 (actual) (B)	Change (A – B)
Aerospace System	7.7	7.8	(0.1)
Energy System & Plant Engineering	7.8	8.0	(0.2)
Precision Machinery & Robot	21.1	22.9	(1.8)
Ship & Offshore structure	2.9	(21.3)	24.2
Rolling Stock	3.4	(26.2)	29.6
Motorcycle & Engine	11.3	9.4	1.9
Total	8.0	3.9	4.1

Notes: 1. The company will change its reportable segments to "Aerospace System", "Energy System & Plant Engineering", "Precision Machinery & Robot", "Ship & Offshore Structure", "Rolling Stock", "Motorcycle & Engine" and "Other" from the fiscal year ending March 31, 2019. Operating results for the fiscal year ended March 31, 2018, have been recombined to match reportable segments following the changes.

2. Assumed exchange rates in the fiscal year ending March 31, 2019 would be ¥107/US$ and ¥130/Euro.

3. Before-tax ROIC = EBIT (income before income taxes + interest expense) ÷ invested capital (interest-bearing debt + shareholders' equity).