Report of Earnings and Financial Statements for the Fiscal Year Ended March 31, 2019 (Consolidated)

(Prepared pursuant to Japanese GAAP)

April 25, 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/
Representative:	Yoshinori Kanehana, President
Contact:	Tatsuo Hoshino, Senior Manager, Accounting Department
Tel:	+81 3-3435-2130

Scheduled dates:

Ordinary general meeting of shareholders	June 26, 2019
Commencement date of dividend payments	June 27, 2019
Submission of financial statements	June 26, 2019
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, 2019 (April 1, 2018 – March 31, 2019)

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

(1) Operating Results

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

	Net sales		Operating income		Recurring profit		Net income attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
2019	1,594,743	1.3	64,023	14.4	37,861	(12.4)	27,453	(5.0)
2018	1,574,242	3.6	55,925	21.6	43,225	17.8	28,915	10.3

Note: Comprehensive income Fiscal year ended March 31, 2019: ¥ 23,183 million (41.5%)
Fiscal year ended March 31, 2018: ¥ 39,683 million 56.6%

Years ended March 31

	Earnings per share	Earnings per share – diluted	Return on equity	Return on assets	Operating income to net sales
	Yen	Yen	%	%	%
2019	164.34	-	5.8	2.0	4.0
2018	173.09	-	6.4	2.4	3.5

For reference: Equity in income of non-consolidated subsidiaries and affiliates
Fiscal year ended March 31, 2019: ¥ 1,574 million
Fiscal year ended March 31, 2018: ¥ 4,492 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, 2018.

(2) Financial Condition

March 31

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	Yen
2019	1,838,855	492,261	25.9	2,851.84
2018	1,785,028	481,386	26.1	2,789.99

For reference: Shareholders' equity March 31, 2019: ¥ 476,387 million
March 31, 2018: ¥ 466,061 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, 2018.

(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
2019	109,762	(85,344)	(19,771)	68,311
2018	56,050	(80,590)	37,770	64,362

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	%	%
2018	-	3.00	-	30.00	-	10,023	34.6	2.2
2019	-	35.00	-	35.00	70.00	11,693	42.5	2.4
2020 (forecast)	-	35.00	-	35.00	70.00		30.7	

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

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

(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
	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

***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, 2019: 167,080,532 shares
March 31, 2018: 167,080,532 shares

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

March 31, 2019: 35,196 shares
March 31, 2018: 33,049 shares

(iii) Average number of shares during respective periods

March 31, 2019: 167,046,422 shares
March 31, 2018: 167,051,224 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.

***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 10 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 25, 2019, 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 5
(1) Consolidated operating results 5
(2) Consolidated financial condition 9
(3) Cash flows 9
(4) Consolidated earnings outlook 10
2. Basic rationale for selecting accounting standards 10
3. Consolidated Financial Statements 11
(1) Consolidated balance sheets 11
(2) Consolidated statements of income and comprehensive income 13
(3) Consolidated statement of changes in net assets 15
(4) Consolidated statements of cash flows 17
(5) Notes on financial statements 18
Notes on the going-concern assumption 18
Related to consolidated statements of balance sheets 18
Related to consolidated statements of income 18
Segment information 20
Per share data 23
Material subsequent events 23
4. Other 23
(1) Claim for damages in overseas LNG tank construction work 23
5. Supplementary information on earnings forecasts for the fiscal year ending March 31, 2020 24

1. Overview of operating results

(1) Consolidated operating results

In the fiscal year ended 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, there continues to be uncertainty about future prospects for the real economy, as a downturn in corporate earnings stemming from U.S.-China trade friction is beginning to emerge, while there is still a chance of a U.K. split from the EU without an agreement, even though the deadline for the split from the EU has been delayed. 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 fiscal year ended March 31, 2019, decreased overall versus the previous fiscal year due to the decreasing in the Rolling Stock segment and the Aerospace Systems segment, despite increase in the Ship & Offshore Structure segment and other segments. Net sales increased overall compared with the previous fiscal year, due to the increasing in the Motorcycle & Engine segment, the Precision Machinery & Robot and other segments, despite decrease in the Rolling Stock segment and other segments. Operating income increased overall, due to the improvement in the Ship & Offshore Structure segment and the increasing in the Energy System & Plant Engineering segment and other factors. Recurring profit decreased due to the payments for the in-service issues of commercial aircraft jet engines and other factors despite the increasing in the operating income. Net income attributable to owners of parent decreased as a result of the decrease of recurring profit and other factors.

As a result, the Group's consolidated orders received decreased ¥22.0 billion versus the previous fiscal year to ¥1,585.9 billion, consolidated net sales increased ¥20.5 billion year on year to ¥1,594.7 billion, consolidated operating income increased ¥8.0 billion year on year to ¥64.0 billion, consolidated recurring profit fell by ¥5.3 billion year on year to ¥37.8 billion, and net income attributable to owners of parent decreased ¥1.4 billion year on year to ¥27.4 billion. ROIC* was 4.5%, while ROE was 5.8%.

* 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, 2019, is summarized by segment below.

Segment information

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

	Fiscal year ended March 31						Orders received		
	2018 (A)		2019 (B)		Change (B – A)		Fiscal year ended March 31		
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	2018 (A)	2019 (B)	Change (B – A)
Aerospace Systems	469.5	30.8	463.9	32.6	(5.5)	1.7	498.9	431.6	(67.2)
Energy System & Plant Engineering	251.6	7.6	253.0	11.6	1.4	3.9	223.6	263.5	39.8
Precision Machinery & Robot	198.9	21.6	222.0	21.3	23.0	(0.2)	207.1	222.4	15.3
Ship & Offshore Structure	95.6	(3.8)	78.9	1.0	(16.6)	4.9	4.7	81.1	76.4
Rolling Stock	141.7	(12.4)	124.6	(13.7)	(17.0)	(1.3)	257.1	136.0	(121.0)
Motorcycle & Engine	331.6	15.2	356.8	14.3	25.1	(0.8)	331.6	356.8	25.1
Other	85.0	2.9	95.1	2.5	10.0	(0.4)	84.8	94.2	9.4
Adjustments	-	(6.2)	-	(5.7)	-	0.4	-	-	-
Total	1,574.2	55.9	1,594.7	64.0	20.5	8.0	1,608.0	1,585.9	(22.0)

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 ended 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 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 ¥67.2 billion year on year to ¥431.6 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 ¥5.5 billion year on year to ¥463.9 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 increase ¥1.7 billion year on year to ¥32.6 billion due to profitability improvement of component parts for commercial aircraft.

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 ¥39.8 billion year on year to ¥263.5 billion, due to the order received of a Combined Cycle Power Plant (CCPP) and a LNG tank for the Japanese market among other factors.

Consolidated net sales increased ¥1.4 billion year on year to ¥253.0 billion due to the increasing in construction work volume in Energy System segment and other factors despite the decline in construction work volume on refuse incineration plants for Japanese market and chemical plants for overseas market.

Consolidated operating income was ¥11.6 billion, ¥3.9 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, in the construction machinery market, excavator sales competition in the Chinese market is becoming increasingly intense, and there are growing concerns and a sense of uncertainty about the future prospects of the China market, particularly among foreign construction machinery manufacturers that are losing market share in the Chinese market (especially for small- and medium-sized excavators). However, demand still exceeds its production capacity, so the Company is working to increase production. The Company will continue to keep an eye on the situation 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, and the overseas market is expected to remain unstable for a while. Still, semiconductor investment is expected to resume in the second half of the fiscal year, and demand is expected to recover. In the domestic market, demand is expected to steadily expand in the industrial sector as a whole, including in human-robot coexistence field.

Amid such an operating environment, consolidated orders received increased ¥15.3 billion year on year to ¥222.4 billion, due to the increase in hydraulic components for construction machinery, despite the decrease in robots in the semiconductors field.

Consolidated net sales was ¥222.0 billion, a ¥23.0 billion increase compared to the previous fiscal year ended March 31, 2018, due to the increase in hydraulic components for construction machinery, despite the decrease in industrial robots for semiconductor.

Consolidated operating income was ¥21.3 billion, roughly the same level as the

previous fiscal year, due to the increase in SG&A expenses, including expenses to increase production as well as R&D costs, along with 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 were ¥81.1 billion, a ¥76.4 billion year on year increase versus the previous fiscal year when the Company terminates a ship building contract for an offshore service vessel, due to receiving the order of submarine for the Ministry of Defense.

Consolidated net sales fell by ¥16.6 billion year on year to ¥78.9 billion, due to a change in the sales mix between LNG carriers and LPG carriers, and other factors.

Consolidated operating income was ¥1.0 billion, a ¥4.9 billion improvement from 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 its 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 such an business environment, consolidated orders received were ¥136.0 billion, a ¥121.0 decline compared with the fiscal year ended March 31, 2018, when orders were received for new generation subway cars from the New York City Transit Authority, despite the fact that an order for commuter train cars was received from the Port Authority of New York and New Jersey, along with other factors.

Consolidated net sales decreased ¥17.0 billion year on year to ¥124.6 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 ¥1.3 billion year on year to ¥13.7 billion of the operating loss due to a deterioration of profitability in orders for the U.S. since the previous year.

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 ¥25.1 billion year on year to ¥356.8 billion, due to the increase in motorcycles and vehicles for developed countries.

Consolidated operating income deteriorated ¥0.8 billion year on year to ¥14.3 billion despite the increase in sales, which there was 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 ¥10.0 billion year on year to ¥95.1 billion.

Consolidated net operating income decreased ¥0.4 billion year on year to ¥2.5 billion.

(2) Consolidated financial position

(i) Assets

Total assets at March 31, 2019, were ¥1,838.8 billion, ¥53.8 billion increase from March 31, 2018. Current assets increased ¥20.5 billion compared to March 31, 2018, to ¥1,136.3 billion, due to an increase in inventory assets and other factors. Fixed assets increased ¥33.2 billion year on year to ¥702.5 billion, due to an increase in holdings of property, plant and equipment because of capital investment and other factors.

(ii) Liabilities

Overall liabilities increased ¥42.9 billion compared to March 31, 2018, to ¥1,346.5 billion, due to the rise in net defined benefit liabilities, the posting of the provision for the in-service issues of commercial aircraft jet engines, and other factors. Interest bearing liabilities decreased ¥7.2 billion year on year to ¥439.4 billion.

(iii) Net assets

Consolidated net assets increased ¥10.8 billion year on year to ¥492.2 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 and other factors.

(3) Cash flows

(i) Cash flows from operating activities

Operating activities provided net cash of ¥109.7 billion, a ¥53.7 billion increase from the previous fiscal year. Major sources of operating cash flow included income before income taxes of ¥37.8 billion and depreciation and amortization of ¥59.0 billion. Major uses of operating cash flow included expenditure of ¥65.3 billion due to an increase in inventory assets.

(ii) Cash flows from investing activities

Investing activities used net cash of ¥85.3 billion which is ¥4.7 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 used ¥19.7 billion, which is ¥57.5 billion more than in the previous fiscal year when financing activities provided net cash of ¥37.7 billion. This was mainly due to the payment of dividends.

(4) Consolidated earnings outlook

For the fiscal year ending March 31, 2020, the Company is expecting consolidated net sales of ¥1,700.0 billion, a ¥105.3 billion year on year increase, due to expected increases in the Aerospace Systems segment and Rolling Stock segment and Precision Machinery & Robot segment and other segments. In terms of profit, the Company is forecasting consolidated operating income of ¥72.0 billion, recurring profit of ¥61.0 billion, and net income attributable to owners of parent of ¥38.0 billion. Furthermore, the Company is expecting ROIC of 6.7% and ROE of 7.8%. These forecasts are based on the expectation for a recovery in Rolling Stock which posted a large loss in the previous fiscal year, an increase in profits in conjunction with a rise in sales of Precision Machinery & Robot segment and other factors.

Consolidated orders received are expected to increase ¥114.1 billion year on year to ¥1,700.0 billion.

Assumed exchange rates of ¥110/US$ and ¥125/Euro were used for the above consolidated earnings outlook.

Note regarding consolidated earnings outlook

The above earnings outlook is based on information available at the time of preparation, and includes risks and uncertainties. The Company therefore discourages 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

Years ended March 31	Million yen	
	2018	2019
Assets		
Current assets		
Cash on hand and in banks	70,632	74,311
Trade receivables	470,110	427,665
Merchandise and finished products	62,385	68,176
Work in process	326,459	405,087
Raw materials and supplies	115,893	119,558
Other	72,542	45,333
Allowance for doubtful receivables	(2,247)	(3,792)
Total current assets	1,115,776	1,136,340
Fixed assets		
Net property, plant and equipment		
Buildings and structures	186,623	194,939
Machinery and equipment	144,399	148,620
Land	62,694	62,705
Leased assets	2,199	2,148
Construction in progress	25,724	18,227
Other	58,155	59,028
Total property, plant and equipment	479,797	485,669
Intangible assets	16,178	16,797
Investments and other assets		
Investments in securities	14,798	14,501
Net defined benefit assets	88	93
Deferred tax assets	69,632	70,179
Other	92,441	116,696
Allowance for doubtful receivables	(3,685)	(1,422)
Total investments and other assets	173,276	200,048
Total fixed assets	669,252	702,514
Total assets	1,785,028	1,838,855

Liabilities		
Current liabilities		
Trade payables	245,398	247,191
Electronically recorded obligations - operating	117,772	123,083
Short-term debt	108,978	100,023
Current portion of bonds	20,000	10,000
Lease obligations, current	283	319
Income taxes payable	6,042	10,390
Accrued bonuses	19,903	21,168
Provision for product warranties	13,000	13,096
Provision for losses on construction contracts	18,258	27,609
Advances from customers	194,306	181,419
Other	125,454	129,978
Total current liabilities	869,398	864,280
Long-term liabilities		
Bonds payable	130,000	140,000
Long-term debt	185,685	187,568
Lease obligations	1,697	1,513
Deferred tax liabilities	9,187	593
Net defined benefit liability	86,836	97,602
Provision for the in-service issues of commercial aircraft jet engines	-	(*1) 11,468
Other	20,837	43,566
Total long-term liabilities	434,244	482,313
Total liabilities	1,303,642	1,346,593
Net assets		
Shareholders' equity		
Common stock	104,484	104,484
Capital surplus	54,573	54,542
Retained earnings	308,010	324,606
Treasury stock	(124)	(130)
Total shareholders' equity	466,944	483,502
Accumulated other comprehensive income		
Net unrealized gains (losses) on securities, net of tax	3,526	2,682
Deferred gains (losses) on hedges	403	(227)
Foreign currency translation adjustments	719	(4,556)
Premeasurements of defined benefit plans	(5,532)	(5,014)
Total accumulated other comprehensive income	(883)	(7,115)
Non-controlling interests	15,324	15,874
Total net assets	481,386	492,261
Total liabilities and net assets	1,785,028	1,838,855

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

Years ended March 31	Million yen	
	2018	2019
Net sales	1,574,242	1,594,743
Cost of sales	1,319,715	1,326,668
Gross profit	254,527	268,075
Selling, general and administrative expenses		
Salaries and benefits	52,502	54,952
R&D expenses	45,434	48,734
Other	100,665	100,364
Total selling, general and administrative expenses	198,602	204,052
Operating income	55,925	64,023
Non-operating income		
Interest income	720	909
Dividend income	291	294
Interest on securities	46	862
Equity in income of non-consolidated subsidiaries and affiliates	4,492	1,574
Other	3,580	3,056
Total non-operating income	9,131	6,696
Non-operating expenses		
Interest expense	2,794	3,427
Foreign exchange losses	7,017	4,721
Payments for the in-service issues of commercial aircraft jet engines	-	(*1)14,851
Payments for contract adjustment for commercial aircraft jet engines	(*2)2,505	-
Other	9,513	9,857
Total non-operating expenses	21,830	32,858
Recurring profit	43,225	37,861
Extraordinary income		
Gain on sale of fixed assets	(*3)2,606	-
Total extraordinary income	2,606	-
Extraordinary losses		
Losses from the termination of a shipbuilding contract for an offshore service vessel	(*4)12,833	-
Total extraordinary losses	12,833	-
Income before income taxes	32,999	37,861
Income taxes		
Current	11,634	16,704
Deferred	(9,982)	(8,681)
Total income taxes	1,652	8,022
Net income	31,347	29,838
Net income attributable to non-controlling interests	2,431	2,385
Net income attributable to owners of parent	28,915	27,453

Consolidated statements of comprehensive income

Years ended March 31	Million yen	
	2018	2019
Net income	31,347	29,838
Other comprehensive income		
Net unrealized gains (losses) on securities	338	(864)
Deferred gains (losses) on hedges	1,616	(675)
Foreign currency translation adjustments	(1,085)	(796)
Premeasurements of defined benefit plans	5,170	549
Share of other comprehensive income of entities accounted for using equity method	2,296	(4,867)
Total other comprehensive income	8,336	(6,654)
Comprehensive Income attributable to:	39,683	23,183
Owners of parent	37,015	21,220
Non-controlling interests	2,668	1,962

(3) Consolidated statements of changes in net assets

Years ended March 31	Million yen	
	2018	2019
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	54,393	54,573
Treasury stock disposed	(0)	(0)
Transfer of loss on disposal of treasury stock	-	0
Capital increase of consolidated subsidiaries	179	(30)
Total changes during the period	179	(30)
Balance at end of year	54,573	54,542
Retained earnings		
Balance at end of previous year	287,448	308,010
Changes during the period		
Cash dividend	(8,352)	(10,858)
Net income attributable to owners of parent	28,915	27,453
Transfer of loss on disposal of treasury stock	-	(0)
Total changes during the period	20,562	16,595
Balance at end of year	308,010	324,606
Treasury stock		
Balance at end of previous year	(96)	(124)
Changes during the period		
Treasury stock purchased	(28)	(7)
Treasury stock disposed	0	1
Total changes during the period	(27)	(5)
Balance at end of year	(124)	(130)
Total shareholders' equity		
Balance at end of previous year	446,230	466,944
Changes during the period		
Cash dividend	(8,352)	(10,858)
Net income attributable to owners of parent	28,915	27,453
Treasury stock purchased	(28)	(7)
Treasury stock disposed	0	1
Transfer of loss on disposal of treasury stock	-	-
Capital increase of consolidated subsidiaries	179	(30)
Total changes during the period	20,714	16,558
Balance at end of year	466,944	483,502

Comprehensive income		
Net unrealized gain (loss) on securities		
Balance at end of previous year	3,232	3,526
Changes during the period		
Net changes in items other than shareholder's equity	293	(843)
Total changes during the period	293	(843)
Balance at end of year	3,526	2,682
Deferred gains (losses) on hedges		
Balance at end of previous year	(1,182)	403
Changes during the period		
Net changes in items other than shareholders' equity	1,585	(630)
Total changes during the period	1,585	(630)
Balance at end of year	403	(227)
Foreign currency translation adjustments		
Balance at end of previous year	(341)	719
Changes during the period		
Net changes in items other than shareholders' equity	1,060	(5,275)
Total changes during the period	1,060	(5,275)
Balance at end of year	719	(4,556)
Premeasurements of defined benefit plans		
Balance at end of previous year	(10,692)	(5,532)
Changes during the period		
Net changes in items other than shareholders' equity	5,160	517
Total changes during the period	5,160	517
Balance at end of year	(5,532)	(5,014)
Total comprehensive income		
Balance at end of previous year	(8,983)	(883)
Changes during the period		
Net changes in items other than shareholders' equity	8,099	(6,232)
Total changes during the period	8,099	(6,232)
Balance at end of year	(883)	(7,115)
Non-controlling interests		
Balance at end of previous year	14,080	15,324
Changes during the period		
Net changes in items other than shareholders' equity	1,244	549
Total changes during the period	1,244	549
Balance at end of year	15,324	15,874
Total net assets		
Balance at end of previous year	451,327	481,386
Changes during the period		
Cash dividend	(8,352)	(10,858)
Net income attributable to owners of parent (loss)	28,915	27,453
Treasury stock purchased	(28)	(7)
Treasury stock disposed	0	1
Transfer of loss on disposal of treasury stock	-	-
Capital increase of consolidated subsidiaries	179	(30)
Net changes in items other than shareholders' equity	9,344	(5,683)
Total changes during the period	30,058	10,875
Balance at end of year	481,386	492,261

(4) Consolidated statements of cash flows

Years ended March 31	Million yen	
	2018	2019
Cash flows from operating activities		
Income before income taxes	32,999	37,861
Depreciation and amortization	56,137	59,022
Increase (decrease) in allowance for doubtful receivables	1,093	(667)
Increase (decrease) in accrued bonuses	(387)	1,245
Increase (decrease) in provision for product warranties	814	100
Increase (decrease) in provision for losses on construction contracts	11,029	9,336
Increase (decrease) in net defined benefit liability	13,324	11,982
Increase (decrease) in Payments for the in-service issues of commercial aircraft jet engines	-	11,468
Interest and dividend income	(1,011)	(1,203)
Interest expense	2,794	3,427
Equity in income non-consolidated subsidiaries and affiliates	(4,492)	(1,574)
(Gain) loss on sale of property, plant, and equipment	(2,606)	-
Losses from the termination of a shipbuilding contract for an offshore service vessel	12,833	-
(Increase) decrease in trade receivables	(35,516)	58,985
(Increase) decrease in inventories	(26,443)	(65,383)
Increase (decrease) in trade payables	21,569	6,829
(Increase) decrease in advance payments	6,103	1,202
Increase (decrease) in advances from customers	(10,092)	(14,013)
(Increase) decrease in other current assets	(22,937)	(1,557)
Increase (decrease) in other current liabilities	8,644	2,299
Other	(789)	1,192
Subtotal	63,066	120,553
Cash received for interest and dividends	4,166	3,859
Cash paid for interest	(2,795)	(3,439)
Cash paid for income taxes	(8,386)	(11,211)
Net cash provided by operating activities	56,050	109,762
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(82,238)	(82,836)
Proceeds from sales of property, plant and equipment and intangible assets	6,452	605
Acquisition of investments in securities	(512)	(1,025)
Proceeds from sales of investments in securities	342	989
Purchase of stocks of subsidiaries and affiliates	(3,408)	(3,818)
Other	(1,226)	741
Net cash used for investing activities	(80,590)	(85,344)
Cash flows from financing activities		
Increase (decrease) in short-term debt, net	16,363	(10,866)
Proceeds from long-term debt	64,363	34,772
Repayment of long-term debt	(42,694)	(30,709)
Proceeds from issuance of bonds	20,000	20,000
Redemption of bonds payable	(10,000)	(20,000)
Cash dividends paid	(8,375)	(10,868)
Cash dividends paid to non-controlling interests	(1,433)	(1,950)
Other	(454)	(149)
Net cash used for financing activities	37,770	(19,771)
Effect of exchange rate changes	410	(696)
Net increase (decrease) in cash and cash equivalents	13,640	3,949
Cash and cash equivalents at beginning of period	50,722	64,362
Cash and cash equivalents at end of period	64,362	68,311

(5) Notes on financial statements

Notes on the going-concern assumption

Not applicable.

Related to consolidated balance sheets

(*1) The provision 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 FY2018 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.

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 FY2018 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. 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) Gain on sale of fixed assets

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.

(*4) 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. 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 seven reportable segments are the Aerospace Systems segment, the Energy System & Plant Engineering segment, the Precision Machinery & Robot segment, the Ship & Offshore Structure segment, the Rolling Stock segment, the Motorcycle & Engine segment, and the Other segment.

From the fiscal year under review, the Company reorganization was carried out in order to further enhance Kawasaki-ROIC management in response to changes in the business environment. Along with this, the Company has reviewed the method of business segment classification from the fiscal year ended 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 fiscal year ended March 31, 2018 has been prepared using the revised segment classification method.

Main segment businesses are listed below.

Industry segment	Major products
Aerospace Systems	Production and sale of aircraft, jet engines, etc.
Energy System & Plant Engineering	Production and sale of general-purpose gas turbine generators, prime movers, industrial equipment, boilers, environmental equipment, steel structures, crushers, etc.
Precision Machinery & Robot	Production and sale of industrial hydraulic products, industrial robots, etc.
Ship & Offshore Structure	Construction and sale of ships and other vessels, etc.
Rolling Stock	Production and sale of rolling stock, snow plows, etc.
Motorcycle & Engine	Production and sale of motorcycles, all-terrain vehicles (ATV), utility vehicles, personal watercraft ("JET SKI"), general-purpose gasoline engines, 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, 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
Aerospace Systems	469,507	5,030	474,538	30,876	644,719	20,674	-	34,613
Energy System & Plant Engineering	251,640	19,695	271,336	7,686	288,895	3,337	19,118	3,738
Precision Machinery & Robot	198,996	15,890	214,887	21,648	188,155	7,165	411	10,974
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
Motorcycle & Engine	331,659	669	332,329	15,255	266,550	14,163	1,474	20,542
Other Operations	85,066	41,507	126,573	2,925	85,061	1,579	3,336	696
Total	1,574,242	86,686	1,660,929	62,133	1,802,139	50,932	74,228	77,844
Adjustments	-	(86,686)	(86,686)	(6,207)	(17,110)	5,205	-	4,319
Consolidated total	1,574,242	-	1,574,242	55,925	1,785,028	56,137	74,228	82,163

Fiscal year ended March 31, 2019 (April 1, 2018 – March 31, 2019)

(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
Aerospace Systems	463,958	12,089	476,048	32,611	649,260	21,299	-	24,022
Energy System & Plant Engineering	253,041	19,899	272,940	11,634	301,798	3,412	18,552	2,237
Precision Machinery & Robot	222,095	17,151	239,247	21,352	205,199	8,220	634	11,636
Ship & Offshore Structure	78,974	4,549	83,523	1,090	121,918	1,559	45,955	2,360
Rolling Stock	124,689	27	124,716	(13,797)	211,102	2,615	133	3,358
Motorcycle & Engine	356,847	718	357,566	14,366	283,770	15,317	1,549	18,505
Other Operations	95,136	41,136	136,273	2,501	93,601	1,527	3,509	861
Total	1,594,743	95,572	1,690,316	69,760	1,866,652	53,953	70,334	62,982
Adjustments	-	(95,572)	(95,572)	(5,737)	(27,797)	5,069	-	3,918
Consolidated total	1,594,743	-	1,594,743	64,023	1,838,855	59,022	70,334	66,900

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	2018	2019
Total for reportable segments	1,660,929	1,690,316
Intersegment transactions	(86,686)	(95,572)
Net sales reported on the consolidated financial statements	1,574,242	1,594,743

Fiscal year ended March 31 (Million yen)

Income	2018	2019
Total for reportable segments	62,133	69,760
Intersegment transactions	(95)	(181)
Corporate expenses*	(6,112)	(5,555)
Operating income (loss) on consolidated financial statements	55,925	64,023

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

Fiscal year ended March 31 (Million yen)

Assets	2018	2019
Total for reportable segments	1,802,139	1,866,652
Intersegment transactions etc.	(81,949)	(102,520)
Corporate assets shared by all segments*	64,838	74,723
Total assets on consolidated financial statements	1,785,028	1,838,855

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	
	2018	2019	2018	2019	2018	2019
Depreciation/amortization	50,932	53,953	5,205	5,069	56,137	59,022
Increase in property, plant and equipment and intangibles	77,844	62,982	4,319	3,918	82,163	66,900

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

Per share data

Years ended March 31 (Yen)

	2018	2019
Net assets per share	2,789.99	2,851.84
Earnings per share - basic	173.09	164.34

Notes:

1. Diluted net earnings per share are 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)

	2018	2019
Earnings per share - basic		
Net income attributable to owners of parent	28,915	27,453
Earnings not attributable to common shareholders	-	-
Net income allocated to the common shares	28,915	27,453
Average number of common shares outstanding (Thousands of shares)	167,051	167,046

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, 2018.

Material subsequent events

Not applicable.

4. 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 March 31, 2019, 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.

5. Supplementary information on earnings forecasts for the fiscal year ending March 31, 2020

(1) Net sales and operating income (loss)

(Billion yen)

	Outlook for the fiscal year ending March 31, 2020 (A)		Fiscal year ended March 31, 2019 (actual) (B)		Change (A – B)	
	Net sales	Operating Income (loss)	Net sales	Operating Income (loss)	Net sales	Operating Income (loss)
Aerospace System	520.0	32.0	463.9	32.6	56.1	(0.6)
Energy System & Plant Engineering	255.0	10.0	253.0	11.6	2.0	(1.6)
Precision Machinery & Robot	255.0	26.0	222.0	21.3	33.0	4.7
Ship & Offshore structure	70.0	(2.0)	78.9	1.0	(8.9)	(3.0)
Rolling Stock	170.0	1.0	124.6	(13.7)	45.4	14.7
Motorcycle & Engine	350.0	12.0	356.8	14.3	(6.8)	(2.3)
Other	80.0	1.0	95.1	2.5	(15.1)	(1.5)
Adjustments		(8.0)		(5.7)		(2.3)
Total	1,700.0	72.0	1,594.7	64.0	105.3	8.0

(2) Orders received

(Billion yen)

	Outlook for the fiscal year ending March 31, 2020 (A)	Fiscal year ended March 31, 2019 (actual) (B)	Change (A – B)
Aerospace System	420.0	431.6	(11.6)
Energy System & Plant Engineering	335.0	263.5	71.5
Precision Machinery & Robot	280.0	222.4	57.6
Ship & Offshore structure	100.0	81.1	18.9
Rolling Stock	130.0	136.0	(6.0)
Motorcycle & Engine	350.0	356.8	(6.8)
Other	85.0	94.2	(9.2)
Total	1,700.0	1,585.9	114.1

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, 2020 (A)	Fiscal year ended March 31, 2019 (actual) (B)	Change (A – B)
Aerospace System	8.0	5.0	3.0
Energy System & Plant Engineering	7.6	9.3	(1.7)
Precision Machinery & Robot	20.4	19.8	0.6
Ship & Offshore structure	(1.4)	3.2	(4.6)
Rolling Stock	1.6	(26.4)	28.0
Motorcycle & Engine	8.4	8.4	-
Total	6.7	4.5	2.2

Notes**:** 1. Assumed exchange rates in the fiscal year ending March 31, 2020 would be ¥110/US$ and ¥125/Euro.

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