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

October 31, 2019

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

Submission of quarterly securities filing:	November 6, 2019
Commencement of dividend payments:	December 2, 2019
Supplementary materials to quarterly earnings:	Available
Quarterly earnings presentation:	Conducted (for institutional investors, analysts and the press)

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

1. Consolidated Financial Results for the Six Months ended September 30, 2019 (April 1, 2019 – September 30, 2019)

(1) Operating Results

(Percentage figures represent changes versus the year-ago period)

	Net sales		Operating income		Recurring profit		Net income attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Six Months Ended September 30, 2019	736,565	7.0	8,678	2.6	830	300.5	(3,733)	-
Six Months Ended September 30, 2018	688,107	(3.0)	8,454	(47.5)	207	(98.6)	(3,592)	-

Note: Comprehensive income: Six months ended September 30, 2019: ¥(7,763) million -%
Six months ended September 30, 2018: ¥(3,628) million -%

	Earnings per share	Earnings per share – diluted
	yen	yen
Six Months Ended September 30, 2019	(22.34)	-
Six Months Ended September 30, 2018	(21.50)	-

(2) Financial Condition

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
Six Months Ended September 30, 2019	1,949,784	473,181	23.4
Year ended March 31, 2019	1,838,855	492,261	25.9

Note: Shareholders' equity: Six months ended September 30, 2019: ¥457,535 million
Year ended March 31, 2019: ¥476,387 million

2. Dividends

Record date or term	Dividend per share End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Full year
	yen	yen	yen	yen	yen
Year ended March 31, 2019	-	35.00	-	35.00	70.00
Year ending March 31, 2020	-	35.00			
Year ending March 31, 2020 (forecast)			-	35.00	70.00

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

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

(Percentage figures represent changes versus the year-ago period)

	Net sales		Operating income		Recurring profit		Net income attributable to owners of parent		Earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	1,660,000	4.0	56,000	(12.5)	41,000	8.2	25,000	(8.9)	149.66

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

Notes

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

2) Accounting procedures specific to preparation of quarterly consolidated financial statements: Yes

*For further details, see “2.Consolidated Financial Statements (4)Notes on financial statements” on page 15 in the Accompanying Materials.

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

(1) Changes in accounting policies in accord with revisions to accounting standards: Yes

(2) Changes in accounting policies other than (1): None

(3) Changes in accounting estimates: None

(4) Correction of errors: None

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

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

September 30, 2019:	167,080,532 shares
March 31, 2019:	167,080,532 shares

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

September 30, 2019:	35,795 shares
March 31, 2019:	35,196 shares

(3) Average number of shares during respective periods

September 30, 2019:	167,044,988 shares
September 30, 2018:	167,046,946 shares

The quarterly report of earnings and financial statements is exempted from quarterly review procedures based on the Financial Instruments and Exchange act.

Appropriate Use of Financial Forecasts and Other Important Matters

Forward-Looking Statements

These materials contain various forward-looking statements and other forecasts regarding performance and other matters. Such statements are based on information available at the time of their preparation, and do not mean that the Company promises to achieve these figures. Actual results may differ from those expressed or implied by forward-looking statements due to a range of factors. For assumptions underlying earnings forecasts and other information regarding the use of such forecasts, refer to “1. Qualitative Information and Financial Statements (3) Consolidated earnings outlook ” on page 10 in the Accompanying Materials.

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

The Company plans to conduct a briefing for institutional investors, analysts and the press by conference call on Thursday October 31, 2019, and to post the briefing material on quarterly financial results to be used for the briefing on TDnet and the Company’s website simultaneously with the announcement of financial results.

Accompanying Materials – Contents

1. Qualitative Information about Financial Statements

(1) Consolidated operating results

The global economy continues to grow at a moderate pace overall, but concerns are being apparent about an economic downturn stemming from intensifying U.S.-China trade friction. And the remaining possibility of a U.K. exit from the EU without an agreement, there is a continued need to closely monitor the downward risks to the global economy.

The Japanese economy has been recovering modestly due to the modest increasing of capital investment, the improvement in corporate earnings, and other factors, but deterioration in corporate earnings is being apparent due to an intensification of U.S.-China trade frictions. Although overall modest growth is expected to continue, it is necessary to continue to closely monitor foreign exchange trends and watch out for deterioration in corporate earnings caused by the economic policies, etc. of the United States and other countries.

Amid such an operating environment, the Group’s orders received in the first six months of the fiscal year ending March 31, 2020, decreased versus the previous fiscal year, mainly in the Aerospace Systems segment. Net sales increased overall, due to increases in the Aerospace Systems and the Rolling Stock segment and other segments, despite a decline in the Energy System & Plant Engineering segment. Operating income was almost on par with the previous year's result, as the deterioration in the Precision Machinery & Robot segment and other factors, despite the improvement in the Energy System & Plant Engineering segment and the Rolling Stock segment. Recurring profit increased due to decreases of payment for the in-service issues of commercial aircraft jet engines, and other factors, despite an increase in loss on foreign exchange. Net income attributable to owners of parent remained essentially unchanged year on year due to an increase in tax expenses, which offset the gain on sale of fixed assets recorded as extraordinary income.

As a result, the Group’s consolidated orders received decreased ¥73.1 billion versus the same period of the previous fiscal year to ¥657.3 billion, consolidated net sales increased ¥48.4 billion year on year to ¥736.5 billion, operating income increased ¥0.2 billion year on year to ¥8.6 billion, recurring profit increased ¥0.6 billion year on year to ¥0.8 billion, and net loss attributable to owners of parent of ¥3.7 billion was almost on par with the previous year's result.

Consolidated operating performance in the first half of fiscal year is summarized by segment below.

Segment Information

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

	Six months ended September 30						Orders received		
	2018(A)		2019 (B)		Change (B – A)		Six months ended September 30		
	Net sales	Operating income	Net sales	Operating income	Net Sales	Operating income	2018 (A)	2019 (B)	Change (B – A)
Aerospace Systems	210.2	9.4	250.8	9.7	40.6	0.2	201.1	158.7	(42.3)
Energy System & Plant Engineering	103.9	2.2	95.6	5.0	(8.3)	2.8	146.7	124.0	(22.7)
Precision Machinery & Robot	102.1	9.6	98.2	3.2	(3.9)	(6.4)	115.4	104.6	(10.8)
Ship & Offshore Structure	39.7	1.2	37.1	(1.4)	(2.6)	(2.7)	16.5	26.5	10.0
Rolling Stock	45.4	(8.8)	59.3	(4.3)	13.8	4.5	60.5	39.1	(21.3)
Motorcycle & Engine	144.4	(4.6)	147.2	(3.3)	2.8	1.2	144.4	147.2	2.8
Other	42.1	1.0	48.1	0.8	5.9	(0.1)	45.6	57.0	11.4
Adjustments	-	(1.6)	-	(0.9)	-	0.6	-	-	-
Total	688.1	8.4	736.5	8.6	48.4	0.2	730.4	657.3	(73.1)

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

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

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

Aerospace Systems

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

Amid such an operating environment, consolidated orders received decreased ¥42.3 billion year on year to ¥158.7 billion due to decreases in component parts of airframes for Ministry of Defense and commercial aircraft, although component parts of commercial aircraft jet engines remain high level.

Consolidated net sales increased ¥40.6 billion year on year to ¥250.8 billion due to increases in component parts of airframes for Ministry of Defense and commercial aircraft, and component parts of commercial aircraft jet engines.

Operating income of ¥9.7 billion was on par with the previous year's result, as increased sales offset an increase in depreciation of development costs of a new program relating to component parts for commercial aircraft engines.

Energy System & Plant Engineering

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

Amid such an operating environment, consolidated orders received decreased ¥22.7 billion year on year to ¥124.0 billion. Although new orders were relatively strong, including an order for major refurbishments of domestic waste disposal facilities, the year-on-year result reflects the non-recurrence of orders received for large projects in the previous fiscal year, including orders for a Combined Cycle Power Plant and an LNG tank for the Japanese market.

Consolidated net sales decreased ¥8.3 billion year on year to ¥95.6 billion, due to a decline in construction work volume on Energy system segment and refuse incineration plants and other factors.

Operating income increased ¥2.8 billion year on year to ¥5.0 billion, due to the profitability improvement in the Energy System segment and the other factors, despite a drop in sales.

Precision Machinery & Robot

Regarding the business environment surrounding the Precision Machinery & Robot segment, there is expected to be continued solid demand in the construction machinery market centered on emerging markets, despite moves by some manufacturers to conduct inventory adjustments in response to a softening of demand for hydraulic excavators in the Chinese market and other factors. In the robot market, market conditions remained severe due to factors such as the postponement of capital investment in the Chinese market in response to the U.S.-China trade friction. However, in light of factors such as new investments by major Taiwanese semiconductor manufacturers and data such as forecasts of demand among the main U.S. equipment manufacturers, the semiconductor market appears to have already bottomed out. Demand for robots is expected to expand steadily over the medium to long term.

Amid such an operating environment, consolidated orders received decreased ¥10.8 billion year on year to ¥104.6 billion, due to a decrease in various robots.

Consolidated net sales decreased ¥3.9 billion year on year to ¥98.2 billion, due to a decrease in various robots.

Operating income decreased ¥6.4 billion year on year to ¥3.2 billion, as a result of factors including the drop in robot sales, increases in costs of hydraulic components and research and development.

Ship & Offshore Structure

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

Amid such an operating environment, consolidated orders received increased ¥10.0 billion year on year to ¥26.5 billion, due to orders for LPG carriers and the other factors.

Consolidated net sales decreased ¥2.6 billion year on year to ¥37.1 billion, due to the decrease in volume of construction of LNG carrier and LPG carrier, despite an increase in sales of vessel repair.

The segment posted an operating loss of ¥1.4 billion, a ¥2.7 billion deterioration from operating income a year earlier. The main factors dragging down earnings were lower revenue from newly built ships and the posting of losses from operations.

Rolling Stock

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

In this operating environment, we received new orders for passenger cars for the domestic market but consolidated orders received totaled only ¥39.1 billion, ¥21.3 billion less than a year earlier when we received a large order for passenger cars and refurbishments from the U.S. market.

Consolidated net sales increased ¥13.8 billion year on year to ¥59.3 billion, due to an increase in sales of rolling stocks for Japan and U.S. despite a decrease in components for overseas.

Operating loss improved by ¥4.5 billion year on year to an operating loss of ¥4.3 billion. This was mainly due to an increase in sales and a decrease in temporary expenses in a project in the U.S. market (the order for which was received in the same period of the previous fiscal year), despite cost fluctuations in some projects.

Motorcycle & Engine

Regarding the business environment surrounding the Motorcycle & Engine segment, while the modest growth in motorcycle markets mainly in Europe is continuing, some emerging markets are weak. With respect to utility vehicles, the market continues to grow stably mainly in North America, and the general-purpose engine market is also growing steadily.

In this operating environment, consolidated net sales increased ¥2.8 billion year on year to ¥147.2 billion, due to an increase in utility vehicles for U.S.

Operating loss improved by ¥1.2 billion year-on-year to an operating loss of ¥3.3 billion. This was mainly a net result of increased sales, delayed recording of sales promotion expenses, and a reaction to a temporary increase in selling, general, and administrative expenses in the same period of the previous fiscal year.

Other Operations

Consolidated net sales increased ¥5.9 billion year on year to ¥48.1 billion.

Operating income of ¥0.8 billion was on par with the previous year's result.

(2) Consolidated financial position

(i) Assets

Current assets were ¥1,246.4 billion, ¥110.1 billion increase from March 31, 2019 due to an increase in trade receivables.

Fixed assets were ¥703.3 billion, ¥0.8 billion increase from March 31, 2019 due to capital expenditure and the other factors.

As a result, total assets were ¥1,949.7 billion, ¥110.9 billion increase from March 31, 2019.

(ii) Liabilities

Interest bearing liabilities were ¥695.6 billion, ¥256.2 billion increase from March 31, 2019.

Liabilities were ¥1,476.6 billion, ¥130.0 billion increase from March 31, 2019 due to an increase in interest bearing liabilities and other factors.

(iii) Net assets

Consolidated net assets were ¥473.1 billion, ¥19.0 billion decrease from March 31, 2019 due to payment of dividends and a decrease in foreign currency translation adjustment.

(3) Consolidated earnings outlook

The Company has left its earnings forecasts for the fiscal year ending March 31, 2020, unchanged from the figures previously announced on September 30, 2019.

Consolidated orders are forecast to decrease by ¥50.0 billion from the figures previous announced (on July 30), to ¥1,650.0 billion, due to expected decreases in the Precision Machinery & Robot segment and other segments. ROIC and ROE are forecast to be 4.8% and 5.2%, respectively.

The Company's earnings forecasts assume exchange rates of ¥107 to the U.S. dollar and ¥118 to the euro.

Note regarding consolidated earnings outlook

The above earnings outlook is based on information available at the time of preparation, and includes risks and uncertainties. We therefore discourage making investment decisions depending solely on this outlook. Please note that actual earnings may differ materially from this outlook, due to a variety of important factors stemming from changes the external environment and/or the Company's internal environment. Important factors that impact actual operating performance include, but are not limited to, the economic situation surrounding the Company's scope of business, foreign exchange rates, in particular the yen/dollar exchange rate, tax codes and other regulatory system-related issues.

2. Consolidated Financial Statements

(1) Consolidated balance sheets

	Million yen	
	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash on hand and in banks	74,311	41,736
Trade receivables	427,665	520,325
Merchandise and finished products	68,176	76,561
Work in process	405,087	424,937
Raw materials and supplies	119,558	125,245
Other	45,333	61,130
Allowance for doubtful receivables	(3,792)	(3,488)
Total current assets	1,136,340	1,246,447
Fixed assets		
Net property, plant and equipment		
Buildings and structures	194,939	197,321
Other	290,729	288,554
Total property, plant and equipment	485,669	485,876
Intangible assets	16,797	18,737
Investments and other assets		
Other	201,471	200,126
Allowance for doubtful receivables	(1,422)	(1,404)
Total investments and other assets	200,048	198,722
Total fixed assets	702,514	703,337
Total assets	1,838,855	1,949,784
Liabilities		
Current liabilities		
Trade payables	247,191	217,756
Electronically recorded obligations - operating	123,083	102,419
Short-term debt	100,023	187,295
Income taxes payable	10,390	3,929
Provision for sales promotion expenses	497	5,321
Accrued bonuses	21,168	17,806
Provision for product warranties	13,096	11,857
Provision for losses on construction contracts	27,609	17,728
Advances from customers	181,419	159,767
Other	139,800	262,431
Total current liabilities	864,280	986,313
Long-term liabilities		
Bonds payable	140,000	140,000
Long-term debt	187,568	195,959
Net defined benefit liability	97,602	100,347
Provision for the in-service issues of commercial aircraft jet engines	(*1)11,468	(*1)9,990
Other	45,674	43,993
Total long-term liabilities	482,313	490,290
Total liabilities	1,346,593	1,476,603

Net assets		
Shareholders' equity		
Common stock	104,484	104,484
Capital surplus	54,542	54,542
Retained earnings	324,606	310,077
Treasury stock	(130)	(131)
Total shareholders' equity	483,502	468,973
Accumulated other comprehensive income		
Net unrealized gains (losses) on securities, net of tax	2,682	2,488
Deferred gains (losses) on hedges	(227)	(171)
Foreign currency translation adjustment	(4,556)	(10,088)
Remeasurements of defined benefit plans	(5,014)	(3,666)
Total accumulated other comprehensive income	(7,115)	(11,437)
Non-controlling interests	15,874	15,645
Total net assets	492,261	473,181
Total net assets and liabilities	1,838,855	1,949,784

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

	Million yen	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	688,107	736,565
Cost of sales	581,972	629,707
Gross profit	106,135	106,857
Selling, general and administrative expenses		
Salaries and benefits	26,537	27,384
R&D expenses	21,240	23,739
Other	49,903	47,055
Total selling, general and administrative expenses	97,680	98,179
Operating income	8,454	8,678
Non-operating income		
Interest income	239	314
Dividend income	180	180
Equity in income of non-consolidated subsidiaries and affiliates	802	924
Foreign exchange gain	3,102	-
Other	1,398	1,473
Total non-operating income	5,724	2,893
Non-operating expenses		
Interest expense	1,546	1,860
Foreign exchange losses	-	5,772
Payments for the in-service issues of commercial aircraft jet engines	(*1) 9,745	(*1) 1,157
Other	2,680	1,951
Total non-operating expenses	13,971	10,741
Recurring profit	207	830
Extraordinary income		
Gain on sale of fixed assets	-	(*2) 1,277
Total extraordinary income	-	1,277
Income before income taxes	207	2,107
Income taxes	2,940	5,122
Net loss	(2,733)	(3,015)
Net income attributable to non-controlling interests	859	718
Net loss attributable to owners of parent	(3,592)	(3,733)

Consolidated statements of comprehensive income

	Million yen	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Net loss	(2,733)	(3,015)
Other comprehensive income		
Net unrealized gains (losses) on securities	572	(212)
Deferred gains (losses) on hedges	(2,148)	123
Foreign currency translation adjustment	1,723	(4,014)
Remeasurement of defined benefit plans	1,572	1,353
Share of other comprehensive income(loss) of associates accounted for using equity method	(2,615)	(1,997)
Total other comprehensive income(loss)	(895)	(4,748)
Comprehensive Income(loss) attributable to:	(3,628)	(7,763)
Owners of parent	(4,102)	(8,054)
Non-controlling interests	473	291

(3) Consolidated cash flow statements

	Million yen	
	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from operating activities		
Income before income taxes	207	2,107
Depreciation and amortization	29,342	30,133
Increase (decrease) in allowance for doubtful receivables	1,465	(206)
Increase (decrease) in accrued bonuses	(2,968)	(3,356)
Increase (decrease) in provision for product warranties	(1,367)	(1,168)
Increase (decrease) in provision for losses on construction contracts	2,409	(9,864)
Increase (decrease) in net defined benefit liability	4,868	4,833
Increase (decrease) in payments for the in-service issues of commercial aircraft jet engines	9,745	(1,478)
Interest and dividend income	(420)	(495)
Interest expense	1,546	1,860
Share of (profit) loss of entities accounted for using equity method	(802)	(924)
(Gain) loss on sale of fixed assets	-	(1,277)
(Increase) decrease in trade receivables	(9,526)	(93,246)
(Increase) decrease in inventories	(78,347)	(42,352)
Increase (decrease) in trade payables	(28,770)	(49,292)
Increase (decrease) in advance payments	(1,939)	(4,739)
Increase (decrease) in advances received from customers	(12,247)	(20,308)
(Increase) decrease in other current assets	(7,059)	(10,547)
Increase (decrease) in other current liabilities	(17,295)	(39,131)
Other	3,434	561
Subtotal	(107,727)	(238,893)
Cash received for interest and dividends	477	722
Cash paid for interest	(1,541)	(1,863)
Cash paid for income taxes	(4,630)	(9,456)
Net cash provided by operating activities	(113,421)	(249,491)
Cash flows from investing activities		
Acquisition of property, plant, equipment and intangible assets	(43,587)	(33,242)
Proceeds from sales of property, plant, equipment and intangible assets	334	1,509
Acquisition of investments in securities	(557)	(439)
Proceeds from sales of investments in securities	136	458
Acquisition of investments in subsidiaries and affiliate	(2,081)	(2,931)
Net decrease (increase) in short-term loans receivable	(51)	(551)
Payments of long-term loans receivable	(91)	(34)
Proceeds from collection of long-term loans receivable	82	47
Other	(1,717)	2,152
Net cash used for investing activities	(47,533)	(33,030)
Cash flows from financing activities		
Net increase (decrease) in short-term debt	144,642	250,750
Proceeds from long-term debt	7,779	19,000
Repayment of long-term debt	(7,617)	(23,112)
Proceeds from issuance of bonds	20,000	20,000
Redemption of bonds	(10,000)	(10,000)
Cash dividends paid	(5,032)	(5,863)
Cash dividends paid to non-controlling interests	(679)	(503)
Other	218	(289)
Net cash used for financing activities	149,311	249,981
Effect of exchange rate changes	(2,250)	2,401
Net increase (decrease) in cash and cash equivalents	(13,893)	(30,139)
Cash and cash equivalents at beginning of period	64,362	68,311
Cash and cash equivalents at end of period	50,468	38,172

(4) Notes on financial statements

Notes on the going-concern assumption

Not applicable

Notes on significant changes in the amount of shareholders' equity

Not applicable

Accounting procedures specific to preparation of quarterly consolidated financial statements

(Calculation of tax expense)

The Company calculates tax expense by rationally estimating its effective tax rate after application of tax effect accounting to pretax net income for the fiscal year which includes the second quarter under review, and multiplying quarterly pretax net income by said estimated effective tax rate. If unable to use the estimated effective tax rate, the Company calculates tax expense by multiplying the statutory effective tax rate by quarterly pretax net income adjusted to reflect material differences other than temporary differences.

Income taxes are reported inclusive of income tax adjustments.

Changes in accounting policies

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

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

As a result, retained earnings at the beginning of the second quarter of the year under review decreased by ¥4,948 million. In addition, income before income taxes for the second quarter of current fiscal year increased by ¥2,912 million over the amount that would have been recorded if the previous accounting standard had been applied.

Related to consolidated balance sheets

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

Related to consolidated statements of income

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

The Company participates as a risk and revenue sharing partner on the Rolls-Royce Trent 1000 engine program, which has been impacted by the challenge of managing significant in-service issues. Rolls-Royce continues to work hard to remedy this situation and has made further substantial progress on the implementation of long-term solutions and mitigation of the near-term impact on customers. In the FY2019 second quarterly financial results, the Company has made a provision of the abnormal cost related to in-service issues which the Company would cover as a member of this program. The provision was included within the non-operating expenses.

(*2) Gain on sale of fixed assets

Proceeds from the sale of former dormitory/company housing sites.

Segment information

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

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

Million yen

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

Notes: 1. Breakdown of adjustments:

Million yen

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

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

2. Segment income adjustments are based on operating income reported on the consolidated statements of income for the corresponding period.

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

Not applicable

2. Six months ended September 30, 2019 (April 1, 2019 – September 30, 2019)

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

Million yen

	External sales	Intersegment sales	Total sales	Operating income (loss)
Aerospace Systems	250,896	4,194	255,090	9,704
Energy System & Plant Engineering	95,609	17,421	113,031	5,052
Precision Machinery & Robot	98,219	7,246	105,465	3,211
Ship & Offshore structure	37,130	4,803	41,933	(1,476)
Rolling stock	59,306	9	59,316	(4,367)
Motorcycle & Engine	147,235	324	147,560	(3,368)
Other	48,167	18,376	66,543	871
Reportable segment total	736,565	52,376	788,941	9,627
Adjustments*1	-	(52,376)	(52,376)	(948)
Consolidated total	736,565	-	736,565	8,678

Notes: 1. Breakdown of adjustments:

Million yen

Income	Amount
Intersegment transactions	99
Corporate expenses*	(1,047)
Total	(948)

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

2. Segment income adjustments are based on operating income reported on the consolidated statements of income for the corresponding period.

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

Not applicable

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

(1) Net sales and operating income (loss)

Billion yen

<table>
<tr><th rowspan="3">Reportable segment</th><th colspan="6">Outlook for the year ending March 31, 2020 (fiscal 2019)</th><th colspan="2" rowspan="2">Year ended
March 31, 2019
(Fiscal 2018) (actual)</th></tr>
<tr><th colspan="2">Revised forecast
(A)</th><th colspan="2">Forecast issued
September 30, 2019 (B)</th><th colspan="2">Change
(A – B)</th></tr>
<tr><th>Net sales</th><th>Operating income (loss)</th><th>Net sales</th><th>Operating income (loss)</th><th>Net sales</th><th>Operating income (loss)</th><th>Net sales</th><th>Operating income (loss)</th></tr>
<tr><td>Aerospace Systems</td><td>520.0</td><td>28.0</td><td colspan="2" rowspan="8">We didn’t disclose the each segment data.</td><td colspan="2" rowspan="8"></td><td>463.9</td><td>32.6</td></tr>
<tr><td>Energy System & Plant Engineering</td><td>250.0</td><td>11.5</td><td>253.0</td><td>11.6</td></tr>
<tr><td>Precision Machinery & Robot</td><td>230.0</td><td>16.0</td><td>222.0</td><td>21.3</td></tr>
<tr><td>Ship & Offshore Structure</td><td>70.0</td><td>(2.5)</td><td>78.9</td><td>1.0</td></tr>
<tr><td>Rolling Stock</td><td>160.0</td><td>1.0</td><td>124.6</td><td>(13.7)</td></tr>
<tr><td>Motorcycle & Engine</td><td>350.0</td><td>9.0</td><td>356.8</td><td>14.3</td></tr>
<tr><td>Other</td><td>80.0</td><td>1.0</td><td>95.1</td><td>2.5</td></tr>
<tr><td>Adjustments</td><td></td><td>(8.0)</td><td></td><td>(5.7)</td></tr>
<tr><td>Total</td><td>1,660.0</td><td>56.0</td><td>1,660.0</td><td>56.0</td><td>-</td><td>-</td><td>1,594.7</td><td>64.0</td></tr>
</table>

(2) Orders received

Billion yen

Reportable segment	Outlook for the year ending March 31, 2020 (fiscal 2019)			Year ended March 31, 2019 (Fiscal 2018) (actual)
	Revised forecast (A)	Forecast issued July 30, 2019 (B)	Change (A – B)	
Aerospace Systems	415.0	420.0	(5.0)	431.6
Energy System & Plant Engineering	330.0	335.0	(5.0)	263.5
Precision Machinery & Robot	240.0	280.0	(40.0)	225.2
Ship & Offshore Structure	100.0	100.0	-	81.1
Rolling Stock	130.0	130.0	-	136.0
Motorcycle & Engine	350.0	350.0	-	356.8
Other	85.0	85.0	-	94.2
Total	1,650.0	1,700.0	(50.0)	1,588.7

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

(3) Before-tax ROIC

(%)

Reportable segment	Outlook for the year ending March 31, 2020 (fiscal 2019)			Year ended March 31, 2019 (Fiscal 2018) (actual)
	Revised forecast (A)	Forecast issued July 30, 2019 (B)	Change (A – B)	
Aerospace Systems	6.0	8.0	(2.0)	5.0
Energy System & Plant Engineering	7.1	7.6	(0.5)	9.3
Precision Machinery & Robot	12.2	20.4	(8.2)	19.8
Ship & Offshore Structure	(1.8)	(1.4)	(0.4)	3.2
Rolling Stock	1.6	1.6	-	(26.4)
Motorcycle & Engine	5.7	8.4	(2.7)	8.4
Total	4.8	6.7	(1.9)	4.5

Notes: 1. Forecast's assumed foreign exchange rates: ¥107 = US$1, ¥118= 1 euro

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