(2) Financial Condition

March 31 (Million yen)

	Total assets	Net assets	Equity ratio	Net assets per share
			%	

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

income 5521(at)6(t)5(f)-7(i)5(but)5(abl)6(e 5-65(t)5(o)-56(ow)6(ner)4(s 5338(of)3( )-52(par)4(ent)6( )]TJET EMC /P

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

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	

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.

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

(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 ¥1ID 50/Lang1(en-US)>BDC BT1 0 0 1 EMC /P hUS

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.

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.

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.

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

March 31	Million yen	
	2017	2018
Current assets		

Current liabilities		
Trade payables	240,572	245,398
Electronically recorded obligations - operating	101,449	117,772
Short-term debt		

(

Years ended March 31	Million yen	
	2017	2018
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

Years ended March 31	Million yen	
	2017	2018
Cash flows from operating activities		

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-

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				

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

(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.

(