

Financial Results for First Quarter FY2020 (for the year ending March 31, 2021)

August. 6, 2020

Kawasaki Heavy Industries, Ltd.



MEMBERSHIP

Table of Contents

I . Consolidated Results for First Quarter FY2020

• Summary of Financial Results	3
• Financial Results by Segment	4
• Details of Change in Profit	5
• Summary of Income Statement	6
• Financial Results/Impact of COVID-19	
– Aerospace Systems	7
– Energy System & Plant Engineering	8
– Precision Machinery & Robot	9
– Ship & Offshore Structure	10
– Rolling Stock	11
– Motorcycle & Engine	12
• Summary of Balance Sheet	13
• Summary of Cash Flows	14

II . Forecast for FY2020

• Consolidated Operating Performance	15
• Forecast by Segment	16

<Appendix>

• Historical Data	17
• Market Overview	18

Summary of Financial Results

[Billion Yen]

	FY2019 1Q	FY2020 1Q	Change
Orders Received	328.2	248.2	- 79.9
Net Sales	350.7	300.6	- 50.1
Operating Income / Loss	1.0	-20.6	- 21.7
Recurring Profit / Loss	-4.3	-18.9	- 14.5
Net Loss Attributable to Owners of Parent	-8.2	-11.7	- 3.5

<Weighted-average exchange rates>

Yen/US\$	110.32	106.29
Yen/EUR	124.35	118.75

vs. FY2019.1Q

• Orders Received

- Decreased mainly in Aerospace Systems and Energy System & Plant Engineering segment

• Net Sales

- Decreased as a whole due to a decrease in Aerospace Systems, Motorcycle & Engine and other segments, despite an increase in Rolling Stock and other segments

• Profits

- Operating income and recurring profit decreased due to a deterioration in Aerospace Systems and other segments, despite an improvement in Rolling Stock segment
- Net income attributable to owners of parent decreased due to a decrease in recurring loss, despite gains on sales of fixed assets being recorded extraordinary income and a decrease in tax expenses

(Appendix)

Net Sales in Foreign Currencies for FY2020. 1Q

[Billion]

US\$	EUR
0.24	0.03

Financial Results by Segment

[Billion Yen]

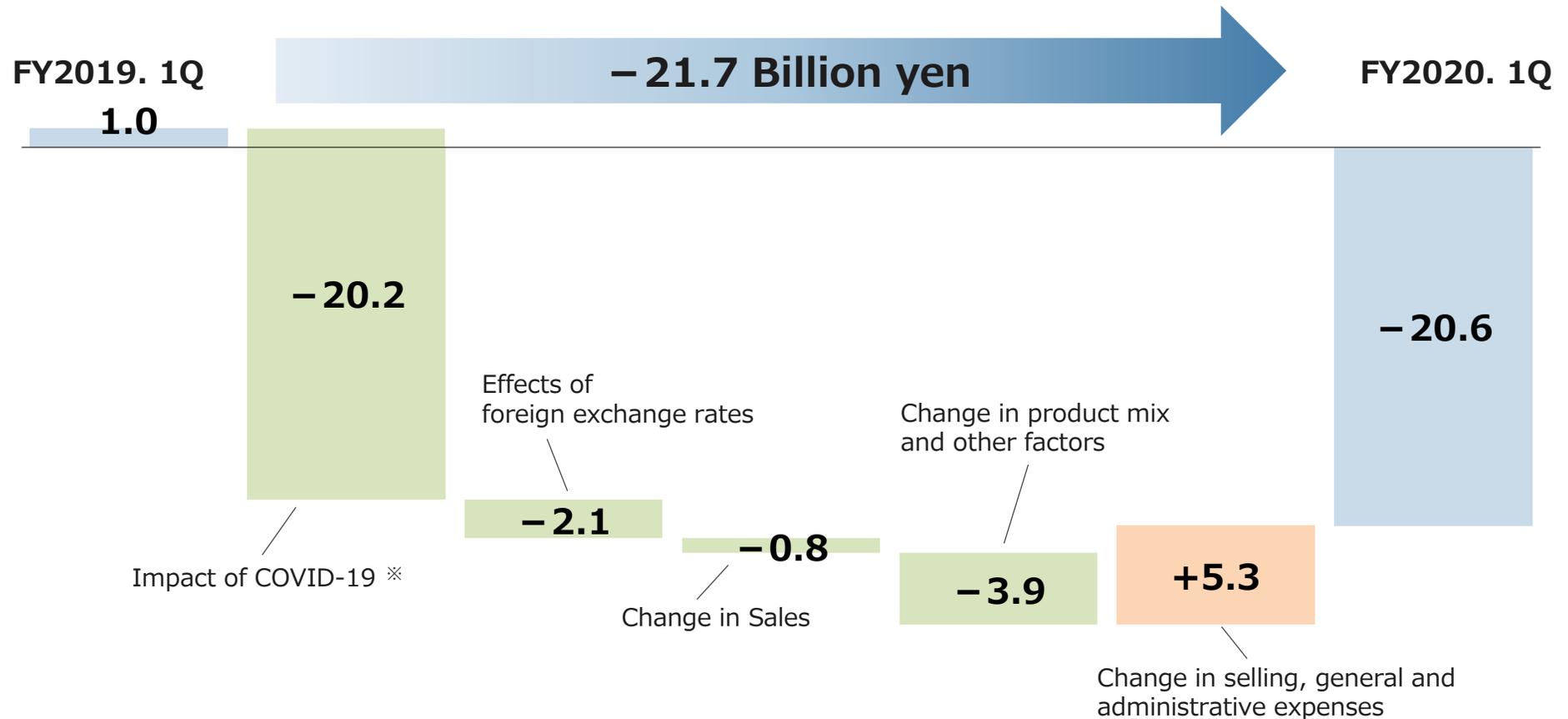
	Orders Received			Net Sales			Operating Income / Loss		
	FY2019 1Q	FY2020 1Q	Change	FY2019 1Q	FY2020 1Q	Change	FY2019 1Q	FY2020 1Q	Change
Aerospace Systems	69.7	45.4	- 24.3	122.1	74.6	- 47.5	4.8	-17.5	- 22.3
Energy System & Plant Engineering	69.8	46.2	- 23.6	45.0	50.0	+ 5.0	0.8	1.5	+ 0.7
Precision Machinery & Robot	52.9	50.7	- 2.1	48.3	45.4	- 2.9	1.7	1.3	- 0.4
Ship & Offshore Structure	21.5	9.9	- 11.6	22.8	22.1	- 0.7	-0.3	-0.4	- 0.0
Rolling Stock	16.0	18.7	+ 2.7	20.4	32.3	+ 11.9	-3.5	-1.4	+ 2.0
Motorcycle & Engine	68.3	58.9	- 9.3	68.3	58.9	- 9.3	-2.8	-5.9	- 3.0
Others	29.7	18.0	- 11.6	23.5	16.9	- 6.5	0.4	-0.1	- 0.6
Eliminations and corporate [※]	-	-	-	-	-	-	0.0	1.9	+ 1.9
Total	328.2	248.2	- 79.9	350.7	300.6	- 50.1	1.0	-20.6	- 21.7

※ "Eliminations and corporate" includes some expenses incurred at Head Office which were not allocated to each industry segment for internal reporting

Details of Change in Profit and Loss

• Operating Profit and Loss

-21.7 Billion yen (FY2019.1Q 1.0 Billion yen ⇒ FY2020.1Q -20.6 Billion yen)



※ This figure is an approximate value that aggregates profit and loss fluctuations that are clearly attributable to the spread of COVID-19 in the 1Q of 2020, assuming the 1Q FY2019 results as a normal value

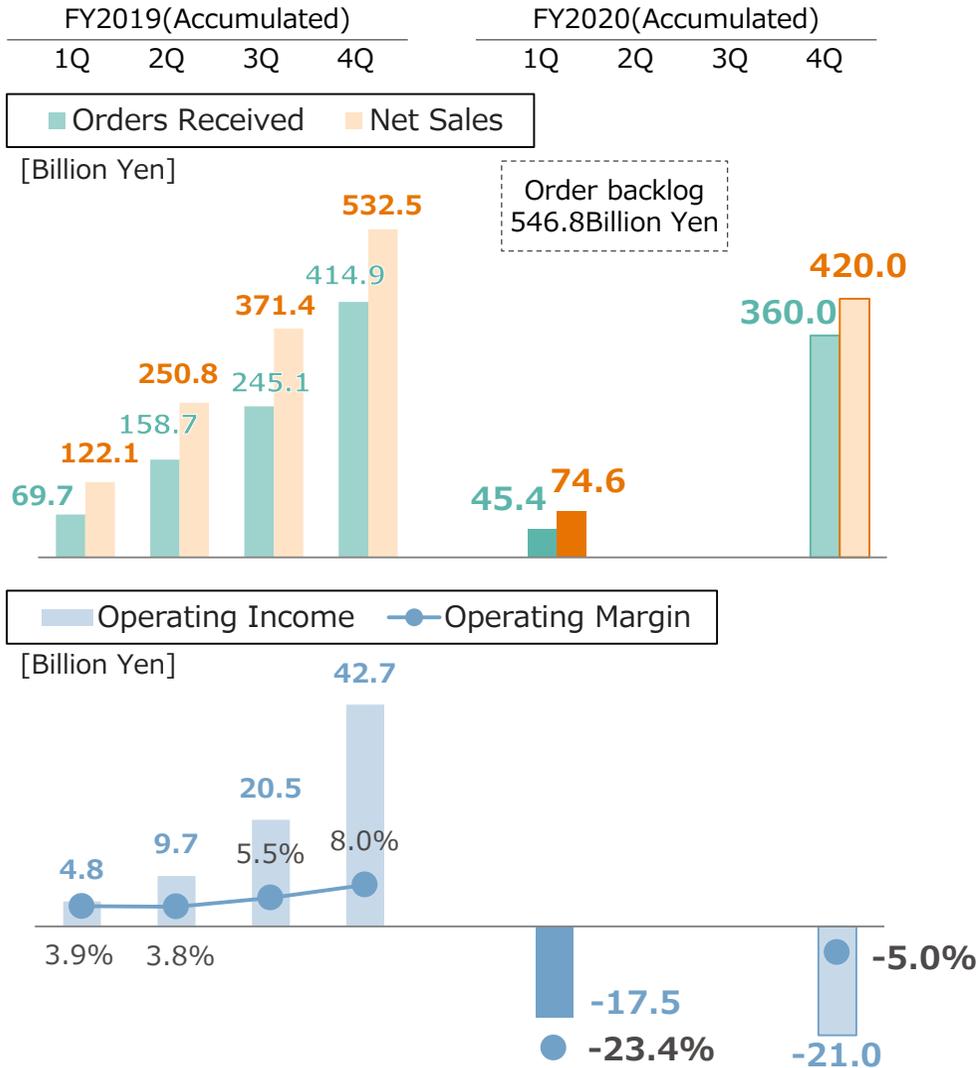
Summary of Income Statement

[Billion Yen]

			(FY2019.1Q	⇒	FY2020.1Q)
Operating Income / Loss	- 21.7	(	1.0	⇒	-20.6)
• Net Sales	- 50.1	(	350.7	⇒	300.6)
• Cost of sales	- 23.0	(	301.4	⇒	278.3)
• Selling, general & administrative expenses	- 5.3	(	48.2	⇒	42.9)
- Salaries and benefits	+ 0.1	(	13.3	⇒	13.4)
- R&D expenses	- 2.9	(	11.1	⇒	8.1)
Non-operating Income / Expenses	+ 7.2	(	-5.4	⇒	1.7)
• Net Interest expense (incl. dividend income)	- 0.2	(	-0.5	⇒	-0.7)
• Equity in income / loss of non-consolidated subsidiaries and affiliates	- 0.3	(	0.3	⇒	0.0)
• Gain and loss on foreign exchange	+ 7.4	(	-5.0	⇒	2.3)
• Others	+ 0.3	(	-0.2	⇒	0.1)
Extraordinary Income / Losses	+ 4.8	(	-	⇒	4.8)
- Gain on sales of fixed assets	+ 3.2	(	-	⇒	3.2)
- Gain on sales of shares of subsidiaries and affiliates	+ 1.5	(	-	⇒	1.5)

Aerospace Systems

Main Products: Aircrafts for Japan Ministry of Defense(MOD), Component parts for commercial aircrafts, Commercial helicopters, Missiles, Space equipment, Jet engines, Aerospace Gearbox



FY2020.1Q (vs. FY2019.1Q)

- **Orders Received:** Decreased due to a decrease in component parts for commercial aircrafts and component parts for commercial aircraft jet engines
- **Net Sales:** Decreased due to a decrease in aircrafts for MOD, component parts for commercial aircrafts and component parts for commercial aircraft jet engines
- **Operating Income:** Deteriorated due to a decrease in revenue and other factors

FY2020 forecast (vs. FY2019)

- **Orders Received:** Decreased due to a decrease in component parts for commercial aircrafts and component parts for commercial aircraft jet engines by the impact of COVID-19
- **Net Sales:** Same as above
- **Operating Income:** Deteriorated due to a decrease in revenue and other factors

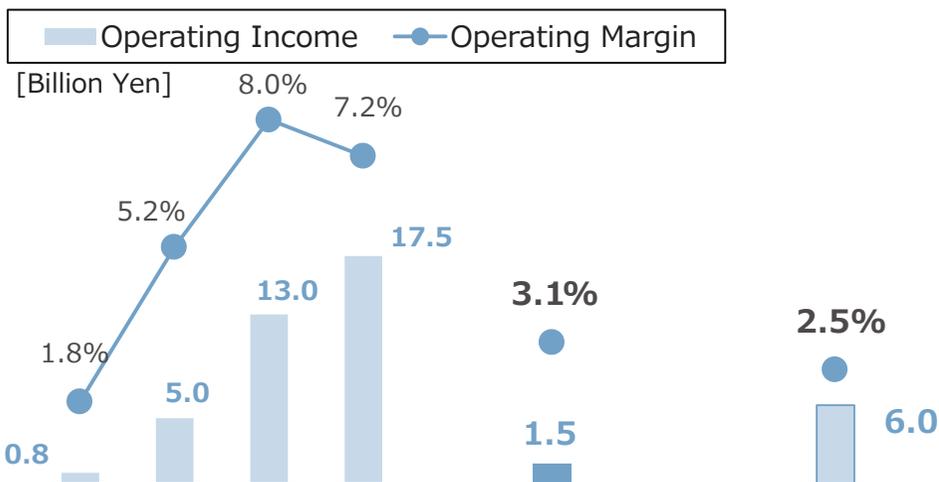
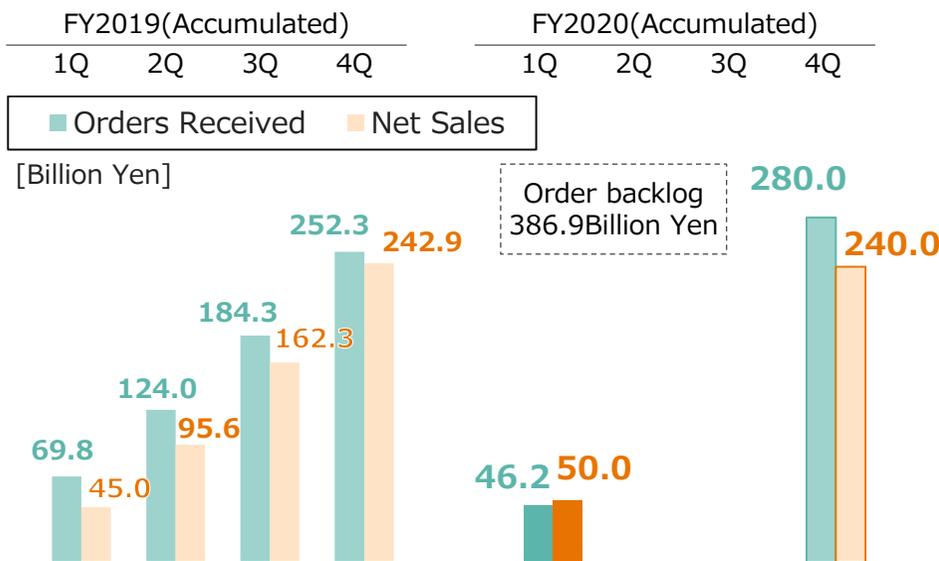
Sales units of component parts for commercial aircraft [Unit]

	FY2019.1Q	FY2020.1Q
Boeing 767	8	4
Boeing 777	12	3
Boeing 777X	4	1
Boeing 787	43	18

	FY2018 Actual	FY2019 Actual
Before-tax ROIC	5.0%	8.0%

Energy System & Plant Engineering

Main Products: Industrial plants(cement, fertilizer and others), Power plants, LNG tanks, Municipal waste incineration plants, Tunnel boring machines, Crushing machines, Gas turbine co-generation system, Gas engines, Diesel engines, Gas turbines & steam turbines for marine & land, Marine propulsion system, Aero-dynamic machinery



※1. CCPP = Combined Cycle Power Plant

FY2020.1Q (vs. FY2019.1Q)

- **Orders Received:** Decreased compared to FY2019 1Q when the order received for major repair work on domestic municipal waste incineration plants
- **Net Sales:** Increased due to an increase in projects for government such as domestic municipal waste incineration plants
- **Operating Income:** Increased due to a decrease in revenue, despite occurrence of operation losses by the impact of COVID-19

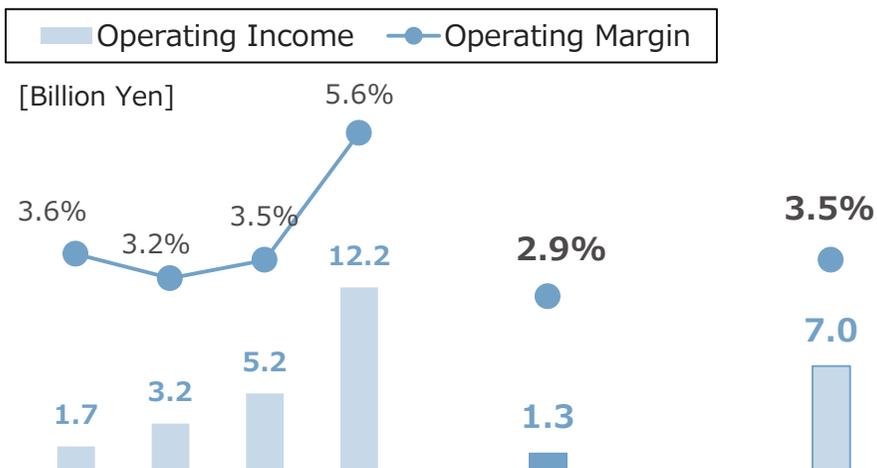
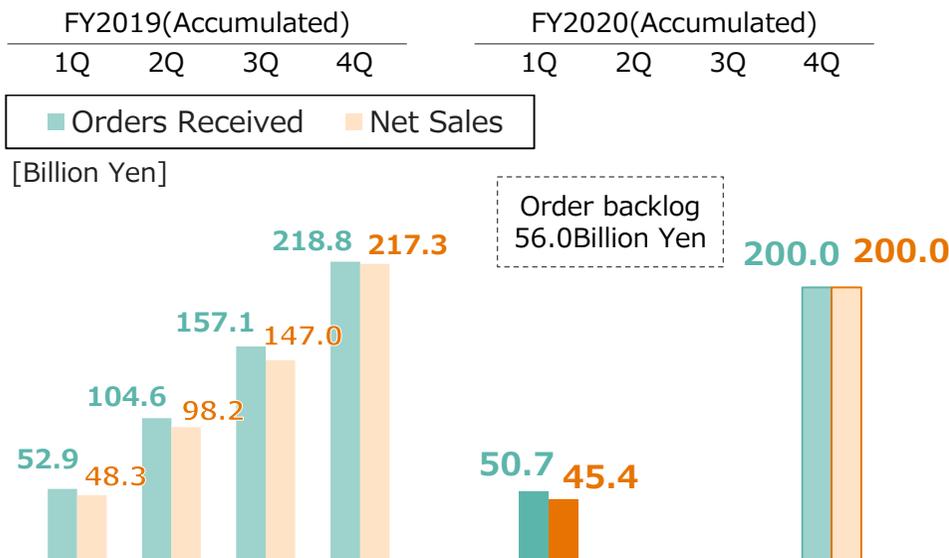
FY2020 forecast (vs. FY2019)

- **Orders Received:** Increased due to an increase in various energy related equipment and CCPP for domestic market, and other factors
- **Net Sales:** Remained despite a decrease in sales of the after service by the impact of COVID-19
- **Operating Income:** Decreased due to a decrease in sales of the after service and occurrences of operation losses by impact of COVID-19 and a decrease in profitable projects

	FY2018 Actual	FY2019 Actual
Before-tax ROIC	9.3%	10.4%

Precision Machinery & Robot

Main Products: Hydraulic components for construction machinery, Hydraulic components and systems for industrial machines, Marine application machines, Deck cranes and other marine deck equipment, Industrial robots, Medical and pharmaceutical robot



FY2020.1Q (vs. FY2019.1Q)

- **Orders Received:** Decreased due to a decrease in hydraulic components for construction machinery, despite an increase in robots for semiconductor manufacturing equipment
- **Net Sales:** Same as above
- **Operating Income:** Decreased due to a decrease in revenue

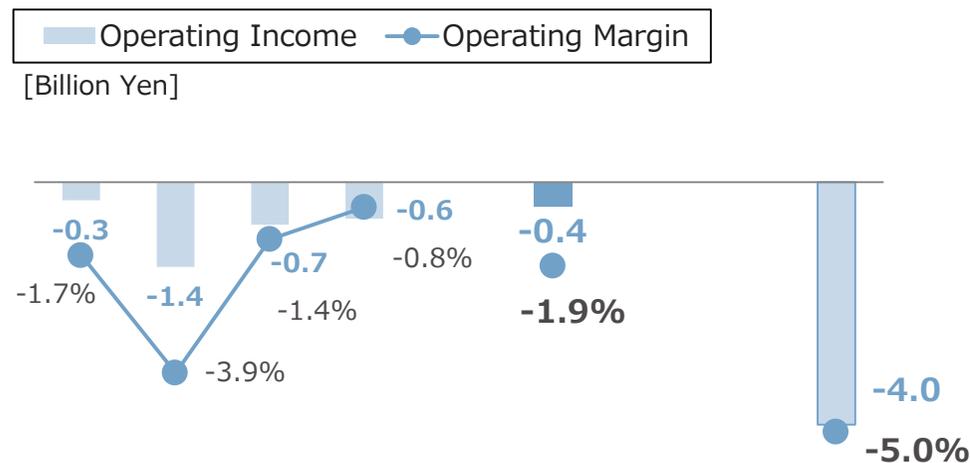
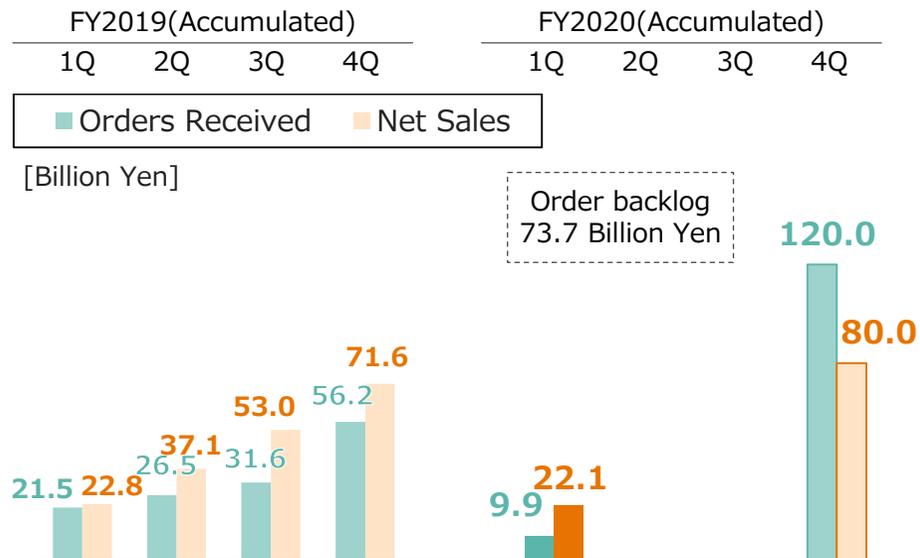
FY2020 forecast (vs. FY2019)

- **Orders Received:** Remained due to an increase in robots for semiconductor manufacturing equipment, despite a decrease in hydraulic components for construction machinery and general purpose robots by the impact of COVID-19
- **Net Sales:** Same as above
- **Operating Income:** Decreased due to a decrease in revenue

	FY2018 Actual	FY2019 Actual
Before-tax ROIC	19.8%	8.8%

Ship & Offshore Structure

Main Products: LNG carriers, LPG carriers, Bulk carriers, Submarines, JETFOIL



FY2020.1Q (vs. FY2019.1Q)

- **Orders Received:** Decreased compared to FY2019 when received orders of LPG carriers
- **Net Sales:** Decreased due to a decrease in sales of ship repairs, despite an increase in construction works of LPG carriers and submarines
- **Operating Income:** Same as FY2019 1Q

FY2020 forecast (vs. FY2019)

- **Orders Received:** Increased due to expecting of orders received of LNG carriers, LPG carriers and submarines
- **Net Sales:** Increased due to an increase in construction works for ship repairs and new model submarines
- **Operating Income:** Deteriorated due to occurrence of operating loss by the decrease in construction works of new ships and other factors

Units of Orders Received and Sales of New Building Ships [Unit]

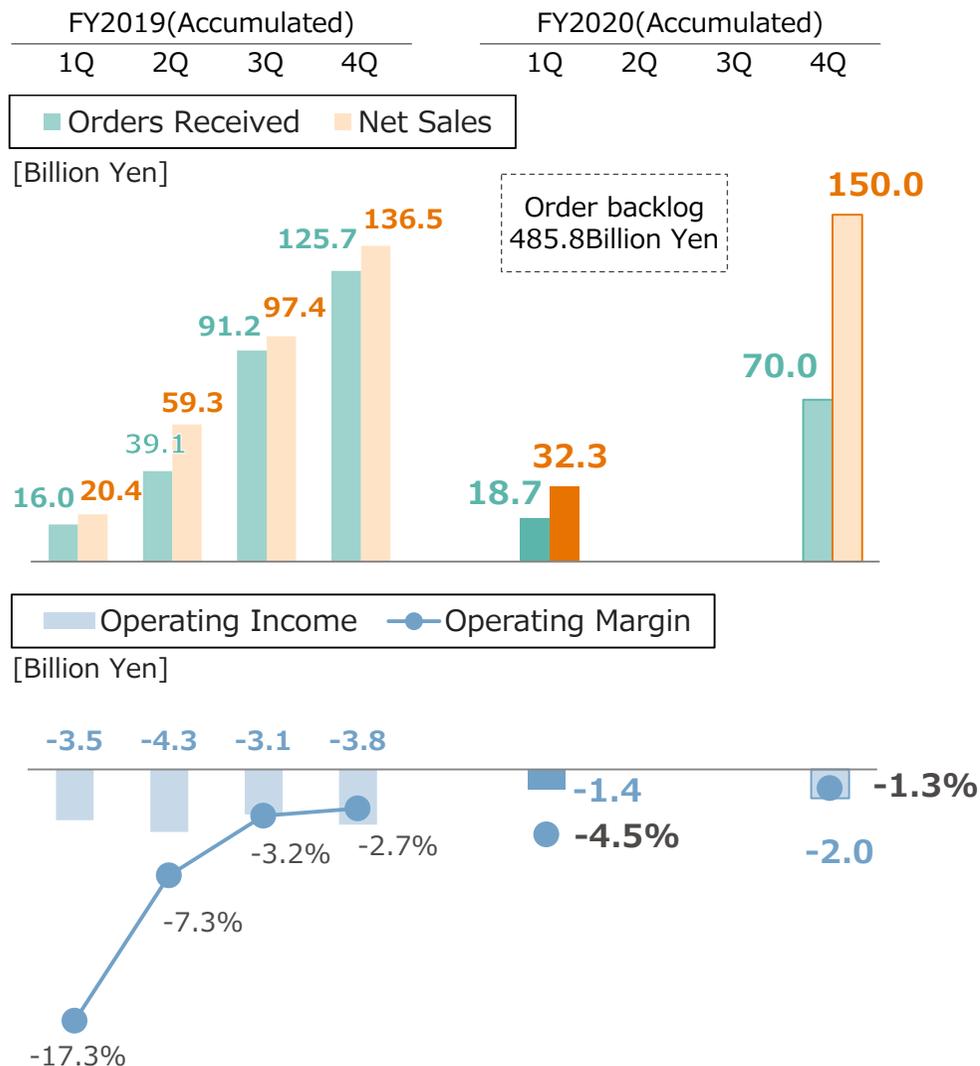
	Orders Received		Sales*		Orders Backlog
	FY2019.1Q	FY2020.1Q	FY2019.1Q	FY2020.1Q	FY2020.1Q
LNG carriers			2		
LPG carriers	2		4	3	5
Submarines			2	2	2
Others			4	3	3
Total	2	0	12	8	10

*Sales includes units by percentage-of-completion method

	FY2018 Actual	FY2019 Actual
Before-tax ROIC	3.2%	1.4%

Rolling Stock

Main Products: Electric train cars (incl. Shinkansen), Electric and diesel locomotives, Passenger coaches, Bogies



FY2020.1Q (vs. FY2019.1Q)

- **Orders Received:** Increased due to received orders of Shinkansen and other factors
- **Net Sales:** Increased due to an increase in passenger cars for the domestic market
- **Operating Income:** Improved due to an increase in sales, a decrease in periodic costs, and other factors, despite a deterioration in profit for overseas project by the impact of COVID-19

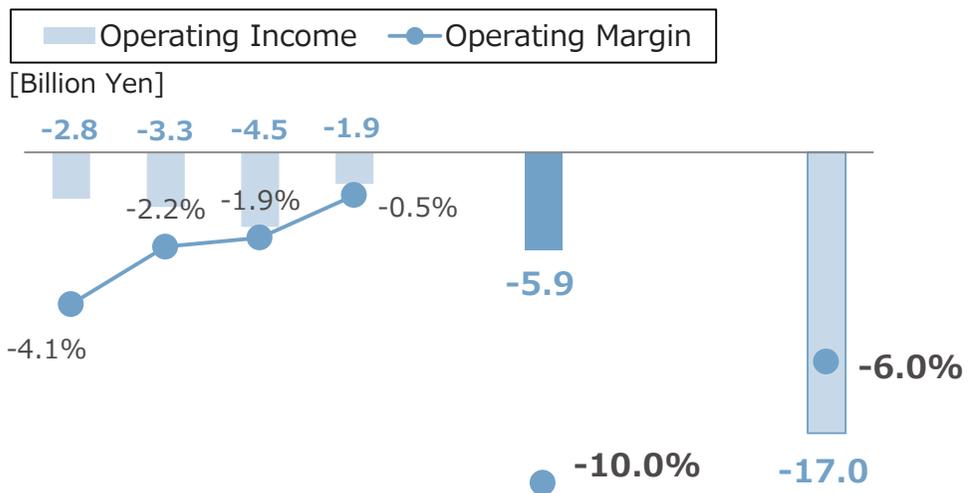
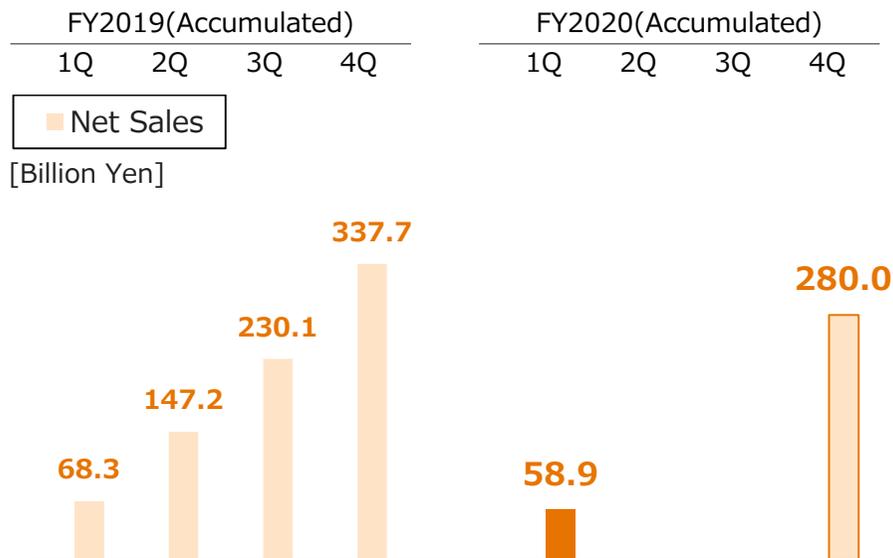
FY2020 forecast (vs. FY2019)

- **Orders Received:** Decreased due to decrease in received orders and delay of contracts by the impact of COVID-19
- **Net Sales:** Increased due to an increase in passenger cars for the US market
- **Operating Income:** Improved due to an improvement in profitability of passenger cars for the domestic market, a decrease in temporary expense of the US projects incurred in FY2019, and other factors, despite delayed in delivery due to temporary production interruptions at the US local subsidiaries and temporary suspension of acceptance process by customers in the US by the impact of the COVID-19

	FY2018 Actual	FY2019 Actual
Before-tax ROIC	-26.4%	-7.2%

Motorcycle & Engine

Main Products: Motorcycles, Utility Vehicles, All-Terrain Vehicles(ATVs), Personal Watercraft, General-purpose Gasoline Engines



FY2020.1Q (vs. FY2019.1Q)

- **Net Sales:** Decreased due to a decrease significantly in motorcycle for emerging and Europe markets and General-purpose Gasoline Engines for the US market, and other factors by the impact of COVID-19
- **Operating Income:** Deteriorated due to a decrease in revenue, and the appreciation of the yen against the euro, US dollar, and the emerging market currencies, and other factors

FY2020 forecast (vs. FY2019)

- **Net Sales:** Decreased due to a decrease in motorcycle for emerging and Europe markets and General-purpose Gasoline Engines for the US market by the impact of COVID-19
- **Operating Income:** Deteriorated due to a decrease in revenue and other factors

Wholesales by Product

[Thousands of units, Billion Yen]

	FY2019.1Q		FY2020.1Q	
	Unit	Amount	Unit	Amount
Motorcycles for developed countries	30	26.2	29	24.7
Motorcycles for emerging market	69	16.4	25	9.1
Utility Vehicles, ATVs & PWC	11	13.3	13	16.6
General-purpose gasoline engines		12.4		8.5
Total	110	68.3	67	58.9

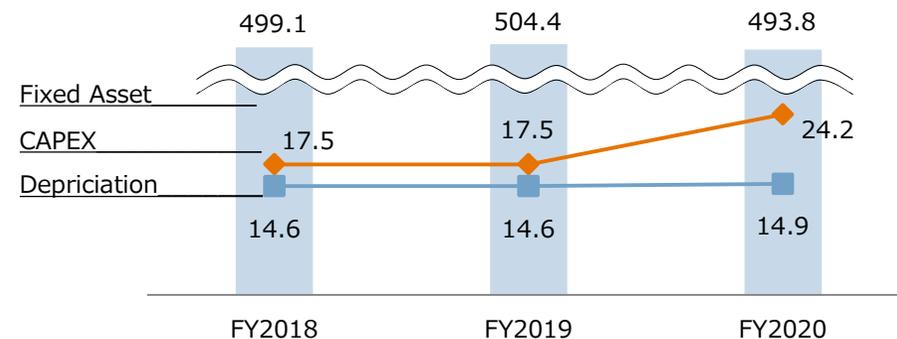
	FY2018 Actual	FY2019 Actual
Before-tax ROIC	8.4%	-2.6%

Summary of Balance Sheet

	[Billion Yen]		
	End of Mar. 2020	End of Jun. 2020	Change
Cash on hand and in banks	106.1	171.6	+ 65.5
Trade receivables	473.2	430.1	- 43.0
Inventories	631.6	658.3	+ 26.7
Total fixed assets	503.9	493.8	- 10.0
Others assets	242.9	259.1	+ 16.2
Total assets	1,957.8	2,013.2	+ 55.4
Trade payables	371.6	307.3	- 64.3
Interest-bearing debt	567.4	732.7	+ 165.2
Advances from customers	148.6	143.3	- 5.2
Other liabilities	398.5	372.2	- 26.2
Total liabilities	1,486.2	1,555.7	+ 69.4
Total shareholders' equity	485.5	473.7	- 11.7
Other net assets	▲ 13.9	▲ 16.1	- 2.2
Total net assets	471.5	457.5	- 14.0
Total liabilities & net assets	1,957.8	2,013.2	+ 55.4
Ratio of shareholders' equity to total assets	23.2%	21.9%	
Net D/E Ratio	101.2%	126.8%	

- Assets increased due to an increase in cash and deposit by securing cash on hand in case of an unexpected situation and an increase in working capital of Aerospace Systems segment and other factors
- Liabilities increased as a whole due to an increase in debt obligation
- Net assets decreased due to net loss attributable to owners of parent, and other factors

Change in CAPEX and others [Billion Yen]



Change in interest-bearing debt [Billion Yen]



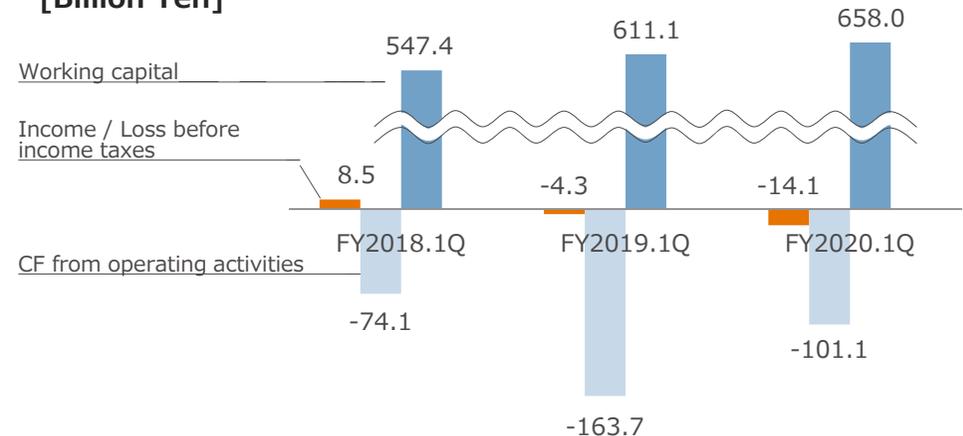
Summary of Cash Flows

[Billion Yen]

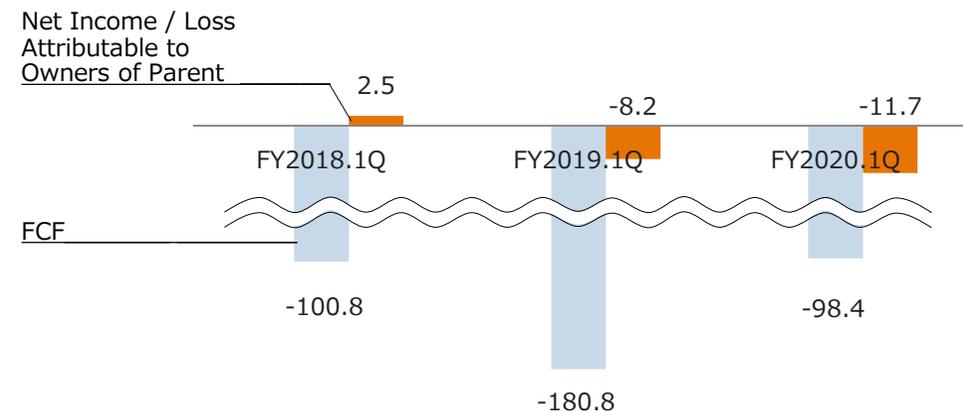
	FY2019 1Q	FY2020 1Q	Change
Cash flows from operating activities	-163.7	-101.1	+ 62.6
Cash flows from investing activities	-17.1	2.6	+ 19.7
Free Cash Flows	-180.8	-98.4	+ 82.3
Cash flows from financing activities	150.5	163.8	+ 13.2

- Cash flows from operating activities improved due to differences in receivables payment timing in Aerospace Systems segment and a decrease in working capital in Motorcycle & Engine segment
- Cash flows from investing activities improved due to income from sales of fixed assets and stock of affiliated companies
- Given the above mentioned changes, free cash flows improved

Change in CF from operating activities & others [Billion Yen]



Change in FCF & Net Income attributable to Owners of Parent [Billion Yen]



Consolidated Operating Performance

[Billion Yen]

	FY2019 Actual	FY2020 Forecast	Change
Orders Received	1,513.5	1,400.0	- 113.5
Net Sales	1,641.3	1,460.0	- 181.3
Operating Income	62.0	-30.0	- 92.0
Recurring Profit	40.4	-	-
Net Income Attributable to Owners of Parent	18.6	-	-
Before-tax ROIC	4.2%	-	-
ROE	4.0%	-	-
Dividend(per share)	35 yen	-	-

<Exchang Rates: Actual and Assumed[※]>

Yen/US\$	108.94	106.00
Yen/EUR	121.7	119.00

※Assumed rates are applied to the outstanding foreign exchange exposure as of August.6, 2020

vs. FY2019.1Q

• Orders Received

- Decreased a whole due to a decrease in Rolling Stock and Aerospace Systems segments and other factors, despite increase in Ship & Offshore Structure and Energy System & Plant Engineering segments

• Net Sales

- Decreased a whole due to decrease in Aerospace Systems and Motorcycle & Engine segments, despite an improvement in Rolling Stock and Ship & Offshore Structure segments

• Profit

- Operating income decreased a whole due to a decrease in Aerospace Systems and Motorcycle & Engine segments, and other factors, despite an improvement in Rolling Stock segments
- Since any post-COVID-19 costs that may be incurred in the future cannot be estimated at this time, no projections have been made for recurring profit and net income attributable to owners of the parent. KHI will immediately announce its projections once it is able to make reasonable estimates.
- Considering the current business environment, not to pay an interim dividend at the end of the second quarter. While there is still no forecast for the year-end dividend, and there isn't likely to be any, KHI will immediately announce its dividend projection as soon as it is determined.

(Appendix)

Impact on profit by FX fluctuation of 1 yen

[Billion Yen]

	Operating Income	Recurring Profit
US\$	1.73	1.66
EUR	0.15	0.19

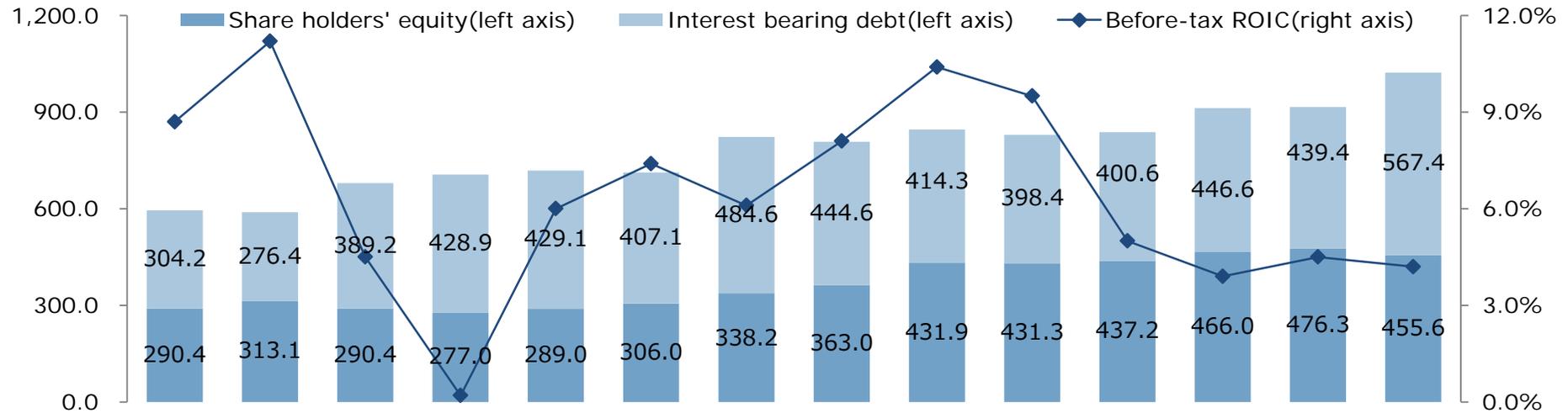
Forecast by Segment

[Billion Yen]

	Orders Received			Net Sales			Operating Income		
	FY2019 Actual	FY2020 Forecast	Change	FY2019 Actual	FY2020 Forecast	Change	FY2019 Actual	FY2020 Forecast	Change
Aerospace Systems	414.9	360.0	- 54.9	532.5	420.0	- 112.5	42.7	-21.0	- 63.7
Energy System & Plant Engineering	252.3	280.0	+ 27.7	242.9	240.0	- 2.9	17.5	6.0	- 11.5
Precision Machinery & Robot	218.8	200.0	- 18.8	217.3	200.0	- 17.3	12.2	7.0	- 5.2
Ship & Offshore Structure	56.2	120.0	+ 63.8	71.6	80.0	+ 8.4	-0.6	-4.0	- 3.4
Rolling Stock	125.7	70.0	- 55.7	136.5	150.0	+ 13.5	-3.8	-2.0	+ 1.8
Motorcycle & Engine	337.7	280.0	- 57.7	337.7	280.0	- 57.7	-1.9	-17.0	- 15.1
Others	107.5	90.0	- 17.5	102.4	90.0	- 12.4	1.2	5.0	+ 3.8
Eliminations and corporate [※]	-	-	-	-	-	-	-5.3	-4.0	+ 1.3
Total	1,513.5	1,400.0	- 113.5	1,641.3	1,460.0	- 181.3	62.0	-30.0	- 92.0

※ "Eliminations and corporate" includes some expenses incurred at Head Office which were not allocated to each industry segment for internal reporting

Historical Data



[Billion yen]	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Before-tax ROIC	8.7%	11.2%	4.5%	0.2%	6.0%	7.4%	6.1%	8.1%	10.4%	9.4%	5.0%	3.9%	4.5%	4.2%
Invested Capital	594.6	589.6	679.7	705.9	718.2	713.2	822.8	807.6	846.3	829.7	837.9	912.7	915.8	1,023.0
Net Sales	1,438.6	1,501.0	1,338.5	1,173.4	1,226.9	1,303.7	1,288.8	1,385.4	1,486.1	1,541.0	1,518.8	1,574.2	1,594.7	1,641.3
Operating Profit	69.1	76.9	28.7	-1.3	42.6	57.4	42.0	72.3	87.2	95.9	45.9	55.9	64.0	62.0
Recurring Profit	49.0	63.9	38.7	14.2	49.1	63.6	39.3	60.6	84.2	93.2	36.6	43.2	37.8	40.4
Net Income Attributable to Owners of Parent	29.7	35.1	11.7	-10.8	25.9	23.3	30.8	38.6	51.6	46.0	26.2	28.9	27.4	18.6
Yen/US\$	117	115	101	93	86	79	82	99	109	118	108	110	110	108

Market Overview (1/2)

Aerospace Systems

- In military aircraft business, there is a certain demand within tight defense budget.
- In commercial aircraft business, global passenger demand has been sluggish due to the impact of COVID-19, both aircraft and aircraft jet engine business demands decline.

Energy System & Plant Engineering

- In Japan, the demand for major repair work on municipal waste incineration plants continues.
- In the medium and long-term, the demand for distribute power plants in the domestic and overseas market, and for energy infrastructure development in emerging countries is strong.
- However, the uncertain situation continues due to the review of short-term capital investment decisions by customers due to factors such as economic activity stagnation and resource price instability caused by COVID-19.

Precision Machinery & Robot

<Construction machinery>.

- Demand significantly decreases world wide due to the impact of COVID-19.
- Chinese market has been recovering, although the impact of COVID-19 is still uncertainty.

<Robots>

- Sales of general purpose robots remained strong in Chinese market where recovery was quick, despite there were delays in projects by the impact of COVID-19.
- In semiconductor markets, demand will steadily expand in the medium to long-term due to the resumption of investment by a major semiconductor manufacturer, despite concern about other suppliers delay delivery.

Market Overview (2/2)

Ship & Offshore Structure

- New-build vessel price is on the path of moderate recovery and the demand for LNG fueled vessels increases along with strengthening environmental regulations.
- However, the situation is still intense due to the shipping market downturn in long-term, delays in business negotiations due to the impact of COVID-19.

Motorcycle & Engine

- The market has been significantly affected due to the impact of COVID-19 in the major market of Europe, North America, and Southeast Asia.

Rolling Stock

- In the medium and long-term, replacement demand for aging railcars is stable in Japan.
- In the US, including the focused market of New York, demand for new and replacement is expected.
- In Asia, the demand in the emerging market increases along with promoting infrastructure exports by Japanese Government.
- However, plans of delivery and order received in the domestic and overseas projects are expected to be reviewed caused by the impact of COVID-19

Kawasaki, Working as one for the good of the planet

Figures recorded in the business forecasts are forecasts that reflect the judgment of the Company based on the information available at the time of release and include risks and uncertainties. Accordingly, the Company cautions investors not to make investment decisions solely on the basis of these forecasts.

Actual business results may differ materially from these business forecasts due to various important factors resulting from changes in the external environment and internal environment. Important factors that may affect actual business results include, but are not limited to, economic conditions, the yen exchange rate against the U.S. dollar and other currencies, the tax system, and laws and regulations.