

**Report of Earnings and Financial Statements for the
Six Months Ended September 30, 2020 (Consolidated)**
(Prepared pursuant to Japanese GAAP)

October 29, 2020

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: Yasuhiko Hashimoto, President
 Contact: Tatsuo Hoshino, Senior Manager, Accounting Department
 Tel: +81 3-3435-2130

Scheduled dates:
 Submission of quarterly securities filing: November 5, 2020
 Commencement of dividend payments: -
 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, 2020
(April 1, 2020 – September 30, 2020)**

(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, 2020	657,325	(10.8)	(21,883)	-	(18,286)	-	(27,267)	-
Six Months Ended September 30, 2019	736,565	7.0	8,678	2.6	830	300.6	(3,733)	-

Note: Comprehensive income Six Months ended September 30, 2020: ¥(29,870) million -%
 Six Months ended September 30, 2019: ¥(7,763) million -%

	Earnings per share	Earnings per share – diluted
	yen	yen
Six Months Ended September 30, 2020	(163.23)	-
Six Months Ended September 30, 2019	(22.34)	-

(2) Financial Condition

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
September 30, 2020	1,978,868	441,236	21.5
March 31, 2020	1,957,845	471,562	23.3

For reference: Shareholders' equity September 30, 2020: ¥ 425,490 million
 March 31, 2020: ¥ 455,627 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, 2020	-	35.00	-	0.00	35.00
Year ending March 31, 2021	-	0.00			
Year ending March 31, 2021 (forecast)			-	0.00	0.00

Note: Revisions to the most recently announced dividend forecast: Yes

In the Company's articles of incorporation, the dates of record are set as the last day of the fiscal second quarter and the last day of the fiscal year.

3. Forecast of Consolidated Earnings for the Year Ending March 31, 2021 (April 1, 2020 – March 31, 2021)

(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	1,500,000	(8.6)	(20,000)	-	(25,000)	-	(27,000)	-	(161.63)

Note: Revisions to the most recently announced earnings forecast: Yes

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 (3)Notes on financial statements” on page 16 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: None
 - (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, 2020:	167,080,532 shares
March 31, 2020:	167,080,532 shares
 - (2) Number of shares held in treasury as of period-end

September 30, 2020:	37,248 shares
March 31, 2020:	36,587 shares
 - (3) Average number of shares during respective periods

September 30, 2020:	167,043,632 shares
September 30, 2019:	167,044,988 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 29, 2020, 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 and Financial Statements	5
(1) Consolidated operating results	5
(2) Consolidated financial condition	10
(3) Consolidated earnings outlook	10
2. Consolidated Financial Statements	11
(1) Consolidated balance sheets	11
(2) Consolidated statements of income and comprehensive income	13
(3) Consolidated cash flow statements	15
(4) Notes on financial statements	16
(Notes on the going-concern assumption)	16
(Notes on significant changes in the amount of shareholders' equity)	16
(Accounting procedures specific to preparation of quarterly consolidated financial statements)	16
(Related to consolidated balance sheets)	16
(Related to consolidated statements of income)	16
(Segment information)	18
3. Supplementary information on consolidated earnings forecasts for the fiscal year ending March 31, 2021	20

1. Qualitative Information about Financial Statements

(1) Consolidated operating results

The impact of the spread of the novel coronavirus on the economy is gradually easing with the resumption of economic activities both in Japan and overseas and fiscal policies, etc. implemented by national governments. At the same time, there are no signs yet of the pandemic subsiding, and the outlook for the real economy remains uncertain due to concerns about matters such as waning policy efficacy, deterioration of corporate earnings, curbed capital investment, worsening of the employment situation, and stagnation in consumer spending.

In addition to this, uncertainty in the global economy is increasing further due to deteriorating relations between the U.S. and China. In light of this, continued close monitoring of developments in U.S.-China relations will be necessary.

Amid such an operating environment, the Group's orders received in the first six months of the fiscal year ending March 31, 2021 decreased versus the previous fiscal year, mainly in the Aerospace Systems segment and the Energy System & Plant Engineering segment. Net sales decreased overall, due to decreases in the Aerospace Systems segment, the Motorcycle & Engine segment, and other segments, despite increases in the Rolling Stock segment and other segments. Profits declined due to a deterioration in the Aerospace Systems segment and other factors, despite an improvement in profitability in the Rolling Stock segment. Recurring profit deteriorated due to a decline in operating income despite gains on foreign exchange and reversal of the provision for the in-service issues of commercial aircraft. Net income attributable to owners of parent decreased due to the decline in recurring profit as well as impairment loss on fixed assets recorded under extraordinary loss and partial reversal of deferred tax assets, despite gains on sales of fixed assets being recorded under extraordinary income.

As a result, the Group's consolidated orders received decreased ¥155.1 billion versus the same period of the previous fiscal year to ¥502.2, consolidated net sales decreased ¥79.2 billion year on year to ¥657.3 billion, operating loss deteriorated ¥30.5 billion year on year to ¥21.8 billion, recurring loss deteriorated ¥19.1 billion year on year to ¥18.2 billion, and net loss attributable to owners of parent deteriorated ¥23.5 billion year on year to ¥27.2 billion.

First-quarter consolidated operating performance is summarized by segment below.

Segment Information

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

	Six Months ended September 30						Orders received		
	2019(A)		2020(B)		Change (B – A)		Six Months ended September 30		
	Net sales	Operating income	Net sales	Operating income	Net Sales	Operating income	2019 (A)	2020 (B)	Change (B – A)
Aerospace Systems	250.8	9.7	168.5	(23.8)	(82.3)	(33.5)	158.7	72.4	(86.2)
Energy System & Plant Engineering	95.6	5.0	104.5	4.4	8.9	(0.6)	124.0	95.8	(28.1)
Precision Machinery & Robot	98.2	3.2	99.0	3.4	0.8	0.2	104.6	102.4	(2.1)
Ship & Offshore Structure	37.1	(1.4)	38.2	(1.4)	1.1	0.0	26.5	22.5	(3.9)
Rolling Stock	59.3	(4.3)	69.1	(0.1)	9.8	4.1	39.1	30.3	(8.7)
Motorcycle & Engine	147.2	(3.3)	139.7	(5.1)	(7.4)	(1.8)	147.2	139.7	(7.4)
Other	48.1	0.8	37.9	(0.1)	(10.2)	(1.0)	57.0	38.6	(18.3)
Adjustments	—	(0.9)	—	1.1	—	2.0	—	—	—
Total	736.5	8.6	657.3	(21.8)	(79.2)	(30.5)	657.3	502.2	(155.1)

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.

Aerospace Systems

Regarding the business environment surrounding the Aerospace Systems segment, there has been stable demand from the Ministry of Defense in Japan amid the tight defense budget. With respect to commercial aircraft, global passenger demand has been sluggish due to the novel coronavirus pandemic, and demand for commercial aircraft airframes and jet engines has declined.

Amid such an operating environment, consolidated orders received decreased ¥86.2 billion year on year to ¥72.4 billion due to decreases in component parts of airframes and jet engines for commercial aircraft.

Consolidated net sales decreased ¥82.3 billion year on year to ¥168.5 billion due to decreases in component parts of airframes for Ministry of Defense and commercial aircraft, and component parts of commercial aircraft jet engines.

Operating loss deteriorated ¥33.5 billion year on year to ¥23.8 billion due to a decrease in sales.

Energy System & Plant Engineering

Regarding the business environment surrounding the Energy System & Plant Engineering segment, in Japan, there is ongoing demand for replacing aging facilities for refuse incineration plants, while over the medium to long term, demand for distributed power sources in Japan and overseas, and for energy infrastructure development in emerging markets remains firmly-rooted. Meanwhile, the uncertain situation continues, as stagnation in economic activity and instability in resource prices due to the novel coronavirus pandemic has resulted in developments such as customers revising their short-term capital investment decisions

Amid such an operating environment, consolidated orders received amounted to ¥95.8 billion, a decrease of ¥28.1 billion compared to the same quarter of the previous year, when the Company received orders for major repair work on domestic waste disposal facilities and large-scale projects in the energy business.

Consolidated net sales increased by ¥8.9 billion year on year to ¥104.5 billion due to an increase in the volume of work on domestic waste disposal facilities and higher sales of Gas Turbine Combined Cycle (GTCC) power plants in Japan.

Operating income decreased ¥0.6 billion year on year to ¥4.4 billion due to losses on operations due to the impact of the novel coronavirus pandemic despite an increase in revenue.

Precision Machinery & Robot

Regarding the business environment surrounding the Precision Machinery & Robot segment, in the precision machinery field, the construction machinery market in China was the first to recover from the impact of the novel coronavirus pandemic and the Company's sales to the Chinese market have exceeded the previous fiscal year's level. Construction machinery markets outside China stagnated, however, with demand declining significantly due to the impact of the pandemic. There have been recent signs of recovery in construction machinery demand in regions other than China as well, but the outlook remains uncertain due to the spread of infection. In the robot field, sales of general-purpose robots have been strong in the Chinese market where the recovery was quick, despite postponements of some projects to future periods due to the impact of the novel coronavirus pandemic. With respect to robots for the semiconductor market, demand is expected to steadily expand over the medium to long term given recent solid performance, despite the growing sense of uncertainty due to the impact of the friction between the U.S. and China.

Amid such an operating environment, consolidated orders received decreased ¥2.1 billion year on year to ¥102.4 billion, due to a decrease in hydraulic components for the construction machinery market although an increase in robots for the semiconductor market.

Consolidated net sales ¥99.0 billion was on par with the previous year's result, due to a decrease in hydraulic components for the construction machinery market although an increase in robots for the semiconductor market.

Operating income ¥3.4 billion was on par with the previous year's result.

Ship & Offshore Structure

Regarding the business environment surrounding the Ship & Offshore Structure segment, despite the emergence of demand for gas-fueled vessels in conjunction with tighter environmental regulations taking shape, the situation remains challenging due to the prolonged slump in the marine transport market, stagnation in business talks due to the novel coronavirus pandemic, and other factors.

Amid such an operating environment, consolidated orders received decreased by ¥3.9 billion to ¥22.5 billion from the previous fiscal year due to a decline in orders for LPG carriers.

Consolidated net sales increased ¥1.1 billion year on year to ¥38.2 billion, mainly due to an increase in vessel repair sales, despite a decline in the volume of work on new-build vessels.

Operating loss of ¥1.4 billion was on par with the previous year's result. The operating loss was mainly due to the lower volume of work on new-build vessels and the posting of losses from operations, despite the increase in vessel repair sales.

Rolling Stock

Regarding the business environment surrounding the Rolling Stock segment, the impact of the novel coronavirus pandemic has led to a review of railway-related investment plans in Japan, and delays in work processes as well as postponement and cancellation of biddings overseas. In the medium and long term, however, relatively stable growth is expected around the world, due to development of urban transportation as an environmental protection measure and to ease congestion in large cities caused by increasing population concentration, as well as demand for railway infrastructure following economic development in Asian countries.

Amid such an operating environment, despite receiving orders for Shinkansen rolling stock in the period under review, consolidated orders received amounted to ¥30.3 billion, a decline of ¥8.7 billion compared with the previous fiscal year, when the Company received orders for large-scale projects from private and public railway operators in Japan.

Consolidated net sales increased ¥9.8 billion year on year to ¥69.1 billion, due to an increase in sales of railcars for Japan and the other factors.

Operating income improved ¥4.1 billion year on year to an operating loss of ¥0.1 billion, due to an increase in sales, despite a deterioration in the profitability of overseas projects caused by the impact of the novel coronavirus pandemic.

Motorcycle & Engine

Regarding the business environment surrounding the Motorcycle & Engine segment, the novel coronavirus spread in the main markets of Europe, North America, and Southeast Asia, significantly impacting these markets. Recent retail sales have exceeded the previous fiscal year's level in the U.S. market reflecting growing demand for off-road models, and sales have also recovered to the level of the previous fiscal year in the European market. Meanwhile, emerging markets continued to stagnate with sales remaining below the previous fiscal year's level.

Amid such an operating environment, consolidated net sales decreased ¥7.4 billion year on year to ¥139.7 billion, due to significantly lower sales of motorcycles in emerging markets.

Operating income deteriorated ¥1.8 billion year on year to an operating loss of ¥5.1 billion, due to the decrease in revenue, as well as the appreciation of the yen against the U.S. dollar, and emerging market currencies, along with other factors.

Other Operations

Consolidated net sales decreased ¥10.2 billion year on year to ¥37.9 billion.

Operating loss deteriorated ¥1.0 billion year on year to ¥0.1 billion.

(2) Consolidated financial condition

(i) Assets

Current assets were ¥1,300.9 billion, a ¥42.2 billion increase from the previous fiscal year.

Fixed assets were ¥677.8 billion, a ¥21.1 billion decrease from the previous fiscal year, due to amortization of property, plant and equipment, and other factors.

As a result, total assets were ¥1,978.8 billion, a ¥21.0 billion increase from the previous fiscal year.

(ii) Liabilities

Interest bearing liabilities were ¥729.4 billion, a ¥161.9 billion increase from the previous fiscal year.

Liabilities were ¥1,537.6 billion, a ¥51.3 billion increase from the previous fiscal year due to an increase in interest bearing liabilities and other factors.

(iii) Net assets

Net assets were ¥441.2 billion, a ¥30.3 billion decrease from the previous fiscal year due to the posting of a net loss attributable to owners of parent and other factors.

(3) Consolidated earnings outlook

With respect to the earnings forecasts for the fiscal year ending March 31, 2021, the outlook for both consolidated net sales and consolidated operating loss has improved compared with the previous forecast. The Company forecasts consolidated net sales of ¥1,500.0 billion yen and consolidated operating loss of ¥20.0 billion.

The Company is also forecasting consolidated recurring loss of ¥25.0 billion yen and net loss attributable to owners of parent of ¥27.0 billion. ROIC and ROE are forecast to be -2.2% and -6.1%, respectively. Consolidated orders are forecast to be ¥1,340.0 billion.

The Company's earnings forecasts assume exchange rates of ¥106 to the U.S. dollar and ¥123 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, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	106,108	153,188
Trade receivables	473,204	434,995
Merchandise and finished products	75,042	56,325
Work in process	426,256	462,667
Raw materials and supplies	130,359	140,368
Other	51,176	56,848
Allowance for doubtful receivables	(3,367)	(3,408)
Total current assets	1,258,781	1,300,985
Fixed assets		
Net property, plant and equipment		
Buildings and structures	193,931	174,944
Other	288,639	291,183
Total property, plant and equipment	482,570	466,128
Intangible assets	21,358	22,248
Investments and other assets		
Other	196,973	191,124
Allowance for doubtful receivables	(1,838)	(1,618)
Total investments and other assets	195,134	189,506
Total fixed assets	699,063	677,883
Total assets	1,957,845	1,978,868
Liabilities		
Current liabilities		
Trade payables	261,159	205,560
Electronically recorded obligations - operating	110,526	98,356
Short-term debt	166,188	181,698
Income taxes payable	6,116	4,815
Provision for sales promotion expenses	12,174	6,510
Accrued bonuses	22,032	18,364
Provision for product warranties	14,454	12,406
Provision for losses on construction contracts	11,464	12,553
Advances received	148,610	139,076
Other	194,998	274,181
Total current liabilities	947,726	953,524
Non-current liabilities		
Bonds payable	160,000	190,000
Long-term debt	188,859	196,758
Retirement benefit liability	129,846	133,522
Provision for the in-service issues of commercial aircraft jet engines	(*1) 15,689	(*1) 10,550
Other	44,161	53,276
Total non-current liabilities	538,556	584,107
Total liabilities	1,486,283	1,537,632

Net assets

Shareholders' equity		
Share capital	104,484	104,484
Capital surplus	54,542	54,542
Retained earnings	326,626	299,359
Treasury shares	(133)	(134)
Total shareholders' equity	<u>485,520</u>	<u>458,251</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,636	1,188
Deferred gains (losses) on hedges	(272)	171
Foreign currency translation adjustment	(11,311)	(15,212)
Remeasurements of defined benefit plans	(19,946)	(18,908)
Total accumulated other comprehensive income	<u>(29,892)</u>	<u>(32,761)</u>
Non-controlling interests	<u>15,934</u>	<u>15,745</u>
Total net assets	<u>471,562</u>	<u>441,236</u>
Total net assets and liabilities	<u>1,957,845</u>	<u>1,978,868</u>

(2) Consolidated statements of income and comprehensive income

Consolidated statements of income

	Million yen	
	As of September 30, 2019	As of September 30, 2020
Net sales	736,565	657,325
Cost of sales	629,707	588,959
Gross profit	106,857	68,366
Selling, general and administrative expenses		
Salaries and allowances	27,384	27,475
Research and development expenses	23,739	19,041
Other	47,055	43,732
Total selling, general and administrative expenses	98,179	90,249
Operating income(loss)	8,678	(21,883)
Non-operating income		
Interest income	314	265
Dividend income	180	150
Share of profit of entities accounted for using equity method	924	590
Foreign exchange gain	—	1,791
Reversal of provision for the in-service issues of commercial aircraft jet engines	—	(*1) 3,005
Other	1,473	2,573
Total non-operating income	2,893	8,376
Non-operating expenses		
Interest expense	1,860	1,955
Foreign exchange losses	5,772	—
Payments for the in-service issues of commercial aircraft jet engines	(*1) 1,157	—
Other	1,951	2,824
Total non-operating expenses	10,741	4,780
Recurring profit(loss)	830	(18,286)
Extraordinary income		
Gain on sales of fixed assets	(*2) 1,277	(*2) 3,236
Gain on sales of sales of shares of subsidiaries and associates	—	(*3) 1,581
Total extraordinary income	1,277	4,817
Extraordinary loss		
Impairment loss	—	(*4) 3,916
Total extraordinary loss	—	3,916
Income(loss) before income taxes	2,107	(17,385)
Income taxes	5,122	9,454
Net income(loss)	(3,015)	(26,840)
Net income attributable to non-controlling interests	718	426
Net income(loss) attributable to owners of parent	(3,733)	(27,267)

Consolidated statements of comprehensive income

Million yen

	As of September 30, 2019	As of September 30, 2020
Net income(loss)	(3,015)	(26,840)
Other comprehensive income		
Net unrealized gains (losses) on securities	(212)	(396)
Deferred gains (losses) on hedges	123	427
Foreign currency translation adjustment	(4,014)	(2,202)
Remeasurement of defined benefit plans	1,353	1,038
Share of other comprehensive income(loss) of associates accounted for using equity method	(1,997)	(1,898)
Total other comprehensive income(loss)	<u>(4,748)</u>	<u>(3,030)</u>
Comprehensive Income(loss) attributable to:	<u>(7,763)</u>	<u>(29,870)</u>
Owners of parent	(8,054)	(30,137)
Non-controlling interests	291	267

(3) Consolidated cash flow statements

	Million yen	
	Six months ended September 30, 2019	Six months ended September 30, 2020
Cash flows from operating activities		
Income(loss) before income taxes	2,107	(17,385)
Depreciation and amortization	30,133	30,223
Impairment loss	—	3,916
Increase (decrease) in allowance for doubtful receivables	(206)	(134)
Increase (decrease) in provision for sales promotion expenses	5,335	(5,621)
Increase (decrease) in accrued bonuses	(3,356)	(3,617)
Increase (decrease) in provision for product warranties	(1,168)	(1,986)
Increase (decrease) in provision for losses on construction contracts	(9,864)	1,109
Increase (decrease) in net defined benefit liability	4,833	5,596
Increase (decrease) in payments for the in-service issues of commercial aircraft jet engines	(1,478)	(5,139)
Interest and dividend income	(495)	(415)
Interest expense	1,860	1,955
Share of (profit) loss of entities accounted for using equity method	(924)	(590)
(Gain) loss on sale of fixed assets	(1,277)	(3,236)
(Gain) loss on sales of shares of subsidiaries and associates	—	(1,581)
(Increase) decrease in trade receivables	(93,246)	41,030
(Increase) decrease in inventories	(42,352)	(30,368)
Increase (decrease) in trade payables	(49,292)	(65,822)
Increase (decrease) in advance payments	(4,739)	(3,915)
Increase (decrease) in advances received from customers	(20,308)	(7,650)
(Increase) decrease in other current assets	(10,547)	(142)
Increase (decrease) in other current liabilities	(44,466)	(24,761)
Other	561	(5,471)
Subtotal	<u>(238,893)</u>	<u>(94,008)</u>
Cash received for interest and dividends	722	1,556
Cash paid for interest	(1,863)	(1,874)
Cash paid for income taxes	(9,456)	(6,430)
Net cash provided by operating activities	<u>(249,491)</u>	<u>(100,757)</u>
Cash flows from investing activities		
Acquisition of property, plant, equipment and intangible assets	(33,242)	(29,746)
Proceeds from sales of property, plant, equipment and intangible assets	1,509	13,739
Acquisition of investments in securities	(439)	(474)
Proceeds from sales of investments in securities	458	1,326
Acquisition of investments in subsidiaries and associates	(2,931)	(82)
Proceeds from sales of shares of subsidiaries and associates	—	1,927
Other	1,614	(357)
Net cash used for investing activities	<u>(33,030)</u>	<u>(13,668)</u>
Cash flows from financing activities		
Net increase (decrease) in short-term debt	250,750	103,128
Proceeds from long-term debt	19,000	20,900
Repayment of long-term debt	(23,112)	(10,587)
Proceeds from issuance of bonds	20,000	60,000
Redemption of bonds	(10,000)	(20,000)
Cash dividends paid	(5,863)	(36)
Cash dividends paid to non-controlling interests	(503)	(531)
Proceeds from sale and leaseback transactions	—	10,014
Other	(289)	(1,644)
Net cash used for financing activities	<u>249,981</u>	<u>161,243</u>
Effect of exchange rate changes	2,401	31
Net increase (decrease) in cash and cash equivalents	<u>(30,139)</u>	<u>46,848</u>
Cash and cash equivalents at beginning of period	68,311	102,546
Cash and cash equivalents at end of period	<u>38,172</u>	<u>149,395</u>

(3) 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 first 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.

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 FY2020 2nd 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) Reversal of provision for the in-service issues of commercial aircraft jet engines •*

Payments for the in-service issues of commercial aircraftjet 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 FY2020 2nd quarterly financial results, the Company has recorded increases in the abnormal cost related to in-service issues which the Company would cover as a member of this program as non-operating expenses and decreases in the cost as non-operating income.

(*2) Gain on sales of fixed assets

Six months ended September 30, 2019

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

Six months ended September 30, 2020

Proceeds from the sale of former dormitories/company housing of the Company and subsidiaries.

(*3) Gain on sales of sales of shares of subsidiaries and associates

Proceeds from the sale of shares of subsidiaries and associates.

(*4) Impairment loss

Due to a decline in profitability of the assets related to the Sakaide Works of the Ship & Offshore Structure segment given the current market environment.

Segment information

1. 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

2. Six Months ended September 30, 2020 (April 1, 2020 – September 30, 2020)

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

	Million yen			
	External sales	Intersegment sales	Total sales	Operating income (loss)
Aerospace Systems	168,595	3,048	171,643	(23,865)
Energy System & Plant Engineering	104,580	9,707	114,288	4,413
Precision Machinery & Robot	99,020	5,972	104,993	3,412
Ship & Offshore structure	38,248	1,880	40,128	(1,419)
Rolling stock	69,194	4	69,199	(186)
Motorcycle & Engine	139,784	298	140,083	(5,169)
Other	37,901	18,799	56,701	(175)
Reportable segment total	657,325	39,711	697,037	(22,989)
Adjustments*1	—	(39,711)	(39,711)	1,106
Consolidated total	657,325	—	657,325	(21,883)

Notes: 1. Breakdown of adjustments:

Million yen	
Income	Amount
Intersegment transactions	(30)
Corporate expenses*	1,137
Total	1,106

* 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

The Ship & Offshore Structure segment recorded an impairment loss on fixed assets. This impairment loss recorded in the second quarter of the year under review amounted to ¥3,916 million.

3. Supplementary information on consolidated earnings forecasts for the fiscal year ending March 31, 2021

(1) Net sales and operating income (loss)

Billion yen

Reportable segment	Outlook for the year ending March 31, 2021 (fiscal 2020)						Year ended March 31, 2020 (Fiscal 2019) (actual)	
	Revised forecast (A)		Forecast issued August 6, 2020 (B)		Change (A – B)		Net sales	Operating income (loss)
	Net sales	Operating income (loss)	Net sales	Operating income (loss)	Net sales	Operating income (loss)		
Aerospace Systems	400.0	(25.0)	420.0	(21.0)	(20.0)	(4.0)	532.5	42.7
Energy System & Plant Engineering	240.0	8.5	240.0	6.0	-	2.5	242.9	17.5
Precision Machinery & Robot	220.0	10.0	200.0	7.0	20.0	3.0	217.3	12.2
Ship & Offshore Structure	80.0	(3.0)	80.0	(4.0)	-	1.0	71.6	(0.6)
Rolling Stock	150.0	(2.0)	150.0	(2.0)	-	-	136.5	(3.8)
Motorcycle & Engine	320.0	(5.0)	280.0	(17.0)	40.0	12.0	337.7	(1.9)
Other	90.0	1.0	90.0	5.0	-	(4.0)	102.4	1.2
Adjustments		(4.5)		(4.0)		(0.5)		(5.3)
Total	1,500.0	(20.0)	1,460.0	(30.0)	40.0	10.0	1,641.3	62.0

(2) Orders received

Billion yen

Reportable segment	Outlook for the year ending March 31, 2021 (fiscal 2020)			Year ended March 31, 2020 (Fiscal 2019) (actual)
	Revised forecast (A)	Forecast issued August 6, 2020 (B)	Change (A – B)	
Aerospace Systems	310.0	360.0	(50.0)	414.9
Energy System & Plant Engineering	230.0	280.0	(50.0)	252.3
Precision Machinery & Robot	220.0	200.0	20.0	218.8
Ship & Offshore Structure	100.0	120.0	(20.0)	56.2
Rolling Stock	70.0	70.0	-	125.7
Motorcycle & Engine	320.0	280.0	40.0	337.7
Other	90.0	90.0	-	107.5
Total	1,340.0	1,400.0	(60.0)	1,513.5

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, 2021 (fiscal 2020)			(%)
	Revised forecast (A)	Forecast issued August 6, 2020 (B)	Change (A – B)	Year ended March 31, 2020 (Fiscal 2019) (actual)
Aerospace Systems	(4.8)	We didn't disclose.	We didn't disclose.	8.0
Energy System & Plant Engineering	8.6			10.4
Precision Machinery & Robot	7.6			8.8
Ship & Offshore Structure	(6.9)			1.4
Rolling Stock	(3.2)			(7.2)
Motorcycle & Engine	(5.3)			(2.6)
Total	(2.2)			4.2

Notes: 1. Forecast's assumed foreign exchange rates: ¥106 = US\$1, ¥123= 1 euro

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